

JOINT PREPARATORY COMMITTEE  
ON  
PHILIPPINE AFFAIRS  
REPORT OF MAY 20, 1938

VOLUME II  
HEARINGS HELD BEFORE THE COMMITTEE



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**HEARINGS HELD IN WASHINGTON**

## JOINT STATEMENT OF PRESIDENT QUEZON AND MR. SAYRE, CHAIRMAN OF THE INTERDEPART- MENTAL COMMITTEE ON PHILIPPINE AFFAIRS

*March 18, 1937.*

Arrangements are being made for the appointment shortly of a joint preparatory committee of American and Philippine experts. The committee is to study trade relations between the United States and the Philippines and to recommend a program for the adjustment of Philippine national economy. This announcement followed conferences between President Quezon, of the Philippine Commonwealth, and the Interdepartmental Committee on Philippine Affairs, which is acting on behalf of President Roosevelt in the preliminary discussions. Assistant Secretary of State Francis B. Sayre is chairman of this Committee.

In as much as the Independence Act provides that complete political independence of the Philippines shall become effective on July 4, 1946, and in as much 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 its recommendations to consider the bearing which an advancement in the date of independence would have on facilitating or retarding the execution of a program of economic adjustment in the Philippines. It was further 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 a reasonable opportunity to adjust their national economy. Thereafter, it is contemplated that trade relations between the two countries will be regulated in accordance with a reciprocal trade agreement on a non-preferential basis.

# PUBLIC NOTICE OF HEARINGS, MAY 28, 1937

## PUBLIC NOTICE<sup>1</sup>

### HEARINGS ON UNITED STATES-PHILIPPINE AFFAIRS

The Joint Preparatory Committee on Philippine Affairs was created with the approval of President Roosevelt and President Quezon of the Philippine Commonwealth to study United States-Philippine trade relations and to recommend a program for the adjustment of Philippine national economy. The Committee, in making its recommendations to the two governments, will be guided by the fundamental policies laid down in the joint statement issued by President Quezon and Mr. Francis B. Sayre, Assistant Secretary of State, on March 18, 1937.<sup>2</sup>

To assist the Committee in preparing its recommendations, written statements will be received and public hearings will be held, both in the United States and in the Philippines, in connection with the objectives announced in the Joint Statement of March 18. The statements to be submitted to the Committee may include a consideration of the effects of existing legislation upon the commodities and services involved in the present economic relations between the United States and the Philippines.

Arrangements for the submission of written and of brief supplementary oral statements to the Committee in the United States are indicated below. It is expected that public hearings will be held in Manila sometime during the month of September.

The Joint Preparatory Committee on Philippine Affairs has prescribed the following rules and regulations to govern the submission of written and supplementary oral statements:

#### TIME AND PLACE FOR THE PRESENTATION OF WRITTEN AND ORAL STATEMENTS

All information and views in writing and all applications for supplemental oral presentation of views shall be submitted to the Committee not later than 12 o'clock noon, June 15, 1937. They should be addressed to "The Joint Preparatory Committee on Phil-

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<sup>1</sup> Department of State *Press Release* of May 28, 1937.

<sup>2</sup> See *ante*, p. 3.

ippine Affairs, Room 206, United States Tariff Commission, 8th and E Streets, Washington, D.C." Supplementary oral statements will be heard at a public hearing beginning at 10 o'clock a.m., on June 16, 1937, before the Joint Preparatory Committee on Philippine Affairs, in the hearing room of the United States Tariff Commission in the Old Land Office Building, 8th and E Streets, Washington, D.C.

#### FORM AND MANNER OF PRESENTATION

Written statements must be typewritten, processed, or printed. It is requested that fifteen copies be submitted in order to facilitate study of the briefs by each member of the Committee.

Brief supplementary oral statements may be made to the Committee at the public hearings only by persons who have filed written statements or briefs and who have, within the time prescribed, made written application for a hearing in order that a schedule of appearances may be arranged.

Applications for supplementary oral statements should indicate the approximate amount of time requested of the Committee for the submission of views.

The Joint Preparatory Committee on Philippine Affairs contemplates the publication of the written and oral statements.

FRANCIS B. SAYRE, *Acting Chairman*  
*Joint Preparatory Committee on Philippine Affairs*

## SUPPLEMENTARY PUBLIC NOTICE, JUNE 8, 1937

### SUPPLEMENTARY PUBLIC NOTICE <sup>s</sup>

#### HEARINGS ON UNITED STATES-PHILIPPINE AFFAIRS

In accordance with the press announcement of May 28, 1937,<sup>4</sup> the Joint Preparatory Committee on Philippine Affairs will hold public hearings to ascertain the views of interested parties regarding the effects of existing legislation upon the commodities and services involved in the present economic relations between the United States and the Philippines. The hearings will begin at 10 o'clock a.m. on June 16, 1937, in the hearing room of the United States Tariff Commission, in the Old Land Office Building, 8th and E Streets, Washington, D.C.

In as much as the Committee has received requests for additional time in which to prepare and file adequate written statements or briefs, the time during which final statements or briefs may be filed has been extended to 12 o'clock noon, July 10, 1937.

Preliminary statements of views in writing, and applications for supplementary oral presentation of views should be submitted to the Committee not later than 12 o'clock noon, June 15, 1937. They should be addressed to "The Joint Preparatory Committee on Philippine Affairs, Room 206, United States Tariff Commission, 8th and E Streets, Washington, D. C."

Written statements, whether preliminary or final, should be typewritten, processed, or printed. It is requested that fifteen copies be submitted in order to facilitate study of the briefs by each member of the Committee.

Brief supplementary oral statements may be made to the Committee at the public hearings only by persons who, before June 16, 1937, have filed either preliminary or final written statements and who have made application for a hearing. In order that a schedule of appearances may be arranged, applications for supplementary oral statements should indicate the approximate amount of time requested of the Committee for the submission of views.

FRANCIS B. SAYRE, *Acting Chairman*  
*Joint Preparatory Committee on Philippine Affairs*

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<sup>s</sup> Department of State Press Release of June 8, 1937.

<sup>4</sup> See *ante*, p. 4.

## PROCEEDINGS OF JUNE 16, 1937

HEARING ROOM, U.S. TARIFF COMMISSION,  
WASHINGTON, D.C.,  
Wednesday, June 16, 1937.

The Joint Preparatory Committee on Philippine Affairs met at 10 o'clock a.m.

*Present:*

The Honorable FRANCIS B. SAYRE, *Acting Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. LYNN R. EDMINSTER;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

### OPENING STATEMENT OF MR. SAYRE

Acting Chairman SAYRE. The Joint Preparatory Committee on Philippine Affairs, seated around this table, is engaged in a very far-reaching undertaking to ascertain how United States-Philippine commercial and other relationships may be adjusted in a way which will spell future happiness and prosperity for both peoples. This is a grave responsibility which I do not think we can overemphasize. The future stability and prosperity of the Philippines is of vital concern to Americans as well as to Filipinos.

For over a quarter of a century successive administrations of our Government have based their policy with reference to the Philippines upon an abiding confidence in the ability of the Filipino people ultimately to govern themselves as a free and independent nation. The task of making the transition to a status of complete independence is one, however, which involves problems of great magnitude. These problems relate not merely to trade between the



two peoples but also to political and economic considerations of far-reaching significance to the United States, to the Philippines, and to all nations having interests in the Far East. The attainment of the objectives which both peoples have in mind will require patience and a sense of fair play and cooperation. The Joint Committee, with such ideals in mind, is endeavoring to make some contribution toward the successful conclusion of this really great undertaking.

The terms of reference governing the work of this Committee were mapped out in conference with President Quezon in March of this year. The circumstances which led up to the setting up of the Joint Committee were outlined in identic letters, dated May 24, 1937, which, as Chairman of the Interdepartmental Committee on Philippine Affairs, I addressed to Senator Millard E. Tydings and to Congressman Leo Kocialkowski. The letter to Senator Tydings was printed in the *Congressional Record* of May 26, 1937 (pp. 6575-6576). It was pointed out therein that responsible persons in both countries have felt that certain "imperfections or inequalities"—to use the terms of President Roosevelt—may exist in the Independence Act of March 24, 1934, and that these so-called "imperfections or inequalities" are susceptible of adjustment through joint study and conference. It has also been felt that uncertainties and misconceptions in regard to the future political and economic relations of the Islands should be removed as soon as practicable because, until these uncertainties and misconceptions are removed, necessary economic adjustments in the Islands will be delayed. In addition, there are comparable problems involved in providing an adjustment of American export trade to a non-preferential, competitive position in the Philippine market. A recognition of the existence of these problems has led to the setting up of this Joint Committee in order to make studies, to hold hearings, to obtain the views of interested parties both in the United States and in the Philippines, and to make recommendations to the appropriate legislative authorities.

It has been agreed that, within a certain specified scope, this Committee should have general and fairly extensive powers of recommendation; that the Filipinos should be given an opportunity to attain economic as well as political independence; and that preferential trade relations between the United States and the Philippines should be terminated at the earliest practicable date consistent with affording the Philippines a reasonable opportunity to adjust their national economy. It would not be fair or right suddenly to make abrupt changes which might entail economic disaster to the Philippines. I am sure that the American people want the Filipino people to have every opportunity to establish a sound economic regime in order that they may be able to maintain their independence.

In an endeavor to find a solution of these problems the members of this Joint Committee of Americans and Filipinos are working shoulder to shoulder.

This Committee, nevertheless, is performing a task which is merely preparatory or advisory in character. It has no power to decide upon courses of action. It has no power to control future legislation. But I hope that the Report and the recommendations of the Committee will be so appealing, so inevitable because of the careful marshaling of facts leading up to the conclusions, that both the American Congress and the Commonwealth Assembly will see fit to follow the recommendations and to embody them in such legislation as may seem necessary and desirable.

The purpose of the hearings which begin this morning is to provide ample opportunity for the presentation of the views concerning economic and other relationships between the United States and the Philippines. I earnestly invite your cooperation and your help.

The Joint Preparatory Committee on Philippine Affairs has suggested certain rules of procedure for these hearings and, with your permission, I would like to read them at the opening of these hearings.

First, oral statements of views should be brief and supplementary to the written statements which are to be filed on or before 12 o'clock noon, July 10, 1937.

The thought of the Committee was that it would be perhaps idle to read aloud briefs which have been turned in already. The whole thought of these oral hearings is to give opportunity to anyone who cares to do so to enlarge upon or supplement the written briefs that are filed.

I need hardly say that the written briefs will receive the closest kind of study and attention and scrutiny of every member of this Committee. We will rely largely upon those written briefs. No one need fear that having turned in a written brief his case will be unstudied.

The second regulation is that persons presenting oral statements may be questioned by members of the Committee during and at the close of their presentation.

I think that is clear. Our thought in questioning is simply to bring out the facts, not an argued debate on the merits at all, but simply to assist in the presentation of true and justified-by-experience facts.

Third, the hearings will begin at 10 o'clock a.m. on June 16, 1937, and each day thereafter until all witnesses have been heard. Hearings may be continued at 2:30 o'clock p.m.

I hope it will not be necessary to hold afternoon hearings, although we may have to do so.

Fourth, the Chairman will ascertain from each person appearing before the Committee at the beginning of his statement, the approximate amount of time which he desires. The Chairman may use his discretion in apportioning the time of the Committee at each hearing.

This morning we have three representatives before the Committee: Mr. H. A. White, representing the Philippine Packing Corporation; Mr. Daniel R. Forbes, representing the Philippine Mahogany Manufacturers' Import Association; and Mr. Louis B. Montfort, representing the Crown Manufacturers Association.

Mr. White, are you prepared to proceed?

Mr. WHITE. Yes, Mr. Chairman, I am.

Acting Chairman SAYRE. Then, Mr. White, will you be good enough to make your appearance.

#### STATEMENT OF MR. H. A. WHITE, REPRESENTING THE PHILIPPINE PACKING CORPORATION

Mr. WHITE. My name is H. A. White. My permanent address is 101 California Street, San Francisco, California.

I represent, as the Chairman has said, the Philippine Packing Corporation. Our business is to grow and can pineapples in the Philippines. We have filed with the Committee a statement which gives the essentials of our business,<sup>1</sup> and I shall try not to repeat any of the facts given in that statement.

However, there is a phase that is not developed in the statement which I would like to present here in a very brief way.

In such a development as ours there is tied in with the economic phases a social phase which is of extreme importance. We have gone to the northern part of Mindanao in a section that was entirely unsettled, except so far as a few cattle ranches are concerned, and we have developed pineapple plantations there. We have built a cannery on the seacoast, the seacoast having been settled but with no industry.

We are furnishing employment at this time to some 2,000 people in our project, and this will probably, if we are permitted through economic phases to expand and develop, furnish employment for perhaps 3,000 or 4,000 people.

We have a stabilizing influence in that section of the country which is very close to Moro territory; and, from that standpoint, we think

<sup>1</sup> See vol. III.

we are of great value to the Philippines. I bring that forth from the fact that we are doing something in the Philippines besides making money and paying wages.

The second phase that I wish to develop is one which I touched upon in the brief which we have filed, and that is the need for a United States market for our products.

The tariff on canned pineapple is a flat-rate tariff. It is 2 cents a pound of the net weight of the contents of the can. That means the equivalent of 90 cents a case of our standard base-unit can, a no. 2½ can, or 45 cents a dozen. In other words, practically 4 cents a can is the full tariff.

I can say very frankly, although I cannot give detailed costs, that there is not 90 cents a case [*profit*<sup>2</sup>] in the canning of [*Philippine*<sup>2</sup>] pineapples. Therefore, it is impossible, at least under the present-day set-up, to meet the full tariff.

Why must we have the United States market?

We produce a quality product which is not competitive in the cheaper markets which are supplied by Formosa, Singapore, and such other producers.

The type that we produce is equivalent to and is interchangeable with the Hawaiian pack. As I have stated in the brief, approximately only 4 percent of the Hawaiian pack finds its market outside of the United States.

Under the present Tydings-McDuffie act our program calls for continuing to operate until 1946. What will happen subsequent to that time is anybody's guess. But from a practical angle we have to figure on getting out our investment in that period of time.

During that period of time we will have to pay [*the equivalent of*<sup>2</sup>] from 5 to 25 percent tariff. Whether we will be competitive during the last 2 or 3 years is a question. It depends upon conditions. If pineapples should bring \$2 a dozen, our flat-rate tariff would mean one thing; if \$1.50 a dozen, the flat-rate tariff would mean another thing; and it means a larger portion of the revenue. We figure that over this 10-year period our average will be satisfactory and that we will be competitive with the Hawaiian product.

There is one other matter of considerable importance. Am I running over my time?

Acting Chairman SAYRE. No, no. Take all the time you desire.

Mr. WHITE. That is the matter of pineapple juice. I think all of you will realize that there is a very large market in this country for

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<sup>2</sup>Correction made in accordance with the brief submitted by the Philippine Packing Corporation; see vol. III.

pineapple juice. While accurate figures are not available, in 1930 [1936<sup>a</sup>], 5,000,000 cases of juice were exported from Hawaii and sold.

The Philippines are a potential source of pineapple juice and can take part of and participate in that market under free-trade conditions. However, the tariff on juice is entirely different from the tariff on pineapples. It is 70 cents per gallon on juice, which represents \$1.18 a dozen, no. 2 tall cans, which is the standard juice can that we base our statistics upon.

The selling price in the United States for Hawaiian pineapple juice is \$1.14 a dozen. We cannot pay \$1.18 tariff and sell [at<sup>a</sup>] \$1.14, and do business.

The investment in developing [juice products<sup>a</sup>] is quite large. It is a very technical method of manufacture, requiring expensive processes and [centrifuges<sup>a</sup>], and so on, and we would not be justified, particularly with [the probability of being subject to<sup>a</sup>] the tariff, in putting the investment into juice manufacture, because we would not be able to get our money back. If we had a definite [long-term<sup>a</sup>] period of free trade ahead we could enlarge our activities to a considerable extent by the manufacture of this juice.

However, with the tariff as high as it is on juice we could not do that, even under the Tydings-McDuffie act, because of the 5, 10, 15, and 25 percent tariff over the 10-year period.

Those are the points I wished to develop.

Acting Chairman SAYRE. That is all you care to say affirmatively, is it, Mr. White?

Mr. WHITE. Yes, Mr. Chairman.

Acting Chairman SAYRE. I wonder if any member of the Committee would like to ask some questions of Mr. White?

Mr. EDMINSTER. Mr. White, do you think you could compete reasonably successfully with the Hawaiian and pay any appreciable tariff at all on pineapples in this market?

Mr. WHITE. May I answer that question by asking another question? What is your definition of "any appreciable tariff"? I might answer that question to this extent, that during this 10-year period we think we could average through satisfactorily and compete. Whether during the tenth year at 25 percent or during the eighth year at 15 percent we would be strictly competitive, we do not know. We are a little ahead of them without any tariff. That is obvious, or else we would not be in business in the Philippines. From the standpoint of the risk, with the uncertainty that has existed through all these years, we went out there with the purpose of being a little better than competitive. We figure we will average over that period. But what we can do in any one year with any amount of tariff is a

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<sup>a</sup> See footnote 2, *ante*, p. 11.

question. Labor costs are going up all over the world. We do not know how they will go there with relation to Hawaii. The question of the buying power of the American public for pineapples will determine the price of pineapples. If that price is high, naturally we can stand more tariff. In a year when the price is low we cannot stand that tariff.

Mr. EDMINSTER. I was thinking more particularly of your competitive relationship with Hawaii, which has free access to this market. I mean at any price-level.

Mr. WHITE. At any price-level that competition, Mr. Edminster, is dependent upon conditions. At \$1.50, if we are paying a tariff of 5 cents a case, the 5 cents represents a certain percentage of the \$1.50. At \$2 we could much better afford to pay the 5 cents than we could the \$1.50.

Mr. EDMINSTER. But at a high price the Hawaiians can also make more money in selling in this market?

Mr. WHITE. We hope they could. But I think we could still be competitive at the higher price. When you get your volume up high enough you can absorb that tariff at a proper price; but when you are low you cannot.

Acting Chairman SAYRE. Are there any other questions?

Mr. ROXAS. What is your standard of labor for wages?

Mr. WHITE. At the present time we are paying 80 centavos a day on the plantation. I would like to ask Mr. Crawford about that?

Yes; we are paying 80 centavos on the plantation, and in the factory we are paying 1 peso a day for men and 80 centavos for women. Those are the basic rates. Naturally a very large proportion of the employees are above that basis.

I will also say that I believe that is right in line with the present government wages for the same type of work; and it is considerably higher than is paid for any other work in that section of the country.

Mr. ROXAS. Do you provide housing facilities to your labor?

Mr. WHITE. Our plantation labor has housing, fuel, medical attention, and the things that go with that type of thing on a plantation.

Mr. ROXAS. The labor that you have on those plantations comes from what province?

[Mr. WHITE.<sup>3</sup>] Again I will have to refer to Mr. Crawford.

Well, it is primarily Bohol.

Mr. ROXAS. What would happen to those laborers if the industry suddenly had to stop work?

Mr. WHITE. The laborers would have to go back and live as probably a good many of them used to live—more or less from hand to mouth; and they would have to attempt to get work on the [*coconut*<sup>3</sup>] plan-

<sup>3</sup> See footnote 2, *ante*, p. 11.

tations, possibly in some rice-growing sections, and they would have to lower materially their standard of living.

Mr. ROXAS. Do you think they could find the opportunity for profitable and gainful work in the vicinity of northern Mindanao?

Mr. WHITE. Not without our industry; no, Sir.

Acting Chairman SAYRE. Are there any other questions?

Mr. YULO. How much less does it cost you to produce pineapples in the Philippines than it does in Hawaii?

Mr. WHITE. You are asking a question that is rather difficult to answer. I think the Committee will have to appreciate that there are certain figures that cannot be given from the standpoint of the trade. We cannot tell our Hawaiian competitors how much we may be making or how much we may not be making, or what it costs us comparatively. Otherwise they would go out and boost even the present tariff.

Mr. YULO. My question to you was intended to find out how much protection they need in Hawaii.

Mr. WHITE. How much protection they need in Hawaii, you say?

Mr. YULO. Yes.

Mr. WHITE. Again, that would depend upon the price of the goods and comparative costs. I am frank to admit that Hawaiian costs are going up today, following this labor movement on the mainland, and much more rapidly than in the Philippines. But I think the Committee also realizes fully that the labor situation in the Philippines is becoming more difficult and more costly.

Mr. YULO. Do I understand that if no change is made in the [*Independence*<sup>3</sup>] Act by 1946 you will not be able to compete with Hawaii?

Mr. WHITE. We will not be able to compete with Hawaii if there is no change in the Independence Act.

Mr. YULO. Does the Independence Act permit you to liquidate your business in 1946 without a loss?

Mr. WHITE. We are planning our business so as to be in position to liquidate in 1946. In other words, we are writing [*off*<sup>3</sup>] our entire capital investment so that we will be in position to liquidate. There might be some other answer during that period. We might possibly be able to develop the Singapore type and get into the market; I don't know. We will not throw away that investment if we can possibly avoid it. But it will be impossible to continue along the lines under which it was originally made.

I might put it in another way. If we had no investment there today we would not make an investment there in anticipation of continuing after 1946.

Acting Chairman SAYRE. Are there any further questions?

Mr. ELIZALDE. Mr. White, will you please tell us how many American employees you have in the Islands?

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<sup>3</sup> See footnote 2, *ante*, p. 11.

Mr. WHITE. How many there are in the Islands, you ask?

Mr. ELIZALDE. Yes; how many American employees do you have in the Islands?

Mr. WHITE. We have none in Manila. We have no office in Manila. We have seven Americans over there.

Mr. ELIZALDE. And they are all in northern Mindanao, are they?

Mr. WHITE. Yes; they are all in northern Mindanao. Mr. Crawford is the general manager of our operations. We have an American as head accountant; and we have an American as factory superintendent, which covers the very technical phase.

Mr. ELIZALDE. And is he an engineer?

Mr. WHITE. He is a cannery engineer. As you probably know, canning is a very technical type of work and it requires a great many years of experience to be able to operate a factory of that size.

In addition, we have two men on our plantation, both agricultural-college graduates with long experience in agricultural matters. In other words, our highly technical staff is composed of Americans. We reduced it from about 17 men, whom we had originally taken out, to about 7. We replaced the men we originally took out with Filipino employees as they learned the various duties and became sufficiently familiar with the operations.

Mr. ELIZALDE. Have you not been canning other products than pineapples there? How about fish?

Mr. WHITE. We had an experience over a few years in the canning of tuna, but we abandoned that operation last year owing to the fact that we did not seem to be able to catch enough fish and bring them in at a cost sufficiently low to make any profit on the finished product. It was an experiment.

I imagine we spent probably 200,000 pesos on the experiment. We had boats and a great deal of equipment, and we made a very thorough trial of it; but we came to the conclusion that it was not economically suited to our particular type of operation.

Mr. ELIZALDE. Have you had any difficulty with the plant diseases over there?

Mr. WHITE. When we first went in and started our plantings we had some trouble. But we sent out a pathologist, who worked on the problems for approximately a year and a half. He found the answer to those questions, and we now have them under control.

Mr. ROMERO. Is there any difference in quality, in comparing the Hawaiian and the Philippine pineapples?

Mr. WHITE. I might answer that, Mr. Romero, by stating that in our particular business, that is, in our particular company, we produce also in Hawaii; and our Philippine product goes right in with our Hawaiian product and is interchangeable with it. The actual raw fruit has certain slight differences which disappear in the



processing. I defy you to take six cans packed in Hawaii and six cans packed in the Philippines, of the same grade, and pick out which is which.

Mr. ELIZALDE. There is no noticeable difference?

Mr. WHITE. No, Sir. There is no noticeable difference.

Mr. BENITEZ. What is the name of your product?

Mr. WHITE. The bulk of the product is sold under the name "Del Monte".

Mr. DOMERATZKY. Mr. White, what is the size of your plantation?

Mr. WHITE. We operate on various leases. We are now planting approximately 1,000 acres a year. We will plant about 1,500 acres this year. We cycle that over a 5-year period. It takes about 5,000 acres or 6,000 acres to take care of our planting cycle.

Mr. DOMERATZKY. Even admitting the fact that the Philippine pineapples cannot compete with Singapore pineapples, what is the reason for that?

Mr. WHITE. With respect to the Singapore pineapple: first, their labor situation is such that it is very cheap. The second point is the land situation, that being such that the bulk of the lands are rubber lands and pineapples are a byproduct.

Third, the manufacturing process is very crude. They get a finished product that is very poor, and they do it very cheaply, and so much so that we, with our large-scale, high-quality type of manufacturing, cannot compete.

Mr. EDMINSTER. Mr. White, I would like to come back to this question. You say you are interested in the Del Monte brand?

Mr. WHITE. Yes, Sir.

Mr. EDMINSTER. Then you have corporate interests in Hawaii as well, have you?

Mr. WHITE. Yes, Sir.

Mr. EDMINSTER. If you abandon your operations in the Philippines would you attempt to expand them in Hawaii in order to take up the slack?

Mr. WHITE. We would take up the slack in Hawaii. Originally we went to the Philippines for various reasons; but, primarily, at the time we went to the Philippines agricultural conditions with respect to pineapples in Hawaii were quite discouraging. There were a number of plant diseases, the yields were low, and we wanted to spread and have different sources of raw materials.

Since that time the scientific work that has been done in agriculture in Hawaii has not only brought the yields back to where they were but has practically doubled the acreage yield. Hawaii now has a potential production of probably 50 percent more than is now being operated.

In Hawaii we have our normal portion, but we still want to take the portion from the Philippines in order to balance the two plants and the two units, as we originally intended. And we are carrying out our original program—limited now, of course, to the 10-year period.

Mr. EDMINSTER. Then, as I understand it, as matters stand now, your operations in Hawaii would be readily expandable, and the costs of production would not increase rapidly with an expansion of operations in Hawaii under present conditions.

Mr. WHITE. Not in Hawaii. As a matter of fact, Hawaiian costs would tend to decrease slightly, owing to the higher volume without added overhead, should we expand Hawaii to the limit.

Mr. DOMERATZKY. In your brief, Mr. White, I understand that the proportion of the Philippine pineapples to your Hawaiian pineapples fluctuates considerably. Is that right?

Mr. WHITE. Yes, Sir.

Mr. DOMERATZKY. Is that due to your policy or due to the crop?

Mr. WHITE. It is due to something described by a word that all of us have heard at some time, and that word is "depression". We developed this plant and got it into production just prior to the depression. The world demand for pineapples during that period went down from approximately 11,000,000 cases to about 8,000,000 cases. We had to drop our production all over, both in Hawaii and in the Philippines. The Philippines, not being so far along in progress and having the lesser amount of money tied up in it at the moment, was naturally the one we shut off first in order to conserve and keep money enough to go back into business when conditions improved. 1934 was the first year after the depression that we were able to see far enough ahead to start a definite planting program. And we are now on a definite program.

I also [stated<sup>2</sup>] in the report, I believe, that we produced 277,000 cases last year; and this year we [will produce<sup>2</sup>] perhaps 450,000 cases. Our estimates, based upon the yields that we have had and the plantings now in the ground—because we cannot change next year—indicate that in 1938 we will pack in excess of 500,000 cases, probably about 525,000.

We are aiming at a program that will produce 600,000 to 700,000 cases in 1939. We would like to go a little faster than that, but we also have to be very careful, in view of—at least, judging from newspaper reports—a possible earlier termination of our protection.

Mr. PAREDES. Mr. White, did I understand you to say that you cannot find any other market in the world for good pineapples?

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<sup>2</sup> See footnote 2, *ante*, p. 11.

Mr. WHITE. We can find another market in the world for good pineapples if we can produce them cheaply enough to sell in competition with the poor pineapples.

Mr. PAREDES. Would not the good type of pineapples sell at a higher price than the poor type?

Mr. WHITE. No, Sir. The principal markets of the world outside of the United States are price markets. Even Canada is a price market. Canada consumes a surprising amount of Singapore pineapples. And Canada goes so far as to take the Cuban pineapple, which is a very nice fresh fruit but is not a satisfactory canned product, and actually brings the fresh fruit into Canada, packs it there and sells it locally at a very low price—and at such a price that we cannot compete to any considerable extent.

Mr. PAREDES. If that type of pineapples were sold in the United States at lower prices than your good pineapples, do you think that kind would sell more readily or do you think the good kind would sell more readily?

Mr. WHITE. I do not believe I understand your question, Sir.

Mr. PAREDES. Suppose there were a big shipment of bad pineapples into the United States; do you think the American public would take the bad pineapples or the good pineapples?

Mr. WHITE. The American public would take a portion of the bad pineapples. We are experiencing that condition today. Formosa is sending its pineapples into this country. During 1936, 175,000 cases of Formosa pineapples came in and paid the tariff and still undersold our goods. The country absorbed that amount very readily. But that is only 175,000 cases out of the 11,000,000 cases that were sold from Hawaii and the Philippines combined; so it was really only a drop in the bucket. I believe the Formosa product at a cheap price might perhaps take up as high as 10 percent of our market if they could get in without a dumping basis, that is, selling at the price they do over the tariff, which is really a dumping proposition. And they can afford to send a certain amount of their stuff in.

Mr. PAREDES. I suppose that when you started in the business in the Philippines you made investigations as to soil conditions all over the Islands?

Mr. WHITE. I might [*state* <sup>3</sup>] that I made the first trip to the Philippines in 1923, as a matter of fact, at the invitation of a returning Philippine Commissioner, whom I had met in Hawaii and who had said, "Why don't you come and try our country? We think you can grow pineapples there."

<sup>3</sup> See footnote 2, *ante*, p. 11.

I believe Mr. Roxas was in that group at the time.

Mr. ROXAS. Yes; I was.

Mr. WHITE. We studied the entire group of islands. I went with carriers (*cargadores*), walked across Mindanao, and crossed Luzon and all over. We finally located this spot as being the most desirable in the Philippines. We had soil samples and studied them. We brought out small quantities of plants and actually grew them to see how they would really develop, and that was before we went into it to any large extent. That took us until 1927, that is, over four years, before we made any considerable commercial planting.

Mr. PAREDES. But, generally, is the soil in the Philippines adaptable to the production of pineapples?

Mr. WHITE. In certain sections of the Philippines it is; in certain other sections it is not.

Now, gentlemen, please do not misunderstand me. You can grow pineapples in almost any section of the Philippines. But in order to get the yields and the type of fruit necessary for commercial practice, the locations are greatly narrowed.

Mr. ELIZALDE. Have you had any big losses on account of weather conditions from time to time?

Mr. WHITE. No, Sir; we have not. We are out of the typhoon belt in the section where we are located. There have been no large losses, although there were some small losses, but nothing out of the ordinary and nothing that would not be expected in normal agricultural practice.

Acting Chairman SAYRE. Are there any other questions that anyone wishes to ask?

(No response.)

The Committee appreciates very much, Mr. White, your appearance here this morning.

Mr. WHITE. And my statement or brief will be made a part of the record?

Acting Chairman SAYRE. Yes; it will be.

(The statement and brief referred to are printed in vol. III.)

The next witness to appear before the Committee will be Mr. Daniel R. Forbes, of the Philippine Mahogany Manufacturers' Import Association.

STATEMENT OF MR. DANIEL R. FORBES, ON BEHALF OF  
THE PHILIPPINE MAHOGANY MANUFACTURERS' IM-  
PORT ASSOCIATION

Mr. FORBES. Mr. Chairman and Gentlemen of the Committee: We did not request the opportunity of being heard orally at this time but we stated in the petition,<sup>4</sup> as you may see, that we would like to have the opportunity of filing additional data which are more available in the Islands than they are here. We would like to have that opportunity, if the Committee please.

Acting Chairman SAYRE. If I understand correctly, you are suggesting that you put in an oral appearance at the hearings in the Philippine Islands?

Mr. FORBES. Yes, Sir; and supported by data which are more easily available from the Government data in the Islands than they are here.

Acting Chairman SAYRE. You would prefer to put in your appearance in the Philippine Islands rather than here?

Mr. FORBES. Yes, Mr. Chairman.

Acting Chairman SAYRE. That is quite acceptable.

Mr. FORBES. And we have some data to present, Mr. Chairman.  
(The data referred to are contained in the following petition:)

Cable Address: Philport.

Phone: Tucker 3585.

PHILIPPINE MAHOGANY MANUFACTURERS' IMPORT ASSN., INC.

W. G. SCRIM, *President*  
M. S. CHAPIN, *Vice-President*

F. J. DUNBAR, *Secretary and Treasurer*  
G. P. PURCHASE, *Asst. Secretary-Treasurer*

111 WEST SEVENTH STREET  
Los Angeles, California

To the

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS.

PETITION OF THE  
PHILIPPINE MAHOGANY MANUFACTURERS' IMPORT ASSOCIATION

GENTLEMEN OF THE COMMITTEE:

The Philippine Mahogany Manufacturers' Import Association is an incorporated trade association, organized under the laws of California, for the promotion of the interests of manufacturers and importers of, and dealers in, Philippine lumber. Its membership is composed of American firms and individuals engaged in the industry, including American companies which operate lumber mills in the Philippine Islands and export lumber and timber products to many countries, including the United States.

These American manufacturers operating mills in the Philippines have very large investments in plants and equipment, including land, railroads, and buildings. Practically all of their mechanical equipment is of American manufacture,

<sup>4</sup> See *infra*. A supplemental petition was filed with the Committee in September 1937; see vol. III.

and the initial and annual renewal cost of American machinery and supplies is substantial.

These American-owned and -operated mills have established in the world's markets an increasing demand for their production, and only a small proportion of their output is imported into the United States. They furnish to American-owned vessels a very large traffic which is of some importance to our mercantile marine.

Shortly after American occupation of the Philippine Islands, and with the encouragement of American military and civil administrations, American investors began the development of the lumber industry in the Islands.

Through the wise foresight of the early American administrators the bulk of the forest lands of the Islands were made part of the public domain and private operations were permitted under concessions granted by the Insular Government, and lumbering operations have been and are conducted under the supervision of the Government of the Philippine Islands. The administration of the Forest Service of the Philippine Government has been able and just and has encouraged American investors to increase their investments for the improvement and expansion of their operating facilities. One of these American-owned and -operated mills is the largest hardwood mill in the world.

There is being prepared from corporate records and from the official records of the Government of the Philippine Islands, which are not completely available here, statistical data covering the investments and production of these mills, and this will be presented at the hearings of the Committee to be held in Manila.

The concessions under which these mills are now operating are for varying terms, and expiration dates in some cases will occur after the contemplated complete independence of the Government of the Philippine Islands.

Numerous other lumber operations under concessions granted by the Government of the Philippine Islands are conducted by individuals, firms, and corporations of nationalities other than American. These include British, Japanese, and Chinese, as well as those of Philippine citizenship. However, the American investment is greater than that of any of the other nationals.

All of the mills now operating under existing concessions are subject to equivalent rates of taxation, stumpage charges, and other impositions, and all have enjoyed equal status, treatment, and privileges before the Government of the Philippine Islands, without regard to nationality.

It is this equality of treatment which has encouraged American as well as other nationals to develop the national resources of the Islands and to increase their investments in such operations. Out of this has grown a keen but healthy competition between operators of these different nationalities. There has therefore been established, to the great present and future benefit of the people of the Philippine Islands, a thriving and growing industry utilizing natural resources, owned and controlled by the Government of the people of the Islands; and this has been brought about almost entirely by the wisdom of the early American administrators, the efficient administration of their successors, both American and Philippine, and the business leadership of American operators.

It is therefore but right and just that those American pioneers and their successor-investors should have assurance that the enjoyment of equal rights and privileges with other nationals, both Philippine and others, will be permanently preserved; that any and all opportunities given to native or other nationals be given to American nationals under the same terms and conditions; and that taxes, duties, and imposts of any and all kinds which may be required

by the independent Government of the Philippine Islands shall be imposed impartially without regard to nationality, whether it be Philippine, American, or otherwise.

Such assurance, we respectfully urge, should be expressed in specific terms in the covenants that are drafted as a result of the negotiations now pending.

The consideration of both the American and Philippine delegations is most respectfully solicited.

Respectfully,

PHILIPPINE MAHOGANY MANUFACTURERS'  
IMPORT ASSOCIATION  
By DANIEL R. FORBES  
*Counsel*

*June 11, 1937*

Daniel R. Forbes,  
Attorney at Law,  
839 17th Street NW.,  
Washington, D.C.

Acting Chairman SAYRE. The next witness will be Mr. Louis B. Montfort, representing the Crown Manufacturers Association, who will speak on metal bottle caps.

STATEMENT OF MR. LOUIS B. MONTFORT, ON BEHALF  
OF THE CROWN MANUFACTURERS ASSOCIATION OF  
AMERICA

Mr. MONTFORT. My name is Louis B. Montfort, and my address is 218 Munsey Building, Washington. I am secretary of the Crown Manufacturers Association of America.

The metal and cork caps used on beverage bottles all over the world are standard all over the world. Wherever you go they are used as beverage closures.

We are experiencing very serious difficulty with the Japanese products. I think there is a small crown manufacturing plant in the Philippine Islands.

We find that our ship sales in this country will approximate 100,000,000 gross. We have had very substantial exports in former years to the Philippine Islands. I cannot give you the exact grossage, but I will be very glad to do so and will request permission to file an additional brief, including in it those additional data.

Our ship sales grossage last year amounted to between 60 and 70 million gross of crowns. That is in view of a very definite expanding market all over the world for crowns to be used for the closing of beverages.

Our principal difficulty is in the so-called "decorated crown", as distinguished from the plain single- or double-lacquered crown, which is a crown that merely looks as if it is a tin covering.

The decorated crown is the crown that is used to label, and not only to label but in this country it is used in the various states to tax beverages. We are collecting taxes for about 10 of the States of the United States. It is used primarily on beer and soft drinks.

The Japanese tariff in the Philippine Islands, as I understand it, approximates about 15 percent. I am reliably informed, and I will be glad to support it in a brief, that unless we can get a preferential tariff of at least 25 percent we will have to go out of the Philippine market and surrender it to the Japanese.

I shall be glad to answer any questions that anyone desires to ask me. What I have just said is the sum and substance of the statement that we have to make. We are asking for help.

There are about 20 manufacturers of crowns in the United States. They are scattered from the Atlantic to the Pacific coast. The group that I represent has 16 manufacturers and represents 90 percent of the crown production. It really represents approximately 98 percent of the crown production in the United States, and practically of the world.

Acting Chairman SAYRE. Are there any questions?

Mr. DOMERATZKY. Do any of the members of your association have branch plants in foreign countries?

Mr. MONTFORT. There are some branch plants. They are not exactly branch plants; they are subsidiary plants. There are some plants in Germany, and there are some in England. Some of the cork is cut in Spain, in Portugal, and in North Africa. But I do not know of any branch plants in the Orient, although possibly there might be one in Canton or in Hong Kong, but I do not think so. However, I can very easily ascertain that information.

Mr. DOMERATZKY. I was under the impression that the Crown Cork Company had some.

Mr. MONTFORT. No doubt you are thinking of the Crown Cork International, which is a separate and distinct company, Mr. Domeratzky.

Mr. DOMERATZKY. But there is no affiliation?

Mr. MONTFORT. Yes, Sir; there is. But it is a separate and distinct company. I think they did have a plant in England that they sold within the last few years, if I am not mistaken.

Mr. DOMERATZKY. How do you account for the ability of the Japanese to undersell you in the Philippine Islands, Mr. Montfort?

Mr. MONTFORT. It is primarily because of the labor costs involved.



Mr. DOMERATZKY. Is there much labor involved?

Mr. MONTFORT. It is sufficient to make it a very expensive item. Then there are the material costs. Of course, right now, due to the Spanish situation, the price of cork has advanced very greatly. Our costs are based upon our cork costs, our tin costs, and our labor costs; and, too, the decorated crown has a lithographing cost.

Mr. DOMERATZKY. Have you any idea as to what the proportion of the labor cost is to the total cost?

Mr. MONTFORT. I imagine it is about 25 percent of the total cost.

Mr. DOMERATZKY. You think it is about 25 percent of the total cost?

Mr. MONTFORT. I shall be very glad to make an investigation as to that.

Mr. DOMERATZKY. Do the Japanese have any advantage in the buying price of the cork?

Mr. MONTFORT. I do not think so, because the cost price is fixed by the distance you have to go back into the cork forest to get the cork. There is enough cork to supply the needs of the world forever, according to the information that I have.

The minute you run into a deficiency in cork, the price is advanced. That is a labor charge there. But they will go back into the forest and produce the cork for you.

Mr. DOMERATZKY. Would you say that the Japanese have an advantage in the metal cost?

Mr. MONTFORT. Yes; I would say they would have some slight advantage in the metal cost, being somewhat closer to the source of the tin down in the Straits Settlement.

Mr. DOMERATZKY. Isn't tin sold at a world price?

Mr. MONTFORT. Not necessarily; no, Sir. There is a great deal of price fixing charged; but I have never seen a price-fixing charge in my life that you could not beat.

The Japanese had been buying a great deal of scrap tin in this country, until we were stopped by the State Department from selling it to them. That was practically all scrap tin from crowns stamped out. Crowns are stamped out in large lots, that is, 288 crowns every time a machine stamps. That leaves the fringe from which the crown is cut. That was baled and sold to the Japanese, and in very substantial amounts at a very substantial price. What they were using the tin for, we do not know. We know only that they were buying scrap tin over here at a very substantial price. Apparently they were paying more here for their tin than they were down the Straits Settlement.

Mr. DOMERATZKY. When you speak of scrap tin you really mean scrap tin-plate, do you not?

Mr. MONTFORT. Yes, Sir; that is right. That is what we call that scrap tin.

Mr. DOMERATZKY. But it is all tin-plate. All of that material that you use is really tin-plate; you do not use lacquer that takes its place?

Mr. MONTFORT. No, Sir. Most beverage crowns are used on pressure bottles, and these bottles carry a very substantial pressure, for instance, on Coca-Cola and beer, and they are all charged with carbon dioxide.

All crowns are standard in the industry that I represent. They use approximately 110 tin-plate for that. They have never been able to find anything that would satisfactorily substitute for tin. They have tried aluminum and other things, but they are not satisfactory. On some food closures they use aluminum caps and softer-metal substitutes. But even the food closures are mostly made from tin.

When I speak here about grossage, I am talking about tin-plate grossage.

Acting Chairman SAYRE. Are there any other questions?

Mr. ELIZALDE. About how long have you been in the Philippine market? How many years have you been in that market?

Mr. MONTFORT. We have been in the Philippine market ever since I have been associated with them. And that was in 1925.

Mr. ELIZALDE. And it has been an important market ever since then?

Mr. MONTFORT. Any foreign market is an important market to us.

Mr. ELIZALDE. But you have no office in Manila?

Mr. MONTFORT. Not that I know of. My group does not have an office in Manila. The Crown Cork & Seal Company, the Armstrong Cork Company, the Bond Manufacturing Company and the Western Stopper Company, of San Francisco, may have representatives over there.

Mr. ELIZALDE. What firm are you representing?

Mr. MONTFORT. I represent the group, the association.

Mr. ELIZALDE. What are the firms which import into Manila? Do you know that?

Mr. MONTFORT. I would list the Armstrong Cork Company, the Mundette Cork Corporation, the Crown Cork & Seal Company, of Baltimore, possibly the Bond Manufacturing Company, of Wilmington, Delaware, and the Western Stopper Company, of San Francisco. The Armstrong Cork Company is at Lancaster, Pennsylvania. The Western Stopper Company, of San Francisco, is a subsidiary of the Crown Cork & Seal Company.

Mr. ELIZALDE. Do you know the names of the firms which actually import in Manila?

Mr. MONTFORT. No, Sir; I do not. I imagine they would be the breweries and the soft-drink manufacturers who are over there.

Mr. ELIZALDE. Do you sell direct?

Mr. MONTFORT. We sell direct to the bottler. We do not deal through brokers at all. We usually sell right direct to the bottler. I don't know of any firm in the United States who handles a decorated crown who does not.

Before prohibition was repealed we manufactured and sold more than 30,000,000 crowns to be used on home-brew beer in this country. It might be interesting to know that we had never recovered that market until this year. This year the breweries passed the 30,000,000 gross. So prohibition repeal did not help us so very much.

Mr. ELIZALDE. Can you give us the gross of your business in the Philippines?

Mr. MONTFORT. I am unable to give you that. The crowns are shipped in carload lots of approximately 30,000,000 gross. That is the minimum on a carload. From that you might be able to figure what the tonnage is. It is very heavy because of the tin.

Mr. ELIZALDE. But you cannot answer that question as to the tonnage that goes to the Islands?

Mr. MONTFORT. No, Sir. But I will be very glad to give that to you at a later time.

Mr. ELIZALDE. I will appreciate it.

Acting Chairman SAYRE. That may be inserted in the record, if you will be good enough to forward it to us.<sup>5</sup>

Are there any other questions to be asked of Mr. Montfort at this time?

If there are no further questions, Mr. Montfort, I want to say that we appreciate your kindness in coming before us.

I wonder if there happens to be anyone here this morning who is not scheduled to appear today but who would like to appear before the Committee at this time?

Mr. Forbes deferred his appearance until the hearings in the Philippine Islands, so we have a little spare time available. If there is anyone who would like to make his appearance now, we will be glad to hear him at this time.

If nobody is present who would like to make a statement at this time, we will adjourn until tomorrow morning at 10 o'clock.

(Thereupon, at 11 o'clock a. m., an adjournment was taken until Thursday, June 17, 1937, at 10 o'clock a. m.)

<sup>5</sup> See *post*, p. 27.

(The letter of Mr. Montfort above referred to follows:)

THE CROWN MANUFACTURERS ASSOCIATION OF AMERICA

MUNSEY BUILDING

WASHINGTON, D.C.

LOUIS B. MONTFORT  
*Executive Secretary*  
*and*  
*General Counsel*

*August 13, 1937*

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS,  
206 Old Land Office Building,  
Washington, D.C.

*In re: Crown Beverage Bottle Closures*

GENTLEMEN:

Reference is made to my communication of July 9, 1937, in the above-entitled matter.

Supplementing the information and data contained therein, I desire to call the Committee's attention to the following:

Specifically referring to the item of freight costs involved in the selling price of crowns manufactured in the United States and crowns manufactured in Japan, and sold in the Philippine Islands; there is a substantial difference between the freight costs, for example, from Osaka, Japan, to Manila, P.I., as compared with freight costs from eastern United States shipping ports to Manila, P.I.

I am advised that freight cost on crowns from eastern United States ports to Manila, P.I., is \$9.00 per ton; whereas, the freight cost from Osaka, Japan, to Manila, P.I., is \$2.70 per ton.

Other than the Western Stopper Company located in San Francisco, California, which is one of the smaller units in the industry, and a branch plant of the Bond Manufacturing Company being built in Los Angeles, California, which will also be a small unit in the industry, the crown manufacturing industry of the United States is located principally along the Atlantic seaboard.

It is requested that this additional supplemental statement be made a part of the record before the Committee with reference to crowns.

Respectfully submitted,

LOUIS B. MONTFORT  
*Secretary*

## PROCEEDINGS OF JUNE 17, 1937

HEARING ROOM, U.S. TARIFF COMMISSION,  
WASHINGTON, D.C.,  
Thursday, June 17, 1937.

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 10 o'clock a.m.

*Present:*

The Honorable FRANCIS B. SAYRE, *Acting Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. LYNN R. EDMINSTER;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

Acting Chairman SAYRE. The Committee will now resume its sessions.

The first person to appear this morning will be the Honorable Fred L. Crawford, Representative in Congress from the State of Michigan.

### STATEMENT OF THE HONORABLE FRED L. CRAWFORD, MEMBER OF CONGRESS FROM MICHIGAN

Mr. CRAWFORD. Mr. Chairman, when I direct thought to the question of Philippine economic adjustment I find constantly before me another question—What position does Japan now hold, and what part will Japan play in the future, so far as the Philippine-American relations are concerned?

Japan enters into all the consideration I am able to give the Philippine question because of the position of Japan with respect to—

Her geographical location;

Her centuries of culture, keen analysis and understanding of the peoples and races of the earth, and their problems and policies;

The pressure of her population and its need and aggressiveness to occupy and acquire the unutilized space and raw material of the earth;

Her racial instincts, bloodstream, national pride, inherent and developed sheer ability to cope with the economic problems of today on a local and world-wide basis;

The dissimilarity of her mode of living and her political, social, educational, and religious institutions and her form of government and desired goal, as compared to that of our people;

Her attitude toward other world powers and the aggressive program which she has consistently and persistently followed in the racial, political, productive, and economic zone which we term the "Asiatic Front";

The political and economic interest and rights which she claims to hold in the contiguous territories in the zone which she so clearly dominates;

The insistence on the part of Japan for the acceptance of the doctrine of "Territorial Propinquity", and I might say, as more clearly set forth in the Asiatic Monroe Doctrine wherein Japan so insistently claims that what she does is in "behalf of peace of Asia";

The conflict between the social and economic and political philosophies of the Far East and those which have heretofore governed in the United States.

On the other hand, I find myself thinking in terms of factors which involve:

1. Almost four decades of time wherein the record causes me to feel that we have been more interested in practicing our idealistic and altruistic philosophy than in the development of a race of people and a great empire destined to hold for years to come a key position in the affairs of nations.

2. A great increase in the population of the Islands. A staggering low level of individual possessions among the people.

3. Millions of the Filipinos with only a sheer veneer of American philosophy, comprehension of American institutions, and desire to go along and make the necessary sacrifices involved in the planting, cultivating, and firm establishment of our institutions in the world we designate as the "Far East".

4. Satisfactory evidence that, when given the light in which to walk, the Filipino has the intelligence, capacity, and energy which make it possible for him to be developed into a creative worker and thus be placed in a position to assume his responsibility as a member of the human race and fill his particular niche in working out the purpose of mankind.

5. The "Treasure Chest" of the Far East. The Islands remind me of vast, untouched storehouses, filled with most precious materials for the conduct of war as well as peace. Nowhere else have I seen, or do I ever expect to see, a territory so strategically situated and so blessed with deposits of gold, iron, copper, lead, coal, timber; with water power, fertile acres, and diversity of climate, as I saw in the Philippine Islands. In my opinion, half the story has not been told. So far as I have been able to find, the Islands are excelled in richness and expanse of territory and accessibility and underpopulated (as compared to the number of people who can be accommodated) (by no other place on the face of the earth.

6. The capacity of the people; the material at hand; the pressure of population; the low level of individual possessions; the means of production in the form of scientific knowledge, machinery, and ability to finance—the operation of these forces will not long permit this vast empire to remain in its present primitive form.

7. As this development takes form, what part is to be played by the United States? As I study the past I am impressed with the lack of a proper mixture of the iron and steel of economics with the idealism and altruism which has been applied. Some leader or some nation will now have to get down to brass tacks and proceed with an administrative program which will remove a great deal of the exploitation and poverty now so prevalent among the people. When that leader appears on the scene I believe the Filipinos will go along with him to far greater success than has heretofore been attained.

8. The position of the United States citizen engaged in industrial activity in the Islands reminds me of the "Old Man's Son" who attempts to work his way up from the bottom. I feel that he has been engaged in business in an area where every move was made toward creating "Utopia" for the nationals of other countries, such as Chinese, Japanese, Greek, and others. One needs only to carefully analyze the penetration of the Islands by these nationals to realize the full significance of what I am here attempting to point out. I am satisfied the program has heretofore been conducted in a manner which favored the "non-American" enterprise and discriminated against the trade relations carried on by those who are American citizens. If this policy is to be followed I feel that due consideration should be given in the trade relations that are to be established. Of course, I do not in any way agree that such a policy should be further followed or encouraged or permitted. I implore you to give our citizens a fair shake.

9. Economic adjustment, in terms of our American comprehension, involves the use of capital. If the Philippines are to be able to adjust their economy to the changed conditions that are to follow independence, we must declare (in the light of our present comprehension) that private capital will be needed, unless we assume that through government financing the means of increased production are to be provided.

Of course, if capital is to be furnished by the Government and if the Government is to set the pace of competition, then we are concerned with the status not only of those American citizens who have invested their private capital in the Islands but even more so with those who have their private funds invested in continental United States, Hawaii, and Alaska, and who will have to compete directly with the Government-financed and -operated industries of the Islands.

10. In these days of "hot money", when not only individuals but governments are playing the International Exchange Markets with the stabilization funds and equalization accounts, and at a time when capital, in appalling sums, has taken on a "roving disposition", I can appreciate that this question of economic adjustments involves the highest policy of the nation.

I cannot forget the Japanese position in this respect. In what spot on earth could Japan more safely invest capital—as a nation or as private individuals—than in the Islands? I repeat that the pressure of population, proximity to Japan proper, racial ties, simplicity of living, availability of space, need for raw materials, the distance from operating-headquarters of other great powers, such as France, Britain, United States, Russia, Italy, and Germany, and the ever present protection of the Japanese military, naval, and air forces, all make the Philippine Islands a triple-A investment for the Japanese.

The entire world now offers little safety for investment of capital as we have heretofore defined "safety". New concepts of safety, financial return, stability, must now be accepted by the people of the world. Now, all is uncertainty. "Hot money" or capital now flees through the back door from nation to nation. It takes its departure from minute to minute. Each investor attempts to remain liquid. Each is concerned about "today's safety".

But, Mr. Chairman, in the case of Japan and the Philippine Islands this is not true. What does Japan care about "today's safety" so far as her investments in the Islands are concerned? Japan "knows" there is no safer place on earth for her to invest.



This is true whether she looks at the picture from the standpoint of safety today or tomorrow or 100 years from now. If Japan is to survive as a race, as an empire, she must move forward. And she is cognizant of the fact that character grows in the stream of life—where there is effort, application, work, production. Therefore, Japan is “digging in” in the Philippines. She is there investing for “the long pull”. She is willing to do the “stoop” labor that pioneering calls for. She is there today. She will be there tomorrow—50 years from now, with her religion, her concept of life, her bloodstream.

What the people of the United States desire and what we believe, do not in the least alter the geography of the earth. They do not necessarily change the *quantum* of blood of races. Scientific advances in solving the problems of distance can be applied to other countries as well as to ours.

11. In view of the heavy burdens which have been imposed upon the taxpayers of the United States in the prosecution of the expensive policy followed, wherein we have developed the “spoiled child” of the Philippines and wherein we have financed the military and naval operations and carried other costs pertaining to the maintenance of their government to such an extent, it is quite natural for them not only to expect but to demand that we go along and provide further financial assistance.

12. Under the present program I am impressed with the thought that we have in a way assumed unusual responsibility and at the same time have retained little authority. Whatever the price of this action on our part may be, it appears we shall have to pay. However, there is still time left for us to make some hedges against too great a cost. I trust and believe the Committee will undoubtedly keep these factors in mind and provide as great an insurance against too great a cost to our people as can be provided under the circumstances.

13. A decade today is a long, long time in the political flux in which we find ourselves. We are discussing the matter of economic adjustments under a Western form of government about to be imposed on a territory located in the Far East.

Before the 10-year period has expired our own form of government may have materially changed. As I view the situation, we have little reason to assume that “our form of government” will survive in the Far East.

It does, however, appear to me that, in making this adjustment, those in charge of the affairs of the Philippine Islands will perhaps need the progress of the West to go along with the life, environment, customs, and traditions of the East, and all to the end that economic development will follow and thus

prevent government tumbling and organized society crumbling with all of the unrest and misery that inevitably follows such an occurrence.

The limited study I have been able to give the question leads me to believe that capital will flow to the Islands after the withdrawal of the United States. It may increase its flow when more certainty is established and a greater degree of responsibility is assumed by the people and their leaders. In that event, economic development should occur with consequent production of goods and services and the ability to contribute the necessary costs of government.

When one adds up the debits and credits and considers all the uncertainties which pervade the entire Far Eastern field of international relations—the Problem of the Pacific—I think there is some degree of room to feel that the future of the Islands may be as serene as that of our own fair land. This, to a great extent, is due to the fact that world destiny has, down through the centuries, been preparing a great power and a magnificent race to assume a peculiar role in the affairs of the Far East and the Philippines. I refer to the Empire of the Rising Sun—Japan.

The Japanese people know the economic, social, and spiritual benefits which flow from simple living. They possess a willingness to coordinate and work; they are accustomed to spending their energy in the creation and production of more goods with which to supply the needs and wants of their rapidly growing population.

The Japanese are better equipped mentally to do these very things than any other race of people now operating in the world. They look upon waste as heathenish, as something to be abhorred. Therefore, in this day of unbelievable extravagances, these characteristics make the Japanese a force to be reckoned with.

And, Mr. Chairman, the third set of major factors which concern me may be summarized under the following:

Nearby the Philippine Islands we find an unusual community of interests made up of fortifications, industrial, banking, transportation, trade routes—air, water, and rail; and belonging to the British, the French, the Dutch, the Russians, the Japanese, ourselves, and others. This presents a unique problem when dealing with the question of complete independence for the Filipinos—the creation of a new republic. In dealing with these economic and political questions we shall find that the

highest policy of our government will have to be called into action.

It appears to me to be in order to suggest that this problem with which we are dealing today challenges the highest ideals and capacities of the whole philosophy of democracy. The responsibility resting upon the shoulders of the personnel of your Committee is of the highest order. Your findings and recommendations will constitute history. Before we are out of the Philippine Islands I surmise that we may find a genuine contest between the white and yellow races, between democracy and other distinct forms of government.

If there could be stripped from the problem all cleavages other than those directly affecting the Filipinos and the people of the United States, your problem would indeed be much simplified; but that is not the situation. I hope that as progress is made our people may better comprehend the forces with which you have to deal.

In conclusion, this whole problem is one of the big issues before our people. It deserves consecrated thought; and I shall watch your progress with the greatest of interest and, I hope, with some degree of patience.

For almost four decades we have been in the Philippines. Its resources are very largely undeveloped. With the exception of three or four basic commodities which are largely of an agricultural nature, there has been accomplished, in my opinion, startlingly little under our administration. Transportation and communication are strikingly inadequate. The people as a whole are in a state of poverty and are being too much exploited. There is not even a common language spoken, and, of course, this is a tremendous handicap.

It is my belief that if we retain, after independence is granted, a naval or military base in the Islands, that action on our part will invite trouble on a large scale. I believe that it would eventually lead to such bitter protests on the part of other nationals with economic and political interests in that vicinity, that it would be impossible for us to prevent most serious international complications which would eventually lead to military action.

Therefore, Mr. Chairman, it appears to me that we should be prepared, on the granting of complete independence, to simultaneously remove from the islands every trace of our military and naval forces and at the same time discontinue all financial assistance in the support of the local Philippine Constabulary and other peace-preserving agencies. With the granting of independence, on what grounds can we justify the presence of military and naval domination? I feel that President Quezon made all this very definite in his testimony before the Insular Affairs Committee of the House on April 4, 1935.

Furthermore, I personally feel that when the people of the United States fulfil the obligations incurred under our promulgation of the Monroe Doctrine with respect to giving the necessary protection to North, Central, and South America, we shall have carried about all the burden possible for us to bear. What other country in the Western Hemisphere is prepared to carry its share of the burden, in the event of a world-wide offensive drive on the part of a combination of powers which, in their campaign of operations, would deem it advisable to make attacks simultaneously on Alaska, Canada, the United States, and Central and South America. We have a very long seacoast to guard and defend without attempting to spread our small navy and still smaller merchant marine out into Asiatic waters. In the absence of a great naval base comparable to that of Britain or Japan, any attempt on our part to do effective work in the Philippine waters would in my opinion only lead to embarrassment and final defeat, but all after incurring a tremendous cost in dollars and men.

In our own country we today have a rapidly mounting Federal debt. A staggering number of our own able-bodied workers are not engaged in private enterprise but, instead, are being fed, clothed, and housed from the productive effort of those creative workers who are engaged in private industry. Taxes are high and will continue to increase, and expenditures are entirely out of proportion to our total national income, representing goods and services produced by our people. There is ample evidence that we have an economic adjustment to make here at home. We need to put our own house in order, and I may say that it is imperative that we do so.

In our dealings with the Filipinos, and as we now rapidly move toward bidding them goodby, we should be fair because it will always pay us to be fair. We do not need to be too generous, because our own people have some rights as well as the Filipinos.

As for myself, it appears to me that, if it is to be the policy of our country to maintain the present and to consummate additional trade treaties, in all fairness to the Filipino people we should accord them as favorable treatment as we do other foreign countries for at least the first five- or ten-year period. On what grounds can we allow Cuba her present trade advantages and, in the light of what has gone on between the Filipinos and our people, deny to them a trade treaty carrying similar advantages? This is a matter of great concern to those in the United States who must compete with both Cuba and the Filipinos. If the Filipinos are not entitled to preferred treatment, on what grounds can we extend the preference to Cuba? In one case it is to preserve peace in the Latin American countries and, on the other hand, it is to assist a people who have been under our wardship for four decades to establish themselves on their own and make themselves capable of defending their own rights and paying

their own way, and thereby relieve the taxpayers of the United States of the load we have been bearing for the Filipinos.

My observation has been such as to lead me to this suggestion. It has to do with the Island's principal product—sugar. It seems to me that the Filipino people must, as individuals or through government ownership and activity, which I understand they are considering, make a choice of policy. If they are to proceed with further expansion of the industry, let them now begin to take such steps as are necessary looking forward to a division of the Far Eastern producing and marketing field with the other interested parties—primarily Formosa, Java, India. Let there be one sugar zone with reference to production and marketing. On what grounds can the Filipinos further expand and expect the Western Hemisphere (United States, Hawaii, Cuba, Puerto Rico, and Central and South American countries) to share its market when production is now being restricted? Again, there is the European producing and marketing field, and it no doubt will hesitate to willingly share its market with increased production from the Philippines. If the Filipinos are unwilling to proceed along this line, then it appears to me they should be quite willing not only to prevent further expansion but to accommodate their future production to such markets as they may be able to obtain outside of the United States or be prepared to pay the full duty on shipments that they may send to our shores after independence is granted. With the most unusual subsidy which we are now giving the industry and the Government of the Philippines, it seems to me they will have their properties so completely written off as to cost that the industry in the Islands will be in position to meet competition throughout the world and in whatever form it may be presented.

Just one other thought, Mr. Chairman. It has to do with the guaranty of peace for and in the Islands. With the granting of independence, I hope that our people will let it be thoroughly understood and take such steps to guarantee that we shall not have to assume any responsibility in this respect beyond that assumed by other world powers, all acting in a cooperative manner.

Mr. Chairman, largely by reason of my visit to the Philippines and that great empire of that great people, I felt it my duty as a representative of my people and as one interested in this subject to appear before your Committee this morning.

Acting Chairman SAYRE. Mr. Crawford, we appreciate very much your coming.

I wonder if any members of the Committee would like to ask Mr. Crawford any questions? I presume, Mr. Crawford, you would be glad to answer any questions?

Mr. CRAWFORD. Yes; I will be glad to try to answer them.

Acting Chairman SAYRE. Are there any questions that any member of the Committee would like to ask Mr. Crawford?

(No response.)

I think you have covered the matter very fully. We appreciate your kindness and your interest in coming here, Mr. Crawford.

The next witness to appear before the Committee will be Mr. Herman Fakler, representing the Millers' National Federation, who will speak on the subject of wheat flour.

I have been informed that Mr. Mallon, who was to be here to represent the North Pacific Millers' Association, is unable to be here this morning and that Mr. Fakler will also speak for that association.

#### STATEMENT OF MR. HERMAN FAKLER, ON BEHALF OF THE MILLERS' NATIONAL FEDERATION AND THE NORTH PACIFIC MILLERS' ASSOCIATION

Mr. FAKLER. Mr. Chairman: I am vice president of the Millers' National Federation, which is a national trade association for the wheat-flour millers of the United States.

In appearing before your Committee, I am authorized to represent the Millers' National Federation and the North Pacific Millers' Association. Unfortunately, neither Mr. O. D. Fisher, president of the Federation, nor Mr. W. H. Younger, president of the North Pacific Millers' Association, is able to come to Washington at this particular time. Both, however, have filed written briefs<sup>1</sup> in behalf of their respective organizations and have asked me to supplement their views orally.

I think the position of the milling industry of the United States as a whole, and of that part of the industry on the Pacific coast most vitally concerned, can be stated briefly.

Because the soil, rainfall, and climate of the Pacific Northwest basin are well adapted for the most part to the production of wheat, and not so well adapted for the growing of other crops, a very large part of the basin is devoted exclusively to the growing of wheat. Fortunately for the Pacific Northwest, a good foreign demand has always existed for the type of wheat and wheat products produced there. The annual export of wheat and flour during the decade of the 1920's accounted for a large portion of the annual production. The remainder moved eastward in small quantities by rail, in greater quantities to California, and to some extent to the Eastern Seaboard via the Panama Canal.

However, at the end of that decade and during the early part of the present decade, the wheat-producers and the mills suffered a most severe loss of foreign markets. It is not necessary to recite the reasons

<sup>1</sup> See vol. III.

for this loss. It is sufficient to say, I believe, that it was a terrific blow to the Pacific Northwest particularly, because it has been dependent to such a large extent upon export trade, both in wheat and wheat flour. Naturally, other outlets had to be found for the wheat produced. Increasing quantities poured eastward over the Rockies, the volume shipped to California increased, and continually larger quantities poured through the Panama Canal and penetrated through the Eastern Seaboard into the interior. All of this movement had a distinctly adverse effect on the price-level of the eastern wheat-producer and seriously dislocated the normal relationships which had existed between different sections of the country.

During this period, increased competition from Australia, Japan, and Canada still further handicapped the Pacific Northwest millers in maintaining their trade in the Philippines. To meet this situation, subsidies and indemnities have been employed and they have been successful in helping to meet this competition. Even in the face of a duty of 47 cents for 100 kilos on flour imported into the Philippines from these other countries, however, it has been necessary to employ these artificial means to maintain our trade in the Philippines.

Imagine, therefore, as Mr. Fisher points out in his letter to the Committee, what the situation would be if our wheat-producers and millers would have to depend upon a non-preferential trade agreement between the United States and the Philippines. It is obvious that the flour business would be lost and our wheat-producers deprived of that outlet for their wheat in the form of flour.

In conclusion, I think I can express the views of the milling industry no better than by bringing to your attention particularly one paragraph of Mr. Fisher's letter:

We feel that the enormous amount of money, time and effort that have been involved in the development and carrying on of American trade with the Philippines since the time the Philippines became a possession of the United States are entitled to generous consideration by both the United States Government and the government of the Philippine Commonwealth, and that this trade should not be destroyed and the investments made in the development of this trade imperiled by such a pronounced difference in trade policy than has prevailed since the conclusion of the Spanish-American War.

I have here a copy of Mr. Fisher's letter.

Acting Chairman SAYRE. Is there any member of the Committee who would like to ask Mr. Fakler any question at this time?

Mr. EDMINSTER. Mr. Fakler, would the flour-millers be able to compete successfully in the Philippines without a preference if the price of wheat in this country were on a world basis?

Mr. FAKLER. The price of wheat, of course, has a great deal to do with the ability of the millers to compete in the Philippines. That has been the principal factor which has brought about our loss of

business, not only in the Philippines but very largely throughout the Orient and the world as a whole.

I am not sure that I can answer your question directly. Right at the moment, as you well know, we are very nearly on a world basis. Even now the competition from Australia, particularly, is felt very keenly. I am of the opinion that we would need additional protection of a preferential character, even though we were on a world basis.

Mr. EDMINSTER. Presumably we will be on a world basis this year if the wheat crop is as large as is now anticipated.

Mr. FAKLER. Conditions seem to indicate that.

Mr. EDMINSTER. I am wondering whether the flour-milling industry in this country is not efficient enough to compete with the flour-milling industry of other countries if it gets its raw material at the same cost and will be able to compete in the Philippine market without preference.

Mr. FAKLER. I have always heard it said by the millers that they are proud enough of their ability to produce flour in competition with the millers of other countries and that if they were on a comparable price basis they would be able to maintain their position.

However, the competition in the Philippine Islands has been so keen recently that I am not sure that that situation would exist there.

Acting Chairman SAYRE. Are there any other questions that any member of the Committee wishes to ask Mr. Fakler?

Mr. WARING. I should like to ask if one of the factors contributing to the inability of the American millers to compete in the Philippines is, perchance, the transportation costs, or the differentials in the transportation costs between Australia and the United States to the Philippines.

Mr. FAKLER. I am not familiar with the exact transportation rates, Mr. Waring; but I have no doubt that that is a factor. To what extent it is a factor I am not in a position to say definitely.

Mr. WARING. In the brief that was submitted by Mr. Fisher mention was made of the subsidies paid in connection with our exports to the Philippines. What were those subsidies? When were they in force, and to what do they amount? Do you know as to that?

Mr. FAKLER. The subsidy plan under the Agricultural Adjustment Act was put into effect something over a year ago, or just about a year ago, but it expires at the end of this month. However, the matter of the continuance of that subsidy plan is now under consideration and an announcement will probably be made within a very short time. The exact amount of the subsidy varies. It is permitted to fluctuate in order that the millers may meet the competition as it exists from day to day.

Mr. WARING. Then, Mr. Fakler, it is a differential between world prices and the domestic price?



Mr. FAKLER. The subsidy is based upon the difference between the price at which other countries sell their flour in the Philippines and the cost to the American millers of bringing their flour into that market.

Mr. WARING. Was there a subsidy paid prior to the present conditions?

Mr. FAKLER. Yes, Sir. Under the Agricultural Adjustment Act there was a Pacific Coast Marketing Agreement in effect which permitted the exportation of both wheat and flour generally. But that was not limited to the Philippine Islands; it was a general export agreement.

Mr. JACOBS. Can you tell the Committee, Mr. Fakler, where the wheat comes from that goes into the making of Japanese and Chinese flour which you show in your statement?

Mr. FAKLER. No, Sir; I am not able to answer that question at this time.

Mr. JACOBS. But both Japan and China are wheat-importing countries, are they not?

Mr. FAKLER. Yes; they are.

Mr. JACOBS. And they export flour, according to your figures.

Mr. FAKLER. Yes, Sir. They are becoming a factor in the Philippine market. But where the wheat from which the flour is made that is exported from these countries comes from, I cannot say.

Mr. JACOBS. But it is a fact that the Japanese and the Chinese are able to import foreign wheat and mill it and export flour to the Philippines in competition with flour from the Pacific coast? That must be the case.

Mr. FAKLER. I would presume so, although China, of course, is becoming a very large producer of wheat; and Japan could very easily secure the wheat from China.

Mr. WARING. Mr. Fakler, I note in Mr. Fisher's brief a statement that if adequate preferential trade agreements could be concluded it would be of material assistance not only to the millers but also to our merchant marine and that subsidies on flour exported would not be required.

Of course, that depends upon the interpretation of the word "adequate".

Mr. FAKLER. Yes, Sir.

Mr. WARING. But if it were unnecessary for us to subsidize exports of wheat, that assumes, does it not, that the price would be sufficient to make that business profitable to us; in other words, that rather than pay the subsidy ourselves the agreement contemplated in the brief would mean that, in effect, the Philippine consumers would be paying the subsidy?

Mr. FAKLER. Not necessarily. As I understand Mr. Fisher's idea of the preference, Mr. Waring, it is that American flour would move into the Philippine market at a very much lower rate of duty than the flour from any other country and, consequently, the price of flour would be lower to the Philippine consumer.

Mr. WARING. But it would still have to be higher in order to be profitable for the American millers to export; and if they now require a subsidy to make it profitable, but would not require a subsidy in the future, it would appear that the equivalent of the subsidy would have to come from somewhere. And I presume that would be from the Philippine consumer.

Mr. FAKLER. Probably so.

Mr. ELIZALDE. While we are on the point, Mr. Fakler, is not the reason for the subsidy entirely, or at least almost entirely, the fact that the cost of the raw material has been out of proportion to the costs of the millers of other countries?

Mr. FAKLER. That is true; yes, Sir.

Mr. ELIZALDE. If the flour-millers were able to get their wheat on a world-price basis, would there be any necessity for such a subsidy, even if there were no preference in the Philippine market?

Mr. FAKLER. Of course, before the entrance into the Philippine market of other flours, Mr. Elizalde, there was no subsidy, and there was only the preferential treatment that was given to the American flour, which is the difference between free trade and 47 cents for 100 kilos.

At that time, as I recall the figures, no flour was imported from any other country except the United States.

Mr. ELIZALDE. That preference was entirely effective, of course, when the United States got its wheat on a world basis, or when the flour merchants of this country got it on a world basis?

Mr. FAKLER. That is quite so.

Mr. ELIZALDE. But in your judgment, Mr. Fakler, would it not be possible for the flour-millers to compete, even without such a preference?

Mr. FAKLER. If they were on a world basis.

Mr. ELIZALDE. If they got their raw materials at the same cost?

Mr. FAKLER. Yes, Sir; if we had assurances that our prices would always remain on a world basis. But the tendency here is to continually increase our domestic prices.

Mr. ELIZALDE. Will you please tell me of any important markets other than the Philippines in the Far East for the export of flour from the United States?

Mr. FAKLER. Up until recently China was always our most important export market for wheat and wheat flour. But within the

last two or three years China has placed a very high duty on wheat flour. That has practically cut off our trade there.

Mr. ELIZALDE. In other words, they are producing wheat themselves?

Mr. FAKLER. They are increasing their wheat-production; yes, Sir.

Mr. ELIZALDE. Therefore, Mr. Fakler, your only market for the time being that is somewhat profitable is the Philippine market?

Mr. FAKLER. Yes, Sir; that is right.

Mr. ELIZALDE. In the China market today you cannot compete, can you?

Mr. FAKLER. That is right.

Mr. ELIZALDE. But there is a certain amount of preference that you did have in the Philippine market, and if you do not have it you lose the market?

Mr. FAKLER. Yes, Sir.

Mr. ELIZALDE. You could not compete against Australia?

Mr. FAKLER. No, Sir.

Acting Chairman SAYRE. Are there any other questions?

Mr. WARING. I note in Mr. Younger's brief<sup>1</sup> the statement that if the market in the Philippines could be maintained or expanded—preferably the latter—it would provide an increased amount of mill feed for domestic use in the United States. I wonder if that increased amount of mill feed would create a problem in the marketing of that particular product in the United States. Mention is made of lower prices, and I wondered how that would affect the producers of that product.

Mr. FAKLER. The mill feed, as you appreciate, is a by-product of milling and it goes very largely to the dairy interests. They are always after that feed at the most reasonable prices they can obtain. I do not think it would be a problem at all.

Mr. WARING. I was thinking of the other producers of mill feed who are now able to obtain somewhat higher prices, perhaps, than they would obtain under the conditions described in the brief.

Mr. FAKLER. I do not think that would be a problem at all.

Acting Chairman SAYRE. Are there any other questions that any member wishes to ask?

(No response.)

If not, Mr. Fakler, the Committee wishes to express its appreciation to you.

Mr. FAKLER. I thank you for the opportunity of appearing here, Mr. Chairman.

<sup>1</sup> See vol. III, Supplemental Brief of the North Pacific Millers' Association.

Acting Chairman SAYRE. The next appearance will be by Mr. Dudley Brown, representing the United States Cane Sugar Refiners' Association.

I understand Mr. Ellsworth Bunker is unable to be present this morning to represent the United States Cane Sugar Refiners' Association, so Mr. Dudley Brown will make a brief statement for that association.

Mr. BROWN. I am afraid, Mr. Chairman, that there is a slight misunderstanding about that. I merely wish to express the regrets of Mr. Bunker because of his inability to be present and to request permission for him to make a statement later on during the course of the hearings.

Acting Chairman SAYRE. Very well, then. We will be very glad to arrange that.

We have now completed the list of those who were entered for appearances this morning.

I wonder whether there are others who would like to make a statement at this time? It would be a convenience to the Committee if others who are scheduled to appear on future dates could move up their appearances. I think we will not have a full two hours tomorrow morning, and if there is any person who could move up his appearance from Monday or Tuesday to tomorrow he would probably have a little more time and it would add to the convenience of the Committee.

May I ask if there is anyone who would like to appear this morning?

(No response.)

If not, the Committee will stand adjourned until tomorrow morning at 10 o'clock.

(Thereupon, at 10:55 o'clock a.m., an adjournment was taken until Friday, June 18, 1937, at 10 o'clock a.m.)

## PROCEEDINGS OF JUNE 18, 1937

HEARING ROOM, U.S. TARIFF COMMISSION,  
WASHINGTON, D.C.,  
Friday, June 18, 1937.

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 10 o'clock a.m.

*Present:*

Mr. JOSEPH E. JACOBS, *Vice Chairman* (presiding);  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. LYNN R. EDMINSTER;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

Mr. JACOBS. Gentleman, I am sorry that our Chairman and our Philippine Vice Chairman are not present this morning. However, we will proceed with the session. The first party to speak this morning will be Mr. John B. Gordon, of the Bureau of Raw Materials.

### STATEMENT OF MR. JOHN B. GORDON, REPRESENTING THE BUREAU OF RAW MATERIALS FOR AMERICAN VEGETABLE OILS AND FATS INDUSTRIES

Mr. GORDON. Mr. Chairman: There are two problems that confront the coconut-oil industry in the Philippines. One is the export tax, which becomes effective in the sixth year of the Commonwealth, and the second is the excise tax collected on the first domestic processing of Philippine coconut oil in the United States.

Mr. J. D. Craig, of Spencer Kellogg and Sons, Inc., of the Philippines, will present the matter of the export tax. It has been my intention to testify on the subject of the excise tax.

We have given the matter some consideration and we think the proper place to put the case in the record concerning the excise tax is in the Philippines, when the producers of the coconuts, who are the main parties of interest, can testify and place a complete case in the record.

Therefore, with the permission of the Committee I will yield my time to Mr. J. D. Craig.

Mr. WARING. Mr. Gordon, I wonder if I might ask one or two questions of you?

Mr. GORDON. Surely, Mr. Waring.

Mr. WARING. In connection with the brief which you submitted<sup>1</sup> there are just a few questions which occurred to me as I perused it.

In your brief you make the point that the imposition of the export tax would operate to transfer the crushing-industry from the Philippines to the United States and that this would have a serious effect upon the copra industry in the Islands. Will not the increased sales of copra to the United States sustain the volume of copra sales, despite the loss of the Philippine crushing-industry?

Mr. GORDON. I do not think it is a question of the matter of volume; it is a question of the matter of price. In my mind there is no doubt but that the competition between the mills which are resident in the Philippines—that is, the American mills—and the buyers of copra for the export market produce a much higher price in the long run for copra than would be secured if the mills were not in operation in the Islands. I doubt, so far as the export tax *per se* is concerned, if it would affect the volume. But it would unquestionably affect the price which the copra-producers obtain for their copra.

Mr. WARING. I am not at all questioning the fact that the export tax would affect the crushing-industry itself very largely; but it seemed to me that the copra-producers would probably sell the same volume of copra.

Mr. GORDON. Yes; I think so.

Mr. WARING. In discussing the matter of the excise tax, which you say you will take up later in the Philippines, in your brief you say, "Thus, if the price of coconut oil is 6 cents a pound, the American buyer figures that he must pay 9 cents a pound for coconut oil." That is the price plus the tax?

Mr. GORDON. Yes, Sir.

Mr. WARING. That would indicate the entire tax is absorbed by the buyers in the United States and, therefore, the tax does not injure the Philippine producers. Is that a correct interpretation?

Mr. GORDON. No, not altogether so. The buyer in this country frankly thinks he pays all of the tax. As a matter of fact, he

<sup>1</sup> See vol. III.

does not do so, because he maneuvers about in such a manner by using other materials as to force a very considerable part of the tax right back on to the primary market.

Mr. WARING. That statement in the brief led me to believe that you might have a different idea yourself.

Mr. GORDON. No; it is not my belief at all. I think the producer in the Philippines, over the period of time that tax has been in effect, has paid the greater portion of the tax. It was for that reason that, during the entire time the discussion was taking place as to whether the Philippines should have the money collected for that processing tax, I have constantly gone on record in favor of the Philippines having the money.

Mr. WARING. On page 4 of your brief you suggest that this Committee might recommend that the 3-cents-a-pound excise tax be eliminated on coconut oil employed for non-edible uses. Am I correct in assuming that this proposal would affect only coconut oil crushed from Philippine copra?

Mr. GORDON. Yes, Sir.

Mr. WARING. Would not such a proposal place the coconut oil crushed from Philippine coconuts in a stronger competitive position in the United States market than it occupied prior to the imposition of the excise tax?

Mr. GORDON. No, Sir; I do not think so. I would call your attention to the last paragraph of my statement, which is that—

The Tydings-McDuffie act promised the Philippines a duty-free quota of 200,000 long tons of coconut oil *per annum*. It placed no restriction on imports of copra into the United States. The effect of the excise tax as levied in the Revenue Act of 1936 will be, under normal domestic crop conditions, to restrict materially the imports of both copra and oil. Allowing Philippine coconut oil to be sold in United States markets tax-free for industrial usage, will serve in part to compensate the Philippine coconut-growing industry for the loss of an important part of their United States market through the levying of a tax which, because it is in reality a tariff duty, is violative of the spirit of the Tydings-McDuffie act.

I think that is an answer to your question.

Mr. WARING. I have no quarrel with that statement; but I do not believe it quite answers the question. The purport of the question is this, Mr. Gordon: If all coconut oil crushed from copra other than Philippine copra is subjected to a 5-cent tax, that tax would remain in effect under your proposal?

Mr. GORDON. Yes, Sir.

Mr. WARING. It would mean that the Philippines would continue to have what they have now, a virtual monopoly of the copra coconut-oil market in the United States.

There is also a 3-cent tax on palm-kernel oil, which is competitive with the coconut oil. Now, if you remove your 3-cent tax from coco-

nut oil, from Philippine coconut oil when rendered non-edible, it is placed competitively in a stronger position in respect to palm-kernel oil than it was prior to the imposition of the tax. That would be my thought.

Mr. GORDON. That is true to a degree. However, the fact is that we made certain promises—well, not directly but indirectly, to the coconut-producing industry in the Philippines through the terms of the Tydings-McDuffie act. And even though there might be created some small degree of inequality as respects palm-kernel oil by the arrangement that I have suggested, I still think that if it is necessary to do that in order to live up to the terms of the Tydings-McDuffie act, we should do it.

In regard to the 5-cent differential, if it were felt that that gave the Philippines an undue disadvantage if you took the excise tax off for industrial uses, then the 2-cent differential could be removed. But it certainly should not be done unless the Philippines had the advantage of tax-free access to at least a part of the American market.

Mr. WARING. I see perfectly the obligation to which you refer in that connection. But couldn't we meet it by returning approximately to the former position before taxes were imposed? For instance, wouldn't you favor the recommendation of the removal of excise taxes from all inedible fats and oils and from all fats and oils rendered inedible?

Mr. GORDON. Yes. It is not desired to create anything more than a basis of parity with the terms as promised in the Tydings-McDuffie act.

Mr. ROXAS. Mr. Gordon, you state in your brief that the normal price for copra in the Philippines is 16 pesos for 100 kilos?

Mr. GORDON. Yes.

Mr. ROXAS. Why did you consider that the normal price?

Mr. GORDON. If you will take the price records over a period of years you will find that it ranges around 16 pesos for 100 kilos. Those records are available in the Philippine Department of Agriculture.

Mr. ROXAS. Is that the average for the last five years?

Mr. GORDON. Oh, no; it has been much lower. Since 1934 we have not had any semblance of normal prices. We have had since 1934 better than normal prices for fats and oils whenever they were sold within American territory; but as to those which went outside, many of them had not yet attained a normal price-level.

Mr. ROXAS. That is probably the reason why that average is brought up to 16 pesos, isn't it? My estimates show that the average price is between 10 and 12 pesos.

Mr. GORDON. That might be an average, but it is not normal.

Mr. ROXAS. I don't quite understand this.



Mr. GORDON. If you are to have the prosperity that the industry enjoyed in times prior to 1929, you will have to have that price.

Mr. ROXAS. If the average price for 100 kilos of copra were, let us say, 10 pesos—and the excise tax of 3 cents a pound on coconut oil is equivalent to about 1.8 cents a pound on copra—it would mean that the excise tax would be around 80 percent of the price for copra if the normal price were 10 pesos for 100 kilos?

Mr. GORDON. Yes, Sir.

Mr. ROXAS. Because the excise tax would be around 8 pesos for 100 kilos of copra, if the average price is between 10 and 12 pesos, it would mean that the excise tax would be 80 percent of the price of copra?

Mr. GORDON. Yes.

Mr. ROXAS. If that excise tax were continued and, in addition, coconut oil were to pay the export taxes provided for in the Independence Act, do you think you could continue importing coconut oil from the Philippines?

Mr. GORDON. We would continue to import a certain amount, but the volume would be lessened considerably.

Mr. ROXAS. Could you import coconut oil?

Mr. GORDON. May I ask what price you are presupposing if the excise tax continues in effect?

Mr. ROXAS. The normal price, anywhere between 10 and 16 pesos.

Mr. GORDON. If you are going to have a price of 16 pesos for 100 kilos and you are going to have an excise tax in the United States to get it over here, you will have a much diminished volume. Your export tax also will contribute to that reduction.

Mr. ROXAS. Let's take present conditions, the present prices of copra, the excise tax.

Mr. GORDON. I would prefer that Mr. Craig, who will testify on that subject, answer that question, because he has that information.

Mr. ROXAS. Then I will ask Mr. Craig.

Mr. DOMERATZKY. Mr. Gordon, you make one statement here in referring to the policy of the Committee in general. You say that:

If the Philippines are to buy from the United States, they must have dollars with which to pay for their imports. It is urged for this reason, as well as others set forth, that the Joint Preparatory Committee recommend that the export taxes which become effective on Philippine coconut oil in the sixth year of the Commonwealth period be eliminated in their entirety.

Would not the same object be obtained if the Philippines sold to another country that had the dollars and the dollars were turned over to the Philippines?

Mr. GORDON. It would be, yes. Of course, the more direct way is to give it to them direct; and then they are sure to get it.

Mr. JACOBS. Are there any other questions?

(No response.)

STATEMENT OF MR. J. D. CRAIG, ON BEHALF OF  
SPENCER KELLOGG AND SONS, INC.

Mr. CRAIG. Mr. Chairman and Members of the Committee: The statements I propose to make might more appropriately be made in the Philippines, but as it was impossible for me to be in the Philippines I requested and was granted permission to appear before your Committee here to speak in behalf of the Philippine copra-crushing industry. Therefore I ask that my statement be considered supplementary to the testimony that will be presented by other spokesmen for the copra-crushing industry who will appear before your Committee in Manila.

At the time the Tydings-McDuffie Independence Act was signed the President made a statement which I will not attempt to quote but which was to this effect, namely, if the act contains imperfections, there is no reason why, after proper study and consideration, they cannot be corrected.

I want to direct my remarks to one feature of this act which we consider an imperfection that needs the earnest study of the Committee, with a view of correcting it. It relates to the export tax levied on coconut oil beginning in the sixth year of the Commonwealth period.

I think we could make the statement, without fear of contradiction, that if the export taxes are not repealed in their entirety the copra-crushing industry as at present constituted in the Islands is doomed to inevitable failure for two very obvious reasons.

The first is that when this bill was enacted no mention was made of copra because it was on the free-list. The United States crushers of copra, therefore, had unlimited access to Philippine copra, whereas the Philippine crusher was compelled to pay this export tax. And the margin of profit from crushing copra is so narrow that it is out of the question to absorb any burden of that type.

It is true that the companies at times will elect to operate for a period of a year or so and break even, because they always have the hope that the coming year will be better. But in this particular instance the handwriting on the wall is that the next year will be worse, and the following year still worse. So there is no purpose in operating even the first year when we cannot break even, or would just about break even, knowing that our condition in the subsequent years would continue to grow progressively worse.

The second angle that puts the Philippine crusher at a disadvantage is the tariff levy applying to palm-kernel oil.

I should really make a restatement of that point. The second angle is the fact that palm-kernel oil is admitted duty-free if it is to be rendered unfit for edible purposes. In reality palm-kernel oil

is a companion oil to coconut oil. The two can be interchanged almost without limitation, their chemical composition being almost identical.

Babassu oil comes in without any import restrictions of any kind. Likewise, it is similar to palm-kernel oil and coconut oil in its characteristics and chemical composition, as well as the types of uses to which it is put.

These competitive oils, therefore, set the ceiling or the limit of price above which coconut oil cannot go and continue to be used in competition.

Therefore, we have the direct competition coming from the copra-crushers located on the Pacific coast and the competition from these related oils, both of which are direct factors in their effect upon the position in which the copra-crushers in the Philippines are placed.

It is our sincere hope that the Committee will give every consideration to the repeal of these export taxes in order that the crushers of copra in the Philippine Islands may at least have equality of opportunity for continuing in business in competition with foreign crushers producing palm-kernel oil and babassu oil and the domestic crushers in continental United States operating on these same oil-bearing materials.

In other words, we are simply asking that we be put on a parity with other suppliers of oil similar to coconut oil. We do not see why the Philippine crushers should be discriminated against and shut out of this market, when it is largely an American industry established in the Islands. Certainly the preference should not be granted to foreign crushers at the expense of this American industry that started in the Islands.

And of even more importance to the Philippine Islands, I would think, would be the proposition of developing industries in the Islands. The Islands should not be forced to be dependent upon the exportation solely of primary agricultural products. They should be able to build up some semblance of manufacturing industries in the Islands. The copra-crushing industry is well established. Why not keep it going and give to the Islands an opportunity to build something around it?

The crushing of copra in the Philippine Islands is made all the more attractive by reason of the large volume of coconut oil consumed in the eastern part of the United States and the fact that that section of the United States does not require the resultant oil cake produced from the crushing operation.

On the Pacific coast the coconut oil, and cake as well, is consumed in that area which lies west of an imaginary line running north and south which would be located just a little east of Chicago, or, as sometimes referred to, the Indiana-Illinois State-line.

The oil entering the Atlantic seaports from the Philippines now moves into consumption in the territory lying east of the Indiana-Illinois State-line. However, this same territory does not have any need for the oil cake resulting from the oil consumed in the territory. This section of the country already has a surplus production of oil cake and other high-protein concentrates and feedstuffs. In fact, it is on an export basis, and any additional crushing operations which would have to be centered there as a result of moving the industry out of the Islands would simply increase this oversupply of oil cake.

It is because of this unusual condition that it is more economical to crush the copra in the Philippines rather than in the territory of consumption.

If the export taxes are not repealed, in my opinion, the United States will still continue to require a great deal of coconut oil, and the crushing will all have to be centered in this country. To that extent it seems that the Philippine copra-producers would have an interest in this proposition by reason of the fact that lower prices can conceivably result for their copra if copra is exported to the United States and the surplus cake then reexported to Europe. I might explain this point further in this way. The combination of freight rates applying will be somewhat greater than if the oil is brought to the United States and the cake is exported from Manila direct to the northern European countries. In other words, the freight rate applying on copra from Manila to the Atlantic coast, plus the rate applying on cake from New York to Hamburg, will be somewhat in excess of the existing rates, that is, the existing combination made up of the rate applying on oil from Manila to New York and cake from Manila to Hamburg.

To the extent that palm-kernel oil and babassu oil set the ceiling above which the price of coconut oil cannot rise, it simply means that these increased items of cost must be passed back to the original producer of copra in the Islands; and to that extent the copra-producer will be affected adversely by a shift of the crushing-industry out of the Islands to the United States.

This cost is not of direct interest to the crusher for the simple reason that he will simply pass it back to the producer of the raw material, as it is impossible to pass it on to the user of the oil. Of course, the crusher has an interest in this aspect of the subject to the extent that a decreased volume of production will result.

Naturally we are interested in maintaining the largest possible scale of operations. It makes for greater economy, increased efficiency, and stabilization of the industry.

Another important consideration which was not mentioned in my brief<sup>1</sup> pertains to the consideration which should be given this whole problem after independence becomes effective.

<sup>1</sup> See vol. III.

Of course, we cannot see ahead and visualize what our tariff schedules may be following 1946. But the fact remains that if they are constructed as they are at the present time, there likewise seems to be no logical reason why the Philippine copra-crushing industry should not be granted the same equality of opportunity after independence to compete with the foreign crushers and the crushers in the United States as it enjoys at present.

Preferential treatment can be granted by extending the same equality which we now enjoy in the Philippines. In other words, we ask that you do not place the crushers in the Islands at a disadvantage with the crushers of similar oil-bearing material or with the crushers located in the United States.

So long as the United States has a deficiency in its domestic supply of industrial oils there is no reason why the Philippine crushers should not be accorded an opportunity to furnish the same equivalent proportion of the importations which they are now furnishing.

Mr. ROXAS. You mean that the United States should admit coconut oil crushed in the Philippines free of duty?

Mr. CRAIG. That is right; yes, Sir.

Mr. ROXAS. In the same way that the United States admits palm-kernel oil?

Mr. CRAIG. That is right.

Mr. ROXAS. How about oils coming from Ceylon, or oil from other places?

Mr. CRAIG. The consumers in the United States would probably like to have a greater access to a larger supply of oil. But if you do that you take away from the Philippines the preferential treatment which I am suggesting could be accorded to the Philippines. I am merely pointing out a way in which some preferential treatment can be accorded the Philippines which will be beneficial to them but which will work no harm to any American industry, or any American interest, I might say.

I appreciate your asking that question, Mr. Roxas, because I failed to mention that coconut oil imported from countries other than the Philippines is subject to a tariff of 2 cents a pound.

The supposition is that when independence becomes a reality coconut oil entering this country from the Philippines will be subject to the regular 2-cent tariff.

On the other hand, palm-kernel oil is admitted duty-free and babassu oil is admitted free, as are the kernels of these respective oils.

As long as those oils are so similar in their chemical composition and nature and their physical characteristics, why not extend an opportunity to the Philippines and the Philippine crushing-industry to allow them to continue to compete with these other oils after independence is consummated?

At least the Philippine crushing-industry should be placed upon a parity with foreign crushers and crushers in the United States.

Much has been made of the fact that the Philippines were given preferential treatment when the excise taxes were enacted because of the 2-cent differential in the rates applying to the coconut oil and copra, the rates being 3 cents on importations from the Philippines and 5 cents on importations from all other countries. However, a 3-cent rate was applied to the importations from all other countries on all other oils included in that group so taxed by the 1934 Revenue Act.

This preferential treatment proved to be simply an empty gesture for the reasons I have just stated. Palm-kernel oil carries a 3-cent excise tax and babassu oil is tax-free. Therefore, these oils set the price limit above which coconut oil cannot rise.

The price of babassu oil has been maintained consistently at  $\frac{3}{8}$  to  $\frac{1}{2}$  cent a pound below the price of coconut oil. Palm-kernel oil has ranged generally from  $\frac{1}{4}$  cent below to  $\frac{1}{8}$  cent above, depending upon the temporary marketing conditions at the time.

These two oils, that is, palm-kernel oil and babassu oil, set the price limit for coconut oil and, therefore, Philippine coconut oil in effect has had to compete with the world prices of oils subject only to the 3-cent excise tax.

The Philippines really got nothing out of that preferential treatment except that all of their copra comes to the United States up to the extent of our requirements here, and the copra from other countries moves to Europe.

There have also been some adverse effects of these excise taxes upon Philippine coconut oil which have more than offset any intended preferential treatment they could have expected to receive from that differential.

There have been some rather extensive shifts in the use of oils in edible channels. Ordinarily coconut oil shared a large percentage of the vegetable-oil consumption in the manufacture of oleomargarine. Since these excise taxes have been enacted a shift has been taking place. A great deal of cottonseed oil is now displacing coconut oil in this product. As a result, there is an insufficient supply of cottonseed oil for its normal uses in the manufacture of shortenings, compounds, salad oils, and so on, and to such an extent that we have had large importations of cottonseed oil from countries such as China, Brazil, Egypt, England, Japan, and so on.

Therefore, what have we gained by shutting out coconut oil from oleomargarine if, in turn, we must import a greatly increased amount of cottonseed oil from these other countries? This has been one of the unfavorable outgrowths of this excise tax with respect to coconut oil. The ratio of coconut-oil consumption to the total consumption in

the channels in which coconut oil normally moves has been declining. However, the tonnage has remained fairly close to what it was in past years.

In other words, there has been a constantly increasing rate of consumption of these other related and similar oils, whereas the use of coconut oil is remaining more or less stationary.

So we are led to the belief that if these excise taxes had not been imposed the Philippines could have expected to enjoy a larger share of this increased consumption of oils and fats used in the United States; whereas this increased consumption has actually gone to European crushers.

I am going to conclude my statement with this one appeal to the Committee. We ask that every possible consideration be given to the matter of the repealing of the export tax applying on the coconut oil for the duration of the Commonwealth period, and that following the granting of final independence we be placed on a basis of equality to compete with the foreign crushers of similar oils, that is, palm-kernel oil, babassu oil, and so on, and the crushers of copra in continental United States.

So long as the United States is compelled to import a large portion of its industrial-oil requirements, why not give that preference to the Philippines and give them the opportunity of supplying the oils while, at the same time, they are building up their general manufacturing industries, particularly in view of the fact that they are one of our best export markets? Certainly they afford a much better market than any of the other countries from which we normally draw these other oils.

Mr. ROXAS. I wonder if you can answer the question I asked a little while ago?

Mr. CRAIG. I believe you asked a question of Mr. Gordon which he requested be addressed to me. If you will be kind enough to restate your question I shall be very glad to try to answer it.

Mr. ROXAS. What percentage of the American tariff of 2 cents a pound can the Philippine crushing-industry absorb and still exist under present conditions?

Mr. CRAIG. Under ordinary conditions the crushers feel that they have an unusually profitable basis of operations if they can see a difference of as much as  $\frac{1}{8}$  cent a pound between the price of copra and the price of coconut oil. That is  $12\frac{1}{2}$  points per hundred pounds, whereas the increment of the first year's levy is  $\frac{1}{16}$  cent a pound or 10 points. If we have what we may consider *optimum* profit opportunities of  $\frac{1}{8}$  cent we will just about break even the first year the export tax becomes effective.

As I have said, confronted with the handwriting on the wall, the crushers have no incentive to operate that first year if they are to

just break even on the operations, knowing that the following year and every year thereafter they are going to be definitely in the red.

The United States Tariff Commission conducted a study in 1931 or 1932; and they released a report, which I think was report no. 41. The results of their findings showed that, taken as a whole, the operating costs in the Philippines were then about on a par with the operating costs of crushers of copra in continental United States. So from that standpoint also, you see the Philippine crushers are not in position to absorb any added burden and still remain in the picture with the crushers of the United States.

Mr. ROXAS. Why are your operating costs in the Islands about the same as the operating costs of the crushers here in the United States?

Mr. CRAIG. I don't know, Mr. ROXAS, that I can give you a complete answer to that question. But some of the factors are due to these conditions. Admittedly we have a somewhat lower labor cost in the Islands than we have here. But contrasted with the lower labor costs we have expensive power costs there which are away out of proportion to the power costs enjoyed in this country.

In addition, we have the expense of handling and milling wet copra, which makes for a much more inefficient operation than if the copra were in the condition in which it would be after being subjected to an ocean voyage and after it had lost a great deal of the excess moisture.

Then we have the added expense of what we consider expensive lighterage in the handling of cargoes in the harbor of Manila, that is, expensive lighterage costs in the handling of cargoes in the harbor of Manila, embracing pumping from the plant tanks into barges and from the barges into the ship's tanks.

Copra can be handled in bulk in dry-cargo-vessel movements and unloaded by the use of suckers and conveyors in this country. So the total handling expense is considerably less per ton of material handled than it is in the Philippines in the manner in which it has to be handled there.

Those are some of the major factors in the cost.

Mr. ROXAS. How about copra meal?

Mr. CRAIG. The expense of handling cake is very little different in Manila from the expense of handling meal in the United States. There is a slight advantage in shipping cake because it stores to better advantage in the ship and, therefore, enjoys a slightly lower freight rate. However, the cost of burlap is about the same in both cases.

Mr. ROXAS. What has been the maximum tonnage of coconut oil imported into the United States since the enactment of the Independence Act?

Mr. CRAIG. Since the Independence Act has been in effect?

Mr. ROXAS. Yes.



Mr. CRAIG. 1936 is the only full year for which figures are available. I would estimate that the importations for 1936 would range from 155,000 tons to 160,000 tons of coconut oil.

Mr. ROXAS. Why have you not been able to bring in the maximum authorized by the law?

Mr. CRAIG. For a long period of time extending over many years the copra-crushing industries in the United States and in the Philippines have been about on a parity. About 50 percent of the oil has been furnished by the Philippine crushers and about 50 percent has been furnished by the crushers on the Pacific coast and those few scattered in other locations in this country but principally on the Atlantic coast. This ratio, of course, fluctuates within small limits to the extent of 2 or 3 percent, either up or down.

So far we have not been able to enlarge our production, owing principally, I would say, to the fact that our operating costs are about the same. If we took more business then the crushers here would feel that effect and would cut the price a little, and then we could not meet the competition. It is the force of competition and the fact that our operating costs are undoubtedly pretty nearly on the same basis that keep the industry about as equally divided as it is.

Also, the excise taxes, since they have been in effect, have kept the Philippines from enjoying as large a percentage of the oil-consumption that came about in this country as a result of the drought and various restrictive programs which were in effect.

It is entirely conceivable that, had the excise restrictions not been in effect, and had the shipments of soy-bean oil, cottonseed oil, peanut oil, sesame oil, and so on, not entered the country in such proportions, there would have been a greater demand for and consumption of coconut oil. And, of course, the Philippine crushing-industry might have expected to enjoy its proportionate share of that increased demand.

Mr. ROXAS. To what capacity have the domestic coconut-crushing mills operated?

Mr. CRAIG. Those in this country, you say?

Mr. ROXAS. Yes.

Mr. CRAIG. Again going back to the subject of the excise taxes which have the effect of shutting out a lot of other oil-bearing materials which a number of mills had been operating on in the past, the taxes having been levied on a basis of shutting out all the oil-bearing materials but still permitting the importation of oils, the mills so operating on those materials had the choice of doing one of two things. They could either shut down or turn to crushing some other oil-bearing material not affected by this excise-tax schedule embodied in the 1936 Revenue Act. They elected to do the latter and, as a result, an in-

creased number of mills started crushing copra. Therefore, it is impossible for me to make an appraisal of the potential crushing capacity available for handling copra.

The mills on the Pacific coast previously operating on sesame seed, perilla seed, hemp seed, kapok seed, and various other seeds, now find themselves shut down as a result of the 1936 schedule of excise taxes contained in the Revenue Act of that year. They have now turned over to copra and flaxseed.

I would say that the total capacity of the Nation is now somewhat in excess of what it was prior to the enactment of the 1936 Revenue Act. There are three or four companies that have just entered the copra-crushing industry out there on the Pacific coast.

Prior to the entry of these new companies into the industry the capacity was pretty evenly divided, I would say; that is, the capacity in this country was about the same as the capacity in the Philippines.

The 200,000 long tons fixed as the limit in the Tydings-McDuffie act were predicated upon the existing capacity of the industry at that time. This limit was set so that the industry in the Philippines would not expand further but at the same time so that it would not inflict any penalties upon existing companies already operating in the Philippines.

I think the capacity of the crushers in this country is about the same as the capacity of the crushers in the Philippines.

Mr. EDMINSTER. As I understand the purport of your recommendations, Mr. Craig, it is, first, that the export tax that would go into effect beginning the sixth year be abandoned and that there should be no export tax imposed during the Commonwealth?

Mr. CRAIG. That is right; if the copra-crushing industry is to be permitted to survive in the Islands.

Mr. EDMINSTER. Secondly, that at the end of the Commonwealth period there be a continuance of preference granted to coconut oil coming from the Philippines?

Mr. CRAIG. Yes, Sir.

Mr. EDMINSTER. What conditions do you envisage which would make it possible within a reasonable period thereafter to terminate that preference without wiping out the coconut-oil industry in the Philippines?

Mr. CRAIG. Some funny things have been put through recently in legislation. It is entirely conceivable that there may be some other type of bill enacted similar to the provisions contained in the Revenue Act of 1936 whereby copra would be shut out of the country but oil still be permitted to enter. If some unusual or absurd condition of that type resulted, the Philippine crushing-industry would have the benefit of this market; but assuming that we remain on an even keel in enacting future legislation, whenever restrictions are imposed upon

the copra-crushing industry in the Philippines the industry there will have to go out of existence.

But it was my point that as long as industries of that type are needed in the Philippines and since it will require some time to build up manufacturing industries around this industry that is already established, in my opinion we can afford to grant that opportunity to the Philippines for perhaps 5 years or 10 years, or whatever the Committee works out as a reasonable length of time. But it is unquestionably true that when the time comes for withdrawing that preferential treatment, the crushing-industry in the Philippines will be at an end.

Mr. EDMINSTER. Then, Mr. Craig, what you are really asking is this, is it not? You are playing for time. If the export taxes began to operate the sixth year of the Commonwealth, in effect that is the beginning of the withdrawal of the preference.

Mr. CRAIG. That will mark the end of the crushing-industry there.

Mr. EDMINSTER. You would like to have the preference continued?

Mr. CRAIG. That is right.

Mr. EDMINSTER. And you would like to have the preference continue after the end of the Commonwealth period for an indefinite period, or you would like to have it continue permanently?

Mr. CRAIG. I am not in position to set a definite time limit. That is something that requires a great deal of study. As I pointed out in my brief, the crushing-industry cannot afford to wait until the deadline to see what steps should be taken. Advance preparations are already being made for the withdrawal or the transfer of the industry from the Philippines to the United States. If we waited until the very end, then, perhaps, it would be too late, because the crushing facilities which may be transferred from the Philippines will have been established over here and the Philippines will have lost their industry.

Mr. EDMINSTER. If there were a provision for the free admission of oils that are inedible or that are rendered inedible, from whatever country, would the Philippine copra-crushing industry be able to continue at anything like its present scale of operations?

Mr. CRAIG. Coconut oil will have to continue to meet the competition of palm-kernel oil. Those two oils have been on a parity. It has also met the competition of palm oil, which is not directly related, that is, to the extent that palm-kernel oil is related.

In other words, a tariff of 2 cents a pound was levied on coconut oil coming in from other countries, but palm-kernel oil and palm oil were left on the free-list. Of course, at that time coconut oil had not become the important commodity in this country that it is today.

Whether the mills of Java, Borneo, Ceylon, and some of the other Dutch East Indies, with this increased volume of business available to them, would be able to undersell the Philippine mills, I am not in

position to say definitely. But I am of the opinion that they would make rather severe competition for us.

I know that the desiccated-coconut people have contended that they cannot compete with the mills in Ceylon on their product; so I am led to believe that we would be in the same unfortunate position with respect to the coconut-oil industry in the Islands.

The fact that our operating costs are on a par with those of crushers in the United States, makes it rather evident that we cannot compete with the Dutch crushers.

Mr. ROXAS. I wonder if my recollection is correct about this? Is it not true, Mr. Craig, that the limitation on the amount of duty-free coconut oil that can be imported into this country was inserted into the act at the request of others than the representatives of the coconut-crushing industry in the United States?

Mr. CRAIG. You say other than representatives of the crushing-industry in the United States?

Mr. ROXAS. Yes.

Mr. CRAIG. I think that insertion came about from demands emanating from agricultural interests, but the domestic crushing interests in the United States did not oppose the request, although they did not initiate it.

Mr. ROXAS. That is my recollection.

Mr. CRAIG. And that is my recollection.

Mr. ROXAS. It came from producers of fats and oils here, whose products go into the edible field?

Mr. CRAIG. That is right.

Mr. ROXAS. Now, Mr. Craig, is there any opposition on the part of the domestic coconut-oil-crushing industry in the United States against your suggestions here? Or do you happen to know as to that?

Mr. CRAIG. I am of the opinion, from such observations as I have made, that the domestic crushers in the United States—excluding our company, which likewise is a domestic crusher here—would naturally like to see a condition brought about where they could enjoy a larger volume of business, and they would probably encourage any move which would further restrict the crushing of copra in the Philippines. On the other hand, that policy appears to be quite short-sighted, because it stands to reason that the companies now operating in the Philippines are not going to simply fold up and go out of existence. They have ample assets and resources so that they can transfer to this country, which they will likely do.

In the end, the Pacific-coast crushers will probably have as severe competition as they now think they have from the mills in the Philippines, if not more severe.

I think it is better, in the interest of economy, for the whole group to keep the operations divided between the two countries, as they are now. It has worked to very great advantage for both groups.

Mr. JACOBS. Are there any further questions?

Mr. DOMERATZKY. If the crushing-industry in the Philippines should be abolished because of the export taxes, is it your idea that the crushing facilities in the United States would have to be enlarged by the transfer of the crushing from the Islands to the mainland?

Mr. CRAIG. Yes, Sir; and for two reasons. The crushing facilities are not properly located to serve the consuming-industries to the best advantage. Also, the capacity is inadequate to handle the volume of copra necessary to furnish the oil that would normally be consumed here.

Mr. DOMERATZKY. So your idea is that you and the other people in the Philippines would take their equipment over to the mainland?

Mr. CRAIG. We would have no choice but to do that.

Mr. ROXAS. That would involve a certain financial outlay, of course.

Mr. CRAIG. Yes; that is right.

Mr. DOMERATZKY. Do you believe that would be a sufficient factor, perhaps, in retaining the industry in the Philippines?

Mr. CRAIG. The industry cannot be retained there. There is no purpose in continuing to operate an industry that will not pay a profit and that will have to be operated at a loss. We might better make a further investment and move our business over here as long as we can make a reasonable return on it. In other words, the set-up as it is now would mean that during the first year we would probably get out whole and absorb our overhead, but in the second year we could not cover our direct operating costs. When we come to the point where we cannot absorb at least our overhead, we are not interested in running; we would simply close down the mill. That is true, whether we operate in the United States or in the Philippines, or in China.

Mr. ROMERO. Well, suppose a tariff were imposed here on the palm-kernel oil and the babassu oil; would that help the crushing-industry in the Islands?

Mr. CRAIG. No, Sir; because the domestic crushers on the Pacific coast will have the advantage; and it is my belief, despite the fact the 1936 Revenue Act went contrary to all previous policy followed in tariff and revenue legislation, that we can expect Congress, when it considers tariff legislation without the pressure under which it was placed at that time, to always give preferred treatment to the crusher located in continental United States.

So if any tariff levies are imposed on any of those oils it will be done in such a way that it will encourage the importation of the oil-bearing material into the United States so that the crushing opera-

tions can be carried on here. So that to that extent your question pertaining to the Philippine crushers would be answered, I think.

Mr. ROMERO. During the past two or three years there has been a substantial increase in babassu-consumption, has there not?

Mr. CRAIG. There have been substantial increases in babassu-consumption, although the tonnage has not been large in proportion to the total consumption of oils and fats of that category.

Mr. ROMERO. What are the prospects for that particular kind of oil?

Mr. CRAIG. They seem to be more or less limited because of the disadvantages of transportation facilities in the country and general inaccessibility of the region where the kernels are grown in the interior of Brazil. The price of babassu oil is brought up very close to the level of the coconut oil by reason of these disadvantages. With the incentive that has been created by the inclusion of excise taxes in the price of coconut oil there was an inducement to gather more babassu kernels in Brazil to the extent of overcoming some of the natural barriers and handicaps.

I know that a great many companies have gone down there and have put out their money against promised deliveries, but then they had to make a second trip back there to try to retrieve their cash. They did not get their kernels; and I do not think they got back all of their cash.

Mr. WARING. Mr. Craig, I would like to ask you one or two questions in connection with the brief<sup>1</sup> which you submitted. On page 3 of the [typewritten] brief, you mention the fact that the excise taxes levied on coconut oil in the 1934 Revenue Act had an adverse effect on Philippine coconut oil. In the following sentence you say: "A noticeable shift has resulted in the consumption of these lauric-acid-bearing oils, to the extent that babassu, palm-kernel, and other oils have been displacing coconut oil in increasing amounts."

I wondered if, in as much as the tax is the same on oil crushed from Philippine copra and on palm-kernel oil, the shift to palm-kernel oil mentioned in the brief can be explained by the tax. Both of them bear a 3-cents-a-pound tax.

Mr. CRAIG. No, Sir; I don't think the shift can correctly be attributed entirely to the excise tax. There were other circumstances that brought it about—some abnormal demands for copra by certain European countries when the supply in the Philippines was reduced on account of adverse climatic conditions there, typhoons and various other things, and we did not get the quantity of copra that we expected, and when the European buyers were also in that market. All

<sup>1</sup> See vol. III.

those conditions worked to bring about a disparity in the relationship.

My statement as worded in the brief is not complete in that respect.

Mr. WARING. You mentioned the serious effect of the withdrawal of the demands of the Philippine crushers on the price of copra in the Islands.

Mr. CRAIG. Would you mind repeating your question, Mr. Waring?

Mr. WARING. The effect of the withdrawal of the demand of the Philippine crushers on the price of copra in the Philippines.

Mr. CRAIG. The competition created by the presence of the local mills there?

Mr. WARING. Yes. Would not competitive prices for copra be maintained in the Philippines by the increased demand of crushers in the United States and Europe?

Mr. CRAIG. I do not think they would be. That is a subject regarding which the questions will have to be answered by the representatives who are going to appear before your Committee in Manila. We have left that subject purposely for them to develop in more detail.

But the fact remains that the competition between the local mills there is very keen, and it has the result of keeping copra constantly at levels which permit the crushers to come out with a very narrow margin. They are also located in that region where the greatest copra-production is, that is, on the Island of Luzon, the Provinces of Tayabas and Laguna.

If the crushing were all centered in the United States, then there would not be the opportunity to draw the copra into that center, and it would go out through all the outports, and all the handling and transportation and auxiliary lines in connection with the manufacturing business would simply go out of existence.

Mr. WARING. I am not questioning the importance of the export tax on the crushing-industry in the Islands at all, but I was wondering whether, from the standpoint of the copra-producers themselves, they would be so very much worse off.

Mr. CRAIG. It comes back to the question that Mr. Roxas asked a little while ago, that is, why we had not shipped more coconut oil in here at the expense of the domestic crusher.

There is a very keen rivalry between the two groups, which is probably somewhat more acute than it would be if it were all centered in the United States. I cannot give you exact economic reasons to support it; nevertheless, it seems apparent that it is true.

Mr. WARING. I was thinking that the increased demand from domestic crushers, who would presumably be crushing an increased amount of oil, and the demand of European buyers, who would come into that market whenever the price situation justified, in as much

as copra is on the world market at world prices, would operate to maintain copra prices in the Philippines.

Mr. CRAIG. Here is another factor in that connection, Mr. Waring. The Philippine crusher is confined exclusively to the crushing of copra. He has access to no other oil-bearing material. The crushers in the United States until 1936 had access to an unlimited variety of oil-bearing materials.

The Philippine crushers, knowing that if they do not get the copra they will be compelled to shut down, will continue to buy copra when they really do not want it or do not have sales for the oil to apply against those commitments. So, simply to assure having a supply on hand available for crushing they support the market, which would not be true if you did not have the mills located there.

I think that is probably a direct answer to your question, and more so than the previous statement.

Mr. ELIZALDE. Would not the price of copra cake in the world also affect the price that you would pay for copra in Manila, in as much as you sell your copra cake outside of the United States? Would it not affect the price that you would pay in Manila for your copra?

Mr. CRAIG. Yes; that is right. And that condition obtains today. On the other hand, bringing an increased volume of production of oil cake into this country may have a tendency to bear down on the price of oil cake here; and that would possibly be reflected in a lower copra price by reason of the Philippine mills having access to the European market which generally maintains a better level of prices for oil cake than is true with respect to the United States.

Mr. WARING. Of course, it is very difficult to theorize about the effect that would have on domestic feed cake or meal here. But, so far as you can see, Mr. Craig, would it not be apt to be confined to the difference in the cost of transportation which you have already mentioned, that is, if the price were depressed?

Mr. CRAIG. Not entirely, because so many companies do not have the marketing facilities and the organization to handle those products, and they are simply trying to dump them onto the market to try to realize something on them rather than take the time and expend the effort necessary to build up a marketing organization to dispose of them to good advantage in markets where there is a strong demand for them.

We find that true in many instances now with these new companies that have been entering the picture. They do not know how to market their oil, and they simply dump it onto the market at ruinous prices. In many instances we have been able to buy oils, and cake also, at considerably better prices than normally would be made. But those companies will not last very long if they continue to operate in that way. But there is always someone new coming



in with capital to lose, and we have to stand it while they go through that process.

Mr. WARING. But you have an organization.

Mr. CRAIG. The companies that are operating in the Philippines now have those organizations. Our company has as good an organization in European countries as we maintain in this country.

Mr. WARING. So they might be able to utilize those contacts which they already have.

Mr. CRAIG. And to that extent we would be at the disadvantage of the difference in transportation.

Mr. WARING. That is what I had in mind.

Mr. CRAIG. But as to all of these new companies that enter the picture that would not be true.

Colonel McDONALD. In your opinion, Mr. Craig, how would the price for copra, that is, the world price, be affected by the possible disappearance of the Philippine industry? In other words, would the American copra-crushing industry be able to dictate the prices for Philippine copra?

Mr. CRAIG. I do not think that follows, because the price is affected by so many different factors that enter into the picture. There are similar illustrations where conditions would make that possible with respect to other situations. One example is flaxseed. It is not true there. By the same reasoning I would say that it would not be true in the case of copra.

Colonel McDONALD. There would be no effect on the world prices?

Mr. CRAIG. I do not think there would be in that respect.

Mr. ELIZALDE. I assume that the capital of your company is American capital, that is, United States capital, is it not?

Mr. CRAIG. That is right.

Mr. ELIZALDE. The greater part of the capital investment in the crushing-industry in the Philippines is, of course, American capital, is it not?

Mr. CRAIG. Yes, Sir. The three largest companies over there are all American companies—the Philippine Refining Corporation of New York, Procter & Gamble, and our own company.

Mr. ELIZALDE. And the machinery is mostly American machinery?

Mr. CRAIG. That is correct.

Mr. ELIZALDE. You have a certain amount of personnel there that is American? Is that right?

Mr. CRAIG. The major portion of our employees are natives.

Mr. ELIZALDE. But the technical and the managing employees?

Mr. CRAIG. The technical men are graduates of the local University of the Philippines. In our own company I think we have only five people who are not natives of the Philippines; and of those five,

two of them are from Europe and three are people that we sent out from our home office here in this country.

Mr. ELIZALDE. You have an organization here for selling the Philippine oil?

Mr. CRAIG. Yes, Sir.

Mr. ELIZALDE. Do you sell oil from other countries also, Mr. Craig?

Mr. CRAIG. Our company is set up by divisions. We have a coconut-oil division that is organized and handles coconut oil only, and all the sales, personnel, and everything. Then we have another division that handles China-wood oil that comes from China.

Mr. ELIZALDE. Your coconut oil that is handled by you is mostly Philippine oil, is it?

Mr. CRAIG. It is Philippine oil only. No coconut oil enters the United States from any country other than the Philippines, by reason of the 2-cent tariff.

Mr. ELIZALDE. You sell your own coconut oil mostly, do you?

Mr. CRAIG. Yes; that is right. And we sell all of it in this country.

Mr. JACOBS. Are there any questions that any member wishes to ask Mr. Craig?

(No response.)

If not, Mr. Craig, the Committee wishes to thank you for your appearance here this morning.

The next person to appear will be Mr. Ernest C. Brown, representing Wood & Selick, Inc., who will speak on the subject of desiccated coconut.

#### STATEMENT OF MR. ERNEST C. BROWN, REPRESENTING WOOD & SELICK, INC.

Mr. BROWN. Mr. Chairman: I might say that the opinions that I will express are based upon our knowledge of the Ceylon industry of desiccated coconut as well as that in the Philippine Islands.

We have for 50 years represented the firm of J. H. Vavasour & Company, of London, as agents. Until the growth of the Philippine coconut industry we imported a very large percentage of desiccated coconut consumed in this country.

In 1928 we, in conjunction with the firm of Vavasour & Company, Ltd., established in the Philippines an organization known as the Red V Coconut Products, Ltd., and went into the Philippine production of desiccated coconut in 1929.

We also manufacture sweetened coconut in New York. So the facts that we have at our disposal are based upon our knowledge of the three branches of the business.

I might mention that the sales of coconut in this country exceed 100,000,000 pounds, of which approximately 70,000,000 pounds come

from the Philippine Islands, a very negligible portion today from Ceylon, and the balance is manufactured in this country either from whole coconuts imported from the West Indies or from the Philippines.

The use of coconuts in this country goes to two main outlets. In its desiccated form it goes to manufacturing-bakers and confectioners, where it is used as a filler and for toppings of cakes. In its sweetened form it goes to the household trade or to people who are going to use coconut where the sweetened product must be made prior to use.

I have here for purposes of reference a few samples to illustrate what I will have to say.

These are samples of very, very fine coconut about the consistency of sugar or the size of a grain of rice, which are the cuts normally used by the confectionery and bakery trade, and you only see them in the form of a finished product as fillings for candy or macaroon cookies or cakes.

The other cut here is the form used for topping, pies, and so on. Of the total consumption about three quarters is in the form of the small cuts.

There is no commercial production of whole coconuts in the United States, and not a single pound of desiccated coconut or sweetened coconut is made from coconuts grown in the United States; nor is there any belief that it can ever be so made, because of the difficulty of growing them here on a commercial scale. It takes three coconuts to make one pound of desiccated coconut. So the coconut industry of the United States requires 300,000,000 coconuts to serve it.

The entire West Indies produces enough coconuts to make only about 25 percent of the total requirements of this country, and the balance of these supplies must be brought in from Ceylon or from the Philippine Islands.

The industry of desiccated coconut which originated in Ceylon, so far as it applies to this country, became centered in the Philippine Islands only when the Tariff Act of 1922 increased the duty to 3.5 cents a pound, because prior to that date the 2-cents-a-pound protection was not sufficient to enable the Philippine Islands to compete with Ceylon. The reasons for that are twofold. One is the question of labor costs.

Our Philippine plants today pay common labor a little over 1 peso a day for men, or a little over 50 cents a day.

I cabled our London associates for information as to the Ceylon costs, and I have received the following reply:

Official minimum rates unskilled men 41 women 33 children 24 rupee cents stop Our factory rates skilled one rupee to one seventy five per day unskilled 50 to 75 cents.

At today's exchange, 41 rupee-cents for men works out to 15 cents a day.

For women, 33 rupee-cents figures out 12 cents a day. For children, 24 rupee-cents, which figures out 9 cents a day. That is less than one third of the wages paid in the coconut industry in the Philippine Islands.

The Ceylon coconut industry is paying a small premium, about 20 percent over the official Government minimum. These figures that I just gave are the Government minimum figures for Ceylon.

From the labor standpoint, the Philippine labor cost would have to come down two thirds of the present rate before the cost of labor in the Philippines would approximate that in Ceylon today.

It is our considered opinion that even if the cost of labor came down and the cost of coconuts themselves came down because of the elimination of the processing-tax favoritism now given to the Philippines, it would still be impossible for the Philippine industry to compete with Ceylon unless all or the major portion of the 3.5-cents-a-pound duty protection is continued.

The reason for that is due to the difference in the character of the coconuts raised in Ceylon as compared with the Philippine coconuts.

Some have expressed the opinion that the Philippine industry could compete if, as, and when their labor costs were reduced to the labor costs of Ceylon. But our London friends, who have had 50 years' experience in the Ceylon business, state that the Philippines could never compete, any more than Java, Borneo, New Guinea, or other countries in that same area have been able to compete.

The Ceylon coconuts grow larger in size, can be used as they come from the plantations, and have a higher nut-yield, in comparison with the cost of labor in desiccating them, than the coconuts raised in any other country. And that advantage could never be overcome on a world-market basis unless the Department of Agriculture of the Philippine Islands or of the United States were able to find some way to raise larger Philippine coconuts that would give a higher yield and that would be easier to open, pare, and skin.

In case there were no substantial duty-protection we would be prepared to promptly abandon our investment in the Philippine Islands and return to Ceylon for the manufacture of the desiccated-coconut supplies that we require.

One other problem of the industry is this. The sweetened coconut, in its ultimate form, must be manufactured in the United States because that product is semiperishable in nature and if it were manufactured in Ceylon or in the Philippine Islands the danger of spoilage during transit would be great.

Sweetened coconut is the dried coconut meat plus sugar, glycerin, and salt, and contains approximately 6 percent moisture, whereas

desiccated coconut is the dried coconut meat with nothing added, dried down to a basis of approximately 3 percent moisture. With that low-moisture content desiccated coconut can be shipped around the world and will hold up in warehouses for a reasonable length of time, and it can be used for fillers in conjunction with sugar and glucose and other products, without further treatment.

But the sweetened product which is used by our wives for the topping of cakes and by our cake-bakers and pie-bakers, to be palatable must be mixed with sugar and glycerin, with a sufficient amount of water added so that it is tasty. The high percentage of moisture that is required makes it necessary that that product be manufactured in the United States.

In manufacturing sweetened coconut in this country we use the Philippine desiccated coconut as the base. And from the standpoint of our cost of manufacture in this country the imposition of duty on the Philippine product would raise our cost of manufacture by that identical amount and, consequently, raise the cost to the consumer.

Other firms in this country bring in whole coconuts from the West Indies and prepare them here. The labor involved in the two operations is approximately the same, the only difference being that we do not have to open the nuts and pare them in our American plant. But that is just a minor part of the total operation. The entire labor cost expended in this country by the sweetened-coconut industry is negligible.

I have some communications from representatives of two firms in the Philippine Islands. One is from Wilbur Ellis Company, which represents the firm of Furukawa and Company, who have a plant at Mindanao, Philippine Islands, which I would like to have made a part of the record. It reads:

Authorize you advise Joint Preparatory Committee on Philippine Affairs at oral hearing in Washington that as representative Furukawa Plantation Company who manufacture desiccated coconut in Mindanao feel positive elimination present tariff protection of Philippine desiccated coconut [*would*] render it impossible for our principals to compete with Ceylon coconut manufacturers.

I have a telegram from Stein Hall Manufacturing Company, manufacturers of sweetened coconut in Chicago, and they strongly urge continued protection of Philippine coconut, which they use as the base for manufacturing their sweetened product. Their telegram reads:

As large manufacturers sweetened cocoanut strongly prefer Philippine desiccated cocoanut coming in without duty authorize you to present our views before Washington Committee.

Then I have a communication, dated June 16, 1937, from Dodwell & Company, which represents a manufacturer of desiccated coconut in the Islands, and they express a similar opinion:

**DODWELL & COMPANY**  
 Limited  
 79 WALL STREET

June 16, 1937.

**MESSEES. WOOD & SELICK,**  
*Hudson and Laight Streets,*  
*New York, New York.*

Attention of Mr. E. Brown.

**DEAR SIR:**

For the guidance of your representative who is attending the conference at Washington with regard to the Philippine situation with particular respect to the desiccated-coconut industry, we have pleasure in confirming our views expressed to you verbally which are that any action tending to bring about or hasten the removal of the protection at present accorded to desiccated coconut from the Philippines would have a most serious effect on the continuity of this comparatively young industry which has been built up in the Philippines under theegis of an appropriate tariff. We feel sure that the U.S. Government is anxious to protect investments in the Philippines from the effects of the granting of Philippine independence, and the desiccated-coconut industry is a case in point where protection is essential to preserve the industry from competition from other countries where production costs are not as great.

As we consider the industry will be well represented by the delegation going to Washington, we are not sending our representative but authorize you to make use of this letter if the delegation desires to record our views with theirs.

Yours very truly,

Per Pro **DODWELL & COMPANY Ltd.,**  
**O. M. POOLE**  
*Director*  
*Agent, Sunripe Coconut Products Co.*

I also have a similar communication from The Hills Brothers Company, who are sweetened-coconut manufacturers, who also use the Philippine products as the base. Their letter is dated New York, June 17, 1937, and reads as follows:

**THE HILLS BROTHERS COMPANY**  
 110 WASHINGTON STREET  
 NEW YORK, N.Y.

June 17, 1937.

**WOOD AND SELICK Co. Inc.,**  
*36 Hudson Street,*  
*New York, N.Y.*

**GENTLEMEN:**

We are sorry we will be unable to attend the oral hearing regarding desiccated cocoanut before the Joint Preparatory Committee on Philippine Affairs but would appreciate it if you would express our views to the Committee.

We have manufactured sweetened cocoanut for many years and formerly used West Indian cocoanuts as the base. We find it preferable, however, to use Philippine desiccated cocoanut as a base and much prefer to see this item enter the country without duty.

If a duty is assessed against Philippine coconut as a result of the Philippine Independence Act, our cost of materials and therefore our selling price to the consumer would undoubtedly be increased by the amount of the duty.

Yours very truly,

THE HILLS BROTHERS COMPANY

R. P. WHITE, *Secretary*

In brief that is the story as we see it. Before the Committee terminates its labors we will have figures from Vavasseur, in London, giving the relative costs of producing desiccated coconut in the plants which they own in Ceylon and in the plants in which they are financially interested in the Philippine Islands, the figures being as of January 31st and June 30th for the past eight years, beginning with the year in which our Philippine factory started.

The records that we have, going back for the past 3 years, show a difference in cost adverse to the Philippines for the past 2 years of well over 2 cents a pound on the comparative dates for which we have figures. That is due to labor and the yield-factors that I mentioned earlier.

The question was raised informally in connection with the figures shown by the Department of Commerce as to the relative values of the imports of desiccated coconut from Ceylon and from the Philippines for the 10-year period preceding 1935. The figures indicated much closer cost values than the actual facts.

In my opinion, the reason for that is threefold. In the first place, the figures of the Department of Commerce represent the market values, or are supposed to represent the market values as of the time and place of shipment.

There is no market value in Manila for desiccated coconut that can be determined by the shippers, because the Philippine industry is conducted on a radically different basis from that in Ceylon. The manufacturers of the Philippine coconut either ship their coconut on consignment to their American agents or else the plants there are owned or controlled by American interests and the product is shipped for sale after arrival in this country instead of being sold on a firm-basis before shipment.

I do not believe there has ever been one pound of Philippine coconut sold on a firm-basis before it was shipped from Manila. Therefore, the only basis on which the shippers in Manila can value their coconut for customs-invoice purposes is either their cost of production, which they know, or the basis upon which they are being financed, which they also know.

The usual method for financing Philippine factories on their shipments of desiccated coconut is to advance to them a certain percentage of the probable value of the coconut for sale purposes upon arrival in this country, that is, 60, 65, or 70 percent. So the firm on this end

that is doing the financing will not be assuming all the risks of market-declines or spoilage in transit, and so on, when it is operating on that basis.

On the other hand, all of the Ceylon coconut that is shipped to this country is sold before it is shipped, and the invoice value declared by Ceylon would, of necessity, be the sales price, including their profit. And in those two factors there can be a wide discrepancy.

Secondly, there is a difference in value between the short cut or macaroon cut and the medium-shred cut, which comprises 75 percent of the total value, and the thread and chip cuts, of 2 cents a pound.

I estimate that 90 percent of the Ceylon coconut that has entered the American market in the past 10 years has been of the more valuable cuts.

The Ceylon coconut, being slightly superior in oil content to the Philippine coconut, makes a better long-thread cut and a better chip cut.

Ceylon has retained a certain portion of the small market which exists for those cuts, and their sales price of those cuts, based upon our market at this end, would run 2 cents a pound higher than the value of the Philippine average factory production, which would consist of about 85 percent of the cuts of the smaller sizes.

The third factor is due to the fact that Ceylon would only sell any appreciable quantity of desiccated coconut from even the cuts as to which they have a claimed superiority in quality, to this country in those few instances during the course of any year when their costs happened to be considerably below their normal parity. For instance, in January of this year, owing to an acute shortage of coconuts in the Philippine Islands, the cost of production in the Philippines ran 5 cents a pound above the cost of production in Ceylon. And that was an opportune time for any Ceylon exporter to sell 50,000 or 100,000 pounds for shipment to this country.

On the other hand, during the period when Ceylon coconut was comparatively higher in comparison with the Philippines, no business at all would be transacted.

So the figures shown in the Department of Commerce book for the Philippines will tend to be considerably lower than the actual market value at the time and place of shipment, if worked back from the standpoint of a New York market less shipping charges, while the figures from Ceylon would tend to be on the other basis.

The fact remains that the Philippine Islands have never sold any coconut in the world market. I know of about \$2,000 worth of Philippine coconut that was sold to Cuba during a period of discrepancy in costs when Ceylon went way up in price for a 30-day period. There have been no shipments of Philippine coconut to Europe because they cannot compete with the Ceylon product. Yet



the Philippine coconut manufacturers during the past 10 years have continuously had the capacity to produce probably 75 percent more desiccated coconut than they have shipped to this market, and the industry consumes far less than 10 percent of the total coconuts which would be available for desiccating purposes if the factories could find other markets outside of the United States to which to ship their product.

That is all I have to say at this time, Mr. Chairman.

Mr. ROMERO. Mr. Brown, you state in your brief, or in your statement, that the existence of a desiccated-coconut industry is due wholly to the protection that is given to this industry, and you attribute that to the size of coconuts, the higher labor costs, and the cost of transportation. It seems to me that these factors also enter into copra. I mean Philippine copra competes with Ceylon copra in the world market. How do you explain the difference?

Mr. BROWN. Labor is much more of a factor in the production of desiccated coconut than it is in the production of copra.

Mr. ROMERO. Considerable labor is also involved in the preparation of coconuts?

Mr. BROWN. Yes; it is. And when you are dealing with copra you are dealing with a semimanufactured product. I would estimate on a pound basis that the cost of producing desiccated coconut, where your nuts must be opened, the skin entirely removed, the product then put through kilns, dried and packed, is probably five times the cost per pound of producing copra.

So a higher labor cost in the Philippine Islands would be bound to raise the cost of producing desiccated coconut in the Philippine Islands, and considerably more in comparison with our Ceylon cost of producing copra.

Mr. ROMERO. You mean to say that there is much more labor in producing desiccated coconut?

Mr. BROWN. Well, the labor involved in making and packing desiccated coconut runs well over 1 cent a pound. I have no figures on copra, Mr. Romero, but from general knowledge of the conditions I believe it is about one fourth of that.

Mr. ROMERO. Sometimes when the price of copra is low the owners of the coconut trees turn over one half of their coconuts to those who prepare the copra, which would give an indication of the amount of labor involved. The owner of the coconut trees turns over coconuts to the laborers, and the laborers get one half of the copra.

Mr. BROWN. One half of the copra price.

Mr. ROMERO. Which shows that there is considerable labor involved.

Mr. BROWN. I have always been under the impression that the Philippine Islands shipped as much copra as the United States market would take, and the balance which they had they were required to sell on the world market for whatever they could get for it, and the lower price they obtained there simply meant that the difference came out of the pockets of the coconut-plantation owner. I have been under the impression that a lot of the copra is produced on the plantations which raise the coconuts, and when the coconut crop matures, those coconuts are opened and sun-dried and sold at the best possible price. If they netted 1 cent a pound, that was that; but, on the other hand, if they could be sold for 5 cents a pound the planter was that much better off. But nothing they could do could prevent the coconut trees from maturing, and they would market the production in the form of copra or sell to desiccators. But when we come to the manufacture of desiccated coconut we have an entirely different proposition.

Those of us engaged in the manufacture of desiccated coconut have the privilege of going out and buying coconuts—provided we can do so—and selling the finished product at a profit. And if we cannot do that we simply do not buy them. And, so far as we are concerned, they would remain on the trees. However, so far as the owner is concerned, he would turn them into copra, and if he could not get 3 cents a pound for them in the American market he would sell them for 1 cent a pound on the world market and suffer his loss. But if his loss became too great he would probably leave the coconuts on the trees and not even harvest them.

So we have seen the selling price of the whole coconuts in the Philippine Islands go down during the time when the American market, which was a protected market, could not absorb any more products. We have seen that price drop to the point where it would not even pay the coconut-plantation owner to have those coconuts picked from the trees; they just remained on the trees.

Mr. ROMERO. Of course, there are many factors that enter into the price of copra. You mentioned the fact that at one time the price of copra was so low that it did not pay the coconut-owners.

Mr. BROWN. I think in 1932 it was down to about that basis.

Mr. ROMERO. The price of copra is higher than the average at the present time?

Mr. BROWN. Yes, Sir. I have always considered those movements temporary movements. No industry can continue to exist unless it can compete with the corresponding industry of other countries with which it is in competition. On the other hand, granting the fact that an investment has been made in a Philippine coconut plantation and seven years ago the trees were planted and have been cultivated and the yield is now coming in, the crop can be marketed so long as

the plantation-owner gets enough out of it to pay for the additional cost of picking them. If over a period of time he cannot compete with Ceylon, he will simply turn his plantation into rice, or sugar, or something else.

Those movements take place, that is, they swing from one commodity to another, in the oriental countries; but you only see the effects of them 7 or 8 years after the market factors influenced the abandonment of plantations or additional plantings.

Mr. WARING. In the course of your remarks, Mr. Brown, and also in your brief, you mentioned the fact that the size and character of the Ceylon coconuts gave the producer an advantage in connection with the production of desiccated coconut.

Mr. BROWN. Yes, Sir.

Mr. WARING. It has occurred to me that in as much as Ceylon copra on the world market is considerably higher priced than the Philippine copra, the cost of those nuts in Ceylon might be higher than the cost of the nuts in the Philippines, in which case the advantage of the Ceylon nuts would be, in part, offset by a higher price. I wonder if that is true?

Mr. BROWN. It is true to a minor extent, Mr. Waring. The manufacturer of desiccated coconut, because of the cost of opening and paring, must choose the large, perfect nuts. The factory in Ceylon can contract for the output of an entire plantation and can use approximately 100 percent of the nuts on the plantation, that is, the factory can use them for desiccating purposes because they are large enough, and after the labor of paring and opening you have a good yield per 1,000 nuts opened.

But the manufacturer of desiccated coconut in the Philippine Islands cannot use plantation-run nuts because they do not grow large enough on the average. So, he must pay a premium to the grower to sort out the large nuts for use in the factories. The plantation-owner must then sell his smaller nuts, that is, those which cannot be used for desiccating purposes, to the oil mill or to be made into copra.

The same thing is true with respect to the nuts from the West Indies.

In buying nuts for sweetening purposes in this country the usual contract provides that those nuts must weigh more than  $1\frac{1}{2}$  pounds. And even if they could buy smaller nuts for 30 or 40 percent discount it would not pay to use them for desiccating purposes. That is the advantage that Ceylon has in this respect.

As to the other matter you mentioned, about the Ceylon copra being at a premium, that is due, as I understand it, to the smaller percentage of free fatty acid of the Ceylon coconuts.

It is conceivable that if the Philippine industry were on a high-wage basis and could not market its coconuts in the form of oil or

copra in competition with Ceylon because of the claimed superiority of the Ceylon oil or copra, as long as the production of coconuts continued at the present rate we would be able to buy coconuts for desiccating purposes in the Philippines at a price 20 or 30 percent below what we could buy them for in Ceylon; and that would come out of the pocket of the Philippine plantation-owner.

And, in the end, when the situation got too bad, he would find that it would be better to abandon his coconut groves and substitute tobacco, or rice, or whatever else he could find a world market for. And then the nut supply would gradually dwindle.

Mr. WARING. The Philippines produce a surplus which they must market in the world markets, but they get lower prices for their copra than do the Ceylon producers of copra, for the reasons which you have mentioned and also, I think, because the Ceylon copra is better graded and dried.

Mr. BROWN. Is it not probable that the reason they are able to market their surplus on a world-wide basis is due to the fact that they get a sufficient premium from the American market?

Mr. WARING. They get no premium.

Mr. BROWN. Owing to the processing tax?

Mr. WARING. I think I am correct in saying that the American purchasers buy copra in the Philippines at world prices.

Mr. BROWN. But the fact remains that, so far as the desiccating industry is concerned, the Philippines have never been able to sell a pound of coconut to Europe, in spite of the fact that it has been established for 15 years and in spite of the fact that the European market is about 200 percent greater in volume than the American market.

Mr. WARING. That might be explained, might it not, Mr. Brown, in part by the fact that the desiccators in the Philippines do get a price premium in the United States and, therefore, find it more profitable to market their desiccated coconut in the United States?

Mr. BROWN. That might be reasonable to assume if it were not for the fact that the plant capacity of the present plants in the Philippines is about 50 percent greater than the output of the last 10 years; also were it not for the additional fact that an investment of \$10,000 extra—which is very small as compared with our initial investment, which runs \$250,000—would make possible increasing the capacity of our plant an additional 50 percent. There is no limit to the production capacity of any coconut plant in the Philippine Islands save the ability to market the product at a profit. The coconuts are there, and the desiccated industry takes less than 10 percent of the total coconut-production. They could easily take 20 percent without affecting the competitive situation there.

Granted that we produce in our factories 12,000,000 pounds a year, and assuming we could make a quarter of a cent more by shipping

that production to the American market; yet if we can make any profit at all by producing an additional 12,000,000 pounds and selling it to Europe we would appropriate the necessary \$10,000 to increase our capacity, and we would start in.

Mr. ROXAS. Mr. Brown, does the price of desiccated coconut depend just upon the price of the nuts?

Mr. BROWN. The price depends upon the price in Ceylon, you ask, do you?

Mr. ROXAS. No; but does the price in the Philippines for desiccated coconut fluctuate in proportion as the price of raw coconuts fluctuates?

Mr. BROWN. Yes, Sir. The price of Philippine coconut follows the cost of production. And starting with a price of approximately 18 cents a pound when the Philippine production first came onto the market in 1922, when oils and fats were high and copra was comparatively high, it continued on down to where it got to approximately 6 cents a pound in 1931. Since that time there has been a rising tendency, and it reached a top of around 7.5 cents last year. It took a sharp rise in January when the shortage of coconuts in the Philippine Islands raised the price to approximately 11 cents a pound. The present tendency is to decline in sympathy with the recent decline in the cost of coconuts in the Philippine Islands.

The third factor might be merely the psychological one, whether the buyers thought that prices in general were going up, and therefore bullish on coconut, or whether they thought the prices were going to go down and, therefore, refrained from buying.

Mr. ROXAS. How many men are employed in the industry in the Philippines?

Mr. BROWN. I couldn't tell you that, I am sorry to say.

Mr. ROXAS. Could you put that information into the record later?

Mr. BROWN. I have the figures so far as our labor costs are concerned, that is, for our Philippine payrolls. The wages paid in 1936 at our two plants in the Philippine Islands, which produced approximately 20 percent of the total desiccated coconut shipped into this country, were ₱208,000.

Mr. ROXAS. And regularly you employ how many men in your operations?

Mr. BROWN. Do you mean in the Philippines?

Mr. ROXAS. Yes; in the Philippine Islands.

Mr. BROWN. I don't know.

Mr. ROXAS. How many men do you employ in your two plants?

Mr. BROWN. As I say, Mr. Roxas, I don't know that; but I can get that information for you.<sup>2</sup>

<sup>2</sup> See *post*, p. 82.

Mr. ROXAS. I would like to have that information furnished for the record.

Mr. BROWN. The factory end of the coconut business in the Philippine Islands is in control of the local agents over there. Figures on that would be available in Manila when you have your hearings there, that is, as to the number of people employed.

Mr. ROXAS. What proportion of the desiccated-coconut industry in the Philippines is American owned?

Mr. BROWN. Do you mean the interests back of it?

Mr. ROXAS. I mean the American capital.

Mr. BROWN. I know of only one company which is an American company as such, that is, one corporation which is an American corporation as such, and that is the Philippine Desiccated Coconut Company who, in turn, is owned by the Blue Bar Coconut Company.

Mr. ROXAS. And is that American?

Mr. BROWN. That would not be an American corporation. The company in which we are shareholders is not American. It is a Manila corporation. I believe I am correct in saying that Baker & Baker is a Philippine corporation. So the only one I would say that I am in doubt about as to the corporate set-up is the Calamba Sugar Estates. I think that is entirely American. The rest of them—the Red V Coconut Products, for instance—is a Manila corporation. The Philippine Desiccated Coconut Company is an American corporation and is owned by Blue Bar Coconut. Franklin Baker is a Filipino. Chua Lamco is a Philippine company, and Furukawa is a Philippine company. There is a chance that there is a Japanese interest there in the Philippines.

Mr. ROXAS. Is the machinery that the plants employ American machinery?

Mr. BROWN. Yes. Our investment in plant, machinery, and equipment cost 244,440 pesos. Our investment in buildings, roads, and fences, which adds to it, is 229,189 pesos, making a total investment there of something like 473,000 pesos.

Mr. ROXAS. And you produce 20 percent of the total, do you, Mr. Brown?

Mr. BROWN. We produce 20 percent of the total.

Mr. ROXAS. In other words, the industry represents an investment of approximately 2,500,000 pesos?

Mr. BROWN. Yes; that is right. And we have our investment there depreciated by 200,000 pesos only. So our present book value today stands at more than 280,000 pesos.

Mr. ROXAS. Mr. Brown, you say that the industry could not exist unless a large proportion of the present protection were retained?

Mr. BROWN. Yes, Sir.

Mr. ROXAS. Could you support the payment of the export taxes provided in the Independence Act of 5 percent and the American duty in the sixth year of the Commonwealth, up to 25 percent?

Mr. BROWN. In my opinion, the industry could exist on and after the tenth year at 25 percent of the Ceylon rate. I believe 2.5-cents-a-pound protection would be enough to enable the industry to live.

The consumer in this country would probably suffer a little and the producer of coconuts and the labor in the Philippine Islands would probably suffer a little.

Mr. ROXAS. In other words, the industry would not absolutely disappear?

Mr. BROWN. In my opinion, the industry would not die if it had somewhere between 2.5 cents and 3.5 cents tariff protection.

Mr. ROXAS. Could you exist beyond that?

Mr. BROWN. That would depend. Whether it could exist on anything less than that would depend upon the reduction in price of labor and coconuts. Naturally, if we could buy coconuts in the Philippine Islands for 50 percent of the price that Ceylon manufacturers had to pay for their coconuts, anything could happen. But that condition, owing to the fact that Ceylon's costs are so low, would, in my belief, be temporary only and for the space of a few years. The coconuts in the Philippine Islands would come into bearing and would be harvested and the planter would get whatever price he could get for them, but after a few years there would be no coconuts being sold at bankrupt prices, so to speak, and the industry would have to die.

Mr. ROXAS. But the coconut industry in the Philippines, being on a world basis now, and becoming increasingly so, you could not expect to buy coconuts in the Philippines at a lower price than you could buy coconuts in Ceylon?

Mr. BROWN. Wouldn't the Philippines be forced to have lower prices than Ceylon, in view of the higher premium that is paid in the world market for Ceylon copra and Ceylon coconut oil?

Mr. ROXAS. Not any more than today.

Mr. BROWN. There is one other factor that I have not yet mentioned which also affects the cost of production of desiccated coconut in the Philippines, and that is the freight cost from the factories, which must be located near the source of the nuts, to tidewater, as compared with the cost of shipping from the Ceylon factories to tidewater.

According to our London friends, Ceylon has an advantage there of more than a quarter of a cent a pound on local freight costs. And it would be possible to equalize these conditions only in case it was possible to raise more coconuts around Manila instead of having the production take place so far in the interior.

Mr. WARING. Then you estimate that the cost of transportation from the factory to tidewater in the Philippines gives the Ceylon producer an advantage of about a quarter of a cent?

Mr. BROWN. Yes, Sir.

Mr. WARING. About a quarter of a cent a pound?

Mr. BROWN. A quarter of a cent is an estimate only. But I know that there is an advantage. I do know that. From the fact that a coconut weighing a pound and a half produces a half pound of desiccated coconut, you can realize why it is necessary that the desiccating operation be placed near the plantations where the nuts are grown.

We put up our second factory two years ago in the Philippine Islands approximately 30 miles from our first factory and we doubled our investment there merely to save the cost of trucking the nuts that additional 30 miles. Coconuts are so bulky that costs of local transportation are very heavy.

Mr. JACOBS. Are there any questions?

Mr. ROBBINS. Do you assume that the difference in labor costs between Ceylon and the Philippine Islands is in proportion to the wage rates which you mentioned?

Mr. BROWN. Yes; I believe it is. The major portion of the cost of producing desiccated coconut is unskilled labor.

Mr. ROBBINS. There is no difference in productivity, is there?

Mr. BROWN. Not so far as I know. However, I would be very glad to get further information on that matter. I see no reason why there should be any difference in productivity in view of the fact that the main operation is unskilled manual labor, and there is not much reason for there being any greater productivity per man in that class of labor in the Philippine Islands than there is in Ceylon, assuming that there is proper supervision, which is always done by skilled men. I know that our cost of production per pound in the Philippine Islands at the present time is approximately the same percentage over the cost of production in Ceylon as the difference in wage scales.

Mr. JACOBS. Are there any other questions that any member wishes to ask of Mr. Brown?

(No response.)

We thank you, Mr. Brown, for your appearance before the Committee this morning.



WOOD & SELICK, INC.  
36 HUDSON STREET  
NEW YORK, N. Y.

June 11, 1937

THE JOINT PREPARATORY COMMISSION ON PHILIPPINE AFFAIRS,  
Room 206, U. S. Tariff Commission,  
8th & E Streets,  
Washington, D.-C.

GENTLEMEN:

We desire to present the following preliminary statement of our views of the effect Philippine independence will have on the desiccated-coconut industry, in which we are vitally interested.

We are shareholders in the Red V Coconut Products, Limited, of Manila who manufacture desiccated coconut in two factories on the Island of Luzon. The factories' production of about 12 million pounds per year is shipped to the United States and distributed here by us. We sell about 85% of the production to manufacturing bakers, confectioners, or jobbers who sell to that class of trade. We use about 15% of the production as a base for the manufacture of bulk sweetened coconut, in our New York City plant. The bulk sweetened coconut is later resold to cake bakers and the household trade.

Prior to the enactment of the Tariff Act of 1922, practically all desiccated coconut used in this country came from Ceylon. The Tariff Act of 1922 raised the duty on Ceylon coconut to 3½¢ per pound. Only with the aid of this tariff protection was it possible for the Philippine Islands to produce and sell desiccated coconut to the United States. The Philippine desiccated-coconut industry during the past fifteen years has advanced from a position of supplying zero quantity of the desiccated-coconut requirements of this country to a point where, during 1936, it supplied over 99% of the total desiccated coconut required by the U. S. A. The United States customs' figures for the year 1936 show as follows:

|  |                   |
|--|-------------------|
| Imports from the Philippine Islands..... | 69,407,926 pounds |
| Imports from Ceylon.....                 | 492,381 pounds    |
| Imports from all other countries.....    | negligible        |

Figures of the comparative cost of producing desiccated coconut in the Philippine Islands in comparison with the cost of producing desiccated coconut in Ceylon conclusively show that the Philippine desiccated-coconut industry could not compete with Ceylon for the United States business unless all or a great portion of the present tariff protection is continued. The necessity for this protection is the result of difference in size and coconut-meat yield of the coconuts in the two countries, lower-labor costs in Ceylon, and lower Ceylon cost of transportation from factories to tidewater.

Neither desiccated coconut, which is manufactured in the Philippine Islands and Ceylon, nor sweetened coconut, which is manufactured in the continent of the United States from desiccated coconut as a base or from whole coconuts imported from the West Indies, competes with any other American-made product, as no coconuts are grown in the continent United States for manufacturing purposes.

We will be glad to file a more complete detailed statement with your Committee before your hearings end in early July.

We also request the privilege of an oral hearing at any time which your Committee may set for the oral consideration of the problem which the Philippine desiccated-coconut industry must face when independence is granted to the Islands.

Respectfully yours,

WOOD & SELICK, INC.  
ERNEST C. BROWN  
Vice President

WOOD & SELICK, INC.  
36 HUDSON STREET  
NEW YORK

July 8, 1937.

THE JOINT PREPARATORY COMMISSION ON PHILIPPINE AFFAIRS,  
Room 206—U. S. Tariff Commission,  
8th & H Streets,  
Washington, D. C.

GENTLEMEN:

We refer to our preliminary brief of June 11th<sup>1</sup> and our oral testimony at the hearing before your Honorable Commission on June 18th, in connection with the effect that Philippine independence will have on the desiccated-coconut industry.

J. H. Vavasseur & Company, Ltd., of London, who are the largest manufacturers of desiccated coconut in Ceylon and who are associated with us as stockholders in the Red V Coconut Products, Ltd., in the Philippine Islands, have given us in confidence their cost of manufacturing desiccated coconut in Ceylon for the past eight years. We have compared these with the Red V Coconut Products, Ltd.'s cost of manufacturing Philippine desiccated coconut for the same period. We converted the Ceylon costs, which were in rupee-cents, into American currency at the average annual exchange rate for the year in question, as quoted by the Chartered Bank of India, Australia and China for January 30th, April 30th, July 30th, and October 30th, for each of the eight years. We have converted the peso cost of producing Philippine desiccated coconut into American currency in the par ratio of two pesos to the American dollar.

The following is the excess cost of producing Philippine desiccated coconut, placed on board steamer at Manila, over the cost of producing Ceylon desiccated coconut placed on board steamer at Colombo, for the eight years in question:

|      |   |
|------|---|
| 1929 | Philippine costs were 31% over Ceylon costs |
| 1930 | " " " 37% " " "                             |
| 1931 | " " " 59% " " "                             |
| 1932 | " " " 26% " " "                             |
| 1933 | " " " 38% " " "                             |
| 1934 | " " " 35% " " "                             |
| 1935 | " " " 33% " " "                             |
| 1936 | " " " 30% " " "                             |

This shows that, on the average, it cost 36% more to produce Philippine desiccated coconut than Ceylon desiccated coconut during the past eight years.

The ratio of production of the macaroon and medium shred cuts to the thread and chip cuts produced by the Philippine factory, was approximately the same as the ratio of these cuts produced by the Ceylon factory. Freight and insurance

<sup>1</sup> This brief referred to is the letter of June 11, 1937; see *ante*, p. 80.

costs on the macaroon and medium shred cuts from Manila to New York at the present time average pesos 2.170 per 100 lbs. net weight, equal to \$1.08½ per 100 lbs., while freight and insurance rates from Colombo to New York at present average 2.471 rupee-cents per 100 lbs. net weight equal to \$.91½ per 100 lbs., which adds an additional 2% to Ceylon's advantage over the Philippines.

Freight on the thread and chip cuts which are bulkier works out higher than the freight on the macaroon and medium shred cuts, so Ceylon's freight and insurance savings is even greater on the thread and chip cuts than on the macaroon and medium shred cuts.

We are now pleased to furnish you the information requested by Mr. Roxas as to the number of men employed by the Red V Coconut Products factory in their two plants in the Philippine Islands (p. 172 of the proceedings [typewritten transcript]). The present number is 700.

At the oral hearing we mentioned that the wage scale for unskilled labor paid by the Ceylon desiccated-coconut industry was less than one third the rate paid by our Philippine plants (reference, p. 152 of the oral testimony [typewritten transcript]). Mr. Robbins inquired whether the difference in labor costs between Ceylon and the Philippine Islands was in proportion to the wage rates mentioned, or whether the Philippine labor was more productive (reference, p. 177 of the oral testimony [typewritten transcript]). In order to answer this query, we cabled J. H. Vavasour & Company, Ltd., of London, for the present comparative labor costs per 100 lbs. of finished product for Ceylon and Philippine desiccated coconut. We are in receipt of letter from them dated June 22nd giving the requested information. Labor costs of manufacturing and packing Ceylon desiccated coconut at the present time are only 37.4% of the cost of manufacturing and packing Philippine desiccated coconut per 100 lbs. This indicates that the labor costs of producing desiccated coconut almost exactly parallels the difference in wages paid by the desiccated-coconut industry in the Philippine Islands, compared with the wages paid in Ceylon, so that Philippine labor is not appreciably more productive in our industry in the Philippines than it is in Ceylon.

Yours faithfully,

WOOD & SELICK, Inc.  
ERNEST C. BROWN  
*Vice President*

Mr. JACOBS. The next person to appear this morning will be Mr. J. K. Evans, of the General Foods Corporation.

#### STATEMENT OF MR. J. K. EVANS, VICE PRESIDENT OF THE GENERAL FOODS SALES COMPANY, INCORPORATED

Mr. EVANS. Mr. Chairman: The remarks that I will have to make will be very brief and will require but a very few minutes.

First, I would like to identify myself as representing, not the General Foods Corporation,<sup>3</sup> but the General Foods Sales Company, Incorporated, which markets in the United States the products of the

<sup>3</sup> Brief for the General Foods Corporation was filed by Clarence Francis; see vol. III.

General Foods' wholly owned subsidiary, the Franklin Baker Division of General Foods. So my remarks are made from the standpoint of one who is in constant and frequent touch with the agencies through which our product passes to the consumer and who learns from all these agencies through those channels their attitude toward the perpetuation of the industry in the Philippines.

In order to give the background from the observations expressed to me by those manufacturers who represent the users of the greater portion of our Philippine desiccated coconut as an ingredient in the manufacture of confections and baked goods, it is necessary to trace the origin of the coconut that was available to them before the creation of the industry in the Philippines.

As has been brought out, at that time coconut for manufacturing purposes in the United States came almost wholly from Ceylon, produced by a large number of individual producers. The factories ranged from fairly good factories down almost to the household type of production.

This merchandise was assembled for export from many different sources, as a result of which it lacked the standard of uniformity and the standard of quality.

That condition changed with the creation of the industry in the Philippines where, under modern methods of manufacture and American standards of control and supervision, the Philippine Islands produced a standard product. The standard was no better than the best that came from Ceylon; but certainly the average was relatively higher, although far from the standards of the manufacturer who, in turn, had to use it as an ingredient part of his finished product.

With some confidence on the part of the manufacturers who used this coconut as an ingredient product, the industry as a whole benefited and grew. It goes back to the old fundamental principle of quality. A business grows, by and large, in proportion to the quality of the product which it uses.

From that point of view the principal users of Philippine desiccated coconut have expressed grave apprehension over anything that might limit to any degree the free importation of Philippine desiccated coconut into this country.

In turn, it has permitted us, through the agencies of sales promotion, to build an appreciation in the minds of the consumers of the quality of the coconut presented today by the Philippine coconut.

The other point I would like to touch upon is the fact that, unlike in many similar situations such as those wherein the domestic manufacturer is apprehensive over protection being afforded a foreign product, the domestic manufacturer of desiccated coconut in this country is very eager to see the continued upbuilding of the desiccated-coconut business in this country, the reason for that being that, owing

to the improved quality of the product arriving from the Philippines, coconut in this country has a better name, the business has increased, and it has popularized the product. We have backed it with promotional effort and advertising in order to bring to the consciousness of the consumer the type and quality of the product now available to him and to give the manufacturer the confidence that he needs in order to go ahead with the manufacture of confections and baked goods.

In that connection I might say that I have here a letter which I just received from Durkee Famous Foods, Incorporated, in which they, as one of the principal domestic manufacturers of coconut, have registered their sentiments in that direction. This is their letter, which is dated Elmhurst, L. I., N. Y., June 17th:

THE GENERAL FOODS SALES CORPORATION,  
250 Park Avenue,  
New York, N.Y.

Attention: Mr. J. K. Evans  
*Vice President*

DEAR MR. EVANS:

As we will be unable to attend the oral hearing in connection with Desiccated Coconut before The Joint Preparatory Committee on Philippine Affairs, we would appreciate it if you would express our views to the Committee.

Durkee Famous Foods and its predecessor, The Dunham Manufacturing Company, is one of the oldest and perhaps the second largest American producer of desiccated cocoanut in the United States. Whole cocoanuts imported from the West Indies are our principal raw material.

As Philippine desiccated cocoanut and the American-produced product are not in competition, we would prefer to see the Philippine desiccated cocoanut enter this country without duty. Since the Philippine product has been introduced and popularized in the United States, the consumption of cocoanut has been increasing every year and the larger quantity of cocoanut used by the manufacturing trade has influenced a greater consumption, which has resulted in a similar increasing consumption of the American product.

If a duty were assessed against Philippine cocoanut, undoubtedly the cost of this material would advance; there would be a tendency for the consumption to decline; and the further possibility of a decline in the consumption of the American-produced product.

Yours very truly,

P. D. HURSH  
*Sales Manager*

So I should like to conclude my remarks by saying that it is the sentiment of the consumer, generally agreed to by our customers and the domestic manufacturers, that nothing should be done, and it is hoped that nothing will be done, to interrupt or limit the normal export of Philippine coconut to this country.

Mr. JACOBS. Are there any questions?

Mr. DOMERATZKY. You have emphasized the point that the Philippine product has a reputation in this country which we have built up?

Mr. EVANS. Yes; that is right.

Mr. DOMERATZKY. Do you believe that reputation might perhaps help the product to obtain a market, even under a disadvantageous condition?

Mr. EVANS. Commercially it would be very difficult to maintain it, that is, in the sense that it would be scarcely distinguishable to the eventual consumer, although it is known to exist. It would be very difficult for me to distinguish between two bottles of milk, one of which contained a higher percentage of cream than the other. It might be very definitely inherent in one bottle *versus* the other; but it would be very difficult for the consumer to detect it. And by the time the coconut passes through as an ingredient product it is rather difficult for the housewife to know it. It is very definitely in the mind of the man who buys the coconut and puts it into his product because it gives him the added confidence.

Mr. DOMERATZKY. Wouldn't he care enough about obtaining a reliable Philippine product to pay just a little bit more for it?

Mr. EVANS. We have no experience showing that that would be so. A shade of a cent or a fraction of a cent in favor of Ceylon would, in all probability, block us out as Philippine producers.

#### STATEMENT OF MR. H. P. HALDT, REPRESENTING THE GENERAL FOODS SALES COMPANY

Mr. HALDT. Mr. Chairman: I would like to confine my remarks solely to the sales possibility of coconut in this country.

When all coconut came from Ceylon the consumption was quite small. Up to 1921 or 1922, the greatest period we had ever had, it was somewhere in the neighborhood of 30,000,000 pounds of coconut. That is due, unfortunately, to the fact that coconut products, particularly candy products and bakery products, command a relatively low price. If coconut candies must sell for 25 cents a pound or 30 cents a pound to the merchandising stores, they just do not handle them. It is entirely out of range, and they drop the product entirely, I might say.

If we are to assume that the 3.5-cent duty will continue, which I believe is the proper assumption, we will find that Philippine coconut, regardless of the production costs in the Islands, will go the same way that Ceylon coconut went before the free importation of coconut from the Philippine Islands.

If you will look at the importations you will see that today there is practically no coconut that comes from Ceylon. If you will look at our price schedules you will see that our prices since the beginning of the Philippine operations have run down from somewhere in the

neighborhood of 12 cents or 13 cents to somewhere in the neighborhood of 7 cents a pound, and it might be noted that that was in the past 4 or 5 years.

That has made coconut particularly popular with the consumer in this country and it has increased the sales of coconut from somewhere in the neighborhood of 30,000,000 pounds up to 65,000,000 pounds, and in the best year before the shipping strike that we had was as much as 75,000,000 pounds of coconut.

I think that is of real importance not only to the citizens of the Philippines but also to the candy and baking industry in the United States.

The largest coconut-consuming companies of the candy-producers are coconut-specialty houses. I think I am safe in saying that probably the 10 largest manufacturers manufacture candy almost exclusively—not quite but almost. There would certainly be a most serious disruption in the operations of the manufacturers and, in my opinion, they could not produce the same quantity of coconut candy that they do today if Philippine coconut carried a 3.5-cent duty.

In addition to that phase of it, the coconut selling in this country has changed very greatly since the day when the Philippine coconut came in.

As Mr. Brown or Mr. Evans mentioned, Ceylon coconut has been largely a small-production industry. It has been shipped into this country on direct purchases by quite a few importers. They were interested solely in an immediate profit on the particular lot which they bought and not in what might develop in the coconut trade 10 years from today. But since the introduction of the Philippine coconut that situation has changed completely. The houses that are manufacturing coconut in the Philippines and selling it in this country, particularly ourselves, are more interested in what is going to happen 5 years from today than what is happening today. And that has been our position ever since we started.

I am not trying to build up our company but am merely trying to emphasize the fact that we are interested in the consumption of coconut in this country and not, for instance, in the profit that we are going to make on a shipment that is due to arrive on June 15th, or anything like that.

We have made it our aim to promote the selling of coconut products to the consumers, not only of our own coconut but of coconut products, candies, and bakery products which we could not do if we were importing merely 50, 100, or 500 cases on some particular steamer. We would not be able to make the investment when it is problematical as to whether or not we are going to get it back.

And there again we are helping, and helping very materially, the candy and bakery trades as such—not as coconut people but as bakers

and confectioners—in making it possible for them to go out and do a selling job on candy or bakery goods, because they know that the sales policy back of the largest importer is such that he wants them not only as his customers but as producers to make a profit out of their product.

Perhaps I am not making that very clear to you, so it might be worth while to go back and show how it was sold previously. In the old days coconut was imported by a group of importers who sold it immediately upon arrival of the steamer, if they could possibly do so. There was no such thing as protection against price-advances. Since the Philippine coconut came in we have taken the speculation out of the coconut business on the part of the candy manufacturer. We give him a contract which says that “the coconut will not cost you more than so much over a certain period”, and that enables him to go out and do an advertising and selling job over a period of time without any hesitancy as to what his material will cost him. I think that is a very important point as to what will happen to coconut, regardless of whether it is from Ceylon or from the Philippines, if this duty is removed.

With respect to the finished product of the candy and bakery-goods manufacturer, I believe I am right in saying that there is no question in the mind of anyone familiar with those products that coconut pieces today are of a much better quality than they were some years ago. And I think that is due in part to the fact that with Ceylon coconut it is necessary, owing to the location of Ceylon, to ship the goods in such a manner that they are in the Tropics for a much longer period of time. Practically all Philippine coconut is shipped direct across the Pacific. It is in the Tropics for only a very short period of time.

During the strike period we had to do all kinds of things in order to get coconut here. Coconut that we shipped around the Cape of Good Hope, or even through the Mediterranean, came in off-color. Coconut which we shipped direct to the Pacific coast, as most of it is shipped, even though it was tied up in the Pacific ports, was in fine condition. We had no coconut at all during the strike on the Pacific coast which was off in color or in quality.

When I say “off in color”, it is not merely the fact that it cannot be used for white work, but it means that there is actual deterioration beginning somewhere along the line. And that has hurt the sale of pieces made of Ceylon coconut, which, in turn, means that the candy manufacturer will produce a poorer quality of goods and will not sell as great a quantity.

I know you are in a hurry to finish this session, and I can really see nothing more for me to say. However, I do want to emphasize again that, if a 3.5-cent duty is placed on Philippine coconut, I feel,



after some 22 or 23 years in the coconut business, that not only will there be a cessation of production of coconut in the Philippine Islands but there will be a very marked reduction in the use of coconut in the United States and that it will affect both capital and labor in the candy and bakery business.

Mr. JACOBS. Does anyone have any questions to ask Mr. Haldt?

Mr. BENITEZ. Can you give us an idea as to what has been done to advertise coconut food-products in this country?

Mr. HALDT. Coconut has been advertised to the consumer through magazines and over the radio by us. It has been advertised extensively in trade papers to the candy and bakery trades and, I would say, constantly in that connection.

In addition to that, and what I believe is even more important, there has been sales-promotional work done by us in cooperation with candy manufacturers and bakers, and so much so, in fact, that in some instances increased sales of coconut in merchandise stores have gone up from an average of \$120 a week to more than seven times that amount. I am speaking now of a particular instance.

The same thing is true with respect to sales which we have made on bakery products in bakery stores where, owing to sales ideas and advertising, we have made more people buy more coconut.

And, as you are interested in the Philippine industry, I might say that our plans are now just getting started in that connection. We will go a great deal further in the next 5 years than we have in the past 5 years. I believe we will see the consumption of coconut at least doubled in the next 5 years.

Mr. BENITEZ. Are your people organized with a national organization here?

Mr. HALDT. No, Sir. We have no national organization. Each company does its own selling, and promotional activities are conducted by them.

Mr. JACOBS. Are there any further questions?

Mr. WARING. I want to ask Mr. Haldt with respect to the discoloration if in connection with desiccated coconut the movement through the Tropics might not give the Philippine product a competitive advantage which should be worth something?

Mr. HALDT. It should, Mr. Waring. But, unfortunately, while there is a great quantity of quality candy and biscuits made in this country there is also a very large number of producers who are inclined to take advantage of the slightest difference in price. Those who are vitally interested in what they are doing are interested only in the better-quality goods. But the unfortunate thing about that—and we are trying to combat it by this promotional work—is that so many improperly financed people go into the candy business. It is relatively a cheap business to go into. You need only a kettle, a gas

flame, and a table. But those people will buy coconut at a quarter of a cent or an eighth of a cent lower, and with that lower price they will shade the price to the merchandiser of the finished product; and that puts the screws on the fellow who is making a good quality, and then he has to reduce his price. And they start putting cereal flakes into the product, instead of coconut.

One of the real reasons we are interested in this promotional work is the fact that we picked up some 20 pieces of candy sold in the New York market, brought it into the office, and tried to get people to eat it. There were but 4 of the 20 that any of you gentlemen would eat. That was due entirely to the fact that somebody was able to save an eighth of a cent or a quarter of a cent by chiseling on some one of the products that went into it. That has the effect of reducing the consumption of the product, whatever it happens to be and what in this case was coconut.

We are spending quite a little money to improve the entire business. It is not just coconut, but we are trying to get a formula for a better coconut so that people who go in to buy bonbons, for example, will be more likely to go back within the next few days in order to get more. If cheap coconut or off-color coconut is used these same people may say, "I like coconut, but the last I bought was a little rancid, so I will wait a while before getting any more."

That is a problem of vital interest to the Philippines themselves.

Mr. JACOBS. The next person to appear before the Committee will be Mr. José Tiosejo, representing the Cooperative Products Company, Ltd., of the Philippines.

Mr. TIOSEJO. Our company is not prepared to make a statement at this time, so I wonder if the Committee will grant us the privilege of making our statement when the hearings are held in the Philippines?<sup>4</sup>

Mr. JACOBS. You wish to appear and make your statement in the Philippines rather than here at this time?

Mr. TIOSEJO. Yes; if necessary, although I think almost everything was covered in the statements of the gentlemen who just spoke.

Mr. JACOBS. But you still wish to have the opportunity to appear in the Philippines?

Mr. TIOSEJO. Yes; if possible.

Mr. JACOBS. I understand that Mr. P. D. Hursh, of Durkee Famous Foods, Inc., and Mr. B. V. Corcoran, of the Philippine Desiccated Coconut Corporation, are not present.

Mr. BROWN. Neither the Stein Hall Manufacturing Company's representative nor Mr. Corcoran was able to be present, but I have filed communications expressing the position of those companies.<sup>5</sup>

<sup>4</sup> See vol. III for brief.

<sup>5</sup> See *ante*, pp. 68 and 84.

**Mr. JACOBS.** Are there any other persons who wish to appear today? If we do not have the time to hear everyone this morning we will arrange to hear them this afternoon?

If there is no one else who wishes to appear at this time we will adjourn until Tuesday morning, June 22d, at 10 o'clock.

(Thereupon, at 12:40 o'clock p.m., an adjournment was taken until Tuesday, June 22, 1937, at 10 o'clock a.m.)

## PROCEEDINGS OF JUNE 22, 1937

HEARING ROOM, U.S. TARIFF COMMISSION,  
WASHINGTON, D. C.,  
Tuesday, June 22, 1937.

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 10 o'clock a.m.

*Present:*

The Honorable FRANCIS B. SAYRE, *Acting Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. LYNN R. EDMINSTER;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

Acting Chairman SAYRE. The Committee will proceed to hear from Dr. C. T. Murchison, who will speak on behalf of the Cotton Textile Institute.

### STATEMENT OF DR. C. T. MURCHISON, ON BEHALF OF THE COTTON TEXTILE INSTITUTE

Dr. MURCHISON. Mr. Chairman and Gentlemen of the Committee: In appearing for the Cotton Textile Institute I wish to present the views of the cotton-textile industry as a whole. Following me will appear Mr. Frank Hillery of the Cotton Textile Export Association, who wishes to go on record on behalf of the export group of the industry.

We have filed already with this Committee a brief written statement<sup>1</sup> setting forth the present statistical situation as regards our trade

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<sup>1</sup> See vol. III.

with the Philippines and presenting our views as to a possible solution of the difficulty with which we are faced.

Of course, the members of the Committee are well aware of the great decline that has taken place in cotton-goods exports to the Philippine Islands. Within the period of the last 3 or 4 years we have lost the bulk of our exports to the Islands. In 1936 the volume was, roughly, only about one third of what it customarily was during the period of some 15 years prior to 1934.

At one time we enjoyed a textile business with the Philippines which represented about three fourths of the total Philippine imports of cotton goods. In terms of yards it was somewhere around 70,000,000 to 75,000,000 yards a year; and, of course, from the standpoint of the American textile industry that was a very important outlet. So we have at stake here a volume of business which is genuinely important to the cotton-textile industry of the United States, and especially so at this time because of the great loss of export business in other foreign markets.

In 1935, recognizing the development of the situation which I have just described, the State Department consummated with the Japanese Government<sup>2</sup> a gentleman's agreement which at the time appeared to go a long way toward the solution of the problem with which we are faced, because our loss of business in the Philippines has been due chiefly to the inroads of Japanese cotton goods in the Islands. The gentleman's agreement arrived at in 1935 with the Japanese Government contemplated the maintenance of something like 45,000,000 yards for the American textile industry and definitely allocated to the Japanese industry about 45,000,000 yards. It was assumed that would be approximately a 50-50 division of the business, because statistical evidence was to the effect that the normal Philippine consumption of imported cotton textiles would be from 90,000,000 to 100,000,000 yards a year.

That particular agreement, however, for reasons which could not have been foreseen at the time, failed to meet the intended purpose, except in part.

As we all know, following closely upon the heels of that agreement transshipment of textile goods from Hong Kong assumed new proportions and grew rapidly into a very large percentage of the total business.

In addition to the Hong Kong transshipments, a greatly increased volume of cotton goods from China began to find its way into the Philippines; and, in addition to all that, greatly increased imports of rayon goods into the Philippines from Japan, which were com-

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<sup>2</sup> See annex 1 to these proceedings, *post*, p. 128.

petitive with cotton goods, served still further to diminish our market opportunities in the Philippines.

So at the present time the American industry, regardless of this agreement, has a prospective market of between 20,000,000 and 25,000,000 yards of goods in the Philippines, with no assurance that even that volume can be sustained during the next few years.

Of course, it is entirely possible—perhaps you might even say probable—that a renewal of the agreement with Japan can be effected, in which case we may confidently expect the retention of some portion of the Philippine market, but probably at a continually diminishing figure because of the transshipments from Hong Kong, the direct shipments from China, the growing volume of rayon imports, and other factors in the situation.

So if we are to preserve permanently and confidently our place in the Philippine market which is so important to us and which I feel is also important to the Philippines for reasons which I shall try to develop in just a moment, it seems that a new approach will have to be resorted to.

I recognize, and all the members of our industry recognize, the great difficulties involved here. We are familiar with the foreign-trade policy of the United States Government and are not unsympathetic with that policy. Quite the contrary. And we realize from the standpoint of the public interest the disadvantage of the bilateral type of treaty. We recognize the importance of maintaining the most-favored-nation principle and, in general, our ability to lower trade barriers rather than raise them.

And yet with due respect and with due allowance for those features of our foreign-trade policy, which we consider sound, we still feel that without a substantial violation of those principles a solution may be found.

Therefore, our first recommendation is—and I wish to present here two alternatives—that the Philippine Government be given greater power in the exercise of tariffs or quotas—perhaps a combination of both, or whichever may seem the more desirable—with the view primarily of preserving the important trade of the United States in what might be regarded as its normal proportions.

If we regard the Philippine situation as one in which the interest of the Philippines is just as important as our own interest, I think we will have no difficulty in recognizing the merit of this proposal.

I think it goes without saying that imports from the Philippines into the United States are an important part of the problem. We recognize fully that American agricultural interests are concerned over the Philippine sugar quota and would naturally take the position that if that quota is maintained there must be thorough justi-

fication for it; and the same may be said of the coconut-oil situation. And if we are to convince the American public and the American Congress that the imports of these Philippine products on a basis of special concession are to continue, we must naturally expect continued maintenance of the Philippine market for American exports. I hardly see how we can expect the one contingency without the other, necessarily.

Therefore, if the Philippine policy can be sufficiently flexible to assure the preservation of the Philippine market to the normal American imports, at the same time it would seem fair and reasonable that the American Government should assure what might be regarded as a continuance of normal Philippine activities so far as the United States market is concerned.

As an industry we are trying to view this problem in its entirety and we recognize without question that the import side must be considered in connection with the export side, and *vice versa*.

Looking at it from the standpoint of American trade it might be desirable to meet the problem by an enlargement of the tariff powers—perhaps putting it more broadly, an enlargement of the trade-regulation powers of the Philippine Government.

The alternative proposition is one which appeals to me even more, at least, from the standpoint of satisfactory trade arrangements. Whether the legal questions involved can be handled without great difficulty I cannot speak with so much assurance.

A reciprocal trade agreement with the Philippines which is analogous in principle and in pattern to the reciprocal trade agreement which we had with Cuba, is desirable, as was recognized by ourselves and by Cuba; and I think it was recognized by the rest of the world that we were dealing with a special situation concerning that particular country. Therefore, in the trade agreement with Cuba there is no provision for generalization of concessions.

A trade agreement with the Philippines which did carry the most-favored-nation principle, of course, would not accomplish the desired purpose, because whatever concessions we received would also be generalized to other countries and the position of Japan with respect to ourselves would not be changed. But if we can, as I think we properly can in view of our long, close, and extremely intimate economic, social, and political relationships with the Philippines for a period of years, as a logical outcome of that, regard it as a special situation which warrants a trade agreement analogous to that entered into with Cuba, then we can solve our trade problems with the Philippines, and I believe in such a way as not to constitute a violation of the fundamental principles of our foreign-trade policy, and also in such a way as not to constitute a discrimination against other countries, and certainly in such a way as to make for progressive enlargement of the

trade between the two countries to the great advantage of both the Philippines and the United States.

I think it more than likely that such a trade agreement, by authorizing the Philippine Government to use a quota system or an adjustment of the present tariff rates or change in classifications, would accomplish the degree of protection that we wish.

But here I am using the word "we", not with particular reference to our own industry alone but with respect to all American industries interested in exports to the Philippines. Whatever adjustments might be made as the result of that treaty might be aimed directly toward meeting the market requirements of particular commodities and so not necessarily change the entire range of trade relationships between the Philippines and other countries.

Mr. Chairman, I believe that concludes my statements and my recommendations, which certainly are made in all sympathy with the government policy and with full recognition of the unknown elements which appear in this problem, unknown from the American side as well as from the Philippine side. However, I make them with the greatest of faith and confidence that if government policy can be adjusted to accept one or the other of these particular proposals the resulting outcome economically would certainly be advantageous to both countries.

Acting Chairman SAYRE. Is there any member of the Committee who would like to ask any questions of Dr. Murchison?

Mr. DOMERATZKY. Dr. Murchison, you spoke of enlarging the tariff powers of the Philippine Government? What do you mean by that?

Dr. MURCHISON. By that I mean giving the governmental approval, at least in part if not in whole, to the recent legislative action of the Philippine Congress bearing upon this particular matter or some equivalent action.

Mr. DOMERATZKY. Then, it is a question of the United States Government's approving the action of the Philippine Government in connection with the tariff, rather than enlarging the powers of the Philippine Government?

Dr. MURCHISON. Yes, Sir; that is right.

Mr. WARING. Mr. Chairman, there are several questions that I would like to ask Dr. Murchison.

Acting Chairman SAYRE. Then will you please proceed, Mr. Waring, with your questions?

Mr. WARING. Dr. Murchison, you mentioned as one of the reasons why the Japanese agreement was not as successful as originally contemplated, the fact that increased quantities of rayon had come in from Japan in competition with American cotton cloth?

Dr. MURCHISON. Yes, Sir.



Mr. WARING. As I understand it, the prices at which the Japanese have been able to sell rayon the last two years have declined materially.

Dr. MURCHISON. Yes, Sir.

Mr. WARING. And that under those circumstances it seems probable to me that increased quantities of rayon would have found their way into the Philippine market had there been no agreement, because of the price reductions. I wonder if you would agree that the increased shipments of rayon cannot be blamed entirely upon the gentleman's agreement?

Dr. MURCHISON. In part, yes, Sir; because the Japanese rayon goods, although highly competitive with American cotton goods, are not nearly so competitive with Japanese cotton goods, and those rayon imports have not affected adversely in any way the Japanese cotton-textile trade but they have affected adversely our own cotton-textile trade because of the price differential.

Mr. WARING. My point is that they probably would have affected it in any case because of the decline in prices.

Dr. MURCHISON. To be sure, that probability is present.

Mr. WARING. Now, another question. You mentioned that there is a possibility of the renewal of the Japanese agreement, in which case you feel that there is a probability that the United States would retain some of its market. I judge from your wording that you consider the agreement, despite its deficiencies, has been somewhat beneficial. Is that true?

Dr. MURCHISON. Yes; I think so, because without the gentleman's agreement it is entirely probable that we would have lost the entire business, or practically all of it.

Mr. WARING. You mentioned the fact that you thought that the administration of this Government's foreign-trade policy is sound with regard to the most-favored-nation principle; yet, if I understood you correctly, Dr. Murchison, you were advocating a permanent preferential relationship between the United States and the Philippines.

Dr. MURCHISON. Yes, Sir. I think any general rule—at least in most cases—is subject to specific exceptions; and in this particular case I am looking at the matter not only from the standpoint of the American cotton-textile industry but from the standpoint of our entire trade with the Philippines and the economic welfare of the Philippine Islands. I believe it goes without saying that the loss of the Philippine market to American export goods will mean the total loss of interest on the part of the United States in the Philippines, certainly with independence looming up, so the Philippines will no longer have a friend in the United States; and if my own judgment of the trend of things is correct, it is my belief that it would be only a comparatively short time when our special concessions with respect to such treatment as to sugar and coconut oil would disappear.

Mr. WARING. I think it is obvious that would occur as independence became a fact.

Dr. MURCHISON. In which case the great bulk of the Philippine trade would have to be completely adjusted. And one wonders where she would find export markets. And I think it would be fair to anticipate that the Philippine Islands would be thrown back into a state of impoverishment and economic paralysis.

These things tie in together pretty definitely. And the special reasons for exceptional treatment in this case I believe are sufficiently important to justify the waiving of a general rule, particularly when the waiving of a general rule does not affect seriously our trade relations with the rest of the world.

Mr. WARING. That is an assumption, is it not, that it will not seriously affect them?

Dr. MURCHISON. I believe it is an assumption in accordance with the facts. The present picture would not be disturbed seriously or would not be disturbed substantially by the adoption of such a course.

Mr. WARING. You mentioned the possibility of giving the Philippines the power to increase their tariff rates?

Dr. MURCHISON. Yes, Sir.

Mr. WARING. If that were done it would have the effect of raising the cost of cotton cloth to the Philippine consumer, would it not?

Dr. MURCHISON. Yes; on certain classifications. And that argument is one which gives difficulty to a great many people. However, I think the argument can be more than met.

In this particular case the higher price which the Philippines would pay for cotton cloth would be more than offset by the increased income which they would have as a result of their export trade to the United States. If that export trade with the United States and the additional prices they pay for American goods can be maintained, it would be more than offset by the arrangement.

Mr. ROXAS. Dr. Murchison, will you please tell us how important are your textile exports to the Philippine Islands in relation to those of the whole industry?

Dr. MURCHISON. In relation to the whole industry percentually it is not large; that is quite true. But, as it works out, the Philippine business is pretty well concentrated within the industry, and from the standpoint of the interested units it is a very important business.

Mr. ROXAS. If the whole textile market in the Philippines were to be supplied exclusively by the United States, how important would that trade be with regard to raw cotton? How many bales of cotton, would you say?

Dr. MURCHISON. On the basis of 100,000,000 pounds? It is roughly 5 yards to a pound, and 500 pounds to the bale, would be 2,500 yards.

Divide 2,500 yards into the 100,000,000 and you have the rough figure there.

Mr. ROXAS. About 5,000,000 bales?

Dr. MURCHISON. If some of you gentlemen who have a pencil will make that calculation we will have it.

Mr. DOMERATZKY. Divide 2,500 into what?

Dr. MURCHISON. Divide 2,500 into 100,000,000. I think that will be about 40,000 bales.

Mr. ROXAS. What has been the purpose of the gentleman's agreement, and what has been the most likely effect so far as prices are concerned?

Dr. MURCHISON. So far as prices in the Philippines are concerned?

Mr. ROXAS. Yes.

Dr. MURCHISON. My own surmise is that it has had a very slight effect in maintaining Philippine prices because the American goods, being only slightly more than 20 percent, or at the most let us say 25 percent, would not have a very important influence on the price-making. So undoubtedly the result has been very slight.

Mr. ROXAS. But if the purpose of the agreement were attained the result would be to grant American textiles in the Philippines a price premium beyond that afforded by the tariff? Is that correct?

Dr. MURCHISON. Assuming a quota were used instead of the tariff?

Mr. ROXAS. Yes.

Dr. MURCHISON. Yes, Sir.

Mr. ROXAS. And that would be at the expense of the Philippine consumer, of course? I am just asking for facts.

Dr. MURCHISON. Yes, Sir. However, I would not wish to use that term. It is rather misleading, because I think the expense as properly defined in its relation to income—

Mr. ROXAS. I will amend it by saying the soundness of the plan.

Dr. MURCHISON. It would mean a somewhat higher price for the cotton goods. That is quite true.

Mr. ROXAS. Knowing, as you do, the competitive advantages of Japanese textile and your own prices, could you give us an idea as to what would have been that price premium in percentage if the agreement had worked out as planned?

Dr. MURCHISON. Well, I can indicate that only in a general way by saying that Japanese goods generally may be imported into this country at the present time at a price of about 25 percent lower than the American price, and they can still pay the tariff and make a profit.

Mr. ROXAS. Do you think an increase in the Philippine duty on textiles by that amount would safeguard the Philippine market for American textiles?

Dr. MURCHISON. I am not sure that the Philippine tariff on textile goods is the same as our tariff in the continental United States.

Mr. ROXAS. It is not the same.

Dr. MURCHISON. That is another point that I think should be made here for the record, that the tariff rates now in effect in the Philippines were established, I believe, in 1909. They are almost 30 years old.

Mr. ROXAS. By what percentage would you increase the Philippine rates in order to make them adequate protection for the American goods?

Mr. COLLON. It is very difficult to say, because it would require a study of the Japanese and Chinese prices at any given time, preferably, of course, on the spot in the Philippines where such information is readily obtainable; and having the American price alongside of the price made by Japan and by Hong Kong, then that matter could be solved properly.

Dr. MURCHISON. The gentleman who has just spoken is Mr. Alexander Collon, of Neuss, Hesslein & Company, Inc.

Mr. ROXAS. Would you say it would be difficult now to revise the Philippine tariff upward to a reasonable rate so that that increased rate would provide effective protection for any reasonable length of time, even taking into consideration the difference in price in the United States and in the Philippines?

Mr. COLLON. It can be done overnight if we have the figures, and if we get down to study them. All we have to do is to get them, and we can decide immediately.

Mr. ROXAS. Would you think granting the Philippine Chief Executive under certain restrictions the power to increase or decrease rates under a flexible tariff— Which would be the more effective?

Mr. COLLON. I would say most definitely that that would be the quickest and the most satisfactory solution, having the figures in hand of the Chinese and of the Japanese.

Mr. ROXAS. Some of the people in the Philippines claim that no effective protection could be given to American textiles in the Philippines unless the tariff were increased in general terms, let us say, about 250 percent. Is that correct?

Dr. MURCHISON. I think that is much too high a figure, Mr. Roxas.

Mr. ROXAS. What would you say would be proper?

Dr. MURCHISON. With proper changes in classification I would assume it would be considerably less than 100 percent.

Wouldn't you, Mr. Collon?

Mr. COLLON. No; I would not say that. I am just guessing; but if you made some changes in the classification such as have been worked on, I would say about 150 percent. But I want to go on

record as saying that without knowing today's Japanese prices and Chinese prices.

Mr. ROXAS. You are informed that the Philippines two years ago were prepared to increase the tariff on textiles in the Islands?

Dr. MURCHISON. Yes, Sir.

Mr. ROXAS. Do you have any information as to why that was not done?

Dr. MURCHISON. I think the answer to that question could come appropriately only from the Government.

Mr. ROXAS. From the Government of the United States or from the Government of the Philippines?

Dr. MURCHISON. Perhaps both.

Mr. ROXAS. The Legislature was prepared to do it.

Dr. MURCHISON. As a private individual I would not be prepared to answer that question.

Mr. ROXAS. You made reference to the fact that in your opinion a reciprocal trade agreement which the United States has with Cuba would provide effective protection to the textile industry in the Philippines.

Dr. MURCHISON. I think so.

Mr. ROXAS. After the free-trade relations with the United States had been terminated?

Dr. MURCHISON. Yes, Sir.

Mr. ROXAS. And that a reciprocal trade agreement under the powers of the President would not afford protection? Do you think that under the reciprocal trade agreements which the President is authorized to enter into there is no way of giving adequate protection to American textiles in the Philippines? Is there no possibility of it?

Dr. MURCHISON. Do you mean under such an agreement?

Mr. ROXAS. Yes.

Dr. MURCHISON. I think so. I don't see why not, if we think of that agreement as analogous to the Cuban agreement.

Mr. ROXAS. Not the Cuban agreement, but similar to that, let us say, with Canada.

Dr. MURCHISON. You see I was visualizing an agreement which would not be generalized to the other countries.

Mr. ROXAS. An agreement which would be generalized would afford no protection?

Dr. MURCHISON. No, Sir.

Mr. ROXAS. Not under any circumstances?

Dr. MURCHISON. Not to the textile industry.

Mr. WARING. In connection with your suggestion for a trade agreement similar to that with Cuba, Dr. Murchison, the products in the Cuban market have a 20-percent preference only. That would not be sufficient?

Dr. MURCHISON. Perhaps not. I had in mind rather the principle involved there.

Mr. EDMINSTER. Dr. Murchison, leaving aside for the moment whether the indefinite continuance of a preferential relationship between the United States and the Philippines is a good or a bad thing, do I understand that you take the position that you advocate a continuance of preference for American textiles and other products in the Philippine market only to the extent that the United States continues to grant the Philippine products preference on a comparable scale in the domestic market?

Dr. MURCHISON. I did not express that, Mr. Edminster, or I did not advocate it in exactly that way. I merely said that without the continuation of preferential treatment in this country the other would likely not occur; that it would have no friends, or at least not a sufficiently great number of friends.

Mr. EDMINSTER. I asked that question, Dr. Murchison, because you might have a nominal continuance of preferential relationships between the two countries and a continual diminution of the amount and value of the preferences accorded to the Philippines by the American States, in which case it would seem to me to be illogical to expect that the Philippines should continue to grant as large or even larger preferences to us as they have heretofore.

Dr. MURCHISON. That is entirely true. I think any preferential relationship would have to be worked out very carefully with a certain objective in view. And in this particular case our objective would be no more than what we call the maintenance of the normal trade relationships that have developed during the last 15 or 20 years.

Mr. EDMINSTER. I am not quite clear from your testimony and from your recommendations what distinction you may have in mind between the Commonwealth period and the period thereafter. First, as to the Commonwealth period: Are you recommending that there should be both a comprehensive quota arrangement and an increased Philippine tariff against textiles?

Dr. MURCHISON. The increased tariff, of course, would not be necessary. I think it might meet the Philippine requirements better to depend upon the quota system, because you do not then seriously affect the prices of other goods coming in.

Mr. EDMINSTER. Then, at the end of the Commonwealth period: If there should be a further continuance of preference—which, of course, is a large question of policy I do not want to go into—

Dr. MURCHISON. Yes; I realize that.

Mr. EDMINSTER. But following your line of suggestions, you stake your recommendation thereafter on a large increase in the Philippine tariff, or would you still expect that the Philippine Government on its own would grant some sort of preferential quota arrangement?

Dr. MURCHISON. Whichever would be effective, of course, would meet our requirements. Looking at it from the standpoint of the Philippines I think the wiser course would be, wherever possible, to use the quota method of regulation, because that does not necessarily mean higher prices, and it is much more definite. The outcome of any tariff arrangement is always problematical.

Mr. EDMINSTER. That is all I have.

Mr. DOMERATZKY. In connection with your last remark, Dr. Murchison, you express a preference for a quota arrangement as distinguished from an increase in tariff. Do you have in mind textiles only or most American products?

Dr. MURCHISON. I think it might be true of other commodities as well, Mr. Domeratzky. Of course, my particular interest is in textiles, and I recognize the importance of low prices to the Philippine consumer. A quota arrangement would seem to be preferable with respect to textiles. And the same argument might apply as well as to other goods, although I cannot be sure of that.

Mr. DOMERATZKY. The reason I asked that question is that it seems to me that if we are to visualize the whole competitive situation correctly and intelligently we must distinguish between American commodities that are in a good competitive position and those that are not in a good competitive position. For instance, take American automobiles; they do not require a quota arrangement in the Philippine market in order to compete.

Dr. MURCHISON. I think that distinction certainly should be made. It is a very important one.

Going back to Mr. Edminister's question, I realize perfectly I did not answer one of his questions—that is, to distinguish between the Commonwealth period and the subsequent period—because I am worrying in my own mind as to whether it would be a feasible thing to have something in the nature of a provisional trade agreement effective as soon as possible. I know it is somewhat paradoxical to speak of a trade agreement between the United States and one of its possessions, but if it could be regarded as a provisional trade agreement of a highly specialized type, to become effective at once and to be classified as a legal class of trade agreements upon the consummation of independence, of course that would be the ideal way to avert any serious shock upon the separation of the two countries. It requires venturing somewhat into the unknown so far as the legal side is concerned; but it is a thought that appeals to me very strongly.

Acting Chairman SAYRE. Are there any further questions?

Mr. ROBBINS. Dr. Murchison, in answering Mr. Waring's question with respect to the increased cost to the Filipinos, you indicated that your proposal, as a whole, would be advantageous to the people of the Philippines because the recommended trade preferences would cost

the Filipinos less in price premiums or subsidies on our exports than they would receive in subsidies from the United States on Philippine exports to this country. Does that indicate that the net effect of your proposed arrangement would be advantageous to the people of the United States?

Dr. MURCHISON. Yes; I think it might very well be. If the United States, by granting the customary preferential treatment to the Philippines with respect to sugar and coconut oil and such items, can maintain its export trade with the Philippines, then I think our foreign-trade theory there would answer your question that it is mutually advantageous to the two countries.

Mr. ROBBINS. But do you consider it mutually advantageous that the United States should pay a larger subsidy on imports from the Philippines than the Philippines would pay on the imports they take from the United States?

Dr. MURCHISON. Your word "subsidy" confuses me somewhat because I am not accustomed to thinking of this preferential treatment we have as a subsidy arrangement.

Mr. ROBBINS. Well, let's call it price premium.

Dr. MURCHISON. So far as it is a concession in terms of tariff, certainly with regard to sugar. If we are going to regard as a valid argument the ability of the Philippines to buy cheaper cloth, then why shouldn't we turn the argument around and regard it as an advantage to the American consumer to be able to buy cheaper Philippine sugar?

Mr. ROBBINS. That is my question.

Dr. MURCHISON. I think you and I are together.

Acting Chairman SAYRE. Are there any further questions?

Mr. ROMERO. You have stated here that the quota system did not work as was expected. Have you any recommendations to make about enforcement methods to make it work?

Dr. MURCHISON. It is not a question of enforcement; it has to do with the developments that have taken place outside of the scope of the agreement. It simply happens that the agreement did not cover these various factors which have defeated the purpose of it.

Mr. ROMERO. What further provisions should be inserted into this agreement so that it will work?

Dr. MURCHISON. I feel that it would not be possible to arrange an agreement with the Japanese Government that would be wholly satisfactory because the Japanese Government is unable to control shipments from Hong Kong and is unable to control shipments from China. So there you are.

Mr. ROMERO. I understood you to say that the quota system would be better than raising the tariff rates.



Dr. MURCHISON. You are speaking of the quota system as imposed by the Philippine Government?

Mr. ROMERO. Yes.

Dr. MURCHISON. I think it would, because that would give the American exporters the protection that they want. It would not necessarily have the effect of higher prices that the higher tariff would.

Mr. ROMERO. They can make the tariff work better than it is working now?

Dr. MURCHISON. Yes; because the Philippine Government can be effective against all governments. In the administration of the quota they could broaden it out so as to make it more effective. They could apply a quota not only as against Japan but as against China.

Mr. ROMERO. You referred to some action taken or contemplated by the Philippine Government, for which you recommended the approval of the American Government. Did you have in mind the act passed by the National Assembly authorizing the President—

Dr. MURCHISON. Either that act or something equivalent to it. I would not wish to argue for any specific act. But what I have in mind there, is simply giving to the Philippine Government, or rather approving for the Philippine Government, the exercise of whatever tariff power might be necessary to meet this particular situation.

Mr. ROMERO. With reference to the tariff rates, I suppose you know that, besides the protection afforded by the Philippine Government in the form of the tariff duties imposed on Japanese goods, a further protection is afforded by our so-called "parity law", by means of which, no matter what the actual value of the yen, currently around 30 cents, the value is fixed for the purpose of assessing tariff duties at 50 cents; that is, if a yard of cloth is sold at 1 yen and the duty is 25 percent, the duty is 25 percent of 50 cents and not of 30 cents. So the rate is really higher than appears in the tariff schedule.

Do you still believe, with Mr. Collon, that besides this double protection there should be an increase in tariff rates at roughly 150 percent in order to protect the American textile industry?

Dr. MURCHISON. I would not wish to commit myself to any particular figure.

Mr. COLLON. That applies only to *ad-valorem* duties. Most of the cotton-textile tariff is specific. In the way that has worked out it is mostly on the rayon coming from Japan. It has had very little effect on the cotton goods.

Acting Chairman SAYRE. Are there any further questions?

(No response.)

If there are no further questions, we wish to thank you very much, Dr. Murchison, for your help.

Dr. MURCHISON. I thank you, Mr. Chairman.

Acting Chairman SAYRE. We will now hear Mr. Frank Hillery, representing the Textile Export Association of the United States.

### STATEMENT OF MR. FRANK HILLERY, ON BEHALF OF THE TEXTILE EXPORT ASSOCIATION OF THE UNITED STATES

Mr. HILLERY. Dr. Murchison has told practically the whole story, so there is not much left for me to say.

However, I just want to say in behalf of the Textile Export Association that we most certainly need the Philippine market. It was our largest market. In times gone by—and by that I mean in the years immediately preceding the depression—we had an average volume there of 66,000,000 square meters, but it has now declined to under 30,000,000 square meters. And that, added to what we have lost elsewhere, has had a very decided effect upon our textile exports. After all, there are firms in our line which are dependent 100 percent upon the export business.

The remark was made that Governor General Murphy had previously recommended some relief for our trade. I find that in July 1935 Governor General Murphy sent a special message to the Legislature in which he recommended:

An effective adjustment of import duties on textiles and other products that would afford prompt relief to American and Philippine interests, without subjecting other countries to unfair treatment or imposing unreasonable and excessive burdens on the consuming public.

He said:

The adjustment of trade relations between the United States and the Philippine Islands on a basis satisfactory to both countries is a problem of major importance. While in its larger phases this problem will be a subject of future joint study and negotiation, in pursuance of plans recently formulated, the present situation and trend in some segments of this trade are deserving of the immediate attention of the Legislature.

It is a matter of common knowledge and of serious import to the interests affected, that in certain categories the growing competition of foreign goods entering the Philippine Islands under existing tariff duties is causing a progressive loss of trade to the United States. In the field of textiles alone there has been a decline on a quantity basis from 72% of the total imports in 1932, to 67% in 1933, and 40% in 1934. During the first six months of the current year, the United States share was 38% of the total. This decline has been so marked as to attract wide attention in the United States, where the condition of the textile trade has assumed a position of exceptional prominence in public discussion and popular interest.

It is believed that a satisfactory adjustment of our trade relations with the United States would be materially aided and facilitated by an effective adjustment of import duties on textiles and other products that would afford prompt relief to American and Philippine interests, without subjecting other countries to unfair treatment or imposing unreasonable and excessive burdens on the consuming public.

It has been suggested that it would be a fair solution of the textile problem, considering all interests concerned, if the products of the United States textile industry were restored approximately to the average position held by them in the Philippine market in the years immediately prior to 1934.

While the condition of the textile trade appears to merit special attention, increases in other schedules may be found justified and warranted as a means of increasing government revenue, providing protection and security for the development of local industries, and bringing about the desired degree of reciprocity in trade with the United States.

Then, in 1935, the then Senate President Quezon, on the floor of the Senate on July 18th, said:

We are in favor of according every possible protection to American imports to the Philippines. I personally am in favor of giving American textiles adequate protection in our markets within the limit of our people's capacity to absorb and pay for that added protection. I realize that we can only retain a free market for our products in the United States if we, at the same time, maintain a favorable market for American products in the Philippines so as to make the advantages resulting from the interchange of commodities truly reciprocal.

Mr. President, of course, if any temporary relief is needed by American textile manufacturers and it is within our power and economic ability to grant it, I think the Legislature will be willing to grant such relief when it reconvenes immediately after the elections.

Acting Chairman SAYRE. Does that complete your statement, Mr. Hillery?

Mr. HILLERY. Yes, Mr. Chairman; it does.

Acting Chairman SAYRE. Does any member of the Committee have any question to ask Mr. Hillery?

Mr. ROXAS. Will you point out the most important reason why American textiles have been displaced in the Islands by Japanese textiles? Is it because American textiles have gone up in price, or is it because Japanese textiles are being manufactured with greater efficiency?

Mr. HILLERY. Of course, it cannot be denied that American prices have advanced. But I think it may be said that while the Japanese prices may have increased somewhat, they have been fairly steady. But we just cannot compete with Japanese costs with the present tariff that is now provided.

Acting Chairman SAYRE. Are there any other questions?

(No response.)

If not, we thank you very much, Mr. Hillery.

Mr. COLLON. Gentlemen, I just wish to call your attention, in connection with what Mr. Hillery read, to the fact that at that time both Governor General Murphy and Senate President Quezon thought the situation was serious enough to warrant special messages.

At that time we were getting 38 percent of the business. But I just want to point out that our situation today is much worse than it was then, the fact being that in 1936 we got only 27 percent of the business. I wanted to put that into the record.

Acting Chairman SAYRE. We thank you very much, Mr. Collon. I understand that Mr. Charles M. Kearney, of the National Beet Growers' Association, is not present. However, a written statement has been filed by Mr. Kearney.

(Here follows the written statement of Mr. Kearney.)

### STATEMENT FILED BY MR. CHARLES M. KEARNEY, OF THE NATIONAL BEET GROWERS' ASSOCIATION

June 15, 1937

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS,  
Room 206, United States Tariff Commission,  
Washington, D. C.

#### GENTLEMEN:

The National Beet Growers' Association submits herewith this brief statement in pursuance of the public notice issued May 28, by the Joint Preparatory Committee on Philippine Affairs, which authorizes opportunity for the expression of views by persons interested in the recommendations of the Committee.

I. The National Beet Growers' Association is a voluntary association representing sugar-beet farmers of the States of Montana, South Dakota, Wyoming, Nebraska, Colorado, Utah, Idaho, and California. These States produce approximately 85 percent of all the sugar beets and beet-sugar production of the United States. These sugar beets are produced by American farmers, their families, and American labor, and are processed into beet sugar and byproducts by American labor. This product is entirely distributed in domestic trade channels.

II. The Congress of the United States enacted the Tydings-McDuffie act in March 1934. This act established the amount of Philippine sugar which might be brought annually into the United States duty-free. Since the enactment of the above-mentioned act the Philippines have never exceeded the duty-free quotas established thereunder. We urge that your Joint Committee do not approve of any quota increases from the Philippines in excess of the duty-free amount established in the Tydings-McDuffie act. It is apparent that increases in Philippine sugar imports into the United States would affect sugar prices to the direct detriment of sugar-beet farmers.

III. The present world-duty on sugar of 96° polarization is \$1.87½ a hundred. This rate scarcely affords sufficient tariff protection for American producers and laborers connected with the sugar-beet industry. Certainly, we urge that the present rate be maintained. We further urge that the increasing scale of taxes

which will be levied against Philippine sugar under the Tydings-McDuffie act be maintained.

IV. We reserve the right to file a further statement, or brief, with your Committee in accordance with your public announcement.

Respectfully submitted,

NATIONAL BEET GROWERS ASSOCIATION  
By CHARLES M. KEARNEY  
*President*

Acting Chairman SAYRE. Is Mr. P. V. Goldsmith, representing the Farmers and Manufacturers Beet Sugar Association, present?

### STATEMENTS OF MESSRS. GOLDSMITH AND BOURG, OF THE FARMERS AND MANUFACTURERS BEET SUGAR ASSOCIATION

Mr. GOLDSMITH. Mr. C. J. Bourg, of the Farmers and Manufacturers Beet Sugar Association, has a short statement he wishes to make:

TO THE JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS,  
Room 206, United States Tariff Commission,  
8th and E Streets,  
Washington, D.C.

We have the honor to present herewith the statement of the Farmers and Manufacturers Beet Sugar Association, which represents the sugar-beet growers and sugar-processors of the States of Michigan, Ohio, Indiana, and Wisconsin, in conformity with the public notice issued by your Committee as of date May 28th, 1937.

Briefly stated for the purposes of the record, our recommendations are that earnest and full consideration be given to the following points of major importance:

1. The primary obligation of the Government of the United States is to protect the welfare and rights of its own citizens.
2. The Philippine Independence Act should continue to operate until full independence becomes effective.
3. The effective date of Philippine independence should not be extended beyond the time set in the Philippine Independence Act, on July 4th, 1946, but should the Philippine Commonwealth insist that the effective date be advanced to 1938 or 1939, then let the trade relations after such effective date between the United States and the Philippines be considered and regulated entirely as foreign commerce, on a non-preferential basis.
4. Referring specifically to sugar, the quota of Filipino sugar (both raw and refined) eligible for entry during the transition period prior to full independence should be no greater than the tonnage listed in the Philippine Independence Act, and consideration should be given to a reduction of this tonnage when trade relations are placed on the basis of foreign commerce, that is, the effective date of Philippine independence.

5. The full world-rate of tariff duty should be applied to imports from the Philippines to the United States, and *vice versa*, immediately upon and subsequent to the effective date of independence, on a non-preferential basis, and the present full world-rate of tariff duty, presently 1.875 per pound of raw sugar testing 96 degrees by the polariscope, and which is based upon the findings and recommendations of the United States Tariff Commission, should not be reduced by the terms or provisions of any reciprocal trade agreement.

The above points are submitted for emphasis in this preliminary statement, and are not to be considered as exclusive in any sense.

Complying with the public notices of May 28th, 1937, and June 8th, 1937, issued by your Committee, we ask that the right be reserved to us to present oral testimony and to file a supplemental statement or brief within the delays fixed by your Committee.

Respectfully submitted,

FARMERS & MANUFACTURERS BEET SUGAR ASSOCIATION  
By P. V. GOLDSMITH, *Growers' Field Secretary*  
C. J. BOURG, *Washington Representative*

WASHINGTON, D.C.  
June 15, 1937.

Mr. BOURG. Mr. Chairman, we have no desire to appear orally but we would like to reserve the right to file a brief at the conclusion of this hearing, and also at the conclusion of the hearing in Manila, within reasonable time, so that we may have the opportunity to see what is presented at that hearing.

Acting Chairman SAYRE. We will be very glad to have you do so, Mr. Bourg.

The next witness will be Mr. George Wilson, of the National Beet Growers' Association. Is Mr. Wilson present?

(No response.)

#### STATEMENT OF MR. C. J. BOURG, ON BEHALF OF THE AMERICAN SUGAR CANE LEAGUE

Mr. BOURG. I have filed a statement on behalf of the American Sugar Cane League.

WASHINGTON, D.C., June 15, 1937.

TO THE JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS,  
206 United States Tariff Commission,  
8th and H Streets,  
Washington, D.C.

The American Sugar Cane League, representing the sugarcane-growers and sugar-producers of Louisiana, hereby declares its interest and concern in the study and recommendations of your Committee with regard to the future trade relations between the United States and the Philippine Commonwealth. Since

the American Sugar Cane League is not informed in any detail as to the program or proposals for future trade relations between the United States and the Philippine Commonwealth, we are not fully prepared at this time to offer more than a general statement, very briefly outlining the points of chief concern to us in their relation to the reciprocal trade agreement in contemplation.

According to the joint statement of President Quezon and Mr. Sayre, Chairman of the Interdepartmental Committee on Philippine Affairs, issued March 18, 1937, the proposed reciprocal trade agreement will be on a non-preferential basis. It is our position and recommendation that when complete independence is achieved by the Philippines on or before July 4, 1946, the tariff against Philippine goods entering the United States shall be on the basis of the full duty or world rate without preference.

We know of no reason for any change in the Philippine Independence Act and certainly oppose any increase in the amount of sugar which can be brought into the United States, free of tariff duty, during the transition period which will be completed when independence becomes effective. However, we do not oppose the suggestion of President Quezon that the date of independence be advanced to 1938 or 1939, provided the tonnage of quota sugar after independence shall be no more than the tonnage specified in the Philippine Independence Act.

We have advocated and do now advocate that all beet and cane sugar consumed in the United States should be refined in the United States for the protection of our industries and labor employed, and, consistent with this position, we suggest that there should be no improvement in the status of the Philippines with regard to refined sugar.

We now formally request the privilege of introducing oral testimony at the public hearing should the necessity arise, and of presenting a brief on or before the delays determined in accordance with the public notices of your Committee, have expired at noon of July 10, 1937.

Respectfully submitted,

AMERICAN SUGAR CANE LEAGUE  
By C. J. BOURG, *Vice President*

Colonel McDONALD. Was Mr. Bourg speaking as a representative of the Farmers and Manufacturers Beet Sugar Association or as the representative of the American Sugar Cane League?

Mr. BOURG. For both of them.

Acting Chairman SAYRE. Then I understand both of them will file written briefs with the Committee?

Mr. BOURG. Yes, Sir.

Acting Chairman SAYRE. Will you have a representative in the Philippines who will do that, Mr. Bourg, or where will the briefs be filed?

Mr. BOURG. We do not plan to have a representative there, but we would like to have permission and an opportunity to present our views if proposals or regulations or plans are submitted which we feel we would like to comment upon.

Acting Chairman SAYRE. As I understand it, you will file a brief here in Washington?

Mr. BOURG. Yes, Sir; we are asking for the right to do that, Mr. Chairman.

Acting Chairman SAYRE. Of course, we will be very glad to have you file a brief up until the time the Committee leaves for the Philippines. Then if you desire to file a brief out there I take it you will do—What? Will you mail it from here to us there or will you have some representative out there?

Mr. BOURG. We have no definite plans at this time. Our request is based upon this fact, that we would like to be heard on any proposal or recommendation that is made. So far we know of none that has been made, but we know that certainly in Manila some will be made with reference to sugar, in which we are particularly interested.

Acting Chairman SAYRE. The Committee will be glad to have you file a brief before the Committee at the time of the Philippine hearings within the time allowed for the filing of briefs out there, or you may file a brief here before the Committee leaves, if you desire.

Mr. BOURG. But unless we were personally represented in Manila the recommendations that are made at that hearing will not be available to us in time to prepare a brief.

Acting Chairman SAYRE. Obviously the Committee must set some date beyond which the time for filing briefs will be closed, so that the Committee can get to work studying these various recommendations, briefs, and so on. What I am suggesting is that we would be very happy to have you file all of the information you desire to file, either in Washington up to the time of the closing of the period for the filing of briefs, which is July 10th, or else file a brief out in the Philippines up to the date when the time for filing briefs will be closed there. Obviously there must be some fixed date both in the case of Washington and in the case of the Philippines. Otherwise the Committee would never be able to commence the study of all the briefs. I take it that is quite obvious.

Mr. BOURG. Yes, Mr. Chairman.

Acting Chairman SAYRE. We would be very glad to have you file a brief up to those two dates, and in either one of those two places.

Mr. BOURG. But I would like to reiterate that we have before us now, so far as we know, no specific recommendation or proposal on the part of the Philippine industry or anyone interested in the sugar problem. At this time we have no recommendations of our own to make; but we would like to have that opportunity.

Mr. Chairman, I feel it is not impertinent to suggest that the Committee would like to know our views on any proposal that is submitted by persons having a different point of view.

Acting Chairman SAYRE. Of course, so far as the Committee is concerned, so long as the Committee is functioning it is always glad to



hear the views of interested persons. But so far as the actual filing of a brief is concerned, we have to fix certain dates. After those dates the Committee will not close its ears to any information. The Committee will be glad, through its chairman or otherwise, to hear the views of interested persons right up to the very end of the Committee's work, although naturally the Committee will have to fix a time beyond which it will set to work studying such briefs as are in up to that time.

Do I make myself clear?

Mr. BOURG. Yes, Mr. Chairman.

Mr. A. M. LOOMIS. Mr. Chairman, I am scheduled to appear tomorrow, but this is the first time this matter seems to have come up and there is a point that I would like to mention while it is fresh in the minds of the members of the Committee.

In appearing in these hearings, as we have, everyone is handicapped by not knowing what is in the briefs which have been filed. In other words, the smart thing to do in this hearing is to do as several others have done. They have said, "We have presented a brief and do not care to discuss it orally." Therefore, it goes into your archives and those of us who may be opposed to what is in those briefs have no way of knowing what is in them.

I want to suggest that, while the Committee remains in Washington or while the briefs which have been presented remain in Washington, they may be made public so that I, for instance, may come to the office of the Committee and inspect the briefs which have been filed by others interested in the same subject that I am interested in.

Acting Chairman SAYRE. The Committee has already considered that matter and will give it further consideration. The Committee has already taken into consideration the thoughts which you have suggested. We thank you very much for bringing it to the attention of the Committee.

The next witness before the Committee will be Mr. George Wilson, representing the National Beet Growers' Association. Is Mr. Wilson present?

(No response.)

If Mr. Wilson is not present the Committee will be glad to hear Mr. Ellsworth Bunker, representing the United States Cane Sugar Refiners' Association.

Mr. H. BEACH CARPENTER. Mr. Chairman, Mr. Bunker is out of the city and I have been asked to appear in his stead.

Acting Chairman SAYRE. Then we will be glad to hear from you, Mr. Carpenter.

STATEMENT OF MR. H. BEACH CARPENTER, REPRESENTING THE UNITED STATES CANE SUGAR REFINERS' ASSOCIATION

Mr. CARPENTER. My name is H. Beach Carpenter, and I am representing the United States Cane Sugar Refiners' Association. The comments which I propose to make, Mr. Chairman and Gentlemen of the Committee, are intended, of course, to amplify the written statement filed<sup>1</sup> and to be filed by our association.

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.

After the Philippines attain their independence, we ask that the duty on Philippine refined sugar be made as high as that on refined sugar from foreign countries in general and at least 50 cents a 100 pounds higher than the duty on a corresponding quantity of Philippine raw sugar, so as to provide reasonable tariff protection for United States refiners against the much lower labor, tax, and other costs of the Philippine refiners; or, if quotas of any kind are then in effect on sugar, we ask for the same reason that the quota on Philippine refined sugar be fixed at zero.

If any part of the program of trade relations prescribed in the Philippine Independence Act is to be modified, effective prior to independence, we ask that an earnest effort be made to include in such modification the same kind of protection against Philippine refined sugar that we have just asked for with respect to the period after independence, and that in no event should the refined-sugar quota prescribed in the act be increased, or the refined-sugar export taxes provided for in the act be relaxed.

While United States refiners are paying common labor in many instances as high as 65 cents an hour as a minimum, unskilled laborers in Philippine sugar centrals are scarcely receiving this much in wages for a full day's work of from 8 to 12 hours.

According to the Tariff Commission's Report No. 118, second series, page 50 (1937), unskilled labor in Philippine sugar centrals receives a minimum wage of 5 cents an hour, while even oilers and weighers receive only from 60 cents to \$1.25 a day. According to a Department of Commerce report in 1934, adult-male labor in agricultural districts received daily wages in 1933 averaging 26 cents a day.

It should be too apparent to require argument that United States refiners and their well-paid workmen are entitled to protection

<sup>1</sup> See vol. III.

against a large influx of refined sugar made by Philippine labor receiving but a small fraction of the wage rates paid by refiners in this country.

The continued growth and encouragement of industrialization in agricultural tropical countries, with their cheap labor costs and their additional advantage of much lower taxes, are a matter of vital concern to labor and industry in countries such as the United States, with its far higher wage rates and living standards, all dependent in substantial degree on a large volume of output by its industries. This is of great importance, not only in our relations with foreign countries in the Tropics but with our own territories and possessions.

Filipino workmen have living standards far different from those of workmen in United States sugar refineries.

The Philippine Islands are located in the Torrid Zone, only about 500 miles from the coast of Asia.

According to the Tariff Commission's Report No. 118, second series (1937), the major part of the population is Malayan in type.

A Department of Commerce report published in 1934 states the great majority of industrial workers in the Philippines are Chinese.

Literacy is estimated at 50 percent, and it is reported that less than one third of the population can read or understand English.

In 1932 the *per-capita* annual income was estimated at only \$50. Permitting well-paid workmen in United States refineries to be thrown out of work because they cannot compete with Filipino labor of this type is unfair to them and to the refineries which employ them.

As I say, it is estimated that 30 percent of the population can read or understand English, although it was almost 40 years ago that they came under our flag.

Reducing or eliminating shipments of Philippine refined sugar to this country will not only increase the volume of United States refineries now operating at about 60 percent of capacity, due largely to tropical competition, but will increase the business of and employment offered by other United States industries which furnish coal, oil, cotton goods, lumber, paper, and other supplies and services to United States refiners.

Limiting the Philippines to sending their sugar here in raw form to be refined by American workmen in the United States refineries would have but a slight adverse effect on labor and industry in the Philippines. The Philippines are far from being a one-crop country. In 1934 over 10 times as much land was used for raising rice, coconuts, corn, abaca, bananas, and tobacco as was used for raising sugar-cane.

Out of a total population estimated in 1932 at 13,636,000, the entire Philippine sugar industry employs only some 330,000 persons, including 60,000 temporary employees, according to estimates made by

the Philippine Sugar Association in 1934. By far the greater proportion of these people are dependent upon the production of raw sugar, not refined sugar.

The refining of the 50,000 long tons of refined sugar which the Philippines are now permitted to send here duty-free furnishes full-time employment for less than 0.06 percent of the 330,000 persons engaged in the Philippine sugar industry.

The Tariff Commission points out in its Report No. 118, second series, page 48, that there are four sugar refineries in the Philippines but that two of these are operated in connection with raw-sugar centrals, of which, according to the same report, there were 46 in existence in 1935. The other 44 of these centrals contented themselves with carrying out the normal function of manufacturing raw sugar.

Plainly, limiting the Philippines to using the refined sugar which they make, to supply their domestic markets and such foreign markets as they can obtain elsewhere, will have no substantial effect on the economy or welfare of the Philippines.

Sales of agricultural and other products of the United States would be increased rather than reduced by having American rather than Philippine workmen refine sugar consumed in the United States.

Refining in the Philippines 50,000 long tons of sugar for United States consumption adds perhaps at the outside \$50,000 to the total payroll paid Philippine sugar-workers, a large part of which will in normal course be expended locally and for the products of countries other than the United States.

On the other hand, with the much higher wage rates prevailing in the United States refineries, restoring this 50,000 long tons to their volume, after Philippine independence, would add at least \$200,000 to the wages received by their workmen, on the basis of present wage rates, and practically all this amount would be expended for United States products, including agricultural products.

In any event, as long as the Philippines are permitted to sell their raw sugar in the protected United States market at prices far in excess of what they could get for it elsewhere, it is unfair to permit them to displace United States refineries and their workmen by sending large quantities of refined sugar here.

The United States Tariff Commission in its Report No. 118, second series, page 40 (1937), estimates that the United States in 1935 paid some \$44,800,000 more for sugar sent here from the Philippines than it could have bought identical sugar for elsewhere in the world market.

We estimate that subsidies of this kind which United States consumers and taxpayers have in effect paid to Philippine sugar-producers during the last 10 years have aggregated \$425,000,000, including benefit payments under the Jones-Costigan act.

There could be no possible justification for the Philippine sugar industry continuing to enjoy subsidized prosperity at the expense of the public in this country and at the same time driving continental refineries and their workmen into a state of idleness.

The glut of sugar in the United States market, which brought about the restriction program of the Jones-Costigan act and of the Philippine Independence Act, was caused largely by the inordinate expansion of sugar-production in the Philippines.

From 1924 to 1933, the year before the Jones-Costigan act became effective, Philippine production of sugar had gone up 206.45 percent, as contrasted with Puerto Rican sugar-production of 86.14 percent, and United States domestic cane, 62.76 percent, United States beet, 53.43 percent; and Hawaiian production had gone down 50.95 percent—all of these being plus figures—as contrasted with a decline in Cuban production during this period of 50.95 percent.

This increase in Philippine sugar-production was accompanied by a great increase in shipments of refined sugar from the Philippines to continental United States from only 2,647 long tons in 1925 to 61,752 long tons in 1933.

The salutary move made in the Jones-Costigan act and the Independence Act to limit shipments of refined sugar from the Philippines should not be undone and should not be permitted to send refined sugar into this country after independence. There is ample precedent for imposing a substantial tariff on Philippine refined sugar.

American occupation of the Philippines took place in 1898, but Philippine goods entering this country prior to March 8, 1902, paid full duty. From then until 1909, articles grown or produced in the Philippines were required to pay our full duties, minus 25 percent.

During all of this period from 1898 to 1909 a substantial differential existed between the duty applicable to a pound of Philippine refined sugar and the duty applicable to enough Philippine raw sugar to make a pound of refined sugar in this country.

This tariff protection for United States refineries was abandoned in 1909, as a part of a general program for free trade with the Philippines, although it was not until 1913 that the quantity of Philippine sugar which could enter this country duty-free became unlimited under new legislation.

Now that the Philippines are to become independent, there is no sound reason why tariff protection against all their refined sugar should not be restored for the benefit of United States refiners and their workmen.

There is nothing in the recently negotiated world sugar agreement to interfere with protecting United States refiners and their work-

men against inroads of Philippine refined sugar after Philippine independence.

It is true that, under article 9 of this agreement, if the Philippine refined quota of 50,000 long tons were to be reduced, the United States would be obligated to permit foreign countries to export to the United States a net quantity of sugar equal to this reduction.

However, we are not proposing that the Philippine refined quota be reduced below 50,000 long tons prior to independence, and the world agreement is to continue in effect for only five years, or several years short of the date set for Philippine independence.

On the other hand, the world agreement aims to open up new outlets for Philippine sugar to supplant her United States markets by providing that the Philippines will be entitled to 4 percent of any additional export quotas which may be allotted to signatory countries owing to increased world consumption or other causes.

As a matter of national defense, it is unwise for the United States to depend on the Philippines for any substantial quantity of its refined-sugar supply. It would be impossible to assume safe passage for Philippine refined sugar, perhaps urgently needed in this country at the time, in the event of a major war in the Pacific. Refineries there, unlike those in the United States, could depend on only one source of raw-sugar supply, that is, the Philippines themselves; and the Philippine raw-sugar crop would always be subject to possible failure due to war, civil disturbances, or other causes.

Other leading countries throughout the world follow the traditional policy, departed from only in recent years by our country, of leaving to the Tropics the production of raw sugar and retaining the refining of it in the homeland.

Great Britain, since the World War, has doubled the size of her home cane-sugar-refining industry, amply protected by tariffs even against refined sugar from her own dominions and colonies. Japan, after making a world survey, developed raw-sugar production in her tropical island of Formosa, but arranged to have the refining of this sugar done in the homeland. Holland protects her home cane-sugar-refining industry by tariffs even against sugar refined in her own tropical areas, including Java and Surinam. Portugal pursues the same colonial policy. France looks to her home refineries for her supply of refined cane sugar. Canada does likewise.

Even apart from the unfairness of leaving the United States long-established cane-sugar-refining industry exposed to attack from foreign and colonial sources employing lower-cost labor, our country should as a matter of assuring its own welfare, in war and peace, reestablish its traditional policy of encouraging the maintenance of a strong home cane-sugar-refining industry.

Mr. ROXAS. You said in your statement that the majority of the industrial workers in the Philippines are Chinese.

Mr. CARPENTER. Yes, Sir. That was taken from a Department of Commerce report which I have here. This is a mimeograph or multi-graph report entitled "Special Circular No. 303, Division of Regional Information", published by the Department of Commerce, Bureau of Foreign and Domestic Commerce, under date of July 1, 1934; and on page 7 of this pamphlet the following is stated:

The great majority of industrial laborers are Chinese, whose wage scale is lower than that of the Filipino or other Oriental.

Mr. ROXAS. And it had reference to what industry?

Mr. CARPENTER. This is apparently talking about industry in general. It does not refer specifically to sugar.

Mr. ROXAS. With all due respect, Mr. Carpenter, to the authors of that circular, I wish to make of record the fact that I do not believe that there is 1/1000 of 1 percent of Chinese laborers in industries in the Philippines. And I believe I am safe in saying that there is not a single Chinese citizen who is employed as a laborer in the sugar industry.

Mr. CARPENTER. I am glad to know about that, Sir. I had only this authority for that statement.

Mr. ROXAS. You stated that the sugar industry in the Philippines is largely to blame for glutting the American market with sugar, and you submit evidence that it increased from 1924 to 1934, if I remember the figures correctly.

Mr. CARPENTER. It was through 1933.

Mr. ROXAS. But it was 206 percent. Did you take into consideration the fact that before the United States came to the Philippines the Philippines were already producing almost 400,000 tons of sugar which we exported to China and other markets, and some to the United States?

So if you take those figures into consideration rather than the figures for 1934, isn't it a fact you would find that in almost 40 years, or, in other words, from 1897 or 1895 to 1937, our production increased by over 100 percent?

Mr. CARPENTER. Of course, Mr. Roxas, it was necessary to take some test period, and it seemed to me that perhaps it would be fairer, not in order to make out a good case but in order to have the figures related to a period somewhat immediately in the past, to take a representative period—although perhaps this period was not representative—immediately preceding the legislation designed to correct this situation.

I think all of us agree that the emergency was due largely to the glutting of this market with large quantities of sugar from within our tariff wall.

Mr. ROXAS. Another important fact you have cited is that Cuba had to reduce its production by over 40 percent in 1934 and 1935; but you have failed to state by how much the Philippines had to reduce its production in order to comply with the quota established for Philippine sugar. I might state that in 1934 Philippine production went up to about 1,400,000 tons, and the quota established in the Independence Act was 850,000 long tons. So that the reduction in the Philippines is comparable and, if possible, more drastic than that which took place in Cuba.

Mr. CARPENTER. May I add a word there, Mr. Chairman?

I should say, perhaps, that we as refiners are principally interested, naturally, in the refining side of this picture; and I only took the liberty of bringing in figures as to expansion in raw-sugar production because of their having some relation, perhaps, to the expansion in refined-sugar shipments to this country which occurred simultaneously.

Mr. ROXAS. Is it not a fact that the Philippines were exporting more than 50,000 tons of the refined sugar into the United States before the Independence Act?

Mr. CARPENTER. It is.

Mr. ROXAS. Do you have the figures of the exports?

Mr. CARPENTER. Yes, Sir. The United States receipts of Philippine refined sugars in 1933 were reported at 61,752 long tons.

Mr. ROXAS. The refineries in the Philippines have a larger capacity to produce refined sugars in excess of 61,000 long tons. Have you any information on that?

Mr. CARPENTER. I understand they have.

Mr. ROXAS. Who owns the Philippine sugar refineries? What capital established that industry there?

Mr. CARPENTER. I am sorry to say I do not know. I only know in general about the ownership of Philippine centrals. Of course, as I have pointed out, in this Tariff Commission report two of these Philippine refineries are said to be adjuncts of raw-sugar centrals.

Mr. ROXAS. Is it not a fact that the larger proportion of the capital investment in refineries in the Philippines is American?

Mr. CARPENTER. I don't know.

Mr. ROXAS. And that any profits of the industry go to American capitalists rather than to the Filipino investors?

Mr. CARPENTER. I don't know; that is, I do not have information on that, I am sorry to say.

Mr. WARING. I would like to refer to the brief which you have been kind enough to submit to the Committee. I notice in that that you mention the amount permitted to come in, that is, the amount of refined sugar for direct-consumption sugar permitted to come in under the Jones-Costigan Sugar Act, as 80,214 short tons, raw-value.



It is true, is it not, that the quantity of refined sugar permitted to come in is governed by the Independence Act?

Mr. CARPENTER. In practice it is.

Mr. WARING. 50,000 long tons?

Mr. CARPENTER. In practice it works out that way; yes, Sir.

Mr. WARING. That, converted into short tons, raw-value, is roughly 59,920 short tons, raw-value. Since you have said that they shipped 61,752 long tons in 1933 it would be correct, would it not, to say that they are now operating on a considerably reduced basis?

Mr. CARPENTER. Well, on your own figures, Mr. Waring, that would be a rather slight reduction, wouldn't it; that is, using your figures as expressed in long tons?

Mr. WARING. Your figure in 1933 was 61,752 long tons?

Mr. CARPENTER. Yes, Sir.

Mr. WARING. My figure was short tons.

Mr. CARPENTER. That is true. It is a rather substantial reduction.

Mr. WARING. It is a rather substantial reduction, is it not?

Mr. CARPENTER. Yes, Sir.

Mr. WARING. Moreover, the 80,000 which you mention in your brief would never have been shipped?

Mr. CARPENTER. That is true.

Mr. WARING. And the restriction now in force is only 60 percent, or thereabouts, of the amount permitted under the Jones-Costigan act. I mean the restriction now in force under the Independence Act.

Mr. CARPENTER. I have not figured that out. I should think it would be a larger proportion—wouldn't it? It is 50/66, roughly.

Mr. WARING. The amount you mention in the brief is 80,000 short tons, raw-value, and the limitation fixed by the Independence Act is 59,520. For rough-computation purposes, it would take 80,000 and 60,000— Well, it would be about 70 percent.

Mr. CARPENTER. I happen to have the figures here in long tons, I know that the quotas were in long tons; and these were the original quotas in long tons for 1934, 1935, and 1936—66,000-odd tons for each year. I assume that the way to figure that would be to take the proportion that 50,000 long tons is of 66,000 long tons.

Mr. WARING. I was working on the short-ton basis.

Mr. CARPENTER. The proportion would be the same.

Mr. WARING. The present limitation is approximately 75 percent of the limitation fixed in the Jones-Costigan act.

Mr. CARPENTER. However, I might add that the 1933 receipts represented a considerable increase over the years immediately preceding. For example, the receipts of Philippine refined sugar in the United States during the year 1932 were reported as 50,309 long tons; in 1931, 32,009 long tons; in 1930, 25,197 long tons; and in

1929, only 8,396 long tons. There had been a very marked increase in the shipments of Philippine refined sugar to continental United States between 1929 and 1933. They had increased about eightfold during that period.

Mr. WARING. But they are now restricted to 50,000 long tons.

Mr. CARPENTER. In practice, yes; although the Jones-Costigan act and the Independence Act quotas fixed under them nominally permit them to ship more.

Mr. WARING. But they could only ship the larger quantities if they paid the full duty.

Mr. CARPENTER. That is correct.

Mr. WARING. Did I understand from your statement and from the brief that you are objecting to permitting any refined sugar to come in after independence, even though it were limited by quota and paid the full rate?

Mr. CARPENTER. We are somewhat at a loss to define our own position on that, Mr. Waring, because we are dealing with so many variables here. For one thing, we don't know what the full duty may be at that time.

Mr. WARING. None of us does.

Mr. CARPENTER. We don't know whether that will afford us adequate protection as against refined sugar from other countries. I should be quite frank, perhaps, in saying that we do not believe that Philippine refined sugar should enter this country, and that desideratum of ours we believe should be accomplished by whatever means seem appropriate, whether through tariff action or through the imposition of quotas, or both.

We do not believe that the refineries in this country and their workmen should be called upon to compete with refined sugar from an area whose costs are, and very likely will continue to be, so much less than the costs to refiners in this country, due particularly to lower labor and tax rates in the Philippines.

Mr. WARING. Your competition would be very limited, would it not, if the limitations were restricted by quota, assuming a reasonable quota?

Mr. CARPENTER. Our principal problem, Mr. Waring, is this. Sugar-refining, however, to be conducted effectively and efficiently, must be done on a large scale. We have lost in recent years a very large proportion of our volume, which has increased our unit costs very substantially. We have lost this large volume for a number of reasons, in the first place, because of the expansion of the beets. We raise no issue on that point. We simply state it as a fact.

The second cause has been the great decline in exports of refined sugar. Our exports of refined sugar, which in the years following

the war had become extremely important to us, have now dropped off to almost nothing.

Another cause, of course, and a very important cause, has been the increase in the importations of tropical refined sugar.

Of course, the addition of 50,000 long tons of volume to our melts does not sound very great when stated in that way. However, when looked at in another way it is of considerable importance. For example, that represents, of the total consumption a year, the consumption on an average of 1,000,000 or 1,100,000 persons in this country. Very likely that particular consumption, if it were not supplied by the Philippines, would be supplied not by all of the United States refineries but by refineries located in the particular areas where that sugar could be most cheaply marketed in this country from the transportation standpoint.

So while if we do not have that 50,000 tons restored to us we cannot contend that it would result in putting us out of business, nevertheless it is a serious handicap to us not to have it, and its loss was a serious handicap.

Mr. WARING. In the brief there is a statement that is not quite clear to me, and I wondered if perhaps you could clarify it here. The sentence reads as follows:

The cane-sugar-refining industry is the only national industry in the United States having foreign competition, actual or potential, which does not have protection.

That is what I do not quite understand.

Mr. CARPENTER. I am not clear as to whether you question the propriety of that statement.

Mr. WARING. I do not understand it. As I understood the situation, you were protected to a certain extent by duty and you were protected to a certain extent by quotas which limit the amount of refined sugar which may come in.

Mr. CARPENTER. First, as to duties, Sir; of course, as to the principal importer of refined sugar into this country, namely, Cuba, we not only have no duty protection but we have minus-duty protection; that is, the Cuban refiner sends his refined sugar to this country for a duty slightly lower on 100 pounds of refined sugar than we United States refiners must pay on enough raw sugar to make 100 pounds of refined sugar here. The Cuban refiner, due to an error in the Smoot-Hawley act of 1930, is actually given a tariff premium in our market. That situation does not obtain with respect to foreign countries other than Cuba; and in practice there are but slight importations of refined sugar from foreign countries other than Cuba. Of course, there is no duty applicable to raw or refined sugar coming to this country from Puerto Rico, the Virgin Islands, and Hawaii.

As to the refined sugar coming here from the Philippines under the Jones-Costigan act, of course, we have the tariff protection as to an excess over the 50,000 long tons brought in during any one year, and we have the export-tax protection beginning in 1940.

As to quota protection, perhaps that statement to which you refer was somewhat ambiguous. It is true that the imposition of quotas under the Jones-Costigan act has been extremely helpful to the domestic refiners in curtailing or, perhaps I should say, ending for the moment, or checking the great increases in the influx of refined sugar into this country from the tropical areas. In the case of Cuba the quotas reduced somewhat the largest amount of refined sugar previously sent to this country by Cuba.

When looked at from another standpoint, however, these quotas have this effect: they practically assure these lower-cost tropical producers of refined sugar an assured position in this market for the amount of refined sugar which they were permitted to bring in here under the quotas. Whether we call that a monopoly in this market or not, the fact is that they are permitted to sell here up to the full amount of their quota; and in practice we can't buy the raw sugars with which to make refined sugar to try to take away the markets that these tropical areas are assured of under the Jones-Costigan act.

Perhaps I should state that a little differently. I do not mean to say that the act itself or the regulations or quotas formulated under the act say that willy-nilly the full quotas of refined sugar must be brought in. But with their substantially lower labor and tax costs, the way it gives them an advantage in practice is that all or substantially all of their refined quotas do come here and, *pro tanto*, it reduces the amount of raw sugar that we can buy with which to go out and try to take back or take away the market.

Mr. WARING. Under the quota system, however, the quantity of refined sugar that is coming into the country is somewhat reduced over past experience.

Mr. CARPENTER. It is.

Mr. WARING. I notice in your brief that you request that nothing be done by this Committee in connection with the export tax to be applied. So long as the quantity of refined sugar permitted to enter the United States is limited to 50,000 tons by the Independence Act, what interest does your industry have in whether or not export taxes are applied?

Mr. CARPENTER. Well, consistent with what I have said, Mr. Waring, we should like to discourage the shipment of Philippine refined sugar to continental United States. If the eventual imposition of an export tax of 25 percent of the United States full duty would in the tenth year deter some of that Philippine refined sugar from coming into this country we should like to have that accomplished.

Mr. WARING. Then your thought is that the export tax might have the effect of reducing further the quantity of refined sugar below 50,000 long tons?

Mr. CARPENTER. Yes, Sir.

Mr. EDMINSTER. Mr. Carpenter, you stated that you favor excluding refined sugar from the Philippines. Does that mean that you are in favor of a policy in general of so arranging our tariff structure as to permit no importation of refined sugar from any foreign country?

Mr. CARPENTER. It does. I think we should follow the salutary principle followed by Great Britain, Japan, Holland, and other leading foreign countries, under which no refined sugar, or, at the most, extremely limited quantities of refined sugar, can enter the homeland from tropical sources.

Mr. EDMINSTER. If such a policy should be followed, would it not then become of vital importance from the standpoint of our domestic policy that there should be keen competition in the refining industry in the United States?

Mr. CARPENTER. I think that goes without saying. But it is our position that that keen competition exists.

Mr. EDMINSTER. That is what I was going to ask next. To what extent does that keen competition exist?

Mr. CARPENTER. It is our experience that the bitterest kind of competition exists in the sale of refined sugar in this country. There is not only keen competition at all times, according to my observation, among the 16 or 18 separate sugar-refining companies which make refined sugar in this country, but there is also competition, which I understand is very severe, among the numerous beet factories which make and market refined beet sugar, and among the Louisiana and Florida plantations which make so-called "plantation granulated sugar," and competition also to a large extent with these three groups among each other and with each other. ~

This competition was severe enough to keep down the price to consumers of sugar in this country, that is, to reasonable levels above the current price of raw sugar, before tropical refined sugar ever entered this country.

As a matter of fact, tropical refined sugar, according to my observation, does not as a rule ever take the initiative in bringing a reduction in prices of refined sugar to consumers in this country. I will admit that I do not know particularly about Philippine refined sugar, but I understand that it is marketed largely in areas which I am not acquainted with. But as to tropical refined sugar from other sources, the typical situation is for marketers of that sugar to attach themselves like leeches to the price structure arrived at by give-and-take in competition among the three groups of domestic sellers of refined

sugar and to lower their prices or raise their prices only when that is necessary in order to follow at a differential behind the price named by domestic sellers.

Acting Chairman SAYRE. Are there any further questions of Mr. Carpenter?

Colonel McDONALD. What percentage of the total United States consumption of refined sugar does that 50,000 tons admitted under the Tydings-McDuffie act amount to?

Mr. CARPENTER. Colonel, do you have in mind only cane sugar or do you want to include beet sugar also?

Colonel McDONALD. All kinds.

Mr. CARPENTER. I will let you do your own figuring, if you don't mind. I am not a very good figurer myself. But roughly—and Mr. Robbins can check me up if I am wrong—the consumption of refined sugar in this country is about 6,500,000 tons.

Mr. ROBBINS. Short tons, raw-value.

Mr. CARPENTER. Yes; short tons, raw-value. If you convert the 50,000 long tons into short tons you will get your proportion as between the two.

Colonel McDONALD. Between 1925 and 1933 you state the cost of production of Philippine refined sugar decreased by 250 percent?

Mr. CARPENTER. No, I did not. I think you misunderstood me. I was talking about Philippine sugar in general. That was Philippine production.

Colonel McDONALD. Total production?

Mr. CARPENTER. Yes.

Colonel McDONALD. The raw and the refined?

Mr. CARPENTER. Yes, Sir.

Colonel McDONALD. Have you figures to show the prices to the consumers in the United States during that period of time?

Mr. ROBBINS. The answer to the Colonel's question would be that it was less than 1 percent.

Colonel McDONALD. That is what?

Mr. ROBBINS. That is, Colonel, the import of refined sugar from the Philippines was less than 1 percent.

Colonel McDONALD. Now, the second question.

Mr. CARPENTER. I think I have it, Colonel. I think that is only in table form or in graph form. But this graph shows raw- and refined-sugar prices in the United States from 1908 through 1936.

Colonel McDONALD. And will you submit that for the record?

Mr. CARPENTER. Yes; I shall be glad to do so.

(The chart referred to is included in the official file copy of the transcript as p. 275; this print, p. 130a.)

Acting Chairman SAYRE. Are there any further questions any member wishes to ask Mr. Carpenter?

If not, we want to thank you, Mr. Carpenter, for your kindness in appearing before the Committee.

The last witness to appear before the Committee this morning will be former United States Senator Harry B. Hawes, who will speak on behalf of the Philippine Sugar Association.

### STATEMENT OF THE HONORABLE HARRY B. HAWES, ON BEHALF OF THE PHILIPPINE SUGAR ASSOCIATION

Mr. HAWES. Mr. Chairman and Gentlemen of the Committee: It is the intention of the Philippine Sugar Association to present its case in the Philippines, where the actual development of sugar occurs and where the capital is invested.

However, I do want to make a request of the Committee, Mr. Chairman, and that is that we be permitted to read all briefs filed with the Committee, for the reason, as developed here this morning, that textiles get into the subject of sugar occasionally, and boots and shoes may, and other commodities, and we would like to know what the opinions of these gentlemen may be on that particular subject; and if this permission is not granted we would have no way of knowing their opinion.

In addition, after all, Congress, I hope, will review with approval the report of this conference; and the custom in Congress is to make all of its documents public.

I was interested in Mr. Carpenter's statement this morning, but I thought he rather overemphasized the Philippine situation in regard to refined sugar.

I am not an expert, but a gentleman just handed me a memorandum in which the statement is made that we bring into the United States each year 659,000 tons of refined sugar. And if Mr. Carpenter's theory is carried out, it will stop 440,000 tons of sugar coming from Cuba, some 30,000 tons coming from Hawaii, and 129,000 tons coming from Puerto Rico. Yet we are singled out with our little 50,000 tons.

And even the Chinese are introduced into the argument, although we know that there are from 14,000,000 to 18,000,000 Filipinos and approximately 60,000 Chinese in all the Philippine Islands. That is one reason why we would like to read these briefs, Mr. Chairman, because things like that creep in, and we would like to know the answer.

I direct the attention of the Committee to two facts.

When the original Independence Act was passed we arrived at limitations, fixed at that time on what was called the *status quo* on all commodities.

A few years later, before the Independence Act was actually ratified, a new kind of cane was introduced into the Philippine Islands—the same kind that was planted and produced in Java, Puerto Rico, and Cuba—and without increasing the acreage the increase in the crop was enormous, going so high in 1934 that the crop in that year approximated 1,500,000 tons of sugar.

But since that time the American Government has introduced an entirely new theory for the control of sugar, that is, the Jones-Costigan act, placing on a quota basis all areas adjacent to and formerly doing business with the United States.

It might be well to keep in mind the fact that after four or five months of earnest discussion of a voluntary character the Philippines were allotted, as I recall, over 1,000,000 tons of sugar. Since that time, either by specific designation of the Congress or by the ruling of the Department of Agriculture, coming from its intelligent students and from the sugar administration, the Philippine Islands were always allotted under all these agreements, arrived at either by the Department of Agriculture or by the action of Congress, over 1,000,000 tons of sugar. I think it went as high as 1,036,000 tons.

Recently the Philippine Government, in order to comply with the spirit of the Independence Act, endeavored to enforce some discipline in the Islands in regard to the Quota Act, and voluntarily by act of its Legislature curtailed production.

In a recent hearing on the new Quota Act we accepted not what the Philippines can produce, not what the United States Government said they could have produced, but we reduced our quota-basis to that prescribed in 1931, to 850,000 long tons or approximately 973,000 short tons—an absolute curtailment of more than 63,000 tons of sugar.

I cannot help but contrast that action with Mr. Carpenter's statement that he wants to take away the little 50,000 tons of refined sugar out of a total of 659,000 tons of refined sugar that come to our shores.

I may be getting away from the original thought, but when we consider other trade relations we cannot forget the fact that the Philippines today are under the sovereignty of the United States.

They cannot pass a law affecting customs, coins, or currency without the approval of the President of the United States. Their Supreme Court decisions are reviewable by our Supreme Court. They cannot pass a law in relation to their foreign trade. Every element of sovereignty is retained by the United States.

Mr. Chairman, I have observed in the last two or three years, since the Quota Act went on our statute books, that continental beets



and continental cane understand that under the quota system the sugar coming from the Philippines is limited. And they also understand that the American consumer requires 6,500,000 tons of sugar annually. So domestic beet and domestic cane must (at least at the present time) be supplemented by 4,500,000 tons of sugar coming from offshore—non-continental sugar. And of that amount the proportion coming from the Philippines, if divided under the quota system, would not prove to be a very attractive lure to any particular area.

Mr. Chairman, I do not desire to occupy your time unnecessarily; our expert is not here this morning: Mr. Rafael A. Alunan is absent from the city.

With your kind permission, extending us the privilege of finding out what boots and shoes think of sugar, and what textiles think of sugar, and possibly tobacco and some other commodities, which we can only arrive at after reading the briefs, we desire the privilege of examining all briefs and then presenting our case in the Philippines, where the capital is invested and the sugar is grown.

Acting Chairman SAYRE. Are there any questions by any members of the Committee?

Mr. WARING. Mr. Chairman, in regard to the matter of publicity which Senator Hawes and others have raised, the Committee has decided—and did so some days ago—to include the briefs in the stenographic record of the hearing, so that they will all be available together.

Mr. HAWES. That is fine, Mr. Waring.

Acting Chairman SAYRE. Are there any questions anyone would like to ask Senator Hawes?

(No response.)

If there are no questions to be asked, we wish to thank you very much, Senator, for appearing before the Committee.

The Committee will now adjourn until tomorrow morning at 10 o'clock.

(Thereupon, at 12:30 o'clock p.m., an adjournment was taken until Wednesday, June 23, 1937, at 10 o'clock a.m.)

#### Annex 1

#### VOLUNTARY LIMITATION OF SHIPMENTS OF JAPANESE COTTON TEXTILES TO THE PHILIPPINE ISLANDS<sup>1</sup>

The Japanese Ambassador called on Mr. Francis B. Sayre, Assistant Secretary of State, on October 11, 1935, and stated that the recently formed Association of Japanese Exporters of Cotton Piece Goods to the Philippine Islands will, for a

<sup>1</sup> Department of State *Press Release* of October 13, 1935.

period of 2 years beginning as of August 1, 1935, and provided there is no increase in the Philippine tariff on cotton piece goods, voluntarily limit imports of Japanese cotton piece goods into the Philippine Islands to a figure not to exceed 45,000,000 square meters annually.

This voluntary action on the part of the Japanese textile exporters should materially improve the position of American cotton textiles in the Philippines, since it will reduce substantially the quantity of Japanese textiles supplied to that market. The maximum established for Japanese shipments to the Philippines during each of the next 2 years, 45,000,000 square meters, can be compared with 59,790,000 square meters shipped during the 12 months preceding September of this year, and with a total of 56,356,000 square meters during the calendar year 1934.

The Islands are now importing cotton goods at the rate of more than 95,000,000 square meters annually, not more than 5 percent of this total coming from countries other than the United States and Japan. On a value basis, the United States will undoubtedly supply a much larger proportion than Japan during the next 2 years. It is anticipated, on the basis of available figures, that the value of imports from the United States under the new arrangement will be approximately twice the value of imports from Japan.

The Japanese cotton-textile interests, taking cognizance of the recent agitation, both in the United States and in the Philippine Islands, for increases in the cotton-textile schedule of the Philippine tariff, are voluntarily taking action regulating their shipments to the Philippine Islands in an effort to stabilize that market. It is believed that a careful consideration of all the factors involved will indicate that this action should prove beneficial to the cotton-textile industries of both the United States and Japan, without prejudicing the interests of the people of the Philippine Islands or in any way obligating the Philippine Government.

The Governments of Japan and the United States have found themselves in entire agreement upon this method of handling a situation which might otherwise lead to increasing conflict between their competing commercial interests. By their joint efforts to secure mutually satisfactory adjustments, the United States and Japan demonstrate their ability to solve the various economic problems which are of concern to the two peoples in a way that will conserve and safeguard the legitimate interests of each.

Textile markets in the Philippines, as elsewhere, are subject to seasonal variations and to various unpredictable influences. It is provided, therefore, that 10 percent of the maximum annual figure shall be flexible; that is to say, if importations into the Philippines of Japanese cotton-textile goods during the first year exceed or are less than the amount of 45,000,000 square meters, such excess or balance (in no case to exceed 4,500,000 square meters) shall be subtracted from or added to the allotment for the second year; and, further, that the semiannual volume of imports will not exceed 26,000,000 square meters in any one semester.

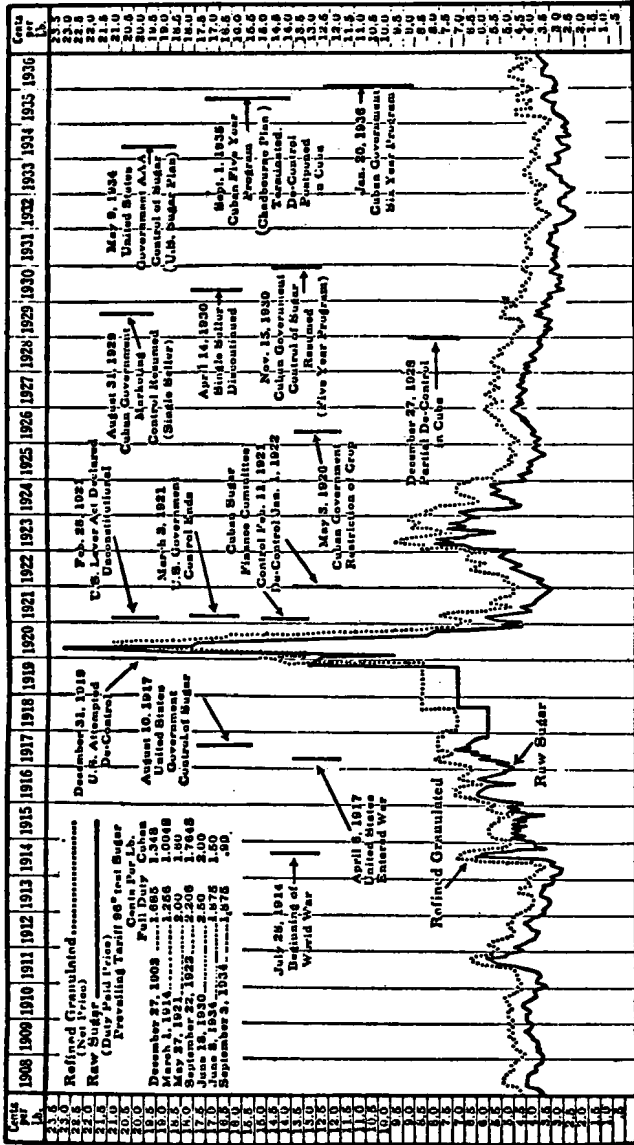
Imports into the Philippines of cotton goods from Japan, as well as from other sources, may vary to some extent month by month, but the voluntary annual limitation established by the Japanese exporters will permit average monthly shipments during the next 2 years of only 3,750,000 square meters, in contrast to an average of 5,000,000 square meters per month shipped during the year ending September 1, 1935.

In the calendar year 1934, Japan supplied, on a quantity basis, 52.7 percent of the Philippine market for cotton textiles, while American exporters supplied 40.5 percent. Consumption in the Philippines in the present year (1935) has fallen off to some extent, the decrease being due particularly to the restriction

of sugar-production. Importations of Japanese cotton textiles increased, however, in the first 8 months of this year, at the expense of American and European textiles, supplying in quantity 57.7 percent of the market as against 37.7 percent for American exports.

American textiles are sold free of duty in the Philippines, whereas imports from other sources pay a substantial duty. As a result of this protection and of consumer preference and other market factors, the value of American cotton cloth sold in the Philippines has been considerably greater than that sold by Japan, even when the quantity sold has been less. During the first 8 months of 1935, the value per square meter of American goods imported into the Philippines was twice as great as that of Japanese cloth, the total value of these imports from the United States during that period being \$3,277,000 as compared with a total volume of \$2,456,000 for imports from Japan, while the quantity imported from the United States was 24,790,000 square meters as compared with 37,973,000 square meters from Japan.

Prior to 1934, Japan supplied a much smaller share of the Philippine market for these products than did the United States, the Japanese furnishing 27 percent in the 4 years 1930-33, as compared with 57 percent from the United States. The arrangement announced today represents, therefore, an adjustment between the position of Japan in the Philippine textile market in the last 2 years and that held by her in the preceding years.



Raw and Refined Sugar Prices 1908-1936

Up to March 1, 1937, it will be observed that the sugar industry has been under Government control, either by the United States or Cuba, a total of 168 out of 236 months since August 10, 1917, or 71% of the period. The industry, furthermore, has been under the influence of de-control a large part of the remainder of the period. Prices are from Willst & Gray and do not include Processing Tax of 0.53 1/2¢ per pound, rebated value, in effect from June 8, 1934 to January 6, 1936

## PROCEEDINGS OF JUNE 23, 1937

HEARING ROOM, U.S. TARIFF COMMISSION,  
WASHINGTON, D.C.,  
Wednesday, June 23, 1937.

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 10 o'clock a.m.

*Present:*

The Honorable FRANCIS B. SAYRE, *Acting Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. LYNN R. EDMINSTER;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

Acting Chairman SAYRE. The next witness to appear before the Committee will be Mr. Micou.

### STATEMENT OF MR. C. M. MICOU, ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. Micou. Members of the Joint Preparatory Committee on Philippine Affairs: The parties and associations which have appeared before you to date have presented their viewpoints upon the effect of the economic provisions of the Tydings-McDuffie act upon their own particular businesses and certain broader considerations affecting general trade with the Philippine Islands. I understand that the Committee has commendably arranged to hold further hearings in San Francisco on July 21, 22, and 23, in addition to the hearings scheduled to be held in the Philippine Islands. These hearings offer an opportunity for each affected industry to be heard.

It is peculiarly the function of a national organization such as the National Foreign Trade Council, Inc., representative of all foreign trading interests in this country, to consider the trade with any particular country from the broad viewpoint of general policies on foreign trade affecting all countries. In this regard the National Foreign Trade Council, Inc., may be considered to bring to bear on the trade with the Philippines a fresh viewpoint, for that trade has for nearly 40 years been considered territorial rather than foreign trade. Only since the enactment of the Tydings-McDuffie act and its acceptance by the Philippine Legislature could Philippine trade be considered a natural concern of the National Foreign Trade Council.

I am sure that all those who have appeared before your Committee have fully appreciated the heavy responsibility and duty imposed upon you. The legislative record and the fact of your appointment considerably in advance of the final date fixed in the Tydings-McDuffie act emphasize that responsibility.

The significant fact in the legislative record is that despite the great pressure for political independence of the Philippine Islands, the Philippine Legislature, by Concurrent Resolution No. 46 (9th Legislature, 3d sess.), rejected the earlier Hare-Hawes-Cutting Independence Act 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.

It is quite apparent that the revised Independence Act, the Tydings-McDuffie act approved March 24, 1934, did not respond fully and completely to the desires of the Philippine people regarding future trade relations after independence shall have become effective on July 4, 1946. Section 13, pursuant to which this Committee has been formed, expressly recognized the necessity of formulating recommendations as to future trade relations between the Government of the United States and the independent Government of the Philippine Islands. The report of the United States Tariff Commission (No. 118, 2d ser., 1937) and the testimony now being taken by your Committee are eloquent of the necessity of more definite, specific, and satisfactory arrangements if the trade between the Philippine Islands and the United States is to be maintained. The fact that the revised Independence Act has been accepted by the Philippine Legislature shows the reliance which was placed upon your Committee to recommend, and the Congress of the United States and the Legislature of the Philippine Islands to adopt, measures really adequate to protect the trade relations between the United States and

the Philippine Islands, so as not to imperil 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.

Mr. Thomas, president of the National Foreign Trade Council, will direct his remarks in greater detail to the status, volume, and importance of trade with the Philippine Islands and the effect of termination of the virtual free-trade status now existing, subject to certain quota restrictions. It will be his province to outline the attitude of the National Foreign Trade Council and its members toward the questions of Philippine trade.

I now propose to discuss in their general aspects the three viewpoints from which the question of future Philippine trade may be regarded and whether they give rise to conflict.

The first viewpoint is that of the duty of the United States toward the Philippines. The course seems clearly marked.

Whether wisely or unwisely, when the 10-year period for equal treatment of Spanish trade stipulated in the Treaty of Paris expired, the Philippine Islands in 1909 opposed the extension to the Philippine Islands of the principle of free trade with the United States. Despite such opposition, the free-trade status was granted or imposed, according to one's viewpoint, and from the material aspect the results have been marked economic development.

It would be presumptuous to cite figures to this body of experts, but it will suffice to refer to table 3 of the United States Tariff Commission Report No. 118, second series (1937), showing a growth of Philippine exports from an average of \$46,000,000 in the period 1909-14 to an average of well above \$100,000,000 from 1919 through 1935. The significant facts shown in the Tariff Commission's table are that the percent of Philippine exports to the United States increased during that period from 43 percent to an average of nearly 80 percent, showing the increased dependence of Philippine trade upon the United States market.

Philippine imports from the United States have also shown substantial increases under the free-trade regime and a favorable balance of trade unbroken for a period of 13 years. It is significant that during this 13-year period of favorable trade balances, from 1923 through 1935, the favorable trade balance of the Philippine Islands with the United States alone has been greater than the favorable trade balance of the Philippines in its trade with all countries. This indicates that while the exporters of the United States may have a selfish interest in the maintenance of the purchasing power of the Philippine Islands, American exporters have not been the sole beneficiaries of the purchasing-power of the Philippines created by American purchases of Philippine products.

One important feature of the economic situation of the Philippine Islands, which the Tariff Commission report does not seem to bring out, is the proportion of Philippine production which goes into export trade and the relative dependence of the Philippine Islands upon its export trade. It is hoped that the Committee will obtain and publish authoritative figures on that point.

Figures are given for one important industry, the report showing on page 118 that approximately 80 to 90 percent of coconut products are exported and of these exports 75 to 85 percent in value go to the United States, a dependence upon United States markets for roughly 60 to 75 percent of one of the important products of the Philippine Islands.

From other data available it is apparent that it would be difficult to find within the United States a section of the country or even one particular industry so completely dependent as are the Philippine Islands and their principal products upon one foreign market.

As an illustration to bring home to the average American citizen the effect of the termination of the free-trade status as between the Philippine Islands and the United States, let us consider for a moment, 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. The effect upon the rest of the United States of subjecting Texas oil, meat products, and cotton to duty would not be nearly so severe upon the rest of the United States as would be the effect on production and values in Texas of depriving the State of the duty-free, competitive market which it now enjoys in the rest of the United States.

With this simple illustration it is 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 inures 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.

Without claiming generosity toward or the bestowal of favors by the United States upon the Filipino people, for the advantages of free trade have been mutual, we must recognize that the termination of free trade will harm both countries. From this viewpoint, therefore, it is clear that if the Filipino people, through their established



government, desire a continuance of reciprocal free trade, or a modification in the form of a preferential agreement, the United States, responsible as it is for imposing upon the Filipino people the free-trade status, would be derelict in discharging the responsibility which it assumed if it should deny a request to such effect if made by the Filipino people.

The second viewpoint from which future Philippine trade must be considered, is the possible effect of the continuance of free trade or preferential treatment of the Philippines upon the position of leadership which the United States has taken and the policies it has urged in removing trade barriers and permitting trade to flow in normal channels.

The very suggestion of reciprocal free trade or a preferential trade agreement suggests conflict with the position the United States has taken against so-called "preferential agreements" by other nations, particularly the preferences within the British Empire and the preferences which Japan is creating in Manchuria. The suggestion of conflict, however, is one which on analysis appears to arise more from the nomenclature adopted than from the import and effect of the arrangement or agreement considered.

To determine the real policies involved, it is necessary to examine their fundamental purposes and effect rather than their label.

The United States has consistently opposed governmental subsidies and other forms of dumping. The United States has consistently opposed exchange restrictions and clearing and compensation agreements, the effect of which has been to divert purchases of the restricting country from their normal suppliers to purchasers in countries which purchase from the country imposing the restrictions. Their net effect is ultimately to restrict trade and reduce purchasing-power.

The United States has consistently opposed preferential tariffs, the purpose of which was to divert trade from normal channels. In this classification fall the preferences within the British Empire created so shortly after the British departure from free trade to protection and the preferences which Japan is creating in Manchuria, diverting the trade of that country from the normal channels theretofore existing.

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 and the dislocation of trade, to oppose measures designed to divert trade as distinguished from those designed merely to preserve trade.

That the present administration had not been unmindful of these considerations is shown by the conclusion of a preferential trade agreement with Cuba, to whom the responsibility of the United

States can hardly be said to be as great as its responsibility toward the Philippines.

It is further shown in the reservations made in various recent trade agreements. 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 14 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 Salvadoran 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.

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. Such reservations, of course, cannot be considered as administrative sanction for a policy of mutual advantages or preferences, but merely as a commendable precautionary measure to preserve the right to accord the same.

The third viewpoint from which the questions of future Philippine trade may be considered, and one which we venture to discuss with some hesitation since it borders upon political rather than economic questions, is the leadership which the United States has asserted in granting independence to hitherto dependent peoples.

This viewpoint, of course, has its important economic aspects. If by abruptly terminating the free-trade status of the Philippines the action of the United States should result in economic distress to the Philippine Islands, the United States will leave a record of failure in its guardianship. If the United States, by abruptly terminating the free-trade relationship, causes serious dislocations of trade and leaves the Philippine Islands prey to the same trade-restrictive measures which it denounces—clearing and compensation agreements and other forms of trade restrictions to which economically dependent nations have been forced—it will have done much to thwart the fundamental policies toward which it has endeavored to lead.

If the United States furthers the policy that severance of economic relations should in every case follow political independence, the United States will have established a precedent which will militate against the granting of political independence by other nations to peoples dependent upon them. If, conversely, economic dependence is the inevitable concomitant of political dependence, a further incentive will be given to territorial conquest by nations with imperialistic ambitions.

Reviewing the three viewpoints from which the future of Philippine trade has been considered, it seems clearly apparent that if the Filipino people deem it advantageous to them, the responsibility of the United States toward them is such as to impose upon the United States a duty to accord continuing trade advantages to the Philippine Islands after the date set for independence, upon mutually satisfactory terms, to the extent necessary at least to maintain existing channels of trade; that regardless of the label placed upon the agreement necessary to give effect to this, the preservation of existing channels of trade and the avoidance of the creation of artificial trade barriers are entirely consistent with the fundamental policies of the United States and are to be sharply distinguished from preferential agreements the purpose and design of which is to divert trade from established channels and to create artificial markets for products; that economic independence need not follow hand in hand with political independence, but on the contrary, the imposition of economic independence where trade is in fact in a dependent status, will be a deterrent to the commendable movement toward granting political independence in other instances where also it may be highly deserved.

Acting Chairman SAYRE. I wonder if there are any questions that any member of the Committee would like to ask?

Mr. ROBBINS. Would you like to place in the record a brief statement of the nature of the National Foreign Trade Council and its functions?

Mr. MICOU. I think Mr. Thomas, the president of the Council, will be only too glad to do that. I think he plans to do it. It would come more appropriately from him.

Mr. WARING. Mr. Micou, do I understand that you are advocating a permanent preferential relationship?

Mr. MICOU. Not necessarily, Mr. Waring. I think the statement can be summarized by saying that we advocate what is necessary at least to preserve existing channels of trade. If, in the ultimate future that can be preserved on a non-preferential basis, as I understand it, the Council is taking no position opposed to that.

Mr. WARING. Would not the preservation of existing channels of trade lead to a multiplicity of rates, perhaps? I have in mind the fact that certain products from the Philippines may be able to stand

a certain percentage of a tariff barrier, but others could not at all. Did you have that in mind?

Mr. MICOU. From my scant knowledge of the situation I can't imagine that that would be the case. I am merely a lawyer and not a businessman. I had the impression, for instance, that the provisions for export taxes in the Tydings-McDuffie act are more or less arbitrary provisions which would apply unequally in ultimate effect to different industries. For instance, one might survive one year, but others might survive three or four years.

Mr. DOMERATZKY. Mr. Micou, you have endeavored to draw a distinction between certain preferentials on the part of European countries that serve to divert trade in connection with the anticipated or desired arrangement with the Philippines. I wonder if that distinction would apply to certain cases. For instance, I wonder if you know our textile trade in the Philippines is having great difficulty—I am referring to cotton textiles—in competing with the Japanese textile trade. It would be a little difficult for the United States, I think, to convince Japan that any further effort on our part to strengthen the position of American cotton textiles in the Philippines on a preferential basis would really be a movement for the preservation of trade; and Japan might claim, with some justification, that it is a movement to divert trade from the natural channels.

Mr. MICOU. In other words, you consider that trade in a state of flux rather than in a static state?

Mr. DOMERATZKY. Trade is very seldom in a frozen state; it always fluctuates or tends to do so.

Mr. MICOU. I can see exceptions to almost any principle. In fact, this very kind of argument, making a distinction regarding non-preferential policies generally, is an exception to a general principle.

On those particular industries I am sure Mr. Thomas will be in a much better position to express a view.

Acting Chairman SAYRE. Are there any questions that any member of the Committee would like to ask Mr. Micou?

(No response.)

If not, we thank you very much, Mr. Micou.

The next witness to appear before the Committee will be Mr. E. P. Thomas, chairman of the National Foreign Trade Council.

#### STATEMENT OF MR. E. P. THOMAS, PRESIDENT OF THE NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. THOMAS. Mr. Chairman: May I ask that the record show that I am president of the National Foreign Trade Council, Inc.

Mr. James A. Farrell is chairman.

The National Foreign Trade Council, Inc., and its affiliated association, represents approximately 500 of the leading exporters, foreign-trade banks, shipping companies, and other institutions, most of which are engaged in business with, or affected by our relations with, the Philippines. We come before this Committee, therefore, not in the interest of any specific product in Philippine-American trade, but in the national concern.

The National Foreign Trade Council, in an endeavor to secure specific information on the possible effects of Philippine economic as well as political independence, sent a *questionnaire* to a selected list of American exporters requesting information as to the general effect upon their business in the Islands if their products were subjected to a tariff similar to that imposed on foreign products. The firms circularized were also requested to express their opinion as to whether a preferential tariff would be necessary in order to enable them to maintain their business. The firms circularized represent manufacturers of chemicals, food products, machinery, pharmaceutical products, textiles, and miscellaneous products, as well as general export merchants. Of the replies received and tabulated, about 40 percent indicated the prospective complete loss of their exports to the Philippines, while 55 percent indicated that their sales would be considerably reduced. The balance of about 5 percent indicated that the application of duties would not affect their sales, although such sales would be considerably restricted through a decline in Philippine purchasing-power. There are three specific factors which will affect our exports to the Philippines in the event of a complete severance of trade protection under mutual tariff concessions. First, application by the United States of full tariffs against Philippine products would, of necessity, reduce both the value and volume of Philippine exports and bring about a corresponding decrease in Philippine purchasing-power to the consequent detriment of American goods; secondly, it would, through the increased cost of such goods, bring about a decline in the volume of American goods entering the Philippine market; thirdly, removal of all tariff preference on American goods would result in the complete loss or shrinkage of the Philippine market for many American products, owing to the inability of American producers to compete on equal terms in neutral markets with similar foreign manufacturers.

Another feature which is of considerable importance and with which the State Department is thoroughly familiar, is the vulnerability of a country placed such as the Philippines would be to the insistence of European nations for the negotiating of compensatory trade agreements. There are several examples where European countries have threatened to place an embargo on the products of a given country unless such country agreed to trade on a barter basis. Where

threats are not resorted to, European countries, and more specifically Germany, have outlined a program of increased consumption of the products of a given country. The general effect of such an operation 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 the normal consuming markets. Let us consider a possible case of Germany securing coconut oil from the Philippines. Germany would not pay for this coconut oil in currency of international circulation but would issue a credit exchangeable only for German goods. Germany could then dispose of the coconut oil in the United States and receive from American consumers the value of German exports to the Philippines. The American tariff on coconut oil, received through German sources, would not act as a deterrent to its entry to the same degree as if shipped directly by the Philippine producers, as any tariff would be taken care of through Germany's current subsidizing of exports, to which must be added Germany's gain through securing gold or its equivalent through the resale of the coconut oil. The foregoing is not imaginary, but is based on actual fact and occurrences in Germany's operations with other countries.

The present administration in Washington has recognized that world prosperity and international political and financial stabilization can only be secured through the untrammelled international exchange of goods. Any attempt to name at this time a specific date after which the Philippine Islands would be thrown upon their own resources would be, in our estimation, a most unnatural act on the part of the United States. It would be analogous to the situation of a parent specifying a date after which a son should depend exclusively upon his own capability to earn a living, irrespective of the child's complete dependency and inability to exist without adequate help.

This Government undertook the fiduciary responsibility for the economic sustenance of a group of people, now 15,000,000, and we cannot lay down this burden without sufficient reciprocal preference after giving them independence. Deprived of their present advantages and living conditions, they will revert in time to their status of 40 years ago. No matter what transition period might be fixed for effecting economic as well as political independence, no one can predict at this time what the conditions may be in 1946, and whether the Philippines will then be in a position to maintain an independent economic position without sacrificing many of the living standards to which its people have become accustomed and which may be solely maintained by preferential admission of their products to the United States markets.

The continued prosperity of the Philippine Islands is an important factor in the prosperity of the United States, as they rank ninth as a customer and seventh in our imports.

The Islands have a great future if sustained by preferential trade with us, consuming American products of a class and in *per-capita* quantity far in excess of any oriental country. As an indication of the Islands' potential consumption, the value of our 1929 exports to them included products of American agriculture in excess of \$30,000,000, or approximately 40 percent of our total exports to the Philippines.

Let us consider another relative analogy, the mutually beneficial results of the Cuba-United States interrelationship. This relationship was of identical origin with that of the Philippines, with this difference, however, that Cuba became an independent republic while the Philippines continued in the status of an insular possession, for which our initial payment was \$20,000,000 and our subsequent investments \$200,000,000. America certainly has no greater responsibility toward Cuba than toward the Philippines. No one will deny the necessity and mutual advantage of maintaining the preferential *status quo* of the Cuba-United States trade relations, recognizing the political and economic chaos into which Cuba was plunged for years before the present reciprocal agreement. It would appear incongruous, if not fatal, to deny the peoples of both countries the maintenance of their existing economy. The policy of our administration is to restore the flow of international commerce to a normal basis. Whatever extent of economic assistance may be necessary is as important to the Philippines after independence as it was to Cuba in 1934. Not only would the severance of preferential ties be economically unsound, until they can stand on their own feet and market their products to the rest of the world (from which they have been excluded as to 79 percent of their exports for nearly 40 years), but from a fiduciary obligation there is no possible basis for differentiating between the two dependent countries—Cuba and the Philippines.

Economic ties rooted in nearly 40 years of close relationship should not be weakened by neglect to apply bilateral measures for their continued preservation in substantial form, rather than severance by unilateral tariff-making by the United States Congress, disguised as excise taxes.

In 1936 our total exports to the Islands amounted in value, according to Philippine figures, to approximately \$63,000,000, and imports to \$108,000,000. The importance of this export trade to our national economy and employment lies in the fact that it is composed mainly of manufactured products: textiles, wheat flour, chemicals, machinery, electrical equipment, automobiles, galvanized sheets, wire and steel,

evaporated and condensed milk, canned fruits and vegetables, and so forth.

Our imports from the Philippines are chiefly sugar, cigars and tobacco, hemp, coconut oil and products, and so forth, which, in 1936, represented about 79 percent of total Philippine exports to all countries. We have encouraged large American investments in the Islands, based upon reciprocal free-trade relations. If the United States is to share in the expansion of trade in the Far East, its strategic position in the Philippines cannot be treated as of negligible account.

The future of American trade in the Pacific area is bound up with our capacity to find markets there for American-manufactured products. Of the total value of our exports two thirds comprise finished manufactures. Our national economy, in the past 30 years or more, has been dependent more and more upon our ability to sell abroad the finished products of our factories. In the undeveloped countries of the Far East lies our greatest hope for future expansion of this trade. China and the Philippines are the two great undeveloped areas that are a challenge to American enterprise.

The standard of living in the Philippines is higher than in any other part of the Far East, owing almost entirely to the free-trade arrangements that exist between the Islands and the United States and to the general influence upon domestic living by the Americans resident there. The Philippines export about 50 percent of their total agricultural production. Any sharp decline in these exports to the United States would inevitably bring about a serious decline in their present standard of living.

The Philippine-American Trade Association is the authority for the statement that if Philippine products are made dutiable by the United States, total exports from the Islands, estimated upon the basis of 1935 figures, will decline by at least 70 percent. This merchandise at present has no other outlet. With this enormous decline confronting the Philippine Government, the financial and general situation in the Islands would precipitate a crisis of major proportions which the United States could not view with indifference. Both material and moral considerations must induce the United States, by measures anticipatory of such a crisis, to take a broad and sympathetic view of its present stewardship. Political and selfish interests that would isolate the United States from the problems that may beset the future independent Philippine Republic, fail to take account of the repercussions throughout the Far East and the effects of these upon the prestige and general interests of the United States in the Pacific.

Until July 4, 1946—unless the period is shortened by mutual agreement—the Philippines cannot enter into a trade agreement with the United States. The Reciprocal Trade Agreements Act applies only to "foreign" countries.



The imposition by the United States of quotas, and other modifications provided by the Independence Act, undoubtedly give ground for the fear entertained by President Quezon, that this gradual process of subjecting Philippine goods to export taxes will mean for the Islands a gradual decline in prosperity, ending in 1946 in domestic conditions which will tax the utmost resources of the young government to overcome. American guardianship, which has accomplished so much for the Islands during the period of American occupation, cannot be withdrawn after 10 years' probation without seriously handicapping the economic development of the Philippines.

The die has been cast, however, and the Independence Act is America's answer to the Philippine demand for complete independence. It is not the last word, since President Quezon desires continuance of close economic relations with the United States. A new deal seems called for, if the United States, taking the long view of its interests in the Pacific, sees in the decline of prosperity in the Philippines—inevitable under present arrangements—a blow to its prestige in the Far East and a serious handicap to its trade interests in that region.

I now quote recent authoritative opinion from Philippine and American sources, to which I ask this Committee to give serious consideration:

The exports of a number of Philippine products will slowly but steadily diminish and, in some cases, finally end. The imposition of export duties on coconut oil, even though but 5 per cent of the United States duties, will probably finish the coconut oil industry in the first year. If it is not finished in the first year it surely will be in the second year, when the export duties are raised to 10 per cent. It is also probable that when the export duties begin to be applied cigar shipments to the United States will cease, for the United States' import duties on cigars are very high, amounting to several times their value. Any imposition of export duties, therefore, probably will close the United States market to Philippine cigars.

The same thing probably is true of buttons, hats, embroideries, cordage and a number of minor products. If exports do not cease in the first year they are very likely to cease in the second or third year. Sugar probably will be able to survive the 5 per cent duty which will be imposed in the first year and possibly even the higher duties in the second and third years, although this will to a considerable degree depend on the price of sugar. Estimates which have been made, however, and in particular by the Philippine Economic Association, indicate that before the tenth year (of the Commonwealth) the United States market will be closed to Philippine sugar.

This third period (of the three into which the ten years prior to independence is divided) will therefore be a period of liquidation and of the drying up of the flow of exports to the United States. In the fourth period—that is, after the independence of the Philippines has been recognized—the flow of exports to the United States will practically cease. No sugar, no coconut oil, no cigars, no buttons, no cordage, no embroidery can possibly be sold in the United States over the tariff wall which there has been erected. Exports from the Philippines will, when free trade ends, be reduced to less than what they were a generation

ago. The outlook for the Philippines is, therefore, as the law now stands, very black indeed.

This view is not confined to the affected interests. It is strongly emphasized also in the report issued by the United States Tariff Commission. This report declares 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."

"As a consequence," the report continues, "American exports to the Islands will probably decline as soon as Philippine export taxes come into operation because 'with a curtailment in export credits the Islands must perforce restrict their imports'."

Since these outcomes are foreseen in the event the present law should be continued, it is obvious that should even its measures of readjustment, unacceptable as many circles find them, be cancelled, the foreign trade of the Islands and their internal economy would face swift decay.

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 neighbor to the north. Most of them agree with the President of their Constitution Convention, who stated publicly, that such a course would mean "economic pauperism and political extinction" for themselves and their descendants.

Should an economic and political breakdown occur in the Islands prior to the termination of the ten-year period, independence would become impossible in 1946 and would remain impossible for some time thereafter. The United States would be virtually compelled to stay in the Philippines regardless of its wishes or interests. The conclusion is that whether or not the Filipinos are willing to gamble with their future by failing to request an alteration of the terms of the agreement into which they have entered, America should take prompt steps to protect both itself and its ward from the dangers of the present situation.

To put the Philippine Commonwealth and American-Philippine relations upon a sound basis there should be modifications of the Tydings-McDuffie Act extending the time and altering the conditions under which the Filipinos are to be required to make the far-reaching and difficult economic adjustments that are prerequisite to genuine political independence. The most simple and effective action would be the substitution of a mutually beneficial reciprocal trade agreement, which should continue after the establishment of independence, for the graduated export taxes to be levied prior to 1946 and the full American tariff to be imposed beginning July 4 of the latter year. Such action would greatly reduce whatever danger there may now be of a serious economic collapse even before the termination of American sovereignty, and prevent the disasters that would probably follow independence under the existing plan. The continuation of preferential trade between the Philippines and the United States after independence apparently would require an alteration of the most-favored-nation clause in commercial treaties between the United States and a number of other nations. All of these treaties expire or become subject to renunciation prior to 1946, however, and as each of them comes up for continuation the United States could properly request that the other party thereto agree to except the Philippines from the effect of the most-favored-nation provision upon the ground that twenty-five years of free trade between the United States and the Philippines cannot be abruptly terminated with fairness to either country.

The formulation of an American-Philippine trade agreement would naturally involve a reconsideration of the quotas of duty-free sugar, coconut oil and cordage now assigned to the Islands. However, the weight of expert opinion is that the limitations imposed by these quotas will not seriously injure any of the industries in question, but would prevent their further expansion upon the present basis of a free American market.

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 toward 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 American 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.

Acting Chairman SAYRE. Does any member of the Committee have any questions?

Mr. WARING. Did I understand, Mr. Thomas, that you do feel, however, that certain economic adjustments are a prerequisite to political independence of the Philippines?

Mr. THOMAS. Exactly; yes, Sir.

Mr. WARING. So those adjustments would have to be provided for prior to the granting of that independence?

Mr. THOMAS. Yes, Sir.

Mr. WARING. You have mentioned the similarity between Cuba and the Philippines. Do you feel that a preferential trade agreement similar to that which we now have with Cuba would be satisfactory in the case of the Philippines after independence?

Mr. THOMAS. Along the same general lines, providing, as the arrangements do now, for the adequate import into the United States of Philippine surpluses of all goods until such time as they can find other markets in the long and indefinite future.

Mr. WARING. What I meant was an agreement exactly similar to that with Cuba; that is, 20 percent preferential in this market.

Mr. THOMAS. I don't think anyone could attempt to define at this time what the measure of the preference should be. It must be made by mutual agreement, as I say, depending upon the necessity of the Philippines' marketing of their surpluses to a great extent in this market until they can find other markets or until they can diversify their production.

Mr. WARING. You suggest the possibility of excepting the Philippines from the most-favored-nation treatment in our commercial treaties. In your opinion, Mr. Thomas, would that have any adverse effect upon our United States markets in foreign countries?

Mr. THOMAS. I cannot see how it would have any such effect. Mr. Micou has already pointed out that that reservation should be made; and the purpose of our recommendation is the maintenance of existing channels of trade which, if maintained, can hardly be subject to the criticism of foreign countries, as would be the case if we attempted to substantially increase the flow of commerce between ourselves and the Philippines after independence.

Mr. WARING. You do feel, however, that when the Philippines become independent they must eventually look forward to being outside our tariff wall, if I understand you correctly.

Mr. THOMAS. Eventually, when they are economically able to do so, and only then.

Mr. ROXAS. Mr. Thomas, you have stated that the 10-year transition period provided in the Independence Act was intended to permit a gradual adjustment of economic conditions in the Philippines. You have also stated that the effect of the imposition of the export taxes would immediately stop or drastically reduce the exportations to the United States of some basic commodities produced in the Islands.

Mr. THOMAS. Pardon me. I mean, within a few years—not immediately.

Mr. ROXAS. For example, coconut oil.

Mr. THOMAS. Within the first or second year.

Mr. ROXAS. Whereas some products exported from the Islands might be able to support the export tax. Do you think Congress intended to grant the producers of some commodities in the Islands the full 10-year transition period while granting the other export commodities only a 5- or 6-year transition period—because that would be the result of the export taxes? I don't know whether my question is clear. Do you understand it?

Mr. THOMAS. If my answer is not clear, perhaps you will define your question further. I cannot undertake to define what Congress had in mind. I only know the law as it exists. There are certain Philippine products, in common with those from other countries, that are now on the free-list, and obviously if continued on the free-list there would be no effect after independence.

Mr. ROXAS. I would like to make my question a little clearer by the use of an example. You have stated that sugar might be able to stand the maximum export rate provided in the Independence Act, which is 25 percent of the American tariff in 1945 and 1946.

Mr. THOMAS. Not quite that. I concluded the sugar business would be gone by that time, as a result of the graduated tax up to the final 25 percent.

Mr. ROXAS. Whereas you stated that coconut oil, for example, could not come into this country after the imposition of the 10 percent of the American duty. Now, my question is this: Would Congress have any reason to single out coconut oil by providing the export tax which will have the effect of stopping the importation of coconut oil into the United States during the sixth or seventh year and allowing sugar, for instance, to come in after that period, before 1946?

Mr. THOMAS. I think certain interests, the same interests that were responsible for having the law enacted providing for the 3-cents-a-pound excise tax on coconut oil, were probably very pleased at the prospect of further hindrance to the entrance of coconut oil into this country and, therefore, probably look with complete indifference to the stoppage of our imports of coconut oil after the first or second year.

I have in mind very distinctly that the President requested a modification in these excise taxes on coconut oil and that Congress has never taken any action with respect to such modification.

Mr. ROXAS. Would not the net result of the operation of the excise tax be—and I hope you will correct me if I am mistaken in judging from your testimony—that whereas sugar, for example, might have 8 or 9 or 10 years during which to adjust itself to the conditions which will obtain after independence, coconut oil would have only 5 or 6 years in which to do so.

Mr. THOMAS. I would shorten the time in both cases. Otherwise I think your statement is correct.

Mr. EDMINSTER. Mr. Thomas, the purport of your position with regard to our policy apparently is that there should be at least a more or less indefinite continuance of our preferential trade relations with the Philippines. Would you agree that such preferential relationship, so long as it continues, should be a reasonably balanced one; that is, that there should be genuine free entry accorded by each country to the products of the other, or that, if there is a diminution of the range and value of the preference accorded in one direction resulting from excise or processing taxes or quotas, or export tax imposed upon the exports from the country in question, or if there should be a diminution in the value of those preferences in one direction, it would be logical to suppose that there should be a diminution of the preferences extended in the other direction?

Mr. THOMAS. I think that the phrase "indefinite continuation of preferences" should be revised with the idea that the preferences should be modified in successive periods of years based upon whatever degree the Philippines can stand of such modifications and that logically there

should be adjustments—not annually, because our business requires a continuity of tariff treatment as a primary principle, of course; but I mean adjustments or reconsiderations from time to time over a period of several years, which would primarily recognize the dependency upon the Philippines to continue preferential treatment, no matter how modified, in this market and compensatory reciprocal treatment for American products in the Philippine market.

I do not see how it is possible to legislate in advance at this time as to the degree of reciprocal treatment that would be accorded by both countries, let us say, from 1946 to 1950.

Mr. EDMINSTER. I was thinking particularly of the period immediately ahead. It seemed to me that the implication in your statement was that there is a very definite relationship between the kind of treatment we accord the Philippine products and the treatment that they should be expected to accord our products.

I just wanted to clarify that and make sure that you, who are speaking for export interests particularly, would not expect that the Philippines should continue to accord unmitigated free entry to American products if we on our part continue to make inroads upon Philippine exports to this country, whether through the medium of processing taxes on coconut oil or sugar quotas or in due course by increasing the export taxes that are to be imposed under the Tydings-McDuffie act.

Mr. THOMAS. As indicated in my brief, the exporters generally feel that the present plan of export taxes should be done away with under revised conditions. And the exporters, of course, on account of the Philippines' being one of their best markets, would favor a reasonable degree of continuance of free trade or preference in whatever tariffs may be set up after independence, but would be entirely willing, if the export taxes from the Philippines are abandoned, to see the present *status quo* maintained, without expecting to materially expand their percentage of business to the Philippines and with full recognition of the desirability of the Philippines' attempting not only to diversify their products but also to endeavor to secure distribution of their products in the next 40 or 50 years in other markets, rather than 79 percent to the United States.

I am not sure that that is an exact answer to your question, Mr. Edminster.

Mr. EDMINSTER. It does not seem to me to be quite an exact answer; but I shall not press it.

Acting Chairman SAYRE. I wonder, Mr. Thomas, whether Mr. Edminster does not mean something along this line—and I would welcome any clarifying statement on your part. Under your position, as I understand it, you believe that preferences should be continued for a more or less indefinite period. In making that state-

ment are you distinguishing between, on the one hand, preferences for American goods in the Philippine market and, on the other hand, preferences for Philippine goods in the American market?

Of course, it is quite conceivable that the extension of preferences for American goods in the Philippine markets would have rather large consequences in our commercial relations with other nations. Other nations might well object to it and point out the inconsistency of policy, or apparent inconsistency between such an extension of preferences and the commercial policy which this administration has been insisting upon. On the other hand, the extension of preferences for Philippine goods in the American market would be subject to altogether different considerations.

Now, is it conceivable that the one might be extended for a longer period than the other? Is it to be assumed that the two should be terminated at the same period or lessened at the same rate, that the one should be balanced against the other? or is it conceivable that they should be treated as independent factors and, possibly, preferences lessened at a more rapid rate or terminated at an earlier date in the one case than in the other?

I wonder if I do make my question clear?

Mr. THOMAS. I think I understand your reasoning clearly.

Primarily I think it is desirable to consider the favorable balance which the Filipinos have had, averaging about \$40,000,000 annually over a period of some 14 years, in order to determine the degree of preferences which should continue to be accorded to Philippine products after independence, and the relative degree of preference which reciprocally should be given by the Filipinos to American products.

The products themselves would have to be considered so far as their competitive salability is concerned—that is, the American products in the Philippines—in order to determine whatever reasonable degree of preference the American products should have.

To my mind it would be illogical to carry on from year to year for a long, indefinite period, although graduated by the presumed increasing ability of the Filipinos to market their goods in other countries, a degree of preference in this market in favor of the Philippine products without a substantial degree of preference for American products based upon the history of their competitive salability in the Philippines. Nor do I see any reason to fear the criticism on the part of foreign governments that such a measure of reciprocal preference would be considered by them any more than it is now considered by Great Britain and France and other countries in respect of their dependencies as contrary to the principles which this administration is enunciating on the breaking down of barriers.

Reservations can continue to be made to preserve existing channels of trade rather than to extend them.

Acting Chairman SAYRE. So, if I understand you correctly, you do not draw a particular distinction between the two kinds and types of preferences, that is, on the one hand, preferences for American goods in the Philippine markets and, on the other hand, for Philippine goods in the American market? Am I correct about that?

Mr. THOMAS. I only draw the distinction of the obvious necessity of maintaining for both countries a degree of preference that would be fair to both of them with complete recognition of the necessity of the Philippines' having a degree of preference in this market which would give them a sufficient balance of trade to protect their economy; without insisting upon the degree of preference for American products in the Philippines which would enable the Americans unduly to expand their ability to secure business competitively as compared with their European rivals.

I am not sure whether that is what you have in mind; but I cannot bring it into any closer relationship.

As I replied to Mr. Edminster, I do not think it is in any way practicable to set up now, or perhaps for some years to come, the degree of preference which should be accorded by either country to the other, but rather to recognize the principle of the continuing necessity of such preference until the Philippines are more completely independent economically, and as they become more completely independent the degree of preference given by both sides should be modified substantially.

Acting Chairman SAYRE. Are there any further questions?

Mr. DOMERATZKY. In connection with your last statement, Mr. Thomas, that the preferential relationship should be adjusted to some extent to the degree which the Philippines can attain in economic independence—that is, in finding substitute markets—of course one of the instrumentalities that the Philippines would be likely to desire to use in obtaining new markets after they become politically independent would be commercial treaties with foreign countries. Would you not admit that in their effort to conclude such commercial treaties they would be handicapped to some extent, or to a considerable extent, perhaps, by the fact that they would be obligated for some time to admit many American competing products free of duty under the preferential arrangement?

Mr. THOMAS. I would; yes. It is perfectly clear that they would be handicapped by whatever degree of preference is being accorded our products, that is, they would be handicapped in the making of new treaties, just as Canada, let us say, was handicapped in making its trade agreement with America by the fact that under the Ottawa



agreement they had to give great preference to Great Britain and to other dominions. Nevertheless, the principle of continuing a preference would not necessarily preclude the making by the Philippines of favorable arrangements for the extension of their sales to such foreign countries.

I would like to stress particularly in that reply, however, the fact that certain preferences might continue to exist for certain American products entering the Philippines and might be a very wholesome deterrent to the Philippines' entering into bilateral conventions, such as with Germany or with other countries, which would be entirely contradictory to the efforts of our Government to break down such bilateral conventions and such restraints on international commerce, and the fact that the opportunity would continue, with preferential relations existing, for our avoiding the very situation that exists today in the making, by many countries with each other, of agreements detrimental to the United States; and, as you know, there are more than 300 such agreements, most of which are detrimental to the United States. It would avoid the making of such agreements between the Philippines and other countries to our detriment, just as some of the other international agreements are so much to our detriment.

**Mr. DOMERATZKY.** Do you mean to imply that, assuming in 1946 or the time when the Philippines become independent, Germany would still maintain the policy of trying to conclude agreements of the kind she is concluding now? Do you mean to imply that the mere existence of a preferential relationship between the United States and the Philippines would preclude the Philippines from entering into certain agreements then?

**Mr. THOMAS.** It would not preclude them, but in effect it would enable our exporters to maintain a reasonable and logical amount of business, such preference as we may be receiving at that time serving to offset German subsidies and asking-mark credit or other compensation devices.

In other words, at least so far as the Philippines are concerned, it would put a much more effective bargaining weapon in our hands than we seem now to possess, when apparently we are utterly helpless to avert the continuing German encroachment on the normal trade of the United States with other countries through the use of subsidies and credit devices. I should like to guard the Philippines against that and protect our own foreign trade at least to that extent.

**Colonel McDONALD.** Mr. Thomas, you have expressed your opposition to the statement of any definite term during which preferential relations might run between the Philippine Islands and the United States. Can we suggest any other means than the imposition of such a term to bring about a sustained effort on the part of the Philippine

Islands to develop other markets than the American market or in addition to the American market?

Mr. THOMAS. I should hope it might be possible, with the complete recognition on the part of the Filipinos themselves, that the desire of this Government is to gradually modify the preferences accorded their products, to arrive at an understanding with them that it was the determined policy of this Government to impose certain conditions after independence which might serve materially to diminish annually the receipt of Philippine surpluses in order to encourage them to a realization of the necessity of finding other markets or diversification of their products and to convince them that they cannot always depend upon the present basis of preferences. In other words, to encourage them more and more to become economically independent, but recognizing that you cannot force economic independence on them immediately after political independence.

I should think it would probably be necessary for such a Committee as this to continue to exist for many years in order to be in position from time to time to determine the degree of preference that should be extended by either country after independence, let us say over consecutive 3-year periods for an indefinite time.

Colonel McDONALD. You do not think it would be impossible to fix the scale of such diminution of preferences now, that is, in advance?

Mr. THOMAS. If the two countries could mutually agree on that scale, including all of the factors that will have been brought out in the testimony, I think it would be helpful to present the picture to the Filipino people of a gradual reduction in preferences accorded both sides, so as to encourage them in their efforts to get away from complete reliance on this market, or practically complete reliance on this market, as it has been 79 percent.

If there could be a mutual recognition of the desirability of that gradual modification of preference over a long term of years and if it could be expressed in mutually agreed figures, I think it would be helpful.

Mr. BENITEZ. In connection with your statement about the importance of the American trade in the Orient or in the Pacific area, the statement has often been made that America is liquidating all of her interests in the Pacific area. At the same time, we often hear that America is now concentrating her attention on South America in the promotion of trade relations with that great continent. I wonder if you could tell us, as a representative of a body that expresses foreign-trade policy here, how much truth there is in that.

Mr. THOMAS. There is no truth at all. I would like to elaborate on that a little bit.

Mr. BENITEZ. And the relative importance, in your opinion, of the Pacific area so far as American foreign trade is concerned.

Mr. THOMAS. I say I think there is no truth at all, because while a great deal of emphasis has been placed in the past year on account of conferences held in Latin America on the desirability of improved economic relations between North and South America, the exporters generally continue to recognize that our overseas trade is, and for a good many years to come will be, more largely concerned with the Pacific area than with South America, for the reason primarily—or one of the many reasons—that Japan, for instance, is our best customer for cotton; it is the third-best customer of the United States for all of our exports, being exceeded only by Great Britain and Canada; and that China, with its new economic regime, will be one of the most important of our markets in the world in the future, as well as the Philippines when it becomes a foreign country.

There is no apparent basis for anyone attempting to set up any idea of future preference for American exporters in their exploitation of any one market as against another. They are all as eager and anxious to expand their business in the Pacific area as they are in any other area.

Mr. BENITEZ. But isn't there a certain fear here that if they expand their trade to the Orient it may lead into all kinds of trouble that may force the American mother to send her boy across the Pacific to fight? How real is that feeling here so far as it affects the trade expansion of America to that part of the world?

Mr. THOMAS. I do not propose to be drawn into any political discussion. I can only answer that in general terms I do not believe the American exporters are affected in the slightest degree in their effort to exploit all foreign markets by any kind of political implication, whether it be in the Pacific or in the Mediterranean. They are going ahead and expanding their business without regard to rumors of war in any part of the world and, I might add, without any belief that the orderly expansion of our trade would have any effect whatever upon the possibility of war.

Mr. WARING. I should like to ask Mr. Thomas just how, in his opinion, the diminution of the United States-Philippine trade—assuming that that would occur—will operate to diminish our trade with other countries in the Far East.

Mr. THOMAS. By diminution of trade you mean both our exports and our imports?

Mr. WARING. Yes, assuming that that should be the case under the present Independence Act—the assumption that is generally conceded.

Mr. THOMAS. I would have to paraphrase somewhat the very lucid conclusions arrived at in the Tariff Commission's report on that subject; and I don't know that my opinion would be nearly so valuable as theirs.

In general I think I concur with their findings that the diminution, for instance, of our export trade to the Philippines, carrying with it, of course, the diminution of employment and production in this country, would theoretically intensify our efforts toward securing markets for similar products when we are divorced from the Philippines.

That intensification would not necessarily be in the direction solely of the oriental countries, but it might well be in part on account of exporting companies desiring to utilize their organizations and mechanics in the Far East, if they had to abandon a large part of their Philippine trade.

The possible receipts from other countries of imports which are now coming in from the Philippines might in theory also improve our ability to export to those countries because of their increased purchasing-power. But one would offset the other.

In other words, it would simply be a displacement of trade. I tried to point out a considerable rearrangement of the lines of world commerce which would be very detrimental.

Mr. WARING. But, in your opinion, it would not operate any more adversely upon our trade with Far Eastern countries than with foreign countries generally?

Mr. THOMAS. I would not want to give an off-hand opinion on that. I think it would require some research.

However, there is one factor that has not been mentioned specifically, and that is a disarrangement of our shipping lines and the particular effect that such disarrangement or any serious modification in our volume of trade with the Philippines might have on the paying ability of the American Merchant Marine as now contemplated, and particularly on the very necessary continuance of our maritime operations in the Pacific area. I would like to have that brought in as an additional factor.

Acting Chairman SAYRE. Are there any further questions?

(No response.)

If not, Mr. Thomas, we appreciate very much your kindness in coming down here and appearing before the Committee.

The last witness to come before the Committee will be Mr. A. M. Loomis, on behalf of the National Dairy Union.

#### STATEMENT OF MR. A. M. LOOMIS, ON BEHALF OF THE NATIONAL DAIRY UNION

Mr. LOOMIS. Mr. Chairman and Members of the Joint Committee: I might say that I am secretary of the National Dairy Union, Washington representative of the Association of American Producers of Domestic Inedible Fats and, for the purpose of this hearing, repre-

senting the American Association of Creamery Butter Manufacturers. I do not believe any of those associations needs any further identification, after some of the references that have been made here this morning, at least, to our past activities.

I have been deeply impressed by the gloomy outlook which has been pictured before the Committee by previous witnesses. Some of that gloom has been partly dispelled by the questions that were asked; but I wonder if I cannot dispel the rest of it by calling to the attention of the Committee a historical fact with which, of course, you are familiar; and that is that the net result of 3 years' experience with this 3-cent excise tax on coconut oil has not reduced the exports of coconut oil or copra from the Philippines to the United States and it has not reduced the prices which the producers in the Philippines have received.

I will stack one historical fact up and put all of my money on it against the predictions of what may happen 10 years from now.

Mr. WARING. May I ask Mr. Loomis if he guarantees a perpetual drought in the United States for the benefit of the Philippine products?

Mr. LOOMIS. Not at all. What I guarantee is that the agricultural sense of the people in the United States and in the Philippines can work out these proportions and that when they get hold of a good proposition they will keep it. It may be a matter of trial and error.

Mr. ROXAS. Of course, Mr. Loomis makes that statement with knowledge that the coconut oil enjoys certain preferences in this market.

Mr. LOOMIS. Certainly.

Mr. ROXAS. But I do not believe Mr. Loomis would make that statement if he had a situation where those preferences would be removed, abruptly.

Mr. LOOMIS. No such suggestion will be found in my statement.

Mr. ROXAS. The testimony, as I understood it, of Mr. Thomas was based upon the supposition that those preferences would be removed, and the gloomy picture was painted with that background.

Acting Chairman SAYRE. I think we will try not to interrupt Mr. Loomis further with questions until he has completed his statement, so that he will have an opportunity to make an entire presentation of his views.

Mr. LOOMIS. I represent the interests in the United States concerned with the amount and the influence of the imports of coconut oil and coconut products into the United States.

We are not financially able to be represented at your hearings in the Philippines. We are, therefore, hoping for adequate time here to present our views and to file a supplementary or completed brief. The

time since the notice was given of this hearing was far too short to adequately prepare either our brief<sup>1</sup> or this oral statement.

I have three requests to make:

- First: Permission to inspect all briefs filed preliminary to or at this hearing;
- Second: Permission to secure copies of briefs filed in the Philippines and transcript of testimony there in English;
- Third: Thirty days after receipt of such information to file our final brief.<sup>1</sup>

I presume it is not possible to get an answer to these requests at the present time, but it would be very helpful if that could be done before the Committee leaves Washington.

Acting Chairman SAYRE. What I would suggest, Mr. Loomis, would be that you direct a letter to the Acting Chairman of the Committee making those requests, and I will bring it before the Committee for its consideration and will inform you of our conclusion just as soon as possible.

Mr. LOOMIS. I have four reservations to make with respect to my appearance here.

In filing our briefs and here subjecting ourselves to oral statements and examination we do so in the utmost good faith, but we wish to make certain reservations as to our rights under existing law.

First, that this proceeding is not an "opportunity to be heard" under the Reciprocal Trade Agreements Act and that if a trade agreement is later negotiated under that act we have not by appearing here waived our rights to be heard with respect to such agreement.

I do not believe there is any question about it, but I want it clearly in the record.

Acting Chairman SAYRE. I think there is no question about it.

Mr. LOOMIS. Secondly, that no agreement may be made between the United States and the Philippine Government under the Reciprocal Trade Agreements Act until full independence has been consummated.

Acting Chairman SAYRE. That is one of the provisions of the act.

Mr. LOOMIS. There have been some questions among interested parties.

Acting Chairman SAYRE. The Trade Agreements Act, I believe, provides for the making of trade agreements with foreign countries. Until independence has been granted the Philippine Islands are not a foreign country.

Mr. LOOMIS. Thirdly, that no agreement of any kind may be made between the Philippine Government and the United States before full

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<sup>1</sup> See vol. III.

independence is consummated, until or unless amendments providing therefor are duly added by congressional action to the existing Philippine Independence Act.

Acting Chairman SAYRE. So far as alteration of the Tydings-McDuffie act is concerned, only Congress has the power to alter it.

Mr. LOOMIS. That no trade agreement may change an internal tax levied in the United States. That is the fourth.

Acting Chairman SAYRE. That is a matter for Congressional action. Of course, there are exceptions.

Mr. LOOMIS. Perhaps that statement precludes the necessity of reading this letter here. But I have here a letter signed by William Phillips, Acting Secretary of State, in which he confirms that particular statement. That is dated February 23, 1935, and is addressed to Mr. Charles W. Holman, Secretary, The National Cooperative Milk Producers' Federation, 1731 Eye Street NW., Washington, D. C.

That is our understanding, and we wish to stand on it.

Colonel McDONALD. May I just say, Mr. Loomis, of course subject to action by Congress.

Mr. LOOMIS. Certainly.

Colonel McDONALD. As in every other case.

Mr. LOOMIS. Certainly.

We feel that the domestic policy with respect to copra and coconut oil has been fully and conclusively established by the Congress of the United States and that this policy has been successful and helpful alike to domestic and Philippine interests.

This policy is the establishment of a price differential between the United States prices of fats and oils and the foreign prices of fats and oils, in which the price of coconut oil is the largest single foreign factor. This differential, created by the action of Congress in 1934, reiterated in 1935 and in 1936, is 3 cents between the United States and the Philippine price, and 5 cents between the United States prices and prices in producing countries other than United States possessions. This differential is established by an internal processing or excise tax. It does not apply to the oil itself, only to its use. It is a matter of purely domestic economy. It can be changed at any time by Congress. We believe that the sole power to change this policy resides in the United States Congress.

We urge the retention of this policy without change. The present economic necessity for a considerable importation of fats and oils is allowed for by this policy, with two important provisions—first, fair prices in the United States are protected; secondly, Philippine imports retain their normal volume and can increase if domestic requirements increase.

An important, in fact essential, part of this policy is the amount of domestic revenue which it produces.

Now, as to the benefits of this policy. Under this policy three results are apparent:

First, Philippine trade with the United States in copra and oil improved; prices advanced to a point where the coconut-growers had a living wage for their work.

Secondly, all fats and oil prices in the United States advanced to a near-parity level, to a point where growers and processors in the United States had a living wage for their work.

Thirdly, the production of soy-bean oil and corn oil in the United States took on new life, opening the way to the development of a greatly needed increase in our domestic supply and a new use for arable land, assisting in the reduction of unmarketable surplus crops.

The real parties to this problem whose interests I hope to keep uppermost in your minds and whose interests will guide the ultimate report you will make, are the producers of coconuts in the Philippine Islands and the producers of fats and oils in the United States.

Your ears will be assailed—probably already have been, almost to deafness—and your minds will be filled past the point of clouding the possibility of fair evaluation and analysis, with the claims of traders, exploiters, processors of fats and oils, and United States manufacturers of products made from fats and oils; and you will hear also from the steamship-operators who want their pound of flesh—well, I guess I will eliminate that from the record. And you will hear from the small group of capitalists who took their own risk in investing their money in the Islands when there was outstanding for over 30 years the pledge and promise of independence.

These groups who are here to display their claims for their own protection are those who live off of the producers. The real parties in interest, as I said before, are the farmers of the Islands and the farmers of the United States, who get what is left after these other groups squeeze from the value of the farm products all that the conditions which they help to create will permit them to squeeze into their own pockets.

I have been engaged in the effort to secure a square deal for the producers of the United States ever since taking part in some studies and subsequent hearings preliminary to the enactment of the Tariff Act of 1922.

The problem in the United States has never been one of conflict between producers in the Philippines and producers in the United States but purely between producers here and the exploiters—partly American and partly other nationalities—of the natural resources of the Philippine Islands and other tropical lands, of which coconut trees is one of the most important—between the producers of domestic fats



and the industrial users of these fats who convert them into food products, soap, and other industrial products, and whose sole interest has been—probably still is—to buy as cheaply as possible, regardless of source, and to sell as high as the market conditions would permit.

As for myself, I represent producers. Another brief, of which I know, has been filed by an even more direct representative of producers than I can claim to be—Mr. Holman, secretary of the largest single group of farmers engaged in cooperative marketing in the United States, the National Cooperative Milk Producers' Federation.<sup>1</sup>

This hearing presents the very same picture that has been presented time and time again since 1922—

By the way, I have a copy of Mr. Holman's brief right here—

This hearing presents the very same picture that has been presented time and time again since 1922, the representatives of the producers supporting plans which will maintain fair prices under which producers can live. Ranged in opposition are the traders and processors whose sole interest is to buy cheaply and sell at as large a profit as is possible.

At the request of the producers of oil- and fat-bearing agricultural commodities—and this should be understood whenever I refer to it as including fish products—the Congress of the United States three times in three successive years, and each time by an overwhelming majority, has set up a plan which is fair and just to these producers. This plan is a 3-cent internal tax on the first use of certain oils, and a 3-cent import tax on the other chief competing oils, with a 5-cent tax on coconut oil not produced in a dependency of the United States. It has created a fair-price parity in the United States. Our farmers can and do secure proper prices under its operation.

This tax might have been placed at a level which was selfish, even prohibitive, but this was not done. It has worked out so that it has done no harm to the Philippine coconut-producer. His products bring him far more money now, and more sales to the United States, than for a long period of years. It has worked out so that it has done no material injury to the large users of imported oils in this country. This is fairly in evidence in the financial records of these large users.

I want to refer at this point to a statement in Mr. Holman's brief, since no one has appeared here to discuss this orally. He says:

Profits of soap-manufacturers have remained high throughout the depression and are now increasing. Dow-Jones and Company report that current operations of Blank and Blank indicate that profits for the quarter and fiscal year

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<sup>1</sup> See vol. III.

ending June 30, 1937 would establish new records, with the previous peak of \$22,647,548 likely to be bettered by as much as 30 percent.

(I am deleting the names of the companies.)

Company No. 2 paid a 15-percent dividend in 1936. Net profits were more than \$35,000,000.

Company No. 3 showed a net profit for 1936 of \$4,000,000.

Added to that is a schedule giving the prices charged for soap sold in the United States, which shows an identically uniform price from 1926 to 1931. - These are factory prices, with proper documentation. There is a reduction in that price in 1932, a further reduction in 1933, and after the 3-cent tax went into effect upon what coconut oil they brought in, and in 1934 a still further material reduction in their price, which continues in effect up to the present time.

I do not believe the implications of that financial statement need any amplification.

The taxes now in effect constitute our plan for the future trade relations between the Philippines and the United States, so far as the trade in coconut products is concerned. We ask for its continuance as it now stands.

We want you to see and consider the whole forest, not a few rather unsightly trees which have been cleverly set up by the special-interest representatives.

One of these trees is "lauric acid".

They would have you believe that because of the lauric-acid content of coconut oil cleanliness in the United States is dependent on free and unlimited imports. This is just not true.

Coconut oil is a good soap oil. Properly used, it adds something of value to certain soaps for certain purposes. Improperly used it injures soap. Both the benefit and the injury are due to the lauric-acid content, according to certain expert testimony available. We had pretty good cleanliness before there was any large trade in coconut oil. Coconut oil, that is, lauric acid, seems to induce what is known as "free lathering". The value of free lathering is somewhat in question. It does add to the good psychology of cleanliness, and it is a good sales talk.

But, on the other side is the undisputed testimony of the only expert, Dr. Meerbot, chemist of the Theobold Industries of Kearney, New Jersey, that the use of quantities of coconut oil, or other lauric-acid fat, above a certain rather clear minimum, leads soap to be irritating to the human skin. I can name several very highly regarded toilet soaps in which the coconut-oil content ranges from 5 to 10 percent.

I intended to bring a sample here today of a soap which I myself use, which has considerably less than 10 percent of coconut oil, and it is a very admirable and a very low priced toilet soap.

Some of the very best domestic toilet soaps contain very small amounts of coconut oil. Large quantities of laundry soaps contain none at all. One great firm in the United States is a large user, and their exploitation of their products, not only by legitimate advertising but in other ways, is the motivating force behind this very badly misshapen "lauric-acid tree".

Another of these misshapen trees is the price of copra in the Philippine Islands. That is so clearly in the financial records that you all know about it, and I will just eliminate that from my reading.

Still another tree is the talk about "denatured oils". No one in the world is interested in favor of free trade in denatured oils but the soapmakers. Denaturing means adding some inedible substance to the oil which cannot be easily removed, so that it may be used only for soap.

Denatured palm-kernel oil is admitted now free of duty. Its users, however, must pay the excise tax, the same as users of coconut oil. Because it also is a "lauric-acid" carrier, the proponents of "no duties and excise taxes" fear it might hurt their coconut-oil business. Of course, the soapers do not care. But it will be enlightening to have the fact appear that the authors of this "denaturing" idea, which has caused the palm-kernel-oil situation which they now complain about, were the very identical interests now protesting against it.

The more important fact is one which covers the whole situation as follows: Any oil imported into the United States free of duty, if denatured, competes with the very same domestic oils that it would compete with if not denatured. This competition is direct, except with lard and butter. It would compete directly with every crude oil; for every crude oil is inedible, in fact, until refined. Cheap denatured oil would, therefore, influence the price of every crude oil. Since the crude oils, when refined, are the oils which produce lard-substitutes and butter-substitutes, then, through this fact, the cheap denatured oil competes but one step removed, with both butter and lard.

For the benefit of Philippine producers of coconut oil as well as for our own interests, we stand for the repeal of every denaturing provision and, with our whole force, against the admission, free of duty or at reduced duties, of any denatured oil, coconut or any other.

Another most confusing detail is interchangeability. Oils are now divided into two separate classes, as edible and inedible. Crude oils are usually inedible, or soon become so; refined oils, with a very few exceptions, are edible. The principal commercial exceptions are tung oil, croton oil, and the inedible tallows and greases made from waste products. Tallow and greases from live, healthy animals killed for food, are edible.

The distinction of drying oils, applied to linseed, perilla, tung, and some others, such as rape-seed and hemp-seed, does not keep them from being subject to refining to make them edible, except tung, which as yet defies the refiners' removal of its cathartic principle.

Thus, as a commercial proposition the import of cheap crude or denatured oils will force the prices of all domestic crude oils down to the prices of the imports. This influences the prices of the domestic edible—that is, refined—oils, because the cost of the refined oil is the market price of the unrefined, plus cost of refining. So the entry of a cheap crude or denatured oil actually influences the cost and, to that extent, the price of the refined or food oil; therefore it is exactly true to say that denatured coconut oil, or denatured whale oil will affect the price of lard and of butter.

It is not said nor urged that these are the only or the major factors affecting butter prices. They are very large factors in the prices of lard and of lard-compound. They are controlling factors in the domestic prices of cottonseed oil, soy-bean oil, and corn oil.

Now, while we are considering myths, let us take up another one, namely, that the present taxes were secured by the dairy industry or, at least, by the producers of edibles. This distinctly is not true. I ought to know.

With one other associate I have been engaged in the effort to secure and protect this plan for more than 15 years. It was started by the dairy groups whose products are kept at a price level so close to costs of production as to spell no profits, chiefly because of the cheapness of the materials used in oleomargarine. But it was not until the producers of fish oil, cottonseed oil, tallow, lard, soy-bean and corn oil were convinced that it was also the cheap imports which kept their noses in the red-ink well that we were able to secure the attention of a majority of Congress.

These industries go up and down together. In fact, the producers of the edible are far less subject to the immediate unfavorable results of large and low-price imports than are the other millions of producers of cottonseed, soy beans and beef cattle. The fishermen are the most subject of all, I would say. And I want to say here and now that but for the unceasing efforts of the fish-oil producers to make the public, including Congress, understand their very serious plight, the tax laws would never have been favorably considered.

This is a case where farmers and fishermen in every State in the United States have the same interest, and by this time most of them know it, and they have their eyes very definitely on this proceeding which is going on here.

These same farmers know also very clearly just who it is that profits by the cheap and large imports. They know it is not the

farmer in the Philippines. They know that the tax on coconut oil, including with it a fair and nearly complete system of taxation on all foreign fats and oils and a higher tax on coconut oil from sources other than the Philippines, has not injured any farming or other agricultural interest in the Philippines. We have never seen a claim from the Philippines that it has caused such injury, except from a small group of specially interested traders and processors in the Philippine Islands. We have learned to discount—rather accurately, we think—the propaganda which emanates from Manila through the American press. We welcome the opportunity of presenting our case to the sincere representatives of the Filipino people, not of the American interests in the Islands.

Now, a very short reference to the brief I have filed. I realize that is not very necessary, but there are a few points I wish to mention.

Our brief is in support of a 3-part thesis:

1. That present satisfactory prices of fats and oils in the United States, the present conditions of full-time operation and fair wages and profits, are due wholly to the excise and import taxes. So that any reductions in this tax schedule, particularly as to such important and largely used oil as coconut oil, would be injurious to whatever measure it might be reduced.

2. That the excise tax on coconut oil is a domestic tax, and no power extends to any agency of the administrative branch of the Government to change this tax.

3. That the trade relationships as shown by trade figures, trade trends, and trade balances will not be improved as to either party by any reduction in the rate of duty on coconut oil.

We show as fundamental facts that—

(a) Oils and fats are second only to meat products in domestic trade and income importance as an agricultural group in domestic agriculture.

In a brief which I filed with the committees of Congress last year I made an estimate of the value of the production for the previous year of the fats and oils in the United States. Without burdening the record with the data, which do not appear in the brief because I did not have time to document it, it amounts to something over 7,000,000,000 pounds and close to \$9,000,000.

I had a record made from the Census Bureau this morning showing the number of farmers affected, and the figures are beyond belief. In fact, they total more than all the farms in the United States, which, of course, means there are a great many duplications. In round figures I estimate that there are

4,500,000 farmers in the United States interested in this particular proposition.

(b) Oils and fats are so largely interchangeable and mutually competitive that changes in prices of any one major fat influences the prices and the consumption of all other fats. This influence is graded but holds true to a specially high degree as to the price of coconut oil.

(c) Oils and fats prices recovered and began to approach parity coincident with the enactment of the tax law in 1934.

(d) These prices remained on the new high level through 1935, although there was no drought in that year. In other words, it was the tax, not the drought, that was the sustained cause of higher prices.

(e) The error of omission in the tax law, particularly of tallow and of certain other items, led to the disastrous price-decline in the first months of 1936, not a surplus of domestic but a surplus of cheap imports.

(f) Finally, it was the revised and perfected Tax Act of 1936 that reestablished and completed the establishment of parity prices.

This experience demonstrates the necessity of a maintained tax if these prices are to be maintained.

We urge that as a matter of essential agricultural policy and for national defense. We now labor under a deficiency of fats and oils production of approximately 1,500,000,000 pounds a year. We also have a glycerin deficit of over 13,000,000 pounds a year. With ocean transport closed or hampered by hostile fleets, munitions manufactures would deplete our edible-fats supply, causing great distress. This can be prevented by enlarging domestic fats and oils production. We must develop our domestic production to a point of practical self-sufficiency. We submit that this can be done without burden to consumers by maintaining approximately the present level of fats and oils prices. In support of this we point out that—

- (1) Soy-bean-oil production is rapidly increasing;
- (2) Corn-oil production is rapidly increasing;
- (3) There is large room for the increase in the production of peanut oil;
- (4) With a maintained price for lard, more lard could be produced by changing the type of hogs grown;
- (5) Sunflower-seed-oil industry is an easy possibility.

The enlargement of our agricultural production of soy beans and peanuts, and an increasing use of corn for oil and for lard-type hogs, possible under maintained parity prices, would be a nearly complete solution of our surplus-crop problem.

Land now used for growing our surplus crops—wheat, tobacco, and cotton—is all usable for soy beans and peanuts. More corn for oil and for home-consumed pork would assist in relieving the corn surplus. To produce one billion more pounds of soy-bean and peanut oil would utilize not less than eight million acres of arable land. This is not advanced as a total solution of the surplus problem; but, if divided equally between land now in wheat and cotton, it would reduce the wheat crop by 56,000,000 bushels and the cotton crop by one and a third million bales. The whole problem is one of maintaining a fair price for fats and oils.

The only real progress along this line has come since the Tax Act of 1934. To wipe that off the books—even one half of it—by a trade agreement, would wreck the progress already begun.

I will have finished before 12:30, Mr. Chairman.

Since we have not had any briefs presented that we can get at and analyze and find out the inside motives, I have had to utilize more this Report No. 118; and I find, upon giving rather careful reading and some study to that part of it which relates to this coconut-oil problem, that if certain sections of it were taken out and used in the briefs of the traders and processors they could not have had a better brief. In other words, I am criticizing rather seriously a part—perhaps a small part—of what appears in the particular sections of that document which, I know, must be in the hands of every member of this Committee and which from its official source must be taken at its face value unless someone points out otherwise.

It reminds me a little of the statement made here as to how many Chinese are engaged in industrial occupations in the Philippines.

Now, very briefly. I find on page 94 a statement referring to the increased use of coconut oil in food products in the United States in 1935.

I ought to go back for just a moment. I want to say that there is not a criticism in my mind of any kind as to any economic or statistical facts which are stated here in the report. I think, so far as I can check the facts—and I have checked them a great many times—that they can be relied upon. But when it comes to drawing some conclusions and perhaps making some argument based upon them, I think there is a lot more to be said. And this statement is in point:

The increased use of coconut oil for food purposes was largely due to the shortage of domestic edible oils caused by the drought in 1934.

This refers to the use in 1935. Interestingly enough, the drought of 1934 did not reduce the production of butter in the United States except by a very small percentage. The fats and oils reduced in the United States by the drought of 1934 were lard and tallow, and

the reduction in lard was not so much due to the drought as it was to the control program of the A. A. A.

I might point out in passing quite a number of changes found in these figures. The amounts of products which the Philippines have been able to send to the United States are not due to the taxes but are due to the control program which has been instituted by another branch of the Government.

Our explanation of the increased use of coconut oil for food purposes is that the excise taxes increased the general cost; but, since there is a much larger margin of profit in the use of coconut oil and other oils in food products, the tax can be absorbed and a material profit can be made by using it for those purposes, and it was immediately turned into edible products. I may be wrong about that; the book may be right.

On page 100—I shall not read it, but I shall refer to it considerably. This is the elaboration of the lauric-acid argument, which I have already shot through with as big a hole as I know how. So I will pass that.

I am surprised to find the lauric-acid argument repeated in this book because lauric acid is not the reason for the large increase in the use of coconut oil in soap in the United States during the period up to 1934. The price of coconut oil is the big outstanding reason for that increase in the use of coconut oil there, the same as it is in oleomargarine. The proof of that statement is the fact that it increased in oleomargarine in the same proportion that it increased in soap. And certainly lauric acid has no part in the manufacture of oleomargarine.

On the bottom of page 103 it says—this is a statement relating to the prospect of increasing the production of fats and oils in the United States:

The principal domestic oils which can be substituted in a greater or lesser degree for coconut oil in its chief uses are inedible tallow and greases, fish oil, cottonseed oil, oleo oil, neutral lard, peanut oil, corn oil, and soybean oil.

That is the exact statement of fact. Then it proceeds to say:

All of these, except inedible tallow and greases produced in rendering plants and certain types of fish oil, are by-products or joint products with other commodities, and their production is not likely to be influenced appreciably by moderate changes in the prices of oils and fats.

Of course, what has happened since the tax went into effect shows that as to corn oil and soy-bean oil that is not a statement of what has happened. The use of the phrase "by-products or joint products"—of course, they are joint products. We make a very important product out of the residue after the oil is extracted. That is



even true of the tallow and grease manufacture. But in using the term "by-products", which indicates they are not the major product or the product the price of which is the major influence in increasing the production, that, of course, is not the fact.

As to peanut oil, corn oil and soy-bean oil, the price of the oil is the major factor.

There is a little-disputed question as to how much more cottonseed oil we can produce if the price of the oil were higher. That does not mean that we can squeeze more oil out of a certain definite quantity of cottonseed, but it does mean there is a great quantity of cottonseed not processed into oil if the price is low.

In 1933 there was a point when it did not pay transportation to produce the cottonseed oil.

On page 104 there is this sentence:

The beans from which the soybean oil is extracted are grown mostly for soil enrichment and for hay, rather than for oil production.

Both parts of that sentence are widely apart from the facts. There is so little soil-enrichment value to the growth of soy beans that it is removed from the Agricultural Adjustment Administration list of crops for which benefit-payments are made. And for the last two years the soy beans have been grown in increasing quantity directly for the oil, leaving the hay as a by-product.

On the bottom of the page there is this sentence:

(The attractiveness of foreign markets is simultaneously reduced in some degree, since the oils and fats which are prevented from entering the United States in consequence of the tax, flow to the foreign markets in which the United States exports must compete.)

This refers to the supposed result of shutting the imports out of the United States. Of course, that has not happened under the tax. So even that part of this is not germane.

But let me take the statement as it is made—"The attractiveness of foreign markets is simultaneously reduced in some degree, since the oils and fats which are prevented from entering the United States in consequence of the tax, flow to the foreign markets in which the United States exports must compete." There was a shadow of that being true back about 10 years ago when we were suffering a decline in cotton-oil and lard exports. Since that time there has been inactivity in the exporting of any of our edibles abroad, owing not to this situation at all but to the limitations and self-sufficiency programs in the countries which were former customers.

I notice a reference on the bottom of page 105 which must be just an oversight error, because there, in referring to tallow, it calls the tax on tallow an excise tax. That is an inexcusable error. The tax on tallow has never been an excise tax; it is an import tax.

I think, with just two more references, I will be through with this.

I find on page 111: "The taxes have not operated appreciably to enlarge domestic production of oils and fats".

I will not read that. I have already answered it.

On page 112 there is an effort to discuss what might be the result of admitting coconut oil into the United States free from the tax if rendered inedible. I have discussed that previously in my statement, and I think I might characterize it briefly in one sentence in this way, that it does not take into consideration the facts of the competition that I have pointed out, that is, that a denatured oil competes with the crude oil, and since crude oil is the basis for the price of the refined oil, then the denatured oil competes with the refined oil to that extent.

Now, my final statement. The final point I wish to discuss is the fact that the present level of our sales of commodities to the Philippines will not be reduced or modified in any particular by continuing in effect the present excise taxes on coconut oil.

I document in my brief the tremendous accumulation of trade balances against us that have accumulated during this entire period (with the exception of two or three years) of our dealings with the Philippines. In other words, our money has gone there for things we have been able to buy here, and buy cheaply under the conditions; and that money has been spent not only in the purchase of American goods but in a considerable quantity in the purchase of goods of other nationals. And that still continues.

I received on my desk this morning the 1936 trade balance. It is still up in the high millions. I have it here but I will not take the time to read it.

In other words, our trade balance, even if we cut out one half or three quarters of the entire trade in coconut oil, would still be ample to take care of the domestic goods that are being sold to the Philippines—perhaps not all that we sold six or eight or ten years ago.

Those troubles that the American exporters are having with their trade with the Philippine Islands are not due to this question of our trade balance with the Philippines; they are due to other conditions, most of which are entirely beyond the control of the American exporters. We have set ourselves on a price differential in the cost of production in the United States, and when we try to export goods it takes more than a trade balance to overcome the handicap.

Such changes in our exports as have taken place since 1934 cannot be charged up to this cause. The amount of American dollars paid for coconut oil have not declined. Such change in trade balance as has taken place is not due to the tax on coconut oil.

Consider the following facts:

1. Cotton exports to the Philippines, it was shown yesterday, afford a market for the cotton lint produced on less than 1 percent of the land devoted to raising cotton. The imports of coconut oil used directly as a substitute for cottonseed oil displaced the cottonseed oil by many times 1 percent of the cotton acreage. I will document that in my final brief.

2. Dairy exports to the Philippines account for the product of about 37,500 cows. The imports of coconut oil used in the manufacture of oleomargarine as a substitute for butter displaced an amount of butter equivalent to the product from 1,000,000 to 1,250,000 cows.

3. The coconut oil imported from the Philippines used in soap alone equals in value the wheat produced on from 175,000 to 200,000 acres of wheat land, while the exports of flour to the Philippines last year consumed wheat from only a fraction of that area.

Those are the three important agricultural exports to the Philippines. And I have shown here how the fats and oils group alone in the United States absorbs and imports, and stands up under the impact of that import amounting to 10, 12, and 15 times the amount which is received by the other agricultural interests that are interested in these exports.

These facts are as true today after three years of the tax as they were for three years before the tax.

Do not misunderstand this argument. While what we pay for coconut oil, supplies the Filipinos with enough to buy all the agricultural products we send them and supplies enough more to go a long way toward financing their purchases of American automobiles, oil, tires, machinery, iron and steel, fertilizer, and so on, we offer no objection. We realize the importance of these exports. Agriculture feeds the workers who produce them in the United States. We offer only the fact that we have sought and secured a plan under which there can be bought and used in the United States this quantity of competing coconut oil without depressing the prices of our own fats and oils. We plead the equity and the workability of this device, and we ask only that it be severely let alone.

If by some unfortunate chance the domestic producers of fats and oils are forced to go back to a price-level comparable with tropical costs of production in order to finance the sale of a few other agricultural products and a large volume of industrial products to the Philippines, I can foresee a disturbance which will spread through all American agriculture.

We ask for the certainty of our present situation to be continued. That concludes my statement.

Acting Chairman SAYRE. Thank you, Mr. Loomis.

I wonder if there are any questions.

Mr. EDMINSTER. Mr. Loomis, I understood you to say that you are appearing on behalf of the dairy interests?

Mr. LOOMIS. A certain group of the dairy interests; yes, Sir; two of them, in fact.

Mr. EDMINSTER. Will you please explain just how imports of coconut oil affect the interests of the dairy-producers? Just briefly, what is the connection between the two?

Mr. LOOMIS. Well, that has been a potent factor in the American dairy industry ever since 1902.

Mr. EDMINSTER. What is the route by which that is done? Where does that effect come in? I take it, it is on the price of butter.

Mr. LOOMIS. Coconut oil, being the major factor or major item in the manufacture of oleomargarine, the price of coconut oil at the present time, or since the war, let us say, having been the potent factor in cost of the other ingredients of oleomargarine, permitting the manufacture of oleomargarine which is sold as a substitute for butter, at a price away below what it is possible to produce butterfat for in the United States.

Mr. EDMINSTER. Have you any data as to the effect of the sales of oleomargarine, whether containing coconut oil or not, upon the price of butter?

Mr. LOOMIS. Yes, Sir. I have studied that and charted it a half-dozen times. I would not say now, nor do I believe it has ever been true, that it is a major factor in the price of butter. It takes the top off whenever there is an opportunity for a moderately high price for butter. It is a substitute which is open and available to every purchaser at every minute when he thinks the price of butter has gone to a price where he cannot afford it, and then he buys the pound of oleomargarine.

Mr. EDMINSTER. Are you familiar with conclusions which I understand have been reached by students of the problem who presumably have no ax to grind, as a result of research, that if all of the oleomargarine produced in the United States, from whatever ingredients, imported or domestic, were prohibited from being sold, and if we assume furthermore that each pound of oleomargarine disappearing from consumption would be replaced by a pound of butter—which you will admit is a far-fetched assumption—the effect upon the price of butter would not be more than 3 cents a pound?

Mr. LOOMIS. I am not familiar with that. I am familiar with the background upon which that prediction might be made. I think 3 cents is too small. Of course, the ceiling would be the world price plus our tariff.

Mr. EDMINSTER. Assuming for the moment that 3 cents is the maximum effect upon the basis of the supposition that a pound of butter would replace each pound of oleomargarine eliminated from consumption, in your opinion, Mr. Loomis, is it likely that more than a half pound of butter would be substituted for a pound of oleomargarine?

Mr. LOOMIS. I cannot answer that question.

Mr. EDMINSTER. Isn't it a fact that the oleomargarine is consumed almost entirely by those elements of the population of very low purchasing-power?

Mr. LOOMIS. No, Sir. There is more misinformation and less understanding about who consumes oleomargarine than almost any other subject. It is almost as dark as the inside of a cow's stomach that they used to talk about.

Mr. EDMINSTER. I thought it was bought chiefly because of the fact that it was cheaper and was taken as a substitute for butter by people who could not afford to buy the butter.

Mr. LOOMIS. Oleomargarine goes into a much wider consumption by a very much wider group of people when butter reaches a certain top price.

I have canvassed the situation to find where it is sold here in Washington. Incidentally, there is not much sold here. A large percentage of the stores of the very moderate price section of the city do not sell oleomargarine at all, while some of the stores in Chevy Chase do sell it.

Mr. EDMINSTER. I do not want to testify; I am just asking questions, but I do want to say that I have looked into the situation quite a bit, and I have come to the conclusion that if all the oleomargarine produced in this country were eliminated the effect upon the price of butter would probably not be more than a cent or a cent and a half a pound at the outside.

Mr. LOOMIS. We would be very happy to get that cent or the cent and a half spread over the year.

Mr. EDMINSTER. If that is true, then I want to go on to a further question. Would the elimination from our import trade of all the coconut oil result in the cessation of margarine manufacture in this country?

Mr. LOOMIS. Oh, no; not at all.

Mr. EDMINSTER. How much margarine do you think would be produced in this country if all coconut oil were eliminated?

Mr. LOOMIS. Just as much as now; perhaps more, if they could work the good psychology that they are using now.

Mr. EDMINSTER. By using the domestic ingredients?

Mr. LOOMIS. Yes. That is a situation which has arisen quite strongly in the last two or three years, due to their methods of handling the cottonseed oil.

Mr. EDMINSTER. Then if that is the case, upon what grounds do you base your assumption that taxes or other restrictions upon imports of coconut oil are of any appreciable significance whatever to the dairy interests of this country?

Mr. LOOMIS. First, the importation of coconut oil has the same effect on the United States cottonseed oil, or more so, than it does on the price of butter, particularly again within the last two years since it has become useful as an ingredient in the lard-compounds and lard-substitutes.

Mr. EDMINSTER. If the amount of margarine manufactured in this country is a very minor factor in the price of butter—

Mr. LOOMIS. That is your assumption, not mine.

Mr. EDMINSTER. All right, then; let it be my assumption for the moment.

Secondly—and I believe this is your assumption—the elimination of coconut-oil imports would not affect the amount of margarine produced in this country?

Mr. LOOMIS. All right.

Mr. EDMINSTER. It is not necessary to take my assumption on point one. Your assumption on point two is sufficient. How can you say that the maintenance and the increase in these taxes on coconut oil is of any significance to the dairy industry, which you say you are representing, leaving aside for the moment the question of export trade and the indirect adverse effects upon the industry and just considering for the moment the effect on the dairymen as producers?

Mr. LOOMIS. Of course, as you know, there are two or three factors which affect the price of butter. One of those, and probably the most potent one—although I doubt if the industry always appreciates it—is the ability of the consumer to buy, because admittedly butter is a high-priced commodity.

I want to qualify that. Most people think it is.

The second factor is the operation of the varying quantities coming on to the market at different periods of the year. Butter is cheap when it is cheap to produce. The times when butter ought to be higher and better priced is when it is expensive to produce. I do not believe that oleomargarine, whether made from domestic oil or from foreign oil, in any way influences the price of butter during our surplus season, that is, influences it much, if any. There is a low price there anyway. But the very moment that the price of butter starts to and tries to rise, the efforts of the high-cost producers and of the people who have invested their money and must take care of their storage charges are to bring up the price of butter during the non-surplus season of the year; then we find turned loose on us this quantity-production of cheap oleomargarine, of which there is no seasonal control, and we get a price-cut from the top.

Now, you want to know why, since there is just as much oleomargarine made in the United States and since no coconut oil is produced here, coconut oil has so much to do with it. That is because of the fact that they move together, that is, the prices of these oils and fats, from the lowest to the highest, go up and down together; and when two or three oils with the large volume of consumption such as coconut oil, palm oil, palm-kernel oil, and sunflower oil come in and drop the price of oil in that medium grade, the whole price schedule goes down, making it possible for the oleomargarine-manufacturers to save 2 or 3 or 4 cents in their cost of production and making it possible for them to reduce the price of oleomargarine by at least that much over what it would be, let us say, at the present time.

Every grocer or every dealer in margarine and every manufacturer of margarine are then ready and willing, no matter what he makes his product from, to offer lower prices.

Mr. EDMINSTER. Mr. Loomis, I don't want to do all the questioning, and I know there are others who want to ask some questions; but I do want to ask one or two more questions.

You make the statement that the prices for all these fats and oils go up and down together. What was the price of coconut oil during the low point of the depression?

Mr. LOOMIS. Of course we may not agree, because we may be quoting different grades. But we have set it approximately in the neighborhood of 3 cents as the price it reached early in 1934. I do not have any of my price charts or price data with me.

I know that cottonseed oil got so cheap that the farmers were only getting \$10 or \$12 a ton for their cottonseed.

Mr. EDMINSTER. On the Pacific coast, \$2.50 I have here.

Mr. LOOMIS. That is a crude-oil class just landed here.

Mr. EDMINSTER. Well, it is not necessary to have that exactly. The point I wanted to get at was this. You say that they go up and down together?

Mr. LOOMIS. Yes, Sir.

Mr. EDMINSTER. Well, do you suppose our tariff policy in the past had anything to do with the fact that prices were that low during the depression?

Mr. LOOMIS. Why, I think so, Mr. Edminster, very sincerely, because there was an accumulation of fats and oils, both domestic and foreign, in stock in the United States at that time. There was never a peak in history like it—all of which could have been prevented by the Tariff Act, which we asked for repeatedly in 1922 and in 1930. I do not mean to say that they would have stayed up to the 1929 or even to the 1926 prices, but they certainly would not have reached the 1933 level.

Mr. EDMINSTER. Do you mean to say the fats and oils industry was on the basis of importation during the depression and that the exclusion of oils and fats would have increased the price of fats and oils up to present levels?

Mr. LOOMIS. No; but it would have raised them.

Mr. EDMINSTER. Are you sure of that?

Mr. LOOMIS. No. Nobody is sure of those things. But I am as sincere in my belief in it as I can be. I feel perfectly sure that if the very modest rates of duty which we asked for on this group of fats and oils in the Tariff Act of 1930 had been written in and the weasel words admitting certain denatured oils had not been written in, we would have had fats and oils a cent to a cent and a half higher during the depth of the depression.

Mr. EDMINSTER. Notwithstanding the fact, as you say, that they are highly interchangeable, that some of the most important ones are on a very heavy export basis, and that edible oils and fats are distinctly on an export basis?

Mr. LOOMIS. We have no heavy export business in the fats and oils.

Mr. EDMINSTER. Not now.

Mr. LOOMIS. We did not have in 1926 and 1927. Those eras of an effort to create self-sufficiency in our importing countries started in long before then; and, of course, lard was the first sufferer.

Mr. EDMINSTER. Are you familiar with the expression "triangular trade"?

Mr. LOOMIS. Very much so. I was wondering why the term was not used this morning in the statement of the Trade Council.

Mr. EDMINSTER. I was wondering why you did not use it in connection with our trade balance with the Philippines. Do I understand you to say that cutting out imports from the Philippines would have no necessary relationship to our export trade or just to our export trade with the Philippines, or just how did you state it?

Mr. LOOMIS. I said I thought we could get along and have about the same export trade with the Philippines that we have now under the same basis that now exists, other than the reduction of quite a material part of our coconut-oil imports. I do not mean that I am suggesting it or asking for it.

Mr. EDMINSTER. When the Philippines sell products to us and acquire dollar exchange, what do they do with it, do you suppose?

Mr. LOOMIS. Go into the open market and buy what they need at the place they can buy it best.

Mr. EDMINSTER. When they pay that dollar exchange to some other country for the things they want to buy from that other country, what does that other country do with the dollar exchange?



Mr. LOOMIS. I know some things they do not do with it, but I am not at all sure what they do do with it. They do not pay their debts with it.

Mr. EDMINSTER. Is that dollar exchange worth anything to anybody except as it is redeemed ultimately in goods and services of the United States?

Mr. LOOMIS. Ultimately that is right.

Mr. EDMINSTER. Then the test, I take it, of your statement with regard to restrictions of imports from the Philippines as affecting our export trade is ultimately one of whether or not foreign purchasing-power for American products is reduced or is not reduced. Is that not true?

Mr. LOOMIS. Certainly.

Mr. EDMINSTER. Then when we do restrict imports from the Philippines we injure the interests of our exporters, whether to the Philippines or other countries?

Mr. LOOMIS. If you will broaden that statement to say when we restrict imports we ultimately reduce exports; yes. But I am not sure that restricting imports from the Philippines has that effect. I don't know what is going to happen to these goods that they wish to sell. Somebody else may be in the market for them.

Mr. EDMINSTER. I think I have about used up my time.

Mr. LOOMIS. Let me say this, please. I appreciate the fact that I am going away over my time. But I saw a chart that was made by one of the Government's best economists, who is now out of the Government service, in which was charted the total transportation movement of commodities in the United States. It was a wonderful piece of work. The thing that struck me about it, and which I feel like asking you gentlemen to consider, is the extremely small section which shows either the export or the import movement of products in the United States. I am not an isolationist, Mr. Chairman. We have to have coconut oil in this country for the next 20, 30, 40, or 50 years, and also other oils. But there is very little sense in sending our money away from home when we can produce the same thing, or the equivalent of the same thing, in our own country.

I have stood on that platform for a long, long time.

Mr. WARING. I want first to refer to Mr. Loomis' remark about the inexcusable error on page 105.

Mr. LOOMIS. I hope I am wrong, Mr. Waring.

Mr. WARING. You are. The Revenue Act of 1936 (Pub. No. 740, 74th Cong., sec. 701, Tax on Certain Oils) amended the Revenue Act of 1932 and includes—

whale oil (except sperm oil), fish oil (except cod oil, cod-liver oil, and halibut-liver oil), marine-animal oil, tallow, inedible animal oils, inedible animal fats,

inedible animal greases, fatty acids derived from any of the foregoing, and salts of any of the foregoing; all the foregoing, whether or not refined, sulphonated, sulphated, hydrogenated, or otherwise processed, 3 cents per pound; sesame oil provided for in paragraph 1732 of the Tariff Act of 1930, sunflower oil, rapeseed oil, kapok oil, hempseed oil, perilla oil, fatty acids derived from any of the foregoing . . . ; all the foregoing, whether or not refined, sulphonated, sulphated, hydrogenated, or otherwise processed, 4½ cents per pound; any article, merchandise, or combination (except oils specified in section 602½ of the Revenue Act of 1934, as amended) . . . a tax at the rate or rates per pound equal to that proportion of the rate or rates prescribed in this paragraph or such section 602½ in respect of such product or products which the quantity by weight of the imported article, merchandise, or combination, consisting of or derived from such product or products, bears to the total weight of the imported article, merchandise, or combination; hempseed, perilla seed, rapeseed, sesame seed, and kapok seed, 2 cents per pound.

Mr. LOOMIS. To save time, doesn't it say that these taxes apply to imports only?

Mr. WARING. I see no reference to it as such. But even if it were, it could be called an import excise tax, and has been.

Mr. LOOMIS. The tax-collecting authorities make a very clear distinction between an import tax and an excise tax. The import tax is collected entirely, as you probably know, by the Customs Bureau, but the excise tax is collected by the Bureau of Internal Revenue.

Mr. WARING. According to your statement it would appear that Congress had amended the Tariff Act and raised the import duty.

Mr. LOOMIS. No.

Mr. WARING. Therefore, the duty was not raised.

Mr. LOOMIS. Of course, the commercial distinction is that anyone who produces coconut oil in the United States will be subject to the excise tax; but nobody who produces tallow in the United States is subject to this tax.

Mr. WARING. That is true.

Mr. LOOMIS. It is a choice of words. If I am wrong, I apologize.

Mr. WARING. You make a great deal in your brief, Mr. Loomis, of the stimulation which has come to the production of peanut oil, soy-bean oil, and others as a result of this 3-cent tax. Do you think it would be possible for that development to continue if the 3-cent tax were removed on coconut oil and other oils?

Mr. LOOMIS. So far as I can answer that question—which is a prophecy and nothing else—I do not believe so.

Mr. WARING. Then, if that is the case, in effect what you are asking is that the American consumer should pay a higher price or a price premium to the domestic producers of such oils?

Mr. LOOMIS. Excepting, as I cited in the soap case, they are not. Theoretically, yes. I want to be frank about that.

Mr. WARING. In view of that fact, Mr. Loomis, how does that coincide with the statement in your brief on page 4, where you refer

to this suggestion on the effect of the tax as a wealth-producing item, if American consumers are forced to pay more, particularly for oils which perform the same service? How does that produce wealth?

Mr. LOOMIS. Of course, it increases the production of the American agricultural products. They are consumed, and the money remains in the United States. I am not enough of an economist—because I am not an economist at all—to give any further analysis.

Mr. WARING. The fact is that the consumer would have to pay a higher price for the product performing the same service?

Mr. LOOMIS. Yes; theoretically.

Mr. WARING. Actually.

Mr. LOOMIS. No; not actually, because I have just shown you the figures and the price paid for soap has not increased anywhere nearly so much. I say that it would happen as to the oils which go into oleomargarine. That is what we expect to happen. But I think there are a great many variables in there, Mr. Waring. It depends again upon the ability of the middle group, the processor and distributor, as to what they can do with prices, whether they are in a buyer's market or in a seller's market. There are a half-dozen different conditions.

Mr. WARING. In your brief you mentioned that most of the imports from the Philippines are of an agricultural character. You referred to this condition as a burden upon American agriculture.

Mr. LOOMIS. I did.

Mr. WARING. But you did not bring out in your brief that a part of those products exported from the Philippines are, for instance, abaca (Manila hemp), which we do not produce in the United States and which we are in need of in our rope industry in the United States. That would not be a burden?

Mr. LOOMIS. I don't think so.

Mr. WARING. You did not mention in your brief that the United States consumes 6½ million tons of sugar but produces only about 2 million tons. That would not be a burden on American agriculture, would it?

Mr. LOOMIS. We could get into a very long controversy over that, Mr. Waring.

Mr. WARING. My only point is that it is not fair to say that the entire exports from the Philippines are a burden upon American producers.

Mr. LOOMIS. That is right. I agree with that.

Mr. WARING. I do not think that was entirely brought out in your brief.

Mr. LOOMIS. I think that criticism is probably correct.

Mr. WARING. In as much as you state in your brief that you are not at all anxious to penalize or ruin the Philippine producers, and in

as much as imports of coconut oil from the Philippines are now limited to quota; I was wondering if you would have any objection to the removal of the export taxes which are provided for in the Independence Act. I just wanted to get your position on that.

Mr. LOOMIS. I do not believe I have any position on it; but I have been confused this morning by some references to export taxes which seemed to me to be referring to import taxes into the United States. I am not familiar with that section.

Is there a provision there that they are to assess an excise tax?

Mr. WARING. During the second half of the Commonwealth period.

Mr. LOOMIS. I thought that was the situation. I just want to say that I think this matter entirely within the hands of their own domestic economy and that I do not believe we have any interest in it one way or the other.

Mr. WARING. They are required to impose it by the Independence Act.

Mr. LOOMIS. I will take refuge by saying that if they do that it will either increase the cost of coconut oil in the United States, to which we would not object, or else it will come out of the producers in the Philippines, which I think is the situation, because copra is sold on the world market, and I do not believe the producer in the Philippines has anything whatever to do with it. That is a broad statement. I mean in a very large measure with the world price of copra.

Mr. WARING. In your direct testimony before the Committee you mentioned the financial benefits arising out of the processing tax. In as much as much of the oil so taxed is coconut oil coming from the Philippines, and in as much as the Supreme Court has ruled that these taxes collected are to be refunded to the Philippines, do you consider that the financial benefits to the United States are appreciable?

Mr. LOOMIS. So far as the tax on Philippine coconut oil is concerned, the Government gets no benefit from it; but the tax we do get a benefit from is a very large and important item. Incidentally, the Supreme Court said that too.

Mr. WARING. Coconut oil in the form of margarine is competitive to some extent with butter? I think you have brought that out, haven't you?

Mr. LOOMIS. Yes.

Mr. WARING. It is true, isn't it, that margarine is also subject to a Federal tax in addition to the processing tax on coconut oil?

Mr. LOOMIS. A very small one.

Mr. WARING. A Federal tax?

Mr. LOOMIS. Yes.

Mr. WARING. And various state taxes, which are not small?

Mr. LOOMIS. That is true.

Mr. WARING. Isn't it true that both the proportion and the volume of coconut oil used in margarine has declined in recent months?

Mr. LOOMIS. I have in mind that the decline does not seem to have been as great as we expected or that has been commented upon.

Mr. WARING. It has declined, however?

Mr. LOOMIS. May I read these figures for the record from the United States Tariff Commission Report, supplemented by the 1935 figures, that is, in Report No. 118? This is page 94:

Oleomargarine-coconut-oil consumption, 1931, 133,177,000 pounds. In 1932 it was 123,219,000 pounds; in 1933 it went up to 150,096,000 pounds; in 1934 it was back to 123,878,000 pounds; in 1935 it went up to 174,314,000 pounds; and last year it stood at 150,465,000 pounds.

There does not seem to be much decline.

Mr. WARING. From 174,000,000 to 150,000,000?

Mr. LOOMIS. That is a decline from 1935 to 1936; but in 1935, when the tax was in effect, there was also an increase to 150,000,000.

Mr. WARING. The drought conditions could explain that. But, as I understand it, the decline has continued in recent months of 1937.

Mr. LOOMIS. I haven't even looked at the figures.

Mr. WARING. The principal use for coconut oil in the past, and at the present time, is in the manufacture of soap?

Mr. LOOMIS. Yes, Sir.

Mr. WARING. Despite your comments about the lauric-acid content, Mr. Loomis, it is true that in order to have a free-lathering quality, which the domestic consumer has either come to appreciate or has been taught to appreciate—whichever you prefer—it is necessary for the soap-manufacturers to use certain quantities of coconut oil? Is that not correct?

Mr. LOOMIS. Well, there are qualifications I might make on that if I wanted to be critical. But I agree with it.

Mr. WARING. I say coconut oil, or babassu oil, or palm-kernel oil, or other lauric-acid oil.

Coconut oil then fills a need in the United States for which we have no substitute?

Mr. LOOMIS. Not because of what you have just said. There is a need in certain types and kinds of soap. I think we could get along very nicely without free-lathering toilet soaps. In fact, some of the very best in the world; for instance, a very famous English soap is made exclusively from American tallow furnished by a concern that is a member of our association in England. There is not an ounce of lauric acid used in it.

Mr. WARING. But it does fill a demand?

Mr. LOOMIS. Yes; a demand which has been developed by very clever salesmanship.

Mr. WARING. And the coconut oil rendered inedible, to which you referred a little while ago, would not compete in any way with butter?

Mr. LOOMIS. Oh, yes. I have spoken more words on that subject and spent more time on it than any other subject in the last two years. I insist that these prices go up and down together; and denatured coconut oil competes with every crude oil.

Mr. WARING. What would be the effect on the price of coconut oil that is not rendered inedible which could be used in the production of margarine, if the tax were removed from coconut oil rendered inedible for soap?

Mr. LOOMIS. In the United States the first effect, of course, would be to crowd the undenatured oil out of the soap industry entirely. That would probably reduce the price of the undenatured coconut oil in the United States. I don't know about that. That is inside control. It depends upon who is handling it, how strong their hands are, and what there is to it. But I would say that would be the net effect if no handicap were thrown into the way of the operation. That would cheapen the cost of oleomargarine in the United States and would immediately reverse the trend toward domestic oils in oleomargarine.

Mr. WARING. I wonder if it would be possible to have just the opposite effect; that is, if the tax were removed from inedible oil the soap-producers would find a cheaper product, would they not?

Mr. LOOMIS. The denatured oil?

Mr. WARING. Yes.

Mr. LOOMIS. Presumably.

Mr. WARING. And, therefore, would be somewhat anxious in bidding for it. So the denatured oil would probably not decline by the amount of the tax, in which case the producers of coconut oil would have the choice of either denaturing it or letting it go into the edible trade. If they got a higher price in the inedible trade, almost none would be available for the edible field?

Mr. LOOMIS. I confess my entire inability, and even ignorance, to analyze that situation.

Mr. WARING. Thank you, Mr. Loomis.

Mr. ROXAS. Mr. Loomis, am I correct in my understanding from your statement that copra and other oils coming from foreign countries are on the free-list, that you have no objection to the present arrangement whereby coconut oil and copra from the Philippines enter the United States today, and that what you are really interested in is the preservation of the 3-cent excise tax? Is that correct?

Mr. LOOMIS. That is pretty nearly correct. We might change our minds about that if something should happen in the future.

Mr. ROXAS. But at present?

Mr. LOOMIS. At present we are entirely satisfied.

Mr. ROXAS. You are satisfied with the present arrangement?

Mr. LOOMIS. Yes.

Mr. ROXAS. And you are also satisfied, considering the relationship between the Philippines and the United States, historically, commercially, and otherwise, in maintaining the present 2-cent differential in excise taxes in favor of the Philippines as against coconut oil imported from other countries than the Philippines? Am I correct in that?

Mr. LOOMIS. That is about the statement. We are not nearly so much concerned about maintaining that differential as we are about maintaining our own price-levels. We have no objection to that so long as other factors do not interfere which reduce our prices back below the cost of production.

Mr. ROXAS. Therefore, Mr. Loomis, I am correct in my assumption that you have no objection to continuing the present arrangement, the existing conditions, and the laws in relation to Philippine imports of coconut oil into the United States?

Mr. LOOMIS. No present objection.

Acting Chairman SAYRE. Are there any other questions of Mr. Loomis?

Colonel McDONALD. Do you appear in behalf of any group interested in exporting canned milk to the Philippine Islands?

Mr. LOOMIS. No, Sir. My representation of the dairy industry is confined to the butter industry.

Colonel McDONALD. Does butter pay any tax, Federal or State, in the United States such as oleomargarine pays?

Mr. LOOMIS. No, Sir.

Colonel McDONALD. You stated that oleomargarine takes the top off the price of butter whenever it tends to go too high. Is that an unmixed evil for the consumers of the United States?

Mr. LOOMIS. I got myself into a great many controversies with my own people on that subject. Perhaps I had better ask to be excused from answering it on the public record here.

Colonel McDONALD. In the case of the stoppage or large reduction in the sale of coconut oil and copra in the United States, what do you suggest be done for the 4 million Filipinos who are dependent upon it?

Mr. LOOMIS. There is a world market for copra of tremendous size. I believe it is a better oil than the oil with which it competes most in the world market. While I would not like to take part in any effort which would force the Philippines entirely out of that world market, I believe they are perfectly capable of taking care of themselves in that market. Their troubles in that case would not be with us but would be with the producers in other parts of the world. But I have some documents here to show what they would be up against in the

question of labor costs in the production of copra elsewhere; but I think it would not be worth while to go into it now.

Acting Chairman SAYRE. Are there any further questions of Mr. Loomis?

(No response.)

If not, Mr. Loomis, we thank you very much for your kindness in appearing before the Committee.

Mr. LOOMIS. I appreciate the time given to me.

Acting Chairman SAYRE. As has been announced previously, owing to the large number of requests received for the opportunity to make appearances on the Pacific coast, the Committee has decided to hold hearings on the Pacific coast from July 21st to July 23d.

The Committee will expect to sail on the following day for the Philippines, that is, on July 24th. The Committee will also hold hearings in the Philippine Islands.

The hearings in Washington are now adjourned.

(Thereupon, at 1:10 o'clock p.m., June 23, 1937, an adjournment was taken to San Francisco, California, until July 21, 1937.)



**HEARINGS HELD IN SAN FRANCISCO**

## PUBLIC NOTICE OF HEARINGS, JUNE 19, 1937

*For the Press*

*June 19, 1937*

### PUBLIC NOTICE

#### HEARINGS ON UNITED STATES—PHILIPPINE AFFAIRS TO BE HELD IN SAN FRANCISCO

The Joint Preparatory Committee on Philippine Affairs has received numerous requests to hold public hearings on the Pacific coast, so that interested parties in that region might present their views regarding the effects of existing legislation upon the commodities and services involved in the present economic relations between the United States and Philippines. It has been decided, therefore, to hold hearings in San Francisco from July 21 to July 23, inclusive. The address at which the hearings will be held will be announced later.

Persons wishing to appear before the Committee in San Francisco should submit statements of views in writing, and applications for supplementary oral presentation of views, not later than 12 o'clock noon, July 20. Until July 1, briefs and applications should be addressed to "The Joint Preparatory Committee on Philippine Affairs, Room 206, United States Tariff Commission, 8th and E Streets, Washington, D.C." Thereafter, they should be addressed to "The Joint Preparatory Committee on Philippine Affairs, San Francisco District Office, Bureau of Foreign and Domestic Commerce, 311 Customhouse, San Francisco, Calif."

Written statements should be typewritten, processed, or printed. It is requested that 15 copies be submitted in order to facilitate study of the briefs by each member of the Committee.

Brief supplementary oral statements may be made to the Committee at the public hearing only by persons who, before July 21, 1937, have filed written statements and who have made application for a hearing. Applications for oral statements should indicate the approximate amount of time requested of the Committee for the submission of views.

FRANCIS B. SAYRE  
*Acting Chairman*

*Joint Preparatory Committee on Philippine Affairs*

PROCEEDINGS OF JULY 21, 1937  
MORNING SESSION

MERCHANTS' EXCHANGE BUILDING,  
SAN FRANCISCO, CALIFORNIA,  
*Wednesday, July 21, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 10 o'clock a.m.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Colonel DONALD C. McDONALD;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS;  
Mr. BEN D. DORFMAN; and  
Mr. FRANK A. WARING.

OPENING STATEMENT OF MR. MACMURRAY

Chairman MACMURRAY. The meeting will please come to order.

The present meeting of the Joint Preparatory Committee on Philippine Affairs is the first of a series to be held in San Francisco for the purpose of giving opportunity for hearings of the same sort that have already been held in Washington under the Chairmanship of Mr. Sayre, Assistant Secretary of State, who, at that time, was acting as Chairman of the Committee.

It, perhaps, would be well to repeat the clear explanation of the purposes of these hearings which was given by Mr. Sayre in opening the Washington series of hearings. I will, therefore, read the remarks that he made at that time.

The Joint Preparatory Committee on Philippine Affairs, seated around this table, is engaged in a very far-reaching undertaking to ascertain how United States-Philippine commercial and other relationships may be adjusted in a way which will spell future happiness and prosperity for both peoples. This is a grave responsibility which I do not think we can overemphasize. The future stability and prosperity of the Philippines is of vital concern to Americans as well as to Filipinos.

For over a quarter of a century successive administrations of our Government have based their policy with reference to the Philippines upon an abid-

ing confidence in the ability of the Filipino people ultimately to govern themselves as a free and independent nation. The task of making the transition to a status of complete independence is one, however, which involves problems of great magnitude. These problems relate not merely to trade between the two peoples but also to political and economic considerations of far-reaching significance to the United States, to the Philippines, and to all nations having interests in the Far East. The attainment of the objectives which both peoples have in mind will require patience and a sense of fair play and cooperation. The Joint Committee, with such ideals in mind, is endeavoring to make some contribution toward the successful conclusion of this really great undertaking.

The terms of reference governing the work of this Committee were mapped out in conference with President Quezon in March of this year. The circumstances which led up to the setting up of the Joint Committee were outlined in identic letters, dated May 24, 1937, which, as Chairman of the Interdepartmental Committee on Philippine Affairs, I addressed to Senator Millard E. Tydings and to Congressman Leo Kocalkowski. The letter to Senator Tydings was printed in the *Congressional Record* of May 26, 1937 (pp. 6575-6576). It was pointed out therein that responsible persons in both countries have felt that certain "imperfections or inequalities"—to use the terms of President Roosevelt—may exist in the Independence Act of March 24, 1934, and that these so-called "imperfections or inequalities" are susceptible of adjustment through joint study and conference. It has also been felt that uncertainties and misconceptions in regard to the future political and economic relations of the Islands should be removed as soon as practicable because, until these uncertainties and misconceptions are removed, necessary economic adjustments in the Islands will be delayed. In addition, there are comparable problems involved in providing an adjustment of American export trade to a non-preferential, competitive position in the Philippine market. A recognition of the existence of these problems has led to the setting up of this Joint Committee in order to make studies, to hold hearings, to obtain the views of interested parties both in the United States and in the Philippines, and to make recommendations to the appropriate legislative authorities.

It has been agreed that, within a certain specified scope, this Committee should have general and fairly extensive powers of recommendation; that the Filipinos should be given an opportunity to attain economic as well as political independence; and that preferential trade relations between the United States and the Philippines should be terminated at the earliest practicable date consistent with affording the Philippines a reasonable opportunity to adjust their national economy. It would not be fair or right suddenly to make abrupt changes which might entail economic disaster to the Philippines. I am sure that the American people want the Filipino people to have every opportunity to establish a sound economic regime in order that they may be able to maintain their independence. In an endeavor to find a solution of these problems the members of this Joint Committee of Americans and Filipinos are working shoulder to shoulder.

This Committee, nevertheless, is performing a task which is merely preparatory or advisory in character. It has no power to decide upon courses of action. It has no power to control future legislation. But I hope that the Report and recommendations of the Committee will be so appealing, so inevitable because of the careful marshaling of facts leading up to the conclusions, that both the American Congress and the Commonwealth Assembly will see fit to follow the recommendations and to embody them in such legislation as may seem necessary and desirable.

The purpose of the hearings which begin this morning is to provide ample opportunity for the presentation of the views concerning economic and other relationships between the United States and the Philippines. I earnestly invite your cooperation and your help.

At the same opening meeting Mr. Sayre also read certain rules of procedure for the hearings on the United States-Philippine Affairs as follows:

First, oral statements of views should be brief and supplementary to the written statements which are to be filed on or before—in the present case it will be July 19, 1937.

Second, persons presenting oral statements may be questioned by members of the Committee during and at the close of their presentation.

Third, the hearings will begin at 10 o'clock a. m. on July 21, 1937, and each day thereafter until all witnesses have been heard. Hearings will be continued at 2 o'clock each afternoon.

Fourth, the Chairman will ascertain from each person appearing before the Committee at the beginning of his statement, the approximate amount of time which he desires. The Chairman may use his discretion in apportioning the time of the Committee at each hearing.

Those statements by Mr. Sayre, which are repeated at the present hearings, will indicate the purpose and the method which the hearings are to follow.

The first witness scheduled for this morning is Mr. S. S. Lawrence, sales manager, appearing on behalf of the Shell Chemical Company of San Francisco.

Is Mr. Lawrence present?

(No response.)

It would appear that Mr. Lawrence is not present. We might then pass on to the next witness, reserving to Mr. Lawrence the opportunity to appear later.

The next witness is Mr. Clarence H. Matson, manager of the Department of Foreign Commerce and Shipping of the Los Angeles Chamber of Commerce, Los Angeles, California.

Is Mr. Matson present?

Mr. MATSON. Yes, Mr. Chairman.

Chairman MACMURRAY. Please come forward, Mr. Matson, and be seated.

About how much time do you expect to consume, Mr. Matson?

Mr. MATSON. My statement will be brief, Mr. Chairman, as I simply want to bring out three or four points in the brief which we have already filed.

Chairman MACMURRAY. Very well.

STATEMENT OF MR. CLARENCE H. MATSON, REPRESENTING THE DEPARTMENT OF FOREIGN COMMERCE AND SHIPPING, LOS ANGELES CHAMBER OF COMMERCE

Mr. MATSON. Mr. Chairman and Members of the Committee: We have already forwarded to you 15 copies of a supplemental brief,<sup>1</sup> which really is our main brief, but we did not have opportunity to file in Washington the views which we wish to file with your honorable Committee.

I will take time only to call attention to the stand that the Los Angeles Chamber of Commerce has taken in this matter.

First, we accept as a fixed policy in the United States the question of the independence of the Philippines. We are not saying anything on that subject.

We also consider the date at which independence will take effect as more or less of a political detail and of more interest to the people of the Philippines and of more importance to them than it is to us. We are, therefore, making no recommendations or entering into no discussion on that subject.

We are, however, vitally concerned with the economic phases of this question, particularly the definite continuance for a time at least, for a fixed time, of the preferential trade arrangements. We are asking that those be fixed at least until 1946. We consider that time will slip by very quickly. We find that many developments are taking place around the Pacific—in fact, in our trade relations throughout the world—and, therefore, we think there should be no change at least before 1946, as has been contemplated heretofore.

We are also suggesting that prior to that time—perhaps two years prior to that time—this, or some other authorized body, continue the study which you are now making, in view of developments which may take place under independence, or under preparation for independence, to consider whether or not preferential trade relations should or should not be continued after 1946, and, after the present arrangements should be discontinued, to provide for a reciprocal trade agreement between the United States and the Philippine Islands.

We discover that there is some opposition and discussion relative to export duties on Philippine products as provided in the present act beginning with 1941. We are not asking that those be either continued or rejected. They are an economic matter of more interest to the Philippine people than they are to us here in the United States. Doubtless conditions will arise which will make the Philip-

<sup>1</sup> See vol. III.

pine Government wish either to put these duties into effect or perhaps not to do so. However, as I understand the present act, it is mandatory, and we are suggesting that these export duties, on the part of the Philippine Government, be made permissive instead of mandatory.

That, Mr. Chairman and Members of the Committee, is the practical extent of our recommendations.

If you wish to ask any questions I shall be glad to attempt to answer them. - Otherwise we will submit the matter with this statement.

Chairman MACMURRAY. Are there any questions to be asked of Mr. Matson?

Mr. ROXAS. I have some questions, Mr. Chairman.

Chairman MACMURRAY. Mr. Roxas.

Mr. ROXAS. Mr. Matson, do I understand correctly that you are proposing a plan which contemplates the meeting of a trade conference about two years before 1946 to discuss the possibility of continuing preferential trade relations between the Philippines and the United States after independence; is that correct?

Mr. MATSON. Our basic idea is to make as little change in the present status, as constituted, as possible. But we anticipate that there will be changes. We find, practically every month, considerable changes in trade relations around the Pacific. We look at the Philippine Islands as an important economic element of the Pacific basin, and for that reason we suggest that, sometime prior to 1946, either this Committee or another body be constituted to renew this study and make suggestions as to what shall happen after July 1, 1946.

Mr. ROXAS. In other words, you wish to defer any possible changes in our present trade relations with the United States until shortly before 1946?

Mr. MATSON. Yes. First, to make definite the present preferential trade arrangements until 1946, and sometime shortly before that time to renew this study.

Mr. ROXAS. Did I understand you correctly, also, when you said that it would be better if the export tax provisions of the present Independence Act, which make it mandatory to collect this tax in the Philippines, be made permissive rather than mandatory?

Mr. MATSON. Yes; that is our opinion.

Mr. ROXAS. Would you give the Committee your reasons for making that suggestion?

Mr. MATSON. For the reason that the changes which may take place around the Pacific may have a bearing on that subject. The Government of the Philippine Islands may need revenues, which

could be collected through this export tax, or it might prove that this export tax would be detrimental to the Philippine trade. That is a detail of more importance to the people of the Philippines and should be acted on through their representatives, rather than fixed so far in advance.

Mr. ROXAS. Do you know any reason why American domestic producers could be in any way interested in the question of whether the Philippines should not impose these export duties on the Philippine imports into the United States?

Mr. MATSON. I can conceive that some might be.

Mr. ROXAS. For example?

Mr. MATSON. Well, I would rather not say.

Mr. ROXAS. But you believe that there might be some reason why these provisions should remain mandatory?

Mr. MATSON. No, it should not be mandatory; it should be made permissive.

Mr. ROXAS. I don't think I made my question clear. My question was, Do you know of any reason, from the viewpoint of American producers, why these duties should remain mandatory?

Mr. MATSON. Well, there might be, but at the same time it is rather difficult to look that far ahead in view of changing conditions.

Mr. ROXAS. Your opinion is that these export taxes are more the concern of the Philippines, the Philippine producers, and the Philippine Government, than the concern of American producers; is that correct?

Mr. MATSON. More of a legitimate concern to them; yes.

Mr. ROXAS. Thank you.

Chairman MACMURRAY. Are there any other questions?

(No response.)

Thank you, Mr. Matson.

The next witness on the list is Mr. A. M. Scott, chairman of the Maritime Commerce Committee of the Portland Chamber of Commerce, Portland, Oregon.

Is Mr. Scott present?

Mr. SCOTT. Yes, Mr. Chairman.

Chairman MACMURRAY. Will you come forward, Mr. Scott, and be seated?

#### STATEMENT OF MR. A. M. SCOTT, REPRESENTING THE PORTLAND CHAMBER OF COMMERCE

Mr. SCOTT. I have been requested to give an oral presentation for the Portland Chamber of Commerce, Portland, Oregon, and the Seattle and Tacoma Chambers of Commerce, in cooperation with



the Port Traffic Development Bureau, an autonomous agency of the port of Portland.

As a background to my remarks I would say that I have been closely associated with the Philippine trade since 1922, having made six visits to the Islands, of from one to three months' duration, in the development of the export flour trade. During these visits, I have called at all major outports, traveled in the interior, and generally observed business, political, and economic conditions.

Briefs<sup>2</sup> have been filed with your honorable body by the Chambers of Commerce which I represent, as well as briefs by national and commercial bodies throughout the United States. I would especially endorse and commend to your careful study the excellent and constructive brief of the National Foreign Trade Council, Inc., and the brief of the Millers' National Federation, both presented at your Washington, D. C., hearing.

The Pacific Coast Chambers of Commerce have attempted to give you a dependable cross-section of conditions affecting their respective areas in connection with trade to and from the Philippine Islands. We particularly desire to stress the vital importance to both the Philippine Commonwealth and the United States of the continuation of the preferential treatment to Philippine products entering the United States, in order to assist in building up the Philippine economic development and better standard of living so well started under the guardianship of the United States Government, and to United States products entering the Islands, in order to protect American investments and industries built up during the past 37 years under the protection of the American flag.

The United States Government assumed the responsibility in 1898 of protecting and fostering the struggling and imposed-upon Filipinos. As a result the Philippines now have modern schools, sanitary living conditions, public highways, railroads, modern ports and facilities, and modern military and coast defenses, on which the United States spent many millions of dollars. All in all, the United States performed a very creditable task in nobly fulfilling its duty.

The United States Government also encouraged its citizens to travel to the Philippines for investment and business development to the extent of at least \$200,000,000. These investments by American citizens have gone a long way toward building up, educating, and developing the Filipinos to a better standard of living and should be given consideration in the continued development of Philippine affairs, both from the standpoint of the Filipinos' economic development and the protection to the American citizens so entrenched.

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<sup>2</sup> All briefs submitted are printed in vol. III.

The Filipinos have shown their appreciation of this development in social, industrial, and political advancement and are now classed as having the highest living conditions and social development of any oriental country.

When we follow the published statistics showing the increase in importation of Philippine products into the United States from 1898 through 1936, we see the magnificent results of the United States rule over the Islands and the development of industries on our Pacific coast by using Philippine raw materials. At the same time we observe the increase from nothing to over \$60,000,000 annually of United States exports, principally agricultural products. And these very agricultural products, originating to a great extent in our Pacific-coast States, have been and still are sadly in need of markets!

In the announced policy released by the State Department on March 18, 1937, President Quezon, of the Philippines, and Mr. Sayre, Assistant Secretary of State, stated in connection with their release: "Thereafter it is contemplated that trade relations between the two countries will be regulated in accordance with a reciprocal trade agreement on a non-preferential basis." If this policy were carried out, we would view it with misgivings and alarm as a serious, upsetting factor both to Philippine and United States business to and from the Islands.

When the United States signed the Treaty of Peace in Paris on December 10, 1898, article IV of said treaty stated:

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.

Are our administration in Washington and the new Government in the Philippines so anxious for Philippine independence that they would not grant to American and Philippine businessmen the same consideration that our Government in 1898 afforded to Spanish business and shipping under the Treaty of Peace? We emphatically say, "No". With far greater trade relations between our country and the Philippines than existed between Spain and the Philippines, 10 years in itself is the minimum time required for such business readjustment. Certainly our State Department today would be as generous with American businessmen as they were with the Spaniards in 1898.

Commenting on our trade to the Philippine Islands, I would make a brief reference to exhibit A of the Millers' National Federation presented at your Washington, D.C., hearing. Up to 1928 practically all the flour imported into the Philippine Islands was from

the United States; thereafter Canada and Australia started to participate, being followed in 1932 by Japan. The increasing quantities of Canadian, Australian, and Japanese flour imports began with the era of depreciated foreign currencies and lower foreign prices as against our higher American prices resulting from activities of the Stabilization Corporation. Since the leveling up of exchanges in Canada and Australia, their flour prices have remained low; Japan's currency remaining at a heavy discount, enabling them to buy the cheaper Australian wheats, mill it in Japan, and reship it to the Philippines in competition with our American products. Even with the assistance of the subsidies given us through our arrangement with the Agricultural Adjustment Administration, you will see that the foreign flour competition has steadily encroached on American export flour-millers until in 1935 our percentage dropped to 28.2 percent of the Philippine business; while Canada obtained 18.3 percent; Australia, 41.3 percent; and Japan, 11.9 percent. This showing is made even with a duty against foreign flours of 47 cents a hundred kilos. So it goes without saying that, if we place the Philippines on a full non-preferential-duty basis on their products entering our country, they will naturally retaliate for their own protection by eliminating duties from other foreign countries, thus completely ruining our flour trade.

The Pacific-coast States of Oregon, Washington, and Idaho are largely agricultural and, having a sparse population, must seek outside markets for their other surplus products besides wheat. A good beginning has been made in the Philippines and only in recent years, with the development of refrigerator and cooling-services by American steamship lines have we been able to introduce in fairly large quantities our fresh fruits and vegetables. This business now includes fresh apples, pears, vegetables, onions, and frozen meat; these are going forward to the Philippines in constantly increasing volume, our most recent addition to this business being the frozen strawberries, which is just in the beginning but which shows promise of a steadily increasing volume. This business tends to reduce our agricultural surpluses at satisfactory prices and gives us much-needed cargo for our American Merchant Marine. Any adverse trade relations will tend to decrease and destroy this valuable outlet for American farmers and producers.

The National Cooperative Milk Producers' Federation in their brief presented in Washington, D. C., have taken the position of demanding that the Philippines be put on the basis of a foreign nation with full United States duties assessed against all incoming products, basing their argument on the fact that copra oils compete against American edible products. When we look into this position and note that only a small percentage of the copra oils

goes into edible products, the large percentage going into soap, which is not objected to, and that the residue from the coconut, such as copra cake, is used in commercial feed in large quantities for the benefit of our dairy associations in building up their feed qualities, we can see that this association is over-concerned and only looking at one side of the ledger. For instance, the percentage of copra oil used in edible products to which this association objects would be valued at less than \$8,000,000. Against this we have a statement from the Philippine records which shows in the year 1936 imports of processed American agricultural products of \$19,046,734, divided as follows:

|                                     |               |
|-------------------------------------|---------------|
| Food products (excluding rice)----- | \$8, 653, 000 |
| Wheat flour-----                    | 1, 546, 738   |
| Meat products-----                  | 892, 193      |
| Dairy products-----                 | 1, 222, 348   |
| Cotton goods-----                   | 6, 732, 455   |

Nearly all these products represent surplus products from our farms and show a large balance in our favor without taking into consideration fish products, iron and steel, automobiles, mineral oils, and paper.

In canned milk, we are competing in the Philippines with the Netherlands, Australia, Japan, and others. The 1936 receipts of canned milk in the Islands amounted to 18,911,042 kilograms. The percentages of delivery were as follows:

|                    |            |
|--------------------|------------|
| United States----- | 40 percent |
| Netherlands-----   | 46 percent |
| Australia-----     | 8 percent  |
| Japan-----         | 5 percent  |

There are no dairy interests in the Philippines, and the consumption of canned milk is steadily growing. With continued favorable trade relations there is no reason why this business should not continue to the material advantage of our American dairy interests.

The Tydings-McDuffie act provides for definite trade relations between the Philippine Islands and the United States until the recognition of the independence of the Philippines on July 4, 1946. Section 6 of the act provides that "after the date of inauguration of the Government of the Commonwealth of the Philippine Islands trade relations between the United States and the Philippines shall be as now provided by law", with certain exceptions. Those exceptions are that for a period of 10 years the quantities of sugar, coconut oil, and cordage, products of the Philippine Islands, to be admitted free of duty into the United States, shall be limited as specified by the act and that from the sixth to the tenth years after the inauguration of the Commonwealth Government export taxes ranging from 5 percent in the sixth year to 25 percent after the

ninth year of the rates of duty which are required by the laws of the United States to be levied, collected, and paid on like articles from foreign countries shall be imposed by the Government of the Philippine Islands. In all other respects the trade relations between the Philippine Islands and the United States are to be as provided by law in effect at the time of the approval of the act.

Articles the growth, product, or manufacture of the United States shipped directly from the United States to the Philippine Islands thus under the act are to continue to be admitted into the Philippine Islands free of duty until the recognition of the independence of the Philippine Islands on July 4, 1946.

The act further provides that, pending the final and complete withdrawal of the sovereignty of the United States over the Philippine Islands, "citizens and corporations of the United States shall enjoy in the Commonwealth of the Philippine Islands all the civil rights of the citizens and corporations, respectively, thereof".

The trade relations between the Philippine Islands and the United States and the civil rights of citizens and corporations of the United States, by the action of Congress and of the Filipino people, have thus been definitely fixed and determined by the Tydings-McDuffie act until July 4, 1946. Having thus been determined and fixed, many American citizens and corporations, relying thereon and depending on the good faith of the two Governments, have made definite commitments and incurred definite obligations.

We therefore respectfully submit that it is fundamental that the trade relations between the Philippine Islands and the United States and the civil rights of citizens and corporations of the United States cannot, in fairness and in good faith, be amended so as to be less favorable to citizens, corporations, and residents of and investors in the Philippines than as provided in the act itself.

On the contrary, it has generally been recognized that in many respects the economic provisions of the act are unfair and onerous and do not make sufficient allowance for the necessary economic adjustments in the Philippine Islands prior to the date of the recognition of independence. Thus, President Franklin D. Roosevelt, in a special message to Congress when the act was submitted, stated:

... Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both peoples. 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.

The Philippine Legislature, in its resolution accepting the law, quoted the first part of this statement of the President and added

that it "gives to the Filipino people reasonable assurance of further hearing and due consideration of their views".

Furthermore, section 13 of the act provides that at least one year prior to the date fixed by the act for the recognition of independence there shall be held a conference of representatives of the two Governments "for the purpose of formulating recommendations as to future trade relations" after independence.

The United States Tariff Commission in a report on United States-Philippine Trade (Report No. 118, Second series, 1937) states:

It is not certain that adequate provision has been made for a transition sufficiently gradual to permit the realization of the economic objectives sought in the act. A number of important enterprises in the Islands may be forced to liquidate more rapidly than new enterprises can be developed to replace them. Certain industries exporting primarily to the United States will be obliged to discontinue or to curtail their operations, and so likewise will a number of others directly dependent on them. . . .

The important export industries in the Islands will be variously affected by the progressive export taxes. It appears likely that these taxes will serve primarily to lessen the profitableness, but not the volume of the exports of sugar to the United States during the Commonwealth period. When the full United States duties become applicable in 1946, however, 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.

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. 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 these products.

From the above citations of the act, you will note that even President Franklin D. Roosevelt, in his special message to Congress, expressed doubt as to the Tydings-McDuffie act's being sufficiently clear and specific to do justice to the Philippine Islands in the adjustment of their economic development. The statement from the United States Tariff Commission also expresses doubt and grave fears for the trade both to and from the Philippines.

In accepting the Independence Act, the Philippine Commonwealth specified that hearings should be had to arrive at equitable trade treaties prior to and after independence is finally accorded the Islands. We are very much concerned over the large and unnecessary losses which, with the application of the economic provisions of the act, will be incurred by United States investors in the Philippine indus-

tries which will be directly and indirectly affected. We are also concerned over the loss which will be a direct result of application of the economic provisions of the act to the agricultural producers and manufacturers and to the transportation companies of the United States.

Chairman MACMURRAY. May I interrupt to ask you to speak a little louder? I am afraid your voice isn't carrying very far.

Mr. SCOTT. All right. Thank you.

We have discussed the effect of those economic provisions on the Philippines, for it is obvious that if many present Philippine industries are ruined, and, as a result thereof, Philippine exports are reduced by more than 50 percent, the sale of goods and services of the United States to the Philippines, principally of agricultural products, must proportionately decline. As a matter of fact, the decline will be more than proportionate, for United States manufacturers now have a preferred position in the Philippine Islands in that their products are now admitted free of duty, while foreign products must pay duty. That preferred position will be lost when Philippine products are subjected to United States duties, for then the United States products will be subjected to duties in the Philippine Islands. We cannot expect the Philippine Islands to continue admitting our goods free when we put tariff walls against their goods entering our country. The decline of business of our manufacturers and agricultural producers thus will be far greater proportionately than the total decline in the Philippine imports and will be particularly disastrous to the Pacific coast.

These statements are definitely confirmed by the report of the United States Tariff Commission, above referred to, as follows:

The provisions of the Independence Act make it practically certain that the Philippines will decrease in importance as a market for American exports and that they will become less attractive as a field for American investments.

Although Philippine tariffs cannot be applied against American goods until after independence, American exports to the Islands will probably decline as soon as Philippine export taxes come into operation. With a curtailment in export credits, the Islands must perforce restrict their imports. When American goods lose their preferential tariff position in the Philippines in 1946, there is likely to be a further and even more pronounced decline in American exports. With a shrinkage in United States-Philippine trade, there will likewise be a lessened demand for the services such as those now being rendered by American shipping agencies and insurance companies.

You will note that the United States Tariff Commission refers to lessened demand for the services such as those now being rendered by American shipping agencies and insurance companies. As to our Merchant Marine, it will be admitted by all that this is a very necessary and vital function in our import and export trade. Be-

ginning with the period at the close of the World War, American merchant ships were built by our Government and sold to steamship companies anticipating operations to and from the Orient. Large investments were made and commendable services inaugurated, which have continued up to the present time but which are now very much embarrassed and likely to lose this valuable business unless favorable consideration is given to the continuance of our trade to and from the Philippines.

In 1936 the Philippine official government figures show that American ships carried 564,904 metric tons to the Philippines and 1,315,056 metric tons from the Philippines to the United States. This figure of cargo to the Philippines would be increased by at least 100,000 tons if world flour markets were on a normal basis, whereby we could again enjoy the position that we have lost in recent years.

Philippine import and export figures indicate that from the period 1899 to 1901 our exports to the Philippines were 9 percent of the total while our imports from the Philippines were 18 percent. This business constantly built up until 1932, when our exports were 65 percent of the total and our imports were 87 percent. Owing to adverse conditions, 1936 showed our exports to be 61 percent and our imports 78 percent. It goes without saying that such a wonderful business built up during a period of 39 years should not be lightly dealt with and thrown aside without protection of the business interests involved.

It should also be kept in mind by your Committee in formulating its recommendations that due consideration should be given to the promotion and propaganda now being carried on in the Philippines by another oriental government whereby its shipments to the Philippine Islands are being materially increased monthly. Its aggressive attitude in securing port facilities and property rights in the Islands is such as to cause grave concern for its expansion plans and would indicate complete domination of the Philippine Islands as soon as the United States has released its hold. Without a 10-year period for adjustment, and the protection of preferential tariffs, there is no doubt that this foreign competition would accelerate the elimination of United States trade in the Philippines; would cause disastrous losses to the United States businessman; would remove another vital market for the United States producer; and would adversely injure the whole Pacific coast.

Chairman MACMURRAY. Are there any questions?

Mr. WARING. I have a question.

Chairman MACMURRAY. Mr. Waring.

Mr. WARING. I should like to ask Mr. Scott this question: Do I understand correctly that you have proposed in your brief and in



your written statement to continue preferential trade relations with the Philippines after they become politically independent?

Mr. SCOTT. Yes.

Mr. WARING. Now, do the organizations which you represent advocate an indefinite preference to an independent country?

Mr. SCOTT. Your question again, please?

Mr. WARING. Do they advocate an indefinite extension of preference to an independent country or do they visualize the possibility of a gradual termination of that preference?

Mr. SCOTT. I would say that we visualize the possibility of a gradual termination of it; our idea being that present preferential tariffs should be continued to help build up the Philippine Commonwealth and to maintain our present business preferences and that it be gradually changed after independence, as seems best for both countries involved.

Mr. WARING. Your point then is that the adjustments are necessary but should not be made so abruptly as to greatly dislocate the trade operations between the Philippines and the United States?

Mr. SCOTT. Exactly.

Mr. WARING. One other question, in connection with the brief submitted by the Portland Chamber of Commerce. They make reference in that brief to the market for paper in the Philippines.

Mr. SCOTT. Yes.

Mr. WARING. And they make the statement: "In other words, the American mills have made heavy sacrifices to build and maintain a steady, satisfied market in the Philippines."

They do not mean to imply, I take it, however, that the market has been an unprofitable one?

Mr. SCOTT. No, I would say not. They simply mean that the American mills have made heavy outlays in preparing to enter that market, the same as other industries, and it would be a detriment to them now, as well as to the Philippines, to change those conditions.

Mr. WARING. That statement wasn't quite clear and I thought I would ask about it.

Mr. SCOTT. Yes.

Chairman MACMURRAY. Are there any other questions?

Mr. ROXAS. Mr. Scott, you have stated that there were 500,000 metric tons of cargo carried on American ships from the United States to the Philippines?

Mr. SCOTT. Yes.

Mr. ROXAS. And about 1,000,000 metric tons of Philippine cargo is carried on American bottoms?

Mr. SCOTT. Yes.

Mr. ROXAS. Do you have the figures to show the freight value of that cargo?

Mr. SCOTT. No, I haven't.

Mr. ROXAS. Could you put that in the record as a part of your testimony later on? Will it be possible for you to get those figures?

Mr. SCOTT. I think I can get them, with the cooperation of the steamship companies. With that proviso I would be glad to attempt to do it.

Mr. ROXAS. I think the value of your statement would be enhanced if we knew how much that cargo represented in freight.

Mr. SCOTT. Yes.

Mr. ROXAS. I understood you to say that the export taxes would not operate to reduce the volume of Philippine imports into the United States; is that correct?

Mr. SCOTT. No. I think you are wrong on that, Mr. Roxas.

Mr. ROXAS. That can be corrected.

Mr. SCOTT. I think—I passed over the remarks in my statement—I think it was as to the profitableness.

Mr. ROXAS. Yes. That is what I understood you to say; that the export taxes would not reduce the volume of Philippine imports into the United States but would reduce the profitableness of the exports from the Philippines?

Mr. SCOTT. Yes.

Mr. WARING. I understood that that statement only applied to sugar.

Mr. SCOTT. Yes, sugar; I was referring there to sugar only.

Mr. ROXAS. That explains it. Thank you. That is all I have.

Chairman MACMURRAY. Are there any further questions?

Colonel McDONALD. The Portland Chamber of Commerce states in its brief that our lumber-exporters, if forced to compete on an open market basis with Canadian shippers of lumber, fear they will lose the trade.

Can you tell us why that should be, why American lumber-shippers cannot compete with Canadian shippers to an oriental market?

Mr. SCOTT. Under similar duty conditions, the Canadian mills could undersell us by their lower labor conditions. That, I think, has been shown in the Lumber Association brief, to which I did not refer.

Colonel McDONALD. It is a matter of cheaper labor?

Mr. SCOTT. Cheaper labor; yes.

Colonel McDONALD. That is all I have.

Chairman MACMURRAY. Are there further questions?

(No response.)

That is all. Thank you, Mr. Scott.

Chairman MACMURRAY. The next witness is Mr. A. E. Mallon. Mr. Mallon is a member of the Export Committee and of the Execu-

tive Committee of the Millers' National Federation, appearing on behalf of the Pacific Northwest Chambers of Commerce.

Is Mr. Mallon present?

Mr. SCOTT. Mr. Mallon was with me this morning. He hasn't his remarks properly prepared and asks that you reserve a little time for him later on.

Chairman MACMURRAY. The next witness is Miss M. Goode, appearing on behalf of the Seattle Chamber of Commerce.

Is Miss Goode present?

(No response.)

We will go on to the next witness, Mr. Roque E. de La Ysla, Grand Delegate, and Mr. Domingo Ponce, Supreme Head, Legionarios del Trabajo in America, Inc.

Is Mr. de La Ysla present?

Mr. DE LA YSLA. Yes.

Chairman MACMURRAY. About how long do you expect to take?

Mr. DE LA YSLA. I would suggest that I make the presentation for the Philippine Chamber of Commerce of California, in as much as I would have to be called later, and I will take about an hour; maybe more.

Chairman MACMURRAY. One hour in all, representing the Legionarios del Trabajo in America, Inc., and the Philippine Chamber of Commerce of California?

Mr. DE LA YSLA. Yes.

Chairman MACMURRAY. And you alone represent both?

Mr. DE LA YSLA. Yes.

Chairman MACMURRAY. Mr. Domingo Ponce will not be present?

Mr. DE LA YSLA. He is not able to be present.

#### STATEMENT OF MR. ROQUE E. DE LA YSLA, REPRESENTING THE LEGIONARIOS DEL TRABAJO IN AMERICA, INC., AND THE PHILIPPINE CHAMBER OF COMMERCE OF CALIFORNIA

Mr. DE LA YSLA. Supplementing my memorandum about the Repatriation Act that has been passed, we find that we are confronted with certain difficulties in the matter of financing the families of native-born citizens of the Philippines who are taking advantage of this act.

According to the law only native-born citizens are eligible to take advantage of the said act; whereas the native-born children, or the American-born children, and their wives of other nationalities are prevented from taking advantage of the act.

In as much as the act was originally intended to give relief to all the Filipinos and their families we honestly believe that their families, such as wives and children, are entitled to enjoy the privilege.

The present practice, according to the act, is that funds are derived from some other relief organizations to defray the transportation of the American-born children of these families, and American wives of some other nationalities are not permitted to take advantage of the act. As a result they are forced to remain in the country and a majority of them are on relief—the P.W.A. Although they have signified their intention to take advantage of the act, upon residing in the United States, or particularly on the Pacific coast, they encounter these difficulties.

We believe that the funds that are being appropriated from time to time for these American-born children are already exhausted. That is what we understand. I have conferred on this subject with the District Commissioner of San Francisco, the Honorable Edward W. Cahill, and also with your District Director, Walter E. Carr, in Los Angeles.

Now, as to the other side of it. I have also taken this matter up with the Chairman of the Immigration and Naturalization Committee of the House of Representatives as to any possibility of including this group of people. I understood from Congressman Dickstein that he will try to do what he can for them.

I am sure that the honorable Committee, upon proper recommendation, as supported in my memorandum, will see and appreciate that there is no reason why we should discriminate against the families of the Filipinos.

Many of them are well experienced in modern ways of living, and we cannot deny to them the privilege of getting a decent way of supporting their families, particularly when they have one, six, or ten children in their homes, and the income of the parents is really not so very substantial. As a consequence, of course, they are being driven to relief organizations.

There has been, however, a little argument about giving that privilege to the wives of Filipinos, other than citizens of the Philippines, for it is contended that they are not satisfied after they reach the Islands. I believe that can be taken care of very well. In my experience I have learned that there are only two women in Los Angeles who have returned, out of those that have had their transportation back to the Philippines paid; and, referring to San Francisco, I understand there are only one or two.

I sincerely believe that any government, particularly the Philippine Government, will be glad enough to defray the expenses of this other group if they find the Islands are not good for them. But, by

all means, I do believe that they are entitled to go with their families and have a chance to build up the Islands that the good American people have labored so hard to lift up and recognize as an independent nation in the Far East.

I understand that our Philippine Government would be willing to defray a portion of the expenses of those other nationals who are married to Filipinos and who come back to the United States—as a matter of reciprocity, I believe, but I am going to discuss that later on.

We do not have the funds with which to bear all the expense. I understand also that the expenses of those three wives who returned to the United States were defrayed through the Department of State. As to the official communication, that remains to be seen. It is all a matter of hearsay.

All of this has been regarding repatriation.

Now, I want to discuss the immigration restrictions under the Tydings-McDuffie act.

In the brief that we submitted,<sup>1</sup> we suggest an increase in the quota of 50 to 1,000 Filipinos to come into the United States. We Filipinos—of course, I am not speaking for a majority of them—like to be educated and like to see the American ways of living. If we could increase that quota of those Filipinos coming from the Philippines to the United States, that would establish the good-will of the two countries and would serve as an educational medium by which the two peoples may be related from time to time.

I admit, of course, that we have several Filipino residents now in the United States that are quite a problem for us, but we have other types of Filipinos who are really going to be an asset to both countries. I say "asset", because they are honest people who will come to this country and be educated and get the actual experience of business, especially the modern, up-to-date methods, and will get their education here.

The question now arises as to how we should restrict them in coming to the United States. This could be done very well by having a special committee set up to be composed of representatives of the two Governments. They can be chosen from the Department of Labor of the United States and the Department of Labor of the Philippine Government. This committee will pass restrictions and regulations, whereby they will limit immigration as much as possible, to allow only those classes of Filipinos to come to the United States that are well recommended.

You must recognize, Gentlemen, that right at the present time we have more than 50,000 to 75,000 Filipinos residing in continental

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<sup>1</sup> See vol. III.

United States. Perhaps you are aware of the fact, too, that the majority of them are single, unattached persons. Our great problem is the social problem. Maybe, by this increase of the quota, we may have enough women of our own for intermarriage with these Filipinos, and they can establish nice homes and build up nice communities. That is the fundamental thing that we Filipinos in the United States are being confronted with.

You are perhaps aware of the fact that if there is no woman at home there is no home; and if there is no home there is no community. I think that is the fundamental foundation of any organized society in any government. We propose a solution to this particular problem by increasing the immigration quota to 1,000.

You may take note, Gentlemen, that most of these Filipinos may have sweethearts, or are married and their children are over there, and they want to send for them to come over here. I think they can be brought over here very easily. Then they would be once more good, law-abiding citizens.

Now another word about immigration restrictions. I do not see any reason why we should be limited to 50 when some other oriental countries are having 100 a year at least. Also, we consider ourselves a relation of Great Britain and the United States. We consider America as our mother country and our adopted country. I think that we should be given that privilege too.

Under the existing Tydings-McDuffie act, we are not restricting our good American friends from coming to the Philippines. I believe we should be given the same consideration about coming here. We do not see any reason why we would not be an asset after you have spent so much time, money, and even your lives, to educate us.

Those are some of the points regarding the immigration restrictions.

Before May 1, 1934, the date of acceptance of the Independence Act, the status of the Filipinos in this country was not that of either a citizen or an alien. You see our situation here? We are neither citizens nor aliens. That is a misnomer in the realm of international law. It is the most peculiar thing that you could imagine.

Some Filipinos have been residing in this good country for the past 20 or 30 years, and still they are neither citizens nor aliens. How could you expect such a person to improve himself? He is being deprived of the right to vote, particularly. At the same time he owes allegiance to the United States. Well, it is all very peculiar.

Filipinos here are not subject to deportation. If they commit crimes under the immigration laws they cannot be deported to the Philippines. I do not like to use the word "deported", because I resent that, being myself a Filipino; but, at least, in the old country

we would be better able to take them up and take care of them. Why do we suggest that? Because in this country we do not have any representative whatsoever in any part of the government—City, County, State, or Federal. We do not have even a mere policeman, sheriff, state-patrolman, or Federal agent to classify the types of Filipinos who are really criminals or fugitives from justice. The Americans cannot tell the difference.

I discussed the matter of appropriations and funds with all the departmental agencies. I approached our Congressman and Assemblyman. What did they say? They said, "Well, we are sorry, but we cannot do anything for you. You had better go to Congress."

You see, there is a point. Instead of lifting us up you are pulling us down.

Let me call your attention to another discrimination. You must know that there are 13 States, as pointed out in our brief, where Filipinos cannot marry white persons, or some other races. That is peculiar and very astonishing. The most regrettable thing, Gentlemen, is that the particular States where there are more than two thirds of the Filipinos residing in all continental United States have enacted laws making intermarriage illegal. How can you expect them to be law-abiding citizens? They cannot afford to go to other States and spend the few dollars that they have accumulated. What is the result? They marry illegally, and they have illegitimate children. Isn't that very lamentable? They cannot build up their homes, and that makes everything go wrong.

Another question as to citizenship. I mentioned that a few minutes ago, and I have also taken it up in our brief.

I have made a proposal on several occasions the past three or four Congresses, but I have never reached first base.

I proposed that we Filipinos should be given the privilege of citizenship of the United States. We cannot practice our profession after going to school, for example, the practice of law. I do not see any reason why we cannot be permitted to practice law. It is a most fundamental thing to help individuals build up their own good standing in the community and defend their rights.

Well, in spite of their studies, unless they serve in the Navy for at least three years, and even if they serve in the Army for 25 years, they cannot be an American citizen. Even if they served in the World War, they cannot be an American citizen. Is that fair? Why we should be limited to that extent, I cannot understand, when we feel at home in this good country of ours, when we don't make any legislation to restrict any other nationalities from the Philippines that serve in our own Philippine Navy and our own Army.

We want our independence, and we are 100 percent for it; but even if we are independent I want to assure this honorable Committee

that we will never forget you good American people. We will be for you forever and throughout eternity and, if need be, will fight for you and your rights in the Far East, if anything should come up there.

For example, the citizenship question was the subject I was talking about. At present they are not getting out all those Filipinos who are on the P.W.A. If they do not have their first papers they will be dismissed from the relief. My office in Los Angeles is filled with all those things now.

Luckily, through the assistance of the Department of Labor, we were able to get their first papers, and when they get their first papers they can work on the P. W. A. Of course, I am not very familiar with this territory of San Francisco. I do not know anything about whether the Filipinos are being dismissed because they say they are not citizens. Just recently, after I had conferred with different agencies and departments and with our Resident Commissioner in Washington, D. C., to at least issue us that first paper to show that we do take allegiance to the United States, to show that we are neither citizens nor aliens, the good Department of Labor has been very kind to give us that first paper.

Regarding the proposed legislation, we propose that we should have a law enacted giving us a classification of the majority of Filipinos. If you cannot classify the majority of Filipinos, at least do this: Grant to all those Filipinos who have resided in the United States prior to March 1, 1934, the privilege of being a citizen of the United States if they apply for that citizenship on or before December 31, 1940. That is our proposal.

I think they will have enough time to think otherwise, and in that way they will be given a chance to either choose one way or the other. If they don't like to stay here, they have no business here; and they can go back to the Philippine Islands, where, with their experience, they are needed.

Regarding the free-trade relations, we propose that even if we become an independent nation, we should at least continue the free-trade relations for a period of 15 years, if not permanently, because you must understand, Gentlemen, from the brief which we submitted to you, that the Filipinos depend on the American markets for their products abroad.

We do not see any reason why we cannot have that free-trade relation. In fact, you have seen Americanized Filipinos who use almost all the products we produce in the State of California: oranges, lemons, and so forth, and dairy products. The Filipinos are accustomed to American products. Our women in the Philippines are very fond of American cosmetics. Those are all free of duty.



We figure that we need all these American products. We do not like to get them from oriental countries or from European countries. We do not like their products because we are not used to them.

We believe that if we continue free-trade relations, you will find that the Filipinos have some raw materials that you need. I have mentioned in my brief the products which you really need and which we can develop.

I know from my contacts with all the different groups of importers and exporters in the good State of California that they are astonished that we Filipinos want to have our independence right away. They say, "Why do you want to be independent when you know very well you depend on American markets?"

I say, "You must realize, Gentlemen, that the greater consumers of American products are the greater number of Filipinos. If you go there and speak before a Filipino crowd and say, 'Well, you Filipinos are not yet ready for independence, and you cannot accomplish it because you have no money', you would find yourself in the nutshell and you would be unpopular; any American businessman who would say that, would be boycotted right away."

Let us avoid that thing; I think it would be better. It would encourage the cooperation of all the Filipinos on the Islands if you give them a complete independent status. They want it. If you will give them what they want, then they will say, "We want this." Then our present administration of the Philippine Government will have the entire support of all the Filipinos. They will work hard 24 hours a day instead of 12 hours a day.

We believe that we should have that independence.

Regarding these free-trade relations, I think that our national debt, or the excise tax, or the coconut export tax, or some other kind of tax that the present Congress is trying to enforce, is really very discouraging. It cannot help but antagonize the other group in the Far East, and it does not help us any.

As to our assets, I think we have enough assets to pay any national indebtedness. That includes all the obligations that we owe to the American people, as well as to the American Government. I think that has been very ably answered by our Department of Finance and Secretary of Commerce in the Philippines.

Also regarding the free-trade relations: One of the things that should be possible to make it permanent is that, right now, if you do not give the Filipinos their independence, as you must, of course, realize, under the Tydings-McDuffie act all American products going to the Philippines are free of duty.

That is a very good argument, my good Gentlemen, for anyone may go over there and deliver a speech and say, "Here, our products

are being given tariffs and duties where American products coming to the Philippines are not."

Why not make it reciprocal? Why? After all, the question remains for the good of two peoples only. It is our own business. If we do not like it, we can at least eliminate gradually the legislation that you are going to put on our products, our exports and imports. That will hamper our business. I think you are hampering it already.

A good example of that is our coconut, from which we manufacture soap and allied materials. Why, your good American housewives are now paying more for their soap on account of the coconut-oil tax here. That is a very small item. What shall we do when the two countries and the two peoples are suffering? We are not going to back up a certain interest and then let your interest undo it. Let us work together, because the free-trade relation between the two countries is, of course, for the benefit of the two peoples.

I think the continuation of free-trade relations should be recommended by this honorable Committee. I have never yet seen any businessman who spent two years in the Philippine Islands who was opposed to free-trade relations. The majority of those people want us to have free-trade relations. If any other nation in the Orient would say that, we would say that it is your business. That is why we should have free-trade relations. I think that we propose that we should get our independence by July 4, 1939. I say this, Gentlemen: let us approach it logically and broad-mindedly. We are just like one big family. You cannot offend the Filipinos without incurring the loss of money and lives at the present time, Gentlemen. I know it will be economic wisdom to send money there. Within a very short limit of time we have progressed tremendously, and I know that the Filipinos will show and give back all that you have sacrificed for us.

I thank you, Gentlemen. If there is any question that you wish to ask, I will be very glad to answer.

Thank you.

Mr. ROXAS. I would like to ask some questions.

You said, Mr. de La Ysla, that the immigration provisions of the law are very unfair because the present laws of the United States permit immigration from oriental countries in numbers larger than 50 a year.

Mr. DE LA YSLA. Yes.

Mr. ROXAS. Did I understand you correctly?

Mr. DE LA YSLA. Yes, that is right.

Mr. ROXAS. You are positive in your statement that nationals of oriental countries like China, Japan, or India can come into the United States not exceeding 100 a year?

Mr. DE LA YSLA. They can come to the United States not exceeding 100; that is right. They can come not exceeding 100, while for the Philippines the number is only 50—not exceeding 50.

Mr. ROXAS. I am sorry to disagree with you, Mr. de La Ysla, on that point. My information is to the contrary. There is a total exclusion of Chinese and Japanese and Indians to the United States. I refer to laborers.

Mr. DE LA YSLA. The reason I give that number, Mr. Roxas, is that I secured it from the Department of State Foreign Service. I understand that the Chinese and Japanese nationals are allowed to come here not exceeding 100. I think if I hand you the pamphlet, I can show it to you here.

Mr. ROXAS. I would be very glad if you can find that information and insert it in the record.

Mr. DE LA YSLA. I will see if I have that in my folder. I know that I had a pamphlet because I had taken it up with the Department of State. I think it is not here right now. I am sorry, but I know that, in coming here according to that quota it is 100, so far as Chinese and Japanese nationals are concerned.

Mr. ROXAS. I would be very happy to be corrected in my information.

Mr. DE LA YSLA. I would be very glad to submit to you that point as soon as I get that pamphlet, when I get back to my office.

Mr. ROXAS. Another question: You suggest that the present law authorizing the expatriation of Filipinos at Government expense, be extended to the families?

Mr. DE LA YSLA. Yes. That was really the intent of the act, but when it was passed it was a different proposition.

Mr. ROXAS. Do you have any idea of the amount of money that would be required to carry that out?

Mr. DE LA YSLA. Well, according to the present figures, or the last figures that I got from the Immigration Office, there are about 693 adults and minors, according to the last figure that was submitted to me by the Honorable Mr. Cahill.

Mr. ROXAS. That want to return?

Mr. DE LA YSLA. That have already returned. As to those who want to go back, that remains to be seen. I cannot figure that out; it changes.

Mr. ROXAS. You have no information as to the number of families who are here and want to return?

Mr. DE LA YSLA. As to the number who want to take advantage of that, I will just give this estimate and it may not be very accurate. I think that out of 1,000 married couples in Los Angeles alone, and there are also some four to five hundred in San Francisco County, I

think that we will conservatively estimate about two thirds of them, or maybe one half.

Mr. ROXAS. Who have families here?

Mr. DE LA YSLA. Yes.

Mr. ROXAS. Have I understood you correctly, that there are many Filipinos who would like to avail themselves of this opportunity to return to the Philippines but cannot do so because they cannot take their families along?

Mr. DE LA YSLA. That is right, Mr. Roxas; that is right.

Mr. ROXAS. So that, if either the United States Government or the Philippine Government provided them with transportation for their families, they would return?

Mr. DE LA YSLA. They would return. In fact, I know that there are several applications filed now in Los Angeles because I am in close contact with the local Immigration Office there. There are lots of applications there that include families, and they find out that they have to pay for their wives and their children. They say, "We will save enough money and then, maybe, we will take advantage of it before the end of the year." That is the situation there.

Mr. ROXAS. What did you mean when you said that Filipinos were allowed to take their first papers? Is that for naturalization?

Mr. DE LA YSLA. Yes, Mr. Roxas.

Mr. ROXAS. Did I understand you to say that the Filipinos cannot be naturalized in the United States?

Mr. DE LA YSLA. They cannot be naturalized in the United States unless they are honorably discharged after serving three years in the Navy.

Mr. ROXAS. Yes.

Mr. DE LA YSLA. That is all. Now, they serve in the Army even 25 years or 15 years and they have resided here, but they cannot be naturalized.

Mr. ROXAS. But I understood you to say that due to your efforts you have been able to get first papers for many Filipinos?

Mr. DE LA YSLA. Yes, Mr. Roxas.

Mr. ROXAS. Even those who have not served in the Navy?

Mr. DE LA YSLA. Even those who have not served in the Navy.

Mr. ROXAS. And how do you make that out?

Mr. DE LA YSLA. Well, I will tell you just a little story about it: I take it up first with Mr. Tomlinson, the Assistant Director in Los Angeles, and I tell him that I have about 15 Filipino musicians who desire to be members of the American Federation of Musicians, and they are being denied membership solely upon the ground that they do not have their first papers. I say, "What are we going to do about them?"

Mr. ROXAS. We do not have to go into that. My question was simply this: The first papers to which you referred are first papers for naturalization purposes?

Mr. DE LA YSLA. For naturalization papers; that is right. But, of course, they cannot get their final papers. They are only good for seven years.

Mr. ROXAS. The first papers?

Mr. DE LA YSLA. The first papers; and I do not know what kind of service it will give them anyway. It only shows that they have declared their intention to become citizens, and that is all.

Mr. ROXAS. That is all.

Mr. ROMERO. Mr. de La Ysla, do you have any data as to the number of Filipinos who have already taken advantage of this Repatriation Act?

Mr. DE LA YSLA. Yes, Mr. Romero. I will give it to you right away.

This is a memorandum dated July 7, which was addressed to me by the good office of the United States Immigration and Naturalization Service, where it says as follows: "Six hundred and fifty-one adults and children have departed for the Philippine Islands. This includes the party which left San Francisco on June 26, 1937."

There may have been a few more from the Seattle district. Seventy-nine American-born children had departed up to and including November 1936. The fare charged by the Dollar Steamship Line is \$45 each for the children.

I understand, Mr. Romero, that there is a boat leaving in a day or so, on the 24th, and that they have on it mostly persons desiring repatriation.

I think that the difficulty also is this: They need at least 30 days' notice. I do not see why the Washington authorities cannot give at least 30 days' notice in order to inform the Filipinos that a certain boat is leaving. We find that some of them were given only two or three days' notice. So the difficulties arise, for they should be given at least 30 days' notice in order to prepare their effects and little personal things, whereas they file their application at least two months ahead of time.

I think the Washington authorities have plenty of time to notify the local office here that a boat will be leaving on a certain day, 30 days before the boat leaves. Just now they do not even give the applicants a chance.

Mr. ROMERO. These 651 represented the total number of Filipinos that have sailed for the Islands since the passage of this Repatriation Act?

Mr. DE LA YSLA. Yes. That does not include the Seattle district; only from Los Angeles, and no other Pacific-coast States.

Mr. ROMERO. Do you have any figures of those that sailed from the Seattle district?

Mr. DE LA YSLA. I regret to inform you that in spite of any request to that good office there, they could not give us any information. I wrote them at least two or three times, and I am sorry that I never got any cooperation from the good office in Seattle.

Mr. ROMERO. Did I understand you to say that you advocated an increase in the number of Filipinos that may be admitted into the United States, principally for reasons of education?

Mr. DE LA YSLA. That is right.

Mr. ROMERO. Do you understand that there is a limitation of the number of students that may come into the United States?

Mr. DE LA YSLA. Well, no, Mr. Romero. I know that students can come here anytime they want. Of course, they have to establish their status as students. We are willing for that exception. When I said "education", Mr. Romero, I meant that involving the practical and theoretical life. We cannot depend upon books all the time. We must depend upon experience, too. That is what I mean by "education".

Mr. ROMERO. I see.

Have you made any request to the Philippine Government for assistance in the matter of transportation of the families of Filipinos who are married to foreign women?

Mr. DE LA YSLA. My records show, Mr. Romero, according to my understanding, that when this Repatriation Act was under consideration by Congress, our Speaker in the House of Representatives had been instrumental in passing an act and introducing a bill advocating an appropriation of 50,000 pesos. I do not know whether that is right or not. That included everybody there. That included the families that are attached to the Filipinos; but, for some reasons unknown, I do not know what happened to that bill. So far I do not know whether it has been pending yet in the National Assembly or not. I know that the legislation was introduced before the dissolution of our dual form of government.

Mr. ROMERO. You say that the fare for children to the Islands is \$45?

Mr. DE LA YSLA. Yes, Mr. Romero.

Mr. ROMERO. Do you know what the fare is for adults?

Mr. DE LA YSLA. For adults? I understand they get a special price of \$70 to \$100.

Mr. ROMERO. Thank you.

Chairman MACMURRAY. Are there further questions?

Mr. BENITEZ. Mr. de La Ysla, have you heard of the recent study made which shows that the Philippines could support 80 million people?

Mr. DE LA YSLA. I do not understand that.

Mr. BENITEZ. The Philippine land can support 80 million people. That is, we have enough good land there to support 80 million people living on agriculture alone.

Mr. DE LA YSLA. Well, I understand that, Mr. Benitez.

Mr. BENITEZ. There has been such a study made, and I wondered if you had heard of it.

Mr. DE LA YSLA. I have heard about it; in fact it is the reason why I proposed that they had better go back there to take advantage of those privileges that they now have. I understand they are short of labor in some localities. The oriental nationals are penetrating there.

Mr. BENITEZ. So it is generally known and admitted that we have plenty of land for agriculture?

Mr. DE LA YSLA. We have plenty of land. We have plenty of money.

Mr. BENITEZ. Here is another question: Assuming that the Filipinos in America get transportation paid for them and, assuming that you get what you request in your memorandum, that the families, wives and children, are given transportation, do you think that we could get most of the Filipinos in America to go back to the Philippines and settle on those fine lands that we have there?

Mr. DE LA YSLA. I do sincerely believe, Mr. Benitez, that they will go back by all means, because they know that their experiences here would benefit them and they would have nice homes for their families.

Mr. BENITEZ. Do you think that the Philippine Government should have a plan whereby every family could be given a homestead, which, as you know, is 24 hectares in size?

Mr. DE LA YSLA. That is right.

Mr. BENITEZ. And knowing also, as I suppose you do, that with 24 hectares well cultivated, a man will be well off?

Mr. DE LA YSLA. That is very, very correct.

Mr. BENITEZ. He would be considered an independent planter, able to send his children to college?

Mr. DE LA YSLA. I think so.

Mr. BENITEZ. With that possibility in mind, do you think that we can have the Government of the Philippines make such an offer, and would there be a very favorable response on the part of the Filipinos here?

Mr. DE LA YSLA. I think so, Mr. Benitez. The only thing lacking is the advertising. I think we have to inform all the Filipinos

in the country. They do not know that they are being victims of racketeers. I know we have so-called racketeers who are trying to establish a bug-a-boo and a ballyhoo. They do not know that they are being given a build-up from some of these racketeers.

Mr. BENITEZ. In the face of that fine prospect to the Filipino in his country, would you still advocate that an increase of the quota to 1,000 be given to the Filipinos, since, as a matter of fact, we need every able-bodied Filipino in the Islands at this time in our national reconstructions?

Mr. DE LA YSLA. I am in favor still of increasing our quota to 1,000 for the sole reason of building up the good-will between the two peoples. We are going to change the old ones here and get new ones here, and then there would be a continual exchange of the present set-up in the progress of civilization there; that is why I am in favor of it.

Mr. BENITEZ. Then, would you not concede, just for the sake of argument, admitting that we should send more Filipinos to America for the sake of practical experience and for the sake of assimilating American culture, that the type of Filipino to send would be one who was able to support himself here and not one who has to depend on menial labor, one who has to work at agricultural labor or as a servant, but one who is economically able to go about and really learn.

Mr. DE LA YSLA. That is right. I believe that those Filipinos who will be allowed here are those types that are really going to be an asset, as I said before, to both the American people and the Filipino people, because they will be here with the understanding that they will be able to establish themselves here and improve the country, to help build here, to progress, and, at the same time, to learn. And those are the types that we have plenty of in the Philippines and that will go back as soon as they learn something because there are more opportunities for them there than here.

The question is the practical understanding of the application of it. I know, for example, in the real-estate business we have here a great many Filipinos who are working in hotels and apartment houses. We need them; their experience is needed; they return, for they know how to run a good hotel and satisfy the tourists.

Another thing is the agricultural side of it. They are going to preserve our fruit there, and we have plenty of fruits. The same applies to the sardine industry and the workers who are now in Alaska. We can have all our boys go back and learn the actual work of it, and at the same time they can have enough money for capital investment.

Those are the types that will come over here because they have experience, and they will be the types also that will not take any



help from the Government. Those are the Filipinos that really, honest-to-goodness, will come in here.

My only regret, Mr. Benitez, is that we have a great mass of Filipinos here, a greater mass than in Hawaii. Perhaps you are very well acquainted with how they come over here.

Chairman MACMURRAY. Any other questions?

Colonel McDONALD. What is your estimate of the number of Filipinos in America now?

Mr. DE LA YSLA. Well, my estimate, Colonel McDonald, is between 50 to 75 thousand.

Colonel McDONALD. It is about double the figures which I believe are correct.

Mr. DE LA YSLA. I see.

Colonel McDONALD. Secondly, my figures are that 737 Filipinos have taken advantage of expatriation up to this year. Never mind your figures, I know mine are correct.

Do I understand that, in your opinion, the reason why only 737 have taken advantage of the opportunity to return to the Philippines free, out of possibly 35,000 or 75,000, is simply because they cannot get transportation for their American-born wives or American-born children?

Mr. DE LA YSLA. Very correct, Colonel.

Colonel McDONALD. Have any of them applied through relief agencies for the money to take the children back when the parents were eligible to take Government repatriation?

Mr. DE LA YSLA. I think I would say about 79.

Colonel McDONALD. Have been so sent?

Mr. DE LA YSLA. Have been so sent.

Colonel McDONALD. Has anyone been refused?

Mr. DE LA YSLA. They have been refused upon the ground that the relief organization has no more money. I know we have had that experience in the State Emergency Relief Administration already. They have no more money, and they say it is difficult to locate other money for them.

Colonel McDONALD. But they have definitely refused?

Mr. DE LA YSLA. They were definitely refused because there was no more money.

Colonel McDONALD. I have never seen a case come to my personal attention where such transportation by relief agencies for dependent members has been refused. I am not saying that you may not be correct, but I have had many cases and transportation has been granted even when the relief agency was in Detroit or Indianapolis, or anywhere else in the United States. Funds have been obtainable through some agency to take those dependent native American-born children back to the Philippine Islands.

Mr. DE LA YSLA. Well, a good example of that, Colonel, is when our department of charity of Los Angeles County stated that they did not have enough funds, so they referred them to the State, and then the State also wrote a letter to that effect. I think I have the letter here. I will read it to you.

Colonel McDONALD. Please put it in the record.

Mr. DE LA YSLA. Yes.

This is a letter that was written to the office, to me. It is as follows:

U. S. DEPARTMENT OF LABOR  
IMMIGRATION AND NATURALIZATION SERVICE  
LOS ANGELES, CALIFORNIA

Instructions

March 26, 1937.

ROQUE E. DE LA YSLA,  
*President, Legionarios Club, Inc.,*  
*224 South Spring Street,*  
*Los Angeles, Calif.*

Transportation in re: Dependent Relatives, Filipino Repatriates

DEAR SIR:

As one of the representatives of the local Filipino colony here, you are informed that we are now in receipt of information from the Social Service Division of the State Relief Administration that effective immediately no transportation to their native countries may be provided to American-born members of families of repatriated Filipinos. We have at present a number of families who are requesting repatriation to the Philippines, but, unless funds can be secured in some other manner, we will be unable to send out the American-born wives or children.

It is suggested that you take up this matter with other Filipino representatives in the State and ascertain as to whether or not some arrangement can be made through them to arrange for the transportation of the class above enumerated. Also, it is requested that any additional families coming to you for information and advice be instructed accordingly.

Thanking you for your past cooperation, I remain

Very truly yours,

FRANK G. ELLIS  
*Acting Inspector in Charge*  
*Los Angeles City Office*

That is the Immigration and Naturalization Service.

Colonel McDONALD. Please put a copy of that in the record.

Mr. DE LA YSLA. I am sorry I have only the one copy. I will submit that copy later, if that will be all right.

Colonel McDONALD. In your brief on page 12, the paragraph under "Retention of American naval base", you did not take that matter up in your oral statement in any way.

Mr. DE LA YSLA. Oh, yes.

Colonel McDONALD. That first statement, in the last line, will you qualify that for the record, please, and tell me if that is what you mean, beginning with "If its interests"?

Mr. DE LA YSLA. "If its interests."

Colonel McDONALD. Meaning the interests of the United States?

Mr. DE LA YSLA. That is right.

If its interests would benefit by the retention of a naval base, there is no reason why the proposition of retaining American naval base should be agreeable with the Philippine Government.

Colonel McDONALD. Is that what you mean?

Mr. DE LA YSLA. That is what I mean.

Colonel McDONALD. You say "there is no reason why it should be agreeable"?

Mr. ROXAS. What you mean is that it will be agreeable to the Philippines?

Mr. DE LA YSLA. Yes, I think so.

Colonel McDONALD. Your sentence just reads the reverse of that. "If the United States wants it", you say, "there is no reason why it should be agreeable to the Philippines."

Is that what you mean?

Mr. DE LA YSLA. Yes, that is what I mean.

Mr. BENITEZ. "Should not be agreeable."

Mr. DE LA YSLA. "Should not be agreeable."

Colonel McDONALD. Should be or should not be? You say "should be".

Mr. DE LA YSLA. I will repeat that sentence again. I want to read this.

Colonel McDONALD. I think you mean "should not be", but I would like to have our stenographer insert "not" in your brief, if that is what you mean.<sup>4</sup>

Mr. DE LA YSLA. To be on the safe side, I will say "not".<sup>4</sup> You see, that is a big thing over here for the Philippine Government. I am not an authority on that and have not the authority to do that.

Mr. ROXAS. Can you answer me categorically what the proportion is of married Filipinos and single Filipinos in the United States, if you know?

Mr. DE LA YSLA. You mean, the proportion?

Mr. ROXAS. Yes, the proportion.

Mr. DE LA YSLA. Well, I will say more than two thirds.

Mr. ROXAS. Are married?

Mr. DE LA YSLA. Are married, you mean?

Mr. ROXAS. Yes. How many are married and how many are single?

<sup>4</sup>Correction made in the brief submitted.

Mr. DE LA YSLA. Well, I would say—what do you mean by “married”? It is awfully hard to distinguish. We have two kinds.

Mr. ROXAS. Do you want the wives of Filipinos to be provided for, and their legitimate children?

Mr. DE LA YSLA. Oh, I see! That includes everything. That includes either common law or legal.

Mr. ROXAS. I am just asking you.

Mr. DE LA YSLA. Well, I regret to say I don't know about that.

Mr. ROXAS. You think it is a very small percentage?

Mr. DE LA YSLA. Yes, because there are few only that are legally married. But those who are not legally married—(pause).

Mr. ROXAS. Those who are not legally married, you do not know anything about?

Mr. DE LA YSLA. I can give you plenty about that.

Mr. ROXAS. That is all right. You have answered my question.

Thank you. It is a small proportion?

Mr. DE LA YSLA. It is a small proportion, but I think that if you will give them a chance there will be plenty of them.

Chairman MACMURRAY. Are there any other questions?

(No response.)

Thank you, Mr. de La Ysla.

Mr. DE LA YSLA. Thank you.

Chairman MACMURRAY. The next witness on the list is Mr. Hartwick, secretary of the Carnation Company, Milwaukee, Wisconsin.

Is Mr. Hartwick present?

(No response.)

We will pass then to the next witness scheduled, namely, Mr. R. L. Miller, attorney, California Farm Bureau Federation, Law and Utilities Department, San Francisco, California.

Is Mr. Miller here?

Mr. MILLER. Yes. I am ready, Mr. Chairman.

#### STATEMENT OF MR. R. L. MILLER, ON BEHALF OF THE CALIFORNIA FARM BUREAU FEDERATION, SAN FRANCISCO, CALIFORNIA

Mr. MILLER. Mr. Chairman, and Gentlemen: I am appearing here today on behalf of the California Farm Bureau Federation, which has prepared and filed a statement.<sup>1</sup>

I would like to ask at this time to file a statement on behalf of the Nevada State Farm Bureau.<sup>1</sup> The reason for asking for that permission is that this statement, prepared by the secretary of the Nevada State Farm Bureau, was received at our office late yesterday

<sup>1</sup> See vol. III.

afternoon, and we have prepared 15 copies of it. I have it with me, and if the Committee will accept it and if it is filed, I shall not have to include it in the oral presentation.

Chairman **MACMURRAY**. No objection to the acceptance.

Mr. **MILLER**. In addition to speaking on behalf of the California Farm Bureau Federation, I am authorized to speak on behalf of the Nevada Farm Bureau, which is a similar organization in the State of Nevada.

For the purposes of the record I think that it is wise that I explain briefly what the Farm Bureau is and who it represents.

The California Farm Bureau Federation is a voluntary association of farmers with a membership of approximately 25,000 farm families in the State of California. It is not representative of any special or particular branch of agriculture but has within its membership farmers engaged in practically all branches of agriculture, agricultural pursuits or industry.

In my statement to the Committee here today I am not going to review the matters set out in the formal written presentation, but I am going to endeavor to supplement those with a few general statements:

I am sure that there will be representatives of the dairy industry and the livestock industry appearing before this Committee, and I am sure that there will be statements filed by such groups.

I wish to state at this time that, as representing the California Farm Bureau Federation, I am authorized to say that we endorse the views that will be expressed and that we are confident will be expressed by those industries, because we have in our membership many persons engaged in dairying and in the raising of livestock. So I am going to confine my remarks more to persons engaged in other agricultural endeavors and the growing of other crops. I returned to San Francisco today from the city of Fresno in the San Joaquin Valley, which is one of the wonderful productive agricultural areas in the State of California. While in Fresno I conducted hearings before the California Agricultural Pro-Rate Commission for the purpose of establishing control-programs for two of California's very large agricultural crops: raisins and dried figs.

It may seem rather strange to you gentlemen that I would bring in the matter of raisins and dried figs before this hearing, but it seemed to me that those hearings were quite indicative of a thing that is and has been true in the agricultural industry for a number of years, not only in California but in the United States, which is that the problem of agriculture is very largely a problem of surpluses.

Those two hearings that we held in Fresno yesterday were simply two of many hearings that will be held throughout the State of

California within the next few months for the purpose of setting up controlled production to control agricultural surpluses.

In my statement which is on file with your Committee<sup>1</sup> I quoted a figure that I took from a publication of the United States Department of Commerce, showing that last year there were imported into the United States over 2,000,000,000 pounds of vegetable, animal, and fish oils. Those oils, to a very considerable extent, enter into competition with domestically produced oils.

The point that I wish to make is that we are dependent at the present time, and have been dependent in the past, upon foreign-produced vegetable and animal fats and oils. If it were possible, and I hope that it will be possible in the future, to stimulate and develop the production in this country of increasing amounts of vegetable and animal oils, we may, by that increased production, solve to some extent, and I believe to a great extent, our problem of crop surpluses.

In other words, lands that are now devoted to the growing of surplus crops may in many cases be devoted to growing of oil-producing crops to replace part of that very large foreign production that is now used in this country. For that reason, I dragged into my statement here this morning the experience that I had in Fresno yesterday. I do not know whether it would be advisable in the future to pull out fig groves and plant that land in peanuts, we will say, for the production of peanut oil, but that is not beyond the scope of imagination.

We have in California what I have called a "problem" crop, namely, cotton. The cotton crop in California has increased at a very rapid rate in the last few years. The estimate of acreage of cotton in the San Joaquin Valley is in excess of 600,000 acres. I think the estimate is 620,000 acres. That represents an increase of about 200,000 acres over last year—an increase of over 200,000 acres of cotton—and cotton is a crop that we can call a surplus crop in that there is a cotton surplus. With such a large increased production in California there is danger of a serious surplus. Of course, one of the important phases of cotton-production is the production of cottonseed oil, and if cottonseed-oil prices are very low it tends to affect the cotton-producing industry very materially.

In the written statement I have gone into that to some extent.

In the Southern States where cotton is produced, the land upon which that cotton is produced is very often land that will produce very favorably peanuts from which oil can be obtained. If we find that our so-called "problem" crop in California (cotton) tends to build up a surplus, and if we can cut down our foreign importations

<sup>1</sup> See vol. III.

of oils from foreign countries and increase the plantings of peanuts in the Southern States for the purpose of producing peanut oil, we may tend to solve that problem.

You will recognize that I am dealing in what we may do, and it is what I believe and what farm people generally believe can be done. But to come more closely to the purpose of this hearing, I want to make it clear that farm people, the organization that I represent, and the farmers in that organization, and farmers generally, do not wish to express antagonism, and they have no particular antagonism, toward the Filipino people or trade relations with the Philippine Islands.

I do not want it understood that we oppose preferential treatment of the Philippine Islands. Perhaps I can state it better this way: Our policy is directed toward protecting domestic agriculture from the depressing effect of importation into this country of foreign fats and oils that are admitted under such terms as to compete favorably and to the disadvantage of domestic agriculture.

Out of some 2,000,000,000 pounds of foreign fats and oils imported into the United States last year, some 600,000,000 pounds were coconut oil from the Philippine Islands.

Dealing with this problem it is almost necessary to consider the whole scope of the oil business or oil industry. We believe that there should be no relaxation of restrictions now or after the Philippine Commonwealth secures its independence in the excise duties upon coconut oil. It may be that it will be found desirable to impose more favorable duties upon the importation of Philippine oils, coconut oil and copra, than, we will say, upon palm oil from Africa.

We would not oppose that if the duties imposed upon coconut oil were adequate to prevent that oil in our domestic markets from depressing and preventing the proper expansion of the oil-producing industry in this country.

I do not know whether I have made myself clear. The thought I have in mind is that farm people would certainly not oppose granting to the Philippine Commonwealth a favorable position in relation to other foreign countries so long as there were such restrictions upon imports from the Philippine Commonwealth as to adequately protect domestic agriculture. That is the point I wish to make in this hearing.

I am not going to take any more of the time of the Committee unless there are questions that I could answer. I want to state that I am not an authority on international relations or relations with the Philippines, but I will attempt to answer any questions relating to the position of farm people.

Chairman MACMURRAY. Are there any questions?

Mr. WARING. You stated, Mr. Miller, if I understood you correctly, that there was, in your opinion, the possibility of increasing the production of domestic oils and fats?

Mr. MILLER. Yes.

Mr. WARING. What degree of protection do you consider necessary to accomplish that objective?

Mr. MILLER. I am afraid I cannot answer that question. Any answer that I would give would be a personal opinion and a guess, as I do not know, frankly.

Mr. WARING. Does the present excise tax of three cents a pound seem adequate?

Mr. MILLER. I can answer that in this way: Farm people favor the continuance of the present excise tax of three cents, and I believe in my written presentation I stated that we wanted to be on record as favoring the continuance of the tax; I did not state that we favored an increase in it.

I do not know whether that answers your question or not, because I am not prepared to say that we feel that a higher tax is necessary or is not necessary.

Mr. WARING. You mentioned that cotton was one of the problem crops in California and, yet, that approximately 200,000 additional acres have been planted this year?

Mr. MILLER. That is what makes it a problem. Now, perhaps I should elaborate a little on that point.

I believe the real reason for the very great increase in cotton-production in California has been due to the fact that where the average production of cotton in the United States is about a half a bale an acre, the average production in California has been close to a bale and a half an acre, which has made California the favorable place to produce cotton. They have produced cotton during the last two or three years at a profit—although Southern cotton-farmers might be producing it at a loss—because of the higher yield an acre, even with the higher cost an acre, costs in California being due to water and irrigation expenses as well as to the price of labor. But that increase in California will inevitably create a serious crop problem in States that cannot produce cotton as favorably.

It is a problem crop in California with relation to California agriculture because of two reasons: One is the possibility that before there is an adjustment in production in other States it will contribute to and cause a large cotton surplus; the other is a purely local problem—that cotton requires in California a large amount of water, and it is causing a serious lowering of the water-table in the San Joaquin Valley and may aggravate our local water problem.

For those two reasons we consider cotton a "problem" crop, for it may bring problems that we will have difficulty in solving.



Mr. WARING. What I have in mind was specifically whether the farm group was advocating additional protection to take care of a condition which they themselves were favoring by overplanting.

Mr. MILLER. No. I do not want to be misunderstood on that. I think that is a problem we will have to handle ourselves, because we are causing it ourselves, but I believe the increase in cotton acreage in California would not be a serious problem if it were replacing cotton acreage in Southern States that could be turned over into the production of some other profitable crop.

Certainly, from the standpoint of land-use, it is desirable from a national point of view to use lands to the best advantage, and if you can produce a bale and a half or two bales an acre in California, looking at it from the national point of view, it should be produced here. Conversely, land in the South that can produce only half a bale should be turned to the production of peanuts, which cannot be produced in the State of California.

Mr. WARING. I have three questions, Mr. Chairman, in connection with the brief that was submitted by Mr. Miller.

Mr. MILLER. Yes.

Mr. WARING. On the second page of the brief, the first sentence of that page, you make a point that in the manufacture of soap coconut oil competes with tallow, grease, and soy-bean oil?

Mr. MILLER. Yes.

Mr. WARING. I wondered if it is true that soap can be made entirely from tallow or entirely from coconut oil?

Mr. MILLER. I am not prepared to answer that; I do not know whether it could or not.

Mr. WARING. I think within certain percentages the two are not so competitive as they are complementary.

Mr. MILLER. I see.

Mr. WARING. It may be that within those percentages there is a certain degree of competition, but they each have certain characteristics which they bring to soap which cannot be supplied by the other.

Mr. MILLER. I am very glad to know that.

Mr. WARING. That is my understanding.

Mr. MILLER. That may be true. I am not prepared to say in that respect.

Mr. WARING. In which case they would not be in their entirety directly competitive.

Again in your brief, the paragraph beginning "Philippine coconut oil was admitted . . . free of duty . . . up to June 1934, and it prevented the normal growth and development of oil- and fat-production in the United States."

You stated yourself that last year 2,000,000,000 pounds of oils and fats came in, of which only 600,000,000 was coconut oil.

Mr. MILLER. Yes.

Mr. WARING. Therefore, it seems not quite fair to me to attribute the entire effect to— [pause].

Mr. MILLER. I believe that perhaps you are right, and perhaps I should state here something that may qualify my original statement to some extent.

It is quite apparent from the records that, following June 1934, the effect of the excise and import duties on foreign oils caused a very sharp reduction in importation of foreign oils from foreign countries generally, but that reduction was not so apparent in the importations of coconut oil from the Philippines; also that the real effect of the tax perhaps was due to its effect upon the entire field of oil importation rather than upon coconut oil.

Mr. WARING. Yes.

Mr. MILLER. I think that is a fair statement.

Mr. WARING. Then there were other oils and fats which should be considered in connection with the competitive problem?

Mr. MILLER. Yes, necessarily.

Mr. WARING. Yes.

Mr. MILLER. And I think that that statement is a reasonable one to make in view of what I said at the beginning of my statement here today, that I do not believe that farm people would oppose preferential treatment for the Philippines in the matter of importation, because our oil problem is a very broad one. For instance, there is, I believe, more palm oil imported into this country than there is coconut oil, and if we by proper tariff and excise duties could favor coconut oil over palm oil, certainly agricultural people would not oppose that so long as they received adequate protection for domestic agriculture.

Mr. WARING. And it is also true, is it not, that for a considerable period of time the United States will be dependent upon a foreign supply of oil?

Mr. MILLER. Without doubt.

Mr. WARING. Yes.

Mr. MILLER. I would not want to be in the position of saying that we could terminate our foreign imports of oil and immediately produce domestically sufficient oil to meet our demands. I think that if we ever become self-sufficient from the point of view of domestic production, it would be over a very, very long period of time. I think that what we should aim at is not complete independence, perhaps, but approaching it; and, considering that coconut oil comprises but some 600,000,000 pounds of a 2,000,000,000-pound importation, it might be fair to say that it would be many, many years before it would be necessary to restrict entirely the importation of coconut oil in order to adequately protect American agriculture.

Mr. WARING. One more question, Mr. Miller: On the third page of your brief, in the first paragraph, there is a statement that "the passage by Congress of the excise tax on certain foreign-produced oils in the spring of 1934 caused an immediate advance in the prices of important domestic oils". I have no question regarding the correctness of the statement, but it occurs to me that there were also other reasons which brought about the price-advance.

Mr. MILLER. I thoroughly agree with you. There were other conditions operating at that time which caused price-advances, in addition to the excise tax. It is our opinion that the imposition of that excise tax was one of the important factors contributing to the price-advance, but there undoubtedly would have been a price-advance without that excise tax, due to other factors, such as the A. A. A. program and other factors operating to create a general advance in farm prices, not only in the oil fields but in other branches of the industry.

Mr. WARING. Not only the A. A. A., but the drought?

Mr. MILLER. The drought, too. I might say, for purposes of clarification, perhaps, that the reduction in importation of coconut oil in 1936 over 1935, which was not a large reduction, might be attributed to other causes than the excise tax, notably the maritime strike on the Pacific coast, which might have caused the diverting of coconut-oil shipments to other markets. So that it is almost impossible to attribute changes in price or changes in the amount of importation of a commodity to any one cause, and I realize that limitation.

I also want to call attention to the fact that any limitations or failures to explain properly in the written statement are attributable partly to the fact that this statement was prepared on very short notice. I had to prepare it in one day last week, as I was leaving town at the end of the week. So I welcomed the opportunity of extending perhaps a little more my oral presentation.

Mr. DOMERATZKY. Mr. Miller, you referred to 200,000 additional acres in cotton in California?

Mr. MILLER. Yes, this year over last year.

Mr. DOMERATZKY. Does that additional acreage represent new land or a new utilization of land?

Mr. MILLER. I will have to say, both. One thing has worried us in California, in view of the water problem, and that is the large amount of new land which has been put into cotton-production. It would be impossible for me to say, because I do not believe the records are available, how much of that 200,000 acreage is new land, and how much is land that was used for production of barley, wheat, and other field crops. But there has been a considerable utilization of land that had never been under the plow before in the San Joaquin

Valley. There has been considerable breaking up and plowing of new land. I know in Kern County of one entire section that had been used simply as grazing-land for forage crops. That was plowed this year and put in cotton.

I say that presents a serious problem because it brings into use a large amount of land that never had to be irrigated before and, of course, extends the water needs, and water has always been a problem in that valley and will be until we develop a comprehensive State-wide water program, which is, of course, under way.

Mr. ROBBINS. Mr. Miller, I understand that you feel that cotton is a "problem" crop in part because of the difficulty of maintaining a foreign market for the surplus over and above our own requirement.

Mr. MILLER. I did not say that, but it is perhaps true; I believe that I was looking at the problem more as a domestic problem, forgetting for the moment the possibility of developing the foreign market for cotton. The point that I wanted to make was that perhaps, by developing domestic production of oil, we could tend to solve not only that problem but our other agricultural-surplus problems, and I was not at the time thinking of the foreign-market problem for cotton.

Mr. ROBBINS. I wondered how you could reconcile the problem of obtaining an increased foreign market for increased cotton-production, and at the same time decreasing our purchases of foreign fats and oils in order to protect further the domestic production of those products. Do you think that we can simultaneously increase our exports and decrease our imports of commodities?

Mr. MILLER. I do not. I think that, if we were to develop a policy in this country of producing domestically the foreign fats and oils that are now imported into this country, it might seriously affect our import market for other agricultural commodities. I am not prepared, certainly, to state that we should, as one farmer expressed it to me yesterday, build a wall around us and develop our full agriculture on the basis of a domestic market and domestic production. I am not willing to make that statement here, but I know that many farm people are of that opinion. At the present time I do not think it would be possible, but I do appreciate the fact that if we try to decrease our imports of foreign oils it might have some considerable effect upon exportation of other agricultural commodities. [*Sic.*]

Chairman MACMURRAY. Any further questions?

(No response.)

If there are no further questions, we will now recess to resume our session at 2 o'clock.

(Thereupon, at 12:30 o'clock p. m., a recess was taken until 2 o'clock p. m. of the same day.)

PROCEEDINGS OF JULY 21, 1937  
AFTERNOON SESSION

MERCHANTS' EXCHANGE BUILDING,  
SAN FRANCISCO, CALIFORNIA,  
*Wednesday, July 21, 1937.*

(Pursuant to the taking of the noon recess the hearing was resumed at 2 p.m.)

Chairman MACMURRAY. The meeting will come to order.

The next witness on our list we will hear immediately because I understand he has to leave on a train in the middle of the afternoon. We will hear from Mr. Buckner now, rather than go back over the morning absentees.

Mr. William P. Buckner, Jr., represents the Philippine Railway Bondholders' Committee, New York, New York.

STATEMENT OF MR. WILLIAM P. BUCKNER, JR., REPRESENTING THE PHILIPPINE RAILWAY BONDHOLDERS' COMMITTEE

Mr. BUCKNER. I want to thank the Committee for its consideration in permitting me to testify now and get out in such a hurry. I will file my brief later.<sup>1</sup>

I do not think I will take more than 20 minutes. I understand that most of the members of this Committee are not familiar with the problem which I have to discuss, and I would like to run over it as quickly as possible and give you a background for it and then attempt to present our side of the case.

The Philippine Railway Company built a railroad on two islands in the Philippines, Panay and Cebu, some time in 1906. The building operation was financed by the sale of bonds which were authorized in the amount of \$15,000,000 and distributed finally in the amount of \$8,549,000. The distribution occurred through a banking house in London, Glyn, Mills, Currie & Company; in Amsterdam, through Hope & Company; and, in the United States, through the Bureau of Insular Affairs.

The bonds carried a guaranty of interest by the Philippine Government which, by its terms, says until maturity or redemption.

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<sup>1</sup> See vol. III.

The interest, of course, has been paid up to the maturity date by the Philippine Government, and I wish to say, on behalf of my committee, that it certainly wishes to express its appreciation of that prompt payment of interest in contradistinction to the usual function of other government guarantors, particularly in South America.

The principal, of course, has matured and we contend there is no legal obligation on the part of anybody other than the railroad, which happens to be a considerable corporation, to pay the principal.

However, at the time these bonds were guaranteed as to interest there was a discussion in Congress—in fact, a great deal of opposition to the bill, as it appears from the *Congressional Record*—and in the debate that occurred on the bill it became apparent that the opinion of most of our Senators and Congressmen was that if the guaranty of interest by the Philippine Government was passed by our Congress it would be in effect to impose a moral obligation on the part of the United States and the Philippine Government to the bondholders.

I am not quoting my own opinion. The fact is that my brief contains some excerpts from the *Congressional Record* of 1905, at the time the act was passed, and quotes the opinion of the then Acting Attorney General who, in response to some questions by our legislators, made the statement that the United States Government and the Philippine Government would have a moral, if not a legal, obligation to the purchasers of these bonds.

The bonds were sold on a prospectus, a copy of which I have attached to my brief, and our brief states, and it is my personal opinion as well as the opinion of counsel for the committee, that under the present awakened conscience of our Government, as represented by the S. E. C., the circular is misleading to say the least.

The most prominent features of it, of course, are the statements of the Secretary of the Treasury and the Secretary of War to the effect that the bonds have been authorized, and the general impression that one gains from reading it quickly, as most buyers of securities did then, and usually do now, is that they have the savor, if not the actual fact, of Government securities.

I would like to read just a brief quotation from the statement of the Treasury Department to that effect:

The Treasury Department, when the deposit of public moneys with the various National Banks is reduced, will require that bonds other than the following be first withdrawn: United States [and I would like to insert the word "Government"] Philippine Government, Philippine Railway, Porto Rican Government and Hawaiian Government.

In other words, the general attempt of this circular—and I do not by any manner of means attempt to imply that it was a Government function to have issued it—but in any event, the general attempt of the circular was to create the impression that the purchaser was to

buy a Government-backed security. And, of course, our bankers in those days took advantage of it, I assume, and sold the bonds on that basis.

A year ago the railroad announced that it would be unable to meet its obligations at maturity, that is to say, the principal of the bonds.

The Philippine Government, I understand, has a second lien for advances for about six and one-half million dollars, as well as other items which I have no way of estimating because of their advances for the maintenance and operation of the railroad.

At that time there was a proposal, I think, by the president of the railroad, Mr. Pardee, on behalf of the stockholders and bondholders, to submit to the Philippine Government and its Legislature the sale of the entire bond issue and stock, common stock, for a price of \$35 a bond. The impression was gained erroneously that that was an offer of the Philippine Government. It is not true, to my present knowledge. As I understand it the railway company itself accepted deposits of bonds in the Chase National Bank and submitted this proposition to the Legislature of the Philippine Islands, and the Legislature, as I understand it, adjourned without taking action one way or the other.

In March of this year the Bankers Trust Company called a meeting of all of the bondholders. I can say for the record, with the exception of the Philippine Government's holdings and two or three small holders of bonds, my committee, at the present time, represents all the others, roughly, six or seven million dollars' worth, and this Bondholders' Committee was formed.

Our first effort was to discover what the attitude of the Philippine Government was toward the situation and we spoke with Mr. Yulo, the Minister of Justice of the Philippine Islands. We had spoken with him on several occasions, and when I last saw him in Washington, and a day subsequently in New York, he asked us, as the representatives of the bondholders, to submit a proposition which would act as a basis upon which we would sell our bonds. He told me at that time that it was his view of the legal situation that upon the maturity date and default the Bankers Trust Company, as trustee, would own the railroad for the benefit of the bondholders.

I do not attempt to pass upon the legal status of the problem. I do not believe that that is true. You must make some restitution, ordinarily, in taking title away from the original owner, despite his default.

But we did submit Mr. Yulo an offer of the bonds at 100 cents on the dollar, not particularly with any serious idea that he would pay us 100 cents on the dollar, but we had to start some place, as I have no authority to offer the bonds to anybody for less. Anyone has a right to come in and pay them off at maturity.

Mr. Yulo took my letter, put it in his pocket, and left for Europe, as I knew he was going to, and I think possibly sometime in the future we will hear from him. In the meantime, however, my Bondholders' Committee is concerned because on July 2d, in Manila, a petition in involuntary bankruptcy was filed by the Solicitor General of the Commonwealth, and an injunction was obtained which, according to my knowledge of it, attempts to restrain anyone from taking any action legally or otherwise with a view to reorganizing the railroad.

Counsel for my committee tell me that an injunction of that kind has no effect beyond the territorial jurisdiction of the court, and, of course, there is pending, as has been prior to that time, a petition 77 (B) filed in the Federal court in Connecticut.

I simply mention these facts to give you an indication that the legal problems alone are difficult to cope with.

I have no way of knowing whether or not, if we intervene in Connecticut—and we haven't as yet as a committee in that proceeding—the decree of the Federal court there would have any efficacy in the Philippine Islands.

On the other hand I don't know whether what happens in the proceeding in Manila is going to be beneficial or harmful to us. I don't know whether the obtaining of an injunction is a precaution to protect the bondholders as well as the Government, or whether it is to remove control of the present management of the railroad and appoint a trustee to conserve assets. I have asked the Bankers Trust Company, through their counsel, to give me information, and they haven't yet complied with my request.

I may say that sometime around July 5th I spoke with Mr. Reed, of Sullivan & Cromwell, whom I understood had been requested by Mr. Yulo to advise him, and he also knew nothing of the move in Manila. That was his statement, at least.

Our position is simply this: Physically the property is a considerable distance removed from the United States. We recognize the fact that there is no legal obligation on the Philippine Government to do anything with respect to the bonds. We do feel, however, that because of the way the bonds were originally sold both the United States Government and the Philippine Government have some obligation with respect to the bondholders.

It may very well be that it seems far-fetched to ask the Philippine Government to buy the bonds and own the railroad because they have been good enough to maintain their interest guaranty and carry the road along. On the other hand, it will be easier for them to run the railroad and make a success of it, and pay an adequate return for its capitalization, than it would be for a group of bondholders scattered throughout Holland, Canada, the United States, and England. We



would like to have them buy it and take the road; then that would be the end of it. Our contention is that the Philippine Government is obligated to pay interest until the bonds are redeemed. Whether we will be able to maintain that, is another question.

Counsel tell me it is a well-settled legal principle here, in the Courts of Equity, at least, that when an instrument is ambiguous in its terms it will be interpreted against the drawer in favor of an innocent holder.

Certainly the interest guaranty here is ambiguous in its terms; but whether our judicial forum will agree with us, I do not know.

We would like to have this Committee find an answer to the problem if it can.

Chairman MACMURRAY. Does that conclude your statement?

Mr. BUCKNER. I think that is all I have to say. If anybody has a question to ask I will be glad to answer it if I can. I do not think of anything I care to add at this time.

Chairman MACMURRAY. Are there any questions?

Mr. ROMERO. I understand that this company has consistently lost money; is that a fact?

Mr. BUCKNER. My only source of knowledge on that point, Mr. Romero, is the investigation conducted by the Philippine Government itself. I am perfectly willing to accept that as a fact. I don't believe it ever earned even its interest on the bonds from the day that the railroad was built.

I believe, in answer to your question, that the Philippine Government has had to bear the obligation of paying interest from the date of its guaranty, or the first interest date. I may be wrong, but not very far wrong.

Mr. ROMERO. I understood from your statement that the Government has advanced approximately six and one-half million pesos.

Mr. BUCKNER. Dollars.

Mr. ROMERO. Dollars?

Mr. BUCKNER. Yes.

Mr. ROMERO. I think that is correct.

Mr. BUCKNER. I think so.

Mr. ROMERO. Do you have any suggestion as to how the Philippine Government might make this railway a paying proposition?

Mr. BUCKNER. I have no particular suggestion, Mr. Romero; but if I had a monopoly, and I believe it is the only railroad on those two islands, I believe I could make it pay.

Mr. ROMERO. It is a monopoly now?

Mr. BUCKNER. Only in the sense that it is the only railroad. It isn't the rate-fixing power, and it isn't the taxing power, which regulates competition.

My point is this: If I owned the railroad, and also had the power to regulate rates on buses and trucks, and other competitors, I believe I could make the railroad pay the interest on the bonds. I am not sure about that, but I think so.

(Laughter.)

Mr. ROMERO. Beyond that, you might eliminate competition?

Mr. BUCKNER. I wouldn't say "eliminate". I would say balance it a little better so the burden would be spread more.

I am serious in stating, as compared with a private enterprise, I think that the Government, which has control of all of those elements, could do a little bit better with the railroad than a private enterprise.

I will say that when I first saw Mr. Yulo, rather in a casual way, I had understood that the President had mentioned that they were to nationalize all transportation lines, and we were happy to start them off with this one. I didn't want to argue with him about that. I thought they could take it over and have a very fine start.

Mr. ROMERO. Will you please repeat that statement in the prospectus on which you base your claim as stated?

Mr. BUCKNER. It is as follows:

The Treasury Department, when the deposit of public moneys with the various National Banks is reduced, will require that bonds other than the following be first withdrawn: United States, Philippine, Philippine Railway, Porto Rican and Hawaiian.

My point in making the statement was that the prospectus classed with Government bonds the bonds of the Philippine Railway.

Mr. ROXAS. As Government bonds?

Mr. BUCKNER. That is the classification, because it mentions the United States Government, the Philippine Government, the Puerto Rican Government, and the Hawaiian Government bonds. The attempt of the circular was to so classify them.

You might have misunderstood me. That was not the operation of either Government. That was simply the bankers enjoying themselves under a little more liberal restrictions than exist at the present time; but the fact is that at least the assistance of both Governments was required to permit the thing to go over.

Mr. ROXAS. What is the market value of these bonds now?

Mr. BUCKNER. Well, the market value today I do not know.

Mr. ROXAS. Well, about six months ago?

Mr. BUCKNER. As a general range somewhere around 25 cents on the dollar.

Mr. ROXAS. And you offered to sell them to the Philippine Government for 100 cents on the dollar?

Mr. BUCKNER. Because I had no authority to offer them at anything else.

My statement was this, Mr. Roxas: If I could go to Mr. Yulo and say, "I will sell you all the bonds at 100 cents on the dollar", nobody could prevent me from doing that, if I had an offer, because the maturity date was approaching and everybody had the right to buy at the face value; that is all. I had to have some basis to start on.

For example, if I walked in to Mr. Yulo and said, "I will sell you all the bonds of the Philippine Railway Company at 50", I couldn't ever make good on that suggestion because I might not be able to acquire them at 50.

In other words, when he asked me to submit an offer I was submitting something as a place to start negotiations. If he had made a counter-offer of 10 cents on the dollar I would have been able to write a letter to the bondholders giving his offer.

Mr. ROXAS. The market quotation is 25 cents on the dollar?

Mr. BUCKNER. I am giving you an average. I don't think it would be above 30 nor below 20, and I am taking 25 as a mean.

Mr. ROXAS. That is my information.

Mr. BUCKNER. I think that is correct.

Mr. ROXAS. You base your statement, in support of your plea that either the United States Government or the Philippine Government, severally or jointly, have a moral obligation to meet these bonds on maturity, on this circular?

Mr. BUCKNER. No. I base it most of all on the opinion of our then Acting Attorney General. I do not recall the man's name, but Secretary of War Taft, who was an accomplished lawyer, had also made the statement that they had a moral obligation.

Mr. ROXAS. Did the Secretary of War have reference to these railroad bonds?

Mr. BUCKNER. Yes. I am quoting from the *Congressional Record* on this fact. The gentleman in Congress was Mr. Jones, of Virginia, and his statement is something along these lines—

Mr. ROXAS. What page is that?

Mr. BUCKNER. Page 4 of our brief. His statement is this:

Although Secretary Taft is an accomplished lawyer, there is even higher legal authority for my contention than is to be found in his utterances. The Acting Attorney General of the United States has given at least two official opinions, in both of which he holds that the United States is morally liable for Philippine bonds authorized and issued under circumstances and conditions precisely similar to those which will surround those provided for in this bill.

Mr. ROXAS. These remarks of Congressman Jones were made sometime in 1915 or 1916?

Mr. BUCKNER. No; I should say around 1905, because that was when the original act of guaranty was passed.

Mr. ROXAS. As I understand it, these remarks of Mr. Jones had reference to the provisions regarding the authority granted the Philippine Islands to issue bonds?

Mr. BUCKNER. I beg your pardon—unless my counsel are grossly inadequate, and I do not think they are, because they have a statement here reading:

In connection with the statutes pursuant to which these bonds were sold and which are recited in the indenture securing them (sec. 4 of the act of Congress of the United States, approved Feb. 6, 1905, ch. 453, 58th Cong., 3d sess.), the discussions in the Senate, as reported in volume 39, part I, of the *Congressional Record* are significant.

Unless I am misinformed that is the fact. I have no way of knowing, other than from the record, what that is.

Mr. ROXAS. I might be wrong, but my impression is that this has reference to Government bonds of the Philippine Islands and this quotation expressly refers to Philippine bonds.

Mr. BUCKNER. Mr. ROXAS, as I remember, Secretary Taft was not Secretary of War in 1915, unless I am incorrect.

Mr. ROXAS. That is true. Secretary Taft was Secretary of War in 1904 or 1905.

Mr. BUCKNER. Yes. That is what makes me believe that this is correct. I am perfectly willing to be shown in error if that is the fact.

Mr. ROXAS. I am not sure, but I know that when these provisions of the Jones act were discussed—

Mr. BUCKNER (interrupting). Jones is a very common name.

Mr. ROXAS. Congressman Jones, of Virginia, was chairman of the Committee on Insular Affairs, and he had reference to the bonds of the Philippine Government.

Mr. BUCKNER. Here is this statement: "The debate in the House is equally pertinent" (*Congressional Record*, vol. 38, pt. 5).

That refers to Mr. Jones' remarks and gives the page number.

Mr. ROXAS. You may be correct.

Mr. BUCKNER. Perhaps it would be easy to check, and I would be glad to do so. In the absence of the *Congressional Record* here I hope you will allow me to check that and forward it to the Committee. If my brief is wrong I will apologize profusely. I do not think it is.

Mr. ROXAS. It is the consensus of opinion that the United States has sort of a moral obligation for the redemption of bonds issued to the Philippine Government, but I have not come across any statement by any responsible official of the United States to the effect that the United States Government, or the Philippine Government, had any moral obligation to redeem the bonds issued to the Philippine Railway Company. I may be mistaken.

Mr. BUCKNER. If I am able to prove that my statement is in full accord with the *Record* I will feel hopeful about the attitude of this Committee then.

Mr. ROXAS. I wouldn't say that, but I will gladly straighten out the record in that respect.

Mr. BUCKNER. Thank you. I will check it up to see about that as soon as I get back.

Mr. ROXAS. Thank you.

Chairman MACMURRAY. Any other questions?

Colonel McDONALD. On page 2 of your brief you quote Senator Newlands, at page 133, as saying: "I should feel that a moral obligation rested upon me as a Senator of the United States to vote in favor of assuming that obligation."

Your opinion is that that obligation goes beyond what is clearly stated in the indenture, which provided simply for the payment of interest—not that the Philippine Government would assume any obligation, as you know, for the payment of any principal?

Mr. BUCKNER. Correct.

Colonel McDONALD. Have we any right to assume that the obligation of the Philippine Government goes any further than what was clearly stated in the indenture for the payment of interest throughout and with no suggestion of any guaranty or even moral obligation as to payment at maturity?

Mr. BUCKNER. I will answer the best I can and that is this: I feel that it does go beyond what is stated in the indenture because that is what was referred to in the debate. The obligation in the indenture is absolutely a legal one. There is no question about the moral obligation. Our entire reference to the moral obligation is the foundation on which these bonds were sold. I do not mean to imply that either Government was an active force in seeing that this prospectus was distributed, but I do say certainly, under our present contention of an obligation of a banking house, for example, by their tacit assistance you are morally bound to do something.

I do not say that 30 years ago any banking house had imposed upon it the obligation to do anything. But today if a banking house puts out an issue it has got to stand behind it, and stand behind it very strongly, and that is the way we feel about this situation.

I do not mean to refer to your personal part of this factor, but the lines down there, "Bureau of Insular Affairs, United States War Department", certainly were a factor in selling these bonds.

I do not mean from my own standpoint, but I can show you letters that I have from guileless investors all over the country who still think they have a Government bond because they got them from the War Department.

Colonel McDONALD. The Bureau of Insular Affairs, in their work with the Philippine Government in getting teachers for jobs in the Philippines, does not guarantee that the children they teach will not go crazy, or anything like that. It was merely a go-between for the distribution of the bonds.

Mr. BUCKNER. I realize that, but I am only pointing out what was the general public impression at that time. It is peculiar to note that even today I have several letters in my files from the presidents of small banks who own 10 or 20 of these bonds, still holding them in their portfolios, and they want to know why I haven't arranged to have their check for 100 cents on the dollar forwarded to them. One said "The United States War Department sold me these bonds."

Colonel McDONALD. One other question. You state that you think, if you had the taxing power and the rate-fixing power of the bus rates, and so on, in the Philippine Islands, you would be able to earn a return. Do you mind stating on what capitalization you think you could earn a return?

Mr. BUCKNER. I don't include in that the second lien or the capital stock, certainly. I have never heard Mr. Yulo, who is the only person I have ever talked to about this, advance the idea that the second lien was worth anything; but I believe, under the present situation, that the railroad has managed to earn—with the assistance of the Philippine Government, to be sure, in shipping its coal in and taking cement out—has managed to earn about one third of the fixed charges, which is the interest on these bonds. With a little adjustment here and there I think I might be able to eke out 4 percent. I may be wrong. I do not know much about conditions there, but it is an advantage to any enterprise to have power over all its competitors and power to suggest—

Colonel McDONALD (interrupting). 4 percent on what capitalization?

Mr. BUCKNER. On the basis of \$8,549,000.

Colonel McDONALD. Do you realize that the Philippine Government has already advanced to your bondholders—

Mr. BUCKNER (interrupting). \$6,500,000—and I stated they had paid it on time each time.

Colonel McDONALD. Ahead of time.

Mr. BUCKNER. Yes; that is correct.

Mr. ROXAS. Would you say that your bondholders have recovered their investment in these bonds?

Mr. BUCKNER. That is a question, Mr. Roxas, that I have no way of answering. I am willing to take the compound-interest rate and collect it over 30 years and agree if a man bought the bonds at 95,

or what they sold for, and got 4 percent he had an excellent investment—but that isn't the case here. I am willing to concede that.

Mr. ROXAS. What would you consider a reasonable valuation of these lines?

Mr. BUCKNER. I am frank to say that I cannot answer the question. I am confused about it.

Mr. ROXAS. Judging from its earning capacity, could you estimate it?

Mr. BUCKNER. Judging from its present earning capacity, and if the Philippine Government didn't withdraw their support which I just mentioned, that is, shipments of coal and cement, you would recapitalize, I suppose, on the basis of about 35 cents to 40 cents on the dollar. I think it is earning about a third of its interest charges. On a 4-percent basis the company earns from one third, that's 33⅓, to 40 percent of its present capitalization.

Mr. ROXAS. In other words, you would not consider it a good investment to pay more than 30 percent on the dollar on these bonds, is that correct?

Mr. BUCKNER. Under these present earnings, no.

Mr. ROXAS. Under its present earnings?

Mr. BUCKNER. I see the ultimate object of your question.

(Laughter.)

Mr. ROXAS. I have no ultimate object. I just want to find out.

Mr. BUCKNER. I would say maybe on the basis of 33 to 40 cents would be just a fair investment, and that is about all. But I have no way of knowing what the physical value of the property is. I am told the railroad was excellently built in the first instance, but that was told me by the builders so, of course, they may be prejudiced.

I might say that I read a statement from the Associated Press in Manila that made me smile. It said that the obligations of the railroad were 20 million dollars and the assets were not quite 15 million dollars. Anyway, it is not such a bad buy for 33⅓ cents on the dollar. Just what it should be I have no way of telling. I gather from Mr. Yulo its intrinsic value is very little, and I am willing to accept his statement.

Colonel McDONALD. Do you represent the foreign bondholders?

Mr. BUCKNER. Yes, I do. Mr. Boissevain represents the Amsterdam stockholders; the Canadian stockholders are represented by Walton & Company; and the English bondholders are represented by a man not yet named, but who will be a member of Glyn, Mills, Currie & Company, the original banking house.

Colonel McDONALD. You can speak for all the foreign bondholders?

Mr. BUCKNER. Yes, until they say I cannot. I mean that they were represented by Mr. Boissevain at the regular meeting at which my

committee was selected, and Mr. Boissevain left for Holland around coronation time in May, and he arranged with his secretary to give me a proxy to vote for him on the committee. The same holds true with Mr. Walton. I see no use in asking them to come back from various parts of the globe to attend meetings of the committee until something occurs of importance.

Colonel McDONALD. Do you know how many million dollars were represented by your bondholders who consented to turn in their bonds to the railway at the time when you mentioned certain negotiations were undertaken?

Mr. BUCKNER. No. I have no way of knowing that. The Bankers Trust Company has an incomplete record on it and the Chase National Bank, which was the depository, has no records. I mean they turned back the bonds and sold the bonds they had in the open market, and I haven't been able to get a record. It doesn't show. I understand they have acquired deposits of around two million dollars. It was because of that fiasco, among other things, that my committee has never asked to deposit the bonds. We are satisfied to represent them until they want to seek other representation, if they care to.

Mr. ROXAS. I suppose you are very well acquainted with the history of this railroad?

Mr. BUCKNER. No, Mr. Roxas, I am not. I will tell you where my information comes from. At the original meeting of the bondholders at the Bankers Trust Company a gentleman named Albert Coyle, who was precise and seemed to have a great deal of knowledge about the situation, read from a report of investigation, I believe, which had been conducted by a committee, members of the Philippine Legislature, and I am willing to accept that as the truth.

Mr. ROXAS. I was not referring to that. I want to ask this question: Do you have any idea as to the amount which the original stockholders invested?

Mr. BUCKNER. I was about to refer to that. I am willing to concede the fact that this railroad, without pointing particularly to anybody, was built in accordance with the usual commercial practices of the time; that is to say, the original stockholders put up one dollar and made as much as they could by the construction of the road. I concede that to be a fact without knowing it.

Mr. ROXAS. Was that the general practice approved in the United States?

Mr. BUCKNER. I wouldn't say the approved practice. I read a history of the railroad construction of the country and it seemed to be fairly general.

Mr. ROXAS. I do not want to press the question.

Mr. BUCKNER. I have no way of knowing.



Mr. ROXAS. I am not accusing anybody. Isn't it also a fact that the original stockholders, or at least some of them, found stranded equipment on a railroad somewhere in South America and sold it after the bonds were sold and guaranteed by the Philippine Government at a price fixed by them?

Mr. BUCKNER. I don't know, but I am willing to assume they were guilty of all manner of sculduggery; and that makes our case more pitiful.

(Laughter.)

Colonel McDONALD. Have these stockholders ever gotten anything out of it?

Mr. BUCKNER. I don't know, Colonel. As I say, I have only the report of the Philippine Legislature to go by.

Many of the irate public crusaders suggested we institute all manner of suits and actions against people, and my answer to them was that that was a long time ago and that it was hardly any use worrying about it at the present time. It doesn't affect the plight of the bondholders.

Mr. ROXAS. Isn't it also a fact that the only intervention that the Philippine Government had in relation to this railroad was in approving this guaranty, the subsidy of 4 percent?

Mr. BUCKNER. Yes, but even on that basis, Mr. Roxas, they didn't have much voice in that matter because I understand the guaranty was approved by our Congress without regard to the Philippine Government.

Mr. ROXAS. They were acting for the Philippine Government?

Mr. BUCKNER. Yes.

Mr. ROXAS. The Government had no intervention or control in relation to the construction of this railroad or the manner in which that money was spent?

Mr. BUCKNER. I am not so sure about that. I do not know the terms or conditions surrounding the granting of the franchise.

Mr. ROXAS. The Insular Auditor looked over their accounts?

Mr. BUCKNER. I don't know. Frankly, I had no interest in the kind of performance that was engaged in 30 years ago, because it didn't help our bonds or hurt them very much; so I didn't check up on it carefully.

Mr. ROXAS. It would be interesting to have an accurate estimate of the physical value of this line.

Mr. BUCKNER. I think so. As a matter of fact, I have a very interesting 25-page oration by one of its original builders, made at the Bankers Trust Company. He was accused of something or other, and he got up and talked at great length; very interesting reading, but I don't know whether it is true or not. He gave an

impassioned defense of the building of the road and said it was the finest military railroad ever constructed.

Mr. ROXAS. I think a great deal of this railroad. Practically everybody on the line votes for me when I go over it.

Mr. BUCKNER. By all means let's keep it running. Shall we?

Mr. ROXAS. Thank you.

Mr. ROBBINS. I didn't hear the first part of your testimony, Mr. Buckner, but I gathered that your first choice was that you wanted to be provided with the convenience of your own legislature. If we should fail in that, I, like Mr. Roxas, wonder how many dollars you thought your clients might be entitled to.

Mr. BUCKNER. I don't understand what you mean.

Mr. ROBBINS. You said if you had the legislative powers to regulate rates, and so on—

Mr. BUCKNER (interrupting). I beg your pardon. I didn't say "legislative powers". I said if I were a power that had a monopoly, I thought I would be able to make the railroad pay.

Mr. ROBBINS. What are you asking of this Committee?

Mr. BUCKNER. I am asking the Committee to find some solution. At Mr. Yulo's request we submitted the bonds at the only price we could. I assumed, from the fact that he asked us to submit them, that he was interested in making some counter-proposal. Maybe he will when he gets to Manila. He has had no opportunity, to my knowledge, to consult with anyone because he is still traveling. But we did feel it would be proper to present the case here, knowing that your Committee was going to Manila, and that perhaps, you would discuss the matter with Mr. Yulo; his reply to us would then be something that would be advantageous or helpful to us; that is all.

Colonel McDONALD. In case this railroad went up at a sheriff's sale in the Philippine Islands, would your bondholders be interested in buying it in?

Mr. BUCKNER. Colonel, I cannot answer that question. We discussed the matter with Mr. Reed, of Sullivan & Cromwell, and the counsel of our committee, and I am not familiar enough with what the situation would be.

As I say, I am not alarmed, because I can conceive of no greater difficulty than getting the bondholders, who hold from 1 bond to perhaps 100 and who are scattered all over the world, to agree on a definite policy. That was one of the reasons why we are asking for help.

If we had some control over the situation, and this were near enough to go into a plan of reorganization under the usual 77 (B), we wouldn't have so much to worry about.

Chairman MACMURRAY. Are there any other questions?

(No response.)

Thank you, Mr. Buckner.

We might, from this point, try to pick up our schedule of this morning by calling on the various witnesses who were absent then.

Is Mr. Lawrence present?

Mr. LAWRENCE. Here!

Chairman MACMURRAY. Will you come forward? About how much time do you expect to take?

### STATEMENT OF MR. S. S. LAWRENCE, REPRESENTING THE SHELL CHEMICAL COMPANY

Mr. LAWRENCE. Mr. Chairman, I shall take but very little time. As a matter of fact, I think I stated all the pertinent facts in the brief<sup>1</sup> which I submitted.

I believe that the Philippine Government should give more preference and protection to the fertilizer materials which are shipped from the States to the Philippines for, I would say, the reason that probably 98 percent or 99 percent of all those sales go into the growing of cane, and the growing of that cane, I would say, is almost entirely for the American market.

It is true that we get a 5-percent preference on the f.o.b. value of these materials in Europe, or in Canada, or wherever they are produced, but that of itself does not make up for the difference in present ocean rates from Europe. In other words, the freight on fertilizer materials from Europe is something under \$7 for 2,000 pounds; whereas the present rates on the Pacific Westbound Conference is \$7.50 to Manila and \$8 to the sugar-port.

I don't know that I have anything more to add, except that we look with a great deal of favor on that market. It is one export market where we feel that we have an opportunity to stay in and where we are not up against the usual troubles of financing export shipments.

I have nothing further to say unless someone wants to ask a question.

Chairman MACMURRAY. Are there any questions?

Mr. ROXAS. What is the value of your exports to the Philippines, that is, referring to fertilizers?

Mr. LAWRENCE. It all depends upon the particular year.

Mr. ROXAS. For 1936, for example?

Mr. LAWRENCE. In 1936 I would say—I would have to make some sort of mental calculation—on a c.i.f. basis, somewhere between \$35,000 and \$40,000.

<sup>1</sup> See vol. III.

Mr. ROXAS. That is for your companies only?

Mr. LAWRENCE. My companies alone.

Mr. ROXAS. Thank you.

Colonel McDONALD. What preference do you get in your products? I mean, what is the tariff on fertilizer from other countries into the Philippines?

Mr. LAWRENCE. It is 5 percent of the f.o.b. value.

Colonel McDONALD. So the Philippine rate is identical with the American rate?

Mr. LAWRENCE. No, that is not true. There is no duty upon fertilizers coming into the United States, if that is what you mean—they are on the free-list.

Colonel McDONALD. Thank you.

Mr. DOMERATZKY. Can you tell us what proportion of the fertilizer-consumption in the Philippines the United States supplies?

Mr. LAWRENCE. Well, that is only a guess. Of the ammonium-sulphate business, I would say this year about 30 percent, 25 or 30 percent; and of the other materials probably 40 or 50 percent.

Mr. DOMERATZKY. Do you mean when you ask for an increase in the preference, an increase in the duty on the foreign fertilizers?

Mr. LAWRENCE. Yes.

Mr. DOMERATZKY. Do you believe under those conditions that you could increase the proportion of fertilizer from the United States or could you increase the price?

Mr. LAWRENCE. I think that the proportion would increase because that market, from the standpoint of returns from world trade, is not essentially profitable to the people shipping out there today. I think, under those conditions, there would be more of the business that would gravitate to the United States.

Mr. DOMERATZKY. But if it is not profitable to the European suppliers who, according to your statement, have an advantage in the freight rates, how could it be profitable for the American suppliers?

Mr. LAWRENCE. Well, the American suppliers, through various conditions, either of surplus or so on, seek foreign outlets for it. If the Philippine market offers them a better opportunity to dispose of that surplus, they are going there with it.

I do not know whether that answers your question.

Mr. DOMERATZKY. Well, it does not. Of course, it would answer the question so far as quantity is concerned, but it does not answer the question about the profitableness of the market.

Mr. LAWRENCE. Well, if you want my opinion, the market is not now very profitable. It is so regarded. Prices have been for the last several years quite low out there as regards other markets.

Colonel McDONALD. Would that raise the price to the Philippine consumer?

Mr. LAWRENCE. I should say it would; yes. After all, the price a unit that they are paying for these materials, especially nitrogen, today is lower than the world average price for that sort of thing.

Colonel McDONALD. And you are asking the Filipino farmer to pay more for his fertilizer than the American farmer does?

Mr. LAWRENCE. Well, naturally; if we are going to pay \$8 a ton freight, we have to get more money for it.

Colonel McDONALD. But still you are raising the price over what he could get the foreign fertilizer for. It comes, as I understand it, into the United States free of duty for the benefit of the American farmer, and then the Filipino farmer would be required to pay not only what he is paying now, but an additional duty.

Mr. LAWRENCE. Well, I think there is certainly justice in that. The Filipino farmer who markets his sugar in the United States under present conditions, certainly enjoys a huge preference in that market, does he not?

Colonel McDONALD. Yes. But he also buys a great many other things besides fertilizer in the American market.

Mr. LAWRENCE. True.

Colonel McDONALD. And for which he does not get the same advantage. He pays an excise tax on coconut oil. I wanted to be sure I was right in believing what you asked would raise the price to the Filipino consumer.

Mr. LAWRENCE. Naturally, but not very much. After all, the unit value of these materials, as compared with the unit value of the things produced from them, is relatively a small part of that cost.

Mr. BENITEZ. Do you know of the possibility of exporting fertilizer for rice-cultivation?

Mr. LAWRENCE. Yes. That is being investigated. I might say that successful rice-growing in most countries does consume a great deal of fertilizer. For example, in the Dutch East Indies and in Japan, and in practically every other rice-growing country, with the possible exception of the Philippines, there is a consumption of fertilizer for this purpose.

Mr. BENITEZ. Also for fruit-growing?

Mr. LAWRENCE. Yes.

Mr. BENITEZ. Have you gone into that?

Mr. LAWRENCE. No.

Mr. BENITEZ. There is a growing demand for fertilizer in connection with certain fruit trees?

Mr. LAWRENCE. Of course, from your standpoint that requires local exploitation which we are not prepared to give in a particular market, especially with the uncertainties of the future.

Mr. BENITEZ. Could we rely on American technical help, for example, in supplying us with fertilizer in the new mango plantations and other fruit-tree plantations, which Germany is endeavoring to supply through its commercial agents there?

Mr. LAWRENCE. Well, I couldn't answer that question. We do do it in California, and spend a lot of money doing it; but whether or not we could see our way clear, for example, to go out there with the uncertainties of the future and do it, I am not prepared to state at this moment.

Mr. BENITEZ. Now I state that there is a growing demand for such technical help and that perhaps you people ought to be interested.

Mr. LAWRENCE. I might elaborate a little bit on what goes on here in the States. Long-time technical help is really furnished by either the State government or the United States Department of Agriculture. For example, here in California we have what we call the county agent, who advises the growers of various crops, not only how they should fertilize but when they should irrigate and how much, what insecticides they should use, and all that sort of thing.

A fertilizer program for any crop is something that has to be developed over quite a number of years. You cannot go in and get definite results in two, three, or four years. That is to say, you can spend only so much money and get it back. For example, it took the sugar-people quite a number of years before they came generally to the fertilizer program which they are using today.

Mr. BENITEZ. I have in mind the employment of salesmen who are also scientists. That is being done by German firms in Manila. I am inviting your attention to that possibility because, in view of this adjustment as it has to be made, more demands will be created for fertilizer for our fruit trees.

Mr. LAWRENCE. Well, it would seem to me, if you wanted to develop it, probably it should be done as a Government venture so they could go into the different provinces and lay out some experimental areas and have competent people to supervise them. Then the information which you have is public. It wouldn't be so terribly expensive to do it that way either.

Chairman MACMURRAY. Are there any further questions?

(No response.)

Thank you very much, Mr. Lawrence.

Is Mr. Mallon present?

Mr. MALLON. Yes.

Chairman MACMURRAY. You may come forward and make your presentation.

STATEMENT OF MR. A. E. MALLON, REPRESENTING  
THE TACOMA CHAMBER OF COMMERCE, THE  
NORTH PACIFIC MILLERS' ASSOCIATION, AND THE  
MINNEAPOLIS CIVIC AND COMMERCE ASSOCIATION

Mr. MALLON. Mr. Chairman and Members of the Committee: The brief on behalf of the Tacoma Chamber of Commerce has already been filed.<sup>1</sup> My remarks are to be made not only in behalf of the Tacoma Chamber of Commerce but also in behalf of the North Pacific Millers' Association and the Minneapolis Civic and Commerce Association, of Minneapolis, Minnesota.

In the Pacific Northwest is a great round basin situated nearly two thousand miles by rail from the large consuming centers of the United States. The sides of this basin consist of lofty mountain ranges that separate it from the other great divisions of the country. In this basin, consisting of a large part of the States of Washington, Oregon, and Idaho, has been grown as much as 110 million bushels of wheat in one harvest. With domestic requirements limited to 27 million bushels for seed, feed, and human consumption, a tremendous volume must each year be shipped from the basin.

You may ask, why doesn't the Pacific Northwest diversify? Because the soil, rainfall, and climate are well adapted for the most part to the production of wheat, but poorly adapted for most other crops. Between 85 and 95 percent of the crop land is generally used for wheat, grown on over 53,000 farms. Hence, there is no doubt that large wheat harvests must and will continue each year, and the marketing of that wheat is one of our major agricultural problems.

The types of wheat grown add a further complication. A large portion of it is a soft white and soft red winter wheat—the principal uses for which are crackers, baking-powder biscuits, cakes, cookies, and so forth. As the consumption of these articles is limited, the domestic market is limited, and particularly when you consider that somewhat similar wheats are grown in the large consuming areas east of the Mississippi. (Roughly, the great bread-wheat producing section is east of the Rockies and west of the Mississippi.) Fortunately for the Pacific Northwest, a good foreign demand has always existed for these particular types of wheat and wheat products, particularly in the Orient. The annual export of wheat and flour during the decade of the 1920's averaged over 42 million bushels a year or more than half of the total average annual production. The remainder of the harvest moved eastward in small quantities by rail, in large quantities to California, and also to the eastern seaboard via the Panama Canal.

<sup>1</sup> See vol. III.

At the end of the twenties and early thirties, amongst other disappointments to American wheat-growers and flour mills, came the loss of the foreign markets. This was a terrific blow to the Pacific Northwest because of its more than 50-percent dependence on export trade. With the damming up of this most important outlet, the surplus wheat supplies backed up in the great basin. The level rose higher and higher. It spilled over the Rockies and drained eastward across the great prairies. It increased in volume in California. The heretofore quiet steady stream through the Panama Canal became a raging torrent. It poured through the United States ports of the eastern seaboard hundreds of miles into the interior. It broke the price-level of the eastern wheat-producer wide open, and its repercussions resulted in pronounced heaviness even in the prices of the Chicago Board of Trade. The wheat-producers throughout the United States suffered in accordance with their location because of the loss of the export markets.

Amongst these export markets is the Philippines—a large importer of United States wheat flour. During the period when the Government exercised various price controls, the price of United States wheat so rose above world levels that even the preferential duty of 42 cents a barrel in the Philippines was insufficient to protect American flour exporters, and Australia became the dominating factor in the Philippines. Even the bounty plan of the Department of Agriculture has not been sufficient to place United States flour back into the position it formerly occupied. If the independence of the Philippines is granted on the understanding that preferential tariffs will no longer exist between the Philippines and the United States, then what flour trade is left will automatically be passed over to our foreign competitors.

Four years ago, those of us who favored reciprocal trade agreements were urged by the present administration to ask our congressional representatives to vote for that legislation. We did. The legislation was passed. Many trade agreements have since been signed, and a beginning has been made in the direction of lower tariffs between nations. American agriculture has received some benefits under these agreements, but not great. Certainly the American wheat-growers and the American flour mills, three quarters of whose markets were lost since 1930, view with small satisfaction the few benefits they have received. Yet, at one stroke of the pen, our Government would give away to foreign competition the Philippine flour market, larger than all the flour markets opened up by all the trade agreements made to date. And this is the treatment Americans, who have spent large sums in building up trade in the Philippines, receive from their Government in 1937, when the same Government in 1898 accorded the Spaniards 10 years to liquidate their interests.



In Washington we are commencing to have a revival of interest in the American Merchant Marine. It is once more front-page news to read that new ships must be built and companies subsidized in some form or other to maintain trade routes. The public mind is being fashioned to approve whatever action Congress finally deems best to take. Huge sums will probably be expended with little notice or thought of the experiences of the past in the building of a sound economic foreign policy for the future.

Wheat flour for years has been the backbone of the trans-Pacific steamship services from Puget Sound and the Columbia River ports. Its steady, regular flow furnished a dependable cargo and revenue to the steamship lines which maintained those services. The maintenance of these lines opened foreign markets that otherwise would not have been available to Pacific-coast producers and manufacturers of numerous other products. The more cargo available, the lower the rates of transportation, the greater the profit to all concerned—the producers, the manufacturers, the transporters.

With the loss of our oriental flour markets, the steamship-operator is faced with a real problem. Ports of call are reduced both at home and abroad. Frequency of sailings are reduced. Overhead per steamer increases. Profits are leaner or turn to losses. Some lines fold up and leave a breathing-space for the survivors to attempt to carry on. The battle of the survival of the fittest continues in grim earnest. A statement just received from the States Steamship Company of Portland, Oregon, further bears out the problem from the steamship point of view; it reads as follows:

It is an acknowledged fact that steamship services are the most important factors in foreign trade, as, without this means of transportation, business could not be transacted, and the reverse is, of course, also true.

Since the inception of American control of the Philippines, trade between the two countries has grown steadily and is now of tremendous volume. To the steamship owner who is employing his tonnage in the trans-Pacific trade it is of the utmost importance that present economic relations continue between the United States and the Philippines, that is, free trade. While it is possible for an owner to obtain cargoes from the Pacific coast of America to the Far East, it is not possible for him to secure profitable homeward freights from oriental ports other than from the Philippines, and the completed voyage would show a substantial loss unless cargoes from the Philippines such as copra, sugar, lumber, hemp, etc., were available. Should the United States impose duties upon these and similar commodities, the result would be obvious. The movement of these goods would either dry up or become of infinitesimal volume. The steamship owner would be forced to discontinue service between not only the Pacific coast and the Philippines and return, but also between this country and Japan and China ports, and either cease to exist or employ his tonnage in more profitable trades.

To elaborate, without present cargoes available from the Philippines to this country, a steamship owner cannot make sufficient profits to maintain a regular

service from this coast to the Philippines and return, but also could not maintain such service to Japan and China. The result would be disastrous, not only to the steamship owner, but also to export and import merchants who presently traffic with the Orient. When it is taken into consideration that trade between the United States, Japan, and China is vastly greater than between the United States and the Philippines, the significance of this question is realized. The steamship owner could not afford to continue services to Japan, China, and the Philippines with the result that all the vast commerce built up through long years of effort by merchants in this country would disappear, and this business would be seized by competition in other countries.

The States Steamship Company, which commenced business from the Columbia River in 1919, has kept up a continuous and regular service to and from the Philippines by way of Japan and China since that date. This company has only been able to so maintain a service of this nature due to the fact that there has been a volume of business from the Philippines home to the Pacific coast. In the interests of developing trade for exporters to all oriental points, the States Steamship Company has made every effort to assist merchants and, through its Far Eastern offices, has been successful in no small measure in building up and enlarging the business of exporters and importers in the Columbia River district. Through the ability of this company to maintain a regular service to oriental ports, a large business in perishable goods, such as fresh apples, pears, oranges, grapes, potatoes, and generally other forms of produce, as well as fresh meats, has been built up, not only to the Philippines but also to Japan and China ports. This company has spent considerable sums of money in developing not only a large business in produce and fresh meats but also other products heretofore not bought by oriental countries from the United States.

It is not unreasonable to anticipate the time when the exports from this country to the Philippine Islands will exceed our imports from those Islands, if not in volume, at least in value.

The loss of preferential treatment in the Philippines ultimately means the elimination of most of our sailings to the Philippines from Pacific-coast ports, regardless of what action the Government may take to protect trade routes. The loss of preferential treatment for wheat flour in the Philippines would be another serious blow to the North Pacific wheat-producers and flour mills, would further aggravate the problem of marketing our wheat surplus in the United States, and would adversely affect producers and manufacturers of many other commodities on the Pacific coast. I urge the members of this Committee to take no action that will further dam up the wheat supplies of that great basin in our North Pacific States and cause further disruptions of trade that will bring repercussions from the entire agricultural community into the halls of Congress.

Chairman MACMURRAY. Are there any questions to ask Mr. Mallon?

Mr. WARING. You spoke, Mr. Mallon, with some disparagement of the treatment accorded the United States millers by the United States Government in 1937. May I point out that under the present law the United States products are accorded free entry in the Philippine

market for a period of 10 years; whereas Philippine products entering the United States are subjected to various restrictions. So that the United States products in the Philippine market actually receive more favorable treatment than Philippine products in this market.

Mr. MALLON. I think the disparagement that I might have made referred to results which we have obtained in trade agreements for the American producer.

Mr. WARING. I think it was in connection with the Philippines you made the statement.

Mr. MALLON. No; I am sorry.

Mr. WARING. Do I understand that you are urging this Committee to advocate a perpetual preferential relationship for the benefit of millers in the Pacific Northwest?

Mr. MALLON. The question, as I understand it today, is the statement that was made—in fact, a press release that Mr. Sayre and President Quezon made—that in case of independence preferential treatment was to cease immediately.

Mr. WARING. I think, perhaps, you did not read all of that statement.

Mr. MALLON. That might be quite true.

Mr. WARING. Or it may not have been quoted fully in the papers which you saw. If I remember correctly the import of that press release was that preferential relations between the two countries should be terminated at the earliest possible date consistent with affording the Philippines a reasonable opportunity to adjust their national economy. That does not necessarily imply that free trade will be interrupted forthwith.

Mr. MALLON. Certainly for 10 years we feel that preferential treatment should continue.

Mr. WARING. But you are not advocating that it should be in perpetuity?

Mr. MALLON. I do not think that is the question that this Committee is to decide at the present moment.

Mr. WARING. It would be difficult to decide it, wouldn't it?

Mr. MALLON. That is right.

Mr. WARING. That is all I have, Mr. Chairman.

Chairman MACMURRAY. Any other questions?

Colonel McDONALD. You stated that you have a preferential, I understood, of 42 cents a barrel?

Mr. MALLON. That is right.

Colonel McDONALD. What preferential compared to that do you feel would be necessary for you to continue in business profitably?

Mr. MALLON. My reference to that preferential, Colonel McDonald, was this: That even with the preferential which we have today, and the fact that the Agricultural Adjustment Administration is granting

an export bounty to the Philippines, we are only able to do about one third of the flour business in the Islands where, prior to about 1928, practically every barrel of flour imported into the Philippines came from the United States.

Colonel McDONALD. So that you feel that full preference is necessary, that is, what you have now?

Mr. MALLON. Positively.

Mr. ROXAS. May I ask a question?

Chairman MACMURRAY. Yes.

Mr. ROXAS. You are aware, of course, that the Philippines do not produce wheat?

Mr. MALLON. Yes, Sir.

Mr. ROXAS. You are also aware that any protection given to wheat flour in the Philippines is given exclusively for the benefit of American producers?

Mr. MALLON. Yes, Sir.

Mr. ROXAS. Is that correct?

Mr. MALLON. That is right.

Mr. ROXAS. And that tariff exists, in reciprocation for the advantage enjoyed by Philippine products in America, to protect the American wheat flour?

Mr. MALLON. Right—it is a mutual proposition.

Mr. ROXAS. There is no reason, from the viewpoint of the Philippines or for the benefit of the Philippines, to grant that protection except—

Mr. MALLON (interrupting). As a *quid pro quo*.

Mr. ROXAS. Thank you.

Chairman MACMURRAY. Are there any other questions?

Mr. JACOBS. Mr. Mallon, you advanced the idea that American shippers will have to discontinue if preferences are not continued?

Mr. MALLON. Yes, Sir.

Mr. JACOBS. Have you any figures to show what percentage of our trade, both imports and exports, with the Philippines is carried in American bottoms as related to Philippine trade?

Mr. MALLON. I think those figures were given in a brief presented this morning by Mr. Scott for the Chambers of Commerce of Seattle and Portland. Roughly, according to my recollection, it is about 1,300,000 tons from the Philippines to this country and about 650,000 tons from this country to the Philippines.

Mr. JACOBS. In the brief to which you referred what is that percentage? Is it stated in percentage to the other trade from China and Japan?

Mr. MALLON. In wheat flour today—in 1936 one million barrels of flour were imported into the Philippines. About one third of that came from the United States and two thirds from foreign coun-

tries—that despite the fact that the American flour- and wheat-producers had the advantage of the export bounty under the Agricultural Adjustment Administration.

There is a further loss—we have already lost our oriental market with the Tacoma & Oriental Line discontinuing their service out of Tacoma, the American Freighter Line discontinuing the freighter service out of the sound, and the States Line discontinuing their passenger service out of the river. We haven't even reached the Philippine situation yet. It would mean that much more critical situation for us.

Mr. JACOBS. I have no further questions.

Mr. BENITEZ. I am just wondering if you have a definite idea of the great possibility of wheat consumption in the Philippines on the part of wheat growers here?

Mr. MALLON. I think it has a very favorable possibility, Mr. Benitez.

Mr. BENITEZ. Are you familiar with the significant change in the habit of the Filipino masses of eating bread for breakfast?

Mr. MALLON. In what way?

Mr. BENITEZ. As a cheaper meal.

Mr. MALLON. In 10 years' time the importation has increased about 50 percent. That is the best indication that we have.

Mr. BENITEZ. But you have not looked into that significant change in the habit of the people, of the laboring classes?

Mr. MALLON. No, Sir, I have not. I have not been to the Philippines.

Mr. BENITEZ. I am inviting your attention to that.

Mr. MALLON. Thank you; that is good.

Mr. ROXAS. Do you still receive a subsidy from the Agricultural Adjustment Administration?

Mr. MALLON. That was just renewed on July 1st of this year.

Mr. ROXAS. And that subsidy will be paid up to when, under the present laws?

Mr. MALLON. June 30, 1938.

Mr. ROXAS. How much does that amount to?

Mr. MALLON. It fluctuates.

Mr. ROXAS. A barrel?

Mr. MALLON. It fluctuates, depending upon the price of foreign flours being sold in the Philippine market.

Mr. ROXAS. At present, for example, just in round figures, how much is it?

Mr. MALLON. I have a recollection that today it is 20 cents a barrel.

Mr. ROXAS. If that subsidy were continued in addition to the 42 cents a barrel protection that you receive now, could you participate in a larger measure in the Philippine market for wheat flour?

Mr. MALLON. Mr. Roxas, it means that we have been able, in a little over a year's time, to build up about 100,000 barrels. I will put it this way: About 250,000 barrels of flour was the low point without any assistance from our Government. That has been increased to 350,000 barrels. That is all it has done. That still leaves about 650,000 barrels being imported from other countries like Australia, Canada, and Japan.

Mr. ROXAS. What is the reason why you have not been able to import more of the prices?

Mr. MALLON. Price.

Mr. ROXAS. Or is it the quality of the flour produced?

Mr. MALLON. I would say price principally.

Mr. ROXAS. Thank you.

Chairman MACMURRAY. Are there any other questions?

Mr. ROBBINS. You indicated that you believed that the price premium that the Philippine consumers pay to the flour-producers in the United States was something in the nature of reciprocity for the price premiums that Philippine producers of other products receive in this market?

Mr. MALLON. Price premium or tariff protection—the same.

Mr. ROBBINS. I suppose you are aware of the fact that the amount of these subsidies paid by the Philippine consumers on American exports is considerably less than the amount of the total subsidies paid by American consumers on Philippine exports to this country?

Mr. MALLON. That is probably right.

Mr. ROBBINS. That is all I have.

Chairman MACMURRAY. Are there any further questions?

(No response.)

Mr. LAWRENCE. I would like to make a correction in a statement I made. I find that I dropped a cipher in my answer to a question on values. I find a half million dollars in value in 1936 of the business we did over there.

Chairman MACMURRAY. Is Miss M. Goode here?

(No response.)

Mr. Mallon or Mr. Scott could, perhaps, tell us whether Miss Goode is expected to appear this afternoon.

Mr. MALLON. Miss Goode was coming down on the *Cascade* this afternoon and is expected here any moment.

Chairman MACMURRAY. Is Mr. Hartwick here?

(No response.)

The next witness on our list for today, then, is Mr. Samuel H. Greene, Secretary Manager of the California Dairy Council of San Francisco.

STATEMENT OF MR. SAMUEL H. GREENE, ON BEHALF  
OF THE CALIFORNIA DAIRY COUNCIL

Mr. GREENE. Mr. Chairman, Members of the Committee: The brief<sup>1</sup> which has been filed with you contains practically all the actual statements that I should make within the limitations that I must observe.

My function is to represent solely the viewpoint of the dairy industry of the 11 Western States. I may have taxed your patience in the brief in taking up several pages to describe the importance of the dairy industry, both to agriculture and to our general social economy. That, however, has not been done with any desire to impress our Filipino friends with the importance of the dairy industry, but in order that the Committee may be aided, perhaps, in evaluating the various claims for consideration that will be advanced by other American interests.

The members of the dairy industry in this area are in full sympathy with the aspirations of the Filipino people and would not interpose any objections to any arrangements that might be helpful in developing those aspirations, so long as they would not injure our own interests.

I have submitted with my brief, noted as exhibit B, a report of the Oils and Fats Section of the Bureau of Foreign and Domestic Commerce, entitled *Review of Vegetable and Competing Oils* (1936).

On page 1 of that report it shows that the United States imports of oils and oil-bearing materials in 1936 amounted to 2,310,234,169 pounds, compared with the five-year average, 1930-34, of 1,654,154,930 pounds.

Of the 2,310,234,169 pounds of imports of oils and oil-bearing materials, the report shows on page 2 that coconut-oil imports were 322,065,415 pounds and copra, 364,493,443 pounds.

Estimating the copra at 63-percent oil extraction, which is the figure commonly used, the yield of oil from that amount of copra is 229,630,858 pounds. The total importation then of coconut oil in 1936 was 551,696,273 pounds, which is between 24 and 25 percent of the total imports of oils and oil-bearing materials of all kinds, and all this coconut oil and copra received in 1936 came from the Philippine Islands.

That point was not brought out in my brief.

I should add to that that the 1936 imports of coconut oil exceed those of the five-year average before mentioned, by some 27 million pounds, and copra declined in 1936 as compared with the five-year average; but it would appear to us that when any group has 25 per-

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<sup>1</sup> See vol. III.

cent of all the business and its volume has not declined in the period under consideration, its interests have not been injured.

The dairy interests feel that the present restrictions have not been burdensome upon the Filipino people and that they have been very helpful to American dairying and agriculture, particularly dairying, in these 11 Western States for which I have spoken in my brief and am speaking now.

The excise tax, we believe, is not burdensome upon the Filipino people to any degree. We feel that that is paid by the American consumer of the products into which these oils go. It is practically impossible to discuss this question on a regional standpoint, because of the interchangeability of agricultural crops, the diversity of western markets, and the foreign situation.

Many farm crops are produced in the United States in excess of demand, thus creating serious problems; but it is evidenced by the figures that we do not produce domestically our requirements of oils and fats. If, then, some shifts could be made, by which some areas of land would be utilized in producing those crops that will yield either these same oils or others than can be used as substitutes, a very happy situation would follow. It is not expected, of course, that the time would ever arrive when the domestic production would be substituted in entirety for foreign trade in these commodities, but it does seem desirable, from the standpoint of the social economy of this country, that opportunities should be secured to American farmers to produce these crops at a price-level which will enable them to stay in the farming business.

The present restrictions have served that purpose very well. We feel that they should be maintained. We feel that this Committee is rendering a valuable public service, and our hope is that in digesting all the information that you will receive here and at Manila that that distinction which I have tried to explain shall not be lost sight of.

Thank you.

Chairman MACMURRAY. Are there any questions?

Mr. ROXAS. I understand, Mr. Greene, that you take the position that the present conditions under which Philippine copra and Philippine coconut oil come into the United States are satisfactory to the dairy industry?

Mr. GREENE. Yes, Sir.

Mr. ROXAS. As they are?

Mr. GREENE. As they are.

Mr. ROXAS. With the excise tax?

Mr. GREENE. Yes.

Mr. ROXAS. And you would have no objection to continuing indefinitely that situation.



Mr. MILLER. As far as can now be seen.

Mr. ROXAS. As far as the dairy industry is concerned?

Mr. GREENE. No.

Mr. ROXAS. You know, of course, that palm oil and other vegetable oils are on the free-list of American tariffs?

Mr. GREENE. I understand so; yes, Sir.

Mr. ROXAS. Whereas coconut oil has a 2-cent-a-pound duty?

Mr. GREENE. Yes, Sir.

Mr. ROXAS. Can you state the reason why there is a duty on coconut oil and no duty on palm oil?

Mr. GREENE. I have no knowledge upon which to base an answer. I could only guess, Mr. ROXAS.

Mr. ROXAS. In other words, from the viewpoint of the dairy industry, coconut oil might as well come into the United States free of duty, so long as palm oil and other vegetable oils are on the free-list?

Mr. GREENE. The dairy industry, Mr. ROXAS, is not pleased with the free admission of those other oils. At the time the testimony was being submitted to committees of the Senate and House, with regard to these taxes, the dairy industry, as I recall it, contended for uniformity. Other interests, apparently, were successful.

Mr. ROXAS. But from the viewpoint of the dairy industry, do I understand correctly that you feel that all of this vegetable oil should be placed on the same footing?

Mr. GREENE. We do; yes, Sir.

Mr. ROXAS. Taking for consideration the peculiar situation between the Philippines and the United States, would it be objectionable to the dairy industry if Philippine imports of copra and coconut oil were increased through a displacement of vegetable oils coming from other countries, without increasing the total of vegetable-oil imports into the United States?

Mr. GREENE. There would be no objection, Mr. ROXAS, so long as this present assistance in competing with the lower price were afforded.

Mr. ROXAS. As I understand also, the dairy industry is satisfied with the preferential now enjoyed by the Philippines on coconut oil in the matter of the excise tax?

Mr. GREENE. Yes, we are satisfied with that.

Mr. ROXAS. Your concern is that it not be changed?

Mr. GREENE. The concern is that it not be changed, and our only contention with respect to coconut oil and all these other oils is that it is impossible for the American farmer to produce those oils, or others that might be used in their place, and compete. He cannot do it without some aid.

Mr. ROXAS. Thank you very much.

Mr. GREENE. For instance, in our own industry, the average production of a dairy cow is perhaps eight tenths of a pound of butterfat a day. To increase the average production of the individual cow is a long—a very long—and costly process. Therefore, the dairyman cannot meet foreign competition to his product by reducing his unit cost of production through an increase in volume of production, as done, for instance, in the automobile industry. So other aid must be sought to enable him to meet that, and the only one that has been devised is this scale of tax restriction.

Mr. ROXAS. Would you, Mr. Greene, object to the elimination or the reduction of the excise tax on coconut oils that are rendered edible?

Mr. GREENE. Yes.

Mr. ROXAS. You would object to that?

Mr. GREENE. Yes.

Mr. ROXAS. Would you give the Committee the reason why that would be objectionable from the viewpoint of your industry?

Mr. GREENE. Yes. I think I can give you the reason: because such a small proportion of this 2,000,000,000 pounds of oils is used for edible purposes. Such a large proportion is used in industry that the general price-level would be affected.

Mr. WARING. Mr. Greene, I should like to ask you a few questions in connection with the brief you submitted.

Mr. GREENE. Yes, Sir.

Mr. WARING. First of all, on the second page of your brief, indicating the importance of the dairy industry to the 11 Western States, you point out the production of butter in 1935 at 206,386,000 pounds, valued at \$61,915,800; and the production of evaporated milk was 355,931,000 pounds, valued at \$22,081,000. Is it not true that the Philippines are a rather important outlet for your evaporated-milk product?

Mr. GREENE. It is true; yes, Sir.

Mr. WARING. So that the dairy people have interests both in the Philippine market, from the standpoint of exports, and in the American market, from the standpoint of the coconut oil which is imported?

Mr. GREENE. We have, indeed, and I think it is appropriate to say here that American dairy interests are heavy purchasers of a by-product of coconut oil. They feed very large quantities of coconut cake and, in many cases, prefer it to linseed and cottonseed cake.

Mr. WARING. One other question in connection with your brief, again: I note that on page 6 you make reference to the *Review of Vegetable and Competing Oils*, compiled by the Oils and Fats Sec-

tion of the United States Bureau of Foreign and Domestic Commerce.

Mr. GREENE. Yes, Sir.

Mr. WARING. You refer in that report to page 22, where the wholesale prices are given, and then you call the Committee's attention to the fact that the price of coconut oil is the lowest on the list. That particular list, however, gives the coconut-oil prices without tax.

Mr. GREENE. Yes, it is so noted upon the page.

Mr. WARING. Yes, it is so noted.

If the 3-cent tax were added, as it must be, to the purchaser of the coconut oil, coconut oil becomes, instead of the lowest on the list, one of the highest priced on the list, does it not?

Mr. GREENE. I have not made that study, Mr. Waring, but if you have I will accept your statement.

Mr. WARING. I think you will find that that is correct. I merely thought one might gain an incorrect inference from your statement here.

Mr. GREENE. I must say that I do not think that my motive in referring to that was sufficiently explained in the brief. The thought that I had in calling attention to that was to show the extraordinary spread in the price-levels between these oils and fats and our own, which, of course, adds to our difficulties.

Mr. WARING. Yes.

Chairman MACMURRAY. Are there any other questions?

Mr. ROMERO. You have just stated, Mr. Greene, that the dairy industry considers the present excise tax a sufficient protection. Do I understand that the dairy industry is not interested in further protection, such as the imposition of export taxes on coconut oil from the Philippine Islands?

Mr. GREENE. I do not quite understand your question, Mr. Romero.

Mr. ROMERO. You see, the Independence Act provides for the imposition of an export tax on certain products after the fifth year. In view of what you have just stated—that you consider this excise tax a sufficient protection—it is really unnecessary to have further protection in the form of export taxes levied in the Philippines.

Mr. GREENE. I could not agree with that view, Mr. Romero. I should say that if the export duty is to be abandoned, compensatory increase should be made in the excise tax.

Mr. ROMERO. There is no export tax imposed now.

Mr. GREENE. No.

Mr. ROMERO. But the Independence Act provides that after the fifth year.

Mr. GREENE. I understand that; yes, Sir. But, I say, if, when the Philippine nation attains complete independence and achieves the

status of a foreign country, from the standpoint of the United States, it then comes under our tariff laws as they apply.

Mr. ROMERO. But, this is not in the case of an independent Philippines. It is during the fifth year—the so-called transition period. It begins with the fifth year of the so-called transition period when certain export taxes are to be levied in the Philippines.

Mr. GREENE. The best answer I can give to that, Mr. Romero, is that the dairy interests are less concerned with how the objective is accomplished than with how the present protection, which brings about an increase in the price-level, shall be maintained. Now, we are only dairy people; we are not lawmakers, and we are not experts in tariffs and excise taxes. I am unable to tell what the effect of a shift might be. That must be for others to decide; I can only state to you our attitude toward the products themselves and their effects upon our affairs.

Does that give you the information you want?

Mr. ROMERO. In other words, you feel that 3-cent protection for excise tax is quite sufficient to prevent a depressing effect on the entry?

Mr. GREENE. Yes, we are satisfied with the present situation.

Chairman MACMURRAY. Are there any other questions?

Mr. ROBBINS. I have a question.

Chairman MACMURRAY. You may proceed.

Mr. ROBBINS. Mr. Greene, I suppose the competition between the American dairy cow and the coconut tree is largely when butter and oleomargarine meet in the market place.

Mr. GREENE. Well, largely; yes Sir, but not entirely.

Mr. ROBBINS. There are other forms?

Mr. GREENE. There are other forms; yes, Sir.

Mr. ROBBINS. Could you tell us whether you believe it is true, as has been stated, that the quantity of margarine manufactured and sold in the United States probably would not be changed if no coconut oil were admitted to the American market, because it would be made from other vegetable oils produced here?

Mr. GREENE. Yes. There would be no change in my opinion. The oleomargarine industry of the United States, Mr. Robbins, is rapidly shifting from coconut oil to domestically produced oils. The largest manufacturer of oleomargarine is now using a formula in which cottonseed oil is the predominating oil.

Mr. ROBBINS. Well then, so far as competition of margarine and butter is concerned, probably there would be no difference, from the standpoint of the dairyman, whether that oil were admitted to this market or excluded?

Mr. GREENE. From the standpoint of those two products, Mr. Robbins, there would be none. But the dairyman, Mr. Robbins, is a

farmer as well as a producer of butter. He sells animals. His animals are also a market for the by-products of other forms of agriculture. The dairyman's status is affected very materially by what happens to agriculture generally, and so, while coconut oil might be eliminated from the problem of butter and oleomargarine, there would still remain this problem of the low-priced oriental oils upon the general agricultural situation, in which the dairyman is affected along with the others.

Mr. ROBBINS. As dairymen, you have an interest in maintaining the free-marketing Philippines, for the condensed or evaporated milks that are marketed there?

Mr. GREENE. Yes, Sir.

Mr. ROBBINS. I wonder if, on the whole, you have decided that the American dairy interests would be better off with a continuation of the present trade relations between the United States and Philippines or with a complete stoppage, when these conflicting interests that you have, as dairymen, are weighed.

Mr. GREENE. My opinion would be that that would not be true, Mr. Robbins. While the Philippines constitute an important market for evaporated milk, evaporated milk comprises only about 4 percent of the total milk-production of the country. It is a very small volume. Its volume is small in comparison with the other products of the dairy cow. The proximity of Australia to the Philippines practically eliminates them as a market for our butter. Notwithstanding the preference which is accorded to the butter from the United States, the closer proximity of Australia gives them an advantage. The majority of the butter that is used in the Philippines comes from Australia, as I understand it.

Mr. ROBBINS. That is all.

Chairman MacMURRAY. Are there other questions?

(No response.)

That will be all.

Mr. GREENE. Thank you, Sir.

Chairman MacMURRAY. I am informed that Miss Goode has come in. Will Miss Goode come forward?

#### STATEMENT OF MISS M. GOODE, ON BEHALF OF THE SEATTLE CHAMBER OF COMMERCE

Miss GOODE. I had in mind reading this report,<sup>1</sup> knowing full well that each of you would have a copy of it; but I thought that, in as much as the time is limited, I would like to bring out just certain

<sup>1</sup> See vol. III.

parts of the report that would be of interest to you and that perhaps you would like to question me concerning the report.

Chairman MACMURRAY. Yes. If you would just give any supplementary remarks to the brief you have filed, that will be satisfactory.

Miss GOODE. You understand, the Pacific Northwest, and the State of Washington in particular, has for its principal commodities, lumber, flour, canned fish, condensed milk, fresh vegetables, and fruits. Those are the commodities we send to the Philippine Islands. The Pacific Northwest is almost entirely an outbound area. We import very little. However, we do have hopes that sometime we will be able to import raw materials to be used for industries that are located there.

In connection with the report I am going to bring out just certain points. In the first place it says:

The following information we of the United States Pacific Northwest believe will be useful to your honorable body in formulating its recommendations to the President of the United States as to future trade relations between this country and the Philippine Islands. This covers the following:

#### EFFECT UPON DIFFERENT LINES OF BUSINESS IN THE PACIFIC NORTHWEST

- (a) Should the Independence Act of 1936 be amended to advance the date of independence of the Philippine Islands from 1946 to 1938 or 1939;
- (b) By cancelation of the preferential trade agreements between the United States and the Philippines when independence is granted;
- (c) When the United States surrenders existing trade advantages with the Philippine Islands and opens this protected market to competing nations.

Then I drop down to the middle of the page, where it reads:

On the question of advancing the date for attainment of complete independence, we are content to let the Filipino people decide as to the propitious time. Upon the question of future trade relations with that country and effects of its possible disturbance on the United States Pacific Northwest we are prepared to express our opinions.

Then I turn over to page 4 where it reads:

#### AMERICAN INVESTMENTS AND ANTICIPATED SECURITY OF TRADE

The business interests of this country have gone to tremendous expense to develop trade with the Philippine Islands. They have made heavy investments in the Philippines in support of their sincere belief that possession of them by the United States would be lasting and stable trade relations exist permanently. They have invested capital in their own industries in this country and given employment to many thousands of our own people. American steamship companies operating out of Seattle have spent many millions of dollars in purchase of ships, establishing service, and maintaining offices in Manila. Much of this constructive building has been in anticipation of permanent preferential trade relations

with the Islands, and on a basis of favor in competing with other countries for this business.

#### SHIPPING: EFFECTS THEREON

The fears of Pacific Northwest producers and shipping interests in connection with possible loss of the whole or any part of their trade with the Philippines are not based on any false predictions. Already their experiences have provided a background for their fears through establishment of barriers to other of their foreign markets. To explain: China was the Pacific Northwest's best foreign customer for flour. Since our trade with China has been handicapped by high tariffs and unsound measures of the two countries, flour business with China has suffered an entire loss. Other commodities also have suffered, but flour is mentioned since it was upon this dead-weight cargo that trans-Pacific steamship lines were assured that they could depend for continuous carriage. This security was the basis for determining their ports of call in China and regularity of this service. Disturbance of our market for flour in China has been the cause of withdrawal of American steamship service to North China ports. North China markets have been lost to the United States not only for flour but machinery, railway supplies, and any number of export products. Imports have been affected likewise, and the United States has lost this direct source of supply of raw materials of North China. The point we desire to make is the detrimental effect on United States production, manufacture, and shipping when trade barriers are arbitrarily effected without contemplating their injurious effects. Withdrawal of two American trans-Pacific steamship lines (States Steamship Co. and Tacoma-Oriental Line) were due to these two factors. The one remaining trans-Pacific line from the United States Pacific Northwest to the Far East is dependent upon the now only assured Pacific market (the Philippines), since buyers and sellers in the Islands are more inclined to patronize American ships than any other trans-Pacific country.

#### FLOUR: EFFECT ON EXPORTS AND DOMESTIC INDUSTRIES

Many flour milling companies in the United States Pacific Northwest have discontinued. Decrease in operation, among other things, has resulted in increased prices for flour and mill feed. Much of this instability has been due to the inability of our exporters to sell their flour in its usual quantities in the Philippines and other oriental markets.

We quote from a letter of the American Mail Line of Seattle:

In the matter of exports for the Philippines, the movement of flour is a very essential factor in the maintenance of our service, and the elimination of preferential trade agreements with the Philippine Islands eliminates this tonnage and throws the Philippine flour market completely in the hands of the Australians. We would also undoubtedly lose the movement of canned milk and probably machinery and automobiles. Sugar is a very important part of our tonnage during the year from the Philippines, and the loss of this movement would have a serious effect on our earnings. The same thing is true with the movement of coconuts and coconut oil, hemp, and other exports. Manila is the last port of call on our service to the Orient, and with these basic commodities both outward and homeward they furnish an essential tonnage necessary in the maintenance of this service, and its loss might mean the curtailment of our service to the Philippine Islands, and we would probably have to shorten our service and make Shanghai or Hong Kong the final port of call as there would not be sufficient tonnage to continue the service to Manila, comparable with the expense necessary in the operation of vessels this long distance.

I am just going to hit very superficially the following, but its purpose is to show the competition that Pacific Northwest products would have in the Philippine market from foreign countries.

In the case of lumber, we formerly had a very good market in the Philippines, but Canada is one of our potential competitors in that area.

**Fish and fish products:** In 1928 the American share in the Philippine Islands of the purchase of these products was 96.01 percent, while Japan's share was about 0.002 percent. In 1935, America's sales dropped to 44.73 percent, as against Japan's increase to 49.80 percent. Japan is a keen competitor of the United States in the Philippine markets for canned, smoked, dried, and cured mackerel, salmon, shellfish, codfish, and shrimp.

**Fruits:** This includes fresh, canned, and preserved fruits. The United States is the source of most of the fresh apples, grapes, lemons, oranges, prunes, raisins, jams, jellies, canned fruits and vegetables and pickles sent to the Philippine market. China supplies a considerable portion of the imports of oranges, melons, and pears.

**Chairman MACMURRAY.** Miss Goode, may I suggest that it would be unnecessary to go over a résumé of what is in the printed paper?

**Miss GOODE.** All right.

**Chairman MACMURRAY.** The written statements will be available for the examination of the Committee, and you will, of course, have every assurance that they will not be neglected on that account.

**Miss GOODE.** Yes. Then, I will start with the table, if I may. That is table B. The first item shown there is Douglas fir. When the exports of these products to the Philippine Islands in the years from 1930 to 1935 are taken, it shows in Douglas fir, wheat flour, butter and butter substitutes, condensed milk, evaporated milk, and in all of these items, that there are considerable losses as a result of competition from foreign countries.

Then, in table C, the purpose of that table is to show the production in Japan of some of the principal commodities that are produced in the Pacific Northwest, and the increase in some of those products, intimating that Japan's proximity to the Philippine market will eventually destroy our opportunities there.

I think that covers as much as seems necessary. The rest seems a repetition, but we have this in mind: Although we are an area that does not import tremendously, we have the feeling on the Pacific coast that we are handicapped considerably in developing our industries because of our lack of opportunity to use imported raw materials; and year after year duties are placed on imports, and prices rise to such a degree that it is very discouraging to the Pacific-coast industries in their ambitions to use imported raw materials.



We on the Pacific coast also have a feeling that this is a Pacific-coast problem more, perhaps, than an Atlantic-coast problem. The Atlantic-coast markets are in Europe; their interest is in Cuba, and the Cuban sugar makes them more interested on the Atlantic coast and less on the Pacific coast. The Pacific Coast, as a whole, feels that this is entirely a Pacific-coast problem. I would not say "entirely", but, at least, we have a greater interest in the matter than the Atlantic Coast.

I think that is all, Mr. Chairman.

Chairman MACMURRAY. Are there any questions?

Mr. WARING. I note, Miss Goode, that in the brief that has been submitted, the Chamber petitions that the Committee should recommend "Accomplishment of preferential trade agreement between the United States and the Philippine Islands if and when independence is granted".

Do you mean by that statement that preferences should be granted to the Philippines in this agreement and by the Philippines to the United States over and above any arrangements which are made with foreign countries generally?

Miss GOODE. Yes, Mr. Waring.

Mr. WARING. The Chamber, then, is advocating, in general, that the United States, in this instance, should depart from its most-favored-nation and non-preferential foreign policy?

Miss GOODE. Yes. That is right, Mr. Waring.

Chairman MACMURRAY. Are there any other questions?

Mr. DOMERATZKY. Miss Goode, when you were drawing a distinction between the interests of the Pacific Coast and the Atlantic Coast in the Philippine trade, have you not neglected to indicate the fact quite a number of the manufactured exports to the Philippines originate in the Middle West, perhaps?

Miss GOODE. Yes.

Mr. DOMERATZKY. Like iron and steel products, motor products, and so on?

Miss GOODE. Yes.

Mr. DOMERATZKY. So, really, there is a certain interest in other parts of the country as well as on the Pacific coast?

Miss GOODE. Well, I am quite sure they are interested, but I have this feeling: That the Pacific Coast is really more interested, in comparison with the Atlantic Coast. They have always fought the battles with the Philippines up to this time. Now, we have the support of the Atlantic Coast, but previous to that we have not had much support on the Pacific Coast on behalf of the Philippine Islands.

Chairman MACMURRAY. Are there any other questions?

(No response.)

We have made sufficient progress so that there is a question of whether it might not be better to adjourn for today; we probably will be able to finish the hearings tomorrow morning. With that possibility in mind, is there anybody among those desirous to be heard who would have only this afternoon available and would not be available tomorrow?

Dr. MONCADO. I am prepared to go on.

Chairman MACMURRAY. We might then go on this afternoon just to make sure that we can finish tomorrow morning. We might go on with one further witness among those who are available.

The next on the list is Mr. Pete Catiel, representing the Manila Wholesale Producers. Is Mr. Catiel here?

(No response.)

If Mr. Catiel is not here, is Mr. J. F. Marias, importer and exporter of San Francisco, present?

(No response.)

Dr. Moncado, you may proceed.

#### STATEMENT OF THE HONORABLE HILARIO CAMINO MONCADO, PRESIDENT OF THE FILIPINO FEDERATION OF AMERICA

Dr. MONCADO. I will just read my brief.<sup>1</sup>

Chairman MACMURRAY. Is this your brief, Dr. Moncado?

Dr. MONCADO. Yes.

Chairman MACMURRAY. If you will just give us the commentary upon it, rather than read the brief, that will be satisfactory, because the brief will be filed.

Dr. MONCADO. My main reason for appearing here is that I am for the 1946 Independence Act.

Mr. ROXAS. You are what?

Dr. MONCADO. I am for the 1946 Independence Act. When I heard from President Quezon that he wanted to change the date of independence to 1938 or 1939, I appeared here today for that reason; because it seems to me that it will upset the whole equation again of the Tydings-McDuffie act, which took many years of preparation for both parties at that time. I cannot see any reason why the date should be changed in advance, knowing that we have so many problems to solve.

Assuming that independence will be granted next year, what would become of the economic solution in the Philippines?

I just arrived from the Philippines recently, and the Filipino people were somewhat upset by the announcement advancing the proposed independence from 1946 to 1938 or 1939.

<sup>1</sup> See vol. III.

I am glad this Committee is going to the Philippines, for it will be possible for the Committee to adjust matters. We have arranged a national defense program. This national defense program will take years of preparation. We cannot prepare for it next year, if independence should be granted next year or in 1939. So, I think that is the only summary I can give you today, because I know the Committee is too tired, having heard so much testimony here today. All my testimony here would refer to my brief. Unless there are some questions you would like to have me answer, and which questions I will be glad to answer, I shall conclude my statement now.

Mr. ROXAS. Your opposition to the advance of the date of independence by President Quezon is based upon the belief that independence would necessarily bring about cessation of preferential trade relations with the United States?

Dr. MONCADO. That is correct.

Mr. ROXAS. Suppose it were possible to continue this preferential trade relation for a definite period of time after independence, would you still oppose the shortening of the transition period?

Dr. MONCADO. That would not guarantee me, Mr. Roxas, because I know of the hard fight in Washington; so I do not think so.

Mr. ROXAS. What do you not think?

Dr. MONCADO. I do not think it is possible.

Mr. ROXAS. To have preferential trade relations after independence?

Dr. MONCADO. After 1938 or 1939 independence, but I do believe that if independence is granted in 1946, that is the time that I believe we will have free-trade relations between the United States and the Philippines.

Mr. ROXAS. You mean after 1946?

Dr. MONCADO. After 1946; but I do not think in 1938 or 1939.

Mr. ROXAS. In other words, if it were possible to gain preferential trade agreement with the United States to become effective after independence in 1939, for example, you would not oppose the shortening of the transition period? Do I understand you correctly?

Dr. MONCADO. I understand you, but you cannot assure me of that. Congress will not grant that, I know. This Committee will report to Congress, and Congress will have the final say.

Mr. ROXAS. Let us suppose—

Dr. MONCADO (interrupting). I don't want to suppose. I want to stick to the facts.

Mr. ROXAS. Let us suppose that you are mistaken in that assumption that Congress will not grant that. Let us suppose, for a few minutes, that Congress may be willing to grant preferential trade relations with the Filipinos for, say, 10 years after independence in 1939. In other words, if independence is granted to the Philippines

in 1939 and we have a trade agreement or a treaty with the United States for 10 years after 1939 providing for preferential trade relations with the United States, would you still oppose the transition period?

Dr. MONCADO. I would still oppose it, because I know that I am not sure of that period.

Mr. ROXAS. I will not press you further. Thank you.

Chairman MACMURRAY. Any more questions?

Mr. ROBBINS. Do I understand that you believe that there is likely to be a relationship or a correlation, between early independence and early elimination of trade preferences, so that you fear, if independence came at a prompt date, trade preferences might be cut off sooner than they would otherwise?

Dr. MONCADO. That is correct, because the United States is too big. The Northwest has different problems, the Pacific Coast has different problems, the East has different problems, the Hawaiian Islands have different problems; and I cannot see any reason why if next year will be the probable date of the early grant of independence to the Filipinos, that everything will then be given to the Filipinos. I would like to stick to the bill, because I know the Filipinos can get it.

Mr. ROBBINS. You do not want to take a chance, so to speak, on Congress letting you have the cake and still permitting you to eat it?

Dr. MONCADO. I will not take a chance, because I know Congress. I have appeared so many times in Congress, and I know how hard the work is in Congress. It is very hard.

Colonel McDONALD. Do you not take just as much chance now?

Dr. MONCADO. I will not take it. I will stick to 1946. I know I am sure. It is not too long—1946. It is not too long, especially nowadays. Time goes too fast.

Chairman MACMURRAY. Are there any other questions?

Mr. BENITEZ. Just one question: Would you encourage the return of the Filipinos to the Philippine Islands?

Dr. MONCADO. Yes. I do encourage their return, provided there is preparation in the Philippines; because so many Filipinos go back there without preparation, and they write a letter to their friends here telling them not to return to the Philippine Islands. It is very discouraging.

Mr. BENITEZ. Do you have any definite recommendations as to what our Philippine Government should do to encourage those Filipinos here to go back?

Dr. MONCADO. Yes. They should encourage the Filipinos by propagandizing here in this country. It is up to the Philippine Government to see to it that there is a little advance of money for

those people who are going there, so that they will not be put in such an unfortunate position when they arrive, because then they write a letter here to people in America and say, "Don't go back to the Philippines." That hurts our cause at the same time.

Mr. BENITEZ. That is all.

Chairman MACMURRAY. Are there any other questions?

(No response.)

If not, the meeting stands adjourned until tomorrow morning at 10 o'clock.

(Thereupon, at 4:25 o'clock p.m., an adjournment was taken until Thursday, July 22, 1937, at 10 o'clock a.m.)

## PROCEEDINGS OF JULY 22, 1937

MERCHANTS EXCHANGE BUILDING,  
SAN FRANCISCO, CALIFORNIA,  
*Thursday, July 22, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 10 a. m.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Colonel DONALD C. McDONALD;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS;  
Mr. BEN D. DORFMAN; and  
Mr. FRANK A. WARING.

Chairman MACMURRAY. The meeting will come to order.

We will resume the hearing that was discontinued yesterday afternoon. The first witness on this morning's list is Mr. H. J. Anderson, representing the California Sardine Products Institute, San Francisco, California.

### STATEMENT OF MR. H. J. ANDERSON, ON BEHALF OF THE CALIFORNIA SARDINE PRODUCTS INSTITUTE

Mr. ANDERSON. Mr. Chairman and Members of the Committee: My name is Herbert J. Anderson and I am manager of the California Sardine Products Institute, an organization representing the canners and processors of California sardines.

Sardines have been canned as a food fish in California for upward of 40 years, and during the years that the industry has been in existence there has been built up an investment in plants and equipment of more than 15 million dollars, furnishing employment to upward of 7,500 persons. For many years our members enjoyed a very large export business. In fact at one time our export business ran as high as 80 percent of our entire output. During recent

years this export business has been almost entirely lost to the industry, leaving it practically dependent upon domestic business and shipments to our insular possessions.

Our trade with the Philippine Islands furnished a splendid outlet for our products, and upward of 300,000 cases of 48 1-pound cans to the case, or their equivalent in other-sized cans, were shipped to that market in a single year. A fish similar to our California sardine is caught off the coast of Japan; and in recent years Japanese interests have been packing a similar, though inferior, product. I have with me here a ½-pound can of Japanese-packed sardines. This product is offered by the Japanese in cases of 96 cans to the case, packed in tomato sauce, at 7 yen f.o.b. Japanese ports. Figuring the exchange at 29 cents makes the price \$2.03 a case, while the cost to us for the empty cans alone would be \$2.20. We pay our labor, according to the American standard of living, the highest of any wages paid for similar labor in the world; and similar conditions prevail in the plants of the can companies and other concerns that supply us with materials.

From August 1936 to and including May 1937, out of a total of 261,900 cases of sardines which were landed in ports of the Philippine Islands, 184,900 cases, or 83 percent, came from Japan, while 77,000 cases, or 17 percent, came from the United States. Until the advent of the Japanese-packed sardine, the California sardine plants enjoyed 100 percent of the Philippine business, and now we are fighting to hold on to the 17 percent that cheap Japanese competition has not as yet succeeded in taking from us. (*Sic.*)

It is impossible for us to reduce our cost, and I don't think anyone would ask us to meet Japanese competition on a price basis. We, therefore, earnestly beseech your Committee, when giving consideration to these matters, to bear in mind that this industry has suffered a tremendous loss in its business with the Philippine Islands.

I trust that the facts pointed out have convinced you that it is vitally necessary that prompt and adequate measures be made effective to protect our Philippine market.

I thank you very kindly for the opportunity of presenting these facts to your honorable Committee and trust that you will give every consideration to the urgency of the present situation.

Chairman MACMURRAY. Are there any questions to be asked of Mr. Anderson?

Mr. DOMERATZKY. I should like to ask a question.

Mr. Anderson, is it your idea to ask for an increase in duty for foreign sardines?

Mr. ANDERSON. We are asking that our American industry be protected so far as it is possible for you to do so. If such would be

feasible, yes; if not, at least maintain as high a tariff on import of foreign sardines as commensurate with good judgment.

Mr. DOMERATZKY. What is the duty on foreign sardines?

Mr. ANDERSON. I do not have those figures with me now.

Mr. ROXAS. Mr. Anderson, suppose you lose the preferential trade status of the American products entering the Philippines, can you hope to retain any portion of your market in the Philippines for sardines?

Mr. ANDERSON. I am afraid that we would lose practically all of it. We have lost all but 17 percent of it now on a price basis; and even though we contend our article is a superior article, there is, as you know, a very large Japanese population there and they naturally would accept the product from Japan.

Mr. ROXAS. There is not a very large Japanese population in the Islands, but the Japanese product sells at a much lower price.

Mr. ANDERSON. Yes.

Mr. ROXAS. When you make the plea that the Committee do everything in its power to grant adequate protection to your product, do you mean to imply that it is your desire that preferential trade relations between the Islands and the United States be continued?

Mr. ANDERSON. Yes.

Mr. ROXAS. In order to bring that about?

Mr. ANDERSON. Yes.

Mr. ROXAS. That is all.

Mr. WARING. Mr. Anderson, in connection with Mr. Roxas' question, do you visualize continuing the preferential treatment indefinitely, even after the Philippines are politically independent?

Mr. ANDERSON. Well, that is a matter that we have not gone into, Mr. Waring. You can see the condition of our business at the present time: We have lost all but 17 percent of it, and we are trying to hang on to that thread as well as we can; and we ask that you treat us as well as you can in the matter of Japanese competition. They have built plants in Japan and are now imitating our product as closely as they can. They are taking our export business, not only there but everywhere throughout the ports of the world.

We are having a tough time in holding on to any of it. So, give us whatever preferential treatment that you can.

Chairman MACMURRAY. Are there any other questions?

Mr. BENITEZ. Have you considered the possibility of canning in the Philippines?

Mr. ANDERSON. No, we have not.

Chairman MACMURRAY. Are there any other questions?

(No response.)



Thank you, Mr. Anderson.

Mr. ANDERSON. Thank you, Sir.

Chairman MACMURRAY. The next witness is Mr. Pete Catiel of the Manila Wholesale Producers of San Francisco.

Is Mr. Catiel here?

(No response.)

In the absence of Mr. Catiel, our next witness is Mr. J. F. Marias, importer and exporter, of San Francisco.

Do I understand correctly, Mr. Marias, that you wish first to speak in your own behalf and then in behalf of the Foreign Trade Association of the San Francisco Chamber of Commerce?

Mr. MARIAS. Whichever way you would want it, Mr. Chairman. I presented a brief<sup>1</sup> on my own behalf and propounded an idea which I have had and which I have discussed many times, having been a resident of the Philippine Islands for five years, first as the head of the United States Shipping Board for the entire Orient, and later, for two years, as the head of the Bank of the Philippine Islands.

I know that you wish to rush along, and, if you will permit me in that order, I would like to just briefly state what I have propounded in a brief, which I did not make in sufficient numbers for each of you to have.

Chairman MACMURRAY. I might suggest that you first speak in your own behalf and answer any questions, and then, as though you were a new witness, take up the other.

#### STATEMENT OF MR. J. F. MARIAS, ON HIS OWN BEHALF

Mr. MARIAS. Thank you, Sir. I would be very glad to do that.

I have propounded for some time that we should have, in the Philippine Islands, irrespective of what the final determination may be, a commercial district or port, whereby we may have continued our post-office address in the Orient. I am not speaking of a military base or a naval base; but I do think we should maintain a commercial base.

When I say "commercial base", I do not mean particularly a distributing base for our products, because that is pretty well handled in direct shipments; but I do believe that we should have the opportunity, whether we use it or not, to have our main industries represented in territory in the Orient. Our only chance now is through the benevolence of the Philippine Islands.

We believe that our Filipino friends appreciate all that we have tried to do, and I do know that they do not want to exclude us from

<sup>1</sup> See vol. III.

the Orient entirely. I know too well the Filipino mind and know that they would readily grant this. If you will permit me, I will refer to it again as the "post-office address", of the United States commerce.

The British have Hong Kong and Singapore, and they have wonderful advantages; and we believe—or, at least, I believe—that we should have the same thing. Briefly that is it.

I spoke of this to some of my illustrious Filipino friends many years ago and since, and I ask in my brief that we be given a fee-simple territory; and I was very much interested in the reply.

The reply was, "Well, why do you want fee-simple territory? If you have fee-simple territory, you will own it, you will have to protect it. Now, if we give it to you under a perpetual lease, or something amounting to the same, then we will be, at least, the protector of that property."

That, to me, would do two things: It seemed to show us that they were interested in that idea and that they would, by the same token, hope to be able to defend any of our rights in the Orient.

In discussing that particular point, Mr. Chairman and Gentlemen, I wrote sometime ago, when I was in the Philippines in 1920 or 1921, an article for one of their magazines, which was in the hopes of taking Manila and using it as a distributing port for American goods in the Orient. But everything mitigated against that possibility at the time and even up to now, and I hope that you will permit me just a few minutes to explain that.

If we in the United States take a shipment and send it to Manila today, we must send it down to the docks 24 hours at least before any of the other cargo, because it has to go into the bottom of the ship first. It is therefore penalized by time, by going through two Japanese ports, two Chinese ports, and eventually landing in the Philippine Islands. Our interest rates are tremendous when you consider the great amount of business that we do.

By the same token, on the return again, our cargo is put in first and again penalized by time until it arrives in the United States.

As I told you, I was the head of the Shipping Board at one time, and I finally prevailed upon Washington to permit us to try direct service to the Philippine Islands. We tried it, but, unfortunately it was not successful because our foreign competition was too great. Then, little by little, we almost went off of the seas, our ships being slower by comparison because the other nations put on other ships, and some of our ships had to be relegated to the scrap heaps, until finally we were almost out of the picture.

Then, as a couple of my old Filipino friends here will remember, we had great discussions on the extension of the coastwise laws.

The extension of the coastwise laws was included in the Merchant Marine Act of 1920, I believe, and it was subject to the proclamation of the President. In other words, the Merchant Marine Act went into effect, but this particular feature was subject to his proclamation.

We had hearings in the United States and in the Philippine Islands, and I was the one designated to investigate and report to President Harding, which I did, personally, on the subject. In that case, we tried to show, not discrimination against the competition of foreigners that may develop with the Philippines and which has since continued, but we wanted to develop our trade directly with the Philippine Islands (*sic*). By that means we could have loaded full cargoes and sent them direct from both of our American coasts to the Philippine Islands, where they could have been distributed.

Now then, that has not come about. The Filipinos rightfully objected to some of the provisions of that law, but I do not think this is the place to go into that. However, the President did not make the proclamation.

Since then we have almost vanished from the seas, and also since then we have developed the Pan American Airways. Speaking now only from the mail standpoint, we have actually put ourselves, by our Pan American Airways, one to five days closer to the Philippine Islands than we are to any other port or any other country of the Orient, which makes me believe that continued progress in that line and similar lines will make it very necessary that we continue with our post-office address in the Philippine Islands.

I hope I have made that clear, and as rapidly as possible, so as not to detain you. If you want me to answer questions on that, Mr. Chairman, I would like to submit to it.

Mr. ROXAS. By maintaining that post-office address in the Orient, Mr. Marias, you meant to maintain a free port?

Mr. MARIAS. Not necessarily a free port.

Mr. ROXAS. Or a reshipping port?

Mr. MARIAS. A reshipping port, if necessary, which would amount to about the same thing as a free port. I have investigated free ports around the world, and I am very much in favor of them, rightfully conducted; and I would also like to have, as closely as we can approach it, the advantages of the British in Singapore and Hong Kong.

Mr. ROXAS. Would your purpose not be accomplished by simplifying our laws regarding bonded cargo for reshipment?

Mr. MARIAS. So far as the cargo is concerned, yes; but I would like to be able to know that the Philippine Islands address was still our American address in the Orient.

Mr. ROXAS. Do you mean to include in your suggestion the necessity of the United States exercising any degree of sovereignty or powers of government over that territory?

Mr. MARIAS. No. That is the reason for the reply, I believe, that instead of taking the property in fee simple, it should be taken under a perpetual lease, or what would amount to the same thing. Therefore, there would be no sovereignty involved, except as it relates to the Filipinos.

Mr. ROXAS. But you would take the lease in the name of the United States Government?

Mr. MARIAS. I presume so. I have not really worked out that detail.

Mr. ROXAS. And I suppose that that territory so leased to the United States Government would be subject to the police jurisdiction of the United States Government, at least?

Mr. MARIAS. It must be, yes, the same as Hong Kong or Singapore.

Mr. ROXAS. Would you permit people to reside and acquire residence in that territory?

Mr. MARIAS. I think under a limit of some kind, Mr. Roxas; yes.

Mr. ROXAS. And any violations of municipal law committed within that territory would be adjudicated by officers of the United States or the Philippines? I am just asking these questions for information.

Mr. MARIAS. I am just expressing my own personal opinion now, of course. I would say, yes; but with a very definite understanding that none of those laws would infringe upon the laws of the Philippine Islands, naturally. You are speaking of municipal laws, I presume?

Mr. ROXAS. Yes.

Mr. MARIAS. Municipal laws, I think, should be administered in the same way as those in Hong Kong are administered.

Mr. ROXAS. Hong Kong is administered by the British Government entirely.

Mr. MARIAS. Yes.

Mr. ROXAS. As you know, the British Government has a governor in Hong Kong and a legislative council exercising legislative jurisdiction over the whole colony.

Mr. MARIAS. Yes.

Mr. ROXAS. As I understand, your plan is to obtain a lease, but you do not intimate that it would be necessary for the United States Government to establish a government over that territory.

Mr. MARIAS. Well, I know what you mean by the government over in Hong Kong, and they exercise 100 percent authority over their subjects and the people within the territory. That is true, but that is British territory, is it not, Mr. Roxas?

Mr. ROXAS. Yes, but it is on a lease.

Mr. MARIAS. Hong Kong?

Mr. ROXAS. Yes. They have a 99-year lease, which is renewable.

Mr. DORFMAN. Hong Kong is ceded territory.

Mr. MARIAS. Yes, I think Mr. Dorfman is right. Hong Kong is ceded to the British, if the truth were known.

Mr. ROXAS. Do you imply a similar form of lease?

Mr. MARIAS. Similar so far as lease is concerned, yes.

Mr. ROXAS. And government also?

Mr. MARIAS. Not so far as government is concerned; no.

Mr. ROXAS. Because the police service of Kowloon is directly under the British.

Mr. MARIAS. Under the British, yes. No, I would not think that would be feasible, Mr. Roxas.

Mr. ROXAS. Would you not be able to attain your purpose if, for example, in the port area in Manila there was designated by the Philippine Government a certain section of the reclaimed area there?

Mr. MARIAS. Yes, I would.

Mr. ROXAS. For warehouses for American cargo that may be brought to the Philippines for reshipment?

Mr. MARIAS. And office buildings for our offices, and commercial agencies, and so on.

Mr. ROXAS. Yes.

Mr. MARIAS. Yes, very much so. But I do not think they would give us that territory because I know too much about it and because I think it is too valuable.

Mr. ROXAS. I am just asking questions. I do not know whether the Government is going to do it or not.

Mr. MARIAS. Yes, I know.

Mr. ROXAS. I am just asking if your purpose would not be attained by determining a certain section around the bay where you could build your warehouses and where all the cargo that you intend for reshipment would be taken under bond and would not have to go through the customs house?

Mr. MARIAS. Practically that, yes.

Mr. ROXAS. So that you might enjoy complete freedom to reship this cargo if you want to send it to China or bring it into the Philippines through the customs house?

Mr. MARIAS. That is right. That would be splendid.

Mr. ROXAS. But to do that, would it be necessary to obtain a lease on that territory in the name of the United States Government?

Mr. MARIAS. I am not technically familiar with what may be necessary in that regard, Mr. Roxas. I do not know the answer. My opinion is that a lease of a piece of property would be less trouble. I mean, there would be less red tape attached to it, and so on. While

you speak of warehouses, I do not believe that there would be so much transshipping of cargo, although I anticipate some. But I would like to see an office, or many office buildings, so that we could feel that we were maintaining our address in the Orient. Now, you understand that my contention has nothing to do with whether or not you have your independence.

Mr. ROXAS. Yes, I know. I know that perfectly.

Mr. MARIAS. You understand that question perfectly. Aside from that, I do believe, and I feel that you, Mr. Roxas, also believe, that we should maintain our connection in the Orient. If I may just elaborate on that, I shall do so now.

Mr. ROXAS. I was just trying to get what you meant by "post-office address".

Mr. MARIAS. Yes.

Mr. ROXAS. Thank you.

Mr. MARIAS. Just one little point on that: We made the Philippine Islands our ninth-best customer from practically nothing. The population is about one tenth of our population today, but we have made the Filipinos a *per-capita* customer way up in our list, as you well know.

Our potential market in China is just as good, and if we can go ahead and maintain as close a personal contact with that vast territory, I feel that we should do it. That is my contention.

Mr. ROXAS. Thank you.

Mr. DOMERATZKY. Mr. Marias, you have just been referring to the fact that China, potentially, can be made just as good a customer as the Philippines.

Mr. MARIAS. Yes, Sir.

Mr. DOMERATZKY. Well, would you not take into consideration the fact that our success in raising the purchasing-capacity of the Philippines was due to preferential treatment?

Mr. MARIAS. In a great measure, but not entirely, Sir. The Filipinos, if I may say so, are a very fine class of people who want to benefit from and improve their position much more than the Chinese. I am speaking by and large. We have done wonders in China. Our business in China has been very wonderful and the potential possibilities are very great.

If I may elaborate again on a point there, by the possibility of getting into China more rapidly through Manila than through the other way, we can now actually go to Manila and in another day be in China much faster than we can the other way; our salesmen can get out there.

Remember, China is a wonderfully competitive proposition with the other nations of the world.

Mr. WARING. Mr. Marias, if the Philippine Government should establish what amounts to practically a free port or a free-port area where goods could come and go with absolute freedom and without confusion surrounding their entering and leaving customs, what additional purpose would be served commercially by setting aside, either in fee simple or in lease, a territory over which the American flag would fly?

Mr. MARIAS. Well, Mr. Waring, I hoped that I had made that clear. I think that we should be able to know that we had our commercial representatives right on the ground in the Orient.

Mr. WARING. It would be possible for them to be on the ground in the Orient even if the American flag was not flying over them, would it not?

Mr. MARIAS. Yes, but I do not think with the same advantages that the British have in Singapore and Hong Kong. Under a lease, all of those things could be determined.

My point is this: Even though we would never use it, I think now is the time to ask for it and get it, rather than be sorry we did not get it when the Filipinos would have been perfectly willing to have given it to us.

Mr. WARING. Do you think, Mr. Marias, that there is much opportunity for the transhipment of goods to the Orient through Manila in view of the trade routes of the steamers at the present time?

Mr. MARIAS. Yes. I will tell you why: We are gradually going into much bigger ships. Our anticipated program in the Merchant Marine under the new Merchant Marine Act signifies that we intend to go in for much bigger ships. Some of them, particularly in the Atlantic, have already been built. In that event, we must extend our services. We must not depend on the foreigners, and we have already had the experience wherein we had 13 ships in what we call the "feeder" service in the Orient, and we were rushed off the face of the map because we had to depend on Hong Kong for a transhipment at that time.

We had services east to Java and to India, but we did not have services to Manila—not because the Filipinos did not want us there but because our goods got to Hong Kong three days quicker; and then, with competition there, we were washed right off.

Mr. WARING. To tranship to Java and Singapore when in Manila would take the cargo considerably out of its way of delivery, would it not?

Mr. MARIAS. Not if the ship goes from New York through the Panama Canal and cuts right off to Manila immediately.

Mr. WARING. Oh, direct to Manila?

Mr. MARIAS. Yes, I am speaking of going direct. It would be of great service to the Philippines if we could go ahead with that.

Mr. WARING. You believe that a route direct to Manila, ignoring the principal ports of the Orient, which our steamers now make, would be commercially profitable?

Mr. MARIAS. Absolutely. Positively. We have proved that, and we have other proof of it with the foreign services that are on today.

Colonel McDONALD. Mr. Marias, what advantage would be gained by having the so-called "post office" in Manila rather than in one of the Chinese ports?

Mr. MARIAS. We could not have it in Hong Kong. We could have it in the international port of Shanghai, yes; and we do, to a certain extent. But our fan branches out from the Philippines, rather than from away up in the north in Shanghai. In my notion and in my opinion, with our wonderful progress in speed in getting over there with our airplanes and our ships, that is really a much more important place than it has ever been before. It is on the belly of the earth, I know, and it takes longer to get through, but speed is going to compensate for that. We really expect that Manila will be much more suitable than Shanghai.

Colonel McDONALD. Even though you are looking to a development from the Chinese market?

Mr. MARIAS. That is right, Sir. I believe the development of the Chinese market is going to be from the south rather than the north.

Mr. BENITEZ. Is your idea included in your memorandum?

Mr. MARIAS. Yes, it is.

Mr. ROBBINS. I wonder, Mr. Marias, whether your purpose is not to have a free port over which the United States would exercise sovereign rights but a free port which would be exclusively for American goods.

Mr. MARIAS. That is right.

Mr. ROBBINS. So that if the Government of the Philippines were to designate a free-port island, or other areas, exclusively for American goods, you would not object?

Mr. MARIAS. No. I am glad you brought that out, because I do mean for the exclusive use of the Americans.

Chairman MACMURRAY. Are there any other questions?

Mr. BENITEZ. Just one more question: I did not get a very clear picture of your original idea. Concretely, since you know Manila very well, what is exactly the territory that you would want assigned?

Mr. MARIAS. We spoke about Mariveles.

Mr. BENITEZ. Oh, I see; Mariveles?

Mr. MARIAS. Yes.

Chairman MACMURRAY. Are there any other questions?

(No response.)

Mr. MARIAS. May I proceed in my dual capacity?

Chairman MACMURRAY. You may proceed in your dual capacity.



STATEMENT OF MR. J. F. MARIAS, ON BEHALF OF THE  
FOREIGN TRADE ASSOCIATION OF THE SAN FRAN-  
CISCO CHAMBER OF COMMERCE

Mr. MARIAS. Now, I appear, Gentlemen, as the pinch-hitter for Richard S. Turner, of the Foreign Trade Association, of the San Francisco Chamber of Commerce. I do happen to be a member of the executive board.

Mr. Chairman and Members of the Joint Preparatory Committee: In appearing before your Committee, I am authorized to represent the Foreign Trade Association of the San Francisco Chamber of Commerce, which organization has already filed with your Committee a written brief<sup>1</sup> in behalf of the San Francisco area.

In addition to the brief submitted by our association, the various individual and group industries have filed with you their briefs pertaining to their particular activity,<sup>1</sup> and the views I offer you at this time are not in any way supplementary to those individual briefs but are a review of the situation in its broader and fuller sense.

Nothing has been mentioned in the brief submitted by the Foreign Trade Association with respect to the questions involved in the political independence of the Philippine Islands, either at the present prescribed date or at an earlier date; and I should like to briefly submit our views on this phase at the present time.

It is our sincere belief that in President Manuel Quezon of the Philippine Islands the country has a capable and efficient leader and that, so far as political independence is concerned, his request for such should be given full and mature consideration, and further, that the problem as to when political independence should be granted is a matter that can be safely left in his hands and in the hands of our own administration.

From the standpoint of economic independence, however, we have definitely stated our viewpoint in our own brief, which we are happy to say coincides almost without exception and in general principle with the brief submitted by other interested associations and organizations in the United States.

It is our belief, after all of the analyses have been made of the effects of earlier economic independence, and relegating to the background any arguments which for selfish or other motives may not ring true to the basic problem at hand, that the sole factor involved is the disruption of an economic situation between two closely related countries.

<sup>1</sup> See vol. III.

During the past 40 years, and particularly since 1909, there has been built up an economic relationship between the United States and the Philippine Islands which has established a valuable flow of trade from the United States to the Philippine Islands and, of more importance, a relationship that has been the means of the absorption by the United States of exports of raw materials from the Philippine Islands in the volume of approximately 85 percent. This has been definitely brought about by trade preferences, and during the period involved has, we must admit, created a dependency on that flow of trade from the Philippine Islands to the United States. This very strong relationship, however, has been the means under which the Filipino people have raised their standard of living far beyond that which would have been possible had not this condition existed. Education, industry, commerce, and modes of living have all rapidly advanced despite set-backs concurrent with the world depression; and yet it is our belief that with respect to these matters the Philippine Islands is not yet ready to be cast adrift from the relationship which has brought it from an undeveloped country to one which can well be proud of its position and the standard of living of its citizens as compared with many other countries of the Orient.

Any thought of curtailing economically the present transition period is, to those entirely conversant with the history and development of the relationship which now exists, unthinkable; and, as we have stated in our brief, we submit that the present preferential trade relationship must be continued, in all fairness to the people of the Philippine Islands, at least throughout the prescribed period under the Tydings-McDuffie act, to the end that they may have sufficient time in which to work out a new national economy. It is impossible for anyone at this time to estimate how long will be necessary to accomplish this economic transition.

The vital changes that are going on and may be anticipated in the Orient give us reason to advocate to this Joint Preparatory Committee that very thorough consideration be given to the necessity of continuing the present transition period even beyond that already stipulated in the Tydings-McDuffie act, so that, before complete economic independence is gained, the people of the Philippine Islands will have preferential treatment of their products entering the United States and the valuable market for American goods in the Philippine Islands will continue without serious interruption.

Thank you, Gentlemen.

Chairman MacMURRAY. Are there any questions on this statement?

Colonel McDONALD: On the last page of the brief submitted by you, Mr. Marias, you mention, "We can see no valid reason why it is not possible to make a mutually advantageous trade agreement

between the two countries which will continue indefinitely after the recognition of the independence of the Philippine Islands."

Mr. MARIAS. Frankly, I think it is ambiguous, the way we stated it. We mean by that, Colonel, that, whatever the ultimate ends or end may be, the result would be toward always continuing in mutual relationship economically with the Philippine Islands.

Colonel MacDONALD. Do you mean to extend the special trade preferences indefinitely?

Mr. MARIAS. Not the special trade preferences indefinitely; except that these preferences may so imbed themselves that we will continue our business indefinitely, which business will be profitable to both sides.

Colonel McDONALD. You mean beyond the period of ultimate independence as now set?

Mr. MARIAS. The reason for that, Colonel, was that it was advanced by some that, so long as President Quezon had asked for independence earlier, it might just as well be set further ahead in case it was thought reasonable.

Colonel McDONALD. But you had not established in your own mind or estimated any particular number of years?

Mr. MARIAS. I have not estimated any number of years; no, Sir.

Mr. ROXAS. When you stated, Mr. Marias, that it was your opinion the time had not come for economic independence, did you mean that, in your opinion, the time had not come for disruption of the present trade relations between the United States and the Philippines?

Mr. MARIAS. Yes.

Mr. ROXAS. You also stated that you did not believe the Philippine nation was prepared for such disruption of free-trade relations?

Mr. MARIAS. That is right.

Mr. ROXAS. Would you be kind enough to tell the Committee what, in your opinion, would be the result of sudden disruption of these trade relations?

Mr. MARIAS. Yes.

Mr. ROXAS. Or their disruption within relatively short time?

Mr. MARIAS. I am glad you brought that out, Mr. Roxas, for this reason particularly: We know what we are going through in the United States. I do not think that needs explanation. We know what other nations of the world are suffering today. We feel that because the world is so unsettled we should not be a party to creating another economic eruption of any kind and that it is much safer, and our duty, to help hold these things down. That is the reason behind it, Mr. Roxas.

Mr. ROXAS. If free trade between the Philippines and the United States was cut off, would it require refashioning of the national econ-

omies of the Islands? Or could we go ahead with our present industry and hope to be able to market the products of our industries?

Mr. MARIAS. This is a place for frank discussion, and I am going to be absolutely frank and honest.

Mr. ROXAS. I would appreciate a frank statement from you on that point.

Mr. MARIAS. My very frank statement is that, industrially, we do not feel that the Filipinos have advanced as far as we would like to see them, and we do feel that the Japanese would usurp your economic authority, if I may put it that way in bringing them into it. We had a little discussion on that. At one time, down in Iloilo, there was a boycott on the Chinese, and the Chinese *tiendas* were out of business; but the Filipinos, instead of going in there to take their places, permitted the Japanese to do so. Now, if they did it once, they will do it another time.

Don't forget this, and I am also going to speak frankly: When I was considered a United States official, we were totally dependent in our economic position upon the Chinese for coal. The Government sent me to China to explore the possibilities of bringing coal from there, and we found that a pound of coal could not come out of China at that time without directly or indirectly passing through Japanese hands; then I had to go down to Australia.

You remember the time we brought the Swayne & Hoyt ships down there with Australian coal and beat the combine of the M.B.K.

Mr. ROXAS. Do I understand, Mr. Marias, that you take your position upon the ground that you would not want another nation to gain economic dominance of the Philippines or upon the ground that it is your belief that cutting off free-trade relations with the United States would bring about the collapse of our industries? I refer to our basic industries.

Mr. MARIAS. Both reasons; either one of which, I think, is sufficient. But both reasons make it just a little bit more binding.

Mr. ROXAS. What would happen to the Philippine standard of living if these free-trade relations were cut off, in your opinion? I am asking the questions because you have lived in the Islands for many years.

Mr. MARIAS. I will tell you: The Philippine standard of living, in my opinion, is forced, to a great extent. There is no place in the world—and I know—where the people and where human beings are so well provided by nature as in the Philippine Islands. We in this country and all over the world, hope to attain a condition where we will do less work and get more out of it. You have already attained that in the Philippine Islands. You do not have to have

our civilization or our culture. Your people can live wonderfully well on what God has provided for them in the Islands, so I do not think that any lessening of our standards is going to lessen your standards of living.

Mr. ROXAS. Do you mean to tell me, Mr. Marias, that if free trade were cut off from the United States the farmer in Negros, who has to depend on the profitable marketing of his sugar crop, could continue to maintain his present standards?

Mr. MARIAS. No. Those adjustments would have to be made. I was speaking of the general rank and file, Mr. Roxas. Yes; those adjustments would have to be made.

Mr. ROXAS. You mean there would be no starvation in the Philippines?

Mr. MARIAS. No; there certainly would not be.

Mr. ROXAS. But do you think we could continue to buy American goods if we could not market our products with you?

Mr. MARIAS. No. You people went into the sugar business, forced by us because we needed sugar during the war.

Mr. ROXAS. What do you mean by "us"?

Mr. MARIAS. The Americans. We asked you people to furnish our sugar while we were on rations here in the United States, and that was one of the reasons you went so far into the sugar business, and one of the reasons so much money was lost in it, as you well know. I was in the bank, and I know of those things.

Mr. ROXAS. Well, all the money that it was thought at that time was going to be lost has since been recovered.

Mr. MARIAS. I know, much to your credit. It was very remarkable.

Mr. ROXAS. Do I understand that it is your information that when you were in the Philippines the sugar industry in the Philippines was developed because of direct Government urging?

Mr. MARIAS. I believe that President Wilson actually appealed to President Quezon, did he not? and asked him to go ahead and see what he could do to force the development, so that we would be furnished with sugar during our period of the war.

Mr. ROXAS. I have no information about that, but is it true that the sugar industry in the Philippines was stimulated by direct Government subsidies?

Mr. MARIAS. You mean by your Government?

Mr. ROXAS. Yes.

Mr. MARIAS. Oh, yes, indeed.

Mr. ROXAS. And at that time the Government was almost entirely under the direct control and supervision of American officials appointed by the President of the United States?

Mr. MARIAS. That is right. What I hoped to say was complimentary, Mr. Roxas, on your development there, if you understand that. It was not a criticism. The criticism was not because of what you did; it was just an economic situation that was rushed into so rapidly that it had to be a little lop-sided here and there.

Mr. ROXAS. In other words, Mr. Marias, the economic development of the Philippines, induced by the free-trade relationship between the Philippines and the United States, has taken place with Government encouragement?

Mr. MARIAS. That is right.

Mr. ROXAS. Is that correct?

Mr. MARIAS. That is right.

Mr. ROXAS. I thank you.

Mr. WARING. Mr. Marias, as I understood the concluding remarks of the statement which you read to the Committee, the position taken by the Foreign Trade Association is that the present free-trade relationship might well be continued for a considerable period of time, even after political independence.

Mr. MARIAS. Yes.

Mr. WARING. You also stated, I believe, that you did not, however, contemplate the permanent continuance of such relationship after they become independent. That would imply, then, that the adjustment must come at some time?

Mr. MARIAS. That is right.

Mr. WARING. If free trade is continued for a period of 10, 15, or 20 years, on the present basis, do you feel that the adjustment would be any easier for the Philippines at that time than now?

Mr. MARIAS. I hoped not to establish, in my opinion, a time limit on it. May I repeat, that what we hoped to say was that we are jealous of our business with the Philippine Islands. We want to maintain it; we want to increase it; and, irrespective of the time when complete independence is granted, economic as well as political, by that time we hope we will have so cemented ourselves with the Filipinos that we may continue with that business. The Foreign Trade Association comprises 350 members, or thereabouts, each one having a different idea, and a lot of them without any ideas.

The *questionnaire* that we sent around showed that most of us would lose business if this was not adjusted within a reasonable time, but we hope not to enter into the political field nor to establish any date by which we think it should be done. We just hope it can be done. If it can be done tomorrow, that is swell.

Mr. WARING. I appreciate your position and your interest in the Philippine market, but I was wondering if the suggestion which you are making is not merely in the idea of postponing the inevitable.

Mr. MARIAS. No. In the discussions, Mr. Waring, those ideas were not propounded. We feel that those discussions belong to the political field, and we try to hold ourselves away from that entirely.

Mr. WARING. I was speaking of the economic adjustments.

Mr. MARIAS. I know you were.

Mr. WARING. Not political.

Mr. MARIAS. I know that you meant economic; but we felt that discussions that involved political feelings should be held off and kept away from.

Mr. WARING. My thought was that if duties were to be applied eventually, there would be various export industries which would be affected then just as they would be affected now.

Mr. MARIAS. That is quite true. We hope it would be minimized.

Mr. WARING. It would be painful then just as it is painful to contemplate now.

Mr. MARIAS. That is true. We do hope that it will reach the point where it will affect the fewest number.

Colonel McDONALD. Is your association prepared to submit any plan or any discussion which would minimize this painful change that Mr. Waring speaks of?

Mr. MARIAS. No, Colonel, we are not. As I tried to explain just now, we have 350 members, with 750 ideas, and we have sense enough to stay away from those questions, I hope.

Colonel McDONALD. I am trying to bring out that it is your opinion, is it not, that this is more of an economic change than a political one?

Mr. MARIAS. I did not quite understand that.

Colonel McDONALD. You said you were leaving it in the field of politics, the time of the change which we have referred to. Is it a matter of economic adjustment, something that requires a diminution or a breaking off, gradually, of economic relations?

Mr. MARIAS. Yes.

Colonel McDONALD. Rather than political, and, hence, is that not more along the line in which your association is working?

Mr. MARIAS. Yes, that is true. I am sorry I gave that impression that we were dependent upon a political situation. We want to bring the economic situation to the fore and make it dependent upon that and the results of that, whatever they may be.

Colonel McDONALD. But up to now, you have not any scheme or plan for minimizing this painful procedure at all?

Mr. MARIAS. No, we did not think that was in our field.

Mr. ROBBINS. Mr. Marias, did I get your answer correctly when you told Mr. Roxas that you thought, on the basis of your experience and acquaintance with the great resources of the Philippine Islands, that this transition should not be so painful anyhow; that a certain

amount of the trade with the United States is not dependent on trade preferences, particularly such trade as hemp and some of the coconut products; and that there is always change going on, which is inevitable and that adjustment might be made with respect to a few industries, such as tobacco and sugar, which would not result in serious hardships?

Mr. MARIAS. If I understand your question, Mr. Robbins, I do not think there would be any great hardship in adjusting the commodities that are now so important, if given the proper period of time to make those adjustments. The Philippine Islands have such great potential possibilities for their own development that we do not want to lose the possibility of that potential development ourselves.

Mr. WARING. You mentioned just now the proper period of time to make the adjustments. Do you feel that the adjustments would be made if there were no legislation which compelled the adjustments? If free trade continued with no restriction, in other words, would any adjustments be made in Philippine economy?

Mr. MARIAS. I do not think so. I do not think that we will make those adjustments by ourselves. I think it does take political pressure to bring them about; yes.

Chairman MACMURRAY. Are there other questions of Mr. Marias? (No response.)

Thank you very much.

Mr. MARIAS. Thank you very much, Mr. Chairman and Gentlemen.

Chairman MACMURRAY. The next witness on the list is Mr. Earl Seidenspinner, of the El Dorado Oil Works, or, as an alternate, Mr. John Parker, of Durkee Famous Foods, speaking for the National Institute of Oilseed Products.

#### STATEMENT OF MR. EARL SEIDENSPINNER, ON BEHALF OF THE NATIONAL INSTITUTE OF OILSEED PRODUCTS

Mr. SEIDENSPINNER. My name is Earl Seidenspinner, representing the National Institute of Oilseed Products.

Our membership is composed of practically all the crushers and those interested on the Pacific coast in copra and coconut oil from the Philippine Islands. We submitted a brief<sup>1</sup> rather hurriedly, and I would like to take 10 minutes of the Committee's time, if I may, to clear up one or two statements which we have made regarding the deficiency of America in fats and oils.

May I have that time, Mr. Chairman?

Chairman MACMURRAY. Yes.

<sup>1</sup> See vol. III.



Mr. SEIDENSPINNER. I shall not go over the brief. We have made a copy for each member of the Committee.

With the imposition of the excise taxes in 1934, the purpose undoubtedly was with the view to protecting American dairy interests and farmers and domestic interests from imports of Philippine products, mostly fats and oils. The thought undoubtedly was that we had a competitor there with domestic produce, and that has followed, I think, for many years. The fact is that we are deficient in oils and fats to the extent of 750,000 to 1,000,000 tons annually. We must bring them in, and most of our imports go into industrial channels not into edible channels. They are used, in the main, in the soap kettle, in the paint trades, and for other industrial purposes.

The United States is close to independence so far as edibles are concerned, but the supply is dependent, in the main, on cottonseed oil. Cottonseed oil is, of course, a by-product of cotton. We would not grow cotton just for the seed alone.

The edible requirements of the country of cottonseed oil are approximately 14 to 15 million bales of cotton, which, so far as our own demand for cotton is concerned, is a surplus of cotton staple.

Allowing for 50,000 tons of refined cottonseed oil a million bales of cotton, and assuming our requirements of staple cotton are only about 8 million bales, then, when we produce more than 8 million bales of cotton, we are dependent upon some foreign market to absorb that surplus. If we produced only enough cotton for our own requirements in the States, we would be deficient 250,000 tons of cottonseed oil, more than the million tons of fats and oils which we are now deficient, basing that simply on 8 million bales, as against 14 to 15 million bales, our requirements of cotton for our own domestic consumption of cottonseed oil.

Since the excise taxes have gone on, the United States has done nothing to supply the deficiency in industrial fats. We have, it is true, plenty of soy beans. In 1936 the production of oil from soy beans was 184,563,000 pounds, more than a sevenfold increase over 1932, but not one pound of that soy-bean increase went into soap kettles to increase our deficiency of industrial fats; for in 1932 there were 5,571,000 pounds of off-grade soy-bean oil which went into soap kettles, and in 1936, notwithstanding the sevenfold increase, there were only 5,023,000 pounds which went into soap kettles.

The Philippine Islands are a good outlet for our products. I do not think anyone disputes that. We are a good outlet for the production of copra and coconut oil. The excise tax, or the present economic relation, which, in our brief, we have recommended be permitted to remain *in statu quo*, came from our thought that if the Philippine Islands were given their independence at an earlier date

than that contemplated by the Tydings-McDuffie act, it would disrupt the relationship between the Islands and the United States, much as it was disrupted when the excise tax was first applied. As pointed out in the brief, there was a 5-cent excise tax produced from copra other than that from Philippine origin. Since the excise taxes were put on, there has been no increase in our basic supply of soap-kettle fats. I refer, in the main, to inedible tallow. It has roughly stood around 600 to 700 million pounds.

As I understand it, and I think I am correct, coconut oil does not compete with tallow. They are complementary. Soap made entirely out of tallow would be much like a soapstone. Coconut oil in part, or one of the other oils such as palm-kernel oil of the same family, helps the lathering qualities; and the more tallow consumed, the more coconut oil is required to make that basic-tallow soap lather properly.

If, then, we have a deficiency which the excise tax has not helped, the imposition of the excise tax has not paved the way to make up that deficiency by encouraging or giving impetus to the growth in the United States of some substitute, and there are none such, so far as I know, and I have heard of no statement advanced that there was something that could take the place of any of the palm oils that are necessary for good soap manufacture. Naturally, the greater burden which we impose upon the Philippine Islands in landing these products in our markets must be paid by us and also in part by them.

With the brief which we submitted, that is about all the institute has to put forward. If there are any questions I will be glad to answer them.

Mr. WARING. In connection with the brief which you submitted, Mr. Seidenspinner, I note that on pages 4 and 5, you refer to the effect of the excise tax in giving the Philippines a practical monopoly of this market in supplying either coconut oil or copra.

Mr. SEIDENSFINNER. That is correct, Sir.

Mr. WARING. And then you make this statement in the first paragraph on page 5:

It follows then that just as we have to rely for supplies entirely upon the Philippine Islands, they, in turn, have to depend almost entirely upon the United States for the absorption of their exports.

It is true, is it not, that a substantial quantity of copra is sold by the Philippines in markets other than the United States, that is, they are not dependent entirely on the United States market for their sale of copra?

Mr. SEIDENSFINNER. There is some movement, but by far the greater percentage of all coconut oil and copra produced comes to the United States.

Mr. WARING. The coconut oil, I know, comes almost entirely to the United States, but it was my understanding that substantial quantities of copra went to markets other than the United States, although I understand that by far the largest part of it comes here.

Mr. SEIDENSPINNER. I do not believe that, of the total crop produced from January to June in the Philippine Islands, 5,000 tons have moved to countries other than the United States in this year.

Mr. WARING. I think your statement is true for this year, because of the unusual circumstances that have prevailed both here and there—in regard to crop shortage there and unusual demands here—but under more normal conditions I think that the larger quantities go to European markets.

Mr. SEIDENSPINNER. Europe looks to other sources of copra first, because of the discrepancy in the tax—5 cents on coconut oil produced from copra from other sources. They take in copra at a much lower value in Europe and sell us the 3-cent oil, such as palm-kernel oil, so that, as a usual thing, they take all the other sources of supply available before they look to the Philippines; the Philippine market for copra has rarely been as low as other markets. In other words, Europe has been able to buy her supplies of copra more cheaply than the Philippines; and, except during the first month's application of the excise tax, that has been so throughout the year, although there have been periodic intervals when copra has moved to Europe in volume when the markets were temporarily higher.

Mr. WARING. Then, it is your opinion that the preferential rate accorded to the Philippines has enabled them to get higher prices for their copra than they would otherwise be able to obtain?

Mr. SEIDENSPINNER. I think so.

Mr. WARING. It is my impression that because they produce a surplus there over our needs, except for unusual conditions, the Philippines sold their copra at approximately world prices.

Mr. SEIDENSPINNER. They do not produce an excess over our needs. Our deficiency is such that we can well absorb all the Philippine copra produced.

Mr. WARING. I should have said our demand rather than our need. Then, you do not agree with the statement that copra prices in Manila attain to approximate world prices?

Mr. SEIDENSPINNER. No, I do not agree with that statement. In the nature of things, that would not be so. The world market prices rule in sources of supply of copra other than the Philippines, and what copra is worth to us rules in the Philippines, unless it is worth less to us than it is to continental Europe, which rarely ever happens.

Mr. ROXAS. Is the United States buying other vegetable oils, like palm-kernel oil, on a world-market basis, or not?

Mr. SEIDENSPINNER. Yes.

Mr. ROXAS. Is it not true that Philippine copra going to other markets than the United States, has to compete with palm-kernel oil in the world market on a world basis?

Mr. SEIDENSPINNER. That is true.

Mr. ROXAS. Do not those two facts show that prices for Philippine copra in Manila are on a world basis?

Mr. SEIDENSPINNER. I would not say that. If the two markets; Manila and Makassar, were on the same parity today for copra, then it would cost an American purchaser of American oil four cents more a pound for oil and a cent and a quarter more a pound for copra coming from Makassar than it would for the copra coming from the Philippine Islands. Part of that differential is used in favor of the Philippines and makes the Philippine market just that much harder to supply the American demand for copra, that being the only market to which we can go until the spread of one cent and a quarter is wiped out. If, for any reason, foreign world markets were lower by one cent and a quarter than Philippine markets, then we could purchase in Makassar; and that has been done on very few occasions.

That demonstrates that when that is done the Philippine market is higher; and that would be an exaggerated instance by a full cent and a quarter a pound over and above the world market prices for copra.

The question that you asked me, Mr. Roxas: In as much as palm-kernel oil can come into the United States with a 3-cent excise tax and foreign coconut oil must pay a duty as well as a 5-cent excise tax, Europe would naturally take the cheap copra, use it for their own requirements, retain it, and ship the palm kernel crushed in her own plants to the United States.

Mr. ROXAS. Can you explain why there is a tariff on coconut oil and no tariff on palm-kernel oil?

Mr. SEIDENSPINNER. No, I cannot.

Mr. ROXAS. You cannot explain that?

Mr. SEIDENSPINNER. No.

Mr. ROXAS. Would you be in favor of eliminating that tariff on coconut oil? Would you be in favor of that, or would you consider it unfair and illogical to eliminate the tariff on coconut oils so long as palm-kernel oil and other vegetable oils can come in here free of duty?

Mr. SEIDENSPINNER. We feel that the excise taxes should be removed on all oils which the United States needs.

Mr. ROXAS. I am talking about the tariff now, if you do not mind.

Mr. SEIDENSPINNER. And the tariff or any taxes. Any burden which is imposed upon the entry of those oils which we actually need and which cannot be produced here, we feel should be removed. You

see, that is distinguishing the industrials from the edibles. We see no reason why, with the wonderful soap organizations which we have in the United States, they should be handicapped in their export business in the United States by making people pay the price of butter to wash their faces. We need them, so the institute feels no burden should be placed in the way of importation unless they can be reproduced in the United States, which cannot be done.

Mr. ROXAS. Do I also understand that you are in favor of doing away with the excise tax on coconut oil so far as it refers to oil rendered inedible?

Mr. SEIDENSPINNER. Absolutely. There is a bill before the Congress which the institute approves one hundred percent. If it is necessary to protect the edible fats in this country, the Guffey-Dockweiler bill has a provision that the coconut oil which is necessary, and has to come in, be denatured. We are behind that bill. We approve of it, and we think that, so long as there is a deficiency of soap-making fats, they should be allowed to come in and the excise tax be removed. But if their protection is required for edibles, if it is felt that there are edible fats, such as butter and lard, requiring protection and should be allowed to go in one hundred percent, and oleomargarine instead of coconut oil, then permit the excise tax to apply on that percentage of coconut oil which goes into edible usage [*sic*].

Mr. ROXAS. Do you think, Mr. Seidenspinner, that the only possible reason that can be alleged in favor of maintaining the tariff on coconut oil is in order to protect American crushers of copra?

Mr. SEIDENSPINNER. Yes.

Mr. ROXAS. As against Philippine competition?

Mr. SEIDENSPINNER. That is true.

Mr. ROXAS. However, in view of the fact that Philippine imports of coconut oil are limited by the Independence Act to 200,000 tons, and could not come beyond that amount without paying the full duty, could there be any objection to the elimination of the tariff on coconut oil up to 200,000 tons after the provisions of the Independence Act had lapsed?

Mr. SEIDENSPINNER. That contemplates the Philippine Islands' being independent, and after that time your idea would be to remove the tariff?

Mr. ROXAS. Suppose the Philippine Islands are placed outside of the tariff walls of the United States, would not American domestic crushers of copra be fully protected if the limitation of 200,000 tons be maintained and if no duty were collected on Philippine coconut oil up to that amount?

Mr. SEIDENSPINNER. To be really frank with you, Mr. Roxas, so far as America is concerned, or the United States is concerned, they

should get Philippine copra and coconut oil as cheaply as possible; but so far as I, as a crusher, am concerned (and I have spent 25 years in the Philippine Islands), I paid a peso a day there for labor. Here we have to pay about \$8 a day for that same labor. Naturally we would feel, as crushers, entitled to some small differential to adjust and put the two on an equal basis. Two cents a pound is quite a high duty.

Mr. ROXAS. On the other hand, you are admitting palm-kernel oil free of duty, which competes with your coconut oil.

Mr. SEIDENSPINNER. They should all be on an equal basis. If one is admitted free of duty, the other should be, too.

Mr. ROXAS. I thank you.

Mr. ROBBINS. I wonder, Mr. Seidenspinner, if you believe that competitive sellers can capture a preferential when their total supply is in excess of that required by the preferential market? You were saying that you believe that the Philippine copra-producers could obtain more than world prices in this market because we have a preference in the form of tariff on copra from other sources than the Philippines. If you and I were copra-producers, and we had more of a supply to sell than the United States could consume, would we not tend to sell all our copra in the United States as long as the supply on the market here was such as to give us a higher return than the world price?

Mr. SEIDENSPINNER. That is true.

Mr. ROBBINS. And would not that increased sale in this market tend to depress the price here to the world level?

Mr. SEIDENSPINNER. No. We have created an artificial structure here. We have raised, since the imposition of the excise taxes, the price of all fats and oils in the United States, and although the copra purchased from the Philippine Islands has been higher than world market prices, it has been cheaper to the United States than the copra which could have been obtained from other sources. As soon as there is a weakening of world values in other lines, which are cheaper than the price which we are willing to pay for copra at Manila, such as palm-kernel oil, then prices of copra must move down. But the fact remains that the Philippine exporters will sell to Europe when and if they can get more in Europe or any other market than they can get in the United States.

Mr. ROBBINS. I understand that, and I understand that the American purchaser has no choice. But I cannot understand how competing sellers in the Philippines could continue to get a premium here in this market so long as their total supply to be sold is in excess of what could be marketed in the United States.

Mr. SEIDENSPINNER. It never has been.

Mr. ROBBINS. As I understood it, the Philippines export a considerable amount of copra, normally, to countries other than the United States.

Mr. SEIDENSPINNER. If the Philippine Islands produces less than 600,000 tons of copra which, in terms of oil, would be roughly 350,000 tons of oil, and we have created an artificial tax structure around a million tons of oil, then, necessarily, in the nature of things, we can always absorb imported fats and oils to the extent of a million tons, and whether we take all the Philippine crop or take some from Sumatra and some from Africa in the form of palm-kernel oil, it depends on how much the Manila market is over the world market. We will pay consistently more to Manila; and in the nature of things it is established by the actual trade records that all that copra has moved here—to nearly one hundred percent.

Mr. ROBBINS. I can understand how, if the supply in the Philippines were equal to or less than the amount that could be marketed here, the sellers, even though they were competitors of one another, could obtain a premium, but I cannot understand how they could be competitive sellers and still obtain a premium, if their total supply were in excess of the requirements here, because of this fact: So long as the American price was above the world price, they were getting a premium; then, they would sell only in America, and they would continue to sell their supply here until the American price reached the world level before they would sell in the world market again. So it would tend to depress it, and the experience of Cuba, in trying to capture a preferential in the case of sugar, was that first she had to get rid of competition among sellers and establish a single seller before she could capture that preferential. I wonder if Filipino growers have been foregoing that preferential on copra.

Mr. SEIDENSPINNER. Don't misunderstand me. I do not mean to say that that full differential of a quarter of a cent a pound in the excise tax has been turned back to the Philippines, but I do say that the prices paid for the Philippine copra, to the extent of almost the entire crop, are over world market prices, and we absorb almost the entire crop. There is not anything left over; we pay enough more for it to get it all.

Mr. ROBBINS. That is all.

Chairman MACMURRAY. Are there any other questions?

(No response.)

Before you retire, Mr. Seidenspinner, could you tell us whether Mr. John Parker, who is listed as the alternate with you, will be here?

Mr. SEIDENSPINNER. No, Mr. Parker will not be here.

Chairman MACMURRAY. Thank you very much.

That concludes the list of those who have requested appearances, except Mr. Hartwick and Mr. Pete Catiel. Are either of them prepared to make an appearance now?

(No response.)

If not, is there anyone else who might have occasion to present any views before the Committee?

(No response.)

I think there are no more witnesses, Gentlemen, and I think we may conclude our hearings.

Let me thank the San Francisco Chamber of Commerce on behalf of our Committee for its courtesy in making available its hospitality and enabling us to hold these hearings here. On behalf of the Committee, may I express my appreciation for the many courtesies extended by the District Office of the Bureau of Foreign and Domestic Commerce.

May I express likewise our appreciation for the cooperation of those who have given their testimony and the benefit of their experience.

The hearings will be concluded.

(Thereupon, at 11:30 o'clock a.m., July 22, 1937, an adjournment was taken to Manila, Philippine Islands.)



## HEARINGS HELD IN MANILA

## PUBLIC NOTICE OF HEARINGS, JUNE 23, 1937

*For the Press*

*June 23, 1937*

### PUBLIC NOTICE

#### HEARINGS ON UNITED STATES—PHILIPPINE AFFAIRS

The Joint Preparatory Committee on Philippine Affairs was created with the approval of President Roosevelt and President Quezon of the Philippine Commonwealth to study United States-Philippine trade relations and to recommend a program for the adjustment of Philippine national economy. The Committee, in making its recommendations to the two governments, will be guided by the fundamental policies laid down in the Joint Statement issued by President Quezon and Mr. Francis B. Sayre, Assistant Secretary of State, on March 18, 1937 (copy attached).<sup>2</sup>

To assist the Committee in preparing its recommendations, written statements will be received and public hearings will be held, both in the United States and in the Philippines, in connection with the objectives announced in the Joint Statement of March 18. The statements to be submitted to the Committee may include a consideration of the effects of existing legislation upon the commodities and services involved in the present economic relations between the United States and the Philippines.

Arrangements for the submission of written and of brief supplementary oral statements to the Committee in the Philippines are indicated below.

The Joint Preparatory Committee on Philippine Affairs has prescribed the following rules and regulations to govern the submission of written and supplementary oral statements.

#### *Time and Place for the Presentation of Written and Oral Statements*

All information and views in writing and all applications for supplemental oral presentation of views shall be submitted to the Committee not later than 12 o'clock noon, September 10, 1937. The address of the Committee will be announced after the Committee's arrival in Manila on August 14, 1937. Supplementary oral statements will be heard at a public hearing beginning at 9 o'clock a.m., September 15, 1937, before the Joint Preparatory Committee on Phil-

<sup>2</sup> See *ante*, p. 3.

ippine Affairs. These hearings will be held in Manila at a place to be announced at a later date.

*Form and Manner of Presentation*

Written statements must be typewritten, processed, or printed. It is requested that fifteen copies be submitted in order to facilitate study of the briefs by each member of the Committee.

Brief supplementary oral statements may be made to the Committee at the public hearings only by persons who have filed written statements or briefs and who have, within the time prescribed, made written application for a hearing in order that a schedule of appearances may be arranged.

Applications for supplementary oral statements should indicate the approximate amount of time requested of the Committee for the submission of views.

The Joint Preparatory Committee on Philippine Affairs contemplates the publication of the written and oral statements.

FRANCIS B. SAYRE

*Acting Chairman*

*Joint Preparatory Committee on Philippine Affairs*

## PRESS NOTICE OF AUGUST 13, 1937

(Radioed from Shanghai on August 13, 1937, for Manila newspapers)

SHANGHAI, CHINA.

*August 13, 1937.*

In view of inquiries as to its functions and as to its plans while in the Philippines, the Joint Preparatory Committee on Philippine Affairs takes occasion to recall that it was created with the approval of President Roosevelt and President Quezon of the Philippine Commonwealth to study and to make recommendations concerning United States-Philippine trade relations and the adjustment of Philippine national economy. To assist the Committee in preparing its recommendations, 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. The statements to be submitted to the Committee may include a consideration of the effects of existing legislation upon the economic relations between the United States and the Philippines.

The Committee has not been requested to recommend a date for political independence either earlier or later than that fixed in the Independence Act. The Committee will therefore confine its consideration of that question to "the bearing which the advancement in the date of independence would have on facilitating or retarding the execution of a program of economic adjustment in the Philippines", as set forth in the joint statement of President Quezon and Assistant Secretary Sayre issued to the press on March 18 last. It is consequently expected that all those presenting to the Committee either written or oral statements relevant to the question of an advancement of the date of independence will confine such statements to a consideration of the economic problems involved.

Arrangements for the submission of written and brief supplementary oral statements to the Committee in the Philippines are indicated below.

All information and views in writing and all applications for supplementary oral presentation of views shall be submitted to the Committee not later than 12 o'clock noon, September 10, 1937, and should be addressed to the Joint Preparatory Committee on Philippine Affairs, National Assembly Building, Manila. Written statements should be typewritten, processed or printed. It is requested

that fifteen copies be submitted in order to facilitate study of the briefs by each member of the Committee.

Supplementary oral statements will be heard by the Committee at a public hearing beginning at 9 a. m. on September 15, 1937, in the Senate Chamber of the National Assembly Building. Such statements may be made to the Committee at the public hearings only by persons who have filed written statements or briefs and who have, within the time prescribed, made written application for a hearing in order that a schedule of appearances may be arranged. Application for supplementary oral statements should indicate the approximate amount of time requested of the Committee for the submission of views.

The Joint Preparatory Committee on Philippine Affairs contemplates the publication of the written and oral statements.

The Committee expects to arrive in Manila on August 15th and plans to leave on August 20th for a visit to the provinces, beginning with those in the southern Islands, in order that its members may acquaint themselves more fully with conditions throughout the Philippines.

In resuming the work begun in the United States, the Committee looks forward to the continued cooperation of the people of the Philippines.

**J. V. A. MACMURRAY**  
*Chairman, Joint Preparatory Committee  
on Philippine Affairs*

PRESS CONFERENCE OF SEPTEMBER 14, 1937  
JOINT PREPARATORY COMMITTEE ON PHILIPPINE  
AFFAIRS

*September 14, 1937.*

The Chairman of the Committee, the Honorable J. V. A. MacMurray, in an introductory statement before eleven members of the press (listed on the attached sheet),<sup>a</sup> said that the Committee had thought it might be helpful to the press and also helpful to the Committee to have press conferences at which the members of the press would have the opportunity of asking questions which might not be covered by the hand-outs. These conferences would be held twice a week, one on Tuesday afternoon at 3 p.m., for the benefit of the morning newspapers, and the other on Friday at 8:45 a.m., for the afternoon newspapers.

In continuing the opening statement, Mr. MacMurray said that on behalf of the Committee he wished to thank the press for the very courteous treatment which it had given and, perhaps, to presume on that to the extent of asking that the press be lenient and not try to obtain information that the Committee could not give. He wanted to assure them that the Committee was prepared to be fair with the press and hoped to receive the same fair treatment and to be able to work together with the newspapers throughout the period of its stay in the Philippines.

It was pointed out that the hearings which would open on September 15 were open to the public and that for the time being all the Committee's business would be open to all.

In speaking of the manner in which the public hearings would be carried out, Mr. MacMurray said that except for a few additional remarks, his statement would be a repetition of the one made by Assistant Secretary of State Sayre at the opening of the hearings in Washington, and that there would be mimeographed copies of the statement available for distribution after the hearing on Wednesday. The morning sessions would be from 9 to 12:30 and the afternoon sessions from 2:30 to 4:30. In some instances the appearances scheduled might be completed during the morning session, in which case announcement would be made that there would not be an afternoon session.

In response to inquiry, Mr. MacMurray said that there would be no private hearings as such; that there would doubtless be cases where the members of the Committee would be approached individually by

<sup>a</sup> See *post*, p. 305.

persons wishing to state their views but that such conversations could not be considered as hearings because there is no Committee business except that of the Joint Committee as a whole.

One correspondent asked if the Committee would hear persons wishing to appear before it in order to discuss political phases and was told that the Committee would hear the testimony of such persons so far as it was relevant to the business in hand. The members of the Committee alone would be allowed to cross-examine persons appearing before it, as the hearings are called for the purpose of informing the Committee. Persons not already scheduled to appear would not be allowed to do so—only those who had previously requested hearings in order to elucidate written briefs which the Committee might study and print. The real evidence is what is submitted in the form of briefs for consideration, and the oral testimony is merely supplementary. The announcement of the hearings in Manila was made in July, allowing about two months in which to file briefs. The period closed at noon on September 10th, and no further briefs would be accepted.

Upon being questioned as to how far the Committee had gone in its work, Mr. MacMurray stated that no decisions had been reached but he believed all the members felt they had, during the nearly three weeks spent on a tour of the southern islands, received impressions which would be useful as a background.

One correspondent asked if the Committee would adopt a minority report, if there were such a report. Mr. MacMurray said he believed the Committee as a whole was hopeful that there would be no occasion for a minority report—they hoped all would prove to be in accord and able to join in a single report. He felt that the report could not be finished before the American members leave in November and that it might be necessary to work on it on the return trip, although it was barely possible it might be finished by November.

In reply to a question as to whether the Committee is authorized to make recommendations of policy or only to make finds of facts, Mr. MacMurray stated that it was not confined to fact-finding but is to make recommendations which will cover points that are, from one aspect, matters of policy. He thought the question might be answered more clearly by referring to the release of the Committee for the papers of August 13, from which he read that portion regarding the purpose of the Committee. The Committee exists for the purpose of making recommendations to deal with the imperfections and inequalities of the Tydings-McDuffie act and to deal with economic anomalies arising out of the act as it stands today. The Committee is concerned with political questions only to the extent that they are backgrounds to the economic questions.

The economic adjustment of the Philippines means more than their relationship with the United States; it involves the adjustment which

they can make within themselves, to be more self-sufficient and build up outside markets.

Mr. MacMurray stated that although he did not have an opportunity to visit the homes of Filipino farmers and laborers, several members of the Committee did talk to that class of persons and visit their homes. It was obvious that anyone with the responsibility for dealing with the economy of the Islands would have to have in mind the interests not merely of those conspicuously identified with the economic system of the Islands but also of those who are not so fortunate as to possess checkbooks and who live in the utmost simplicity but constitute a very large percentage of the population. He had not anticipated that the report of the Committee would have to compare them with the same class in Puerto Rico, Cuba, or other Far Eastern countries. Similar aspects are available in many other reports.

When asked how the findings of the Committee would differ from those of the Waring-Dorfman report, Mr. MacMurray said that that report was one of facts, actual or expected; whereas the Committee will have to make recommendations in the light of such facts and expectations, so that the two will be entirely different—prepared with different objectives in view and representing entirely different methods of approach.

Mr. MacMurray stated that the Committee would make another trip, to northern Luzon, after the hearings are completed.

When asked to whom the Committee's report would be made, Mr. MacMurray stated that it would be made to the Interdepartmental Committee, which is an agency of the President, and also to the President of the Commonwealth of the Philippines; and that presumably the report of the Committee will be the basis of the President's recommendation to Congress. The Committee was appointed by the President with the approval of the Congress, which actually made an appropriation for the expenses of the Committee.

Press Conference attended by:

*Commonwealth Fortnight*

*Manila Daily Bulletin*

*Manila Daily Bulletin and Sugar Cane*

*Planter*

*El Debate*

*Free Press*

*Herald*

*International Monthly Magazine*

*Taliba*

*London Times*

*New York Times*

*Tribune*

MR. BLANCO

MR. VALENCIA

MR. ORINDAIN

MR. CENTENIVA

MR. MARQUARDT

MR. SANTES

MR. F. LEANO

MR. A. CRUZ

MRS. NATHORST

MR. WILKINS

MR. GUZMAN



## PROCEEDINGS OF SEPTEMBER 15, 1937

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Wednesday, September 15, 1937.*

The Joint Preparatory Committee on Philippine Affairs met at 9 o'clock a. m.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

### OPENING STATEMENT OF MR. MACMURRAY

Chairman MACMURRAY. In opening this series of hearings by the Joint Preparatory Committee on Philippine Affairs, I can do no better than to quote, in explanation of its purposes, the statement made by the former chairman, Assistant Secretary of State Sayre, in opening the first series of hearings at Washington, on June 16 last. Mr. Sayre then said:

The Joint Preparatory Committee on Philippine Affairs, seated around this table, is engaged in a very far-reaching undertaking to ascertain how United States-Philippine commercial and other relationships may be adjusted in a way which will spell future happiness and prosperity for both peoples. This is a grave responsibility which I do not think we can overemphasize. The future stability and prosperity of the Philippines is of vital concern to Americans as well as to Filipinos.

For over a quarter of a century successive administrations of our Government have based their policy with reference to the Philippines upon an abiding confidence in the ability of the Filipino people ultimately to govern them-

selves as a free and independent nation. The task of making the transition to a status of complete independence is one, however, which involves problems of great magnitude. These problems relate not merely to trade between the two peoples but also to political and economic considerations of far-reaching significance to the United States, to the Philippines, and to all nations having interests in the Far East. The attainment of the objectives which both peoples have in mind will require patience and a sense of fair play and cooperation. The Joint Committee, with such ideals in mind, is endeavoring to make some contribution toward the successful conclusion of this really great undertaking.

The terms of reference governing the work of this Committee were mapped out in conference with President Quezon in March of this year. The circumstances which led up to the setting up of the Joint Committee were outlined in identical letters, dated May 24, 1937, which, as Chairman of the Interdepartmental Committee on Philippine Affairs, I addressed to Senator Millard E. Tydings and to Congressman Leo Kocialkowski. . . . It was pointed out therein that responsible persons in both countries have felt that certain "imperfections or inequalities" . . . may exist in the Independence Act of March 24, 1934, and that these so-called "imperfections or inequalities" are susceptible of adjustment through joint study and conference. It has also been felt that uncertainties and misconceptions in regard to the future political and economic relations of the Islands should be removed as soon as practicable because, until these uncertainties and misconceptions are removed, necessary economic adjustments in the Islands will be delayed. In addition, there are comparable problems involved in providing an adjustment of American export trade to a non-preferential, competitive position in the Philippine market. A recognition of the existence of these problems has led to the setting up of this Joint Committee in order to make studies, to hold hearings, to obtain the views of interested parties both in the United States and in the Philippines, and to make recommendations to the appropriate legislative authorities.

It has been agreed that, within a certain specified scope, this Committee should have general and fairly extensive powers of recommendation; that the Filipinos should be given an opportunity to attain economic as well as political independence; and that preferential trade relations between the United States and the Philippines should be terminated at the earliest practicable date consistent with affording the Philippines a reasonable opportunity to adjust their national economy. It would not be fair or right suddenly to make abrupt changes which might entail economic disaster to the Philippines. I am sure that the American people want the Filipino people to have every opportunity to establish a sound economic regime in order that they may be able to maintain their independence. In an endeavor to find a solution of these problems the members of this Joint Committee of Americans and Filipinos are working shoulder to shoulder.

This Committee, nevertheless, is performing a task which is merely preparatory or advisory in character. It has no power to decide upon courses of action. It has no power to control future legislation. But I hope that the report and recommendations of the Committee will be so appealing, so inevitable because of the careful marshaling of facts leading up to the conclusions, that both the American Congress and the Commonwealth Assembly will see fit to follow the recommendations and to embody them in such legislation as may seem necessary and desirable.

The purpose of the hearings which begin this morning is to provide ample opportunity for the presentation of the views concerning economic and other relationships between the United States and the Philippines. I earnestly invite your cooperation and help.

Later, in view of inquiries as to its functions and plans while in the Philippines, the Committee, while at Shanghai on its way to the Islands, took occasion to give out for publication in the Manila newspapers of August 13 last a supplementary statement, from which it may be useful to quote the following passage:

. . . To assist the Committee in preparing its recommendations, 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. The statements to be submitted to the Committee may include a consideration of the effects of existing legislation upon the economic relations between the United States and the Philippines.

The Committee has not been requested to recommend a date for political independence either earlier or later than that fixed in the Independence Act. The Committee will therefore confine its consideration of that question to "the bearing which the advancement in the date of independence would have on facilitating or retarding the execution of a program of economic adjustment in the Philippines", as set forth in the joint statement of President Quezon and Assistant Secretary Sayre issued to the press on March 18 last. It is consequently expected that all those presenting to the Committee either written or oral statements relevant to the question of an advancement of the date of independence will confine such statements to a consideration of the economic problems involved.

After specifying the necessary arrangements in regard to the submission of written statements or briefs for the attention of the Committee and for eventual publication, the Committee's press release went on to announce that supplementary oral statements would be heard at the public hearings which are in fact being opened here this morning, and added that "such statements may be made to the Committee at the public hearings only by persons who have filed written statements or briefs and who have, within the time prescribed, made written application for a hearing"; and in conclusion the Committee bespoke the continued cooperation of the people of the Philippines in the work begun in the United States last June.

I take this occasion to express, on behalf of the Committee, the hope that those presenting to it information and statements of their views will, in a spirit of such cooperation, facilitate the Committee's work and avoid confusion as to its proper responsibilities, by a considerate restriction of their remarks to those matters which are within its competence and relevant to the questions with which it is authorized to deal.

I herewith declare the hearings opened.

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There has been published a list of the appearances which, it was made clear, must of necessity be a tentative list, and which included for this morning's hearings the Philippine Coconut Oil Mills, the Philippine Coconut Association, the Agusan Coconut Company, and the Cooperative Coconut Products, Inc.

In addition to those who had requested a hearing before the Committee this morning, the Philippine Desiccated Coconut Corporation has also been requested to appear before the Committee in order to answer questions which arose in the minds of the Committee upon a perusal of its brief.<sup>1</sup>

The first witnesses to be called today are Mr. Kenneth B. Day and Mr. H. Dean Hellis, on behalf of the Philippine Coconut Oil Mills.

#### STATEMENT OF MR. KENNETH B. DAY, REPRESENTING THE PHILIPPINE COCONUT OIL MILLS

MR. DAY. Mr. Chairman and Members of the Joint Preparatory Committee: In view of the fact that I am a most indifferent speaker, and in order to be certain that my oral statement may be as complete as possible, I have taken the liberty of setting it down on paper and, with your kind indulgence, will present it in that form.

We have endeavored to make the brief of the Philippine Coconut Oil Mills a simple document.<sup>1</sup> We feel that the subject is, to say the least, a very complex one, and we have therefore tried to present our facts in as simple and concrete form as possible, with the hope that the major points we wish to drive home may thereby be clearer and more definite. We have not tried to go into statistics to any great extent, because the main statistics are all a matter of record and are known to you, either from Tariff Report No. 118 or from briefs presented to you in Washington and on the Pacific coast. The few tables we have included in our brief will serve to corroborate the points which we have made, and will be supplementary to the great mass of statistics on this subject.

We have attempted to make our brief a fair one, trying to look at our problem not merely subjectively but objectively as well. We have endeavored to recognize the rights of others and the paramount importance of a sound economy, not only for the Philippine Islands but also for the United States. If we have been successful in this, then we believe that the case for Philippine coconut oil is a strong one and one which should occupy the attention of your body.

What Philippine coconut oil has probably needed the most in the past few years has been a good publicity agent. Coconut oil has been blamed for a great many things—and Philippine coconut oil above all—and we believe that this is largely the result of misapprehension. Coconut oil is a good oil and will accomplish a lot of things. At the same time, it is not the ogre it is painted to be, nor is it a force which, if unchecked, must inevitably contribute to the ruin of a portion of

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<sup>1</sup> See vol. III.

the American people. It is our belief that the position of coconut oil is generally misunderstood, not only by Americans but by Filipinos as well. If its continued production meant a distinct prejudice to any section of the American people, then our arguments for its retention, particularly after independence, would lose much force. If it did not form an important part of the Philippine economy, then we could not expect the whole-hearted backing of the Commonwealth in our efforts to maintain our position.

The Philippine coconut-oil industry is before you today to fight for its life. Ours is not a question of increased advantages—we ask none. It is not a question of special privileges; it is rather a question of non-discrimination. Our business has already been limited in volume by the Tydings-McDuffie act. All we are asking is the right to continue to operate on this limited basis, not only through the period of the Commonwealth but thereafter.

We are firm believers in the policy of "live and let live", and we believe our oil industry offers an excellent field in which this policy can be reasonably applied.

Most of you are very familiar with the history of the coconut-oil industry. It sprang up early in the century but received its impetus during the World War, at which time the operative mills in the Philippines expanded from 2 to over 40. This expansion was very largely due to the requirements of the United States for glycerin as a base for high explosives. In the depression after the war, nearly all of the mills folded up; and the seven of us still in business form the nucleus which has been able to go through depressions and, by dint of the hardest kind of work, finally establish itself on a modestly profitable basis.

In the compilation of our brief, we have used the terminologies "Philippine mills and Philippine coconut oil" and "domestic mills and domestic coconut oil". We believe it is correctly understood by you that by Philippine mills and Philippine coconut oil we mean mills located in the Philippine Islands and coconut oil produced therein. By domestic mills and domestic coconut oil we mean mills located in continental United States and coconut oil produced by these mills.

Usually, in presenting arguments of this nature, we lay considerable stress on the interest of the copra-producer. We do this because the copra-producer and the oil mills are definitely aligned side by side, and what is to the general good of one of them is normally to the general good of both. While their problems are not identical, they are parallel. In this brief, however, we have purposely omitted making specific arguments for the producer because his side of the question has been ably presented elsewhere. This does not mean, however, that

we are any the less interested in the copra-producer. We cannot be, because if he cannot prosper neither can we. We continue to manufacture coconut oil just so long as the producer can continue to give us copra from which to manufacture. The minute the planter reaches a point where he can no longer profitably produce and market his copra, then the scope of the mills is automatically limited. If the producer over a period of time finds prices too low to meet production costs he is in a bad way, because his groves represent an investment of many years and cannot be replaced at will from year to year to meet the vagaries of world markets. He must have a minimum return or his livelihood is gone, and this is a particularly serious thing because the Philippine copra-producer, as a rule, is a small man with a limited number of trees. His well-being, therefore, must be a source of concern for anyone interested in the problem.

The arguments of the copra-producer you have heard. He is interested in maintaining a steady and profitable market for his copra. The terms of the Tydings-McDuffie act provide him with a market, always with the understanding that the excise taxes shall not be so great as to make it a losing proposition for him to produce copra. That this market is not as favorable as the one he now enjoys, is one of the points of our contention. It is true, however, that his problem is not as serious as ours; and while we contend that his greater prosperity is linked with our continuance, we candidly admit that he may be expected to exist without us. That he can do much better with us is, we believe, almost a self-evident fact.

In our brief we refer many times to a figure of 200,000 tons of coconut oil. This figure was first reached during the discussions preceding the Hare-Hawes-Cutting act as a fair quantity to enable the existing Philippine coconut-oil mills to continue in business. It is a figure short of the capacity of the existing mills but sufficient to allow the mills to produce a very fair quantity of oil. This figure was lifted from the Hare-Hawes-Cutting act and placed in the Tydings-McDuffie act. It has nothing to do with the amount of coconut oil which can go into manufacture in the United States. It merely represents that portion of the total United States requirements which may be produced here in the Philippines and imported into the United States each year. It forms a mutually agreeable limitation of what, before the passage of the act, was an unlimited market.

The immediate reason for apprehension in our industry is the imposition of the so-called "export taxes" which are scheduled to go into effect after the fifth year of the Commonwealth. When the Tydings-McDuffie act was passed these export taxes were included therein, as we understand it, for two reasons: the first being to raise revenue to pay off the indebtedness of the Philippines to the American

bondholders; and the second, to form a gradual approach to the full duties which an independent Philippines must face. I use the word "gradual", and I think I am correct in doing so. It was not, I am sure, the intention of the framers of the law, to have a gradual limitation the exact equivalent of an immediate elimination. In the case of coconut oil the export taxes fail of their purpose on both counts. In view of the fact that copra is on the free-list, while coconut oil is not, copra can continue to flow into the United States unrestricted in quantity and free of either export taxes or import duties, both before independence and thereafter. Philippine coconut oil, on the other hand, being subject to these duties, must fall as soon as the export taxes are applied, because it stands to reason that it will be impossible for mills here, with equal production and transportation costs, to continue to manufacture and sell oil to American customers in competition with mills located in the United States that can obtain their raw material without payment of any such imposts. Therefore, after the sixth year, or, at best, the seventh year of the Commonwealth, no more coconut oil can be shipped from the Philippines to the United States under existing laws; and if this is the case, then there will be no export taxes collected from Philippine coconut oil.

We state that the export taxes will put us out of business in the sixth or seventh year of the Commonwealth. Owing to the highly competitive conditions in this industry, the average profit that mills can expect from a pound of coconut oil under the best circumstances is  $\frac{1}{8}$  to  $\frac{1}{10}$  of a cent a pound. The export taxes work out  $\frac{1}{10}$  of a cent a pound the first year,  $\frac{2}{10}$  the second year, and  $\frac{3}{10}$  the third. We do not need to worry about the third year. The first year we might break even; the second year we would have to shut up shop.

Without looking as far as independence, therefore, our industry is scheduled to go under the hammer in the seventh year of the Commonwealth, unless something is done to help it.

In our brief we have mentioned the fact that Philippine oil mills form the best customers of the copra-producer, and to back this up we have made the easily proved statement that year in and year out we buy over 50 percent of the copra crop. If Philippine mills are to run economically, they must run with reasonable continuity. If they are to run continuously, they must always be buying something to run on, and in the case of the Philippines there is nothing they can buy except copra. Nor can they buy copra from anywhere else except the Philippines without a prohibitive duty. There is nothing, then, to which Philippine mills can turn if they are not allowed to make coconut oil. In the course of years it might be possible for the Philippines to grow other seeds which could be turned into oil and shipped into the United States, but this would mean a long process of trial and

education, and the chances are that any other seeds which might be made available would be less economical and equally obnoxious to the United States. Therefore, the Philippine mills are now dependent on copra and probably always will be as long as they exist.

For the producer, outside copra markets are not equally dependable. There is always a price for copra in the United States and there is always a price in Europe, but these prices depend on too many other factors and are not always effective. The situation today shows both London and the Pacific coast as buyers of copra. In the case of London, however, there is shortage of space; in the case of the United States, there are too many other inexpensive oils and fats available to arouse interest in buyers. Philippine mills, however, continue to buy and absorb the crop at a time when it is heaviest, and failure to move it would mean disaster to the producers.

In addition to being steady buyers, Philippine mills are able to offer small sellers better facilities than they could otherwise hope for. In the matter of taking small deliveries piecemeal, in the matter of credit, in the matter of paying for copra when and as received—in all of these ways the local mills are prepared to support the producer. The export trade as a whole is not equally equipped. In the course of years this might be overcome, but it is reasonable to assume that the mill on the ground is closer and has the producer's interest more at heart than an overseas customer ever can have.

It is not always easy for local mills to maintain this close connection with their customers. During the course of the past several years numerous outports have been opened up, and freights have been adjusted so that copra can be shipped from any of the 10 to 15 outports direct to destination at the same rate as though this copra were shipped from Manila. In such cases, the producer has the option of shipping direct to the United States or Europe, if it pays him better, or shipping to the mills. That producers often ship to the mills from outports is a proof that the mills are more constantly and evenly in the market than exporters.

We have touched on the value of the local oil mills to the Philippine Government. This is very largely a matter of dollars and cents. The taxes that the mills must pay the Government in one way or another are numerous and substantial. These, of course, will be lost if the mills are put out of the picture. Apart from these taxes, however, we have the proposition of the percentage tax, which is one of the chief sources of revenue of the Philippine Government. The velocity of trading in copra is extremely difficult to trace, i.e., it is hard to calculate just how many times on an average a sack of copra changes hands between the tree and the consumer. It is certain that it changes hands one time more if turned into oil in the Philippines



than it would if exported as copra; because the man who sells to the mills might otherwise export direct, whereas the mills must pay an additional tax on the higher value of the finished product when shipped. In many cases we can trace at least two additional turnovers; and we believe a fair average is between one and two additional transactions in copra, if turned into oil locally. This, at the rate of 1½ percent, bulks large in the Government revenues, particularly if copra and oil prices are high.

We have also stated that, from the standpoint of the Government, the oil business is an aid to general business. This, of course, follows. We employ directly several thousand laborers. We employ indirectly many times that number. The shipping business, the railroad, the transportation companies—all depend on copra for bulk cargoes. Bankers count on a certain amount of coconut-oil exchange and transfer of funds. The flow of trade from provinces to the milling centers carries with it a general stimulation of business.

Industrialization is at a premium in a land of raw materials. True prosperity commenced in the United States when it progressed from an agricultural to an industrial nation. The Philippines are in none too good a position to become highly industrialized, and those industries which it has been possible to build up should, therefore, be fostered all the more on that account. The additional money that stays at home in an industrialized product makes it possible for the Nation to increase its imports as it increases its exports.

We have touched slightly on the value of the coconut-oil business to shipping. There are very few inter-island steamers which are not, occasionally at least, dependent on carrying copra cargoes. These cargoes are return cargoes and serve to make the round trip profitable. With copra not moving to the oil centers, it would be impossible to maintain as good an inter-island distribution as is maintained, and outward freights would be prohibitive.

Nor is local shipping alone interested in coconut oil. Foreign steamers with tanks are able to obtain a good start on their homeward cargoes in coconut oil, which provides a very respectable revenue from a commodity packed in the most economical space—space which it is difficult to use for anything but bulk oil.

Copra cake and copra meal form bulk cargoes which stow well and pay reasonably. Passenger steamers which, in the nature of things, do not care to carry copra can, without hesitation, take oil, cake, and meal. Vessels making their terminus in the Far East are very glad to obtain cargoes of oil and by-products as a nucleus for their return trip.

Probably our hardest problem of salesmanship with your Committee is to prove the value of the Philippine coconut-oil industry to the United States. Our best argument in this respect is economy of dis-

tribution. Coconut oil, if produced in the United States, is readily available for requirements adjacent to the production centers. The farther away the customer, the higher the cost of transporting the product to him and the more he must consequently pay for it. There are three large consumption centers in the United States: the West Coast, the Middle West, and the East Coast. Each district can be well served by the mills adjacent thereto, but when consumption demands are greater in one section of the country than in another, then it is an expensive proposition to ship oil to distant destinations. In this situation, the Philippines is admirably located, because it can send oil where it is required and when it is required without substantial additional expense. Thus, the consumer in Philadelphia or Baltimore can be served, if necessary, as easily and at the same price as the customer in Boston or New Orleans; and the customer in Seattle, as well as the customer in Los Angeles.

Probably more important than the distribution of oil, however, is the distribution of cake and meal. For every 2 tons of oil produced, a ton of meal must result. This meal is of such a composition that it is reasonably valuable as a cattle food. It is ordinarily not very good for fertilizer or anything else. Farmers, particularly in the western part of the United States, are accustomed to use a balanced ration for their cows and other livestock, and in this ration they often like copra meal. If there is any drought or shortage in the United States, the demand for copra meal becomes heavy, particularly in the western part. If, however, there is no drought, there is less interest in this product. Most of the present oil mills in the United States are located on the West coast, and I suppose one of the reasons for this is the fact that the copra meal resulting from the oil can be more easily assimilated in the West than in the East. Probably, if new mills were to be erected in the United States, most of them would be in the eastern part; then the problem of marketing their by-products without pulling down the prices of competing feedstuffs would be a serious one. The manufacturer of oil in the Philippines obviates this trouble, because the Philippines is in a position to export meal to the United States if the United States wants it; or, if not, to export cake to northern Europe, where there is always a demand for it.

The law of supply and demand will regulate this. If the price is good, then the meal will go to the United States because somebody wants it; if the price is not so good, then it will go to northern Europe or somewhere else. Conceivably, of course, if copra can be shipped to the United States and the oil extracted there, the resultant cake or meal can be routed to Europe. Under existing freight rates, however, nobody could consider this an economical routing as contrasted with a direct shipment from the Philippines to Europe.

In the manufacture of 200,000 tons of coconut oil 100,000 tons of meal and cake are involved. If this oil were produced in the United States, the meal and cake would have to be disposed of; and this could be done only at the expense of domestic farm products. If an export surplus resulted, the selling price would presumably be regulated by the selling price abroad less transportation costs. By producing the oil here, the trouble is eliminated.

So many of our friends in their briefs are emphasizing the additional buying-power resulting from Philippine exports to the United States that we deem it unnecessary to touch at length on that point here. It is true, however, that in the case of coconut oil more money remains in the Philippines than would if the copra were exported. This additional sum must in some degree be reflected by additional buying-power here.

What will be gained by the elimination of Philippine coconut oil from the picture? In our opinion, nothing. Copra can still enter the United States free of duty, and it can be manufactured there and sold on the same basis as it can be manufactured and sold from the Philippines today. Even if all coconut oil were eliminated and the imports of copra from the Philippines stopped, it would not help matters, because other oils and fats from foreign countries can still come into the United States and give competition to local products. If all these oils and fats were eliminated as well, then the United States would find itself deficient. The United States must import a certain amount of oils and fats, and although domestic production is increasing, I am sure everyone will agree that a great many years must go by before the United States will become self-sufficient for its entire requirements of edible and inedible fats.

We believe we can fairly assume that the United States has nothing against coconut oil *per se*. As we see it, the prejudice in the United States is against any product which will compete with domestically produced crops and result in lower prices. If, however, as we contend, the United States must import certain oils, should there be any objection if part of these imports consisted of Philippine coconut oil—as good an oil as any of them—brought in from the Philippine Islands, which the United States is anxious to see economically independent? We believe that the elimination of Philippine coconut oil would prove a futile gesture and that, if the facts were fully understood, there would be no more objection to coconut oil than there is to the many other oils and fats brought into the United States from all over the world, produced in countries for which the United States should not feel the same responsibility.

Even as things are, Philippine coconut oil has lost a good deal of its position in the American markets. For the four years prior to 1934,

coconut oil represented over 38 percent of the imports of vegetable oils into the United States. In 1936 it represented only a little over 23 percent. It can easily be seen, therefore, that the whole problem will not be solved in excluding Philippine coconut oil, but merely that additional impetus will be given toward replacing the coconut oil so shut out, by additional quantities of other oils.

You have doubtless heard a great deal of babassu oil. The treaty with Brazil of 1935, effective January 1, 1936, provided that babassu oil from Brazil shall come into the United States free of import duty and excise tax as long as the treaty holds good. This treaty, if not abrogated prior to July 1, 1937, will hold good until either country abrogates it with six months' notice; and, from all appearances, it will continue, because of its other equitable provisions, to be in effect for some years to come. Under these conditions, the babassu nut, previously uneconomical, has become a most desirable article of commerce. It is stated that there are enough babassu nuts growing wild in Brazil to supply the entire oil-import requirements of the United States. The trouble has been largely in collecting them and cracking them, for the distances in Brazil are long, the transportation facilities inadequate, the labor supply ineffective, and the nuts very hard-shelled. For that reason, many have thought that the babassu-nut and -oil industry is very limited in scope. It may be, but it stands to reason that if the same margin of profit continues to be maintained in the babassu industry, it will be expanded for all it is worth. As a proof that the Brazilian Government is not unaware of this situation, we have recently received word that the State of Pará passed a law on December 17, 1936, extending special favors to a large company which is being formed to undertake large-scale exploitation of the babassu-nut resources of that State. This law contemplates the establishment of two mills, each of 20,000 tons oil capacity *per annum*. With other States in Brazil expecting to do the same thing, it can readily be seen that the babassu-nut industry is in for expansion; and, if the profit is still there, it seems reasonable to suppose that transportation facilities can be supplied and labor and mechanical difficulties overcome.

From an unimportant start in 1934 the babassu-nut industry has expanded to a point where in 1936 the importation into the United States amounted to 58,800,000 pounds and for the first six months of 1937 American imports of babassu kernels amounted to 42,349,000 pounds. In this instance, it almost seems as though the American Government is holding an umbrella over our competitor who is rapidly taking our business away from us. We cannot, therefore, view the babassu situation with any great equanimity.

Now, to turn to the palm-kernel-oil industry. In the first six months of 1936 there were only 2,075,000 pounds of inedible palm-

kernel oil and 3,774,000 pounds of edible palm-kernel oil imported into the United States; whereas for the first six months of 1937 the inedible palm-kernel oil amounted to 73,432,000 pounds and imports of edible palm-kernel oil amounted to 11,113,000 pounds. As for palm nuts and palm kernels, in the first six months of 1936 imports amounted to 4,315,000 pounds, whereas in the first six months of 1937 these imports totaled 41,376,000 pounds.

The situation of the palm-kernel-oil and palm-oil producer is a very pleasant one. Most of the large mills producing these oils are equipped with their own plantations and, as such, are not dependent on the whims of markets but can tell with certainty the exact cost of laying their oil down in the United States from grove to buyer. Such being the case, they are able to sell their oil ahead for far-future position, which puts them at a distinct advantage over coconut-oil mills, none of which own their own plantations but must depend on outside sources for their supplies of copra. Thus, Philippine mills cannot, without rank speculation, sell futures in the same manner as palm-oil and palm-kernel-oil producers, who often sell as much as a year ahead.

Babassu oil is almost identical with coconut oil in composition, and palm-kernel oil is adaptable for most of the uses of coconut oil. Palm oil is a cheaper oil but can substitute in the lower grades of soap and in the edible uses. The competition of these oils, therefore, is a severe matter for the Philippines; and, while babassu oil holds an immediate advantage in that it is free of excise tax, after independence and, in fact, after the export taxes come into effect, palm-kernel oil will also hold an advantage in that there is no duty on palm-kernel oil entering the United States if denatured and for inedible consumption only.

You will see that we are placing our main emphasis on foreign oils. Oil produced in the United States from locally grown seeds is not so competitive because such oil is usually preferred and has greater usage than Philippine coconut oil commands.

Much of the complaint against Philippine coconut oil is in its use in margarine. If you will check up the figures for the first six months of 1937, however, you will see that coconut oil accounted for only 20 percent of the oils and fats entering into American margarine-production, with a very large corresponding rise in cottonseed oil and soy-bean oil. Nor was all this cottonseed oil American-produced. A large part of it was imported from Japan, a 3-cent duty on cottonseed oil being, in dollars and cents, no different from a 3-cent excise tax on coconut oil.

For margarine there are countless other oils and fats available, and the elimination of coconut oil from the packet of margarine will spell no relief for the dairy farmer who feels that margarine forms direct competition for his butter.

In our brief we have stated that the domestic mills located in the United States will achieve no great benefit if the Philippine coconut-oil mills are put out of business. If coconut oil is to be used in the United States in its present quantity—and there is no reason why it should not under the existing laws—then it is certain that additional coconut-oil mills will have to spring up in the United States, located near consumption centers, to take care of the balance of production. Thus, so far as the domestic mills are concerned, instead of competing here with us in the Philippines they will be competing with other mills located throughout the United States. Consequently, it should be more or less immaterial to the existing mills whether the Philippine coconut-oil industry remains in business or not.

We now come to the question of the excise tax. Much has been said about this tax, and it has been generally asserted in a good many quarters that the excise tax has been a good thing for the Philippines because not only has it returned a vast revenue to the Philippine Treasury but also the price of copra to the producers has actually been stimulated since its passage. It is true that the price of copra has increased since the excise tax went into effect, but we strongly contend that this price-increase has occurred in spite of, rather than because of, the excise tax. Drougths in the United States, production shortages in the Philippines, and artificial limitation of American crops, combined with the return of prosperity, are responsible for higher prices—not excise taxes. Excise taxes on coconut oil cannot be responsible, for the price of copra since the excise tax went into effect is far less than the average price of copra for a period of years prior to the imposition of the tax. There is no question but that without this tax the Philippine planter would be receiving more for his copra than he is receiving today. We have contended that, with the return to normal crops and normal conditions and without the intervention of acts of God, the excise tax would depress the price of copra to a marked degree, and unless we are mistaken the tendency today is about to prove that fact. Copra, which in time of scarcity in January was selling for ₱230 a ton, is today selling for a little over ₱80 a ton.

In the very fair brief of the Cottonseed Oil Association,<sup>2</sup> it was stated that cottonseed oil requires the protection of the excise tax which, in the opinion of the association, has also worked for the welfare of the Philippines. It may be that cottonseed oil requires this protection. If so, the Philippine mills are willing to meet the cottonseed mills half way. We do believe, however, that the cottonseed mills are wrong in their statement that the excise tax has, and inferentially will continue to have, a beneficial effect on the Philippine copra-producer.

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<sup>2</sup> See brief of the National Cottonseed Products Association, vol. III.

In the excise-tax law a 2-cent preference was accorded Philippine coconut oil as against coconut oil from other countries. This preference, it was thought, might give the Philippines a copra monopoly and thus enable prices to advance very considerably over those of the world market. The preference loses much of its force, however, when it is considered how many other competing oils and oilseeds carry an excise tax not to exceed 3 cents, which automatically limits the price to which copra can be raised.

Early in 1937 the price of coconut oil was very high, owing both to shortage of copra from the Philippines and to shortage of stocks in the United States. There was another reason for this high price and that was the hope of buyers that the excise tax might be declared unconstitutional. Once the tax was declared constitutional by the Supreme Court of the United States, the value of coconut oil sank appreciably more than the average drop in the inedible-fat group. As a matter of fact, these high prices early in 1937 were a bad thing for the coconut-oil industry in that they allowed foreign competing oils to sell American future requirements at a time when Philippine mills were not in a position to do so.

As indicated above, Philippine coconut-oil mills, although they feel that prior to independence they are entitled to equality of treatment with any other oil or fat produced under the American flag, are not insensible to the particular problems pressing certain domestic oils and fats, notably cottonseed oil, and if some arrangement can be made whereby coconut oil, if denatured and for inedible uses only, can be introduced into the American soap kettle, would be content to yield the preference to domestic oils afforded by the application of the excise tax for edible purposes.

Provided something can be done about the export taxes, Philippine coconut-oil mills can go along pretty nearly as they are now until the coming of independence. After independence, however, what is the position in which we find ourselves? First, we will have a 2-cent duty, and that will surely put us out of business, if applied to our oil irrespective of usage. On top of that we face the question of excise taxes. Whether these taxes will be considered as 3 cents a pound or 5 cents a pound is still problematic, but if they continue in their present form they themselves will prejudice us severely in competition with more favored imports. We therefore find ourselves in a very peculiar and unenviable position in that we are being eliminated from the picture almost unintentionally. We realize that legally we have no definite rights, but we feel that morally we have rights; and we feel that our right is to be allowed, as a minimum, to supply part of the annual American deficiency of oils and fats on at least equal terms with any of our competitors. We are willing that this supply

shall be on a quota basis, if necessary; but we feel that there is just as much reason why we should send coconut oil into the United States as that Africa or the East Indies should send palm oil and palm-kernel oil; or Brazil, babassu oil. The 200,000 tons we are asking for is not a big quantity, and where it comes from will make little difference in the American economy. It will, however, make a tremendous difference in the Philippine economy and to the oil mills here.

The loss of our business will be one more obstacle in the planning of a successful independent Philippines and will be a definite step backward for this country. Once we lose our American market we have nothing to look forward to, because there are no other markets available for coconut oil produced in the Philippines. In general the European markets rarely import oil but prefer to do their crushing at home or to buy their oil, if any is required, from their own dependencies.

To sum up, we do not believe the Tydings-McDuffie act contemplated cutting out Philippine coconut oil. If it did, why were no provisions made to cut out copra as well? And if Philippine copra were to be cut out, why should not other fats and oils be eliminated as well? We believe that Philippine coconut oil has been overemphasized. We believe that it has a real place in American industry, and we are anxious to retain that place for it.

Again we assert that we do not wish to tread on anyone's toes. If the American farmer needs protection, we are willing for him to have it; but we do believe we are entitled to at least an even break as compared with any other fats and oils which the United States must inescapably import.

If the relations between the Philippines and the United States after independence are to be governed by reciprocal trade agreements, which we think they might justly be, then we want our share of the preference in any such agreement, which means the elimination of all duties and a continuance of the present status. If there is to be no such agreement, then the least we should have is equality with our best-favored foreign competitors.

Philippine coconut oil is in a peculiar position. It is about the first industry to be affected by the terms of the Tydings-McDuffie act, and the effect will be to put it squarely out of business. It is the first emergency call for the doctor. It is an industry economically sound in theory and practice and is merely the victim of the vagaries of law. This, we believe, can be remedied to the great good of the industry and the Philippine Islands, without hurting any single American interest. We cannot too strongly urge upon your Committee that our problem be given the consideration it deserves and the remedy it needs.



I am now ready to try to answer any questions which you may care to ask. On behalf of the Philippine Coconut Oil Mills, we request an opportunity to file a supplementary brief at a later date if it seems desirable to do so for purposes of clarification.

Chairman MACMURRAY. I should have asked you at the beginning to sit down, because it is the practice of the Committee to be somewhat informal and the witnesses may be seated. Are you ready to answer any questions, Mr. Day?

Mr. DAY. I will try, Sir.

Mr. DORFMAN. Mr. Day, both in your brief and in your oral presentation, you have suggested that the Philippine crushers would like to have coconut oil, if rendered inedible, exempt from the excise tax. Did you have in mind (1) that coconut oil should be only one among a large number of oils and fats to be exempt from the tax if rendered inedible? Or did you have in mind (2) that only coconut oil, irrespective of origin, should be exempt from the tax if rendered inedible or (3) that only coconut oil produced from Philippine copra should be exempt from the tax if rendered inedible?

Mr. DAY. Well, when the Dockweiler bill was presented, that was supposed to apply to the Philippine oil only and would have given it a definite advantage over all other oils. But it must be remembered that before the excise tax went into effect we were supplying Philippine oil to the United States, and, rather than be prejudiced and put out of the picture entirely, we would be willing to compete with other oils on equal terms, which would mean that after independence, particularly, we might not be able to ask for any special privileges for Philippine oil unless those privileges were based on some kind of reciprocal treaty or reciprocal agreement. Does that answer the question?

Mr. DORFMAN. I wonder if at this time the group which you represent endorses the Dockweiler bill.

Mr. DAY. Yes, we endorse it, naturally.

Mr. DORFMAN. Failing the passage of which, would you endorse a measure which would provide for the exemption of the tax on all oils rendered inedible, irrespective of origin?

Mr. DAY. Well, after independence comes, I do not see how we could fail to endorse it.

Mr. DORFMAN. Prior to that?

Mr. DAY. Prior to that, it seems to me that there should be some preference for the Philippines.

Mr. DORFMAN. I would like to ask a question concerning a statement in your brief. On page 9, at the very end of the last sentence, you state: "With the mill competition removed"—and here you are foreseeing the liquidation of the Philippine crushing-industry—"the

Philippine copra-producer faces the loss of his best customers, which can only be reflected in lower average market prices for his products." Does that mean that in consequence of the mills' being located out here, the Philippine copra-producer receives a higher price than he would otherwise receive?

Mr. DAY. Yes, Sir; I think it gives him more.

Mr. DORFMAN. If he receives a higher price than he would otherwise receive, does that mean the buyer pays a higher price than he would otherwise pay?

Mr. DAY. Not necessarily, because the price advantage is reflected in several things. It is reflected in terms of service as well as in terms of cash. What might be of value to the copra-producer might not be reflected in a final higher price.

Mr. DORFMAN. Would it not be inevitable, though, that if the producer gets a higher price for his commodity, the buyer must pay the higher price and that if the location of the mills here makes for a higher price for copra, the removal of the mills would make for a lower price? Would it not follow, then, that if the Philippine mills were liquidated, the price of copra would be reduced to the American buyers, assuming that this statement of yours is correct?

Mr. DAY. I think that probably it would be.

Mr. DORFMAN. Then the consumers of copra in the United States would benefit in consequence of the mills being closed here. Is that right?

Mr. DAY. I think they would. Somebody would be benefited.

Mr. DORFMAN. You have also advanced the argument that if the crushing-industry were transferred from the Philippines to the United States, the result would be to depress the price of cake and feedstuffs in the United States and therefore injure the farmer who produces such products. In your brief, I believe you have stated that the industry, if transferred to the United States, would probably locate either in the Gulf ports or along the Atlantic seaboard. These areas are normally on an export basis in respect of cake, as you state in your brief, which means that the price of cake on the Atlantic seaboard must be the European price less the cost of moving the cake to Europe. Now, if through the liquidation of the mills in the Islands, the Islands lose their market for cake in Europe, could not the mills on the Atlantic seaboard and in the Gulf ports supply that same market without further depressing the price of cake in the United States, since the price is already on an export basis?

Mr. DAY. Well, possibly in theory that might be the case. But it seems to me that if we find that 100,000 additional tons of meal have to be moved, that is just so much additional competition. And it must also be remembered that copra cake is a low-priced cake as

compared with most other feedstuffs and does not command the same price, so it seems to me that it must be a drug on those markets.

Mr. DORFMAN. I am going to ask one more question, Mr. Day. It was not clear to me, from your brief, whether you felt that the American users of coconut oil bear most of the excise tax, or the Philippine producers. At the bottom of page 15, you state that the producer has obviously borne the brunt of these taxes through lower prices for his copra, and then in the second sentence of the next paragraph, you refer to the increase in the price of coconut oil which operated to make it too expensive for use in any but the most costly soap.

If the Philippine producers bear the taxes—the whole of them—then the price of the oil would not be increased at all. If the American users bear the entire tax, then the Philippine producers would not be injured. What would you estimate was the percentage of the tax borne by the Philippine producers?

Mr. DAY. It is very hard to estimate the percentage of the tax. I do not think that anyone can estimate that with accuracy. But there is no question that the producers are taking a part of the tax. Just where the line is to be drawn, I cannot tell.

Mr. DORFMAN. Would you care to estimate it roughly? Would it be in the order of 10 percent borne by the Philippine producers, or 90 percent?

Mr. DAY. I would think it might be about one half.

Mr. DORFMAN. Then it would not be fair to say that the Philippine producers of copra have borne the entire tax.

Mr. DAY. I do not think we stated that. We said they have borne the brunt of the tax.

Mr. DORFMAN. Thank you.

Chairman MACMURRAY. Are there other questions?

Mr. WARING. Mr. Chairman, just one or two questions. First, Mr. Day, in regard to the price of copra in the Philippines. Has it been affected at all by the 2-cent preferential given coconut oil crushed from Philippine copra? In other words, is Philippine copra sold at world prices, or do producers receive a price premium as a result of the preferential in the United States market?

Mr. DAY. It depends on the competitive position of other oils in the United States; that is, if the Philippines had a monopoly for copra, and the United States could only buy copra to meet that monopoly, then naturally the Philippines would be in a position where they could get a substantial premium ranging up to 2 cents; but when the consumer in the United States can buy something else that suits him equally well, then that preferential is limited to the price at which he can buy the other commodity.

Mr. WARING. It is true, is it not, that Philippine copra-producers must sell not only in the United States market but also in foreign markets?

Mr. DAY. They do so sell.

Mr. WARING. That is, they produce more than enough to supply the demand in the United States market at the present time?

Mr. DAY. Ordinarily, that is true.

Mr. WARING. Then, in order to sell that copra abroad, they must sell it at the world price.

Mr. DAY. Yes, Sir.

Mr. WARING. And consequently, as I understand it, the world prices tend to prevail in the Philippines.

Mr. DAY. Yes, Sir.

Mr. WARING. Therefore, the Philippine copra-producer receives relatively little, if any, of the advantage presumably granted by the preferential rate.

Mr. DAY. It is our opinion that he receives practically no advantage from it.

Mr. WARING. One more question. You stated in your brief that more than 50 percent of the coconut oil consumed in the United States is produced by Philippine mills, and then you pointed out that Philippine oil mills are buying more than one half of the Philippine copra crop. I wondered if you had in mind merely the Philippine copra destined for the United States, or the entire crop.

Mr. DAY. I meant the entire crop, Sir. I have here the figures on that. They show that, for the past 4 years Philippine mills have, as near as we can figure it, bought 51 percent of the Philippine copra crop. They have exported and sent to the United States 41 percent and the exporters have sent in 31 percent, and the foreign business has been 18 percent. Included in the 51 percent, you see, we have also a certain amount of local trade to supply the needs of the country; therefore when we made the statement that we were actually buying a little more than one half of the entire crop, we were correct, and when we made the statement that we were importing into the United States more than one half, we were also correct. Do you care for those figures?

Mr. WARING. We would be glad to have them.

(The following figures were then presented by Mr. Day:)

ANALYSIS OF COPRA PRODUCTION

|                                     | 1933    |         | 1934    |         | 1935    |         | 1936    |         | Total     |         |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|---------|
|                                     | M. T.   | Percent | M. T.   | Percent | M. T.   | Percent | M. T.   | Percent | M. T.     | Percent |
| Copra exports—foreign.....          | 100,752 | 17      | 189,222 | 30      | 44,805  | 8       | 108,565 | 18      | 443,344   | 18      |
| Copra exports—to U. S. A.....       | 208,001 | 35      | 153,484 | 24      | 208,095 | 35      | 182,523 | 30      | 752,103   | 31      |
| Coconut-oil exports—to U. S. A..... | 157,509 | ---     | 135,937 | ---     | 162,181 | ---     | 150,924 | ---     | 606,551   | ---     |
| At 60 percent—equal to copra.....   | 262,515 | 44      | 226,562 | 36      | 270,302 | 46      | 251,540 | 41      | 1,010,919 | 41      |
| Coconut-oil exports—foreign.....    | 2,112   | ---     | 8,899   | ---     | 2,005   | ---     | 7,981   | ---     | 20,997    | ---     |
| Coconut oil—local consumption.....  | 15,000  | ---     | 31,329  | ---     | 37,669  | ---     | 34,534  | ---     | 118,532   | ---     |
| Total—coconut oil.....              | 174,621 | ---     | 176,165 | ---     | 201,855 | ---     | 193,439 | ---     | 746,080   | ---     |
| At 60 percent—equal to copra.....   | 291,035 | 48      | 293,608 | 46      | 336,425 | 57      | 322,398 | 52      | 1,243,466 | 51      |
| <hr/>                               |         |         |         |         |         |         |         |         |           |         |
| Total as copra.....                 | 599,788 | 100     | 636,314 | 100     | 589,325 | 100     | 613,486 | 100     | 2,438,913 | 100     |
| <hr/>                               |         |         |         |         |         |         |         |         |           |         |
| Copra exports to U. S. A.....       | 208,001 | 44      | 153,484 | 40      | 208,095 | 43      | 182,523 | 42      | 752,103   | 43      |
| Coconut-oil exports—as copra.....   | 262,515 | 56      | 226,562 | 60      | 270,302 | 57      | 251,540 | 58      | 1,010,919 | 57      |
| <hr/>                               |         |         |         |         |         |         |         |         |           |         |
|                                     | 470,516 | 100     | 380,046 | 100     | 478,397 | 100     | 434,063 | 100     | 1,763,022 | 100     |

Basis: Reports of Collector of Customs, Manila, except local consumption; Reports of Leo Schnurmacher, Inc.

Mr. WARING. One more question. On page 16 of the brief, you state: "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." Now, I wondered if it might not also be true that coconut oil was diverted into edible uses because the price of other edible oils rose more in proportion than did coconut oil. In other words, that coconut oil for-edible uses was one of the cheaper oils.

Mr. DAY. Yes, that is true.

Mr. WARING. Then the price of coconut oil, when compared with that of other edible oils, was the thing that attracted it into edible uses, and the emphasis might well have been placed upon the attraction offered by the edible field.

Mr. DAY. Yes, because the very fact that the edible market offered higher prices for coconut oil made it impossible for the soap kettle to compete.

Mr. WARING. Thank you, Mr. Day.

Chairman MACMURRAY. Are there further questions?

Mr. DOMERATZKY. Mr. Day, on page 9, at the end of the first paragraph of your brief, you spoke of the \$14,000,000 worth of capital invested in mills which would have to be liquidated on a scrap basis. Is it not quite possible that a good deal of this equipment would go to the mills in the United States?

Mr. DAY. I would say, "No". It would not, for the reason that a good deal of the local machinery is pretty old now, and if I were building a mill myself in the United States, I would not take very much of the machinery we have here at the present time. It would probably be better policy to put in modern plants in the United States, and I do not think that the scrap value of our plants here would be very much. That is not entirely true, because there are one or two mills here with a certain amount of modern machinery which doubtless would be of value.

Mr. DOMERATZKY. I am speaking particularly of the mills which are owned by crushing interests in the United States. They probably would utilize the machinery.

Mr. DAY. They would try to utilize their old machinery, if they could, but I don't think there would be very much they could utilize. The design of the mills here is such that it is not adaptable for any kind of business except for crushing.

Mr. DOMERATZKY. Another question. Speaking of babassu oil, you imply that the increased shipment of babassu to the United States is connected with the new trade agreement. At least I got that impression. Well, as you know, the trade agreement did not change the situation in regard to babassu shipments in the United States; it

merely bound the free admission before the duration of the agreement. Is it your idea that the increased stability was responsible for the increased shipments?

Mr. DAY. No, the increased shipments, according to my idea, were because the excise tax was imposed on the other oils.

Mr. DOMERATZKY. Yes, but the trade agreement did not make any change.

Mr. DAY. I know that to be the case, but the fact of the matter is that, commencing in 1934 with coconut oil and many other imported oils paying 3 cents, babassu oil then had a definite edge of 3 cents a pound; it took the babassumen a year or so to begin to develop, but, naturally, as long as they have their present advantage they will continue to produce it.

Mr. ROXAS. Mr. Day, from the first page of your brief we find what you consider as the fundamentals of Philippine-American trade relations. You make the statement in the first paragraph that the trade relations between the United States and the Philippines, as established in the Independence Act, should not be altered; and in the second paragraph you complain that the export taxes will destroy the coconut-oil industry in the Philippines. Therefore you request the elimination of the export taxes. I would be very happy to hear an elaboration of the argument that you present in those two paragraphs to show that there is no inconsistency in your attitude.

Mr. DAY. Mr. Roxas, I do not care to dodge any responsibility in this matter, but these fundamentals were made up by the Philippine-American Trade Association as what they considered the proper basis of future Philippine-American trade relations. They are not of our authorship; and while I may try to explain these things to you, I think it would be very much better if they should be explained by the representatives of the organization which compiled them. They requested every member submitting a brief to include them as a preface to the brief. In other words, this is not exclusively my personal idea.

Mr. ROXAS. I wonder if the explanation that I shall attempt to make of these two paragraphs will meet with your approval; if I am not right, will you please correct me?

Mr. DAY. Yes, Sir.

Mr. ROXAS. My understanding of your position is that, whereas you believe that the trade relations established by the Independence Act should not be altered to the prejudice of the Philippines, you feel that the provisions of the act which run counter to the evident purposes of Congress should be modified so as to make possible the accomplishment of those purposes.

Mr. DAY. That is definitely true.

Mr. ROXAS. You stated before that you thought that Congress did not want to destroy the coconut-oil industry and at the same time give other industries of the Philippines a reasonable time during which to adjust themselves. You therefore feel that the statement in paragraph 2 is a limitation of the statement in paragraph 1?

Mr. DAY. I feel that the law itself stated that if there were inequalities or injustices it would be possible to discuss them and perhaps iron them out; and it seems to me that, particularly in our own industry, there are just such inequalities and injustices which would exactly meet with the provisions of the Tydings-McDuffie act.

Mr. ROXAS. And you consider the export tax in its application to coconut oil as one of these inequalities or injustices?

Mr. DAY. Yes, Sir, I do.

Mr. ROXAS. And for this reason, you feel that the coconut-oil industry would be destroyed during the first two years of gradual imposition of this tax?

Mr. DAY. Yes, Sir.

Mr. ROXAS. Why do you make that statement, Mr. Day? You say that the margin of profit is small. Will you please elaborate on that point?

Mr. DAY. Well, it is a very highly competitive industry, Mr. Roxas, and if we could average a profit of one eighth of a cent a pound, year in and year out, we would be very happy indeed. Now, then, if we are going to be assessed at the rate of one tenth of a cent the first year and two tenths of a cent the second year, we are definitely out by the end of the second year. We would not be out if other people were in the same position; but the other people are not in the same position.

Mr. ROXAS. But you stated that your profit amounts only to about one eighth of a cent a pound. Is that failure to obtain higher profits due to inefficiency in your industry?

Mr. DAY. No, Sir; it is a very fair profit; it is a very fair profit, indeed. We speak of an eighth of a cent a pound, but as you may know, we are turning out a great number of tons of oil, and that would make a very fair and reasonable profit. It is a question of how much can be turned over at that figure. As a matter of fact, if within reasonable limits we were not as efficient as other mills, we could not last very long. And the reason that the six or seven mills that we have in the Islands today are still operating is that they have met the demands of modern oil-manufacturing and are able to compete on an equal basis.

Mr. ROXAS. What percentage of your cost is represented by wages, Mr. Day?



Mr. DAY. I think we made the statement in our brief here that 90 percent of the cost of a pound of coconut oil goes into raw materials. Of course, that is a generalized statement, because it depends upon whether the price of copra is high or low. If the price is high, then of course the percentage of manufacturing cost is decreased; if the price is low, then of course the percentage of manufacturing cost is increased. On the average, however, 90 percent goes into the cost of raw materials. The other 10 percent then is manufacturing cost, and of that 10 percent we have estimated that approximately 30 percent is labor. Now, then, if you take 30 percent of 10 percent, that makes 3 percent of the total cost of a pound of oil as representing labor.

Mr. ROXAS. Does the difference between the wages in the United States and the Philippines, which represents 30 percent of the manufacturing cost, the total labor cost, is that sufficient to cover these export taxes?

Mr. DAY. Oh, no, Sir. Do you mean to state that our labor cost is so much cheaper than that in the United States?

Mr. ROXAS. I do not say so. I say the difference in wages. Is that sufficient to cover the export taxes?

Mr. DAY. Oh, no.

Mr. ROXAS. Can you give any reason why Philippine coconut oil should pay tariff in the United States and competing oils, such as babassu and palm-kernel oil, should be exempted from the tariff or should be on the free-list?

Mr. DAY. I cannot give any such reason now.

(Mr. Day, on the request of Mr. Roxas, promised to furnish data on this subject. Such data will be found in a letter dated September 20, 1937; see annex to these minutes, *post*, p. 350.)

Mr. ROXAS. Do you know of any economic reason why coconut oil should be on the dutiable list and babassu oil and palm-kernel oil on the free-list?

Mr. DAY. I can figure no reason for that.

Mr. ROXAS. You feel, therefore, that the only reason why coconut oil is on the dutiable list is the effort to protect the coconut-oil-crushing industry in the United States. Is that the only reason?

Mr. DAY. I think it goes back farther than that, Mr. Roxas. I think that when these tariffs were established, particularly the tariff on coconut oil—I do not know how far back it goes—but when it was established it was thought that we had an industry which needed protection both in the United States and in the Philippine Islands. It was before there was any question of independence. Now, that duty has never been changed; it has never been touched.

Mr. ROXAS. Did the Philippine mills take part in the campaign to obtain the imposition of that duty?

Mr. DAY. I think it was before most of us were around here, Mr. Roxas.

Mr. ROXAS. One other question, Mr. Day. In answer to Mr. Waring's question, you stated that Philippine copra is being sold in the United States at world prices. Is that true? is that correct?

Mr. DAY. Mr. Waring's question was whether Philippine coconut oil was generally governed by world prices, was it not?

Mr. ROXAS. Philippine copra.

Mr. DAY. Yes, and I said it was. The market value both in and outside of the United States was governed by the value of other grades of copra.

Mr. ROXAS. Therefore, the differential of 2 cents a pound given to coconut oil crushed from copra in the United States is not effective?

Mr. DAY. I do not think it is worth much of anything.

Mr. ELIZALDE. Mr. Day, if the margin of profit, as you say, is one eighth of a cent, how is it that you can pay higher prices for copra in the Philippines than in the United States?

Mr. DAY. Well, we pay a better average price throughout the year, which is partly translated in prices and partly in services which we give to the customers and which, we believe, are worth money to them, such as credits and other things of that character.

Mr. ELIZALDE. But you also get quality in your copra?

Mr. DAY. Yes, we get quality in our copra. We think it is a little bit higher in quality than can be obtained in the United States.

Mr. ELIZALDE. In other words, the higher prices really paid are for slightly higher-grade copra which would not really bring higher prices if exported but would bring higher prices to you if manufactured here?

Mr. DAY. That is true, Sir.

Mr. JACOBS. Mr. Day, in the first sentence of your brief it is stated that the brief is filed on behalf of the Philippine Coconut Oil Mills.

Mr. DAY. Of all the coconut-oil mills.

Mr. JACOBS. Do you mean all the coconut-oil mills in the Islands?

Mr. DAY. They are all the substantial mills. There are two or three, with perhaps one or two exporters or something of that kind. I suppose they may be called mills, and they are mills; but these are the substantial mills doing export business.

Mr. JACOBS. How many small mills are there?

Mr. DAY. I would say two or three, or maybe four; but they are very small and mostly for local trade.

Mr. JACOBS. On page 18 you list the mills which you are representing. Will you kindly tell the Committee where they are located?

Mr. DAY. Yes, Sir. The Philippine Refining Company, Incorporated, which I represent, is located both in Manila and in Cebu.

Mr. JACOBS. Do you have mills both in Manila and in Cebu?

Mr. DAY. We have mills in both places. Spencer-Kellogg is located in Manila, the Philippine Manufacturing Company in Manila, the Cristobal Oil Mills in Manila, the Luzon Industrial Mill in Manila, and the last two also in Cebu.

Mr. JACOBS. Could you give a general estimate of how many people are employed regularly or part time?

Mr. DAY. Well, it is very hard to tell exactly, but I would say—you mean direct labor?

Mr. JACOBS. Yes.

Mr. DAY. I would say probably not in excess of 5,000 or 6,000.

Mr. JACOBS. Between 5,000 and 6,000?

Mr. DAY. Yes, Sir.

Mr. JACOBS. Part-time and full-time employees?

Mr. DAY. Well, the custom of the mills is to run full time for a period of time, and then we shut down for a while; then we start up again. We operate on that basis—let us say on a basis of 300 to 320 days a year, and our men are working on this basis.

Mr. PAREDES. Mr. Day, you are familiar, of course, with the motives that led to the approval of the oil-excise-tax law in the United States.

Mr. DAY. Yes, Sir.

Mr. PAREDES. Do you believe that the reasons that then existed or that then led to the approval of this oil-excise-tax law still exist?

Mr. DAY. Well, apparently, the reason is to protect the American farmers; the American farmers need more money for their crops.

Mr. PAREDES. Is it correct that our oil competes with the American farm products to such an extent as to make it imperative that our oil should be discriminated against?

Mr. DAY. Well, of course, the American farmers believe that, evidently. But we have not been able to reconcile ourselves to that fact, and we frankly do not believe it. We believe that the difficulty which arises from coconut oil has been very much overemphasized, and that coconut has been blamed for other conditions that contribute to the difficulties of the farmers. But at the same time, in our brief here we have not contended on that particular point. It is very controversial. And also you have received a great deal of evidence on that very question in the United States, particularly in Washington. Personally, we do not believe that the American farmers are harmed at all.

Mr. PAREDES. The Dockweiler bill takes into account the interests of the American farmers, and for that reason it levies tax on edible oil; is that it?

Mr. DAY. Yes, Sir.

Mr. PAREDES. Will not edible oil be just as competitive to American interests as coconut oil?

Mr. DAY. Well, the main complaint in the United States comes from the dairy farmers.

Mr. PAREDES. How about the fats, the garbage fats?

Mr. DAY. Yes, from the garbage companies; but the garbage fats represent a pretty small proportion of the requirement of the soap kettle. The garbage trade has certainly profited from this, but this is not reflected back to the American farmers.

Mr. PAREDES. Does the babassu oil have the same qualities as our coconut oil for manufacturing purposes?

Mr. DAY. It is almost indistinguishable in character.

Chairman MACMURRAY. Are there other questions?

Mr. YULO. Mr. Chairman.

Chairman MACMURRAY. Mr. Yulo.

Mr. YULO. I just want to correct a wrong impression here. I understood all the time that the imposition of the excise tax in the United States was for the purpose of equalizing the production cost of American oil to our coconut oil; so the 3-cent tax is not really a difference of 3 cents a pound in the cost of production of this oil here and the American oil.

Mr. DAY. I do not know the cost of production of American oil, but I do not believe there is such a difference as that. I believe that when this tax was placed on coconut oil, it was not only for the purpose of equalizing production costs, but at the same time to stimulate the prices of American oil.

Mr. YULO. Now, coming back to the fundamentals, in your brief I read in the last sentence of paragraph 1 that your position is that the trade relation in the Tydings-McDuffie act should not be altered "to their prejudice". That means that you are not against the alterations of those provisions, provided that you are not prejudiced against.

Mr. DAY. Yes, Sir, that is evidently true, that any alterations should be no less favorable than the present status.

Mr. YULO. So that in the first paragraph you do not really object to any alterations at all?

Mr. DAY. No, naturally not, if they are not prejudiced.

(Here follows printed brief submitted by the Philippine Coconut Oil Mills.<sup>1</sup>)

Chairman MACMURRAY. The next speaker will be the Honorable Maximo Kalaw, representing the Philippine Coconut Association.

<sup>1</sup> See vol. III.

STATEMENT OF THE HONORABLE MAXIMO M. KALAW,  
REPRESENTING THE PHILIPPINE COCONUT ASSOCIATION

Mr. KALAW. Mr. Chairman and Members of the Committee: I wish to explain first the reason for my appearance today. I appear not as member of the National Assembly but as acting president of the Philippine Coconut Association. This association covers practically all phases of the coconut industry, for we have in our midst industrialists as well as planters. Mr. Day, who spoke before me, is a member of the Board of Directors, and we have also men from the desiccated-coconut industry. However, in as much as these various industries presented their briefs which are now in the hands of the Committee,<sup>1</sup> we have limited ourselves to deal chiefly on the coconut-planters' aspect of the coconut industry, although, as you will notice in our brief,<sup>1</sup> we did say something in general terms on the coconut-oil and the desiccated-coconut industry.

Permit me to say a few words of the nature of our association. Although we represent the biggest single group of the Philippine population, being over four million souls, it is a very young association; and it is different from the other bureaus which represent interests in the American Congress in that it is still a very poor bureau. We are just beginning to organize this big Philippine group which, if properly organized—the four million of them—would be quite a factor in Philippine economy and in other aspects of Philippine life.

I am sure that the American members of the Committee who have traveled in the Philippines, especially those who are here for the first time, have marveled at the immense tracts of land that are covered with coconuts and have admired the beauty of our coconut groves. We of the Philippines love them; our poets have sung praises of their grace; and our thinkers in the past have considered the coconut as a veritable life insurance, as something that should provide for the family during the rainy day. In fact, our Filipino members here would probably recall the statement of our great thinker and philosopher, the late Dr. Pardo de Tavera, when he said that the coconut tree is the lazy man's tree. It is the tree, he says, that retards Philippine progress, for the simple reason that you just plant it and it grows almost by itself; and, then, when the fruiting stage comes it protects the family and insures a constant livelihood.

We want to state that during the recent years, especially in view of the recent legislation that has been approved, more particularly the excise tax, we believe that this old faith of our forefathers in the coco-

<sup>1</sup> See vol. III.

nut and the statement of our thinkers that the coconut tree is the tree that will give us the umbrella during the rainy day, are all false. If the American members have been able to realize the vicissitudes and tribulations of the coconut-planters during the last few years, especially because of the excise tax in operation since 1934, I believe that it will not take them long to see the justice of the plea of the coconutmen.

We have stated in our brief the very apparent injustice of the excise tax that has been levied on the coconut. If we look at it from the standpoint of the burden of taxation, a brief study of the revenue of the Philippines for 1935, when we collected as internal revenues and other incomes of the Government, including the excise tax, the sum of 102 million pesos, will show that 40 million pesos, or 40 percent, came from the coconut industry in the form of excise and other taxes. And we should bear in mind that if 40 percent of the income of the Government comes from this industry already poor in itself, we can see the utter helplessness of the industry in the hands of the Government. Of course, the trouble is that when our coconut-planters appeal to our Government, they are told: "Well, we did not pass this excise-tax law, it was passed by Congress." Every time the buck is passed to Congress. But fortunately we have this Joint Committee of Filipinos and Americans, and I want to tell you that we expect a great deal from this Committee in ameliorating this sad condition of the coconut-planters.

In one part of our brief we have stated that at times the amount of money that the coconut-planter gets from his product is much less than the excise tax the Government levies on it.

I wish to invite your attention to the brief of my colleague, Mr. Day, which gives a more detailed description of how this happens. On pages 27-29, the total amount of excise-tax collection of 48 million dollars from July 1, 1934 to 1937 has been given. As against it, it is true that the value of imports of copra and coconut oil amounted to 57 million dollars. But after deducting the various expenses which will be found in detail in these tables, there is left a net value of copra to be produced here during these years of 44 million dollars; in other words, 108 percent of the value of copra to the producer is reverted to the Government in the form of taxes.

Now, my friends, I would like to call your attention to the fact that this kind of taxation is confiscatory. I believe that no other civilized nation would dare tax a product so heavily, unless it were a product like opium or cigarettes, which are in the way of luxuries. I dare say that no other civilized nation dares to tax a product of prime necessity and of edible value such as coconut at the rate of over 100 percent of its value. I may be wrong, and I would like to be corrected, if that

is not a very vicious practice on the part of the Government, wherever the blame may be, we hope that this Committee will see to it that such an injustice is righted for the coconut industry.

We stated in our brief that, as prices now stand, at 8 pesos a family that is supported by 500 or 600 trees is having a terrible time—and you will be with me when I say that a great many of these coconut-planters are small property-owners; in fact, the figures of the Government show that there are 800,000 families dependent on the coconut industry. A great many of these families own not even 5,000 or 10,000 trees. A great many of them own only a small grove, in 2 or 3 hectares, which was planted to coconut during the time when we had faith in the coconut industry. At that time, with 500 or 400 trees, you could raise a family and even send your children to high school. Now, with this price of copra and with this excise tax—I believe that this excise tax is taking away what should have been the profit of the coconut-planters—I maintain that a family which owns 600 or 500 trees and does not have some extra work can hardly make both ends meet. In the past few years, the people from the coconut regions, where coconut is the chief means of support, have gone through all sorts of privation and almost half starvation. From the figures that we were able to gather on the cost of production of the coconut, in a study made in the Tayabas region, published in the *Agricultural and Industrial Monthly*, an investment of ₱464 a hectare, and of over ₱2 a tree, brings the cost of production to ₱5.60, and the net income is only around ₱69.58 a hectare. Now, if you are with me that the majority of these Filipino planters own only 3 or 4 hectares with 400 or 500 trees, and the number of trees per hectare varies from 50 to 250, you will have to agree with me that the average income is less than ₱200 a year; this will not support a Filipino family which averages five in number. And that is the dire situation in which the Filipino planter finds himself now.

The other very serious grievance that the coconut-planter has is the prohibition in the excise tax that not one cent of this excise tax shall be given as a direct or indirect aid to the coconut industry. We want to compare it, for instance, with how the sugar industry has been treated, whereby, in spite of the fact that the Philippine Government has already spent, out of funds that should not have been taxed, 40 million pesos to build the first sugar centrals, the sugar-people have been given benefit payments; and they were already in a much more prosperous situation. In contrast, the excise-tax law on coconut states that not one cent of it shall be given as a direct or indirect aid to the coconut industry.

In other words, after the Government has squeezed 40 percent of the collection as internal-revenue and excise taxes from the coconut-

men, both industrialists and planters, there is this prohibition that not one cent of this excise-tax collection shall go as an aid, direct or indirect, to the coconut-planter. We maintain that that is the most unfair deal the Government has even given any industry.

Moreover, in the case of sugar, their excise tax is also applicable to American sugar, which makes a difference. The coconut-planters do not question the right of Congress to pass any excise tax. But we maintain that an excise tax, in order to be just and in accordance with the Tydings-McDuffie act, must be applicable to all oils of a similar nature. The excise tax on sugar applies to American and Philippine sugar alike. The excise tax on coconut does not apply to competing domestic oil. Of course, you may say there is a preferential of 2 cents, but that has been discussed by my colleague, Mr. Day, who said that that does not give us a lot of benefit. What we protest against is that there are other oils that are admitted free of duty in the American market, and that domestic cottonseed oil, which is a competitor of the coconut oil, does not pay an excise tax.

Now, there are other things that I should like to say. Another reason why I wanted to appear even as a private citizen is that I think I have a moral duty personally, in as much as at the time when the people were discussing whether to accept or not to accept the Tydings-McDuffie act, which formerly was known as the Hare-Hawes-Cutting act, I, in my humble capacity, was quite busy trying to convince the people to accept it. I maintained then that it would not bring hardship to the people of the Philippines. You might say, What has that got to do with the discussion we have at hand? It has a lot to do with it. When we accepted the Tydings-McDuffie act, it was with the understanding that the only limitation contained therein as to the Philippine coconut was the 200,000 long tons of oil. The rest would go free. Copra would go free to America. We explained that to the people. In articles I tried to explain that, as a coconut-planter, I believed that the Tydings-McDuffie act, formerly known as the Hare-Hawes-Cutting act, was good. It only limited our oil to 200,000 long tons, which was acceptable to the oil people, and it gave no restriction to copra. Copra was to go free.

The excise tax came as an amendment to the Tydings-McDuffie act. Through the excise tax we are squeezed 3 cents a pound, which, as has been shown here, is sometimes more than the value of our own copra or oil that goes to the United States. Therefore, at least so far as we are concerned—and I hope I express the views and sentiments of probably four million people who have suffered through this crisis—we believe that the first step in Philippine economy preparatory to independence is to right this wrong which has been done to the copra industry. We have stated here our recommendations that



in case the Tydings-McDuffie act continues up to the end of the transition period, we believe that the excise tax should be eliminated, at least so far as the non-edible oil is concerned. We believe that the prohibition that the excise-tax fund cannot be used as an aid to the industry should be eliminated and that the export tax on oil and desiccated coconut should also be abolished.

I want to touch a little bit further on number 2, and why we believe, at least, that the excise-tax funds should be allowed to be used as an aid to the coconut industry. I hope the gentlemen, especially the American members, have seen how our poor farmers prepare our copra. It is still being prepared in the most primitive way. Native copra is smoked through a small bamboo oven costing ₱30 to ₱40, making it rancid, blackish in color, and moisture-laden, so that when it reaches the market of the world it is quoted at the lowest price.

Now, we insist that if the copra industry is to suffer so much through taxation by contributing 40 percent of its income, why should not the Philippine Government be allowed to help in the betterment of the copra industry by, for instance, financing copra-dryers all over the Philippines (just as the Philippine Government has financed the sugar centrals) so that, in case of independence and in case we have no preferential trade with America, we may be able to send our copra to the world market in as good a condition as the Ceylon copra or the Malabar copra? I believe that is not very much to ask of the Philippine Government, a government that has been so paternalistic and has helped other industries. Here is an industry on which four million Filipinos depend for livelihood; why should not the Philippine Government help it!

Now, Gentlemen, I will not take a lot of your time because there are plenty of other people who will speak. We believe, therefore, that as a first step in the formation of Philippine economics preparatory to independence, a better treatment of the copra industry should be in order. We believe that it should be the first step. We believe that to give the copra-people a little more money will mean that you give them more money to buy American goods. And nothing, I insist, will do more for a better economic and political relationship between the United States and the Philippines than a fairer treatment of the copra industry, on which four million people depend. I thank you.

Chairman MACMURRAY. Are there any questions to be asked Mr. Kalaw?

Mr. DORFMAN. Mr. Chairman, may I ask a few questions?

Chairman MACMURRAY. You may.

Mr. DORFMAN. You made reference to the fact that the Philippine producers of copra were "squeezed" 3 cents a pound through the excise tax.

Mr. KALAW. I want to say that that is the general feeling. We believe that if that were not imposed upon us, the corresponding amount of money would be added to the price of copra; and while I agree with you that if you technically analyze it and see that some of it would go to the middlemen, roughly speaking it will add to the general price of copra.

Mr. DORFMAN. Granting that, in the absence of the tax, the price of copra would be higher than it is, do you feel that it would be higher by the full amount of the tax?

Mr. KALAW. Probably not as much as that. There will be some other items.

Mr. DORFMAN. About 90 percent?

Mr. KALAW. I suppose so.

Mr. DORFMAN. If that were the case, would you subscribe to the view that the consumption of coconut oil in the United States declined because of the effect of the excise tax?

Mr. KALAW. Yes, most assuredly so, for the reason that, in view of the increase in the price of oil, concerns which used to buy coconut oil were forced to buy other kinds of oil that are cheaper.

Mr. DORFMAN. Well, if the Philippine producer absorbed practically all of that tax, why do you claim that the price of the oil was increased by approximately the amount of the tax?

Mr. KALAW. Well, because we found that to be so, and I was worried myself as to whether, by going into other world markets, we would be able to sell better; but I understand that at times during this year there has been a great deal of copra that was attempted to be sold, or was sold, to other countries than the United States. I do not have the exact figures. But in view of the fact that these different countries have their own trade understandings with these copra-producing nations, you know it is not so easy to shift the channels of trade one way or the other at any time.

Mr. DORFMAN. Perhaps I have not made my question very clear. If the tax is 3 cents a pound, and if the Philippine producers absorb  $2\frac{3}{4}$  cents of that, then the price of the oil to the American user in consequence of the tax is only increased by  $\frac{1}{4}$  of a cent. Is that right?

Mr. KALAW. Well, not exactly. If the coconut-oil producer buys copra at a much higher price, the price here will be the price that will be current also in the United States. In other words, there is not very much difference between the price of copra sold in our local markets and the copra sold in America. I believe that the cost of production of copra will be higher, but, as I said, I am not very familiar with the coconut-oil angle.

Mr. DORFMAN. I was simply trying to present the views that you stated. You cannot have the producers of oil absorb the 3-cent tax

and at the same time have the American consumers pay it—either they must divide or one or the other must pay it.

You have mentioned in your brief under "Salient Points", on page 7: "The excise taxes have not increased the production of American domestic oil but have greatly favored competing foreign products." Would you say that the American farmer did not get a higher price for the oil which he did sell in consequence of the tax, granting that he did not increase his production much?

Mr. KALAW. No, I think he did get a little higher price for his product.

Mr. DORFMAN. But not a very large fraction of the 3 cents?

Mr. KALAW. I cannot say that; but I think that they would get some. But from the figures that we have, it does not show that they have materially increased domestic production. There might be other causes.

Mr. DORFMAN. Of course, the domestic producer could be benefited as much by an increase in the unit price as by an increase in the production, and I think that the unit price did go up in consequence of the tax. Did it not?

Mr. KALAW. Yes.

Mr. DORFMAN. Then it would not be fair to suggest that the domestic producer of fats and oils did not benefit in consequence of the excise-tax legislation.

Mr. KALAW. It did not materially increase the production of domestic oil. That is borne out by the facts. However, that is only what we did say in our brief.

Mr. WARING. In the "Salient Points" of your brief, your first recommendation is: "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 the non-edible oil is concerned." If the excise tax were eliminated on non-edible oil, as proposed in one of the measures submitted to Congress, would it not be true that that would place Philippine coconut oil and copra in a stronger competitive position than it was before the excise tax was imposed?

Mr. KALAW. I do not know how much stronger; naturally, it would better the situation a lot.

Mr. WARING. My point is that the excise tax would remain on palm-kernel oil and some of the other competing oils, whereas it would be removed from coconut oil if rendered non-edible, and therefore the competitive position of coconut oil would be stronger than it was before the imposition of the excise tax.

Mr. KALAW. So far as non-edible oils, yes.

Mr. WARING. Your position on page 8, no. 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 en-

acted", would limit the power of Congress to encourage domestic industries by the imposition of excise taxes, would it not?

Mr. KALAW. Yes, but these recommendations are submitted in consideration of what we all believed would be suggested here, the free entry of American goods into the Philippines.

Mr. WARING. What you have in mind more specifically is Philippine products rather than all foreign products, is that correct?

Mr. KALAW. All Philippine products?

Mr. WARING. Yes.

Mr. KALAW. No; you see, this is a brief for the coconut industry, so we have not studied the aspect of the other products so much. I am not prepared to speak for other products.

Mr. WARING. One other question. On page 10 of the brief, in the last paragraph, you state that "the place formerly occupied by the coconut oil before the imposition of 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 cottonseed oil, or which enters America duty-free, like babassu oil"—that is page 10, the last paragraph. Now, if the place of coconut oil in the United States market was taken by palm-kernel oil and cottonseed oil, which pay the same tax as does Philippine coconut oil, the same change would have occurred had there been no excise tax; is not that true?

Mr. KALAW. I do not think so, if there had been no excise tax.

Mr. WARING. If they both pay the same taxes, that is, if coconut oil and palm-kernel oil and cottonseed oil all pay the same taxes, and there has been a shift in the amount or in the usage of coconut oil, would not the competitive conditions have been exactly the same had there been no excise tax on any of those three oils?

Mr. KALAW. Had there been no excise tax on any of the three oils?

Mr. WARING. Yes. In other words, if the conditions were exactly as they were before the excise tax had been imposed, would not the same shifts have occurred?

Mr. KALAW. If there had been no excise tax on all the three oils, that is, palm-kernel oil, Philippine oil, and cottonseed oil, I think not so far as the edible oil is concerned, because most of these competing oils, except cottonseed oil, do not go in for the edible. I want to say I am not an expert in those things: I am more or less a layman on the general proposition. As to the other point, generally we expect—you see we are always harping on the theory that we protect American goods by bringing them here free—we expect a certain amount of protection for the Philippine products there as against foreign goods. That is our philosophy; that is our stand. So that we expect, as against foreign oil, a little bit of protection just because we in the Philippines also protect your goods without any distinction and without any limitation whatsoever. That is our policy.

Mr. WARING. That I understand, but I thought that in as much as all these oils bear the same tax—

Mr. KALAW. No, because I understand that palm-kernel oil is cheaper—at least, the production cost is much cheaper. In other words, conditions being equal, some of these oils are much cheaper.

Mr. WARING. My point was that the cost of production would have been cheaper whether there was an excise tax or not, and therefore the shift could scarcely be blamed on the excise tax.

Mr. KALAW. The facts are as we found them. I think that the brief on coconut oil states that the amount of decrease in the consumption of coconut oil in the United States is very apparent. I think that the figures would bear that out. Now, for instance, on page 25 of the brief of the Philippine Coconut Oil Mills,<sup>1</sup> you will see that consumption of coconut oil, compared to vegetable oils in the United States, was 36.08 percent in 1931; in 1935 it was 24.01 percent; in 1936, 23.09 percent. And something similar has happened with respect to copra. Copra-consumption in America, compared to all oil-bearing seeds, in 1932 was 42.95 percent; in 1933, 40.45 percent; whereas in 1935 and 1936 they went down to 23.92 percent and 21.43 percent, respectively, which supports our contention that the excise tax has taken away a good deal of the place of coconut oil in the American market. These figures are our proof.

Mr. WARING. One final question. On page 12 of the brief you have the statement in the first paragraph under "*The harm to copra*—The preferential tax of 3 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." That was the point which I asked Mr. Day, and I merely want to get your confirmation of it.

Mr. KALAW. Well, that is what we have said. As I said, reading from the reports of some of the brokers this year, we were forced to sell some copra to other than American markets. Those who will appear after me and who know more about the export side—I do not claim I know a lot—I believe will bear me out; I think there have been recent exports of copra to European markets.

Mr. WARING. In other words, then, the prices prevailing for copra in the Philippines are world prices?

Mr. KALAW. I think so. That is also our conviction.

Mr. YULO. When you stated here that you had campaigned among the people in order that they would accept the Tydings-McDuffie act or the Hare-Hawes-Cutting act, did you mean to say also that you

<sup>1</sup> See vol. III.

accepted the export-tax provisions of those two laws as good for the country?

Mr. KALAW. Well, you know very well, the gentleman knows very well, that I belong to that group of Filipinos who advocated the acceptance of the Tydings-McDuffie act. We accepted those imperfections. I mean we knew that there were imperfections. But the final acceptance of the Tydings-McDuffie act took place when the President of the United States, in a statement made, I think, to President Quezon, said that if there were imperfections in the act he would be willing to recommend those imperfections for correction; and I think that is one of our reasons for acceptance.

Mr. YULO. The salient point of your brief is to urge the elimination of the excise tax on coconut oil and desiccated coconut.

Mr. KALAW. Precisely, based on the statement that if there were imperfections in the bill he (the President) would recommend the correction of such imperfections.

Mr. YULO. Is it your opinion then, Assemblyman Kalaw, that the imposition of the export tax on our products would influence the price of copra in the Philippines?

Mr. KALAW. I think so, because that will be on top of the excise tax; yes, naturally, the export tax will influence the price of coconut products.

Mr. YULO. That is notwithstanding the fact that copra enters the United States free of duty.

Mr. KALAW. Copra enters free of duty. With reference to coconut oil, naturally.

Mr. BENITEZ. In advocating the elimination of the excise tax, what is your attitude toward the foreign oil, that is, foreign coconut oil?

Mr. KALAW. As I said, our philosophy is that in as much as we accept all American goods free of duty we should be given a little protection, even if it is against foreign competing oil. Naturally, we realize that the American concern would be to protect domestic oil first. But we maintain that, in view of the entry of American goods free of duty, in return we should be given protection against foreign competing oil, if not equal conditions, at least a little bit better. I think that is our philosophy.

Mr. BENITEZ. Thank you.

Mr. PAREDES. Dean, I wish you would state your position in the Government and other business organizations for purposes of record. You were Dean of the College of Liberal Arts of the University of the Philippines, was it not so?

Mr. KALAW. Yes, I was.

Mr. PAREDES. And now you are a member of the National Assembly?

Mr. KALAW. Yes.

Mr. PAREDES. And you were also a member of an economic association, a kind of association, we have here in the Philippines?

Mr. KALAW. I do not remember.

Mr. PAREDES. An association of economists, a sort of association of Philippine economists.

Mr. KALAW. I do not recall. There are several here. I might have attended one of their meetings.

Mr. PAREDES. And you are a member of several business organizations?

Mr. KALAW. Yes.

(Here follows printed brief submitted by the Philippine Coconut Association.<sup>1</sup>)

Chairman MACMURRAY. The next speaker is the Agusan Coconut Company to be represented by Mr. J. H. Alley, as general manager.

#### STATEMENT OF MR. J. H. ALLEY, REPRESENTING THE AGUSAN COCONUT COMPANY

Mr. ALLEY. I will just make the statement that we have filed our brief<sup>1</sup> and we endorse the briefs of the Philippine Coconut Oil Mills and the Philippine Coconut Association.<sup>1</sup> I have nothing further to add to them at the present time, but if there are any questions to be asked, I will be glad to answer them.

Chairman MACMURRAY. Are there any questions to be asked of Mr. Alley?

Mr. DORFMAN. I would like to ask some questions. Is it your feeling that the greater part of the excise tax on coconut oil has been borne by the Philippine producers of copra or by the American users of coconut oil?

Mr. ALLEY. The question is theoretical. It is very difficult to specify exactly. To my mind the excise tax is exactly equivalent to putting the Philippines outside of the American tariff wall, and I cannot see, myself, why the Philippine coconut-producers have not borne all the tax.

Mr. DORFMAN. If the Philippine producers of copra had borne all the tax, then the price of coconut oil would not have gone up in the United States at all in consequence of the tax, would it?

Mr. ALLEY. The price of oil is not dependent on the excise tax, but it is dependent entirely on the demand and supply.

Mr. DORFMAN. I say, "in consequence of the excise tax". If the burden were entirely on the Philippine producers, the price would not go up in the United States, would it?

<sup>1</sup> See vol. III; see also annex 2, *post*, p. 352.

Mr. ALLEY. That depends on the other oils and the prices of other oils in the United States.

Mr. DORFMAN. Perhaps I am not making the question clear. I am not concerned, for the moment, with the net result of all the factors which affected the price of coconut oil but merely with the effect of the excise tax on the price of the oil. Now, if we could isolate that factor, would you feel that the tax was borne by the Philippine producers or by the American consumers?

Mr. ALLEY. I do not think that it can be isolated.

Mr. DORFMAN. Is it your feeling, granting that it cannot be isolated, that the Philippine copra-producer, if there were no tax, would now be receiving the equivalent of about 3 cents more than he receives?

Mr. ALLEY. The price of oil in the United States is dependent on crop conditions, on curtailment of production, and on duties and excise taxes. Now, the price of coconut oil has been the result of all those forces. If one force is taken off, it will make a change, but how much change, I cannot say.

Mr. DORFMAN. A moment ago you referred to the excise tax as being the equivalent of a tariff duty.

Mr. ALLEY. Yes.

Mr. DORFMAN. The United States has been on a net-import basis with respect to oils and fats in recent years. So long as the United States is on a net-import basis with respect to fats and oil, would you expect the prices in the United States to be above the world prices?

Mr. ALLEY. It would be world prices plus the transportation cost to the United States; that is, the difference between that transportation cost and other transportation costs.

Mr. DORFMAN. What about the tariff duty?

Mr. ALLEY. Plus tariff duty.

Mr. DORFMAN. Does it mean that the price in consequence of the excise tax—which is the same as a tariff duty—is 3 cents above the world price?

Mr. ALLEY. As I said, the price in the United States is dependent on so many factors that to take one factor as responsible for making the 3-cent difference would be difficult.

Mr. DORFMAN. What effect has the tariff duty on the price of coconut oil which is imported into the United States?

Mr. ALLEY. I only know that, other things being equal, the price of coconut oil is today 3 cents less than it would be if there were no excise tax on Philippine coconut oil.

Mr. DORFMAN. I believe you said a moment ago that you cannot isolate the effect of the excise tax; and now you say that in the absence of the excise tax the price would be 3 cents difference.



Mr. ALLEY. I made that remark in respect of the general excise tax on all oils.

Mr. DORFMAN. You feel then that the Philippine copra-producers have been the principal bearers of the tax?

Mr. ALLEY. I do.

Mr. WARING. In your brief, on page 6, you refer to the fact that palm oil is free of duty if used in the manufacture of tin-plate but that it has an excise tax of 3 cents a pound for other uses. Now in the use of palm oil in tin-plate, is it competitive with coconut oil; in other words, is coconut oil used in that way at all?

Mr. ALLEY. No, it is not, so far as I know. I may also state that there is not a great amount of palm oil used for that purpose.

Mr. WARING. And then on page 7, near the top of the page, you say: "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." Now, what I was at a loss to understand is how it could be a discrimination against the Philippines, if to all intents and purposes, for similar uses, the two oils bear exactly the same tax.

Mr. ALLEY. If you read the third sentence in that paragraph on page 7, we said: "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." That is, the Philippine coconut oil will have to pay the same excise tax and will have to pay also the export tax.

Mr. WARING. That is true; you refer to the export tax and not to the fact that palm oil had increased in importation. I see. I just did not understand that point.

Mr. ALLEY. I mentioned that for the reason that imports of palm oil have increased very greatly in the United States at the present time. It is not a small item.

Mr. ROXAS. Mr. Alley, being the owner or manager of one of the largest coconut plantations in the Philippines, may I ask if it is possible for you to determine your cost of production per ton of copra or per picul?

Mr. ALLEY. I worked out a table some time ago. From an average of the costs of production of four large plantations, those costs amounted to ₱6.54 per 100 kilos in 1934. That was at a time when labor costs were very low. A large share of the cost of producing copra is the cost of labor. It is almost entirely labor on the small plantation, and on the large plantation it is a great share. And labor costs at that time were about the minimum for Filipino laborers to exist.

Mr. ROXAS. Does this cost include interest on your capital investment?

Mr. ALLEY. It includes 6 percent interest *per annum* on an average of 5 pesos per tree.

Mr. ROXAS. About what size of plantation or how many trees were there on those plantations upon which you have based this estimate?

Mr. ALLEY. I should say approximately 250,000 trees.

Mr. ROXAS. On each plantation?

Mr. ALLEY. On the four plantations.

Mr. ROXAS. Do you think that the same estimate of production cost would apply to plantations of smaller size, say with 1,000 trees or 5,000 trees, or would it be more or less?

Mr. ALLEY. The cost of production of copra on small plantations is theoretical only. There are no practical figures that I know of for it. In general, I believe the large plantation can operate more economically than the small one. Many small plantations are owned and operated by one family and they have no costs. That is, they live on their plantation—if they get a little more money they are able to live a little bit better; if they have less money they have to curtail what they consider their necessities. The Bureau of Commerce made some studies of the cost of production in different provinces and the estimates vary from a low of ₱2.98, which I consider absolutely impossible—that is the only one less than nearly ₱5.00—to a high of ₱11.38 per 100 kilos.

Mr. ROXAS. These are the figures of the Department of Commerce of the Philippines?

Mr. ALLEY. Yes, the Bureau of Commerce, I believe. I am not certain whether it is the Bureau of Commerce or the Statistical Division of the Department of Agriculture.

Mr. ROXAS. Your estimate of ₱6.54 per 100 kilos, Mr. Alley, takes into consideration what wages to the laborers?

Mr. ALLEY. Probably a minimum wage of about 30 to 40 centavos a day.

Mr. ROXAS. You say that this is the minimum wage. What would be your average wage from this calculation?

Mr. ALLEY. Most of it is on the minimum basis.

Mr. ROXAS. What percentage of your production cost is represented by your labor cost?

Mr. ALLEY. It is difficult to state. I should say 30 to 40 percent.

Mr. ROXAS. In the manufacture or in the conversion of the coconut into copra, what percentage would be represented by the labor cost?

Mr. ALLEY. On this statement the cost of production was 80 centavos, that was of labor per 100 kilos.

Mr. ROXAS. Do you have the quotation for today of the price of copra, Mr. Alley?

Mr. ALLEY. ₱8 to ₱8.25 per 100 kilos, Riscada, Manila.

Chairman MACMURRAY. Are there further questions? (No response.) Thank you, Mr. Alley.

(Here follows printed brief submitted by the Agusan Coconut Company.<sup>1</sup>)

The Cooperative Coconut Products, Inc., was listed as the next for hearing this morning, but I have received during the hearing a letter dated September 15, 1937, stating in part:

As we already presented our brief<sup>1</sup> to the Committee, which, in our opinion fully covers the points we desire to be given consideration, we beg to inform you that we do not propose to make any verbal statement at the hearing to be held today.

So we come next to the Philippine Desiccated Coconut Industry. We have no indication as to who are their representatives, but it has been requested by the Committee to send a representative in order to answer certain questions. Is a representative present?

(No response.)

Is there present anyone representing the Philippine Desiccated Coconut Industry, in response to the request of the Committee to send someone to answer certain questions?

Mr. KALAW. Mr. Chairman, I received a note here stating that they are satisfied with the mere presentation of a brief. At least one of them wrote me here that their brief will answer any question that is propounded.

Mr. DORFMAN. I may say, Mr. Chairman, that they volunteered to appear to answer questions concerning the brief and were requested to appear for that purpose.

(Here follows printed brief submitted for the Philippine Desiccated Coconut Industry by the Franklin Baker Company of the Philippines *et al.*<sup>1</sup>)

Chairman MACMURRAY. In the absence of an appearance on their part, that concludes our hearing for this morning and the Committee will resume its hearing tomorrow morning, at the same place, at 9 o'clock. This morning's hearing is therefore adjourned.

(Thereupon, at 11:30 o'clock a.m., an adjournment was taken until Thursday, September 16, 1937, at 9 o'clock a.m.)

<sup>1</sup> See vol. III.

## Annex 1

## PHILIPPINE REFINING COMPANY, INC.

Cable address: PHILRECO

General office

1035 Isaac Peral, Manila, P. I.

MANILA, September 20th, 1937.

The Honorable MANUEL ROXAS,  
Joint Preparatory Committee on  
Philippine Affairs,  
Manila, P. I.

DEAR MR. ROXAS:

One of the important questions addressed by you to me Wednesday morning when I was appearing on behalf of the Philippine Coconut Oil Mills was whether the lower-labor cost in the manufacture of oil in the Philippines as contrasted with the labor cost in the United States might not be sufficient to counteract the export taxes. My answer to this question was "No". You asked me if I would elaborate this statement by letter.

It has been generally asserted that, on the average, raw-material costs form approximately 90% of the cost of a pound of oil, that labor costs form approximately 30% of manufacturing costs, and that consequently labor costs account for approximately 3% of the total cost of a pound of oil. These, of course, are average figures, for with manufacturing costs stationary and copra costs going up and down, the percentage of manufacturing cost must increase or decrease in line with the market price of oil.

A check of last year's results at this plant showed a labor cost of slightly over 3%, which, on last year's average oil prices, worked out at very slightly over  $\frac{1}{2}$  cent U.S.C. per pound. This represents direct labor. If we should add certain outside services, most of which are peculiar to Philippine mill operation, the labor percentage might increase from 30% to nearer 40%, but this would make a relatively small difference in the total labor cost per ton of oil.

It is our belief that direct labor costs per ton of oil in the United States are not substantially above these figures. We recognize the fact that the unit labor cost in the United States is considerably higher than it is in the Philippines, but as an offset to that we assert that we require more laborers in the Philippines than are used in American mills. We further believe that the mills in the States are more highly mechanized than the mills here, due in part to the very fact that unit labor costs in the United States are higher than those in the Philippines.

In view of the above, even on the assumption that labor costs in the United States may be higher than in the Philippines, if there is only  $\frac{1}{2}$  cent involved in total, there cannot be enough difference to account for even the first 1/10 cent of export taxes.

The story does not end there, however. It is our contention that while we may have some slight advantage in the matter of direct labor cost, we are at a disadvantage in other items entering into manufacturing costs. Our power costs are undeniably higher in the Philippines than in the United States. Machinery and replacement costs are high here, because of the transportation costs involved and because of the necessity of keeping a much fuller supply of spare parts and equipment than is necessary in the States where access to manufacturers may be had on short notice. In view of the class of labor we are employing, greater and more expensive supervision is necessary. These items, we think, very

largely serve to counteract any labor advantage we may have, and this was the opinion of the Tariff Committee when it investigated milling costs both in the United States and the Philippine Islands in 1932 (see U.S. Tariff Commission Report No. 41). Of course, we cannot with assurance speak for today, but, in our opinion, since that time the situation has not changed appreciably. This point, however, is one which cannot be definitely determined without a direct and impartial comparison of manufacturing costs such as was undertaken in 1932 by the Tariff Commission.

I think it will be plain to you, therefore, that in view of the comparatively small percentage involved, there is nothing in the picture which would indicate that the Philippines, from a manufacturing standpoint, can absorb export taxes for the first year, to say nothing of subsequent years.

There is another question you asked me, which I should like to amplify. When I mentioned an average profit of  $\frac{1}{8}$  cent U.S.C. per pound of oil, you asked me if this small profit resulted from the comparative inefficiency of the local mills. I replied that a profit of  $\frac{1}{8}$  cent a pound is a good volume profit in a highly competitive business, and further that the mills operating in the Philippines are obtaining results comparable with any elsewhere. As a matter of fact, so keen is the competition in this business that any mill failing to extract the maximum oil from the copra at a competitive manufacturing cost cannot live today. A small variation in extraction percentage and any excessive cost will soon take away whatever profit there is in the business. We cannot say what average profit the oil mills located in the United States are making, but we should imagine that they, too, would be well satisfied if they clear  $\frac{1}{8}$  cent per pound on the coconut oil they produce. Mill results must vary to a small degree, and, of course, some mills are more efficient in certain departments than others. This difference, however, cannot be very large either way, for if the advantage were particularly great, then the efficient mill would be rapidly increasing its business at the expense of the others, and if the disadvantage were sufficiently great, then the inefficient mill would soon drop out of the picture. As it is, most of the mills are holding their relative positions, which would seem to indicate a comparatively balanced condition.

Furthermore, the fact that there has not been over 4% variation in the past four years in the percentage of imports of oil from Philippine mills as contrasted with domestic manufacture from Philippine copra, would certainly seem to demonstrate that not only are the mills in each group on a par but that there is little if any difference between efficiency and costs of the two groups—otherwise there would be a decided trend one way or the other. Shipping costs, we may add, are nicely balanced so that there is practically nothing to choose between shipping copra to the United States as such and shipping the resultant oil and meal.

I trust that this information may give you clearer answers to your questions than I was able to convey at the hearing.

Sincerely yours,

KENNETH DAY,  
*General Manager.*

## Annex 2

J. W. FERRIER  
ATTORNEY AT LAW  
702-706 Insular Life Building  
Manila, Philippine Islands

MANILA, P. I., September 10, 1937.

THE JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS,  
*Legislative Building,*  
*Manila, P. I.*

GENTLEMEN :

On behalf of and in representation of the Balabagan Coconut Estates, Inc., and the Callangan Plantation Company, both corporations, the first controlled by American capital and the second by Filipino capital, I have the honor to say that such companies endorse in principle and generally, the statements and contents of the brief submitted to your honorable body by the Agusan Coconut Company.<sup>1</sup>

In this connection, permit me to say further that as an American citizen who came to the Philippine Islands under a promise made by the American Government which was never fulfilled, either in my case or in that of some fifty others who came on the same boat with me and most of whom are still here, either in the cemetery or trying to make a living, I believe all of us, and I am certain that the majority of us now living, are of the opinion that we who came to the Islands at the request of our Government and to do its bidding, are entitled to as much consideration, even though we have remained here, as are those *blocs* in the United States who insist that the United States should get out of the Orient. To give us this protection, it will be necessary that some trade relation exist between the United States and the Philippine Islands. That such a relationship mutually advantageous to both countries and to the inhabitants of each can be made, I am more than satisfied. I am, further, of the opinion that such an arrangement should be made in a spirit of fairness and equity and without taking into consideration politics, either here or in the United States. There is nothing to be gained in the long run by a present political advantage. It is to the future to which both parties should look.

I personally see no reason why the United States should withdraw from the Far East, unless the people there have become such complete pacifists that they desire to imitate Korea and become a hermit nation. I do not believe the United States or the people thereof, in their sober senses, are ready to assume this position or to permit themselves to get into such a condition. All nature shows that living is a constant fight, and the only thing that happens to the pacifist is his ultimate destruction. In my opinion, the United States should stay in the Far East and insist upon all its rights in that region, not alone for itself but for each and every one of its citizens. A proper trade relationship between the United States and the Commonwealth of the Philippines will, in my opinion, prove an aid to this end. It will certainly give us a friend here in the shape of the Filipino people, the only Christian nation in the Far East.

I might pursue this theme at greater length, but I presume you gentlemen have heard it before and will probably hear it many times more. Nevertheless, it is, I believe, a sound principle and one to which you should give the greatest consideration.

Very truly yours,

J. W. FERRIER

<sup>1</sup> See vol. III.

PROCEEDINGS OF SEPTEMBER 16, 1937  
MORNING SESSION

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Thursday, September 16, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 9 o'clock in the morning.

*Present:*

The Honorable J. V. A. MacMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

Chairman MacMURRAY. Before taking up the proceedings this morning, may I remark that there has been very considerable complaint that in yesterday's hearing there were very few who could hear what was being said either by the witnesses or by the members of the Committee questioning? Now, therefore, I ask that both witnesses and members of the Committee have that fact in mind and, perhaps, be particularly careful to speak loudly and distinctly in the hope that their voices may carry a little bit farther in the room.

We have scheduled for this morning the Confederation of Sugar-cane Planters, but a letter has been received that they will be represented this morning, not by those previously announced but by Mr. José Mirasol; the Philippine Sugar Association to be represented by Mr. Alunan and the Honorable Harry B. Hawes; the Johnson-Pickett Rope Company and the General Manufacturing Company to be represented by Mr. John T. Pickett and Mr. Alfonso Z. Sy Cip, respectively; and the Manila Tobacco Association to be represented by

Mr. Manuel V. Gallego, Mr. Carl Timmerberg, Mr. Tomas Fernandez de Castro, Mr. Antonio Escamilla, and, additional to those announced, Mr. Philip S. Frieder.

May I first call upon Mr. José Mirasol, on behalf of the Confederation of Sugarcane Planters.

Mr. Mirasol, you may be seated.

Mr. MIRASOL. Thank you, Sir.

STATEMENT OF MR. JOSÉ MIRASOL, REPRESENTING  
THE CONFEDERATION OF SUGARCANE PLANTERS,  
INC.

Mr. MIRASOL. Mr. Chairman and Members of the Committee: In our brief<sup>1</sup> we have explained as fully as we can the position of the planters in our sugar industry. However, thinking that the members of the Committee might need some explanation on points which, in the brief, may not have been explained clearly or that they may bring up points which we failed to discuss, we requested the privilege of appearing before this Committee. I shall therefore limit myself to answering questions, if there are any, regarding points brought up in our brief; otherwise, we will forego the privilege of oral statement.

Chairman MACMURRAY. Mr. Mirasol is foregoing the making of a statement supplementary to the brief, but is prepared to answer questions by the Committee. Are there any such questions?

Mr. WARING. Mr. Chairman.

Chairman MACMURRAY. Mr. Waring.

Mr. WARING. I have just one or two questions, Mr. Mirasol, in connection with your brief.

Mr. MIRASOL. Yes, Sir.

Mr. WARING. On page 16 of the brief, just before subdivision 3, you conclude a sentence by asking that the Tydings-McDuffie act might be amended so as to permit the free access to the American market indefinitely of the 800,000 long tons of Philippine raw and the 50,000 long tons of Philippine refined sugar. Do you have in mind the continuation of free trade in sugar alone or in all commodities both during the Commonwealth period and after the Philippines become independent?

Mr. MIRASOL. We are speaking here only for the sugarcane-planters and, therefore, we had to limit our discussion of the subject on the planters' interests. As I said, we are representing the planters, but if we have to have a say for the other interests that are affected by

<sup>1</sup> See vol. III: Brief submitted under the Spanish title of the organization: Confederación de Asociaciones y Plantadores de Caña Dulce, Inc.



the economic provisions of the Tydings-McDuffie act, we certainly will also advocate the same treatment that we are asking for sugar.

Mr. WARING. That means that you are advocating the continuance of free trade even after independence?

Mr. MIRASOL. Yes, Sir.

Mr. WARING. Do you realize that that would be a decided departure from the usual practice and policies of the United States in regard to its trade?

Mr. MIRASOL. I know, but we are not sure whether we will have independence in 1946 anyway. That is my point of view, our point of view. We may have independence, but it may not be absolute and complete.

Mr. WARING. The provision of the law now grants independence in 1946.

Mr. MIRASOL. Well, the way I look at it is that the law is not a unilateral law: it is a bilateral law. The United States may not grant complete and absolute independence at all.

Mr. WARING. Another question. On page 17 of the brief you are discussing the cost of production of Philippine sugar as compared with that of Cuba, and you point out that the cost of Philippine sugar exceeds that of Cuban sugar by  $\frac{1}{10}$  of a cent.

I beg your pardon, Mr. Chairman. I have a wrong brief.

Mr. MIRASOL. I was wondering. We do not have that on page 17 of our brief.

Mr. WARING. That is my error. I still have a question, Mr. Chairman. I think I have the correct brief now.

On page 26 of your brief you point out the variation in cost depending upon whether or not the landowner is also the planter and cultivates his own land, or whether the land is leased to a second party. In view of that statement, would not the competitive position of Philippine sugar be improved and the cost of production reduced if the lessees were eliminated from the sugar-production picture?

Mr. MIRASOL. Yes, Sir, but how to eliminate the lessee is the next question, and I may call your attention to the fact that I think about more than 60 percent of the planters in the Philippines are lessees. In Negros alone about 70 percent of the planters are lessees. Now, eliminate the 70 percent of the planters and think what would happen to social conditions.

Mr. WARING. On the next page you make the point that the planter takes certain risks in regard to the weather in the production of his crop and that if he is adversely affected he suffers losses, while the centrals merely forego profits.

Mr. MIRASOL. Yes, Sir.

Mr. WARING. Is it not true that the centrals also have certain fixed charges, certain definite expenses, which exist regardless of whether they mill sugar or do not mill sugar, and that if they mill a reduced quantity of sugar they may also suffer losses?

Mr. MIRASOL. Not to the extent that the planters will suffer.

Mr. WARING. Again on that page you point out that the cost of fertilizer is borne by the planters and that if his crop is increased the benefit is shared with the central.

Mr. MIRASOL. Exactly.

Mr. WARING. Is it not also true that if the central spends money for improvements in machinery which, for example, may increase the quantity of sugar obtained from the cane, the expenditure would be advantageous to the planter?

Mr. MIRASOL. In a way, yes, but since the planters bear all the fertilizer bill, we think that the proportion of cost incurred is greater to the planter than to the central.

Mr. WARING. That is in the case of fertilizers?

Mr. MIRASOL. Yes, in the case of fertilizers.

Mr. WARING. But in the case of improvements in machinery, for instance, the entire cost will be borne by the central?

Mr. MIRASOL. Yes, we know that.

Mr. WARING. On page 29 you point out that the labor in off seasons is used for cultivation, for clearing off weeds, for the repair of roads and bridges, and for the reconstruction of ditches; and then you state that all this tends to raise the cost of production but that it has to be done to help the laborers. Is it not true that a great many of those things would have to be done in any case, as they are normal expenses for maintenance of the plantation?

Mr. MIRASOL. Not necessarily, Sir, because many of those kinds of work—for example, like cultivation—can not be done very often; but, in order to give the laborers work, they have to be done as often as possible. Take, for instance, weeding. Certain weeds can be allowed to grow without affecting the growth of the sugarcane, but they are pulled up and killed because certain planters, not wanting to leave their laborers without any work, may employ them for killing the weeds in the fields. In this case, expenses are practically unnecessary.

Mr. WARING. But the substantial part of that work would have to be done. You will have to repair your roads, bridges, and ditches, and so on?

Mr. MIRASOL. Yes, but a large part of that work is not necessary at all.

Mr. WARING. Now, on the bottom of page 31 and at the top of page 32, you refer to the rigidity of the contract between the planter and the central and to the fact that it is a long-term contract and that its

terms cannot be varied. Is the same thing true concerning the relationship between the lessee and the landlord?

Mr. MIRASOL. It is not true because the leases are usually only for 6 years. The leases are usually for 6 years, and, at most, when a lessee is a relative of the landowner, maybe 10 years; but the average length of ordinary leases is 6 years.

Mr. WARING. So that there is more flexibility in that contract than that with the central?

Mr. MIRASOL. Yes, there is more flexibility.

Mr. WARING. Now, on page 36 you point out that as the export taxes increase, until they become  $\frac{3}{4}$  or  $\frac{1}{2}$  of a cent a pound, the increase will be reflected in a reduction in prices and that the planters will be the heavy sufferers?

Mr. MIRASOL. Yes.

Mr. WARING. Is that not also true in the case of the centrals, that is, that their shares of sugar will be taxed equally?

Mr. MIRASOL. Not so much, I think, with the centrals; because, as we have pointed out here, the planters have certain disadvantages, which result in their income being greatly reduced.

Mr. WARING. You feel, then, that while they would have the same taxes, it would bear more heavily on the planters?

Mr. MIRASOL. Yes.

Mr. WARING. Now, on the next page, at the bottom of the page, you mentioned that if the export taxes are enforced—

Mr. MIRASOL. What page is that?

Mr. WARING. At the bottom of the page, page 37, you mentioned that if the export taxes are enforced, you will have to reduce the number of laborers during the off-season and increase the mechanization of work on the plantations.

Mr. MIRASOL. Yes, Sir.

Mr. WARING. I wonder why, if you could reduce costs by the mechanization of work on the plantation, you have not done so already.

Mr. MIRASOL. Why? Because we have to take care of our labor population. The labor population is uppermost in the minds of the planters. In case the income of the planters is reduced, the planters will be forced to resort to economy; and the first thing they will have to do will be to reduce the number of laborers during the off-season and increase mechanization of plantation work.

Mr. WARING. Do you believe that cost could be reduced by the mechanization of plantation work?

Mr. MIRASOL. Yes, Sir, to a certain extent.

Mr. WARING. One final question. On page 39, first part of the page, you stated that "the sugar industry cannot 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”.

Mr. MIRASOL. Yes.

Mr. WARING. From the standpoint of the United States, if that statement is true, would it not be more beneficial for that country to acquire its sugar from the country with the lowest cost of production and therefore obtain either a lower price or higher duties?

Mr. MIRASOL. Yes, Sir, that is true.

Chairman MACMURRAY. Are there any further questions?

Mr. DORFMAN. At the bottom of page 7 in your brief you give the figure 1,980,000 as the number of persons dependent on the sugar industry, and you quote as authority for that figure the Report of the United States Tariff Commission. You reproduce in your brief the same table that was contained in that report, except that you do not have in it a footnote stating that the figures were based on estimates supplied by the Philippine Sugar Association.

Mr. MIRASOL. That is an omission for which we apologize.

Mr. DORFMAN. So the figures which you present are not those which the Tariff Commission represents as accurate, but rather those which the Philippine Sugar Association so represents?

Mr. MIRASOL. Yes, Sir.

Mr. DORFMAN. In arriving at that estimate, the Philippine Sugar Association calculates that for every person working in the sugar industry there are five dependents, so they multiply by six the number of persons actually employed to arrive at the total number dependent on the industry. Do you believe that for every person employed in the sugar industry there are five others dependent upon him?

Mr. MIRASOL. From actual experience, the way we are running the plantation, in Negros, for example, there are more than five actually dependent on a laborer. The laborer may have a family of six or seven, but as a general average we may accept this figure.

Mr. DORFMAN. If the laborer has a family of five or six, would that mean that if he works on the plantation no one else in the family works on it?

Mr. MIRASOL. If the children are small, how can they work?

Mr. DORFMAN. Could he not possibly have a brother, a father, or a son who might work?

Mr. MIRASOL. The oldest son, about 14, may work—not necessarily as a plantation laborer but as a guard for cattle and *carabaos*.

Mr. DORFMAN. What would be the average size of the family of these people?

Mr. MIRASOL. I am going to cite my own case, on a small plantation; the family consists of husband and wife with five children all below 10 years.

Mr. DORFMAN. Do you have any families with children over 10 years?

Mr. MIRASOL. Yes, we have. In such case, children over 10 years help their father and mother, if they are out of school; but if the children are in school, how can they be of any help?

Mr. DORFMAN. Would not there be many families that have children, say, 18, 19, or 20 years old who could help?

Mr. MIRASOL. When they are 18 or 19 they are married and they live independently from their folks.

Mr. DORFMAN. Well, at least, when they start out as married people we will assume that they do not have five or six dependent children, so would not that average be a little too high?

Mr. MIRASOL. Maybe, but we accepted the figure as being reliable because it has been produced by men who are supposed to be authorities on the subject.

Mr. DORFMAN. Thank you.

Mr. YULO. When you speak about leases, do your lessees in Negros have any permanent improvements which are introduced by the company?

Mr. MIRASOL. Yes; for example, houses and quarters for laborers; the bridges they built over small creeks, and also roads, plantation roads.

Mr. YULO. What would be the proportion of their investment in the plantation that they work compared to the value of the land?

Mr. MIRASOL. That I cannot answer right off, because we have no figures on that. But I think I can give you a little information on that. A planter having a quota of 3,000 piculs, we figure, has an investment in improvements worth about ₱5,000.

Mr. YULO. Are not most of those improvements already on the land when the lessee takes the land over?

Mr. MIRASOL. They may be there, but they have to be repaired and to be taken care of.

Mr. YULO. What is the usual procedure in these leases, in turning over the land?

Mr. MIRASOL. Usually, all the improvements are left with the land-owner.

Mr. YULO. How about the work animals?

Mr. MIRASOL. It depends on whether the lessee wants to quit planting sugarcane, in which case he sells them to the owner of the plantation or to others who might need the work animals.

Mr. ROBBINS. Mr. Mirasol, do you own the land on which you produce sugar?

Mr. MIRASOL. Yes, Sir.

Mr. ROBBINS. What would you consider a fair market value per hectare for a typical piece of land in your plantation at the present time?

Mr. MIRASOL. I have recently bought a piece of land having a quota of 138 piculs—and it is 5 hectares altogether—costing me ₱2,000. The quota now is the basis for transaction in certain districts. That is, if the land is bought with a quota, the price is as high as 19 pesos per picul, including the land.

Mr. ROBBINS. Now, this land, if I understand correctly, costs about ₱400 per hectare with the quota right?

Mr. MIRASOL. The quota right was 138 piculs, but we bought the land, not precisely for the quota—because it is a small one—but for the rice land.

Mr. ROBBINS. That does not exactly tell me what I wish to figure out. What would be a fair market value for land used for sugarcane exclusively?

Mr. MIRASOL. If it is used for sugarcane exclusively, the market value would run as high as ₱1,000 per hectare.

Mr. ROBBINS. If for any reason, the production of sugar should become non-profitable, how much loss would be incurred in its market value; what would that same land be worth in the open market for the production of some crop other than sugar?

Mr. MIRASOL. 100 to 150 pesos per hectare.

Mr. ROBBINS. So that you would lose ₱850 to ₱900 per hectare in your investment?

Mr. MIRASOL. Yes.

Mr. ROBBINS. If you were unable to produce sugar, what crop would be the most profitable to plant on your land?

Mr. MIRASOL. Well, perhaps legumes and the fruit trees.

Mr. ROBBINS. Now, what does that difference in market value represent? The land may be worth ₱1,000 per hectare for the production of sugar, but only ₱100 to ₱150 for the production of the next most profitable crops. What would this difference represent?

Mr. MIRASOL. It represents the free market for our sugar in America.

Mr. ROBBINS. Would you say that it represents the capitalized expected future profits from the sugar-production as compared with capitalized expected future profits possible from other crops that could be produced?

Mr. MIRASOL. It may be interpreted in that way.

Chairman MACMURRAY. We cannot hear very well the questions and answers here.

Mr. ROBBINS. I was merely asking, Mr. Chairman, what the difference in the market value of land used for sugar and used for other most profitable crops represents, and he indicated his belief that the

differential in values represents the capitalized additional profits of the sugar crop.

Mr. MIRASOL. Maybe so.

Chairman MACMURRAY. Any further questions for Mr. Mirasol?

Mr. ROXAS. Mr. Mirasol, when you stated that independence may not come in 1946, were you expressing a situation which was within the realm of possibility, or were you expressing the pious expectation of a few people, or were you assuming that that was the probability?

Mr. MIRASOL. Within the realm of possibility.

Mr. ROXAS. In other words, you stated, if I understood you correctly, that you thought the political question of independence was to be decided not merely by the Filipinos but also by the United States.

Mr. MIRASOL. Exactly, Sir.

Mr. ROXAS. And you stated that the United States might change its mind on the matter. Is that what you intended to say?

Mr. MIRASOL. Yes, or the Filipinos themselves might change their minds too. We do not know. It is still eight years hence, and we can never tell what is going to happen.

Mr. ROXAS. But you do not mean to imply that the present Independence Act does not definitely provide for independence in 1946?

Mr. MIRASOL. Yes, it does so provide.

Mr. ROXAS. In other words, if the present law is not modified, the Filipinos will become independent in 1946.

Mr. MIRASOL. Most likely.

Mr. ROXAS. Will you tell me if the sugar-planters are managing their plantations, having in mind independence in 1946?

Mr. MIRASOL. Some of them, at least, are making investments in other industries.

Mr. ROXAS. In other words, if I understood you correctly, all the sugar-planters in the Philippines have in mind that independence will come in 1946 and that, upon the advent of independence, preferential trade with the United States will stop; is that correct?

Mr. MIRASOL. We do not know anything about preferential free trade yet.

Mr. ROXAS. But under the provisions of the Independence Act, is it not true that preferential trade would stop in 1946?

Mr. MIRASOL. Do you mean the present limited free trade? Yes, it would stop. We know that.

Mr. ROXAS. Are the sugar-planters doing anything to readjust their farms and their production costs so as to meet the changes that are outlined in the Independence Act?

Mr. MIRASOL. Some of the planters who are at the same time land-owners are trying to diversify their crops. Some of them, for example, are planting coffee and other fruit trees; but since the majority

of our planters are lessees, why, any improvement of that kind which they would put on their farms would be useless to them, so they are practically doing nothing toward that end.

Mr. ROXAS. Do you mean to imply that the planters are not doing anything to reduce their production cost on the sugar plantations?

Mr. MIRASOL. We have been doing that all along by introducing new varieties of cane, but the varieties of cane that we have here now under cultivation probably are not the variety that would reduce production cost to the point that our sugar could compete with that of other sugar-producing countries in the open market.

Mr. ROXAS. But just the same, are the planters doing everything that they can to reduce their production cost? Are they, or are they not?

Mr. MIRASOL. They are.

Mr. ROXAS. When you stated that through the introduction of machinery in the plantations you could reduce your labor cost, what did you really mean? What kind of machinery would you introduce to reduce labor costs beyond those that are now being used on the most efficient plantations?

Mr. MIRASOL. Why, tractors and cultivators; these would eliminate labor, a large part of the work done by hands.

Mr. ROXAS. Do you mean to say that the large plantations are not using tractors?

Mr. MIRASOL. They are using them, but not to the extent that they should, because they do not want to throw out the laborers from their plantations.

Mr. ROXAS. In other words, they refrain from introducing more machinery because they do not know what industries, if any, might absorb the laborers that would be turned out from these plantations?

Mr. MIRASOL. Yes, Sir.

Mr. ROXAS. To what degree can you reduce labor costs, if you introduce more machinery?

Mr. MIRASOL. That we have not figured out, because actually most planters have not thought of that. They think, first of all, of the laborers that are depending on them.

Mr. ROXAS. What size of plantations do you think might be able to introduce machinery? Do you think all the plantations, even those that are only 5 or 10 or 15 hectares?

Mr. MIRASOL. No. But from a 5,000-picul quota, a planter may use a tractor; but a small planter might use a tractor by hiring it from other planters who have tractors. Actually, there are certain places where—centrals, for example, which are running a plantation of their own—the planters are hiring tractors from the centrals.



Mr. ROXAS. Would that imply that the big plantations would have more tractors than they actually need, in order that they may hire these tractors to other plantations?

Mr. MIRASOL. Not only more tractors, but more mechanical cultivators.

Mr. ROXAS. But you cannot state to what degree labor costs could be reduced?

Mr. MIRASOL. I cannot because we have not figured it out.

Mr. ROXAS. Now, what percentage of the sugar produced in the Philippines is produced on plantations with a quota of more than 5,000 piculs?

Mr. MIRASOL. About 12 percent, I think.

Mr. ROXAS. With more than 5,000 piculs?

Mr. MIRASOL. Yes, Sir.

Mr. ROXAS. In other words, 88 percent of the sugar produced in the Philippines is produced on plantations with a smaller quota and, therefore, according to your testimony, if I understood you correctly, the planters could not introduce more modern and more efficient methods of machinery except so far as they might be able to use machinery acquired by the larger plantations. Is that correct?

Mr. MIRASOL. Yes, but the result of that would be this: That the small plantations and their quotas will be absorbed by the bigger planters, and then we will have a concentration of the benefits of the industry in the hands of a few.

Mr. ROXAS. And do you want that?

Mr. MIRASOL. We do not want that.

Mr. ROXAS. Do you make the assertion that the introduction of more efficient methods would necessarily bring about a concentration of plantations into fewer hands?

Mr. MIRASOL. I think so.

Mr. ROXAS. Why?

Mr. MIRASOL. Because if our sugar will have to compete with a lower-production-cost sugar in American and in other markets, the small planters whose costs of production are much higher than those of large planters would have to be eliminated. The lessees also will have to be eliminated. Then, we will have the problem of unemployment, not only of lessees and small planters but of a large number of laborers.

Mr. ROXAS. Is the system of leasing land for the sugar-production so well established in the Philippines that the lessees may not be eliminated without disrupting the whole system?

Mr. MIRASOL. So well established that I do not know how it can be eliminated without disrupting the social system.

Mr. ROXAS. In other words, the landowners do not cultivate their own land but lease these lands to other people who produce the sugar?

Mr. MIRASOL. Yes, although I have stated in the beginning that we have also many landowners who are planters at the same time.

Mr. ROXAS. Is that a system that has existed in the Philippines for many years?

Mr. MIRASOL. Since I came to my age, that is the system that I have known, not only in Negros and Panay, but also in Luzon, where I have been.

Mr. ROXAS. Does that system prevail within the sugar industry to the same extent or, approximately, to the extent that it prevails in the rice industry?

Mr. MIRASOL. I cannot answer that question, because I do not know much about rice these days.

Mr. ROXAS. But you said that about 70 percent of the plantations in Negros are cultivated under the lease system.

Mr. MIRASOL. About 70 percent are lessees, yes. But not 70 percent of the plantations, because a plantation may be divided into several small units leased to different persons.

Mr. ROXAS. Do you mean to say that 70 percent of the sugar produced in Negros is produced on farms that are leased from their owners?

Mr. MIRASOL. No. 70 percent are lessees. Now, their production may not be 70 percent of the total crop.

Mr. ROXAS. Do you have any figures to show how much sugar is produced by this 70 percent who are lessees?

Mr. MIRASOL. Do you want to know how much sugar is produced by this 70 percent who are lessees?

Mr. ROXAS. In the island of Negros, for example, you said that 70 percent of the planters are lessees. Now, what percentage of the sugar produced in the whole island of Negros is produced by this 70 percent who are lessees?

Mr. MIRASOL. I cannot give the figures right offhand, but I think I have figured that out somehow; however, right now I cannot produce the figures because I do not have them here.

Mr. ROXAS. I think it would be very convenient for the record if we could have those figures later on, in order to complete your testimony.

Mr. MIRASOL. I will see if I have the data right here in Manila; they might be in Negros.

Mr. ROXAS. Now, these lands that are now worth ₱1,000 per hectare planted to sugar with a quota, will you tell us how much these lands were worth before the establishment of the quota, after they had been planted to sugar?

Mr. MIRASOL. Referring to my own case, I suppose.

Mr. ROXAS. No. I am referring to sugar lands in general. I would like to make my question more clear. You stated that today a hectare of land with a quota is worth on an average of ₱1,000 per hectare.

Mr. MIRASOL. Yes, Sir.

Mr. ROXAS. Would you know how much this same land was worth, say, in 1932 or, say, in 1930?

Mr. MIRASOL. Well, there is practically little difference, I think, little difference.

Mr. ROXAS. In other words, it is your statement that the value of sugar lands in the Philippines has not materially increased since the adoption of the quota system?

Mr. MIRASOL. Very little, if any, at all.

Mr. ROXAS. Will you also tell me, if you know, whether the present plantations, or the majority of the present sugar plantations, were purchased by the present planters at a price approximately the same as you have just stated?

Mr. MIRASOL. Possibly less: I think less.

Mr. ROXAS. How much less?

Mr. MIRASOL. That I cannot say exactly because the transactions are not open to the public. The only way to find that out would be to go to the records of the register of deeds.

Mr. ROXAS. How have the planters been financing their plantations? Do the planters owe money to banks, or to sugar-exporters, or to other sugar businessmen?

Mr. MIRASOL. Yes, we have several financing firms in the Philippines. In the south, Iloilo and Negros, we have the Philippine National Bank, Warner Barnes & Company, the Tabacalera, and Ker & Company. The three last firms are exporting sugar. They are financing the planters; they are advancing money to the planters on their crop.

Mr. ROXAS. Do you know what is the total of this indebtedness of the planters?

Mr. MIRASOL. I do not know exactly. It is quite a lot, I am sure.

Mr. ROXAS. Are there no figures in your association to show in round numbers an estimate of the total indebtedness?

Mr. MIRASOL. I think we have here a figure which shows that around 45 million pesos a year is advanced to the planters as crop loans.

Mr. ROXAS. There are 45 million pesos credited, advanced to the planters in the nature of crop loans?

Mr. MIRASOL. Yes.

Mr. ROXAS. Those are yearly credits, are they not?

Mr. MIRASOL. Yes.

Mr. ROXAS. They are paid from year to year?

Mr. MIRASOL. Yes, they are paid from year to year and renewed from year to year also; and if the planter is a lessee and continues to plant cane, his crop-loan allowances also continue.

Mr. ROXAS. In addition to these crop loans, are not the plantations that are now planted with sugarcane mortgaged?

Mr. MIRASOL. Yes, they are offered as securities.

Mr. ROXAS. Do you have any figures to show the mortgages that weigh on these lands?

Mr. MIRASOL. We have none because we have to go to the register of deeds to get all these figures, and it is quite a task.

Mr. ROXAS. You cannot even estimate roughly the amount of this indebtedness?

Mr. MIRASOL. I would not dare.

Mr. ROXAS. Are these mortgages based on the present value of the lands, as you have stated, or on the value of the lands, say, 10 or 15 years ago?

Mr. MIRASOL. On the present value of the land.

Mr. ROXAS. On the present value of the land. In other words, if these sugar lands should depreciate in value, what would happen to these mortgages?

Mr. MIRASOL. They would be liquidated.

Mr. ROXAS. Would the value of the land be sufficient to pay these debts?

Mr. MIRASOL. Ten years hence, if we have no more sugar on these lands, why the value of these lands would not pay for the mortgages at present.

Mr. ROXAS. In your brief, Mr. Mirasol, on page 26, you state that the landowner planter with a 55-percent plantation-milling share has a cost of production of ₱6.05 per picul, whereas the lessee planter with a 55-percent plantation-milling share, who pays 15 percent rent, has a cost of production of ₱8.32 per picul.

Mr. MIRASOL. Yes.

Mr. ROXAS. The difference is ₱2.27.

Mr. MIRASOL. Between the lessee and the landowner planter.

Mr. ROXAS. Does the ₱2.27 per picul represent the value of the rent paid by the lessee to the landowner, according to your estimate?

Mr. MIRASOL. No, in this figure the rent paid is already excluded.

Mr. ROXAS. I believe I have not made my question clear. You say that the planter who owns the land and who pays 45 percent of his production to the central retains 55 percent himself as cost of production of ₱6.05.

Mr. MIRASOL. Yes, Sir.

Mr. ROXAS. That same planter, who does not own the land but who pays 15 percent rent, has a cost of production of ₱8.32.

Mr. MIRASOL. Yes, Sir.

Mr. ROXAS. My question is this: There is a difference of ₱2.27. Does that amount represent the 15 percent that is being paid to the landowner, or does it not?

Mr. MIRASOL. It does not.

Mr. ROXAS. What does ₱2.27 mean then?

Mr. MIRASOL. It simply represents the difference in the cost of producing the planter's share when one is a planter and the other is a lessee, if the lessee is paying 15 percent rental. Now, I do not know if I have made myself clear, but we figure this out in the cost of production after we have taken the rental.

Mr. ROXAS. The man who produces at ₱6.05 does not pay rental?

Mr. MIRASOL. No.

Mr. ROXAS. The man who produces at the value of ₱8.72 pays rental?

Mr. MIRASOL. Yes.

Mr. ROXAS. Therefore, the difference of ₱2.27 is represented by the rental, is it not?

Mr. MIRASOL. No, Sir, the amount represents the cost to the lessee of producing the sugar paid as rent to the landowner. It is borne by the planter and should be added to his expenses.

Mr. ROXAS. A hectare produces on an average how many piculs of sugar?

Mr. MIRASOL. It depends; there are so many factors.

Mr. ROXAS. What would you say would be the average yield in Negros with regard to those lands that pay 15 percent rent?

Mr. MIRASOL. 86 piculs per hectare.

Mr. ROXAS. In your brief you stated that if the export taxes provided in the Independence Act are not eliminated, the industry will be wiped out before 1946.

Mr. MIRASOL. Yes.

Mr. ROXAS. When you made that statement, did you have in consideration the present excise tax?

Mr. MIRASOL. No; that is why we stated farther on that if the export taxes should continue with the excise tax also, the planters would be bearing two heavy taxes, two additional heavy taxes.

Mr. ROXAS. 25 percent of the present duty which would be imposed at the end of the transition period would mean an imposition of about ₱1.31 per picul?

Mr. MIRASOL. 25 percent; yes, Sir.

Mr. ROXAS. And you say that that imposition would practically wipe out the sugar industry?

Mr. MIRASOL. Yes, Sir.

Mr. ROXAS. The present imposition of the excise tax is about ₱1.40 per picul.

Mr. MIRASOL. Excise tax, yes, ₱1.40.

Mr. ROXAS. Why should the imposition of ₱1.32 wipe the whole industry out and the imposition of ₱1.40 not have that effect? Will you explain that?

Mr. MIRASOL. The excise tax may have the same, perhaps worse, effects than the export tax.

Mr. ROXAS. In other words, if they collect the ₱1.40 this year, as they will, you expect that many of the planters will not be able to recover the production cost; is that true?

Mr. MIRASOL. Yes, the small ones specially, the small ones who have a higher cost of production, and the lessees.

Mr. ROXAS. Those that produce at ₱6.05 per picul, would they be able to absorb the ₱1.40 excise tax if sugar prices in the United States do not change?

Mr. MIRASOL. They may be able to absorb the tax by economizing labor in the plantation.

Mr. ROXAS. They could?

Mr. MIRASOL. They may; I did not say they could. They may be able; we do not know. The planters will have to try to make both ends meet in this case.

Mr. ROXAS. If, in addition to the excise tax of ₱1.40, export taxes amounting to ₱1.31 are collected at the beginning of 1946, do you know what would happen to the industry? That would make a total of ₱2.71 per picul.

Mr. MIRASOL. Yes, Sir.

Mr. ROXAS. What would happen?

Mr. MIRASOL. The industry would be wiped out.

Mr. ROXAS. Entirely?

Mr. MIRASOL. Well, we never can tell because our sugar-production is cooperative. The centrals may be able to stand on their own feet, and in that case a little of the industry may be left; also the large producers might be able to get along.

Mr. ROXAS. What would happen to the small producers?

Mr. MIRASOL. The small producers would be wiped out, that is sure.

Mr. ROXAS. What do you call "small producers"?

Mr. MIRASOL. Planters who are producing less than 3,000 piculs.

Mr. ROXAS. You believe that, with the excise tax of ₱1.40 and the export tax of ₱1.31, all planters producing less than 3,000 piculs would have to stop planting?

Mr. MIRASOL. I think so. They will have to stop planting. Then their quota and their lands will have to be absorbed by the bigger planters who can produce at a lower cost, and then, again, we will have what I have stated before, the concentration of the benefit of the industry in the hands of a few.

Mr. ROXAS. How would that process take place, if you have studied that question, as I believe you have, Mr. Mirasol? Let us take a typical central, say, Bacolod-Murcia.

Mr. MIRASOL. Yes; they have many small planters.

Mr. ROXAS. You said that as soon as these duties are collected from the sugar produced by the planters in that section, the small planters will gradually fall by the wayside.

Mr. MIRASOL. Yes.

Mr. ROXAS. What would happen to their quotas or their land?

Mr. MIRASOL. Their land will be absorbed by the bigger ones.

Mr. ROXAS. What do you mean when you say "absorbed"?

Mr. MIRASOL. The land will be bought, and their quotas also; actually those having 10 or 15 piculs or more will be gradually eliminated, because the land and quotas will be bought by the large producers.

Mr. ROXAS. And what price would be given to the land planted to cane by these small planters, who cannot reduce their production cost so as to meet this imposition?

Mr. MIRASOL. It all depends on the situation in which the planter will be found. If he is badly in need of disposing of his property, why, he will sell it at any price and the value will be low.

Mr. ROXAS. Do you think that in a central like the Bacolod-Murcia, where there are so many small planters, this process of consolidation of the farms in fewer hands can go on in an orderly manner and the central be able to produce the same sugar that it is producing now?

Mr. MIRASOL. It remains to be seen, because we do not know what these people who are going to be eliminated will do. They may become radical leaders, and it is hard to foretell what is going to happen. But one thing is sure—we will have a sort of disorganized economic system productive of discontent and all other consequences of unemployment, and a low standard of living.

Mr. DOMERATZKY. Mr. Mirasol, in answering one of the questions asked by Mr. Roxas in regard to the extent to which planters are beginning to adjust themselves to the future relationship, you said that it makes a difference whether the planters bought the land or leased the land—that the lessee could not change the cultivation in any way; and in your table on page 26 you also show that the lessee's cost of production is higher than the cost of production of the man who owns the land.

Would it be a fair inference that the leasing system is making more difficult the adjustment of the sugar industry to the future relationship between the United States and the Philippines?

Mr. MIRASOL. I should say so, Sir.

Mr. DOMERATZKY. Another question. When you were discussing the possibility of using machinery, you pointed out that smaller plant-

ers would not be in a position to make use of it and that sometimes they hire it from the centrals which have the machinery. Would it not be possible to introduce a system of cooperative use of machinery by which small planters would get together and acquire a large mechanical unit that they could all utilize on a cooperative basis?

Mr. MIRASOL. As you are doing in California. I think that it is possible, it may be practicable; but then the charge to the planters for the use of the machinery may not be as low as it is now, where the central has machinery for hire.

Mr. DOMERATZKY. Do you mean to say that perhaps a better system would be for the centrals to acquire more machinery and rent it to the small planters?

Mr. MIRASOL. I would not say that, Sir, but the other system would be worth trying; it might succeed.

Mr. JACOBS. Mr. Mirasol, what is your opinion, if you have such opinion, as to the proportion of the Philippine sugar industry which could operate after the termination of the free trade with the United States, if appropriate adjustments were introduced? In other words, after the termination of free-trade relations and after proper adjustments in the industry, what percentage of Philippine industry could survive?

Mr. MIRASOL. It depends on the adjustment; if the adjustment did not include a preferential tariff, I think a very small portion of the industry would be left—it might be just enough for the domestic need of the country.

Mr. JACOBS. In other words, you feel that the export trade would be completely wiped out.

Mr. MIRASOL. That is what we are fearing.

Mr. JACOBS. Do you feel that there are no adjustments that can be made to preserve some part of the export trade?

Mr. MIRASOL. We cannot think of any right now.

Mr. BENITEZ. Will you give me your own arguments to meet the general impression in the United States that the price premium paid to Philippine sugar in the American markets is enjoyed only by a few and not shared with the laborers? There is such an impression in the United States. What would be your answer to that if you were in the United States confronted with that situation?

Mr. MIRASOL. You mean that laborers in this case are not given the share that is theirs?

Mr. BENITEZ. Yes. This advantage that we have in the American markets for our sugar is enjoyed only by a few—how would you meet that allegation?

Mr. MIRASOL. That it is enjoyed by a few only is not quite correct, because we have 24,000 planters and many thousands dependent on



them who are also benefited by the industry. Of course, we have pointed out here that of these 1,980,000 people directly dependent on the industry, about 88 percent are planters and laborers and their dependents. Now, they are sharing only from 50 to 60 percent of the benefits from the industry.

Mr. BENITEZ. In your brief you bring out the point that producers are not the ones that are getting the lion's share of this price premium in the American markets; and you seem to prove that it is the centrals that are getting it. Does not that point you bring out in your brief confirm the impression in the United States that the benefit given to our sugar industry is enjoyed by only a few and not even by the planters?

Mr. MIRASOL. It is probably because they do not know the planters' element in the industry; but if they come to know that there is the planters' element, they will certainly think otherwise; they might be thinking of the case of Hawaii, where the industry is run by the mill-owners who at the same time own and operate the plantations. In that case the benefits derived from the industry go into the hands of a few—the mill-owners who are also owners of the plantations—while in the Philippines we have another very important element in the industry, the planters. I am sure the Americans who say that only a few are getting the benefits of the industry do not know that there is the planter element in our industry.

Mr. BENITEZ. But in your brief, the planters prove that they are not benefited so much as the centrals.

Mr. MIRASOL. That is very true. But to say that only a few are benefited, I should say is not quite true, because we have 24,000 planters and many thousands of laborers who are also getting the benefits from the industry.

Mr. ROBBINS. There is something here that I do not understand. You seem to indicate that the planters, even though they may be their own landlords, are unable under the circumstances to pay the laborers as high wages as you believe reasonable or adequate. At the same time you indicated in your testimony that the profits that the planters make from land used for sugar are from 7 to 10 times as great as the profit that could be made from planting the most profitable alternative crops. How can you reconcile those things?

Mr. MIRASOL. I beg your pardon, I did not say the profit is about 7 to 10 times.

Mr. ROBBINS. Well, you said the value of the land representing capitalized profits is from 7 to 10 times as great. Therefore, with that tremendous difference in profits, why is the planter unable to pay what he considers as fair—

Mr. MIRASOL. Now, in the first place, if he has acquired the land at that price, it will take him years before he can pay on the amortization basis the full value of the land.

Mr. ROBBINS. With accumulated profits?

Mr. MIRASOL. Yes; if any.

Mr. ROBBINS. And since by that time the land will have passed from planter to planter at such an exceedingly high valuation that he cannot afford to pay good labor wages?

Mr. MIRASOL. Well, by way of information, when the price of sugar was high, wages of the laborers were also high.

Mr. ROBBINS. Therefore, your problem of the industry would appear to be, in that case, to obtain more income for the tenant planters and for the laborers by a readjustment of the values and wages, would it not? Because, presumably, if this profit-capitalizing process continues, the higher the income of the planters, the higher is going to become the value of the land?

Mr. MIRASOL. Exactly.

Mr. ROBBINS. And these lands are going to be transferred at such values that there is never any possibility of an increase in wages. Is that true?

Mr. MIRASOL. That is about the situation now. There are many planters who want to give more to their laborers, but the situation in which they are makes it impossible for them to do it.

Mr. ROBBINS. I did not quite understand your answer to Mr. Benitez' question. I believe that he was trying to ask you to explain this. Since the costs of production of sugar delivered in the American market are lower in the Philippines than those in Hawaii, according to the report of the United States Tariff Commission, still the amount that you can pay a laborer here is, we will say, one sixth of the amount that is paid the laborer in Hawaii?

Mr. MIRASOL. Yes, Sir.

Mr. ROBBINS. Why, with lower production costs, can you not pay more than, say, one sixth of the wages that Hawaii pays?

Mr. MIRASOL. Well, we go back to the same reason that in Hawaii the industry is operated by the mills which own at the same time the plantation, and the income and returns go to only a few people. In other words, the income on the industry is distributed among a few. In that case they can pay higher wages to their laborers, but in the Philippines we have the planter element in the industry, and the income is spread among a larger number of people.

Mr. ROBBINS. Well, with a possible small allowance for the difference in transportation cost, Hawaii and Philippine sugars return the same amount to the producers, so that your answer would be that it is so constricted by various contracts between planters and centrals, and

lessees and landowners, that you cannot get anything to trickle down to labor.

Mr. MIRASOL. Exactly, that is the situation.

Mr. ROBBINS. So that the problem in the industry now is not the lack of profits but an adjustment within the industry in order to bring about an equitable distribution of the already available income. Is that correct?

Mr. MIRASOL. Yes, Sir, and actual profits on the part of the planters are really small. That is why the planters on whom many thousand laborers are depending cannot pay much higher wages than they are actually paying.

Mr. ROBBINS. How many persons did you conclude, after your discussion with Mr. Dorfman, are probably dependent on the sugar industry in the Philippines?

Mr. MIRASOL. Well, we accepted the figures of the Philippine Sugar Association as having been brought out by men who are supposed to be authorities on the industry.

Mr. ROBBINS. And you figure out that there are nearly 2,000,000 people?

Mr. MIRASOL. Yes, Sir.

Mr. ROBBINS. The amount of your production is not much different from the Hawaiian production?

Mr. MIRASOL. A little more.

Mr. ROBBINS. Now, I wonder how you would account for this fact. In Hawaii, there are less than 400,000 persons and not all of the land and not all of the economic activity of the Hawaiian Islands is devoted to the production of sugar. And still you say that with almost the same production you have more than five times as many persons dependent on this industry. Could you account for that great disparity merely by the difference in the degree of mechanization between Hawaii and here?

Mr. MIRASOL. Yes, Sir, it is partly the degree of mechanization but mainly the presence of the planter element in the Philippines, and also the degree of production per unit of area. In Hawaii, they are having higher yield per unit area than here in the Philippines.

Mr. ROBBINS. Why?

Mr. MIRASOL. Production in Hawaii is more highly scientific than in the Philippines.

Mr. ROBBINS. Do you mean production of tons of cane per hectare, or tons of sugar per hectare?

Mr. MIRASOL. Tons of cane and tons of sugar per hectare.

Mr. ROBBINS. What do you have in mind as being the production of cane in Hawaii?

Mr. MIRASOL. I used to know that, but I don't quite remember it right now. But I know that production of sugarcane and of sugar in Hawaii is much more efficient than in the Philippines.

Mr. ROBBINS. Their cost of production is higher, according to the Tariff Commission. Would you call that more efficient?

Mr. MIRASOL. Well, efficient in the sense that they have a higher yield per unit of area.

Mr. ROBBINS. Do you mean higher yield per unit of area *per annum*, or per crop?

Mr. MIRASOL. Per crop.

Mr. ROBBINS. What is the average length per crop in the Philippines?

Mr. MIRASOL. 12 months.

Mr. ROBBINS. Well, the average length in Hawaii is about 21 months. Therefore, you would expect a higher yield per crop in Hawaii, would you not?

Mr. MIRASOL. Yes, and in addition the Hawaiian industry is running experiment stations that help it a lot. The expenses, I think, are included in the cost of production. Experimentation in Hawaii is taking quite a large sum of money.

Mr. ROBBINS. But still, with all their scientific, mechanical, and other advancements in the production of sugar in Hawaii, their costs of production are considerably higher than the average cost in the Philippines, are they not?

Mr. MIRASOL. Yes, Sir, because of the expenses for experimentation.

Mr. ROBBINS. I want to go back to one other question. Less than three fourths of the cultivated land in Hawaii is used for sugar-production—about 72 percent. And the population of those Islands is about 360,000 persons, so that you could not say that more than 360,000 persons were dependent on that industry; at the same time it has a slightly smaller production than the Philippines. Do you believe that more than 5 times as many persons are dependent on the sugar-production here as there?

Mr. MIRASOL. Yes, because of the planters who employ a large number of laborers and on whose plantations the mechanization of the work is not so extensive as it is in Hawaii.

Mr. ROBBINS. What effort is being made today, if any, by the planters to bring about such readjustments in their contracts with both centrals and landowners as to result in an equitable distribution of the return of the industry? You have mentioned that some time ago your National Assembly passed a law that would require a revision of the contract between the planter and the central, which, however, was vetoed by the then Governor General.

Mr. MIRASOL. Yes, Sir.

Mr. ROBBINS. What is being done now to revive that?

Mr. MIRASOL. Well, on the part of the planters, the movement still exists and is being carried out to ask the centrals, of their own accord, to modify the milling contract. Of course, the planters cannot force the centrals if they do not want it. As we have mentioned, some centrals have already come across, but there are still about 50 percent of the centrals holding to the old milling contracts.

Mr. ROBBINS. Do you hope that the others will voluntarily retire the contracts without your resorting to legal compulsion?

Mr. MIRASOL. Well, we hope they will; but if they don't we hope the Government will do something for the planters.

Mr. ROBBINS. Do you believe that they should? In other words, do you feel that the profit of a planter who owns his own land is less on his investment today in the Philippines than the average profit of the central?

Mr. MIRASOL. Yes, very much less.

Mr. ROBBINS. What would your estimates of the two figures be?

Mr. MIRASOL. I would not dare to say in the case of centrals, because we do not have access to their books.

Mr. ROBBINS. What would you estimate as the percentage of earnings on the investment of a landowner planter, on the average today?

Mr. MIRASOL. If his production is, let us say, from 10,000 to 20,000 piculs, it would be about 14 percent profit.

Mr. ROBBINS. That is, returns on capital investment?

Mr. MIRASOL. On a capital investment of ₱100,000. We have a figure on that.

Mr. ROBBINS. On the basis of the figures you gave me, in which you said the land would be worth around ₱100 or ₱150, that would be equivalent to 140 percent profit on the value of that land, if it did not have these special sugar rights attached to it?

Mr. MIRASOL. Yes, Sir.

Mr. ROBBINS. That is all, Mr. Chairman.

Mr. DOMERATZKY. Mr. Mirasol, in answering Mr. Robbins as to the profits on lands, you said 14 percent.

Mr. MIRASOL. I said, depending on the size of production allowance or the quota.

Mr. DOMERATZKY. But how would you account for the fact that the rent is from 15 percent to 20 percent?

Mr. MIRASOL. I was answering his question on the basis of a landowner planter.

Mr. DOMERATZKY. Yes, I understand, but in connection with leases, the rent is from 15 percent to 20 percent. And if the planter can make only 14 percent, it would seem that the rental is rather high.

Mr. MIRASOL. Yes, but a planter who nowadays pays 22 percent has other plantations which have lower rental payment, and if he

takes the average it would be lower than 22 percent, so that in the long run he might come out with little profits, if any.

Mr. DOMERATZKY. There is one more question. In answering Mr. Robbins in regard to the difference in the wages between the Philippines and Hawaii, you explained the difference by the fact that the ownership of the land is concentrated and that the centrals own the land.

Mr. MIRASOL. Exactly.

Mr. DOMERATZKY. And prior to that, when the question came up as to the possible use of machinery, you said that the greater use of machinery would likely lead to the concentration of lands in the Philippines, which was undesirable.

Mr. MIRASOL. Yes, Sir.

Mr. DOMERATZKY. Isn't it true, from the standpoint of the laborer, that concentration would be beneficial, that concentration of land in the Philippines would tend to raise the wage-level?

Mr. MIRASOL. Yes, but it would also turn out many laborers.

Mr. ROMERO. Mr. Mirasol, going back to this lease-tenancy system to which you have referred in the course of your remarks, do you yourself believe that, from the viewpoint of national economy, that situation is desirable, that so much land is concentrated? Now, for instance, I gather from your remarks that this system is responsible for the high cost of production of sugar. Is it not a fact?

Mr. MIRASOL. Yes, Sir.

Mr. ROMERO. Now, suppose that pressure is applied gradually on us so that we would have to produce sugar at lower cost, do you not think that might be done by eliminating the system?

Mr. MIRASOL. Yes, Sir, but what are you going to do with the tenants, the lessees?

Mr. ROMERO. Well, would it not be worse?

Mr. MIRASOL. If the Government has a plan to take care of them, it will not be so bad, perhaps.

Mr. ROMERO. But in any event, if we were to lose our preferences, according to your own statement, the sugar industry would be wiped out. Would it not be better that a few tenants lose their business than that the whole industry be wiped out?

Mr. MIRASOL. Yes, Sir.

Mr. ROMERO. What would be your choice in the matter?

Mr. MIRASOL. We have no choice. If it has to come, we will take all the consequences. That is all.

Mr. ROMERO. If you say, therefore, that at best we can only expect less preferences than what we are at present enjoying, if we are to lose at least a considerable part of our preferences and will have to make certain adjustments, do you believe that one of the adjustments we will have to make will be to apply pressure gradually so as to eliminate this system?

Mr. MIRASOL. At the same time, I think the tenants and lessees should be taken care of; otherwise, they will constitute a menace to our social order. They will become unemployed, and they may become radical leaders. Whereas now they are defending peace and order because they have something to defend, when they have nothing more to defend they will become radical leaders.

Mr. ROMERO. I realize that, and of course we should like to take care of all interested parties. But if we are put to a choice where we would have to lower the cost or lose the industry, and then we are not in a position to produce sugar at a lower cost because of the tenancy system—now, I will come back to my former question—What would you prefer? to have the industry wiped out, all laborers thrown out, and all capital destroyed; or to make some readjustment in our lessee and tenancy system?

Mr. MIRASOL. Well, we have to make some readjustment, but the plan for readjustment should be made right away.

Mr. ROMERO. Now, suppose pressure were gradually applied by means of increased tariff duties, do you not think that, as sugar becomes less and less profitable the owners would have to take back their lands or accept lower rentals for their lands?

Mr. MIRASOL. Yes, but from the standpoint of national economy and Government finance, the wiping out of the sugar industry will be a serious blow. You will have to take that into consideration. Now, 40 percent of the income of the Government comes from the sugar industry. 60 percent of the value of our exports is sugar. If you take the sugar industry away, what will happen to our exports? What will happen to the finances of the Government? Not only will the question of eliminating the tenants here have to be studied, but also the finances of the Government. In certain provinces the schools will have to be closed and public works will have to be stopped.

Mr. ROMERO. When you refer to 60 percent of the sugar lands being leased, do you refer specifically to Negros Oriental?

Mr. MIRASOL. 60 percent of the lands?

Mr. ROMERO. I think that is what you said.

Mr. MIRASOL. I have the figures here.

Mr. ROMERO. Well, it is something like 60 or 70 percent.

Mr. MIRASOL. I refer to the whole Philippines.

Mr. ROMERO. Well, I come from a sugar region myself, and I do not think that 10 percent of the lands are being operated by the tenancy system.

Mr. MIRASOL. We have that right in the table here, because we got all this information from the audit made by the Office of the High Commissioner when the quota system was introduced.

Mr. ROMERO. Is that in your brief?

Mr. MIRASOL. Yes, it is here in the table, appendix IV revised according to the Supplements to Executive Orders 900 and 901. Bais has 536 plantations, of which 425 are under lease.

Mr. ROMERO. Where did you say these figures come from?

Mr. MIRASOL. From Supplements to Executive Orders Nos. 900 and 901.

Mr. ROMERO. I know of cases where the old man, the father, retired, leaving his *farma* to his children, and then sold his land to his children, and that is classified as lease under the tenancy system. What do you think is the principal reason why this system is so common?

Mr. MIRASOL. So common?

Mr. ROMERO. Yes.

Mr. MIRASOL. Why, when I came of age, the lease system was already in practice. I do not know just how it came about.

Mr. ROMERO. Can you explain why such is the case?

Mr. MIRASOL. Well, I think, in the first place, it is because of the higher rate of rent paid; and, in the second place, there are so many people who have no plantations of their own who are willing to work and are willing to pay higher rent.

Mr. ROMERO. You also referred to transactions of land having sugar quotas. Is it not true that there are transactions of quotas alone without the land?

Mr. MIRASOL. Yes, Sir, there are.

Mr. ROMERO. Can you tell the Committee what is the average price paid per quota?

Mr. MIRASOL. The average, I cannot tell, but I know of a few cases with small quotas that sold at from 2 pesos to 4 pesos per picul.

Mr. ROMERO. For how many years?

Mr. MIRASOL. Sometimes it is permanent, and sometimes it is for a period of, say, three or four years.

Mr. ROMERO. What is the price for the period of from three to four years? From 2 to 4 pesos, did you say?

Mr. MIRASOL. Yes.

Mr. ROMERO. In answer to a question of Mr. Robbins, you said that the price for the quota with lands is 19 pesos?

Mr. MIRASOL. As high as 19 pesos; I have seen actual transactions.

Mr. ROMERO. How do you account for this disparity of 2 to 4 pesos, on the one hand, and 19 pesos, on the other?

Mr. MIRASOL. The difference is that the plantation is large with a quota of about 29,000 piculs. In that case a planter, by working for, let us say, 10 years, even if he has paid, for example, 300,000 pesos for that plantation, with the quota—in ten years, he may be able to come out even or with a little earning, and become owner of the property.



Mr. ROMERO. One more question, Mr. Mirasol. You stated that greater mechanization in our sugar industry would mean that there will be more laborers out of work.

Mr. MIRASOL. Yes, Sir.

Mr. ROMERO. You also stated that the Hawaiian sugar industry was more efficient than the Philippine sugar industry because there was greater mechanization.

Mr. MIRASOL. Not only that; the efficiency in this case is in the yield per unit of area.

Mr. ROMERO. Is the Philippine sugar industry doing anything at all to try to produce as much as the Hawaiian producers of sugar do?

Mr. MIRASOL. Yes, they have been trying. We have introduced new varieties that give a higher yield per hectare, and, as a matter of fact, I think the cost of production has been generally lowered because of this more highly productive variety of cane.

Mr. ROMERO. Why is it we do not come up to the Hawaiian standard?

Mr. MIRASOL. Well, we do not produce here as high, per unit of area, as Hawaiian planters do.

Mr. ROMERO. Why? What is the reason? Is the land less fertile? Is the climate less favorable? What is the reason why, in spite of your efforts, you cannot be on a par with Hawaiian efficiency?

Mr. MIRASOL. That is for the scientists to answer.

Mr. ROMERO. If you state that mechanization would throw many laborers out of work, and the Hawaiian sugar industry is very highly mechanized, can you explain why Hawaii has to import laborers from other countries, like the Philippines and Japan?

Mr. MIRASOL. It is because there are certain kinds of work in the plantations that cannot be mechanized.

Mr. ROMERO. So it is not entirely true that mechanization would necessarily throw laborers out of work?

Mr. MIRASOL. Many laborers will be thrown out of work.

Mr. ROMERO. I will come back to the original question. If it is true that the Hawaiian sugar industry is so highly mechanized, why is it that there is so much demand for laborers in Hawaii? Why do they have to import laborers from the Philippines, Japan, and China?

Mr. MIRASOL. It is because not all the work on the plantation can be mechanized. There are certain kinds of work on the plantation that demand hand instead of machine.

Mr. ROMERO. Have you any figures as to the number of laborers who are employed in Hawaii, as compared with the number of laborers employed in the Philippine sugar industry?

Mr. MIRASOL. I do not happen to have any figures.

Chairman MACMURRAY. Further questions?

Mr. ROBBINS. One question about efficiency.

Chairman MACMURRAY. Mr. Robbins.

Mr. ROBBINS. I wonder what Mr. Mirasol has in mind about the test of efficiency. You said that Hawaiian sugar-production was more efficient than Philippine sugar-production because the yield was greater there per unit of land. I understood, also, that it was due to the differential per unit of time, so to speak; but is not cost of production, rather than quantity of cane produced per unit of area, your measure of efficiency?

Mr. MIRASOL. The cost of production?

Mr. ROBBINS. Yes.

Mr. MIRASOL. In one sense, yes.

Mr. ROBBINS. Do you know what the yield of cane per acre or per hectare is in Cuba?

Mr. MIRASOL. I do not happen to know that.

Mr. ROBBINS. But you consider Cuba a much more efficient sugar-producing area than the Philippines?

Mr. MIRASOL. But the situation of Cuba is different. In Cuba, according to books I have read and friends who have told me, cane grows like weeds. There the cost of production of sugarcane is very low, sometimes they ratoon the cane as many as 25 times.

Mr. ROBBINS. Yes, the cost is lower. Therefore, would you consider that the production is more efficient in Cuba?

Mr. MIRASOL. It is not because of efficiency; it is because of the natural adaptability of Cuba to the production of cane with practically no cultivation.

Mr. ROBBINS. Now, the production of cane per acre in Cuba is only a small fraction of what it is in the Philippines. It is very much lower. Therefore, would you consider the Philippines more efficient producers?

Mr. MIRASOL. In that sense, yes.

Chairman MACMURRAY. Further questions?

Mr. DORFMAN. One question.

Chairman MACMURRAY. Mr. Dorfman.

Mr. DORFMAN. I will not take any more of Mr. Mirasol's time at this hearing other than to ask if he will be good enough to submit for the record a more detailed explanation of the figures he gives on page 40, paragraph 3.

There, Mr. Mirasol, you state: "The Government derives about 40% of its revenue from sugar and its by-products." I wonder if you would be good enough to introduce for the purposes of our record a detailed analysis of the manner in which you arrived at that.

Mr. MIRASOL. Yes, I think I can do that.

(Mr. Mirasol's letter of October 23, with enclosures,<sup>2</sup> will be found following the brief of the Confederation of Sugarcane Planters, Incorporated.) :

Chairman MACMURRAY. Are there further questions?

Mr. BENITEZ. One more question, Mr. Chairman.

Chairman MACMURRAY. Mr. Benitez.

Mr. BENITEZ. I just want to get an idea of what Mr. Mirasol means by "radical leaders". You referred several times to the danger of these lessees becoming radical leaders. Now, what in your estimation will they do if they become radical leaders?

Mr. MIRASOL. They may become Communists, Soviet agents, Sakdalistas; we have them all in our country.

Mr. BENITEZ. But these are the men who are intelligent enough—are they not?—to lease lands and pay 15 percent rentals on the lands and produce sugar at quite a profit?

Mr. MIRASOL. Yes.

Mr. BENITEZ. Is it likely that such types of men will become radical leaders like the Communists and Sakdalistas that you referred to?

Mr. MIRASOL. If they have nothing left to live upon, what can they do?

Mr. BENITEZ. In that situation they would be the best qualified to adjust themselves without resorting to radicalism, would they not?

Mr. MIRASOL. Well, if they can adjust themselves, they will become, as heretofore, peaceful citizens; but if they cannot and find themselves without anything to live on, why, certainly they will become radical leaders.

Mr. BENITEZ. In a country like ours where there is plenty of free land of the best quality, don't you think that this type of men who do not own land would be very glad to go where there is plenty of land, instead of becoming radical leaders?

Mr. MIRASOL. We have been told of this same thing before; as a matter of fact, I think some years ago our Government took steps to colonize Mindanao. But how many people have gone to Mindanao? You know the customs of our own people. It is hard for them to leave their own homes. Once they have lived in one place for generations, they find it hard to leave that place. That is the trouble.

Mr. YULO. I just want to ask one question. According to the facts on hand, can you state positively that those lessees which pay 20 percent are making any money under such condition?

Mr. MIRASOL. Lessees who are paying 20 percent are making any money? Yes, if the prices of sugar are high they might make a little; but if the prices are low they may not even break even, they lose.

<sup>2</sup> See vol. III, supplemental brief.

Mr. YULO. Is it not a fact that most of those lessees who are paying as high as 20 percent are really members of the same families as the owners of the land?

Mr. MIRASOL. No, it is just the reverse. Those who pay less are members of the family.

Chairman MACMURRAY. We thank you very much, Mr. Mirasol, for your testimony.

(Here follows printed brief submitted by the Confederation of Sugarcane Planters, Incorporated.<sup>1</sup>)

We now have Mr. Rafael R. Alunan, of the Philippine Sugar Association.

#### STATEMENT OF MR. RAFAEL R. ALUNAN, REPRESENTING THE PHILIPPINE SUGAR ASSOCIATION

Mr. ALUNAN. My name is Rafael R. Alunan. I appear on behalf of the Philippine Sugar Association, which represents about 95 percent of the milling and refining industry in the Philippines.

Our association has submitted for your consideration a comprehensive report<sup>2</sup> on the various aspects of the Philippine sugar industry and the effects on that industry of the imposition of the graduated export taxes as provided for in section 6(e) of the Tydings-McDuffie act, and the imposition of the full American duties after the termination of the 10-year transition period under the Commonwealth.

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 percent of the import duty on foreign sugars in the United States.

According to the United States Tariff Commission Report No. 73, Second Series (1934), the cost of Cuban sugar at seaboard refineries was 1.923 cents per pound, as against 2.717 cents per pound for Philippine sugar, or a difference of 0.794 cent per pound excess of Philippine cost over Cuban.

The present duty of 0.9 cent per pound on Cuban sugar has compensated this excess and results in an excess cost of Cuban sugar over Philippine of 0.106 cent per pound.

It is obvious that the advantage now held by the Philippines over Cuba would be equalized as soon as it became necessary to impose an export tax of 5 percent of the United States full duty and that thereafter Philippine sugar would show a progressively higher cost over Cuba.

<sup>1</sup> See vol. III.

<sup>2</sup> See vol. III, brief.

As Philippine sugar cannot survive the export taxes, it cannot, of course, survive the application of the full United States duties.

In 1936 shipments of sugar and its by-products such as molasses and alcohol, were valued at \$62,290,805. This is 46 percent of all exports in 1936; practically all were shipped to the United States. The total value of all exports from the Philippines in 1936 was \$136,448,053.

The United States Tariff Commission in its Report No. 118, Second Series, in the third paragraph of the Introduction, page VIII, stated:

The important export industries in the Islands will be variously affected by the progressive export taxes. It appears likely that these taxes will serve primarily to lessen the profitableness, but not the volume of the exports of sugar to the United States during the Commonwealth period. When the full United States duties become applicable in 1946, however, 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.

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. Thus the return to producers would be as follows:

|   |         |             |
|---|---------|-------------|
| Price c.i.f. New York.....                    |         | \$3.500     |
| Full duty.....                                | \$1.875 |             |
| Freight and other marketing costs, about..... | 0.500   |             |
|   |         | <hr/> 2.375 |
| Return to producer per 100 lbs.....           |         | \$1.125     |

which 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.

In its summary of the significance of the Philippine sugar industry, the United States Tariff Commission, in the above-cited report, stated under paragraph 3 on page 62:

Because of its commanding position in Philippine export trade, sugar is of great importance to Philippine economy. Investments in the industry are estimated at \$265,000,000, of which \$84,000,000 is invested in centrals. American participation is confined principally to centrals, investments therein comprising 30 percent of the total. As a result of the Philippine land law, the culture of cane is carried on by thousands of independent planters and tenants; 15 percent of the Philippine population are directly dependent on the industry and 5 important provinces rely almost entirely on it for their revenue. The island of Negros is probably the area most dependent on sugar.

The number of people wholly or partially dependent on the sugar industry directly is estimated at about 2 million. 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.

The statement on Philippine production costs for planters and centrals, as determined for the crop years 1929-30, 1930-31, and 1931-32 by the United States Tariff Commission and published in its Report No. 73, is substantially unchanged. The costs may be slightly lower in Negros because of exceptionally favorable weather conditions in recent years than in the period covered by the Tariff Commission. They should be higher in Luzon, which has suffered severely by reason of extensive storms and flood during the previous two years. Furthermore, it is certain that all costs will go up this coming milling season. The mills will come under the provisions of the Eight-Hour Labor Law, which must increase their costs. The planters, on the other hand, will be under pressure from the Commonwealth Government to raise the wages of their labor.

It should be taken into consideration, however, that the production costs as determined by the Tariff Commission are based on average costs in the Philippines; and that means that at least half the production is on a higher cost basis than given and will suffer that much more severely. A compilation of the data available in the Sugar Audits of the Agricultural Adjustment Administration showed that over 80 percent of all cane-farmers had United States allotments below 1,000 piculs, or a gross income of less than \$2,000 per year. These high-cost producers are also the most inefficient and have rarely any reliable records. It is not possible, therefore, to determine just how high some of the costs run, but it is known that there are some producers who today can make no money at present prices despite the free entry into the American market. Unquestionably, under the best circumstances a certain proportion of the industry will be eliminated with the first 5-percent export tax. A still greater proportion will be eliminated with the burden of the 10-percent export tax. Each year will find a larger and larger proportion of the Philippine sugar industry rendered not only less profitable but unprofitable, and but a small percentage will be left to continue operations when 25 percent of the tax is being levied.

It is inconceivable that the Philippine sugar industry can exist on a full-duty basis in the American market. It is a well-known fact that the sugar industry in many places in the world has been carried on an unprofitable basis, particularly Cuba and recently Java. Also, it is a well-known fact that the price of sugar has advanced the least of all staple commodities. The f. o. b.-Cuba equivalent of the world price for the last 10 years has been as follows:

|      | High | Low  | Latest Average* |       |
|------|------|------|-----------------|-------|
| 1936 | 1.05 | 0.77 | 1.05            | 0.886 |
| 1935 | 1.00 | 0.73 | 0.99            | 0.858 |
| 1934 | 1.12 | 0.70 | 0.79            | 0.897 |
| 1933 | 0.99 | 0.86 | 0.87            | 0.840 |
| 1932 | 1.02 | 0.57 | 0.61            | 0.776 |
| 1931 | 0.96 | 1.01 | 0.96            | 1.152 |
| 1930 | 1.72 | 0.85 | 1.03            | 1.257 |
| 1929 | 1.99 | 1.51 | 1.72            | 1.813 |
| 1928 | 2.79 | 1.89 | 1.99            | 2.388 |
| 1927 | 3.49 | 2.36 | 3.49            | 2.942 |

\*Manual of Sugar Companies, 1937, Farr & Co., p. 116.

In the world market the Philippines cannot expect to obtain better than the f. o. b.-Cuba price. Note that in only one year, 1927, was the yearly average price above the average cost of 2.717 cents per pound, as given in Tariff Commission Report No. 73.

The present world price is about..... 1.03¢ f.o.b.-Cuba basis  
Plus freight and other carrying charges to London..... 0.30

Bringing it to..... 1.33 c.i.f. London

No shipments of sugar are made from the Philippines to London, but an indication of the comparative costs from Cuba and the Philippines may be obtained by studying the shipping costs to New York.

In the Tariff Commission Report, previously cited, the shipping cost between Cuban ports and New York for the three years studied was 13 cents per 100 lbs. The shipping cost between Philippine ports and New York for the same period was 39 cents per 100 lbs. The costs now, owing to increases in freight rates and other expenses since that period, are approximately 50 cents per 100 lbs. This is an increase of 22 percent, and presumably the same increase has taken place in the case of the Cuban carrying costs, which would bring them to 15 cents per 100 lbs. It can therefore be seen that the Philippine producers, during the period covered by the Tariff Commission Report, had to absorb 26 cents, and under present conditions, 35 cents more in charges than Cuba.

This point is stressed, because in comparing Philippine delivered costs with Cuban delivered costs the effect of the long haul on interest, insurance, and many other charges has rarely been given proper consideration.

Having reached this point, we are faced with the question of what effect that complete dissolution of the Philippine sugar industry will have on the Philippines. It will unquestionably affect directly the following entities: (1) the Government; (2) the mills; (3) the planters; (4) labor; and indirectly many others. According to the best available statistics, the Government has for many years derived between 40 and 45 percent of its total income from the sugar indus-

try. The most recent figure places this amount at between \$10,000,000 and \$12,500,000. With Philippine sugar prices reduced to a world basis, there will be no revenue for the Government from sugar. The industry will be completely killed. Probably 80 percent of the actual producers in the Philippines will immediately go out of business and the 20 percent will be so scattered that no central could afford to operate with such a reduction.

The mills, of course, will be a total loss. They represent an investment of \$84,000,000 and can be used for no other purpose. The only salvage will be what may be recovered on individual pieces of machinery or as scrap iron.

The farmers, of course, will still have their land, but it will be greatly reduced in value. The conservative estimate of the value of sugar lands is \$300 per hectare. With the elimination of the sugar industry the land will drop to not more than \$38.00 to \$50.00 per hectare, or \$15.38 and \$20.23 per acre, respectively. No other crop at present available in the Philippines produces anything comparable to sugarcane in cash income. The tendency of farmers will probably be to turn their fields into such staple products as rice and corn, but the conversion of over 200,000 hectares to these products will create an unsalable surplus in these crops which will seriously affect the present producers. Unfortunately, the effect on the farms will be felt throughout the Islands, owing to the increase in the production of corn and rice, with the result that prices will fall and automatically the present value of lands will fall. Most of the direct loss will be felt in but a few provinces, and in these provinces there are at present no profitable substitute crops. Take for example the island of Negros, where approximately 1,000,000 people depend completely on the sugar industry. There is not sufficient rice land on the island to support the population. They are at present able to buy their rice in Panay from the wages they receive from the sugar industry.

As stated, about 2,000,000 people are dependent on the industry, which employs approximately a quarter of a million laborers. The elimination of the sugar industry may therefore be anticipated to cause a serious unemployment problem in the Philippines. It is not possible at present to see where these laborers could be employed. The social consequences are likely to be very serious. It is more than likely that in those provinces where the greater part of this unemployment will be concentrated there will be actual disturbances of a serious character.

These are only the direct results that would follow in the elimination of the major industry of the Philippines. The indirect results may be anticipated to ramify throughout many other activities. Although no direct information is available, it is reasonable to assume that if the industry contributes as much as 40 to 45 percent of the



Government income, it also contributes a comparable percentage of the business of other lines and that they will suffer extensively through the loss of that business. Certainly shipping and insurance will lose a very large part of the business now originating in the Philippines, and the importation of American articles must be sharply curtailed when the income with which to purchase these articles is lost.

For example, the inward cargo from the United States for the year 1936 amounted to 622,700 short tons; the outward cargo to the United States, 1,449,601 short tons. The destruction of the sugar industry will eliminate 952,000 short tons of cargo to the United States, and vessels coming to all points in the Far East with cargoes from the United States will depend on the Philippines for the return cargoes from the Philippines as they have in the past. The obvious effect of this will be a marked increase in freight rates from the United States to cover the loss of return cargoes to the United States assured under present conditions. This effect will go further than the effect on shipping, as it will indirectly affect all manufacturers and exporters of machinery and other products to the Far East.

It is beyond dispute that it is impossible to eliminate from the activities of a country an industry which represents 46 percent of its exports, supplies over 40 percent of the Government income, and supports directly 15 percent of the population without seriously dislocating the economics of that country.

Before concluding my testimony I hereby request that our association be allowed to submit some time this week a supplementary brief<sup>1</sup> giving a comprehensive and detailed report on the various aspects of the Philippine sugar industry as a supporting document of my testimony for insertion in the proceedings of your Committee's hearings.

I thank you, Gentlemen.

Chairman MACMURRAY. Are there questions?

Mr. DORFMAN. Mr. Alunan, I understand that it was your association which estimated that the total number of people dependent on the sugar industry is about 2,000,000.

Mr. ALUNAN. I can give you the details on that.

Mr. DORFMAN. Will you be good enough to explain how you arrived at that figure?

Mr. ALUNAN. You mean of all the people that the centrals are employing? During the 1934 milling season the centrals' employees, laborers, and their families numbered approximately 154,000, while sugar-planters and their dependents numbered 90,000; tenants and subtenants, known locally as "*inquilinos*" or "*casamas*", 1,050,000; planters' laborers, and their families, about 610,000; miscellaneous

<sup>1</sup> See vol. III.

employees, or agents, dealers, merchants, and their families, 100,000—making a total of 2,000,000, more or less. Of course, I cannot say that that is exactly the number, but we have the number of employees and laborers of the centrals and the number of farmers and tenants, and we have these from our own record, from the record of the Philippine Government, and from the Office of the A.A.A. in Manila.

Mr. DORFMAN. In making that canvass, did you ask each worker the number of dependents or the number of people in his family?

Mr. ALUNAN. Oh, yes.

Mr. DORFMAN. Pardon me, which did you ask, the number of people in the family, or the number of dependents?

Mr. ALUNAN. The number of people in the family depending—

Mr. DORFMAN. Well, there would be a difference.

Mr. ALUNAN. I was going to explain that. In the Philippines, when you employ somebody in the *haciendas* or in the centrals, you have to give house to him, to his wife, to his children, to his mother, and sometimes to his whole family.

Mr. DORFMAN. Does that mean that no one in the family would work other than one person?

Mr. ALUNAN. Well, the average family in the Philippines is more than five, and we have been estimating only on five members in each family; that means the laborer, the wife, and the children; and they are given three children only.

Mr. DORFMAN. I think you have estimated six.

Mr. ALUNAN. Around six.

Mr. DORFMAN. Yes. Would you say that the number of dependents for each worker in the sugar industry is higher or lower than that in other industries?

Mr. ALUNAN. Well, I should say the same.

Mr. DORFMAN. Do you suppose that if you multiply by six the total number of workers in your population, you would get a figure less than the population of the Islands, or one above it?

Mr. ALUNAN. I do not know, I did not make that calculation.

Mr. DORFMAN. On the assumption that the sugar industry in this respect is no different from any other, that would mean that you would have an age composition of your population such that you would have only one person of adult age—

Mr. ALUNAN. May I explain the difference between the sugar industry and the other industries. The sugar industry is ordinarily located outside the *población*. We have to give the workers houses, practically everything. In the sugar centrals we are giving them house, light, running water, schools, hospitals, and sometimes church and cinema or movie. You know, most of them are living outside of the towns, the *población*, the cities, although in the other industries,

most of them are located inside of the cities, so they do not need to give house to their laborers.

Mr. DORFMAN. At the moment I am not concerned with the supplying of houses and various services to the workers but simply with the number of dependents on each worker. It seems almost inconceivable, unless you have a large amount of unemployment in the Islands, that you should have five dependents on each person working.

Mr. ALUNAN. Mr. Dorfman, if you know the custom in the Philippines, you will understand that. I believe the Filipinos will understand that, because that is a fact. Everybody in the Philippines knows that if you have a house, you have it not only for your family but also for all your relatives—they come to you whenever they have no place to go. Every Filipino knows that. This is not America. This is absolutely different from America.

Mr. DORFMAN. Since we are not Filipinos and since we are not acquainted with the customs here, I hope you will be indulgent. How many people on the average would there be to a Filipino family on the sugar plantation?

Mr. ALUNAN. I think six is a very conservative estimate.

Mr. DORFMAN. Let us have the average. About six?

Mr. ALUNAN. Yes, the average.

Mr. DORFMAN. That would be husband, wife, and four children.

Mr. ALUNAN. Yes, that is a very conservative estimate. May I smoke, Mr. Chairman?

Mr. DORFMAN. The husband presumably would work.

Mr. ALUNAN. Yes.

Mr. DORFMAN. Would he have any adult children who would work?

Mr. ALUNAN. Well, most of the children go to school.

Mr. DORFMAN. But after they get through with school?

Mr. ALUNAN. Well, they work also.

Mr. DORFMAN. If they work also, then they would not be dependent on him, would they?

Mr. ALUNAN. Well, in the Philippines, unless the boy or the girl is married, he is dependent on his father and everything he makes goes to his father and everything he spends comes from his father.

Mr. DORFMAN. Well, if he is not married, but if he is married, presumably he ceases to be dependent on his father, or if the child is a girl, similarly she ceases to be dependent on her father, and so in either case there is one less dependent in the family.

Mr. ALUNAN. But in that case, maybe the father will be dependent on him.

Mr. DORFMAN. Let us say that they depend on each other.

Mr. ALUNAN. Exactly. When the boy can work, in most of the cases, why the father stops working because he is too old or is sick.

And he is dependent on the boy because he is too old, and his wife and grandfather and great-grandfather. Oh, that is the case; everybody knows that here.

Mr. DORFMAN. When the son is of age and gets married, he ceases to be dependent, and the young lady also ceases to be dependent on her family, that is, if the man is getting enough wages to support the two. At the outset, they would not have a family of four or five. There would be a long period of time when this family, which has just started, would support itself without having a large number of dependents, is that not so?

Mr. ALUNAN. As I said, it is quite difficult for you Americans to understand the custom in the Philippines.

Mr. DORFMAN. That is why I am asking so many questions.

Mr. ALUNAN. If the father and mother can work, all the children are depending on them here; and, as I said, in many instances not only the children but also the father's father and his grandfather are depending on the man that is working. When the boy grows up and is in condition to work and earn some money, sometimes instead of depending on his father, it is the father and the rest of the family that are depending on the oldest boy that is working. I mean the oldest boy has to support his father and mother and the rest of his sisters and brothers.

Mr. DORFMAN. Do you mean to say, then, that if I were to go on sugar plantations and count heads, I would find that only one person out of six actually performed any work on the plantation and the other five did not?

Mr. ALUNAN. Well, that depends if they are of age to work or not. If they are minors they go to school and sometimes help their families, but not always.

Mr. DORFMAN. But on the average, for every person doing work there are five who do not?

Mr. ALUNAN. Five or six minors and old people who cannot work.

Mr. DORFMAN. For every able-bodied sugar-worker, then, there are five people who are either so old or so young that they cannot work?

Mr. ALUNAN. Yes.

Mr. DORFMAN. Thank you.

Chairman MACMURRAY. Are there further questions?

Mr. WARING. Mr. Chairman.

Chairman MACMURRAY. Mr. Waring.

Mr. WARING. In your brief, Mr. Alunan, on page 17, you refer to a difference in the cost between Philippine sugar and Cuban sugar, and that is estimated by you at  $\frac{1}{10}$  of a cent. Then you point out that the present Cuban duty of  $\frac{2}{10}$  of a cent gives Philippine sugar a slight preference in the American market; and you go on from that

to state if the export taxes were applied, Philippine sugar would be at a disadvantage should the first 5 or 10 percent be applied. And you say that Philippine sugar would be forced out of the American market, unless further restrictions on Cuban imports were maintained. Now, in making that comparison, would it not be more correct to use, rather than the present Cuban duty of  $\frac{1}{10}$  of a cent, the Cuban duty of  $1\frac{1}{2}$  cents, which would apply if there were no further restrictions? In other words, as soon as the United States quota system is abandoned, the Cuban quota would revert to  $1\frac{1}{2}$  cents, which would increase the amount of Philippine preference.

Mr. ALUNAN. Maybe, that is true.

Mr. WARING. And under those circumstances, then, Philippine sugar could enter the United States market for a longer period than the period you estimated in the brief?

Mr. ALUNAN. Maybe, yes.

Mr. WARING. Also in your brief, on page 16, you advocate that Philippine sugar should be permitted free access in the American market indefinitely, based on the present quota. Do you have in mind after political independence as well as before?

Mr. ALUNAN. Yes, Sir.

Mr. WARING. Do you have in mind free trade for products other than sugar?

Mr. ALUNAN. Yes, the actual. What I have in mind is that the actual trade relations between the two countries should continue.

Mr. WARING. Continue on free-trade basis?

Mr. ALUNAN. Yes.

Mr. WARING. Do you realize that that would present a decided departure from the trade policies of the United States, as indicated by activities or relationships with other foreign countries at the present time?

Mr. ALUNAN. That is something I cannot answer, Mr. Waring, because that will depend on the Government of the United States. I am submitting that to the Committee and United States authorities, if it is possible.

Mr. WARING. Another question. You made it a point in your statement before the Committee just now that it would be exceedingly difficult for the sugar industry to bear more than 10 percent of the United States duty: that is, if more than 10 percent were assessed, the industry would be liquidated.

Mr. ALUNAN. I am referring specially to the small farmers, because we have, as I stated, about 80 percent of the sugar produced by farmers who are producing only 1,000 piculs. Their cost of production has to be higher.

Mr. WARING. In view of that statement, in your opinion what effect will the ½-cent processing tax, which was recently enacted by Congress, have upon the planters and centrals?

Mr. ALUNAN. It would be very hard for the planters, and specially for small planters, though we are expecting that if the tax is imposed on the other areas the price of sugar, more or less, will go a little bit higher.

Mr. WARING. Do you expect that sugar prices will rise high enough to compensate for the tax?

Mr. ALUNAN. Yes; that is the impression at least.

Mr. WARING. And if they do not?

Mr. ALUNAN. Well, it will be very difficult for these people, for the small farmers specially.

Mr. WARING. Would it force the liquidation of the industry?

Mr. ALUNAN. It will be lost, I believe. As I said, we do not have a record, but I am sure our cost of production would be high on account of the fact that our production is limited to a small amount.

Mr. WARING. My point in asking the question is this: The export taxes running up to 25 percent would be slightly less than the ½-cent-per-pound processing tax.

Mr. ALUNAN. When I said that, I had in mind already that we have to pay the ½ cent per pound; that is in my estimate.

Mr. WARING. You had that in mind?

Mr. ALUNAN. Yes, that we are paying 1 centavo now, and then we will pay the export tax.

Mr. WARING. I see. That is quite clear; I did not understand.

Mr. DOMERATZKY. Mr. Alunan, on several occasions you referred to the cost of production in the Philippines, comparing it with the cost of production in other countries. When you speak of the cost of production, do you include the interest on the investment?

Mr. ALUNAN. Mr. Domeratzky, I took the cost of production from the report of the United States Tariff Commission, and I know that they had studied that very carefully and had even revised [*sic*] all the books of the centrals, a privilege that we cannot enjoy personally.

Mr. JACOBS. Mr. Chairman, one question.

Chairman MACMURRAY. Mr. Jacobs.

Mr. JACOBS. Mr. Alunan, I believe I understood you to say that the total area under cultivation in sugar is 200,000 hectares.

Mr. ALUNAN. That is the land planted with cane.

Mr. JACOBS. 200,000, is that correct?

Mr. ALUNAN. Yes.

Mr. JACOBS. How much of that has been put under cultivation since the year 1925 or thereabout?

Mr. ALUNAN. Almost the same area. You know, in the Philippines we cannot cover the whole land every year. We have at least one third or 25 percent of the land vacant every year. We plant only two thirds.

Mr. JACOBS. In other words, in 1925 the sugar land was approximately the same as it is today?

Mr. ALUNAN. Yes, Sir, those centrals that are operating now had already been built in 1925 and had also been operating in 1925.

Mr. JACOBS. Do you mean to say that your estimate of the number of people or places dependent on sugar in 1925 is approximately the same as today?

Mr. ALUNAN. Almost the same, only with this difference: At that time most planters and centrals, as a rule, were importing laborers from other provinces, because we were in the beginning of the organization of the industry, lacking laborers. Now that the industry is well established, we have our permanent laborers with their houses and everything to live on in the same place where they are working.

Mr. JACOBS. The reason why I ask this question is that prior to 1925 the annual production of sugar in the Philippine Islands never reached 400,000 tons. The annual average for 15 years prior to 1925, according to the figures of the Confederación de Asociaciones y Plantadores de Caña Dulce, Inc., was around 260,000 tons.

Mr. ALUNAN. I think I can explain the reason for that.

Mr. JACOBS. Then, subsequent to 1925 there was a big jump, so that the average was 820,000.

Mr. ALUNAN. I can explain. I think the reason is that it is not on account of the fact that we have more land cultivated or more land dedicated to cane, but that the yield per hectare has increased. You know, in 1920, when we started organizing sugar centrals in this country, the average yield per hectare was around 40 or 50 piculs. I cannot remember very well, but I know that we have almost doubled the production per hectare now on account of the introduction of new varieties, better cultivation, and fertilization. Before that year we never used chemical fertilizers here. Now, we are using fertilizers in most of the plantations.

Mr. JACOBS. So, in other words, during the past 12 years, without increasing your acreage and the number of people employed, you have almost trebled your production?

Mr. ALUNAN. Yes.

Mr. JACOBS. Do you feel, then, that no possible adjustments can be made in the sugar industry which would enable at least a part of it to continue to export to the United States or to other world markets?

Mr. ALUNAN. Paying full duty?

Mr. JACOBS. Yes, paying full duty.

Mr. ALUNAN. I do not see any possibility, Mr. Jacobs. We will have plantations that can produce at quite a low price, but they will be so scattered that it will be impossible to have centrals to grind the cane that these planters will produce.

Mr. JACOBS. That is all.

Mr. ROBBINS. Mr. Alunan, you heard the previous witness give as his first personal opinion that the profit on the investment of the centrals was greater than the profit of the landowners. Do you agree to that? I think there should be an opportunity for you to insert that in the record.

Mr. ALUNAN. I would prefer not to answer the question, because I am not in position really. You cannot say that all the centrals are making the same profit. There are centrals that are making more profits than other centrals. You cannot say also that all the planters are making the same profit, or that all the centrals are producing the same quality of sugar and producing the same prices.

Mr. ROBBINS. We understand that; but what is your opinion as to the average?

Mr. ALUNAN. I think it is almost 50-50. There are centrals that are making money, but there are planters also who are making money. I myself am a planter, so I know what I am talking about.

Mr. ROBBINS. About how much do you consider the average profit of the central, say, in 1936?

Mr. ALUNAN. It is very difficult to calculate. The only available data that I have is the cost of production given by the United States Tariff Commission that came here to study the cost of production of the centrals and planters.

Mr. ROBBINS. And your association has never done anything to determine that figure?

Mr. ALUNAN. No, Sir.

Mr. ROBBINS. In talking to a sugar-central manager he may say that profits may be as low as 12 percent or may be as high as 70 percent. Are those hearsay statements anywhere within reason, in your personal opinion?

Mr. ALUNAN. Mr. Robbins, it is very easy to find out how much the centrals are making and how much the planters can make. The Government can do that. It is very easy to find it out, but it is not fair to publish what they are doing.

Mr. ROBBINS. In the ordinary course of events, are not the earnings published of these centrals whose securities are regularly traded on your exchange? Do they not publish a statement of the profits?

Mr. ALUNAN. Oh, yes, they publish. At least, the stockholders received copies of the profit-and-loss statement and the balance sheet of the central.



Mr. ROBBINS. What is the average age of the centrals?

Mr. ALUNAN. I think it is about 15 years—the average age of the centrals.

Mr. ROBBINS. The average present age of the centrals?

Mr. ALUNAN. Well, almost all centrals, except two, were built in 1920.

Mr. ROBBINS. The average age, then, would be more than 17 years?

Mr. ALUNAN. Around 15 years, I think.

Mr. ROBBINS. About how many years does one take to recover his investment in a central: 5, 7, 10, 12? What is the customary figure one has in mind to recover his investment?

Mr. ALUNAN. I wonder if it is prudent to say this, but I know centrals here that have been running for the last 17 years and have not distributed a single cent of dividend yet.

Mr. ROBBINS. When one makes a purchase he usually puts in his capital with the idea of recovering his investment in some number of years. Now, according to other testimony, in case of land where the earning is around 14 percent, the average investment is intended to be recovered in 7 years. Would it be the same in the case of a central?

Mr. ALUNAN. No.

Mr. ROBBINS. You usually expect to wait how long?

Mr. ALUNAN. And then you have to consider the fact, Mr. Robbins, that centrals do not own the plantation. All the canes are produced by the planters absolutely independent from the centrals. There are contracts between the planters and the centrals. The weather conditions in the Philippines are so changeable that sometimes you get a very big crop in one section of the country, and in another section of the country the crop there will be so poor that sometimes it is not even enough to cover up the expenses of the central.

Mr. ROBBINS. As to the recovery of the original investment, if, on the average, the centrals are more than 17 years old, how many times would you estimate, on the average, that the original investment had been recovered? and in how many years?

Mr. ALUNAN. I do not get you.

Mr. ROBBINS. Well, we have had the statement that the centrals are all practically more than 17 years of age, and if the profits had been such that the original investment is recovered in 7, 8, or 10 years, it would seem as though the original investment had been recovered two times.

Mr. ALUNAN. It is very hard to say—I doubt very much—it is very hard to say that the recovery can be made in 7 or 8 years.

Mr. ROBBINS. How many years do you think?

Mr. ALUNAN. Well, as I told you already, I know many centrals in the Philippines—

Mr. ROBBINS. I mean the average.

Mr. ALUNAN. I think in 15 years.

Mr. ROBBINS. So, on the average, the original investment, in your opinion, has been recovered. I want to ask a question about your study of the relationship of this new excise tax that has been imposed by Congress on sugar-manufacturers. You said, I believe, in answering the question of Mr. Waring, that you expected that the centrals and the planters would not have to bear most of the burden of the tax because the tax will be reflected in increased prices.

Mr. ALUNAN. That was the impression when I was in the United States.

Mr. ROBBINS. When you were in the United States, do you recall that at the time when the legislation was recommended to Congress both the Secretary of Agriculture and the President of the United States pointed out that the prices to the consumers would not be so much affected?

Mr. ALUNAN. Yes.

Mr. ROBBINS. Then on what basis of reasoning do you assume that the prices to the consumers would be affected by the imposition of this tax?

Mr. ALUNAN. Because the taxes would not only be paid by the planters in the Philippines, and besides the cost of production is quite high.

Mr. ROBBINS. But the planters in the United States will receive back in payment slightly more under the law than they pay in taxes, so that the effect would be to reduce, rather than increase, their cost of production?

Mr. ALUNAN. Maybe; but, as I told you, it was the impression in the United States that the prices, at least of sugar, will be the same as they are now—around \$3.50 per 100 pounds, duty-free.

Mr. ROBBINS. In your opinion if the present excise tax had been in effect during the calendar year 1936, would the Philippine Islands have filled their quota for the United States?

Mr. ALUNAN. The duty-free quota? Yes. But they will not be in a position to fill the full-duty sugar quota.

Mr. ROBBINS. Well, now I thought your association had assumed heretofore that the imposition of the 25-percent export tax in 1946 would make it impossible for the local industry to fill that export quota; is that true?

Mr. ALUNAN. If the proportion of our quota will not be filled, I mean the farmers will not be able to produce.

Mr. ROBBINS. I cannot reconcile these two things. Why is it that your association has contended that an export tax equivalent to 1.31 per picul would so reduce the number—

Mr. ALUNAN. I think I have answered that question of Mr. Waring's already, that when we wrote the memorandum we were paying this excise tax of 1.31 and 1.40 per picul, and then we had to pay the duty.

Mr. ROBBINS. That is what I understood the position of your association had been on prior dates and previous to the imposition of this tax; but all that time, if I understand you now, you were contemplating the possibility of the excise tax.

Mr. ALUNAN. Taking into consideration the prices of sugar at that time; it is all dependent on the prices of sugar. When the price of sugar is 7 or 8 cents we can always pay duty in the United States, but if the prices go down to 3 or 2½ cents, we will not be in a position to pay even 5 percent. It is dependent on the prices of sugar.

Mr. ROBBINS. I think that is perfectly understood, that your profit is dependent on the price of sugar. Now, when you assume that practically all the Philippine sugar-production would disappear upon the imposition of the full United States duty, what price of sugar do you have in mind as a basis for that estimate?

Mr. ALUNAN. Well, not more than 3 cents or 3½ cents for duty-free sugar. This is my estimate.

Mr. ROBBINS. In your opinion, the Philippine Islands would not find it profitable or possible to operate or fill any portion of that quota if there were also in effect the full United States duty?

Mr. ALUNAN. Here is my estimate. I am going to speak in piculs, as we ordinarily count here. The price of sugar now is 3.50 duty-free New York. That means about 9.75 per picul in New York. The quoted price in Manila—this is export sugar—is 7.70. Now you take from that 5.23—that is the duty that you have to pay to the United States—and almost nothing is left.

Mr. ROBBINS. How much in terms of cents per pound of the market value would the United States price, in your opinion, have to be in order that, say, one half of the present quota would be filled and yet subject to the full duty? For instance, if the price of sugar were 4 cents per pound, would the Philippines be able to ship 100 tons to the United States and pay the full duty?

Mr. ALUNAN. I did not get the figure that you said.

Mr. ROBBINS. You say that the industry would have to be entirely liquidated upon the imposition of the full duty; you have also said that whether it has to be liquidated depends upon the price. Now, I wonder what, in your opinion, the price would have to be in order that 50 percent of the industry would survive if subject to the full duty.

Mr. ALUNAN. More than 5 cents per pound.

Mr. ROBBINS. More than 5 cents per pound would be an increase from present prices of more than the duty?

Mr. ALUNAN. No. It is ₱3.50 now.

Mr. ROBBINS. Yes, but the duty.

Mr. ALUNAN. It is ₱1.87.

Mr. ROBBINS. You are increasing it from ₱3.50 to more than ₱5, say ₱1.50.

Mr. ALUNAN. No, ₱5.

Mr. ROBBINS. That is an increase of ₱1.50, or almost the amount of duty?

Mr. ALUNAN. The duty is ₱1.87.

Mr. ROBBINS. Well, on that basis, I cannot understand why you could not fill your full quota, because you have already indicated that more than 37½ cents could be absorbed as a tax burden of the industry. Do you believe that the Philippines would continue to fill their quota and that adjustments would be made in the present capitalized value of sugar profits represented in your central and land investments, with perhaps the excise tax plus 50 percent of the duty?

Mr. ALUNAN. Impossible.

Mr. ROBBINS. At what point along the way of increasing the duty from 5 percent up to 100 percent, considering all the time that the excise tax as at present might be continued and with present prices of sugar, at what point of increasing the duty do you believe the final ton of Philippine sugar would disappear from the American market?

Mr. ALUNAN. A few centrals and a few planters will be able to pay up to 10 percent of the duty. But I am afraid that the big majority of the planters will be put out of business. I mean, it will be impossible for them to continue producing if they have to pay the excise tax and at the same time pay a duty of more than 10 percent.

Mr. ROBBINS. The excise tax, plus more than 10 percent of the duty, would probably cause the majority of the producers to cease production? Now, you make that estimate or statement on the basis of present prices, of course?

Mr. ALUNAN. Present prices of sugar.

Mr. ROBBINS. Would it not be possible for the industry to deflate its capitalized values? Would it not happen?

Mr. ALUNAN. It has nothing to do with it, because I am talking about the direct cost of production.

Mr. ROBBINS. Would not the cost of production decrease under the pressure and necessity of paying higher taxes?

Mr. ALUNAN. We have only two ways to decrease our cost of production, and they are to increase our production and to lower the wages of our laborers and employees. We cannot increase our production because we have the local limitation and the American limitation. We cannot reduce the wages and salaries of our people because we have to give them a decent living.

Mr. ROBBINS. Could you lower the average cost of production in the Philippines if the allotments now made to the less efficient producers were concentrated in the hands of your more efficient producers?

Mr. ALUNAN. You know, the more efficient producer is not depending only on the planters. He is depending on the land, and not all the land in one section can give the same average of production as one good land, for example. I mean, you can find in one section two or three planters that have good production because they have good land that can produce at a very low cost.

Mr. ROBBINS. Well, now, when the quota system was imposed, you decreased your production from 1,640,000 tons in the 1934 crop, you reduced it to around 30 percent or 34 percent?

Mr. ALUNAN. Yes, Sir.

Mr. ROBBINS. That reduction applied proportionately to all the planters, did it not?

Mr. ALUNAN. Yes, Sir.

Mr. ROBBINS. Then, it must mean the efficient planter reduced his production in the same amount as the inefficient.

Mr. ALUNAN. But you have to take into consideration that the United States Government paid all the amount of sugar that was destroyed, or rather, cane.

Mr. ROBBINS. We understand that. But you say there is no more room for additional efficient production, and I wonder if there is not room that is represented by the decrease that occurred in 1934—

Mr. ALUNAN. I cannot see the point.

Mr. ROBBINS. Suppose in 1934 you had been producing sugar on 1,000 hectares of very good land at low cost and your quota was such that your production only called for the use of 700 hectares at the present time. That would mean that you would have available 300 hectares of very good sugar-producing land. Now, my question is, would it not be possible for the Philippines as a whole to reduce its production costs if you, as an owner of idle efficient land, were to purchase the quota allotments of some of the inefficient plantations and transfer the production from the marginal land to this efficient land?

Mr. ALUNAN. It is not a question of efficient or inefficient producers. It is a question of big planters and small planters. What will happen

here if they continue that, is that the big planters will absorb the small planters. These small planters, who constitute 80 percent of the industry but who are producing only 800 to 1,000 piculs a year—these people cannot afford to operate, and the first thing they will do will be to sell their property and everything they have.

Mr. ROBBINS. You say that the determining factor, then, in cost is not the land but the type of organization under which it is operated.

Mr. ALUNAN. It is the type of organization, that the big majority of production is in the hands of small farmers, and as the record of the A.A.A. shows, 80 percent of it is in the hands of farmers who produce 800 to 1,000 piculs, farmers who are working their farms themselves with the aid of two or three members of their family.

Mr. ROBBINS. Then, if the sugar industry were reorganized, as it would tend to be under the pressure of necessity, you would decrease your cost by better functional organization as well as by concentrating your production on the best adapted lands?

Mr. ALUNAN. Well, if we can have an organization like they have in Cuba or Hawaii, where the plantations belong to the big corporations and centrals and they can use machinery and scientific equipment and, you know, all kinds of improvements. But the plantations are in the hands of poor people, planters who are producing only 1,000 piculs so that they can earn enough to cover their expenses; all these people are not in a condition to buy machinery or to employ scientists to help them. That is the organization since the beginning; and it is the law, because the law here does not permit anybody to have more than 1,000 hectares.

Chairman MACMURRAY. Are there other questions?

Mr. ROXAS. I would like to know if the Committee is willing to adjourn after Mr. Alunan, so that we can adjourn now.

Chairman MACMURRAY. It is now 12 o'clock. I believe that, in any case, we will have to postpone until this afternoon at 2:30 o'clock p.m. for those witnesses that would come later on in our schedule. I am wondering whether we should adjourn in the midst of Mr. Alunan's testimony, or if he could finish in the course of a few minutes.

Mr. ROXAS. Mr. Chairman, I have a few questions to ask Mr. Alunan.

Chairman MACMURRAY. Then perhaps we had better adjourn at this point and resume this afternoon at 2:30 o'clock p.m.

(Thereupon at 12:05 o'clock p.m., an adjournment was taken until 2:30 o'clock p.m.)

PROCEEDINGS OF SEPTEMBER 16, 1937  
AFTERNOON SESSION

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Thursday, September 16, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 2:35 p.m., on Thursday, September 16, 1937.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL ROXAS; and  
Mr. FRANK A. WARING.

Chairman MACMURRAY. Mr. Alunan will resume his testimony of this morning. I think someone was on the point of asking him some questions.

STATEMENT OF MR. RAFAEL R. ALUNAN—*Continued*

Mr. ROXAS. Mr. Chairman.

Chairman MACMURRAY. Mr. ROXAS.

Mr. ROXAS. You stated, Mr. Alunan, that during the second year of the imposition of the export tax a great many planters and probably some sugar centrals might not be able to produce sugar at a profit.

Mr. ALUNAN. Right.

Mr. ROXAS. Would you tell the Committee what would happen in two or three typical instances; let us take, for instance, the planters and a central that has a big quota, a central that has a reasonably large

quota, and a central whose quota is rather small, say, 4 or 6 thousand tons.

Mr. ALUNAN. Let us take the case of the Bacolod-Murcia.

Mr. ROXAS. What is the quota of the Bacolod-Murcia?

Mr. ALUNAN. About 46 thousand tons. The cost of production of that district is more or less the same. Of course, the cost of production of the big planters is a little bit lower than the cost of production of the small planters, and the first thing that will happen is that the small planters will be selling their quotas if they cannot make a profit.

Mr. ROXAS. To whom?

Mr. ALUNAN. Maybe to the big planters at the beginning, to those people that are able to produce sugar at a lower cost, in such a way that they can support paying the 5 to 10 percent of the export tax.

But as I said, the cost of production in one district, in the Bacolod-Murcia, for example, is more or less the same. The difference is not more than 10 or 20 percent, because you have to take into consideration the following: The kind of soil is almost the same, the climate is almost the same, and the wages and salaries paid in that district are almost the same. So, in one or two years more, everybody there will be unable to produce sugar. Somebody may say that the quota of this district can be absorbed or transferred to another district where the cost of production is lower. We have two districts in Negros that are well known, where the cost of production is very much lower than other centrals, and they are San Carlos and Bais; but all the land that can be dedicated to sugarcane is already in production.

Mr. ROXAS. In those districts?

Mr. ALUNAN. San Carlos, especially. That means that they cannot produce more than they are producing now.

Mr. ROXAS. Did not San Carlos have a larger production than the present quota?

Mr. ALUNAN. Their quota is almost the same as their annual production, because that central had been running since——

Mr. ROXAS. Before 1920?

Mr. ALUNAN. I think 1914.

Mr. ROXAS. So, if I understand correctly, Mr. Alunan, taking the planters in the Bacolod-Murcia district—and by the way, I understand there are about 900 planters there——

Mr. ALUNAN. About 700 planters.

Mr. ROXAS. According to your opinion, after the second year of export tax, how many of the small planters would have to produce sugar at a loss and would be forced to transfer their quota, first, to the larger producers in that district? But I understood you also to say that during the third or fourth year, at most, even the larger producers would not be able to produce sugar at a profit.



Mr. ALUNAN. Yes.

Mr. ROXAS. Do you mean to say that if the present excise tax of 50 cents per 100 pounds is maintained and the export taxes are imposed that the Bacolod-Murcia would have to close shop?

Mr. ALUNAN. If the prices of sugar do not go up.

Mr. ROXAS. Would have to close up around the fourth or fifth year of the imposition of the export tax?

Mr. ALUNAN. Around the third or fourth year.

Mr. ROXAS. Now, what would happen to a central, say like Pilar, which has, what you might call, a quota which is neither high nor very low. What is the quota? About 27 thousand tons?

Mr. ALUNAN. I am afraid that those small centrals will have to close almost after the first or second year of the imposition of the export tax.

Mr. ROXAS. Do you think that they will have to close sooner than Bais?

Mr. ALUNAN. Yes.

Mr. ROXAS. What would happen to a central, like Cebu, having 7 thousand tons?

Mr. ALUNAN. More or less the same.

Mr. ROXAS. Is there no hope of transferring the quotas of these centrals to other centrals more favorably situated?

Mr. ALUNAN. No, on account of what I said. They can buy the quota, but how about the land to produce that quota. All the lands available in San Carlos—that is the best district we have in the Philippine Islands—and Bais are all under cultivation. Maybe they can increase the production 10 or 20 percent. That is all.

Mr. ROXAS. When you talk of Bais and San Carlos—as the most favored areas—do you mean that they are the only two areas that can produce sugar at a profit, even paying the export taxes provided by the Independence Act?

Mr. ALUNAN. I believe these two areas can produce.

Mr. ROXAS. But outside of these areas are there others that can pay the export tax?

Mr. ALUNAN. I doubt it very much, Mr. Roxas.

Mr. ROXAS. Do you think that these two areas could produce sugar at a profit if that sugar has to pay the export tax plus 50 percent duty?

Mr. ALUNAN. No, Sir. If they have to pay an excise tax and they have to pay 50 percent duty, and the price of sugar does not go up to more than 5.50, it is impossible. If the actual prices continue to 3.50 they could not produce.

Mr. ROXAS. They cannot?

Mr. ALUNAN. Yes.

Mr. ROXAS. What do you think would happen in these areas if the sugar industry, because it could not produce at a profit, had to be completely stopped?

Mr. ALUNAN. The first effect of that would be unemployment; the second effect would be that the planters would be forced to plant rice and corn and live on them.

Mr. ROXAS. Is there no possibility, Mr. Alunan, that between now and, say, 1940, 1941, and 1942, when these export taxes are to be imposed, some readjustments may be effected in production cost, so that production cost may be lowered to such a degree that this reduction could absorb the amount of export tax?

Mr. ALUNAN. It is not absolutely improbable, but I say it is very difficult for these two reasons: First, in order to lower the cost of production you have to increase the amount of sugar to divide the expenses. We cannot increase that because we have a local limitation law; and we cannot ask the United States to increase the amount of sugar that we are exporting now. On the other hand, we cannot lower the wages and salaries of the laborers because you just cannot do it.

Mr. ROXAS. If, for example, by intensifying production within the lands now having a quota, by increasing production per hectare, could you not release part of the land that now is being planted in sugarcane and devote that land to the production of some other commodity, and thereby increase the yield of the present area—I mean the income that might be derived from the present area by reducing the production cost—is there a possibility of doing that?

Mr. ALUNAN. I should say it is not impossible, but what are you going to do with the land?

Mr. ROXAS. Is there no other crop that can be grown on the land?

Mr. ALUNAN. The only crops that I can think of, say in Negros, are rice and corn, and the profit that you could get from that is so little that it will not change the cost of production of the total areas.

Mr. ROXAS. If Negros and these other areas that have to abandon the production of sugar were to plant rice and corn, what would happen to the rice and corn industries here?

Mr. ALUNAN. I said this morning the first thing that would happen is, I believe, that the rice and corn industries would be completely destroyed, because you have now one million people in Negros buying rice from Iloilo, Capiz, and Panay, and even from Luzon. Now, if these people cannot produce cane, they will produce at least enough rice and corn for their consumption, and thereby, instead of having one million people buying these commodities we will have one million people selling them; at least they will stop buying them.

Mr. ROXAS. What would you consider, Mr. Alunan, the largest percentage of the American tariff in sugar that under the present condition you believe the industry could absorb? I do not know if I have made my question clear. I wish to repeat it. What percentage of the American tariff do you believe could be paid by the sugar industry and, at the same time, continue with the present volume of production at a profit?

Mr. ALUNAN. If I can have my own say, Mr. Roxas, I should say that if you can give 15 or 20 years of limited free trade, as it is now, to the sugar industry, after that time it would be possible for the industry to pay up to 50 percent of the tariff.

Mr. ROXAS. By increasing the efficiency in production?

Mr. ALUNAN. In abandoning those districts where the cost of production is necessarily too high and developing other kind of products that can be produced in the land that cannot be planted with sugarcane. But I would like to say here that it seems to me that it is a dream to expect the Filipino people to develop any new product or industry in 5 or 10 years. That is absolutely impossible, in my opinion. You know when you develop a new industry, you not only need to have capital to develop the industry, but you have to teach the people how to grow that product and at the same time look for a market for that product. Nobody will invest any amount of money unless he is sure that the product that he is growing will sell at a profit. And all that will take time.

Mr. ROXAS. Do I understand you to say that, in your opinion, you would require at least 20 years of free trade with the United States in order that the sugar industry may be able to pay 50 percent of the duty and survive?

Mr. ALUNAN. Yes.

Mr. ROXAS. What do you mean by the continuation of the present free trade in modified form? You mean with the payment of export duties?

Mr. ALUNAN. No; without that absolutely.

Mr. ROXAS. So, in your opinion, if it is the desire to safeguard this industry, you would require 20 years with no tariff imposition either in the form of export duties or import duties?

Mr. ALUNAN. Yes.

Mr. ROXAS. And if that were not done, you believe that the industry would perish?

Mr. ALUNAN. Yes.

Mr. ROXAS. If an imposition is made, over what percentage?

Mr. ALUNAN. Well, 25 percent, and then full duty in 1946 or 1947.

Mr. ROXAS. If the present export taxes are retained, do I understand you to say that two or three years before independence the

volume of our sugar that we can export to the United States would be decreased?

Mr. ALUNAN. It will be reduced 2,400 tons.

Mr. ROXAS. Suppose, Mr. Alunan, it were impossible to maintain preferential trade—and this is just a possibility, I am not assuming anything—suppose it were impossible to maintain a preferential trade relationship with the United States after a certain number of years. What in your opinion could be done in Negros, for example, to utilize advantageously the areas that are now being planted with sugarcane? Has there been any study made by your association as to the possibility of utilizing advantageously those areas?

Mr. ALUNAN. I am sorry to say that the planters, the centrals, and the Government are doing nothing to develop new industries or new products in these lands. We are now in exactly the same condition as we were four or five years ago.

Mr. ROXAS. But do you think there is a possibility of doing anything, producing other crops, for example?

Mr. ALUNAN. I do not see any possibility.

Mr. ROXAS. You mean to imply that, if you no longer produce sugar at a profit, you would allow your lands to remain idle?

Mr. ALUNAN. Not that. We can produce, but we do not expect to get the same profit that we are getting from sugarcane. The first thing we will do is to plant the land in rice and corn. At least we can live. But the standard of living of the people there will go down again to the same standard that we had 30 or 40 years ago. There is no question about that.

Chairman MACMURRAY. Are there further questions?

Mr. WARING. Mr. Alunan, your remarks in connection with Mr. Roxas' question raised one or two points in my mind. You said just a moment ago that the industry was in exactly the same condition that it was in five years ago, and yet you also advocate—

Mr. ALUNAN. May I explain that? What I mean is this: If you go to the *haciendas* now, they are really doing exactly the same work that they were doing four or five years ago. They are just producing cane in those places that they believe can produce cane, or produce rice and corn; that is, they are not developing other products or devoting any time to produce another product that can take the place of sugar.

Mr. WARING. Well, you also said that you believed that if limited free trade were extended for a period of 15 or 20 years the industry might be able to bear half of the present duty based on present prices.

Mr. ALUNAN. Well, that is just an estimate I made.

Mr. WARING. Yes; but if no changes in particular have been made during the last few years, what reason would there be to expect that changes would be made during the next 5, 10, or 15 years, if there were no additional pressure brought to bear?

Mr. ALUNAN. The difference is this, Mr. Waring. That at least right now the sugar-people know that after 1946 they have to close everything; that the sugar industry is finished. In fact, all the planters and centrals are now liquidating in such a way that they can retire all their capital in 1946, because they know that it will be impossible for them to send sugar to the United States paying duty. But if you tell them that they will have 15 or 20 years and after that they will pay 50 percent of the duty, they will be preparing from now on; and, as I said, it is impossible to develop new products in 5 or 10 years; you have to give them at least 15 or 20 years to develop new industries.

Mr. WARING. Your thought then is that if you have 15 or 20 years of limited free trade the less efficient areas would be abandoned and the more efficient areas would intensify their cultivation, and general effort would be made to reduce cost.

Mr. ALUNAN. Yes, Sir.

Mr. WARING. Now, I thought in answer to one of Mr. Roxas' questions, you intimated that it might be possible for the planters to increase their yield per hectare. Is that so?

Mr. ALUNAN. Yes, but not enough to reduce their cost of production because they cannot increase their production in any way.

Mr. WARING. What I was thinking is this: Even though you are now under a quota system which limits your production, if you could increase the yield in the more efficient areas, that would release land for other uses, as intimated by Mr. Roxas. Now, if the less efficient areas in producing sugar gave up their quotas, would it not be possible for these first areas to take over a rather large portion of that quota and reduce their cost, both by increasing the yield per hectare and by increasing the volume of sugar put through the central?

Mr. ALUNAN. Well, in answering Mr. Roxas, I said that, in accordance with my information and best knowledge, the most that they can increase, taking over those quotas of less favorable areas, is about 10 percent or 20 percent, on account of the fact that the lands in these areas are already in cultivation, producing the maximum that they can produce.

Mr. WARING. Thank you.

Mr. ROMERO. Could you tell us, Mr. Alunan, how you arrived at the estimate of 15 or 20 years as a period that would be necessary to enable the Philippine sugar-planters to pay one half of the duty? What is the basis for such an estimate?

Mr. ALUNAN. The basis for that is that to develop the sugar industry to the state that it is now in we needed about 15 years.

Mr. ROMERO. And you need another 15 years to develop new products.

Mr. ALUNAN. Yes, we need another 15 years to develop new products to be planted in those areas that we are abandoning.

Mr. ROMERO. I thought the idea suggested by you was that if the Philippine sugar industry had 15 or 20 years' limited free trade, after that period we could continue producing sugar and pay one half of the American tariff rates. Was it not?

Mr. ALUNAN. I am going to explain that in this way. Suppose you are a planter of 100 hectares. You have 100 hectares. Out of that 100 hectares, you are planting now about 80 hectares to produce 8,000 piculs. Your average is about 100 piculs per hectare. Now, by improving your cultivation, introducing new varieties, introducing new kinds of fertilizer, you can improve your yield per hectare so that instead of producing 100 piculs you can produce 200 piculs per hectare, and instead of planting 80 hectares out of your 100 hectares every year, you do not need to plant but 50 hectares every year to produce your same quota of 8,000 piculs. Now, you have another 50 hectares idle. If you have time to develop new products for that 50 hectares instead of leaving it vacant, you can produce another product that will help you to reduce your cost of production for the whole *hacienda*.

Mr. ROMERO. The problem therefore, as I see it, is in improving the yield per hectare by the introduction of new products.

Mr. ALUNAN. And by introducing new products to be planted in that other half of the *hacienda*.

Mr. ROMERO. Do you have any particular products in mind at present?

Mr. ALUNAN. Not yet. That is a question of experimenting.

Mr. ROMERO. So all this estimate is based on the highest hope that sometime in the future we may find some products that will have a good market.

Mr. ALUNAN. If given time and assistance, I am sure that the planters will do that.

Mr. ROMERO. Will find some products that will have a good market?

Mr. ALUNAN. But you have to give them time. As I said, you cannot develop a new product in this country in less than 15 years.

Mr. DORFMAN. This morning, Mr. Alunan, you stated that about 40 or 45 percent of the revenues obtained by the Philippine Government came from sugar. Is that correct?

Mr. ALUNAN. That information was given by Governor Murphy to President Roosevelt, I understand.

Mr. DORFMAN. I wonder if you would be good enough to supply that to the Committee for the purpose of introducing it into the record.

Mr. ALUNAN. I will do it. I think that is in the record of the Government here, but I will get it.

Mr. DORFMAN. I wonder if I may ask a few more questions concerning the number of people dependent on the sugar industry.

Mr. ALUNAN. Yes, Sir; I would be glad to answer.

Mr. DORFMAN. Would you say that the size of families of the people in the sugar business was about the same from central to central and from plantation to plantation? That is, would you expect the families in Luzon to be smaller or larger than those in Negros?

Mr. ALUNAN. I think they are about the same in the whole Islands.

Mr. DORFMAN. According to the figures supplied us this morning, about 2,000,000 tons of sugar have been allotted to all the producers in the Islands. About 1,200,000 tons have been allotted to Negros, or about 60 percent of the total. Does that strike you as being about right?

Mr. ALUNAN. I think so.

Mr. DORFMAN. Those figures are contained in the brief submitted this morning.

Mr. ALUNAN. I think that is the information from the A.A.A.

Mr. DORFMAN. About 60 percent for Negros. This noon, I obtained figures on the population of Negros from two sources, the Department of Health and the Department of Commerce. The Department of Health estimates the population, as of July 1, 1937: Occidental Negros, 493,000; Oriental Negros, 362,000; or a total of about 855,000. Is that about right?

Mr. ALUNAN. Maybe that is the permanent population of Negros. They are not including there the floating population. During the milling season in Negros, people come from Iloilo, Antique, Cebu, and Bohol; not less than 100,000 go to Negros from these places.

Mr. DORFMAN. What percentage of the permanent population in Negros would you say was dependent on sugar?

Mr. ALUNAN. I should say that 90 percent of the people in Negros are dependent on sugar. Because even the people in the towns are dependent on sugar.

Mr. DORFMAN. Let us say that everyone in the island is dependent on sugar—every man, woman, or child—which would take care of your temporary laborers as well. That means that 860,000 people produce 60 percent of your sugar, and, on a corresponding basis, the remaining 40 percent of the sugar would be produced by another 573,000. So, even if every man, woman, and child in Negros were dependent on sugar, and if persons in other islands producing sugar were likewise dependent on that industry in the same proportion, you would have a total number of people dependent on sugar of less than 1,500,000. The only possible basis for an estimate of 2,000,000 would be that workers outside of Negros produce much less sugar per person or that the figure you have given us is not correct.

Mr. ALUNAN. Mr. Dorfman, we have the record here of the actual number of people working in the centrals and plantations. We have that, of course. I think I gave it to you this morning. We classify the people that are dependent on sugar. If you do not have it, I will submit it in a few days. There are 150,000 employees and laborers and their families.

Mr. DORFMAN. Have you counted any of those families twice? I think this morning you told me that you asked each worker how many people there were in his family. Now, where you have two brothers working for you, do you ask each one of those brothers how many persons he has in his family and then add the two figures?

Mr. ALUNAN. We have the payrolls of the centrals. I am going to tell you now: centrals' employees, laborers and their families number 150,000. We know that exactly because we provide them with houses, and all centrals are taking care of their people living inside the mill site. Sugar-planters and their dependents, 90,000. These are the people that have plantations and that run the plantations with their families. Tenants, subtenants, known locally as "*inquilinos* or *kasamas*, 1,050,000. Planters' laborers and their families, about 600,000. We have estimated that about 100,000 are the employees, agents, dealers, and merchants who have something to do with sugar. Of course, we did not count one by one all these people, with the exception of the employees and laborers in our centrals who are on our payrolls, and I know exactly how many are living there because we are providing them with houses.

Mr. DORFMAN. Now, then, how would you explain the fact that, if you regarded everyone in Negros as dependent on sugar and know that they produce in the aggregate 60 percent of all the sugar produced in the Islands, you would have 2 million people dependent on the industry. On the same basis of production outside of Negros as in Negros—it would work out to only 1,400,000. How would you explain that apparent discrepancy?

Mr. ALUNAN. I did not get your question, Mr. Dorfman.

Mr. DORFMAN. If we assume that everyone in Negros is dependent on sugar for a livelihood, that would mean that 860,000 people are dependent on sugar—

Mr. ALUNAN. Well, I said that they are dependent on sugar because every one in Negros, if not living on the wages and salary he is receiving from the centrals or plantations, is dedicating himself to selling something to the laborers and employees of the centrals and plantations.

Mr. DORFMAN. Well, I am taking that as the outside figure. You cannot have more than 100 percent of the people dependent on sugar. If 100 percent of the people on the island of Negros are dependent on



sugar, and they number only 860,000 and produce 60 percent of the sugar, then it would be a reasonable assumption that the other 40 percent of the sugar was produced by an additional 573,000 people. In other words, 860,000 people produce 60 percent and 573,000 produce 40 percent; or, in the aggregate, you have 1,433,000.

Mr. ALUNAN. I do not know, Mr. Dorfman, if your conclusion is correct, but I am giving you the numbers in accordance with the statistics that we have now.

Mr. DORFMAN. But I am asking you to explain the discrepancy between those numbers and the numbers based on the population figures which the Government supplies and the amount of sugar produced in Negros.

Mr. ALUNAN. Maybe there are more people dependent in Luzon than in Negros. Maybe that is the only explanation.

Mr. DORFMAN. You have more people producing 40 percent of the sugar than 60 percent of it?

Mr. ALUNAN. Maybe.

Mr. DORFMAN. Would you have twice as many?

Mr. ALUNAN. Maybe; I am not sure, but I think that is the only explanation of that discrepancy.

Mr. DORFMAN. Well—

Mr. ALUNAN. I am giving you the exact number of the people that are engaged in this business in the Philippines.

Mr. DORFMAN. I am not clear on that point. In arriving at that figure you asked each person how many there were in his family? Is that right?

Mr. ALUNAN. Those that are in the centrals. We know exactly the people living in the centrals because we have a census of the employees and laborers living in the centrals and working for the centrals.

Mr. DORFMAN. And you asked each of those how many there were in his family, then you added all those figures?

Mr. ALUNAN. Yes, and this is the result, as I said.

Mr. DORFMAN. Yes, I understand that. But what provision did you make for avoiding duplication? It is conceivable that you have a father and son, or two brothers, or three brothers working for you. What plan do you have for preventing duplication in counting their dependents?

Mr. ALUNAN. Well, they have—each house, for example, they count the people living in each house.

Mr. DORFMAN. I thought you said that you determined that number by asking each worker how many people there were in his family? Or did you actually do it by counting the number of people in each house?

Mr. ALUNAN. Well, by counting the people in the house and also asking the laborers how many people there were in each family.

Mr. DORFMAN. And the two totals are the same?

Mr. ALUNAN. More or less.

Mr. DORFMAN. Thank you.

Mr. ROBBINS. Mr. Roxas asked you what adjustment plans, if any, are being put into effect looking forward to 1946 under the present Independence Act, and I believe you said that no plans were being made that you knew of.

Mr. ALUNAN. That is what I said. So far as I know the only plan the centrals have is liquidation of the business, finish the sugar industry in 1946. That is the only way that we have.

Mr. ROBBINS. From your testimony you have indicated that even though you had 15 years of free trade and then an additional period of increasing taxes, still, after all that opportunity, the sugar industry could not hope to survive beyond the point at which those taxes would be in excess of 40 percent of the full duty; is that correct?

Mr. ALUNAN. Well, that is just the thought of the moment. I did not make any study of that.

Mr. ROBBINS. Well, if you—

Mr. ALUNAN. It was just my answer to the question.

Mr. ROBBINS. If you were correct, and if, ultimately, trade preferences were eliminated, then that would indicate that, in your opinion, regardless of the ample opportunity given, the sugar industry could not hope to so adjust its cost as to survive the elimination of trade preferences?

Mr. ALUNAN. You mean after 1946?

Mr. ROBBINS. No, I mean at any time, no matter how long the period.

Mr. ALUNAN. No, that is quite different.

Mr. ROBBINS. I gather from what you said that, whatever opportunity for adjustment and improvement might be given, the industry would, even after 15 years of free trade, be able to survive only if the taxes imposed were not in excess of 50 percent full duty; is that correct?

Mr. ALUNAN. Yes.

Mr. ROBBINS. Therefore, you can't hope to perpetuate this industry with the full duty imposed?

Mr. ALUNAN. With the full duty? Impossible.

Mr. ROBBINS. Under any circumstance?

Mr. ALUNAN. Well, if the price of sugar goes up higher than the actual average, of course.

Mr. ROBBINS. Assuming \$3.50, for example?

Mr. ALUNAN. If we have to pay duty, I do not see how.

Mr. ROBBINS. Then your problem in the sugar industry and for the people of the Philippines is not so much having an opportunity to

reduce your cost, in order to have some of the industry survive, but your problem would seem to be twofold: first, to give an opportunity to those now engaged in the industry here, as laborers and investors, to liquidate their investment; and, secondly, to give an opportunity to find a substitute industry or crop. Does it come to that logically, that, in your opinion, from what you have said, it is hopeless that any part of the industry could survive? And that therefore, you have two problems: one, to afford an adequate opportunity for liquidation of the present industry, and, two, to afford an adequate opportunity for the substitution of some replacement industries?

Mr. ALUNAN. What I said is this, Mr. Robbins: If the law continues as it is now—I mean that if in 1946 we have to pay full duty—the only future of the sugar industry is liquidation up to that time. But if, instead of imposing the full duty on the Philippine Islands in 1946, you give to the Philippines 15 or 20 years of the actual conditions, actual free trade, you give an opportunity to the planters and to the centrals, in the first place, to improve the production of lands and, in the second place, to develop new products that can be planted or that can be produced in the vacant land that they cannot plant with cane. As I said, supposing that you have 100 hectares and that your quota is 10,000 piculs, with the average per hectare of 100 piculs, you have to plant every year 100 hectares. If you can improve your production, your cultivation, and instead of producing 100 piculs per hectare you produce 200, you can reduce the area planted from 100 to 50 hectares and still produce your whole quota of 10,000 piculs. You can plant the other 50 hectares not planted with cane with other products, and the benefit of your production will reduce the cost of production of the sugar that will go to the United States and pay so many kinds of duties.

Mr. ROBBINS. I understood that, but I also understood you to say that, even though this opportunity were given and the maximum improvement were brought about, still your opinion is that the industry could not survive under the imposition of more than 50 percent of the United States full duty, is that your statement?

Mr. ALUNAN. Yes. As I said, that was my thought of the moment.

Mr. ROBBINS. Therefore, your problems presumably become more of liquidation. You cannot avoid eventual elimination?

Mr. ALUNAN. If we have to pay full duty.

Mr. ROBBINS. Not one of adjustment?

Mr. ALUNAN. That has been our stand: that we cannot survive if we pay full duty. We cannot compete with the oriental countries, on account of the fact that our cost of production is higher than theirs.

Mr. ROBBINS. I suppose that there might be certain financial requirements for any adjustment program. You said that the prospects would be uninviting to private capital, which would indicate that you feel that, in order to encourage substitute industries, the Government might have to lend some financial assistance?

Mr. ALUNAN. At least you have to help in the development of those products and in the look-out for new markets for those products.

Mr. ROBBINS. What adjustments have resulted so far from the imposition of the quota restrictions which were applied in 1934?

Mr. ALUNAN. What readjustments—what do you mean?

Mr. ROBBINS. What substitute crops, for instance, were planted?

Mr. ALUNAN. Primarily rice and corn.

Mr. ROBBINS. Rice and corn?

Mr. ALUNAN. Yes.

Mr. ROBBINS. Have you any idea of the extent of the area in which other products were substituted for sugar?

Mr. ALUNAN. No. The only thing I know is that all the vacant land that we cannot plant with cane—because it is not necessary to produce the quotas—we plant with rice and corn.

Mr. ROBBINS. There is some data on that which may soon be made available in final form, which was collected by the United States Department of Agriculture; and it indicated that what you said is true, namely, that the chief products to which the former sugar lands were devoted were rice and corn; but there were a great many other products, as you can see in this long list of crops. Perhaps 30 to 50 different crops were substituted for sugar in large or very small, insignificant part. Now, that was a very serious adjustment, in terms of volume, to occur in such a brief period. Did that adjustment bring any hardship, particularly the restriction program?

Mr. ALUNAN. This actual restriction?

Mr. ROBBINS. Under the quotas the production was decreased. Did the adjustment or restriction involve any particular hardships?

Mr. ALUNAN. Oh, yes.

Mr. ROBBINS. What were they? Will you describe them?

Mr. ALUNAN. Well, in the first place, the people have already developed certain portions of their land to products where they are producing now, for example, 2,500 piculs; and you know that to produce that amount they have to spend some money to prepare the ditches and to put the lands in condition to be planted with cane. But that was changed by the American Government. The benefit payment that the American Government has been disbursing here helps the farmers a lot.

Mr. ROBBINS. That offset the loss that the farmers would otherwise have suffered. How much was that—the total on all the crops, do you remember?

Mr. ALUNAN. I do not remember the exact amount.

Mr. ROBBINS. About 15 million dollars or 30 million pesos?

Mr. ALUNAN. I think 28 million pesos.

Mr. ROBBINS. There was no particular hardship to the planters on account of that, because the source of income was unimpaired? Did anyone suffer?

Mr. ALUNAN. Well, they suffered in the same way that the planters suffered, because the planters are actually spending money to plant the cane.

Mr. ROBBINS. What about the employees?

Mr. ALUNAN. Employees of the centrals?

Mr. ROBBINS. Of the plantations, the farms?

Mr. ALUNAN. Well, they had already received their wages.

Mr. ROBBINS. Were not some of them thrown out of work by this restriction program?

Mr. ALUNAN. Oh, yes; I believe some of the planters have reduced their personnel.

Mr. ROBBINS. Do you know where they found reemployment for the most part?

Mr. ALUNAN. I do not know.

Mr. ROBBINS. I take it from what you have indicated before that it is true that the sugar industry is one of the most desirable employers in the Islands, if not the most desirable. And that is one of the reasons that you want to perpetuate it; that of all the major industries it pays more wages in the form of accommodation, medical services, and so forth. Is that true?

Mr. ALUNAN. Yes.

Mr. ROBBINS. What industry on the average would pay unskilled labor the wages nearest to the sugar industry?

Mr. ALUNAN. I think the cordage people here in Manila are paying good wages also.

Mr. ROBBINS. In the case of the manufacture of rope—how about the agricultural industry? Are the wages paid in the production of rice, corn, or coconuts comparable to those paid for field labor in sugar?

Mr. ALUNAN. No; because in the rice industry, for example, ordinarily the laborers participate in the production.

Mr. ROBBINS. About how many centavos per day is the difference, do you think, between the wages of laborers (for unskilled work) in the sugar industry and in the agricultural industry, generally, in the Philippine Islands?

Mr. ALUNAN. You know in the sugar industry we pay to unskilled labor around one peso a day, but we give them houses.

Mr. ROBBINS. You are speaking of the employees of the centrals. Well, I mean the great average, including the agricultural laborers. Their wages do not average a peso a day?

Mr. ALUNAN. No; I am explaining first the central, then I am going to pass on to what I think is the condition of the *haciendas*. To the unskilled laborers of the centrals, we pay an average of one peso a day. It is a little bit less in the off season but more than one peso during the milling season, and besides we give them house, light, quarters, medical service, school for the children, and a club house, firewood—all that is necessary for them to live.

Mr. ROBBINS. What do you consider the average value of all those in terms of wages?

Mr. ALUNAN. Including the lights and everything?

Mr. ROBBINS. For instance, is the value of the housing accommodations, hospitalization, and so forth, equivalent to an additional half peso in cash daily?

Mr. ALUNAN. I should say a little bit more, about a peso more. And then, that is the central. In the plantations, at least in Negros, we give around 60 centavos a day to the laborer, plus one house with a small lot where he can raise vegetables. And during the milling season, we give them what we call *pakiao*, or contract work, and usually they can make more than ₱1.50, or about ₱2 a day. And of course most of the planters consider their laborers as part of the family. If they have trouble, or somebody is sick, the planters have to pay for the doctor and medicine; if somebody dies, they have to pay for the burial.

Mr. ROBBINS. I can understand that. Now, taking it all into account, what would you say would be a reasonable estimate of the average income of the Filipino field laborer in the sugar industry and of field laborers in other agricultural industries?

Mr. ALUNAN. Well, I am not familiar, Mr. Robbins, with what they pay in the other industries, because in my whole lifetime I have been a sugar-planter, and I can speak only of sugar. I can say, however, the sugar industry pays the highest.

Mr. ROBBINS. This morning it was indicated by the spokesman for the planters that the profit from the use of land in the production of sugar greatly exceeds the profit from land used for the production of any other crop; is that true?

Mr. ALUNAN. I said so this morning.

Mr. ROBBINS. And you indicated that the profits of the centrals were probably comparable to those of the planters, did you not?

Mr. ALUNAN. Yes, more or less.

Mr. ROBBINS. That would give us *in toto* a very highly profitable industry, would it not? It pays the highest wages in the Islands, and it has become the most profitable pursuit.

Mr. ALUNAN. As long as we can send sugar to the United States free of duty, it is the most profitable industry in the Islands.

Mr. ROBBINS. It seems to me, upon reading your brief, that you were very much concerned with your problem of avoiding, so far as possible, any increased burden on your industry; and I think everyone would sympathize with that, because no one, presumably, loves additional taxes. But you have indicated that the Government may require, in order to finance an adjustment program, considerable sums of money, and you have indicated that of all the industries in the Islands sugar is the most profitable. Now, do you think that on that basis the Government might be justified in assuming that perhaps the best place to raise this additional fund to be used for the public welfare would be by levying some sort of a tax on sugar? Where else could you find a more appropriate source of funds for public purposes?

Mr. ALUNAN. I am going to answer that question in this way, Mr. Robbins. The sugar industry—if we can follow that—if we can live, instead of seven or eight years, 15 or 20 years more, we will be very glad to give to the Government part of the profits every year to help in the development of new industries or new production in this country to take the place of sugar. But when you know exactly that your life is for seven or eight years, you have to economize if you want to retire your invested capital with a reasonable profit during that time. I would prefer a business which gives me 10 or 15 percent profit every year but which I know would last 50 or 60 years, to a business which gives me 30 percent every year but which will last me only for five or six years. What are we going to do with all these machineries that we have now?

Mr. ROBBINS. Another problem of the industry seems to be, on the basis of what the Committee was told this morning, one of rigidity, because of the presence of inflexible contracts between centrals and planters and between landowners and tenants. It was indicated that while the total income of the industry might be adequate for the general welfare of its workers, in fact greater than any other industry, you have an almost impossible situation on your hands in readjusting these contractual relationships. Now, I wonder what possibilities, if any, you have in mind. Would you propose that by legal compulsion the contracts between centrals and planters be rewritten?

Mr. ALUNAN. I would prefer not to answer that question.

Mr. ROBBINS. Do you think that some other device might be used? Do you suppose that the centrals and planters would agree to submit their problem for arbitration to a disinterested party appointed by the Government?

Mr. ALUNAN. I am sure that the planters and centrals would be glad to discuss it with the Government sometime.

Mr. ROBBINS. Do you think that they would agree to act in accordance with the findings?

Mr. ALUNAN. That is something that I cannot say, because that is dependent on individual interest; but I am sure that the industry as a whole will be glad to discuss this question with the Government whenever the Government deems it necessary to do so.

Mr. ROBBINS. You said this morning that you are a sugar-planter, and since you are also the president of the Philippine Sugar Association, it seems to me that you are in an excellent position to view this problem from both sides and that you might make some suggestions on at least the possibilities that may exist of inserting enough flexibility into the situation to make it more readily adaptable to adjustment.

Mr. ALUNAN. Well, as I told you, Mr. Robbins, I am sure that the sugar industry as a whole, which means centrals and planters, would be very glad to discuss that question with the Government when the Government finds it necessary to study the condition.

Mr. ROBBINS. In your brief and in your testimony also, you request a long period of free trade. In fact, the brief urges a permanent free-trade relationship. But, of course, as you know, political independence is, under normal circumstances, eventually accompanied by economic independence. Now, suppose you faced this problem: That you had been asked to recommend a plan for the gradual elimination of all trade preferences between the Philippines and the United States and that you could not, therefore, turn to the alternative of continuing trade preferences. Your duty would be to recommend a program to eliminate them. On the basis of your experience, and viewing the problem from the broadest considerations of the public interest, what would you suggest as a program of eliminating trade preferences with respect to your industry?

Mr. ALUNAN. In the first place, I do not understand why the trade relations between the two countries cannot continue.

Mr. ROBBINS. We are not discussing that. I am putting that question aside for the present. What I am asking is, we are assuming that you have one problem before you and must recommend a program for the gradual elimination of all trade preferences. What would you propose?

Mr. ALUNAN. I would propose between 15 or 20 years at least.

Mr. ROBBINS. You would propose 15 or 20 years for the elimination, giving a long time.

Mr. ALUNAN. In such a way that you give an opportunity to the Filipino people to readjust themselves.

Mr. ROBBINS. Well, how would you plan that adjustment period? Would you, in applying your taxes, apply them gradually from year



to year with small increments or would you begin by wiping out a substantial amount and then extending that adjustment for four or five years, and then introduce another large adjustment in the industry? Which would you prefer?

Mr. ALUNAN. At the moment I cannot tell you what is the best, to increase the tariff on the Philippine product that goes to the United States or to decrease the amounts that we can send to the United States every year.

Mr. ROBBINS. Whichever way it is done, which would you think the best, and for the public interest, a very gradual elimination spread over the whole period or certain very abrupt changes within the period?

Mr. ALUNAN. Gradual. Of course, that export tax of 25 percent and then full tariff after that is a little bit strong, to my mind.

Mr. ROBBINS. This morning I undertook to obtain from you informal estimates of the profits of the centrals in order that the Committee could more nearly appraise, with the use of such facts as you might add to what we already possess, the degree of pressure that would be placed on your industry if certain graduated taxes applied, and you were unable to supply that information. If you would be kind enough, I think it would be useful if you would insert in the record, data on dividends, paid by the centrals, that your association may possess. I suppose you have that.

Mr. ALUNAN. We do not have that, Mr. Robbins, because we have nothing to do with the administration of the centrals.

Mr. ROBBINS. Do you suppose that your association would be kind enough to undertake to collect that data from such centrals as have it available?

Mr. ALUNAN. I was going to say that, if I am not misinformed, I believe the Tariff Commission has all that information.

Mr. ROBBINS. That is not up to date, and it is not on the basis on which I was going to request you to place the figures. Let us leave it this way, optional to the association, that I suggest that it would be helpful if you would supply us with such data as is available on dividends that have been paid by the sugar centrals, stating those dividends in total, that is, cash, stock, and other special-asset dividends, as a percentage of the original cash capital investments and other capital commitments.

Mr. ALUNAN. I will try to get that information for you, Mr. Robbins.

Mr. ROBBINS. I believe that is all, thank you.

Chairman MACMURRAY. Are there further questions?

Mr. DORFMAN. Mr. Alunan, do I understand you to say that the centrals and planters are already in the process of liquidating, in anticipation of export taxes and the like?

Mr. ALUNAN. No, in anticipation of independence in 1946, and the payment of full duty in 1947.

Mr. DORFMAN. Well, that the industry has already begun to liquidate?

Mr. ALUNAN. They are beginning to retire their capital in such a way that in 1946 or 1947 all capital would be retired.

Mr. DORFMAN. Precisely in what way has this liquidation manifested itself? Just what have they done? Have there been no new leases between planters or tenants to run past 6 or 10 years? Have any new leases been made recently between planters and tenants to run past 6 or 10 years, and if so, how many?

Mr. ALUNAN. No. All the life of the leases is only for 1945 or 1946.

Mr. DORFMAN. No leases extend beyond that?

Mr. ALUNAN. None beyond that.

Mr. ROBBINS. May I ask another question? I wonder if in facilitating the distribution of your quota allotments, Mr. Alunan, from the least-adapted to the most productive lands, it would be helpful if your Government acted as an intermediary agency to receive the allotments of marginal producers, as their profits tended to disappear with the gradual elimination of trade preferences, and to sell those allotments, for what they would bring, to the more efficient producers who had land available to use them, and then compensate the marginal producer. Pay the seller a liquidation dividend, so to speak, by turning over to him the proceeds of the sale of the allotment privilege. Would you believe that some such arrangement would be advisable to facilitate adjustment in this case?

Mr. ALUNAN. The Government you mean? Well, every transfer of quota now has to be approved by the Government.

Mr. ROBBINS. Well, does the Government act as a real-estate broker acts, for instance, in trying to bring buyer and seller together? I wonder if that would contribute anything to the solution of your problem.

Mr. ALUNAN. No, it is not acting as a broker, but any agreement between the two parties has to be approved by the Government.

Mr. ROBBINS. But do you think the Government might help in that way?

Mr. ALUNAN. It might.

Mr. ROBBINS. Just one other thing. You stated that, in your opinion, Bais, being one of your lowest-cost areas, could not increase its production more than 20 percent.

Mr. ALUNAN. Yes, because all the land there is good land, I mean for cane. It is already planted.

Mr. ROBBINS. I wonder if your information is complete or what the explanation may be; because, when the Committee visited that

central area, one of the largest producers, if not the largest, advised Mr. Roxas and me that, in his opinion, the production there could be increased from 50 to 100 percent if quota privileges were only made available from marginal plantations elsewhere.

Mr. ALUNAN. Well, I do not know. I am not very sure of Bais, but I mentioned two districts that are very low cost areas, and they are San Carlos and Bais.

Chairman MACMURRAY. Are there further questions? (No response.) Thank you very much, Mr. Alunan.

(Here follows the printed brief submitted by the Philippine Sugar Association.<sup>1</sup>)

Senator Harry B. Hawes will continue, please, on behalf of the Philippine Sugar Association.

#### STATEMENT OF THE HONORABLE HARRY B. HAWES, REPRESENTING THE PHILIPPINE SUGAR ASSOCIATION

Mr. HAWES. Mr. Chairman and Gentlemen of the Committee: I have brought with me a brief,<sup>1</sup> which I ask permission to file, that deals very largely with what might be called the historical background of this subject; for, without that historical background, I am quite satisfied that neither the Committee nor the Congress will understand this question.

I approach the subject with the greatest sympathy for a successful termination of this inquiry, realizing of course that when the Committee is through, the Americans on the Committee will present their point of view to the President of the United States, the President of the United States will confer with his Cabinet, and a similar course will be pursued by President Quezon. And then, ultimately and finally, and for the purpose of final decision, the subject will go to the Congress of the United States for final decision by them and, I assume, to the Philippine Assembly for final decision by them.

I have taken the liberty of going outside of economics a bit, because I believe the United States has entered into what might be termed a contractual relationship with the Filipino people.

In 1931 the Senate of the United States commenced to study the question of ultimate independence. It was a long and a very thorough study, followed by one upon the part of the House of Representatives, resulting in what I might term, if you please, an offer of independence to the Filipino people. It did not give the Filipino people independence; it offered them independence under certain conditions, subject to their approval of those conditions and

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<sup>1</sup> See vol. III.

their acceptance, amongst other things, of a constitution, a form of government, to be presented to the President of the United States for his approval or disapproval.

These things were done ultimately; but here comes a vital historical fact, divorced entirely from the subject of economics: When the first offer was presented to the Filipino people, it was rejected; it was rejected largely because of certain economic provisions contained in that bill.

Thereupon a new proposal was presented. In that new proposal there were very few changes from the first proposal. There was one word changed in the title in the first offer and placed in the second offer. The word "complete" was put in, and it changed the title of the bill by one word.

But there was a very definite departure from the first offer and the second offer contained in a message of the President of the United States when he sent the bill to Congress and stated, to quote: "I do not believe that other provisions of the original law need to 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 people."

And I assume that this honorable Committee is engaged today in that particular work. Let me call your attention to the reception of this second proposal by the Filipino people. Their answer when they accepted the bill was: "Because the Filipino people cannot, consistent with their national dignity and love of freedom, decline to accept the independence that the said Act grants; (b) because the President of the United States, in his message to Congress on March 2, 1934, recommending the enactment of said law, stated: 'I do not believe that other provisions of the original law need to 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 people', a statement [this is the language of the Philippine Assembly] which gives to the Filipino people reasonable assurance of further hearings and due consideration of their views." So we have the record of the President of the United States going to the Congress and the record of acceptance by the Philippine Legislature, both embodying a promise of economic readjustment.

May I add to that quotation the statement made by the Vice President on his recent visit to these Islands, wherein he said: "Our great President, Franklin D. Roosevelt, in sending the last independence bill to Congress, accompanied it with the recommendation that where there were inequalities in our trade relations, they should be adjusted by a committee representing both people who could

arrive at an equitable decision which would prove advantageous to our 120,000,000 people and to your 14,000,000 people."

He was followed by the next highest officer in the American Government, the Speaker of the House of Representatives—and remember that these statements were made before the Philippine Assembly. Mr. Byrns said: "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 nations and that the result of those recommendations will strengthen the ties that will become stronger with the years."

That is the record of the President of the United States, the Vice President of the United States, and the Speaker of the House before the Philippine Assembly.

What does it refer to? It refers to the question of economic reconsideration of that portion of the second offer of independence.

Now, reverting directly to the subject of sugar. When this matter was discussed in the Congress when the first offer was made—and it was not discussed when the second offer was made—there was a limitation placed upon sugar, which, in the language of Senator Pittman, was supposed to be what was called the *status quo* at that time, 850,000 long tons.

Since that time a meeting was called in Washington by the Secretary of Agriculture. It began in June; it ran until September. It had the representatives of continental beets, of continental cane, of Puerto Rico, of Hawaii. Cuba was not included because Cuba is a foreign nation.

All these areas are under the American flag and under the sovereignty of the United States, except Cuba—when we withdrew our Platt amendment we withdrew all legal obligations that existed between these two countries, retaining for them a very friendly, kindly interest.

But the situation regarding the Philippines and Puerto Rico and Hawaii is different. The Philippines is under the sovereignty of the United States. The Commonwealth has been given the jurisdiction of a state, and there that jurisdiction ceases. When they go outside into the national field, the same condition applies that applies in America, and it becomes a power vested solely in the Federal Government.

Let us see what happened to these quotas, beginning with the 850,000 long tons. I could quote at considerable length, but I hope you will do the association the honor of reading the different authorities and figures quoted in my memorandum. I am at a loss to understand why there should be a discussion of free trade, or this quota,

because the question of this quota is not raised by continental beets, it is not raised by continental cane, it is not raised by Hawaii, it is not raised by Puerto Rico; it has been agreed to by the Congress of the United States and fixed by the Congress. Not only has that been done, but they have given us more than we asked for. We lost 65,000 tons, received less than that in the voluntary agreement, 77,000 less than recommended by the President of the United States; and approximately the same amount is recommended by the Secretary of Agriculture. In fact, the Philippines have lost 500,000 tons of sugar for which they have received no compensation.

So that you, Gentlemen, who have been reading the papers on the recent congressional debates may have been surprised why Puerto Rico never attacked our quota; neither did Hawaii, nor continental cane or beets.

They saw the equity of the thing, the justice of it; and why would these continental areas understand this? Because they now know that they are under a quota system.

At the time of the independence offer, there was no quota system. It was introduced subsequent to that period. They were alarmed at that period at the ability of the Philippine Islands to produce in unlimited quantities. It has demonstrated its ability to do the very thing that they feared.

But when the quota system came in and the Philippine Islands actually accepted less than recommended by the voluntary agreement, less than recommended by the President of the United States, and less than recommended by the Secretary of Agriculture, no single area under the American flag questioned this quota either before Congress or before the public.

It may be that Cuba wants more, but I believe the impression is being formed very rapidly that Cuba has enough.

Once we understand the very simple fact, gone over so often that a child can understand, that the American people consume 6,500,000 tons of sugar a year, and (unless, by law of Congress in some other enactment or dictation, the sugarbowl is to be lessened in its size) that is the demand of the American public for sugar.

Although given the production quota they asked for or that the different departments of our Government approved, the continental productions could not reach 2,000,000 tons, so 4,500,000 tons must come offshore—part from Hawaii, part from Puerto Rico, and part from the Philippine Islands—then, because of our trade, a very generous portion to Cuba.

I have heard some questions raised this morning that interested me. Some questions about the cost of production in Hawaii compared to the cost of production in the Philippines. Hawaii has a population of less than 400,000 people. Its great plantations contain

thousands of acres. Puerto Rico has about a million and a half people; Cuba, about 3,500,000; the Philippines, 14,000,000 (Governor Murphy said 18,000,000) that have been under the sovereignty and control, in the capacity of guardian and ward of the United States for nearly 40 years.

Returning to sugar, you can almost mark on a chart three periods of sugar development in the Philippines. The early Spanish explorers founded it here. The trade built up to a considerable degree (my figures are in the brief: I think it was some 300,000 tons). And then came the war in 1899, and we allowed Spain 10 years in which to adjust her business with the world and with the Philippines.

(Ten years; and yet we are not allowing the Philippine Commonwealth the same consideration in the matter of time that we allowed Spain.)

Following that 10-year period, the Philippines was paralyzed in industry. We lost some thousands of soldiers; and, likewise, thousands of Filipinos died. So we decided to prepare them for a better life and larger activity, and we made some concessions in the tariff; and then Congress decided to do two things: One was to give American manufacturers almost an exclusive market in the Philippines, and the other was to give to the Philippines free trade in the American market.

It would have been an act of dishonesty to take the market for ourselves and refuse the market to the Philippines. But, despite the fact that our school teachers had taught liberty and that our army officers had celebrated the Fourth of July in the Philippines, yet, when the American offer for free trade was made to the Philippine Assembly, they rejected it.

That is a matter of record—they rejected it because they felt that the ties would become so tight, so close, that all trade would go to America and no trade would come from outside and that the markets of the world would be closed to them.

And that is exactly what has happened. When these American offers no. 1 and no. 2 were made—let me divert for a moment, even though my name is involved.

One of those things happened in legislation when compromise becomes necessary. The original bill reported from the Senate Committee provided for a 15-year transition period and for a plebiscite to be held at the end of the 15 years—not at the beginning—also that no taxes should be levied until the end of the tenth year.

That was changed, I think largely because at that period the quota system had not been introduced for congressional consideration.

The period was shortened, and what we call the five-year "stair-steps" was put in to again halt what appeared at that time to be

a menace—Philippine sugar. That menace does not exist today, and no one charges that it exists. That entire argument has passed out of existence as a result of the new quota theory of control.

We are sometimes diverted. I was very much interested in my friend Dr. Dorfman's question about the families in the Philippines, whether five would be a proper average. Well, he has been down in the southern provinces, and he ought to know without asking that question whether or not that is a proper average. I might say that Mr. Mussolini has been complaining that the birth-rate is too low in Italy; Mr. Hitler complains that it is too low in Germany; the French complain about it; while President Quezon, although he complains about a great many things has not, I think, complained about the size of the families in the Philippines—one of the few nations where no complaint is coming.

These people are growing in population. They are growing in contact with the world; so far we are letting them have that contact.

You cannot compare the growing of sugar in the Philippines with the growing of sugar in Hawaii or Puerto Rico. The American Government purchased what we called the "Friar lands". It invested 7 million dollars in that purchase and sold these lands to the Filipino farmer and limited his purchase to 10 acres. When Harvey Firestone came over—going to the question of rubber—and some of our capitalists entered the sugar industry and proposed the purchase of large tracts of land, such as were bought in Puerto Rico and in Hawaii, they were limited to 2,500 acres.

There has been no control in Puerto Rico, in Hawaii, or in Cuba. So you cannot draw a line between the Filipino farmer, with his 10 acres, in the matter of production and the cost of production, and these other great farm areas that have unlimited acreage and unlimited opportunities for cheaper production.

Some reference was made this morning as to what will be substituted for sugar. Let us take coconuts. Let us take abaca. We know that the three great lifestreams of the Philippines are sugar, coconut oil, and abaca. Someone said, let us bury all these crops; let us plant something new. Well, we will have to develop some new brains better than those that the American Government has sent here for 25 years.

They have recommended the raising of cattle and sheep and hogs. They recommended and experimented with corn and oats and other products of that kind. That has been tried by the American Government, with the very hearty cooperation of the Philippine Government, and it has not proven a success. You cannot go out to the beet-sugar districts of Nebraska and tell them, "You diversify your crops. Stop planting beets and plant corn." They will tell you that their soil is best suited for beets.



So it seems to me, so far as sugar is concerned, when in a voluntary agreement we have exceeded the present quota, when the President of the United States recommended a larger quota, when the Secretary of Agriculture recommended a larger quota, there is not any debate about this matter.

If there is any single witness who has appeared before this Committee and who has asked that it be reduced, I have not heard of it. If you have a statement of that kind it must be concealed some place in these numerous briefs, which I notice, by the way, you are beginning to get from chambers of commerce—and if that continues even the patience of the Ambassador from Turkey will be tested to the utmost—chambers of commerce of Great Britain and France and Holland and Germany, that are going to tell an American-Philippine Commission what they should do about the relations between the American people and the Filipino people! I feel sorry for this Commission if they have to read them all.

Now, there is one open subject. That is, this last five-year period when duty begins. Where does that money go? It does not go to the United States; it goes into the Philippine Treasury. So if you change that, you are taking nothing from the United States Treasury.

You are not adding anything in the way of competition to continental beets or continental cane. It was put there as a compromise—let's be frank about it—one of our distinguished Senators still in the Senate had the theory of a bill of a graduated tariff extending, I believe, for some 20 years. We tried to put in a graduated tariff that would bring money, where? Not to the United States, but to the Philippines, that they might pay their debts and experience what a tariff meant.

But we know now that, under the quota system, since we have taken in Cuba on most preferential terms, the 5, 10, 15, 20, and 25 percent duties are too heavy for the sugar to bear in competition with other areas.

If it is necessary to provide revenue to pay off any bonded indebtedness, let the Filipino people through their Assembly exercise their discretion in the matter as to how it should be done. I do not believe there will be objection in Congress that the duty on sugar be taken off.

I cannot visualize such opposition. Personally, I know that you cannot put this settlement on the basis of taxes. I know you will have to consider the background. I know you will have to consider the things that the United States had these people do. Furthermore, I know you are going to consider the opinion of the world. After 40 years' relationship of guardian and ward, I do not think you can

very well say, "You are 21. Get out. I don't want to see you again"; because I do not believe the Americans will ever forget.

I thank you, Mr. Chairman, unless somebody wants to ask me some questions.

Chairman MACMURRAY. Are there questions?

Mr. DORFMAN. Senator Hawes, I am sorry if I conveyed the impression that I was amazed at the size of the family in the Philippines. I was not. What I was amazed at was the statement that there was only one person in a family of 5 or 6 who worked.

Mr. HAWES. Well, you know we have the same thing in America, about father who lies around all day. In other countries it proves much the same. There are as many girls in the family here. They have the washerwoman, they have the grandma, and the mother-in-law—I am sorry to say—and they all have to be taken care of; and that comes under the head of the family. You say 5; I say 7, from my observation in the *barrios*.

Mr. DORFMAN. But if the mothers-in-law are taken into some families they are taken away from other families.

Mr. HAWES. God bless them. Some of them are fine; many of them are not.

Mr. WARING. Mr. Hawes, in your brief you mentioned that Philippine industry curtailed its production by about 500,000 tons from the peak in 1934.

Mr. HAWES. Yes, Sir.

Mr. WARING. And did so without receiving any compensation. Now, it did receive about ₱15,000,000, did it not, from the Agricultural Adjustment Administration to carry it over the initial part of that adjustment?

Mr. HAWES. Yes, but, Doctor, 500,000 tons of sugar in America at that time was worth about \$7,000,000 for each 100,000 tons. I mean if they could have sold it on the market, it would have been so much ahead.

Mr. WARING. I am not disputing that fact. It was merely that I thought the brief was not quite accurate when it said that there was no compensation, when in reality there had been some.

Mr. HAWES. The same compensation that went to Hawaii, to Puerto Rico, and to continental United States; nothing but that.

Mr. WARING. In the statement which you have just made and to which I listened with great interest, I noticed that you said the Philippines was growing in its contact with the world as far as we—I presume you meant the United States—were willing to let it have that contact. I wondered just what you had in mind. I was not aware that, so far as trade contact is concerned, we had hindered it in any way.

Mr. HAWES. I made that statement on the theory that people could not buy unless they could sell and that we absorbed the products of the American manufacturers, mines, farms, and so forth, to the exclusion of the rest of the world. If we did not buy from them, they would not buy from the Philippines, and we closed the markets that way. That was what I meant.

Mr. WARING. We have been, I understand, supplying about 65 percent of the market, leaving 35 percent for foreign countries.

Mr. HAWES. Yes, Sir.

Mr. WARING. Now, if I may ask one other question.

Mr. HAWES. As many as you please.

Mr. WARING. You speak in your brief of the benefit of free trade, and I find there this sentence: "Notwithstanding the difference in the application of reciprocity to the commerce of the two countries, the result of free trade has been mutually advantageous." While I am perfectly convinced that it has been advantageous to those American firms who have been enjoying the benefits of the Philippine market, I am wondering if the trade can be considered advantageous from the standpoint of the United States as a whole.

Mr. HAWES. I think so, Doctor, for this very essential reason: The latest commercial report, I believe, places the Philippines now, if I am not mistaken—I read it only last night—as about the seventh-best customer; I got it from the *Clipper* last night. That is quite remarkable. It is a very valuable customer indeed, and those people could not buy unless they sold things they raise.

Mr. WARING. That, I think, is perfectly true; but it is the terms upon which you buy that really are important, and it has occurred to some people in studying the trade relations between the two countries that the terms upon which we buy certain Philippine commodities, notably sugar, are less advantageous than those which the United States might obtain if they purchased sugar elsewhere.

Mr. HAWES. Well, right now I would say that was not entirely correct, but the correct answer to that is that it was the United States, not the Philippines, who encouraged this development of sugar and forced free trade upon the Philippines. It was not their act; it was our act.

Mr. WARING. It was, was it not, the act of the Philippines, however, that brought about the passage of the Independence Act; that is, the initiative was taken by the Philippines in asking for independence?

Mr. HAWES. Doctor, they have sent missions over there year after year, as you know. The inspiration of those missions was the old American "school marm" and the Fourth of July speeches, as you know. Now, I do not know just what to think of the situation today

with the Orient on fire. But, undoubtedly, these people have felt that they do not want to be a bird, even if it is in a gilded cage, and they want to strike out for themselves. Now, through an agreement with our President and their President, I understand this Commission is here to decide what these inequalities are and to make recommendations which will go to Congress to wipe out the inequalities wherever you may find them. You may find them on one side or you may find them on the other. I was one of those persons who changed his mind about Philippine independence. I was a five-year man. When I came out here I quickly changed my opinion. I think they have to have more time.

Mr. WARING. One final question. Knowing as you do so well, the general commercial policy of the United States, do you feel that it would be possible for an independent Philippines to have permanent free-trade relations with the United States?

Mr. HAWES. Doctor, that presents a tremendously interesting, fundamental question, which, of course you know, goes into the question of profits. I would say, Yes. I would say, Yes, because there is no nation in the world that has not watched our contact, our guarding of our wards, as you may call it, with sympathetic interest; and they would naturally expect greater consideration to be given to the Philippines by the United States because of that prior contact of 39 years than would be given any other nation. I think that would be in the minds of their statesmen and in the hearts of their people; and they would realize that this was not what you might call being offensive. A grown child, grown up in our household—they would not expect us to put that child on the same basis as any other nation.

Mr. WARING. Knowing, as you do so well, the legislators of the United States, would you say that a similar feeling existed in the hearts and minds of the members of Congress regarding this matter?

Mr. HAWES. Doctor, I think you will get me in trouble. I believe that the Congress of the United States was swayed for a time by the thought that Philippine sugar was hurting continental sugar, and now that feeling has gone. I think they were told that coconut oil was taking the place of a substitute for butter, in other words, margarine; but I believe that they know now that a line may be drawn between edible and non-edible oils, that Brazil has forests bearing a certain nut with the same properties as coconut, and that coconut oil can be made inedible; those two great forces have therefore disappeared. I know that one of the forces in Congress back of this bill was union labor. Union labor now has its limitation of 50 years, and it has an appropriation from Congress to bring back to the Philippines at the expense of the American Government any

Filipino who wants to return. So I think there are three powerful forces that existed prior to this time that do not now exist. Then there was a law passed by Congress relating to cordage, and that was agreed to by both sides and the question was more or less eliminated. I am trying to answer this the best I can. I think there is a feeling of fine friendship, and I know this: That when the American people understand that there are 15,000,000 Christians out here, a spearhead in the Orient that may be wiped out, Congress will consider that fact.

Mr. WARING. Granting, Mr. Hawes, that because of the long relationship and the peculiar circumstances which you have outlined so well that surround this problem; granting, I say, that the Philippines is entitled to every consideration and most liberal treatment, do you feel that the United States would be justified in adopting a policy of permanent free trade if that meant that the United States had to pay continuously a higher price for commodities which it receives from the Philippines than it would have to pay if it got them elsewhere?

Mr. HAWES. Doctor, I believe that that question would be solved automatically by the demand for the supply furnished by the Philippines. If there were no demand, there would be no purchaser. The new reciprocal trade agreements are a departure in our policy, as you know, within the last four years; and I don't believe—and I can demonstrate it—that the International Sugar Conference, wherein 21 nations met to stabilize sugar and put it on a quota basis, singled out the Philippines and said that the most-favored-nation clause would not apply to the quota from the Philippines. Incidentally that treaty carries with it a thought. It is not a treaty. It is now in the United States Senate waiting for consideration by the Senate, illustrating the point that I am trying to make, that I am so hopeful that out of this Commission will come something inspiring not only for the Philippines and the United States but for the whole world. I think this: That England's treatment of Canada, England's treatment of Ireland, England's treatment of Australia, and Holland's treatment of Java and their various possessions having long-established friendships, would be considered by the rest of the world in any shade of benefit that the United States might give to the Philippines. That is my own opinion.

Mr. WARING. Thank you.

Mr. DORFMAN. I wonder, Senator Hawes, why it follows that, because no important American interest complains about certain imports coming from the Philippines and because the Philippines provides a very good market for exports from the United States, the trade is necessarily mutually advantageous. In order to have specific

data with which to deal, may I refer to the trade figures for 1935? In that year, on the basis of the million tons of sugar that the United States obtained from the Philippines, and on the spread between the world price of sugar and the price paid for Philippine sugar, the United States, considered as a nation, paid \$44,800,000 more for that million tons than it would have been obliged to pay had it purchased that sugar in the world market; and such an amount of sugar could have been purchased in the world market.

Mr. HAWES. Doctor, would you tell me where it could come from in the world market?

Mr. DORFMAN. Cuba and Java sold in the world market at that price, and they could have sold a much larger amount than they did.

Mr. HAWES. If you mean Holland could have done it, then two or three or four banks in New York could have done it. That is what you really mean?

Mr. DORFMAN. Irrespective of who could have done it, the United States could have obtained it. It is true, as you pointed out, that, in consequence of our paying a higher price for sugar to the Philippines than we would have been obliged to pay if we had purchased it elsewhere, the Philippines bought a great deal of goods from the United States which they otherwise would not have been able to buy. In that year (1935), we sold the Philippines about \$52,500,000 worth of goods. Assuming that there was no loss to the United States other than the loss on the sugar, do you think that it was mutually advantageous to exchange goods with the Philippines on those terms: The aggregate value of the goods we sold them amounted to \$52,500,000, and we lost over \$40,000,000 on the sugar we bought from them?

Mr. HAWES. Now, Doctor, I am a lawyer and not an economist, not a doctor of science. I have not studied that. I would like to ask you a question. Do you think that we should treat the Philippines on the same basis as we treat Cuba?

Mr. DORFMAN. I do not think I suggested that.

Mr. HAWES. Your question leads right to that point.

Mr. DORFMAN. I was only trying to learn whether you regarded the trade mutually advantageous simply because we sell a great deal of goods here which the Islands require and do not produce and we, in turn, buy a great deal of goods here which we require and do not produce.

Mr. HAWES. That is right. I will answer that question if you will answer me: Are we more morally under obligation to Cuba than to the Philippines? If you think so, that would be all right; it works around about that way.

Mr. DORFMAN. Are you conceding that the exchange of goods, on the terms mentioned, costs the United States something and that the trade is not mutually advantageous?

Mr. HAWES. I know that if you stop the raising of sugar in the Philippines, leaving only their sale of coconut oil and abaca, you will bankrupt the Filipino people; and nothing on earth will make me change my opinion on that subject.

Mr. DORFMAN. I am simply questioning your premise that the trade is mutually advantageous simply because the Philippines buy a great deal of goods from the United States and we buy a great deal from them.

Mr. HAWES. That is right. The thing, Doctor, is that, when I went around, I met Americans and Filipinos wearing American-made goods, such as socks, shoes, pants, neckties (although there are Japanese goods, and they are pretty good, I think), and they would not have bought American goods—pants, socks, neckties, and everything they want—unless they sell something to us and get the money to pay for these things.

Mr. DORFMAN. I wonder if I would be going too far afield if I were to recite to you a story once told me of a man who owned a country grocery store? He employed his son at about three times the wages he would have had to pay anyone else to do the same work. His son, though, was his seventh-best customer. Whenever the father threatened to discharge him, the son threatened to withdraw his patronage, pointing out to his father that he would thereby lose his seventh-best customer. The father one day figured out how he would fare by hiring someone else to work in the place of his son, even though he were to lose him as his seventh-best customer. He concluded that, so far as purely economic considerations were concerned, he would be money ahead to hire another man and to lose his son as his seventh-best customer.

Do you see any analogy, Senator Hawes, between the story I have recited and what we were discussing earlier?

Mr. HAWES. That is an interesting story, that of the father who wanted to get the economics of it; and the boy's name is the Philippines and the other man is Cuba; I ask, what would you do?

Mr. DORFMAN. I do not think that that is a matter up for consideration.

Mr. HAWES. You want to give this man the whole wide world for the sugar business. Name the boy the Philippines, and name the other man Cuba, and you take your choice. I think the old man should give the boy the break.

Mr. DORFMAN. May I ask, Senator, whether you would do it on economic or on sentimental grounds?

Mr. HAWES. When we let sentiment go to the heart of our people and guide Congress, the part of America is done.

Mr. DORFMAN. Then you would recognize that, although economically it would not be advantageous to retain the son, you would, on sentimental grounds, do so just to give him a break.

Mr. HAWES. No, I would not do that; but if I know this fellow just as well as I do the other man, if I know he is a crook, if I know he beats his wife, if I know he is inhumane to his children and will not provide for them, while I know that the boy is kind-hearted, I would give it to the boy, I would not give it to the mean man.

Mr. ROBBINS. You made a point of the fact that at a conference which was called by the Secretary of Agriculture a quota was agreed upon for the Philippine Islands in excess of the quota fixed by Congress in the Independence Act.

Mr. HAWES. One million one hundred thousand reserved.

Mr. ROBBINS. I suppose you refer to the ill-fated sugar stabilization agreement.

Mr. HAWES. Yes.

Mr. ROBBINS. And I suppose that you know that at that conference in which this sugar quota was divided, all the interested participants were not present.

Mr. HAWES. Who was absent?

Mr. ROBBINS. Cuban producers, for instance, and those who sell goods to Cuba.

Mr. HAWES. Do you mean the conference that was called by the Secretary of Agriculture, in which territories under the American flag were represented? Cuba and Java were not present.

Mr. ROBBINS. And since all the areas supplying American markets were not present, is it not easy to understand why quotas not only for the Philippines but for various other domestic areas in that stabilization agreement were in excess of those adopted by Congress?

Mr. HAWES. I want to be perfectly frank. In the case of the Philippines, I signed the quota for 1,100,000 tons reserve, and I signed my name under protest because I thought they were entitled to more than that. The President of the United States then recommended 1,097,000 tons, the Secretary of Agriculture recommended almost the same amount, and then the Congress of the United States did the same thing. In other words, the President, the Secretary of Agriculture, and the Congress had given them more pounds than they actually have.

Mr. ROBBINS. Is it true that in the stabilization agreement, which was rejected by the Secretary, quotas for the other domestic areas were also substantially in excess of the quotas fixed by Congress under the Jones-Costigan act?

Mr. HAWES. Yes.



Mr. ROBBINS. You also referred to what you termed the recommendation of the Secretary of Agriculture for a quota to the Philippines in excess of that in the Tydings-McDuffie act. Was that a recommendation by the Secretary of Agriculture or do you merely refer to the regulations that he issued later and in which he had no discretionary power?

Mr. HAWES. That was his recommendation, as I understand it—I got it here—of what proportion of the total the Philippines should have, exercising a discretionary power given to him by Congress.

Mr. ROBBINS. My point is that it was not his recommendation at all but that it was a non-discretionary act under a law passed by Congress.

Mr. HAWES. That bill was written and prepared by the Department of Agriculture and its assistants, and then, when the Secretary exercised his judgment, he gave us more tons than we are getting today.

Mr. ROBBINS. I do not think that it is quite in accordance with the facts—

Mr. HAWES. That is what I know—it is a fact—because I asked for certain changes, and the bill was taken over to the Agricultural Committee. You asked me a straight question, and I gave you a straight answer.

Mr. ROBBINS. Well, it is one thing for the Department to aid by participating in the preparation of the technical draft of legislation, but—

Mr. HAWES. The only evidence that the public cares to know is that the Secretary of Agriculture gave the Philippines some 97,000 more tons than they would be getting under the present law. And nobody forced him to do that. He did it voluntarily, and I think he did a fine thing; he did a fine job.

Mr. ROBBINS. There is another point that you made. You placed some emphasis on the fact that there was little, if any, objection on the part of other domestic sugar-producing areas to the continuation in the new sugar law of the quota fixed for the Philippines in the Independence Act.

Mr. HAWES. If there were any objections, I never heard of them. There was no objection on the part of continental beets or on the part of continental cane, that I know of.

Mr. ROBBINS. Why do you suppose there was no objection when each of those areas desired to increase its quota?

Mr. HAWES. Because the Philippines accepted such a low figure, and they felt that they were under the flag and that if there was any reduction to be made it should be made by Cuba and not by a land under American sovereignty.

Mr. ROBBINS. Well, do you think that the lack of objection might have been based on the fact that they had recognized that the commitment under the Independence Act was more or less of a promise to be respected and not to be impaired?

Mr. HAWES. I know, of course, that you are asking a lot of improper questions which you ought not to ask me—

Mr. ROBBINS. If you consider that improper, I withdraw it and ask you not to answer.

Mr. HAWES.-I am going to answer it. I do believe that the Congress of the United States realizes that it is under a moral obligation to the Philippines when it makes them an offer and the offer is accepted; that is a part of the contract. That is my philosophy. Every time I appeared before the Committee hearings, I have announced that. Of course, sugarcane and beets in continental United States ought to have the benefits, but when you go offshore to non-continental sugar, then those three areas that have the American flag flying over them are entitled to greater consideration than a country that flies a foreign flag. Now, that's not fireworks. I mean, that's just common sense, American common sense.

Mr. ROBBINS. That is all, Mr. Chairman.

Chairman MACMURRAY. Are there further questions? (No response.) If not, thank you, Senator.

Mr. HAWES. Thank you, Gentlemen.

(Here follows the brief submitted by the Honorable Harry B. Hawes, entitled "The Sugar Industry and its Relation to American-Philippine Affairs".<sup>1</sup>)

Chairman MACMURRAY. The hearing today is adjourned, and tomorrow we will have to take up the postponed hearings of the Johnson-Pickett Rope Co. and General Manufacturing Co. and the Manila Tobacco Association.

(Thereupon at 5:05 o'clock p.m. an adjournment was taken until Friday, September 17, 1937, at 9 o'clock a.m.)

<sup>1</sup> See vol. III.

PROCEEDINGS OF SEPTEMBER 17, 1937  
MORNING SESSION

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Thursday, September 17, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 9 o'clock in the morning.

*Present:*

The Honorable J. V. A. MacMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL L. ROXAS; and  
Mr. FRANK A. WARING.

Chairman MacMURRAY. We will begin our hearings this morning with the testimony on behalf, first, of the Johnson-Pickett Rope Company and the General Manufacturing Company, to be given by Mr. John T. Pickett and Mr. Alfonso Z. Sy Cip; on behalf of the Manila Tobacco Association, by Mr. Manuel V. Gallego, Mr. Carl Timmerberg, Mr. Tomas Fernandez de Castro, Mr. Antonio G. Escamilla, and Mr. Philip S. Frieder; and then go as far as we can into the next group which was actually scheduled for today.

May I call on Mr. Pickett, on behalf of the Johnson-Pickett Rope Company.

STATEMENT OF MR. JOHN T. PICKETT, REPRESENTING  
THE JOHNSON-PICKETT ROPE COMPANY AND THE  
GENERAL MANUFACTURING COMPANY

Mr. PICKETT. Mr. Chairman: We have written a brief<sup>1</sup> and have handed it to your Committee.

<sup>1</sup> See vol. III.

The position we find ourselves in at the present moment is this: We have a 6,000,000-pound quota which is supposed to have free entry into the United States of America, effective May 1, 1937. The same day, May 1, 1937, the Associated Steamship Lines placed a freight rate of \$45 per ton on rope shipped to the United States of America, an amount which practically equals the present tariff rate paid by foreign countries on similar importations. On account of the excessive freight rate which we must pay, it is almost impossible for us to ship to the United States because of the great difference between the freight rate on the price of hemp and the price of manufactured rope. Also, we find ourselves in a position as though our factory were situated on the planet of Mars—we cannot ship into the United States one pound of rope more than the 6,000,000 pounds. It seems as though that is rather severe. Even though we pay duty, we cannot ship one pound more of rope into the United States. The Philippine Islands is the only land on earth which is not allowed to ship rope into the United States when paying duty. We feel that this is very unjust. Those are our present troubles. About the future we can hardly tell until we know what new law will be passed. We need some assistance for future business as well as for the present.

Chairman MACMURRAY. Are there questions to be asked Mr. Pickett?

Mr. WARING. In your brief, Mr. Pickett, you state on page 6 that Holland is given preferential tariff entry into the United States on cordage made of sisal because she raises sisal fiber. I believe that it is true that some arrangements were made in the trade agreement with the Netherlands; but it is also true, is it not, that any reduction in rates made in those trade agreements was generalized to all countries and that, therefore, Holland does not have a preferential trade as compared with other countries. Is that your understanding?

Mr. PICKETT. That is not my understanding. My understanding is that that trade agreement with Holland was made by the Executive Department of the United States. It is not a tariff law, and for that reason they are entitled to and do get that preferential duty, as we might call it. I do not know that I am correct, but that is the information that I have received.

Mr. WARING. You are correct in the statement that it was an agreement made by the Executive Branch of the Government under the authority of the Trade Agreements Act, but any reductions in rates that are made under that act are generalized to all countries except those countries which may discriminate against the United States in their markets. Any country giving us most-favored-nation treatment receives the same treatment in the United States, and, therefore, any reduction in rates made to Holland is generalized to all other countries that give us most-favored-nation treatment. It is not a preferential rate given to Holland alone.

Mr. PICKETT. I would like to ask, Mr. Waring, if the same thing applies to Canada.

Mr. WARING. It does, and to all the other trade agreements which have been concluded in the United States in the last two years.

Mr. PICKETT. Well, it would be rather beside the question with us anyway, because we cannot ship one pound more to the United States, no matter what duty we would pay. But we put in that statement more for future consideration. The reason given, I believe, was that Holland produces a great deal of sisal. They do; they produce a great deal of it, but in the Orient only. The Philippines produces a great deal of sisal, and we feel that we should get the same consideration.

Mr. WARING. In your opinion, what would be the effect of the present export taxes upon your industry—the export taxes that are now provided in the Independence Act, beginning at 5 percent in 1940 and increasing to 25 percent in 1944?

Mr. PICKETT. You mean such as are expressed in the Tydings-McDuffie act?

Mr. WARING. Yes.

Mr. PICKETT. Well, in the first place, in the Tydings-McDuffie act, according to Senator Tydings, we were supposed to receive 3,000,000 kilos of free entry into the United States. Through some typographical error or somebody's action, that was reduced to 3,000,000 pounds. If we had the 3,000,000 kilos which Senator Tydings says we are entitled to, we might get by with the 5 or the 10. It would be a little bit difficult if it got up into the 20's. But below the 20's we might get by all right.

Mr. WARING. You feel that after the export taxes reach 20 percent or more, you would be effectively barred from the United States market?

Mr. PICKETT. Not effectively barred. Perhaps we could manage some way to get by with very small profits, but above 20 it looks difficult in these days. The future changes so rapidly that it is hard to tell.

Mr. WARING. The present Cordage Act also includes binder twine in the 6,000,000-pound quota, does it not?

Mr. PICKETT. Yes, everything that we should send to the United States in the way of manufactured hemp or manufactured abaca would come out of this 6,000,000 pounds. That 6,000,000 pounds is 10 percent below what Mr. Tydings said we should have even now.

Mr. WARING. Is any foreign country limited in regard to its shipments of binder twine into the United States?

Mr. PICKETT. Not that I know of. Every other country is free to ship as much binder twine as they wish to ship to the United States

free of duty. That is my understanding. I am not an authority on the tariff laws. But that is my understanding.

Mr. ROXAS. On page 12, Mr. Pickett, of your printed brief, you state that cordage factories in Manila employ labor at lower wages than cordage factories in the United States, but you state that Filipino labor is low in efficiency. What do you mean?

Mr. PICKETT. I mean that the Filipino's physique is not strong enough to accomplish or operate the big heavy machines that we use in manufacturing rope. One Filipino is not strong enough to handle and operate that machine, whereas in the United States they have good big strong men who are capable of doing that. It is not the skill. Our Filipino has the skill, he has the patience, he has everything else except the strength. That is what I meant to say.

Mr. ROXAS. What effect has that fact upon your labor cost in the factory?

Mr. PICKETT. For instance, one machine, I understand, is operated in America by one man. Here it takes about four Filipinos to operate that machine. Now, I do now know exactly about these American laborers. That is what I have heard. I have had a number of cordage-manufacturers in the United States visit our plant and some complimented us and some did not, but what I have learned from them and from ropemakers, men who are mechanics and ropemakers that have come out here, is that in the United States one man on one machine operates the whole machine, while here we require four.

Mr. ROXAS. In view of that fact, how does labor cost in the Philippines compare with labor cost in the United States, say, per pound of cordage? Have you been able to estimate?

Mr. PICKETT. As I said before, all I know about labor cost in the United States is what the mechanics or ropemakers and other men associated in the rope business told me out here. If they have given me the correct information, why, I am correct in my statement; if they did not, I am not correct. I have been told that for the last 10 years the lowest-paid laborers in all the United States industries were the men and women employed in rope factories there. I have also read in briefs of very high wages that are paid to them. Now, what the situation is, I cannot tell; but from what I understand of costs of making rope in the United States and in the Philippine Islands, there is very little difference.

Mr. ROXAS. What percentage in the total manufacturing cost is represented by wages?

Mr. PICKETT. About 50 percent.

Mr. ROXAS. 50 percent? What percentage is represented by, say, the oil that is used in the manufacture of rope?

Mr. PICKETT. That does not go in as an expense because we make a little profit on the oil.

Mr. ROXAS. But my question is: Compared with the cost of oil to the cordage-manufacturer in the United States, does oil cost more to you in the Philippines than it does to the cordage-manufacturer in the United States?

Mr. PICKETT. I think for the same quality of oil, we get it about as cheaply here as in the United States.

Mr. ROXAS. Including transportation costs?

Mr. PICKETT. We can get oil here from Java, Sumatra, and at present we are getting some from the United States, and from quotations I get from the United States we are buying it just as cheaply here as it is sold on the Pacific coast.

Mr. ROXAS. Now, with regard to transportation rates, you state in your brief, on pages 8 to 23, that 1,000 kilos of cordage, according to the Conference freight rates from Manila ports, pay freight charges amounting to \$45, whereas 1,000 kilos of fiber pay only \$28. May I ask what this difference amounts to in cost per pound of cordage?

Mr. PICKETT. It amounts to \$15 per ton on Atlantic rates. That figure of \$28 should be changed to \$30. It costs \$20 to ship fiber to the Pacific coast, that is, when it is used on the Pacific coast, and in that case, why, I have the figures here—hemp shipped to the Pacific coast costs \$20 per metric ton of 1,000 kilos.

Mr. ROXAS. Of what?

Mr. PICKETT. Of fiber. I would use the word "hemp" for fiber. The rope costs \$30.

Mr. ROXAS. Now, my question was: This difference in freight rates amounts to how much in actual cost, in difference in the cost of rope to the manufacturer in the Philippines, compared with the cost to the manufacturer in the United States?

Mr. PICKETT. For shipment to the Atlantic coast, \$15 per metric ton of 1,000 kilos; for the Pacific coast, it is \$10.

Mr. ROXAS. I do not believe I made my question clear, Mr. Pickett. May I explain it further? If you ship 1,000 kilos of hemp to the United States, to the Pacific coast, you pay \$20 for freight; whereas if you ship 1,000 kilos of rope to the Pacific coast, you pay \$30 for freight: there is a difference of \$10. This means that the rope-manufacturer in the United States pays freight rates only on his fiber at the rate of \$20 per 1,000 kilos, while the rope-manufacturer from the Philippines pays \$30 per 1,000 kilos of rope. My question is this: In view of that difference, how much must the Philippine manufacturer of cordage add to his cost of production and transportation more than the transportation charges paid by the American manufacturer for the hemp that he uses for the manufacture of cordage?

Mr. PICKETT. On the Pacific coast it will be \$10; on the Atlantic coast it will be \$15.

Mr. ROXAS. You have not been able to figure out what the difference is per pound of cordage?

Mr. PICKETT. Yes, Sir; it could be figured out very easily. We figure it out in kilos. We will have our bailing in kilos. So we figure entirely in kilos that they will be 1½ cents per kilo on the Atlantic coast and a little bit different on the Pacific coast.

Mr. ROXAS. That is all.

Mr. WARING. One more question, if I may, Mr. Pickett. In response to an earlier question of mine, you indicated that it would be very difficult for the cordage industry here to pay more than 20 percent of the United States duty in the form of export taxes. Could you explain a little more clearly to the Committee just why that is the case? What are the reasons for it?

Mr. PICKETT. Because our profits are not that much. Our profits would not permit it.

Mr. WARING. Are the costs of production, then, including the differential in freight charges, which you have just mentioned—are the costs of production in the United States such that the industry could not stand more than a 20-percent export tax? Is that the point?

Mr. PICKETT. That is my opinion from what I know of costs in the United States.

Mr. ROXAS. May I ask one more question, Mr. Chairman?

Chairman MACMURRAY. Mr. Roxas.

Mr. ROXAS. You stated that binder twine is included in the limitation of 6,000,000 pounds.

Mr. PICKETT. Some judge, I think, in the United States has decided it that way.

Mr. ROXAS. You have also stated that this limitation as to binder twine is applicable only to the Philippines.

Mr. PICKETT. Yes.

Mr. ROXAS. Suppose hemp is exported to Japan from the Philippines and manufactured into binder twine in Japan and then that binder twine is exported to the United States. Would that binder twine be admitted free of duty to the United States?

Mr. PICKETT. In unlimited amounts.

Mr. ROXAS. In unlimited amounts. Are you able to see, therefore, any reason why there should be a prohibition or a limitation in any amount of the binder twine that may be sent from the Philippines to the United States?



Mr. PICKETT. There should be no limitation whatever.

Mr. ROBBINS. Mr. Pickett, is there any difference in weight between cordage and the quantity of fiber required to make it?

Mr. PICKETT. Cordage takes up the weight of the oil, which is about all the difference.

Mr. ROBBINS. How much would that be? For instance, how many pounds of fiber would be required to produce 100 pounds of cordage?

Mr. PICKETT. Say, 95 pounds.

Mr. ROBBINS. Then, this difference which you speak of in freight rates between cordage and fiber is really a little more of a discrimination against you than it appears on the basis of just the total prices per ton, is it not?

Mr. PICKETT. Well, I never figured that out. That always seemed rather a small thing, and we never figured that out.

Mr. ROBBINS. It occurred to me that, perhaps, that was what Mr. Roxas was undertaking to determine. If I understand your brief correctly, Mr. Pickett, it seems to be true that you are not asking for the creation or the enlargement or even the extension of the trade preference for the Philippines; that all you are asking for is the discontinuation of a discrimination against Philippine trade with respect to these goods. Is that true?

Mr. PICKETT. Yes, against Philippine manufactured hemp. We feel that raw hemp and manufactured hemp should have the same rate.

Mr. DORFMAN. Mr. Pickett, is there anything that the United States Government could reasonably be expected to do in order to have rates adjusted in accordance with your suggestion, or is that a matter for steamship lines?

Mr. PICKETT. We have been studying for three or four years to find out if the Government or any power on earth has jurisdiction over those organizations. So far, we have not been able to find any power that has jurisdiction over them. They can sit in their office, they can write whatever figures they wish in regard to freights, and that is that. I would like to show you this letter. (Hands letter to Mr. Dorfman.)

Mr. DORFMAN. This is headed "Associated Steamship Lines".

Mr. PICKETT. Yes, Sir.

Mr. DORFMAN. "Notice to Rope-Shippers—Modification of Contract". Would you like me to read it? It is very short.

Chairman MACMURRAY. I wish to have that read for the records.

Mr. PICKETT. I would like to have this embodied in the minutes of your Committee. It is something that should have attention.

Mr. DORFMAN. For the benefit of the Committee, perhaps I had better read it and have it introduced in the record as part of Mr. Pickett's brief, or as an addition thereto. It reads:

MANILA, P.I.  
January 23th, 1937.

To ROPE-SHIPPERS:

CONTRACT MODIFIED

GENTLEMEN:

The rates on Rope to United States ports have been increased as follows:

|                            | <i>Basin</i> | <i>Pacific<br/>Local</i> | <i>Pacific<br/>Overland</i> | <i>Atlantic<br/>&amp; Gulf</i> |
|----------------------------|--------------|--------------------------|-----------------------------|--------------------------------|
| ROPE: Contract 20 cwt..... |              | \$30.00                  | \$25.00                     | \$45.00                        |
| Non-contract.....          |              | 37.50                    | 31.25                       | 56.25                          |

As these rates are increases over existing rates they will be put into effect on May 1st, 1937, three (3) months from January 31st, 1937.

Article 12 of the contract form signed by you, provides for cancellation on three months' notice.

This communication sent you in duplicate shall serve as supplement or "rider" to be attached to and form part of the above-mentioned contract *provided you so agree.*

It shall serve as notice of cancellation should you fail to return one copy endorsed with your agreement, within reasonable time.

Very truly yours,

For Account of Carriers:  
CHAS. KIRKWOOD, *Secretary*  
*Associated Steamship Lines*

This association represents, does it not, Mr. Pickett, lines other than those flying the American flag?

Mr. PICKETT. Yes. The European lines; they take part in this. Naturally, they say that. That is what their agent tells me when we protest. He says: "Why, the American ships agree to that, and it is trade between the Philippine Islands and the United States"; and we do not think that we should disagree.

Mr. DORFMAN. What would you offer as a way of handling this problem, that is, what can the United States Government do about it, if it sees fit to do anything, and what sort of a recommendation could this Committee make in order to call the matter to the attention of the proper authorities? What do you have in mind?

Mr. PICKETT. It seems to me that the subsidized American ships come under the—what is the organization that handles that in the United States?

Mr. DORFMAN. The Merchant Marine, is that the one?

Mr. PICKETT. No, not the Merchant Marine, the United States Shipping Board. I think they have some control over the subsidized American steamships, and of course these excessive rates to America always originate with American steamship-owners. How many there are of these subsidized ships, I do not know. It seems to me as though there must be some way of control.

Mr. DORFMAN. Well, what do you propose?

Mr. PICKETT. I could not propose anything because that is a rather large task, but it seems as though there should be some opening through those channels.

Mr. DORFMAN. You mentioned that the Philippines is the only country which could not send binder twine to the United States in unlimited amounts free of duty. How much binder twine have the Islands shipped to the United States in recent years?

Mr. PICKETT. They have not shipped very much. But we are not living in the past; we are living in the future.

Mr. DORFMAN. Do you foresee the possibility of shipping large amounts of binder twine to the United States?

Mr. PICKETT. In large amounts? We foresee the possibility if we should have the privilege of shipping some during the dull season.

Mr. DORFMAN. Have you in the past shipped any during the dull seasons?

Mr. PICKETT. Yes, Sir.

Mr. DORFMAN. Why do you believe that there will be an opportunity to ship them in the future any more than there was in the past?

Mr. PICKETT. Because the future always has possibilities that we do not know of.

Mr. DORFMAN. Then, the prohibition you referred to is really not a serious one for the present, because even if you were permitted to ship in unlimited amounts, you in fact would not. You would not have anything more to ship than you now have?

Mr. PICKETT. I would go to work the minute I go back to the factory and make some, because we are cut out of shipping in rope, and this same thing is included in the rope schedule. We would immediately start to prepare shipments. We have orders; we can get orders for it.

Mr. DORFMAN. And it would be profitable to do it?

Mr. PICKETT. I think so.

Mr. DORFMAN. But, prior to the passage of this act, it was not profitable?

Mr. PICKETT. It was profitable. We had rope orders, speaking of our own factory, that kept us comparatively busy.

Mr. DORFMAN. I take it you are more concerned with the future than with the present.

Mr. PICKETT. Everything that we are asking for is for the future.

Mr. WARING. Mr. Pickett, what would be your attitude in regard to the continuation of the present Cordage Act? Would you want it continued exactly as it is, or, if not, what amendments do you feel should be incorporated?

Mr. PICKETT. You are speaking of this Public Act 137?

Mr. WARING. The Cordage Act.

Mr. PICKETT. Everything is all right in that except that quantity of the absolute limitation. We do not object to anything else but that.

Mr. WARING. I was speaking of the Cordage Act which places an absolute limitation of 6,000,000 pounds on your shipments.

Mr. PICKETT. We want that absolutely cleaned off. We want to hold up our heads and do business like all people in other parts of the world. We want to be able to ship our goods to the United States and pay duty.

Mr. WARING. The act is satisfactory except for the absolute character of the limitation? Does not that act also include the binder twine in the 6,000,000 pounds?

Mr. PICKETT. That quota should be 3,000,000 kilos, not 6,000,000 pounds, which means 10 percent more business for us, and free entry for binder twine.

Mr. WARING. Just one more question. As I understand it, certain cordage-manufacturers in the Netherlands and in the United Kingdom are able to purchase abaca here, ship it to their factories in Europe, and send certain quantities to the United States over the full tariff. If it is possible for those manufacturers to do that, why is it so difficult for the Philippine manufacturers to pay more than 20 percent of the present duty?

Mr. PICKETT. That is the future calculation, and my opinion of it at present is that it would be very difficult. Another reason is that the Holland mechanic is very efficient and the English mechanic is very efficient, and I think they would have a little advantage over us in free trade.

Mr. WARING. Thank you.

Mr. PICKETT. I would like to extend an invitation to this Committee to visit all the rope factories in Manila while you are here. We would like to show you how rope is made.

Chairman MACMURRAY. Thank you. We would like to avail ourselves of that invitation.

The next witness is Mr. Alfonso Sy Cip.

Mr. PICKETT. Mr. Sy Cip will not appear before the Committee.

(Here follows the printed brief submitted jointly by the Johnson-Pickett Rope Company and the General Manufacturing Company, Inc.<sup>1</sup>)

Chairman MACMURRAY. Then, we will take the next witness, Mr. Manuel V. Gallego, who will speak on behalf of the Manila Tobacco Association.

<sup>1</sup> See vol. III.

STATEMENT OF MR. MANUEL V. GALLEGO, ON BEHALF  
OF THE MANILA TOBACCO ASSOCIATION

MR. GALLEGO. Mr. Chairman: We have already furnished members of the Committee with our written brief.<sup>1</sup> However, for a more comprehensive view of the subject, we deem it convenient to submit additional facts, although they do not bear directly on the commercial side of the tobacco industry.

Tobacco is one of the most important industries of the Philippines. In the list of our export products, it ranks fifth at present. Upon this industry depend no less than 600,000 people. There were no less than 65,480 hectares of land devoted to the production of tobacco for the year 1936. Our total production of tobacco for the same year was about 700,670 quintals. One quintal is equivalent to 100 pounds. As an employer of labor, tobacco is the premier industry of the country. The Philippines also is the first exporter of cigars in the world. As a source of revenue for the Philippine Government, the cigar industry furnishes the surest, the safest, and the greatest in proportion to the capital invested.

It is also true that of all the industries in the Philippines, tobacco is the one that is the most heavily taxed. The Philippines depends primarily upon the United States for the export of tobacco and tobacco products. About 60 percent of the total production of cigars in the Philippines is exported to the United States. Our ordinary production of cigars is about 300 million. We used to export to the United States between 150 and 200 million. The total export of the Philippine cigars to the United States represents only about 3 percent of the total consumption of cigars in the United States. Apparently the balance of trade in our tobacco business with the United States has been in favor of the Philippine Islands in an amount of around ₱1,000,000 during the last few years. But in the last analysis the real balance of trade is not in favor of the Philippines but in favor of the United States, if we take into account certain invisible items that are involved in this trade and that appear in our brief.

Summarizing, Mr. Chairman, these invisible items consist, among others, of the following: American machinery and equipment that are used in the tobacco industry in the Philippines and a considerable quantity of Virginia, Connecticut, and Georgia wrappers. For the year 1935 alone, it is estimated that the Philippines bought from the United States no less than ₱500,000 worth of Virginia wrappers, and the use of Virginia wrappers in the Philippines has increased to a very surprising extent, if we take into account that way back in 1918, for instance, out of the total wrappers that we used in the Philippines, about 0.65 of 1 percent only was Virginia wrappers. Lately,

<sup>1</sup> See vol. III.

in 1936, that less than 1 percent has increased to 82 percent of the total wrappers that we used in the Philippines. Not only that, we import almost exclusively from the United States cigarette papers and lithographs which we use in our cigars and cigarettes. Cellophane—there are factories in the Philippines now which consume ordinarily ₱500 worth of cellophane every month. All of these come from the United States, as well as boxes for cigars and cigarettes. More than this, we should take into account the fact that a greater portion of the tobacco exported into the United States is carried by American vessels, as well as tobacco products imported from the United States into the Philippines that are also carried in American vessels. Moreover, from the moment our tobacco products reach the United States we are also naturally employing American land-transportation companies, the cost of which represents a considerable amount yearly. Aside from this, these tobacco products are also insured almost invariably in American insurance companies.

But there is another interesting fact in connection with our industry, and that is that there has been a very alarming increase in the importation of American cigarettes in the Philippines. And just to give you an idea: in 1928, of the total consumption of cigarettes in the Philippines, about 8 percent only were American cigarettes; in 1935, it increased from 8 percent to 68.85 percent, or nearly 69 percent of the total cigarettes consumed in the Philippines in relation to the total production and this represents around ₱6,000,000 a year of American cigarettes used in the Philippine Islands. Consequently, in the last analysis, if we take everything into account, there is no industry in the Philippines whereby the Americans and the Filipinos alike receive mutual benefit except the tobacco industry; and if we take both visible and invisible items, the balance of trade recently has been in favor of the United States to an amount varying from ₱1,500,000 to ₱2,000,000 a year. But if we take into account that our tobacco business represents only between ₱12,000,000 and ₱15,000,000 a year and the balance of trade in favor of the United States represents between ₱1,000,000 to ₱2,000,000 a year, you can easily see that the balance of trade is proportionately greater in favor of the United States.

With these facts we submit our brief, and if there is any further information which the members of this Committee desire to know, we will be more than willing to answer them.

Chairman MACMURRAY. Are there questions to be addressed to Mr. Gallego?

Mr. WARING. Mr. Gallego, you have made such a convincing argument for the benefits received by American exporters of tobacco to the Philippines as compared with the Philippine exporters to the

United States, that I wonder if the Philippine industry would not be better off if it did not have the imports from the United States to compete with.

Mr. GALLEGO. If under the Tydings-McDuffie act we are given an absolute hand in having trade reciprocity with other countries without the intervention of the United States, I think your argument will be true; but, taking into account the high tariff walls against Philippine tobacco and other tobaccos in other countries where we at present send our tobacco, I do not think that we can immediately dispense with the United States market.

Mr. WARING. It is true, is it not, Mr. Gallego, that the trend in the last few years has been for increasing importations from the United States from the standpoint of value?

Mr. GALLEGO. Yes, Sir.

Mr. WARING. And decreasing exports to the United States, also from the standpoint of value?

Mr. GALLEGO. Yes, Sir, that is true.

Mr. WARING. I wonder what your opinion is regarding the continuation of that trend, assuming that for the next few years, at least until 1940, conditions will remain as they are now regarding trade restrictions?

Mr. GALLEGO. As we show it in our brief, from the sixth year of the transition period we can no longer send our tobacco products profitably to the United States market, because of the gradual increase in the export tax.

Mr. WARING. There seems to be a little doubt about that, but I think you did not understand my question. Up until 1940 there will be no exports under the present law.

Mr. GALLEGO. Yes, I am talking in general.

Mr. WARING. Now, up until that time, what is your opinion regarding the trend of trade between the two countries? Will the United States imports continue to increase as they have in the past, and will exports from the Philippines continue to decline as they have in the past?

Mr. GALLEGO. If the United States does not adopt additional restrictive measures against Philippine tobacco, I think that the present tendency will continue and that there will not be any great variety in the importation and exportation of Philippine tobacco to the United States. But we have noticed that there is a strong movement in the United States to restrict in every possible way the importation of Philippine tobacco. That is evidenced by the recent treaty of the United States with the Dutch, which made it possible for Javanese tobacco to enter the United States and thus compete with Philippine tobacco products.

Mr. WARING. One more question, Mr. Gallego. In your brief, on page 49, the last page, you ask that if the advancement of the date of independence should become a reality, free trade in tobacco products between the United States and the Philippines should be provided for after the change of sovereignty over the Islands.

Mr. GALLEGO. Yes, Sir.

Mr. WARING. Now, is it your request that such free trade should be provided for indefinitely after the Philippines become independent?

Mr. GALLEGO. Well, in our discussion of these recommendations we did not take that into account, but I can give my personal opinion about it, which is not, of course, the official opinion of the members of the association. My personal opinion is that it should only last for a limited period of time, for this reason: It is to be noted that tobacco is the only product of the Philippines that is exported to about 44 foreign countries. Abaca is exported to about 25, copra to about 10, and sugar to 2 or 3 countries. Consequently, the Philippine tobacco is the only Philippine export product that has acceptance in different countries. But, by reason of the limitations of the Tydings-McDuffie act, I do not think that we are in a position to find any market except on the basis of a preferential treaty with other countries; and, since we cannot do that until after we get our absolute independence, I believe that we should be given considerable time to adjust our free-trade relations with the United States, so far as tobacco is concerned.

Mr. WARING. Thank you, Mr. Gallego.

Mr. DORFMAN. Mr. Gallego, did you refer to the trade agreement between the United States and Holland which permits Dutch wrapper tobacco to enter at lower rates than formerly? Does the Philippines produce a variety of tobacco which competes with the variety of tobacco which the United States imports from Sumatra?

Mr. GALLEGO. At present we are experimenting on the Virginia, Turkish, and other varieties of tobacco; but we are still in an experimental stage.

Mr. DORFMAN. Then the reduction in duty on those varieties which the United States imports from the Dutch East Indies does not, in fact, affect the Philippines at all, does it?

Mr. GALLEGO. I do not think the effect is immediate, but at least we are made to believe that if we can produce a Virginia type of tobacco in the Philippines in the same way that it is produced in the United States, we can export the same to countries, especially here in the Orient, where the United States may be exporting a similar kind of tobacco, or where we compete with Dutch tobacco or Javanese tobacco.



Mr. DORFMAN. Would not that be a somewhat difficult problem? You would not expect, for example, if the experiment were successful, that you would be able to export a Virginia type of tobacco to, let us say, the United States.

Mr. GALLEGRO. No, we do not expect that.

Mr. DORFMAN. In the manufacture of cigars out here, you use a large quantity of American wrappers, do you not?

Mr. GALLEGRO. Yes, Sir.

Mr. DORFMAN. I understand that the cigar trade in the United States prefers cigars with light-colored wrappers.

Mr. GALLEGRO. Yes, Sir.

Mr. DORFMAN. If the cigar industry in the Islands were largely liquidated, the Islands would necessarily cease importing that tobacco from the United States, is that correct? That is, you would not need wrappers for cigars, if you could not make the cigars.

Mr. GALLEGRO. Well, in that I differ, for this reason: In as much as here in the Philippines we cannot produce a light-colored wrapper but only a dark-colored one, and in as much as the public here in the Philippines and elsewhere demands always, or at least I believe it does, that a light-colored wrapper be the sign of a high-quality cigar, we believe that even if we cease sending our goods to the United States, the Philippine public, at least, and all other countries where we will send our products in the future will require the same light-colored wrapper, or rather, the Virginia, the Georgia, or the Connecticut wrapper.

Mr. DORFMAN. Granting that that is the case, you would import much less—that is, you would not have the demand for the cigars and, consequently, you would not have the need for the wrappers.

Mr. GALLEGRO. We may not have the same proportion, or, rather, we may not buy them in the same amount that we are buying them now; but in that case, then, it would be prejudicial to the interests of the tobacco-growers of the United States.

Mr. DORFMAN. That is the point I am trying to develop. Why are you so much in doubt that there will be any decline in the demand for American wrapper tobacco if the Tydings-McDuffie act should be carried out as it is?

Mr. GALLEGRO. Well, because under it, as I said, from the sixth year we will begin losing; we cannot possibly manufacture cigars on a profitable basis if the economic provisions of the Tydings-McDuffie act will continue because, as we have shown here in figures, from the sixth and seventh years, things being equal as they are now, it would be impossible for us to send Philippine cigars to the United States.

Mr. DORFMAN. You do not feel, then, that there is going to be a precipitous decline in your exports. Will there be a gradual one? Is that your feeling?

Mr. GALLEGO. At least that is my belief, that it will be a gradual one, but to the point of annihilating completely the export of Philippine cigars to the United States after a lapse of a certain period.

Mr. DORFMAN. Well, now, considering the situation at that time, the Philippines would then buy much less American wrapper tobacco than they buy now.

Mr. GALLEGO. Unless we can find other markets in other places under the new arrangements.

Mr. DORFMAN. Is that something you foresee?

Mr. GALLEGO. That is something which I, personally, believe to be a possibility, because the tobacco product is accepted in more countries than any other export product that we have now.

Mr. DORFMAN. Do you have in mind the manufactured product as well as the raw tobacco?

Mr. GALLEGO. At least the manufactured product. I am doubtful about the raw tobacco, because at present our chief market for raw tobacco is Spain; and, apparently, Spanish colonies are producing also a considerable amount of tobacco and are exporting it to the mother country. Consequently, we are expecting also a decrease in the exports of Philippine leaf tobacco to Spain.

Mr. DORFMAN. Then, I take it that you are not unduly alarmed about the possibility of the cigar-export industry collapsing here in consequence of the provisions of the Tydings-McDuffie act being carried out?

Mr. GALLEGO. I think, comparatively, we are not so alarmed as the sugar people, for several reasons: The main export of the Philippine Islands consists of sugar, varying from 100 million upward; consequently, in relation to sugar we are not so alarmed, but at the same time we are sufficiently alarmed that if no real trade reciprocity can be secured during the transition period, the industry will suffer greatly.

Mr. DORFMAN. Are you yourself familiar with the technique of manufacturing cigars out here?

Mr. GALLEGO. Well, I had had some personal observation but I do not pretend to know the technique. We have a man here who will speak after me, Mr. Frieder, who knows the details and the technique of manufacturing. I have not had the chance, by reason of my position alone, to see for a very long time the detailed technique of the manufacture of cigars and cigarettes in our country.

Mr. DORFMAN. Then I will reserve for Mr. Frieder the questions I had in mind to ask you.

Mr. GALLEGO. Yes, Sir, if you please.

Mr. DORFMAN. I would like to ask you one more question. Is your feeling regarding the prospects of the industry shared generally by the members of the organization which you represent?

Mr. GALLEGO. Well, I was not alone in the preparation of our brief. We have discussed the different aspects of the industry and have decided what principles we were going to sustain and what recommendations we were going to make; consequently, the contents of the brief is an official expression of the intention and will of the members of the Manila Tobacco Association—and, by the way, practically all the exporters of tobacco products are members of the Manila Tobacco Association.

Mr. DORFMAN. Then, the views which you have expressed orally, you believe, will be shared by those members?

Mr. GALLEGO. Well, I think they will be shared at least by the majority of them.

Mr. DORFMAN. Thank you.

Mr. ROMERO. I understood you to say, Mr. Gallego, in the course of your remarks, that the tobacco industry is the premier employer of labor. Will you please elaborate on that statement?

Mr. GALLEGO. It is the premier employer of labor in this sense: Nearly all the biggest cigar and cigarette factories in the Philippines are located here in the city of Manila, and there is no other industry in this city that employs more laborers of all sexes and of all ages than the tobacco industry. We have in the city of Manila between 12,000 and 15,000 tobacco laborers.

Mr. ROMERO. You mean, therefore, that it is the premier employer of labor as regards the city of Manila?

Mr. GALLEGO. As regards the city of Manila, and in the sense that it is the only industry that takes and can employ all sorts of laborers, whether minors, men, or women, and with a capacity which is almost equal. Now you cannot find those characteristics in any other industry in the Philippines.

Mr. ROMERO. You also stated that it is the only industry that gives the surest and the safest income to the Government?

Mr. GALLEGO. Yes. Well, I think my statement on that point is sufficiently founded, if not well founded, for this reason. Taxes on sugar lands, for instance, or taxes on other industries are collected after they are due; that is, in the case of land tax, for example, we have a certain time within which to collect it. In the case of tobacco-manufacturers, we cannot send out our products to the market without first buying internal-revenue stamps from the Bureau of Internal Revenue. Consequently, once that stamp is affixed, then and only then can we proceed to take out our products from the factory, and there is no other industry like that, except, I think, the distilleries. So that we are paying the tax to the Government in advance. On the other hand, under the present law of the Philippine Islands, if, after taking a truck or a load of cigars or cigarettes, it is burned, we have no right, no recourse against the Government to

recover the taxes that we have paid. Not only that. Suppose, further, that it is spoiled by bad weather, rain, or otherwise, or that we cannot sell it: Under the present law of the Philippine Islands, neither are the tobacco-manufacturers reimbursed for that unused stamp. That is the reason why I say that tax is the surest, because we are paying the tax before we sell our products, speaking as a manufacturer.

Mr. ROMERO. You also stated that apparently the tobacco industry can stand the export tax better than other industries, and you specifically mentioned sugar. I am glad to learn that the tobacco industry can stand up, because, according to preliminary studies, it would seem that, on account of the narrow margin of profit and the high taxes that have to be paid, the tobacco industry would probably be among the first to collapse.

Mr. GALLEGRO. When I said so, I did not mean that the tobacco industry is the premier industry so far as profits are concerned. I am convinced that is the sugar industry, for you will recall that famous speech of Secretary Elpedio Quirino, who said that "of the gross income of the different industries in the Philippines, the sugar industry is paying only about 1.18 percent of its gross volume of business, while the tobacco industry is paying 55 percent of its gross business. There you will see the discrepancy." I do not say that we cannot survive, but I say we can survive on narrow margin. On the other hand, the sugar industry can go on with apparently bigger profit.

Mr. ROMERO. Your figures incorporated in this brief on page 20 indicate that, with the application of the export taxes, you will begin to lose on the eighth year. How can you reconcile that with your statement just made?

Mr. GALLEGRO. Well, I don't see any contradiction. In the first place, it is to be noted that, whereas there is an export quota for sugar under the Tydings-McDuffie act, we do not have such export quota; but we have this graduated export tax, and we maintain that taking into account present conditions and taking into account the provisions of the Tydings-McDuffie act, we will begin to lose from the sixth year.

Mr. ROMERO. And, naturally, as soon as you begin losing, you will stop exporting to the United States, is that not the fact?

Mr. GALLEGRO. Unless, as we have said, there is a modification of the Tydings-McDuffie act.

Mr. ROMERO. Allowing us at least a quota basis?

Mr. GALLEGRO. If we cannot secure anything better.

Mr. ROMERO. But without such modification, you could not continue exporting cigars to the United States after the seventh year, is not that so?

Mr. GALLEGRO. I do not think that we can.

Mr. DOMERATZKY. Mr. Chairman.

Chairman MACMURRAY. Mr. Domeratzky.

Mr. DOMERATZKY. Mr. Gallego, in referring to the prospects of the industry in regard to foreign markets you said that under certain conditions you might be able to conclude agreements with foreign countries that would secure a more favorable treatment for Philippine cigars. Do you have any particular countries in mind?

Mr. GALLEGRO. Well, we have. Primarily, we have in mind those countries where we presently might send our tobacco products. These countries are China, France, Straits Settlements, England, and Spain, and other countries along the Mediterranean. But, naturally, we foresee the handicaps in carrying out any future trade agreement with these countries and, therefore, following the natural law of least resistance, we prefer to have free trade with the United States regarding this matter; but if that is going to be impossible for some reason or other, then I think we will be forced to resort to other remedies.

Mr. DOMERATZKY. You believe, for instance, that China could furnish a growing market for Philippine cigars?

Mr. GALLEGRO. I believe so, by reason of its nearness. But the primary handicap now is the high tariff wall that is prevailing in China. We believe that if there should be a reduction of tariff rates in that country there would be a possibility. Of course, we have not investigated that in detail because, after all, we consider it useless during this stage of our national life because we do not know yet what the United States will be willing to concede to our tobacco trade.

Mr. DORFMAN. When I asked you, Mr. Gallego, whether your views were shared generally by the people in the industry, you stated that this brief was prepared by a number of such people, and I notice you have the names of some of them here in your brief.

Mr. GALLEGRO. Yes, by a committee.

Mr. DORFMAN. What fraction of the cigars exported to the United States are made by the people whose views you represent?

Mr. GALLEGRO. What fraction?

Mr. DORFMAN. Yes; roughly.

Mr. GALLEGRO. Roughly, I think they constitute the majority.

Mr. DORFMAN. The majority? That is, the firms whose names appear on page 3 here, in the aggregate, export the majority of the cigars which are shipped from the Philippines to the United States?

Mr. GALLEGRO. That is what I understand.

Mr. DORFMAN. Would you care to estimate the percentage? Would you say that they export 50 percent or 90 percent?

Mr. GALLEGRO. Well, as I said before, I do not know of any exporter of Philippine cigars to the United States who is not a member of the Manila Tobacco Association.

Mr. DORFMAN. I see. Then this, in fact, represents the view of 100 percent of the cigar-export industry in the Philippines?

Mr. GALLEGRO. Yes, so far as the contents of our brief are concerned. I do not want to tie the association as a whole to the opinions that I have given in replying to your questions which are not based directly on the data that you have before you.

Mr. DORFMAN. And these are the names of all the firms which export to the United States?

Mr. GALLEGRO. There is one factory, a big factory by the way, which is a member of our association but whose name does not appear here and whose manager will testify after me.

Mr. DORFMAN. But you feel that you have already explained his views?

Mr. GALLEGRO. So far as they are contained in this brief of ours.

Mr. DORFMAN. Thank you.

Mr. ROXAS. Mr. Gallego, in your brief, on page 21, you quoted, apparently with approval, from a report or a study made by the Philippine Economic Association, as follows: "It is the consensus of opinion among local cigar-manufacturers that even the 5-percent levy would be a most difficult problem to overcome." This 5-percent levy refers to the 5-percent export duty. Have you said anything in your oral statement that you mean as a rectification of the statement contained in this brief in that respect?

Mr. GALLEGRO. Substantially we subscribe to this opinion, but as you will notice on page 20, we quoted there a table that represents a mathematical calculation.

Mr. ROXAS. Well, in other words, do you or do you not subscribe to the idea that even the 5-percent levy is a most difficult problem to overcome?

Mr. GALLEGRO. We naturally subscribe to that idea.

Mr. ROXAS. You do?

Mr. GALLEGRO. Yes.

Mr. ROXAS. Now, let us take the table on page 20. On the sixth year there will be a levy of 0.94 centavos.

Mr. GALLEGRO. That is 0.94 of 1 centavo, we are basing on.

Mr. ROXAS. It is 0.94 of 1 centavo per cigar, which leaves a margin between the cost in the Philippines and the selling price of 1.25 of 1 centavo per cigar. My question is this: Is it your opinion that 1.25 of 1 centavo per cigar, according to this table, means that much in profit or merely the difference between the selling price in the United States and the actual cost, without including in this estimation profits

of the exporter from the Philippines to the United States, the importer in the United States, and the retailer in the United States?

Mr. GALLEGO. All those items are excluded.

Mr. ROXAS. Therefore, this table does not indicate that during the sixth year, Philippine manufacturers can still make 1.25 of 1 centavo per cigar, if sold in the United States.

Mr. GALLEGO. It does not indicate; it shows only in a graphic way the difference in the cost of production and the price, disregarding all the items that you have said.

Mr. ROXAS. In order to determine whether during the sixth year it could bear the payment of 5-percent export duty and you could still sell cigars to the United States, don't you believe, Mr. Gallego, that you must take into account these other items?

Mr. GALLEGO. Certainly, that is a part of the whole business transaction.

Mr. ROXAS. Now, my question is this: Do you know how much those items that you have not taken into consideration represent?

Mr. GALLEGO. Generally speaking, you will notice that in order to answer this in detail, we always resort to mathematical calculation, but you will have an idea of what they are in general if we take into account, for instance, the data contained in our brief on pages 22-23. The United States internal-revenue tax is fixed. Now, packing and shipping expenses vary. That alone is a factor that contributes to the cost of production because the packing and shipping expenses vary according to the supply of labor, according to the condition of each factory. The price of leaf tobacco also varies, and price of labor, and so forth.

Mr. ROXAS. Pardon me, Mr. Gallego. I have no reference to that. I have reference to the items that you have not included in this estimate of cost as listed on pages 22-23.

Mr. GALLEGO. Exactly, but you will notice that—

Mr. ROXAS. Which generally means the exports from the Philippines, the margin of profits of exporters and the margin of profits of the retailers—and when I make reference to the margin of profits of exporters and the margin of profits of retailers, that, of course, includes the cost of handling and advertisement and other expenses to the exporters and to the retailers. Now, my question is this: Have you made any estimate as to the amount which should be added to the cost in order to determine whether you can still continue to sell cigars in the United States at a profit with the imposition of the 5-percent levy?

Mr. GALLEGO. Well, in that connection, I prefer to refer you to Mr. Frieder, who is one of the biggest exporters to the United States. This gentleman knows not only the actual conditions of marketing

here but also actual conditions in the United States, in as much as he has been going to and fro, and, consequently, I would suggest that you direct such a question to Mr. Frieder.

Mr. ROXAS. Thank you. I shall direct that question to Mr. Frieder.

But do you not admit, therefore, that the table which appears on page 20 and which shows that there is a profit of 1.25 of 1 centavo per cigar does not really mean profit?

Mr. GALLEGO. It does not, because, in the first place, as I understand it, the dealers in the United States require a greater margin of profit per unit than even the manufacturers here.

Mr. ROXAS. Therefore, this table—and you will correct me if I am wrong—does not show that the industry can pay the 5-percent levy in the sixth year and the 10-percent levy during the seventh year and still maintain a profit.

Mr. GALLEGO. No, it does not.

Mr. ROXAS. You stated in your oral testimony that you imported ₱500,000 worth of cellophane every month. Is that correct?

Mr. GALLEGO. No, not every month. I think you were somewhat confused there. What I stated is this: That in 1935, according to our records, no less than ₱500,000 worth of cellophane was imported from the United States and used in the different factories in the Philippines, and that at present there are factories that are using—one factory—no less than ₱500 worth of cellophane every month.

Mr. ROXAS. I see. With regard now to the possibility of readjustment. If the Philippines should sell less cigars to the United States and correspondingly should import less cigarettes from the United States, is there a possibility that the leaf tobacco that you are now using for cigars sent to the United States might be used for the manufacture of cigarettes that might displace or substitute that portion of American cigarettes imported from the United States?

Mr. GALLEGO. Well, as a matter of practice, the local factories reserve the best and first-class leaf tobacco for tobacco fillers, and the poorer class for cigarettes. Consequently, if we should use the high-quality tobacco leaf for cigarettes and take into account the high specific tax on cigarettes and cigars, the factories would have to be closed.

Mr. ROXAS. I don't believe I have made my question clear. I am just asking a hypothetical question as to whether you could apply or use the leaf tobacco that you are now using for cigars exported to the United States, for the manufacture of cigarettes that may be sold in the Philippine Islands, in substitution for at least a portion of American cigarettes that are now being imported.

Mr. GALLEGO. From a business standpoint, I don't think that it would be practical, because the cost of the manufactured product will be much higher than it is now; consequently that will give room



for more, instead of driving away foreign importers from the market, and encourage more imports of American cigarettes that can compete with locally manufactured cigarettes.

Mr. ROXAS. Suppose there is a limitation as to the amount of American cigarettes that may be imported so that there will be no danger of an increase, would there be a possibility of manufacturing cigarettes for Philippine consumption to take the place of the amount of American cigarettes that will no longer be imported?

Mr. GALLEGRO. I have already stated that from a business point of view, taking into account the present prices of tobacco for cigars which are comparatively higher, we cannot do it at a profit.

Mr. ROXAS. You have stated in your brief that the balance of trade with regard to tobacco between the United States and the Philippines is in favor of the Philippines by as much as ₱1,500,000 a year. May I ask whether the declared value of Philippine tobacco-production appearing on this table includes the value of American products imported into the Philippine Islands and used in the manufacture of such cigars?

Mr. GALLEGRO. Do you mean to say, for instance, cellophane which enters into the Philippines?

Mr. ROXAS. Yes, and wrappers.

Mr. GALLEGRO. As I said before, that balance is in favor of the United States.

Mr. ROXAS. Well, does it, or does it not include those items?

Mr. GALLEGRO. It includes that balance in favor of the United States, because if you exclude all those invisible items, apparently the balance of trade is in favor of the Philippines.

Mr. ROXAS. Will you tell me if it includes the Federal revenue taxes in the United States? I would like to make myself very plain. Does this declared value of Philippine cigars sent to the United States appearing on these tables include the internal-revenue tax upon these cigars in the United States, or does it not?

Mr. GALLEGRO. Do you mean to say, the United States specific taxes, as collected here? Yes, they are included.

Mr. ROXAS. Don't you therefore believe that this table does not represent the whole picture, because included in the declared value is the United States internal-revenue tax, which does not come to the Philippine manufacturer but is collected in the United States—

Mr. GALLEGRO. Yes, that is true.

Mr. ROXAS. —although that money later on is reverted to the Government of the Philippines. Do you know whether the freight is included in that declared value?

Mr. GALLEGRO. Yes, Sir.

Mr. ROXAS. Are you positive about that information? if you pardon my question, because I have seen that there is no uniformity in

the establishment of these declared values. In some cases, I understand, even the freight is included.

Mr. GALLEGRO. As I have said before, we have taken into account all these invisible items, although even excluding the freight, the balance of trade will still be in favor of the United States if we take into account all the other invisible items which I have stated.

Mr. ROXAS. I was not trying to get into that. My question simply was addressed to find out whether this declared value included the United States internal-revenue taxes and also freight. On the other hand, do you know whether the declared value of American cigarettes brought into the Philippines and appearing in your tables includes Philippine internal-revenue taxes and freight?

Mr. GALLEGRO. Well, I do not want to commit myself regarding that question. I think Mr. Frieder will be in a position to determine that.

Chairman MACMURRAY. Are there other questions?

Mr. PAREDES. Mr. Gallego, will you clear my doubt on this point? Do I understand you to mean that the Manila Tobacco Association, of which you are the worthy president, is agreeable to the continuation of the Tydings-McDuffie-act provisions for graduated export taxes?

Mr. GALLEGRO. Now, precisely, we are opposed to the graduated tax as provided for in the Tydings-McDuffie act.

Mr. PAREDES. Why did you then say that the Tobacco Association is not so much concerned, as I understood you to say, that it is not so much concerned about the Tydings-McDuffie export taxes, or the severance of these trade preferences? Did I understand you to mean that?

Mr. GALLEGRO. No, I did not mean that.

Mr. PAREDES. What did you mean then when you said that you are not as much afraid as the sugar people are?

Mr. GALLEGRO. What I meant to say, at least, was that in as much as there is in the tobacco business mutuality of relations between the United States and the Philippine Islands, we are inclined to believe that of all the products now sent by the Philippine Islands to the United States, the American people, taking into account the mutual benefits which are not seen in other industries, should give preference to the tobacco products and to the petition of the Manila Tobacco Association in this matter, because it is the industry that gives real mutual benefit to both countries.

Mr. PAREDES. What would be the protection that the Tobacco Association would expect in order to preserve the American market for the tobacco industry of the Islands?

Mr. GALLEGRO. Protection in what respect?

Mr. PAREDES. In the question of tariff. Would you advocate an entire elimination of the duties, or would you be willing to pay a graduated scale of export duties or import duties?

Mr. GALLEGO. Naturally, we would prefer the abolition of the graduated tax.

Mr. PAREDES. The purpose of that would naturally be to preserve the American market and, if possible, to increase your business in the United States.

Mr. GALLEGO. Naturally.

Mr. PAREDES. Do you know, Mr. Gallego, that at present and for the last few years the Philippine Islands have been losing the American market for tobacco?

Mr. GALLEGO. Well, we know that.

Mr. PAREDES. What is the reason for that, if I may know?

Mr. GALLEGO. Well, one is, as I said, there are restrictive measures adopted in the United States to discourage the importation of Philippine cigars. Another reason is that recently in the United States the manufacturers have started to produce low-grade cigars by machinery which naturally compete favorably with Philippine cheap cigars sent to the United States.

Mr. PAREDES. What are these restrictions adopted in the United States against our tobacco?

Mr. GALLEGO. Well, I remember about one year ago that we had to request a representative in the United States to appear before the Committee of the Industrial Recovery Act, because there were limitations being imposed upon Philippine tobacco. I think Mr. Frieder was there in the United States about that time, and he will inform you more about that matter.

Mr. PAREDES. What is the value of our total cigar and cigarette exports to the United States a year?

Mr. GALLEGO. When?

Mr. PAREDES. At present.

Mr. GALLEGO. That appears in our brief, but it is in round numbers.

Mr. PAREDES. About six million?

Mr. GALLEGO. Between five and six million.

Mr. PAREDES. And what percentage of that is represented by good cigars, and what percentage of that is represented by low-grade cigars?

Mr. GALLEGO. No less than 90 percent is represented by what we call class-A or low-grade cigars.

Mr. PAREDES. In other words, the cigars that are sold in the United States at two for five?

Mr. GALLEG0. Yes, Sir, at two for five.

Mr. PAREDES. That indicates, does it, that the tobacco industry of the Islands cannot expect to sell good-grade cigars in the United States under the present arrangement?

Mr. GALLEG0. Not under the present arrangement.

Mr. PAREDES. So, your association would be willing to continue selling only cheap cigars in the United States?

Mr. GALLEG0. The association is trying its best to study market conditions in the United States and send its products in accordance with the demands of the United States market.

Mr. PAREDES. What has your association done to encourage the exportation of good-grade cigars to the United States?

Mr. GALLEG0. You know that under our laws, the Tobacco Board appropriates a certain amount every year for propaganda of Philippine tobacco in the United States.

Recently, instead of limiting the propaganda for cheap cigars, the Tobacco Board decided to appropriate the money for propaganda purposes for advertising a better grade of Philippine cigars.

Mr. PAREDES. Do you know how many exporters there are who export this 90 percent of ₱6,000,000 worth of cigars to the United States?

Mr. GALLEG0. The majority of the members of the Manila Tobacco Association.

Mr. PAREDES. I got the information that one exporter in the Philippines had been gathering cigars from several places in the Philippines, cheaply manufactured, to be able to sell and compete with the cheap cigars in the United States, thus monopolizing the export of cigars and thus making it impossible for good cigars to be exported to the United States. What is your information about that?

Mr. GALLEG0. Well, at least, neither the Manila Tobacco Association nor I, personally, have any knowledge of such practice.

Mr. ROBBINS. I wonder, Mr. Gallego, if in order to clear away the confusion as to the significance and meaning of this tabulation on page 20 of your brief, you will advise the Committee of the actual profits of manufacturers who are members of your association on class-A cigars, say, during the calendar year 1936, in terms of centavos or fractions of centavos per cigar?

Mr. GALLEG0. Presently. In appearing before you, we have decided to assign a certain aspect of the brief to several members, and that particular phase of the subject has been assigned to the next speaker because he is the one who, as I said, is actually and actively engaged in the manufacture and export of cigars to the United States.

Mr. ROBBINS. Thank you. I shall ask him.

Chairman MACMURRAY. Are there other questions?  
 (No response.) Thank you very much, Mr. Gallego.  
 Is Mr. Carl Timmerberg here?

Mr. TIMMERBERG. Mr. Philip S. Frieder will testify in my place.

STATEMENT OF MR. PHILIP S. FRIEDER, REPRESENTING THE MANILA TOBACCO ASSOCIATION

Mr. FRIEDER. Mr. Chairman: Would it be possible for some of those questions that were asked Mr. Gallego to be asked me? I would like to answer also.

Chairman MACMURRAY. You might include the answers in any statements that you care to make. If you care to address the Committee, please yourself and include any of those answers you please.

Mr. FRIEDER. I would like the Committee to ask those same questions, and I would like to answer in my own way.

Mr. ROBBINS. Mr. Frieder, will you advise the Committee of the amount of the actual profits of Philippine cigar-manufacturers on class-A cigars during the calendar year 1936 in terms of centavos or fractions of centavos per cigar?

Mr. FRIEDER. Net profits?

Mr. ROBBINS. Yes, after all your transactions have been completed, your incomes recorded, all expenses deducted, and the final accounting statements made.

Mr. FRIEDER. It would be a little difficult to give you an accurate statement, but I do not believe it runs over 1 peso per thousand.

Mr. ROBBINS. In centavos per cigar?

Mr. FRIEDER. Well, we figure in terms of 1,000 cigars.

Mr. ROBBINS. One peso per thousand?

Mr. FRIEDER. I doubt whether it runs that high. It may run a little lower.

Mr. ROBBINS. That is  $\frac{1}{10}$  of a centavo per cigar?

Mr. FRIEDER. That is about right.

Mr. ROBBINS. Well, in that event—

Mr. FRIEDER. Pardon me, just a minute. There may be factories that do manufacture higher priced cigars, but their profits will run a little higher.

Mr. ROBBINS. I am just asking about class A, which, I understand, constitutes 90 percent of your business.

Mr. FRIEDER. Yes, but class A runs from 3 for 5 cents up to 5 cents.

Mr. ROBBINS. What would be the average for that entire class?

Mr. FRIEDER. Well, if you have a larger proportion of 5-cent cigars you will naturally have bigger profits. If you had a bigger proportion of two for five, and three for five, your profits will be much lower.

Mr. ROBBINS. I understand that, but I wonder what the average was during 1936 on the total price?

Mr. FRIEDER. Well, I do not believe it would run over 1 peso.

Mr. ROBBINS. You are saying again per thousand?

Mr. FRIEDER. Per thousand cigars, yes. All our terms are in thousand cigars.

Mr. ROBBINS. If your final net profit on the average was  $\frac{1}{10}$  of 1 centavo per cigar, then, obviously, your entire profit will be destroyed by the imposition of the first 5 percent of American duties in the form of an export tax in the sixth year of the Commonwealth?

Mr. FRIEDER. I am certain we could not stand the first year of the duty-term.

Mr. ROBBINS. Because that would be equal to  $\frac{9}{100}$  of 1 centavo per cigar.

Mr. FRIEDER. Yes, it is something like that.

Mr. ROBBINS. May I suggest, Mr. Frieder, in the interest of placing accurate information before the Committee, and even in your own interest, and of avoiding the presentation of a statement which might be misleading, that you submit a supplement to this material on page 20 of your brief,<sup>1</sup> setting forth the profit actually made by manufacturers and comparing that with the graduated export tax?

Mr. FRIEDER. Well, I might add that there was a mistake made on this. There was an error. It should read: "Profit or loss to U.S. importers, distributors, and retailers"—to include retailers. And this profit at 1.25 per 1,000 cigars is not a profit. It means the difference in cost of production here and the difference in the selling price on the other side.

Mr. ROBBINS. But I believe that there is a possibility that it may be misinterpreted as to the profit of the manufacturers, unless you expand or correct it by an addition to this brief.

Mr. FRIEDER. Yes, that is right, Mr. Robbins. That should include retailers—just the difference in cost and sale.

Mr. ROBBINS. If your estimate of the profits is correct, then, unless some modification were made, the industry would be destroyed, so far as exportation of cigars to America is concerned, in the first tax year!

Mr. FRIEDER. There is no doubt about that.

Mr. ROBBINS. Unless there were some possibility of reducing your cost of production very substantially? What are those possibilities, if any?

Mr. FRIEDER. I do not believe there is any possibility of reducing the cost of production or the cost of raw leaf tobacco. I do not think there is any opportunity for that.

<sup>1</sup> See vol. III.

Mr. ROBBINS. The industry, for instance, is not one that has enjoyed very large profits which have finally become capitalized in the form of capital market value and which in turn are now considered part of production cost?

Mr. FRIEDER. The industry has not been very prosperous. Some few manufacturers have made some profits over a period of years, but it is just a normal profit, nothing exorbitant. But our difficulty is, if we should try to reduce the cost of raw materials, such as tobacco, we would have the whole world competing against us. The only other way would be to reduce labor cost, and I am convinced they wouldn't take any less than what they are at present receiving. Therefore, it is hopeless.

Mr. ROBBINS. On the basis of the information you have given, then, in this special case, the export tax on cigars cannot be considered a revenue measure to produce income for the Commonwealth for its program for debt retirement or for other general purposes, and the scale of export taxes cannot be considered as an adjustment device because you cannot hope to make any adjustment or even stretch your liquidation over five years. In other words, it is an absolute trade barrier which would foreclose the possibility of adjustment and produce no revenue. Is that correct?

Mr. FRIEDER. I am absolutely convinced that the cigar exports to the United States will cease, with the exception of a very few of the better cigars—but very few. However, the vast majority of cigars that are made today will not be shipped to the United States. They cannot stand the first 5 percent.

Mr. ROBBINS. Then, you have no opportunity, in other words, for adjustment or liquidation over a period of years, and you can expect no revenue from that export tax.

Mr. FRIEDER. None whatever.

Mr. ROBBINS. And do I understand also from the preceding testimony that it is the position of your association that with respect to cigars at least there is an imperfection and inequality in the Tydings-McDuffie act in the sense that the Philippine cigar trade would be destroyed under the law several years before complete independence, that is, in the sixth year of the Commonwealth, whereas during that period the United States cigarettes would continue to enter this market without restriction?

Mr. FRIEDER. That is correct.

Mr. ROBBINS. For the entire Commonwealth period?

Mr. FRIEDER. That is correct.

Mr. ROBBINS. And do you subscribe to the implication, at least, made by the previous witness that there is a further inequality because during the Commonwealth period the Government of the Phil-

ippines probably would not be able to enter into an agreement prior to independence which would open a market with some other country for the mutual exchange of Philippine cigars and foreign cigarettes?

Mr. FRIEDER. As long as the tobacco products can enter into the Islands free of duty for the second 5-year term, I do not see any possibility for the Philippines to make any trade agreements for tobacco products.

Mr. ROBBINS. Because?

Mr. FRIEDER. Because of the fact that the products from the United States enter here duty-free and our products are taxed when they enter the United States, that is, after the fifth year.

Mr. ROBBINS. That is all, Mr. Chairman.

Mr. ROMERO. Mr. Chairman.

Chairman MACMURRAY. Pardon me, Mr. Romero, before recognizing you I would like to ask a question. What firm do you represent, Mr. Frieder?

Mr. FRIEDER. The Helena Cigar Company, S. Frieder and Sons Company. We are a United States corporation.

Chairman MACMURRAY. Mr. Romero.

Mr. ROMERO. You stated that the tobacco industry has not been very prosperous. You also stated that you saw no possibility of reducing the labor cost. As a matter of fact, is it not true that because of this none-too-prosperous condition of the industry, the tobacco laborers are not very highly paid as compared, for instance, with the laborers in the sugar industry?

Mr. FRIEDER. To answer that correctly is a little difficult. Our laborers, that is, those who make the cigars, are pieceworkers. They get paid for what quantity they make. Now, when a factory has many orders to keep its laborers busy or give sufficient work, the laborers earn as much and even more than other laborers in other industries here. But if the factory has very few orders and can only allow a laborer to make a few cigars, all he can earn is what he is allowed to make.

Mr. ROMERO. With all those things considered, what would you say is the average wage of the tobacco laborer in the city of Manila?

Mr. FRIEDER. I think we had a recent investigation, and while I am not familiar with the exact figures, I would say about 1 peso a day. That is, in our factory I am safe in saying that the majority make 1 peso and over a day. Now, we employ some boys who make less.

Mr. ROMERO. Did you refer to skilled labor or the ordinary run of labor?

Mr. FRIEDER. The ordinary run, unskilled labor.

Mr. ROMERO. Is it not true that there has been considerable unrest among the laborers in the tobacco industry?



Mr. FRIEDER. I have not noticed any since I've been here. I arrived here—I've been here now about three or four months. I have not noticed any since I have been here.

Mr. WARING. Mr. Frieder, referring to the table on page 20, which has caused so much comment, is it not correct to say that what that table purports to show is that under the export taxes in the eighth year, if no one—the manufacturer, the importer, the jobber, the retailer, who handles Philippine cigars—made any profit whatsoever, there would still be a loss to the producer of cigars of  $\frac{6}{100}$  of a centavo per cigar in that year.

Mr. FRIEDER. Yes; I think that is correct, but then I might elaborate a little bit on that. The retailer in the United States is accustomed to make 25 percent. He must make 25 percent before he makes any profits. The jobber is accustomed to making 15 percent. That is 40 percent. Now, how can anything be made?

Mr. WARING. What is the average price at which the two-for-five cigars are now being sold by the Philippine manufacturers?

Mr. FRIEDER. To the importer, distributor, or retailer?

Mr. WARING. To the importer.

Mr. FRIEDER. Well, I personally do not know, but I imagine it would be between 15 and 16 dollars.

Mr. WARING. As high as 15 and 16 dollars?

Mr. FRIEDER. Yes, between  $14\frac{1}{2}$ ,  $15\frac{1}{2}$ , and  $16\frac{1}{2}$ ; I believe that is about correct.

Mr. WARING. That is, two for five cents?

Mr. FRIEDER. Yes; two for five, yes.

Now, then, the importer sells to the distributor at between  $16\frac{1}{2}$  and 17. Now, the retailers pay around 20 dollars.

Mr. WARING. So that the export prices which would amount to roughly about  $16\frac{1}{2}$  dollars in the ninth year of the Commonwealth mean that the producers here in the Philippines would have to turn over all their proceeds in the form of tax under the present selling arrangement.

Mr. FRIEDER. That is right.

Mr. WARING. The previous gentleman who appeared before the Committee referred to restrictive measures taken in the United States against Philippine cigars. Are you aware of any such restrictive measures?

Mr. FRIEDER. I have never heard of any.

Mr. ROXAS. Do you know, Mr. Frieder, if the declared value of the cigars exported to the United States, as tabulated in this brief, includes the internal-revenue tax.

Mr. FRIEDER. On what page is that?

Mr. ROXAS. In the comparison between the value of cigars exported to the United States and the value of American cigars imported to the Islands.

Mr. FRIEDER. The value of American cigars imported into the Islands is free of excise tax. In other words, they are brought here without revenue stamps and the Philippine revenue stamp must be bought here and the Commonwealth receives that revenue.

Mr. ROXAS. How about the Philippine cigars sent to the United States?

Mr. FRIEDER. If c.i.f. prices are quoted, they include the excise tax; if Manila prices are quoted, they are without the excise tax.

Mr. ROXAS. Now, these cigars taken from the report of the Bureau of Customs, do you know whether they include generally the United States tax?

Mr. FRIEDER. I believe it is safe to say that about 50 percent include the excise tax, and 50 percent do not.

Mr. ROXAS. In other words, this declared value does not really represent exactly the value to the producers of these cigars. I say this tabulation does not represent exactly the value to the producers of these cigars, because it includes the excise tax collected in the United States.

Mr. FRIEDER. Well, there may be some cases. As I said, about half is included and half is not. We, in our particular case, in our prices the excise tax is included.

Mr. ROXAS. And what does that represent in volume of the cigars exported to the United States?

Mr. FRIEDER. Well, that is about 100 million cigars annually.

Mr. ROXAS. About 50 percent of all the cigars exported to the United States?

Mr. FRIEDER. Yes.

Mr. ROXAS. Mr. Frieder, if because of the imposition of these excise taxes it becomes necessary to reduce your production cost, is it possible to reduce your production cost by the introduction of machinery in the manufacture of cigars, so as to be able to absorb some of these taxes?

Mr. FRIEDER. I do not think so. I do not think it is possible to reduce our production cost to such a point and yet absorb the tax.

Mr. ROXAS. Could you reduce the price for leaf tobacco and still continue the industry, still have enough inducement to continue producing tobacco?

Mr. FRIEDER. As I said before, we have the entire world competing against us. The world is looking for cheap tobacco, and it would have to be so cheap that there would be no interest for the farmers to grow tobacco; so they would be growing other commodities in order to get better returns.

Mr. ROXAS. You have been in the tobacco business in the Islands for many years. Do you know what is the income that could be obtained from a hectare of the best tobacco land planted to tobacco?

Mr. FRIEDER. About 10 quintals, or about 1,000 pounds. That is about the average all over the Islands.

Mr. ROXAS. Now, how much would be the net income to the landowners and the farmers?

Mr. FRIEDER. It varies in different sections—some sections more, and some sections a little less. I should say the income, the average in the Islands, is around 5 pesos per quintal.

Mr. ROXAS. That is the price you mean?

Mr. FRIEDER. Yes.

Mr. ROXAS. My question is, if a man owns a hectare of land and he planted it in tobacco, using his own labor and that of his own family, what would he get net each year from that land? We know, for example, that in a hectare of rice land, the landowner may get, say, 16 pesos or 20 pesos a year. Then the tenant may get about 30 pesos a year. Now, what would a landowner of a tobacco land get?

Mr. FRIEDER. I am a little confused between hectare and acre.

Mr. ROXAS. Say it in acres.

Mr. FRIEDER. An acre of land will produce about 10 quintals, that is 1,000 pounds, and I am certain that the tobacco will average 5 pesos, or an average of 50 pesos per acre.

Mr. ROXAS. That is the gross value of his production?

Mr. FRIEDER. That is all that he will receive.

Mr. ROXAS. That is about 120 pesos per hectare?

Mr. FRIEDER. About 125 or 150 pesos per hectare.

Mr. ROXAS. And how many people would be required to work on one hectare of land planted to tobacco, do you know?

Mr. FRIEDER. That is a difficult question to answer. I really do not know, but I believe it will take 3 or 4 people. A family of 3 or 4 people.

Mr. ROXAS. And tobacco is a crop of how many months?

Mr. FRIEDER. About 90 days.

Mr. ROXAS. And do you know whether the people in the Cagayan valley that are planting tobacco have any other income from the land which they devote to tobacco?

Mr. FRIEDER. Some have a little income, but not all of them. Some grow rice.

Mr. ROXAS. On the same land?

Mr. FRIEDER. No. They have extra land, but I don't think that land will produce anything else.

Mr. ROXAS. If 4 men will work on one hectare and the gross value of their production is 125 pesos, that averages about 35 pesos a year for each one; do you think that is correct?

Mr. FRIEDER. That is about correct.

Mr. DOMERATZKY. Would you say that because the Philippine cigar is at the bottom of the market in the United States so far as price is concerned, more or less, it has a special advantage which may operate to reduce the trade of the Philippines even before the export taxes go into effect?

Mr. FRIEDER. It is a very difficult thing to answer that question. I must elaborate on that question. In the last 10 years, the American factories—or I might say since the end of the war—have all mechanized their factories and they are permitted to sell their cigars at such a price that we must compete with, and unless those cigars are sold at higher prices we cannot sell our cigar at higher prices.

Mr. DOMERATZKY. In other words, the Philippine cigar is more vulnerable to the competition of cheap cigars in America than Havana cigars.

Mr. FRIEDER. Oh, yes. We are in direct competition with the machine-made American cigars. That is exactly where we are.

Mr. DORFMAN. Mr. Frieder, if the cigar industry exporting to the United States should be obliged to liquidate in consequence of the provisions of the Tydings-McDuffie act being carried out, that would mean that the American market for wrapper tobacco and other items used in making cigars here would be reduced, would it not?

Mr. FRIEDER. It would be eliminated.

Mr. DORFMAN. If it were eliminated would there be an increase in the demand for such wrapper tobacco in the United States?

Mr. FRIEDER. Not as much as is being bought here now.

Mr. DORFMAN. Presumably the cigars which would replace the Philippine cigars would be the American machine-made cigars?

Mr. FRIEDER. That is right.

Mr. DORFMAN. Now, the American machine-made cigars require wrappers which are more or less perfect. The Philippine cigar, being a hand-made cigar, can use wrappers of a type which cannot be used for wrapping cigars that are made by machine, is that correct?

Mr. FRIEDER. The machine-made cigars require perfect leaves. We here manufacture hand-made cigars, and we can use Florida and Georgia wrappers that are not perfect. We have been consuming these. May I correct Mr. Gallego who says that it was Virginia wrappers that we are using here. We do not buy Virginia wrappers; we buy Georgia and Florida wrappers. Wrappers do not grow in the State of Virginia.

Mr. DORFMAN. Then I get from your remarks that American producers of the wrappers which are exported here would be injured in consequence of the Philippine industry being liquidated, since they would not be able to sell, on as favorable terms as they now sell, that portion of the wrapper tobacco which is damaged?

Mr. FRIEDER. Here in the Philippines we consume approximately 25 to 30 percent of the Florida and Georgia wrapper tobacco. The entire crop amounts to between 10 and 12 thousand bales. I am safe in saying that we consume a quarter of that, and in that quarter I imagine there is at least another quarter of damaged tobacco—that is, when I say “damaged” I mean slightly torn, that cannot be used in the United States but is used here. I recall an incident which happened this year. One of the largest growers of Florida tobacco had on hand approximately 1,000 bales of wrappers that they were unable to sell, owing to the fact that they were very tender. They could not be used by the United States machine factories, owing to the fact that those factories must have sound leaves so that the machine can stretch them. Those wrappers had been in New York since 1932. This year the manufacturers in the Philippines bought that tobacco, and the value is no less than \$150,000 to \$200,000 for those 1,000 bales. Now, that tobacco would never have been sold in the United States for American factories’ consumption. It would not have been used there.

Mr. DORFMAN. What use would be made of damaged wrapper tobacco in the United States if it could not be exported to the Islands for use in wrapping hand-made cigars?

Mr. FRIEDER. Florida and Georgia wrappers are only exported to the Philippine Islands and Puerto Rico, the only two places where they can export them. These tobaccos would probably be sold, after a time, at a very very low price or would be used up for cutting. I do not know whether you know the term “cutting”—that is used for chewing tobacco.

Mr. DORFMAN. Roughly, what is the difference in price between cuttings such as you mentioned and the damaged wrapper tobacco now sold out here?

Mr. FRIEDER. Oh, there is a big difference. If they had to sell it for cutting they would probably receive 10 cents a pound. If they have to sell it for wrappers they get 90 cents or \$1 a pound. There is a tremendous difference.

Mr. DORFMAN. You feel, then, that if the industry is liquidated here, American tobacco farmers would not fare as well even though there should be a complete transfer of the industry to the United States?

Mr. FRIEDER. The States would suffer after all. There are over 100,000,000 cigars manufactured here for local consumption and some for export other than the United States, which all practically use American wrappers. Now, those would be replaced by wrappers from Sumatra and Java. I said, on the same basis, no manufacturer would consider using Florida or Georgia wrappers in comparison with Sumatra or Java. They are a much finer type of tobacco.

Mr. ROXAS. Mr. Frieder, do you remember what the Government of the Philippine Islands did in order to induce a more extensive use of American wrappers rather than Sumatra wrappers?

Mr. FRIEDER. They raised the duty, I think 30 cents gold a pound, to stop the inflow of Sumatra wrappers into the United States.

Mr. ROXAS. As a result of that increase in tariff which, as you will remember, was made at the request of American producers of wrapper tobacco, what has been the percentage of increase in the use of American wrappers?

Mr. FRIEDER. It has gone up tremendously. The prices have skyrocketed. The manufacturers were unable to use these other wrappers on account of the high duty, and I am safe in saying that since that has taken place, American wrappers have gone up 30 percent to 50 percent.

Mr. ROXAS. In the Philippines, what percentage of the wrapper tobacco that we are now using has come from other sources than the United States?

Mr. FRIEDER. Infinitesimal, less than 1 percent.

Mr. ROXAS. Before this import duty was increased, what was the percentage of American wrappers used in the industry?

Mr. FRIEDER. Where?

Mr. ROXAS. In the Philippines.

Mr. FRIEDER. I believe 12 or 14 years—the introduction of Georgia and Florida wrappers here started in 1923—we found a shortage of Philippine wrapper tobacco. It started in a small way and today I am safe in saying that 90 percent of the entire cigar-production here is made with American wrappers. I might go further: 95 percent. In our own particular case, in our own factory, I think we use 98 percent American wrappers.

Mr. ROXAS. And the other 2 percent?

Mr. FRIEDER. Philippine wrappers.

Mr. DOMERATZKY. Mr. Frieder, when you said that they would stop using American wrappers and shift to Sumatra and Java, you had in mind the period after independence?

Mr. FRIEDER. Of course. Not during the transition period.

Mr. WARING. Mr. Frieder, while I appreciate, as a matter of fact, that you are an exporter of cigars, I wonder if the Committee might have the benefit of your opinion as to what would happen to the American cigarette trade in the Islands when the full Philippine duty becomes applicable.

Mr. FRIEDER. It would suffer; it would immediately drop.

Mr. WARING. Have you any idea as to the percentage of that decline?

Mr. FRIEDER. Well, in Cuba, after the full duty was imposed on American cigarettes in Cuba, the business vanished, except for those smuggled into Havana and those sold to people that could afford to pay the price for cigarettes. I would say American cigarettes that today are selling for 12 cents or 14 cents a package here, would probably jump up to 50 cents or 60 cents. Well, the income of the Filipinos would not be large enough to permit the consumption of American cigarettes; the trade would vanish.

Mr. YULO. Just one final question. Would you say that your American trade at present constitutes such a large proportion of your business that upon its elimination the tobacco industry would also be eliminated in the Philippines. I mean, the cigar business?

Mr. FRIEDER. Absolutely. For export to the United States, one factory will be able to take care of all the business.

Mr. JACOBS. Mr. Frieder, are you familiar with the technique of cigarette-manufacturing?

Mr. FRIEDER. No, I am not. But Mr. Timmerberg is here; he manufactures cigarettes.

Chairman MACMURRAY. Are there other questions for Mr. Frieder? (No response.) Thank you, Mr. Frieder.

Mr. FRIEDER. Mr. Chairman, may I just say a few words. Gentlemen, I hope our brief is thoroughly convincing, that should independence without free trade be accelerated or during the second half of the Tydings-McDuffie act, the cigar-manufacturing and tobacco business between the United States and the Philippines is ended, as it could not stand any duty whatsoever.

One point that I should like to stress is the fact that at present we manufacturers here in the Philippines consume at least 25 percent to 30 percent of the entire crops of the Florida and Georgia cigar wrappers, a market which the United States would lose should the free trade be terminated. We at present use wrappers such as the United States machine factories cannot use owing to the fact that these machine factories must have sound leaves, whereas we here, manufacturers of only hand-made cigars, can use such wrappers as the machine factories cannot use. Should free trade be discontinued this market would consume on an equal tariff basis wrappers from Sumatra and Java, instead of what we are at present using.

As you will note, there are about 100 million cigars produced in the Philippines for local consumption and export to countries other than the United States. I believe I am safe in saying that the majority of them are produced with wrappers from the United States. This is a growing market, and in years to come can consume the majority of the wrapper crops of Florida and Georgia.

Chairman MACMURRAY. Is Mr. Tomas Fernandez de Castro prepared to appear? (No response.) If not, Mr. Antonio G. Escamilla.

Mr. GALLEGO. We waive the right to appear. Mr. Escamilla is the secretary of the Manila Tobacco Association, and we believe that Mr. Escamilla waives the right to testify.

Chairman MacMURRAY. Thank you. And Mr. de Castro is not present?

Mr. GALLEGO. He is not here. Likewise, he waives his right.

Chairman MacMURRAY. Thank you.

Mr. DOMERATZKY. Mr. Chairman, may I point out that when Mr. Jacobs asked the question in regard to cigarettes, I think Mr. Frieder said that Mr. Timmerberg could answer the question.

Chairman MacMURRAY. Is Mr. Timmerberg here?

#### STATEMENT OF MR. CARL TIMMERBERG, REPRESENTING THE ALHAMBRA CIGAR AND CIGARETTE MANUFACTURING COMPANY

Chairman MacMURRAY. What firm do you represent?

Mr. TIMMERBERG. The Alhambra Cigar and Cigarette Manufacturing Company.

Mr. JACOBS. Are you familiar with the technique of cigarette-manufacturing?

Mr. TIMMERBERG. Yes, Sir.

Mr. JACOBS. My question is this: In your opinion, what is the possibility of transferring the cigarette industry, or that part of the industry which would be liquidated if it could not sell in the United States market, to the manufacture of a line of cigarettes with Philippine tobacco similar to Virginia tobacco, so far as possible, for local and domestic consumption in the Philippines, to replace the present import of cigarettes from the United States.

Mr. TIMMERBERG. I do not think that is a Philippine industry because the Philippines would not be able to produce a type of Virginia tobacco, and therefore the taste or the tendency is that people prefer aromatic or Virginia-yield cigarettes in these Islands. Therefore, the consumption of American cigarettes has gone up tremendously in the last 10 years. Almost more than 50 percent of the cigarettes consumed in the Islands are imported now.

Mr. JACOBS. So you do not think there is much possibility of it?

Mr. TIMMERBERG. I do not think that we will be able to produce a tobacco such as the Virginia tobacco used in American cigarettes.

Mr. JACOBS. But is it not a fact that in view of the millions of cigarettes now smoked in the Philippine Islands, and in view of the fact that it is believed that after trade preference is terminated those American cigarettes can no longer be imported, the Filipinos would still want to smoke cigarettes? Now, is it not possible for



Philippine manufacturers here to manufacture a cigarette which the people would buy?

Mr. TIMMERBERG. Certainly, when the Philippine Islands are no longer able, on account of the higher tariff, to import cigarettes from the United States, something will have to be substituted to make something similar to the American cigarettes, maybe by flavoring or by producing a new type of tobacco in these Islands.

Mr. JACOBS. If that is done, could not a large percentage of the Philippine tobacco crop be used?

Mr. TIMMERBERG. Yes, certainly, because the consumption of cigars does not go down. The proportion of cigarettes imported from the United States may be taken care of by the local industry, and that is almost 60 percent that is now coming to the Islands.

Mr. WARING. If the transfer which Mr. Jacobs had in mind should take place, how would that affect the price of tobacco in the Philippines, in your opinion; that is, would the price be as high for use of cigarettes as it is for use in the manufacture of cigars?

Mr. TIMMERBERG. I do not think so, because if these people get their independence, the standard of living probably will go down, and the people will not be able to afford the things they are buying now. And they are now buying American cigarettes that they will not be able to buy because of the high price of the cigarettes; they will not be able to afford to buy them.

Mr. WARING. I was thinking about the effect it would have upon the tobacco-grower, whether the tobacco-grower in the Philippines would receive as high a price for the tobacco which goes into cigarettes as he now receives for the tobacco which goes into cigars.

Mr. TIMMERBERG. I do not think so. He cannot receive higher prices for them.

Mr. WARING. And how do you think that transfer from the present manufacture of cigars to the increased manufacture of cigarettes, should it occur, would affect the number of laborers employed in the manufacture of tobacco produced in the Philippines?

Mr. TIMMERBERG. I do not think I got your question.

Mr. WARING. You are now manufacturing a large number of cigars. You are employing a certain number of cigar-makers. If you stop making cigars and increase your production of cigarettes, how would that affect the number of employees in the industry?

Mr. TIMMERBERG. Very little, because cigarettes are manufactured by machine and cigars are manufactured by hand. Almost 80 percent of the whole industry is working for cigars and only 20 percent for cigarettes; therefore, employment of laborers who work for cigars for exportation to the United States does not affect—almost nothing—the employment for the cigar industry.

Mr. WARING. Your opinion, then, is that the number of laborers in the tobacco industry would be materially reduced?

Mr. TIMMERBERG. Oh, yes, because 60 percent of the whole production of the Philippine Islands in cigars is exported to the United States.

Mr. ROXAS. Pursuing the question made by Mr. Jacobs a little further, how many cigarettes could be manufactured, using tobacco that now goes into the manufacture of one cigar sent to the United States?

Mr. TIMMERBERG. How many cigarettes of what?

Mr. ROXAS. Of the staple type.

Mr. TIMMERBERG. For every thousand cigars we send abroad we use 33 pounds of raw leaf tobacco; and out of those 33 pounds we get out at least 10 thousand cigarettes or more. That means we get 10 thousand cigarettes of irregular type from 33 pounds of raw leaf tobacco.

Mr. ROXAS. In other words, you can make 100 cigarettes out of the tobacco that goes into the manufacture of one cigar?

Mr. TIMMERBERG. No, 10 cigarettes.

Mr. ROXAS. Oh, 10 cigarettes.

Mr. TIMMERBERG. Ten cigarettes out of the manufacture of one cigar.

Mr. ROXAS. Therefore, considering that you send to the United States 200 million cigars, you can manufacture 2 billion cigarettes?

Mr. TIMMERBERG. Yes.

Mr. ROXAS. If it were possible to shift from cigars to cigarettes, you could substitute the 2 billion cigarettes that now are imported from the United States to the Philippines?

Mr. TIMMERBERG. Theoretically, yes.

Mr. JACOBS. One other question. What is the present consumption of cigarettes, how many billions?

Mr. TIMMERBERG. The present consumption of cigarettes of the Philippine Islands is altogether 5 billion. Half of it comes from the United States.

Mr. JACOBS. Five billion annually?

Mr. TIMMERBERG. Annually, yes.

Mr. BENITEZ. On page 49 of your brief you make a plea for free trade, and Mr. Gallego, in answer to Mr. Waring's question, stated that personally he does not believe that that would be for an indefinite period. In your opinion what would be the period needed by the industry after independence to make the necessary adjustment?

Mr. TIMMERBERG. I think we should have permanent free trade with the United States.

Mr. BENITEZ. If that is not possible, what would be your recommendation as to the necessary period for readjustment after independence?

Mr. TIMMERBERG. Readjustment after independence?

Mr. BENITEZ. Yes, after independence. Assuming that before independence the export taxes would be removed.

Mr. TIMMERBERG. I think there is no probability at all of making readjustments if we are wiped out of exportation to the United States.

Mr. BENITEZ. But you are a manufacturer of high-grade cigars, I believe. What possibilities are there in that direction of sending high-grade cigars to the United States?

Mr. TIMMERBERG. Possibly very low possibilities of sending high-grade cigars to the United States. There is a table here that shows that it amounts to almost nothing. We send to the United States almost entirely two-for-five cigars.

Mr. BENITEZ. But could you not invade the high-class market?

Mr. TIMMERBERG. Well, on account of advertising of national brands—in the United States they are spending tremendous amounts for advertising, and we cannot do that. It is impossible for us to spend this amount. And in the States there are now only about ten or fifteen brands of cigars which have a big consumption.

Mr. BENITEZ. But when it comes to cost, you think you could compete in the high class?

Mr. TIMMERBERG. We could compete, but on account of people in the United States—they read the papers, the billboards, and every retailer has to carry their brands.

Chairman MACMURRAY. Are there other questions?

That concludes our hearing on the subject of tobacco.

(Here follow two briefs submitted by the Manila Tobacco Association.<sup>1</sup>)

We could now go on with the group of hearings that have been scheduled for this morning, the group of embroidery manufacturers. I should say that the Philippine Button Corporation, which was scheduled for today, has waived appearance. Then, we will have the Rattan Products Manufacturing Company, the Philippine Textile Committee, representatives of the American leather tanners, and the Buntal Hat Weavers' Association. We would have time, perhaps, to make at least a beginning with the hearing of the group of embroidery manufacturers represented by Mr. S. Davis Winship.

<sup>1</sup> See vol. III.

STATEMENT OF MR. S. DAVIS WINSHIP, REPRESENTING  
THE EASTERN ISLES IMPORT CORPORATION

Chairman MACMURRAY. What firm do you represent, Mr. Winship?

Mr. WINSHIP. The Eastern Isles Import Corporation. The brief tendered on behalf of the embroidery industry<sup>1</sup> is a copy of the Waring-Dorfman report with a few minor changes and additions. We felt that it was a better statement than we could prepare. My attention has been called to two paragraphs which might be misleading to one not well acquainted with the trade.

Page 12, under the heading "Effect of Export Taxes". This might convey the impression that American labor produces hand embroideries, which is not so. A small amount of hand needlework is produced in the vicinity of New York City by Puerto Rican immigrants, and more along the Rio Grande by Mexicans who cross the line to work in the United States but who spend their earnings in Mexico.

Page 13, "Embroidery Trade in the United States". The \$20,000,000, annually, mentioned there, represents only embroidered goods made in the United States and Puerto Rico. The actual production of silk and cotton underwear and infants' wear must be ten times that amount. This means that the Philippines supplies less than 2 percent of the ladies' underwear and infants' wear demand in the United States.

In closing, I will say that the embroidery industry furnishes spare-time employment to many Filipinos, in many cases providing the only cash income of agriculturists. It does not compete seriously with American labor. It provides a highly desirable article of commerce at a very reasonable price. It is worthy of your utmost consideration.

I would be glad to answer questions if there are any.

Chairman MACMURRAY. Are there any questions for Mr. Winship?

Mr. DORFMAN. If, in consequence of the export taxes on embroidery sent to the United States, the industry in the Islands were obliged to liquidate to a substantial degree—and I take it that you agree that that would be the case—would there be an embroidery industry or any other industry in the United States which would then consume the cotton cloth which is now consumed out here in the manufacture of embroideries which are sent back to the United States?

Mr. WINSHIP. I believe that there would be an increase in what is called "domestic production" of the machine-made product. That would take care of the greater part. There may be another industry.

<sup>1</sup> See vol. III.

Mr. DORFMAN. Then, so far as the American manufacturers of cotton cloth of the varieties used out here are concerned, there would be no great loss in consequence of the industry being liquidated here?

Mr. WINSHIP. I think not. I should like to have it understood that in answering questions I am speaking for myself only and not for the group of manufacturers who helped in making this brief.

Mr. DORFMAN. Then, you feel that American cotton-cloth exporters have no particular interest in whether or not the embroidery industry survives out here?

Mr. WINSHIP. They do not seem to.

Mr. DORFMAN. Do you feel that they actually have something at stake but that they do not know their own interest?

Mr. WINSHIP. Well, since the total Philippine production is such a small part of the total consumption of the garments of the type that we make, I do not believe that they have a real interest.

Mr. DORFMAN. Thank you.

Mr. WARING. Mr. Winship, I should like to ask whether or not, in your opinion, there would be any possibility of increasing the price at which Philippine embroideries are sold in the United States to take care of a substantial part of either the export taxes or the full duty.

Mr. WINSHIP. I can answer that by saying that we manufacture a complete line. That is to say, we manufacture low-priced misses' wear, infants' wear and underwear and high-priced misses' wear, infants' wear and underwear—being the only house in the country that manufactures a complete line. We have averaged about 17 percent of the total export for the last several years. I was in New York this summer and went very thoroughly into that question with the local house with which we deal. We have agreed to continue full manufacturing until the end of 1941, and in 1942 to close up business. That is our opinion of what the chances are of going ahead. In the discussion I suggested that we could probably handle the export tax up to about the third year, manufacturing at some profit, but that in the following year, of course, it will be with increasing risk and less chance of profit, and that we will incur loss in the succeeding years, so why prolong the agony?

Mr. WARING. I understand that the quality of work done here is considerably higher than any other type of handwork that is available in the American market, and I was wondering whether the quality of workmanship would permit a certain increase in the price.

Mr. WINSHIP. I do think it would be possible, up to the time of the full tariff, to manufacture a line of higher grade than the average line manufactured at the present time; but it will be a small quantity, and it will have to be handled by experts; that would be on the assumption that there were no further burdens placed on the industry

and that there were no increase of domestic taxes of any kind. It will be experimental, it may not work out, but I think it can be done.

Mr. WARING. Do you think there is a possibility of the present type of work now done in the Philippines being done in Puerto Rico?

Mr. WINSHIP. No; I do not think Puerto Rico could handle the Philippine work. I have been there.

Mr. WARING. You spoke a few moments ago about the production of a small amount of hand embroidery in the southwestern United States by Mexicans. I was wondering if that trade is not rather important to groups of individuals who are engaged in it, and if perhaps they are not more permanent members of the American society than your remarks would indicate.

Mr. WINSHIP. I have no first-hand knowledge of that trade, only what I get from correspondence.

Mr. WARING. There are a great many Mexicans who have settled permanently in that part of the United States?

Mr. WINSHIP. Yes, Sir.

Mr. WARING. And it occurs to me that the trade might be of some importance to them.

Mr. YULO. Do I understand from you that all the raw materials used in the embroidery business come from the United States?

Mr. WINSHIP. Practically all. A small amount comes from Europe.

Mr. YULO. If the export tax is applied to labor only, do you think that the embroidery business would be able to survive?

Mr. WINSHIP. Since the material and labor are approximately 50-50, we might have a good chance, but I do not think the industry will survive if the full tax is applied even if placed on half the value.

(Here follows printed brief submitted by Mr. S. Davis Winship, representing a group of embroidery manufacturers.<sup>1</sup>)

Chairman MACMURRAY. Since it is 12 o'clock already, it will be necessary to continue our hearings this afternoon beginning at 2:30.

(Thereupon at 12:05 o'clock p.m., an adjournment was taken until 2:30 o'clock p.m.)

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<sup>1</sup> See vol. III.

## PROCEEDINGS OF SEPTEMBER 17, 1937 AFTERNOON SESSION

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Thursday, September 17, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 2:30 o'clock p.m., on Thursday, September 17, 1937.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Mr. JOAQUIN M. ELIZADE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL L. ROXAS; and  
Mr. FRANK A. WARING.

Chairman MACMURRAY. This afternoon's proceedings will begin with the testimony of Mr. Frank Hale, on behalf of the Philippine Rattan Manufacturing Company.

### STATEMENT OF MR. FRANK HALE, REPRESENTING THE RATTAN PRODUCTS MANUFACTURING COMPANY

Mr. HALE. Mr. Chairman, Ladies and Gentlemen: In submitting my small brief<sup>1</sup> to this honorable Commission, it was not my intention to appear here, but I was requested to do so by members of the Philippine-American Trade Association, merely to give an expression of the dependence of industries in the Philippine Islands on the privilege or the necessity of exporting products made by those factories or industries to the United States having a market greater

<sup>1</sup> See vol. III.

than the market in the Philippine Islands. As all of you no doubt know and realize, no country, especially the Philippine Islands, could prosper in the future unless they had exports; neither could they purchase products from foreign countries, especially the United States, in the quantities that they have been, unless they were allowed to export their products and were thereby given the means of purchasing. Consequently, the development of new industries in the Philippine Islands, as well as the continuation of many of the present industries which derive their source of income from exports, mostly to the United States, depends on the continuation of free trade into the American market, because that is the greatest market that we have before us, the greatest consumption of our products.

As I have had some experience in introducing new industries in the Islands during the 30 years I have been here in the manufacturing industry, I just wish to call your attention to the industry that I have submitted a brief on—to products made from the growth of the Philippine forests: rattan. That is an industry that is practically new in this country or in these Islands. In the past it has been carried on to a certain extent in China, Java, and Singapore. In the last three years it has been introduced in the Islands or developed here to such an extent that it appears that, with proper management, it could be developed into a very large industry. This year the exports from the Philippines will amount to about 300 thousand pesos. It is calculated that next year it will go to a million. The possibilities of the sale in the United States of products along similar lines that can be manufactured here as predicted at the last session of the furniture market in Chicago held from the 10th to the 21st of last September, were 25 million dollars gold *per annum*, as during the first day of that session of the market, or the sales market, a Singapore factory, which was considered to be largest in the Orient at that time—I do not consider it is today; I am quite sure we have the largest in the Philippines—sold its products for one year on the first day. There was 110 million dollars gold worth of American furniture sold or booked for sale during the ten days. So, you see, the market is quite large. That was a trade of ten days only. Naturally, many of you know of the great consumption of household-furnishing products, namely, furniture and other articles in the States.

At present we have no difficulty in getting this merchandise into the United States. There is no duty; it goes in free of duty, although we have to pay enormous freight rates. This product is made up when it is shipped, and it is bulky. It costs us now \$7.50 per cubic ton; will be \$9 at the end of this month, according to the new ruling; and on such merchandise shipped into the States, it averages 35 per-



cent of value for freight rates. The shipment made last week to Washington, D. C., cost us 65 percent of the value of it. You may wonder why that is so. Why? It is because it is a bulky product and the value of it is cheap considering the bulk of it. This industry, which has considerable future if properly developed, as well as many other industries, can be developed here and must be developed, because the continuation and life of the country is handicapped a great deal on account of the high freight rates or the freight rates we have to pay to get it into the United States—similarly in other countries. Therefore, the United States market is absolutely necessary for the development of new industries in this country. I say absolutely necessary because, as I have observed from the testimony of most of the witnesses or the speakers at the previous period before you, they all lay special stress on the United States market. They seem to think that it is not possible to continue their large exports to foreign countries or continue their business on the basis on which it is now operating. The importation into the United States of many of these articles does not greatly interfere with similar products made in the United States. To many of them it is an advantage to the United States. In the production of most of the articles manufactured here, a great many American products enter; therefore, there would be a certain loss to American exporters, producers, and so forth, if the trade were discontinued. Therefore, in considering the exchange of commerce between the United States and the Philippine Islands, the prosperity—future prosperity—of the Philippine Islands practically depends on a fair exchange, on the allowance of exchange of Philippine merchandise or Philippine products at a margin of profit which would permit the existence of those productions.

That is about all I have to say, and if there are any questions you would like to ask, I shall be glad to answer.

Chairman MACMURRAY. Are there any questions for Mr. Hale?

Mr. WARING. Mr. Chairman.

Chairman MACMURRAY. Mr. Waring.

Mr. WARING. Mr. Hale, I should like to ask you what effect you think the export taxes would have on the rattan-furniture industry if they were imposed as now provided by the Independence Act.

Mr. HALE. At present there is not a great deal of difference in the sale, in the cost, or in the price as it is sold in the United States, in comparison with American furniture or American wooden furniture. Therefore, if the taxes were imposed to any great extent it would no doubt kill the industry or prevent its being exported to the United States.

Mr. WARING. In your remarks before the Committee you mentioned that a Singapore factory had been able to sell its entire year's

output in one day at the Chicago market. How would it be possible for that factory to sell its entire output for a year in one day, paying a full duty, and for the Philippine industry, according to your testimony, not even being able to pay an export tax which would be only one quarter of the full duty.

Mr. HALE. In making that statement I based it on the fact that at present—and we hope and trust in the future—our labor here will not have and will not work for the wages that the Singapore factory can secure, which is practically a very low percentage in comparison with what we pay here and should pay in the future. That makes quite a difference, as 50 percent of the cost of production is labor.

Mr. WARING. If I am correct, the duty on rattan furniture is 60 percent *ad valorem* of the United States duty.

Mr. HALE. From other countries?

Mr. WARING. Yes, from other countries. Would the difference in labor between Singapore and the Philippines account for their ability to pay that 60 percent?

Mr. HALE. I should say that the difference in labor is more than 60 percent.

Mr. WARING. 60 percent of the cost of production?

Mr. HALE. Maybe not 60 percent more than the cost, but much more than the 60 percent of the cost of labor in the production.

Mr. WARING. But that does not account for the full difference.

Mr. HALE. Perhaps not. Just where the difference is, I am not prepared to say, but it does appear to me that we cannot hope or should not hope to build up a duty or a tax on importation of Philippine products into the United States which would have a tendency to diminish or reduce the fair salary or compensation to the Philippine laborer that might enter into its production. Otherwise, we reduce the standard of living, and reducing the standard of living naturally reduces the purchasing-power, which would eventually reflect back on the importation of American products into the Philippine Islands.

Mr. WARING. And your position is that the United States should take no action whatsoever which would in any way affect adversely the economy of the Philippines?

Mr. HALE. Not necessarily that, but, if the United States' intention is to help the Philippines after independence shall have been granted or at the time that taxes or import duties on Philippine products shall become effective, I do not think that they should impose a duty or a tax on the importation of Philippine products to such an extent that it would kill or prohibit the exchange of commerce between the two countries.

Mr. WARING. You believe that to be true even after the Philippines shall have become politically independent?

Mr. HALE. Provided it is the intention of the United States to assist the Philippine Islands for any length of time afterwards to continue in an economic condition to carry on with prosperity until such time as they could adjust themselves to getting on without American preferences.

Mr. WARING. You do not believe, then, that that assistance should be extended indefinitely?

Mr. HALE. That is entirely up to the United States. If it would be advantageous to the United States to enter into necessary arrangements with the Philippine Islands or the Philippine Commonwealth, or whatever the government might be, it would no doubt be a part of natural thought between the two countries. If the United States finds that the exportation of their products would be an advantage, by allowing the Philippines to export the products here to the States it would be more than mutually advantageous.

Mr. WARING. If it should not prove to be mutually advantageous, then you would feel that the extension of preferences or of assistance might be terminated at some time in the future?

Mr. HALE. Possibly, that would be necessary or advisable, and nothing more than right. If it is a one-sided affair, why, of course, naturally, it should be corrected until it would be mutual, unless there is a certain amount of, we might say, preferences to be shown to the Philippines owing to the past political and natural hook-up that would enter into the thing. I mean to say, I know that the United States, being American, is very sympathetic toward its wards and its dependents. That might enter, and no doubt has in the past entered, into the general situation.

Mr. WARING. Thank you.

Mr. DORFMAN. You mentioned, Mr. Hale, that the freight rate constitutes about 35 percent of the value of shipments to the States?

Mr. HALE. From that point up.

Mr. DORFMAN. At least 35 percent?

Mr. HALE. As an average, yes.

Mr. DORFMAN. An average of 35 percent—

Mr. HALE. Of the cost of the merchandise from the factory sent to the United States.

Mr. DORFMAN. Do you regard that an unreasonable charge in view of the bulk of the commodity?

Mr. HALE. I do.

Mr. DORFMAN. How does that rate compare with rates on other commodities shipped from the Islands—on the basis of cubic-foot measure?

Mr. HALE. I think it runs very high. The reason for that, if I might make an explanation, is that comparing cubic feet with weight, there is a vast difference.

Mr. DORFMAN. Do you happen to know whether the steamship lines charge higher rates per cubic ton from here to the States than they do from Singapore to the States?

Mr. HALE. I do not know that. What I understand is that merchandise, when shipped from Singapore and from here to the United States, is mostly shipped on American boats.

Mr. DORFMAN. Is that because the freight rates are the same, or because you prefer to ship on American boats?

Mr. HALE. We prefer to ship on American boats.

Mr. DORFMAN. The rates are the same?

Mr. HALE. I cannot say. I do not know.

Mr. DORFMAN. Have you inquired if the rates are the same?

Mr. HALE. I have not.

Mr. DORFMAN. Do you happen to know whether any rattan furniture is made in the United States?

Mr. HALE. There is.

Mr. DORFMAN. What is the source of the rattan?

Mr. HALE. That I cannot say, but I have been told or informed that some of it comes from Mexico, considerable of it from Singapore and Java, and some from the Philippines.

Mr. DORFMAN. In view of the high freight rates on the finished furniture, would it be more economical to make the rattan furniture in the United States from rattan shipped from the Islands?

Mr. HALE. It would not.

Mr. DORFMAN. And what is the reason for that?

Mr. HALE. The cost of labor.

Mr. DORFMAN. The cost of labor is much lower here?

Mr. HALE. That is one of the reasons, so far as I know.

Mr. DORFMAN. What are the other reasons?

Mr. HALE. I do not know of any other reasons.

Mr. DORFMAN. Can the rattan furniture be shipped so knocked down that you can get a large amount of furniture in one compact parcel?

Mr. HALE. That is still problematical. We are working along those lines, hoping that it will be possible. So far we have not in our particular factories found a satisfactory method. We ship directly to the individuals, and very often to the retailers and wholesalers, but it has not been satisfactory so far.

Mr. ROMERO. Mr. Hale, as I understand, on the supposition that the export duties will remain as they are in the Tydings-McDuffie act, the rattan furniture exported to the United States would pay a duty

of 3 percent *ad valorem* during the sixth year of the transition period, or in 1941, to be increased at the rate of 3 percent until, at the end of the transition period during the tenth year, it would be 15 percent *ad valorem*. Do you not think that, if the industry were compelled to do so, by making certain readjustments it would be able to pay these export duties?

Mr. HALE. Of course, that is problematical—it is quite a long time in the future—we don't know what might take place between the two markets, building up from the present cost of production and sales of the products. It is possible that a 15-percent *ad valorem* duty could be paid and yet continue a certain amount of sale in the United States. That much depends on what could be sold in the Philippines. As a matter of fact, the products must pay duties here before they are put on the American market. It must be added to it. That is problematical whether it could pay the duties and yet subsist.

Mr. ROMERO. How many laborers are at present employed in this industry in the Philippine Islands?

Mr. HALE. I calculate between 3 and 4 thousand.

Mr. ROMERO. Can you tell us the average wage of unskilled laborers in this industry?

Mr. HALE. In the manufacturing only—with reference to the wage of those getting the product out of the forest, I am not able to tell you—in the manufacturing, at least they pay between a peso and a peso and a half per day.

That is quite a stretch, but it may average about ₱1.25 per day per workman.

Mr. ROMERO. Do you employ men in your factories to gather the rattan from the forest?

Mr. HALE. No, we buy the rattan as it is brought from the forest.

Mr. BENITEZ. Do you have any trouble in securing rattan?

Mr. HALE. No trouble; not as long as we pay the price.

Mr. BENITEZ. Do you think there will be enough raw material in view of the expected development of the industry as pointed out in your brief?

Mr. HALE. I am told by the Bureau of Forestry men and by the lumbermen who have been operating or cutting lumber in the forest, that the supply is unlimited. The destruction of the rattan grove in the forest today, through the operation of logging, is greater by far than the consumption of it in manufactured products.

Mr. DORFMAN. Did I understand you to say that it was problematical that the industry would be able to survive the tenth year of the Commonwealth period, when the export taxes would amount to 15 percent of the value of the product?

Mr. HALE. Yes.

Mr. DORFMAN. What did you say the freight rate on rattan is now?

Mr. HALE. Seven-fifty gold. That would be increased to nine dollars gold.

Mr. DORFMAN. That would be an increase of 20 percent, and I recall you said that, on the average, the freight amounted to 35 percent of the value. Thirty-five percent of that amounts to 7 percent of the value of the product, which is about one half of the increase in cost that I mentioned in reference to the export taxes applicable in the tenth year—the 15 percent.

Do you feel that the increase in the freight rate from  $7\frac{1}{2}$  to 9 dollars will have a serious effect on your industry?

Mr. HALE. Not a serious effect, but it does have its effect on the cost of merchandise in the United States.

Mr. DORFMAN. Why, if an increase amounting to  $7\frac{1}{2}$  percent would not be very serious, would one amounting to  $7\frac{1}{2}$  percent more mean the end of the industry?

Mr. HALE. I did not say that it would be the end of the industry.

Mr. DORFMAN. You said it would be a serious blow.

Mr. HALE. It would have a serious effect, and possibly to such an extent that it would prevent the prosperity of the industry.

Mr. DORFMAN. I thought I understood you to say that it was problematical whether the industry could survive the tenth year of the Commonwealth period.

Mr. HALE. As I said, under the conditions that might exist at that time, if they were the same conditions as at present. Survive does not mean prosperity. It might survive to the extent that it could exist, but it might not survive to the extent that it would be a profitable business advantageous to the Philippines.

Mr. DORFMAN. Another increase of the same amount in the freight rate as the increase you mentioned would have the same aggregate effect as the export taxes to which we referred; is that correct?

Mr. HALE. If increased it might have an effect on the sellers in the United States.

Mr. BENITEZ. From whom do you get your rattan now? From what kind of merchant?

Mr. HALE. From men who went to the forest to cut it. The profit between the actual cutting of the rattan until we receive it is not great.

Mr. BENITEZ. Are there Chinese middlemen?

Mr. HALE. Sometimes there are Chinese, but mostly Filipinos.

Mr. BENITEZ. How much do you pay for rattan?

Mr. HALE. The price varies depending on the different qualities, size, length, and so forth. The average cost—we pay on the basis per thousand pieces—the average cost is from 5 to 10 cents per piece of a length of 5 meters. It varies according to the size and quality, and so forth, of the rattan.

Mr. BENITEZ. There is a plan on the part of the Director of Forestry to open trails in the forest to make minor forest products accessible to the communities near the forest, thereby giving the unemployed some employment. What would be your attitude toward such a plan?

Mr. HALE. Well, I think it would be wonderful. That would mean opening up new roads within the country. This will lead to greater access to the natural resources of the country.

Chairman MACMURRAY. Thank you, Mr. Hale.

(Here follows the printed brief submitted by the Rattan Products Manufacturing Co., Inc.<sup>1</sup>)

The next speaker is for the Philippine Textile Committee, represented by Mr. J. A. Connor.

#### STATEMENT OF MR. J. A. CONNOR, REPRESENTING THE PHILIPPINE TEXTILE COMMITTEE

Chairman MACMURRAY. On behalf of what firm are you speaking?

Mr. CONNOR. New York exporters named Brune, Nadler & Cuffe.

(Mr. Connor reads his statement.)

Mr. Chairman and Members of the Committee, Gentlemen: The briefs filed here and in the States<sup>1</sup> show the decline in American textile exports to the Philippines. There are a few points in the briefs that we wish to emphasize.

The decline from 1932 to 1936 has been rapid. Philippine customs figures showing quantities imported in square meters are, respectively, 88 million square meters, 67, 43, 35, and 32 million square meters in 1936. These figures include embroidery cloths.

The quota arrangement made in 1935 between the United States and Japan was expected, in the State Department's words, "to materially improve the position of American textiles". The quota has not improved the position, but it has probably helped to keep the 1936 figures from being worse.

Embroidery cloths included above are not American exports. Actually, such cloths are shipped to the Philippines only to be embroidered, and are then returned to the United States. They are consumed in the United States. Deducting such cloths from the above figures, makes for the year 1936 actually 24 million square meters.

Rayons were left out of the quota arrangement, although they are textiles, and are used for the same purposes as American cotton textiles. The increase in rayons imported after the quota arrangement was made has been very large. Rayons compete with the aver-

<sup>1</sup> See vol. III.

age price range of American textiles as shown by Philippine customs figures. For 1936 these average prices were: American bleached and dyed in the piece-goods, 29 centavos per square meter; printed, 27 centavos. Rayons after paying Philippine duties were 28 centavos.

Total American textiles imported into the Philippines in 1936, deducting embroidery cloths, were of the same amount as rayons, both being 24 million square meters.

We believe it fair that embroidery-cloth figures be deducted from American exports and that rayons be counted with cotton textiles.

The Philippine tariff of 1909 was made for conditions existing many years ago. There are textiles imported today that were not made in 1909. It has been suggested that the tariff should be changed and increased in order to help American textiles. It could be changed to fairly provide more revenue for the Philippines when conditions warrant higher duties. At present, regardless of conditions being good or bad, the duties are specific on cotton textiles, so always remain the same.

Another reason for correction of the Philippine tariff is to help the growth of Philippine manufacturing of textiles. Such manufacturing will be an economic asset to the Philippines. It will not be prevented by American textiles, owing to their higher labor costs.

Lastly, American textiles deserve consideration in connection with the balancing of Philippine trade with the United States. The favorable trade relations enjoyed by the Philippines in its trade with the United States should, we believe, entitle American textiles to reciprocal treatment.

Chairman MACMURRAY. Are there any questions for Mr. Connor?

Mr. WARING. In your brief, Mr. Connor, you mentioned the fact that you are speaking both for cotton textiles and for rayons.

Mr. CONNOR. Yes, Sir.

Mr. WARING. If I recall correctly, the Philippine duty on rayons is 60 percent *ad valorem*.

Mr. CONNOR. Yes, Sir.

Mr. WARING. And because of the operation of the Parity Act, the rayons imported from Japan actually pay an effective 100 percent duty. Do you feel that the American rayon interests desire a higher degree of protection than the 100 percent now afforded them against Japanese goods?

Mr. CONNOR. I cannot say, that is one thing I am not familiar with. The 100 percent is of course based on the parity. Actually it is 60 percent, and the change in currency has some effect there. At any rate, those rayons, I should say, at the figures reported by the Philippine customs, are so very low that they compete with cotton



textiles; I do not know the prices of American rayons today and cannot say that they could compete unless the duty were greatly increased.

Mr. WARING. Do you feel that the American cotton-textile people need further protection from the rayon importers, even though they have an effective 100 percent protection at the present time?

Mr. CONNOR. The mention I made here, of course, was the quota arrangement wherein the rayons were not considered. Now, in order to compete with our cotton textiles against rayons, I should say the rayon duty should be further increased, not because the goods were better or last longer but because they are more attractive. They are artificial silk, are shiny, look nice, and have found favor all over the world. In fact, the American cotton textiles will outwear them and will give better service, but have not the appearance. It is pretty difficult to put a price on that appearance, what it is worth. Anyway, it has brought large quantities into the Islands.

Mr. WARING. You mean that, after the voluntary agreement consummated in 1935, the quantity of rayon coming from Japan increased materially?

Mr. CONNOR. Yes, Sir.

Mr. WARING. Is it your thought that that increase was due to the agreement, or was it due to other factors such as the reduced price of rayon?

Mr. CONNOR. I do not think it was due to the reduced price so much, Mr. Waring, because Japanese rayon prices have been low for quite some years. Now, perhaps the prices were lower in 1935 than they were in 1934 or 1933, but our experience in previous years had shown low Japanese prices. As a matter of fact, even as far back as 1930 and 1931, sometimes it was as low as cotton goods. I think the increase in the Japanese rayon business was primarily due to the voluntary restriction of Japanese exports, and the business people naturally looked for something to export to keep up their business. Of course, the goods had to find favor.

Mr. WARING. I had understood that about that time, about the year 1935, prices of Japanese rayons declined appreciably and that the quantities exported not only to the Philippines but to other countries as well, increased materially because of that price-decline.

Mr. CONNOR. There is no doubt, Mr. Waring, granting that your figures are correct, that the price-decline will influence the demand. Naturally, there will be more demand with lower prices.

Mr. WARING. One final question. In your brief you mentioned that a satisfactory solution of the problem, so far as the American textile interests are concerned, would involve one of two methods—either the imposition of quotas or a substantial increase in the existing tariff rates accompanied by a probable reclassification. In the

first place, in suggesting the quota arrangement, you said that quotas should be imposed on all shipments from countries other than the United States. If the Philippines should contemplate the imposition of a quota system here, do you feel it would be desirable to exclude the United States from such quota arrangement, assuming that a satisfactory or reasonable allotment were made to the American importers?

Mr. CONNOR. The Department of State also excludes the United States from the quota arrangement with Japan, that is, in the limitation.

Mr. WARING. That was only a voluntary agreement between the two.

Mr. CONNOR. I think that we should just continue along the same lines. There is no reason why an amount cannot be fixed for the United States as well as for any other country; but because of the relation between the two countries, I should think that the United States would not be limited. Any such arrangement made by the Philippines and the United States would naturally have to be a fair one. There would not be the idea of taking any certain years or limiting any certain countries unduly. That is not the object of leaving the United States unrestricted.

Mr. WARING. My only thought was that, for example, in the case of sugar, the United States has adopted the quota system and has fixed a limitation on all the imports from offshore areas, and I wondered what objection there would be if a quota system should be adopted in the Philippines for textiles which would include the United States in the limitation along with the others.

Mr. CONNOR. I should say that we prefer not to be restricted in the hope of taking some of what might be left over. That is the only reason that could, I think, bring about such desire not to be restricted, that we might obtain more.

Mr. WARING. Which of the two suggested plans would you prefer: the quota arrangement or the increased tariff?

Mr. CONNOR. I think the quota arrangement would work better or be more easily arranged and, therefore, be preferable.

Mr. WARING. If quotas were imposed such as you suggested, the effect would be to increase the price of cotton textiles in the Philippine market, would it not?

Mr. CONNOR. I doubt that too, Mr. Waring, because competition here does not permit any increase.

Mr. WARING. If prices did not increase then, what value would the quota arrangement be to the American exporters of textiles?

Mr. CONNOR. I really do not see what the prices have to do with it, because after all, we are interested in the quantity per square yard that we will be able to export to the Philippines.

Mr. WARING. You do not care about prices?

Mr. CONNOR. Naturally we do care. We prefer low prices because it is easier to sell. Even though we might have a quota that would permit Philippine goods to come in, that does not necessarily mean that the people would be willing to pay any price. The competition, I think, will regulate the prices.

Mr. WARING. As I understand it, the increased quantities of Japanese cotton textiles sold in this market were sold because they were offered at lower prices than American goods, is that true?

Mr. CONNOR. That is a very large question to answer, Mr. Waring, because the Japanese have the advantage of being close to the Philippines and they have quicker delivery. They also offer smaller minimum quantities. That also helps. They also quote lower prices. But they have a big advantage that helps all countries, that is, the Japanese residing, working in business in the Philippines. We have an example of that, for example, in Switzerland. There are quite a number of Swiss firms in Manila. Swiss goods come in; naturally, they make an effort to bring in their own goods. The American firms handling Swiss goods are very few, that is, those actually importing. Many of them are salesmen and agents. Yes, about half a dozen. But there is but one large, only one American firm. If we had here about 10, 15, or 20 American importing firms, I think we would have done better business.

Mr. WARING. A more profitable business?

Mr. CONNOR. That I cannot say. Perhaps it would not, Mr. Waring, because I have heard remarks at various times that Japanese firms have complained about the profits they make in the Philippines on Japanese goods, but nevertheless they are Japanese, and the goods are Japanese. They have a natural desire to bring in Japanese goods, and we have only one American firm here. So, there are many things that have helped the Japanese. They have the goods, and they have the prices. That is true.

Mr. WARING. My purpose in asking you this question is this: If Japanese goods have been able to undersell American goods in this market, and if the quantities which the Japanese could bring in should be limited, that would, it seems to me, have the effect of raising the price of the Japanese goods for two reasons: first, that in their own interest they would be anxious to sell at a higher price because of the quantity limitation; and, secondly, the demand itself would tend to raise the price of Japanese goods. Such a situation, therefore, would give the American goods a competitive advantage over and above their present position.

Mr. CONNOR. Theoretically that seems all right. Of course, you remember a couple of years ago the idea of higher prices for Jap-

anese goods was indulged in at that time owing to the quota arrangement. I have not seen that it has happened. There have not been higher prices. The Japanese firms also competed against each other, and, of course, there is a way found to bring in more goods. Something is done. People try to do something better all the time, and it has not proved to be the case in the past two years or year and a half. Theoretically, I would say that when a certain amount of Japanese goods is imported, a certain quantity will be used. You will think that the Japanese would be able to obtain a higher price. Actually I doubt if that would take place.

Mr. WARING. If the Japanese would be able to obtain a higher price as a result of the quota arrangement, then it would be true, would it not, that the Philippine consumer would have to pay that higher price, and the Philippine Government would receive no additional revenue; whereas, if you raised the tariff duties and Japanese goods came in, the Philippine Government would obtain a revenue from those imports?

Mr. CONNOR. That is right.

Mr. DOMERATZKY. Are you familiar with the rayon industry in the United States?

Mr. CONNOR. Unfortunately, I am not. I have sold rayons in the past, but I am not familiar with the manufacture of them. I was familiar with the prices of the rayons, but for some time we have not been selling rayons.

Mr. DOMERATZKY. Are you sufficiently familiar with the rayon market here to tell us whether the United States manufactures qualities comparable to those supplied by Japan?

Mr. CONNOR. That is also difficult for me to answer, because I have not seen enough Japanese goods. The printed rayons, the plain rayons, they are manufactured in the United States; they are similar to Japanese. I should say that in quite a few cases the American goods must be similar to Japanese. Now, they are higher in prices, although in quality it is evident they are better. In quality some of the rayons that have been used for shirts in the past, the Japanese rayons, have shrunk quite a bit after one washing. I think the American goods will last longer than that. I think the American goods are better. We had a number of samples of Japanese goods a couple of years ago where shrinking was shown.

Chairman MACMURRAY. Mr. Connor, will you speak a little louder, please?

Mr. DORFMAN. Mr. Connor, it is customary for the American cotton-cloth exporters selling in this market to subtract from the total United States cotton exports to the Philippines the material which enters into the embroidery trade, on the theory that that cloth

is simply manufactured out here and then sent back to the United States. That is correct, is it not?

Mr. CONNOR. That is right. In reporting the figures in our brief we have reported the figures less the estimated quantity of embroidery cloths. As I said in the beginning, these embroidery cloths embroidered here are sent back to the States and sold in the States, so that the figures are as you see, Mr. Dorfman.

Mr. DORFMAN. Is it your feeling, then, that the value of this cotton-textile market to the American exporters is represented only by the net figure at which you arrived, that is, the gross exports from the United States to the Islands less the amount of embroidery cloth exported?

Mr. CONNOR. Why, speaking as an exporter's agent, I should certainly say that we are interested in the goods that we export. The embroidery business, I should say, would be on an entirely different basis, entirely separate.

Mr. DORFMAN. Now, if the embroidery industry were obliged to liquidate, as we have been told that it will in large measure if the present provisions of the Tydings-McDuffie act are carried out, would American manufacturers of the varieties of cotton cloth which are used in the embroideries out here be injured? Or would they, instead of selling embroidery cloth here, sell it in the United States?

Mr. CONNOR. They would undoubtedly be affected because there will be certain products—it runs fairly large, from 8 to 10 million square meters—that they would not be able to ship to the Philippines and receive back as embroidery. Selling such cloth in the United States, I do not know for what purpose it would be used there.

Mr. DORFMAN. Then, you doubt that American cotton-cloth manufacturers would sell that amount of cotton cloth in the United States, assuming that the embroidery industry here were liquidated?

Mr. CONNOR. No, that is not quite right, because even assuming that there is no demand for such a cloth, the mill or mills making such cloths naturally would turn their looms to making other goods. If they lose the business they must turn their looms over to making other goods. We have cases in the States. Some of the oldest mills that were making chambrays for many, many years, turned over their mills during the bad years to making grey goods. The same thing would have to be done. They have to look for business some place.

Mr. DORFMAN. Is it your feeling that they would get some other business that would fully compensate them for the loss of the Philippine market for embroidery cloth, or that they would lose in some degree in consequence of the embroidery industry here closing down?

Mr. CONNOR. Offhand, it would seem that they would lose something, Mr. Dorfman, because it would be difficult, it might be difficult to get the loomage in the manufacturing of another material.

Mr. DORFMAN. If that is the case, then, would it not be appropriate to consider the sales in this market as embracing not only non-embroidery material but at least some fraction of the embroidery material sold here, that is, are you justified in excluding the entire amount of embroidery cloth in reckoning the value of this market?

Mr. CONNOR. It will be difficult to figure out any fraction. I see what you mean, that they would lose some business and therefore it would be considered.

On the other hand, we cannot figure it out. We do not know what it might be. It may be charged against our export business. It is something that will be lost, but the reason it has been left out is that the goods are not consumed here. Now, just how it can be figured out in any other way, I believe it will be difficult to decide.

Mr. DORFMAN. You do feel that there might be a rather substantial loss, though, if you were to lose the market here for embroidery cloth?

Mr. CONNOR. By the mills in the States?

Mr. DORFMAN. Yes.

Mr. CONNOR. That, I could not say. You see, Mr. Dorfman, you must take into consideration the quantities of such goods that are manufactured, what percentage they will be of the total goods manufactured, what part will be sent to the Philippines. If it is large, then the loss will be substantial; if it is small, then, of course, it is not substantial. If the part sent to the Philippines is a small percentage, of course, it is not difficult. If those mills have looms that they can change over to other goods, they might find something more profitable or they might find something less profitable. If they cannot change their looms, the difficulty will be greater, of course.

Mr. DORFMAN. When you suggested that they will have to change their looms, did you mean to infer that the mills will no longer find an equivalent market for the same kind of cloth in the United States—to be used in manufacturing machine-made infants' wear and the like?

Mr. CONNOR. By the way, when I said "change the looms", I did not mean changing the machines. I mean changing the goods. I am not familiar with the embroidery business at all. I do not know how much of it is used in the States, that is, manufactured in the States.

Mr. DORFMAN. Well, then, despite the fact that the embroidery cloth which the American factories export to this market is shipped back to the United States in manufactured form, this market is worth a great deal to the manufacturers of embroidery cloths, is it not?

Mr. CONNOR. Undoubtedly it must be worth something. Of course, there is another point, and I just thought of it, Mr. Dorfman. If the market here is lost and the Americans in the States who handle

that business will then have to look for some place to embroider the cloth, it does not mean that they will not manufacture the cloth. They have a demand in the States for a certain quantity of embroidery cloth. If that is not embroidered in the Philippines, then they must look elsewhere, here or there. It may be hard to find someone to do it well, but nevertheless the effort will be made, or they will have to resort to machine embroidery. Going back to what I was saying before, if those cloths are not embroidered in the Philippines, it does not mean that the American manufacturers of the plain cloth will lose business.

Mr. DORFMAN. I understood you to say a little while ago that they will lose something.

Mr. CONNOR. Because I did not think quickly enough to consider the American manufacturers or the American sellers; naturally, if there is a demand for embroidery they are going to find some place to have the embroidery work done. The fact that the Philippines are removed does not take away the market in the United States.

Mr. DORFMAN. That was the point I was trying to get at. I was not trying to confuse you.

Mr. CONNOR. I beg your pardon.

Mr. DORFMAN. I was wondering if you would expect a considerable decline in the American consumption of embroidery goods made in the Islands, once the export taxes and full United States duties go into effect, or whether you would merely expect a substitution of the present types sent to the United States with those sent from Puerto Rico?

Mr. CONNOR. Oh, I think everything will be done to substitute as long as there is a demand for the substitution.

Mr. DORFMAN. In other words, it would not be a very serious blow to the manufacturers of cotton cloth if the embroidery industry were obliged to liquidate, is that your point?

Mr. CONNOR. As I said, I do not know much about the embroidery business. Of course, it does not seem so likely that that is the case.

Mr. ROXAS. Mr. Connor, have you figured out what percentage of increase in the present Philippine tariff on textiles and on rayon will be necessary to allow you to continue importing as much as you imported during the year 1936 without the quota arrangement?

Mr. CONNOR. No, Mr. Roxas, it has not been figured out, especially if you refer to the year 1936. I believe that the decline in American textiles here would become less each succeeding year. At the beginning the decline is big, later on it is slowed up. How the decline would have been in 1936 if the quota had not existed would be a very hard question to answer; and in order to find out what tariff would be needed, we need some idea of what that decline might be.

It is very difficult to figure out. It might not be so easily figured out, because a small percentage of increase might have no effect at all except to increase Philippine duties. In other words, a 10-percent increase in business cannot be obtained by a 10-percent increase in tariff. It would probably not mean anything at all.

Mr. ROXAS. Do you mean to indicate that you have not figured out the increase in the Philippine duties that would be needed in order to allow you to participate in the Philippine textile market to the extent that you participated, say, in the year 1936?

Mr. CONNOR. For the average of several years preceding, we figured out 65 or 66 million square meters of embroidery cloth, which is practically double that of 1936. Yes, there have been several estimates made.

Mr. ROXAS. Do you know what that estimate is?

Mr. CONNOR. There have been estimates of 150 percent—this cotton textile alone—and 175 percent, though such estimates, Mr. Roxas, have to be taken quite broadly because the Philippine tariff itself has one provision where duties are 10 cents gold per kilo. There is another provision here where it is 24 cents gold per kilo. It does not seem right that they should be increased in the same proportion. I do not think so.

Mr. ROXAS. Therefore, Mr. Connor, you cannot determine what would be the effect of increasing the Philippine tariff by, say, 50 percent? You could not say by how much you would be able to increase your importation on textiles?

Mr. CONNOR. I can give you a little idea because I know something of the goods, Mr. Roxas. The 24-cent classification and the 50-percent increase should help. It would help more than it would on the 14-cent classification. I think there the 50 percent would not have so much effect; it would probably mean more revenues for the Philippine Government.

Mr. ROXAS. It would not be an effective protection for that particular textile?

Mr. CONNOR. No, Sir; I do not think so. Naturally, 50 percent of 14 cents is 7 cents; 50 percent of 24 is 12; so that the 50 percent would help more the higher classification, but not the lower.

Mr. ROXAS. Would you say that an increase of 100 percent would give you an effective protection?

Mr. CONNOR. A 100-percent increase would certainly help, Mr. Roxas. There is no question about that. In fact, rather than make an average of, say, 100 percent, it would be better to say 125 percent on some classifications and say 75 percent on others. It is quite complicated, and it would take a great deal of time and study to work it out carefully.



Mr. ROXAS. You do not know of any study that has been made of that question?

Mr. CONNOR. I have read of statements giving that 150-percent, 175-percent increase—that was what I called attention to a while ago. We also studied it here several years ago, but personally I think that ours was a first effort and could be improved upon.

Mr. ROBBINS. I understand that you are requesting of the Philippine Government additional protection so that your market here will not be displaced during this Commonwealth period, and, so that if possible, you might recover the market that has been lost in recent years; and that you have considered various devices which might afford you such protection, one being a tariff and another, quotas. You seem to prefer the quota, and I wonder what your reasons were for feeling that the tariff is not so favorable for that purpose. The discussion seems to indicate that the effect of an increase in tariff is more or less unpredictable, especially under specific rates of duty. I suppose you would include in the uncertainties of tariff protection the possibility of that protection being defeated through subsidies paid by the competing countries either directly to the industry or through subsidized shipping. So that the tariff might seem to have one advantage and that would be an increased revenue to the Philippine Government. But even that purpose might be defeated—the result of the tariff might be to diminish foreign importation—and the effect of the higher tariff rates would be less revenue. Now, is that your general reasoning for your preference for quotas?

Mr. CONNOR. Yes, Sir; and also it seems that a quota might be more readily arranged than a change in a tariff. Time makes quite a difference in our business, and we thought that the quota could be arranged more quickly than the tariff.

Mr. ROBBINS. Not only more quickly arranged, but also that the result would be more exact and predictable.

Mr. CONNOR. It seems so, because after all it should be simpler, taking the average quantities for a number of years. Whereas with a tariff it would be hard to satisfy everyone. The quotas would settle this, and stop the asking for a higher rate on this or that, and also stop the trying to look for loopholes in the tariff.

Mr. ROBBINS. The disadvantage of the quota system might be that it would unreasonably raise the prices to consumers, and you have already indicated that you would not like to see that done on the basis of principle and because it makes it difficult to increase the volume of business which you would like to acquire. Now, I think that is true, perhaps, of a quota system that is applied to all countries, because in such an event the total supply is fixed, and that being fixed in relation to the demand, the prices—unless some regulatory

machinery were adopted—the prices to consumers might be raised. Now, I was trying to imagine how consumers might be protected if you had quotas on all countries, except the United States. Then the consumers would be protected by the competition among the American sellers so that the prices here could never be advanced beyond the point that that competition would permit. But would you be prepared to give the Filipino people any assurance that by some sort of combination or agreement among the American sellers they would not limit the American supply and raise prices?

Mr. CONNOR. I personally believe—I feel sure—that the natural competition would prevent any raising of prices. It is difficult, perhaps, to make this readily understood by others as it is by myself, because I have been seeing it daily. Just one example. There was a certain cloth imported into the Philippines from a foreign country where the sale was limited to a few firms, half a dozen firms, and the profit was quite large. But they all wanted to obtain more business. The total quantity that the market could take is about the same. In good times it would be more, but in bad times it would be less. John Smith sold 10 bales and Peter Jones sold 20, but Jones tried to sell 20 so that Smith would sell 10, and they have reduced a profit of 25 percent to 5 percent. Just a natural competition. I have not yet seen competition fail in producing proper prices.

Mr. ROBBINS. Is there any legal device that American exporters could resort to, to enforce a gentleman's agreement or other understanding as to the quantity, and hence exact exorbitant prices under the arrangement that you propose?

Mr. CONNOR. Truthfully, it might be done; but I am positive it would be broken.

Mr. ROBBINS. You have no hope other than a gentleman's agreement.

Mr. CONNOR. You mean there would be a gentleman's agreement not to take advantage of the chance to make profits?

Mr. ROBBINS. No. It is inconceivable to me that if there is a small enough number of exporters, you may undertake to make a gentleman's agreement to limit the volume supplied by America because the other sources of supply would be limited by the quota, and raise the prices here to a considerable level. That is the only possibility I can see. It is not likely.

Mr. CONNOR. No, the number of exporters is too large and the goods too varied and the sources from which those goods can be obtained are also large.

Mr. ROBBINS. Have there been any instances in which the American textile exporters have made a gentleman's agreement to restrict supply and raise the prices?

Mr. CONNOR. Not to my knowledge, Mr. Robbins. Not that I have heard of.

Mr. ROBBINS. Then you would rely for consumer protection on the old long-established theory that a gentleman's agreement cannot be enforced unless all parties are true to the agreement, and that they are not likely to be where profits are concerned?

Mr. CONNOR. I am a little confused, Mr. Robbins. The gentleman's agreement you referred to is to keep the prices up and to take advantage of the quota; is that correct? I do not believe it would ever be dreamed of; and if it ever were tried, it would not last.

Mr. WARING. One more question. If either one of the two plans which you have advanced should be adopted, that is, if either quotas on imports from foreign countries should be enforced, or if the Philippine tariff should be increased, what do you think the likelihood would be of Japanese manufacturers establishing plants in the Philippines in order to sell a larger proportion of their goods in this market?

Mr. CONNOR. There would be a tendency on the part of the Japanese to establish such plants here.

Mr. WARING. That might mean then that if either one of the plans you have suggested were adopted, it would defeat its own purpose.

Mr. CONNOR. Not altogether. There is no plan that can be adopted, either the quota or the tariff, that will work out in practice as we hope in theory. As you say, the establishing of an industry here would affect it and would defeat it to some extent. We would have to take it. As a matter of fact, the Philippines should have a manufacturing industry, at least, for some of their domestic needs. That might come out of our share. "Paciencia!"

Chairman MACMURRAY. Are there more questions? (No response.) Thank you.

(Here follows the mimeographed brief submitted by the Philippine Textile Committee.)

The next here is Mr. Cumming, representing the American leather tanners. What is your firm?

#### STATEMENT OF MR. C. W. CUMMING, REPRESENTING LIEBMAN & CUMMING

Mr. CUMMING. My firm is Liebman & Cumming. We represent some 25 leather tanners making different kinds of leather in the United States. We feel that there is no better leather than that made in the United States, and in many respects American leather is about

<sup>1</sup> See vol. III.

the finest in the world and enjoys a rather world-wide regard and is shipped to nearly all corners of the world. In most of those countries that are taking a fairly large quantity of American leather today, it is bought on account of its quality and fairly high prices are being paid for fine leather. In this part of the world where wages are low, that is not true. Such leather as is used here, in China, in Hong Kong, in Japan, and in other parts of the Far East is bought primarily for its utilitarian purpose and price is in many respects the determining factor as to the source of supply. In recent years, for a number of reasons, the duty on hides which was imposed in the last Tariff Act, increased wages and increased taxes, as well as other influences in other parts of the world, currency depreciation, certain export subsidies, as in the case of blocked marks in Germany, have had an effect of materially reducing the amount of American leather sold in the various Far Eastern countries.

This, fortunately, has not been the case in the Philippine Islands. The Philippine Islands today are one of America's best customers for leather. In some instances the Philippines takes more in a particular classification from the United States than any other country. The business started in a very small way, and as more of the people of the Philippine Islands have worn shoes, more leather has been used. Most of that leather came from the United States. A small quantity of leather is made here. The quantity that is made here is limited by the number of hides available here. Those hides are not particularly good and are not well taken off (the carcass). Presumably that part may be improved, but in any case a large and sufficient quantity is not produced to take care of the demands. The people of these Islands are not large meat-eaters and no hide is ever produced as a hide. Hide is a raw material of the meat industry. So the United States has profited by the increased demand for leather from the Philippine Islands.

Of recent years the preponderance of the trade has been threatened by other countries, primarily at the present time by Australia and Japan. In two categories we are suffering from competition. That competition is large in one item and not large in any other item. However, we do know that if we must meet world competition on price alone, irrespective of quality, which is the case in the Far East, we will lose trade. My personal experience is that we have lost trade. The business of American tanners—I haven't the exact figures—but for the 10 years from 1919 through 1928, I personally sold over \$15,000,000 worth of American leather in the oriental countries, principally China, Japan, and the Philippines. That was only a small part; but anyway it was part of the business, certainly not more than 30 percent. It was a material part, but in no

year did it run less than \$1,000,000. That business at that time was primarily Japan, China, and Hong Kong. Only in recent years, as the number of people wearing shoes has increased, have the Philippine Islands been using sizable quantities of American leather. Now that business (China, Japan, Hong Kong) is shrinking, and so when I know my own business was \$1,000,000 minimum a year, it was never less than that in 10 years, presumably the total business was certainly not less than \$4,000,000, probably more. The total business today, that is, of 1936, was \$800,000; that was all the American leather that was shipped to all the countries in the Orient except the Philippines, and the quantity shipped to the Philippines was slightly in excess of \$814,000. So we know full well that if we have no protection whatever, if we have no preference on duty, our business shrinks. For instance, we cannot compete with Germany today on one type of leather, calfskin, because Germany accepts in part payment blocked marks, which is a form of subsidy; and at one time last year German tanners were shipping calfskin into China at no more than the cost of the raw stock of that leather. Now, whether it is right and proper for American tanners to obtain a higher price than any other country, I am not going to try to defend that position. I do know that American leather is superior, and I further know that the average Filipino buyer does not buy that superiority, he is buying leather, a shoe cover at as economical a price as he can get.

The American business has shrunk to not more than 20 percent on account of conditions over which we have no control and against which we cannot compete in other countries where we have no protection today. The protection in the Philippine Islands is small enough. It is only 10 percent to 15 percent, and that is not adequate to protect us on heavy leather. Australian tanners can today put certain types of sole leather into the Philippines, duty paid, from 3 cents to 4 cents a pound less than similar goods cost in the United States. The duty on laid-down cost, c.i.f. cost, is a little bit higher than the freight paid on similar goods from New York to the Philippines. In other words, the American tanner is bound to lose a considerable share of the business he now enjoys in the Philippines if the United States tanner has to compete on a price basis with the tanners of Australia, China, Japan, Germany, and other continental countries. That is the basis of our plea for continued protection for the American tanners, and in fact an increased preference.

Chairman MACMURRAY. Are there questions?

Mr. WARING. Mr. Cumming, the statistics published by the Collector of Customs in the Philippines indicate that the quantity of leather sold in the Philippines by American exporters increased by about

\$170,000 from 1935 to 1936. It also shows that at the present time the United States is furnishing over 93 percent of Philippine imports of leather and leather products. Now, with an expanding trade and in view of the fact that we are furnishing at the present time over 93 percent of that trade, what reason is there for the American industry to ask for additional protection?

Mr. CUMMING. For the reason that it is usually a better policy to put a padlock on the barn door before the horse is gone.

Chairman MACMURRAY. What was that? Will the witness speak louder.

Mr. CUMMING. For the reason that it is a better policy to put a padlock on the barn door before the horse is stolen. We see the handwriting on the wall. Japanese tanners are today selling leather here, duty paid, for—I do not want to exaggerate—20 percent less than similar goods from the United States. It is hard to account for the fact that the Japanese tanners have not increased, that they do not have today a larger percentage of the business. Well, they've got a war on right now. They do not care to call it war, but that is what it seems to be. Another thing: while their tanning industry is increasing, the use of leather is also increasing, and they have not perhaps the exportable surplus to offer to this market. But, nevertheless, when the leather is urgently needed they can usually dig it up and ship it. The quantities shown, as reported by the Bureau of Customs, do not agree with my figures. I take my figures from ships' manifests, and they do not agree with the customs figures; manifest figures are larger. They do not apply to these imports coming from Japan, because I have not compiled that; but the figures are available from Australia and China. I have appended that to my brief there. There is another point that I might make; that when you get Japanese and Chinese exporters, sometimes it has been known that the invoice is not always correct.

Mr. WARING. I think the discrepancy in the figures between ships' invoices and official public statistics which you mentioned will be explained by the fact that the Philippine customs figures are made up on the basis of invoices after liquidation.

Mr. CUMMING. Yes, that is the way it is done.

Mr. WARING. And it frequently takes some length of time for the papers to go through the various divisions of the customs office and reach final liquidation so that they may be included in the official statistics; therefore, there is some lag between actual arrivals and the official publication. But, still, the percentage of leather furnished by American interests is so overwhelming that it appears that they have been well taken care of. Of course, what the future will hold is another matter.

Mr. CUMMING. We do not contend that we have not been well taken care of, but we know pretty well that in China the business dropped from something over a million to less than one hundred fifty thousand; in Japan, from three million to a tenth of that; in Hong Kong, from approximately one million dollars to fifty-five thousand dollars. That is because other nations have been under-selling us. You also mentioned, Mr. Waring, that the customs figures show 93 percent for 1936—they showed 98 percent for 1935.

Mr. WARING. I find it a little difficult to make a mental calculation, but I should say that the figures do not show 98 percent.

Mr. CUMMING. That is my recollection; I may be mistaken.

Chairman MACMURRAY. Are there other questions? Is Mr. Yaras also appearing?

Mr. CUMMING. No, Sir.

Chairman MACMURRAY. You alone appear on behalf of the tanners?

Mr. CUMMING. Yes, Sir.

Chairman MACMURRAY. Thank you.

(Here follow the stenciled briefs submitted by the representatives of American tanners,<sup>1</sup> and the Tanners' Council of America.<sup>2</sup>)

On behalf of the Buntal Hat Weavers' Association, we have here the Honorable Antonio Villarama.

#### STATEMENT OF THE HONORABLE ANTONIO VILLARAMA, REPRESENTING THE BUNTAL HAT WEAVERS' ASSOCIATION

Mr. VILLARAMA. Mr. Chairman and Members of the Committee—

Chairman MACMURRAY. Might I ask, Mr. Villarama, are you yourself representing any portion of the buntal-hat industry?

Mr. VILLARAMA. Yes, Sir.

Chairman MACMURRAY. And you yourself, are you a member of any firm?

Mr. VILLARAMA. I am representing the Hat Weavers' Association.

Chairman MACMURRAY. Yes, but are you a member of any firm?

Mr. VILLARAMA. No, I am not. Mr. Chairman and Members of the Committee: Bill 211 of the National Assembly is awaiting the signature of President Roosevelt before its enactment into law, and I understand that this bill will be approved or disapproved, depending upon the report of this honorable body. It is, therefore, incumbent upon me, if I can, to convince this Committee to recommend its ap-

<sup>1</sup> See vol. III.

proval. The prohibition of the exportation of buntal fibers embodied in that law—in that bill rather—will redound to the benefit of a portion of the Philippine Islands. It will raise the prices of fibers, hence that of hats, and hat-weaving will become a gainful pursuit. Many people will engage in it as in previous years. Better hats will be made in the Philippines. It will relieve the Government partially of its unemployment problem. It will further the industrialization of raw materials without Government capitalization. Eventually, buntal hat-weaving and other by-products of buntal fibers will be given all the encouragement and probably no less than half a million people will be benefited. The beauty of the hat-weaving industry is that it might be taken as a side occupation. Children of school age may be able to help their parents or support themselves while in school.

It may be mentioned, in this connection, that the National Assembly at its last session, by a message of His Excellency the President of the Philippines, passed that bill almost unanimously. It was not the first time, however, that similar attempts had been made. Even during the time of Governor Wood a similar bill was approved by the Philippine Legislature, but it was vetoed on the ground that it would discourage trade as it prohibits exportation. In later years, in 1929, a similar bill was approved, but it was again vetoed for almost the same reason, and on the strength of the recommendation of the Bureau of Commerce, because they contended that it would benefit only that portion where buntal fiber is being utilized for hats. Curiously enough, at the present time, all exporters of buntal hats and the Government entities I have mentioned and also a bigger portion of those engaged in stripping off the fibers, are in favor of the prohibition. Hence, I think this Committee will be rendering a signal service to the Philippines should it find it reasonable to recommend its approval to the President.

Chairman MACMURRAY. Are there any questions?

Mr. WARING. Mr. Chairman.

Chairman MACMURRAY. Mr. Waring.

Mr. WARING. Mr. Villarama, I would like to ask whether or not buntal fiber can be produced elsewhere, whether it can be grown in China, for example. If it cannot be grown in China, can China obtain buntal fiber from other sources?

Mr. VILLARAMA. I am grateful for that question, Mr. Waring, because I forgot to touch on that, and precisely that is a very strong point, I think, in favor of the prohibition. There have been several attempts already made by the Chinese to introduce these palms in their own country, and a few have tried even in Java, in Sumatra, to grow the palms; but they did not succeed in producing the buntal fibers. The palms, of course, grew as they are growing here in the



Philippines, but there was no success in growing the palms that produced the buntal fibers as we produce them here in the Philippines.

Mr. WARING. What was the reason for their failure?

Mr. VILLARAMA. It is explained by scientists that the Philippine climate is especially suited for the raising of the kind of palms that produce buntal fibers; so that we may say that it is the monopoly of the Philippines.

Mr. WARING. And you feel that if you prohibited the export of the fiber it would still remain a monopoly; that is, that efforts could not or would not be made to produce it elsewhere?

Mr. VILLARAMA. I have the opinion of the Director of the Bureau of Plant Industry on that point.

Mr. WARING. One other question. In your remarks which you addressed to the Committee just a few minutes ago, you suggested that the prohibition of the exportation of the fiber would operate eventually to increase its price. How do you feel that would happen?

Mr. VILLARAMA. At present the price of hats has gone so low that nobody engages in that trade, because the market is practically controlled by the Chinese, who are shipping these fibers to China where labor is cheap; and, consequently, we cannot compete.

Mr. WARING. Do you feel that if the export of fiber were prohibited, production of hats in the Islands would be sufficient to utilize all the fiber that is now produced?

Mr. VILLARAMA. That is what we honestly believe. As it is now, it is not a gainful pursuit—the weaving of hats. Once the competition of China is eliminated, we honestly believe that that will be attained.

Mr. WARING. One final question. If the producers or weavers of hats in China cannot obtain buntal fiber, do you think it would be possible for them to obtain some other similar type of fiber which would allow them to produce cheap hats and compete with the Philippine product?

Mr. VILLARAMA. There is no chance for that because, as I told you, the opinion of the Director of Plant Industry is that the climate here is specific for this kind of palm; the Chinese have tried to imitate the fiber with fibers extracted from different plants, but they have failed.

Mr. DORFMAN. What fraction of the total cost of making hats is represented by the cost of the fiber?

Mr. VILLARAMA. I would give an answer to that question in this fashion: That for each hat the raw material costs at present 45 centavos. It takes around four days to finish a hat, and it sells from ₱1 to ₱1.15, so that the practical gain to the weaver is from 5 to 15 centavos, something like that.

Mr. DORFMAN. For how many days' work?

Mr. VILLARAMA. Four days.

Mr. DORFMAN. That would be about 15 or 20 centavos a day?

Mr. VILLARAMA. Sometimes a poor kind of hat is made to sell for less, then the earning of the weaver runs from 5 to 15 centavos and sometimes 20 centavos.

Mr. DORFMAN. If those fibers are shipped to China and hats are made there, the value of the material would still be 45 centavos.

Mr. VILLARAMA. That is the estimate.

Mr. DORFMAN. And the labor, instead of being 55 cents would be what?

Mr. VILLARAMA. I do not have any figure on that. With respect to Chinese labor they say it is cheaper, but there is one point that is worth mentioning in this connection, and that is that labor here is more expensive than that of China, and that is the very reason why the weavers are running away from the hat industry. They cannot maintain themselves on 5 centavos a day. I mention that 5-centavo wage to emphasize the fact that the weaver cannot live on that.

Mr. DORFMAN. Do I understand you correctly, that the weavers get 5 centavos a day, or do they get 5 centavos for each hat they make?

Mr. VILLARAMA. That is the average, from 5 to 15 centavos a day.

Mr. DORFMAN. What would you expect a hat-weaver in China to get?

Mr. VILLARAMA. I do not have any idea of what they get there.

Mr. DORFMAN. I was just trying to calculate the difference in wages that would have to prevail in order to place the Filipino weavers on a competitive basis with the Chinese weavers, in view of the fact that there is a duty of 20 or 25 percent on the hats entering the United States.

Mr. VILLARAMA. Precisely, that was the thing I was trying to emphasize, that the 5-centavo wage of the Filipino will naturally drive him away from the business, and abandon the trade. That is the reason why the hat-weaving industry is practically dead at the present time. A Filipino cannot subsist on 5 centavos a day, especially if that is the only occupation that he has.

Mr. YULO. Doctor, am I correct in my understanding that the reason why Philippine hats are being sold at ₱1 to ₱1.15 is because we have to compete with the Chinese articles?

Mr. VILLARAMA. That is true.

Mr. YULO. If there were no competition, you could sell them for more than that price?

Mr. VILLARAMA. That is my understanding.

Mr. YULO. Therefore the price of hats here is due to the fact that the price of Chinese hats is around that figure, and the 15-centavo wage that the hat-weaver earns is equivalent to what the Chinese get.

Mr. VILLARAMA. Yes, that is true.

Mr. ROBBINS. Do you have any fear of possible reprisals in China in case you place an embargo on the export of this raw material on which they are dependent to carry the industry they have established there now?

Mr. VILLARAMA. I am not aware of any industry or business in China that might have reprisal against the Philippines, but I do think that the Philippine Government should try to have all the benefits that could be derived from a raw material that is by nature this country's monopoly.

Mr. ROBBINS. And do you believe that as a general principle all raw materials produced in the Philippines should be manufactured in the Philippines?

Mr. VILLARAMA. It seems to me that the modern trend now is this: That manufacture should be established near the source of the raw material so that it will benefit not only the people that are preparing the raw materials but in a large measure will benefit the whole people, once that raw material is industrialized.

Mr. ROBBINS. It occurs to me that, since China has an established industry of hat-weaving which is dependent on this raw material, it might not welcome an action by the Philippine Government which would destroy the industry and that you might have an interest in obtaining material from China for some of your manufactures, or at least in seeking a market in China for some of your products, and that consequently reprisals might result.

Mr. VILLARAMA. That is really a very good point, but I think a people should look first after its own welfare, instead of thinking of any possibility of reprisal from abroad.

Mr. ROBBINS. Do the producers of the buntal fiber favor this embargo against its exportation?

Mr. VILLARAMA. That is the statistics given me by the Bureau of Commerce. Director Balmaceda of that Bureau did not content himself only with writing the people producing buntal fiber, but he went personally to talk to them; and there was complete unanimity on the embargo of the buntal fiber.

Mr. ROBBINS. Do those producers realize that it would cause an immediate loss of an existing market?

Mr. VILLARAMA. That is a very good question, Mr. Robbins, and I might answer by saying that at present we have a law appropriating

half a million pesos to buy out all the possible excess of fiber, should this law come into effect. So that objection, I think, is obviated.

Mr. ROBBINS. That is, the buntal-fiber producers have the assurance of a government subsidy which might tide them over.

Mr. VILLARAMA. At present we have one-half million pesos.

Mr. ROBBINS. Do you believe that if you place an embargo on the fiber the Philippine weavers will produce as many hats as are now being produced in China?

Mr. VILLARAMA. There is no question about that.

Mr. ROBBINS. If there is no question about that, that the supply of hats on foreign markets will not decrease, how do you expect to get an increased price?

Mr. VILLARAMA. No, because of the apparent cheap labor in China.

Mr. ROBBINS. But is it not the law of demand and supply that determines the price?

Mr. VILLARAMA. At present, really, the Filipinos cannot compete with Chinese laborers because it is cheap, as I have answered a question of Mr. Dorfman.

Mr. ROBBINS. My point is this—perhaps you do not understand—that unless you decrease the supply, the number of hats exported to the various countries of the world, the demand remains the same and it would be impossible for those hats to command an increased price, would it not?

Mr. VILLARAMA. Theoretically speaking, that is the result. But I suppose, once the competition is removed, we have a constant source of demand—the demand is constant—and it is only a question of giving that supply to the Filipinos so that we would be able to have better wages. At present, as I said in my short remarks, the hat industry is practically dead.

Mr. ROBBINS. Well, so far as we know, supply and demand determine price. Therefore, you would have to expect to reduce the supply of the total buntal hats somewhat before you could get an increased price.

Mr. VILLARAMA. There might be a reduction, but certainly we will have better hats, and therefore we will have more money coming from that.

Mr. ROBBINS. Now, if you do decrease the supply in order to recover better prices, that would mean a restricted market for buntal fiber, would it not?

Mr. VILLARAMA. I do not share that view.

Mr. ROBBINS. There would not be as many hats made.

Mr. VILLARAMA. There will not be as many hats made probably because the prices will be increased, if we go by the demand and supply. But may I call your attention to the figure for 1928—I think the Committee has been supplied with this data—we exported 1,239,-

629 hats at a value of ₱6,499,406. But in the subsequent years, for example, in the year 1929, we had a decreased export in the number of hats amounting to 871,000 only, representing a value of ₱4,000,000.

Mr. ROBBINS. Now, let us carry the discussion just one point further. You hope, by placing an embargo on the export to acquire the manufacturing industry for the Philippines, to transfer it from China where it is now. And it would seem self-evident that in order to get an increased price for hats you would have to decrease the supply on the market, and hence the supply manufactured. Now, if you should carry that program through and decrease the amount of hats produced from buntal fiber, it would mean, would it not, that the producers of buntal fiber would find that the supply of their material was larger in proportion to the demand than it had been before, and hence if, in the case of buntal fiber, the relation of supply and demand determines the price, as it does in other fibers, the fiber-producers would receive less unless they could decrease their production?

Mr. VILLARAMA. But when that point is arrived at, I feel that the Government will step in to classify the fibers satisfactorily both to the hat-weavers and to the producers. I imagine the same way is being done in the United States, the limitation of the products. That is, I think, one of the modern trends that the Government is now taking into account.

Mr. ROBBINS. Well, would not the Government, in order to sustain the income of the producers of buntal fibers under that program, be obliged to subsidize them, not only for a certain and temporary loss in the demand, but also for the future?

Mr. VILLARAMA. That is precisely the case.

Mr. ROBBINS. Do you believe that the weaving industry, with the wages that you mentioned, which are so far below the average for other industries, is the most appropriate form of employment to encourage by government subsidy in the Philippines?

Mr. VILLARAMA. So far as the hat industry is concerned, provided that I am anticipating a favorable recommendation on the part of the Committee, provided that this bill is passed, and provided, further, that by the policy so adopted by the Philippine Government in advancing already one-half million pesos, I think that the industry in the long run will prosper to the benefit of both the fiber-strippers and the hat-weavers.

Mr. ROBBINS. That is all, Mr. Chairman.

Mr. BENITEZ. Just to bring out one point, Dr. Villarama, is it not true that buntal fiber grows on palms that are wild?

Mr. VILLARAMA. Practically, but they are cultivated.

Mr. BENITEZ. Do you know if there are palm plantations?

Mr. VILLARAMA. Yes, I have here a pamphlet dealing with that: "The Buntal Fiber in the Philippines", "How the Fiber is Produced", and all that. But it needs plenty of care before the fiber is produced. And not only that. It seems that Tayabas Province is especially appropriate for this industry. Not a few years ago, in Bulacan and in Nueva Ecija, buri palms were planted; but they did not produce the soft, flexible fiber that is being produced in Tayabas. It seems that it is nature's gift to the Province of Tayabas.

Mr. DORFMAN. In replying to Mr. Yulo's question, did you mean to imply that the reason Philippine hats sell at their present prices is because the price for them is determined by the cost of sending fiber to China, having the hats made there, sending them to the United States, and paying the duty there? Is that the thought?

Mr. VILLARAMA. Yes, Sir.

Mr. DORFMAN. I have heard it said that one of the principal reasons for having hats made in China rather than in the Philippines is that it is less difficult to have the Chinese copy particular patterns than to have the same thing accomplished here. There is a tendency for the weavers here to turn out a few types, and they do not readily change these types; whereas the Chinese will change from season to season, depending on the requirements of the importer. Is there any truth in that?

Mr. VILLARAMA. There was some truth in that, but I think the Filipino weavers will profit by their lesson. I think the Filipino people, as a rule, will also try to take advantage of this downward trend of the market, and they will try to keep up what they shall have gained with the approval of this bill no. 211.

Mr. DORFMAN. Do you think there is any likelihood that the American importers would become discouraged waiting for the weavers here to turn out the particular patterns or shapes they wanted? If they discontinued using buntal hats in large quantities, you would be out of the export of the fiber, and gain little, if anything, in the export of hats.

Mr. VILLARAMA. In that connection, Mr. Dorfman, I assure you that the weavers will not be too strong-headed to listen to suggestions, and for the information of the Committee, I may say that at present there is an organization already and, precisely, this is one of them, to coordinate the weaving industry in the sense that it follows what is demanded of it as governed by world style and fashion.

Mr. DORFMAN. The hats now, you say, sell for about ₱1.15 each.

Mr. VILLARAMA. Yes, Sir.

Mr. DORFMAN. In order to give the workers the wages they hope for, what do you think the price of the hat should be?

Mr. VILLARAMA. At least ₱3.

Mr. DORFMAN. Now, let us say for the sake of argument, that all the buntal hats now imported into the United States are made in the Philippines, and that you sell them at ₱1.15, which I understand is roughly the price at which the United States now buys them, whether from the Philippines or from China. If you should just about double the price for your hats, do you think that the importers in the aggregate would order precisely the same number of hats?

Mr. VILLARAMA. Wait a minute. I am computing only that figure. In the banner year of 1928, there were exported from China 168,806 kilos, representing 1,688,060 hats; And if the price, you said, doubled—

Mr. DORFMAN. Well, I was taking your figure. You suggested that about ₱3 would be right in order to give the workers the wages—

Mr. VILLARAMA. I think that is reasonable.

Mr. DORFMAN. The question I asked was: Let us assume, for the sake of argument, that the hats which the United States now buys either from China or from the Philippines—hats made from buntal fiber—all come from the Philippines and are sold in the United States at ₱1.15, which you told me is about the average price. Now, if the Philippines, by virtue of this monopoly in fiber, which you told me the Islands have, raises the price to ₱3 through some government organization, that is, roughly, doubles the price, would you expect the importers in the United States who are now buying these hats to continue to buy the same number of hats, or would they buy fewer hats?

Mr. VILLARAMA. Precisely, I was going to that figure, because in that banner year the price of hats was not ₱3 but ₱5, and still there were 1,239,000 hats exported to the United States.

Mr. DORFMAN. Let us consider the situation existing today, and not what it was in years past. Let us say, the Philippines are now selling all the hats of this variety which the United States now buys at the price which it is now paying, roughly, ₱1.15. Then, you suggest that to bring about a proper wage rate you would have to force the price of the hats up to say ₱3. Would you be able to sell as many hats at ₱3 as are now being sold in the United States at ₱1.15?

Mr. VILLARAMA. I think so.

Mr. DORFMAN. Well, is not that an unusual situation? Do you know of any other commodity for which there is a demand like that?

Mr. VILLARAMA. Because the industry started to sell at ₱5, seldom less than ₱4, during the previous years, and it is only this year that the price is ₱1.15; so it is just a question of going back to the normal price.

Mr. DORFMAN. Well, it may be very hard to go back to what you regard as the normal price. You may have to be satisfied to get what will continue to be subnormal prices. Do you feel that the price you charge for the hats does not have anything to do with the number of hats you can sell at that price?

Mr. VILLARAMA. I do not feel that.

Mr. DORFMAN. That is, if you sell the hats for ₱100 each, you could still sell the same number of hats?

Mr. VILLARAMA. No, that is too much already. Of course, I might tell you that formerly, in the beginning of the American occupation here, there were hats that used to sell for as much as ₱500, buntal hats.

Mr. DORFMAN. Well, you are still looking back.

Mr. VILLARAMA. But I am looking back only to the time when it was not exactly a prosperous year, but it was a year sufficient to make a little margin of profit from the product of the toil of the weaver. And I think when I said that it is just going back to the normal price, that that is the most natural thing for me to say. But ₱100; certainly that is a prohibitive price.

Mr. DORFMAN. Well, let us not put a prohibitive price on it. Let us get a reasonable price. If the price were ₱20, would you sell just as many as at ₱1.15?

Mr. VILLARAMA. Certainly not.

Mr. DORFMAN. Would you sell as many at ₱5?

Mr. VILLARAMA. I would like to inform Mr. Dorfman that to finish a 20-peso hat would require at least, at the present rate of speed and dexterity of the weaver, it would require at least two weeks to finish.

Mr. DORFMAN. I am thinking of the same quality hat and only varying the price.

Mr. VILLARAMA. In the first place, Mr. Dorfman, it has never reached the price of ₱20—the ordinary hat. I am talking only of the ordinary hat.

Mr. DORFMAN. Well, let us take a price which you say they have reached, ₱5.

Mr. VILLARAMA. Yes, ₱5.

Mr. DORFMAN. Would you sell as many hats at ₱5 as you now sell at ₱1.15?

Mr. VILLARAMA. Well, market conditions, Mr. Dorfman, are governed by several factors. If the country into which that hat is imported is prosperous, why, certainly it will buy; the country will buy.

Mr. DORFMAN. We are not concerned with whether they would buy or not, but whether they would buy as many at ₱5 as they buy at



₱1.15, or as many at ₱3 as they buy at ₱1.15. Is it not likely that the United States would buy less at ₱3 than at ₱1.15?

Mr. VILLARAMA. But whether one will buy one kind of hat or another will depend upon his fancy at the time, and I cannot answer that concretely because it depends upon the taste of the individual. As our hats, I think, command the admiration of those who have seen them, I think that they will sell just the same.

Mr. DORFMAN. At ₱3, would not the hat command the admiration of more people than at ₱5?

Mr. VILLARAMA. Well, when I say the admiration of the people I mean to say its make and flexibility, and, certainly, individual women will buy a hat of that type regardless of its price.

Mr. DORFMAN. You say women will buy the hats?

Mr. VILLARAMA. Yes, women—there are women buying these hats.

Mr. DORFMAN. Regardless of price?

Mr. VILLARAMA. Women and men at the same time buy hats regardless of the price, provided that they can satisfy their whims, fancy, or vanity.

Mr. ROMERO. Mr. Chairman.

Chairman MACMURRAY. Mr. Romero.

Mr. ROMERO. When I was in the States I heard it from what I thought was pretty good authority that the hat market is principally a matter of style, and that, for instance, in the case of buntal hats, after the dealer had rimmed the hat and put on a few decorations and all that, the price of the hat was several times more than the price of the buntal. Do you know if that is true?

Mr. VILLARAMA. That is true. I may inform you that when the tourists come here the hats that used to cost ₱5 can readily sell at ₱25 or even ₱30.

Mr. ROMERO. If such is the case, is it not true that there may be a considerable increase in the price of the hats without necessarily reducing the number of the hats which are sold in the United States market?

Mr. VILLARAMA. That is what I believe.

Mr. ROMERO. Whatever may be the economic theory entering the case, is it not a fact that before the Chinese began weaving hats, you had a thriving buntal-hat industry in these Islands?

Mr. VILLARAMA. That is true.

Mr. ROMERO. And that the Chinese competition practically wiped out the industry?

Mr. VILLARAMA. That is true; that is our belief.

Mr. BENITEZ. I just want to clarify one point, Mr. Villarama. Mr. Robbins' questions created the impression that with the prohibition of the exportation of buntal to China the buntal-fiber producers

would be greatly affected. Is it not true that buntal-fiber production is only a side issue engaged in by people who own coconut plantations or who are engaged in some other activity mainly, and that they only produce buntal whenever there is a demand for it; that most of the buntal palms are really wild; and that it is only within the last few years that buntal palms, called "buri" palms, have been planted? Is that true?

Mr. VILLARAMA. Yes, that is true.

Mr. ROBBINS. Could you tell us approximately how many hats of buntal fiber are sold each year, say in 1936, including those produced in China?

Mr. VILLARAMA. Produced in China, 1,580,619; Philippines, 623,615.

Mr. ROBBINS. What proportion of those—I do not believe your brief indicated the quantity of women's hats sold.

Mr. VILLARAMA. That is the weakest part there is in our brief. They did not classify according to the—

Mr. ROBBINS. In your opinion, what percentage would be women's hats?

Mr. VILLARAMA. Probably one third.

Mr. ROBBINS. Two thirds are men's hats?

Mr. VILLARAMA. Yes.

Mr. ROBBINS. In general, to what class or group of customers are these men's hats sold—to unskilled workmen, skilled workmen, professional people, or to whom?

Mr. VILLARAMA. To the middle-class people.

Mr. ROBBINS. Then, since the quantity is so small and the market is so large, the customers must look out for many competing kinds of hats?

Mr. VILLARAMA. That is true, but I may mention in that connection that it is not only the United States that is importing hats from the Philippines. Paris and London are importers of Philippine hats.

Mr. ROBBINS. But do you not think that there is a possibility that if you double or treble the price of buntal hats, these other hats, which must be supplied in great preponderance to that market, would be preferred on account of their greater cheapness?

Mr. VILLARAMA. I do not think so, because, as I say, if we increase the present price, as was suggested, to P3, I said that it would be just going back to the normal price.

Mr. WARING. These questions have raised one or two in my mind. Did I understand you to say, Mr. Villarama, that only one third of the hats produced were women's hats?

Mr. VILLARAMA. That is my rough estimate, I am not sure of that.

Mr. WARING. I was under the impression that the percentage was very much larger, as much as 70 or 80 percent.

Mr. VILLARAMA. I gave that information, but I am not sure whether it is one third or one half, as I said. Probably that one third will be true in the Philippines because there are few women who are using hats here in the Philippines.

Mr. WARING. From my own knowledge, in the United States there are very few buntal hats worn by men, but a large proportion of the hats are worn by women. If that is true, then, it would also be true, would it not, that the matter of fashion or style plays a very important part in both the number of hats that are sold and the price at which they can be sold?

Mr. VILLARAMA. Probably that is true.

Mr. WARING. And that whether your cost of production here is ₱1.15, or whether it is ₱3, the quantity that you would sell would depend pretty largely upon the style factor in the United States—upon the demand for those hats at that particular time? You might conceivably be able to sell more hats in one year at ₱3, if they were in style and in large demand, than in the next year when the price is ₱1.15, for instance. Consequently, the demand in the United States is the factor which governs largely the quantity and the price of the hats, is that true?

Mr. VILLARAMA. Probably, yes.

Chairman MACMURRAY. Are there any further questions? (No response.) If there are no further questions, we will excuse Mr. Villarama. Thank you very much, Mr. Villarama.

(Here follow the stenciled brief of the Buntal Hat Weavers' Association and accompanying memorandum from the Director of Commerce to the Secretary of Agriculture and Commerce, and stenciled memorial of the Municipal Council of Lucban.<sup>1</sup>)

The next session will be held at 9 o'clock a. m. on Monday, the 20th, for the hearing of the Manila Chamber of Commerce, the American Chamber of Commerce of the Philippines, and the Philippine-American Trade Association.

(Thereupon, at 5:05 p. m., an adjournment was taken until Monday, September 20, 1937, at 9 o'clock a. m.)

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<sup>1</sup> See vol. III.

PROCEEDINGS OF SEPTEMBER 20, 1937  
MORNING SESSION

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Monday, September 20, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 9 o'clock in the morning.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL L. ROXAS; and  
Mr. FRANK A. WARING.

Chairman MACMURRAY. We open our hearings this morning with supplementary comment upon briefs presented for the Manila Chamber of Commerce by Mr. Thomas Harrington, the Chamber of Commerce of the Philippine Islands by Mr. Vicente Madrigal and Mr. Arsenio Luz, and the American Chamber of Commerce of the Philippines by Messrs P. A. Meyer, S. F. Gaches, and Ewald E. Selph. Mr. Harrington.

STATEMENT OF MR. THOMAS HARRINGTON, OF THE  
MANILA CHAMBER OF COMMERCE

Mr. HARRINGTON. The Manila Chamber of Commerce has no supplementary statement to make, as our brief<sup>1</sup> was intended to be in-

<sup>1</sup> See vol. III.

clusive. We had the idea, when my name was put forward to represent the chamber today, that questions might be asked—and my name was not withdrawn—but the only thing that I can say is that since the brief was drawn up, further inquiries and comparisons with other briefs have emphasized what we have already written.

Mr. DOMERATZKY. On page 8 of your brief you stated “a decrease of 66 percent in total exports is a moderate estimate of the effect of abolishing mutual free trade between the United States and the Philippines”. May I ask you whether in making your estimate you included the mineral products?

Mr. HARRINGTON. We did not deal with that specifically; we simply took the total export and deducted from it the amount of production that probably would disappear from the export list.

Mr. DOMERATZKY. I was thinking that perhaps the effect on mineral products or mineral exports might not be as strong as in the case of some agricultural products, and I was wondering what the basis of your estimate—

Mr. HARRINGTON. The basis simply was the figure for last year and the quantity that would disappear from the list in a few years' time. Of course, there may be a counterbalancing increase, not only an increase in minerals, for instance, but in other activities that may be developed by that time, but we cannot foresee that. Even in the matter of gold, you could not tell how that would continue. I thought there were some figures, but I did not seem to be able to lay my hands on them. We took the figures on exports to the United States last year—sugar, hemp, coconut oil, copra, embroidery, desiccated coconut, tobacco products, timber and lumber, cordage, and so forth—and we recorded the estimate of the percentage of production, taking the total amount of production at ₱165,000,000. Take ₱165,000,000 from last year's exports and that represents a total, roughly speaking, of 79 percent or more.

Mr. DOMERATZKY. Well, I notice that in the list of articles here enumerated mineral products were not included.

Mr. HARRINGTON. No. We simply compared the decrease with the total export. I did not figure on whether there would be an increase to counterbalance the decrease. We assume that hemp and copra would not be affected, and also in the case of timber and lumber we assume that they would not be affected. The total production, as I said, was ₱165,000,000, without any reference to minerals or other items not mentioned.

Mr. WARING. Mr. Harrington, on page 12 of your brief you spoke of the difficulty of transferring from the sugar group to other types of products, and you mentioned the fact that agriculturists are loath to give up a remunerative crop for an experimental one.

Mr. HARRINGTON. Yes.

Mr. WARING. If free trade should be continued for a considerable length of time as, I believe, you advocated in your brief, what incentive do you think there would be to make this transfer from a crop which would undoubtedly continue to be remunerative for the entire period that free trade existed?

Mr. HARRINGTON. I think there are possibly two influences that might bear on the matter: one, the influence of the Government, which can be foreseen; and second, the opening up of further lands for cultivation. Actually, according to statistical review, there are in addition to 7 major crops, about 33 other crops mentioned as opened for production in recent years, and on the whole there is a slight increase—not a very great increase—but evidently they are working to produce as many other extra crops as they can.

Mr. WARING. But do you believe that those who are now producing sugar, if trade conditions continue as they are, would be apt to voluntarily make the transfer from sugar to other products?

Mr. HARRINGTON. If sugar were limited they would probably make the transfer, because they could not sell their sugar, and if they found they could not sell sugar, they probably would not go on planting it. If they have no export market, they must do something else.

Mr. WARING. My point, however, is that during such a long period of free trade, as you advocate, sugar would not be limited as it is now.

Mr. HARRINGTON. Yes.

Mr. WARING. And that, therefore, so long as the crop continues to be a profitable crop, the present planters would probably continue to produce the same amount which they are now producing, and therefore the adjustment would still be a difficult adjustment 10, 15, or 20 years from now.

Mr. HARRINGTON. Undoubtedly it would be a difficult adjustment.

Mr. WARING. In other words, it is postponing the evil day.

Mr. HARRINGTON. The figures are too enormous. The 7 crops represent an investment of ₱700,000,000 a year and the 33 crops around a few millions, so the change would be an enormous one. How far they can utilize the major crops on finding them no longer profitable, or change over to other crops, are the questions before these industries. Rubber and cotton might offer some possibilities in some foreign markets, but that is about all, I think.

Mr. WARING. On page 15 in the brief, under your last recommendation, you suggest that these trade relations should continue as long as necessary. Do you have in mind that free trade or its equivalent should continue after the Philippines becomes politically independent?

Mr. HARRINGTON. Yes.

Mr. WARING. And that this should continue indefinitely?

Mr. HARRINGTON. Well, we did not want to propose anything definite, being an international chamber. We want to join with others. We do not pretend to know what the situation will be in the future. We do not pretend to know the political point of view of the situation; we only know the necessities of the Islands from an economic point of view, and so we place our recommendation in a vague way. Someone may suggest 20 or 25 years as the period in which the Islands could adjust themselves, but we do not want to touch on the political side at all, and we are not proposing a definite period.

Mr. WARING. The suggestion here is that this relationship should continue as long as necessary. Now, if no adjustment is made in the sugar-production or in other crops and if free trade continues as it is at present, would we not always find ourselves with the same problem that we have today?

Mr. HARRINGTON. The day would come, undoubtedly, when there would have to be a settlement, but I think the wrench would be very much less if they had sufficient time and if they knew definitely that a certain thing was coming in the future. They could prepare for the break. The people are trying. Look at the figures—for alternative crops that can be produced—the production figures are so small at present that it seems almost hopeless to believe they can develop them to a large degree in the next few years.

Mr. DOMERATZKY. I have another question. On page 9 you point out that if they had not entered into a free-trade relationship with the United States in 1909, the country now would be in a better position to withstand the economic changes, and so on. Is it your assumption that, in the absence of free-trade relations with the United States, the Philippines could have developed a more self-sufficient economy?

Mr. HARRINGTON. Yes, the sugar industry would not have grown to the extent that it has; and not only that, the economic system would not have grown to the same extent. Take for instance, transportation, roads, and so forth. These would be more or less in a primitive condition. People, especially the labor population, would not be crowding Manila and other big centers. They would not have found work in all these developments; they would probably have remained on their farms. That is what I mean. A simpler state would have been in existence. Without this development, people would have had less revenue and would be more content with simple, quiet living.

Mr. DOMERATZKY. Do you believe under those conditions that the agricultural population would have formed a larger population of the Islands?

Mr. HARRINGTON. Even now it forms a large proportion—it is very hard to say—as a matter of fact, the difference would not be enormous. So far, industry has not taken such an enormous proportion of the people. I cannot tell you exactly.

Mr. DOMERATZKY. That is what I have in mind, that the industrial population is comparatively small and that the population is still predominantly agricultural, and I was just wondering where the difference would come in. You still have a large agricultural population, but you think with the absence of free trade with the United States that that population would have been on a more self-sufficient basis?

Mr. HARRINGTON. Well, even in country districts there have been many amenities introduced—communications with neighboring towns. Then you must have schools and, perhaps, electric lights, medical attendance, and various other things that the people get accustomed to. If they had not had the effects of the free-trade relations, they would have been more contented without those things. They would have continued in the same way as their fathers had lived. Now that they have gotten used to these things, it is difficult to take them away.

Mr. DOMERATZKY. That brings up another question. You implied that the decrease in national revenue resulting from the cessation of free-trade relations with the United States would have a very unfavorable effect on administrative functions, including health, education, and so on. Is it not possible that some of those developments could be maintained even with a decreased revenue, by local effort, once people appreciate the value of education and health? Could not they put forth their own efforts to maintain some of those conveniences?

Mr. HARRINGTON. Well, maybe. I think that an official of the Philippine Government could answer that question better than I can. My reply would only be speculative. I presume every effort would be made in that direction, but even today, in Manila, the funds do not seem to be enough to meet all the educational requirements. If it is materially defective even locally, we find it very hard to make up for the lack of revenue.

Mr. ROXAS. Mr. Harrington, referring to page 12 of your brief, which was the subject of questions asked by Mr. Waring, you state that the Filipino farmer would be disinclined to give up the production of a remunerative crop in which he is thoroughly well versed, and therefore the process of adjustment would not take place. Suppose the Filipino farmer were inclined to make the adjustment, and not only that, but suppose he received all the encouragement possible from the Government to do so, how long a time do you think he would



need in order that he may economically and profitably shift from these remunerative crops to other crops that do not depend on the American market for protection!

Mr. HARRINGTON. If the shift is going to be for an equivalent amount, I estimate that it might take 40 or 50 years, or more. I do not see any prospect of developing other crops in a smaller number of years to the same extent that sugar, hemp, copra, and coconut oil have been developed.

Mr. ROXAS. You have been in the Philippine Islands for many years and you know farming conditions here, Mr. Harrington. May I ask this question: Do you think that we could accomplish that process of adjustment in 10 or 15 years?

Mr. HARRINGTON. Well, on a matter like that, involving technical knowledge, I do not know. In my opinion, it is very improbable. I do not think it should be so sudden. It is probable that in time there could be complete adjustment.

Mr. ROXAS. Is there anybody in the Philippines today who knows what crops he may produce in place of sugar or tobacco to substitute for these crops?

Mr. HARRINGTON. No; except the officials of the Bureau of Agriculture. They might be able to form an opinion.

Mr. ROXAS. Would you say that before any such shift could be undertaken it would be necessary for quite a long process of experimentation and investigation?

Mr. HARRINGTON. Yes, Sir; definitely.

Mr. ROXAS. On page 15 of your brief, the last paragraph, you state that 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. Would you explain a little what you mean by trade on a reciprocal basis between the Philippines and the United States? In what sense may they be reciprocal?

Mr. HARRINGTON. Well, it has sometimes occurred to observers that perhaps in the United States it is not appreciated that American goods come in here free in a very considerable quantity, very nearly counterbalancing the Philippine goods that enter free into the United States, and so we have been at some pains to emphasize everywhere the reciprocal nature of any arrangement that could be entered into if American goods continued to come in here free. It is really a very big market, and it is a market that under favorable circumstances might increase considerably in proportion.

Mr. ROXAS. In other words, you would consider as a satisfactory basis for this arrangement a trade that would be reciprocal, not necessarily as to its volume but as to the benefits accruing to either country.

Mr. HARRINGTON. Yes; that is going to a fine point. I do not know that we have gone actually into that particular point. May I say that while we have a very strong feeling as to the necessity for the continuance of free trade, we are now holding back in making definite suggestions because we realize that there are many other interests that can more properly speak on the point than we can. We have many American and Philippine firms in our chamber, in fact, among the members the most numerous are the Americans, and, as an international body, we felt all along in drafting this brief the necessity of avoiding anything that looked like interference. All we want to do is to come forward and give evidence of our opinion as to the disastrous effect of the termination of free trade. That is what has been our main object in submitting our brief. We have not wanted to make any definite suggestions because we fancied that they might be misinterpreted.

Mr. ROXAS. Have you made any estimate as to the effect which the cessation of the free trade with the United States might have upon Government revenues?

Mr. HARRINGTON. No, Sir. I have some figures, but I never developed them fully. Certain internal-revenue sales taxes and customs duties would dwindle. I figured them quite a few days ago, but I do not have them with me and I cannot recall.

Mr. ROXAS. Thank you.

Mr. WARING. One more question, Mr. Harrington. On page 12 of your brief, you state that, in urging the retention of the free-trade relation, you wish to lay emphasis upon the fact that the relation is mutual and reciprocal. It is a mutual relationship in the sense that both countries extend free-trade privileges to the products of the other. I wondered if you intended also to convey in that remark that it was advantageous to both countries.

Mr. HARRINGTON. Yes, Sir; definitely.

Mr. WARING. I wonder about the terms upon which the products are purchased. In the case of sugar, it has been pointed out that the United States buys sugar from the Philippines at very much higher prices than those which prevail in the world at large. Presumably, then, the United States would be able to purchase a similar amount of sugar in the world market at considerably lower prices than it now pays the Philippines. The amount of that premium varies in accordance with the fluctuations of the prices in the world and in the United States. But roughly the price premium amounts to about \$40,000,000 a year. Now, since the amount of trade of the United States here is, again roughly, between \$55,000,000 and \$65,000,000 a year, the question arises whether, from the standpoint of the United States as a whole, it is advantageous to maintain a

trade of, say, \$60,000,000 a year by giving a price premium for one product of \$40,000,000 a year.

Mr. HARRINGTON. Well, if that amount of \$40,000,000 were permanently maintained, probably it might be argued that the benefits received by the United States trade here in the Philippines do not offset that amount; but of course one does not know about the future. If, for instance, Philippine sugar were wiped out and the United States went to buy sugar elsewhere, the price of sugar might go up, and the \$40,000,000 might not be \$40,000,000 but \$30,000,000 or \$25,000,000.

Mr. WARING. Even if it were only a premium of \$25,000,000 as contrasted with a trade of \$60,000,000, or even \$75,000,000, one third is a rather high premium to pay.

Mr. HARRINGTON. Yes, on those figures it is a high premium. I do not know what the profit would be to the American merchants if \$25,000,000 is paid here. It is considerable. I do not know whether it would be as much as \$25,000,000.

Mr. WARING. I am not in any way suggesting that the trade is not advantageous to the American export trade finding a market here. That is obvious. But merely considering it from the American standpoint as a whole.

Mr. HARRINGTON. Well, as I said, if the \$40,000,000 total trade were maintained and American export trade is not increased, then it would be possible to follow up an argument along that line, that America was giving more than she was receiving; but if the market here could be considerably increased in the future and if the Philippine sugar exports do not increase, then it seems that in a few years' time the United States would get just as much out of the export trade here as the sugar-people here are getting out of their export trade to the United States. I do not know whether the American exports to the Philippines will really increase, but with the increase in population, and if the prosperity continues here, it seems that it is almost obvious that exports must go up.

Mr. WARING. Thank you very much.

Mr. HARRINGTON. There is one thing I would like to refer to, and that is that there is always the question of trade in shipping; I mean that some of the \$40,000,000, of course, represents trade by American ships, and transportation and insurance by American companies as well. That would disappear.

Mr. ROBBINS. Mr. Harrington, on page 12 of your brief, you state that "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". Would you confine that statement to oriental agriculturalists?

Mr. HARRINGTON. No, probably not. But we are dealing with the Orient and so we put it that way.

Mr. ROBBINS. I imagine any agriculturalist would be inclined to continue producing the most profitable crop as long as possible, would he not?

Mr. HARRINGTON. I think that probably the idea was that in America, where people are always more ready to experiment and to try out new things, the agriculturalist there would not be held back to the same degree by this lack of knowledge of the new crop which he is inclined to experiment with or to try out; whereas people here, not having that same urge, would be much slower in taking up that crop. I think that is the idea.

Mr. ROBBINS. The obvious implication of your statement is that it is almost too much to hope for voluntary adjustment from one crop to another in the absence of some pressure of economic necessity?

Mr. HARRINGTON. Well, that pressure would probably come about from the mere limitation, for instance, of sugar-production.

Mr. ROBBINS. That is, if a decrease in quota were imposed on sugar?

Mr. HARRINGTON. Even without that decrease in the quota on sugar. I believe one year recently the Philippine production went up to 1,500,000 tons. It took two years to get rid of that accumulation. I believe sugar would have to go out of cultivation. Those who have lands, I presume, would try to cultivate something in its place.

Mr. ROBBINS. Now, that substitution is apparently under the pressure of necessity because the market is limited by the quota, is it not?

Mr. HARRINGTON. Yes, Sir.

Mr. ROBBINS. I wonder—I thought that, perhaps, in responding to Mr. Roxas' questions you had reversed that basic position in your brief.

Mr. HARRINGTON. We did not intend to. I do not quite understand the question.

Mr. ROBBINS. I said I thought that, in answering Mr. Roxas' questions, perhaps you were reversing the fundamental position you had taken in your brief.

Mr. HARRINGTON. I did not intend to do so.

Mr. ROMERO. Mr. Harrington, will you explain further this idea suggested by you about the force of limitation in order to compel adjustment? Just what did you have in mind, maintaining the production of sugar, for instance, at the present level?

Mr. HARRINGTON. Well, I did not go into that particularly, I simply assumed that, for the time being, the present level would be maintained and that even with the present level certain lands would have to be devoted to other crops.

Mr. ROMERO. You did not have in mind the plan of gradually reducing this quota?

Mr. HARRINGTON. No, I have no views on that subject at all.

Mr. ROMERO. Supposing you were granted a certain period of free trade for adjustment, what would happen to the sugar industry at the end of that period, if there were no reduction of this quota?

Mr. HARRINGTON. The Manila Chamber of Commerce actually did not intend to deal in detail with technical sugar questions. We are of the opinion that the problems of the sugar industry would largely disappear if free trade were established. The sugar industry would probably disappear, that is, the export trade of sugar, if free trade were abolished.

Mr. ROMERO. So it would just be a case, as somebody has said, of postponing the evil day.

Mr. HARRINGTON. Yes, just postponing the evil day by giving us a longer opportunity to make readjustment.

Mr. ROMERO. What readjustment plan do you have in mind?

Mr. HARRINGTON. We do not have any particular plan. Our position is that conditions in these Islands will be so bad that the longer they can put off the abolition of free trade, the better for the Islands. If they can put it off indefinitely or for a long period of, say, 25, 30, or 40 years, or more, then the Filipino agriculturists might develop something that will meet this problem. It will be giving an opportunity for other crops to be developed. Some crops would be, of course, merely for food requirements for the people of the Islands; others could possibly be developed for export purposes, like rubber, cotton, and pineapples; but the quantities developed now are so small, of such small value, that it will obviously take many, many years for their development, perhaps 40 years.

Mr. ROMERO. I am asking this question because it seems to me that it would be difficult for us to build a good case for the extension of free trade if we show that we only postpone our trials and tribulations. We must present a real program of adjustment for that period.

Mr. HARRINGTON. Well, that is probably the thing to do. Any extension of time may be contingent upon certain efforts being made; and it would enable the people to liquidate a little bit.

Mr. ROMERO. So the proper thing to do then is to postpone the evil day?

Mr. HARRINGTON. Yes, it could be a period of saving, of building up reserves, of slowly reducing the amount of land that is devoted

to sugarcane, and of raising other crops that are likely to be worth cultivating. During that period the Philippine Government undoubtedly would be encouraging the development, as fast as possible, of other crops. They are doing it now.

Mr. ROMERO. Without such a plan, what incentive would there be for the producers of the principal export products to reduce their production, the market remaining favorable?

Mr. HARRINGTON. The knowledge that it will come and that they will have to go out of business.

Mr. ROMERO. Do they not know now that in 1946 that day is coming?

Mr. HARRINGTON. They knew that when the Independence Act was passed.

Mr. ROMERO. They had 10 years from the enactment of the Independence Act.

Mr. HARRINGTON. Yes, and even now I believe the amount of sugarcane planted has been reduced. I think production has been reduced.

Mr. ROMERO. Wasn't that reduction due to the pressure that was applied by the quota-limitation?

Mr. HARRINGTON. Yes, it was a step.

Mr. ROMERO. If the purpose is simply to permit the liquidation of certain industries, do you not think the situation would be even more difficult at the end of the period of free trade, whatever that period may be, whether it be 10, 15, or 25 years?

Mr. HARRINGTON. Only if the authorities concerned failed to take steps to ameliorate the situation.

Mr. ROMERO. Your position, then, is that something should be done by the authorities?

Mr. HARRINGTON. Yes, Sir.

Mr. ROMERO. Do you have any particular plan in mind?

Mr. HARRINGTON. No, we have no particular plan to suggest, except the obvious one of trying to substitute crops. Suppose at the end of 25 years, it is still realized that a terrific blow might have to be suffered by the Islands, nevertheless, by that time certain local industries capable of supplying the Filipino population with the goods they require may have developed. At the present time the Filipinos depend for their income upon their exports. Also, they have been accustomed to importing a certain quantity of goods that they now look upon more or less as necessities either for their own living or for the development of industries in the way of machineries, and so forth. In 25 years they may have developed their industries to such an extent that they would be self-sufficient and would be able to supply themselves. It is not merely a question of maintaining the export crops; it is also a question of developing the industries

of the Islands to such an extent that they can help themselves and become a little more self-sufficient. At the present time the Filipino people are not self-sufficient.

Mr. ROMERO. That is true enough; but the producers, for instance, of coconut oil, tobacco, and sugar would still be producing these products for exportation to the American market, would they not?

Mr. HARRINGTON. During that period, so far as they could, yes.

Mr. ROMERO. Would not the transition period be just as difficult or more difficult?

Mr. HARRINGTON. It might be; but I think it would not be for this reason: The amount of land under cultivation is continually increasing throughout the Islands; and at that rate of speed more land has to be cultivated, and that land can be devoted to something else. It could be devoted to crops that would either provide food-stuff or find markets abroad.

Mr. ROMERO. But whatever new crops you might produce, the situation would remain the same?

Mr. HARRINGTON. Admitting that it would not be a good situation, there is no solution that will not involve a certain amount of suffering for the Philippine Islands and Philippine economy. Any solution that would mean the end of free trade is bound to involve a certain amount of difficulty and suffering, but the question is whether that suffering is to be very serious or whether the blow is to be fatal; it is a question of being able to foresee the end and to guard against it, if sufficient time is allowed.

Mr. ROMERO. Do you not think that the Government might be able to do something more than just wait for the development of new crops?

Mr. HARRINGTON. I do not know whether the Government has any plan or whether they have done anything that they can put forward.

Mr. ROXAS. Going back to the idea of reciprocity, Mr. Harrington, and to the statement of the fact that sugar alone receives a price premium in the United States amounting to about \$40,000,000 a year, with the suggestion that the United States, because of that price premium, is really financing Philippine purchasers of American products, does it not seem to you that that fact does not present the whole story, that there are incidents in the exportation of American products to the Philippines which have to be taken into consideration because of other services, like shipping, insurance, and so forth, and that if it were not for this trade American exports of certain commodities would have to be curtailed, probably causing a disturbance in the industries that may be affected thereby?

Mr. HARRINGTON. To whom? In the industries in the United States?

Mr. ROXAS. In the industries in the United States; and also the fact that the Philippines is purchasing some of these commodities from sections or regions of the United States that could not market economically those products within the United States because of prohibitive transportation charges through railroads and otherwise—I mention wheat flour, for example, from the Northwest, and so forth—and, therefore, despite this price premium, it might be advantageous to the United States to maintain this market in order to preserve the present arrangements in the United States regarding the export of these commodities to the Philippines.

Mr. HARRINGTON. I do not know and I cannot express an opinion as to whether certain American products could find an alternate market if they could not come into the Philippine Islands. The Manila Chamber of Commerce limits itself to the statement that if Philippine exports decrease materially, then Philippine imports must also decrease; and presumably result in high prices for goods imported, that is to say, America would suffer in any case.

Mr. ROXAS. My question was, if wheat flour now exported from the United States did not find a market in the Philippine Islands would it not be necessary for the United States to find a market within the United States, thereby creating a disruption of marketing conditions in the United States with regard to wheat flour?

Mr. HARRINGTON. It seems so, but I do not know. I have no views regarding the situation there.

Mr. ROXAS. And also in the matter of shipping, is that not a matter of general importance in the United States, so as to be taken into consideration in determining the general advantages which the United States derives from its trade with the Philippines?

Mr. HARRINGTON. I should say so. The shipping trade across the Pacific is a very important one.

Mr. ROXAS. And that in the matter of shipping, you must take into consideration not only the freight paid by the Philippine Islands because of products exported from the Philippines to the United States but also certain political implications, the necessity, for example, of maintaining a Merchant Marine on the Pacific by the United States?

Mr. HARRINGTON. I assume that that is probably so, but we did not touch on that question at all.

Chairman MACMURRAY. Are there further questions?

Mr. JACOBS. One question, Mr. Chairman.

Chairman MACMURRAY. Mr. Jacobs.

Mr. JACOBS. Mr. Harrington, I believe I understood you to say that you felt a period of 40 or 50 years would be required for an adjustment of the present trade relationships?



Mr. HARRINGTON. Well, that is a general statement made on the spur of the moment. I have not actually made any elaborate calculations. I do not know whether I would be competent to make them; but, taking the very small amount and value of Philippine products produced outside of the seven major products, it seems almost obvious that a very long period must, even under the most favorable circumstances, elapse before they become anywhere near as great as the products that might go out of the Philippines, let us say, at the end of free trade. Putting it in another way, there are I think about 31 or 33 subsidiary items of production that are enumerated in the Philippine Government revenues. The values for those particular 31 or 33 items are so small that it is difficult to visualize their taking the place of the major products for many, many years. Diversification of crops will not only be slow, but, even if it is successfully practiced, it will take a long time before it becomes of vital importance to the Islands.

Mr. JACOBS. In calculating or estimating the period, is it not important to remember that the present trade arrangements between the Philippines and the United States have existed only about 28 years, since 1909; that sugar, which is the principal item, only reached its present proportion or volume in the last 10 or 11 years, since 1925; and that those two periods—the 28 years and the 11 years—are very important factors in trying to arrive at an estimate? When you say 40 or 50 years, is that not rather a long time?

Mr. HARRINGTON. The circumstances are rather different. In the first place, sugar was an item of major production in the Islands for many years, even before the American occupation. The figures run to several hundred thousand tons. Secondly, sugar happened to be fortunate in finding a very valuable market. In the case of the other items of production, that are now being slowly developed, there is no obvious market for them, or, if there is a market, it is a very highly competitive market and it is problematical whether the Islands would be able to compete. Take rubber, for instance. Suppose rubber were produced in any quantity. Can we be assured of a ready market for it and that it will command a good price? And take cotton, which is beginning to be cultivated here. There is a possible market in Japan for cotton, but who can say that the Filipinos can compete with other suppliers of cotton?

Mr. JACOBS. My point is that the present volume of sugar-production is very large as compared with the volume in 1925, roughly an average of 260,000 tons prior to 1925 as compared to an average of about 820,000 tons since 1925.

Mr. HARRINGTON. Yes.

Mr. JACOBS. Another question. On page 13 at the bottom of the page, the last sentence, you point out that "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". What do you mean by "voluntary change of policy"? I might add that the terms of the present relationship between the Philippines and the United States were imposed in the Tydings-McDuffie act and were accepted by the Filipino people. These terms provide an arrangement until 1946, as the law stands at present.

Mr. HARRINGTON. We had in mind, when that was written in that way, that there have been some questions about which there had been mutual consultations, and we could not ignore the fact that there could very well be a change in the economic policy as well as in the political relationship. We presumed that whatever the outcome there would be mutual agreement on the subject. We put the word "voluntary" in to suggest that both sides, more or less, would agree to it.

Colonel McDONALD. Although it is not mentioned in your brief, I am wondering whether your Chamber of Commerce has taken into account the possible advantage of the so-called "triangular trade" with the United States, Japan, and the Philippine Islands.

Mr. HARRINGTON. No, I do not think we took that into consideration. The triangular arrangement, of course, can take place not only between those three countries, the United States, Japan, and the Philippines, but between other countries. Notice also that the excess of Philippine exports taken by Great Britain is offset by imports from Australia, India, and so forth. There is always a triangular arrangement. But the chamber did not take that into consideration.

Mr. BENITEZ. On page 13, your statement at the top that "the *per capita* purchase by Filipinos of American goods is more than five times the *per capita* purchase by Americans of Philippine products". Now, in connection with this price premium of \$50,000,000 mentioned here, would you consider this point an adequate or sharp answer to the advantage—

Mr. HARRINGTON. I think that those figures show that the Filipinos were really desirous to buy as many goods as they could from America. Of course, the Philippine market is not as important to America as the American market is to the Philippine Islands; but, nevertheless, while the import from America is less than the export to America, the Filipino people, being few and poor, probably will not be in a position to buy more.

Mr. BENITEZ. But you consider this basis of evaluating the trade *per capita* a fair way of doing it?

Mr. HARRINGTON. That particular point only shows that the Filipinos are doing their best, that on a population basis they are buying as many American goods as they can.

Chairman MacMURRAY. Thank you, Mr. Harrington.

(Here follows the printed brief submitted by the Manila Chamber of Commerce.<sup>1</sup>)

The Chamber of Commerce of the Philippine Islands will be represented by Mr. Vincente Madrigal.

Mr. LUZ. Mr. Madrigal is not here, but I will represent the Chamber of Commerce of the Philippine Islands.

Chairman MacMURRAY. Mr. Luz.

### STATEMENT OF MR. ARSENIO N. LUZ, OF THE CHAMBER OF COMMERCE OF THE PHILIPPINE ISLANDS

Mr. LUZ. Mr. Chairman and Gentlemen of the Committee: Supplementing the brief<sup>1</sup> submitted to you by the Chamber of Commerce of the Philippine Islands, as its representative, it is both my privilege and my pleasure to appear before you this morning. Because of an urgent business call from Hong Kong we are sorry our president, Mr. Madrigal, is unable to be present.

Because of the nature of its organization the Chamber of Commerce of the Philippine Islands discusses in its brief only the highlights of Philippine-American present and future trade relationship. The entities that represent our major and minor industries take care of the detailed presentation of their own cases.

For this same reason my supplementary statement this morning will be limited to the formulation of the following facts, which we believe are the fundamental background of American-Philippine trade partnership:

*First.* The main purpose and objective of the transition or preparation period is to enable the Philippines to accomplish that required degree of economic stability which is essential to the successful operation and security of an independent national existence. It is, therefore, both illogical and unfair to curtail our normal economic development during said period by the imposition of taxes and limitations that will inevitably ruin our major industries, thus defeating the very purpose of this period of preparation.

*Second.* The United States is responsible for almost completely linking our economic existence—that is, the progress and well-being of our people—with America, because, disregarding our protest, the American Government established free trade between the United States and the Philippines, making us a one-market nation subservient to and dependent upon the Amer-

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<sup>1</sup> See vol. III.

ican market. Fortunately, this free trade is equally beneficial and profitable to both countries, but, while the United States could subsist without our market, our economic existence, our present mode of living, is dependent upon the uncurtailed continuation of our present trade relations with America, at least during the full transition period of the years provided by the Tydings-McDuffie act and accepted in a solemn covenant by the Filipino people. Why should America exact from us, as the price of our political independence, the collapse of our national economic fabric of which she herself is the builder, and which is her most valuable contribution to the welfare and happiness of 15,000,000 Filipinos? What would the American people gain by the consummation of such a major tragedy? The economic collapse of the Philippines would deprive America of her second-best market in the Far East, a market that could be her best customer in this part of the world in the not distant future, a market that is the best distributing center of American goods in the Far East. We believe that the best interest of America and the Philippines dictates the indefinite continuation of free trade without unnecessary curtailments between the two countries. If this is not practicable we should at least have an additional 10 years of free trade.

*Third.* Sentiment and moral obligation are very strong bonds in the relationship between nations, as attested by American history. Gratitude, common culture, and our modern conception of life forever link us with America. And because she made us what we are today, America will always be deeply interested in us, will watch our steps as a ward representing her greatest achievement in human and national engineering, and will ever be ready to help us fully accomplish the unprecedented task she imposed upon herself when she assumed the stewardship over a young and inexperienced people: the establishment of a progressive, happy, and stable Philippine nation. This, we are sure, she will do in spite of the selfishness of a few, because America is still the great nation whose vital actions and decisions are dominated by sentiment and ideals.

Mr. DORFMAN. On the first page, the second paragraph, of your brief, Mr. Luz, you state: "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 progress, and bestowed upon the Filipino people their just share of happiness and well-being." Do you believe that the standard of living for the

masses of Filipinos is higher than the standard of living for the masses, let us say, of the Japanese people?

Mr. LUZ. I believe so, Mr. Dorfman.

Mr. DORFMAN. Do you know of any studies which have been made on the subject which bear that out?

Mr. LUZ. I do not know of any particular study that has been made, but my own personal observation makes me believe that the standard of living of the average Filipino is higher than that of the average Japanese.

Mr. DORFMAN. If the *tao* were to take his day's earning—the average *tao*—and start out with his market basket and make those purchases which he customarily makes, and a Japanese peasant were to do the same, that is, start out with his market basket with his average day's earnings and buy the things which he customarily buys, which of the two do you think would come back with his market basket more nearly filled?

Mr. LUZ. Well, it is quite hard to definitely answer that question, but I believe that the Filipino with his greater earning capacity will come back with a fuller basket.

Mr. DORFMAN. When you say the Filipino with his greater earning capacity, do you mean that the Filipino actually has a greater earning capacity?

Mr. LUZ. No. I mean to say that the standard of wages being higher in the Philippines than in Japan, the Filipino naturally has a greater capacity to earn a higher wage than the Japanese.

Mr. DORFMAN. Do you have in mind here the money wages the Filipinos get as contrasted with the money wages the Japanese get, or do you have in mind that the Filipinos can buy more with what they get?

Mr. LUZ. Both, Mr. Dorfman. For one thing, I believe in Japan, on account of overpopulation, competition is keener and it is harder for a Japanese to get the same wage as a Filipino would get.

Mr. DORFMAN. What is the average wage of a Filipino worker?

Mr. LUZ. I presume that, depending upon the regions, we may say between 30 centavos and 50 centavos a day.

Mr. DORFMAN. That would be between 15 cents and 25 cents gold a day?

Mr. LUZ. Yes, Sir.

Mr. DORFMAN. How many dependents would you imagine that Filipinos who get such wages have?

Mr. LUZ. The other day the matter was discussed, and I remember the statement was made here that the average Filipino family is composed of five members. I have not made a study of the question, but I should say that that statement is right. But I would not admit

that out of the earning of one man the whole family lives, because I do not believe that that is the case.

Mr. DORFMAN. Would you care to estimate what the aggregate earnings of all the wage-earners in a family of six would be, just roughly?

Mr. LUZ. Well, in a family of five—

Mr. DORFMAN. We want to take the average family. I was assured that it was around six.

Mr. LUZ. This of course depends on diverse and individual cases. But I presume that in a family of six perhaps two, or sometimes three, would be the breadearners. As you know, Mr. Dorfman, especially among our peasant class, even the women work.

Mr. DORFMAN. It appears that, for purposes of showing how many people are dependent on a given industry, the assumption is made that only one out of six works. For purposes of showing how high the standard of living is, it appears that each person has only about two dependents. But that is not pertinent to the inquiry in hand. Let us say that the earnings for all the wage-earners for this family of six are twice as high as suggested the other day by Mr. Alunan, and we have two wage-earners getting a total of from 60 centavos to ₱1 a day. What would it cost this family of six to buy a day's food supply, do you suppose?

Mr. LUZ. That will again depend upon the locality and the peculiar condition of each region. I am just talking from personal experience. I have a small farm; and my experience is that—my tenants, the average family, on my small farm would be, say, about four—out of a family of four, three are workers. This is in Lipa, Batangas.

Mr. DORFMAN. What industry is it?

Mr. LUZ. Ricé, in a small way, and sugarcane also. But that is a very extraordinary and peculiar case, because on my small farm the families are composed mostly of grown-up people, all of whom work. The only ones who do not work are the minors who attend school; and, at times, on Sundays and holidays, even they help their brothers or their parents in their daily work.

Mr. DORFMAN. From the testimony that has been given before the Committee thus far, it would appear that that is a most unusual arrangement. Let us consider a more ordinary arrangement than you have. Let us say that two or three workers in a family bring in something. What fraction of the family's earnings do you suppose would go for food and rent? Let us take food first.

Mr. LUZ. For food—I suppose that 50 percent of the earnings would go for food.

Mr. DORFMAN. Now, on the basis of the figures you gave me, 60 centavos to ₱1, half of that goes for food; that would be 30 centavos

for a family earning 60 centavos a day, and 50 centavos for a family earning ₱1 a day. That would range from 5 centavos to about 8 centavos a day, or in terms of gold, from 2½ cents (gold) a day to 4 cents (gold) a day per person for food. Considering that the price of many of the basic commodities, such as rice, are no cheaper here than they are in the United States, would you say that this represents a very high standard of living, 2½ cents (gold) to 4 cents (gold) a day per person for food?

Mr. LUZ. I would not say that that represents a very high standard of living. But I presume, Mr. Dorfman, that we will have to consider that in many cases these tenants have their own food. They do not have to buy it. They produce their own rice and they raise their own vegetables.

Mr. DORFMAN. Do most of the farmers in the Islands other than those engaged in the production of rice grow their own rice, the people in Negros, for example?

Mr. LUZ. Of course not. I do not really know the conditions in Negros, but of course conditions in Negros are very different because the wages in Negros are very much higher. I am talking of conditions in my own locality.

Mr. DORFMAN. Actually the money income would be supplemented by the products which the people themselves raise. Let us say, however, that this worker wanted to take his family to the cinema. What is the lowest price of admission to a cinema?

Mr. LUZ. Well, first of all, these people who live in the *barrios* have no way of going to the cinema.

Mr. DORFMAN. Is that because they do not like cinemas or because cinemas are so high-priced that they cannot afford to go?

Mr. LUZ. They do like cinemas, but they are naturally unable to go to cinemas because the cinemas are located in centers of population that are very far from their *barrios*.

Mr. DORFMAN. Do you suppose the reason there are none close to them is because it would not be profitable to operate them?

Mr. LUZ. I presume so.

Mr. DORFMAN. And that is because the price of admission that would have to be charged would be too much for the people to pay?

Mr. LUZ. Not only that, but the scant population in the *barrio* would not warrant the establishment of a movie-house.

Mr. DORFMAN. Well, let us take conditions in Manila and have in mind, say, the workers in the cigar factories. There are a number of cinemas in Manila. What would be the lowest price of admission to a cinema here?

Mr. LUZ. Well, I presume that as low as 10 centavos perhaps. I do not know for sure, Mr. Dorfman.

Mr. DORFMAN. Well, let us say 10 centavos, although I confess I have never seen any that charge as little as that. If the family consisted of six people, their income would be 60 centavos, or at top wage it would run, on the average, to say ₱1. Would you say that the standard of living was high in a country where a man would have to spend 60 percent of his day's earning to take his family to the cinema?

Mr. LUZ. Perhaps from the American standard it would not be very high, but I am taking the standard in the Orient.

Mr. DORFMAN. Let us take Japan. What fraction of the worker's income do you suppose would be necessary for him to take his family to the cinema? Would it be 60 percent?

Mr. LUZ. That I cannot answer.

Mr. DORFMAN. I can assure you it would be much less than that. Let us take newspapers. What fraction of a man's daily wage would be required to buy a newspaper in Manila?

Mr. LUZ. Well, the papers here are rather inexpensive; I am talking of the vernacular papers, which are the papers read by the masses.

Mr. DORFMAN. What is the price of those?

Mr. LUZ. I think some of them are as low as two or three centavos.

Mr. DORFMAN. And some of them sell as high as?

Mr. LUZ. Some of them sell as high as seven centavos for special Saturday editions.

Mr. DORFMAN. Do you realize that seven centavos would be almost twice the price of the daily edition of the *New York Times*?

Mr. LUZ. Yes, I know that.

Mr. DORFMAN. Would you say that the cost of newspapers to a Japanese would represent a higher fraction of his day's earnings?

Mr. LUZ. I know that newspapers in Japan are very inexpensive on account of their large circulation.

Mr. DORFMAN. My point, in asking the questions I have, has been, first, to develop the fact that there is no study of conditions in the Islands which would show that the standard of living for the masses here is, in fact, higher than in other, or in some other, oriental countries—or as you have it here, "to a plane unknown in other oriental countries". So far as I know, there is no study which bears that out.

Mr. LUZ. There is no scientific study, but we are guided by personal observations.

Mr. DORFMAN. Have you met any people who have observed conditions in both countries and have come to a diametrically opposed conclusion?

Mr. LUZ. I know of articles published to the effect that we are wrong in assuming that the standard of living of the average Filipino



is higher than that of Japan; but, with the exception of Japan, I believe it is universally admitted that our standard of living compared to that of India, for example, or China, is very much higher. My own personal observation, as I said, makes me believe that this statement is right.

Mr. DORFMAN. Granting that it might be correct for China and India, you do not know it to be correct for Japan?

Mr. LUZ. Well, my own personal observation makes me believe that it is also correct for Japan.

Mr. DORFMAN. On page 6 of your brief, the last sentence on the page, you state: "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 situation that will confront them after the fifth year of the present transitory period." You say they are "groping in the dark trying to find their way to successfully meet the new situation". What steps have any of them thus far taken to meet it?

Mr. LUZ. They have made a survey as to the possibilities of deviating the exports to other countries in case it is impossible for them to gain admission profitably in the American market. I know, for example, that in the case of the major industries, such as sugar and coconut oil, such steps have been made, and the conclusion seems to be that it would be impossible to replace the American market, at least, in the near future.

Mr. DORFMAN. Is not that a conclusion which was arrived at prior to two years ago?

Mr. LUZ. I know that since the establishment of the Commonwealth they have been making these surveys and studies.

Mr. DORFMAN. All with the same conclusion?

Mr. LUZ. Well, practically all.

Mr. DORFMAN. On page 8, the paragraph next to the bottom, you say, "There is also a wide field in the Philippines for American technicians, university professors, etc." How many American university professors are there in the Philippines?

Mr. LUZ. American universities?

Mr. DORFMAN. No; American university professors.

Mr. LUZ. I do not know the exact number.

Mr. DORFMAN. Roughly, would it be ten, a hundred, or a thousand?

Mr. LUZ. I am not familiar with the exact number, but I know that there is a tendency for contracting the services of additional American professors.

Mr. DORFMAN. Has the trend been upward or downward in recent years?

Mr. LUZ. Well, it was downward in the case of the University of the Philippines, because of the resignation of many American professors; but it is coming upward again now, because the University of the Philippines is engaging the services of additional American professors. Now, in the case of private universities, it is upward.

Mr. DORFMAN. Are the numbers that we have to reckon with appreciable; that is, again, are they in tens, hundreds, or thousands?

Mr. LUZ. I do not think it would be by the thousands. It would be hard to determine the number that would be needed, but the tendency, as I said, is upward in all universities.

Mr. DORFMAN. If the Islands should become less prosperous in consequence of the carrying out of the provisions of the Independence Act, you would not expect the Islands to employ additional numbers of American professors?

Mr. LUZ. I do not think so.

Mr. DORFMAN. The number now, in fact, is not large, is it?

Mr. LUZ. I do not think it is large.

Mr. DORFMAN. Probably a dozen?

Mr. LUZ. I have no idea of how many, but, as I said, a few dozens would perhaps cover it.

Mr. DORFMAN. On page 11, second paragraph, under the caption "Tariff Autonomy, etc.," you state: "We should, therefore, be given tariff autonomy for the main purpose of developing our domestic industries by protecting them against cheap foreign goods." Is it your thought that if the preferential American market is eliminated, the Islands will have to find other markets for their products as best they can?

Mr. LUZ. No, the purpose of this paragraph is to emphasize the need of protecting our small industries, industries that are being established now, against the inroads of cheap foreign goods. We are not concerned about American goods because they are so expensive that there is no possibility of competition between them and our own.

Mr. DORFMAN. If the Philippines hope to continue exporting to foreign markets, should the Philippines avoid imports of cheap foreign goods or encourage them?

Mr. LUZ. How is that?

Mr. DORFMAN. If the Philippines hope to find markets elsewhere than in the United States, does the salvation of the Philippines lie in high-priced goods for workers or in low-priced goods?

Mr. LUZ. In talking of protection for local goods, our main purpose is not to export these goods but to consume them locally. We believe that it would take a long time for us to be able to export our industrial goods. We are talking of local consumption. We have that in mind.

Mr. DORFMAN. But you hope to export some goods, not necessarily the kind that you have in mind here?

Mr. LUZ. Yes, Sir.

Mr. DORFMAN. The more goods you produce in the domestic market at high prices, substitutes for which could not be obtained in foreign markets at low prices, the higher the cost of living for your workers, is not that true?

Mr. LUZ. That is right.

Mr. DORFMAN. The higher the cost of living for your workers, the harder for you to sell goods in foreign markets?

Mr. LUZ. Yes.

Mr. DORFMAN. If you propose to find substitutes for the American market, do you want to have the cost of living high or low for your workers?

Mr. LUZ. As I told you, Mr. Dorfman, we are not really trying to find a substitute for American goods, but there are some goods which could be easily manufactured here that would respond to the demands and purposes of our average Filipino.

Mr. DORFMAN. But you say you would have to have protection against cheap foreign goods. I take that to mean that you would want to impose duties or limitations on imports in order that the local prices would be higher than they would otherwise be, is that correct?

Mr. LUZ. Yes, Sir.

Mr. DORFMAN. If the local prices are higher than they would otherwise be and if the workers buy such goods, their cost of living would be higher than it would otherwise be; and if their cost of living is higher, then your cost of production of export goods must necessarily be higher?

Mr. LUZ. Yes, Sir.

Mr. DORFMAN. And it is more difficult for you to export goods?

Mr. LUZ. Yes.

Mr. DORFMAN. If you hope to find markets for export goods when you lose the preferential American market, why do you want to prevent cheap foreign goods from entering this market?

Mr. LUZ. Of course, this statement was made on the understanding that there would not be a sudden disruption of trade between the United States and the Philippines. We are not worried about the cost of production of our export goods so long as we have entry to the American market.

Mr. DORFMAN. But we have to consider that, as an ultimate objective, you will not have preferential treatment in the American market and that you must therefore find other foreign markets if you are to have them. Why, then, do you want to burden your domestic consumers with high prices? Do you not think it would be better to

lower your tariff barriers instead of raising them, if you want to compete in world markets with low-cost producers?

Mr. LUZ. We believe that the next development in the Philippines should be industrialization of the Philippines, and, unless we protect our own industrial goods, we will never be able to improve the present situation. We are an eminently agricultural country, and the next stage of development would be industrialization.

Mr. DORFMAN. Then what you foresee is not so much other foreign markets but, rather, your own market taking the place of the United States market; that is, you expect to become as self-sufficient as possible. Do you believe that the *per-capita* income in terms of goods of your people would be increased by your country's operating on such a protective basis?

Mr. LUZ. Yes, Sir.

Mr. DORFMAN. In your preliminary remarks you stated that the Philippines originally protested against free trade but that the United States forced free trade on the Islands; and therefore the United States is obligated to continue free trade indefinitely, or for a long period of time, in consideration of that. When the Islands protested against free trade, did they protest against the privilege of entering goods in the United States free of duty or did they protest against American goods coming into the Philippines free of duty?

Mr. LUZ. Neither. The foundation of the protest of the Filipinos against the establishment of free trade was almost exclusively based upon their opinion that the economic link between the two nations would be so strong and unbreakable that it would be impossible for the Philippines to acquire her political independence. That was the foundation of the opposition of the Filipinos to free trade.

Mr. DORFMAN. That, however, has turned out not to be the case, for, despite the fact that the economic ties grew stronger and stronger, the Islands were not prevented in consequence from getting political independence. If the Islands had originally been offered free trade on the condition that it would in no way bear upon the matter of political independence, would they have objected to it?

Mr. LUZ. Perhaps they would have.

Mr. DORFMAN. The principal basis, then, was that they thought that they would not be able to get political independence if they had free trade.

Mr. LUZ. Yes.

Mr. DORFMAN. But since they have obtained it, in spite of free trade, is the argument a valid one?

Mr. LUZ. Perhaps the statement should be clarified. In spite of free trade and in spite of the almost complete and absolute link of our economic existence with America, you say that we should have independence?

Mr. DORFMAN. I did not say that.

Mr. LUZ. The nature of the independence that we will get, because of the disruption of the intimate trade relation established by free trade, would be such an independence that it would not be a desirable form of independence, because it lacks the essential economic and stable foundation. Such an independent government would be independent only in name.

Mr. DORFMAN. Was not that fully recognized when the Philippine Government accepted the Tydings-McDuffie act?

Mr. LUZ. The Philippine Government accepted the Tydings-McDuffie act because of the statement made by the President of the United States that if there were inequalities and unfairness in the bill they would be corrected.

Mr. DORFMAN. But that is more or less ambiguous. There was no promise that if it should turn out that certain export taxes were distasteful they would be regarded as unfair and therefore eliminated.

Mr. LUZ. Our interpretation was to the effect that if the economic provisions of the Tydings-McDuffie act would make it impossible, for practical purposes, to establish a progressive and stable Philippine nationality, then those provisions would be corrected, otherwise the very purpose of the law would be defeated—the purpose of creating a stable, progressive Philippine nation.

Mr. DORFMAN. Is it your view that any terms which would operate against assuring the Islands a stable economy are *per se* unfair and of the variety the President had in mind?

Mr. LUZ. Yes, Sir.

Mr. DORFMAN. You also stated that the exchange of goods between the United States and the Philippines was equally beneficial to both countries.

Mr. LUZ. Yes, Sir.

Mr. DORFMAN. But you added that, while equally beneficial, the United States would not be seriously injured if free trade ceased but that the Philippines would be. What is your criterion of equality of benefits to the two countries?

Mr. LUZ. Well, it is equally beneficial to both countries; that free trade is a relationship that is equally profitable to the United States and to the Philippines. I want to qualify your statement, Mr. Dorfman. I did not say that the loss of the Philippine market would not seriously affect American industry. What I said is that despite the loss of the Philippine market America would subsist.

Mr. DORFMAN. You feel that the loss would be a serious blow to the United States?

Mr. LUZ. I do not think it would be a serious blow at the present moment, but, considering the potentiality of the Philippine market

and the trade position of the Philippines in the Far East, it might be a very serious blow to the American industry later on.

Mr. DORFMAN. Will you explain more fully what you mean by equally beneficial to the United States and the Philippines?

Mr. LUZ. Well, considering everything, I believe that the United States profits as much as the Philippines in this present trade relationship. I cannot explain in dollars and cents, but on general lines I believe that since the Philippines, as shown by the facts, is the second-best market of the United States in the Far East, it surely is very important to the United States and very profitable for her to maintain her second-best market in the Far East. Now, it is also very important to the Philippines to maintain the United States market, because if we lost the American market at the present time we would lose 80 percent of our income from exports.

Mr. DORFMAN. The facts you have cited are true but inconclusive. The Philippines could be the United States best or second-best market in the world and the American market could be so important as to absorb 99 percent of Philippine exports, but it would not follow from those facts that the trade would be mutually beneficial. I wonder if you could cite evidence that would prove that that is the case.

Mr. LUZ. Well, when I said "equally" I did not mean to imply that it was exactly equal, because I do not have figures on which to base my conclusion. But there is no question that the Philippine market is very important and profitable to the American exporters, especially for such major exports as cotton goods, automobiles, petroleum products, machinery, chemicals, and so forth.

Mr. DORFMAN. The sale of American goods out here is made possible in a very substantial degree by the excess in price which the United States pays for Philippine sugar over what it would be obliged to pay if it purchased the sugar in the world market at the world price. The figure given this morning was, I believe, about 40 million dollars, and, I think, for the year on which that figure was supposed to be based, it was nearly 45 million dollars, but we will say 40 million dollars. That in fact is a subsidy to American exports—an indirect subsidy—is it not?

Mr. LUZ. Well, it amounts to that.

Mr. DORFMAN. If the subsidy is as high as that, might it not well be that that trade is not at all profitable if the United States sells, say, 60 million dollars worth of goods but has to subsidize their sale by, say, 40 million dollars? May it not well be that the United States would be better off if it lost the Philippines as its second-best market in the Far East, for then it could also forego paying 40 million dollars to keep the Philippines in that rank?

Mr. LUZ. Would not the same reasoning be applicable to the Philippines in the case of imports of American goods?

Mr. DORFMAN. Yes. In buying goods from the United States, the Philippines also forego some revenue which they could collect. Most of that, I think, would be revenue which they would collect from their own people. If you consider the economy of the Philippines as a whole, you would probably find that they do forego some revenue in paying higher prices for what they buy, in consequence of the reciprocal free-trade relations with the United States. But do you think that the amount they forego would be anywhere near the amount the United States foregoes?

Mr. LUZ. I do not think so, but, of course, we have in mind the difference in wealth, in population, in progress, and in standard of living between the two countries. What is very important and vital to the Filipinos may not be vital and important to the Americans. We are not measuring equality in terms of pesos or dollars or centavos or cents. We are appraising it in terms of equality, considering the inequalities obtaining in both countries.

Mr. DORFMAN. It is a little difficult, of course, to discuss an idea as vague as that. Either the United States gains from this arrangement or it does not gain. You conceded that so far as dollars and cents are concerned, the United States may not gain as much as the Philippines, but you suggest that in view of the fact that the Filipino people are poorer than the American people the free-trade relationship works out to our benefit.

Mr. LUZ. That is not the point that I am driving at. The point that I want to convey is this: I believe your statement tends to lead to the idea that free trade is not at all profitable to the United States, that is, free trade is a one-sided arrangement, the beneficiary being exclusively the Philippines; the United States really does not get any benefit from this arrangement. Is that it, Mr. Dorfman?

Mr. DORFMAN. Well, I did not intend to express my view on the subject. I was just trying to find out your view.

Mr. LUZ. I assume that the facts are that free trade is mutually beneficial to both the United States and the Philippines—it is not possible to arrive at the exact determination by monetary figures at the present moment. The general principle still stands that free trade is beneficial to the United States, for this reason, that she needs important tropical materials which are produced in the Philippines and over which she has absolute control in cases of emergency and necessity. While perhaps, normally, she could get tropical materials from other tropical countries, yet, in cases of emergency, the United States would not have an absolute hold over these tropical materials from foreign tropical countries as she would have over

these tropical materials from the Philippines. That perhaps would be one feature of it.

Mr. DORFMAN. Is it a sort of military argument or an economic argument that you have in mind?

Mr. LUZ. It is military and economic; both.

Mr. DORFMAN. Sometimes the two are not the same. For example, the sugar that is purchased here could be bought elsewhere closer to the United States. So far as the military argument is concerned, the Philippines are not in a very good position. The United States would be surer of its supply of sugar if it obtained it from countries closer to continental United States, so your argument would have to rest on economic grounds. If, for the sugar bought here, the United States pays 40 million dollars a year more than it would be obliged to if it bought the sugar in the world market, the suggestion that the United States cannot as advantageously buy it in other places does not hold economically.

Mr. LUZ. What is that?

Mr. DORFMAN. The argument you advanced is that the United States needs sugar and that she might as well buy it here as elsewhere. But if she can get it at 40 million dollars less elsewhere, would not that be an argument for getting it elsewhere?

Mr. LUZ. I presume so.

Mr. DORFMAN. If you, being a businessman, had the chance of buying something at one price from one place and from another at half that price, would you not presume that it would be better economically to get it at the lower price?

Mr. LUZ. I presume that the best policy would be to buy it at the lower price. But if the seller who does not charge the lower price buys from me, in reciprocity, goods that the cheap seller is not buying, I will certainly buy from the one buying goods from me.

Mr. DORFMAN. You were here the other day when I recited the story about the man who had a grocery store and whose son was his seventh-best customer? That son was getting about three times the wages the father would have had to pay to get someone else to do the same work. The father would periodically threaten to discharge the son, whereupon the son would threaten to withdraw his patronage, saying, "If you discharge me or pay me less, I cannot buy as much and will cease being your seventh-best customer." The father, however, calculated that it might be more advantageous for him, on purely economic grounds, to discharge his son and to hire someone else who would work for, say, one third as much, even though he lost his son as his seventh-best customer. Would not that apply similarly with respect to the Philippines both as a supplier and a buyer in the American market?



Mr. LUZ. I do not believe that the simile is very exact.

Mr. DORFMAN. What are its deficiencies?

Mr. LUZ. I believe that the deficiency is this: First of all, I believe that it is assumed that the loss of the Philippine market will be immediately absorbed by other markets. I mean, the loss of the Philippine market by the United States will be immediately absorbed by the other markets.

Mr. DORFMAN. I did not assume that if the groceryman discharged his son someone else would take the place of his son as a buyer.

Mr. LUZ. Then I believe that, as one gentleman here said, perhaps the right policy is to give the boy another break.

Mr. DORFMAN. The father would no doubt be tempted to act in that direction. But would he do it because the man was his son or because he thought that the arrangement would be mutually beneficial?

Mr. LUZ. Perhaps that would be the best way of making it both profitable and happy. The fact that the man is his son is a very important consideration; the matter of human relationship and sentiment is very important in human considerations. And I presume that that simile obtains also in the case of the Philippines; the fact that we have been brought up to this stage of progress by the United States should be a very important consideration.

Mr. DORFMAN. Would it be the sole consideration, then, in the father's deciding to retain the son as an employee on those terms? Would there be any conceivable way in which the father could gain economically by continuing to hire him at three times the wages he would have to give anyone else?

Mr. LUZ. I can see a possibility, by so arranging things that the son would be enabled to buy more from his father, so that the son would absorb the loss that his father would make by retaining him. And I believe that this is the case in the Philippines, because the Philippines are potentially able to buy more from the United States if we are given a chance to develop properly.

Mr. DORFMAN. Do you think the groceryman would become rich by increasing his son's wages so that his son could buy still more goods?

Mr. LUZ. I believe that if the son buys more, he absorbs the loss, and there is no valid reason why the father should fire him. I believe that the father should retain him, not only because he is a son and is obligated to him as a father, but because it is good business to retain him.

Mr. DORFMAN. If you had your choice of hiring two clerks—neither of whom was your son, and therefore you could disregard sentimental considerations—one, say, who would work for ₱10 a week

and who would be only your fifteenth-best customer, and another man who would work, say, for ₧30 a week but who would buy ₧20 more goods than the other, do you think that you would profit more by hiring the man who would work for ₧30 a week than you would by hiring the other?

Mr. LUZ. No, Sir.

Mr. DORFMAN. Well, is not that pretty much the same in respect of what we are considering here?

Mr. LUZ. I say the simile is not so exact, because if an arrangement could be made to give a break to the boy so that he would be able to buy more from the father he would thereby absorb the loss.

Mr. DORFMAN. How does he absorb the loss by buying more from his father in consequence of getting higher wages than the father would have to pay anyone else?

Mr. LUZ. The difference in the gain would be absorbed by the father in selling more to the boy.

Mr. DORFMAN. But the maximum possible increase in sales to the son would be represented by the excess of wages paid by the father. Every time he gave his son an increase, the son could buy just that much more goods. But from the father's standpoint, he would be giving the additional sales away for nothing, would he not?

Mr. LUZ. Well, I presume that the arrangement is defective because the boy should not be given more wages in proportion to his buying-capacity with his father. I do not see the sense of raising his wages in ratio with his capacity to buy from his father.

Mr. DORFMAN. Well, is that the important consideration; or is it the price at which you could hire services which would be equally satisfactory?

Mr. LUZ. I believe both considerations are important.

Mr. DORFMAN. When you used the expression, "I would give the son a break", did you have in mind there the sentimental consideration rather than the economic?

Mr. LUZ. Both sentimental and economic.

Mr. DORFMAN. If it were only purely economic, you would not have to give him any sentimental consideration.

Mr. LUZ. Perhaps not.

Mr. DORFMAN. If you did not have to give him any "break" if the consideration were purely economic, then the only reason for giving him any would be perhaps because the consideration was not economic.

Mr. LUZ. Yes, Sir.

Mr. JACOBS. Mr. LUZ, you state on page 6, the large heading beginning with "A Period Not Shorter Than That Provided by the Tydings-McDuffie Act . . .", or you speak, rather, of the present 10-year period. I want to ask, What is your view or opinion as to the purpose of this 10-year period—the present 10-year period?

Mr. Luz. First of all, we assume, Mr. Jacobs, that the full 10-year period would be needed; but we feel that a 20-year period would be better because it would give Filipinos, Americans, and foreigners who are engaged in business in the Philippines more time to adjust their business to new conditions. In other words, while we would accept the 10 years as stipulated or as provided in the Tydings-McDuffie act, we feel that an additional 10 years would be helpful.

Mr. Jacobs. In other words, it is a period of adjustment, the first five years of which you have absolute free trade and the second five years of which you have imposed upon you certain export taxes.

Mr. Luz. Yes, Sir.

Mr. Jacobs. Don't you think that it is just human nature for us, all of us, businessmen in particular, to postpone any adjustment as long as we can and that those who are best off or enjoying the most benefits would seek to postpone adjustment longer than the others? Unless there is some arrangement to force adjustment in a situation such as we have here, it is just human nature for them to postpone adjustment as long as they can.

Mr. Luz. I do not admit that.

Mr. Jacobs. I am not saying whether the present adjustment is correct or not, but at some time or other adjustment must be made; otherwise you would find that your sugar-people, for instance, would say, "We prefer to wait until 1946, take all we can, make our profits, and let the people take care of themselves." The burden would not fall heavily upon them, because they have made so much, but upon the people who work on the land. Therefore, the export tax affords a means to force an adjustment.

Mr. Luz. Yes, Sir.

Mr. Jacobs. And it is not entirely for the purpose of providing a sinking-fund to cover the obligations of the Philippine Government, as you state in your second sentence; is that correct?

Mr. Luz. Well, we submit that the graduated export tax would defeat the purpose of the law. The main purpose of the law, as stated, is to enable the Philippines to acquire a degree of economic stability that would permit the successful operation and security of an independent nation. It has been demonstrated by representatives of the different interests that it would be impossible for Philippine major industries to survive during the last five years of the transition period, because the export tax would be so heavy that it would not be profitable for them to continue in business. Assuming, therefore, that the last five years of the transition period, as provided by the law, would defeat the very purpose of the act, we are asking that the export tax be repealed, not only on the ground that it is unnecessary to provide a sinking-fund for the payment of our public debts and obligations but

also, and primarily, because it defeats the very purpose of the law. Now, the matter of asking for an additional 10 years, it is true, is a compromise to that human inclination to defer changes. But, at the same time, we feel that a longer period would be better than a shorter one in adjustment of our economic set-up to new conditions and that therefore 10 years are better than 5 years, and 20 years are better than 10 years.

Mr. JACOBS. I will put the question this way: Do you feel that another 10 years will be sufficient for this adjustment?

Mr. LUZ. It would be really very hard to answer that question definitely, but we believe that 20 years are better than 10 years.

Mr. JACOBS. And during this 20-year period you would have no gradual plan for adjustment? You just want 20 years of free trade without any plan?

Mr. LUZ. Without any graduated export tax; perhaps with the necessary quota to protect American industries but with no graduated export tax.

Mr. JACOBS. Graduated quotas; that is your proposition rather than graduated export taxes?

Mr. LUZ. Yes, Sir.

Mr. JACOBS. On page 11, under this third section, second paragraph, you refer to your desire for tariff autonomy to help domestic industries. What domestic industries do you have in mind, or does the chamber have in mind?

Mr. LUZ. We have several new industries here. For example, we have the rubber-shoe industry. At the present moment I am thinking of that. We have several other industries that should be protected, but at the present moment I am thinking of that particular industry which should be protected from cheap goods coming from Japan.

Mr. JACOBS. Just how would you protect them if you have free trade with the United States? I suppose that as soon as you are given tariff autonomy you propose, for protection purposes, to raise your import duties. If you have a free-trade arrangement with the United States, you are merely increasing the margin of profit which American goods have; and, if you continually increase it, would there not be a tendency for the American exporters to ship in the very commodities which you expect to manufacture in the Philippines in the future, and your own purposes would be defeated? In other words, as long as you have a free-trade arrangement with the United States, how can you hope to build up particular industries since you cannot keep competitive American products out?

Mr. LUZ. We merely refer to foreign goods, and that is the reason why we specifically mention cheap foreign goods. We mean to protect our industries from foreign goods, not from American goods

because it would be unnecessary to do that. The cost of production in the United States will always be higher than here, and without any protection we can always compete with American goods if we want to; but it is not our intention to do that. Our worry is to protect our industrial goods from the competition of cheap foreign goods, not American goods.

Mr. JACOBS. So you are counting on the difference between the cost of manufacturing in the United States and in the Philippine Islands for your protection in the case of the United States?

Mr. LUZ. Yes.

Mr. JACOBS. In the following paragraph you state you would like to have the Philippine Commonwealth "empowered at once with the advice 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". In other words, you propose that the Philippine Commonwealth be authorized to negotiate trade treaties. Just what kind of proposition would the Philippine Commonwealth be able to put up to foreign governments so long as it has free trade with the United States? What could it offer without limiting American preference?

Mr. LUZ. It would be hard to determine at the present moment what sort of arrangement could be made. We have not given study to that question. It is just formulated as a general principle. If some of our major exports to the United States would be ruined because of our inability to compete in the open American market, it is obvious that we should be given opportunity to deviate the exportation of such major products to other countries, subject, as I said here, to the advice and approval and consent of the Department of State, to avoid diplomatic and other complications for the United States.

Mr. JACOBS. I do not think the approval of the Department of State is so much involved, after all, as the matter of what you could offer other foreign governments. As long as you have absolute free trade with the United States, I would like to know just how you could offer other countries anything without limiting American preferences in this market, and that would run counter to the whole arrangement. You would have to say: "If you will buy so much of our sugar, we will give you a preference, say, for textiles by a reduction in our tariff duty." You would have to make some kind of offer, but the moment you do that you are making an inroad into American preference in this market.

Mr. LUZ. I presume that means could be found. The matter is so technical and complicated that I do not wish to express an opinion about it.

Mr. JACOBS. Well, it looks a little difficult on the face of it.

Mr. LUZ. Yes, Sir.

Mr. JACOBS. And I have your last sentence on page 12. Your proposition there is that free-trade arrangements be continued for 10 years in a reciprocal agreement. When do you expect that 10-year period to begin? What is your proposition? Do you expect 20 years and then another 30 years?

Mr. LUZ. This is just an additional 10 years after the 10-year period, after July 4, 1946, another additional 10 years.

Mr. ROMERO. Mr. Luz, I would like to get a clarification of your answer to one of the questions of Mr. Jacobs where you referred to graduated quotas. Did you refer to gradually decreasing quotas of our products?

Mr. LUZ. I really did not say graduated quotas. I said "by quotas". That statement was made by Mr. Jacobs; but I had in mind not graduated quotas but quotas which could be established from time to time as needs and conditions might warrant.

Mr. ROMERO. When you say "established from time to time", do you have in mind decreasing quotas?

Mr. LUZ. Well, it could be; it should be increasing quotas, though it is very hard to determine whether decreasing or increasing. It depends upon the interest of both countries.

Mr. ROMERO. Suppose we had increasing quotas, or even quotas at the present level. As soon as the period of free trade ended, how would the situation be any better in 1946?

Mr. LUZ. Well, the implication would be that it would be possible to have increased quotas.

Mr. ROMERO. But would not that make the problem of readjustment to the impending situation more difficult?

Mr. LUZ. It would. There is no question about that.

Mr. ROMERO. At present is it not our problem, especially, to try to lessen the blow when the period of free trade ends? Is that not our problem precisely?

Mr. LUZ. Yes.

Mr. ROMERO. Is it your idea, then, that this situation should continue and that at the end of the period of free trade those industries dependent on the American market would collapse?

Mr. LUZ. It has been demonstrated by figures that it would not be possible for our major exports to survive.

Mr. ROMERO. So it is your opinion that this extra free-trade period for which you are asking would only be for the purpose of postponing the inevitable collapse of our industries that are dependent on the American market?

Mr. LUZ. For the purpose of postponing and giving us ample time to adjust our economics and to find substitute markets; and that is the reason why we are asking for tariff autonomy.

Mr. ROMERO. But what adjustment could possibly be made if, instead of decreased quotas, you are given increased quotas?

Mr. LUZ. That is one matter that I have not studied because it is rather a technical question for me. I would prefer not to answer that question, whether it is increasing or decreasing quotas. What we want is the determination of quotas in preference to graduated export taxes.

Mr. ROMERO. You believe, do you not, Mr. Luz, that, in order to build a good case for a prolongation of the period of free trade, we should be able to present a plan for readjustment, so that at the end of the period of free trade this collapse of our industries, that we are fearing, will not come about?

Mr. LUZ. What is the question?

Mr. ROMERO. Do you not believe that, in order to build a good case for the prolongation of the period of free trade, we should be able to present some kind of a plan for readjustment, so that when the free trade ends these major industries that are dependent on the American market would not collapse?

Mr. LUZ. I think so.

Mr. ROMERO. Do you have any particular suggestion to make to bring about that readjustment?

Mr. LUZ. I have no particular suggestion to make.

Mr. ROMERO. Well, if there is no particular suggestion to make about readjustment, on what ground can we base our plea for an extension of free trade?

Mr. LUZ. I believe that the question so vital to the Philippines is that we have to be organized, and we have to get the assistance of the best economists of the world to study the question properly and offer the proper solution. The question is so essential to our permanent well-being that it is worth while concentrating on this matter, devoting all the best efforts and energy to it to find a good solution—a solution that would be acceptable to both the United States and the Philippines. As to what that solution should be, it is hard to determine at the present moment.

Mr. ROMERO. Do you not believe, Mr. Luz, that if we appear before Congress with a plea for the extension of the period of free trade without any plan as to how this necessary readjustment is to be brought about, Congress will feel that we are only making it more difficult at the end of that extra 10-year period to stop this free trade?

Mr. LUZ. My answer to that question is precisely that we want to offer such a plan, a scientific plan.

Mr. ROMERO. Do you not believe, then, that until we have that plan we cannot very well stipulate what period is necessary?

Mr. LUZ. I think you are right. That is the reason why in answering that question about it I said we simply assume that 10 years are better than 5 years, 15 years better than 10 years, 20 years better than 15 years, because it would give us time to study that tremendous question of adjustment and to formulate a plan that is non-existent. So, therefore, the matter of time is not so definite, because it is more or less arbitrary. If you say 10 years, I might ask why not 15 years; if you say 5 years, I might ask why not 10 years. What is needed is a conscientious, scientific, intelligent plan wherein to base our definite conclusion about it, and it would take time to evolve such a plan and to submit it for the approval of both Governments and the people.

Mr. ROMERO. Do I understand you to say that the Chamber of Commerce of the Philippine Islands has not even considered any possible course to be followed for these necessary adjustments and possibilities?

Mr. LUZ. The Chamber of Commerce of the Philippine Islands has thought on general lines—

Mr. ROMERO. May we have the benefits of those thoughts that you have in mind?

Mr. LUZ. Well, the Chamber of Commerce of the Philippine Islands has thought along general lines, without any specific plan, because the chamber is not prepared to present a plan which, as I said, would require the best brains of the economists of the world; but we feel that we should be given time, because of the vital importance of this question, to solve it slowly and very seriously.

Mr. ROMERO. What are those general lines?

Mr. LUZ. The general lines along which the chamber has conducted itself are these: First, we are sure that the imposition of the graduated export tax would ruin our major industries. And we are sure of that because our products will not be able to compete in the open market of the United States. Secondly, we feel, but we cannot explain, that 10 years are not sufficient to adjust our present economic set-up to new conditions and that, therefore, an additional 10 years would be advantageous and helpful.

Mr. DOMERATZKY. In your oral statement you said that the Philippines are the best distributing market in the Far East. Do you have in mind actual or potential conditions?

Mr. LUZ. Potential.

Mr. YULO. Mr. Luz, has your chamber made any study as to the total amount of the tariff duties which the Philippine Government waives in the importation of American goods in the Philippines?

Mr. LUZ. No, Sir.

Mr. YULO. Have you made any rough estimate of that amount at all?



Mr. LUZ. No, we have not made any.

Mr. YULO. Have you made any study as to the proportion which the 40 million dollars of preference which the sugar industry is getting bears to the entire revenue of the United States?

Mr. LUZ. No, Sir.

Mr. YULO. So, for the moment, you cannot compare the burden which is borne between the two people as regards the preferences given here in the Islands on American goods and the preferences given Philippine goods in the United States. Could you make a study of that for our information?

Mr. LUZ. We have not made any study like that. We are guided by general information and accepted opinion on the matter. We formulate only along general lines. We have not gone to the extent of studying individually the different items and phases of this question.

Mr. YULO. Now, speaking about the little anecdote of that store-keeper and of the son whom he employs as a clerk: Now, suppose the other man who was willing to accept a lower salary was a man without a family and without any possibility of raising a family, while the son was raising a big family and therefore his buying-capacity had potential possibilities in the future. Would not that condition be taken into account by the father who was the employer of the son, even though for the other man he had to pay less?

Mr. LUZ. I think so.

Mr. DORFMAN. Do you believe that one's buying-capacity is measured by the number of dependents he has; that is, other things being equal, would one who has a number of children buy more than one who has none?

Mr. LUZ. Yes, relatively.

Mr. DORFMAN. Then, why do you have such wide-spread poverty in those countries where the families are largest?

Mr. LUZ. Perhaps for the reason that competition is keener, because they are overpopulated and they have less opportunities for workers.

Mr. DORFMAN. Let us make an analogy which is perhaps fairer. The son working in the mythical grocery store I spoke of, when threatened with discharge by his father, would say: "It is true, father, that you give me much more salary than you would have to give anyone else, and you would probably gain by discharging me and hiring someone else. But in the long run you will be better off by retaining me because I plan to have a large family." Might not the father feel that if his son were to have a large family, the son might not even be satisfied with the large salary he was then receiving and would ask for more? Reference was made earlier to the comparison of the burdens borne by the Philippines and the United States in consequence of reciprocal free trade. Do you believe that it is appropriate, in de-

termining whether the United States gains from that arrangement, to learn whether the Filipinos are burdened more in consequence of this trade than Americans are burdened? It may be that the lot of the Filipinos is much worse than that of the Americans, but is the Americans' lot improved any in consequence of the Filipinos' lot not being very satisfactory?

Mr. Luz. It is rather hard to give a definite answer to that question. I would say that the practical result of the free trade is that the Filipinos have been benefited considerably—there is no question about that. As to whether such benefit has given the necessary or required standard of living, that is another question. But nobody could deny that the Filipinos have been benefited greatly by free trade.

Mr. Jacobs. On page 6, last paragraph, you said: "Almost two years of the transition period have elapsed and even our principal industries, such as sugar, tobacco, oil, embroideries, and so forth, long established upon more or less solid foundations . . ." I want to ask whether you include abaca and copra in that?

Mr. Luz. No; we do not include them because they are admitted free in the United States. They are on the free-list.

Mr. Robbins. Mr. Luz, you said that the problem of adjustment in the Philippines to a non-preferential basis with the United States is a tremendous one and one which requires the brains of the best economists of the world, and that your organization was not prepared to make any definite suggestions to arrive at a program.

Mr. Luz. Yes, Sir.

Mr. Robbins. However, on page 11 of your brief, you did make a definite proposal; second paragraph of the third section. You request tariff autonomy for the main purpose of developing economic industries and protecting them against foreign competition, and, I believe, in answering one of Dr. Dorfman's questions, you said that the *per-capita* income in terms of goods would be increased by going on a high protectionistic basis.

Mr. Luz. Yes, Sir.

Mr. Robbins. I wonder if any economists in the Philippines have so advised your organization.

Mr. Luz. We were naturally advised by economists before we decided to go on record. As to whether we consider such advice as final, we are not in a position to say. The question is so vast and complicated that it would require the best economic brains of the world to evolve a definite plan. In formulating our recommendation, we were just guided by general ideas of things that we believe we know.

Mr. Robbins. Were you advised by any professional economist on that point?

Mr. LUZ. I am afraid we have no professional economist amongst us here in the Philippine Islands. We were advised by students of economy, but not by professional economists.

Mr. ROBBINS. In answering the question by Mr. Jacobs, it was indicated that adjustment would not occur, in the sense of substituting another form of production for an existing one, unless there is present some force or economic pressure or necessity; is that true?

Mr. LUZ. Yes, Sir.

Mr. ROBBINS. At the same time you indicated that the export tax was not an advisable form of applying such pressure?

Mr. LUZ. I said that the export tax, the graduated export tax, would inevitably ruin the major exports to the United States.

Mr. ROBBINS. Just what export do you include in the classification of major?

Mr. LUZ. Well, sugar, of course, first.

Mr. ROBBINS. On what basis do you assert that the export tax would ruin the sugar industry?

Mr. LUZ. There are some figures, prepared by the Philippine Sugar Association, showing definitely that it would be impossible for sugar to compete in the American open market.

Mr. ROBBINS. But the export taxes provided in the Independence Act are only, at their maximum, 25 percent of the full duty.

Mr. LUZ. Yes, Sir.

Mr. ROBBINS. Have you any reason, or any data, on which to base the assumption that the export taxes as provided by the law would bring ruin to the sugar industry?

Mr. LUZ. According to the figures and data prepared by them, it is shown, for example, in the case of major industries, like coconut oil, sugar, and tobacco—

Mr. ROBBINS. Well, coconut oil and tobacco, apparently, are different. But with respect to the effect of an export tax, you began to speak of sugar.

Mr. LUZ. In the case of sugar—I am not familiar with the particular situation of sugar; but I took the figure as given by the Philippine Sugar Association as my guide, and it is clearly stated in their figures and in their statement that it would be impossible for the sugar industry to survive.

Mr. ROBBINS. Did you see any figures in their statement as to cost of production which would indicate the ability to survive, or were they lacking from the statement?

Mr. LUZ. There are some figures that I have seen—I cannot remember at the present time where—but the argument was to the effect that it would be impossible for them to survive. I do not remember at the present moment whether that condition would obtain during the

sixth or the seventh or the eighth year, but I am sure that I have seen the figures.

Mr. ROBBINS. You are referring to certain data which you have seen but which has not been presented to the Committee, because we do not seem to have it.

Mr. LUZ. Perhaps, Mr. Robbins.

Mr. ROBBINS. Suppose quotas were to be substituted for export taxes in certain cases as a means of compelling readjustment, which you thought necessary, then those quotas would have to be decreasing in amount, would they not? Therefore, I could not understand what you stated to Mr. Romero about increasing quotas and still bringing about an adjustment.

Mr. LUZ. I amended my statement to Mr. Romero when he pointed out that it would be impossible to figure on increasing quotas because that would complicate matters instead of solving matters. I said that I have a general idea that the setting of quotas would at least be better than a graduated export tax or any tax that would kill our industries.

Mr. ROBBINS. Do you believe that graduated quotas would be preferable to graduated export taxes in all cases? Suppose, for instance, you had an industry which, with certain economies and improvements in efficiency, might readjust itself to a basis at which perhaps a large portion of the trade could survive the imposition of the full United States duty. Now, if you had brought about that readjustment by gradually increasing export taxes and import duties in the United States, some of the trade would still be left. But suppose you undertook to bring about a readjustment by decreasing quotas, as you proposed, would not all trade necessarily be extinguished? That is, would not quotas necessarily destroy the trade as well as preferences, and, hence, would you desire to use them so long as there was a reasonable possibility that, after a period of increasing efficiency, an industry might survive, in part at least, the imposition of the United States duties?

Mr. LUZ. Well, we think that it will always be necessary for the United States to import a reasonable amount of tropical material from the Philippines, especially if free trade is continued, and that the decreasing quota would not so affect the quantity of these imported goods as to practically, as you said, annul their imports. In other words, the American industries will always take a reasonable amount of tropical goods coming from the Philippines, and that would be the basis of the quota.

Mr. ROBBINS. But the problem is, From what tropical countries should they be obtained, and under what circumstances? That is, sugar may be required, coconut oil may be required, and other things

may be required. They may be produced in America or they may be acquired, may they not, from foreign countries which would not have to be given trade preferences in order to obtain them? In answering questions by Secretary Yulo, and also in discussing the problem of reciprocity in general with Dr. Dorfman, you seemed to indicate that the standard of living and the purchasing-power of the American people are so much greater than that of the average in the Philippines and that the Americans could readily stand the payment of a larger subsidy than they receive on their sales to the Philippines.

Mr. Luz. Yes, Sir.

Mr. ROBBINS. Of course, you realize that the distribution of income among Americans is as variable as it is here in the Philippines and that our President has pointed out the fact that one third of our population is ill-fed, ill-housed, and ill-clothed. You have spoken of a 40-million-dollar subsidy on sugar, for instance. Now, last year, that was really a little more than 50 million dollars. And a 50-million-dollar subsidy to the families in America having the very lowest standard of living might be an important item, might it not? For instance, 48 million dollars would give 12 dollars each to 4 million poor American families who are now ill-fed; and what would 12 dollars to a family mean? In America that would purchase 60 quarts of milk and 60 loaves of bread for each of those families. Now, do you still feel the same way, when you realize that there are large sections of the American population that are not faring well under the present circumstances?

Mr. Luz. Yes, I still feel the same way, Mr. Robbins.

Chairman MACMURRAY. Are there further questions? (No response.) Thank you, Mr. Luz.

(Here follows the printed brief submitted by the Chamber of Commerce of the Philippine Islands.<sup>1</sup>)

On behalf of the American Chamber of Commerce of the Philippine Islands are scheduled Mr. Meyer, Mr. Gaches, and Mr. Selph.

#### STATEMENT OF MR. P. A. MEYER, OF THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINE ISLANDS

Mr. MEYER. Mr. Chairman, as you know, we presented to you a memorandum,<sup>1</sup> and we hardly have anything else to offer; but we came here so that if any of the gentlemen would like to ask questions, we could endeavor to answer them.

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Meyer?

<sup>1</sup> See vol. III.

Mr. WARING. Mr. Meyer, on page 9 of your brief, in the third paragraph, you state that "the economic development of the Philippines has been based upon the American market, along a higher standard of living for these people which in itself has caused higher production costs". Do you feel that it is because of a higher standard of living or that it is, at least in part, because of these higher production costs, that you have a higher cost of living?

Mr. MEYER. No, I do not really mean that. As a matter of fact, when I say there is a higher standard of living, I do not necessarily refer to foodstuffs only. As a matter of fact, you will find from people who have been here for many years to what extent the living has improved. I do not know very much from personal experience. But you will find out that, on account of the schools and for other reasons, the Filipinos today spend a great deal more of what they earn for clothing, for better housing, for better sanitary installations. It is not necessarily a question of living. That is what I have in mind here.

Mr. WARING. On that same page you bring out the point: "The destruction of Philippine purchasing-power merely to increase the purchasing-power of foreign nations, is unjust . . ." But I wonder if it would be considered unjust if, by the transference of those purchases, the American people could get the same goods on better terms or at lower prices?

Mr. MEYER. This remark is based on the question of reciprocity. While the American people pay more to the Philippines for their sugar—although I am not familiar with the sugar industry—it means that a larger market for the American goods is being established by the return of this money from the Philippines, not in cash but in the commodities which we buy from them.

Mr. WARING. That is true. But if in order to sell those goods you have, in effect, to give the money with which the purchases are made; is it profitable business?

Mr. MEYER. It may be. You can establish that only by actual figures. The money in the Philippines derived from the United States sources does no doubt, as we all know, enable them to purchase American goods. Whether sugar particularly offsets all the rest, I do not know, but there is no question that it is a factor in it.

Mr. WARING. Still a merchant who gave funds to a purchaser to buy certain commodities from him, could not stay in business very long on that basis, could he?

Mr. MEYER. Business, the way I look at it, is trading or "barter"; I can buy more from somebody who gives me something I can make something from, even if there is little difference in the price. If I am getting nothing in exchange and I cannot profit by it, I cer-

tainly would not buy. But we have here a question of reciprocity, of reciprocal trade relations.

Mr. WARING. You mention, still on the same page, that "the export of local raw materials not only keeps labor employed, but in many cases the American consumer is getting a direct benefit therefrom". The benefit to the American consumer would be primarily that he could get the products at lower prices there than he could get them elsewhere.

Mr. MEYER. That is right.

Mr. WARING. Now, I assume that in that case, you have in mind abaca and copra, for example.

Mr. MEYER. Yes, Sir; copra particularly.

Mr. WARING. And abaca because we could not get it anywhere else.

Mr. MEYER. Yes, Sir.

Mr. WARING. But the American consumer does not benefit from the consumption of Philippine sugar as a consumer, because he pays the same price that he would have to pay if he got the sugar from domestic producers or from other foreign supplies; is that not true?

Mr. MEYER. Well, that may be true, but, as I stated a little while ago, so far as sugar is concerned, I am not conversant with it.

Mr. WARING. Just one more question. On page 11, in the last paragraph before the subheading, the brief says: "In the interest of the parties referred to, we earnestly hope that the present free-trade agreement will be continued indefinitely, without being subject to any change." Do I understand you to mean that free trade should be continued indefinitely after the Philippines becomes independent?

Mr. MEYER. Well, that is our request.

Mr. WARING. In view of the commercial policy of the United States, which has been pursued for a number of years, would your request agree with that commercial policy?

Mr. MEYER. Now, I think I stated in one of the paragraphs here that during the last few years a number of reciprocal trade agreements between the United States and other countries have been made, and this paragraph to which you refer is along the same line. This making of trade agreements no doubt has been a policy lately, but whether that policy is going to be continued, of course, nobody knows. It all depends on circumstances.

Mr. WARING. The trade-agreements program to which you refer is based on a fundamental principle of the most-favored-nation treatment; and while the United States makes reductions in certain rates in its tariff in exchange for reductions made by foreign countries in their tariffs, still those rates are generalized to all other countries. They are not exclusive agreements between the two, so

far as rates are concerned. When the United States rates are lowered, the new rates apply to all countries which give the United States most-favored-nation treatment. Would such an arrangement be beneficial to the Philippines?

Mr. MEYER. I am not sufficiently informed on that. My opinion on those trade agreements was that the arrangement, wherever applied, would be applied to only one country; it would not be applicable to other countries under the most-favored-nation clause. That was my understanding. Of course, I may have been misinformed, but my understanding was that.

Mr. WARING. The new rates made under the trade-agreements program are applicable to all countries, in accordance with the most-favored-nation policy of the United States.

Mr. MEYER. I thought that in those countries with which these agreements were made, where there are certain quotas on particular articles, that these agreements were exclusively for those countries; and only on the excess above the quotas would the most-favored-nation clause apply.

Mr. WARING. In a very few cases, quotas have been resorted to in trade agreements, but they have been general quotas in most cases, applying to total imports entering the United States; any country may ship to the United States at the reduced rate of duty.

Mr. MEYER. I guess I was not quite familiar with it.

Mr. WARING. But in your opinion that particular type of arrangement would not be beneficial to the Philippines under the present circumstances?

Mr. MEYER. Well, it would not be reciprocity if the American goods were shipped to the Philippines free of Philippine duty. Reciprocity would mean that they also can ship something to the United States free of duty.

Mr. WARING. Reciprocity could also mean that Philippine goods could be shipped to the United States subject to certain duties and American goods shipped here subject to certain duties. Both countries might agree to lower certain duties on each side. That would be a reciprocal agreement, but the benefits would be extended to other countries in both cases. However, that is not what the American Chamber of Commerce of the Philippine Islands had in mind?

Mr. MEYER. No.

Mr. WARING. They wanted an exclusive agreement?

Mr. MEYER. That is what they wanted; the same as we have had up to now.

Mr. DORFMAN. Mr. Meyer, I am going to ask you only one question.

Mr. MEYER. That is all right, Mr. Dorfman, if I can answer it.

Mr. DORFMAN. In reply to a question of Mr. Waring's concerning the benefits which the United States obtains from the reciprocal



free-trade relations with the Islands, did I understand you to agree that by virtue of this relationship the United States gets abaca and copra at lower prices than it would be able to get them in the absence of such relationship?

Mr. MEYER. No, I did not intend to say that.

Mr. DORFMAN. That could not properly be regarded as one of the benefits arising out of this exchange?

Mr. MEYER. No.

Mr. DORFMAN. Then, do you feel that the United States would have to pay any higher price for abaca and copra if there were no reciprocal free trade?

Mr. MEYER. In my opinion, Mr. Dorfman, it would not be justified because we enter the world market by doing that.

Mr. DORFMAN. Then, so far as the purchase of these commodities is concerned, the United States gains nothing in consequence of the exchange of goods free of duty with the Philippines?

Mr. MEYER. Indirectly, yes.

Mr. DORFMAN. How is that?

Mr. MEYER. I mean indirectly. You take products of the Philippine Islands where the Philippines practically is the only and a large producer; by entering the United States free of duty, it is very natural that the production cost of the manufactured articles is less, and the consumer would be able to get it for less.

Mr. DORFMAN. That presupposes, does it not, that the United States would impose a duty on such articles if they were not produced in the Philippines?

Mr. MEYER. Yes, so it would.

Mr. DORFMAN. That is problematical, is it not?

Mr. MEYER. I mean it is indirect. Just as I said, the consumer pays more for the finished article if on the raw material the importer pays a duty; if the raw material comes in free of duty, the consumer should pay less.

Mr. DORFMAN. There is no duty on abaca, and the tax on competing copra may or may not be different from the tax on Philippine copra after independence. Under existing law there is a preference in favor of the Philippines. Whether that will continue after independence we do not know.

Mr. JACOBS. Mr. Meyer, I want to mention something which I believe to be a correct set of facts and to ask you whether you agree thereto and to give your explanation or reason for your belief: namely; in Hong Kong and in Singapore, which are free ports for American goods just as Manila is, I have noticed that numerous American commodities can be purchased at retail at lower prices—some of them at considerably lower prices—than in the Philippines. Do you know this, or do you agree that this situation is correct?

Mr. MEYER. In the first place, I do not know it.

Mr. JACOBS. In that event, granting that it is correct, can you give an explanation or reason?

Mr. MEYER. I am not able to say. I think this condition actually exists there. There have been cases where the home consumption price was higher than the export price, and the Philippine Islands being considered home consumption, on account of the conditions we have between the two countries, there is a possibility that the price charged there for export to the Philippines may be higher than the one for the other country, like Singapore or Hong Kong, which you mentioned.

Mr. JACOBS. That might be one explanation. Do you know of any other?

Mr. MEYER. I do not know. I know this—not particularly about the export of the things we have referred to here—but I do know that some manufacturers have even stated in writing: "We want to get your business, and we will charge you any price you can afford to pay. Why? Because our plant is so big. It is much larger. Our present sales operate so that we can make enough on what we sell at certain prices to give it to you for practically nothing, that is, for actual cost, without any profit."

Mr. JACOBS. If that is true, then American goods in this market probably could stand some degree of diminution of the preferences which they now enjoy; it would mean less profits, but profits could still be made.

Mr. MEYER. It is a question whether they have certain outlets which cover the cost and let them have a profit. Their manufacturing facilities are on a much larger scale, and they can keep going even when they ship to only one or two places.

Mr. JACOBS. One other question. Toward the end of your brief you mentioned two subjects: "The discrimination against American citizens resident in the Philippines" and "The discriminatory burden upon the Philippine market for American goods and upon the American market for Philippine goods". Just what would you expect this Committee to do about these matters?

Mr. MEYER. Well, in the first place, it taxes American trade. If an American goes to the United States he has to pay an income tax on the profit in the United States, and he has to pay the full profit in the Philippine Islands. Now, regarding this section of our brief, Mr. Selph, who is our counsel, will be glad to answer questions. I prefer to have him answer these questions, because he was one of those who prepared the brief. Mr. Selph is here. If you would like to have him come here, no doubt he will be glad to do it.

Mr. ROXAS. Just one question, Mr. Meyer. With regard to this levy on profits paid on goods sold in the United States, does that apply to sugar sold by centrals, for example, in the United States?

Mr. MEYER. I could not tell that, Mr. Roxas.

Mr. ROXAS. Would Mr. Selph answer that?

Mr. MEYER. Probably, he may be able to do so. I would like Mr. Selph to answer that.

Mr. ROXAS. Mr. Chairman, may I ask Mr. Selph?

Chairman MACMURRAY. It would perhaps simplify the proceedings if we have Mr. Selph come to the witness stand. Would Mr. Selph be willing to testify?

Mr. MEYER. Just as you say; I would like to have him testify.

Mr. SELPH. Yes, Sir.

#### STATEMENT OF MR. EWALD E. SELPH, OF THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINE ISLANDS

Mr. ROXAS. Mr. Selph, you heard my question. Will you please answer it?

Mr. SELPH. Yes, Sir. The latest decision on taxation by the United States Government on the sales of sugar by sugar centrals is the Hawaiian-Philippine Company's case. In that case it was held that the difference between the market price of sugar as it left the Philippine Islands and the selling price in New York or other port of delivery, less freight, insurance, handling, and commission, was taxable by the United States Government.

Mr. ROXAS. Irrespective of the nationality of the person who deals in such commodities?

Mr. SELPH. Irrespective of the nationality. Now, the 1936 Revenue Act has a special provision to the effect that non-residents and foreign corporations not engaged in business in the United States and having no office or place of business therein can transact business in the United States in stocks, commodities, or securities through a broker, commission agent, or custodian and those transactions are not taxable.

Mr. ROXAS. Therefore, the sugar-exporters who have no office in the United States are not liable to the tax.

Mr. SELPH. That is the present ruling.

Mr. ROXAS. How about the producers of coconut oil—the producers of coconut oil here who sell in the United States? If the corporation is a United States corporation and therefore has an office in the United States, would it be liable to tax?

Mr. SELPH. If it has an office in the United States.

Mr. ROXAS. If it is an American corporation—

Mr. SELPH. American corporations have to pay United States income tax no matter where they are located.

Mr. ROXAS. How about the man who sells copra in the United States from the Philippine Islands, would he pay a tax in the United States if he has no office there?

Mr. SELPH. You mean income tax?

Mr. ROXAS. Yes.

Mr. SELPH. Under the present ruling, if he transacts business through a commission agent or broker, he does not pay income tax on profits made.

Mr. ROXAS. How about the Americans who have stocks in a Philippine corporation? Do they have to include the dividends that they receive from the corporation in the income-tax return in the United States?

Mr. SELPH. Under the present law there is a section that provides that if a certain percentage of the total income is from the Philippine Islands and 50 percent of it from a trade or business, they would not have to pay a tax on all dividends from Philippine corporations.

Mr. DORFMAN. Have American residents in the Philippines paid any large amount to the United States Government as taxes?

Mr. SELPH. Well, that all depends on what we call a large amount. There are a few Americans resident here who pay considerable sums of money to the United States Government on dividends, particularly from mining operations.

Mr. DORFMAN. In point of tax on income, how have Americans here been taxed as compared with Americans residing in the United States?

Mr. SELPH. On total income, I should say less.

Mr. DORFMAN. Very much less?

Mr. SELPH. So long as they fulfil the requirements of this section, I would say so; yes.

Mr. DORFMAN. Do you believe that there is any less reason for Americans resident in the Philippines to pay a given fraction of their income to the Government in the form of an income tax than there is for Americans resident in the United States to pay corresponding taxes on their incomes?

Mr. SELPH. Well, that is perhaps a political or economic question, as it has nothing to do with the legal question. But this law was passed with the idea of putting the Americans on the same footing with nationals of other countries in the Philippines competing and doing business in the Philippines.

Mr. DORFMAN. In order to enable them to be taxed on the same terms as nationals of other countries doing business here, do you

feel that it would be appropriate that they be taxed, if need be, at a lower rate than Americans resident in the United States?

Mr. SELPH. Well, I did not make the law, but that was the idea of Congress at the time this income-tax law was amended.

Mr. DORFMAN. Are Americans resident in the Philippines obtaining less benefit from the income-tax receipts than Americans residing in the United States?

Mr. SELPH. Well, that is a little hard to answer. Americans here, I suppose, get as much of the benefits of the United States Government as those who are residing in any other part of the world.

Mr. DORFMAN. Well, if the Americans in the Philippines get as much benefit from the services provided by the Federal Government as the Americans resident in continental United States, is there any reason why the residents out here should shoulder any less burden than those in the United States?

Mr. SELPH. The only reason is the promotion of trade in the Philippine Islands in competition with nationals of other countries. They do not pay tax to the United States Government at all.

Mr. DORFMAN. If the Americans had to give up a larger share of the profit they made on the trade out here than non-Americans living out here, do you feel that that would lessen the amount of the trade between the United States and the Philippines?

Mr. SELPH. I am not in a position to say, but we have been asked to present amendments to the law which would take care of that situation—that as long as this is American territory, as long as there is relationship and reciprocal trade and Americans do business here, they should be able to compete on equal terms with nationals of all other countries. For instance, a German who might have come here and bought, say, San Mauricio mining stock at 10 centavos a share and sold it at ₱4, why, with this profit he could go away without paying any tax to the United States Government. But if he were an American, he would be afraid to sell his stock at that price. He would have to pay the United States Government between 70 and 80 percent of the profit or watch it drop in price until it reaches a few centavos, as many have.

Mr. DORFMAN. Isn't discrimination of that type common throughout the world? For example, I, as an American, might buy some American stock at 12 and sell it at 20, and I would be obliged to pay an income tax to the Government on the amount represented by that spread, as though it were income. Whereas a Canadian living just across the border, buying the same kind of stock, is not so taxed. Do you not think that there is a discrimination against the American purchaser in that case?

Mr. SELPH. I do not know. I think it would be. Our only point of view on that is that so long as the United States has taken over the

Philippine Islands with the idea of bringing them up in the way they should go, and having developed American business here, the American businessmen must have some way of competing on equal terms with other nationals living here.

Mr. DORFMAN. When you say on equal terms, do you mean to say that the tax on their profits should be the same?

Mr. SELPH. To a certain extent, yes, because the German, the Spaniard, the Russian who have come here do not pay tax to the United States Government.

Mr. DORFMAN. Does he pay tax to his own government?

Mr. SELPH. No.

Mr. DORFMAN. Are you sure that no foreign resident pays a tax to his government?

Mr. SELPH. If they do, I never heard of it.

Mr. DORFMAN. Do not the Canadians have to pay taxes the same as the Americans?

Mr. SELPH. Yes, in Canada.

Mr. DORFMAN. Is a Canadian who is resident here obliged to pay a tax to his government?

Mr. SELPH. I do not know if he has to. I know Englishmen and other British subjects who are out of their country over six months do not pay a tax to the United Kingdom, nor do they pay any tax on capital gains.

Mr. DORFMAN. If they stay less than six months, then they must pay a tax to their government?

Mr. SELPH. So long as they are out of their own country for a six-month period.

Mr. DORFMAN. It is not true, is it, that the Americans in business out here are the only ones who are taxed by their governments?

Mr. SELPH. No; I never said that.

Mr. DORFMAN. Would your plea be that the United States Government so arrange the tax that it would be the same as that which other foreigners out here pay? That is, should we inquire of other governments what they do in respect of taxing their nationals here or should we arbitrarily decide what to do?

Mr. SELPH. That is a matter of policy. We have recommended what ought to be done in connection with that. I suppose it would be possible to frame a law along those lines. But the point that was made here by the Chamber of Commerce was simply that the United States tax on the business done here, so long as there is free-trade relationship, should not be more than the tax on the foreigners.

Mr. DORFMAN. So long as the United States Government's whole expense of operation has to be borne by the taxpayers, then, if we exempt taxpayers out here in order that they should not be taxed

more heavily than other nationals, we would *per se* have to increase the load on Americans resident in the United States.

Mr. SELPH. It is so small proportionately that it would not make enough difference to be noticeable in the total revenue of the United States, but it does make a big difference to the individuals who are here.

Mr. DORFMAN. I wonder if that would be sufficient reason for exempting them? Carrying it further, we might exempt bassoon players because of the burden on them.

Mr. SELPH. That might not be enough reason for exempting them.

Mr. DORFMAN. Have the Americans out here paid any large amount in recent years to the Federal Government in income taxes that you know of?

Mr. SELPH. I say the amount of tax paid would be, comparatively, a small fraction of the percentage of the total tax collected by the United States Government. One thing more I would say: There is a section of the United States Revenue Act which, like all tax laws made by Congress, needs some interpretation, I believe. And the Chamber of Commerce has mentioned that in its statement. Goods bought in the United States and sold in the Philippine Islands are, according to law, subject to tax, to income tax, in the United States. Now, goods bought in other countries and sold here are taxable only in the Philippine Islands. This provision is discriminatory. Much difficulty is involved in trying to figure out the profits from sales of United States products here. The tax is so difficult to figure out that there has been one company in New York trying for one and a half years to figure it out. You take all your costs in the Philippine Islands, plus the selling price of the goods plus the original cost of the goods, as a denominator, the costs in the United States as a numerator, then figure out whether you make any profit or not, and then take the percentage of your profit allocated to the United States, which places some burdens on the cost of the products in the United States.

Mr. DORFMAN. Do you feel that the tax on the profits made on American goods sold out here is being shifted back to the suppliers of these goods, that is, can you shift a tax on profits?

Mr. SELPH. Well, I suppose you could.

Mr. DORFMAN. Well, then, the Americans who have to pay an income tax on profits could avoid the burden by shifting it to someone else, if that was the case?

Mr. SELPH. That is possible if you knew about it in time, but the difficulty over here is that we have not had any representative of the Bureau of Internal Revenue until last year. Now, they are trying to collect 20 years back, and that is unfair and it is very hard to

calculate, and some people have lost that market basket you mentioned, two or three times in the last 20 years.

Mr. DORFMAN. Well, as you know, our Government tries to be a partner with only successful merchants!

Mr. SELPH. I notice that.

Mr. DOMERATZKY. Mr. Selph, in answering Mr. Dorfman in regard to the taxes to which foreigners are liable in their own country and on business in the Philippines, was it your understanding that the Germans did not have to pay any taxes to their Government?

Mr. SELPH. I have never heard of them paying any tax.

Mr. DOMERATZKY. Did you consider the handicaps under which a German operating in the Philippines is working in connection with the importation of goods from Germany, and also what is likely to happen to him economically if he goes back home?

Mr. SELPH. Well, I have not gone into any detail concerning that, but I know that they are bringing in goods here and selling them, and they are doing business here.

Mr. DOMERATZKY. In the first place, a German cannot get anything out of Germany without an extra license. He has to apply for a license before he is allowed to export, and if he is granted a license he has to turn over any foreign exchange that he realizes in the transaction to the State Bank in Germany and he gets credit in marks; then, if he wants to buy from foreign countries in exchange, he has to apply for exchange.

Mr. SELPH. I think most of the Germans doing business out here do not have to go through all that red tape.

Mr. DOMERATZKY. But are they German citizens?

Mr. SELPH. They do not have to do all that because the goods are shipped over here and they are handled here. As for what you say about exchange, once the goods are shipped here, I believe they have no more trouble with their own Government.

Mr. DOMERATZKY. I am afraid that is not correct, unless the Germans make an exception in the case of the Philippines. But that is not the German law in regard to foreign trade.

Mr. SELPH. Still, he does not pay anything to the United States Government, and I do not know whether he pays anything to his own Government.

Mr. JACOBS. Mr. Selph, as I asked Mr. Meyer in connection with these two points—one about income tax and the other on profits—just what has this to do with this Committee?

Mr. SELPH. The only connection that I can see is simply this: If there is to be some reciprocal trade arrangement, as long as it exists here, there should not be too many obstacles put in the way of developing the American trade and selling American goods in



the Philippines. In other words, there is a feeling today that if there are to be these arrangements made between the Philippines and the United States, there ought to be some provision made so that the American businessmen who have developed a business here could compete on the same grounds as the nationals of other countries who are operating here and pay no taxes to the United States Government. And on the item of putting tax on goods that are purchased in the United States and sold here, I do not think there is an awful lot of money accruing to the United States; but there is an awful lot of bookkeeping and a lot of trouble trying to figure it out.

Chairman MACMURRAY. Are there further questions either for Mr. Meyer or for Mr. Selph? By the way, does Mr. Gaches propose to speak?

Colonel McDONALD. Has the American Chamber of Commerce of the Philippine Islands prepared any definite plan of gradual economic readjustment which would operate to relieve the American consumer of the premium which he now pays for Philippine products, such as he pays in the case of purchasing Philippine sugar?

Mr. SELPH. I do not think they have; I doubt it very much; personally, I am not in the sugar business, but it was stated here that there is a premium of \$40,000,000 on sugar and that sugar can be purchased cheaper somewhere else. But I do not believe that the beet-sugar industry in the United State is going to stand idly by and let prices go down to what it might be figured without benefit of duty. But no plan has been proposed on that because nobody has ever figured that there is going to be a saving of \$40,000,000 if this comes true.

Colonel McDONALD. I do not mean only in the case of sugar.

Mr. SELPH. Well, it is the same with anything else.

Chairman MACMURRAY. If there are no further questions, then that concludes the hearings on the brief of the American Chamber of Commerce of the Philippine Islands.

(Here follow the printed brief and memorandum submitted by the American Chamber of Commerce of the Philippine Islands.<sup>1</sup>)

We will adjourn until this afternoon, at 3 o'clock p.m., to hear the comment upon the supplementary brief of the Philippine-American Trade Association.

<sup>1</sup> See vol. III.

PROCEEDINGS OF SEPTEMBER 20, 1937  
AFTERNOON SESSION

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Monday, September 20, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 3 o'clock p.m., on Monday, September 20, 1937.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Mr. JOAQUIN M. ELIZALDE;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL L. ROXAS; and  
Mr. FRANK A. WARING.

Chairman MACMURRAY. We will resume our hearings supplemental to the brief<sup>1</sup> of the Philippine-American Trade Association represented by Mr. Horace B. Pond.

STATEMENT OF MR. HORACE B. POND, REPRESENTING  
THE PHILIPPINE-AMERICAN TRADE ASSOCIATION

Mr. POND. Mr. Chairman, Gentlemen of the Committee: I first came to the Philippines as a humble employee of the Philippine Government in 1902, more than 35 years ago. The steamer on which I arrived anchored in the harbor, for then there were no piers at Manila; in fact, where the present piers join the shore were then the waters

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<sup>1</sup> See vol. III; see also the recommendation of September 7, 1937, annexed to the proceedings of this meeting, *post*, p. 603.

of Manila Bay. I went by launch to the usual landing place on the Pasig River. There I took a horse-drawn vehicle which transported me over dirty, narrow, poorly paved streets to what was then Manila's finest hotel; it was a barn-like structure. The Manila Hotel did not then exist, for where that now stands was then part of Manila Bay.

Around the walled city, where now are sunken gardens and recreation grounds, there was then a filthy moat. Taft Avenue, Rizal Avenue, Dewey Boulevard did not then exist. Then there were none of the imposing buildings which now grace Manila.

There were no roads worthy of the name outside of Manila and the principal towns. The only railroad in the Philippines ran from Manila to Dagupan. Baguio was merely the name of a place in the mountains, taking several days of difficult travel to reach.

Travel by steamer was slow and uncertain; it then took about two days to travel in discomfort from Manila to Cebu or Iloilo.

When I arrived in Manila a severe cholera epidemic was raging; throughout the Philippines thousands of people were afflicted daily. Where the Philippine General Hospital now stands were shacks which were used as a cholera-isolation camp. Bubonic plague was not uncommon. A large percentage of the people showed evidence of having been afflicted with smallpox. The rate of infant mortality was very high.

There were few schools in the Philippines; even primary education was available to but a very small part of the population.

When I contrast the conditions which then prevailed with conditions as they are today, it is difficult for me to realize that the remarkable changes which have taken place could possibly have been witnessed by anyone in a single lifetime.

Now schools are to be found in almost every town and *barrio*, no matter how remote. Cholera, bubonic plague, and smallpox have been eliminated; at least, there are no epidemics of those dread diseases.

Thousands of miles of well-paved roads have been constructed throughout the Philippines. Fine modern buildings have been erected for Government and private use, not only in Manila but also in the provinces. Water systems have been installed in many towns.

These remarkable changes were made possible principally by one thing—free trade with the United States—by providing an outlet for those products which by reason of soil and climate the Philippines can produce.

From 1902 to 1909 Philippine external trade stagnated. Although the United States during that period granted to Philippine products a duty preference of 25 percent, that was of little avail, for Philippine shipments to the United States were actually less in 1908, the year before free trade began, than they were in 1902, when the duty

preference was granted. The economic foundation for an adequate expansion of the services of government and for doing so many of those things which were essential to the welfare of the Filipino people was completely lacking.

Free trade with the United States, which began in 1909, changed all this. Philippine production increased by leaps and bounds as more and more was produced for sale abroad. The increase in production was, however, almost entirely of goods for shipment to the United States. In 1908 exports to foreign countries amounted to \$22,150,317; in 1936, 28 years later, they were \$28,150,127, and even this was a substantial increase over the years immediately preceding.

On the other hand, in 1908 shipments to the United States amounted to but \$10,450,755; in 1936 (exclusive of gold) they amounted to \$107,524,726. Of this latter amount only about \$16,500,000, or about 15 percent, was for goods which are on the free-list of the United States tariff; in other words, 85 percent of that amount was for goods which are dependent on free trade with the United States.

This large increase in production as a result of free trade with the United States provided a base for taxation which gave to the Government the funds for making here those remarkable changes which I have outlined. Thus from 1903 to 1908, in keeping with external trade, the revenue of the Central Government stagnated; in 1903 it was \$10,757,456, and five years later, in 1908, \$10,899,261. In 1936 the revenue of the Central Government was \$36,205,451.

The revenues of provinces, municipalities, and cities increased even more; in 1908 their revenues were \$6,799,298; in 1936, \$34,926,238.

In 1908 the total revenues of the Government and all subdivisions thereof were \$17,698,560; in 1936, \$71,131,689.

What this has meant to the Filipino people is well illustrated by the progress which has been made in the field of education. In 1908 the total expenditures of the Central Government for education were but \$1,934,057; in 1936 they were \$3,734,507. In 1908 total expenditures for education, including those made by cities and towns, were \$2,563,558; in 1936, \$13,383,968, or more than the entire revenue of the Central Government in 1908.

In 1908 the average attendance in public schools was 270,000, and this was seven years after the first group of American teachers arrived; it is now 1,330,000.

In 1908 there were 7,554 teachers, mostly poorly trained and practically all poorly paid; in 1936 there were 27,855 teachers in the public schools.

But even with this remarkable growth, literacy in the Philippines is estimated at but 50 percent, while Filipino educational authorities estimate that only 40 percent of the children of school age are actually in attendance.

Twenty-five percent of the total expenditures of the Philippine Central Government is now for educational purposes. What will happen if the Philippine economic foundation—free trade with the United States—is prematurely destroyed can well be imagined.

What has taken place in the field of education is typical of the expansion of all services of the Government.

Free trade with the United States has done much more than provide the Filipino people with more and better services of government; it has also materially raised their level of living. The Philippines is a tropical country, and its production primarily agricultural. Most of those essentials for a higher level of living are not, or cannot be, produced here; they must be imported. Philippine agricultural products are exchanged for those essentials, which principally are secured from the United States. As exports increased, so imports increased, and thus the level of living was raised. Here are a few examples:

The desire for better and a greater variety of foods resulted in an increase in imports of foodstuffs (excluding rice) from \$4,884,609 in 1908 to \$22,408,789 in 1936.

Imports of iron and steel and their manufactures, a sure indication of progress, increased from \$2,087,588 in 1908 to \$16,015,804 in 1936.

Imports of paper and its manufactures, an indication of progress in education, increased from \$646,693 in 1908 to \$3,916,557 in 1936.

In 1908 total imports (exclusive of rice) amounted to but \$23,633,549; in 1936, to \$98,183,857.

A fine example of what the ability to exchange exports for imports can do for a people is canned milk, used principally here for feeding babies. In 1908, 4,147,423 pounds were imported; in 1936, more than 41,000,000 pounds. This increased use of canned milk has been a large factor in the reduction of infant mortality.

The application of export taxes and of United States duties to Philippine products will, based on the figures for 1936, cause a decline in Philippine exports of about 60 percent. This in turn will cause a corresponding decline in imports, with the result that on a *per-capita* basis they will actually be less than in 1908, the year before free trade began. The only methods by which such a decline might be offset are to find new markets or to increase sales to present markets of products now produced; to develop new export industries; or to produce locally many of those essentials of the present level of living which are now imported. None of these methods can, however, afford much, if any, relief, for the time is far too short and such progress as may be made is not likely to much more than offset the increased demands as a result of education and of the normal growth of population.

The large reduction in imports which must follow the end of free trade with the United States can therefore result only in a substantial lowering of the level of living of the Filipino people.

The members of the Philippine-American Trade Association, representing many varied interests, believe, therefore, that the export taxes provided for in the Tydings-McDuffie act should be repealed and that free trade between the United States and the Philippines, with present or other reasonable quantitative limitations, should be continued indefinitely. They also believe that unless changes are made in the provisions of existing law to this effect, not only will the United States lose in the Philippines a valuable market, actually and even more potentially, but also the Philippines will experience a disastrous economic and social collapse.

Chairman MACMURRAY. Are there questions to be asked of Mr. Pond?

Mr. WARING. Mr. Pond, at the very beginning of the brief, in your statement entitled "Fundamentals", a point is made which you also made in your statement to the Committee just finished, that the export taxes should be repealed. From the standpoint of the adjustment of Philippine economy to a position independent of preference in the United States market, what would be the value of a longer period if no readjustments were provided for by law?

Mr. POND. Under the present law, there are definite quantitative limitations on certain products. Demands are increasing as a result of education and as a result of the growth of population. There can be no expansion whatever because of the quantitative limitations of the Tydings-McDuffie act. For example, in the case of the sugar industry, no money will, therefore, in the future go into the industry, but instead the profits of that industry will be invested elsewhere. Unfortunately, during the last two years, as a result of the mining-share boom, they have gone to the mining industry to a considerable extent; but that seems to be over for the moment. At any rate, I believe, considering these quantitative limitations here and there, that is, as they are, the Philippines will simply be forced to develop new industries not only because the capital available must go into new industries but also to take care of the steadily increasing population. In other words, while today approximately 50 percent of the total production is exported, and the loss of free trade with the United States, based on the figures of 1936, would result in the reduction of our exports by about 60 percent, that might not be true fifteen or twenty years from now. In other words, if you allow a sufficiently long period of time, there will be new industries automatically developed here, including local industries for the production of those many things now imported; so that adjustment will automatically take place.

Mr. WARING. You have in mind when you say, "adjustment will automatically take place", that the export products which are now dependent upon free entry into the United States market would be relatively less important in Philippine economy because they are limited in the quantities that can be shipped; still the new industries which might be developed in the period you mention might also find themselves at the end of that period dependent upon free entry into the United States.

Mr. POND. That is also true, except that I presume that all efforts here would be made to prevent the development of such industries, that is, assuming that it is necessary to terminate free-trade relations. That is an assumption that should not be made.

Mr. WARING. Assuming that it is one that is being made by some, would it not be true that such industries as sugar, coconut oil, cigars, and embroideries, even though they become a less prominent part of Philippine economy, would still have the same severe adjustment to make?

Mr. POND. They would have the same severe adjustment to make, but it would not have relatively the same effect that it has at the present time or at any time within the next ten years.

Mr. WARING. Also in your brief you recommend "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". If continued indefinitely with only quantitative limitations, there would be, as you have said before, no particular incentive for those industries to reduce production below those quantitative limitations.

Mr. POND. Certainly not.

Mr. WARING. The brief which you submitted, then, contemplates, does it not, the continuance of something like the present relationship indefinitely, even after the Philippines achieve political independence?

Mr. POND. It does.

Mr. WARING. And that is, as has been pointed out before, in direct contrast to the general commercial policy of the United States?

Mr. POND. It may be in direct contrast to the general commercial policy of the United States; but it is my contention that the United States, having developed here a relationship, economically, which can only result in disaster if it is too quickly terminated, should provide an outlet, regardless of political relationship; and that the United States itself is contemplating such a thing is shown by the reciprocal trade agreements which are now being entered into and which, while affirming the most-favored-nation clause, nevertheless provide specifically for the exemption of the trade between the Philippine Islands and the United States, regardless of the political relationship. Furthermore, that was recognized by many nations in the

London Sugar Conference, at which time there was a definite understanding to the effect that, regardless of the most-favored-nation clauses in commercial treaties, they should not apply to the trade between the United States and the Philippine Islands.

Mr. WARING. Assuming for the moment that your position is correct, that the present period is inadequate to give the Filipino people an opportunity to make necessary adjustment, and also assuming that the Government may have in mind some more adequate period than the present one, would not the adjustment of Philippine economy to a position independent of preferences be brought about more expeditiously if some restrictions, other than mere quantitative ones, were placed on Philippine exports during the period of adjustment, whatever that may be?

Mr. POND. That possibly is true. On the other hand, if the present trade relations between the two countries must end, and I for one believe that they should not end, then I still believe that they should stand indefinitely, because who today can tell how rapidly it is going to be possible for the Philippines to adjust their economy? I believe that an agreement can be made between the two Governments by which every effort would be made to accomplish that purpose; but we know that the establishment of new industries takes time, takes capital. There is going to be a great deal of experimentation. In fact, in the case of sugar, for example, although free trade began in 1908, it took the Philippine sugar industry about 14 years before shipments to the United States increased. There is a chart which shows the physical volume of the principal exports. No one can say today how long it will take to develop new industries. It takes time; and if they must be terminated it seems to me the better way would be to say: "All right, they should go on indefinitely," but with some provision, perhaps, for a notice of 5 or 10 years' time within which it should be terminated, that notice to be given when you see that sufficient progress has been made to justify severing the relation.

Mr. WARING. Would it not be better, from the standpoint of adjustment, assuming that a satisfactory period could be determined upon, to have it definitely understood as to the length of that period and the terms under which the trade should be regulated during that period, than to leave it indefinite with a possibility of the favorable relationship being terminated on 5 or 10 years' notice?

Mr. POND. Well, of course, it exists today. There are only 7 or 8 years left. So that if you carry on the period to 10 or 15 or 20 years and progress is made so that the relationship could be terminated and at the same time avoid an economic collapse, then the additional 5 years should be an acceptable time in which to make the necessary adjustment.



Mr. WARING. It is your belief, then, that if free trade could be continued for an additional period of 10 years or so under approximately the present terms, without any restrictive measures whatsoever, sufficient adjustments would be made in Philippine economy, so that shortly thereafter the preferences might be terminated without injury?

Mr. POND. I agree with that except that I do not agree with 10 years, because I think it will take a very much longer period of time to develop new industries and to make adjustments.

Mr. WARING. Ten years in addition to that provided in the act?

Mr. POND. Yes.

Mr. WARING. And this adjustment of Philippine economy will be brought about automatically without any restrictive measure to force them to do so?

Mr. POND. I think the particular industries would continue more or less at their present level, and the fact is that they had to do so because of the quantitative limitation in the act; but as time goes on they will gradually assume less importance, relatively, in Philippine economy. Today they are almost overwhelming. You cannot knock out 60 percent of the exports overnight without having a collapse. That might be a different story 15, 25, or 30 years from now.

Mr. YULO. Do I understand from you, Mr. Pond, that without free trade with the United States, the economic condition of the Philippines would revert back to that of 1908?

Mr. POND. No, I did not say that. I said that the imports would naturally drop back where they would be less *per capita* than they were 25 or 30 years ago, before free trade began. Obviously, the Philippines has increased the production of more of the things that they consume than they did at that time. Nevertheless, it would mean a definite dropping of the level of living, because the level of living today is sustained by imports of those things which are not or cannot be produced here at the present time. So that the economic readjustment that has got to be made is not only in the development of new industries or new markets for the present industries, but also in the development locally of the production of those things which are essential to the present level of living. That also is going to take time.

Mr. YULO. What do you think will be the effect of that situation to the services at present given by the Government to the people of the Islands?

Mr. POND. They inevitably will have to be greatly reduced. I do not see how it will be possible to maintain the present system of government when the very basis of taxation is largely destroyed.

Mr. YULO. How about the relation of this to the ability of the Government to sustain an independent government?

Mr. POND. Well, that, of course, is coming to the political field a little bit, but when one considers the additional expenditures for defense, maintenance of foreign services, and so forth, further restrictions will be required to meet those expenses.

Mr. YULO. Your idea, then, as to the modification of our free-trade arrangements would be that it should contain also some means whereby we may prevent the creation of new industries that would be dependent on free trade?

Mr. POND. If the present trade relations are ultimately to be terminated; of course, I contend that they are mutually advantageous and that they will become increasingly so as a result of education and the growth of population. Furthermore, it must be considered that the trade with the United States as to those products, at least, which have counted so much in our total export trade, is limited, and being limited it is inevitable that Philippine trade with the United States is not going to grow so rapidly in the future as it has in the past. On the other hand, the products of the United States continue to come here without duty, without limitation.

Mr. ROXAS. Mr. Pond, you have just stated that the trade relationship between the United States and the Philippines is mutually advantageous. We know the advantages which the Philippines derives from free trade with America. Will you state your conception of the advantages which the United States derives from this relationship?

Mr. POND. The advantages are several. The Philippines provides a large outlet for the products of the United States, both agricultural and industrial. In fact, it has been repeatedly stated here that the Philippines is the ninth-best customer of the United States and that it has also been a field for the investment of American capital, on which there have been returns. Another factor is trans-Pacific shipping. Today the Philippines provides a large part of the return cargoes from the Far East to the United States. Last year, as I recall the figures, about 1,350,000 metric tons of cargo were exported from the Philippines to the United States. On the other hand, about 550,000 metric tons came from the United States. Now, what happens is that a large number of the vessels which come from the United States to the Far East with cargoes get their return cargoes in the Philippines, because the Philippines is the one country in the Far East that can supply the bulk of the return cargoes. Now, you take away the bulk of the return cargoes, and it is going to affect the American manufacturers and the American agriculturists who have products to sell in the Far East, because it becomes a one-way trade.

Mr. ROXAS. It is the opinion of some economists that the Philippines received a price premium amounting to over \$40,000,000 in

sugar alone and that therefore Philippine purchases from the United States are being subsidized by the United States to that extent. What can you say about that?

Mr. POND. There are two or three answers to that. In the first place, I do not agree that the amount subsidized is \$40,000,000. Last year on the basis of sugar—I believe that has been based on sugar—the amount was about \$17,000,000. In other words, the Cuban duty is 90 cents for 100 pounds, or approximately \$20 a ton. Eight hundred fifty thousand tons will give \$17,000,000, not \$40,000,000. In the second place, as long as the Philippines is within the United States tariff wall, Philippine products will be admitted free of duty, with quantitative limitations, while American goods come here free of duty. In that respect the situation is no different whatever from that of sugar, for example, in Florida, Utah, or Colorado, which are subsidized exactly to the same extent. Another point is that the subsidies are to a considerable extent offset by the subsidies that the Philippines is giving to the United States in the form of duties waived.

Mr. ROXAS. Have you estimated the amount of duties waived?

Mr. POND. I have not done it lately. An estimate is difficult as to Philippine imports from the United States, because there is a tremendous variety of products coming from the United States. On the other hand, shipments to the United States consist principally of a few staple products, and thus the duties waived can be better estimated. As I recall it, an estimate of the duties waived by the Philippines was made several years ago and the amount, although I am not positive that this is correct, was about \$17,000,000.

Mr. ROXAS. With regard to the duties waived in the Philippines, it is being alleged that that amount of \$17,000,000, roughly estimated, does not really represent the price premium received or paid for American products, because if the Philippines were to purchase the same kinds of goods elsewhere, it would pay more than what it is paying now for American products less the \$17,000,000 of tariff duties waived.

Mr. POND. I do not quite understand. What do you mean by that—the prices the Philippines would pay abroad plus the duty or without the duty?

Mr. ROXAS. That it would be paying more than the price that it is now paying the United States without the duty, and that, therefore, the price premium is not really represented by the duties waived.

Mr. POND. I do not think that is really true, although I do not think you can make a general statement. I know of a number of products where the prices c.i.f. Manila, plus duties from foreign countries, are but a trifle more than the c.i.f. prices on these same products from the United States. In other words, the American

manufacturers or producers are getting the full benefit of the duties, or practically so.

Mr. ROXAS. Is it, therefore, your opinion that the Philippines is paying a price premium of \$17,000,000 for American imports here?

Mr. POND. If you figure it on the duty, yes. You cannot figure on coconut oil; the 2 cents a pound represents the additional price paid for coconut oil because copra comes in free.

Mr. ROXAS. Now, to make a brief résumé, Mr. Pond, you have mentioned that the duties waived in the Philippine Islands on goods coming from the United States amount to \$17,000,000. You have also mentioned the advantage which American shipping derives from this relationship.

Mr. POND. Not American shipping alone, but American producers as well, because of lower freight rates.

Mr. ROXAS. Are there any other arguments along that score that you mentioned which have suggested in a way that this relationship is mutually beneficial?

Mr. POND. I do not think of any other, except, of course, that it provides a vast field for American investments, which can hardly be said for many of the American investments abroad in other parts of the world.

Mr. ROBBINS. Do you recall how you calculated the \$17,000,000 subsidy that the Philippine consumers paid to the American people?

Mr. POND. That was calculated by the Collector of Customs a number of years ago.

Mr. ROBBINS. Was it published?

Mr. POND. I do not know where I could locate it for the moment, but several years ago such an estimate was made.

Mr. ROBBINS. If it was published, we may find it; otherwise we should like you to help us by supplying a statement of the calculation.

Mr. POND. I will see if I can find it. I have not made any calculation—I just recalled that there was such an estimate made by the Collector of Customs.

Mr. ROBBINS. Now, Mr. Pond, in giving your estimate of the subsidy that the people of America pay on the Philippine sugar, you measured it by the duties that would have been collected under the present preferential Cuban arrangement, if that sugar had come from Cuba.

Mr. POND. Yes, Sir.

Mr. ROBBINS. Is it not also true that the American people are paying a large subsidy to Cuba today?

Mr. POND. Yes, Sir.

Mr. ROBBINS. Then, your statement of the subsidy paid by the American people to the Philippine producers was not a complete statement of the subsidy but only a difference, is that correct?

Mr. POND. Yes, but the United States is also paying a large subsidy to States raising sugar, like the States of Utah, Florida, Colorado, and Michigan.

Mr. ROBBINS. Is the United States paying a large amount of subsidy to Nicaragua, Santo Domingo, and Peru?

Mr. POND. To the extent that they are paying a subsidy.

Mr. ROBBINS. That is, the prices in the United States might be slightly in excess of the world price plus the duty. Now, under the terms of the new sugar act, and the international sugar agreement which you mentioned, if in the future the United States were not to receive the amount of sugar now imported from the Philippines, to what countries would the deficit be allotted, and from whence would the United States obtain that supply—from Cuba or from these full-duty countries?

Mr. POND. I have not read that phase of the sugar agreement, so I do not know what it provides.

Mr. ROBBINS. If such sugar were not obtained from the Philippines, it would have to be obtained from the full-duty countries, and the United States would collect the full duty.

Mr. POND. But so long as the quota system exists, that introduces a new complication.

Mr. DORFMAN. The first of the "fundamentals", Mr. Pond, states that: "The trade relations so determined (referring to the provisions of the Tydings-McDuffie act), in good faith and in fairness, cannot, therefore, be altered to their prejudice." That has reference to the residents and investors in the Philippine Islands who have incurred obligations and made commitments.

Mr. POND. Yes.

Mr. DORFMAN. Would you agree that an appropriate corollary would be that the terms cannot be altered to the prejudice of the United States Treasury?

Mr. POND. No; I should not consider that as a corollary because of the relatively greater difference which the situation in the Philippines makes in comparison with that in the United States.

Mr. DORFMAN. You would not consider it important that the position of the American taxpayers might be injured in consequence of altering the trade provisions of the Tydings-McDuffie act in a way to improve the position of the Philippines?

Mr. POND. Of course, I do not admit that the American taxpayers are necessarily prejudiced to any extent by the present trade relations.

Mr. DORFMAN. When you say that they are not prejudiced to any appreciable extent—

Mr. POND. But not to a great extent. That will automatically adjust itself as a result of the quantitative limitations.

Mr. DORFMAN. In pointing out why you thought that the terms of trade were not disadvantageous to the United States, you stated that there was a large Philippine outlay for United States goods. But that, in itself, does not mean that the trade between the Philippines and the United States is mutually beneficial.

Mr. POND. It all depends.

Mr. DORFMAN. But that in itself is not conclusive.

Mr. POND. Not conclusive in itself. But there is a place for investment here.

Mr. DORFMAN. I understand that there are some people who have purchased securities out here; but that, in itself, is not conclusive that it is advantageous to the United States.

Mr. POND. Not conclusive in itself, no.

Mr. DORFMAN. In other words, the fact that there are American investments here may, instead of being advantageous, be disadvantageous if the investments turn out to be bad; moreover, the Philippines may not be any more profitable a field for investment than we have in the United States itself.

Mr. POND. Yes, than in the United States itself.

Mr. DORFMAN. Then, you referred to the large amount of trans-Pacific shipping that depends on the trade out here; our shipping, as you know, Mr. Pond, is subsidized.

Mr. POND. In making that statement, I was not referring to American shipping; I was referring to the freight rates between the United States and the Far East.

Mr. DORFMAN. I think you had in mind the possibility that with the absence of return cargoes, carriers would be obliged to raise their rates on cargoes outbound from the United States, to make up the difference. Is it not conceivable that trade routes would be so altered that that would not be necessary? For example, when the Dollar Line found it advantageous to send vessels west clear around the world rather than have them go to the Philippines and back as they formerly did, they made the change. Now, if there should be no cargo to return to the Pacific coast or to the Atlantic coast from the Philippines, is it not conceivable that the routes of the steamship lines might be so altered that the rates charged on the outbound cargo from the United States to the Far East would not be affected at all?

Mr. POND. It is conceivable but it is hardly probable. Because the cargo which would cease to move from the Philippines to the

United States would come from places much closer to the United States and not from the Far East at all nor on any possible route of a round-the-world steamer.

Mr. DORFMAN. Is it a matter of great concern to the Dollar Steamship Line, for example, whether their vessels move sugar from the Phillippines to the Pacific coast or New York, or whether they (or some other line) move the sugar, say, from Cuba or from other countries to the United States?

Mr. POND. The Dollar Line does not move sugar.

Mr. DORFMAN. No, but if there were no sugar to move from here and there were some to move from, say, Cuba, then the Dollar Line could conceivably move it.

Mr. POND. That is true, but the Dollar Line does not carry sugar. Theirs are passenger liners that do not dock at refineries where sugar must be discharged.

Mr. DORFMAN. Take the lines that do carry sugar; could not they move it to the United States from other countries as well as from the Philippines?

Mr. POND. Yes, but they would not be going to the Far East.

Mr. DORFMAN. Those vessels that now go to the Far East might conceivably go to the West Indies or perhaps to Australia. I do not know how the routes would work out, but it does not seem to me that it would be necessary for the vessels to go back to the United States in ballast and be obliged to raise their rates on outbound cargo. That might work out, but I do not know that the evidence is conclusive.

Mr. POND. There will have to be very serious readjustments in any case.

Mr. DORFMAN. In referring to the amount of duty which the United States foregoes in consequence of buying sugar here, the point was made that the United States also subsidizes its purchases from Cuba. That does not *per se* mean that we do not subsidize it from here; and the fact that we might choose to get sugar from some country from which the shipments would not pay the full United States duty, does not mean that the United States would not, just as surely, be foregoing revenue. We might forego part of it to Cuba or to some other country if we chose to, but the fact is that if we chose to do otherwise, the American consumers could get sugar at the same price as they now do, the American producers in continental United States, Hawaii, and Puerto Rico could collect the same price as they now do, and the United States Treasury could get the whole difference between the world price and the domestic price on the sugar imported. So, although the United

States might not choose to buy its sugar on the most economical terms, it conceivably would have that option.

Mr. POND. It would.

Mr. DORFMAN. And therefore, in calculating whether or not this trade is mutually beneficial, one would have to consider the savings which might result from exercising that option.

Mr. POND. You would have to figure exactly the same way on the sugar, or what is paid for sugar to the producers in Louisiana, Florida, Colorado, Utah, Michigan.

Mr. DORFMAN. With this difference: The proposition of terminating free-trade relations with the sugar-producing States in the United States is not up for consideration.

Mr. POND. But I am contending that as long as the Philippines purchases from the United States on a reciprocal basis, the United States is no more prejudiced by the trade between the two countries than are the citizens of New York by what they pay to the growers of Florida or Michigan or Utah.

Mr. DORFMAN. That would no doubt be true if the intention were to continue indefinitely the free-trade relations and if there were not the possibility of their being discontinued; but the expectancy now is that they will be discontinued. Therefore, going back to the first fundamental in your brief, it seems that the United States Treasury—or the American taxpayer—does have an interest here; and if there is reason for not altering the terms to the prejudice of individuals out here, one might make a case for not prejudicing the interests of the individuals in the United States.

Mr. POND. Of course, this applies only for the period from now until 1946, and therefore the trade of the United States will not be prejudiced at all from what it is now by the continuance of the present trade relations. I might say that is put here, having in mind what the Committee is considering as to the effect which an advancement of the date of independence might have in accelerating or retarding the economic adjustment. The point there is that whatever may be done regarding political relations, economic relations cannot, in good faith for those who have made these commitments and assumed these obligations, be prejudiced by such changes.

Mr. DORFMAN. Granting that, would it not follow by the same token that the position of the American taxpayer during that interval should likewise not be made worse?

Mr. POND. There is nothing to indicate that it would be made worse.

Mr. DORFMAN. The last sentence which you have in there, that "at least until July 4, 1946", implies that you have in mind a period beyond that date?

Mr. POND. That comes under nos. 2 and 3.



Mr. DORFMAN. While you do not want to have their position prejudiced, you do not, according to point no. 1, have any objection to the repeal of the export taxes—

Mr. POND. Certainly not.

Mr. DORFMAN. —which is taken up in point no. 2. Now, if the adjustments were liberalized for the second 5 years—

Mr. POND. That would not affect the United States Treasury, because the export tax is going to a special sinking-fund for the retirement of the bonded indebtedness of the Philippines; that is, for the benefit of the Philippines.

Mr. DORFMAN. That would not directly, but if readjustments were further postponed in consequence of no pressure being applied during the second 5-year period, might there not be a further claim on the United States for further consideration later on?

Mr. POND. This second part is an argument for the continuation of the trade relations after July 4, 1946.

Mr. DORFMAN. That comes in point no. 2.

Mr. POND. In point 3 also.

Mr. DORFMAN. Point no. 2 also: "Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946." One point is the elimination of export taxes, and the other is the extension of the time.

Mr. POND. The point (a) has reference to the second half of the Commonwealth; the point (b) after that.

Mr. DORFMAN. In referring to the reciprocal trade agreements which the United States has entered into with various countries, you suggested that the special exemption of the Philippines, in itself, indicated an intention of the United States so to exempt them. I wonder if that is a proper inference.

Mr. POND. What I meant was, holding the door open.

Mr. DORFMAN. Well, there is a great deal of difference, is there not, between holding the door open and declaring that there is an intention to leave it open?

Mr. POND. I did not mean to say, if I did say, that there is an intention. But the door is definitely being held open. They are recognizing that this principle may be necessary or wise to adopt.

Mr. DORFMAN. Now, if I may turn to the brief on page 7, referring to the export taxes—about the middle of the second paragraph—the thought is that so long as there is no duty on copra, the effect of export taxes will be to transfer the crushing-industry to the United States.

Mr. POND. Yes, Sir.

Mr. DORFMAN. You state: "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." Is it your feeling that the price of copra is any higher than it would otherwise be in consequence of the crushing-mills being located here?

Mr. POND. It is my feeling.

Mr. DORFMAN. Does that then mean that American consumers of copra would be able to buy it at lower prices if the crushing-industry were liquidated here?

Mr. POND. They might not be able to buy the products of coconut oil any cheaper, but the producers of coconut oil in the United States might be able to get their copra a little cheaper.

Mr. DORFMAN. Then you think that it would mean an increase of the profits of the crushers in the United States.

Mr. POND. It might have that effect. And another factor is, and that is why I said, "Neither assumption may be valid." I mean by that that there might not be the capacity of the crushing-plants in the United States immediately, at any rate, or for some considerable period of time, to handle enough copra to give to the United States the amount of coconut oil that she is now consuming. Furthermore, the situation would probably be further complicated by the difficulties in marketing the cake. Normally, a good part of the cake that is produced in the Philippines goes not to the United States but to Europe.

Mr. DORFMAN. Don't you think that if the crushers in the United States felt reasonably certain that the industry would be transferred to the United States, they would anticipate the requirements and be able to crush the copra?

Mr. POND. That would be complicating the cake problem.

Mr. DORFMAN. I wonder how much of a problem that would be in view of the fact that simultaneously with the decline of the crushing-industry here, there would be an increase in the demand for cake in Europe from the new crushers which would spring up in the United States.

Mr. POND. It would have to be shipped from the United States to Europe, of course, but there would be an extra cost involved because they would have to ship the copra across the Pacific, and possibly it would go through to the East coast and then they would have to transport the cake from the United States to Europe; whereas here only the oil goes to the United States and the cake goes to Europe. There is only one freight involved.

Mr. DORFMAN. There might be a higher cost, but I wonder if there would necessarily be. The districts which would be expected to crush the copra are those along the Atlantic seaboard and in the

Gulf. These areas are normally on an export basis in respect of cake, that is, the price of cake there is the price of cake in Europe less the cost of moving the cake to Europe. The transfer of the industry from the Philippines to that region of the United States would not necessarily operate to depress the price of cake in the United States so long as the American crushing-industry could supply the European market for cake from which the Philippine crushers would be forced out.

Mr. POND. That is true, but from the point of view of the value of the copra, it would have an effect, for the reason that they would have to transport in weight about 50 percent more copra, a little more than that, than in oil, because the extraction of coconut oil from copra is about 60 percent to 62 percent. So that today, taking copra as the base, you have about 62 percent of it going, say, to the United States in the form of oil and the other 38 percent going to Europe in the form of cake. Now, in case it is crushed in the United States, you will have freight of 100 percent going to the United States and then, in addition, for freight on the cake, there will be 38 percent from the United States to Europe.

Mr. DORFMAN. I do not know how the rates would work out. It would not necessarily follow that the longer hauls would actually be more costly to the people moving the goods. For example, the rate for moving pineapple from the Philippines to the United States is exactly the same as the rate for moving pineapple from Hawaii to the United States.

Mr. POND. Rates are higher on cargoes from the United States to Hawaii in many cases than they are from the United States to the Philippines, because of the coastwise laws.

Mr. DORFMAN. Would the vessels that stop at Hawaii stop here?

Mr. POND. A lower rate is charged here simply because of competition. With the application of the coastwise laws, the cargoes between the United States and Hawaii can be carried only in United States vessels.

Mr. DORFMAN. That, of itself, does not operate to make the cost of moving pineapple from Hawaii to the States any higher on Dollar boats than it does to move it on Dollar boats from the Philippines, does it?

Mr. POND. No, it does not have anything to do with the cost.

Mr. DORFMAN. Simply on the basis of what they can get?

Mr. POND. Yes, simply on the basis of what they can get.

Mr. DORFMAN. Reference is made to the excise tax on coconut oil on page 14 of your brief, is it your feeling that the American consumer or user of the oil pays the excise tax, or the Philippine producer?

Mr. POND. I think it comes from both.

Mr. DORFMAN. Roughly, what fraction would you say the American user pays?

Mr. POND. I am not sufficiently informed on that to answer that question.

Mr. DORFMAN. Is it your thought that it is pretty close to all of it or not very much of it?

Mr. POND. I do not think a great deal of it.

Mr. DORFMAN. Most of it is borne by the producer here?

Mr. POND. That is my off-hand opinion, but, as I say, I have little knowledge on the question.

Mr. DORFMAN. Then you have this statement, which I would like you to explain in light of that answer: "The consumption of coconut oil for making soap, formerly its principal use, has been greatly reduced by the imposition of the tax." If only a small part of that tax were passed on to the user, and if the demand for soap does not vary greatly with slight changes in price, why should there be such a tremendous falling-off of the demand for the oil in use for soap?

Mr. POND. Substitution of other oils which are not subject to the tax.

Mr. DORFMAN. For example, what oils?

Mr. POND. You have whale oil, babassu oil—cottonseed is used for most edible purposes—but there are other oils that come into play, that will enter in, because they are cheaper in price.

Mr. DORFMAN. Do you feel that such oils as whale oil and fish oil compete with coconut oil in the production of soap?

Mr. POND. In making certain kinds of soap, yes.

Mr. DORFMAN. I have before me a statement of the United States Department of Agriculture on the consumption of coconut oil in special products in the United States. Going back to 1933, the first full year before the first imposition of the excise tax, I find roughly 584,000,000 pounds of coconut oil were used. In 1936, I find that 602,000,000 pounds were used. The consumption was considerably more in 1936 with the imposition of the tax and with the much higher prices for oils and fats than in 1933, the year before the tax went into effect. I find also that there was almost as much coconut oil used in soap in 1936 as in 1933. In 1936, 51 percent of all coconut oil used in the United States went into soap, as compared with 55 percent in 1933, the year before the tax went into effect. Many people have referred to the 1935 figures and have, I think, been misled by them. The consumption of coconut oil for soap in that year was only 39 percent of the total, but you will recall that the 1934 Revenue Act permitted fatty acids to enter the United States free of tax and that they in turn took the place

of a considerable quantity of coconut oil. In view of these figures, what is the basis for assuming that the demand for coconut oil in soap will be further restricted when we have a larger production of fats and oils in the United States, granting that the consumption of coconut oil in edible uses will decline?

Mr. POND. The use of coconut oil in making edible products has, according to my information, been sustained to a considerable extent since the application of the excise tax by the shortage of oils and fats, brought about as a result of the drought not only in the United States but in other parts of the world. The rise of 1933 figures in your figures is a little unfortunate in that at that time the production of copra here, for example, was very low because of pests. For example, you will notice in 1932—that would be largely consumed in 1933—the exports of copra were only 114,000 metric tons, and that is to all countries, and of coconut oil, only 137,000 tons. In 1933 it was 159,000 tons and 208,000 tons, respectively; in 1936 it was 159,000 tons and 291,000 tons.

Mr. DORFMAN. I do not have the figures you refer to. I was thinking only in terms of the United States consumption of coconut oil and was trying to understand why there was a feeling out here that the demand for coconut oil in soap would decrease in consequence of the excise tax, first, on the theory that not much of the tax is passed on to the American user, and, secondly, in view of the figures which show that the actual consumption of coconut oil in soap was about the same in 1936 as in 1933, or, if you like, even in years before that.

Mr. POND. Of course, there was a much larger quantity of coconut oil exported either in the form of copra or in the form of coconut oil in the year 1936 than there was in the year, say, 1932 or 1933. If you take what went to the United States, it was 110,000 tons of copra in 1932, as against only 83,000 tons of coconut oil. If you take 1936, you get 150,000 and 182,000 tons.

Mr. DORFMAN. I do not happen to have those figures. I still am not clear on your explanation of why, if most of the tax is borne by the producer here, there should have been such a shrinkage in the demand for coconut oil for soap in the United States.

Mr. POND. Of course, but you must recognize that in the last two or three years there has been a shortage of oils and fats. This statement applies more to the situation which is beginning to prevail now that ample supplies are available.

Mr. DORFMAN. That is precisely the point I am raising; 307,000,000 pounds of coconut oil went into soap in 1936 as against 229,000,000 in 1935; you have a tremendous increase. However, I explained the 1935 figure on the score of the tax-free fatty acids which entered; the 1934, 1933, 1932, and 1931 figures are not greatly different from the 1936

figures. So it would appear that the consumption of coconut oil for soap has not been greatly affected by the excise tax, despite the considerable increase in the price of fats and oils. Moreover, the consumption of soap has not been greatly changed thereby as a consequence.

Mr. POND. But I am figuring it relatively. The quantity having gone to the United States in 1932 and 1933 being very much less than in 1935 and 1936, it is obvious that, relatively, the percentage used in the making of soap was very much greater in earlier years than it is now.

Mr. DORFMAN. The point I am trying to make is that that does not appear to have been the case. In 1931, we used 592,000,000 pounds of coconut oil; in 1936 we used 602,000,000 pounds.

Mr. POND. Yes, but in 1931 about 50 percent of the copra came from foreign countries. Now it all comes from the Philippines.

Mr. DORFMAN. That does not have any particular bearing on this particular point, does it?

Mr. POND. It has a bearing on the amount of Philippine coconut oil that is used in the manufacture of soap.

Mr. DORFMAN. The amount of coconut oil used in soap would depend on its relative price, irrespective of the source of the coconut oil, and we have been told that the price of the copra—which determines the price of the oil—that is sold in the United States is the same as the price of copra sold in the world market. So the excise tax preferences have no particular significance for the producers of copra or oil out here?

Mr. POND. No, except this: that coconut oil from foreign countries now pays an excise tax of 5 cents.

Mr. DORFMAN. Well, it would pay that rate if any were actually used.

Mr. POND. We used them. In other words, practically all the coconut oil now that comes from the Philippines goes to the United States. Before, that was not the case.

Mr. DORFMAN. But that in itself has not changed the quantity of copra used, has it?

Mr. POND. No, I do not think it has, but there has been a larger percentage of the copra—coconut oil, rather—used in the manufacture of edible products.

Mr. DORFMAN. I think that that situation has changed in the last year or so.

Mr. POND. Yes, I understand it has been very much increased, and now, with the large crops, particularly of cotton, and consequently of cottonseed oil, we are beginning to feel the effects very greatly. The price of copra, for example, during the last four or five months has dropped well over 50 or 60 percent.

Mr. DORFMAN. The consumption of coconut oil in edible uses was not much greater in 1936 than it was in 1933, the year before the tax went into effect. It appears that there was only one abnormal year, 1935, in which the consumption of coconut oil declined relatively—and abruptly—in soap, and rose in edible uses. But in 1936 the situation changed, so that it was not very much different from years earlier than 1935.

Mr. POND. That situation seems to be changing now.

Mr. ROMERO. Just one question, Mr. Chairman.

Chairman MACMURRAY. Mr. Romero.

Mr. ROMERO. I think you have introduced a new angle to this question of subsidies or price premium that are paid respectively by these two countries in trade. I will restate your views as I understood them, but please correct me if I am mistaken.

Mr. POND. Yes.

Mr. ROMERO. Your position seems to be that, because of the quantitative limitations that are at present imposed on the principal Philippine exports to the United States, this price premium would practically remain steadily where it is.

Mr. POND. Right.

Mr. ROMERO. Whereas, because of education and the improved standard of living, and the growth of population, there will be more purchases of American goods that come in without limitation, and therefore the price premium will be paid by the Filipinos and American production will increase.

Mr. POND. That is right.

Mr. ROMERO. And if sufficient time is given, this trade will gradually readjust itself so that there will be no disparity in the price premium.

Mr. POND. That is right.

Mr. BENITEZ. In connection with what you call the "American adventure in the Philippines" which resulted so splendidly, as described by you in your opening remarks, Mr. Pond, can you tell us how much of this improvement described by you has been directly financed by appropriations from Congress?

Mr. POND. Not one centavo has come from Congress.

Mr. WARING. May I ask just one more question. You mentioned as the probable estimate of the present price premium paid by the Filipinos for American products, the figure of \$17,000,000 as the duties waived. Now, I wonder if that includes the duties waived on such products as automobiles and tobacco, for example.

Mr. POND. Yes.

Mr. WARING. Would it not be true in the case of automobiles that, if American products were subject to Philippine duties, the prices in all probability would increase to the Philippine consumer?

Mr. POND. They would.

Mr. WARING. So that in that case, the duties waived at the present time would actually be paid by the Philippine consumers?

Mr. POND. To a certain extent only, because there are importations, from time to time, of automobiles from Europe, particularly, the small midget type of car; and they pay the duty. The amount waived, however, might be figured in another way; that is, if free trade should end and there should be a decline in exports of 60 percent, the number of automobiles imported would be very small, a fraction of what it is today.

Mr. WARING. That I believe is correct. Take the case of tobacco. If the present duties, which I understand, are similar to the United States duties on tobacco—

Mr. POND. Are you speaking of raw tobacco?

Mr. WARING. I was thinking of cigarettes, for example. The duty is \$4.50 per pound plus 25 percent *ad valorem*. At the present time the Philippines is importing a large amount of American cigarettes. If you figure out the duties waived on these products, it would amount to an important part of the \$17,000,000. But in fact if the duties were waived, no such trade would move.

Mr. POND. It would not move in either direction, if the duties were to be applied. As a matter of fact the Philippines is importing from the United States today more tobacco products than she sells to the United States.

Mr. WARING. I believe that is true. What I was trying to point out is that in computing the duties waived on such products as tobacco, where the trade would not move if the duties were assessed, and on automobiles, where the duties would be collected from consumers if they were assessed, the situation is not quite comparable to that mentioned previously regarding sugar. The United States might obtain a similar quantity of sugar at no increase in prices, collecting the full duty either from the Philippines or, if they could not produce sugar under such circumstances, from other producers; and, consequently, if that were true, the price premium in the case of Philippine sugar is much more real than a computation on many United States products entering the Philippine market.

Mr. POND. That is correct. No question about that. You cannot measure the loss by a mere calculation of the amount of duty that is waived, because in some cases even a very small part of the duty will wipe out the entire imports or exports, while in other cases they might be able to stand the duty.

Mr. WARING. That is the point I want to bring out.

Mr. DORFMAN. In the study made a few years ago concerning the relative amounts of duty waived in the Philippines and in the



United States, was it the conclusion that the benefit to the United States and the benefit to the Philippines could be measured by the amounts of duty that each country theoretically waived?

Mr. POND. No, although I have seen statements to that effect, because, as I said, you cannot figure the effects by the amount of duties waived.

Mr. DORFMAN. The amounts of duty theoretically waived in that fashion would really not be of any significance, would they?

Mr. POND. It would be of some significance, but not great.

Mr. DORFMAN. Well, for example, if the Philippine duties on cigarettes were 100 times higher than they now are, then the amount of duty waived on the importation of American cigarettes would be 100 times higher. Since you do not get cigarettes from any other country, the burden on the Philippines would theoretically be 100 times higher than at present.

Mr. POND. No.

Mr. DORFMAN. Then a comparison of the amounts of duty theoretically waived by the United States and the Philippines in their reciprocal trade is of no significance whatsoever in determining the benefits conferred.

Mr. POND. No. I remember seeing a brief submitted to Congress several years ago in which they attempted to figure the loss of trade from the amount of duties waived. It actually worked out that the loss would have been considerably greater (I am speaking of shipments to the United States), because the amount of exports that would have been wiped out was considerably higher than the amount of duties waived. In the case of tobacco, the 5-percent export tax will wipe out all the exports.

Mr. DORFMAN. If the amount of Philippine revenue theoretically waived on imports from the United States could be regarded as an appropriate measure of the benefit to the United States, might there not be a rather painless method for the Philippines to confer benefits on the United States by raising the rates of duty on those things it purchased from no other country?

Mr. POND. Yes.

Mr. ROBBINS. If you were to measure the subsidy paid to American producers on their exports to the Philippines by the excess of the prices paid by Philippine consumers for those commodities over the prices at which they would otherwise be available in the world markets, and were to find in those prices the total subsidies paid by the Philippine consumers, say 4 or 5 hundred dollars *per annum*, and were to apply a line measure to the Philippines, how many years or generations do you think would be required, by holding in check the amount of subsidy paid by American producers and permitting

the amount of the subsidy paid by the Philippines to expand, to equalize those two amounts?

Mr. POND. That is something that one could not answer, for no one knows today what industries could be developed here; what products could be produced; what industries could be expanded; and to what extent local industries could be developed. For the purpose of developing some of those things—

Mr. ROBBINS. If the *status quo* were maintained for many years it would require a very long period, would it not, to bring about such a condition?

Mr. POND. Yes, if we were to continue the services of the Government along present lines of education, public works, and other social services. If we are to maintain the standard of living which we have now, we must give a period sufficiently long so that readjustments can be made, so that if and when trade relations must be terminated, we will not force these people back and down the scale to the level of living of other countries in the Far East.

Mr. ROBBINS. If it were your duty, Mr. Pond, to recommend a period, and a method for eliminating all trade privileges as they now stand between the two countries in such a manner as to give the Philippines every reasonable opportunity to adjust their economy, what would you deem best under the conditions? You would have to recommend a program for final but gradual elimination, and you could not recommend indefinite postponement; what suggestion would you make?

Mr. POND. Frankly, I do not know. I do not think that there is anyone living today who could say what the conditions of the world or in the Far East, or in the Philippines for that matter, would be ten or twenty years from today. About all that can be done is to start making the necessary readjustments and, assuming that the trade relations will have to be terminated, watch the results and determine when the ties can be broken.

Mr. ROBBINS. What means would you suggest for starting these adjustments? How would you exert a pressure to force bringing them about?

Mr. POND. It seems to me that the Philippine Government would have to take the initiative; in the first place, it should encourage the development, locally, of new industries which can replace many of the things which are now imported and which are necessary and essential to the present standard of living. That is something that involves a conscientious study and capital. At the same time the Government should undertake a very active and thorough campaign of experimentation for the purpose of determining what crops can be grown profitably. That again is going to take a long period of

time, because, if that is to be done, it will take a long period of education to teach the people and, again, to find markets for those products where profits can be made. Rubber is a possibility. Rubber is grown here, but only in a very small way and reasonably successful at the present time. Cassava—they have tried it; but in each case, so far as I know, it has been a failure. Derris—there is talk about that. It is still very much in the experimental stage. Coffee used to be grown in large quantities, but it is not grown so extensively any more.

Mr. ROBBINS. In order to encourage the producer voluntarily to convert the use of his land and capital and labor to the production of another crop, that other crop would have to be more profitable, would it not, if they have to do it voluntarily?

Mr. POND. When it comes to capital, he will not have the incentive to put that capital into sugar because he cannot increase his production. He is not permitted to. So that as he acquires capital it has got to be put into other industries.

Mr. ROBBINS. You do not think it would go into the purchase of foreign bonds, in view of the uncertainty ahead?

Mr. POND. It might. In the last few years I do not know how much capital has gone into mining shares.

Mr. ROBBINS. But we have not answered the other question I had in mind, and that is: Do you believe that so long as sugar, let us say, was the most profitable crop that could be produced on a piece of land, the owner would devote that land to another crop?

Mr. POND. That is true, but the sugar-grower today cannot devote all his land to sugar. He cannot expand his sugar-production—it is not permitted because of the quota law.

Mr. ROBBINS. But he is devoting his land to sugar-production to fill his entire quota.

Mr. POND. But if he is further curtailed he will use it for other things; also, because he cannot increase his production on account of the quota law here, he must use this land for other products than sugar.

Mr. ROBBINS. And if foreign investments for sugar profits appeared to him safer and more profitable in the long run, he would prefer that investment, would he not?

Mr. POND. Of course. So far there has not been any great evidence of any large investments abroad by people in the Philippine Islands. Now, they might do it; I do not know.

Mr. ROBBINS. You have no suggestion of any way to apply pressure to bring about adjustment? Your only hope is to maintain a continuation of the free-trade status with the United States, with the thought in mind that perhaps there will be a surplus capital in

the Philippines seeking investment which will not go to the outside international markets where greater security might seem to offer itself?

Mr. POND. That may happen, of course, but if there is a growth of capital here, there is no question but that it will be seeking investment.

Mr. ROBBINS. And that, consequently, that surplus of capital will find its outlet in new local experiments?

Mr. POND. That is right.

Mr. ROBBINS. And that with reliance upon that possibility one should let free trade go on for perhaps 15 or 20 years and then look over the situation once more and see what sort of elimination of preferences can be brought about then?

Mr. POND. That is right.

Mr. ROMERO. Mr. Pond, in reply to a question of Mr. Dorfman, you admitted that the amount of added duties waived is of no significance whatever as an indication of price premium that is paid. Is it true that it is of no significance whatever?

Mr. POND. Its only significance is in showing the maximum amount.

Mr. ROMERO. Take the case of dairy products, for instance. Is it or is it not true that we are paying a price premium to the extent of the tariff duty that is imposed on competing with Australian dairy products?

Mr. POND. That is true. As a matter of fact, you picked an example where the full premium is paid. Because while today a considerable part of the dairy products consumed here comes from the United States, the majority at the present time comes from Europe.

Mr. ROMERO. Is it also true with wheat flour?

Mr. POND. It is, although that situation is changing on account of the larger crop this year. The United States about five years ago had 80 percent of the Philippine wheat-flour market; I believe last year they got 25 percent.

Mr. ROMERO. Is it not true, for instance, with chemicals?

Mr. POND. Certain chemicals, yes.

Mr. ROMERO. Of machinery?

Mr. POND. Machinery is a little difficult to say because machinery is not bought on price. It is upon the quality and reputation of the machinery.

Mr. ROMERO. How about paper products?

Mr. POND. Yes, and steel products, too.

Mr. ROMERO. Well, then, could we not say that as a general rule the amount of tariff duties waived is a fair indication of price premium?

Mr. POND. It is only a partial indication. In the case of automobiles, it is no indication at all because we know that the United States is the largest producer of automobiles in the world and they go over the trade barriers everywhere because people want American automobiles; the duty in itself would make no difference except to reduce purchases through an increase in price.

Mr. ROMERO. Outside of automobiles and tobacco products, could you mention other examples of products imported into the Philippines which are not receiving any price premium?

Mr. POND. I cannot think of any at the moment.

Mr. ROMERO. Considering that there are a very few exceptions to that rule that the amount of tariff duties waived represents in some way the price premium paid (if it is true, as you stated, that a calculation was made sometime ago indicating that the amount of tariff duties waived by the Philippines runs to \$17,000,000), do you think that \$4,000,000 or \$5,000,000, as mentioned here by Mr. Robbins, is any indication of the price premium?

Mr. POND. No, I think it is much larger than that.

Mr. DOMERATZKY. In the case of automobiles which come almost entirely from the United States, would you say that the price of American automobiles in the Philippines does not include any increase due to tariff advantage? In other words, additional cost represents only the transportation and such charges as may be necessary to bring them to this market.

Mr. POND. Yes, Sir.

Mr. DOMERATZKY. With no tariff advantage at all?

Mr. POND. In other words, the automobile manufacturers in the United States, so far as I am aware, that is, as to the automobiles exported from the United States, they get no more for their automobiles sold in the Philippines than they do anywhere else.

Mr. DOMERATZKY. There is one other question in connection with your reply to Mr. Robbins in regard to the period of adjustment and the possibility of making sure that the adjustment would take place. Assuming that we could agree roughly on a period of time which would be required for making the adjustment; do you believe it would be possible to work out a sort of an index which would enable us to recognize the progress of the economic adjustments in the Philippines and adjust our concessions, or tie up such concessions to that index? In other words, let us say that if after five years we find that a certain amount of progress has been made in adjusting certain things, the concession will be continued; on the other hand, if we find that no progress has been made, we might apply more pressure. Do you believe that kind of index could be worked out?

Mr. POND. I think it could be worked out. I would not want to say definitely, but it seems to me that it might be possible to work out some index of the progress.

Mr. DOMERATZKY. Do you mean we could work out something that would enable us to recognize whether or not Philippine economics is adjusting itself?

Mr. POND. To be effective we would also have to take into consideration the growth of population on a *per-capita* basis and to take into consideration the increase in production of products which are now imported, as well as the exports of new products, also, more or less, on a *per-capita* basis. It might be possible to work out such an index. As it is today, we know that about 50 percent of the total Philippine production is export. I am speaking of production of cash crops, which does not include crops consumed at the point of production.

Mr. DOMERATZKY. Of course that would necessitate a considerable expansion of the statistical service in the Philippines, would it not?

Mr. POND. It would.

Mr. JACOBS. Mr. Pond, there are a couple of questions that I would like to ask. I have before me figures completed by the Commerce representative here on the total trade exports and imports of the Philippines for several years, and I notice that the percentage of foodstuffs imported ranges from 20 percent to 25 percent of the total imports.

Mr. POND. Yes, Sir.

Mr. JACOBS. The Philippines, as I understand it, is essentially an agricultural area. You have resided here many years and you know what these foodstuffs are. What do you think of the possibility of the Philippines adjusting itself to take care of this situation by producing its own foodstuffs?

Mr. POND. It could replace some of those things. Other things it would be difficult to replace on an economical basis. Take, for example, dairy products. The production of dairy products in a tropical country is always difficult, that is, to do it in any volume, because of the difficulty in transportation, refrigeration, and so forth, and milk spoils very easily and quickly. Then, again, the production of wheat, for example, is not possible in the Philippines, at least in any large way; and there is no doubt about it that wheat flour does give certain food values that you do not get in rice. Wheat flour here is used not as a substitute for rice but primarily as an augmentation of the diet of the Filipino people.

Mr. JACOBS. But don't you feel that some portion of this could be taken care of?

Mr. POND. Yes, Sir; I think that some portion could be taken up. Now, for example, coffee can be produced locally; and the same is true with cacao.

Mr. JACOBS. What about meat?

Mr. POND. There is practically no meat imported into the Philippines, with the exception, perhaps, of Chinese ham; and beef for the consumption of the Army and the Navy and some of the foreign population. The situation as to beef has changed completely in the last few years. Practically all the beef for local consumption is raised in the Philippines.

Mr. JACOBS. Now, one other question on quite a different line. We have had no one before us who has represented the mining interest. I would like to ask whether you, as a businessman, have followed the recent developments in mining so that you could say something about it.

Mr. POND. I have.

Mr. JACOBS. Will you tell us, first, whether you think that developments along that line will be able to take care, say, of labor which might be thrown out of the sugar plantations or other plantations because of readjustments?

Mr. POND. I do not think that would be possible because I do not believe that the mining industry here is going to develop to such an extent that it would make possible the taking up of the surplus labor that will be thrown out of the sugar plantations. Furthermore, of course it takes a different type of labor. But while the mining industry has been growing, and probably will continue to grow to some extent, at least as long as the United States maintains the price of \$35 an ounce and buys Philippine gold at that price, it will probably continue to develop; but I do not think there is any possibility of taking up laborers that will be thrown out of employment as a result of the destruction of such industries as sugar, cigars, embroidery, and so forth.

Mr. JACOBS. Have you any idea how many people are employed in mines?

Mr. POND. I cannot answer that.

Mr. JACOBS. What are the possibilities other than gold?

Mr. POND. Iron. The Philippines last year exported about 600,000 tons of iron ore. I think it is possible that within the next few years they will export 2,000,000 tons a year; but that is not going very far because 2,000,000 tons of iron ore at present prices would have a value on board vessels in the Philippines of only about ₱8,000,000.

Chromite. No doubt the production of chromite will increase—in fact, considerable quantities of chromite are now being shipped,

but the quantity would probably at no time exceed 250,000 tons. That is worth here something less than thirty pesos a ton. So that would be only about seven or eight million pesos. The total consumption of the world of chromite, I think, is only about 560,000 tons at the present time.

Manganese and copper. There is some manganese here that has not been developed to any great extent; and there is probably some copper.

Mr. JACOBS. Do I take your remarks to mean that you are not very optimistic that mining affords an opportunity for the Philippines to readjust?

Mr. POND. It can only be one of those factors that may help slightly, but it cannot solve the problem.

Mr. JACOBS. That is all.

Mr. BENITEZ. You have referred, Mr. Pond, to a period sufficiently long enough for readjustment. I take it you do that irrespective of the date of independence?

Mr. POND. That is right.

Mr. BENITEZ. And from your answers to various questions I get the impression that if ten years are added to the period that expires in 1946, you would consider that period quite sufficient for adjustment?

Mr. POND. No, I did not say that. I do not know how long a period would be required.

Mr. BENITEZ. But I was under the impression that if we were given a period of twenty years, irrespective of independence, that would be quite adequate for the economic adjustment that would be necessary?

Mr. POND. No, I did not say.

Mr. BENITEZ. I was just wondering; I got that impression.

Mr. POND. I do not know how long a period, because I do not think anyone today can say even what industries can profitably be developed here. It takes time to find out. And just as it took the sugar industry nearly twenty years from the time free trade started with the United States before it fully developed, it will take a long time to develop other industries which will not have the protection of tariff walls in the United States. Furthermore, you must bear in mind that sugar was grown in the Philippines for hundreds of years before free trade came with the United States, and yet to put that industry on a satisfactory and profitable basis, it took nearly twenty years.

Mr. MACMURRAY. Are there other questions?

Mr. YULO. Mr. Pond, in answer to some questions of Mr. Robbins, you said that in order to provide some pressure for the readjustment of our products, you rely on the quantitative limitation of our exports to the United States at present?



Mr. POND. Yes, Sir.

Mr. YULO. Would not the export tax provided in the Tydings-McDuffie act be a greater pressure to make that readjustment?

Mr. POND. It would apply pressure to make that readjustment, except that it will have the effect of ruining almost immediately certain industries. The tobacco, the button, the embroidery industries, they will be ruined almost immediately. What will happen to the sugar industry, I do not know. It will depend a great deal upon the price of sugar.

Mr. YULO. Would you, with the application of the export tax, be able to get the necessary capital for those industries to readjust?

Mr. POND. I do not see where it would come from. You are going to destroy the capital invested in those industries.

Chairman MacMURRAY. Are there other questions? (There were none.) Thank you, Mr. Pond.

(Here follow the printed brief submitted by the Philippine-American Trade Association and mimeographed recommendation of that association.<sup>1</sup>)

Chairman MacMURRAY. That closes our hearing for today. We will resume the hearing tomorrow, Tuesday, at 9 o'clock. The hearing is closed.

(Thereupon at 4:58 p. m., an adjournment was taken until Tuesday, September 21, 1937, at 9 o'clock in the morning.)

**Annex**

**PHILIPPINE-AMERICAN TRADE ASSOCIATION**

ROOM 219 REGINA BUILDING

MANILA, P. I.

September 7, 1937.

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS  
Manila.

The Philippine-American Trade Association respectfully recommends, should a treaty or trade agreement be entered into between the United States and the Philippines, that the following provision regarding trade-marks and common and accepted trade-names be included therein:

Each of the parties signatory hereto mutually agrees to acknowledge, respect and safeguard the rights of citizens or corporations of the other country which have been established in trade-marks and common and accepted trade-names in trade and commerce in and between the two nations.

This provision would be advantageous to both countries for it would properly safeguard the rights of the citizens and corporations of each country in trade-marks and trade-names which have been established in the other country.

Respectfully submitted,

PHILIPPINE-AMERICAN TRADE ASSOCIATION

By **RAF. R. ALUNAN**, President

<sup>1</sup> For the brief, see vol. III; for the recommendation, see annex to these minutes, *infra*.

## PROCEEDINGS OF SEPTEMBER 21, 1937

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Tuesday, September 21, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 9 o'clock in the morning.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
Mr. CARL B. ROBBINS;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL L. ROXAS; and  
Mr. FRANK A. WARING.

*Absent:*

Mr. JOAQUIN M. ELIZALDE.

Chairman MACMURRAY. Before opening the hearing this morning for today's schedule, I will recall that at Wednesday's hearing, September 15, 1937, Mr. Day, appearing on behalf of the Philippine Refining Company, was asked certain questions to which he did not have the answers available and was requested by Mr. Roxas to write, conveying the information. He has now written the Committee, and his letter will be inserted in the record as a supplement to his testimony on Wednesday last.<sup>2</sup>

The first of the organizations to be heard this morning is the Labor Mining Association, to be represented by Mr. Generoso Dayao and Mr. Marcelo A. Garcia. It had been scheduled for Mr. Rufo San Juan to speak also, but he has written the Committee that he had to go to his own province because of urgent family affairs. Other organizations to be heard today are the National Executive

<sup>2</sup> See annex to the proceedings of September 15, 1937, *ante*, p. 350.

Council of the Popular Front, represented by General José Alejandrino, Judge Delfin Jaranilla, and the Honorable Miguel Cornejo; the Sakdalista Party of the Philippines (national group), represented by Mr. Celerino Tiongco, Mr. Simon d'Sena, Mr. Fernando Manuzon, and Mr. Paulo V. Capa; and the Sakdalistas of Cavite, represented by Mr. Luis Suler, Mr. Fernando Y. Tañog, Mr. Ignacio Martinez, and Mrs. Tomasa Ortiz. Although there was no previous announcement, the Committee has authorized the Commonwealth Association to appear today to supplement the brief<sup>1</sup> which it had filed on time, although it failed to make the formal request for a hearing.

The first witness this morning, on behalf of the Labor Mining Association, is Mr. Dayao.

#### STATEMENT OF MR. GENEROSO DAYAO, ON BEHALF OF THE LABOR MINING ASSOCIATION

Mr. DAYAO. With the permission of the members of the Committee, especially the Chairman, and my dear friends, the Filipinos, I have no intention of making a supplementary statement orally; but on account of the kind invitation of Dr. Dorfman, I was obliged to come here to show my satisfaction and earnest courtesy to the Committee through Dr. Dorfman.

Chairman MacMURRAY. Might I ask you to please speak a little louder?

Mr. DAYAO. Oh, yes, Sir. Good morning, everybody! With your permission, Members of the Committee, especially the Chairman, and my dear Filipino friends, I have no intention of supplementing my brief by an oral statement; but I was obliged to come here because of the kind invitation of Dr. Dorfman. It is my obligation as a Filipino citizen to come and testify at this hearing and to show my earnest gratitude to the Committee through Dr. Dorfman.

Before I begin my remarks, I wish to introduce to you, dear friends, my humble social standing among the Filipino people. I am sorry to explain that I never had the opportunity to see the inside of a university nor the floor of colleges, neither the steps of any primary-school building, except my home study. My home school is the International Correspondence School of Pennsylvania and the American Correspondence School of Law, Chicago, Illinois, United States of America.

Now, before I make my supplementary statement, I will cite to you the paramount factor, the foundation described by the honor-

<sup>1</sup> See vol. III.

able Committee through its Chairman at the opening of these hearings on the 15th. He said, "I am sure that the American people want the Filipino people to have every opportunity to establish a sound economic regime in order that they may be able to maintain independence." Well, this paramount factor is beautiful. I admire it. I think I can contribute my little grain of sand to help and cooperate in its foundation to give the freedom of the Filipino people. But this is a question that is very hard to carry out. Why? Because in order to carry out this foundation, it is necessary to overhaul the Filipino machine. In the Filipino machine, something got cracking, a noise, and then we have to find some mechanical engineer to make a little repair. That means that the whole Filipino machine must be overhauled.

The first point I cite to you to overhaul is the moral relation of the American and Filipino peoples. We can see from what has passed since the occupation of American sovereignty in the Islands that the moral relation between these two countries is untainted by any stain whatsoever. If there ever is, and I hope and know there is not, our officials in our Government have not mentioned it to us. There is, however, some social differences that occur among our people. That is the unfair proportion of the distribution of earnings. We see that the White Filipino centrals, as much as possible, want to reap a 50-percent profit, which is, I believe, a planning of a castle in the air. Should they, however, be lucky enough to obtain a profit around this percentage, their attitude and attention to the laboring class is never altered, never even thought of—although a complete innovation is done with the business activities and a magnificent obsession is made in their social activities. For the laboring class, nothing at all is changed. They do not live; they only exist, as things exist in this world. Now, Ladies and Gentlemen, we, the laboring class, appeal to you to abolish such unfair practice of the theory of democracy. It is not democracy practically. Because democracy is nothing but the common folks. Better adapt the commercial relation between the American people and the Filipinos rather than the existing moral relation between the two countries.

The fact is that a government of a nation has an absolute duty to comply with the requirements of the international commercial agreement, which is promulgated with the consent and deliberation of all independent nations. It is therefore not wrong for the Filipino businessmen to pay less than other countries for products made and materials used. Evidently, it is the moral duty of the Filipino people to help the United States Government in financing material changes because she is a mother to us.

Gentlemen of the Hearing and Filipino Businessmen, are you afraid of the abolition of free trade between the Philippines and the United States? Maybe, you are not familiar with your business. The Cuban investors of sugarcane are satisfied with a profit of, say, 6 percent *per annum*. Why, at present the Philippine investors and the Filipino businessmen are not satisfied with a 12-percent profit, which is twice as much as the Cuban profit. Ladies and Gentlemen, do not consider that the Philippine products and industry are quite young in their existence as compared with the products and industries of the United States. The only difference you can say is that American products and industries are both about a century advanced in scientific and economic process, while the Philippine products and industries are 100 years late because of too much politics, for the reason that the majority of Filipino businessmen are all politicians. They knew nothing about the science of economy. In case they know anything about it, I say with determination that the 70-million excise tax for the Philippine products and industry, I am willing that a double taxation be advocated provided, however, that the laboring classes be given the chance to run the present administration of our Government. After a certain number of years you may be able to see that our flagship will be floating over the Pacific Ocean, and the Filipinos will then have ever ready belligerent forces for the Pacific race.

From Filipino businessmen you will be able to find out that the sugar plants came in the year 1714 over the Mediterranean Sea, and the Spaniards discovered the Islands. Therefore, the Philippine sugarcane-production has existed 100 years longer than the production of United States sugarcane and also the product of the Philippines. The production of sugarcane in the Philippines is only 8 percent of the sugar consumed by the United States. It is proven that the Filipinos put more stress on politics than on sugar-production, while Cuban production of sugarcane is 55 percent of the United States consumption. Why cannot the Filipino people progress to that extent, since we have vast agricultural lands, virgin forest, and unoccupied areas? It is because much politics has taken a hand in our sugar-production. In view of the foregoing we hereby request this honorable Joint Preparatory Committee to give this matter your kind attention, for, in so doing, you will be working for the upliftment of the 10 million laborers in the Philippines, who are at present jobless.

The fact that the American people desire to close the American market to Philippine products is more advantageous to the Filipino people because we have a ready market in many nations. The Ameri-

can people closed their market for helium to all countries. Therefore, since the Philippine Islands have an abundant deposit of this mineral, we can be sure of markets in Germany, Italy, France, Spain, and other civilized nations in Europe. For we can easily propose to these nations a reciprocal trade relation on account of the low price of our sugar, and taking into consideration the fact that sugar beet contains 6 percent of sugar, while the general average of the sugarcane in the Philippines is 13 percent and that will be available to raise 25-percent sugar by applying scientific economical process. We can make and cultivate 10 years ratoon by the same production and we can eliminate the cutting, hauling, and crushing. Therefore, we will be able to make a saving of from 30 to 40 percent.

Remember the sugar, the consumption of sugar is 12 to 17 million tons which is needed by three fourths of the population of the whole world. If the Philippine sugar cannot find any market at all, this is what one can do; keep our sugar and turn to other things—well, you ask what to turn to. Sugar can be turned into gunpowder, and in so doing we will be able to sell same to Japan, Germany, Italy, and other nations who are in dire need of war materials. Failing in this, we can transform it into Jerez wine, cognac, and gin, and the rest of our sugar-production can be transformed into acetic acid, which is an important factor for the manufacture of the rubber industry.

Let us now take the point of cotton-production of the United States, which is about 88 percent of the total production of the Southern States. When the Philippines is free, we will be able to transform abaca and maguey into a product that can be used instead of cotton. Therefore, the United States cotton industry will find a keen competition with our similar products in the world market. In the same manner, we can cite also the embroidery industry of the Philippines as one that is widely demanded by American women. The total production of embroidered articles in the Islands amounts to 11 million pesos. Should our trade with America be closed, they will also lose the opportunity to obtain our embroidery in the same quantity and price.

Next, we must take into consideration the coconut-oil industry. The coconut oil can be transformed into combustible gases the same as the carbide- and petroleum-production of the Dominion of Canada, Australia, and the United States. The transportation of carbide and petroleum is ten times higher than the coconut combustible gases for the same power and amount, and the coconut lubricating oil is essential for airplane, seaplane, armor, and motorboat because of more resistance for the heat than mineral oil.

The sugar-men come around here, and they say, "Well, we are supporting 2 million. The 2 million Filipino people of the laboring

classes", they say, "are dependent on the sugar industry." I do not believe it is right. It is not quite true, Gentlemen, because maybe one fifth of those working on the *haciendas* and the sugar centrals, after three or four months, are fired out; they are dismissed and a few are left. Therefore, how about the eight months? Who is going to support them? They are not dependent on the sugarcane—the laboring classes of the Philippines—and this is very true—so, in this statement, as I understand, the sugar-men are damn liars. They said that the export taxes—Mr. Hawes said this—do not add even a dollar to the Treasury of the United States. All right, if it is true, why did Mr. Hawes not investigate that matter? Being father of the law, he must investigate that matter. Why, Filipino, what is the matter with you? You are gaining 50 percent. Why do you not add some dollars to the United States? It is your duty, is not it? Mr. Alunan says compare the full tax derived in the United States. The businessmen will take the business or the laboring classes will take the government or the laboring classes will take the business, provided the government will take care of the finances. We have no finances. Of course, I am also a businessman, but without capital. Say, how do you make business without capital?

Another thing. The coconut-man came around and he raised his complaint, pleading for fair treatment. But he was mistaken, because he painted it in wrong color. He says 3 percent, that is too much luxury. Well, then, but these coconut-oil men say our independence will double these taxes. And that *tapahan*, or smoke process, is a process done 100 years ago. But they do not find out what is the trouble with that. You know what is the trouble with that? That is a racketeer process, or what you call, robbing process or cheating process. They want to cheat the seller; the seller wants to cheat the buyer. That is the meaning, because this process, 100 years old, was not dictated by their minds. Dr. Roxas says they are losing 2 million every year for the coconut industry because of the *tapahan* system. He says on every hectare they spend 100 pesos for clearing. It is not true. I make clearing 30 pesos to 35 pesos a hectare. I clear all the *hacienda* of Abucay and somewhere there in Tayabas, to plant coconut. I do my clearing with my *bolo*, with my own hand. I can tell you because I am a worker. Now make another petition—one million excise tax for the United States for development of abaca, tobacco, and sugar. If you do this you will add dollars and dollars to the Treasury of the United States. Besides that we better prepare the ground for laboring classes because the businessmen of the Philippines or investors will make a strike and close the factories and close everything. Who will open it? We can tell you; we will open it. We know everything.

Suppose another petition—the labor protection for primitive system of mining. That means the mining law. Suppose an Igorot or Manguian is engaged in mining. A prospective customer comes and makes an offer. The Manguian sells his right. The custom is to ask a little time and get some gold and sell it. Now, the very wise prospector makes a sketch of that part and brings it to the recorder for registration and pays a little. Approved, and, then an American comes to buy that in cash. Say, ₱3,000, cash. Approved.

I suggest that the ₱47,000,000 of the Adams bill be returned to us. The Filipinos have no right to that, according to Mr. Adams. That is about the devaluation of gold. We know that there is a law already approved by Congress. But Mr. Adams changed his mind. He said that you have no right. But I appeal to you that the ₱47,000,000 be returned here, and I propose that one third of this amount be given to the provinces, one third to the improvement of gold industry, and one third to the national defense.

Now, I shall close my additional statement because my time is only 10 minutes, and I express my great gratitude and my courtesy to the Committee, through Dr. Dorfman.

I thank you.

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Dayao?

(No response.)

Mr. Marcelo Garcia. Is Mr. Garcia present?

(No response.)

Then, that concludes the representation on behalf of the Labor Mining Association.

(Here follow the mimeographed briefs of the Labor Mining Association.<sup>1</sup>)

Chairman MACMURRAY. The next organization to be heard is the National Executive Council of the Popular Front, to be represented by General José Alejandrino.

#### STATEMENT OF GENERAL JOSÉ ALEJANDRINO, ON BEHALF OF THE POPULAR FRONT

General ALEJANDRINO. Mr. Chairman, I have nothing to add to my brief<sup>1</sup> except to make a small correction in the figures. On page 3 there appears 6,583,838,000. It seems to me that the true figures are 6,984,438,000. And besides that we forgot to mention the bibliography, and I wish to submit the same to the Committee.

(The following is the data submitted.)

<sup>1</sup> See vol. III.



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Now, I come here ready to answer any question that the Committee may see fit to ask me, but I prefer to speak in Spanish because my English is very poor.

Chairman MACMURRAY. Are there any questions to be asked of General Alejandrino?

(No response.)

Thank you very much, General.

The next speaker will be Judge Jaranilla.

General ALEJANDRINO. Judge Jaranilla cannot come, according to his letter addressed to the Committee.

Chairman MACMURRAY. The Honorable Miguel Cornejo.

General ALEJANDRINO. Mr. Miguel Cornejo cannot come also.

Chairman MACMURRAY. You alone appear for the Popular Front?

General ALEJANDRINO. Yes, Sir.

Chairman MACMURRAY. That concludes the hearings on behalf of the National Executive Council of the Popular Front.

(Here follows the printed brief submitted by the National Executive Council of the Popular Front.<sup>1</sup>)

Chairman MACMURRAY. The next witness will be a representative of the Sakdalista Party of the Philippines.

Mr. TIONGCO. The Sakdalista Party of the Philippines have agreed to utilize the services of Mr. Elpidio M. Santos, an attorney, as the spokesman for the Sakdalista Party this time.

Chairman MACMURRAY. That is for the whole group, in place of you, Mr. Tiongco?

Mr. TIONGCO. Yes, Sir.

STATEMENT OF MR. ELPIDIO M. SANTOS, REPRESENTING THE SAKDALISTA PARTY OF THE PHILIPPINES (NATIONAL GROUP)

Mr. SANTOS. Mr. Chairman, and Members of the Committee: I wish I were in a position to speak in my own dialect to avoid being embarrassed in speaking a language which is really not mine. But in as much as it is the official language required in this hearing, I will proceed to speak in English.

<sup>1</sup> See vol. III.

The Committee must have noticed with profound feeling how strongly worded are some parts of our memorandum.<sup>1</sup> I wish I could be able to eliminate any possible hindrance to a sound understanding between us, for it would be useless to proceed into a lengthy discussion of an important subject such as the one we are going to have now, if our views were to be spoiled by a serious misconception of the intent of any one of us. In characterizing our memorandum with such an open frankness, it is not our desire to hurt the feeling of anyone or to place the relationship of Filipinos and Americans under a troubled atmosphere. We just want to impress each and every one of you with the true sentiment and attitude of our people toward the United States. We believe this Committee needs not only facts in the preparation of its recommendation but also a fair knowledge of the true sentiment of our people toward the United States in relation to the effects of American domination over the Philippines. We believe no harm can be done if we tell you that this is not yet the precise time for America to expect from us cheerful words, for that will only tend to magnify the idea cherished by Americans—that we Filipinos are better satisfied with the status of a slave than that of a free citizen. The people on whose behalf this representation is being made desire to show, first and above all, that they are really sincere and worthy of the independence which they so desire. They are aware of the value of preserving their honor and their own national consciousness, and they believe this cannot be done except by manifesting a desire to defend those prerogatives by measures in reasonable proportion to the means by which they are ignored and suppressed.

Unlike any other organization, our party does not ask for any concession of commercial privilege from the United States. It is our opinion that this is not yet the precise time for us to ask for any privilege, either political or commercial, except true and complete independence. It is our honest belief that, whatever we may desire now, whatever may be the agreement between the people of the United States and the Philippines that is reached through our petitions, the sole will of the United States will always prevail.

The Tydings-McDuffie act was passed. It is said to embody a covenant between the United States and the Philippines. But it is regrettable to say that the United States is the first to violate the provisions of the Tydings-McDuffie act. It is to be noted that a law of Congress which was passed imposing the 3-cent tax for every pound of coconut oil sent to the United States from the Philippines took place after the passage of the Tydings-McDuffie act. The law of 1909, if I am not mistaken, providing for a free trade be-

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<sup>1</sup> See vol. III.

tween the United States and the Philippine Islands, says that manufactured articles in the Islands containing more than 20 percent of foreign materials cannot be brought into the United States free of duty, while the United States is at liberty to bring into the Islands any kind of manufactured article, no matter how much foreign material is contained therein. That shows it is useless for us to ask for any concession; it is enough for us to ask for the concession of complete independence, because that will be the only way by which we can remedy the various problems of the Islands.

We have contended that we need this industrial development of our own. As things go on now in the Islands, we are not at liberty to develop our industries, although there is no definite provision of the law prohibiting any Filipino to develop and improve his industry. But if we take into account the fact that all foreign manufactured articles, especially those coming from the United States, have access to the Philippines without the United States giving us any privilege to pass a tariff law of our own to protect our industries, that is enough to discourage the development of our industries. The various industrial organizations of the Philippines are controlled mainly by foreign capital. According to a *Congressional Record*, I think it was in 1932, containing the report of the Resident Commissioner of the Philippines to the United States on all the investments of the Islands, only 10 percent are by the Filipinos and 90 percent are by foreigners, mainly by Americans. How in the world can you expect us to develop our industries in that kind of business? Ten percent cannot be said sufficient to encourage the development of our own industries.

The United States has retained absolute power or has reserved absolute right to dominate the markets of the Philippines. I will cite to you the actual occurrences in the far distant *barrios* of the Islands. A Filipino laborer, for instance, whenever he desires to found his own industry, is always vexed by excessive taxation. He has no opportunity to rise beyond the level of a beggar. And this is caused no less than by the preservation of the United States of the absolute right to dominate our industries.

I have seen in the previous days in the hearings of this Committee that various industrial organizations were represented by foreigners, although they pretended to speak on behalf of Philippine industries. That sounds queer. Everything here is being done in the name of Filipinos and in the name of the Philippines, but, when we see the effects, we see that the benefits of various industrial enterprises go into the hands of the foreigners and not into the hands of the Filipinos. Any law passed by the American Congress relating to the Philippines is always done in the name and for the bene-

fit of the Philippine Islands. But when we see the effect, we see that the benefits are for the foreigners and not for the Filipinos.

Before the conquest of these Islands, the Filipinos were enjoying absolute liberty in the development of their local industries. But when the Philippines was dominated by a foreign power, their business collapsed, and when the Americans came to substitute the so-called "tyrannical" government of Spain with one based on the principles of democracy, we see the same effects of the Spanish Government. I think I am becoming too frank, but there is no use telling you that the Filipinos are grateful to the Americans when the truth is, throughout the breadth and length of the Islands, there is a continuously brewing discontent among the masses because of inequalities in the law. Unless independence is granted to us, we see no way of solving any of our problems. The various commercial organizations in the Islands are desirous of a continuation of the American rule in the Islands, even after the transition period as provided in the Tydings-McDuffie act. They claim that the Philippines should be given ample time to readjust its economic conditions. But it will be enough to cite that even those who worked for the passage and acceptance of the Tydings-McDuffie act are the very same persons who launched the attack against that act. Our local businessmen say that the Philippines must be given a longer time.

Now, mind you, they are beginning to feel the weight of the Tydings-McDuffie act. It is provided therein that in the last five years of the transition period a gradual export tax shall be paid by Filipino exporters. If today they are beginning to feel the weight of that burden, how much more weight will be felt by them when we come to the sixth, to the seventh, to the eighth, to the ninth year of the transition period? Apparently, the enemies of our welfare have succeeded in inserting that provision of the law to discourage us in our desire for complete independence. Probably at the conference which, according to the Tydings-McDuffie act, is to take place one year before the end of the transition period, probably at that conference the Filipino delegates will ask for perpetual retention of the Islands by the United States because of the weight imposed by the Tydings-McDuffie act. The United States did not give us liberty to trade with foreign countries, while it is now there in the act as an accomplished fact that we are to pay gradual export taxes to the United States. We do not object to this provision of the act if we are given now the liberty to seek markets in foreign countries for our products. But that is not given to us by the Tydings-McDuffie act. We are not asking for an amendment of the law, in as much as our contention is that nothing can be done to remedy our situation except by giving us independence.

Nevertheless, I cannot help but cite the unequal provision of that law to show that, whatever we may ask now, whatever treaty may be made as a result of this conference, that treaty will only be dictated by the sole will of the United States.

I come to the question of naval bases. The United States has reserved a right to retain naval bases and fueling stations in the Islands. Our contention is that these naval bases in the Islands are far from being a guaranty of our security. We Filipinos are made to believe that it will be better for us to remain under the protection of the United States rather than run the risk of depending upon our own capacity for the protection of our security and our integrity. Even now, the naval and military reservations of the United States in the Philippines are beginning to arouse suspicion on the part of other powers. When I was in Japan I succeeded in gaining some information about the Japanese feeling about the Philippines. It is the general consensus of opinion among the Japanese people that the retention of naval bases by the United States in the Islands will, some day, become a menace to the peace not only of the Philippines but of the whole Far East. This is due to the fact, I found out, that there is a keen competition among the powerful nations of the world having commercial interests in the Far East. Commercial interests by themselves cannot stand alone. They will have to be protected by a sufficient force, and, in as much as the object of the United States in retaining naval bases here is to insure economic supremacy not only in the Philippines but possibly in the whole Far East, this fact is causing a certain degree of restlessness among other oriental peoples.

I think I have to tell you all this frankly to avoid unhappy events in the future. Before appearing before this Committee, I was counseled not to tell these things, but we are not playing diplomacy with the United States now. We are only telling facts; what we believe in our opinion will take place in the future. Diplomacy on our part is not proper now. Diplomacy will only triumph when it is backed up by force. The Philippines will derive no benefit unless we talk as a free, independent nation. We are here telling you the true facts which may have some relation to the future of our country. In case the present conflict spreads to other parts of the Far East, in case it embroils the Philippines, no doubt there will be only two alternatives for the United States: either to withdraw, or to protect the Philippines to uphold the good name and honor of the United States at the cost of thousands of lives and probably millions of dollars. But this will give us no benefit. The occurrences in other countries show us that naval bases in the Philippines are not sufficient protection for the Philippines. Probably, if

an enemy desires to take these naval bases, they will not launch the attack directly at them but will take some portion of an adjoining territory as a base of operations. We are not telling this as a military strategist. We are only citing this to show you the probable effects on our economic status of such a conflict, in case it takes place. Nobody can calculate now how much havoc and destruction will be wrought on our industries, on our fields, and on our houses in case the Philippines is embroiled in a war.

We do not even believe in the contention of others that the Philippines must first be prepared militarily under the guidance of the United States. We believe if we are left alone with a government of our own, we can undertake the defense of the Philippines without the aid of any foreign country. A military defense undertaken for the true security of a country must be undertaken by the citizens of that country alone without being helped by other powers. We do not say that the United States may become an enemy of the Philippines afterward, but who knows?

The contention that the United States can prepare the military defense of the Philippines within 10 years is without foundation. As is cited in our memorandum, not more than 160 million pesos may be devoted to the military defense of the Philippines within 10 years. We may even double that amount, but still that amount will not be sufficient for a complete military defense of the Philippines. Now, after the termination of the so-called "transition period", when the Americans will see that we are not yet prepared to defend ourselves, perhaps those who are opposed to Philippine independence will again say that the United States must still retain the Philippines because the Philippines is not yet ready to repel foreign invasion. The program, as we see now, of the military defense of the Islands is very costly. It is our honest opinion that we do not need as large an army as is being prepared now, as is being undertaken now by the Commonwealth Government. After all, this military preparation will not be enough to guarantee the safety of the Philippines. There is the probability that this military preparation in the Islands may only invite foreign intervention. Other powers may regard this as a preparation by the United States; and this is not a joke. We have to tell you here our own findings. Our findings reveal that other powers are beginning to suspect that the military organizations in the Islands are not being done on behalf and for the benefit of the Philippines but that in case of extreme urgent necessity the United States will perhaps use this military organization as a contingent of the United States Army. This is not without legal foundation. It is stated in the Tydings-McDuffie act that the President of the United States, by a single proclamation, can mobilize all the

armed forces of the Islands. This provision alone is causing a wide-spread suspicion among our people. They say that this organization is devised, not for the protection of the Philippines but to slaughter, to kill the Filipinos later. I have to repeat that this is not my opinion; that is the opinion of the masses on whose behalf I am speaking now.

The last thing I am going to speak about is the neutrality of the Philippines. Many believe that a neutralization agreement will not be a sufficient guaranty for the territorial integrity of the Philippines. The belief is well founded, but allow me to tell you that the danger of disregarding the neutrality of the Philippine Islands in case it is achieved will not exist. We have to rely on the opinions of persons who are versed enough in the question of our relations with other countries. It is intimated very often that, although the Philippines may be neutralized, there is still a probability that a foreign country, another foreign country other than the United States, will later come up and take possession of the Philippines. History shows that such an aggression only takes place when the relation of one country with another is so strained as to call for a disregard of neutralization agreement. Let me cite an instance to clarify my statement. Belgium was enjoying neutrality before the outbreak of the World War, but, when the war broke out Germany did not heed the protest of Belgium, and proceeded to invade Belgian territory, just to wrest the territory of the enemy. Such an unhappy event will not take place in the Philippines in case of conflict in the Far East; we do not believe the Philippines will be placed on the line of attack of any belligerent. The fact that the Philippines is situated between the territories—the possessions—of England, Holland, France, and Japan, does not give ground to the belief that when a serious conflagration takes place in the Far East the Philippines will be invaded just because it is weak. On the other hand, if we have here in the Islands American naval bases and fueling stations, no matter how rigid the provisions of a treaty providing for the neutrality of the Philippines, perhaps other powers may invade our territory simply because we are harboring here a force which is also a menace to the security and to the interests of other foreign countries.

The case of Manchuria has always been cited by those who are opposed to Philippine independence. I have cited the occurrence that led to the Manchurian incident. In addition to this, permit me to say, as soon as the Philippines is set free, the danger of another foreign invasion will be completely eliminated. We have reason to believe in the doctrine being propagated by a certain organization in the Far East asking for the cooperation of all Asiatic peo-

ples, not for the purpose of annihilating the interests of the Western powers but simply to balance the trade and commercial relationship in the Far East, so as not to irritate, so as to give equal opportunities to all foreign nations, including the Western countries, to trade in the Far East.

Now, the Philippines is in great danger. The competition among capitalistic countries is so keen that each and every one of them manifests a desire to grab or to have the control of the Philippine market. The Japanese are trying to control our market; the Chinese are trying to control our market; the Dutch are trying to have a good access to our market. In the face of these threats, the United States must maintain here such a rigid discipline as to avoid the collapse of American interests. Now, this is causing so much difficulty among the Filipinos. Foreign goods are coming here to the Philippines to such a great extent that the Filipinos are being deprived of the opportunity or are being discouraged because of this foreign competition. We believe that once we are set free, the enthusiasm, the courage of our people, will be aroused. The case of Czechoslovakia may be cited. Before freedom was granted to this small country, the Czechoslovaks were more impotent than the Filipinos are now. But when Czechoslovak independence was granted, there arose such a spirit and enthusiasm among them that, only after a few years of self-government, they already enjoyed such prolific business enterprises as to be compared with other countries of almost the same size.

Now, permit me to conclude by saying that we are really willing to extend our cooperation to the people of the United States, and especially in matters of trade and commerce, but we are helpless now; we cannot extend that cooperation unless we are free. Cooperation is only possible between two peoples who are enjoying equal privileges and equal rights. Anybody may call our present relationship a true cooperation, but permit me to say, with much regret, that this is not cooperation. Everything done here in the Islands depends solely, always depends solely, upon the will of the United States. I believe the members of the Committee should be willing to find some remedy for this anomalous situation. The Committee was sent here to the Islands apparently to seek our cooperation. But under our present status, we are only free to voice our opinion, we are only free to say what we want, we are only free to cite occurrences. But when it comes to the enactment of a law or the actual performance of a treaty, it is only the United States which has the first and last say.

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Santos? (No response.) There are no questions; thank you, Mr. Santos.



(Here follows the printed brief submitted for the Sakdalista Party of the Philippines (national group).<sup>1</sup>)

Chairman **MACMURRAY**. The next organization to be heard is the Sakdalistas of Cavite, to be represented by Mr. Fernando A. Manuzon.

**STATEMENT OF MR. FERNANDO A. MANUZON, ON BEHALF OF THE SAKDALISTAS OF CAVITE**

Mr. **MANUZON**. Mr. Chairman, Members of the Committee, and Fellow Citizens: Perhaps in reading the memorial<sup>1</sup> of the local Sakdalistas of Cavite you have noted that its first half was written in English, and the other half was written in the native dialect of the Filipinos, the Tagalog. Therefore, it is requested by the committee of the Sakdalista Party of Cavite that its representatives be permitted to speak before the assembled honorable members of the Committee in the native dialect, with the assistance of an interpreter of the Government who may be here.

Chairman **MACMURRAY**. Pardon me. Before you commence, let me ask you to pause after each paragraph or so, in order that we may then have the translation and follow in sequence as you go along.

(Mr. Manuzon spoke in Tagalog, and his statement was translated into English by an interpreter.)

Mr. **MANUZON**. It is a fine opportunity that the President of the United States and President Quezon have decided to send to the Philippines a Committee to investigate the situation of the country. The Filipino people are happy that the American members of the Committee shall have the opportunity of finding out what is happening inside and outside of the Government of the Philippine Islands. Our organization has received copies of newspapers stating that this Committee was organized in order to find out the situation of the Philippines concerning independence.

Chairman **MACMURRAY**. May I, at this point, lest there be any misunderstanding, refer to the introductory statement which was made on opening these hearings, that the Committee has not been requested to recommend a date for political independence, either earlier or later than that fixed in the Independence Act. The Committee will therefore confine its consideration of that question to the bearing which the advancement of the date of independence would have on facilitating or retarding the execution of a program of economic adjustment in the Philippines, as set forth in the joint statement of President Quezon and Assistant Secretary Sayre issued to the press on

<sup>1</sup> See vol. III.

March 18th last. It is consequently expected that all those presenting to the Committee either written or oral statements relative to the question, or to the advancement of the date of independence, will confine such statement to a consideration of the economic problems involved. I will quote from that introductory statement and then ask the interpreter to translate it into Tagalog. In making the statement referred to, I requested in behalf of the Committee the cooperation of the Filipino people and continued:

I take this occasion to express, on behalf of the Committee, the hope that those presenting to it information and statements of their views will, in a spirit of such cooperation, facilitate the Committee's work and avoid confusion as to its proper responsibilities, by a considerate restriction of their remarks to those matters which are within its competence and relevant to the questions with which it is authorized to deal.

(By order of the Chairman, the above quotation was translated in Tagalog for the benefit of the audience.)

Mr. MANUZON. In regard to the statement of the honorable Chairman of the Committee, I can give to this Mr. Interpreter a copy of the Bulletin issued August 1st, relative to the scope of the Committee's work, and Mr. Interpreter can read to the public the issue of the Bulletin on August 1, 1937, regarding your visit here.

Chairman MACMURRAY. I think it is quite unnecessary to have anything read for the purpose of defining for the Committee the purposes for which it is in the Islands.

Mr. MANUZON. Well, according to the issue of the Bulletin, it was the purpose of the Committee to study the situation of the Filipinos and its bearing on independence, as per issue of the Bulletin, and we based our memorial according to the issue of the Bulletin.

Chairman MACMURRAY. That was not an announcement of the Committee.

Mr. MANUZON. I think it is here, Mr. MacMurray. It was released from Washington on August 1st.

Chairman MACMURRAY. It was not an official announcement. If you will forgive me, the Committee is not prepared to enter into any debate as to the scope of its functions.

Mr. MANUZON. Whether it is official or not, I think the best way is to read these statements, so that the members of the local committee of the Sakdalista Party will know what they can do in their memorial.

Chairman MACMURRAY. As I said, the Committee is not prepared to entertain any debate as to the scope of its authority, and I must rule that the reading of any newspaper statement for that purpose is out of order.

Mr. MANUZON. Well, if that is all, I will just supplement our memorial on page 3, the last paragraph. And I think we can talk a

little about this memorial. It is just supplementary to our memorial on page 3, the last paragraph, which begins from :

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 grievances of the Jones act which the American people had so mistakably broken their promises and national Honor.

Then we come to the topic of trade relations. As supplementary to that paragraph, I will read this short written statement.

Eloquently President Wilson, upon accepting the cause of humanity during the World War, declared the following statement before America entered the World War. The President said in part :

We fight for the right of nations great and small, and the privilege of men everywhere to choose their way of life and of obedience. The world must be made safe for democracy. We have no selfish ends to serve. We desire no conquest, no dominion. We should be satisfied when those rights have been made as secure as the faith, as the freedom of nations can make them. To such a task we can dedicate our lives and our fortunes, everything that we are and everything that we have, with the pride of those who know that the day has come when America is privileged to spend her blood and her might for the principles that gave her birth and happiness and the peace which she has treasured.

Now, we come to the trade relations, which is written in our memorial :

Touching the point of economic situation of the Philippines regardless of the many obstacles 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 whosoever can live, can stand alone firm and maintain her dignity among other 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.

I think that is all, and if there are any questions relative to this topic which the members of the Committee would like to ask, the committee in charge of the Cavite Sakdalistas is ready to answer.

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Manuzon? (Silence.) There are no questions. Thank you, Mr. Manuzon.

The next speaker on behalf of the Sakdalistas of Cavite is Mr. Ignacio Martinez.

STATEMENT OF MR. IGNACIO MARTINEZ, ON BEHALF  
OF THE SAKDALISTAS OF CAVITE

(Mr. Martinez spoke in Tagalog, and his statement was translated into English by an interpreter.)

MR. MARTINEZ. Honorable Members of the Committee: Much as I would like to use the language of the American members of this Committee, I am constrained not to do so, because above all it is my bounden duty to use the language which I have imbibed from my mother and because I know that through the same language other politicians were able to obtain from the United States Government what they aimed at or what they sought.

I understand that the purpose of this Committee is to deal with the trade relations between the United States and the Philippines. It is the belief, however, of the Sakdalistas from the Province of Cavite that there will be no economic stability in the Philippines unless our political situation is first adjusted. It is the belief of this group, which I am representing here, that the political problem of the Philippines must be, and should be, above the economic problems, because we know that even the United States, before they acquired their economic independence, first struggled and tried to sever their relations from England in order to acquire their political independence. According to the present economic situation of our nation, we believe that, under the Tydings-McDuffie act, the Philippines will never be independent economically or politically. As a proof of my assertion, I quote the Honorable Manuel Roxas, who stated in his speech of January 16, 1934, that "the Philippines will not be free economically or politically even after the 10-year transition period under the Tydings-McDuffie act or under the Commonwealth Government".

I stated before that we first should have our political independence, then our economic independence; and I stated this because our group believes that it cannot expect anything, so far as Philippine independence is concerned, from the wealthy people and from the statesmen and politicians of the Philippine Islands. In order to support this statement, I would like to quote a certain resolution drafted by the *hacenderos*, or owners of *haciendas*, of the Visayas, particularly those from Panay and from Negros and Iloilo, and endorsed by many of our political statesmen. This statement was made in the year 1916, while independence was being dealt with in the Congress of the United States. This resolution opposed the grant of independence to the Philippines, and that is the reason why I stated that we cannot expect from the wealthy people nor from the politicians of the Philippines the grant of our independence. Hence, I requested, as I have

already stated, from this Committee, that independence first be granted before we talk about economic problems.

I would like to quote the message of President McKinley of the United States in connection with the United States-Spanish War, which was made at the beginning of American sovereignty over the Philippines. President McKinley stated that the war that the United States was then waging against Spain was not a war of conquest, but it was for the purpose of helping the Filipinos to sever relations from Spain and teach the Filipino people how to become free. It has been also stated by the first Governor General of the Philippines in a phrase that has become famous "the Philippines for the Filipinos". The promise contained in the Jones act also stated that the Philippines was ready for independence, and that statement was made before any dealing was done, before the trade relation between the United States and the Philippines was dealt with. This statement was confirmed by the late President Woodrow Wilson in his message to the United States Congress in the year 1920, to the effect that the Filipino people have shown themselves to be capable of independence. I am quoting again from the message of President Wilson to the United States Congress, which, in part, says: The Filipino people are successful in maintaining a stable government. I am bringing this fact to your attention in order that we might fulfil what we have promised them, and that is their independence which they have long been waiting for. But according to what we, the Sakdalistas of the Philippines, observe as the situation produced by the enactment of the Tydings-MacDuffie act under the Commonwealth Government, it is our belief that the Philippines will never obtain its independence under that law. If the honorable members of this Committee here were to propound to me the question whether, if Philippine independence were granted, the Philippines would be able to stand economically, I would not hesitate to answer in the affirmative, even if the United States market were closed to our trade. The advancement of Philippine trade is not an unknown fact to the members of this honorable Committee. As a proof of my assertion, I would like to cite the fact about the ₱100,000,000 brought by President Quezon to the Philippines as the profit of Philippine goods entering the United States market. This is one more proof that Philippine trade is advancing. I have stated that we will be able to maintain our trade, even if the United States should close its market to the Philippines, because a free and independent nation is also free to open new markets and to carry on free trade with other free nations. I would like to cite the examples of Japan, China, and other free nations who have free trade with other free nations of the world. This is inevitable, because the Philippines have products which other nations do not have.

As regards the stability of the nation from the standpoint of national defense, I would like to state that even now the Philippines is stable; because even now we have the constabulary, and we have that part of the United States Army under the title of "Philippine Scouts", who are experts in their line and who are undertaking at the present time to train our future soldiers; all of this under the guidance and instruction of the United States' own expert, General Douglas MacArthur. If it is stated that at the present time the Philippines as a nation is very poorly armed, I have no doubt that it is true and it will be true while the United States is the sovereign power, because, unless we are free and independent, we cannot carry out our scheme of military development.

For that reason, this organization, that is, the Sakdalistas of the Philippines, respectfully inform the honorable members of this Committee that it is now high time that the promised independence of the Philippines be fulfilled, because this promise has been made ever since the inception of the American sovereignty in these Islands. Let me thank the honorable members of the Committee for their attention, and I also request that the petition of this group be entertained by the honorable members of this Committee as the voice coming from the masses of the Filipino people.

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Martinez? (No response.) Thank you, Mr. Martinez.

The next speaker on behalf of the Sakdalistas of Cavite is Mr. Fernando Y. Tañog.

#### STATEMENT OF MR. FERNANDO Y. TAÑOG, ON BEHALF OF THE SAKDALISTAS OF CAVITE

(Mr. Tañog spoke in Tagalog, and his statement was translated into English by an interpreter.)

Mr. TAÑOG. Honorable Chairman and Members of the Joint Committee on Philippine Affairs: It is with pleasure to us that this Joint Committee of Experts has arrived because the Sakdalista group of the Philippines will have an opportunity to have their complaints presented before the Committee in connection with Philippine independence.

Chairman MACMURRAY. May I ask, before the speaker proceeds, if he heard the statement which I read just now to the effect that the Committee is not concerned with the question of independence and is not prepared to entertain complaints with regard to the question of date, but only to consider the bearing which an earlier or later date of independence might have upon the economic questions involved?

Mr. TAÑOG. I understand that the motive of the experts in coming to the Philippines is to make a survey of the Philippine economic situation. It is my opinion, however, that the Philippines will not be free economically unless it is first granted its independence. I make this statement because, according to the Constitution of the Philippines under the Commonwealth Act, in article 1, it says: "Every citizen of the Philippines will pay allegiance to the United States", while, in article 10, it says that the Philippines cannot carry out trade treaties with other nations without the authority of the United States. I make this statement because, as happened in the year 1934 in many sugar plantations of the Philippines, cane had to be cut down and left to rot and waste because, according to certain provisions of the Tydings-McDuffie act, it was over the quota allotted to the Philippines. It is, therefore, the request of the Sakdalistas that, before the economic problems of the Philippines be dealt with, it first be granted its independence, as stated by the speaker who preceded me.

If the grant of Philippine independence were based upon the resulting situation from the trade relations between the United States and the Philippines during the transition period of 10 years, I am sure that by the time this period elapsed, or even before it elapsed, the Filipino people would be in such a precarious economic situation that independence, even if granted after that time, would not be much worth while, and this would be due to the onerous and heavy American tariff imposed upon Philippine trade during the transition period. In this connection I would like to quote what President Quezon stated at the time when the Honorable Manuel Roxas and others accepted the Hare-Hawes-Cutting act. President Quezon stated that, according to that act, after six years the United States would impose a 5-percent tax on Philippine goods, and from then on the amount of this tax would gradually increase until it reached the amount of 25 percent. For this reason, I oppose, and the Sakdalista Party which I represent also opposes, the celebration of trade treaties or trade relations with the United States. For, if independence were to be granted under the Hare-Hawes-Cutting act or the Tydings-McDuffie act, we, the Sakdalistas, believe that the Philippines will never be independent under those acts; as stated by the Honorable Manuel Roxas, it is certain that the Philippines will not be independent after 10 years.

For this reason, the Sakdalista Party of the Philippines is opposed to free-trade relations between the Philippines and the United States; if free trade between the United States and the Philippines under the Tydings-McDuffie act were to exist under the management of our present politicians or statesmen, we believe that the

Philippines will never have a stable economic situation. And I say that the Philippines will never enjoy a free economic situation because, as has been stated by a Spanish writer, "the Filipino politicians are killing their own poor countrymen in the name of the sovereignty of the United States". For this reason, the Sakdalista Party will never allow free-trade relations with the United States while the Filipino people are under the sovereignty of the United States, because what happens under the American sovereignty in the Philippines as regards the masses of the poor people is just like what happens to a water buffalo, which has to go wherever its master drives him; that is, the masses have to follow where they are led by the agents of Wall Street, and they cannot help doing this. The Sakdalista Party of the Province of Cavite is thankful to the honorable members of the Committee for their attention to its complaint.

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Tañog? (Silence.) There are no questions. Thank you, Mr. Tañog.

The concluding speaker for the Sakdalistas of Cavite is Mrs. Tomasa Ortiz.

#### STATEMENT OF MRS. TOMASA ORTIZ, ON BEHALF OF THE SAKDALISTAS OF CAVITE

(Mrs. Ortiz spoke in Tagalog, and her statement was translated into English by an interpreter.)

Mrs. ORTIZ. Mr. Chairman and Members of the Committee: I would not like to take much of your time this morning. I only wish to state some of the feelings of the Filipino woman. I have nothing to say about trade relations, but, whatever I say, I would like you to convey to the President of the United States as the voice of the Filipino woman. I would like to state to you, honorable Members of the Committee, that the Filipino people are earnestly asking for independence right now and not tomorrow; and that is all. Thank you very much.

Chairman MACMURRAY. Are there any questions? (Silence.) Thank you.

(Here follows the printed memorial submitted by the Sakdalistas of Cavite.<sup>1</sup>)

Chairman MACMURRAY. There remains on today's schedule the statement of the Commonwealth Association, to be represented by Mr. Pedro M. Blanco. Is Mr. Blanco present?

<sup>1</sup> See vol. III.



STATEMENT OF MR. PEDRO M. BLANCO, REPRESENTING  
THE COMMONWEALTH ASSOCIATION

Mr. BLANCO. Mr. Chairman, Members of the Committee, and Fellow Countrymen: There is not very much for me to say because so much that should be said, especially with respect to the economic relationship between America and the Philippines, has already been said by experts in their particular lines. I shall simply call the attention of the members of the Committee to a resolution—a kind of resolution—that was presented to this Committee, for the information of our fellow countrymen, to the effect that we are coming to the Pacific era, as it used to be that of the Mediterranean Sea. Today it is the Atlantic, but in the future it is going to be the Pacific era. All students of economics seem to be of the opinion that the future world lies along the Pacific basin; so that if we are interested in the economic developments or the economic progress of our respective peoples, we must turn our eyes to the possibilities of the nations bordering on the Pacific, particularly those of the Asiatic Continent. Right now we have war between Japan and China, which disrupts the development of trade, but sooner or later this war will end, and then will begin the reconstruction period. With the 400 million population of China, the 300 million of India, the 40 million of Java, there is no question that this opinion of experts is true, because trade depends upon two factors: first, natural resources, and, second, population that will consume the product of industry. Many say that Asia is now dormant. That is very true. So was Europe in the Middle Ages. But these countries have developed because they have been able to marshal the resources of their respective countries into useful necessities for the maintenance of economic welfare. Men who have gone to China claim that the resources of that country are tremendous. In coal alone—I understand the coal deposits of China can maintain the needs of the whole world for the next 400 years. The other mineral deposits are also tremendous.

And in our days—if I may be allowed to somewhat contradict the doctrines of the Sakdalistas—in my opinion independence today has no real meaning. In theory, yes, but in practice it has no real meaning. If the Sakdalistas would say that they prefer to be independent, let me just give a very humble or homely illustration. We hear of individuals who say: "I am rich; I am well off; I am independent; I do not need the help or the services of my fellow countrymen." I would say to you, My friends, if you really want to enjoy independence, as you say, you try it; go to the mountains and live an independent life. How long will you be able to stand life up in

the mountains? Sooner or later you will come down to your fellow men and associate with them and exchange goods or buy and sell from one another. We can apply the same theory—or, if I may say, practice—in the life of nations. No nation today can really live an independent life. In theory we say they are independent, but in practice they are not independent. Take, for instance, England. England is supposed to be one of the greatest nations of the world. It has the greatest navy, and yet you find England not confident that she has the ability to live an independent life economically; and when I say economically, it also connotes political relationship. She has to arrange trade alliances with France and other powers. Now, here, we in the Philippines, a young and undeveloped people, say, Let us be independent. If we are granted independence from America, I am afraid that we will only be changing relationship with another, changing relationship with somebody else who may not be as good as our American friends. Let me illustrate my point. You remember the story of a dog that had a bone in his mouth. Upon crossing a narrow bridge, he saw his image in the water below. Thinking that it was another dog that had another bone in his mouth, he wanted to fight for the bone, but, upon opening his mouth, he lost the bone he had. We say to America, Give us freedom. In this connection, I should like to say that it is very, very hard to look for a true friend, on whom you can depend—you meet a person and develop friendship with him; it takes time. Now, the same is true if we get rid of America. To whom shall we look for friendship? Shall we say, Japan? Because no country other than Japan would offer friendship just as soon as America leaves. Now, if we try to become friends with Japan, there can be only one result. And that is absorption or domination by Japan. Because if necessity is the guide of the foreign policy of a nation, there is no question but that Japan needs foreign territory whereto she may send her surplus population of one million, and she also needs our resources to supply her industries at home. She needs our abaca; she needs our gold; she needs our iron, manganese, and chromite. Once we are independent, this will be just a very delicious morsel for her to come and gobble.

I do not need to dwell very long on that. Time is limited. And to those who are interested, their attention is simply called to a pamphlet which I published about four years ago, the title of which is *The Philippine Problem*. It is a non-partisan discussion of the realities of Philippine independence. I would simply like to add a word to the petitions that have been presented to the members of the Committee by the trade experts who have preceded me this morning. I understand that the Chamber of Commerce of the Phil-

ippine Islands petitioned for an additional 10-year transition period, with free trade during that period. We, those of us who are members of the Commonwealth Association, say that if the free-trade relation that would exist during the next 20 years is good for us, what is wrong with continuing it for a longer period? Following that reasoning, those who are members of the Commonwealth Association are in favor of the indefinite continuation of the Commonwealth Government, under the Tydings-McDuffie act, with the unfavorable provisions of said act, of course, eliminated, as has been promised by President Roosevelt and leading members of Congress, who have said that if there were inequalities in the act they should be eliminated after due hearing had been carried out. And that is the reason for the presence of this Committee here this morning.

That is, honorable Members of the Committee, the petition of the members of our association, as embodied in the conclusion of our brief, that the present trade relations between the United States and the Philippines, at least in volume as permitted by the Tydings-McDuffie act, should be continued indefinitely. And logically if this trade is to continue, the political relationship under which it develops successfully must also continue indefinitely. I thank you.

Chairman MACMURRAY. Are there any questions to be addressed Mr. Blanco? (No response.) Thank you, Mr. Blanco.

(Here follow the printed brief, entitled *The Philippine Problem*, and the printed *Articles of Incorporation and By-Laws* submitted on behalf of the Commonwealth Association, Inc.<sup>1</sup>)

Chairman MACMURRAY. That concludes the hearings upon the briefs of the organizations to be heard this morning. The hearings will be resumed tomorrow morning at 9 o'clock in order to hear the supplementary explanations of individuals who submitted briefs. The meeting this morning stands adjourned.

(Thereupon at 11:45 o'clock a.m. an adjournment was taken until the next morning at 9 o'clock.)

<sup>1</sup> See vol. III.

## PROCEEDINGS OF SEPTEMBER 22, 1937

SENATE CHAMBER, LEGISLATIVE BUILDING,  
MANILA, PHILIPPINE ISLANDS,  
*Thursday, September 22, 1937.*

The hearing before the Joint Preparatory Committee on Philippine Affairs was resumed at 9 o'clock in the morning.

*Present:*

The Honorable J. V. A. MACMURRAY, *Chairman*;  
The Honorable JOSÉ YULO, *Vice Chairman*;  
Mr. JOSEPH E. JACOBS, *Vice Chairman*;  
Mr. CONRADO BENITEZ;  
Mr. LOUIS DOMERATZKY;  
Mr. BEN D. DORFMAN;  
Colonel DONALD C. McDONALD;  
The Honorable QUINTIN PAREDES;  
The Honorable JOSÉ E. ROMERO;  
The Honorable MANUEL L. ROXAS; and  
Mr. FRANK A. WARING.

*Absent:*

Mr. JOAQUIN M. ELIZALDE; and  
Mr. CARL B. ROBBINS.

Chairman MACMURRAY. Yesterday we concluded the hearings of those who represented organizations of one sort or another. Today we will take up the hearings of those who individually wish to present views to the Committee, and the schedule for today includes Messrs. Narciso Lapus, Patrick McCrann, Tomas Rivera, Antonio A. Zolina, Gerardo C. Monden, and Salvador Araneta.

Is Mr. Lapus present?

Mr. LAPUS. Yes, sir.

### STATEMENT OF MR. NARCISO LAPUS

Mr. LAPUS. Mr. Chairman and Gentlemen of the Committee: Before I commence my supplementary remarks on my brief,<sup>1</sup> I would like to make a correction in a letter I wrote to Dr. Dorfman accom-

<sup>1</sup> See vol. III.

panying my brief as regards the time I asked, which was from 5 to 10 minutes. I think I made a slight mistake. I believe that this time is not enough even to finish an observation on certain matters. That is why I ask the indulgence of the Committee, in the event that I do not finish my statement within that time, to give me a little extension.

In appearing here before this honorable Committee, I do not represent any group officially, although I am a member of the Philippine Independent Church, which has around 4 million members; the Filipino Veterans of the Revolution, with around 100 thousand members; the Philippine Civic Union, of which I am the general treasurer and also a member of its supreme council; and the first Filipino Civic Association, which fought the Hare-Hawes-Cutting act and which was the only private and non-governmental organization that was able to send its delegate with the mission to Washington which secured the Tydings-McDuffie act, in the person of former Commissioner Gabaldon, and although he was a member of the mission I think he dissented from many of the provisions. In fact, he submitted his dissenting report, when that mission came back to the country urging the acceptance of the Tydings-McDuffie act. I know I am not speaking for them officially, but I believe at this moment I am interpreting faithfully their sentiment with regard to the Filipino's main problem: the liberty and freedom of the Philippine Islands.

Before I read the small supplementary remarks which I have prepared and which I will ask later to be included in my former brief, I would like to make some comments on the previous statements made before this honorable Committee which came from different sections or different representatives in the country. It seems that many forecast and advanced the argument that if we lose the sugar industry in this country we will have collapse, ruin, destruction, and other pessimistic assertions which I believe are not quite correct. First of all, this country has been in existence for a long time without sugar, without the centrals, without this industry. Now it is the main obstacle to the complete liberty and freedom of this country. They say that about 2 million Filipino people are dependent on this sugar industry. May be so, but how? I know that many statements were adduced here that the Filipino laborers, especially in the sugar plantations and sugar sections of the country, are only making around 30 to 50 centavos; and they say that this is a high standard. This is the point where they stick: that if we lose the sugar industry, on account of the grant of independence to the country, it will starve that section of the country, about 2 million of them. Besides that, some of them also said that we will go a generation back, meaning to say that a generation ago the bulk of the masses of the people

were worse off than they are now. They forget that although before the American regime, the Filipino laborer earned only around 15 to 20 centavos a day and now he earns 30 to 50 a day, they forget that in those days the Philippine currency was of higher value than the peso of today. That is to say, if those laborers in those years were making only 15 or 20 centavos a day, which is lower than the present wage of the present day, so it goes to other things related to this matter. They also say that of other industries which I need not mention, as they are, I believe, secondary in the argument here; I believe the sugar industry is the one on which they gave more emphasis. For this reason I want to deal with this matter and refute some of their arguments: that without sugar this country will starve. I want to ask any one of them to mention a case, a single case, since this country was the Philippines, if there has been a starvation case in this country. I cannot recollect a single one. They also say that we can hardly find a substitute for this industry, which I believe is wrong. There are more than one country that I have known because I have traveled a little bit. Every day we are using clothes; every day we are drinking from a glass; every day we are eating on a plate. We are using lots of things that can be manufactured in this country. Our so-called "prophets of disaster" and pessimists, instead of asking the impossible—to force the sugar into the American market—should study and find out what is the best method to start another industry in order that, in the event that we lose the sugar industry, we will have another one in which to place our laborers who are going to lose their means of livelihood in the sugar region.

We have here, according to the statistics of the Department of Commerce and Agriculture, from the four major industries of the country only, a wealth of these Islands of around half a billion pesos. That is, Philippine forest products, about 32½ million; mineral products (although this industry is in its infancy; these are the statistics of last year), we have here already 52 million pesos plus; agricultural products, which are the bulk, of course: sugar, 368 million plus; fisheries (latest estimate), around 85 million. The total wealth estimate of this country as of the year 1932—I cannot secure the latest estimate, because these are the only statistics that I have—is around 7 billion pesos, or an average wealth *per capita* of the Filipinos in 1932, around ₱600. This is the country that they have been forecasting before this honorable Committee is going to starve, that is going to ruin and collapse, should she lose the sugar industry. They forget that we have this mining. It is a great source of income of this Government. We are just starting it. Instead of looking for a remedy to improve this, in order to substitute those industries

that will suffer on account of Filipino relations in case of the severance of the ties of the two nations, they are always crying like a baby and asking the impossible. We know that America is very good, altruistic, and has been always fair to this country. But, don't we see, don't we understand that America has to survive also? No matter how much America loves this country, she would not sacrifice for them at the cost of her own nationals. The American products and the American agricultural group were the main factors for the approval of the Tydings-McDuffie act because they thought that this competition of Philippine products was harmful to their own people. There are millions of unemployed also in America. We have to consider that if we are really just and consistent in our demands for complete freedom, we should not look at the things one-sidedly. Instead of doing this, why don't we look to other nations, for example, Java? Why, Java can produce 288 piculs per hectare, and the Philippines only 90 piculs per hectare. Are we not in the same littoral climate, and in the same region, and of the same race? Why can we not do it? Why can we not send our experts to study how they produce in Java in order to compete in the open market instead of forcing it into the United States market, which we know is impossible because, sooner or later, we will have to face these bitter facts. We have to understand that sooner or later we will have to grow by ourselves and not be begging and hanging on everybody all the time. Why don't we start now? Why don't we study scientifically how these countries—how Japan in less than 70 years rose up into a rank of first potential power, considering that their land is not gifted as the Philippine soil is blessed. Why? Because they studied all the best from other countries, and they applied it in their own way, in accordance with their needs. Why, there is nothing original in Japan. Why can we not do the same thing? Instead of asking the United States, molesting them all the time, to take this and to take that when we know really they are also needing this for their own needs.

We have here plenty of water, water power for electric power. Why don't we develop this to cheapen our electricity for our industries? While in Japan it costs only one and a half penny or a little bit more per kilowatt, in this country it costs from 10 to 15 cents per kilowatt. Why? Because our water power is not well developed. We have plenty of them all over this country. If the Government will start this initiative and when it is on a running basis or profitable basis transfer it to private enterprises, I think we would solve some of these problems for which our brothers in the sugar region are so pessimistic that if we are going to lose sugar, we are all going to die in this country. I am 52 years old. I saw and I have been in the

revolution too. I was in the hospital service of General Mascardo; I have seen two regimes here, the Spanish and the American, so I belong in the middle. I am not from the past and I am not from the present; that is why I know both sides. You see we are seeing here now many of the products of the so-called "modern" schools. I am not telling this on the reflection of our youths but I just want to mention here an account of yesterday; I have seen here a young man, a product of the modern schools, who spoke bravely; of course I admire his courage, because he is the first Filipino that I heard who spoke before a Filipino audience against the liberty of his country. Well, this is the product of what we call easy living. They forget, some of these youths forget, the ideals of their forefathers. They forget everything, they look only for cabarets, dancing, cinematographs, banquets, picnics, and all that kind of thing. They do not know how their forefathers sacrificed for the ideals of their country. Imagine seeing a man like that speak against the ideal for which his grandfather, perhaps, fell in the field of battle. What would you feel, if you, for example, take the place of a Filipino like myself, who has seen in those days of bitterness thousands of bodies lying there, screaming from morning till night—thousands of them we have seen day and night—we did not sleep. One week in that fight between Bacolor and San Fernando, Pampanga, our hospital then was in one of those *barrios* in Porac, Pampanga. We had to walk about 15 kilometers to carry all the wounded to the hospital. We have seen that bitterness, that hardship; but these boys, these youths, most of them do not know that. They have no idea how a country fights just for that sacred word we call "liberty". If we are going to heed what these youths, some of them, are pretending to do now, what then? Even the United States fought for independence. The 21 republics of South and Central America sacrificed the best of them for their liberty. But this boy yesterday said, "What is independence? It does not mean anything." Imagine saying that. Well, this is what we fear. The longer this uncertainty goes on, the worse for us in this country; because our youths, most of them, do not have high ideals any more. They have been brought up in a materialistic atmosphere. They have been brought up in easy living. We cannot expect them any more to be like our past generations, who witnessed all the struggles of their fathers for the liberty of their country. We cannot help it because there is a Spanish saying that "De todo hay en esta viña del Señor"—"In this godly earth grows everything".

Well, there was Benedictariado in South America; there was Simón María de la Rivas in Colombia. There have been all over the world people like these we cited; we just leave them alone and respect their opinion. But we who have suffered for this, who launched



these ideals, can never renounce them. They say some of our big brothers, we call them the big industrial and agricultural group, put so much bug-a-boo on this sugar industry. We forget that we can manufacture here—in the event we lose the sugar—glassware and canned tropical fruits and products, and can raise cattle and poultry, cotton, rubber, and coffee. We had the best coffee before. We had it in Batangas Province. If we lost that because of certain pests, why can we not go back to it and find out how we could bring back that industry. We can manufacture here papers, pencils, iron, pig iron, firearms, ammunitions, and other kinds of things. See! The weaving industry in Iloilo, as well as in some parts of Luzon, was abandoned. Why can we not revive it? Why can we not find the best scientific way to improve this in order to put it in the world market? The shoe and slipper industry is starting on its way. Alcohol and gasoline substitute derived from the sugar, which they have been putting on trial—why can we not improve these in order that we may substitute some of the imports of the country and relieve in some way these so-called “economic worries” of our prophets of destruction? The sugar, if we cannot put all that we want to put out to the market of the United States, well, we can manufacture it here into candies and other things which we can export, while we are importing here lots of candies from Ireland and England; why can't we substitute these instead of importing? I don't see why we cannot do these things when they are being done by other people in other parts of the world. Galvanized iron—we have plenty of raw materials. We have been importing them all through the centuries. Cement, for example—we are manufacturing cement here. Paints—we have plenty of raw materials for paints in our mountains. This country, I think, is gifted with that single and unique blessing of nature for you can see gold even under the church. In fact, you saw that the church of Paracale and the church of Mambulao, Camarines Norte, were staked for mining purposes because they have gold under them. Even under my house, a small house in San Francisco del Monte, one day I saw a piece of stone with a little gold; although it is not of commercial value, still it is there. Nobody put it there. These building construction materials which we have been importing in millions and millions, we can substitute them. The hemp and abaca, which some of our friends here also fear and for which they have been crying that they are going to starve if they lose the market—well, Japan has been importing here in big volume. In fact, from Davao raw materials are taken to Japan for her to manufacture and are then brought back and sold to you in the form of rayon and celluloid and cellophane, and many other things. Why can we not do it here? We

can even use them for shoes, for mats, for clothing—this abaca. They have been yelling and crying and shouting for free trade; and some of them have said that free trade was forced on us. It is true. Some of them have also said that made the country subservient to the United States market. If it is true that free trade is no good because it tied up this country like a slave economically to one country, why are we asking it now? We are asking one thing that we criticized yesterday. Are we not contradicting ourselves? I cannot understand it. They say—some of them are asking for neutralization and protection of this country. They do not think, they do not see that a treaty of neutralization cannot be signed while another power has some special preferences and privileges in this country, as, for example, naval reservations. If we are going to get that, and there is a neutralization treaty, then we have to give naval reservations to all these powers to whom we are appealing for the signature of the neutralization arrangement. We are yelling for free trade. We have to give all of them free trade. They forget that.

In fact, this Tydings-McDuffie law is a contradiction in itself. It carries lots of provisions which are unjust and inequitable to the Filipinos. In other words, many of them are one-sided provisions. Take, for instance, the economic provisions. American goods are free to come to this country. I am telling this because maybe my friends, the American businessmen doing business here, may think I am anti-American. No, I am just citing facts. American goods are coming into this country free of duty, while Filipino goods are going to be gradually taxed and limited in the quantity of the exports to the United States, when we get to the sixth year of the Commonwealth. We are limited to 50 persons annually to enter the United States on immigration quota, yet the American people or American nationals have no limitation to come into this country. The President of the United States is free to call to service at his will the Philippine Army, while our President cannot do the same thing to the American troops. We are taken as aliens in the United States and in the mainland; yet we owe allegiance to the American flag and we are duty-bound to defend it at any cost. These are some of the injustices, the provisions that are very unjust to the Filipino people, according to my point of view.

Coming back to the shouts of my friends from industrial and commercial circles, they forget, when they say that the Government will lose a big income for the loss of the sugar industry and that the Government cannot be maintained any more; they forget, I think, that we are next to the lowest taxpayer *per capita* in the world. You can see here; I have statistics. The Philippines, with 13,266,700 peo-

ple more or less in 1935, and an income of about 130 million pesos are paying a *per-capita* tax of only ₱5.48. Brazil—of course, Brazil is a bigger country—with an income of 284,874,843 pesos and a population of 43 million plus, has an average *per-capita* tax of ₱6.58, which is one peso higher than ours. Ecuador, which has only an income of 20 million pesos plus, with a population of around 2½ million plus, has a *per-capita* tax of ₱7.72. Venezuela, with an income of 57,900,000 pesos and 3 million plus population, has a *per-capita* tax of ₱19.13. Portugal—of course, Portugal has more income than we have—has an income of 192 million and a half pesos plus, with 6,825,000 population plus, and a *per-capita* tax of ₱28.20. Switzerland, with a revenue of 178 million pesos plus and 4 million plus population, has a *per-capita* tax of ₱43.06. Chile—of course, Chile has a bigger income than we have—has an income of 248 million pesos plus, with a population of 4,287,445, and yet their *per-capita* tax is ₱57.54. Canada—it is very near to our population, of course—with an income of 648,000,000 pesos plus and a population of 10,376,786, has a *per-capita* tax of ₱62.46. Argentina, with an income of 835,134,471 pesos and 12,055,069 population, has a *per-capita* tax of ₱69.28. Norway, with an income of 219,000,000 pesos plus and a population of 2,800,000 plus, has a *per-capita* tax of ₱77.98; Uruguay, with an income of 174,000,000 pesos more or less and less than 2 million population, is taxing its citizens at the rate of ₱87.34. Well, this is a comparison of our *per-capita* tax with the tax of some of the countries which I was able to find out in the statistics. I am sorry I could not find the others, but they have not complete statistics.

With this *per-capita* tax they are crying that the Government cannot maintain itself. We have not even started in our country to make real and adequate and just and equitable taxation, especially in reference to luxuries, to big incomes. We have here lots of big *haciendas*—they do not pay tax to the Government. We have here lots of luxuries—they do not pay tax to the Government. Why can we not find this out? I believe, if I am not mistaken, in 1919, when one of the members of the last Assembly asked the Bureau of Internal Revenue to give an estimate of the probable additional taxation on luxuries, the Bureau of Internal Revenue gave an amount estimated not less than 8 million pesos a year for luxuries only, like automobiles, jewelry, big income on these *haciendas* that do not pay anything to the Government. Well, as I said, then, in that year perhaps that amount would be duplicated. We have in this country around 110,975 aliens, who are residents in this country. These friends are doing business in this country. I think they would not mind paying a little bit more for their business and other things, in order to maintain this Government, which is giving them roof in this country.

About this cry that we are not prepared—I heard it several times. They say how can you maintain an independent government? If you would review those numbers of population that I just gave now, you will see that we are, in population alone, far better than many of them. I am not going to cite other things because I think there have been adduced here many arguments about this. But one thing I can say is this: If we are not ready for independence, why have we asked for absolute independence since 1907? That was the slogan invariably embodied in all the platforms of all the parties that came up to power from that year up to this time. If we were not ready to stand on our own footing, why did we do it? If we are not really ready, if it is true, as my friends who spoke about destructions and collapses and ruin allege, that we are not ready, then our country was not told the truth and the American people were deceived on the facts, for which we have to blame ourselves. But in answer to that allegation, I believe that since 1898 we have been ready to live an independent existence. In fact, if we had not lost that independence by force of arms, perhaps we would be one of the powerful nations now in the Orient. By physical inability we lost it.

And then, they say also as an argument here—I heard it several times; I defended it here and in the United States also when I was there—they talk about the Japanese bug-a-boo, about the Japanese menace, about the Japanese gobbling up the country as soon as we get our freedom and independence. Now, they are basing their argument on what is happening in China. Looking at and observing this matter profoundly, it is not as it is seen superficially. I have many big Japanese friends with whom I have dealt. Even if you do not ask me, I am in the mining business at present. They told me this: We are now doing this to China, because the Chinese people have been in chaos for some time, so we must fix them up and give them a spanking, so that we can carry out normal living with them. But if we let the occidental countries fix it up in their own way, the Japanese will lose their hold of the Orient in their business in selling their goods. So, this is a purely disciplinary action on the part of Japan. I think their taking China (although I do not favor it) is their own business. But I am just telling this to answer those who prophesied ruin and destruction for the Philippines.

Chairman MACMURRAY. Mr. LAFUS, how much time do you expect to use?

Mr. LAFUS. About 10 minutes more.

If Japan really wanted to grab this country, she could have done it while we were under the Spanish Government, for the Spaniards then were very weak. They could not fight Japan. Why did she leave this country to ourselves? Siam is near Japan, why does not

Japan take that country. Because there is no chaos there. There is no disorder in that country. That is why Japan is not taking it. It may be my friends stick on Baron Tanaka's memorial. It may be so. If a country is afraid to defend herself, it is a shame to ask freedom. It does not deserve even to pronounce that word if it is afraid to live by its own defense. Let us take it for granted that Japan has designs to get this country. But she is too busy now with China; and before she can finish China it will take her 50 to 100 years and then we will be prepared to defend our country. That is my contention against the statements introduced before this honorable Committee in regard to this Japanese menace.

If the Committee will allow me, I am going to read this which I want to insert as a supplementary remark to my previous brief.

(Here follow the supplementary remarks incorporated in the printed brief submitted by Mr. Lapus.<sup>1</sup>)

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Lapus? (No response.) Thank you very much, Mr. Lapus.

(Here follows the printed brief submitted by Mr. Narciso Lapus.<sup>1</sup>)

Chairman MACMURRAY. The next speaker scheduled this morning is Mr. Patrick McCrann.

#### STATEMENT OF MR. PATRICK MCCRANN

Mr. McCrann. Mr. Chairman, I have to go rather slow because I have heart trouble.

Mr. Chairman and Members of the Joint Preparatory Committee on Philippine Affairs: I have been here in the Philippines (reading his brief<sup>1</sup>).

Chairman MACMURRAY. Pardon me, I take it that you are reading the brief that you filed with the Committee.

Mr. McCrann. Yes, Sir.

Chairman MACMURRAY. If briefs are already on file, it would be unnecessary to read them to the Committee, but have you supplementary remarks to make?

Mr. McCrann. I have a few, Sir. For instance, the population of the Philippine Islands has more than doubled since the arrival or the beginning of the American regime. The population is now about 15,000,000, but when we arrived it was less than 7,000,000 when the Americans arrived here. Of course, I have stated most of what I wish to say in my brief, and there is nothing much more that I could

<sup>1</sup> See vol. III

really add to what I have stated in the brief, except that in writing my brief I figured that I was doing that for the benefit of the country; also, for the benefit of the United States as well as the Philippine Islands and for all the investments here in the Islands. I believe that unless there is a trade agreement suitable to both countries many people will lose their capital that they have now invested here. In truth, the Filipinos, not only the Americans and others, but the Filipinos themselves will become very poor. For instance, the land—a good sugar land—that is now worth, say, about ₱1,000 a hectare, will not be worth ₱50 a hectare because they cannot raise anything on that land. There is no substitute that they can raise in that land for sugar, and the same with tobacco, coconuts, and abaca. Abaca will not grow all over the Philippine Islands. It grows well in Mindanao or in Davao or in some other places, but in other places it cannot be grown on a profitable basis.

Chairman MACMURRAY. By the way, would you care to sit down? Mr. McCrann. Yes, Sir.

And if you take it here, it is a good example that since there were certain remarks made in Washington the mining stocks have gone down. Some people have lost three fourths of their investments in good mining stocks, such as San Mauricio, Antamok, and others. The shares of San Mauricio have sunk recently from ₱2 or ₱1.95 to 48 centavos or 50 centavos a share. That means that many people have lost three fourths of their investments in the mines and some have been wiped out. Those that bought on margins are wiped out because they had to sell, but those who are holding are holding worthless paper today. If you invest ₱100,000 and you lose ₱75,000, you are almost broke, and that is what is happening here today. Most everyone who has invested in mining stocks is going broke, and that is due to the talk about what will happen to the Philippine Islands unless they get a trade agreement whereby they can continue having free trade with the United States without paying tariff or duty. Everybody expects that this free trade will continue at least until 1946 according to the Tydings-McDuffie act, or longer. It would be better if it could continue longer; and, as I stated in my brief, the advancement of the date of the transition period from 1946 to 1938 or 1939 would be suicidal because it would mean that the business would die that much sooner. I suppose I am to live until 1946; but if I have nothing to eat, I will surely die before that time. I would die before 1946. Another thing, Gentlemen, what I have invested here in the Philippine Islands and what everybody else has invested in the Philippines, they must think is good for them if they continue that investment; and so, as I said, what is good for me and for you and for anybody else, must be good

for the Filipinos and others who have investments here; and it would be unfair to the Americans, Filipinos, and others to advance the date of independence because we probably have made commitments and the advancement might cause us to become paupers. We are figuring on having the transition period until 1946, or longer.

Chairman MACMURRAY. Are there any questions to ask Mr. McCrann?

Mr. ROMERO. Mr. McCrann, a few questions with regard to the mining stocks to which you have referred. Don't you think that, in general, it was a good thing for the country that those stocks have gone down in price? Don't you feel, in other words, that it is only the speculators who lost money in the stock market?

Mr. McCRANN. No, I do not think it is a good thing. They were scared. This talk of independence has scared them. The moment they talked of independence in 1938 or 1939, that is the time when the stocks began to go down. You look up the statistics and you will see that. And the time that it was made, ever since that time the stocks have been going down and everybody is fearing to lose capital unless there is some stability.

Mr. ROMERO. That is true enough, but what I am driving at is, Don't you think that the stocks now are at about their real value and that a few years ago it was at fantastic values that the stocks were being paid? In other words, is it not true that last year one of the foremost mining men in this country, Judge Haussermann, or rather his manager, Mr. Francis Haussermann, issued a warning that there was no justification for the very high prices paid, even for the very valuable Balatoc and Benguet Mines. I remember that he said that on the basis of increase in the value of mining stocks, there was an increase in the value of the mines, I think at 30, or ₱300,000,000, and that there was no justification for that increase in value. Don't you remember that statement of Mr. Haussermann?

Mr. McCRANN. I do not. What I will say is that all stocks, not only mining stocks, fluctuate; and it is only in time of crisis that you have some fluctuation where it starts falling and going down so fast, like here recently in the mining stocks. In other words, the change has been too rapid. As I said before, any stocks will fluctuate; otherwise, there would be no trading in stocks if they did not fluctuate. But I do not like to see the stocks fluctuate just because the people get scared of the market. They get afraid that there is something that will happen to the country. They are afraid that the country will not be able to defend itself against aggression from other countries, or something like that.

Mr. ROMERO. We are agreed that there has been a sharp decline in the value of the stocks, but, whereas you attribute that to foreign

capitalists, I am suggesting that it might be due to the fact that there was a wild speculation in mining stocks and that the value of mining stocks is about all right at the present time. They came back to their normal value.

Mr. McCrann. Well, this thing has been going on about a year now, why were they allowed to go skyrocketing and why did not somebody stop it?

Mr. Romero. It should have been stopped. The Government has not yet devised means of regulating the value of stocks. The Government, as you know, has been trying its best to do something about that; the Securities and Exchange Commissioner has issued warnings about speculation; and stock laws have been passed. But no way has yet been devised to control speculation.

Mr. McCrann. All right; the Government can control that to a certain extent and protect the people.

Mr. Romero. But is it not possible that what the Government has been trying to do has resulted precisely in this deflation of the stocks?

Mr. McCrann. Perhaps. For instance, before granting the opening of a new mine, before granting permission to sell the stocks, the Government should investigate that mine to see if it is full of sand or dirt or whether it has been salted or not. Maybe most of those mines have been salted so that they can sell their stocks, because they have in sales 30 or 40 pesos per ton; but after a few months these 50 or 60 pesos are nothing. They are like—I do not know what to call those mines—but I know of mines that were high in value and now they are very low; and everything else is the same. And many of them are sand. If the Government had inspected those mines in the first place and from time to time inspected them, probably the people would have had more protection. Of course I know the Government is doing the best it can, but it can do a lot more. We have engineers. I know a year ago one of the engineers went to Batangas and he found out that there was no gypsum, or something, out there, but they advertized gypsum, and so on. Of course, those things can be regulated. The law can regulate anything, but the enforcement of law is another thing.

Mr. Romero. Do you know if there have been nearly as many mining corporations established since this crash in the stock market as formerly?

Mr. McCrann. Well, there have been a few, but they were in preparation at the time. They were in preparation, so they could not be stopped; they had to go ahead.

Mr. Romero. But since the crash in the stock market, have there been many new corporations organized?



Mr. McCrann. Not that I know of, except those that had been organized before.

Mr. Romero. To that extent, therefore, the country has been benefited, for since the crash in the stock market there have not been so many of these bogus mining companies organized?

Mr. McCrann. By the way, Mr. Romero, I did not mean or I did not say whether I was sure about the continuation of that application for new mines, but I noticed they have been going on right along; they have been growing every once in a while. You can see in the papers almost every day that a new mine was opened up.

Mr. Romero. But is it your impression that as many mining corporations have been organized since the crash in the stock market as formerly?

Mr. McCrann. But the crisis has not been for a long time; it was a short time ago, only a few months.

Mr. Romero. Yes, since those few months, do you know if any new corporations have been organized?

Mr. McCrann. Almost every day. There were plenty of them coming up.

Mr. Romero. You do not have data?

Mr. McCrann. I suppose that they are prospecting now and you just watch the news. You will see them bobbing up just the same. They come up as soon as there are people to back them. If you buy shares in those mines they will bob up. If they can get a permit to sell shares from the Commission, they will surely bob up because the promoters of those mines have nothing to lose. You and I are the ones who will furnish the money. They will get their salaries out of it; so they are perfectly safe.

Mr. Romero. That is all.

Chairman MacMurray. Are there any further questions?

Mr. Jacobs. For the information of the Committee, will you please tell us what your business is?

Mr. McCrann. Oh, I own lands in Angeles, Pampanga. I own some sugar lands and some urban lands.

Mr. Jacobs. Do you represent anyone besides yourself in your appearance here?

Mr. McCrann. I am not authorized to represent anyone but myself. I speak for what you call the benefit of everybody, including the Government, for instance.

Mr. Jacobs. But you are not authorized to speak for anyone but yourself?

Mr. McCrann. No, Sir, I am not, but what I have stated also is that I am siding with the Government. The income of the Govern-

ment will be greatly reduced, unless the Philippines has a suitable trade agreement. How will the Government run?

Mr. JACOBS. That is all. I just wanted to know whom you represented.

Mr. McCrann. For instance, where will they find substitutes? There is no substitute for sugar, tobacco, hemp, or coconut oil. If there are no substitutes—those are the four main arteries of the income of the Government; those industries support millions of men—if they are abolished those millions of men will be thrown out of employment, and so forth. It will cause unrest.

Chairman MACMURRAY. Are there any further questions to be addressed to Mr. McCrann? If there are no further questions, thank you very much, Mr. McCrann.

(Here follows Mr. McCrann's mimeographed brief, "Facts About the Philippines".<sup>1</sup>)

The next speaker scheduled this morning is Mr. Thomas Rivera. Is Mr. Rivera present? The appearance of Mr. Rivera is waived. A memorandum entitled "Introductory Explanation" was submitted to the Committee by Mr. Rivera on September 10, 1937.<sup>1</sup>

The next speaker is Mr. Antonio A. Zolina. About how long a time do you expect to testify?

Mr. ZOLINA. It will not take long, Mr. MacMurray; maybe about half an hour or so.

Chairman MACMURRAY. Not more than that?

Mr. ZOLINA. Yes, Sir.

#### STATEMENT OF MR. ANTONIO A. ZOLINA

Mr. ZOLINA. Honorable Chairman and respectful Members of the Committee: In behalf of the Filipino farmers and people as a whole, I represent myself to explain my views about our national agricultural problems. Bear in mind, Gentlemen, that this is not under the influence of any business or politics or person. It is just I who submitted these propositions as to what I have seen of the whole public in this country of mine. It is the poor farmers that urge my conscience. This is entirely for the voice of the public, because I think this Preparatory Committee has been created with its public hearings to verify the people's sentiments regarding their economic problems. My people will endear in their hearts your services and sacrifices for the hard trips you made throughout the Islands, for your systematic findings, and for the investigation.

<sup>1</sup> See vol. III.

Before putting our due attention to any trade or industry, we must primarily develop our agriculture, as this is the sole foundation of our trade and industry. How can we increase our sales on sugar, oil, tobacco, and rubber, if we do not adopt good principles in farming, in caring for these plants? We Filipino people are surely very lucky to have our land good and rich, for although our farmers just cut the trees, clear the soil, and then stick their seeds, still they get something to harvest. Let us try to do this in the United States. I am positive we would not have any good result, unless we cultivate the soil very well, fertilize it good, and then cultivate it all the time until the harvest season. If we do not renew or modernize our ways in farming, I am sure that our trade and industry will diminish or go down little by little in the near future. So I hope that this could be worked out before we get the worse of it. The head of the agricultural department in the State of Washington says: "In any country where agriculture is poor, business must be very poor and the living condition must be very hard." We must demand that the Americans give us help to solve our problems before we ask for any independence, because independence will not do us any good if our economic problems are not solved.

Coming over to my brief,<sup>1</sup> which I submitted to you, Gentlemen, the first point is about the modern principles of agriculture. Here in the Philippines I do not think you need long explanation, as you have already been to the south and to Mindanao and the Visayan Islands and know that the principles in our agriculture still follow those of hundreds of years ago—most of them, almost 97 percent, except those *haciendas* or those farms which are run by some big capitalist. If we cultivate our soil and fertilize our poor land, I am sure that we will produce at least twice what we get at present. Coming to this point, you know very well—you must have seen in your trips—that there is hardly any kind of plant in the Philippines that is planted in rows; whereas in the United States and in some foreign countries where agriculture is prosperous they always plant in rows. That is to give room for the heat of the sun and to give fresh air to the plants. At the same time it is easy to develop. You can see our banana, coconut, and abaca plantations, and tobacco plantations. They just plant here and there. I know, I have seen that, Gentlemen. But how could the air go through and give sufficient freshness to the plants? That is not the modern system in farming.

Well, the second point is about the experimental stations. Well, we got some experimental stations, and I hope that those experi-

<sup>1</sup> See vol. III.

mental stations, as they are run now by our Government, will pick up some men who really have true experience and who will put those experimental stations right. There is a big difference between the farming here around Manila and the farming in Iloilo and in Davao. Here in Manila you plant around, I take for granted, September 22. If you plant melon on that date, if you try to do it, it might be a failure.

The third point which I submitted to you is about the game laws. Our people, some of them, have been saying that game laws are enforced in the Philippines. In my opinion, I do not think there is such a law; if there is any such law, it must not have been enforced, because pretty nearly every day I see fish, or some kinds of fish, with eggs; lobsters with eggs; crabs with eggs. Here are our American friends who could tell you that in the United States you can buy crabs in the market but that you will not find one crab with egg, because that tends to public destruction. If you catch that one crab it is not even enough for you yourself to eat; but, if you let it go, this one crab alone will produce enough to eat maybe for about 10 families, or at least for one family. The same thing is true with respect to fish and shrimps. The same thing is true with respect to wild hogs and deer. Let us not destroy them during their breeding time, so that we will have plenty of them. If we could just stand not to destroy them, in three or four years, I know, after that time, everyone will have plenty to eat. Here in the Philippines we eat clams every time of the year. In the United States, when clams are in breeding season, it is forbidden to catch clams. That is a very good administration, because it gives to the people greater help.

The fifth point which I cited in my brief is the cutting of timbers in the forest. Ever since I was a small boy I remember that our people in the whole Archipelago have cut trees and timber. They do not understand that the next generation to come will suffer from this unlawful act, because they do not understand that our country will be dried up. As we must understand, of course, water flows from the streams during the dry season to the roots of the plants and the trees. Our American friends remember that in that place where they get their public water, the Government protects all the trees growing near the source of this river, so that they will have plenty of good water during hot days. Then, if our lands become dry or if there are no more trees, that is the time for us to start our reforestation. The C.C.C. boys, as they are called in the States, do that—plant trees and care for big trees.

The sixth point in my brief is about feeding our animals. I wish we could adopt a good principle in feeding our animals so that we might be able to obtain better milk from our cows. At present there

are thousands and thousands of cows roaming throughout the Philippines. They are not milked. Why? Well, I do not know myself, because there is not any reason for it. We always have green grass. In the United States, or in some places of the United States, they have only about 4 to 5 months to raise their hay—alfalfa. They cut it, dry and store it in the barns for feeding purposes in wintertime. If we could develop this milking of cows in what they call dairy farms, I guess this would be another way of creating another business in the country and giving jobs to some people. This is the time we should quit importing Carnation milk. Carnation or any other kind of milk in dairy farms are good examples to our people, and I hope some of you have seen their dairy farms. It is a good example to our Government.

Well, the next point which I cited in my brief is the home garden. Yes, in the United States people, regardless of their standing in life, whether millionaires or poor, have their home gardens where housewives raise onions, spinach, cabbage, or other things. Here in the Philippines, we have plenty of land; and our land, compared with that of China and Japan, is behind on account of our poor method of improving ourselves; I hope our National Government will help us to encourage these home gardens. It is really beneficial. Suppose we hire men in the whole city of Manila to encourage home gardening. Even if this man is paid ₱1.50 per day a housewife of a family of the city of Manila may spend about ₱4 every day for vegetables, probably buying from a Chinaman. And there are thousands of housewives. Well, this is a good gain for the public fund.

The next point is the preservation or canning of fruits, meats, fish, and vegetables. In the whole union of the United States, if I am not mistaken, at least two thirds of the population know about canning or preserving their fruit. They plant only within four or five months, but they have plenty to eat for three years, because they have preserved plenty of meats, fish, and vegetables and put them in store for future needs. In the Philippines I do not think we could pick up a thousand men and women together who understand about this canning. I am not sure if we could get thousands and thousands of men who understand about canning. There is plenty of food, meat, and fish or sea food that we don't preserve because we do not know how to preserve them.

The next point is the introduction of foreign seeds into this country. There are lots of plants that will benefit us which have not been introduced into our country. In fact, here in the Philippines there are some plants that are declared delicious in the Tagalog Provinces, whereas in the Visayan Islands they are declared poisonous. This is due to lack of experimenting among ourselves. In the United States,

prior to 1891, there was no Japanese oyster. After that time, the American Government bought oysters from Japan for the purpose of scattering them over the seacoasts. At present, along the bay, at least 75 percent of the oyster business is the Japanese oysters. About 40 years ago, there were no Chinese birds. These birds were imported from China. The Government has been buying lots of chicks and letting them loose in the country. At present they have plenty for hunting. About 25 or 30 years ago, one old Japanese told me that they had no strawberry in Japan. After that time they imported strawberries and planted them in Japan. At present in Japan they have plenty of strawberries and of better quality than they have in the United States.

The next point is the production of our animals and plants. Every year here in the Philippines we notice that our plants and animals have sickness and disease. I do not know where they come from, but I hope we will adopt the principle of the California government. I guess in the whole Union of the United States, California is the one which is very strict when it comes to protection of plants. If you will drive from the States of Washington, Arizona, and Texas, you will notice agricultural inspectors to inspect or see if you have any fruits or plants. If you have any, they will have to be inspected. As a result, at least, California hardly suffers from sickness of plants and animals.

The last point which I cited in my brief is the importance of investment of our Government. I hope that our Government will take some steps to buy those public utilities that our National Assembly thinks wise. In the United States, they have Boulder Dam in the Colorado River. This dam generates electricity and, at the same time, irrigates thousands and thousands of acres of lands. These are two good examples to our National Government.

In conclusion, I would like to say that the Filipino people must be very thankful to the members of the Committee, especially to the most unselfish and impartial administration of our two Presidents, Franklin D. Roosevelt and Manuel L. Quezon, so I hope and let us all hope that in the future to come our American friends will give us help to develop this country, especially in our agricultural problems. I am sure that Japan or China has taken a lot of time to beat us when it comes to production in any kind of land. As I have told you, we can always plant the year round, because we have no frost here, we have no snow, but it is just a matter of cultivating our lands and developing and modernizing them. So, at the last, I thank you, Gentlemen, for giving me the chance to tell you what I have observed of the whole mass of people of mine; that is, they are

suffering every day on account of this cause. This is the cause of their suffering, because I am positive that if we could just solve our agricultural problems, there would be no need to starve. Such starvation must be far from the Philippines, as we almost double up the advantages of other prosperous foreign countries. I thank you.

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Zolina? (No response.)

(Here follows Mr. Zolina's mimeographed brief, dated September 8, 1937.<sup>1</sup>)

Chairman MACMURRAY. The next speaker scheduled for this morning is Mr. Gerardo C. Monden. Mr. Monden, do you appear only on your own behalf without representing any group?

Mr. MONDEN. On my own behalf.

#### STATEMENT OF MR. GERARDO C. MONDEN

Mr. MONDEN. Mr. Chairman and Members of the Committee:

(The following statement of Mr. Monden on Our Japanese and Chinese Problems Involving Immigration, having been presented also in written form, is here omitted. For the written statement, see volume III.)

Chairman MACMURRAY. Are there any questions to be addressed to Mr. Monden?

Mr. ROMERO. Are you employed in any capacity in the Government?

Mr. MONDEN. No, Sir, I am a private citizen.

Mr. ROMERO. Were you not working in the Rural Credit Division of the Department of Agriculture before?

Mr. MONDEN. No, Sir.

Mr. ROMERO. In the course of your remarks you said you prosecuted someone.

Mr. MONDEN. I did not prosecute. I fired someone.

Mr. ROMERO. As a private citizen?

Mr. MONDEN. Yes, Sir.

(Here follow the mimeographed brief and memoranda submitted by Mr. Monden, entitled: "Brief on National Economic Self-Sufficiency"; "Our Excess Baggage"; "Our Japanese and Chinese Problems Involving Immigration"; "Our Trade Parity with Japan."<sup>1</sup>)

Chairman MACMURRAY. The next witness on our schedule this morning is Mr. Salvador Araneta.

<sup>1</sup> See vol. III.

## STATEMENT OF MR. SALVADOR ARANETA

Mr. ARANETA. Mr. Chairman and Members of the Committee: I appear before this Committee as a humble citizen. I do not represent any industry in particular, but I have at heart the general welfare of the Philippines.

In my written brief,<sup>1</sup> I pointed out the need of providing an economic transition period of at least 15 years. During the said period, tariff and monetary autonomy should be granted the Philippines, and the present free-trade relations should be continued, imposing from time to time, if necessary, such import quotas on Philippine commodities as are not yet subject to limitation and as may be necessary in order to limit any undue increase in our exports to the United States.

During the said economic transition period, we should exert every effort to attain a more balanced economy. Without reducing the volume of our trade with the United States, we could 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 cannot be efficiently produced locally. The foregoing will be made possible by a concerted program of achieving a higher standard of living for our people with a more wide-spread distribution of the benefits derived at present from our trade relations with the United States.

The protective tariff duties that it 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.

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

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<sup>1</sup> See vol. III.



Philippine goods as may be found necessary to correct any inequality existing against the United States in its trade relations with the Philippines.

In our brief we pointed out the evils of bilateralism and expressed the hope that, in the formulation of an index or formula that should regulate the proposed reciprocity treaty between our two countries, the evils of bilateralism will be avoided, so that the present benefits of the existing triangular trade among the United States, Japan, and the Philippines would be maintained as much as possible. We also pointed out that the proposed reciprocal treaty should be exclusive or preferential in character to be of any real benefit and that the same should be for a sufficiently long period.

We should, therefore, assume that the trade relations will be truly reciprocal and that the problem merely resolves itself in determining whether or not it would be advantageous to maintain the same on a preferential or exclusive basis. Thus, the determination of the question whether the Philippines or the United States has been more benefited by free trade becomes of secondary importance and quite immaterial in deciding a program of trade relations for the future.

Messrs. Waring and Dorfman themselves in their report have admitted—

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.

I am not an economist, but a bird's-eye view of the situation seems to show that while it may be true that during the last half of our present free-trade relations the Philippines might be the gainer if an index of bilateralism is adopted, however, it is safe to say that during the first half of our free-trade relations the gainer was the United States. It will be recalled that during the said period our sugar industry was not yet developed and the tariff duties of the United States were not as high as they are at present. And in the next following 10 to 15 years under the quantitative limitations of our principal exports to the United States, coupled with our plan to increase our duties to protect our infant industries, we may expect a reversal of the picture; at least, we are sure that the benefits to be derived by the United States will be greatly increased.

Disruption of world production and trade and many of the economic evils of recent years have 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 increased 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 on a non-preferential basis, as practiced by the United States under the Trade Agreements Act of 1934, is simply a machinery adopted by the United States in an effort to lower the tariff rates at present prevailing in the world. It aims at achieving a greater increase of commerce among nations without favoring any particular nation, since the new tariff rates promulgated in any treaty concluded by the United States are *ipso facto* made applicable to the commerce of all nations. Ten or fifteen years from now, such a program of reciprocity will very likely have achieved its purpose and object. Tariffs by that time might be already so low that there may be no occasion of lowering them further in a reciprocity treaty with the Philippines.

In contrast with the reciprocity movement, another movement is being carried out with the creation and maintenance of economic blocs. All the imperialistic countries in the world are maintaining economic blocs with their respective colonies and possessions. The imperialistic attitude of the nations is not declining but rather increasing, as shown by Japan, Italy, and, we might add, Germany. It is only the United States which, true to its doctrine of self-determination, is about to grant the Philippines its political independence. And the question that presents itself is this, In the face of such a movement of the big powers to maintain economic blocs, is it wise for the United States to leave the Philippines adrift in the economic struggles of our country? Have the American people considered what would happen to the Philippines if they were segregated from the economic frontiers of the United States? We would be the prey of other big powers of the world who are hungry to acquire territories to serve not only as source of raw materials

for their industries but also as suitable markets for their products. Certainly, instability in the Orient would be further accentuated if the Philippines is segregated from the economic frontiers of the United States. Much to our dislike, we shall then be bound to build up our new economic structure along the lines more convenient to Japanese interests. We would then be forced to produce cotton in big quantities to supply not only our needs but those of Japan. In time, we will be importing from Japan all of our textile requirements, and our imports from Japan, consisting of iron manufactures, glass manufactures, paper and canned food products including milk and fish, and so forth, would be greatly increased.

Reciprocity between the two countries would not be of any value if the new duties are made applicable to the commerce from all other countries. Any reduction of the duty on sugar and other tropical products at present exported by the Philippines to the United States, instead of benefiting the Philippines, would only benefit other tropical countries, especially Java where the cost of production and the standard of living are much lower than in the Philippines.

Again, if any reduction in our duties in favor of American imports is made applicable to the commerce of other countries, it will follow that American manufacturers would not be in a position to compete with Japan, England, and Germany in many lines, not only because those countries have lower cost of production than the United States but also because, in the case of Japan, of the advantage of the Japanese manufacturers in the form of lower shipping rates.

A reciprocal treaty on a non-preferential basis means the lowering of duties on some articles. The schedule of duties of the Philippines with minor exceptions have not been increased since 1907. The need of the country is not to lower our rates on duties but rather to increase the same for the purpose of protecting the new industries that we have to establish. The movement of reciprocal treaties on a non-preferential basis does not, therefore, fit our present needs and those for many, many years to come.

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.

The reciprocity movement aims to increase rather than to curtail foreign trade. But the movement applied to the Philippines in its trade relations with the United States will not work out, since under a non-preferential plan it will be impossible to increase the trade between the two countries.

Reciprocity between the Philippines and the United States, considering the fact that they have been on a free-trade basis for nearly 30 years, could be much more easily achieved by correcting the said trade only 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 on the trade will be much more difficult to foresee. This program means reciprocity on a preferential basis.

The basic consideration that should be controlling in deciding this question is the fact that the commerce between the two countries is generally of a complementary nature and not competitive. I do not think that anyone can deny the fact that Philippine sugar does not in any way displace a single pound of American sugar. It is true that there is some controversy as to whether or not coconut oil is displacing cottonseed oil. But with the imposition of the excise tax, I believe the controversy has been settled in favor of the American producer.

All the continental United States is in the temperate zone, Alaska is in the frigid zone, while the Philippines is the only important territory of the United States which is in the tropical zone. By including the Philippines within the economic frontiers of the United States, it will be in a position to assume for itself the benefits derived from a well-balanced economic bloc. Although, officially, we have only a population of 12,000,000, there are reasons to believe that we have already increased it to 18,000,000 and from all indications our population is bound to increase in geometrical proportions. The market thus afforded by the Philippines is great in possibilities, and its importance will be better realized if we consider the fact that we constitute more than 10 percent of the population of the United States and that Puerto Rico has less than 10 percent of our population.

Reciprocal trade on a preferential basis will provide not only a market but a stable and a profitable market for the products of the other country. Most of the present economic evils are due to the great uncertainty at present prevailing in foreign trade. Foreign trade, at present, is not only uncertain but it is also unprofitable in many cases, in that manufacturers have to release and sell their surplus products at prices lower than what they obtain in the home market. By including the Philippines within the economic frontiers

of the United States, coupled with a decided plan on the part of the Philippine Government to give our laboring class a better share in the profits of production, the standard of living of our people and their purchasing-power will consequently be greatly increased, thereby providing the American manufacturers with a stable and profitable market for their products equal to about 10 percent of the United States continental market.

It has been said that it is not the general policy of the United States to give any preferential treatment to any nation whatsoever. The general policy, however, has already been subject to the very important exception in the case of Cuba, and if there were good reasons that prompted the Government of the United States to set such an important precedent and to break the rule in the case of Cuba, stronger grounds apply to our case.

The special treatment afforded Cuban trade has been justified on the ground of their geographic location and on historic relationship that lasted only for three years. If, in the case of Cuba, the short distance existing between Cuba and the United States was a ground for granting the former a preferential trade agreement, in our case, the fact that the Philippines is in the center of the Orient and thus stands as a strategic commercial outpost should be a stronger argument in providing for a mutually preferential trade agreement between the two countries. The United States could more easily maintain its economic position in the Orient by establishing an economic stronghold in the Philippines; it would mean advancing the economic frontier of the United States to the Orient covering in its domain 18 million people, a whole nation which is bound to increase in population, thus having the economic frontier of the United States at the door of the most populated countries of the world.

As against three years of political association between Cuba and the United States, in the case of the Philippines we have more than 40 years of close political association, during which time we have truly become the only democratic country in the Orient—a Malayan race with the culture, the aspirations, and the ideals of the American people.

Under the proposed plan whereby, after the economic transition period, the trade between the two countries would be maintained with the least possible changes that may be necessary to provide for a truly reciprocal trade relation, it is obvious that export taxes during the last years of the economic transition period would be uncalled for. The export taxes were levied in the Tydings-McDuffie act with the expressed objective to provide means for the payment of our bonded indebtedness to the United States. I believe it is an admitted fact that such export taxes are unnecessary for the said pur-

pose, as the financial stability of the country can easily take care of our present bonded indebtedness; besides that, the practical result of the imposition of the tax would be to nullify its very aim, as the same will cause the curtailment of our principal exports, and the expected income from the export taxes to be applied to the payment of our bonded indebtedness will not be realized. The export taxes, were, however, defended on the ground that they provide a means of preparing our principal industries for the transition between free trade and full duty. This object would cease to exist under the proposed program of establishing a permanent reciprocal trade relation between the two countries after the economic transition period. Besides, the export taxes do not affect equally our important products. While some of our products will not be able to withstand the imposition of the first graduated tax, others will be fatally affected only after the second or third graduated tax.

It is true that the proposed program for the establishment of permanent reciprocal trade relations of a preferential or exclusive nature is not entirely in accord with the joint statement of President Quezon and Assistant Secretary Sayre. I believe, however, that a mere hope was expressed in the said statement, rather than a matured and well-thought-out policy of state. I am sure the leaders of the United States and the Philippines will not close their eyes to the arguments that your Committee may advance if it decides to recommend a program of permanent reciprocal trade relation on a preferential basis.

I wish to close by expressing the hope that this Committee will prepare the way for the establishment of an economic partnership between the United States and the Philippines, a partnership based on a desire of both countries to promote their mutual trade so far as the same may not be prejudicial to the other, or at least to preserve the present trade relations existing between the two countries, amending and curtailing the same only so far as may be necessary to make them truly and mutually beneficial and reciprocal.

An announcement of this program will greatly insure the success of the only real democratic country in the Orient, will be a stabilizing factor in the Far East, and will constitute the fulfilment 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 thank you.

Chairman MACMURRAY. Are there questions to be asked Mr. Araneta?

Mr. WARING. Mr. Araneta, you quoted, with approval, Secretary Hull's statement regarding the increase or the desirability of increasing foreign trade through a reciprocal-trade-agreement program. And yet I think I am correct in saying that Secretary Hull is one of the most staunch advocates of the policy of non-preferential trade relations. He has supported ardently the most-favored-nation clause in all our trade agreements. So that it would seem that if we take all of Mr. Hull's policy it would not quite coincide with the ideas that you have expressed here.

Mr. ARANETA. I do not quite agree with you. Secretary Hull in a general way, as a general rule, is against the policy of giving a preference to any particular country. But I do not think it would be inconsistent with that general policy to make an additional exception in the case of the Philippines, after the precedent that we have already in the case of Cuba. May I add, Mr. Waring, that in the Trade Agreements Act of 1934, it is expressly provided that the reciprocal treaty which the United States might enter with Cuba would be of an exclusive nature, and that law was passed with the approval of Secretary Hull, which shows that Secretary Hull is not against providing for suitable exceptions in meritorious cases.

Mr. WARING. Do you not think that if an exception has already been made in the case of Cuba—an exception, incidentally, of long standing—do you not believe that if we make an exception in the case of the Philippines as an independent country it might weaken the stand of the United States in asking other foreign countries for most-favored-nation treatment?

Mr. ARANETA. I do not think so, because, as a matter of fact, in the new treaties which the United States has celebrated with some of the big powers, a provision has been obtained whereby it is clearly stated that the most-favored-nation clause would not apply to special concessions that might be granted to the Philippines notwithstanding any change in the political status of the Philippines. I think, Mr. Waring, nations are now more desirous of maintaining the present status of trade relations than of destroying the foreign trade relations. I do not think England, France, or any big country would object to having the United States maintain the present volume of its trade relations with the Philippines.

Mr. WARING. You spoke, Mr. Araneta, a few moments ago about a 15-year period of adjustment without any export taxes being applied during that period. The export taxes as provided in the Independence Act at present amount to only 25 percent of the United States duties, and yet the preference which we give to Cuba is only 20 percent of our tariff. In other words, Cuba has to pay 80 percent of the American tariff. Would it not require a considerable adjust-

ment of Philippine economy to reach a point where it could pay 80 percent of the United States tariff?

Mr. ARANETA. Well, I do not quite agree with you in your assumption. I hope that if we adopt the program of reciprocity, as outlined in my brief, you will never see the need of imposing on Philippine products a tariff as high as 80 percent of the full duty.

Mr. WARING. Then, what you have in mind is a preferential relationship after these 15 years that would be a considerably greater preference than that now afforded to Cuba.

Mr. ARANETA. Yes, I am not very particular about the difference or about the exact amount of preference in duties that we will get. My thesis is resolved to the following: Let us maintain the present trade relations, imposing such percentage of the full duties of the United States as might be necessary to offset or to correct any inequality.

Mr. WARING. Then, if it were necessary in preserving the present trade relations to have, after the 15-year period, free trade in certain commodities, you would advocate that?

Mr. ARANETA. Exactly.

Mr. WARING. One other question. I wonder if in working out this suggestion which you submitted to the Committee you considered the possible effect of such an exclusive preferential relationship upon two problems: first, the development of Philippine trade with other countries, when preferential relationship of an exclusive nature is accorded to the United States; and, second, the possibility of neutralizing the Islands after the Philippines has become independent?

Mr. ARANETA. I have given some thought to the first problem but not to the second problem, which is of a political nature. In connection with the first problem suggested by you, I believe that, certainly, such a program would discourage an increase in our trade with other countries, but we prefer to maintain or to increase if possible the trade volume of our commerce with the United States for various reasons. In the first place, personally, I believe in increasing our standard of living, and we can achieve that only by maintaining close commercial relations with the United States rather than with any oriental country. Another argument is that we have already been trained along American lines of thought and culture, and I believe that we want to maintain our present commercial relations with the United States.

Mr. WARING. There is one other problem that I wonder if you have considered in connection with the plan you have suggested. Judging by your remarks and those remarks made by others who have appeared before the Committee, there is a feeling that Philippine industries are in many cases dependent upon free entry into



the United States or at least upon a very substantial preference. After the Philippines become independent, if that relationship were maintained, the conditions which I have just described would also continue, and the independent Philippine Government would be dependent commercially or economically upon the action taken by subsequent Congresses of the United States.

Mr. ARANETA. With this difference, Mr. Waring: In the first place, I hope that by the time we achieve our political independence the relative importance of our trade with the United States will be proportionately diminished, because by that time we hope to have increased our production in other goods; and, also, we hope that a reciprocity treaty could be obtained with the United States for a reasonably long period, say, 10 years; but, even if the treaty were for a shorter period, I believe foreign trade is essentially uncertain today. The only stable market is the local market.

Mr. WARING. Thank you.

Mr. DOMERATZKY. Mr. Araneta, in the early part of your brief, I think, you made the statement that the present disturbed state of international trade is due to lack of planning; is that correct?

Mr. ARANETA. Exactly.

Mr. DOMERATZKY. I wonder if that is correct, because it seems to me that the countries that have perhaps contributed most to the shifts and disturbances in international trade are countries that have done most of the planning.

Mr. ARANETA. Well, there is a lot of national planning, but there is an absolute lack of international planning and I meant their international planning.

Mr. DOMERATZKY. What is your understanding of international planning?

Mr. ARANETA. Well, for example, what we are doing today. We are looking forward to what will happen to the Philippines 15 or 20 years hence. We try to discuss our problems. I think that if discussions of this nature could be multiplied between the big powers something positive could be obtained in reviving trade among nations.

Mr. DOMERATZKY. You mean if countries discussed their trade problems and tried to plan on a bilateral basis, as is the case between the Philippines and the United States, that that would promote international planning?

Mr. ARANETA. No; even though in our present case, Japan, to be more specific, has not been invited to participate in these discussions, even then I hope that we will plan our future trade relations without sticking too much to the bilateral system.

Mr. DORFMAN. Mr. Araneta, in your brief on page 26, you quote with approval certain passages in a report prepared by the United

Tariff Commission. You quote: "There are no satisfactory for measuring the economic gains and losses which have accrued to the Philippines and to the United States, respectively", and on, ending with: "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 is due, again, largely to the importance of sugar among the exports from the Philippines to the United States." That passage was taken from pages 40-41 of the Tariff Commission's report. Following the reproduction of that, you go on to say—and this is yours: "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." Then you proceed to quote the Tariff Commission's report again, but here you quote a portion of the report which appeared on page 39. It was not in the minds of the authors of that report, I believe, that this modify the section you reproduced earlier but rather that this was taken into consideration in arriving at the conclusion which you first quoted. In other words, you have given the conclusion first and then made it appear that something contained in the report was intended to modify that conclusion. I want to correct that impression.

You referred, in your oral testimony, to the understanding that President Quezon had with Assistant Secretary Sayre. Did I understand you to infer that you thought that the statement was not thought out too carefully?

Mr. ARANETA. Well, I wish to believe that they were expressing a hope that that would be possible and that that would be for the best interest of the two countries.

Mr. DORFMAN. Well, do you not think that it was merely an oversight that neither person called attention to the fact that the United States makes an exception to its general trade policy in the case of Cuba but that for one reason or other it did not care to do it in the case of the Philippines?

Mr. ARANETA. Well, it is very difficult for me to know exactly what happened in Washington on that occasion, but the fact is that that portion of the statement was of very great consequence; and, considering the fact that a committee was about to be appointed and that all economic problems between the Philippines and the United States were going to be aired before that committee, I think that President Quezon and Assistant Secretary Sayre, in making that

statement, were expressing a hope that that would be possible to achieve; because I do not deny that if that is possible, if that were for the best interest of the two countries, in a way, there are many advantages in that plan.

Mr. DORFMAN. If they expressed the hope of arriving at a non-preferential arrangement and the United States Government instructed the Committee to formulate a plan with that as the objective, do you not think that it would be outside the competence of the Committee to formulate a plan having an objective diametrically opposed to the objective outlined in the instructions?

Mr. ARANETA. Well, I think you can decide that better yourselves, the members of the Committee.

Mr. DORFMAN. There are a couple of minor points in your brief I want to ask about.

Mr. ARANETA. There is a small mistake; I would like to interrupt you, Mr. Dorfman.

Mr. DORFMAN. Surely.

Mr. ARANETA. On page 10 of my brief I say "export quotas"; it should say "export taxes". And again on the second line I repeat "export quotas"; it should say "export taxes".

Mr. DORFMAN. I understood you to say, in addressing your remarks, that you represented only yourself.

Mr. ARANETA. Exactly.

Mr. DORFMAN. The reason I ask is that on page 3, the second paragraph, you say "our suggestions", and I was wondering whether you had in mind someone other than yourself.

Mr. ARANETA. No.

Mr. DORFMAN. On page 13, near the bottom of the page, you compare the *per-capita* production in terms of pesos for the Philippines with the *per-capita* production in terms of dollars for the United States. Is it your thought that appropriate units for making such comparisons are the units of currency of the respective countries? Was that what you had in mind?

Mr. ARANETA. Yes.

Mr. DORFMAN. For example, if you were comparing production in Great Britain with production in the United States, would you compare the *per-capita* production in terms of pounds sterling with the *per-capita* production in terms of dollars?

Mr. ARANETA. Well, I do not know about the case of England and the United States, because I am not familiar with the situation there; but here in the Philippines—considering the cost of living here and in the United States, it would be safe to say that we can compare figures in pesos in the Philippines with figures in dollars in the United States.

Mr. DORFMAN. On page 22, at the top, you state: "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, etc." Do you mean to imply there that you feel that at the present time the United States does not gain from reciprocal trade arrangements with the Philippines?

Mr. ARANETA. If we measure the relative advantages of the present trade relations from a purely bilateral point of view, I think that is correct.

Mr. DORFMAN. In the appendix, on page 33, section 1, in the brief which you submitted, it is stated: "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." Is it your thought that the United States would abandon nothing in consequence of permitting the Philippines to control their own foreign affairs in respect to trade matters?

Mr. ARANETA. Well, the question is a little bit too general. Certainly, there is always some hazard, I should think.

Mr. DORFMAN. Is it the practice of other governments to permit all their possessions to control such policies, that is, to permit them to regulate this trade matter?

Mr. ARANETA. I am afraid we are no longer exactly a possession; we have more of a commonwealth status, like Canada. For example, Canada has complete tariff and monetary autonomy.

Mr. DORFMAN. Is not there this difference, however: The expectation is that Canada will continue in that status, and the expectation is that the Philippines will not?

Mr. ARANETA. I would say that the difference is in our favor, because if we are going to prepare ourselves for an independent status, if you want to give us a transition period within which we shall be able to readjust our economy, I think you should have faith in our being able to readjust it to the best interest of our country, trying to affect the interest of the United States as little as possible.

Chairman MACMURRAY. Are there other questions?

Mr. JACOBS. Mr. Araneta, you stated that you are financially interested in sugar. At the bottom of page 26, you stated that 30 percent of the investment in sugar centrals belongs to Americans mostly residing in the United States. Can you tell me offhand how the remaining 70 percent is divided?

Mr. ARANETA. Well, I think that is in the records. I got that from the records of the Philippine Sugar Association, and I do not

remember just how much of that is represented by Filipino interests and how much by foreign interests.

Mr. JACOBS. You took that from some other brief?

Mr. ARANETA. From the official records of the Philippine Sugar Association. Very likely that has been brought up in the brief of the Philippine Sugar Association.

Mr. ROMERO. Mr. Araneta, with regard to the same section 1 of your appendix A, was it your thought, notwithstanding the fact that in accordance with that provision of your proposed law those tariff and monetary acts should become laws without the approval of the President of the United States, that at present the Congress of the United States could not annul these laws as provided in the Tydings-McDuffie act?

Mr. ARANETA. I do not quite remember the provision of the Tydings-McDuffie act in connection with the general power of Congress to amend any laws enacted by the Commonwealth Government.

Mr. ROMERO. If I am not mistaken, there is a general provision.

Mr. ARANETA. I think there is a general provision.

Mr. ROMERO. And what is your thought with respect to this specific provision, that such acts should still be subject—

Mr. ARANETA. That there is such general provision to the effect that the Congress of the United States can amend or repeal any act of the Commonwealth; that any act or action of the Commonwealth Government in connection with imports and exports would be subject to the power of Congress.

Mr. ROMERO. In other words, such laws would become laws without the approval of the President of the United States, but he still would have the right to annul those laws?

Mr. ARANETA. Yes, exactly.

Chairman MACMURRAY. Are there any further questions? (No response.) Thank you very much, Mr. Araneta.

With regard to Mr. Araneta's brief,<sup>1</sup> he asks that certain corrections be made as follows:<sup>2</sup>

I am taking the liberty of calling to your attention some errors in the figures used in your brief on pages 10, 11, and at the top of page 12. These errors are due to errors in the annual report of the Collector of Customs for 1936. The correct figures add further strength to your arguments.

At the top of page 12 you give total exports of ₱295,350,315, equal to 46 percent of total Philippine production. This figure includes gold in the sum of ₱22,455,410. This figure for gold is also wrong. Total exports, exclu-

<sup>1</sup> See vol. III.

<sup>2</sup> These corrections were brought to Mr. Araneta's attention by Mr. Horace B. Pond, president of the Pacific Commercial Company, in a letter from which the above is quoted.

sive of gold (which is the basis on which figures have always been given in previous years and which should not have been included in the figures at all), were thus ₱272,894,905. We know that actual gold production was about ₱42,000,000. Total exports, including gold, were therefore, ₱314,894,905.

On the other hand, at the top of page 12 exports to the United States are given ₱215,050,654. This figure does not include gold. Exports to the United States, including gold, therefore, were ₱257,049,453.

On page 11 you give total production as ₱629,302,770. Of total production therefore 50 percent was exported, and, as 80 percent was to the United States, the percentage in the last paragraph of page 10 should be 40 percent and not 30 percent.

The above corrections also somewhat change the percentages of Philippine products that went abroad, which are given in the second paragraph of page 11.

(Here follows printed brief submitted by Mr. Araneta, entitled "A Program for the Establishment of Permanent Reciprocal Trade Relations between the United States and the Philippines."<sup>1</sup>)

Chairman MACMURRAY. With that our set of hearings comes to a close. All the speakers who have applied for hearings and have appeared have been heard. I hereby declare the hearings closed.

(Thereupon at 12:15 o'clock p.m., an adjournment was taken.)

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<sup>1</sup> See vol. III.

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