

PART II. PHILIPPINE EXPORT COMMODITIES

1. INTRODUCTION

Productive activity in the Philippines may be roughly classified in two groups, production for domestic consumption, and production for export. The first group comprises fishing and the cultivation of rice, corn, and such fruits as bananas, mangoes, and papayas. All of these products are consumed almost entirely within the Islands. The second group comprises the production of sugar, coconuts and coconut products, gold, abaca (manila hemp) and rope, tobacco and toacco products, and embroideries—to mention only the most prominent. Practically the entire Philippine production of these articles is exported. Timber and lumber also find a substantial outlet abroad, but their major market, particularly in terms of quantity, is in the Philippines.

Articles produced largely or entirely for local consumption will not be directly affected by the trade provisions of the Independence Act. And a number of the articles produced for export will likewise not be directly affected. Several of them are exported chiefly to countries other than the United States, and some of those which go

largely to the United States will not, on the basis of present United States tariffs, be subject to export taxes and import duties. But most of the important Philippine exports will be affected by the trade provisions of the Independence Act, inasmuch as these exports are sold chiefly in the United States, where they are protected by comparatively high tariffs.

Sugar is the principal export from the Islands. During the 3-year interval 1932-34, it accounted for over 50 percent of the value of all Philippine exports. In 1935, although still the leading export, it declined sharply both in absolute and relative importance. This was due to the extraordinary restrictions which were placed on shipments to the United States in that particular year. Coconut products rank second in importance among exports from the Islands, and gold ranks third.

Gold is customarily regarded as a trade-balancing item but, in the case of the Philippines, it may more properly be considered in the same category as other export commodities. Practically all of the gold produced is regularly exported, and almost all of it goes to the United States. During the period 1933-35 the United

States dollar value of Philippine gold shipments increased because of the enlarged physical production and because of the devaluation of the dollar which occurred in January 1934.

The four other Philippine export categories which have been of major importance in recent years are abaca and cordage, tobacco and products, embroideries, and timber and lumber. The relative values of each of the above seven categories of exports for the 1933-35 period are shown in chart V.

In the subsequent chapters of this report, an analysis will be made of the effect which the Independence Act and other recent legislation is likely to have on the export of each of the above commodities to the world and to the United States in particular. Similar analyses will also be made for certain of the minor Philippine exports.

2. SUGAR

THE POSITION OF THE SUGAR INDUSTRY IN PHILIPPINE ECONOMY

DEVELOPMENT OF THE PHILIPPINE SUGAR INDUSTRY.

The culture of sugarcane was known in the Philippines long before Magellan discovered the Islands in 1521. It was probably first introduced in the island of Luzon by the Chinese coming from Formosa. In the early days the cane was ground by primitive mills, crudely built of wood and stone, and operated by animal power. The juice obtained from the very low extractions of these mills was boiled directly over fires in large open kettles. The resultant product was a low-grade muscovado (raw) sugar. Improved methods of milling were slow in developing; it was not until 1860 that the first steam-driven mill began operations on the island of Negros. These more efficient mills produced a superior grade of muscovado sugar.

The first modern sugar central was established on the island of Mindoro in 1910. Gradually the old muscovado mills were replaced by centrifugal mills. By 1920 the modernization of the Philippine sugar industry was well under way. It was not until 1923, however, that the production of centrifugal sugar exceeded the production of muscovado sugar. From 1920 to 1934 the area devoted to sugarcane culture was increased 55 percent, but sugar production increased over 200 percent. Within the same period the average yield of sugar per acre rose from 0.957 short ton to 2.186 short tons. This rise was due primarily to the use of better varieties of cane, to improved methods of cultivation, and to the introduction of modern centrifugal mills.

The most rapid expansion in both acreage and production occurred in the years 1932-34, when the question of Philippine independence was being debated by Congress. Inasmuch as the several independence bills then under consideration provided for quotas on sugar to be allocated to individual mills and to planters on a production basis, there was an incentive to increase output and hence quota allotments. As a result, Philippine sugar production reached a peak of 1,598,000 short tons in 1934. Since that year it has declined because of the quota provisions of the Jones-Costigan Act and the Independence Act. In 1935 there were 46 sugar centrals in the Philippines with an an-

CHART V

RELATIVE IMPORTANCE OF SEVEN MAJOR COMMODITIES IN PHILIPPINE EXPORT TRADE

1933-1935

YEAR	COMMODITY	THOUSANDS OF DOLLARS	PERCENT OF TOTAL	MILLIONS OF DOLLARS		
				20	40	60
1933	SUGAR	64,333	57.5	[Bar extending past 60]		
	COCONUT PRODUCTS	20,886	18.7	[Bar between 20 and 40]		
	HEMP AND PRODUCTS	7,781	7.0	[Bar between 0 and 20]		
	GOLD	6,023	5.4	[Bar between 0 and 20]		
	TOBACCO AND PRODUCTS	5,178	4.6	[Bar between 0 and 20]		
	EMBROIDERIES	1,899	1.7	[Bar between 0 and 20]		
	TIMBER AND LUMBER	1,269	1.1	[Bar between 0 and 20]		
1934	SUGAR	65,455	53.5	[Bar extending past 60]		
	COCONUT PRODUCTS	18,706	15.3	[Bar between 20 and 40]		
	GOLD ^{3/}	12,034	9.8	[Bar between 0 and 20]		
	HEMP AND PRODUCTS	9,997	8.2	[Bar between 0 and 20]		
	TOBACCO AND PRODUCTS	5,194	4.2	[Bar between 0 and 20]		
	EMBROIDERIES	2,666	2.2	[Bar between 0 and 20]		
	TIMBER AND LUMBER	2,171	1.8	[Bar between 0 and 20]		
1935	SUGAR ^{3/}	32,991	30.1	[Bar between 20 and 40]		
	COCONUT PRODUCTS	28,844	26.3	[Bar between 20 and 40]		
	GOLD	15,350	14.0	[Bar between 0 and 20]		
	HEMP AND PRODUCTS	12,636	11.5	[Bar between 0 and 20]		
	TOBACCO AND PRODUCTS	6,002	5.5	[Bar between 0 and 20]		
	EMBROIDERIES	5,076	4.6	[Bar between 0 and 20]		
	TIMBER AND LUMBER	2,512	2.3	[Bar between 0 and 20]		

SOURCES: ANNUAL REPORTS, INSULAR COLLECTOR OF CUSTOMS. GOLD STATISTICS, ANNUAL REPORTS, FEDERAL RESERVE BOARD.

nual milling capacity of 12,000,000 tons of cane, or about 1,500,000 short tons of sugar, based on a normal grinding season of 150 days.

Exports of Philippine sugar were small until the latter part of the nineteenth century. They totaled 50,300 short tons in 1859 but increased to 376,400 short tons in 1895, a figure which was not exceeded until 1922. Production declined after 1895 as a result of political disturbances caused by the rebellion against Spain and the American occupation. Exports dropped to

62,250 short tons in 1901. The industry was partially revived in consequence of the passage of the Payne-Aldrich Tariff Act in 1909 providing for the free entry of Philippine sugar into the United States, with an annual maximum duty-free allotment of 300,000 tons. The outbreak of the World War gave a further incentive to sugar growers, and production increased steadily until 1934 when restrictions were placed on exports to the United States. The area utilized in the production of sugar and the quantities produced in recent years are shown in table 9.

tons to 635,000 tons, 28 percent of the former total and only 19 percent of the peak production in the crop year 1927-28. The spectacular rise in Philippine and Indian sugar production and the marked decline in that of Cuba and Java illustrate clearly the effect on producing areas of the increased trade restrictions imposed by the principal consuming areas.

Statistics giving the production of each of the above-mentioned areas appear in table 10¹.

ORGANIZATION OF THE PHILIPPINE SUGAR INDUSTRY.

Sugar production in the Philippines is organized on a basis different from that in many other cane-producing areas. In Hawaii, for example, centrals operate large estates controlling their own production of cane. In the Philippines, however, the industry consists of individual planters who produce the cane and of the centrals which mill it. A few of the centrals grow cane on their own lands, but the area so utilized accounts for only a small fraction of the total sugar-producing area.

Individual planters and tenants, raising most of the cane grown in the Philippines, operate under a milling contract with a central. These contracts are usually drawn for a period of 30 years and provide for either an equal division of the sugar between planters and central or a 60-40 division with the larger share going to the planter. Under the contract, the planters are obligated to have their cane milled by the contracting central, and the central is obligated to furnish transportation for the cane and to convert it into sugar. As a general rule the planters give the central a right-of-way across their lands for railway construction and also guarantee to devote a specified minimum proportion of their land—usually 50 percent—to the cultivation of cane; the customary practice is to allow only about one-third of the cane land to lie fallow. Some planters, operating without contracts, sell their cane outright to centrals or have it milled on a share basis; however, the amount of sugar produced under such conditions is relatively small.

The organization of the Philippine sugar industry is largely due to the Philippine land law which forbids the acquisition, ownership, or control of large tracts of public land by individuals.

¹The figures from Willet and Gray for Philippine production are slightly lower than estimates made by the Philippine Department of Agriculture and Commerce.

TABLE 9.—Area utilized in the cultivation of sugarcane, and raw sugar production in the Philippines, 1920-34

Crop year ending June 30	Area cultivated	Production					Increase in total production compared with 1920	
		Percent	Centrifugal	Muscovado	Panocha	Total	Percent	Short tons
1920	487,775							
1921	596,373	22.3	31,080	34,000	34,000	466,373	26.2	988
1922	595,076	22.0	217,943	284,500	31,196	533,189	13.2	896
1923	561,432	15.1	685,763	1,093,711	475,225	1,854,699	1.8	846
1924	561,395	15.1	325,024	172,245	51,860	529,091	14.3	942
1925	591,740	21.3	551,621	191,653	36,326	770,510	67.0	1,367
1926	572,886	17.5	407,703	163,682	35,977	607,362	30.1	1,610
1927	586,501	20.2	586,833	140,694	39,375	766,902	64.3	1,308
1928	885,636	25.1	634,588	128,959	44,240	807,814	73.0	1,373
1929	636,811	30.6	769,394	121,036	42,925	933,355	100.0	1,467
1930	640,073	31.2	866,913	77,346	30,808	983,767	110.7	1,537
1931	633,031	29.8	871,202	51,186	35,549	958,032	105.2	1,513
1932	625,435	28.2	1,102,214	41,671	32,426	1,174,311	151.5	1,878
1933	663,365	30.6	1,284,986	29,364	28,445	1,342,795	187.6	2,024
1934	755,861	55.0	1,597,949	23,339	31,305	1,652,593	253.9	2,180

¹ Panocha is a lower grade of raw sugar than muscovado; it is produced for insular consumption. The base year 1920 was selected to show the rapid rise in the importance of centrifugal sugar.

Source: Bureau of Statistics, Department of Agriculture and Commerce, Commonwealth of the Philippines.

WORLD CONDITIONS IN PRODUCTION SUGAR.

During the decade 1926-35 a critical situation developed in world sugar production. The industry has been suffering in recent years from low prices resulting from a world surplus. From 1906 to 1931 world production increased from 16,000,000 to 32,000,000 tons. Consumption, however, failed to keep pace with the rise in production, and a large surplus was created which later caused a restriction of production in certain areas. Some of the factors contributing to this condition are stated below.

(1) European beet-sugar production during the World War declined sharply and did not regain its former tonnage until 1925. The cultivation of sugarcane was greatly expanded, owing to higher prices resulting from the decreased supply. With the resumption of sugar-beet planting in Europe after the war, total production of sugar rose from an average of 18,813,000 tons for the period 1918-23 to 31,899,000 tons in 1930-31, an increase of nearly 70 percent. (See table 10.)

(2) The yield of sugar per acre of cane increased and this was accompanied by a reduction in costs. Increased efficiency within the industry resulted primarily from the development of better varieties of cane and also from improvement in methods of cultivation, and more extensive use of modern machinery.

(3) The increase in world sugar production was accompanied by a rising tide of nationalism which brought with it innumerable trade restrictions and the dislocation of established markets. Such barriers have encouraged the cultivation of sugar in certain protected areas, to the detriment of exporting regions which formerly supplied these areas. This condition serves to explain the plight of Java and Cuba during the period 1931-35. Even the marked decline in the production of sugar by these two countries

has had little effect on world output because of expansion elsewhere, such as in the United States insular areas and in British Dominions and dependencies. (See table 10.)

World production of sugar increased from 1906 to 1931, but declined during the 5 years 1931-35; the figures were 31,899,000 tons in 1931, 27,253,000 tons in 1933, and 29,013,500 tons in 1935. The Philippine Islands, however, increased production rapidly, nearly doubling their output during the period 1931-34.

From the crop year 1925-26 to 1933-34, Philippine sugar production increased 223 percent; and other insular areas of the United States—Hawaii, Puerto Rico, and the Virgin Islands—in the aggregate, raise their sugar tonnage by 45 percent. From 1925-26 to 1935-36 India increased its production from 3,334,000 to 6,834,000 tons, or by 105 percent. Cuba, on the other hand, decreased its output to 2,899,000 tons, 53 percent of 1925 production; and Java reduced production from 2,230,000

TABLE 10.—Raw sugar production in the world and in selected areas, 1925-36
[In thousands of short tons; i. e., 000 omitted]

Crop year	World production	Centrifugal United States	Philippine Islands	Other insular areas of the United States	Cuba	Java	India	Japanese Empire
1925-26	27,246	1,040	489	1,403	5,471	2,230	3,334	691
1926-27	27,034	945	654	1,449	5,045	2,643	3,646	586
1927-28	29,224	1,152	697	1,667	4,493	3,292	3,692	776
1928-29	30,870	1,183	830	1,844	5,774	3,242	3,063	1,012
1929-30	30,675	1,224	807	1,798	5,232	3,274	3,092	1,035
1930-31	31,899	1,415	876	1,876	3,497	3,135	3,604	1,040
1931-32	29,491	1,328	1,101	2,022	2,915	2,878	4,446	1,285
1932-33	27,253	1,616	1,283	1,875	2,234	1,544	5,442	893
1933-34	26,556	1,693	1,560	2,040	2,847	712	5,871	900
1934-35	29,066	1,421	695	1,747	2,842	566	5,943	1,305
1935-36	31,854	1,561	995	2,018	2,899	635	6,834	1,223
Percentage increase of 1935-36, compared with 1925-26	+4.618	+521	+506	+615	-2,572	-1,595	+3,500	+532
Percentage increase of decrease 1935-36, compared with 1925-26	+16.9	+50.1	+103.5	+43.8	-47.0	-71.5	+105.0	+77.0

¹ Preliminary.
Source: Willet and Gray, a weekly statistical sugar trade journal.

duals or corporations. The resultant small holdings gave rise to the long-term-contract system which guarantees to the centrals a permanent source of raw material without which the comparatively large investment necessary to establish such plants would not be warranted.

Two of the centrals producing centrifugal sugar also produce refined sugar. In all, there are four sugar refineries in operation in the Philippines. Three of these are located on the island of Luzon and one on the island of Negros. The largest plant has an annual capacity of 75,000 short tons. These refineries, however, absorb only a small part of the Philippine production of raw sugar. They manufacture primarily for export to the United States, but supply a part of the local sugar consumption.² In 1934 exports of refined sugar equaled 5 percent of the quantity and 6.5 percent of the value of total Philippine exports of sugar.

LOCATION AND SECTIONAL IMPORTANCE OF THE SUGAR INDUSTRY.

The Philippine sugar industry is located in four principal producing areas: (1) The islands of Negros and Panay, (2) the Provinces of Pampanga, Bataan, and Tarlac, located in the central plain of Luzon, north of Manila; (3) the Provinces of Batangas and Laguna, south of Manila; and (4) the island of Cebu. These four districts supported nearly 85 percent of the Philippine population who were engaged in sugar production in 1934; they accounted for 86 percent of the total Philippine sugar land and they produced over 95 percent of the sugar crop. (See table 11.) The Province of Occidental Negros alone accounted for 39 percent of the total sugar area and 50 percent of the sugar produced in the crop year 1933-34.

According to recent estimates made by the Philippine Sugar Association, approximately 15 percent of the total Philippine population is directly dependent on the sugar industry. The degree of dependence, however, varies markedly from province to province. It is estimated that in the Provinces of Occidental Negros and Pampanga 90 percent of the population is dependent on the growing and milling of sugar; in the Province of Tarlac, 60 percent; in the Provinces of Batangas and Iloilo, 50 percent; and in Cebu, 10 percent.

In addition to those directly engaged in producing sugar, a portion of the population in each province is indirectly dependent on the industry; for example, those engaged in merchandising, transportation, and the professions. The government-owned Manila Railroad, which traverses the sugar regions in Luzon, receives approximately 40 percent of its freight revenue from this source, and the Provincial governments in 5 of the leading provinces are supported primarily by taxes received from the sugar industry.

The island of Negros is probably the most dependent on the production of sugar. The sugar industry is the only important industry in the island, except lumbering which is highly localized. Sugar producers on the island of Negros have a lower cost of production than those in other regions, principally because of more favorable soil and climatic conditions. They also enjoy comparatively low transportation costs through their ability to ship directly by water, avoiding the rail, lighterage, and terminal storage charges which are paid by producers on Luzon. Moreover, the planters' contracts with the centrals on Negros give them 60 percent of

the crop rather than 50 percent usually paid in Luzon. Because of these advantages, it seems probable that the sugar industry on Negros could continue to produce sugar profitably at lower prices than any other region in the Phil-

ippines.

Table 11 shows the production of the principal producing areas in the Philippines, and the estimated population dependent upon the industry in those areas.

TABLE 11.—Philippine sugar production, for the year ending June 30, 1934, and population dependent thereon, by producing areas

Province	Sugar area	Sugar production	Production per acre†	Estimated total population dependent on sugar‡	Estimated percentage dependent on sugar‡	Population dependent on sugar based on estimated percentages
Luzon—Central plain:						
Pampanga	102,472	208,744	2,037	292,900	90	263,600
Bataan	12,454	71,212	3,240	70,400	30	21,100
Tarlac	81,765	160,163	1,936	210,200	90	126,150
Luzon—South of Laguna de Bay:						
Batangas	40,005	78,932	1,951	426,200	50	213,100
Laguna	27,033	63,247	2,340	244,500	25	61,100
Negros:						
Occidental	294,173	812,428	2,762	488,700	90	439,800
Oriental	19,669	75,132	3,667	353,000	20	70,800
Panay:						
Iloilo	37,485	63,247	1,687	399,500	50	299,750
Capiz	12,602	25,419	2,017	357,200	20	71,400
Cebu:						
Cebu	23,796	36,040	1,514	1,064,900	10	106,500
Total or average for above areas	651,454	1,851,102	2,381	4,107,300	41	1,675,050
Grand total or average for Philippines	765,854	1,621,288	2,116	13,009,400	15	1,980,000

¹ Production figures include both centrifugal and muscovado sugar, consequently the computed production per acre is lower than it would be if the area and production for only centrifugal sugar were considered.

² Estimates made by the Philippine Sugar Association.

³ Source: The Philippine Statistical Review, Vol. 2, No. 2, 1935.

EMPLOYMENT AND WAGES IN THE SUGAR INDUSTRY.

The number of people wholly or partially dependent on the sugar industry has recently been estimated at 1,980,000, according to the following classification supplied by the Philippine Sugar Association: (see table 12 below)

The planters having contracts with centrals receive 50 to 60 percent of the sugar extracted from their cane. The tenants usually have the same type of contract with the central, but they also pay 10 to 15 percent of the total crop to the landowner as rent. In certain sections where the landlord furnished a part of the materials and labor, the rental is even higher.

The wages of employees in sugar centrals vary in accordance with the type of work performed and the length of the working day, which ranges from 8 to 12 hours. Employees are provided with houses, water, fuel, garden space, and, in many cases, light, as part of their remuneration. Unskilled manual labor is paid a minimum wage of 5 cents per hour with a daily return of from 40 to 60 cents. Semiskilled laborers, such as oilers, and weathers, receive from 60 cents to \$1.25 per day, while skilled laborers, such as machinists, mechanics, engineers, and carpenters, are paid from \$1.25 to \$3.50 per day. Skilled assistants in the office and laboratory are employed on a monthly basis with a salary ranging from \$100 to \$200 per month. The salaries of the department heads and senior executives are, of course, considerably higher.

Unskilled plantation laborers are generally paid 15 to 25 cents per day. Skilled laborers,

such as foremen, mechanics, and truck drivers receive from 50 cents to \$1 per day. Both groups are usually provided with housing facilities in addition to their money wages. Sugar culture is seasonal in character; consequently many of the laborers are employed only during the planting and harvesting periods. These seasonal workers customarily receive 15 to 25 cents per day and their food and lodging.

It has been estimated that the centrals and plantations each pay approximately \$6,000,000 annually in wages to labor.³

INVESTMENTS IN THE SUGAR INDUSTRY.

In 1935 the Philippine Statistical Review reported investments in sugar centrals to be \$84,000,000 and investments in land and improvements \$181,000,000.⁴ 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 improvements have been made by Filipinos; the remainder has been provided principally by Americans and Spaniards. The capital employed in crop loans and

² Much of the sugar consumed in the islands is incompletely refined or "washed" sugar.

³ Estimates by the Philippine Sugar Association.

⁴ The Philippine Statistical Review, p. 310, no. 4, vol. 2, 1935. Estimates by the Philippine Sugar Association place the investments in centrals at \$93,250,000 and investments in land and improvements at \$105,000,000. Commissioner Faroles, addressing the United States House of Representatives on May 28, 1936, quoted Mr. Alunan, president of the Philippine Sugar Association, as stating that investments in centrals totaled \$84,000,000, and those in lands and improvements \$140,000,000.

TABLE 12.—Classification of persons employed in the Philippine sugar industry¹

Occupation	Number	Dependents ²	Total
Planters	15,000	75,000	90,000
Tenants	175,000	875,000	1,050,000
Employers of centrals	25,000	125,000	150,000
Plantation laborers:			
Permanent	40,000	200,000	240,000
Temporary	100,000	200,000	300,000
Miscellaneous employees	15,000	75,000	90,000
Total	330,000	1,650,000	1,980,000

¹ Based on estimates made by the Philippine Sugar Association in 1934.

² Calculated on basis of 5 dependents per person employed.

³ Laborers temporarily employed during the planting and harvesting season.

⁴ Excludes of agents and transportation companies.

miscellaneous investments represents the investment of a number of nationalities.

PHILIPPINE EXPORT TRADE IN SUGAR.

Since 1923 the value of Philippine exports of sugar has been greater than that of the exports of any other commodity. In 1932 exports exceeded 1,000,000 short tons for the first time in Philippine history. Exports in 1934 rose to a peak of 1,275,000 short tons, valued at \$65,450,000. In the 3 years, 1932 through 1934, sugar accounted for 63.61 and 59 percent, respectively, of total Philippine exports. Because of United States quota limitations, shipments declined in 1935 to 573,500 short tons, valued at \$32,990,000, and equaled only 35 percent of total exports but, despite this re-

duction, sugar remained the leading export product of the Islands. (See table 13.) In 1936 Philippine exports of sugar were considerably larger, since the revised Philippine quota governing shipments to the United States was set at 1,000,829 short tons, of which approximately 970,000 tons were permitted to enter the United States duty-free under the provisions of the Independence Act.*

In recent years practically all of the sugar exported by the Philippines has been destined for the United States market. The proportion was 83 percent in 1926, 96 percent in 1929, and has been practically 100 percent since 1930. Total Philippine exports of sugar and exports to the United States are shown in the following table:

TABLE 13.—Quantities and values of raw sugar exported from the Philippines to all countries and to the United States, 1921-35

Year	Total exports		Percent of total value of all Philippine exports	Exports to the United States		Percent of total quantity exported to the United States
	Quantity ¹	Value		Quantity	Value	
	<i>Short tons</i>			<i>Short tons</i>		
1921	319,332	\$25,318,727	29.6	165,874	\$16,876,678	51.9
1922	399,488	25,582,555	20.8	270,282	20,010,930	67.7
1923	299,873	34,519,123	28.6	254,233	30,381,419	84.8
1924	1,186,086	26,912,260	39.7	331,959	37,491,180	81.1
1925	603,099	45,314,002	30.6	511,804	41,419,797	84.9
1926	433,440	32,229,034	23.5	376,364	29,162,905	83.0
1927	610,071	50,235,060	32.3	500,482	47,880,761	91.9
1928	628,863	47,342,010	30.7	589,565	45,699,006	93.8
1929	707,596	53,244,149	32.4	740,206	52,161,316	96.4
1930	827,901	52,240,226	39.7	814,736	50,039,890	99.69
1931	833,080	49,963,195	48.1	832,430	49,950,417	99.92
1932	1,827,971	39,861,886	60.7	1,424,601	39,736,369	99.98
1933	1,093,260	64,233,426	60.8	1,193,244	61,332,962	99.99
1934	1,275,313	65,454,580	59.3	1,275,259	65,453,621	99.99
1935	573,510	32,990,680	35.0	572,724	32,991,593	99.86

¹ Statistics on quantity include muscovado, raw, and refined sugar, the last-named being converted into its equivalent of raw sugar.

Source: Annual Reports, Insular Collector of Customs.

RESTRICTIONS UPON THE EXPORTATION OF PHILIPPINE SUGAR TO THE UNITED STATES

RECENT UNITED STATES LEGISLATION AFFECTING SUGAR.

The Tariff Act of 1922 fixed the rate on full-duty 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. The new rate became effective on June 8, 1934. In each of the above instances the rate on Cuban sugar was 20 percent lower than the full duty because of the convention of commercial reciprocity signed by Cuba and the United States in 1902.⁵ By the terms of the trade agreement between the United States and Cuba, proclaimed on August 24, 1934, the United States granted a reduction in duty on Cuban raw sugr (96°) from 1.5 cents to 0.9 cent per pound effective September 3, 1934. The agreement provides, however, that the reduced duty is to remain in effect only so long as the quota provisions of the Jones-Costigan Act or their equivalents are operative. Upon the declaration by the Secretary of Agriculture that these provisions have lapsed, the duty on Cuban sugar will revert to a rate which will be 20 percent less than the full duty in effect at the time. On a basis of the present sugar duty, this rate would be 1.5 cents per pound.

The Jones-Costigan Act, signed by the President on May 9, 1934, made possible the application of interstate marketing quotas to continental producing areas, together with import quotas for insular possessions and foreign coun-

tries. The act was to continue in operation for a period of 3 years from the date of approval. The quota system was extended for the calendar year 1937 by a law approved on June 19, 1936. The Jones-Costigan Act established the minimum quota for continental beet sugar production at 1,550,000 short tons of raw sugar and for continental cane sugar production at 260,000 tons of raw sugar, with the further provision that, should consumption requirements in any year be set at more than 6,452,000 tons, continental producing areas should be allotted, in addition to their minimum quotas, 30 percent of the net increase. The remainder (6,452,000 tons less 1,810,000 tons) has been distributed among the off-shore producing areas on the basis of shipments made to the United States during the three "most representative" years in the period 1925-33. If the Secretary of Agriculture should determine the United States consumption requirements for any year to be in excess of 6,452,000 tons, "off-shore" areas would be allotted 70 percent of the increase but, if consumption requirement should be less than 6,452,000 tons, these areas would have their aggregate quotas lowered by the full amount of the reduction. The Secretary of Agriculture was also authorized to prorate the quota deficiency of any area among the other producing regions. Provision was made for storage in bonded warehouse of shipments made in excess of quota limitations, such shipments to be charged against the quota for the next succeeding year.

The quotas for 1934 were fixed by the Secretary of Agriculture on June 9 of that year. The consumption requirements for 1934 of sugar for continental United States were estimated to be 6,476,000 short tons of raw sugar. Since the estimate was 24,000 tons above the 6,452,000 tons stipulated by Congress, 30 percent of the excess, or 7,200 tons was added to the continental allotments. The quota for 1935 was fixed at 6,359,261 tons and the revised effective quota for 1936 at 6,812,687 tons (see table 14, footnote 1).

On December 4, 1934, the Governor General of the Philippines approved a sugar limitation bill which was designed to bring Philippine production into correspondence with United States quota. The Governor General was empowered to determine and to allocate production quotas based on the amount of shipments to the United States, plus allowances for Philippine consumption and for an emergency reserve. For the year 1935 Philippine consumption was estimated at 70,000 tons and the reserve at 100,000 tons. After the inauguration of the Commonwealth Government, a change occurred in the local sugar administration. On January 21, 1936, a Philippine Sugar Administration was created by the Commonwealth Government to handle the enforcement of the Sugar Limitation Act. This body was authorized to administer the allocation of domestic quotas; the allocation of shipments to the United States remained under the jurisdiction of the United States High Commissioner.

The United States quota for the Philippines was 1,015,186 tons in 1934, 981,958 in 1935, and 1,000,829 tons in 1936. The quota for 1937 has been set at 1,035,742 tons. In 1934, the Philippine crop, the largest ever produced in the Islands had already been cut and milled when the quotas were announced. The resulting overshipments in that year were charged against the 1935 quota so that actual exports to the United States in 1935 totaled only 569,000 tons. The planters, however, received benefit payments for their crop reductions in that year. These payments aggregating approximately \$15,000,000, partially reimbursed the planter for the cost of planting cane which was later destroyed, and for the restriction in production which averaged 56.5 percent when compared with production in 1934.

In 1936 the amount of Philippine sugar which could enter the United States duty-free was limited by the Independence Act to the equivalent of approximately 970,000 short tons of raw sugar. However, the 1936 quota under the Jones-Costigan Act was originally fixed at 1,098,738 tons. Shipments in excess⁶ of the quota stipulated in the Independence Act will be assessed the full United States duty. The ability of the Philippine producers completely to fill their quota for 1936 became doubtful

⁵ The Independence Act provides for the duty-free entry of 800,000 long tons of unrefined and 50,000 tons of refined sugar. The combined quotas when converted into short tons of 96° sugar are the approximate equivalent of 970,000 tons.

⁶ The rate on 96° Cuban sugar was 1.7646 cents per pound under the Tariff Act of 1922, 2 cents per pound under the Tariff Act of 1930, and 1.5 cents per pound after the Presidential proclamation effective June 8, 1934. This last-named rate remained in force until Sept. 3, 1934, when the Cuban Trade Agreement became effective.

early in the year as shown by the following figures:

	Short tons raw sugar
Sugar available for distribution in 1936:	
Reserve sugar carried over from 1935.....	99,014
New sugar, 1935-36 crop—estimated.....	985,064
Total available.....	1,084,078
Sugar marketable under 1936 quota:	
United States import quota, as of June 19, 1936.....	1,098,738
Sugar for Philippine consumption.....	70,000
Total marketable.....	1,168,738

This comparison shows a shortage of 84,600 tons with no reserve allowance. In June 1936

Philippine producers stated that they would be unable to fill more than their duty-free quotas, consequently on July 27, 1936, the Secretary of Agriculture reallocated the Philippine deficiency of 97,909 tons to other producing areas. The Philippine quota for 1936 then became 1,000,829 tons, which corresponded to shipments in that year, but exceeded the duty-free quota stipulated in the Independence Act by over 30,000 tons. The excess, however, also entered duty-free since it was received in 1935 but not released for consumption until 1936.

The following table shows the sugar quotas assigned to the various producing areas for the calendar years 1934-36.

TABLE 14.—United States sugar quotas assigned to producing areas for the calendar years 1934, 1935, and 1936

Area	[In short tons, raw sugar]			
	1934		1935	
	Original quota	Revised quota	Original quota	Revised quota
Continental United States:				
Beet.....	1,556,166	1,550,000	1,550,000	1,342,179
Cane.....	261,034	260,000	260,000	380,223
Inular United States:				
Philippines.....	1,015,186	901,308	981,958	998,110
Hawaii.....	916,550	894,892	925,909	941,199
Puerto Rico.....	802,842	783,959	788,331	801,297
Virgin Islands.....	5,470	5,341	5,179	5,264
Foreign:				
Cuba.....	1,901,752	1,857,022	1,822,590	2,039,340
Other areas.....	17,000	16,039	25,228	28,228
Total.....	6,476,000	6,359,261	6,359,261	6,434,088

The first revision was made on Apr. 10, 1936, because of the inability of the continental beet area to fill its quota and because of an increase in estimated consumption. The deficiency of the continental beet area was set at 207,821 tons and the increase in estimated consumption at 175,537 tons. The effective quota then became 6,609,025 tons. On June 20, 1936 estimated consumption was again raised, this time by 203,062 tons, making the effective quota 6,812,087 tons.

The third quota revision in 1936 was made necessary by the inability of Philippine producers to fill their quota; the Philippine deficiency of 97,909 tons was reallocated to other producing areas. The revised Philippine quota of 1,000,829 tons was admitted duty-free. Based on the provisions of the Independence Act, approximately 970,000 tons are permitted to enter the United States duty-free in any one year; the remainder, more than 30,000 tons, arrived in the United States in 1935 and therefore could not be included as a part of the duty-free quota for 1936.

The amount actually received from the Philippines in 1935 was 554,606 tons. Excess shipments made in 1934 were held in bonded warehouse to be applied against the 1935 quota.

RESTRICTIONS IMPOSED BY THE INDEPENDENCE ACT.

The economic provisions of the Independence Act have placed certain restrictions on the shipment of Philippine sugar to the United States. These restrictions may be divided on a basis of time into three periods:

(1) During the first 5 years of the Commonwealth Government, the annual quantity of sugar which will be admitted into the United States free of duty is limited to 50,000 long tons of refined sugar and 800,000 tons of unrefined sugar. These two figures approximate 970,000 short tons of raw sugar and are 45,186 tons less than the 1934 quota established under the Jones-Costigan Act. The duty-free limitation is 21,308 tons less than the 1935 quota and 128,738 tons less than the original quota in 1936. All Philippine sugar entering the United

States in excess of the quota limitation fixed by the Independence Act will be subject to the full United States duty.

(2) From the sixth to the tenth year of the Commonwealth Government, the quota stipulated in the act will remain the same, but progressive export taxes will be assessed against such quota sugar exported to the United States. These taxes will amount to 5 percent of the prevailing United States duty during the sixth year of the Commonwealth period, and will be increased by the same amount each succeeding year until, in the tenth or last year, they will amount to 25 percent of the United States duty. Based on the present duty of 1.875 cents per pound, these export taxes will equal 0.09375 cents per pound in the sixth year of the Commonwealth, rising to 0.46875 cents per pound in the tenth year.

(3) On July 4, 1946, when the Philippines obtain their complete independence, it will no longer be required that export taxes be assessed and the quota limitation fixed by the Independence Act will cease to be applicable. After this time all Philippine sugar arriving in the United States will be subject to the full United States duty.

The various taxes and duties to which Philippine sugar marketed in the United States will be subject are shown in table 15.

COMPETITIVE ASPECTS—UNITED STATES PRODUCTION AND IMPORTS

SUGAR PRODUCTION IN CONTINENTAL UNITED STATES.

The regions producing sugar in the United States may be segregated on a basis of those areas producing cane sugar, primarily Louisiana and Florida, and those producing beet sugar. The beet-sugar area may be further divided according to the principal producing regions: (1) Colorado and other Rocky Mountain States; (2) California, and (3) Michigan.

The consumption in continental United States of sugar produced therein was 1,216,346 short tons raw value in 1929, or 17.4 percent of the total consumed. The corresponding figures for 1934 were 1,800,190 tons, or 29.3 percent; and for 1935, they were 1,724,430 tons, or 26.9 percent. The beet-sugar area was given a quota of 1,550,000 tons under the Jones-Costigan Act. This quota was never filled, partly because of the drought, although in 1934 the quantity of beet sugar delivered for consumption was 1,545,236 tons.

The beet area failed to reach its quota by a margin of 135,000 tons in 1935, and by an amount estimated at 208,000 tons in 1936. Deliveries for consumption of continental cane sugar, however, reached 314,737 tons in 1933, an amount greater than the established quota of 260,000 tons. The quota was again exceeded in 1935 when adjustments permitted the total delivered for consumption to become 309,898 tons.

PRODUCTION IN CONTINENTAL UNITED STATES COMPARED WITH SHIPMENTS AND IMPORTS.

The amount of sugar produced in continental United States has never amounted to as much as 30 percent of the consumption in this area and consequently sugar received from other sources has been the largest factor in supplying the American demand. During the last two decades, this off-shore sugar has come almost entirely from insular territories and possessions of the United States and from Cuba. The relative importance of the various areas supplying the continental United States market is indicated in table 16.

Since the passage of the Jones-Costigan Act, production in continental United States has continued at approximately the level attained in 1933, while the proportions received from other areas have tended to approach those which existed in 1929. Cuba has gained both absolutely and relatively when 1935 is compared with 1933 but has not attained the position it held in 1929. The insular areas, on the other hand, have lost in position since 1933 although they had a larger participation in 1935 than in 1929. Among the insular group the percentage figures show that the Philippines supplied 10.4 percent of American consumption in 1929, 19.6

TABLE 15.—Philippine export taxes and United States duties applicable to Philippine sugar marketed in the United States¹

Period†	Sugar in excess of Independence Act quota	
	Philippine export taxes, cents per pound	United States duties, cents per pound
First 5 years of Commonwealth.....	Free	1.875
Sixth year, 5 percent of United States duty.....	0.09375	1.875
Seventh year, 10 percent of United States duty.....	1.875	1.875
Eighth year, 15 percent of United States duty.....	2.8125	1.875
Ninth year, 20 percent of United States duty.....	3.75	1.875
Tenth year, 25 percent of United States duty.....	4.6875	1.875
	United States duty	
After independence, beginning July 4, 1946, full United States duty.....	1.875	1.875

¹Based on the present rate for full-duty sugar. It is recognized that this rate may not be retained. [†]The sixth year of the Commonwealth will begin Nov. 15, 1940. The Commonwealth period will end July 3, 1946. The amount of Philippine sugar which has a preferred status is determined by the quota established by the Independence Act—800,000 long tons of unrefined sugar and 50,000 tons of refined sugar, the equivalent of approximately 970,000 short tons of 96° sugar.

TABLE 16.—Sugar consumed in continental United States, classified according to proportions supplied by various sources

	1929 ¹		1933 ²		1935 ³	
	Percent	Percent	Percent	Percent	Percent	Percent
Continental United States	25.0	25.0	25.0	25.0	25.0	25.0
Cane.....	14.7	17.4	21.6	...	22.1	26.0
Cane.....	2.7	...	5.0	47.9	4.8	42.3
United States insular areas	...	...	...	...	...	...
Hawaii.....	13.3	...	15.7	...	15.5	...
Puerto Rico.....	6.6	...	12.5	...	12.8	...
Philippine Islands.....	10.4	...	19.6	...	14.0	...
Virgin Islands.....	1	...	1	...	(4)	...
Cuba.....	...	51.9	...	25.3	...	30.7
Other.....	...	3	...	2	...	1
Total.....	100.0	100.0	100.0	100.0	100.0	100.0

¹The peak year for sugar consumption in continental United States in the last decade.
²The last year before the imposition of quota control.
³The first full year after the imposition of quota control.
⁴Less than 1/10 of 1 percent.
 Source: Statistics compiled from Willet and Gray shown in table 17, p. 58.

percent in 1933, and 14.0 percent in 1935. Comparing 1935 with 1933, the relative decline of the Philippines as a supplier of the American market was greater than that of any other insular area. This is due primarily to the fact that Philippine production developed much more rapidly immediately preceding 1933 than did production in any of the other insular areas. Consequently the representative years prior to 1934, which were chosen as a basis of quota determination, were below the then existing productive capacity in the Philippines.⁷

The quotas for Philippine sugar fixed under the Jones-Costigan Act have been greater than the duty-free quota of approximately 970,000 short tons allotted by the Independence Act. The latter, however, is greater than Philippine production in any year prior to 1932. The 1932 figure has been exceeded only during the 2 succeeding years when the United States Congress was discussing Philippine independence and considering the limitations of Philippine shipments to the United States by a quota to be allocated to individual Philippine producers on a basis of past production.

Table 17 shows the total consumption of sugar in continental United States for the period 1928-35 and indicates the principal sources from which it was obtained.

TABLE 17.—Total consumption of sugar in continental United States by sources of supply, 1928-36

	[Short tons, raw sugar]							
	1928	1929	1930	1931	1932	1933	1934	1935
Continental United States (total).....	1,383,021	1,216,346	1,338,023	1,549,069	1,478,653	1,680,715	1,800,190	1,724,430
Cane.....	139,991	189,748	197,350	205,881	160,246	314,737	254,954	309,898
Beet.....	1,243,030	1,026,598	1,140,673	1,343,188	1,318,407	1,365,978	1,545,236	1,414,532
United States insular areas (total).....	2,099,173	2,117,242	2,396,300	2,532,133	2,980,712	3,026,348	2,837,730	2,707,666
Hawaii.....	819,090	928,687	805,856	867,008	1,023,849	989,580	889,319	990,042
Puerto Rico.....	698,591	460,114	779,914	748,320	910,679	790,992	834,720	817,367
Philippine Islands.....	570,524	724,434	804,481	814,873	1,041,852	1,241,229	1,108,653	897,794
Virgin Islands.....	10,968	4,007	6,038	1,932	4,332	4,547	3,040	2,463
Cuba.....	3,124,839	3,612,680	2,945,437	2,440,202	1,762,350	1,600,711	1,514,119	1,964,716
Other foreign countries.....	33,262	17,602	30,524	40,040	26,496	8,253	1,441	2,533
Total deliveries.....	6,642,295	6,963,879	6,710,293	6,561,484	6,248,411	6,316,007	6,153,480	6,399,346

Source: Compiled from Willet and Gray. The original data are in terms of refined sugar. These have been converted to equivalent raw sugar on the basis of 107 pounds of raw sugar required to produce 100 pounds of refined.

DUTIABLE AND DUTY-FREE SUGAR IN THE UNITED STATES MARKET.

For over 30 years prior to the inauguration of the quota system in 1934, sugar prices in the United States approximated world prices plus the preferential United States duty on Cuban sugar, inasmuch as continental and insular production together were not sufficient to supply American consumption requirements.⁸ During the period 1929-33 production in continental United States supplied less than 30 percent of the continental sugar requirements, yet both

continental and insular production had been increasing while imports from Cuba had been declining. The statistics in table 17 indicate that the increased quantities of duty-free sugar sold in the American market were sold in competition with sugar from Cuba. For the future, it appears that the terms under which Cuban and other foreign sugar will be admitted into the United States will be the most significant factor in determining the sales of duty-free sugar in this market.

Before the establishment of quota control, producers of duty-free sugar received the full American price whether they were located in continental United States or in insular areas. The differential between the American and the world price of sugar went to the United States Treasury in the case of sugar imported from Cuba. But in the case of sugar produced in the United States and its insular areas, it went to the private producers themselves.

Since the establishment of the quota system the price of sugar in the United States has not been definitely related to the world price.⁹ Instead, it has been the resultant of current domestic demand and the volume of permitted sales fixed in accordance with the provisions of the Jones-Costigan Act. Up to the present time this price has exceeded the world price not

Under the terms of the Independence Act, the Philippines, during the Commonwealth period, are permitted to sell duty-free in the United States market the approximate equivalent of 970,000 short tons of 96° sugar.¹⁰ Because of this privilege the Islands received \$43,456,000 in 1935 (on a basis of average prices in that year) more than they would have obtained if they had sold an equivalent amount of sugar at the world price.¹¹ This sum may also be regarded as the premium which the United States paid for Philippine sugar on the present duty-free quota basis as compared with what the cost to the United States would have been if it had purchased an equivalent amount of sugar at world prices.¹²

On a basis of existing United States duties, the annual loss in revenue to the United States Treasury resulting from the duty-free admission of the Philippine sugar may be calculated to range from \$36,375,000 to \$17,460,000. If the United States should purchase sugar from any foreign supplier other than Cuba, the United States Treasury would collect a duty of 1.875 cents per pound. Based on the Philippine duty-free quota of approximately 970,000 tons the revenue foregone by the United States Treasury would equal \$36,375,000. If the same amount of sugar should be purchased from Cuba the duty would be 0.9 cent per pound or \$17,460,000.¹³ In neither of the above cases would the increase in Treasury revenue operate to influence the price of sugar in the American market.

⁷The representative years selected for the Philippines by the Department of Agriculture were 1931, 1932, and 1933. These were the years of largest production for the islands within the period (1925-33) fixed by the Jones-Costigan Act for the guidance of the Secretary in quota determination.

⁸The preference gave no price premium to Cuban producers inasmuch as Cuban prices obtained the same price for sugar they marketed in the United States as for that they marketed elsewhere.

⁹The American price, however, could not long remain below the world price plus the United States duty on Cuban sugar, for, if such a decline should occur, the American supply would be curtailed by the refusal of Cuban producers to sell in this market.

¹⁰Under the preferential arrangement with Cuba, that country has been able to derive the benefit of the spread between the United States and world prices less he amount of the United States duty on Cuban sugar.

¹¹The spread between the United States and world prices for sugar has frequently been greater in 1936 than was the average for 1935; for example, on Oct. 1, 1936, the differential was the 2.54 cents per pound.

¹²The export taxes during the second 5 years of the Commonwealth period are to be collected and retained by the Commonwealth Government.

¹³The duty-free quota of 970,000 short tons is the equivalent of 1,940,000,000 pounds which, when multiplied by 2.24 cents per pound, equals \$43,456,000. It is doubtful, however, that the Philippines would have produced the quantity of sugar exported in 1935, if they had not been accorded duty-free entry into the United States market.

¹⁴The future annual premiums paid for Philippine sugar in the United States will vary with the spread between the American price for sugar and the world price. In the above connection, it may also be observed that the United States pays similar premiums in purchasing sugar from other duty-free suppliers, and to a lesser degree, in purchasing it from Cuba.

¹⁵Of course, the loss in revenue to the United States Treasury would change should the tariff rates on sugar be altered.

	Average price, 1935 (cents per pound)
United States quotations—96° sugar spot price.....	3.23
Transportation cost—Cuba to New York—(average for 1935).....	1.15
Net United States quotations—f. o. b. Cuba.....	3.115
London quotation, f. o. b. Cuba.....	875
Differential between United States and world price.....	2.240

The total premium paid for Philippine sugar at present exceeds the revenue foregone by United States Treasury. This is due to the fact that the spread between the American price for sugar and the world price is greater than the United States duty. The extent of the spread, in turn, is the result of the existing quotas which rather than the duty, now provide the effective limitation on imports. As long as this condition prevails, therefore, some additional cost (above the world price and the full duty) will be paid by the American consumers for all sugar sold in the United States. This arrangement, however, is advantageous to those producers who are permitted to sell sugar in the American market.

PHILIPPINE SUGAR IN THE UNITED STATES MARKET DURING AND AFTER THE COMMONWEALTH PERIOD.

As long as the present quota system prevails, the Philippine producers will no doubt be able to sell in the United States market the quantity of preference sugar fixed by the Independence Act. Assuming that the existing level of sugar prices in the United States is maintained with minimum fluctuations, and that control will also be exercised over the quantity of sugar coming from off-shore areas, Philippine sugar producers will continue to benefit from the tariff preferences accorded them in the American market during the Commonwealth period. The export taxes to be applied to quota sugar during the second 5 years of the Commonwealth period, however, will reduce the advantage of duty-free entry which the Philippine sugar producers now enjoy.

Should the quota system be abolished during the Commonwealth period, the various off-shore areas would be free from quantitative limitation, and American sugar prices would again resume a more definite relationship with world prices. Assuming a continuation of the present United States duty on sugar, the preference rate for Cuban sugar under existing agreements with Cuba would become 1.5 cents per pound. Philippine sugar entering under the duty-free quota would continue to have a marked advantage over Cuban sugar in the United States market; however, imports of sugar from the Philippines permitted duty-free entry into the United States would still be limited by the provisions of the Independence Act. The extent of that preference when compared with the duty on Cuban sugar is illustrated in table 18. The table also shows the transportation costs from the two countries.

Assuming no changes in the United States duty or in the present costs of transportation, Philippine sugar would, in the absence of a quota system, have an advantage over Cuban sugar in these charges during the entire Commonwealth period. Even in the tenth year, as shown in table 18, the export tax on the Philippine product plus transportation costs would total only 0.78125 cent per pound while the duty on Cuban sugar plus shipping charges would equal 1.63 cents per pound, a difference in favor of the Philippines of 0.84875 cent per pound. At that time, however, the price of sugar in the United States might be sufficiently low in relation to Philippine costs as to reduce materially Philippine participation in the American market.

After independence, according to the present provisions of the Independence Act, Philippine

TABLE 18.—Comparative taxes (should the quota system be abolished) and transportation costs for Philippine and Cuban sugar entering the United States¹

Period	Philippine sugar			Cuban sugar		
	Export tax or import duty	Transportation costs to Atlantic ports	Tax or duty plus transportation costs	United States duty	Transportation costs to New York	Tax or duty plus transportation costs
Commonwealth period:						
First 5 years.....		0.3125	0.3125	1.5	0.13	1.03
Sixth year.....	0.09375	.3125	.40625	1.3	.13	1.63
Seventh year.....	.1875	.3125	.5	1.3	.13	1.63
Eighth year.....	.28125	.3125	.60775	1.3	.13	1.63
Ninth year.....	.375	.3125	.6875	1.3	.13	1.63
Tenth year.....	.46875	.3125	.78125	1.3	.13	1.63
After independence:	1.875	.3125	2.1875	1.5	.13	1.63

¹Based on present rates of duty and transportation costs. It is recognized that these may change during the period under consideration.

²The rates shown for the Commonwealth period are applicable only to amounts of sugar not in excess of the quota stipulated in the Independence Act. Any excess will be subject to the full United States duty, but will be exempt from Philippine export taxes.

³The rate on Cuban 96° sugar was set in the Cuban Trade Agreement at 0.9 cent per pound. If offshore quotas should be discontinued, the Cuban rate would become the full United States duty less 20 percent. The transportation cost of 0.13 cent per pound is the latest quoted rate (January 1937).

sugar will be subject to the full United States duty. Cuba will then have the advantage of a rate at least 20 percent lower than the full duty under the terms of existing treaties and agreements. In addition, Cuba will probably have the continued advantage of lower transportation costs. Should the United States, at that time, not be operating under a quota system, Philippine producers will be obliged to have a cost of production low enough to enable them to sell at world prices if they are to continue producing sugar for export. If, on the other hand, a quota system is still in force and if some allotment is made for Philippine sugar, then the prevailing price for sugar in this market will be the principal factor influencing sugar shipments to the United States. To attract Philippine sugar under these circumstances, however, it would be necessary that the United States price should exceed the world price by more than the duty applicable to the Philippine sugar plus the cost of transportation.

SUMMARY

1. Sugar culture was carried on in the Philippines before the arrival of the Spaniards in 1521, but modernization of the industry did not begin until 1910. The peak production of 1,598,000 short tons was reached in 1934. The normal productive capacity of modern sugar centrals in 1936 is estimated at 1,500,000 short tons.

2. In recent years Philippine sugar production increased rapidly while world production remained relatively stationary. In 1934 the Philippines supplied a little over 5 percent of total world production.

3. Because of its commanding position in Philippine export trade, sugar is of great importance to Philippine economy. Investments in the industry are estimated at \$263,000,000, of which \$84,000,000 is invested in centrals. American participation is confined principally to centrals, investments therein comprising 30 percent of the total. As a result of the Philippine law, the culture of caneis carried on by thousands of independent planters and tenants; 15 percent of the Philippine population are directly dependent on the industry and 5 important provinces rely almost entirely on it for their revenue. The island of Negros is probably the area most dependent on sugar.

4. The United States duty on 96° sugar is now 1.875 cents per pound. Prior to September 3, 1934 when the trade agreement between the

United States and Cuba became effective, the rate on Cuban sugar was 1.5 cents per pound. The rate on Cuban sugar is now 0.9 cent per pound and under the terms of the trade agreement will remain so as long as the quota system or its equivalent continues in force. If these limitations should be removed, the duty would automatically revert to 1.5 cents per pound.

5. Exports of Philippine sugar to the United States during the Commonwealth period will be affected by three factors: The absolute quota established under the Jones-Costigan Act (on a basis of present legislation quota control will terminate Dec. 31, 1937); the duty-free quota provided for in the Independence Act; and the export taxes provided for by the Independence Act. In 1936 the original Jones-Costigan quota for the Philippines was nearly 129,000 tons larger than the quota established by the Independence Act. Shipments in excess of the duty-free quota are subject to the full United States duty.

6. Sugar production in continental United States has supplied less than 30 percent of continental consumption. The remainder has come almost entirely from insular possessions of the United States and from Cuba. Prior to the inauguration of the quota system, sugar prices in the United States exceeded the world price by the amount of the duty on Cuban sugar. Since the establishment of the quota system, the American price for sugar has not been directly influenced by the world price; it has exceeded the world price by not only much more than the United States duty on Cuban sugar but by more than the full duty.

7. The United States could purchase sugar from foreign suppliers at lower prices than those now paid for sugar from the Philippines. Based on 1935 prices, the "premium" which the United States paid for Philippine sugar entering under the duty-free quota, as compared with what the cost to the United States would have been if it had purchased an equivalent amount of sugar at world prices, amounted to \$43,456,000 in 1935. On a basis of existing United States duties, the annual loss in revenue to the United States Treasury resulting from the duty-free admission of Philippine sugar may be calculated to range from \$36,375,000 to \$17,460,000. The total "premium" paid for Philippine sugar at present exceeds the revenue foregone by the United States Treasury, because the spread between the American price for sugar and the world price is greater than the United

States duty. The magnitude of the "premium" for the future will depend upon the sources of supply, the tariff rates imposed, and the relationship between the American and world prices for sugar.

8. During the last 5 years of the Commonwealth period, the export taxes which are to be imposed on exports of Philippine sugar to the United States will reduce the advantages of duty-free entry which Philippine producers now enjoy. After independence Philippine sugar entering the United States will be subject, on a basis of present legislation, to the full United States duty. Cuba, however, on a basis of present legislation will continue to have at

least a 20 percent preferential duty; moreover, it will presumably continue to have lower costs of transportation. If a system of quota control should not then be in operation in the United States, the Philippines would be able to continue producing sugar for export only if they were able to sell their product at world prices. But if a quota system, including a specific allotment for Philippine sugar, should still exist, producers in the Islands would be able to continue selling sugar in the United States provided the American price for sugar should then exceed the United States duty by an amount sufficient to cover the Philippine costs of production plus transportation charges.

high glycerin content and is therefore in demand for the production of explosives.) The Philippines at that time not only expanded the acreage devoted to coconut palms, but also began to develop a coconut-oil export industry! Because of the scarcity of shipping during the war, it was more economical to export the coconut oil than the more bulky copra. At first only a few large mills and a number of small ones began to crush copra for export but by the termination 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 both oil and its byproduct, copra cake, declined sharply. Most of the oil mills had been capitalized on the basis of the high prices of oil, and the high costs of equipment which prevailed during the war. Moreover, too many mills had entered the field.

Coconut oil was first produced on a commercial scale in the Islands as early as 1906. The exports of oil, however, did not assume important proportions until 1914.

3. COCONUT PRODUCTS

THE POSITION OF THE COCONUT INDUSTRY IN PHILIPPINE ECONOMY

DEVELOPMENT OF THE PHILIPPINE COCONUT INDUSTRY.

The coconut industry is one of the oldest and most important in the Islands. When Magellan first arrived in Philippine waters, Siamese junk traders were already engaged in the copra trade. Throughout all but the last 60 years of the Spanish régime, however, exports of coconut products—as well as other products—were strictly limited.

During the latter part of the nineteenth century, the commercial growth of the soap and margarine industries of Europe gave rise to an increased world demand for copra and coconut oil. Since the crushing of copra and the preparation of the extracted oil for the manufacture of soap and margarine were principally French developments, France occupied a dominant position in the world trade in copra at that time. Between 1899 and 1903, despite the unsettled conditions which prevailed in the Islands, the Philippines increased their exports of copra over fivefold.

The soap and margarine industry in the United States developed considerably in the years following American occupation of the Philippines and hence gave added impetus to the production of coconuts in the Islands. At the outbreak of the World War the Philippines were supplying approximately one-fourth of all the copra entering into world trade. The copra-crushing industry had not as yet developed in the Islands, and so the export of coconut products was almost entirely in the form of copra.

The demand for copra and coconut oil was greatly stimulated during the World War period.

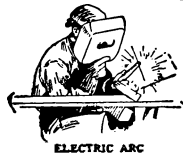
The prices of all oils and fats rose to extremely high levels, but the price of coconut oil, along with palm-kernel oil, rose somewhat more than the prices of the others. (Coconut oil has a

TABLE 19.—The growth of the Philippine coconut industry, 1899-1935

Year	Acreage under cultivation	Exports ²					
		Copra	Oil	Copra cake	Decarcent coconut	Total as copra	
		Thousands of acres	Thousands of metric tons	Thousands of metric tons	Thousands of metric tons	Thousands of metric tons	
1899	(3)	15	.....	.....	.....	15
1900	(3)	64	.....	.....	.....	64
1901	(3)	32	.....	.....	.....	32
1902	(3)	56	.....	.....	.....	56
1903	(3)	81	.....	.....	.....	81
1904	(3)	38	.....	.....	.....	38
1905	(3)	55	.....	.....	.....	55
1906	(3)	60	1	.....	.....	61
1907	(3)	58	1	.....	.....	59
1908	(3)	90	3	.....	.....	100
1909	(3)	107	.....	.....	.....	107
1910	(3)	405	119	.....	.....	119
1911	(3)	515	140	.....	.....	140
1912	(3)	270	141	.....	.....	141
1913	(3)	551	81	5	.....	87
1914	(3)	608	90	12	.....	157
1915	(3)	652	127	13	.....	104
1916	(3)	669	71	16	.....	92
1917	(3)	744	91	44	.....	159
1918	(3)	829	54	113	.....	229
1919	(3)	922	25	136	37	237	
1920	(3)	981	75	76	36	143	
1921	(3)	1,032	148	89	44	285	
1922	(3)	1,098	170	109	66	338	
1923	(3)	1,127	204	88	50	341	
1924	(3)	1,187	154	110	65	330	
1925	(3)	1,106	144	102	55	317	
1926	(3)	1,198	171	115	70	374	
1927	(3)	1,235	196	142	90	442	
1928	(3)	1,273	251	140	81	459	
1929	(3)	1,311	171	187	112	497	
1930	(3)	1,361	172	145	89	436	
1931	(3)	1,390	171	102	20	374	
1932	(3)	1,398	134	112	75	350	
1933	(3)	1,480	303	157	99	643	
1934	(3)	1,494	346	145	100	25	643
1935	(3)	253	165	102	34	450	

¹Statistical Bulletin of the Philippine Islands. ²Annual Reports, Insular Collector of Customs.

³Not available. ⁴Estimated.



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and most of them employed highly inefficient milling methods. By 1920 every coconut-oil mill in the Islands, with possibly one exception, was forced into liquidation. Most of the mills closed down and the remainder modernized their equipment. At present there are seven major firms (operating eight plants) engaged in the production of coconut oil for export. There are also 10 small mills which crush oil for local consumption. The survival of the copra-crushing industry in the Philippines on an export basis 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.² This duty has served practically to exclude imports from all sources other than the Philippines.

Table 19 illustrates the marked growth in the Philippine coconut industry from 1899 to 1934. The combined tonnage of the major coconut products exported increased over fortyfold during this interval. The acreage devoted to coconut production advanced without setback from 1913 to 1934, progressing most rapidly between 1916 and 1923. By 1935 more land was devoted to the cultivation of coconut palms than to any other agricultural staple in the Islands except rice.

PHILIPPINE PARTICIPATION IN WORLD TRADE IN COCONUT PRODUCTS

The major portion of world trade in coconut products is in copra and coconut oil. During the decade 1923-34, total world trade in the 2 products increased from the equivalent to 579,977 metric tons of oil in 1925 to 947,001 tons in 1934, or by over 63 percent.³ During this same period, the Philippines increased their exports from 193,137 tons to 363,151 tons, or by 88 percent. In 1923, they supplied 33 percent of the world trade in copra and coconut oil combined; in 1934, they supplied 38 percent, and for the 10-year period, they supplied on an average of 34 percent. The other major suppliers were the Netherlands Indies, Malaya, and Ceylon. The minor suppliers were the South Sea Islands, Cochinchina, and the Malabar Coast. The participation of each of these in the world trade during this period is shown in

table 20.

With the exception of the Philippines, all of the above-mentioned areas shipped either the total or the major portion of their exports in the form of copra rather than coconut oil. The Philippines, during the decade under consideration, shipped 54 percent of their combined exports in the form of oil, whereas the remaining world suppliers in the aggregate shipped 17 percent in this form. The dissimilarity in the proportions of oil shipped in these cases is to be attributed primarily to the fact that only the Philippines had access to a large, protected market for coconut oil.

ORGANIZATION OF THE PHILIPPINE COCONUT INDUSTRY.

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, large plantations being comparatively few and confined chiefly to the more recently developed sections in the islands of Negros and Mindanao. Plantations in excess of 1,000 acres amount in the aggregate for less than 1 percent of the total acreage devoted to coconuts.

In point of area under cultivation, coconut production ranks second in importance in the Islands, being exceeded only by rice; it generally ranks third in value, being exceeded only by sugar and rice. There are no accurate data available concerning the number of people engaged in the production of coconuts. The Philippine Department of Agriculture and Commerce in 1933, however, estimated that 800,000 heads of families were dependent in whole or in part on the raising of the crop. On the basis of 5 persons to the family, this would mean that 4,000,000 people or over 30 percent of the total population of approximately 13,000,000 in the Islands, were directly dependent on the industry for their livelihood. In addition, a number of others would be indirectly dependent.

Coconuts are generally produced on a share-tenancy basis. The land, in being developed, is cleared and planted by the tenant who is also permitted to raise supplementary crops for

his own account. Several systems are employed in apportioning the proceeds from the sale of the nuts or copra. The tenant is usually required to cultivate and harvest the crop and to convert the nuts into copra. The landowner under this arrangement is required to provide the tenant with a dwelling, a kiln, work implements, and seed nuts. One-third of the proceeds from the sale of the copra goes to the tenant and the remainder to the landowner. Frequently the corn raised as a supplementary crop is also shared between the landowner and tenant on a similar basis. Another variation of the share-tenancy system requires the landowner, in developing his grove, to supply the seed nuts and to pay the tenant a cash sum annually on the basis of the number of palms brought to maturity. The nuts are subsequently harvested on a share basis. Still another variation requires the tenant to develop the owner's property and to produce the copra, the landowner being responsible only for the payment of taxes and for negotiating the sale of the copra. The tenant, under this agreement, receives about 85 percent of the proceeds, and the owner, the remainder.

In addition to the coconuts cultivated on a share-tenancy basis and on the large estates by hired laborers, a substantial quantity is grown by peasant proprietors, who finance themselves by advances secured against their land and prospective crops. Since they generally obtain their loans from the persons to whom they sell their copra, they are frequently victimized by unscrupulous creditors. The existing system of agricultural finance in the Philippines bears heavily on the peasants and constitutes a serious impediment to the development of the coconut industry and agriculture in general.

LOCATION AND SECTIONAL IMPORTANCE OF COCONUT PRODUCTION.

Coconuts are grown in every province in the Philippine Islands, but the provinces on the

²The Emergency Tariff Act of 1921 imposed a duty of 20 cents per gallon on coconut oil.

³The coconut oil equivalent of copra is here calculated on the basis that 1 ton of copra equals 0.63 tons of coconut oil.

TABLE 20.—Copra and coconut oil; Exports from the principal producing regions in the world, 1925-34 (Metric tons)

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	Yearly average 1925-34	Share of total
Shipments to specified areas												
Copra:												Percent
Philippines	146,200	149,300	186,900	201,100	176,318	160,780	178,043	133,967	362,492	346,271	198,727	22.6
Netherlands Indies	206,900	222,350	291,110	476,973	413,390	369,714	369,717	479,574	486,170	407,022	308,335	41.8
Malaya	99,156	128,288	83,227	116,735	126,112	121,410	116,460	113,900	112,690	86,828	110,485	12.6
Ceylon	9,390	14,758	87,600	33,575	34,423	38,130	44,625	4,026	16,180	2,526	14,568	1.9
South Sea Islands	100,600	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	12.5
Malabar Coast		4,873	1,916								679	1.1
Total	664,511	726,908	765,153	948,942	917,969	852,883	843,920	873,926	1,118,762	1,095,229	890,491	100.0
Equivalent of above total in terms of coconut oil	418,642	487,952	482,048	597,833	578,257	537,316	531,103	560,573	703,930	680,435	554,709	70.6
Coconut oil:												
Philippines	101,031	116,960	141,701	147,915	185,310	184,542	138,219	111,600	158,928	145,000	145,055	18.5
Netherlands Indies	9,390	14,758	87,600	33,575	34,423	38,130	44,625	4,026	16,180	2,526	14,568	1.9
Malaya	7,626	8,530	10,301	9,842	8,679	9,472	10,159	12,387	16,037	25,798	12,143	1.6
Ceylon	27,381	29,489	30,255	30,656	41,523	38,274	48,139	50,612	32,500	69,838	42,427	5.4
Cochinchina	15,397	16,183	20,191	12,609	15,892	20,869	22,037	15,610	8,324	13,404	16,057	2.0
Total	579,577	643,112	692,496	837,890	864,094	806,128	773,710	756,062	949,620	947,001	784,959	100.0
Total, reduced to coconut oil:												
Philippines	193,137	210,359	259,448	274,608	296,390	289,613	270,386	195,936	349,498	363,151	270,253	34.4
Netherlands Indies	139,464	154,871	194,250	308,782	295,214	251,141	250,075	319,286	344,389	258,967	246,657	31.4
Malaya	9,099	12,334	67,334	83,308	88,130	85,622	81,629	84,144	89,875	80,562	61,748	7.8
Ceylon	98,485	106,212	91,365	95,433	103,338	94,602	104,083	79,936	93,135	130,317	100,516	12.8
South Sea Islands	63,000	63,660	63,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000	8.8
Malabar Coast	13,297	16,183	20,191	12,609	15,892	20,869	22,037	15,610	8,324	13,404	16,057	2.1
Total	579,577	643,112	692,496	837,890	864,094	806,128	773,710	756,062	949,620	947,001	784,959	100.0

11ton of copra calculated the equivalent of 0.63 ton of coconut oil. Source: Frank Fehr & Co., London, 1935

island of Luzon account for approximately one-half of the total acreage in the Islands under cultivation to this crop, and a single province (Tayabas) on Luzon accounts for almost one-half of the coconut acreage on this island. The island of Mindanao is second in importance in the production of coconuts, accounting for about one-sixth of the total acreage. None of the remaining islands accounts for as much as one-twentieth of the total coconut acreage in the Philippines. For the year ending June 30, 1934, about 1,500,000 acres, or over one-fourth of the total area planted to all crops in the Islands, was devoted to the cultivation of coconuts.¹

A number of the provinces in the Philippines depend predominantly or largely on the coconut industry for their tax receipts. Tayabas obtains over 75 percent of its revenues from this industry; 6 other provinces obtain between 50 and 75 percent of their total from it; and at least 10 others obtain 25 to 50 percent from it.

INSULAR REVENUE FROM INDUSTRY

Both directly and indirectly, the Insular Government derives a considerable portion of its total revenues from the coconut industry. The aggregate receipts from the land, poll (*cedula*), wharfage, sales and income taxes and from license fees and miscellaneous imports were estimated at \$3,750,000 for the industry for 1934, or about 10 percent of the total receipts of the Government for that year.² In addition, the Government collected other taxes, such as the duties on the goods imported by the industry. The following table, prepared by the Philippine Technical Trade Committee, shows the basis for the above estimate of Government revenues.³

The revenues which the Government receives from land and poll taxes do not vary much from year to year. But the wharfage taxes fluctuate with the quantity of cargo exported, the rate being fixed at \$1.00 per metric ton (2,204 pounds). Receipts from sales taxes fluctuate the most widely, inasmuch as they vary with the value of the total "sales" (as legally defined) made during the year.⁴ Since the prices of coconut products were extremely low during 1934, the revenues of the Government from this source amounted to only \$465,775, against an estimated yearly average of \$892,088 for the decade 1925-34. These estimates of sales tax receipts are based on the assumption that copra and desiccated coconut for export are obliged to pay the insular sales tax once, that coconut oil and copra cake and meal for export are obliged to pay it twice, and that locally consumed coconut products pay it three times. These appear to be the minimum frequencies of assessment; actually they are thought to average appreciably higher. It may be noted that if the Philippines were to lose their export market for coconut oil, the government would lose revenue, even though the export market for copra should increase by an amount corresponding to the copra equivalent of the oil market lost.

INVESTMENT IN COCONUT INDUSTRY.

Reliable data are not available concerning the value and ownership of either the land devoted to the cultivation of coconuts or the

TABLE 21.—Estimated Insular Government revenue derived from coconut industry, 1934

Taxes on coconut lands.....	\$1,436,270
Poll tax (<i>cedula</i>) from those engaged in coconut industry.....	800,000
Wharfage dues.....	586,000
Internal revenue (sales taxes):.....	
Copra.....	\$129,077
Copra cake and meal.....	31,534
Coconut oil.....	202,846
Desiccated coconut.....	33,818
Local sales.....	67,500
Total.....	465,775
Licenses, income taxes, and miscellaneous imports.....	461,946
Total.....	3,750,000

mills and refineries engaged in the preparation of coconut products. Most of the land-value estimates are based on the assessed valuations of the properties involved, and these do not reflect accurately other costs or market values. Estimates relating to the values and ownership

¹The poll tax, or *cedula*, is assessed against all male inhabitants of the Philippines over 18 and under 60 years of age, except such persons as United States soldiers and foreign officials.

²The Technical Trade Committee was appointed by Governor General Murphy in the fall of 1933 to make a survey of Philippine trade and economy.

³The island sales tax, amounting to 1-1/2 percent, is assessed against each successive sale except the original one made by a producer.

⁴The foregoing are based on data compiled from the Philippine Statistical Review, vol. 1, no. 4, Manila, 1934.

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of mills and refineries are not satisfactory because of the large number of extremely small establishments concerning which little information is available.

According to an unofficial Philippine estimate, the coconut industry in the Philippines represents a total investment of \$221,215,000 on July 31, 1935. Ownership of land and mills was distributed among various nationalities as follows:

TABLE 22.—Investments in Philippine coconut industry

	Land and improvements	Mills, refineries, etc.	Total investments
Philippine	\$194,665,000	\$905,000	\$195,570,000
American	8,377,000	1,545,000	13,920,000
Spanish	4,185,000	325,000	4,710,000
British	2,095,000	3,495,000	3,495,000
All others	2,095,000	1,425,000	3,520,000
Total	209,320,000	11,895,000	221,215,000

J. H. Bartlett Richards, American Trade Commissioner at Manila reported on July 9, 1936, that the 6 American companies engaged in producing coconut products represented investments in land and buildings amounting to \$1,112,500, and in machinery and equipment amounting to \$1,200,000. These firms employed 15 Americans whose aggregate annual salaries amounted to \$283,000.

duction of tuba a native beverage made from the sap of the coconut palm. No nuts are harvested from the trees tapped for this purpose.

No official quantitative data are available concerning the Philippine consumption of coconut products. Various estimates place it at from 10 to 20 percent of the annual production. The remainder is exported in a variety of forms, but primarily as copra coconut oil, desiccated coconut, and meal and cake. These constitute the major coconut products of the Islands.

COPRA.

The average quality of Philippine copra is generally regarded as inferior to that produced elsewhere in the world except in the South Sea Islands. Moreover, as indicated in table 23, it commands a price in world markets which is much below that offered for the best qualities, and one which is only slightly above that offered for the very poorest qualities.

TABLE 23.—London prices for principal grades of copra

Order	Grade	Country	1929		1935	
			£	s. d.	£	s. d.
1	Fair merchantable good white sun-dried	Malabar	25	0	0	(1)
2	Fair merchantable sun-dried	Ceylon	23	18	0	14
3	Fair merchantable sun-dried	Java	22	17	0	(1)
4	Fair merchantable sun-dried	Straits Settlements	23	0	0	12
5	Fair merchantable sun-dried	Netherlands India	21	17	0	11
6	Fair merchantable	Straits Settlements	21	0	0	11
7	Fair merchantable sun-dried	Philippine Islands	21	17	0	11
8	Fair merchantable sun-dried	South Sea Islands	22	3	0	11

No quotation.

Source: A series of quotations published in each Saturday's issue of the Times, London.

The best grades of copra are either sun-dried or mechanically dried. From them oil of low acid content and light color can be obtained. Such copra is sought for use in the edible fields and generally commands a premium over other grades. Very little of this variety is produced in the Philippines. The poorer grades are dried in several ways, but chiefly by smoking in crude open kilns. Such copra yields oil of a high acid

content and dark color, both of which properties detract considerably from its desirability for edible use, but not greatly for inedible use.

Inasmuch as Europe uses coconut oil largely for edible purposes and the United States, prior to 1935, used it chiefly for inedible purposes, the higher grades of copra generally have been shipped to Europe and the inferior grades to the United States. This is primarily the reason why the preferential processing tax came into effect, purchased the bulk of its copra from the Philippines. Since then it has imported copra almost exclusively from the Islands.

Under the existing marketing conditions, producers of copra in the Islands generally find it unprofitable to supply superior grades of copra. Only a limited number of buyers, catering primarily to the European markets offer any premium for the higher qualities. In consequence, practically all of the copra produced is of one basic low quality, the commercial grading of which is based chiefly on moisture content. The grade known as *buen corriente* ("good current"), containing from 12 to 15 percent moisture is the one whose price is most generally quoted in the domestic Philippine trade. In the export trade only dry copra is dealt in, the grading being based chiefly on origin and appearance.

Copra prices in the Philippines.—From table 24 it will be noted that during the decade 1926-35 the price of *buen corriente* copra declined in Manila from an average of \$9.78 per 220.46 pounds (100 kilos) in 1926 to an average of \$1.96 in 1934. In 1934, the year in which the

United States excise tax of 3 cents per pound was first imposed on Philippine coconut oil, the price fell as low as \$1.50 per 220.46 pounds, the lowest ever recorded in the Manila market. The price rose by over 100 percent before the end of the year, however, and continued to advance erratically during 1935. During the first half

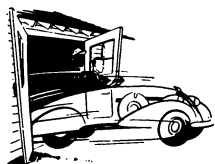
*The Philippines Statistical Review, vol. 2, no. 4, Manila, 1936, p. 310.

TABLE 24.—Prices of copra in Manila

[Buen corriente, per 100 kilos (220.46 pounds) (1 peso = U. S. \$0.30)]

Year	Beginning of period		End of period		Average price
	Peasos	Peasos	High	Low	
1926	22.53	16.60	23.32	16.20	19.27
1927	16.60	18.38	18.38	16.60	17.81
1928	18.18	17.78	18.97	15.81	17.70
1929	17.78	15.02	17.78	13.43	15.01
1930	15.02	9.48	15.02	9.48	12.15
1931	9.48	6.51	9.48	4.35	6.65
1932	6.30	5.10	7.00	4.80	5.69
1933	5.10	3.50	5.10	3.50	4.48
1934	3.50	6.90	6.90	3.00	3.33
1935	6.90	8.10	12.60	5.40	8.34
1936 ¹					1.96
January	8.10	7.75	9.50	8.10	8.43
February	8.50	8.50	8.50	7.60	8.17
March	7.85	8.35	8.35	8.00	8.10
April	8.35	6.30	8.35	6.30	7.33
May	6.30	6.30	6.30	6.30	6.30
June	6.75	7.40	7.40	6.75	7.08
July	7.40	8.30	8.75	7.40	7.85

¹Monthly averages are computed on the basis of the average of the opening and closing monthly prices. Sources: 1923-34, and first 5 months of 1935, Geo. Schumacher, Inc., copra broker, Manila; last 3 months 1935, American Trade Commissioner (Manila) reports on quotation for *buen corriente* grade of copra, reduced by 10 percent to allow for higher moisture content of *buen corriente* grade; 1936, quotations Manila Daily Bulletin.



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of 1936, the price fell slightly below the average for the previous year. The higher prices for 1935 and 1936 were in large measure due to the shortage of fats and oils in the United States, which shortage operated to increase the world prices of many oils and oil substances besides copra.

Exports.—Table 25 shows the quantities and value of Philippine exports of copra to all countries and to the United States during the period 1926-35. It will be noted that the fluctuations in the unit values of the exports coincided very closely with those for the domestic, *buen corriente* grade. Prices declined sharply from the beginning of the period under review until 1934, when they reached their lowest levels. In this year, the Philippines shipped to the United States a smaller percentage of the quantity and value of their total exports of copra than in any preceding year in the period, a situation which Philippine dealers attributed to the imposition by the United States of an excise tax on coconut oil in May 1934. In terms of absolute quantities, however, the exports of copra from the Philippines to the United States in 1934 were exceeded in only 3 earlier years in the period. Moreover, the quantities shipped to the United States in the year immediately preceding and in the year following 1934 were the 2 highest in the decade. Unit prices were higher in 1935 than in any other year following 1931.

COCONUT OIL.

The coconut oil business in the Islands is primarily an export industry which caters to a single market, the United States. It is estimated that the Philippines export over 90 percent of the coconut oil they produce. The remainder is consumed in the Islands or is exported in the form of vegetable lard, soap, or other manufactured products.

Distribution and ownership of mills.—On March 1, 1936, there were eight large coconut-oil plants in the Philippines supplying principally the export trade, and there were ten small plants supplying solely the domestic trade. Six of the larger plants were in Manila and two in Cebu. The ten smaller plants were in seven different cities in various parts of the Islands. Two of the eight larger plants were owned by Americans, two by Englishmen, two by Spaniards, one by Chinese, and one by Filipinos. None of the smaller plants was American owned; Chinese owned five of them, Filipinos four, and Swiss one.

Exports.—Table 26 shows the quantity and value of coconut oil exported from the Philippines to all countries and to the United States for the decade 1926-35. It will be observed that, as in the case of copra, the price of coconut oil declined sharply from the beginning of the period under review until 1934, and then rose sharply again in the following year. The price of coconut oil in 1935 was above that for any preceding year subsequent to 1931.

The Philippines shipped to the United States during 1934 a smaller fraction of their total volume of exports of coconut oil than in any preceding year in the 10-year period except in 1931, but the amount of oil exported to the United States during this year was only 6 percent below the annual average for the whole 10-year period. The shipments in 1935, moreover, were 12 percent above the annual average for the decade, having been exceeded only once (1929) during this period.

TABLE 25.—Quantities and values of copra exported from Philippines to all countries, and to the United States, 1926-35

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>
1926	191,825	\$18,508,732	\$96.89	13.6	142,296	\$13,816,396	74.2
1927	219,711	19,155,740	87.19	12.3	173,973	15,238,156	73.2
1928	258,400	22,542,341	87.24	14.5	201,265	17,603,832	77.9
1929	191,331	13,565,820	81.30	9.5	142,878	11,440,398	74.7
1930	192,133	13,433,438	69.92	10.1	155,503	10,454,348	81.0
1931	192,008	9,150,494	47.64	8.8	133,251	6,052,328	69.4
1932	151,282	5,133,227	33.93	5.4	91,522	3,056,056	60.5
1933	340,342	8,956,028	26.21	8.3	229,179	5,851,226	67.4
1934	377,708	8,605,124	22.78	7.8	109,186	3,900,000	44.8
1935	278,774	10,987,030	39.41	11.7	229,382	9,106,000	82.3

Source: Annual Reports, Insular Collector of Customs.

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TABLE 26.—Quantities and values of coconut oil exported from the Philippines to all countries and to the United States, 1926-35

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>
1926	120,291	\$22,345,216	\$172.83	16.3	126,689	\$21,926,024	98.0
1927	159,617	24,840,638	155.63	16.0	156,073	24,284,360	97.8
1928	156,796	23,489,772	149.81	15.1	155,241	23,239,520	99.0
1929	210,011	29,184,042	138.97	17.7	207,990	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	15,055,232	82.68	14.5	183,948	15,585,684	99.2
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	149,813	6,306,557	93.9
1935	182,095	12,254,681	67.30	13.0	178,781	12,005,098	98.2

Source: Annual Reports, Insular Collector of Customs.

COMBINED TRADE IN COPRA AND COCONUT OIL.

The combined exports of copra and coconut oil from the Philippines (expressed in terms of quantity of oil) advanced erratically, both to the world as a whole and to the United States, during the period 1926-35. The annual proportions shipped to the United States generally fluctuated between 80 and 90 percent of the total exported to all countries, but in 1934 the proportion declined to less than 65 percent. The absolute amount shipped to the United States in that year, however, was only 3 percent below the annual average for the 10-year period. In 1935, the proportion shipped to the United States rose to a level higher than had been reached in any preceding year in the decade except in 1930, and the quantity shipped in that year was the highest in the period.

TABLE 27.—Quantities of copra and coconut oil combined (expressed in terms of coconut oil) exported from Philippines to all countries with percentages thereof exported to the United States, 1926-35¹

Year	Total quantity exported in terms of coconut oil	Percentage of total exported in form of coconut oil	Total quantity exported to United States in terms of coconut oil	Percentage of exports to United States in form of coconut oil	Ratio of quantity of copra and coconut oil exported to United States to total quantity exported to all countries	
					<i>Short tons</i>	<i>Percent</i>
1926	250,141	51.7	216,332	58.6	86.5	
1927	298,036	53.6	265,579	58.8	89.1	
1928	319,588	49.1	282,040	55.0	88.3	
1929	330,550	63.5	290,006	71.7	90.2	
1930	283,483	67.3	259,063	62.2	91.4	
1931	302,850	60.0	217,899	66.1	81.9	
1932	231,712	57.0	179,199	67.8	80.8	
1933	390,367	45.1	318,071	54.6	81.5	
1934	397,648	40.1	250,433	58.4	64.5	
1935	357,723	50.9	323,294	55.3	90.4	

¹Copra is converted into its equivalent in coconut oil on the basis of 63 percent oil extraction. Source: Annual Reports, Insular Collector of Customs.

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copa cake, as such, has been in north Europe, whereas the only important market or the meal has been in the United States. Until a few years ago, the cake was shipped principally to Hamburg, from where it was distributed within Germany and throughout the Scandinavian and other nearby countries. Recent German restrictions on the importation of such materials, however, have served to shift the primary markets Sweden, Norway, and Denmark.

Exports.—Table 28 shows that from 1926 until 1934, the Philippines generally exported 80 percent or more of their combined cake and meal shipments to countries other than the United States. Since 1934, largely because of the feed shortage in the United States, the Philippines have increased the proportion of their sales in this market very appreciably. Unit prices declined to extremely low levels during 1934, but in the following year they rose to the approximate average attained in 1931.

TABLE 28.—Quantities and values of copra cake and meal exported from the Philippines to all countries and to the United States, 1926-35

Year	Exports of copra cake and meal to all countries			Ratio of value of exports of copra cake and meal to total value of all Philippine exports	Exports of copra cake and meal to the United States		Ratio of quantity of copra cake and meal exports to the United States to total quantity of copra cake and meal exported to all countries
	Quantity	Value	Value per ton		Quantity	Value	
1926	Short tons 78,557	\$1,736,224	\$22.10	1.3	Short tons 15,059	\$338,718	19.2
1927	100,048	2,484,539	24.83	1.6	20,716	606,842	20.7
1928	90,006	2,886,137	32.07	1.9	10,541	358,854	11.7
1929	125,434	3,792,781	30.24	2.3	11,676	407,170	9.3
1930	99,102	1,892,224	19.09	1.4	14,953	327,934	15.1
1931	108,716	1,520,802	14.99	1.5	6,328	97,648	5.8
1932	83,608	1,053,666	12.60	1.1	3,840	55,741	4.8
1933	110,139	1,057,554	9.60	1.0	11,874	129,154	10.8
1934	109,847	1,051,120	9.57	1.0	36,381	447,410	33.1
1935	112,295	1,639,424	14.60	1.7	35,359	617,680	13.5

Small amounts of copra cake and meal exported to the Hawaiian Islands are not included.
Source: Annual Reports, Insular Collector of Customs.

DESICATED COCONUT.

Desicated coconut first appeared among the Philippine exports in 1922, when the United States placed a duty of 3½ cents per pound

*The term "desicated coconut" as here employed refers to all varieties of dried coconut meat—"grated", "shredded", "sifted", and "ribbed"—intended for use in the preparation of confections and bakery goods. Such products, unlike copra, are hand-dried and artificially dried under sanitary conditions.

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moderate. As shown in table 29, the exportation of desiccated coconut to the United States has increased appreciably during the past few years, the volume in 1935 having amounted to over 40 percent more than in any preceding year during the decade.

COMBINED EXPORTS OF MAJOR COCONUT PRODUCTS

On the basis of value, the aggregate exports from the Philippines of the four principal coconut products fell in 1932 to the lowest level reached in the period 1926 to 1935. The trade in that year was the smallest both in absolute value and in relation to the value of total exports to all countries. The trade of the Islands in these products with the United States followed a similar course, except that the ratio of exports of coconut products to total exports was lowest in 1934 rather than 1932. During 1933, the value of coconut exports increased absolutely and relatively to the total value of exports both for the world as a whole and for the United States. This was followed by a general decline in 1934 and by a very substantial expansion in 1935. In the latter year, the value of the exports from the Philippines of major coconut products to all countries was higher than in any year since 1930, and it constituted a larger proportion of the value of the total exports of all commodities than in any year since 1929. The same was true of the corresponding export trade of the Philippines with the United States.

The values of Philippine exports of major coconut products to all countries and to the United States are shown in table 30.

(Please turn to page 54)

Escolta Drug's New Stand

Escolta Drug, driven out by the recent Escolta fire in its old block, found pleasant refuge near the Jones Bridge in the old quarters of the Manila Stock Exchange where the coffee tables are at the front and a specialty is made of a peso-lunch from 11 to 2. New patronage is drifting in.

TABLE 29.—Quantities and values of desiccated and shredded coconut exported from Philippines to all countries with percentages thereof exported to the United States, 1926-35¹

Year	Exports of desiccated and shredded coconut to all countries				Exports of desiccated and shredded coconut to the United States		Ratio of quantity of desiccated and shredded coconut exported to the United States to total quantity of desiccated and shredded coconut exported to all countries
	Quantity ²	Value	Value per ton ³	Ratio of exports of desiccated and shredded coconut in total value of all Philippine exports	Quantity	Value	
	<i>Short tons</i>				<i>Percent</i>		
1926	15,794	\$2,757,658	\$207.80	2.0	15,763	\$2,751,964	90.8
1927	16,737	2,850,060	202.72	1.8	16,085	2,840,286	90.7
1928	22,448	3,723,586	197.47	2.4	22,419	3,718,298	90.9
1929	24,566	3,840,124	171.30	2.2	24,547	3,837,004	90.9
1930	21,972	2,902,844	180.53	2.2	21,043	2,938,710	99.9
1931	18,543	1,822,128	116.98	1.8	18,522	1,819,691	99.9
1932	17,717	1,616,701	108.03	1.7	17,704	1,615,448	99.9
1933	19,761	1,682,808	101.38	1.6	19,733	1,679,987	99.9
1934	25,944	2,254,540	103.45	2.0	25,931	2,253,236	100.0
1935	37,443	3,902,315	125.98	4.2	37,275	3,941,938	99.6

¹The major portion of the small annual shipments not credited to the United States in this table are shipped to the Hawaiian Islands.

²Includes weight of containers.

³On computing unit values, 10 percent has been deducted from the gross weight shown in order to allow for the weight of containers.

Source: Annual Reports, Insular Collector of Customs.

TABLE 30.—Values of total exports of principal coconut products from the Philippines to all countries and to the United States, 1926-35¹

Year	Value of principal coconut product exported to all countries	Ratio of value of exports of principal coconut products to total value of all Philippine exports	Value of principal coconut products exported to the United States	Ratio of value of exports of principal coconut products to the United States to the value of principal coconut products to all countries
1926	\$45,425,830	33.2	\$38,833,102	38.8
1927	49,331,022	31.7	42,969,946	37.0
1928	52,641,236	34.0	44,920,474	38.9
1929	52,083,672	31.7	44,285,658	35.6
1930	37,448,868	28.1	32,002,918	31.2
1931	27,929,657	26.5	21,555,351	25.8
1932	15,454,738	18.2	12,063,082	14.6
1933	20,866,206	19.7	16,785,452	18.4
1934	18,705,556	16.9	12,997,292	14.2
1935	28,843,650	30.6	25,670,716	34.3

¹The coconut products include here are copra, coconut oil, copra cake and meal, and desiccated coconut.

Source: Annual Reports, Insular Collector of Customs.

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2. MINERALS

GOLD

LOCATION OF THE INDUSTRY.

Gold-mining claims have been filed in practically every province of the Philippines. Actual production, however, is confined to five regions: (1) the Mountain Province in Luzon which is the oldest and by far the most important producing area; (2) the island of Masbate; (3) the Province of Camarines Norte in Luzon, where production is going forward in the Paracale and Mambulao districts; (4) the Province of Bulacan in Luzon; and (5) the island of Mindanao, which has small producing areas in Surigao and Zamboanga Provinces. In the Mountain and Bulacan Provinces and in the island of Masbate, lode claims are being mined; in Camarines Norte both lode and placer claims are operated, and in the island of Mindanao, gold is obtained primarily from placer claims.

The importance of the industry to each of these different sections is difficult to determine. Because of the long-established and extensive mining developments in the Mountain Province, the industry is probably most important to the economy of that region. Other districts are less dependent upon gold mining, although the industry has contributed to the economic development of the various regions in which it is located; this is particularly true of the Paracale-Mambulao district in Camarines Norte which has experienced a marked increase in business activity through the resumption of mining operations.

THE DEVELOPMENT OF THE INDUSTRY IN THE PHILIPPINES.

Prior to the arrival of the Spaniards gold was mined by natives in the Benguet and Paracale districts. Under Spanish rule these operations were continued, but no important development of the industry occurred. The application of modern methods and the growth of the industry, therefore, are relatively recent. Many mining companies were organized during the early years of the American régime, but of the companies incorporated prior to 1930 only three are now producing gold. In 1930 these three companies had a daily mill capacity of approximately 500 tons.

Since 1930 the industry has progressed rapidly, stimulated at first by the reduced costs of mining operations which accompanied the declining

commodity price level, and later by the increased United States price of gold, which was raised from \$20.67 per ounce in 1933 to \$35 per ounce in 1934. This latter development increased the United States dollar value of the ore reserves of established mines as well as claims containing low-grade ore previously considered of no commercial value. As a result, prospecting was stimulated throughout the islands, new companies were organized, and existing companies made plans to enlarge their plant capacities. By 1935, 15 companies were actively mining gold and several others were engaged in constructing mills which were to commence operations in 1936. Daily mill capacity for Philippine mines was increased from 500 tons in 1930 to 4,500 tons in 1935. The average daily milling in December 1935 was 4,210 tons; production for that month totaled \$1,596,515. At that time it was expected that the mill construction undertaken by new and established mines would increase their daily plant capacity to 7,400 tons in 1936.

NUMBER OF GOLD-MINING COMPANIES AND THEIR CAPITALIZATION.

Between 1907 (when mining records were initiated) and 1935, the number of gold-mining companies recorded by the Division of Mineral Resources has aggregated approximately 300, many of which are no longer in operation. In 1935, 88 companies were licensed to sell stock in the Philippines. The stock exchange in Manila on March 31, 1936, listed 30 gold-mining companies, with an authorized capital of \$25,550,407; of this amount \$22,930,686 represented either paid-in or subscribed capital. The surplus and reserves of the 30 companies totaled \$2,860,272.¹ The combined capital accounts of the two largest companies, which are owned and controlled by American investors, equaled \$7,011,650, or 27.2 percent of the total capital and surplus of all listed Philippine mining companies. During 1935, six mining companies paid dividends, and three of these have within the last few years returned to their stockholders in the form of dividends an aggregate sum in excess of the total capital invested.

TAXATION.

Philippine gold mines are taxed by the Government on the basis of gross output. The tax is assessed on a sliding scale, the maximum tax

for any company being 5.5 percent of its annual production in excess of \$6,500,000. In 1935 the output of only two companies was assessed at the maximum rate, then 5 percent.²

The present law governing the taxation on the gross output of mines was passed on October 9, 1936, by the Philippine National Assembly. The new schedule of rates is as follows:

Value of gross output (pesos):	Tax on gross output (percent)
1 to 500,000	1.5
500,001 to 1,000,000	2.0
1,000,001 to 1,500,000	2.5
1,500,001 to 2,000,000	3.0
2,000,001 to 2,500,000	3.375
2,500,001 to 3,000,000	3.75
3,000,001 to 3,500,000	4.125
3,500,001 to 4,000,000	4.5
4,000,001 to 4,500,000	4.75
4,500,001 to 5,000,000	5.0
5,000,001 to 5,500,000	5.125
5,500,001 to 6,000,000	5.25
6,000,001 to 6,500,000	5.375
6,500,001 or more	5.5

Provisions is made for the following deductions from the above taxes: (1) A deduction of 15 percent for lode mines producing gold from ores which average less than 10 pesos but more than 7 pesos per ton. (2) A deduction of 25 percent for lode mines producing gold from ores averaging less than 7 pesos per ton. (3) A deduction of 35 percent for placer gold mines.

Values of gross output:	Tax on gross output (percent)
1 peso to 1,000,000 pesos	1.5
1,000,001 pesos to 2,500,000 pesos	2.5
2,500,001 pesos to 4,000,000 pesos	3.5
Over 4,000,000 pesos	5.0

EMPLOYMENT AND WAGES.

Philippine gold mines employed approximately 20,000 miners and laborers in 1935; on the basis of this figure, it is estimated that more than 100,000 people are directly dependent upon gold mining for their livelihood. Most of the employees are engaged in the mining of quartz gold in the Benguet district where 8 of the 15 producing mines are located. Two mines in that district employ 8,000 people. The increase in the number of men employed in the industry in recent years is shown by the following figures.³

¹Manila Daily Bulletin Apr. 13, 1936.
²The rates listed below were in effect during 1935.
³Obtained from the Gold Mining Association of the Philippines.

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Year	Number of employees	Pay roll
1932.....	5,600	\$1,227,500
1933.....	7,700	1,665,000
1934.....	15,000	3,500,000
1935.....	20,000	5,000,000

Some companies furnish their employees with shelter and rye in addition to the regular wages, which vary in accordance with the location of the mine and the type of work performed. The wage schedule compiled by the Gold Mining Association of the Philippines in 1935, was as follows:

Type of labor	Daily wage
Unskilled laborers.....	\$0.40 to \$0.70
Miners.....	0.70 to 1.00
Carpenters.....	1.50 to 2.50
Mechanics.....	1.25 to 3.25
Foremen.....	1.00 to 2.50

Many mining companies have given careful attention to sanitation, medical treatment, and hospital care. Schools are frequently maintained by the companies for the children of their employees, and facilities for exercise and recreation are also provided.

PRODUCTION OF GOLD.

The production of gold in the Philippines developed slowly until 1929, when it amounted to \$3,370,000. Prior to that time it had never exceeded \$1,946,000. Since 1929 the physical quantity of gold produced has increased rapidly and, because of the devaluation of the United States dollar and the Philippine peso, the value of production measured in terms of these currencies has advanced at an even faster pace. In 1935 the Philippines produced more gold than Alaska and were second only to California among the various producing areas under the

flag of the United States. Production reached \$16,000,000 in that year. In October 1936 it was estimated that production for 1936 would exceed \$20,000,000. The ore milled in the two largest mines in the Islands in 1935 amounted to \$10,602,000, or 66 percent of total production; in the same year production in the four largest mines reached \$13,220,000, or 82.5 percent of the total.

With only minor exceptions, the entire Philippine production of gold is shipped in the form of bars by registered mail to the United States. The bullion when it leaves the mines is only partially refined, and on the basis of quantity contains approximately 53 percent gold and 45 percent silver. The refining is done in the United States by the United States Mint. In 1935 gold was the third most important commodity in Philippine export trade; on a value basis it is only exceeded by sugar and coconut products. Statistics showing gold production in the Philippines and United States imports of gold from the Philippines since 1926 are given in table 51.

TABLE 51.—Gold: Production in the Philippines, and imports into the United States from the Philippines, 1926-36¹

Year	Production in the Philippines ²	Imports into the United States from the Philippines ³
1926.....	\$1,925,188	1,990,000
1927.....	1,686,231	1,667,000
1928.....	1,904,052	1,773,000
1929.....	3,370,391	3,262,000
1930.....	3,704,799	3,715,000
1931.....	3,765,434	3,740,000
1932.....	5,190,084	7,052,000
1933.....	8,095,398	6,925,000
1934.....	11,850,962	12,038,000
1935.....	16,012,523	15,356,000
1936 ⁴	20,000,000	20,000,000

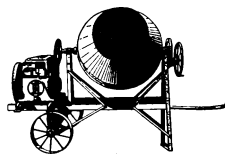
¹For the years prior to 1934, values are computed on the basis of \$20.67 per ounce; for 1934 and the years following, values are computed on the basis of \$35 per ounce.

²From the Gold Mining Association of the Philippines.

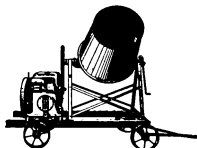
³From Federal Reserve Bulletin except for 1936.

⁴Estimated by the Gold Mining Association of the Philippines.

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This illustration shows the "Automix" and a McCORMICK-DEERING 3 to 5 h. p. engine mounted on special platform for trailing behind a truck. Capacity: 6-1/2 cu. ft.



The Model 2-S Concrete Mixer operated by a McCORMICK-DEERING 1-1/2 to 2-1/2 h.p. kerosene engine. Size of Drum: 22" x 36". Capacity: 3-1/2 cu. ft. The drum turns on ball bearings and can be operated by hand if necessary.

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CHROMIUM

Chromite ore has been located in the Provinces of Camarines Sur and Zambales in Luzon. One company is operating in Camarines Sur, while five companies in Zambales have claims in various stages of development. Since the world supply of chromite ore is limited and since chromium is important for both commercial and military uses, the deposits in the Philippines are of particular significance.

The deposit located in Camarines Sur, 8 miles from tidewater on the Lagonoy Gulf, is known to contain at least 100,000 tons of ore with additional development possibilities still to be explored. The ore body has an average content of over 55 percent chromic oxide. Construction has been completed on an aerial tramway and a pier to facilitate direct loading into deep-water vessels. The company commenced exporting ore to the United States in September 1936. Annual shipments are expected to approximate 25,000 tons.

In Zambales one deposit has been located near Masinloc. Surveys show that it contains over 10,000,000 tons of ore, which is the largest known body of chromite in the world. The deposit has a relatively low chromic oxide content, averaging 35 percent, but, because of the

size and location of the deposit, it is believed that exploitation of the deposit may be undertaken profitably. Construction work is going forward on a road over which to convey the ore to deep water which is 10 miles distant. An incomplete survey of another deposit in Zambales, 9 miles from deep water, shows it to contain 182,000 tons of ore. Three other deposits have been discovered in this region. In addition, the Commonwealth Government has two reservations in the Province of Zambales and the United States Government has one reservation. Chromite claims have also been filed in the island of Samar and in Surigao Province, Mindanao; however, they are as yet undeveloped.

IRON

Iron ore has been discovered in Camarines Norte and Bulacan Provinces on Luzon, in the island of Samar, and in the Province of Surigao on Mindanao. Of these four deposits only one at Mambuloa, Camarines Norte, is being developed commercially. Exports totaled approximately 300,000 tons in 1935 and at that time it was expected that they would reach 450,000 tons in 1936. Approximately 2,000 men are employed in this development. The Mambuloa ore is free from objectionable impurities and has an average ferrous content of 61 percent, with an estimated reserve of nearly 5,000,000 tons. The principal market for this ore is Japan.

The deposits in Bulacan near Angat are operated by Filipinos using primitive methods. Although these deposits contain high-grade ore, production is not large and the iron produced is used entirely in local markets. The ore reserve in this district is estimated at approximately 1,000,000 tons. Ore with a ferrous content of 61 percent has also been discovered on the island of Samar. The deposit is believed to contain over 1,000,000 tons of ore but no commercial development has yet been undertaken.

The largest iron deposit in the Philippines is located in the Province of Surigao on the island of Mindanao. The entire deposit has been reserved by the Philippine Government. Surveys indicate that it contains approximately 500,000,000 tons of ore of satisfactory quality with an average ferrous content of 54 percent. About 260,000,000 tons of the ore is accessible for mining and is 9 feet or more in thickness; however, only one-half of this tonnage, because of terrain, could be profitably moved via Dahan Bay which offers the only natural harbor in that immediate vicinity. Although the deposit was discovered over 25 years ago, the reserve has never been commercially developed.

OTHER MINERALS

Deposits of silver, copper, and manganese also exist in the Philippines. Silver is produced as a byproduct of the gold mining industry. Copper deposits of considerable size have been located in the Mountain Province of Luzon but inaccessibility, low-grade ore, and, until recently, copper prices, have combined to retard their development. Plans are being made to develop deposits of copper in the island of Panay and in the Sulu Archipelago. The manganese ore in the Philippines is largely "float." The size and character of the deposits apparently have not justified extensive exploitation. One company, however, located in Ilocos Norte Province, possesses estimated reserves of 100,000 tons.

The company is installing machinery and plans to begin shipments of ore in the near future.

Cement is produced in two regions in the Islands, in Rizal Province on Luzon and on the island of Cebu. The development in Cebu is carried on by a Government-owned industrial corporation, and the other cement plant is operated by a private corporation. The two companies produced 640,000 barrels of cement in 1935, practically all of which was consumed in the Philippines.

Deposits of coal have been located in Cebu and in the Province of Camarines Sur on Luzon. These deposits, which have been mined in the past, are not now being operated. Surveys have been undertaken, however, to determine whether operations can be profitably resumed.

During 1935 and 1936 there was marked activity in the Philippines in the prospecting

and leasing of oil lands, but no wells were brought into production during this period.

Minerals other than those discussed above are known to exist in the Philippines, but thus far they have not proved to be of commercial significance.

GOVERNMENT REGULATION OF THE MINING INDUSTRY

The Philippine Government has been assisting in the development of mining through its Bureau of Mines in the Department of Agriculture and Commerce. The Bureau performs three distinct functions: (1) The making of topographic and geologic surveys covering mineral deposits, water resources, and soil classifications; (2) the assaying and testing of ores and the inspection of mines; and (3) the administration and disposition of mineral lands, the recording of

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locations, transfers, and assignments, the inspecting of claims and leases, and the granting of patents, leases, or permits.

Under the Philippine Constitution the disposition of mineral land will be confined to the granting of leases. The Constitution provides that—

all natural resources of the Philippines belong to the State, and their disposition, exploitation, development, or utilization shall be limited to citizens of the Philippines,

or to corporations or associations at least 60 per centum of the capital of which is owned by such citizens, subject to any existing right, grant, lease, or concession at the time of the inauguration of the Government established under this Constitution. Natural resources, with the exception of public agricultural land, shall not be alienated and no license, concession or lease for the exploitation, development or utilization of any of the natural resources shall be granted for a period exceeding 25 years, renewable for another 25 years * * *

Prior to the inauguration of the Common-

wealth Government, both the freehold and leasehold systems of disposing of mineral lands were utilized in the Philippines. As a result some mineral lands are held under patent by private individuals or corporations and some are held under lease executed by the Insular Government. All new leases, however, must be issued in compliance with the provisions of the constitution and no mineral lands can be permanently alienated in the future. The development of new mineral lands, therefore, must await the determination of policies and regulations by the Commonwealth Government. During the Commonwealth period, Americans will enjoy the same right to participate in the exploitation of natural resources in the Islands as Filipinos; but after the Philippines become independent, it will no longer be required that Americans shall have any greater privileges than citizens of any other foreign country.

(Please turn to page 82)

*Constitution of the Commonwealth of the Philippines, Art. XII, Sec. 1.

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Pedro Guevara heads Asbestos & Cement Products, capitalized at P1,000,000 in ten-centavo shares, with a plant in San Juan on Riverside drive making standard tile and granolithic products for building purposes. In a prospectus dated June the company alleges a purpose to acquire an asbestos deposit in the Islands and go more extensively into the making of asbestos products. The company also reports purchase from M. Karolchuck of the plant and machinery the latter used in construction of the Wilson

(Please turn to page 85)

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Marsman			70.85	69.00	56.00	60.31
Masbate Cons.	.454	.422	.335	.215	.24	.271
Mind. Hamamali		.0119	.0066	.007	.006	.0066
Mineral Ent.	.118	.099	.071	.07	.05	.059
Mineral Res.	.433	.366	.274	.27	.21	.244
Mother Lode	.149	.127	.094	.06	.045	.050
Northern Mining	.153	.123	.088	.085	.07	.079
Palidan Sogit	.150	.135	.106	.10	.08	.093
Paracale Daguit	.0122	.0116	.0085	.008	.004	.0049
Paracale Gold	.339	.264	.173	.16	.12	.141
Paracale Gumaus	.742	.652	.505	.46	.34	.398
Paracale Mining	.0267	.0225	.0173	.016	.015	.0155
Philippine Amal.	.119	.108	.083	.07	.07	.07
Philippine Dorado	.251	.244	.226	.24	.16	.213
Phil. Iron Mines	1.35					
Phil. Racing	1.00		.875	.85	.85	.85
Pilar Copper	.118	.118	.064	.055	.055	.055
Prudential	.099		.05			
Salacot	.081	.065	.046	.045	.036	.040
San Mauricio	3.02	2.69	1.97	2.15	1.70	1.92
Sta. Cruz Mamb.	.0125	.0103	.0052	.006	.004	.0045
Sta. Rosa	.079	.068	.049	.05	.04	.0454
Surigao Oriental	.019	.019	.0114	.01	.009	.0091
Suyoc Cons.	.467	.409	.383	.40	.325	.366
Synd. Investment	.127	.123	.091	.09	.075	.084
Twin Rivers	.417	.403	.345	.31	.27	.288
United Paracale	1.27	.944	.707	.81	.57	.679
Universal Expt.	.408	.357	.228	.245	.18	.222
Lepanto				.26	.23	.242
Mapaso				.15	.10	.135
Dev. Inc.			.30	.38	.37	.371

May Average	.574
April Average	.648
March Average	.793
Feb. Average	.835

JUNE 1, 1937

(Continued from page 36)

MINOR COCONUT PRODUCTS

The Philippine output of coconut products of minor importance has increased appreciably in recent years. None of these has as yet attained great importance in the export field, although several show considerable promise.

SOAP

Philippine soap, which contains an average of 60 percent coconut oil, is produced in a large number of small factories scattered throughout the Islands. In addition to the 173 registered soap manufacturers (Nov. 1, 1935), it is estimated that there are at least 500 smaller home establishments. No data are available concerning the capital invested in this industry, either as to the total amount, or as to the participation by the nationality of their owners. The three largest soap factories are owned one each by Americans, Swiss, and Chinese, and they are operated in conjunction with establishments making cooking fats and margarine. Practically all of the other factories and home establishments producing soap are owned by Chinese. Filipinos, however, own a small number of plants.

The total annual production of soap in the Islands is variously estimated at from 20,000 to 40,000 short tons, practically all of which is consumed domestically. The bulk of this soap is of the poorer grades, the better qualities being imported. In 1935, the Philippines exported soap to the value of \$7,085, whereas they imported soap to the value of \$364,502, over 96 percent of which came from the United States. As the Philippines continue to improve the quality of the domestic product, it is likely that they will be able to become practically self-

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sufficient in soap and they may be able to expand their export trade appreciably, thereby increasing the domestic consumption of coconut oil. At the present time, it is estimated, the Philippine

soap industry consumes from 3 to 4 percent of the copra produced in the Islands. The following table shows the Philippine export trade in soap for the years 1932-35:

TABLE 31.—Quantities and value of soap exported from the Philippines to all countries and to the United States, 1932-35

Year	All countries		United States	
	Quantity	Value	Quantity	Value
	Pounds			
1932	26,290	\$1,322		
1933	55,095	1,837		
1934	507,336	10,579	210,071	\$5,075
1935	298,774	7,084	128,032	3,307

¹Exclusive of Hawaii and Guam.
Source: Annual Reports, Insular Collector of Customs

EDIBLE OILS AND FATS.

Until recent years the Philippines depended in considerable measure on imports for their supplies of cooking oils and edible fats, particularly Chinese lard, peanut oil, cottonseed oil, and grease. At present one large factory and a number of smaller ones supply the bulk of the domestic requirements for these products with substitutes prepared principally from Philippine coconut oil. They also supply a modest but an enlarging export market.

It appears probable that the Philippines will continue to enjoy an expanding market for these coconut products both at home and abroad. With improvement in the quality of the products and the decline in their price, prejudice against coconut-oil preparations has been disappearing. The Chinese population in the Islands, for example, has more and more been substituting refined coconut oil for peanut oil. In the foreign field, the demand for coconut-oil preparations has likewise been increasing, particularly among the Mohammedan population in the Far East.

The largest Philippine factory engaged in the production of cooking oils and vegetable lard and butter consumes, it is claimed, more than 20,000 tons of coconut oil per year. The oil is produced in its own plant and is then converted into cooking oil, vegetable lard, and vegetable butter. The factory is well equipped with elaborate refining and processing machinery, and fabricates its metal containers from sheet tin by the use of automatic equipment.

Coconut oil, edible.—The largest foreign markets for edible Philippine coconut oil are the Straits Settlements and Netherlands Indies, where it is used chiefly for cooking purposes by the Mohammedan population. In 1935, the first year in which exports were of importance, they amounted to approximately 2,200,000 pounds valued at \$109,579. Only \$1,046 worth of this oil was shipped to the United States.

VEGETABLE LARD.

Although the exports of vegetable lard are small in comparison with the quantity consumed within the Islands (estimated at over 1,000 tons a month), the exports have recently assumed considerable importance. Until 1935 they went chiefly to countries in the Far East, but during this year the major portion went to the United States. The sudden rise in exports to the United States at this time is to be accounted for by the fact that there was no provision in the United States Revenue Act of 1934 for taxing Philippine manufacturers embodying oils which themselves were subject to the excise tax. The United States Revenue Acts of 1935 and 1936 made these products subject to the excise tax, and since 1936 the exports to the United States have

declined. Table 32 shows the Philippine export trade in vegetable lard for the period 1932-35.

TABLE 32.—Quantities and values of vegetable lard exported from the Philippines to all countries and to the United States 1932-35

Year	All countries		United States ¹	
	Quantity	Value	Quantity	Value
	Pounds			
1932	901,011	\$60,281	220,899	\$11.66
1933	752,847	46,771	179,307	8,408
1934	953,478	47,550	296,827	11,882
1935	2,975,782	179,550	2,037,522	118,208

¹Exclusive of Hawaii and Guam.
Source: Annual Reports, Insular Collector of Customs

VEGETABLE BUTTER (MARGARINE).

This product, like vegetable lard, is manufactured chiefly for Philippine consumption. It has practically displaced the imported margarine, most of which formerly came from Europe. The export industry, though still small has progressed very rapidly. The markets are almost entirely in the neighboring countries, the United States at no time having been of more than negligible importance. Although the

TABLE 33.—Quantities and values of vegetable butter exported from the Philippines to all countries, and to the United States, 1932-35

Year	All countries		United States ¹	
	Quantity	Value	Quantity	Value
	Pounds			
1932	41,239	\$2,731		
1933	227,226	15,620		
1934	1,178,778	76,599	60	\$6
1935	1,906,467	152,493	2,965	412

¹Exclusive of Hawaii and Guam.
Source: Annual Reports, Insular Collector of Customs.

FATTY ACIDS AND GLYCERIN.

Coconut oil can be broken down chemically into fatty acids and glycerin. Fatty acids are used in the production of soaps. Since the United States Revenue Act of 1934 placed no compensatory tax on imported products made from oils subject to excise taxes in the United States, the Philippines as well as other countries found it profitable for a time to export fatty acids to the United States. One large firm in the Islands installed expensive machinery for producing fatty acids and succeeded in shipping about 10,000,000 pounds to the United States before the Revenue Act of 1935 went into effect, subjecting fatty acids (along with other products

Another

(Continued from page 50)

Building on Calle Juan Luna. It claims to have contracted with Sicchi & Co. to supply brick and tile for Cebu's new capital, and to have furnished these materials for various new Manila buildings including Malacañan Annex.

So far as the *Journal* knows, this is the third such enterprise on an extensive scale launched in the Manila district, the oldest being the Manila Hume Pipe & Tile Works in Sta. Mesa.

Nicolas Estella is vice president of Asbestos & Cement Products, Emilio Ejercito is the general manager, Miss Carmen Garcia is the treasurer, and Cirilo B. Villamin the secretary. Offices are on the 4th floor of the Wise Building, Juan Luna, with the other Guverana offices.

British East Indies provided the best foreign market when this Philippine product was first introduced into other countries, the Netherlands Indies now ranks first in importance. It has recently been purchasing about two-thirds of the total exports from the Islands. Other minor markets are Siam and Hong Kong. The following table shows the Philippine exports of vegetable butter from 1932 to 1935:

processed outside of the United States from taxed oils) to a compensatory tax.¹⁰ Since then, the Philippines have not found it profitable to continue the production of fatty acids for export.

The Philippines have regularly exported small amounts of glycerin, all of which they marketed in the United States. During the short period when it was profitable to export fatty acids, Philippine exports of glycerin increased very sharply. Any permanent expansion of exports of glycerin from the Islands will depend largely on the extent to which they will find it profitable to produce soap and fatty acids. The following table shows the exports of glycerin from the Philippines for the period 1932-35.

TABLE 34.—Quantities and values of glycerin exported from the Philippines to the United States, 1932-35¹

Year	Quantity		Year	Quantity	
	Pounds	Value		Pounds	Value
1932	212,215	\$8,949	1934	174,587	\$14,177
1933	286,236	15,901	1935	742,459	35,101

¹Since the United States is the only export market, this table also shows the total exports of this product from the Philippines.

Source: Annual Reports, Insular Collector of Customs.

¹⁰Prior to July 27, 1935, fatty acids were not separately classified in United States import statistics. From this date to the end of 1935, imports from the Philippines amounted to 5,150,679 pounds, valued at \$207,848. During the same interval, imports from other countries,

chiefly Germany, amounted to 7,502,941 pounds valued at \$308,540, all of which were subject to a duty of 20 percent and effective Sept. 30, 1935, to a compensatory tax equal to the tax on the oils. The Revenue Act of 1936 continued the excise tax on such imports.

May 1937 Gold Production

Mine	May, 1937		May, 1937	
	Tons Milled	Value	Tons Milled	Value
Antamok	22,307	P440,156.05	14,763	P296,186.76
Baguio Gold	3,989	100,628.98	5,337	92,185.00
Blataoc	37,370	1,093,444.78	37,515	954,636.70
Benguet Consolidated	24,276	817,981.70	24,934	787,702.76
Benguet Exploration	not available	21,420.00	2,242	13,866.22
Cal-Horr	5,753	99,396.82	4,982	74,586.30
Demonstration	8,000	131,343.00	6,218	146,259.00
East Mindanao	3,580	92,500.00		
Gold Creek	(Included in Antamok)		1,670	56,557.54
Ipo Gold	5,428	49,231.07	5,254	52,622.30
Ilogon	17,882	292,439.05	14,303	214,074.57
I.X.L.—Argos	3,680	26,024.21		25,558.19
I.X.L.	7,352	183,549.31	5,374	72,893.33
Lasacot	46,018	248,706.36	28,413	143,022.36
Masbate Consolidated	5,020	34,130.28	5,000	37,000.00
San Mauricio	5,633	225,988.46	4,691	106,433.83
Suyoc Consolidated	6,250	121,759.82	5,100	96,064.56
Tambis Mining not available	31,772 yds.	14,793.45	29,149 yds.	10,578.75
United Paracale	8,298	139,997.67	5,514	113,125.56
Total		P4,105,781.01		P3,433,462.56*

*Including:

Coco Grove not available		53,339.02
Northern Mining not available		626
		4,819.45

CHARCOAL.

During the World War, the Philippines exported small amounts of coconut-shell charcoal to the United States for use in the manufacture of gas masks. With the conclusion of the war, the demand for this product ceased. More recently, however, new uses have been found for it, such as in the production of commercial gas absorbents.

COIR

The cleaned fiber of the coconut husk, known as coir, has long been of commercial importance in countries other than the Philippines, particularly India. The material is used chiefly for making mats, brooms, brushes, hats, paper, pulp, and furniture stuffing. The Philippines are endeavoring to develop the production of these products on a commercial scale but have not thus far been successful. Labor costs appear to be too high at present to enable the Islands to compete with producers in countries such as India.

RAW COCONUTS.

On several occasions the Philippines have attempted to market bulked coconuts in the United States for the edible trade. The trial shipments thus far indicate that the superior qualities (chiefly in size) of the Philippine nuts are outweighed by their higher landed costs as compared with nuts imported into the United States from nearer sources.

PALM SAP AND COCONUT MILK.

The sap of the coconut palm and the milk obtained from the nuts are used domestically in the preparation of fresh beverages, sugar and coconut sirup, and vinegar; the sap is also used in the preparation of wines and spirits. It is estimated that in recent years about 0.75 percent of the bearing palms in the Islands are tapped for their sap and are therefore withdrawn from the production of nuts. Thus far, no export trade of any consequence has been developed in any of these products.

COCONUT FLOUR, PAPER, AND PLASTICS.¹¹

The manufacture of these coconut derivatives is still in the experimental stage. At present

coconut flour, which is made from the meat of the coconut, possesses poor keeping qualities, is inferior in flavor and is not easily digestible. Coir paper is very brittle and is suitable only for wrapping. Coir board (made from coir dust), however, is considered an excellent substitute for cork board for use as insulating material in refrigerator equipment. Molded plastics can be made from coir dust copra meal and waste coconut pulp, by the condensation of aldehydes and cellulose under the influence of heat.

RECENT LEGISLATION AFFECTING THE EXPORTATION OF PHILIPPINE COCONUT PRODUCTS TO THE UNITED STATES

The quantities and values of Philippine coconut products exported to the United States have always been the resultants of numerous factors. Among those which have recently assumed major significance, either because of their present or their probable future effects are: The United States Agricultural Adjustment program, the droughts of 1934 and 1936 in the United States, the Philippine Independence Act, and the United States Revenue Acts of 1934 and 1936. The operation of some of these factors has tended to obscure the force of some of the others, and the operation of at least one of them, the Independence Act, has not as yet become apparent. The purpose of the following discussion is to consider the present and probable future effects on Philippine interests which may properly be assigned to the provisions of (1) the Independence Act and (2) the United States Revenue Acts of 1934 and 1936, insofar as they affect, or may affect, the exportation of coconut products to the United States. The effects of this legislation cannot be fully isolated from the effects of other factors, and any estimate for the future is particularly subject to error because of the unforeseen technological and economic changes which may develop. Certain observations, nevertheless, appear warranted, but they are to be regarded merely as statements of tendencies, whose operation for the future will in part be conditioned upon the continuance of the present United

States tariff rates and classifications on coconut products.

INDEPENDENCE ACT.

The Independence Act provides for certain restrictions on the movement of Philippine coconut products to the United States. The major products—copra, coconut oil, copra cake and meal, and desiccated coconut—are to be affected as follows:

(1) During the first 5 years of the Commonwealth Government, the maximum quantity of coconut oil which may be admitted into the United States duty-free in any calendar year is 200,000 long tons (224,000 short tons). Any excess is subject to the full United States duty. No restrictions of any kind are placed on the movement of the other major coconut products from the Philippines to the United States.

(2) During the second 5 years of the Commonwealth Government, the duty-free quota on coconut oil will remain unchanged, but the allotments will become subject to the same progressive Philippine export taxes to be applied against all Philippine exports to the United States which would be subject to duty if entered from a foreign country. Exports of coconut oil to the United States in excess of the duty-free quota will not be subject to Philippine export taxes but they will be subject to the United States duty. The export taxes will also apply to desiccated coconut and to cake and meal but not to copra, assuming, of course, the continuance of the present United States tariff rates and classifications.

(3) After the Philippines attain their complete independence on July 4, 1946, Philippine coconut oil will no longer be subject to the quota restrictions previously imposed by the Independence Act, nor will it or any other Philippine export to the United States be subject to the export taxes provided for in the act. At that time all Philippine products entering the United States will be dutiable at the same tariff rates applicable to similar imports from other countries.

The following table shows the export taxes to which the major coconut products will be subject during the period of the Commonwealth Government, and the United States duties to which they will become subject thereafter. All computations are based on the United States tariffs now in effect; they do not take into account the excise taxes imposed by United States revenue acts.

Effects of Independence Act on Philippine Coconut Industry.—During the first 5 years of the Commonwealth period, it does not appear that the exports of coconut products will be curtailed in consequence of the provisions of the Independence Act. Coconut oil is the only coconut product whose export to the United States is subject to any restrictions. The duty-free limitation in this case, however, amounts to 200,000 long tons per year. This exceeds by 7 percent the maximum amount (reached in 1929) shipped to the United States in any one year during the decade ending with 1935, and it exceeds by more than 40 percent the average annual amount shipped during the entire period.

(Please turn to page 58)

¹¹Information on these commodities was obtained from a 1935 report by the Department of Agriculture, Straits Settlements and Federal Malay States, entitled "The Coconut Industry of the Philippine Islands" by F. C. Cooke.

(Continued from page 56)

TABLE 35.—Philippine export taxes and United States duties applicable to the principal Philippine coconut products marketed in the United States¹

Period ²	[Cents per pound]			
	Copra	Coconut oil ³	Copra cake and meal	Desiccated coconut
First 5 year of Commonwealth period	Free	Free	Free	Free
Sixth year—export tax = 5 percent United States duty	Free	0.1	0.015	0.175
Seventh year—export tax = 10 percent United States duty	Free	.2	.030	.350
Eighth year—export tax = 15 percent United States duty	Free	.3	.045	.525
Ninth year—export tax = 20 percent United States duty	Free	.4	.060	.700
Tenth year—export tax = 25 percent United States duty	Free	.5	.075	.875
After independence, beginning July 4, 1946, full United States duty	Free	2.0	.300	3.500

¹All computations are based on existing United States tariff rates.
²The sixth year of the Commonwealth will begin Nov. 15, 1940; the Commonwealth period will end July 3, 1946.
³Coconut oil in excess of 200,000 long tons (22,100 short tons) per calendar year during the Commonwealth period is exempt from Philippine export taxes, but is subject to the full United States duty.

so far as the provisions of the act are concerned, the Philippines will face no obstacle even in expanding their shipments of coconut oil to the United States over those made during recent years. Philippine coconut interests, who themselves suggested the limitation of 200,000 long tons, recognize that such is the case.

During the second 5 years of the Commonwealth period, the exports of coconut products in the aggregate are not likely to be affected appreciably in consequence of any provisions of the Independence Act. But the composition of the major coconut exports is likely to undergo some important changes, since the export taxes will constitute a progressively increasing disadvantage for the Philippine producers of coconut oil in their competition with crushers located in the United States.

Philippine producers maintain that their costs of producing coconut oil are substantially the same as those of producers in the United States. The advantage of the lower wage scales in the Islands, they contend, is offset by the lower efficiency of the labor and by the greater costs for power, machinery, and replacement parts. In 1935, according to Philippine oil producers, the cost of the copra represented approximately 90 percent of the cost of producing coconut oil in the Islands.¹² Of the remaining 10 percent, mill labor costs were said to represent only about 3 percent of the value of the oil.

Such possible advantage as crushers in the Philippines may actually have at present over producers in the United States must be confined principally to some fraction of the relatively small cost of converting copra into oil, since mills in the United States and in the Islands presumably buy copra on similar terms. Other minor competitive considerations would arise out of the fluctuations in freight rates on copra, coconut oil, and cake and meal to the various markets, and in the shifts in the markets themselves for each of these products. But the general competitive advantage which crushers in the Islands may enjoy over those in the United States cannot in any event be large, otherwise the producers in the United States would not have been able to withstand Island competition up to the present time. It is highly improbable, therefore, that the oil producers in the Philippines will be able to compete with mainland producers even for the whole of the Commonwealth period. In the last year of that period, the export tax on coconut oil (on the basis of present United States duties) will amount to one-half cent per pound. Such a tax exceeds the entire present cost of converting copra into coconut oil either in the Philippines or in the United States. Philippine producers of coconut

United States at some time during the second 5 years of the Commonwealth period, they would doubtless be able to increase their exports of copra by an amount corresponding to the decline in the shipments of oil. Consumption of coconut oil in the United States presumably will not be affected by Philippine export taxes so long as these are not applicable to copra. The export taxes, therefore, will operate to transfer the crushing industry from the Islands to the United States. Should the transfer in fact occur, the Islands would necessarily cease exporting. (Please turn to page 67)

¹²The U. S. Tariff Commission report, entitled "Certain Vegetable Oils, Whale Oil, and Copra" (1932), shows that copra represented 94 percent on the average of the value of the coconut oil produced by the leading companies in the United States between Jan. 1, 1929, and July 1, 1930. Copra and coconut oil prices at this time were much higher than during 1933. It would be expected, therefore, that the cost of the copra should have represented a higher fraction of the value of the coconut oil at this time than in 1935.

oil assert that they will not be able to compete with mainland producers beyond the sixth or, at most, the seventh year of the Commonwealth period.

But even if the Philippines should be obliged to abandon their exports of coconut oil to the

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(Continued from page 58)

porting copra cake and meal. The loss of the crushing industry would entail a small decline in employment in the Philippines, a shrinkage in Government revenues, and a loss of some capital (chiefly American and British) invested in the crushing mills.¹³

The export of desiccated coconut is likely to be very seriously affected by the excise taxes, since even in the last year of the Commonwealth period (on a basis of present United States duties) Philippine producers will still enjoy a tariff preference in the United States market of almost 2.4 cents per pound over other foreign suppliers. Philippine producers, themselves, do not believe that the export taxes will prove a very serious impediment to exports, although they expect increased competition from Ceylon producers and from producers within the United States during the second 5 years of the Commonwealth period.

After the Philippines attain their complete independence on July 4, 1946, any further important changes likely to affect the coconut industry in consequence of the provisions of the Independence Act will depend primarily on (1) whether the present United States excise taxes on oils and fats will then be in effect, and (2) whether coconut oil derived from Philippine copra will continue to enjoy its present preferential excise-tax status in the United States market. The existing United States revenue rates are not clear on this latter point.

If the present United States tariff and the present excise tax legislation remain in effect after July 4, 1946, and if Philippine-derived coconut oil remains in its present preferential excise tax status, the only further important change likely to affect the coconut industry in consequence of the provisions of the Independence Act will be a reduction, in greater or lesser degree, of the output and profitability of the desiccated coconut industry. The exports of coconut oil to the United States would presumably have been discontinued in the second half of the Commonwealth period. But if this should not have taken place then, it appears practically certain that on the basis of present tariff rates, coconut oil would no longer be exported to the United States after becoming subject to the full United States duty, inasmuch as it could not then compete in the American market with coconut oil crushed in the United States from imported, duty-free Philippine copra. Whether the Philippines would be able to find alternate markets for their coconut oil at that time is problematical. At present, as has been pointed out, most countries impose duties on coconut oil since they prefer to do their own copra crushing. Once the Philippines cease exporting coconut oil they would, as was previously observed, cease exporting copra cake and meal. Their ability to continue exporting desiccated coconut will depend on whether they will be able to reduce their production costs so as to compete in the United States or in other world markets with Ceylon producers. Labor costs are a large element in the production of desiccated coconut and, at present, according to Philippine producers, these are much lower in Ceylon than in the Philippines. Some, but not all, of the manufacturers of desiccated coconut in the Philippines maintain that they will be

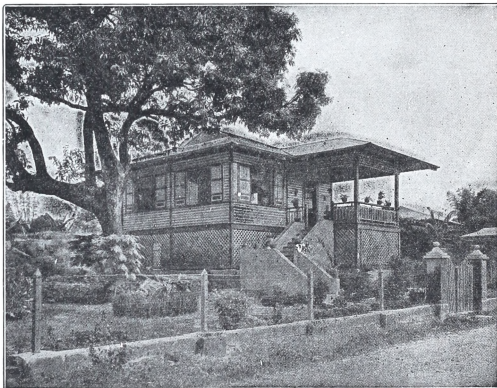
obliged to abandon their business once their product becomes subject to the full United States duty. Whether this will be the case is problematical, but in any event the complete or partial liquidation of this business would not greatly affect the coconut industry as a whole in the Islands. It would result in a somewhat lessened demand for coconuts, in a slight curtailment in employment and government revenue, and in a loss of some private capital—almost entirely American—to those engaged in the business.

Considering the effects of the provisions of the Independence Act for the whole period of the Commonwealth Government and for the period after independence, it does not appear that they will of themselves materially discourage the growing of coconuts in the Islands, or will

greatly restrict the total value or volume of exports of the major coconut products (considered in the aggregate), provided that, if the present excise taxes remain in effect after July 4, 1946, coconut oil derived from Philippine copra will continue to enjoy its present preferential position in respect of excise taxes. If this preference is

¹³Coconut-oil interests in the Philippines contend that the transfer of the crushing industry from the Islands to the United States would injure the position of the copra producers in the Islands, since they would no longer find a continuous or as stable a market for their product as they now enjoy. The transfer, it is also contended, would be injurious to the American producers of cattle feed. Philippine cake and meal now go chiefly to Europe; but if the crushing industry were transferred to the United States, the additional amounts of cake and meal appearing on the market, it is argued, would tend to depress American feed prices generally.

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not continued, coconut oil will be placed at a marked disadvantage in the American market in comparison with competitive oils. In this circumstance, the Philippine coconut industry will be seriously injured. Throughout the Commonwealth period and thereafter, however, the excise taxes themselves, independently of the provisions of the Independence Act, will continue to have an important effect on the Philippine coconut industry.

UNITED STATES REVENUE ACTS.

The United States Revenue Act of 1934 placed excise taxes on the importation of certain fish and marine-animal oils and on the first domestic processing of certain vegetable oils, among which Philippine coconut oil was specifically included.¹¹ The tax amounted to 3 cents per pound on the oil extracted—either in the Philippines or in the United States—from copra of Philippine origin, as compared with 5 cents per pound on oil extracted from copra of other foreign origins.¹² The tax on most other foreign competitive oils was 3 cents per pound. Section 602-1/2 of the act also provided that the excise taxes which the United States should collect on coconut oil produced either in the Islands or in the United States from Philippine copra would be paid to the Treasury of the Philippine Islands. The remittance of this money was made conditional on the Philippine Government not paying any subsidies to producers of copra, coconut oil, or allied products.

The Revenue Act of 1935 amended that of 1934 so as to place a compensatory tax on imported articles manufactured or produced in chief value from taxable oils. The rates were to be substantially the equivalent of the processing taxes which would have been collected had the oil ingredients been imported into the United States in the form of oil.¹³ As explained in a preceding section, one of the effects of this law was to subject Philippine-made fatty acids, vegetable, lard, soap, and some other products to the equivalent of the excise tax. (Since it also subjected similar preparations entering the United States from other countries to the compensatory taxes it served to improve rather than to lower the competitive position in the United States of coconut oil derived from Philippine copra.)

The Revenue Act of 1936 amended both of the preceding revenue acts.¹⁴ The most important changes, from the standpoint of the Philippines, were the extension of the list of taxable oils and the increase in rates on some of the oils already taxed.

Internal Revenue Treasury Decision No. 4695, promulgated on September 11, 1936, modified and clarified administrative procedure. Excise taxes are levied, collected, and paid on imported oils and oil substances entering the United States in the same manner as duties imposed by the Tariff Act of 1930, except in the cases of coconut, palm, and palm-kernel oils, and the fatty acids, salts, mixtures, and combinations thereof. In these, the excise taxes are collected by the Bureau of Internal Revenue on the first domestic processing. The receipts collected by both the Customs and the Bureau of Internal Revenue, on goods produced in the Philippines or derived from Philippine materials, are credited to a special fund which is to be remitted to the Philippine Treasury.

Effects of United States Revenue Acts.—The net effect of the recent revenue acts, even as

amended to date, has been to alter adversely the competitive position in the American market of Philippine-derived coconut oil as compared with oils and fats produced wholly in the United States, inasmuch as the excise taxes have been applied only against oils and fats of foreign and of Philippine origin.¹⁵ This legislation has also altered adversely the competitive position of Philippine coconut oil in comparison with several foreign oils—at present more or less minor—which are exempt from the excise taxes and, in a few instances, exempt from import duties as well.

The preferential tax position accorded coconut oil of Philippine derivation has given the Islands a larger share of the American copra market than they previously had, but in view of the fact that they are still obliged to sell in the world market, it is doubtful that this has redounded appreciably to their advantage. The Islands sell their copra in the United States generally at no price advantage over their sales in the world market, and foreign copra which formerly entered the United States now supplants substantially equivalent amounts of Philippine copra in other markets. Since there is no reason to suppose that the world price of copra has been appreciably affected in consequence of the excise tax preference accorded Philippine copra in the United States, it would appear that this preference has served more to alter the channels of world copra trade than to confer any substantial benefits on Philippine coconut producers.¹⁶

To the extent that the use of coconut oil in the United States has been lessened or the price (exclusive of the tax) depressed, in consequence of the excise-tax legislation, the Philippine copra and coconut oil interests have been affected adversely. What effect this legislation may be expected to have for the future, should it continue in force unaltered, is a matter for speculation. The acts provide that the preferential rate shall be accorded to coconut oil crushed from copra originating in "the Philippine Islands or any other possession of the United States." Although the Philippines will no longer be a possession of the United States after July 4, 1946, coconut oil derived from Philippine copra may be held to be entitled to preferential treatment in the United States on the basis of the wording of the existing laws. The present preferential rate on Philippine coconut oil is the same as the rate applicable to a number of other imported oils which are competitive with coconut oil in varying degree. The removal of the preference on Philippine coconut oil, therefore, would result in adversely affecting the competitive position of this product in the United States market in respect of most other taxed foreign oils and fats.

As has been mentioned, the excise taxes which the United States collects on Philippine coconut oil are to be paid, subject to certain conditions, to the Philippine Treasury. These remittances, when and if made, will represent gains for the Insular Government which will very likely exceed any monetary losses which the Philippine coconut industry may have suffered in consequence of the United States excise tax legislation. The processing tax has been high in relation to the oil—about 100 percent when the law was introduced—and it appears that only a part of the tax has been shifted back to the Philippine producers of coconuts and copra.

The United States has not thus far forwarded any portion of the coconut oil excise tax receipts

to the Commonwealth Treasury. The payment of these funds has become the subject of litigation, with the result that even their eventual payment is not now regarded as certain.¹⁷ By November 30, 1936, the United States Treasury had collected \$41,202,203 for remission to the Philippine Government, as shown in the following table.¹⁸

PROPOSED LEGISLATION TO AMEND THE REVENUE ACTS.

Philippine copra and coconut-oil interests contend that while the United States excise-tax legislation places them at an increased advantage in the American market in respect of other foreign suppliers of the identical products, it places them at a more than offsetting disadvantage compared with foreign and domestic suppliers of untaxed and lesser-taxed oils and oil substances which can replace copra and coconut oil in some of their uses. The fact that the excise-tax collections may possibly be remitted to the Philippine Treasury, they point out, does not minimize the injury which the excise taxes inflict upon them.

The coconut interests in the Philippines, and more recently the Philippine Government, have been urging that the United States allow the

¹¹The act became effective on May 10, 1934, as to processing taxes and on May 11, 1934, as to import taxes.

¹²Coconut oil imported as such from countries other than the Philippines and Cuba is also subject to an import duty of 2 cents per pound. Coconut oil from Cuba would be subject to an import duty of 1 cent, but the United States does not import coconut oil from Cuba at present.

¹³This change went into effect on Sept. 30, 1935, or 30 days after the 1935 act became operative.

¹⁴This act was approved on June 22, 1936, and the new rates became effective on Aug. 21, 1936.

¹⁵For all practical purposes, these acts do not differentiate between coconut oil produced wholly in the Philippines and coconut oil produced in the United States from Philippine copra. The original act, however, tendentially favored the crushing of copra in the Islands rather than in the United States, since manufacturers of coconut oil, such as vegetable lard and soap, were not subject to a compensatory tax (equivalent to the processing tax) upon their arrival in the United States until after the Revenue Act of 1935 became effective.

¹⁶The tax preference accorded Philippine coconut oil, as compared with coconut oil imported as such into the United States from other sources, did not benefit the Philippine oil producers in any appreciable degree. Prior to the introduction of excise taxes, the United States tariff duty of 2 cents per pound had already operated to exclude coconut oil from other countries.

¹⁷A number of suits have been instituted by soap manufacturers and others to recover the excise taxes which they have paid on coconut oil derived from Philippine copra. The plaintiff, in most instances, has charged that the tax is unconstitutional, since the proceeds are to be paid to the Philippine Government. The court decisions which have been rendered to date have without exception upheld the constitutionality of the tax, but no payments have thus far been made to the Philippine Government. In fact, the United States Treasury may possibly desire to have the constitutionality of the tax upheld by the United States Supreme Court. The highest courts which have thus far rendered decisions in this case are the United States Court of Appeals in the District of Columbia, and the Circuit Court of Appeals for the Eighth Circuit. On June 30, 1936, the former sustained a dismissal order which had been appealed from a lower court by Haskins Bros., soap manufacturers. On November 9, 1936, the Supreme Court refused to review this case and two other similar cases.

¹⁸In contrast, the United States Treasury during the same interval collected only \$1,532,024 in excise taxes on processed and foreign countries, supplies from the latter source being subject in most instances to an excise tax of 5 cents per pound.

TABLE 36.—United States Treasury receipts from processing taxes on coconut oil derived from Philippine copra¹

Period	Quantity	Tax
	<i>Pounds</i>	
1934—May 10-Dec. 31	254,679,382	\$7,640,351
1935	590,296,765	17,888,903
1936—Jan. 1-Nov. 30	827,430,013	15,672,919
Total—May 10, 1934—Nov. 30, 1936	1,672,406,160	41,202,203

¹As provided for under sec. 602-1/2 of the Revenue Act of 1934, effective May 10, 1934.
Source: Bureau of Internal Revenue.

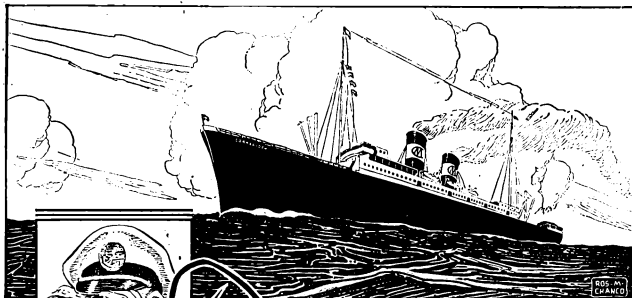
tax-free usage of Philippine coconut oil (i. e., oil crushed from Philippine copra either in the Islands or in the United States) if rendered inedible for industrial uses.²² Coconut oil of other foreign origins and Philippine coconut oil used for edible purposes, under this proposal, would remain subject to the tax. The acceptance of such a proposal by the United States

would greatly benefit coconut interests in the Philippines, at least for the period of the Commonwealth Government.²³ It would even place them in a stronger competitive position in the United States market than the one they occupied prior to the introduction of the excise taxes. Philippine coconut oil in its inedible uses, which until recently were the most im-

portant, would be able to compete with imported taxed oils and fats (including coconut oil derived from foreign copra) on the same basis as domestically produced, untaxed oils and fats. But since the competitive status of these latter has been improved in consequence of the excise

²²Guffy-Doekweiler bill, S. 3004 II. R. 8000. The Philippine Government did not officially sponsor this bill when it was first introduced. Commissioner Q. Paredes, of the Philippines, endorsed it on Apr. 15, 1936, in his address before the House of Representatives. See Congressional Record for Apr. 15, 1936.

²³The proposed amendment, like the 1934 Revenue Act itself, does not make clear whether the preference would be accorded after the Philippines became fully independent. The amendment would confer an excise tax exemption on inedible coconut oil derived from copra which is "the production of the Philippine Islands or any other possession of the United States."



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taxes being assessed against most imported oils and fats, Philippine coconut oil in its industrial uses would likewise be placed in an improved position, compared with the one it occupied before the excise taxes were imposed.

The effects of carrying out the above plan would be to increase the preferential position of a major Philippine export in the United States market during a period when the Independence Act anticipates that a contrary development will occur. The adoption of the plan, moreover, would result in shutting off a large source of revenue for the Philippine Government, assuming of course that the United States would otherwise remit the coconut-oil processing taxes to the Islands. The probable effects which the adoption of such a proposal would have on private American economic interests and on the United States Treasury will be discussed in the next section of this chapter.

COMPETITIVE ASPECTS—UNITED STATES PRODUCTION AND IMPORTS

The United States produces substantial quantities

of coconut products, but practically all of them are derived from imported raw materials. The imports of some Philippine coconut products, therefore, directly compete in varying degree with similar coconut products made in the United States; and the imports of all Philippine coconut products indirectly compete in varying degrees with other domestically made or imported products. The competition which will be analyzed below is that which affects the domestic production, consumption, and importation of (1) coconut oil, (2) copra cake and meal, and (3) desiccated coconut. Each of these analyses considers the manner in which the provisions of the Independence Act and the Revenue Acts of 1934, 1935 and 1936 have affected or will probably affect American interests.

COCONUT OIL

The coconut oil produced in the United States is manufactured entirely from imported copra, the bulk of which, as shown in the following table, comes from the Philippines.¹

TABLE 37.—Copra: United States imports for consumption, 1926-35¹

Year	From Philippines (duty free)			From other countries (duty free)		
	Quantity	Value	Unit value	Quantity	Value	Unit value
	Thousands of pounds	Thousands of dollars	Per pound	Thousands of pounds	Thousands of dollars	Per pound
1926	275,696	14,937	\$0.051	161,903	9,476	\$0.052
1927	341,389	15,113	0.044	109,606	5,228	0.050
1928	371,869	16,548	0.044	130,101	6,230	0.048
1929	310,194	13,134	0.042	260,737	11,041	0.042
1930	336,355	15,403	0.037	258,784	9,294	0.036
1931	267,471	6,574	0.025	190,476	4,403	0.024
1932	196,526	3,431	0.017	254,922	4,928	0.019
1933	142,168	6,009	0.014	218,704	3,279	0.015
1934	338,087	4,071	0.012	61,147	733	0.012
1935	441,066	9,366	0.021	13,968	232	0.018

¹On May 10, 1934, the oil crushed from Philippine copra became subject to an excise tax of 3 cents a pound, and the oil crushed from copra of foreign origin became subject to an excise tax of 5 cents a pound.

Source: Foreign Commerce and Navigation of the United States.

It will be noted that the participation of the Philippines in this trade advanced sharply after the United States Revenue Act of 1934 became effective. Copra from all sources is admitted into the United States free of duty, but the revenue act provides that coconut oil expressed from copra produced outside of the Philippines or other possessions of the United States shall be subject to an additional excise tax of 2 cents a pound, or a total tax of 5 cents a pound. This preferential provision has served greatly to restrict the importation of copra from sources other than the Philippines. In 1935 such importation accounted for less than 3 percent of the total which entered the United States. The copra which formerly came from British Malaya, the South Sea Islands, the Netherlands Indies, and other regions now enters other markets, and the Americans who formerly imported copra from these sources have transferred their purchases to the Philippines.

Prior to the introduction of the excise taxes, non-Philippine copra generally sold in the United States on a competitive price basis with Philippine copra, as shown in table 37. Certain grades

from some origins occasionally were higher priced, and at other times, lower priced, but the price differences were never large.² The

²A inferior amount is also manufactured from the palms and waste supplied by the domestic desiccated coconut industry.

³It will be recalled that the United States generally imports only the poorer grades of copra which enter into commerce.

TABLE 39.—Coconut oil, crude: United States imports for consumption, 1926-35¹

Year	From Philippines (duty-free)			From other countries (2 cents per pound duty)				
	Quantity	Value	Unit value	Quantity	Value	Unit value	Computed advance rate	
	Thousands of pounds	Thousands of dollars	Per pound	Thousands of pounds	Thousands of dollars	Per pound	Percent	
1926	245,129	22,088	\$0.090	327	3.0	0.009	12.2	
1927	293,270	21,900	0.078	38	3.0	0.079	25.4	
1928	290,637	23,061	0.079	60	6.4	1.06	18.0	
1929	411,356	20,552	0.050	43	4.4	1.02	19.6	
1930	317,919	19,901	0.063	33	4.2	1.29	15.6	
1931	325,175	12,272	0.047	5	8	1.41	14.3	
1932	249,117	7,619	0.031	28	1.5	0.057	33.2	
1933	316,078	8,556	0.027	25	1.6	0.62	32.2	
1934	314,803	7,372	0.023	9	3	1.14	14.9	
1935 ²	353,396	12,576	0.036	10	1.0	1.02	19.6	

¹On May 10, 1931, coconut oil imported "as such from the Philippines or crushed in the United States from copra originating in the Philippines or other United States possessions, became subject to an excise tax of 3 cents a pound; coconut oil imported as such from foreign sources or crushed in the United States from copra imported from foreign sources became subject to an excise tax of 5 cents a pound.

²Preliminary.

TABLE 38.—Coconut oil, crude: Factory production, net imports, stocks, and apparent disappearance, 1926-35

[In thousands of pounds, i. e., 1000 omitted]

Year	Factory production	Net imports	Stocks Dec. 31	Apparent disappearance
1926	260,712	225,507	100,124	2444,634
1927	281,654	267,095	114,839	3384,034
1928	311,181	259,653	117,003	368,470
1929	352,654	381,065	193,543	657,179
1930	352,727	291,015	182,243	655,042
1931	303,474	208,829	204,093	587,413
1932	284,079	221,867	136,194	653,845
1933	351,075	286,447	199,383	574,333
1934	354,277	338,082	189,227	597,115
1935 ¹	252,841	341,078	153,428	629,718

¹Total imports minus exports and reexports.

²Based on a carry-over from 1925 of 58,539,000 pounds.

³Preliminary.

Source: United States Department of Agriculture report on oleomargarine, August 1936, p. 25.

price now charged for Philippine copra in the United States is substantially the same as that charged for it in other world markets. Philippine copra continues to be exported in large volume to markets other than the United States, and in these markets encounters the competition of copra from other countries, which prior to the imposition of the preferential excise tax had gone to the United States. It is doubtful, therefore, that the American consumers of copra pay an appreciably higher price for their requirements than they would if copra of all origins were subject to the same excise-tax treatment as Philippine copra. Temporarily, however, the preferential provisions of the tax laws have probably injured the American importers who formerly purchased copra from countries other than the Philippines. Certain expenses, no doubt, have been entailed in severing established business connections and in making new ones.

Coconut oil is produced in the United States chiefly in and near Los Angeles, San Francisco, Portland (Oreg.), Cincinnati, New York, and Baltimore, the west coast cities accounting for over 90 percent of the total production. Four of the eight producing companies account for approximately 90 percent of the domestic production. Some companies cater principally to outside consumers of oil and cake, whereas others operate their mills primarily to supply their own requirements of oil in the production of soap and food products.

Although fluctuating somewhat from year to year, the domestic production of coconut oil averages about 50 percent of domestic consumption, the remainder being accounted for by net imports. Exports have ranged between 6 and 8-1/2 percent of domestic production in recent years, and the principal markets have been Canada, Mexico, and Cuba. Domestic production and net imports, as compared with domestic consumption are shown in table 38.

IMPORTS.

The imports of dutiable coconut oil, as shown in table 39, have been insignificant as compared with the imports of the duty-free Philippine product. Moreover, the unit values of the dutiable imports have greatly exceeded the unit values of the Philippine product, not taking into account either the duty or the higher excise tax to which the dutiable imports have been subject since May 10, 1934. The excise tax preference accorded Philippine coconut oil, as compared with coconut oil of foreign origin, has been largely ineffective, inasmuch as the tariff duty of 2 cents per pound already operated as a virtual embargo against the importation of the latter. Even in the year preceding the imposition of the

excise taxes, non-Philippine coconut oil accounted for less than one one-hundredth of 1 percent of the total quantity which entered the United States.

The principal ports of entry for coconut oil are New York, New Orleans, and Boston. San Francisco and Los Angeles, which are the principal coconut-oil production centers in the United States, are of much less importance. The principal consuming area is in the Midwest. Ocean and rail freights on copra and coconut oil are so constructed as to allow competition on an approximately equal basis in this area between the domestically produced coconut oil, and the imported coconut oil entered at the Atlantic, Gulf, or Pacific coast ports.

The coconut oil imported from the Philippines is, for all practical purposes, identical with the coconut oil produced in the United States from Philippine copra. Moreover, there appears to be no appreciable cost advantage or disadvantage of producing it as between the Islands and the United States. Any substantial margin of persistent difference, as was suggested earlier, would have tended to enter the crushing industry either in the United States or in the Islands, and no such tendency has been apparent.

USES OF COCONUT OIL.

Coconut oil is used both for nonedible and for edible purposes. The United States factory consumption in the major uses in recent years is shown in the following table.

TABLE 40.—Coconut oil: United States factory consumption in specified products, 1931-35

Products	Quantity consumed				
	1931	1932	1933	1934	1935
Soap	1,000 lbs. 340,503	1,000 lbs. 353,527	1,000 lbs. 322,264	1,000 lbs. 391,124	1,000 lbs. 229,711
Oleomargarine	132,177	123,219	150,096	123,078	174,314
Other edibles ¹	86,116	49,116	76,450	87,681	131,094
Loss, including foots ²	31,193	22,529	32,333	34,952	43,072
All other ³	755	1,055	2,083	2,167	3,900
Total	592,684	519,515	583,226	589,602	582,097
	Percentage of total				
Soap	58	65	55	58	39
Oleomargarine	22	22	26	21	30
Other edibles	15	9	13	15	23
Loss, including foots ²	5	4	6	6	7
All other ³	(4)	(4)	(4)	(4)	(4)
Total	100	100	100	100	100

¹Includes compounds and vegetable shortenings, confectionery, etc.

²Mostly used for soap.

³Includes paints and varnishes, printing inks and miscellaneous products.

⁴Less than 1/2 of 1 percent.

Source: Prepared in the United States Department of Agriculture, Bureau of Statistical and Historical Research. Based on Bureau of the Census, Factory Consumption of Primary Animal and Vegetable Fats and Oils, by Classes of Products, calendar years, 1931-35.

It will be noted that, until 1935, the amounts and proportions of coconut oil entering into each of its chief uses fluctuated only within narrow

limits. From 61 to 69 percent of the coconut oil (including foots) was used in soap; from 21 to 26 percent in oleomargarine; from 10 to 15 percent in cooking compounds and vegetable shortening, and confectionery products (chiefly the latter); and less than one-half of 1 percent in paints, varnishes, printing inks, and miscellaneous products. In 1935, however, there was a marked decline in the amount and proportion used for soap, and marked increases in the amounts and proportions used for oleomargarine and for other edible purposes. The increased use of coconut oil for food purposes was largely due to the shortage of domestic edible oils caused by the drought in 1934.

The extent to which coconut oil, as compared with other oils and fats, entered into the various branches of domestic consumption in 1934 (the most recent typical year) is depicted in chart VI and table 41. Coconut oil accounted for 6.6 percent of all the oils and fats consumed in the United States; it constituted 21.1 percent of those used in soap and 3.5 percent of those used for edible purposes. Domestic oils and fats constituted almost 95 percent of all the food oils but only 63.5 percent of the soap oils.

DEGREE OF INTERCHANGEABILITY IN INEDIBLE USES.

In the inedible field, coconut oil finds its chief use in the production of soap.⁴ For this purpose it has long been the most important of the vegetable oils. Prior to the World War

foots are still used. During the war imported soybean oil was an important constituent of soap, but because of the duty which was imposed on the oil, little is now imported. The domestically produced soybean oil is used principally in the manufacture of paints, varnishes, compounds, and vegetable shortenings.

The preference in the United States, particularly in those regions where the water is hard or semihard, is for hard white soaps which lather quickly and rinse easily, and which have good keeping qualities. The lathering properties depend chiefly on the lauric acid content of the oil ingredient. Coconut oil and palm-kernel oil are both high in lauric acid content, but soaps made of palm-kernel oil tend to be darker in color than those made of coconut oil. Soaps made chiefly of cottonseed oil, corn oil, or peanut oil not only possess poor lathering qualities, particularly in hard water, but have a tendency to become rancid. Yellow laundry soaps contain little or no coconut oil, being made chiefly of tallow, greases, fish oils, and cottonseed-oil foots, together usually with rosin which gives them their characteristic odor. The demand for such soaps, however, has declined in recent years.

The practical disappearance of cottonseed oil from use in soap is not to be attributed to the increased use of coconut oil. Cottonseed oil is no longer used even in soaps in which coconut oil was never an appreciable ingredient, yellow laundry soaps for example. Cottonseed oil has disappeared from use in soap principally because the entire supply of the edible grade is now absorbed in food uses at much higher prices than it could command for use in soap.

Largely because of the price shifts in the various soap oils and fats resulting from the acute domestic shortage of oils and fats, there was in 1934 and still more in 1935 a substantial relative and absolute decline in the consumption of coconut oil for soap making, as shown in table 42.

It will be noted that there has been only moderate change in the last several years in the total quantity of oils and fats used in the manufacture of soap in the United States. The proportions of the principal oils and fats, moreover, fluctuated only within narrow limits prior to 1934. In that year and still more in the next one, the

⁴Although coconut oil is also used in the production of paints and varnishes, printing inks, and vulcanizing and paving materials, none of these uses as yet absorbs a sufficient portion of the total entering into inedible uses to warrant special treatment.

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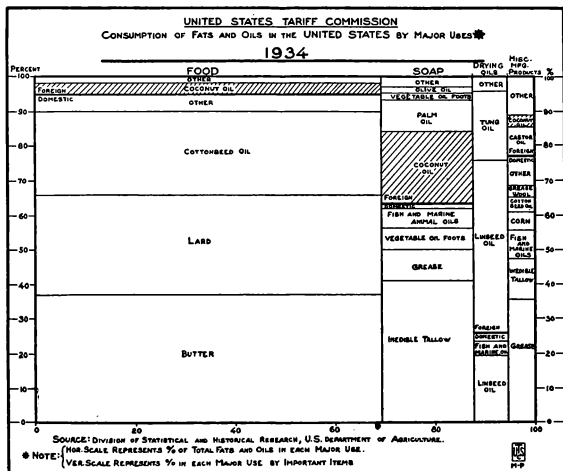
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proportion of inedible tallow increased substantially, while that of each of the other principal oils, with the exceptions of fish oil and palm-kernel oil in 1935, declined. During the period from 1931 through 1933, the proportion of coconut oil and palm-kernel oil combined remained almost constant; in 1934 and again in 1935, the proportion declined somewhat. But during these latter 2 years, considerable amounts of fatty acids derived from coconut oil and palm-kernel oil were imported into this country (inasmuch as they were not subject to excise taxes between May 10, 1934, and Sept. 30, 1935) and used in the manufacture of soap. It would appear, therefore, that during the whole of the period under review, (1931-35), the proportion of coconut oil and palm-kernel oil combined, including the fatty acids derived from them, fluctuated only to a limited extent, despite considerable changes in the respective tax-paid prices of these oils as compared with other soap oils. Coconut oil and palm-kernel oil, as has been explained, are the only important soap oils now used which contain lauric acid, a necessary constituent of freethatening soaps. There are other oils containing lauric acid, such as babassu and cohune nut, but these have not yet been used in substantial amounts in the manufacture of soap. Moreover, like coconut oil, they are derived from sources outside of the United States.

To produce the varieties of soap most in demand in the United States, a substantial fraction of the oil ingredient must be some oil containing lauric acid. The proportion required can be altered within limits, however, and to this extent other oils and fats, either of domestic or foreign origin, can replace it. No oil or fat now produced in the United States, or likely to be produced in any appreciable quantity, contains any lauric acid whatsoever. It would appear



therefore, that for soap-making purposes, domestically produced oils and fats can replace coconut oil only to a limited extent under existing conditions of production technique and consumer demand. Coconut oil and other oils of lauric acid content may be said to be complementary to domestic soap oils and fats to a much greater

degree than they are competitive with. The same may be said of coconut oil in relation to other imported soap oils and fats, except those with a high content of lauric acid. Imported tallow, for example, is in no greater degree interchangeable with coconut oil for use in soap making than are domestic tallow, grease, or fish

TABLE 41.—Oils and fats: Apparent consumption in the United States, by major types of use, 1934

Product	Million pounds					Percent				
	Type of use					Type of use				
	Food	Soap	Drying industries	Miscellaneous products	Total disappearance	Food	Soap	Drying industries	Miscellaneous products	Of all oils and fats
Foreign:										
Coconut oil.....	/ 211	241		17	569	3.5	21.1		3.7	6.6
Palm oil.....	/ 17	155		8	180	.3	9.6		1.8	3.1
Linseed oil.....				294	44			49.5		9.9
Tallow oil.....				118	122			19.9		3.4
Olive oil, edible.....	62	2	/ 3	39	62	1.0			1.5	.7
Caster oil.....		30		1	44			1.9		.5
Olive oil, sulphur or foots.....		3			24					.4
Sunflower.....	/ 2	7	/ 3	13	25			4		2.9
Ferilla oil.....		17		23	1					2.3
Palm-kernel oil.....	/ 5	17		1	23		1.1			2.3
Sesame oil.....	10			9	10					1.1
Olive oil, inedible.....		2		7	8					2.0
Rapeseed oil.....		1		9	8					1.5
Vegetable oil foots.....		33		3	35		2.1			.4
Total foreign.....	307	588	441	104	1,440	5.1	36.5	74.2	22.9	16.7
Domestic:										
Butter.....	2,229				2,229	37.2				25.8
Lard.....	1,720			20	1,720	28.7				19.9
Cottonseed oil.....	1,441			163	1,464	24.1			4.4	16.9
Tallow, inedible.....		963		54	717		41.1		11.9	8.3
Grease.....		143		163	306		9.8		35.9	3.5
Linseed oil.....		1	115	/ 3	119			19.4		1.4
Cora oil.....	96	6		25	127	1.6			3.5	1.5
Fish and marine animal oils.....	18	99	/ 25		129	.3	0.1	4.2		1.1
Oil of and edible animal sterain.....	82	9		9	92	1.4			2.0	1.1
Tallow, edible.....	66	1		2	69	1.1			4	.8
Soybean oil.....	/ 3	1	/ 13	13	40	.1		2.2		2.3
Peanut oil.....	24			1	25	.4				.3
Grease, wool.....				16	16					.3
Neats-foot oil.....				5	5					.1
Vegetable oil foots.....		197			197		6.6			1.2
Total domestic.....	5,677	1,025	153	350	7,205	94.9	63.5	25.8	77.1	83.3
Total disappearance, all oils and fats.....	5,984	1,613	594	454	8,645	100.0	100.0	100.0	100.0	100.0
Percent of disappearance:										
Foreign products.....	21.3	40.9	39.6	7.2	100.0					
Domestic products.....	78.8	14.2	2.1	4.9	100.0					
Total foreign and domestic.....	99.2	18.6	6.9	5.3	100.0					

Source: Division of Statistical and Historical Research, U. S. Department of Agriculture, and for certain adjustments in the case of vegetable oil foots which have been signed to soap. Figures given represent estimated total consumption except items marked "*" and figure for soap, both of which are factory consumption.

TABLE 42.—Soap: Factory consumption of oils and fats in the manufacture of, 1931-35

Constituent oil or fat	1931	1932	1933	1934	1935
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
Tallow, inedible	524	549	509	653	663
Coconut oil	341	354	322	341	230
Palm oil	172	168	188	155	87
Palm oil, edible	129	144	125	143	98
Whale oil	69	49	45	34	28
Grease	38	49	52	65	110
Olive oil foots?	39	31	32	30	32
Palm-kernel oil	28	4	6	17	37
All others	30	27	32	26	28
Total	1,390	1,375	1,311	1,474	1,313
Percent of total					
Tallow, inedible	38	40	39	45	50
Coconut oil	25	26	25	23	18
Palm oil	12	12	14	11	7
Grease	9	10	10	10	7
Whale oil	5	4	3	2	2
Fish oil	4	4	4	4	2
Olive oil foots?	3	2	2	2	2
Palm-kernel oil	2	(4)	1	1	3
All others	2	2	2	2	3
Total	100	100	100	100	100

¹Reported as marine animal oil.

²Reported as sulphur oil and olive foots.

³Includes cottonseed, peanut, corn, soy bean, olive oil, edible and inedible, rape, linseed, tung, vegetable tallow, castor, sesame, other vegetable, lard, edible animal tallow, oleo, tallow edible, meats' foots and sunflower oils, and in 1935, perilla oil.

⁴Percentages have been computed on this total, but it is estimated that about 100,000,000 pounds of cotton seed oil foots and 20,000,000 to 20,000,000 pounds of coconut oil foots and other foots are used annually in the production of soap.

⁵Less than 1/2 of 1 percent.

Source: Prepared in the U. S. Department of Agriculture, Division of Statistical and Historical Research. Based on Bureau of the Census, Factory Consumption of Primary Animal and Vegetable Fats and this by Classes of Products, calendar years, 1931-35.

oil. The recent increases in the proportion of imported tallow used are to be attributed more to the decreases in the proportions of other imported and domestic oils and fats, such as palm oil, whale oil, and grease, than to the decreased proportion of coconut oil. Moreover, the excise tax imposed on imported inedible tallow on August 21, 1936, has since operated to reduce its use in soap.

A shift from white to yellow laundry soaps would afford the greatest opportunity for the substitution of domestic oils for coconut oil. However, there is a distinct consumer preference for white rather than yellow laundry soaps. This preference may be attributed largely to such factors as the extensive advertising of white soaps, and to the poor lathering qualities of yellow soaps in hard water.

DEGREE OF INTERCHANGEABILITY IN EDIBLE USES, MARGARINE.

Coconut oil enters food consumption in the United States principally in the form of margarine. It is by far the most important oil used

for this purpose, accounting for as much as 75 percent of the total used in some recent years. It has accounted for an even higher percentage of the oils used in wholly vegetable margarines.

For the production of margarine, an oil should be smooth and firm in texture and light in color, have a sharp melting point, and be easily rendered almost neutral in odor and taste. Until recently no vegetable oil met these requirements as satisfactorily as coconut oil, although a number of other oils were, and still are, used in margarine. A process has recently been perfected by which cottonseed oil can be used with results equally as satisfactory as those obtained from coconut oil.

In fact, margarine can now be made almost entirely of hydrogenated cottonseed oil.

Recent shifts in the prices of the margarine oils and the increased production of margarine have considerably altered the absolute and relative amounts of coconut oil entering into this use, as shown in the following table:

It will be noted that the factory consumption of oils and fats used in the production of margarine declined between 1931 and 1932, but advanced thereafter. The aggregate consump-

TABLE 43.—Margarine: Factory consumption of materials used in manufacture, United States, 1931-35

Constituent oil or fat	1931	1932	1933	1934	1935
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
Coconut oil	133	123	150	124	174
Cottonseed oil	16	15	18	55	108
Oleo oil	19	12	15	22	18
Lard, neutral	10	9	9	7	3
Oleostearine	5	4	3	3	3
Peanut oil	5	3	3	3	4
Soybean oil	(1)	(1)	(1)	(1)	2
Butter	2	1	1	2	2
Other	4	1	2	2	3
Total	192	167	200	216	309
Percent of total					
Coconut oil	70	74	75	57	56
Cottonseed oil	8	9	9	25	35
Oleo oil	10	7	8	10	6
Lard, neutral	5	6	5	3	1
Oleostearine	3	2	2	2	1
Peanut oil	2	(1)	(1)	(1)	1
Soybean oil	(1)	(1)	(1)	(1)	1
Butter	2	(1)	(1)	(1)	2
Other	2	(1)	(1)	(1)	1
Total	100	100	100	100	100

¹Less than 500,000 pounds.

²Includes butter, oleo stock, corn, palm, palm-kernel, sesame, and sunflower oils.

³Percentages computed on total weight of fats and oils, exclusive of milk, salt, and miscellaneous materials.

Source: Prepared in the United States Department of Agriculture, Bureau of Statistical and Historical Research. Based on Bureau of the Census, Factory Consumption of Primary Animal and Vegetable Fats and Oils, by classes of products, calendar years, 1931-35.

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tion of these materials in 1935 was the largest on record except in 1919, when it was approximately 1 percent higher.²⁷ It will also be noted that the amount of coconut oil consumed declined in 1934 but that it rose sharply again in 1935 to a point above that in any preceding year except 1929, when it was about 6 percent higher.²⁸

Nevertheless, the proportion of coconut oil consumed in margarine in 1935 as compared with 1934 declined slightly whereas that of cottonseed oil rose sharply. In fact, the most conspicuous development in margarine production in 1934 and 1935 was the large increase in the use of cottonseed oil. Certain other changes were also significant.

Between 1933 and 1935, the proportion of vegetable oils used in margarine increased from 84 to 91-1/2 percent of the total of all oils and fats so used; that of animal fats declined correspondingly. Practically all of the animal fats used in margarine are of domestic origin, whereas, almost two-thirds of the aggregate volume of the vegetable oils are either imported as such from other countries (including the Philippines) or are produced in the United States from imported raw materials. Among the vegetable oils derived from sources outside of continental United States, coconut oil is the only one of outstanding importance. Prior to 1934, palm oil was of slight importance but since then (due principally to legislation taxing margarine colored yellow by means of palm oil at the same rate as artificially colored margarine) it has practically disappeared from this use. In 1935, for the first time, babassu oil, palmkernel oil, sunflower oil, and sesame oil became of some importance (particularly babassu oil), but in the aggregate they accounted for less than 4 percent of the total of the foreign derived vegetable oils entering into the production of margarine in the United States.

The proportion of domestic vegetable oils used in margarine, though still less than that of the vegetable oils of foreign origin, has increased substantially since 1933. In that year, as shown in the table below, the domestic vegetable oils constituted 10.5 percent of the total vegetable oils used, whereas in 1935 they constituted 34.2 percent.²⁹ Although the proportion of vegetable oils of foreign origin declined correspondingly, the aggregate amount consumed was considerably larger in 1935 than in 1933.

Coconut oil competes not only directly with domestic vegetable oils for use in the manufacture of vegetable margarines, but indirectly with domestic animal oils used in the manufacture of so-called animal margarines. The latter are made principally with oleo oil, neutral lard, or oleostearine in mixture with vegetable oils, chiefly cottonseed oil, and usually with some butter and milk. The vegetable and animal margarines are in a large degree interchangeable, although certain classes of consumers have marked preferences for one or the other. Animal

margarines generally sell for 1 to 2-1/2 cents per pound more than vegetable margarines.

In the form of margarine, coconut oil is regarded by certain interests as being more or less directly competitive with butter. One of the principal reasons that the domestic dairy interests, for example, have favored the imposition of processing taxes on coconut and other imported oils is their belief that the resultant increase in the price of margarine would result in a substantial increase in the demand for butter. While it is outside the scope of this report to consider the competition between margarine and butter, it may be observed that the present processing tax of 3 cents a pound on Philippine coconut oil represents about 2 cents a pound in the cost of the finished vegetable margarine, whereas the wholesale price spread between butter and uncolored vegetable margarine averaged 17.2 cents per pound during 1935.³⁰ The retail price spread in most States, however, was somewhat less, due principally to State excise taxes on margarine amounting, in some instances, to as much as 15 cents per pound. Nevertheless, the retail price spread between butter and margarine in most parts of the United States was so substantial, even after the Federal oil excise taxes went into effect, as to offer little inducement for most consumers to shift from margarine to butter.

OTHER EDIBLE USES.

Prior to 1934 the only major edible use for coconut oil in the United States besides margarine, was in the manufacture of certain special confectioners' and bakers' supplies. For these uses no oil of domestic origin can satisfactorily be substituted.

Commencing in 1934, again as the result of the scarcity of domestic oils and fats, there was a very large increase in the use of coconut oil in the preparation of vegetable shortenings and lard compounds. Consumption in edible products other than margarine increased from 76,000,000 pounds in 1933 to 131,000,000 pounds in 1935, and no doubt a large portion of the increase went into shortenings and lard compounds. For these uses, domestic oils were employed almost exclusively in most years prior to 1935, the principal oil being cottonseed oil, although oleo oil, neutral lard, peanut oil, soybean oil, and corn oil were also used to some extent. Coconut oil and in some years sesame oil, were used only in relatively small quantities. The increased use of coconut oil in 1935 resulted principally from the price situation arising from the reduced production of domestic oils which in turn was the result chiefly of the drought. In recent years, moreover, the excise taxes imposed by many States on margarines made from "foreign" oils (including Philippine coconut oil) has operated to increase the proportion of cottonseed oil in margarine, thus leaving less of it for use in shortenings and compounds.

PERSPECTIVES OF REPLACING COCONUT OIL WITH DOMESTIC OILS AND FATS.

The extent to which the domestic production of oils and fats is likely to increase in response

to the imposition of excise taxes on coconut oil and other foreign oils appears to be limited. The principal domestic oils which can be substituted in a greater or lesser degree for coconut oil in its chief uses are inedible tallow and greases, fish oil, cottonseed oil, oleo oil, neutral lard, peanut oil, corn oil, and soybean oil. All of these, except inedible tallow and greases produced in rendering plants and certain types of fish oil, are by-products or joint products with other commodities, and their production is not likely to be influenced appreciably by moderate changes in the prices of oils and fats.

The production of cottonseed oil will be determined largely by the demand for cotton, since the oil during recent years has represented only about one-eighth of the value of the cotton crop. The production of animal fats, considered as a group, will depend largely on the demand for pork, beef, and mutton; and the production of corn oil will depend principally on the demand for cornstarch and sirup. There is little prospect that the output of the principal products with which these particular oils and fats are associated will lead to any substantial increase in the aggregate production of such oils and fats in the near future.

Peanut oil has generally been in the nature of a byproduct in the United States. Until recently only offgrade peanuts were ordinarily used for this purpose. The bulk of the peanuts entered either into direct consumption or into the manufacture of peanut butter. The production of peanut oil increased substantially after the imposition of the excise taxes on foreign oils, but the chief stimulant to its production appears to have been the bonus or subsidy which was paid at this time for peanuts diverted to the oil mills under the program of the Agricultural Adjustment Administration. There seems little prospect, therefore, that the imposition of excise taxes on foreign oils will of itself have any important permanent effect in promoting the unsubsidized production of large amounts of peanut oil in the United States.

Soybean oil has been increasing in production in recent years, but until 1935 it entered principally into paints and varnishes, for which coconut oil is not used to any appreciable degree. Soybean oil has generally sold at prices much above those which would permit it to compete with coconut oil for use in soap. Domestic soybean oil has sold at prices which would permit it to compete for use in margarine only since 1935. The beans from which the soybean oil is extracted are grown mostly for soil enrichment and for hay, rather than for oil production. Moreover, soybeans have a low oil content as compared with other oil materials; soybeans yield only about 15 percent oil and 85 percent oilcake.

Since oilcake is produced jointly with most of the domestic vegetable oils, any substantial

TABLE 44.—Margarine: Origin and composition of materials used in manufacture in the United States, 1933-35

Year	Total fats and oils				Percentage of total fats		
	Domestic		Imported		Domestic		Imported
	Animal	Vegetable	Vegetable		Animal	Vegetable	Vegetable
	1,000 lb.		1,000 lb.		Percent	Percent	Percent
1933	28,010	20,980	150,640		14.0	10.5	75.5
1934	34,301	27,625	170,758		15.9	11.7	57.4
1935	25,235	105,085	170,758		8.5	34.2	57.3

Source: Oleomargarine, U. S. Department of Agriculture, Division of Statistical and Historical Research, August 1936, p. 21.

²⁷In 1919 about 312 million pounds of fats and oils were used.

²⁸The consumption in 1929 amounted to 185 million pounds.

²⁹These figures are subject to possible revision, inasmuch as some of the recent substantial imports of cottonseed oil may be entering into margarine production, although on a basis of available information such does not appear to be the case.

³⁰This spread is based on wholesale quotations for uncolored vegetable margarine, inclusive of the Federal tax of 1/4 cent per pound on such margarine, and any Federal excise tax or import duty which may have been paid on the ingredient oils.

increase in the production of these latter would result in a greatly enlarged production of animal feeds, for which it might be difficult to find a market.

The application of excise taxes to imported oils and fats does not operate greatly to expand domestic production. Such taxes in a limited degree operate to curtail domestic exports, and thereby to increase the supply of domestically produced oils which can displace coconut oil and other imported taxed oils. To the extent that the existing scale of excise taxes is effective in raising the prices of domestic oils and fats, it operates to make the home market more profitable than foreign markets in which to dispose of the domestic production. (The attractiveness of foreign markets is simultaneously reduced in some degree, since the oils and fats which are prevented from entering the United States in consequence of the tax, flow to the foreign markets in which the United States exports must compete.)

The United States is normally an importer principally of the lower-priced inedible oils and an exporter of the higher-priced edible oils. It does not appear likely, therefore, that the restrictive effect of the excise taxes on the exports of domestic oils and fats will be a major factor in bringing about a marked increase in the domestic consumption of domestically produced oils and fats, even when production in the United States again becomes more nearly normal. Other factors, however, may bring this about to a considerable degree. If, for example, European restrictions against the importation of American oils and fats (particularly lard)

should continue in effect when exportable surpluses again become available, the United States may then be obliged to consume them in large measure at home rather than export them. Such a situation would operate to depress their prices and to curtail the importation of coconut oil and other oils and fats. What policy foreign countries will pursue in restricting imports of oils and fats from the United States is a matter for speculation.

UNITED STATES REVENUE ACTS.

The excise taxes provided for by the Revenue Acts of 1934, 1935, and 1936, and the Treasury decisions relating thereto, have had very significant effects upon the prices, uses, and imports of oils and fats in the United States. Since no oil or fat derived from materials produced in continental United States was made subject to the excise taxes, the economic effects of these taxes have been identical with those which would have resulted from increased tariff duties, with one significant exception. Duties could not have been made applicable in 1934 to imports from the Philippines (and the noncontiguous United States territories) without an amendment to the Tariff Act of 1930. Inasmuch as the United States has been a large net importer of oils and fats ever since the excise taxes have been in effect (as well as before), these taxes have operated generally to enhance the prices of domestic oils which are subject to competition from the taxed foreign oils, including Philippine coconut oil, and to depress the (tax unpaid) prices of the latter.

The competitive position of coconut oil, extracted either in the Islands or in the United

States from Philippine copra, was at first also depressed in consequence of the excise taxes, both in relation to all domestically produced oils and fats and in relation to certain foreign oils and fats, principally inedible tallow and, to a lesser degree, babassu oil. When the United States Revenue Act of 1936 became effective on August 21, 1936, however, imported inedible tallow became subject to an excise tax of 3 cents per pound, and a number of other imported oils and fats and oil-bearing materials became subject to equally high or still higher excise taxes (on a basis of oil content), among them being inedible animal grease, rapeseed and rapeseed oil, sesame seed, and inedible sesame oil, sunflower oil, kapok seed oil, and various fatty acids.

The excise taxes and rates of duty applicable to foreign oils and fats at the present time (Jan. 1, 1937) are shown in table 45.

So far as excise-tax considerations are concerned, the competitive position of Philippine coconut oil at present (Jan. 1, 1937) continues to be less favorable in relation to domestic oils than it was prior to the imposition of the excise taxes, but it remains only slightly different in relation to practically all of the competitive foreign oils. Most of these latter oils are now either subject to at least as high excise taxes as Philippine coconut oil or, where they are exempt from excise taxes, the available supplies of them are limited. In addition, most of them are subject to substantial tariff duties. The competitive position of babassu oil, particularly for the future, may possibly be regarded as an exception.



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TABLE 45.—Oils and fats: United States tariff rates and excise taxes in effect on Jan. 1, 1937¹

Oil or fat, or combinations or manufactures thereof, and oil-bearing materials	Duty ²	Revenue tax on imports into the United States or on first domestic processing ³
Animal oils and fats:		<i>Per Pound</i>
Tallow.....	1/2 cent per pound.....	3 cents.....
Indecible animal oils, fats, greases, n. s. p. f.....	20 cents ad valorem.....	Do.....
Fatty acids or salts of above.....	(4).....	Do.....
Butter.....	14 cents per pound.....	None.....
Lard.....	3 cents per pound.....	Do.....
Oil of cod and oleostearine.....	1 cent per pound.....	(6).....
Edible animal oils, fats, or greases, n. s. p. f.....	20 percent ad valorem.....	None.....
Marine animal and fish oils:		
Herring and menhaden oils.....	5 cents per gallon.....	3 cents 4.....
W hale (other than sperm) and seal oils.....	6 cents per gallon.....	Do 5.....
Fish and marine animal oils, n. s. p. f.....	20 percent ad valorem.....	Do 6.....
Fatty acids or salts of above.....	(4).....	Do.....
Vegetable oils and raw materials:		
Coconut oil: From, or produced in the United States of materials from the Philippines or any other possession of the United States.....	Free.....	None.....
Other.....	do.....	3 cents.....
Palm oil:		
For tin plate.....	Free.....	None.....
Other.....	do.....	3 cents 8.....
Palm-fats or kernels:		
Other.....	do.....	None.....
Palm-kernel oil:		
Rendered unfit for food.....	do.....	3 cents.....
Other.....	1 cent per pound.....	Do.....
Fatty acids or salts of above oils.....	(4).....	Do.....
Abassus nuts.....	Free.....	None 4.....
Abassus oil.....	Do.....	Do.....
Corn oil.....	20 percent ad valorem.....	Do.....
Cottonseed.....	1/3 cent per pound.....	Do.....
Cottonseed oil.....	3 cents per pound.....	Do.....
Olive oil: Weighing with container less than 40 pounds.....	8 cents per pound.....	Do.....
Rendered unfit for food.....	Free.....	Do.....
N. s. p. f.....	6-1/2 cents per pound.....	Do.....
P. nuts:		
Shelled.....	7 cents per pound.....	Do.....
Not shelled.....	4-1/4 cents per pound.....	Do.....
Peanut oil.....	4 cents per pound.....	Do.....
Tallow, vegetable.....	Free.....	Do.....
Kapok oil.....	(8).....	4-1/2 cents.....
Kapok fatty acids or salts.....	(4).....	Do.....
Kapok seed.....	Free.....	2 cents.....
Semidrying 11:		
Rapeseed oil: Rendered unfit for food.....	Free.....	4-1/2 cents.....
Other.....	6 cents per gallon.....	Do.....
Sesame oil: Rendered unfit for food.....	Free.....	None.....
Other.....	3 cents per pound.....	Do.....
Sunflower oil: Rendered unfit for food.....	Free.....	4-1/2 cents.....
Other.....	50 percent ad valorem.....	Do.....
Fatty acids or salts of above.....	(4).....	Do.....
Rapeseed.....	Free.....	2 cents.....
Sesame seed.....	do.....	Do.....
Sunflower seed.....	2 cents per pound.....	None.....
Drying:		
Soybean oil.....	3-1/2 cents per pound but not less than 45 percent ad valorem.....	Do.....
Sorbans.....	2 cents per pound.....	Do.....
Seeds and nuts, n. s. p. f. (when oils derived from them are free of duty).....	Free.....	Do.....
Expressed or extracted oils, n. s. p. f.....	20 percent ad valorem.....	Do.....
Any combination or mixture containing a substantial quantity of:		
Coconut oil, palm oil, or palm-kernel oil.....	25 percent ad valorem 11.....	3 cents 11.....
Fatty acids or salts of the foregoing.....	(4).....	Do 12.....
Manufactured articles or combinations containing 10 percent or more by weight of—		
Taxable oils and fats.....	25 percent ad valorem.....	3 or 4-1/2 cents on taxable oil content 13.....
Taxable fatty acids or salts of foregoing.....	(4).....	Do 13.....
Margarine and other butter substitutes.....	14 cents per pound.....	Do 14.....
Lard and compounds and lard substitutes.....	5 cents per pound.....	(15).....
Soap.....	15 percent ad valorem.....	(16).....
Other toilet.....	30 percent ad valorem.....	(18).....
Other, including soap powder.....	15 percent ad valorem.....	(17).....

¹Excise taxes imposed by Revenue Acts of 1934 and 1936, the latter of which went into effect on Aug. 21, 1936; and tariff rates established by Tariff Act of 1930, as amended by Presidential proclamations and trade agreements up to Jan. 1, 1937.

²Oils and fats and oil materials produced in Cuba are entitled to a minimum tax preference of 20 percent under article 11 of the Cuban Agreement of Aug. 23, 1934. Some of the articles may be free of duty under art. 1 of the agreement but no derogation on specific articles has as yet (Nov. 1, 1936) been made.

³No thingness: "United States" refers to the 48 States, the Territories of Alaska and Hawaii, and the District of Columbia. With the exceptions of coconut oil, palm oil, and palm-kernel oil, and combinations, mixtures, and salts thereof, all of the products enumerated are subject to revenue taxes on their importation into the United States (as abridged) as well as into Puerto Rico. The taxes apply to the articles named whether or not refined, sulphated, sulphated, hydrogenated, or otherwise processed.

⁴Specific cases subject to Treasury decisions.

⁵Status subject to Treasury decision. The revenue tax of 3 cents per pound on "inedible oils, fats, or greases", however, would presumably apply.

⁶Does not apply to products of American fisheries.

⁷Excessions of the United States include the Philippine Islands and the following designated as "noncontiguous Territories": Alaska, Hawaii, Midway Islands, Puerto Rico, Guam, American Samoa, Wake Island, Panama Canal Zone, and Virgin Islands.

⁸"Bound" free from duty and increase in excise tax during life of Netherlands Trade Agreement, effective Feb. 1, 1936.

⁹"Bound" free from duty and excise tax during life of Brazilian Trade Agreement, effective Jan. 1, 1936.

¹⁰If ruled to be "vegetable oils" n. s. p. f., a tariff rate of 20 percent ad valorem; if ruled to be "nut oils" n. s. p. f., free of duty.

¹¹The divisions between nondrying, semidrying, and drying oils are not clear cut. In general, an oil or fat having an iodine number less than 100 is classed as a drying oil; one having an iodine number between 100 and 130 as semidrying, and one with a number above 130, as drying.

¹²Combinations and mixtures of animal, vegetable, or mineral oils, or any of them, are generally subject to rate applicable to the highest taxed component material.

¹³Rate or rates applicable to particular mixtures or combinations presumably will be indicated by Treasury decision on classifications as noted above. Excise taxes do not apply to any item in the combination or mixture on which an import or first domestic processing tax has been previously paid.

¹⁴In addition, there is a Federal stamp tax of 15 cents per pound imposed on imported margarine under the internal revenue laws.

EFFECT OF EXCISE TAX ON IMPORTS OF OILS.

The large importation of foreign oils which has taken place since the excise taxes have been in effect occurred generally not because Philippine coconut oil was made subject to the excise tax, but principally because there was an unusually small domestic production of oils and fats and a somewhat increased demand for them. Even under the Revenue Act of 1934, the foreign oils and fats, with only a few exceptions, were subject to excise taxes which, in combination with the import duties, were at least as high as the excise tax applicable to Philippine coconut oil. The imported oils and fats, with the exception principally of inedible tallow and abassus oil, tended to supplement domestic oils and fats rather than to displace Philippine coconut oil from use in the United States. Philippine coconut oil itself, as was shown earlier, also entered into larger edible use because of the domestic shortage of oils and fats. In the inedible field, however, Philippine coconut oil—along with other taxed oils—was in some considerable measure displaced by imported inedible tallow prior to August 21, 1936, at which time the latter was also made subject to an excise tax.

Table 46 shows the imports into the United States in recent years of the oils and fats and oil-bearing materials which may be regarded as being directly or indirectly competitive in any appreciable degree with coconut oil.

It will be noted that the imports of tallow advanced sharply during 1934 and 1935, but that they fell during the first 8 months of 1936. Returns for the full year will undoubtedly show imports much below those for 1935, inasmuch as inedible tallow became subject to an excise tax of 3 cents a pound on August 21, 1936. Imports of rapeseed and rapeseed oil, sunflower oil, sesame seed and inedible sesame oil, kapok seed and oil for 1936 are likewise expected to be below those for 1935 in consequence of provisions in the Revenue Act of 1936.

Imports of abassus nuts and oil were negligible prior to 1936, but during the first 8 months of that year, 46,293,000 pounds of nuts were imported. This is the equivalent of more than 29 million pounds of oil. It is possible that in the future imports of abassus nuts and oil, and imports of other foreign oil substances and oils which are not now of importance, may increase in consequence of their exemption from excise taxes and tariff duties. For the immediate future, however, substantial increases appear likely only in abassus nuts and abassus oil.¹⁴ Supplies of the nuts are believed to be very large, but transportation and crushing costs are high.

EFFECT OF EXCISE TAXES ON THE PRICE OF OILS.

Table 47 gives prices of coconut oil, and of various domestic and foreign oils which may be regarded as in any degree directly or indirectly competitive with it. The prices of dutiable imported oils are shown inclusive of tariff duties (except in the case of whale oil), but exclusive of excise taxes. These taxes became effective on various dates in 1934, 1935, and 1936; averages based on price quotations inclusive of such taxes, therefore, would be less significant for comparative purposes than averages of price quotations exclusive of them.

¹⁴Abassus nuts and oil are "bound" free of duty and excise tax in the Brazilian Trade Agreement which is expected to continue for at least 3 years commencing Jan. 1, 1936.

TABLE 46.—Oils and fats: Imports for consumption in the United States of specified commodities, calendar years 1929, 1932-35, and January-August 1936

(In thousands of pounds, i. e., 1000 omitted)

Commodity	Calendar year					January-September 1936 (preliminary)
	1929	1932	1933	1934	1935	
Coconut oil:						
Philippine	411,936	249,117	316,078	314,802	353,396	220,961
Other	43	25	25	2	10	20
Palm oil:						
Tallow, animal	261,816	217,167	287,483	155,331	197,579	216,467
Sesame seed	16,803	502	239	42,813	243,851	61,259
Soybean oil	18,240	19,182	42,631	22,327	146,304	117,327
Palm-kernel oil:	18,801	7,276	11,909	16,626	60,298	76,598
Edible	(2)	2,474	58	953	7,978	7,281
Inedible	69,509	464	12,898	11,800	50,953	2,075
Olive oil, inedible:						
Other than foots	11,511	12,847	16,509	9,670	15,278	8,175
Foots	45,874	45,909	40,468	36,166	38,262	5,681
Sunflower seed oil:						
Edible	(3)	4,763	14,082	10,046	37,052	24,698
Inedible	(3)	7,634	13,751	7,490	235	541
Rapeseed	9,723	10,748	13,627	9,324	20,515	27,600
Corn oil	(3)	(3)	9,160	10,769	25,746	20,129
Whale oil, n. s. p. f.	56,552	42,136	43,017	15,803	20,793	12,877
Seal oil	4,731	453	795	357	0	4
Fish oil	34,713	16,148	5,845	2,134	25	393
Kapok seed	(5)	368	(5)	14,618	12,565	1,940
Tanned oil	1,188	2	0	0	0	6,465
Oleo stearine	1,737	588	94	1,719	9,201	4,712
Tossed oil	(3)	(3)	(3)	(3)	(3)	(3)
Sesame oil	21,585	72	61	73	371	128
Kapok seed oil	(3)	(3)	(3)	(3)	(3)	14,354
Babassu nuts and kernels	(3)	(3)	(3)	(3)	(3)	46,203
Copra:						
Philippines	310,194	198,526	242,708	338,087	441,066	246,015
Other	20,737	254,922	418,164	61,147	13,068	4,091
Cottonseed oil:						
Crude	2	0	0	9,157	(28,587)	11,348
Refined	(1)	(1)	(1)	(1)	(138,000)	94,018
Peanut oil:						
Peanut oil and palm-kernel kernels	1,906	1,511	1,323	2,722	80,723	43,575
Peanut nuts and palm-kernel kernels	1,08	25,700	14,918	8,509	50,673	11,813
Butter	2,590	931	773	1,107	22,470	6,026
Soaps	6,963	4,868	3,407	11,857	22,232	2,449
Soybean oil	10,317	495	2,033	2,829	14,249	3,709
Lard compounds	257	221	189	281	7,948	5,840
Sunflower seed	1,621	598	121	276	665	487
Peanuts (shelled and unshelled)	29,385	601	212	612	8,210	240
Soybean seed	4,337	2,551	470	382	249	1,111
Oleomargarine	2	2	2	2	883	8
Tallow, vegetable	11,330	8	0	138	8	2,760
Lard	1	8	1	(6)	36	(2)
Cottonseed	168	0	14	0	11	2

1 Includes perilla seed.
 2 Prior to 1931 included "inedible."
 3 Not separately classified.
 4 Includes herring, menhaden, and cod oils.
 5 Less than 500 pounds.
 6 Includes castile, tallow, medicated, and soap and powder, n. s. p. f.
 7 Largely from the Philippines.
 8 Includes only 372 pounds entered continental United States, the rest entered the Virgin Islands; in the first 8 months of 1930 116,876 pounds entered continental United States.
 Source: Foreign Commerce and Navigation of the United States.

TABLE 47.—Oils and fats: Average price per pound (exclusive of excise tax) of specified commodities at points indicated, 1929, 1932-35, and January-September 1936

(Cent per pound)

Commodity	Calendar year					January-September 1936 average
	1929	1932	1933	1934	1935	
Animal fats and oils:						
Butter, 92 score, New York	45.0	21.0	21.7	25.7	29.8	32.9
Lard, refined, Chicago	12.9	6.3	6.4	8.3	15.1	12.7
Grease, house, New York	7.3	2.4	2.8	3.8	6.1	5.0
Oleo oil, no. 1, New York	11.2	6.3	6.4	7.9	12.9	10.9
Tallow, inedible, Chicago	8.0	2.7	3.0	3.8	6.2	4.4
Marine animal and fish oils:						
Cod oil, Newfoundland, New York	8.3	3.3	3.6	5.5	4.7	5.1
Menhaden oil, crude, Baltimore	6.2	1.9	1.8	2.6	4.0	4.2
Whale oil, import price ¹		4.1	2.9	5.0	3.0	2.6
Vegetable oils:						
Babassu oil, in tanks, New York						3.7
Coconut oil, crude, Manila, Pacific coast	7.1	3.2	3.0	2.6	4.4	4.2
Kapok oil, New York						(4)
Olive oil foots, New York	9.7	4.6	5.5	7.1	8.6	8.5
Palm oil, Niger, crude, New York	8.2	3.8	3.8	3.5	4.7	4.7
Palm-kernel oil, denatured, New York						6.4
Peanut oil, refined, New York	13.3	10.0	9.6	9.7	13.3	12.5
Soybean oil, refined, New York	11.3	6.1	6.9	8.0	12.1	9.6
Corn oil, refined, New York	10.7	6.4	6.4	7.7	12.1	11.8
Cottonseed oil, refined, Chicago	10.9	6.7	6.2	7.4	10.6	10.5
Rape oil, refined, New York	10.8	7.7	6.2	6.4	6.3	7.7
Sunflower oil, refined, New York	10.7	6.4	6.4	7.7	12.1	10.2
Oleomargarine, nut (unoleated) (Chicago)	12.2	8.8	8.2	9.1	12.6	11.1
Lard, substitute, Chicago	15.2	5.9	6.8	8.6	13.1	12.0

1 Computed on value and volume of imports; prices are exclusive of import duty.
 2 Average for January-February 1936; if data not available.
 3 7 months average only; not reported in January and reported for only 1 week in May.
 4 Not reported since January 1936.
 5 Quoted as Lagos prior to May 1934.
 6 Nominal.
 7 Average for 6 months.
 8 Inclusive of 1/4 cent United States internal revenue tax, but not inclusive of any State excise taxes.
 Source: Compiled from records of the United States Department of Agriculture, Division of Statistical and Historical Research.

United States market prices of coconut oil and of practically all oils which are directly or indirectly competitive with it in any appreciable degree advanced after the excise taxes went into effect, but the prices (tax unpaid) of coconut oil and of certain other imported oils, particularly

palm oil and palm-kernel oil, declined when they first became subject to the tax. This movement is reflected in the fact that their average prices in 1934, excluding excise taxes, were below those of 1933, whereas the average prices of all of the domestic oils shown in the table were higher in 1934 than in 1933. In 1935 the prices of all the oils shown in the table, including coconut oil itself, advanced above the average levels prevailing in 1933 or 1934. The prices of domestic oils, however, generally advanced to a much greater extent than did the prices (tax unpaid) of the imported oils subject to the excise taxes.

The rise in price of oils and fats generally (exclusive of tax) in 1935 must be attributed to improved world demand, particularly demand in the United States market. The greater rise in the prices of the domestic oils than in the taxes foreign oils (tax unpaid) may in large measure be attributed to the excise taxes, but since both the untaxed and taxed oils rose in price, the entire increases in the prices of the untaxed oils was clearly not due to the excise taxes. Even in the absence of these taxes, the prices of domestic oils would no doubt have risen but not to the degree that they did because of the tax. The excise tax, however, was not the only factor operating to prevent similar price advances for taxed and untaxed oils. Oils are interchangeable only within certain limits, and the factors affecting production, importation, and consumption influenced somewhat differently the prices of the different products.

In 1933, the year before the excise taxes went into effect, inedible tallow sold for about the same price as coconut oil. But in 1935, the first full year during which the excise taxes were in effect, inedible tallow sold for more than 1 cent a pound less than tax-paid coconut oil. Soap manufacturers consequently substituted in some measure inedible tallow for coconut oil. They substituted the inedible tallow for other soap oils in still greater degree, however. Since imported tallow (edible and inedible) became subject to an excise tax of 3 cents a pound on August 21, 1936, inedible tallow lost the competitive tax advantage which it had previously enjoyed over coconut oil and other taxed oils. In consequence its use in soap declined. Imports fell sharply even before the imposition of the tax because prices prevailing for tallow in foreign markets were more attractive than those in the United States.

EFFECTS OF EXCISE TAXES ON PRIVATE AND NATIONAL INTERESTS IN THE UNITED STATES.

Domestic producers of oils and fats, who meet competition either from coconut oil derived from Philippine copra, or from oils and fats from foreign countries, have been clearly benefited by the excise taxes. The taxes have not operated appreciably to enlarge domestic production of oils and fats, except in the case of certain fish oils, soybean oil, and inedible greases, but they have operated to increase prices. Domestic consumers of foreign and domestic oils and fats, in consequence, have generally been obliged to pay higher prices for their requirements than they would have paid in the absence of the excise taxes. The extent to which the interests of the Government have been affected has not as yet been fully determined. The Government collects the excise taxes which the domestic consumers pay on imported oils and fats, but the Revenue Act of 1934 stipulates that the

collections on coconut oil derived from Philippine copra shall be remitted to the Philippine Government.²¹ If this should ultimately take place, the United States would not be able to retain for its own use the full amount of the taxes borne by its citizens on their consumption of the imported oils and fats.

For the future, the probable effect on American interests arising out of the excise taxes on Philippine-derived coconut oil is indeterminate. It will depend largely (1) on the extent to which the importation of the few untaxed or lesser taxed, competitive oils increase or decrease; (2) on the changes which may be made in the rates of duty and in the excise taxes applicable to imported oils; (3) on whether the United States ultimately remits the excise-tax collections on coconut oil to the Philippine Government; and (4) on whether coconut oil derived from Philippine

copra is subject to a preferential excise tax rate after the Philippines attain their complete independence in 1946.

A bill has recently been introduced to exempt from the excise tax, Philippine coconut oil which is rendered inedible.²² If this were to be passed, the probable effects on private American interests would be: (1) to reduce the cost of coconut oil to domestic manufacturers of soap, but by somewhat less than the full amount of the tax, inasmuch as some portion of it is now shifted to producers of coconuts and copra in the Philippines; (2) to increase the proportion of coconut oil used in the manufacture of soap appreciably above the level prevailing before the imposition of the excise taxes, particularly since imported tallow has recently become subject to an excise tax of 3 cents per pound; (3) to depress in some degree the price of both domestic

and foreign competitive soap oils now used in the United States; (4) to lower the proportion of coconut oil entering edible channels, since edible coconut oil would advance in price if the inedible coconut oil were exempt from the tax; and (5) to enhance the price of the domestic edible oils which are competitive with coconut oil.²³

The effects which the passage of the bill would have on United States Government interests is not fully determinate. If inedible Philippine coconut oil were exempt from the excise tax, the United States Government would then collect less revenue from its citizens for remission to the Philippines. This would benefit domestic consumers, but not to the full extent of the tax; it would not, however, influence the amount of the revenue which the United States Government might retain for its own use, provided that the revenue collected on Philippine coconut oil is ultimately to be remitted to the Insular Government. If the revenue does not occur, the consumers of coconut oil in the United States will be relieved from paying the tax but, since some portion of it is now shifted to the Philippine suppliers, the Government would forego a greater sum than the domestic consumers would be relieved of paying. The passage of the bill would also commit the United States to increasing the economic dependence of the Philippine coconut industry on the American market for at least the duration of the Commonwealth period and possibly longer.

The situation would be materially different if the tax exemption proposed in the bill were to be generalized to all imported oils and fats entering into inedible uses.

EFFECTS OF INDEPENDENCE ACT ON PRIVATE AND NATIONAL INTERESTS IN THE UNITED STATES

No provision of the Independence Act, as has been explained earlier, is likely to have any restrictive effect on the importation of coconut oil into the United States during the first 5 years of the Commonwealth period. In the light of other restrictive legislation by the United States, the substantial duty-free quota provided for in the act probably will not be reached in this period. During the second 5 years of the Commonwealth period, when the Philippine export taxes become operative, it is probable that the imports of Philippine coconut oil will be discontinued completely or almost completely, imports of copra being substituted. In any event, the importation of Philippine coconut oil will almost certainly cease after July 4, 1946, if it then becomes subject to the present United States duty of 2 cents per pound while copra remains on the free list. After that time coconut oil from the Philippines will no longer be able to compete in the United States market with that produced domestically from Philippine copra.

²¹The domestic consumer, as has been explained, does not bear the whole of the tax; some portion of it is borne by Philippine or foreign suppliers.

²²Cuffey-Deckweiler bill. Its probable effects on Philippine interests were discussed on pp. 89-90.

²³The amount of coconut oil now entering edible channels is greater than it was prior to the introduction of the excise taxes, but the acute domestic shortage of oils and fats rather than any provision of the excise tax law appears to be the significant causal factor. The amount of domestic vegetable oils entering into a margarine, however, increased during the period 1933-35 to a much greater degree than did the amount of coconut oil.

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It would appear, therefore, that if the present United States tariffs on coconut oil and copra remain unchanged, the provisions of the Independence Act will operate to transfer practically the entire export crushing industry from the Islands to the United States, probably sometime during, but in any case certainly not beyond the second 5 years of the Commonwealth period. Although this shift would increase the size of the domestic crushing industry and thereby confer certain benefits on some American interests, it would probably injure other American interests. Most of the crushing mills in the Islands are owned by Americans, who will probably enter the crushing business in the United States when they are obliged to discontinue operations in the Islands. Certain expenses, no doubt, will be incurred in making the transfer. Neither the American consuming interests nor the United States Government is likely to be materially affected more than temporarily by the transfer. Coconut oil presumably would be produced in the United States at no disadvantage in cost over producing it in the Islands; and, so long as the importations into the United States were confined to duty-free copra in lieu of Philippine coconut oil, the United States Government revenues from customs duties and excise taxes would not be influenced by the transfer of the industry.

If coconut oil crushed in the United States from Philippine copra becomes subject to the non-preferential excise tax after July 4, 1946, the domestic copra crushing industry may be reduced rather than increased in size, owing to the lessened domestic demand for coconut oil. Domestic producers of other oils and fats would presumably benefit from the lessened competition from coconut oil, unless there should be a large increase in the consumption of lesser taxed competitive foreign oils; in either event domestic consumers of oils and fats would probably pay higher prices for their requirements. The United States excise-tax receipts would advance or decline, according to the extent to which the increased excise taxes on coconut oil would restrict its consumption and would increase the consumption of the lesser taxed, competitive foreign oils.

COFRA CAKE AND MEAL.

Like coconut oil, copra cake and meal are produced in the United States from imported materials. The imported and the domestically produced copra cake and meal compete in varying degree with each other, and with a number of other varieties of cake and meal, either imported as such or produced in the United States from materials of foreign or of domestic origin. Imports of oil cake and oil-cake meal into the United States have ordinarily amounted to only 1 or 2 percent of the domestic production of similar substances derived from domestic materials, such as cottonseed, flaxseed, soybeans, and peanuts.

Practically all of the imports of copra cake and meal into the United States are from the Philippines. In recent years such imports have constituted a substantial fraction of imports of all varieties of cake and meal from all sources, as shown in the following table:

TABLE 48.—Oil cake and oil-cake meal: Imports for consumption in the United States, 1931-35

Year	From the Philippines (duty-free)		From other countries (3/10 cent per pound duty)	
	Quantity	Value	Quantity	Value
	Pounds		Pounds	
1931	13,370,526	\$111,385	65,796,237	\$763,389
1932	7,494,756	61,481	67,743,411	614,025
1933	23,315,431	128,364	104,177,660	855,733
1934	72,008,617	459,269	125,858,195	1,265,823
1935	102,399,483	698,124	199,350,883	2,104,951

Source: Foreign Commerce and Navigation of the United States.

The increased importation of oil cake and oil-cake meal from the Philippines and from other sources since 1933, is largely the result of the scarcity of feedstuffs caused by droughts and crop curtailment. Since most of the Philippine cake and meal enters Pacific coast ports and is consumed largely in their vicinities, it probably does not compete in any important degree with the cake and meal derived from domestic materials which, except for cake and meal made in the United States from Philippine copra, are marketed chiefly in other sections of the country. The increased importations of Philippine cake and meal, therefore, have tended to supplement rather than to supplant domestic production of similar materials.

EFFECTS OF INDEPENDENCE ACT.

No provision of the Independence Act has thus far affected the importation of Philippine copra cake and meal into the United States. When Philippine export taxes become operative in 1941, however, the crushing industry of the Islands will find it increasingly difficult to compete with that of the United States. By the time Philippine coconut oil becomes subject to the full United States duty in 1946, if not before then, the Philippine coconut-oil industry will probably cease to exist on any appreciable scale as an export industry. Since copra cake and meal are by-products of coconut oil, their export must follow approximately the same course as the exports of oil. But should the Philippine crushing industry be transferred to the United States in consequence of the provisions of the Independence Act, the United States would produce additional amounts of copra cake and meal in quantities much exceeding the imports now coming from the Philippines, since the Islands generally export most of their output of cake and meal to European markets. This additional production might then supply some of the domestic requirements which would otherwise be met by imports of cake and meal, not only from the Philippines but from other countries, and might also supply a surplus for export.

So far as domestic producers and consumers and United States Government revenues are concerned, the transfer of the production of copra cake and meal from the Philippines to the United States should have little effect. Consumers in the vicinity of the crushing mills might be placed in a slightly improved competitive position in bidding for their requirements; and the domestic producers of feedstuffs supplying these areas might be placed in a correspondingly poorer competitive position. Government customs receipts might be lowered slightly owing to the fact that probably less dutiable cake and meal would enter the country if the domestic crushing industry increased its output of copra cake and meal.

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imported coconuts grown in the West Indies and in Central America. The production of raw coconuts in continental United States, chiefly in Florida, has been exceedingly small and of diminishing importance in recent years.²⁵ As shown in table 49, shipments from Puerto Rico have recently accounted for 10 to 15 percent of the total entering continental United States, whereas imports of duty-free coconuts from the Philippines and Cuba have been of slight commercial importance.

The desiccated coconut industry is centered chiefly around New York City and the manufacturing is done by only a few firms. Domestic

from the Philippines is still well below that of the duty-paid price of the imports from Ceylon, the Islands will no doubt continue to supply practically all of the imports into the United States, at least until the end of the Commonwealth period.

The duty on desiccated coconut has operated principally to change the source of United States imports rather than to transfer production to continental United States. When the duty was increased from 2 cents to 31/2 cents per pound on desiccated coconut, a duty of one-half cent each was placed on fresh coconuts. Since about 3 coconuts are required to produce 1

important restrictive factor affecting the volume of this trade. Even in the last year of the period the tax will amount to only 0.875 cent per pound as compared with the United States duty of 3-1/2 cents per pound applicable to imports from other sources. The extent to which Philippine desiccated coconut will be able to compete in the United States after it becomes subject to the full duty in 1946, however, is problematical. The spread between the import prices of the Philippine and of the dutiable desiccated coconut has never equaled the duty. At its maximum, the import value of the Philippine product was higher than the value of the dutiable product (duty unpaid) by 2.3 cents per pound in 1923, as shown in table 50. The differences declined irregularly until 1933 when the unit value of the Philippine product was slightly below that of the dutiable. But by 1935 the import price of the Philippine product advanced above that of the dutiable product by 0.9 cent per pound.

Under competitive conditions which have existed during recent years, the Philippine desiccated coconut industry has been able to operate very profitably and on an increasing scale while selling its product in the United States at a price not greatly above that of the Ceylon product, duty unpaid. Philippine producers expect that by the time Philippine independence is achieved, wage costs, and consequently production costs, will be reduced somewhat, and that profit margins will be narrowed. It may well be, therefore, that the Philippines will be able to retain a large fraction of their American market for desiccated coconut even after it becomes subject to the full United States duty. Some part of their market, however, they will probably lose to domestic manufacturers and to Ceylon producers, chiefly the latter.

The United States Treasury, rather than the domestic manufacturer or consumer, is likely to be the principal beneficiary when Philippine desiccated coconut becomes subject to the tariff. Even to the extent that domestic production increases, the Treasury will benefit from the increased revenues arising out of imports of dutiable fresh coconuts. The domestic consumer will doubtless be obliged to pay higher prices for the imported desiccated coconut in consequence of the duty being applicable to the Philippine product. But the increased cost to the consumer will not likely be as great as the increased revenues which will accrue to the Treasury, since Philippine desiccated coconut, when it becomes subject to the duty, will tend to sell in the American market at least at no higher price than the Ceylon product or to be supplanted by it.

SUMMARY

1. The growing of coconuts in the Philippine Islands is largely an industry of small enterprise, the palm groves consisting generally of plots of less than 10 acres each. For the most part these are worked on a share-tenancy basis. In point of area under cultivation in the Islands, coconuts rank second after rice; in point of value they rank third after sugar and rice. It is estimated that more than 25 percent of the

²⁵The reported domestic production was 612,680 coconuts in 1919; 180,137 in 1927; and 72,944 in 1931. No census was made in 1933, and the 1935 data are not yet available.

²⁶Other countries supplied about one-twentieth of 1 percent of United States total imports during 1935.

TABLE 49.—Raw coconuts: Shipments received by the United States, 1934 and 1935

Country or territory	Duty	1934		1935	
		Number (on thousands)	Value	Number (on thousands)	Value
Puerto Rico.....	Free.....	7,253	\$209,050	10,205	\$282,844
Philippines.....	do.....	254	5,606	73	1,480
Cuba.....	do.....	23	590	137	4,063
Jamaica.....	1/2c.....	31,487	489,706	27,222	398,247
Panama.....	do.....	10,672	192,101	11,071	180,132
Trinidad and Tobago.....	do.....	5,223	108,728	2,618	48,254
All others.....	do.....	15,676	291,632	15,242	236,100
Total.....		69,088	1,207,473	66,568	1,149,229

¹Cuban coconuts are admitted free of duty under the terms of the Reciprocity Convention of 1902 and of the Trade Agreement of 1934.

Source: Foreign Commerce and Navigation of the United States.

production is confined largely to sweetened desiccated coconut, whereas imports consist entirely of the unsweetened. The bakery and confectionery trades use both varieties, but the household trade uses only the sweetened.

In terms of value (volume data are not available), domestic production has supplied about 60 percent of the domestic requirements in recent years. Almost all of the remainder has been imported from the Philippines and Ceylon, chiefly the former.²⁶ The following table shows the imports into the United States commencing with 1923, the year when the increased tariff went into effect.

TABLE 50.—Desiccated, shredded coconut meat: Imports for consumption in the United States, 1923-35

Year	From Philippines (duty-free)			From other countries (3-1/2 cents per pound duty) ¹			Computed ad valorem rate
	Quantity	Value	Value per pound	Quantity	Value	Value per pound	
	Thousands of pounds	Thousands of dollars		Thousands of pounds	Thousands of dollars		Percent
1923.....	8,610	869	\$0 101	16,976	2,876	\$0 078	45.0
1924.....	16,006	1,506	094	31,253	2,318	074	47.2
1925.....	24,509	2,383	097	53,653	1,934	082	42.8
1926.....	28,864	2,683	093	19,801	1,661	081	41.7
1927.....	33,994	3,041	091	26,757	2,162	082	43.7
1928.....	46,696	4,005	086	14,972	1,202	080	43.6
1929.....	43,123	3,395	079	7,996	598	072	48.9
1930.....	42,343	3,277	072	5,179	660	060	58.6
1931.....	37,133	3,936	052	4,210	183	043	80.8
1932.....	36,303	1,995	044	1,240	42	034	105.9
1933.....	39,694	1,855	042	1,065	68	044	80.4
1934.....	31,883	2,212	043	1,541	54	035	99.6
1935.....	74,679	3,781	051	995	41	021	83.9

¹Includes very small amounts from Cuba which are subject to a 20-percent lower duty.

Source: Foreign Commerce and Navigation of the United States.

During the period under review the volume of United States imports varied markedly from year to year. In 1935 the volume was the highest on record, exceeding that for 1923 by over 65 percent. At the beginning of the period the Philippines supplied less than 20 percent of the imports, whereas at the end they supplied almost 99 percent. Participation of the Philippines in the United States market began to expand at a rapid rate immediately after the Tariff Act of 1922 increased the duty on desiccated coconut from 2 cents to 31/2 cents per pound. Prior to 1923 imports into the United States came principally from Ceylon; by 1935 this source supplied only slightly more than 1 percent of the trade. Since the unit price of the imports

of desiccated coconut, and since the domestic producer depends chiefly on dutiable coconuts for his raw material, the tariff increase benefited him but little. The domestic manufacturer pays considerably higher prices for his raw coconuts, whether free of duty or not, than does the Philippine producer. The cost of moving desiccated coconut to Atlantic coast ports from the Philippines amounts to about 1 cent a pound, whereas the ocean freight on fresh coconuts from Puerto Rico to New York, for example, is the equivalent of about 3 cents per pound on the desiccated meat produced therefrom.

About 90 percent or more of the imports of Philippine desiccated coconut have entered Pacific coast ports in recent years, as compared with only 20 percent or less prior to 1928. This change is no doubt accounted for by the transportation advantage which the Philippine product enjoys over the domestically prepared product in the western part of the United States, and to the large increase in consumption of the product in that section of the country.

EFFECTS OF INDEPENDENCE ACT.

The imposition of Philippine export taxes on the shipment of desiccated coconut to the United States during the second half of the Commonwealth period is not likely to prove an

total population of the Islands are directly dependent upon the growing of coconuts for their livelihood.

2. Coconuts are grown throughout the Philippines, but the island of Luzon accounts for more than one-half of the total acreage devoted to their cultivation. A number of the provinces depend upon the coconut industry for at least 25 percent of their total revenues, and it is estimated that the Insular Government obtains 10 percent or more of its entire tax collections from this source.

3. The total capital invested in the Philippine coconut industry has recently been estimated at over \$220,000,000, the American participation being about \$14,000,000, of which 60 percent is in land and improvements and the remainder in mills and refineries. About 90 percent of the total investment in the industry is owned by Filipinos, and practically all of their holdings are represented by land and improvements.

4. About 10 to 20 percent of the coconuts grown in the Philippines are consumed in the Islands; the remainder is exported chiefly in the form of copra, coconut oil, desiccated coconut, and meal and cake. Of these, copra and coconut oil generally account for 80 to 90 percent of the total export values. The four major coconut products usually constitute from 20 to 30 percent of the value of the total exports of all commodities from the Islands to all countries; and they constitute from 15 to 35 percent of the value of the total exports from the Islands to the United States. From 75 to 85 percent of the total exports of the major coconut products, on the basis of value, are generally exported to the United States.

5. The respective values of the exports of copra, coconut oil, and cake and meal from the Philippines were at low levels during the period from 1932 through 1934, as compared with those for immediately preceding years. This was due principally to low unit prices. The value of exports of desiccated coconut was also relatively low in 1932 and 1933, but it advanced sharply in 1934, principally because of the large increase in the volume of exports. In 1935 the values of the exports of each of the four major coconut products rose to levels above those for any year subsequent to 1930, the export value of desiccated coconut rising to an unprecedented height. The combined value of the exports of major coconut products was about 55 percent higher in 1935 than in 1934. The rise was due principally to increases in the unit price of each of the commodities, although there were also increases in volume, particularly in that of desiccated coconut.

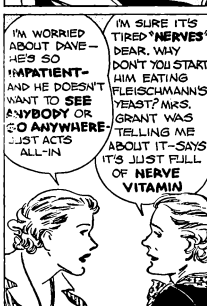
6. The provisions of the Independence Act will not likely have any important direct effect on the Philippine coconut industry during the first 5 years of the Commonwealth period. During the second 5 years the provisions will operate to bring about a more or less complete liquidation of the coconut oil export industry. Any decline in the exports of coconut oil and copra cake and meal arising from the provisions of the act, however, will presumably be offset by a corresponding increase in the volume of exports of copra. The production of copra in the Islands, therefore, should be little affected. For the period following independence, the position of the coconut industry, insofar as it will be affected by the provisions of the Independence Act, will depend principally on whether the present excise tax on oils and fats is still in effect in the United States, and whether cocount

oil derived from Philippine copra continues to enjoy its present preferential excise tax status. The United States excise tax legislation is not explicit with respect to this latter point. If this legislation remains in force and if the present tax preference is still accorded, the Philippine coconut industry, considered as a whole, will not likely be faced with any further serious developments in consequence of the provisions of the Independence Act. But if the excise taxes remain in force and the Philippine tax preference is no longer accorded after independence, the effect of the provisions of the Independence Act will be to inure very seriously the coconut industry of the Islands.

7. The United States excise-tax legislation comprising the Revenue Acts of 1934, 1935, and 1936, has operated in general to lower the competitive position of Philippine coconut oil in the American market, both in relation to oils and fats produced wholly in the United States (none of which is subject to excise taxes), and in relation to a few foreign oils which are exempt from

excise taxes. The rise in the price of cocount oil (tax unpaid) which has occurred since the excise taxes went into effect took place in spite of, rather than because of, this legislation. What effects the excise taxes will have in the future—particularly after independence—on the competitive position of cocount oil derived from Philippine copra, is indeterminate, even though the present excise-tax legislation continues in force unchanged. It will depend largely: (1) On the extent to which the imports into the United States of untaxed or lesser taxed competitive oils will increase or decrease; (2) on the changes which may be made in the United States rates of duties applicable to such oils; (3) on whether the United States ultimately remits the cocount oil excise-tax collections to the Philippine Government; and (4) on whether cocount oil extracted from Philippine copra is subject to a preferential excise-tax rate after Philippine independence.

8. Although the United States excise-tax legislation has adversely affected the private



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Philippine coconut interests and may affect them even more adversely after independence, this legislation may nevertheless confer substantial benefits upon the Philippine Government. The United States revenue acts provide that the excise taxes collected on coconut oil extracted from Philippine copra (either in the Islands or in the United States) shall be forwarded to the Philippine Government. Because of litigation, however, none of the revenue thus far collected has been remitted. On November 30, 1936, the receipts in question amounted to \$41,202,203. These tax collections, when and if remitted, will represent gains for the Insular Government which will no doubt far exceed any monetary losses the Philippine coconut industry may have suffered in consequence of the excise-tax legislation.

9. The United States produces substantial quantities of processed coconut products, but they are manufactured almost entirely from raw materials originating outside of continental United States. The coconut oil imported from the Philippines competes directly with the domestically produced coconut oil, and both compete indirectly in varying degree with a number of other oils and fats of wholly domestic origin. Philippine copra cake and meal, and desiccated coconut also compete similarly but to a lesser extent, with the domestically processed or produced goods.

10. In the production of the varieties of soap in chief demand in the United States, coconut oil can be replaced only to a limited extent by oils and fats produced wholly in continental United States. In this use, which is its most important in the United States, until recently, coconut oil complements domestic oils and fats to a much greater degree than it competes with them. But in its major edible uses, coconut oil, so far as physical characteristics are concerned, can be replaced by a number of other oils and fats derived from materials produced wholly in continental United States.

11. The economic effects of the oil excise taxes on American interests have been similar to those which would have resulted from corresponding tariff duties, inasmuch as no oil or fat derived from materials produced in continental United States was made subject to the excise taxes. These taxes have operated to enhance the price of those domestic oils and fats which meet competition from coconut oil and from other taxed oils of foreign derivation, but they have not operated, nor are they likely to operate, to enlarge appreciably the domestic production of oils and fats with the exception of certain types of fish oil, inedible tallow, and soybean oil. Most of the domestic oils are produced jointly with other products of much greater value.

While domestic producers of oils and fats have benefited generally from the imposition of the excise taxes, domestic consumers have been obliged to pay higher prices for their requirements than they would have in the absence of the excise taxes. The extent to which the interests of the United States Government have been affected has not been determined at this time (Jan. 1, 1937). It will depend largely on whether the United States will finally remit the coconut-oil excise-tax collections to the Philippine Government. The effect which the excise-tax legislation will have on private American interests after Philippine Independence is largely indeterminate.

12. The provisions of the Independence Act governing the exports of Philippine coconut products to the United States are not likely to have any direct effect on private American interests or on United States Government revenues during the first 5 years of the Commonwealth government. During the second 5 years of this period, these provisions will operate principally to expand the domestic copra-crushing industry, without appreciably affecting either the United States Government revenues or the position of domestic producers or consumers of fats and oils, and meal and cake, generally. For the period following independence, the effects of these provisions are largely indeterminate, principally because the excise-tax status of Philippine coconut oil is not clearly set forth in the United States revenue acts. If the present excise taxes and preferences are continued after Philippine independence, then no provision of the Independence Act will operate further to alter the position of American producers and consumers of oils and fats, or to alter United States Government revenues collected on oils and fats. If the present excise taxes are continued but the preference is no longer accorded to coconut oil of Philippine derivation after independence, the provisions of the Independence Act will operate to reduce the consumption and to increase the tax-paid price of coconut oil in the United States. This in turn will operate to increase the prices of domestically produced, competitive oils and fats. Whether United States Government revenues would rise or fall in this contingency is not clear.

The provisions of the Independence Act will also operate, in an indeterminate degree, to restrict the importation of Philippine desiccated coconut into the United States after independence. In consequence, the domestic producers of desiccated coconut may be benefited to a limited extent. United States tariff revenues will presumably increase, and American consumers will probably pay somewhat higher prices for their requirements.

(Please turn to Mining Section page 47)

(Continued from page 50)

5. ABACA AND CORDAGE ABACA

PRODUCTION.

Abaca, popularly known as manila or manila hemp, is used in the manufacture of cordage; it is grown on about 10 percent of the cultivated area in the Philippines. During the last 20 years the total acreage devoted to abaca culture has remained relatively constant at approximately 1,100,000 acres. The area actually harvested, however, and therefore the production of the fiber, have varied from year to year. Production declined appreciably during the years 1931-32, but recovered during 1934-35. Statis-

tics covering the 10-year period 1926-35 appear in the following table.

TABLE 52.—Abaca: Production in the Philippines, 1926-35

Year	Bales (278 3 pounds)	Short tons
1926	1,238,113	172,283
1927	1,229,119	171,032
1928	1,386,897	192,587
1929	1,590,343	221,296
1930	1,274,464	173,342
1931	1,079,147	148,311
1932	872,594	121,472
1933	1,237,987	170,874
1934	1,441,202	200,543
1935	1,480,396	205,997

Source: Annual Baling Reports, Fiber Inspection Service, Department of Agriculture and Commerce, Commonwealth of the Philippines.

The principal regions producing abaca are located in southern Luzon, and in the islands of Mindanao, Leyte, Samar, and Masbate. Methods of cultivation and fiber extraction are primitive, except in the Province of Davao, Mindanao, where American and Japanese producers have employed scientific methods of cultivation and have introduced improved machinery for extracting the fiber. As a result of these improvements the Province of Davao has increased its production, while the output in other sections has either remained stationary or has declined. This province, which has the largest abaca acreage under cultivation in the Islands, now raises between 40 and 45 percent of the total abaca fiber produced. Other provinces prominent in the production of this fiber are Albay, Sorsogon, and Leyte.

The principal grades used by rope manufacturers in the United States are of high quality and are designated as J1, G, and I; in recent years Davao has produced between 70 and 80 percent of the total quantity of these grades grown in the Islands.

The investment in land, improvements, and machinery in the abaca industry is estimated at \$185,000,000; of this amount, 90 percent is owned by Filipinos and the remainder by Americans, Japanese, and others.

It is estimated that between 2,000,000 and 2,500,000 people are dependent directly or indirectly on abaca production for all or part of their livelihood. Of these, approximately 600,000 heads of families are directly engaged in growing manila hemp as their major crop. The wages paid on the abaca plantations range from 20 to 50 cents per day except for those engaged in stripping the fiber; the latter usually receive somewhat higher remuneration.

EXPORTS.

Manila fiber was the largest export crop of the Islands in the nineteenth century. As late as 1903 it comprised 68 percent of the value of all Philippine exports, to owing which it declined in relative importance until 1932, when it con-

tinued to decline. (Philippine Statistical Review, vol. 2, no. 4, 1935, p. 310.)

TABLE 53.—Abaca and cordage: Exports from the Philippine Islands, 1903, 1926-35

Year	Value of exports			Percent of value of exports of all commodities
	Abaca	Cordage	Total	
1903	\$22,090,588	\$21,848	\$22,092,436	68
1926	32,142,038	1,405,458	33,547,496	24
1927	29,687,129	1,666,797	31,353,926	20
1928	26,993,098	1,775,436	28,768,534	16
1929	28,420,550	1,904,252	30,324,822	18
1930	18,426,676	1,533,227	19,979,903	15
1931	8,942,967	897,408	9,840,375	6
1932	5,015,602	659,047	5,674,649	6
1933	6,873,860	906,768	7,780,628	9
1934	8,661,661	1,335,947	9,997,608	7
1935	11,473,967	1,761,815	12,635,782	13

Source: Annual Reports, Insular Collector of Customs.

stituted 6 percent of total exports. The low point reached in 1932 was the result of a decline in the unit price of abaca as well as in the quantity exported. The decline in relative importance was also due to the marked rise in the exports of other commodities, particularly sugar and coconut products. As shown in table 53, the combined shipments of abaca and cordage in 1934 amounted to 9 percent of the total value of Philippine exports, and in 1935 to 13 percent. In the export trade of the Islands for 1935 the value of abaca and cordage combined was below that of sugar, coconut products, or gold.

Most of the abaca produced in the Philippines is exported as fiber. The quantity of fiber consumed by the local cordage factories is estimated at approximately 8,500 tons. The principal markets for abaca are the United States, the United Kingdom, and Japan. The United States purchases the largest amount of high-grade fiber, the United Kingdom buys medium grades, and Japan the medium and lower grades, the latter being used primarily in the manufacture of paper. Exports to Japan are the largest in quantity but those to the United States are the highest in value. The distribution of exports of Philippine abaca for 1935 is given below:

Country	Tons	Percent of quantity	Value	Percent of value
United States	47,666	23.6	\$3,811,010	33.2
Japan	72,982	35.8	3,149,542	27.4
United Kingdom	46,779	23.2	2,449,574	21.4
Other countries	35,097	17.4	2,063,881	18.0
	201,624	100.0	11,473,967	100.0

¹Annual Export Report, Fiber Inspection Board, Department of Commerce and Agriculture, Commonwealth of the Philippines.

²Annual Report, Insular Collector of Customs.

Because the Philippines have a practical monopoly in the production of abaca, other nations are obliged to make most of their purchases there. The share of the United States in the export trade is lower in abaca than in many other Philippine products. Abaca from all sources has entered the United States duty-free since 1890.

COMPETITIVE ASPECTS.

Although the Philippines have a virtual monopoly in the production of abaca, Japanese interests are developing plantations in British North Borneo and the Netherlands in Sumatra. In addition, sisal for certain uses competes with abaca on a price basis, but because of differences in quality this competition is limited. Because of the monopolistic character of abaca production, it has been suggested that Philippine growers might obtain increased prices for their product by restricting output. Any serious attempt to make such a program effective would no doubt stimulate production elsewhere and also improve the competitive position of cheaper fibers. Manila hemp does not compete with any product raised in the United States. So long as abaca remains on the United States free list it will not be directly affected by the trade provisions of the Independence Act.

CORDAGE

NATURE AND IMPORTANCE OF THE INDUSTRY.

Five cordage factories were operating in the Philippines during 1935. Four of these were in Manila and one was in Legaspi, in southern Luzon. The total annual spindle capacity of the five Philippine cordage mills is 57,024,000 pounds of fiber; their annual consumption in recent years has averaged only 17,385,000

pounds. Three of the factories in Manila produce most of the cordage manufactured in the Islands. In 1935 American capital controlled 53.4 percent of the spindle capacity of the Philippines, Filipino capital controlled 40.5 percent, and Chinese 6.1 percent. Total investments in the industry are estimated to be approximately \$3,000,000.

EMPLOYMENT AND WAGES.

The number of people employed by cordage mills in the Philippines in recent years has averaged 1,030, and the number of people directly dependent on the industry, is estimated at about 5,000. The total salaries and wages paid approximate \$300,000 per annum. Laborers receive from 40 cents to \$2.50 per day depending upon the kind of work which they perform.

EXPORTS.

Exports of cordage from the Philippines totaled 15,467,000 pounds in 1929, the quantity declined to 8,451,200 pounds in 1932, rose to 18,339,700 pounds in 1934, and fell to 17,651,400 in 1935. The value of exports was \$1,904,300 in 1929, \$659,000 in 1932, \$1,334,100 in 1934, and \$1,161,800 in 1935. The decline in total exports in 1935 as compared with 1934

have accounted for more than 50 percent of the value. (See table 54.) During the decade under review, the unit values of shipments to the United States were greater than the unit values of exports to other countries. This condition may be explained in part by the ability of the individual Philippine producers operating through exclusive distributing agencies to sell various types of rope in the protected market of the United States at higher prices than could be obtained in foreign markets, and in part, by the fact that the grades of rope sold in foreign countries are generally lower than those sold in the United States.

The increase in the exports of Philippine cordage in recent years has been marked, rising from 8,500,000 pounds in 1932 to 17,500,000 pounds in 1935. Despite this increase, exports of cordage constituted only 1.2 percent of the value of total exports from the Philippines in 1935, a proportion which has been maintained for a number of years. The American market is less important to Philippine producers of cordage than to producers of many other products, since approximately one-half of the exports of cordage is shipped to countries other than the United States.

RESTRICTIONS ON THE SHIPMENT OF PHILIPPINE CORDAGE TO THE UNITED STATES.

The United States Tariff Act of 1922 fixed the duty on cordage "wholly or in chief value of manila * * *" at 0.75 cent per pound. The act of 1930 increased the rate to 2 cents per pound and added 15 percent ad valorem to that rate if the rope were smaller than three-fourths of 1 inch in diameter. The ad valorem equivalent of these rates applied to imports of all hard fiber rope paying full duty in 1935 averaged approximately 24 percent on rope three-fourths of 1 inch or greater in diameter and 41 percent on ropes smaller than three-fourths of 1 inch. The equivalent ad valorem rate, however, would vary in accordance with the price of

was accounted for by the reduction in shipments to the United States. This reduction was due, no doubt, to the limitation imposed by the provisions of the Cordage Act which became effective on May 1, 1935.

During the period 1926-35, except for 1932 and 1933, countries other than the United States took more than 50 percent of the quantity of cordage exported from the Philippines. Since 1929, however, shipments to the United States

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Also the best imported artists including the COLBERT TWINS, ZELIE and MARIE.

For Reservations
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TABLE 54.—Cordage: Exports from the Philippines to the United States and to other countries, 1926-55

Year	Exports to United States			Exports to other countries			
	Quantity	Value		Quantity	Value		
	Pounds	Percent of total to all countries	Amount	Pounds	Percent of total to all countries	Amount	
1926	4,034,189	40.3	\$648,036	46.1	6,010,736	39.7	\$737,422
1927	4,135,609	37.7	640,745	48.4	8,148,290	66.3	1,023,362
1928	5,393,629	37.2	721,121	40.6	9,101,676	66.2	1,054,315
1929	6,850,770	43.7	932,731	49.0	8,816,246	36.3	971,542
1930	6,769,412	48.8	841,563	54.2	7,089,046	51.2	711,662
1931	4,599,112	52.0	460,001	51.8	5,623,692	53.0	427,407
1932	4,447,882	52.6	411,207	62.4	4,903,342	47.4	247,840
1933	4,876,227	53.2	367,340	62.6	6,031,354	46.8	336,428
1934	9,843,167	48.8	785,053	58.8	9,396,534	51.2	543,037
1935	8,653,278	45.6	618,959	51.1	9,298,167	54.4	532,856

Source: Annual Reports, Insular Collector of Customs.

each individual shipment which, in turn, would be based upon the size and grade of the rope involved.

Cordage is one of the three Philippine export commodities for which duty-free entry into the United States was to be restricted under the Independence Act, as follows:

For the first 5 years of the Commonwealth period, the Independence Act fixed a cordage quota of 3,000,000 pounds to be admitted free of duty. Any imports above that amount were to pay the full United States duty. The duty-free quota stipulated in the act was approximately one-half of the average annual shipments from the Islands to the United States during the period 1926-35.

During the second 5 years of the Commonwealth period, the duty-free limitation was to be continued but the quota was then to become subject to the progressive Philippine export taxes. These taxes are to begin at 5 percent of the United States duty on cordage in the sixth year of the Commonwealth and increase to 25 percent in the tenth year.

After complete independence is achieved, Philippine export taxes will no longer be required, but the full United States duty will then be applied to all Philippine cordage imported into the United States.

The cordage provisions of the Independence Act, however, were superseded by an Act of Congress approved June 14, 1935. This legislation amended the cordage provisions of the Independence Act in several respects: (1) the duty-free limitation on "all yarns, twines, cords, cordage, rope, and cable, tarred or untarred, wholly or in chief value of manila (abaca) or other hard fiber" was raised from 3,000,000 to 6,000,000 pounds annually; (2) the increased quota is an absolute one and no Philippine cordage in excess of 6,000,000 pounds annually is to be admitted into the United States; (3) all Philippine cordage exported to the United States will be subject to the export taxes provided for in the Independence Act during the second 5 years of the Commonwealth assuming the continuation of the Cordage Act which is subject to termination on May 1, 1938. Prior to the date of Philippine independence, the latter act may be extended by proclamation of the President of the United States for an additional period of 3 or more years, upon approval of the President of the Commonwealth of the Philippines. On the expiration of this act, cordage again will become subject to the provisions of the Independence Act.

The restriction in the Cordage Act differs from those imposed by the Independence Act on such Philippine exports to the United States as are subject to quota limitations. The Cordage Act limited shipments of cordage as of May 1,

1935, whereas the restrictions fixed by the Independence Act would not have become applicable until November 15, 1935, when the Commonwealth Government was inaugurated.⁴ Moreover, the Independence Act permitted goods subject to quotas to enter the United States in excess of such quotas by paying full duty. The Cordage Act, on the other hand, fixes an absolute maximum which may not be exceeded. The quota fixed in the Cordage Act also includes binder twine which is on the United States free list. All United States imports of Philippine binder twine, therefore, must be included in the cordage quota although foreign countries may ship to the United States unlimited quantities of this product duty-free; however, only negligible quantities of binder twine have heretofore been imported from the Philippines.

Another factor affecting the shipment of Philippine cordage to the United States arises out of the spread in the freight rates on baled abaca and finished rope. Inasmuch as about 1 pound of abaca is required to produce 1 pound of rope, a freight differential, corresponding to approximately one-half cent per pound, favors the movement of abaca rather than rope.⁵

COMPETITIVE CORDAGE SITUATION IN THE UNITED STATES.

Production of hard-fiber cordage in the United States has fluctuated widely in the last 10 years. In 1927 the total was 193,000,000 pounds but by 1933 it had declined to 84,500,000 pounds. In 1935 production increased, reaching a total of 87,950,000 pounds. Imports also fluctuated during this period; they dropped from 16,325,000 pounds in 1929 to 6,860,000 pounds in 1931 but recovered to 12,300,000 pounds in 1935. Total imports have never exceeded 14 percent of domestic production. The principal source of imports, however, has changed. Prior to 1930, more than 50 percent of the imported hard-fiber cordage came from foreign countries while subsequent to 1930, more than 80 percent of it came from the Philippines. Because of the decline in domestic production and the increase in shipments from the Philippines, these latter corresponded to 9.4 percent of domestic production in 1933 and 12.5 percent in 1935. The decline in imports of cordage from foreign

countries may be explained in part by the increased tariff rates which became effective with the passage of the Tariff Act of 1930, by the competition of wire rope, and by the general depressed condition of world trade following 1929. Table 55 indicates the changes which occurred in domestic production and in imports during the period 1927-35.

During the Commonwealth period the entry of Philippine cordage into the United States will be restricted either by the absolute quota of the Cordage Act or by the duty-free quota of the Independence Act. Moreover, during the second 5 years of the Commonwealth the Philippine export taxes will reduce the advantage now enjoyed by Philippine cordage manufacturers in the American market. It does not appear, however, that the export taxes will of themselves cause any material reduction in the quantity of Philippine cordage exported to the United States. After the Philippines become independent, the United States duties will operate to reduce the quantity and profitability of Philippine exports of cordage, but it seems unlikely that the duties will prove to be prohibitive. The charges for transportation to the United States for this product constitute a third factor which may become almost as important in its effect upon Philippine shipments to the United States as either the Philippine export taxes or the United States duty.

Any permanent increase in the sales of Philippine cordage in the United States would operate to reduce the purchases of abaca by American buyers, since the fiber is used primarily in the manufacture of rope.⁶ Moreover, if large quantities of Philippine cordage made from inferior fiber should be sold in the United States,

The Cordage Act was approved on June 14, 1935, but was made effective as of May 1, 1935. Because of this retroactive feature in the law, the quota was to be in over-ship by approximately 1,500,000 pounds before export licenses could be issued. This action allowed the quota to be met during the year beginning May 1, 1936, the effective quotas for those concerns which normally ship the largest quantities of rope to the United States beginning on May 1, 1937, however, the Commonwealth Government will be able to allocate entire quota of 6,000,000 pounds to individual cordage manufacturers.

Conference rates in effect May 1, 1936—from Manila to Atlantic coast ports.

Cordage: Per long ton..... \$35.00
 Abaca: Per bale (average 278.3 pounds), dollars..... \$3.00
 Per pound..... 0.0108
 Per long ton..... 24.15

Spread in rates per ton..... 10.85
 Spread in rates per pound..... 0.048
 Prior to May 1, 1936, the following rates prevailed:
 Cordage: Per long ton..... 35.00

Abaca: Per bale (average 278.3 pounds), dollars..... \$2.25
 Per pound..... 0.0081
 Per long ton..... 18.11
 Spread in rates per ton..... 16.89
 Spread in rates per pound..... .0075

⁴United States imports for consumption of manila or abaca from the Philippines for specified years:

Year:	Pounds
1927	114,710,400
1928	159,774,480
1929	68,242,640
1930	72,782,680
1931	95,747,840

Source: Foreign Commerce and Navigation of the United States.

TABLE 55.—Hard-fiber cordage: United States production and imports from foreign countries and from the Philippines

Year	United States production ¹	United States imports from foreign countries	United States imports from the Philippines	Ratio of imports from	
				Philippines to production	Philippines to production
	Pounds	Pounds	Pounds	Percent	Percent
1927	192,991,638	5,328,637	4,891,349	2.5	2.4
1929	183,764,354	9,339,685	9,339,685	5.2	10.0
1931	95,746,551	1,479,854	5,380,222	5.6	7.2
1932	184,496,911	1,254,387	1,254,387	8.1	11.0
1935	87,949,699	1,307,086	11,009,123	12.5	14.0

¹Bureau of the Census.

Source: Foreign Commerce and Navigation of the United States except where footnoted.

American manufacturers would be compelled to buy a large proportion of low-grade abaca so that they might compete. In this way the major Philippine outlet for high-quality fiber might be restricted. However, so long as imports from the Philippines remain limited to 6,000,000 pounds annually, such a contingency appears improbable.

BINDER TWINE.

The production of binder twine in the United States was subject to less fluctuation than the production of cordage from 1927 through 1935, but imports during that interval increased from 7 to 36 percent of domestic production. Domestic production totaled 227,600,000 pounds in 1927 and 157,700,000 pounds in 1935. Imports were 15,800,000 pounds in 1927, but rose to 56,300,000 pounds in 1935. Under the Tariff Act of 1930, foreign countries are permitted to ship to the United States unlimited quantities of binder twine free of duty. By the provision of the Cordage Act, as has been pointed out, the Philippines are now the only country which may not do so. Philippine shipments of binder twine in the past, however, were negligible.

SUMMARY

1. As late as 1903 abaca, or manila fiber, accounted for 68 percent of the value of all Philippine exports, but by 1936 abaca and cordage combined accounted for only 13 percent. The Philippines continue to enjoy a virtual world monopoly in this material. No similar material is produced in the United States and imports enter duty-free.

2. Five cordage factories representing an investment of approximately \$3,000,000 were operating in the Philippines in 1935. Four of the mills are located in Manila, two of which are owned by American capital. The total annual spindle capacity of all Philippine factories is 57,024,000 pounds of fiber; annual factory consumption in recent years has averaged 17,385,000 pounds. The cordage industry employed 1,030 people in 1935.

3. The provisions of the Independence Act limit the free import of Philippine cordage into the United States to 3,000,000 pounds per annum, amounts in excess of that quantity

being permitted entry at full duty. These provisions, however, have been superseded, at least temporarily, by the Cordage Act of 1935. Under this law 6,000,000 pounds of Philippine cordage may enter the United States duty-free, an amount approximately equal to the average annual shipments from the Islands during the period 1926-35, but considerably below the amount shipped in 1934 and 1935. This quota was made retroactive as of May 1, 1935, over 6 months in advance of the date when the provisions of the Independence Act were to take effect. It is absolute, no shipments in excess of it being permitted, and includes not only cordage but also binder twine which is on the free list in the Tariff Act of 1930. Philippine cordage exported to the United States in the second 5 years of the Commonwealth period, either under the quota of the Cordage Act or, if that act should be allowed to lapse, under the quota provided by the Independence Act, will be subject to the export taxes provided for in the Independence Act.

4. United States imports of manila cordage from the Philippines have become an increasingly important factor in the American market; they amounted to approximately 12.5 percent of total domestic production of hard fiber cordage and 90 percent of the total imports in 1935. United States imports of binder twine from all sources equaled 36 percent of domestic production in 1935. Imports from the Philippines were negligible.

5. It is not likely that the Philippine export taxes will cause any material reduction in the quantity of Philippine cordage exported to the United States. The United States duties to be applied after independence, however, will probably operate to reduce both the quantity and profitability of these exports, though it appears improbable that existing rates of duty would prove to be prohibitive.

6. TOBACCO AND TOBACCO PRODUCTS POSITION OF THE INDUSTRY IN PHILIPPINE ECONOMY

TOBACCO CULTURE.

(Approximately 137,000 acres, or 1.4 percent of the cultivated land in the Philippines, is devoted to the culture of tobacco.) Production

was valued at \$1,432,000 in 1934 and is largely concentrated in three regions. The first and most important district is the Cagayan Valley in northeastern Luzon, the second is located along the northwestern coast of Luzon, and the third is composed of the islands of Cebu, Negros, and Panay. Tobacco is the principal crop in the Cagayan Valley; it is one of the major crops along the northwestern coast of Luzon, but is less important in the three Visayan Islands. Isabela Province, located in the Cagayan Valley, is the largest producer of leaf tobacco in the Philippines. It has the highest yield per acre, and its crop is marketed at higher prices than the crops of other tobacco regions.

Tobacco is grown on about 75,000 small farms and on 15 large plantations. The capital invested in tobacco lands and improvements approximates \$21,000,000. Filipino landowners cultivate most of the tobacco area, though Spanish capital controls a few of the large plantations. The population dependent upon tobacco culture has been estimated to be 500,000. The laborers are employed either in the fields or in the warehouses where the crop is graded and baled. Wages range from 20 cents to \$1 per day, depending upon the type of employment and also upon the speed of the worker, since certain tasks are paid for on a piece-rate basis.

Large manufacturers of tobacco products maintain representatives and warehouses in the principal producing regions. The tobacco is purchased from the grower and is then sorted, baled, and either exported or shipped to the factory of the buyer where it is prepared for use in the manufacture of various tobacco products.

THE MANUFACTURER OF TOBACCO PRODUCTS.

The 30 companies manufacturing tobacco products are located in or near Manila; in 1935 four of these accounted for the major part of production in the Philippines. Including warehouses, factories, and equipment, the industry represents a total investment of approximately \$9,250,000. Spanish companies have the largest capital investment, estimated at 60 percent of the total; Swiss, American, Chinese, and Filipino investors control the remaining 40 percent.

<p>SOON AT THE IDEAL</p> <p>MARX BROS. in "A DAY AT THE RACES"</p>	<p>SIMONE SIMON JAMES STEWART</p> <p>"SEVENTH HEAVEN"</p>	<p>John HARLOW Robert TAYLOR</p> <p>"PERSONAL PROPERTY"</p> <p><small>Micro-Gulligan Meyer returns</small></p>
<p>MGM THE GOOD EARTH</p> <p>PAUL HENREID and LUIS RAINER</p> <p>DICK CARROLL and MADELEINE CARROLL with IRVING BERLIN'S</p> <p>"ON THE AVENUE"</p> <p><small>20th Century Fox</small> ALICE FAYE • The RITZ Brothers and GEORGE BARBIER</p>	<p>A VICTOR FLEMING PRODUCTION</p> <p>Rudyard Kipling's CAPTAINS COURAGEOUS</p> <p>with BARTHOLOMEW BARRYMORE and TRACY DOUGLAS</p> <p><small>A Metro-Gulligan Meyer return</small></p>	<p>Just some of the HITS coming to the IDEAL THEATRE</p> <p>WATCH FOR OPENING DATES</p>

Approximately 20,000 factory laborers are employed in the manufacture of tobacco products; these, together with their families, form a group of over 100,000 people who are dependent upon this phase of the tobacco industry. Wages vary from 30 cents to \$1 per day, depending upon the particular task and the volume of work accomplished. Much of the labor is paid for on a piece-rate basis; in 1935 cigar makers in Manila, for example, received \$2.23 per 1,000 cigars. It is estimated that an efficient worker can produce 2,000 cigars in a week; because of reduced production in 1935, however, laborers in many factories were allowed to manufacture only 1,000 cigars a week. Machinery is used in the manufacture of cigarettes, and in the wrapping of cigars with cellophane and in the banding of them; it is not used in the actual manufacture of cigars.

EXPORTS OF TOBACCO AND TOBACCO PRODUCTS.

During the period 1926-35 the annual exports of tobacco and tobacco products varied from \$5,200,000 to \$8,900,000 and from 4.7 to 7.1 percent of the total value of exports from the Philippine Islands. From the low point of 4.7 percent in 1934, exports of tobacco and tobacco products increased to 6.4 percent in 1935. This increase in importance is due to the rise in the quantity and value of exports of leaf tobacco in 1935 and also to the decline in total Philippine exports caused principally by the limitation of shipments of sugar to the United States.

Philippine exports of tobacco and tobacco products may be segregated into three major divisions: Leaf tobacco, cigars, and other tobacco products. The last division includes cigarettes, stripped filler and scrap tobacco, and smoking and chewing tobacco, of which filler and scrap tobacco are the most important.

Exports of leaf tobacco comprised from 27 to 50 percent of the total annual exports of tobacco and tobacco products during the period 1926-35. Spain is the principal foreign market for Philippine tobacco leaf, taking from 50 to 80 percent of the value of exports to all countries. Other foreign markets are Japan, France, Belgium, and China.

Approximately 28 percent of the total quantity of cigars produced in the Philippines is consumed in the Islands and 72 percent is exported, 67 percent to the United States and 5 percent to other countries. Exports of cigars have constituted from 45 to 70 percent of the total value of exports of tobacco and tobacco products. Statistics for 1935 show that exports totaled 233,000 cigars valued at \$1,700,000. On a value basis this figure equaled 56.6 percent of the total exports of tobacco and tobacco products in that year. Over 90 percent of these cigars were shipped to the United States to be retailed at 2 for 5 cents.

Exports of cigarettes are small, amounting to less than 1 percent of Philippine production of cigarettes. In 1935 they were valued at only \$22,000, of which shipments to the United States totaled \$6,000. Stripped filler and scrap tobacco are the remaining items of importance in the tobacco trade of the Philippines. In 1935 exports of these products totaled \$270,000, or 4.5 percent of the total exports of tobacco and tobacco products; exports to the United States were valued at \$252,000, or 93 percent of the total exports in this classification.

The United States is the largest consumer of Philippine tobacco and tobacco products, having taken 54.8 percent of total exports in 1935.

Spain is the second market, having taken 24.7 percent in 1935. A large number of other countries purchase small quantities. The commanding position of the United States in the tobacco trade of the Philippines is due entirely to the preferential free-trade relationship which exists between the two countries.

Table 56 indicates the general character of the Philippine export trade in tobacco and tobacco products.

TABLE 56.—Tobacco and tobacco products: Exports from the Philippines to all countries, 1926-35

Year	Leaf tobacco ¹		Cigars ²		All other tobacco products ³	Total value ⁴	Ratio of tobacco exports to total Philippine exports
	Quantity	Value	Quantity	Value			
	In thousands of pounds		In thousands of pounds				Percent
1926	31,602	\$2,681,361	247,711	\$5,661,089	\$298,532	\$8,631,582	6.3
1927	51,990	3,918,749	207,579	4,652,258	337,659	8,908,666	5.7
1928	44,571	3,029,653	220,884	4,768,140	776,664	8,573,437	2.8
1929	60,801	4,352,435	188,333	3,925,049	572,809	8,789,844	5.3
1930	45,791	3,725,879	178,561	3,545,223	565,284	7,836,386	5.9
1931	49,944	3,501,646	185,227	3,395,537	742,838	7,423,838	7.1
1932	47,664	3,822,233	182,575	3,231,218	346,608	6,400,059	6.7
1933	37,250	1,842,553	196,141	3,157,933	177,408	5,177,894	4.9
1934	28,943	1,391,645	222,820	3,605,810	210,919	5,183,766	4.7
1935	49,398	2,307,460	223,117	3,396,380	294,989	6,001,829	6.4

¹ Spain is the largest purchaser of Philippine leaf tobacco importing from 50 to 80 percent of the total Philippine exports of leaf.

² The United States is the largest consumer of Philippine cigars, taking over 90 percent of the total quantity exported (91.4 in 1935); of these exports over 90 percent retail in the United States and 2 for 5 cents.

³ "All other tobacco" consists largely of stripped filler and scrap tobacco over 2 percent of which is shipped to the United States.

⁴ The United States was the largest consumer of Philippine tobacco and tobacco products in 1935—54.8 percent; Spain was second with 26.5 percent. A large number of other countries purchase small quantities.

Source: Annual Reports, Insular Collector of Customs.

RESTRICTIONS IMPOSED BY INDEPENDENCE ACT

UNITED STATES TARIFF RATES ON TOBACCO PRODUCTS.

In the Tariff Act of 1922, the duty on filler tobacco, "not specially provided for", if unstemmed, was 35 cents per pound; if stemmed, 50 cents per pound. The duty on scrap tobacco was fixed at 35 cents per pound, while that on cigars and cigarettes was \$4.50 per pound plus 25 percent ad valorem. These rates were retained in the Tariff Act of 1930.¹

ECONOMIC PROVISIONS OF THE INDEPENDENCE ACT AFFECTING TOBACCO AND TOBACCO PRODUCTS.

For the first 5 years of the Commonwealth, Philippine tobacco and tobacco products will have unlimited free entry into the American market according to the provisions of the Independence Act. During the second 5 years, progressive export taxes will be assessed against Philippine tobacco and tobacco products which are shipped to the United States. Like the export taxes on other dutiable commodities, those on tobacco will begin at 5 percent of the United States duty and rise to 25 percent in the tenth year of the Commonwealth. Commencing July 4, 1946, these Philippine products will be subject to the full United States duty.

EFFECT OF EXPORT TAXES.

The importance of these taxes and their probable effect on the export of Philippine cigars to the United States are illustrated in table 57. In the fiscal year 1935-36, almost 188,000,000 Philippine cigars were sold in the United States; of this number, approximately 90 percent were class A cigars and retailed at 2 for 5 cents.² Because of the low price, the export taxes provided for in the Independence Act will become a particularly heavy burden. Manufacturers of cigars in the Philippines cannot raise the retail price of their product without losing a substantial fraction of their present sales in the United States market. The more expensive grades have been unable to compete with cigars produced in the United States retailing at more than 5 cents each,

and the cheaper grades have encountered severe competition from American machine-made cigars, especially in recent years.

Philippine cigars retailing at 2 for 5 cents were sold to American importers at \$15.17 per 1,000 cigars in 1935.³ This price included the United States internal revenue tax of \$2.³ The Philippine manufacturer, therefore, received \$13.17 per 1,000 cigars from which he had to deduct the cost of raw material, labor, overhead, packing,

and shipping before arriving at a net profit.

The export tax in the sixth year of the Commonwealth period will amount to \$4.20 on each shipment of 1,000 cigars, leaving \$8.97 to cover the cost of manufacture. In the eighth year of the Commonwealth the export tax would be \$12.59, leaving the manufacturer only 58 cents

¹ Philippine cigarettes are packed for the retail trade in packages of 20 and 30 and sell for as little as 5 cents (40 cigarettes) per package. The cigarettes vary in length and size, from standard specifications to those which are 4½ inches in length; some are even longer and are considerably larger in circumference. Philippine tobacco, which is dark in color, is used in the manufacture of these cigarettes; cigar clippings are utilized in many of the cheaper brands.

² 30½ million tobacco imports into the United States the effective rates are 20 percent less than the rates shown above, inasmuch as the United States imports of tobacco products come chiefly from Cuba.

³ Class A cigars are those which are tax-paid to retail at not more than 5 cents each. The internal revenue tax on class A cigars is \$2 per 1,000 cigars.

⁴ Annual Report, 1032, Collector of Internal Revenue, Philippine Commonwealth, p. 66.

⁵ The internal revenue tax collected on Philippine cigars sold in the United States are remitted to the Philippine Treasury by the United States Government. The amounts remitted during the years 1910-35 are shown in the following table:

United States internal revenue collected in the Philippine products, principally cigars, and transferred to the credit of the Philippine Treasury, 1910-35

Year	Amount
1910	\$264,100
1911	94,891
1912	224,266
1913	318,783
1914	181,699
1915	204,177
1916	357,474
1917	625,526
1918	1,000,266
1919	1,203,645
1920	1,588,534
1921	378,222
1922	714,479
1923	913,645
1924	749,413
1925	874,360
1926	522,466
1927	366,266
1928	397,312
1929	332,000
1930	321,792
1931	347,532
1932	356,185
1933	383,071
1934	444,084
1935	505,118

Source: Annual Reports, Collector of Internal Revenue, Philippine Islands.

TABLE 57.—Export taxes and import duties on Philippine cigars retailing at 2 for 5 cents, and relation of tax or duty to cigar prices, based on quotations to importers in 1935

Period	Retail price ¹	Price to importers less internal-revenue tax ²	Export tax or duty ³		Net proceeds after payment of export tax ⁴	Equivalent ad valorem of tax or duty ⁵
			Percent of States duty	Amount		
	Per 1,000 cigars	Per 1,000 cigars	Per 1,000 cigars	Per 1,000 cigars		Percent
Sixth year of Commonwealth.....	\$.25	\$13.17	5	\$4.20	\$8.97	31.9
Seventh year of Commonwealth.....	25	13.17	10	8.39	4.78	63.7
Eighth year of Commonwealth.....	25	13.17	15	12.59	.58	95.6
Ninth year of Commonwealth.....	25	13.17	20	18.78	....	127.4
Tenth year of Commonwealth.....	25	13.17	25	29.97	....	159.2
After independence.....	25	13.17	100	83.89	....	637.0

¹Class A cigars, retailing at 2 for 5 cents or \$25 per 1,000.
²Quoted price to importers in 1935 was \$15.17 per 1,000 cigars including the internal revenue tax of \$2 per 1,000.
³Based on average of 16 pounds per 1,000 cigars and the net invoice price to importers less freight and insurance charges (\$13.17—1.90 = \$11.57). The United States duty on cigars is \$4.50 per pound plus 25 percent ad valorem.
⁴This figure represents that net proceeds to Philippine cigar manufacturers after payment of export taxes. Calculations are based on prices quoted to importers in 1935 less internal-revenue tax. On this basis the export tax would exceed total receipts from sales in the ninth year of the Commonwealth period.

for 1,000 cigars; in subsequent years the tax would be greater than the selling price, assuming no change in existing duties and wholesale prices. The export taxes will fall almost as heavily on filler and scrap tobacco as on cigars.

COMPETITIVE ASPECTS OF THE TOBACCO TRADE BETWEEN THE UNITED STATES AND THE PHILIPPINES

EXPORTS OF CIGARS TO THE UNITED STATES.

Cigars constitute the principal item in Philippine exports of tobacco and tobacco products to the United States. In fact, over 90 percent of the exports of Philippine cigars are sold in the American market. The major part of these shipments consists of cigars retailing in the United States at 5 cents each or less. During the 10-year period 1926-36 consumption in the United States of domestic cigars in this price class has steadily increased, rising from 3,047,000,000 in the fiscal year 1926-27 to 4,324,000,000 in 1935-36. This rise was due in part to the increase in demand for cheaper cigars during the depression years, in part to the lower price of tobacco, and also to the increased use of machines in cigar manufacture. The consumption of Philippine cigars retailing for 5 cents each or less during this 10-year period varied between 4 and 6 percent of the total American consumption of cigars in this price class. The largest consumption of Philippine cigars occurred during the fiscal year 1933-34, when withdrawals of Philippine cigars totaled 223,000,000 or 5.8 percent of domestic consumption. Withdrawals of Philippine cigars dropped to 198,000,000, or 4.7 percent, in 1934-35, and to 188,000,000, or 4.2 percent, in 1935-36.

In recent years the cigar manufacturers in the Philippines have found it increasingly difficult to compete in the American market with the low-priced machine-made cigar produced in the United States. Withdrawals for consumption indicate the results of this competition, except in the year 1933-34, when unusual conditions prevailed. Withdrawals of domestic cigars retailing at 5 cents each or less increased 41.9 percent in the fiscal year 1935-36 as compared with 1926-27, the corresponding increase in Philippine cigars was only 5.6 percent. Table 58 gives the relative importance of the two sources of supply for the 10-year period commencing with 1926.

TABLE 58.—Class A cigars: Withdrawals for consumption, domestic compared with Philippine cigars, 1926-36¹

Fiscal year	Withdrawals of—		Ratio of—	
	Domestic cigars	Philippine cigars	Domestic to total withdrawals	Philippine to total withdrawals
	In millions	Percent	Percent	Percent
1926-27	3,047	178	94.5	5.5
1927-28	3,213	182	94.6	5.4
1928-29	3,454	172	95.3	4.7
1929-30	3,094	153	95.9	4.1
1930-31	3,622	158	95.8	4.2
1931-32	3,605	170	95.4	4.6
1932-33	3,868	190	95.8	4.2
1933-34	3,816	233	94.2	5.8
1934-35	4,043	198	95.3	4.7
1935-36	4,324	188	95.8	4.2

¹Class A cigars are those which are tax paid to retail at 5 cents each or less. Over 90 percent of the Philippine cigars sold in the United States retail at 2 for 5 cents. Source: U. S. Bureau of Internal Revenue.

TABLE 59.—Cigarettes: Philippine consumption, production, and imports from the United States 1926-35¹

Year	Philippine production		Imports from the United States	
	Apparent consumption	Quantity	Quantity	Percent of total consumption
	In millions	In millions	In millions	Percent of total consumption
1926.....	5,317	4,903	414	7.8
1927.....	5,459	4,924	535	9.8
1928.....	5,289	4,881	408	7.7
1929.....	5,706	4,811	895	15.7
1930.....	5,642	4,659	982	17.4
1931.....	5,031	4,217	814	16.2
1932.....	5,479	3,929	1,550	28.3
1933.....	4,422	3,332	1,090	24.6
1934.....	4,677	2,951	1,726	36.9
1935.....	5,027	2,971	2,056	40.9

¹Statistics are based on actual withdrawals for consumption. Exports are negligible and there are practically no imports from countries other than the United States.
²The trend toward increased consumption of cigarettes from the United States continued in 1936. Source: Annual Reports, Philippine Collectors of Internal Revenue.

PHILIPPINE IMPORTS OF CIGARETTES FROM THE UNITED STATES.¹

Sales of American cigarettes in the Philippines are an important factor in the Philippine market. During the 10-year period, 1926-35, the annual production of cigarettes in the Philippines declined from 4,900,000,000 to 2,900,000,000. Philippine manufacturers supplied 92 percent of local consumption in 1926, but, only 59 percent in 1935. Imports of American cigarettes, on the other hand, rose from 400,000,000 to 2,000,000,000 increasing their participation in the Philippine market from 8 to 41 percent. The trend toward increased consumption of American cigarettes continued in 1936.

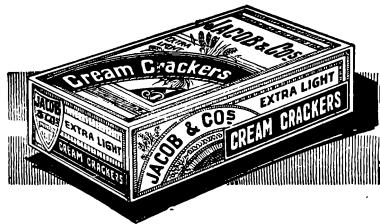
Like the sale of Philippine cigars in the United States, the American cigarette trade in the Philippines is dependent almost entirely upon the preferential free-trade relationship existing between the two countries. The Philippine duties on tobacco are similar to those of the United States. A tariff of \$4.50 per pound plus 25 percent ad valorem on American cigarettes entering the Philippine market would be practically prohibitive; however, such duties will not be applied until the Philippines receive their independence on July 4, 1946.

Table 59 illustrates the changes which have occurred in the relative positions occupied by Philippine and American cigarettes in the Philippine market during the years 1926-35.

OTHER PRODUCTS IN THE UNITED STATES—PHILIPPINE TOBACCO TRADE.

Although cigars are the principal item in the tobacco trade of the Philippines with the United States, mention should also be made of Philippine stripped filler and scrap tobacco. The combined exports of these two commodities in 1935 equaled \$270,000, of which the United States took \$252,000, or 93 percent. The unit value of exported filler and scrap tobacco in 1935 was 8½ cents per pound, consequently the imposition of the Philippine export taxes, and later the United States duty of 35 or 50 cents per pound,

¹Since 1931 the Philippines have been the principal export market for American cigarettes. Prior to that time China was the largest market, but the establishment of large cigarette factories in that country curtailed exports from the United States. In 1935 the total value of United States exports of cigarettes to all countries was \$7,252,000; exports to the Philippines totaled \$3,980,000 or 45.4 percent of the total. United States exports of cigarettes, however, are relatively small when compared with total American production, averaging from 2 to 3 percent of the latter in recent years.



would have a serious effect upon the sale of such commodities in the United States.

In addition to cigarettes, the Philippines in 1935 received from the United States leaf tobacco valued at \$288,000, and chewing tobacco valued at \$289,000. The leaf tobacco is used largely as wrappers for the cigars sold in the United States. In 1934 and 1935 approximately 75 percent of all the cigars shipped to the United States from the Islands were wrapped with American leaf; less than one-half of 1 percent had Sumatra wrappers and almost all of the remainder was wrapped with Philippine leaf. If Philippine cigars lose their United States market during the Commonwealth period, Philippine imports of American wrappers will decline sharply. The value per pound of the shipments of United States tobacco leaf to the Philippines in 1935 was 67 cents. The Philippine duty on wrapper tobacco, which now is applied to the product of countries other than the United States, is \$2.27 1/2 per pound. The unit value of chewing tobacco exported from the United States to the Philippines in 1935 was 48 cents. The present Philippine duty on this type of product entering from countries other than the United States is 55 cents per pound.

TRENDS IN THE UNITED STATES-PHILIPPINE TOBACCO TRADE.

The following statistics illustrate trends in the United States-Philippine tobacco trade during the period 1926-35.

Year	Tobacco and tobacco products	
	Philippine imports from the United States	Philippine exports to the United States
1926	\$1,967,660	\$4,728,397
1927	2,464,297	4,629,030
1928	3,005,456	4,384,147
1929	3,115,406	3,425,842
1930	2,803,897	3,352,803
1931	2,668,972	\$3,406,954
1932	2,626,968	3,243,341
1933	2,084,627	2,975,984
1934	2,857,329	3,363,653
1935	3,696,087	3,285,565

Source: Annual Reports, Insular Collector of Customs.

Comparing 1926 with 1935, Philippine imports of tobacco and tobacco products from the United States increased 88 percent, while Philippine exports to the United States declined 31 percent; moreover, the trends in both cases have been relatively steady in character. It will also be noted that in 1935, for the first time, Philippine imports of tobacco and tobacco products from the United States were greater than Philippine exports to the United States. These figures indicate the effects of the competition encountered by Philippine cigars in the American market. They also show the increasing popularity of American cigarettes in the Philippine market.

In 1935, approximately 64 percent of the cigars produced in the Islands were marketed in the United States, while only 1.5 percent of the cigarettes manufactured in the United States were sold in the Philippines. It is evident, therefore, that the American market is more important to the Philippine producer of cigars than is the Philippine market to the manufacturer of cigarettes in the United States. The same statement may also be made for the tobacco growers in the Philippines as contrasted with those in the United States.

SUMMARY

f. Approximately 137,000 acres, or 1.4 percent of the cultivated area in the Philippines is devoted to tobacco culture. Production is largely concentrated in three regions, Cagayan

Valley in northeastern Luzon, the northwest coast of Luzon, and the islands of Cebu, Negros, and Panay. Capital estimated at \$21,000,000 is invested in 75,000 small farms and in 15 large plantations; practically all of the investments are owned by Filipinos and Spaniards. Approximately 500,000 people are dependent upon the growing of tobacco for their livelihood.

2. Tobacco products are manufactured in 30 factories located in and around Manila. The capital invested in these plants is estimated at \$9,230,000; American investments probably do not exceed 10 percent of the total. Approximately 20,000 factory laborers are employed in the manufacture of tobacco products.

3. Exports of tobacco and tobacco products were 4.7 percent of total exports in 1934, and 6.4 percent in 1935. The most important export items were leaf tobacco and cigars. In 1935, Spain purchased 72.6 percent of the quantity of leaf tobacco exported from the Islands, and the United States 91.4 percent of the cigars. In the same year 54.8 percent of the value of total exports of tobacco and tobacco products was shipped to the United States, 26.5 percent to Spain, and the remainder to a large number of other countries.

4. The Independence Act imposes no quota on tobacco and tobacco products, but the Philippine export taxes to be applied during the Commonwealth period will probably drastically reduce, if they do not entirely eliminate, shipments of Philippine cigars and stripped filler and scrap tobacco to the United States. After independence, Philippine duties, on a basis of present rates, will no doubt be prohibitive of any substantial imports of American cigarettes and wrapper and chewing tobacco. The present duty on cigars and cigarettes in both countries is \$4.50 per pound plus 25 percent ad valorem.

5. Over 95 percent of the cigars exported from the Philippines to the United States retail for 5 cents each or less. The production of cigars in this price class in the United States increased steadily during the decade 1926-35. Philippine cigars during this period never constituted as much as 6 percent of the total American consumption of this class. Because of the increased machine production in the United States, producers in the Philippines are finding competition in the American market increasingly severe.

6. The sale of American cigarettes in the Philippine market increased from 400,000,000 in 1926 to 2,000,000,000, in 1935, at which time they accounted for 41 percent of total cigarette consumption in the Philippines.

7. Since 1926 the trend of Philippine exports of tobacco and tobacco products to the United States has been downward, from \$4,724,000 in 1926 to \$3,288,000 in 1935, a decline of 31 percent. Philippine imports of tobacco and tobacco products from the United States, on the other hand, have risen from \$1,968,000 in 1926 to \$3,696,000 in 1935, an increase of 88 percent. In 1935, for the first time, Philippine imports of tobacco products from the United States exceeded exports of tobacco products to the United States.

8. Since 65 percent of Philippine cigar production is sold in the United States and only 1.5 percent of American cigarette production is sold in the Philippines, it is evident that the American market is more important to the Philippine cigar manufacturer and tobacco grower than is the Philippine market to the cigarette manufacturer and tobacco grower in the United States.

7. EMBROIDERIES POSITION OF THE INDUSTRY IN PHILIPPINE ECONOMY

ORGANIZATION AND LOCATION OF THE INDUSTRY.

The embroidery industry in the Philippines was first encouraged and developed by the Insular Government, which withdrew when private enterprise commenced commercial operations. Regular shipments to the United States were begun in 1914.

Embroidering is predominantly a household industry which provides a large number of Filipino families with supplementary incomes. The principal embroidery establishments are located in Manila. In these plants, which are largely distributing centers, the imported cloth is cut and stamped and then delivered to the workers in neighboring provinces through contractors or subcontractors. When the work is completed the embroidered articles are returned by the contractor to the plants where they are inspected, trimmed, assembled, laundered, and packed for export. Most of the actual embroidering is done in the homes of workers who live in provinces surrounding Manila, but some is also done in more distant provinces.

Practically all of the cloth used by the industry is cotton, which is imported from the United States in order that the finished embroidery may be permitted duty-free entry into the American market.¹ The firms engaged in the embroidery business are either (1) branches of companies with offices in the United States, or (2) independent concern which sell to importers in the United States. In the first case, the head office provides the capital for the branch or agency and furnishes it with materials and designs. In the second case, the United States importer specifies in his order the type of goods required and sometimes provides the working patterns. The independent local establishments finance themselves, although occasionally they receive advances from the importers.

The various types of needlework are usually done by different workers. One embroiders scallops, another does the hemstitching, while a third makes the buttonholes or does the drawn work. This division of labor necessitates an elaborate system for the distribution of materials among the workers. The task of the contractors and subcontractors is to handle this distribution and to expedite the work. The completion of a garment usually requires 3 to 6 months and occasionally 9 to 12 months. Because of the time required for the cloth to reach the Philippines and for the finished product to be returned, approximately 1 year elapses before an order can finally be delivered in New York. Owing to the time factor, producers in the Philippines manufacture principally staples rather than style goods, which are subject to sudden and unpredictable changes. The Philippine embroidery industry produces primarily infants' wear and women's underwear, slips, and nightgowns. These embroidered cotton garments, for the most part, are produced to retail at from 50 cents to \$2 each.

INVESTMENT AND EMPLOYMENT.

Approximately 30 firms were operating in the embroidery business in 1935; most of these were engaged in both production and export. The industry as a whole is reported to represent an investment of about \$4,000,000, a substantial

¹The United States tariff law provides that Philippine products, to be admitted free of duty, shall not contain in weight more than 20 percent of foreign materials.

part of which consists of goods in process and in transit. The investment in plant and equipment is relatively small. It is estimated that investments by American total approximately \$3,000,000, most of the remainder being owned by Filipinos.

Between 30,000 and 50,000 people are employed in the industry, primarily on a part-time basis. The number varies with the quantity of orders on hand and with the seasonal availability of alternate forms of employment for the workers. The wages, paid almost entirely on a piece-rate basis, are relatively low despite high-grade workmanship. It is estimated that the cost of raw material constitutes one-half of the cost of the finished product, the remainder being accounted for largely by labor costs and profits, as indicated by the following statistics furnished by exporters:

Year	Value of material	Wages and profits	Value of exported product
1933	\$865,017	\$1,034,298	\$1,899,315
1934	1,234,770	1,431,651	2,666,421
1935	2,454,365	2,621,880	5,076,245

EXPORT OF EMBROIDERY.

The Philippine exports of embroidery to the United States represent only to the extent of about one-half their value, actual Philippine exports, inasmuch as the other one-half represents a reexport of American cotton cloth. During the period 1926-35, exports of embroidery were highest in 1929, being valued at \$6,000,000; they declined to less than \$2,000,000 in 1933 but rose to \$5,000,000 in 1935. Table 60 shows the total exports of Philippine embroideries for the years 1926-35, during which period over 99 percent of these exports were shipped to the United States.

TABLE 60.—Embroideries: Exports from the Philippines

Year	Cotton embroideries	Silk embroideries	Total embroideries
1926	\$5,953,901	\$38,488	\$5,992,389
1927	3,879,176	124,400	4,003,576
1928	4,396,237	127,732	4,523,969
1929	5,764,346	247,187	6,011,533
1930	3,415,667	174,070	3,589,737
1931	2,526,447	136,683	2,663,130
1932	3,267,044	82,781	3,349,825
1933	1,820,668	68,647	1,889,315
1934	2,561,246	105,175	2,666,421
1935	4,996,280	79,965	5,076,245

Source: Annual Reports, Insular Collector of Customs.

RESTRICTIONS IMPOSED BY THE INDEPENDENCE ACT

UNITED STATES TARIFF ON EMBROIDERY.

The United States Tariff Act of 1922 established an ad valorem rate of 75 percent applicable to embroidered articles; this rate was increased to 90 percent in the Tariff Act of 1930. The rate on embroidered cotton and silk wearing apparel, however, was lowered to 75 percent ad valorem in the trade agreement with France, which became effective on June 15, 1936.

ECONOMIC PROVISIONS OF THE INDEPENDENCE ACT AFFECTING EMBROIDERY.

No limitations were placed by the Independence Act on the duty-free quantities of embroideries which may enter the United States from the Philippines. For the first 5 years of the Commonwealth, Philippine embroideries will have unlimited free entry into the American market. During the second 5 years of the Commonwealth, progressive export taxes will be assessed against Philippine embroideries which are shipped to the

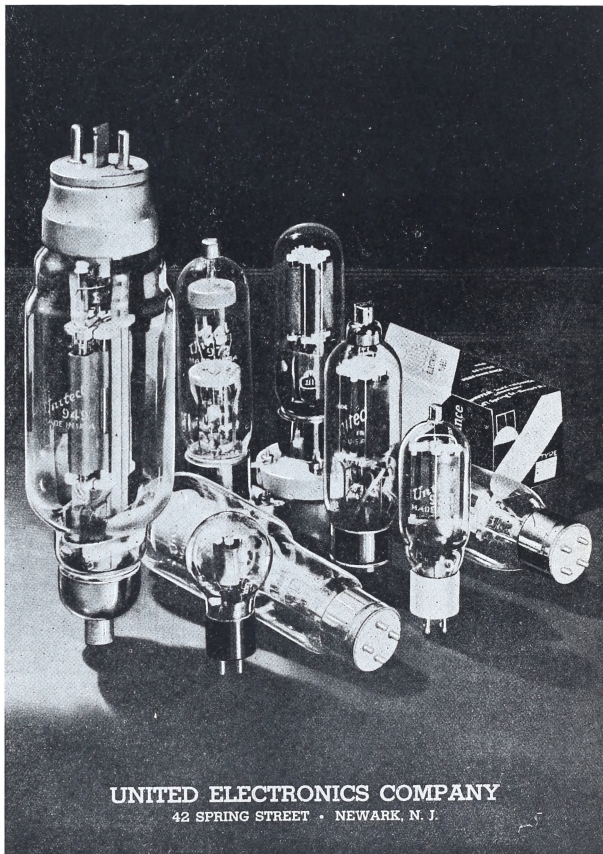
United States. As in the case of other dutiable commodities, the export taxes will correspond to 5 percent of the United States duty in the sixth year of the Commonwealth Government and will rise to 25 percent in the tenth year. After July 4, 1946, the full United States duty will be collected on the Philippine product.

On the basis of the present United States tariff rates, the Philippine export taxes which are to apply during the Commonwealth period, and the United States duty to apply thereafter, are shown below.

Period	Tax (percent)
First 5 years of the Commonwealth	Free
Sixth year of the Commonwealth	3.75
Seventh year of the Commonwealth	7.50
Eighth year of the Commonwealth	11.25
Ninth year of the Commonwealth	15.00
Tenth year of the Commonwealth	18.75
After independence (July 4, 1946)	75.00

EFFECT OF THE EXPORT TAXES.

Since Philippine embroideries at present encounter some competition from certain types produced in continental United States or shipped in from Puerto Rico and from foreign countries, and since most of the Philippine embroideries



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Metropolitan Theater Building

Tel. 2-34-72
2-19-50

Manila

¹Nearly all of the imports of Philippine embroideries into the United States would fall under this classification if they were entered from a foreign country.

are sold in retail markets where the demand is for low-priced goods, it does not appear probable that prices can be increased sufficiently to absorb the export taxes without losing a substantial part of the American market. The cost of raw materials, moreover, is not subject to the control of embroidery producers and at present accounts for nearly one-half of the cost of production. The export taxes, as has been pointed out, will be assessed against the whole value of the finished product and not merely against the Philippine addition to its value. The laborers now engaged in the production of Philippine embroidery will not readily find alternate employment when the export taxes begin to apply, consequently it is likely that the effect of the taxes will be to force progressively lower wages. Whether the export industry will be able to survive on the present scale for the whole of the Commonwealth period is problematical; that it will survive on any appreciable scale thereafter appears improbable unless costs and profits should be reduced sharply.

COMPETITIVE ASPECTS OF THE EMBROIDERY TRADE IN THE UNITED STATES

EMBROIDERY TRADE IN THE UNITED STATES.

Philippine embroideries compete only slightly with commercial hand embroideries made in continental United States, since these are confined largely to ready-made dresses of types not made in the Philippines. Embroidered articles from the Philippines, however, do compete with similar articles produced in Arizona, New Mexico, and Texas, although the price and workmanship of the latter are below the standard maintained for Philippine embroidery. The Philippine products also compete to some extent with the machine embroidery made in continental United States and with Puerto Rican embroideries sold in the American market. Machine production in continental United States usually amounts to over \$20,000,000 annually. Though not directly comparable in type or quality, duty-free receipts from the Philippines equaled about 25 percent of this amount in 1935. Of the combined consumption of continental, insular, and foreign cotton embroideries, both hand-made and machine-made, the Philippines supplied approximately 12.5 percent in 1935.

UNITED STATES IMPORTS OF EMBROIDERIES.

Only about 25 percent of the embroideries which enter continental United States are imported from foreign countries; practically all of the remaining 75 percent enter from Puerto Rico and the Philippines. Shipments from Puerto Rico include a wider variety of products than do those from the Philippines, consequently many of the embroideries from Puerto Rico are not competitive with these from the Philippines.

Most of the imports from other sources, paying the full duty, also differ from Philippine embroideries. The quantities received from these various sources in 1935 are shown below.

SUMMARY

1. The Philippine embroidery industry is carried on in the workers' homes and provides supplementary incomes for from 30,000 to 50,000 people living principally in central Luzon. Wage payments are made on a piece-rate basis.

2. The embroidery plants, approximately 30 in number, are distributing centers which send out materials through contractors, and which prepare the finished garments for export. Because different laborers specialize in particular types of embroidering, goods are frequently "in process" for a period of 6 months or more. All of the cotton cloth is obtained from the United States. Since approximately 1 year elapses between the placing of an order and the final delivery of it in New York, the Philippines specialize in staple rather than in style goods.

3. Approximately \$4,000,000 is invested in the industry, most of which sum is represented by goods in process and in transit. Investments by Americans are estimated at \$3,000,000, the remainder being owned largely by Filipinos.

4. During the period 1926-35 annual exports varied between \$2,000,000 and \$8,000,000; in 1935 they totaled \$5,000,000. Exports to the United States regularly amounted to over 99 percent of total Philippine embroidery exports during the decade 1926-35.

5. The Independence Act places no restrictions on the export of Philippine embroideries to the United States during the first 5 years of the Commonwealth period. During the second 5 years of the Commonwealth export taxes (on a basis of present United States tariffs) will progress from 3.75 percent ad valorem in the sixth year to 18.75 percent in the tenth year. After independence the then prevailing United States duty will be applicable. Since approximately one-half of the cost of production of embroidered garments is represented by the cost of the imported material embodied in them, it appears that the export taxes and later the United States duty will bear heavily on the industry, possibly compelling it to liquidate in considerable degree by the time independence is achieved.

6. Philippine embroidery, selling at relatively low prices, fills a special demand in the United States. Its chief competitors in the American market are certain types of goods produced in Puerto Rico and in continental United States. For the most part these are inferior in quality to the Philippine product and somewhat lower in price.

8. TIMBER AND LUMBER POSITION OF TIMBER AND LUMBER IN PHILIPPINE ECONOMY

Total forest lands in the Philippines cover 41,886,000 acres or 57 percent of the total land area, while forests which are considered to be profitable for commercial operations comprise 81 percent of the total forest area. The existing stands of commercial timber contain approximately 464,740,000 board feet, according to the most recent estimate made by the Philippine Bureau of Forestry. Stands are well distributed through the archipelago, although the island of Mindanao contains a larger area of commercial forest than any other. A wide variety of hardwoods is found in the Islands, however, over 75 percent of the standing timber is of the lauan family, the principal species of which are commonly referred to in the United States as "Philippine mahogany."¹ Such fancy cabinet woods as true mahogany, walnut, and ebony are either not found in the Philippines or are relatively scarce.

The Philippine Government, which owns most of the forests in the Islands, administers them through the Bureau of Forestry as a national resource.² It maintains national parks and forest reserves, creates zones for commercial and community uses, and engages in reforestation, conservation work, and the prevention of the illegal destruction of timber. The Government, through the Bureau of Forestry, leases forest lands to lumbering and logging companies for periods ranging from 1 to 20 years. These companies are supervised by the Bureau and pay for the concession in accordance with the type and quantity of the timber cut.³ In recent years the net income received by the Philippine Government from its administration of the forests has exceeded \$600,000 annually.

The Philippine sawmill industry has developed rapidly since American occupation. In 1903, 14 sawmills, with a daily capacity of 80,000 board feet, were producing lumber in the Philippines; by 1935, 90 mills, with a daily capacity of 1,330,000 board feet, were in operation. Many of the companies operating sawmills are also engaged in logging. In addition, over 1,500 operators not associated with sawmills are engaged, at least part time, in logging operations only; their production, however, is relatively small. The total production of logs and lumber during the period 1933-35 was approximately 700,000,000 board feet annually.

The lumber and timber industry was reported to represent an investment of about \$15,000,000 in 1935. The capital invested in sawmills was estimated to be in excess of \$13,500,000; the remainder consisted of the investments of small logging operators. American capital, employed primarily in the sawmill industry, was reported to approximate \$6,000,000; the American investment in fixed assets alone totaled \$2,307,000. Other national funds with investments in the

TABLE 61.—Embroideries: Shipments received in the United States, 1935

Type of cloth	Duty-free receipts		Dutiable imports ¹	Total shipments received from all sources
	From the Philippines	From Puerto Rico		
Cotton	\$5,080,901	\$14,260,772	\$1,338,821	\$20,680,494
Linens	908	1,247,143	4,596,921	5,844,972
Silk	97,969	462,250	405,898	966,117
Rayon	.....	.....	424,353	424,353
Other	.....	.....	175,000	175,000
Total	\$5,179,778	15,970,165	7,011,005	28,160,948

¹Import data refer to imports for consumption.

Source: Foreign Commerce and Navigation of the United States.

¹Philippine mahogany is technically a member of the family *Dipterocarpaceae*, as are other members of the so-called lauan family.

²Forest lands owned by the Philippine Government, 97.5 percent. Forest lands privately owned, 2.5 percent. Forest lands leased by the Philippine Government in 1935 amounted to 4,972,440 acres.

³Classification of lumber:

	Charges per cubic meter
First-group timber	\$1.25
Second-group timber	.75
Third-group timber	.50
Fourth-group timber	.25

1 cubic meter is the equivalent of 424 board feet.

Philippine log and lumber industry are Filipinos Chinese, Japanese, Englishmen, and Spaniards.

In 1935 the industry in all its branches provided employment for about 35,000 people in various parts of the archipelago. Wages ranged from \$0.25 to \$2.50 per day, according to the location of the mill and the type of work performed.

The Philippine log and lumber industry is favored by the existence of a large and relatively stable market within the Islands. Over 80 percent of the annual production is utilized in the Philippines. This demand creates an outlet for low-priced lumber not suitable for export, and permits the maintenance of production despite fluctuations in foreign sales. The chief industries consuming timber and lumber in the Philippines are, in the order of their importance, the mining, building, and furniture industries. Although the current expansion in mining will probably stimulate the production of timber, the demand will be confined to the cheaper grades and will be of greatest assistance to those mills which are located in close proximity to the actual mining operations. Because of the development of the lumber industry, Philippine imports of lumber have steadily declined, until, in recent years, they have amounted to less than 1 percent of insular production.

Exports of Philippine logs and lumber in recent years have been less than 20 percent of total production. During the period 1926-35 they never exceeded 3 percent of the value of total Philippine exports; in 1935 the figure was 2.5 percent. Exports of logs and lumber reached a peak of \$3,600,000 in 1929 but declined to \$835,000 in 1932; since that time they have steadily increased, reaching a value of \$2,500,000, in 1935. The quantity of logs and lumber exported both in 1934 and 1935, however, was greater than that which was exported in 1929 (see Table 62).

The United States and Japan are the most important export markets for Philippine hardwood. Shipments to the United States are made in the form of sawed cabinet woods of good quality and relatively high value. In 1935 these shipments equaled 19.7 percent of the volume and 38.7 percent of the value of total exports of log and lumber from the Islands. Japan has become an increasingly important market for Philippine hardwoods. In earlier years, exports to Japan were composed primarily of lumber, but more recently these shipments have consisted almost entirely of logs.* In 1935, exports of logs to Japan accounted for 61.9 percent of the volume and 30.8 percent of the value of total Philippine exports of logs and lumber. Other markets for Philippine lumber were the United Kingdom, China, Australia, and South Africa.

RESTRICTIONS IMPOSED BY THE INDEPENDENCE ACT

Although the United States Tariff Act of 1930 imposes an ad valorem duty of 15 percent on certain so-called cabinet woods under paragraph 404, Philippine mahogany is not one of the woods specially provided for therein.† It falls instead under the duty-free paragraph 1803. However, all hardwood lumber as well as softwood is subject, when imported from foreign countries, to an excise tax imposed by the Revenue Act of 1932.‡ The tax as fixed in that act was \$3 per thousand board feet, but the tax was reduced to \$1.50 per thousand board feet by the trade agreement between the United States and Canada, which went into effect on January 1, 1936. This trade agreement is to remain in force until December 1, 1938, and to continue in force thereafter unless the government of either country shall have given 6 months' notice of intention to terminate it.‡

Philippine mahogany, not being subject to this tax, has at present an advantage in competition with hardwoods of similar type imported from foreign countries into the United States. The Independence Act contains no special provision concerning lumber, but the Revenue Act of 1932 provides that the excise taxes thereby imposed "shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act (i.e., the Tariff Act of 1930)", subject to certain exceptions which do not apparently have a bearing on the case of the Philippines. It may be that this language, and the language of the Philippine Independence Act, will be so interpreted that during the second half of the Commonwealth period the Philippine Government will be required to impose export duties corresponding to the specified percentages of the United States revenue tax on sawn hardwoods. In any case, if a revenue tax on lumber should be in effect at that time, Philippine lumber will be subject to it after independence is realized. The present tax, however, is not high in proportion to the value of the Philippine mahogany, which is worth about \$40 per thousand board feet. It seems unlikely, therefore, that export taxes, even if imposed, would materially reduce the trade during the second half of the Commonwealth period, and even the full tax after independence might not reduce it greatly.

COMPETITIVE ASPECTS

The so-called cabinet woods imported into the United States are used principally in the manufacture of furniture, radio cabinets, and trim, wherein beauty of grain and finish are of primary importance. The peculiar qualities of certain woods often determine their particular use, for example, the use of teakwood in boat

decking and Spanish cedar in cigar boxes. For paneling and trim, price is frequently the most important consideration; but for furniture and fixtures, the current style is the principal factor influencing the selection of a particular wood.

Mahogany does not grow in commercial volume in the United States; the lumber manufactured in this country is sawed from imported logs. American production of hardwood lumber occurs chiefly in the lower Mississippi Valley States bordering the Great Lakes, and the lower Appalachian Mountain region. The industry is confined largely to the manufacture of lumber from oak, red gum, maple, birch, and walnut timber. Such lumber is used not only for furniture and for cabinet work but also for more commonplace purposes. Statistics showing the American production of these species of hardwood lumber for the year 1934 are given below.‡

Hardwoods:	Production 1,000 board feet
Oak	1,065,370
Red gum	393,293
Maple	310,590
Birch	28,366
Walnut	20,755
Total	1,933,674

Owing to improved business conditions, production in 1935 may have exceeded that for 1934.

United States imports of various types of cabinet woods in 1935 are shown below.†

Classification:	Imports 1,000 board feet
Dutiable imports of lumber under paragraph 404	1,188
Duty-free imports of lumber from foreign countries 10	3,613
Duty-free imports from foreign countries	22,188
Duty-free imports from the Philippines	25,816
Total imports of cabinet woods	32,805

* A high wharfage tax on logs has been advocated in the Islands to encourage the sale of lumber and thus favor the local sawmill industry; no such tax is in effect at present, however.

† Par. 404 of the Tariff Act of 1930 imposes a duty on Spanish cedar, lignum-vitae, lancewood, ebony, box, grandisilla, mahogany, rosewood, astinwood, Japanese white oak, and Japanese maple. Philippine mahogany, not being a true mahogany, is entitled to enter duty free under par. 1803.

‡ This import revenue tax provision expires June 30, 1937, but may be reimposed by congressional action.

§ The Trade Agreement Act, under which this agreement was negotiated, is, of course, subject to possible amendment.

¶ Latest available data from the U. S. Bureau of the Census.

** Foreign Commerce and Navigation of the United States (preliminary). Some imports, such as Spanish cedar, have highly specialized uses and do not compete with other imports or with domestic hardwoods.

†† This classification includes woods not specified in par. 404, and imports excluded from par. 404 by reason of being planed or dressed. When imported from foreign countries these woods, as well as those dutiable under par. 404 are subject to a revenue tax of \$1.50 per thousand board feet.

TABLE 62.—Logs and lumber: Exports to principal markets from the Philippines, 1926-35

Year	All countries		United States		Japan	
	Quantity ¹	Value	Quantity ¹	Value	Quantity ¹	Value
	1,000 board feet		1,000 board feet		1,000 board feet	
1926	82,265	\$2,552,811	30,683	\$1,385,216	11,120	\$287,489
1927	72,369	2,791,807	39,563	1,723,379	18,995	516,861
1928	85,880	3,125,590	41,832	1,637,091	19,845	531,208
1929	104,712	3,618,939	44,924	1,789,129	31,555	700,350
1930	80,223	2,743,392	31,956	1,347,601	25,426	447,378
1931	71,334	1,640,032	20,318	795,302	15,798	407,109
1932	52,428	834,725	15,126	172,138	36,020	361,369
1933	80,234	1,268,607	16,489	525,452	49,888	393,113
1934	121,902	2,171,305	29,248	714,241	71,772	710,404
1935	143,109	2,511,700	28,253	972,487	88,639	772,570

¹Converted from cubic meters to board feet at 424 board feet per cubic meter. Source: Annual Reports, Insular Collector of Customs.

Shanghai Tientsin Hongkong

Connell Bros. Company Ltd.

Importers & Exporters

San Francisco, Cal.

SINGAPORE

MANILA

On the basis of the data given above, total imports in 1935 did not exceed 3 percent of domestic production. A substantial amount of domestic production, however, is not comparable in quality to imported cabinet woods; consequently, the competitive significance of the latter is greater than the above percentage would indicate. Duty-free shipments received from the Philippines in 1935 were nearly equal in volume to the total imports received from foreign countries; most of the latter also entered duty-free but were subject to an excise tax of \$1.50 per thousand board-feet.

Philippine mahogany is used for various types of cabinet work, including furniture, and for trim and paneling; it is also used for special purposes, such as door stock, yacht decking, and trim in automobile bodies. In all of these uses it competes with other imported and domestic hardwoods. From the standpoint of price, Philippine mahogany occupies a middle ground; it is neither the most expensive nor the cheapest cabinet wood sold in the American market.

Philippine lumber enters principally on the Pacific coast. Production of hardwoods in that section of the country is negligible, hence the Philippine mahogany marketed there competes with cabinet woods either imported from other countries or shipped from the domestic producing areas in the Middle West and South. These regions are in an unfavorable competitive position because of high transportation rates which apply to their products when shipped to the Pacific coast. Cabinet woods coming from the Philippines and Japan are subject to appreciably lower transportation rates, which tend to benefit the consumers of hardwoods on the Pacific Coast.

SUMMARY

1. Forests of commercial importance cover approximately one-half of the land area of the Philippines. They are well distributed throughout the Islands and are owned by the Philippine Government which leases certain sections to private individuals or companies for periods ranging from 1 to 20 years.

2. In 1935, 90 sawmills, with a daily capacity of 1,330,000 board feet, were operating in the Philippines. The capital invested in these mills has been estimated to exceed \$13,500,000, of which American investments account for about \$6,000,000. The industry provides employment for approximately 35,000 people.

3. Over 80 percent of the Philippine production is marketed in the Islands. The remainder is exported primarily to the United States and Japan. The insular market absorbs low grades of lumber which are not suitable for export. The United States consumes high-grade cabinet woods in semifinished form, while Japan takes logs exclusively. Although shipments to the United States are relatively small in quantity, they are sufficiently high in value to be of considerable importance to the lumber industry in the Philippines.

4. If the present tariff and revenue laws with respect to lumber are continued, Philippine cabinet woods will still enter the United States free of duty or tax, and without competitive limitation, during the first half of the Commonwealth period; they may be subject to Philippine export taxes during the second half of the Commonwealth period by reason of the United States revenue tax applicable to sawn woods imported from foreign countries. After independence they will become subject to the full

United States excise tax applying to imported sawn woods. The present rate of this tax, however, is relatively low.

5. Total imports of cabinet woods into the United States have been small when compared with American production of hardwoods. Imports are largely duty-free. Shipments received from the Philippines constitute about one-half of the total quantity imported. The Philippine product, however, is competitive in greater or lesser degree with about one-half of the total imported from foreign countries.

6. Philippine mahogany is shipped primarily to the Pacific coast, where it competes with imports from Japan and with American hardwoods. The products imported from the Philippines and from Japan, when compared with domestic hardwoods, have a competitive advantage in transportation rates to the Pacific coast.

9. MINOR EXPORT COMMODITIES HATS

POSITION OF THE INDUSTRY IN PHILIPPINE ECONOMY.

The Philippine fiber-hat industry is centered in two small towns, Baliuag and Lucban, on the island of Luzon. The weaving of hats is done chiefly by hand and is a household industry. Some weaving is done in factories where hats are manufactured by machine from coarse fiber. The machine-made product is composed chiefly of bamboo, straw, or abaca fiber, while the hand-made hats are woven with buntal fiber obtained from the leaf of the buri palm. Buntal hats or bali-buntal hats (the latter having a somewhat different and finer weave) are the principal types exported; the others are manufactured primarily for the insular market.

The hand-woven hats are purchased from the weavers by agents of wholesale dealers or exporters. They are finished and packed for export in Manila. The finishing process involves weaving an edge on the brim, after which the hats are washed and ironed. When finally packed for export, they are usually not blocked or trimmed and not bleached, dyed or colored.

In 1935, 16 plants were engaged in finishing hats and in preparing them for export. The capital invested in the industry is estimated at \$2,000,000 of which \$1,750,000 represents working capital used chiefly in making advances to the weavers, the remainder being invested in plant and equipment. Twenty-nine firms, including the 16 already referred to, are engaged in exporting hats, and 17 firms are exporters of buntal fiber for which China is the principal market.¹

It is estimated that the hat-making industry employs from 40,000 to 60,000 weavers. The hats are purchased at rates which vary in accordance with the quality, style, and demand. Inasmuch as the unit value of exports in any year during the period 1932-35 was less than \$1, the laborers who wove the hat bodies must have averaged less than 50 cents per hat. Finishing in 1935 was paid for on the following basis:

Edge-weavers, 10 to 25 cents per set of 8 hats.
Washers, 10 to 15 cents per set of 8 hats.

Finishing and ironing, 25 to 35 cents per set of 8 hats.

During the period 1926-35, the largest exports occurred in 1928 when 1,426,200 hats valued at \$3,359,000 were shipped from the Philippines. Exports in 1935 were the lowest in the decade, totaling 538,400 hats valued at \$474,800. From 1928 to 1933 the unit value of exports declined steadily from \$2.35 to 77 cents. (See table 63.) The United States has regularly been the principal market for Philippine hats, having taken from 50 to 75 percent of the value of total exports; other important markets have been the United Kingdom, France, and Italy. The average value of hats shipped to the United States and France has generally been higher than the value of those shipped elsewhere.

Export statistics for the period 1926-35 are given in table 63.

RESTRICTIONS IMPOSED BY THE INDEPENDENCE ACT.

The United States Tariff Act of 1922 imposed a duty of 35 percent ad valorem on hats not blocked or trimmed. This duty was reduced by the Tariff Act of 1930 to 25 percent if the hats were not bleached, dyed, colored, or stained.

Under the Independence Act, no restrictions are imposed on the shipment of Philippine hats into the United States during the first 5 years of the Commonwealth. During the second 5 years export taxes will be collected on hats shipped to the United States. On the basis of the present United States duty the export taxes to apply during the Commonwealth period and

¹The following figures indicate the value of buntal fiber exported from the Philippines for the period 1931-35.

Year	Value
1931	\$281,399
1932	72,668
1933	208,821
1934	302,334
1935	278,327

Source: Annual Reports, Insular Collector of Customs.
Legislation passed by the last session of the Philippine National Assembly was designed to prohibit the export of buntal fiber from the Philippines, thus curtailing the supply of raw materials used by manufacturers of buntal hats in foreign countries. As late as Jan. 1, 1937, however, the legislation had not yet been approved by the President of the United States.

TABLE 63.—Hats: Exports from the Philippines to all countries and to the United States, 1926-35¹

Year	Exports to all countries			Percent of value of total Philippine exports	Exports to the United States ²			
	Quantity	Value	Unit value		Quantity	Value	Unit value	Percent of total value of exports of hats
1926	Number	\$1,561,673	\$1.87	1.1	Number	\$1,187,195	\$1.78	76.6
1927	796,674	1,567,886	2.22	1.0	328,888	887,193	2.72	56.0
1928	1,426,200	3,358,963	2.35	2.2	842,021	2,377,125	2.70	67.8
1929	959,741	2,048,729	2.15	1.3	551,820	1,547,424	2.77	75.6
1930	808,011	1,271,607	1.45	1.0	669,060	981,721	1.47	77.2
1931	579,224	555,030	0.93	5	293,273	341,538	1.16	61.5
1932	744,536	590,560	.80	9	338,890	496,724	1.47	73.6
1933	988,490	796,056	.77	7	709,465	551,894	.79	72.4
1934	1,227,980	1,141,875	.93	11.0	715,317	697,584	.98	61.6
1935	538,381	474,821	.88	5	251,708	240,123	.95	50.6

¹Includes all types of hats, i. e., bamboo, buntal, buri, and straw. Buntal hats constitute the largest individual type, averaging in value over 90 percent of total exports of hats.

²Principal markets, other than the United States, are France, Great Britain, and Italy.
*In 1935 buntal hats comprised 87.2 percent of the total quantity of hats exported and 89.9 percent of the value. Source: Annual Reports, Insular Collector of Customs.

the United States duty to apply thereafter are shown below:

Period:	Tax (percent)
Sixth year of the Commonwealth	1.25
Seventh year of the Commonwealth	2.50
Eighth year of the Commonwealth	3.75
Ninth year of the Commonwealth	5.00
Tenth year of the Commonwealth	6.25
After independence (July 4, 1946)	25.00

COMPETITIVE ASPECTS.

Hat bodies similar to those imported from the Philippines are not manufactured in the United States. Philippine hat bodies entering the United States provide the raw material for a substantial domestic hat-finishing industry. Buntal hats are of fine quality, comparing favorably with high-grade Panama hats, and, when finished and trimmed, retail in the United States at from \$7.50 to \$25 each. Some fiber hats are manufactured within the United States from imported braid, but these are of a distinctly different type; Philippine buntal hats compete with them only to a limited extent. Philippine hats, however, do encounter competition in the United States market from buntal hats imported from China and from high-grade Panama hats imported largely from Ecuador and Peru. Other competing types are the leghorn from Italy, the baku and sisal from China, and high-grade, machine-woven paper hats from Japan.

Buntal hats are designed primarily for women, consequently the marked fluctuations in quantity and value of exports from the Philippines may be explained in part by changes in fashion. Changes in style and competition from buntal hats made in China may prove more important factors governing the future of the market for Philippine hats in the United States than either the export taxes or the United States duty provided for in the Independence Act.

PEARL BUTTONS

POSITION OF THE INDUSTRY IN PHILIPPINE ECONOMY.

Philippine ocean pearl buttons are manufactured in Manila from mother-of-pearl, trochus and snail shells gathered in waters surrounding the Visayan Islands. Although three plants have produced pearl buttons, only one, which manufactures approximately two-thirds of the quantity exported, has been able to operate continuously during the period 1926-35. In its manufacturing processes the industry employs about 600 people. Salaries and wages are estimated to aggregate \$125,000 a year. The total investment in machinery, tools, and equipment is approximately \$100,000, nearly all of which is American capital.

Exports of pearl buttons constitute 75 percent of total production, the remainder being consumed within the islands or applied to garments which are exported. For the decade 1926-35, exports were highest in 1926 when they totaled 942,900 gross, valued at \$449,900; they declined to their lowest level in 1935, aggregating 694,160 gross, valued at \$237,400. The highest average value per gross in this period was 51 cents in 1929; the lowest was 32.4 cents in 1933. Practically all of the buttons exported are sold in the United States. During the period 1926-35, exports of buttons totaled less than 0.5 percent of total Philippine exports.

Table 64 shows the quantity and value of exports of pearl buttons for the years 1926-35.

TABLE 64.—Exports of pearl buttons from the Philippines, 1926-35¹

Year	Quantity	Value	Value per gross
1926	942,903	\$449,938	\$0.477
1927	790,788	366,253	.464
1928	843,231	385,357	.458
1929	750,098	382,308	.510
1930	850,074	380,140	.447
1931	841,962	366,783	.436
1932	739,821	243,667	.329
1933	636,237	210,252	.324
1934	713,886	242,838	.340
1935	694,161	237,397	.342

¹Over 99 percent of the exports of pearl buttons from the Philippines are shipped to the United States. Source: Annual Reports, Insular Collector of Customs.

RESTRICTIONS IMPOSED BY THE INDEPENDENCE ACT.

The United States Tariff Act of 1922 established a duty on buttons of pearl or shell, finished or partly finished, of 1½ cents per line per gross plus 25 percent ad valorem.² The Tariff Act of 1930 maintained that rate.

No limitation or restriction is placed by the Independence Act on the shipment of buttons to the United States during the first 5 years of the Commonwealth period, but during the second 5 years, Philippine export taxes will be collected on shipments to the United States. When Philippine independence is achieved the full United States duty will become applicable. The figures given below indicate the amount of the export taxes and the United States duty, on the basis of the existing United States tariff rates, that will be applicable to a representative 16-line button invoiced at 36 cents per gross.

Period	Tax per gross	Equivalent ad valorem rate
	Cents	Percent
Sixth year of the Commonwealth	1.85	5.1
Seventh year of the Commonwealth	3.70	10.3
Eighth year of the Commonwealth	5.55	15.4
Ninth year of the Commonwealth	7.40	20.6
Tenth year of the Commonwealth	9.25	25.7
After independence (July 4, 1946)	37.00	102.8

COMPETITIVE ASPECTS.

During the period 1926-35, the annual production of pearl buttons in the United States ranged from 23,000,000 to 29,000,000 gross and the value from \$8,000,000 to \$14,000,000. The output in 1935 approximated the lower figures, in both quantity and value. Over 75 percent of the total quantity of domestic pearl-button production consists of fresh-water pearl buttons; ocean pearl buttons constitute the remainder. The latter type is manufactured, principally in New York and New Jersey from imported shells, of which Australia is the most important supplier. Ocean pearl buttons have a higher unit value than the fresh-water pearl buttons. The latter are produced from domestic mussel shells in factories, most of which are located in Iowa and New York.

During the decade 1926-35, imports of pearl buttons into the United States from all sources were the equivalent of approximately 5 percent of the total domestic production of all types of pearl buttons. These imports consisted almost entirely of ocean pearl buttons and, in 1935, equaled about 20 percent of the domestic production of that type of button. About 75 percent of the imports consist of duty-free shipments from the Philippines; the remainder, of dutiable imports from Japan and France. Imports from the Philippines in 1935 equaled 728,

300 gross, valued at \$260,000; imports from Japan amounted to 265,600 gross, valued at \$73,100, and those from France, 7,600 gross, valued at \$3,000.³ Imports from Japan had a value of 27.5 cents per gross, and the imports from France, 39.7 cents per gross. This compares with a value of 35.8 cents per gross on imports from the Philippines.

Pearl buttons imported into the United States are in general competitive with buttons produced in the United States. Pearl buttons manufactured from trochus shells in the Philippines and Japan are similar to domestic buttons made from imported ocean shell. Moreover, the low-grade imported ocean pearl buttons compete for some uses on a price basis with high-grade fresh-water pearl buttons produced in the United States. In recent years pearl buttons have also encountered increased competition from plastic buttons.

The range in wholesale selling prices in New York of competitive pearl buttons, whether imported or domestic, is very narrow. Consequently, when Philippine pearl buttons become subject to the export taxes provided for in the Independence Act, they will find it increasingly difficult to retain their market in the United States. The application of the full United States duty, if maintained at the present level, would probably be prohibitive of Philippine exports to the United States.

CANNED PINEAPPLES

POSITION OF THE INDUSTRY IN PHILIPPINE ECONOMY.

The commercial production and canning of pineapples is confined principally to the operations of a single company.⁴ Its cannery is located on the seacoast of northern Mindanao, near the town of Cagayan, and its plantation lies about 15 miles to the south on the Bukidnon Plateau. The planting of pineapples was begun in 1928 after a thorough investigation had been made to determine the area best suited to pineapple culture. By 1935 approximately 2,000 acres were under cultivation. This area will probably be expanded during the next few years. Both the plantation and the cannery, which has a capacity of about 350,000 cases per year, are owned and operated by a subsidiary of a large United States packing corporation also engaged in the production and canning of pineapples in the Hawaiian Islands. The subsidiary corporation has recently been making experiments to determine the feasibility of canning tuna fish during the off-season for pineapple as an additional use for its plant and equipment. The investment in the industry is estimated at \$1,000,000.

Exports of canned pineapples from the Philippines were made first in 1930. They increased in quantity and value until 1933, when production was reduced to correspond with the program adopted by producers in the Hawaiian Islands. In 1934 exports were resumed on a less restricted basis. All exports of canned pineapple from the Philippines are sold in the American market. They are not an important factor in the foreign trade of the Philippines, never having amounted to as much as 0.5 percent of total exports. The quantity and value of exports for the period 1930-35 appear in the following table:

¹The term "line" refers to the line button measure of one-fourth of an inch.

²For preliminary figures, Foreign Commerce and Navigation of the United States.

³For a discussion of the pineapple industry see the Manila Daily Bulletin, Mar. 4, 1936.

TABLE 65.—Canned pineapples: Exports from the Philippines, 1930-35¹

Year	Quantity ² Pounds	Value	Value per pound
1930	1,074,822	\$96,044	8.9
1931	3,538,482	150,041	4.2
1932	5,742,904	209,435	2.2
1933	3,031,650	133,986	4.4
1934	6,739,434	409,214	6.1
1935	2,689,656	157,398	6.0

¹Export statistics for the years 1930 and 1931 are for canned fruit and canned fruit products; these consisted chiefly of canned pineapples. Canned pineapples were not reported separately until 1932.

²All exports of canned pineapple from the Philippines are marketed in the United States.

Source: Annual Reports, Insular Collector of Customs.

RESTRICTION IMPOSED BY THE INDEPENDENCE ACT.

The United States Tariff Act of 1922 established a rate of 2 cents per pound on canned pineapples. This rate was retained in the Tariff Act of 1930. The Independence Act places no restriction upon the shipments to the United States of canned pineapples from the Philippines during the first 5 years of the Commonwealth period. During the second 5 years, the progressive export taxes will be applicable to such shipments. After independence is realized, canned pineapples will become subject to the then existing United States duty. On the basis of the present United States duty, the export taxes and the United States duty will be as follows:

Period	Tax per pound	Equivalent ad valorem rate ¹
	Cents	Percent
Sixth year of the Commonwealth	0.1	1.7
Seventh year of the Commonwealth	2	3.3
Eighth year of the Commonwealth	3	5.0
Ninth year of the Commonwealth	4	6.7
Tenth year of the Commonwealth	5	8.3
After independence (July 4, 1946)	2.0	33.3

¹Based on a unit value of 6 cents per pound, which prevailed during 1935.

COMPETITIVE ASPECTS.

The Hawaiian Islands supply approximately 98 percent of the canned pineapple consumed in the United States; the Philippines and Cuba furnish most of the remainder. Since at present only one company produces canned pineapples in the Philippines and since it is a subsidiary of a company which has its major pineapple interests in the Hawaiian Islands, production in the Philippines is not likely to become a serious competitive factor in the American market. The opportunity for Philippine producers to develop new markets is not promising. Costs of production in the Philippines, however, are lower than those in the Hawaiian Islands because of lower wage rates, lower land values, greater soil fertility, and a longer harvesting season. Distance from the American market presents no handicap to Philippine producers, since ocean freight rates on canned pineapple to the United States from the Philippines and from the Hawaiian Islands are the same. Because of comparatively low-production costs, Philippine exports of canned pineapples will probably not decline as a result of the application of export taxes. The effect of the United States duty, after Philippine independence is realized, is largely indeterminate; it will depend on future costs of production in the Philippines, future tariff rates in the United States, agreements and understandings with Hawaiian pine-

apple packers, and the price level in the American market of pineapples and competing canned fruits.

CUTCH

POSITION OF THE INDUSTRY IN PHILIPPINE ECONOMY.

Cutch is an extract containing tannin and is used in dyeing and tanning. It is obtained in the Philippines from the bark of mangrove trees, forests of which are found on the islands of Mindanao and Palawan, in the Sulu Archipelago, and on the east coast of Luzon in the Province of Tayabas and Camarines Norte. Other stands of mangrove trees are scattered throughout the Islands but are not sufficiently large to be of commercial importance.

Only one company, located in Zamboanga, Mindanao, produces cutch extract in the Philippines. It was organized in 1927 and began exporting in 1928. The company has a license agreement with the Philippine Government, effective until January 1, 1942, to cut, collect, and remove mangrove bark in Provinces in the southern part of the Islands. The plant and equipment at Zamboanga have an estimated value of \$250,000 and a production capacity of 6,000 tons of cutch extract per year. Export statistics (see table 66) indicate that the plant has been operating at near capacity since 1930 with the single exception of 1932. Approximately 150 men are employed in the factory, and 1,250 men are employed in gathering and transporting the bark and in removing from the forest the wood from which the bark is stripped. The latter operation is required by Philippine forestry regulations. The total number of people dependent on the industry is estimated at from 7,000 to 8,000. Wages range from 25 cents to \$1 per day, in accordance with the quantity and type of work performed.

Except in 1928 and 1929, when the industry was becoming established, annual exports up through 1935 averaged 11,000,000 pounds, valued at \$240,000. Owing to depressed economic conditions in 1932, shipments declined to 9,400,000 pounds valued at \$200,000, but by 1935 they increased to 13,368,741 pounds, valued at \$267,000. Since 1932, exports from the Philippines have been shipped entirely to the American market. These shipments have not been an important factor in Philippine foreign trade, since they never amounted to as much as 0.5 percent of total Philippine exports.

Export statistics for the period 1928-35 are shown in table 66.

TABLE 66.—Cutch extract: Exports from the Philippines, 1928-35¹

Year	Quantity ² Pounds	Value	Value per pound
1928	4,230,754	\$101,726	2.4
1929	8,427,909	191,189	2.3
1930	11,428,478	257,152	2.3
1931	11,531,947	247,370	2.2
1932	9,446,712	200,414	2.1
1933	11,614,527	232,198	2.0
1934	12,624,928	252,841	2.0
1935	13,368,741	267,375	2.0

¹Cutch was not produced commercially prior to 1928.

²Exports of cutch from the Philippines are shipped almost entirely to the American market.

Source: Annual Reports, Insular Collector of Customs.

RESTRICTIONS IMPOSED BY THE INDEPENDENCE ACT.

The United States Tariff Act of 1922 placed a duty of 15 percent ad valorem on extracts, dyeing and tanning, in which cutch extract

is included. The rate remained the same in the Tariff Act of 1930. The only restrictions placed by the Independence Act on the shipment of cutch extract from the Philippines to the United States are the export taxes to be imposed during the second 5 years of the Commonwealth period and the United States duty, which is to be imposed after independence is achieved. The amounts of these taxes, on the basis of the present United States duty, are shown below.

Period	Tax (percent)
Sixth year of the Commonwealth	0.75
Seventh year of the Commonwealth	1.50
Eighth year of the Commonwealth	2.25
Ninth year of the Commonwealth	3.00
Tenth year of the Commonwealth	3.75
After independence (July 1946)	115.00

¹On a basis of \$44.08 per long ton which was the prevailing unit import price in 1935, the United States duty at that time would be \$6.61 per long ton.

COMPETITIVE ASPECTS.

Although no product similar to cutch extract is produced in the United States, this product competes in a greater or lesser degree with certain domestically produced dyes. The United States imports of cutch are obtained primarily from the Philippines, but a number of competing products are obtained in large volume from foreign sources. On the basis of current prices for cutch extract, exports from the Philippines are not likely to be materially affected by the application of either the Philippine export taxes during the Commonwealth period or the United States duties after Philippine independence is realized.² It is possible, moreover, that the effects of the duty might be offset, at least in part, by adjustments in transportation charges.

10. THE READJUSTMENT OF PHILIPPINE ECONOMY

NECESSITIES FOR ADJUSTMENT OF PHILIPPINE ECONOMY

The economic provisions of the Independence Act will have a serious effect upon many of the export industries of the Philippines. In preceding sections of this report it is pointed out that the application of the export taxes, and later, the full United States duties, to Philippine goods marketed in the United States will operate to restrict the sale of many such goods in this market, and that profitable alternate markets cannot soon, or easily, be developed.

All Philippine products now receiving preferential treatment in the American market will, to a greater or lesser degree, be adversely affected either by a reduction in the volume of their sales in that market, or in the profitability of such sales, or both. In 1935 these products accounted for approximately 80 percent of the value of Philippine exports to the United States. Abaca, under existing laws, has free access to the American market, even though imported from sources other than the Philippines. "Philippine mahogany" is also on the free list, but after independence it will be subject to an import revenue tax of \$1.50 per thousand board feet, provided the existing tax is then in force. Although copra, constituting 12 percent of Philippine exports to the United States in 1935, is on the free list in the American tariff, coconut oil made from Philippine copra—either in the Philippines or in the United States—is subject to a processing tax of 3 cents per pound. Coconut oil imported from foreign countries and coconut oil made in the United States from foreign copra are subject to a processing tax

²The price of Philippine cutch extract in the American market on Nov. 8, 1936, was quoted at 4 cents per pound or \$96.00 per long ton.

of 5 cent per pound.

The Philippine exports to the United States which appear most likely to be curtailed sharply as a result of the provisions in the Independence Act are sugar, coconut oil, tobacco and tobacco products, embroideries, and pearl buttons.¹ It is probable that cordage, straw hats, desiccated coconut, canned pineapples, and cutch will be less severely affected. Sales of these products are likely to continue even after independence, although volume and profits will probably be reduced.

The loss of the American market for many of the export products of the Philippines will doubtless have widespread repercussions upon the whole Philippine economy, including adverse effects upon governmental revenues. The Commonwealth Government, therefore, faces a serious problem of readjustment, particularly in districts where the principal export industries are centered. Recognizing the necessity for a comprehensive plan of action, the Commonwealth Government has appointed the National Economic Council to draft a program designed to lessen the shock of the impending restrictions. The council has not yet concluded its deliberations, but two broad alternative programs are known to be under consideration: (1) Specialization in the production of agricultural commodities to the end that they may compete in world markets; and (2) increased economic self-sufficiency.

SPECIALIZATION IN THE PRODUCTION OF AGRICULTURAL COMMODITIES.

The adoption of a program designed to reduce costs sufficiently to enable Philippine agricultural products to compete in world markets would retain much of the existing agricultural economy and might lead to further diversification of it. To reduce unit costs to the level required, it would be necessary to make a careful selection, on the basis of climate and fertility of soil, of the lands on which crops are to be cultivated and to adopt the most efficient methods of planting, cultivating, harvesting, grading, and marketing. If carried too far, however, a plan of this kind would probably bring about a general deflation, thereby increasing the debt and tax burdens and possibly creating social unrest. Even if the maximum possible success were attained in such a program, certain industries, such as the production of coconut oil and cigars, would probably be compelled to liquidate in substantial degree, inasmuch as high foreign tariffs and government monopolies would preclude the sale of their goods in foreign markets.

The reduction of costs in the Philippines to a parity with costs in other tropical countries is particularly difficult. In important crops, such as sugar, the reduction would have to be substantial.² But costs in the Islands cannot be reduced easily, primarily because of the large number of small independent producers who are either unable or unwilling to adopt improved methods of crop production.

Another factor militating against the continuance of a Philippine economy based primarily on the production of agricultural commodities for export is the number and extent of the trade barriers which hamper the development of the export trade of the Islands with countries other than the United States. Even with production costs reduced sufficiently to insure successful competition in world markets, it might be that

additional trade obstacles would be raised against Philippine products.

INCREASED ECONOMIC SELF-SUFFICIENCY.

If, after independence, the Philippines cannot export certain important agricultural commodities to the United States, and if adequate markets for these commodities cannot be developed elsewhere, the Islands will be obliged to fashion a more self-sufficient economy than that outlined above. Any program for the attainment of maximum self-sufficiency would require a thorough analysis of Philippine imports to determine which products could be economically produced in the Islands. At its inception the program would probably have to be directed by the Commonwealth Government. Greater diversification in agriculture and increased industrialization, if carefully undertaken, would make it possible to reduce the quantity of goods imported.

The task of revamping the economy of the Philippines, however, could not be accomplished quickly. There are obvious limits upon diversification. Certain types of agricultural commodities could not be produced because of the fact that they are not adaptable to the soil and climate of the Islands, and many manufactured goods now imported could not be produced, because the market would be too small to justify the investment necessary. The absence of basic raw materials and of trained technicians would also prove serious handicaps.

Should the National Economic Council decide to initiate certain agricultural and industrial projects, such enterprises could be launched by the National Development Company on an experimental scale. As they prove their worth they could be sold to private interests, leaving the capital of the association free to engage in other projects. Many of the new developments might require government subsidies or additional tariff protection. The desirability of launching such projects, however, would depend upon how much they would increase costs to the consuming public.

Agencies of the Philippine government and independent research groups have suggested the possibility of producing in the Philippines all or part of certain imported commodities representing nearly 50 percent of the value of total Philippine imports in 1935.³ These imports are shown in table 67.

TABLE 67.—Philippine imports of selected commodities, 1935¹

Product	Value	Percent of total imports
Cotton goods in the piece.....	\$10,950,000	11.7
Other cotton goods.....	5,250,000	5.1
Tobacco and manufactures of.....	3,750,000	4.4
Tradebluffs.....	3,727,000	4.4
Dairy products.....	3,077,000	3.6
Paper, unprinted.....	2,122,000	2.5
Vegetable fibers and manufactures.....	1,691,000	2.0
Vegetables.....	1,640,000	1.9
Meat products.....	1,577,000	1.8
Fish and fish products.....	1,361,000	1.6
Fruits and nuts.....	1,323,000	1.5
Leather and manufactures of.....	1,054,000	1.2
Coffee, raw and prepared.....	673,000	.8
Perfumery, cosmetics, and toilet preparations.....	660,000	.8
Indian rubber products, except tires.....	657,000	.8
Cocoa and manufactures of.....	505,000	0.6
Wines, liquors, and malt liquors.....	435,000	.5
Wood, bamboo, rattan, reeds, and manufactures of.....	414,000	.5
Soaps.....	385,000	.4
Starch.....	377,000	.4
Confectionery.....	355,000	.3
Sugar and molasses.....	153,000	.2

Exps.....	134,000	.2
Tot.....	63,000	.1
Total.....	41,273,000	48.3
Total Philippine imports.....	85,324,000	100.0

¹The 10 leading commodities constituted 40 percent of the value of total Philippine imports.

²Source: Annual Report, Insular Collector of Customs.

AGRICULTURAL DIVERSIFICATION.

Except where otherwise indicated the subsequent discussion on introducing new crops and industries into Philippine economy is based chiefly on the reports of agencies of the Philippine Government and independent Philippine research organizations. No attempt has been made to determine the feasibility of the various proposals. As has already been noted, the task of increasing the economic self-sufficiency of the Philippines and of developing new export industries cannot be accomplished easily or quickly. Considerable time necessarily would elapse before any new project could be firmly established, inasmuch as it is easier to determine whether an article is suited to the soil, climate, and the economy of the Islands than to determine whether production can be developed in the face of world competition.

The industry offering the greatest potentiality for the Philippines is probably the production of cotton and cotton goods. In 1935 imports of cotton goods exceeded \$15,000,000 and over a period of years have been the largest single item in Philippine import trade. It has been demonstrated that cotton can be grown in the Philippines. More than 2,000 acres were devoted to its production in the crop year 1933-34; the area was increased to 3,000 acres in 1934-35. The crop yield has averaged more than 200 pounds per acre. Additional research on the relative advantages of the different varieties of cotton and on the soil and climatic conditions best adapted to cotton culture is being conducted by the Department of Agriculture in the Philippines. The expansion of cotton growing in the Islands depends to a considerable extent on the development of high-yield, disease-resisting on the development of high-yield, disease-resisting varieties.

Although large quantities of tobacco and cigars are exported, imports of tobacco and tobacco products into the Islands are large having totaled \$3,750,000 in 1935. Imports consisted primarily of cigarettes and wrapper tobacco. These are regularly purchased abroad because similar types are not grown in the Philippines. Experiments are being conducted with a view to producing Virginia-type tobacco for cigarettes and Georgia and Sumatra types for wrapper tobacco. Although these varieties have been grown in the Philippines, producers have not as yet been able to develop the desired qualities in the transplanted products. Even if the experiments eventually prove successful, there will be a decline of imports of cigarettes into the Islands after independence because of the high Philippine duties. Imports of wrapper tobacco are likely to decline during the second 5 years of the Commonwealth because of the restrictive

¹During the Commonwealth period, the decline in the exports of coconut oil will likely be accompanied by a corresponding increase in the exports of copra. After independence, the volume of exports of copra to the United States will depend on whether coconut oil made in the United States from such copra is accorded preferential treatment in respect of excise taxes.

²United States Tariff Commission, Report to the President on Sugar, Report No. 73, Second Series, 1934.

³Consumption of some of these items will probably decline when the U. S. Army is withdrawn from the Islands after independence; should the U. S. Navy also be withdrawn, there will probably be an even greater decline.

effect of the Philippine export taxes upon the shipment of cigars to the United States.

Wheat flour is another major Philippine import, having amounted to more than 78,000 tons valued at \$2,835,000 in 1935. Some wheat is at present grown in the Cagayan Valley (Luzon) and experiments are being conducted to improve the native varieties.

The Philippines also import large quantities of vegetables, fruits, and nuts, imports in 1935 having amounted to \$1,142,000. Many of these can be grown in the Islands; potatoes, onions, cocoa, coffee, citrus fruits, and peanuts are now being produced in limited amounts. The Bureau of Plant Industry of the Department of Agriculture and Commerce is encouraging the production of many of these commodities and is introducing scientific methods of cultivating them.

A new export crop which gives promise is dorr root, used in the manufacture of insecticides. A considerable acreage was devoted to its cultivation in 1935 and 1936.

There is also the possibility of further development of rubber plantations in the Philippines. Approximately 9,000 acres are now utilized in the cultivation of rubber, and trees in production now yield about 575 tons annually. Exports in 1935 totaled 415 tons valued at \$82,800. Considerable quantities of rubber are consumed in the Philippines in various manufactures, especially rubber footwear. According to a survey made by the United States Departments of Commerce and Agriculture, soil and climatic conditions are suitable for the production of Para rubber on more than 1,500,000 acres located in the islands of Mindanao, Basilan, and Jolo. The development of large rubber plantations, however, has been retarded by legal limitations on the acquisition of public lands in the Philippines and by adverse conditions in the world rubber market in recent years.

Although the Islands are ordinarily self-sufficient in rice, small amounts of certain varieties are imported. Such imports are due primarily to the demand of foreign groups in the Philippines and will probably continue. Imports of fish, meat, and eggs, however, might be reduced by stimulating insular production. The competitive position of existing agricultural exports, such as copra, hemp, and leaf tobacco, could be strengthened by giving more attention to improved methods of production and grading.

INCREASED INDUSTRIALIZATION.

Certain industries operating in the Philippines, such as those supplying soaps, wines, liquors, leather and rubber-soled shoes, perfumery and cosmetics, confectionery, sugar, and bread-stuffs might be expanded to fill the major portion of insular requirements. Philippine imports of such products in 1935 totaled \$2,822,000. The manufacture of furniture from native forest products, such as hardwoods and rattan, is already a growing Philippine industry and might be further expanded. The production of vitrified clay products is another industrial possibility. Experiments indicate that the clay found in different parts of the Islands can be used in the production of fire bricks, glazed bricks, tile, and sanitary fixtures. The further development of these industries would offer increased employment to Philippine labor and would operate to replace imports.

The establishment of cotton spinning and

weaving mills has long been considered. Filipino experts assert that the coarser types of cotton cloth which are consumed in the Islands could be produced there, and that, if technical knowledge and skill should increase, the finer grades of cloth might also be manufactured. They likewise believe that the weaving of coarse fabrics and the manufacture of bags from various fibers such as jute, maguey, and abaca offer other potential industries for the Philippines.

The practicability of manufacturing coarse grades of paper from abaca is receiving consideration. Such an industry is operating successfully in Japan. The development of a canning industry in the Islands has also been advocated. Many Philippine foods, such as vegetables, fruits, fish, and meat and dairy products, might be preserved for insular consumption.

The minor industries connected with the growing of copra and the production of coconut oil have already been discussed in the section of this report dealing with coconut products. It is possible that the production of margarine and cooking oils, for example, could be developed further as export industries supplying markets in the Orient.

PART III. UNITED STATES TRADE AND INVESTMENT POSITION IN THE PHILIPPINES

I. UNITED STATES EXPORTS TO THE PHILIPPINES

THE EXTENT AND IMPORTANCE OF THE TRADE.

During the period 1926-35, the annual value of United States exports to the Philippines averaged \$60,565,500.¹ Exports were highest in 1929, when they amounted to \$85,414,000, and lowest in 1933 when they amounted to \$44,645,000.² In 1934 the Philippines ranked ninth as an export market for American goods, and in 1935 eleventh. United States exports were valued at \$2,243,000,000 in 1935, of which amount exports to the Philippines accounted for \$52,560,000, or 2.34 percent.

In 1935 American goods occupied a commanding position in the import trade of the Islands, comprising 63.5 percent of total Philippine imports. During the period 1926-35, Philippine imports from the United States were never less than 60 percent of the total Philippine imports. Moreover, for much of the period the Islands occupied first or second position as an export market for a number of American commodities, including cotton piecegoods, cigarettes, galvanized iron and steel sheets, condensed and evaporated milk and cream, wheat flour, canned fish, soap, and paint.

PHILIPPINE LAWS AFFECTING IMPORTS FROM FOREIGN COUNTRIES.

Philippine imports from sources other than the United States are governed directly by two Philippine laws, (1) the Philippine Tariff Act, and (2) the Philippine Parity Law. In assessing duties under the Parity Law, all foreign currency invoices covering shipments subject to ad valorem duties are required to be converted into Philippine currency at fixed parities established by the act. Proclaimed in December 1932, the law established in most cases the gold parities which existed prior to the devaluation of the dollar, as the rates at which invoices in foreign currencies shall be converted.³ The law, while not directly affecting imports from the United States, favors imports from countries whose currencies, in relation to market rates, are undervalued in the act, and penalizes imports

Mining in the Philippines has progressed rapidly in recent years, and further development might lead to increased exports, profits, and employment. If this industry could be expanded at a time when many major industries were forced, because of the provisions of the Independence Act, either to reduce operations or to liquidate completely, it might prove a stabilizing factor.

The success of any program for increased industrialization rests in part upon the existence or development of motive power. At present the inadequate supply and the relatively high cost of electric energy is undoubtedly a handicap to industrial expansion. The Philippines, however, are fortunate in having a number of potential sites where hydroelectric power may be generated. The development of these sites is being given careful consideration by the National Economic Council.

If increased industrialization in the Philippines is to be attained, well-planned direction and assistance from the Government will be required. Particular consideration must be given to the problem of obtaining adequate capital to finance the program and to the question of tariff protection or government subsidy.

from countries whose currencies are overvalued. Should the Parity Law remain in force after Philippine independence, imports from the United States, on which ad valorem duties are imposed, may be subject to higher or to lower effective duties than those applicable to similar goods coming from other foreign countries.

The present Philippine Tariff Act was adopted in 1909 and has remained in force since that date with only limited revisions. The last amendment of importance was proclaimed in February 1933. Many of the duties imposed by the act are specific and based upon weight. Because of the price fluctuations which have occurred since 1909, the ad valorem equivalents of some of these specific duties have undergone marked changes during the intervening years and no longer provide either the revenue or the degree of protection originally contemplated. Moreover, the application of specific duties on weight has resulted in taxing, in certain tariff classifications, low-grade goods much more heavily than high-grade goods.

American goods imported into the Philippines after independence will presumably be subject to the full Philippine tariff. An analysis of the probable effect of the Philippine tariff and other factors on specific American commodities is presented in subsequent pages.

The relative importance to both the Philippines and the United States of 30 leading commodities among the Philippine imports from the United States and the United States exports to the Philippines are shown in table 68. The table also gives the ad valorem equivalents in 1935 of Philippine duties assessed against products in the same tariff classification as those coming from the United States but actually imported from other countries.

¹Foreign Commerce and Navigation of the United States.

²The marked variation in the value of exports between these years was due more to fluctuations in unit prices than to changes in the quantities shipped.

³For currencies not having a gold parity, the law established certain arbitrary rates, based in most cases on the market rates of exchange which prevailed prior to the adoption of the law.