

Philippine Copra and Oil

The Philippine coconut industry offers Cordell Hull, secretary of state, an interesting problem in his favorite subject, international reciprocal commerce. This is to say, commerce of reciprocating nature. The Kalaw brief for copra submitted to the MacMurray committee estimates four million Filipinos dependent on copra for their living, and it is well known that nearly all of them are small holders. The brief of the oil expressers says that somewhat more than half of the coconut oil utilized in the United States from the Philippines is expressed in the Islands, but that Philippine mills will be unable to compete with American mills after the partial duties become applicable to Philippine coconut oil imported into the United States commencing with 1941.

Copra is charged no duty by the United States, but the oil duty is 2 cents gold a lb. and will be applicable with the advent of Philippine independence in 1946 (or an earlier or later date that may be fixed by Congress) unless the principle of reciprocal trade is interposed in the Islands' behalf and for the real benefit of American commerce with them. It is alleged that manufacturing costs in the Islands and in the United States vary little. But both the expressers and the growers see advantages in extraction of some of America's coconut oil in the Islands. The larger expressers represent very large soap interests, Proctor & Gambel, and Lever Brothers, and therefore, since their principals are interested in copra as well as oil, must have spoken with detached candor to the MacMurray committee.

The argument, which seems altogether valid, is that the Philippine mills compete with the world for Philippine copra. They also buy it the year round, redeeming growers from the evils of the seasonal market. To get copra, they must of course pay the current world price at Manila or even something better; and the fact that the bulk of Luzon copra goes to the mills indicates they do pay such prices. American fats and oils benefit from this, which keep copra at top prices in the field of its largest production and stabilizes the world price of copra to their obvious advantage. This influence on fats and oils prices is not seasonal, but constant. The growers, through their representative, Dr. Maximo M. Kalaw, himself a grower, support this argument in detail. There is no use elaborating it, it is sound.

But the growers have a further case, the American excise tax on the oil content of copra of 3 cents gold a lb. In force for three years now, at times this has exceeded the price growers could get for oil and has therefore tended to bankrupt them and cause them to lose their groves by foreclosures. The Philippine National Bank has executed many such seizures during the past three years. The reason that the tax is a direct price cut applied to copra is that copra has a world market and therefore sells at the world price independently of the tax. The grower does not get the

world price and the tax, he gets the world price less the tax.

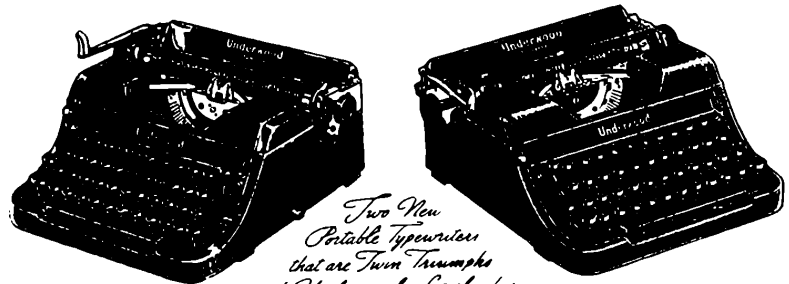
A further evil of the tax is that though the proceeds revert to the Philippine treasury, where its bulk shows that copra is taxed out of all proportion to any other Philippine product, law forbids its use for

benefit of the copra industry, directly or indirectly. This is unfair to the industry, and altogether at contrast with Philippine sugar. The processing tax from Philippine sugar sold in the United States goes back to the industry, growers get it for complying with the quota. Besides, Philippine sugar

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does not sell at the world price in the United States (as copra does, bear in mind); it sells for the duty price, about three times the world price, and otherwise the Philippine sugar industry that means so much to American manufacturers in this market could not survive.

But copra is even more important from the viewpoint of trade sustained from its sale. The four million folk who live from it are a fourth of the Islands' population. Aside from machinery, they buy their full share of American manufactures and relish the opportunity to do so. Copra communities are wide-awake, well advanced. There are, for instance, three million pairs of leather shoes sold in the Islands during a year, the uppers at least all made from American leather. Casual observation indicates that the copra communities buy more than their proportionate share of these shoes. There are 12,000 college student in the Islands, who will found homes whose staple desires for American manufactures will be high; and the copra communities are the homes and property of more than a proportionate share of these young men and women.

Now it goes without saying that Congress had no wish to be unjust to the Philippines, nor any industry of theirs, when it made provision for the partial duties applicable to Philippine products during the last half of the Commonwealth, or when in 1935 it began collecting the excise tax of 3 cents a lb. on the oil content of copra and the coconut oil expressed in the Islands and sold in the United States. Congress desired in the first instance to provide for the payment of Philippine public bonds held in the United States. It is now so plain that there are better ways of doing this that it is hard to see, in Manila, that Congress will not repeal the partial-duty clauses of Tydings-McDuffie act, or that the High Commissioner will not urge this repeal.

Congress desired in the instance of the excise tax to raise the general level of fats and oils in the United States, in benefit of domestic production; and it may have desired to discourage use of coconut oil in margarines and other edibles, to the end that more domestic fats and oils would so be utilized.

It is to illuminate the actual situation that ensued, that on the first page of this discussion certain pertinent tables appear.

Here is a table of our own:

Kind of Fat Utilized	First Half 1936	First Half 1937	Imported First Half 1937
Babassu Oil	9,570	10,645	18,000
Coconut Oil	80,391	31,302	308,957
Cottonseed Oil	50,701	79,613	156,957
Palm Kernel Oil	638	4,327	109,745
Soya Bean Oil	2,514	15,094	21,076
Totals	143,814	140,981	615,735

To effect approximations, 60% of babassu kernels and palm kernels, and copra imported by the United States during the first half of 1937 is taken as the oil content. This will probably be accurate enough to serve for graphic illustration. Not one domestic fat or oil utilizable in margarines benefited at all from the moderated use of coconut oil in margarines brought about by the excise tax of 3 cents a lb. (Dr. Kalaw says also that use of margarines in lieu of butter has not been

reduced). The final column of the table shows, in each instance, importations of the fat ingredients of margarines far in excess of the quantities actually utilized in margarine manufacture. This means that America's domestic production could not supply the requirements outside the margarine industry.

Coconut oil in margarines has not been competing with American fats and oils. If Congress acted under the assumption that it was competing, Congress was erroneously advised. If therefore the excise tax is retained, it should go to the copra producers—as the sugar processing tax goes to the growers and is intended for the benefit of labor. The copra excise tax would inevitably benefit labor, if so reverted, because the bulk of the copra is actually prepared by the labor of small farmers and their families. This makes America markets for her staple manufactures, largely from the farms: milk, leather, cotton textiles. In the present situation, in eloquent need of correction, as we believe the copra and the oil briefs and this paper show, margarine makers turned away from copra from the Philippines to sources of other oils where the American farmer and dairyman has no such markets as the Philippines offer when their great crop, copra, is not penalized in the American market.

It is also true, should compromise be sought, that coconut oil in American edibles is but a fraction of the coconut oil utilized in American nonedibles, chiefly soap. Should the excise tax remain on oils for edibles, it should surely extend to all alike. Meantime, from oil for nonedibles it should be removed in order to give the Philippine grower the world price for his copra. If this is not done, then the growers should of course have the proceeds of the tax, which would effect the same purpose by means merely more cumbersome and costly.

There is equal force in the mills' petition for relief from the partial duties already discussed. Without doing America good, all these impositions do the Philippines infinite harm. England has built empire on the Consols of the East, bags of pungent copra. America can at least sustain substantial commerce on the same product.

FATS, OILS IMPORTED
CONSUMPTION
January to June 1937 inclusive
From Preliminary quarterly Reports Bureau of the Census Department of Commerce

Kind	Pounds
Animal Oils and fats, edible	6,900,365
Other Animal oils and fats, edible	3,392,690
Tallow, inedible	3,350,939
Wool Grease	2,544,452
Whale Oil	33,502,245
Cod Oil	12,468,443
Cod Liver Oil	23,576,746
Other Fish Oil	1,002,285
Oleo Acid or Red Oil	43,171
Stearic Acid	821,644
Grease & Oils, n.o.s. (Value)	\$11,921
Cottonseed Oil—Crude	20,186,163
Cottonseed Oil—Refined	136,771,243
Shortening	14,988
Corn oil	20,595,586
Peanut Oil	39,199,222
Sunflower Seed Oil	469,123
Palm-Kernel Oil	84,545,344
Olive Oil—edible	28,613,514
Olive Oil Sulphured	15,127,605
Sesame oil	15,739,949
Olive Oil, other inedible	3,822,614
Tung Oil	95,997,015
Coconut Oil	171,556,789
Palm Oil	176,743,527
Soy Bean Oil	21,076,327
Rapeseed (colza) oil	1,341,465
Linseed Oil	239,570
Perilla Oil	18,137,730
Oiticica Oil	1,666,383
Teaseed Oil	23,522,538
Other Vegetable Oils	28,895,568
Carnauba Wax	9,362,371
Other Vegetable Wax	4,637,667
Vegetable Tallow	7,547,133
Fatty acids—vegetable	9,784,090
Glycerine Crude	10,570,170
Glycerine Refined	5,556,607
Total	1,039,323,281

OIL SEEDS IMPORTED FOR
CONSUMPTION
(Same Period as Above)

Kind	Tons
Castor Beans	33,278
Copra	114,448
Flaxseed	491,512
Sesame Seed	4,297
Babassu Nuts and Kernels ..	14,792
Rapeseed	1,126
Poppy Seed	1,186
Palm Kernels	20,688
Other Oil Seeds	7,559
Total Tons	688,886

COMPARATIVE STATEMENT OF INGREDIENTS USED IN MARGARINE

	July 1937	July 1936	June 1937	June 1936	First Half 1937	First Half 1936
Babassu Oil	1,123,255	1,288,920	1,793,530	1,181,693	10,644,635	9,569,649
Coconut Oil	6,567,654	9,553,577	5,614,136	9,735,659	31,301,665	80,391,066
Cottonseed Oil	9,281,541	7,611,752	10,960,897	6,649,498	79,613,118	50,701,367
Palm Kernel Oil	971,551	269,279	866,118	307,724	4,326,809	637,672
Soya Bean Oil	1,976,968	1,278,358	1,581,329	955,044	15,093,928	2,513,602