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SENATE

{ REPORT
{ No. 333

AMENDING SECTION 204 OF THE SUGAR ACT OF 1937

MAY 20 (legislative day, May 19), 1941.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

ADVERSE REPORT

[To accompany S. 937]

The Committee on Finance, to whom was referred the bill (S. 937) to amend section 204 of the Sugar Act of 1937, having considered the same, report adversely thereon and recommend that the bill do not pass.

On March 18, 1941, the committee held a public hearing on the proposed legislation, at which time all interested parties were given an opportunity to testify.

At a subsequent meeting of the committee held on May 9, 1941, the amendments now contained in the bill, as reported adversely, were proposed by Senators Brown and Johnson, of Colorado. The committee authorized said Senators to submit the revised bill to the Secretary of State and the Secretary of Agriculture. A copy of the letter submitting such revised bill to said Secretaries and their replies thereto are hereby incorporated in and made a part of this report:

MAY 10, 1941.

HON. CORDELL HULL,
Secretary of State,
Washington, D. C.

HON. CLAUDE R. WICKARD,
Secretary of Agriculture,
Washington, D. C.

DEAR MR. SECRETARY: At a meeting of the Finance Committee on Friday, May 9, called for the purpose of taking action on S. 937, to amend section 204 of the Sugar Act of 1937, the undersigned proposed certain amendments to this bill, which are incorporated in the attached committee print.

The undersigned were authorized by the committee to submit these amendments to you for your consideration, and the committee will be glad to receive your views and comments relative thereto.

The committee is very anxious to act expeditiously on this matter. We will appreciate it, therefore, if you will submit your report as promptly as possible.

Sincerely yours,

PRENTISS M. BROWN,
United States Senator.
EDWIN C. JOHNSON,
United States Senator.

The Honorable WALTER F. GEORGE,
Acting Chairman, Finance Committee,
United States Senate.

MY DEAR SENATOR GEORGE: I have received from Senator Brown and Senator Johnson a copy of a committee print of May 10, 1941, of a revised draft of S. 937, a bill to amend section 204 of the Sugar Act of 1937, with the request that I furnish your committee with a report thereon.

I submitted a report to your committee on the original bill under date of May 7, 1941. The original bill provided that any deficiency in the Philippine sugar quota should be allotted to domestic sugar areas, rather than to foreign countries other than Cuba, as is now provided in the Sugar Act of 1937. The revised draft of the bill provides, in effect, that not more than 75,000 short tons of any deficiency in the Philippine quota may be allotted to foreign countries other than Cuba and that any deficiency in excess of 75,000 tons shall be allotted to domestic areas.

Since the sugar quotas provided for in the Sugar Act of 1937 will expire on December 31, 1941, the proposed amendment would be effective only during the present year unless action were taken by Congress to extend the Sugar Act. The question of extending the act is not involved in the present bill, and I do not understand the committee's request as including this subject.

On April 11, 1941, the Secretary of Agriculture reallocated to foreign countries other than Cuba a deficiency in the Philippine quota of 73,232 tons, in accordance with the present provisions of the Sugar Act, this amount being equal to the present dutiable portion of the Philippine quota. The principal effect of the 75,000-ton limitation in the revised draft of the bill would therefore be to prevent these countries (primarily the other American republics) from participating in any further deficiency which might be found in the Philippine quota this year. Under the revised draft, any deficiency in excess of 75,000 tons would be allotted to the major sources of our sugar supplies except Cuba, which would be excluded from sharing in such a deficiency.

As I pointed out in my letter of May 7, these countries are suffering severely from the restriction of their European markets for sugar and other products as a result of the war. Furthermore, such sugars must bear the burden of an import duty in the United States of 1.875 cents per pound and an excise tax of 0.5 cent per pound, a total charge which is equivalent to more than 200 percent ad valorem. It would appear that legislation excluding these American republics from participation in any further deficiency would establish an undesirable embargo feature in the act.

In view of the foregoing considerations, I feel that substantially the same objections apply to the revised draft as apply to the original bill, and I recommend that it be not enacted.

I understand that the committee desires to consider the revised draft of S. 937 on Friday, May 16, and has requested that the views of the Department be submitted prior to the committee's meeting. In view of this request, it has not been possible to submit this report to the Bureau of the Budget.

Sincerely yours,

CORDELL HULL.

DEPARTMENT OF AGRICULTURE,
Washington, May 15, 1941.

Hon. PRENTISS M. BROWN,
United States Senate.

DEAR SENATOR BROWN: This will acknowledge the letter of May 10, 1941, which you and Senator Johnson sent to the Secretary enclosing a proposed amendment to S. 937, a bill to amend section 204 of the Sugar Act of 1937. A report on S. 937 to the chairman of the Senate Finance Committee was made by this Department on April 25, 1941.

Section 204 of the Sugar Act of 1937 provides for allotment to foreign countries other than Cuba of any deficit in the quota of the Commonwealth of the Philippine Islands. On April 11, 1941, this Department announced that pursuant to this provision of the act reallocation of a deficit of 73,232 short tons, raw value, in the Philippine sugar quota had been made to foreign countries other than Cuba. Although in accordance with the last paragraph of section 202 of the act, a number of countries are listed in the announcement, the final reallocation resulting from the operation of section 204 (b) of the act gives the major portion of this quota to a few countries, chief among which are Peru and the Dominican Republic.

The amendment which you have now submitted does not disturb the allotment of April 11, 1941, but would provide that practically no further allotment be made to these countries and that any further deficit in Philippine quota supplies be allotted to the domestic areas.

The administration has, on a number of occasions, expressed its views on modification of this provision of the act. In a letter by this Department to the chairman of the Senate Committee on Agriculture and Forestry, of May 23, 1940, it was pointed out that—

"Sugars purchased by the United States from full-duty countries are subject to an import duty of 1.875 cents per pound and an excise tax of 0.50 cent per pound. Consequently, while the American producer, with benefit payments under the sugar program included, received on the average during the 1937-39 period about \$74 per ton of raw sugar marketed with no net payment to the Treasury, the foreign producer paying full duty received, on the average, only \$25 per ton, and the Federal Treasury received a revenue on such sugars of approximately \$47.50 per ton."

In our report of April 25, 1941, on S. 937, the Department stated:

"It is the established policy of this administration to develop and improve our trade with other American republics and under present world conditions the need for encouraging such trade is greater than ever. The proposed legislation raises important questions of hemispheric trade and unity, which primarily concern the Department of State."

In his letter on S. 937 to the chairman of the Senate Finance Committee, dated May 7, 1941, the Secretary of State pointed out that the enactment of the bill would "repudiate the policy of hemispheric defense and the economic cooperation which the American republics agreed upon at the Habana conference less than a year ago."

The proposed amendment to section 204 (a) of the act appears to be inconsistent with the general policy outlined in the President's letter of April 11, 1940, on sugar legislation to the Honorable Marvin Jones, then chairman of the House Committee on Agriculture. In this letter, the President objected to several legislative proposals which, if enacted, would have injured the economic status of American republics, to which, as he pointed out, we must look in increasing degree for enlarged outlets for the products of our own labor, land, and factories.

Although the proposed amendment to S. 937 differs from the bill S. 937, in giving recognition to the reallocation of the Philippine deficit already made by this Department on April 11, 1941, pursuant to existing provisions in the Sugar Act, we trust that you will recognize that the previously stated objections of this administration to a major revision of the public policy embodied by the Congress in 1937 in section 204 of the Sugar Act apply to the proposed amendment and that the Department is, therefore, unable to recommend its enactment.

Since we have been informed by Mr. F. M. Johnston, clerk of the Senate Finance Committee, that the committee desires to have our report on the bill prior to its meeting on May 15, 1941, we have not had an opportunity to submit this report to the Bureau of the Budget.

Sincerely yours,

CLAUDE R. WICKARD, *Secretary.*



AMENDING SECTION 204 OF THE SUGAR ACT OF 1937

MAY 20 (legislative day, May 19), 1941.—Ordered to be printed

Mr. BROWN, for himself, Mr. JOHNSON of Colorado, Mr. LA FOLLETTE, Mr. CAPPER, Mr. VANDENBERG, and Mr. TAFT submitted the following

MINORITY VIEWS

[To accompany S. 937]

S. 937, as originally introduced by Senator Adams, proposed to transfer all deficits in the quota of the Philippine Islands to domestic sugar-producing areas. The Secretary of State and the Secretary of Agriculture both opposed this bill in printed reports.

S. 937, as now reported, contains an amendment by which 75,000 short tons of the Philippine deficit are earmarked for foreign countries other than Cuba, and the remainder of the amount of the Philippine deficit, if any, is to be transferred to domestic sugar-producing areas. This amendment fully meets, in our judgment, every argument and reason offered by the Secretary of State and the Secretary of Agriculture in their printed reports on the original S. 937. It is a full response to their claims from the standpoint of our trade relations with South American countries.

On April 11, the Secretary of Agriculture reallocated a Philippine deficit of 73,232 tons, and immediately Peru, San Domingo, and Haiti filled their quotas; but, as of May 1, there remain 61,806 tons of the Philippine deficit which has been reallocated to other foreign countries who are not expected to deliver any sugar to the United States. According to the provisions of the Sugar Act, if these other foreign countries do not fill their quotas by September 1, then a reallocation will be made, whereby countries like Peru, San Domingo, and Haiti will be able to divide this 61,806-ton deficit.

The most reliable sugar-market reports issued from New York all agree that the British Ministry of Food has made large purchases of San Domingo sugar. Lowry & Co. report that 255,000 tons of San Domingo sugar have been sold to the British. About 40,000 additional tons have been sold to other countries, including the United States, so that not more than 75,000 tons of San Domingo sugar remain unsold. A report in the New York Journal of Commerce states

that this amount is sold but undelivered, in order to protect the British Ministry against price increases when negotiating for the purchase of Cuban and other sugars. These same sources report that Peru has sold about 75,000 tons more than quota sugars already delivered to the United States.

The Sugar Act does not provide for the transfer to domestic sugar-producing areas of deficits from the Philippine Islands or from foreign countries other than Cuba. Should all of these foreign countries fail to supply the deficit, then no means are provided in the Sugar Act for meeting these requirements of the American consumers, except by the suspension of all quotas. Assuming that the sugar quota system is desirable and should be maintained, it is hardly good public policy in times of emergency to allow this obvious omission in the Sugar Act to go uncorrected.

From the standpoint of consumers, we must recognize that sugar prices which were at an extremely low average level throughout 1940 have increased since January 1 in practically the same ratio as the increase in transocean freight and insurance rates. These increased costs, plus the scarcity of shipping space in the Pacific traffic lanes, are admitted to have been the controlling factor in such increases in the price of sugar. The existence of large supplies of domestic beet and cane sugar within the continental limits of the United States has acted as a restraint upon higher price rises. S. 937 proposes to reduce or remove the hazards and the costs of ocean transportation from being so important a factor with regard to the supply of sugar and with respect to the price in the United States market.

By granting to foreign countries a guaranty of over 100,000 tons of sugar (being the 26,832-ton basic quota plus the proposed 75,000-ton deficit quota), S. 937 generously provides a market for a greater amount of sugar than has ever been imported during any previous year into the United States by these foreign countries other than Cuba. The official records of the Department of Agriculture show that these foreign countries have not been a normal or reliable source of sugar supply for United States consumers in the past, as indicated by the following table:

[Short tons, raw value]

Year	Philippine deficits officially determined	Foreign countries other than Cuba		
		Final quotas	Deliveries charged against quotas	Percent of charges against quotas
1937.....	86,805	114,641	89,155	77.77
1938.....	83,883	80,683	75,114	93.10
1939 ¹	59,111	85,812	62,021	72.28
1940.....	None	24,177	17,430	71.97

¹ The President having suspended sugar quotas on Sept. 12, 1939, there were no quota restrictions on the importation of sugar from foreign countries from Sept. 12 to the end of 1939.

By the amendment we have yielded to the objections of the Secretary of State and the Secretary of Agriculture to the original bill. Both of these officials still persist in their opposition by contending that the entire Philippine deficit should be allocated to foreign countries. We are unable to see any sound reason for this position. When

the present law was enacted in 1937, it was assumed that the deficit would consist only of the dutiable sugar. No one then supposed that a situation would arise which would prevent the shipping into the United States of Philippine tonnage which was duty-free. No one who appeared before the committee, neither of the letters of the Government Secretaries, and no member of the committee at the hearing controverted the assertion that was made to that effect. The Philippine producers would certainly ship in every dollar's worth of sugar that they could ship duty-free. They are unable to do so because of the lack of ships and the freight rates, which have increased approximately 400 percent. No one in 1937 when this law was enacted could foresee this extraordinary situation, and all concerned with the enactment of the legislation assumed that we were talking about the dutiable sugar from the Philippines.

Since the facts have changed and a windfall to foreign producers is about to occur, it is thought that an amount of 75,000 tons (25,000 tons greater than the average for the past 4 years) would give the fullest measure of generosity to foreign producers and give to American producers the excess. When it is recalled that the American acreage has been reduced from 990,000 acres to 820,000 acres—a cut of about 18 percent—it would seem fair that when the opportunity through the Philippine deficit presents itself, that it is reasonable to (1) first, give foreign producers all that they ever expected to get and more (2) to make up for the American reduction in acreage by allotting to domestic producers including Hawaii and Puerto Rico the remainder after the reasonable expectations of the foreigners have been more than fulfilled.

The record discloses opposition from the seaboard cane refiners. Their arguments are based entirely upon business competition with the sugar-beet producers of the United States. The reallocation of deficits to domestic sugar-producing areas would be made on the basis of the pro rata established in the Sugar Act, which means that the mainland cane sugar area of Louisiana and Florida, and the areas of Hawaii, Puerto Rico, and the Virgin Islands, would supply 58.24 percent of such deficit, and the domestic beet-sugar area would supply only 41.72 percent. The domestic cane areas can be expected to fill such deficit practically 100 percent in the form of raw sugar, which would have to be melted in seaboard cane refineries; consequently, objections from the refiner group, under the circumstances, can be dismissed without further serious discussion.

The domestic sugar industry has surplus supplies of sugar which cannot now be marketed in 1941 under the sugar program, because of marketing allotments; and, as the Secretary of Agriculture has explained that these surplus supplies have been built up as part of an ever-normal granary in sugar, it is practicable and desirable to permit American producers to market their sugar to replace foreign sugars which either may not be brought into the United States for lack of ships or cannot be marketed in the United States at reasonable prices because of the increased costs of ocean transportation.

During the first World War, sugars produced in foreign countries of the Western Hemisphere were available to American consumers until the armistice suddenly opened the European markets. The result was that in the United States the price of sugar at retail went

up to 25 cents per pound, because these foreign sugars were either sold in European markets or were held for European markets and higher prices, until the United States consumers were able to obtain sugar from domestic sources. It is, therefore, the point of view of the signers of this report that the interest of American consumers and producers is a paramount interest; and, recognizing the importance of trade within the Western Hemisphere, good domestic policy demands that there is definitely a limit to the extent to which the American consumer and producer can be subordinated to promote the trade relations and with Latin America.

The undersigned recommend that S. 937, as amended, do pass.

ROBERT M. LA FOLLETTE, Jr.

ARTHUR CAPPER.

ARTHUR H. VANDENBERG.

ED C. JOHNSON.

ROBERT A. TAFT.

PRENTISS M. BROWN.

