



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

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## Grassley Introduces Bill to Freeze Duty-free Imports of Brazilian Ethanol

WASHINGTON – Sen. Chuck Grassley, chairman of the Senate Finance Committee, today introduced legislation to help ensure that the Caribbean Basin Initiative trade preference program is used as a tool of economic development for the region, and not as a vehicle to transship large quantities of Brazilian ethanol duty-free to the United States.

“Allowing the CBI preference program to be used as a vehicle to transship large quantities of Brazilian ethanol to the United States duty-free is simply bad trade policy,” Grassley said. “It’s also bad for my home state of Iowa. The current program provides Brazilian ethanol with an unintended competitive advantage in the United States. At the same time, it does little to help countries in the Caribbean and Central America.

“The Caribbean Basin Initiative was enacted during the Reagan Administration to encourage meaningful economic development in the Caribbean region, not to facilitate pass-through operations that contribute little in the way of jobs and economic development. By limiting pass-through processing of Brazilian ethanol, this bill will encourage greater investment and economic development in the CBI region. That was what we intended when the program was adopted during the Reagan Administration. This bill will also help to make sure that Iowa’s ethanol industry is not undercut by duty-free Brazilian ethanol imports.”

Grassley’s bill, announced on July 8, limits the amount of ethanol that can enter the United States duty-free unless it contains significant amounts of domestic content. The legislation is in response to recent press reports that U.S. companies were planning major investments in the region that would enable them to simply “dehydrate” Brazilian ethanol and gain preferential access to the U.S. market.

Grassley is chairman of the Senate Committee on Finance, which has jurisdiction over trade legislation.

His statement on the Senate floor upon introduction follows.

Senator Chuck Grassley  
Floor Statement on the Introduction of Legislation to Encourage Indigenous  
Feedstock for the Caribbean Basin Region with Respect to Ethyl Alcohol for Fuel Use  
July 22, 2004

I rise today to introduce legislation to close a loophole under the Caribbean Basin Initiative (CBI) trade preference program which could allow large quantities of Brazilian ethanol to be shipped to the United States duty-free. This loophole allows companies to use the CBI program as a pass-through to get duty-free treatment for Brazilian ethanol. This could end up displacing U.S. production and hurting Iowa's ethanol producers. I want to help make sure that does not happen.

Also, when the Caribbean Basin Initiative was enacted during the Reagan Administration, the purpose of the program was to encourage trade and development with the region. I support the CBI program. However, I believe that the program should encourage meaningful economic development in the region. Unfortunately, one special interest provision in the statute permits "wet" ethanol from Brazil to be shipped to the CBI region and merely dehydrated, thus qualifying for duty-free access to the U.S. market. The dehydration process which occurs in the CBI region is not very complicated. It simply removes a small percentage of water from "wet" ethanol, thereby converting it into "dry" ethanol. Such "dry" ethanol is provided duty-free access to the U.S. market. I do not believe that such simple processing is substantial enough to warrant the benefit of getting duty-free access to the U.S. market. In keeping with the original intent of the CBI, I believe that more meaningful economic activity should occur in the CBI region before a product qualifies for duty-free treatment.

My bill would limit the opportunity to exploit this special interest provision. It would introduce a fixed cap on the amount of ethanol that can take advantage of the "pass-through" provision. The amount of the cap is based on the historical volume of ethanol exports from the CBI region over the past 20 years. Thus, my bill will permit the continued duty-free importation of some ethanol that is simply dehydrated in the CBI region, based on historical trade amounts. However, my bill would put a stop to the unlimited future growth of such duty-free imports.

It is my belief that this modification should not impact any of the CBI companies that are currently operating ethanol plants in the region. At the same time, my bill will encourage greater investment and development in the CBI region because ethanol that is produced from scratch in the CBI region, using CBI inputs, will continue to be eligible for duty-free access to the U.S. market under the CBI program. If ethanol is made from scratch in the CBI region then it will qualify for duty-free treatment.

In sum, my bill only addresses new investments in dehydration plants, whose sole purpose is to merely dehydrate ethanol. Our tariff preference programs should not be granting economic incentives in the form of tariff preferences for such "pass-through" operations. In my mind, that is not what the CBI program is for, and it is not fair for Iowa's or the nation's ethanol producers.