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METAL SCRAP—FRESH COCONUT—TIGHT BARRELHEADS

MAY 27, 1960.—Ordered to be printed

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

REPORT

[To accompany H.R. 11748]

The Committee on Finance, to whom was referred the bill (H.R. 11748) to continue until the close of June 30, 1961, the suspension of duties on metal scrap, and for other purposes, having considered the same, report favorably thereon with amendments, and recommend that the bill as amended do pass.

PURPOSE OF THE BILL

The purpose of H.R. 11748 is to amend section 2 of Public Law 869, 81st Congress, as amended, to continue for 1 year (from the close of June 30, 1960, to the close of June 30, 1961) the suspension of duties on metal scrap. The bill contains the existing proviso that the suspension shall not apply to lead scrap, lead alloy scrap, antimonial lead scrap, scrap battery lead or plates, zinc scrap, or zinc alloy scrap, or to any form of tungsten scrap, tungsten carbide scrap, or tungsten alloy scrap, or to articles of lead, lead alloy, antimonial lead, zinc, or zinc alloy, or to articles of tungsten, tungsten carbide, or tungsten alloy, imported for remanufacture by melting. The bill also continues the existing provision that the suspension shall not apply to any article provided for in section 4541 of the Internal Revenue Code of 1954.

COMMITTEE AMENDMENTS

The Finance Committee amended the bill H.R. 11748 by adding to it:

Amendment No. 1, to provide for a separate tariff classification for certain fresh or frozen coconut.

Amendment No. 2, to provide for the free importation of tight barrelheads of softwood.

Amendment No. 3, to provide for the withdrawal of certain supplies for vessels and aircraft operating between Alaska and Hawaii and the mainland United States free of customs duty and excise tax.

General Statement

The temporary suspension of the duties of imports on metal scrap provided under present law (Public Law 115, 86th Cong.) to the close of June 30, 1960, makes free of duty imports of metal scrap, including such principal types of scrap as iron and steel, aluminum, magnesium, nickel, and nickel alloys. H.R. 11748 would continue this suspension through June 30, 1961. The suspension of duties as provided under present law and its proposed extension are of no significance with respect to the tariff treatment of imports on tin and tinplate scrap, because imports of such scrap, along with imports of tin in other unmanufactured forms, would not be subject to duty or import taxes in any case.

Section 2 of the bill, as reported, provides that this suspension shall not apply to any article provided for in section 4541 of the Internal Revenue Code of 1954. In general, section 4541 of the Internal Revenue Code of 1954 imposes an import tax on certain copper-bearing ores and concentrates, other articles of which copper is the component material of chief value, and other articles containing 4 percent or more of copper by weight.

Scrap of the various nonferrous metals, whether imported or of domestic origin, may be considered for most purposes simply as relatively small components in the total U.S. supplies of the respective metals, although some manufacturers depend wholly on metal scrap as a source of raw material. The relation of iron and steel scrap to the total supplies of iron and steel is somewhat different from that existing with respect to nonferrous metals. This is because the economical production of steel by the open-hearth process requires that part of the iron-bearing materials used consist of heavy melting scrap. Thus, much iron and steel scrap constitutes a material important to the domestic production of steel. Despite the fact that imports of scrap metals have not in the past few years constituted important components of the total supplies of the various metals, the imports in some cases have represented important sources of the metals for limited numbers of consumers of such metals in some sections of the country.

The rates of duty on the principal types of ferrous and nonferrous metal scrap, the suspension of which would be continued by the bill, are shown in the following table:

Type of scrap	Paragraph No.	Rate of duty
Iron and steel	301	37½ cents per long ton plus additional duties on alloy content.
Aluminum	374	1½ cents per pound.
Nickel and nickel alloy	5 or 389	10½ percent ad valorem or 1¼ cents per pound.
Tin and tinplate	1786	Free.
Magnesium	375	50 percent ad valorem.

Relaying and rerolling rails would, in the absence of this legislation, be dutiable at the rate of one-twentieth of 1 cent per pound plus additional duties on alloy content under paragraphs 305 and 322 of the Tariff Act of 1930, as modified. Other metal articles not considered scrap within the meaning of the tariff classifications but imported to be used in remanufacture by melting are also exempt from duty under Public Law 869 of the 81st Congress. Such articles would be dutiable in the absence of special legislation, at various rates too numerous to mention in this report.

COMMITTEE AMENDMENT NO. 1

Section 3 of the bill would provide for a separate tariff classification and a tariff rate of 1½ cents per pound for coconut meat, fresh or frozen, and shredded or grated, or similarly prepared, unsweetened, or sweetened with sugar not to exceed 10 percent by weight. The amendment incorporates the language of S. 3349.

Paragraph 758 of the Tariff Act provides for "coconut meat, shredded and desiccated, or similarly prepared." This classification does not include the fresh or frozen coconut meat which was not an article of commerce when the Tariff Act of 1930 was adopted. The proposed new classification covers only certain processed coconut products; it does not cover fresh or frozen coconut meat separated from the shell in chunks without further processing, which is currently dutiable at 5 percent ad valorem as a raw or unmanufactured article not specially provided for. Shredded coconut in sugar sirup would not be covered by the language of the amendment as such a product would necessarily contain more than 10 percent of sugar.

The Departments of Agriculture and Commerce and the Bureau of the Budget report that they have no objection to the adoption of the amendment. The report from the Tariff Commission on S. 3349 includes the following explanation of how the rate of duty to be applied to the product was arrived at:

> The products specified in the proposed new subparagraph 758(b) would probably have a foreign unit value of from 15 to 30 cents per pound. The 20-percent ad valorem duty applicable to these products under paragraph 1558 is equivalent to from 3 to 6 cents per pound of fresh coconut meat. This compares with the current rate of duty of approximately 1.1 cents per pound on desiccated coconut converted to a fresh equivalent: 1.75 cents (current duty per pound of desiccated meat) divided by 1.6 cents (approximate fresh equivalent of 1 pound of desiccated coconut) equals 1.1 cents per pound.
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> The products provided for in the proposed new subparagraph 758(b) appear to be most similar in use to desiccated coconut now provided for in paragraph 758. The proposed rate of duty for these products under subparagraph 758(b) would therefore equalize that rate with the present rate on desiccated coconut, on a fresh basis.
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> There was a large volume of international trade in shredded desiccated coconut meat for many years prior to the enactment of the Tariff Act of 1930. Drying or desiccating the coconut meat under sanitary conditions preserves the

product so it can be transported and stored with little deterioration in its value for human consumption. At the time of the passage of the Tariff Act of 1930 there was no international trade in fresh or frozen coconut meat (as distinct from whole coconuts) and thus there was no need for a special provision in the tariff act for fresh or frozen coconut meat. Subsequent developments in the technology of preserving foods during processing and marketing through chilling and freezing have made international trade in fresh and frozen coconut meat commercially feasible, and small quantities, in the order of a few thousand pounds, of fresh and forzen coconut meat have been imported into the United States in recent years. In addition, there have been small imports of shredded coconut in sugar sirup since the days of World War II.

There are several firms now producing fresh or frozen shredded coconut in the United States from imported and Puerto Rican whole coconuts which they obtain either free of duty from Puerto Rico and Cuba or at the slight duty of one-eighth cent per coconut from foreign countries other than Cuba in the Caribbean area. The process is expensive in that it involves shipments to the United States of shells and coconut milk which are of little value to the processor. S. 3349, if enacted, would enable these packers to obtain the fresh and frozen meat without paying transportation on the shells and milk. As indicated, the duty provided for therein would be approximately the same as the duty on the product with which it is most directly competitive—desiccated coconut meat.

COMMITTEE AMENDMENT NO. 2

Section 4 of the bill would provide for the importation without payment of duty of tight barrelheads of softwood.

Wooden barrelheads of all kinds, finished or unfinished, are currently classifiable under the provision for manufactures of wood, or of which wood is the component material of chief value, not specially provided for, in paragraph 412 of the Tariff Act of 1930. The original rate of duty was 33⅓ percent ad valorem. The rate has been reduced to 16⅔ percent ad valorem pursuant to the General Agreement on Tariffs and Trade. The proposed amendment would limit the transfer of barrelheads to the free list to those made of softwood (wood from a coniferous tree) and which are used in the manufacture of tight barrels.

A "tight barrel" is a barrel designed for use in holding liquids as opposed to a "slack barrel" designed to hold dry materials. Barrelheads are circular pieces forming the ends (tops and bottoms) of barrels. They are manufactured from short pieces of lumber which are planed, jointed, fastened together with glue, dowels, or other fastenings to form a square, and then cut into circular shape with a beveled edge designed to fit the groove made therefor near the ends of the inner sides of the staves. The outer surface of the heads are usually planed.

Most tight barrels are made of hardwood. Barrels for aging whisky must be made of white oak. Other hardwoods used are elm, ash, maple, and gum, in barrels used for holding liquids other than

whisky. Only a small quantity of tight barrels are made in the United States from softwood. These are almost exclusively made of Douglas fir in the Pacific Northwest.

Imports of barrelheads are not separately classified for statistical purposes. They are included in the class for "manufactures of wood, not elsewhere specified." A partial analysis indicates that practically all imports consist of fir barrelheads.

No objection has been found to this amendment and the Departments of State, Agriculture, and Treasury and the Bureau of the Budget indicate their approval.

COMMITTEE AMENDMENT NO. 3

Section 5 of the bill would provide that steamship and air carriers operating between the States of Alaska and Hawaii and the mainland United States may be able to obtain certain supplies for use on vessels or aircraft free of customs duty and excise tax. It is similar to S. 3021, but includes certain improvements.

Prior to the admission of Alaska and Hawaii as States, steamship companies and air carriers operating between those Territories and the continental United States were able to withdraw from customs and internal revenue custody certain supplies for use on vessels or aircraft engaged in such trade, free of customs duty and excise tax. This was made possible under section 309 of the Tariff Act of 1930 and because the Treasury Department had ruled that these Territories were regarded as possessions of the United States within the purview of that section.

The amendment would restore this status, which was lost, under a ruling by the Treasury Department, when Alaska and Hawaii became States. The result was discrimination against steamship companies and air carriers operating between the west coast and Hawaii or Alaska in favor of companies operating to foreign destinations via either of these two States. The exemptions continue to apply to carriers continuing on to other ports but do not apply to carriers terminating at Hawaii or Alaska. The amendment would remove this discrimination.

Foreign flag vessels and aircraft stopping at Hawaii en route from Pacific coast ports to a foreign country are not required to pay the taxes or duties on supplies consumed on that leg of their trip, as they are engaged in foreign commerce. Vessels and aircraft under the U.S. flag are similarly exempt if en route to foreign countries. However, air and water carriers whose voyages begin at Pacific coast ports and terminate at Hawaii or Alaska must pay full taxes and duties on supplies.

The Treasury Department filed a report on the amendment and stated that its enactment would cause no unusual administrative difficulties. The Department of Commerce stated with regard to the amendment:

> Legislation granting trade with Alaska and Hawaii the same exemption under section 309(a) as obtained prior to statehood, and the same exemption as trade between Atlantic and Pacific ports now enjoy would provide aid in the development of transportation services for the new States. This Department, therefore, has no objection to favorable consideration of such legislation.

The Bureau of the Budget, while admitting that without the amendment inequality would exist, included the following in its report:

> The bill would permit articles to be withdrawn from customs and internal-revenue custody free of duty and internal-revenue tax for use as supplies (not including equipment) on vessels of the United States and aircraft registered in the United States which are engaged in domestic trade between the United States and Alaska or Hawaii. Such a privilege formerly existed while Alaska and Hawaii were Territories, but ceased, under the terms of the Tariff Act of 1930, when Alaska and Hawaii became States.
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> The Bureau of the Budget believes that action to restore the special privileges for persons trading between Alaska and Hawaii and the other States is contrary to the basic provision in both the Alaska Statehood Act and the Hawaii Statehood Act that the new States be "admitted into the Union on an equal footing with the other States in all respects whatever, * * *." The President also recommended in his 1960 and 1961 budget messages that action be taken to apply to Alaska and Hawaii "the same general laws, rules and policies as are applicable to other States." No justification has been presented which indicates that the policy of equal treatment should not be adhered to in this instance.
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> It appears that the original and main purpose for the exemption from duty and taxes of ships' supplies was to place U.S. vessels engaged in foreign trade on an equal footing with foreign vessels. Such exemption extends back to 19th century tariff acts and was eventually extended to aircraft. Any attempt to extend such exemption to vessels and aircraft operating in domestic interstate trade between two States and all other States would establish an entirely different principle for exempting ship and aircraft supplies from duty and taxes. If such exemption were made in the case of carriers between Alaska and Hawaii and the other States, it might logically be argued that a similar exemption should be provided for carriers in interstate commerce between all the States.
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> For the above reasons, the Bureau of the Budget recommends that your committee not give favorable consideration to S. 3021.

It was brought to the attention of the committee that the language of the amendment might be interpreted in such a manner as to permit circumvention of the oil-import-control regulations now in effect. Prior to the time when Hawaii and Alaska became States, although the fuel used might have been technically included in the exemptions provided for under section 309, such supplies seldom originated outside the United States because of highly specialized requirements and similar reasons. Furthermore, new import regulations concerning petroleum products were adopted about the time that Hawaii became a State and there was no possibility of circumventing such regulations before that time.

In addition, since Hawaii was admitted as a State, the use of fuel, especially in airplanes, has shifted radically from special high octane gasoline to kerosene or jet fuel. This would tend to open a door that was not formerly in existence when only domestic high octane gasoline was available. Fuel suppliers as well as the principal consumers, including the Air Transport Association of America and the Pacific American Steamship Association, have joined in asking that petroleum be eliminated from the free proviso, so that the oil-import regulations will not be interfered with. The committee, therefore, added to the amendment a proviso which specifically states that the free withdrawals permitted by the amendment shall not apply to petroleum products for vessels or aircraft in voyages or flights exclusively between Hawaii or Alaska and any airport or Pacific seaport of the United States.

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, as reported, 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):

Public Law 869, 81st Congress

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act of March 13, 1942 (ch. 180, 56 Stat. 171), as amended, is hereby amended to read as follows:

"Sec. 1. (a) No duties or import taxes shall be levied, collected, or payable under the Tariff Act of 1930, as amended, or under section 3425 of the Internal Revenue Code with respect to metal scrap, or relaying and rerolling rails.

"(b) The word 'scrap', as used in this Act, shall mean all ferrous and nonferrous materials and articles, of which ferrous or nonferrous metal is the component material of chief value, which are second-hand or waste or refuse, or are obsolete, defective or damaged, and which are fit only to be remanufactured, but does not include such nonferrous materials and articles in pig, ingot, or billet form which have passed through a smelting process and which can be commercially used without remanufacture.

"Sec. 2. Articles of which metal is the component material of chief value, other than ores or concentrates or crude metal, imported to be used in remanufacture by melting, shall be accorded entry free of duty and import tax, upon submission of proof, under such regulations and within such time as the Secretary of the Treasury may prescribe, that they have been used in remanufacture by melting: *Provided, however,* That nothing contained in the provisions of this section shall be construed to limit or restrict the exemption granted by section 1 of this Act."

Sec. 2. The amendment made by this Act shall be effective as to merchandise entered, or withdrawn from warehouse, for consumption on or after the day following the date of the enactment of this Act and before the close of June 30, [1960] *1961.* It shall also be effective as to merchandise entered, or withdrawn from warehouse, for

consumption before the period specified where the liquidation of the entry or withdrawal covering the merchandise, or the exaction or decision relating to the rate of duty applicable to the merchandise, has not become final by reason of section 514, Tariff Act of 1930.

TARIFF ACT OF 1930

TITLE I—DUTIABLE LIST

Par. 758. (*a*) Coconuts, one-half of 1 cent each; coconut meat, shredded and desiccated, or similarly prepared, 3½ cents per pound. [NOTE.—By action under the Trade Agreements Act the above rates have been reduced to one-eighth of 1 cent each and 1¾ cents per pound, respectively.]

(*b*) *Coconut meat, fresh or frozen, and shredded or grated, or similarly prepared, unsweetened or sweetened with sugar not to exceed 10 per centum by weight, 1⅒ cents per pound.*

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TITLE II—FREE LIST

[PAR. 1805. Pickets, palings, hoops, and staves of wood of all kinds.]

PAR. 1805. Pickets, palings, hoops, staves of wood of all kinds, and tight barrelheads of softwood.

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SECTION 309. (A)—SUPPLIES AND EQUIPMENT FOR VESSELS AND AIRCRAFT

(a) Exemption from Duties and Taxes.—Articles of foreign or domestic origin may be withdrawn, under such regulations as the Secretary of the Treasury may prescribe, from any customs bonded warehouse, from continuous customs custody elsewhere than in a bonded warehouse, or from a foreign-trade zone free of duty and internal-revenue tax, or from any internal-revenue bonded warehouse, from any brewery, or from any winery premises or bonded premises for the storage of wine, free of internal-revenue tax—

(1) for supplies (not including equipment) of (A) vessels or aircraft operated by the United States, (B) vessels of the United States employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions, *or between Hawaii and any other part of the United States or between Alaska and any other part of the United States*, or (C) aircraft registered in the United States and actually engaged in foreign trade or trade between the United States and any of its possessions, *or between Hawaii and any other part of the United States or between Alaska and any other part of the United States*; or

(2) for supplies (including equipment) or repair of (A) vessels of war of any foreign nation, or (B) foreign vessels employed in the fisheries or in the whaling business, or actually engaged in

foreign trade or trade between the United States and any of its possessions, *or between Hawaii and any other part of the United States or between Alaska and any other part of the United States,* where such trade by foreign vessels is permitted; or

(3) for supplies (including equipment), ground equipment, maintenance, or repair of aircraft registered in any foreign country and actually engaged in foreign trade or trade between the United States and any of its possessions, *or between Hawaii and any other part of the United States or between Alaska and any other part of the United States,* where trade by foreign aircraft is permitted. With respect to articles for ground equipment, the exemption hereunder shall apply only to duties and to taxes imposed upon or by reason of importation.

The provisions for free withdrawals made by this subsection (a) shall not apply to petroleum products for vessels or aircraft in voyages or flights exclusively between Hawaii or Alaska and any airport or Pacific coast seaport of the United States.

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