



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Tuesday, Sept. 21, 2004

Grassley Questions Federal Agency's Support of Overseas Ethanol Project

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today questioned why the Export-Import Bank of the United States – described as “the official export credit agency of the United States” – approved \$9.6 million in taxpayer-guaranteed credit insurance to help establish an ethanol project in the Caribbean that will process Brazilian ethanol for export to the United States and compete with Iowa and other U.S. ethanol producers.

“For a number of reasons, I fail to see how the Export-Import Bank could justify the financing of this project,” Grassley said. “In effect, the Export-Import Bank financed a project whose sole purpose is to process Brazilian ethanol for export to the United States duty-free in direct competition with Iowa and U.S. ethanol producers.”

Grassley wrote to the Export-Import Bank asking for an economic analysis of its role in the Brazilian project within 30 days, a hold on further funding for this or similar projects until this economic impact analysis is complete, and to be advised of any pending or future ethanol-related facilities that the Export-Import Bank is considering financing.

Grassley also said he plans to pursue legislation through the appropriations process to bar the Export-Import Bank from funding similar ethanol projects in the future.

In July, Grassley also introduced legislation (S. 2762) that would prohibit ethanol from getting duty-free access through the Caribbean Basin Initiative trade preference program unless the ethanol is produced substantially with inputs from the Caribbean Basin nations. The purpose of this legislation is to close the loophole in the Caribbean Basin Initiative that enables companies such as Angostura Limited to transship Brazilian ethanol to the United States duty-free.

The text of Grassley's letter today to the Export-Import Bank follows.

September 21, 2004

Philip Merrill
President and Chairman

Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571

Dear Chairman Merrill:

I am writing regarding the recent approval of \$9.6 million in taxpayer guaranteed credit insurance which will help Angostura Limited finance the construction of an ethanol dehydration plant in Trinidad and Tobago. I understand that the purpose of this credit insurance is to enable Angostura Limited to purchase equipment which will be used to dehydrate up to 100 million gallons of ethanol annually from Brazil and re-export the ethanol to the United States duty-free under the current Caribbean Basin Initiative trade preference program. For a number of reasons, I fail to see how the Export-Import Bank could justify the financing of this project.

First, section 635(e) of your authorizing statute states that the Bank is not to provide credit or financial guarantees to expand production of commodities for export to the United States if the resulting production capacity is expected to compete with U.S. production of the same commodity and that the extension of such credit will cause substantial injury to U.S. producers of the same commodity. The statute further provides that “the extension of any credit or guarantee by the Bank will cause substantial injury if the amount of the capacity for production established, or the amount of the increase in such capacity expanded, by such credit or guarantee equals or exceeds 1 percent of United States production.” The total 100 million gallon capacity of the facility in question is nearly four percent of U.S. production. This clearly exceeds the one percent threshold for causing substantial injury to the U.S. ethanol industry outlined in your statute. Thus, on that basis alone, credit to build this facility should have been denied.

However, because the amount financed by the Export-Import Bank was less than \$10 million no detailed economic impact analysis was conducted by the Bank. This is especially troubling as the potential economic impact of financing this facility is significant. The Brazilian ethanol which will be dehydrated in this plant will be eligible for duty-free treatment simply because it was processed in Trinidad and Tobago, a nation which is eligible for trade preferences under the Caribbean Basin Initiative. In effect, the Export-Import Bank financed a project whose sole purpose is to process Brazilian ethanol for export to the United States duty-free in direct competition with Iowa and U.S. ethanol producers.

Moreover, the new facility will be able to dehydrate up to 100 million gallons of Brazilian ethanol per year for duty-free export to the United States. The capacity of this single facility far exceeds total annual U.S. imports of ethanol from the entire Caribbean region, which have never exceeded about 60 million gallons in any one year. This fact alone should have raised concerns within the Export-Import Bank as to whether it was appropriate to provide financing for this project. The disparity between the amount of financing and the economic impact of the investment also suggests that the \$10 million threshold is arbitrary and should be abandoned.

No public notice was provided in the Federal Register during the Bank’s consideration of whether to provide credit financing for this project, and no written report was issued setting out the basis for

the Bank's decision. I am confident that public notice and greater transparency throughout this process would have enabled interested parties such as myself an opportunity to comment on this proposal. You may be interested to know that I have introduced a bill in the United States Senate (S. 2762) which would prohibit ethanol from getting duty-free access through the Caribbean Basin Initiative trade preference program unless the ethanol is produced substantially with inputs from the Caribbean Basin nations. The purpose of this legislation is to close the loophole in the Caribbean Basin Initiative which enables companies such as Angostura Limited to transship Brazilian ethanol to the United States duty-free.

I strongly support meaningful economic development in the Caribbean and recognize the Export-Import Bank's important role in supporting U.S. exports. However, I simply cannot support U.S. government subsidization of a project which is designed to help transship Brazilian ethanol duty-free into the U.S. market where it will directly compete with Iowa and other U.S. ethanol producers.

I ask that you please provide a written economic impact analysis of this project to my office within thirty days. I further request that you forgo further funding for this or similar projects until this economic impact analysis is complete and that I be advised of any pending or future ethanol-related facilities that the Export Import Bank is considering financing.

Sincerely,

Sen. Chuck Grassley