

February 27, 1951

AIR MAIL

Mr. M. R. Arick, Vice President
Lepanto Consolidated Mining Company
7th Floor, Soriano Building
Manila, Philippines

Dear Mr. Arick:

I have at hand your letters of February 15th, 22nd and 23rd. I do not want you to think that we do not want to sympathize with you and Mr. Lednicky in the predicament that you are in with regard "counterpart funds", but in a sense we are in much the same predicament here although for a different purpose. Business in the United States is now paying 47% normal income tax on net incomes plus an excess profit tax rate of 77% applicable to all earnings in excess of a credit based on either invested capital or average base period earnings. The base period is 1946 to 1949 inclusive, with average earning credit based on 85% of average profits during the best three years of the base period.

The excess profit tax act of 1950 is kind enough to limit the total of normal income and excess profit taxes to 62%.

I have spent considerable time recently in Olympia, the state capitol, as there is a bill that is quite likely to pass that imposes a 4% tax on corporations operating within the state that will be put on top of the United States government income tax. We already pay, in the state of Washington, a 3% sales tax on everything we buy and have to pay a business and occupation tax on gross income that amounts to about 5% of net income. The proposed 4% corporation tax will apply only to corporations and not to individuals and non-incorporated business, the thought being that corporations have no vote and, therefore, have no voice and can not help themselves. I think this will give you an idea of what we face here in the states.

In the second paragraph of your letter of February 15th you indicate that Lepanto should have the same advantage given to domestic producers. I believe you know that we are paying for Lepanto copper on the export price, namely, 24.425¢ per pound and not the domestic price of 24.2¢ per pound. The only exemption

February 27, 1951

I know of that the United States government makes to domestic producers is the credit of depletion applicable to mines. From your 1949 report you are apparently allowed the credit for depletion also.

You indicate in the next to the last paragraph that your adjusted profit for 1949 would be 3.86%. My figures indicate that you have pointed off an extra place and that actually the profit is 38.6%. As to the net income of 1.49% of capitalization, this should be 14.9% of P 5,000,000, but would be 37.3% on your 1949 capitalization of P 2,000,000.

You indicate that you have had no helpful suggestions and thought we would take the matter up in Washington. Going to Washington these days to get assistance is really a task. Mr. Charles Wilson is the head of the equivalent of a War Production Board, but aside from a price and wage freeze nothing has come out of their efforts as yet. Their authority is only internal and they do not listen to any stories about the effect of E.C.A. in the Philippines.

I appreciate your position and can fully understand that you expect authority from the stockholders to suspend operations if they prove to be unprofitable. I trust that after action has been taken to meet E.C.A. demands you will still find your operation will return a reasonable profit and that you can continue to operate.

Perhaps you did not read recently that one of the members of the R.F.C. was asked if he ever helped a Republican get a loan. He replied that he had never knowingly done so for a Republican. As you perhaps know, this company is well-known Republican so our effectiveness in Washington is practically nil.

With reference to your letter of February 22nd, the only benefit that the American taxpayer is supposed to realize from the passage of certain laws upon the Philippines is that they wish to get stability in the Islands so that they will not fall to the Communists. We hear repeatedly in the papers that the government is so unstable that the Communists may take over at any time and one of the facts is the sorry financial condition of the government. The American taxpayer is told that until the Philippine government puts its financial house in order the United States will not give them financial aid.

As indicated in your letter of February 23rd, I realize that those with a good income are the ones that are hit the hardest. In this country those with the highest incomes pay the greatest tax percentage wise--the idea being to get the money where it can be obtained easiest.

February 27, 1951

I take Time magazine but do not read Newsweek, so I have not seen any statement to the effect that the United States Stockpiling Agency is outbidding Great Britain for foreign copper by paying 50¢ per pound. Actually I see no reason for such a program as the United States government practically commandeers domestic copper and pays 24 $\frac{1}{2}$ ¢ per pound.

I am very sorry that I have been unable to furnish any ideas that may help you out. I am in the same position on a local basis as the visits of businessmen to the State Capitol have probably been of little effect as the legislators say they need the money. For this reason a state corporation tax is justified in their minds.

With best regards, I am

Yours sincerely,

ERM:EG

E. R. MARBLE

Bc - RLJourdan

Blind note to Mr. R. L. Jourdan:

Mr. Arick has written three times recently and sent along newspaper clippings as well, indicating that the Economic Commission sent to the Philippines to investigate conditions is imposing such burdensome taxes and "counterpart funds" that they will put them out of business. Unfortunately Mr. Arick in making slide rule calculations pointed off wrong and got the profit down to an absurdly low figure. Actually they would have made 38.6% in 1949 based on the proposed taxes. Such a profit is not too bad.

He continues to stress the matter of "bookkeeping trick" but now applies it to the United States Customs. I still do not see how he can assume anything in this regard as the two cents goes to the government and does not accrue to the shipper of copper.

He states that you and I have very calmly closed the door on any suggestions for relief and that we have done nothing about it. He asks that we go to Washington to see if some relief can not be secured for them.

He indicates that they will ask the stockholders for authority to cease operations if they become unprofitable. He reports that their 1950 income is P 10,800,000 and I believe that their annual report will show a profit of P 3,000,000, which on a P 5,000,000 capitalization is 60%.

Yours truly,

ERM:EG

E. R. MARBLE