

PHILIPPINE TRADE ACT OF 1946

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

SECOND SESSION

ON

H. R. 5856

AN ACT TO PROVIDE FOR TRADE RELATIONS
BETWEEN THE UNITED STATES AND
THE PHILIPPINES, AND FOR
OTHER PURPOSES

APRIL 2, 3, 4, AND 5, 1946

Printed for the use of the Committee on Finance



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PHILIPPINE TRADE ACT OF 1946

TUESDAY, APRIL 2, 1946

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to notice, at 10:30 a. m., in room 312, Senate Office Building, Senator David I. Walsh presiding.

Present: Senators Walsh, Gerry, Guffey, Radcliffe, La Follette, Butler, Hawkes, and Saltonstall.

Also present: Senator Hayden, and E. G. Martin, general counsel, United States Tariff Commission.

Senator WALSH. The committee is considering H. R. 5856, a bill to provide for trade relations between the United States and the Philippines, and for other purposes. This bill passed the House on March 26 and was recently referred to this committee.

In the absence of Senator George, who is ill, he asked me to preside. (H. R. 5856 is as follows:)

[H. R. 5856, 79th Cong., 2d sess.]

AN ACT To provide for trade relations between the United States and the Philippines, and for other purposes

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

TITLE I—SHORT TITLE AND DEFINITIONS

SECTION 1. SHORT TITLE

This Act may be cited as the "Philippine Trade Act of 1946".

SEC. 2. DEFINITIONS

(a) For the purposes of this Act—

(1) The term "person" includes partnerships, corporations, and associations.

(2) The term "United States", when used in a geographical sense, means the States, the District of Columbia, the Territories of Alaska and Hawaii, and Puerto Rico.

(3) The term "ordinary customs duty" means a customs duty based on the article as such (whether or not such duty is also based in any manner on the use, value, or method of production of the article, or on the amount of like articles imported, or on any other factor); but does not include—

(A) a customs duty based on an act or omission of any person with respect to the importation of the article, or of the country from which the article is exported, or from which it comes; or

(B) a countervailing duty imposed to offset a subsidy, bounty, or grant; or

(C) an antidumping duty imposed to offset the selling of merchandise for exportation at a price less than the prevailing price in the country of export; or

(D) any tax, fee, charge, or exaction, imposed on or in connection with importation unless the law of the country imposing it designates or imposes it as a customs duty or contains a provision to the effect that it shall be treated as a duty imposed under the customs laws; or

(E) the tax imposed by section 2491 (c) of the Internal Revenue Code with respect to an article, merchandise, or combination, 10 per centum or more of the quantity by weight of which consists of, or is derived directly or indirectly from, one or more of the oils, fatty acids, or salts specified in section 2470 of the Internal Revenue Code; or the tax imposed by section 3500 of the Internal Revenue Code.

(4) The term "Philippine article" means an article which is the product of the Philippines, unless, in the case of an article produced with the use of materials imported into the Philippines from any foreign country (except the United States) the aggregate value of such imported materials at the time of importation into the Philippines was more than twenty per centum of the value of the article imported into the United States, the value of such article to be determined in accordance with, and as of the time provided by, the customs laws of the United States in effect at the time of importation of such article. As used in this paragraph the term "value," when used in reference to a material imported into the Philippines, includes the value of the material ascertained under the customs laws of the Philippines in effect at the time of importation into the Philippines, and, if not included in such value, the cost of bringing the material to the Philippines, but does not include the cost of landing it at the port of importation, or customs duties collected in the Philippines. For the purposes of this paragraph any imported material, used in the production of an article in the Philippines, shall be considered as having been used in the production of an article subsequently produced in the Philippines, which is the product of a chain of production in the Philippines in the course of which an article, which is the product of one stage of the chain, is used by its producer or another person, in a subsequent stage of the chain, as a material in the production of another article.

(5) The term "United States article" means an article which is the product of the United States, unless, in the case of an article produced with the use of materials imported into the United States from any foreign country (except the Philippines) the aggregate value of such imported materials at the time of importation into the United States was more than twenty per centum of the value of the article imported into the Philippines, the value of such article to be determined in accordance with, and as of the time provided by, the customs laws of the Philippines in effect at the time of importation of such article. As used in this paragraph the term "value", when used in reference to a material imported into the United States, includes the value of the material ascertained under the customs laws of the United States in effect at the time of importation into the United States, and, if not included in such value, the cost of bringing the material to the United States, but does not include the cost of landing it at the port of importation, or customs duties collected in the United States. For the purposes of this paragraph any imported material, used in the production of an article in the United States, shall be considered as having been used in the production of an article subsequently produced in the United States, which is the product of a chain of production in the United States in the course of which an article, which is the product of one stage of the chain, is used by its producer or another person, in a subsequent stage of the chain, as a material in the production of another article.

(6) The term "United States duty" means the rate or rates of ordinary customs duty which (at the time and place of entry, or withdrawal from warehouse, in the United States for consumption, of the Philippine article) would be applicable to alike article if imported from that foreign country which is entitled to the lowest rate, or the lowest aggregate of rates, of ordinary customs duty with respect to such like article. *

(7) The term "Philippine duty" means the rate or rates of ordinary customs duty which (at the time and place of entry, or withdrawal from warehouse, in the Philippines for consumption, of the United States article) would be applicable to a like article if imported from that foreign country which is entitled to the lowest rate, or the lowest aggregate of rates, of ordinary customs duty with respect to such like article.

(8) The term "internal tax" includes an internal fee, charge, or exaction, and includes—

(A) the tax imposed by section 2491 (c) of the Internal Revenue Code with respect to an article, merchandise, or combination, 10 per centum or more of the quantity by weight of which consists of, or is derived directly or indirectly from, one or more of the oils, fatty acids, or salts specified in section 2470 of the Internal Revenue Code; and the tax imposed by section 3500 of the Internal Revenue Code; and

(B) any other tax, fee, charge, or exaction, imposed on or in connection with importation unless the law of the country imposing it designates or imposes it as a customs duty or contains a provision to the effect that it shall be treated as a duty imposed under the customs laws.

(b) For the purposes of sections 221 (b) and 321 (b), any material, used in the production of an article, shall be considered as having been used in the production of an article subsequently produced, which is the product of a chain of production in the course of which an article, which is the product of one stage of the chain, is used by its producer or another person, in a subsequent stage of the chain, as a material in the production of another article.

(c) For the purposes of paragraph (6) and (7) of subsection (a) of this section—

(1) if an article is entitled to be imported from a foreign country free of ordinary customs duty, that country shall be considered as the country entitled to the lowest rate of ordinary customs duty with respect to such article; and

(2) a reduction in ordinary customs duty granted any country, by law, treaty, trade agreement, or otherwise, with respect to any article, shall be converted into the equivalent reduction in the rate of ordinary customs duty otherwise applicable to such article.

(d) The terms "includes" and "including" when used in a definition contained in this Act shall not be deemed to exclude other things otherwise within the meaning of the term defined.

TITLE II—LAWS AND PROPOSED OBLIGATIONS OF UNITED STATES

Part 1—Customs Duties

SEC. 201. FREE ENTRY OF PHILIPPINE ARTICLES

During the period from the day after the date of the enactment of this Act to July 3, 1954, both dates inclusive, Philippine articles entered, or withdrawn from warehouse, in the United States for consumption shall be admitted into the United States free of ordinary customs duty.

SEC. 202. ORDINARY CUSTOMS DUTIES ON PHILIPPINE ARTICLES

(a) JULY 4, 1954—JULY 3, 1974.—The ordinary customs duty to be collected on Philippine articles, which during the following portions of the period from July 4, 1954, to July 3, 1973, both dates inclusive, are entered, or withdrawn from warehouse, in the United States for consumption, shall be determined by applying the following percentages of the United States duty:

(1) JULY 4, TO DECEMBER 31, 1954.—During the period from July 4, 1954, to December 31, 1954, both dates inclusive, 5 per centum.

(2) CALENDAR YEAR 1955.—During the calendar year 1955, 10 per centum.

(3) CALENDAR YEARS 1956—1972.—During each calendar year after the calendar year 1955 until and including the calendar year 1972, a percentage equal to the percentage for the preceding calendar year increased by 5 per centum of the United States duty.

(4) PERCENTAGE AFTER 1972.—During the period from January 1, 1973, to July 3, 1974, both dates inclusive, 100 per centum.

(5) EXCEPTIONS TO ABOVE RULES.—The provisions of this subsection shall not be applicable to the classes of articles referred to in section 214 (a) of Part 2 of this title (relating to quotas).

(b) PERIOD AFTER JULY 3, 1974.—The ordinary customs duty to be collected on Philippine articles which after July 3, 1974, are entered, or withdrawn from warehouse, in the United States for consumption, shall be determined without regard to the provisions of subsection (a) of this section or of section 214.

SEC. 203. CUSTOMS DUTIES OTHER THAN ORDINARY

Customs duties on Philippine articles, other than ordinary customs duties, shall be determined without regard to the provisions of sections 201 and 202 (a), but shall be subject to the provisions of section 204.

SEC. 204. EQUALITY IN SPECIAL IMPORT DUTIES, ETC.

(a) With respect to Philippine articles imported into the United States, no duty on or in connection with importation shall be collected or paid in an amount in excess of the duty imposed with respect to like articles which are the product of any other foreign country, or collected or paid in any amount if the duty is not imposed with respect to such like articles.

(b) As used in this section the term "duty" includes taxes, fees, charges, or exactions, imposed on or in connection with importation; but does not include internal taxes or ordinary customs duties.

SEC. 205. EQUALITY IN DUTIES ON PRODUCTS OF PHILIPPINES

(a) With respect to products of the Philippines, which do not come within the definition of Philippine articles, imported into the United States, no duty on or in connection with importation shall be collected or paid in an amount in excess of the duty imposed with respect to like articles which are the product of any other foreign country (except Cuba), or collected or paid in any amount if the duty is not imposed with respect to such like articles which are the product of any other foreign country (except Cuba).

(b) As used in this section the term "duty" includes taxes, fees, charges, or exactions, imposed on or in connection with importation; but does not include internal taxes.

Part 2—Quotas**SEC. 211. ABSOLUTE QUOTA ON SUGARS**

(a) **DEFINITION OF PHILIPPINE SUGARS.**—For the purpose of this section, an article shall not be considered "Philippine sugars" unless it is a Philippine article.

(b) **DEFINITION OF REFINED SUGARS.**—As used in this section the term "refined sugars" has the same meaning as the term "direct-consumption sugar" as defined in section 101 of the Sugar Act of 1937.

(c) **AMOUNT OF QUOTA.**—During the period from January 1, 1946, to July 3, 1974, both dates inclusive, the total amount of all Philippine sugars which, in any calendar year, may be entered, or withdrawn from warehouse, in the United States for consumption, shall not exceed 850,000 short tons, of which not to exceed 50,000 short tons may be refined sugars; except that during the period from January 1, 1974, to July 3, 1974, both dates inclusive, such total amount shall not exceed 425,000 short tons, of which not to exceed 25,000 short tons may be refined sugars.

(d) **ALLOCATION OF QUOTAS FOR UNREFINED SUGARS.**—The quota for unrefined sugars, including that required to manufacture the refined sugars, established by this section, shall be allocated annually to the sugar-producing mills and plantation owners in the Philippines in the calendar year 1940 whose sugars were exported to the United States during such calendar year, or their successors in interest, proportionately on the basis of their average annual production (or in the case of such a successor in interest, the average annual production of his predecessor in interest) for the calendar years 1931, 1932, and 1933, and the amount of sugars which may be so exported shall be allocated in each year between each mill and the plantation owners on the basis of the proportion of sugars to which each mill and the plantation owners are respectively entitled, in accordance with any milling agreements between them, or any extension, modification, or renewal thereof.

(e) **ALLOCATION OF QUOTAS FOR REFINED SUGARS.**—The quota for refined sugars established by this section shall be allocated annually to the manufacturers of refined sugars in the Philippines in the calendar year 1940 whose refined sugars were exported to the United States during such calendar year, or their successors in interest, proportionately on the basis of the amount of refined sugars

produced by each such manufacturer (or in the case of such successor in interest, the amount of refined sugars produced by his predecessor in interest) which was exported to the United States during the calendar year 1940.

SEC. 212. ABSOLUTE QUOTA ON CORDAGE

(a) **DEFINITION OF "CORDAGE".**—As used in this section the term "cordage" includes yarns, twines (including binding twine described in paragraph 1622 of the Tariff Act of 1930, as amended), cords, cordage, rope, and cable, tarred or untarred, wholly or in chief value of manila (abaca) or other hard fiber.

(b) **DEFINITION OF "PHILIPPINE CORDAGE".**—For the purpose of this section, an article shall not be considered "Philippine cordage" unless it is a product of the Philippines.

(c) **AMOUNT OF QUOTA.**—During the period from January 1, 1946, to July 3, 1974, both dates inclusive, the total amount of all Philippine cordage which, in any calendar year, may be entered, or withdrawn from warehouse, in the United States for consumption, shall not exceed 6,000,000 pounds; except that during the period from January 1, 1974, to July 3, 1974, both dates inclusive, such total amount shall not exceed 3,000,000 pounds.

(d) **ALLOCATION OF QUOTAS.**—The quota for cordage established by this section shall be allocated annually to the manufacturers of cordage in the Philippines in the calendar year 1940 whose cordage was exported to the United States during such calendar year, or their successors in interest, proportionately on the basis of the amount of cordage produced by each such manufacturer (or in the case of such successor in interest, the amount of the cordage produced by his predecessor in interest) which was exported to the United States during the twelve months immediately preceding the inauguration of the Commonwealth of the Philippines.

SEC. 213. ABSOLUTE QUOTA ON RICE

(a) **DEFINITION OF RICE.**—As used in this section the term "rice" includes rice meal, flour, polish, and bran.

(b) **DEFINITION OF PHILIPPINE RICE.**—For the purposes of this section, an article shall not be considered "Philippine rice" unless it is a Philippine article.

(c) **AMOUNT OF QUOTA.**—During the period from January 1, 1946, to July 3, 1974, both dates inclusive, the total amount of all Philippine rice which, in any calendar year may be entered, or withdrawn from warehouse, in the United States for consumption, shall not exceed 1,040,000 pounds; except that during the period from January 1, 1974, to July 3, 1974, both dates inclusive, such total amount shall not exceed 520,000 pounds.

SEC. 214. ABSOLUTE AND DUTY-FREE QUOTAS ON CERTAIN ARTICLES

(a) ABSOLUTE QUOTAS.—

AMOUNT OF QUOTA.—During the period from January 1, 1946, to July 3, 1974, both dates inclusive, the total amount of the following articles which are Philippine articles, and which, in any calendar year, may be entered, or withdrawn from warehouse, in the United States for consumption, shall not exceed the amounts specified as to each:

(1) Cigars (exclusive of cigarettes, cheroots of all kinds, and paper cigars and cigarettes, including wrappers), two hundred million cigars;

(2) Scrap tobacco, and stemmed and unstemmed filler tobacco described in paragraph 602 of the Tariff Act of 1930, as amended, six million five hundred thousand pounds;

(3) Coconut oil, two hundred thousand long tons; and

(4) Buttons of pearl or shell, eight hundred and fifty thousand gross.

During the period from January 1, 1974, to July 3, 1974, both dates inclusive, such total amount shall not exceed one-half of the amount above specified with respect to each class of articles, respectively.

(b) DUTY-FREE QUOTAS.—

(1) **IN GENERAL.**—Philippine articles falling within one of the classes specified in subsection (a) of this section, which during the period from January 1, 1946, to July 3, 1974, both dates inclusive, are entered, or withdrawn from warehouse, in the United States for consumption, shall be free

of ordinary customs duty, in the quantities and for the periods set forth in the following table:

PERIODS [Calendar Year]	AMOUNT OF DUTY-FREE QUOTAS			
	Cigars Referred to in subsection (a) (1) [Number]	Tobacco Referred to in subsection (a) (2) [Pounds]	Coconut Oil [Long Tons]	Buttons of Pearl or Shell [Gross]
Each of Calendar Years 1946-1954.....	200,000,000	6,500,000	200,000	850,000
1955.....	190,000,000	6,175,000	190,000	807,500
1956.....	180,000,000	5,850,000	180,000	765,000
1957.....	170,000,000	5,525,000	170,000	722,500
1958.....	160,000,000	5,200,000	160,000	680,000
1959.....	150,000,000	4,875,000	150,000	637,500
1960.....	140,000,000	4,550,000	140,000	595,000
1961.....	130,000,000	4,225,000	130,000	552,500
1962.....	120,000,000	3,900,000	120,000	510,000
1963.....	110,000,000	3,575,000	110,000	467,500
1964.....	100,000,000	3,250,000	100,000	425,000
1965.....	90,000,000	2,925,000	90,000	382,500
1966.....	80,000,000	2,600,000	80,000	340,000
1967.....	70,000,000	2,275,000	70,000	297,500
1968.....	60,000,000	1,950,000	60,000	255,000
1969.....	50,000,000	1,625,000	50,000	212,500
1970.....	40,000,000	1,300,000	40,000	170,000
1971.....	30,000,000	975,000	30,000	127,500
1972.....	20,000,000	650,000	20,000	85,000
1973.....	10,000,000	325,000	10,000	42,500
1974.....	0	0	0	0

(2) **DUTY ON IMPORTS IN EXCESS OF DUTY-FREE QUOTA.**—Any such Philippine article so centered or withdrawn from warehouse in excess of the duty-free quota provided in paragraph (1) shall be subject to 100 per centum of the United States duty, despite the provisions of section 202 of this title (which provides rates of less than 100 per centum of the United States duty with respect to Philippine articles). Nothing in this subsection shall be construed as enlarging the absolute quotas provided in subsection (a) of this section.

(c) **ALLOCATION OF QUOTAS.**—Each of the quotas established by this section shall be allocated annually to the manufacturers in the Philippines in the calendar year 1940 of products of a class for which such quota is established, and whose products of such class were exported to the United States during such year, or their successors in interest, proportionately on the basis of the amount of the products of such class produced by each such manufacturer (or in the case of such successor in interest, the amount of the products of such class produced by his predecessor in interest) which was exported to the United States during the calendar year 1940.

SEC. 215. LAWS PUTTING INTO EFFECT ALLOCATIONS OF QUOTAS

The necessary laws and regulations for putting into effect the allocation of quotas on the basis provided for in sections 211, 212, and 214, respectively, shall not be enacted by the United States, it being the purpose of this title that such laws and regulations shall be enacted by the Philippines.

SEC. 216. TRANSFERS AND ASSIGNMENTS OF QUOTA ALLOTMENTS

The holder of any allotment under existing law, including his successor in interest, and the holder of any allotment under any of the quotas established by sections 211, 212, or 214, may transfer or assign all or any amount of such allotment on such terms as may be agreeable to the parties in interest. If, after the first nine months of any calendar year, the holder of any allotment, for that year, under any of the quotas established by such sections, is or will be unable for any reason to export to the United States all of his allotment, in time to fulfill the quota for that year, that amount of such allotment which it is established by sufficient evidence cannot be so exported during the remainder of the calendar year may be apportioned by the Philippine Government to other holders of allotments under the same quota, or in such other manner as will insure the fulfillment of the quota for that year: *Provided*, That no transfer or assignment or reallocation under the provisions of this section shall diminish the allotment to which the holder may be entitled in any subsequent calendar year.

Part 3—Internal Taxes**SEC. 221. EQUALITY IN INTERNAL TAXES**

(a) With respect to articles which are products of the Philippines coming into the United States, or with respect to articles manufactured in the United States, wholly or in part from such articles, no internal tax shall be—

(1) collected or paid in an amount in excess of the internal tax imposed with respect to like articles which are the product of the United States, or collected or paid in any amount if the internal tax is not imposed with respect to such like articles;

(2) collected or paid in an amount in excess of the internal tax imposed with respect to like articles which are the product of any other foreign country, or collected or paid in any amount if the internal tax is not imposed with respect to such like articles.

(b) Where an internal tax is imposed with respect to an article which is the product of a foreign country to compensate for an internal tax imposed (1) with respect to a like article which is the product of the United States, or (2) with respect to materials used in the production of a like article which is the product of the United States, if the amount of the internal tax which is collected and paid with respect to the article which is the product of the Philippines is not in excess of that permitted by paragraph (2) of subsection (a) such collection and payment shall not be regarded as in violation of subsection (a).

(c) This section shall not apply to the taxes imposed under section 2306, 2327, or 2356 of the Internal Revenue Code.

SEC. 222. EXEMPTION FROM TAX OF MANILA FIBER

No processing tax or other internal tax shall be imposed or collected in the United States with respect to manila (abaca) fiber not dressed or manufactured in any manner.

SEC. 223. PROHIBITION OF EXPORT TAXES

No export tax shall be imposed or collected by the United States on articles exported to the Philippines.

SEC. 224. EXEMPTION FROM TAXES OF ARTICLES FOR OFFICIAL USE

No processing tax or other internal tax shall be imposed or collected in the United States with respect to articles coming into the United States for the official use of the Philippine Government or any department or agency thereof.

Part 4—Immigration**SEC. 231. CERTAIN PHILIPPINE CITIZENS GRANTED NONQUOTA STATUS**

(a) Any citizen of the Philippines who actually resided in the United States for a continuous period of three years during the period of forty-two months ending November 30, 1941, if entering the United States during the period from July 4, 1946, to July 3, 1951, both dates inclusive, for the purpose of resuming residence in the United States, shall, for the purposes of the immigration laws, be considered a non-quota immigrant; and shall not be excluded from entry into the United States by reason of section 13 (c) of the Immigration Act of 1924, or by reason of so much of section 3 of the Immigration Act of 1917 as provides for the exclusion from admission into the United States of natives of a therein specified geographical area.

(b) After such admission as a non-quota immigrant he shall, for the purposes of the immigration and naturalization laws, be considered as lawfully admitted to the United States for permanent residence.

(c) The benefits of this section shall also apply to his wife, if a citizen of the Philippines or eligible to United States citizenship, and to his unmarried children under 18 years of age, if such wife or children are accompanying or following to join him during such period.

(d) This section shall not apply to a citizen of the Philippines admitted to the Territory of Hawaii, without an immigration or passport visa, under the provisions of paragraph (1) of section 8 (a) of the Act of March 24, 1934 (48 Stat. 456, ch. 84).

TITLE III—OBLIGATIONS OF PHILIPPINES

Part 1—Purposes of Title

SEC. 301. STATEMENT OF PURPOSES OF TITLE

(a) **PERIOD UNTIL JULY 4, 1946.**—The following Parts and sections of this title, insofar as they are applicable to the period from the date of the enactment of this Act to July 3, 1946, both dates inclusive, are intended to, and shall, operate as statutes of the United States, binding on one of its possessions.

(b) **PERIOD JULY 4, 1946—JULY 3, 1974.**—The following Parts and sections of this title, although expressed in statutory form, are not in any manner intended, insofar as they are applicable to the period after July 3, 1946, as an attempt on the part of the Congress of the United States to legislate for the Republic of the Philippines as a sovereign nation, but constitute a statement in precise terms of provisions—

(1) which the Government of the Philippines, on the taking effect of the executive agreement provided for in Title IV of this Act, will be obligated to observe and execute as the law of the Republic of the Philippines during the effectiveness of the agreement; except that the observance of such part of the provisions of section 341 as is in conflict with the Constitution of the Philippines will not be required under such agreement for the period prior to the amendment to the constitution referred to in section 402 (b); and

(2) which, between the proclamation of the independence of the Philippines and the date of the taking effect of such executive agreement, will, according to the policy and expectations of the Congress of the United States, be observed and executed by the Government of the Philippines.

Part 2—Customs Duties

SEC. 311. FREE ENTRY OF UNITED STATES ARTICLES

During the period from the day after the date of the enactment of this Act to July 3, 1954, both dates inclusive, United States articles entered or withdrawn from warehouse, in the Philippines for consumption shall be admitted into the Philippines free of ordinary customs duty.

SEC. 312. ORDINARY CUSTOMS DUTIES ON UNITED STATES ARTICLES

(a) **JULY 4, 1954—JULY 3, 1974.**—The ordinary customs duty to be collected on United States articles, which during the following portions of the period from July 4, 1954, to July 3, 1974, both dates inclusives, are entered, or withdrawn from warehouse, in the Philippines for consumption, shall be determined by applying the following percentages of the Philippine duty:

(1) **JULY 4, TO DECEMBER 31, 1954.**—During the period from July 4, 1954 to December 31, 1954, both dates inclusive, 5 per centum.

(2) **CALENDAR YEAR 1955.**—During the calendar year 1955, 10 per centum.

(3) **CALENDAR YEARS 1956—1972.**—During each calendar year after the calendar year 1955 until and including the calendar year 1972, a percentage equal to the percentage for the preceding calendar year increased by 5 per centum of the Philippine duty.

(4) **PERCENTAGE AFTER 1972.**—During the period from January 1, 1973, to July 3, 1974, both dates inclusive, 100 per centum.

(b) **PERIOD AFTER JULY 3, 1974.**—The ordinary customs duty to be collected on United States articles which after July 3, 1974, are entered or withdrawn from warehouse, in the Philippines for consumption, shall be determined without regard to the provisions of subsection (a) of this section.

SEC. 313. CUSTOMS DUTIES OTHER THAN ORDINARY

Customs duties on United States articles, other than ordinary customs duties, shall be determined without regard to the provisions of sections 311 and 312 (a), but shall be subject to the provisions of section 314.

SEC. 314. EQUALITY IN SPECIAL IMPORT DUTIES, ETC.

(a) With respect to United States articles imported into the Philippines, no duty on or in connection with importation shall be collected or paid in an amount in excess of the duty imposed with respect to like articles which are the product of any other foreign country, or collected or paid in any amount if the duty is not imposed with respect to such like articles.

(b) As used in this section the term "duty" includes taxes, fees, charges, or exactions, imposed on or in connection with importation; but does not include internal taxes or ordinary customs duties.

SEC. 315. EQUALITY IN DUTIES ON PRODUCTS OF UNITED STATES

(a) With respect to products of the United States, which do not come within the definition of United States articles, imported into the Philippines, no duty on or in connection with importation shall be collected or paid in an amount in excess of the duty imposed with respect to like articles which are the product of any other foreign country, or collected or paid in any amount if the duty is not imposed with respect to such like articles which are the product of any other foreign country.

(b) As used in this section the term "duty" includes taxes, fees, charges, or exactions, imposed on or in connection with importation; but does not include internal taxes.

Part 3—Internal Taxes

SEC. 321. EQUALITY IN INTERNAL TAXES

(a) With respect to articles which are products of the United States coming into the Philippines, or with respect to articles manufactured in the Philippines wholly or in part from such articles, no internal tax shall be—

(1) collected or paid in an amount in excess of the internal tax imposed with respect to like articles which are the product of the Philippines, or collected or paid in any amount if the internal tax is not imposed with respect to such like articles;

(2) collected or paid in an amount in excess of the internal tax imposed with respect to like articles which are the product of any other foreign country, or collected or paid in any amount if the internal tax is not imposed with respect to such like articles.

(b) Where an internal tax is imposed with respect to an article which is the product of a foreign country to compensate for an internal tax imposed (1) with respect to a like article which is the product of the Philippines, or (2) with respect to materials used in the production of a like article which is the product of the Philippines, if the amount of the internal tax which is collected and paid with respect to the article which is the product of the United States is not in excess of that permitted by paragraph (2) of subsection (a) such collection and payment shall not be regarded as in violation of subsection (a).

SEC. 322. PROHIBITION OF EXPORT TAXES

No export tax shall be imposed or collected by the Philippines on articles exported to the United States.

SEC. 323. EXEMPTION FROM TAXES OF ARTICLES FOR OFFICIAL USE

No processing tax or other internal tax shall be imposed or collected in the Philippines with respect to articles coming into the Philippines for the official use of the United States Government or any department or agency thereof.

Part 4—Immigration

SEC. 331. CERTAIN UNITED STATES CITIZENS GIVEN NONQUOTA STATUS

Any citizen of the United States who actually resided in the Philippines for a continuous period of three years during the period of forty-two months ending November 30, 1941, if entering the Philippines during the period from July 4,

1946, to July 3, 1951, both dates inclusive, for the purpose of resuming residence in the Philippines, shall, for the purposes of the immigration laws, be considered a nonquota immigrant. After such admission as a nonquota immigrant he shall, for the purposes of the immigration and naturalization laws, be considered as lawfully admitted to the Philippines for permanent residence. The benefits of this section shall also apply to his wife, if a citizen of the United States, and to his unmarried children under 18 years of age, if such wife or children are accompanying or following to join him during such period.

SEC. 332. IMMIGRATION OF UNITED STATES CITIZENS INTO THE PHILIPPINES

Citizens of the United States, admissible to the Philippines under the provisions required by section 402 (e) to be included as a part of the executive agreement made under Title IV, shall be entitled to enter the Philippines, in the numbers and during the periods of years, and to remain therein for the time, specified in that part of the agreement which embodies the provisions of section 402 (e).

Part 5—Miscellaneous

SEC. 341. RIGHTS OF UNITED STATES CITIZENS AND BUSINESS ENTERPRISES IN NATURAL RESOURCES

The disposition, exploitation, development, and utilization of all agricultural, timber, and mineral lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces and sources of potential energy, and other natural resources of the Philippines, and the operation of public utilities, shall, if open to any person, be open to citizens of the United States and to all forms of business enterprise owned or controlled, directly or indirectly, by United States citizens.

SEC. 342. CURRENCY STABILIZATION

The value of Philippine currency in relation to the United States dollar shall not be changed, the convertibility of pesos into dollars shall not be suspended, and no restrictions shall be imposed on the transfer of funds from the Philippines to the United States, except by agreement with the President of the United States.

SEC. 343. ALLOCATION OF QUOTAS

The allocation, reallocation, transfer, and assignment of quotas established by sections 211, 212, and 214, respectively, of Part 2 of Title II, shall be on the basis provided for in such Part.

TITLE IV—EXECUTIVE AGREEMENT BETWEEN UNITED STATES AND PHILIPPINES

SEC. 401. AUTHORIZATION OF AGREEMENT

The President of the United States is authorized (except as hereinafter in this title otherwise provided) to enter into an executive agreement with the President of the Philippines providing for the acceptance on the part of each country of the provisions of Title II and of Title III (except Part 1) of this Act. The President of the United States is not authorized by this section to enter into such agreement unless it contains a provision that it shall not take effect—

(a) Unless and until the Congress of the Philippines accepts it by law; and

(b) Unless and until the Congress of the Philippines (in the act of acceptance, or separately) has enacted such legislation as may be necessary to make all the provisions of Parts 2, 3, 4, and 5 of Title III take effect as laws of the Philippines except (during the period prior to the amendment to the Constitution of the Philippines referred to in subsection (b) of section 402) such provisions of section 341 as are in conflict with such constitution.

SEC. 402. OBLIGATIONS OF PHILIPPINES

The President of the United States is not authorized by section 401 to enter into such executive agreement unless in the agreement the Government of the Philippines agrees—

(a) That the Republic of the Philippines will continue in effect as laws of the Philippines, during the effectiveness of the agreement, the provisions of Parts 2, 3, 4, and 5 of Title III, except (for the period prior to the amendment of the Constitution of the Philippines referred to in subsection (b) of this section) such part of the provisions of section 341 as is in conflict with such constitution.

(b) That the Government of the Philippines will promptly take such steps as are necessary to secure the amendment of the Constitution of the Philippines so as to permit the taking effect as laws of the Philippines of such part of the provisions of section 341 as is in conflict with such constitution before such amendment.

(c) That the Republic of the Philippines will promptly enact, and keep in effect during the effectiveness of the agreement, such legislation as may be necessary—

(1) to supplement the legislation referred to in section 401 (b), and to implement the provisions of Parts 2, 3, 4, and 5 of Title III; and

(2) to put and keep in effect during the effectiveness of the agreement, the allocation, reallocation, transfer, and assignment of quotas on the basis provided for in Part 2 of Title II.

(d) That the United States shall have the right to provide the basis for the allocation of the quotas established under that portion of the agreement which sets forth the provisions of section 403 (c) of this Act, and that, if the United States exercises such right, the Republic of the Philippines will promptly enact, and keep in force during the period for which each such quota is established, such legislation as is necessary to put and keep in effect, on the basis provided by the United States, the allocation of such quotas.

(e) That there shall be permitted to enter the Philippines, without regard to any numerical limitations under the laws of the Philippines, in each of the years of a specified period of years, of a specified number of citizens of the United States. The number of years (which shall not be less than five) the number of citizens of the United States (which shall not be less than one thousand) entitled to be so admitted in each year, and the length of time each shall be entitled to remain in the Philippines, shall be stated in the agreement.

(f) That the value of Philippine currency in relation to the United States dollar shall not be changed, the convertibility of pesos into dollars shall not be suspended, and no restrictions shall be imposed on the transfer of funds from the Philippines to the United States, except by agreement with the President of the United States.

SEC. 403. OBLIGATIONS OF UNITED STATES

The President of the United States is not authorized by section 401 to enter into such executive agreement unless in such agreement the Government of the United States agrees—

(a) That upon the taking effect of the agreement the provisions of Title II—

(1) if in effect as laws of the United States at the time the agreement takes effect, shall continue in effect as laws of the United States during the effectiveness of the agreement; or

(2) if not so in effect at the time the agreement takes effect (because suspended under section 502 of Title V) shall take effect and continue in effect as laws of the United States during the effectiveness of the agreement.

(b) That the United States will promptly enact, and keep in effect during the effectiveness of the agreement, such legislation as may be necessary to supplement and implement the provisions of Title II so continued in effect, or so made to take effect, as laws of the United States.

(c) That with respect to quotas on Philippine articles (other than the quotas established in Part 2 of Title II, and other than quotas established in conjunction with quantitative limitations, applicable to products of all foreign countries, on imports of like articles), the United States will not establish any such quota for any period before January 1, 1948; and that, for any part of the period from January 1, 1948, to July 3, 1974, both dates inclusive, it will establish such a quota only if—

(1) the President of the United States, after investigation, finds that such Philippine articles are coming, or are likely to come, into substantial competition with like articles the product of the United States; and

(2) the quota established for any Philippine article for any twelve-month period is not less than the amount determined by the President as the total amount of Philippine articles of such class which (during the twelve months ended on the last day of the month preceding the month in which occurs the date proclaimed by the President as the date of the beginning of the investigation) was entered, or withdrawn from warehouse, in the United States for consumption; or, if the quota is established for any period other than a twelve-month period, is not less than a proportionate amount.

(d) That during the effectiveness of the agreement the United States will not reduce the preference of 2 cents per pound provided in section 2470 of the Internal Revenue Code (relating to processing taxes on coconut oil, etc.) with respect to articles "wholly the production of the Philippine Islands" or articles "produced wholly from materials the growth or production of the Philippine Islands"; except that it may suspend the provisions of subsection (a) (2) of such section during any period as to which the President of the United States, after consultation with the President of the Philippines, finds that adequate supplies of neither copra nor coconut oil, the product of the Philippines, are readily available for processing in the United States.

SEC. 404. TERMINATION OF AGREEMENT

The President of the United States is not authorized by section 401 to enter into such executive agreement unless it provides—

(a) **TERMINATION IN GENERAL.**—That the agreement shall have no effect after July 3, 1974; and

(b) **TERMINATION BY EITHER PARTY.**—

(1) that the agreement may be terminated by either party at any time, upon not less than five years' notice; and

(2) that if the President of the United States or the President of the Philippines determines and proclaims that the other country has adopted or applied measures or practices which would operate to nullify or impair any right or obligation provided for in such agreement, then the agreement may be terminated upon not less than six months' notice; and

(c) **TERMINATION OR SUSPENSION BY THE UNITED STATES.**—

(1) that if the President of the United States determines that a reasonable time for the making of the amendment to the Constitution of the Philippines referred to in section 402 (b) has elapsed, but that such amendment has not been made, he shall so proclaim and the executive agreement shall have no effect after the date of such proclamation; and

(2) that if the President of the United States determines and proclaims, after consultation with the President of the Philippines, that the Republic of the Philippines or any of its political subdivisions or the Philippine Government is in any manner discriminating against citizens of the United States or any form of United States business enterprise, then the United States shall have the right to suspend the effectiveness of the whole or any portion of the agreement; and

(3) that if the President of the United States determines and proclaims, after consultation with the President of the Philippines, that the discrimination which was the basis for the suspension under paragraph (2) of this subsection—

(A) has ceased, the suspension effected under paragraph (2) shall end; or

(B) has not ceased after the lapse of a time determined by the President of the United States to be reasonable, then the United States shall have the right to terminate the agreement upon not less than six months' notice.

SEC. 405. EFFECT OF TERMINATION OF AGREEMENT

Upon the termination of the agreement as provided in section 404, the provisions of Title II shall cease to have effect as laws of the United States.

SEC. 406. INTERPRETATION OF AGREEMENT

The President of the United States is not authorized by section 401 to enter into such executive agreement unless it provides that the acceptance of the provisions of Titles II and III is on the understanding that the definitions, and provisions in the nature of definitions, contained in section 2 of Title I, shall apply in the interpretation of the provisions so accepted.

SEC. 407. TERMINATION OF AUTHORITY TO MAKE AGREEMENT

Whenever the President of the United States determines that a reasonable time for the entering into, acceptance, and taking effect, of the executive agreement has elapsed, but that such agreement has not taken effect, he shall so proclaim, and thereupon his authority to enter into such executive agreement shall terminate, and the provisions of Title II shall cease to have effect as laws of the United States.

SEC. 408. EFFECTIVE DATE OF AGREEMENT

When the President of the United States determines that the executive agreement entered into under section 401 has been accepted by the Congress of the Philippines by law and that the Congress of the Philippines has enacted the legislation the enactment of which is, under section 401, a condition precedent to the taking effect of the agreement, he shall so proclaim, and in his proclamation specify the effective date of the agreement.

TITLE V—MISCELLANEOUS**SEC. 501. SUSPENSION AND TERMINATION OF AGREEMENT IN CASE OF DISCRIMINATION**

(a) **SUSPENSION.**—If the President of the United States determines, after consultation with the President of the Philippines, that the Republic of the Philippines or any of its political subdivisions or the Philippine Government is in any manner discriminating against citizens of the United States or any form of United States business enterprise, he shall so proclaim, and thereupon the effectiveness of the agreement, or such part thereof as he may in the proclamation specify as necessary in order adequately to protect the interests of the United States, shall be suspended.

(b) **TERMINATION OF SUSPENSION.**—If the President of the United States, after consultation with the President of the Philippines, determines that the discrimination which was the basis for the suspension under subsection (a) of this section has ceased, he shall so proclaim, and thereupon the suspension effected under subsection (a) shall end.

(c) **TERMINATION OF AGREEMENT.**—If the President of the United States, after consultation with the President of the Philippines, determines that such discrimination has not ceased, after the lapse of a time determined by him to be reasonable, he shall so proclaim and give to the Philippine Government notice of the intention of the intention of the United States to terminate the agreement.

(d) **LAWS OF THE UNITED STATES.**—

(1) **IN CASE OF SUSPENSION.**—If the effectiveness of the agreement is suspended under subsection (a) of this section, the provisions of Title II of this Act shall cease to have effect as laws of the United States during the period of the suspension. If the suspension is of the effectiveness of only part of the agreement, then such provisions of Title II as the President may in his proclamation under subsection (a) specify as necessary adequately to protect the interests of the United States, shall cease to have effect as laws of the United States during the period of this suspension.

(2) **IN CASE OF TERMINATION.**—If the agreement is terminated under subsection (c) of this section, the provisions of Title II of this Act shall cease to have effect as laws of the United States.

SEC. 502. SUSPENSION OF TITLE II

If the President finds that, during the period after July 3, 1946, and before the taking effect of the executive agreement provided for in Title IV, the Government of the Philippines is not putting into effect, or making every effort to put into effect, to the fullest extent possible under its Constitution, the provisions of Title III of this Act, or is not providing for the allocation of quotas on the basis provided in section 211, 212, or 214, respectively, he shall so proclaim. On the day following the date of such proclamation, such provisions of Title II shall be suspended as he may in the proclamation specify as necessary in order adequately to protect the interests of the United States. Such suspension shall continue until the taking effect of the executive agreement provided for in Title IV, whereupon the suspension shall terminate and the suspended provisions shall again take effect and continue in effect as laws of the United States during the effectiveness of the agreement.

SEC. 503. CUSTOMS DUTIES ON IMPORTATIONS FROM PHILIPPINES

Articles coming or imported into the United States from the Philippines, and Philippine products coming or imported into the United States, shall, except as otherwise provided with respect to Philippine articles by Title II of this Act during the period such title is in effect—

(1) if entered, or withdrawn from warehouse, in the United States for consumption, during the period from the day after the date of the enactment of this Act to July 3, 1946, both dates inclusive, be subject to the same duties as like articles coming or imported into the United States from foreign countries, except Cuba; and

(2) if so entered or withdrawn during the period after July 3, 1946, be subject to the same duties as like articles coming or imported into the United States from other foreign countries, except Cuba.

SEC. 504. QUOTAS ON PHILIPPINE ARTICLES

(a) **ESTABLISHMENT BY PRESIDENT.**—After the executive agreement referred to in Title IV has taken effect, then whenever the President of the United States, after the investigation by the United States Tariff Commission provided for in subsection (d), finds, with respect to any Philippine articles (other than those for which quotas are established by Part 2 of Title II), that they are coming, or likely to come, into substantial competition with like articles which are the product of the United States, he shall so proclaim, and in his proclamation shall establish the total amount of such Philippine articles which may in each of specified periods be entered, or withdrawn from warehouse, in the United States for consumption. If he finds that the allocation of any quota so established is necessary to make the application of the quota just and reasonable between the United States and the Philippines, he shall, in such proclamation or a subsequent proclamation, provide the basis for such allocation.

(b) **MAXIMUM AND MINIMUM QUOTAS.**—No quota shall be established under subsection (a), with respect to a Philippine article, which is greater than the smallest amount of such article which in each of such specified periods the President determines may be so entered or withdrawn from warehouse without coming into substantial competition with like articles which are the product of the United States; except that in no case shall the quota be less than the minimum amount provided in that portion of such executive agreement which sets forth the provisions of section 403 (c) (2) of this Act.

(c) **DURATION OF QUOTAS.**—Any quota established pursuant to this section shall become effective at such time as the President shall designate (but not before January 1, 1948), and shall continue in effect until the President, after investigation, finds and proclaims that the conditions which gave rise to the establishment of such quota no longer exist, but no such quota shall continue in effect after the termination of the executive agreement provided for in Title IV.

(d) **INVESTIGATIONS BY TARIFF COMMISSION.**—The United States Tariff Commission shall at the request of the President upon resolution of either House of Congress or concurrent resolution of both Houses of Congress, upon its own motion, or when in its judgment there is good reason therefor, upon application of any interested party, make an investigation to ascertain (1) whether imports of a Philippine article (other than an article for which a quota is established by Part 2 of Title II) are coming, or are likely to come, into substantial competition with like articles which are the product of the United States; (2) what is the greatest amount of such article which may be entered, or withdrawn from warehouse, in the United States for consumption, without coming into substantial competition with like articles which are the product of the United States; and (3) the total amount of such article which (during the twelve months ended on the last day of the month preceding the month in which occurs the date of the beginning of the investigation) was entered, or withdrawn from warehouse, in the United States for consumption. During the course of the investigation the Commission shall hold a public hearing, of which reasonable public notice shall be given and at which parties interested shall be afforded reasonable opportunity to be present, to produce evidence, and to be heard. The Commission shall give precedence to such investigations. The Commission shall report the result of its investigations to the President and shall send copies of such report to each House of the Congress.

SEC. 505. PROCESSING TAX ON COCONUT OIL

(a) **EXEMPTION FOR PHILIPPINES.**—Section 2470 (a) (2) of the Internal Revenue Code is amended by striking out the word "other" wherever it appears in clauses (A) and (B) thereof; and by inserting at the end of the paragraph a new sentence to read as follows: "The tax imposed by this paragraph shall not apply to any domestic processing after July 3, 1974."

(b) **SUSPENSION OF SECTION 2470 (a) (2) OF INTERNAL REVENUE CODE.**—Whenever the President, after consultation with the President of the Philippines, finds that adequate supplies of neither copra nor coconut oil, the product of the Philippines, are readily available for processing in the United States, he shall so proclaim, and after the date of such proclamation the provisions of section 2470 (a) (2) of the Internal Revenue Code shall be suspended until the expiration of 30 days after he proclaims that, after consultation with the President of the Philippines, he has found that such adequate supplies are so readily available.

SEC. 506. TERMINATION OF PAYMENTS INTO PHILIPPINE TREASURY

(a) Notwithstanding the provisions of section 4 of the Act of March 8, 1902 (32 Stat. 54, ch. 140), or of section 19 of the Act of March 24, 1934 (48 Stat. 456, ch. 84), as added to such Act by section 6 of the Act of August 7, 1939 (53 Stat. 1232, ch. 502), or of the Act of November 8, 1945 (59 Stat. 577, ch. 454), or of any other provision of law, the proceeds of any duties or taxes, collected subsequent to July 3, 1946, which but for the enactment of this Act would be required to be paid into the general funds of the Treasury of the Philippines or would be held in separate or special funds and paid into the Treasury of the Philippines, shall be covered into the general fund of the Treasury of the United States.

(b) Sections 2476 and 3343 of the Internal Revenue Code are repealed, effective July 4, 1946.

SEC. 507. SPECIAL EXCISE PROVISIONS RELATING TO THE PHILIPPINES REPEALED

(a) Section 2800 (a) (4) of the Internal Revenue Code is amended by amending the heading to read:

“(4) Alcoholic Compounds from Puerto Rico and Virgin Islands.—”; and by amending subparagraph (B) to read as follows:

“(B) Virgin Islands.—For provisions relating to tax on alcoholic compounds from the Virgin Islands, see section 3350.”

(b) Sections 3340, 3341, and 3342 of the Internal Revenue Code are repealed, effective July 4, 1946.

(c) Subchapter B of Chapter 28 of the Internal Revenue Code is amended as follows:

(1) By amending the heading of such subchapter to read as follows:

“SUBCHAPTER B—PROVISIONS OF SPECIAL APPLICATION TO THE VIRGIN ISLANDS AND PUERTO RICO”

(2) By striking out the heading:

“Part I—Philippine Islands”

(3) By renumbering Parts II and III of such subchapter as “Part I” and “Part II”, respectively.

SEC 508. TRADE AGREEMENTS WITH THE PHILIPPINES

Until July 4, 1974, no trade agreement shall be made with the Philippines under section 350, as amended, of the Tariff Act of 1930, unless, prior to such time, the President of the United States has made the proclamation provided for in section 407 of this Act, or the executive agreement provided for in Title IV of this Act has been terminated.

SEC. 509. RIGHTS OF THIRD COUNTRIES

The benefits granted by this Act, and by the executive agreement provided for in Title IV, to the Philippines, Philippine articles or products, and Philippine citizens, shall not, by reason of any provision of any existing treaty or agreement with any third country, be extended to such country or its products, citizens, or subjects.

SEC. 510. ADMINISTRATION OF TITLE II

(a) The provisions of Parts 1, 2, and 3 of Title II shall be administered as parts of the customs and internal revenue laws of the United States.

(b) The provisions of Part 4 of Title II shall be administered as a part of the immigration laws of the United States.

SEC. 511. REPEALS

The following parts of Acts are repealed, effective on the day following the date of the enactment of this Act:

(1) section 301 of the Tariff Act of 1930;

(2) section 6 (except subsection (g)) of the Act of March 24, 1934 (48 Stat. 456, ch. 84), as amended by the Act of August 7, 1939 (53 Stat. 1226, ch. 502); and

(3) so much of section 13 of such Act of March 24, 1934, as amended by the joint resolution of June 29, 1944 (58 Stat. 626, ch. 323), as reads as follows: “After the Philippine Islands have become a free and independent nation there shall be levied, collected, and paid upon all articles coming into the United States from the Philippine Islands the rates of duty which are required to be levied, collected, and paid upon like articles imported from other foreign countries:”.

SEC. 512. EFFECTIVE DATE

This Act shall take effect on the day after the date of its enactment, except Part 2 of Title II, which shall take effect as of January 1, 1946.

SEC. 513. APPLICATION TO PUERTO RICO

Section 9 of the Act of March 2, 1917 (39 Stat. 961, ch. 145) is amended to read as follows:

"SEC. 9. That the statutory laws of the United States not locally inapplicable, except as hereinbefore or hereinafter otherwise provided, shall have the same force and effect in Puerto Rico as in the United States, except the internal revenue laws other than those contained in the Philippine Trade Act of 1946: *Provided, however,* That hereafter all taxes collected under the internal revenue laws of the United States on articles produced in Puerto Rico and transported to the United States, or consumed in the island shall be covered into the Treasury of Puerto Rico."

Passed the House of Representatives, March 29, 1946.

Attest:

SOUTH TRIMBLE, *Clerk.*

Senator WALSH. Mr. McNutt, will you give us your views on this bill?

STATEMENT OF HON. PAUL V. McNUTT, UNITED STATES HIGH COMMISSIONER TO THE PHILIPPINE ISLANDS

Commissioner McNUTT. Mr. Chairman and gentlemen of the committee:

My name is Paul V. McNutt. I am United States High Commissioner to the Philippine Islands.

The Senate Finance, in agreeing to consider H. R. 5856 at this special meeting, has accepted and is discharging in full its high responsibilities to the 18,000,000 people of the Philippines, and to American policy and prestige in the Orient.

Speaking both personally and as the United States High Commissioner to the Philippines, I cannot but express my gratitude for the promptness with which this committee was convened for the purpose of considering this bill. I am grateful to Senator George, to you, Senator Walsh, and to every member of this committee.

I know that every proponent of a specific piece of legislation is inclined to magnify the importance and urgency of the particular piece of legislation he is interested in. I am trying my best to keep to understatement when I say that the United States is sitting on a volcano in the Philippines, and must act with great speed or that volcano will erupt. I am not referring to the possibility of revolt or revolution or anarchy in the Philippines.

I am referring rather to the increasing and perhaps rightful resentment of the people of the Philippines, and the mystification of the many millions of people of the Orient who are watching us in the Philippines, at the delays which have characterized our program of relief and rehabilitation in the islands.

Most of these delays have been unavoidable. There have been tremendous practical and legal difficulties which prevented earlier action on this measure and other measures affecting the Philippines. But 18,000,000 distraught and confused people cannot live on practical difficulties or legal obstacles. They cannot comprehend them. They cannot sow legal difficulties into the fallow fields or use them for the repair of their damaged and devastated buildings.

The committees of Congress have shown every disposition to consider and to act on this vital legislation. I have never seen a heartier and more genuine sympathy for the tragic plight of our heroic friends in the Philippines than I have found here in Congress.

But there has been an unbelievable accumulation of circumstances which has postponed for 5 months action on this vital legislation. And during those 5 months, and in the 5 months preceding, following the liberation of the Philippines from the enemy, nothing has been done to get these people off dead center. Their economy is suspended, paralyzed. They have virtually no economy, no production of cash goods, no working at rehabilitation or repair, no making, no growing. Today, 10 months after liberation, their production of export commodities is just a trickle. They are still living on GI money, and that is rapidly, very rapidly disappearing.

Their imports are great, as great as before the war. But values are sky high and the ordinary man in the street, on the farm and in the small villages and barrios, is facing starvation for himself and his family, not perhaps today but in the very near future. There is no sure source of employment except government and public utilities. There is no sure source of government revenue, inasmuch as most imports come in duty-free, and there are almost no enterprises which fit into the prewar tax system of the Philippines.

Before the war, the Philippine government derived more than 30 percent of its revenue from the sugar industry. Today the Philippines are importing sugar, and there is far from enough of that. The Philippine government today is budgeting an anticipated expenditure bill of \$180,000,000 pesos for 1946-47, but is expecting no more than \$20,000,000 pesos in revenue on the basis of the present outlook.

Of course, the one big and malignant factor on the present horizon is the uncertainty of future trade relations between the Philippines and the United States. As you all know, the Philippines are scheduled to become independent on July 4 of this year. As black as their outlook is, the Filipinos seem to want their independence.

The United States has no intention of withholding independence.

In the light of world events, it is to our great advantage to carry through with our generous gesture of giving independence to the Philippines and to show the world that we are one Nation that keeps its promises, come war or rough weather.

But we will get little international credit for this action unless we make sure that the Philippines will be able to carry on as an independent nation and will not sink into complete economic chaos, which is their present outlook unless Congress acts on this all-vital legislation.

The reason for this economic chaos, as I have said, is the lack of certainty regarding future trade relations with the United States. On July 4 of this year, when the Philippines become independent, full tariff barriers will be erected against the Philippines, just as if they had never been our wards, just as if they hadn't fought with us and in support of us, and for us during the war.

Of course, Congress never really intended, I don't think, to erect those total tariff barriers even without the fact of war. We knew that the Philippines couldn't make a sudden transition from complete dependence on the American market to complete independence of the American market. And remember, that market has been duty-free

for 35 years. There are only a few Philippine commodities which can jump over our tariff walls.

I was, of course, speaking without reference to what happened during the war. During the war the Philippine economy was simply wiped out. Today they aren't raising sugar or growing coconuts, which ordinarily occupies about half the population. They are just waiting to see what Congress will do. They need money, from the government and from private resources, to rebuild their homes, mills, and shops, and to retill their fields, and they need a market for their produce.

They need, in the quickest way, to reconstitute their economy, their prewar economy. Then, as an independent nation, they can begin to plan their way forward to nondependence on the American market, to diversify their economy and to raise more crops for local consumption, and to make products which can be sold without tariff preferences.

I am sure they can and will succeed in this. They are a resolute and ingenious people. But they can't do anything unless they are given a breathing space, time for recovery from war shock, and time to plan and reorganize their economy.

This bill is a measure to grant them that breathing space, that relatively brief period they need to get off dead center and to start producing something and to getting some sort of national economy reestablished.

There are some particular provisions in this bill to which I do not wholly subscribe. There are some aspects which are not wholly wise from a very long-range viewpoint. In order to invite American capital to come into the Philippines, to rebuild and rehabilitate the island, we are making rather unprecedented demands on the Philippine government to assure American capital and American citizens of protection against discrimination.

Those assurances are, I think, required by the emergency circumstances. We cannot spare the time to build up the confidence of American investors in the good will of the Philippine government, a good will I personally am confident of, no matter who wins the forthcoming national election in the Philippines.

There are other provisions on which there might be some slight differences of opinion among economic theorists. But we all realize, both the representatives of the United States Government and of the Philippine Commonwealth—and that common realization was recognized in the House by a unanimous vote the other day—that this is the best kind of a compromise bill, and that speed and more speed is of the essence.

It is preferable to get a somewhat imperfect bill out in a hurry than to argue economic theory until some time in 1948 while millions of Filipinos are starving to death.

Remember that we are not the only ones interested in the Philippines. There are many strange and foreign "isms" which could find fertile soil in the Philippines, and would be given careful tending unless we move to preserve that soil for the product which has been growing in the Philippines for 50 years—democracy. We, the United States planned it that way and the Filipinos like it that way.

But there is one provision of H. R. 5856 at which I bridle, and at which I protest with all the vigor at my command. That is the provision part 2, section 211 (c), of title 2, the provision establishing the Philippine sugar quota at 850,000 short tons.

The original Bell bill, H. R. 5855, carried a quota of 850,000 long tons, which is 102,000 short tons more than is now provided. The Philippine duty-free sugar quota in the Tydings-McDuffie Act, the Philippine Independence Act, was 850,000 long tons. The Philippines have a quota of more than a million short tons in the Sugar Act. But the House Ways and Means Committee saw fit to cut down the Philippine quota to 850,000 short tons in place of 850,000 long tons, a change of one word, but a word that implies short-change to the Philippines, and to the rest of the world.

There was no reason I could understand for this change. Beet sugar is 600,000 tons below quota this year. It will be a long, long time before that deficit is made up, if it ever is. And United States consumption demands for sugar has jumped up from a base of 6,700,000 short tons in 1940 to an estimated 8,000,000 tons this year. The beet-sugar industry and the domestic cane-sugar industry will have all the quota they can supply for years to come.

The Philippines cannot ship in their quota either, not for some years to come. The only country which is in a position to take advantage of the Philippine deficit is Cuba. And please remember that according to the Sugar Act, the Philippines divide the foreign sugar quota with Cuba and Cuba alone. The domestic interests get their quota from an entirely separate percentage base, together with Hawaii, Puerto Rico, and the Virgin Islands.

There isn't any question of immediate advantage or disadvantage for the Philippines in this short tonning and short changing. It is just a symbol to the Philippines of a rather niggardly, small action by our country. In the long run it will be significant for the Philippines. It will mean a considerable amount of cash income for the Philippines which will be important to that country for purposes of the accumulation of capital, and to provide revenues for the Government. I do not favor a Philippines dominated by a sugar economy. But, gentlemen, they need that sugar income for a few years to make some other kind of an economy.

I ask this committee to amend title II, part 2, and restore to the Philippines their 850,000 long tons which is sanctioned by historical precedent, by the world sugar agreement, and by the common rules of decency and morality.

In all other respects I urge approval of H. R. 5856 without further amendment.

Of course, I do not think that the United States is going to fail the Philippines. I know from my many contacts with Members of both the House and the Senate during the past 2 months that I have been here that we are all ready and willing to do everything possible to see that the Philippines survive as a nation. We are all more than willing to recognize in full our obligations to the Philippines who did more than any other 18,000,000 people I can think of anywhere in the world to help save the cause of democracy during the frightful test to which it was subjected during the past 4 years.

These people were heroes, almost everyone of them. I won't go into that. You've all heard the high and heroic stories of their deeds during the war. But I am ready to tell you in passing that it would take weeks to unfold the full tale of the courage that this entire people showed in the face of the most indescribable conditions of brutality and cruelty you can possibly imagine. These people believe in democracy. They want their democracy. And if we can help give it to them and preserve it for them, we will be doing more for our creed and our way of life than by any other single program either at home or abroad that I can think of.

Today the Philippines are still very much on our side. They are still looking to us for leadership, for guidance as well as help. We can keep them that way. And the direction the Filipinos turn and look will have a great deal to do with the way all the colonial people of the Orient will turn and look.

We can keep our leadership in the Far East at this small cost or we can forfeit it. I don't think we can afford to abandon it. Personally I think our entire international future is in the West, in the Orient, among the billions of people, potential friends and potential customers there. The Filipinos can be our spokesmen, our agents and our ambassadors there. They can and will be, if we hold up their hands and help them support and repair an economy and a country torn and ravaged by our war.

I would like to add, as a point of personal privilege as it were, this one comment, Mr. Chairman. I have followed a great deal of legislation in my few years around Washington. I have worked with Members of Congress on a considerable amount of legislation. There has never been a bill that I can remember that has been the product of so many minds and so many hands as this one. I've been in Washington for 2 months on this trip. I have spent practically every day and almost every night, including holidays, on this legislation. Every paragraph and every sentence has been under scrutiny and study. The bill has been drafted and redrafted. I have spoken to scores of Members of Congress who have worked with me untiringly to perfect this bill.

I can honestly say that this bill is the most collaborative piece of legislation I've ever worked on. This is a truly congressional bill and not one dreamed up in the administrative departments. And through you, I would like to thank all the Members of Congress and all their advisers who have worked so hard, and so unselfishly, to get H. R. 5856 in its present form.

Senator WALSH. The Resident Commissioner, Brigadier General Romulo, has submitted three amendments to this bill and I asked his representative to submit them to you. Do you care to comment on them?

Commissioner McNUTT. I have those three amendments before me. With the first I am in hearty accord.

Senator WALSH. That has to do with the sugar quota?

Commissioner McNUTT. That is right. On page 11, lines 17, 20, and 21, strike out the word "short" at the beginning of line 17 before the word "tons" and insert the word "long." Later, in the same sentence, after the figures "50,000" strike the word "short" and insert the word "long."

One line 20, after the figures "425,000" strike the word "short" and insert the word "long."

On line 21, after the figures "25,000" strike the word "short" and insert the word "long."

The second amendment, which I have just seen for the first time, Mr. Chairman, is on page 12, line 13, add the following sentence—
in the event that the mill and the plantation owners fail to extend, modify, or renew the milling agreement upon expiration thereof, the Philippine government may by law reallocate or dispose of the quota or quotas involved for the purpose of carrying out the adjustment of the sugar industry.

At first glance, I see no objection to that amendment.

Senator LA FOLLETTE. What is the purpose of that amendment?

Commissioner McNUTT. We asked Mr. Zafra to come over. As stated here, the intention of the above amendment to meet a situation which may arise should the mill and the plantation owner fail to agree to extend, modify or renew the existing milling contract. In that event, the Philippine government should have the power and authority to reallocate or dispose of such quota or quotas involved for the benefit of the sugar industry as a whole either consolidating the mill districts to larger units to achieve lower production costs or increasing the allotment of districts that would be able to absorb the increasing United States duties.

Senator WALSH. Do you agree with that reason?

Commissioner McNUTT. That is the reason given by the Commonwealth government. As I say, Mr. Chairman, I had not seen these until I sat down here.

Senator WALSH. Amendment No. 3.

Commissioner McNUTT. On page 17, line 16, strike out the period after "1940" and insert a colon and the following proviso:

Provided, That, in the case of the quota of scrap tobacco, and stemmed and unstemmed filler tobacco, 2,000,000 pounds of such a quota may be allocated by the Philippine government to producers and manufacturers whose products were not exported to the United States during the calendar year 1940.

The reason that is given :

The foregoing amendment does not change the allocation of the basic quota of 4,500,000 pounds under the Independence Act but will only allow the Philippine government to allocate the additional quota of 2,000,000 pounds to producers and manufacturers who could not participate under the existing law and under the proposed bill. The Philippine government, through its National Tobacco Corporation, as the representative of the Cooperative Tobacco Growers Association, will not be entitled to a quota under the existing provisions of the bill, but with the proposed amendment it will participate in the distribution of the 2,000,000 pounds additional quota allotted under the present bill. The proposed amendment is therefore fair and equitable to hundreds of tobacco growers who have been organized by the Philippine government into producers' cooperatives.

That is an amendment which I have not considered, Mr. Chairman. The whole theory of the allocation procedures as outlined in the bill was to try to restore the economy as it was when the Japanese came into the islands. I have no comment to make on it. I should let the reasoning of the Commonwealth stand.

Senator WALSH. You can communicate with the committee later about the effect of that.

Are there any questions?

Senator HAWKES. I would like to ask a question, Mr. Chairman.

Senator WALSH. Yes, Senator.

Senator HAWKES. Prior to the war I understood from you, Commissioner McNutt, that the Philippines had the right to bring in 850,000 long tons.

Commissioner McNUTT. That is right, sir.

Senator HAWKES. What part of that 850,000 long tons did they bring in? Did they bring it in every year?

Commissioner McNUTT. Not every year; no, sir.

Senator HAWKES. Have you any figures to show how it varied in 4 or 5 years?

Commissioner McNUTT. Those figures are in the House committee report.

Senator HAWKES. I thought maybe you might know. I have not had time to read it.

Senator SALTONSTALL. Mr. Chairman, may I ask a question?

Senator WALSH. I think we might get this in the record first, Senator. What page of the report?

Mr. MARTIN. Page 16.

Senator HAWKES. In 1928, 628,000. Those are short tons, aren't they?

Mr. MARTIN. Senator, the figures to the right are the shipment to the United States.

Senator HAWKES. I see. Exports to the United States.

Now, in 1932 I see that there was 1,124,000 tons. Those are short tons. Would that be the equivalent of 850,000 long tons?

Mr. MARTIN. That is more than 850,000 long tons. There was no quota.

Senator HAWKES. That is one of the points I wanted to find out about. How did that excess come in?

Mr. MARTIN. There was no quota at all.

Senator HAWKES. I misunderstood the Commissioner then.

Commissioner McNUTT. The quota that existed at the time the Japanese came in was 850,000 long tons.

Senator HAWKES. Well, that gives the information I wished for. Thank you very much.

Senator WALSH. Senator Saltonstall.

Senator SALTONSTALL. Mr. Chairman, I would like to ask Mr. McNutt two questions.

Mr. McNutt, if we put this 850,000 short tons back to long tons, does it contravene any understanding in any reciprocal trade treaty agreement that you know of with any other country?

Commissioner McNUTT. It does not, that I know of.

Senator SALTONSTALL. The other question I would like to ask you is perhaps a rather theoretical one, and perhaps is a stupid one, but I am new here and it appeals to me. You see, this is in the form of an agreement. As I understand it, the President can make an Executive agreement. He sends that Executive agreement up to Congress for its information. That has been done in one or two cases.

If there is a treaty and it is confirmed, that becomes the law of the land, does it not?

Commissioner McNUTT. That is right, sir.

Senator SALTONSTALL. And the President is compelled to live up to it?

Commissioner McNUTT. Yes.

Senator SALTONSTALL. Now, in this form of an agreement, as I read the language of the act, Congress is virtually passing a law, taking the same steps that it ordinarily does, but it is authorizing the President to enter into certain Executive agreements.

Commissioner McNUTT. Exactly, embodying the provisions of this act.

Senator SALTONSTALL. Now, assume that between now and 1974 there comes a President who says, "No, I will not carry out these Executive agreements," or, "I believe that they should be changed," or he just takes no action at all, and there is nothing that could compel him to take that action, is there?

Commissioner McNUTT. Not at all. But by that time, Senator, there certainly will be a treaty existing between the two countries.

Senator SALTONSTALL. If it is a fact there is going to be a treaty, why carry this to 1974?

Commissioner McNUTT. The treaty would embody, I suppose, the same thing. In other words, the Congress is passing in advance what it wants in an agreement with the Philippines over a period of 28 years. While this act takes the form of a tariff measure, the whole purpose of it is to determine what the trade relations between the Philippine Islands and the United States will be for the next 28 years.

Senator SALTONSTALL. I understand that; yes.

Commissioner McNUTT. As nearly as the Congress can do it, this sets forth the provisions of the agreement which will be entered into between the two countries. It is not a case of making an agreement and approving it thereafter, it is the case of the Congress laying out what the agreement shall be.

Senator SALTONSTALL. That is true, but the Congress cannot compel the President to do anything, can it?

Commissioner McNUTT. No, I would suppose not, sir.

Senator SALTONSTALL. It merely advises the President as to what its ideas are. The economics of this understanding may be entirely theoretical. That is, we are setting out certain things for the President to do, but there is nothing to compel the President to live up to what we suggest. He can refuse to take any action of any kind, and thereby nullify this whole agreement.

Senator BUTLER. Mr. Chairman, I think, if I understand the Senator from Massachusetts as correct, he would like to know which law is going to prevail, the Reciprocal Trade Act giving the President power to do certain things, or this act.

Commissioner McNUTT. This act would prevail.

Senator SALTONSTALL. I am going further than that. I am trying to argue this out on the theory of an executive agreement. This is the reverse of what is ordinarily set up here.

Commissioner McNUTT. Precisely.

Senator SALTONSTALL. You are asking Congress to lay down certain principles, which Congress can do, and may do, but there is nothing that will compel the President of the United States to carry out this agreement.

Commissioner McNUTT. I suppose not, except the express will of the Congress of the United States.

Senator SALTONSTALL. There is no way of putting any such provision in the act?

Commissioner McNUTT. I cannot think of any way that the Congress could do it and stay within the constitutional limitations.

Mr. Beaman, do you have any comment on that?

Senator WALSH. Mr. Beaman said he would clear this matter up in executive session.

Commissioner McNUTT. Mr. Beaman, who is the legislative counsel of the House of Representatives, is present.

Senator BUTLER. Mr. Chairman.

Senator WALSH. Senator Butler.

Senator BUTLER. I think the Commissioner knows I am just as sympathetic toward treating the Filipino as properly as he or anybody else can be.

Commissioner McNUTT. I agree, Senator.

Senator BUTLER. Do you feel that it is in the best interest of the Filipino people to increase their sugar quota when they have a limited acreage of agricultural land, the same as we or any other country?

Commissioner McNUTT. Senator, I am not asking that it be increased, I am asking that it be left alone.

Senator BUTLER. My point is this, though, Mr. Commissioner: I think the Filipino people would be better off as a people if they would be permitted to grow their own food. Now, they cannot live on sugar. If they would grow more rice and other things they could keep body and soul together, instead of being almost entirely dependent on raising sugar and a few other such items for export. In other words, I do not think it is too serious to have this quota down a little bit.

Commissioner McNUTT. There are some psychological reasons behind this, Senator. We have not touched any other quota.

Senator BUTLER. The Filipino people cannot live on psychology.

Commissioner McNUTT. That is quite right. Nor is the atmosphere in which we are trying to work out agreement and establish relationships likely to be good unless we at least enlist the full and sympathetic assistance of those with whom we are going to work. They would not understand and I do not understand why it should be cut.

In other words, the purpose of this legislation was to go back to the place the Philippines were when the Japanese invaded. Give them a chance to restore their economy.

I agree with you, and everyone who knows anything about the Philippines agrees that they must come to a diversified economy, but before that there has to be a restoration of economy in order that they move forward. They are fully aware of all the implications.

Senator BUTLER. They will not be able to get up to their quota for some time.

Commissioner McNUTT. There will be no sugar coming from the Philippines for the next 3 years, Senator. They are trying to buy sugar on the open market.

Senator BUTLER. In the meantime, I think it is highly important for them to work on a plan of diversified production.

Commissioner McNUTT. Precisely, and that has been urged upon them, and I know that they will.

Senator LA FOLLETTE. I think you made it clear in your opening statement that you were not urging the sugar economy.

Commissioner McNUTT. No.

Senator LAFOLLETTE. Knowing the very difficult period of their adjustment, you made it clear you felt any change in the situation would be very unfortunate.

Commissioner McNUTT. That is right.

Senator WALSH. If it is agreeable to the committee, we will hear Mr. Beaman in executive session, where he will discuss the details of the bill, and we will only hear other persons or witnesses who want to appear.

There is a witness here who desires to be heard, Mr. Villamin.

**STATEMENT OF VICENTE VILLAMIN, COSMOS CLUB,
WASHINGTON, D. C.**

Senator WALSH. Your name is Vincente Villamin?

Mr. VILLAMIN. Yes, sir.

Senator WALSH. You are a private Filipino citizen?

Mr. VILLAMIN. Yes, sir.

Senator WALSH. Are you living in America?

Mr. VILLAMIN. Yes, sir; in Los Angeles.

Senator WALSH. What is your business?

Mr. VILLAMIN. I am a lawyer and a student of economics. I represent no one here but myself, and I wish to make the statement that I am not going to benefit personally from this bill, either as a lawyer or as a businessman. I also wish to make the statement that under the rehabilitation bill I am not going to ask for payment for the war losses that I have sustained.

I have been dealing with Philippine-American economic questions for over 25 years. Twenty-four years ago I appeared before this committee. This will be probably my last appearance before a congressional committee, because on July 4, 1946, we Filipinos will automatically become aliens, and one of the privileges that we are going to lose is the precious privilege of appearing before committees of Congress like this, to give our views on matters pertaining to our country.

The bill under consideration is well-intended. However, I must confess—and probably it is largely due to my mental inadequacy—that the bill is very involved and very complicated. It would be difficult for Filipinos to understand it. I tried, with the help of a language scholar, to translate the important parts of it into Spanish and I must confess that I have not been able to make sense out of it. I am not reflecting on the author of the bill, I am just making the frank confession as a Filipino that I cannot understand the bill fully, and it is important that other Filipinos like myself should understand the bill because before it goes into effect it will have to be accepted by their government.

Besides that, before we can receive benefits over \$500 under the rehabilitation bill, by an amendment to that bill we shall have to accept this bill first.

The executive agreement is the heart of the whole bill. It contains the trade relations plan between the United States and the Philip-

pires, as set forth in titles II and III. It will be negotiated between the President of the United States and the President of the Philippines.

After its negotiation it will be accepted or rejected by the Philippine Congress. If that Congress accepts it, by law or by resolution, that Congress shall proceed and enact laws incorporating the provisions of titles II and III. That Congress will also take steps to amend the Philippine Constitution to incorporate therein section 341 of the bill defining the rights of Americans in the Philippines. That section already would be a Philippine law by being a part of both the executive agreement accepted by the Philippine Congress and of the law enacted by that Congress.

After these requirements have been complied with, the President of the United States shall so inform the Congress and it will then proceed to enact legislation—using the language of the bill—“to implement and supplement the provisions of the bill.”

In other words, after Congress has passed this bill it will not be the end of this process of legislating on the Philippines.

It seems to me that many of the motions here required could be done away with by accepting the fact that the executive agreement authorized by Congress with specific standards and provisions will acquire the force of law after it has been negotiated properly according to accepted State Department usage.

The suggestion for its simplification is as follows:

That the executive agreement be negotiated with titles II and III in it. Let the Philippine Congress accept it or reject it. Once it is accepted, we have an executive agreement which will be proclaimed by the President of the United States without further act by Congress.

The agreement will be the law of the United States and of the Philippines. It shall contain, of course, provisions for its termination, which are fundamental in character and not merely routine or procedural matters.

Under the provisions of the bill, the agreement will be a sort of open-and-close affair that could be operated by the President of the United States in many ways and by the President of the Philippines in only one way. That will give essential instability to that agreement, and, therefore, the plan of trade relations between the two countries.

Each President could ask for suspension if one of them could show that each has taken measures adversely affecting any right guaranteed to each other in the agreement. The President of the United States, but not that of the Philippines, can declare the agreement suspended if he is convinced that American citizens or American business is discriminated against by the Philippine government or its political subdivisions. I can visualize the grave and complicated implications contained in that provision which are, it seems to me, rather harsh and rather punitive to the Philippines. Filipinos are discriminated against in some States of the American Union already, but there is no such protection for them. It seems to me that the protection accorded by the bill to Americans in the Philippines is so strict on the Filipinos as to deprive them of the voluntary desire to express their natural appreciation of the Americans whom they have known so well and favorably for nearly 50 years.

Senator HAWKES. May I interrupt there, Mr. Chairman, and ask this question?

Senator WALSH. Certainly, Senator.

Senator HAWKES. You say the Filipinos have been discriminated against in the various States of the Union.

Mr. VILLAMIN. Yes, sir.

Senator HAWKES. Would you mind saying in what respect?

Mr. VILLAMIN. In the ownership of land, in the practice of the professions and businesses. I have especial reference to the certain Western States, and if you want me to, I shall insert with my statement references to the laws of those States discriminating against the Filipinos.

Senator HAWKES. I think it would be well to do that.

Mr. VILLAMIN. However, over there we are cooperating with the state—the government, and the people. I am from California, and we do not kick much, we go along as much as we can and as quietly and with dignity and self-respect as we can.

Mr. Chairman, I am appending herewith a compilation of laws with their citations in certain Western States which may be considered as discriminating against Filipinos. As I said, we Filipinos are not making too much fuss about this matter, simply hoping that some day the good people in this part of the United States will remove them voluntarily from the statute books, while we try, by our faithful observance of the laws and by being reasonable in everything, to convince them that we deserve better treatment at their hands.

The compilation of laws follows:

LAWS IN WESTERN STATES DISCRIMINATING AGAINST FILIPINOS
CALIFORNIA

1. Real property (Alien Property Initiative Act of 1920, Stats. 1921):

"SECTION 1. All aliens eligible to citizenship under the laws of the United States may acquire, possess, enjoy, use cultivate, occupy, transfer, transmit, and inherit real property, or any interest therein, in this State, and have in whole or in part the beneficial use thereof, in the same manner and to the same extent as citizens of the United States, except otherwise provided by the laws of this State.

"SEC. 2. All aliens other than those mentioned in section 1 of this Act may acquire, possess, enjoy, use, cultivate, occupy, and transfer real property, or any interest therein, in the manner and to the same extent, and for the purposes prescribed by any treaty now existing between the Government of the United States and the nation or country of which such alien is a citizen or subject, and not otherwise."

(NOTE.—A recent court decision is favorable to Filipinos.)

2. Marriage (Civil Code of California, pt. 3, title 1, art. 1):

"All marriages of white persons with Negroes, Mongolians, members of the Malay race, or mulattos are illegal and void."

3. Law (1939 Supplement, California Codes, General Laws and Constitution):

"SEC. 6060 (a). Must be a citizen of the United States."

4. Nursing. Same reference as No. 3 (b):

"SEC. 2736. Must be a citizen of the United States or have declared his intention to become a citizen of the United States.

"SEC. 2743. A license issued to a person not a citizen of the United States but who has declared his intention of becoming a citizen, shall terminate and become void at the end of seven years from the date of filing such declaration of intention if such a person has not become a citizen. A license so terminated may be re-issued by the board at any time thereafter upon evidence of citizenship and an explanation of the delay satisfactory to the board.

"SEC. 2736. Reciprocity: The department, upon written application and upon the receipt of the required registration fee, shall issue a certificate of registration without any examination to any applicant who has been duly registered as a

registered nurse under the laws of another State or foreign country, if the application meets the requirements for certification as provided for in this chapter."

5. Pharmacy (Statutes of California, 1937, ch. 9) :

"SEC. 4096. Except for an applicant who is applying under the terms of section 4134¹ he shall be a citizen of the United States, or, if eligible for citizenship and not a citizen, he shall have filed and proven his intention of becoming one. If citizenship is denied to any person registered under this chapter, then such denial of citizenship shall automatically cancel all such registration and privileges."

6. Medicine and surgery: No citizenship requirement.

7. Dentistry: No citizenship requirement.

8. Civil service (Stats. of California, 1915, ch. 417) :

"SECTION 1. No person except a native-born or naturalized citizen of the United States, shall be employed in any department of the State, county, city and county, or city government in this State: *Provided, however,* That nothing herein contained shall prohibit the employment as a member of the faculty of teaching force in public schools in this State, nor in schools supported in whole or in part by the State, of any person who has declared his intention to become a citizen of the United States, * * * to any member of the faculty or teaching force of any college or university supported in whole or in part by the State, or any county, city and county, or city and engaged in special investigation."

9. Hunting and fishing: Filipino citizens have to pay license charged to aliens; no provision made for noncitizen nationals.

OREGON

1. Real property (Oregon Compile Laws, title 61, ch. 1) :

"SEC. 61-101. All aliens eligible to citizenship under the laws of the United States may acquire, possess, enjoy, transmit, and inherit real property, or any interest therein in this State, in the same manner otherwise provided by laws in this State.

"SEC. 61-102. All aliens other than those mentioned in section 61-101 may acquire, possess, enjoy, transmit, and inherit real property, or any interest therein, in this State, in the same manner and to the same extent and for the purpose prescribed by any treaty now existing between the Government of the United States and the nation or country of which such alien is a citizen or subject, and not otherwise."

2. Marriage (same reference as No. 1, title 63, ch. 1) :

"SEC 63-102. Marriages are prohibited: (3) When either of the parties is a white person and the other a Negro or Mongolian or a person of one-fourth or more Negro or Mongolian blood."

3. Law (same reference as No. 1, title 47, ch. 3) :

"SEC. 47-302. Must be a citizen of the United States and of Oregon.

"SEC. 47-303. Any alien who has duly declared his intention to become a citizen of the United States, and has become a resident of the State of Oregon, may by supreme court of this State be admitted as an attorney. * * *"

4. Nursing: No citizenship requirement.

5. Pharmacy (same reference as No. 1, title 58, ch. 3) :

"SEC. 58-301. Pharmacists and assistant pharmacists must be citizens of the United States."

6. Dentistry: No citizenship requirement.

7. Medicine and surgery. No citizenship requirement.

8. Civil service (same reference as No. 1, title 87, ch. 8) :

"SEC. 87-810. The commission shall, from time to time, hold public competitive examination to ascertain the fitness of applicants for offices, places, positions, and employments in the classified civil service. Such examinations shall be confined to citizens of the United States and electors of such county who can read and write the English language."

9. Hunting and fishing (Angling, ch. 1, art. 2, title 83) :

"SEC. 83-611 (commercial fishing) : No license for taking or catching salmon or other food of shellfish, as required by the laws of the State, shall be issued to any person who is not a citizen of the United States and who has not been an actual resident of the State for one year immediately preceding the application for such licenses. * * *

¹ Licentiate in pharmacy, class 3.

"Hunting: It shall be unlawful for any unnaturalized foreign-born person within the State of Oregon, to hunt, trap for or kill or take any of the wild animals or wild birds of this State, or to have in possession any shotgun, rifle, or any firearms, which in the field, or forest, or in any tent, vehicle, car or camp in the State without first having secured a gun licence from the State game commission. Fee, \$25." (Incidentally, this is the same amount charged to Filipinos and aliens for hunting license in California.)

ARIZONA

1. Real Property:

"SEC. 71-201. All aliens eligible to citizenship under the laws of the United States may acquire, possess, enjoy, transmit, and inherit real property, or any interest therein, the same as citizens of the United States, except as otherwise provided by law. All other aliens may acquire, possess, enjoy, and transfer real property, or any interest therein, only to the extent and for the purpose prescribed by any treaty now existing between the United States and the nation or country of which such alien is a citizen or subject and not otherwise."

(The Attorney General of Arizona, in an opinion rendered on the subject, ruled that Filipinos, as nationals of the United States, are not included in the prohibitory provisions of the law.)

2. Marriage (Arizona Code, 1939, ch. 63, art. 1):

"SEC. 63-107. The marriage of persons of Caucasian blood, or their descendants, with Negroes, Hindus, Mongolians, members of the Malay race, or Indians and their descendants shall be null and void. * * *"

3. Law: The Revised Code of 1928 provides that an applicant for admission to the bar be a citizen of the United States. The Arizona Code of 1939 is silent about citizenship requirement.

4. Nursing: No citizenship requirement. Reciprocity.

5. Dentistry: No citizenship requirement. Reciprocity.

6. Medicine: No citizenship requirement. Reciprocity.

7. Civil service: Silent about citizenship requirement.

8. Hunting and fishing: No provision for noncitizen national.

UTAH

1. Real property (Laws of the State of Utah, 1939):

"SEC. 78-6a-1. All aliens eligible to citizenship under the laws of the United States may acquire, possess, enjoy, transmit, and inherit real property, or any interest therein, in this State, in the same manner and to the same extent as citizens of the United States, except as otherwise provided by the laws of this State.

"SEC. 78-6a-2. All aliens other than those mentioned in section 1 of this Act may acquire, possess, enjoy, transmit, and inherit real property or any interest therein, in this State, in the same manner and to the same extent and for the purposes prescribed by any treaty now existing between the Government of the United States and the nation or country of which such alien is a citizen or subject, and not otherwise, and may in addition thereto lease lands in this State for agricultural purposes for a term of one year."

2. Marriage (Laws of the State of Utah, 1943, ch. 50):

"SEC. 40-1-2. The following marriages are prohibited: (6) Between a Mongolian, member of the Malay race or a mulatto, quadroon, or octoroon and a white person."

3. Law (Revised Statutes of Utah, 1933, title 6):

"SEC. 6-0-10. * * * the qualifications and admission to the practice of law shall be as follows: Each applicant shall be a citizen of the United States or a person who has bona fide declared his intention to become one in the manner required by law * * *"

4. Nursing: Residence required but no citizenship.

5. Pharmacy (same as reference No. 3): Residence and United States citizenship required. Assistant's certificate issued to any competent person irrespective of citizenship.

6. Medicine and surgery: No residence or citizenship requirement.

7. Dentistry: No residence or citizenship requirements.

8. Civil service: No residence or citizenship requirements.

9. Hunting and fishing:

(a) Fishing: No provision for noncitizen national.

(b) **Hunting:** Any unnaturalized foreign-born person resident of Utah is forbidden to possess firearms of any kind, except when employed to destroy predatory animals or in caring for stock on the range.

WASHINGTON

1. **Real property:** Alien land law of the State of Washington is similar to that of California. In *De Cano v. State* (Washington), the supreme court of the State held that since Filipinos are not aliens, they are not included in the prohibitory provision of the statute concerned (110 Pac. (2) 627).

2. **Marriage:** No statute bars the marriage between a Filipino and a Caucasian.

3. **Law:** No citizenship requirement.

4. **Nursing:** No citizenship and residence required.

5. **Dentistry:** No citizenship requirement.

6. **Medicine and surgery:** No citizenship requirement.

7. **Civil service:** No specific provision on this subject. Teachers are required to be citizens of the United States or must have declared their intention of so doing.

8. **Hunting and fishing:** No provision for noncitizen national.

NEVADA

1. **Real property.** (Nevada Compiled Laws, 1929) :

"SEC. 6365. Any nonresident alien, person or corporation, except subjects of the Chinese Empire, may take, hold, and enjoy any real property, or any interest in the lands, tenements, or hereditaments within the State of Nevada, and fully, freely, and upon the same terms and conditions as any citizen, person, or domestic corporation."

2. **Marriage:** No statute had been found that would bar the marriage between the colored races and Caucasians. A letter of inquiry is being directed to the attorney general of Nevada to check up on this subject.

3. **Law:** (Nevada Compiled Laws, Supplement, 1931-41, 11) :

"SEC. 8493. Must be a citizen of the United States, or a resident of this State who has bona fide declared his intention to become a citizen. * * *"

4. **Nursing:** No citizenship requirement.

5. **Pharmacy:** No citizenship requirement.

6. **Dentistry:** No citizenship requirement.

7. **Medicine and surgery:** No citizenship requirement.

8. **Civil service:** Silent about citizenship requirement.

9. **Hunting and fishing:** No provision for noncitizen nationals.

Gentlemen, the provisions of the bill seem to contemplate that the Americans in the Philippines will become some sort of exiles, orphans and pioneers far away from their native land and thrown among a strange people who have known them only at the time the Executive agreement goes into effect. The provisions of this bill in this particular not only violate elemental psychology but presuppose that the Filipino-American good will built by mutual unselfishness for 50 years and sanctified by mutual loyalty during the war is nothing but a colossal myth.

The Filipinos want the Americans in the Philippine Islands. They do not want them to be considered as immigrants. They do not want to place them under any limitation as to residence and as to number. They want the Americans in the Philippine Islands. They helped build our country and we should like to have them with us, to help our country some more after independence.

So all the provisions here pertaining to Americans as immigrants, in my opinion, should be deleted from the law.

There is a provision in the previous bill to this, H. R. 5185, which I like very much. It gives Americans in the Philippine Islands the right of residence and occupation and property as Filipinos. If they have the right of residence in the Philippines it would not make sense to place them under immigration limitations.

There is a provision in the Philippine Constitution, article XVI, which will go into effect on the proclamation of Philippine independence on July 4, 1946, which defines the rights of Americans and directs the Philippine Government to assume the responsibility for its bonded indebtedness. The entire provisions of that article are required to be set forth in a treaty between the two countries. That provision came from the Independence Act, the act of Congress of March 24, 1934, known as the mandatory provision that must be in the Philippine Constitution.

If there is a desire to have section 341, which defines the rights of Americans, more comprehensively than article XVI of the Philippine Constitution, to be made a part of the constitution, it could be so provided, and in the meantime it could be a part of this treaty by an additional provision in the bill for that purpose, and once it is in the treaty it becomes a part of the fundamental law of the land. That would be ample protection for Americans, or for anyone who means to be reasonable.

Now, for the Filipinos in America, the bill accords them the right of immigration but not the right of naturalization. I wish to submit an amendment giving the Filipinos the right to become American citizens, and the amendment was taken from the bill which preceded this one, by the same author, Congressman Bell, the chairman of the Insular Affairs Committee. I will read it:

SEC. 231. The United States Government shall accord to citizens of the Philippine Islands privileges of immigration and naturalization not less favorable than the same privileges accorded by it to any other nation: *Provided*, That for the purposes of this section, any citizen of the Philippine Islands who resided in the United States for three years prior to November 30, 1941, shall be considered a legal resident of the United States: *And provided further*, That this section shall not apply to a citizen of the Philippine Islands admitted to the Territory of Hawaii, without immigration or passport visa, under the provisions of paragraph (1) of section 8 (a) of the Act of Congress of March 24, 1934.

The Chinese have been given the privilege of becoming American citizens. If they have been given that privilege, I think the Filipinos are certainly entitled to be given that privilege. I might say here that there is a separate bill pending in the Senate giving the Filipinos that privilege. I think, however, that it should be here in this bill.

I am going to make a few rambling remarks on some sections of this bill. I would like to refer first to section 342 on page 29 covering the subject of currency stabilization. There was established by act of Congress of the United States the ratio of 2 to 1 between the Filipino peso and the American dollar. That is satisfactory to us. I just want to discuss as a matter of record, the effect of that provision.

In 1934 the American Government devalued the dollar. As the result of that devaluation it declared a profit for itself of some \$2,800,000,000. It was not merely a bookkeeping profit. The amount was made available and considered expendable. Out of that, less than \$150,000,000 had been expended by the Government of the United States. The Philippine Government at that time had about \$54,000,000 on deposit in the United States, under the control of the United States Treasury. That Government asked the United States Government to give its share of the profits. The Congress of the United States in 1934 authorized, but never appropriated, the payment to the Philippines of its profit to the extent of about \$24,000,000.

Now, what I want to know is whether the Philippine government can even now declare a profit as the result of the devaluation in 1934. This is very important.

Another thing, if in the future the American Government should devalue the American dollar, whether the Philippine government would be entitled to declare its profit as the result thereof in the same way that the United States declared its profit. I just want to make this observation of record here.

I desire to insert at this point a letter addressed by me to the United States Treasury Department on the subject, as follows:

FEBRUARY 18, 1946.

HON. HARRY D. WHITE,
Assistant Secretary, Treasury Department,
Washington, D. C.

DEAR MR. WHITE: Understanding that your Department has something to do with section 18 of H. R. 5185, concerning the relation of the Philippine peso to the American dollar, I should like to ask a question which may arise in the future: If the American dollar is again devalued, can the Philippine government, like the American Government, declare an increment or "profit" for itself?

When the dollar was devalued in 1934 the American Government declared a profit for itself of \$2,818,807,826.61, of which \$2,029,397,108.56 has been used pursuant to specific appropriations by the Congress and \$645,387,965.45 was used in connection with the retirement of national banknotes during the fiscal years from 1935 to 1939, leaving an unexpended balance on July 24, 1945, of \$144,022,752.60.

The Philippine government asked for its profit, and the United States Congress authorized, but never appropriated, the payment of approximately \$24,000,000. That at least recognized the right of the Philippine government to receive a profit.

Another question arises: Having received no profit from the 1934 dollar devaluation, can the Philippine government before or after independence on July 4, 1946, declare and make available, as did the American Government in respect to its profit in 1934, the profit that accrued to itself in 1934?

Anticipating thanks for enlightenment on the above queries, I am
Sincerely yours,

VICENTE VILLAMIN.

Now, I want to talk on section 323. Under this, supplies of the American Government sent to the Philippines, and vice versa, are free in each country from internal tax. But the question remains to be answered: Are they exempted from import tax after the first 8 years of free trade? That should be made clear. I am in favor of making them free during the life of this agreement.

Section 223 prohibits the American Government from imposing any export tax on American goods going to the Philippines, and section 322 does the same with respect to Philippine goods. Under the Constitution of the United States, article I, section 8, there is no right in Congress to impose any export tax. Section 223 should, therefore, be deleted. The Philippine Government, I might add, has the right, under its Constitution, to impose an export tax. In order to equalize the sacrifices between the two, I think that the following amendment should be made, and the amendment is this, and its purport is that the Philippine Government shall not impose any export tax on goods going to the United States, adding to the provision—

and the United States shall maintain and continue during the life of the executive agreement mentioned in title IV the tax exemption of 2 cents a pound of coconut oil from Philippine copra under section 602½ of the Revenue Act of 1934.

That would generally balance the sacrifices between the two countries.

Now, I am going to talk on coconut oil. This bill continues the prewar processing tax on coconut oil, with one exception, that is that the tax collections shall not be returned to the Philippine Government after independence. That tax collection amounts to about \$18,000,000 a year. The question arises: Has the Congress the right to turn that sum to the Philippine Government after independence? This question was before the Supreme Court in *Cincinnati Soap Co. v. U. S.*, and it was argued by the then Solicitor General, Mr. Stanley Reed, and Assistant Attorney General, Mr. Robert Jackson, both members of the Supreme Court at present. They cited cases showing that the American Government has the right to pay amounts of money to foreign governments, in the interest of stability of government, and for any consideration whatsoever, involving foreign policy. However, if the American Government is not ready to continue the payment to the Philippine Government, I suggest an amendment that the processing tax on coconut oil be reduced from 3 cents to 1 cent a pound.

This is my reason: The effect of the tax was to reduce the price of coconut oil by about 40 percent. The Philippine Islands, as long as the money collected was returned, were not so much worse off, but this time the copra and coconut oil producers will lose, and the users of their coconut oil—the oleomargarine people, the bakery people, and soap industry—will have to pay a higher price.

Our thought is that if the tax is decreased from 3 to 1 cent a pound the users can pay the Philippines a little better price, and in the meantime the protection that the tax contemplated for the dairy industry will not in any way be affected, for the reason that the distribution of coconut oil will not change materially, and if it changes, in a regime of lower prices, more oil goes to the nonedible rather than the edible industry.

I shall like to insert here the amendment and relevant statements which I prepared.

AMENDMENT TO H. R. 5856

PHILIPPINE COCONUT OIL PROCESSING TAX

Purpose.—To help the Philippine copra and coconut-oil producers, and to lighten the burden of consumers in the United States without prejudicing any interests in the United States.

Section 505, title V, page 44, after subsection (b) on page 45, add the following subsection:

“(c) The processing tax on coconut oil provided for in section 602½, title IV, of the Revenue Act of 1934 is reduced from 3 cents to 1 cent a pound.”

MARCH 12, 1946.

Hon. JOHN DINGELL,

Chairman, Subcommittee on H. R. 5185,

House Office Building, Washington, D. C.

DEAR MR. DINGELL: The status quo ante bellum provision on Philippine coconut-oil-processing tax without the proviso returning the tax collections to the Philippines would be very disadvantageous to the Filipino people.

Before the enactment of the tax the average price of the coconut oil f. o. b. San Francisco from 1921 to 1930 was 4.14 cents a pound. After the enactment from 1935 to 1941 the average went down to 2.14 cents, or a decrease of 40%.

Cannot the Ways and Means Committee reverse itself and go the whole hog on the old provision? Or cannot it prepare a committee amendment when the bill reaches the floor?

I am appending a memo showing that Congress has the power to make the payment even after independence, and also that the Philippines will give the United States more an adequate quid pro quo.

Yours sincerely,

VICENTE VILLAMIN.

FOR THE REDUCTION OF PROCESSING TAX ON COCONUT OIL

(By Vicente Villamin)

There should be an amendment reducing the Philippine coconut oil processing tax from 3 cents to 1 cent a pound. The amendment will not upset the plan of the Philippine trade bill, H. R. 5856. What it will do is rectify an unreasonable situation.

The tax is higher than the prevailing price. It is altogether too high. Instead of helping, it is depressing the Philippine producers of copra, the raw material. That affects about one-fifth of the total population of the Philippines.

The tax was imposed in a year of disturbed market conditions. Before the tax came into existence the average price of coconut oil f. o. b. San Francisco, from 1921 to 1930, was 4.14 cents a pound. The price went down to an average of 2.45, between 1935 and 1941, with the tax in effect.

The tax collection, which averaged \$18,000,000 a year, was turned over to the Philippine treasury. That helped the Philippine government, but not the Philippine copra and coconut oil producers. After independence next July, the collection will be retained by the United States Treasury and thus the Philippine government will be that much out of pocket.

The results of the reduction of the tax will be as follows:

1. It will help the Philippine copra producers (the coconut industry is destroyed; the copra is now crushed in mills in the United States);

2. It will reduce the cost of coconut oil to American users and thus enable them to pay more for the oil;

3. Since before Philippine independence the United States Treasury turned over the entire collection of about \$18,000,000 a year to the Philippine treasury, it will receive and retain about \$6,000,000 under a reduced tax rate;

4. The dairy and certain other interested industries will not be affected in any way, first because the distribution of coconut oil among its different users in the United States would be as heretofore and, second, in a situation of lower prices the tendency would be for more oil to flow to the nonedible industries;

5. And, finally, there will be more stability in the position of Philippine coconut oil in the field of fats and oils, thus helping to stabilize that field; and there will be more elements satisfied with a reduced tax and with no element particularly harmed thereby.

About 4,000,000 people depend on the coconut industry in the Philippines. The United States is trying to help the Filipino people as they go out in the world as an independent nation. What H. R. 5856 does is to aggravate the situation in the Philippines insofar as the coconut industry is concerned. There is no question about that.

COCONUT OIL PROCESSING TAX

(By Vicente Villamin)

The Ways and Means Committee has decided to continue the present law on the coconut oil processing tax with one exception; to wit, that the tax collected will not be returned to the Philippine government after independence. The tax amounts to about \$18,000,000 a year.

Two questions arise: (1) Is Congress empowered under the Constitution to turn the tax over to the Philippine government after independence? and (2) Is there a quid pro quo from the Philippines if the tax is turned over to that government?

The answers to the two questions are in the affirmative.

THE LAW OF THE CASE

1. Congress has the right to render financial assistance to a foreign country "in the interest of stable government or for any reason of policy, open or secret." (See brief No. 659 by the United States Government in *Cincinnati Soap Co. v. U. S.*, October term, 1936.) Among the signers of the brief are the now Justices of the Supreme Court Stanley Reed, then Solicitor General, and Robert H. Jackson, then Assistant Attorney General. The Supreme Court upheld the contention of the Government (brief attached to this memorandum).

2. There are several quid pro quos from the Philippines for the payment of the tax to the Philippine government, and the principal one, whose monetary value is much greater than the payment, is the fact that American goods can enter the Philippines without quantity restrictions while Philippine products are placed under quantity quotas in the United States.

GIVE AND TAKE

The Philippine Trade Act (H. R. 5185) is a general give-and-take arrangement between the United States and the Philippines growing out of their close and cooperative association of nearly 50 years. It is reinforced by the fact that after independence there will be a close and cooperative military relation between the two countries through the erection of important American military establishments on Philippine territory. The payment of the coconut oil processing tax to the Philippines may be placed in the same category as the import duties waived on Philippine products, in both cases fully compensated for by the Philippines.

Effect of tax on price.—Average f. o. b. San Francisco price of coconut oil before revenue act (1921–30), 4.14 cents a pound; after revenue act was enacted (1935–41), 2.45 cents, or a decrease of 1.69 cents.

WASHINGTON, October 17, 1945.

Sections 4 and 11, H. R. 4185, Coconut Oil

To the COMMITTEE ON WAYS AND MEANS,

House of Representatives, Washington, D. C.

GENTLEMEN: In my humble opinion the statement of the United States Tariff Commission as given to you by its general counsel, Mr. Edwin G. Martin, does not adequately present the situation concerning coconut oil under sections 4 and 11 in H. R. 4185.

It should be stated first that the purpose of those provisions is to protect the dairy industry in particular from the use of coconut oil in edible products, especially margarine. The purpose is intended to be accomplished by exempting from processing tax or other internal-revenue tax coconut oil when denatured and rendered unfit for human consumption. Such tax-exempt oil will go to industrial uses, especially for soap making.

The Tariff Commission states that coconut oil pays a processing tax of 3 cents a pound. But it omits to state that there is an additional processing tax of 2 cents a pound (this is not the tariff duty), from which coconut oil from Philippine copra is exempt. This advantage is the reason why almost all the copra used in the mills located in the United States comes from the Philippines. The point I am making here is that there is no provision in the bill guaranteeing the maintenance of that advantage. If, for example, the tax is abolished on oil from copra from any source, Philippine and foreign, Philippine copra can not compete with foreign copra on an equal basis in the United States. In my address to you 2 days ago I suggested a provision binding the advantage of copra from the Philippines over copra from foreign sources.

This matter of binding is vital because, as I shall presently show, the Philippine coconut industry, or most of it when rebuilt at all, will tend to transfer to the United States.

In denatured, coconut oil from both Philippine and United States mills is exempt from processing tax. And, as the Tariff Commission states, the tax "would remain applicable to all United States manufactured oil which has not been rendered inedible." In other words, while all the coconut oil imported from the Philippines is to be denatured, undenatured coconut oil from mills in United States can still be sold to the edible industry by paying the processing tax as it does at present. This gives United States mills the advantage of a wider market over Philippine mills. Besides that, it will defeat the purpose of the

provisions of the bill of protecting the dairy and other industries from edible coconut oil. This situation will make the position of Philippine copra in the United States insecure from foreign competition. Since copra is on the free list, Philippine copra requires protection.

It is, therefore, suggested that the provisions regarding coconut oil and its raw material, copra, be reexamined to give the Philippine product a preferred position in the American market and to encourage the coconut industry in the Philippines to rebuild and remain there in order to prevent the deindustrialization of the Philippines.

Respectfully submitted.

VICENTE VILLAMIN.

I have nothing to say about sugar, although there is a lot to be said about it.

Now I wish to make a little prognostication, based on facts and logic, on how this bill is going to operate in the next 5 years.

Your intention is to help the Philippine Islands primarily. That intention might be defeated if something is not done about it. During the next 5 years the Philippines, precisely because we have not yet been fully rehabilitated, will not be able to export but probably one-half of the normal exports. On the contrary, precisely because we need rehabilitation, the United States will export to the Philippines probably more than two times its normal exports. That will be the logical situation.

If in the Philippine Islands we do not put into operation some plan that will stagger our rehabilitation over a longer period of years, we shall find ourselves in 5 years with an unfavorable balance on both visible and invisible items of trade which I estimate at around a total of \$850,000,000.

We shall have two financial items in our favor during those 5 years. The first item is the \$520,000,000 that the Congress is going to appropriate for the rehabilitation of the Philippine Islands. The second item is the approximately \$500,000,000 that the American Government, and the American armed forces in the Philippines have spent and left in the Philippine Islands during and since the war. The latter I call our national nest egg.

Talk about American capital being wanted in the Philippines. For the first time in our history we have capital already. I would like to see a situation created where the Filipinos could buy some of the industries and investments that the Americans have in the Philippine Islands—not to drive them out of the islands but because many of the Americans would like to retire from the Philippines, and also America would like the Filipinos to have control of their economic activities.

Now, this bill does not contain any provision to enable the Philippine government to control or curtail imports that we do not want at a certain given time. It does not contain a provision by which we could prevent a tremendous influx of luxury goods. Therefore, I suggest that the following new section be added, and this is of the most fundamental importance if we are going to retain in the Philippine Islands the benefits of the trade as well as the two financial assets of about a billion dollars to which I have made reference.

The new section will read as follows:

The Philippine government, to make its rehabilitation program produce the maximum advantage, is authorized, in consultation with the Government of the United States, to provide limitations on the amount of goods imported into the

Philippines which, between them, are declared to be luxury goods, and, further, to determine by and between themselves in priorities in imports shall be established and specify what goods are to have priorities: *Provided*, that such limitations as to amount and as to priority shall be for a reasonable duration of time to be decided upon by the two Governments.

SENATOR WALSH. This is the first time you have presented that amendment?

MR. VILLAMIN. This is the first time I presented that amendment. What I said here I did not say before the House committee. What I said there last October had been met by the amendments made by the committee to the bill.

I wish to say again that the bill is well and generously intended, but it is hard on the mind, especially on the Filipino mind. I wish to make an appeal to have this bill rewritten and simplified. Its predecessor bill was less than one-third its length, and if the author of the bill proceeds from the proposition that an executive agreement has the force of law, he will obviate the necessity of having to provide all these different distinctions and provisions and actions.

[From the Washington Evening Star, Friday, March 22, 1946]

EVEN WEBSTER FAILS FILIPINO FLOORED BY U. S. GOBBLEDEGOOK

Vicente Villamin, Filipino lawyer-economist, who lives at the Cosmos Club here, went to a lot of trouble through the years to learn how to speak English, only to discover at Capitol Hill that it didn't do him any good at all. "Congress," he said, "is flooring the Filipinos with involved English and gobbledegook."

In fact, Mr. Villamin, with his plea for use of simpler wording in Government papers, challenges 99 percent of Americans to comprehend the meaning of the following section of a pending bill on trade with the Philippine Islands:

"SEC. 403. In such agreement the Government of the United States shall agree—

(a) That upon the taking effect of the agreement the provisions of title II (except part 5)—(1) if in effect, as laws of the United States at the time the agreement takes effect shall continue in effect as laws of the United States during the effectiveness of the agreement; or if not so in effect at the time the agreement takes effect (because suspended under section 242 of title II) shall take effect and continue in effect as laws of the United States during the effectiveness of the agreement.

(b) That the United States will promptly enact, and keep in effect during the effectiveness of the agreement, such legislation as may be necessary to supplement and implement the provisions of title II so continued in effect, or so made to take effect, as laws of the United States."

There are 13 uses of the word "effect" in 13 lines, the Filipino pointed out. "Regardless of the intent and content of the provision, it is awfully hard on the mind," he said.

He added hopefully that "when the law has finally gone into effect and the trade agreement has been put in effect, then Filipinos can start to find out just what has gone into effect and try and keep it in effect during the effectiveness of the agreement."

Also I wish to say this: There will already be a provision in the Philippine Constitution regarding the right of Americans. That was placed there before the expunging of the so-called Platt amendment from the Cuban Constitution under the aegis of the good-neighbor policy. If it is necessary, absolutely necessary that is, for the protection of American rights in the Philippine Islands to have their rights defined in the constitution, it should be done as our token of gratitude to the United States. If it is not, then I wish to appeal to you that the Philippine Constitution be maintained in its integrity, because as we start in our national life we should not get the habit of playing fast and loose with our fundamental law. We want our constitution sacred and inviolate.

Finally, I wish to register my emphatic opposition to the amendment submitted by the Resident Commissioner of the Philippines to the Philippine trade bill to the effect that all the provisions (22 sections) of the bill contained in the executive agreement be made a part of the Philippine Constitution.

This is a most extraordinary proposition. It assails the very nature and essence of the constitution as the fundamental law of the land. It will reduce the constitution to a statute. It will make that charter reek with sugar, coconut oil, tobacco, and other products. It will be the only constitution of its kind in the world.

As a lawyer, I cannot help but condemn the colossal blunder of thus mistreating the constitution. Obviously the blunder was induced by a provision in the Philippine Constitution (sec. 3 of the ordinance appended to the constitution) making all the provisions of the act of Congress of March 24, 1934, the Philippine Independence Act, a part of the ordinance.

The provisions of the Philippine Independence Act are a part of the ordinance and the ordinance is a part of the Philippine Constitution, but the ordinance will be eliminated from the constitution on the proclamation of Philippine independence on July 4, 1946. The proposal of the Philippine Resident Commissioner is to make the executive agreement a part of the constitution after independence. That is a mistake of the first magnitude. It is fortunate that it has not been approved by the House Ways and Means Committee. The Philippine Constitution has been saved from mutilation and disrespect.

The integrity, the dignity, and the stability of the constitution must be preserved. This is both foundational and fundamental. Upon that there is no possibility of debate or difference. The constitution must be saved from the hands of the wreckers. Otherwise, the nation itself would go the way of weakness and disintegration.

That is all I want to say, gentlemen, and I thank you very much.

SENATOR SALTONSTALL. Mr. Chairman, may I ask one question?

SENATOR WALSH. Yes; certainly.

SENATOR SALTONSTALL. You referred, sir, to the relation between United States and Philippine currency, and you referred just a minute ago to the fact that this puts no limitation on imports into the Philippines. In your opinion, does this law mean that the United States will, in substance, peg the value of the Philippine currency?

Supposing, for instance, the Philippines deal with China, or with Japan, as an independent government, and their currency, because of that, becomes less valuable, does this act mean, in substance, in your opinion, that the United States will peg the value of the Philippine currency?

MR. VILLAMIN. Certainly, sir, it is so provided in the bill. In other words, the Philippine government cannot, on its own initiative, devalue its peso. As a hypothetical question, if the Philippine government should devalue its peso, as the Government of the United States could devalue its dollar, the question arises: Can the American Government declare a profit as the result of the devaluation of the Philippine peso?

This is the only case in which the American dollar is interlocked intrinsically with a foreign currency, and by an American law. It is good for us because we do not want to be forced into the caldron

of the terrible exchange situation in the Far East where a person, besides considering the prices of commodities, will have to consider the price of his money first before he makes any business commitment.

Senator SALTONSTALL. Until 1974 this ties the American dollar to the Philippine peso?

Mr. VILLAMIN. Yes, sir. It is the other way, of course, Senator.

Senator SALTONSTALL. And makes the United States Government responsible for the value of the Philippine peso?

Mr. VILLAMIN. What do you mean by "responsibility for the Philippine peso"?

Senator SALTONSTALL. Keeping it at the same relationship with the American dollar.

Mr. VILLAMIN. Yes, sir. If the Philippine government should proceed to devalue its peso, I should imagine that it would be a violation of one of the terms of the executive agreement.

Senator HAWKES. Is it your contention that if the United States devalues its dollar, it is a violation of the agreement, too?

Mr. VILLAMIN. No, sir.

Senator HAWKES. It is not?

Mr. VILLAMIN. It is not; no.

Senator HAWKES. But your contention is, if the United States devalues the dollar, then the Filipinos should have the right to recover that difference; is that right?

Mr. VILLAMIN. Yes, sir; to declare a profit in the same way that America declares a profit.

Mr. CHAIRMAN. The tie-up of the Philippine peso to the American dollar places the Philippines on the high ground of exchange in the Orient. In other words, our peso becomes relatively high in relation to other oriental currencies. That will effect our ability to sell to our neighboring countries. It would take too much of their currencies to meet the peso exchange and buy our goods. The tie-up of the dollar with the peso will have the effect of channeling the Philippine trade to America. And that's the trade the present bill is trying to dissolve. Is there not something monumentally inconsistent in that? And is it fair for the Filipinos to be obliged to make their peso position contribute to their inability to find new trade marts as their trade with America recedes by the operation of this Bell bill?

Gentlemen, obviously there is something more than what appears in the surface of this measure. Again, I must say that, instead of weakening and destroying our economic relations, we should strengthen and expand them; stabilize and perpetuate them. I am uttering a solemn warning: Let us not annihilate our economic relations; let us use the intelligence that God gave us and see the stark realities and act accordingly.

Senator HAWKES. Yes.

Mr. VILLAMIN. I think right now the Philippine government can declare a profit as of 1934. Not to the extent of \$24,000,000, because that was the amount of the profit figured only on the amount of money deposited here, minus the interest, but if we are to figure on the entire amount of money on which the United States relatively declared its profit, the Philippine government can have, as of today, over \$100,000,000, which they can make available and expendable as money.

Of course, we always hear that there is inflation in the Philippines. The money is in the hands of the people, but the government does not have money at all. Devaluation—there's where it can coin money to spend. It's a magic word.

Senator SALTONSTALL. This act does not in any way limit the ability of the Philippine government, after it becomes independent, to deal with any other nation in any way it sees fit?

Mr. VILLAMIN. No, sir; it does not. It has one very interesting provision: That during the life of this agreement the two countries cannot negotiate a trade agreement.

Now, here is a possibility: Supposing, for some reason the Philippine Congress should reject this bill and say, "We do not want this bill; we prefer to have a trade agreement with the United States." That is possible under the bill.

Gentlemen, we have been too dependent, first, on the United States markets, and, second, on overseas trade generally. Over 90 percent of our production, outside of our two main articles of diet—fish and rice—is exportable surplus, as compared to less than 6 percent in the United States. Above all, a rich agricultural country like ours we are too dependent on too few products.

I see Senator Hayden here. He is the author of many provisions that would help the Philippine Islands. By some oversight, I like to believe, there is no provision in the other bill, which is complementary to this bill, that would carry out the program of farm diversification through the establishment of agricultural experimental stations in the Philippine Islands. In other words, the departments of the Government of the United States are going to do some work in the Philippines to help us out in different spheres, except the department that could be of the greatest help to us, and that is the Department of Agriculture. We hope that, as a complement to our recession from our economic relationship with the United States, the other bill will contain that amendment, authorizing the Department of Agriculture of the United States to establish agricultural experiment stations in the Philippine Islands. From then on, we want immediately one thing, and that is for them to find out the right variety for our rice. That bears not only an economic but a social significance of a profound nature.

The main reason why we have agrarian troubles in the Philippine Islands today is that our educational and cultural advancement has outrun the scientific and economic development. During the last 25 years the yield of our rice had not increased considerably. That is why the landowners could not pay their workers better, and these workers have dependents who want more and better things of life.

Mrs. Quezon, the widow of our late lamented President, had the right solution. She imported rice experts. In a few months her experts found the right variety for her soil, and her land produced from 100 to 200 percent more than before, and, as the result of that, she is able to give them movies, churches, housing, and better wages.

Now, I just want to leave this other thought with you: After independence we are not going to be separated completely from the United States. We are going to be tied together again by a military bond. Under a resolution of Congress dated June 18, 1944, the Philippine government consented to the United States' building in the Philippine

Islands a military establishment. Once that establishment is built in the Philippine Islands and the American flag flies over it, we shall lose our international independence to that extent. Every time there is a war in that part of the world, the Philippines, whether they like it or not, will be involved in it, even as we were involved in the last war because we were politically connected with the United States.

It is clearly to the vital interests of the United States that there be a prosperous and strong and cooperative Philippines. This trade bill disintegrates and dissolves our economic relationship, and to my mind it runs counter to our military relations. It is perfectly possible for the two countries to establish an economic relationship that is complementary, overwhelmingly so, and not conflicting or competitive. If we had the desire to do so, we are a tropical country, producing a great many products that are not produced in the United States, but we went on the theory that our relationship must be dissolved because American economy shall suffer thereby. That, of course, is a great myth, greatly exaggerated.

All the Philippine goods entering into the United States represent but an infinitesimal percentage of the production of this country. We have overemphasized its importance. We became too dependent upon the United States, gentlemen, because 30 years ago, when free trade was established, we did not have an economic policy to guide us. Many of our leaders, or most of our leaders, were politically minded, so we developed along the line of least resistance, and the line of least resistance is the tariff-protected products, and we neglected our other products.

Now, today, we want to build from zero up, in a way that we do not have to readjust ourselves in the future. That is why I am not giving too much importance to this question of the quotas on sugar or coconut oil, or things like that. If we have a program of diversification, maybe it would be a good thing some of our quotas be reduced, and I am in favor of it provided that our sugar shall be duty-free for 28 years. Now, the United States can afford to do that, because in the waiver of duties between the two countries in the next 5 years the United States will not collect only \$20,000,000 on goods from the Philippine Islands, whereas we will not collect \$60,000,000 on American goods not paying duty in the Philippines. The balance is against us. Let us not forget that.

SENATOR RADCLIFFE. Do you feel you have made considerable progress toward the policy of diversification, and do you look forward to to an acceleration of that?

MR. VILLAMIN. We have talked about it for the last 20 years. We want to do it now with the help of Congress.

SENATOR RADCLIFFE. What appears to be the obstacle in the way toward diversification?

MR. VILLAMIN. Lack of leadership, lack of economic leadership, and probably lack of funds on the part of the Philippine government. Many of the people, of course, who are engaged in sugar and coconut-oil production want attention concentrated on them. Now, if you establish in the Philippine Islands American agricultural stations, we will be able to start that program. That's why I am so interested in it.

I was asked one day by the Department of Agriculture here, "What do you want us to develop there in the way of an export commodity that

shall not compete in the United States?" I have an answer to that. I have studied it. It is bananas, and the market will be the 500,000,000 people of China. The banana has high caloric value. We have a great many varieties in the Philippine Islands, except the variety for export. Our banana rots quickly. It will not compete in the United States. This country is too far for our banana. The Department of Agriculture said they are also very much interested in it. In Central America they have the right variety and the right method for handling bananas for export to the United States.

It seems to me, together with the new industries that are contemplated in the plans and provisions put in by Senator Hayden in the rehabilitation bill, like deep-sea fishing, we can diversify in the Philippine Islands in a big way.

I would not like to leave you with the impression that we are going to give up sugar. We are one of the best sugar-producing countries in the world. After all, we are contributing less than 12 percent of the consumption in the United States. The consumption in this country is more than 8,000,000 tons, and its production on this continent is only 1½ million, so the Filipinos should be allowed to participate in this market. I say the same with coconut, cigars, and other products.

I wish again to emphasize, before I leave the chair, that our economic relationship should be strengthened and perpetuated instead of weakened and disintegrated.

Senator HAYDEN. May I ask a question?

Senator WALSH. Certainly.

Senator HAYDEN. You referred to my participation in the drafting of the bill that passed the Senate, to assist the Philippines to help themselves. I might say, Mr. Chairman, the idea in that respect was, for example, that there was a good deal of military equipment left over in the islands, such as bulldozers, things of that kind, that might assist in building the roads. The matter was taken up with the President. They obtained the personnel from the Army and Navy to see what could be done about improving the transportation system, on the theory, if the Filipinos could produce something in the country and get it to the ports over good roads, it would be advantageous to them.

In the United States we have an advantage over the rest of the world in that we can make a thing in one place and move it to another place where it is needed at less cost than any place else in the world. So an improved transportation system there would be of material benefit to them.

The same thing is true of their port facilities. If they intend to engage in trade with the world, the ability of a ship to come in to load and unload quickly, without tying it up and paying the crew for the time they are waiting, would surely be advantageous to them. So the Corps of Engineers has made a survey of the ports in the islands, and if they are right \$20,000,000 spent on the ports will be of vast benefit to the islands.

Senator Tydings had in mind the development of the fishing industry, because it was in the hands of the Japanese. I am talking about open-sea fishing in the vicinity of the islands. Fish is a large element of food to the people there. So, as the Senator suggested, the Bureau of Fisheries has been over to the islands, and experts have

been there to determine what type of boat would be useful there. We have a lot of small boats left over from the Navy that could be put into this fishing trade.

He also had the plan of bringing the Filipinos to the United States and teaching them how to do it themselves. That is the object of the bill that we passed.

I am free to confess, in our haste, we did not provide for the Department of Agriculture giving what help they could in diversifying the crops. From the record, as I understand it, the Philippine Islands never have, on an average, produced enough rice to feed their own people. They have to import from India, China, and other countries. There is no doubt there are many varieties of rice throughout the world, and if proper experimentation were undertaken there they could produce more per acre. Just like we find different varieties of rye, or wheat and corn, and they will do the same thing.

I want to ask whether this matter has been brought to the attention of the House Committee on Insular Affairs, and whether there is a prospect that it might be amended to include consideration of the Department of Agriculture.

Mr. VILLAMIN. Yes, sir; it has been done. The Department of Agriculture took the matter up themselves.

Senator HAYDEN. They prepared the text of an amendment?

Mr. VILLAMIN. They prepared an amendment that went to the President, and the President, through his administrative assistant, advised them he approved it in principle. Then they got the clearance from the Budget Bureau.

Senator HAYDEN. Then probably it will be considered by that committee.

Mr. VILLAMIN. It should be.

Now, gentlemen, after 30 years of private endeavor, I am going to retire from private life without being in politics, and I shall go back to the Philippines. Once there, even with this bill I am going to do my best to help and make it work and work beneficially to all concerned.

Senator RADCLIFFE. In the ships disposal bill—which at last we got through the Congress and it has been signed by the President, and I was chairman of the subcommittee in the Senate—there was a request that came rather late, but we were able to include it, by which the preference which was given to Americans for purchase over foreigners was modified in such a way that the same rights and privileges were given to the Filipinos. In other words, they share practically the same opportunities that the Americans do in the priorities and preferences under the ships disposal bill.

Mr. VILLAMIN. Yes.

Senator RADCLIFFE. I do not know just what that will lead to. I do not know what ships will be purchased under that, but at least the bill does provide the opportunity and facilities by which it can be carried out.

Senator HAYDEN. There is a provision in the Senate bill, Senator Tydings' bill, that complements that.

What actually happened was, the Japanese seized all inter-island shipping and left them with nothing. On the other hand, the Navy and Army both have vessels, and so does the Shipping Board, which

would be suitable to go into the island trade. Having a surplus, it is just a question of getting them organized, getting them back into the business.

The vessels that are available are somewhat larger, as a rule, than used by the Filipinos. Perhaps we will have to be of some assistance in showing them how to handle these vessels that are of a little greater tonnage. It can be done without much expense involved.

Mr. VILLAMIN. May I say, Mr. Chairman, that H. R. 5356, which passed the House on March 12, authorizes the transfer to the Chinese Government not less than 271 naval vessels and craft. If it were not for the fact that the American flag would still fly in the Philippine Islands, that fact would disturb us immensely because one of our neighbors has been armed with a made-to-order navy.

We are not asking America for a navy. What we want is a small fleet of vessels from the United States that will be used to enforce our customs laws, suppress piracy, prevent smuggling, and defend our extensive coasts of 7,000 islands.

Gentlemen, the poverty of the Filipino people is beyond belief. The income of the average family of four members is only a little over \$6 a month, \$1 of which goes to taxes. The reduction of that poverty is the very problem I want to deal with when I return to my native land after 30 years abroad. I will give the work my enthusiasm and all my experience and information. I am not necessarily going into politics. No, I am not seeking political honors or a government position to obtain power. I simply want to serve the Filipino people. I think I can do it. My mind and heart are in it. I was profoundly touched by the exhibition of sacrifice of the plain people of the Philippines during the war. It was beautiful, it was pathetic. That's what got me. I want to serve them. I've been serving them all these years, but they don't know it. I want to do my best for them. I think I can be useful, especially in these times of uncertainty. As I said, I am retiring from private life to be of service to the Filipino public.

Before I leave, I wish to register before this committee, as a private Filipino citizen, our high regard for the American High Commissioner, Mr. Paul V. McNutt. I guess he has already left the room.

Mr. McNUTT. I am still here. I thank you.

Mr. Chairman, I wish to set forth copies of my letters bearing on the question of amending the Philippine Constitution, to which I am interposing objection.

The predecessor bill, H. R. 5185, contains provisions making the effective date of the bill depend on the amendment of the Philippine Constitution. This means that that date will be about 4 years from now, in 1950, when the amendment could be effectuated under article XIV of the Constitution. The provision of an election on a 90-day notice is in a statute, not in the Constitution, and refers to the election of individual Members of the Philippine Congress to take the places of those who resign, or are incapacitated or die. The definite inflexible policy must be to keep the Constitution intact and respected.

The contention here has been upheld by the Ways and Means Committee and the present bill doesn't make its effective date depend on the amendment of the Constitution.

The following letters explain this point:

PHILIPPINE CONSTITUTION AND THE EFFECTIVE DATE OF THE AGREEMENT

PHILIPPINE CONSTITUTION

ARTICLE XVI

SECTION 1. Upon the proclamation of the President of the United States recognizing the independence of the Philippines—

(1) The property rights of the United States and the Philippines shall be promptly adjusted and settled, and all existing property rights of citizens or corporations of the United States shall be acknowledged, respected, and safeguarded to the same extent as property rights of the Philippines.

* * * * *

(5) The Government of the Philippines will embody the foregoing provisions of this article—in a treaty with the United States.

ARTICLE XIV. AMENDMENTS

SECTION 1. The Congress in joint session assembled, by a vote of three-fourths of all the members of the Senate and the House of Representatives voting separately, may propose amendments to this Constitution or call a convention for that purpose. Such amendments shall be valid as part of this Constitution when approved by a majority of the votes cast at an election at which the amendments are submitted to the people for their ratification.

WASHINGTON, D. C., February 28, 1946.

Hon. C. JASPER BELL,

Chairman, House Committee on Insular Affairs,

Old House Office Building, Washington, D. C.

DEAR CONGRESSMAN BELL: Title VI, section 601 (Confidential Committee Print, February 26, 1946), of S. 1610, provides that no payments prior under the act in excess of \$500 shall be made until the executive agreement provided for in section 19 of H. R. 5185, the Philippine Trade Act, has been entered into and has become effective.

If said section 19 of the trade bill is not modified, the executive agreement will not go into effect until 1950 and, therefore, payments under S. 1610, title I, will not be made until then. I am enclosing a copy of my letter of February 18 to the State Department to elucidate my point.

Under H. R. 5185, there are two conditions precedent before the executive agreement could go into effect: (a) Ratification by the Philippine Congress of the executive agreement after it has been entered into between the Presidents of the United States and of the Philippines, and (b) incorporation of the purport of section 16 of the bill in the Philippine Constitution by an amendment thereto, in both cases within a reasonable time after July 4, 1946, as determined by the President of the United States.

The Philippine Constitution has provisions for its amendment. They cannot be changed by an act of the President of the United States under section 19 (b-3), particularly after independence. Under the Philippine Constitution, article XIV, action on the amendment will be in the next election, which will be in 1950.

To effectuate the amendment and thereby make the executive agreement effective and the payments of war damages started, the matter of the incorporation in the Philippine Constitution of section 16 of H. R. 5185 should be submitted to the voters in the coming election on April 23, 1946, or, that failing, put said section in a Philippine-American treaty as provided for in section 2 (b-3) of the act of Congress of March 24, 1934, the Philippine Independence Act.

Sincerely yours,

VICENTE VILLAMIN.

WASHINGTON, D. C., *February 18, 1946.*

THE STATE DEPARTMENT,
Washington, D. C.

(Attention: Mr. Winthrop G. Brown, Division of Commercial Policy.)

GENTLEMEN: Pending the redrafting of H. R. 5185, I wish to bring up a situation created under sections 16 and 19 (c-2) thereof which I believe needs correcting when the bill reaches the floor.

Section 19 (c-2) requires the amendment of the Philippine Constitution "so as to incorporate therein the rights set forth in section 16 of this act * * * within such time after the independence of the Philippine Islands has been proclaimed as the President of the United States may determine to be reasonable."

Article XIV, as amended, of the Philippine Constitution provides that "amendments shall be valid as part of this Constitution when approved by a majority of the votes cast at an election at which the amendments are submitted to the people for their ratification."

Thus there will be an amendment to the Philippine Constitution and that amendment will have to be ratified by the Filipino electorate at an election. When will that take place? According to section 19 (c-2), it will be determined by the President of the United States. Can he do it in disregard of the Philippine Constitution, which provides the mechanics for its amendment? The next election, after independence on July 4, 1946, will be 4 years thereafter.

I wish to advance two suggestions: (a) Provide in the bill that the amendment be voted on in the coming election on April 23, 1946, or (b) provide that the purport of section 16 be incorporated by section 2 (b-5) of the act of Congress of March 24, 1934, the Philippine Independence Act.

The policy of incorporating special provisions in a foreign constitution has been abandoned by the United States. With the removal of the so-called Platt amendment from the Cuban Constitution.

In the case of the Philippines, if and when the executive agreement entered into under section 19 is terminated by either party under subsection c-3 thereof, the provisions of the bill shall cease to be in effect. When that happens, the only thing that will remain will be the amendment to the Philippine Constitution containing section 16 of the act, and at that time the Philippines would be free to remove that amendment from the Constitution.

Sincerely yours,

VICENTE VILLAMIN

WASHINGTON, D. C., *March 1, 1946*

TO THE HOUSE COMMITTEE ON WAYS AND MEANS,
House Office Building, Washington, D. C.

GENTLEMEN: The Philippine Trade Act (H. R. 5185) will not become effective until 1950 4 years after independence.

The reason is this: The Philippine Constitution has to be amended to incorporate therein section 16 of the act which relates to the rights of Americans. This is the requirement of section 19 (c-2). According to that Constitution (art. XIV), the amendment must be submitted in the "next election," and the next election will be four years after the previous one, which is on April 23, 1946.

My suggestion is this: Either submit the amendment in the coming election on April 23, 1946, or have the purport of section 16 set forth in a Philippine-American treaty, which will have the force of a constitutional provision.

This matter has become doubly important because a provision has been added to the Philippine rehabilitation bill (S. 1610) stating that no payments in excess of \$500 shall be made out of an appropriation of \$400,000,000 for war damages until the executive agreement containing the provisions of the Philippine Trade Act (H. R. 5185) has become effective, and it will not become effective until the Philippine Constitution has been amended as referred to above.

Enclosed is a copy of my letter on the subject of the amendment to the State Department dated February 18, 1946.

Sincerely yours,

VICENTE VILLAMIN.

WASHINGTON, D. C., March 11, 1946.

Hon. WILBUR D. MILLS,
Subcommittee on H. R. 5185, House Committee on Ways and Means,
Washington, D. C.

DEAR CONGRESSMAN: This is a discussion of sections 16 and 19 (c) of H. R. 5185. The following fact is not generally known: That on July 4, 1946, the following article in the Philippine Constitution will go into effect:

ARTICLE XVI

SECTION 1. Upon the proclamation of the President of the United States recognizing the independence of the Philippines—

(1) The property rights of the United States and the Philippines shall be promptly adjusted and settled, and all existing property rights of citizens or corporations of the United States shall be acknowledged, respected, and safeguarded to the same extent as property rights of citizens of the Philippines.

(4) The government of the Philippines will embody the foregoing provisions of this article * * * in a treaty with the United States.

In other words, the rights of Americans in the Philippines as defined in the above citation will be guaranteed both by a constitutional provision and by a treaty.

Section 16 of H. R. 5185 is, in effect, to substitute section 1 (1), article XVI. of the Constitution. The substitution will be done by an amendment, which raises the procedural difficulty of following the constitutional provision regarding amendments, besides causing heavier expenses to the Philippine Government if some way is found to hold an extraconstitutional election to vote on the amendment.

So why not do away with the requirement that section 16 be made a part of the Philippine Constitution, by an amendment thereto and have it in a Philippine-American treaty, which, being more detailed and comprehensive than section 1 (1) of article XVI of the Constitution, will be supplementary thereto?

Sincerely yours,

VICENTE VILLAMIN.

Senator WALSH. All right.

Without objection, we will insert the letter and the amendments by Mr. Romulo at this point in the record.

(The letter and amendments referred to are as follows:)

THE RESIDENT COMMISSIONER OF THE PHILIPPINES TO THE UNITED STATES

WASHINGTON 6, D. C.

APRIL 2, 1946.

Hon. WALTER F. GEORGE,
Chairman, Senate Committee on Finance,
The Capitol, Washington, D. C.

MY DEAR CHAIRMAN: For the consideration of your committee, I respectfully submit herewith, three amendments to H. R. 5856.

On behalf of the Philippine government, I would greatly appreciate it if your committee could give these amendments its consideration and approval.

Sincerely yours,

CARLOS P. ROMULO.

AMENDMENTS TO H. R. 5856

(Proposed by Resident Commissioner Carlos P. Romulo on behalf of the Philippine government)

AMENDMENT NO. 1

On page 11, lines 17, 20, and 21, strike out the word "short" and in lieu thereof, insert "long."

Reasons.—The purpose of the foregoing amendment is to restore the sugar quota provided in the Independence Act to 850,000 long tons instead of 850,000 short tons. The difference in the terms of tonnage means a reduction of 240 pounds for each ton, since one long ton is equivalent to 2,240 pounds, whereas one short ton is equivalent to 2,000 pounds. Converted into long tons, the 850,000 short tons is equivalent to 758,929 long tons, so that the 850,000 short tons sugar quota provided for in the bill, means a reduction of 91,071 long tons. Converting the 850,000 long tons into short tons the equivalent in weight is 952,000 short tons or a reduction of 102,000 short tons. This means an annual loss in export value to the Philippines of approximately \$6,000,000, or a total loss of \$168,000,000 for the entire 28-year period. It will mean a reduction in the income of the Philippines equivalent to the export value of three Philippine industries: Lumber and timber, \$3,328,000; canned pineapples, \$1,489,000; and cordage, \$1,423,000.

AMENDMENT NO. 2

On page 12, line 13, add the following sentence: "In the event that the mill and the plantation owners fail to extend, modify, or renew the milling agreement upon expiration thereof, the Philippine government may by law reallocate or dispose of the quota or quotas involved for the purpose of carrying out the adjustment of the sugar industry."

Reasons.—The intention of the above amendment is to meet a situation which may arise should the mill and the plantation owner fail to agree to extend, modify, or renew the existing milling contract. In that event, the Philippine government should have the power and authority to reallocate or dispose of such quota or quotas involved for the benefit of the sugar industry as a whole either consolidating the mill districts to larger units to achieve lower production costs or increasing the allotment of districts that would be able to absorb the increasing United States duties.

AMENDMENT NO. 3

On page 17, line 16, strike out the period after "1940" and insert a colon and the following proviso: "Provided, That, in the case of the quota of scrap tobacco, and stemmed and unstemmed filler tobacco, 2,000,000 pounds of such a quota may be allocated by the Philippine government to producers and manufacturers whose products were not exported to the United States during the calendar year 1940."

Reasons.—The foregoing amendment does not change the allocation of the basic quota of 4,500,000 pounds under the Independence Act but will only allow the Philippine government to allocate the additional quota of 2,000,000 pounds to producers and manufacturers who could not participate under the existing law and under the proposed bill. The Philippine government, through its National Tobacco Corp., as the representative of the Cooperative Tobacco Growers Association, will not be entitled to a quota under the existing provisions of the bill, but with the proposed amendment it will participate in the distribution of the 2,000,000 pounds additional quota allotted under the present bill. The proposed amendment is, therefore, fair and equitable to hundreds of tobacco growers who have been organized by the Philippine government into producers' cooperatives.

Senator WALSH. Is there anybody else who desires to be heard on this bill?

If not, the committee will adjourn to 10:30 tomorrow morning, when Mr. Clayton will be here, and, Mr. Beaman, will you then take up the bill, section by section?

Mr. VILLAMIN. I would like to insert some documents in the record.

The CHAIRMAN. Very well.

(Whereupon, at 12 noon, the committee adjourned until 10:30 a. m. of the following day, Wednesday, April 3, 1946.)

PHILIPPINE TRADE ACT OF 1946

WEDNESDAY, APRIL 3, 1946

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to notice, at 10:30 a. m., in room 312, Senate Office Building, Senator David I. Walsh presiding.

Present: Senators Walsh (presiding), Taft, Hawkes, Brewster, Butler, and Saltonstall.

Also present: Senator Hayden.

Senator Walsh: The committee will come to order.

Mr. Clayton.

STATEMENT OF HON. WILLIAM L. CLAYTON, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. CLAYTON. Mr. Chairman, and gentlemen of the committee, I appreciate this opportunity to express the views of the Department of State on H. R. 5856 setting the pattern of trade relations between the United States and the Philippines. The Department appreciates the action of this committee in convening so promptly to take up this vital legislation, because it is most important that the principles on which trade relations with the Philippines are to be based should be established as quickly as possible to permit the Filipinos to make their plans and proceed with urgently needed rehabilitation.

1. First of all, let me say that the Department supports the basic features of the bill, which are to provide for an 8-year period of free trade with the Philippines and then for a period of gradually declining preferences. This will give the Philippines an opportunity to re-establish themselves on a sound basis and build their economic independence in a gradual and orderly way. At the same time, it recognizes the special relationship which has existed for so long between the United States and the Philippines and which was deepened and strengthened by the magnificent Philippine achievements in fighting with us against the common enemy.

There are, however, several provisions of the bill which cause me much concern. Certain of its clauses are clearly inconsistent with the basic foreign economic policy of this country and conflict directly with the proposals for expansion of world trade and employment which were developed by the Departments of State, Commerce, Agriculture, and the Treasury, the Tariff Commission, and other agencies, and which were published to the world by this Government last December.

Other provisions seem to me clearly inconsistent with our promise to grant the Philippines genuine independence.

2. It is a basic policy and objective of the United States to try to clear world trade channels of the numerous restrictions and discriminatory trade practices which have been so detrimental to world trade and to United States trade during the period between the two wars. That is the objective of our trade proposals.

The Economic and Social Council of the United Nations, on our motion, has already agreed to the calling of a world trade conference. We have invited 15 nations to consider our proposals at a preliminary meeting preparatory to the world conference. In the financial and commercial agreements recently negotiated with the British, we have won their support for our proposals on all important points. We will endeavor to get other nations to agree to them and live up to them. I would like to say right here, Mr. Chairman, Mr. Leon Blum told us the other day for the French Government they were in complete agreement with us regarding the substantial portions of these proposals. But if we are to have any expectation of getting the agreement of other nations, vigorous leadership by this country is all-important. We must practice the principles which we ask others to accept.

One of the central objectives of the proposals is to get nations to abandon the use of absolute quotas. Such quotas are, without doubt, one of the most vicious of trade restrictions. Their use by other governments has been highly detrimental to American exports.

Yet, H. R. 5856 establishes absolute quotas on the imports of many Philippine products and authorizes the imposition of further absolute quotas on a finding that any product of the Philippines is coming into substantial competition with an American product.

The enactment of these provisions of H. R. 5856 would seriously limit what this Government could do in obtaining commitments from other governments to abandon the use of quotas against American exports.

With two exceptions, cordage and sugar, there were no absolute quotas on imports from the Philippines before the war and there is no reason to believe that there will be need for them in the future. I therefore recommend that the absolute quotas provided in the bill, sections 211, 212, 213, 214, and the provision authorizing the imposition of additional absolute quotas on other Philippine products, sections 403 (a) and 504, be eliminated.

This objection does not apply to the absolute quota on sugar. Such a quota could be justified under our proposals because there is a parallel quantitative restriction on domestic production, but it should be established in connection with general sugar legislation or in an international agreement on sugar rather than in this bill.

Senator HAWKES. Mr. Chairman, may I interrupt and ask some questions at this point?

Senator WALSH. Senator Hawkes.

Senator HAWKES. You say, Mr. Secretary, we must practice the principles which we ask others to accept. Would you enlarge on that a little bit? Will you let us know whether you think we should practice principles which are injurious and may continue to be injurious to the United States unless you have got very good reason to believe

the other countries are going to accept them and come in almost simultaneously?

Mr. CLAYTON. Senator, obviously we cannot unilaterally practice principles that are designed for the expansion and development of world trade unless other countries join us. We certainly should not. We have reason to believe, however, that we can get other countries to join us in the objectives that are stated in these proposals. As I said here, the British have agreed to support them and the French have agreed to support them. The British, and the countries that are lined up with them in world trade, have about 50 percent of the international trade of the world. So that we think with their help, and that of the French and other countries who have indicated that they will support these proposals, that we can succeed in getting the principal trading nations of the world pretty well lined up on our side of the matter.

Senator HAWKES. So the thing will be almost simultaneous?

Mr. CLAYTON. Yes, sir.

Senator HAWKES. That is the thing I have in mind.

Mr. CLAYTON. Yes.

Senator HAWKES. We are undertaking to do a tremendous lot of things all over the world and I think you and I probably view many of them exactly the same.

Mr. CLAYTON. Yes.

Senator HAWKES. The only thing I have in mind is I hope we will not undertake to do too many things too far ahead of other nations. I hope we will try to bring this thing around so we will get a cooperative simultaneousness, if you please, of the thing.

Mr. CLAYTON. Senator, as you know, that is our policy. We do propose to reduce tariffs, for example, to take off these restrictions, and things of that kind, unless we can get other countries to follow us and join us in it. We cannot, in our own interests, follow one system of world trade if all the rest of the world is going to follow another.

Senator HAWKES. I am not talking about playing a selfish role, I am talking about playing the same role.

Mr. CLAYTON. Yes.

Senator HAWKES. There are certain things you have got to always consider in any economic relationship. It is very much the same as in an industry in this country. One or two leaders might like to do something very fine for the industry of this country, but if there are four or five recalcitrants who will not go along and who will undermine the program, then you will have to stop, look, and listen.

Mr. CLAYTON. We agree with that, Senator.

Senator WALSH. One of your main and principal objectives in this trade agreement is to eliminate quotas, is it not?

Mr. CLAYTON. What we call the absolute quotas.

Senator WALSH. Absolute quotas?

Mr. CLAYTON. Yes.

Senator WALSH. It has been the general practice, hasn't it, among the nations in the past to set up quotas?

Mr. CLAYTON. Not so much, Senator Walsh. It became a practice during the First World War. We managed to break down some of it, but later on when we got into the depression of 1930 it was extended somewhat by the nations of the world by that time. In this Second

World War it had become pretty generally the policy of governments to conduct their trade by means of quotas. But we have every reason to believe in this postwar period we can be successful in getting the nations of the world to abandon that system.

Senator WALSH. Do you think the policy set forth in this bill of preferential treatment of the Philippines may become an embarrassment in our trade relations with the other countries?

Mr. CLAYTON. Senator, it certainly would have been a very great embarrassment if we had started right out with free trade to the Philippines for a period of 25 years, or any period of that kind.

But we believe that the provisions of this bill, which provide for 8 years of free trade, during which time they can rehabilitate their industries and get on their feet again, and then a gradually declining preference for the next 20 years, will not be a very great embarrassment to us.

Senator WALSH. Of course, other nations will recognize the obligation and relationship that we particularly owe the Philippines, under all the conditions.

Mr. CLAYTON. Yes, sir. We think we can consistently support that provision, and we are doing so.

Senator BUTLER. How could you avoid a quota, Mr. Secretary, after the 8-year period? How could you avoid having the quota along with the tariff?

Mr. CLAYTON. We do not object particularly to tariff quotas, we do object to absolute quotas. Of course, you understand the difference. An absolute quota is a quota that is set and when the imports rise to that figure then no other imports can come in, no matter what tariff they put up.

Senator BUTLER. The difference in the absolute quota is set by law and the other is set by regulations.

Mr. CLAYTON. Well, an absolute quota and tariff quota can both be set by law, but the difference between the two is when the absolute quota is reached on imports, then the imports cease automatically. On a tariff quota, when the point is reached where the import is no longer duty-free, then imports may come in about that figure by paying the duty. That is what we call the tariff quota.

Senator HAWKES. That is, by paying the regularly established duty?

Mr. CLAYTON. Yes, sir.

Senator HAWKES. In other words, to illustrate what Senator Butler has in mind, if we did not have an absolute quota and the Philippines shipped in 850,000 either short or long tons, then under that plan they could still ship in sugar but they would have to pay the full tariff?

Mr. CLAYTON. As to sugar, Senator, we do not object to the absolute quota for this reason—and it does not embarrass us in our proposals to other countries—because sugar is a commodity on which we have a quota in this country. So we do not think there is anything inconsistent there. We do object to an absolute quota in this bill. We think the sugar quotas ought to be set in the sugar bill. This bill would fix the sugar quota for 28 years. Sugar production is liable to change a good deal in 28 years, conditions are liable to change, and we think it is much better to cover the sugar quota in the regular sugar bill, which I think expires sometime this year and will have

to be renewed probably. That is the bill in which the Cuban quota is fixed, the domestic quota is fixed, and so on.

Senator WALSH. Sugar quotas are absolute quotas?

Mr. CLAYTON. That is right. The sugar quotas are absolute quotas.

Senator HAWKES. Mr. Secretary, I would like to call your attention to something that I find more men forget in negotiating a bill than any one other thing, and that is you can raise a quota. After we fix a quota here it lies within the power of Congress, if conditions justify it, to raise it. That is true, isn't it?

Mr. CLAYTON. Yes; it certainly is true, Senator, but it is much difficult to change a quota in a bill of this kind than it is in the sugar bill which is designed to fix the quotas upon domestic sugar and sugar of other countries, like the Philippines, Cuba, and so on. That bill has a very limited life, and when it expires then the matter is up again for consideration. But in this bill it runs for 28 years.

Senator HAWKES. Unless it is changed.

Mr. CLAYTON. Unless it is changed. But my point is, in the sugar bill Congress must fact the whole problem periodically.

Senator HAWKES. Now, let me ask you this question, Mr. Secretary: How would you handle the thing in line with the thought you have in mind? You would not put any quota in this bill at all?

Mr. CLAYTON. We do not think that sugar should have a quota in this bill. We think it should be taken care of in the sugar bill. And it is taken care of today in the sugar bill. Now, when the sugar bill expires, presumably Congress will give consideration to the enactment of another sugar bill and the Philippine quota could be fixed in that bill, just like the Cuban quota, the domestic quota, and the quota for other countries.

Senator HAWKES. It could be fixed either up or down?

Mr. CLAYTON. It could be fixed at whatever Congress wants to make it. That is the situation now, Senator.

Senator BUTLER. If there is a quota fixed from year to year, I think it is 3 years in the sugar bill, would it be as conducive to the permanent development of the Philippines as it would be if it is fixed in a bill which is supposed to run for 28 years?

Mr. CLAYTON. Senator, my point is, in fixing absolute quotas in a bill that runs 28 years it is just fixing a matter of that kind for too long a period. It might be difficult to get it out. Once you get it through there are vested interests perhaps on one side that would want to keep it there and make it difficult to reconsider. In the sugar bill, which expires at stated intervals and requires a reconsideration by Congress the matter could then get reconsideration in the usual way.

Senator HAWKES. Mr. Secretary, to put it in another way: As I understand it, and I may be wrong, this bill might easily lead to a treaty; is that correct?

Mr. CLAYTON. Might lead to a treaty?

Senator HAWKES. Yes.

Mr. CLAYTON. You mean on sugar?

Senator HAWKES. Covering all these items. That is what I understood yesterday.

Mr. CLAYTON. We would like to cover some of the subjects dealt with in this bill, Senator, in what we call a treaty of commerce and

friendship, which is now in preparation, and on the point of being negotiated with the Philippines. This legislation runs for 28 years and it gives a kind of rigidity to things.

Senator HAWKES. I agree with you absolutely. I think your thought is excellent. I think you have got to do the thing long enough so that the Philippine people can go ahead and their plans can be put into effect with a hope of being successful.

Mr. CLAYTON. That is right.

Senator HAWKES. This period, whatever it is, 28 years, is an awfully long time to look ahead.

Mr. CLAYTON. It is very long.

Senator HAWKES. I prefer, as far as I am concerned, to see the thing done in an original period that is long enough to justify their going ahead with their plans, and then let the other thing take its course by these shorter extension periods, in the light of the conditions as we find them to be.

Mr. CLAYTON. Yes, sir.

Senator BUTLER. If you are going to omit sugar, though, from the bill under consideration, why not apply the same logic to all other items? Why not omit everything that has to do with quotas?

Mr. CLAYTON. Senator Butler, I think many of those matters could be properly covered in a trade agreement. This bill, unfortunately, prohibits the making of a trade agreement between the Philippines and the United States. Why it should do so, I am not able to understand.

Senator BUTLER. That is the statement I was looking for, Mr. Clayton.

Mr. CLAYTON. Why it should do so I have never been able to understand. We have no prohibition in any legislation to the making of trade agreements in accordance with the laws of the United States with any other country in the world but the Philippines and why we should do it with the Philippines I just do not know. Most of the matters that are put in this bill, with a rigidity which we may look back upon in 5 or 10 years with a good deal of regret, should properly be covered in the negotiation of agreements between the two countries, in my opinion.

Senator WALSH. I think Mr. McNutt feels that the situation is such in the Philippines now, on the eve of getting their independence, that it would be definitely beneficial to them and to us to let them know by statute how we are going to treat them in matters of trade relations in the future. I think that is the point that is made by the presentation of this bill. They think, with trade in an unsettled state, in a state of uncertainty, that if we at once say, "Here is what we are going to do for you when you are free," it would be more beneficial.

Mr. CLAYTON. I am familiar with that point of view, Senator Walsh. I discussed it at considerable length with Mr. McNutt. But why this bill should contain a provision prohibiting the negotiation of a trade agreement between the two countries is more than I can understand. Even with all the conditions within our knowledge regarding trade, and quotas, and so on, it still prohibits the negotiation of a trade agreement between the two countries.

Senator BUTLER. Would you object to it the same way if the provision was for 700,000 tons in place of 850,000? I believe 700,000 was

about the amount that was imported here from the Philippines before the war.

Mr. CLAYTON. Senator, I have not considered information regarding what the quota should be. I have not studied that matter at all. I am just speaking about it as a matter of principle. I think the principle of the inclusion of an absolute quota in this bill, which is supposed to run for 28 years, is wrong.

Senator HAWKES. Mr. Secretary, I do not know too much about this subject, but is it not conceivable that they are trying to do something special in connection with the independence of the Philippines and deal with that subject a little bit differently, and that is the reason they want to take it out of the realm of trade agreements?

Mr. CLAYTON. I am sure that is the reason, Senator Hawkes, but why they should deal with the subject in all particulars, quotas and that sort of thing here, and still say we cannot make a trade agreement with them is more than I can understand.

Senator HAWKES. Let me put it in another way, Mr. Secretary. Might it not be embarrassing for you or your Department of the Government to negotiate trade agreements where there was no duty on an import item for a period of several years, while they were negotiating agreements with other nations where there must be a duty?

Mr. CLAYTON. No, sir, I do not think it would be embarrassing. There are many matters which should be covered in trade agreements between two countries besides matters merely of tariff duty. Obviously, if we made a trade agreement it would have to conform to the law. It could not do otherwise.

Senator SALTONSTALL. Mr. Chairman, following up what Senator Hawkes said, is not there one fundamental difference in the Philippine situation as compared to the general situation? The Philippine currency is hung on the United States currency. If you are going to do that, isn't it essential to keep from making trade agreements that may upset that relationship? Here you make a fundamental agreement that covers everything for a period of years. It would seem to me you ought to keep that relationship and have everything in one bill, otherwise you are going to throw the thing out of the window?

Mr. CLAYTON. Senator, I do not see what we could do in a trade agreement that would upset that currency relationship.

Senator SALTONSTALL. A trade agreement is an agreement dealing with a foreign country, a country that is completely independent. A country whose currency is hung on our currency is not completely independent—financially, anyway.

Mr. CLAYTON. I do not know. We have promised the Philippines complete independence. We might have an agreement, Senator Saltonstall, that we will hang our currencies together. As a matter of fact, the Canadian currency is, in a sense, hung to that of the United States. We might have an agreement with Great Britain, a currency agreement, but that would not involve independence.

Senator SALTONSTALL. I see.

Senator WALSH. You are going to discuss that section of the bill, aren't you?

Mr. CLAYTON. Yes, sir.

I should like to make it clear that the Department has no objection to the granting of diminishing duty-free tariff quotas, of the type that

were provided in the Tydings-McDuffie Act, on coconut oil, tobacco, cigars, and buttons. This is merely the way that diminishing preferences are provided for these particular products. Imports within the quotas would be duty-free, but there would be no legal limitation upon imports in excess of the quotas upon payment of full duties. The Tariff Commission has advised the Department that the application of full duties would prevent substantial imports in excess of the duty-free quotas. Thus, on the one hand, the elimination of absolute quotas on these products would have no significant effect on imports; but, on the other hand, it would be of tremendous help to the efforts of this Government to free American trade from absolute quota limitations applied by other countries.

The problem is here, Mr. Chairman, we are trying to get other countries to abolish the absolute quota against our exports. It is a little difficult to ask them to support that when you have them come back at you and say, "In the Philippine bill you have done that very thing itself." Of course, we are a little inconsistent in this country about some of these things. We do not like the application of subsidies, for example, on exports to us. I think we call that type of transaction, "dumping," and we have got a law against it, but we apply it ourselves. We do not like the empire preferences, but we have got a preference system with Cuba, and we are establishing a type of preference system here with the Philippines. But, as I said before, we will have no embarrassment, I think, in supporting the kind of preference that is established here for the Philippines, the tariff preference.

Senator BUTLER. Mr. Secretary, do you think we will ever do away with empire preferences?

Mr. CLAYTON. Senator Butler, I believe we have a very good chance of doing so. The proposals for a world trade conference, for expansion of trade and employment, provide for negotiations having to do with the reduction of tariffs and other impediments to the exchange of goods between nations, and the elimination of preferences. The British have agreed to negotiate with us on that basis. We have already reduced the preferences substantially in the trade agreement which we have with the British, and now, in further negotiations with them, we think we will get some preferences entirely eliminated and other substantially reduced—in time. This is not anything you can do suddenly or quickly, but in time we believe we have a very good chance of getting back to the pre-empire preference system of trade.

Discrimination against important articles in the application of internal taxes is also a major barrier to world trade in general and to American exports in particular. We protest against such action by other countries. Our proposals require national and most-favored-nation treatment in the application of such taxes and would prohibit commitments to maintain internal tax preferences. Section 403 (d) of H. R. 5856, which we are discussing here, guaranteeing a 2-cent internal tax preference on Philippine coconut oil, is precisely the kind of preference we are asking other nations to abandon. We therefore recommend that it be eliminated and replaced by a provision which would allow all coconut oil, regardless of its source, to compete on the same tax basis as other foreign oils subject to internal taxes, namely, palm and palm kernel oil.

Senator HAWKES. Mr. Secretary, for our edification will you enlarge a little bit on that 2-cent internal tax preference?

Mr. CLAYTON. Senator Hawkes, the Philippine coconut oil pays a 3-cent tax; I think they call it an excise tax, in this country. It comes in, I believe, duty-free; but you cannot do business in it without the payment of that tax. Other imported coconut oils pay a 5-cent tax. There is a preference. Palm oil and palm kernel oil—and the latter competes with coconut oil—pay a 5-cent tax.

Senator BREWSTER. That is quite an important item, isn't it, the coconut oil?

Mr. CLAYTON. Yes, sir; very important. Our position is that they all ought to be on all fours. The whole business ought to be on what you decide.

Senator HAWKES. On the same basis?

Mr. CLAYTON. On the same basis; yes.

Senator WALSH. The claim made by the representatives of the Philippines is that 3 cents permits the farmers to produce the oil to get more money than they would otherwise.

Mr. CLAYTON. That differential of 2 cents?

Senator WALSH. The 2 cents; yes. In other words, it is an effort on our part to increase the standard of living and, of course, the income to the producers.

Mr. CLAYTON. Yes, sir. It is a preference, though, Mr. Chairman, which is difficult to support, if we say to other countries, "You must not give preferences to some country which can compete against us."

Senator BREWSTER. How important an item is the coconut oil in the Philippines?

Mr. CLAYTON. It is very important. I am sorry I cannot tell you exactly what percentage of Philippine exports it constitutes, but it is quite important.

Senator BREWSTER. I am thinking also of how important it is in our imports.

Mr. CLAYTON. Well, we imported before the war a great deal of oils of that kind. During the war we became almost self-sufficient in oils of that sort, but that was through the payment of subsidies and all kinds of stimulation to domestic production for our war needs. I judge that now that we are in peace again those things will be discontinued, and, in all probability, we will get back again to the basis where we will have to import a substantial amount of these oils.

Senator BREWSTER. Would the Filipino shipment to us be 10, 20, 30, or 40 percent of our purchases? Do you have any idea on that?

Mr. CLAYTON. I am sorry, Senator Brewster, I haven't that information.

Senator WALSH. Mr. McNutt, do you know about that?

Commissioner McNUTT. That appears on page 19 of the House report, Mr. Chairman.

Senator HAWKINS. That appears on page 19 of the House report. I was going to call attention to that, Senator Brewster. It shows in 1928 we imported from the Philippines 155,241 short tons, at a value of \$23,239,520. Now, without going through all of these, in 1940 we imported 165,706 short tons.

Can you explain, Mr. McNutt, what the reason for that difference is? It has a very low value, \$8,621,556, for an increased quantity of oil.

Commissioner McNUTT. It bears the same ratio in 1939 and 1940.

Senator HAWKES. Yes; I know it does. In other words, in 1940 we imported from the Philippines more than 10,000 additional short tons, and the value of it is estimated at only one-third of the value estimated for 1928.

Mr. CLAYTON. Well, the price had gone way down, Senator Hawkes.

Senator HAWKES. That must be the answer.

Mr. CLAYTON. It is the answer.

Commissioner McNUTT. That is right.

Senator WALSH. Proceed.

Mr. CLAYTON. The other provisions in the bill which cause the Department concern are those which are inconsistent with our pledge of complete independence to the Philippines on July 4 of this year. Inspired by that pledge, the Filipinos fought loyally by our side during the war and I am sure that the American people are determined that we should live up to this pledge in full.

Sections 341 and 402 (b) of the bill require the Filipinos to give Americans in every respect the same rights as Filipinos in the exploitation of Philippine resources. The bill goes so far even as to require the Philippines to amend their constitution which was approved by the President of the United States under the Tydings-McDuffie Act, in order to grant these rights to American citizens. If the Philippine Government does not take this action, it cannot have the tariff preferences granted by the bill. Moreover, other provisions in the bill, sections 404 (c), 501 (a) and (c), have the intent of securing for Americans in the Philippines the same rights as Filipinos in all other fields of activity and provide that if such rights are not granted, the President must terminate the trade arrangements for which the bill provides.

These provisions are not reciprocal. We cannot give the same rights to Filipinos. The bill would require the Philippines to permit Americans, both individuals and corporations, to engage in many activities in the Philippine Islands from which Filipinos will, as aliens, be barred in this country. For example, they will be denied the right to mine oil, coal, and other important minerals in the public domain (30 U. S. C. 181), or to operate radio broadcasting stations (47 U. S. C. 310 (a)), or power plants (16 U. S. C. 797 (e)). Filipinos will be barred from the practice of several professions and from participation in certain commercial activities under the laws of many States. In a majority of the States, they will be discriminated against with respect to real property rights.

These provisions are not necessary to protect existing American property rights in the Philippines.

Senator WALSH. That is important.

Mr. CLAYTON. Yes, sir.

Senator WALSH. That is the existing property right?

Mr. CLAYTON. The existing American property rights in the Philippines. These are safeguarded under the Tydings-McDuffie Act, section 2 (b), (1), and (5), and the present Philippine Constitution.

Senator WALSH. This act permits not only the existing rights to be protected but future rights?

Mr. CLAYTON. Not only existing rights but future rights.

The Tydings-McDuffie Act and Philippine Constitution provide:

The existing property rights of citizens and corporations of the United States shall be acknowledged, respected, and safeguarded to the same extent as property rights of citizens of the Philippine Islands.

Future rights of American citizens and businessmen should be provided for on a mutual basis in a treaty of commerce, friendship, and navigation. Such a treaty is already under preparation and will, of course, have to be approved by the Senate.

Senator BUTLER. Mr. Secretary, in that connection, I think that is the crux of the whole thing in the consideration of this bill. I wonder if you do not feel we owe something more to the people of the Philippines than we do to any other group or nation who might compete for our goods?

Mr. CLAYTON. I think we do, Senator Butler. I think we owe a great deal to the Philippines. We are turning them loose on the world now, and I think they are entitled to expect from us a good deal more than we would be expected to accord any other country.

Senator WALSH. This is asking for new rights to be surrendered by the Filipinos to the Americans?

Mr. CLAYTON. That is right.

Senator HAWKES. Mr. Secretary, would you mind expressing your opinion on how the other important nations of the world with whom we are associated now will view that situation which you have just defined, that we owe more to the Philippines?

Will they view it the same as we do?

I agree we do owe them a great deal, and I agree we should do everything we can, without seriously injuring ourselves, to help them get on their feet, but I am asking you the over-all question: Do you believe the other nations are going to come to us and ask us for certain favors, or do they believe we owe the Philippines as much as we believe we owe them?

Mr. CLAYTON. I think that depends on the nature of the case, Senator Hawkes. Take for example, the tariff treatment provided in this bill as between the two nations, 8 years of free and 20 years for gradually stepping up the duties. I would not have any embarrassment in defending that with any country, under the circumstances, and I think they would have a good deal of embarrassment in attacking successfully that provision. Matters of that kind, which have a definite termination and which are reasonable, we can support and defend. But when you say, for example, in the bill, that Americans in the Philippines shall have rights equal to those of the Filipinos, and you have reason to believe the Filipinos would not extend the same privileges to other countries, I think that other countries could come to us and say, "You have taken advantage of the position here with the Philippines in this bill to demand for yourself preferential treatment in the Philippines as against us, and we do not like it." I myself have some difficulty in supporting that.

Senator BREWSTER. Have you investigated the arrangements that Britain is making with the newly created country of Trans-Jordan?

Mr. CLAYTON. No, I have not.

Senator BREWSTER. Would not that be very interesting and illuminating?

Mr. CLAYTON. It would.

Senator BREWSTER. Subject to the British mandate under the League of Nations and the United Nations, it is already announced that they made special treaties with this country that they created only a week ago. I do not want to drag in extraneous matters, but I hope you will be as vigorous in applying your obligations as you are in presenting them to us.

Mr. CLAYTON. We would like to be, Senator Brewster, but we would be considerably embarrassed in objecting to what the British may be doing there, or some other country would be doing somewhere else, if we are doing the same thing here.

Senator BREWSTER. I think our relation with the Philippines is quite different from the relation of the British with Trans-Jordan, of which they are only a trustee under a mandate. If I am correctly informed, they have gone a long way in getting special privileges in there, in a country they have just created, without consulting, as far as I know, either our own State Department or any of the 54 other nations to whom they are obligated.

Mr. CLAYTON. I am not familiar with the circumstances, but if they have taken advantage of a situation to obtain for themselves preferential treatment in that territory, we would like to be in a position to protest it.

Senator BREWSTER. Yes. I do not want to drag in extraneous matters, but I think you readily recognize the Philippines are in a distinctly different relationship to us than certainly a mandated country is to the British.

Mr. CLAYTON. I do undoubtedly, but I think that relationship should express itself, in the matter of preferences, in our doing things to assist them in the way of preferences, and not our demanding from them certain preferences in their country.

Senator BREWSTER. I can appreciate, in order to continue the very happy relationship which we have had and the good which it has done us in our far eastern relations, that we do not want to stipulate it now.

Mr. CLAYTON. Yes, sir; that is our position.

Senator BREWSTER. But, as I understand you, you feel the position of absolute quotas is going to create great difficulty for you?

Mr. CLAYTON. Yes, sir.

Senator BREWSTER. Is going to be fundamentally opposed to your theory of future trade relations.

Mr. CLAYTON. Yes, sir. The absolute quota device for limiting international trade is so much more effective than a tariff that there is no comparison. It is absolutely effective. When the quota is reached in imports under an absolute quota system, nothing else can come in, regardless of price. We think that is a very vicious kind of system of regulating international trade.

Senator BREWSTER. When you say "absolute quota," you mean it applies to the over-all imports or to quotas to specific countries?

Mr. CLAYTON. Quotas to specific countries.

Senator BREWSTER. Yes. Is that not the essence of totalitarianism or state trade?

Mr. CLAYTON. It is.

Senator BREWSTER. That really comes right down to the final thing.

Mr. CLAYTON. The state absolutely regulates the trade. It no longer can be done on the basis of price or quality or service, but it will be done on the basis of what the state says it will be.

Senator BREWSTER. What would be the difference between that and the British Government acting as a purchasing agent for raw cotton?

Mr. CLAYTON. The British Government acting as purchasing agent for cotton has nothing to do with quotas.

Senator BREWSTER. Except the British Government is the sole purchaser or importer, under the banishment of the Cotton Exchange.

Mr. CLAYTON. That is right.

Senator BREWSTER. They do not need to impose any quotas, all they have to do is make a simple determination.

Mr. CLAYTON. No, sir; they cannot do it under the arrangement we have with them. Under our Proposals for the Expansion of World Trade and Employment, we specifically provide that where a country does its importing by a state agency, that they must do that importing on the basis of economic grounds, such as price, quality, service, and not on political grounds and not on discriminatory grounds.

Britain has agreed with us that she will abide by those rules. Under those circumstances, Britain has elected—for how long we do not know; at any rate, for the duration of this present British Government—to import by a state agency all her cotton requirements. Under the agreement that she has with us, she must do that on economic considerations and not any others.

Senator BREWSTER. Who is to determine those economic considerations?

Mr. CLAYTON. Well, if we find, for example, that she is buying cotton in Brazil, or any other country, and paying more for it than she could get the same quality of cotton for in the United States, why, we have the right to protest that. It is a violation of the agreement.

Senator BREWSTER. Do they have the right to consider whether we are subsidizing the cotton production?

Mr. CLAYTON. There is nothing said in that part of the proposal, Senator Brewster, about subsidy. Of course, they would have to take into account the net cost of cotton in the United States. For example, we now have a 4-cent export subsidy.

Senator BREWSTER. Yes. That is not economic.

Mr. CLAYTON. I do not like it. You know, I have said often before committees I do not like that system of doing business. I think it is wrong.

Senator BREWSTER. The British could take that into account in their buying, otherwise there would be no limit. I mean, we could put a 5- or 10-cent subsidy on in order to force our cotton.

Mr. CLAYTON. Senator, here is what they would have to do, in the spirit and I think the letter of this understanding: If our cotton is the kind of cotton they want to buy, a good grade of cotton is 30 cents a pound landed at port, and we pay a 4-cent subsidy, then it costs them 26 cents; then they have to figure our cotton at 26 cents a pound in comparison to other cotton that they want to buy.

Senator BREWSTER. And they would not have the right to say, "You are dumping"?

Mr. CLAYTON. I do not think that they could object to that, because they do not raise any cotton.

Senator BREWSTER. They do in India, don't they, and in Egypt?

Mr. CLAYTON. I mean, in the United Kingdom they raise no cotton. Certain parts of the Empire, of course, raise it. They might be in a position to protest, or to say that we are dumping; I don't know.

Senator BREWSTER. I thought this simply illustrated this point: I have, in the last week, run onto a very serious urging of this quota system as a solution of our ills in substitution for the tariff, from very important sources. Dr. Raymond Walsh, of the CIO, who is their economic adviser, apparently is quite a strong advocate of that system, and other important people in politics in both parties advocate that system. I am quite interested in having your views on the matter. I do not want to labor this too much in this particular connection, except that I have recognized, as you have recognized, the danger, and I think it is a very serious problem.

This morning I asked the Tariff Commission to give me a report on this very thing. I did not realize you were going to bring it in. It seems to me we are going to hear a great deal more about it.

Mr. CLAYTON. I think we will, Senator Brewster, and I am very glad you brought it up. I just want to say, with all the earnestness that I can command, I hope we will never in this country adopt the import quota system, the absolute quota system, as a substitute for the tariff. It is destructive of trade. When you fix it in a law, with the rigidity that a law has, you fix quotas for this thing and that, why, you cannot shift according to changing conditions, and conditions change, as you know, in world trade, production, consumption, and all those vital factors.

Senator BREWSTER. Do you distinguish between fixing by statute and fixing by administrative action?

Mr. CLAYTON. Of course it is much better by administrative action than by statute, if you are going to fix anything of that kind, because then you can reconsider it at stated periods. But if you put it in a bill or law, that runs indefinitely, or for a long period of time, it is very difficult to give consideration to changed conditions.

Senator BREWSTER. I think you are going to have to meet the problem. We have two outstanding illustrations, the British and the Russians. The Russians have a complete state system, and the British are approaching that, apparently, in this cotton matter. It will be a serious problem to satisfy the American people that that system will not be used to our disadvantage, since your only relief is the claim that they are not doing it on economic grounds. While we have apparently an appeal, whether or not it will be illusory, I think is going to be quite a serious problem. I think you recognize the difficulties that are presented.

Mr. CLAYTON. I certainly do. I cannot speak very much about the Russian situation because we have no agreement with them similar to the one we have with the British, but the British agreement, of course, is all tied up with the financial agreement that we negotiated with them and which is now before the Congress for ratification. The agreement we have with the British with respect to that matter is very specific and very clear, and we have ways and means of administering it. We have no fears regarding that.

As I say, in the case of the Russians, why, we have no such agreement, and I do not know whether it would ever be possible to make such agreement, but I will say this, that Russian international trade, from our point of view, is a negligible factor in the world trade situation.

Senator BREWSTER. It has been so historically.

Mr. CLAYTON. It has been, and I think, Senator, we may expect it to be for a long time to come, because they have got an enormous amount of work to do internally. They have got to develop their internal economy. They want to import a lot of things, they want to buy a great deal of equipment, technical know-how, and machine tools, and things of that kind from us and Britain or any other country that can make them. But as for exports, they will mostly be gold and platinum.

Senator BREWSTER. Do you know what their limits are on their gold exportation?

Mr. CLAYTON. No, sir, we have no information on that at the present time.

Senator BREWSTER. You have no knowledge either as to their reserves or as to their production?

Mr. CLAYTON. No, sir, we have no data on that at present.

Senator BREWSTER. Do you know there is an American engineer who was in charge of that system for 10 years, up to 1938, in the Soviet Government?

Mr. CLAYTON. No, sir.

Senator BREWSTER. I think you would find it very interesting. He has never divulged it, because, after all, you might consider it confidential, but the American Government may expect some degree of cooperation. He was in full charge of production of Russian gold from 1928 to 1938, and has written a book entitled "Search for Soviet Gold," which is a most interesting illustration, but he observes the confidence of the Government, which is quite proper.

Mr. CLAYTON. Yes.

Senator BREWSTER. Are you negotiating reciprocal trade agreements at this time?

Mr. CLAYTON. We have invited a number of countries to negotiate with us.

Senator BREWSTER. You are in that process?

Mr. CLAYTON. Yes, sir; that is in my department of the State Department.

Senator BREWSTER. You have not approached Russia yet?

Mr. CLAYTON. No, sir. We are very hopeful, Senator, that Russia will decide to come into the International Bank for Reconstruction and Development and the International Monetary Fund, what we refer to as the Bretton Woods agreement.

Senator BREWSTER. Do you have in mind what did happen to us after 1919, in the flood of imports which brought us disaster under the Underwood tariff?

Mr. CLAYTON. In 1919?

Senator BREWSTER. Or in 1920.

Mr. CLAYTON. I remember what happened in 1920, but I have not associated it with imports.

Senator BREWSTER. You probably were not as much interested in this general trade matter, you were more of a southern operator, I guess, then, but up in New England we had quite a serious time and it did result in emergency action to check the flood of textiles in particular. We then went wild with our Smoot-Hawley tariff 5 years later.

I hope you and your associates will study that situation as to the imports and their impact carefully, because, as you know, it has been a matter of great concern. We are down nearly to the Underwood Tariff now in many respects. You can go 50 percent below it if you want to exercise the authority given you, and of course I should expect it will be exercised with a great deal of discretion.

Mr. CLAYTON. Thank you. We want to study these things very carefully and we will not act until we do have full hearings under the Foreign Trade Agreements Act. That will be done with great care.

Senator HAWKES. Mr. Secretary, do I understand under this bill the 850,000 short or long tons, whatever it may be, can be imported free of duty for 8 years and sold to whomsoever they wish to sell it to? That is correct, isn't it?

Mr. CLAYTON. That is what I understand; yes.

Senator HAWKES. Now, as a businessman, I want to ask you this question. I am very much inclined at the moment to agree with you, that absolute quotas are very difficult things. They are barriers to the things we are trying to accomplish.

As a businessman, if I were buying sugar from some concern in the Philippines, and we did not have the absolute quota, they could bring in, over and above the 850,000 tons, if they paid the established duty?

Mr. CLAYTON. Not in the case of sugar, Senator Hawkes. We agree sugar is a special commodity, due to the fact that there is a sugar bill which fixes not only the foreign quotas but the domestic quotas as well. We do make an exception in the case of sugar and agree that it has to be an absolute quota.

Senator HAWKES. I misunderstood you. I thought you meant there should not be any absolute quota established on sugar.

Mr. CLAYTON. No, sir. I do not think there should be in this bill. I think it should be dealt with in the sugar quota bill, which expires some time this year.

Senator HAWKES. Then how would you have the sugar quota bill deal with this very important question of duty-free sugar for 8 years? In the sugar quota bill you might very easily set forth any amount higher or lower than we determine at this time is the right figure.

Mr. CLAYTON. This bill itself deals with the question of duty-free imports. All imports are duty-free for 8 years. This bill would take care of that for sugar and everything else.

Senator HAWKES. It would not take care of the quota?

Mr. CLAYTON. No; it would not take care of the quota, but the quota would have to be set in the sugar bill which presumably Congress will enact at the expiration of the present sugar quota bill and in which cognizance will be taken of the whole sugar situation, domestic and foreign.

Senator HAWKES. I am just using sugar as an illustration, you understand. Here is the point I want to raise: If you did not have an absolute quota over and above a certain established right to import into this country sugar or any other item, and if you gave the right to import additional quantities by paying the established duty, whatever that might be, isn't it conceivable to you that somebody in the Philippines, or any other place, might sell me a substantial amount of sugar at one price, and throw in a substantial amount in addition to

that, which would go in on the excess quota allowance, and by hooking the two together could make a deal that might increase the importation of any item above the point you wanted it?

Mr. CLAYTON. Duty free?

Senator HAWKES. No, not duty free. In other words, let us say there is a thousand tons that would come in duty free, somebody in the Philippines would say, "I will sell you 1,000 tons of this because I do not want it, if you buy something else." You are establishing a sugar quota in that case, are you?

Mr. CLAYTON. No, sir.

Senator HAWKES. By combining the two things together, could not something be done that is not contemplated by the act?

Mr. CLAYTON. I cannot quite see it, Senator Hawkes, because up to the amount of the duty-free imports named in the bill, anybody could ship it in, duty free.

Senator HAWKES. That is right.

Mr. CLAYTON. Of course America here would be the best market in the world for Philippine sugar up to that figure.

Senator HAWKES. Suppose right there you had a free market and you get an additional 1,000 tons which would go in on an excess quota, the fellow would cut the price there on the sugar that he did not have to pay any duty on. That is the point I have in mind. I have seen it done in business in this country. Many times I have seen people get a full price on a given item and throw something else in, in the bargain, and corral and control the trade by doing it. That is something to thing over. I do not know that that is so in the case of sugar.

Mr. CLAYTON. We have not met with that in the importation of sugar under the sugar bill. We have not met with any instances of that kind. I mean, they have not come to my attention.

Senator WALSH. Proceed.

Mr. CLAYTON. The friendship of the Filipinos for Americans and their desire to have American individuals and enterprises in their islands have been abundantly demonstrated, and I feel that they should not be forced to give American citizens special rights which we cannot give to Philippine citizens.

Moreover, the bill ties the hands of the Philippine government in allocating the absolute and diminishing duty-free quotas established for certain products. Not only does this deprive the Philippine government of a sovereign prerogative, but it has the effect of giving prewar producers a virtual monopoly for 28 years of most important Philippine exports. It would enable them to prevent the investment of capital by new American enterprises in these important export industries, and new Philippine producers would not be able to compete freely in their own country.

These provisions should be eliminated. The United States should not take advantage of the Philippines' need for special tariff treatment, accentuated by the tribulations of our common war effort, to obtain such special privileges.

The last point I have to make is that the bill prohibits, for 28 years, the negotiation of a trade agreement between this country and the Philippines. I can see no valid reason why the Philippines should be the only independent country in the world which is prohibited from

negotiating such an agreement with us. Obviously, it would not be entered into if it were not to the mutual advantage of both countries.

It should be possible, without great difficulty and without affecting the basic provisions of the bill for 8 years of duty-free trade and 20 years of declining preferences, to make these changes which I have suggested in H. R. 5856.

As Commissioner McNutt said yesterday, the eyes of the world are upon us, watching to see how we fulfill our pledge to grant the Philippines full independence. Over a long period of years we have achieved an enviable reputation in our relationship with the Philippines. I am sure we do not want to do anything on the eve of Philippine independence to damage this reputation; this record of which we have every reason to be proud.

Senator WALSH. Are there any questions?

Senator BREWSTER. Would there be any middle ground in this monopoly which you give to the existing sugar interests under the act, which might be argued as encouraging the early reestablishment of the industry, or in order to stimulate the development of the economy of the Philippine Islands, to allow them a certain period of preference for the first few years?

Mr. CLAYTON. You mean an allocation of exports?

Senator BREWSTER. On any basis that is available, but not for 28 years, which seems to me a very long time to freeze this situation, but, on the other hand, say for a few years, either 3 or 4 or 6 or 8 years, it might be justified as enabling the existing sugar enterprises to reestablish themselves, as I presume they have suffered great damage, and then to allow new enterprises to move into the field.

Mr. CLAYTON. That might be, Senator Brewster. I just have not thought about that aspect of it. It is worth thinking about. I feel generally that somehow the field should be left open for others to come in.

Senator BREWSTER. You mean you do not think there is any need to give them any encouragement if they have this free field for shipment to this country?

Mr. CLAYTON. Existing producers have that, and they are established there; they have got their establishments there already. I am unable to see anything in the situation which should suggest that we should now give them a monopoly on the exports.

Senator BREWSTER. Suppose we struck out any provision as to who gets this quota? Under the bill, why, it is provided that the existing fellows who had it in the base period would get the quotas on that basis. Suppose that were eliminated, who would then have the right to the quota of sugar that was coming into this country?

Mr. CLAYTON. That would certainly have to be worked out in the Philippine government.

Senator BREWSTER. So that the Philippine government would then be able to determine who would have the right to ship sugar into this country?

Mr. CLAYTON. Yes; but we should certainly provide that that would be done on a nondiscriminatory basis.

Senator BREWSTER. Then you do appreciate the necessity of some limitation?

Mr. CLAYTON. There has to be a quota system, a system of allocation.
Senator BREWSTER. Although that is an infringement on Filipino freedom?

Mr. CLAYTON. Beg pardon?

Senator BREWSTER. That is an infringement on Filipino freedom?

Mr. CLAYTON. I do not say, Senator Brewster, that it would have to be provided for in this bill. I say, as a matter of just plain administration, they would have to work it out.

Senator BREWSTER. Of course there are rather large investments by Americans in the islands.

Mr. CLAYTON. Yes, sir.

Senator BREWSTER. In the sugar business.

Mr. CLAYTON. Yes, sir.

Senator BREWSTER. You say the quota on the American sugar imports should be on a nondiscriminatory basis. Where can you provide that?

Mr. CLAYTON. I haven't the least doubt in the world that we can get it in our negotiation of a treaty of friendship and commerce with the Filipinos; I do not think there is any doubt about that, but I would not at the moment see any serious objection to providing in this bill that the allocation of quotas should be done on a nondiscriminatory basis as between American interests and Philippine interests. I do not see any serious objection to such a provision; but I do not see why the bill should provide an absolute formula for allocations based on existing facilities or prewar trade.

Senator BREWSTER. The base period?

Mr. CLAYTON. The base period, yes. That freezes it, Senator.

Senator BREWSTER. I appreciate that. Perhaps Mr. McNutt testified on this yesterday. Did you discuss that phase of it yesterday?

Commissioner McNUTT. I did not discuss that phase of it, Senator, but I would like later on, if the committee desires, to take the stand on that.

Senator BREWSTER. That is a matter on which you have a view?

Commissioner McNUTT. A very definite one.

Senator WALSH. Is there anything further?

Senator BUTLER. Mr. Chairman, we will not delay the Secretary much longer, but early in his statement he expressed, as I recall it, some surprise that Congress should, by legislation, undertake to fix the policy as to tariffs on imports. I just wonder when it became a matter of surprise that this should be a matter of legislative action.

Mr. CLAYTON. Senator Butler, I think you must have misunderstood me.

Senator BUTLER. You do not remember that. Well, that is the impression I got from your remark. Maybe I misunderstood you.

Mr. CLAYTON. No, sir; I did not intend to say that.

Senator BUTLER. You think it is perfectly O. K. for Congress to take action of this kind?

Mr. CLAYTON. If Congress wishes to do it; yes, sir. I certainly have no complaint to make of Congress handling all tariff matters. That is their prerogative, certainly. I say here in my statement that the Department supports the basic features of the bill, which are to provide for an 8-year period of free trade with the Philippines, and then for a period of gradually declining preferences. We support that.

Senator BUTLER. But you do not want it done by a bill of this kind, you want it done by some other method?

Mr. CLAYTON. No, sir; we support this bill. We support the provisions of this bill which provide for that.

Senator WALSH. The sugar item you want dealt with differently?

Mr. CLAYTON. Yes. Senator Butler, we feel that sugar is an exception to all other commodities, and it is perfectly proper to provide an absolute quota on sugar from the Philippines. The reason we feel that way is that we have a quota on our domestic production, so there is nothing inconsistent in that policy and that position. We can support that in our negotiations with other countries on these matters, but we do think it would be much better if Congress gave consideration to that question in the sugar-quota bill which Congress passed for that purpose and in which a quota is named for the Philippines and one for Cuba and one for domestic production. We think it would be much better if Congress would deal with the question of the absolute sugar quota in that bill rather than in this bill, because this bill runs for 28 years and the sugar-quota bill, I think, is limited to 4 or 5 years; I do not know just how long, but anyway it is a short period.

Senator BUTLER. What is the usual term for a reciprocal trade agreement?

Mr. CLAYTON. Three years.

Senator BUTLER. Then you feel this is a matter that should be decided by legislative action over a longer period than 3 years?

Mr. CLAYTON. Whatever the period of the sugar legislation is. I do not know just how long it does run, but Congress has fixed the term within which the sugar quotas shall be operative. Our feeling is that it would be best for Congress to provide for the absolute quota on Philippine sugar in such general sugar legislation rather than in this bill which runs for 28 years.

Senator HAWKES. Mr. Secretary, so there will not be any confusion, I understood, when I was talking with you a few moments ago, you felt it might be necessary to fix this period of duty-free sugar and quota with the Philippines for a longer period than the sugar bill would fix it.

Mr. CLAYTON. No, sir. I am sorry if I gave that impression.

Senator HAWKES. That is the impression I gained, and I thought your reasons were very good, and that is that the Philippines were in a difficult position, they have got to rehabilitate and reestablish themselves, and they might need a longer period of time than we give in the sugar bill. That is what I understand you to say.

Mr. CLAYTON. I am sorry if I gave that impression, Senator.

Senator HAWKES. Maybe I am the one that gained the wrong impression, but that is the impression I gained.

Mr. CLAYTON. I would think it would not be in the best interest of the Philippines to fix that quota in this bill, because it might easily transpire, in 3 or 4 years from now, that you would want to raise that quota. It would be a little more difficult to do it in this bill, I think, than it would in the regular sugar-quota bill, which comes up for reconsideration by the Congress at stated intervals.

Senator HAWKES. Let me get right back to that thing. As you thought a moment ago—and I do not hold you to it—you thought the

sugar-quota bill fixed the quotas and dealt with the subject for a period of from 3 to 5 years.

Mr. CLAYTON. Whatever it is.

Senator HAWKES. Again I come back to this point of 5 years' assurance and then to rely upon the will of Congress after 5 years. Would that be a sufficient guaranty to the Philippines to justify them in having the opinion, that they think they have got today, to put themselves back on the map, if you please?

Mr. CLAYTON. I would think so, Senator. You can look at it from the other point of view, too, and that is that certainly the consumption of sugar is going to increase in the world in the next 5 or 10 years. It may be at the end of 5 years it would be perfectly proper to raise the quota for the Philippines. I just mention that aspect of it. It would be much easier to do that in the regular sugar-quota bill than in a bill like this.

Senator HAWKES. I agree with you absolutely it would be much easier to do it, and that is the way I would like to do it, but my point is, would doing it that way give the Philippine government and the people doing business over there the confidence that they needed that they had certain factors established for a definite period, long enough to justify investments to do the things that they wanted to do, to get back on their feet? That is the point I have in mind.

Mr. CLAYTON. I would think, Senator Hawkes, that the Philippine government would know that we in the United States, in giving consideration to our imports of sugar, would always treat the Philippine government fairly. I think you know that we would. We would certainly never discriminate against them in favor of some other foreign producer of sugar from whom we imported our sugar.

If the matter could be dealt with in some way in this bill, without stating a certain number of tons I would think it would be all right; but the rigidity that you get in naming a certain number of tons that may be imported from the Philippines has unfavorable aspects which we ought to consider.

Senator WALSH. Mr. Clayton, I am impressed with the objection you make to the provisions in this bill that give to future American investors the same right that present American investors have. I assume the only reason that that provision is in this bill is that the Filipinos lack the money, lack the capital, and would like to have America invest money, and they would be reluctant to do so unless they got the same treatment that the present investors in the Philippines have. I am impressed with the fact that we have got to treat the Americans on a special plane hereafter and deny them the right to control their own investments of capital. Do you think there is anything serious about that?

Mr. CLAYTON. Yes, sir; we do, because of the preferential aspect which it will undoubtedly have vis-a-vis the other countries. When we say, "Well, you should not give preference to country X in your country against the United States," they will say, "That is exactly what you have done."

Senator WALSH. Yes, sir.

Mr. CLAYTON. It puts us in a very embarrassing position in negotiations to bring about the elimination of these quotas and preferences.

Senator WALSH. You permit the investors of America to have preferential rights in the future against the British, the French, or Germans, or any other investors. That is what this amounts to?

Mr. CLAYTON. I think that is what this amounts to; yes, sir.

Senator WALSH. All right.

Senator BREWSTER. Is this true: That the United States, after July 4 of this year, will not be able to enact any legislation or take any action which would in any way distinguish between the Philippines and any foreign country, except to the extent that we reserve rights at this time? I think now, under the most-favored-nation clause, our relations are such at present that any laws we enact and provisions we make operative do not fall within that class.

Mr. CLAYTON. I think that is right.

Senator BREWSTER. So, while we might relax the provisions which we made, we never could increase them in any way. That is, we never could take any action hereafter about the Philippines which would treat them any differently than any other most favored nation.

Mr. CLAYTON. Not with respect to their internal affairs, of course.

Senator BREWSTER. I am thinking also of trade relations.

Mr. CLAYTON. We could enact legislation which affected our trade with them, I presume. I presume we could give preferences, or do this or that, if we wish to do so.

Senator BREWSTER. It would immediately come in conflict with the most-favored-nation agreement.

Mr. CLAYTON. Yes, sir; you are exactly right with respect to some treaties and agreements.

Senator BREWSTER. That would not apply to any other agreement or provision of law which we made, at the present time?

Mr. CLAYTON. I think it would, Senator, if that law or agreement projected itself into the period of their independence, when they are no longer under our sovereignty.

Senator BREWSTER. I heard it argued over the last year it might be possible for us to do things now which we could never do again without infringing either on their sovereignty or the most-favored-nation principle.

Mr. CLAYTON. It would certainly be my view that anything we do now in anticipation of their independence on the Fourth of July, to project into the future of 20 or 28 years certain principles that were in violation of the principles we have with other nations, would be regarded by them as just not the right thing to do.

Senator BREWSTER. The very essence is free trade for 8 years.

Mr. CLAYTON. That is right. The period has a very definite limit.

Senator BREWSTER. If you can go 8 years, you can go to 28 years. I mean, the principle is the same.

Mr. CLAYTON. Senator, in the matter of duty-free trade for 8 years and declining duties for 20 years thereafter, we would be able to support that on this ground, that you could not give the Philippines freedom now, after their economy had been built up on their relationship with us over the last 50 years, and suddenly put them in a completely different relationship.

Senator BREWSTER. What is the limit to the application of that principle?

Mr. CLAYTON. Well, I think you could only answer that question by study of each case as it came up.

Senator BREWSTER. If you give them free trade for 8 years, I do not know what else there is that you could not do.

Mr. CLAYTON. I suppose you can do almost anything you want to, but the point is how it will affect our negotiations with other countries, and how it will affect the principles we are trying to establish in our trade with them. As I say, on this matter of the duty, I think I can look the other fellow in the eye and argue with him on that and tell him we have not done anything that violated our principle; that here we are turning this country loose to shift on its own, and we think that this is a reasonable thing. But in regard to many of these other things, as, for example, giving our investors and our capitalists in the Philippines a preference as regards the capitalists or investors of every other country of the world, I cannot argue that.

Senator BREWSTER. Then you agree, I take it, that this is simply a matter of what is reasonable?

Mr. CLAYTON. I think it goes to the substance of the thing that you are trying to do. You have to look at it and examine it and see whether it is reasonable or not.

Senator BREWSTER. Of course, different men would view that differently.

Mr. CLAYTON. That is the way with men; yes. I think that is right.

Senator BREWSTER. So it is not a question of legal obstacles here on our power. We can do what we deem is necessary, but it should be also what we deem it reasonable and fair.

Mr. CLAYTON. I have been discussing the matter from the standpoint of our policy, I am not a lawyer, but I think we can get other countries to agree to the tariff provisions of this bill even if there should be conflicts with some of our treaties.

Senator WALSH. All right, Mr. Clayton, thank you.

Senator HAYDEN. May I ask just one question?

Senator WALSH. Senator Hayden.

Senator HAYDEN. You made it perfectly clear, as far as the sugar quotas were concerned, it was entirely proper for Congress, either in this bill or in other legislation, to impose quotas, because we also impose quotas on our people.

Mr. CLAYTON. Yes.

Senator HAYDEN. With respect to coconut oil, some other item, the bill says "coconut oil, 200,000 tons." Is it your interpretation of this bill that no more than 200,000 long tons of coconut oil could be imported into the United States, regardless of whether the amount above the quota was paid by the American buyers or not?

Mr. CLAYTON. That is right. It is the same with reference to other commodities named there, Senator Hayden, that have absolute quotas.

Senator HAYDEN. Is it your contention, for instance, then, that coconut oil produced in Java, say, or elsewhere, could come into the United States on paying the duty, that there is no limitation on the amount of oil that can be imported from the rest of the world to the United States?

Mr. CLAYTON. Yes. In addition to the duty there is an excise tax which also has the effect of a duty, but we give it a different name, Senator.

Senator HAYDEN. Anyway, in order to get it in, somebody has to pay it.

Mr. CLAYTON. The excise tax is paid after it is in the United States.

Senator HAYDEN. When they sell it in the United States?

Mr. CLAYTON. On the first domestic processing.

Senator HAYDEN. If I had some coconut oil in Java and wanted to bring it into the United States and you pay the tariff, I could bring it in?

Mr. CLAYTON. That is right.

Senator HAYDEN. You say so far as the 200,000 tons is concerned from the Philippine Islands, when they have shipped that amount they cannot ship any more even though they are willing to pay the duty?

Mr. CLAYTON. That is right.

Senator WALSH. I suppose that amount is fixed so as to assure the Philippine people that we are not going to reduce it or change it in the future.

Senator HAYDEN. That is the point I was going to make, Mr. Chairman. It is an assurance to them that they will be able to export to the United States 200,000 tons.

Mr. CLAYTON. I do not think it is. I think it is an assurance to the domestic producers that no more than that will be imported. If you have no figure there, Senator, they can export as much as they like to the United States, as long as they pay the tax.

Senator HAYDEN. I can understand where you can argue there is discrimination as between Java and Philippines in that a person in Java could send in oil if he would pay the tax, whereas a person in the Philippines cannot.

Mr. CLAYTON. Yes, sir; he can, up to 200,000 tons; but why limit him to 200,000 tons?

Senator HAYDEN. Unless we have a limitation on the rest of the world your logic is perfectly sound. The other side of the picture is he does get 200,000 tons, and that is what he is interested in.

Mr. CLAYTON. Oh, he would get it anyway, Senator Hayden.

Senator HAWKES. He has got a 2 cents a pound preferential, hasn't he?

Mr. CLAYTON. Yes, sir.

Senator HAWKES. On the excise tax. I think with 2 cents a pound differential, it assures him pretty well of the fact that he is going to get his 200,000 tons in here.

Senator HAYDEN. That is the point exactly. The two things are tied together.

Senator HAWKES. The two things are tied together.

Senator HAYDEN. The point Mr. Clayton makes is after 200,000 tons he should be permitted to ship in the same as anybody else who is willing to pay the 2 cents.

Senator HAWKES. Mr. Secretary, I think you did say you did not know how much coconut oil was produced in the United States.

Mr. CLAYTON. Yes.

Senator HAWKES. I thought you said there was some produced domestically.

Mr. CLAYTON. Vegetable oil is domestically produced; soybean oil, cottonseed oil, things of that kind. We produce about 10,000,000,000 pounds of that kind of fats in the United States at the present time, from 10 to 12 billion pounds.

Senator HAWKES. I misunderstood you. I thought you said some coconut oil was produced in the United States.

Mr. CLAYTON. We do express coconut oil from Philippine copra.

Senator BREWSTER. Are those competitive?

Mr. CLAYTON. Yes, sir; they are competitive.

I would just like to come back to the 200,000 tons. I just respectfully disagree, Senator Hawkes, that this assures them that they can ship in here 200,000 tons. If that figure is not in there, they can ship in any amount they like. The placing of the figures in there assures the domestic producers of coconut oil in this country that they cannot ship any more than that.

Senator HAWKES. Would you be in favor of giving them 2 cents a pound preferential on the excise tax over and above the 200,000 tons? Might not that interfere seriously and complete disastrously with some of our other oils that we are producing in this country?

Mr. CLAYTON. I think, Senator Hawkes, that the excise tax should be the same for all foreign oils. I have not studied the question in sufficient detail to be able to express an opinion as to what it ought to be, but I think it ought to be the same.

Senator HAWKES. You mean on the 200,000 tons as well as anything else? In other words, you would give them an unlimited quota, and let them ship in anything they could, but you would have the excise tax exactly the same?

Mr. CLAYTON. Yes, sir.

Senator HAWKES. I wonder how it would suit them in their calculations or in their rate building?

Mr. CLAYTON. I do not know; I have not discussed it with them.

Senator HAYDEN. That is why I must insist that it is an advantage to them to have a quota of 200,000 tons without having to pay the excise tax.

Mr. CLAYTON. They pay 3 cents.

Senator HAYDEN. Yes; but they pay less than somebody else.

Mr. CLAYTON. They pay less than somebody else.

Senator HAYDEN. Thereby they get a preference, and thereby we give them a market for the 200,000 tons that otherwise they would have to compete for.

Mr. CLAYTON. They have a preference.

Senator HAYDEN. And that is helpful to them.

Mr. CLAYTON. If you are going to have a quota, then we think this 200,000 tons should be what we call a tariff quota and not an absolute quota. So, if they want to ship in more than 200,000 tons they can do it by paying the tariff as well as the 3-cent excise tax.

Senator HAYDEN. They can ship in here 200,000 tons at the reduced rate, and then if they want to ship in anything more they have to pay the same as anybody else?

Mr. CLAYTON. They would pay the full tariff on imports in excess of the quota. All imports would pay the same excise tax.

Senator BREWSTER. Is the processing tax on coconut oil 2 cents?

Mr. CLAYTON. That may be something else.

Mr. MARTIN. It is the same thing.

Senator BREWSTER. This says [reading]:

Subsection (b) of section 505 provides that whenever the President, after consultation with the President of the Philippines, finds that adequate supplies of

neither copra nor coconut oil from the Philippines are readily available for processing in the United States he shall so proclaim, and thereafter the additional tax of 2 cents pound per pound, imposed by section 2470 (a) (2) of the Internal Revenue Code on the processing of coconut oil derived from copra produced in countries other than the Philippines, shall be suspended until the expiration of thirty days after he proclaims that, after consultation with the President of the Philippines, he has found that such adequate supplies are so readily available.

Mr. CLAYTON. Yes; that is right.

Senator BREWSTER. That looks as though you thought that 200,000 tons was all that you needed here, but if you could not get that amount then you would allow other countries to ship it in.

Mr. CLAYTON. Evidently, it works this way, Senator Brewster. The excise tax, or processing tax, is 3 cents on the whole business, but where it originates from countries other than the Philippines there is in addition a 2-cent processing tax, making 5 cents altogether.

Senator BREWSTER. And it is contemplated under this that may be suspended?

Mr. CLAYTON. Under certain circumstances.

Senator BREWSTER. After supplies from the Philippines are not readily available. Does that mean the 200,000 tons that we estimate?

Mr. CLAYTON. I do not know.

Senator BREWSTER. How do you determine the adequacy?

Mr. CLAYTON. I just do not know how that would work.

Senator BREWSTER. That has no relation to the 200,000 tons, then?

Mr. CLAYTON. Presumably it would; presumably they might not have 200,000 tons to ship in. I suppose that is the conclusion you would have to draw.

Senator BREWSTER. That is what seems to be the implication?

Mr. CLAYTON. That is what seems to be the implication.

Senator HAYDEN. During the war we could not get coconut oil from the Philippines on account of the Japanese occupation. We needed it desperately, so in order to get it we took it from anywhere.

Senator WALSH. The stenographer will put in at this point the quotation from the Internal Revenue Code that is found on page 61 of the House report.

(The matter referred to is as follows:)

INTERNAL REVENUE CODE

SEC. 2470. TAX.

(a) Rate.—

* * * * *

(2) ADDITIONAL RATE ON COCONUT OIL.—There shall be imposed (in addition to the tax imposed by the preceding paragraph) a tax of 2 cents per pound, to be paid by the processor, upon the first domestic processing of coconut oil or of any combination or mixture containing a substantial quantity of coconut oil with respect to which oil there has been no previous first domestic processing, except that the tax imposed by this sentence shall not apply when it is established, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, that such coconut oil (whether or not contained in such a combination or mixture), (A) is wholly the production of the Philippine Islands or any [other] possession of the United States, or (B) was produced wholly from materials the growth or production of the Philippine Islands or any [other] possession of the United States, or (C) was brought into the United States on or before June 9, 1934, or (D) was purchased under a bona fide con-

tract entered into prior to April 26, 1934, or produced from materials purchased under a bona fide contract entered into prior to April 26, 1934. *The tax imposed by this paragraph shall not apply to any domestic processing after July 3, 1974.*

* * * * *
 Senator HAWKES. May I say, from this little memorandum here by the chairman of the committee, starting in 1928 and going through 1940, the importation to the United States of coconut from the Philippines never reached 200,000 tons, excepting in one year, and that was 1929, when it was 207,000 tons. It dropped way down in 1939. Of course, that was the beginning of the world war. It dropped in 1939 to 95,000 tons. Of course, probably prices had something to do with it. It runs 155,000 tons, 161,000 tons, 163,000 tons, and 121,000 tons, and the lowest importation in any one year was 95,208.

Mr. CLAYTON. That was abnormally low, as you say, because of the start of the war and the upset of shipping, prices, and everything else.

Senator HAWKES. The whole thing.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. At this point in the record we will insert, without objection, the report from the Department of State and the report of the Department of Commerce.

(The reports referred to are as follows:)

DEPARTMENT OF STATE,
 Washington, April 2, 1946.

HON. WALTER F. GEORGE,

Chairman, Finance Committee, United States Senate.

MY DEAR SENATOR GEORGE: I am writing to express the views of the Department of State on H. R. 5856, which is now being considered by your committee.

First of all, let me emphasize that the Department agrees with the basic principle of the bill that there should be an 8-year period of duty-free trade between this country and the Philippines to be followed by 20 years of gradually declining preferences. The Department also recognizes the need for early enactment of such legislation so that the Philippines may proceed with their economic reconstruction. I feel strongly that the United States has special obligations to the Philippines because of the terrible destruction that they suffered in fighting with us so loyally against our common enemies.

I am greatly disturbed, however, by some of the provisions of the bill now under consideration. Certain provisions are clearly inconsistent with the basic commercial policy of this country and are in direct conflict with the proposals for expansion of world trade and employment, which have been developed by the Departments of State, Commerce, Agriculture, and the Treasury, the Tariff Commission, and other agencies and were published to the world last December. Other provisions cannot be reconciled with our promise to grant genuine independence to the Philippines on July 4 of this year.

In order that we may place consideration of H. R. 5856 in its proper perspective, I should like to emphasize the importance of the proposals for expansion of world trade and employment to the United States and to the Philippines. The main purpose of the proposals is to clear world-trade channels of the numerous restrictions and discriminatory trade practices which were so detrimental to world trade during the period between the two wars. In preparation for a world-trade conference, to be sponsored by the Economic and Social Council of the United Nations, we have invited 15 nations to consider the proposals at a preliminary conference. We have won British support for the proposals on all important points.

It is my conviction that these proposals offer our last opportunity for a long time to come to create the kind of economic world in which nations can live peaceably and prosperously side by side. If the proposals are to mean anything, however, the vigorous leadership of the United States is all-important, since principles advocated by those who ignore them in practice quickly lose their force.

The enactment of certain provisions of H. R. 5856 would seriously limit what this Government could do in the direction of obtaining commitments from other

governments to accept central elements of the proposals. I refer specifically to the numerous absolute quotas set forth in the bill and to the provision which would maintain an internal tax preference for Philippine coconut oil.

Absolute quotas are without doubt one of the most vicious of trade restrictions. Their use by other governments has been highly detrimental to American exports. In the proposals we are asking all other nations to abandon them. With one exception (cordage) there were no absolute quotas on imports from the Philippines before the war, and there is no reason to believe that there will be need for them in the future.

I recommend that the absolute quotas provided in the bill (secs. 211, 212, 213, 214) and the provision authorizing the imposition of additional quotas on other Philippine products (secs. 403 (c) and 504) be eliminated.

The Department does not object to the granting of diminishing duty-free tariff quotas, as a means of eliminating preferences on coconut oil, buttons, cigars, and tobacco. Imports within such tariff quotas would be duty-free and imports in excess of the quotas would be permitted upon payment of full duty. The Department urges, however, that the provisions for absolute quotas on these products be eliminated. Since in practice the application of full duties would prevent substantial imports of these products in excess of the duty-free quotas, the elimination of the absolute quotas would not have any significant effect on the volume of United States imports. The principle, however, is very important. The retention of these absolute quotas would materially hamper our efforts to free American trade from highly damaging quantitative restrictions in other countries.

An absolute quota on sugar can be justified under the proposals, because of the parallel quantitative restriction on domestic production. Since the Philippines is only one source of supply for the United States market, the Department believes that the amount of any absolute quota should be determined in connection with general sugar legislation (covering quota allocations for all areas producing for the American market) or an international agreement rather than in this bill.

Discrimination against imported articles in the application of internal taxes is also a major barrier to world trade in general and to American exports in particular. We are protesting against such action by other countries. The proposals set forth national and most-favored-nation treatment in the application of internal taxes and would prohibit commitments to maintain internal-tax preferences. The Department recommends that the provision for a guaranteed 2-cent internal-tax preference on Philippine coconut oil (sec. 403 (d)) be eliminated and replaced by a provision which would allow all coconut oil, regardless of its source, to compete on the same tax basis as other foreign oils subject to internal taxes, namely, palm and palm-kernel oil.

The United States has promised that on July 4 of this year, the Philippines will become an independent nation. Inspired by that pledge, the Filipinos loyally fought with the United Nations during the war. I am sure that all Americans are determined that we should fulfill this solemn commitment. Hence, I am surprised to find that there are provisions in H. R. 5856 which are clearly inconsistent with Philippine independence.

Section 341 of the bill would require the Philippines to amend their constitution (which was approved by the President of the United States in accordance with the provisions of the Philippine Independence Act) so as to grant Americans in every respect the same rights as Filipinos in the exploitation of Philippine resources. This bill provides, in effect, that if the Philippines do not grant such right to Americans, the islands shall not have the benefit of the tariff treatment outlined in the bill. The intent of other provisions (sec. 404 (c), sec. 501 (a) and (c)) is to secure for Americans in the Philippines the same rights as Filipinos in all other fields of activity; if such rights are not granted within a reasonable period of time, the President of the United States must terminate the proposed trade program.

These provisions are not reciprocal. The United States under its laws does not give such extensive rights to Filipinos, and it would not be required to do so under the provisions of this bill. These provisions are not necessary for the protection of existing property rights, which will be fully taken care of under the Tydings-McDuffie Act (sec. 2 (b) (1) and (5)). I believe that any further rights for Americans in the Philippines, including future rights to acquire, own, and dispose of property, should be provided on a mutual basis in a treaty of friendship, commerce, and navigation.

The provisions of the bill concerning the allocation of the absolute and diminishing duty-free quotas would give prewar producers a virtual monopoly,

for more than a generation, of most of the important Philippine exports. In general new American enterprises would not be able to invest capital in these important export industries, and new Philippine producers would not be allowed to compete freely in their own country.

These provisions should be eliminated from the bill. I am of the opinion, and I am sure that this view would be shared by a majority of the American people, that the United States should not take advantage of the need of the Philippines for special tariff treatment, which has been accentuated by the economic devastation resulting from our common war effort, to obtain special privileges which would impair the independence which we have promised to the Philippines.

The bill also prohibits for 28 years the negotiation of a reciprocal trade agreement with the Philippines. I can see no valid reason why the Philippines should be the only independent country which could not enter into a trade agreement with this country. Obviously such an agreement would be entered into only if it should be to the mutual advantage of both countries to do so and would be negotiated in accordance with principles laid down by Congress.

Over a long period of years, the United States has achieved a record and reputation in its relations with the Philippines of which we can, with all justification, be proud. I am sure that we do not want to damage this enviable record on the eve of Philippine independence.

It should be possible, without great difficulty and without affecting the basic provisions of the bill for 8 years of duty-free trade and 20 years of declining preferences, to make changes in the bill which would avoid the problems mentioned with respect to the proposals and would enable us to fulfill our obligations to the Philippines.

Because of the urgency of the matter there has not been an opportunity for this letter to be cleared with the Bureau of the Budget.

Sincerely yours,

DEAN ACHESON, *Acting Secretary.*

DEPARTMENT OF COMMERCE,
Washington 25, April 2, 1946.

HON. WALTER F. GEORGE,
*Chairman, Committee on Finance,
United States Senate, Washington, D. C.*

DEAR SENATOR GEORGE: In view of the fact that H. R. 5856, a bill to provide for trade relations between the United States and the Philippines, and for other purposes, is now under urgent consideration by your committee, and in view of this Department's responsibility for the fostering of our trade and its interest in the expansion of world trade generally, the Secretary has asked me to communicate to you this Department's view on the proposals embodied in the bill. These views are identical with those expressed by the Secretary in his letter of March 14, 1946, to the chairman of the House Committee on Ways and Means when H. R. 5185, a previous version of this bill, was under consideration by that committee.

The people and Government of the United States have consistently recognized an obligation to take measures to assure that the transition of the Philippine economy from one appropriate to the previous status of the Philippine Islands as a dependency of the United States to an economy of an independent nation should be as smooth as possible. The legislative plan for fulfilling this obligation as embodied in the Philippine Independence Act was, of course, interrupted by the war, while at the same time the entire economy of the islands was violently dislocated as a result of the heroic resistance of the Philippine people to the common enemy. With the coming of peace, all have recognized the necessity for further measures of assistance to the Philippine people, whose problems of approaching independence have been so enormously intensified by the ravages and destruction of war.

In general, the bill provides for a period of free trade between this country and the Philippine islands ending July 3, 1954, followed by a 20-year period of declining tariff preferences. Under existing circumstances, I am of the view that this method of assisting the Philippine people in the solution of the difficult economic problems which lie ahead of them is the most immediately practicable one. Accordingly, this Department desires to endorse the general principles underlying this bill.

While we are in accord with the approach adopted by the bill, many of its provisions appear inconsistent with our world trade objectives. Accordingly, I am constrained to comment briefly on those provisions.

1. Sections 212, 213, and 214 (a) of the bill provide for absolute import quotas of cordage, rice, cigars, scrap tobacco, stemmed and unstemmed tobacco, coconut oil, and buttons of pearl or shell. Sections 403 (c) and 504 provide that the Congress may establish absolute quotas on any articles coming into the United States from the Philippine Islands upon the happening of certain conditions. It is the view of the Department that all these provisions should be appropriately amended so as to place no absolute limits on imports of these commodities, since the imposition of absolute quotas has in general been found to be destructive of world trade and to contribute to the type of economic warfare that characterized the period immediately preceding the war. In this connection the committee is, of course, aware of the fact that this Government has published proposals for the expansion of world trade and employment for the consideration of the people and governments of the world, on the basis of which it is hoped to negotiate the type of arrangements which the Congress provided for in section 14 of the Bretton Woods Agreements Act. One of the key provisions of these proposals involves the elimination of most types of absolute import quotas. To take action inconsistent with the proposals in this respect would, of course, make it very difficult for this Government to negotiate for the elimination of quotas elsewhere in the world many of which are very harmful to our own trade interests. While the type of quota involved in the case of sugar under section 211 of the bill would be justifiable under the proposals since it is part of a scheme of regulation under which domestic production and marketing is similarly restricted, it would appear desirable, in order to emphasize the connection between the import quota and our domestic sugar policy, that the quota provisions of this bill be eliminated and be reconsidered in connection with any extension of the Sugar Act.

2. Sections 211 (d) and (e), 212 (d), and 214 (c) provide for the internal distribution of quotas in the Philippine Islands, while section 216 provides for the method of transferring any allotment resulting from such internal distribution. This would appear, even if it is later to be followed by Philippine legislation (sec. 215) and an executive agreement, to be inconsistent with the sovereignty and independence of the Philippine Islands. It is true that many of the beneficiaries of these provisions would be American nationals, in whom this Government has a legitimate interest which it could appropriately attempt to protect by treaty or in the course of our ordinary diplomatic intercourse with the Philippines. However, there will also be involved the nationals of the Philippines and of third countries for whose protection this Government would not ordinarily be responsible. Moreover, the establishment of dates which, in some cases, are prior to Pearl Harbor for the purpose of determining the identity and quantitative interest of the allottees will inevitably result in legislating benefits to business interests which collaborated with the occupying forces. Furthermore, any attempt to distribute quotas on a historical basis over a period of as much as 28 years must inevitably stifle free competition and lead to monopoly. For all these reasons, this Department recommends the elimination of these provisions.

3. Section 341 of the bill provides for national treatment with respect to certain economic activities of citizens and corporations of the United States. Of course, this Government has a legitimate interest in the treatment of its nationals and corporations abroad. However, the practice of this Government has been consistently to seek only those privileges for its nationals and corporations as it is prepared to accord the nationals and corporations of the other country involved. This provision is not reciprocal in this sense, and it is doubtful whether it could be made reciprocal in legislation of this type since, under the Constitution, it would appear that the treatment of Philippine nationals and corporations in many respects, except as it may be regulated by treaty, is the concern of the several States. Accordingly, it is recommended that this provision be eliminated and that the matter be left to negotiation between this Government and the Philippine Government in a treaty of friendship, commerce, and navigation.

4. Section 342 provides that the Philippine Government shall not change the exchange value between its currency and the United States dollar, or impose any restrictions on the transfer of funds from the islands without agreement with the President of the United States. The question of the technical workability of a provision such as this, which is, of course, more inflexible than the requirements to which signatories to the Bretton Woods agreements are obligated in

matters of this kind, is for the Department of the Treasury, which I understand has accepted this provision from a technical point of view. However, in view of the fact that the Philippine Government will be free and sovereign after July 3, 1946, may I urge on the committee that it amend this provision so as to permit the Philippine Government to take action with respect to its own currency, with the sole requirement that it have prior consultation with the President of the United States.

5. Section 505 continues until 1974, with certain exceptions, the preference accorded to the Philippines with respect to the processing tax on coconut oil, and section 403 (d) binds the United States not to reduce this preference during the life of the proposed agreement. This commitment to maintain a preference at existing rates is inconsistent with the general plan of the bill which provides for declining rates of preference. As the committee is aware, United States trade interests feel that it is very important that arrangements be made with the British with respect to modification in the British imperial preference system, and the proposals referred to look in that direction. Action by this Government which would provide for a binding commitment not to alter in any manner an existing preference until 1974 may well jeopardize our attempts to secure consideration for United States trade in our discussions with the British and others who maintain preferential tariff or internal-tax systems.

6. Section 508 of the bill provides that no reciprocal trade agreement may be entered into with the Philippines during the life of the proposed act. There would appear no reason for discriminating against the Philippines in this respect. While the system of preferences established by the act may make it unnecessary to enter into a reciprocal trade agreement, it can be readily conceived that circumstances may arise under which it would be advantageous to both governments to enter into such an agreement. In that event, it would be unfortunate were there in existence this legislation and an executive agreement based on it which precluded the negotiation of such a reciprocal trade agreement.

This report has not been cleared with the Bureau of the Budget, as yet, but is sent to you at this time because of the urgency of the matter.

Sincerely yours,

ARTHUR PAUL, *Assistant to the Secretary.*

Senator WALSH. Senator Hawes.

STATEMENT OF HARRY B. HAWES, UNITED STATES REPRESENTATIVE OF THE PHILIPPINE SUGAR ASSOCIATION

Senator WALSH. Will you identify yourself for the record?

Mr. HAWES. Harry B. Hawes.

Senator WALSH. Whom do you represent?

Mr. HAWES. Mr. Chairman, I appear before you today as the United States representative of the Philippine Sugar Association. I am the legal adviser of the Philippine Commonwealth and also counsel for the Cordage Institute of America, all of which occupations will cease in a very short while.

I am asking the permission of your committee to discuss just one thing, and that is the change of one word and the cost it will bring to the Philippine people. Substituting the word "short" for "long" would cause an annual loss in the Philippine trade of 102,000 short tons of sugar, with a prewar value of \$6,000,000. In the 28-year period it would bring an estimated loss of 2,856,000 tons, valued at \$168,000,000.

A defined, definite American trade policy with the Philippines is vitally essential for its recovery and rehabilitation. Its entire economic life may be destroyed by error at this time.

The House Ways and Means Committee, in its worthy and commendable effort of securing unanimous agreement, substituted the word short for long in sugar tonnage.

In the year 1933, a conference of all sugar producers under the American flag allotted to the Philippines 1,110,000 tons annually, an excess of 250,000 tons over the 850,000.

The first Independence Act, after exhaustive hearings, contained 850,000 long tons. The bill was vetoed by President Hoover and was then passed by two-thirds majority of both the House and the Senate, carrying 850,000 long tons.

The second Independence Act passed in March 1934, carried 850,000 long tons.

In 1938, a joint preparatory commission was appointed by the President to consider and report to the Congress on the matter of future trade relations after independence. This Commission held extended hearings in Washington, San Francisco, and Manila, and unanimously reported in favor of 850,000 long tons to be extended in trade relations until the year 1960.

Philippine trade relations had thorough, extended hearings before the Insular Affairs Committee of the House and Territories and Insular Affairs Committee of the Senate and before the Filipino Rehabilitation Commission, and no evidence was introduced asking for a change from long tons to short tons.

Unfortunately, none of this evidence was submitted to the Ways and Means Committee of the House in considering H. R. 5856.

Reviewing the printed copy of the hearings embodying 333 pages, I find that only one witness, Earl B. Wilson, either suggested or recommended a change in this figure which had met the approval of Congress and trade authorities for years.

The change is opposed by every living ex-Governor-General of the Philippines since the passage of the Independence Act, Governor Murphy, now Justice, Governors McNutt and Sayre.

The Philippine Sugar Association, in existence for many years, was not heard as no change from long to short tons was anticipated.

The Philippine Commissioner, Gen. Carlos P. Romulo, was attending the UNRRA Conference at Atlantic City. Upon being advised of this contemplated change, he wired the committee, but the message was apparently received too late for consideration. Attached herewith is a copy of this able, comprehensive telegram and I hope it will be made part of the records of this committee.

It is quite apparent that the benefits of this change will go almost exclusively to Cuba.

During the war not a sword was drawn nor a gun fired in Cuba.

In the Philippines during this period, there was murder, torture, rape, complete destruction of its beautiful capital—Manila—and other cities, farms, factories, roads and bridges.

No territory under the American flag and American sovereignty suffered such loss or damage.

The estimated population of the Philippines today is 18,000,000. Manila has a population of over 1,000,000. Cuba's population is 4,500,000.

The Philippines were, prior to the war, our sixth best customer in the world. Cuba ranked ninth.

Of Philippine exports, 35 percent is sugar. This industry has been developed, enlarged, and nurtured during our 48 years of occupancy.

There had been no intimation, no suggestion, no expressed thought,

of depriving the Philippines of part of the quota of their principal export.

We are approaching the final chapter of an experiment chronicled throughout the world. There is not a spot in China, India, Africa, or any European nation that is not familiar with our efforts to introduce democracy, self-government, and prosperity to the Philippine people.

Now, at the vest conclusion of this period of preparation for liberty, after the generous assurances of our Governors-Generals, after the great idealism of the school teachers that we sent there to teach American traditions, are we to say to these Filipinos: Good-by, God bless you. We are sorry but we are compelled to take from you 102,000 short tons annually of your largest industry and present it to Cuba.

The knowledge of this act will go to every man, woman, and child in the Philippine Islands. It will reach all classes of its people.

It will change their mind about the generosity of well-wishing America. It will be discussed everywhere, and everywhere it will be condemned.

What a painful thought that in the last hour, the last minute, we despoiled the Filipino to give to Cuba.

When Cuba was suffering under the brutalities of General Weyler, we went to war for the sole purpose of stopping this brutality, of protecting the Cuban, of saving life and property, and at the conclusion of the war, Cuba was given its complete independence.

That it exercises individual sovereignty today, that it escaped the ravages of war, that it smiles, has its fiestas, and its business growth, was due to the United States.

Must we take this life blood of trade from the Filipinos at this eleventh hour and give it to Cuba who does not need it?

We all desire Cuba to be rich, to prosper, to expand, to be happy and do not want to take anything from her, but we should not reach clear across the world and take from the bleeding Philippines \$168,000,000 to hang on a Cuban Christmas tree.

What will the rest of the world think when we say goodbye and instead of a pat on the back, a handshake and a bright smile, we administer a kick.

The people of the United States will not approve, the Filipinos will be shocked and the rest of the world will wonder at our strange psychology.

Every newspaper review has condemned the proposed change. Not in a single publication has there been approval.

The world will not understand because this proposed act of despoliation is beyond comprehension.

Senator WALSH. Thank you.

Mr. HAWES. There is just one word that I want to discuss, Mr. Chairman. We have, fortunately, Mr. Paul V. McNutt, an experienced Governor of his State, the Governor of the Philippines and student of this subject. He has all the power of the American Government with some additional power. Then, we have Mr. Romulo, who represents the Philippines.

There may be other details of this bill that might require a change, but I am here to protest, as vigorously as I can, the change of "long tons" to "short tons."

Senator WALSH. Very well.

Senator BREWSTER. How far is the sugar industry which you represent owned by Americans as distinguished from Filipinos or other nationals?

Mr. HAWES. I could not answer that, Senator, in dollars and cents.

Senator BREWSTER. I mean approximately.

Mr. HAWES. I would say that a large proportion of the sugar industry in the Philippines is owned by Americans. They are businessmen doing business in the Philippines, living there.

Senator BREWSTER. Yes; I understand. So that is the basis of a very important part of the Philippine economy?

Mr. HAWES. It would be murderous to cut that out.

Senator, on the 23d of this month the Philippines will select their next President. They are engaged in a campaign now. Whoever they pick at that time will become the President of the new republic, and, of course, every line relating to what you are going to do to them now is going over there and stirring up things, making people unhappy and uncertain.

If there is any one witness that has ever appeared before the House committee or this committee that has suggested the change of short tons for long tons, with the single exception of Mr. Wilson, it has not been brought to my attention.

Senator BREWSTER. Whom did Mr. Wilson represent?

Mr. HAWES. He represents a branch in the Department of Agriculture. He has been with the Department 3½ years.

Senator BREWSTER. Was it his idea that this would help the domestic sugar industry?

Mr. HAWES. I do not think that that was his idea; no, sir. He was in that hearing, and I would rather he spoke for himself. But the thought that I acquired from him was that this quota ought to be left out for a subsequent sugar act.

Senator BREWSTER. That was the position of Mr. Clayton this morning.

Mr. HAWES. Well, with the qualification, as I understood Mr. Clayton, that there ought not to be a cut in the sugar quota, that we ought to keep faith with the Philippines. I might have been wrong.

Senator BREWSTER. I do not remember as to that.

Senator WALSH. Senator Brewster, in reply to your inquiry, the House report has the following:

In 1939 there were 46 sugar centrals (mills) with an annual capacity of about 1,500,000 short tons based upon a normal grinding period annually of 150 days. In the early 1930's the Philippines supplied something less than 5 percent of the world production of sugar. Because of its commanding position in Philippine export trade, sugar is of great significance to Philippine economy. Investments in the industry in 1935 were estimated at \$265,000,000, of which \$84,000,000 were invested in centrals (mills). Of the total capital invested in centrals, approximately 45 percent was owned by Filipinos, 30 percent by Americans and 25 percent by Spaniards. Most of the investment in cane lands and in improvements thereto have been made by Filipinos.

Senator HAWKES. Just a question of Senator Hawes. If only one witness appeared in the hearings who advocated this change from long to short tons, how do you figure the change was made so easily? It ordinarily takes more than one witness.

Mr. HAWES. Can I answer that off the record?

Senator HAWKES. Yes; I would like it for my own information.

(Discussion off the record.)

Senator HAWKES. You do not believe this was done for the benefit of American producers?

Mr. HAWES. I would not advocate curtailing in any way the production of cane sugar in any of the 2 States nor in the 17 beet States, but we know the 2 cane States and 17 beet States cannot supply the American market.

Senator HAWKES. I certainly agree with you that they cannot supply it. I do not know whether this thing might, in some manner, injure them. There must be a reason why the House did this.

Senator WALSH. It was a compromise, wasn't it?

Mr. HAWES. It was a compromise. I will bet any man here 500 to 100 if you put that long tons, it will be adopted by the House.

Senator BREWSTER. You put the benefit entirely in the Cuban industry?

Mr. HAWES. Yes.

Senator BREWSTER. Do you have a basis for that statement?

Mr. HAWES. Well, the basis for that statement is this, that there is no limit on the production of Hawaii, there is no limit on the production of Puerto Rico or the Virgin Islands. They belong to us. They are certainly not in the United States, and we know that their combined efforts cannot produce the necessary sugar for domestic consumption. We know that. They cannot do it. They haven't got the acreage or the climate.

Senator BREWSTER. That is all I have.

Senator WALSH. All right, Senator, thank you.

At this point in the record, without objection, I would like to place the letter and memorandum from the Cordage Institute of New York and the National Renderers Association.

(The matter referred to is as follows:)

CORDAGE INSTITUTE,
New York 17, April 2, 1946.

HON. DAVID I. WALSH,
Acting Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

MY DEAR SENATOR WALSH: Will you please have the enclosed memorandum inserted in the record of hearings on H. R. 5856, the Philippine trade bill, now before your committee, on behalf of the entire hard fiber cordage and twine industry in the United States.

If there is any further information the industry can supply your committee, please contact me at the address below.

Yours very truly,

J. S. MCDANIEL, *Secretary.*

MEMORANDUM RELATIVE TO CORDAGE—H. R. 5856—PHILIPPINE TRADE BILL—
DOMESTIC INDUSTRY SUPPORTS H. R. 5856

The hard fiber cordage and twine industry in the United States requests your support of H. R. 5856, the Philippine trade bill. Specifically, it requests that section 212, entitled "Absolute quota on cordage," be approved by the Senate without amendment from the wording in the bill as it passed the House of Representatives.

The reasons for the industry's support of this legislation are (1) it affords some protection against the competition of Philippine-made cordage, and (2) this legislation—together with S. 1610, the Philippine rehabilitation bill—will help to rehabilitate the Philippines and will enhance the production of Manila fiber (Abaca), the raw material grown in the Philippines and essential to the production of rope in the United States.

CORDAGE INDUSTRY ESSENTIAL TO NATIONAL SECURITY

The hard fiber cordage and twine industry in the United States—essential in peacetimes to agriculture and industry—is considered particularly vital in times of war. During the recent war, 80 percent of its products was sold directly to the armed forces and the balance to the industries supplying those forces and for essential agricultural food production. Its raw materials are one of the few items stock-piled by the United States Government. One hundred percent control is still exercised by the United States Government over raw material procurement, production of the finished products, et cetera.

MANILA FIBER (ABACA) ESSENTIAL TO NATIONAL SECURITY

The early rehabilitation of the Philippine Abaca industry is likewise essential to the national security of the United States. This essential raw material was stock piled by the Government and the manufacturers prior to World War II. These stock piles are entirely depleted today. The Philippines are producing today only approximately 25 percent of prewar production. Early rehabilitation of the Philippines is essential to increase this production.

PHILIPPINE CORDAGE LIMITED SINCE MARCH 1934

Cordage was one of the three commodities subjected to quota restrictions in the Tydings-McDuffie Act, Public 127, Seventy-third Congress, effective March 1934. In that act a tariff quota of 3,000,000 pounds per year was established.

In June 1935, Congress, at the request of the domestic industry and with the approval of the Philippines, established an absolute quota of 6,000,000 pounds (Public Law 137, 74th Cong.), irrespective of whether cordage was a Philippine article or not; that is, whether it was made of Philippine raw materials or materials imported into the Philippines.

The domestic industry has enjoyed the same absolute quota since that time, 1935, and that is the law today. The present bill continues the same absolute quota.

It is essential that this absolute quota be retained because the existing tariff—even before reductions under reciprocal-trade agreements—is wholly inadequate to protect the domestic industry.

The justification for such application of absolute quotas to hard fiber cordage and twine is borne out by memorandum of the United States Tariff Commission, dated November 20, 1945, entitled "Memorandum on Proposal to Substitute Tariff Quotas for Absolute Quotas in H. R. 4676, Seventy-ninth Congress." Therein the Tariff Commission says:

"It is reasonable to suppose therefore that the United States imports from the Philippines would be considerably larger under a tariff quota than under an absolute quota."

DEFINITION

It is essential that the definition of "cordage," contained in section 212 (a), page 13, be retained unchanged. This is the same definition which has existed since 1934, although the wording was changed in Public Law 300, Seventy-sixth Congress, for purposes of definiteness.

The definition includes "binder twine," a product never produced by the Philippines. This inclusion was agreed to by the Philippines at the time of the establishment of same in 1934.

Any reduction in binder twine production in the United States increases the price of binder twine to American farmers.

DOMESTIC INDUSTRY UNIONIZED

Practically the entire domestic industry's labor affiliated with CIO or A. F. of L. unions.

EXTENT OF DOMESTIC INTERESTS

Manufacturers of cordage and binder twine are located in 13 States and, in addition, cordage and binder twine are made in the State prisons of eight States. The United States Navy operates its own rope factory at the Boston Navy Yard.

Branches and distributors are located in each of the 48 States and the District

of Columbia, and Philippine competition materially affects these distributors—the wholesale hardware, mill supply houses, et cetera.

WAYS AND MEANS COMMITTEE REPORT

Part of Report No. 1821, pages 21, 22, and 23, gives detailed data relative to abaca fiber and cordage.

Submitted on behalf of the entire hard fiber cordage and twine industry of the United States.

Respectfully,

J. S. McDANIEL,
Secretary, Cordage Institute.

NATIONAL RENDERERS ASSOCIATION,
Washington 4, D. C., April 3, 1946.

HON. WALTER F. GEORGE,
*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.*

DEAR SENATOR GEORGE: We understand that your committee has held one brief session for consideration of H. R. 5856, the so-called Philippine trade bill, which passed the House last Friday afternoon and that the committee does not presently contemplate holding further public hearings thereon. However, it was indicated that we might file with you a formal statement of our views for publication in the proceedings of the hearing and for consideration by the committee. We hope that this action will not prejudice our privilege to be heard if additional public hearings are subsequently decided upon.

The National Renderers Association is a nonprofit voluntary organization composed of approximately 215 independently operating establishments. These plants are located in a majority of the States of the Union and are found in every geographical area of the country. The industry of which these producers are a part is known as the rendering industry whose primary products are tallow and grease which are largely used as basic raw materials in the soap, lubricating grease, and medicinal compound fields. Secondary products of the industry are tankages and meat meals which are important ingredients of most poultry and livestock protein feeds. In addition, the hides accumulated as a byproduct of the industry are an important source of leather raw materials. Many specialized products are also produced to specification for a wide variety of industrial users.

The provisions of the Philippine trade bill as passed by the House are generally satisfactory to the members of this industry. We are especially glad to note that the House has agreed to retain the presently existing 3 cents per pound tax on the first domestic processing in the United States of Philippine coconut oil. This tax is a part of the so-called fats and oils tax laws which were secured after much insistence by the farm and domestic fats and oils groups in 1934, 1936, and 1938. This association took a very active part in the latter project and we feel that considerable benefit has accrued to the members of our organization from the passage of this legislation; it appears that other domestic fats and oils groups and the farm organizations have a similar feeling. We recall that you were an active supporter of the original fats and oils legislation and therefore hope that you will exert every effort to see that its significance to domestic producers is not lessened by the repeal or modification of the Philippine coconut oil processing tax.

However, we desire to suggest several minor changes in the provisions of the bill as passed by the House. It will be noted that the sugar quota is expressed in short tons whereas the coconut-oil quota is stated in long tons; in the interests of consistency, we would like to recommend that both limitations be expressed in short tons.

Certain sections of the bill (sec. 403 (c), sec. 504 (a), (b), (d)) provide the manner in which the Tariff Commission can investigate, and the President and the United States can impose quotas, with respect to any Philippine article for which a quota is not established in the bill, provided the article comes into "substantial competition with like articles the production of the United States." Since there is no quota on copra (the raw material from which coconut oil is extracted) proposed under the pending bill and since it is not likely that copra will ever be grown or produced in the United States, the use of the specific word "like" leaves considerable doubt that a Philippine copra quota could be con-

sidered in the future, if that becomes necessary and desirable for the protection of domestic fats and oils producers. It is suggested, therefore, that the term "like" be defined as follows: "Like articles include raw materials or semi-manufactured products which, when processed, produce commodities which are like or similar to, or interchangeable with, or used as a substitute for products of the United States"; or, that the phraseology of the bill as passed by the House be redrafted to accomplish the latter. In other words, we are not asking that a quota on Philippine copra be placed in the bill at this particular time but we do feel, nevertheless, that consideration of a copra quota at some future date should not be bargained away for a period of 28 years by the use of a limiting word.

Please be assured that our members, in harmony with the feelings of members of Congress and of public opinion generally, fully understand the sacrifices made by the Filipinos during the war years and most definitely agree that these people should be restored to health and happiness as soon as possible and to whatever extent this country is able to assist, consistent with actions which are not likely to operate disastrously to segments of the American farm and industry.

Very truly yours,

F. B. WISE,
Secretary-Treasurer.

Senator WALSH. Mr. Bourg, are you in the room?

Mr. BOURG. Yes, sir.

Senator WALSH. You represent, as I understand it, the Eastern Beet Producers, and you are the vice president of the American Sugar Cane League; is that right?

Mr. BOURG. Yes.

Senator WALSH. How long would you like to talk?

Mr. BOURG. It will take about a half hour, Senator.

Senator WALSH. Can you submit it in writing to the committee?

Mr. BOURG. No, sir; I have not committed it to writing.

Senator WALSH. Come in tomorrow then.

We will recess until 10:30 tomorrow morning.

(Whereupon, at 12:30 p. m., a recess was taken until 10:30 a. m., of the following day, Thursday, April 4, 1946.)

PHILIPPINE TRADE ACT OF 1946

THURSDAY, APRIL 4, 1946

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to recess, at 10:30 a. m., in room 312, Senate Office Building, Senator David I. Walsh presiding.

Present: Senators Walsh (presiding), Connally, Guffey, Johnson, Lucas, La Follette, Vandenberg, Butler, Brewster, Hawkes, and Saltonstall.

Also present: Senator Hayden.

Senator WALSH. The committee will come to order.

Mr. McNutt.

STATEMENT OF HON. PAUL V. McNUTT, UNITED STATES HIGH COMMISSIONER TO THE PHILIPPINES—Resumed

Senator WALSH. You have been listening to the evidence and I suppose have some comments to make. We will be glad to have you do so.

Commissioner McNUTT. Mr. Chairman and gentlemen, I appreciate this opportunity to appear before the committee once more. I shall be brief. I might say I prefer to answer questions than to make a general statement.

I think we realize that the Filipino people have lived through the storm and stress of immense and incalculable events, and they are now witnessing our effort to defend the very foundation of civilized living against a break-down into the anarchy of separated quarreling groups.

It is difficult to overestimate the strain to which they have been subjected, and we need not be astonished that they have become confused. They have passed through an ordeal which has left them shocked, weary, physically and nervously spent.

They have been frightened by blow after blow for which they were unprepared, bewildered by events which they could not understand, disappointed as one fair hope and one fair promise after another have been dashed to pieces.

They are desperately ill. They are not ordinary patients. They are our wards, for whom we have great responsibility and deep affection.

Yet we stand around and argue whether to hitch up the surrey and take them to a private hospital in town or wait for a new chrome-plated ambulance, which has not been delivered, to take them to a

public hospital which has not been completed and may never be equipped.

If we wait, the ambulance will be used as a hearse. I have never thought that the dead cared much how they rode. If I may change the metaphor—some people would refuse to throw out the ordinary life preserver in this economic tidal wave and would wait until we have Mae Wests ready for global distribution.

In July of last year the President asked me to go to the Philippines. Manila had been retaken, but the fighting was still going on. When I returned I was asked if I would make some recommendation to meet the obviously difficult problem which existed there—a devastated land and an economy completely destroyed, a date set for political independence July 4 of this year.

The recommendation came in two forms. One in the form of S. 1610, which has passed this body and is now before the Insular Affairs Committee of the House and will be reported out this week. The other in the form of a trade relations bill.

My own feeling was that the prescription should be simple, and my own recommendation was that 20 years of reciprocal free trade, with the same quotas that had been established the year the Japanese invaded the Philippine Islands, in order to let these people get back on their feet, and not to disturb what had been the result of almost 50 years of the legislative process in the Congress of the United States.

There had been sweat and tears spent upon much of this legislation up until that time. No blood, fortunately. I did not wish to open any Pandora's boxes. I thought we would accept the situation as it was, as it had been determined by the Congress of the United States, and try to enable these people to get back on their feet.

A bill embodying such recommendations was presented by the author of this bill in the House of Representatives. Objections were raised to the 20 years of reciprocal free trade. Those were the only objections that were made, and on the Tuesday before I left for the islands in November, a meeting was set in the office of the President of the United States, presided over by the President of the United States, attended by the Secretary of State, the Assistant Secretary of State, Mr. Clayton, by Senator Tydings and by Mr. Bell, the author of this bill, by the Under Secretary of the Interior, and myself, in order to determine the policy which would be followed by the administration.

The author of this bill and I were the last to give up on the 20-year provision, but we finally did agree to a compromise.

The compromise is not that which appears in this bill, the compromise was for 8 years of reciprocal free trade and for 25 years of increasing tariffs, or decreasing duty-free quotas, as the case may be.

The 25 years has been changed to 20 years of increasing tariffs or decreasing duty-free quotas, as the case may be.

As you know, the bill has had long and careful consideration by the Ways and Means Committee of the House of Representatives. All of the matters which were presented by Mr. Clayton yesterday were presented to that committee—not once, but several times.

They were considered by that committee.

Now, I have the highest esteem and regard for one whom I am proud to count my friend, Mr. Clayton. We do happen to disagree on the matter of whether there should be absolute quotas or tariff quotas.

I do not wish to take the time of the committee today, but I should like to point out just what the author of the bill had to say on that subject, after the same argument had been presented to the Ways and Means Committee and to the author of the bill, and if you will permit me, I will bring that to your attention.

In attempting to arrive at a trade arrangement which would be in the best interests of both the United States and the Philippine Islands, it is thought that absolute quotas with respect to the commodities specified in the bill would be preferable to tariff quotas. However, at the end of the period during which products from the Philippine Islands may come into the United States duty free, certain of the commodities specified in the bill, namely, cigars, scrap and filler tobacco, coconut oil, and pearl buttons, will be subject to a diminishing duty-free quota, at the same time maintaining an absolute quota for such commodities.

The difference between the absolute quotas, as provided in the bill, and the tariff quotas suggested by the State Department, is that with respect to each of the specified commodities, the bill fixes a maximum quantity which may come into the United States within any calendar year, while a tariff quota contemplates the importation of the full quota provided for in the act, free of duty, or under the progressive tariff arrangements as the case may be, and any quantity imported in excess of such quotas would be subject to the full tariff duty.

It is felt that the tariff-quota theory ignores the peculiar and special circumstances surrounding the trade relations between the United States and the Philippine Islands which have come about as a result of 45 years under the same fiat, and the establishment of a new and independent nation by the voluntary will of the sovereign—a situation unparalleled in modern history.

The Tariff Commission in its memorandum of November 20, 1945, correctly points out that the substitution of tariff quotas for absolute quotas would probably result in material increases in United States imports from the Philippines of sugar and of cordage. On the other hand, the Commission points out that it is improbable that there would be any imports in excess of the quotas of coconut oil, cigars, scrap and filler tobacco, and pearl or shell buttons, if such imports in excess of the quotas were subject to full United States duties, whether at present rates or at only 50 percent of those rates.

In other words, what the Tariff Commission suggests is that with respect to sugar and cordage, unless absolute quotas are provided for, it would be possible to double the quantities of these commodities coming into the United States in any calendar year by the payment of an average tariff rate on the whole quantity, amounting to only one-half of the regular rate of duty. For example, the 850,000 long tons of sugar which may come in duty-free, might become 1,700,000 tons, one-half of which would be duty-free, and one-half subject to the full duty during the first 8 years. This would result in the collection of an average duty on the whole amount of only 50 percent of the regular duty.

The same result would obtain with respect to cordage, except that the cordage manufacturers in the Philippines are in a position immediately to treble the quota of cordage permitted to come to the United States. Thus the average tariff rate would be only one-third of the regular rate.

The Tariff Commission points out that the Philippine cordage industry has not depended upon the United States market for its existence; that it has, in fact, exported much larger quantities of cordage to other countries than the United States. The Commission suggests, therefore, that it is reasonable to suppose that under a tariff quota, the quantity of cordage coming into the United States from the Philippine Islands would be considerably larger than under an absolute quota. This result would be detrimental to the domestic industry and not in the interest of the Philippine Islands.

The adoption of tariff quotas to govern the trade between the two countries during the period would offer an opportunity for a repetition of the complaint made by the Philippine Assembly in 1909 to the effect that such an arrangement "would in the future become highly prejudicial to the economic interests of the Philippine people * * *." This is true because a few sugar producers and cordage manufacturers, with less regard for the long-range economic adjustment

necessary to an independent Philippine people than for quick profits during the period of duty-free imports, might expand production to such an extent that the islands would again find themselves with an economy dependent almost entirely upon United States markets.

Absolute quotas will require the development of markets in other countries as production is expanded. This is necessary to the establishment and maintenance of a sound and independent economy.

In other words, it will force the necessary diversification.

I recognize, of course, the arguments which have been set forth by the State Department in connection with its most laudable desire to do away with preferences elsewhere in the world. I stand for such a policy. But I wish to point out to the committee that we are dealing here with a unique situation, and "unique" is scarcely strong enough to describe it.

There is no other relationship now, there has never been a relationship in the world comparable to the one which exists between the United States of America and the Commonwealth of the Philippines. Therefore, they are entitled to special treatment, because they are a special case, and the prescription which is adopted now is being applied to a very sick patient, for whom we have certain responsibilities.

As Mr. Clayton said yesterday, there is no dispute upon the fundamentals of the bill, and yet one of the fundamentals of the bill happens to be this matter of whether we have absolute or tariff quotas.

Now I will get back to the reason for doing this. The Congress itself had gone into the quota-making business. It was said yesterday that it should not be in this act. May I point out to the members of the committee that all of the quota fixing has been in the Philippine legislation carried out, of course, in the Sugar Act of 1937, but in the Tydings-McDuffie Act, in the Cordage Act of 1935, in the amendment of the Tydings-McDuffie Act in 1939, the quotas were established by the Congress.

So the pattern had been set, and that was the reason for the pattern of this bill, to accept the judgment of the Congress which had already been expressed and had been placed in the law.

It is a question, of course, of what the Congress wishes to do, but by reason of the shortness of time, by reason of the desperate situation, by reason of the fact that in connection with sugar, for example, there will be no new act until sometime this fall, by reason of the necessity in order to carry out the plans of the State Department to do away with these preferences on the part of other countries, by reason of the fact that that will take time in the very nature of things, it would seem that we should do what we think is right for the Philippine people now, when they need it so desperately, and not await the future events.

If I were suggesting a change in our established policy, that would be one thing; but I am not. I am suggesting a continuation of our established policy in a form which will enable these people to restore their economy and have a chance of success as an independent nation.

I would join with the State Department in its effort, but if any other nation in the world looks upon this situation in the Philippines and our relationship, and does not see that the situation and the relationship demand special treatment, then that nation is blind, and I would be perfectly willing to undertake the case of the Philippines

as against any other nation that would point out that we were violating the policy that we were urging.

Actually, while this bill takes the form of a tariff bill and has to do with duties and imposts, it is, in fact, a realistic approach to the rehabilitation of the Philippines which happens to take this form.

Now you find everywhere an expressed desire on the part of all who are approached to help the Philippines. All express general sympathy, but no one comes through with a concrete proposal.

There are two concrete proposals before the Congress of the United States today, and they are in the form of the two bills which I have mentioned.

Now there were two other objections that were raised by the State Department: one having to do with the 2-cent preferential on Philippine coconut oil. I, for one, do not see the merit to the objection. We are trying to help the Filipinos rehabilitate their country. The 2-cent preferential is necessary to let the coconut oil industry in the Philippines sell its product in this country.

The processing tax goes to the United States Treasury. The Philippine coconut oil is competitive with Brazil's oils, with palm kernel oil, and the 2-cent preferential, combined with its duty-free status, is essential for the revival and protection of this particular industry in the Philippines—and may I emphasize once more this is a rehabilitation bill. We must give the Philippines at least their prewar preferences in the American market.

That is the whole basic philosophy of this bill.

Now, I have also heard objection to the section——

Senator CONNALLY. May I ask right there?

Commissioner McNUTT. Yes.

Senator CONNALLY. Under this bill does the tax on coconut oil go into the Treasury Department?

Commissioner McNUTT. It goes into the Treasury of the United States.

Senator CONNALLY. It is in lieu of a tariff tax?

Commissioner McNUTT. It is one of the internal taxes. I will ask Mr. Martin to define it. The Senator is correct in his appraisal of it, is he not?

Mr. MARTIN. That is right.

Senator CONNALLY. As a matter of fact, the impost on any imported oils goes to the Treasury?

Mr. MARTIN. Practically speaking.

Senator CONNALLY. All right.

Commissioner McNUTT. I also heard objection to the section giving American citizens certain rights in the Philippines after independence. That has been called an intrusion upon Philippine sovereignty.

I do not think that is true, and I do not think it is true because of the peculiar relationships which have existed between our two peoples. I do not think that most Filipinos think it is so.

We are not making a permanent arrangement here. This is not a Platt amendment. This merely establishes certain conditions that we believe to be necessary and desirable to invite American capital, which is the only available capital in the world today, into the Philippines to help restore and develop their economy.

We would like to see fresh American capital go there. I certainly would. I mean, small capital, too, from small investors and pioneers

who want to go in, but they need assurance. I think if we had time to negotiate and arrange, the Filipinos would unquestionably make this provision of their own volition. But we haven't time. We are including it here in order to present the whole picture in one frame, as it were.

This is not a provision to protect vested interests. The vested interests know how to protect themselves anywhere in the world. This is a measure to encourage small investors and pioneers to help in the job of Philippine rehabilitation. This is to keep the question of protecting Americans from discrimination out of Philippine politics, by putting it in this bill.

Both candidates for the Philippine presidency have pledged their friendship to us and to our businessmen. They have invited our businessmen to come to the Philippines and invest. This is a crystallization of a reciprocal sentiment. The question of its being one-sided is academic.

If there were no emergency in the Philippines, I would not, of course, suggest such a provision. But there is. And fortunately, or unfortunately, we must take every precaution to insure the willingness of capital to go out to the Philippines. Mind you, those who have capital to invest in this country, and who might be attracted to the Philippines, recognize the fact that it is 10,000 miles away, and they want some assurance of the relationship, and some measure of security. They want to know how long they are going to be able to carry on their trade.

Mr. Chairman, the hour-glass is on the table, and the sand at the top of the glass is running out. These people become independent on the 4th day of July. I am waiting to take this bill back in order to negotiate the executive agreement with the person who is elected President of the Philippines on the 23d day of this month.

I restate what I brought to this committee on the first session. I believe that H. R. 5856 should be passed with only one amendment, namely, to strike out the "short tons" and insert in lieu thereof "long tons," in subsection (c) of section 211, having to do with the absolute quota on sugar.

Senator WALSH. Senator Butler has asked me to ask you a question. Does the act lead in a general way toward a sound and independent economic system for the Philippine Islands? So far as can be determined, would the provisions operate effectively to the advantage of all economic groups in the islands, including those in the lowest income groups?

Commissioner McNUTT. That is the purpose of the bill. It is our hope that it will work out in that fashion.

Senator CONNALLY. On that point let me ask you a question.

Commissioner McNUTT. Yes, Senator.

Senator CONNALLY. Whatever benefit the sugar industry in the Philippines would derive from the bill, will those benefits ever go down to the real producers of sugar, or would they all be corraled by the few big sugar companies?

Commissioner McNUTT. It must, of necessity, go to those people. I recognize, and I think the Senator recognizes the fact that they have come a long way since the days of Spanish rule, but every effort is being made to help the small holder. He can be protected by laws out there. I see proper movement in that direction in the Philippines.

Senator CONNALLY. Have you any information as to the percentage of land devoted to sugar owned by the big companies as against the small private owners?

Commissioner McNUTT. No, I cannot answer that. I can get the information for the Senator.

Senator WALSH. I think the figures that were presented yesterday indicated that Filipinos had about 60 percent of the investment in sugar.

Mr. MARTIN. Forty-five percent.

Senator WALSH. And the Americans?

Mr. MARTIN. Thirty percent.

Senator WALSH. And the Spanish?

Mr. MARTIN. Twenty-five percent.

Commissioner McNUTT. I should like to point out one other fact, and that is that the absolute quotas here are really absolute only as to sugar and as to cordage, and it is really a quota on a preference.

That is what it amounts to.

Senator WALSH. Are there any questions?

Senator SALTSONSTALL. May I ask one question, Senator?

Senator WALSH. Yes.

Senator SALTSONSTALL. You have got here, Mr. McNutt, the allocation of quotas for refined sugar, and for cordage, just as two examples.

In section (c) of the sugar paragraph, and in section (d) of the cordage paragraph, you say that the quotas shall be allocated annually to the manufacturers of cordage in the Philippines in the calendar year 1940, and then you go on to say that it shall be also to their successors,

Now is there sufficient flexibility in those two provisions so if those two people go out of business, it can be allocated to others?

Commissioner McNUTT. Well, there is a reallocation by the Philippine government.

Senator SALTSONSTALL. Is that in this act somewhere? That is on pages 12 and 13. There seems to be very little flexibility in those two provisions.

Commissioner McNUTT. Starting with the Tydings-McDuffie Act, and reaffirmed in the amendment to the Tydings-McDuffie Act of 1939, Senator, the method of allocation was determined after long hearings here, and that was simply carried on into this bill.

It has worked out satisfactorily. There would be a reallocation of that portion of the quota that is not used.

Senator SALTSONSTALL. Where is that?

Commissioner McNUTT. Section 216, on page 18 of the bill itself.

Senator WALSH. Are there any other questions?

Senator JOHNSON. Yes, Mr. Chairman.

Commissioner McNUTT, I want to ask you this: Prior to the war, we had some sort of plan whereby the duties that were laid on Philippine sugar were returned to the Philippine people.

Commissioner McNUTT. Yes, we had that on coconut oil. Our processing tax was collected here and then paid by the Treasury of the United States to the Treasury of the Commonwealth of the Philippines.

Senator JOHNSON. For the benefit of the Philippines?

Commissioner McNUTT. That is right.

Senator JOHNSON. Is there anything of that kind involved in this bill?

Commissioner McNUTT. There is not.

Senator JOHNSON. Is it involved in any way on sugar?

Commissioner McNUTT. It is specifically terminated.

Mr. MARTIN. Section 506.

Senator CONNALLY. You mean the repayment to the Philippines is terminated?

Commissioner McNUTT. Precisely.

Senator CONNALLY. It is still collected?

Commissioner McNUTT. It is still collected.

Senator LUCAS. I want to ask one question. Do the Philippine people take the same position with respect to this measure that you are taking here before the committee?

Commissioner McNUTT. Those who officially represent the Philippine people do.

Senator LUCAS. That is what I mean, the leaders who are representing the government.

Commissioner McNUTT. The leaders who are representing the government do. The original bill was prepared after consultation with the President of the Commonwealth, and the record discloses the statement of the Resident Commissioner on the floor of the House, while this bill was being considered.

Senator WALSH. He also sent a letter to the committee.

Senator LUCAS. When was this bill introduced in the House?

Commissioner McNUTT. The original bill was introduced, if I am not mistaken, in October.

Senator LUCAS. October of last year?

Commissioner McNUTT. Of last year.

Senator LUCAS. If this is such an important matter as you have represented here—and I am inclined certainly to agree with you—why was there the delay, if you know, up to this point?

Maybe that is not a proper question.

Commissioner McNUTT. Well, the question is entirely proper, Senator Lucas. As I said when I left here in November, I thought that this legislation would follow the normal course and would be law by January 1. Nothing happened.

Despite the agreement upon the principles, which agreement was reached in the President's office, there were some, at third and fourth levels in some of these departments, that kept shooting at this legislation. It sat in the Philippines, unable to ask them to do some things that were rather obvious, simply because my face was very red when I realized that we had not done a single thing.

When I returned to this country the second of February, I found that these matters were dormant, and I have devoted all of the days and a good many of the nights, and all of the holidays and most of the Sundays intervening, and trying to get this legislation moving, realizing that the condition precedent to the rehabilitation of the Philippines is the passage of this bill, and S. 1610, which has already passed the Senate.

Senator LUCAS. What will happen if we do not pass this bill?

Commissioner McNUTT. I think we are headed toward chaos. We are losing good will by the second. We are sitting on a volcano. I do not mean there is going to a revolution, but when July 4 comes, and

if nothing has been done, you will find the Philippines starting as an independent nation with a budget between 180,000,000 and 200,000,000 pesos, with anticipated revenue, on my estimate, which will not exceed 20,000,000 pesos, and you will find that budget deficit without any assurance of trade relations in the future, in an economy which, by our action, was made dependent upon an American market.

You can see what will happen. As I said at the opening, they are bewildered by events which they do not understand.

Senator BREWSTER. Is it not also true that after July 4, much of what would be advisable and necessary will be rendered impossible by our relations with other countries?

Commissioner McNUTT. Precisely. Today we legislate as the sovereign power; after July 4, we are no longer a sovereign power but a foreign nation.

Senator SALTONSTALL. Continuing the question that I asked you, Commissioner McNutt, Mr. Beaman pointed out that perhaps we did not quite fully understand each other. On the fixation of quotas on sugar and cordage, and possibly other things, this bill fixes the quotas to the people who were in business in 1940, or their successors.

Commissioner McNUTT. That is right.

Senator SALTONSTALL. And they could sell out to a third party if they wanted to?

Commissioner McNUTT. That is right.

Senator SALTONSTALL. Now if you and I and the chairman were in business in 1940, and I went out of the business, there is no provision in here by which my share of the business could be assigned to somebody else, is there?

Commissioner McNUTT. That which is not taken out is reallocated.

Senator SALTONSTALL. If I just simply went out of the business, if I was wiped out by a bomb and it left you and the chairman, does not that prevent a new person going into the business, or we will say a new American interest going over there? It creates a monopoly for 28 years in the hands of the people who were in business in 1940.

Commissioner McNUTT. Let me say once again, Mr. Chairman and gentlemen, I followed the pattern which the Congress had set. That pattern was set up in the Tydings-McDuffie Act, after all concerned had been consulted. The same pattern was continued in the amendment of 1939. I think I remember something of the difficulties which attended obtaining an agreement upon that particular thing, and I felt that this was not the time to raise the question again. It does that; certainly it does.

Senator SALTONSTALL. In other words, it prevents any new person either a Filipino or an American, from going into the sugar and cordage business?

Commissioner McNUTT. Unless he can buy it.

Senator SALTONSTALL. Unless he can buy it?

Commissioner McNUTT. That is right.

Senator BREWSTER. It prevents him participating in the benefits.

Commissioner McNUTT. That is right. As I say, the pattern was set, Senator.

Senator SALTONSTALL. Is that a wise policy?

Commissioner McNUTT. Once again, as I say, I do not want to open the Pandora's box, if I may be permitted to sit on that lid, if you permit

me to use that expression. They went through it all. I am not for manufacturers either, but those concerned with the Commonwealth government and its representatives, and our own people and the interests involved, felt that it was the most satisfactory way to handle the situation.

Senator BREWSTER. There are two sides to the case?

Commissioner McNUTT. There are. As I say, that matter was thoroughly thrashed out when that pattern was set. There has been untold thought and time spent on our relations, and the Congress itself has spent a great deal of time and paid a great deal of attention to it.

Senator LUCAS. Is there any thought among the Philippine leaders that they are not ready for this independence?

Commissioner McNUTT. I would rather answer that off the record. (Discussion off the record.)

Commissioner McNUTT. There is only one position which the United States of America can take. We promised them independence, and we will make good on our promise.

Senator LUCAS. I do not doubt that.

Commissioner McNUTT. Even those who have felt that independence was unwise at this time have come to the conclusion that the matter has gone so far that it would be necessary for them to try independence, and that with our wholehearted support and effort to help them. If they should not be satisfied, then, as a sovereign people, they could come back to the United States and ask to reestablish political ties in some form or another.

Senator CONNALLY. There is no guaranty that we would accept them.

Commissioner McNUTT. No; not at all.

Senator BREWSTER. I think it is fair to say that the Tydings committee went out there, Senator Tydings, Chairman of the Insular Affairs Committee, this last year, and there were numerous suggestions from responsible Filipinos that they would welcome a change of policy by the United States. Senator Tydings, and I think properly, took the very firm position that any proposal of any character must originate from the Philippines as any suggestion on our part would instantly be misconstrued. I think that is the position of the Committee on Territories and Insular Affairs.

Senator LUCAS. I agree the position is sound, but I express grave doubt, from what the gentleman has said here with respect to the position of the Philippines, that they are not ready for independence.

Senator CONNALLY. The Philippines practically had independence under our rule.

Commissioner McNUTT. May I just add one thing? The provision as to allocating quotas to the old producers, Senator Saltonstall, would force new interests to get into other fields. In other words, it would be of some assistance in bringing about the diversification which everybody recognizes is necessary. They do recognize it, but being human beings they followed the path that most human beings follow, namely, one of least resistance. Unless diversification is forced, they will take the thing at hand which they happen to know about.

Senator BREWSTER. There has been a suggestion that you may give it to them in 8 years, and that you may put them on trial, perhaps, on a 3-year period of allocation.

Commissioner McNUTT. Once again, my feeling was a 20-year reciprocal-free-trade period and then cut off and not embellished, would be the answer. I am bound by the agreement which I made, and I will support it, and I am supporting it without equivocation.

Thank you very much, gentlemen.

Senator WALSH. Mr. Clayton, have you any observations?

STATEMENT OF HON. WILLIAM L. CLAYTON, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS—Resumed

Mr. CLAYTON. Mr. Chairman and gentlemen: I will just take a moment to comment on some of the points made by Mr. McNutt. The conference with the President, if I remember correctly, had only to do with the provision in the original Bell bill that there should be 20 years of free trade between the Philippines and the United States, and if I remember correctly, it did not touch any of these controversial points about which we have been talking here the last few days.

Now, Mr. Chairman, I would like to say a word again about absolute quotas. I expressed my views at considerable length yesterday on that subject. The provision of absolute quotas is certainly the most effective means of limiting international trade, and as such we, in the State Department, are opposed to that. We are objecting to that on the part of other countries that fixed absolute quotas against our exports, and it is very difficult to continue to do that when we pass laws granting absolute quotas with respect to certain commodities from other countries.

I want to speak a moment, Mr. Chairman, particularly with reference to the motive of this provision in this bill.

Senator CONNALLY. Before you get away from that, Mr. Clayton, would you mind explaining the difference between the absolute quotas and your so-called tariff quotas?

Mr. CLAYTON. Yes, sir. An absolute quota—

Senator CONNALLY. I think I know what an absolute quota is. What are your tariff quotas?

Mr. CLAYTON. A tariff quota names a certain quantity of a commodity that may be admitted duty-free, or at a reduced tariff, and when any amount over and above that figure is to come in, it must pay the full duty.

Senator BREWSTER. From a specific country, or generally?

Mr. CLAYTON. Well, it is done both ways, Senator. Here it would be a specific country, of course, it would be the Philippines. Usually it is done generally. For example, a few years ago the trade agreement with Czechoslovakia provided a duty-free quota for boots and shoes.

Senator BREWSTER. If you had to apply it to all countries, how did you allocate it?

Mr. CLAYTON. The administration of it is up to the Treasury Department, of course, who handle the customs. Just what the technique is, I am afraid I would be unable to explain. We do have tariff quotas on several commodities. We do not like that. We do not like the quota system, but we are very much opposed to the absolute quota system and very much prefer, if we have to have quotas, to take the tariff quota device.

Senator HAWKES. Mr. Clayton, on these tariff quotas, after you have shipped what comes in free, can you ship additional quantities at the regular tariff rate?

Mr. CLAYTON. That is correct.

Senator HAWKES. Is there no ceiling on that additional amount at all, or may there be a ceiling?

Mr. CLAYTON. No, sir; there usually is no ceiling at all. If there is a ceiling, it becomes an absolute quota at a certain figure. Ordinarily 99 percent, I suppose, of our import trade has no quotas at all, just tariffs, and anyone can ship any amount they wish as long as they pay the tariff.

Senator HAWKES. I thought I misunderstood Senator Brewster. I had in mind if you had one quota and one country could ship in additional quantities over that which came in on a free tariff, or reduced tariff, it might keep some other country from coming in and sharing the business.

Senator BREWSTER. My position was how you are going to get the most-favored-nation clause to operate if you have a quota which must be discriminatory.

Mr. CLAYTON. Senator Brewster, as we did in the case of boots and shoes—that is just an example—the tariff quota, if I remember correctly, was $1\frac{1}{4}$ percent of the total production, which meant 5,000,000 pairs of shoes. We only allowed the importation of $1\frac{1}{4}$ percent of our total production. That applied in that case specifically to Czechoslovakia. But, through the most-favored-nation principle it is generalized to all countries, provided they do not discriminate against us.

Senator HAWKES. Each country gets 5,000,000 pairs?

Senator HAWKES. No, sir. All countries could participate in the 5,000,000 pair figure which is a tariff quota. Now, you ask, how are you going to decide, or how does a country know whether it is going to get any or not? I just assume they are all watching it and when they get up close to the figure they take their chances. If they get in under the line of 5,000,000 pairs, they pay no duty; if they get in after that figure is reached, they pay a duty.

Senator HAWKES. As a practical matter, don't they have them in storage in this country and release them the day the quota is available?

Mr. CLAYTON. I just do not know. Perhaps it depends on circumstances as to the production and whether they are surplus stocks, and so on.

Senator JOHNSON. Mr. Clayton, I am somewhat confused by your remarks on sugar quotas from Cuba, for instance. We have a definite quota on sugar from Cuba. If they exceed that quota, what tariff do they pay? The tariff has been reduced in gradual steps on Cuban sugar.

Mr. CLAYTON. Senator Johnson, as I made clear yesterday, we do not object to the absolute quota in the case of sugar, for the reason that we also have absolute quotas on our domestic production, and it is a different situation from any other commodity of which I am aware.

Senator JOHNSON. Then what you have said does not apply to sugar?

Mr. CLAYTON. Does not apply to sugar. I made it clear yesterday.

Senator JOHNSON. I did not hear you yesterday, I am sorry.

Mr. CLAYTON. Of course, in the case of sugar, the quota is absolute and they cannot ship in, as I understand, anything over and above that amount, regardless of the tariff.

Senator JOHNSON. That is the way I understood it.

Mr. CLAYTON. I want to speak for a moment, gentlemen, with reference to the motive for the inclusion of absolute quotas in this bill.

I have the greatest respect for Mr. McNutt and I do not question his sincerity for a moment, but I think there are perhaps some sins being committed here in the name of diversification. But again we rather question whether it is a proper function or policy of the United States Government to force diversification on the Philippines for 28 years by law. I doubt if we can see that far ahead and determine at this time what kind of diversification ought to be engaged in, or to what extent they should diversify. We are attempting to do that here, but I want to call your attention to the fact that in this bill, outside of fixing absolute quotas on a number of commodities, the bill has this to say:

SEC. 504. QUOTAS ON PHILIPPINE ARTICLES.—

(a) ESTABLISHMENT BY PRESIDENT.—After the executive agreement referred to in title IV has taken effect, then whenever the President of the United States, after the investigation by the United States Tariff Commission provided for in subsection (d), finds, with respect to any Philippine articles (other than those for which quotas are established by part 2 of title II), that they are coming, or likely to come, into substantial competition with like articles which are the product of the United States, he shall so proclaim, and in his proclamation shall establish the total amount of such Philippine articles which may in each of specified periods be entered, or withdrawn from warehouse, in the United States for consumption.

I submit, Mr. Chairman, that that is not for diversification in the Philippines, that is for the protection of the United States interests and, so far as I am aware, that is a provision that is not in the law with respect to importations from any other country in the world.

Senator HAWKES. Well, Mr. Secretary, we haven't got such an agreement as this with any other country in the world, have we?

Mr. CLAYTON. No, sir.

Senator HAWKES. Are not we trying to do something here that is brand new in our history?

Mr. CLAYTON. Yes, sir; we are, but I think, Senator Hawkes, that we are taking advantage of that situation to do something new by inserting some provisions that have little to do with the very fine thing that we are doing, and that may be just contrary to that policy.

Senator HAWKES. I agree with you it might be contrary to that policy, but at the same time we have got to do some thinking about what disrupts the United States, or else we will not have any United States to do any good with.

Mr. CLAYTON. Senator Hawkes, if you are discussing that as a policy vis-à-vis the countries in the world, as a general policy, I think that is something that we should sit here and discuss very profitably, perhaps. But if you are discussing it as an isolated policy directed at the Philippines, I think you will agree that it is in the nature of discrimination.

Senator HAWKES. I think our whole policy and relationship to the Philippines has been extremely generous. I am in favor of having it generous; I think there is every reason in the world why it

should be generous, but I still say we have got to do a little thinking about some of the things that might happen in the United States. We have got too many people, from my point of view, today who are guessing into the far-distant future and analyzing the whole thing. As I said to you yesterday, Mr. Clayton, you can always increase your generosity, but when you tie yourself for 28 years to a thing, if it is too generous, then it is going to react on your own country.

- Mr. CLAYTON. I cannot find any fault, Senator Hawkes, but I must stick to my point. I do not see why we should take it out on the Philippines.

Senator BREWSTER. You say you do not do this with any other country?

Mr. CLAYTON. So far as I know.

Senator BREWSTER. We are doing many things in this agreement to help the Filipinos which we do not do with any other country, so I do not think you can rest your case on that. You may feel we are not being generous enough with the Filipinos, but certainly we are giving to the Filipinos something we have never given to any other people.

As Senator Hawkes says, I agree with that policy of not looking ahead 28 years. Whether or not we should give the President some power to protect us in a case which occurs in this 28 years, the impact of this thing becomes too serious for our country, and it is very dubious. But I think we can rest assured the President would not exercise that power except under a real necessity.

Mr. CLAYTON. Mr. Chairman, I do not want to prolong the discussion, except just to emphasize my objection, and that is that this is the only case that I know of in which we have tried to incorporate that provision in a law of the Congress.

Senator BREWSTER. This is somewhat unique, to have a department seek to curtail the proposal of the President of a law.

Mr. CLAYTON. I would also like to make another point with reference to this provision which I have just cited. Mr. McNutt defends the provision in the bill which gives preference to American businessmen, or American capital, or at any rate provides that they shall be treated in the same way as Philippine capital or Philippine commercial interests. On the face of it this sounds perfectly all right and logical; but it is not reciprocal. We cannot do the same thing for Philippine businessmen in this country. It will inevitably result in preference being given to American business and American capital in the Philippines over the capital of other countries.

Senator CONNALLY. That is not quite consistent with the idea of their sovereignty, is it?

Mr. CLAYTON. It does not seem so to me. My main point on that is: What are we doing in this article I have just read? We give notice to everybody. Philippine capital, American capital, and all other capital in the world: "You better be careful about investing any capital in any product in the Philippines which depends on its principal market in the United States. You may at any time have a quota slapped on you in any quantity on any commodity, so you better be careful about investing any money there to help develop any industry or any new commodity, or to develop any old one."

I just point out that that introduces an element of uncertainty to business people. They do not know whether they should go ahead

with investment or development or not, because they do not know what minute they may have their business absolutely cut off.

I have stated that as to the sugar quota we have no objection, and I said so yesterday, as to the absolute quota. I said yesterday, Mr. Chairman, that I thought this bill was not the place in which to put that quota for 28 years; that the quota should be provided for in the sugar quota bill, or whatever it is called, which expires this year and which provides quotas for Cuba and other countries shipping to the United States and for our domestic production as well. I do not stress that point now, I just want to make my point if the Congress wants to put it in this bill, I will not object to it any further.

As to cordage, while I do not like the absolute quota on cordage, we have an absolute quota on cordage today and I am not going to labor that point. I just make our objection and pass on.

But as to these other things, Mr. Chairman, we have here the imposition of new absolute quotas on new commodities. What are they? Cigars, scrap tobacco, coconut oil, and buttons. The bill provides for absolute quotas on those things, and I just do not think that it should. If you want to put a tariff quota on, as was done in the Tydings-McDuffie Act, that is something else. In the case of rice, I do not see the need for any quota whatsoever. There was no rice quota in the Tydings-McDuffie Act.

Senator LUCAS. Do you think absolute quotas on those items that you mentioned would help the Philippine economic situation or would hinder it?

Mr. CLAYTON. I do not think any man living can tell, Senator Lucas.

Senator LUCAS. What is the objection, then? If you cannot tell, what is the objection?

Mr. CLAYTON. The objection is one largely of principle. We are objecting, Senator Lucas, to the imposition of quotas by foreign countries against our goods. When we want to export this or that to some country and when we find they have got an absolute quota on it, we say we do not like the quota system; but it is very difficult for us to object to quotas fixed by other countries if we are in the act of fixing them ourselves.

Senator LUCAS. I understand that, but do you take into consideration the fact, as Mr. McNutt has said, that we are dealing with a special case here in connection with the Philippines?

Mr. CLAYTON. I have taken that into consideration, but I think I have shown that the real motive for this provision is not to force the Philippines to diversify; even if it is, I think, wrong. I do not think we have a right to come in here and say to the Philippines, "All right; we are going to give you independence and we are going to specify in this bill certain conditions which you have got to follow, and one of them is you have got to diversify your industries, whether you want to or not. We propose to be able to see forward 28 years and tell you as to what kind of diversification we think you ought to engage in." I do not think it is wise to do that.

Senator LUCAS. Read that provision of the bill, if you will, which compels them to diversity.

Mr. CLAYTON. It does not compel them to diversify. As far as I know, it does not even mention the word "diversification," but Mr. McNutt said that the provision here for absolute quotas was for the purpose of forcing them to diversify.

Senator BREWSTER. That was one of the reasons.

Mr. CLAYTON. I read to you, Senator Lucas, a few moments ago the provision of the bill which gives up the power, gives the President the power to put absolute quotas on any commodity from the Philippines.

Senator LUCAS. I understand.

Mr. CLAYTON. I cannot believe that that is for diversification. In fact, that says it is to prevent competition with industries in the United States, and my belief is the other quotas are for that purpose also.

Senator LUCAS. Did you testify before the House committee?

Mr. CLAYTON. I personally did not. Representatives of the State Department did.

Senator LUCAS. Were all these arguments presented there?

Mr. CLAYTON. Yes, sir. As Mr. McNutt said in his testimony, we made these points before the House committee.

Senator LUCAS. Notwithstanding that, the House passed this bill?

Mr. CLAYTON. Yes, sir. I think you, Senator Lucas, asked Mr. McNutt if the leaders in the Philippines agreed with this bill. I would just like to read one short paragraph from General Romulo's statement before the House committee, which appears on page 246 of the printed hearings of the Committee on Ways and Means of the House of Representatives. General Romulo said:

Mr. Chairman, we are in favor of this bill. Of course, if I would have written this bill, I would have written it differently. I would have had freed trade in perpetuity, no quotas, the currency would not be as it is the rights of American citizens would be in the treaty of friendship.

I just want to call attention to the fact that he called attention to these two things, which are two of the principle things that we are objecting to in the bill as being things that he would have had otherwise, that is, no quotas, and rights of American citizens and American capital for new investments would be in the treaty of friendship.

Senator LUCAS. You would not go as far as he goes?

Mr. CLAYTON. On what?

Senator LUCAS. On quotas.

Senator BREWSTER. On free trade.

Mr. CLAYTON. I would not go as far as free trade, no, sir, with the Philippines.

Senator CONNALLY. When you say "no quotas", you mean just ship them in like anybody else?

Mr. CLAYTON. That is right. I would not seriously object to tariff quotas, but my objection lies to the imposition of absolute quotas for 28 years. I just do not think it is the right way to do it.

Senator CONNALLY. If we pass this bill with the 28 years in it, they could hold us to the 28-year pledge, could they not?

Mr. CLAYTON. They certainly could hold us to the 28-year pledge.

Senator CONNALLY. On the tariff question?

Mr. CLAYTON. Yes. Just let us give you one idea. I do not like the quota thing at all, but even in the case of sugar, I think this is the wrong place to put the sugar quota for the the Philippines. In the next 28 years our consumption of sugar in this country is likely to increase very materially. You tie it up here to a certain figure for 28 years.

Commissioner McNUTT. Mr. Secretary, than can be terminated on 5 years' notice.

Senator CONNALLY. We could enlarge it any time, could not we?

Mr. CLAYTON. Any time Congress wanted to do it. My point is if you have it in the bill where I think it belongs; that is, in the sugar bill, that bill is passed for a short term of years, I do not know how many, and is periodically reviewed.

Senator JOHNSON. Three years.

Mr. CLAYTON. Every 3 years it expires, and then you can reconsider the matter when you pass another sugar bill. I do not want to labor that point.

Senator BREWSTER. Senator Connally, he stated yesterday on anything which is in our favor, such as restrictions for American protection, we can always relax, but after July 4 we cannot expand, we are committed to it, so we should legislate now with that in mind. We do not come under the most-favored-nation clause prior to July 4, but anything we do after that time is in a very different category.

Senator HAWKES. Mr. Chairman, I think maybe Senator Connally and some of the others who were not here yesterday might like to know, and the Filipinos will want to know that they have got a certain free quota in order to rebuild and reestablish themselves for a longer period than 3 years. They would otherwise have to do it under the sugar and the tariff act, but they have got to make plans. I do not believe and I do not conceive myself being interested in investing a lot of money in the Philippines, or with the Filipinos to rebuild an industry if you only had a 3-year period to look at.

I asked that question yesterday. I do not know whether Commissioner McNutt has answered it yet. You were not on the stand yesterday after I asked that question. But if it were not for that thing, I would be very strongly in favor of what Secretary Clayton has suggested, handling the thing in the Tariff Act, but I do not think the Filipinos would ever be satisfied with the 3- or 5-year period.

I would like to ask a question which Mr. McNutt can probably answer. I would like to ask if you have got any idea how long it is going to take to restore the Filipino economic situation, to get them back on their feet?

Commissioner McNUTT. I wish I could answer that question with certainty.

Senator HAWKES. I know you cannot answer it with certainty, but would not you figure it would take at least the period of 10 or 15 years before they get going?

Commissioner McNUTT. Yes, and actually this bill, as it affects business, will not run to exceed that time. That is, the quotas will become so small, or the tariffs will become so high that it might not be profitable to engage in business.

Senator HAWKES. Thank you.

Mr. CLAYTON. Just one other point, Mr. Chairman, with reference to the preference on American capital. I just want to make it clear to the gentlemen of the committee who were not here yesterday that existing American capital has full protection not only in the Tydings-McDuffie Act but in the Philippine constitution. There is no question about that. What we are objecting to is preference for new American capital in the Philippines since Philippine capital would

not get similar preference in this country. Those two questions, the American capital question and the absolute quota question, and the prohibition in the bill against the negotiation of a trade agreement between the Philippines and the United States are the three principal points that we object to.

Senator WALSH. Thank you, Mr. Clayton.

Mr. CLAYTON. Thank you, sir.

Senator WALSH. Mr. Bourg, come forward, please.

STATEMENT OF C. J. BOURG, VICE PRESIDENT, AMERICAN SUGAR CANE LEAGUE

Senator WALSH. Your full name is C. J. Bourg?

Mr. BOURG. Yes, sir; I am vice president of the American Sugar Cane League, and I appear today exclusively representing the Louisiana sugar industry.

Senator WALSH. You want to talk upon the provisions of the bill dealing with short tons and long tons?

Mr. BOURG. I would like to ask the indulgence of the committee to permit me to make a short but connected statement, which I have not committed to formal writing but on which I have notes.

Senator WALSH. You may proceed.

Mr. BOURG. My decision to appear has been made since this hearing started. I have information which I gathered over a period of 25 years on sugar, sugar legislation and our relations among the sugar producing areas. From the questions asked I feel certain that at least some Senators do not have that information, and I come to give it to them and to answer their questions.

Senator CONNALLY. That is a generalization. That sounds very good, but what about this bill?

Mr. BOURG. I am going to talk on it right now.

Senator CONNALLY. All right

Mr. BOURG. I want to make the statement at the outset that as Americans, the 15,000 growers and processors of the Louisiana sugar industry have as much gratitude and feeling for the Filipino people as any other Americans. They want them to be treated most generously, and they ask that you, in your consideration, keep that as the main objective.

Secretary Clayton, appearing yesterday—he is a good neighbor of ours across the Sabine River—stated that he believed in assuming a sane role and not a selfish role. I not only endorse that, but I ask his permission to join him. That is the theme of my statement.

We are in the happy role in Louisiana, after being tariff protectionists for over 100 years, of being willing to give greater tariff freedom to the Filipinos than the State Department, with whom we always disagree on tariff.

We have no proposal to make, but we do feel that it is necessary for someone to appear, because witnesses have questioned why there was no witness from the domestic sugar industry before the Ways and Means Committee. There were no public hearings before the Ways and Means Committee. Every one of the sessions was marked "Executive." Witnesses appeared by invitation. We got no invitation, but we did not seek any, because we felt this was an extremely delicate matter, a matter that should be considered on the highest state policy.

We felt our position, however clearly stated, might be misunderstood. In spite of the fact that we did not appear, that game, which seems to have become a national game of smearing, has been used against us, questioning the part we play which some writers with vivid imaginations have tried to believe was real.

I am a veteran of the First World War and I know Commissioner McNutt favorably and well in the American Legion.

When this bill was prepared we were not consulted, and we did not feel that we should have been consulted. But in order that there be no misunderstanding of our position I asked for an interview and I went to his office and explained to him that we had nothing to suggest, no objections to make. After that there were certain considerations which we discussed and which we felt were proper considerations.

Senator LUCAS. What is your position on this bill?

Mr. BOURG. I am in favor of this bill. It is the unanimous report of the ways and means committee, after considering the bill since October 15, with repeated hearings adjourned and taken up again.

Senator BREWSTER. I thought you were criticizing the hearings because they were secret and did not permit anyone to appear.

Mr. BOURG. I am glad you said that, because I definitely was not criticizing.

Senator BREWSTER. You think they took just the right procedure?

Mr. BOURG. As far as we are concerned; yes, sir.

Senator CONNALLY. Do you favor absolute quotas or tariff quotas?

Mr. BOURG. I will be glad to discuss it.

Senator CONNALLY. You do not need to discuss it, just say whether you are for that or not.

Mr. BOURG. I agree with the position of Mr. Wilson of the Agricultural Department and Mr. Clayton of the State Department.

Senator CONNALLY. Then you are not for the bill?

Mr. BOURG. Yes.

Senator WALSH. You are for the provision of this bill that uses the term "short tons"?

Mr. BOURG. Yes, sir.

Senator WALSH. You are opposed to the position of Mr. McNutt, who wants it to be changed to "long tons"?

Mr. BOURG. Yes, sir.

Senator WALSH. That is your position?

Mr. BOURG. Yes, sir.

Senator WALSH. Will you give your reasons for your position, other than the fact that the House has already passed the bill unanimously?

Mr. BOURG. Yes, sir. The question has been raised as to why the House took the action that they did. The House stated in a short paragraph:

While sugar legislation by itself is not within the jurisdiction of the Ways and Means Committee, the establishment in the bill of a sugar quota of 850,000 short tons is recognition of the need to give every possible encouragement to the expansion of domestic sugar production.

Now, the committee decided that.

Senator CONNALLY. You have not answered my question. Are you in favor of the tariff quota or absolute quota?

Mr. BOURG. Can I state that in my own way, please, sir?

Senator WALSH. So far as it relates to sugar, Senator?

Senator CONNALLY. So far as it relates to sugar. I am talking about the sugar.

Mr. BOURG. I will answer you categorically, but I think my position will be much better understood if I state it in my own way. Up to this moment there has been no absolute quota. In the Philippine bill it is a tariff quota, and they could have brought in as much as 850,000 more and still have paid only a 50 percent tariff. But they refused to do it in principle, and I honor them for it. They were not willing to pay a duty to a country as long as they were under their flag. Now, of course, when they become independent they might change their mind, or they might want to change their mind as an independent nation, but this bill prevents them from doing it.

Now, the sugar industry did not propose that, the sugar industry did not advocate that at all. We have been fearful of the reaction if we had introduced it. But we would be hypocritical, Senator, if we did not say that we like it, because it definitely sets a ceiling, and regardless of anything, it cannot go any higher.

Senator CONNALLY. Then you are for the absolute quota?

Mr. BOURG. Yes; I am for it. I am not advocating it; but since it is in the bill it certainly is favorable.

Senator CONNALLY. What is the difference between being for it and advocating it? You are for it and yet you do not advocate it, is that right?

Mr. BOURG. I can easily explain that, sir.

Senator CONNALLY. You are for the bill like it stands?

Mr. BOURG. Yes, sir.

Senator BREWSTER. If we should change it, would you be against it? That is the real question. Suppose we take the position of the State Department and not put it in here, would that cause you to change your position?

Mr. BOURG. No, sir.

Senator BREWSTER. Would you still be for the bill if we took the quota out?

Mr. BOURG. Yes, sir.

Senator SALTONSTALL. Would you be for the long tons rather than the short tons?

Mr. BOURG. No; I certainly would not be for it.

Senator SALTONSTALL. But you would not be against it?

Mr. BOURG. As I say, I am appearing here, and if you ask me my position, I think it ought to stay in there as short tons. I think there are very excellent reasons for it to stay in there.

Senator BREWSTER. But you would not object to eliminating the quota entirely?

Mr. BOURG. No, sir; because the Sugar Act will come before this same committee, it may be in a few weeks. And, gentlemen, it has been the source of greatest trouble to this very committee that you consider the Philippine question at one time, the Sugar Quota Act at another time, and the international sugar agreement at another time. Each one of them complement each other and affect each other. You are really hampered in your consideration of the Sugar Act by the fact you have taken action which might be, and has been, construed as obligating you not to change it.

Senator WALSH. Is not the absolute quota in the long run more beneficial to the domestic industry than the tariff quota?

Mr. BOURG. Yes.

Senator WALSH. Is not that one of the reasons why some persons had put in here the absolute quota, so as to protect the domestic industry? It is a protection of the domestic industry, isn't it?

Mr. BOURG. Yes, sir.

Senator JOHNSON. It gives a stability to it?

Mr. BOURG. Yes; but I do not think we would ever dare to advocate it ourselves.

Senator WALSH. I understand.

Senator LUCAS. Who did advocate it?

Mr. BOURG. Governor McNutt said that he and Mr. Bell and Mr. Hester and others drew up this bill.

Senator LUCAS. They probably had the local folks in mind when they wrote this bill.

Mr. BOURG. I am glad of that.

Senator VANDENBERG. They probably wanted to pass it.

Mr. BOURG. There is one controlling reason which I believe affected the Ways and Means Committee in considering this matter of either reducing the quota, or of at least reducing it slightly, by the use of the words "short tons," and that is an article by Commissioner Sayre—former Commissioner Sayre—which appeared in the Atlantic Monthly. Now, Commissioner Sayre is the proven friend of the Philippines. He, as Assistant Secretary of State, had supervision of that matter, and as the adviser to the Siamese Government he knew the Asiatic conditions. Later he was chairman of the joint committee, and I appeared as a witness there, and he was a staunch defender of the Philippine rights, and later he was High Commissioner. He was there in December, 1941, when they went through that ordeal, so I feel no one can as a witness there, and he was a staunch defender of Philippine. Yet he wrote this article, and I want to read a short paragraph of it:

When liberation comes, presumably sugar cultivation in the Philippines will be on a home-consumption basis. If the new Philippine government after the war is wise enough and strong enough to prevent a return to pre-war sugar-production figures, one of the great milestones on the way to economic independence will be passed.

Those are chosen words.

Senator HAWKES. You have read the whole article and I haven't. Does that mean ex-Commissioner Sayre is in favor of the use of the word "short" instead of "long"?

Mr. BOURG. No, sir, I would not say that.

Senator HAWKES. That is what I understood from what you said. What does it mean? What does his article say over-all? You can tell us in a few words what it advocates.

Mr. BOURG. He said that the Philippine nation, just like a child, should not be forced to face the difficulties of foreign competition without some preliminary, some kindergarten period, so that it shall be gradual. Since the sugar industry has been destroyed, that the question of diversification—and he named new crops, and going into other businesses like deep sea fishing—should be encouraged and not go back to what he calls in another sentence "the surpluses, like sugar, which are salable only in the protected American market."

Senator HAWKES. Did he deal in any specific way with the question we are interested in, that is, the 850,000 short tons as contrasted to the 850,000 long tons? That is what I want to know.

Mr. BOURG. No, sir; he did not. I should explain this, that the Ways and Means Committee's first action on this was to establish a maximum quota of "850,000 short tons, raw value." They added those two words, and then they put in a minimum quota of 700,000. That was actually in the bill, and the action was taken, and then there was another meeting held several days later.

Senator WALSH. That article of Mr. Sayre in substance amounts to this: He thinks it would be more to the interest of the Philippines if they get out of the sugar-production business.

Mr. BOURG. Not entirely.

Senator WALSH. They ought to reduce it, they ought to look in some other direction, is that right?

Mr. BOURG. That is right.

Senator WALSH. Of course that would be in the interest of domestic producers of sugar.

Mr. BOURG. I am sure he did not take that into consideration in the slightest, because he has never had any connection with or any interest in the sugar industry.

Senator WALSH. Will you give us what you want to present to the committee? Are you in favor of the short tons as against the long tons?

Mr. BOURG. The only statement I want to make in connection with that is that the Ways and Means Committee, after considering this matter for almost 6 months and going into it so thoroughly, compromised on the last day and put that word "short" in; that Mr. Bell, who had introduced the bill that Commissioner McNutt wanted introduced originally, on that day introduced a new bill in which short tons was included, and his statement on the floor is that he wanted it passed "as written." It is a unanimous agreement of the committee, it is the unanimous action of the House, and gentlemen, I hope you make it the unanimous decision of Congress to pass this whole bill as it is written, and that will eliminate the delays about which the Commissioner complains.

Senator JOHNSON. Mr. Chairman, I would like permission to ask Mr. McNutt one short question. The answer may be long but the question will be very short.

There seem to be three courses of action with respect to sugar. One is to follow Mr. Clayton's advice and leave the whole quota problem and the whole sugar problem to the sugar bill. The other is the short ton, and the third the long ton. I know that you are for the long-ton proposal, but which of the other two proposals do you prefer, the short-ton proposal, or to leave the matter of sugar quotas entirely to the sugar bill where the quotas from all nations, all importing countries, including our domestic quotas, can be settled all at one time?

Commissioner McNUTT. Senator, the reason for urging action on this bill is that we should establish what we are to do in the Philippines as soon as possible. I am afraid that next fall or later will be too late. I am very much disturbed. It is almost too late now. Therefore, I favor action on this bill, which is following the pattern set in the Philippine legislation. That may not be the proper course of action, but it was the one followed by the Congress. The urgency of the present situation is such that we must get this determination as soon as possible so the wheels will start rolling again in the Philippines.

They will not roll until there is some degree of certainty as to our trade relations.

Senator JOHNSON. My question is, do you prefer the Clayton approach or the short ton approach, provided you do not get the long ton? I know the long ton is what you want, but suppose you do not get that, which of the other two do you prefer?

Commisisoner McNUTT. I prefer the approach of putting it in this bill and not wait until this fall.

Senator JOHNSON. Then you would take the short ton in preference to Mr. Clayton's suggestion?

Commissioner McNUTT. No; I do not see that that would necessarily follow.

Senator JOHNSON. It might follow. This committee might make it follow.

Commissioner McNUTT. I will accept whatever the Congress of the United States does.

Senator JOHNSON. Of course you will do that, we understand that right enough, but what I was trying to get from you is your preference. I do not want to embarrass you.

Commissioner McNUTT. There is no embarrassment and nothing to conceal, Senator.

Senator JOHNSON. I know your position is for the long-ton proposal.

Commissioner McNUTT. Yes.

Senator JOHNSON. If this committee should decide that we will follow Mr. Clayton's suggestion, or follow the Ways and Means Committee, I am just trying to find out which of the two courses you prefer us to follow.

Commisisoner McNUTT. May I say something to you off the record?

Senator WALSH. Certainly.

(Discussion off the record.)

Senator BREWSTER. You would prefer any kind of decision here to deferring until next fall; is that right?

Commissioner McNUTT. Precisely.

Senator WALSH. Mr. McNutt, I thought you emphasized in one of your reasons for long tons the fact that it would have a better psychological effect upon the Filipinos.

Commissioner McNUTT. There is no question about that.

Senator WALSH. If we go to short tons, we will give the appearance of changing a policy that we had before they get their independence.

Commissioner McNUTT. Precisely. I pointed out to several Members of the Congress that this is one of the series, first the pay of the Army; second, the failure to redeem guerilla currency; and third, the recession bill, which took away from the soldiers all but two of the GI bill of rights, and then you follow that by reducing the quota without any reasons given. It is a succession of manifestations on the part of the United States of what might be interpreted as an unfriendly attitude.

If you think that they were not interested, every newspaper printed in the Philippines the day this came out, the reduction of 850,000 long to 850,000 short, blazing it all over the front page, which taught me something.

Senator WALSH. All right, Mr. Villamin, come forward.

**STATEMENT OF VICENTE VILLAMIN, COSMOS CLUB,
WASHINGTON, D. C.—Resumed**

Senator WALSH. Mr. Villamin, you appeared before the committee the other day and made a statement. You sent a note to me and asked me to permit you to say something in reply to Mr. Clayton. Cannot you say something in writing?

Mr. VILLAMIN. I wish some of the members of the committee to hear my statement. It will take about 40 minutes.

I just want to make a preliminary statement, and that is by my reading of the pertinent American legislative history, the discussion this morning brings my mind back to 1901 when the House of Representatives was trying to legislate with respect to Cuba on a matter similar to this. After passing the bill, and the Senate got hold of that bill, it immediately adjourned. The following year, in 1902, the administration decided that that matter should not be in a law of Congress, that what Congress should do was to pass a resolution giving direction as to the contents of a treaty and so forth, and thereby the treaty of 1902 was negotiated between the United States and Cuba. You talk of the long term of 28 years with respect to the Philippines. That's short. That treaty gave Cuba a preference of 20 percent and more for an indefinite period, and it has been going on now for 43 years, and it will be going on in perpetuity. If we are getting here more than Cuba does, we are entitled to it through our long association with the United States.

In 1903, 1 year following this treaty, there was another treaty negotiated between this country and Cuba in order to give effect to the 1902 treaty, and that treaty is responsible for the great development of Cuba. It is a treaty under which the United States guarantees domestic order in Cuba.

Senator HAWKES. May I ask you this question? What action would the United States have to take, and how quickly could they take it, to change the situation you are talking about between the United States and Cuba? You say you looked it up.

Mr. VILLAMIN. How is that?

Senator HAWKES. How soon could the United States change the situation there? What rights have we got there?

Mr. VILLAMIN. You mean beyond the denunciation of the treaty?

Senator HAWKES. Yes; I mean denunciation, altering, or what not.

Mr. VILLAMIN. There is no provision in the Cuban treaty for a limit of time. Of course, like other treaties it is subject to the denunciation for stated cause.

Senator HAWKES. You intimated this has continued for all these years. This is not in perpetuity, is it?

Mr. VILLAMIN. Yes, sir; it is in perpetuity.

Mr. Chairman, article VIII of the Cuban treaty of 1902 provides, among other things, that the reduction in duty therein stipulated shall not be extended to other foreign nations, in other words, suspending in that respect the operation of the most-favored-nation principle. That provision is carried out in section 509, title V, of the bill under consideration (H. R. 5856), which states that the benefits given the Filipinos under it shall not be extended to any other country or "its products, citizens, or subjects."

Let me say another word—hurriedly because the time is *getting* late—about the other treaty, the 1903 Cuban treaty. As I have already said, that treaty guaranteed the maintenance of public order in Cuba, and that induced capital and enterprise to start development there. As there is no similar guaranty as to the Philippines, I should think that new enterprises and fresh capital generally will assume a waiting position and see whether under the new independent government there will be a condition of law and order—that is, reasonable and not necessarily perfect—and, of course, a rational degree of stability and enlightenment. The Filipino leaders in public and private life will strive mightily to achieve this condition and I express confidence that they will succeed. In the meantime, the capital that will operate and rehabilitate the devastated industries and other enterprises will largely be the capital that will be made available under the Rehabilitation Act—H. R. 1610—capital which under that act will have to be reinvested in the Philippines anyway under its conditional provision of payment of war losses.

In the case of the Philippines, Mr. Chairman, it is not domestic order that America guarantees, unless the presence of American military establishments there implies and inspires it, but its international security through the provision of section 12 of the Independence Act of Congress of March 24, 1934, contemplating the possible neutralization of the Philippines at the instance of the United States. This step which is merely permissive on the President, should be taken or, if not taken, there should be some assurance on the part of the United States of its interest in that its political independence and territorial integrity shall be respected by all nations.

But, here again, Mr. Chairman, I wish to emphasize the significance of the resolution of Congress, No. 93, dated June 19, 1944, under which naval and air bases will be built on Philippine territory, impairing thus its independence—with the consent of the Philippines—and making that country an integral element in the defense of the United States in the Western Pacific. I wish, Mr. Chairman, to insert at this point a short article by me touching on Philippine international security after independence and the prospective formidable Chinese Navy which both America and Britain are giving China as a gift.

(The article follows:)

Mr. Chairman, may I digress somewhat? China is going to have a navy greater than she ever had in all her history. With the Japanese Navy in the bottom of the sea, the Chinese Navy will ride the Orient seas. That would be a novel sight, suggesting great potentialities.

On March 12 last the House passed a bill (H. R. 5356) authorizing the President to transfer to China not more than 271 naval vessels and craft, with the proviso that the consent of Congress must first be obtained before a battleship, plane carrier, cruiser, destroyer (not escort) or submarine could be transferred. In an extraordinary gesture, the British Government is also offering China a battleship and several cruisers. Probably knowing that they may prove to be white elephants, China is nevertheless expected to accept the gifts.

The Philippine Republic is offered no naval presents on its birth on July 4, 1946. The prospective Chinese Navy would be highly disturbing to the new Republic if not for the two following considerations: (1) The possible neutralization of the new nation at the instance of

the United States and (2) the erection on Philippine territory of a formidable American military establishment.

NEUTRALIZATION

Section 12 of the act of Congress of March 24, 1934, reads:

The President of the United States is requested, at the earliest practicable date, to enter into negotiations with foreign powers with a view to the neutralization of the Philippine Islands, if and when Philippine independence shall have been achieved.

Such neutralization sponsored by the United States and joined in by Britain, Russia, and China, would be effective in maintaining the international security of the new-born republic. The authority to negotiate a neutralization treaty is only permissible, not mandatory, on the President, but it is meet that he proclaims whether he will or will not negotiate a treaty.

Neutralization might be considered as incompatible with the idea contemplated in the resolution of Congress No. 94, dated June 19, 1944, of an American military establishment in the Philippines after its independence is achieved. It might be alleged that the Philippines, by consenting to have that establishment on its territory, has given up her international neutrality and thus allied herself militarily with the United States. In other words, the militarization of the Philippines by the United States precludes her neutralization as unnecessary and even incongruous.

Because America and Britain are going to arm one of its neighbors—China—with a navy, the Philippine Republic is entitled to know what dispositions America is going to take concerning the international security of the new Republic.

What the Philippines need, in the meantime, which the United States can supply, is not a navy but a fleet of suitable vessels to be used to enforce the customs laws, suppress piracy, prevent smuggling, and patrol the coasts. The American Government has already decided to increase from 10,000 to 50,000 men the size of the Filipino Scouts organization, a part of the United States Army, that will in time partly man the American military establishments to be built in the Philippines.

Now, Mr. Chairman, just one parting thought. This bill is going to pass. It is in the cards. The gods of expediency and the demons of speed are for it. It has many imperfections. But it has less imperfections than when it was originally presented as H. R. 4185 in September 1945. All of us Filipinos give the assurance that, once accepted by the Philippine Government, we will do our level best to make the bill work, work effectively and work beneficially to both the United States and the Philippines.

America and the Philippines should think profoundly of what the signs and portents of the times clearly indicate and enter upon a deliberate program of economic cooperation between them to promote their commercial and other interests in the Orient. I have no doubt that Russia will be a commercial factor in Tropical Orient. Think of its implications, its tremendous implications. I am not being anti-Russian. Not at all. I am simply being pro-Filipino and pro-American.

Mr. Chairman, I am talking of the logic of the situation. Events have a way of following that logic. Russia has a chance to be, and will most probably be, the nation that will occupy the economic vacuum that Japan has created by stopping to be a manufacturing nation as a result of her defeat in war. She will operate from Dairen in Manchuria and Vladivostock on Pacific Siberia or possibly from some point in Korea.

Russia will make Manchuria a manufacturing area, supported with its agricultural and metallurgical resources as well as by those of Russia herself. She will become the principal purveyor of manufactured articles to the one thousand million people of Asia and island nations and colonies surrounding it. Think of that. Think of its possibilities. And let us thank our stars if Russia doesn't get a substantial portion of her capital to develop Manchuria from the Import-Export Bank of Washington, D. C., at a rate of 3 percent or less—a rate which a competing private American industrial firm will hardly get from private banking institutions.

If we face facts and logic head-on and consider our enlightened self-interest—and in particular with the Philippines, its self-preservation—we, Americans and Filipinos, will stand together firmly and permanently and promote our common interests, strengthening and expanding our economic and other relations, instead of inaugurating, as this bill does—I must frankly and sadly say—the legislative steps that will lead to the final economic weakening of the Philippines and the discredit of the United States as its author, yes, benevolently inspired, but realistically contrary.

I wish to set forth my analysis of the bill H. R. 5856.

THE PHILIPPINE TRADE BILL, H. R. 5856

Congress desires to help the Philippines rebuild herself and make her independence scheduled for July 4, 1946, successful.

WHAT CONGRESS IS DOING

Four bills have been considered by Congress and two of them are already laws. These latter two are an act placing the Philippines within the operation of the Export-Import Bank of Washington, and an act turning over to the Philippine government the accumulated internal taxes on certain Philippine products amounting to \$73,000,000. The trade bill will be discussed in the House from tomorrow, March 28. The rehabilitation bill, which passed the Senate on December 5 last, is still in a House committee. Congress authorized in 1934, but never appropriated, the payment of about \$24,000,000 as the profit of the Philippines based on the dollar-peso ratio from the devaluation of the American dollar, from which operation the American Government made a profit, which was utilized as expendable funds, of around \$2,800,000,000.

To appreciate the effects of the trade bill (H. R. 5856) and the rehabilitation bill (S. 1610), an exposition of Philippine conditions is essential.

WAR LOSSES

The War Damage Corporation, an RFC subsidiary, sent three investigators to the Philippines and reported that the approximate total war losses amount to \$800,000,000, of which \$196,000,000 is public property, \$464,000,000 is private, and \$139,000,000 are religious properties. The industrial losses may be roughly estimated as follows: Sugar 65 percent, coconut oil 95 percent, tobacco products 95 percent, mining 70 percent, shipping 70 percent, and land transportation 60 percent. The estimate of losses by the Philippine government is over \$1,200,000,000, which in point of completeness and present-day replacement values is logically the more nearly correct figure.

The Philippine Government today is spending on the basis of \$150,000,000 per annum on an uncertain income of less than \$40,000,000. In normal times, the annual budget was balanced at approximately \$80,000,000. On the day the Philippines becomes a republic it will be in debt and funds will have to be found to operate it.

FINANCIAL ASSETS

However, there are two financial items that lighten up the somber picture, items which if wisely used could bring about the country's revival from war and which could be the functional base for its future stability, prosperity, and progress. These are (a) the \$520,000,000 which Congress will appropriate to meet partially the war damages, and (b) a national nest egg of some \$500,000,000 which the Americans spent in the Philippines during and since the war. This grand total of \$1,020,000,000 is four times the value of the country's annual production, nine times its yearly exports, and seven times the monetary circulation.

Under the trade bill, if not prevented by administrative regulations, the Philippines will exhaust those two financial assets in 5 to 8 years, precipitating a severe economic depression. Not that the law is not helpful, but rather it is not helpful enough, and in the evaluation of advantages, the United States comes out at the long end and the Philippines the short, presenting the spectacle that it is the United States that is being helped primarily.

• PHILIPPINE TRADE

Over 90 percent of Philippine production, outside of the people's two main articles of diet—rice and fish—is exportable surplus. An estimate of the Philippine-American trade in the 5 years following independence should convince Congress to make the trade bill more liberal to the Philippines.

The normal trade between the two countries is roughly \$225,000,000 yearly. In the next 5 years the Philippines, by reason of the inherent paucity of rehabilitation, can export to the United States less than one-half of normal, while the United States, precisely on account of the need of rehabilitation, will export about two times the normal amount. There are no quantitative restrictions on American products entering the Philippines, although Philippine products are under quota limitations in the United States.

ELOQUENT FIGURES

Expressed in figures, the average annual exports of the Philippines to the United States, including precious metals, will be about \$80,000,000 against imports of approximately \$200,000,000, or a balance against the Philippines of \$120,000,000. In prewar years, the Philippines was on the debit side of the ledger in the sum of \$25,00,000 a year in the exchange of items—"invisible items"—like freight, insurance, investment returns, handling, financing, remittances, and other expenditures. In the next 5 years, those items will go up to \$50,000,000 at least a year. Thus the total balance against the Philippines will be about \$170,000,000 a year; or a grand total of \$850,000,000 in 5 years. That wipes out the total appropriation for rehabilitation and leaves only \$170,000,000 of the national nest egg, to be wiped out in the following 3 years. After that, the Philippines will begin its exports to the United States on the basis of decreasing quotas or increasing duties, while the United States imports into the Philippines will be only on a decreasing-duty basis, the bill exempting from quantitative restrictions.

FULL WAR DAMAGE AMOUNT NEEDED

Two fundamental suggestions are offered:

1. Let Congress appropriate now the full amount of Philippine war damages. It is now clear, from news coming from Tokyo, that at least \$12,000,000,000 worth of reparation assets will be obtainable from Japan. Eventually, therefore, the uncovered portion of the Philippine war damages in the rehabilitation bill of about \$500,000,000 will be paid. So since the bill provides for the eventual settlement of 100 percent of the losses out of Japanese reparation assets, it is suggested that Congress advance now by increasing the appropriation the full amount of the losses. It will be in the nature of aid-advance and not a loan-gift.

POST-INDEPENDENCE RELATIONS

2. Let Congress realize the full meaning of its Resolution 94 of June 19, 1944, under which an extensive American military establishment will be built on Philippine territory after independence. When the American flag flies over it, the Philippines without benefit of treaty will in effect become an American military protectorate and a political associate, considered as such by foreign nations. In that situation, it is to the vital interest of America to have a strong, prosperous and cooperative Philippines. Therefore, it is but logical that Congress, instead of passing a bill dissolving the Philippine-American economic ties, should consider one strengthening and perpetuating them. It is possible to make the economic relations between the two countries less competitive and overwhelmingly complementary to their mutual benefit.

WHAT BILL DOES

The trade bill (H. R. 5856) is the fifth redrafting of the measure. It is very involved. The Filipinos will have difficulty in understand-

ing it. But they don't have to understand it fully if they want to receive the entire benefits of the rehabilitation bill, for a House amendment to the latter bill states that no payments over \$500 shall be made until the Filipinos have accepted the trade bill.

Among the reasons why the bill is so complicated seems to be that an executive agreement is not considered by its author as having the force of law both in the United States and in the Philippines, even after it has been ratified by the Philippine Congress. Additional legislation on both sides is required by provisions of the bill to make the agreement effective.

CONSTITUTIONAL REQUIREMENT

The contention of the writer of these lines has been upheld that if the effective date of the bill is to depend on the Philippine Constitution being first amended to make a part thereof a certain section of the bill, it will not be until the next elections in the Philippines 4 years from now, in 1950, when such amendment could be constitutionally effectuated. The integrity of the Philippine Constitution must be upheld, and that could be done without impairing the provision of the bill desired to be made a part of the constitution by referring to article XVI of that constitution, which is a verbatim copy from the "mandatory provisions" of the act of Congress of March 24, 1934, the Philippine Independence Act.

The bill establishes a modified free trade between the United States and the Philippines for 28 years. During the first 8 years there will be no duty on both sides, but from then on there will be increasing duties on both sides, excepting Philippine coconut oil, cigar, scrap tobacco, and pearl buttons, which will all be duty-free, while their quotas will be decreased by 5 percent yearly.

PHILIPPINE WAIVES MORE

Mutual waiver of duties: The Philippines in the first 5 years will waive about \$60,000,000 annually on duty-free American goods, while the United States will waive only about \$20,000,000 yearly on duty-free Philippine products. In other words, the Philippines will make a sacrifice of \$60,000,000 for the privilege of not paying the duty of \$20,000,000. The sacrifice will be almost enough to run the Philippine government economically for a year, while the waiver by the American Government can meet its expenses for only a few hours.

Executive agreement (title IV): The trade and other relations will be set forth in a Philippine-American Executive agreement. Instead of the complicated provisions of the bill, it should simply provide that the pertinent provisions of the bill be incorporated in it, with the commitment by the Philippine government that section 341, defining the rights of Americans after independence, shall be made a part of the treaty required by article XVI of the Philippine Constitution, thereby making it the law of the land then and there. If it is still desired to make said section 341 a part of that constitution, although it would be a surplusage and a departure from the present American foreign policy, such could be made a part of the treaty. The ratification by the Philippine Congress of the Executive agreement shall be required within a period definite to be mentioned in the bill.

STATUS OF AMERICAN CITIZENS

American immigration: Section 341 drops the clause in section 341 in the committee print (March 15) of the bill which says that Americans shall enjoy "the same rights as to property, residence, and occupation as citizens of the Philippines." If that clause is inserted in the bill, sections 331, 332, and 402 (e) can be deleted because if the Americans have the same right of residence in the Philippines as the Filipinos, it does not make sense to have provisions limiting their entry and residence in the Philippines. The Filipinos welcome as many Americans as are desirous to come to their country, which they helped to build, stay there at their pleasure, and be free to come and go without limitations.

Filipino naturalization: Section 231 places Filipinos under the immigration-law provisions applicable to non-Orientals, but dropped the provision of its predecessor bill, H. R. 5185, section 17, granting Filipinos the right of naturalization. It is suggested that the provision be put back in the bill. The Chinese have been given by Congress the privilege of becoming American citizens, why not the Filipinos, who are "American nationals" under American law until they become aliens on July 4, 1946?

SUGAR-QUOTA REDUCTIONS

Sugar (sec. 211): The original quota of 850,000 long tons is reduced in the bill by about 60,000 long tons. During the first 8 years there will be no duty, but after that period it will pay progressively 5 percent a year until the full 100 percent is reached, and without diminution of the quota. It is suggested that the quota be reduced to 750,000 long tons, but eliminating the duty for the entire period of 28 years. This duty-free position of Philippine sugar even on a reduced amount, considering the 60-percent destruction of the industry, will place it on a more solid and stable basis and make it conform to the agricultural diversification program that the Philippines must work out.

COCONUT QUOTA AND TAX REDUCTIONS (SEE SUPPLEMENTARY MEMO
HEREOF)

Coconut oil (secs. 505 and 506): As an exception to the provisions of the bill that each country shall not impose any internal tax on each other's products, the United States is continuing the processing tax of 3 cents a pound on Philippine coconut oil. This tax, amounting to about \$18,000,000 a year, was turned over to the Philippine government, but after independence such will not be done. The tax has proved highly burdensome both to the Philippine producers and the American users of coconut oil. Before the tax the average price was 4.14 cents a pound and after the tax was imposed it was 2.42 cents. So it is suggested that since the tax is not to be returned to the Philippines that it be reduced from 3 cents to 1 cent. The American users will pay 2 cents less and expectedly will be able and willing to pay more for the product.

It is also suggested that the quota be reduced from 200,000 long tons (sec. 214-a-3) to 150,000 or 125,000 long tons. With the industry 95 percent destroyed and adverse interests ever active, it would be better

for the Philippines to place that industry on a more stable basis with a reduced quota. But there must be one quid pro quo: That the quota shall be intact during the entire 28 years.

This principle might be adopted with respect to cigar, scrap tobacco, and pearl buttons. These suggestions contemplate the possibility and probability that there might be a perpetual free-trade arrangement between the United States and the Philippines in harmony with their military and other relations.

Luxury goods: There is no provision in the bill that would enable the Philippines to control or curtail imports of luxury goods to make the rehabilitation program effective and to keep the Philippine dollar balances from being dissipated. If the needful provision is decided upon, as it should, what luxury goods are should be defined.

Simplification: A last appeal is made here to simplify the bill and make it more liberal to the Philippines.

REHABILITATION FEATURES

The following suggestions are offered on the rehabilitation bill, S. 1610:

1. Appropriate the full amount of damages. In line with the idea of staggering the rehabilitation to forestall a depression, there should be a provision in section 104 (d) to permit the recipient of war-damage payments to reinvest them at the proper time to assure a reasonable success of the investment.

2. Since foreigners in the Philippines will receive war-damage payments under section 102 (b-1), the necessary additional appropriation should be made to cover their damages, which are estimated at about \$150,000,000, so the amount set aside for Americans and Filipinos is not reduced.

3. Churches should be placed in the same category as other properties and paid for under the same provisions. An increase of total appropriation would be necessary.

JAPANESE REPARATIONS

4. Under section 106 (b) the amount of coins and bullion obtainable from Japan as reparations shall be applied to that part of the Philippine losses not covered by the appropriation. But before a dollar is paid out, the bill's total appropriation of \$520,000,000 shall first be obtained and turned over to the United States Treasury. In this way Uncle Sam will not be out of pocket under the bill. General MacArthur, as of last December, had in his control Japanese coins and bullion, both gold and silver, valued at about \$263,000,000. He had also 159,000 carats of diamonds, 6,200,000 grams of platinum and other rare metals, all roughly valued at \$50,000,000, making a total of \$313,000,000. Since these assets are inadequate to carry out the bill's provisions, section 106 (b) should be amended to include precious stones, rare metals, and other assets, otherwise the provision will not aid the Philippine war sufferers.

AGRICULTURAL STATIONS—DIVERSIFICATION

5. Lastly, there should be an amendment, with special liberal appropriation, under title III, for the establishment by the United

States Department of Agriculture of experiment stations in the Philippines to carry out the program of agricultural diversification and improvement of the yield and quality of existing products. This amendment is indispensable if the Philippines is to be less dependent on American markets and on too few products, and also be able to compete with foreign production. It will also be highly beneficial to the United States. This matter is of the most vital and pressing importance.

THE FILIPINOS FOR UNITED STATES

The Filipinos fought cheerfully with America in the war, with effectiveness, and without the aid of lend-lease.

The two bills should be as least imperfect as possible. They will not go into effect until after July of this year. They will be the expression of America's good will to the Philippines. It is incumbent upon the Filipinos, as a token of appreciation and for their own sake, to do their best to make them work successfully and serve the best interests of the people.

SUPPLEMENTARY MEMO BY MR. VILLAMIN

COCONUT OIL PROCESSING TAX

Problem stated

The Ways and Means Committee has decided to continue the present law on the coconut oil processing tax with one exception, to wit, that the tax collected will not be returned to the Philippine government after independence. The tax amounts to about \$18,000,000 a year.

Two questions arise: (1) Is Congress empowered under the Constitution to turn the tax over to the Philippine government after independence; and (2) is there a quid pro quo from the Philippines if the tax is turned over to that government?

American law

The answers to the two questions are in the affirmative.

1. Congress has the right to render financial assistance to a foreign country "in the interest of stable government or for any reason of policy, open or secret." (See brief No. 659 by the United States Government in *Cincinnati Soap Co. v. U. S.*, October term, 1936.) Among the signers of the brief are the now Justices of the Supreme Court Stanley Reed, then Solicitor General, and Robert H. Jackson, then Assistant Attorney General. The Supreme Court upheld the contention of the Government.

2. There are several quid pro quos from the Philippines for the payment of the tax to the Philippine government, and the principal one, whose monetary value is much greater than the tax payment, is the fact that American goods can enter the Philippines without quantity restrictions while the Philippine products are placed under quantity quotas.

American policy

The Philippine Trade Act (H. R. 5185) is a general give-and-take arrangement between the United States and the Philippines growing out of their close and cooperative association of nearly 50 years. It is reinforced by the fact that after independence there will be close and cooperative military relations between the two countries through the erection of important American military establishments on Philippine territory. The payment of the coconut oil processing tax to the Philippines may be placed in the same category as the import duties waived on Philippine products, in both cases fully compensated for by the Philippines.

Effect of tax on price: Average f. o. b. San Francisco price on coconut oil before enactment of Revenue Act (1921-30), 4.14 cents a pound; after enactment of act (1935-41), 2.45 cents, or a decrease of 1.69 cents.

THE PROGRESS OF THE BILL

The substance of the final draft of the bill (H. R. 5856) is an improvement on the first draft (H. R. 4185), although, it must be frankly said, that the wording is bewildering. It is to be hoped that the bill's administration and interpretation will be liberal to the Philippines.

In speeches to the Ways and Means Committee, I criticized H. R. 4185 and it is noted that most of my criticisms have been heeded by changed provisions in the present bill.

PRESERVING TARIFF AUTONOMY

I objected to section 15 of the original bill because, among other things inimical to the Philippines, it would deprive the Philippine government completely of tariff autonomy. It would render it impossible for that government to negotiate trade agreements with foreign nations, for trade agreements involve the mutual reduction of tariff duties, and the Philippines, under that section, would be prohibited from reducing its tariff schedules. The present bill has eliminated that objectionable provision.

PREVENTING MONOPOLY

I attacked section 10 on the ground that it would tend to establish and legalize monopoly in the industries receiving export quotas to the United States. Under that section, it is possible for one firm to acquire the entire quota given the Philippines, for if the firms are unable to deliver their allotments under the quota, such allotments would be turned over to the firm that is in a position to do so. I contended that in such a case the undeliverable allotments should be offered to the public to give new persons, especially the Filipinos, an opportunity to enter in the industry. The present bill met my criticism by adding a clause giving the Philippine government the authority to redistribute the unfilled allotments among persons other than the ones already in the industry.

DIFFERENT DUTY RATES

The third criticism is very fundamental. I stated that the application of a flat 4 percent or 5 percent of the American tariff duty on all Philippine products entering the United States was unscientific and would work a positive injustice to the industries involved. I explained that the rates of duty on different products were not uniform; some are high, others low; and so while a product could stand the duty for 5 to 10 years, another product would go under in much shorter time. A good example is the cigar industry, which employed 15,000 people in Manila. The 4 percent of the American duty on Manila cigars on the first year will wipe out most of the profits of the manufacturer; and on the second year, under an 8 percent duty, his entire profits and a goodly part of his production costs would vanish completely. The reason of course, is that the tariff duty on cigars is skyhigh.

This criticism has been met in the bill with the provision that the four high-duty products—cigars, scrap tobacco, coconut oil, and pearl buttons—will be duty-free during the entire 28 years of the life of the law, but their quotas will decrease gradually every year. This is the better arrangement. If this provision had not been inserted in the present bill those four Philippine industries would be exposed to almost immediate annihilation and no investor could be induced to rehabilitate them.

DENATURING OIL

I worked against the provision denaturing coconut oil because it constitutes the debasement of quality of a product. The principle of depreciating quality by legislation is one of the worst forms of economic oppression and exploitation. It discourages human skill and penalizes enterprise. The abnoxious precedent must not be established with any Philippine product. The present bill does not contain the denaturing provision. However, the question of coconut oil internal taxation in the United States is yet to be solved.

Finally, in memoranda to committee members I pointed out that if the relevant provisions of the bill were not modified, the bill and its incidences would not be effective until 4 years from now, in 1950, when the Philippine Constitution could be amended. The present bill recognizes that constitutional fact.

As a private Filipino citizen, I thank the members of the Ways and Means Committee for their patient work and desire to serve the best interests of the Filipino people.

Mr. Chairman and gentlemen, you have been very courteous and considerate to me, a private Filipino citizen. I gave my own views—views, which I honestly and strongly believe would rebound to the benefit of the Filipino people. The bill could have been improved and liberalized to carry out the idea that it is the Philippines and not the United States that is intended to be aided primarily. I did my level best in that connection. I wish I had been more successful.

Mr. VILLAMIN. Mr. Chairman, I wish to insert an article by Mr. B. M. McKelway, associate editor of the Washington Star.

(The article referred to is as follows:)

**FOUR BLOWS TO FILIPINOS BLIGHT RECORD OF UNITED STATES AS ALLY IN WAR
FAILURE TO SHOW GRATITUDE FOR ISLANDS' HELP IS UNPROMISING PRELUDE TO THEIR
INDEPENDENCE**

(By B. M. McKelway, associate editor of the Star)

There is ruin and destruction all over the world today.

But one of the saddest sights in all this ruin and destruction is the Philippine Commonwealth Legislative Building in Manila.

That building was completed in time for the inauguration ceremonies of the Commonwealth on December 15, 1935. Memories of that day and of that building are still fresh in Washington, for many Members of Congress, who are still in Congress, were in Manila on that day, and they stood on the portico of the Legislative Building and watched the ceremonies which marked the Commonwealth's inauguration.

Manuel Quezon, now dead, was taking the oath of office as the first President of the Commonwealth and flushed with his triumph he spoke to the crowd of the great future that awaited the new nation then being launched. Gen. Douglas MacArthur was there, watching as the Filipino soldiers, whom he was to train as a Commonwealth army for defense of the islands, marched in review. It was a day of great promise for the Philippines.

SYMBOLISM SEEN IN WRECKAGE

Today there is something obscene about the wreckage of that Legislative Building. Its classic lines are gone, lost in a grotesque jumble of stone and steel that seems to mock what stood there before. Of all the pitiful wreckage of Manila, complete as anything I have seen in Japan or in Germany, that building, more than anything else, seems to symbolize the crushing blow that war has dealt the new Ship of State of the Philippine Commonwealth which had just begun its uncertain voyage 10 years ago, with Uncle Sam still standing near the wheel.

Next July 4 this wreck of a little nation will be cast adrift for good on the sea of independence. The Filipinos want it that way. We have been promising them independence for years. Any people who want to govern themselves should have the right to try and they deserve the right to try. But it is hard to escape the conviction that somewhere along the line, here and in the Philippines, statesmanship has missed the boat and that this gesture of turning the Philippines loose on July 4 is grimly premature.

Nor has our record, as a nation, in meeting fully and promptly our obligations to the Filipinos incurred in the heat of war and largely because they were helping us, served as a promising prelude to the independence which we shall "give" them on July 4.

FOUR BLOWS TO FILIPINO

Here is the record:

1. Shortly after President Osmena stepped ashore with General MacArthur on the island of Leyte, beginning the land campaign for recapture of the Philippines, there was prepared in the American headquarters a proclamation, signed by President Osmena, promising all Filipino soldiers who served in the American armed forces the pay of American soldiers. The proclamation was distributed by airplanes—American airplanes—throughout the islands. Its purpose was to give another incentive, to Filipinos, to help us fight the Japanese. When the War Department heard about the business a protest was sent to General MacArthur, repudiating the proclamation. General MacArthur sent a staff officer to Washington, who returned with a request to President Osmena to withdraw, or otherwise to cancel the proclamation. It is claimed that this was done, but it was never done, as far as any one has been able to determine, in writing. The War Department's position may have been sound. But as far as the Filipino is concerned, he was led to believe something that was not so and we were in on misleading him.

2. Before General MacArthur and President Quezon left Corregidor they decided it would be necessary to print some sort of currency to meet emergencies

in the Philippines. This was known as, Guerrilla currency, and the American High Commissioner to the Philippines, Paul McNutt, has verified from General MacArthur and from the staff officer who drew them up that there were written instructions regarding the issue of this currency. The instructions have never been located and we have declined to redeem the currency. In effect, therefore, we have repudiated this currency—including some memoranda of indebtedness drawn up by American Army officers and issued to their Philippine guerilla comrades in lieu of cash while they were fighting the Japs. It is highly probable that more of this currency was issued than was necessary. It is probable that some of the Filipinos abused the privilege for personal gain. Speculators have bought up some of it as a gamble. But we should do something about it and by careful investigation decide what is fair and square.

3. The original GI bill of rights contained no specific mention of Filipinos who served with American armed forces, but the bill was interpreted here and in the Philippines, as applying to Filipinos. The administrator of veterans' affairs announced that the GI benefits were to be made available to the Philippine Army veterans. No benefits were ever actually paid. It is true that some of the benefits were impractical of application in the Philippines. Subsequently, Congress attached to an appropriation bill a rider excluding Commonwealth Army veterans from any United States veterans' benefits except death and disability payments. So far none of even these has been paid, although authorized by law. Whatever the wisdom of the congressional action, Filipinos interpreted this development as another gratuitous slap in the face for those who had risked their lives in the service of the United States.

4. Last June, before Japan had surrendered, Senator Tydings returned from a hurried trip to the Philippines and gave the Senate a remarkably graphic description of the "sad, pitiful, but heroic saga of the Philippine people from the time of the Japanese invasion, December 7, 1941, to the present," coupling with his moving account of Philippine loyalty to the United States and the damage they suffered a rehabilitation program. About the same time Mr. McNutt, before starting for Manila as American High Commissioner, obtained from the President and his advisers agreement on American Philippine policy, including legislation for payment of war damages and extension of free trade privileges to the Philippines for a period of years after their independence.

The Senate quickly passed the Tydings bill for war damages. But the free trade bill, companion legislation, had to originate in the House Ways and Means Committee. Both measures are still in House committee—more than a year after we regained Manila from the Japanese. They will pass eventually. But the delay is hard for an American, in Manila, to explain to a Filipino.

RECORD NOT EASILY JUSTIFIED

This record, in fact, is hard for anybody to explain, hard for anybody to justify. In the eyes of the Filipino it represents gross ingratitude, a performance that has left the Filipino—who served us well—hurt and baffled. The fact that Filipino politicians may have pinned their hopes too high on what they might get out of "Uncle Sugar"—as he is known on distant shores—has nothing to do with it.

In addition to what seems to the Filipinos rather shabby treatment, the Filipinos have been left prostrate by a war which, had they not been our wards, might have passed them by. They are flat broke and forced into deficit financing after a calamity that will retard recovery for years. Probably more of the property damage they have suffered was caused by our artillery fire and bombardment, in dislodging the stubborn Japanese than the Japanese caused themselves.

The failure to receive anticipated financial help, in the form of damages for property losses alone, has paralyzed all effort to get started again. When I was in Manila, less than three weeks ago, the American High Commissioner's office was working hard to obtain food supplies for a locality on Luzon where people were threatened with actual starvation. There is no other source of help.

POLITICS UNAFFECTED BY WAR

But politics, dear to the heart of a Filipino, runs its merry course. In Manila's battered streets great colored posters bid for votes for Osmena or for Roxas, the rival presidential candidates, heading the two wings—on parallel platforms—of the single Nationalista party, which rules the roost.

In the hills of Luzon a new opposition, known as the Democratic Alliance and combining several political organizations with leftist-to-left tendencies has gained prominence because of its controlling element, the Hukbelajap (people's army against the Japanese). The organization has put itself behind President Osmena for the elections April 15, but it promises more trouble later on for constituted authority. Its members have some 10,000 rifles and other small arms, with ammunition, acquired for guerilla fighting against the Japs, and they have defied government orders to turn them in.

They now constitute what some observers regard as the most dynamic radical movement in the Philippines, some of their leaders professing communism and appealing to the tenant farmers, an always abused class, by reforms which the land-owning, conservative Filipinos in political power have been slow to initiate. So far the "Huks" have successfully defied Manila, in running things their own way, which is far from gentle.

The collaborationist issue is cloudy and confused. Cases against some 6,000 alleged collaborationists were turned over to the Commonwealth's "people's court" by American counterintelligence. The court has reached a decision on the guilt of about 12. Collaboration has never been clearly defined, and many Filipinos are suspected who may be morally clear, by some standards, and black as sin by others. Osmena's two sons, by a former marriage, have been indicted as collaborationists and Roxas—though given a clean bill of health by Gen. MacArthur—was himself a member, without portfolio, of the puppet cabinet which declared war against the United States. Independence for the Philippines will doubtless see most of the collaborationists forgiven and forgotten.

It is not the fate of the collaborationists or of the Filipino politicians, after independence, which should cause any concern. They will get along. Those most apt to suffer are those who least deserve it—the common, ordinary run of Filipinos, attractively childlike in some of their characteristics, clean in their starched clothes as they troop through the streets to church on Sunday, eager and quick to learn in their schools, loyal in war and in peace to America and Americans. We should not let them down.

Senator WALSH. Proceed, Mr. Villamin.

Mr. VILLAMIN. Gentlemen, yesterday my most admired friend, Mr. Will Clayton, Assistant Secretary of State, pointed out wherein certain concessions granted to the Philippines in the bill under consideration, H. R. 5856, might embarrass the United States on the ground of lack of consistency when she proposes to the coming world trade conference a program for the liberalization of international trade as expressed in the famous article VII in the master agreement under lend lease between the United States and, severally, Britain, Russia, and other countries which received lend lease from the United States, one of them incidentally, is not the Philippine Islands.

Mr. Clayton's preoccupation is based on the theory that after July 4, 1946 the Philippines will be an independent nation—the Philippine Republic. I wish to state here the fact that under a law of Congress, Resolution 93, dated June 19, 1944, we are not going to have the first attribute of sovereign independence. That is, through the establishment in the Philippine Islands of naval and military bases by the United States it will make us a defacto military protectorate of the United States. Such will be our relationship. If I were a Filipino delegate to that international trade conference, the first thing I would do would be to explain to that conference the special relationship between the United States and the Philippines under that resolution.

I should like to refer to some comparable situations. Besides its many autonomous states integrated in it, Russia has within its multi-state composition 17 republics. As America professes to get embarrassed by her commercial relations with the Philippine Republic, that she herself created after nearly 50 years of effort, will America

be also embarrassed by asking Russia to abolish, or at least delimit, the free trade between those 17 Soviet Republics? Why bring that up? some people might say. The Russian Republics may be generally comparable to the States of the Union, but that is not an apt comparison. At least two of the Soviet republics—the Ukrainian Republic and Byelo-Russian Republic—have separate representations in the United Nations Organization, and no State in the Union as such is similarly represented. So I am just bringing up the question that the Philippine Republic will not necessarily, per se, embarrass the United States in its approach to the liberalization of trade with the Philippines.

May I say, furthermore, that under the organic law of the British Commonwealth of Nations, the Statute of Westminster, that aggregation of states as a unit has no power to bind its members in a treaty to any matter of international concern. The British Commonwealth as such has no treaty-making power. Each component member possesses the sovereign right to enter into treaty obligation separately. If Canada, for instance, were to negotiate a trade treaty with the United States, it would be Canadian interests first and empire or commonwealth interests afterward that would dictate Canada. In this case of Canada, there should be no objection on her part to Philippine products being admitted to the United States because she does not grow those products, which are of international concern.

Senator WALSH. Thank you. We will adjourn and meet in executive session tomorrow morning at 10:30.

(Whereupon, at 12:10 p. m., the committee adjourned.)

PHILIPPINE TRADE ACT OF 1946

FRIDAY, APRIL 5, 1946

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator David I. Walsh presiding.

Present: Senators Walsh (presiding), Connally, Guffey, Johnson, Lucas, McMahan, La Follette, Vandenberg, Butler, Millikin, Bushfield, Hawkes, and Saltonstall.

Senator WALSH. The committee will come to order.

Mr. Commissioner, we will be glad to hear your views.

STATEMENT OF BRIG. GEN. CARLOS P. ROMULO, RESIDENT COMMISSIONER OF THE PHILIPPINES TO THE UNITED STATES

Commissioner ROMULO. Mr. Chairman and gentlemen of the committee. I have left my sick bed at the Walter Reed Hospital in order to present to you some of the views of the Philippine Government with regard to H. R. 5856, which was passed unanimously by the House last week and which your committee is now considering.

I do not think that there is any doubt in the minds of any members of this committee as to the general position of the Philippine Government with regard to this bill. We do not consider it a perfect bill. We would have preferred a somewhat different approach to some of the basic problems it affects.

We are still somewhat hopeful that the Senate will make certain amendments which will improve the bill for the benefit of both the United States and the Philippines.

But, on the whole, we are vigorously in favor of this legislation; and in the interest of our people as well as in the interest of future Philippine-American relations, we earnestly ask for its speedy passage.

I shall not take up your time to explain either the general purposes of the bill or most of its rather complicated details. These matters have, I believe, been covered rather thoroughly by previous witnesses.

I would, however, like to remind you of the basic philosophy underlying H. R. 5856. In theory, and I repeat, in theory, it would be highly desirable for our people if the Philippine economy could, at this moment, start from scratch and build the kind of economic structure which would in the long run be most beneficial to the Filipino people as members of the world community.

In theory, we should be able to reduce our dependency on the economy of the United States, to diversify our agricultural and industrial

production, and to locate and develop new and expanding markets in world trade. That is what we should be able to do, in theory—and that is what we want to do and that is what we plan to do.

Unfortunately, the practical fact is that we cannot do it now. Anyone who has been in the Philippines can tell you of the extent of devastation which our country has suffered as a result of the war. In the Philippines every city is a Coventry. Our productive capacity, on the farms and in the mills and in the factories, has been virtually wiped out. We cannot start from scratch because we have nothing to start with except willing hands and unexploitable resources. We must have a breathing spell in order to get back on our feet and begin to walk by ourselves. Such a breathing spell can only be provided by the enactment of this bill.

It is true that H. R. 5856 will, to a very great extent, tend to restore the status quo as it existed before the war and that this status quo had its evils as well as its benefits. To us there is no doubt, however, that for the limited period covered by this bill the benefits far outweigh the evils. And for this reason the entire economy of the Philippines hangs in a state of anticipation, because no planning whatever can be done until we know where we are going to stand in our trade relations with the United States over the next quarter century.

With that as a background, I should like to comment on some of the specific points that have been raised before this committee during the past few days.

First of all, I am informed that both the Department of State and the Department of Commerce have recommended the elimination of absolute quotas on all Philippine exports to the United States, with the exception of Philippine sugar, for the 28-year period covered by this bill. I should like to state that, so far as the Philippine government is concerned, we feel that their arguments are most convincing, at least as they affect Philippine exports other than sugar. For rather obvious reasons, we have hardly been enthusiastic at any time about the imposition of absolute quotas on Philippine products. As I stated on the floor of the House the other day, my idea of an ideal bill would be a bill which established no quotas at all. We have gone along with the quota provisions, under protest, only because it has thus far been apparent that the sentiment of the House was in favor of such quotas. I can assure you, however, gentlemen of the committee, that no action by the United States Congress would arouse greater satisfaction among my countrymen than the elimination of the quota system on products other than sugar.

On the matter of the sugar quota, unfortunately, I find it impossible to go along with the reasoning of Secretary Clayton. If I understand the report of his testimony here correctly, Mr. Clayton is in favor of eliminating the sugar quota from the bill and bringing it up when the Congress considers the over-all Sugar Act later in the year. Gentlemen, it was bad enough, from our point of view, when the House reduced the Philippine sugar quota from 850,000 long tons to 850,000 short tons—and I intend to comment on that point a little later—but it would be, in our opinion, disastrous if the Philippine sugar quota was eliminated from this bill entirely and postponed for consideration in the future, when the matter would inevitably become involved in a number of extraneous issues.

The sugar industry has become the most important single industry in the Philippines. It is perhaps too important. But that again is a theoretical matter. In practical terms, the economic rehabilitation of the Philippines cannot be planned or carried out unless the Philippine sugar producers know where they stand, not for the next 3 years or 10 years, but for the next 28 years.

It will take at least 3 years before the Philippines even begin to export sugar to the United States in any substantial quantities. No hard-headed businessman, whether Filipino or American, is likely to spend his money, his time, or his energy to rebuild the sugar industry if he has no assurance that, when it is rebuilt, he will be able to sell his product at a reasonable profit. The only way a businessman can have such an assurance is by a legal specification of the amount of sugar which the United States will permit the Philippines to export to America and of the length of time during which such a quota will last. As you know, the Sugar Act, which will be considered by the Congress later this year, must be reviewed every 3 years. Because it involves interests not only in the United States but in foreign countries, it inevitably becomes subject to unpredictable influences. It is conceivable, for example, that the Sugar Act this year might well allocate a satisfactory quota to Philippine sugar, that Philippine sugar producers might rebuild their industry so that at the end of 3 years they would have achieved full production, and that the act would then be changed so as to reduce the Philippine sugar quota. This would leave them holding the bag, with no return on their investment.

If it is the purpose of the United States not only to establish a sound and businesslike trade relationship between our two countries, but also to assist the Philippines in rehabilitating itself, I submit that Secretary Clayton's proposal would violate that intention. I know that his proposal was submitted in good faith. I have nothing but the highest admiration for him, but in equally good faith I plead with you to ignore him.

The next point on which I want to comment is the amount of the sugar quota stipulated in H. R. 5856 as passed by the House. Before the bill was reported out, this quota was reduced from 850,000 long tons, as provided in the Philippine Independence Act, to 850,000 short tons, as provided by no precedent whatever. The changing of that single word "long" to that other single word "short" involves a reduction in the amount of 91,071 long tons. Gentlemen, that is a very sizable, an almost frightening, cut. It means an annual loss in export value to the Philippines of approximately \$6,000,000—a young fledgeling, just beginning, and you are going to deprive it of \$6,000,000, or a total loss of more than \$150,000,000 for the entire period covered by the bill.

Senator LUCAS. What was the quota before the war?

Commissioner ROMULO. 850,000 long tons.

I don't know, in all frankness, what the logical reasons are for this reduction. It harms the Philippines; it does not benefit the United States. The only group that stands to benefit by this change is the Cuban sugar group. Under the international sugar agreement, any reduction in the Philippine quota of 850,000 long tons must automatically go to foreign countries, principally Cuba. Mr. Chairman,

if a choice must be made by you as to whether you prefer to help the Philippines or Cuba, I will let the war record of the Philippines speak for itself.

At another point in his testimony, Secretary Clayton expressed his opposition to those sections of the bill which require the Filipino people to give Americans in every respect the same rights as Filipinos in the exploitation of Philippine resources, and to amend our constitution for this purpose.

Senator CONNALLY. Do you think the word "exploitation" is a fair word there? I would assume you would not let anybody exploit the Philippines.

Commissioner ROMULO. No, sir; but that was the word used by Secretary Clayton. I would rather not use it when applied to Americans, as in fact I have never used it, but that is the very word used by Secretary Clayton.

Senator CONNALLY. You are testifying now.

Commissioner ROMULO. I am not using it now, I am just quoting it.

Senator CONNALLY. I am just asking you. You can use what you like.

Commissioner ROMULO. If the Philippine Government does not take this action, as the bill now stands, it cannot receive the tariff preferences granted by the bill. Other provisions have the intent of securing for Americans in the Philippines the same rights as Filipinos in all other fields of activity and provide for termination of the trade agreements if such rights are not granted.

Senator SALTONSTALL. Mr. Chairman, might I ask a question at that point?

Senator WALSH. Certainly.

Senator SALTONSTALL. General, I asked this question yesterday of Mr. McNutt. I would like to get your answer from the Philippines' point of view. With relation to the people who can do business and ship export goods to the United States, it is limited to the people who were doing business in 1940; isn't that right?

Commissioner ROMULO. Before the war, yes, sir.

Senator SALTONSTALL. And it is going to be limited to them for the next 28 years, or their successors.

Commissioner ROMULO. Yes, sir.

Senator SALTONSTALL. Now, that means if this business is profitable it is confined to those people who were doing business in 1940, without letting any new people come in to do business, unless they buy a license, you might say, from these people who were in business in 1940.

Commissioner ROMULO. That is correct, sir.

Senator SALTONSTALL. That license might become very valuable. Do you agree with that provision or do you think new people should be allowed to come in?

Commissioner ROMULO. This bill, Mr. Senator, is a rehabilitation bill.

Senator SALTONSTALL. Is what?

Commissioner ROMULO. A rehabilitation bill to restore our industries. It is to enable the factory owners to rebuild their factories. These owners will not rebuild without some assurance of a market for their products. And this bill gives that assurance, by giving them a quota for their product in the United States market. Since the

quota was originally given to the present recipient of the quota under this bill, it would seem only fair that he should get it now, not only to enable him to continue his business but also to rehabilitate the industry for the benefit of the whole country. The basic principle of the quota system is to allocate pro-rata the limited quantity available to producers of record at the time the limitation is fixed. Moreover, as the quota is of diminishing value, with the intention that Filipino producers would eventually, after the 28-year period, be weaned from the United States tariff protection, it would be desirable that no new producers start producing goods destined for the United States now under quota. New producers should go into new industries and produce for a competitive world's market rather than for the American tariff-protected market. That would be the desirable path for us toward economic independence.

Senator SALTONSTALL. So you approve this limitation, from the sugar and cordage point of view?

Commissioner ROMULO. Yes, sir; we approve of this.

May I proceed?

Senator WALSH. Yes, sir.

Commissioner ROMULO. These provisions, as Secretary Clayton pointed out, are not reciprocal, and he therefore recommends that they be stricken from the bill.

On behalf of the Philippine Government, I want to assure you that it is our irrevocable desire to maintain as close and harmonious a relationship with the United States in the future as we have in the past. That is the policy of the Philippine government. That is the will of the Filipino people.

Senator CONNALLY. I do not want to interrupt you, but I will have to ask you some questions either now or later.

Commissioner ROMULO. Yes, sir; you may interrupt me anytime.

Senator CONNALLY. Have you any statistics to show what percentage of the sugar lands of the Philippines are owned by these big companies and what percentage are owned by the individual farmers, the little fellows, and so on, who sell the sugar to the factories?

Commissioner ROMULO. One company owns more than 2,500 acres of sugar land. Its total acreage is a comparatively small percentage of the land cultivated for sugar. By and large, the sugar is produced by 24,000 planters, the majority of whom are small planters, each producing an average of 7 tons from approximately 4 acres of land. Congress in 1902 passed a law prohibiting a corporation from acquiring public lands in excess of 2,500 acres, and that law is still in force; in fact, it is embodied in our constitution.

Senator CONNALLY. These big companies do own a good deal of land there, do they not?

Commissioner ROMULO. No, sir; except in one case I already referred to, no big companies own a good deal of land.

Senator WALSH. How much is owned by the Filipinos exclusively?

Commissioner ROMULO. As I have already stated, except in one sugar district, most of the lands are owned by Filipinos and tilled by Filipinos. Ninety-four percent of the sugar lands are owned and controlled by Filipinos; 3 percent by Americans; 2 percent by Spanish; and 1 percent cosmopolitan. All the laborers in sugar production are Filipinos.

Senator JOHNSON. Isn't that also true of Cuba?

Commissioner ROMULO. I do not know, sir.

Senator JOHNSON. Are not the cane-sugar plantations pretty largely owned by big sugar interests in Cuba?

Commissioner ROMULO. I would say in Cuba they are, yes, sir.

Senator CONNALLY. Americans own a good deal of the stock in the Philippines?

Commissioner ROMULO. Of the investment of \$93,250,000 in sugar factories, \$46,675,000, or 50 percent, is Filipino-controlled; \$30,575,000, or 33 percent is American; \$15,000,000, or 16 percent, is Spanish; and \$1,000,000, or 1 percent, is cosmopolitan.

Senator CONNALLY. American interests own large blocks of that sugar stock, don't they?

Commissioner ROMULO. 33 percent.

Senator CONNALLY. All right.

Commissioner ROMULO. But with our independence scheduled to be proclaimed within less than 3 months, we would have preferred to establish these principals on a voluntry rather than a compulsory basis. As we have pointed out to the House Ways and Means Committee, and I have done this several times, the plain truth is that, even if H. R. 5856 made no reference whatever to our constitution, we would nevertheless be required to amend the constitution before the trade bill could go into effect. Now, gentlemen, to us our constitution is as sacred as yours is to you. Therefore, we have hoped that we would not be placed in the peculiar position, on the verge of our independence, of being forced to make these amendments by order of the United States Congress.

The good will of the Filipino people you have. We have shown our loyalty in the crucible of fire and suffering. Now that we are in a sad plight, our country devastated, why this order from the United States Congress?

Senator WALSH. Do I understand that you would have to amend your constitution to carry out the provision of the bill that relates to American investors in the future in the Philippines?

Commissioner ROMULO. Existing rights of American citizens and corporations are preserved and continued under our constitution.

Senator WALSH. I am talking about in the future.

Commissioner ROMULO. In the future, we would much prefer to have such rights embodied in a treaty of friendship between our two Nations.

Senator WALSH. You will have to amend the constitution?

Commissioner ROMULO. That is what we are ordered to do in this bill, and while we are willing to do that if we must, I must stress once again that we prefer to do it in a treaty.

Senator WALSH. Your position is the same as Mr. Clayton's on that. You want that eliminated from this bill?

Commissioner ROMULO. Yes, sir; unquestionably. Let it be voluntary on our part. It will be. America is about to make a sort of beau geste in the Far East.

Senator WALSH. I think Mr. McNutt's position was that he thought it would stimulate and help the Philippines by getting American capital invested there.

Commissioner ROMULO. The American businessman knows we want American capital there. There is no other capital we want in the Philippines as much as we want American capital. But we

should not be ordered in this bill to do things we are willing to do voluntarily.

Senator LUCAS. Will you point out the section and the title that you are talking about now and that you want eliminated?

Commissioner ROMULO. Section 341. As I was saying, gentlemen, America is about to make a real beau geste before the world. It is something that has never been done in the history of mankind, for a powerful Nation to relinquish sovereignty voluntarily over a weaker nation. Do not mar it by provisions in this bill such as section 341.

Senator CONNALLY. Are you familiar with all the acts relating to the Philippines, including the act giving them independence?

Commissioner ROMULO. Yes, sir.

Senator CONNALLY. Suppose the Philippines should change their mind 3, 4 or 5 years from now, what sort of procedure would she have to undertake to get back in, if she wanted to? By a resolution through the legislature?

Commissioner ROMULO. To begin with, I do not think we will ever change our mind.

Senator CONNALLY. I did not predict it on your thoughts, but I am asking if she would take that position.

Commissioner ROMULO. If we did, which I repeat we won't—I suppose it would be either by plebiscite or by an act of our congress.

Senator CONNALLY. The legislature would pass an act and address it to the United States and we would talk about it?

Commissioner ROMULO. Yes, sir.

Senator CONNALLY. We would have a long debate and maybe action.

Commissioner ROMULO. Yes, sir; but I can assure you I would not be the one to come here to debate on it.

Senator CONNALLY. All right; I just wondered about that; that is all.

Commissioner ROMULO. We have, as you know, submitted three proposed amendments to H. R. 5856. The first of these I have already discussed. Its purpose is to restore the sugar quota to 850,000 long tons instead of 850,000 short tons.

The second amendment proposes the addition of the following sentences on page 12, line 13:

In the event that the mill and plantation owners fail to extend, modify, or renew the milling agreement upon expiration thereof, the Philippine Government may by law reallocate or dispose of the quota or quotas involved for the purpose of carrying out the adjustment of the sugar industry.

Commissioner McNutt commented on this during his first testimony.

The intention of the proposed amendment is clearly stated in the memorandum submitted to this committee. The amendment does not change or increase the amount of the quota. It would merely give to the Philippine Government the authority to reallocate or dispose of the quota if the mill and the plantation owners fail to agree to extend, modify, or renew the existing milling contract. Under this amendment the government would be able to consolidate the mill districts to larger units so as to achieve lower production costs; it would also be able to increase the allotments of those districts which can most readily absorb the increasing United States duties.

Senator WALSH. Does Mr. McNutt agree to that amendment?

Commissioner ROMULO. When it was presented the other day he said something on the record.

Senator WALSH. What is your attitude toward that, Mr. McNutt?

Commissioner McNUTT. I said in my opening testimony that I had no objection to it. Yesterday, my recommendation to the committee, Mr. Chairman and gentlemen, was one amendment.

Senator WALSH. Proceed.

Senator MILLIKIN. Mr. Chairman, I must confess I am not quite clear yet on the purpose of this amendment. Would you repeat that?

Commissioner ROMULO. Yes, sir; I said the intention of the proposed amendment is not to change or increase the amount of the quota. It would merely give to the Philippine government the authority to reallocate or dispose of the quota if the mill and the plantation owners fail to agree to extend, modify, or renew the existing milling contract. Under this amendment, the government would be able to consolidate the mill districts to larger units so as to achieve lower production cost; it would also be able to increase the allotments of those districts which can most readily absorb the increasing United States duties.

Senator MILLIKIN. Thank you.

Senator WALSH. Proceed.

Commissioner ROMULO. The third amendment provides for the insertion of the following words—

Senator JOHNSON. Just a minute.

Commissioner ROMULO. I wonder if Mr. McNutt would give us his interpretation of what this provision does, as to what its effect is? It does not interfere in any way with the quota, and it permits a consolidation of sugar interests over there; is that it?

What is to prohibit a consolidation of sugar facilities and sugar operations?

Commissioner McNUTT. There is nothing to prohibit that on a voluntary basis. As a matter of fact, it would seem that this would put in the hands of the government at this time, and later in the hands of the republic—I think, if we are all frank with each other, it is a move in the direction of nationalization.

Senator CONNALLY. If the mills and landowners did not agree to expand?

Commissioner ROMULO. Yes, sir; if they agree to disagree.

Senator CONNALLY. Is that the same agreement that they have in existence now as to the allocations of quotas?

Commissioner ROMULO. Yes, sir; most of these agreements terminate within a period of 10 years.

Senator CONNALLY. We have a list here somewhere in the hearings that gives a list of all the companies and the number of short tons that they would be allocated. Is that under the bill, or is that under the existing arrangement?

Commissioner ROMULO. The allocations are under the existing arrangement.

Senator CONNALLY. How is that existing arrangement made? Is it a voluntary agreement among all these companies, or would the Government do it? You said unless they readopt that, or go on with it, or modify, or change it, then the Government would step in and make its own allocation. How is that arrived at, the present allocation?

Commissioner ROMULO. That is allocated in accordance with the share that goes to each mill and each planter.

Senator CONNALLY. I know, but how did they do that?

Did they get together and agree to it, or did the government dictate it?

Commissioner ROMULO. That is an agreement, Senator, according to the milling contracts.

Senator JOHNSON. The point that bothers me is why should the Congress of the United States be legislating on that point?

Why is that something that we should concern ourselves with?

Commissioner ROMULO. Because without this proviso it would be left hanging in the air.

Senator WALSH. The status quo would prevail.

Commissioner ROMULO. Yes, sir.

Senator SALTONSTALL. General Romulo, why is not that amendment directly contradictory to what you answered to my question a few minutes ago? In other words, you want the Philippine government to change these allocations and take it over from these interests which had these allocations in 1940. In other words, you would say that a man who had a quota in 1940 and who went out of business or did not fulfill the quota, could not sell that or turn that over to a successor, but the Philippine government should take it over. That is what that amendment does, is it not?

Commissioner ROMULO. Yes, sir; the government takes the quota and reallots it to the other quota holders.

Senator SALTONSTALL. That is directly contradictory to what you answered to my question before.

Commissioner ROMULO. No; one is reconciled with the other, because the existing contracts may expire within the next 10 years.

Senator SALTONSTALL. This bill gives to these people who were doing business in the Philippines in 1940 the right to do it until 1974, does it not?

Commissioner ROMULO. I am referring to these contracts which are to expire within the next 10 years. We are asking now that the Philippine government should do the allocation, upon the expiration of the existing agreements if they are not renewed.

Senator SALTONSTALL. In other words, you do not approve of the terms of the act which gives these people who were doing business in 1940 in the Philippines the right to do that business or turn it over to their successors by 1974?

Commissioner ROMULO. Not exactly.

Senator SALTONSTALL. You do not agree with that?

Commissioner ROMULO. Except with our amendment in there, not entirely.

Senator SALTONSTALL. In other words, you take away all the property right that may be in the allocation that this bill is giving?

Commissioner ROMULO. No, sir.

Senator SALTONSTALL. You turn it over to the Philippine government?

Commissioner ROMULO. Not entirely. As I am not feeling well today, I will ask Dr. Urbano A. Zafra, Economic Advisor to the President of the Philippines, to explain that.

Dr. ZAFRA. Senator, under the present agreement between the planters and the central, the planters get from 50 to 60 percent of the sugar production and the central from 40 to 50 percent. This contract runs for about 30 years, and many of those milling contracts

will expire in 10 years. If they fail to renew after the expiration of the contract what will happen with the sugar district, for instance? The planter will not plant, the central will not mill, and what will happen then? That is the purpose of our amendment, for the government to come in and either arbitrate for the planter and central or take the necessary steps to continue the production of sugar.

Senator BUSHFIELD. You mentioned what the government would do a while ago. In other words, you would authorize the government to nationalize the sugar industry in the Philippines.

Dr. ZAFRA. No, sir. If the planters and the central could not agree to produce sugar, as they have agreed in the past 30 years, then the government comes in and takes the quota from them and distributes it to the other centrals and planters.

Senator SALTONSTALL. Then, that is taking away from the provisions contained in this bill the right of these companies or their successors who were doing business in 1940 to continue to have that business until 1974?

Dr. ZAFRA. So far as the centrals and planters are concerned, their right is in the milling contract now, and that milling contract expires in 10 years. Unless they agree to continue after the expiration of the contract there will not be any arrangement between the mill and the planter and production of sugar will cease.

Senator SALTONSTALL. But they cannot sell it to anybody else?

Dr. ZAFRA. Yes, sir; they can, but if they do sell it, the right would be subject to the existing milling contract, or a new contract.

Senator SALTONSTALL. Yes; but they cannot renew those milling contracts and sell them to anybody else.

The Philippine government reserves the right to take them over and to change them; is that right?

Dr. ZAFRA. The mill can sell its rights now, subject, of course, to the milling contract. What would happen after the milling contract expires, nobody knows, unless a new contract is entered into between the mill and the planters.

Senator CONNALLY. Let me ask you a question. Suppose this contract that they have got, which was voluntarily entered into, should expire in the next 10 years, you predict that the industry would go to pot, but what would prohibit the producer from going on and selling his sugar to the mills under a private contract, and what would prohibit the mills from buying it and operating it without any law?

Dr. ZAFRA. Nothing could prevent that, providing they agree, Senator. If they do not agree to produce, then nobody will produce.

Senator CONNALLY. Of course, if nobody produces, if they will not ever be urged to produce and sell sugar, if they would just want to go under a coconut tree and sleep, it is nobody's fault but their own.

Dr. ZAFRA. It is like the coal contract; no contract, no production. If they do not agree for a period of years, neither the planter nor the mill will be doing anything. Hence, government intervention is necessary to see to it that production continues.

Senator CONNALLY. It would be nobody's fault but their own, if they go through that. We hope the Philippines are going to learn some of the ordinary laws of the world and economics, and government, and so on. I am not fighting the amendment, it may be I will vote for it, but it does seem to me your statement, if they do not agree every-

thing will go to pot is not necessarily sound. I do not see why they would not go ahead and produce sugar.

It may be in the interest of the smaller planters, and I think they should have some help. It may be they would be exploited, and their prices run down and these big companies would squeeze them to death unless the government did intervene and exercise some supervision over the prices. It that subject now to private agreement, as to what prices they will get?

Dr. ZAFRA. No, sir. The only thing that is subject to the agreement is the production of the sugar, and they divide the production.

Senator CONNALLY. I am talking about the central now.

When it buys the sugar from the planter, is the price a matter of agreement with them alone?

Dr. ZAFRA. There is no price agreement. The central is bound under this agreement to mill all the cane that the planters produce in the district and to provide the transportation of the cane from the plantation to the mill. The planter in turn agrees to plant cane.

Senator CONNALLY. Well, they get some pay for that, don't they?

Dr. ZAFRA. No, sir. They do not get paid for that. The central keeps 40 to 50 percent of the sugar produced and the planter gets 50 to 60 percent. The planter can sell it to anybody, and so can the central sell it to anybody.

Senator LUCAS. Do I understand, under this amendment if they could not agree, the government could take over the property and operate it?

Dr. ZAFRA. The quota, yes, sir.

Senator LUCAS. As I understand it, if the fellow who is raising the sugar cannot agree with the second party then, as I understand, under this amendment, the Philippine government would step in.

What would the Philippine government do when it steps in?

Dr. ZAFRA. If neither the planter nor the central can agree, the quota will be then reallocated by the Philippine government to the quota holders who may be able to produce sugar. In fact the bill provides for such eventuality.

Senator LUCAS. That particular quota would then be allocated to other planters?

Dr. ZAFRA. Yes, sir; to other mills and planters.

Senator LUCAS. The Philippine government itself would not step in and start operating that plantation, from the standpoint strictly of government operation?

Dr. ZAFRA. No, sir.

Senator LUCAS. All it would do would be so see that this plantation kept raising sugar, and you would simply allocate that to other people who are producing sugar on the island?

Dr. ZAFRA. Yes, sir. Take, for instance, one district where there are two contiguous sugar factories. If the district fails to agree with the central to produce sugar, it is possible when the government steps in, that this particular district may be milling with the other contiguous mill in order to keep that district producing sugar.

Senator MILLIKIN. Mr. Chairman, I still have a large area of uncertainty in my mind on this thing.

Senator WALSH. What would you think, Senator, of having the amendment read again?

Senator MILLIKIN. Let us read the amendment again, just the amendment.

Commissioner ROMULO (reading) :

In the event that the mill and plantation owners fail to extend, modify or renew the milling agreement upon expiration thereof, the Philippine government may by law reallocate or dispose of the quota or quotas involved for the purpose of carrying out the adjustment of the sugar industry.

Senator MILLIKIN. I do not get the disposal of the quota angle. Dispose the quota to whom?

Commissioner ROMULO (reading) :

In the event that the mill and plantation owners fail to extend, modify or renew the milling agreement upon expiration thereof, the Philippine Government may by law reallocate or dispose of the quota or quotas involved for the purpose of carrying out the adjustment of the sugar industry.

Senator CONNALLY. The word "distribute" is better than the word "reallocate." You mean you are going to distribute the quotas among all the plantations. That is what you mean, isn't it?

Commissioner ROMULO. Yes, distribute.

Senator MILLIKIN. I am trying to reach the same thing the Senator is trying to get at.

Senator LA FOLLETTE. Let me see if I understand what you are driving at. In the first place, there are these existing agreements and they have various periods of years yet to run. Under the theory of this act, those persons who have these agreements and are now in the business have a right to continue in the business or to sell their quota to someone else.

Commissioner ROMULO. Yes.

Senator LA FOLLETTE. And thus theoretically to produce the quota yearly which the Philippines are entitled to under this bill.

Commissioner ROMULO. Yes.

Senator LA FOLLETTE. Now, as I understand it, your amendment is designed to take care of a situation where an existing relationship between the millers and producers of an existing company would not be sold to anyone else, as they have a right to do under the bill, when the thing expires and they would not reach any agreement, and unless your amendment was incorporated, the Philippines would be in the position where this amount of the quota would no longer be produced; is that correct?

Commissioner ROMULO. That is correct, sir.

Senator CONNALLY. Let me ask you another question. Pardon me, Senator, are you through?

Senator LA FOLLETTE. Yes.

Senator CONNALLY. Let me ask you one other question. You say the mills, the centrals get 40 percent of all the sugar. In other words, a man brings in so many tons of sugar, and they manufacture it. Do they take out a toll of 40 percent of that sugar?

Commissioner ROMULO. Yes, sir, from 40 to 50 percent.

Senator CONNALLY. Who approves that?

Is not that an awfully high toll?

Dr. ZAFRA. That is voluntarily agreed to between the planter and the central. One central has voluntarily reduced its participation, I think, to 35 percent.

Senator CONNALLY. I know that is voluntarily agreed to between the planter and the central. Suppose they do not agree, does the Government sanction that sort of division?

Dr. ZAFRA. If they do not agree, the government then comes in to arbitrate for a fair division or to reallocate the quotas.

Senator CONNALLY. These centrals make pretty good money, don't they?

Commissioner ROMULO. Most of them do.

Senator CONNALLY. Do any of the big governmental officials own any centrals?

Dr. ZAFRA. They do not; no, sir.

Commissioner ROMULO. No, Senator.

Senator WALSH. This bill would give the Philippine government, at the end of 28 years, the right to do what they chose to do, and you want that right for the Philippine government to step in there when the contracts expire between now and the 28 years?

Dr. ZAFRA. That is right, if the parties fail to agree to extend or renew their contracts.

Senator WALSH. After the 28 years you would do as you please?

Commissioner ROMULO. Yes, sir.

Senator WALSH. You want, in the case of expiring contracts, to have the right which you will have at the end of 28 years anyway; is that what it amounts to?

Commissioner ROMULO. That is right.

Senator LA FOLLETTE. I do not understand it that way. As I understand it, the only time when this proviso would come into operation would be when an existing company, if that is what they are called, failed to utilize the quota itself or sell it to somebody else and therefore the quota would not be produced; is that correct?

Dr. ZAFRA. That is correct. The company cannot utilize the quota without a contract with the planters.

Senator LA FOLLETTE. In other words, you could not prevent any existing company from going ahead and producing what it has been producing in the past?

Commissioner ROMULO. No, sir.

Senator LA FOLLETTE. You could not prevent them from selling to somebody else if they wanted to get out of the business and the government would have nothing to do with that. But this is designed to take care of a situation where it may be that some company, for one reason or another, decides not to produce any sugar at all; is that correct?

Commissioner ROMULO. Yes, sir; that is correct.

Senator LUCAS. Right on that point. Here is a fellow who owns 1,000 acres of land and he cannot get together with the miller, do I understand under this law the Philippine government would have the right to take over that 1,000 acres and allot it to anybody they want?

Commissioner ROMULO. No, sir.

Dr. ZAFRA. It is the quota that the government takes over. The planter, after the expiration of the contract, has no more central to grind the sugar in that event.

Senator LUCAS. The Philippine government would not deal with that 1,000 acres at all?

Dr. ZAFRA. No, sir.

Senator LUCAS. They would be out of the picture entirely. They could do anything they wanted with the quota, but that 1,000 acres would be allotted to other people in the islands who were raising sugar?

Dr. ZAFRA. That quota for that 1,000 acres would be given to another plantation, or that particular plantation may mill with the other central.

Senator LUCAS. What I am getting at is the Philippine government would not have the right to tell the man who owns the 1,000 acres that they are going to allot the 1,000 acres to somebody else to produce sugar.

Dr. ZAFRA. That is right.

Senator LUCAS. That 1,000 acres could remain idle if the owner wanted it to. You would simply transfer or allot to other people this amount that is supposed to be raised on this 1,000 acres?

Dr. ZAFRA. That is correct.

Senator CONNALLY. Let me ask you: Irrespective of this amendment, would not the Philippine government, by reason of its sovereignty and legislative power, have the right to do what you say anyway? After the 28 years it is going to have that right anyway, is it not?

Commissioner ROMULO. It is not specified in the bill.

Senator CONNALLY. Even if it is not specified in the bill, but as a government, would not you have the right at the end of the 10-year period, if they did not agree, to come in and say, "Now, here, we have only got so many tons of sugar quota. You folks have not agreed, and we will just fix the quota ourselves"?

Commissioner ROMULO. It is not specified in this bill.

Senator CONNALLY. I am asking you, would not that be possible?

Commissioner ROMULO. Not under this bill, sir. And besides, Senator, answering your question directly, did not Secretary Clayton say here that under this bill our sovereignty is curtailed?

Senator CONNALLY. I am talking if you did not have this would not that be the natural result? You are going to be a government of your own. Of course, it is because of the transition period that we are butting in, legislating on some things on maybe we ought not to. I am just putting that up to you as a great statesman.

Senator LUCAS. Where is there anything in the bill which would prohibit you from doing what Senator Connally suggests unless you have this amendment?

Commissioner ROMULO. I do not know of anywhere that prohibits it specifically, but it is not specifically stated either, and to avoid confusion we would rather have it mentioned directly.

Senator WALSH. Was this amendment presented in the House?

Commissioner ROMULO. Yes, sir.

Senator WALSH. And it was turned down by the committee?

Commissioner ROMULO. It was not acted upon by the committee.

Senator WALSH. It was not acted upon?

Commissioner ROMULO. No, sir.

Senator VANDENBERG. General, time, again, is of the essence in this whole legislation, is it not?

Commissioner ROMULO. Yes; time is absolutely of the essence, Senator.

Senator VANDENBERG. Is it worthwhile to open up a new subject which might substantially delay a conference? Would you not be better off on Governor McNutt's theory, that if the long tons were restored to pass the bill as it is and be sure of getting it within the next 2 or 3 weeks?

Commissioner ROMULO. Senator, I would say that our amendments are important and I am asking you to consider them now. True, if we cannot have perfection it were better to have action. That would be my position.

Senator VANDENBURG. Then, I take your answer to my question is "Yes."

Commissioner ROMULO. As I said, on the floor of the House, we would have wanted this bill with a different approach, but it has to be a realistic approach to the reality of the times, and we need action, now, there has been too much delay, and I repeat since we cannot have perfection then let us have action. I must, however, urge that our three amendments be included in what I call action. They are not included in "perfection."

Senator JOHNSON. Is that what you are advocating now? When you throw in a controversial amendment of this kind, is that action or inaction?

Commissioner ROMULO. I believe, Senator, that this is not a controversial amendment. Furthermore I am obeying instructions from Manila to present these amendments. There is a very strong sentiment in the Philippines in favor of these amendments. It is my bounden duty to fight for them.

Senator HAWKES. If it was presented to the House, it was given some consideration.

Senator WALSH. Does the Senator from Massachusetts want to make any further inquiry?

Senator SALTONSTALL. Thank you, Mr. Chairman. When General Romulo answered Senator La Follette, I do not think he answered him correctly. If I understood Senator La Follette's question correctly, Senator La Follette said when these quotas were given out to any man who held up production, the Philippine government could reassign these quotas in order to keep the production up.

As I understood the purpose of this amendment, it is when these people who held these quotas in 1940 and produced sugar could not agree with the mill upon a contract to mill the sugar, then the Philippine government reserves the right to reassign that contract of milling to somebody else, thereby taking a property right of this producer, as I understood it.

Now, is it not true, General Romulo, that if the mills are controlled by the government or the government has an influence over them, they can always say to the mill, "you refused to make a contract with this producer," and then if they just do not agree, under your amendment the Philippine government would step in and take these quotas. Isn't that correct? That is not quite the answer you gave to Senator La Follette.

Commissioner ROMULO. That is correct, Senator.

Senator CONNALLY. Is there any overweaning desire on the part of the government out there to have this power?

Commissioner ROMULO. Not weaning power.

Senator CONNALLY. Not overweaning power, just weaning power?

Commissioner ROMULO. Somewhat like you have here, isn't it, Senator? It is really a clarification that the government would like to have.

Senator WALSH. Proceed with the next amendment that you propose.

Commissioner ROMULO. Mr. Chairman, the third amendment pro-

vides for the insertion of the following words after the word "1940" on page 17, line 16:

Provided, That, in the case of the quota of scrap tobacco and stemmed or unstemmed filler tobacco 2,000,000 pounds of such a quota may be allocated by the Philippine government to producers and manufacturers whose products were not exported to the United States during the calendar year 1940.

Senator WALSH. What is the purpose of that amendment?

Commissioner ROMULO. This amendment does not alter the basic quota of 4,500,000 pounds under the Independence Act but would only allow the Philippine government to allocate the additional quota of 2,000,000 pounds to producers and manufacturers who would otherwise be excluded under both the existing law and the bill now under consideration. In the year 1940 the National Tobacco Corp., an agency of the Philippine government representing cooperative tobacco growers, did not export to the United States. It would therefore not be entitled to any participation in the quota under the bill as it now stands. Hundreds of tobacco growers have since 1940 been organized by the Philippine government into producers' cooperatives. This is a healthy development and it should be encouraged. The only way to encourage it is by permitting the National Tobacco Corp. to participate in the distribution of the 2,000,000 pound additional quota allotted under the present bill.

These are the main points which I wanted to clarify in my testimony before you this morning. I have only one more word to add. It is this—that the future of 19,000,000 people in the Philippines depends to a very great extent upon the action your committee will take. They have no voice in your Congress. I am only their very weak voice. I do not have to tell you we are your closest friends in the Pacific. The whole world is watching the United States to see what it will do to help its friends, who have stood by America in war as well as in peace. As a Filipino, I am perhaps more aware of the extent of this interest than an American would be. Governor McNutt has spoken on that eloquently here, and we are grateful to Governor McNutt for the interest he has taken in this bill. But Mr. McNutt is after all an American and he is the representative of America in the Philippines. I speak as a Filipino and as an oriental and almost every day I receive indications from political leaders in all parts of the colonial world—from southeast Asia, from the Far East generally, and from all those other regions where the hundreds of millions of subject people look to the United States for moral leadership that will help them to achieve the freedom they deserve. This bill is therefore not alone a trade bill involving the commercial relations between the United States and the Philippines. It is also a bill that will benefit the United States materially by rehabilitating one of its largest customers. It is a bill that will rehabilitate the Philippines by giving our country the breathing spell we need in order to get back on our feet and establish a sound national economy in a competitive world. It is—and perhaps most important—an earnest example of America's unflinching devotion to the principles of fair play and justice.

Thank you, Mr. Chairman, and gentlemen of the committee.

Senator WALSH. We are grateful to you for your contribution.

The committee will now go into executive session.

(Whereupon, at 11:30 a. m., the committee retired into executive session.)