



# THE VIRGIN ISLANDS OF THE UNITED STATES

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November 13, 2009

The Honorable Charles B. Rangel  
Chairman  
House Committee on Ways and Means  
2125 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairman Rangel:

I am writing to respond to the recent letter sent to you by Congressman Pierluisi.

I feel compelled to correct the record on misinformation in the letter, subsequently propagated in media reports, regarding territorial economic development initiatives in the U.S. Virgin Islands (USVI). Those advocating H.R. 2122 should more closely examine how Puerto Rico lost an important multinational company, rather than propagate falsehoods and obstruct the autonomy of a United States territory.

Most troubling is the omission of the simple fact that Puerto Rico's Destileria Serralles, which had a 10-year contract to produce rum for Diageo, owner of Captain Morgan, failed to secure a continuation of their relationship. Diageo has never produced rum in Puerto Rico, as many observers incorrectly have come to presume. Rather, Diageo entered into a ten-year supply agreement with Destileria Serralles when it acquired the Captain Morgan brand from Seagrams.

The USVI did not lure Diageo away from Puerto Rico. After failing over a period of years to negotiate a satisfactory relationship with Destileria Serralles, Diageo decided not to continue its supply arrangement with Destileria Serralles following the contract's expiration in 2011. Subsequent to that decision, they pursued options for sourcing rum outside the United States in Guatemala, Jamaica or Guyana. Diageo then approached the USVI through Delegate Christensen, and those discussions culminated in the negotiation of a public-private partnership that keeps the company in the United States. The agreement with the USVI preserved this multinational company's presence in the United States.

The Resident Commissioner and his allies opposed to the USVI's public-private partnerships are mischaracterizing the propriety of these smart, effective agreements developed by the USVI government and approved by our Legislature. They ignore the fact that these self-financing agreements

are mutually beneficial, are good for the United States and are critical to the people of the USVI. The partnerships between the USVI and its partners Diageo, owner of Captain Morgan, and Fortune Brands, the maker of Cruzan Rum and Ronrico, will ensure the fiscal health of the USVI government, ensure we can provide our residents continued access to federal programs for which we do not receive state-like treatment, and generate sustainable business activity in the Territory. By helping fund advanced-technology wastewater treatment facilities, they will also create the rum industry's highest standard for environmental protection, an objective that our neighbors in Puerto Rico should applaud.

The USVI has depended for years on volatile sectors such as tourism and construction. Like many states suffering during the global economic collapse, USVI tax receipts dropped by 31 percent from FY2008 to FY2009. In response, we have found compelling economic development strategies to maintain the USVI's well-being and put us on the path to fiscal security. Both agreements invest in the rum brands' durable market presence and lock-in exclusive production for 30 years in the USVI, offering long-term stability to the USVI and the companies.

The USVI's strategic approach utilizes the long-standing rum excise tax "cover-over," an economic development tool granted by Congress to help the territories becoming increasingly fiscally self-sufficient. In creating public-private partnerships with these companies, the USVI is using the excise tax revenue as intended. These agreements help grow the economic foundation of the USVI by strengthening the presence of businesses in the Territory and generating expanded long-term government revenue streams for important economic and social services programs. We are proud to have acted in the best interests of the USVI, its residents, its business community and the United States.

All states and local jurisdictions rely on incentives, tax benefits and subsidies to grow economic activity. Numerous states, such as South Carolina, Alabama, Mississippi, Kentucky and Georgia, have earned praise for their use of public-private partnerships and incentives. Puerto Rico's own intricate system of tax breaks and benefits has provided significant subsidies and incentives for decades to businesses – including foreign-owned companies – in a variety of sectors, including rum, biotechnology, pharmaceuticals, information technology, aerospace and others.

Most importantly, the campaign to curtail the USVI's economic development initiatives sets a dangerous precedent for federal involvement in matters between local and state governments and companies. I am not aware of Congress interjecting itself to forbid one state's economic development initiative or to require off-setting subsidies as compensation. These disturbing attacks were launched solely because of displeasure over a company's market-driven decision to not renew a supply relationship with a Puerto Rican company, when continuing a relationship with that company represented an unfavorable business proposition. I strongly encourage you to reject this effort to interfere with a local jurisdiction's prudent and compelling economic development strategy.

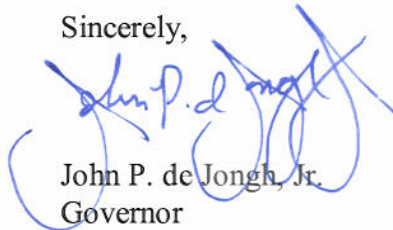
The rum excise tax "cover-over" represents a vital source of income for both the USVI and Puerto Rico, and has been long recognized by Congress as a fundamental part of the financial relationship between the United States and its territories. The USVI's initiatives are true to the letter

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and spirit of the rum excise tax “cover-over” program that has been law for the better part of the past century.

Thank you for your ongoing commitment to fair, sound fiscal policy for U.S. jurisdictions, including the USVI and all other territories, that allows us to stabilize and strengthen our economies and benefit our citizens.

Sincerely,

A handwritten signature in blue ink, appearing to read "John P. de Jongh, Jr.", is written over the typed name. The signature is stylized and includes a large flourish at the end.

John P. de Jongh, Jr.  
Governor