

L.C.P.A. MEMORANDUM ON A SLIDING SCALE OF EXPORT DUTIES FOR COCONUT PRODUCTS*

The Low Country Products Association, in a memorandum, request the Government to adopt a sliding scale of export duties for coconut products.

The memorandum which has been submitted by the Chairman, Mr. Francis Amarasuriya, states:

1. It has been accepted by the Government that the most equitable method of imposing export duties on agricultural products is by means of sliding scales of duties. This system has been adopted in the case of rubber, and in tea by the adoption of a Percentage Tax on teas for export. Thus, there is no reason why the taxation of the coconut industry should not also be dealt with in the same manner.

2. Before endeavouring to devise a scale of duties for coconut products it would be as well to examine the existing pattern of fixed duties in order to investigate the possibility of drawing up scales which would conform to the existing pattern, and so make the acceptance of the sliding scales more likely. Table I gives the dates of the changes in the duties over a ten year period, the price of Ceylon coconut oil in the London Market at the time each change was made, the duties levied on Copra, Oil, D.C. and Fresh Nuts, both in terms of the units in which the duties are recovered, as well as in terms of units of 1000 nuts for purposes of comparison. The duty on Poonac is omitted, as this is irrelevant on account of the negligible quantity exported over the period, and as it is the policy of Government to retain in the country all the poonac necessary for animal feeding.

Inadequate Margin

3. Table I, and more particularly the graph drawn from this data, clearly indicates the pattern on which Government has imposed the duties on coconut products over this period. Coconut Oil and Desiccated Coconut have been given a considerable degree of preference over Copra ranging from Rs. 20/- per 1000 nuts at the £93 price level to Rs. 27/- at the £130 level in the case of Oil, and over and above this D.C. has been given an advantage of about Rs. 3/- per 1000 nuts throughout this price range. The duty on fresh nuts has remained at Rs. 65/- per 1000, possibly because, as no exports were permitted, the duty was not relevant. It will also be apparent from the Graph that sliding scales of duties in respect of Copra, Oil and D.C. could very easily be drawn up, which would yield almost the identical revenue that resulted from these fixed

*Reproduced from Ceylon Commerce' Vol. IX No. 5-6.

duties within the price limits of the period, and moreover, the levy would be made in a much more equitable manner. Government would probably find such scales quite acceptable.

4. However, this would not be completely satisfactory to producers, as although the duty variation over the greater portion of the range is reasonable, still the duties levied at the lower end of the scale would reduce the internal prices of coconut products to a level that gives the average producer an inadequate, if any, margin of profit. Therefore it is necessary to adjust the scales in such a manner as to provide relief to producers at the lower price levels, while providing Government with the same revenue. Fortunately, this adjustment is quite possible.

5. Before this adjustment can be made it is necessary to determine what constitutes a *fair minimum* price for copra. In 1955, a Committee appointed by Government reported that Rs. 97/50 represented the recurrent cost of production of a candy of copra including the cost of transport to Colombo (vide S.P. XVIII of 1955). This is equivalent to Rs. 70/- per 1000 nuts, but the costs of production in the coconut industry have risen steeply since 1955. This has been generally due to rising costs in the country, and specifically because of the increase in the wages payable to labourers on coconut estates, to coconut pickers, and to curers of copra. On November 1st, 1959 these wages were increased by 25%, 44% and 86% respectively. In addition to these increase, the introduction of the Employee's Provident Fund on the same date added a further 6% to total labour costs. Further, from 1st April, 1960 there has come into operation a land tax, which now falls on every acre of coconut land over 20 acres in extent. Today, consequently the cost of production is more likely to be in the region of Rs. 80/- per 1000 nuts. Our national average yield over the last five years is 2250 nuts per acre. Thus if nuts sell at Rs. 105/- per 1000, giving a profit of Rs. 25/- per 1000, the profit per acre is only Rs. 56/25 cts. Surely this represents a bare minimum below which the market should not be depressed by the imposition of import duties. This price level in terms of copra is Rs. 140/- per candy, which means that when the world price drops to a level at which the local price of copra would be only Rs. 140/- per candy no export duty should be levied.

6. Now a sliding scale of duties for coconut products would best be based on the price of one of the products in a principal foreign market, where a regular market is established and the price of the commodity is published daily. As the major export commodity is now coconut oil, the scale should be based on oil and as regards a market, there is the London market which publishes the prices daily. However, in order to ensure that the duties could not be manipulated by local interests speculating in Ceylon oil on the London market, it would seem desirable to base the sliding scales on the price of

Singapore oil in the London market, due provision being made for the price differential of £3 or £4 which normally exists. It should be stressed that what is important for this purpose is not the actual price difference, but the movement of prices, and it can be shown that the two prices move together.

7. It is therefore necessary to ascertain the price of Ceylon Coconut Oil in the London Market at which the price for milling quality copra would be Rs. 140/- per candy, provided no export duty was payable. Now, as $6\frac{1}{2}$ candies of copra are required to mill a ton of oil, and as the milling cost of Rs. 100/- per ton is offset by the value of the $\frac{1}{2}$ ton of poonac produced — Government having recently decided that Rs. 200/- per ton represents a fair price for poonac — the price of oil delivered at the Bulk installation should be Rs. 140/- + $6\frac{1}{2}$ i.e. Rs. 910/- per ton. In order to obtain the c.i.f. value of this oil, there must be added to Rs. 910/- the freight of Rs. 125/- the insurance of Rs. 10/- and the tank cleaning charge of Rs. 20/- making Rs. 1,065/- per ton, which is equivalent to £80 c.i.f. London. Thus, when the price of Ceylon Coconut Oil in London is £80 per ton, the export duty on oil should be nil.

8. Reference to Table II, will show that the minimum price obtained for Ceylon Coconut Oil in London over a ten year period has been £79 during the month of April 1952 and the price was £80 in March £82 in August the same year. Thereafter the next lowest price was £85 reached in 1961. Thus, even though the scale of duties is so arranged that no duty is levied at £80, it will be seen that duty will always be recovered as the price level is usually well above £80. Further Table II indicates that the average level is £107, and that the maximum price reached in the period was £146 in May 1959. It is quite clear that £107 represents a fair average price, as the average annual price for five of the ten years is below this level, and above this for the remaining five years. If it is thought that the average was inflated by the 'Korean Boom' prices of 1953 and 1954, it can be pointed out that the average of the last five years is even higher, £111½ per ton. The highest prices during this latter period were obtained in 1958, 59 and 60 largely as a result of unfavourable weather in the growing areas, a natural hazard that may be expected to recur quite regularly.

9. On this data it is possible to devise a sliding scale for coconut oil which would give the producer the relief necessary at the lower price levels and also compensate Government for the loss of duty at these price levels. The manner in which this has been done is indicated on the graph. When a line representing the proposed scale of oil duty is drawn so that the duty is nil at the £80 price level, and this line passes through the point representing the duty at the average price level of £107 per ton and is extended beyond this point, it will be seen that the loss in revenue at price levels below £107 is exactly compensated for by the increase in revenue due to the higher duties at prices over £107. There will be thus no loss whatever to revenue in the long run, and the producer will be fully justified in asking for this relief.

10. Several distinguished Economists who have studied the economy of Ceylon have commented that the anti-inflationary effect of export duties is completely lost when the Government includes the entire sum recovered as duty in the Budget. It is suggested that Government should consider the duties at the average price of £107 the standard rates of duty on coconut products, and place all duties recovered in excess of this in a special duty stabilizing fund to be drawn on in periods of lower price levels when the revenue falls short of the standard rates. If these drawings are restricted to a fixed percentage in any given year, there will be little danger of the fund being rapidly exhausted if years of low prices follow each other, in any case, such years are usually followed by years of higher prices, when the fund will be built up again.

11. The scale of duty for copra can similarly be determined by drawing a line parallel to the oil duty line and passing through the point representing the copra duty at the average price level of £107. The graph will show that a preference of Rs. 23/- per 1000 nuts over copra is given to oil over the entire range, but this can be varied slightly if it is so desired. The duty should remain at the Rs. 23/- per 1000 even below the £80 price level when the duty on oil is nil.

TABLE I

| <i>Date of Change</i> | <i>Oil Price C.I.F. London</i> | <i>Duty imposed on Copra</i> | <i>Oil</i> | <i>D.C.</i> | <i>Nuts</i> |
|-----------------------|--------------------------------|------------------------------|-----------------|-----------------|----------------------|
| Dec., 1953 | £130 per ton per 1,000 nuts | —260.00 — 52.00 | 208.00 25.60 | 156.00 22.60 | 65.00 per 1,000 " |
| Mar., 1955 | £102 per ton per 1,000 nuts | —200.00 — 40.00 | 135.00 16.61 | 95.00 13.76 | 65.00 " |
| July, 1955 | £ 94 per ton per 1,000 nuts | —185.00 — 37.00 | 135.00 16.61 | 95.00 13.76 | 65.00 " |
| July, 1959 | £127 per ton per 1,000 nuts | —245.00 — 49.00 | 185.00 22.76 | 135.00 19.56 | 65.00 " |
| May, 1961 | £ 93 per ton per 1,000 nuts | —185.00 — 37.00 | 140.00 17.23 | 100.00 14.49 | 65.00 " |

NOTE — The conversion into terms of units of 1,000 nuts has been made on the basis that:—

5,000 nuts are equivalent to 1 ton of copra

8,125 " " 1 " " oil

6,900 " " 1 " " D.C.

TABLE II
ANNUAL MAXIMUM, MINIMUM AND AVERAGE OIL PRICES FOR
A TEN YEAR PERIOD

| | <i>Maximum Price</i> | <i>Minimum Price</i> | <i>Average Price</i> |
|----------|----------------------|----------------------|----------------------|
| 1952 .. | £118 (Jan.) | £ 79. (Apr.) | £ 96 |
| 1953 ... | £130 (Dec.) | £112 (Sept.) | £123 |
| 1954 .. | £134 (Jan.) | £101½ (Sept.) | £111 |
| 1955 .. | £106 (Jan.) | £ 91½ (Aug.) | £ 94 |
| 1956 .. | £102½ (Dec.) | £ 91 (Mar.) | £ 96 |
| 1957 .. | £108 (Dec.) | £ 94 (Jan.) | £ 98½ |
| 1958 .. | £133 (Nov.) | £108½ (Jan.) | £144 |
| 1959 .. | £146 (May) | £127 (July) | £137 |
| 1960 .. | £141 (Jan.) | £ 94 (Dec.) | £115 |
| 1961 .. | £101½ (Feb.) | £ 85 (Oct.) | £ 93 |
| | | Overall Average | £107 |

TABLE III
THE SLIDING SCALES OF DUTIES

| <i>London Price of Singapore Oil</i> | <i>London Price of Ceylon Oil</i> | <i>Export Duty on Copra</i> | <i>Export Duty on Oil</i> | <i>Export Duty on D.C.</i> | <i>Export Duty on Fresh Nuts</i> |
|--------------------------------------|-----------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------------|
| <i>Below £</i> | <i>Below £</i> | <i>Rs. Cts.</i> | <i>Rs. Cts.</i> | <i>Rs. Cts.</i> | <i>Rs. Cts.</i> |
| 77 | 80 | 115.00 | Nil | Nil | 28.75 |
| 77 | 80 | 115.00 | Nil | Nil | 28.75 |
| 78 | 81 | 118.50 | 5.80 | 4.92 | 29.62 |
| 79 | 82 | 122.00 | 11.60 | 9.85 | 30.50 |
| 80 | 83 | 125.50 | 17.40 | 14.78 | 31.37 |
| 81 | 84 | 129.00 | 23.21 | 19.71 | 32.25 |
| 82 | 85 | 132.50 | 29.01 | 24.64 | 33.12 |
| 83 | 86 | 136.00 | 34.81 | 29.56 | 34.00 |
| 84 | 87 | 139.50 | 40.62 | 34.49 | 34.87 |
| 85 | 88 | 143.00 | 46.42 | 39.42 | 35.75 |
| 86 | 89 | 146.50 | 52.22 | 44.35 | 36.62 |
| 87 | 90 | 150.00 | 58.03 | 49.28 | 37.50 |
| 88 | 91 | 153.50 | 63.83 | 54.20 | 38.37 |
| 89 | 92 | 157.00 | 69.63 | 59.13 | 39.25 |
| 90 | 93 | 160.50 | 75.43 | 64.06 | 40.12 |
| 91 | 94 | 164.00 | 81.24 | 68.99 | 41.00 |
| 92 | 95 | 167.50 | 87.04 | 73.92 | 41.87 |
| 93 | 96 | 171.00 | 92.84 | 78.84 | 42.75 |
| 94 | 97 | 174.50 | 98.65 | 83.77 | 43.62 |
| 95 | 98 | 178.00 | 104.45 | 88.70 | 44.50 |
| 96 | 99 | 181.50 | 110.25 | 93.63 | 45.37 |
| 97 | 100 | 185.00 | 116.06 | 98.56 | 46.25 |
| 98 | 101 | 188.50 | 121.86 | 103.48 | 47.12 |
| 99 | 102 | 192.00 | 127.66 | 108.41 | 48.00 |
| 100 | 103 | 195.50 | 133.46 | 113.34 | 48.87 |
| 101 | 104 | 199.00 | 139.27 | 118.27 | 49.75 |
| 102 | 105 | 202.50 | 145.07 | 123.20 | 50.62 |
| 103 | 106 | 206.00 | 150.87 | 128.12 | 51.50 |
| 104 | 107 | 209.50 | 156.68 | 133.05 | 52.37 |
| 105 | 108 | 213.00 | 162.48 | 137.98 | 53.25 |
| 106 | 109 | 216.50 | 168.28 | 142.91 | 54.12 |
| 107 | 110 | 220.00 | 174.09 | 147.84 | 55.00 |
| 108 | 111 | 223.50 | 179.89 | 152.76 | 55.87 |
| 109 | 112 | 227.00 | 185.69 | 157.69 | 56.75 |
| 110 | 113 | 230.50 | 191.49 | 162.62 | 57.62 |
| 111 | 114 | 234.00 | 197.30 | 167.55 | 58.50 |
| 112 | 115 | 237.50 | 203.10 | 172.48 | 59.37 |
| 113 | 116 | 241.00 | 208.90 | 177.40 | 60.25 |

Contd.

| <i>London Price of Singapore Oil</i> | <i>London Price of Ceylon Oil</i> | <i>Export Duty on Copra</i> | <i>Export Duty on Oil</i> | <i>Export Duty on D.C.</i> | <i>Export Duty on Fresh Nuts</i> |
|--------------------------------------|-----------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------------|
| <i>Below £</i> | <i>Below £</i> | <i>Rs. Cts.</i> | <i>Rs. Cts.</i> | <i>Rs. Cts.</i> | <i>Rs. Cts.</i> |
| 114 | 117 | 244.50 | 214.71 | 182.33 | 61.12 |
| 115 | 118 | 248.00 | 220.51 | 187.26 | 62.00 |
| 116 | 119 | 251.50 | 226.31 | 192.19 | 62.88 |
| 117 | 120 | 255.00 | 232.12 | 197.12 | 63.75 |
| 118 | 121 | 258.50 | 237.92 | 202.04 | 64.62 |
| 119 | 122 | 262.00 | 243.72 | 206.97 | 65.50 |
| 120 | 123 | 265.50 | 249.52 | 211.90 | 66.37 |
| 121 | 124 | 269.00 | 255.33 | 216.83 | 67.25 |
| 122 | 125 | 272.50 | 261.13 | 221.76 | 68.12 |
| 123 | 126 | 276.00 | 266.93 | 226.68 | 69.00 |
| 124 | 127 | 279.50 | 272.74 | 231.61 | 69.87 |
| 125 | 128 | 283.00 | 278.54 | 236.54 | 70.75 |
| 126 | 129 | 286.50 | 284.34 | 241.47 | 71.62 |
| 127 | 130 | 290.00 | 290.15 | 246.40 | 72.50 |
| 128 | 131 | 293.50 | 295.95 | 251.32 | 73.37 |
| 129 | 132 | 297.00 | 301.75 | 256.25 | 74.25 |
| 130 | 133 | 300.50 | 307.55 | 261.18 | 75.12 |
| 131 | 134 | 304.00 | 303.36 | 266.11 | 76.00 |
| 132 | 135 | 307.50 | 319.16 | 271.04 | 76.87 |
| 133 | 136 | 311.00 | 324.96 | 275.96 | 77.75 |
| 134 | 137 | 314.50 | 330.77 | 280.89 | 78.62 |
| 135 | 138 | 318.00 | 336.57 | 285.82 | 79.50 |
| 136 | 139 | 321.50 | 342.37 | 290.75 | 80.37 |
| 137 | 140 | 325.00 | 348.18 | 295.68 | 81.25 |
| 138 | 141 | 328.50 | 353.98 | 300.60 | 82.12 |
| 139 | 142 | 332.00 | 359.78 | 305.53 | 83.00 |
| 140 | 143 | 335.50 | 365.58 | 310.46 | 83.87 |
| 141 | 144 | 339.00 | 371.39 | 315.39 | 84.75 |
| 142 | 145 | 342.50 | 377.19 | 320.32 | 85.62 |
| 143 | 146 | 346.00 | 382.99 | 325.24 | 86.50 |
| 144 | 147 | 349.50 | 388.80 | 330.17 | 87.37 |
| 145 | 148 | 353.00 | 394.60 | 335.10 | 88.25 |
| 146 | 149 | 356.50 | 400.40 | 340.03 | 89.12 |
| 147 | 150 | 360.00 | 406.21 | 344.96 | 90.00 |

