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Executive Director

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Hon. Max Baucus
Chairman, Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Baucus:

The U.S. Virgin Islands plans to give the world's largest liquor company an estimated \$2.6 billion in federal rum tax grants over 30 years to locate the company's rum production in that territory. The USVI also wants to provide another multibillion dollar conglomerate a similar subsidy to expand its rum production in the islands.

By contrast, Puerto Rico only uses 6 percent of the rum tax grants it receives to assist its centuries-old rum industry and related jobs. **Allegations that Puerto Rico supports the industry to a greater degree are blatantly false.**

Attached are charts detailing Puerto Rico's expenditures of the grants during territorial fiscal years 2006-2009 and an estimate for FY 2010. The data substantiates that assistance to the industry of \$25 million a year averages only 6.1 percent of the federal rum tax grants (ranging from 5.5 percent to 6.6 percent.) This is a significant difference from the subsidy of more than 50 percent of the federal tax grants that the Virgin Islands has promised the company that would move from Puerto Rico.

USVI subsidies of more than the cost at which the rum is being sold would make it virtually impossible for Puerto Rican producers or companies in other segments of the industry to compete. In Puerto Rico, the excessive deals will surely lead to demands for comparable subsidies, and cost Puerto Rico's budget hundreds of millions of dollars a year in new subsidies and/or lost federal rum tax grants.

Congress has generously given the Virgin Islands, like Puerto Rico, much of the federal tax on rum produced in the islands and in foreign countries to help pay for public services. Both territories should use the vast majority of the grant revenue for that purpose. Limiting the assistance that can be provided to companies to 10 percent of the grants would enable very generous support: Puerto Rican producers -- including the one that would move to the Virgin Islands -- have been profitable with less.



If Congress does not take action, Puerto Rico may be forced to take action and consider all options available to level the playing field to ultimately save its rum industry. Puerto Rico respectfully requests legislation, like H.R. 2122, that would provide a cap on the amount that companies can be given equal to but no greater than 10 percent of federal rum tax grants.

Sincerely,

Javier Vázquez Morales