

# A SURVEY OF LEGISLATION AFFECTING THE COCONUT INDUSTRY OF THE PHILIPPINES

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## No Legislation on Coconut During Spanish Regime

During the Spanish regime in the Islands, the coconut industry had not assumed so important a role as to be the subject of monopoly, as was the tobacco industry, by the Royal Government of Spain. Although the copra production and exportation of the Philippines contributed in an appreciable measure to the coffers of the Spanish Government, there was no particular legislation on the coconut industry.

However, upon the implantation of American sovereignty in the Philippines in 1899, the conditions for copra production and exportation changed. The wide avenues of the vast American markets were opened to our coconut producers and planters. The demand for our copra and coconut oil exportation increased by leaps and bounds and reached its peak during the entire period of the First World War. During this time the Philippines was supplying the whole world with one-fourth of its copra consumption.

## The Coconut Products Board

But although we were heavy producers of copra, we were not selling the best quality. Ceylon and India were producing copra of better quality. To remedy this deficiency, the now defunct Philippine Legislature saw for the first time the need of legislation in that direction. Act No. 2598, passed on Feb. 4, 1916, was the first major legislation affecting the coconut industry. Its comprehensive objective was to encourage the improvement of coconut products, both in quality and in variety.

The Act established the Coconut Products Board composed of the Governor General, the Speaker of the Philippine Assembly, or their authorized representatives, and one member appointed by the Governor General with the advice and consent of the Upper House of the Philippine Legislature. The primary duties of the Board were threefold: (1) to improve production of copra by aiding in the establishment of copra driers in suitable places and bringing the producers in touch with the consumers or exporters in order to enable the former to determine the quality of copra in demand in the market; (2) to promote and aid in

the establishment of factories for the extraction of coconut oil, or for other industries derived from the coconut, or for the utilization of their waste products; and (3) to organize corporations or cooperative societies among the owners of the coconut plantations in order to facilitate the accomplishment of the mentioned objectives.

To attract coconut planters and producers the Coconut Products Board was empowered to guarantee



Governor Tomas Confesor with the NCC Directors. Left to right, Director Ramon Soriano, General Manager Rodriguez, Governor Confesor and Director Benito Razon.

to the concern constructing a copra drier or factory for the extraction of coconut oil, or for the utilization of coconut by-products, the payment of the value of its plant and equipment, and interest thereon out of the fund to be created by a deduction from the net profits of the trans-

actions of the drier or factory to be determined by the Board, which fund would be sufficient to liquidate the capital invested therein in 20 years or less counting from the date on which such drier or factory has begun operation, and to provide for the proper annual interest thereon. Any surplus in the fund would be distributed proportionately among the owners of the land and coconuts, with whom the concern operating the drier or factory had entered into any contract, provided, that such guarantee would be granted only on condition that the drier or factory would finally become the property of the owners of the coconut land.

The board was also empowered to purchase, from a corporation or corporations composed of owners of land planted in coconut trees, bonds issued upon the security of the property of said corporation, or upon the security of the first mortgages upon the lands or part of the lands of individual owners who are stockholders in the said corporation, or upon both securities mentioned; and to make loans secured by first mortgage to a corporation or corporations owning and operating a drier or factory already established for additions and improvements thereto. However, before such purchase of bonds could be made, the Coconut Products Board must exact from the Corporation certain conditions which among others are: (a) that the amount of bonds issued by the corporation shall not exceed 60% of the value of the property offered

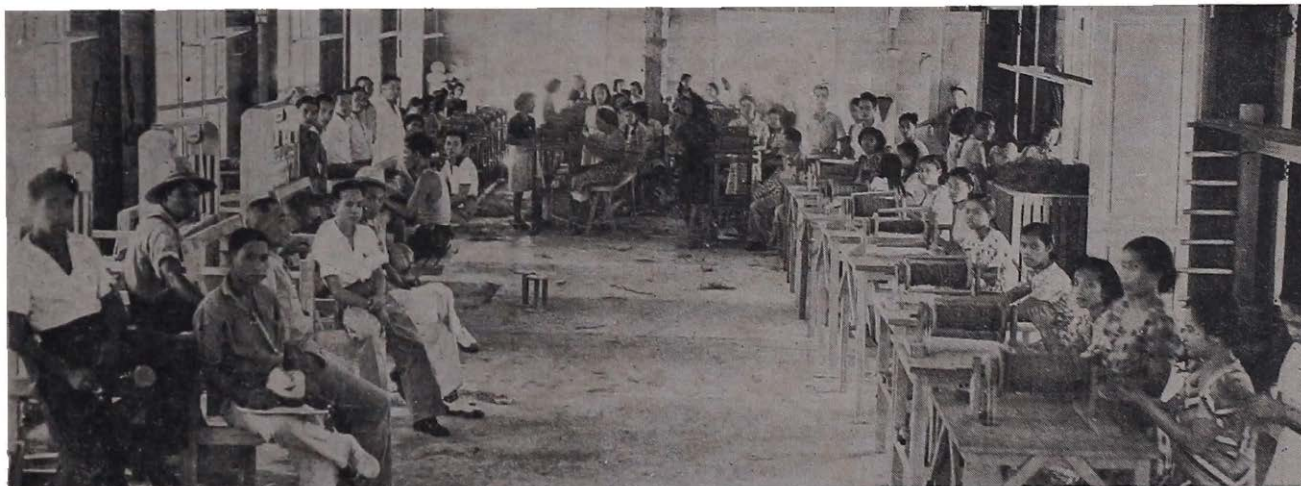
as security; (b) that before such purchase be made such corporation should have contracts with the owners to deliver and sell to the corporation all the coconuts produced on their land or copra made from said nuts, and to convey to the corporation such rights of way that the corporation might deem necessary for roads and railroads connecting the drier or factory with the field; (c) that the majority of the owners of said lands *should be stockholders in the corporation which* should provide for a sinking fund to be deposited with the Insular Treasury for the retirement of the bonds; and that the payment for the retirement of the bonds would have preference over any dividends or profits of the stockholders and would be sufficient for the total extinction of the *bond debt within a period not exceeding 20 years*; and that until all money sufficient to pay the same has been safely deposited for the purpose with the Insular Treasurer, no dividend in excess of 10% per annum would be paid the stock of such corporation, and the net earnings, over and above said dividends, should be used in *betterments of* additions, or improvements to the property offered as security, or in the redemption of the bonds of such corporation.

It was further provided that the Board should not make any loan except upon first mortgage on the drier or factory and the land or part of the land of the corporation, or both, and only for a sum not to exceed 60% of the value of the property offered as security, and that the corporation would provide for the payment of an annual installment *on said loan*, such annual installments to have preference over any dividends or profits of the stockholders and to be

*sound* economic operation of the drier or factory be guaranteed; to establish rules and conditions under which it would furnish aid to the *owners of* coconut driers or factories for the extraction of coconut oil, or *for* the utilization of the waste products of said factories; to make proper provision for the training of technical supervisors, employees, and laborers, who *may* take part in the work of a drier or factory receiving the benefits of the Act.

The Board exercised supervision over the driers or factories constructed or operated under the Act. But this supervision *terminated* when the capital and interest invested by the government *had* been paid off and the government *thereby* completely disengaged itself from the obligation contracted in connection with the guarantee granted by it. In the particular case of the purchase of bonds or of a loan granted to the corporations taking advantage of the benefits of the Act, the Board had the right to appoint a person who would have a direct hand over the operation of the drier or factory and whose compensation as fixed by the Governor General *were* paid by the corporation concerned.

The bonds of any drier or factory were subject to examination by the Bureau of Audits. It was the duty of the Board to report to the legislature at *every* session the result of its work, setting forth among other things, the names of the driers or factories which received government aid, the sum invested for each, the sum received for the payment of the capital and the sum owing therefor, the interest paid and owing, and the losses or profits of each drier or factory.



Student spinners at work in the Marinduque

Coconut School of the N.C.C.

sufficient to *provide* for the total extinction of the debt *within a term* not exceeding 20 years.

In line with the proper discharge of its powers, the Board was authorized among other things to enter into negotiations with, receive propositions from, and make contracts on behalf of the corporation, taking advantage of the benefits of the act, with the constructing firms or concerns engaged in the establishment of coconut driers or factories for the extraction of coconut oil, or *for* the utilization of the waste products of said driers or factories; to demand that the minimum production of coconuts necessary for the

The Act provided that except by permission of the Board, no owner of land or of coconuts which had contracted for a drier or factory may, within 25 years from and after the date of the contract, give, sell, alienate or in any other manner dispose of, or engage his production of coconuts to any person other than the drier or factory, and likewise, no proprietor of land under contract with a drier or factory may, within 25 years from and after the date of the contract, give, sell or alienate, or in any other manner dispose of, or engage his property without the consent of the Coconut

*(Please turn to page 50)*

## COCONUT LEGISLATION

*(Continued from page 37)*

Products Board.

**Penalty for Coconut Thieves**

At the time that Act No. 2598 was enacted another measure was also passed to curb the rampage of thieves and despoilers on coconut lands, which had fast become an extreme annoyance to coconut landowners. This was Act No. 2609 which penalized a person who *gathers* two or more coconuts that have fallen or been left on the ground, or *takes* them off the trees without the knowledge and consent of the owner, or *steals* them in any other manner, or cut the young nuts or the trunks of coconut trees, in order to appropriate their nuts to his own use and consumption. The Act provided that the penalty was that found in Article 518 of the Old Penal Code, later incorporated in Article 310 of the Revised Penal Code as amended by Commonwealth Acts Nos. 273 and 417, Section 2, under the offense described as qualified theft.

**Legislation to Combat Coconut Pests**

In 1933 the coconut leaf-miner presented a vicious threat to the coconut plantations throughout the Philippines. This necessitated the prompt passage of Act No. 4047 on February 18th of that year. *This Act authorized the Director of Plant Industry, subject to the approval of the Secretary of Agriculture and Commerce, to use such amount from the P200,000 already appropriated under Act No. 3924, as may be necessary to accomplish the destruction and eradication of the coconut leaf-miner and other pests and diseases of coconuts.*

The pests wrought such havoc on the coconut plantations that the industry did not feel the immediate adverse and harmful effect of the U.S. Revenue Act passed the following year, *because of the greatly decreased exportation of coco-oil.* This Act, which took effect on May 10, 1934, imposed a tax of 3 cents on every pound of oil extracted in the Philippines or in the United States from copra of Philippine origin, and 5 cents on every pound of oil extracted from copra of foreign origin. The Philippines, however, regained its enviable position of preference when the U.S. Revenue Acts of 1935 and 1936 *which amended the previous revenue act by increasing the original rates of tax imposed on some of the oils were subsequently passed, to the advantage of the Philippine Coconut Oil.*

Toward the extermination and control of locusts, bud-rot, and other coconut pests, the need for legislation was not felt until 1936 when Commonwealth Act No. 110 was enacted on October 30, 1936. This Act created an appropriation of P100,000.00 to be spent for carrying out the campaign against those pests and diseases. Under the Act, the Secretary of Agriculture and Commerce shall submit to the National Assembly within 15 days from the opening of the coming session a report giving a detailed information as to the manner the amount appropriated has been spent, as well as the results thereby accomplished. Any unexpended balance of the fund appropriated shall revert to the Philippine Treasury on December 31, 1937.

**Acts of Congress**

Immediately after the termination of the first World War, there followed a slight decline in our exportation of copra and coconut oil as the demand for their use lessened. But it was not until the years from 1920 to 1922 that our exportation of copra and coconut oil to the United States became alarmingly reduced. The chief cause of this heavy downward trend was the passage of the Emergency Tariff Act of 1921 by the U.S. Congress, which imposed a duty of 20 cents on every gallon of our coconut oil. As a result, several coconut oil mills in the Philippines were forced to shut down. However, the coconut industry was saved from total liquidation by the timely passing of the U.S. Tariff Act of 1922, which repealed the prior Act and imposed a duty of 2 cents only *on* per pound of *Philippine* coconut oil, giving preference, therefore, to the Philippines by excluding imported coconut oil from foreign sources other than the Philippines.

**Coconut Included Among Staple Crops**

Act No. 3443 was enacted on November 28, 1928, appropriating the sum of P50,000 to finance the establishment and maintenance of seed farms. This Act was amended the following year which provided for additional funds in order to extend the operation of the former act to *include* the establishment and maintenance of experimental stations. It is noteworthy that the coconut was not included *in the enumeration of staple crops* primarily mentioned in the foregoing acts. This was, perhaps, due to the fact that the coconut industry as previously stated was not greatly affected by or suffering from the economic depression prevalent the world over. It was only on November 29, 1932, *when* Act No. 3944 was enacted to amend Act No. 3443 by including the coconut *in the rank and file of rice corn, sugar cane, abaca, etc. that coconut fell within the meaning of staple crop.* This later Act provided for another sum of P50,000 to be used in the establishment, maintenance, equipment, and operation of seed farms and experimental stations for the purpose of raising selected and pedigreed seeds *of the enumerated staple crops* to be distributed to the farms throughout the Archipelago.

During the Commonwealth, the coconut having already been considered a staple crop, Commonwealth Act No. 50 passed on October 14, 1936 provided for the establishment, operation, and maintenance of warehouses for copra and, if space is available, other marketable products. Under the Act, the Secretary of Agriculture and Commerce, the Philippine National Bank and the National Development Company may, under such rules and regulations as they will promulgate, charge reasonable rate of fees for deposits made in the warehouses established by them under the Act. For this purpose they are directed to acquire, by lease or otherwise, suitable warehouses in place where, in their opinion, the establishment and operation of such warehouses are justified, and they may employ the services of any officer or employee of the government with the approval of the respective Department Head, or if such officer or employee is not available, they may employ the services of any other suitable person for the operation of *u.* warehouses. Any officer or employee or person in charge



Officials and students in the Marinduque Coconut School for Home Industries of the National Coconut Corporation.



of any of the warehouses created under this Act shall have the privilege of being bonded in the Fidelity Fund.

The Philippine National Bank and the National Development Company were directed to invest out of the funds under their control such amount as may be needed for the establishment, operation, and maintenance of the warehouses with such arrangement as may be agreed upon between them and the Secretary of Agriculture and Commerce. Upon the request of a municipality, the latter may acquire and operate any of the warehouses located within its jurisdiction and establish, operate and maintain the same in accordance with Acts numbered 3929 and 3932 and under such arrangements as may be agreed upon between said municipality and the government institution and authorities concerned for the reimbursements of the money invested in the establishment of the said warehouses.

#### **The Tydings-McDuffie Law on the Coconut**

Rejection of the Hare-Hawes-Cutting Act by the Philippine Legislature resulted in the passage of the Tydings-McDuffie Law, known as the Philippine Independence Act.

The provisions of the rejected Act affecting the coconut industry were wholly incorporated in the latter. According to the Tydings-McDuffie Law, there shall be levied, collected, and paid on all coconut oil coming into the United States from the Philippines, in excess of 200,000 long tons, *in any calendar year* the same rates of duty which are required by the laws of the United States to be levied, collected and paid upon like articles imported from foreign countries, and in case the limit has been reached, the amount or quantity of coconut oil shall be allocated, under export permits issued by the Government of the Commonwealth, to the producers and manufacturers, on

the basis of their exportation to the United States in the preceding year. Moreover, the Government of the Commonwealth shall impose and collect an export tax on the exportation of coconut oil entering the United States free of duty, i. e., within the limitation of the quota of 200,000 long tons, beginning and during the 6th year after the inauguration of the new government, at 5% of the rates of duty which are required by the laws of the United States to be collected and paid on like articles imported from foreign countries; and thereafter at a yearly progressive increase of 5% on the rate of the preceding year, until the expiration of the 9th when the export tax shall be at 25%.

#### **The Tydings-Kocialkowski Act**

Nevertheless, by the passage of the Tydings-Kocialkowski Act, otherwise known as the Philippine Economic Adjustment Act, on August 7, 1939, the economic provisions of the Tydings-McDuffie Law affecting the copra, coconut oil and other products exported to the United States were to a great extent amended. According to this later law, no export tax is to be imposed and collected upon coconut oil and copra, without however exempting the quota of coconut oil from the excise tax provided in Section 2470 of the Internal Revenue Code. The amending law took effect on November 15, 1940, and shall end on July 4, 1946.

The aforementioned law reaffirms the quota of 200,000 long tons provided in the Tydings-McDuffie Law for the year 1940, and furthermore, provides that for each calendar year thereafter up to calendar year 1945, said *annual* quota shall be the same as the corresponding quota for the year immediately preceding, less 5% of the corresponding original quota, and for

the period from January 1, 1946, to July 3, 1946, the *annual* quota shall be one-half of the corresponding quota specified for the calendar year 1945.

### Act Establishing the National Coconut Corporation

The following year, the National Coconut Corporation was created by Commonwealth Act No. 518, approved by the National Assembly on August 7, 1940. It is subject to the provisions of the Corporation Law in so far as they are compatible with the provisions of Act No. 518, and enjoys the general powers mentioned in the said Corporation Law in addition to the specified powers mentioned in Act No. 518. The National Coconut Corporation is managed by a Board of Directors appointed by the President of the Philippines with the consent of the Commission on Appointments of the National Assembly.

According to this Act, the National Coconut Corporation shall have the following objects: (a) to establish, keep, maintain, and operate, or help establish, keep, maintain and operate drying plants, or copra driers, or coconut centrals with a view to adjusting the coconut industry to a position independent of trade preferences in the United States and to provide facilities for the better curing of copra products and the proper utilization of coconut by-products, provided, that no subsidy, direct or indirect, shall be paid to producers or processors of copra, coconut oil, or allied products; and (b) to afford facilities for bona fide production loans to Philippine coconut planters and copra producers.

To carry out the foregoing purposes, the aforesaid corporation is empowered and authorized: (a) to grant bona fide production loans to Philippine copra producers upon the security of coconut crops or products; and (b) to buy, sell, assign, establish or operate rent or lease presses, warehouses, buildings, and any other equipment and materials necessary and proper to carry out its purposes. In accordance with the Tydings-Kocalkowski Act, a special fund known as the "Coconut Industry Fund" was created by appropriating a certain amount out of the Coconut Oil Excise Fund collected on and after January 1, 1939. The total sum available to the corporation for the accomplishment of its undertaking shall not exceed ₱20,000,000.00.

### The Coconut Products Board and the National Coconut Corporation Compared

It is significant to note that the purposes for which the National Coconut Corporation has been organized are in general parallel to those of the Coconut Products Board of 1916. A notable divergence, however, lies in the fact that in the former organization the principal objective was superiority of coconut production, while the one recently established, while not neglecting to place emphasis on the quality of production aims principally at securing for the industry a position independent of trade preferences in the United States.

## FIBER FROM . . .

(continued from page 15)

a pure building board, although it resembles lumber wallboard in many respects. It is a composition board made essentially from wood or any other vegetable fibers by a process of felting in which countless fibers are interwoven and matted to form a rigid product. In other words, it is a synthetic lumber in which strength, resistance to moisture and fire, insulating and acoustical properties have been built in. It is a new material, an insulating lumber, rather than a mere substitute for wood.

Millions of square feet of it are produced annually to satisfy demands that its originators never foresaw. It has been given qualities in a wide variety of combinations to serve specific purposes. It enters primarily in the manufacture of cabinets, marine partitions, railroad coaches, toys, in trailers and motor vehicles, air-conditioning, refrigeration, theaters, etc. As a building material, fiber board is notable in its handiness and ease of application. It presents no waste, since they are delivered in specific sizes and contains no knots, sappy pieces or cross-grains. Moreover, its close texture renders it resistant to attacks from insect vermin.

Two distinct objects of paramount importance are solved in the fiber board industry, namely: (1) the manufacture of a substitute building board material having a large unit surface area which consequently reduces handling and installation costs, and (2) the utilization of waste fibrous products.

Fiber boards can be classified into two different groups—(1) the homogenous and (2) the laminated. Under the former class, sometimes called the uniform consistency board, are found the insulation and acoustical boards. The latter class which is a board built up from several layers to impart strength includes the composition boards used for flooring, cabinets, railroad coaches, etc.

### Manufacturing Process

The process of board making as practised by many manufacturers today, is based upon the principle of "felting" or the production of a rigid board of interlaced fibers. The treatment, however, is sometimes modified according to the kind of raw materials used and products desired.

Generally, the raw material is subjected to a mechanical or chemical pulping process sufficient to loosen incrusting casing materials for the fibers, but not to reduce the fibers into pulp. The fibers are recovered, washed, refined and finally pumped into a stock chest which feeds the molding machine.

From the board machine, the wet board formed passes thru a series of rollers, suction boxes, and finally under powerful presses, whence it is taken to a long continuous drier. Sometimes, however, instead of the long continuous drier, the wet board is cut to specific sizes and loaded into a platen-press, the number of plates varying as to the number of boards pressed at one time. The driers deliver boards which are nearly bonedry and are, therefore, either treated in a humidified or simply sprayed with water to bring its moisture content in equilibrium with the moisture content of the air, thus insuring minimum of swelling and shrinking. The finished boards, after rigid inspection, are stored away ready for delivery.