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SENATE

{ REPORT
{ No. 1580

SUSPENDING IN PART THE PROCESSING TAX ON COCONUT OIL

AUGUST 17, 1942.—Ordered to be printed

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

REPORT

[To accompany H. R. 6682]

The Committee on Finance, to whom was referred the bill (H. R. 6682) to suspend in part the processing tax on coconut oil, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

Amend the act to read:

On line 14, page 1, after the word "enactment" strike out the period, insert a comma, and add "and shall terminate on June 30, 1944."

The purpose of the legislation is to make it possible to obtain supplies of copra and coconut oil from outside the United States for the purpose of obtaining therefrom materials essential to the national defense.

In 1934 there was enacted a provision, now section 2470 (a) (2) of the Internal Revenue Code, which imposes on the first domestic processing of coconut oil a tax of 3 cents per pound and an additional tax of 2 cents per pound on non-Philippine coconut oil. Coconut oil obtained from copra produced in the Philippine Islands is exempt from this additional 2-cent tax. The purpose of the law was to give the Philippine Islands a virtual monopoly of the United States market for copra and coconut oil. The law did have this effect.

At the present time the tax does not benefit the Philippines, for no copra or coconut oil can be brought thence to the United States. More significant is the fact that the existence of the additional 2-cent tax constitutes a serious obstacle to the purchase, for importation into the United States, of copra and coconut oil produced outside the Philippine Islands to make up for the loss of the Philippine supply.

In the interest of preventing price inflation, the Office of Price Administration has placed a price ceiling on coconut oil. The combined effect of the 2-cent tax and the price ceiling is to curtail the supply of a commodity necessary in the effective conduct of the war. When the additional 2-cent tax is added to the basic 3-cent processing

tax (which amounts to about \$28 per long ton of copra), to the price which prevails in markets outside the United States, and to other cost elements, such as shipping charges, it becomes impossible for domestic copra crushers to sell without a loss at the ceiling price.

Since no appreciable amount of coconut oil or copra from non-Philippine sources has been, or would be, imported under the present law, the Treasury anticipates no loss of revenue from the suspension of the 2-cent additional tax. On the contrary, the revenues of the United States would be increased to the extent of the non-Philippine copra processed in the United States, since the basic 3-cent tax on the processing of Philippine copra has hitherto accrued to the Philippine Government and was paid into the insular treasury, whereas the 3-cent tax which will continue to be collected on the processing of non-Philippine copra will go to the United States Treasury.

The resulting restriction on the importation of copra is limiting the supply of glycerin, of which there is now a shortage. Copra has the highest percentage yield of vegetable oil of any raw material except babassu kernels grown in Brazil, and an important byproduct of the oil is glycerin. Copra and babassu yield from 30 to 40 percent more glycerin per unit than any other vegetable-oil material.

Glycerin, which is obtained from coconut oil, is an ingredient of the coating used on all motive equipment of the United States Army. Much of the glycerin used in British military and naval explosives is obtained from the United States. In the United States glycerin has important industrial uses. It is used in explosives in connection with mining operations, in pharmaceuticals, and in other ways. The importance of copra and coconut oil to the war effort and the domestic economy and the necessity for stimulating imports of copra and coconut oil are thus apparent.

The normal consumption of copra in the United States is about 600,000 tons a year. With the Philippine and Malayan sources of supply entirely cut off, and possibilities of obtaining copra from the Dutch East Indies greatly reduced, it has been estimated that the remaining available world supply of copra is now 221,000 tons a year, of which considerably less than this amount will be available to the United States. Expansion of the zone of military operations and competition from other countries in need of vegetable oils are factors which may further limit the supply available for importation into the United States. Steps have been and are being taken to prohibit the use of coconut oil for edible purposes and to direct whatever copra and coconut oil may be obtained for domestic processing into glycerin-yielding uses. Alleviation of the glycerin shortage in this manner is dependent upon the passage of this bill.

Representatives of the War Production Board, the Board of Economic Warfare, the Office of Price Administration, and the Departments of Agriculture and Commerce have expressed themselves before this committee in favor of the enactment of this bill. The Treasury Department offered no objection to the bill from the standpoint of revenue.

Your committee believe that the enactment of this bill will materially aid in the furtherance of the defense program.

For the further information of the Senate there is appended hereto and made a part of this report, a memorandum addressed to the chairman of the subcommittee on H. R. 6682, from Herbert S. Marks,

Assistant General Counsel, War Production Board, outlining the uses of coconut oil and the sources and uses of glycerine, reading as follows:

Substantial quantities of coconut oil—35,000,000 to 50,000,000 pounds per year—are needed for the following virtually irreplaceable requirements and uses:

(a) The manufacturer of one of the important constituents of synthetic rubber. As yet there is no fully tested and approved substitute.

(b) The manufacture of certain higher alcohols, which in turn are used as film-strengthening agents for high-pressure Diesel engine lubricants. This film strengthening greatly increases the utility and efficiency of the oil.

(c) As a plasticizer in the manufacture of safety glass for airplanes, tanks and automobiles.

(d) As a plasticizer (triethylene glycol di-caprilate, which is a derivative of the C-8 and part of the C-10 fraction of the coconut oil fatty acids) in the manufacture of rubber substitutes of the polyvinyl chloride type of resin.

Coconut oil yields approximately 37 percent more glycerine per pound of oil than any domestically produced fat or oil or, stated in other terms, approximately 137 pounds of domestic fats and oils must be consumed to make the same amount of glycerine that 100 pounds of coconut oil would produce. Since the adequacy of the over-all fat and oil supply is doubtful, this becomes an important factor.

The needs for glycerine in substantial quantities include:

(a) Lend-lease requirements for cordite, blasting powder, and explosives.

(b) Dynamite for mining steel, copper, nickel, tungsten, molybdenum; protective coatings on ships, tanks, etc.

(c) Indirect war requirements such as explosives for mining coal, medicinal and drug supplies, protective coatings of all kinds, plasticizers, and innumerable others.

All the fats are sources of glycerin, but in the past coconut oil has been a source of approximately one-quarter of the glycerin produced domestically. The only available foreign source of glycerin is South America, which produces very limited quantities for export.

The committee amendment, which is inserted at the end of the bill, provides for a mandatory termination date, June 30, 1944. Your committee believe that such a definite termination date is necessary so that the suspension of that tax will not continue on indefinitely after normal trade is again established with the Philippine Islands. If normal trade has not been further established on such date it will be a simple matter for Congress to amend the act by extending such date to such time that may be necessary.

For the further information of the Senate there is appended hereto and made a part of this report a letter to the chairman of the subcommittee of the Finance Committee from the Chairman of the War Production Board under the date of August 8, 1942, reading as follows:

WAR PRODUCTION BOARD,
Washington, D. C., August 8, 1942.

Hon. HARRY F. BYRD,

Chairman, Subcommittee of the Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR BYRD: I understand that H. R. 6682, an act to suspend in part the processing tax on coconut oil, has not yet been acted on by your subcommittee.

SUSPEND PROCESSING TAX ON COCONUT OIL

You are, of course, aware from the testimony before your subcommittee of the large quantities of coconut oil and products using coconut oil needed by the war production program. You are also no doubt familiar with the statements of experts from a number of Federal departments and agencies showing that the passage of this measure would materially expedite the production of coconut oil and products made in part therefrom. With their views I am entirely in agreement. Therefore, I strongly recommend that your subcommittee take favorable action on this measure at your earliest opportunity.

Sincerely,

D. M. NELSON.

