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Coconut Oil and America's Proposed 5-Cent Excise Tax

A misguided attempt to aid the American farmer, destined to harm rather than benefit him

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Wilbur-Ellis Company: Insular Life Building, Manila

NOTE:—MR. SHELTON, whose business in copra makes him a keen student and competent expert on the subjects of fats and oils in the world's markets, contributes this timely analytical article exclusively to the *Journal*. Reprinting, editors are requested to make their acknowledgments to MR. SHELTON.—*Ed.*

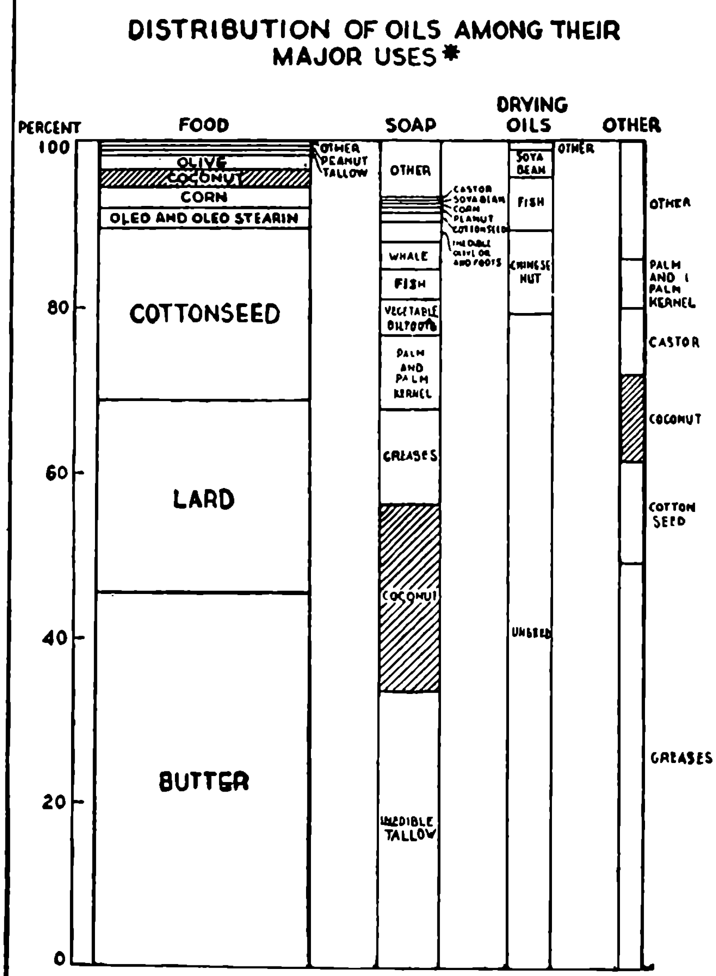
The excise tax of five cents per pound on coconut oil, approved by the House and now pending action by the Senate of the United States, raises so many questions of far-reaching importance and strikes so vitally at so many diverse and apparently unrelated interests, that it is impossible to treat the subject adequately within the limits of a short article. One can only attempt a brief sketch of the more important considerations involved.

To name only partially some of those affected by this tax would be to call the roll of countless coconut planters in the tropics; of oil mills, bankers, importers, exporters, steamship lines, insurance companies, railways, soap factories, margarine factories, stevedores, warehousemen, weighmasters, office employees, chemists, laborers and executives, all of whom come in contact with the stream of coconut oil somewhere between plantation and factory, and who derive nutriment in greater or less degree from this milk of the tropics.

In view of all the ramifications of the question, one wonders at the temerity of men who would voluntarily set in motion such a train of possible consequences—with effects that were probably never sensed or dreamed—even to the extent of involving international relations and perhaps, eventually, threatening world peace. One can easily imagine wars being fought for far lesser stakes than an abundant supply of coconut oil.

The most superficial study reveals that the tax is absurd and preposterous and an outrage to logic and good sense. Its avowed objects are: (1) aid the American farmer, and (2) raise additional revenue. As will be shown presently, it would probably do the farmer more harm than good, and as a producer of revenue it could not possibly yield more than a pittance.

To appreciate fully how this tax would fail in its purpose, one must take cognizance of the various "interchangeable fats and oils". This term is placed in quotation marks since it was coined by the late C. Rogers-Brown, to explain a certain degree of interchangeability between different oils of the same group and even in cases between oils of entirely different groups. The interchangeability is not always perfect and complete and in instances must be qualified considerably. Nevertheless it exists sufficiently to justify the appellation.



* VERTICAL DISTANCES SHOW PERCENTAGES AREAS PROPORTIONAL TO QUANTITIES USED

ABOVE CHART APPEARS ON PAGE 90 OF "THE TARIFF ON ANIMAL AND VEGETABLE OILS" PUBLISHED BY THE BROOKINGS INSTITUTION

Fats and oils move into three major fields of consumption: (1) Edible, (2) Soap, and (3) Paint (drying oils). With the latter classification we are not concerned here since coconut oil moves entirely to the first two groups.

To illustrate this interchangeability, it may be cited that soap makers use coconut oil, palm oil, whale oil, various fish oils and miscellaneous greases which are interchangeable in varying degree and are therefore purchased and consumed in accordance with abundance and relative price. This will serve to illustrate interchangeability in the same group.

Whale oil, which when hydrogenated, enters margarine in Europe, may also be used in soap, and illustrates interchangeability between oils of the edible and soap classifications.

It follows that such a tax, to be logical and scientific, would not simply single out coconut oil and the comparatively innocuous and unimportant sesame oil (a specialty oil with restricted usage) but would likewise include the entire list of imported fats and oils such as whale oil, palm oil, palm kernel oil and the various fish oils which at present enter either duty free or with duties far lower than the proposed coconut oil tax.

Present duties on the chief imported foreign oils are as follows:

Palm kernel oil—One cent per lb. (Free if denatured)

Cottonseed oil—Three cents per lb.

Whale oil—Six cents per gallon. (Approx. \$.008 per lb.)

Palm oil—Free list

Sardine, herring & pilchard oils—Five cents per gallon. (Approx. \$.0067 per lb.)

Palm oil is produced chiefly in Nigeria, Belgian Congo and Sumatra. Total production in 1932 was 265,783 long tons. American imports in 1933 were 128,533 long tons, or considerably more than half of the average imports from the Philippines of coconut oil and copra combined.

Whale oil, as is well known, is produced chiefly in the Antartic by large floating factories. Increase in production has been so rapid during the past few years that leading producers have resorted to quota agreements to restrict production. The quota set for the 1933-1934 fishing season (now in progress) was approximately 350,000 tons, but thus far production has so far exceeded the quotas that in all probability it will come close to 400,000 tons. Present U. S. imports of whale oil are not large as this oil moves almost entirely to Europe on account of price, duty and other considerations. The coconut oil tax would alter this movement tremendously however and whale and palm oils especially, would move to the U. S. in greatly increased volume, to say nothing of fish oils, olive oil foots and all the rest.

To single out coconut oil and to ignore the tremendous imports and potential supplies of competitive interchangeable foreign oils, is equivalent to placing a dam ten feet wide in the middle of a hundred foot stream. The inevitable consequence is that the stream of foreign oils continues to flow around the dam and the whole scheme falls to the ground.

With due regard for the danger of making positive statements about a complicated subject which may be influenced greatly by quotas, changes in tariffs and other artificial restrictions, it nevertheless seems certain that as the situation stands today, the chief beneficiaries of the proposed coconut oil tax would be *not the American farmer*, but foreign producers of these various competitive oils.

Even were the five cent tax levied on all the oils in question, it would still be a highly debatable matter *whether the farmer would receive any material aid*, but such a tax would at least have the saving grace of logic and consistency. (Since this article was written, Representative Knutson has introduced a resolution imposing the five cent tax on palm, palm kernel and soya bean oils. Whale, and other oils were not included and no action has yet been taken by the Committee).

Just why the chief benefit from the proposed tax should be passed along to foreign producers of palm, palm kernel, whale and other oils, at the expense of the Philippine producer who lives under the protection of the American flag is one of those things which defy all attempts at rational analysis.

The further one pursues the subject the more one is driven to the conclusion that the farm element in Congress is suffering from a species of Philippine phobia. It is an advanced form of fanaticism which ignores reason and scientific analysis and is fit study for the psychiatrist and student of abnormal behavior. It seems only necessary to mention the word *Philippines* and some of these gentry become apoplectic, or to paraphrase Tom Paine, "When the Philippines comes in the door, reason flys out of the window". This tax can only be explained in some such manner since it is an unprovoked and entirely gratuitous slap at the Philippines.

COCONUT OIL VERSUS AMERICAN FARMER—The preceding paragraphs have shown why the American farmer would not benefit from the tax. To complete the picture it can also be demonstrated why the present tax free movement of Philippine coconut oil does not hurt the farmer.

Coconut oil is consumed in the U. S., by industries, approximately as follows: soap 70%, margarine 20%, candy and bakery trade 8% and pharmaceutical and all other uses 2%.

The farmer's imaginary quarrel is with the 70% of coconut oil going into soap and the 20% used in margarine. The remaining 10% could not possibly compete, so our discussion centers on soap and margarine.

Let us first consider what fats and oils the farmer produces which might be injured by coconut oil competition. They are, (1) butter—from milk, (2) lard—from hogs, and (3) cottonseed oil—from cottonseed. Let it be noted immediately that these are all either edible or cooking fats and oils and do not go into the soap kettle. These fats and oils all enter consumption as food products and hence enjoy the highest possible price, which at once removes them from the category of cheap soap oils and fats. Furthermore, they are by-products and their value is an insignificant fraction of the original value of the animal or crops from which obtained. For example: grease from a 200-lb. hog equals three pounds or 1-1/2% of the value of the hog, and oil produced from 700 lbs. of cottonseed equals 105 lbs. or 8-1/2% of the value of a bale of cotton.

These domestic fats and oils cannot possibly compete with the 70% of coconut oil which enters soap, for with insignificant exceptions they are all sold in the edible field and furthermore they *dominate* this field of consumption. A chart recently published by the Brookings Institute shows graphically that butter, lard and cottonseed oil comprise in excess of 90% of all fats and oils sold in the edible division, the remainder being made up of small amounts of oleo oil and oleo stearine, corn oil, olive oil, peanut oil and about 2% of coconut oil as vegetable marg.

Total manufactures of soap in the United States for the year 1931 (the latest figures obtainable in Manila) amounted to 3,126,909,000 pounds. This is big business indeed, but important as it is, the edible division of butter, lard and cottonseed oil is incomparably bigger, and it is in this second field, which commands a much higher price level, that the fats and oils of the American farm find their natural outlet.

Tallow, a packing house by-product, is practically the only domestic fat used in soap manufacture in any volume. This is true, first, because it is an essential ingredient, and secondly, because it cannot be utilized in the edible field of consumption.

The percentage of coconut oil used in American soaps will vary between 15% and 25% of total soap making raw materials, depending upon the quality and type of soap produced. This relatively small percentage of coconut oil in soap is there for the simple reason that *there is not a sufficient supply of cheap domestic fats and oils for soap making purposes*, and for the additional reason that coconut oil is almost unique in its *lathering qualities*. Soap makers are unanimous in declaring that there is no effective substitute for coconut oil in respect to this facility for producing a lather. Palm kernel oil possesses the property in somewhat lesser degree, but due to European demand and higher price its use has, up to now, been restricted in the United States.

The result is that for all practical purposes, the share of American soap business enjoyed by coconut oil is business which the American farmer *could not get if he wanted to and would not take if he could.*

The 20% of all American coconut oil consumption which is represented by vegetable margarine, as indicated elsewhere, constitutes only about 2% of the entire business in the field of edible fats and oils. Not by any stretch of the imagination may this be considered a threat to the farmer. Actually, the only competition here—if you cares to call it competition—is with the packing house by-products, oleo oil and oleo stearine. However, this competition is limited and restricted since most of the farm states have already enacted state taxes against margarine containing coconut oil and for the most part have a clear competitive advantage in their own fields of distribution.

Margarine selling at 10 to 12 cents per pound can scarcely be termed a competitor of butter which retails at 30 to 35 cents per pound. Those who can, buy butter; those who cannot, margarine. As well say that state laws should be enacted making it mandatory upon all buyers of automobiles to purchase *Packards* or *Lincolns* on the theory that *Fords* and *Chevrolets* are unfair competition.

And last, but by no means least, how would the American farmer have us pay for Philippine imports of American farm products? Exports must pay for imports. The Philippines is one of the finest markets remaining for such American farm produce as wheat flour, canned milk, butter, eggs, cheese, hams, bacon, edible oils, meat, apples, pears, vege-

Philippine Coconut Grove

tables, oranges, lemons, grapefruits and other products too numerous to mention.

The American farmer and his legally constituted representatives must learn the homely lesson that you cannot eat your cake and have it too. There is much worshiping of false gods in an economic sense. Among these is the apparent fetish that it is some sort of an economic crime to *buy* and the only merit lies in *sales*. There must be a change of heart if America is to survive as a trading nation. It is high time to embrace adult economic thinking and to realize the imperative necessity for mutuality and reciprocity in trade.

PROBABLE CONSEQUENCES—What is to become of the coconut industry should this bill be passed? The subject is complex and there are few precedents. An almost similar case comes to mind. In the years immediately preceding and up to the close of the World War a tremendous stream of oriental vegetable oils moved across the Pacific to enter the United States at Pacific coast ports, thence to be shipped in tank cars to packers, soap makers, paint manufacturers and refiners.

This stream of vegetable oils served a vital economic function in replacing our diminishing domestic supply of fats and oils at a time when there was a critical shortage both at home and abroad. This vast traffic served to create a profitable business for the many hands through which it passed. Much of it was refined in transit and moved across the United States and on to Germany, England, France and other European countries. At the same time we sold these countries our own excess of lard, pork and cottonseed oil.

In 1922, the Fordney-McCumber Tariff Act placed a prohibitive duty on these oils and their movement ceased abruptly. All profits and advantages to American manufacturers, middlemen and consumers terminated forthwith and following the inevitable pressure of water seeking its natural level, this stream, suddenly diverted from its natural channels across the United States, now started moving in foreign ships and through foreign hands *directly to Europe* from such ports as Tsingtao and Dairen. As a result, we lost the former profits and much of our European market for domestic fats and oils to boot. We had inadvertently taught Europe how to do without our goods and services and simultaneously placed in her hands the means of satisfying her requirements.

It would seem that history may repeat itself should this unfortunate measure become law and that some such similar diversion may take place.

At present, whale oil, palm and palm kernel oil move largely to Europe. Under the coconut oil tax—and unless there is supplementary legislation—American coconut oil imports would decline sharply, while European imports would increase. To maintain the equilibrium, we in turn would take far more of the whale, palm and palm kernel oils now moving to Europe.

This is not to imply that there would not be a net decline in world coconut oil consumption, but merely that there would be a certain degree of substitution. There would be some exchange with Europe, of coconut oil for whale and other oils—a bad bargain which would leave us the loser since we would give a better product than we received.

The price of soap in the United States would increase sharply. How much is problematical and largely guesswork since the working out of interrelated forces and factors is complex. The first cost of coconut oil as a raw material would be tripled, while financing, insurance, distribution and all incidental services would be increased in proportion. At first glance this seems staggering, but further analysis leaves some ground for hope that the price per unit of coconut oil soap might still be within the reach of many.

U. S. duties on foreign soaps range from 15% to 20%. Will the increase in price, resulting from the tax, exceed the duty barrier? The answer apparently is yes, as manufacturers' estimates of the increased cost of soap range from 50% to 100%. In this event the American market would doubtless be flooded with coconut oil soap from Canada, Europe and elsewhere until such time as Congress could again plug up the holes by upping the duty on foreign soaps, which in turn would give rise to a new crop of readjustments; and so on.

But it also appears fairly certain that Mrs. American Housewife will not give up her coconut oil soap without a struggle. Don't forget the lathering qualities of coconut oil! It is doubtful if the consumer would now return to *sinker* soap. The feminine public has been educated for years to the use of a quick lathering, clean and inexpensive soap of highest quality which cleans the light silks and rayons of the present time without destructive action.

Much depends upon the attitude of the consumer. If Mrs. Housewife simply refuses to take substitutes, then coconut oil will still find its way to the American market, no matter by what devious routes and despite the best (or worst) intentions of middle-western Congressmen.

The first shock would be the worst and our exports to America would probably dwindle to a fraction of the present total. This would be followed by a period of slow readjustment. Europe would almost certainly take more. Japan and Canada would increase their imports. The Philippines would have to go into the soap making business in dead earnest and equip itself to capture the oriental market. The recent gesture to sound out Russian possibilities is a step in the proper direction.

There would be many shocks and dislocations but if we could survive the painful period of readjustment there would be considerable hope for the future. After all, world demand and world supply of fats and oils remain essentially unaltered. The chief change will be a disruption of the normal channels of flow and only time can cure that.

Regardless of the tax, the writer is unwilling to predict the complete demise of the *Consuls of the East* and it would seem premature to talk of destroying producing trees as there are good and sufficient grounds for believing that after the readjustment period we would regain, in one way and another, most of the business lost.

We trust however that these dire predictions and forebodings will come to naught and we still have enough faith in the good sense and spirit of fair play which motivate the present administration to believe that this outrageous injustice to the Philippines will die a-borning'.