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Arizona Department of Mineral Resources

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39.0-CENT PERIL POINT INDICATED FOR COPPER IN 1961  
BY INCREASED PRODUCTION COSTS SINCE APRIL, 1951  
WHEN 24-CENT PERIL POINT WAS ESTABLISHED

In 1951, when the 24-cent peril point was established, the figure was accepted by all as reasonable and fair. The mistake at that time was the failure to attach an escalation feature to the measure. If this had been done, the peril point to-day would be at least 38.99 cents, for production costs have gone up 62.45 percent since April, 1951, when the 24-cent point was established.

Because Inspiration Consolidated Copper Company is a large well managed copper producer in Arizona and because its operations are conducted within this State, from open-pit mining through crushing, leaching and electrolytic precipitation, its record of costs should be typical of the change in production costs that has been suffered by the copper industry in the State.

Therefore, a study has been made of Inspiration's reports to stockholders for the years 1951 and 1961, and the following table shows a comparison of the production cost for those two years:

TABLE I

Inspiration Consolidated Copper Co:	<u>1951</u>	<u>1961</u>
Lbs. copper produced	78,249,439	78,330,640
Cost of deliveries, operating expenses, development, maintenance and repairs, administrative and general expenses and taxes, other than Federal income and excess profits taxes -	\$ 11,490,534.55	\$ 18,686,750
Cost per pound of copper produced	\$ 0.14685	\$ 0.23856
Percent increase in cost per lb. copper		62.45%

Hence, if a peril point of 24.0 cents per pound of copper was satisfactory in 1951, then in 1961 the peril point should have been raised by 62.45%, or 14.99 cents per pound, making the new peril point 38.99 cents.

It is to be noted that when (in 1958) the copper industry agreed to setting the peril point at 30 cents, the consent was based upon getting a 4-cent tariff on copper. Now, however, the prevailing tariff is only 1.7 cents per pound which became effective on July 1, 1958, with no fixed peril point.\*

Since Feb. 2, 1959, the producers' price has been 30 cents or better, and there has been agitation among foreign producers for a suspension of the U. S. tariff. It so happens that if the 4-cent tariff bill had been enacted the import tax would have been automatically suspended as soon as the price of copper reached 30 cents. But the bill failed of enactment, and domestic producers had to be satisfied with the restoration of the 1.7 cent tax when the copper tariff suspension act expired on June 30, 1958. Now, however, with production costs having reached over 60% above the 1951 costs, it would seem only fair that a peril point of 39 cents would justify suspension of the 1.7 cent copper tariff.

As a matter of fact, there really should be no suspension of the tiny 1.7 cent copper tax at all, as it does not come anywhere near offsetting the advantages which foreign copper producers have over domestic producers, in high-grade ores cheap labor costs, and devalued currencies.

AD VALOREM COPPER TARIFF HAS BEEN REDUCED 85 PERCENT  
FROM 1932-1940 PERIOD TO JULY 1, 1958.

From 1932 to 1940, when Congress enacted and re-enacted the 4-cent copper tariff every two years (after thorough investigation each time), the price of copper averaged 10.11 cents per pound; so that on an ad valorem basis the duty was roughly 40 percent. On the basis of a 31-cent average price which has prevailed since May of 1961, the 1.7 cent duty was less than 6 percent ad valorem, which means an 85 percent reduction in ad valorem duties in effect during the 1932-1940 period.

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\* Except to restore the tax to 2 cents per pound if copper goes below 24 cents.

As a matter of fact, cutting the ad valorem tax from 40 percent to  $12\frac{1}{2}$  percent would still permit a 4-cent tariff in a 32-cent copper market, and would mean a 68.75 percent tariff reduction.

### A Breakdown of some of the Factors Causing Increased Production Costs

1. The base hourly earnings rate for April 1951 was \$ 1.589  
 " " " " " " Year 1961 was \$ 2.673  
 Increase in labor cost - 68.2%
2. Consumer Price Index (or Cost of Living) for April 1951 was 110.4  
 " " " ( " " " " ) " Year 1961 was 127.85  
 Increase in supplies cost - 15.8%
3. Taxes (property and production (or sales) for April 1951 was \$0.0128  
 " ( " " " ( " " ) for Year 1961 was \$0.0228  
 per lb. copper  
 per lb. copper  
 Increase in taxes (other than Fed. Income) - 78.2%
4. Freight on Blister for April 1951 (per ton blister) \$21.84  
 " " " " Year 1961 ( " " " ) \$28.97  
 Increase in freight 32.7%

Justification for a Copper Tariff of at least 4 Cents per pound.

A tariff of at least 4 cents per pound of copper is shown to be justified by the following example: In the period 1959-1961, it took an annual average of 28,078,819 man-hours of Arizona labor @ \$2.682 per hour to produce 63,718,000 tons of copper ore with a recovery of 988,442,100 pounds of equivalent copper; a labor cost of \$75,307,393 for copper mining, or \$0.07619 per pound of copper.

This was a recovery of 35.20 pounds of copper per man-hour of labor. If we assume a recovery of 88.0 pounds of copper per man-hour of foreign labor, (which assumes a minimum grade of only 2.5 times the Arizona ores), and a labor cost of only \$1.07 per man-hour (which is 40% of Arizona hourly earnings), we arrive at a cost of only \$0.01216 per pound of copper by foreign labor. This is 6.4 cents less than Arizona labor costs. As the object of a copper tariff was primarily to equate the difference in wage-rates, a proper tariff could be as much as 5.9 cents (allowing a half-cent per pound freight rate on the foreign copper).