

The Virgin Islands Consortium

Diageo Says It's Testing New Methods Of Distilling Aimed At Improving Productivity And Efficiency

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ST. CROIX -- Diageo USVI issued a statement late Monday in hopes of bringing clarity to confusion over what it says is a new method of distilling that it's testing, following a VI Consortium exclusive story revealing that the territory's Department of Justice had launched an investigation to determine whether the liquid substance from 14 Diageo tankers that it sampled was molasses, which is subsidized by the Government of the Virgin Islands as part of a 30-year agreement between Diageo and the GVI.

A well-placed source within the Department of Justice revealed to The Consortium that if the substance was found not to be molasses, then "all hell could break loose," adding that the DOJ could extend its probe to include past shipments in an effort to determine

the length of breach.

But in a statement issued to The Consortium, Diageo says it has been testing a sugar cane intermediate as it continues to innovate and try new distilling techniques.

"Now in our fifth year of rum distillation on St. Croix, Diageo USVI is proud to have achieved a number of milestones in our production. From record water recovery and conservation, to the creation of new rum products, we continue to innovate and test distilling processes and techniques. Some of these distilling techniques are used throughout the Caribbean, and may help improve plant efficiency, our environmental footprint, and productivity," wrote Erica J. Johnson, communications and corporate relations head at Diageo USVI.

"As part of this, we have been testing a new distilling process using sugar cane intermediate, in which a minority amount of this ingredient, which we would be bringing from outside the territory, would be added into our distilling process along with molasses. Some tankers of this ingredient are now being questioned by the VI Department of Justice officials. As with all our distilling methods, the use of sugar cane intermediate is not only legal and meets federal and local standards, it is also within the boundaries of our agreement with the Government of the Virgin Islands," she added.

In 2008 the GVI subsidized Diageo's move to the island, totaling an estimated \$2.7 billion over 30 years. Some of the subsidies include: a new \$165 million distillery, ["market support payments"](#) to keep prices low for molasses, 35 percent of what Diageo spends on advertising, a 90 percent income tax break, exemption from property taxes, environmental mitigation supports, and 47.5 percent of all tax revenue collected on Captain Morgan rum. By one estimate, [Diageo's net cost to produce rum is zero](#), according to [Tax Foundation](#), a leading independent tax policy research organization. The 30-year agreement received Senate ratification on July 9, 2008, with a 10-5 vote.

However, the rum-cover over funds are supposed to be for rum produced in the territory; not imported from elsewhere and reshipped out as if the products were made here.

According to Ms. Johnson, Diageo informed Governor Kenneth Mapp of the new methods being tested. She said these methods were also approved by federal regulators at the Alcohol and Tobacco Tax and Trade Bureau.

"In January of this year, we informed Governor Mapp and his team that we would be testing this distilling process. In addition, prior to entering into this test, Diageo USVI had the proposed process vetted by federal regulators at the Alcohol and Tobacco Tax and Trade Bureau to ensure the process was legal and that rum produced under it was compliant for purposes of selling rum into the US market and thus triggering Cover Over payments. We would never have entered into a test of this nature without express confirmation from our regulators that it was compliant," Ms. Johnson said.

The release also made known that the 14 tankers that were turned over to the Department of Justice have now been released to Diageo by Mr. Mapp, and said Diageo continues to put its best foot forward in relation to transparency.

"Just as we informed Gov. Mapp about the testing of an alternate distillation process, we continue to be open and transparent in our communication with the Government of the Virgin Islands," the release concluded.

As explained by the Tax Foundation, rum, like all spirits, falls under a federal excise tax of \$13.25 per proof-gallon. The federal tax revenue collected from rum produced in Puerto Rico, the U.S. Virgin Islands, or internationally is transferred to the governments of Puerto Rico and the U.S Virgin Islands. This transfer of revenue from the United States back to the location of production is called a "cover-over."

Puerto Rico and the U.S. Virgin Islands each receive all of the revenue collected from rum produced in their territory. The two countries split revenue from foreign produced rum, based generally on how much rum they produce relative to each other. By producing more rum, each territory has the ability to increase their share of the rum tax.

In August of this year, Governor Kenneth Mapp [sent a formal request](#) to the Office of Insular Affairs requesting the drawdown of over \$209 million for deposit into the Internal Revenue Matching Fund, a testament to the financial benefits of producing rum in the territory, which was increased once Diageo USVI was established.

"Approval of the advance based on the \$13.25 rate, will greatly assist the government in managing its cash flow and providing essential public services to the people of the Virgin Islands," Mr. Mapp said.

According to the governor, the fiscal year 2016 advance request was based on an estimated incremental collection of \$213,325,000.00 on 16,100,000 proof gallons of alcoholic beverage produced in the US Virgin Islands by Cruzan VIRIL and Diageo USVI, and imported and sold in the United States. The rate provided to the territory on federal excise taxes collected on the rum is \$13.25 per proof gallon. The fiscal year 2014 adjustment is \$3,909,878.00 for a net advance remaining of \$209,415,122.00.

Feature Image: Diageo USVI.

Image Credit: VIC.