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[Press\\_Office@finance-rep.senate.gov](mailto:Press_Office@finance-rep.senate.gov)

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Grassley: Report Shows Export-Import Bank is Not Screening Enough to Prevent Funding Projects that Hurt U.S. Industry, Including Ethanol

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today said a new report affirms his long-time concern that the Export-Import Bank of the United States is not screening potential funding projects carefully enough to ensure they don't harm domestic industry. The screening process came to Grassley's attention in 2004 when he began looking into the bank's \$9.9 million in financing for an ethanol plant in Trinidad and Tobago.

"Congress prohibited the Export-Import Bank from funding projects that would hurt U.S. industry," Grassley said. "But that's exactly what happened with the case of the Trinidad and Tobago ethanol plant. A federal agency that's supposed to increase U.S. exports instead helped to finance the production of foreign ethanol to be sent to the United States. That doesn't make any sense, as Congress recognized a long time ago and tried to prevent."

Today, the Government Accountability Office (GAO) released a report, requested by Grassley and Sen. Mike Crapo, showing that the Export-Import Bank does not screen potential funding projects carefully and precisely enough to determine whether they would harm U.S. industry.

Federal law prevents the bank from providing financing for any project that would cause "substantial injury" to U.S. producers of the same product. Under the statute, "substantial injury" occurs if the increase in foreign production brought about by the financing meets or exceeds 1 percent of U.S. production. But the Export-Import Bank's internal policy screens out from detailed economic impact determinations all financing requests of \$10 million or less without even examining if they exceed the 1 percent test.

In September 2004, Grassley wrote to the bank expressing concern regarding the \$9.9 million in financing – which fell just below the \$10 million threshold – provided by the bank for the construction of an ethanol dehydration plant by Angostura Holdings Limited in Trinidad and Tobago. This ethanol plant would produce well over 1 percent of U.S. production. Following his letter, he had language added to the *Consolidated Appropriations Act of 2005* asking the bank for

an explanation of the financing of the Angostura plant. In its reply, the bank stated that the Angostura plant would not “produce” fuel-grade ethanol, but rather, the plant would merely “add value” to wet ethanol from Brazil by removing water from it.

Consequently, the bank claimed that the financing would not exceed 1 percent of U.S. production. Concerned with that explanation, Grassley put a hold on the nomination of James Lambright to be bank president. He lifted his hold once the nominee pledged to have the bank cooperate fully in a GAO investigation of the bank’s policies regarding economic impact determinations.

The GAO’s report states that if the bank had used standard calculations – as opposed to its “value-added” calculation – it would have determined that the Angostura plant would produce 3.5 percent of U.S. production. Further, GAO found that the use of value-added calculations, as was done in the case of Angostura, is not a systematic practice of the bank. In discussing the Trinidad and Tobago financing, GAO notes that the Export-Import Bank did not use the value-added approach in a similar “refinement” project involving another commodity.

According to press reports, the Angostura plant was built with the intent of shipping 100 percent of its production, made from Brazilian feedstock, to the U.S. market. Not only is the United States providing duty-free entry for Angostura’s ethanol under the Caribbean Basin Initiative, but the United States also financed the construction of the plant, and the financing was apparently prohibited under statute.

“The financing and construction of the Angostura plant are complete, so nothing can be done to reverse this project,” Grassley said. “My actions did, however, dissuade Angostura from applying for a second round of Export-Import financing that would have doubled the plant’s capacity. I plan to do everything I can to make sure the bank does its job of screening projects in the future. U.S. taxpayers shouldn’t be financing foreign projects that undermine domestic industry, including the U.S. ethanol industry.”

The GAO report, “Export-Impact Bank/Improvements Needed in Assessment of Economic Impact,” GAO-07-1071, will be posted today at [www.gao.gov](http://www.gao.gov).