Calendar No. 1503

82D CONGRESS } SENATE { REPORT
2d Session } { No. 1578

ADDITIONAL PROCESSING TAX ON COCONUT OIL DERIVED FROM TRUST TERRITORY OF THE PACIFIC ISLANDS

MAY 15 (legislative day, MAY 12), 1952.—Ordered to be printed

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

REPORT

[To accompany H. R. 7188]

The Committee on Finance, to whom was referred the bill (H. R. 7188) to provide that the additional tax imposed by section 2470 (a) (2) of the Internal Revenue Code shall not apply in respect of coconut oil produced in, or produced from materials grown in, the Territory of the Pacific Islands, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

This bill would extend to coconut oil derived from copra originating in the Trust Territory of the Pacific Islands the same exemption from the additional processing tax of 2 cents per pound imposed by section 2470 (a) (2) of the Internal Revenue Code now provided with respect to coconut oil derived from copra originating in the Philippine Islands or in any possession of the United States. The basic processing tax of 3 cents per pound imposed under section 2470 (a) (1) would still apply.

GENERAL STATEMENT

The Trust Territory of the Pacific Islands consists of the former Japanese mandated Mariana, Marshall, and Caroline Islands. In 1947, these islands were placed under the trusteeship system of the United Nations by means of a trusteeship agreement between the United Nations Security Council and the United States.

The trust territory islands are scattered over some 3,000,000 square miles of the Pacific Ocean. They lie north of the equator, stretching from 1° to 20° north latitude and from 130° to 172° east longitude. The eastern perimeter of the territory begins about 4,100 miles southwest from San Francisco and extends 2,765 land miles westward.

The area includes 96 distinct island units which have a combined land area of 687 square miles. Inhabitants are found on 64 of these units. The total population numbers about 54,000. An island unit varies from single islands to clusters of islands or atolls, and from small units less than 1 square mile in area to large islands such as Babelthuap in the Palaus (153 square miles) and Ponape (129 square miles) in the Eastern Caroline Islands. They also vary in elevation from 6 feet above sea level on the low-lying coral atolls to 3,166 feet on Agrihan Island in the Marianas.

During the Second World War, these islands were the scene of many famous naval and military battles. The names of such remote ramparts as Kwajalein, Eniwetok, Truk, Ulithi, Peleliu, Saipan, and Tinian became world famous. Beginning early in 1944, the United States captured many of the islands from the Japanese and isolated others from further effective participation in the war.

From the termination of the Japanese control in 1944 until July 18, 1947, the islands were under military government administered by the United States Navy. On that date, military government was ended by Executive order. In accord with a joint resolution of the Congress, the President approved a trusteeship agreement between the United States and the Security Council of the United Nations for the Trust Territory of the Pacific Islands. Under that agreement, the United States became the administering authority for the trust territory. Because the territory was considered strategic, the United States was granted authority to close portions for security reasons. In return, the United States Government accepted far-reaching obligations toward the United Nations and the inhabitants of the trust territory.

The President, on July 18, 1947, by Executive order, delegated to the Secretary of the Navy, on an interim basis, the responsibility for the civil administration of the trust territory. By Executive order, which came into effect on July 1, 1951, the President transferred the administration of the area from the Navy Department to the Department of the Interior.

The commercial activity of the trust territory centers around the Island Trading Company of Micronesia, native wholesale trading companies at administrative centers, and small native stores throughout the trust area. The ITC is a government-controlled trading agency incorporated under the laws of Guam. It seeks to provide essential imports and markets for export, to help in the development of local business enterprise and new sources of income. Not only does it stock trade goods for trust-territory consumption and freight them to the area, it likewise, by its purchase and resale policies, encourages the export of locally produced goods and handicrafts.

The basic aim of the trust-territory government is to develop self-government and to foster economic self-sufficiency. The natural resources of the trust territory are relatively meager. Copra is the principal export from those territories and is the principal source of native income.

Although the trust territories supply only about 1 to 2 percent of the normal copra imports of the United States, this accounts for more than 80 percent of the dollar value of exports from those territories.

During World War II the economy of the islands was disrupted when combat operations devastated coconut trees.

The effect of the 2-cents-per-pound processing tax is to reduce the purchase price of copra in the trust territories as compared with the price available to producers in the Philippine Islands and in the possessions of the United States, with a resultant reduction of approximately one-third in the principal source of native income.

Repeal of the 2-cents-per-pound processing tax would greatly facilitate efforts that are now being made to revitalize the limited potentials of the island economy.

EFFECTIVE DATE

The amendment made by the bill would be effective after the date of enactment. Under the proviso, however, the additional tax would apply in respect of coconut oil derived from the trust territory, to such extent, and at such time after the date of the applicable proclamation, as the President, after taking into account the responsibilities of the United States with respect to the economy of the trust territory, shall hereafter determine and proclaim to be justified to prevent substantial injury or the threat thereof to the competitive trade of any country of the free world.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE

CHAPTER 21—COCONUT AND OTHER VEGETABLE OILS

SEC. 2470. TAX.

(a) Rate.—

(1) * * *

(2) ADDITIONAL RATE ON COCONUT OIL.—There shall be imposed (in addition to the tax imposed by the preceding paragraph) a tax of 2 cents per pound, to be paid by the processor, upon the first domestic processing of coconut oil or of any combination or mixture containing a substantial quantity of coconut oil with respect to which oil there has been no previous first domestic [processing, except that the] *processing. The additional* tax imposed by this [sentence] *paragraph* shall not apply when it is established, in accordance with regulations prescribed by the [Commissioner with the approval of the] Secretary, that [such] *the* coconut oil (whether or not contained in [such] a combination or mixture) [,] (A) is wholly the production of the Philippine [Islands or] *Islands, any possession of the United States, or the Territory of the Pacific Islands (hereinafter in this paragraph referred to as the 'Trust Territory')*, or (B) was produced wholly from materials the growth or production of the Philippine [Islands or] *Islands*, any possession of the United States, or [(C) was brought into the United States on or before June 9, 1934, or produced from materials brought into the United States on or before June 9, 1934, or (D) was purchased under a bona fide contract entered into prior to April 26, 1934, or produced from materials purchased under a bona fide contract entered into prior to April 26, 1934] *the Trust Territory: Provided, however, That such additional tax shall apply in respect of coconut oil (whether or not contained in a combination or mixture) so derived from the Trust Territory, to such extent, and at such time after the date of the applicable proclamation, as the President, after taking into account the responsibilities of the United States with respect to the economy of the Trust Territory, shall hereafter determine and proclaim to be justified to prevent substantial injury or the threat thereof to the competitive trade of any country of the free world.* The tax imposed by this paragraph shall not apply to any domestic processing after July 3, 1974.

O