

## COCONUT AND PALM OILS

SEPTEMBER 18, 1962.—Ordered to be printed

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

### REPORT

Together with

### SUPPLEMENTAL VIEWS

[To accompany H.R. 5260]

The Committee on Finance, to whom was referred the bill (H.R. 5260) to make permanent the existing suspensions of the tax on the first domestic processing of coconut oil, palm oil, palm-kernel oil, and fatty acids, salts, and combinations or mixtures thereof, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

#### I. SUMMARY OF BILL

H.R. 5260 as passed by the House would repeal the processing tax on the first domestic processing of coconut oil, palm oil, palm-kernel oil, and certain derivatives of such oils. Your committee has amended this bill to suspend this tax for 3 more years (until June 30, 1966) rather than repeal it.

#### II. GENERAL STATEMENT

Present law (sec. 4511(a) of the code) provides for the imposition of a tax of 3 cents a pound 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.

The tax on the first domestic processing of coconut oil has been suspended continuously from October 1, 1957, to June 30, 1963, while the tax on the first domestic processing of palm oil and palm-kernel oil has been suspended continuously from July 1, 1959, to June 30, 1963. This latter suspension was designed to restore the competitive balance between these oils and competing coconut and babassu oils on which the processing tax had already been suspended. The House bill would have repealed these processing taxes, while the bill as amended by your committee suspends these taxes for an additional 3 years, or until June 30, 1956.

Coconut oil and palm-kernel oil are the only commercially important lauric acid oils now used in the United States. The domestic processing taxes on these oils provided for in section 4511(a) of the Internal Revenue Code of 1954, as amended, were originally imposed in 1934, principally to protect domestically produced edible fats and oils in uses in which coconut oil is at present of little importance, such as in margarine. Although very little palm-kernel oil was used in margarine or shortening, it was subjected to the tax presumably because it could be substituted for coconut oil. Coconut oil is currently important in the manufacture of soap because of the superior lathering properties which the oils impart. Palm-kernel oil is used in the United States principally in edible products such as biscuits, crackers, and confectionery. Neither of the oils is made from materials produced in the United States. The principal use of palm oil in the United States is in the tinplate industries where it serves to prevent oxidation in the plating baths. Imports for this use have been exempt from the tax since 1942.

The Tariff Commission advised your committee that it has not received any complaints regarding the suspension of the processing taxes on the products covered by this bill. Favorable reports were received from the Departments of Agriculture, Commerce, and State.

Your committee has found no objection to the further suspension of these processing taxes although questions have been raised as to their repeal. In view of this your committee has amended the House bill to provide for a further 3-year suspension of these taxes.

### III. DEPARTMENTAL REPORTS

The following reports on this bill were submitted by the Departments of Commerce, Treasury, Agriculture, and the Bureau of the Budget. The analysis submitted by the U.S. Tariff Commission is also printed below for the information of the Senate.

THE SECRETARY OF COMMERCE,  
*Washington, D.C., August 23, 1962.*

Hon. WILBUR D. MILLS,  
*Chairman, Committee on Ways and Means,  
House of Representatives,  
Washington, D.C.*

DEAR MR. CHAIRMAN: This is in further reply to your request for the views of this Department with respect to H.R. 7830, a bill to make permanent the existing suspensions of the tax on the first domestic processing of coconut oil, palm oil, palm-kernel oil, and fatty acids, salts, combinations or mixtures thereof.

The Department favors the enactment of this legislation.

Coconut oil, palm-kernel oil, and palm oil are imported for certain uses in edible and inedible products because of their special properties. The raw materials from which these oils are obtained are not grown commercially in the United States.

Coconut oil is used in the manufacture of bakery products and confectionery products as well as in soap, lubricants and similar oils, insecticides and germicides, resins, pharmaceuticals, toilet articles, textile auxiliaries, plasticizers, detergents, hydraulic brake fluids, and synthetic rubber. Over half the current consumption of coconut oil is used in edible products. Palm-kernel oil is used primarily in bakery products and confectionery products, in fat splitting, hydrogenation, and other industrial processing.

The principal use of palm oil in the United States is in the manufacture of steel products such as tinplate and terneplate. Imports for this use, by law, have been exempt from payment of the processing tax. A small quantity of palm oil is used in making soap and in other industrial products.

United States is an exporter of fats and oils and therefore protection of domestic producers of fats and oils through imposition of the processing tax is unnecessary.

The Bureau of the Budget advised there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

EDWARD GUDEMAN,  
*Under Secretary of Commerce.*

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THE GENERAL COUNSEL OF THE TREASURY,  
*Washington, September 11, 1962.*

HON. HARRY F. BYRD,  
*Chairman, Committee on Finance,*  
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 5260, to make permanent the existing suspensions of the tax on the first domestic processing of coconut oil, palm oil, palm-kernel oil, and fatty acids, salts, and combinations or mixtures thereof.

The proposed legislation would repeal subsection (a) of section 4511 of the Internal Revenue Code which imposes a tax of 3 cents per pound on the first domestic processing of coconut oil, palm oil, palm-kernel oil, fatty acids derived therefrom, or salts thereof, or any combination or mixture containing a substantial quantity of one or more of such oils, fatty acids, or salts. At the present time this tax has been suspended temporarily until June 30, 1963, by Public Law 86-432.

The Treasury Department has no comments to make on the general merits of the proposed legislation. For the information of your committee, it is expected that the annual loss of revenue resulting from the repeal of subsection (a) of section 4511 of the Internal Revenue Code may approximate \$16 million.

The Department was advised by the Bureau of the Budget that there was no objection from the standpoint of the administration's

program to the submission of a similar report to the Committee on Ways and Means on H.R. 7830, an identical bill.

Sincerely yours,

FRED B. SMITH,  
*Acting General Counsel.*

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DEPARTMENT OF AGRICULTURE,  
*Washington, D.C., February 28, 1962.*

HON. WILBUR D. MILLS,  
*Chairman, Committee on Ways and Means,  
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: We wrote you on September 1, 1961, in response to the request of your committee for the Department's views and recommendations on bills H.R. 5979 and H.R. 7830 introduced by Congressman King of California and Congressman Keogh of New York, respectively. These bills propose to eliminate permanently the 3 cents per pound processing tax on coconut oil, palm oil, palm-kernel oil, and their fatty acids and salts.

After further evaluation of the facts involved in the removal of this processing tax and consultation with the industries involved, we now wish to restate our position. We do not now oppose the permanent removal of this tax. The enactment of this legislation at the present time appears to be necessary for the advancement and development of research on the technical aspects of the utilization of both domestic and imported vegetable oils and domestic animal fats by the U.S. soap and fatty acids industries. This position takes into consideration the extensive research that is now being undertaken on petroleum-based synthetic detergents which can replace and have replaced a considerable volume of fats and oils used by the U.S. detergent industry. Current and anticipated research on improving synthetic petroleum detergents may adversely affect future consumption of fats and oils produced in the United States more than we had thought possible.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

ORVILLE FREEMAN, *Secretary.*

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DEPARTMENT OF AGRICULTURE,  
*Washington, D.C., September 1, 1961.*

HON. WILBUR D. MILLS,  
*Chairman, Committee on Ways and Means,  
House of Representatives.*

DEAR MR. MILLS: This is in response to the request of your committee for this Department's views and recommendations with respect to bills H.R. 5979 and H.R. 7830, introduced by Congressman King of California and Congressman Keogh of New York, respectively. The first-referenced bill proposes to eliminate permanently the 3 cent per pound processing tax on coconut oil, its fatty acids and salts. The latter-referenced bill would do likewise and, in addition, would

remove permanently the tax on the first domestic processing of palm oil, palm-kernel oil, and their fatty acids and salts, combinations or mixtures thereof.

We believe that the enactment of this legislation at this time is unnecessary. The 3 cents per pound tax, applicable to each of the foregoing items, is suspended through June 30, 1963, under the provisions of Public Law 86-432, approved April 22, 1960. Under this law the processing tax is not to be reimposed before another 2 years. We consider it premature, therefore, to consider new legislation which would remove the tax permanently.

This Department announced several months ago new and higher price supports for soybeans and cottonseed. As a consequence of this, and the adoption of a program causing a cutback in the production of feed grains, a record outturn of oilseeds in 1961 may be expected. As of August 1 the soybean crop was estimated at 683 million bushels, 18 percent higher than the previous record crop of 1958.

Increased imports of palm products, in view of the increased domestic production of oilseeds, might create a situation in which it would be necessary to reimpose the tax on the palm oils. We should like, therefore, the opportunity to observe the situation during the next 2 years, before recommending legislation which would remove permanently the tax on the palm oils and their products.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely,

ORVILLE FREEMAN, *Secretary.*

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U.S. TARIFF COMMISSION,  
*Washington, D.C., July 17, 1961.*

HON. WILBUR D. MILLS,  
*Chairman, Committee on Ways and Means,  
House of Representatives.*

DEAR MR. CHAIRMAN: This is in response to your request of June 26, 1961, for a report on H.R. 7830 of the 87th Congress, a bill to make permanent the existing suspensions of the tax on the first domestic processing of coconut oil, palm oil, palm-kernel oil, and fatty acids, salts, combinations or mixtures thereof.

H.R. 7830, if enacted, would amend sections 4511 and 4513 of the Internal Revenue Code of 1954 so as to repeal the 3 cents per pound processing tax applicable to coconut oil, palm oil, palm-kernel oil, fatty acids derived therefrom, salts thereof, or any combination or mixture solely because such combination or mixture contains a substantial quantity of such oil, fatty acid, or salts. Subsection 4511(a), Internal Revenue Code, 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."

Currently there are two taxes applicable upon the first domestic processing of coconut oil, a "general" tax of 3 cents per pound under subsection 4511(a) which would be repealed by the bill, and an "additional" tax of 2 cents per pound under IRC subsection 4511(b) which would not be disturbed by the bill. The 2 cents per pound tax is not applicable to Philippine coconut oil, articles containing such oil, or oil produced from Philippine coconuts. Under the U.S. trade agreement with the Philippines, the United States is bound not to reduce this 2 cents per pound preference unless Philippine oil and copra are in short supply in the United States.

Coconut oil and palm-kernal oil are the only commercially important lauric acid oils now used in the United States. The domestic processing taxes on these oils provided for in IRC subsection 4511(a) were originally imposed in 1934, principally to protect domestically produced edible fats and oils in uses in which coconut oil is at present of little importance, such as in margarine. Although very little palm-kernal oil was used in margarine or shortening, it was subjected to the tax presumably because it could be substituted for coconut oil. Coconut oil is currently important in the manufacture of soap because of the superior lathering properties which the oils impart. Palm-kernal oil is used in the United States principally in edible products such as biscuits, crackers, and confectionery. Neither of the oils is made from materials produced in the United States. The principal use of palm oil in the United States is in the tinsplate industries where it serves to prevent oxidation in the plating baths. Imports for this use have been exempt from the tax since 1942.

H.R. 3796 of the 85th Congress proposed to repeal the 3 cents per pound processing tax on coconut oil. However, a provision for the suspension of the tax until July 1, 1960, only was included as section 3 of Public Law 85-235, approved August 30, 1957. The tax on palm oil and palm-kernal oil was also suspended until July 1, 1960, by Public Law 86-37, approved May 29, 1959. The reason for the suspension of the tax on the latter oils was that the suspension of the tax on coconut oil placed palm oil and palm-kernal oil at a competitive disadvantage, since such oils are used for the same general purposes as coconut oil and babassu oil (babassu oil was never made subject to tax). These suspensions of the tax were extended until the close of June 30, 1963, by Public Law 86-432, approved April 22, 1960. The Commission has not received any complaints regarding the suspension of the processing taxes on these products.

There are several technical amendments to the bill which the committee may wish to consider. First, the bill would amend IRC section 4511 in such a manner that it would have subsections (b) and (c) but no subsection (a). This disparity could be corrected by redesignating the subsections and by changing the references thereto in subsections 4511(c) and 4513(b). Secondly, all of the text appearing after the word "imposed" in IRC section 4512 should be deleted because it would become obsolete by the enactment of the bill. Third, a close parenthesis should be inserted after "oil" in line 10, page 2, of the bill.

By direction of the Commission:  
Sincerely yours,

DONN N. BENT, *Secretary.*

## IV. 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 italic, existing law in which no change is proposed is shown in roman):

## SECTION 3 OF THE ACT OF AUGUST 30, 1957, AS AMENDED

(Public Law 85-235, as amended by Public Law 86-432)

SEC. 3. The tax imposed under section 4511(a) of the Internal Revenue Code of 1954 shall not apply with respect to the first domestic processing of coconut 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 oil, fatty acids, or salts, during the period beginning with the first day of the first month which begins more than ten days after the date of the enactment of this Act and ending with the close of [June 30, 1963] *June 30, 1966.*

## ACT OF MAY 29, 1959, AS AMENDED

(Public Law 86-37, as amended by Public Law 86-432)

AN ACT To suspend temporarily the tax on the processing of palm oil, palm-kernel oil, and fatty acids, salts, and combinations, or mixtures thereof

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the tax imposed under section 4511(a) of the Internal Revenue Code of 1954 shall not apply with respect to 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 one or more of such oils, fatty acids, or salts, 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 this Act and ending with the close of [June 30, 1963] *June 30, 1966.*

SUPPLEMENTARY STATEMENT BY SENATOR PAUL  
DOUGLAS

No hearings were held on this bill either in the House or in the Senate. It is impossible, therefore, to determine whether or not it is in the public interest. I think this is poor procedure and that therefore this bill probably needs more thorough scrutiny.

We have drifted into loose procedures on these bills rushed through at the end of the session. They have been going through Congress with little examination and this has sometimes had unfortunate results. I believe our Senate procedures should be revised to provide for a more thorough examination of their possible merits and demerits. In the meantime the Senate should in my opinion go slow.



## SUPPLEMENTARY STATEMENT BY SENATOR HARRY F. BYRD

The Senate Finance Committee, in formal meeting September 10, 1962, ordered to be reported 11 bills with recommendations that they be considered favorably by the Senate. This bill was among those ordered to be reported at that time.

As a member of the committee, the Senator from Illinois (Mr. Douglas) voted against committee approval of all of these bills except one. He voted affirmatively to report only H.R. 12529 which affected his State.

He voted against reporting all other bills before the committee on that date with the statement that he was voting in the negative because public hearings had not been held.

In his supplementary statements on these bills the Senator from Illinois creates the impression—intentional or not—that the Finance Committee is not giving proper and adequate attention to legislation reported to the Senate.

With respect to all of these bills he apparently tries to leave the inference that the committee has drifted into a loose procedure of rushing bills through at the end of the session, which he claims produces unfortunate results.

On behalf of the majority of the Senate Finance Committee I want to make it clear to the Senate that, in the case of the bills ordered to be reported by the committee on September 10, 1962—

1. Each of the bills has been passed by the House of Representatives;
2. No request was made for Senate hearings on these bills and this includes the bill for which the Senator from Illinois voted in the affirmative;
3. Each of the bills ordered to be reported, except H.R. 12529 in which the Senator from Illinois is interested, was formally approved by the executive agencies having jurisdiction over their administration;
4. The contents of each bill were fully outlined by members of the committee staff, and discussed by members of the committee; and
5. When the committee voted, members had full knowledge of the purpose and effects of the proposed legislation.

Momentous matters are referred to the Senate Committee on Finance, including legislation with respect to taxation, tariffs and customs, social security, veterans, etc., and the committee has always been meticulous in exploring the effects of all legislation it recommends.

The current tax bill—H.R. 10650—now in conference is a case in point. More than 200 witnesses were heard on this bill, and the legislation was under committee consideration more than 4 months.

The Senator from Virginia cannot recall that the Senate has rejected a bill recommended by the Senate Finance Committee. It suffices

to say that when the need for hearings is indicated, the committee will hold them.

The procedure followed by the committee in consideration of the agenda for the meeting of September 10 involved no departure from committee practice over the 30 years during which I have been a member.

The committee always holds hearings when they are necessary for the enlightenment of the membership, and the procedure of the past, so far as the chairman is concerned, will be continued in the future.

