U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release
Wednesday, July 20, 2005

Grassley Wins Initial Approval of Funding Ban for Project Benefiting Brazilian Ethanol Producers

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, has won initial Senate approval of his amendment to bar the continued use of Export-Import Bank funds to administer credit insurance for the construction of an ethanol dehydration plant in Trinidad using Brazilian ethanol.

"It doesn't make sense that U.S. taxpayer money is being used to help build facilities to dehydrate Brazilian ethanol for export to the U.S. market," Grassley said. "And from what I can see, the Export-Import Bank's approval of credit insurance for this ethanol plant violated the Export-Import Bank's authorizing statute by causing substantial injury to U.S. producers of the same commodity. It's only right that no further taxpayer funds should be provided for this facility."

The Senate accepted Grassley's amendment to the *2006 Foreign Operations Appropriations Act* by unanimous consent last night. The Senate is expected to give final approval to the appropriations bill containing Grassley's amendment today.

The text of Grassley's floor statement from Monday explaining his amendment follows.

Mr. President, I rise to offer an amendment.

In March 2004, the Export-Import Bank approved the issuance of $9.87 million in taxpayer guaranteed credit insurance to help Angostura Holdings Limited, of Trinidad and Tobago, to finance the construction of an ethanol dehydration plant in Trinidad. The purpose of this credit insurance was to enable Angostura to purchase equipment to be used to dehydrate up to 100 million gallons of Brazilian ethanol annually. Angostura would then re-export the resulting dehydrated ethanol to the United States duty-free under the current Caribbean Basin Initiative trade preference program.

This credit insurance approval had one major flaw: it appeared to violate the Export-Import Bank's authorizing statute.

Let me explain.

Section 635(e) of the Export-Import Bank's authorizing statute – the Export-Import Bank Act of 1945 – 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 <u>substantial injury</u> to U.S. producers of the same commodity. The statute goes on to provide 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."

As of last year, when the credit guarantees for Angostura were approved, the total 100 million gallon capacity of the Angostura facility was nearly 4 percent of U.S. production. This amount clearly exceeded the 1 percent threshold for causing substantial injury to the U.S. ethanol industry as spelled out in the Export-Import Bank's authorizing statute.

So it appeared to me that the approval of credit guarantees for Angostura by the Export-Import Bank violated the Export-Import Bank's authorizing statute.

Moreover, as the amount financed by the Export-Import Bank was less than $10 million, no detailed economic impact analysis was conducted by the Bank. I note that the amount approved by the Export-Import Bank – $9.87 million – was conveniently just below this $10 million threshold amount.

In the Consolidated Appropriations Act of 2005, Congress asked the Export-Import Bank for an explanation of the credit guarantees for Angostura. Specifically, the 2005 Act required the Export-Import Bank to submit a report to the Committees of Appropriations of the Senate and the House containing an analysis of the economic impact on U.S. ethanol producers of the extension of credit and financial guarantees for the development of the ethanol dehydration plant in Trinidad and Tobago. Congress also required that this report determine whether such an extension will cause substantial injury to such producers, as defined in section 2(e)(4) of the Export-Import Bank Act of 1945.

In January of this year, the Export-Import Bank provided its report. In its report, the Export-Import Bank skirted around the issue of whether its credit guarantees for Angostura caused substantial injury to U.S. producers, and thus whether the approval of these guarantees was in compliance with the Export-Import Bank's authorizing statute. The Export-Import Bank skirted the issue by claiming that the Angostura plant will not "produce" dehydrated ethanol. Rather, the Export-Import Bank stated that this plant will merely "process" dehydrated ethanol by removing water from wet ethanol produced in Brazil, thus merely "adding value" to the wet ethanol from Brazil.

The Export-Import Bank's response to Congress was, to be polite, a curious one. The Export-Import Bank's linguistic gymnastics aside, Angostura's plant will clearly be producing dehydrated ethanol. This is common sense. An ethanol dehydration plant -- of course -- produces dehydrated ethanol.

Moreover, the Customs Service recognizes that ethanol dehydration plants in Caribbean Basin Initiative countries produce dehydrated ethanol.

From what I can see, the Export-Import Bank's approval of credit guarantees for Angostura's ethanol plant violated the Export-Import Bank's authorizing statute by causing substantial injury to U.S. producers of the same commodity. Accordingly, it is only right that no further funds should be provided for this facility.

My amendment would simply provide that no funds made available under the 2006 Foreign

Operations Appropriations Act may be used by the Export-Import Bank to approve or administer a loan or guarantee for Angostura's ethanol dehydration plant. The credit guarantees for Angostura were improperly approved. Angostura, and ultimately Brazilian ethanol producers, should not continue to benefit from credit guarantees that were improperly provided.

I urge my colleagues to support this amendment.

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