

MEMORANDUM FOR STATE DEPARTMENT RE: FLAX-
SEED AND LINSEED OIL SUBMITTED BY NATION-
AL PAINT, VARNISH AND LACQUER ASSOCIATION

The following information is submitted for consideration in connection with any proposed adjustment of duties, excise or other taxes on flaxseed or its principal product, linseed oil, which adjustment may suggest or require study by the State Department.

The paint and varnish industry is the largest user of linseed oil, as shown by the following extracts from "Factory Consumption of Animal and Vegetable Fats and Oils by Classes of Products" (Bureau of the Census):

	<u>Total Lbs.</u>	<u>Paint & Varnish</u>
1933	241,325,000	192,959,000
1934	258,483,000	205,743,000
1935	291,684,000	230,146,000
1936	305,330,000	233,340,000

Although, from one point of view, this industry is a "consumer" of linseed oil, it should be kept in mind that it occupies the position of a salesman finding markets for products in which linseed oil is used; and that if because of higher prices, competitive products are used, the condition of the domestic flax grower will not be improved but probably will be injured. Every increase in the cost of oil-bearing finishes strengthens the position of competitive products, and markets once lost are regained with difficulty, if at all.

That this competition is not negligible, but, from the point of view of the flax grower, is serious, may readily be seen when the list of competitive products is considered.

Stone, brick, stucco and concrete construction. - This industry advocates painting but frame construction has furnished the widest market for generations. The ever-widening fire limits materially affect the type of construction.

Asphalt paints are making inroads in the structural iron field where they compete with red lead and oil. Water paints are made for exterior use on cement and stucco.

Interior walls may be preserved or decorated with oil paint, water paints and calcimines, or wallpaper.

In 1933, 289,120,472 rolls of wallpaper were produced in the United States. (The average roll is 7½' x 18").

In 1935, production increased to 344,496,067 rolls. (Bureau of the Census - Census of Manufactures: 1933 - Pulp and Paper, p. 14, and Census of Manufactures: 1935 - Wallpaper - Release Industry No. 411, February 19, 1937)

The use of cold water paints and calcimines has increased rapidly and cannot be disregarded by flax growers. The following totals are compiled from reports of

the Bureau of the Census:

1932	38,486,972 lbs.
1933	50,853,340 "
1934	72,739,547 "
1935	94,419,099 "
1936	103,486,204 "

Floors, which furnish a market for varnish containing oil, may be finished with shellac (containing no oil) or covered with carpet. The carpet industry is an active competitor. The Bureau of Foreign and Domestic Commerce, Department of Commerce, reports 1936 imports of 16,720,322 lbs. of lac, crude, seed, button and stick, compared with 7,483,575 lbs. in 1935. There was also imported in 1936, 14,377,586 lbs. of unbleached and 320,659 lbs. of bleached shellac.

A competitor of the varnish for use on floors is mastic tile in which no oil is used. (This is not only a competitor of varnish but of linoleum, in which linseed oil is used in substantial quantities.)

Another formidable competitor of varnish is lacquer (which contains no linseed oil). The following figures based on lacquer sales of 158 identical manufacturers were published by the Bureau of the Census, February 8, 1937:

1935	36,497,441 gallons
1936	44,237,268 "

Earlier figures are not comparable with the above, as they are based on reports of 102 identical manufacturers, but for the years indicated they are comparable and show steady increase in the use of this product.

1932	16,252,821 gallons
1933	20,901,290 "
1934	24,839,476 "

(Census release February 25, 1935)

1935	32,538,603 gallons (102 mfrs.)
1936	39,484,443 " " "

(Census release February 8, 1937)

Synthetics are also to some extent replacing other finishes. One of the members of this industry recently transmitted steel panels finished with this material, and advised:

"Formerly a long oil varnish of superior material was used in the manufacture of these goods but this new synthetic enamel is about ten times as durable and contains no linseed oil.

"Last year we supplied the Louisville Bridge Company with 2800 gallons of a synthetic liquid for painting the Municipal Bridge, in which there was no linseed oil.

"The specifications for this bridge paint were approved by the famous engineer, Modjeski, and it will wear two or three times as long as on oil paint."

Another manufacturer, transmitting wooden panels finished with lacquer and synthetic varnish, made the following comment:

"These prices are just slightly above the price of our regular rubbing and polishing varnish. In fact, we get as much as \$1.25 and \$1.35 for some grades of rubbing and polishing varnish now, but the difference between the cost of the conventional varnish today and the synthetic varnish and the lacquer on the panels we will send you is not as great as the increase in the cost of the conventional varnish if these high oil taxes are levied, and we would have to increase the cost of varnish to absorb the increase in cost of the oil with the tax added; so it would be an easy matter for us to supply a lacquer and a synthetic varnish to the furniture trade at prices that would be about the same or even lower than the conventional varnish if the tax is levied on the oils.

"Therefore, we think there is a great danger here, and there is a great possibility of a change in the entire finishing field if taxes are placed on raw materials sufficient to bring their costs as high as the taxes which have been mentioned." (2/4/37)

"In fact, they would not have to increase very much to force people to begin thinking about these types of finishes. As you know, lacquer is now being used on furniture to a large extent, and they could very easily use it 100% if it became necessary because they are familiar with its use and would have no difficulty in putting it on their regular schedule." (same manufacturer, 2/16/37)

One of the largest outlets for varnish is in the furniture manufacturing industry, and, as pointed out above, this market is exposed to the competition of products which contain no linseed oil. A relatively slight difference in price per gallon (amounting to a large annual increase in finishing costs) would be sufficient to cause a shift in the type of finishing material used.

As stated, this industry finds the market for finishes containing linseed oil, but it also produces water paint, calcimine, lacquer, synthetic finishes and shellac and will supply whatever may be demanded by the industrial users or the home owners.

The adoption of a quota system, or of excise or processing taxes will merely intensify competition with products now made with linseed oil. The situation of Argentina, one of the important sources of imported flaxseed, will be made more difficult, without in any manner improving the condition of the domestic flax grower.

The tariff on flaxseed has been steadily increased although there has been a ready domestic market for approximately twice the amount produced in this country. Notwithstanding this progressively increasing tariff protection and a demand that could be satisfied only by imports often in excess of domestic

production, this domestic flax production has declined. In a further effort to better the condition of flax growers, a tax of $4\frac{1}{2}\%$ per pound was recently imposed on a competitive oil - perilla. Perilla, being an oil of high drying value, was largely used by this industry with soybean oil (an oil of low drying value) to render the latter suitable for use as a drying oil. Soy is produced in a greater number of states than is flax, and if the tax on perilla accomplishes the purposes of its proponents, the flax growers, it will be largely at the expense of the farmers who produce soy.

The failure of the domestic flax crop has been due principally to causes that cannot be removed by legislation, - drought, frost and grasshoppers. Further attempts to benefit flax growers by taxation will not remove these natural causes of crop failure, but they will undoubtedly tend to a marked degree to further contract the market, incidentally throwing out of balance such foreign commerce as may depend on the normal domestic demand for imported flaxseed.

The sources of the above information have been cited and are doubtless available to the Department. Exhibits of finishes produced by water paint, calcimine, lacquer, shellac, synthetic varnish and synthetic enamel will be shown when requested. It is believed that only by examination of such exhibits can representatives of the Department fully appreciate the character of the competition they offer to oil-bearing products, and the reason for the rapid increase in their use by the public.

Respectfully submitted,

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By

General Counsel