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SENATE

{ REPORT  
{ No. 1145

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## PHILIPPINE TRADE ACT OF 1946

APRIL 10 (legislative day, MARCH 5), 1946.—Ordered to be printed

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

### REPORT

[To accompany H. R. 5856]

The Committee on Finance, to whom was referred the bill (H. R. 5856) to provide for trade relations between the United States and the Philippines, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The only substantive amendments recommended by the committee relate to the quota on sugar. Under the House bill the quotas were based on short tons. The committee recommends that they be based on long tons.

Quotas on imports of sugar from the Philippines have been in effect for several years under the Tydings-McDuffie Act of 1934 (the Philippine Independence Act). These annual quotas have always been in terms of long tons. The committee recommends a continuation of the basis of quotas established under the Independence Act. Upon consideration of all the evidence presented the committee concluded that the preponderance thereof clearly favors the use of long tons rather than short tons.

The remaining amendments recommended by the committee are of a purely clerical nature and do not make any change in the objectives of the legislation.

There is appended the report of the Committee on Ways and Means, which contains a full discussion of the matters dealt with in the bill, and a detailed analysis of the bill, section by section.

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[H. Rept. No. 1821, 79th Cong., 2d sess.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 5856) to provide for trade relations between the United States and the Philippines, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

#### OBJECTIVE OF THE BILL

The primary objective of this bill is the establishment of mutually advantageous trade relations between the United States and the Republic of the Philippines for a period of 28 years following the latter's independence on July 4, 1946. It is designed to provide incentives for the rehabilitation and development of the productive capacity of the war-ravaged islands and to provide stability to future commerce between the two countries. The principal matters dealt with are:

1. Customs duties on a reciprocal basis, preferential as against all other countries.
2. Establishment of quotas on the imports of certain Philippine products.
3. Reciprocal nondiscriminatory treatment in the field of taxes.
4. Adjustments in the immigration laws of both countries to meet the pressing needs of the immediate future.
5. Protection of United States citizens and American business enterprises, regardless of form, against discriminatory treatment.

To accomplish the above objective, the bill (1) authorizes an executive agreement with the Philippines, whereby both countries accept specific provisions set forth in the bill, and (2) provides a

method under which the statutes necessary to put these specific provisions into effect will be in force as of the time of the taking effect of the agreement, and (3) provides statutes to govern the period between the date of the enactment of the act and July 4, 1946.

The providing of statutes necessary to meet the objective of the agreement is accomplished, on the part of the United States, by the enactment in this bill of the provisions of title II, which thereupon become immediately effective as statutes of the United States, with suspension and termination clauses provided elsewhere in the bill.

An equally effective device (employed for the first time in this bill) to insure prompt statutory compliance with the objectives of the agreement on the part of the Philippines is found in the provisions of section 401, which states that the executive agreement must itself provide that it shall not take effect until the Philippine Legislature accepts it by law, and by law places in effect, as laws of the Philippines, the provisions of title III of the bill, which set forth in precise statutory form the obligations of the Philippines, corresponding in most part to the United States statutes enacted by title II. Under the bill the provisions of title III will for the period up to July 4, 1946, be effective as statutes of the United States binding on one of our possessions. It is believed that such Philippine legislation as is required by section 401 would be of a short, simple nature. All that would seem to be required is a resolution of the two Houses of the Philippine Congress, signed by the President of the Philippines, accepting the executive agreement and providing that the provisions of parts 2, 3, 4, and 5 of title III shall take effect as laws of the Philippines.

#### IMPORTANCE OF DEFINITIONS

Before entering upon a discussion of the contents of the bill the committee wishes to emphasize the importance of the definitions contained in section 2 of the bill. It is exceedingly difficult, if not impossible, to understand the effect of the bill unless there is borne in mind the fact that many of the key words in the bill are defined terms. It is also important, in the reading of the following portions of this report, to bear in mind these definitions, or at least to remember that the statements made can be applied with exactness only in the light of the definitions.

Particular attention is called to the definition of "Philippine article" found in section 2 (a) (4) of the bill, which confines a "Philippine article" to a product of the Philippines not more than 20-percent of the value of which consists of the value of imported materials used in its production. Another important definition is that of "United States duty" (sec. 2 (a) (6)) which means the rate of duty which would be applicable to the article if imported from that country which is entitled to the lowest rate of duty with respect to such article when imported into the United States. Another important term used is "ordinary customs duty" which is defined (sec. 2 (a) (3)) to include duties usually thought of when the term "tariff" or "customs duty" is used in ordinary conversation. The term is defined so as not to include special duties, such as additional duties for undervaluation, anti-dumping duties, countervailing duties, etc.

## PRINCIPAL PROVISIONS SUMMARIZED

Following is a brief summary of the principal provisions of the bill, a detailed explanation of which will be found in this report under the heading "Detailed Analysis of Bill, Section by Section":

## 1. Tariffs and quota restrictions

*Duty-free trade.*—All commodities qualifying as "Philippine articles" are provided free entry under the pending bill in the period from the day after enactment of this act to July 3, 1954. Trade in the principal products imported from the Philippines during that period will be limited by quotas. All commodities not "Philippine articles" as defined are subject to the full world duty throughout the period of the entire agreement.

*Graduated duties.*—Beginning July 4, 1954, all commodities imported into the United States from the Philippines qualifying as "Philippine articles," with the exceptions noted below, will become subject to graduated duties. In general, these duties are a percentage of the lowest United States duty accorded to any nation (now Cuba), increasing by 5 percent annually until they have reached 100 percent. After July 3, 1974, the duty on all imports from the Philippines will be the regular world rate.

*Quota restrictions on imports.*—Beginning with the calendar year 1946 and extending throughout the life of the agreement (July 3, 1974), the following absolute quotas are imposed on "Philippine articles" which make up the bulk of Philippine exports to the United States:

Sugar.....	short tons..	850,000
Cordage.....	pounds..	6,000,000
Rice.....	do.....	1,040,000
Cigars.....		200,000,000
Scrap and filler tobacco.....	pounds..	6,500,000
Coconut oil.....	long tons..	200,000
Pearl buttons.....	gross..	850,000

During the period from July 4, 1954, to July 3, 1974, imports of sugar, cordage, and rice, if "Philippine articles," will get the benefit of the graduated duties.

*Duty-free quotas.*—In addition to the foregoing absolute quotas, diminishing duty-free quotas are imposed by the bill on cigars, scrap and filler tobacco, coconut oil, and pearl buttons. From the effective date of the act through 1954, the quantities permitted entry, referred to above, will be free of duty, if "Philippine articles." Beginning with the calendar year 1955 and extending to 1974, duty-free quotas reduced 5 percent annually from the basic absolute quotas will be in effect. During this period, imports in excess of the duty-free quotas will be subject to the full United States duty, that is, the lowest duty accorded to any foreign country (now Cuba), rather than upon a graduated percentage thereof.

*Additional quotas may be imposed.*—In order to insure against substantial future competition, the pending bill provides that the President may impose quotas on other "Philippine articles" if, after investigation by the United States Tariff Commission, it is found that such articles are coming or are likely to come into substantial competition with like articles produced in the United States.

2. Nondiscriminatory tax treatment by each country with respect to imports received from the other.

3. Assurances by the Philippines that American citizens or business enterprises, regardless of the form of such enterprise, operating in the Philippines, shall not be discriminated against in the development and utilization of natural resources and public utilities.

4. Authorization of an executive agreement to be entered into between the Presidents, respectively, of the United States and the Philippines to take effect upon its acceptance by the Congress of the Philippines and upon enactment by the Congress of the Philippines of legislation necessary to put into effect the provisions of parts 2, 3, 4, and 5 of title III (Obligations of the Philippines) as laws of the Philippines.

5. Termination of the agreement on July 3, 1974.

6. Termination of such agreement by the other country for any reason on 5 years' notice; or upon 6 months' notice if either party adopts or applies measures or practices which would operate to nullify or impair any right or obligation provided for in such agreement.

7. Termination of the agreement by the President of the United States if the President determines that a reasonable time has elapsed for any necessary amendments to the Philippine Constitution to have been made but that such amendments have not been made.

8. Provisions in the agreement under which, if the President finds that the Philippines are in any manner discriminating against citizens of the United States or any form of United States business enterprise, the United States may suspend the agreement in whole or in part and, if the discrimination does not cease, may terminate the agreement.

9. Termination of the authority of the President of the United States to enter into the agreement when he has determined and proclaimed that a reasonable time has elapsed without action taken by the Philippines to enter into, accept, and place such agreement in effect.

10. 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. In effect, the quota in the pending bill is a step in this direction, reducing the quota under existing levels by about 11 percent

#### THE NEED FOR THIS LEGISLATION

Under the terms of existing law governing the termination of political sovereignty of the United States in the Philippine Islands (Tydings-McDuffie Act, as amended) the Philippines, on July 4, 1946, will be a sovereign nation, and as such, in the absence of special legislation, full tariff duties will be levied against Philippine products entering the United States after that date.

There is no question that application of full foreign tariff duties to the Philippines on July 4 of this year would effectively prevent the importation of several Philippine commodities which have, in the past, occupied a place of importance in the Philippine-American trade, particularly coconut oil and tobacco products. On February 11, the President of the United States, commenting on a bill then pending to effect the general purposes of the bill now under consideration, wrote the chairman of your committee as follows:

We are in accord that assistance to the Philippine Islands is necessary and must be provided promptly. All of us agree, at least in principle, with the legislation and approve most, if not all, of the detail thereof.

I ask that your committee give early consideration to H. R. 5185, now pending before you, as it is vital to the welfare of the Philippines and their economic stability and such stability is most important from the United States point of view. Time is of the essence.

The pending bill is the successor of H. R. 5185.

With the Philippines about to become a sovereign, independent nation it is imperative that our trade relations with the islands be defined at once and that the pattern of such relations be cut in such manner that the Philippines will derive the greatest possible assistance in the reestablishment and future development of their national economy. The United States is deeply concerned in the welfare of the Islands. It is to our advantage as well as to the advantage of the Philippines that our trade relations be placed upon a sound basis as provided for in this bill.

In the course of hearings held by your committee, it was made abundantly clear that the Philippines, in order to reestablish a normal economy and to develop resources for sustaining its independence, will require the assurance of stability in its trade with the United States. By the same token the United States, in order to render the greatest possible assistance to the Islands, will require equal assurances from the Philippines. These basic considerations weighed heavily with the committee in approving this particular bill.

The committee recognizes that conditions may arise in the course of the 28-year period covered by this bill which may reveal weaknesses in some of its provisions. It is difficult, if not impossible, to devise legislation intended to operate so far in advance without running the risk of error, but your committee believes that in view of the urgency of the present situation in the Philippines and their immediate need for the assistance which will follow enactment of this legislation that whatever defects may be revealed with the passage of time are relatively unimportant at the present time.

#### EXPLANATION OF FRAMEWORK OF BILL

The bill represents a new departure in the field of international agreements, and their implementation and enforcement. Therefore the committee feels that a statement as to the part which each of titles II, III, and IV performs in the framework of the bill and of the proposed executive agreement, will facilitate an understanding of the bill and of the methods made use of to attain, in the most expeditious and effective manner, the objectives sought.

#### TITLE II

The provisions of this title constitute legislation by the Congress, like any other statute passed by it. The provisions of this title will also be accepted by both the United States and the Philippines, if the executive agreement contemplated by the bill (and provided for in title IV) goes into effect, as binding upon them. Under section 403 the United States, in the agreement, will agree to continue the provisions of the title as United States law during the effectiveness of the agreement.

There is indicated below the length of time for which these statutes of the United States will, under the terms of the bill, continue in effect.

(1) *Period from date of enactment of act until July 4, 1946.*—During this period (the Philippines being still one of our possessions) the provisions of title II will remain in force, unless repealed by Congress.

(2) *Period from July 3, 1946, to taking effect of agreement.*—The same is true during this period (when the Philippines are an independent nation), but by section 502 of the bill Congress vests in the President power to suspend, in whole or in part, the provisions of title II if he finds that the Philippines are not doing their utmost to grant us the benefits which they will be bound by the executive agreement to grant when that agreement takes effect.

Provision is also made (sec. 407) that if the President finds that a reasonable time for the making and taking effect of the agreement has elapsed, but that the agreement has not taken effect, he shall so proclaim, and thereupon the provisions of title II cease to have effect as laws of the United States.

(3) *Period during effectiveness of executive agreement.*—During this period the provisions of title II remain in effect in a dual role—as statutes of the United States, and also as provisions by which, under the terms of the agreement, the United States agrees to be bound.

During this period, also, under the terms of the agreement the Philippines agree to accept all these provisions, not only the ones conferring benefits on them, such as rights of free entry and preferential rates for “Philippine articles” as defined in section 2 (a) (4), but also the provisions which impose limitations on them, such as part 2, which places quotas on certain “Philippine articles.”

It is of course true that any of these statutes can be repealed or amended by the Congress like any other statutes, but, after the agreement takes effect, such repeal or amendment would constitute a violation of the agreement, if enacted during its effectiveness.

Ample right (secs. 404 and 501) is given the United States to terminate the agreement, and if it is terminated the provisions of title II cease to have effect as laws of the United States.

#### TITLE III

Title III is divided into five parts. Under the provisions of part 1 (sec. 301) the other four parts, under which the United States receives certain benefits, are binding on the Philippines until July 4, 1946, when they become an independent nation.

As to the period between July 4, 1946, and the taking effect of the executive agreement provided for in title IV, Congress cannot, of course, legislate for an independent nation, but in section 301 it is stated that it is the expectation of Congress that the provisions of parts 2, 3, 4, and 5 of this title will be observed and executed by the Philippines to the fullest extent possible under their constitution.

After the taking effect of the agreement the provisions of parts 2, 3, 4, and 5 will (1) be binding on the Philippines, because accepted by them as a part of the agreement, and (2) constitute laws of the Philippines, because by section 401 of the bill the agreement is not to take effect until the Philippine Legislature has not only accepted the agreement entered into by their President but has also enacted legislation making the provisions of parts 2, 3, 4, and 5 of title III effective as laws of the Philippines.

## TITLE IV

Title IV of the bill authorizes, subject to certain limitations, the making by the President of the United States of 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 title III (except part 1) of the act.

In the bill Congress, in advance, sets forth in detail its policy with respect to matters of customs duties, quotas, taxes, and immigration, with which Congress is so vitally concerned, and makes the changes in our statutory domestic law necessary to give effect to the contemplated agreement with the Philippines relating to such subjects. The provisions of the bill, so far as they operate as statutes of the United States, constitute, under the contemplated agreement, the identical provisions by which the United States and the Philippines are to be bound after the making of the agreement.

If the agreement is entered into in accordance with the provisions of title IV, the changes in our statutory domestic law made by the bill will continue in effect during the effectiveness of the agreement.

Title IV of the bill in no way attempts to interfere with the powers and the rights that the President may have, under our Constitution, to enter into executive agreements with governments of foreign countries. Obviously, Congress cannot compel the President to enter into an agreement with the Philippines, or restrain him from making a wholly different agreement from the one contemplated by the bill, and the bill makes no attempt to impose upon him any compulsion or restraint of this character.

If the President, however, should enter into an agreement with the Philippines the terms of which do not conform with title IV of the bill, there would be no obligation on the part of Congress to continue in effect, for purposes of making that agreement effective, the changes in our statutory domestic law made by the bill. Such an agreement might grant to the Philippines either more or less benefits than those contemplated by the bill, and the obligations to be assumed by the Philippines under such an agreement might differ from those contemplated by the bill. Under such circumstances, the making of changes in our law necessary to make the agreement effective would be a matter for future consideration by the Congress.

In brief, while Congress cannot force the President to enter into an agreement of which he does not approve, neither can the President compel the Congress to enact legislation necessary to give effect to an executive agreement the policies of which it does not approve.

Title IV also (secs. 402 and 403) details certain provisions which are to be incorporated in the executive agreement as binding on the two countries; provides that the agreement shall terminate on July 3, 1974, and methods for its earlier termination by either party (sec. 404), and provides (sec. 407) that the agreement must be entered into and take effect within a reasonable time after July 3, 1946.

## IMMIGRATION AND NATURALIZATION

The committee decided to leave to future legislation formulated by the immigration committees of the House and Senate the broad question of immigration from and to the United States to and from



the Philippines, and the naturalization of Filipinos, incorporating in this bill only provisions necessary to meet problems pressing for immediate solution.

*Immigration to United States.*—On July 4, 1946, the Philippines will be entitled to a quota of 100 under our laws, but Filipinos and persons of Filipino descent will generally speaking be excluded (sec. 13 (c) of Immigration Act of 1924) from entry under that quota on the ground of their ineligibility to citizenship (sec. 303 of Nationality Act of 1940). Natives of the Philippines will (with the possible exception of persons there born but not of Filipino descent) be barred from entry by the so-called "barred zone" clause of section 3 of the Immigration Act of 1917. Unless excluded by such "barred zone" provision white persons, persons of African nativity or descent, descendants of races indigenous to the Western Hemisphere and Chinese persons and persons of Chinese descent, will, if born in the Philippines, be entitled to entry under the annual quota of 100.

It seems to the committee that the broad question here involved should be taken up by the Committee on Immigration and Naturalization of the House at an early date, if indeed it has not already been taken up.

The committee has, however, retained in the bill section 231, under which Philippine citizens who resided here for 3 years immediately preceding November 30, 1941, may be admitted as nonquota immigrants during a 5-year period starting in July 4, 1946. This provision (which is fully explained in the "Detailed Analysis of Bill, Section by Section" part of this report) will ensure the right to return to this country for permanent residence of a number of Philippine citizens who left this country after Pearl Harbor to fight against Japan.

*Naturalization of Filipinos.*—The House last April passed H. R. 776, making eligible to naturalization Filipinos and persons of Filipino descent. While the Senate has not yet passed it, there is reason to hope that it will soon be enacted into law. In any event this question, with the technical details connected with it, the committee did not feel justified in attempting to solve.

*Immigration into Philippines.*—The problems involved in the entry of our citizens into the Philippines after independence, are quite clearly to be met only by legislation by the Philippines, or by provisions contained in the executive agreement authorized by the bill. Two matters are of immediate urgency:

The one, correlative to that discussed under a preceding paragraph, relates to the need of our citizens who resided in the Philippines for 3 years prior to November 30, 1941, and were forced out by the war. Section 331 of the bill, which on the taking effect of the executive agreement will become a law of the Philippines, permits their reentry into the Philippines, for permanent residence, if they enter during the 5 years beginning July 4, 1946. The section is fully explained in the portion of this report entitled "Detailed Analysis of Bill Section by Section."

The other pressing need is for the entry into the Philippines, for a more limited stay, of a number of our citizens, especially technicians and specialists, in order to facilitate the rehabilitation of the industries of the Philippines. Under the Philippine immigration laws, beginning July 4, 1946, each country, including the United States, has an annual quota of 500, a number inadequate for the needs of rehabilitation work. Accordingly, the agreement when made, will contain a provision (sec. 402 (e)) under which during each of a period of years, specified in the agreement (not less than five) an additional number, specified in the agreement (not less than 1,000) of our citizens, will be entitled to enter the Philippines, and to remain there for a length of time specified in the agreement. Section 332 of the bill implements this provision of the agreement and, as law of the Philippines when the agreement takes effect, will permit the entry of our citizens in accordance with the terms of the agreement.

#### RIGHTS OF AMERICAN CITIZENS AND BUSINESS ENTERPRISES

The rehabilitation and development of the Philippine economy and natural resources, and the establishment of a solid foundation for its industries, call not only for new capital but for men experienced in business management and technical skills. It is to the United States primarily that the Philippines must look for this capital and these men. Obviously American capital and business enterprise cannot be attracted to the islands without assurances that their rights will be protected.

In order to furnish this assurance the bill contains two provisions, the first calling for a necessary amendment to the Philippine Constitution, and the second, a clause to be inserted in the proposed agreement under which the United States reserves the right to suspend or terminate the agreement if the President determines that our citizens or business enterprises are being discriminated against.

*Amendment to Constitution of Philippines.*—Articles XII and XIII of the Philippine Constitution contain clauses under which the disposition, exploitation, development, and utilization of the public domain and natural resources of the Philippines and the operation of public utilities, are confined to citizens of the Philippines and corporations at least 60 percent of the capital of which is owned by Philippine citizens.

Section 341 of title III provides that 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.

It is apparent that the terms of this section cannot be fully complied with by the Philippines without a violation of their constitution.

Accordingly it is provided in the bill (sec. 401 (b)) that the obligations of the Philippines to observe and execute, as law of the Philippines, so much of section 341 as is in conflict with their constitution, will not arise until such time as the necessary constitutional amendment has been made.

The bill also provides (sec. 404 (c) (1)) that if the President finds undue delay in the adoption of the constitutional amendment, he shall so proclaim, and thereupon the agreement shall cease to be in effect.

*Discrimination against United States.*—The second safeguard above adverted to is found in section 404 (c) (2) and (3), clauses of the agreement under which the United States has the right, if the President, after consultation with the President of the Philippines, determines that there is any discrimination against United States citizens or any form of United States business enterprise, to suspend the whole or any part of the agreement. If the discrimination does not cease within a reasonable time as determined by our President, the United States has the right to terminate the agreement on not less than 6 months' notice.

Section 501 of the bill carries out this clause of the agreement. By it, when the President makes the required determination of discrimination, he shall so proclaim, and the agreement, or such part as he specifies as necessary to protect our interest, is suspended until he determines that the discrimination has ceased. If the President determines that, after the lapse of a time determined by him to be reasonable, the discrimination has not ceased, he is to give to the Philippines notice of our intention to terminate the agreement.

#### ANALYSIS OF QUOTAS, TARIFFS, AND PRINCIPAL PHILIPPINE EXPORTS TO THE UNITED STATES

Although reciprocal free trade between the United States and the Philippines was first instituted in 1909, the United States has imposed restrictions from time to time on the importation of certain products into the United States. The Philippine Independence Act of 1934 established duty-free quotas on sugar, coconut oil, and cordage, with all shipments of these commodities in excess of the duty-free quotas subject to full duty. In 1935 an absolute quota was imposed on cordage. The 1939 amendments to the Independence Act, in addition to continuing the quotas on sugar and cordage, established diminishing duty-free quotas on other products, namely, cigars, scrap and filler tobacco, coconut oil, and pearl or shell buttons.

The pending bill continues in effect quota provisions with certain modifications. Specifically, absolute quotas are established in the bill as shown in the following table. Also shown in the table are the average annual shipments into the United States from the Philippines in various periods of the articles subject to quotas.

*Absolute quotas provided in bill regulating United States-Philippine Islands trade (H. R. 5856), and actual average shipments in specified periods*

Commodity	Unit of quantity	Annual quotas provided by H. R. 5856	Average annual shipments into the United States from Philippine Islands, 1928-29, inclusive	Average annual shipments into the United States from Philippine Islands, 1934-37, inclusive
Sugar.....	Short ton.....	850,000	549,173	979,283
Cordage.....	Pound.....	6,000,000	5,108,399	6,393,700
Rice.....	do.....	1,040,000	123,807	6,589,630
Coconut oil.....	Long ton.....	1200,000	144,195	149,932
Cigars.....	Number.....	200,000,000	( <sup>1</sup> )	192,549,252
Scrap tobacco and stemmed and unstemmed filler tobacco.	Pound.....	6,500,000	2,554,380	3,452,409
Buttons of pearl or shell.....	Gross.....	850,000	831,755	716,225

<sup>1</sup>The average annual imports from the Philippines during the period 1937-41.

<sup>2</sup>Quantity of "Philippine articles" entitled to free entry is reduced by 5 percent each year beginning in 1955.

<sup>3</sup>Not reported in number prior to 1934.

Source: U. S. Tariff Commission, United States-Philippine Trade, Report No. 118; Joint Preparatory Committee on Philippine Affairs, May 20, 1938; Foreign Commerce and Navigation of the United States.

The quotas, except in the case of cordage, apply only to Philippine articles. The cordage quota applies to Philippine products whether or not they come under the definition of Philippine articles.<sup>1</sup>

Under the pending bill, the tariff status of imports of sugar, cordage, and rice (and all other products except cigars, tobacco, coconut oil, and pearl buttons), insofar as they are "Philippine articles," will be as follows: During the period beginning with the effective date of the act and ending July 3, 1954, inclusive, imports will be free of ordinary customs duty; from the period July 4 to December 31, 1954, inclusive, imports will be dutiable at 5 percent of the lowest United States duty accorded to any foreign country (now Cuba), and for the calendar year 1955 at 10 percent of such duty; for the calendar years 1956 to 1972, inclusive, the duty will be increased annually by an additional 5 percent of the United States duty until in the period January 1, 1973, to July 3, 1974, inclusive, imports will be dutiable at 100 percent of the lowest United States duty accorded to any foreign country.

After July 3, 1974, these products will be dutiable at the same rates of duty that would be applicable to the products of other foreign countries. In other words the United States will not, after that date, accord tariff preferences to "Philippine articles" unless further legislation is adopted.

#### QUOTAS AND TARIFFS IN GENERAL

Throughout the period covered by the bill, the absolute quotas remain in effect on sugar, cordage, rice, cigars, scrap and filler tobacco, coconut oil, and pearl buttons, but in addition to the absolute quotas, diminishing duty-free quotas are also established on cigars, scrap and filler tobacco, coconut oil, and pearl buttons, providing for free entry of an amount reduced by 5 percent annually starting in 1955 from the base amount of the absolute quotas.

<sup>1</sup> See detailed analysis of bill section by section, sec. 2 (a) (4) *infra*.

Beginning in 1955 imports of cigars, scrap and filler tobacco, coconut oil, and buttons over and above the duty-free quotas but within the limits of the absolute quotas will be subject to the lowest United States duty accorded to any foreign country (now Cuba) and these products are, therefore, excluded from the graduated tariff increases applicable to sugar, cordage, and rice, and other commodities not named specifically in the bill. The amounts of the specified articles that may be entered into the United States in each year free of ordinary customs duties appear in the bill as follows:

*Duty-free quotas on "Philippine articles" in specified years*

Year	Cigars	Tobacco	Coconut oil	Pearl buttons
	<i>Number</i>	<i>Pounds</i>	<i>Longtons</i>	<i>Gross</i>
Each year, 1946 to 1954, inclusive.....	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

The purpose of fixing absolute quotas in the bill is to restrict the amount of the specified products that may enter the United States in any calendar year. The products for which absolute quotas are fixed, which are among the major Philippine export products, are generally competitive with the products of United States industry.

While recognition is given to the necessity of giving special treatment to imports from the Philippines for a specified period to enable producers in the islands to make necessary adjustments in order to compete in the United States on the same basis as other foreign countries and in world markets, it is also logical and reasonable that definite limits should be placed upon the amounts of such articles that may enter the United States. Quotas will also tend to prevent an uneconomic expansion of Philippine industry dependent upon preferences in the United States market.

The purpose of the duty-free quotas in the bill is to give Philippine industries the opportunity, over a long period of time, to make gradual adjustment in their internal operations so that by the end of the period they will be in a position to compete in world markets without tariff preferences. Heretofore, these products have found an exclusive market in the United States because of the preferential treatment given to its products.

## ALLOCATION OF QUOTAS

In addition to fixing quotas, the method by which such quotas, other than that on rice, must be allocated among the manufacturers is also set forth in the bill. In general, quotas will be allocated to manufacturers exporting to the United States from the Philippines in the calendar year 1940 upon the basis of their average annual production in specified base periods. In the case of sugar allocations, the base period is the annual average production of the producers in the years 1931, 1932, and 1933; for cordage it is the amount produced by each manufacturer which was exported in the 12 months immediately preceding the inauguration of the Commonwealth government (November 1935); the allocation of the duty-free quota products will be upon the basis of products of each manufacturer exported to the United States in the calendar year 1940.

## PROCESSING AND OTHER TAXES

Provision is made in the proposed executive agreement with the Philippines by which the United States promises to continue in force, during the effectiveness of the agreement, the preferential processing tax with respect to coconut oil. This tax preference of 2 cents per pound has been in effect since the processing taxes were enacted in 1934 except that it has been temporarily suspended during the war when adequate supplies of Philippine copra and coconut oil were not available. Except for periods in which supplies from the Philippines are inadequate, the United States will impose a processing tax 2 cents per pound higher on coconut oil derived from copra produced in third countries than on coconut oil derived from Philippine copra. This tax preference has in the past resulted in the United States obtaining practically all its supplies of coconut oil from the Philippines either in the form of oil or in the form of copra, which is crushed in the United States, and it may be expected that during the effectiveness of the agreement the Philippines will supply us with practically all of our coconut oil. The bill authorizes the President to suspend the 2-cent preference when supplies from the Philippines are not adequate.

The bill also provides for nondiscriminatory internal tax treatment on Philippine products in the United States. In other words, having provided for preferential tariff treatment, the United States cannot nullify such preferences by discriminatory internal taxes. On the other hand, the United States reserves full rights to impose compensating taxes on imports to offset internal taxes imposed with respect to like domestic articles or with respect to the materials used in the production of like domestic articles. For example, while the United States will unqualifiedly admit sugar free of ordinary customs duty in the period ending July 3, 1954, it has full rights to impose on imports of manufactured sugar a tax equivalent to the tax imposed with respect to like sugar produced in the United States. However, such compensating taxes cannot be substantially more than is necessary to offset the internal taxes.

Provision is also made that internal taxes on Philippine products will be no higher than internal taxes on like products imported from third countries.

The bill leaves undisturbed the internal taxes on oleomargarine adulterated butter, and filled cheese, imposed under sections 2306, 2327, and 2356 of the Internal Revenue Code.

These taxes are:

	Internal revenue tax on manufacture, per pound	Internal revenue tax on imported article, per pound
Secs. 2300-2327, Internal Revenue Code: Oleomargarine.....	10 cents (colored), ¼ cent (uncolored).....	} 15 cents.
Adulterated butter.....	10 cents.....	
Secs. 2350-2362, Internal Revenue Code: Filled cheese.....	1 cent.....	8 cents.

TERMINATION OF PAYMENTS INTO PHILIPPINE TREASURY

Under existing law the proceeds of duties and taxes collected in the United States on Philippine goods, including especially the proceeds of the processing tax under section 2470 of the Internal Revenue Code on coconut oil derived from Philippine copra, have been paid either directly into the treasury of the Philippines or held as a separate fund and then paid into the Philippine treasury. In effect this arrangement constitutes a continuing appropriation of these funds for the benefit of the Philippines.

It is clearly undesirable for the Congress to continue such an arrangement of collecting taxes from the American people for the direct account of a foreign government, and the payments to the Philippines will cease with respect to taxes collected after July 3, 1946 (see sec. 506 of the bill).

Existing law has provided for the payment to the Philippines of taxes "accrued" up to July 3, 1946. The bill provides that the payment shall be terminated with respect to taxes "collected" after July 3, 1946. The shift from the accrual to a collection basis is made largely for reasons of administrative convenience. While on the face of it, it may seem to deny the Philippines the proceeds of taxes accrued before independence but not collected until thereafter, on the other hand, the Philippines will not be called on to make up the money which will be paid by the United States after July 3, 1946, as refunds to taxpayers because of incorrect collections prior to independence; such refunds have heretofore been charged against the funds standing to the credit of the Philippine government.

The termination of these payments is a very important matter inasmuch as for the past several years they have constituted one of the principal sources of revenue to the Philippine government, the deposits into the fund and available for withdrawal by the Philippine government amounting in the period 1938-40 to an average of \$30,000,000 annually.

The continuance of our historic policy of exempting manila (abaca) fiber not dressed or manufactured in any manner from processing or other internal taxes is provided for in the bill. This fiber is not produced in the United States.

## PRINCIPAL PHILIPPINE EXPORTS

The products for which quotas are established in the bill comprise the great bulk of Philippine exports to the United States. Because of the importance of these products to Philippine economy as well as to United States consumption, a brief analysis is given below of each of the products for which quotas are fixed.

## SUGAR

*Importance of sugar industry in Philippine economy.*—Sugar culture was carried on in the Philippines before the Spanish came to the islands in 1521 but modernization of the industry did not begin until about 1910. It was not until 1923, however, that production of centrifugal sugar exceeded that of the old-type muscovado sugar which is extracted by-boiling cane juice in large open kettles over fires.

The most rapid expansion in the industry in both acreage and production occurred in the years 1929 to 1934 when the question of Philippine independence was being debated by the United States Congress. Philippine centrifugal sugar production reached a peak of 1,598,000 short tons in 1934. Since that time, it has declined primarily because of the quota provisions of the Independence Act and of our sugar legislation (the Jones-Costigan Act and the Sugar Act of 1937).

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 investments in cane lands and in improvements thereto have been made by Filipinos.

Sugar production in the Philippines is organized on a different basis from that found in many other cane sugar producing areas. In Philippine production, the two principal factors are the individual planters, who produce the cane, and the centrals, which mill it, very little cane being produced by the centrals. Individual planters operate under a milling contract with the central. Contracts were usually drawn for a period of 30 years and provided that the planters receive 50 to 60 percent of the sugar extracted from their cane.

The Philippine sugar industry is located in three principal producing regions: (1) The island of Negros; (2) the Provinces of Pampanga, Bataan, and Tarlac (central Luzon); and (3) the Provinces of Batangas and Laguna (southwestern Luzon). These districts generally produce nearly 90 percent of the total sugar, Negros alone accounting for about 55 percent of the total. According to estimates made by the Philippine Sugar Association in 1934, from 10 to 15 percent of the total Philippine population is dependent entirely, or substantially, upon the



sugar industry. The degree of dependence, however, varies markedly from province to province.

Since 1923 the value of exports of sugar has been greater than that of exports of any other Philippine product. Exports of sugar exceeded 1,000,000 short tons in 1932, for the first time in Philippine history and increased to a peak of 1,275,000 short tons in 1934. Practically all of the sugar exported from the Philippines in recent years has been for the United States market. The following table shows, for a series of years, the quantity and value of the exports of sugar and the proportion going to the United States:

*Sugar: Quantities and values exported from the Philippines to all countries and to the United States, 1928-40*

Year	Total exports		Ratio of total value of exports of sugar to total value of all Philippine exports	Exports to the United States		Ratio of quantity of exports of sugar to the United States to total quantity of such exports to all countries
	Quantity	Value		Quantity	Value	
	<i>Short tons, raw value</i>		<i>Percent</i>	<i>Short tons, raw value</i>		<i>Percent</i>
1928.....	628,863	\$47,542,040	30.7	589,565	\$45,699,006	93.75
1929.....	767,590	53,244,149	32.4	740,206	52,161,316	96.43
1930.....	822,201	52,240,226	30.2	814,736	52,039,890	99.09
1931.....	833,080	49,963,105	48.1	832,430	49,950,417	99.92
1932.....	1,124,971	59,801,884	62.7	1,124,691	59,796,369	99.98
1933.....	1,193,260	64,333,426	60.8	1,193,244	64,332,902	99.99
1934.....	1,275,313	65,454,580	59.3	1,275,250	65,453,621	99.99
1935.....	573,510	32,080,680	35.0	572,724	32,061,593	99.80
1936.....	991,802	61,037,322	41.9	991,646	61,027,184	99.97
1937.....	969,153	57,706,194	38.1	956,805	57,610,521	99.65
1938.....	957,076	50,022,024	43.2	956,728	50,002,650	99.96
1939 <sup>1</sup> .....	670,804	34,466,375	60.7	676,645	34,458,146	99.90
1940 <sup>2</sup> .....	798,695	39,494,605	34.8	798,261	39,466,490	99.95

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

*Position of Philippine sugar in United States markets under existing law.*—Under the Jones-Costigan Act of May 9, 1934, quota limitations were placed on imports into and on the marketing of domestic sugar in continental United States. The quota system has been continued since that time. The Sugar Act of 1937, which superseded the Jones-Costigan Act, provides for a percentage distribution of United States consumption requirements among domestic and foreign producing areas. Domestic sugar-producing areas (including Hawaii and Puerto Rico) are allotted 55.59 percent of estimated consumption and the Philippines and foreign countries are allotted 44.41 percent. The Philippine quota is fixed at 34.70 percent of the share reserved for other than domestic areas, or 15.41 percent of the total quota, but may not be less than the duty-free quota established by the Independence Act.

The quota allocation to continental United States producing areas furnishes about 30 percent of the consumption requirements and they did not exceed this contribution before quotas became effective. Consequently, shipments from other sources have been an important factor

supplying United States demand. During the past two decades, offshore supplies have come almost entirely from the insular Territories and possessions of the United States and from Cuba. Prior to the war, production in continental United States and in the insular areas under the quota system, continued at approximately the level attained in 1933, at or near their high points of production, while the proportion permitted from Cuba was higher than the actual shipments during the depression years but appreciably lower than during the years 1927-30. The Philippine quota was lower than its high level of shipments in 1933 but more than 40 percent higher than its actual shipments during the years 1927-30.

The Tariff Act of 1922 fixed the general rate of duty on 96° sugar entering the United States at 2.206 cents per pound. This rate was increased by the Tariff Act of 1930 to 2.5 cents per pound. On May 9, 1934, the President issued a proclamation lowering the duty on sugar to 1.875 cents per pound, effective June 8, 1934. In each of the above instances the rate on Cuban sugar was 20 percent lower than the full duty because of provisions of the commercial treaty signed by Cuba and the United States in 1902; the rate on Cuban sugar thus became 1.5 cents per pound by Presidential proclamation.

By the terms of the trade agreement between the United States and Cuba, in 1934, following the enactment of quota legislation, the United States granted a reduction in the rate of duty on Cuban sugar from 1.5 cents to 0.9 cent per pound, effective September 3, 1934, and in a subsequent agreement to 0.75 cent per pound, effective January 1942. These agreements with Cuba did not affect the rate of duty on imports from other countries which remained at 1.875 cents per pound. If the imports of sugar from the Philippines had been dutiable, they would have been subject to this general rate. The Sugar Act of 1937 accorded a quota for Philippine sugar usually somewhat higher than the Independence Act quota, but this excess was never entered as it would have been subject to the general rate of duty. In the trade agreement with Peru, the general rate was reduced from 1.875 to 0.9375 cent per pound (96°), effective July 29, 1942.

For over 30 years prior to the inauguration of the quota system in 1934, sugar prices in the United States were about the same as world prices plus the United States duty on Cuban sugar. Since the establishment of the quota system, the price of sugar in the United States has ceased to be linked directly to the world price and the duty; it has been the resultant of current domestic demand and the volume of sales fixed in accordance with the provisions of the Sugar Act. Until the declaration of war this price generally exceeded the world price by considerably more than the duty on Cuban sugar but only occasionally more than the amount of the full duty.

#### COCONUT OIL AND COPRA

*Importance of the coconut industry in the Philippine economy.*—The coconut industry is one of the oldest and most important in the Philippine Islands. At the outbreak of World War I the Philippines were supplying approximately one-fourth of all the copra entering world trade. The copra-crushing industry had not as yet developed in the Islands, however, so that export of coconut products was almost entirely in the form of copra.

The demand for copra and coconut oil was greatly stimulated during World War I period. Prices of all fats and oils arose to extremely high levels, but the price of coconut oil exceeded that of most of the other fats and oils. During this period the acreage devoted to the coconut palm was greatly expanded and a coconut oil export industry was started. Because of the scarcity of shipping it was more economical to export the oil than the more bulky copra. Beginning with a small number of mills, the number increased until at the end of the war there were over 40 sizable establishments in operation.

The cessation of hostilities was followed shortly by a world-wide depression, in consequence of which the demand for coconut oil declined sharply, and nearly all the mills in the Philippines were forced to liquidate. Most of the mills closed down but a few modernized their equipment and began operations again on a commercial scale. The survival of the copra-crushing industry in the islands was made possible largely because of the protection afforded by the United States Tariff Act of 1922 which imposed a duty of 2 cents per pound on coconut oil from foreign countries. This duty has served practically to exclude imports of coconut oil from all sources other than from the Philippines.

To illustrate the growth of the Philippine coconut industry the combined tonnage of the major coconut products exported increased over fortyfold from 1899 to a period shortly before World War II. The acreage devoted to coconut production advanced from less than one-half million acres before 1910 to a million and a half or more after 1934. Exports of coconut oil and copra in terms of oil increased from 193,000 metric tons in 1925 to 363,000 metric tons in 1934 and in the latter year they supplied 34 percent of the world trade in copra and coconut oil combined. From 1925 to 1934, 54 percent of the exports of coconut products was shipped in the form of oil.

The coconut-growing industry in the Philippines consists, for the most part, of small enterprises. The groves on which most of the coconuts are grown consist of plots of less than 10 acres. In point of area under cultivation, coconut production ranks second in importance, being exceeded only by rice; it generally ranks third in value, being exceeded only by sugar and rice.

It is believed that over 30 percent of the total population of the Philippines is directly dependent on the coconut industry for their livelihood. Moreover, the insular government derives a considerable portion of its total revenues from this industry.

An unofficial Philippine estimate indicates that the coconut industry including all of its branches, represented an investment of more than \$220,000,000 in 1935. Of this investment, Filipinos were reported to own or control about 90 percent and Americans, Spaniards, British, and others the remainder.

Coconut oil is produced in the Philippines primarily for export and nearly all of the coconut oil exported is shipped to the United States markets. The remainder is consumed in the Philippines, chiefly in the production of margarine, cooking fats, soap, and other manufactured products.

The quantity and value of coconut oil exported from the Philippines to all countries and to the United States in recent years are shown in the following table. Because of its importance to the Philippines

and to the United States oil-crushing industry, a table is also given showing exports of copra to the United States and to all countries.

*Coconut oil: Quantities and values exported from Philippines to all countries and to the United States, 1928-40*

Year	Exports of coconut oil to all countries			Ratio of value of exports of coconut oil to total value of all Philippine exports	Exports of coconut oil to the United States		Ratio of quantity of coconut oil exported to the United States to total quantity of coconut oil exported to all countries
	Quantity	Value	Value per ton		Quantity	Value	
	<i>Short tons</i>			<i>Percent</i>	<i>Short tons</i>		<i>Percent</i>
1928.....	156,790	\$23,489,172	\$149.81	15.1	155,241	\$23,239,520	99.0
1929.....	210,011	29,184,942	138.97	17.7	207,090	28,900,587	99.0
1930.....	162,442	19,155,382	117.92	4.4	161,051	18,961,826	99.1
1931.....	181,848	15,035,322	82.68	14.5	163,948	13,555,684	90.2
1932.....	126,405	7,651,144	60.53	8.0	121,539	7,335,830	96.2
1933.....	175,951	9,169,823	52.12	8.7	173,622	9,025,075	98.7
1934.....	159,654	6,794,871	42.56	6.2	149,843	6,396,557	93.9
1935.....	182,095	12,254,581	67.30	13.0	178,781	12,005,093	98.2
1936.....	175,951	13,871,759	78.84	9.4	166,395	13,137,171	94.6
1937.....	180,002	20,525,537	114.03	13.6	176,706	20,173,703	98.2
1938.....	182,567	10,766,455	58.97	9.3	175,887	10,353,341	96.3
1939 <sup>1</sup> .....	160,200	4,841,844	48.32	7.1	95,208	4,551,264	95.0
1940 <sup>2</sup> .....	192,956	10,342,026	53.60	9.1	165,706	8,621,556	85.9

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year, from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

*Copra: Quantities and values exported from Philippines to all countries and to the United States, 1928-40*

Year	Exports of copra to all countries			Ratio of value of exports of copra to total value of all Philippine exports	Exports of copra to the United States		Ratio of quantity of copra exported to the United States to total quantity of copra exported to all countries
	Quantity	Value	Value per ton		Quantity	Value	
	<i>Short tons</i>			<i>Percent</i>	<i>Short tons</i>		<i>Percent</i>
1928.....	288,400	\$22,542,341	\$87.24	14.5	201,265	\$17,603,832	77.9
1929.....	191,331	15,565,820	81.36	9.5	142,878	11,440,893	74.7
1930.....	192,133	13,433,438	69.92	10.1	155,693	10,651,318	81.0
1931.....	192,666	9,150,404	47.64	8.8	133,251	6,052,323	69.4
1932.....	151,282	5,133,227	33.93	5.4	91,522	3,056,069	60.5
1933.....	310,312	8,956,028	26.31	8.5	229,279	5,951,226	67.4
1934.....	377,768	8,605,124	22.78	7.8	169,186	3,960,060	44.8
1935.....	278,771	10,987,330	39.41	11.7	229,382	9,166,010	82.3
1936.....	320,864	14,999,784	46.75	10.2	201,193	9,772,482	62.7
1937.....	269,742	15,984,700	61.30	10.6	228,695	14,124,980	87.7
1938.....	377,060	12,256,014	32.50	10.6	250,709	8,164,586	66.5
1939 <sup>1</sup> .....	269,731	6,214,026	29.63	9.1	166,050	3,080,348	60.6
1940 <sup>2</sup> .....	443,430	13,471,796	30.38	11.9	269,190	7,997,516	60.7

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year, from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

*Position of Philippine coconut oil in the United States market.*—The imposition of the 2 cents per pound duty on coconut oil in the Tariff Act of 1922 resulted in practically the entire quantity of coconut oil imported into the United States being of Philippine origin. After the imposition in 1934 of the 5 cents per pound processing tax on coconut oil produced from foreign copra, as compared with 3 cents per pound on oil produced from copra of the United States possessions, imports of copra were also mainly of Philippine origin. Consequently, the bulk of the supply of coconut oil consumed in the United States, and especially after 1934, was mainly of Philippine origin.

*Competitive situation.*—Fats and oils of animal and vegetable origin are used in the preparation of (1) food products; (2) soap; (3) paints, varnish, linoleum, and printing inks; and (4) many miscellaneous manufactures. Many fats and oils can be substituted for one another either wholly or in substantial degree. Notwithstanding the wide technical interchangeability, however, there are no satisfactory substitutes for some oils and fats in certain uses. For some uses substitution may occur, but certain fats are preferred because they produce a better product, or for other reasons.

In 1940, a year fairly typical of the prewar period, there was consumed in the United States 9.3 billion pounds of fats and oils (including butter on a butterfat basis) for all purposes; 67 percent was consumed in food, 20 percent in soap, 8 percent in paint and related products, and 5 percent in miscellaneous manufactures. Of the total, 590 million pounds, or 6 percent, consisted of coconut oil.

Coconut oil is consumed chiefly in the manufacture of soap in the United States and, to a lesser extent, in food products—margarine, shortening, biscuit, and confectionery—and in miscellaneous products. In 1940 more than 70 percent was consumed in soap and most of the remainder in food. During the war coconut oil was practically confined to soap manufacture, largely on account of the relatively high yield of glycerin, a critical war material.

Coconut oil is one of the so-called lauric acid oils, that is, it contains a large percentage of a lauric-acid derivative. The two other principal oils in this category are palm kernel and babassu. For all important uses these oils are practically interchangeable. Palm-kernel oil comes principally from countries in central west Africa and from the Netherlands Indies and British Malaya (or from kernels originating in those countries) and babassu oil from Brazil. Palm-kernel oil, like Philippine coconut oil, is subject to a processing tax of 3 cents per pound; in addition, the imported edible palm-kernel oil is dutiable at one-half cent per pound. Babassu oil is free of duty and excise tax. Coconut oil is by far the most important of this group of oils consumed in the United States.

The lauric-acid oils are preferred for use in the soap industry primarily because they produce soaps of easy solubility and high-lathering properties. On the average the lauric-acid oils are blended with other fats and oils so as to constitute about 25 percent of the fat charge to produce the best products, although this percentage may be varied within limits, depending upon the type of soap being made and upon other factors. In percentages beyond the minimum requirements, the lauric-acid oils compete with tallows and greases, and other fats in the manufacture of soap.

Coconut oil was used to a considerable extent in margarine before the war. In 1929, there were 186,000,000 pounds consumed in this use and 174,000,000 pounds in 1935. Consumption thereafter declined largely because of laws discriminating against use of foreign oils in margarine and because technological improvements were made in processing cottonseed and soybean oils to make them suitable for use in margarine. Coconut oil disappeared from margarine during the war.

Coconut oil is not important for use in shortening but at times substantial quantities have been so used. For instance, in 1935, consumption of coconut oil in shortening amounted to 44,000,000 pounds, although it was considerably less in most other years.

Coconut oil has properties which make it especially desirable for use in certain biscuits, crackers, and confectionery. For some of these uses oils such as cottonseed and peanut have been developed which are satisfactory substitutes. For other purposes in these industries no satisfactory substitute (aside from other lauric-acid oils) has been found. From 50 to 90 million pounds annually have been used for such uses in the aggregate in the past. In the postwar period coconut oil will likely continue to be preferred for these purposes.

Generally speaking, it may be stated that the soap industry and, to a lesser degree, the biscuit and confectionery industries, will continue as the principal outlets for coconut oil. In these uses the minimum requirements for this oil, together with smaller quantities of other lauric-acid oils, may aggregate 500 to 600 million pounds or more annually. The quantities which may be consumed in excess of these requirements and in other uses will have to compete directly with tallows, greases, palm oil, marine-animal oils, and others.

#### ABACA FIBER AND CORDAGE

*Significance of the cordage industry to the economy of the Philippine Islands.*—In the decade 1931-40 cordage accounted for about 1 percent of the total value of all exports from the Philippine Islands and abaca (manila) fiber accounted for about 9 percent.

Total production of cordage in the 5 years 1934-38 averaged 23,000,000 pounds per year, but data as to the value of that production are not available. In this 5-year period total exports of cordage averaged 17,000,000 pounds per year, valued at 1.1 million dollars.

In the 5 years 1936-40 production of abaca fiber in the Philippine Islands averaged about 400,000,000 pounds per year, but the value of this production is not reported. Abaca fiber exports in this period averaged about 365,000,000 pounds per year, valued at \$15,000,000. Thus, the value of abaca fiber exports in the 5 years 1936-40<sup>2</sup> was almost \$14,000,000 per year greater than the annual average value of cordage exports in the 5 years 1934-38.<sup>2</sup>

The cordage mills employed about 1,000 persons, and between 2 and 2½ million people were dependent directly or indirectly on abaca production for all or part of their livelihood.

Before the war there were five cordage factories in the Philippine Islands. On the basis of spindle capacity in 1935 American capital controlled about 53 percent of the industry, Filipino capital 41 percent, and Chinese capital about 6 percent.

<sup>2</sup> Different periods compared for the reason that data as to cordage are not available beyond 1938.

The quantity and value of abaca and cordage exported from the Philippines to all countries and to the United States in recent years are shown in the following tables:

*Abaca: Quantities and values exported from the Philippines to all countries and to the United States, 1928-40*

Year	Total exports		Ratio of total value of exports of abaca to total value of all Philippine exports	Exports to the United States		Ratio of exports of abaca to the United States to total exports of abaca to all countries	
	Quantity	Value		Quantity	Value	Quantity	Value
	<i>Short tons</i>		<i>Percent</i>	<i>Short tons</i>		<i>Percent</i>	<i>Percent</i>
1928.....	192,677	\$26,693,606	17.2	56,340	\$9,527,045	29.2	35.8
1929.....	208,802	28,240,550	17.2	74,850	12,276,363	35.8	43.6
1930.....	186,010	18,426,676	13.8	64,715	7,638,029	34.7	41.5
1931.....	145,629	8,942,906	8.6	30,756	2,511,733	21.1	28.1
1932.....	116,607	5,015,602	5.3	27,709	1,481,576	23.8	29.5
1933.....	167,622	6,873,859	6.5	39,891	2,012,934	23.8	29.3
1934.....	192,352	8,661,568	7.8	46,386	2,695,895	24.1	31.1
1935.....	207,453	11,473,936	12.2	49,024	3,811,009	23.6	33.2
1936.....	184,221	17,088,598	11.0	41,713	5,336,710	22.6	31.2
1937.....	182,254	21,039,687	14.3	44,836	6,851,043	24.6	31.7
1938.....	155,771	10,159,174	8.8	30,607	2,431,614	19.6	23.9
1939 <sup>1</sup> .....	94,053	5,251,669	7.7	23,179	1,597,956	24.6	30.4
1940 <sup>2</sup> .....	193,830	12,528,378	11.0	62,003	5,033,563	32.3	40.2

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

*Cordage: Quantities and values exported from the Philippines to all countries and to the United States, 1928-40*

Year	Total exports		Ratio of total value of exports of cordage to total value of all Philippine exports	Exports to the United States		Ratio of quantity of exports of cordage to the United States to total quantity of such exports to all countries
	Quantity	Value		Quantity	Value	
	<i>Pounds</i>		<i>Percent</i>	<i>Pounds</i>		<i>Percent</i>
1928.....	14,494,705	\$1,775,436	1.1	5,393,029	\$721,121	37.2
1929.....	15,667,010	1,904,272	1.2	6,850,770	932,731	43.7
1930.....	13,858,457	1,553,227	1.2	6,769,412	841,565	48.8
1931.....	10,224,805	887,408	.9	4,599,113	460,001	45.0
1932.....	8,451,224	859,047	.7	4,447,882	411,207	52.6
1933.....	12,907,781	906,768	.9	6,876,227	667,340	53.3
1934.....	18,339,701	1,334,110	1.2	8,943,167	785,053	48.8
1935.....	17,651,445	1,161,815	1.2	8,053,278	628,959	45.6
1936.....	14,561,103	1,198,870	.8	3,918,022	449,692	26.9
1937.....	16,449,336	1,436,461	.9	4,660,333	495,967	28.3
1938.....	15,315,656	1,169,031	1.0	3,236,697	333,468	21.1
1939 <sup>1</sup> .....	10,767,751	704,060	1.1	3,903,449	326,958	36.3
1940 <sup>2</sup> .....	21,672,210	1,726,977	1.5	5,348,664	668,381	24.7

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

*Position of Philippine cordage in the United States market.*—In the 5 years 1936–40, about 32 percent of the quantity and 39 percent of the value of cordage exported from the Philippine Islands was sent to the United States. In that same period 26 percent of the quantity and 33 percent of the value of abaca fiber exported from the Philippines was sent to the United States. The annual average value of the fiber shipments to the United States was \$4,834,000 and of cordage shipments \$549,000.

All but a small part of the United States imports of cordage products from the Philippine Islands has consisted of rope and all but a small part of the rope has been made of abaca (manila) fiber. United States imports of all kinds of hard-fiber rope averaged about 6,500,000 pounds per year in the 5 years 1936–40, and all but about 1,000,000 pounds per year of these imports originated in the Philippine Islands. Total imports of all hard-fiber rope in these 5 years probably supplied something less than 10 percent of United States consumption.

Beginning May 1, 1935, hard-fiber cordage products coming into the United States from the Philippine Islands have been subject to an absolute quota limitation of 6,000,000 pounds per year.

*Competitive aspects.*—Production of hard-fiber rope in the United States fluctuated rather widely in the period of 10 or 15 years before the war, but these fluctuations were due more to changes in general economic conditions than to increases or decreases in the quantity of imports.

Although United States imports of hard-fiber cordage products from the Philippine Islands before the war consisted almost entirely of rope, the Philippines is a potential source of other products, such as binding twine, wrapping twine, etc. This is evident from the fact that a large part of the United States production of binding twine and almost all of the wrapping twine and other hard-fiber cordage products is made in the same mills which produce rope. Equipment used in spinning hard-fiber rope yarns is also suitable for use in spinning hard-fiber yarns for other uses or purposes.

Before the 6,000,000-pound quota limitation United States imports of hard-fiber cordage products from the Philippines had been increasing. They averaged 3,000,000 pounds per year in the 5 years ended with 1924, 6,000,000 pounds per year in the 5 years ended with 1929, and 7,000,000 pounds per year in the 5 years ended with 1934. In 1935 they were 11,000,000 pounds, but the impending quota limitation probably accounts, in part at least, for the large 1935 imports.

#### CIGARS AND TOBACCO

*Importance of tobacco in the Philippine economy.*—Tobacco has been an important crop in the Philippine Islands since the introduction of its culture by the Spanish in the latter part of the sixteenth century. In recent years the country has been among the 10 ranking producing countries of the world. Tobacco is grown throughout the islands, but that produced in certain areas of Luzon, especially in the Cagayan Valley, is the most important and has the highest quality.

About 90 percent of the tobacco grown is cigar-filler type. It is produced on about 75,000 small farms and 15 large plantations. In prewar years it represented a total investment of about \$21,000,000, of which Filipinos owned about 97 percent. Tobacco growing ac-



counted for about 1.5 percent of the cultivated land in the islands and approximately 500,000 people were dependent on its production for their livelihood.

The manufacturing of tobacco products in the Philippine Islands represented an investment of a little over \$9,000,000 during the pre-war period. In 1936 Spanish interests controlled 65 percent of the capital invested, with Swiss, Americans, and Chinese controlling most of the remainder. The most important product is cigars, although other products, principally cigarettes, are produced for domestic consumption. It is estimated that the manufacturing industry employed about 20,000 factory workers. Except in the production of cigarettes, there is little mechanization in the industry.

The annual exports of tobacco and tobacco products in the period 1936-40 averaged 5.5 million dollars and represented about 4 percent of the value of all Philippine exports. This compares to an average of 7.3 million dollars, or 6 percent of the value of the total exports, for the 10-year period 1926-35. Cigars have comprised the bulk of the value of the tobacco exports. About 65 percent of the total number of cigars produced on the island were exported.

The general character of the Philippine export trade in tobacco and tobacco products is shown in the following table:

*Tobacco and tobacco products: Exports from the Philippines to all countries 1926-40*

Year	Leaf tobacco		Cigars		Value of all other tobacco products (in thousands) <sup>1</sup>	Total value (in thousands)	Ratio of tobacco exports to total Philippine exports (percent)
	Quantity (in thousands of pounds)	Value (in thousands)	Quantity (in thousands)	Value (in thousands)			
1926.....	31,602	\$2,018	247,711	\$5,622	\$280	\$8,632	6.3
1927.....	51,090	3,919	207,579	4,652	338	8,909	5.7
1928.....	44,571	3,029	220,884	4,765	777	8,571	5.7
1929.....	60,801	4,302	188,333	3,825	573	8,790	5.3
1930.....	45,791	3,726	178,561	3,645	665	7,836	5.9
1931.....	40,941	3,502	183,874	3,395	524	7,421	7.1
1932.....	47,604	2,822	182,575	3,231	347	6,400	6.7
1933.....	37,250	1,843	196,141	3,158	177	5,178	4.9
1934.....	28,943	1,391	222,820	3,606	197	5,194	4.7
1935.....	40,308	2,308	223,117	3,399	205	6,002	6.4
1936.....	31,840	2,267	178,334	2,746	232	5,245	3.8
1937.....	17,804	1,243	204,620	3,072	668	4,983	3.3
1938.....	21,680	1,423	196,694	3,025	517	4,965	4.3
1939 <sup>2</sup> .....	23,598	1,841	91,452	1,389	404	3,634	5.3
1940 <sup>3</sup> .....	18,969	1,387	217,515	3,433	1,178	5,998	5.3

<sup>1</sup> "All other tobacco" consists largely of stripped filler and scrap.

<sup>2</sup> January to June 1939 only.

<sup>3</sup> Fiscal year from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

The United States and Spain have been the leading export markets for Philippine tobacco and tobacco products. Spain has been the most important buyer of leaf tobacco and the United States has absorbed the bulk of the cigars exported. Of the total exports, those to the United States accounted for about 50 percent of the value for 1926-35 and Spain for 26 percent. During the 5-year period 1936-40, the United States became relatively more important, accounting for 61 percent of the total value of exports; Spain accounted for a smaller proportion than formerly—15 percent. Other foreign markets included Belgium, China, France, Japan, and the Netherlands.

*Position of Philippine tobacco and tobacco products in the United States.*—Under the Tariff Act of 1930, as in previous acts, unmanufactured tobacco and tobacco products of the Philippine Islands were admitted into the United States free of duty. By the terms of the Philippine Independence Act, as amended, duty-free quotas beginning in 1940 were established for both cigars and cigar filler and scrap tobacco. The quota was 200,000,000 cigars in 1940 with provision for successive reduction by 5 percent for each following year until 1946. Similar provision was made for cigar filler and scrap tobacco with a duty-free quota of 4.5 million pounds in 1940. By amendatory legislation, the quotas for 1940 remained applicable for 1941 and 1942. The quotas have never been filled, and imports practically ceased at the time of the Japanese invasion.

The tobacco and tobacco products exported to the United States have consisted almost entirely of cigars and scrap tobacco. Cigars during the prewar years accounted for nearly 85 percent of the total value of such products. Most of them were low in unit value and were sold in the United States in the lowest-price brackets retailing for 2 for 5 cents. They usually accounted for between 3 and 4 percent of the total cigars consumed in the United States. The scrap tobacco, also relatively low in price, was imported into the United States for use in the domestic manufacture of short-filler cigars.

The quantities and values of the cigars and scrap tobacco (including stripped filler and cigar ends) exported from the Philippine Islands to the United States are shown in the following tables:

*Cigars: Quantities and values exported from the Philippines to all countries and to the United States, calendar years 1928-40*

Year	Total exports		Ratio of total value of exports of cigars to total value of all Philippine exports	Exports to the United States		Ratio of quantity of exports of cigars to the United States to total quantity of such exports to all countries
	Quantity	Value		Quantity	Value	
	<i>Number</i>		<i>Percent</i>	<i>Number</i>		<i>Percent</i>
1928.....	220,884,441	\$4,765,140	3.1	170,560,767	\$3,885,672	81.3
1929.....	188,333,006	3,824,640	2.3	150,945,425	3,013,355	80.1
1930.....	178,560,744	3,545,223	2.7	144,767,590	2,810,279	81.1
1931.....	183,573,601	3,395,337	3.3	158,520,284	2,885,360	86.2
1932.....	182,574,853	3,231,218	3.4	164,015,726	2,885,524	90.2
1933.....	196,141,404	3,157,933	3.0	180,714,163	2,823,117	92.1
1934.....	222,820,144	3,605,610	3.3	203,895,812	3,231,772	91.5
1935.....	223,117,286	3,309,380	3.6	204,013,225	3,030,218	91.4
1936.....	178,334,078	2,740,327	1.9	158,077,240	2,372,181	89.1
1937.....	204,610,993	3,072,360	2.0	181,378,340	2,607,608	88.6
1938.....	196,694,469	3,024,614	2.6	180,237,307	2,695,306	91.6
1939 <sup>1</sup> .....	91,451,973	1,389,112	2.0	81,935,936	1,222,318	89.6
1940 <sup>2</sup> .....	217,514,788	3,433,153	3.0	190,189,148	3,105,217	91.6

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

Scrap tobacco, stripped filler, and cigar ends: Quantities and values exported from the Philippines to all countries and to the United States, calendar years 1928-40

Year	Total exports		Ratio of total value of exports of scrap tobacco, etc., to total value of all Philippine exports	Exports to the United States		Ratio of quantity of exports of scrap tobacco, etc., to the United States to total quantity of such exports, to all countries
	Quantity	Value		Quantity	Value	
	<i>Pounds</i>		<i>Percent</i>	<i>Pounds</i>		<i>Percent</i>
1928.....	4,799,322	\$538,922	0.3	4,377,092	\$504,143	91.2
1929.....	4,032,524	412,066	.3	3,679,592	382,648	91.2
1930.....	4,487,939	491,674	.4	4,368,530	482,982	97.3
1931.....	3,750,097	474,648	.5	3,728,223	472,721	99.4
1932.....	2,856,227	309,890	.3	2,848,753	309,310	93.7
1933.....	1,796,809	143,462	.1	1,750,362	139,968	97.4
1934.....	2,105,201	157,311	.1	1,616,089	122,324	76.8
1935.....	3,267,599	270,124	.3	3,022,165	252,003	92.5
1936.....	2,355,161	202,403	.1	2,159,593	180,644	91.7
1937.....	7,224,704	637,243	.4	7,011,790	618,382	97.0
1938.....	4,268,818	431,434	.4	4,099,994	416,220	96.0
1939 <sup>1</sup> .....	3,874,457	382,992	.6	3,835,687	380,104	99.0
1940 <sup>2</sup> .....	12,440,325	1,110,507	1.0	12,362,228	1,100,868	99.3

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year from July 1, 1939, to June 30, 1940.

Source: Annual reports, Insular collector of customs

*Competitive situation.*—The cigars and scrap tobacco imported into the United States in the past have largely been brought in because of their relatively low prices. Although Philippine cigars have characteristics that are highly esteemed by some smokers, in general the demand for them is dependent on their relatively low price. They compete with the domestic machine-made product and have been among the cheapest cigars obtainable in the United States. Philippine scrap tobacco, a byproduct of the cigar industry, is used for blending and competes chiefly with the lower grades of domestic filler tobacco.

PEARL BUTTONS

Buttons of pearl or shell are a minor export of the Philippines, accounting in prewar years usually for less than one-half of 1 percent of total Philippine exports. Inasmuch as they are directly competitive with comparable buttons produced in the United States, a quota is provided in the bill limiting the amount that can be imported. In the prewar period, United States imports of pearl buttons from all sources amounted to about 5 percent of domestic production. The following table shows the quantity and value of pearl buttons exported from the Philippines in recent years.

*Pearl buttons: Exports from the Philippines, 1928-40*

Year	Quantity	Value	Value per gross	Year	Quantity	Value	Value per gross
	<i>Gross</i>		<i>Cents</i>		<i>Gross</i>		<i>Cents</i>
1928.....	843, 231	\$385, 867	45. 8	1935.....	694, 161	\$237, 397	34. 2
1929.....	750, 098	382, 898	51. 0	1936.....	650, 829	218, 516	32. 1
1930.....	850, 074	380, 140	44. 7	1937.....	776, 024	274, 510	35. 4
1931.....	841, 982	366, 783	43. 6	1938.....	578, 254	212, 916	36. 8
1932.....	739, 821	243, 667	32. 9	1939 <sup>1</sup> .....	338, 916	118, 565	35. 0
1933.....	836, 237	270, 753	32. 4	1940 <sup>2</sup> .....	816, 568	265, 001	32. 5
1934.....	713, 886	242, 838	34. 0				

<sup>1</sup> January to June 1939 only.

<sup>2</sup> Fiscal year from July 1, 1939, to June 30, 1940.

Source: Annual reports, insular collector of customs.

## UNITED STATES-PHILIPPINE TRADE

*General character of trade.*—Although the trade of the Philippines prior to 1898 was retarded as a result of Spanish restrictions, it developed rapidly after American occupation and particularly with the United States, as is shown in the following table. Of the total value of the combined import and export trade of the Philippines, the United States accounted for 11 percent in 1900, 41 percent in 1910, 65 percent in 1920, 72 percent in 1935, and 73 percent in 1939.<sup>3</sup>

Exports from the Philippines to the United States have advanced more rapidly than have imports from the United States into the islands. The Philippines purchased annually from the United States on the average 9 percent of their total imports in the period 1899-1901, 42 percent in 1909-14, and 64 percent in 1930-33. Since 1927 they have never purchased from the United States less than 58 percent of their total annual imports, ranging in most years from 62 to 68 percent. They sold to the United States on an average 18 percent of their total annual exports in the years 1899-1901, 35 percent in 1905-9, 73 percent in 1923-28, 82 percent in 1930-32, 83 percent during 1933-35, and 78 percent in 1939.

Sales by the Philippines to the United States have generally been greater in value than their purchases from the United States. This condition was reversed for only a few years following the establishment of United States-Philippine free trade in 1909, for 2 years during World War I, and in 1938 and 1940. Even prior to American occupation in 1898, the Philippines maintained a credit trade balance with the United States.

<sup>3</sup> The relative participation of the United States in the import trade of the Philippines for the period prior to July 1, 1910, is not strictly comparable with that for the period following. Importations for the account of the U. S. Government services were first included in statistics of Philippine imports on that date.

*Trade of the Philippine Islands with all countries and with continental United States, 1899-1940*

[General exports and imports, excluding gold and silver ore, bullion, and coin]

[Values in thousands of dollars; i. e., 000 omitted]

Year or average	Philippine exports			Philippine imports		
	To all countries	To continental United States	Percent to United States	From all countries	From continental United States	Percent from United States
Average 1899-1901 (3 years).....	20,780	3,814	18	24,740	2,347	9
Average 1902-June 30, 1909 (7½ years).....	31,598	11,883	38	30,279	4,759	16
Average July 1909-14 (5½ years)¹.....	46,653	20,030	43	49,892	20,834	42
Average 1915-18 (4 years).....	88,637	52,921	60	64,801	36,422	56
Average 1919-22 (4 years).....	111,985	69,084	62	116,028	72,412	62
1923.....	120,753	85,047	70	87,500	60,353	58
1924.....	135,345	97,314	72	108,011	60,399	56
1925.....	148,877	109,045	73	119,733	69,298	58
1926.....	130,884	100,003	73	119,299	71,576	60
1927.....	155,574	110,038	76	115,851	71,478	62
1928.....	155,055	115,586	75	134,657	83,858	62
1929.....	164,447	124,465	76	147,160	92,593	63
1930.....	133,167	105,342	79	123,093	78,183	64
1931.....	103,972	83,422	80	99,179	62,140	63
1932.....	95,338	82,648	87	79,395	51,298	65
1933.....	105,771	91,313	86	67,361	43,540	65
1934.....	110,404	91,844	83	83,607	54,376	65
1935.....	94,246	74,936	80	85,524	54,367	61
1936.....	136,445	107,525	79	101,126	61,497	61
1937.....	151,246	120,743	80	109,026	63,302	58
1938.....	115,795	89,445	77	132,608	90,357	68
1939¹.....	68,015	53,293	78	49,973	32,386	65
1940¹.....	113,412	84,825	75	144,586	107,501	74

¹ Beginning July 1, 1910, figures include importations into the Philippines for account of U. S. Government services.

² January to June 1939 only.

³ Fiscal year, from July 1, 1939, to June 30, 1940.

Source: Annual reports, Insular collector of customs. Peso values have been converted into dollar values at the ratio—1 peso=U. S. \$0.50.

*The United States as a market for Philippine products.*—During 1935, Philippine exports to the United States were valued at \$74,935,537. This constituted 80 percent of the value of their aggregate exports to all countries. In the preceding year their exports to the United States amounted to \$91,843,594 or 83 percent of the total to all countries, and in the fiscal year ending June 30, 1940, their exports to the United States amounted to \$84,825,000 or 75 percent of the total to all countries.

Sugar has been much the most important export in terms of value to the United States for a number of years. It accounted for almost \$33,000,000 or 44 percent of the total exports from the islands to the United States in 1935. Because of shipments made in 1934 in excess of the quantities which could be entered under the quota, the sugar shipments from the Philippines to the United States were considerably smaller in 1935 than in the immediately preceding years. Shipments to the United States in 1934, for example, amounted to approximately \$65,000,000 or over 71 percent of the total exports from the Philippines to the United States; in the fiscal year 1939-40 they amounted to \$39,466,000, or about 47 percent of the total exports from the Philippines to the United States. Practically all of the Philippine exports of sugar products, with the exception of small quantities of molasses, sirup, and alcohol, are sold in the United States.

The United States provides both absolutely and relatively a smaller market for Philippine coconut products than for sugar products.

Nevertheless, practically all of the coconut oil and desiccated coconut and about two-thirds of the copra shipped from the islands are generally sold in the United States. And about 50 percent of the total copra cake and meal exported was sold in this market in 1939 and 1940.

The islands in recent years have exported a somewhat smaller share of their total exports of abaca (manila) and of cordage to the United States than was generally the case in the years prior to 1931. In 1935-39, they shipped to the United States about 30 percent of their total abaca fiber exports and 40 percent of their total cordage exports.

The annual values of Philippine exports of tobacco products to the United States fluctuated only within small limits between 1929 and 1935. These exports, however, constituted an increasing share of the total exports of tobacco products from the Philippines to all countries, inasmuch as these latter fell steadily during this period until 1935, when they rose again. In that year, 55 percent of the total exports of tobacco products from the islands went to the United States. Between 1935 and 1940 the share of the United States was, in most years, larger than in 1935.

Other important Philippine exports for which the United States provides a relatively large market are embroideries, timber and lumber, hats, cutch, pearl buttons, and canned pineapple. With the exceptions of hats, and timber and lumber, practically all of the exports of these commodities from the Philippines are regularly shipped to the United States. Generally 50 percent or more of the hats are shipped to the United States, and 10 to 20 percent or more of the timber and lumber.

The above-mentioned Philippine products in 1935 accounted for 98 percent of the total exports from the islands to the United States, and for 95 percent of their total exports to all countries. The remaining exports consisted of a wide variety of miscellaneous products.

United States imports from the Philippines amounted to \$96,973,000 in 1935 and \$90,000,000 in the fiscal year ending June 30, 1940; these purchases accounted for 4.8 and 3.5 percent, respectively, of the United States total imports.<sup>4</sup> The Philippines ranked seventh in importance in 1935 and ninth in 1940 among United States suppliers. Of the United States total imports in 1935 of the following specified commodities from all countries, the Philippines supplied approximately 95 percent of the coconut products, 85 percent of the tobacco manufactures, 39 percent of the sugar (Hawaiian and Puerto Rican production being included with that of continental United States), 75 percent of the sawed cabinet woods, 15 percent of the straw hats, and 77 percent of the cotton embroideries.

The following trends are discernible from an examination of Philippine export statistics:

(1) From the beginning of American occupation until 1929, the Philippines steadily increased the value of their exports to the United States. The exports then declined until 1932, rose for the next 2 years, and declined sharply again in 1935. Both the relative and absolute declines in exports to the United States for 1935 were due largely to the sharply curtailed sugar shipments for that year. In 1936-37 exports to the United States increased sharply, reaching the

<sup>4</sup> Foreign Commerce and Navigation of the United States. This figure does not correspond with that given elsewhere for Philippine exports to the United States, inasmuch as this latter was obtained from Philippine statistics.

1929-30 level. Thereafter they declined somewhat. In terms of their exports to all markets, the Philippines steadily increased the annual share sold to the United States from the beginning of American occupation until 1932, when 87 percent of their total exports went to the United States. In the period 1935-40 the share has ranged between 75 and 80 percent.

(2) Sugar has increased both absolutely and relatively among the Philippine exports to the United States. As late as 1928, it constituted only 40 percent of the total exports from the Philippines to the United States, whereas in 1934 it accounted for 71 percent of the total and in 1939-40 it amounted to 47 percent.

(3) Besides sugar, several other important Philippine exports which receive substantial protection in the United States markets have increased in relative importance among the shipments from the islands to the United States in recent years. Among these are desiccated coconut, coconut oil, and cordage.

The following table shows exports to the United States, by principal commodities, in 1934, 1935, and 1939-40.

*Values of principal Philippine exports to the world and amounts thereof exported to the United States, 1934, 1935, and 1939-40 (fiscal year ending June 30, 1940)*

Commodity	1934		1935		1939-40	
	Total	To the United States	Total	To the United States	Total	To the United States
Sugar.....	\$65,454,580	\$65,444,003	\$32,000,680	\$32,040,717	\$30,495,000	\$30,400,000
Coconut oil.....	6,791,871	6,396,557	12,164,003	12,004,053	10,342,000	8,822,000
Abaca.....	8,661,568	2,605,898	11,473,907	3,811,010	12,628,000	5,031,000
Copra.....	8,605,125	3,900,060	10,087,330	9,100,010	13,472,000	7,908,000
Tobacco and products.....	4,096,550	3,363,856	6,001,829	3,288,605	5,003,000	4,420,000
Embroideries.....	2,666,421	2,650,122	4,906,280	4,089,318	4,605,000	4,091,000
Desiccated coconut.....	2,254,540	2,253,236	3,962,315	3,041,938	4,366,000	4,357,000
Timber or lumber.....	2,171,400	774,941	2,511,760	972,487	3,324,000	946,000
Copra cake and meal.....	1,051,120	447,310	1,639,424	617,680	2,095,000	1,157,000
Cordage.....	1,335,047	785,328	1,161,815	628,059	1,720,000	508,000
Hats.....	1,141,872	697,534	474,821	240,125	23,000	16,000
Buntal fiber.....	302,334	490	278,337	-----	160,000	160,000
Cuteh.....	252,841	252,841	267,375	267,375	-----	-----
Pearl buttons.....	242,838	242,774	237,397	237,397	265,000	265,000
Canned pineapple.....	409,244	409,244	157,398	157,398	2,363,000	2,363,000
All other commodities.....	4,003,278	1,519,362	4,950,049	1,724,051	12,560,000	4,756,000
Total.....	110,403,635	91,843,504	94,245,680	74,935,537	113,412,000	84,825,000

Source: Annual reports, Insular collector of customs.

*The Philippines as a market for United States products.*—Imports into the Philippines from the United States in 1935 amounted to \$54,366,500. This constituted nearly 64 percent of the value of the total purchases by the islands from all countries. In the fiscal year 1939-40, the imports from the United States amounted to \$107,501,000 or 74 percent of the total imports into the islands.

The chief import from the United States in 1935 consisted of iron and steel products. Their value amounted to \$8,516,040 or about 16 percent of the total imports from the United States. These imports also represented about 77 percent of the aggregate imports of iron and steel products into the islands from all countries. The second most important import from the United States consisted of cotton goods. Their value totaled \$6,767,471 during 1935, or 44 percent of the imports of such materials from all countries. Mineral oil (petroleum) ranked third in importance, and the United States sup-

plied 87 percent of the total imported from all countries; tobacco products ranked fourth, with the United States supplying almost 99 percent of the total. Automobiles and parts (exclusive of rubber tires) were next, the imports from the United States accounting for over 99 percent of the total from all countries. Electrical machinery and apparatus, chemicals and drugs, dairy products, rubber and manufactures thereof, and unprinted paper ranked next, the United States supplying 86, 67, 53, 88, and 66 percent, respectively, of the totals of these imports from all countries.

Other important Philippine imports of which the United States was a major supplier in 1935 were wheat flour, fertilizer, leather and its manufactures, fruits and nuts, silk manufactures, meat products, fish products, and vegetables. The United States supplied in each case 40 percent or more of the total imports of these goods from all countries.

The chief imports from the United States in 1939-40 consisted of about the same commodities in about the same order of importance as in 1935. For most of these products imports from the United States accounted for somewhat larger percentages of the total imports from all countries than in 1935. Cotton goods showed a much greater increase than other commodities, accounting for 73 percent of the total Philippine imports of cotton goods from all countries in 1939-40 compared with only 44 percent in 1935.

The above-mentioned articles, in 1935, accounted for 83 percent of the total imports into the Philippines from the United States and for 78 percent of their total imports from all countries. In 1939-40 they accounted for 85 percent of the total from the United States and 63 percent of total Philippine imports from all countries.

The following table shows imports into the Philippines from the United States by principal commodities in 1934, 1935, and 1939-40.

*Values of principal Philippine imports to the world and amounts thereof imported from the United States, 1934, 1935, and 1939-40 (fiscal year ending June 30)*

Commodity	1934		1935		1939-40	
	Total	From the United States	Total	From the United States	Total	From the United States
Cotton goods.....	\$15,021,460	\$7,822,554	\$15,209,021	\$6,767,471	\$20,562,000	\$14,027,000
Iron and steel and manufactures.....	11,411,504	8,887,434	11,058,419	8,516,040	23,510,000	20,835,000
Mineral oil.....	6,223,722	5,500,088	7,442,514	6,486,532	11,548,000	9,314,000
Tobacco products.....	2,926,901	2,857,329	3,750,280	3,696,057	9,343,000	9,269,000
Automobiles and parts.....	3,977,655	3,880,779	3,600,224	3,581,016	5,677,000	5,575,000
Dairy products.....	2,911,344	2,083,209	3,076,362	1,625,200	4,522,000	1,322,000
Wheat flour.....	2,623,601	1,816,910	2,855,627	1,222,345	4,486,000	2,918,000
Chemicals, drugs, dyes, and medicines.....	2,417,182	1,695,221	2,577,318	1,724,789	4,671,000	3,408,000
Silk, rayon, and manufactures.....	2,301,825	1,170,220	2,425,700	970,566	5,085,000	4,268,000
Electrical machinery, apparatus, and appliances.....	2,170,000	1,877,939	2,153,668	1,857,808	4,612,000	4,210,000
Paper, unprinted.....	2,192,210	1,543,766	2,122,078	1,395,877	4,812,000	4,088,000
Fertilizers.....	2,251,491	746,421	1,810,090	1,146,399	2,366,000	1,262,000
India rubber and manufactures.....	1,720,441	1,601,083	1,664,242	1,464,752	3,242,000	2,868,000
Vegetables.....	1,405,149	720,873	1,630,239	767,822	2,181,000	1,309,000
Meat products.....	1,204,357	680,911	1,570,550	940,432	1,485,000	730,000
Fish and fish products.....	1,351,423	840,609	1,360,835	704,552	1,998,000	1,158,000
Fruits and nuts.....	1,156,978	888,594	1,322,508	990,950	1,524,000	1,180,000
Leather and manufactures.....	1,209,983	1,133,027	1,063,691	1,011,594	1,544,000	1,464,000
All other.....	18,528,692	8,616,111	18,694,578	9,496,142	31,352,000	17,081,000
Total.....	83,607,110	54,375,678	85,523,850	51,366,500	144,589,000	107,501,000

Source: Annual reports, insular collector of customs.



The Philippines ranked twelfth among the principal export markets for United States goods in 1935, exports to the islands in that year being valued at \$52,560,041,<sup>5</sup> or 2.3 percent of the total exported to all countries. In 1940 the Philippines ranked ninth, United States exports to that market being valued at \$93,176,443,<sup>5</sup> or 2.4 percent of the total exports to all markets.

In 1935, the Philippines ranked first among the export markets of the United States for galvanized iron and steel sheets, cigarettes, canned milk and cream, ready-mixed paints, and soap; and they ranked second for cotton cloth (colored, bleached, and unbleached), wheat flour, and canned fish.

The Philippines annually increased the value of their purchases from the United States from the beginning of American occupation until the end of 1929. Their purchases then declined until 1933, rose again in 1934, and receded slightly in 1935. Between 1935 and 1940 Philippine imports from this country increased substantially. In terms of their total purchases from all countries, the Philippines steadily increased the share obtained from the United States from the beginning of American occupation through 1934, the share declining slightly for 1935, then increasing in the latter part of the period 1935-40.

*Japanese competition.*—The increase in sales of Japanese goods in the Philippines, though substantial, has not been as large as is sometimes represented, nor has it been accompanied by a corresponding decline in the total sales of American goods. The general misconceptions concerning these matters have their bases largely in the use of Philippine statistics compiled in terms of "dutiable values," and in the making of misleading comparisons. For instance, imports from Japan in 1933, officially reported at the equivalent of \$9,500,000, or 13 percent of total imports into the Philippines for the year, were found to have been only \$5,682,000 when statistics were calculated on market values.

In most years from 1920 to 1935 the imports into the Philippines from Japan amounted to from 8 to 15 percent of the total imports. In 1928 the islands imported 9½ percent of the total from Japan, but in the following year only 8 percent. Japan did not share in the increase in the total import trade of the Philippines for 1929. In 1930, however, Japanese goods accounted for 10½ percent of the total imports into the Philippines and in 1931, for 11 percent of the total. In 1932, when the Chinese boycott of Japanese goods was at its height, Japan supplied slightly less than 8 percent of the imports into the islands.

In 1932 Japanese firms commenced to expand their retail outlets in the Philippines. This, in conjunction with the marked depreciation of the yen and waning of the boycott, greatly assisted in increasing Japanese sales in the islands. In 1933 Japanese goods accounted for 8½ percent of the total imports into the Philippines; in 1934 they accounted for 12½ percent; in 1935-37, for over 14 percent; in 1938, 10 percent; in 1939, 8 percent; and in 1940, 5 percent.

The increase in the value of the sales of Japanese goods in the Philippines during the period 1930-35 was accompanied by a decrease in the sales of a number of individual American products, but not by

<sup>5</sup>This figure is taken from United States statistics of exports to the Philippines and therefore does not correspond with the previously cited value of Philippine imports from the United States taken from Philippine statistics.

an appreciable decrease in the relative value of United States aggregate sales in the islands. Japan supplied a larger percentage of the total imports into the Philippines in 1935 than in any preceding year; but the United States also supplied a larger percentage in 1935 than it had on the average for the preceding decade (1925-34), when its relative participation in the Philippine import trade was higher than in any previous period. In terms of value, the rising importance of Japan as a supplier of Philippine imports prior to 1938 was accompanied by the declining importance of countries other than the United States.

*Philippine balance of trade with United States and with world.*— Both before and since the American occupation, the Philippines have almost invariably sold goods to the United States to a value in excess of their purchases from the United States. For only a few years following the inauguration of duty-free trade in 1909 and for a few scattered years during and after World War I and in 1938 and 1940 were Philippine imports from the United States in excess of Philippine exports to the United States. Accompanying the customary credit balance of trade with the United States, the Philippines have also had a credit balance of trade with the other countries of the world considered collectively.

The status of the balance of trade between the United States and the Philippines has frequently been regarded as an index of the profitability of the trade to the one country or the other. The country having the credit balance has been considered the gainer, and the other country the loser. This inference, however, is not warranted. In the trade of the United States with the Philippines the customary excess of imports over exports has simply given rise to a triangular (or a poly-angular) trade in which the United States has paid for this excess of imports largely by exporting goods to other countries in greater value than it has imported from them. These countries in turn, either directly or through still other countries, have exported greater values of goods to the Philippines than they have imported from them. The status of the merchandise balance of trade between the Philippines and the United States, therefore, is not of controlling significance in respect of the gains or losses, accruing to either country. Moreover, the trade balance of the Philippines with the United States not only affects and is affected by the trade balances with all other countries but it is influenced also by the extent to which gold shipments, service items, capital movements, and other factors enter into the trade of the islands with the United States and with all other countries. In consequence, the Philippine balance of merchandise trade with the United States must be considered not only in its relation to the balance of merchandise trade with the world as a whole but in its relation to the balance of payments with the United States and with the world as a whole.

The Philippines balance of merchandise trade from 1909 to 1940 is shown in the following table.

*Balance of merchandise trade between the Philippines and all countries and between the Philippines and the United States, 1909-40*

(Values in thousands of dollars; i. e., 000 omitted)

Year or average	Excess of exports (+), excess of imports (-)		Year or average	Excess of exports (+), excess of imports (-)	
	Trade with all countries	Trade with continental United States		Trade with all countries	Trade with continental United States
Average 1899-1901 (3 years)...	-\$3,960	+\$1,467	1929.....	+\$17,287	+\$31,872
Average 1902-June 30, 1909 (7½ years).....	+1,319	+7,124	1930.....	+10,074	+27,159
Average July 1909-14 (5½ years) 1.....	-3,239	-804	1931.....	+4,703	+21,282
Average 1915-18 (4 years).....	+23,836	+16,499	1932.....	+15,913	+31,350
Average 1919-22 (4 years).....	-4,043	-3,328	1933.....	+31,060	+47,773
1923.....	+33,253	+4,694	1934.....	+20,707	+37,468
1924.....	+27,334	+6,915	1935.....	+8,722	+20,569
1925.....	+29,144	+39,747	1936.....	+35,319	+46,028
1926.....	+17,585	+28,427	1937.....	+42,240	+57,441
1927.....	+39,723	+44,560	1938.....	-16,813	-912
1928.....	+20,308	+31,728	1939.....	+18,042	+20,907
			1940.....	-31,174	-22,676

1 Beginning July 1, 1910, figures include importations into the Philippines for account of U. S. Government services.

Source: Annual reports, Insular collector of customs. Peso values have been converted into dollar values at the ratio, 1 peso equals U. S. \$0.50.

### HISTORY OF PHILIPPINE-UNITED STATES TARIFF RELATIONS

After the Philippine Islands came under the military control of the United States, the President, on July 12, 1898, issued an order providing for the enforcement by the military power of a system of tariff duties. The order did not go into effect until November 1898. The duties imposed by this tariff were levied on goods coming into the Philippine Islands, whether from the United States or other countries. This tariff was continued in force after the ratification of the peace treaty on April 11, 1899, but was held to be without effect by the Supreme Court of the United States so far as shipments from the United States were concerned, after the ratification of the treaty of peace. (Cf. *United States v. Heinszen* (1907) 206 U. S. 370.)<sup>6</sup> Conversely, post-treaty Philippine shipments to the United States were held to be duty free (*ibid.*). The tariff promulgated by the military government was adopted and continued by the Philippine commission appointed by the President, in an enactment dated September 17, 1901, and this enactment was adopted by the United States Congress in the act of March 8, 1902 (32 Stat. 54; ch. 140). The act of March 8, 1902, also imposed the United States tariff upon goods coming from the Philippines, except that Philippine products were granted a reduction of 25 percent from the rates specified in the United States tariff. Products of the United States entering the Philippines were not accorded any preferential tariff treatment at that time.

Reciprocal free trade, subject to certain restrictions, was first instituted between the United States and the Philippines by the provisions of the United States Tariff Act (36 Stat. 11; ch. 6) and the Philippine Tariff Act (36 Stat. 130; ch. 8), both dated August 5, 1909.

<sup>6</sup> Duty collections made prior to March 8, 1902, by the authorities of the military government in the Philippines were "legalized, ratified, and confirmed" by the appropriation act of June 30, 1906 (34 Stat. 636; ch. 3912).

The former imposed restrictions upon the annual quantities of Philippine sugar and tobacco products which might enter the United States duty-free; and it limited the maximum content of non-Philippine or non-American materials which might be embodied in Philippine manufactures if they were to be admissible duty-free into the United States to 20 percent of their total value, but no equivalent limitation was imposed on United States products shipped to the Philippines. Both the United States and Philippine Tariff Acts specifically exempted rice from duty-free treatment in either country; and they conditioned duty-free trade in other commodities to those receiving no draw-back of customs duty upon leaving the Philippines or the United States. The Philippine Tariff Act further provided that export duties would be abolished on shipments made to the United States.

The United States Tariff Act of October 3, 1913 (38 Stat. 114; ch. 16), strengthened the reciprocal free-trade relations between the islands and the United States. The quantity limitations upon duty-free sugar and tobacco products specified in the previous act were removed, inasmuch as they had never been even closely approximated. The provision that rice should not move duty-free between the islands and the United States was also eliminated; and all Philippine exports, irrespective of destination, were exempt from export duties. Congress did not pass a new Philippine tariff act at this time, but amended the Philippine Act of 1909 by provisions contained in the United States Tariff Act of 1913. The significant amendments were those mentioned above.

Until 1934, trade relations between the United States and the islands continued on substantially the same tariff basis as they were when the United States Tariff Act of 1913 first became effective. The United States Tariff Acts of September 21, 1922 (42 Stat. 858; ch. 356), and June 17, 1930 (46 Stat. 590; ch. 497), introduced no modifications of importance. The Philippine Tariff Act of 1909 has never been superseded, and it has been modified only slightly by subsequent United States legislation and by several acts of the Philippine Legislature. With few exceptions, present Philippine tariff schedules and rates are the same as those which were in force in 1909. Since many of the Philippine duties are specific, their ad valorem equivalents have changed considerably with the marked price shifts which have occurred since 1909.

The act of March 24, 1934 (48 Stat. 456; ch. 84), provided for a partial elimination by July 4, 1946, of the preference enjoyed by Philippine products in the United States (1) by limiting to fixed quotas the duty-free shipments of Philippine sugar, coconut oil, and cordage to the United States; and (2) by gradually eliminating during the period November 15, 1940, to July 4, 1946, 25 percent of the tariff preferences which Philippine products enjoy in the United States. This elimination was to be achieved by means of progressively increasing export taxes to be imposed on shipments to the United States of all Philippine products of the kinds on which duties are imposed by the United States, beginning with a rate equal to 5 percent of the United States import duty on November 15, 1940, and increasing by an additional 5 percent each year. Commencing July 4, 1946, all products from the Philippines entering the United States, in the absence of further legislation, were to be subject to the same

tariff treatment applying to similar goods originating in other foreign countries.

Before the Independence Act of March 24, 1934, became effective, the Jones-Costigan Act (48 Stat. 670; ch. 263), the Revenue Act of 1934 (48 Stat. 680; ch. 277), and the Cordage Act of 1935 (49 Stat. 340; ch. 240) were enacted. The Jones-Costigan Act, passed May 9, 1934, authorized the imposition of "absolute" quotas on Philippine sugar entering the United States. This act was superseded by the Sugar Act of 1937, which continued the provisions for the imposition of an absolute quota on Philippine sugar and is still in effect. The Revenue Act of 1934, effective May 10, 1934, provided for a processing tax of 3 cents per pound on coconut oil expressed from Philippine copra either in the islands or in the United States with provision for the remission of the taxes to the Philippine Treasury. (A tax of 5 cents per pound applied to the oil expressed from foreign copra, thus granting the Philippines a substantial and effective preferential rate.) This legislation is also still in effect. The Cordage Act of June 14, 1935, doubled the cordage quota provided for in the Independence Act, but changed it from a duty-free quota to an absolute quota. The Cordage Act remained in effect until May 1, 1941, after extension of its original term of 3 years by Presidential proclamation, as authorized in the act.

The Independence Act of 1934 was amended by the act of August 7, 1939 (53 Stat. 1226; ch. 502), and under the provisions of the amendatory act additional duty-free quotas were imposed on cigars, scrap and filler tobacco, and pearl or shell buttons. The duty-free quota on sugar was slightly modified with respect to the portion of the quota which may be shipped in the form of raw sugar, and provision was made for the continuation of the absolute quota on cordage after the expiration of the Cordage Act up to the date of independence. Sugar entered in excess of the duty-free quota as well as all other commodities of the kind subjected to duty-free quotas were exempted from the Philippine export taxes, and in lieu thereof the duty-free quotas (except the quota on sugar) were to be reduced by 5 percent beginning January 1, 1941, and by an additional 5 percent on each January 1 thereafter until 1946, so that by July 4, 1946, these quotas would have been reduced by 25 percent.

The act of December 22, 1941 (55 Stat. 852; ch. 617) suspended the export tax and the quota-reduction provisions of the Independence Act, as amended, during the period December 23, 1941, to December 31, 1942, and during the period of suspension the original quotas were restored. Export taxes and quota reductions resumed operation January 1, 1943, so that for the year 1945 Philippine products to which export taxes applied were subject to an export tax equal to 15 percent of the United States duties, and duty-free quotas (except sugar) were reduced by 15 percent. For the period January 1 to July 3, 1946, quotas were reduced to one-half the quotas for 1945.

## DETAILED ANALYSIS OF BILL SECTION BY SECTION

### TITLE I

#### SECTION 1. SHORT TITLE

This section provides that the act may be cited as the "Philippine Trade Act of 1946."

#### SECTION 2. DEFINITIONS

This section contains definitions which are to apply wherever the terms defined are used in the act. By virtue of section 406 these definitions and provisions in the nature of a definition (e. g., subsecs. (b), (c), and (d) of sec. 2) will apply to the provisions of titles II and III for the purpose of the agreement, which (under sec. 401) accepts all the provisions of these titles as the law of the United States and of the Philippines. Therefore, it will not be possible for the agreement to change the interpretation of these defined terms, which perform so important a function in the carrying out of the program of reciprocal trade relations between the two countries.

*Person (sec. 2 (a) (1))*: The term "person" is defined to include partnerships, corporations, and associations, and, of course, includes individuals.

*United States (sec. 2 (a) (2))*: The term "United States," when used in a geographical sense, is defined to mean the 48 States, the District of Columbia, the Territories of Alaska and Hawaii, and Puerto Rico. This definition is the same in legal effect as that used in the Tariff Act of 1930, as amended, in fixing the customs area of the United States.

*Ordinary customs duty (sec. 2 (a) (3))*: The term "ordinary customs duty" is defined to mean a customs duty based on the article as such (whether or not the duty is also based on the use, value, or method of the production of the article, or on the amount of like articles imported, or on any other factor); but it is expressly provided that it does not include—

(1) A duty based on an act or omission of any person with respect to the importation, such as additional duties for undervaluation or for failure to mark to show the country of origin or a duty based on an act or omission of the country from which the article was exported, or from which it comes, such as a duty imposed because of discrimination; or

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

(3) 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.

The term does not include any tax imposed on or in connection with importation unless the law of the United States or the Philippines,

as the case may be, designates it 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; and taxes imposed on or in connection with importations which are not included as ordinary customs duties under this test are expressly (subsec. (a) (8) of this section) included as "internal taxes."

Two taxes on or in connection with importation which under this paragraph and such paragraph (8) would, unless specifically excepted, be "ordinary customs duties" and not "internal taxes," are expressly declared to be "internal taxes." These taxes are (1) section 3500 of the Internal Revenue Code relating to manufactured sugar and sugar products, and (2) so much of section 2491 (c) of the Internal Revenue Code as relates to products, 10 percent or more of which consists of or is derived from any of the oils (coconut, palm, and palm-kernel), fatty acids, or salts specified in section 2470 of the Internal Revenue Code.

These two taxes, although the law imposing them directs that they be treated as duties, are in fact compensatory for other internal taxes and are therefore not within the economic concept of "ordinary customs duties." The bill specifically excludes them from the scope of "ordinary customs duties" and such taxes will, therefore, apply in full to "Philippine articles" notwithstanding the provisions of sections 201 and 202. Philippine products will be protected against discrimination under such internal taxes to the extent provided by section 221, which is discussed later in this report.

*Philippine article (sec. 2 (a) (4))*: The term "Philippine article" is defined to mean a product of the Philippines; that is, an article which originated in the Philippines by growth or derivation from nature, as well as an article which has been fabricated or manufactured in the Philippines to such an extent that the finished product is identifiable as of Philippine origin even though some imported materials may have been used in the operation. This concept of "product" is similar to that which has been evolved over a long period of years under our draw-back laws (sec. 313 of the 1930 Tariff Act, as amended) under which refund of customs duties is made on the exportation of articles manufactured or produced in the United States with the use of imported duty paid materials.

Under the definition, an article produced with the use of materials imported into the Philippines from any foreign country other than the United States is nevertheless not a "Philippine article" if the aggregate value of such imported materials at the time of importation into the Philippines was more than 20 percent of the value of the article imported into the United States.

The imported materials used in the production of the article, whose value is to be included in determining whether or not their aggregate value was more than 20 percent of the value of the imported article, include materials used at any stage of the chain of production whereby raw materials are through successive stages of manufacture converted into an article imported into the United States.

The last sentence of the definition of "Philippine article" assures that raw materials which have been brought into the Philippines and processed through two or more stages of manufacture shall be considered as having been used in the production of the article ultimately produced. For example, if silk cocoons are imported into the Philip-

pinus from Japan and are progressively processed in the Philippines into raw silk, into silk yarns, into silk cloth, which in turn is made in the Philippines into a dress, the dress is considered as having been made with the use of imported materials. If the value of the silk cocoons, plus any other imported constituents of the dress, such as buttons, was in the aggregate more than 20 percent of the value of the finished dress which is subsequently imported into the United States, such dress is not a "Philippine article." Under the illustration, the silk dress was a product of the Philippines, and was made from a product of the Philippines (silk cloth) which in turn was made from a product of the Philippines (silk yarn), but it is nevertheless not within the definition of "Philippine article."

This definition makes use of and is in effect a statutory endorsement of the concept of Philippine products which have heretofore been granted free entry into the United States under section 301 of the Tariff Act of 1930, as amended, and precedent statutes. The language used in the course of the definition "produced with the use of materials imported" is substantially the language used in section 313 of the Tariff Act of 1930, as amended, granting, on the exportation of articles manufactured or produced in the United States "with the use of imported merchandise" a draw-back of the duties paid on such imported merchandise. That section of the Tariff Act has been applied in a similar manner to that above described in the case of the silk dress and the Japanese cocoons.

*United States article (sec. 2 (a) (5)):* The definition of "United States article" is identical with the definition of "Philippine article," except for the substitution of "United States" for "Philippines" and of "Philippines" for "United States."

*United States duty (sec. 2 (a) (6)):* The term "United States duty" is defined to mean the rate of ordinary customs duty (as defined in par. (3) above) which would be applicable to a like article if imported from that foreign country which is entitled to the lowest rate of ordinary customs duty. At the present time and until our tariff laws are changed that country is Cuba in the case of all dutiable articles. It will be noted that under subsection (c) (1) of this section, for the purpose of the definition of "United States duty," a country entitled to free entry with respect to an article is considered to be the country having the lowest rate of ordinary customs duty with respect to such article; thus, in the case of manganese ore, a product which is ordinarily subject to duty but which is admitted free from Cuba, Cuba is the country entitled to the lowest rate of duty and the United States duty for the purpose of this act is zero.

Fears have been expressed by some lawyers that the Cuban preference is not a reduction in the rate of duty but a reduction in the duty—in other words, that the reduction is in dollars and cents of the duty to be collected rather than in the rate of duty to be applied; therefore, it was thought advisable to insert the provisions of paragraph (c) (2) of this section under which it is required that a reduction in ordinary customs duty shall be converted into the equivalent reduction in the rate of ordinary customs duty: for example, in the case of hand-embroidered cotton nightgowns, the world rate on which is 90 percent *ad valorem*, the duty collected on a nightgown valued at \$10 would be \$9. If, according to the fears expressed, the Cuban preference is a reduction of duty from \$9 to \$7.20, the provisions



of subsection (c) (2) above referred to would convert this reduction of \$1.80 into a reduction of 18 percent ad valorem, making the rate of duty on the Cuban product 72 percent, which would be the "United States duty." It will be noted that the phrase in the definition "applicable to a like article if imported from the country having the lowest rate" means the rate that would be applicable to a like article if imported from the country which would be entitled to the lowest rate if the like article were imported from that country, even though the records of the Customs Bureau fail to disclose that any such article was ever imported from that country; thus even though, in the illustration above given, no hand-embroidered cotton nightgowns ever were imported from Cuba, nevertheless, Philippine hand-embroidered cotton nightgowns (if a Philippine article) would be entitled to duty computed on the basis of the 72-percent rate of duty; it being borne in mind, however, that the percentage of United States duty to be applied is determined under section 202, ranging from 5 to 100 percent. It should also be borne in mind that in the case of the above example the rates spoken of are the rate of world duty and of Cuban preference now in existence, which at any time may be subject to change by the United States, and if changed the rate in effect at the time of entry of the Philippine article is the one on which the computation is based.

*Philippine duty (sec. 2 (a) (7))*: The term "Philippine duty" is defined exactly the same as the term "United States duty," with the substitution of "Philippines" for "United States" and of "United States" for "Philippines"; but it should be noted, however, that in the case of the Philippines under existing law there is no third country entitled to a preferential rate, so that in the case of "United States articles" imported into the Philippines the preferences under section 312 of the bill will be based on the world rate unless the Philippines grant a special tariff preference to a third country.

*Internal tax (sec. 2 (a) (8))*: The term "internal tax" is defined to include an internal fee, charge, or exaction, and includes a 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 should be treated as a duty imposed under the customs laws. The paragraph expressly provides that it shall include the following taxes although the law imposing them expressly provides that they shall be treated as duties imposed under the customs laws--the tax imposed by section 3500 of the Internal Revenue Code, relating to manufactured sugar and sugar products, and so much of the tax imposed by section 2401 (c) of the Internal Revenue Code as relates to products, 10 percent or more of which consists of or is derived from any of the oils (coconut, palm, and palm-kernel) fatty acids, or salts specified in section 2470 of the Internal Revenue Code. For discussion as to reasons for the treatment of these two particular taxes, see discussion under the definition of "ordinary customs duties" a few pages above in this report.

*Subsection (b)*: Section 221, prohibiting the imposition of taxes on products of the Philippines in the United States of internal taxes greater than those imposed on like domestic articles or imposed on like foreign articles, whichever is the lower, excepts from the prohibition internal taxes imposed on foreign articles to compensate for an internal tax imposed in respect to materials used in the production

of a like article which is the product of the United States. Section 321 imposes a like prohibition and like exception in the case of Philippine legislation with respect to the products of the United States. Subsection (b) of section 2 makes applicable to those two sections the concept of the chain of production discussed previously in this report in connection with the definition of "Philippine article."

*Subsection (c):* The provisions of this subsection, which have been discussed previously in this report in connection with the definition of "United States duty," apply equally in the case of the "Philippine duty."

*Subsection (d):* This subsection is the common provision in acts of Congress that the term "includes" when used in a definition shall not be deemed to exclude other things otherwise within the meaning of the term defined.

## TITLE II

### SECTION 201. FREE ENTRY OF PHILIPPINE ARTICLES

This section provides that after the date of enactment of this act up to and including July 3, 1954, Philippine articles (as defined in sec. 2 (a) (4)) shall be entitled to entry into the United States free of ordinary customs duty, as defined in sec. 2 (a) (3). This section does not exempt Philippine articles from antidumping duties or other duties which are excluded from the definition of "ordinary customs duty" (such duties being covered by sec. 204).

The section, contrary to existing law, permits, in the interest of simplicity of administration, free entry of Philippine articles, even though the Philippines has granted to the exporter a draw-back of customs duties paid on materials used in their production. Existing law also confines free entry to Philippine articles coming by direct shipment under through bill of lading. This limitation has also been omitted on the recommendation of the Treasury Department based on the difficulties of administration.

### SECTION 202. ORDINARY CUSTOMS DUTIES ON PHILIPPINE ARTICLES

Subsection (a) of this section provides preferential rates on Philippine articles brought in during the period beginning July 4, 1954, and ending with July 3, 1974. The preference is accomplished by applying to these Philippine articles a sliding scale of percentages of "United States duty" starting off with 5 percent of that duty for the period July 4, 1954–December 31, 1954, increasing to 10 percent of the United States duty for the calendar year 1955, and being for each calendar year thereafter until and including the calendar year 1972, the percentage equal to the percentage of the preceding calendar year increased by 5 percent of the United States duty. Under this system in the year 1963 the percentage will be 50 percent of the United States duty and in the year 1972 the percentage will be 95 percent of the United States duty. For the period January 1, 1973–July 3, 1974, the percentage is 100 percent of the United States duty.

Attention is directed to the fact that the above statement should be read in the light of the definition of "Philippine article" found in section 2 (a) (4) and of "United States duty" found in section 2 (a) (6).

In other words, the class of articles to which the preference applies is substantially narrower than "products" of the Philippines; and the "United States duty" to which the percentage is applied is, under the existing state of our tariff laws, the rate applicable to products of Cuba. If the product is admitted free of duty from Cuba, under the definition the United States duty is zero and the application of the percentages to the rate of zero will result in free entry for the Philippine articles.

Under subsection (b) of this section the duty assessed by the United States on Philippine articles brought in after July 3, 1974, will, unless otherwise provided by statute or treaty, be 100 percent of the world rate.

#### SECTION 203. CUSTOMS DUTIES OTHER THAN ORDINARY

This section states what would undoubtedly be the law without it—that 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.

#### SECTION 204. EQUALITY IN SPECIAL IMPORT DUTIES, ETC.

This section gives to Philippine articles imported into the United States protection in the case of duties on or in connection with importation (other than "ordinary customs duties" and "internal taxes") against discrimination, by providing that these duties shall not be collected or paid in an amount in excess of the duties imposed with respect to like articles which are the product of any foreign country. This in effect grants most-favored-nation treatment with respect to such matters as countervailing duties, antidumping duties, additional duties for undervaluation, etc. Of course, this does not mean that the Philippines, if alone in granting an export subsidy on a particular article, could claim that this section exempts them from countervailing duties on such article based on such subsidy. They could properly claim, however, that the section does preclude the United States from imposing countervailing duties on Philippine articles on a basis more unfavorable than that employed in the case of a like article produced in other countries and similarly subsidized.

The term "duty" is defined to include taxes, fees, charges, or exactions, imposed on or in connection with importation, but as not including internal taxes or ordinary customs duties.

#### SECTION 205. EQUALITY IN DUTIES ON PRODUCTS OF PHILIPPINES

This section provides for products of the Philippines which do not qualify as "Philippine articles" protection, in the case of duties on or in connection with importation (including ordinary customs duties) against discrimination. It provides that 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 foreign country (except Cuba). This protection in the case of customs duties not "ordinary customs duties" is, under existing tariff laws, the same protection as is given under section 204 to Philippine articles.

The section in effect gives to Philippine products which are not Philippine articles the most-favored-nation treatment, except for the preferential treatment given to Cuba with respect to ordinary customs duties.

The term "duty" is defined to include taxes, fees, charges, or exactions imposed on or in connection with importation, but as not including internal taxes.

#### SECTION 211: ABSOLUTE QUOTA ON SUGARS

This section establishes for such Philippine sugars as come under the definition of "Philippine article" a quota for each calendar year in the period from January 1, 1946, to July 3, 1974. The quota for each calendar year is fixed at 850,000 short tons. For the period January 1, 1974, to July 3, 1974, the quota shall be one-half of the above quota.

Of the quota for each calendar year not to exceed 50,000 short tons may be refined sugars, and "refined sugars" is to have the same meaning as the term "direct-consumption sugar" as defined in section 101 of the Sugar Act of 1937.

Subsection (d) of the section provides for the allocation of the quotas for unrefined sugars. The allocation provided is to be made by the Philippine government and not by any agency of the United States, but must be on the basis provided in the bill. The quota is to 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.

Subsection (e) provides for the allocation of quotas for refined sugars, the allocation also to be made in this case by the Philippine government. The quota is to be allocated annually to 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, produced by his predecessor in interest) which was exported to the United States during the calendar year 1940.

#### SECTION 212. ABSOLUTE QUOTA ON CORDAGE

This section establishes for Philippine cordage (which is defined to be a product of the Philippines whether or not qualifying as a "Philippine article") a quota for each calendar year in the period from January 1, 1946, to July 3, 1974. The quota in each calendar year in this period is 6,000,000 pounds, except that during the period January 1, 1974, to July 3, 1974, the quota is 3,000,000 pounds.

The term "cordage" is defined in the same terms as under the existing law relating to the Philippines, and 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."

Subsection (d) of the section provides for the allocation of the quotas for cordage. The allocation provided is to be made by the Philippine Government and not by any agency of the United States, but must be on the basis provided by the bill. The quota is to be allocated annually to 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 12 months immediately preceding the inauguration of the Commonwealth of the Philippines.

#### SECTION 213: ABSOLUTE QUOTA ON RICE

This section establishes for such Philippine rice as comes under the definition of "Philippine article" a quota for each calendar year in the period January 1, 1946, to July 3, 1974. The quota in each calendar year in this period is 1,040,000 pounds, except that during the period from January 1, 1974, to July 3, 1974, the quota is 520,000 pounds. The term "rice" is defined to include rice meal, flour, polish, and bran.

The section makes no provision for the allocation of this quota.

#### SECTION 214: ABSOLUTE AND DUTY-FREE QUOTAS ON CERTAIN ARTICLES

Subsection (a) of this section establishes for the Philippine articles (as defined in section 2 (a) (4)) named below an absolute quota for each calendar year in the period from January 1, 1946, to July 3, 1974:

(1) Cigars (exclusive of cigarettes, cheroots of all kinds, and paper cigars and cigarettes, including wrappers), 200,000,000 cigars;

(2) Scrap tobacco, and stemmed and unstemmed filler tobacco described in paragraph 602 of the Tariff Act of 1930, as amended, 6,500,000 pounds;

(3) Coconut oil, 200,000 long tons; and

(4) Buttons of pearl or shell, 850,000 gross.

For the period January 1, 1974, to July 3, 1974, the quota shall be one-half of the amount so specified with respect to each class of articles, respectively.

Subsection (b) of this section establishes duty-free quotas for the articles enumerated in subsection (a). In each of the calendar years 1946-54, the total amount of the absolute quota can be entered duty-free. In each calendar year thereafter the amount to be admitted duty-free is reduced by 5 percent of the absolute quota as shown in the table included in section 212 (b) (1) of the bill, so that from January 1, 1974, to July 3, 1974, the duty-free quota will be zero as to each class of these articles.

Subsection (b) (2) provides that any of these articles entered in excess of the duty-free quota thus provided shall be subject to 100 percent of the "United States duty" (as defined in section 2 (a) (6)) and will not be entitled to any of the preferential rates provided in section 202, but it is made clear that the absolute quota cannot be exceeded. For example, in 1955, the duty-free quota on cigars above referred to is 190,000,000. The absolute quota is 200,000,000. Ten million cigars represents the difference between the duty-free quota and the absolute quota, and on the difference a duty will be paid based on 100 percent of the "United States duty." (After the duty-free quota has been filled not more than 10,000,000 cigars which are Philippine articles can be brought in in 1955 no matter what duty the importer might be willing to pay.)

Subsection (c) of the section provides for the allocation of the quotas, both absolute and duty-free. The allocation is to be made by the Philippine Government and not by any agency of the United States, but must be on the basis provided by the bill. The quota is to be allocated annually to the manufacturers in the Philippines in the calendar year 1940 of products of the 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 manufacturer (or in the case of such successor in interest, the amount of the products of such class produced by his successor in interest) which was exported to the United States in 1940.

#### SECTION 215: LAWS PUTTING INTO EFFECT ALLOCATIONS OF QUOTAS

This section provides that 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 the act that such laws and regulations shall be enacted by the Philippines.

#### SECTION 216. TRANSFERS AND ASSIGNMENTS OF QUOTA ALLOTMENTS

This section provides for the transfer and assignment of allotments of the quotas on terms agreed to by the parties in interest. It also provides that after the first 9 months of any calendar year if the holder of any allotment is unable to export to the United States all of his allotment in time to fill the quota, such amount of the allotment as cannot so be exported during the remainder of the year may be apportioned by the Philippine Government to other holders of allotments under the same quotas or in such other manner as will insure the filling of the quota for that year. It is provided, however, that no transfer, assignment, or reallocation shall diminish the allotment to which the holder may be entitled for any subsequent calendar year.

#### SECTION 221: EQUALITY IN INTERNAL TAXES

Section 221 (a) provides that products of the Philippines coming into the United States, or articles manufactured in the United States wholly or partly from such products, shall not be subject to internal tax in excess of the internal tax imposed with respect to like articles

which are the product of the United States, or in excess of the internal tax imposed with respect to like articles which are the product of any foreign country. If no internal tax is imposed with respect to like articles produced in the United States, no internal tax in any amount is to be collected with respect to the Philippine products. Similarly if no internal tax is imposed with respect to like articles which are the product of any other foreign country no internal tax may be collected with respect to the Philippine article.

These limitations with respect to equality of internal taxes do not apply in the alternative. Both limitations are applicable. For example, assume there is no internal-revenue tax imposed in the United States with respect to the manufacture or sale of product X, but there is an internal-revenue tax imposed with respect to product X when imported from any foreign country. Under the provisions of section 221, the internal-revenue tax with respect to imports of product X which are the product of the Philippines. Similarly, assume there is an internal-revenue tax imposed in the United States with respect to the manufacture or sale of product X at the rate of 5 cents per unit and an internal-revenue tax with respect to the importation of product X from any foreign country at the rate of 10 cents per unit. Under section 221 (a) the only amount that could be collected with respect to imports of product X coming from the Philippines is 5 cents per unit. This normally under United States law would be collected on importation. If the situation were reversed and the internal-revenue tax on product X when manufactured or sold in the United States were 10 cents per unit and the internal-revenue tax with respect to product X when imported from any foreign country were 5 cents per unit, no more than 5 cents per unit could be collected with respect to product X when imported from the Philippines. In this latter connection, the effect of section 221 (a) in a situation where there are two internal-revenue taxes with respect to the same article, one with respect to the article produced in the United States and the other with respect to importation, is that such an article when coming from the Philippines is subject to only one tax at a rate not to exceed the lower of the two rates.

Subsections (b) and (c) of section 221 contains certain exceptions to subsection (a).

Section 221 (b) provides that 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 with respect to a like article which is the product of the United States, or 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 a product of the Philippines is not in excess of that permitted to be imposed with respect to like articles which are the product of any other foreign country, such collection and payment is not to be regarded as a violation of section 221 (a). Section 221 (a) does not prohibit the collection of an internal-revenue tax imposed by the United States with respect to imported articles which is designed to compensate for an internal tax affecting United States products or material used in the manufacture of such products, thus permitting articles of United States production to enter United States commerce with an internal-revenue-tax burden

no greater than that borne by like articles imported from foreign countries. For example: Under section 2800 (a) (3) of the Internal Revenue Code a tax of \$9 per wine gallon is imposed with respect to all perfumes imported into the United States containing distilled spirits. The United States tax with respect to distilled spirits imposed by section 2800 (a) (1) of the Internal Revenue Code is not imposed with respect to perfume as such. Domestic perfume, however, made with the use of taxable distilled spirits contains as an element of cost the tax paid with respect to such distilled spirits. The tax imposed by section 2800 (a) (3) of the Internal Revenue Code with respect to imported perfumes containing distilled spirits therefore serves to compensate for the internal tax paid in this country with respect to distilled spirits which may be used in the manufacture of perfume in this country. Collection of such tax would, therefore, not be contrary to the intent of section 221 (a) of the bill. Another example is the compensating tax imposed by section 3500 of the Internal Revenue Code with respect to manufactured sugar imported or brought into the United States.

For the purposes of section 221 (b) there is made applicable the definition of section 2 (b) of the bill of what is meant by the phrase "materials used in the production of an article."

Section 221 (c) provides that section 221 does not apply to the taxes imposed under section 2306, 2327, or 2356 of the Internal Revenue Code. These provisions of law relate to internal-revenue taxes imposed with respect to imports of oleomargarine, adulterated butter, and filled cheese. These taxes are of many years' standing and unless expressly excepted from the scope of section 221 would in each case be materially reduced in respect to articles imported from the Philippines, although the full rate would be applicable to such article when imported from other foreign countries. In the case of the liquor excise taxes imposed under chapter 26 of the Internal Revenue Code, section 221 of the bill will effect no change in the existing tax treatment of Philippine products under chapter 26; it was, accordingly, unnecessary to include any reference to these taxes in section 221 (c).

It is to be noted that articles within the scope of section 221 of the bill are not restricted to articles coming within the definition of "Philippine article" contained in section 2 (a) (4) of the bill; all products of the Philippines coming into the United States come within the scope of section 221, without regard to the limitations of section 2 (a) (4) respecting percentage of Philippine material used in their production. For a discussion of the term "Philippine product" reference is made to the comment in this report in section 2 (a) (4).

The term "internal tax" as used in section 221 is defined in section 2 (a) (8).

#### SECTION 222. EXEMPTION FROM TAX OF MANILA FIBER

This section provides that 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.

#### SECTION 223. PROHIBITION OF EXPORT TAXES

This section provides that no export tax is to be imposed or collected by the United States on articles exported to the Philippines.



## SECTION 224. EXEMPTION FROM TAXES OF ARTICLES FOR OFFICIAL USE

This section provides that no processing tax or other internal tax is to be imposed or collected in the United States with respect to articles brought in for the official use of the Philippine Government or its agencies.

## SECTION 225. APPLICATION TO PUERTO RICO

Section 9 of the act of March 2, 1917, an act to provide a civil-government for Puerto Rico and for other purposes, states that all statutory laws of the United States not locally inapplicable to Puerto Rico unless otherwise provided for in the act shall have the same force and effect in Puerto Rico as in the United States. An exception is made, however, with respect to the internal-revenue laws. This section amends the act of March 2, 1917, so that the exception with respect to the application of internal-revenue laws will not apply to those contained in this bill.

## SECTION 231: IMMIGRATION

This section grants to a Philippine citizen who actually resided in the United States for a continuous period of 3 years immediately prior to November 30, 1941, the right to enter the United States as a non-quota immigrant during a 5-year period July 4, 1946, to July 3, 1951, if he comes to resume residence in the United States. In order to secure him this right the section provides that if he so comes he will not be excluded on the ground of his ineligibility to citizenship (which the bill does not remove), nor by the so-called "barred zone" provision of the Immigration Act of 1917, which will be applicable to natives of the Philippines after independence.

Subsection (b) provides that after admission as a nonquota immigrant he shall be considered as lawfully admitted for permanent residence, for purposes of the immigration and naturalization laws. This will not permit his naturalization, unless he belongs to a class of Filipinos permitted to be naturalized, such as those who have served in our armed forces, but it does insure his right to stay here, and to go and come at his pleasure.

Subsection (c) extends the benefits of the section to his wife, if a Philippine citizen or eligible to citizenship, and his unmarried children under 18, if such wife or children, during such 5-year period, come with or follow to join him.

Subsection (d) excludes from the benefits of the section laborers admitted to Hawaii without immigration visa or passport, under section (8) (a) (1) of the Philippine Independence Act (Tydings-McDuffie Act).

Under section 331 of title III the Philippines will grant the same privileges to our citizens who resided in the Philippines before November 30, 1941.

## TITLE III

## SECTION 301: STATEMENT OF PURPOSES OF THE TITLE

This section, which constitutes part 1 of title III, states the function which the remaining four parts of the title perform in the framework of the bill and proposed executive agreement.

Subsection (a) states that parts 2, 3, 4, and 5, insofar as applicable up to the date of independence, are intended to, and shall, operate as statutes of the United States, the Philippines being still one of our possessions during this period.

Subsection (b) of the section states that after independence and during the effectiveness of the agreement, parts 2, 3, 4, and 5, although expressed in statutory form, are not intended, as to the period after independence, as an attempt on the part of Congress to legislate for the sovereign Philippine nation, but that they constitute a statement in precise terms of provisions which the Government of the Philippines, upon the taking effect of the executive agreement, will be obligated to observe and execute as the law of the Philippines during the effectiveness of the agreement. In paragraph (2) of this subsection Congress also states its policy and expectation that the provisions of parts 2, 3, 4, and 5, will be observed and executed by the Government of the Philippines even before the date of the taking effect of the executive agreement.

#### SECTION 311. FREE ENTRY OF UNITED STATES ARTICLES

This section provides that after the date of enactment of this act up to and including July 3, 1954, United States articles (as defined in sec. 2 (a) (5)) shall be entitled to entry into the Philippines free of ordinary customs duty (as defined in sec. 2 (a) (3)). This section does not exempt United States articles from antidumping duties which are excluded from the definition of "ordinary customs duty" (such duties being covered by sec. 314).

The section, contrary to existing law, permits, in the interests of simplicity of administration, free entry of United States articles even though the United States has granted to the exporter a draw-back of customs duties paid on materials used in their production. Existing law also confines free entry to United States articles coming by direct shipment under through bill of lading. This limitation has also been omitted. One further change is made in that under existing law products of the United States are entitled to free entry into the Philippines even though they do not qualify as "United States articles," but under the bill free entry is confined to United States articles, thus making it exactly reciprocal with the free entry granted to the Philippines by section 201.

#### SECTION 312: ORDINARY CUSTOMS DUTIES ON UNITED STATES ARTICLES

Subsection (a) of this section provides preferential rates on United States articles brought into the Philippines beginning with July 4, 1954, and ending with July 3, 1974. The preference is accomplished by applying to these United States articles a sliding scale of percentages of "Philippine duty" (as defined in sec. 2 (a) (7)) starting off with 5 percent of that duty for the period July 4 to December 31, 1954, increasing to 10 percent of the Philippine duty for the calendar year 1955, and being for each calendar year thereafter until and including the calendar year 1972 the percentage equal to the percentage of the preceding calendar year increased by 5 percent of the Philippine duty. Under this system in the year 1963 the percentage will be 50 percent of the Philippine duty, and in the year 1972 the percentage

will be 95 percent of the Philippine duty. For the period January 1, 1973, to July 3, 1974, the percentage is 100 percent of the Philippine duty.

Attention is directed to the fact that the above statement should be read in the light of the definition of "United States article" found in section 2 (a) (5), and of "Philippine duty" found in section 2 (a) (7). In other words, the class of articles to which the preference applies is substantially narrower than "products" of the United States.

Under subsection (b) of this section the duty assessed by the Philippines on United States articles brought in after July 3, 1974, will, unless otherwise provided by statute or treaty, be 100 percent of the world rate.

#### SECTION 313: CUSTOMS DUTIES OTHER THAN ORDINARY

This section states what would undoubtedly be the law without it—that 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.

#### SECTION 314: EQUALITY IN SPECIAL IMPORT DUTIES, ETC.

This section, which is correlative to section 204, gives to United States articles imported into the Philippines protection, in the case of duties on or in connection with importation (other than "ordinary customs duties" and "internal taxes"), against discrimination to the same extent and subject to the same provisions as in the case of Philippine articles imported into the United States.

#### SECTION 315: EQUALITY IN DUTIES ON PRODUCTS OF UNITED STATES

This section provides for products of the United States which do not qualify as "United States articles" protection, in the case of duties on or in connection with importation (including "ordinary customs duties"), against discrimination. It provides that 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 foreign country. This protection in the case of customs duties not "ordinary customs duties" is, under existing tariff laws, the same protection as is given under section 314 to United States articles. The section in effect gives to United States products which are not United States articles the most favored nation treatment.

The term "duty" is defined to include taxes, fees, charges, or exactions, imposed on or in connection with importation, but as not including internal taxes.

#### SECTION 321: EQUALITY IN INTERNAL TAXES

Section 321 contains provisions respecting equality of treatment in the Philippine Islands, for internal tax purposes, of products of the United States and of articles manufactured in the Philippines wholly or partly from products of the United States, similar in every way to the treatment accorded under section 221 (a) and (b) with

respect to products of the Philippines coming to the United States. Reference accordingly is made to the statement in this report respecting section 221. There are no exceptions in section 321 similar to those contained in section 221 (c).

#### SECTION 322: PROHIBITION OF EXPORT TAXES

This section provides that no export tax is to be imposed or collected by the Philippines on articles exported to the United States.

#### SECTION 323: EXEMPTION FROM TAXES OF ARTICLES FOR OFFICIAL USE

This section provides that no processing tax or other internal tax is to be imposed or collected in the Philippines with respect to articles brought into the Philippines for the official use of the United States or its agencies.

#### SECTION 331: CERTAIN UNITED STATES CITIZENS GIVEN NONQUOTA STATUS

This section, which is the converse of section 231, entitles a citizen of the United States, who actually resided in the Philippines for a continuous period of 3 years immediately prior to November 30, 1941, the right to enter the Philippines as a nonquota immigrant during a 5-year period July 4, 1946, to July 3, 1951, if he comes to resume residence in the Philippines.

The section also provides that after admission as a nonquota immigrant he shall be considered as lawfully admitted for permanent residence, for purposes of the immigration and naturalization laws.

The section also provides that its benefits shall be extended to the wife of the United States citizen, if she is a United States citizen, and to his unmarried children under 18, if such wife or children, during such 5-year period, come with or follow to join him.

#### SECTION 332: IMMIGRATION OF UNITED STATES CITIZENS INTO PHILIPPINES

This section, which is to be the law carrying out the provisions required by section 402 (e) to be included in the agreement, is discussed in connection with that section.

#### SECTION 341: RIGHTS OF UNITED STATES CITIZENS AND BUSINESS ENTERPRISES IN NATURAL RESOURCES

This section provides that 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.

Upon the taking effect of the executive agreement provided for in title IV, this section will become a law of the Philippines except such part as is in conflict with the constitution of the Philippines. In

order to insure the giving of the protection to our citizens and business enterprises, some substantial changes will have to be made in the Philippine Constitution, and title IV is careful to grant relief from the necessity of executing as law of the Philippines the parts so in conflict with the constitution, until the necessary amendments to the constitution have been made. Section 404 (c) (1), however, provides that if our President deems that such constitutional amendments have not been effected within a reasonable time, he shall so proclaim and the executive agreement shall cease to be in effect.

In connection with this section, attention is directed to the provisions of section 404 (c) (2) and (3), and to the provisions of section 501, which are discussed later in this detailed analysis.

#### SECTION 342. CURRENCY STABILIZATION

This section provides 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.

Attention is directed to the provisions of section 402 (f) referred to later in this detailed analysis.

#### SECTION 343: ALLOCATION OF QUOTAS

This section provides that 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

#### SECTION 401. AUTHORIZATION OF AGREEMENT

This section authorizes the President 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 parts 2, 3, 4, and 5 of title III. The authority of our President to enter into the agreement under this act is conditioned upon the inclusion in the agreement of provisions that the agreement shall not take effect---

(1) Unless and until the agreement is accepted by law by the Congress of the Philippines; and

(2) Unless and until the Congress of the Philippines 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 law of the Philippines; except that compliance with so much of section 341 as is in conflict with the Philippine Constitution is not required until the constitution is amended to remove such conflict.

#### SECTION 402. OBLIGATIONS OF PHILIPPINES

This section enumerates certain obligations on the part of the Philippines that must be incorporated in the agreement if it is to be made by the President under authority of section 401.

*Laws continued in effect.*—Under subsection (a) the Philippines will be obligated to 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 which, under the provisions of section 401, must have been made the laws of the Philippines by the Philippine Congress before the agreement can take effect. Exception is made (for the period prior to the amendment of the Constitution of the Philippines referred to in subsection (b) of this section) of such provisions of section 341 as conflict with such constitution.

*Constitutional amendment.*—Under subsection (b) of this section the Government of the Philippines will be obligated promptly to take such steps as are necessary to secure an amendment to the Constitution of the Philippines so as to permit the taking effect as laws of the Philippines such part of the provisions of section 341 as is in conflict with such constitution before such amendment.

*Supplementary Legislation.*—Under subsection (c) of this section the Philippines will be obligated to promptly enact and keep in effect during the effectiveness of the agreement such legislation as may be necessary—

(1) To supplement the legislation the enactment of which, under section 401, is necessary to the effectiveness of the agreement; 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.

*Bases for allocation of quotas.*—Under subsection (d) the Philippines agree that the United States shall have the right to provide the basis for the allocation of any quotas established under the portion of the agreement setting forth the provisions of section 403 (c) (see discussion of that section later in this report) and that if the United States exercises such right then the Philippines shall promptly enact and keep in force legislation necessary to put and keep in effect, on the basis provided by the United States, the allocation of such quotas.

*Immigration.*—Under subsection (e) there must be included in the agreement a provision under which there will be admitted to the Philippines (without regard to the annual quota of 500 permanent immigrants which will be applied to us beginning July 4, 1946) during each of the years of a specified period of years (not less than 5), of a specified number (not less than 1,000) of United States citizens. The length of time each shall be entitled to remain in the Philippines is to be specified in the agreement.

Section 332 of title III implements this agreement and, as law of the Philippines when the agreement takes effect, will permit entry of our citizens in accordance with the terms of the agreement.

*Currency stabilization.*—Under subsection (f) of this section the Philippines agrees 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.

## SECTION 403. OBLIGATIONS OF UNITED STATES

This section enumerates certain obligations on the part of the United States that must be incorporated in the agreement if it is to be made by the President under authority of section 401.

*Laws continued in effect.*—Under subsection (a) the United States will be obligated to continue in effect during the effectiveness of the agreement the provisions of title II as laws of the United States. If, however, such provisions are not in effect at the time the agreement takes effect (because suspended under section 502) the agreement is that they shall be made to take effect and continue in effect as laws of the United States during the effectiveness of the agreement.

*Supplementary legislation.*—Under subsection (b) of section 403 the United States will be obligated promptly to 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.

*Quotas.*—Subsection (c) provides 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 for any part of the period January 1, 1948–July 3, 1974, it will (with the above exceptions) establish a quota with respect to Philippine articles only if 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 domestic articles. The quota established for any Philippine article for any 12-month period is not to be less than the amount determined by the President as the total amount of the Philippine articles of such class which entered the United States during the 12-month period preceding the start of the investigation. Attention is directed to the provisions of section 504 authorizing the President to establish such quotas after findings made after investigation by the Tariff Commission, and the discussion of the section in a later portion of this detailed analysis.

*Coconut oil processing tax.*—Subsection (d) of section 403, provides 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 coconut oil derived from Philippine copra; except that it may suspend the 2 cents tax imposed by section 2470 (a) (2) 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.

Attention is called to the provisions of section 505 (b) which authorizes the President to suspend the 2-cent tax upon such finding, and to the discussion in a later part of this detailed analysis.

## SECTION 404. TERMINATION OF AGREEMENT

This section enumerates certain provisions as to termination and suspension of the agreement that must be incorporated in the agreement if it is to be made by the President under authority of section 401.

*Termination in general.*—Under subsection (a), the agreement is to have no effect after July 3, 1974.

*Termination by either party.*—Under subsection (b) (1) of section 404 the agreement may be terminated by either party at any time, upon not less than 5 years' notice.

Under subsection (b) (2) of section 404, 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 6 months' notice.

*Termination by United States for failure to amend Constitution.*—Under subsection (c) (1) of section 404, 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.

*Suspension or termination for discrimination.*—Subsection (c) (2) of section 404 provides that if the President of the United States determines and proclaims, after consultation with the President of the Philippines, that the Philippines are 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.

Subsection (c) (3) of section 404 provides that if the President, after such consultation, finds that the discrimination has ceased, then the suspension shall end, but if he finds that the discrimination has not ceased after a time determined by him to be reasonable then the United States shall have the right to terminate the agreement upon not less than 6 months' notice.

Attention is directed to section 501, authorizing the President to provide for the suspensions and terminations authorized by these provisions of the agreement, and to the discussion of that section in a later portion of this detailed analysis.

#### SECTION 405. EFFECT OF TERMINATION OF AGREEMENT

This section provides that 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. For example, upon the termination of the agreement the United States laws providing for preferential treatment will be definitely terminated.

#### SECTION 406. INTERPRETATION OF AGREEMENT

This section provides that 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.



## SECTION 407. TERMINATION OF AUTHORITY TO MAKE AGREEMENT

This section provides that 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.

## SECTION 408. EFFECTIVE DATE OF AGREEMENT

This section provides that 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

## SECTION 501. SUSPENSION AND TERMINATION OF AGREEMENT IN CASE OF DISCRIMINATION

This section is enacted under the reservation of the right of the United States which will be incorporated in the executive agreement under section 404 (c) (2) and (3).

Subsection (a) provides that if the President of the United States determines, after consultation with the President of the Philippines, that the Philippines are 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.

Subsection (b) provides that if the President, after such consultation, determines that the discrimination has ceased, he shall so proclaim, and thereupon the suspension shall end.

Subsection (c) provides that if the President, after such consultation, determines that the discrimination has not ceased after the lapse of a time determined by him to be reasonable, he shall so proclaim and give to the Philippines notice of the intention of the United States to terminate the agreement. (Notice of not less than 6 months required by sec. 404 (c).)

Subsection (d) provides for the suspension or termination of the provisions of title II as laws of the United States to the extent necessary to give effect to the suspension or termination of the agreement effected under subsections (a), (b), or (c).

## SECTION 502. SUSPENSION OF TITLE II

This section provides that if the President finds that, during the interim period between independence and the taking effect of the executive agreement, the Philippines are 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, or is not providing for the allocation of quotas on the basis provided for in section 211, 212, or 214, respectively, he shall so proclaim. On the day following the date of the 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. The suspension is to continue until the taking effect of the executive agreement.

#### SECTION 503. CUSTOMS DUTIES ON IMPORTATIONS FROM PHILIPPINES

This section provides that the classes of articles enumerated below shall, from the day after the date of the enactment of this act, be subject to the same duties as like articles coming or imported into the United States from foreign countries, except Cuba—

- (1) articles coming or imported into the United States from the Philippines, other than Philippine products;
- (2) Philippine products coming or imported into the United States, other than Philippine articles; and
- (3) with respect to the period after the effectiveness of the agreement has ceased, Philippine articles coming or imported into the United States.

The bill makes no change in the law with respect to the dutiable status of articles coming into the United States from American possessions other than the Philippines, e. g., Guam and American Samoa.

#### SECTION 504. QUOTAS ON PHILIPPINE ARTICLES

This section implements the portions of the executive agreement referred to in sections 402 (d) and 403 (c) discussed previously in this detailed analysis. Under the executive agreement incorporating the provisions of section 403 (c), the United States agrees not to establish before 1948 new quotas, except quotas established in conjunction with quantitative limitations, applicable to products of all foreign countries, on imports of like articles, and that the United States will not establish new quotas (with the same exception) after 1947 and during the effectiveness of the agreement unless the President, after investigation, finds that the Philippine article is coming or is likely to come into substantial competition with like articles of the United States. The amount of any such new quotas shall not be less than the amount determined by the President as the total amount imported into the United States during the 12-month period preceding the start of the investigation.

Subsection (a) of section 504 provides that whenever the President, after the investigation by the Tariff Commission provided for in subsection (d) of this section, finds with respect to any Philippine articles (other than the ones for which quotas are established by part 2 of title II) that they are coming or are likely to come into substantial competition with like domestic articles, he shall so proclaim and in the proclamation fix the quotas. If he finds that the allocation of the quota is necessary he shall by proclamation provide the basis of the allocation, which under the provisions of the executive agreement referred

to in section 402 (d) the United States reserves the right to provide for in the case of these new quotas.

Subsection (b) of section 504 provides that the President cannot establish a quota larger than the smallest amount which he determines may be entered without coming into substantial competition with like domestic articles; but in no case shall the quota be less than the minimum amount above referred to in the discussion of this section.

Subsection (c) provides that any new quota thus established shall become effective at the time designated by the President (but not before January 1, 1948) and shall continue in effect until the President, after investigation, finds and proclaims that there is no further need for the quota; but no quota established under this section shall continue in effect after the termination of the executive agreement.

Subsection (d) provides for investigations by the Tariff Commission to aid the President in making the findings required by this section and by the executive agreement. The investigations on the subject of new quotas are to be made by the Commission at the request of the President, or of either House of Congress, or upon its own motion, or when in its judgment there is good reason therefor upon application by any interested party. The investigation shall be to ascertain (1) whether the Philippine articles are coming or are likely to come into substantial competition with like domestic articles; (2) what is the maximum quota which would prevent substantial competition; and (3) the amount imported into the United States during the 12 months preceding the start of the investigation.

The Commission is to give opportunity to interested parties for a public hearing and shall give precedence to the investigation. The Commission is to report the results of its investigations to the President, and shall send copies of such report to each House of Congress.

#### SECTION 505. PROCESSING TAX ON COCONUT OIL

This section is to implement the provisions of section 403 (d) under which the United States in the executive agreement undertakes that it will not reduce the preference of 2 cents per pound provided in section 2470 of the Internal Revenue Code (relating to tax on processing of coconut oil) with respect to coconut oil derived from Philippine copra. The United States reserves the right to suspend the provisions of section 2470 (a) (2) of the Internal Revenue Code (which imposes an additional processing tax of 2 cents per pound on the processing of coconut oil derived from copra produced in countries other than the Philippines) if he finds, after consultation with the President of the Philippines, that adequate supplies of neither copra nor coconut oil from the Philippines are readily available for processing in the United States.

Subsection (a) of section 505 makes the necessary amendments to section 2470 (a) (2) of the Internal Revenue Code to carry out the promise of the United States.

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 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 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.

SECTION 506. TERMINATION OF PAYMENTS INTO PHILIPPINE TREASURY

Under existing law the proceeds of certain duties and taxes, accruing and collected with respect to articles coming from the Philippines (including the processing tax under sec. 2470 of the Internal Revenue Code on coconut oil derived from Philippine copra, whether imported as oil or copra), are required to be paid into the general funds of the Treasury of the Philippines or to be held first as a separate fund and then paid into the Treasury of the Philippine Islands, to be used for the benefit of the people and government of the islands. In order to terminate this arrangement upon the independence of the Philippines, this section repeals the provisions of the Internal Revenue Code providing for coverage of such collections into the Philippine Treasury and requires that all the proceeds of such duties and taxes collected after July 3, 1946, shall be covered into the general fund of the Treasury of the United States. Under the act of November 8, 1945, and section 19 (a) of the act of March 24, 1934, as added to such act by section 6 of the act of August 7, 1939, the proceeds of the taxes imposed by sections 2470, 2490, and 2491 of the Internal Revenue Code, accruing prior to July 4, 1946, are to be paid into the general funds of the Treasury of the Philippines. Pursuant to the act of November 8, 1945, and computed in accordance with section 503 of the Sugar Act of 1937, as amended, the proceeds of taxes collected or accrued under sections 3490 and 3500 on sugars produced from sugarcane grown in the Philippines, manufactured in or brought into the United States on or prior to June 30, 1947, are to be paid into the general fund of the Treasury of the Philippines. This section provides that the proceeds of any such taxes actually collected after July 3, 1946, although accruing on or prior thereto, shall be paid into the general fund of the Treasury of the United States.

SECTION 507. SPECIAL EXCISE PROVISIONS RELATING TO PHILIPPINES  
REPEALED

Chapter 28, subchapter B, of the Internal Revenue Code contains provisions with respect to the application of excise taxes in the United States and the Philippines on shipments between the United States and the islands and on imports into the Philippines from countries other than the United States. These provisions are similar to others in that part of the Code with respect to other possessions of the United States. As soon as the Philippines are independent, these provisions will no longer be necessary or consistent with such status, and, therefore, are repealed as of July 4, 1946. This section also makes clerical changes in the Code to adjust it to these repeals.

## SECTION 508. TRADE AGREEMENTS WITH THE PHILIPPINES

This section prohibits the making of trade agreements with the Philippines under section 350 of the Tariff Act of 1930 during the effectiveness of the agreement authorized by section 401 of this act, and between the time of the enactment of this act and the taking effect of the agreement, unless the President has found that a reasonable time has elapsed without the agreement taking effect, and has made the proclamation provided for in section 407.

## SECTION 509. RIGHTS OF THIRD COUNTRIES

This section provides that 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. This section makes clear that the benefits to the Philippines under this act shall be exclusive and shall not be extended to any foreign country.

## SECTION 510. ADMINISTRATION OF TITLE II

Subsection (a) of this section provides that the provisions of title II relating to customs duties, quotas, and internal taxes shall be administered as parts of the customs and internal revenue laws of the United States.

Subsection (b) of this section provides that the provisions of title II granting certain Philippine citizens nonquota status shall be administered as part of the immigration laws.

## SECTION 511. REPEALS

This section repeals, effective the day after the date of enactment of the act, the provisions of existing law dealing with the tariff status of Philippine goods brought into the United States, which subject matter is fully covered by the provisions of the bill.

## SECTION 512. EFFECTIVE DATE

This section provides that this act shall take effect the day after the date of enactment, except the provisions of part 2 of title II relating to certain quotas, which will take effect as of January 1, 1946.

## CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

### ACT OF MARCH 2, 1917

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** *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.

#### 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 produced from materials brought into the United States on or before June 9, 1934, or (D) was purchased under a bona fide contract 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.*

\* \* \* \* \*

#### SEC. 2476. COLLECTIONS COVERED INTO THE PHILIPPINE TREASURY.

All taxes collected under this chapter with respect to coconut oil wholly of Philippine production or produced from materials wholly of Philippine growth or production, shall be held as a separate fund and paid to the Treasury of the Philippine Islands, but if at any time the Philippine Government provides by any law for any subsidy to be paid to the producers of copra, coconut oil, or allied products, no further payments to the Philippine Treasury shall be made under this section.】

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#### SEC. 2800. TAX.

##### (a) RATE.—

\* \* \* \* \*

(4) ALCOHOLIC COMPOUNDS FROM [PUERTO RICO, VIRGIN ISLANDS, AND PHILIPPINES] *PUERTO RICO AND VIRGIN ISLANDS*.—

(A) PUERTO RICO.—Except as provided in section 3123, upon bay rum, or any article containing alcohol, brought from Puerto Rico into the United States for consumption or sale there shall be paid a tax on the spirits contained therein at the rate imposed on distilled spirits produced in the United States, to be collected at the port of entry by the collector of internal revenue of the district in which the port is located. The Commissioner, with the approval of the Secretary, is authorized to make such rules and regulations as may be necessary to carry this paragraph into effect.

(B) VIRGIN ISLANDS [AND PHILIPPINES].—For provisions relating to tax on alcoholic compounds from the Virgin [Islands and Philippines, see sections 3350 and 3340] *Islands, see section 3350*.

\* \* \* \* \*

CHAPTER 28— \* \* \*

SUBCHAPTER B—PROVISIONS OF SPECIAL APPLICATION TO THE [PHILIPPINES, VIRGIN ISLANDS,] *VIRGIN ISLANDS AND PUERTO RICO*

[PART I—PHILIPPINE ISLANDS

[SEC. 3340. SHIPMENTS TO THE UNITED STATES.

[(a) TAX IMPOSED IN UNITED STATES.—

[(1) AMOUNT.—There shall be levied, collected, and paid, in the United States, upon articles, goods, wares, or merchandise coming into the United States from the Philippine Islands a tax equal to the internal-revenue tax imposed in the United States upon the like articles, goods, wares, or merchandise of domestic manufacture.

[(2) PAYMENT.—Such tax shall be paid by internal revenue stamp or stamps, to be provided by the Commissioner, and to be affixed in such manner and under such regulations as he, with the approval of the Secretary, shall prescribe.

[(b) EXEMPTION FROM TAX IMPOSED IN THE PHILIPPINE ISLANDS.—Such articles, goods, wares, or merchandise shipped from said islands to the United States shall be exempt from the payment of any tax imposed by the internal revenue laws of the Philippine Islands.

[SEC. 3341. SHIPMENTS FROM THE UNITED STATES.

[(a) TAX IMPOSED IN PHILIPPINE ISLANDS.—

[(1) AMOUNT.—There shall be levied, collected, and paid in the Philippine Islands, upon articles, goods, wares, or merchandise going into the Philippine Islands from the United States, a tax equal to the internal revenue tax imposed in the Philippine Islands upon the like articles, goods, wares, or merchandise of Philippine Islands manufacture.

[(2) PAYMENT.—Such tax shall be paid by internal revenue stamps or otherwise, as provided by the laws of the Philippine Islands.

[(b) EXEMPTION FROM TAX IMPOSED IN UNITED STATES.—Such articles, goods, wares, or merchandise going into the Philippine Islands from the United States shall be exempt from the payment of any tax imposed by the internal revenue laws of the United States.

[(c) DRAWBACK OF TAX PAID IN THE UNITED STATES.—All provisions of law for the allowance of drawback of internal revenue tax on articles exported from the United States are, so far as applicable, extended to like articles upon which an internal revenue tax has been paid when shipped from the United States to the Philippine Islands.

[SEC. 3342. IMPORTS FROM COUNTRIES OTHER THAN THE UNITED STATES.

[In addition to the customs taxes imposed in the Philippine Islands, there shall be levied, collected, and paid therein upon articles, goods, wares, or merchandise imported into the Philippine Islands from countries other than the United States the internal revenue tax imposed by the Philippine Government on like articles manufactured and consumed in the Philippine Islands or shipped thereto for consumption therein from the United States.

**[SEC. 3343. DEPOSIT OF INTERNAL REVENUE COLLECTIONS.]**

**[(a) PAYMENT INTO THE PHILIPPINE TREASURY.]**—All internal revenues collected in or for account of the Philippine Islands shall accrue intact to the general government thereof and be paid into the insular treasury.

**[(b) PHILIPPINE TRUST FUND.]**—The duties and taxes collected in the Philippine Archipelago in pursuance of the act of March 8, 1902, c. 140, 32 Stat. 54, and all duties and taxes collected in the United States upon articles coming from the Philippine Archipelago and upon foreign vessels coming therefrom, shall not be covered into the general fund of the Treasury of the United States, but shall be held as a separate fund and paid into the treasury of the Philippine Islands, to be used and expended for the government and benefit of said islands.

**[(c) CROSS REFERENCE.]**—

**[For special provisions relating to taxes collected in the case of coconut oil, see section 2476.]**

**[PART II] PART I—VIRGIN ISLANDS****SEC. 3350. SHIPMENTS TO THE UNITED STATES.**

(a) **TAXES IMPOSED IN THE UNITED STATES.**—Except as provided in section 3123, there shall be levied, collected, and paid in the United States, upon articles coming into the United States from the Virgin Islands, a tax equal to the internal revenue tax imposed in the United States upon like articles of domestic manufacture.

(b) **EXEMPTION FROM TAX IMPOSED IN THE VIRGIN ISLANDS.**—Such articles shipped from such islands to the United States shall be exempt from the payment of any tax imposed by the internal revenue laws of such islands.

**SEC. 3351. SHIPMENTS FROM THE UNITED STATES.**

(a) **TAX IMPOSED IN VIRGIN ISLANDS.**—There shall be levied, collected, and paid in the Virgin Islands upon articles imported from the United States, a tax equal to the internal revenue tax imposed in such islands upon like articles there manufactured.

(b) **EXEMPTION FROM TAX IMPOSED IN THE UNITED STATES.**—Such articles going into such islands from the United States shall be exempt from payment of any tax imposed by the internal revenue laws of the United States.

(c) **DRAW-BACK OF TAX PAID IN THE UNITED STATES.**—All provisions of law for the allowance of draw-back of internal revenue tax on articles exported from the United States are, so far as applicable, extended to like articles upon which an internal revenue tax has been paid when shipped from the United States to the Virgin Islands.

**[PART III] PART II—PUERTO RICO****SEC. 3360. SHIPMENTS TO THE UNITED STATES.**

(a) **RATE OF TAX.**—Except as provided in section 3123, articles of merchandise of Puerto Rican manufacture coming into the United States and withdrawn for consumption or sale shall be subject to a tax equal to the internal revenue tax imposed in the United States upon the like articles of merchandise of domestic manufacture.

(b) **PAYMENT OF TAX.**—

(1) **UPON ENTRY INTO UNITED STATES.**—Such tax shall be paid by internal revenue stamp or stamps to be purchased and provided by the Commissioner and to be procured from the collector of internal revenue at or most convenient to the port of entry of said merchandise in the United States, and to be affixed under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe.

(2) **BEFORE SHIPMENT FROM PUERTO RICO.**—All United States internal revenue taxes imposed by law on articles of Puerto Rican manufacture coming into the United States for consumption or sale may be paid by affixing to such articles before shipment thereof a proper United States internal revenue stamp denoting such payment.

(A) **APPOINTMENT OF DEPUTY COLLECTOR AT SAN JUAN.**—For the purpose of carrying into effect the provisions of paragraph (2) of this subsection, the Secretary is authorized to grant to such collector of internal revenue as may be recommended by the Commissioner, and approved by the Secretary, an allowance for the salary and expenses of a deputy collector to be stationed at San Juan, Puerto Rico, the appointment of this deputy to be approved by the Secretary.



(B) BOND OF DEPUTY COLLECTOR AT SAN JUAN.—Before entering upon the duties of his office such deputy collector shall execute a bond, payable to the collector appointing him, in such amount and with such sureties as he may determine.

(C) DUTIES OF DEPUTY COLLECTOR AT SAN JUAN.—The collector will place in the hands of such deputy all stamps necessary for the payment of the proper tax on articles produced in Puerto Rico and shipped to the United States, and the said deputy, upon proper payment made for said stamps, shall issue them to manufacturers in Puerto Rico. All such stamps so issued or transferred to said deputy shall be charged to the collector and be accounted for by him as in the case of other tax-paid stamps. The deputy collector assigned to this duty shall perform such other work in connection with the inspection and stamping of such articles, and shall make such returns as the Commissioner may, by regulations approved by the Secretary, direct.

(D) GENERAL LAWS APPLICABLE.—All provisions of law relative to the appointment, duties, and compensation of deputy collectors, including office rent and other necessary expenses, shall, so far as applicable, apply to the deputy assigned to duty under the provisions of paragraph (2) of this subsection.

(e) DEPOSIT OF INTERNAL REVENUE COLLECTIONS.—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.

#### SEC. 3361. SHIPMENTS FROM THE UNITED STATES.

(a) TAX IMPOSED IN PUERTO RICO.—All articles of merchandise of United States manufacture coming into Puerto Rico shall be entered at the port of entry upon payment of a tax equal in rate and amount to the internal revenue tax imposed in Puerto Rico upon the like articles of Puerto Rican manufacture.

(b) EXEMPTION FROM TAX IMPOSED IN THE UNITED STATES.—Articles, goods, wares, or merchandise going into Puerto Rico, Guam, and American Samoa from the United States shall be exempted from the payment of any tax imposed by the internal revenue laws of the United States.

(c) DRAWBACK OF TAX PAID IN THE UNITED STATES.—All provisions of law for the allowance of drawback of internal revenue tax on articles exported from the United States are, so far as applicable, extended to like articles upon which an internal revenue tax has been paid when shipped from the United States to Puerto Rico, Guam, or American Samoa.

#### TARIFF ACT OF 1930

#### [SEC. 301. PHILIPPINE ISLANDS.

[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 foreign countries: *Provided*, That all articles, the growth or product of or manufactured in the Philippine Islands from materials the growth or product of the Philippine Islands or of the United States, or of both, or which do not contain foreign materials to the value of more than 20 per centum of their total value, upon which no drawback of customs duties has been allowed therein, coming into the United States from the Philippine Islands shall hereafter be admitted free of duty: *Provided, however*, That in consideration of the exemptions aforesaid, all articles, the growth, product, or manufacture of the United States, upon which no drawback of customs duties has been allowed therein, shall be admitted to the Philippine Islands from the United States free of duty: *And provided further*, That the free admission, herein provided, of such articles, the growth, product, or manufacture of the United States, into the Philippine Islands, or of the growth, product, or manufacture, as hereinbefore defined, of the Philippine Islands into the United States, shall be conditioned upon the direct shipment thereof, under a through bill of lading, from the country of origin to the country of destination: *Provided*, That direct shipments shall include shipments in bond through foreign territory contiguous to the United States: *Provided, however*, That if such articles become unpacked while en route by accident, wreck, or other casualty, or so damaged as to necessitate their repacking, the same shall be admitted free of duty upon satisfactory proof that the unpacking occurred through accident or necessity and that the merchandise involved is the identical merchandise originally shipped from

the United States or the Philippine Islands, as the case may be, and that its condition has not been changed except for such damage as may have been sustained: *And provided*, That there shall be levied, collected, and paid, in the United States, upon articles, goods, wares, or merchandise coming into the United States from the Philippine Islands a tax equal to the internal-revenue tax imposed in the United States upon the like articles, goods, wares, or merchandise of domestic manufacture; such tax to be paid by internal-revenue stamp or stamps, to be provided by the Commissioner of Internal Revenue, and to be affixed in such manner and under such regulations as he, with the approval of the Secretary of the Treasury, shall prescribe; and such articles, goods, wares, or merchandise shipped from said islands to the United States shall be exempt from the payment of any tax imposed by the internal revenue laws of the Philippine Islands: *And provided further*, That there shall be levied, collected, and paid in the Philippine Islands, upon articles, goods, wares, or merchandise going into the Philippine Islands from the United States, a tax equal to the internal-revenue tax imposed in the Philippine Islands upon the like articles, goods, wares, or merchandise of Philippine Islands manufacture; such tax to be paid by internal-revenue stamps or otherwise, as provided by the laws of the Philippine Islands; and such articles, goods, wares, or merchandise going into the Philippine Islands from the United States shall be exempt from the payment of any tax imposed by the internal revenue laws of the United States: *And provided further*, That in addition to the customs taxes imposed in the Philippine Islands, there shall be levied, collected, and paid therein upon articles, goods, wares, or merchandise imported into the Philippine Islands from countries other than the United States the internal-revenue tax imposed by the Philippine Government on like articles manufactured and consumed in the Philippine Islands or shipped thereto for consumption therein from the United States: *And provided further*, That from and after the passage of this Act all internal revenues collected in or for account of the Philippine Islands shall accrue intact to the general government thereof and be paid into the insular treasury. ]

ACT OF MARCH 24, 1934, AS AMENDED

SEC. 6. [During the period beginning January 1, 1940, and ending July 3, 1946, trade relations between the United States and the Philippines shall be as now provided by law, subject to the following exceptions:

[a) On and after January 1, 1941, the Philippine Government shall impose and collect an export tax on every Philippine article shipped from the Philippines to the United States, except as otherwise specifically provided in this section. Said tax shall be computed in the manner hereinafter set forth in this subsection and in subsection (c) of this section. During the period January 1, 1941, through December 31, 1941, the export tax on every such article shall be 5 per centum of the United States duty; on each succeeding January 1 thereafter the export tax shall be increased progressively by an additional 5 per centum of the United States duty, except that during the period January 1, 1946, through July 3, 1946, the export tax shall remain at 25 per centum of the United States duty.

[b) (1) No export tax described in subsection (a) of this section shall be imposed or collected upon any Philippine article of a class or kind in respect of which a quota is established by subdivision (3) of this subsection, nor upon copra or manila (abaca) fiber not dressed or manufactured in any manner.

[2) The United States duty shall be levied, collected, and paid in the United States upon every article which is of a class or kind in respect of which a quota is established by subdivision (3) of this subsection and which is entered, or withdrawn from warehouse, for consumption after December 31, 1939, in excess of its respective quota: *Provided, however*, That nothing in this section or any subsection thereof shall be construed to exempt the quota of coconut oil therein provided for from the excise taxes provided for in section 2470 of the Internal Revenue Code (I. R. C., ch. 21, sec. 2470).

[3) For the purposes indicated in subdivisions (1) and (2) of this subsection, there are hereby established the following quotas of the designated Philippine articles: For the calendar year 1940, the quotas, hereafter called original quotas, shall be as follows:

[a. cigars (exclusive of cigarettes, cheroots of all kinds, and paper cigars and cigarettes including wrappers), two hundred million cigars;

[b. scrap tobacco, and stemmed and unstemmed filler tobacco described in paragraph 602 of the Tariff Act of 1930, four million five hundred thousand pounds;

[c. coconut oil, two hundred thousand long tons;

[(d. buttons of pearl or shell, eight hundred and fifty thousand gross. For each calendar year thereafter through the calendar year 1945, each of the said quotas shall be the same as the corresponding quota for the immediately preceding calendar year, less 5 per centum of the corresponding original quota.

[For the period January 1, 1946, through July 3, 1946, each of said quotas shall be one-half of the corresponding quota specified for the calendar year 1945.

[(c) The Philippine Government, in imposing and collecting export taxes on Philippine embroideries, shall compute the tax in accordance with the formulas specified in subsection (a) of this section, except that in determining the taxable value of any such article, an allowance shall be made equal to the cost—cost, insurance, and freight the Philippines—of any cloth of United States origin used in the production thereof.

[(d) The United States duty shall be levied, collected, and paid, in the United States, upon all Philippine sugars, which are entered, or withdrawn from warehouse, for consumption in any calendar year after 1939, in excess of eight hundred and fifty thousand long tons, of which not more than fifty thousand long tons may be refined sugars: *Provided, however,* That for the period January 1, 1946, through July 3, 1946, the quota of Philippine sugars, not subject to the United States duty, shall be four hundred and twenty-five thousand long tons, of which not more than twenty-five thousand long tons may be refined sugars. Any export tax imposed and collected on Philippine sugars entered or withdrawn from warehouse for consumption in excess of the quotas established by this subsection shall be refunded by the Philippine Government.

[(e) Upon the expiration of the Act of June 14, 1935 (49 Stat. 340), as extended to May 1, 1941, by proclamation of the President, dated January 26, 1938, the total amount of all Philippine cordage coming into the United States which may be entered or withdrawn from warehouse, for consumption during the remainder of the calendar year 1941, shall not exceed four million pounds and in any calendar year after 1941 shall not exceed six million pounds: *Provided, however,* That for the period January 1, 1946, through July 3, 1946, the total amount of Philippine cordage which may be entered, or withdrawn from warehouse, for consumption shall not exceed three million pounds.

[(f) (1) The quotas for sugars established by subsection (d) of this section shall be allocated annually as prescribed in section 6 (d) of the Act of March 24, 1934 (48 Stat. 456), which section in this respect is not repealed by this amendatory Act.

[(2) The quotas for cordage, established by subsection (e) of this section, and by the Act of June 14, 1935, shall be allocated by authorities of the Philippine Government among the manufacturers of such commodities proportionately upon the basis of the shipment of each such manufacturer to the United States during the twelve months immediately preceding the inauguration of the Commonwealth of the Philippines.

[(3) The quotas for all articles for which quotas are established by this section, except sugars and cordage, shall in each instance be allocated by authorities of the Philippine Government among the manufacturers whose products were shipped to the United States during the calendar year 1937, on the basis of the proportion which each manufacturer's maximum production shipped to the United States, directly or through other persons, in any calendar year during the five-year period, 1933 through 1937, bears to the total of such maximum shipments of all such manufacturers.

[(4) If, after the first nine months of any quota year, the holder of any allotment under any of the quotas established by this Act or by the Act of June 14, 1935, is or will be unable for any reason to ship to the United States by the end of the quota year the total amount of his allocation for that year, the Philippine Government shall apportion that amount of such allocation which it is established by sufficient evidence cannot be shipped to the United States during the remainder of the quota year in such manner and in accordance with such rules and regulations as it may prescribe.]

(g) (1) The Philippine Government shall pay to the Secretary of the Treasury of the United States, at the end of each calendar quarter, all of the moneys received during such quarter from export taxes (less refunds), imposed and collected in accordance with the provisions of this section, and said moneys shall be deposited in an account with the Treasurer of the United States and shall constitute a supplementary sinking fund for the payment of bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress: *Provided, however,* That moneys received from any export tax imposed on any article which is shipped from the Philippines to the United States prior to

July 4, 1946, and which is entered, or withdrawn from warehouses for consumption, on or after July 4, 1946, shall be refunded by the independent Government of the Philippines.

(2) The said Secretary of the Treasury is authorized to accept the deposits of the proceeds of the export taxes referred to in subdivision (1) of this subsection in accordance with the Act of June 11, 1934 (48 Stat. 929).

(3) The Secretary of the Treasury of the United States, with the approval of the Philippine Government, is authorized to purchase with such supplementary sinking-fund bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress and to invest such fund in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. Whenever the Secretary of the Treasury finds that such fund is in excess of an amount adequate to meet future interest and principal payments on all such bonds, he may, with the approval of the Philippine Government, purchase with such excess any other bonds of the Philippines, its Provinces, cities, municipalities, and instrumentalities. For the purpose of this subsection obligations may be acquired on original issue at par, or by purchase of outstanding obligations at the market price. Any obligations acquired by the fund may, with the approval of the Philippine Government, be sold by the Secretary of the Treasury at the market price and the proceeds of such sale and the proceeds of the payment upon maturity or redemption of any obligations held in the supplementary sinking fund, as well as all moneys in any manner earned by such fund or on any obligations acquired by said fund, shall be paid into the said fund.

(4) During the three months preceding July 4, 1946, the Philippine Government and the Secretary of the Treasury of the United States shall confer to ascertain that portion of the bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress, which will remain outstanding on July 4, 1946; and the Philippine Government shall turn over to the Secretary of the Treasury of the United States for destruction all such bonds that are then held, canceled, or uncanceled, in any of the sinking funds maintained for the payment of such bonds. After such outstanding portion of this indebtedness is thus determined, and before July 4, 1946, (i) there shall be set up with the Treasurer of the United States a special trust account in the name of the Secretary of the Treasury of the United States to pay future interest and principal payments on such bonds; (ii) the Philippine Government shall pay to the Secretary of the Treasury of the United States for deposit in this special trust account all of the sinking funds maintained for the payment of such bonds; and (iii) the Secretary of the Treasury of the United States shall transfer into this special trust account all of the proceeds of the supplementary sinking fund referred to in subdivision (1) of this subsection. Any portion of such special trust account found by the Secretary of the Treasury of the United States on July 4, 1946, to be in excess of an amount adequate to meet future interest and principal payments on all such outstanding bonds shall be turned over to the Treasury of the independent Government of the Philippines to be set up as an additional sinking fund to be used for the purpose of liquidating and paying all other obligations of the Philippines, its Provinces, cities, municipalities, and instrumentalities. To the extent that such special trust account is determined by the Secretary of the Treasury of the United States to be insufficient to pay interest and principal on the outstanding bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress, the Philippine Government shall, on or before July 3, 1946, pay to the Secretary of the Treasury of the United States for deposit in such special trust account an amount which said Secretary of the Treasury determines is required to assure payment of principal and interest on such bonds; *Provided, however*, That if the Secretary of the Treasury of the United States finds that this requirement would impose an undue hardship upon the Philippines, then the Philippine Government shall continue to provide annually the necessary funds for the payment of interest and principal on such bonds until such time as the Secretary of the Treasury of the United States determines that the amount in the special trust account is adequate to meet interest and principal payments on such bonds.

(5) On and after July 4, 1946, the Secretary of the Treasury of the United States is authorized, with the approval of the independent Government of the Philippines, to purchase at the market price for the special trust account bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress. The Secretary of the Treasury of the United States is also authorized, with the approval of the independent Govern-

ment of the Philippines, to invest all or any part of such special trust account in any interest-bearing obligations of the United States or in any obligations guaranteed as to both principal and interest by the United States. Such obligations may be acquired on original issue at par or by purchase of outstanding obligations at the market price, and any obligations acquired by the special trust account may, with the approval of the independent Government of the Philippines, be sold by the Secretary of the Treasury at the market price and the proceeds of the payment upon maturity or redemption of such obligations shall be held as a part of such special trust account. Whenever the special trust account is determined by the Secretary of the Treasury of the United States to be adequate to meet interest and principal payments on all outstanding bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress, the Secretary of the Treasury is authorized to pay from such trust account the principal of such outstanding bonds and to pay all interest due and owing on such bonds. All such bonds and interest coupons paid or purchased by the special trust account shall be canceled and destroyed by the Secretary of the Treasury of the United States. From time to time after July 4, 1946, any moneys in such special trust account found by the Secretary of the Treasury of the United States to be in excess of an amount adequate to meet interest and principal payments on all such bonds shall be turned over to the treasurer of the independent Government of the Philippines.

[(h) No article shipped from the Philippines to the United States on or after January 1, 1941, subject to an export tax provided for in this section, shall be admitted to entry in the United States until the importer of such article shall present to the United States collector of customs a certificate, signed by a competent authority of the Philippine Government, setting forth the value and quantity of the article and the rate and amount of the export tax paid, or shall give a bond for the production of such certificate within six months from the date of entry.]

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#### TARIFF DUTIES AFTER INDEPENDENCE

Sec. 13. [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:]

There shall promptly be held a conference of representatives of the Government of the United States and the Government of the Commonwealth of the Philippines, such representatives on the part of the Government of the United States to consist of three United States Senators appointed by the President of the Senate, three Members of the House of Representatives appointed by the Speaker of the House, and three persons appointed by the President of the United States, and on the part of the Philippines to consist of nine representatives to be appointed by the President of the Commonwealth of the Philippines; each appointee shall serve at the pleasure of his appropriate appointing authority; the said Commission to be known as the Filipino Rehabilitation Commission, subject to the following conditions and with the following powers and duties:

(a) The members of the Commission shall be appointed not later than fifteen days after the passage of this Act. Within ten days thereafter the ranking member of the Senate appointees and the ranking member of the Filipino appointees shall jointly call a meeting of the Commission to be held in the Capitol of the United States for the purpose of organization. In case of death or resignation of a member, such vacancy shall be filled by the original appointing power.

(b) The Commission shall investigate all matters affecting postwar economy, trade, finance, economic stability, and rehabilitation of the Philippine Islands, including the matter of damages to public and private property and to persons occasioned by enemy attack and occupation.

(c) To formulate recommendations based upon such investigations and for future trade relations between the United States and the independent Philippine Republic when established and to consider the extension of the present or heretofore agreed upon trade relations or otherwise for a period of years to make adjustments for the period of occupancy by the Japanese in order to reestablish trade relations as provided for in the original Independence Act.

(d) The Commission is authorized to employ expert legal and clerical assistance to establish offices in the Philippine Islands and in the United States, and to make rules and regulations for the transaction of its business pertinent to the provisions of this Act.

(e) The Commission shall make annual reports to the President of the United States and to the Congress, and to the President and the Congress of the Philippines, and more frequently if so desired, and make such recommendations from time to time as it deems necessary to carry out the purposes and intents of this Act.

(f) The Commission is authorized to fix the salary of all necessary expert and clerical assistance, to provide for travel and other expenses incident to its labor, and to do all other things pertinent to this Act. The annual compensation of the United States members of this Commission, other than those holding official positions under the United States Government, shall be on a per diem basis at the rate of \$10,000 per annum. The compensation of the Philippine members of the Commission shall be determined by the Government of the Philippine Commonwealth. The United States, as herein provided, shall compensate the members of the Commission who represent it, and the Commonwealth of the Philippines, or the Filipino Republic, as the case may be, shall compensate the members of the Commission appointed by it or them. Otherwise, the expenses of the Commission shall be equally borne by the United States and the Commonwealth of the Philippines, or the Filipino Republic, as the case may be.

