

## TEMPORARY SUSPENSION OF TAX ON FIRST DOMESTIC PROCESSING OF COCONUT OIL AND PALM OIL

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APRIL 5, 1960.—Ordered to be printed

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

### R E P O R T

[To accompany H.R. 8649]

The Committee on Finance, to whom was referred the bill (H.R. 8649) to continue for a temporary period 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, having considered the same, report favorably thereon without amendment, and recommend that the bill do pass.

#### PURPOSE

The purpose of H.R. 8649 is to continue through June 30, 1963, the suspension of the 3-cents-per-pound processing tax imposed on the first domestic processing of coconut oil, palm oil, palm-kernel oil, and fatty acids, salts, combinations, or mixtures thereof.

#### GENERAL STATEMENT

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 tin-plate industries where it serves to prevent oxidation in the plating baths. Imports for this use have been exempt from the tax since 1942.

Public Law 85-235, approved August 30, 1957, suspended through June 30, 1960, the 3-cents-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 was provided by action of the Senate in considering H.R. 2842 of the 85th Congress.

Public Law 86-37, approved May 29, 1959, suspended through June 30, 1960, the 3-cents-per-pound tax imposed on the first domestic processing of palm oil and palm-kernel oil imposed by section 4511(a) of the Internal Revenue Code. The suspension of the tax on palm oil and palm-kernel oil was designed to restore the competitive balance between these oils and competing coconut and babassu oils on which the processing tax had been suspended.

Experience under the above legislation appears to have been such as to warrant an extension of the existing suspensions of tax on the first domestic processing of these oils.

No opposition to the temporary continuation of the suspension of duties has been registered with the Finance Committee.

#### 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, March 28, 1960.*

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

DEAR MR. CHAIRMAN: This is in response to your request for the views of this Department with respect to H.R. 8649, an act which would extend for 3 years the existing suspension 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. Suspension of the processing tax could be made permanent.

The Bureau of the Budget has advised that it would interpose no objection to the submission of this report to the Committee.

Sincerely yours,

PHILIP A. RAY,  
*Undersecretary of Commerce.*

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OFFICE OF THE SECRETARY OF THE TREASURY,  
*Washington, March 15, 1960.*

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

MY DEAR MR. CHAIRMAN: Reference is made to your letter of March 4, 1960, requesting the views of this Department on H.R. 8649, to continue for a temporary period 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 proposed legislation would extend for an additional 3 years, that is until June 29, 1963, the existing suspension provided in section 3 of the Public Law 85-235 of the tax imposed on the first domestic processing of coconut oil, and the existing suspension provided by Public Law 86-37 of the tax imposed on the first domestic processing of palm oil and palm-kernel oil.

This Department has no comments to make on the general merits of the proposed legislation. For the information of the committee, however, it is expected that the annual loss of revenue resulting from its enactment may approximate \$16 million.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Very truly yours,

A. GILMORE FLUES,  
*Acting Secretary of the Treasury.*

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DEPARTMENT OF AGRICULTURE,  
*Washington, D.C., March 2, 1960.*

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

DEAR CONGRESSMAN MILLS: This is in further reference to our letter of January 22, last, which contained the views of this Department with respect to bills H.R. 8648 and H.R. 8649, which proposed to eliminate permanently the 3-cents-per-pound processing tax on coconut oil, palm oil, palm kernel oil, and the fatty acids and salts of these oils. Since this Department has been asked by your com-

mittee for its views on additional related legislation this is in reference also to bill H.R. 7561, introduced last June 4 by Mr. Dingell, which proposes in effect to eliminate permanently the 3-cents-per-pound processing tax only on coconut oil, and its fatty acids and salts. And finally, this refers to H.R. 8649, as amended.

As you know, this Department found it necessary to oppose the first two of the above-mentioned bills, which were identical. The Department finds it necessary now to oppose also bill H.R. 7561. The major reason for the opposition to all of these bills is that there is not available sufficient information to determine whether permanent removal of the processing tax after next June 30—when the temporary suspension expires—would be injurious to this Department's support programs on oilseeds.

With respect to H.R. 8649, as amended, “\* \* \* to continue for a temporary period the existing suspension of the tax \* \* \*”—that is, through June 30, 1963—this Department would not oppose its enactment into law. The reason is that before expiration of such extended temporary suspension, there should be sufficient data available for appraising the possible impact of permanent removal of the tax on the Department's oilseed programs. It seems quite likely that the world market situation respecting copra and coconut oil, currently regarded as gravely abnormal, will have returned to normalcy in another 2 years.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely,

TRUE D. MORSE,  
*Acting Secretary.*

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EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., March 16, 1960.

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

MY DEAR MR. CHAIRMAN: This is in reply to your request of March 4, 1960, for a report on H.R. 8649, a bill to continue for a temporary period 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 Bureau of the Budget has no objection to enactment of the bill.  
Sincerely yours

(S) PHILLIP S. HUGHES,  
*Assistant Director for Legislative Reference.*

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U.S. TARIFF COMMISSION,  
Washington, D.C., March 10, 1960.

Hon. HARRY F. BYRD,  
*Chairman, Committee on Finance, U.S. Senate.*

DEAR MR. CHAIRMAN: This is in response to your request of March 4, 1960, for a report on H.R. 8649 of the 86th Congress, a bill to continue for a temporary period 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 which was passed by the House of Representatives on March 2, 1960.

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.

H.R. 3796 of the 85th Congress proposed to repeal the 3-cent-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-kernel 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-kernel 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).

H.R. 8649 proposes to continue the suspension of the tax through June 30, 1963. The Commission has not received any complaints regarding the suspension of the processing taxes on coconut oil, palm oil, and palm-kernel oil.

Sincerely yours,

JOSEPH E. TALBOT, *Chairman.*

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#### 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

(71 Stat. 516; Public Law 85-235)

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, 1960] *June 30, 1963*.

ACT OF MAY 29, 1959

(73 Stat. 64; Public Law 86-37)

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, 1960] *June 30, 1963*.

