

CERTIFICATION OF QUOTAS ON CERTAIN PHILIPPINE TOBACCO

MAY 18, 1961.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 4940]

The Committee on Finance, to whom was referred the bill (H.R. 4940) relating to duty-free imports of Philippine tobacco, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

GENERAL STATEMENT

Paragraph 2 (item B) of article II of the trade agreement between the United States and the Republic of the Philippines of July 4, 1946, as revised on September 6, 1955, provided for a duty-free import quota of 6,500,000 pounds of imported scrap and filler tobaccos of Philippine origin per calendar year. Under the agreement this quota is to be reduced in progressive stages every 3 years until January 1, 1974, when the amount of the quota becomes nil. The present quota is 5,850,000 pounds per year. The Philippine Government has historically allocated the tariff-free quota among its tobacco producers based upon their past production records. To assure that the producers will receive the benefit of their allocated portions of the quota, the Philippine Government has controlled exports of such merchandise to the United States through an export licensing arrangement. Traditionally the tobacco exported from the Philippines to the United States has been of the cigar-filler types. The Philippine Government's export licensing arrangement has also had the effect of safeguarding the interests of traditional U.S. importers of such Philippine tobacco.

Recently, however, considerable quantities of low-quality, Flue-cured tobacco, grown in the Philippines, have been exported to the United States. Although such tobacco was not licensed by the Philippine Government for export to the United States, it was shipped to a third country and later transhipped to the United States. Under existing law, U.S. customs authorities are obliged to admit such tobacco duty free under the quota. The charge of this tobacco against the quota results in a reduction in the duty-free quantities which the licensed exporters in the Philippines might otherwise ship to the United States and enter duty free. The admittance of such tobacco duty free into the United States also has two adverse effects on the domestic tobacco industry. First, it permits the duty-free entry of tobacco that is in competition with domestically grown cigarette tobaccos; second, it preempts part of the duty-free quota that would otherwise go to cigar-filler types of tobacco to the disadvantage of traditional importers of cigar-filler tobacco from the Philippines and to the disadvantage of the domestic cigar industry.

H.R. 4940 would prevent the circumvention of the control by the Philippine Government over the exports of Philippine tobaccos to the United States by providing that U.S. customs authorities shall only admit free of duty under the Philippine tobacco quota such tobacco as the Philippine Government has licensed for export to the United States free of duty under the provisions of paragraph 2 of article II of the Philippine-United States Trade Agreement.

The Government of the Republic of the Philippines has indicated to the Finance Committee that it favors the enactment of this legislation.

DEPARTMENTAL REPORTS

THE GENERAL COUNSEL OF THE TREASURY,
Washington, May 18, 1961.

HON. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

MY DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 4940, relating to duty-free imports of Philippine tobacco.

The proposed legislation would restrict duty-free treatment for certain scrap and filler tobacco provided in item B in the schedule to paragraph 2 of article II of the Philippine Trade Agreement to such articles which are certified by the Philippine Government to have been allocated for exportation to the United States free of duty under paragraph 2.

Under the proposed legislation, the U.S. Government would be required to assume responsibility for enforcing Philippine allocations unilaterally determined by that Government. While the United States has, on occasion, cooperated in enforcing a foreign country's allocations when special circumstances made it desirable, it is not at the present time performing this function in the manner prescribed in the bill for any foreign government and, in general, we do not believe it appropriate for the United States to assume such responsibility. Accordingly, this Department does not favor enactment of the proposed legislation.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

DEPARTMENT OF STATE,
May 18, 1961.

HON. HARRY F. BYRD,
Chairman, Committee on Finance, U.S. Senate.

DEAR MR. CHAIRMAN: I refer to your request for the Department's comments on S. 1853, a bill, relating to duty-free imports of Philippine tobacco.

S. 1853 is identical with H.R. 4940 prior to its amendment and passage by the House of Representatives on May 10, 1961. The proposed legislation would modify item B, paragraph 2, of article II of the Philippine Trade Agreement of 1946, as amended. The purpose of S. 1853 is to provide that only those tobacco exports licensed by the Philippine Government for shipment to the United States would be eligible for admission into the United States under the duty-free quota applicable to Philippine tobacco.

The Department of State is opposed to that part of S. 1853 which would limit application of the duty-free quota to those "Philippine articles falling within the class specified in item B in the schedule to that paragraph 2 of article II which were imported into the United States on or prior to said September 6, 1955." The Department does not favor such a definitive limitation by the United States of the types of Philippine tobacco eligible for duty-free importation. Moreover, we are of the opinion that this wording in S. 1853 would effectively bar application of the duty-free quota to any Philippine tobaccos imported into the United States after September 6, 1955, and thus would nullify part of the reciprocal value of the trade agreement.

The Department of State would not oppose enactment of legislation such as H.R. 4940 but would defer to the views of other agencies as to its desirability.

The Department of State has been informed by the Bureau of the Budget that from the standpoint of the administration's program there is no objection to the submission of this report for the consideration of your committee.

Sincerely yours,

BROOKS HAYS,
Assistant Secretary
(For the Acting Secretary of State).

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