

TEMPORARY SUSPENSION OF PROCESSING TAX ON
PALM OIL

MAY 7, 1959.—Ordered to be printed

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

R E P O R T

[To accompany H.R. 147]

The Committee on Finance, to whom was referred the bill (H.R. 147) to suspend temporarily the tax on the processing of palm oil, palm-kernel oil, and fatty acids, salts, and combinations or mixtures thereof, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

The purpose of H.R. 147 is to suspend through June 30, 1960, the tax on the processing of palm oil, palm-kernel oil, and fatty acids or salts derived therefrom.

GENERAL STATEMENT

Public Law 85-235, approved August 30, 1957, suspends through June 30, 1960, the 3-cent-per-pound tax imposed on the first domestic processing of coconut oil by section 4511(a) of the Internal Revenue Code of 1954. This suspension, which was provided by action of the Senate while considering H.R. 2842 of the 1st session of the 85th Congress, places palm oil and palm-kernel oil at some competitive disadvantage since part of these oils processed in the United States are used for the same general purposes as coconut oil and babassu oil on which the processing tax has been suspended.

In order to restore this competitive balance the bill H.R. 147 would suspend the 3-cent-per-pound tax for the period which begins with the first day of the first month which begins more than 10 days after the date of enactment of the bill and ends with the close of June 30, 1960, the same date on which the existing suspension of the tax on coconut oil ends.

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DEPARTMENTAL REPORTS

The Department of Commerce favors enactment of this proposed legislation.

The Department of Treasury had no comment to make on the general merits of the proposed legislation but advised that the annual loss of revenue resulting from enactment may approximate \$1 million.

The U.S. Tariff Commission submitted the following report:

U.S. TARIFF COMMISSION,
Washington, March 31, 1959.

MEMORANDUM ON H.R. 147, 86TH CONGRESS, A BILL TO SUSPEND TEMPORARILY THE TAX ON THE PROCESSING OF PALM OIL, PALM-KERNEL OIL, AND FATTY ACIDS, SALTS, AND COMBINATIONS, OR MIXTURES THEREOF

Purpose of the bill

The purpose of H.R. 147 is to suspend until July 1, 1960, the 3-cent-per-pound tax imposed by section 4511(a) of the Internal Revenue Code of 1954 (hereinafter designated "IRC") upon the first domestic processing of palm oil, palm-kernel oil, fatty acids derived therefrom, or salts thereof, or of any combination or mixture solely because such combination or mixture contains a substantial quantity of such oils, fatty acids, or salts. H.R. 147 would be effective during the period beginning with the first day of the first month which begins more than 10 days after the date of the enactment of the legislation and ending with the close of June 30, 1960.

History of processing tax

Section 4511(a) IRC provides as follows:

"There is hereby imposed upon the first domestic processing of coconut oil, palm oil, palm-kernel oil, fatty acids derived from any of the foregoing oils, salts of any of the foregoing (whether or not such oils, fatty acids, or salts have been refined, sulphonated, sulphated, hydrogenated, or otherwise processed), or any combination or mixture containing a substantial quantity of any one or more of such oils, fatty acids, or salts, a tax of 3 cents per pound, to be paid by the processor."

This tax was imposed originally by the Revenue Act of 1934. While the tax was originally included in a revenue act, it was not adopted for revenue purposes but principally to protect a product of the dairy industry, namely, butter, and other domestically produced edible fats and oils, especially cottonseed oil. At that time large quantities of coconut oil were used in margarine, which competed with butter, and substantial quantities of palm oil were used in shortening where it competed with cottonseed oil. Although very little palm-kernel oil was used in either margarine or shortening it was included in the tax provision, presumably because it is similar to coconut oil and could be substituted for it.

Very little coconut oil has been used in margarine during the last decade, and Congress, by section 3 of the act approved August 30, 1957 (Public Law 85-235), suspended the 3-cent-per-pound processing tax on coconut oil until the close of June 30, 1960. The bill under consideration would suspend until the close of June 30, 1960, the tax on the other products named in section 4511(a) IRC.

Description and uses

Palm oil is a semisolid fat somewhat similar to tallow. It is obtained from the outside fleshy part of the fruit of the oil palm, the seed of which yields palm-kernel oil.

The principal use of palm oil in the United States is in the tinplate and terneplate industries, where it serves to prevent oxidation in the plating baths. Imports used for this purpose are exempt from the tax by section 4512 IRC. Relatively small quantities are used in metalworking, lubricants, soaps, and in shortening and other edible products.

Palm-kernel oil is obtained from the seed kernel of the palm fruit, which, as mentioned above, also yields palm oil. It is one of the so-called lauric-acid oils, similar to coconut and babassu oils.

Palm-kernel oil is used in the United States principally in edible products such as biscuits, crackers, and confectionery. Small quantities are used in soaps and other industrial products.

Import duties and processing taxes

As indicated above, the processing tax is in effect an import duty, although in the strictly legal sense it is an internal tax. The term "duty," as hereinafter used, refers to status under the tariff laws.

Palm oil is duty free but is subject to the processing tax of 3 cents per pound, except when used in the manufacture of iron or steel products, or in tinplate or terneplate. Palm-kernel oil is dutiable at one-half cent per pound unless denatured; if denatured, it is duty free. Whether denatured or not, palm-kernel oil is subject to a processing tax of 3 cents per pound.

It will be noted that coconut oil, the principal competitor of palm-kernel oil, is free of duty if of Philippine origin and, until June 30, 1960, also free of the 3-cent-per-pound processing tax. Babassu oil, which competes directly with coconut oil, is free of duty and processing tax.

U.S. production and imports

No palm oil is produced in the United States; all that is consumed in the United States is imported. Likewise, all palm-kernel oil consumed in the United States is imported (either as oil or as kernels). The Belgian Congo is the principal source of both palm oil and palm-kernel oil.

Imports of palm oil averaged 45 million pounds during the 5-year period 1952-56. Imports were 19 million pounds in 1957 and 28 million pounds during the first 8 months of 1958.

Imports of palm-kernel oil averaged 40 million pounds during the 5-year period 1952-56. Imports were 50 million pounds in 1957 and 36 million in the first 8 months of 1958. The major part of the imports of palm-kernel oil in recent years has consisted of the dutiable-edible grade.

Imports of coconut oil and copra, in terms of oil, averaged 569 million pounds during the 5-year period 1952-56. Imports were 589 million pounds in 1957 and 396 million pounds in the first 8 months of 1958. These imports were almost all from the Philippines. Imports of babassu oil, all from Brazil, have been negligible in most of the years since 1951.

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Probable effects of enactment of H.R. 147

Most of the palm oil imported into the United States is used in the tinsplate and terneplate industries and therefore is free of the 3-cent-per-pound processing tax. Consequently, suspension of the processing tax on palm oil would have no effect on imports for this use. Suspension of the tax, however, would tend to reduce the price of palm oil used for other purposes. This would tend to expand the consumption of palm oil in those uses for which it is suitable. For use in soaps, lubricants, and metalworking, palm oil competes largely with tallows and greases. Since tallows and greases are considerably cheaper than palm oil, it is not likely that the suspension of the tax would increase the use of palm oil in inedible products to any appreciable extent. In edible products cottonseed oil and soybean oil would appear to be most competitive with palm oil. Price differences here are not great, so that suspension of the tax could conceivably result in a moderate increase in the use of palm oil in this field. The United States, it may be noted, however, is on a very substantial export basis with respect to tallows and greases as well as cottonseed and soybean oils.

The suspension of the 3-cents-per-pound processing tax on palm-kernel oil would still leave this oil subject to a duty of one-half cent per pound if suitable for use in edible products. It would be duty-and-tax free if rendered unfit for use as food. Coconut oil, the principal competitor of palm-kernel oil, will enter duty-and-tax free (from the Philippines, the main source) until June 30, 1960. Consequently, if the tax is suspended for this period on palm-kernel oil, such oil, when denatured for use in inedible products, would be on an equal tax basis (duty- and tax-free) with coconut oil, but it would still be at a disadvantage of one-half cent per pound, taxwise, when not denatured and therefore suitable for food. Babassu oil, like coconut oil of Philippine origin, is duty- and tax-free. Suspension of the tax on palm-kernel oil would restore the competitive position, which existed before the suspension of the tax on coconut oil, with respect to its principal competitor—coconut oil—and place it in a more favorable position than existed before with respect to babassu oil. This would tend to maintain or increase the use of palm-kernel oil compared with the uses of coconut and babassu oils.

