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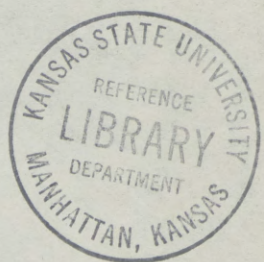
NOMINATION FOR GOVERNOR OF THE VIRGIN ISLANDS

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HEARINGS BEFORE THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS UNITED STATES SENATE EIGHTY-SEVENTH CONGRESS FIRST SESSION ON THE NOMINATION OF RAPHAEL M. PAIEWONSKY TO BE GOVERNOR OF THE VIRGIN ISLANDS

MARCH 10, 11, AND 14, 1961

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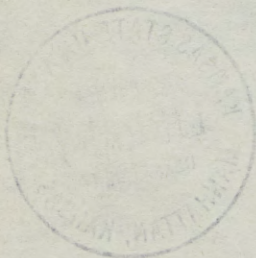
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NOMINATION FOR GOVERNOR OF THE VIRGIN ISLANDS

FRIDAY, MARCH 10, 1961

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in room 3110, New Senate Office Building, Hon. Clinton P. Anderson (chairman) presiding.

Present: Senators Clinton P. Anderson (New Mexico); Henry M. Jackson (Washington); John A. Carroll (Colorado); Ernest Gruening (Alaska); Frank E. Moss (Utah); Oren E. Long (Hawaii); Quentin N. Burdick (North Dakota); J. J. Hickey (Wyoming); Henry Dworshak (Idaho); Gordon Allott (Colorado); Hiram L. Fong (Hawaii); and Jack Miller (Iowa).

The CHAIRMAN. This is an open public hearing on the nomination of Raphael M. Paiewonsky to be Governor of the Virgin Islands. Mr. Paiewonsky's first name is popularly abbreviated to "Ralph."

If confirmed, Mr. Paiewonsky will succeed Hon. John Merwin, who was appointed by President Eisenhower in 1958 as Governor of the Virgin Islands. I am happy to see that Mr. Paiewonsky, like Mr. Merwin, is a native of the islands.

The Department of the Interior, as is customary in cases such as these, has submitted a biographical sketch of Mr. Paiewonsky. This biographical material is before each member of the committee, but so that it may be a part of the permanent record, I will direct that its text be inserted in the hearing record at this point.

(The biographical sketch referred to follows:)

BIOGRAPHICAL SKETCH OF RALPH PAIEWONSKY

Birthplace: St. Thomas, U.S. Virgin Islands.

Date of birth: November 9, 1907.

Religion: Hebrew.

Marital status: Married.

Children: Two.

Education:

Attended Catholic School, St. Thomas, V.I., 1913-20 (school closed).

Worked at Navy Supply Office, St. Thomas, V.I., 1920-23.

Graduated Alexander Hamilton High School, Brooklyn, N.Y., 1927.

Graduated New York University, B.S. degree in science chemistry, 1930.

Business career:

1930: Entered family business in St. Thomas. Principal duties: manager of St. Thomas Apothecary Hall (drugstore).

1932: Engaged in extensive research with sea water fermentation from which rum distillation process developed, which is present foundation of the rum industry in the Virgin Islands.

1933: Appointed manager of A. H. Riise Distilling Co. Elected president 1949 and continued in that capacity to date.

1948: Elected president Appollo Theater, Inc., and Center Theater, Inc., builders, owners, and operators of St. Thomas' largest theater. Serving in that capacity to date.

1949: Elected president of A. H. Riise, Inc., a family-owned corporation whose activities include A. H. Riise Liquor Store, A. H. Riise Gift Shop, stationery store, drugstore, restaurant, bakery, and extensive real estate. All located in St. Thomas.

1954: Together with other Virgin Island residents, organized West Indies Bank & Trust Co., which opened for business on December 1, 1954, in St. Thomas and expanded into four branches in all three Virgin Islands. Served as member of board of directors and chairman of executive committee. Also served as vice president until bank was acquired by Chase Manhattan Bank in 1959.

1954: Organized with others West Indies Insurance Co. Member of its board of directors and president from 1954 to 1958. Sold to a Florida concern.

1954: Organized with others West Indies Investment Corp. Served as its president 1954 to 1958. Member of board of directors 1954 to 1960. Important real-estate development in St. Croix and St. Thomas, V.I.

Political:

1936: Became active in local politics, member of People's Party on local level and elected to the Municipal Council of St. Thomas and St. John, V.I. Also organized Democratic Club for participation in national politics.

1936 to 1946: Served five terms as a member of the St. Thomas and St. John Municipal Council, an elected office equivalent to Virgin Islands Legislature. Member of municipal committee and later its chairman. Chairman of municipal council and chairman of Legislative Assembly of the Virgin Islands.

1940, 1944, 1948, 1952, 1956, and 1960: Attended Democratic National Convention as a delegate from the Virgin Islands.

1940 to 1960: Served as Democratic national committeeman for the Virgin Islands.

1939: Elected as a member of a delegation to present needs of the Virgin Islands to Congress. Also member of several subsequent delegations to Congress. Testified before many congressional committees on behalf of Virgin Islands.

1959 to 1960: Member of special tax committee for chamber of commerce and Virgin Islands Legislature to present Virgin Islands case re tax legislation before Congress.

1952 to 1960: Member of Virgin Islands' Senate's Organic Act Advisory Committee. Also member of Citizens' Advisory Committee for Home Rule.

1958 to 1960: Appointed adviser to legislature to Caribbean Commission by Governor.

1960: Appointed to Governor's Advisory Committee on Tourism and Trade. Was elected by its members as general chairman.

1960: Elected president of Virgin Islands Board of Trade.

1958 and 1960: Chairman of Jackson-Jefferson Day dinners for fund raising for Virgin Islands.

1960: Honorary member inaugural rule committee.

Memberships: St. Thomas Democratic Club; Democratic Capital Club (charter member), Washington D.C.; Order of Free and Accepted Masons (32d degree); Order of the Shriners; and 750 Club.

The CHAIRMAN. As will be seen from his biography, Mr. Paiewonsky has held high elective positions. He served in the St. Thomas Legislative Council for several years. He has also been a leader in civic affairs, and is a successful businessman in the islands.

The committee has received a large number of communications regarding Mr. Paiewonsky's nomination as Governor, including several petitions signed by many Virgin Islanders. These petitions and the great proportion of the communications are overwhelmingly in support of confirmation. Among the endorsements are those of the legislature, the chambers of commerce, and various citizens' groups. How-

ever, the committee has also received some communications opposing confirmation, and one Virgin Islands businessman has come here to appear personally in opposition.

I will direct that these communications, both for and against confirmation, be incorporated by reference in these hearings. They are a part of the official record. I will also direct that various editorials appearing in Virgin Islands newspapers be held in the committee files and made a part of these hearings by reference.

We have a number of witnesses to hear, including a representative of the Secretary of the Interior, the Honorable John Carver, Assistant Secretary of the Interior, the president of the Virgin Islands Legislature, Hon. Walter Hodge, and a former Governor of the Virgin Islands, Hon. Morris de Castro. Our first witness will be Mr. Carver.

Mr. Secretary, we are happy to have you with us again.

I may say now, before we start, that it may be, during the course of this hearing, that members of the committee will desire to have an executive session with Mr. Paiewonsky because of material that has been circulated and printed about him. If so, that will be done. Such procedure is not usual, but it may be done in this instance.

Go ahead, Mr. Carver.

Senator DWORSHAK. Mr. Chairman, are you not going to have Mr. Paiewonsky appear?

The CHAIRMAN. Oh, yes. He is here and is swinging his bat ready to go to the plate.

STATEMENT OF HON. JOHN A. CARVER, ASSISTANT SECRETARY OF THE INTERIOR

Mr. CARVER. Mr. Chairman, members of the committee, on behalf of the Secretary of the Interior, and as the Assistant Secretary who has supervision over the Office of Territories, it is my pleasure this morning to present to the committee the Honorable Raphael Paiewonsky of the Virgin Islands, who has been nominated by President Kennedy to be Governor of the Virgin Islands.

The biographical sketch which is before each member of the committee details his long association in the Virgin Islands and his important public service there.

Without any further ado, it is my great pleasure to introduce to the committee the Honorable Ralph Paiewonsky.

The CHAIRMAN. Mr. Paiewonsky, I am happy to have you here as President Kennedy's nominee, and have you appear and answer questions by members of the committee.

I assume you have some sort of a statement you would like to make. But at the very outset, I would want to say that there have been people who have suggested that there is a conflict of interest in your ownership of some rum businesses and other enterprises and properties in the Virgin Islands, and I think the first thing you might do, if you desire, is to straighten out the conflict-of-interest question, if you wish to do so.

If you desire to go ahead and make a general statement prior to doing that, you may do so. You may take your choice. But I think this is a crucial question, and one that we would like to have you answer as quickly as you can.

STATEMENT OF RAPHAEL M. PAIEWONSKY

Mr. PAIEWONSKY. Thank you very much, Mr. Chairman.

I anticipated this question, since the issue of conflict of interest has arisen. I know there have been several newspaper articles and communications to your committee. I have prepared a statement which, with your indulgence, I would like to read, now, which covers this point and maybe several of the other points.

The CHAIRMAN. I hope the members of the committee, if they have questions, will feel perfectly free to interrupt at any point and ask questions, because it is probably easier to do it as he reads it than it is to go back to it at a later time.

Mr. PAIEWONSKY. Having in mind the interest of your committee in possible conflict-of-interest problems, I have prepared a list of my business holdings in the Virgin Islands.

To avoid any possible misunderstanding, let me make it clear that this also shows the holdings of my family in the Virgin Islands—my parents and my brother.

This list shows two corporations that do business with the Virgin Islands Corporation—VICORP. VICORP operates under an act of Congress passed in 1949, which was extended in 1959 for another 10-year period (48 U.S.C. 1407).

The A. H. Riise Chemical & Distillers Corp. buys molasses from VICORP.

These purchases are governed by a long-term contract for the duration of VICORP (1969), with fixed quantities and a definite formula for determining price.

But this situation will not present any conflict-of-interest problem for the reason that my family and I are disposing of all our stock in this corporation to an outside interest.

The CHAIRMAN. Is that an outright sale, or is it some trustee agreement?

Mr. PAIEWONSKY. It is an outright sale in exchange for stock of this large corporation, and the arrangement is covered in my statement.

My portion of the stock will be placed into a trust agreement, either for sale within a year, or for exchange for mutual shares in a very large investment trust.

The CHAIRMAN. But as far as the transaction on your stockownership in the distilling company is concerned, your shares will be sold completely?

Mr. PAIEWONSKY. Yes, sir.

We will also dispose of all of our stock in Consolidated Distillers, Ltd., either by sale to the purchaser buying the stock in Riise Chemical & Distillers or by sale to the other stockholders in Consolidated, or by liquidation.

The West Indies Investment Corp. is not a family company. I own 7 percent of the stock and my brother owns about 2 or 3 percent of the stock. We are neither officers nor directors, although I formerly acted as an officer, without salary, primarily as a means of signing checks in the absence of the active officer.

Senator BURDICK. Mr. Chairman, may I ask a question at this point?

The CHAIRMAN. Senator Burdick.

Senator BURDICK. The West Indies Investment Corp. has an authorized capital of \$1 million?

Mr. PAIEWONSKY. Approximately, yes.

Senator BURDICK. And in 1958 it had a tangible net worth of \$896,000. And your interest in it is 7 percent?

Mr. PAIEWONSKY. Seven percent.

Senator BURDICK. Have you disposed of that stock?

Mr. PAIEWONSKY. I have made arrangements for doing so.

Senator BURDICK. To a third person?

Mr. PAIEWONSKY. To an outsider.

Senator BURDICK. You will have no further interest in the West Indies Investment Corp.?

Mr. PAIEWONSKY. That is correct, sir.

Senator BURDICK. Thank you.

Senator MILLER. Could I go back to the paragraph immediately preceding No. 3?

As I understand, you are selling this stock by an outside interest to a large corporation?

Mr. PAIEWONSKY. Yes, the distillery; to one of the large distilleries. And the percentage of shares that I will receive in return may be 2 percent or 3 percent or a half of 1 percent of the large company.

The CHAIRMAN. You say it will be 2 percent, 3 percent, or a half of 1 percent. That is too much. Will it be 1 percent, or less than 1?

Mr. PAIEWONSKY. I am coming to the part here; on page 5: Again, as a result of the disposition of our shares in A. H. Riise Chemicals & Distillers, my brother and I each will receive shares amounting to less than one-half of 1 percent of the stock of a large national distiller.

Senator ALLOTT. Who is the large national distiller?

Mr. PAIEWONSKY. The Schenley Corp.

Senator MILLER. When you refer to "this corporation," then, you are referring to Riise Chemical?

Mr. PAIEWONSKY. Riise Chemical & Distillers Corp.

Senator MILLER. Do you have any interest in VICORP?

Mr. PAIEWONSKY. It is a U.S. Government corporation, sir. As a citizen, and one doing some business with it, I am interested in it, in its operation.

The CHAIRMAN. It is wholly owned by the Government?

Mr. PAIEWONSKY. It is wholly owned by the Government.

The CHAIRMAN. It is a corporation originally established for the purpose of reviving the economy down there, sort of an RFC arrangement that was set up to operate in the islands under Federal charter.

Senator MILLER. Who are the officers of VICORP?

Mr. PAIEWONSKY. It is provided by law that a Board of Directors consisting of the Secretary of the Interior, the Secretary of Agriculture, the Small Business Administrator, the Governor of the Virgin Islands, and three directors selected or appointed for a period of 5 years at alternate periods.

Senator MILLER. You say the Governor of the Virgin Islands is also a member?

Mr. PAIEWONSKY. He is one of seven members of the Board. This is provided by law, under congressional enactment.

Senator MILLER. And you would become a member of the board of VICORP, if you were Governor?

Mr. PAIEWONSKY. I automatically would become a member of the Board.

Senator BURDICK. Mr. Chairman, another question.

Will any member of your family have any interest or stock in the West Indies Investment Corp.?

Mr. PAIEWONSKY. My brother has approximately 2 percent, which he has agreed to dispose of.

Senator BURDICK. Any other member of your family?

Mr. PAIEWONSKY. No other member of my family.

Senator BURDICK. Will your brother or any other member of your family have any stock in the Riise Chemical?

Mr. PAIEWONSKY. Yes; we have; but we are disposing of that 100 percent.

Senator MILLER. I cannot hear the answer.

Mr. PAIEWONSKY. The A. H. Riise Chemical & Distillers Corp. is a family corporation owned by the members of the family, and this is a 100-percent sale to the large distiller in the United States. The entire family is disposing of its holdings.

The CHAIRMAN. The answer to Senator Burdick's question, then, is that the entire ownership of the family in that corporation will be sold?

Mr. PAIEWONSKY. Yes. The answer is "Yes."

Senator BURDICK. Do you have a buyer for it?

Mr. PAIEWONSKY. Yes, sir.

Senator BURDICK. And there will be no interest whatever remaining in your family?

Mr. PAIEWONSKY. None whatsoever, sir.

Senator BURDICK. And does that corporation have a net worth of about \$451,000?

Mr. PAIEWONSKY. The Riise Chemical & Distillers Corp.?

Senator BURDICK. Yes.

Mr. PAIEWONSKY. It is much more than that, sir.

The CHAIRMAN. More than that?

Mr. PAIEWONSKY. More than that, yes, sir.

Senator BURDICK. That is all.

The CHAIRMAN. Proceed, please.

Mr. PAIEWONSKY. The West Indies Investment Company has a management contract with VICORP to plant and harvest sugarcane on two of the estates belonging to the company. This contract was entered into at the request of VICORP—which wanted to assure sufficient cane for VICORP's mill to operate. This contract is primarily an accommodation to VICORP, and is not part of the real business purpose of the company. Thus far, indeed, it has meant a loss to the company.

Here, again, to avoid any possible conflict-of-interest problem, I will dispose of my interest to an outsider, and my brother has assured me that he will do the same.

As for the rest of my holdings in the Virgin Islands, they consist of a part of the Paiewonsky family holdings: certain real estate; two theaters; certain retail stores. Of course, I would discontinue all compensation for services from any of these interests, or indeed from

any other interest, while I am Governor of the Virgin Islands if confirmed. That is a full-time job.

Senator BURDICK. Mr. Chairman?

The CHAIRMAN. Senator Burdick.

Senator BURDICK. Is one of the theaters owned by Apollo Theater, Inc.?

Mr. PAIEWONSKY. Yes, sir.

Senator BURDICK. Do you have stock in it at this time?

Mr. PAIEWONSKY. I have stock; approximately 16 percent interest in the operating company. We do not own the real estate. We just have the operating company.

Senator BURDICK. And who owns the rest of the stock?

Mr. PAIEWONSKY. It is owned by other members of the family and one outsider.

Senator BURDICK. Are you disposing of that stock, too?

Mr. PAIEWONSKY. No. I do not believe there is a conflict of interest in the motion picture theater.

Senator BURDICK. I just want an answer.

Mr. PAIEWONSKY. No.

Senator BURDICK. You are not disposing of that stock, nor is any member of your family?

Mr. PAIEWONSKY. No.

Senator BURDICK. Is the Center Theater, Inc., another theater in the town that you have an interest in?

Mr. PAIEWONSKY. Yes.

Senator BURDICK. And is that owned totally by you and your family?

Mr. PAIEWONSKY. The Center Theater is owned by myself and family, yes.

Senator BURDICK. Do you or your family intend to dispose of that stock?

Mr. PAIEWONSKY. No, we are not contemplating that, sir.

Senator BURDICK. How many theaters are there in St. Thomas? I presume that is where these are located.

Mr. PAIEWONSKY. These are located in St. Thomas. One is a modern air-conditioned theater. The other is a second-run theater.

Senator BURDICK. How many other theaters are there in the city?

Mr. PAIEWONSKY. There is no other theater. The population is a small population, and there are two theaters.

Senator BURDICK. In other words, you own all the theaters in St. Thomas?

Mr. PAIEWONSKY. Well, except that in the high school auditorium they occasionally show films by certain groups, and also they hold plays there. They hold several stage productions, and they hold concerts.

Senator BURDICK. But as to the commercial movie houses, you own them all?

Mr. PAIEWONSKY. We own the two in St. Thomas.

Senator BURDICK. You and your family are not going to dispose of your interest in them?

Mr. PAIEWONSKY. It is not contemplated, sir.

Senator MILLER. Paragraph 1, certain real estate; paragraph 3, certain retail stores—are those incorporated? Are those properties incorporated?

Mr. PAIEWONSKY. Yes, sir.

Senator MILLER. What is your stock interest in those corporations?

Mr. PAIEWONSKY. I own approximately one-third. There is one corporation that owns the real estate and also operates the three retail establishments as branches of that corporation.

Senator MILLER. Is that corporation engaged in real estate development?

Mr. PAIEWONSKY. It is mostly commercial property in the center of the business community. We have no property actually for land development, if that is what you mean.

Senator MILLER. When you say "certain real estate," I was curious whether it was just lands for development.

Mr. PAIEWONSKY. No, it is commercial property which we have developed in the island, and some of the properties we use ourselves in our three retail establishments, and the others we have leased out to other merchants doing business in the Virgin Islands.

Senator MILLER. So that by "certain real estate," you mean commercial properties?

Mr. PAIEWONSKY. Commercial properties.

Senator MILLER. That are being leased?

Mr. PAIEWONSKY. Correct.

Senator MILLER. And you would derive only a stockholder's dividend income from these properties?

Mr. PAIEWONSKY. That is correct, sir.

Senator BURDICK. Mr. Chairman, one more question in regard to the theater business.

Do you have a lease with the Government, or on Government land, located in the submarine base? You or any corporation in which you are interested?

Mr. PAIEWONSKY. No, sir.

Senator BURDICK. Do you anticipate or does any corporation in which you are interested anticipate getting a lease on the submarine base?

Mr. PAIEWONSKY. No, sir.

Senator BURDICK. For purposes of an outdoor theater or any other purpose?

Mr. PAIEWONSKY. There was a question of an outdoor theater several years ago, in which we did put a bid in, and we found that it was not economically feasible for the investment that was involved. After engineering surveys and other things, we withdrew from that and canceled the lease, after forfeiting the deposit payment that was made. We lost our deposit, completely.

Now, we have no intention whatever of going into such an enterprise. It is not economically feasible.

The CHAIRMAN. Do I understand that you were invited to submit a proposal and did submit it, with a deposit? You then were awarded a lease, and having been awarded the lease you surveyed the proposition and decided it was not a good business proposition and withdrew from it, forfeiting your deposit?

Mr. PAIEWONSKY. Yes, sir. The reason is that after the engineers investigated prior to construction, they found drainage from the hill. The land was filled-in land, and to put in a drive-in theater would require quite a good deal of excavation. This land already was low-land, right near the sea. And to fill it in and to bring it up to serve the purpose or the need would require a tremendous investment. Since this was leased property, on a short-term lease, we deemed it not economically feasible to go into this type of proposition.

The CHAIRMAN. And you have given up that lease entirely?

Mr. PAIEWONSKY. We have given up the lease, and the deposit was forfeited.

The CHAIRMAN. Do you have any rights on it right now?

Mr. PAIEWONSKY. No rights. They are completely canceled. It was done some time ago.

Senator MILLER. What is the name of the corporation that owns those business properties we are talking about?

Mr. PAIEWONSKY. A. R. Riise, Inc.

Senator MILLER. Does that corporation have any plans for acquisition of additional real estate or additional commercial properties or development of additional properties?

Mr. PAIEWONSKY. No. As I will read the statement, you will see what plans we have. The plans are not for the acquisition. We are trying to retire from as many of the businesses—we have been pioneers in many of the businesses, creating businesses and then selling them or turning them over to new people that would be able to come in and make a living and reside in the Virgin Islands. But we have no plans for any expansion.

Senator MILLER. Might I ask: Who are the other stockholders in this corporation besides you?

Mr. PAIEWONSKY. My brother and my father and mother. It is a family corporation.

Senator LONG. Mr. Chairman, there is a question that I would like to bring up. The record shows that at various times the Virgin Islands Legislature has authorized the issuance of government bonds to construct hotels and other business enterprises. Do you or your family have any interest in those various projects?

Mr. PAIEWONSKY. Directly; no, sir. There was an insurance group that was interested in building a resort hotel on a piece of property that we own, and they wanted to buy 20 or 25 acres of this land and to build a hotel there. But we had no interest in the hotel whatsoever, or any part of it.

Senator DWORSHAK. One more question.

Do you own any liquor stores in St. Thomas?

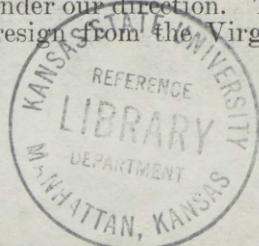
Mr. PAIEWONSKY. Yes, sir. That is one of the retail stores that we own.

Senator DWORSHAK. How many retail stores are there, all together?

Mr. PAIEWONSKY. I imagine there must be about 18, approximately 18.

Senator DWORSHAK. Yours is the largest liquor store on the island?

Mr. PAIEWONSKY. Yes. It was a branch of the A. H. Riise firm that was established in 1938, and it was expanded under our direction. To continue with my statement—I would also resign from the Virgin



Islands Advisory Committee of the Chase Manhattan Bank and discontinue that stipend.

My continuing interest in the Paiewonsky firms and their earnings would not raise any conflict-of-interest problems, in my opinion.

If I may, I would like to make a comment here concerning our approach to our interests in the Virgin Islands.

Our family has been in the Virgin Islands for more than 60 years.

We have made it a policy to try to pioneer new business enterprise in the Virgin Islands.

We built a modern drugstore, a modern air-conditioned restaurant, a modern bakery.

These were modern in the sense that they were designed in accordance with the efficiency standards prevailing in the United States. We did not use modern decor of a flashy kind. We always tried to preserve community motifs—conscious of the fact that we were serving community needs.

In any event, the drugstore, restaurant, and bakery have all been sold and are now being successfully operated by their present owners, all of whom are actually living in the Virgin Islands and are making an effective contribution to the economy of the islands.

In course of time we expect to do the same thing with the three retail businesses still operated by the family corporation; a gift shop, a liquor store, and a stationery store.

Senator BURDICK. You have not disposed of them or made arrangements as to that yet?

Mr. PAIEWONSKY. No, sir; but our overall plan has been along this line, even before I was a candidate for Governor. That was our long-range plan. The reason for that is that my parents were very active at one time in the business with us, and within recent years my father has been very ill and at home, and my mother has also been incapacitated and can no longer take an active part in the management of the business. And therefore, as a result, we have been reducing our activities insofar as the businesses are concerned, and confining them solely to a real estate proposition on a rental basis.

Senator BURDICK. Then you intend to dispose of the gift shop, the liquor store, and the stationery store?

Mr. PAIEWONSKY. In time, yes, sir.

Senator BURDICK. What do you mean by "in time"?

Mr. PAIEWONSKY. I mean the contemplated disposal is not a matter of conflict of interest resulting from my accepting the governorship. I said "in time." Our general policy is over the years to dispose, and to lessen the burdens of these types of enterprises that require personal supervision.

Senator BURDICK. That does not quite answer my question. You say you intend to dispose of them. When do you intend to dispose of them?

Mr. PAIEWONSKY. In the future.

Senator BURDICK. Well, 1 year, or 10 years?

Mr. PAIEWONSKY. Well, maybe within the period of 10 years. I presume by that time we will have sold them.

Senator BURDICK. Then you will be operating those three businesses while you are Governor?

MR. PAIEWONSKY. I would not be participating in the operation. I have no part of the operation, even at the present time. At the present time, my sister-in-law operates the gift shop, and my brother operates the liquor store, and my aunt is in full charge of the stationery store.

But we are contemplating that the next business that we would dispose of, because of conditions of health and so forth, might be the stationery store, which my aunt operates, and then gradually to get out of the others.

Senator BURDICK. Then your testimony is that you—and when I say “you,” I mean either a corporation you are involved in or a member of your family or someone—intend to dispose of the gift shop and this liquor store that you referred to a while ago, and the stationery store, within a period of 10 years?

MR. PAIEWONSKY. Yes, sir. That was our overall basic plan.

Senator BURDICK. And you will probably continue to operate these enterprises during the time that you are Governor?

MR. PAIEWONSKY. Yes, sir. The family would continue to operate them.

Senator BURDICK. In which you have an interest.

MR. PAIEWONSKY. In which I have an interest.

In other words, we have not been guided by the desire or principle of building a vast commercial empire.

On the contrary, our family has been guided by the principle of pioneering in new fields and then turning over the enterprise, when established, to new hands to carry on.

We have found this profitable, to be sure. But we also believe that this basic approach is not mere family empire building, but rather using our zest and initiative to broaden the range of activity, and we further believe that this has been good for the islands.

As to our real estate interests, we have been in the forefront of the movement to restore and retain the Old World atmosphere and charm provided by the Danish architecture. We have restored a number of old buildings in this fashion, and these, too, have been leased to tenants who are now full-time residents of the Virgin Islands.

To go to another field, banking, I was in large part responsible for establishing, in 1953, a new bank in the Virgin Islands, the West Indies Bank & Trust Co.

At that time there was only one bank, the Virgin Islands National Bank, and I was the largest single stockholder.

But I felt that the competition of a new bank would stimulate the economic growth of the islands and in fact of both banks. And that is what happened. Total bank resources rose from \$6 million in 1953 to over \$35 million today.

Senator ALLOTT. Mr. Paiewonsky, at that point: It is a fact, is it not, that the people in the Virgin Islands have at the present time a very substantial advantage with respect to taxes over the residents of the continental limits of the United States?

MR. PAIEWONSKY. Yes; we do have an advantage, because I think under the treaty agreement with Denmark, it was provided for that the people of the Virgin Islands would not be placed in any less advantageous position than they enjoyed under the Danish regime. And at that time the islands were a free port. There was a duty of 6 percent. And that has been continued in force and effect.

Mr. LEVENTHAL (Harold Leventhal, attorney, Washington, D.C.). Pardon me, Senator, I am Harold Leventhal, Mr. Paiewonsky's counsel.

Senator ALLOTT. What is your address, Mr. Leventhal?

Mr. LEVENTHAL. 1632 K Street NW., Washington.

Your question was relating to income tax, was it not?

Senator ALLOTT. I will get to that in a moment; but he has brought up the other angle of it, and I will take them one by one.

So that actually the Virgin Islands, although they enjoy all the privileges of being a member of the United States—that is, our public housing, our public assistance programs, all of those, are in effect in the Virgin Islands; but the Virgin Islands receive a favored tariff situation—which is not the result of your doing; I understand that—but whereas our tariff regulations may run up high, your imports come into the Virgin Islands at 6 percent?

Mr. PAIEWONSKY. That is quite true.

Senator ALLOTT. That is, the imports of the Virgin Islands?

Mr. PAIEWONSKY. That is quite true.

Senator ALLOTT. And there is no tax—or is there—on the items coming from the Virgin Islands to the United States?

Mr. PAIEWONSKY. Well, the answer can be given in two parts. Products that are manufactured in the Virgin Islands come into the United States duty free.

Senator ALLOTT. They do not have to be manufactured in the Virgin Islands, do they? Any product which is partially fabricated in the Virgin Islands, if part of the fabrication occurs there, comes into the United States under that exemption, does it not?

Mr. PAIEWONSKY. Under the revised Organic Act of 1954, it was provided that in order to stimulate the growth of industries in the islands, any product manufactured in the Virgin Islands that contains less than 50 percent of its value of foreign materials, can be entered into the United States without the payment of duty.

Prior to that amendment, there was a law providing for 20 percent, but under the 20-percent clause quite a number of the small factories that were there were unable to manufacture any merchandise and ship it in under this provision. So this was expanded to try and develop little industries in the islands to give work to the people of the Virgin Islands.

Senator ALLOTT. So that if more than 50 percent of its value, then, accrues in the Virgin Islands, it comes into the United States tariff free?

Mr. PAIEWONSKY. That is correct. But it has to be a manufactured article, and it has to meet certain specifications in the island.

Senator ALLOTT. Now, what do you mean by "certain specifications?"

Mr. PAIEWONSKY. Well, it has to lose its identity, so to speak. It has to be a completely new type product, resulting from the use of the raw materials in the product.

Senator ALLOTT. This is under regulation by the Tariff Commission?

Mr. PAIEWONSKY. I think it is under the regulations by the Bureau of Customs. They have their people, their inspectors, and the local government, and products have to comply. They have to issue a

certificate of origin. And in order to become a Virgin Island product, it has to have an identity.

Senator ALLOTT. We have covered the first phase, then, that the Virgin Islands operates not quite as a tax-free port, or as a free port, as it is commonly known, but under a situation where their import tariffs are limited to 6 percent across the board.

Mr. PAIEWONSKY. That is correct.

Senator ALLOTT. And they receive a favored treatment in their exports to the United States, where 50 percent or more of the value of the article occurs by fabrication in the islands.

Mr. PAIEWONSKY. That is correct, sir.

Senator ALLOTT. Now, let us take up the other phase, which your counsel brought up.

Mr. PAIEWONSKY. The other phase is that the Virgin Islands are outside the customs laws of the United States, and therefore a tourist going into the Virgin Islands will have the same privilege in returning to bring back \$200 worth of foreign materials purchased in the Virgin Islands if he has been in the Virgin Islands 48 hours or longer, or if he has been there for 12 days or more, he may bring back \$500, provided he has not claimed such exemption for 6 months previously.

Senator ALLOTT. I believe, Mr. Chairman, this is in accordance with the general law; so that the situation in the Virgin Islands in this respect is no different from Canada.

Mr. PAIEWONSKY. We are in the heart, so to speak, of a group of foreign islands. We have a British island 3 miles away. We have French, Dutch, and other islands. And we are all competing for the same type of tourist trade. And unless the Virgin Islands are considered this way, even though they are under the American flag, that they can compete with these foreign islands in the Caribbean, we would lose that trade, and the American dollar would be spent in the foreign islands.

Senator ALLOTT. Now, let us get over to the other angle of this, and that is the income tax advantage that the islands enjoy. There is a tremendous income tax advantage that residents of the Virgin Islands enjoy over residents of the mainland. Is this not correct?

Mr. PAIEWONSKY. We pay the same Federal income tax. The same income tax laws and rates are applicable to the Virgin Islands and the United States. However, revenues are deposited into the local treasury. The citizens of the Virgin Islands pay their income tax on the same basis as other American citizens everywhere else except in Puerto Rico. But the funds collected are retained in the treasury of the Virgin Islands.

Senator ALLOTT. So that the money you pay, although you pay at the same rate, is retained in the territorial treasury and spent there for the benefit of the Virgin Islands?

Mr. PAIEWONSKY. That is quite true.

Senator ALLOTT. Now, let us get to the matter of inheritance taxes. What about the situation for inheritance taxes?

Mr. PAIEWONSKY. The inheritance, estate, and gift laws of the United States were not applicable to the Virgin Islands until a part of it was made applicable last fall by the Williams amendment. That provision applies only insofar as property owned by American citizens residing in the Virgin Islands and is property located in the United

States. What is owned in the Virgin Islands is treated as if it were in a foreign country, which would be outside of the Federal estate laws.

What is owned in the United States, whether it is stocks and bonds or actual real property—that is included and subject to the full Federal estate taxes.

Senator ALLOTT. Mr. Leventhal, I presume you have gone into this, and I realize that he is not a lawyer, although he is a very capable businessman. If he should misstate this, I hope you will feel free to modify it or interject your own comments.

As I understand it, then, with respect to inheritance taxes, any resident of the Virgin Islands is required to pay inheritance taxes on such stocks, such properties, as he owns within the United States, but he would not have to pay with respect to any property owned within the Virgin Islands.

Mr. PAIEWONSKY. That is my understanding, sir.

Senator ALLOTT. That is my recollection, too, sir. I just wanted to make it a part of the record.

So that, getting back to your statement, now, between 1953 and the present time, is it not a fact that there has been a great influx of people from the United States to the Virgin Islands in order to take advantage of the inheritance tax provisions?

Mr. PAIEWONSKY. I do not think the record would substantiate the statement that there has been a great influx for that purpose, Senator. I think we have had a number of people making their homes in the Virgin Islands, retiring and making their homes there. But I think that was mostly due to the excellence of our climate, business opportunities, and other conditions in the islands. Some still retain their holdings in the United States.

Senator ALLOTT. Mr. Paiewonsky, you may recall that I visited the Virgin Islands some 3 years ago or a little over that, and I only want to say that there were a number of people who contacted me about this, not only to retain the present provisions of the inheritance tax, but also to expand them to the place where they would not have to pay inheritance tax upon property held in the United States. I would have to disagree with your statement. I think that it has been a major impetus for people to move to the Virgin Islands.

That is a difference of opinion.

Senator JACKSON. Would the Senator yield at that point, just for clarification?

I believe—and I may be in error—that we have a Federal estate tax, not an inheritance tax.

It is an estate tax, is it not?

Mr. PAIEWONSKY. An estate tax.

Senator JACKSON. So there is a little difference in the situation as it actually works out.

I merely mention that. And I thought you might ask, on that particular point, whether they have an inheritance tax in the Virgin Islands.

Mr. PAIEWONSKY. We do have.

Senator ALLOTT. All right. I will get to that in just a moment.

What is the inheritance tax in the Virgin Islands?

Mr. PAIEWONSKY. I think the rates are 2, 4, 8, and I think the maximum is 14 percent. I am not quite sure on the rates.

Senator ALLOTT. I wonder, Mr. Carver, if we could have that supplied?

Mr. CARVER. Yes, we will furnish that.

Senator ALLOTT. At this point; together with the exemptions.

Mr. CARVER. We will furnish you with a copy of the law, if that is satisfactory.

(Mr. Carver subsequently supplied the following:)

SUBTITLE 1. MISCELLANEOUS INTERNAL REVENUE TAXES

PART I. NORMAL TAXES AND SURTAXES

Chapter 1. Inheritance Tax

SECTION ANALYSIS

1. Tax on inheritances to and from lineal relatives.
2. Tax on inheritances to brothers and sisters.
3. Tax on inheritances to distant relatives and strangers.

CROSS REFERENCES

For penalties and other general administrative provisions applicable to this chapter, see Part II of this subtitle.

§ 1. Tax on inheritances to and from lineal relatives

A tax of 2% is hereby imposed on inheritances exceeding \$200 which fall from husband to wife, from wife to husband, from ascendants to descendants or from children to parents.

HISTORY

Revision note: Based on Ord. Mun. C. St. T. and St. J. app. July 16, 1952 (Bill no. 154), eff. July 1, 1952; and Ord. Mun. C. St. C. app. June 30, 1952 (Bill no. 52), eff. July 1, 1952. Section is derived from subdivision (1) of the above-cited ordinances. The remainder of such ordinances are carried into the other sections of this chapter.

Changes were made in form and phraseology.

ANNOTATIONS

1. Federal estate tax: Decedent, a citizen of the United States domiciled for 12 years and at his death in the Virgin Islands, was not a citizen of the United States within the meaning of section 802, Internal Revenue Code, for federal estate tax purposes. *Estate of Arthur S. Fairchild v. Commissioner of Internal Revenue*, Tax Court of U.S. 1955, 24 TC. No. 45.

2. Foreign assets: Bank deposits in Denmark and Sweden of a person who died domiciled in the Virgin Islands were subject to former inheritance tax of the Virgin Islands. *In re Estate of Nilsson*, D.C.V.I. Dec. 18, 1928, No. 122-1928.

3. Life estate by Curtesy: Ord. Col. C. St. C. app. Sept. 29, 1876, as amended by Ord. Col. C. St. C. app. Oct. 19, 1896, section 2(c), which exempted pensions from the inheritance tax, was construed to apply to the life estate which the surviving spouse acquired by virtue of the 1921 Code, Title I, chapter 12, § 1, dealing with curtesy (abolished in this Code), in the property owned separately by his deceased wife. *In re Estate of Dwyer*, D.C.V.I. July 23, 1945, Prob. 12-1944.

Ord. Col. S. St. C. app. Sept. 29, 1876, as amended by Ord. Col. C. St. C. app. Oct. 19, 1896, section 2(c), which exempted pensions from the inheritance tax, was construed to apply to the life estate which the surviving spouse acquired by virtue of the 1921 Code, Title I, chapter 12, § 1, dealing with curtesy (abolished in this Code), in his deceased wife's half of community property. *Id.*

4. Remainder—Calculation of tax on: The value of a remainder, for purposes of calculating the inheritance tax, is to be calculated by deducting the amount it would cost the life tenant for a life annuity of the amount of the life estate. *In re Estate of Dyer*, D.C. V.I. July 23, 1945, Prob. 12-1944.

5. — Time payment of tax: The inheritance tax due on a vested remainder is to be paid upon the close of the estate and not when the life tenant dies. *In re Estate of Dyer*, D.C. V.I. July 23, 1945, Prob. 12-1944.

§ 2. Tax on inheritances to brothers and sisters

A tax of 8% is hereby imposed on inheritances exceeding \$100 which fall to brothers and sisters and their issue, irrespective of their being sole heirs or inheriting jointly with one of their parents.

HISTORY

Revision note: Based on Ord. Mun. C. St. T. and St. J. app. July 16, 1952 (Bill no. 154), eff. July 1, 1952; and Ord. Mun. C. St. C. app. June 30, 1952 (Bill no. 52), eff. July 1, 1952.

Section is derived from subdivision (2) of the above-cited ordinances. The remainder of such ordinances are carried into the other sections of this chapter.
Changes were made in form and phraseology.

§ 3. Tax on inheritances to distant relatives and strangers

A tax of 14% is hereby imposed on inheritances exceeding \$100 which fall to persons other than those mentioned in sections 1 and 2 of this title.

HISTORY

Revision note: Based on Ord. Mun. C. St. T. and St. J. app. July 16, 1952 (Bill no. 154), eff. July 1, 1952; and Ord. Mun. C. St. C. app. June 30, 1952 (Bill no. 52), eff. July 1, 1952.

Section is derived from subdivision (3), of the above-cited ordinances. The remainder of such ordinances are carried into the other sections of this chapter.

Changes were made in form and phraseology.

Senator ALLOTT. I think that is all on this point, Mr. Chairman. I just simply wanted to make the point that I do believe that this growth in bank resources is not the result of the establishment of new bank loans, but rather because of the very favorable tax treatment that the Virgin Islands offers.

Mr. PAIEWONSKY. May I answer that?

Senator ALLOTT. Yes.

Mr. PAIEWONSKY. I think that the growth of the banks was due to several factors. I think the major factor that was involved was that the merchants of the islands realized that there were several charges that they had to pay to the one then existing bank. In other words, if you came into the Virgin Islands with a check from your bank in the United States, the merchant would have to pay a discount to the bank of a quarter of 1 percent. And then, when his merchandise came in from the States, he would have to buy a draft from the bank and pay them a quarter of 1 percent.

So the merchants, since most of their money and checks from the United States, American Express checks or private checks drawn on mainland banks, would keep accounts in the mainland, and these accounts, I think, amounted to between \$5 and \$6 million. We made a survey and found that was so.

Senator ALLOTT. As I understand it, Mr. Paiewonsky, this practice was discontinued with the establishment of the connection with Chase Manhattan. Is that right?

Mr. PAIEWONSKY. No; it was established before that. Our bank did away with the charges and brought back into the Virgin Islands about \$5 to \$6 million of funds belonging to Virgin Islanders that had been kept in mainland banks up here, on account of the charges.

Senator ALLOTT. And being kept in mainland banks due to the excessive charges?

Mr. PAIEWONSKY. That is correct. We did away completely with the charges on checks and made it a free exchange, so that any person could write a check and get the full value for the face of that check in the Virgin Islands. And that brought back into the Virgin Islands I believe between \$4 to \$6 million, almost, right away.

In addition to that, the economy has been growing, and with the stimulation of the economic provisions of the 1954 organic act, I think we have seen a tremendous growth in the Virgin Islands. I think it is a healthy type of growth.

The CHAIRMAN. Would that account for the great loss each year of the VICORP?

Mr. PAIEWONSKY. I think the VICORP operation is in a different category from private enterprise in the Virgin Islands.

The CHAIRMAN. I was going to get to it later, but since you are a good businessman down there, can you explain why this Virgin Islands Corporation lost \$635,000 on its sugar operations last year?

Mr. PAIEWONSKY. I do not think I can answer that question.

The CHAIRMAN. Well, now, was part of their assets sold to your corporation, the Riise Co.?

Mr. PAIEWONSKY. No, sir.

The CHAIRMAN. The molasses was sold?

Mr. PAIEWONSKY. The molasses was sold.

The CHAIRMAN. How do they separate the molasses from sugar down there? You buy only raw molasses?

Mr. PAIEWONSKY. We buy only raw molasses. I can assure you the molasses we got from VICORP during the last year was almost unfit to be used in a distillery, also, sir.

The CHAIRMAN. Did they get income from that?

Mr. PAIEWONSKY. They did.

The CHAIRMAN. Or did they sustain a loss in that?

Mr. PAIEWONSKY. They received an income from that, the market value of the molasses.

The CHAIRMAN. They did not sustain a loss?

Mr. PAIEWONSKY. No, sir; not on the sale of molasses.

The CHAIRMAN. Did they report a loss from growing cane?

Mr. PAIEWONSKY. I think they have reported a loss in almost every direction.

The CHAIRMAN. The reported loss was \$208,000 from cane growing. Does that have anything to do with the molasses?

Mr. PAIEWONSKY. No, sir; except that molasses is a byproduct of sugarcane.

The CHAIRMAN. That is what I thought.

Mr. PAIEWONSKY. But I do think the loss on the growing of the sugarcane might have resulted from a severe drought that was experienced last year. We did have a severe drought. But I do believe that a lot of the problems of VICORP might be questions of management and questions of a number of other things that would have to be carefully studied. I could not give you an answer on that without studying it.

The CHAIRMAN. The Virgin Islands Corporation has cost the Treasury of this country many, many millions of dollars; has it not?

Mr. PAIEWONSKY. It certainly has, sir.

The CHAIRMAN. And now, as a businessman, with all these investments down there, can you explain the loss of \$662,000 in sugar operations in 1 year, after several millions of capital had been poured into it by the United States over the years?

Mr. PAIEWONSKY. There should be no reason for that, sir.

The CHAIRMAN. How did it occur? You were down there. You saw it.

Mr. PAIEWONSKY. I had nothing to do with the management of VICORP.

The CHAIRMAN. I did not say you did. I am merely trying to find out why you think it lost it.

Mr. PAIEWONSKY. Well, as I said before, there was a severe drought. That was one of the reasons. I think maybe poor planning. Maybe a series of things in VICORP.

The CHAIRMAN. Would you have anything to do with it if you were Governor?

Mr. PAIEWONSKY. Would I have anything to do with VICORP?

The CHAIRMAN. Would you not be Chairman of the Board?

Mr. PAIEWONSKY. No, sir; I would just be a member of the Board, but I would at least be in a position to voice my opinion and look into the facts and make recommendations on how to turn the tide and how to change that.

The CHAIRMAN. The Secretary of the Interior would be a member of the Board. Would he sort of look to you for guidance in this matter?

Mr. PAIEWONSKY. Well, I hope so; because at least I would be an on-the-spot director that would be keeping in touch with the operations and what is taking place in the company.

The CHAIRMAN. Now, as an on-the-spot director, have you any plans for trying to repair this loss to the Federal Treasury?

Mr. PAIEWONSKY. I believe there are a lot of things that can be done to reverse this trend. Yes, sir. Definitely, sir.

The CHAIRMAN. Could you indicate what some of them are?

Mr. PAIEWONSKY. Well, in the first place, I think that the Virgin Islands Corporation has never carried out the full intention of the law establishing it. I think it has restricted itself into one narrow field of sugarcane cultivation. And even in this particular field of sugarcane cultivation, I do not know whether they have explored the possibility of scientific research, development, and so forth, to make this phase a profitable phase.

I am not a sugar chemist in any way, but I do know that a lot of things can be improved upon.

I know that VICORP could have been an Economic Development Administration similar to the one in Puerto Rico, that could have sparked our economic development, with the resources that they have.

VICORP controls the power, the water, and has the possibility of extending help to the small farmers, so that we can raise more of the foods that we consume in the Islands ourselves. We would not have to import the tremendous quantity of foods for the hotels and the needs of the local people.

I think there is a lot that can be done. I think that people with vision and understanding of the problems of the islands can help tremendously in bringing the Virgin Islands Corporation into the position of a corporation that can make money, or at least break even.

The CHAIRMAN. Well, I raise the question purely from this standpoint: The Department of the Interior, as others have, comments upon your successful business administration in many other branches. You can make a drugstore go, a liquor store go, a stationary store go. If you are going to become the Governor of the Islands, I would think that you would be giving some thought to how you can make the sugarcane business go to where it could not lose \$600,000 a year when the Government already has \$10 million invested in it and gets nothing from it and gets no taxes from the island.

Mr. PAIEWONSKY. Senator, I agree with you. And I think quite a number of us realize the importance of the Virgin Islands Corporation, but we have never had the opportunity of having a voice or say in the corporation or its management.

The CHAIRMAN. Mr. de Castro is going to testify. He has had some voice in it. He has been Governor.

Mr. PAIEWONSKY. Yes, he has been a very good Governor in the Virgin Islands.

The CHAIRMAN. Did he keep it from losing money?

Mr. PAIEWONSKY. I think so. I think one year the Virgin Islands Corporation made some money. I am not familiar with the balance sheets and the internal operations of the company. I have been very critical of the company, on the outside, of many of their operations.

And I think that this company can, under proper management and under proper direction, be the economic spark of the islands, and would not lose money. It should not lose money.

The CHAIRMAN. My sole point is that you were on the Chase Manhattan's Advisory Council and have been connected with a bank of your own, and everything else. Does it not distress you to see anybody losing that much money?

Mr. PAIEWONSKY. It certainly does. I am very much concerned about it.

Every business, sir, that we have been in, we have worked very hard in, and we have made it a success. We have worked to make it a success. And I can assure you that if I am a member of the board of this company, I will work tirelessly to make it a success.

The CHAIRMAN. Who appoints the other three members that are appointed at large?

Mr. PAIEWONSKY. They are appointed by the President. I know the three members. They are good men, but you cannot run a company with absentee management, sir.

The CHAIRMAN. Who are the other three directors?

Mr. PAIEWONSKY. The other three? One is Mr. Ward Canaday.

The CHAIRMAN. Of Willy Overland?

Mr. PAIEWONSKY. Yes. And Mr. Claytor, Dr. Claytor, I think it is. And the third person is Victor Bornn, who is a native of the Virgin Islands.

The CHAIRMAN. Do you have any recommendations? Some of us have opposed this payroll padding device down there for quite a while. Have you any recommendations as to what might be done?

Mr. PAIEWONSKY. Sir, when I look into it, I certainly will have.

The CHAIRMAN. I am trying to get a commitment in advance, that if you are confirmed you will spend at least a little time trying to make a losing business profitable. You seem to know how to do it.

Mr. PAIEWONSKY. I have done it in the past in the islands. But here I feel I will have to study the inside workings of the company. I think I know how it can be done. But I will just be one member on a board of seven.

The CHAIRMAN. You discourage me a little. When I was in the Department of Agriculture, we made a couple of hundred million dollars in the cotton business, and I got criticized by everybody. They said the Department of Agriculture is supposed to lose money. Now,

do you regard the Virgin Islands Corporation as a device to lose money?

Mr. PAIEWONSKY. Oh, no, sir. I think the Virgin Islands Corporation should make money. As a matter of fact, I was in a sense responsible for having the local government turn over the power authority, the power division, to the Virgin Islands Corporation, hoping that they would be——

The CHAIRMAN. Did that not result in a greater loss?

Mr. PAIEWONSKY. And now, my goodness, it is worse than ever.

The CHAIRMAN. It is losing?

Mr. PAIEWONSKY. It is not losing, but the service that is being rendered and the poor planning.

The CHAIRMAN. Well, why transfer it to a bad corporation? That is not the way you generally build a business, is it?

Mr. PAIEWONSKY. No, sir.

The CHAIRMAN. Well, can we get any suggestions from you as to what you might like to see done down there?

Mr. PAIEWONSKY. With the Virgin Islands Corporation?

The CHAIRMAN. Yes.

Mr. PAIEWONSKY. I do not know whether I could at this moment, Senator. I would be very happy to in time.

The CHAIRMAN. You have a fine record as a successful businessman. I mean you are able to turn things into dollars. And the reason we put people on boards is clear. The reason you were put on the Chase Manhattan board was because you were successful, was it not? When you studied your bank, did you pick directors on the basis of their business failures, or their success?

Mr. PAIEWONSKY. Their success.

The CHAIRMAN. You are being put on the board. I am just trying to see if you will not say to us that you are going to make it a first order of business to try to stop this drainage on the Federal Treasury.

Mr. PAIEWONSKY. That is exactly what I am going to do, Senator. But I cannot put my finger now on the specific things in the Corporation.

The CHAIRMAN. You have been down there for a great many years. You must know what is going on. I think I know what is going on.

Senator DWORSHAK. Mr. Paiewonsky, you said that the quality of the molasses sold by VICORP is very poor. Your distillery does buy molasses from VICORP?

Mr. PAIEWONSKY. Yes, sir; we buy 70 percent of what they produce.

Senator DWORSHAK. 70?

Mr. PAIEWONSKY. 70 percent of VICORP's production we buy from VICORP.

Senator DWORSHAK. I understand that in 1959 you had some controversy over the quality of the molasses, and you refused to pay for that molasses.

Mr. PAIEWONSKY. That is correct, sir. We wanted to focus attention on it. Not only that, but I will give you the reasons why.

They use in the VICORP a new method of harvesting, which they bought as a labor-saving device; and they used mechanical means. And they loaded the canes from the field with bulldozers and pickup machinery into trucks, which brought with it about 25 percent or maybe 30 percent of field dirt, mud, trash, to the sugar mill. And

the sugar mill weighed this as a part of the cane and paid for it as cane. But it was mud and dirt. There was no means or method of removing this from the cane. This dirt went into the sugar operation and ended up in molasses. And our molasses contained, I believe, a large percentage of this mud, dirt, and so forth.

There are a lot of other things that were wrong, too, sir.

Senator DWORSHAK. Did VICORP file a suit for collection against you?

Mr. PAIEWONSKY. They did.

Senator DWORSHAK. And what was the outcome of that?

Mr. PAIEWONSKY. That has been settled. We have agreed to pay the thing in full to settle it, but I think we have focused enough attention on the matter now.

Senator DWORSHAK. When did you agree to pay in full?

Mr. PAIEWONSKY. That was several weeks ago, sir.

Senator DWORSHAK. After you were proposed for the Governorship of the islands.

Mr. PAIEWONSKY. Well, we tried to settle this with VICORP before that, long before that; but they kept dragging this thing on. It has been settled now; yes.

Senator DWORSHAK. But you have entered into an agreement now, a contract, to repay the full amount you owed for the 1959 molasses?

Mr. PAIEWONSKY. That is correct, sir.

Senator ALLOTT. You purchased the Riise Distillery from the Government, did you not?

Mr. PAIEWONSKY. Yes, we purchased the VICORP facilities they had there. But it was an empty shell when we bought it. There was nothing usable in that plant.

Senator ALLOTT. There were no distillery implements of any kind in there?

Mr. PAIEWONSKY. We thought when we bought it that some of the equipment that was in it we would be able to use. But there is not a single piece now in there that we bought from them that we could use, except the buildings.

Senator ALLOTT. When did you purchase this?

Mr. PAIEWONSKY. We purchased this I think in 1953 or 1954.

Senator ALLOTT. I have had some information brought to my attention, Mr. Paiewonsky, that in 1957 the quoted price for molasses was 17 cents per gallon, and that you were buying it at that time for 10 cents from VICORP. Is that right?

Mr. PAIEWONSKY. That is true, sir.

May I tell you the circumstances how that price was derived?

Senator ALLOTT. When did you enter into this contract for the purchase of this molasses?

Mr. PAIEWONSKY. The purchase of the plant and the purchase of the molasses were together, and the contract stipulated that we would negotiate the price based on the world market price around December of each year. At that time, or in the event we could not reach a decision or agreement in the price, there was a machinery set up for arbitration.

In this particular year there was the Suez Canal crisis. And the world price of molasses moved from 5 cents a gallon up to about 20 or 25 cents a gallon.

Well, under the conditions under which we were selling rum in the Virgin Islands, we could not manufacture rum and sell it at a profit at a 20-cent molasses price.

This matter went to arbitration. The cost at that time was up to about 16 cents. It fluctuates. Molasses price fluctuates all the way up. But the normal price of molasses runs between 5 and 10 cents.

Well, when this question came up, we went to arbitration, and the VICORP suggested that the third party should be Judge Cecil Snyder in Puerto Rico. We agreed to him and we went over to Puerto Rico and spent several days there with the expert from Agriculture and our people, our attorneys. And as a result of the arbitration, the arbitration board set the price at 10 cents.

Senator ALLOTT. It is a fact, though, that you were buying it at 10 cents, when the price, the quoted price for it on the open market, was 17 cents at that time, in 1957. You said "Yes" to this a few moments ago?

Mr. PAIEWONSKY. Yes. That was because it was set by arbitration.

Senator ALLOTT. How long is the contract for molasses at the present time?

Mr. PAIEWONSKY. The present contract is for the life of VICORP. It runs to 1969.

Senator ALLOTT. All right. And what is the price?

Mr. PAIEWONSKY. The price is set up, the formula for the price is set up, that it would be 2 cents below the delivered price in St. Croix of the outside molasses, that is purchased on the outside.

In other words, we have to purchase molasses, additional quantities of molasses, on the outside, because VICORP does not produce sufficient molasses for the needs of the industry.

Senator ALLOTT. Well, how is the price fixed?

Mr. PAIEWONSKY. The price is fixed at 2 cents a gallon below the delivered price.

Senator ALLOTT. Below the delivered price?

Mr. PAIEWONSKY. In St. Croix; because there is a delivered charge of maybe 4 cents per gallon to bring it in to St. Croix.

Senator ALLOTT. As a director of VICORP, then, you would have an interest and control over the contracts with the distillery. You have said that you are divesting yourself of the Riise Distillery and taking in lieu thereof an interest in the Schenley Distillery, which you have in turn said, in a rather vague way, as I recall, that you would put it in a trust or divest yourself of it later. Do you have a copy of that proposed trust, and would you file it with the committee?

Mr. PAIEWONSKY. Yes, sir.

Senator ALLOTT. Do you have it with you?

Mr. PAIEWONSKY. No. I have that in the statement here, sir.

Senator ALLOTT. So that in any event, even though you would dispose of Riise Distillery, you and your family—and I assume that this would mean your brother, your father and mother, your wife, and your sons and your immediate relatives, who operate some of your businesses—you would still, as a director of VICORP, and as the stockholder or holder of an interest in Schenley, have control, or part of the control, over the price of molasses which was sold, in effect, to yourself?

Mr. PAIEWONSKY. The price is fixed by formula which cannot be varied. This is a fixed contract that was made after the problem we

had with VICORP, because VICORP claimed when they sold molasses that there was no stipulation as to quality, and they could give anything. They could give half molasses, half mud, half anything. So the contract was rewritten, and a quantity was pegged at 70 percent.

As a matter of fact, they wanted to write it at 100 percent, because they would have to get rid of the molasses. It would cost them money to get rid of that molasses.

Senator ALLOTT. You spoke of not making money back here at 10 cents. I have information that I believe is reliable that the raw material, the molasses, for a gallon of 90 proof alcohol—and this is what rum is, essentially, is it not—costs the distiller 22½ cents? Would you say that that is true or not true?

Mr. PAIEWONSKY. That is correct, sir.

Senator ALLOTT. So when you talk about not being able to operate profitably on anything above 10 cents per gallon, there is quite a discrepancy between that and 22½ cents, and the amount that this same alcohol sells for when it is placed in the market under the guise of rum or something else.

Mr. PAIEWONSKY. There are a lot of other costs that enter the picture, outside of molasses. Molasses is only a small part of the total cost. Rum is manufactured, and there is a labor cost. There are chemicals used. There are barrels. There is a period where you have to store the rum. There is outage. And you have to carry the plant, insurances, and everything else. So that the amount of molasses, the value of molasses, in a gallon of rum, is only a fraction of the total cost.

Senator ALLOTT. Well, I would be interested in seeing your books, or anyone else's books, for that matter, and seeing what fraction of the cost of the bottle consists of the cost of the raw alcohol.

Now, is this alcohol that you manufacture and convert into rum subject to a tax of any kind in the Virgin Islands?

Mr. PAIEWONSKY. Practically a hundred percent of what we manufacture goes to the United States, to customers in the United States, under our brand label. And it is subject to the same Internal Revenue taxes here as any other product of a similar nature.

Senator ALLOTT. Mr. Chairman, I do not want to take up all the time. I have many more questions.

But I would like to ask permission to insert in the record at this time, at a place adjacent to my questions concerning inheritance tax, subtitle I of the Virgin Islands Code Annotated, volume V, occurring on page 3, concerning inheritance tax, which shows the tax to be 2 percent from husband to wife, wife to husband, and to children, and to parents, and 8 percent on brothers and sisters. And I would like to have also included as a part of that the Annotations which are pertinent to these three sections in the Virgin Islands Code.

The CHAIRMAN. Without objection, that will be done.

Mr. CARVER. Mr. Chairman, does this take care of the request that you wanted from the Department?

The CHAIRMAN. You had better check the record.

Senator MILLER. On that point: You say most of the products were shipped to the United States?

Mr. PAIEWONSKY. From our distillery; yes. From St. Croix.

Senator MILLER. Who was your major customer?

Mr. PAIEWONSKY. We have several customers throughout the United States. Our major customer is Star Liquor Dealers in New York City. The Old Mr. Boston, in Boston. And we have a number of other customers. We have Federal Liquors in New Jersey. We have on the west coast the Bohemian International Distillers.

Senator CARROLL. Will the Senator yield?

I did not understand. Customers for what?

The CHAIRMAN. Rum.

Senator DWORSHAK. At that point, Mr. Chairman, we might explore the possibilities of this labeling.

Mr. Paiewonsky, are you aware of the investigation which was made by a House Interior Committee recently in the islands? Do you know about the report they made making many charges about false labeling of rum which your distillery manufactured?

Mr. PAIEWONSKY. I have heard that there was someone down in the islands, but I do not know anything about that, sir.

Senator DWORSHAK. You did not testify before the committee?

Mr. PAIEWONSKY. Recently? No, sir.

Senator DWORSHAK. No. The House Committee which carried on an investigation in the islands.

Mr. PAIEWONSKY. When was this, sir?

Senator DWORSHAK. About 2 years or so ago. Chairman Aspinall and several others were there in 1956.

Mr. PAIEWONSKY. Yes, sir.

Senator DWORSHAK. Did you testify?

Mr. PAIEWONSKY. I testified before the committee in Government House. It was not a formal committee. I think there was a hearing, and I did testify before that.

Senator DWORSHAK. There were some charges of false labeling on some of your products, but you were cleared at that time of those charges?

Mr. PAIEWONSKY. Yes, sir. There was no question about that. Yes, sir. It did not apply to us.

Senator DWORSHAK. A report has never been filed, and I do not know what the particulars are, but I am aware of it.

Thank you.

Senator ALLOTT. Mr. Chairman, I have more questions on this, that I would like to ask at a more appropriate time than this, but not at this time.

Senator BURDICK. Mr. Chairman, I have one question, because it relates to the subject that has been developed.

At the time that you were buying rum at 10 cents a gallon from VICORP, at about that same period—

The CHAIRMAN. Molasses.

Senator BURDICK. Molasses—excuse me—from VICORP, you had received a subsidy under a bill passed by the Virgin Islands Legislature?

Mr. PAIEWONSKY. The bill for the subsidy came subsequent, sir, at a later date.

Senator BURDICK. About 1958?

Mr. PAIEWONSKY. Later in 1957 or 1958; yes, sir.

Senator BURDICK. And was not that subsidy that was paid to the Riise Chemical Distillery and to St. Croix Sugar Cane Industries a total of \$250,000?

Mr. PAIEWONSKY. Approximately that, over the 2 years. The subsidy actually picked up the difference, pegging the price of molasses at 7 cents, and paying the difference.

In other words, the government of the Virgin Islands—the subsidy was to permit the industry to continue on the basis of the purchasing of molasses at 7 cents. And above that, the government paid the difference.

Senator BURDICK. Were there any other distilleries?

Mr. PAIEWONSKY. Yes, sir.

Senator BURDICK. Were there distilleries in the island that did not receive the subsidy?

Mr. PAIEWONSKY. All operating distilleries received it. There were other distilleries that were not operating, that looked for subsidy, but it was not paid to them, because they were not in operation. They were told that if they brought in molasses or purchased molasses, it would be applicable to all of them.

Senator BURDICK. What portion of the \$258,000 did Riise Industries receive?

Mr. PAIEWONSKY. Well, there are two distilleries in the islands, and it follows the same pattern with molasses from VICORP. We received 70 percent and the St. Croix Industries received 30 percent.

Senator BURDICK. Then you received 70 percent—

Mr. PAIEWONSKY. On the subsidy, I think it worked out 66⅔ percent to Riise and 33⅓ percent to St. Croix Sugar Cane Industries.

Senator BURDICK. That is all. Thank you.

The CHAIRMAN. Since this question was raised of that shipment of rum, the investigation of the House committee—I do not know whether it is a public document or not—dated December 5th, 1956, deals with Goddard's, Ltd., Bolero, Inc., A. H. Riise, and Virgin Island Distillers.

Mr. PAIEWONSKY. That is correct, sir.

The CHAIRMAN. And it says they have been shipping rum labeled 6 and 8 years old. "A vast quantity of this rum has been shipped out under false and fraudulent certification." And because the local government did not do anything about it, the Federal Government could not do anything. Is that the way it came out?

Mr. PAIEWONSKY. There was a hearing, and we made our records available, and I do not remember the name—

The CHAIRMAN. Senator Dworshak asked me about the report. I have never seen it until just now.

Mr. PAIEWONSKY. The local government had taken action, and prior to that the questions of age, and age requirements of the islands, were put under strict control, and there was no age statement on any Virgin Islands rums.

The CHAIRMAN. There is no labeling at all on it any more.

Mr. PAIEWONSKY. No, sir; not as to age.

The CHAIRMAN. There was no way of checking on it before, was there?

Mr. PAIEWONSKY. There was. We had an insular gager.

The CHAIRMAN. But you do not have a bonded warehouse or anything comparable?

Mr. PAIEWONSKY. No, sir; but they are being set up now.

The CHAIRMAN. Senator Hickey?

Senator HICKEY. Mr. Paiewonsky, do you broker the warehouse receipts? You spoke of the storing of your rum for a period of time. Do you broker warehouse receipts through the bank?

Mr. PAIEWONSKY. No, sir. That is not a current practice in the islands.

Senator HICKEY. You speak of bonding warehouses. Will that give you an opportunity to broker warehouse receipts?

Mr. PAIEWONSKY. Yes, sir.

Senator HICKEY. Is that in the plans of the new merged bank, to broker warehouse receipts?

Mr. PAIEWONSKY. The matter was discussed, and I do not know whether they will do it on a warehouse receipt basis, or whether they will just do it on an inventory basis. But the banks now are planning to do that, because that is good business for them.

Senator HICKEY. Now, when was this bank merged, this Chase National Bank?

Mr. PAIEWONSKY. I think the banks were merged almost 2 years ago. In September 1958.

Senator HICKEY. And under this plan of warehouse receipting, this would be the agency that would perhaps broker the warehouse receipts. Is that correct?

Mr. PAIEWONSKY. Yes, sir. There are two good banks now in the Virgin Islands, the Chase Manhattan and the First Philadelphia Bank & Trust Co.

Senator HICKEY. Are you interested in the Chase Manhattan?

Mr. PAIEWONSKY. Well, when we sold the banks, I, as I made the statement here—I exchanged my shares in both banks for shares in Chase Manhattan and shares in the First Bank & Trust Co. of Pennsylvania.

Senator HICKEY. Are you the majority stockholder in one of those?

Mr. PAIEWONSKY. Oh, no, a fraction of a percent.

Senator HICKEY. That is all.

The CHAIRMAN. Will you proceed with your statement?

Mr. PAIEWONSKY. This second bank, the West Indies Bank and Trust Company, was opened up to over 1,000 stockholders. The residents of the Virgin Islands accounted for the great majority of all stockholders and the great majority of all shares.

Senator ALLOTT. At that point, Mr. Paiewonsky, may I ask you: What percentage of this stock do you own?

Mr. PAIEWONSKY. Of the West Indies Bank & Trust Co.?

Senator ALLOTT. Yes.

Mr. PAIEWONSKY. I think it was about 4 percent, 4 or 5 percent.

Senator ALLOTT. And how much is owned by your family?

Mr. PAIEWONSKY. They have very little.

Senator ALLOTT. You yourself own 4 to 5 percent. Now, in the other bank, what percentage do you own?

Mr. PAIEWONSKY. I own approximately 12 percent.

The CHAIRMAN. Other members of the family?

Mr. PAIEWONSKY. No; I am the only stockholder.

Senator DWORSHAK. The second bank was sold?

Mr. PAIEWONSKY. Yes. The second bank and trust company was merged on the same basis, an exchange of shares.

Senator DWORSHAK. How much profit was made when that second bank was sold? Do you recall? Was it quite a handsome profit?

Mr. PAIEWONSKY. I think it was sold for approximately twice book value, approximately that.

Senator DWORSHAK. How long had it operated before it was sold?

Mr. PAIEWONSKY. It started I think in 1935, 1935 or 1936. It was sold last year.

The CHAIRMAN. Go ahead.

Mr. PAIEWONSKY. With the bank's phenomenal growth, we felt that the best banking talent was needed, and we sold to the Chase Manhattan Bank. This has given the islands a new channel of funds and a broad base for further growth.

If the committee will indulge me for a moment, I would like to note that in 1954, on the 50th wedding anniversary of my parents, we established a Paiewonsky Golden Jubilee Scholarship Fund. Each year a grant of \$2,000, designed to make possible 4-year attendance at a college in the continental United States, is awarded to the graduate of the Charlotte Amalie High School selected on merit and need. I have been a member of the selecting board, together with the high school principal and the bank official. I can advise that we aim to encourage the education of students who will return to the islands with needed skills—medicine, nursing, electrical engineering, et cetera.

So in business and philanthropy, I and the other members of my family feel a keen sense of loyalty to the islands, concern for their welfare, and dedication to their progress.

As Governor I would want to do what is best for the islands, and its inhabitants.

Senator MILLER. What do you envision to be the No. 1 problem of the islands?

Mr. PAIEWONSKY. We have a number of No. 1 problems. We have the problem of water, electricity, roads, harbors, airports, middle income housing, and the creation of industries to give diversification, so that we can give our people work in the islands.

Senator MILLER. Do you have any plans to solve those problems?

Mr. PAIEWONSKY. Oh, yes, sir. I have lived with these things. I have been on the Governor's advisory committee. I am the chairman of the Governor's tourist and industry advisory committee. And we have worked with these problems.

Senator MILLER. Have you taken any action as a member of the legislature along those lines?

Mr. PAIEWONSKY. I am not a member of the legislature at the present time, sir. I served in the legislature from 1936 to 1946, and have served on committees of the legislature, such as the organic act committee, and other committees in an advisory capacity, and have served on many of the committees for the Governor in an advisory capacity. And we have made certain recommendations to the legislature.

Senator MILLER. And has the legislature taken action on those recommendations?

Mr. PAIEWONSKY. The legislature has taken action on a few of the matters, yes.

Senator MILLER. Have there been some of your major recommendations which the legislature did not carry out?

Mr. PAIEWONSKY. Well, I do not think I have had the opportunity to make the major recommendations. I think that is in the realm of the Governor and the executive department.

Senator MILLER. Is there any congressional legislation that would be needed?

Mr. PAIEWONSKY. I think from time to time we do need some congressional legislation; yes, sir.

Senator MILLER. Do you have any particular legislation in mind?

Mr. PAIEWONSKY. Well, there have been several bills, certain suggestions for the changing of the organic act, and for the granting of the people of the Virgin Islands a greater degree of autonomy, such as giving them a nonvoting delegate in the Congress of the United States, and the right to elect their own Governor, and also the right to vote in a national election for President and Vice President.

I think those are the three major things that have been requested recently of the Congress. I think there are also plans of the home rule committee asking for a greater degree of home rule for the people of the Virgin Islands. This is a legislative program.

Senator MILLER. And what was your position on those?

Mr. PAIEWONSKY. Well, I am in favor of the three proposals. I feel that the people of the Virgin Islands have reached a high degree of maturity. I have advocated this in the national Democratic platform. I think it was incorporated in the previous Democratic platform and then reiterated again in this last one—the right to elect their own Governor, and for resident delegate. And there was an addition this year which asked for their right to vote for the President and Vice President of the United States in a similar manner as granted to the District of Columbia.

Of course, that would be a constitutional amendment.

Senator MILLER. And you are in favor of this home rule proposal, also?

Mr. PAIEWONSKY. The question of the home rule proposal, sir—I would have to take a closer look at it. It was not involved. I understand they hired a professional person in this direction, and I do not know what the actual recommendations are. I do feel that certain matters can be done to give the islands—or maybe it can be done within the executive branch of the Government.

Senator MILLER. Well, would you, as Governor, be making a recommendation for some kind of home rule program for the islands?

Mr. PAIEWONSKY. After I have given the matter careful study, sir; because I think right now we have enough government. And I do not feel that we want to extend and create a more expensive type of government. I think we want to have a more efficient type of government. And maybe it can be done by less government rather than more government, as far as bureaus are concerned.

Senator MILLER. Do you have anything in mind, specifically, by way of Federal appropriations or activities down there?

Mr. PAIEWONSKY. At the present time, under our economic provisions that we have, I do not believe that it is necessary for the Government of the Virgin Islands to request any Federal appropriations. I think we have a formula worked out, the one worked out by the 83d Congress, which has created the economic impetus that we are experiencing at the present time.

The CHAIRMAN. I am sorry, Mr. Paiewonsky. We are going to have to answer a quorum call.

We will be in recess for 10 minutes.

(Short recess.)

The CHAIRMAN. The committee will be in order again.

You may proceed.

Mr. PAIEWONSKY. As Governor I would want to do what is best for the islands, and its inhabitants. I do not believe that I would have any occasion to consider or take any action benefiting my retail, theater, and realty holdings except insofar as these would benefit together with the rest of the islands and their inhabitants from a sound and vigorous administration conducted in the interest of all the people.

I do not visualize that these retail holdings and real estate holdings will raise any specific conflict of interest problem.

Senator ALLOTT. May I interrupt you there, sir?

The CHAIRMAN. Senator Allott.

Senator ALLOTT. I was checking the Virgin Islands Code Annotated a few moments ago. I am referring now to volume V of the Virgin Islands Code Annotated, page 215, chapter 85, section 2401, and the subsequent sections, providing for the assessment of property in the Virgin Islands.

Now, I do not find here any directive in the assessment requiring an equalization of property, even though that may be implied by the general law.

I refer to section 2404, particularly, which I will read as it is:

Assessment of property factors to be considered. In computing the actual value of real property subject to taxation, the assessor shall take into consideration all of the following elements and incidents: (1) The location and surroundings; (2) quality or fertility; (3) condition of structures; (4) recent cost to the present owner; (5) recent sale price of adjacent property; (6) recent bona fide holder; (7) accessibility; (8) proximity to public facilities, convenience, and utilities; and (9) rental or income derived directly from the property.

Now, is it not a fact, Mr. Paiewonsky, with relation to the statements you have just made, that there is a great variation in the assessment of values, depending upon whether the person owning the property is a native of the islands, or whether it has been purchased?

Mr. PAIEWONSKY. I do not think that is a correct statement, sir. And I can say that the Governor of the Virgin Islands undertook a study and a survey for a complete reassessment.

Senator ALLOTT. When did this occur?

Mr. PAIEWONSKY. This is about to go into effect at this moment. I think Governor de Castro, who is here, and who was working as a budget officer of the present administration, can enlighten you on this particular program.

I think a scientific team has been working on this now for over a year, and they have come up with their final recommendations, and the Government is about to put this into operation at this moment.

Senator ALLOTT. You say that you do not imagine that your real estate holdings will raise any specific conflict-of-interest problems.

It is a fact that you and your family hold extensive real estate holdings on St. Thomas, not only within the town of Charlotte Amalie, but outside?

Mr. PAIEWONSKY. The property we own is mostly commercial property within the town of Charlotte Amalie, sir.

Senator ALLOTT. And do you not also own considerable property which is susceptible of development for future residential sites? I do not recall the name of the particular drive, but along the areas which go up into the hills, there?

Mr. PAIEWONSKY. No, sir; that was sold some time ago. We do not own that. We have disposed of that.

Senator ALLOTT. Now, who was that sold to?

Mr. PAIEWONSKY. I do not know the name. I had 3 acres all together on the top of that hill. My brother had, I think, 8 or 12. And he sold his to—I believe the person's name was Smith, someone from New England.

I am not familiar with the people that bought it. This was several years ago.

Senator ALLOTT. What would be the extent of the total holdings of you, yourself, that is, either you or your wife, outside of Charlotte Amalie?

Mr. PAIEWONSKY. The only property that I own in partnership with my brother outside of Charlotte Amalie is part of Hassell Island, which is an island off the shore.

Senator ALLOTT. That is the place where you have your own summer home?

Mr. PAIEWONSKY. No; we have not built a home there yet, but we plan to do that, sir.

Senator ALLOTT. Your brother has developed it to some extent?

Mr. PAIEWONSKY. My brother has developed his portion, yes, sir, or is in the process of developing.

Senator ALLOTT. And this is the only property outside of Charlotte Amalie that you or your family own on St. Thomas?

Mr. PAIEWONSKY. That is correct.

Senator ALLOTT. Now, what is the situation with respect to St. Croix?

Mr. PAIEWONSKY. The only property that we own in St. Croix, that I own, is a building site on which I was building a home, because I was residing in St. Croix, operating the distillery, and it constitutes I think maybe an acre and a half or 2 acres, which is a home plot.

Senator ALLOTT. Where is that located?

Mr. PAIEWONSKY. That is located on the estate of Budsberg, right opposite the Buccaneer Hotel, on the other side of the road from the Buccaneer Hotel. And the distillery is the only other property that we have in St. Croix.

Senator ALLOTT. I understand, of course, that you still own this distillery.

The CHAIRMAN. Go ahead.

Mr. PAIEWONSKY. However, if any such situation conflict of interest should develop, I would undertake to step aside from the situation so that the decision could be made by the Government Secretary as Acting Governor in accordance with the provisions included by Congress in 1954 in the Revised Organic Act of the Virgin Islands.

Senator ALLOTT. Now, may I ask you another question, there?

Who appoints the Government Secretary?

Mr. PAIEWONSKY. The President of the United States, sir, with the recommendation of the Secretary of the Interior.

Senator ALLOTT. Upon the recommendation of the Governor?

Mr. PAIEWONSKY. No, sir. The Governor has nothing to say in connection with the appointment of the Government Secretary. The Organic Act so provides.

Senator ALLOTT. Do you believe that a secretary would be appointed without consultation with the Governor?

Mr. PAIEWONSKY. It has been done in the past, sir, several times.

Senator ALLOTT. The Government Secretary would be second in command in the government of the Islands?

Mr. PAIEWONSKY. He is the Acting Governor during the absence of the Governor.

Senator ALLOTT. He is in effect a lieutenant governor, is he not?

Mr. PAIEWONSKY. That is correct, sir.

Senator ALLOTT. Thank you.

Mr. PAIEWONSKY. Section 12 of that act provides that the Government Secretary "shall have such executive powers and perform such other duties as may be assigned to him by the Governor." Section 14 provides that in case of "disability or temporary absence of the Governor, the Government Secretary shall have all the powers of the Governor." Section 15 provides that in case of disability or temporary absence of both the Governor and the Government Secretary, the Secretary of the Interior may designate the head of an executive department of the government of the Virgin Islands to act as Governor.

Congress has thus made ample provision to take care of any problem of the Governor's self-disqualification on particular matters because of a conflict of interest problem. If necessary, I could even fly to Puerto Rico for the day, in order to enable the Government Secretary to proceed as Acting Governor.

Senator ALLOTT. Mr. Paiewonsky, may I interrupt there?

I detect here something that I question very greatly, and that is the reason I questioned you previously about this particular thing.

Do you believe that it would be consistent with your duties to adopt the subterfuge of flying to Puerto Rico in order to permit the Secretary General to act?

Mr. PAIEWONSKY. No, sir. I think the question here is: If there is the remotest question that is raised, a question of a conflict of interest, whether it is in property or anything, which I do not foresee, and I do not see how there could be, in that case I would be willing, under the provisions which have been set up here, to absent myself and permit the Government Secretary, which is provided for here, to act in my absence.

Senator ALLOTT. Would it not be difficult for a Government Secretary in a situation in which you would find yourself to act in a direction which would be contrary to your known wishes?

Mr. PAIEWONSKY. Well, sir, if there is any question on this particular matter, where I do not see the possibility of it arising, but should it be, he would have full right, and I would permit him. There would be no question about that, sir, about his having the right to act as he saw fit, without my bringing any pressure or any such thing.

The CHAIRMAN. Proceed.

Mr. PAIEWONSKY. In addition to the Virgin Islands holdings that I have listed, I should note that I own shares in A-1 nationally rated companies, and to an almost insignificant degree this could be considered a holding in the Virgin Islands.

For example, as a result of the exchange of my shares in Virgin Islands banks, I now own 1,100 shares of the stock of Chase Manhattan Bank, and 3,000 shares of the stock of First Pennsylvania Bank & Trust Co. Theoretically, this gives me an interest in the Virgin Islands branches; as a practical matter, that is insignificant. My shares represent an insignificant percentage of the total shares outstanding, and the Virgin Islands branches represent only a tiny percentage of the assets and business of the banks.

Again, as a result of the disposition of our shares in A. H. Riise Chemicals & Distillers, my brother and I will each receive shares amounting to less than one-half of 1 percent of the stock of a large national distiller. The Virgin Islands distillery will account for less than one-half of 1 percent of its total assets.

Senator BURDICK. Mr. Chairman, I would like to ask a question at that juncture.

When I questioned you earlier today, I asked you if the net worth of the Riise Chemicals was not in the amount of \$451,000, and you said it was in excess of that.

Mr. PAIEWONSKY. It was, sir.

Senator BURDICK. How much in excess of that?

Mr. PAIEWONSKY. I would say the total, including inventory—I mean, we would include all of the total assets—I would say the total asset value, including inventory, would amount to about \$1½ million.

Senator BURDICK. \$1½ million. Then you exchanged \$1½ million for stock in a distillery?

Mr. PAIEWONSKY. Well, but remember that the shareholders will not receive \$1½ million in shares. There are bank loans. There are mortgages. There are outstanding obligations against the company, which have to be assumed by the parent company that is taking it over.

Senator BURDICK. What was the value of the stock that you acquired in the distillery? I assume it is Schenley's?

Mr. PAIEWONSKY. Yes, sir.

Senator BURDICK. What was the value of the stock that you acquired in Schenley's? Your personal interest, first.

Mr. PAIEWONSKY. My personal interest might amount to approximately about 12,000 shares, between 10 and 12 thousand shares.

Senator BURDICK. What is it worth, a share?

Mr. PAIEWONSKY. It is an average of about \$26 or \$27 on the exchange today. It fluctuates between \$26 and \$27 a share.

Senator BURDICK. And your brother will receive stock?

Mr. PAIEWONSKY. Yes.

Senator BURDICK. And other members of the family receive stock?

Mr. PAIEWONSKY. Very little.

Senator BURDICK. And does Schenley's do business in the Virgin Islands?

Mr. PAIEWONSKY. I think Schenley's sells its products, their whiskeys and other products, and pharmaceuticals, I presume, in the islands. But I mean it is on the same basis that any other distillery

in the United States or in the world sell their products to the liquor stores or the drugstores and so forth.

Senator ALLOTT. Then, under the testimony you have just given, your interest in Schenley Distilleries would be over a quarter of a million dollars.

The CHAIRMAN. About \$300,000.

Mr. PAIEWONSKY. Yes, sir.

To avoid any questions, I shall place these shares in trust with an irrevocable instruction to the trustee to dispose of the shares as promptly as possible, and in any event within a year, and to either sell them, or exchange them for shares in one of the large mutual funds or investment companies, at such time and for such consideration as the trustee shall determine in its sole discretion.

The CHAIRMAN. Your statement there is that even though there might be temporarily a slight question of argument about conflict of interest, it would be terminated as soon as you got into a position where you could take capital gains on it and dispose of it, which would be not less than 6 months and not over a year?

Mr. PAIEWONSKY. Yes, sir.

On this delicate matter we must, I realize, consider both substance and appearances.

Personal confidence in Government officials is a necessary part of confidence in democratic government.

I can assure you that I am aware of this, that it is for that reason that I have made complete disclosure of my Virgin Islands holdings, and that if I am confirmed, I will be guided in my administration by a desire to be absolutely strict on this point. I am ready to bear any incidental sacrifice. It is a privilege to be asked to render service in high office, and I want to live up to the highest standards of the office.

I have a listing of the holdings.

The CHAIRMAN. That will appear in the record at this point. (The list of holdings referred to follows:)

HOLDINGS OF RAPHAEL PAIEWONSKY IN THE VIRGIN ISLANDS

HOLDINGS TO BE DISPOSED OF

1. A. H. Riise Chemical and Distillers Corp., Christiansted, St. Croix, V.I. This corporation is engaged in the manufacturing and marketing of Virgin Islands rum. I own 45 percent of its capital stock. The balance is also family-owned except for a very small fraction.

2. Consolidated Distillers, Ltd., St. Croix, V.I. Engaged in the sale of bulk rum. I own 24 percent of its capital stock. My brother also owns 24 percent. Another group owns 48 percent. The lawyers for each group own the balance.

3. I own 7 percent of West Indies Investment Corp., which owns a total of approximately 2,300 acres of undeveloped land in St. Thomas and St. Croix. My brother owns 2 to 3 percent. There are no other family holdings.

FAMILY MANAGED ENTERPRISES

Retail

A. H. Riise, Inc., St. Thomas, V.I. This corporation operates three retail businesses: a liquor store, a stationery store, and a gift shop. It also owns a number of commercial buildings in St. Thomas, which are occupied either by the corporation or in some cases are rented to the firms that operate retail businesses. I own 33⅓ percent of its capital stock. My brother owns another one-third, and my parents own the remaining one-third.

Real estate

(a) I own 25 percent of the stock of No. 1, Queens Quarter, Inc., St. Thomas, which owns a single building leased to Chase Manhattan Bank. My brother owns 25 percent, and my parents own the balance.

(b) I own an undivided half interest in approximately 120 acres of land in St. Thomas (Hassell Island).

(c) We own the property that is the site of our homes.

Theater

(a) Centre Theatre, Inc., St. Thomas, V.I. Owns and operates a movie theater. I own 22½ percent of its capital stock. The rest of the stock is also family owned.

(b) Apollo Theatre, Inc., St. Thomas, V.I. Operates a movie theater. I own 16 percent of capital stock. The rest is also family owned except for a small outside interest.

FAMILY HOLDING AS MINORITY INTEREST

Caribe Vintners, Inc., St. Thomas, V.I. Engaged in wholesale liquor business in Virgin Islands. I own 10 percent of capital stock. My brother owns 10 percent. The balance is owned by outsiders who control the corporation.

The CHAIRMAN. I would like to put Governor de Castro on the stand, because he wants to get back to the Virgin Islands this afternoon.

Senator ALLOTT. May I ask just one question, Mr. Chairman?

The CHAIRMAN. Surely.

Senator ALLOTT. With respect to the holdings which you have discussed this morning, the list which you have attached, I want to ask you this general question: Is there any person, partnership, or corporation, holding for you, no matter how they hold it, any property, tangible or intangible, with an expressed or implied agreement or understanding that it will be reconveyed to you or resold to you at a later time?

Mr. PAIEWONSKY. No, sir.

The CHAIRMAN. We will excuse you, then. You may stay right there, if you wish.

The CHAIRMAN. Governor de Castro, first of all, when were you Governor?

STATEMENT OF HON. MORRIS DE CASTRO, FORMER GOVERNOR OF THE VIRGIN ISLANDS

Mr. DE CASTRO. From 1950 to 1954. That is included in my statement. I have a very short statement.

I appreciate your hearing me now, sir.

The CHAIRMAN. Are you a Government employee now?

Mr. DE CASTRO. Yes, sir.

I have a son in Boston in the Army, and I am trying to see him late this afternoon before returning to the Islands.

May I go ahead, sir?

The CHAIRMAN. Yes. If you do not cover it in your statement, tell us a little bit about your position and what it is.

Mr. DE CASTRO. Mr. Chairman and members of the committee, my name is Morris F. de Castro. I am a native and a resident of the Virgin Islands.

I was the first Virgin Islander to be appointed Governor of the Islands. I served as Governor from 1950 to 1954.

All told, I have been in the Government service in the Virgin Islands for practically my entire lifetime, for 38 years, in various capacities. I served for 10 years as head of the Department of Finance of the Islands. That was from 1934 to 1944.

I served for 4 years as government secretary of the Islands, and for 4 years as Governor, from 1950 to 1954.

In 1954, I left the government of the Islands. I was the last Democratic Governor.

I then joined the West Indies Bank & Trust Co., as cashier, and ultimately became president of the West Indies Bank & Trust before it was sold to Chase Manhattan Bank.

In 1959 I was invited to return to the government by Gov. John D. Merwin as his director of the budget and I am now serving as director of the budget of the Virgin Islands Government.

Mr. Chairman and gentlemen, my family and I, as did our forebears for a generation, are proud to call the Virgin Islands our home. It is to our interests, therefore, that the islands should continue to make substantial improvements physically, economically, and socially. It is to our interests that the islands should become self-supporting. I may say that they are well on their way in achieving that goal. I am here, gentlemen, to support the President's nomination of Mr. Ralph Paiewonsky to be our Governor. The people of the Virgin Islands in general are proud and pleased that the President at this time of world stress and strain has seen fit to nominate another Virgin Islander to be our new Governor.

The United States is thus demonstrating to the world that the United States stands behind its policy by deeds as well as by words, the policy of self-determination for its territorial people.

Just as an aside, may I say that the Virgin Islands have been fortunate to have as their Governor during the past 2½ years another Virgin Islander, Gov. John D. Merwin, who has proved to be a most effective administrator and able executive. I have known Mr. Paiewonsky all my life. I have lived all my life in the islands and in the government service. I need hardly say, because it has already been well covered, that Mr. Paiewonsky comes from a family prominent in the business as well as in the social life of the communities of the islands.

The Paiewonsky families over the years have made substantial contributions to the development of the economy of the islands. In making these contributions the Paiewonsky families have not forgotten the underprivileged classes in the community. Actually, I can say without fear of contradiction that they have friends in the Virgin Islands in all walks of life. Mr. Paiewonsky himself is an able and dynamic businessman and community leader. He was many years ago a member of the legislature for many years.

He has participated in the planning of many public improvements of a substantial nature. He commands the respect and the esteem, as well as the confidence, of a great majority of the island people. When Mr. Paiewonsky speaks on island matters, as he does frequently, he speaks with knowledge; he speaks with understanding and knowledge and an understanding born of long experience and of deep thought and study. He is thoroughly and completely acquainted by intimate day-to-day association with all the problems

which the territory faces, with all the problems which the islands must overcome, in their continued struggle for self-support and self-determination.

Under Governor Paiwonsky's leadership, if you will confirm him, the people of the Virgin Islands may expect that the progress of the islands will continue without any interruption. There will be no period of halting as there was some years ago. There will be no hesitancy. There will be no uncertain steps. There will be no holdup of good programs on the contrary, the islands will be faced with a vigorous administration guided by steady and capable hands. The President's nomination of Mr. Paiewonsky has met with the universal acclaim of the people of the islands. I unhesitatingly say that if the selection of a new Governor for the islands this year has been by election rather than by appointment and if Mr. Paiewonsky had been a candidate for election he would have been the choice of the majority of the people of the islands.

Mr. Chairman and members of the committee, as a veteran public official, as a native of the islands who is deeply interested in the welfare of the people of the islands, as a native who has given the better part of his life to public service, I most earnestly recommend that your committee confirm Mr. Paiewonsky's nomination.

Thank you.

The CHAIRMAN. Governor de Castro, you said that you hoped the islands might be self-supporting. You said you thought they were well on the way to becoming self-supporting.

Mr. DE CASTRO. Yes, sir.

The CHAIRMAN. What makes you think that? Does the Federal Government receive any of the income tax money that is collected in the Virgin Islands, or does it stay there and is returned to local government?

Mr. DE CASTRO. The income tax collected in the islands is the Federal income tax. It was made applicable to the Virgin Islands in 1921 at the request of the then Governor of the islands.

The CHAIRMAN. Regardless of its history, does it stay there or doesn't it?

Mr. DE CASTRO. It remains in the islands, yes, sir; but it is a local tax, in effect.

The CHAIRMAN. In addition to the Federal income tax which stays in the islands does the Federal Government pay the salary of the Governor?

Mr. DE CASTRO. The Federal Government pays now directly the salaries of the Governor and the Governor's secretary and their immediate staff.

The CHAIRMAN. And the members of the legislature?

Mr. DE CASTRO. Yes.

The CHAIRMAN. In addition to that, the Virgin Islands lost in 1960 \$662,021 in the operation of sugar alone. Has it ever been further away from being self-sufficient than that.

Mr. DE CASTRO. I do not intend to be argumentative or contradictory.

The CHAIRMAN. I merely say has it ever been further away from being self-supporting than that?

Mr. DE CASTRO. Yes, sir; I think they have been made further away. When I was Governor we used to receive direct contributions from the Federal Government, direct appropriations, of over a million dollars a year.

The CHAIRMAN. Was any of that for capital improvement?

Mr. DE CASTRO. All of that was for operation of the islands government at that time, but may I point out, Senator, and why I speak of the goal of self-support and why I think we are closer to the way of achieving self-support. When I left the government in 1954, our total revenues in the islands was just about \$3 million, the total revenues collected in the Virgin Islands. Last year we collected \$7,274,527 in local revenue. The year before we collected \$5,114,000. This year my present estimate is \$9.5 million. My estimate for next year is a little over \$10 million in revenue.

If this continues to keep up, and there is no reason why it should not keep up with the continued development of the islands as a tourist resort, I see very excellent prospects of the islands becoming self-supporting.

Senator GRUENING. May I make a comment?

The CHAIRMAN. Yes.

Senator GRUENING. If this optimistic picture prevails it seems to me the Virgin Islands are much better off than the United States.

Mr. DE CASTRO. I couldn't agree with my good friend, Senator Gruening, with whom I worked many years ago when he was director of territories, but I do give a most optimistic picture of the revenue of the islands because that is a fact and it is substantiated by the figures, which can be given to the committee and I am sure which you have.

The CHAIRMAN. If the Congress would kill off the Virgin Islands Corporation it would help you become self-sufficient much faster, would it not? You would quit losing your shirts in these operations down there.

Mr. DE CASTRO. You are asking me a very difficult question about the Virgin Islands Corporation. There are complex problems and complications. The big business of the Virgin Islands—I am not an expert on sugaring—is the sugar industry. The sugar industry has very seldom made money on the Virgin Islands, because of the marginal nature of the land, because of the small amount of sugar raised in a small island on a small economy.

The CHAIRMAN. You have been a longtime Government official down there. What percentage of the food consumed by the people in the Virgin Islands is produced in Virgin Islands?

Mr. DE CASTRO. Very little, sir.

The CHAIRMAN. Why is that?

Mr. DE CASTRO. Practically everything is imported. In the first place, Mr. Chairman, St. Thomas cannot be made an agricultural island. The island of St. Thomas as is, agriculture there would be quite expensive.

The CHAIRMAN. But if you lose so much money growing the sugar, why don't you try growing food?

Mr. DE CASTRO. Mr. Chairman, that has been tried and I think under able hands it can be tried again, but there are conditions in the islands that make these things quite perilous.

May I point out that while I was Governor in 1952 the Virgin Islands Corporation tried growing tomatoes, both for local consumption as well as for shipment to the American market. Usually we have a severe drought. In that particular year we had not a severe drought, but we had floods and the entire tomato crop was destroyed. It was tried the next year and that year we had a very bad drought, the entire tomato crop was lost. To make the Virgin Islands Corporation self-supporting would be a situation of trying to determine what could or could not replace sugar on St. Croix. That isn't as easy to work out as it is to speak about. Some one suggested some years ago that perhaps St. Croix should go from sugar to the raising of cattle. Then it developed after study that if we would put the entire island of St. Croix in cattle we would employ between 80 to 150 people and by leaving the island without the sugar we would have several thousand people unemployed. That requires deep study. It is entirely possible that the Virgin Islands Corporation or portions of it can be sold to private industry. I understand that the St. Thomas power situation, which is under the Virgin Islands Corporation, has made money. I have not seen the last balance sheet, but I know the year before the St. Thomas power section made money.

The CHAIRMAN. Do you think when this new electric plant is finished and the sale in waterplant is finished that the Government deficit will be higher or lower?

Mr. DE CASTRO. I think the goal would be to sell the power to private industry.

The CHAIRMAN. I know what is the goal. The goal is always to do better. What do you think will happen?

Mr. DE CASTRO. I can't say what will happen because I do not make policy. I think it should be done. The Virgin Islands Corporation just got out of the telephone service business. It just sold the telephone service to I.T. & T. and it is putting in a dial system which we didn't have because we didn't have the money.

In my opinion, the powerplant and power operation should be sold to private industry. I cannot say the same about sugar. That will take some study and further thought and some clear determination as to the goal as to where we are going on St. Croix but I do repeat, sir, that with the revenue picture I have given, which is not fantasy—it is a fact—the islands are closer to their goal of self-support than they have ever been.

The CHAIRMAN. Do you plan to stay with the government?

Mr. DE CASTRO. If Mr. Paiewonsky wishes me to, sir.

The CHAIRMAN. You know that political gratitude is the lively anticipation of favors yet to come?

Mr. DE CASTRO. Senator, I do not need political gratitude. I have been a veteran public official and I am a retired Federal Government employee. I left the Government in 1954 when my replacement was appointed by the Republican administration and I joined Mr. Paiewonsky's bank as a cashier and I became president.

Senator DWORSHAK. Do you think statehood for the islands would help to make them self-supporting?

Mr. DE CASTRO. I do not think that the islands could ever even think of achieving statehood. I think that the most the islands would want to do further politically would be their right to elect their own Gov-

ernor and to have their Representative here. The islands do not expect to become a State. They are too small.

Senator DWORSHAK. You said you were director of the budget under Governor Merwin. How much money did you handle?

Mr. DE CASTRO. The total budget for the islands, Seantor now amounts to about \$16 to \$17 million, of which \$9 million is raised locally, about \$6.5 million comes from the internal revenue tax on liquors produced in the islands and sold here.

Senator CARROLL. What was the \$9 million for? You are speaking so rapidly it is difficult for us to follow you.

Mr. DE CASTRO. The \$9 million represents revenues, income tax, real property taxes, inheritance taxes, business taxes, and so on.

Senator DWORSHAK. You say the cost of operating the local government with this budget is what?

Mr. DE CASTRO. The cost of operating the local government now, this year, is around \$9.5 million.

Senator DWORSHAK. How many employees do you have?

Mr. DE CASTRO. In all three islands between 2,500 and 3,000 employees, but we operate the government in the islands on the local level, the state level, the city level, and the county level.

Senator DWORSHAK. Uncle Sam picks up the bill at the end of the year if there is a deficit. Uncle Sam has been doing that for many years.

Mr. DE CASTRO. Not any more, sir, except for the loss in the Virgin Islands Corporation. The local government raises \$8 million in local taxes and the balance comes from the internal revenue taxes on liquors produced in the islands when shipped to the United States. That was not unusual because Puerto Rico has had that benefit of the Federal internal revenue taxes since 1917 and Puerto Rico has them on an unlimited basis. We have only had them since 1954 on a limited basis. We get the internal revenue taxes back provided we can match the taxes dollar for dollar.

In other words, if we raise half a million dollars in taxes we get half a million dollars of the Federal internal revenue taxes.

Senator DWORSHAK. How many people are employed by the Virgin Islands Corporation?

Mr. DE CASTRO. I am not certain. I couldn't give you the exact answer. During the crop season there are probably several thousand employed. Normally I would say about a thousand.

Senator DWORSHAK. The government is the biggest industry, though, is it not, the operation of the local government, really?

Mr. DE CASTRO. Not any more, sir.

Senator DWORSHAK. It used to be.

Mr. DE CASTRO. That is correct, but with the expanded economy of the islands, the operation of the hotels and gift shops and the purchase of facilities for tourism is becoming the biggest industry in the islands.

Senator DWORSHAK. Who owns the tourist hotels?

Mr. DE CASTRO. The hotels are owned by some people in the islands from the United States who have formed corporations there.

Senator DWORSHAK. The local government has no interest?

Mr. DE CASTRO. The government had an interest only in Bluebeard's Castle Hotel, which was started at the same time the Virgin Islands Corporation was. That interest was sold.

The CHAIRMAN. Senator Allott.

Senator ALLOTT. Yes, I have several things.

Governor, I didn't get how much is collected on the Federal income tax and is retained in the islands.

Mr. DE CASTRO. I can give you the exact figure.

Preceding the direct answer to your question, and I have the figures here, may I say that the Virgin Islands had their own local income tax. The islands were taken over in 1917 by the United States. They were purchased in 1917 from Denmark. From 1917 to about 1921 the Virgin Islands had their own income tax law. In 1921, at the request of a former naval Governor, Congress applied the Federal income tax law to the islands in a rider to the 1921 Naval Appropriation Act at the specific request of Governor Kittelle for the reason that we wanted to assure at that time two things: One, that we could always say that the people of the Virgin Islands paid the same income taxes as American citizens elsewhere; secondly, that we wanted to have an income tax statute on our books which could not be changed by the local legislature.

Senator ALLOTT. What is the figure?

Mr. DE CASTRO. Yes, I will give you the figure. The income taxes collected in fiscal year 1960 amounted to \$4,332,187. In the present fiscal year my estimate is \$5,934,000. My estimate for next year is \$6,250,000.

Senator ALLOTT. So that in addition to the figures that you have given us we have to add the \$4,332,000 that the Federal Government has left there for the utilization of your own government economy?

Mr. DE CASTRO. Senator, that figure is included in our revenue.

Senator ALLOTT. Is this true or not?

Mr. DE CASTRO. It is included in our revenue figure.

Senator ALLOTT. In your total figure of \$9 million.

Mr. DE CASTRO. In your total figure of \$7,274,000 in revenue in 1960. Of that \$7 million, \$4 million was income taxes.

Senator ALLOTT. Now, you said that the Federal Government had no interest in any of these hotels that are considering coming up here. Do you know of a Howard Lundgren?

Mr. DE CASTRO. Yes, I know of Howard Lundgren Associates.

Senator ALLOTT. Do you know of a Howard Lundgren?

Mr. DE CASTRO. Yes.

Senator ALLOTT. Is it not a fact that the Virgin Islands Legislature has authorized the issuance of \$4 million in government bonds to construct and operate a hotel and other commercial properties associated with and owned by Howard Lundgren and his associates?

Mr. DE CASTRO. That is correct. The bond issue has not been made yet.

Senator ALLOTT. It has been authorized?

Mr. DE CASTRO. Yes.

Senator ALLOTT. Do you know Leslie Hunt?

Mr. DE CASTRO. Yes.

Senator ALLOTT. Is it not true that the Virgin Islands issuance of \$3 million in government bonds is to construct and operate a hotel owned by Leslie Hunt and his associates?

Mr. DE CASTRO. Yes, sir; and there are two more, I think.

Senator ALLOTT. Sidney Kessler?

Mr. DE CASTRO. Yes.

Senator ALLOTT. Do you know a Sidney Kessler?

Mr. DE CASTRO. Yes, sir.

Senator ALLOTT. And the Virgin Island Legislature has authorized the issuance of \$2 million in government bonds to construct and operate a hotel and other commercial enterprises owned by Sidney Kessler and associates; is that true?

Mr. DE CASTRO. Yes, sir.

Senator ALLOTT. None of these moneys have been issued?

Mr. DE CASTRO. No. The media for issuing the bonds and the method of operation has not even been developed. The authorization has been made, but nothing further has been done.

Senator ALLOTT. You say there is still a fourth one. Do you know who that is, and what the amount of the authorization is?

Mr. DE CASTRO. Kessler, Lindgre, and Hunt. I guess those are the three. I don't think there is any other.

Senator ALLOTT. You are not sure that there is a fourth?

Mr. DE CASTRO. There was a fourth application for a medical institution in St. Croix because the law provides any type of public endeavor, but that was not approved.

Senator ALLOTT. That was not approved, but the three applications for hotels were approved?

Mr. DE CASTRO. That is correct. My statement that the Federal Government does not own any interest in any hotel at this time is correct. We have no such interest.

Senator ALLOTT. I understand that is strictly speaking correct, but we have in the offing a situation where the government is actually authorizing itself to go into debt to finance enterprises in the islands, is that correct?

Mr. DE CASTRO. No, sir; I don't think that is strictly speaking correct. Under the terms of the organic act the government will not go into debt for this. The bonds will be picked up by private people and they are guaranteed only by the revenues of the project. The government of the Virgin Islands will not guarantee these bonds either by the Government of the United States revenues or by the general revenues of the islands. They will be guaranteed by law only by the revenues of the particular project.

Senator ALLOTT. Isn't it a fact that in these three instances the legislature has authorized the issuance of bonds?

Mr. DE CASTRO. Yes, sir.

Senator ALLOTT. For this construction?

Mr. DE CASTRO. Yes, sir.

Senator ALLOTT. Let's get back to the food situation.

You spoke of tomatoes in 1957. Governor, isn't it a fact that there has never been any comprehensive effort for the Virgin Islands to Bring the Virgin Islands into a situation where it could be essentially self-producing to provide its own foodstuffs?

Mr. DE CASTRO. That is a correct statement.

Senator ALLOTT. Let me go further.

Mr. DE CASTRO. May I continue 1 second?

Senator ALLOTT. Yes.

Mr. DE CASTRO. I will qualify that by saying I don't think agricultural conditions in the islands are such that the Virgin Islands could ever support themselves on their own foodstuffs.

Senator ALLOTT. It is true, is it not, so that we have the general picture in the record, that there is only a very small amount of the total acreage of St. Thomas susceptible of cultivation?

Mr. DE CASTRO. That is right, sir.

Senator ALLOTT. And the same situation applies generally to St. John?

Mr. DE CASTRO. That is correct.

Senator ALLOTT. Now, with respect to St. Croix you have an entirely different situation as far as the character of the land, do you not?

Mr. DE CASTRO. Yes, sir.

Senator ALLOTT. As I recall it, running generally through part of the central and eastern portion you have a hilly or a mountainous country, but you also have rather extensive plains areas running along the west side of the island upon which most of the present crop of sugar cane is grown? Is that correct?

Mr. DE CASTRO. That is correct.

Senator ALLOTT. Is it not a fact that one of the greatest deterrents to the development of agriculture in the islands has been the fact that you have not been able to get the natives of the Virgin Islands to work in these agricultural projects?

Mr. DE CASTRO. I don't think so, sir. I believe that the natives of the Virgin Islands will work on any agricultural crop that would prove successful if they can be proved to be successful. May I say that the U.S. Department of Agriculture has an experiment station and an agricultural station in the Virgin Islands now and has had for many years and they have still not been able to come up with any very successful crops in spite of the fact that they have been experimenting there for a great many years.

Senator ALLOTT. To further this situation, the island of St. Croix has more water, far more water, than the island of St. Thomas, does it not?

Mr. DE CASTRO. That is correct.

Senator ALLOTT. And you must know this of a general nature, although not from an engineering standpoint, that the island of St. Croix is susceptible in many instances to the retention of water and the subsequent use for agricultural purpose by dams?

Mr. DE CASTRO. That has been done.

Senator ALLOTT. And it has already been done in part, but there is still room for much greater development. Now, with respect to the labor situation, do you know what is the total labor force on the Island of St. Thomas, exclusive of taxicab drivers? Taxis seem to be one of the main businesses.

Mr. DE CASTRO. In number?

Senator ALLOTT. In number, yes. If you don't know, don't guess at it.

Mr. DE CASTRO. I don't know exactly. I would say about four or five thousand people, roughly.

Senator ALLOTT. Isn't it a fact that a major portion of the labor force of St. Thomas comes not from St. Thomas, but all from the British Tortugas and the Antiguas and from the adjacent islands?

Mr. DE CASTRO. It is not a fact that the major portion of the labor force of St. Thomas comes from the British islands.

Senator ALLOTT. You say it is not a fact?

Mr. DE CASTRO. It is not a fact.

Senator ALLOTT. Have you ever discussed this with the immigration authorities there?

Mr. DE CASTRO. I have been a part of the discussion with them. I have joined with the employment service in the discussion of admissions. I think the total number of workers admitted to the Virgin Islands from time to time by the employment service and the immigration service would be in the neighborhood of a thousand or a little over, and that includes St. Croix and St. Thomas, with the exception of the labor imported by the Virgin Islands Corp. on a seasonal basis for sugar.

Senator ALLOTT. We will leave those out.

Mr. DE CASTRO. Yes, we will have to because that is another question.

Senator ALLOTT. I only want to interject this remark, Governor, and I am sure that your answers were given honestly, but the information I have had given to me is quite contrary to the statement you have just made and, as a matter of fact, one of the main troubles is that they are not able to get the local citizens to work, that a lot of them are on relief, and other things. How does our relief load there compare with the relief load in the United States?

Mr. DE CASTRO. Senator, could I mention something about what you said a minute ago?

Senator ALLOTT. Yes.

Mr. DE CASTRO. You said that perhaps the major problem is that we cannot get our citizens to work and that they are mostly on relief. That is not so, Senator. In my close work with the people of the islands, I would say that every employable person, every employable native of the Virgin Islands is now employed. There is no unemployment. Among the people of the Virgin Islands those who are not working now are the aged and the indigent, and they come under the Federal public assistance program the same as those American citizens in the United States. I would deny that the people of the islands do not work. I would say that the people of the Virgin Islands are a hard working group of American citizens. You may find people lagging in some spheres anywhere. You might find it up here.

Senator, I would take, for instance, some people that I have trained in government, and I have mentioned this to the Interior Department over a period of years. I would take stenographers that I have trained in my office, and I have taken young people out of high school who went to work with me in the West Indies Bank & Trust Co. and the auditors who have come down there a year or two later have said that they have made top-notch banking clerks.

I would say that the people of the Virgin Islands are hard working and they are working. I would also comment by saying that if you have a statement to the contrary about the number of aliens working in the islands, it is quite true that the number of aliens has increased in the past years due to the increase of business, because every employable Virgin Islander is now employed.

Senator ALLOTT. That depends upon how you interpret the word "employable," doesn't it?

Mr. DE CASTRO. I interpret it in the way that it means every person who can work other than by reason of health, age, and other similar handicaps that you have anywhere in the United States, the Virgin Islanders are now employed.

Senator CARROLL. Will the gentleman yield at this point?

Senator ALLOTT. Yes.

Senator CARROLL. How many of those people who are employable are employed?

Mr. DE CASTRO. I don't have the exact number of the working population. A minute ago the question was asked of me about St. Thomas and I would say that would be around 4,000 or 5,000. I don't have the census figures before me, but they could be gotten.

Senator CARROLL. Does anybody here have it? Does anybody in the Department of the Interior? Could they give us that information, Mr. Chairman?

Mr. DE CASTRO. I don't believe we brought the census figures over. We could get them.

Senator ANDERSON. Supply those for the record, please.

(The following memorandum was subsequently supplied for the record by Stewart French, chief counsel of the committee:)

Date: March 14, 1961.

Memorandum to: Senator John A. Carroll.

From: Stewart French.

Subject: Labor forces in the Virgin Islands.

The Bureau of the Census has supplied the following figures on the labor force in the Virgin Islands. The officer with whom I talked explained that processing of the data had not been completed, and final statistics might show a slight variation.

Total labor force (1960), 11,334; total employed, 10,845.

STEWART FRENCH.

Senator CARROLL. And I would like to have also the number of people that are receiving public assistance.

Mr. DE CASTRO. We can have that statement sent right up.

(Subsequently Governor de Castro supplied the following information by cable to the committee:)

ST. THOMAS, VIRGIN ISLANDS, March 16, 1961.

STEWART FRENCH,
Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.:

One thousand and thirty-four cases or 1,684, persons including 756 children, 928 adults on public assistance including old age, aid to dependent children, of population disabled and general assistance. This represents 5 percent of population. U.S. Social Security Bulletin December states proportion persons aged 65 and over receiving assistance and insurance benefits range as low as 509 per thousand in District of Columbia, 560 in Virgin Islands, 578 Alaska, to as high as 860 in Louisiana.

DE CASTRO.

Senator DWORSHAK. And those working for the Government too?

Senator CARROLL. Yes. I think the able Senator from Colorado, Mr. Allott, makes a good point. The witness has testified, if I understand it correctly, that there is no unemployment in the Virgin Islands and what you have said, if I understand you, is that those people who are receiving public assistance are elderly people and indigent persons.

Mr. DE CASTRO. That is correct.

Senator ANDERSON. He said indigent.

Mr. DE CASTRO. Elderly and indigent, yes.

Senator ANDERSON. Indigent doesn't necessarily mean physically handicapped, does it?

Mr. DE CASTRO. It means mostly physically handicapped, but they have to come under the same qualifications as indigent people who are entitled to public relief in the United States.

Senator ANDERSON. There is no physical bar on that.

Senator CARROLL. Do I understand you that you have jobs for the healthy people who can work over there? Is that what you are saying?

Mr. DE CASTRO. That is correct.

Senator CARROLL. What do you mean by indigent?

Mr. DE CASTRO. Indigent people are people who may not be 50, or 60, or 70 years old, but people who cannot work any longer because of some disability and don't have enough income, but not the physically strong people.

Senator ANDERSON. If you don't mind, don't start putting the people of 60 in the class of being unable to work.

Mr. DE CASTRO. I am close to that myself. I am very close to that myself.

Senator CARROLL. While we are on this point, if I may pursue it further I don't want to interfere with the Senator from Colorado—

Senator ALLOTT. You go ahead. I yield.

Senator CARROLL. You have had considerable economic expansion in the past few years in the Virgin Islands, have you?

Mr. DE CASTRO. Yes.

Senator CARROLL. And are the business conditions generally good? They must be good if you can employ so many people.

Mr. DE CASTRO. The business conditions due to the expansion of tourism and the number of people coming to the islands are excellent; yes, sir.

Senator CARROLL. Tell me a little bit about your population increase, say, in the last 10 years.

Mr. DE CASTRO. As I recall, the 1960 census showed an increase from about 26,000 people in 1950 to 31,000 or 32,000 people in the census of 1960.

Senator CARROLL. You spoke about your employable people. What is their wage rate over there?

Mr. DE CASTRO. The legal wage rate is around 50 cents an hour. I will say 60 cents an hour is now the minimum wage rate, but no one gets that. The going minimum wage rate would be around 75 cents an hour.

Senator CARROLL. I am not referring now to Government workers. I assume that they are paid at a higher rate than 75 cents an hour.

Mr. DE CASTRO. Not the laborers. They are paid the same wage as we pay in private industry. The common laborer will be paid anywhere from 65 cents, 75 cents and up.

Senator CARROLL. What is the average wage in private industry?

Mr. DE CASTRO. The average wage for what group of workers?

Senator CARROLL. I did not get a chance to ask this question of Mr. Paiewonsky. How many employees do you have, Mr. Paiewonsky, in the corporation with which you are affiliated, and your family controls?

Mr. PAIEWONSKY. I would say at one time, when we operated all of our businesses, and some of them we have sold, we had an employment of over 600 people.

Senator CARROLL. And how many do you employ now in these corporations in which you have holdings?

Mr. PAIEWONSKY. Presently we should employ, I would say, about 75 to 80 people.

Senator CARROLL. Getting back to the 600 people, what would be their average pay? I will tell you the reason for my question. I can see business expansion, and financial improvement in the hands of some folks, but I want to know what about the general population. How have they improved in 10 years?

Mr. PAIEWONSKY. I think that the native population has improved substantially. Many of them have been able to send their children to the United States to go to school, and as to the question you ask me about how much do these people earn, in our business the average wage runs about, I would say, \$40 to \$60 a week.

Senator CARROLL. \$40 to \$60 a week?

Mr. PAIEWONSKY. Yes, sir. We have always paid our employees fairly well and we have gotten efficient help as a result of that.

Senator CARROLL. And what are the living costs in view of the fact that you have to bring most of your foodstuffs over from this country? How do the living costs compare with the living costs in this country?

Mr. PAIEWONSKY. I would say the the living costs for the continental American who would like to live on the same standard in the islands as he lived on up here would be about 20 to 25 percent higher.

Senator CARROLL. Higher in the Virgin Islands?

Mr. PAIEWONSKY. Yes, sir.

Senator CARROLL. I want to say to you that for a long time I have wanted to come and visit you folks in the Virgin Islands. I have heard reports that you have had some pretty bad slum conditions there. Is this still true? Do you have bad housing conditions? Has the housing situation changed?

Mr. PAIEWONSKY. The housing situation for the low-income group has changed substantially. I think a number of slums have been eliminated. We have several projects, some of them completed and very well run and managed.

Senator CARROLL. You mean public housing projects?

Mr. PAIEWONSKY. Yes, sir.

Senator CARROLL. How many units do you have there?

Mr. PAIEWONSKY. About 500, with two large units under construction now. I think there is a 300-unit in St. Thomas being constructed, and I think another 200-unit in St. Croix.

Senator CARROLL. Have you seen any improvement in medical aid to these people and their educational system in the last 2 or 4 years?

Mr. DE CASTRO. There has been a tremendous improvement in the educational qualifications of our teachers and in our hospitalization and health programs.

Senator CARROLL. Who was your predecessor, Mr. Paiewonsky, assuming your nomination is upheld?

Mr. DE CASTRO. The present Governor, John Merwin.

Senator CARROLL. That is the Governor that was appointed by President Eisenhower?

Mr. DE CASTRO. That is correct.

Senator CARROLL. Have you people progressed under the administration?

Mr. DE CASTRO. Unquestionably there has been tremendous progress in 2½ years under the leadership of Governor Merwin, who is also a Virgin Islander.

Senator CARROLL. There has been a great deal of emphasis on this question of who was making money and how much profit was made. I wonder if you have some plans for these 31,000 people. What are your plans for them if you are appointed Governor? What are you going to do about housing? What are you going to do about their medical care?

Mr. PAIEWONSKY. I think the question of housing for the low income group is very well taken care of. I think there is a program of urban renewal and slum clearance, an additional program, but I think the biggest problem we are faced with in the islands is housing for the middle income group, and this is the result of the advancement of our people in the islands, the common laborer. It is all right for him to live in a low-income unit, but as soon as he and his family have achieved a certain income status he has to leave and the highest rental paid in this unit, I think, runs about \$40 or \$45 a month for himself and his family.

Senator CARROLL. Are you speaking now about public housing?

Mr. PAIEWONSKY. Yes. He has to leave and the next similar type of unit that he can rent will run maybe \$125 to \$150 a month, and so he has a terrible situation and the problem now is to try and devise for this group of people, and there is a substantial number of them, proper middle-income housing.

Senator CARROLL. In other words, you are saying the man in the low-income group has to pay \$45; and when he is no longer eligible for public housing, he has to pay \$125 although he is only making \$50 or \$60 a week.

Mr. PAIEWONSKY. Yes, sir.

Senator CARROLL. And he is, therefore, paying about 50 percent or more of his income for rent?

Mr. PAIEWONSKY. He can't afford it and he has to go back into these slums because he has now reached a level where the total income he has reached does not qualify him to remain in these units.

Senator ANDERSON. We have to find out what the measure of the committee is. I have asked the ranking minority member. Are other members of the committee agreeable to meeting tomorrow morning and trying to complete these hearings? Quite obviously, we can't this afternoon.

Mr. DE CASTRO. May I be excused after my testimony this morning?

Senator ANDERSON. Yes. I was trying to finish with you so you could be on your way to see your family.

Would it be agreeable to meet tomorrow morning? Can you be here?

Mr. PAIEWONSKY. Surely.

Senator ANDERSON. We had two or three other witnesses. Is there anybody who can't be here? When we adjourn today we will adjourn until 10 o'clock tomorrow morning in this same place.

Senator Gruening, would you mind presiding?

Senator CARROLL. I want to say to Senator Allott, you started a line of questioning and if you don't mind I would like to pursue just two or three more questions along this line.

Senator ALLOTT. It is perfectly all right.

Senator CARROLL. How many thousands of your citizens are in the low-income group?

Mr. PAIEWONSKY. I imagine from a recent survey there has been at least about 500 to 800 families that qualify in the middle-income group.

Senator CARROLL. No; the low-income group.

Mr. PAIEWONSKY. I do not have those statistics.

Senator CARROLL. Can you approximate it? Does it run into the thousands?

Mr. PAIEWONSKY. Oh, yes, sir.

Senator CARROLL. So these thousands of people are living in how many units of public housing?

Mr. PAIEWONSKY. Right at the present time I think there are about 500 to 600 units, and there are about another 500 under construction at the present time.

Senator CARROLL. I am not being critical.

Mr. PAIEWONSKY. No, I understand.

Senator CARROLL. Not having been there I am trying to find out what this situation is. Where do the rest of the low-income people live? Under slum conditions?

Mr. PAIEWONSKY. In certain slum areas and certain houses where they are doubled up, several families together.

Mr. DE CASTRO. May I answer something.

Senator CARROLL. Yes. I want information.

Mr. DE CASTRO. We have a local program now for clearing one of the slum areas in the St. Thomas where the local government is going to buy the land. The money has been appropriated and the land is being surveyed, and the people who live there—there are probably about a hundred small homes and maybe 300 people live there—own their homes, but they don't own the land. The government is now acquiring the land and is going to assist these people by small loans to build their own homes.

Senator CARROLL. You mean the local government?

Mr. DE CASTRO. The local government. The program is already there. We have \$250,000 appropriated for it. Local money I am speaking about, Senator, and the plan is to buy the land, to clear the small houses which constitute a slum on these lands, and to assist the people to build their own homes at low cost, but satisfactory, sanitary, modern, little homes.

Senator CARROLL. You are going to assist the middle-class group that you are talking about?

Mr. DE CASTRO. The one I am talking about is not the middle-income group.

Senator CARROLL. What is the pay of the low-income groups?

Mr. DE CASTRO. One of the programs we have now in operation is to clear a slum and to buy this land, and these people, probably 200 people, now live on the land in their own little home.

Senator CARROLL. I don't think you understood me. What is the average income of these low-income groups that run into the thousands? I am talking about the employed people, not the ones on public assistance.

Mr. DE CASTRO. I would say the average income would be around \$1,200 to \$1,800 a year, for the common labor type, \$100 a month.

Senator CARROLL. \$1,800 a year?

Mr. DE CASTRO. Yes, sir.

Senator CARROLL. And this is the group that you call the low-income group?

Mr. DE CASTRO. Yes.

Senator CARROLL. Now we will talk about the middle-income group. Did I understand Mr. Paiewonsky to say five or six hundred families.

Mr. PAIEWONSKY. Yes, sir.

Mr. DE CASTRO. Their income would be around \$2,000 to about \$3,000 or \$4,000.

Senator CARROLL. These are the people that are finding it very difficult to pay \$125 a month rent?

Mr. PAIEWONSKY. Yes, sir.

Mr. DE CASTRO. That is why Mr. Paiewonsky was speaking of a project for purchase by the middle-income group.

Senator CARROLL. Let's go to the top-flight group, the families or groups who have the money to control the business on the islands. How many are those in number? What percentage?

Mr. DE CASTRO. I think that is pretty well diffused. I don't think there is any concentration of families forming the larger part of the investment in the island.

Senator CARROLL. You said five or six hundred families now in the middle income group. How many families do you think are in the top group?

Mr. DE CASTRO. I would say several hundred.

Senator CARROLL. Several hundred families?

Mr. DE CASTRO. Yes, sir.

Senator CARROLL. Who is the wealthiest man in the Virgin Islands? You are a banker. Tell me about it.

Mr. DE CASTRO. That is very difficult to answer.

Senator CARROLL. Is that confidential information which I am asking the president of a bank?

Mr. DE CASTRO. I could not pick one. There are a number of continental Americans who have moved down there who are quite wealthy people.

Senator CARROLL. You know who I am talking about. I am not talking about the Americans who just moved down there.

Mr. DE CASTRO. Who are living there.

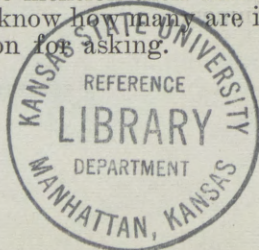
Senator CARROLL. I understand, but I am asking about the people who have been running the businesses and working in the Virgin Islands. Who are the most wealthy?

Mr. DE CASTRO. You mean by name?

Senator CARROLL. No, not by name; by pocketbook, the wealthy.

Mr. DE CASTRO. Well, do you want me to mention their names?

Senator CARROLL. Well, I would like to know how many are in this group, and then I will tell you the reason for asking.



Mr. DE CASTRO. I would say among the most wealthy there are probably about not more than 15 or 20 families.

Senator CARROLL. Fifteen or twenty?

Mr. DE CASTRO. And that may be a high estimate.

Senator CARROLL. This is the reason I put the question. We are finding this, Mr. Chairman, in Latin America and we are finding it wherever there are a few people on top that are running everything financially, and it may be benevolent; we have a very few people in the middle class and great poverty underneath. This is a source of trouble.

Mr. DE CASTRO. I don't think that is so in the Virgin Islands.

Senator CARROLL. You don't?

Mr. DE CASTRO. No, sir. I unhesitatingly say that that is not so in the Virgin Islands, that is, there is no concentration of wealth.

Senator CARROLL. You are saying to me that you have political stability there?

Mr. DE CASTRO. That is a wide phrase to say we have political stability.

Senator CARROLL. We don't have too much in this country, in a sense.

Mr. DE CASTRO. I was about to tell you that, sir, but I am glad you mentioned it yourself.

Senator CARROLL. We have political stability. Difference of opinion does not mean instability, but I am saying that you find that generally speaking you think there is some political stability?

Mr. DE CASTRO. I think that generally speaking there is considerable stability in the islands; yes, sir.

Senator CARROLL. Are there groups protesting in any manner? I mean vigorous protests.

Mr. DE CASTRO. In the past 3 or 4 years I haven't seen any vigorous protests against the administration. I have seen it in the past years, many, many of them. I would say in the past 3 or 4 years we have had cooperation and support of the local administration from all segments of the people of the islands, and may I say, because you mention Latin America, there is no oppression in the Virgin Islands. Everyone has his full say, and if you would read the newspapers there, you would see what I mean. For example, when I was Governor—that was quite some time ago—the principal topic of conversation was what De Castro was or was not doing, mostly what De Castro was not doing, and that remains the same. The people of the islands have a full say in running their government. They have a full say in their own mass meetings and elections. Generally speaking, they have all the rights and privileges of American citizens and they use them.

Senator Carroll. You, as a former Governor, forgetting now you are a president of a bank—

Mr. DE CASTRO. I am not president of the bank.

Senator CARROLL. What are you doing now?

Mr. DE CASTRO. I am not connected with any private enterprise in any way. I am director of the budget of the Virgin Islands Government.

Senator CARROLL. Do you think that these 10 or 15 families really have a humanitarian interest in these people that are in lower income groups?

Mr. DE CASTRO. I would say the majority of them have and I would say that those few persons who do not have such interests do not have any way of controlling conditions in the islands. Conditions are controlled by a majority of the people.

Senator CARROLL. If you turn this into a tourist mecca—and everybody wants the tourist to come in to spend money, even in my State tourism is a very important and growing industry—do you think it would be a good idea to turn the Virgin Islands into a gambling mecca?

Mr. DE CASTRO. Senator, you touch on a subject which is very close to my heart.

Senator CARROLL. Before you answer that, I am going to ask the man who is nominated to be Governor how he feels about this subject. Then I will come back to you, because I want to touch your heart on this one.

Mr. PAIEWONSKY. Senator, I am definitely against gambling, but I think I should in my answer tell you some of the steps that we took against it so that you would know the stand of our family. Several years ago the Legislature of the Virgin Islands passed a law authorizing gambling, not realizing the extent of what would happen, figuring it would bring tourists into the islands. Overnight these machines that are commonly called one-armed bandits were installed in almost every business establishment, including the hotels and shops all over the Virgin Islands. Our family was one of the families that refused to permit these machines to be placed in any one of our establishments. That is the record.

In addition to this, my brother and myself have conducted a crusade against this law until we brought about its repeal. I think that should answer your question. I think in the islands the members of the legislature, the members of the government, have known for years my position on gambling. I issued a statement also to the New York Times which was published on Sunday.

Senator CARROLL. You mean last Sunday.

Mr. PAIEWONSKY. Last Sunday. I would like to just read one part of that because this is my frank opinion about it and I think it is well—since you have asked the question, that it should be expressed on the record.

The question was asked that the new Governor has been reported in favor of organized gambling. He strongly denied this, pointing out that his family, a force in the islands' economy, had always refused to permit gambling machines in their shops and theaters. "I don't think people should be allowed to make a living out of gambling," Mr. Paiewonsky explained, that "the tragedy of Cuba, corruption, leading to disaster, came on the heels of gambling."

I feel very strongly on this particular point, Senator.

Senator CARROLL. I think that is a very fine statement because when you draw in gambling, the first thing you know you will have the syndicate in there. And then your thousands of poor people will see all this grandeur and all this spending which they will not participate in except indirectly. You will have a difficult problem in the Virgin Islands.

Mr. PAIEWONSKY. I think we have sufficient to offer in the line of climate, beauty, and free port as an attraction to bring people to our shores. I believe the charm and quaintness of the islands, the old Danish architecture, all of those things lend to a very fine tourist development, and I think those are more than sufficient to overcome any degree of satisfaction that people might feel they can get through gambling.

Senator GRUENING. May I interrupt a moment? I would like to inquire what time Governor de Castro's plane is leaving, because we don't want him to miss it.

Mr. DE CASTRO. I won't miss it. I am leaving at 5 o'clock.

Senator CARROLL. I will not pursue this, but the more I get into this the more interesting it becomes. I have taken all the time from my colleague from Colorado who has really given me some valuable information, because he has traveled down in the Virgin Islands and I have not.

Mr. DE CASTRO. May I make my statement on gambling now?

Senator CARROLL. Yes. I am not going to forget your heart, and I think this is appropriate at this time.

Mr. DE CASTRO. Senator Carroll, I have had the misfortune, or fortune perhaps, of becoming Governor just at the time that large hotels began to come into the Virgin Islands, just at the beginning of the tourist boom.

May I say that I was under pressure at that time to go to the legislature to have gambling authorized. I resisted it with every effort I could command. I made public statements that so long as I was Governor I wouldn't permit it and so long as I lived in the Virgin Islands I would resist it with every power at my command.

I felt then and I feel now that gambling will spoil the Virgin Islands. I feel that there is no opportunity for gambling in the islands, that people would not like it. It would destroy the islands as a decent, fine, tourist resort. We would get the worst group of people and not the finest as we are getting now.

I don't think that gambling will ever be legalized in the Virgin Islands again, and I still have a little voice in political and administrative measures there. It would be resisted with all the power that all of us could command. I know that Mr. Paiewonsky supported me in my stand against gambling in the islands.

That is all.

Senator CARROLL. I think that is a very clear-cut and commendable statement. I am personally thankful to you for stating your position.

Just one or two more. As a former Governor how much political power is centered in the governorship? You know what I mean by political power.

Mr. DE CASTRO. The Governor is the constitutional executive and we have a legislature and a very strong and very vocal one, a very good legislature, I may say, of 11 members. The Governor has the power to approve or disapprove bills and they can pass bills over the Governor's veto.

Senator CARROLL. I understand that. That is not the political power I am talking about.

Mr. DE CASTRO. He has considerable political power.

Senator CARROLL. I am talking about the distribution of favors. I am talking about his influence in the business establishments of the islands.

This is the sort of thing I want to know. How much power could you—not did you, but could you—have exercised if you wanted to throw your weight around a little bit?

Mr. DE CASTRO. On the business life of the islands?

Senator CARROLL. Yes.

Mr. DE CASTRO. I would say very little. The Governor has the limitations of an American Chief Executive. He has considerable political power. He can mold public opinion by public speeches and so on, but he cannot control the business of the islands.

Senator CARROLL. Can a good Governor be a powerful influence for good?

Mr. DE CASTRO. Oh, certainly, sir.

Senator CARROLL. Can a good Governor not do something about these people living under slum conditions?

Mr. DE CASTRO. Yes, sir; and it is being done all the time, Senator. It is being done all the time.

If you would come down to the islands you would see the public housing projects that have been started, that are completed, that are being built, and we now have a crack program of emergency public housing which is going on now to house people who are living under the worst conditions until we can build new public housing for them.

Senator CARROLL. Can a good Governor through these 10 or 15 families create a greater interest in what is happening to the people rather than just in how much money they can make?

Mr. DE CASTRO. I don't think that is a very strong deterrent condition in the islands. I wouldn't say the 10 or 15 families are oppressing anybody in the islands now. Those conditions just don't exist there, Senator Carroll.

Senator CARROLL. I am not talking about oppression. I am talking about improvement.

Mr. DE CASTRO. I think in the main these rich families are sympathetic with the improvement of the islands; yes, sir.

Senator CARROLL. Then just one last question to Mr. Paiewonsky. You and your family have been there 60 years.

Mr. PAIEWONSKY. The family has been there 60 years.

Senator CARROLL. Do you have a deep feeling about these people who are way down here in the low-income group?

Mr. PAIEWONSKY. I have, Senator.

Senator CARROLL. I know you have been a successful businessman. Personally I see nothing wrong in having a gift shop while serving as Governor. There would be nothing wrong with having a dry-goods store or a drugstore. I don't know about your rum and molasses business and what has been going on. I am more concerned with the man who comes in to do a job.

What is the reason you want to be Governor of the Virgin Islands?

Mr. PAIEWONSKY. Because I can do a job for the very people you are talking about, Senator, and I felt that I did a part of this when I organized the West Indies Bank. I think the record will prove that we have caused more homes to be built for people in the Virgin

Islands than in the previous maybe 20 or 30 years, in the short period that we were in existence, and we have gotten this ball moving in that direction and it was for the benefit of these people that I worked and worked strenuously.

I think my record in the islands will indicate, and if you talk to the low-income people, they are 100 percent behind me because they know that I am for them and want to help them, to elevate them in their position.

Senator CARROLL. In other words, you are saying that the low-income groups are sympathetic to you and would be sympathetic to your appointment as Governor?

Mr. PAIEWONSKY. That is where I have the greatest support, sir, from the low-income-group people in the islands.

Senator CARROLL. I thank the Senator from Colorado for yielding.

Senator ALLOTT. I would like to quote from what has probably become the most widely circulated educational memorandum from a Government official who recently made a survey of the Islands, Governor, and I just want to use one phrase. I hope to use this later in the hearings.

He says: "The housing plight is ghastly."

Regardless of what you have said, the facts are that in the Virgin Islands you essentially have a two-class society in which those on top are people of considerable wealth, and you have no real middle class society in the Virgin Islands, do you?

Mr. DE CASTRO. Yes, sir. What was that question?

Senator ALLOTT. You said 500 or 600 families out of the total population would be in what you called the middle class group.

Mr. PAIEWONSKY. In need of housing.

Mr. DE CASTRO. In need of housing we said.

Senator ALLOTT. While we are talking about that, the housing that has been built has been public housing. The bank did not finance that, did it?

Mr. PAIEWONSKY. No; private housing.

Mr. DE CASTRO. The bank financed private housing considerably.

Senator ALLOTT. And those houses have been primarily of a luxury type?

Mr. DE CASTRO. No, sir.

Senator ALLOTT. Where are these houses built?

Mr. DE CASTRO. When I was in the West Indies Bank the bank made hundreds of thousands of dollars of loans to small property owners, houses that were valued at between \$10,000 to \$12,000 that are not luxury type houses.

Senator ALLOTT. Where are these houses built?

Mr. DE CASTRO. All over the Island of St. Thomas and some in St. Croix, homes built by local people or old homes refurnished on small loans by the bank.

Senator ALLOTT. Let me ask you one further thing. Is the slum area just east of Charlotte Amalie cleared as of this time?

Mr. DE CASTRO. I suspect you are referring to the slum area to the west of Charlotte Amalie.

Senator ALLOTT. No. I am talking about that area where you go on the main street along the waterfront. Maybe my direction is wrong.

Mr. DE CASTRO. That is east of the city of Charlotte Amalie. That is east of the city of Charlotte Amalie.

That area is due and has plans for an urban renewal program now.

Senator ALLOTT. Has this area been cleared?

Mr. DE CASTRO. No, sir, not yet, but, Senator, in clearing any area in St. Thomas the problem comes in furnishing temporary housing to put those people in while the area is being cleared.

In other words, you can't clear an area until you have provided housing somewhere else, and that is where the problem lies and it is being worked upon quite vigorously. I mean a close study.

You quoted from a gentleman's report. I know the gentleman. I talked with him for many hours. It was I who arranged for him to make the tour of the slum area.

The Governor said take that gentleman out personally and see these areas, and we discussed it at length.

Senator ALLOTT. I saw the area, too, and went through it.

Mr. DE CASTRO. But he did not compare what is being done to relieve those conditions and I assure you, Mr. Chairman, that considerable has been done and is being done.

Senator ALLOTT. Mr. Chairman, I am going to have to leave for this legislation pending on the floor, so I will cease my questions at this time.

Senator GRUENING. Are there other questions?

Senator HICKEY. I just have one for the Governor, Mr. Chairman.

Senator GRUENING. Senator Hickey.

Senator HICKEY. Mr. Governor, I was in the islands several years ago and I got the impression that there were many youngsters in the islands who should be going to school who were not able to go to school because there were not schools for them, either public or private.

Is that true?

Mr. DE CASTRO. May I ask the question how long ago were you in the islands?

Senator HICKEY. Three years ago.

Mr. DE CASTRO. Senator, I think there must be an error somewhere because there is compulsory public education and every child of school age goes to school and those few who might be found to be truant are picked up very rapidly by truant officers.

I would say our system of public education covers every child who is eligible by age to go to school.

Senator HICKEY. With respect to these children who live in the slum areas that have been discussed, is that true there also?

Mr. DE CASTRO. Oh, yes, sir. Since you were there the school program has increased considerably. We just broke ground 2 weeks ago for a large elementary school out on the east end of Charlotte Amalie with 38 rooms and we are going to break ground within 2 weeks for another small school with about 12 rooms on the western end of the city.

The educational conditions have improved greatly, Senator. I am glad you asked the question. It is quite basic.

Senator HICKEY. You have plenty of teachers, do you?

Mr. DE CASTRO. We would have more. We have enough teachers at the present time so that at this time there are no children that go to school only for a half day on St. Thomas and that goal is being achieved throughout the islands, yes, sir.

Senator HICKEY. Do you have a brother by the name of Dante de Castro?

Mr. DE CASTRO. Dante de Castro is not related to me, sir. I have had that problem. Dante de Castro is an assistant cashier of the West Indies Bank. And when people came to me and thought he was my brother I had to point out that Dante de Castro is of a de Castro family in the British Virgin Islands.

Senator HICKEY. I met him while I was there.

Mr. DE CASTRO. He is a fine fellow. He is a fine person. He was my assistant in the bank for many years.

Senator HICKEY. Thank you.

Senator CARROLL. Mr. de Castro, are you a civil servant now?

Mr. DE CASTRO. I am a retired Federal civil service employee. I am retired. When I became Governor I retained my civil service status which I had had for 30 years before.

Then I left the service as a retired Federal civil service employee. I returned to the service of the local government in 1959 at the request of Governor Merwin.

Senator CARROLL. Where did you put in that service? In the Virgin Islands?

Mr. DE CASTRO. All my service has been in the Virgin Islands.

Senator CARROLL. So you have watched this territory grow then for 30 years?

Mr. DE CASTRO. I have been a part of this growth for 38 years.

Senator CARROLL. 38 years?

Mr. DE CASTRO. Yes, sir.

Senator CARROLL. As you look at the medical situation with reference to these low-income families, can you see real improvement?

Mr. DE CASTRO. Tremendous improvement, sir.

Senator CARROLL. What is the mortality rate of the people in this low-income group? What is their life span? That is the better word.

How old do these people live to? Do they live a long time, or a short time? Is their life difficult?

Mr. DE CASTRO. No, sir. Generally I would say they live a long time.

Senator CARROLL. How long is long? What do you mean by that? We have a life span in this country of about 69. How long do they live, these people?

Mr. DE CASTRO. I would say about the same, 69, 70, 72, 75, 80.

Senator CARROLL. What about the mortality rate in childhood? Do you see any difference?

Mr. DE CASTRO. Difference in what?

Senator CARROLL. In the death rate of the children of these low income groups.

Mr. DE CASTRO. The infant mortality rate has been greatly reduced in the past years by much better health measures and free medical examinations and there has been hospital improvement in the island; yes, sir.

Senator CARROLL. Do you have clinics for these people to come to?

Mr. DE CASTRO. Yes, sir. We have hospitals in all the islands. We have prenatal clinics. We have dental clinics. We have everything you have here in hospitalization and health of any modern American

country, except there the government runs it because we have no private hospitals.

Senator CARROLL. But you pay the costs from your own local taxes as I understand it?

Mr. DE CASTRO. And those who can afford to pay it pay the fees of the hospital; yes, sir.

Senator CARROLL. That is very important. Thank you. You have adequate doctors and nurses?

Mr. DE CASTRO. Adequate, sir; yes, sir. We could always improve. We could spend more money. You could spend a lot more money, but you can't spend for everything you want. We could spend a lot more, but we are spending within what I think is a very good budget of \$10 million; yes, sir.

Senator CARROLL. Thank you very much.

Senator GRUENING. Senator Long.

Senator LONG. I have two very brief questions that I would like to pursue later on. References have been made here to the democracy that exists there. In relation to that, thinking of education, the two questions are these:

Governor, approximately what percentage of the total government expenditures are devoted to education? Can you give that answer?

Mr. DE CASTRO. Lower in general than in the United States. Out of a total budget, Senator, of this year of \$10,278,000, the Department of Education gets from the local government \$2,183,000 or a little over 20 percent, between 20 and 25 percent.

Senator LONG. That is, as you have already suggested exceedingly low.

Mr. DE CASTRO. It is exceedingly low; yes. It can be improved.

Senator LONG. The other question is: The most important phase of any school program is the teacher. How about teachers' salaries or teachers' compensation? We have been talking about the income of other groups.

Mr. DE CASTRO. Teachers' salaries run now from a minimum I would say of \$3,000 or \$3,500 up to a maximum of \$5,000 or \$6,000. Teachers' salaries incidentally are higher than those in Puerto Rico. Our teachers's salaries are higher than the teachers' salaries in Puerto Rico.

Senator LONG. Thank you. That completes my questions.

Senator GRUENING. Senator Burdick.

Senator BURDICK. Governor, when you retired as Governor, then you became associated with what we call the Paiewonsky Bank; is that correct?

Mr. DE CASTRO. I became associated with the West Indies Bank & Trust Co. of which Mr. Paiewonsky was a stockholder and director; yes, sir.

Senator BURDICK. The reason I said that, I think, was that I seemed to get that in your exchange with the chairman.

Mr. DE CASTRO. Yes, sir.

Senator BURDICK. And thereafter you became president?

Mr. DE CASTRO. Yes, sir.

Senator BURDICK. How long were you president?

Mr. DE CASTRO. I was president for 1 year. I was cashier when I joined the bank. I left the government service upon the inaugura-

tion of my successor on April 12, 1954, and became controller and cashier at once and I stayed controller and cashier until January 1, 1958.

I became president upon the departure of the former president and I left for the Government service at the request of Governor Merwin, the new Republican Governor, who was a Virgin Islander, who called me back on January 1 as his director of the budget and general consultant.

Senator BURDICK. In other words, you were very conversant with the real estate department of the bank?

Mr. DE CASTRO. Yes, sir.

Senator BURDICK. And you had considerable loans which were made?

Mr. DE CASTRO. Yes, sir.

Senator BURDICK. That is the business of the bank, to make loans?

Mr. DE CASTRO. Yes, sir.

Senator BURDICK. They didn't make any loans to these slum areas, did they?

Mr. DE CASTRO. Yes, sir. Many loans were made for individuals who lived in what you would call the slum area but who owned their own homes there; yes, sir.

Senator BURDICK. In good banking practice a man would have to have some equity and character to borrow on?

Mr. DE CASTRO. Yes, sir. Under the law we can only make a loan up to about 50 or 60 percent of the appraised valuation of the house and the land, but we made many FHA loans.

Senator BURDICK. But you don't contend that the commercial banking institution is the solution to this problem in this housing, do you?

Mr. DE CASTRO. No; you asked me if loans were made.

Senator BURDICK. What are the rates of interest down there on contracts?

Mr. DE CASTRO. 6 percent as a maximum rate.

Senator BURDICK. Thank you.

Mr. DE CASTRO. Fixed by law.

Senator GRUENING. Senator Metcalf.

Senator METCALF. No questions.

Senator GRUENING. Does anybody else have any questions? I would like to say this, Governor de Castro. You recall some 30 years ago, about the time when the government of the Virgin Islands was transferred from the Navy to the Interior Department, President Hoover declared the Virgin Islands to be "an effective poorhouse."

Mr. DE CASTRO. I have another name for it now.

Senator GRUENING. That is no longer the case?

Mr. DE CASTRO. No; it is now the "President's guesthouse." Instead of being a poorhouse I stated on the 40th anniversary of the transfer of the islands that it had been transferred from President Hoover's poorhouse to the present President's guesthouse. It is the guesthouse for the people of the United States.

Senator GRUENING. My observation, through the years I was associated being with the Office of Territories and subsequently, is that there has been steady improvement, not always at a uniform pace, but in general conditions of all the people have improved since that statement of the Executive's poorhouse, and that they are improving

and with an enlightened program and the kind of governorship that you gave them we can expect a continued improvement so that they may form an integral part of the American idea in which there will be opportunities for all people and those people will have a steadily rising standard of living.

Do you think that is beyond reach?

Mr. DE CASTRO. I think I painted a quite rosy picture sometime in the earlier part of my testimony. May I say that the conditions improved so greatly from the time I left the Government service to when I went back that I wasn't sure when I went back and looked at the budget whether I was still in the bank or whether I was in the Government.

Senator GRUENING. The Virgin Islands get the same tax concession that Puerto Rico does, that is, they pay no Federal income taxes and whatever taxes are collected there are for the benefit of the islands; is that not correct?

Mr. DE CASTRO. That is correct, sir.

Senator GRUENING. What about the customs revenues? In Puerto Rico all the Federal customs are collected by Uncle Sam but they are covered in the Puerto Rican treasury.

What is the situation there?

Mr. DE CASTRO. In the Virgin Islands by the treaty between the United States and Denmark and by the subsequent organic act the customs revenues in the islands are collected by the U.S. Customs Service. Their expenses are paid out of the local customs revenues and the balance is covered into the local treasury. The balance amounts to about \$270,000 a year. But the expenses are first paid from the revenues.

Senator GRUENING. But you have not had those advantages as long as Puerto Rico; have you?

Mr. DE CASTRO. Customs revenues; yes, sir. If the income tax is to be considered an advantage, I hold it to be a local income tax law because we could have our local income tax law as a territory and as a territory the Federal tax might necessarily apply, so it is our local income tax law except we asked the Federal Government to apply it to us, but the grant of internal revenue taxes to Puerto Rico has been unlimited since 1917. We have had it on a matching dollar-for-dollar basis only since 1954.

Senator GRUENING. So you have come into this situation much more recently? You have had it only for 6 years?

Mr. DE CASTRO. That is correct, Senator.

Senator GRUENING. I notice that Puerto Rico is moving into all Federal grants. These grants pass to 50 States today, and Puerto Rico is included. Are the Virgin Islands included in all those grants?

Mr. DE CASTRO. In nearly all. We are included in all grants now that I can think of except public highway grants. We are not a part of the public highway grants program, but in order to do that we have to be quite alert because we don't have a representative in Congress.

Senator GRUENING. Do you think it would be advantageous for the Virgin Islands to have a Resident Commissioner?

Mr. DE CASTRO. Tremendously so.

Senator GRUENING. At the present time you feel that you are at a disadvantage in comparison with Puerto Rico in not having any representation in Congress?

Mr. DE CASTRO. We feel that there is considerable disadvantage, Senator. We feel we should have representation from the islands within the Halls of Congress and to keep up with the growing trends of improvement throughout the United States and its possessions and territories.

Senator GRUENING. Do you think that the time has come when such a Resident Commissioner, or Delegate as he was called from Alaska and Hawaii, should be elected by the people?

Mr. DE CASTRO. Without any hesitancy of any kind I would say the time is overdue.

Senator GRUENING. Mr. Paiewonsky, how do you feel on the subject of Resident Commissioner of the Virgin Islands?

Mr. PAIEWONSKY. Senator, I testified before the House committee, the O'Brien committee, earlier during the week—I think it was Tuesday morning—I have always been in favor of having the islands having representation in Congress, even if just to express their views and to keep pace with legislation that is being passed that might effect the Virgin Islands.

I have held these views for many years and I feel the people of the Virgin Islands should have this right or privilege.

Senator GRUENING. You feel that would be true of all the outlying remaining possessions of the United States, would you not?

Mr. PAIEWONSKY. Yes, sir. I feel as long as they are American citizens, and whether they are territories incorporated or not, they want to have a feeling of belonging and I think that the Virgin Islanders, especially, have grown up and become mature and they would like to feel that they are local American citizens and they would like to feel that they are a part and parcel of the United States.

Senator GRUENING. I think they are to be complimented on having that view.

Mr. PAIEWONSKY. Although you don't ask that question, may I say that the time has come also I believe that the people of the Virgin Islands can, and properly can, elect their own Governor.

Senator GRUENING. Thank you.

Are there any witnesses who will not be able to be here tomorrow and who want to testify at this time?

If not, and if there are no further questions now, we will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 1:30 p.m. the committee adjourned to reconvene at 10 a.m., Saturday, March 11, 1961.)

NOMINATION FOR GOVERNOR OF THE VIRGIN ISLANDS

SATURDAY, MARCH 11, 1961

U.S. SENATE,
COMMITTEE OF INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in room 3110, new Senate Office Building, Hon. Clinton P. Anderson (chairman), presiding.

Present: Senators Clinton P. Anderson (New Mexico), Ernest Gruening (Alaska), Oren E. Long (Hawaii), Quentin N. Burdick (North Dakota), Lee Metcalf (Montana), J. J. Hickey (Wyoming), Henry Dworshak, Idaho), Thomas H. Kuchel (California), Gordon Allott (Colorado), and Jack Miller (Iowa).

The CHAIRMAN. This is a continuation of yesterday's hearing on the nomination of Ralph Paiewonsky to be Governor of the Virgin Islands. The first witness will be Mr. Hodge, but I do want Mr. Paiewonsky to know that we will be asking him to testify later this morning.

Mr. Paiewonsky one of the things I would like to have you prepare to answer is, what is the authority for reducing the prices of the molasses from the 2 cents below the landing price at St. Croix, first down to 10 cents one year, and then the 7 cents the next, which bore no relationship to the landing price at St. Croix.

As I read through the audit of the Corporation that bothered me a little.

There must be a basis for it. You will have time to get the information ready if you desire to do so.

Mr. PAIEWONSKY. Yes, sir.

The CHAIRMAN. Very well.

You may proceed, Mr. Hodge.

STATEMENT OF WALTER I. M. HODGE, PRESIDENT, VIRGIN ISLANDS LEGISLATURE

Mr. HODGE. Mr. Chairman and members of the committee, my name is Walter I. Hodge. I am president of the Virgin Islands Legislature. I reside in Fredericksted, St. Croix, V. I., where I operate a farm.

I was born and reared in the Virgin Islands. I served my country in World War II as a sergeant in the Army's Combat Engineers in the Pacific Theater.

I have been elected to the Legislature of the Virgin Islands eight times. I have completed 14 years in office.

I have been elected president of the legislature after after assuming office on five occasions, and I have served 10 years all told in that capacity.

I am presently president of the third legislature, established under the provisions of the Organic Act of 1954 passed by the U.S. Congress.

Gentlemen, I appear before you today as president of the legislature in behalf of the candidacy of Ralph Paiewonsky, for the office of the Governor of the Virgin Islands, a Presidential appointment.

As president of the third legislature I must tell you that a very large majority of the members of that legislature are committed to support Ralph Paiewonsky on a program of development of the Virgin Islands in all phases, political, social, and economic.

I must stress that the Legislature of the Virgin Islands which is strongly committed to Mr. Paiewonsky is the only elected branch of the government in the islands. We are elected representatives of the people of the Virgin Islands.

It is our privilege to know our constituents and how they think and whom they like and whom they dislike.

They like Ralph Paiewonsky. They like him because he has demonstrated a genuine love for the islands and the people who live in them.

We have only really advanced in the Virgin Islands economically since the passage of the Organic Act of 1954 by the U.S. Congress.

The people know that Ralph Paiewonsky, as an unpaid representative of the islands, worked for weeks and months here in Washington to assure passage of that liberal document.

I know this to be a fact because I was with Mr. Paiewonsky and aided him in that endeavor.

The people recognize this act as the first downpayment in self-government and they honor Mr. Paiewonsky's part in it. They honor him as a proved liberal.

It is ironic that this man who has demonstrated the liberal point of view and his concern for the welfare of the people of the islands should be attacked as a reactionary capitalist whose only interest in people is to grind them down.

Nothing could be further from the truth. The people in the islands recognize this false charge.

That is why thousands of the citizens of the islands have signed a petition supporting Mr. Paiewonsky for Governor.

I believe either the chairman, Senator Anderson, or the Secretary of the Interior, Mr. Udall, have these petitions.

The organized campaign—

THE CHAIRMAN. There is no question about the petitions? They have been put into the record by reference. I am not holding them.

MR. HODGE. No, sir.

The organized campaign against Mr. Paiewonsky is not supported by the people of the Virgin Islands. I know. I am of the people of the Virgin Islands.

SENATOR GRUENING. What organized campaign? I have not heard of it.

MR. HODGE. Various vicious letters and attacks that have been sent to Members of the Congress and the Secretary of the Interior from time to time.

SENATOR GRUENING. Well, I am a member of the committee. I have received no such letters.

Mr. HODGE. I do know, sir, that there are some charges that will be placed in the record here against Mr. Paiewonsky. I do know that there was a group in the islands who organized a vicious campaign against him, Senator.

Senator ALLOTT. May I ask a question there?

Are you acquainted or have you seen a memo, the one I referred to yesterday, which everybody in town, including Drew Pearson, seems to have a copy of, from Maurice Rosenblatt to the Secretary of the Interior?

Mr. HODGE. Yes, sir.

Senator ALLOTT. Do you think Mr. Rosenblatt is a part of that conspiracy of which you speak?

Mr. HODGE. It could be, sir. I understand he is a very good friend of a candidate who was seeking this office.

The CHAIRMAN. You can use names if you want to.

Mr. HODGE. Shall I comment, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. HODGE. This vicious and well-financed campaign against Paiewonsky is something alien to the island. No islander has the time, the money, nor the inclination to mount such an attack.

It has remained for outside interests with well-filled billfolds to hire public relation firms and paid provocatures to carry out this mudslinging campaign.

The people of the islands have shown their support for Mr. Paiewonsky.

Senator ALLOTT. May I interrupt you there? I think I ought to make it perfectly clear so far as my own attitude is concerned.

I do not think that any man is unqualified simply because he is a successful businessman. This is to his benefit so far as I am personally concerned.

I think if we are going to say that we have an organized campaign—your implication here is that it has very great wealth behind it—and that they have even hired public relations firms to do this, then the only way, Mr. Chairman, I see, that we can arrive at an evaluation of this is to have these people named. Who are these outside interests?

Mr. HODGE. I understand, Mr. Chairman, that Mr. Rosenblatt is a part of a public relations firm.

Senator ALLOTT. Public relations what?

Mr. HODGE. Firm.

Senator ALLOTT. Of a firm?

Mr. HODGE. Yes, sir. And that he is also a consultant to the Department of the Interior.

Of course, I don't know. I understand from reliable sources.

The CHAIRMAN. Do you think the Department of the Interior is in on this mudslinging campaign?

Mr. HODGE. No, sir; I do not say that, but I believe Mr. Rosenblatt is.

When Mr. Rosenblatt spoke with me in the islands he was definitely anti-Paiewonsky.

He interviewed me and some of the other members of the legislature who can testify to that fact here. He did not make, I would say, an unbiased report, or unbiased investigation regarding the people who were seeking this office.

The CHAIRMAN. But you have been in politics, according to your own testimony, a long while?

Mr. HODGE. Yes, sir.

The CHAIRMAN. You recognize that people who support us are progressive, are decent, upright citizens, and the people who oppose us are mudslingers?

You cannot deny that fact?

We understand how this works. He has people who favor him and people who oppose him. You want good motives for the people who signed the petition.

It just could be that the people who oppose him might have good motives also even if they are misguided. Is that not true?

Mr. HODGE. That is questionable, Mr. Chairman.

The CHAIRMAN. It is questionable?

Mr. HODGE. Yes, sir.

The CHAIRMAN. The motives of your side are not questionable? The other side are?

Mr. HODGE. Some of the opposition may stem from good motives. But I do know that some of the opposition has bad motives.

Senator DWORSHAK. Do you know by whom Mr. Rosenblatt was employed to make this survey in the islands?

Mr. HODGE. I don't know, sir, but they tell me that he is a very good friend of a man named Connie Gay. He certainly asked me a lot of questions which would have favored Connie Gay.

Senator ALLOTT. What is that name?

Mr. HODGE. Connie Gay, C-o-n-n-i-e- G-a-y. He told me then, he asked me what I thought about a Governor for the islands. I told him first of all I believe that the people in the islands are mature enough—we have less than 1 percent illiteracy in the islands—the people are qualified to govern themselves.

I believe that we should have a native. He disagreed with me on that.

Senator DWORSHAK. Mr. Chairman, I had the impression that Mr. Rosenblatt was engaged by the Secretary of the Interior to make an unbiased survey of this; is that correct?

The CHAIRMAN. I do not know. He went down and made a survey. I thought he went down as consultant to the Department.

Senator DWORSHAK. Maybe we ought to ask Secretary Carver whether the Interior Department employed Rosenblatt for this particular assignment.

Mr. CARVER. It did.

Senator DWORSHAK. What is your reply to that, Mr. Hodge? Do you accuse the Interior Department and Secretary of the Interior of being political crooks?

Mr. HODGE. No, sir.

Senator DWORSHAK. That is the import of what you are saying.

Mr. HODGE. No, I am not saying that.

Senator DWORSHAK. You categorically are condemning everything that Rosenblatt said or did?

Mr. HODGE. In large part, yes.

Senator DWORSHAK. You repudiate him and charge he made a biased report on what he found in the islands?

Mr. HODGE. I judge from his remarks to me, and from his report. He might have been employed by the Interior Department to do a good, honest job. I question whether he did a good, honest job because of the report of the investigation he made and because of the way he slanted his questions.

Senator DWORSHAK. You are questioning the judgment, then, of the Secretary of the Interior in selecting Mr. Rosenblatt for this job?

Mr. HODGE. I am not questioning the judgment of the Secretary. I am questioning whether Mr. Rosenblatt worked only for the Department of the Interior on his jaunt to the islands. Whether he made some more money on the outside, sir.

Senator DWORSHAK. He may have had more than one employer?

Mr. HODGE. That is right.

The CHAIRMAN. Then you should get that information promptly to the Department of Justice because there is a statute about receiving outside compensation.

Mr. HODGE. That is one of the reasons why I wanted it put in the record, sir.

The CHAIRMAN. I wanted to pay a Government employee out of my own pocket one time and found I could be in trouble.

Mr. HODGE. Shall I continue, Mr. Chairman.

The CHAIRMAN. Certainly.

Senator GRUENING. Mr. Chairman, I read this Rosenblatt report with much interest. I find nothing in it that is detrimental to the President's nominee.

I find a lot of vague insinuations in it. I find the statement "We believe that Paiewonsky would legalize gambling on the islands."

We have the direct testimony of the nominee he was against gambling. This is the kind of vague allegation found in the report.

I do not find a single fact in it that is detrimental to the nominee. I think the report might well be introduced into the record. I would like to request the chairman to include it in the record as long as it has been mentioned.

The CHAIRMAN. I would like to think about that a minute, if the Senator does not mind. If the report goes in the record, it becomes a privileged document and anybody can do what he wants to with it. It may be all right.

May I see it?

Senator GRUENING. We all received copies of it.

The CHAIRMAN. Proceed.

Without objection, the request of the Senator from Alaska will be granted.

I will ask the privilege of reversing myself, if I feel I should, at a later date.

(Committee note: Upon consideration, it was decided that the report to the Secretary of the Interior by Mr. Rosenblatt should not be put into the printed record of the hearing.)

Mr. HODGE. The people of the Virgin Islands have shown their support for Mr. Paiewonsky in substantial ways. They elected him to the Virgin Islands Legislature for five consecutive terms. This was no accident.

Senator ALLOTT. Mr. Hodge, may I ask you there—just to refresh my recollection: When was his service in the legislature?

Mr. HODGE. 1936 to 1946. He retired the year when I was elected, sir. When he retired from the legislature it was not as a result of political defeat. It was because he found it necessary to devote full time to his business.

We who have lived our lives in the islands know that slums and slum areas exist. We also know that Paiewonsky owns no slums. Nor has he ever owned land on which superficial housing was erected.

We know that on the contrary Mr. Paiewonsky has been in the forefront of the fight to correct these evils.

Again, it is ironic that he should be charged by his enemies for being for the very thing he has fought hardest against.

The people know that during World War II when the Virgin Islands were wallowing in the slough of economic backwash, and with the entire world passing them by that it was the Paiewonskys who bought sailing vessels and operated a supply system into the islands from the mainland and that no charge was made to islanders for the transportation of the necessities they needed to survive.

The Legislature of the Virgin Islands in 1945 or 1946 voted thanks to the Paiewonskys for this action.

Ralph Paiewonsky has worked for the political advancement of our people, and still does.

Gentlemen, the small support this vicious anti-Paiewonsky campaign has received in the islands comes primarily from a group of persons of recent residence who basically do not believe that natives should hold top positions in the government or in private business.

These enemies of the people do not believe in greater self-government. These are the same persons who have sought to defeat me as a native when I ran for the legislature.

These are the reasons why personally I support Ralph Paiewonsky for Governor of the Virgin Islands. It is why, as president of the Virgin Islands Legislature, speaking for the sole elected body in the islands, strongly support Ralph Paiewonsky.

Mr. Chairman, before I go to questions and answers, I would like to request that the chairman insert in the record a letter that, as president of the legislature, I wrote to President Kennedy before he was inaugurated, regarding the nomination of Mr. Paiewonsky and I would like to also ask that while you might have already inserted it, Mr. Chairman, that the letter that Mr. Herman Wouk wrote to you be also made a part of the record.

The CHAIRMAN. Without objection, your letter will be put in the record.

Mr. HODGE. Thank you.

The CHAIRMAN. I believe you put in the letter. Is it the same letter he wrote to me that you want in the record?

Mr. HODGE. Yes, sir.

The CHAIRMAN. I have already put it in the record.

Mr. HODGE. Thank you.

May we make it a part of my statement, as well as my letter to President Kennedy.

The CHAIRMAN. Without objection, both Mr. Wouk's statement and your letter to the President may be made a part of the printed record.

(The material referred to is as follows:)

U.S. Senator JOHN F. KENNEDY,
President-elect of the United States,
Washington, D.C.

DEAR SENATOR: The legislature of the Virgin Islands has instructed me to extend our heartiest congratulations on your election as President of the United States. We are looking forward to the years of your administration, for we are confident the achievements of the next decade will bring peace and dignity to our world.

The imagination of our people in the Virgin Islands has been seized by your moving plea for sacrifice, for dedication, and for progress. This legislature, which includes no Republicans, will support your efforts in every manner open to us.

Our islands have made progress since their purchase by the United States from Denmark in 1917. We look forward to an acceleration of that progress in the years ahead.

We would like to recommend to your attention the name of Ralph Paiewonsky, as a candidate for Governor of the Virgin Islands.

Under American programs our people have achieved a high degree of literacy—more than 98 percent of our population read and write. This is the more remarkable when it is understood that we still lag in the economic field and many of our citizens see but a few dollars annually in cash.

But our people have achieved a high degree of literacy and, with it, political maturity. We hope and pray that in the near future we may, as citizens of the United States, participate more fully in the government of our country—that we may elect our own Governor and vote for President and Vice President of the United States.

There is still a period of waiting before us before this is achieved. It is necessary, we believe, that a man of probity and proved administrative ability guide our islands destiny toward this goal. It is necessary, we believe, that the man appointed Governor be a native islander familiar with the ramifications of our life in this the easternmost frontier of the United States.

Mr. Paiewonsky fulfills these conditions. He has been national committeeman for the Democratic Party in the Virgin Islands. He has served in distinguished fashion in the legislature of these islands. He has made a success in the business world and he is known as a man of faith. Born in the Virgin Islands, and a lifelong resident here, he knows probably every one living in our islands.

We hope and pray that you will see fit to appoint Mr. Paiewonsky as Governor. He will be a credit to the islands and to your administration.

If there is any manner in which either I or the legislature may be of service please let us know and we will comply. And please, won't you, like President Truman before you, visit us here in the "Islands of the Sun"?

Respectfully yours,

WALTER I. M. HODGE,
President, Virgin Islands Legislature.

A STATEMENT ON THE GOVERNORSHIP OF THE VIRGIN ISLANDS, BY HERMAN WOUK

It seems to me that the modern history of the Virgin Islands is going to begin with the governorship of Ralph Paiewonsky.

The islands have strategic importance in the Caribbean Sea as a happy and completely loyal English-speaking territory under the American flag, with excellent harbors and good airfields. They have international political importance as an American community where the races live in total harmony. Here the word "integration" is without significance. Any United Nations delegate who visits the Virgin Islands can never believe again the Soviet canard that Americanism means discrimination.

At present the islands are emerging from long economic doldrums, thanks to the tourist discovery of their enchanting beauty and perfect climate. They can, properly administered, become self-supporting and even contribute to the Treasury instead of being a charge on it.

But the islands now need nearly all essential services improved up to the mark of American community: roads, water, power, sewage disposal, harbor dredging, airfield development, and so forth. The native population badly needs proper housing.

Obviously the situation calls for a man who can get things done, and who knows the islands.

Ralph Paiewonsky is a native Virgin Islander who has spent his life here. He has built up his fortunes through invention, perserverence, thrift, and very hard work. He is a living answer to the contention that the tropics rob men of energy. Ralph Paiewonsky has the energy of a mainlander, and then some.

He has been active in politics as a Democratic leader for years. Where he has seen a need, he has always tried to do something about it. With his brother Isidor he has been in the forefront of all efforts at community planning. The Paiewonsky family, one of the most distinguished in the territory, is honored by white and black equally as people of charity, enterprise, and culture. Ralph's brother, in particular, has published monographs on the antiquities of the islands and works tirelessly to preserve its historic monuments and its traditional architecture.

Ralph Paiewonsky's humility is extraordinary. It took me, as a newcomer several years ago, a long time to realize that he was a political leader and a wealthy man. I first knew him as a good-humored person whom you could find at the Rise Shop or at the West Indies Bank, or on Main Street, almost any time of the day, in his shirt sleeves, talking quietly with one friend or another, and ready to drop his business to do a newcomer a service. This unassuming, accessible manner is not a pose, I learned, but his essential nature. I've never known a man in a similar position less given to self-importance.

Various charges have, I understand, been leveled against Mr. Paiewonsky. They are not worth discussing. Mr. Paiewonsky is supported for the governorship by both local newspapers, owned and edited by Negro natives and insistently independent in their views. The great majority of the legislature of both parties supports him. There is no visible opposition of any consequence on the islands. This appointment has been hailed all through the territory as a bright promise that at last the necessary things are going to get done. The opposition has been reduced to surreptitious whispering and letterwriting. Its nature is its own strongest refutation.

In short, President Kennedy has clearly drawn on his firsthand knowledge of the islands in appointing the one man most qualified in temper, experience, and proved ability to raise the territory to the general level of American living, while preserving its natural beauty and unique charm. Every responsible person down here is happy over the appointment, and counts on Senate confirmation to start a new era in the life of these beautiful islands, where so much needs to be done.

HERMAN WOUK.

Senator ALLOTT. Mr. Chairman.

The CHAIRMAN. Senator Allott.

Senator ALLOTT. Mr. Hodge, on page 1 of your statement you say:

As president of the third legislature, I must tell you that a very large majority of the members of that legislature are committed to support of Ralph Paiewonsky on a program of development of the Virgin Islands in all phases, political, social, and economic.

On the last page you say:

It is why, I, as president of the Virgin Islands Legislature, speaking for the sole elected body in the islands, strongly support Mr. Paiewonsky.

Now, did the legislature pass a resolution?

Mr. HODGE. No, sir.

Senator ALLOTT. Then if in the first place you do not speak for the whole legislature, but only for the majority even though it be a large majority, then you do not speak for the whole legislature, do you?

Mr. HODGE. I know of no member of the legislature who objects to Mr. Paiewonsky as Governor of the islands.

Senator ALLOTT. Do you have letters from them to that effect?

Mr. HODGE. Not with me, but I have a signed statement by six members and I have the commitment of three other members.

Senator ALLOTT. Sir?

Mr. HODGE. I have a signed statement by six members and I have the commitment of three other members.

Senator ALLOTT. You say here a very large majority and then you say that you speak for the sole elected body.

Now, if you had a unanimous situation, then you could say you spoke for the legislature.

Mr. HODGE. I would say that I am speaking for the legislature, sir, because I know of no member who has objected to Mr. Paiewonsky being Governor of the islands.

Senator ALLOTT. Then your statement on the first page should be changed. You should say that the legislature unanimously supports Mr. Paiewonsky. Do they?

Mr. HODGE. If you wish me to make that change, it is all right with me.

Senator ALLOTT. I do not want to make the change. I just want to know what the facts are.

Mr. HODGE. I do know that the majority of the members speak and it seems to me, Senator Allott, that if 8 members of an 11-man legislature pass a resolution or pass a bill that certainly it is an act of the legislature.

Senator ALLOTT. Did they pass a bill?

Mr. HODGE. No; they did not.

Senator ALLOTT. Did they pass a resolution?

Mr. HODGE. I do know that an actual resolution will be passed.

Senator ALLOTT. They have not passed one?

Mr. HODGE. We did not ask for one.

Senator ALLOTT. I think that is all, Mr. Chairman.

Senator GRUENING (presiding). The next witness.

Senator MILLER. Mr. Chairman, may I ask the witness a question?

Senator GRUENING. Senator Miller.

Senator MILLER. In your statement you stated that the nominee had been a leader in trying to take care of some of these problems?

Mr. HODGE. Yes.

Senator MILLER. Will you give us any specific items in which he has taken the leadership?

Mr. HODGE. I guess I can talk about that all day.

Senator MILLER. For example, I asked the nominee yesterday what the major problem was. He stated there were many major problems connected with water, housing, sanitation, sewage. What, specifically, has the nominee done in the way of leadership with respect to improving the leadership with respect to water, sanitation, sewage, housing?

Mr. HODGE. I do know on the question of housing the nominee has been before the legislature time and time again asking us to approve low-cost housing sites, asking us to work out our problems on sewers and problems on roads out at various times.

Senator MILLER. Has the legislature taken any action?

Mr. HODGE. Definitely.

Senator MILLER. I regret to say that I never had the opportunity to visit the islands, but I must say that the reports that I have received indicate there are very severe problems in those areas and I have not received any tangible evidence of how they have been improved in the last few years.

Mr. HODGE. Well, sir, those members of the committee—I am sure that Senator Burdick would substantiate my statement—who have been to the island 5 or 6 years ago, and if they had come back this year, or last year, they would agree with me that we have made substantial improvement, especially public improvement, in our roads and water systems.

Even though we are still behind, we have made some progress.

Senator MILLER. Do you feel that because Mr. Rosenblatt did not point that out in his report that his report was slanted?

Mr. HODGE. I know so, Senator, from the question he asked me, and the other members of the legislature.

Senator MILLER. Did you point out to Mr. Rosenblatt some of the improvements that had been made?

Mr. HODGE. I did not have a chance to. He was looking for one particular thing. I had breakfast with him and a man by the name of Mr. Revy.

He asked me concerning the governorship and why must we have a native. I knew then that the next man he was soliciting support for in the islands was a man from here and from the questions he directed to me he certainly favored, he did not favor a native being a Governor of the islands.

Senator MILLER. Thank you.

The CHAIRMAN. I have been worried a little bit about the fact that the powerplant loses \$108,000 a year, the Virgin Island Corporation \$500,000 or \$600,000 a year.

How does this happen? Does not the legislature pay any attention to what goes on in the islands?

Mr. HODGE. We do pay attention. We certainly would like to have something to say about the Virgin Islands Corporation, but that is a Federal corporation.

The CHAIRMAN. Would you like to see that abolished? You might find an ally.

Mr. HODGE. No, sir; I would not agree that the Corporation be abolished.

The CHAIRMAN. Mr. Paiewonsky and I were on opposite sides of the argument in the Democratic platform committee about people down there electing their own Governor, the people down there taking full charge of their own government.

Nobody seems to worry about the fact that they dip into the Federal treasury for many hundreds of thousands of dollars or so a year and spread it out.

Doesn't it disturb the legislature at all?

Mr. HODGE. Certainly. Since 1954 we have been trying to carry our own burdens.

The CHAIRMAN. You may try, but you do not succeed by several hundred thousand dollars a year.

Mr. HODGE. You know this, that the people in the Virgin Islands have nothing to do with the running of the Virgin Islands Corporation. We have one single native on the board of directors. It is controlled entirely by the top people in Washington, sir.

The CHAIRMAN. Have you ever seen the Virgin Island Corporation meeting in the Virgin Islands?

Mr. HODGE. I saw a board of directors meeting at cocktails once.

The CHAIRMAN. I am talking about work.

Mr. HODGE. No, sir; I never attended any meetings.

Senator ALLOTT. Mr. Hodge, let us pick this up.

You know of your own knowledge, or you should, that during the administration of Fred Seaton as Under Secretary of the Interior, that the board of directors of Virgin Island Corporation met in the island continuously and outside of cocktail hours, do you not.

Mr. HODGE. He asked me if I have ever seen them, if I have been to a meeting.

Senator ALLOTT. Let us cut out this play on words. You know that they meet, do you not?

Mr. HODGE. Certainly they have met.

Senator ALLOTT. And meet in the islands. You know this. You know they have met in St. Thomas, in St. Croix, they have met in St. Croix? You know this?

Mr. HODGE. I have never attended a meeting, sir.

Senator ALLOTT. You know they have met there. You have read the papers?

Mr. HODGE. Certainly.

Senator ALLOTT. Then why do you try to raise the implication here, as you just have, that the only time they have met there was once to gather around a cocktail table?

Mr. HODGE. I have been to cocktail parties even under the Democrats.

Senator ALLOTT. You do know that the board has met there repeatedly?

Mr. HODGE. Certainly. It is not intended the way you are taking it, Senator.

Senator ALLOTT. I say that is the only way your words could be interpreted.

Mr. HODGE. It is not intended that way. I notice over the years I have been in government the changes in administrations—

The CHAIRMAN. Has the present Governor any relatives who are affiliated with Mr. Paiewonsky, any business enterprises that you know of?

Mr. HODGE. The present Governor?

The CHAIRMAN. Yes, Mr. Merwin?

Mr. HODGE. Except in the rum business, I don't know whether they are affiliated or not, but I do know that the Skeochs were in the rum business and Paiewonsky.

The CHAIRMAN. Who?

Mr. HODGE. Skeochs, the first cousin of the Governor, he is the first cousin to the present Governor, Governor Merwin.

The CHAIRMAN. He is part of the Consolidated Distilleries.

Mr. HODGE. I understand, sir, with the Paiewonskys.

The CHAIRMAN. Did it affect anybody down there when the price of this alcohol or molasses went down from 17 cents to 10 cents and then to 7 cents a gallon?

There is a report made by the Virgin Islands Corporation directors and they say:

A total of 333,275 gallons of molasses were produced and sold to the local rum distilleries and livestock producers at a price of 7 cents per gallon for 52 percent sugars. However, this price agreement was reached by negotiation between the Corporation and the local rum distillers without going to arbitration.

I understood from testimony the other day there was a contract that said they had to get 2 cents less than the landing price at St. Croix for this alcohol—7 cents is certainly more than 2 cents difference from the landing price at St. Croix.

I am just wondering if you regard it as significant at all that this contract could be negotiated and agreed upon by the Virgin Islands Corporation.

Mr. HODGE. Mr. Chairman, the record of the Corporation was never made public and never made available to the members of the legislature. I would be in no position to make any comments on the circumstances or the situations under which it was made, sir.

The CHAIRMAN. They are not made public?

Mr. HODGE. No, sir. I mean the Corporation business is a Federal thing and I understand everything is handled through the Department of the Interior, but the local legislature has no method of having these records made available to them.

The CHAIRMAN. I am just trying to find out if the legislature ever worried about this situation at all, of the losses in the sugar business, the losses in the molasses business, the losses in the power business.

Mr. HODGE. We have been concerned about this over the years, sir. We are much concerned about keeping the Corporation going because it still is the backbone of St. Croix.

The CHAIRMAN. What good does it do the islands? It does the individuals some good by buying these things. What good does it do the islands to have a dying business on hand?

Mr. HODGE. St. Croix is a largely agricultural island; 750 small farm families sell all their crop to the Corporation.

The CHAIRMAN. Would it not be better to grow some of the food they need down there rather than sugar which cost the Corporation \$600,000 and some last year?

Mr. HODGE. That may be better, sir, but still we have these 750 small farmers who deliver their products to the Virgin Islands Corporation sugar mills.

The CHAIRMAN. I am trying to ask you why they do because it says here the low production of sugarcane was reflected in factory operations which showed a loss of \$427,288.

At the head of this there was a paragraph that said:

Production of sugarcane showed a loss of \$208,000.

If you add \$208,000 to \$427,000, that is \$735,000 that they lost trying to produce sugarcane and did not supply the domestic needs for food.

Would it not have been better to supply food which people could eat than the sugarcane out of which other people seem to be making profits and the islands lose?

Mr. HODGE. That may be so, Mr. Chairman, but, remember, the sugarcane was already planted, you had a drought. It has to be harvested. It was a question of getting whatever you can for the sugar.

The CHAIRMAN. What you can for it?

Mr. HODGE. It is a question of getting what you can out of it.

The CHAIRMAN. They sold it far below the final production price, did they not?

Mr. HODGE. I do not know, sir. I am talking about your question regarding the —

The CHAIRMAN. I am reading from the report:

The 1960 sugar crop was sold at an average price of \$6.36 per hundredweight which represents a good marketvalue for the price above the average for the country. It is most unfortunate that the Corporation was again forced to sell its sugar at an early date for future delivery inasmuch as prices rose somewhat later in that year.

With the millions of dollars of revolving fund why did it have to sell?

Mr. HODGE. Mr. Chairman, don't you think that the management of the Corporation would be in a better position to answer that question?

The CHAIRMAN. Yes, I will come to them. You see, lots of things go on here with reference to government corporations that Congress sometimes takes a little interest in. I thought maybe the legislature down there that is asking for all sorts of government might be interested in these losses.

Mr. HODGE. We would certainly be interested in what is going to happen to the Corporation, sir.

The CHAIRMAN. Have you ever had an investigation?

Mr. HODGE. We can't investigate a Federal corporation, sir.

The CHAIRMAN. You can investigate your own people down there planting this and not getting much for it, can you not?

Mr. HODGE. Employees of the Federal Government are such that they hide behind their cliques.

The CHAIRMAN. All the people interested in sugarcane?

Mr. HODGE. No, sir; the people employed by the Virgin Island Corporation, but the farmers, they don't have any voice in deciding what the sugar price would be.

The CHAIRMAN. We just passed a bill yesterday to raise some agricultural prices. I had to vote against it. Does not your heart bleed a little for these farmers down there at election time, at least.

Mr. HODGE. They are my constituents, I am always sorry for them.

The CHAIRMAN. Why not try to get them a good sugar price?

Mr. HODGE. We are not in a position to do that, sir.

The CHAIRMAN. All right.

Senator MILLER. May I ask a question, Mr. Chairman?

The CHAIRMAN. Senator Miller.

Senator MILLER. I understand that you testified that you were a farmer.

Mr. HODGE. Yes, sir.

Senator MILLER. What do you grow?

Mr. HODGE. I raise cattle and sheep.

Senator MILLER. To whom do you sell them?

Mr. HODGE. On the local market.

Senator MILLER. Do you have any business connections with the nominee?

Mr. HODGE. No, sir.

Senator MILLER. Have you had any?

Mr. HODGE. Yes, sir.

Senator MILLER. What would be the nature of those?

Mr. HODGE. Years ago he has advanced me loans to get me started in that business.

Senator MILLER. Purely on the matter of financing?

Mr. HODGE. Yes, sir.

Senator MILLER. Those financial obligations were taken care of, paid off?

Mr. HODGE. Yes, sir. It was through the bank.

Senator MILLER. How long ago was that?

Mr. HODGE. 1953 and 1954.

Senator MILLER. What was the amount of the financing?

Mr. HODGE. \$10,000.

Senator MILLER. Thank you.

The CHAIRMAN. Are there additional questions?

Senator BURDICK. Mr. Chairman, I would like to have the reporter go back to the testimony, if he can, in regard to Mr. Rosenblatt for something that was said about Mr. Rosenblatt taking money.

I would like to know what was said about that specifically.

The CHAIRMAN. Would you try to repeat it, or would you want us to hunt back. It will be pretty hard to go back.

Mr. HODGE. I did not say that.

Senator BURDICK. What did you say?

Mr. HODGE. I said that I knew he was working for the Department of the Interior, but I had my doubts as to whether or not he was working only for that Department and I believe he was working—from the questions directed to me, that he was working for another nominee. I called him by his name, Mr. Connie Gay.

The CHAIRMAN. I am sorry, we will have to go back through the testimony because you did bring up the question of money because I commented on it.

The REPORTER (reading):

Mr. HODGE. I am not questioning the judgment of the Secretary. I am questioning whether Mr. Rosenblatt worked only for the Department of the Interior on his jaunt to the islands. Whether he made some more money on the outside, sir.

Senator BURDICK. Do you have any proof of that statement?

Mr. HODGE. Not proof. I have a doubt from his questions to me.

Senator BURDICK. Did you think a member of the Virgin Islands legislature could make a statement like that without some foundation.

Mr. HODGE. I believe I have some foundation.

Senator BURDICK. What is it?

Mr. HODGE. Because he was sent as an investigator for the Department of the Interior it would seem to me rather strange that he would direct his question and particularly against a particular candidate and in favor of another candidate.

Senator BURDICK. What about the foundation for his taking money from some place else. Do you have any proof of that?

Mr. HODGE. I have no proof.

Senator BURDICK. Do you not think you should apologize to Mr. Rosenblatt?

Mr. HODGE. No, sir; not from the way he questioned me regarding Mr. Connie Gay.

Senator BURDICK. That is all?

The CHAIRMAN. Do you see what we were talking about when you said the other side were mudslingers?

Mr. HODGE. That is the way it appears to me, sir.

Senator DWORSHAK. Mr. Hodge, as a member of the legislature, do you appropriate money used to build roads in the islands?

Mr. HODGE. Yes, sir.

Senator DWORSHAK. I received a report recently that \$200,000 was appropriated for roads in St. Thomas. Is that true?

Mr. HODGE. More than \$200,000.

Senator DWORSHAK. At one time for 1 single year?

Mr. HODGE. Our road program money exceeds that.

Senator DWORSHAK. Is a large part of this appropriation used to pave the Skyline Drive in the islands.

Mr. HODGE. I can't remember now what the particular budget bill may be, but we did appropriate—

Senator DWORSHAK. You do not even know whether they had a Skyline Drive?

Mr. HODGE. We did appropriate money, including funds for the Skyline Drive.

Senator DWORSHAK. You do have a Skyline Drive there?

Mr. HODGE. Yes.

Senator DWORSHAK. Are you sure of that?

Mr. HODGE. Yes, sir.

Senator DWORSHAK. I did not know by the tone of your answer whether you knew that or not.

Also, it is reported that Mr. Paiewonsky and his brother own a considerable acreage adjoining this road. Are you aware of that?

Mr. HODGE. I do not know, sir. I do know that the Governor's residence is on the Skyline Drive, and the Governor requested money to have that Skyline Drive fixed.

Senator DWORSHAK. That is why you built it?

Mr. HODGE. That is why I voted for it.

Senator DWORSHAK. How about the roads that are generally used on the islands? Are they in good shape or in bad repair?

Mr. HODGE. The roads in St. Thomas, or in St. Croix?

Senator DWORSHAK. In St. Thomas, the principal roads.

Mr. HODGE. In St. Thomas they are not in such good shape. The money is available for them.

Senator DWORSHAK. But preference was given to the building of this beautifully paved Skyline Drive instead of repairing the roads which are generally used by traffic?

Mr. HODGE. That is not the legislature's problem, sir.

Senator DWORSHAK. Who does that?

Mr. HODGE. The Governor and the public works commission handle that. We appropriate the money to them.

Senator DWORSHAK. You have no strings whatsoever on the money you appropriate as to how it shall be used or allocated?

Mr. HODGE. We made the money available for roads and highways.

Senator DWORSHAK. Then you are through, that is the end of your interest?

Mr. HODGE. We have a public works committee that supervises this.

Senator DWORSHAK. Who is "we"?

Mr. HODGE. The legislature.

Senator DWORSHAK. You just said that the Governor had control of the roads program.

Mr. HODGE. Certainly, sir.

Senator DWORSHAK. He has it, but you have a public works commission?

Mr. HODGE. Just like the Senate has a Public Works Committee.

Senator DWORSHAK. You have a dual responsibility.

Mr. HODGE. We appropriate moneys.

Senator DWORSHAK. Then the Governor decides where it shall be spent and then what does your director of public works do? What are his duties?

Mr. HODGE. His job is commissioner of public works.

Senator DWORSHAK. He has nothing to do with the allocation of funds as to where the project shall be located?

Mr. HODGE. I hardly think so, sir. I think the Governor does that after the legislature passes the money.

Senator ALLOTT. Where is the Governor's residence to which you referred?

Mr. HODGE. An estate owned by the Federal Government by the name of Dorothea on the hilltop in St. Thomas.

His official residence is in town, but they keep this place out there where they go I suppose when they have guests or officials occupying the Government house.

Senator ALLOTT. Where is that on the Skyline Drive?

Mr. HODGE. Estate Dorothea.

Senator ALLOTT. How long has that residence existed there?

Mr. HODGE. I would say for the last 2 years.

Senator ALLOTT. Now, is it not a fact that along Skyline Drive is the most generally sought after and high-priced land of any residential land in the islands.

Mr. HODGE. All hilltop lands are sought after.

Senator ALLOTT. And very high priced?

Mr. HODGE. Yes.

Senator ALLOTT. It is on these hilltop lands that the most expensive houses of St. Thomas are being constructed?

Mr. HODGE. Yes, sir.

The CHAIRMAN. Are there any additional questions?

Thank you, Mr. Hodge.

Mr. HODGE. Thank you, sir.

The CHAIRMAN. Mr. Ronald De Lugo, member of the Virgin Island Legislature and Democratic national committeeman from the Virgin Islands.

STATEMENT OF RONALD DE LUGO, MEMBER, VIRGIN ISLANDS LEGISLATURE AND DEMOCRATIC NATIONAL COMMITTEEMAN FROM THE VIRGIN ISLANDS

Mr. DE LUGO. Mr. Chairman and members of this distinguished committee, my name is Ronald De Lugo. My home is in Christiansted, St. Croix.

I am a radio commentator for WIVI, located in St. Croix. I served my country during the occupation of Japan as an enlisted man in the U.S. Army.

I have lived in the Virgin Islands since I was 2 years of age. My father was a native.

Presently I am a member of the Legislature of the Virgin Islands serving my third consecutive term. In the three times I have sought elected office I have received the highest number of votes of any candi-

date at large, drawing from all three islands, St. Croix, St. Thomas, and St. John.

I point this out merely to show that I am familiar with the insular picture.

I am Democratic floor leader in the legislature and Democratic national committeeman for the Virgin Islands.

Gentlemen, as a conscientious, elected representative of the people of the Virgin Islands I must be deeply concerned with the choice of a man who will serve as our chief executive during the challenging years ahead.

It has been said that we in the American Virgin Islands have a great opportunity to serve our country in the Caribbean community. The eyes of the people in the British Virgin Islands and the British Federation are on us as an American territory.

The attention of the people in the Dutch Islands and our neighbors in the French Islands is focused on what we say and what we do.

May I say that I know that no one is more keenly aware of this than the President of the United States who visited our islands only 2 years ago. He was then a Senator from Massachusetts and when he returned from his visit he advanced a plan to the Department of State to create in the Virgin Islands a showcase of democracy for all of the world to see.

As a Democrat, as an American, I support my President and his concept. That is why I am here today in support of Ralph Paiewonsky for Governor of the Virgin Islands.

He is the man best fitted to carry out the President's program. I am keenly aware of our opportunity. I am aware that the key to success lies in the selection of a man who knows the insular problems of the Virgin Islands, a man dedicated to the belief that Virgin Islanders are able to govern themselves and to govern themselves well; a practical man who can create and carry out a program that will carry us toward economic self-sufficiency and a man who can inspire us, all of us, in the islands to the necessary work and effort to make it possible for us to attain these ends.

It was my responsibility to endorse a man who could supply these qualities to the post of Governor. I have endorsed and I have fought for the selection of Ralph Paiewonsky. I am convinced that he is the best man for the post.

Let me say as a citizen, as a leader, and as an elected representative of the people of the Virgin Islands, I am as concerned as you are that the man selected for Governor be honorable and upright in all his dealings.

I can attest to you that this statement describes Ralph Paiewonsky.

Those people who malign him do so by perverting the facts; by turning the truth, by attributing to him the very things that he has fought hardest against.

Ralph Paiewonsky will serve the people of the islands and the United States ably and well.

The CHAIRMAN. Are there any questions?

Senator DWORSHAK. Who owns the radio station which employs you?

Mr. DE LUGO. It is a corporation. It is a family corporation owned by the Hignans.

Senator DWORSHAK. They are local residents?

Mr. DE LUGO. Local, yes, sir.

Senator DWORSHAK. Locally controlled?

Mr. DE LUGO. Yes, sir.

Senator DWORSHAK. On the basis of your glowing report of the outstanding job of self-government done by the people in the Virgin Islands I presume you would favor statehood so that they would have complete autonomy?

Mr. DE LUGO. No, sir; I would not be in favor of statehood at this time. I would like to see the people of the Virgin Islands move forward.

Let me be very honest with you. We desire—I am perhaps speaking for myself—I want to see ourselves move to the day when we will be economically self-sufficient. I want to see the day come when we can make a contribution to the Federal Government.

May I say that you are very much aware of the housing problems that we face.

Senator DWORSHAK. I have never been in the islands so I am not familiar with them.

Mr. DE LUGO. But it has been raised here and I am sure you are concerned about it, Senator.

Our biggest problem was that in the thirties, as it was brought out yesterday, President Hoover called us a poorhouse, and perhaps we were; the islands were very poor. And those were tough times.

In its wisdom the Congress of the United States in 1954 gave us the Organic Act, finally gave us the tools whereby we could make some economic progress and the tremendous advancements that we speak about have only taken place in these last few years since we have had this formula whereby we have been able to improve our hospitals, expand our school system, and make capital improvements.

Prior to that time every year the people of the Virgin Islands had to come to the Congress and ask for an appropriation. Since then you have given us a different formula.

I hope some day we will be economically self-sufficient. I am not a financial expert, however.

Senator ALLOTT. I have just two questions. What is the composition of the legislature by party?

Mr. DE LUGO. By party we have at the present time four Democrats, four Unity Party members—this is a local party with no mainland affiliation—and one member of a party that is known as the Virgin Islands Party, and two independents. I believe that is correct.

The CHAIRMAN. No Republicans?

Mr. DE LUGO. Not at the present time, sir. I think Senator Allott when he was down there remarked on that. He addressed the legislature and he remarked on the lack of Republican legislators. There was a Republican there, Governor Merwin, but he had just moved up to the governorship when you arrived. So we have had Republicans.

Senator DWORSHAK. Is he the only Republican in the islands?

Mr. DE LUGO. I imagine that at this time it would seem so because the last campaign they didn't do so well.

Senator ALLOTT. I have one other question, Mr. Chairman. This does not touch the qualifications of the nominee. But since we have gotten into this so extensively, do you conceive that these islands can be developed solely as a tourist resort?

Mr. DE LUGO. I would like to see us diversify a bit. I think that tourism is too fickle an industry. I mean we are doing great now but people have discovered the Caribbean, everybody wants to go to the Caribbean.

We have wonderful weather. But who knows, some years from now for various reasons they might want to go to Europe.

Senator ALLOTT. Many things might affect that in the future.

Mr. DE LUGO. Certainly. I would like to see us expand in small industries which mainly are assembling.

Senator ALLOTT. You are agreed that among other things one of the pressing problems is to become self-sufficient from a food standpoint?

Mr. DE LUGO. Definitely, sir, I do.

Senator ALLOTT. Do you know off the top of your head what percentage of the foodstuffs are imported in the Virgin Islands?

Mr. DE LUGO. I do not know the percentage but I do know it is very large and you should do something about it.

Senator ALLOTT. Would it be as high as 90 percent?

Mr. DE LUGO. This is just a guess. I would say it probably is.

Senator ALLOTT. Thank you.

The CHAIRMAN. Senator Miller.

Senator MILLER. Of course I don't believe everything I read in the newspapers, but there was a recent story in the paper to the effect that the nominee was the one who received the least recommendations of those who were being considered for this post.

I don't know whether you saw that article or whether you have heard that or not.

Now you have stated this morning that you consider him to be best. How do you reconcile these two positions?

Mr. DE LUGO. The statement or the report that appeared in the paper is attributed to the gentleman that has been mentioned earlier, Mr. Rosenblatt.

I met Mr. Rosenblatt on one occasion. Mr. Rosenblatt has not known Mr. Paiewonsky as long as I have nor is Mr. Rosenblatt as familiar with the Virgin Islands and the problems as I am.

I say this not in criticism at all because Mr. Rosenblatt spent no more than a few days in the Islands. I don't think Mr. Rosenblatt is in a position to make a judgment that is equal to mine on this particular thing.

Senator, I am going to have to go back to the people of the Virgin Islands in 2 years and stand for election.

Senator MILLER. Do you find in the islands support for some of these other people greater than for Mr. Paiewonsky?

Mr. DE LUGO. Absolutely not, sir. I say that as a Virgin Islander and by that I mean either a person who was born there or person of long-time residence, the vast majority. If you want a percentage, 80 to 90 percent, of those who have been there a long time want Ralph Paiewonsky.

Senator MILLER. Do you include in that group these people who are living in these poor housing areas?

Mr. DE LUGO. Absolutely, sir. May I say that with regard to the housing problem that has been raised we are trying to do something about it and we are going to do something about it.

These houses did not come about in the last few years. They have been there for ages. It is a problem and it goes back to the days when these islands were very poor. These people would go and they would build a house, a house which by mainland standards is very poor—by our own standards it is today, too—and they would pay a small rent, maybe a dollar and half a month, for the right to have their house on this property.

Now because of the tourism we have been speaking about land values have gone sky high. We do have a big middle class. The statement yesterday that we have 15 families at the top and everybody else in a depressed economic situation is not so.

Many of the people now living in these houses are middle class people that are in many cases priced out of the land market by the very people who in many cases are opposing Mr. Paiewonsky.

Speculators have come in—this is a lush resort area—they have bought up tracts of land and the real estate values have gone sky high.

We do have Government land; our problem now is to subdivide the land to get it to the people. Our problem is to encourage private enterprise to come in and to build middle income homes.

We are taking good care of, a fine job is being done with low income housing and that is being done by the Federal Government.

Our biggest problem is middle income. And we have a big middle class. Today, virtually all the children graduate from high school.

Senator ALLOTT. I realize the incomes on the islands do not compare with ours in the United States, but when you use the term middle class what general area of income are you speaking of?

Mr. DE LUGO. From \$2,500 to \$3,000 a year.

Senator ALLOTT. From \$2,500 to \$3,000 a year?

Mr. DE LUGO. That is right, in that area.

Senator ALLOTT. One other question that occurs to me. Has the legislature ever taken any action or have they ever had a committee to investigate the possibility of restoring to the islands themselves the control of some of their beaches?

As I recall there is a public beach just outside of Charlotte Amalie on the bay. Is that correct?

Mr. DE LUGO. That is true, sir.

Senator ALLOTT. There is also another beach on the other side that was deeded or willed in perpetuity for the use of the public.

Mr. DE LUGO. By Mr. Fairchild, a beautiful beach, Mangans Bay.

Senator ALLOTT. Am I wrong in my recollection that the rest of the beaches of St. Thomas are all privately owned?

Mr. DE LUGO. Most of them are, sir. That was a mistake that was made years ago.

Senator ALLOTT. Has the legislature taken any steps along this line?

Mr. DE LUGO. In fact I can speak for the Democratic Party on this; I don't know about the other members of the legislature: Such legislation has not been introduced at the present time. It has come to the fore and it is very much in our mind at the present time because of certain cases in Puerto Rico.

In Puerto Rico the government owns all the beaches. We are quite concerned with that problem. I would not be surprised if legislation is introduced by myself to try to do something about it.

Senator ALLOTT. Mangans Bay is not readily available to the people of Charlotte Amalie.

Mr. DE LUGO. It is a little distant but we have made improvements now. The road to Mangans Bay has been fixed. There is bus service there and a large number of people own their own cars on the islands.

In fact, our problem is that our roads were not built, they are narrow streets, for the amount of cars we now have. We have built facilities there, the legislature appropriated \$30,000 to build facilities there.

Senator ALLOTT. At Mangans Bay?

Mr. DE LUGO. At Mangans Bay and it is getting a lot of use now. This is just something recently.

Senator KUCHEL. Mr. De Lugo, how long have you been Democratic national committeeman?

Mr. DE LUGO. I was seated at the convention.

Senator KUCHEL. Did you make the recommendation of Mr. Paiewonsky for this position to the administration?

Mr. DE LUGO. Yes, sir.

Senator KUCHEL. Whom did you make your recommendation to?

Mr. DE LUGO. To the national committee, to the President, to the Secretary of the Interior. I endorsed him all along the line.

Senator KUCHEL. Did you do it in writing?

Mr. DE LUGO. Yes, sir.

Senator KUCHEL. You wrote a letter to the President?

Mr. DE LUGO. Yes, sir; either a letter or a cable requesting it.

Senator KUCHEL. When did you do that?

Mr. DE LUGO. I imagine about a month and a half ago.

Senator KUCHEL. Did you receive an answer from the President?

Mr. DE LUGO. I received an answer from Mr. O'Brien some days ago. That was in answer to my cable. That is right; I sent a cable supporting Mr. Paiewonsky and the answer from Mr. O'Brien was saying that perhaps I know that Mr. Paiewonsky has been appointed, that he is the President's choice.

That letter I do not have with me. It is in the islands. I received it just a few days ago.

Senator KUCHEL. You say you wrote also the Secretary of the Interior?

Mr. DE LUGO. Yes, sir; endorsing him.

Senator KUCHEL. Sir?

Mr. DE LUGO. Yes; endorsing Mr. Paiewonsky.

Senator KUCHEL. When did you do that?

Mr. DE LUGO. About the same time I imagine. About a month and a half ago.

Senator KUCHEL. Did you receive an answer from the Secretary?

Mr. DE LUGO. I did not.

Senator KUCHEL. Have you ever spoken to the Secretary?

Mr. DE LUGO. Yes, I have.

Senator KUCHEL. What was his comment to you?

Mr. DE LUGO. About Mr. Paiewonsky?

Senator KUCHEL. Yes, sir.

Mr. DE LUGO. He made no specific comment on Mr. Paiewonsky or any other candidate. Actually his comments were mainly saying that whoever the President appointed that he hoped that the legislature would work with him in pointing out the responsibility we have, the opportunities we have in the Caribbean and the President's position on moving the islands as quickly as possible towards more political self-government. That is to have a resident commissioner and elected Governor.

Senator KUCHEL. You say you also recommended this gentleman to the Democratic committee?

Mr. DE LUGO. Yes, sir.

Senator KUCHEL. What function do they perform in recommendations? What do they do?

Mr. DE LUGO. I am a new national committeeman but I imagine that they have some function. I don't know at the present time; certain States say it is a bit vague. I hear New York is not too happy.

Senator KUCHEL. You nevertheless did recommend to the national committee—

Mr. DE LUGO. I thought that that is what I was supposed to do; yes, sir.

Senator KUCHEL. Did they take any action?

Mr. DE LUGO. I had a meeting with Mr. Bailey, a very pleasant one.

Senator KUCHEL. When was that?

Mr. DE LUGO. I would say about a month ago.

Senator KUCHEL. What did he say?

Mr. DE LUGO. He met not only with me; he met with members of the legislature. We told Mr. Bailey who we were—and I might say that included members of the legislature who are not Democrats—and we stated we were very much concerned with the role that we would play in the President's program, that we wanted to be more than just a tourist resort; we wanted to make a contribution to our country; we wanted an opportunity to serve and we thought it was very important that the right man was chosen, and we would like him to know our candidate was Ralph Paiewonsky.

At that time, sir, in the press there were many names being mentioned and many that were strangers, people that I never heard about, that I did not even know they had ties with the islands; I did not know how they could know the territory's problems.

Senator KUCHEL. Did Mr. Bailey recommend Mr. Paiewonsky to the President?

Mr. DE LUGO. I do not know, sir.

Senator KUCHEL. Did you ask him to?

Mr. DE LUGO. I did ask him to.

Senator KUCHEL. What did he say?

Mr. DE LUGO. He did not commit himself.

Senator KUCHEL. Did you ask the Secretary of the Interior to recommend him?

Mr. DE LUGO. I didn't ask the Secretary to recommend him. I told the Secretary that this was my candidate and I certainly hoped that he would be appointed.

Senator KUCHEL. What did he say?

Mr. DE LUGO. He was very vague. He would not commit himself as to who the candidate would be. He said he knew of Mr. Paiewonsky's qualifications and they were excellent but he was mainly concerned at that point with talking about the program for the territories and he was concerned with us working out a program to move forward.

Senator KUCHEL. When did this gentleman representing the Secretary of the Interior visit the islands?

Mr. DE LUGO. I believe, sir—these dates are vague—I met with him; I was called in to meet with him when he was there. I would say probably around February 10. I was told that two gentlemen representing the Department of the Interior were down there making an economic survey.

I was called in to meet with them. I went in; I met with Mr. Rosenblatt and Mr. Nouveen. They were supposed to be making an economic survey on tourism.

I gave them my views on various things. I also told them I supported the candidacy of Ralph Paiewonsky but we didn't get very far into that.

Senator KUCHEL. Did they ask you any questions about Mr. Paiewonsky?

Mr. DE LUGO. No; they did not ask me anything about him.

Senator KUCHEL. Do you know whether they were investigating his qualifications for the position of Governor of the islands?

Mr. DE LUGO. I didn't think that they were. I thought they were supposed to be doing an economic survey on tourism.

I might say that I thought Mr. Nouveen was also employed and that the full courtesies of the Government were extended to him. I was a little surprised when I got up here to find that Mr. Nouveen was not the representative of the Secretary of the Interior at all.

Senator KUCHEL. Whom did he represent?

Mr. DE LUGO. I do not know that, sir. I wish I did. He operates out of Chicago. I understand he is now down in Florida.

I certainly, as a representative of the people, was not going to meet with Mr. Nouveen if he was just a citizen—I wanted to know what right he had to interrogate me.

Senator KUCHEL. Did he ask you to meet with him?

Mr. DE LUGO. I was requested to meet with these two.

Senator KUCHEL. Who made that request?

Mr. DE LUGO. The administrative assistant to the Governor.

Senator KUCHEL. To the incumbent Governor?

Mr. DE LUGO. To the incumbent Governor.

Senator KUCHEL. What did you do? You refused to meet with him?

Mr. DE LUGO. No; I didn't. I met with him. I believed that they were representatives of the administration. I was quite frank with them about everything.

The statement that I made earlier was that if I had known that Mr. Nouveen was not a representative of the Department of the Interior I was not going to meet with him and discuss the islands problems.

The CHAIRMAN. Did Mr. Noveen, who is a well-known investment banker, represent himself to you as a representative of the Government?

Mr. DE LUGO. No; he did not say that, sir, but I was told, I had been in St. Thomas about 2 days before and I was told that two men from the Department of the Interior were in town making an economic study.

The CHAIRMAN. Did either one of these two men tell you that he was representing the government?

Mr. DE LUGO. No, sir.

The CHAIRMAN. Well, you just depend on curbstome rumor then?

Mr. DE LUGO. No, sir; I was told this by the administrative assistant to the Governor who said I have two gentlemen from the Department of the Interior in here. So I was misled perhaps.

The CHAIRMAN. The secretary of Governor Merwin then?

Mr. DE LUGO. Yes, sir, his administrative assistant on the island of St. Croix, a Mr. McFarland. I think he believed that both of these gentlemen were authorized.

I do not know Mr. Noveen. I did not know he was a well known investment banker.

The CHAIRMAN. I have known him for about 30 years, probably longer than that. He has an entirely good position among the people in Chicago as an investment banker. I did not want the impression left that he was some street sweeper.

Mr. DE LUGO. I did not know the gentleman. He was a very pleasant person. Now I have seen this report—

The CHAIRMAN. You have seen the the so-called report by Rosenblatt?

Mr. DE LUGO. I am impressed that it is a confidential report.

The CHAIRMAN. Are you saying what you do because of the comments about you in the report?

Mr. DE LUGO. No, sir; I did not know about those comments until just a few minutes ago I saw those. The comments are quite purple.

The CHAIRMAN. You can understand a sort of hesitancy on the part of the chairman of this committee to put it in the record.

Mr. DE LUGO. I would hope that you would not because then of course it would be privileged. I hardly see what that has to do with an economic survey on tourism.

The CHAIRMAN. You understand I am not consulted about who goes to the islands, necessarily. I tried to stop Mr. Hodge a moment ago about saying Mr. Rosenblatt got money from another source. I will give you the reason why I said that.

Section 202, Title 18, United States Code states:

Whoever, being an officer or employee of, or person acting for or on behalf of the United States—

and I pause there to say Mr. Rosenblatt went down at the request of the Secretary of the Interior—

in any official capacity, under or by virtue of the authority of any department or agency thereof, or an officer or person acting for or on behalf of either House of Congress, or of any committee of either House, or of both the Houses thereof, asks, accepts, or receives any money, or any check, order, contract, promise, undertaking, obligation, gratuity, or security for the payment of money, or for the delivery or conveyance of anything of value, with intent to have his decision or action on any question, matter, cause, or proceeding, which may at any time

be pending or which may by law be brought before him in his official capacity, or in his place of trust or profit, influenced thereby, shall be fined not more than three times the amount of such money or value of such thing or imprisoned not more than three years, or both; and shall forfeit his office or place and be disqualified from holding any office of honor, trust or profit under the United States.

The accusation of Mr. Hodge is a serious one. Of course, he should promptly take it down to the Attorney General's Office because they are the people responsible for enforcement of the penal statutes of the United States. This committee has no such authority.

That is why I am a little slow about putting the Rosenblatt report into the open record. There are things in this report that are not too complimentary to persons not involved in Mr. Paiewonsky's nomination and confirmation.

I imagine it was intended to be a private report. I understand that copies have been picked up at the press table and elsewhere so maybe it is not quite as confidential as it otherwise might be. That is not the fault of this committee, I want to assure you.

Mr. DE LUGO. I am aware of that.

The CHAIRMAN. Are there additional questions?

Senator KUCHEL. Yes.

Mr. De Lugo, before you wrote the letters to the President and the Secretary of the Interior, did you discuss with Mr. Paiewonsky your desire to recommend him for the position of Governor?

Mr. DE LUGO. I did, sir.

Senator KUCHEL. When did you do that for the first time?

Mr. DE LUGO. I did that, I would say about 2½ to 3 months ago.

Senator KUCHEL. Did he solicit your support or did you tell him that you were going to recommend him?

Mr. DE LUGO. I would say that I had heard that Mr. Paiewonsky was going to be a candidate and the state chairman asked me if I would support him.

Senator KUCHEL. Who is the state chairman.

Mr. DE LUGO. Mr. Joseph Alexander. He is the state chairman. He asked me if I would support Ralph. I said I thought he was a very good man, I would like to meet with him, talk with him, and that there would be that possibility.

Senator KUCHEL. So it was the state chairman who originally had the idea that this gentleman should be recommended?

Mr. DE LUGO. No, sir. It was not an original idea of the state chairman, I do not believe. I first heard through the grapevine that Mr. Paiewonsky was considering making an effort to become Governor of the Virgin Islands. I say then it was first brought to my attention by the state chairman. He asked what my position would be on it.

Senator KUCHEL. Then you talked with Mr. Paiewonsky?

Mr. DE LUGO. Yes, sir.

Senator KUCHEL. He confirmed what you had heard that he did aspire to become Governor of the Islands?

Mr. DE LUGO. Yes. He said that he felt that he would have an opportunity, that he had many friends in Washington that would want to see a person who was cognizant of the problems of the islands and that he was mainly concerned with the possibility that somebody would be named who was not familiar with the islands.

That is something that we were all very much concerned about and one of the reasons I backed Ralph Paiewonsky is the fact that I was absolutely sure that, I had made up my mind, that he was the best man in the islands for that position.

Our biggest fear, sir, was that some stranger not familiar with the problems of the territory would come down there and perhaps repeat the mistakes that had been made in the past.

Senator KUCHEL. Thank you. No further questions.

The CHAIRMAN. Mr. Miller.

Senator MILLER. I would like to ask Mr. De Lugo, you state in your statement that you are a commentator for WIVI?

Mr. DE LUGO. Yes, sir.

Senator MILLER. Is that your only occupation outside of being a member of the legislature?

Mr. DE LUGO. Yes, sir.

Senator MILLER. How long have you had that as your sole occupation?

Mr. DE LUGO. For many, many years. I have been with WIVI for about 5 years and before that I was in radio station WSDA in St. Thomas from the time they started radio. Prior to that I had been in radio in Puerto Rico and also in the Armed Forces.

Senator KUCHEL. Are you on a straight salary basis with WIVI?

Mr. DE LUGO. Yes, sir.

Senator KUCHEL. No commissions of any kind?

Mr. DE LUGO. No. Every so often I ask that my salary be increased.

Senator KUCHEL. You were here yesterday?

Mr. DE LUGO. Yes, sir.

Senator KUCHEL. You know of the interests of the Paiewonsky family? Are any of those interests advertisers with WIVI?

Mr. DE LUGO. No, sir; I don't think we have any.

Senator KUCHEL. You have no financial tie with the Paiewonskys?

Mr. DE LUGO. There is absolutely no financial tie between myself and Ralph Paiewonsky. We have never had any financial dealings at all.

The CHAIRMAN. Are there additional questions?

Senator BURDICK. Mr. De Lugo, how long have you been a member of the legislature?

Mr. DE LUGO. For 4 years.

Senator BURDICK. Were you in the room all during the testimony yesterday?

Mr. DE LUGO. Yes, sir.

Senator BURDICK. You heard the testimony about the Virgin Islands Corporation and how it was losing money over the years?

Mr. DE LUGO. Yes, sir.

Senator BURDICK. Do you as a member of the legislature have any jurisdiction in any way over Virgin Islands Corporation?

Mr. DE LUGO. No, I do not, sir. As has been pointed out, it is a Federal operation. I wish I could have a voice perhaps or that the Virgin Islands people would be given a larger voice in the operation of the Virgin Islands Corporation.

It was pointed out yesterday that the Virgin Islands Corporation is run by absentee management to a certain extent. The board of directors has on it only one native Virgin Islander.

Senator BURDICK. You answered my question.

Now my point is, have you ever as a member of the legislature, made any recommendations that would change the operation of the Virgin Islands Corporation?

Mr. DE LUGO. I have spoken to the Interior Department during the last few years requesting that they expand the program that they initiated some years ago, of making available to small farmers government land and allowing them to farm it. It was very successful.

I have urged that some of this land that is not in sugarcane at the present time be subdivided and be made available to the people of the Virgin Islands for homes. I have requested that VICORP—there are many houses that they have, these houses that they put cane workers in, and they are not bad houses, but many of them are closed up and we are now faced with a housing problem in St. Croix, too.

I have requested and the Governor has said he was going to request it of the president of VICORP that these houses be opened up and be rented to the people in the islands who are faced with a housing problem but VICORP has maintained a strict policy, if you don't work for VICORP you can't live in the houses, and they closed up the houses and let them go to pieces.

Senator BURDICK. Have you ever made any other recommendations?

Mr. DE LUGO. A few of the recommendations, I am very much concerned at the present time, Senator, with the power situation. As you know, I am sure many of you are aware of the power situation, I know you are, having been in the islands, aware of the power crisis that we face in St. Thomas. Now this St. Croix the same thing is happening. This is because the company has not invested in new equipment, has not bought additional generators. As far as they are now being in generators, small generators, the old ones are breaking down. When I left the islands a few days ago they could not supply enough power, and they hoped they would have another generator on the line by 10 o'clock that night, they could not supply enough power for the islands of St. Croix. This is a very serious thing.

Senator BURDICK. Now yesterday when we questioned Mr. Paiewonsky about these various companies he testified that the net worth of A. H. Riise Chemical & Distillery Corp. was far in excess of \$451,000. I believe he said close to a million dollars. Did you ever raise any question or make any suggestion in regard to the loss that was taken by VICORP on molasses and the evident prosperity of the chemical company which did 70 percent of the business of VICORP?

Mr. DE LUGO. I was not too aware of that problem, sir, until the administration asked us to meet with the manufacturers of rum, not primarily Mr. Paiewonsky. He was one of the main interests because he manufactures it but with those who were distillers in the islands. We were concerned that if something happened to the rum industry that we would lose these revenues that we at that time were trying to bring back to the islands.

Some went to the island of Puerto Rico. This was at the time of the Suez crisis. The molasses price had gone sky high. The representation that had been made to us and the way I made my judgment

is because the distillers said and they convinced me and convinced the Governor of the island, Governor Merwin, by presenting their books on the entire operation, that they would not be able to operate during this period buying molasses at the world price. Therefore we went along with this subsidy and the Interior Department also, naturally at that time.

Senator BURDICK. Were you not concerned and are you not concerned now that apparently the people who do business with VICORP are making money in the molasses business and the VICORP itself loses money?

Mr. DE LUGO. Sir, may I say this, that if for one moment I thought VICORP, I believed that VICORP, was being subsidized or being used to the advantage of a privileged few I would campaign as vigorously as possible before you gentlemen urging you to abolish it immediately but I am not convinced of that. I know that VICORP at the present time is operated, it gives employment to the people, and it helps the island of St. Croix primarily. I do not believe that that is the case.

Senator BURDICK. Does not the deficit it is running concern you?

Mr. DE LUGO. Certainly.

Senator BURDICK. What do you suggest be done about it?

Mr. DE LUGO. At the present time Virgin Islands Corporation I believe has said they are going to make money in the sugar operation this year because we have been lucky, we have had rain. Last year they lost because we didn't have rain.

The CHAIRMAN. Mr. Lausi, I would like to have from you a statement by what authority the Board of Directors of the Corporation changed the contract for the distillers to the financial damage of the United States. What authority they had in other words to modify the contract that said they should pay 2 cents less than the landing price bringing it down from 16 or 17 cents, first to 10 cents and then to 7 cents. What authority did they have to do that to the financial damage to the United States?

Mr. LAUSI. I could not give you authority for it now.

The CHAIRMAN. I want you to find out what it was and bring, if you will, the proper resolutions of the Board showing their desire to do that in order to see what the legality was of the transaction.

Mr. LAUSI. I can tell you the reason for it.

The CHAIRMAN. I can understand the reasons but unfortunately you have to have law with you. I signed some papers not long ago and sent them in. I found out that the corporation had to say that I had authority to do it although I own the corporation.

Mr. LAUSI. I will do that, Mr. Chairman.

Senator BURDICK. The fact remains Mr. De Lugo, that the distilleries doing business with VICORP were making money and VICORP was losing money in this field.

Mr. DE LUGO. That is right.

Senator BURDICK. You never did anything as a legislator?

Mr. DE LUGO. I have been in the legislature 2 years. I have not done anything about that. It is a Federal operation, sir. I have no voice in the operation of VICORP. I am concerned about it.

Senator BURDICK. You said you made recommendations regarding agriculture and regarding housing.

Mr. DE LUGO. Yes.

Senator BURDICK. You have never made recommendations regarding this field?

Mr. DE LUGO. I was not aware of this situation, sir, actually, until this hearing.

Senator BURDICK. Do you know a corporation known as Queen's Quarters, Inc.?

Mr. DE LUGO. Is that in St. Thomas or St. John?

Senator BURDICK. St. Thomas. Do you know anything about it?

Mr. DE LUGO. No, sir. There is a Queen's Restaurant.

Senator BURDICK. This is an import-export business?

Mr. DE LUGO. I know nothing about it.

The CHAIRMAN. Senator Long.

Senator LONG. I would like to ask a question or two, Mr. De Lugo. There have been two descriptive titles applied to the Virgin Islands, very striking; we have heard them before. One is that its past is a poorhouse. More recently, that it is becoming a showcase of democracy. In the discussion so far it seems to me that we have dealt mostly with the material side of it, that is the economics of it. If we are going to make it a showcase for democracy we must deal with certain human equations also and the things that have a bearing on the social growth of people, the cultural growth, their outlook, quality. Something has been said about education.

You have a compulsory school attendance law as do all American communities. I am very indefinite, however, in my understanding of it as a result of comments yesterday as to how effective it is. Do all the children go to school, do they go for a full day or part of the day. What is the situation?

Mr. DE LUGO. For a short time about 2 years ago there were some children that could only attend classes—and this was for a very brief period, because of lack of teachers and rooms at that time—we call split classes, only a half day. That has been remedied.

At the present time our teachers are excellent and all children go to school. The children that are living in these homes that members of this committee are concerned about, and rightly so, these children are receiving all of the privileges of Virgin Islands citizens.

They are attending school. They get all hospital benefits. In the Virgin Islands we deny no one hospitalization because of economic reasons. If they are not in a position to pay and they are ill they are taken care of.

Senator LONG. How about recreational facilities?

Mr. DE LUGO. Recreational facilities, we have had a crash program on that because I am a firm believer that lack of recreational facilities breeds juvenile delinquency, contributes to it. At the present time we have a lot of recreational facilities. They are well organized. Baseball season, softball, basketball and both girls' teams and boys' teams, and I would say that we have done pretty well in that field.

Senator LONG. What is the source of your teachers' supply, local people?

Mr. DE LUGO. Mainly local people. We do have quite a number of people from the mainland who are there. They are hired if we feel they can make a contribution to the island. I would say many of them have made excellent contributions to the territory.

Senator LONG. You heard the statement yesterday that the beginning salaries are approximately \$3,500 a year. Is that correct?

Mr. DE LUGO. Yes, sir.

Senator LONG. Is that your understanding?

Mr. DE LUGO. Yes, sir.

Senator LONG. How high do salaries go?

Mr. DE LUGO. They can go as high as \$6,500.

Senator LONG. What would apply to administrative positions or classroom?

Mr. DE LUGO. In administrative positions, the commissioner of education, who is an appointee of the Governor of the Virgin Islands with the confirmation of the legislature, supervises the entire educational program in the territory and he receives a salary of \$11,000. I believe that is fixed by the organic act as a member of the cabinet.

Senator LONG. You do that with only about 20 percent of your total budget. That is better, I think, than any of the States.

Thank you. I wanted the answers to those questions.

Mr. DE LUGO. May I volunteer something?

Senator DWORSHAK. When were you elected Democratic committeeman?

Mr. DE LUGO. I was elected just prior to the convention in Los Angeles.

Senator DWORSHAK. Did you contest for that office with anybody?

Mr. DE LUGO. Yes, sir.

Senator DWORSHAK. Who was your opponent?

Mr. DE LUGO. My opponent was the man before you, Mr. Paiewonsky, who was national committeeman for 20 years.

Senator DWORSHAK. Did you think he was a good committeeman?

Mr. DE LUGO. I thought he was an excellent one.

Senator DWORSHAK. Why did you want to take his job away from him?

Mr. DE LUGO. I felt that I could make a contribution as national committeeman.

Senator DWORSHAK. You thought you could do a better job than he was doing? Isn't it quite illogical to imply that you thought that the man who was not doing a very good job as national committeeman would be an outstanding Governor of the islands?

Mr. DE LUGO. Actually, he was an excellent national committeeman. He was recognized by all factions of the community as an excellent national committeeman. The judgment of the islands will have to be awaited to see if I am better. I did not replace Mr. Paiewonsky because he was not a good national committeeman.

Senator DWORSHAK. It has been testified that there is almost unanimous support in the islands for Mr. Paiewonsky for the governorship?

Mr. DE LUGO. That is so.

Senator DWORSHAK. But he did not have much support when he ran against you for the job of Democratic national committeeman?

Mr. DE LUGO. Yes, he did. I believe I beat him by one vote or something like that.

Senator DWORSHAK. But you got a majority of the vote?

Mr. DE LUGO. Yes, but—

Senator DWORSHAK. You ought to be the candidate for appointee for Governor?

Mr. DE LUGO. Not according to Mr. Rosenblat, sir.
May I say that I think that perhaps if Mr. Paiewonsky had exerted just a little more effort on his part he would have beaten even me, no question about it.

Senator DWORSHAK. With a little more effort on your part you might be the nominee for the governorship.

The CHAIRMAN. May I ask you one question on the legislature? You have been a member of the legislature since what year?

Mr. DE LUGO. In 1954, sir.

The CHAIRMAN. Did you vote for the molasses subsidy?

Mr. DE LUGO. I did, sir. I believe that entire legislature voted for that.

The CHAIRMAN. Does the molasses subsidy provide that you never will charge a distillery more than 7 cents?

Mr. DE LUGO. No. The subsidy, it was quite a while ago—

The CHAIRMAN. Let me read you the language:

The molasses subsidy referred to in section 4202 of this title shall be determined as follows:

(a) In the case of molasses purchased from sources within the Virgin Islands, the subsidy shall be the difference between 7 cents United States per gallon and the purchase price per gallon f.o.b. distiller's pipeline.

So for everything produced inside the islands the subsidy is everything above 7 cents; isn't it?

Mr. DE LUGO. Sir, I am not clear on this.

The CHAIRMAN. We both read and speak the English language:

In the case of molasses purchased from sources within the Virgin Islands?

Mr. DE LUGO. Yes, sir; that would be VICORP.

The CHAIRMAN (reading):

The subsidy shall be the differential between 7 cents United States per gallon and the purchase price per gallon f.o.b. distiller's pipeline.

Mr. DE LUGO. Yes, sir.

The CHAIRMAN (reading):

In the case of molasses purchased from sources outside the Virgin Islands the subsidy shall be the difference between 7 cents United States per gallon—and so forth.

That is everything from outside above 7 cents?

Mr. DE LUGO. Yes, sir.

The CHAIRMAN. How did they decide that 7 cents was the right price for molasses?

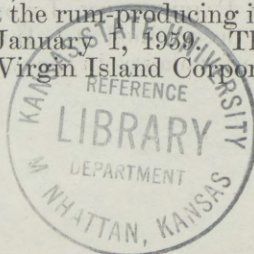
Mr. DE LUGO. The people in the industry, the administration, members of the legislature discussed this and representation was made that that was the industry could survive.

The CHAIRMAN. Now we are hearing of these industries being sold to Schenley's for a rather attractive figure. Will the subsidy go to Schenley's now?

Mr. DE LUGO. I do not know about that, sir.

The news about the sale to Schenley's is news to me. I know nothing about the value of the various distillers or distilleries in the islands. I am not familiar with that subject, sir.

The CHAIRMAN. Mr. French tells me that the rum-producing industries subsidy law was repealed effective January 1, 1959. That is strange because I pick up the audit of the Virgin Island Corporation



for fiscal year 1960 and that the price agreement was 7 cents a gallon. So whether the thing was repealed or not the price stayed at 7 cents, did it not?

Mr. DE LUGO. I believe the price is negotiated.

The CHAIRMAN. I am trying to see whether they negotiate with the legislature or Virgin Islands Corporation.

Mr. DE LUGO. The legislature does not enter into this picture.

The CHAIRMAN. Did they negotiate with the legislature to get 7 cents. If they negotiate with the Government they get 7 cents. They get 7 cents coming or going, is that right?

Mr. DE LUGO. That I am aware of today.

The CHAIRMAN. Did you have before you any reason for the 7 cents price? I am trying to find out why we can't get this corporation to operate at a profit and while I have not had much business experience I do know you have to have your selling price above your cost if you are going to stay in business, unless you are the Virgin Islands Corporation.

Mr. DE LUGO. May I say this, sir, in answer to your question, if I may answer it to the best of my ability. The law that you read that was passed by the legislature was during the Suez crisis. It was for just this period where it was represented to us that the distilleries could not afford to buy molasses at the world price. When this crisis was over we repealed the law. Then after that, I am not cognizant of how the distilleries make their agreement with VICORP. I am not aware of, I do not know how they do that or reach agreement. But evidently they believe that 7 cents is the price that they can afford to pay to continue operation. But I knew nothing about it.

The CHAIRMAN. Now the Suez Canal crisis was over in 1960, was it not?

Mr. DE LUGO. Yes, sir; it was.

The CHAIRMAN. The price was 7 cents then. So the crisis held down molasses but nowhere else.

Mr. DE LUGO. May I say the legislature was not responsible for that in 1960. We had already repealed the law.

The CHAIRMAN. This negotiation was a way of getting around the repeal.

Mr. DE LUGO. That was VICORP. That is a report on VICORP, is it not?

The CHAIRMAN. I know it.

I say you repealed the act and the 7-cent price went out with such repeal. Then they went over and got it by direct negotiation.

Mr. DE LUGO. That is right. But I am sure you would not hold the Virgin Islands legislature responsible for that.

The CHAIRMAN. Not at all. One time you folks got the price to 7 cents, the next time VICORP dropped the price to 7 cents. Regardless of who does it the price ends up in the same category, does it not?

Mr. DE LUGO. Yes, sir; it does.

Mr. PAIEWONSKY. Senator, would you like me to answer that question?

The CHAIRMAN. Yes, sir; I will be happy to have you.

Mr. PAIEWONSKY. I would like to answer the question of the 7 cents, what determined it. Immediately after the Suez Canal crisis the price of molasses in the world market dropped to below 7 cents, maybe

around 5 cents. The Virgin Islands Corporation was not in a position to supply the needs of the distilleries and an outside contract was made with a company known as Pacific Molasses Co. to deliver a million gallons of molasses to St. Croix at the delivered price of 9 cents. That was the basis on which this price of 7 cents was agreed upon.

The CHAIRMAN. What is the world price of molasses now?

Mr. PAIEWONSKY. It fluctuated with the situation in Cuba. It depends on the world conditions. Usually if there is a war or a crises the price will fluctuate anywhere from 5 cents, which is the normal price, to approximately maybe 18 cents, 16 cents, or thereabouts.

The CHAIRMAN. I bought all the Cuban molasses crop one time for the Department of Agriculture and the Commodity Credit Corporation. I thought the price was more than 5 cents.

Mr. PAIEWONSKY. The latest price of Cuban molasses that was set before this situation developed with Castro was 10 cents. The world market price was 10 cents. Then Cuba rolled that price back to most of the purchases to 7 cents. Cuba usually sets it.

The CHAIRMAN. Then it would be greatly to the advantage of the United States to junk the Corporation and quit the growing of cane and buy it from Cuba at this rolled back price and not lose this \$600,000-some-odd a year? Would you not want to recommend that as Governor if you are confirmed?

Mr. PAIEWONSKY. No, sir; I don't think I would recommend that. On the question I know you have been dealing with and dwelling on quite a bit, the question of molasses, the distilleries during this period of crisis when the legislature passed the subsidy bill, most of the distilleries did not show a profit, sir, during that period.

There was no excessive profit. I know our distillery showed a loss not on account of the molasses price but on account of a great number of other problems that we had at our distillery.

The CHAIRMAN. Are there additional questions?

Senator ALLOTT. I have one or two.

Is it not a fact that in 1957 you were purchasing molasses from VICORP at 10 cents a gallon?

Mr. PAIEWONSKY. Yes, sir.

Senator ALLOTT. The world market price then was 17 cents?

Mr. PAIEWONSKY. Yes, sir. I can explain that. That price was determined by arbitration. I think I explained that yesterday. We had two contracts with VICORP. There was a reason for the re-writing of the second contract. But the first contract provided that in the event if we could not determine and agree on a price, that there was a great disparity between what we felt we could pay for the molasses and what the Government felt was the fair price of molasses taking all factors into consideration, that we would then go to arbitration. This was provided for in that contract.

Senator ALLOTT. At that time you were selling your rum at 75 cents to \$1 for a proof gallon and the price of Publicker, who was the largest alcohol distillery in the United States, was at 38 cents.

Mr. PAIEWONSKY. I don't think there could be any comparison between the production in the Virgin Islands—

Senator ALLOTT. I am just talking about the price.

Mr. PAIEWONSKY. I don't know what their price is per gallon on rum but I know the price per gallon of alcohol which might be the same basis as proof gallon. But that is naked at the distillery. That does not include cooperage.

Senator ALLOTT. Does your price include cooperage?

Mr. PAIEWONSKY. Yes, sir.

Senator ALLOTT. I have one or two questions of Mr. De Lugo before he leaves the stand.

You have been a member of the legislature for the last 4 years?

Mr. DE LUGO. Yes, sir.

Senator ALLOTT. Yesterday, I asked about the Howard Lundgren Associates, the Leslie Hunt Associates, Sidney Kessler Associates, and the authorization by the Virgin Islands Legislature to issue Government bonds and sell them for \$4 million, \$3 million, and \$2 million, respectively, for the building of hotels. Did you vote for those?

Mr. DE LUGO. I did, sir.

Senator ALLOTT. Do you have any connection with any one of these three groups?

Mr. DE LUGO. Absolutely none.

Senator ALLOTT. Do you know who does own or control them?

Mr. DE LUGO. I know some of the people. I know Mr. Sidney Kessler who I believe owns the Virgin Islands Hotel and sublets it to the Hilton chain.

Senator ALLOTT. Is Mr. Kessler a native of the islands?

Mr. DE LUGO. No; he has resided there for a long time. He built the first truly modern hotel there. He is a resident.

Senator ALLOTT. And has been for some time.

Mr. DE LUGO. And has made a very substantial contribution to the islands' economic growth.

Senator ALLOTT. What about Mr. Hunt and his associates?

Mr. DE LUGO. Mr. Hunt I am not too familiar with. I know him. I have spoken to him. Mr. Hunt is evidently trying to, I imagine, promote hotels.

Senator ALLOTT. As the leader of the majority for all practical purposes, the Unity Party and Democrat Party are about the same; aren't they?

Mr. DE LUGO. I would say we are trying to reach the same goals. At certain times we use different methods.

Senator ALLOTT. Mr. Paiewonsky has been very influential in the Unity Party, has he not, as well as the Democrat Party?

Mr. DE LUGO. No; I would not say so.

Senator ALLOTT. You would not say so?

Mr. DE LUGO. No.

Senator ALLOTT. There must have been something that impelled this action to get commitments of \$9 million of Government funds out of the Virgin Islands Legislature. Who made these approaches to the legislature to get the unusual authorization?

Mr. DE LUGO. Sir, they were made by the various companies or individuals involved. We could do this by an act of Congress. It was concurred in by the Interior Department. These bonds are not an indebtedness of the Virgin Islands government. They are solely secured by the venture, itself. If you are going to purchase these bonds and you don't think that the hotel is going to be a success you are out

of luck and you will lose your money but the Virgin Island government does not secure these bonds.

Senator ALLOTT. Am I mistaken then—I want to get this straight—it is the fact that the legislature has authorized the issuance of these amounts in government bonds?

Mr. DE LUGO. Yes, sir.

Senator ALLOTT. Not guaranteed.

Mr. DE LUGO. Not guaranteed.

Senator ALLOTT. Government bonds?

Mr. DE LUGO. Yes, sir. I would like to be very explicit on that point. They are not an indebtedness of the government of the Virgin Islands.

Senator ALLOTT. How can they be government bonds if they are not an indebtedness?

Mr. DE LUGO. They are handled by the government and that is about it. If somebody buys these things and they are going to get paid by the Virgin Islands government they are not good businessmen.

The CHAIRMAN. We have great evidence of that in the various States that are trying to develop industries.

Are there additional questions? I have at least one or two more witnesses. If not, thank you very much.

Mr. Brauer.

Mr. Brauer, will you state your business?

STATEMENT OF A. M. BRAUER, PRESIDENT, ST. THOMAS DISTILLERIES, INTERNATIONAL

Mr. BRAUER. I am president of Sunfruit Tropical Products, doing business as St. Thomas Distilleries, International.

Mr. Chairman, and members of the committee, in looking around this room I was looking for the so-called committee that was opposed to Mr. Paiewonsky. I don't see anybody but myself. I came here at my own expense. So I believe that would refute anything that Mr. Hodge said.

The CHAIRMAN. By the way, do you have extra copies of your statement?

Mr. BRAUER. I do not, I am sorry. I only have this one.

Mr. DICKSTEIN. Mr. Chairman, my name is Sidney Dickstein, 1411 K Street NW., Washington. I appear as an attorney for Mr. Brauer. We do have some revised copies. The statement which Mr. Brauer is making has been revised since these copies were prepared but I can provide the committee with several of them.

The CHAIRMAN. Go ahead.

Mr. BRAUER. I am appearing today in opposition to the proposed appointment of Ralph Paiewonsky as Governor of the Virgin Islands.

I do so with substantial trepidation for it is a well-known fact in the islands that when people oppose Mr. Paiewonsky they lose their ability to make a living there. Since the announcement of Mr. Paiewonsky's appointment, I have spoken to many people on the islands.

These include small retailers, independent real estate brokers, small construction contractors, and retired military and naval personnel

who have chosen to make their home in the islands. Every one of them, without exception, is opposed to this appointment.

I understand that many of them have written to this committee stating their views. When I told them that I intended to appear before this committee and testify against the appointment, some said that they wish they could appear, but that they could not manage to put together enough money to come to Washington.

Others said that they feared for their business and their families' future if they should openly testify against this man. I understand and appreciate their reluctance.

I cannot give their names in public hearings for if I did they would be victimized to the same extent as if they themselves were testifying. In a sense, I am more fortunate than any of them.

I have nothing further to fear from Mr. Paiewonsky. He has already managed to destroy my business and my future in the Virgin Islands. But I am not here today to testify about what he has done to me personally, for I am not representing myself, but the thousands who are unable or afraid to speak for themselves.

I am here to place facts before this committee which I believe warrant and perhaps require this committee to reject the nominee. As the committee is undoubtedly aware, Ralph Paiewonsky and his family own A. H. Riise, Inc., which retails liquor, gifts, novelties and stationery and has a real estate division.

They own A. H. Riise Chemical & Distillers Corp., which manufacturers no chemicals although they have been receiving a 75-percent tax exemption because they said they were going to do so.

The CHAIRMAN. May I ask you there to subsequently supply for the record, if you cannot do it now, how they got this 75-percent tax exemption? You don't have to do it now but we would like to have it.

Mr. BRAUER. All right, sir.

They own the Apollo Theater, the Center Theater, and an export-import firm. Their net worth is unknown for they have always refused to give a firm statement. But the best estimate puts their wealth at above \$5 million. I am not criticizing the nominee because he and his family have accumulated enormous wealth while natives on the island live in degrading poverty. Ralph Paiewonsky, his family, and his business associates have received substantial amounts of public money for their own personal benefit.

In 1957 the Virgin Islands Legislature—

The CHAIRMAN. Would you mind being sworn?

Mr. BAUER. Not at all.

The CHAIRMAN. Do you solemnly swear the testimony you shall give before this Senate Committee on Interior and Insular Affairs will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BRAUER. I do.

Senator DWORSHAK. That also applies to what you have already said.

Mr. BRAUER. Yes, Senator.

The CHAIRMAN. Senator Dworshak is right. You have covered the preceding statements by reference. Do you object to that, Mr. Dickstein.

Mr. DICKSTEIN. I do not.

Mr. BRAUER. In 1957, the Virgin Islands Legislature passed a bill which granted a molasses subsidy to A. H. Riise Distillery and St. Croix Sugar Industries which is owned by Norman Skeoch. Mr. Paiewonsky and Mr. Skeoch are partners in consolidated distilleries which act as sales agents for both of these concerns.

The CHAIRMAN. You have heard the question I addressed to someone a while ago.

Is this Mr. Skeoch a relative of the present Governor?

Mr. BRAUER. Yes, sir; he is a first cousin.

A grandfather clause in the molasses subsidy bill guaranteed that the subsidy would only be available to Mr. Paiewonsky and Mr. Skeoch. Other small distilleries in the Virgin Islands which had been compelled to shut down their operations because their owners did not have the financial leverage of Paiewonsky and Skeoch were excluded from any benefit under the act.

But Paiewonsky interests were given, and I repeat given, about \$150,000 of money belonging to the people of the Virgin Islands. This gift was called a molasses subsidy. In addition to this direct cash contribution, the Paiewonsky and Skeoch Distilleries have been and are being sold substantial quantities of molasses by the Virgin Islands Corporation at substantially less than the market price.

Not only have they enjoyed this advantage but, as Governor, Paiewonsky will be given copies of the formulas which other distilleries are required to file with the Treasury Department.

Senator MILLER. Mr. Chairman, may I ask a question?

The CHAIRMAN. Certainly.

Senator MILLER. With respect to your statement there that they are being sold substantial quantities by VICORP at under the market price we have had testimony that they are being sold that but as a result of an arbitration award; is that correct?

Mr. BRAUER. Well, that is what they have testified.

Senator MILLER. I am asking you whether that is correct testimony, whether that testimony is accurate?

Mr. BRAUER. I know nothing about that.

Senator MILLER. You don't know whether this sale is the result of an arbitration award or arbitration decision or not?

Mr. BRAUER. I don't know anything about the arbitration.

Senator MILLER. If it were the result of an arbitration would that not be all right?

Mr. BRAUER. No. There is no reason for them to get molasses at 7 cents at any time.

The CHAIRMAN. Suppose there were certain things about the molasses though that indicated that it was not up to quality or up to standard and as a result of that the contract needed renegotiation and went to an arbitration panel, there was a fair panel appointed and they did decide there were certain things involved in this molasses which merited a decrease in the price?

Mr. BRAUER. Senator, to my knowledge and my history in the business, molasses is sold on a sugar point basis. It was testified that the molasses they bought was 52 sugar points. There was no necessity for an arbitration.

The CHAIRMAN. Then you would say that if an arbitration decision was made that that decision was made by an arbitration group that either had been misled or had an ax to grind?

Mr. BRAUER. I would say that they were misled. I don't know about an ax but I would say they had been misled.

The CHAIRMAN. Let me see if you can clear that up. Mr. Paiewonsky, in his testimony, referring to page 35 of the first day's manuscript, testified:

The CHAIRMAN. How do they separate molasses from sugar down there? You buy only raw molasses?

Mr. PAIEWONSKY. We only buy raw molasses. I can assure you that the molasses we got from Virgin Islands Corporation during the last year was almost unfit to be used in a distillery.

I have an audit of the Virgin Islands Corporation in which the auditors say that this claim was made that it had a sugar content, it had to have a sugar content of not less than 52 percent and that the molasses he received was not of that quality. The auditors say—

Laboratory analysis of samples of molasses taken from the 1959 crop production indicated the molasses was of high quality and had a sugar content in excess of 52 percent. The corporation has taken the matter to court and the case is pending at the conclusion of our fieldwork in 1960.

I understand it has since been settled. You are going to testify to that point, are you, as to the molasses he bought.

Mr. BRAUER. If he got 52 sugar points he got a little better than 1 gallon of alcohol, of 100 proof alcohol from every gallon of molasses that he bought. So he was not bad off at all.

The CHAIRMAN. Does that answer your question?

Senator MILLER. Yes.

The CHAIRMAN. I thought the report would help to put it in focus.

Senator MILLER. May I press this further?

The CHAIRMAN. Go ahead.

Senator MILLER. If the board of arbitrators had not been misled as a result of which they gave this decision, if they had not been misled by Mr. Paiewonsky I don't believe you could criticize him for following that arbitration award, could you?

Mr. BRAUER. Beg your pardon?

Senator MILLER. I don't believe you could criticize the nominee for taking the price that the arbitration panel had given him, could you, if he had not misled.

Mr. BRAUER. I don't know how they got this arbitration figure or why there was an arbitration. All I am telling you is a matter of fact, if he got 52 sugar points on a gallon of molasses he got 1 proof gallon of rum. He needed no arbitration of any kind. He was doing all right. That meant that his raw material cost was 7 cents.

Senator MILLER. The point I am trying to make is that if he did not mislead this arbitration group and if he thought that there was something wrong in this molasses and if the arbitration group set this price, I don't believe you could criticize him for this, could you?

Mr. BRAUER. I don't know who is responsible for that. I don't want to accept responsibility for making a statement that I know nothing about.

Mr. DICKSTEIN. This being a legal question may I address myself to your question?

Senator MILLER. Certainly.

Mr. DICKSTEIN. I have not seen the contract between the Paiewonsky Distilleries and VICORP. However, as a matter of law, an arbitrator or arbitration panel is limited in their award by nature of a submis-

sion agreement which is normally incorporated in a contract. So I don't think that it is necessary to suggest that the arbitrators were misled or that their decision was faulty. Their decision in determining that the appropriate price should have been 7 cents may very well have been preconceived or predicted by the terms of the contract, not in terms of the specific amount but in terms of the standards which they were to employ. Mr. Paiewonsky testified that the reason they came up with the 7-cent price is that the price which he had had outside molasses derived to the Virgin Islands was 9 cents; apparently there was a 2-cent differential factor and this may have been the basis upon which the arbitrator was compelled to render this award.

Senator MILLER. Then you could equally criticize the people representing VICORP in negotiating this contract as criticizing the nominee, could you not?

Mr. DICKSTEIN. You could indeed, Senator.

Mr. BRAUER. These formulas are supposed to be kept secret and disclosure is a criminal offense but Paiewonsky, when he becomes Governor, will have ready access to every trade secret of his competitors.

Another example of conflict arises from the fact that substantial sums of money were used to pave the road on the Island of St. Thomas—

The CHAIRMAN. You have public money in one text. You left out the word public. Should it be left out?

Mr. BRAUER. Yes.

The CHAIRMAN. Just substantial sums of money.

Mr. BRAUER. Public money was used to pave a road on the Island of St. Thomas called Skyline Drive. The road has had very little use as compared to the main arteries on the island which are very badly in need of repair but the Paiewonsky family owns considerable acreage fronting on the Skyline Drive and was able to sell this property at enormous profit to themselves. These are a few of the elements of conflict of interests. Paiewonsky, his family, and his associates have such control over the economic life of the islands that any divestment by Ralph Paiewonsky of his personal interests cannot possibly remove these conflicts.

I turn now to the facts which I believe demonstrate that Ralph Paiewonsky is totally unfit to be Governor of the Virgin Islands or to hold any office of public trust. Before doing so I wish to state that I have always abided by the philosophy of live and let live.

I cannot say this of Mr. Paiewonsky; but I do believe that when a man is candidate for an office of public trust the public is entitled to know how he has conducted himself as a private citizen. I have already mentioned that Paiewonsky owned A. H. Riise Chemical & Distillery Corp., the largest distiller of rum in the Virgin Islands.

The nominee is, or until a very short while ago was, president of A. H. Riise. Appalled by the nomination and with good reason to believe that A. H. Riise had been in substance and continuing violation of liquor tax laws of the United States, I have personally sought out individuals who have firsthand knowledge of these violations.

I place the following facts before you. During and immediately after World War II, A. H. Riise bought and imported into the Virgin Islands substantial quantities of rum produced in Cuba and other

places. At that time Cuban rum imported in the United States was subject to a duty of at least \$1.25 per proof gallon.

The Paiewonsky distillery, however, took the Cuban rum, put it in their own barrels, labeled it as having been produced in their own distillery in the Virgin Islands, transshipped it to the United States, fraudulently avoiding the payment of import duties. I have specific information that a large quantity of this Cuban rum was purchased from Schenley's and delivered from Cuba to A. H. Riise in paraffin lined barrels.

A. H. Riise repacked it and shipped it to the United States as their own distillation. During part of this time the Paiewonsky distillery was not even in operation and therefore could not have produced any of its own rum. I would estimate that this wartime operation of the Paiewonsky family cost the United States close to \$1 million in unpaid taxes.

And I call the committee's attention to the fact that during World War II alcoholic beverages were in such short supply in the United States that every drop of rum shipped to the United States for consumption found a ready market. Since the war years A. H. Riise has changed its pattern of tax cheating.

Section 5021 of the Internal Revenue Code imposes a special additional tax of 30 cents a proof-gallon on all rectified spirits. The addition of flavoring to distilled spirits after distillation is rectification. Not only is rum made with artificial flavor subject to a special additional tax, it is not considered to be a genuine product and is supposed to be identified as imitation rum.

A. H. Riise consistently produced or purchased cane alcohol to which they have added artificial rum flavoring and represented the final product to be genuine, wholly distilled rum.

Senator DWORSHAK. Where do you think they purchased that alcohol?

MR. BRAUER. Publicker Distilleries, Philadelphia, shipped to St. Thomas Island or St. Croix. Not only have they failed to label the product as rectification of rum but in one particular instance which has come to my attention they label their product as 8-year-old rum.

At the time of the shipment of this mislabeled rum to the United States, A. H. Riise had no warehouse capable of aging rum in any quantity. I am also aware of the fact that the artificial rum flavoring which A. H. Riise used to rectify cane alcohol was purchased from Fritzche Brothers, New York, one of the larger producers of the so-called rum ether.

Not only has the Paiewonsky's distillery defrauded the purchasers of this rum by selling them inferior products but also defrauded the Government of the United States of a rectification tax of \$21 a barrel. I estimate that A. H. Riise's failure to identify his product as rectified rum has cost the United States approximately \$100,000 a year.

One might ask where was the Internal Revenue Service while all this was going on. In fairness to them I would like to state they have one inspector in the Virgin Islands and he is situated on the island of St. Thomas. Paiewonsky distillery operates on St. Croix island.

The facts which I have placed before you, and additional details including the names of people who had supplied me with some of this information, was reported to the alcohol and tobacco tax unit of the Internal Revenue Service this past Wednesday.

On that day I met with Mr. Dwight Avis, head of the unit, and his four principal assistants. The case is now in their hands and I ask you gentlemen, based upon all of the information which I have and will receive, is Ralph Paiewonsky fit to be Governor of the Virgin Islands? The people of the islands, other than those who have and who would profit through their association with him, believe he is not.

I thank you for your patience and consideration and stand ready to answer any questions which the members of this committee may wish to ask.

The CHAIRMAN. Are there any questions?

Senator DWORSHAK. Did you own a distillery in the Virgin Islands at one time?

Mr. BRAUER. I run a distillery, I run the Sunfruit Products plant.

Senator DWORSHAK. How long have you owned it?

Mr. BRAUER. Seven years.

Senator DWORSHAK. Do you buy molasses from VICORP?

Mr. BRAUER. No, they won't sell it to me. They told me they were under contract. I have to buy it from outside sources.

Senator DWORSHAK. What did they tell you?

Mr. BRAUER. It was under contract. They would not sell it to me.

Senator DWORSHAK. Mr. Paiewonsky's distillery does not buy all of the molasses that VICORP has? Who buys the balance of it?

Mr. BRAUER. I understand Paiewonsky gets 70 percent.

Senator DWORSHAK. Who gets the 30 percent?

Mr. BRAUER. I was told that Skeoch gets quite a bit and some of it is sold to the farmers to feed cattle.

Senator DWORSHAK. Skeoch owns the other distillery?

Mr. BRAUER. That is right.

Senator DWORSHAK. There are two big distilleries?

Mr. BRAUER. Two large ones there.

Senator DWORSHAK. You say you have one. Is it a small one?

Mr. BRAUER. A very small one.

Senator DWORSHAK. You get your products from outside?

Mr. BRAUER. Yes, I have to buy it from the English islands.

Senator DWORSHAK. What is the nature of your operation? Do you distill rum, too?

Mr. BRAUER. Yes.

The CHAIRMAN. Any further questions?

Senator BURDICK?

Senator BURDICK. Somewhere along the line I recall some testimony in which Skeoch and Paiewonsky were partners?

Mr. BRAUER. That is right, Consolidated Distilleries. That is a selling organization for both of them.

Senator BURDICK. As far as you know Skeoch and Paiewonsky take the molasses output from VICORP?

Mr. BRAUER. That is correct.

Senator BURDICK. With the exception of what is sold to farmers?

Mr. BRAUER. That is right.

Senator BURDICK. You have never been able to buy any molasses from VICORP?

Mr. BRAUER. Not a drop.

Senator BURDICK. You heard the testimony in regard to the subsidy that the legislature paid. Did you ever get any of that subsidy?

Mr. BRAUER. No, sir.

Senator BURDICK. Were you in business at that time?

Mr. BRAUER. Yes.

Senator BURDICK. Did any other distillery besides—

The CHAIRMAN. Wait a minute. The yes answer could apply to either part of his question. He said did you ever get any of the subsidy?

Mr. BRAUER. No.

The CHAIRMAN. But you were in business at that time?

Mr. BRAUER. That is right.

The CHAIRMAN. I thought both answers were necessary.

Senator BURDICK. Who got the subsidy as far as you know?

Mr. BRAUER. Mr. Paiewonsky's distillery and Mr. Skeoch.

Senator BURDICK. No other distillery?

Mr. BRAUER. No, sir.

Senator BURDICK. Were there other distilleries in operation in the islands at that time besides yourself.

Mr. BRAUER. There was another distillery in St. Croix, the name fails me at the moment. He is an old timer there, Bruges. I don't know if he is a distiller. I know he has a plant there.

Senator BURDICK. Did you have a going active business during this period?

Mr. BRAUER. That is correct.

Senator BURDICK. During the period in which VICORP was selling molasses to Riise and to Skeoch?

Mr. BRAUER. That is right. I tried to buy molasses from them when I first came to the islands. They told me then it was under contract.

Senator BURDICK. You have never been able to buy any at any time?

Mr. BRAUER. That is right.

Senator BURDICK. You have never received a subsidy at any time?

Mr. BRAUER. No, sir.

Senator BURDICK. That is all.

Senator ALLOTT. I have one question. Is there land available for additional sugarcane production on the island of St. Croix?

Mr. BRAUER. I am not qualified to answer that question, Senator, I am sorry. I am not too familiar with St. Croix.

Senator ALLOTT. As I get the picture then there were the three or four possible distilleries on the island?

Mr. BRAUER. Well, I will name them for you.

Senator ALLOTT. You have named them I think.

Mr. BRAUER. There are two others there. There is the Virgin Islands Distilleries. They weren't in operation then. Then there was Ronsoro Distillery. Ronsoro and the Carlyle Distillery made some kind of contract to purchase from St. Croix sugarcane industries because St. Croix needed the business in the first place and in the second place it was more economical for them to buy on a cost-plus business I believe than distill.

Senator ALLOTT. Do you know whether these other distillers have been able to purchase from the VICORP?

Mr. BRAUER. Well, the only thing I can tell you is what Mr. Rosenblatt—

Senator ALLOTT. Of your own knowledge do you know whether they have or not?

Mr. BRAUER. No. I know I couldn't buy any.

Senator ALLOTT. Do you know whether or not any of these corporations receive any of the subsidy from the Virgin Islands?

Mr. BRAUER. They did not.

Senator MILLER. I would like to ask one question.

The CHAIRMAN. Senator Miller.

Senator MILLER. What is the name of this export-import company that you said I believe that Mr. Paiewonsky or the Skeochs owned?

Mr. BRAUER. I am not sure of the name. I think the Riise but I am not sure.

Senator MILLER. There is this Riise Chemical & Distillery Corp.?

Mr. BRAUER. Yes.

Senator MILLER. Is that the export-import company?

Mr. BRAUER. I couldn't say. I know that everything they control as a rule is under the name of Riise.

Senator MILLER. But you do know that they control or own an export-import company?

Mr. BRAUER. That is right.

Senator MILLER. That is all I have.

The CHAIRMAN. Senator Long.

Senator LONG. No.

Senator HICKEY. Mr. Brauer, how long have you been a resident of the Virgin Islands?

Mr. BRAUER. Seven years.

Senator HICKEY. You lived on the continent prior to that time?

Mr. BRAUER. Yes, sir.

Senator HICKEY. Did you begin your business 7 years ago in the islands, your distillery?

Mr. BRAUER. This distillery here?

Senator HICKEY. Yes.

Mr. BRAUER. Well, we started putting up the plant 7 years ago. It took considerable time.

Senator HICKEY. When did you ultimately get your plant established on the island?

Mr. BRAUER. In 1953.

Senator HICKEY. Did it fall in the category of a new business or new industry at that time?

Mr. BRAUER. It did.

Senator HICKEY. Did you receive any benefit from the Government as a new industry?

Mr. BRAUER. Yes.

Senator HICKEY. What was the nature of those benefits?

Mr. BRAUER. I got a tax exemption for 75 percent because we are supposed to go into fruit juices and wines which was new. We were promised 2,500 tons of fruit per year from the various islands. Predicated on this promise we went ahead with our proposal. When we got the plant started we found we could not get 2,500 tons. We could not get 25 tons.

So then we were compelled to do whatever we could with the equipment we had available. So we rearranged our program. I went into the liquor business for which I am very well qualified.

Senator HICKEY. Then was the liquor business that you went into still in the nature of a new industry?

Mr. BRAUER. Yes, because many of the products I made were not made before.

Senator HICKEY. Did you receive as an incentive as a new industry some benefits to the liquor business?

Mr. BRAUER. Yes. I got the tax exemption which never meant anything because the company never made any money.

Senator HICKEY. What was the nature of the exemption?

Mr. BRAUER. 75 percent of the income if we made any.

Senator HICKEY. But your business never made such money to take advantage of the exemption?

Mr. BRAUER. That is correct.

Senator HICKEY. I think you said there are four distilleries on the island?

Mr. BRAUER. I said there are four distilleries on both islands.

Senator HICKEY. You were the only new industry in the distilling business? In that category?

Mr. BRAUER. Well, the new industry was in the fruit juice business originally, that was the intention.

Senator HICKEY. But the new industry that you are now in, have been for some time, is distilling?

Mr. BRAUER. That is right.

Senator HICKEY. Of the four distilleries on the island you are the only one that is new, is that true?

Mr. BRAUER. That is right.

Senator HICKEY. You have not made any profit?

Mr. BRAUER. That is right.

Senator HICKEY. Have you had some difficulty with the Federal officials on the island with regard to some of the things you charge against the nominee?

Mr. BRAUER. I don't quite understand that question, Senator, I am sorry.

Senator HICKEY. I understand that you charge the nominee with having converted some of the products purchased on the continent and mislabeling them after they have been shipped into the islands and then shipped out, a charge of mislabeling?

Mr. BRAUER. That is right.

Senator HICKEY. Have you ever been charged with mislabeling?

Mr. BRAUER. No.

Senator HICKEY. Have you had any difficulties of any kind with regard to the customs officials or Federal officials or island officials since you have been there?

Mr. BRAUER. No.

Senator HICKEY. Do you recall a brand known as Vat 69?

Mr. BRAUER. Vat 97, you mean.

Senator HICKEY. You sell a product under that label?

Mr. BRAUER. No; we made 200 cases of a product called Vat 97 and by mutual consent we discontinued manufacturing it because it was a question as to whether or not we were infringing upon another manufacturer. Rather than go into a lot of litigation on something on which we made no profit I forgot about it.

Senator HICKEY. That is all.

The CHAIRMAN. Any other questions?

Senator ALLOTT. With respect to this Vat 97 there is also a liquor called Vat 96, is there not?

Mr. BRAUER. I don't know about that. I know there is 69.

Senator ALLOTT. I am just 35 or 40 points off.

Mr. BRAUER. I want to explain something to you, Senator. The Vat 97 we were making was not a scotch whiskey. It was an extra dry liqueur.

Senator ALLOTT. May I ask this: You said you got into some kind of disagreement or something and rather than go ahead with it you forgot it. Was your disagreement with a department of Government or was it with the manufacturers of the similar name?

Mr. BRAUER. It was with the attorney representing the Vat 69 people. So we gave a consent decree rather than go into a lot of litigation.

The CHAIRMAN. Thank you.

Mr. DICKSTEIN. I was going to ask whether the committee will take legislative notice of the fact that Vat 69 is a scotch and not a liqueur because if it is I think that links with the witness' testimony.

The CHAIRMAN. That is news to all of us. None of us had any idea what it was.

Mr. LEVENTHAL. Would it be possible for this witness to remain over for further proceedings of the committee in which there are questions to be addressed to him?

The CHAIRMAN. I had not thought so. I think the committee would be the one to suggest.

Mr. LEVENTHAL. I suggest to the committee that there be addressed to him—

The CHAIRMAN. I would like to get along on this.

If we need him back we will try to get him back. If you can stay here conveniently, stay. If you cannot, well, we will have to try to get you back or have a rehearing in your part of the world. I am up against this situation—

Senator DWORSHAK. Mr. Chairman, I would be reluctant to be there for fear we would not return. We would get employed in all the political manipulations.

The CHAIRMAN. Who said we were going to go there? We were going to send others. We had a situation at one time when somebody suggested to the Atomic Energy Commission, in order to find out what might happen, we should plant some people inside another country that I won't name and I asked what the dangers were. I was promptly informed that no one they had ever sent in there had ever come out.

I thought that since the suggestion came from the Republican side this was one thing we could afford to be lenient about and I agreed to name several Republican Senators to visit this country.

But unfortunately the then able majority leader of the Republicans, Senator Knowland, felt that since it was a Democratic administration that only Democrats should look into the matter.

I never got anybody to go so we may have trouble sending a delegation down to your part of the world.

Mr. Henry Rohlsen, St. Croix businessman and former member of Virgin Islands Legislature.

**STATEMENT OF HENRY ROHLSSEN, ST. CROIX BUSINESSMAN AND
FORMER MEMBER, VIRGIN ISLANDS LEGISLATURE**

Mr. ROHLSSEN. Mr. Chairman, members of the Senate Interior and Insular Affairs Committee, my name is Henry Rohlsen. I am a native and resident of the Virgin Islands.

For many years I have been actively engaged in the civic and political affairs of the Virgin Islands, particularly in our struggle for an improved standard of living, a sound and strong economy to provide revenues needed to achieve the goal of self-support, representation in Congress, the right to elect our Governor, the right to vote for the President of the United States.

I have served in the Legislature of the Virgin Islands as a member at large from St. Croix and served a term as chairman of the municipal council in St. Croix prior to the new organic act.

Presently I serve in several civic and governmental boards and committees.

I am engaged in business in the Virgin Islands.

During the last 10 years I have had the opportunity to study, discuss, and work on many community problems.

I have witnessed the phenomenal growth of our economy and the improvement of our standards of living which has occurred during the last 5 or 6 years.

The contact of day-to-day living and its problems gives one a feel of the pulse and knowledge of the hopes and aspirations of the people of the Virgin Islands concerning their political and economic future as your fellow American citizens.

The news that Ralph Paiewonsky was appointed Governor of the Virgin Islands by the President of the United States, subject to confirmation by your committee, brought great satisfaction and joy to a vast majority of the people in the Virgin Islands.

Mr. Chairman, this is as it should be for Ralph Paiewonsky has worked untiringly for more than 20 years in the interest of the Virgin Islands and its people.

During this time he has been a moving figure in every major study made by the Virgin Islands on the role of political and economic progress.

In the passing of these years he has devoted a great portion of his time and life and in many instances neglected his own business, looking after the business of the people of the Virgin Islands.

To the best of my knowledge, he has never sought compensation from the government of any kind for the valuable services rendered the community.

His reward has been in witnessing the benefit accruing to the islands, a major portion of it, the result of his labor.

He did not accomplish all of this alone, but was a stalwart and moving force behind it.

Ralph Paiewonsky is a good leader and the people of the Virgin Islands are confident that he will make a good Governor.

His experience and knowledge of the Virgin Islands and its problems would be of great value in our continuing struggle to become self-supporting, to gain representation in Congress, and the right to elect our Governor.

We have found him to be a loyal American citizen, a dedicated Virgin Islander, a capable, hard working, progressive, God-fearing person.

His integrity is respected throughout the Virgin Islands and wherever he is known.

Since 1936 he has been very active in the Democratic Party on a national and local level. He has been a bulwark of strength in the building of our Democratic clubs in the island and he is quite familiar with the rough game of politics occasionally played in these islands.

If elections had been held in the Virgin Islands among the candidates being considered for the governorship, Ralph Paiewonsky would have won the election by a wide margin.

The people of the Virgin Islands strongly support the President's appointment of Ralph Paiewonsky as Governor of the Virgin Islands.

Before coming here I talked with the man in the street, business and civic leaders, members of the legislature, and with many of our new residents, to get their reaction to this appointment.

My findings are that the community at large is solidly behind the appointment of Ralph Paiewonsky and pray and hope that your committee will confirm.

We have been informed through the local press in the Virgin Islands that Ralph Paiewonsky has been subjected to a letter writing campaign, first designed to prevent his nomination and now to block his confirmation.

It is to be expected, particularly so with any aggressive business or political leader in any community of the world, that he will from time to time be required to step on toes and that as a result make enemies. It was expected that Ralph Paiewonsky's opponents would use every effort at retaliation by trying to prevent this nomination which is their right and privilege and was done in this case.

To continue the same tactics after the nomination has been made in an attempt to thwart the will of the President of the United States, the people of the Virgin Islands do not condone.

Let no person say that such obstruction is in the interest of the people of the Virgin Islands. This to me represents selfish interests and will hurt rather than help the people of the Virgin Islands.

The time now is for all Virgin Islanders and residents to join with Ralph Paiewonsky in getting back to the task as quickly as possible in continuing the struggle to make the Virgin Islands a better place to live in, and an asset to our great Nation.

Mr. Chairman, our future lies ahead not in the past, or with the grievances of any individual or group.

The Virgin Islands want Ralph Paiewonsky to be our next Governor. This can only be accomplished by the confirmation of your committee, which we trust and pray will be granted without undue delay.

I would like to thank you, Mr. Chairman, and your committee, for the opportunity afforded me to come to Washington and appear before you on this matter.

We hope that your committee will be able to visit the Virgin Islands, hold hearings and find out for yourselves the tremendous progress that is being made and to get the correct answers to all of your questions.

Again, many thanks for this opportunity.

The CHAIRMAN. Thank you for a good, clear statement.

Let me say to you, so that it may not be misunderstood in the Virgin Islands, the questions which I have continued to ask about the Virgin Islands Corporation and trying to keep it from losing hundreds of thousands of dollars a year, are not in any way related to the qualifications of Mr. Paiewonsky to be the Governor of the islands.

All I am trying to find out is if I cannot stir up a little interest in them, the people down there, to try to get these things from being such a drain on the Treasury of the United States.

I know he is a competent businessman. If confirmed I would like to see him go into that problem.

Since you have made, in my regard, a good, fair statement, I thought I would make that one to you.

Mr. ROHLSSEN. Mr. Chairman, concerning questions you have been asking concerning the Virgin Islands Corporation, I have worked for many years representing the farmers of the islands and I have been in close contact with the Virgin Islands Corporation from time to time.

With your permission I would like to make some comments as to why I think the Virgin Islands Corporation is losing money.

The CHAIRMAN. Go ahead. I have dragged it in, myself, it does not relate to the nomination, but you have a right to do so.

Mr. ROHLSSEN. First, we have tried in the Virgin Islands, those connected with farming have tried, to get the Virgin Islands Corporation to set up a program whereby they would divest over a period of time their large sugarcane acreages to individual farmers and eventually to get the Corporation completely out of the sugarcane growing and cultivation business.

We have had some success in having them make an experiment of this and a few years ago they did set up 10 farms which were turned over to former employees of theirs who were farmers and excellent farmers and this project has been a success.

Why it was stopped we do not know.

Instead of the Virgin Islands Corporation trying to continue their program and encourage it, they have been leasing land and trying to expand their sugarcane cultivation.

It is my opinion and the opinion of many persons in the islands that the program should be directed toward getting the private sugar growers into the sugar growing business and getting out of it on an organized and progressive scale.

The CHAIRMAN. Thank you very much.

Are there any questions.

Senator ALLOTT. I have one thing to say here. You mentioned in your statement about the barrage of letters. I simply want to make it clear, Mr. Chairman, two things:

This is not a court of law, and we are not bound wholly by what we hear here, though it would be my hope that we expose this whole affair completely as far as we can in the committee.

But as far as I am personally concerned, I have not received any letters that I know of from the Virgin Islands on this.

I only say this for the reason that someone else on the committee yesterday made a similar statement.

I would not like whatever action the committee might take to have the implication that this is the result of the barrage of mail because the barrage of mail does not exist so far as my own office is concerned.

Mr. ROHLSEN. May I mention in the newspapers there appeared an article that there was a letter writing campaign.

The CHAIRMAN. I was the recipient of most of it, I understand. I understand, too, I do want to assure you that other members of the committee have also told me the same thing that Senator Allott just said; namely, the other Senators have not had many letters about the nomination.

I think the letter writing enthusiasm probably confined itself to the newspaper and did not get into the mail very much.

Senator DWORSHAK. What business are you in?

Mr. ROHLSEN. Automotive business.

Senator DWORSHAK. Who paid your expenses to come here and testify?

Mr. ROHLSEN. I did, sir. I came here unsolicited.

Senator DWORSHAK. Are you representing anybody or any group besides yourself?

Mr. ROHLSEN. No, sir.

Senator DWORSHAK. All right.

The CHAIRMAN. Are there any questions?

Senator BURDICK. I have one question. When were you a member of the legislature?

Mr. ROHLSEN. 1951 to 1954.

Senator BURDICK. You were not a member of the legislature in 1957?

Mr. ROHLSEN. No, sir.

Senator BURDICK. That is all, Mr. Chairman.

The CHAIRMAN. That is all. Thank you very much, Mr. Rohlsen.

Mr. ROHLSEN. Thank you, sir.

The CHAIRMAN. Mr. Alexander.

STATEMENT OF JOSEPH ALEXANDER, STATE CHAIRMAN OF THE VIRGIN ISLANDS DEMOCRATIC PARTY

Mr. ALEXANDER. Mr. Chairman and members of the committee, my name is Joseph Alexander. I am a native and resident of the Virgin Islands.

I am engaged in business there. I am a former Virgin Islands legislator, having served for 26 years in that capacity. I am state chairman of the Virgin Islands Democratic Party.

The President of the United States has nominated Hon. Ralph Paiewonsky for the high office of Governor of the Virgin Islands. I heartily endorse this nomination and respectfully urge your committee to recommend to the U.S. Senate its confirmation.

I have had the pleasure of knowing Mr. Paiewonsky and his family almost all my life. They are held in very high esteem by all those who have come in contact with them.

I personally have been associated with Mr. Paiewonsky in matters of legislation; have worked with him very closely all through the years, in business, social, and civic matters, and have found him to

be very conscientious in whatever was being discussed, considered, or undertaken.

So I have an intimate knowledge of his ability and background, and, therefore, know he possesses those qualities that should go to make him a good Governor, if he is confirmed.

He has been our Democratic national committeeman for 20 years.

But apart from this partisan office, he is personally well known and respected by the people in the islands, and his appointment as Governor of the Virgin Islands is supported by more than 90 percent of the population.

Failing to stop his appointment by the President, a small group of individuals stooped to discredit Mr. Paiewonsky. Several members of this group are known to me personally, and I can assure you without any question or equivocation that they do not represent the feeling or the will of the majority of the people of the islands.

Senator DWORSHAK. Can you give us the names of some of those people, their background?

Mr. ALEXANDER. Mr. Senator, you had a gentleman right here today, Mr. Brauer.

You had Mr. Wisener, and you have Mr. Rockoff. They took a very active stand against Mr. Paiewonsky.

Senator DWORSHAK. Are they residents of the islands?

Mr. ALEXANDER. Yes, sir; they are all residents of the islands.

Senator DWORSHAK. What does Mr. Wisener do?

Mr. ALEXANDER. Mr. Wisener came down there a few years ago from the State of Connecticut and started a real estate business. He has taken a dislike to Mr. Paiewonsky without any justification simply because, mainly, of business reasons.

He is a real estate man and when Mr. Paiewonsky wanted to take some property taken out of his hands and give it to another real estate agent, Mr. Wisener disliked Mr. Paiewonsky on that account.

Senator DWORSHAK. Who is the other man?

Mr. ALEXANDER. Mr. Rockoff, a fellow in St. Thomas who has been a member of the Democratic club over there, but he was interested in a fellow by the name of Connie Gay and naturally he was boosting his nomination.

So he also took a very adverse position against Mr. Paiewonsky and sent up cables here as an imposter using designations to which he was not entitled.

The CHAIRMAN. What was that again? We went through one of these charges a minute ago.

Mr. ALEXANDER. Mr. Rockoff. Rockoff. I think he used the designation of State chairman when he should not have used it.

The CHAIRMAN. You say he sent cables?

Mr. ALEXANDER. Cables and letters to Members of Congress.

The CHAIRMAN. Doing what, now, pretending he had a position he did not hold?

Mr. ALEXANDER. Yes, he signed as State chairman. He is not a State chairman.

The CHAIRMAN. Could you give me some indication of what Members of Congress got them?

Mr. ALEXANDER. It was disclosed to me, sir, in confidence. Do you insist that I divulge that to you publicly?

The CHAIRMAN. I do not know how to proceed when you get things in confidence.

Mr. ALEXANDER. I will be frank. He communicated that to the chairman of the Insular Affairs Committee of the House.

The CHAIRMAN. I wonder why he picked him out and left me out? I feel slighted.

The House, as you know, does not have a thing to do with the confirmation.

Mr. ALEXANDER. Probably he is not aware of the way the procedure works. So that is what he did.

In addition thereto, he also sent it to the appointing powers.

Mr. Paiewonsky is a distinguished native whose reputation for honesty and sincerity is unquestioned. Nothing is further from the truth of his desire to convert the islands into a gambling mecca.

In my contacts and discussions with him all through the years I have known him, he has always abhorred the idea as being disastrous to the islands' moral welfare as it would encourage a number of undesirables to visit the islands and give a bad example to the people living there.

Mr. Paiewonsky was educated in the islands and New York. Here in the Virgin Islands the color of a man's skin is not important.

What is important in selecting a Governor for the Virgin Islands is that he be a qualified native of the islands, knowing what is necessary to advance the welfare of the people, not only politically, but economically.

Senator ALLOTT. May I interject a question there?

I know that we have gotten into and adopted a policy of appointing natives, but do you mean by that statement to say that no one has any right to aspire to the governorship of the islands unless he be a native?

Mr. ALEXANDER. No, sir. I would like to explain that. What I mean is this:

First of all, to begin with, the Republican administration followed that precedent recently by appointing natives. Prior to that when President Eisenhower was elected and took office two continentals were appointed to that high office. The first one was my namesake by the name of Alexander, who was a contractor and the second one was a gentleman by the name of Gordon who was an attorney from California.

These gentlemen came to the island without any knowledge whatsoever of its geographic, its economic condition, weather, or anything whatsoever.

Senator ALLOTT. This is fine, but you are not saying that any bona fide resident of the island should not have the right to aspire to the governorship whether he is a native or not, are you?

Mr. ALEXANDER. No, I am not contending that.

The appointing power of the President decides that.

But we are asking that a native be appointed and continue to be appointed providing he is qualified.

Senator ALLOTT. You mean a resident, or native?

Mr. ALEXANDER. A resident.

Senator ALLOTT. I will agree with you if you say resident. I do not see why anybody should have to have any more to aspire to the governorship of the Virgin Islands than they have to have to aspire to the governorship of a State.

You can aspire to the governorship of a State simply by becoming a resident.

Mr. ALEXANDER. I agree with you. I mean a resident or a native.

Mr. Paiewonsky's qualifications and background and his knowledge of the economic conditions of the islands and his reputation and respect of the people makes him a logical and qualified person to fill this high office as Governor.

The President could not have designated a better person.

I, therefore, hope your committee will join the President and the people of the Virgin Islands by expressing your confidence in Mr. Paiewonsky by recommending his confirmation to your august body, the U.S. Senate.

The CHAIRMAN. Thank you very much.

Senator DWORSHAK. What business are you engaged in?

Mr. ALEXANDER. I am a merchant.

Senator DWORSHAK. What kind of merchant?

Mr. ALEXANDER. General merchant in St. Croix, sir.

Senator ALLOTT. Just general merchandise?

Mr. ALEXANDER. General merchandise.

The CHAIRMAN. Are there any additional questions?

Thank you very much.

Mr. ALEXANDER. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Guirty, and I may say Mr. Corneiro, also, has a very short statement to make. Will the two of you please come up here.

STATEMENT OF GERALDO GUIRTY, EXECUTIVE SECRETARY, AMERICAN VIRGIN ISLANDS UNITY COUNCIL, NEW YORK, N.Y.

Mr. GUIRTY. Thank you, Mr. Chairman and members of this honorable committee.

I have journeyed from New York City to make a statement purely out of a sense of civic responsibility and patriotic pride.

This testimony comes from the American Virgin Islands Unity Council which represents the colony of Virgin Islanders in the City of New York, in which we are attempting to promote in the interest of quicker progress in our Virgin Islands.

We are deeply concerned because we have learned from our own experiences in the great City of New York that initiative is a very compelling factor to help people rise up, not to be purely dependent upon Government all the time for group progress or individual progress.

So I shall proceed to read this statement.

Re the nomination of Ralph M. Paiewonsky as Governor of the Virgin Islands.
To the Senate Interior Committee.
(Attention Hon. Clinton P. Anderson).

HONORABLE SIRS: The American Virgin Islands Unity Council hereby endorses the nomination of Ralph M. Paiewonsky as Governor of the U.S. Virgin Islands and urges your august body to recommend confirmation as such to the whole Senate.

We heartily endorse Mr. Paiewonsky's nomination for the following reasons: Ralph Paiewonsky, by his background, training, experience, and service to the people of the Virgin Islands, is fully qualified to perform the duties of chief executive of this insular possession of the United States.

1. He has lived in the Virgin Islands most of his life and is fully acquainted with its aspirations as a progressive political subdivision of this great Nation. Mr. Paiewonsky was born in Charlotte Amalie, V.I.: attended public school there, and raised a family in his hometown.

2. Ralph Paiewonsky has proven his ability to handle the duties of Governor with efficiency, farsightedness, and with wisdom.

He came to the United States in his early manhood, to gain knowledge and was educated at New York University, New York City.

Thereafter, he returned to his native land, became a working member in his father's business, and quickly exemplified his social consciousness for his fellowmen in the Virgin Islands communities.

His business acumen was always coupled with a deep sense of fair play. He has always been willing to listen to and assist in the settlement of labor management disputes, or to find the common benefits that may come from any social or economic proposal offered by community leaders in the three islands.

It was, therefore, not difficult for him as a popular businessman, to win a seat in the local legislature when he first ran, and during his five terms as a legislator he never suffered a setback at the polls.

During his tenure, he served as chairman of the Municipal Council of St. Thomas and St. John for many years, with great success.

He supported and voted for such legislation as the workmen's compensation law, the rent control law, the public utilities law, the wages and hours law, and countless acts designed to support old people's homes; scholarships, nursing, and medical services; schools, public nurseries, and nursery aid; harbor facilities, business promotions, and agriculture.

Mr. Paiewonsky has traveled to Washington, D.C., on many occasions at his own expense to seek aid for the people of the Virgin Islands, and, as he is well known in the Nation's capital, he has more often than not met with success.

3. Ralph Paiewonsky, in his own business affairs, has always demonstrated his abiding faith in his homeland.

In the 1940's and 1950's, when many local businessmen were pessimistic in their investment outlook, he led the way forward. He was one of the few local businessmen who saw the need for commercial boldness in the islands.

He and his equally able brother, Isidore Paiewonsky, revitalized the local chamber of commerce, built and funded businesses of many types needed, and helped to create the favorable climate which resulted in the present prosperous tourist trade in the Islands.

For the foregoing reasons, we fully support his candidacy, this Presidential nomination, and the substantial backing he has received in the islands. He is an excellent nominee and we urge your unanimous approval.

The American Virgin Islands Unity Council is an affiliation of the stateside Virgin Islands organization in the City of New York, representing over 10,000 Virgin Islanders who live, work, and participate fully as citizens of the United States.

We seek to advance the welfare of the inhabitants of the Virgin Islands and our fellowmen in the United States of America.

We strive to do this as loyal, patriotic citizens who have always been devoted to the well-being of the people of our great Republic under her constitutional form of government.

Likewise, we wish to thank the chairman and the members of his honorable committee for giving us the opportunity to present our opinion on this nomination before you today, and for putting this statement in the record.

Respectfully submitted.

ALBERTO R. SENIOR, *Chairman*;
MARIO WATLINGTON, *Delegate*;
GERALDO GUIRTY, *Executive Secretary*.

That is our story, gentlemen.

The CHAIRMAN. Are there any questions?

Senator ALLOTT. What is your business, sir.

Mr. GUIRTY. I am presently employed with the New York City Housing Authority in the capacity of housing assistant.

Senator ALLOTT. How long have you been in New York?

Mr. GUIRTY. I have been in New York since my late boyhood. After two decades in 1946 I returned to my homeland and thereafter every year, and was there last August.

Senator ALLOTT. You do not live there?

Mr. GUIRTY. Not presently, but we own some old houses there.

Senator ALLOTT. You are from there?

Mr. GUIRTY. That is correct. I was born there.

Senator ALLOTT. But you have lived in New York many years?

Mr. GUIRTY. Yes.

Senator ALLOTT. Thank you.

The CHAIRMAN. Are there questions?

Thank you very much, sir.

Mr. GUIRTY. Just one more page, Mr. Chairman. This is from the Virgin Islands Public Affairs Council.

We, Geraldo Guirty, president of the Virgin Islands Public Affairs Council, and Mario A. Watlington, chairman of the Legislative Committee of the Virgin Islands Public Affairs Council, do hereby join our compatriots in the Virgin Islands in support of Ralph M. Paiewonsky, a native of the Virgin Islands, for the governorship of these islands.

The appointment and the election of a qualified native of the Virgin Islands as its chief executive is an act that has full endorsement in the islands, and is a part of the platform of both national political parties.

We have seen the statements submitted to your honorable committee this day by the American Virgin Islands Unity Council, of which affiliated body we are a member, and we are in complete agreement with the same.

We urge prompt and favorable support by your members and by the whole Senate.

GERALDO GUIRTY, *President.*

MARIO A. WATLINGTON, *Legislative Chairman.*

The CHAIRMAN. Mr. Corneiro.

STATEMENT OF FRANCISCO CORNEIRO, ATTORNEY AND COUNSELOR AT LAW, VIRGIN ISLANDS

Mr. CORNEIRO. Mr. Chairman and members of the committee, I am Francisco Corneiro, a practicing attorney in the Virgin Islands.

In the past few weeks leading up to this hearing and ever since Mr. Paiewonsky has been nominated, many of us in the island have been considerably disturbed by newspaper stories either on the mainland or in the island concerning the qualifications of Mr. Ralph Paiewonsky for the governorship of the Virgin Islands.

I should like to give an appraisal of my own, and as representative, I believe, too, of a large number of other persons with whom I have spoken in the islands. I have no business relations whatsoever with Mr. Paiewonsky. I owe him no favors; he owes me none, and my appearance here is unsolicited.

I am here on funds collected just 2 days ago by a group of people ranging from people in low-income, middle-income, and high-income groups, to finance this appearance for the specific purpose of trying to say to this committee how we feel.

We have read that this nomination implies a threat of gambling to come, of class oppression, of people being reduced to mere lackeys as a tourist mecca.

Mr. Chairman and committee members, with all the emphasis I can put in it, at least believe this of us in the Virgin Islands: We are a proud and hospitable people, but we have absolutely no intention of permitting any Governor whomsoever to force us to lose our self-respect for the tourist dollar.

We may be a bit unsophisticated by big city standards, but we are not so naive either that we don't know if threats were to come to us that may divide us into classes, we are not so naive as not to know where those threats come from if, indeed, they do come.

Mr. Paiewonsky deserves a clean bill of health. I state that most emphatically.

You have heard Mr. Hodge previously, and from Mr. DeLugo and Mr. Rohlsen. I am generally in their age group. I consider myself a young man. I have a big stake in the future of the Virgin Islands.

Luckily for me, I am more articulate than some of my fellow Virgin Islanders and I can express myself better than they can.

But all of those young men and myself, I think we all have to look to the future and we would not want to advise this committee to make a big mistake.

We do not believe the committee would be making any mistake if it took favorable action on the nomination of Ralph Paiewonsky.

I live and I have my office hardly a block away from this slum area that has been referred to at these hearings, the so-called barracks yard area.

A great part of my clients come from that area and from similar areas in the islands.

My clients are mostly made up of laborers, labor unions, Puerto Ricans, small shopkeepers.

I think I am qualified to sense the feeling of those people. I think I can sense their feeling when I say to you that sometimes we feel frustrated that somehow we, the people, are not getting across to the Congress not only in this hearing, but in many other things sometimes that somehow the spirit of us, our feeling never becomes real things, but people who would speak for us speak with voices that are not truly reflective of us.

No one, no one member of this committee, would say if he were to be at all conversant with the mood of the people in the islands, would for one moment give the slightest credit to the suggestion that Mr. Paiewonsky is an instrument of oppression among our people.

We know Ralph too well. He has not begged me to say this for him. I have been sent up here by humble folk, out of their own pockets, to say this to you.

Senator Carroll yesterday referred to a Governor being a good politician. I took that to mean a person whose force of personality and whose gift of leadership is such as to inspire others to follow the path he would lead.

I think the people are in a mood to accept Mr. Paiewonsky's leadership. I think that the Congress should consider that if we do make a mistake in supporting him, give us that right to make that mistake.

I think that we do sincerely believe that he will do a good job; that we are willing to go along with him.

Mr. Hodge, who spoke, is an independent in politics.

Mr. De Lugo is a Democrat.

I also happen to be a Democrat.

The editor of the newspaper, the Home Journal, which many of you may have seen, which has endorsed Mr. Paiewonsky, is the leader of the Unity Party, the largest single party in St. Thomas.

I have heard a number of representatives speak up in favor of Mr. Paiewonsky, and have heard Governor Merwin say he thought it was an excellent choice. This indicates that there is almost unanimity of feeling in support of Mr. Paiewonsky.

I plead to this committee that you bear that in mind, also.

My father was born in St. Croix. My mother was born in Puerto Rico. I was born in St. Thomas. My wife is from Oklahoma. I think I am broadminded about people from a lot of places.

I have lived here in Washington and worked in Washington in the Department of the Interior, the Division of Territories. I know some of the things, therefore, that do come up from time to time concerning government in the territories.

Let me add my own personal opinion. I do not believe I would be presumptuous in saying that I am in a position to give a valid and an informed opinion as to Mr. Paiewonsky's qualifications. That opinion is that he is well qualified.

In behalf of the folk who sent me up here, I ask and urge this committee that it take favorable action.

Thank you.

The CHAIRMAN. Are there any questions?

Senator BURDICK. Are you a lawyer?

Mr. CORNEIRO. Yes, sir.

Senator BURDICK. I was a lawyer, too, before I came to Congress. I was curious about how they practice law in the islands. What legal justification is there in the islands or elsewhere for granting a subsidy to two distilleries and not granting it to all? What legal justification?

Mr. CORNEIRO. I have not been a party to that particular thing. I would imagine that there were justifications of an emergency, that the survival of these distilleries, the particular time was essential for the economy of the island.

Senator BURDICK. In other words, it was important that the two survive, it was not important that the third one survive?

Mr. CORNEIRO. My recollection is that at the time there were only those two in actual operation.

Senator BURDICK. You say that this gentleman by the name of Brauer was not operating the St. Thomas distillery at the time the subsidy was passed?

Mr. CORNEIRO. I could not state that as a fact. My impression was that it was not in business at the time.

Senator BURDICK. Assuming it was in operation, how would you justify it?

Mr. CORNEIRO. I think I would have been not for it.

Senator MILLER. What labor unions do you represent, sir?

Mr. CORNEIRO. Virgin Islands labor unions, affiliates of the AFL-CIO.

Senator MILLER. Is that the main union there?

Mr. CORNEIRO. It is the major union there.

Senator MILLER. How many members do they have?

Mr. CORNEIRO. I think they have slightly over a thousand members in St. Thomas. I do not know how many they have in St. Croix.

Senator MILLER. What trade do the members practice?

Mr. CORNEIRO. They cover all the ranges of activity. They cover people who are in manufacturing plants, small industries, people who work as longshoremen, people who work as carpenters on various construction jobs, hotel employees, sales clerks, the whole gamut of union organization.

Senator MILLER. Would some of their members be working for the Paiewonsky interests?

Mr. CORNEIRO. I would assume so.

Senator MILLER. Were any of them in the group that sent you up here?

Mr. CORNEIRO. Frankly, I don't know. I did not see all of these people. It was a matter of everybody going out and collecting and they got a kitty up. I just don't know who put up the money.

I just know a few of them. I know it was 10 to 15 people.

Senator MILLER. Ten to fifteen people contributed to your coming up here?

Mr. CORNEIRO. Yes.

Senator MILLER. You do not know all of them?

Mr. CORNEIRO. I would know all of them if I saw them but the names were not reported to me at the time.

The circumstances under which I came up were rush ones such as not to allow my going around and thanking them each.

Senator MILLER. I have no further questions.

The CHAIRMAN. Are there any other questions?

Thank you very much.

Mr. CORNEIRO. Thank you, Mr. Chairman.

The CHAIRMAN. We will have to find out what the schedule is next week. This will finish all the witnesses against Mr. Paiewonsky.

Senator BURDICK. To complete the record, I would like to ask before you leave, Mr. Brauer; are you coming back?

The CHAIRMAN. Would you please? Come back, Mr. Brauer.

FURTHER STATEMENT OF A. M. BRAUER, PRESIDENT, ST. THOMAS DISTILLERIES, INTERNATIONAL

Senator BURDICK. During the time that the Paiewonsky firm and the Skeoch firm was receiving the subsidies and during the time that they had the privilege or were buying molasses for 7 cents, I think you testified you were getting your molasses outside the islands?

Mr. BRAUER. Not at that time. Molasses was procured outside the island. We could not get any from the Virgin Islands Corporation at all at that time.

Senator BURDICK. What did you have to pay for your molasses?

Mr. BRAUER. It cost me 19 cents a gallon.

Senator BURDICK. You were paying 19 cents when they were buying it for 7 cents from the Virgin Islands Corporation.

Mr. BRAUER. That is right.

Senator BURDICK. During the same time?

Mr. BRAUER. That is right.

I think the market price quoted by the trade paper was 17 cents per gallon. That is the trade paper every so often, but it is authentic. It cost me 2 cents delivery on top of that.

Senator BURDICK. Were you in the business of distilling liqueur and using molasses in your operation during the calendar year 1957?

Mr. BRAUER. No, I could not get any molasses.

Senator BURDICK. When were you in business?

Mr. BRAUER. In 1954; we put up the distillery in 1957.

Senator BURDICK. You were not in business in 1957?

Mr. BRAUER. We were in business in 1956. We were in business in 1955, 1954.

Senator BURDICK. But you were in business in 1957?

Mr. BRAUER. We were in business in 1957 but we could not get any molasses.

Senator BURDICK. Did you make any attempt to get it from Virgin Islands Corporation?

Mr. BRAUER. That is right.

Senator BURDICK. You could not get it?

Mr. BRAUER. That is right.

The CHAIRMAN. Do you have any copies of letters which you sent to Virgin Islands Corporation, or any copies of replies which they sent to you indicating that molasses was not available to you because it must be sold only to people who had the subsidy.

Mr. BRAUER. I have a letter that I wrote to the Governor of the Virgin Islands at that time, in my possession. At this time I questioned the wisdom of this molasses subsidy.

The CHAIRMAN. I am trying to find out if you asked for molasses and they refused you molasses. Do you have any record of that, or was this purely verbal?

Mr. BRAUER. I would have to look at my files, Senator.

The CHAIRMAN. Will you please examine them.

Mr. BRAUER. They are down in the Virgin Islands.

The CHAIRMAN. I do not mean today.

Mr. BRAUER. I will do so, if I have it, I will send it on.

The CHAIRMAN. We would very much like to have a statement from you, whether you can or cannot find, where you addressed the Virgin Islands Corporation and asked for molasses during this period of subsidy and they were unable to supply you. That is what we would like to know.

Mr. BRAUER. I will look up my records.

Senator GRUENING. Following up your inquiry, I think it would be useful to have as nearly as we can get it, Mr. Brauer, an exact statement as to when he first applied for molasses, to whom he applied, who replied he could not have it, and what further events there were that indicate responsibility for this refusal.

Mr. BRAUER. Senator Gruening, I will look up my records from the inception of the time I asked for molasses. I do know that there has been more than one occasion I asked Dr. Bartlett for it and I was refused. He was the head of Virgin Islands Corporation.

Senator GRUENING. What is his name?

Mr. BRAUER. Bartlett.

The CHAIRMAN. Thank you.

You supply it to us.

Senator DWORSHAK. Did he give you any reasons for refusing to make available the molasses?

Mr. BRAUER. He told me they were contracting. All the molasses was contracted.

Senator DWORSHAK. To these two distilleries?

Mr. BRAUER. I believe his reference was just that they were contracting. He did not say to whom or what, but I am sure I have something in my files.

Mr. LEVENTHAL. I would like to suggest a question about the timing.

Senator METCALF. I am not quite sure. I did not quite get the answer.

Did you say you are operating the distillery in 1954?

Mr. BRAUER. No; I said we started to operate, we started to put up a plant. It was completed in 1954. I can look up the records.

Senator METCALF. You were operating one in 1955?

Mr. BRAUER. That is right.

Senator METCALF. And in 1956?

Mr. BRAUER. That is right.

Senator METCALF. And you would have operated one in 1957 had you been able to get the molasses?

Mr. BRAUER. Well, to make the record clear, we could never get molasses from the Virgin Islands Corporation. We were a small plant.

Senator METCALF. But you did find other sources for molasses in 1955 and 1956?

Mr. BRAUER. That is right.

Senator METCALF. In order to operate your distillery?

Mr. BRAUER. That is correct.

Senator METCALF. Thank you.

The CHAIRMAN. If there are no further questions we will be in recess until the call of the Chair.

I cannot tell you when it will be. We all have problems Monday and some of us have problems Tuesday, and so forth.

Mr. BRAUER. I want to correct one thing. In 1956 we were not distilling because we could not get sufficient molasses.

The CHAIRMAN. Mr. Hodge, do you have something you want to add?

Mr. HODGE. Yes, sir; Mr. Chairman.

The CHAIRMAN. All right.

FURTHER STATEMENT OF WALTER I. HODGE, PRESIDENT, VIRGIN ISLANDS LEGISLATURE, ST. CROIX

Senator DWORSHAK. Mr. Chairman, I suggest that you swear this witness in; you did it with others.

The CHAIRMAN. Will you stand.

Do you solemnly swear the testimony you shall give before this Senate Interior and Insular Affairs Committee will be the truth, the whole truth, and nothing but the truth so help you God?

Mr. HODGE. I do, Mr. Chairman. I think for the benefit of the committee, since the legislature is involved, where question has arisen about discrimination against distilleries, in the island on the legis-

lature passing a subsidy for two distillers only, that I would like to get the record straight.

The subsidy on account of the Suez Canal crisis as was put in the record before, the price of molasses was raised substantially higher.

Since 50 percent of our revenue is based upon the return of internal revenue on a matching dollar basis, the legislature was asked to pass a subsidy for the distilleries in the islands.

There were only two distilleries in the islands actually processing rum by sugarcane molasses at that time.

I just wanted to have that put in the record.

The CHAIRMAN. Is that why you put a grandfather clause in so nobody else could get any.

Mr. HODGE. No, Mr. Chairman.

The CHAIRMAN. Did you put a grandfather clause in?

Mr. HODGE. The legislation was written to provide for the manufacturers of rum who were actually using molasses.

The CHAIRMAN. Did you put a grandfather clause in it?

Mr. HODGE. We put that in because these were the people who actually were keeping the economy of the island alive.

The CHAIRMAN. Did you put a clause in to provide that the only people who could get a subsidy were the people who had contracts with the Virgin Islands Corporation?

Mr. HODGE. No, sir.

The CHAIRMAN. You did not?

Mr. HODGE. The clause provided that the people who could get the subsidy were the people who were actually producing rum at that time.

The CHAIRMAN. Law No. 197, of June 11, 1957, provides:

For the period from March 1957 to June 30, 1958, the aforementioned subsidy shall be given to molasses producing, rum producing industries in the Virgin Islands, a portion of the rum producing industry on the basis of the gallon of molasses produced by them from the rum in accordance with the provisions established under their agreement with the Virgin Islands Corporation.

Mr. HODGE. No, sir; those were the only two people who were manufacturing rum at that time.

The CHAIRMAN. I asked you whether you confined it to the people who had contracts with Virgin Islands Corporation. You said no.

Now, does this sound as if you did or did not?

Mr. HODGE. Mr. Chairman, the subsidy was not restricted to those two people only because the only reason that was put into the legislation was because they were the only two manufacturers in actual business.

Other distilleries at that time were only blending.

The CHAIRMAN. We apparently do not communicate back and forth. I asked you and I would like to again ask if you put language in the act to make sure that the subsidy got only to those people who were buying molasses from the Virgin Islands Corporation?

Mr. HODGE. Certainly, sir.

The CHAIRMAN. And since the Virgin Islands Corporation will only give its contracts to a couple of firms, you effectively put the subsidy in their hands, did you not?

Mr. HODGE. I don't know if the Virgin Islands Corporation would only give its contract to only a couple of firms.

The CHAIRMAN. You have been in active politics down there. You are president of the Senate, are you not?

Mr. HODGE. Yes.

The CHAIRMAN. You mean to tell me you lived all these years and did not know they would only give contracts to a very limited few?

Mr. HODGE. No, sir; I would not agree with that. Maybe nobody else applied for a contract of that molasses.

The CHAIRMAN. Do you know of anybody else who has had a contract from this company?

Mr. HODGE. No, sir; I don't know of anybody else who applied to the Virgin Islands Corporation to get its molasses.

The CHAIRMAN. If we produce the fact that somebody did apply, then you would change your testimony, would you?

Mr. HODGE. Then I would be convinced, but at that time we called the distillers in, the only people who were——

The CHAIRMAN. What distillers did you call in, the ones you protected?

Mr. HODGE. Sir, we called in the distillers—there was no protection. We protected the treasury of the island.

The CHAIRMAN. You mean by paying out a subsidy you protected the treasury?

Mr. HODGE. Definitely, because if this rum was not sold in the United States we would not have gotten any internal revenue with which to carry on our own public program.

The CHAIRMAN. The internal revenue from distilleries in Kentucky comes in the Federal Treasury, it does not come from your area?

Mr. HODGE. No, sir. The Congress gave the people the same privilege as they gave Puerto Rico to help them to develop themselves by returning the revenue to them.

Mr. Chairman, I want to go further. I want to go further and state here that much of this testimony which has been put in the record has come about because a few people in the Virgin Islands imported spirits from Peru, distillers, not the Skeoch distillers, not the Paiewonsky distillers, imported stuff from Peru, high wines——

The CHAIRMAN. You have me now. What is high wine?

Mr. HODGE. I don't know what it is. I don't know what high wine is.

Mr. LEVENTHAL. I think they are wines fortified to a certain proof. They are called high wines.

Mr. HODGE. It is not my term. It is an alcohol or rum, subject to the internal revenue tax. They attempted to bring this stuff in from Peru and pass it through the Virgin Islands and ship it into the United States.

The CHAIRMAN. Now, you are under oath, to whom are you referring?

Mr. HODGE. I can refer especially to one Haymes & Co. because they came before the legislature on this question and Mr. Brauer approached the legislature on the question because he was handling some of the high wines at that time.

Senator DWORSHAK. Mr. Hodge, you have heard some testimony during this hearing indicating that the Paiewonsky Distillery purchased alcohol from Public Liqueur Co. in Philadelphia and from

sources, allegedly the Schenley Co. in Cuba, which were brought in to the Virgin Islands, processed and handled then transshipped. Do you approve of that? Was that helpful?

Mr. HODGE. I don't know about that, sir.

Senator DWORSHAK. You do not know a thing about that?

Mr. HODGE. I don't know a thing about that. I know what I am talking about here, what I am testifying about before the committee.

Senator DWORSHAK. You only know the things which are beneficial to your viewpoint. You do not know about anything else?

Mr. HODGE. If I knew I would testify. But I don't know.

Senator DWORSHAK. How long have you lived in the Virgin Islands?

Mr. HODGE. All my life.

Senator DWORSHAK. You do not know that the Paiewonsky distillery has purchased or imported alcohol from outside the islands?

Mr. HODGE. I never knew it, sir, until now.

Senator MILLER. I do not believe that the chairman's question was answered. He asked you what distillers or their representatives appeared before the legislature at the time this subsidy bill was pending?

Mr. HODGE. At the time—we had the distillers before us on two occasions. At the time of the subsidy bill I don't think that the distillers as such, appeared.

The Governor appeared in executive session of the legislature, and presented his case. Governor Merwin did.

The CHAIRMAN. A while ago I thought we had a statement about the people producing their books and showing they could not get along.

Mr. HODGE. I said that was not before the legislature, sir.

The CHAIRMAN. Not before the legislature?

Mr. HODGE. Before the Governor or the administration.

What I am talking about is that this stuff was brought in from Peru and attempts were being made to ship it into the United States.

I remember that when Senator Butler, the chairman of this committee, was passing this legislation he said to me. "Now, are you people down there going to bring spirits in from outside, pass them through the Virgin Islands and send them up and collect internal revenue taxes on it?"

We told him no, that the rum was going to come from the islands for the basis of internal revenue collection beginning in 1954, or 1955, was going to be rum processed and manufactured out of molasses in the islands.

The legislature was forced to pass legislation, to put a stop to the shipping of these Peruvian spirits.

Senator GRUENING. What is the bearing of this testimony on the issue before the committee which is the question of confirmation of Mr. Paiewonsky's nomination?

Mr. HODGE. What I am trying to show here is that a statement was made here that the legislature was favorable to these two particular distillers. I am also saying that the legislature also had a responsibility of protecting the revenue against some methods that were contrary to general procedure of bringing Peruvian spirits in and shipping it into the United States.

Senator DWORSHAK. You condemn that practice?

Mr. HODGE. Yes, sir.

Senator DWORSHAK. Then logically you would have condemned the importation of alcohol or high spirits from Cuba or from Philadelphia by any distillery or by anybody in the islands to be transhipped later as rum or some other product which originated in the islands?

Mr. HODGE. If at that time, sir, the Virgin Islands were getting the benefit of internal revenue. If that was done prior to the passage of the new organic act I would not.

Senator DWORSHAK. That is basic. If you do not like the importation of Peruvian high spirits, you do not want spirits or alcohol to come in from any source whatsoever?

Mr. HODGE. Yes, sir; that is when we were not—that may be when we were not getting the benefit of internal revenues.

But while we were getting the benefit of the internal revenues, we must have it on the proper basis.

Senator DWORSHAK. Then you are willing to have imports of alcohol into the islands.

Mr. HODGE. No, sir.

Senator DWORSHAK. When you get the benefits of not having to pay the duties on transshipments into this country?

Mr. HODGE. No; if it is rum, I don't condone it.

Senator DWORSHAK. I am trying to find out whether you knew about anything that was done along that line?

Mr. HODGE. I do not know, sir, and it would not have been highlighted to the members of the legislature or the government until such time as we would have been collecting internal revenues on it.

Senator DWORSHAK. How did you know that Peruvian spirits were coming into the island?

Mr. HODGE. Because at that time we were qualifying for internal revenue. We had to protect that system that the Congress set up for us.

Senator DWORSHAK. You would have been against the importation of alcohol or spirits from any source in the islands?

Mr. HODGE. If it was done on an illegal basis, sir.

Senator DWORSHAK. Do you know how?

Mr. HODGE. On an illegal basis.

Senator DWORSHAK. Anything coming in from Peru is illegal. Coming in from other places, it would have been legal.

Mr. HODGE. It would have been legal when we were qualifying for internal revenue. Every gallon that was shipped would have caused us trouble with customs.

Senator DWORSHAK. It enhanced the shipments of alcohol and rum from the islands into the United States or elsewhere by having these foreign imports increase the amount of the exports that would have then entitled you to get larger financial returns from duties which were not paid.

Mr. HODGE. Yes, sir.

Senator DWORSHAK. That would have been all right?

Mr. HODGE. No, sir; because then the U.S. Customs Service and the Treasury Department would have asked the Congress to remove that clause.

We would have again been a poorhouse. It was then our responsibility to protect that so that the benefit we get through the Government of the United States and the Congress would continue.

Senator DWORSHAK. Then, finally, you put all imports into the islands of alcohol or any other such production, high spirits, in the same category?

Mr. HODGE. That is right.

Senator DWORSHAK. And you are opposed to all such imports in the island?

Mr. HODGE. That is right.

The CHAIRMAN. Are there additional questions?

Senator METCALF. Mr. Chairman, I am not quite sure about the whole chronology of this thing.

Is it your statement that the reason that you only called in two distillers and gave the benefit of this subsidy to two distillers because these other people who have said they were distillers were not actually distilling, but were importing Peruvian high wine?

Mr. HODGE. At the time the subsidy was given, sir, not a single one of them except these two distillers was processing rum on the basis of molasses through a distillery.

At that time the legislature granted the subsidy.

Subsequent to that the legislature had to pass a law clamping down on these people who were bringing Peruvian spirits subsequent to the subsidy.

We had to pass a law clamping down on these people who were bringing Peruvian spirits in and shipping it into the United States.

Senator METCALF. Mr. Hodge, did you hear Mr. Brauer testify that he was operating a distillery in 1956?

Mr. HODGE. Yes, sir.

Senator METCALF. And in 1955?

Mr. HODGE. That is what Mr. Brauer says.

Senator METCALF. Was he consulted?

Mr. HODGE. Mr. Brauer, if he was consulted about the subsidy?

Senator METCALF. Yes.

Mr. HODGE. I would not know, sir. The administration handled that.

Senator METCALF. He was not entitled to a subsidy?

Mr. HODGE. He was not if he was not manufacturing rum by the molasses process when we granted the subsidy, sir.

The CHAIRMAN. If you do not know whether he was consulted because it was an administrative process, now how do you know that the others were consulted?

Mr. HODGE. I knew they were.

The CHAIRMAN. How do you know?

Mr. HODGE. The Governor told me. He came to an executive session of the legislature. He said upon his investigation by the attorney general he found that there were only two members who were processing rum by the molasses process at that time.

The CHAIRMAN. Who was then Governor?

Mr. HODGE. Governor Merwin.

The CHAIRMAN. And his first cousin was one of them?

Mr. HODGE. Yes, sir; he was one.

The CHAIRMAN. And Mr. Paiewonsky was the other?

Mr. HODGE. He just happened to be in the rum business. I don't think the subsidy was granted because he was his first cousin.

The CHAIRMAN. Are there any other questions.

Senator BURDICK. In other words, what you are telling this committee is that in 1954, and 1955, that this gentleman, Mr. Brauer, was not using molasses in the process of distilling rum?

Mr. HODGE. In 1957 when the molasses subsidy was granted, sir.

Senator BURDICK. How about 1955?

Mr. HODGE. I don't know, sir.

Senator BURDICK. What about 1954?

Mr. HODGE. I don't know. I am talking about when the subsidy was granted for molasses.

Senator BURDICK. You heard his testimony when he said he could not get molasses in 1957 because it was all allocated to the two companies?

Mr. HODGE. I don't know, sir.

Senator BURDICK. That is all.

The CHAIRMAN. The committee will now recess, subject to the call of the Chair.

(Thereupon, at 1:30 p.m., the committee was recessed, to reconvene subject to the call of the Chair).

(Committee note: The text of the 1957 rum-producing industries law, to which reference is made above, follows:)

TITLE 33, VIRGIN ISLANDS CODE

CHAPTER 203. RUM-PRODUCING INDUSTRIES SUBSIDY

SECTION ANALYSIS

4201. Emergency Molasses Fund; administration by Commissioner of Finance.

4202. Procedure for paying out monies from fund.

4203. Amount of subsidy.

4204. Verification of amount of subsidy due.

4205. Use of molasses purchased with subsidies.

4206. Allocation of subsidies among producers.

4207. Penalties.

§ 4201. Emergency Molasses Fund; administration by Commissioner of Finance

(a) There is established, within the Department of Finance, a Special Fund to be known and designated as the "Emergency Molasses Fund."

(b) This fund shall be administered by the Commissioner of Finance in accordance with regulations promulgated to give effect to the intent and various provisions of this chapter.—June 11, 1957, No. 197, §§ 1, 2.

Codification: Subsec. (a) is from section 1 of Act June 11, 1957, cited above.

Subsec. (b) is from section 2 of such Act.

Repeal: Section 10 of Act June 11, 1957, cited above, provided:

"All laws or ordinances or parts thereof, including rules and regulations, in conflict with this Act [chapter] are hereby repealed."

Separability of provisions: Section 9 of Act June 11, 1957, cited above, provided:

"If any clause or other portion of this Act [chapter] is held to be invalid, that decision shall not affect the validity of the remaining portions of this Act. The Legislature hereby declares that all such remaining portions of this Act are severable, and that it would have enacted such remaining portions if the invalid portions had not been included in this Act."

Appropriation: In order to implement the provisions of this chapter, and to provide a molasses subsidy program from March 1, 1957, until June 30, 1958, Act June 11, 1957, No. 190, appropriated out of the General Fund of the Treasury the sum of \$150,000, "which shall be paid over into the 'Emergency Molasses Fund'" as required under section 4202 of this title.

Preamble: The preamble to Act June 11, 1957, cited above, provided:

"WHEREAS the rum-producing industry in the Virgin Islands is one of the few major industries of the territory; and

"WHEREAS due to a highly competitive market and increasing cost factors over the past several years, most of the rum producers have been obliged to discontinue operations leaving only two producers presently manufacturing molasses into rum; and

"WHEREAS the survival of these two remaining producers is now in jeopardy due to recent increases of over three hundred per cent in the cost on the world market of their basic raw material, to wit: molasses; and

"WHEREAS it is clearly in the best interest of all of the people of all of the Virgin Islands, necessary to finance the operations of hospitals, schools, and other essential public functions, and essential to the financial survival of the Government of the Virgin Islands, under the fiscal formula established by the Revised Organic Act for the Virgin Islands, Public Law 517, 83rd Congress, dated July 22, 1954, that every possible financial assistance necessary to insure the continued survival of these two producers, or others in their stead, should be given at the earliest practical date; and

"WHEREAS the most equitable, feasible and desirable means of rendering this industry the necessary financial assistance is through the medium of a molasses subsidy to be provided by the Government of the Virgin Islands to the rum-producing industries concerned."

The Revised Organic Act, approved July 22, 1954, referred to in the above-quoted preamble, is set out preceding Title 1.

§ 4202. Procedure for paying out monies from fund

Monies from the fund shall be paid out to established industries engaged in the processing of molasses into rum within the Virgin Islands of the United States during the calendar year 1956 in accordance with the following formula and procedure:

(a) The molasses processing industry shall notify the Commissioner of Finance of each proposed importation of molasses to be imported into the Virgin Islands at least 10 days in advance of date on which delivery of shipment is anticipated to be made. This notification shall include information as to the approximate number of gallons in the shipment and the estimated cost of same.

(b) Upon receipt of the notification called for in paragraph (a) of this section, the Commissioner of Finance shall forthwith proceed to allocate and establish within the fund, from appropriations to be made from time to time by the Legislature, monies sufficient to cover the amount of the subsidy to be granted the industry-purchaser plus a reasonable margin of funds to cover any contingent costs.

(c) The industry-purchaser shall, as soon as possible after receipt of molasses shipment, submit certified vouchers to the Commissioner of Finance covering the total C.I.F. cost of the molasses purchased.

(d) The Commissioner of Finance shall, upon receipt of certified vouchers from the industry-purchaser, verify the correctness of same and thereupon, but in any event not more than three days after receipt of same, make payment of the proper subsidy to the industry-producer who shall have applied for same.—June 11, 1957, No. 197, § 3.

Repeal: Repeal of all laws in conflict with this section, see note under section 4201 of this title.

Cross references: Appropriation, see note under section 4201 of this title.

§ 4203. Amount of subsidy

The molasses subsidy referred to in section 4202 of this title shall be determined as follows:

(a) In the case of molasses purchased from sources within the Virgin Islands the subsidy shall be the differential between seven cents (U.S.) per gallon and the purchase price per gallon F.O.B. seller's pipeline.

(b) In the case of molasses purchased from sources outside the Virgin Islands, the subsidy shall be the differential between seven cents (U.S.) per gallon and the total cost per gallon to the industry-purchaser delivered in the first place of storage within the Virgin Islands which total cost shall be the C.I.F. Virgin Islands cost, including, where applicable, any duties and other verifiable costs of placing said molasses into first Virgin Islands storage facility.—June 11, 1957, No. 197, § 4.

Repeal: Repeal of all laws in conflict with this section, see note under section 4201 of this title.

§ 4204. Verification of amount of subsidy due

The Commissioner of Finance shall be empowered to require from any manufacturer claiming subsidies under the provisions of this chapter any and all vouchers, statements, certificates, consular invoices, or other pertinent documents as he may consider necessary and proper for effectively verifying and determining the exact amount of each and every subsidy claimed. The Commissioner of Finance is likewise authorized whenever deemed necessary, and in the

interest of the Government of the Virgin Islands, to inspect all business records of persons or firms claiming or granted subsidies under the provisions of this chapter.—June 11, 1957, No. 197, § 5.

Repeal: Repeal of all laws in conflict with this section, see note under section 4201 of this title.

§ 4205. Use of molasses purchased with subsidies

(a) All molasses purchased under this subsidy program shall be converted into rum by an established rum-producing industry within the Virgin Islands.

(b) The calculated subsidies shall be based upon blackstrap molasses with sugar content of not more than 55%.

(c) All rum produced from molasses subsidized under the provisions of this chapter shall be exported to the United States, except such quantities as are normally disposed of in the course of trade within the Virgin Islands.

(d) Any deviation from this provision of the law shall cause the responsible industry-producer to be subject to forfeiture of all subsidies granted under provisions hereof.

(e) In order to ensure a prompt compliance with this provision, each industry-producer receiving a subsidy under this program shall file a quarterly statement on the 15th day of January, April, July and October of each and every year hereafter in which a subsidy is granted showing the use and disposition of all molasses purchased under this subsidy program.—June 11, 1957, No. 197, § 6.

Repeal: Repeal of all laws in conflict with this section, see note under section 4201 of this title.

§ 4206. Allocation of subsidies among producers

For the period from March 1, 1957, until June 30, 1958, the aforementioned subsidy shall be granted to the molasses-processing rum-producing industries in the Virgin Islands, apportioned to the rum-producing industries on the basis of the gallons of molasses processed by them into rum in accordance with the proportions established under their agreement with the Virgin Islands Corporation. The total quantity of molasses to be subsidized under this program shall not exceed 1,200,000 gallons.—June 11, 1957, No. 197, § 7.

Repeal: Repeal of all laws in conflict with this section, see note under section 4201 of this title.

§ 4207. Penalties

Any person who shall wilfully or knowingly present any false claims for subsidies under the provisions of this chapter with intent to defraud the Government of the Virgin Islands of monies authorized to be disbursed by the Commissioner of Finance for emergency assistance to the said industries shall be guilty of a felony and, upon conviction therefor shall be punished by a fine not to exceed \$20,000 or imprisonment for not more than 10 years, or both.—June 11, 1957, No. 197, § 8.

Repeal: Repeal of all laws in conflict with this section, see note under section 4201 of this title.

(Rum-Producing Industries Subsidy repealed by the Act of July 7, 1958. Repeal effective January 1, 1959.)

interest of the Government of the Virgin Islands to inspect all business records of persons or firms (including financial statements) under the provision of this chapter. June 11, 1957 No. 197, § 5

Report: Report of all laws in conflict with this section see note under section 4301 of this title.

§ 4305. Use of molasses purchased with subsidies

(a) All molasses purchased under this subsidy program shall be converted into rum in an established rum-producing industry within the Virgin Islands. (b) The authorized subsidies shall be based upon the quantity of molasses with respect to which the subsidies are not more than 50%.

(c) All rum produced from molasses subsidized under the provision of this chapter shall be exported to the United States except such quantities as are normally disposed of in the course of trade within the Virgin Islands.

(d) Any violation from this provision of the law shall cause the responsible industry, producer to be subject to forfeiture of all subsidies granted under the provision of this chapter.

(e) In order to ensure compliance with this provision, each industry producer receiving a subsidy under this program shall file a quarterly statement on the 15th day of January, April, July and October of each and every year hereafter in which a subsidy is granted showing the use and disposition of all molasses purchased under this subsidy program. June 11, 1957 No. 197, § 6

Report: Report of all laws in conflict with this section see note under section 4301 of this title.

§ 4306. Allocation of subsidies among producers

For the period from March 1, 1957 until June 30, 1958 the aforementioned subsidy shall be granted to the molasses-producing rum-producing industries in the Virgin Islands apportioned to the rum-producing industries on the basis of the ratio of molasses processed by them into rum in accordance with the provisions established under their respective agreements with the Virgin Islands Corporation. The total quantity of molasses to be subsidized under this program shall not exceed 1,200,000 gallons. June 11, 1957 No. 197, § 7

Report: Report of all laws in conflict with this section see note under section 4301 of this title.

§ 4307. Penalties

Any person who shall willfully or knowingly present any false claim for any subsidy under the provisions of this chapter with intent to defraud the Government of the Virgin Islands of molasses authorized to be disbursed by the Commissioner of Finance for government assistance to the said industries shall be guilty of a felony and upon conviction therefor shall be punished by a fine not to exceed \$20,000 or imprisonment for not more than 10 years or both. June 11, 1957 No. 197, § 8

Report: Report of all laws in conflict with this section see note under section 4301 of this title.

(Rum-Producing Industries Subsidy) repealed by the Act of July 7, 1958. Repealed effective January 1, 1959.

NOMINATION FOR GOVERNOR OF THE VIRGIN ISLANDS

TUESDAY, MARCH 14, 1961

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The committee met, pursuant to call, at 2:15 p.m. in room 3110, Senate Office Building, Hon. Clinton P. Anderson (chairman) presiding.

Present: Senators Clinton P. Anderson (New Mexico), Ernest Gruening (Alaska), Oren E. Long (Hawaii), Quentin N. Burdick (North Dakota), Lee Metcalf (Montana), J. J. Hickey (Wyoming), Henry Dworshak (Idaho), Hiram L. Fong (Hawaii), and Jack Miller (Iowa).

The CHAIRMAN. The committee will come to order. This is a continuation of the hearings begun on March 10 on the nomination of Ralph Paiewonsky to be Governor of the Virgin Islands.

Mr. Bailey, please come forward.

Mr. BAILEY, state your name and any positions you have held with political parties, or in your profession what your work is.

STATEMENT OF WILLIAM W. BAILEY, ATTORNEY, ST. THOMAS, V.I.

Mr. BAILEY. Thank you, sir. My name is William W. Bailey. I am a counselor at law, admitted in the State of New York and in the Virgin Islands.

I am a past president of the Virgin Islands Bar Association and former Republican State leader of the Virgin Islands.

The CHAIRMAN. Do you have a statement you wish to make?

Mr. BAILEY. I have no written statement, sir, but I did come up here voluntarily because of a headline that I saw in the San Juan Star, I believe it was Saturday morning, which stated that Mr. Ralph Paiewonsky, whose name is before this committee, had been accused of being a tax cheat.

I thought it was important enough as a citizen, and I am here as a private citizen only, and not in any official capacity, to come at least and make some sort of a statement in refutation of what I read in the papers.

I have lived in the Virgin Islands for about 15 years now, having gone there from Westchester County, N.Y., where I formerly lived and practiced, and I actively practice law there. I have tried to engage in community affairs as much as my ability would allow.

In the course of my work down there, I have known Mr. Ralph Paiewonsky from my business and legal associations only. I do not represent him. I have never represented him. I know him only through community activities, such as the chamber of commerce, the community chest, Red Cross, and other things on which we have worked together for a common purpose for the islands.

The CHAIRMAN. May I just stop you there?

You say you never represented him. Do you include in that the firms with which he is identified?

Mr. BAILEY. I have never represented him, any member of his family, or any firm, corporation, or business in which he or his family are engaged.

On the contrary, I have represented, as a matter of fact, two or three clients who have bought land from the Paiewonskys, so I have been on the other side of the fence. I might say that in the entire time I have lived and worked in the Virgin Islands I have always found Mr. Paiewonsky's character to be of the highest, and I certainly believe that in the present instance where he is being considered for the position of Governor of the Virgin Islands, that great emphasis should be put upon the fact that in selecting a helmsman, a captain, for the small ship of state known as the Virgin Islands down in the Caribbean Sea, that he is one of the best qualified to step into that position.

He was born there, he was raised there, he has been in business there. I know of no one in all of the islands who, in my opinion, has had a closer contact with all segments of the population, from the lowest to the highest. In all of the time that I have known him, I have never known anything questionable in his business dealings or his other dealings that should reflect unfavorably upon his qualifications for the office for which he has been nominated.

I might say that in my position as the Republican leader at one time in the Virgin Islands, a good deal of the information that I have read in the press in Puerto Rico and in the Virgin Islands, and I also have personally read the transcript of the testimony of this hearing, if I had known that any of that information was in the slightest degree true during the time I have been in the Virgin Islands, I am sure that my party would have been only too delighted, as well as the Unity Party, which are the two parties opposed to the Democratic Party down there, we would have been only too glad to have had the ammunition to have used in political campaigns and in other ways in the Virgin Islands.

I believe none of the information to be true. That is why I wanted to come here and say, as someone who has lived as a neighbor—I would say I am hardly even a friend of Mr. Paiewonsky's because I do not believe in my life he has ever been in my home—as a neighbor in the same town, to say that I know his character to be good and I am convinced that his abilities are sufficient to enable him well and ably, if he is confirmed, to carry on the office for which he has been nominated.

I believe him to be an excellent captain of our ship of state there, and certainly if this David, who has cast the stone at Goliath, in this case had something that was of benefit to us as Republicans in the islands, we would have long since used it. I say that because perhaps I am one of the few men in the Virgin Islands that has had any per-

sonal contact in a business dealing with the witness who has testified, the only witness that I know of who has testified against the nomination of Mr. Ralph Paiewonsky.

The CHAIRMAN. Thank you.

We have a letter from the firm of Bailey & Wood. Should I place that in the record also?

Mr. BAILEY. I would appreciate it if you would, sir.

(The letter referred to follows:)

ST. THOMAS, V.I., March 9, 1961.

HON. CLINTON P. ANDERSON,
Chairman, Committee on Interior and Insular Affairs,
Washington, D.C.

Re nomination of Ralph Paiewonsky as Governor of the Virgin Islands.

DEAR SENATOR ANDERSON: We understand that your committee is to hold public hearings this coming week on the nomination of Mr. Ralph Paiewonsky of St. Thomas to be Governor of the Virgin Islands.

We have known Mr. Paiewonsky for a number of years and in our opinion his knowledge of the Virgin Islands where he was born and brought up, and his experience as a businessman and legislator, make him an outstanding choice for the governorship.

As active participants in various community affairs, we wish to go on record as supporting wholeheartedly the nomination of Mr. Paiewonsky, and we hope that it will be reported favorably by the committee and confirmed speedily by the Senate.

Respectfully,

WILLIAM W. BAILEY,
Former President, Virgin Islands Bar Association.
HENRY G. WOOD,
Former Legislative Counsel, U.S. Senate.

The CHAIRMAN. Are there any questions?

If not, thank you very much.

I have a telegram from the Governor. I have not been reading the telegrams, but I think that a telegram from the Governor of the Virgin Islands is in a little different category. He says:

HON. CLINTON P. ANDERSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.:

I shall be grateful if following statement signed by me, as Governor, be read before your committee at Wednesday's hearing on nomination of Hon. Ralph Paiewonsky as my successor and incorporated in the record.

Item 1. While I was a member of Virgin Islands Legislature in 1957 I sponsored, jointly, with other Senators, a bill to provide relief for the rum-producing industry by a Molasses Subsidy Act, No. 197, approved by Gov. Walter A. Gordon. Justification and need based on fact that price of molasses had increased 300 percent, from 7 cents to 27 cents per gallon, jeopardizing the survival of the only two remaining producers of rum. This was necessary to assure revenue of the islands from internal revenue taxes to support hospitals, schools, and other public functions. Mr. Paiewonsky's distillery was merely one of the two beneficiaries, but the islands as a whole gained from the revenue thus raised. Molasses subsidy was then fully warranted in the public interest.

Item 2. As Governor in 1960, I introduced to legislature and approved act No. 567 of Virgin Islands Legislature to provide standards for production of Virgin Islands rum to be made from the fermented juice of sugarcane and not from imported high wines. One thousand barrels of Peruvian high wines had been imported by Goddards, Ltd., and was about to be processed by one Emanuel Brauer and shipped to United States as Virgin Islands rum. Dumping of 1,000 barrels of Peruvian rum in U.S. market merely rectified here and to be labeled as Virgin Islands rum would have destroyed this market for true Virgin Islands rum for which Virgin Islands have long had a good reputation. Act was necessary and proper to save industry and Virgin Islands revenues.

Item 3. Emanuel Brauer of Sunbilt Tropical Fruit Products, Ltd., did not obtain a distiller's license until January 1, 1959.

The foregoing is furnished as a factual record to correct distortion arriving from testimony given before your committee.

JOHN D. MERWIN, *Governor, Virgin Islands.*

The CHAIRMAN. Mr. Paiewonsky, I have a request from a member of the committee who could not be here today saying:

I believe the nominee should be placed under oath with respect to the matters to which he has testified and believe he should be examined thoroughly with respect to the sworn testimony before Mr. Aspinall's committee.

Do you mind being sworn?

Mr. PAIEWONSKY. No, sir.

The CHAIRMAN. Do you object?

Mr. LEVENTHAL. No, sir.

The CHAIRMAN. Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PAIEWONSKY. I do, sir.

The CHAIRMAN. You may proceed with your statement.

I want to warn you that we may have to leave here if the long bell rings for a vote on the Senate floor, but you understand that in advance. We would be right back.

FURTHER STATEMENT OF RAPHAEL PAIEWONSKY, ACCOMPANIED BY HAROLD LEVENTHAL, COUNSEL

Mr. PAIEWONSKY. Mr. Chairman and members of the committee, I first wish to thank each of you for the courtesy you have shown me and for giving me such a prompt opportunity to refute certain charges.

During the opening hearing last Friday, March 10, I covered my intentions of divesting myself of certain holdings which might raise the possibility of a conflict of interest. The committee then graciously heard the testimony of Governor de Castro, to accommodate his need to leave early.

On Saturday, the hearing was primarily devoted to testimony of other witnesses, particularly those from the Virgin Islands. I was naturally gratified to note that all but one of these witnesses testified in favor of confirmation of my nomination. The other witness will, I am confident, be totally refuted by me here today.

However, before I proceed with the rebuttal of his charges against me, I think it is highly important to state my views on the task which faces me if this committee and the Senate consent to my nomination.

I believe, with President Kennedy, that the Virgin Islands offers America a splendid opportunity to exhibit a true showcase of democracy at work. The total absence of racial discrimination, and the friendly manner in which all dealings on the islands are handled is in itself a remarkable phenomenon, although we who live there take it for granted. It stands out, however, as an important object lesson in a world torn by racial strife, and an object lesson clearly labeled "Made in America."

Life in the Virgin Islands is not without its problems, though, and it is to these problems that I wish to address these remarks. We do

have needs in the Virgin Islands. We need water. We need roads. We need housing. We need further improvements in our schools. We need expanded public utility services. And we need time to accomplish these things.

While I have some definite opinions on these problems and their solution, I emphatically do not believe in one man programs. Specific answer to our needs must be developed on the basis of surveys which must be made by qualified technicians and experts, conferences with the local people, cooperation with the legislature, and reflection on the basis of information available only to the Governor.

With that thought in mind, I offer this committee my solemn assurance that if confirmed, I will work unceasingly on behalf of the Virgin Islands and its citizens within the framework of a democratic government. I will seek out the best advice available to me from the experts in the various fields involved. I will seek out the advice of the citizens of the Virgin Islands through their elected representatives in the legislature and through citizens advisory committees.

I was born in the islands, and I started to work there when I was 13. Today I still walk the streets of our islands, talking with the people, calling them by name more often than not. The Virgin Islands is a friendly place, a place which has no caste system, and no second-class citizens.

It is a great satisfaction to me, Mr. Chairman, that this position of trust was broached to me by the leaders of the Unity Party who formerly were my opposition but who told me at this time that they felt that I was best qualified and, perhaps more important, the man most capable of working in harmony with all the groups involved. Virgin Islanders in all walks of life, and various political persuasions, have proffered me their warmhearted support. Their confidence more than balances the personal sacrifices I make in accepting the challenge.

Because of this, and with the support that Secretary of the Interior Stewart Udall has assured me in our conversations together that he will provide, I feel confident that if confirmed I can undertake a successful administration as Governor of the Virgin Islands.

The chairman has expressed particular interest in the Virgin Islands Corporation. As I have indicated previously, I do not believe it is appropriate for me at this time to go into the specific changes in its operation. I do wish, however, to assure this committee that if confirmed I have every intention of working toward the day that VICORP becomes self-sufficient. This does not seem to me an impractical dream, but rather a realistic and sensible objective which can be achieved through a vigorous program which pays attention to details while not overlooking long-range goals—a program which it is fair to expect from a successful business executive.

Diversifying the agriculture of the Virgin Islands is a subject dear to my heart. It has been pointed out by Mr. Joseph Alexander, state chairman of the Democratic Party, and a man who has spent his life in the islands, that this objective is more easily stated than realized. The Department of Agriculture has long had a team of research technicians in the islands, but as yet they have made no important recommendations for a departure from the sugar program. But the time is ripe, I think, for an intensive new look at the diversification possibili-

ties. We may be able to take some giant steps toward diversification as our program for expanding the water supply develops.

This problem, like many another, cannot be solved from afar. It requires administration on the local level, and by people who know the islands, their limitations, and their ways.

Let me tell you a fish story—a fish story with a moral.

Several years ago, another survey team came up with the recommendation that the Virgin Islands should increase its local food production by expansion of fishing. This seemed natural enough in an island economy, and plans were promptly drawn up for a fishermen's cooperative. At the suggestion of the survey team, a crawl was constructed alongside the docks. The experts told our local fishermen that this underwater enclosure would accommodate surplus fish when the local markets had been saturated.

All well and good. Soon, with good luck, the cooperative hauled in a mammoth catch. There was enough fish for everyone on the islands, with plenty to spare in the new, modern crawl. Everyone bought plentifully, to help out local industry and to add some variety to the diet. That night, the unsold fish were put back into the crawl.

The sad part of the story is that within 2 or 3 days after the record catch, thousands of cases of food poisoning broke out in the islands.

It appeared that the experts had not gotten around to telling the local fishermen's cooperative one important detail—the crawl should not be used for fish after they were dead. And so the tainted fish were sold in quantity in the following days.

The epidemic of food poisoning effectively killed off the fishermen's cooperative. It also set the cause of local food production back several years.

The moral of this fish story is, naturally enough, that these programs must be carried out by the people on the scene—people who know and understand the people, their customs, and their conditions.

This, of necessity, also holds true for another idea which has been advanced for furthering the economy of the islands—the possibility of introducing light industry, perhaps in the form of assembly plants.

This is again something that all of us want to see take hold. I feel that our glorious climate together with the expanding tourist accommodations we must continue to provide will be the predominant factor in our economy, but there is an obvious need for encouraging local industry. VICORP, serving as a sparkplug for economic development, can be most helpful in this regard. I must say, however, that there is need for caution in this area. We must not try to run before we learn to walk.

And with that I turn to rebuttal and explanation of certain specific matters which have been referred to in previous sessions.

If it pleases the committee, I have prepared a point-by-point refutation of the accusations of witness A. M. Brauer, and with your permission I should like to have these incorporated in the record as if read, word by word, in this room at this time. Starting with page 7 of my statement, we take up the statement that the Riise Co. defrauded the Government by not paying customs duties and rectifying taxes, and show that this is an irresponsible charge without any foundation. On page 10 I take up the charge of alleged personal profits from the use of highway funds and show that the Paiewonsky

family disposed of all its holdings on Skyline Drive long before that paving project was even authorized. This is a matter of public record which could have been ascertained by anyone seeking to provide responsible testimony.

On page 11 I take up the charge of alleged misuse of tax exemption and show that we never even obtained a tax exemption certificate. The reason is that VICORP never supplied us the water they agreed to supply, a fact which caused us to set aside approximately \$150,000 worth of facilities which are standing idle today in our distillery.

Certain other false charges by Mr. Brauer tie in with questions of government administration and policy. For that reason it may be best to review the facts in some detail. I therefore proceed to page 12 of my prepared statement.

The CHAIRMAN. Does any member of the committee object to putting in the word-by-word refutation which he has here in the text and allowing him to read briefly from it this way?

Without objection, that may be done.

REFUTATION OF SPECIFIC CHARGES

Charge of defrauding Government on not paying customs duties and rectifying taxes

Mr. PAIEWONSKY. A person appearing before this committee charged that during and after World War II, the Riise Co. imported into the Virgin Islands rum produced in Cuba and other places, including a large quantity delivered in paraffin-lined barrels; that Riise took the Cuban rum, put it in their own barrels, labeled it as having been produced in their own distillery, transshipped it to the United States, where it found a ready market since alcoholic beverages were then in such short supply, and fraudulently avoided the payment of import duty of \$1.25 per proof-gallon. He charged that this defrauded the United States of a million dollars.

This witness further charged that the Riise companies failed to pay the tax of 30 cents a proof-gallon required on rectified spirits; that they imported alcohol from Publicker Industries, added rum ethers and flavors, and shipped this flavored product to the United States without paying the rectification tax amounting, he charged, to \$100,000 per annum.

Facts.—The plain and simple fact is that the Riise companies have shipped to the continental United States only two products and neither is subject to the rectification tax.

(1) The first product we ship to this continent is rum produced at our St. Thomas and St. Croix distilleries. We owned a modern, enlarged distillery in St. Thomas since 1936, with facilities for aging and storing 8,000 barrels of rum.

We began operating the St. Croix distillery in 1949. Every drop produced at these distilleries has been straight distilled rum, unrectified, and every drop from our distillery is checked by the insular gager who is a deputy U.S. collector of customs.

(2) The second product we ship to the United States is bay rum. A very substantial amount of bay rum has long been and still is shipped here from the Virgin Islands. Every drop of this bay rum is produced under the Federal formula, and contains the denaturant

making the rum unfit as beverage, as required by Federal Law. Furthermore, it is denatured under the eyes of the insular gager. This denatured bay rum is not subject to the tax applicable to rectifiers of beverage spirits.

Our records are completely open to Government officials. Our operations have always been completely open to the insular gager.

So far as customs duties are concerned we have never shipped a drop to the United States, either of straight beverage rum or of bay rum, that did not comply with the Federal laws limiting customs exemption to those products that contain a specified minimum value added in the Virgin Islands, 80 percent prior to 1954 and 50 percent since the revised organic act.

Account of the Cuban rum

A Cuban rum was referred to by the witness. Towards the end of World War II we brought approximately 5,000 barrels of rum produced in Cuba. This was in paraffin-lined barrels, and was purchased at a distress price because the containers were leaking and the product was running up excessive storage charges.

A. H. Riise, Inc., managed by my brother, passed this rum through a rectifying still and cleaned it. Then this rum was kept in two special, large galvanized warehouses in the central part of St. Thomas, away from the Riise distillery in the western part of St. Thomas. It was kept under lock and key under the control of my brother and the insular gager who verifies the proof of products sold locally. And it was kept and used solely and exclusively for sale in the local nearby market. It was not shipped to the United States, as was so recklessly charged by the witness before your committee.

This Cuban rum was no secret. Everyone knew about it. We paid the Virgin Islands 6 percent ad valorem duty. My brother bought it at a favorable price, and it took a number of years, 8 years or so, to use up this supply.

Local and nearby market

The local and nearby market where Riise sells its products is well known in the islands, and must have been well known to the witness who appeared before you and who falsely charged shipment to the United States. All the Riise rectified rum is sold in this market, and we have built up large sales of flavored rums. We use caramel, sherry, punch flavors. Tourists frequently ask why the rum they buy in the United States does not taste the same. Our banana rums are now in great demand and the Mountain Top Hotel features its banana daiquiris.

The local and nearby market includes not only our Riise retail sales but also wholesale sales to other liquor stores in the islands. It includes extensive sales to vessels of all sorts—the large cruise ships that come in, freighters that bring bauxite in and out, vessels moving back and forth among the Caribbean Islands and taking our products to the British and French islands.

We also sell bulk rums, a good grade but less expensive, particularly in demand in the Virgin Islands, the nearby islands, and by freighter crews.

We also sell bay rum in the local market and to the shipping trade.

The local bay rum is different and is used not only as a shaving lotion but also as a mouth wash, since we don't put in the bitter denaturants required by Federal law for shipments to the U.S. continent.

In this market, in addition to the rums, we sell a number of other cordial products, made in large part out of alcohol purchased from Publicker Industries in Philadelphia, with, of course, the addition of flavors.

This local and nearby market is entirely separate and distinct from the market in exports to the continental United States. This is an elementary fact and is of critical importance insofar as requirements of law are concerned.

Charge of alleged personal profit from use of highway funds

A witness charged that large sums of public money were used to pave the Skyline Drive, which is a little needed road, but which benefited the Paiewonsky family since they were able to sell at enormous profits a considerable acreage fronting on Skyline Drive.

Facts.—Senator Hodge has already informed the committee that he voted for the road on Skyline Drive, at Governor Merwin's request to provide access to the Governor's residence at Dorothea Estate.

This paving project was not even begun until late 1960. The Paiewonsky family has not owned any property on Skyline Drive for more than 2 years. It was sold before this paving was authorized. This is a matter of public record which could have been ascertained in moments by anyone seeking to provide responsible testimony.

Charge as to alleged misuse of tax exemption

The witness charged that Riise Chemicals & Distillers Corp. received a 75 percent income tax exemption to permit production of chemicals, and that we never produced any such chemicals.

Facts.—The first fact is that we never received a tax exemption certificate because we never got into chemical production. This could have been verified by a telephone call to the office of the government secretary who administers tax exemptions and has the certificates on public file.

The second fact is that the reason why we could never get into chemical production is that VICORP could never meet its obligation under our 1954 contract to supply us with water.

This breach by VICORP deprived us of opportunity for the chemicals business which was part of the reason why we bought the distillery. In addition it required us to shift to a salt water fermentation process. This meant we had to buy brandnew and different equipment. We could not use the equipment we had already bought and installed, equipment that cost us \$150,000 and is still standing idle in our distillery.

VICORP-Riise Long-Term Agreement for Purchase of Molasses

In 1949 Congress required the Government to discontinue its operation of the St. Croix distillery where it had for 13 years produced "Government House Rum." The price realizable by VICORP for its molasses fell to 2 to 3 cents per gallon. This byproduct of sugarcane was a glut on the market; the supplies far exceeded the needs of the farmers of the Skeoch distillery producing "Cruzan" rum.

VICORP was interested in lifting up the market for its molasses and sought to sell the molasses to our family. We had no way to use the molasses except by processing through the distillery.

Starting in late 1949, the A. H. Riise Distillers Corp. leased the distillery from VICORP on short-term leases which provided for purchasing VICORP's current molasses crop. Between 1949 and 1953, we bought molasses at prices between 5 and 10 cents per gallon.

At this time the distillery consisted basically of the original equipment, which had been subject to very active use during the war years. The Paiewonsky interests made a crude rum at St. Croix and refined it in their distillery in St. Thomas.

By deed dated December 4, 1954, and delivered in March 1955, VICORP sold the distillery to Riise Distilleries for \$60,000, as is. This was the fair market value of the depreciated facilities as determined by a unanimous arbitration board. A simultaneous agreement also dated December 4, 1954, and approved March 10, 1955, provided for the sale of molasses and 30,000 gallons of water daily. Paragraph 1 provides:

1. VICORP agrees to sell and RIISE agrees to buy seventy percent (70 percent) of the total amount of molasses produced annually as the result of VICORP's sugar mill operation. It is further agreed and understood that before the above percentage applies an amount not to exceed 30,000 gallons of molasses shall be negotiated annually during the months of December and January preceding the crop season.

I may state here that the 30,000 gallons was being withheld for the farmers if they should wish for use as cattle feed.

If the parties cannot agree upon the price of molasses on or before January 31 of each year, then the price shall be determined by arbitration. RIISE and VICORP shall each appoint one arbitrator, which two arbitrators shall select a third arbitrator who shall be chairman. The price fixed and determined by the Board of Arbitration shall be final and conclusive and binding on the parties hereto.

These parties annually agreed, prior to the 1957 crop, at a price which was 2 cents below the delivered price of molasses at St. Croix based on the world market.

At this time the relevant world market price, that is, the Puerto Rican price, was 5 cents per gallon. The tanker cost of molasses from Puerto Rico to St. Croix, plus other charges, was approximately 4 cents per gallon, resulting in a price of 9 cents at St. Croix. The parties agreed to a price of 7 cents.

This agreement was favorable to VICORP. It received 2 cents more than the Puerto Rico price, whereas it would have had to incur substantial costs, between 5 and 6 cents per gallon, if it had sought to move the molasses to Puerto Rico. This formula meant a benefit of 7 to 8 cents for VICORP, and only 2 cents for Riise.

The contract provided for arbitration when the parties could not agree. The only year when the parties could not agree was 1957. As a result of the Suez crisis in the fall of 1956, the world market price of molasses skyrocketed and gyrated.

As of the time of the negotiation for the 1957 sugar crop, the speculators had loosened their hold a little and the price had declined from 30 to 17 cents per gallon. Riise agreed to Judge Snyder, proposed by VICORP as the third arbitrator. The arbitration board set the price at 10 cents per gallon. One arbitrator felt the price should be a cent and a half per gallon higher.

In subsequent years the world market stabilized and the parties were able to agree on prices for the current sugar crop in accordance with their previous practice. In 1961 the parties entered into a new agreement, which reduced the writing the customary approach of the parties, and VICORP dropped its water obligation from 30,000 to 10,000 gallons. The contract incorporated this in a contract formula.

In the years 1958-60, the price obtained by VICORP ranged between 7 and 10 cents per gallon. As I stated Saturday, the 7-cent price was paid in a year when we bought over a million gallons on the outside for about 3 cents f.o.b. British islands, and 9 cents delivered in St. Croix.

The CHAIRMAN. Tell me about this water. Was that 30,000 gallons of water?

Mr. PAIEWONSKY. Yes, sir.

The CHAIRMAN. Where do they get that?

Mr. PAIEWONSKY. They have wells in a section of the island, the middle of the island, known as Fair Plain. This has been an installation that has been there for quite some time.

The CHAIRMAN. Where is the saline water plant being built?

Mr. PAIEWONSKY. In St. Thomas.

The CHAIRMAN. Along with the powerplant?

Mr. PAIEWONSKY. Yes. It is a part of the powerplant.

The CHAIRMAN. As a man experienced in business, do you have any feeling as to why the powerplant lost \$108,000 last year? Do they charge people a reasonable price or are they subsidizing industry?

Mr. PAIEWONSKY. No, sir; I think the rates for electrical energy in the islands are higher than they are here on the mainland. I think the rate ranges from approximately 8 cents per kilowatt-hour, and for large users it goes down in the various blocks down to about 1½ cents or 2 cents.

But I think—I do not believe that power is being subsidized. I think the loss might be the result of poor planning and phenomenal growth in the island. The generators are overloaded. The old generators that they had were working constantly, were overloaded. They just stopped.

They had to bring in emergency generators and this cost money. I think that is the reason why the power operation, if it did show a loss, showed a loss. But that loss is not to be attributed to a subsidization of the islands' economy through unrealistic power rates.

The CHAIRMAN. Thank you.

Mr. PAIEWONSKY. Alleged inability of newcomers to purchase molasses from VICORP:

Mr. Brauer said he was injured by being unable to buy molasses from VICORP. This claim is exploded by the fact that he was never operating a distillery capable of producing rum from molasses.

VICORP retains 30,000 gallons of molasses for cattle feed and I know that this amount is rarely used up. I am confident that if Mr. Brauer or any other company put forward a legitimate request to buy molasses for distillery use there would have been no difficulty in arranging the purchase, that is, in the small quantities that he required.

If VICORP had approached me to request a reduction in the amount we were required to purchase and to accept I would have been happy to acquiesce. In fact, 1 year we did reduce our take from 70 to 66 $\frac{2}{3}$ percent of VICORP's supply in order to ease a tight situation for the only other distillery that was capable of using molasses in producing rum.

Molasses subsidy and denial of excessive distillery profits

I understand that Governor Merwin has sent to this committee a full explanation of the circumstances of the 1957 molasses subsidy law.

We brought our books before the Governor and showed him that at a molasses price exceeding 7 cents per gallon we could not operate at a profit, and would not undertake to purchase outside molasses at any higher cost.

Under the molasses subsidy law, we brought in about 2 million gallons of molasses purchased at 13 cents per gallon for the most part, and small amounts at higher prices. If we had not brought in this molasses that would have reduced the revenues of the Virgin Islands. The molasses subsidy law was a temporary expedient and it served its purpose well.

The CHAIRMAN. Can you explain that to me now? If the subsidy was 6 cents or more a gallon, was the tax enough to make up that loss?

Mr. PAIEWONSKY. Yes, sir.

The CHAIRMAN. How did that work out? Have you some idea of the figures?

Mr. PAIEWONSKY. The Virgin Islands government gets back from the—

The CHAIRMAN. Let me read you what I am questioning.

If we had not brought in this molasses that would have reduced the revenues of the Virgin Islands.

They paid out the revenues on the subsidy, did they not?

Mr. PAIEWONSKY. Yes, sir.

The CHAIRMAN. And they got back revenues from the manufacture of rum?

Mr. PAIEWONSKY. Yes, sir.

The CHAIRMAN. What are the relative figures?

Mr. PAIEWONSKY. They paid out approximately \$200,000, or thereabouts. I am not too sure of the exact total amount of the subsidy over the 2 years. And in return they got back, I think, approximately \$11 million.

The CHAIRMAN. That was from the whole crop, not just the subsidized crop; was it?

Mr. PAIEWONSKY. They got back on a matching fund basis approximately \$4 million to \$5 million a year, and this went over for 2 years. It worked out that the return of internal revenue tax that they got back from this subsidized molasses was approximately \$11 million, I think, \$10 million or \$11 million, over the 2- to 3-year period.

The CHAIRMAN. We are not talking about the total returns of molasses. I am only talking about that portion that was subsidized.

Mr. PAIEWONSKY. That is what I was talking about; yes, sir.

The CHAIRMAN. All right.

Mr. PAIEWONSKY. It was limited to the only two distilleries that were in operation. Mr. Chairman, I have affidavits to prove that the statement of Mr. Brauer that his distillery was in operation at this particular time is completely false and without foundation. I will submit it.

Senator MILLER. May I ask a question at that point?

The CHAIRMAN. Senator Miller.

Senator MILLER. It was my recollection that Mr. Brauer stated he was not in operation in 1957, but he was in operation in 1956 and 1955.

Mr. PAIEWONSKY. That is not what I am stating.

Senator MILLER. I understood you to say he was not in operation in 1957.

Mr. PAIEWONSKY. He was not in operation in 1955, 1956, 1957, 1958, or 1959.

Senator MILLER. Then you deny his statement that he was in operation?

Mr. PAIEWONSKY. Absolutely. It is totally without foundation.

Mr. LEVENTHAL. Mr. Chairman, may I speak for a second?

The CHAIRMAN. Certainly.

Mr. LEVENTHAL. I do not recall whether you were in the room when Governor Merwin's wire was read by the chairman into the record, but among the facts set forth in that is that Brauer did not even apply for a distiller's license, he did not even apply for a distiller's license, until 1959, which he would have had to have had before operating a distillery. We have other affidavits that we can submit, if you like, showing that he did not operate in 1959 either. But I am indicating that so far as the years 1955 and 1956 are concerned, which he did testify he was operating a distillery, that is negative by the Governor's own cable.

Senator MILLER. I recall that Mr. Brauer testified that he was operating in 1955 and 1956.

The CHAIRMAN. He did.

Senator MILLER. You categorically deny it?

Mr. LEVENTHAL. Yes, sir; and the Governor's cable also indicates that.

The CHAIRMAN. Very well. Proceed.

Mr. PAIEWONSKY. During the hearing, persons considering operation of new distilleries were told by the legislative committee that they would be given equal treatment if they brought in molasses for Virgin Islands distillery operation.

All of the rum produced from distillation of the molasses purchased under this subsidy was shipped by us to the United States.

So far as Mr. Brauer is concerned, he was not operating a distillery at that time. He never even applied for a distiller's license before 1959, after the termination of the subsidy. His maximum purchase of molasses was a matter of approximately eighty 50-gallon drums purchased in 1960. I understand the correct figure is 75.

These are still lying in a yard, unused. Even today he does not have the equipment necessary for operating a distillery for production of rum from molasses and he apparently paid a "retail" price when he bought a small quantity in drums.

Senator MILLER. There was a statement made by you last week regarding the importation of alcohol from Peru, or high wines. Was he operating in that capacity? I do not recall that you stated that Mr. Brauer was the one that was doing that. You said certain people. Was he operating in that capacity?

Mr. PAIEWONSKY. I do not know, sir. I know that this matter came up before the Governor and the legislature took action to prevent this type of operation which they felt would jeopardize the islands' industry and also jeopardize the return of internal revenue taxes.

Senator MILLER. You do not intend to allege that Mr. Brauer has been doing this; is that correct? Or did you intend to allege that?

Mr. LEVENTHAL. May I speak to that for clarification?

Senator MILLER. I would rather have the witness.

Mr. PAIEWONSKY. I am not sure. I am not familiar with Mr. Brauer's type of operation. I understand his operation was confined to the manufacture of cordials and the manufacture of wines, fruit-flavored wines. I am not at all conversant with whether he was involved in this or whether he was not involved in this.

Mr. LEVENTHAL. May I interject that Governor Merwin's telegram also stated—

One thousand barrels of Peruvian high wines had been imported by Goddards, Ltd., and was about to be processed by one Emanuel Brauer and shipped to the United States as Virgin Islands rum.

That processing would not have been a distillation. It would have been a rectification, a blending, or redistillation, technically the redistillation process. But not a distillation from grain products or molasses.

Senator MILLER. -We are not getting into a question of where the parties are not together over whether it is a distillation or a rectification process, are we?

Mr. LEVENTHAL. Yes, that is the point. Only a distillation process would use the molasses. The whole problem that he was talking about was he could not get molasses. The only people who can use molasses are the distillers. He is a rectifier.

Anybody who puts flavors in is a rectifier. Anybody who takes a spirit and puts in a flavor is a rectifier. But that is a very critical point.

Mr. PAIEWONSKY. Mr. Brauer's complaints about his failure to receive a subsidy were linked to suggestions of huge profits for the two St. Croix distilleries. A price higher than 7 cents would have meant a loss to us in 1957. For the entire period 1954-61, Riise Chemicals & Distillers Corp. shows a loss, without any deduction whatever for a salary payable to me as chief executive officer.

In 1960 for the first time we made a small profit, and that is the year we bought a substantial quantity of molasses on the outside.

Senator MILLER. May I ask another question?

The CHAIRMAN. Senator Miller.

Senator MILLER. Was there any benefit derived taxwise from that loss?

Mr. PAIEWONSKY. No, sir.

Senator MILLER. There was no offset against any other income?

Mr. PAIEWONSKY. No, sir; it is a carry forward.

Senator MILLER. It was a straight carry forward?

Mr. PAIEWONSKY. Yes, sir.

Senator MILLER. Thank you.

Mr. PAIEWONSKY. Our losses in earlier years do not, however, indicate that the distillery is not a good property. We suffered losses in 1957 and 1958 due to the incredibly bad grades of the VICORP molasses. Tests by an independent chemist showed that VICORP molasses, the 1958 molasses, had a sugar content of only 42 percent, and was heavy and excessively solid.

The CHAIRMAN. I read the other day from the audit of the General Accounting Office, which said it had 62 percent sugar. Are we talking about the same year?

Mr. PAIEWONSKY. That was 1960, I think.

The CHAIRMAN. It is the year in which you had the argument over the payment; I will put it that way.

Well, go ahead.

Mr. PAIEWONSKY. This entailed additional handling at the distillery and corresponding additional expense. As to the 1960 crop, VICORP itself supplied us with certificates showing 47 to 48 percent sugar, which is also too low.

Our refusal to pay had the result of focusing attention on a bad situation and helping to move it toward improvement. Under the 1961 agreement, VICORP has guaranteed 52-percent sugars and maximum density as specified. With proper molasses equal in quality to that available in the British Islands, both VICORP and the distillery can do well.

Our 1954-60 loss position is partly attributable to VICORP's failure to supply the water required by the 1954 contract.

The CHAIRMAN. Can I read you a little bit from the audit of the Comptroller General of the United States dated February 1961, page 47?

This purchaser
referring to Riise—

has refused to pay for molasses delivered to him from April 1959 to December 1959, stating that in normal business practice the term "molasses" under the contract would imply molasses having a sugar content of not less than 52 percent and that the molasses received by him was not of the quality contracted for. Laboratory analysis of samples of molasses taken from the 1959 crop production indicated that the molasses were of high quality and had a sugar content in excess of 52 percent.

Has that been called to your attention?

Mr. PAIEWONSKY. Yes, sir. And I saw an analysis showing that. But we never received molasses of that quality because in our experience in the distilling business we have never had molasses of such poor and inferior quality as we received during the 1958-59 crop.

Now, I will say this, Senator: that the samples of molasses are taken after the strike of sugar is taken, and separated to crystals. That is pumped in batches from a small tank into a big holding tank.

If samples of small batches are taken, you will find layers, and especially this type of molasses, which ran as high as 93 bricks, which was almost impossible to pump. It was almost like a solid. This is in various layers in the tanks.

Each layer would have a different percentage of sugars. So some layers might have 52 percent, others might have 48. The 1960 crop, which we all agree, and which has showed up in our fermentation tests to be of better quality than the 1958-59, still, the analysis from those that VICORP has given us, the last deliveries of 1960, shows a sugar content as low as 47 or 48 percent sugar content.

The CHAIRMAN. I only wanted to read this to you.

Mr. PAIEWONSKY. The only reason for a capital gain arising out of our sale to Schenley is the writing down of properties and equipment by virtue of depreciation allowances.

The CHAIRMAN. I was not trying to criticize you for taking capital gains on this. I think every prudent businessman has to do that if he is going to stay in business.

Mr. PAIEWONSKY. Throughout this discussion I have refrained from responding in kind to the witness who was adverse.

I will not pretend that it was easy to hear such savage, sensational, and totally unjustified charges, to see them spread in the public prints or to hear from my family that they were featured in the Virgin Islands and Puerto Rico as headline news of the day.

I take comfort in the knowledge that those who offer to serve, and do serve, public trusts are frequently targets of such abuse.

This is something you gentlemen know far better than I. It seems to me an unfortunate part of the democratic process.

However, I wish to assure you that if I am confirmed I shall not carry back to the Virgin Islands any grudge that would interfere with the fair and impartial administration of my duties.

I thank you for the courtesy and consideration you have shown me.

The CHAIRMAN. Let me give you a small trace of comfort, Mr. Paiewonsky, by saying that I do not think there is a person engaged in public life who has been a candidate for public office who has not been shocked, sometimes, at things he has read about his own experience.

Are there questions?

Senator DWORSHAK. Mr. Chairman, I am a little confused about whether this manipulation of molasses or alcohol, or call it what you will, for treatment in the Virgin Islands and then subsequent transshipment resulting in getting grants from the United States under the program set up by Chairman Butler, Senator Butler, of Nebraska, during the 83d Congress.

I have asked the committee counsel, Stewart French, to check up and he calls my attention to page 15 of this report, submitted by Senator Butler. I will read this paragraph, quoting Senator Butler:

I will state at the outset in my discussion of major issues with respect to the new organic act that I am recommending to the committee and the Congress that the Virgin Islands be granted a return of the internal revenue taxes on a matching funds formula, namely, that a dollar of the internal revenue taxes paid by mainland consumers on the mainland on Virgin Islands products be granted the islands' treasury for every dollar of local revenue the islands themselves collect.

Reference has been made to a purchase by the distilleries, I presume in which you are interested, of 2 million gallons of molasses. When you purchased that, where did you get it—Cuba?

Mr. PAIEWONSKY. Puerto Rico, sir.

Senator DWORSHAK. And you took the molasses into the Virgin Islands and through some processing then transshipped the rum to the United States?

Mr. PAIEWONSKY. Yes, sir.

Senator DWORSHAK. In that process you think that there was full and complete compliance with the spirit of this recommendation that that would legally and ethically entitle the Virgin Islands Government to this grant by the United States in that the 2 million gallons of molasses did not originate in the Virgin Islands, but were brought in from outside and subsequently transshipped?

Do you think that was compliance with the recommendations by Senator Butler?

Mr. PAIEWONSKY. I think Senator Butler was fully aware that the industry of the Virgin Islands, the rum industry of the Virgin Islands, depended on outside sources for its molasses, primarily Puerto Rico. They received a part locally.

The entire industry that existed in St. Thomas, V.I., at that time got 100 percent of their supply of molasses from Puerto Rico.

The CHAIRMAN. Would it not also be true that any time you buy an outside product and by your processing of it you add a 50 percent or more to the value of it, it is then regarded as a native product to the Virgin Islands?

Mr. PAIEWONSKY. That is correct, sir.

The CHAIRMAN. Did you, by your processing of this rum from the original molasses which was purchased at 5, 6, or 8 cents in Puerto Rico, add more than 50 percent to the value of it?

Mr. PAIEWONSKY. It added more; yes.

The CHAIRMAN. Therefore, it put it under the law as a product of the Virgin Islands.

Mr. PAIEWONSKY. Yes, sir.

Senator DWORSHAK. Under that procedure, is it not entirely possible that Schenley, which company will now operate one of the distilleries, the large one, that you formerly owned, could bring into the islands unlimited amounts of molasses for treatment or for processing into rum and then to be transshipped to the United States or to other countries for consumption, that we might visualize a grant amounting to \$15 million or \$20 million every year from the United States?

Would that be ethical and legal in your estimation?

Mr. PAIEWONSKY. Senator, I think you are off on a wrong premise for this reason: Both Schenley and Seagram's operate in Puerto Rico. They have distilleries in Puerto Rico. They have very large distilleries in Puerto Rico.

Senator DWORSHAK. Are they going to close down their distillery in the Virgin Islands, then?

Mr. PAIEWONSKY. No, sir. I will just say there are unlimited quantities of molasses in Puerto Rico. Puerto Rico has the same privilege as we have. But the big drawback here is that the United States can only consume a small quantity of rum; consumption is relatively limited.

If you take the statistics, I think the total sales compared with all other liquors in the United States is approximately 2 percent.

Senator DWORSHAK. So that would limit the amount.

MR. PAIEWONSKY. That would limit the revenues. But I think where Schenley would do well for the Virgin Islands by coming in, and I think this is one of the reasons they are interested, is they also have an overseas international division, and since the Virgin Islands offer them the type of place to perform an operation which is an international operation in scope and nature, they can ship from the Virgin Islands to all of the various countries and bases outside of the United States.

I think this offers a tremendous potential and will create employment for people in the Virgin Islands.

SENATOR DWORSHAK. And also larger grants in the return of taxes from the United States?

MR. PAIEWONSKY. I do not think that it would change very much the question of the quantities that sold in the United States. I think the quantity of rum sold in the United States is fairly limited by consumer taste.

Even though tremendous advertising programs have been carried on, especially by Puerto Rico in the last few years, the amount of increase has been rather small in comparison. So I do not think there is any fear from that, Senator.

SENATOR DWORSHAK. I am troubled, Mr. Paiewonsky. I know you have been very successful as a businessman and you are not to be criticized or condemned for that. I assume your record reflects your ingenuity and resourcefulness. But I am wondering if you as the holder of—what, 10,000 shares of Schenley stock?

MR. PAIEWONSKY. Approximately.

SENATOR DWORSHAK. And if you are going to be the Governor of the Virgin Islands, would you not feel obligated to some extent to influence the operations of VICORP, to make it profitable for the Schenley Co.? I realize you might rationalize by pointing out that whatever you did to stimulate business by Schenley or any other company in the islands would be reflected in employment opportunities for the people there, and in that way you would be a benefactor more or less.

But do you not feel that there would be a constant conflict of interest between your loyalties to the position of Governor and its obligations and responsibilities and your interest in the Schenley Co., by virtue of 10,000 shares, holding 10,000 shares of stock?

MR. PAIEWONSKY. Senator, I thought I made it clear. In my statement you will see that I plan to place this 10,000 shares in a trust and not hold 10,000 shares of Schenley's—

SENATOR DWORSHAK. You will put it in a trust.

MR. PAIEWONSKY. In a trust that will have maybe \$50 million worth of other shares. So that the amount of Schenley shares, or what I will receive indirectly from any interest that the fund might have, and the fund might sell these shares out within 6 months, or as they see fit.

SENATOR DWORSHAK. But if they did not, after the completion of your term as Governor, you would still be the owner of that stock, would you?

MR. PAIEWONSKY. No, sir.

SENATOR DWORSHAK. You are sure of that?

MR. PAIEWONSKY. Positive, sir.

SENATOR DWORSHAK. So that would remove that conflict?

Mr. PAIEWONSKY. Definitely, sir. That has been provided for. It is an irrevocable trust that has set up this arrangement.

Senator DWORSHAK. You will receive payment in cash, then, for that stock, and that will terminate your interest in it?

Mr. PAIEWONSKY. I will receive shares of Schenley which I will in turn turn over to an investment trust fund, a mutual fund. It is a mutual fund.

Senator DWORSHAK. What do you get for turning that over?

Mr. PAIEWONSKY. The shares of the mutual company, one of the mutual funds. It can be one like the Lehman Fund. It is a fund that will most likely be operated and managed by a Boston bank.

Senator DWORSHAK. So the Schenley stock will be diluted to a great extent?

Mr. PAIEWONSKY. And it might be disposed of completely. I will hold the shares of a mutual trust. Those shares I can move in and out of them as I see fit. I will have no control and no interest in that.

Now, in answer to the question that you have said about a conflict of interest, I think I will do, as I see it, what will be the best for the Virgin Islands as a whole, regardless of whether it is Schenley or whether it is VICORP or whether it is any other company that is involved.

If I feel that the action that I have to take is one that will be adverse to Schenley and that that would be the best interests for the Government of the Virgin Islands, that is the action I would take.

Senator DWORSHAK. I would believe that. Of course, you have—

Mr. PAIEWONSKY. But I believe, sir, that if I take an action in regard to VICORP that would make it self-sufficient, that would turn it from a losing corporation into a profitable corporation, and if, due to those efforts, whether it is by increasing or a more efficient increase in the production of sugar and a greater quantity of molasses, that that would make larger amounts available for the distillers of the islands, and they benefit in that way, I do not think that I should be accused by so doing of showing undue interest and favoring the distilleries.

I think this is a course of action that you people here would be very much interested in. I know the chairman of the committee, Senator Anderson, here has shown an interest to try and convert the Virgin Islands Corporation into a profitable business, or for the Government to get out of it.

Senator DWORSHAK. I can believe that statement of yours. I think that that is likely true. But I am wondering also whether the distillery business and the rum business is the only industry which means anything so far as the economic stability of the islands is concerned.

You have tourism, you are visualizing a terrific expansion of the tourist business. You own a lot of real estate. You own a lot of other businesses.

I do not think there is anything illegal in you benefiting from any growth or development through your diversified investments, but I am wondering whether you will not have to make decisions as Governor which might have some direct bearing on some of the policies which indirectly would provide very generous profits for you through your ownership of these various companies and real estates in the islands.

How much real estate do you own in the islands?

Mr. PAIEWONSKY. In the nature of buildings, or what?

Senator DWORSHAK. Well, yes; how many acres of land and how many buildings?

Mr. PAIEWONSKY. I think I gave you a prepared statement on it. I think most of the properties we own are commercial properties in St. Thomas. We own no agricultural or undeveloped land on the island of St. Thomas.

We own, my brother and I own, acreage on the island across the harbor, Hassell Island. We did own some land that I saw a lot of fuss was made about on the top of a hill several years ago.

Senator DWORSHAK. You sold that?

Mr. PAIEWONSKY. I owned 3 acres there for a house site which was divided and sold to two people $2\frac{1}{2}$ years ago, and my brother owned, I think, 8 to 10 acres, which he sold about $2\frac{1}{2}$ years ago to some people from Connecticut.

Senator DWORSHAK. One more question.

So far as the islands are concerned, and as I said the other day, I have not been privileged to visit the islands and it is difficult for me to visualize some of the things we have been talking about during the hearings, but St. Thomas, St. Croix, and St. Johns are the three islands?

Mr. PAIEWONSKY. Yes, sir.

Senator DWORSHAK. You consider them to be one community and you are not interested in developing one island in a preferential way over either of the other two. Your interest lies to the overall development of the entire area?

Mr. PAIEWONSKY. That is quite true, Senator.

Senator DWORSHAK. There is no conflict there?

Mr. PAIEWONSKY. I just received, and I will ask permission to put it into the record, an additional petition signed by the members of the chamber of commerce of St. Croix who said they were late getting this up and asked if I would be kind enough to ask permission to have this added to the list of other members.

I have spent considerable time in St. Croix as well as St. Thomas, and one of the reasons I think I have this universal support in both islands is because they consider me an insular candidate so to speak.

Senator DWORSHAK. It is natural for them to give you some support. They certainly would not want to oppose you, and then have you confirmed as Governor and find themselves out in the cold. I imagine the people are pretty shrewd operators over there on the islands just as they play at pretty good politics in this country.

Mr. PAIEWONSKY. I have worked, as you heard the former State chairman of the Republican Party, who has come up here unsolicited—

Senator DWORSHAK. That proves my point.

Mr. PAIEWONSKY. What I was going to say was this: I serve on many committees. I serve on the Governor's Tourist Advisory Committee and I have served on many committees of the chambers of commerce of both islands and I have worked with the Republican members as well as the Democratic members.

Senator DWORSHAK. I have one question that has bothered me a little bit since the other day. It is difficult to appraise accurately the statements which are made here. I realize some of the testimony has been given after the witness has been sworn and some of it has not.

But as I recall, it was alleged that you had purchased in the operations of your distillery, I think the figures was, 1 million gallons of alcohol from the industry in Philadelphia which was shipped into the islands, processed, and subsequently shipped out in the form of rum to this country.

Do you admit to having done that? Whether you do or not, I do not know whether there is anything illegal in doing that. But it confused me a little bit. Do you want to comment on that?

MR. PAIEWONSKY. Yes, sir.

Senator DWORSHAK. Or would you prefer not to?

MR. PAIEWONSKY. I think there is a statement in the record. I have inserted that here.

Senator DWORSHAK. Well, of course, we have not had a chance to read carefully what you have put into the record. We probably should have had you read it.

All right, Mr. Chairman, I will not pursue that.

The CHAIRMAN. That is the signal for a vote. We will take a coffee break for about 15 minutes and return when we have voted. We will take up the questioning of the other members of the committee.

(A short recess was taken.)

The CHAIRMAN. The committee will come to order.

I think Senator Long was going to be next.

Senator Gruening, do you want to start off?

Senator GRUENING. No, Mr. Chairman.

The CHAIRMAN. Senator Burdick, do you have some questions you want to direct to the witness?

Senator BURDICK. I have only three.

Mr. Paiewonsky, you made a fine statement with regard to gambling on the islands and you stated that your enterprises did not have slot machines in them and that you were totally against gambling in the islands.

Assume that the legislaure should ever legalize gambling in the islands. Would you veto such legislation if it passed?

MR. PAIEWONSKY. I certainly would, Senator.

The CHAIRMAN. Was that a direct question on how your attitude would be toward gambling?

MR. PAIEWONSKY. Definitely. There is no question about it.

Senator BURDICK. No. 2, would you use the power of your office to the fullest extent to make certain that recipes and formulas for the making of all types of liquor would be confidential and not be used by the public?

MR. PAIEWONSKY. Definitely, sir. That is in the jurisdiction of the government secretary. There is no question about that.

Senator BURDICK. I just wanted to know if you would use all of your influence to maintain that.

MR. PAIEWONSKY. I would see to it that it is also kept confidential in the secretary's office; that no one else violates that trust.

Senator BURDICK. And as Governor of the Virgin Islands, would you scan the legislation carefully so that there was no business discrimination against anybody in the islands?

MR. PAIEWONSKY. Yes, sir.

Senator BURDICK. So that in all events, anyone that wanted to enter any pursuit, whether it was in distilling liquors, whether it is in hous-

ing, whether it is in movie theaters, you would make certain that there is no discriminatory legislation?

Mr. PAIEWONSKY. That is correct.

Senator BURDICK. That is all.

Mr. CHAIRMAN. Mr. Metcalf?

Senator METCALF. I have no questions, Mr. Chairman.

The CHAIRMAN. Senator Hickey?

Senator HICKEY. No questions, Mr. Chairman.

The CHAIRMAN. Senator Gruening?

Senator GRUENING. No questions.

The CHAIRMAN. Mr. Miller has a question.

Senator MILLER. Do you own an export-import business?

Mr. PAIEWONSKY. No, sir.

Senator MILLER. I believe testimony was given the other day—

Mr. PAIEWONSKY. All licenses in the islands permit a merchant to import and also to export. I do not think that there is any special type of license for import-export.

Senator MILLER. In other words, as a gift shop you might do some importing and exporting, but you do not own any export-import business as such?

Mr. PAIEWONSKY. That is correct, sir.

The CHAIRMAN. Thank you.

Mr. Lausi?

STATEMENT OF ANTHONY LAUSI, FORMER DIRECTOR, OFFICE OF TERRITORIES, DEPARTMENT OF THE INTERIOR

The CHAIRMAN. Are you the Director of the Office of Territories, or were you that during the period of this rum subsidy?

Mr. LAUSI. Yes, I was, Mr. Chairman. I was Director from May 1, 1955, to March 3, 1961.

The CHAIRMAN. Was that subsidy beneficial, in your opinion, to the Virgin Islands?

Mr. LAUSI. Are you referring to the legislation passed by the local legislature?

The CHAIRMAN. Yes.

Mr. LAUSI. I would say "yes," it was beneficial. For an expenditure of about \$150,000 or \$200,000, they were assured of this matching fund which amounted to at least \$5 million a year.

The CHAIRMAN. I asked some questions the other day when you were here, and I asked you if you would give me the authority for the subsidy provisions that you had down there. That involves the funds of the United States to a degree, does it not?

Mr. LAUSI. As I understood your question, Mr. Chairman, you referred to the molasses contract.

The CHAIRMAN. They gave the subsidy above 7 cents, and then they modified the contract to bring it down to about that figure. Did you think that was done—and I ask this a little reluctantly because I notice that the Secretary of Interior, Mr. Seaton, the Secretary of Agriculture, Mr. Benson, and Mr. Ward Canaday, to mention three people, are on that Board, and they are all people whom I esteem as fine people—but did you think that was in full compliance with the obligations of the enabling legislation down there for VICORP?

Mr. LAUSI. Yes, I do. But, as I understand the contract you are referring to, the price of the molasses was set by the arbiters.

The CHAIRMAN. Yes. I do not know just how the arbiter was selected, but he was selected from Puerto Rico, was he not?

Mr. LAUSI. Under the provisions of the contract that we had with Mr. Paiewonsky and Mr. Skeoch, the other distiller in St. Croix, each party would select an arbiter, that is, the Virgin Islands Corporation and the two distillers, would each pick an arbiter and the two arbiters would pick the third arbiter, and the third arbiter picked the Chief Justice of Puerto Rico, Judge Snyder.

The CHAIRMAN. In addition to the arbitration which took place one year in which they reduced the price from 17 cents, and I am speaking from memory as to what went on, they further reduced this price to 7 cents. They had a contract that said they would pay 2 cents less than the landed price at St. Croix.

If the landed price at St. Croix was 15 cents and they reduced it to 10, they altered the contract, did they not?

Mr. LAUSI. I do not believe the 2-cent reduction was part of the contract, Mr. Chairman. The contract with the distillers, in substance, provided that the parties would agree upon a price for the molasses. If they were unable to agree on a price, then the matter would go to arbitration.

The CHAIRMAN. So there never was a contract price?

Mr. LAUSI. Not this contract we are referring to now that was executed in 1954.

The CHAIRMAN. It states:

These parties annually agree, prior to the 1957 crop, at a price which was 2 cents below the delivered price of molasses at St. Croix based on the world market.

that was done by mutual agreement prior to this?

Mr. LAUSI. Yes.

The CHAIRMAN. How do you account for the loss of \$600,000 in a single year on sugar operations alone?

Mr. LAUSI. It was a very disastrous year, Mr. Chairman. The crop was not a good crop. It was far below our quota. It was primarily due to the lack of rains.

The CHAIRMAN. Do they have to run the mill when there is nothing to mill?

Mr. LAUSI. Yes, I would say you have to run a mill, because we have several hundred small producers that depend on that mill for processing their cane. This year I think you will see a different—

The CHAIRMAN. What I am trying to say to you is if we had a grain elevator and there was a short wheat crop, you would run the grain elevator until you got the wheat crop in but you would not have to have cars standing in line for days to unload.

Does not the same thing happen down there? Can you not close down the mill when you get through or do they have to keep it open at all times and all hours?

Mr. LAUSI. The mill is a grinding operation. Right now it runs from about the middle of January to about the middle of April. That is when the mill is running, grinding sugarcane. Other than that, it is shut down for grinding purposes. It may be in partial operation

for repairs and maintenance, but it is shut down for grinding purposes.

The CHAIRMAN. Did anybody take a look at that \$600,000 loss to see what occasioned it?

Mr. LAUSI. The occasion, Mr. Chairman, was the lack of sufficient sugarcane. It was a bad crop all around.

The CHAIRMAN. We had some discussions as to the quality of the molasses. The General Accounting Office thought the molasses was good. The purchasing firm thought it was bad.

Do you know anything about that particular crop?

Mr. LAUSI. No, sir. All I know is that our position is that it was good molasses. That was the position stated by our president. I believe he had evidence to substantiate his position.

The CHAIRMAN. It came out to the same point, did it not? They went ahead and paid, anyhow, at the tail end of it. It was a dispute for a short time.

Mr. LAUSI. It was a dispute for several months but it was settled.

The CHAIRMAN. Does the Government get the same amount of money as if it was admitted by both sides to be good?

I am not saying whether it was or was not. But did Paiewonsky pay the full price?

Mr. LAUSI. He paid the full price of the claim that we had against him.

The CHAIRMAN. So there was no financial loss to the United States?

Mr. LAUSI. No.

The CHAIRMAN. Senator Miller?

Senator MILLER. The nominee testified the other day, as I recall, that there was dirt and mud mixed in with the cane.

Do you know anything about that?

Mr. LAUSI. No, sir. I am not competent to testify on that, Senator.

Senator MILLER. If there had been, it would not have been good molasses such as you testify, you thought it was.

Mr. LAUSI. Frankly, I do not know what constitutes good molasses or bad molasses. I really do not.

Senator DWORSHAK. You are acquainted with the operation of VICORP over there in handling the sugar crop. How many people on the islands are dependent upon the sugar operation for a livelihood?

Mr. LAUSI. I think the permanent employment force, and this I would like to check to be sure, is around 350 or 400 people. But there are many numbers of small farmers who produce sugarcane on a 1- or 2-acre plot of land, 3 acres, 10 acres, who are dependent upon the sugar operation for a livelihood.

Senator DWORSHAK. How many people are on the payroll of the government?

Mr. LAUSI. The local Virgin Islands Government?

Senator DWORSHAK. Yes.

Mr. LAUSI. My best guess is about 1,500.

Senator DWORSHAK. So, then, by comparison, we have been hearing so much about the importance of the sugar industry to the economy of the islands, it is not really as important as we think. It is not a life or death matter. It may provide employment for people who would be unemployed otherwise, but with the big return of revenue

from the United States in the form of a grant through the Organic Act, it would appear that the sugar operation is quite insignificant as compared with the overall income of the islands.

Mr. LAUSI. No, sir, I would not say that. I would say it is very significant. I think when the sugar operation is disbanded, if it is, you will have several hundred small farmers that are going to have to look for another means of livelihood for themselves and their families.

Senator DWORSHAK. Can they not raise another crop besides sugarcane?

Mr. LAUSI. I understand they have tried that in the past but for some reason or another, it does not work. Everybody seems to come up with an idea once in a while that it ought to be an agricultural paradise, to raise a lot of lettuce and tomatoes, and so forth. But it does not work that way.

I am not enough of an agriculturalist to know what the answer is.

Senator DWORSHAK. In Louisiana, and so forth, where they produce sugarcane, they are successful in producing other crops. I wondered why so much emphasis had to be placed on the sugar industry in the Virgin Islands, why there is not greater diversification which obviously would be good for the people who live there?

Mr. LAUSI. There has been programs in the past but they did not succeed.

The CHAIRMAN. Thank you.

Is Dr. Bartlett here?

Mr. LAUSI. He is the president of the Virgin Islands Corporation.

The CHAIRMAN. Come forward, would you, Doctor?

STATEMENT OF KENNETH BARTLETT, PRESIDENT, VIRGIN ISLANDS CORPORATION, ST. THOMAS, V.I.

The CHAIRMAN. Dr. Bartlett, you are the president of the Virgin Islands Corporation?

Mr. BARTLETT. Yes, sir.

The CHAIRMAN. How long have you been in that capacity?

Mr. BARTLETT. Since December 1953.

The CHAIRMAN. How much has the Virgin Islands Corporation lost during that time?

Mr. BARTLETT. The total figure is somewhat in excess of \$1,200,000, I believe.

The CHAIRMAN. In all those years?

Mr. BARTLETT. In those 8-odd years. It may be somewhat more than that.

The CHAIRMAN. It lost \$600,000 in 1 year, did it not?

Mr. BARTLETT. That is correct, but we also had one year when we did have a profit, and we had smaller losses on other occasions.

Mr. Lausi has the figures here.

The CHAIRMAN. This, I recognize, Mr. Bartlett, has no direct relationship to the nomination of Mr. Paiewonsky. I suggest to others that we ought not ask questions that have no direct relationship to the nomination, but if they will pardon me, I am going to ask a question or two because I am very anxious to find out if there is any hope of getting this on a paying basis.

Does the Virgin Islands Corporation have anything to do with the powerplants?

Mr. BARTLETT. Yes, sir.

The CHAIRMAN. How long have you operated that?

Mr. BARTLETT. Since 1952.

The CHAIRMAN. Did it operate at a profit prior to the time you took it over?

Mr. BARTLETT. It has operated at a profit up until 1959.

The CHAIRMAN. What started going downhill in 1959?

Mr. BARTLETT. I think probably the most important factor was the terrific expansion in power usage which we had. Our yearly increase was in the area of 22 to 25 percent per year. In other words, we were doubling our power usage about every 4 to 5 years. We fell behind in getting appropriations and these funds to bring in new equipment. The old equipment was being utilized to the utmost in order to try to meet these powerloads.

In 1959, we had funds to purchase a 2,500-kilowatt engine. This was delivered to us during the summer of 1959. It went on the line on December—the middle of December—1959.

I was only able to accept this engine as of about 3 weeks ago.

The CHAIRMAN. What was the matter with it?

Mr. BARTLETT. Completely defective. First, we burned out all the rotor and starter due to defective installation. That was finally replaced by the manufacturer.

The engine, itself, then developed a connecting rod problem. The company was forced to bring in a complete, new connecting rod assembly. That was finally put into the engine this fall.

We finally got the machine back in operation, or in first-class operation, about the beginning of January of this year, and we accepted it about 3 weeks ago, after negotiating for almost a year and attempting to get a first-class piece of machinery operating.

The CHAIRMAN. Who was the manufacturer of it?

Mr. BARTLETT. Enterprise Manufacturing Co. of California.

As a result of this—

The CHAIRMAN. Did you get any bids from other organizations?

Mr. BARTLETT. Yes. I do not remember that particular bid, but we usually have in the area of five or six bids on any engine of that type. We just bid one recently for St. Croix. I think we had six bids, in which it was awarded to Worthington Corp.

The CHAIRMAN. Worthington Pump?

Mr. BARTLETT. Yes.

The CHAIRMAN. This was 2,500 kilowatts?

Mr. BARTLETT. Yes.

The CHAIRMAN. How does that compare with your loads?

Mr. BARTLETT. Our base load in St. Thomas today is running at 5,100 kilowatts.

The CHAIRMAN. So you picked up about half the load. Do you use it very much?

Mr. BARTLETT. We practically had little or no usage out of it during the entire year until the beginning of 1961.

Since January 1961, it has been providing first-class service and is our base engine.

The CHAIRMAN. Now you are installing a saline water plant, are you not?

Mr. BARTLETT. That is correct, sir; presently that is under construction.

The CHAIRMAN. How much is that going to cost?

Mr. BARTLETT. That will cost about \$1,900,000.

The CHAIRMAN. And will supply how much water?

Mr. BARTLETT. 275,000 gallons per day.

The CHAIRMAN. At what estimated cost?

Mr. BARTLETT. At \$1.75 per 1,000 gallons. That includes cost for amortization and a small return on the investment.

The CHAIRMAN. Would you have been better off to have acquired another motor or two for your powerplants?

Mr. BARTLETT. In connection with the salt water distillation, we are installing the first steam turbine which will produce 3,125 kilowatts of power net, or 2,500 to the system. About 600 will be used in the operation of the saline waterplant.

The CHAIRMAN. Where will you get the fuel for that?

Mr. BARTLETT. That will be imported. It usually comes from Aruba, Curacao, or Venezuela. We take it in tanker loads and drop it directly at the Virgin Islands, at these ports.

The CHAIRMAN. Are you acquainted with Mr. Paiewonsky?

Mr. BARTLETT. Yes, sir; I have many dealings with Mr. Paiewonsky.

The CHAIRMAN. Is it your opinion he can operate the Virgin Islands Corporation along with you as a director of it?

Mr. BARTLETT. Yes, sir.

The CHAIRMAN. Have you any resolutions about trying to make this into a paying venture?

Mr. BARTLETT. Yes. I think it will be most difficult to put the sugar operation on a paying basis. The Virgin Islands, because of the nature of the climate, our lack of water, places it in probably the most marginal sugarcane producing area perhaps in the world.

The CHAIRMAN. Do they have any similar climate in Puerto Rico?

Mr. BARTLETT. The only area that would compare with it would perhaps be on the southwest coast of Puerto Rico, where comparatively a small amount of cane is produced:

The CHAIRMAN. But in that Caribbean area there is sugarcane produced at a profit, is there not?

Mr. BARTLETT. At a profit?

The CHAIRMAN. Yes.

Mr. BARTLETT. Yes.

The CHAIRMAN. If there is not, I do not see why they are fighting for quotas.

Mr. BARTLETT. Of course, Puerto Rico has many areas under irrigation. We have no water for irrigation whatsoever. They are able to grow it in the dry areas because of the fact that they have substantial amounts of irrigation water.

The other point is that over the years the record will show that we have actually made a profit in the growing of sugarcane. Our profit in the field operations, I would think over the past 8 years, has shown a profit at least during 5 of those years in the actual growing of sugarcane. The heavy losses have usually come in connection with the

operation of the factory. That is due in part to the facilities which we have.

The plant was taken over by the government from the Danish West Indian Co. who went bankrupt.

A lot of the machinery has been replaced, but we still have what I would consider not a modern plant in any sense of the word.

The CHAIRMAN. You say that the growing worked out all right.

I am reading from the President's report for fiscal 1960. Would that be your report?

Mr. BARTLETT. That would be my report and, as Mr. Paiewonsky pointed out, in that particular year we had 31 inches of rainfall.

The CHAIRMAN. This says 33. I would not argue with you.

Mr. BARTLETT. It depends on which average you want to use, which place. But up or down, our production of sugarcane follows a very sharp line with the rainfall.

In 1960, that you are referring to, the 1960 crop, we had 31 inches of rainfall. We produced about 19.2 or 19.3 tons to the acre.

This year, on the same land, under the same conditions, and, incidentally, we produced a little less than 6,000 tons of sugar, on the same land, under the same conditions, the same overhead, the same cultivation, this year we will produce some 15,000 tons of sugar simply due to the difference in rainfall, having had over 60 inches of rainfall.

The CHAIRMAN. Will that result in a profit?

Mr. BARTLETT. That will result in an operating profit, estimated at this time at \$200,000 on the entire operation.

The CHAIRMAN. It says the production of sugarcane showed a loss of \$208,472 in that one year.

You think this year it might be an offsetting profit?

Mr. BARTLETT. It will be entirely reversed and will show a profit of at least \$200,000.

The CHAIRMAN. The next part of the report says the low production of sugarcane was reflected in factory operations which showed a loss of \$472,000.

Mr. BARTLETT. That has always been the area where the heavy losses are incurred.

As I pointed out, we have an old mill, a limited volume of sugarcane to put through that mill, and our overhead remains the same, our depreciation remains the same, the interest on the money remains the same, whether we make 5,000 tons of sugar or 15,000 tons of sugar.

The CHAIRMAN. How much depreciation is involved in this on the mill?

Mr. BARTLETT. It is in the area of—I do not have that figure. I will be glad to furnish it for the record. I believe it is in the GAO report, if you have a copy of it there.

The CHAIRMAN. Well, this is something we can take up with you at a later time. We need not burden this hearing with it. But I did not think the investment that might still be depreciated in that mill was very substantial.

Mr. BARTLETT. About \$3 million, sir. \$2,900,000—some-odd, as I remember the figure.

The CHAIRMAN. You think that is \$200,000 a year depreciation?

Mr. BARTLETT. It may not run that much.

I wish I had that report with me. I had not anticipated your question.

The CHAIRMAN. What I am trying to get at is that this loss is somewhat of a paper loss.

Mr. BARTLETT. That is correct, a substantial part of it is a paper loss.

The CHAIRMAN. I guess I have no further questions.

Senator GRUENING?

Senator GRUENING. No questions.

The CHAIRMAN. Senator Dworshak?

Senator DWORSHAK. Who owned the powerplant prior to the VICORP ownership?

Mr. BARTLETT. It was under private ownership. The municipality owned it—this is before my time but I think I know the history. In St. Thomas it was owned by the municipality of St. Thomas. In St. Croix there were two private operators, one in Frederiksted and one in Christiansted and there was also the rural electrification area throughout the country.

Senator DWORSHAK. Why did VICORP take over the plant?

Mr. BARTLETT. My understanding is that at the time there were no funds available from the local government for investment that was necessary in equipment to meet the growing demand that had started.

Senator DWORSHAK. Is VICORP obligated to meet all of the requirements of an expanding economy in the islands?

Mr. BARTLETT. That has been pretty much the picture over the past few years, what has been expected of VICORP.

Senator DWORSHAK. Would it be better to call VICORP a white elephant, instead of VICORP, the Virgin Islands white elephant?

Mr. BARTLETT. Well, it certainly could be termed that in some respects.

Senator DWORSHAK. In other words, Mr. Paiewonsky or other private investors pick off the lush businesses in the islands and when you have a difficulty, losing business, VICORP steps in and bales out the business?

Mr. BARTLETT. That has been part of the history. Of course, the Congress put the Corporation out of the rum business and forced us to sell the business when we were federally chartered in 1949.

The CHAIRMAN. Why?

Mr. BARTLETT. I have not any idea. I was not with the Corporation.

The CHAIRMAN. Did you not ever get curious?

Mr. BARTLETT. I have not gone into the record of the hearings in connection with the sale of the rum plants. But the language specifically prohibited rum production.

The CHAIRMAN. Was the Government making any money?

Mr. BARTLETT. The Government was making money on the rum plant at the time, yes, sir, because it was during the war period.

Senator GRUENING. That is why the administration sold it. It was making money.

Senator DWORSHAK. Why did they not sell the mill along with the distillery?

Mr. BARTLETT. That is a very good question. I certainly do not have the answer.

Senator DWORSHAK. Again, VICORP merely operates the defunct, losing business propositions in the islands?

Mr. BARTLETT. No; I would say the power operation definitely will show a profit again this year and should be a profitmaking operation. The sugar. I have serious doubts can ever be made.

Senator DWORSHAK. Do you recall the mechanics involved in the sale by the Government of the distilleries, why the mills were not tied in with the distilleries in a single operation? Do you recall that transaction?

Mr. BARTLETT. No, I do not recall any discussion of tying in the mill at that time, the distillery was definitely surplus and excess to the needs of the Corporation inasmuch we had been put out of the liquor business, so it was put up for sale, offered for sale.

Senator DWORSHAK. If Mr. Paiewonsky had purchased the mill at that time, he probably would have made a lot of money and bulwarked the economy of the islands, based on his business record.

Well, that is all.

The CHAIRMAN. Senator Miller?

Senator MILLER. Mr. Bartlett, the nominee testified last week that with respect to the dispute you had over the 1959 molasses, that your corporation loaded the cane from the field with bulldozers and pickup machinery into trucks which brought with it about 25 or maybe 30 percent of field dirt, mud and trash, to the sugar mill, and the sugar mill weighed this as a part of the cane and paid for it as cane, but it was mud and dirt.

Are you familiar with that situation?

Mr. BARTLETT. Yes, sir. We are forced, due to the shortage of labor, to load all of our sugarcane by mechanical means. We use a mechanical loader similar to those used in Hawaii, Louisiana, and Florida. This does pick up a certain amount of trash, as we speak of it, from cane, and it also will pick up a certain amount of mud or stone. We made constant checks on the quantity of this material coming in, in order to have an evaluation of it. To my knowledge, no sample has ever exceeded 10 percent, and it averages about 8 percent.

Senator MILLER. Then you dispute his statement of 25 to 30 percent?

Mr. BARTLETT. Yes, sir; I would have to correct that statement or dispute it.

Senator MILLER. You are down to an average of not more than 10 percent now, is that correct?

Mr. BARTLETT. That is correct. I would say it would average not more than 8 percent.

Senator MILLER. Is that a satisfactory average?

Mr. BARTLETT. That is satisfactory, quite satisfactory.

Senator MILLER. It does not affect your price?

Mr. BARTLETT. No, sir.

Senator MILLER. Does it affect the quality of the molasses very much?

Mr. BARTLETT. There is always a possibility in that situation of some carryover of a certain amount of the dirt and silt into the molasses. That certainly can happen.

Senator MILLER. Is there any way of reducing that below 8 percent?

Mr. BARTLETT. It would be practically impossible unless we went back to hand loading of cane, for which we do not have the labor, and the cost would be prohibitive.

Senator MILLER. Do you know what percent they have out in the Hawaiian Islands?

Mr. BARTLETT. It would run out there, I would say, at least 12 to 15 percent, as my knowledge of it goes. Their harvesting methods are entirely different than ours. They use bulldozers and rack the cane up, tearing it down with rakes and so forth, and they get a good deal more trash coming into the factory. Of course, they have very extensive washing machinery to clean the cane before it goes into the mill also, which does help their problem somewhat.

But I had a man from the American Factors Ltd., the vice president, visiting with me last week, and our factory people who are always complaining about dirty cane, because they like to work with clean cane, they were mentioning the dirty cane which they were receiving. He sort of laughed and said, "Well, if you could see our cane in Hawaii, you would have no complaints about the type of case you are getting in the factory here."

Senator MILLER. With this 8 percent, are you paying with that included as if it were cane?

Mr. BARTLETT. The payment for the cane, the only cane which is loaded mechanically is that grown by the Corporation, but all the rest of the cane which comes into the factory is hand loaded by the private grower. So, in a sense, we would be paying or debiting ourselves in relation to any trash in our own cane.

Senator MILLER. The statement of the nominee was that the sugar mill weighed this as a part of the cane and paid for it as cane.

Mr. BARTLETT. The trash and dirt in private grower's cane, I would say would average less than 5 percent, probably in the area of 3 percent.

Senator MILLER. Yes; but this statement is not with respect to grower's cane. It was with respect to your Corporation's cane which I said was picked up with bulldozers and pickup machinery.

This contained about 25 percent or maybe 30 percent field dirt and the sugar mill weighed this as a part of the cane and paid for it as such.

Mr. BARTLETT. Well, we weighed it. It is all weighed across the scale; that is correct, but we would only be paying ourselves, as I say. Inasmuch as we operate both the mill and grow the cane, ourselves, it becomes merely a matter of mathematics whether you credit or debit it to your accounts.

Senator MILLER. When you credit, Do you credit on the basis of the full weight?

Mr. BARTLETT. We take it on the basis of the full weight as far as the factory operation is concerned.

Senator MILLER. Which would include the mud?

Mr. BARTLETT. That is correct.

Senator MILLER. Do you think that that is good accounting?

Mr. BARTLETT. It might be possible or it might be fairer to take an average of, say, 5 percent, and anything above that to credit it back against the field. But inasmuch as they are all one set of funds, the sugar operation is carried as a single operation, except for internal management. To determine losses in the field and losses in the factory, it would be a very small amount of money involved either way.

Senator MILLER. Thank you. I have no further questions.

The CHAIRMAN. There are no further questions. Thank you. Mr. Dickstein.

STATEMENT OF SIDNEY DICKSTEIN, WASHINGTON, D.C.

Mr. DICKSTEIN. Mr. Chairman, I represent Mr. Brauer.

Mr. Brauer has been accused of making savage, sensational, and totally unjustified charges under oath before this committee. He would appreciate an opportunity to reply to these accusations, either by testifying here or by submitting a sworn affidavit to the committee.

The CHAIRMAN. Does the committee want the affidavit or to go into testimony?

I think we would prefer to have the affidavit.

Mr. DICKSTEIN. Thank you.

The CHAIRMAN. That will conclude the hearing.

(The following communication and affidavit were subsequently submitted:)

LAW OFFICES DICKSTEIN & SHAPIRO,
Washington, D.C., March 15, 1961.

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
New Senate Office Building, Washington, D.C.

GENTLEMEN: We hereby lodge with the committee an affidavit by Amandus M. Brauer for inclusion in the record of the proceedings on the nomination of Raphael Paiewonsky as Governor of the Virgin Islands.

Copies of this affidavit have been delivered to the members of the committee.
Very truly yours,

SIDNEY DICKSTEIN.

DISTRICT OF COLUMBIA, ss:

Amandus M. Brauer, being first duly sworn, deposes and says:

I submit this affidavit in amplification of my testimony before the U.S. Senate Committee on Interior and Insular Affairs and in refutation of the testimony of Raphael Paiewonsky, nominee for Governor of the Virgin Islands.

Mr. Paiewonsky testified that "every drop produced at [the A. H. Riise Distilleries] has been straight distilled rum, unrectified, and every drop from [his] distillery is checked by the insular gager." The statement by Mr. Paiewonsky has been obviously calculated to deceive the committee. The insular gager, when he inspects distilled products, does nothing other than check the proof of the distillation. He does not conduct any tests or analyses which would indicate the composition of the rum he gages for accuracy of proof. Moreover, with respect to the statement by Mr. Paiewonsky that "every drop" of his rum is unrectified, Rudolph Sebastian, formerly employed as a chemist by the A. H. Riise Distilleries, has advised me that he customarily used 20 cubic centimeters of Fritzche rum ether to 50 gallons of his distillate in order to stabilize the flavor of all rum produced.

Mr. Paiewonsky has further testified that the 5,000 barrels of Cuban rum purchased by his distillery "was kept and used solely and exclusively for sale in the local nearby market [and] was not shipped to the United States." Five thousand barrels of rum will make up into 175,000 cases. It is patently impossible for this amount of rum to have been consumed locally. Moreover, Mr. Paiewonsky was not the only distiller of rum sold in the local market. Therefore, Mr. Paiewonsky's statement is incredible on its face. The only significant and truthful aspect is that he admits the purchase of this Cuban rum. Moreover, Rudolph Sebastian personally admitted to me that this rum was shipped to the United States.

Mr. Paiewonsky also testified under oath that he was personally unfamiliar in my high wine distillation operation. In fact he, in conjunction with Mr. Skeoch and Mr. Kessler, complained to Governor Merwin about my distillation process and he was identified as one of the complainants in the February 26, 1960 issue of the Virgin Islands Daily News, a copy of which is annexed hereto.

Governor Merwin's communication to the committee stated that I was rectifying Peruvian high wine. My process involved nothing but distillation and there was no rectification. My operation came clearly within the 50 percent rule of the organic act. Nevertheless, at Mr. Paiewonsky's personal instigation, an exception was made to this rule which was applicable to my product alone and to no other manufacturing operation in the Virgin Islands.

In order to clarify other apparent conflicts between Mr. Paiewonsky's testimony and my own, I wish to place on the record the licenses which I held and the operations in which I engaged in the Virgin Islands. During the period 1954 through 1958, I held a rectifier's license and produced wines and cordials through a rectification process. In 1955 and 1956, I installed distillation equipment but was unable to operate that equipment profitably because of the price at which I was compelled to purchase molasses. In 1959, I obtained a distiller's license and commenced the distillation of gin and a small quantity of rum. My rum distillation was unprofitable. In 1960, I also held a distiller's license and commenced the distillation of rum from the high wine base until I was compelled to abandon this operation because I was underselling the other distillers.

There are apparent conflicts between Mr. Paiewonsky's testimony and my own. Inasmuch as your committee is in a position to obtain confirmation of my testimony by placing under subpoena Mr. Sebastian and others, and by obtaining reports from the Alcohol and Tobacco Tax Unit of the Internal Revenue Service, the U.S. Customs Service, and the Department of Commerce, I would appreciate a continuance of hearings in the Virgin Islands, as well as an eliciting of reports from the Government agencies concerned, not for personal vindication, but to demonstrate that the nominee is unfit to hold the office to which he aspires.

AMANDUS M. BRAUER.

Subscribed and sworn to before me this 15th day of March 1961.

GERALDINE W. SHEPLETT, *Notary Public*.

[From the Daily News, St. Thomas, V.I., Feb. 26, 1960]

ALCOHOL BOARD HEARS DISTILLER'S COMPLAINT—ALCOHOL IMPORT FROM PERU SCORED

The Virgin Islands Board of Control of Alcohol Beverages met yesterday afternoon to consider a complaint that a local distiller regularly imports inexpensive alcohol from South America and subsequently undersells other island distillers' products on the mainland.

No statement was available from the board late yesterday afternoon.

A group of Virgin Islands distillery representatives met with Gov. John D. Merwin on Wednesday concerning the complaint. The group included Ralph Paiewonsky, Sidney Kessler, Gordon Skeoch, Harry Rosenbloom, and Ben Bayne.

Sunlit Tropical Fruit Products, Ltd., has been mentioned as the distillery refining the imported alcohol from Lima, Peru. The product reportedly has been underselling and lowering the market values of the rum produced by distillery representatives who met with the Governor.

Although A. M. Bauer, head of Sunlit was unavailable for comment yesterday afternoon, a spokesman denied that the firm had imported alcohol from Peru.

The local collector of customs office yesterday declined to reveal the name of a possible importer from Peru, citing a Federal law which prohibits the release of such information.

(Whereupon, at 4:30 p.m., the committee was adjourned.)





