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SUGAR ACT OF 1937

AUGUST 9 (calendar day, AUG. 10), 1937.—Ordered to be printed

Mr. BROWN of Michigan, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 7667]

The Committee on Finance, to whom was referred the bill (H. R. 7667) to regulate commerce among the several States, with the Territories and possessions of the United States, and with foreign countries; to protect the welfare of consumers of sugars and of those engaged in the domestic sugar-producing industry, to promote the export trade of the United States; to raise revenues; and for other purposes, having had the same under consideration, report it back to the Senate with amendments, and recommend that the bill as amended do pass.

The committee amendments are as follows:

On page 5, line 16, insert after the word "sugar" the words "(including direct-consumption sugar)". The foregoing amendment is made necessary by reason of the amendment with respect to direct-consumption sugar quotas in section 207, referred to below.

On page 6 strike out the words "and in" after the semicolon in line 6, and strike out lines 7 to 18, inclusive, and insert in lieu thereof the following:

and in the regulation of commerce provided for under this Act the Secretary may make such additional allowances as he may deem necessary in the amount of sugar determined to be needed to meet the requirements of consumers, so that the supply of sugar made available under this Act shall not result in excessive prices to consumers: *Provided, however*, That in carrying out this purpose and in making any determination or adjustment the Secretary shall not cause the price of sugar to be so reduced that the percentage representing the relation between the index of the price of sugar and the index of the average price of all domestic foods will become less than the percentage representing the index relation existing in the period 1932–33–34 (according to indices officially published by the United States Bureau of Labor Statistics, on the basis in effect January 1, 1937).

The foregoing amendment is made in order to replace the standard established in section 201 for protection of consumers under the quota system with a more precise and definite basis of determination by the

Secretary. It is believed that the use of the indices of the price of sugar and average price of foods will be more satisfactory than the use of the data with respect to profits of producers of the five principal agricultural cash crops.

On page 14, strike out section 207 and substitute therefor the following:

SEC. 207. Quotas for direct-consumption sugar for distribution in continental United States for each calendar year are hereby established as follows:

(a) For the Commonwealth of the Philippine Islands not to exceed eighty thousand two hundred fourteen short tons, raw value; for Cuba, not to exceed three hundred seventy-five thousand short tons, raw value.

(b) The remainder of the amount of direct-consumption sugar needed to meet the requirements of consumers as determined by the Secretary pursuant to the provisions of section 201 shall be allocated by the Secretary on the following basis for each calendar year:

Area:	*Per centum*
Hawaii	0.4756
Puerto Rico	2.0240
Mainland	97.5004

This amendment is intended to meet the difficulty arising out of the discrimination involved in establishing restrictions upon receipts of direct-consumption sugars from the domestic areas of Puerto Rico and Hawaii without corresponding restrictions on the mainland. Restrictions are therefore placed, under the foregoing amendment, upon the amount of direct-consumption sugar that may be distributed by the mainland as well as the Territory of Hawaii and Puerto Rico.

On page 26, strike out lines 9 to 12. The foregoing amendment is necessary in order to restrict the operation of the tax provisions of title IV of the bill to sugar and commodities competitive with sugar as originally contemplated. No tax was imposed under the Jones-Costigan Act upon "blackstrap" and under the quota provisions of this bill the definition of liquid sugar is such as to exclude "blackstrap." This amendment necessitates also the following clarifying changes: On page 30, in line 1, strike out the word "AND" and insert a comma in lieu thereof, and add after the word "FEED" the words "AND DISTILLATION"; on page 30, line 20, insert after the word "feed" the words "or for the distillation of alcohol,".

The general provisions of the bill are explained fully in House Report No. 1179, excerpts from which are incorporated herein and made a part of this report:

[*From H. Rept. No. 1179, 75th Cong., 1st sess.*]

General Statement

This bill has the purpose of providing for the stabilization of the sugar producing, refining, and importing industries.

The President in his message to Congress of March 1, 1937, stated that "The Jones-Costigan Act has been useful and effective and it is my belief that its principles should again be made effective." He recommended to the Congress "the enactment of the sugar-quota system, and its necessary complements, which will restore the operation of the principles on which the Jones-Costigan Act was based." He also recommended that adequate safeguards to protect all interests be provided in the legislation; that the consumer be protected against unreasonable prices; that our foreign markets be protected by retaining the shares of foreign countries in the established quotas; that if the domestic sugar industry is to obtain the advantage of a quota system it ought to be a good employer and to carry this out, legislation should prevent child labor and assure reasonable wages; that the small family size farm should be encouraged by the payment of higher benefits; and that an excise tax could and ought to be imposed on sugar manufacturing.

The committee is of opinion that the principles outlined in the President's message are essentials of adequate and fair sugar legislation and the bill reported herewith carries out these principles. In evolving this legislation the committee has held extensive hearings at which every interested party was heard. Following that, long executive sessions and frequent conferences with Government officials familiar with the sugar problem were held.

Jones-Costigan Act

Prior to the enactment of the Jones-Costigan Act the income of domestic producers of sugar had declined steadily for 3 years. The average return to sugar-beet growers had declined from 7.14 cents per ton of sugar beets harvested in 1930 to 5.94 cents in 1931, 5.26 in 1932, and 5.13 in 1933. The income of sugarcane growers showed a similar decline. The returns of sugar-beet processors declined after 1929 to a point where a majority of them were operating at a loss. Moreover, the revenue obtained by the Federal Government from sugar imported into this country dropped from an average of $125,000,000 for the 5-year period 1925-29 to $63,000,000 in 1933.

Imports of Cuban sugar into this country dropped approximately 1,500,000 tons during the period from 1928 to 1932, and the total exports of American agricultural and industrial products to Cuba decreased from an average of more than $150,000,000 during the 5-year period from 1925 to 1929 to $25,000,000 in 1933. The price of Cuban sugar in the American market had fallen below the cost of production and Cuba was suffering severe economic consequences.

In an attempt to correct these conditions Congress, in May 1934, enacted the Jones-Costigan Act. The act provided for quotas, benefit payments, and a tax. The results of the program under the act as thus constituted were, for the most part, encouraging. The returns to domestic producers of sugar were increased considerably. Sugar-beet growers, for example, obtained an average return, including benefit payments, of 6.91 per ton of sugar beets in 1934 and 6.90 in 1935, as compared with 5.26 per ton in 1932 and 5.13 cents in 1933.

By means of provisions in the production adjustment contracts, child labor in sugar production was nearly eliminated and the income of adult laborers was increased substantially. The net returns to sugar-beet and sugarcane processors were increased. The net revenue from sugar increased from $63,000,000 in 1933 to $69,000,000 in 1934, but showed a decline to $23,000,000 in 1935. The average unit prices paid by domestic consumers of sugar did not advance greatly. The national average retail price during 1933 was 5.4 cents, 5.6 in 1934, and 5.7 cents in 1935. The income of Cuba for the calendar year 1935 from the sale of sugar in the United States was approximately $45,000,000 greater than in 1933, representing an increase of 125 percent. This increased income, combined with the reduction in Cuban duties on American products under the trade agreement, resulted in an expanded market for American agricultural and industrial products. The exports of the United States to Cuba during the calendar year 1935 were $35,000,000 in excess of the 1933 exports, representing an increase of 140 percent.

Following the decision of the Supreme Court in *United States* v. *Butler*, a number of the benefits of the original Jones-Costigan Act were lost. Although the cost of sugar to the consumer remained practically the same, there resulted a redistribution of income from that which prevailed under the quota—benefit payment—tax set-up. There was a loss to growers, laborers, and taxpayers, and the corresponding gain to domestic sugar processors and foreign sugar producers. An act originally designed to balance fairly the conflicting interests of the various groups has thus been cut down by reason of the invalidation of the tax and benefit payments to an incomplete law which does not operate equitably. This law will expire on December 31, 1937.

In order, therefore, to restore the benefits of the original Jones-Costigan Act so as to insure against the return of the conditions existing prior to its enactment, and in order to remove the inequities which exist under the law as it now stands, the bill is recommended for passage.

Major Features of Bill

Quotas and Payments

Under the provisions of the bill domestic producers of sugar beets and sugarcane are assured adequate returns through conditional payments to growers and continuance of the sugar-quota system. The sugar-quota system is based upon the power of Congress to regulate interstate and foreign commerce in sugar. The quantities which respective areas may market have been arrived at after careful consideration of the history of the production in each area and its present and future capacity to market. Conditional payments are no different in their principle from a tariff applied to imports. Both constitute a Federal method of fostering interstate and foreign commerce and preventing ruinous competition in it. If the sugar producer receives a reasonable return for his commodity, the market is stabilized, and if coupled with that, the consumer is not subjected to undue or additional burdens, the conditional payment is a fair price to pay for the results to the whole population of a sugar program.

CONSUMER SAFEGUARDS

The interests of the consumer have been fully safeguarded; the measure will prevent run-away prices that have sometimes prevailed when there was no regulation. It is the belief of the committee that no hardship to the consumer will result from its provisions, but that on the other hand he will profit by a stabilized reasonable price. It is common knowledge that sugar has always been perhaps the least expensive of the major food commodities. Under the Jones-Costigan Act, which was in all essential respects the same type of law as the one reported, sugar did not increase materially in price. Indeed, it did not increase in price in any manner comparable to the increase in price of all foods nor to the increase in price of any particular other major food. The following table of index numbers of food prices issued by the Bureau of Labor Statistics in May of this year establishes this fact conclusively:

Index numbers of retail costs of food, by commodity groups

[3-year average 1923-25=100]

Commodity group	May 18, 1937 [1]	Apr. 13, 1937	Mar. 16, 1937	May 19, 1936	May 15, 1933	May 15, 1929
All foods	86.5	85.6	85.4	79.9	62.5	102.4
Cereals and bakery products	95.2	93.8	92.9	90.7	71.0	98.0
Meats	99.7	97.7	95.4	93.2	64.1	122.6
Dairy products	80.1	81.6	83.6	75.2	63.7	102.1
Eggs	61.8	64.7	64.3	59.6	44.0	80.6
Fruits and vegetables	83.1	80.0	80.5	70.1	59.3	93.1
Fresh	83.0	79.5	80.1	69.9	59.5	91.8
Canned	83.2	82.8	82.6	78.2	66.0	97.8
Dried	76.6	76.4	76.0	57.8	51.2	102.4
Beverages and cholcolate	69.7	69.6	69.3	67.6	67.7	110.8
Fats and oils	78.9	80.2	80.3	74.2	48.0	93.5
Sugar and sweets	66.1	66.0	65.6	64.1	60.0	72.6

[1] Preliminary.

It is to be noted that whereas from May 1933 to May 1937 all foods had increased from 62.5 to 86.5, sugar increased only from 60 to 66.1. Sugar prices are still materially lower than the 1929 price of 72.6. The Jones-Costigan Act was passed in 1934 and has been continuously in effect since that time. If that act did not have the effect of increasing consumer prices, how can this one be said to do so? The reason why sugar has not increased in price during the life of the Jones-Costigan Act and will not under the proposed bill lies in two factors: First, a stabilized sugar industry can conduct its business so as to avoid the violent fluctuations in supply and demand which cause not only unreasonably low prices but also unreasonably high prices; and, second, Congress in its sugar legislation has been careful to safeguard the interests of consumers. It is to be noted that the Secretary of Agriculture has the power and duty of fixing the basis for quotas so that the consumer will be protected and in no case is the quota system to result in prices which will make sugar production in the United States more profitable than the production of the five major cash agricultural commodities. Further, this bill in no way disturbs the reduced rate of tariff on Cuban sugar proclaimed shortly after the enactment of the Jones-Costigan Act. The tax of one-half cent per pound in the bill is the same rate as provided in the Jones-Costigan Act, and so no increased burden can come to consumers from this provision.

EFFECT ON VARIOUS AREAS

The amended bill avoids any discrimination with respect to any area and fair participation in deficits or increases in consumption are provided. Cane refiners are protected and benefit by the provisions limiting the importation of direct-consumption sugar.

LABOR AND WAGE PROVISIONS

Agricultural labor engaged in sugarcane and sugarbeet production is protected by the provision that payments to growers are to be conditional upon full payment to such laborers of wages due them, and the payment of a wage rate not less than that determined by the Secretary of Agriculture to be fair and reasonable.

EFFECT ON EXPORTS

Producers of American agricultural crops and industrial products which require export outlets for their surpluses and export industries are protected by continuance of the principle now in effect for sharing of the American sugar market as between foreign and domestic producing areas, and a provision for allotting any deficit of full-duty sugars, including any deficit of the duty-paying portion of the Philippine quota, among the countries supplying such sugar.

EXPLANATION OF THE BILL

DEFINITIONS

Title I contains definitions applicable to the entire bill, except title IV. It has been found desirable to have separate definitions for purposes of administration of the tax provisions. Consequently, separate definitions have been included in title IV.

QUOTA PROVISIONS

Title II contains the quota provisions. The Secretary of Agriculture is authorized under section 201 to determine the requirements of consumers of sugar for each calendar year on the basis of distribution figures for direct-consumption sugar during the period stated in the bill, adjusted for a deficiency or a surplus in inventories and changes in consumption. Consumers are safeguarded against excessive prices by a provision that the Secretary shall make such additional allowance in his estimates as he shall deem necessary so that the supply of sugar made available will not result in prices in excess of those necessary to make the production of sugar beets and sugarcane as profitable as the principal other agricultural crops.

The Secretary is authorized under section 202 to establish quotas for the various domestic areas and for foreign countries. In the case of the mainland areas these quotas are the amounts which may be marketed in interstate or foreign commerce or so as to affect that commerce. In the case of off-shore areas, the quotas are the amounts which may be brought into continental United States for consumption.

The quota which the Secretary is to establish for each area is the amount which is equal to the percentage specified in the bill for it of the Secretary's adjusted estimate of consumption. On the basis of 6,682,670 short tons, the amount which each area would be assigned would be as follows:

	Short tons
Domestic beet sugar	1,550,000
Mainland cane sugar	420,000
Hawaii	938,000
Puerto Rico	798,000
Virgin Islands	9,000
Commonwealth of the Philippine Islands	1,029,781
Cuba	1,911,476
Foreign countries other than Cuba	26,412

If the base figure is more than 6,682,670 short tons, then each of the areas will share in the excess in accordance with the percentage specified for it in section 202. But if the base figure is less than 6,682,670 short tons, then a minimum of 3,715,000 short tons is assured the areas (other than the Philippines) under United States jurisdiction, and the remainder above that figure is shared by Cuba, the Philippines, and foreign countries other than Cuba. Sugar imported or marketed this year prior to the enactment of the bill will be charged against this year's quotas. The quota figures, as in the case of other sugar figures employed in the bill, are in terms of raw value. The Secretary is also authorized to establish quotas for local marketings in Hawaii and Puerto Rico and quotas for liquid sugar are established.

PRORATION OF DEFICITS

Further provision is made under section 204 for redistribution to other domestic areas and to Cuba of that quantity of sugar which any such area is unable to supply, such redistribution to be on the same basis as the quotas then in effect. Foreign (full duty) countries other than Cuba would be allotted any deficit in the Philippine quota, and any deficit for any such country would be prorated among the other such foreign countries. Since it is anticipated that the Philippines will send to the United States an amount not in excess of its duty-free quota of about 970,000 short tons established under the Tydings-McDuffie Act, there will be available under the provision for foreign countries other than Cuba the amount which the Philippines will not market. The Secretary is authorized to allot any quota in accordance with the stated standard.

DIRECT-CONSUMPTION QUOTAS

The bill (sec. 207) limits the quantity of direct-consumption sugar which may be imported from the areas specified below to the respective amounts set forth:

	Short tons
Hawaii	29, 616
Puerto Rico	126, 033
Virgin Islands	0
Philippine Islands	80, 214
Cuba	375, 000

CONDITIONAL-PAYMENT PROVISIONS

Title III contains the conditional-payment provisions. The Secretary is authorized to make payments to producers who do not employ child labor (except members of their immediate families), pay wages not less than those determined by the Secretary to be fair and reasonable, do not market sugar beets or sugarcane in excess of their respective shares (in terms of sugar) of an area's quota; if they are also processors, to pay for sugar beets and sugarcane at rates not less than those determined by the Secretary to be fair and reasonable. The Secretary is to make payments only to those who comply with soil-conservation practices prescribed by the Secretary. Provision is also made for a crop deficiency payment on one-third of the normal yield in case of abandonment and in case of deficiencies in harvested acreage, not in excess of 80 percent of the normal yield over that harvested.

The rate of payment is 60 cents per 100 pounds of sugar or liquid sugar. Deductions in the base rate of payments are authorized for farms producing 500 tons or more of sugar or liquid sugar. This provision carries out the policy of preferring the small-size farm in the making of payments. The reductions recommended, together with the proposed amendment, are from 5 cents on that part of the production which is more than 500 tons to 30 cents on that part of the production in excess of 30,000 tons.

LOCAL COMMITTEES

In carrying out the provisions of titles II and III the Secretary is authorized to utilize the services of local committees of producers, State and county agricultural conservation committees, or the Agricultural Extension Service and other agencies, and to prescribe that the expenses therefor may be deducted from the payments authorized under title III.

TAXING PROVISIONS

Title IV contains the tax provisions. Provision is made for an excise tax of one-half of 1 cent per pound on sugar derived from sugar beets and sugarcane, except sugar in liquid form which contains nonsugar solids (excluding foreign substance that may have been added) equal to more than 6 percent of the total soluble solids (sec. 402). A further provision is made for an equivalent tax on sugar imported into this country (sec. 403). The taxes are imposed not only with respect to sugar sold but also that which is used in the production of other articles. The taxes are collected by the Secretary of the Treasury. The tax paid on domestic sugar is authorized to be refunded if such sugar is exported, or shipped to any possession of the United States, except Puerto Rico, or used for livestock feed. An amendment proposed by the committee subjects sugar in liquid form intended for distillation of alcohol to the taxing provisions.

GENERAL PROVISIONS

Title V contains certain general provisions applicable to the entire bill, except title IV. Authorization is made for an annual appropriation of $55,000,000 for purposes and administration of the act (sec. 502).

PHILIPPINE PAYMENT

Provision is made under section 503 for the transfer to the Philippine government of the net revenue collected on the manufacturing or importation of sugar produced from sugarcane grown in the Philippines which is manufactured or brought in on or prior to December 31, 1940. The funds are to be used for the purpose of financing a program of economic adjustment in the Philippines but may not be used for the production or processing of sugarcane.

MISCELLANEOUS PROVISIONS

District courts are given jurisdiction of litigation arising under the act (sec. 505), criminal penalties for its violation are included (sec. 506), the Secretary is authorized to require handlers and processors to furnish him information to administer the act (sec. 507), and department officials are prohibited from speculating in sugar or sugar companies' securities or interests (sec. 508).

SUSPENSION OF ACT

The President is authorized under section 509, upon a finding that a national economic emergency exists with respect to sugar, to suspend the operation of titles II and III. Those titles would again become operative on a finding by the President that the facts which constituted the emergency no longer exist.

AGRICULTURAL ADJUSTMENT ACT

The sugar provisions of the Agricultural Adjustment Act and the Jones-O'Mahoney Act, are repealed (sec. 510).

TERMINATION OF ACT

Section 513 provides that no further taxes shall be levied or sugar programs be effective after December 31, 1940. Express authority is given the Secretary to complete his programs for 1940 and prior years (sec. 513.)