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TEMPORARY SUSPENSION OF DUTY ON CERTAIN FORMS OF COPPER

JUNE 8, 1966.—Ordered to be printed

Mr. LONG of Louisiana, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 12676]

The Committee on Finance, to whom was referred the bill (H.R. 12676) to amend the tariff schedules of the United States to provide that certain forms of copper be admitted free of duty, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

PURPOSE

H.R. 12676 suspends temporarily, for the period February 9, 1966, to June 30, 1968, the duties applicable to unwrought copper (except nickel silver), copper waste, and scrap, and copper articles imported to be used in remanufacture by melting. The bill would also suspend for the same period the duties applicable to the copper content of certain copper-bearing ores and materials. The duties that would be suspended by the bill would in each case amount to 1.7 cents per pound of pure copper which may be commercially obtained from the imported article, except that in the case of nickel silver waste and scrap the rate is 1.7 cents per pound of the commercially recoverable copper content plus 10 percent ad valorem.

GENERAL STATEMENT

Copper is a metal that is of vital importance to the Nation's defense and nondefense needs. It is used in the electrical industry in the manufacture of generators, motors, locomotives, telephone and telegraph equipment, light and power transmission lines, and numerous other items. It is consumed by the copper-base alloy industry in the manufacture of products used in building construction, principally

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plumbing and roofing materials, and in the manufacture of automobiles and trucks, in shipbuilding, in the production of ammunition, and for a wide variety of other purposes.

In 1965 the United States consumed about 2 million tons of refined copper, about 90 percent of which was domestically produced. The balance of approximately 200,000 tons was imported. Chile supplied about 100,000 tons of such imports, while approximately 40,000 tons came from Canada and 60,000 tons from Peru. Despite substantial increments in recent years in the domestic production of copper, such output has not been sufficient to satisfy increased domestic consumption requirements.

In midautumn of last year, it became increasingly apparent that world demand for copper exceeded world supply. The short supply has been reflected in pressure on copper prices both at home and abroad. The U.S. producers' price for refined copper, which until March 1964 had remained constant at 31 cents a pound for about 3 years, experienced three increases in the space of little more than 1 year, going from 31 to 32 to 34 cents and then to 36 cents per pound in May 1965. After consultations and conferences with representatives of the Federal Government, domestic producers have endeavored, on a voluntary basis, to maintain the 36-cent-per-pound producers price for domestic copper in the U.S. market. These producers have continued to maintain this price level to the present time.

The prices for copper outside the United States, however, have ranged in recent months from a minimum of 42 cents per pound to a maximum of about 90 cents per pound. The spot price of copper on the London Metal Exchange on May 3 was about 70 cents per pound. On April 14, 1966, Chile (which sets the price at which its copper may be sold) announced that the price for its copper would be increased, effective July 1, 1966, to 62 cents per pound from 42 cents.

The administration has taken several steps to prevent similar sharp increases in the price of copper in this country and to safeguard U.S. supplies of copper for U.S. consumers. It (1) released about 200,000 short tons from the national stockpile in November 1965; (2) tightened export controls through its export licensing authority on November 24, 1965, December 14, 1965, and January 20, 1966; (3) requested the Commodity Exchange to increase margin requirements on copper futures from 10 percent to about 70 percent in an effort to curb speculation; (4) authorized an additional 200,000 tons of copper to be released from the national stockpile during 1966; (5) is attempting to expand domestic output through subsidy payments; and (6) has entered into agreements with the governments of copper-producing nations to hold a United Nations conference in an effort to stabilize production and prices. These actions are part of a four-step program announced November 17, 1965, to maximize the supply of copper in the United States to provide for stabilization of the domestic market, and to maintain a noninflationary price level for copper. The copper program, as well as an arrangement with Chile to insure that the quantity of copper it previously exported to this country will continue to be available to U.S. consumers at the lower U.S. price, is described in a letter addressed to the chairman of the Committee on Ways and Means by the Under Secretary of State. This letter appears in the appendix of this report.

H.R. 12676 would lower the cost of imported copper to U.S. consumers by the amount of the U.S. import duty and to that extent would help prevent a rise in the U.S. price of copper during the present shortage. However, so long as the world price for copper is far higher than the U.S. price (as it is today), eliminating the 1.7-cent duty will attract little foreign copper to the U.S. market. On the other hand if the price differential narrows the duty suspension provided by this bill could make a significant contribution to our efforts to assure adequate copper supplies at reasonable prices.

As stated above, H.R. 12676 provides for a temporary suspension of duty on copper raw materials and copper scrap, for the period February 9, 1966, to June 30, 1968, both dates inclusive. Your committee notes that similar legislation has been favorably reported by your committee and enacted by the Congress for periods in the past when the available supply of copper was insufficient to meet demand and pressure on prices existed. The periods covered by such prior enactments are as follows: April 30, 1947, to the close of March 31, 1949 (Public Law 80-42, approved April 29, 1947); April 1, 1949, to the close of June 30, 1950 (Public Law 81-33, approved March 31, 1949); April 1, 1951, to the close of June 30, 1958 (Public Law 82-38, approved May 22, 1951, as extended by Public Law 83-4, approved February 14, 1953; Public Law 83-452, approved June 30, 1954; and Public Law 84-91, approved June 21, 1955).

The suspensions of duty provided under H.R. 12676, as reported by your committee, would be inapplicable during any period in which the price of electrolytic copper in standard shapes and sizes, delivered Connecticut Valley, is below 24 cents per pound as determined pursuant to headnote 5, subpart 2C, schedule 6, of the Tariff Schedules of the United States. It would also be inapplicable to copper from Communist countries.

Your committee has received favorable reports on H.R. 12676 from the Departments of State, Treasury, and Commerce, as well as an informative report from the U.S. Tariff Commission. Your committee recommends expeditious enactment of this legislation.

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):

Subpart B of Part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202)

APPENDIX TO THE TARIFF SCHEDULES

Part 1.—Temporary Legislation

Item	Articles	Rates of duty 1-a	Rates of duty 1-b	Rates of duty 2	Effective period
	Subpart B.—Temporary Provisions Amending the Tariff Schedules				
* * *	* * *	* * *	* * *		* * *
	Metal waste and scrap (provided for in part 2, schedule 6), except lead, zinc, and tungsten waste and scrap: unwrought metal (except copper, lead, zinc, and tungsten) in the form of pigs, ingots, or billets (a) which are defective or damaged, or have been produced from melted down metal waste and scrap for convenience in handling and transportation without sweetening, alloying, fluxing, or deliberate purifying, and (b) which cannot be commercially used without remanufacture; relaying or rerolling rails; and articles of metal (except articles of lead, of zinc, or of tungsten, and not including metal-bearing materials provided for in schedule 4 or in part 1 of schedule 6 and not including unwrought metal provided for in part 2 of schedule 6) to be used in remanufacture by melting:				
911.10	Copper waste and scrap	[1.7¢ per lb. on 99.6% of copper content.]	[2¢ per lb. on 99.6% of copper content.]	[4¢ per lb. on 99.6% of copper content.]	[On or before 6/30/67.]
		Free	*No change*	*No change*	*On or before 6/30/68*
911.11	Articles of Copper	[1.275¢ per lb] *Free*	[1.5¢ per lb] *No change*	[3¢ per lb] *No change*	*On or before 6/30/68*
911.12	Other	Free	Free	Free	On or before 6/30/67

Item	Articles	Rates of duty 1	Rates of duty 2	Effective Period
911.13	*Copper bearing ores and materials (provided for in items 602.30 or 603.50, part 1, schedule 6).*	*Free of duty imposed on copper content under items 602.30 or 603.50*	*No change*	*On or before 6/30/68 when headnote 5, part 1, schedule 6 is inapplicable*

Item	Articles	Rates of duty 1-a	Rates of duty 1-b	Rates of duty 2	Effective Period
911.14	*Cement copper and copper precipitates (provided for in item 612.02, part 2C, schedule 6).*	*Free*	*No change*	*No change*	*On or before 6/30/68*
911.15	*Black copper, blister copper, anode copper (provided for in item 612.03, part 2C, schedule 6).*	*Free*	*No change*	*No change*	*On or before 6/30/68*
911.16	*Other unwrought copper (provided for in item 612.06, part 2C, schedule 6).*	*Free*	*No change*	*No change*	*On or before 6/30/68*

APPENDIX

UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS,
Washington, April 25, 1966.

Hon. WILBUR D. MILLS,
House of Representatives.

DEAR MR. CONGRESSMAN: The Department of State supports H.R. 12677, a bill to suspend temporarily the duty on imports of copper raw materials. Twice before, in 1947 and 1951, this duty was suspended by the Congress. The periods covered by the previous suspensions were from April 30, 1947, to July 1, 1950, and from March 31, 1951, to June 30, 1958.

During the months of October and November 1965, it became increasingly apparent that world demand for copper exceeded world supply. In part this imbalance was the result of sharply increased demand in a number of industrialized countries. For example, U.S. demand for refined copper rose by about 662,000 tons in the period 1960–65; the latest estimates are that U.S. demand in 1966 may be as much as 300,000 tons more than it was in 1965.

Two other factors also contributed to the imbalance between world supply and demand: One was a number of strikes which interfered with the production of Chilean copper; and the other was uncertainty as to whether the so-called Rhodesian problem would interfere with exports of copper from Zambia and Katanga.

This imbalance reflected itself in rising prices on the London Metal Exchange and by rising prices for scrap copper in the U.S. market.

In 1965 the United States consumed about 2 million tons of refined copper, about 90 percent of which was domestically produced. The balance of about 200,000 tons is imported as follows: About 100,000 tons annually from Chile, about 40,000 tons annually from Canada, and about 60,000 tons annually from Peru. (Additional amounts of foreign-produced copper are brought into the United States for processing and reexport.)

In October–November 1965 the U.S. Government consulted with certain large domestic producers of copper and requested them, on a voluntary basis, to continue to maintain a 36-cent producer's price for their domestically produced copper in the U.S. market. These domestic producers have, up to this time, continued to maintain the 36-cent price level. Since that time, the prices for copper on the London Metal Exchange and for scrap copper in this market have continued to rise. The current price for No. 2 copper scrap in this market ranges from about 51 to 65 cents and the current spot price for copper on the London Metal Exchange is about 91 cents. On April 14, 1966, the Chilean Government announced that its copper exports to markets other than the United States would be priced at 62 cents.

On November 17, 1965, the Secretary of Defense made the following statement to the press:

"Secretary of Defense Robert S. McNamara stated that our greatly increased defense efforts in Vietnam and recent international political disturbances threaten to disrupt and distort the market for copper despite the best efforts of the industry to supply the market. This market disruption can lead to strong inflationary developments not only in copper essential to defense needs, but also more generally throughout our economy. Such developments would seriously impair our defense efforts in Vietnam. To avert them, the Government, after discussion with members of the indsutry, is initiating the following action:

"(*a*) Arrangements are being made for the orderly disposal of at least 200,000 tons of copper from the national stockpile.

"(*b*) Exports of copper and copper scrap from the United States will be controlled for an indefinite period in order to conserve domestic supply.

"(*c*) Legislation will be requested of the Congress by the administration to permit the suspension of import duties on copper which at present amount to 1.7 cents per pound.

"(*d*) Discussions will be held with the directors of the New York Commodity Exchange urging them to curb excessive speculation in copper trading by raising the margin requirements for copper from the current level of approximately 10 percent to a figure more comparable to that required for trading on the New York Stock Exchange."

It has been asked whether the United States has already committed itself, in negotiations with the Government of Chile, to a suspension of the 1.7-cent duty on copper. The answer is that there is no such commitment. In our discussions with the Government of Chile we did, however, inform them of the text of the announcement quoted above, including the statement that: "(*c*) Legislation will be requested of the Congress by the administration to permit the suspension of import duties on copper which at present amount to 1.7 cents a pound."

On November 20, 1965, the Chilean Government expressed its satisfaction with this announcement and on subsequent occasions has indicated its interest in action to suspend the duty. Our arrangements with the Government of Chile are, however, not contingent on the suspension of the duty.

Consistent with the administration's request that domestic producers hold the producer's price at 36 cents, the Department of State discussed with the Governments of Canada and Chile possible arrangements to maintain the 36-cent producer's price on that portion of their exports destined for U.S. consumption. The Government of Canada indicated that it was not feasible, in its free economy to require producers to sell for one price in the U.S. market and another price in the world market. No approach was made to Peru because that country, like Canada, has no authority or mechanism for control of export prices.

Chile does, however, have the authority to fix its copper export prices. On January 26, 1966, the Government of Chile announced the following:

"The Copper Department of Chile set 42 cents a pound as the selling price of Gran Mineria copper, starting last January 4.

"Prior to that decision, the Government of the United States had established 36 cents a pound as the copper price in that country.

"Therefore, the Government of Chile initiated conversations with the Government of the United States to reach an agreement that would protect the mutual interests of the two countries.

"As a result of those conversations, only 90,000 metric tons of the total sales of Gran Mineria copper will go to the United States in 1966, and they will be sold at the price fixed by the U.S. Government. The Government of the United States, in turn, in order to compensate for the smaller tax revenue (since part of the price difference affects the Chilean state and part affects the companies) has reached the following compensatory agreements with the Government of Chile:

"1. The Government of the United States has manifested its agreement and its purpose that AID shall grant the Central Bank of Chile an additional loan of 10 million U.S. dollars, to be immediately available under that agency's usual terms. The Central Bank of Chile will use this 40-year loan for a special line of medium-term credit for the expansion of Chilean industry, including medium- and small-scale mining.

"2. Furthermore, in view of the exceptional conditions in the sale of the above-mentioned 90,000 tons, the transaction will be carried out with direct participation by the Copper Department, and from that sale the Government of Chile should benefit by an amount that will substantially compensate for the tax share corresponding to the price difference. That amount is estimated at 1.76 cents per pound net—that is, approximately 3.52 million U.S. dollars for the total volume stated—which must be fully absorbed by the producing companies.

"These agreements will apply during 1966 and refer only to blister copper in bars produced by the Chile Exploration Co. and the Andes Copper Mining Co. Any other sale of copper of Chilean origin by other companies or in any other form sold in the United States will be controlled by the Department under conditions deemed most advantageous from the commercial standpoint.

"If the price of large U.S. domestic producers increases during 1966 the sales transaction system described will be reviewed in order to preserve the application of the above arrangements."

According to the press, the arrangements described in the January 26, 1966, statement of the Government of Chile has been the subject of considerable discussion in Chile. For our part, we consider the undertaking to continue to supply our market with 100,000 short tons of copper at a producer's price of 36 cents to be an act of cooperation in our attempt to stem "inflationary developments not only in copper essential to defense needs, but also more generally throughout our economy." Our interest is in preventing market disruption and inflation in a product essential to defense needs. We consider this act of cooperation on Chile's part to be in some respects comparable to U.S. efforts over the years to help that country to control its own inflationary forces while promoting its economic and social progress. In order to compensate Chile for its loss of exchange earnings the arrangements provide for a loan, on concessional terms, of $10 million for the purpose of financing the importation of capital goods from the United States on terms which would make it possible for the Chilean private sector to carry out investments which would strengthen and diversify the national economy. This is additional to the program loan for this year, also on concessional terms, of $80 million.

The arrangement with Chile for 100,000 tons at 36 cents has, in our opinion, together with our export control program, the releases from our stockpile, and other programs, curtailed price increases in scrap and finished products containing copper.

It has been suggested that the suspension of the 1.7-cent duty on copper will not significantly reduce inflationary pressures in our market. While agreeing that this is but a part of the larger problem, we point out that the 1.7-cent duty is being passed on by the importers to the U.S. consumer. Affected by the suspension of the duty would not only be the 100,000 tons imported annually from Chile but the additional 100,000 tons imported annually from Canada and Peru. We believe this to be significant. We know of no economic or political justification for continuing to impose the duty on copper given the current conditions of shortage already referred to.

It has been asked whether a higher price in our market would not provide an incentive to increase our domestic production and also decrease our dependence on outside sources of supply for about 10 percent of our consumption. According to our information, the majority of the industry considers that a 38-cent price level is an adequate incentive and that higher prices will encourage substitution. Indeed, domestic production of copper increased by about 9 percent last year and, we are informed, the industry already has plans for increasing domestic production by another 9 percent this year. We are also informed that when, during the Korean crisis, copper prices rose sharply for a brief period of time, a significant part of the copper market was permanently lost to substitutes. Thus it would appear that the U.S. national interest coincides with the corporate interests of domestic producers in preventing runaway copper prices in our market.

It is true, however, that there may be marginal copper producers in the United States who would be induced to increase domestic production if there were additional incentives. To meet this facet of the problem, and to accelerate delivery of machinery which could be a bottleneck in quickly increasing domestic production, the administration made the following statement on March 21, 1966:

"The President directed the Secretary of Commerce and Secretary of the Interior and the Director of the Office of Emergency Planning to take all necessary steps to expand domestic production of copper through the use of special incentives on a selective basis."

It has also been asked whether the suspension of the duty on copper will not result in loss of tariff revenue. It will. The duty of 1.7 cents a pound on 200,000 tons of copper imported annually for domestic consumption amounts to about $6,800,000. We believe this loss to be more than outweighed by the advantages of suspending the duty especially in view of the fact that lower copper costs will presumably result in a significant increase of taxable income.

Questions have also been asked concerning the decision of the Chilean Government to increase by about $3½ million its tax revenues at the expense of the copper company concerned. The initiative was that of the Chilean Government and for its benefit. Obviously, the Chilean tax increase was not suggested by the company. On the contrary we understand that it will represent an additional burden on the company. As we understand, the arrangement in essence is that the producing company in Chile intends to make up in part the tax loss arising out of the sale of copper in the United States at 36 cents instead of 42 cents per pound. This will be achieved through an adjustment in the company's smelting and marketing charges which would result in an increase of the Chilean Government's fiscal revenue of about 1.76 cents per pound on the 100,000 tons of copper. This will have the effect of reducing the Chilean Government's loss, by about \$3½ million, of tax revenue estimated at about \$4½ million figured on the difference between a 36- and 42-cent price on 100,000 tons. The company in turn has informed our Treasury Department of these facts. The effect of this arrangement on the U.S. tax liability of the company is still unclear. The Internal Revenue Service is not in a position to reach any conclusions on this matter until the company's tax return is audited.

This arrangement resulting from the initiative of the GOC in January 1966 had no relationship to the statement of Secretary McNamara in November 1965 which announced the administration's decision to recommend to the Congress the suspension of the import duty.

In sum, the Department of State believes that the national interest would be served by suspending the duty, as has twice been done before, for the reasons given.

This letter has been cleared by the Treasury Department which concurs in the recommendation.

Sincerely,

THOMAS C. MANN.

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