REPUBLIC OF CUBA
MINISTRY OF FOREIGN AFFAIRS

THE POSITION OF CUBAN SUGAR IN THE UNITED STATES

LA HABANA, 1960

REPUBLIC OF CUBA

MINISTRY OF FOREIGN AFFAIRS

THE POSITION

of

CUBAN SUGAR

IN THE

UNITED STATES

LA HABANA, 1960

FOREWORD

Viewed from the Cuban side, the commercial and the economic relations generally between Cuba and the United States are dominated by sugar. As sugar production constitutes about one third of Cuba's total national income and sugar exports represent about 80% of her export trade, the position occupied by it and the treatment accorded to its importation into the United States market are absolutely fundamental, in fact decisive, for evaluating the commercial relations between the two countries from the point of view of the interest of Cuba.

A factual and objective presentation of the position of Cuban sugar in the American market, of what that is, how it has come about, what role it plays in the commercial relations between the two countries or what significance it has to the general economic quid pro quo that exists between the two countries, is absolutely essential if such commercial relations are to be correctly understood with the purpose of reviewing and establishing them on more firm and fair foundations than they are at present.

Partly because of interested or biased approaches to the subject, and partly because of ignorance, the position of Cuban sugar in the American market has for many years, but particularly at the present time, been represented to the American public in quite a different light of what it really is. The American public is continuously being given the impression that because Cuba has the largest individual sugar quota in the United States market and because Cuba obtains for the sugar sold in that market a price higher than she usually gets in the other markets outside the United States, Cuba enjoys a position of privilege and receives from the United States a free bonus or gift for which she only should be grateful.

The present position of Cuban sugar in the American market rests on a quota system which originated almost three decades ago. The origin of the quota system, the reasons for its adoption in 1934 and the significance that it has for Cuba and for the other sugar producing areas that supply the market, are very often completely lost of sight, being either forgotten, ignored or deliberately concealed. Even in the American Government itself, and particularly in the Congress, the changes that have taken place in the last twenty six years have prevented a good many people —in fact nearly everyone except the specialists— to become familiar with the history of the quota system in sugar from its inception in 1934 to the present day. As will be seen from the contents of this pamphelt, the knowledge of that history is absolutely essential for evaluating the significance of the system for Cuba and for understanding the Cuban attitude toward it.

The present pamphlet intends to present to the American public a purely factual and objective description and analysis of the position of Cuban sugar in the United States market. Except for the single instance of Cuba's total import figures, in which no other course was possible, the statistical and other information used in this pamphlet are from official United States sources.

It is hoped that this publication will help the American people to form an informed and independent opinion on a problem the correct understanding and solution of which are essential conditions for the restoration of the commercial relations between the two countries in a spirit of real reciprocity and mutual respect.

CUBA'S SUGAR UNDER THE QUOTA SYSTEM

THE ORIGIN OF THE QUOTA SYSTEM IN SUGAR

The quota system in sugar, established in the United States in 1934, had its origin in the consecuences that resulted from the imposition of the increasingly higher tariffs on sugar which reached its climax with the very high rate of duty (2 cents per pound on Cuba sugar and 2½ cents per pound on full duty countries) imposed by the Hawley-Smoot Tariff in 1930.

The rate of duty on sugar was raised to that very high level in order to afford greater protection to the American domestic producers, who were trying to compensate the loss of markets resulting from the reduction in demand that followed the great economic crisis of 1929, which had reduced total marketings from 7.587,000 tons in 1929 to 6.683,000 in 1930.

The Hawley-Smoot Tariff, however, failed in its purpose of preserving the sugar market for the American continental producers. As the tariff did not apply to Hawaii, Porto Rico and the Philippines, which were American territories, the main effect of the tariff was to reduce drastically the importantion of Cuban sugar, and to stimulate a tremendous increase of production and exports of sugar to the United States from Hawaii, Porto Rico and the Philippines. From 1930 to 1933 the continental producers' marketings, including Louisiana and Florida increased only 173,000 tons. In contrast, Hawaii, Porto Rico and the Philippines increased their shipments from 2.100,000 tons in 1929 to 3.032,000 tons in 1933. The tariff had the effect of cutting down drastically the amount of sugar imported from Cuba, which fell from 4,419,000 in 1929 to 1.573,000 in 1933. Cuban imports were cut by 2.576,000 tons, absorbing the increase of nearly 1 million tons from the insular areas, the small increase of the continental producers and the reduction of 1.256,000 tons in total consumption. (See Table II on page 28).

There can be no doubt, in the light of the record, that the quota system on sugar in the United States was born from the need to afford protection to continental sugar producers and the inadequacy of the tariff, no matter how high it was, for achieving that purpose. This conclusión is not only firmly based on the analysis of the facts, but has been explicitely stated in official documents of the United States explaining the reasons for the adoption of the quota system. In the official statement of the U. S. Secretary of Africulture released on March 6, 1934, it was stated that "operating behind high tariff protection, the sugar producers of continental United States have not received the intended benefits of such protection because production in the island territories, particularly in the Philippines and also Hawaii and Porto Rico, has rapidly expanded to displace Cuba shipments into the United States markets. Under the impulse of a tariff, which the insular shipments did not have to pay, this insular expansion has been rapid during the past decade". And later on, in the same document: "The unprecedented expansion of insular production is attributed to executive inaction upon the recomendation of the Tariff Commission in 1924. The Commission then recommended that a reduction be made on the tariff from the duty of 1.76 cents per pound provided in the Fordney-McCumber Act to 1.23 cents per pound. These recommendations were not followed, and under the stimulus of the 1.76 cent tariff, expansion of insular production was begun. This insular expansion was further stimulated when in 1930 the tariff was further increased to 2 cents per pound".

"The Philippine Islands increased the quantity of sugar shipped duty free to the United States from 318,000 tons in 1924 to 1.141,000 tons in 1933. The Hawaiian islands responded to the higher tariff protection by increasing shipments to the continent from 608,000 tons in 1924 to 989,500 tons in 1933. Shipments from Porto Rico practically doubled in the same period. But while the island territories increased production under tariff protection, the expansion of beet and cane sugar production in the continental United States was relatively small during that period. Beet acreage did not expand materially during the period since 1924 until the 1933 crop, although sugar production was increased in some years due to favorable yields".

"The purposes of the Fordney-McCumber Act, and subsequently the Hawley-Smoot Tariff, to maintain and increase the domestic markets for domestic producers were not accomplished. Instead of bringing the advantage to domestic producers, the tariff merely shifted the American market from Cuba to the insular possessions with resulting economic distress to the sugar industry generally and loss of market for Cuban production which finally came to a climax with the revolution in Cuba".

It is evident from the record, therefore, that the quota system was not established with the objective of protecting the interest of Cuba, but its purpose was clearly to protect the American continental producers through a system of quotas for the several areas supplying the American market as the tariff had proven inadequate for achieving that end.

The fact that the quota system was not born out of a desire to protect the interest of Cuba, but the interest of the American continental producers, does not in itself invalidate whatever benefits Cuba could derive from the system. The evaluation of the benefits or damages should be made on the merits of the case. Let us look at the record in this respect.

THE SUGAR QUOTA FOR CUBA

Even from the most dispassionate and detached analysis, the record on how the quota system was applied to Cuba is a most disgraceful one. Both from the point of view of its economic effects and of the juridical status created by it, that application will stand out as one of the blackest pages in the history of commercial relations between friendly countries.

THE "REPRESENTATIVE" PERIOD CHOSEN FOR CUBA

In 1929, before the Hawley-Smoot Tariff was put into force, Cuban exports of sugar to the United States amounted to 4.149,000 tons. As a result of the increase in the tariff, Cuban exports dropped to 2.645,000 in 1930, 2.482,000 in 1931, 1.791,000 tons in 1932, and 1.573,000 tons in 1933. In the three and a half years of the operation of the tariff, therefore, Cuban exports suffered a reduction of 2.576,000 tons, equivalent to 62%. This comparison is not made taking arbitrarily the year of 1929 as a specially high one. Cuban exports had already passed the mark of 4½ million tons in 1922 and exports of between 3½ and more than 4 million tons were made in all previous years since 1922 except in one.

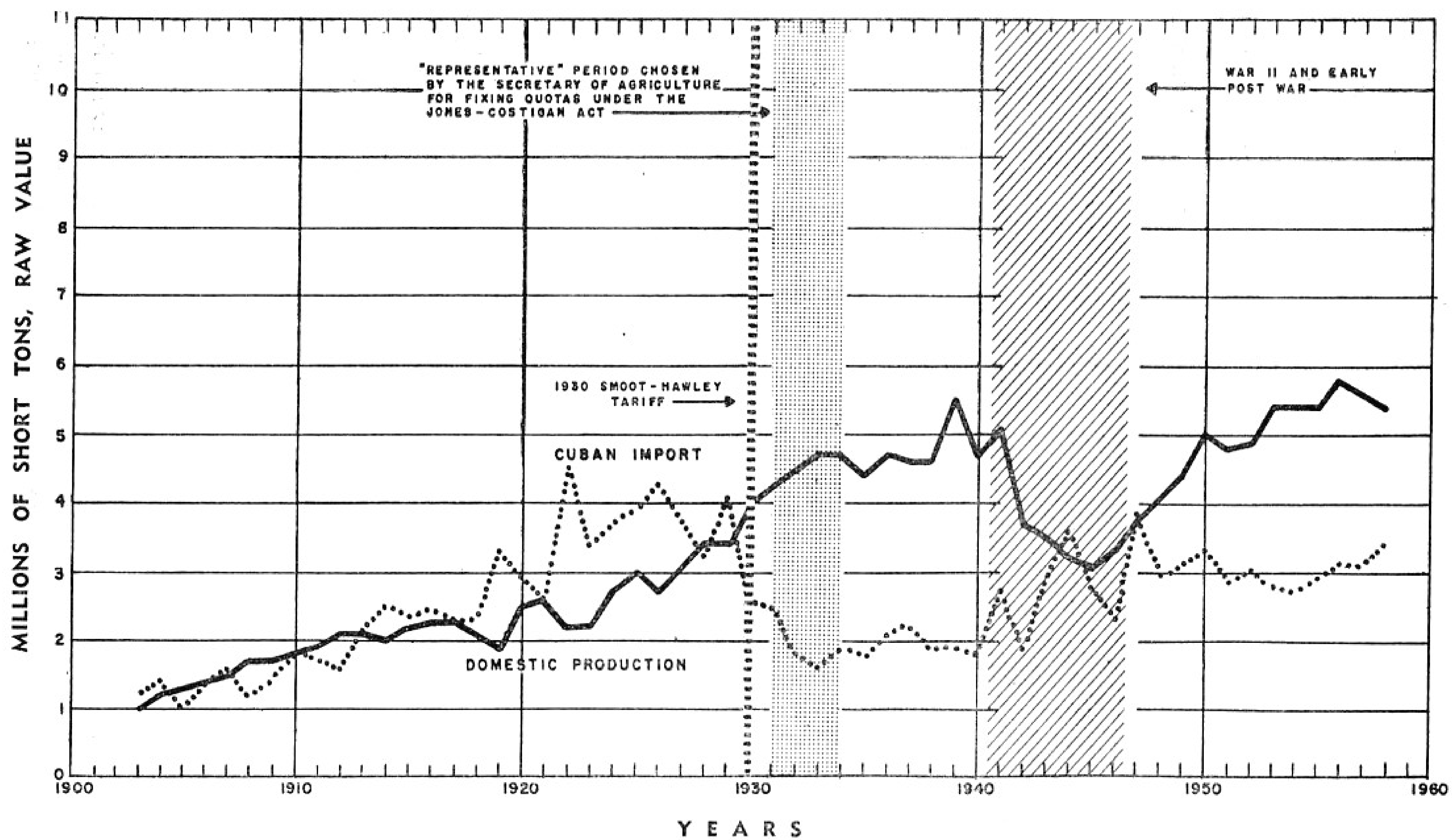
Even if we take the average for the whole period from 1903 to 1929, which includes the first decades of the century during which United States' total consumption was well below 4 million tons a year, Cuba's exports to the United States show a yearly average of 2.529,000 tons.

The quota system on sugar was established by the Jones-Costigan Act of May 9, 1934 which provided that quotas for any calendar year for each supplying area be "based on average quantities therefrom brougt into for import into continental United States for consumption, for which was actually consumed therein, during such three years, respectively in the years 1925/1933 inclusive, as the Secretary of Agriculture may, from time to time, determine to be the most representative respective three years".

Throughout the history and the evolution of the quota system, the advocates of a low quota for Cuba, in discussing the problem and in advancing proposals for sugar legislation, have very often presented the case either implicitly or explicitly as if the basis which were actually taken by the United States Government for fixing the quota for Cuba followed the express will or intention of the Congress of the United States. In fact, the Cuban quota has always been treated in this manner throughout the different stages through which the sugar legislation has evolved up to the present day.

This approach is either completely ignorant of the facts or deliberately biased. The Jones-Costigan Act established the years from 1925 to 1933 as the period from which three representative years should be chosen. The average of Cuban exports in those nine years was 3.082,000 tons, which compared very favorably with the average of 2,529,000 tons of Cuban sugar exports to the United States during the whole period 1903/1930. It is clear therefore that by establishing that period of nine years from which any three years should be taken for the representative period on which to base the quotas, the Congress of the United States was not either explicitly or implicitly expressing its will that the quota for Cuba should be set at the very low level at which it was actually established. On the contrary, by selecting those nine years, including five years before the imposition of the Hawley-Smoot Tariff, during which Cuban exports to the United States were high, it could

CHART 1 — **DOMESTIC SUGAR PRODUCTION AND IMPORTS OF CUBAN SUGAR** — 1900-1960



The end of the Cuban imports curve reflects the supply of large deficits of Hawaii be interpreted that the intention of Congress at the time of the establishment of the quota system was clearly to base the quotas for each area on a real representative period.

In choosing the three base years for the quota for Cuba however, the Secretary of Agriculture actually picked out the three years of 1931, 1932 and 1933 during which Cuban shipments to the United States had been reduced drastically as a result of the Hawley-Smoot Tariff, as can be seen in Chart I. Any other combinations of three years within the nine years selected by the Jones-Costigan Act, would not have resulted in a quota for Cuba lower than the period of three years that was actually selected. Any other period of three years, even including two of the years in which Cuba's shipments had already felt the full effect of the increase of the tariff in 1930, would have resulted in a base period for Cuba substantially higher. The period taken for Cuba yielded an average of 1.948,000 tons, compared to the average of 3.082,000 tons of the nine years mentioned in the Jones-Costigan Act, to the 4.149,000 tons shipped to the United States in 1929, just before the increase in the tariff went into effect, and was even substantially lower than the average of 2,529,000 tons for the whole period of 1903 to 1930. The above mentioned average of 1.948,000 tons taken for the quota for Cuba, put Cuba's exports to the United States lower to what they had been back in 1913, that is, twenty one years before the establishment of the quota system.

If instead of dealing with absolute figures, the base period applied to Cuba is considered in relative terms, that is, in terms of the percentage share for Cuba in the United States sugar market, the base period taken for Cuba yield a share for Cuba of 30.1%, as compared to a percentage share of 50.4 for the whole period 1903/1930.

Looking at these stern facts one cannot help wondering in what sense the period chosen for Cuba can be considered "representative", that is, what type of consideration, of international economic policy, or of spirit of dealing with other countries that period in fact "represents".

As has been indicated earlier, all the subsequent evolution of the quota system has taken for granted that the share resulting from the base period chosen by the United States Secretary of

Agriculture in 1934 was a normal and right one, a share that was immovable and should not be changed under any circumstances nor in the light of any consideration. This "representative" period of the original quota had all the tremendous weight and inertia of "fait accompli", lying at the foundation of all subsequent discussion of the sugar problem.

That "representative" period has in fact have that implication. The Sugar Act of 1937, that took the place of the Jones-Costigan Act, established for Cuba a basic quota equivalent to 28.8% of the American sugar market, that is, a share even slightly lower than the percentage resulting from the "representative" period. Except for the Sugar Act of 1948, which in some fundamental respects deviated substantially —although as events proved, only temporarily— from the spirit embodied in the "representative" period of 1934, all the actions and the mental attitude of Americans dealing with the Cuban sugar problem either in private business of in the Government, have been governed by that "representative" period. The freezing of Cuba's share in the United States sugar market at the level of almost one half of what that share had been before the quota system was first established, appears to have also frozen the mentality of a great many American legislators and public officials.

THE COMMERCIAL AGREEMENT OF 1934

The establishment of the quota system on the basis described above was accompanied by other measures concerning the status of Cuban sugar in the United States sugar market and the commercial relations between the two countries generally.

Having substituted the quota for the tariff as the means for protecting American domestic sugar production and of limiting the entrance of foreign sugar, particularly Cuban sugar, the United State Government proceeded immediately to reduce substantially the tariff, first by a proclamation of the President of the United States and soon afterwards as a result of the negotiation of the Commercial Trade Agreement between Cuba and the United States in the same year of 1934.

The effect of the quota established for Cuba and the reductions of the tariff was, first, to put a stop to the further displacement of

Cuban sugar from the American market and to increase slightly Cuban shipments, which in 1934 and the years following up to 1940 recovered somewhat from the bottom figure of 1.573,000 tons reached in 1933. Second, the reduction in the tariff resulted in an improvement of the price of Cuban sugar in the United States market, which recovered from 1.22 cents per pound c.i.f. New York excluding the tariff, to 1.50 in 1934 and to 2.33 in 1935 to stay at an average of 2.23 throughout the years from 1935 to 1941, when the quota system was suspended for several years at the entrance of the United States into Second World War. These prices, although substantially higher than the prices that Cuba received during the life of the Hawley-Smoot Tariff, were nevertheless substantially lower than the prices that Cuba received for her sugar throughout practically the whole period from 1903 to 1930.

As a counterpart of the modest recovery both in volume and price from the very low depths reached in the worst economic crisis that perhaps any country has suffered in the present century, the United States obtained, in the commercial agreement negotiated with Cuba in 1934, substantial advantages for its exports to the Cuban market. The margins of preferences for American products were substantially increased, in many cases to as much as 40% and 50%. Futhermore, very numerous rates of duties were substantially reduced and, perhaps even more important, the rates of nearly the whole Cuban tariff were bound against increase.

This binding of the rates against increase represented a fundamental departure from the Reciprocity Treaty of 1902, which did not contain such binding. The commercial agreement of 1934 became in this manner an instrument not only for giving American products in the Cuban market a competitive advantage against other foreign suppliers, as had been the case under the Reciprocity Treaty, but an instrument also for preventing the use of the tariff by Cuba as an instrument for promoting other lines of production, a development that was more than ever necessary in the light of the reduction of sugar exports in the American market and the world-wide sugar crisis.

The results of this complex set of actions in the field of Cuban-American commercial relations can be clearly seen in Chart No. 2 on page 14, and Table III. The combined effect of the establishment of the quota system and the negotiation of the commercial agreement of 1934, was to reduce drastically Cuba's share in the

United States market and to increase considerably the share of imports from the United States in the Cuban market. While Cuba's sugar share was cut from an average of 50% to an average of 28.8% as a result of the quota system, the American share of the Cuban market rose from an average of 60.67 from 1903 to 1930 to an average of 70.71% from 1934 to 1941.

In absolute figures, the efect of this development was to restore Cuban total exports to the United States from the low of $ 58.3 millions in 1932 to a figure somewhat above $ 100 millions. The United States exports to Cuba recovered from the low of $ 25 millions in 1933 to a figure around $ 80 millions on the average between 1936 and 1940. As the United States, through the commercial agreement of 1934, had practically secured a monopoly of the Cuban import market, its exports to Cuba could not grow more in absolute terms only because Cuba's import capacity was limited by its exports. Cuba's exports, although recovered from the depths of 1933, stayed substantially below what they had been throughout most the period from 1903 to 1930. In fact it is necessary to go back to the year 1908 to find a figure of Cuban exports to the United States lower than the average obtained during the years from 1934 to 1941.

THE UNILATERAL CHARACTER OF CUBA'S OBLIGATIONS SINCE 1934

The establishment of the quota system for sugar and the simultaneous negotiation of the 1934 Commercial Agreement represented a fundamental change not only in the economic results of the comercial relationships between the two countries as compared to what they had been before the imposition of the high tariff in 1930, but also a fundamental change in the juridical status of these relationships.

Under that Treaty, it should be remembered, all fundamental aspects of the trade relations between the two countries were governed by a convention agreed between them and no essential aspect of the commercial relations was left to the unilateral action of one of the parties. Whenever the Treaty allowed freedom of action, as was the case in regard to the level of the tariff, that freedom existed for both countries.

CHART 2 — **CUBAN - AMERICAN TRADE** — 1915-1960

The new situation created by the quota system was quite different in this respect. The tariff on sugar was a subject of the commercial agreement. But it is evident that the tariff was no longer the instrument influencing the position of Cuban sugar in the United States market The importation of Cuban sugar was now limited to a quantity fixed every year in accordance with the Sugar Act, and the level of the tariff did not have any effect on the ability of Cuba as an efficient producer of sugar to expand her exports to supply the needs of the American consumer. The advantages given by nature to Cuba as a producer of sugar and the improvements in technology and methods of production with which Cuba could increase its productivity were invalidated by the quota, which prevented Cuba from expanding her sugar exports to the American market on a competitive basis. The value of the lower tariff and of the preferencial that were the subjects of the agreement, was limited, in the best case, to making possible for Cuba to obtain for its sugar, in given circumstances a somewhat higher net return. The basic questions of the volume of its exports, of the share that she could as an efficient producer obtain in the American market, were entirely left out of the commercial agreement and subject to the unilateral action of the United States Government. On the other hand, as Cuba's import trade was governed only by the tariff and both the tariff rates and the preferential margins were covered in the commercial agreement, the new situation meant that while Cuba's obligations toward the United States in commercial matters were covered by an agreement that could not be freely changed or altered, the basic counterpart that Cuba was supposed to be receinving in exchange —and we have seen earlier what kind of counterpart it was— was left to the free will and whims of the American Government, subject to continuous political pressures of interested parties.

Throughout the changes that have taken place in the sugar legislation and in the commercial agreements between the two countries, this fundamental aspect of the Cuban-American commercial relationships has been maintained. This is a disgraceful state of affairs. As long as is it maintained, nobody should expect that Cubans will feel that their economic relations with the United States are based on an equal footing, governed by a spirit of mutual rights and obligations freely agreed upon and accepted, as should be the relations between independent nations if such relations are to be conductive to reciprocal satisfaction and selfrespect.

THE AMMENDMENTS MADE IN THE SUGAR QUOTA LEGISLATION

During its life the American sugar quota system has undergone several changes, mainly designed, either to accomodate the growing appetite of the American sugar continental producers or to meet extraordinary circunstances.

With the exception of the changes embodied in the Sugar Act of 1948, which lasted only until 1956 (with some ammendments prejudicial to Cuba in 1951), all the changes made in the course of the years in the quota system have been to the prejudice of Cuba's position.

THE SUGAR ACT OF 1937

As has been mentioned earlier, the Sugar Act of 1937, wich substituted the original Jones-Costigan Act, confirmed, this time by an act of Congress, the "representative" period through which the Secretary of Agriculture had drastically reduced and then frozen Cuba's share in the United States market in 1934. Doing this by an act of Congress meant the consolidation of the "representative" period established by the Secretary of Agriculture three years earlier. Having abandoned any reference to the nine years selected in the Jones-Costigan Act, it was no longer possible, except by Congressional action, to change the basic period for Cuba's quota in order to give Cuba a real representative period (without quotation marks). Besides, Cuba's exports of refined sugar were limited to the fixed figure of 375,000 tons anuually, in contrast with the 22% of her overall quota that she could send to the United States in refined form under the Jones-Costigan Act. Under the provisions of the Jones-Costigan Act of 1934 and the Sugar Act of 1937, Cuban sugar was exported to the United States since 1934 to 1940. The record of the effectivenes of the "representative" period for freezing the volume of Cuban sugar exports is really impressive. The average of Cuban sugar exports during the "representative" period of 1931 to 1933 was 1.948,000 tons. The average from 1934 to 1940 was 1.939,000 tons.

CUBA'S RECORD DURING THE WAR

At the end of 1941 the quota system was suspended to meet the emergency created by the entrance of the United States in the

Second World War. The suspension of the quota system in order to make it possible for Cuba to increase rapidly and substantially her supplies to the American market, was the recognition that it was Cuba, and nobody else, the sure and safe source of supply. Cuba demonstrated with deeds that the admission of this fact was fully justified. In spite of the limitations to which her production had been forced by the limited quota on the one hand and the world wide sugar depression on the other, Cuba increased her shipments to the United States from 1.750,000 tons in 1940 to 2.700,000 tons in 1941, to nearly 3.000,000 tons in 1943 and more than 3¼ millions tons in 1944, as can be seen from Table II on page 28. Without taking into consideration the amounts of sugar shipped by Cuba to other Allied Countries in accordance with the share of scarce supplies decided upon by the Allies in the war, the average of Cuban exports to the United States during the war years was 2.850,000 tons including the years 1946 and 1947, still under the influence of the war. Cuba's share of the United States consumption rose to 41.3% as compared to the 28.8% that she had under the quota system.

These increased supplies were available to the United States by negotiated contracts covering the whole Cuban sugar crop and at prices much lower than Cuba could have obtained for its sugar in a world market suffering from an acute shortage of the product due to the destruction of crops in continental Europe, the Philippines and Java.

THE SUGAR ACT 1948

The Sugar Act of 1948, which reestablished the quota system after conditions in sugar production and trade were less abnormal, introduced several important changes in the quota system. Some of these changes were designed to meet purely temporary situations. By allotting to Cuba the Philippines deficit, the Sugar Act of 1948 assured to the United States the obtention of the supplies that were lacking from the Philippines, without at the same time depriving the Philippines of the opportunity to reconstruct her sugar industry and to recover her former position in the United States market. At the same time, Cuba could maintain through the supplying of such deficits, its production and exports at a level near to that reached in the previous years, avoiding in this way a drastic and sudden reduction of its production and exports.

On the other hand, the Sugar Act of 1948 changed the quotas for the American continental and insular areas from the percentage basis established by the 1937 Sugar Act –based on the "representative" period of 1934– to fixed quotas stated in absolute terms. The quotas for foreign countries including Cuba were given by the difference between the total of the domestic quotas plus the quota for the Philippines and total consumption.

The fixed quotas for the domestic areas were set practically at the highest level that they had reached before the war, except in the case of Porto Rico, which sufered a reduction.

The quotas fixed in 1948 for the domestic areas represented, therefore, the consolidation of the expansion that the insular areas and the Philippines had obtained under the protection fo the high tariff of 1930, and of the peak reached by the continental producers in 1939. Such peaks represented a considerable expansion obtained under the quota system, of 443,000 tons, equivalent to 32.4%, for the beet producers, and 272,000 tons, equivalent to 89.5%, for the mainland cane producers.

Although the 1948 Sugar Act confirmed such expansions, by establishing fixed quotas it seemed inspired in the purpose to put a stop to further increases of domestic production and to leave to the more efficient foreign suppliers, mainly Cuba, to fill whatever increases in consumption took place in the United States in future years. In this aspect the 1948 act came closer to what can be interpreted as the spirit of the original quota legislation, which, as we have seen, allowed for a real representative period for foreign suppliers. It came closer also to the spirit with which the original legislation was presented to the Congress by the President of the United States. In his message to Congress urging the sugar quota system legislation in February 8, 1934, the President stated: "I feel that we ought first to try out a system of quotas with the threefold object of keeping down the price of sugar to consumers, of providing for the retention of beet and cane farming within our continental limits, *and also to provide against further expansion of this necessarily expensive industry*". (Italics are ours).

By providing fixed quotas for the domestic areas and leaving the whole of the increases in consuptiom to be satisfied by the more efficient foreign supliers, the Sugar Act of 1948 not only came closer to what seemed to have been the spirit of the original legislation, but provided also a mechanism for correcting, in the course of time, the grave wrong done to Cuba by the "representative" period chosen by the Secretary of Agriculture in 1934 and confirmed in the Sugar Act of 1937. As the quotas for the domestic areas were fixed in absolute terms, their further expansion would have been prevented without reducing the level of production already attained by them. In fact it provided a wide margin of expansion from the much lower level to which American domestic production had fallen during the war and early postwar years. Actually, the beet producers did not reach the quota of 1.800,000 tons established for them in the 1948 Sugar Act, until the year 1954. By leaving to Cuba to fill the yearly increases in consumption, the 1948 Sugar Act made it possible for Cuba to expand her exports to the United States gradually to the extent that the increases in consumption allowed. In this way Cuba could also recover gradually a share in the American market more in conformity with Cuba's record before the imposition of the Hawley-Smoot Tariff and Cuba's record during the war and early postwar years.

But the victory of good sense and fair play represented by the 1948 Sugar Act was short-lived. Having reached in 1954, after six years of operation of the Act, the quota fixed for them, the domestic continental producers began pressing for new legislation in 1955. In 1956 a new legislation was passed that put the clock back again by fifteen years and reproduced in even worse form the wrongs of the early quota system.

THE SUGAR ACT 1956

Ignoring what was clearly the intention of the President in proposing the legislation in 1934, the new act went back to the system of the 1937 Sugar Act, and gave the domestic producers 55% of the yearly increases in consumption above the figure of 8.350,000 tons reached at that time. It reduced to only 45% the share of the increases in consumption to be supplied by foreign producers. Besides, the domestic areas were given priorities in the allocation of the deficits of any of them, leaving Cuba only as the last residual supplier of deficits, that is, when there was no other domestic area that could fill them.

As if these changes severly adverse to Cuba were not enough, several foreign countries, the economies of which de not depend so much as Cuba's does on the production of sugar, which never had been large regular suppliers of the United States and the production of which does not give the United States the absolute assurance and safety that it always has had from Cuba, were given increases in their quotas at the expense of Cuba.

Arguing on the basis that under the new Act the current amount of Cuba's sugar exports was not reduced, the advocates of the new legislation of 1956 either ignored or concealed the fundamental fact that by reducing Cuba's share in the increases in consumption to only 29%, they were depriving this country of the possibility that it had under the 1948 Act of gradually recovering a fair share of the market. They ignored the fact that figure of 29% meant the re-establishment of the "representative" period of 1934 as the normal and fair goal to which Cuba's share in the United States should aim. At present, because the provisions regarding the allocation of the increases in consumption starts only above a level of consumption of 8.350,000 tons, Cuba's actual share in the market is still today around 3.6%, but the philosophy and the mechanism of the Act is that as the increases in consumption take place, Cuba's share shall gradually be reduced back to 29%, that is, to the "representative" period figure.

THE PRICE OF SUGAR AND THE QUOTA SYSTEM

As been indicated earlier, the establishment of the quota system in the United States was designed to afford the American contineintal producers the protection from the competition of the insular areas and foreign suppliers that they did not obtain by means of the tariff.

The system operates to restrict the marketings and imports of the different areas, so that the less efficient producers may obtain their share of the market by governmental regulation as they could not do it on a free competitive basis. It is inherent in the nature of any quota system, therefore, to result in a price level higher than otherwise woud be the case, and so the sugar quota system in the United States has in fact resulted, except for limited periods of scarce supply in times of war, in a level of prices in the American market higher than in the world market.

There can be no doubt that the level of prices obtained at any given time in the United States market is in fact determined by administrative decisions of the United States Government. It is in fact a managed price. The system affords some short-term fluctuations and small regional diferences of price, but the limits of the fluctuations over any given period of time depend on the relationship existing between the consumption requirements of the market as estimated by the Secretary of Agriculture and the overall amount of supplies made available by him through the quotas. In economics does not exist such a thing as a volume of demand independent from any price level. Every given curve of demand exists for a given level of price. Therefore, when the Secretary of Agriculture establishes the estimate of requirements, he does so with a certain price level in mind, or in any case, the estimate in fact reflects or can be considered valid only for a given level of price, for if the estimate and therefore, the quota were larger, due to the inelasticity of the demand, the price would be considerably lower. In the United States the demand for sugar, due to the very high level of income of the American people, is extremely inelastic, a fact which facilitates the close management of the market through the regulation of supplies, as minor variations in price do not appreciable affect the demand.

By regulating the supplies available over a given period of time, the Secretary of Agriculture can, within narrow limits, determine the price level for sugar in the American market. If there were no quotas, the price level of sugar in the American market would be given by the f.a.s. world market price plus the cost of freight and insurance to U. S. ports and the amount of the tariff. The fact that the actual price has been generally (except in periods of scarcity) substantially higher than it should be, reflects only the fact that through the quota system efficient producers that sell sugar in the world market are being deprived of the greater share in the American market that they would obtain if there were no restrictions. The means that the quota system operates to afford protection, through a higher price level, to the American producers. The higher price existing in the American market is nothing else, therefore, than a compensation that the American consumer pays for maintaining a certain level of domestic sugar production. The amount of protection afforded to the American sugar producers is thus given by the amount of the tariff, the direct subsidy paid every year to them by the United States Treasury, and the excess of the American price over the world price plus the duty.

If there were no quota system the foreign supplies would increase, the price will go down and this would undoubtedly put out of business the greater part of American sugar production both in the continental and the insular areas, unless the tariff were raised to very high levels. There can be no doubt, therefore, that the quota system is essentially designed to protect the American producers from foreign and more efficient suppliers. It is for this purpose, and only for this purpose, that the American Government makes the American consumer pay a higher price for the sugar it gets.

The basic claim that is continuously made in the United States for justifying the position given to Cuba in the American market, is that Cuba also benefits from the higher price level achieved through the quota system. With this argument it is felt by many good-faith Americans that a full justification is given for the treatment accorded to Cuba within the quota system and which has been described in this pamphlet.

This is a basic point on which it is essential to throw a clear light.

As has been indicated earlier, it seems that nobody in good faith can deny the fact that the quota system was established and is operated for the main purpose of affording protection to the American sugar producers. This, however, does not in itself invalidate the claim that Cuba also benefits from the higher price that the quota system achieves in the American market. The fact that a given course of action is taken with a certain given purpose does not invalidate advantages that other parties may derive from it.

Leaving therefore completely aside the question of the aim or purpose of the quota system, let us look at the claim that Cuba benefits from the higher price.

If the claim were made just on those terms, that is, that as a matter of fact Cuba obtains for her sugar in the American market the higher price resulting from the quota system, there would be nothing that Cuba would have to say in this respect, as the fact is an indisputable one.

When the claim is presented, however, as if the higher price obtained by Cuba were a bonus of free gift that the United States gracefully hands out to Cuba, then there is much to say in that respect.

The first and absolutely fundamental point to be made here is that the price of Cuban sugar in the American market cannot be viewed in isolation from the reductions suffered by Cuba's share in the market and from the concessions and advantages that Cuba has granted to the United States on the importation of American products.

A bonus or gift could be claimed to exist if having accorded to Cuba a share of the American market in accordance with a real representative period, reflecting therefore the share that Cuba could obtain on a competitive basis, still, for the amount of sugar representing that share, Cuba were obtaining the higher price which results from the operation of the quota system. But when it is taken into consideration the way and extent to which Cuban sugar was displaced from the American market, that her reduced share was frozen at that very low level, and the fundamental adverse change that this represented in relation to the increased share of American exports in the Cuban market, achieved through the tariff and preferential advantages granted by Cuba to the United States, then the higher price obtained by Cuba in the United States is only a compensation, and perhaps not a full one, for the reduction that the quota system imposed on the amount of sugar that Cuba may market in the United States and the lack of balance produced thereby in the general commercial relationships between the two countries.

In the first place, therefore, and this is the fundamental consideration from the Cuban point of view, there is no bonus or free gift. If besides having had the amount of sugar that Cuba can market in the United States severely reduced and limited, the United States were to pay Cuba, through any device, a price lower than that resulting from the quota system and which is paid to American producers and other foreign suppliers besides Cuba, in that case Cuba would be the victim of one of the worst crimes ever committed in the history of commercial relations between countries.

Aside from the fundamental point just made, the argument of the bonus or free gift does not withstand a close examination.

The United States sugar quota system is perhaps the only example of an agricultural price support scheme that has resisted the hard test of successful operation throughout many years without breaking down under the impacts of the basic contradiction inherent, in one form or another, in every price support scheme.

American public officials, both in the Administration and in Congress, have on many accasions proudly referred to the successful operation of the quota system. They point out that under the system price fluctuations have been rather minor; that the American consumer pays for sugar a price lower than in a great many countries and not higher than in most large consuming countries and that except for periods of disruption by war, the American consumer never lacked ample supplies at that moderate price.

It may seem to be a contradiction between these statements and the fact mentioned earlier that under the quota system the American price is substantially higher than the world price. The contradiction undoutedly exists if the statement about the price were made in relation to the price that would exits under conditions of free trade or very liberal commercial palicy. But when the statement is made in the context of a large consuming country that affords protection to an inefficient domestic industry, the contradiction disappears. In such a context there is no doubt that the American quota system is a relatively efficient scheme.

But the aspect that is almost always forgotten is that the American quota system can work the way it does because it has a unique advantage: the larger, surer, more efficient supplier, who really makes the efficient regulation of the market possible, is a foreign country, namely, Cuba. This means that from the American point of view the system is free from the fundamental contradiction inherent in every price support scheme.

The cumulative increases in production that every price support scheme inevitably leads to and which inevitably results in the accumulation of unsalable surpluses, is absent in the American sugar quota system because, in the first place, the foreign supplier cannot increase its marketings in response to the price. It is only the domestic producer who can, from time to time, through changes in the sugar legislation, expand its production under the stimulus of the managed price. In the second place, it is mainly the foreign supplier, Cuba, the one that suffers any reduction of marketings that may be necessary to keep the market on an even keel. In the third place, it is again the foreign supplier, Cuba, who carries the burden of financing, year after year, the stocks neccessary to meet any failure of production in other supplying areas or sudden increases in demand. In the fourth place, that foreign supplier has proven many times to have a tremendous capacity for increasing production at short notice when needed and go back again to lower levels of production when the emergencies are passed. Lastly, that foreign supplier has not abused of its dominant position in times of war and scarcity, and has sold the product to the United States at a price much lower than the demand-supply position would have made possible at such times. With a regulator of such characteristics, foreign to the United States, but very close to its shores, it is no surprise that the system work wonderfully. It is not for Cuba to give advice to the United States, but we dare modestly to suggest proper reflection by the American Government and the American people upon the value of their sugar market regulator.

This value of Cuba as the regulator of the American sugar market has a direct bearing on the claim that Cuba gets a gift through the higher price in the United States. Even with the stimulus of the higher price, the tariff and the subsidy, the American continental producers have not been impressively successful in filling the quotas accorded to them under the sugar legislation. Of the insular areas, both Porto Rico and Hawaii have clearly reached the limits of their capacity as sugar producers, except for very minor increases in productivity. If the United States were to depend for their sugar supplies on the insufficient, inefficient and unstable production of Mexico, of the far-off Brazil and the Philippines, it seems that they would be giving up a fundamental piece of the machinery of the quota system. On the other hand, if in order not to depend on the unstable and far-off suppliers mentioned above, the United States were to very substantially increase their own domestic continental production, as sometimes it is boldly suggested, the price that the American consumer pays today for sugar would look very low indeed in retrospect.

As we have seen before, the higher price that Cuba gets in the American market compared to the world market is not a free gift in any sense. It seems evident also that because of Cuba and the role she plays in the American quota system, the American consumer has always an assurance of ample supplies at stable and moderate prices that he will not have otherwise. Whether this contribution of Cuba has an economic value that should be explicitly recognized we leave to the American people to decide.

TABLE I

UNITED STATES TRADE WITH CUBA

1901 - 1958

(MILLIONS OF DOLLARS)

Year	*EXPORTS (Including Re-exports)*	*Imports*	*Trade Balance*
1901	27.0	46.7	— 19.7
1902	23.1	48.6	— 25.5
1903	23.5	57.2	— 33.7
1904	32.6	75.0	— 42.4
1905	44.6	.95.9	— 51.3
1906	46.5	85.1	— 38.6
1907	52.5	92.4	— 39.9
1908	42.5	79.1	— 36.6
1909	48.2	107.3	— 59.1
1910	57.8	127.8	— 70.0
1911	62.3	106.1	— 43.8
1912	65.2	137.9	— 72.7
1913	73.2	125.1	— 51.9
1914	67.9	146.8	— 78.9
1915	95.8	197.5	— 101.7
1916	164.7	243.7	— 79.0
1917	195.9	248.5	— 52.6
1918	227.2	278.6	— 51.4
1919	278.4	418.6	— 140.2
1920	515.2	721.7	— 206.5
1921	187.7	230.4	— 42.7
1922	127.9	267.8	— 139.9
1923	192.4	376.4	— 184.0
1924	199.8	361.7	— 161.9
1925	198.7	261.7	— 63.0

Year	EXPORTS (Including Re-exports)	Imports	Trade Balance
1926	160.5	250.6	— 90.1
1927	155.4	256.8	— 101.4
1928	127.9	202.8	— 74.9
1929	128.9	207.4	— 78.5
1930	93.6	121.9	— 28.3
1931	47.0	90.1	— 43.1
1932	28.8	58.3	— 29.5
1933	25.1	58.5	— 33.4
1934	45.3	78.9	— 33.6
1935	60.1	104.3	— 44.2
1936	67.4	127.5	— 60.1
1937	92.3	148.0	— 55.7
1938	76.3	105.7	— 29.4
1939	81.6	104.9	— 23.3
1940	84.7	105.4	— 20.7
1941	125.8	181.1	— 55.3
1942	133.2	161.0	— 27.8
1943	133.9	291.8	— 157.9
1944	167.4	387.0	— 219.6
1945	195.7	337.6	— 141.9
1946	271.8	324.4	— 52.6
1947	491.8	509.6	— 17.8
1948	441.0	375.0	66.0
1949	380.3	387.5	— 7.2
1950	456.2	406.4	49.8
1951	539.8	417.8	122.0
1952	515.9	439.8	76.1
1953	426.6	431.0	— 4.4
1954	435.1	402.0	33.1
1955	458.5	422.6	35.9
1956	519.1	457.5	61.6
1957	618.0	482.4	135.6
1958	546.2	528.5	17.7

Source: United States Department of Commerce.

TABLE II

ENTRIES AND MARKETINGS OF SUGAR IN CONTINENTAL UNITED STATES FROM ALL AREAS, 1901-58

(1,000 SHORT TONS, RAW VALUE)

		Continental U.S. [2]						Total American Areas and Philipines Republic		
Year [1]	Total	Beet	Mainland Cane	Hawaii	Puerto Rico	Virgin Islands	Philip-pines		Cuba	Other Foreign Countries
1901	2,963	198	364	345	69	n.a.	2	978	550	1,435
1902	2,574	233	373	360	92	n.a.	6	1,064	492	1,018
1903	3,143	258	278	387	113	n.a.	9	1,045	1,198	900
1904	3,023	259	415	368	130	n.a.	31	1,203	1,410	410
1905	3,118	335	390	416	136	n.a.	39	1,316	1,029	773
1906	3,359	518	273	373	205	n.a.	35	1,404	1,391	564
1907	3,701	496	394	411	204	n.a.	13	1,518	1,618	565
1908	3,331	456	415	539	235	n.a.	19	1,664	1,155	512
1909	3,730	548	332	511	244	n.a.	42	1,677	1,431	622
1910	3,789	546	355	555	285	n.a.	88	1,829	1,755	205
1911	3,801	642	361	506	323	n.a.	115	1,947	1,674	180
1912	3,927	742	163	603	367	n.a.	218	2,093	1,593	241
1913	4,382	784	301	543	383	n.a.	102	2,113	2,156	113
1914	4,431	773	247	557	321	n.a.	58	1,956	2,463	12
1915	4,718	935	139	640	294	n.a.	163	2,171	2,392	155
1916	5,000	878	311	569	425	n.a.	109	2,292	2,575	133
1917	4,808	819	246	581	489	6	134	2,275	2,335	198
1918	4,430	814	285	540	336	4	87	2,066	2,280	84
1919	5,352	777	122	579	364	10	88	1,940	3,343	69
1920	6,337	1,165	176	550	413	13	146	2,463	2,881	993
1921	5,412	1,091	327	541	469	6	165	2,599	2,590	223
1922	6,807	722	296	568	360	6	275	2,227	4,527	53
1923	5,831	943	172	519	342	2	238	2,216	3,426	189
1924	6,463	1,166	90	677	393	2	339	2,667	3,692	104
1925	6,934	977	142	755	600	11	493	2,978	3,923	33
1926	7,024	960	48	747	559	6	380	2,700	4,280	44
1927	6,809	1,170	72	777	574	6	531	3,130	3,650	29
1928	6,691	1,135	136	878	674	11	575	3,409	3,249	33
1929	7,587	1,089	218	882	507	3	711	3,410	4,149	28
1930	6,683	1,293	215	868	809	6	794	3,985	2,645	53

Year [1]	Total	Continental U.S. [2] Beet	Continental U.S. [2] Mainland Cane	Hawaii	Puerto Rico	Virgin Islands	Philippines	Total American Areas and Philipines Republic	Cuba	Other Foreign Countries
1931	6,727	1,343	206	998	796	2	872	4,217	2,482	28
1932	6,303	1,319	160	1,048	940	5	1,028	4,500	1,791	12
1933	6,331	1,366	315	990	793	5	1,249	4,718	1,573	40
1934	6,574	1,562	268	948	807	5	1,088	4,678	1,866	30
1935	6,277	1,478	319	927	793	2	917	4,436	1,830	11
1936	6,833	1,364	409	1,033	907	4	985	4,702	2,102	29
1937	6,860	1,245	491	985	896	8	991	4,616	2,155	89
1938	6,619	1,448	449	906	815	4	981	4,603	1,941	75
1939	7,466	1,809	587	966	1,126	6	980	5,474	1,930	62
1940	6,443	1,550	406	941	798	0	981	4,676	1,750	17
1941	8,009	1,952	411	903	993	5	855	5,119	2,700	190
1942	5,555	1,703	407	751	836	0	23	3,720	1,796 [3]	39
1943	6,466	1,524	460	866	642	3	0	3,495	2,857 [3]	114
1944	6,942	1,155	515	802	743	3	0	3,218	3,618 [3]	106
1945	5,997	1,043	417	740	903	4	0	3,107	2,803 [3]	87
1946	5,657	1,379	445	633	867	5	0	3,329	2,282 [3]	46
1947	7,759	1,574	383	842	969	3	0	3,771	3,943 [3]	45
1948	7,084	1,656	456	714	1,013	4	252	4,094	2,927	62
1949	7,588	1,487	557	769	1,091	4	525	4,434	3,103	52
1950	8,279	1,749	522	1,145	1,053	11	474	4,950	3,264	61
1951	7,758	1,730	457	941	959	6	706	4,802	2,946	13
1952	7,991	1,560	579	972	983	6	860	4,934	2,980	51
1953	8,282	1,749	513	1,087	1,118	12	932	5,417	2,760	111
1954	8,240	1,802	501	1,040	1,082	10	974	5,409	2,718	113
1955	8,396	1,797	500	1,052	1,080	10	977	5,416	2,862	118
1956	8,995	1,955	601	1,091	1,135	13	982	5,777	3,091	127
1957	8,921	2,066	636	1,037	912	15	906	5,572	3,131	218
1958	9,087	2,235	690	630	824	6	980	5,365	3,441 [4]	281

Source: United States Department of Agriculture.

[1] Data on fiscal year basis 1901-1918; calendar year basis 1919-1958.

[2] Crop year production 1901-1930.

[3] Does not include sugar imported into the United States for foreign claimants (1942, 144,000 tons; 1943, 446,000 tons; 1944, 262,000 tons; 1945, 337,000 tons; 1946, 368,000 tons; 1947, 230,000 tons) nor the sugar equivalent of invert molasses made at the request of the United States (1942, 717,000 tons, sugar equivalent; 1944, 908,000 tons, sugar equivalent).

[4] Includes the supply of large deficits of Hawaii.

TABLE III

CUBAN AMERICAN TRADE

1901 - 1958

Year	(1) Entries and Marketings in Continental United States (1,000 short tons. raw value) Cuba	(2) Total	(3) % (1) (2)	(4) Cuban Imports (Millions of Dollars) From United States	(5) Total	(6) % (4) (5)
1901	550	2,963	18.56	27.0	66.3	40.72
1902	492	2,574	19.11	23.1	60.6	38.12
1903	1,198	3,143	38.12	23.5	63.5	37.01
1904	1,410	3,023	46.64	32.6	77.0	42.34
1905	1,029	3,118	33.00	44.6	95.0	46.95
1906	1,391	3,359	41.41	46.5	98.0	47.45
1907	1,618	3,701	43.72	52.5	104.5	50.24
1908	1,155	3,331	34.67	42.5	85.2	49.88
1909	1,431	3,730	38.36	48.2	91.4	52.74
1910	1,755	3,789	46.32	57.8	103.7	55.74
1911	1,674	3,801	44.04	62.3	113.1	55.08
1912	1,593	3,927	40.57	65.2	123.2	52.92
1913	2,156	4,382	49.20	73.2	140.1	52.25
1914	2,463	4,431	55.59	67.9	118.2	57.45
1915	2,392	4,718	50.70	95.8	140.9	67.99
1916	2,575	5,000	51.50	164.7	216.0	76.25
1917	2,335	4,808	48.56	195.9	256.1	76.49
1918	2,280	4,430	51.47	227.2	294.6	77.12
1919	3,343	5,352	62.46	278.4	356.6	78.07
1920	2,881	6,337	45.46	515.2	557.0	92.50
1921	2,590	5,412	47.86	187.7	354.4	52.96
1922	4,527	6,807	66.51	127.9	180.3	70.94
1923	3,426	5,831	58.75	192.4	268.9	71.55
1924	3,692	6,463	57.13	199.8	289.8	68.94
1925	3,923	6,934	56.58	198.7	297.3	66.83
1926	4,280	7,024	60.93	160.5	260.8	61.54
1927	3,650	6,809	53.61	155.4	257.4	60.37
1928	3,249	6,691	48.56	127.9	212.8	60.10
1929	4,149	7,587	54.69	128.9	216.2	59.62
1930	2,645	6,683	39.58	93.6	162.5	57.60

Year	(1) Entries and Marketings in Continental United States (1,000 short tons, raw value) Cuba	(2) Total	(3) % (1) (2)	(4) Cuban Imports (Millions of Dollars) From United States	(5) Total	(6) % (4) (5)
1931	2,482	6,727	36.90	47.0	80.1	58.68
1932	1,791	6,303	28.42	28.8	51.0	56.47
1933	1,573	6,331	24.85	25.1	42.4	59.20
1934	1,866	6,574	28.38	45.3	73.4	61.72
1935	1,830	6,277	29.15	60.1	95.5	62.93
1936	2,102	6,833	30.76	67.4	103.2	65.31
1937	2,155	6,860	31.41	92.3	130.8	70.57
1938	1,941	6,619	29.32	76.3	108.1	70.58
1939	1,930	7,466	25.85	81.6	114.4	71.33
1940	1,750	6,443	27.16	84.7	116.1	72.95
1941	2,700	8,009	33.71	125.8	137.8	91.29
1942	1,796	5,555	32.33	133.2	146.7	90.80
1943	2,857	6,466	44.18	133.9	177.4	75.48
1944	3,618	6,942	52.11	167.4	208.6	80.25
1945	2,803	5,997	46.74	195.7	238.9	81.92
1946	2,282	5,657	40.34	271.8	300.2	90.54
1947	3,943	7,759	50.82	491.8	519.9	94.60
1948	2,927	7,084	41.32	441.0	527.5	83.60
1949	3,103	7,588	40.89	380.3	451.4	84.25
1950	3,264	8,279	39.43	456.2	515.1	88.57
1951	2,946	7,758	37.93	539.8	640.2	84.32
1952	2,980	7,991	37.29	515.9	618.3	83.44
1953	2,760	8,282	33.33	426.6	489.7	87.11
1954	2,718	8,240	32.99	435.1	487.9	89.18
1955	2,862	8,396	34.09	458.5	576.3	79.56
1956	3,091	8,995	34.36	519.1	650.6	79.79
1957	3,130	8,921	35.09	618.0	786.6	78.57
1958	3,441 (6)	9,087	37.87 (6)	546.2	777.1	70.29

Sources: (1) (2) United States Department of Agriculture.
(4) United States Department of Commerce.
(5) Ministry of Finance, Cuba.
(6) Reflects the supply of large deficits of Hawaii.

PRINTED IN CUBA
CULTURAL, S. A.