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Federal Financial Assistance
For The Construction And
Equipment Of A Sugar-Processing
Plant In Easton, Maine B-165456

Economic Development Administration
Department of Commerce

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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FEB. 24, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-165456

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Dear Senator Miller:

This is our report on the Federal financial assistance to a sugar-processing plant located in Easton, Aroostook County, Maine. The financing was provided by the Economic Development Administration, Department of Commerce, and its predecessor agency, the Area Redevelopment Administration. Our review was made pursuant to your request of May 6, 1971.

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We have not obtained written comments from the Federal or non-Federal organizations on the matters discussed in the report, and this should be considered in the use made of the contents of this report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of this report.

We trust that the information in this report will be of assistance to you.

Sincerely yours,

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Comptroller General
of the United States

The Honorable Jack Miller
United States Senate

D I G E S T

WHY THE REVIEW WAS MADE

- 1 The Economic Development Administration (EDA), Department of Commerce, and its predecessor agency, the Area Redevelopment Administration, loaned or guaranteed loans of about \$12.3 million to help finance a sugar-processing plant in Easton, Aroostook County, Maine.
- 6 Senator Jack Miller requested the General Accounting Office (GAO) to examine into, and report to him on, the Federal Government's financial assistance to the sugar-processing plant because the plant was having financial difficulties. (See app. I.)

GAO issued a report (B-165456) on the establishing and financing the sugar-processing plant on March 4, 1969. (See app. II.) In accordance with arrangements with Senator Miller's office, GAO's current examination included (1) updating the information on the Federal Government's financial assistance included in the March 4, 1969, report and (2) determining whether the plant's financial problems would substantially affect domestic sugar quota decisions made annually by the Secretary of Agriculture.

FINDINGS AND CONCLUSIONS

Loans and guarantees made by the Federal Government

On March 22, 1965, the Area Redevelopment Administration loaned \$6,495,000 to the Aroostook Development Corporation--a nonprofit corporation formed by local businessmen to stimulate industrial development in Maine--to help finance the construction and equipment of a sugar-processing plant estimated to cost \$14.7 million. The loan agreement included a moratorium on principal repayment through February 1969. The plant was leased by Maine Sugar Industries, Inc.

On June 30, 1966, EDA loaned \$2,250,300 to Maine Sugar Industries, Inc., to help finance the acquisition of sugarcane-processing machinery and equipment estimated to cost \$3,462,000. The loan agreement included a moratorium on principal repayment through February 1969. EDA also guaranteed the payment of 90 percent of two 10-year working-capital loans totaling \$4,000,000 made to Maine Sugar Industries, Inc., by private banks on June 30, 1966, and February 13, 1967. The loan agreements included 5-year moratoriums on principal repayments and were to enable the firm to provide farmers with the necessary equipment, on a lease-purchase basis, for growing and harvesting sugar beets.

In September 1969 EDA deferred interest payments until October 1971 and principal repayments until October 1973 on the \$8.7 million of loans to Maine Sugar Industries, Inc., and Aroostook Development Corporation to reduce the debt burden of Maine Sugar Industries, Inc., and to allow it additional time to attempt to operate the plant on a profitable basis. The latest annual report of Maine Sugar Industries, Inc., in EDA's records showed that the firm had losses of about \$3.9 million and \$6.8 million for fiscal years 1968 and 1969, respectively, and that the firm's long-term debt at October 31, 1969, totaled \$28.4 million. The annual report indicated that Maine Sugar Industries, Inc., had not processed a sufficient quantity of sugar beets in any one year of its operations to show a profit.

EDA, pursuant to loan guarantee agreements, paid 90 percent of the principal and the accrued interest on one \$2 million loan in June 1970 and paid 90 percent of the principal and the accrued interest on the second \$2 million loan in June 1971. The \$3.6 million of guarantees and \$0.3 million of accrued interest were paid after Maine Sugar Industries, Inc., had defaulted on the interest payments to the private banks.

EDA has a second mortgage on the plant and facilities. An EDA official informed GAO that the plant and equipment, if they were sold, would bring only a fraction of the first mortgage of \$8 million which was held by the First National Bank of Boston. A Maine Sugar Industries, Inc., stock prospectus dated March 11, 1970, showed that Aroostook Development Corporation had defaulted on the payments of the first mortgage.

An official of the Maine Industrial Building Authority and an official of the First National Bank of Boston informed GAO that the First National Bank of Boston, trustee for the Maine Industrial Building Authority--the State agency that had guaranteed the \$8 million first mortgage on the plant and facilities--foreclosed the mortgage of the Aroostook Development Corporation on August 24, 1971. An EDA official informed GAO that, under the foreclosure proceedings, Aroostook Development Corporation had 1 year in which to satisfy its creditors. If Aroostook Development Corporation does not satisfy its creditors, the State of Maine can sell the property and the EDA lien against the property of the corporation would be dissolved.

Maine Sugar Industries, Inc., did not produce any sugar in 1970 and 1971 and apparently will not produce any sugar in 1972. It appears that the Federal Government has little chance of regaining any of the \$12.6 million, including \$0.3 million of accrued interest, of loans and guarantees invested in the plant. (See pp. 6 to 15.)

Effects of adverse developments at
Maine Sugar Industries, Inc., on
domestic sugar quota decisions

The Sugar Act of 1948 (7 U.S.C. 1100) regulates the supply of sugar that can be produced and sold in the United States. Domestic areas are authorized to supply a certain portion of the U.S. requirement established annually by the Secretary of Agriculture. According to the act the domestic sugar-producing areas are continental U.S. beet, continental U.S.

cane, Hawaii, Puerto Rico, and the Virgin Islands. Under the act, if a domestic sugar-producing area is unable to fill its quota, the deficit is allocated to foreign countries.

The Director of the Sugar Division, Agricultural Stabilization and Conservation Service, Department of Agriculture, informed GAO that adverse developments at Maine Sugar Industries, Inc., should not result in any portion of the continental U.S. beet sugar quota being allocated to foreign sugar-producing areas. He also stated that, when a producer such as Maine Sugar Industries, Inc., was unable to fill its allotment, the deficit was first allotted to other continental U.S. beet sugar producers which were able to market additional sugar. He explained that sugar production of Maine Sugar Industries, Inc., had been insignificant compared with the total U.S. beet sugar requirement and that other beet sugar producers usually had been able to absorb the deficits of Maine Sugar Industries, Inc., in meeting the continental U.S. beet sugar quota.

Maine Sugar Industries, Inc., began sugar production in 1966. In each of the 4 years from 1966 through 1969, Maine Sugar Industries, Inc., produced less than 1 percent of the annual domestic quota of beet sugar. Maine Sugar Industries, Inc., produced no sugar in 1970 and 1971 and apparently will not produce any sugar in 1972. The Director of the Sugar Division informed GAO that no portion of the continental U.S. beet sugar quota was allocated to foreign sugar-producing areas during 1966 to 1970. (See pp. 16 to 20.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Director, Office of Business Development, Economic Development Administration, was furnished informally with a copy of this report to solicit his views concerning the report contents. He informed GAO that he had no disagreement with the matters discussed in the report.

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ABBREVIATIONS

ARA	Area Redevelopment Administration
EDA	Economic Development Administration
GAO	General Accounting Office
MSI	Maine Sugar Industries, Inc.

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D I G E S T

WHY THE REVIEW WAS MADE

The Economic Development Administration (EDA), Department of Commerce, and its predecessor agency, the Area Redevelopment Administration, loaned or guaranteed loans of about \$12.3 million to help finance a sugar-processing plant in Easton, Aroostook County, Maine.

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CHAPTER 1

INTRODUCTION

The Economic Development Administration was established pursuant to the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121) as the successor agency to the Area Redevelopment Administration (ARA). EDA's primary function is to aid in the long-range economic development of areas of substantial and persistent unemployment and low family incomes through the creation of new employment opportunities by developing new facilities and resources and expanding existing ones.

Under the act EDA assistance, in the form of grants, loans, and working-capital loan guarantees, can be authorized for projects in areas designated as redevelopment areas. A redevelopment area generally is a county where there is substantial unemployment.

Aroostook County (except for the areas of Fort Kent, Limestone, and Patten) was designated by EDA as a redevelopment area on March 8, 1966. The county previously was designated as a redevelopment area under the Area Redevelopment Act on the basis of substantial and persistent unemployment. Aroostook County is the northernmost county in Maine, and Easton is located in the northeast corner of the county.

According to EDA records Aroostook County farmers relied on potatoes as their single, sizable agricultural crop but had suffered hardships and severe economic problems due to the fluctuations in the market price of potatoes. Consumption of potatoes was declining, and it was hoped that a second crop would diversify the local economy.

As discussed in the attached report of March 4, 1969, several preloan investigations were performed by the Small Business Administration and by consulting engineering firms and it was concluded that the establishment of a sugar-beet-processing plant in Maine was feasible. In that report we pointed out that we could not conclude, from the information that we had developed, that the Federal Government should not have participated in the project.

EDA and ARA loaned, or guaranteed loans of, about \$12.3 million to help finance a sugar-beet- and sugarcane-processing plant located in Easton. The processing plant is owned by the Aroostook Development Corporation and is leased to Maine Sugar Industries, Inc. (MSI). The Aroostook Development Corporation is a nonprofit corporation formed by local businessmen to stimulate industrial development in Maine. The corporation is not an operating company, and its only source of income is the rental payments received from MSI for leasing the sugar-processing plant.

We reviewed records and interviewed officials of EDA and the Agricultural Stabilization and Conservation Service. We also interviewed an official of the Securities and Exchange Commission concerning a prospectus filed with the Commission by MSI for a proposed sale offering of MSI's common stock. Our work was performed at the agencies' headquarters in Washington, D.C.

We requested EDA to furnish us with a copy of the report of its consultant (Miner-Schaffer) on MSI, but EDA would not release the report because, according to EDA officials, it contained financial information which was of a confidential nature. The report was to provide EDA with the current financial status of MSI and with a basis for future decisions. During our review EDA requested that we return the records initially furnished to us, because they contained financial information which EDA stated was of a confidential nature. The records were returned to EDA prior to the completion of our review. We believe that MSI's financial information is not confidential since most of the information had been reported in MSI's annual reports to its stockholders and to the Securities and Exchange Commission.

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CHAPTER 2

LOANS AND GUARANTEES MADE BY THE FEDERAL GOVERNMENT TO HELP FINANCE

A SUGAR-PROCESSING PLANT

EDA and ARA loaned, or guaranteed loans of, about \$12.3 million to MSI and Aroostook Development Corporation to help finance the construction and equipment of the sugar-beet- and sugarcane-processing plant. A schedule of the Federal loans and loan guarantees follows.

Borrower and type of loan	Date approved	Interest rate	Amount of loan or guarantee	Status as of July 31, 1971		
				Interest paid	Principal repaid	Balance
Direct loan:						
Aroostook Development Corporation	3-22-65	4%	\$ 6,495,000	\$ 812,122	\$ 2,179	\$ 6,492,821
MSI	6-30-66	4-1/4	2,250,300	203,840	11,033	2,239,267
Loan guarantees-- 90 percent:						
MSI	6-30-66	6-1/2	1,800,000	-	-	1,899,125 ^a
MSI	2-13-67	7-1/4	<u>1,800,000</u>	<u>-</u>	<u>-</u>	<u>2,003,175^a</u>
Total			<u>\$12,345,300</u>	<u>\$1,015,962</u>	<u>\$13,212</u>	<u>\$12,634,388</u>

^aIncludes accrued interest.

EDA acquired both of the loans on which it had guaranteed 90-percent repayment, because MSI defaulted on its payments to the banks that had made the loans. In addition, ARA and EDA financed studies relating to the project costing \$355,800.

FINANCING OF THE BUILDING AND EQUIPPING OF THE SUGAR-PROCESSING PLANT

ARA authorized a loan of \$6,921,300 on January 24, 1964, to the Greater Presque Isle Development Corporation (ARA later approved substitution of the Aroostook Development Corporation for the Greater Presque Isle Development Corporation) to help finance the construction and equipment of a sugar-beet-processing plant at Easton, estimated to

cost \$17,554,540. The loan and total estimated cost were reduced to \$6,495,000 and \$14,700,000, respectively, on March 22, 1965, principally because the proposed plant capacity was decreased. The loan agreement was entered into on that date.

The loan was fully disbursed as of September 29, 1967, and the loan agreement included a moratorium on principal repayment through February 1969. The loan was secured by a second mortgage on the land, property, and equipment of the plant. A first mortgage of \$6 million was held by the First National Bank of Boston, and the mortgage loan was guaranteed by the Maine Industrial Building Authority. The remaining \$2.2 million needed for the financing of the sugar-processing plant was provided by the sale of Aroostook Development Corporation bonds.

Plant construction was started on March 25, 1965, and the plant was completed in late 1966. The plant was leased to MSI by Aroostook Development Corporation under a lease-purchase agreement.

EDA records showed that, because sugar beet acreage planted in 1966 was less than expected--about 3,500 acres compared with the 33,000 allotted for planting by the Department of Agriculture--sugar-beet processing was expected to require only 15 days in 1966. Therefore officials of MSI determined that, to supplement beet-processing operations, sugarcane-processing equipment, estimated to cost \$3,462,000, should be installed. In May 1966 MSI applied to EDA for a loan to help finance the acquisition of the equipment. The Small Business Administration reported to EDA in June 1966 that the purchase and installation of the sugarcane-processing equipment was technically and economically feasible.

On June 30, 1966, EDA entered into a loan of \$2,250,300 to finance 65 percent of the cost of the sugarcane-processing equipment. The loan was fully disbursed as of August 4, 1967, and the loan agreement included a moratorium on principal repayment through February 1969. The loan was secured by a first mortgage on the sugarcane-processing machinery and equipment.

On June 30, 1966, EDA guaranteed 90-percent repayment of the principal and interest of a 10-year, \$2,000,000 working-capital loan made to MSI by the Central Jersey Bank and Trust Company. The loan agreement included a 5-year moratorium on principal repayment. Central Jersey Bank and Trust Company, with EDA's consent, sold the loan at a discount to the Morgan Guaranty Trust Company of New York on September 8, 1966. The loan funds were to enable MSI to provide farmers with equipment, on a lease-purchase basis, for growing and harvesting sugar beets. The loan was secured by a lien on inventories of MSI.

On February 13, 1967, EDA guaranteed 90-percent repayment of the principal and interest of another 10-year, \$2,000,000 working-capital loan made to MSI by the Central Jersey Bank and Trust Company. The loan agreement included a 5-year moratorium on principal repayment. Central Jersey Bank and Trust Company, with EDA consent, sold the loan at a discount to the Chase Manhattan Bank on April 26, 1967. The loan funds were for the same purpose as the aforementioned loan, and the loan was secured by liens on sugar-beet equipment, leases, and purchase agreements of MSI.

EDA, as a lien holder, approved a realignment of debts and a major expansion program for MSI costing over \$9 million in May 1968, for which no additional EDA funds were required. The title to all of MSI's assets was transferred to the Aroostook Development Corporation to consolidate all the assets of the plant under one ownership. The First National Bank of Boston increased its first mortgage to \$8 million by an additional \$2 million loan which was guaranteed by the Maine Industrial Building Authority. MSI obtained an additional \$7 million of funds from private lending institutions, municipalities, and the sale of the firm's common stock. Under the realignment, EDA's second mortgage on the plant and equipment was subordinated, by \$2 million, to the first mortgage of the First National Bank of Boston because the bank increased its loan to \$8 million. EDA agreed to replace its first mortgage on the sugarcane-processing equipment with a second mortgage.

The major features of the expansion were to improve the plant's processing operations, provide waste treatment facilities, and permit MSI to invest \$750,000 in a

sugar-beet-processing plant in Montezuma, New York. The Montezuma plant was purchased as a means for MSI to obtain an allotment of sugar beets grown in New York.

DEFERRING MSI'S PAYMENTS TO EDA

The MSI annual report for the fiscal year ended October 31, 1968, showed that MSI had a loss of about \$3.9 million and, at the end of the year, had long-term debts of about \$27.8 million.

In a letter to EDA on May 19, 1969, Mr. Frederick H. Vahlsing, Jr., president of MSI, stated that MSI had not been able to obtain a supply of sugar beets adequate to show a profit and that MSI's debt payments, insurance, and taxes were about \$2.6 million a year. Mr. Vahlsing proposed that MSI obtain sugar beets from the States of New York, New Jersey, and Pennsylvania to supplement Maine's sugar beet crop so that MSI would have enough beets to operate profitably.

Mr. Vahlsing proposed also that MSI defer payment of debts of about \$1,185,000 annually for a period of about 2 years. Mr. Vahlsing proposed further that (1) EDA defer interest payments on the two loans totaling \$8.7 million until September 1, 1971, and principal repayments (the deferred interest of about \$1.49 million would be added to the principal of the loans) until September 1973, (2) EDA make semiannual interest payments to Morgan Guaranty Trust Company of New York to and including the January 31, 1971, payment for a total of \$260,000 and add this amount to the principal of EDA's \$8.7 million loans, (3) EDA make quarterly interest payments to Chase Manhattan Bank to and including the April 1971 payment for a total of \$290,000 and add this amount to the principal of EDA's \$8.7 million loans, and (4) MSI's common stock be exchanged for about \$2.7 million of the privately held bonded debt of MSI, which required annual interest payments of about \$165,000.

EDA replied on May 23, 1969, that it was reluctant to extend any further assistance or concessions to MSI. Because EDA was aware of MSI's financial circumstances and the need for additional time for the firm to become profitable, however, EDA offered to defer the interest payments and principal repayments due during the period April through November 1969 on the two loans totaling \$8.7 million that it held. According to EDA records the deferred interest payments and principal repayments totaled about \$60,000 a month. The

deferred interest was to be added to the principal of the loans. The offer was accepted by MSI on May 28, 1969.

In its letter to Mr. Vahlsing, EDA stated that it had just completed a review of the status and prospects of the sugarcane and sugar beet operations of MSI. EDA stated also that, for each year of operation, the beet crop and related sugar production had been far short of the amount projected for that year and that the project could not be successful unless the production of beet sugar reached satisfactory levels. A study to evaluate the management, financial operations, and outlook of MSI, completed in June 1970 for EDA, indicated that the plant needed to process about 540,000 tons of beets annually to break even. (See p. 19 for tonnage processed.)

In addition, EDA was concerned that periodic balance sheets and operating statements had not been submitted to it by MSI, contrary to the requirements of the loan agreements, and that timely monthly payments of its obligations had not been made by MSI. EDA records showed that, prior to May 1969, MSI and Aroostook Development Corporation frequently were in arrears on payments of the two direct loans which totaled about \$8.7 million for the plant and equipment and, at the time of the May 1969 deferral, the loans were 2 months delinquent as to principal and interest.

On September 18, 1969, EDA offered to further defer the payments of interest on both loans until October 1971 and to defer principal repayments until October 1, 1973. EDA indicated, however, that it was not willing to make any additional loans or to finance the interest payments due to the Morgan Guaranty Trust Company of New York or the Chase Manhattan Bank under the two guaranteed working-capital loans. At that time payments on both working-capital loans were current. MSI accepted the EDA offer on September 22, 1969.

MSI's latest annual report in EDA's records, for the fiscal year ended October 31, 1969, showed that operating production was less than 40 percent of plant capacity for the firm's 4 years of operations. The report showed also that the plant processed its largest total tonnage of sugar beets, about 218,500 tons, in 1969. MSI's report showed

further that the firm had a loss of about \$6.8 million for the year and had a long-term debt of \$28.4 million.

PAYMENT OF WORKING-CAPITAL GUARANTEES BY EDA

The Morgan Guaranty Trust Company of New York advised EDA on May 1, 1970, that MSI failed to make its semiannual interest payment due January 31, 1970, on its \$2 million loan and that, in accordance with the guaranty agreement, the bank was making a formal demand on EDA for payment and for redemption of the 90-percent guaranty. On June 5, 1970, EDA paid the bank. EDA records as of July 31, 1971, showed that MSI had not made any payments on the loan subsequent to its January 1970 default and that EDA's share of the outstanding balance of the loan, including accrued interest, totaled \$1,899,125. The bank's 10-percent share of the outstanding loan, including accrued interest, amounted to an additional \$211,014.

The Chase Manhattan Bank made a formal demand on EDA on December 8, 1970, for payment and for redemption of its guarantee in accordance with the terms of the 90-percent guaranty agreement. MSI defaulted on its \$2 million loan when it failed to make the quarterly interest payment due on January 27, 1970. MSI also failed to make interest payments due in April, July, and October 1970. EDA paid the bank in June 1971. EDA records as of July 31, 1971, showed that MSI had not made any payments subsequent to its January 1970 default on the loan. EDA's share of the outstanding balance of the loan, including accrued interest at that date, totaled \$2,003,175. The bank's 10-percent share of the outstanding loan, including accrued interest, amounted to \$222,575 additional.

PROSPECTS FOR RECOVERY OF FEDERAL FINANCING

An EDA official informed us on May 27, 1971, that MSI was in formal bankruptcy proceedings. The official stated that EDA could do little to protect its interest because it had a second mortgage on the plant and equipment. He explained that, if the plant and equipment were sold, it would only bring a fraction of the first mortgage of \$8 million. A prospectus dated March 11, 1970, which was filed with the Securities and Exchange Commission by MSI for a proposed sale offering of MSI's common stock, showed that Aroostook Development Corporation had defaulted on the first mortgage held by the First National Bank of Boston. An official of the Securities and Exchange Commission informed us on May 28, 1971, that MSI had filed the prospectus to obtain the Commission's approval for the sale of 3 million shares of common stock.

The Securities and Exchange Commission had several problems with the prospectus, one of which was that the prospectus contained unaudited financial statements for MSI's 1969 fiscal year. According to the official the Commission had not approved the prospectus and would not approve it until the fiscal year 1969 statements were audited and certified and the prospectus was updated to show MSI's current financial condition. He informed us on October 12, 1971, that MSI had withdrawn the prospectus on September 20, 1971.

An official of the Maine Industrial Building Authority and an official of the First National Bank of Boston informed us that the First National Bank of Boston, trustee for the Maine Industrial Building Authority--the State agency that had guaranteed the \$8 million first mortgage on the plant and facilities--foreclosed the mortgage of the Aroostook Development Corporation on August 24, 1971.

We met with the Director, Office of Business Development, EDA, on September 3, 1971, to discuss the results of our examination. The Director informed us that he had no disagreement with the matters discussed in the report. He stated that, under the foreclosure proceedings, Aroostook Development Corporation had 1 year in which to satisfy its creditors. If Aroostook Development Corporation does not

satisfy its creditors, the State of Maine can sell the property and the EDA lien against the property of the Aroostook Development Corporation would be dissolved.

The Director stated also that sale of the assets of the Aroostook Development Corporation by the State would not dissolve EDA's liens to MSI. EDA has little chance of recovering on its guarantees to MSI, however, because MSI does not have title to the assets of the plant.

OTHER FINANCING TO RELATED COMPANIES

ARA made two loans totaling \$1.6 million to the Easton Development Corporation for the expansion of a potato-processing plant which is located adjacent to the sugar-beet-processing plant. The potato-processing plant is owned by the Easton Development Corporation and is leased and operated by Vahlsing, Inc. One loan of \$1,036,100 was authorized on June 12, 1964, and the other of \$574,000 was authorized on August 6, 1965. As of July 31, 1971, EDA records showed that, although payments were being made on a regular basis, the payments were in arrears by \$36,066. Loan balances at July 31, 1971, were \$787,003 and \$420,975, respectively.

The Federal Water Pollution Control Administration (presently the Environmental Protection Agency) awarded a grant of \$196,014 to Vahlsing, Inc., on December 23, 1966, for a pollution control study for potato and sugar beet wastes, using the Vahlsing, Inc., potato plant and the MSI sugar beet plant as demonstration models. Vahlsing, Inc., was a stockholder of MSI. (See app. II for additional information.)

SUMMARY

According to EDA records and interviews with various agencies' officials, MSI is in poor financial condition. In addition, MSI did not produce any sugar in 1970 and 1971 and apparently will not produce any sugar in 1972. Detailed information on sugar beet production is discussed on page 16. EDA has a second mortgage on the sugar-processing plant. It appears that the Federal Government has little chance of recovering any of the \$12.6 million, including \$0.3 million of accrued interest, of loans and guarantees invested in the

plant. As discussed in the attached report of March 4, 1969, several preloan investigations were performed by the Small Business Administration and by consulting engineering firms and it was concluded that the project was feasible. In that report we pointed out that we could not conclude, from the information we had developed, that the Federal Government should not have participated in the project.

CHAPTER 3

EFFECTS OF ADVERSE DEVELOPMENTS AT MSI

ON DOMESTIC SUGAR QUOTA DECISIONS

SUGAR ACT

The Sugar Act of 1948 regulates the supply of sugar that can be produced and sold in the United States. The objectives of the Sugar Act are (1) to protect the welfare of the U.S. sugar industry, (2) to provide U.S. consumers with ample sugar supplies at reasonable prices, and (3) to promote and strengthen the sugar export trade of the United States. The act seeks to achieve these objectives through the regulation of sugar production and marketing.

Under the act the Secretary of Agriculture determines, for each calendar year, the amount of sugar needed to meet the requirements of the U.S. consumer. Domestic sugar-producing areas are authorized to supply a certain portion of the U.S. sugar requirement, normally from 61 to 66 percent, depending on the total annual requirement established. The domestic requirement is subdivided into quotas for each of the domestic sugar-producing areas. According to the act, the domestic sugar-producing areas are continental U.S. beet, continental U.S. cane, Hawaii, Puerto Rico, and the Virgin Islands. Foreign sugar-producing areas are authorized to furnish the balance of the U.S. sugar requirement.

Section 204 of the Sugar Act (7 U.S.C. 1114) provides that, if a domestic sugar-producing area is unable to fill its quota, the deficit be allocated to foreign countries. If the annual marketing of any domestic sugar-producing area is continually and substantially below the area's quota, the effect of this provision is to permanently increase the sugar quotas of foreign countries and to decrease the domestic marketings.

The Sugar Act was amended in 1962 to expand and permit growth in the domestic sugar beet industry. The amendment allowed the Secretary of Agriculture to reserve each year, from 1962 through 1966, from the national annual sugar beet

acreage requirements established by him, the acreage required to yield 65,000 short tons of sugar. The acreage reserved was primarily for allocation to new sugar-producing areas.

The act required the Secretary, in determining allotments of the sugar beet acreage reserved, to base his determination and selection on the (1) firmness of capital commitment, (2) suitability for growing sugar beets, (3) proximity of other sugar beet mills, (4) need for a cash crop or a replacement crop, and (5) accessibility to sugar markets.

On April 17, 1964, the Acting Secretary of Agriculture authorized an acreage allotment of 33,000 acres to farms in Aroostook County, beginning with the 1966 crop. The acreage allotment, estimated to yield 50,000 short tons of sugar, was revised on January 28, 1966, to extend eligibility for acreage to any farm in Maine.

MSI'S PRODUCTION TOO INSIGNIFICANT TO
AFFECT DOMESTIC SUGAR QUOTA DECISIONS

MSI began sugar production in 1966. In each of the 4 years from 1966 through 1969, MSI produced less than 1 percent of the annual domestic quota for beet sugar. MSI produced no sugar in 1970 and 1971 and apparently will not produce any sugar in 1972. The Director of the Sugar Division stated that, when a producer such as MSI was unable to fill its allotment, the deficit was first allotted to other continental U.S. beet producers which were able to market additional sugar.

Because MSI failed to produce its originally allotted quantity of sugar, the Secretary of Agriculture reduced MSI's marketing allotments and prorated MSI's allotment deficits to other continental U.S. beet producers which were able to market additional sugar. The Director of the Sugar Division informed us that no portion of the continental U.S. beet sugar quota was allocated to foreign sugar-producing areas during 1966 to 1970. During 1966 through 1969 the sugar beets harvest in Maine was as follows:

BEST DOCUMENT AVAILABLE

<u>Year</u>	<u>Acres harvested</u>	<u>Approximate yield per acre</u>	<u>Total tonnage</u>
1966	3,382	5.3 tons	17,925
1967	7,783	9.6 tons	74,717
1968	22,174	4.9 tons	108,653
1969	10,867	6.4 tons	69,549

In connection with the number of acres of sugar beets planted in Maine, a study of MSI, completed in June 1970 for EDA by a national management consultant firm, stated that:

"Yields per acre have a direct bearing on acreage planted. Grower confidence that a profitable quantity of beets will be harvested from each acre planted is necessary if the acreage planted each year is to increase. As a frame of reference, the national average in 1968 was a little more than 17 tons per acre. It may be noted from the results above that the acreage in 1966 was only slightly more than 10 percent of the allotted acreage, but that this amount was almost tripled in 1967. This occurred despite the relatively poor 1966 yields. It is concluded that growers believed 1966 to be a year of learning since it was Maine's first sugar beet crop. Yields in 1967 were double those of 1966 and growers responded in 1968 by again almost tripling the acreage planted. The yields in 1968 were very poor, and the acreage planted in 1969 dropped to about half of that planted in 1968."

The study indicated that a number of conditions had contributed to MSI's not obtaining a sufficient quantity and size of sugar beets for a profitable operation: (1) new land and new growers were added at a fast rate, (2) rainfall in 1968 between May and October was only 13.6 inches compared with the long-term average rainfall of 20.8 inches, (3) weed control was poor because of grower reluctance to use the hand labor required for effective cultivation in Maine's rocky soil, and (4) soil acidity typically was well above the level considered acceptable for successful sugar beet production.

MSI's annual report for fiscal year 1969 contained information relating to the percent of the plant's operating capacity used for 1966 through 1969 to process sugar beets obtained from Maine and other States. The information is presented in the following table.

<u>Year</u>	<u>Gross sugar beet tonnage processed</u>			<u>Percent of plant capacity used</u>
	<u>Maine</u>	<u>Other States</u>	<u>Total</u>	
1966	17,925	-	17,925	3.0
1967	74,717	-	74,717	12.5
1968	108,653	53,148	161,801	27.0
1969	69,549	148,999	218,548	36.4

EDA's records and MSI's annual reports did not contain any information about MSI's sugarcane-processing operations.

A Department of Agriculture official informed us that 528 acres of sugar beets were planted in Maine in 1970; however, MSI did not market any sugar during that year. MSI's prospectus filed with the Securities and Exchange Commission in March 1970 showed that the firm owed farmers from Maine, Pennsylvania, New York, and New Jersey \$2,200,000 for their 1969 crop and that farmers may be reluctant to plant sugar beets in the future in view of MSI's failure to pay them for prior crops. The Agriculture official stated that his office had not been informed of any sugar beets planted in Maine for the 1971 growing season.

The Director of the Sugar Division informed us that MSI's sugar production was too insignificant, in relation to the U.S. annual requirements, to have any effect on domestic sugar quota decisions. He stated that a firm's production would have to be at least several percent of the total domestic sugar requirements to have any substantial effect on domestic sugar quota decisions.

The Director stated also that MSI's past sugar production had contributed little to the ability of the continental U.S. beet industry to meet its quota and that the industry usually had been able to meet its quota despite deficits in MSI's sugar production.

In each year from 1966 through 1969, MSI produced less than 1 percent of the U.S. annual basic quota of domestic beet sugar. During that 4-year period, the U.S. annual basic quota for domestic beet sugar varied from 3,025,000 short tons to 3,215,667 short tons. Moreover MSI, if it had produced the estimated 50,000 short tons of sugar annually from the allotted 33,000 acres, would have produced less than 2 percent of the annual basic quota for domestic beet sugar.

The Director of the Sugar Division informed us that no portion of the continental U.S. beet quota was allocated to foreign sugar-producing areas during 1966 to 1970. He explained that the industry met its quota each year during that period, except in 1967 when an industry deficit of 392,000 tons occurred. The Director stated that the 1967 deficit had not been allocated to foreign sugar-producing areas because the deficit became apparent too late in the season for the foreign areas to process additional sugar.

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 GAYLORD NELSON, WIS.

TOM VAIL, CHIEF COUNSEL

United States Senate

COMMITTEE ON FINANCE
 WASHINGTON, D.C. 20510

May 6, 1971

The Honorable Elmer B. Staats
 Comptroller General of the United States
 General Accounting Office
 441 G Street, N. W.
 Washington, D. C. 20548

Dear Mr. Staats:

Attached please find an article which appeared on the front page of the DES MOINES REGISTER of Sunday, April 25th. The article refers to "the financial plight of Maine Sugar Industries of Easton, Maine" and the approval of \$4 million in loans under the Economic Development Administration in Washington.

The article indicates the bankruptcy court proceedings were begun in Bangor, Maine, involving Maine Sugar Industries and states that \$13 million in loan guarantees for the company were extended by the Economic Development Administration.

As you know, sugar quota legislation must be renewed this year, and domestic sugar allotments will be of great importance during our deliberations on the Senate Finance Committee. The impact of adverse developments of Maine Sugar Industries on the domestic quota decisions could be substantial.

I would very much appreciate it if you would have the federal financial activities involving Maine Sugar Industries investigated and I would further appreciate it if you would assign a top priority to this investigation so that we will have the benefit of your report at the earliest possible date.

Sincerely,



JACK MILLER

Attachment
 JM:jws

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

MAR 4 1969

B-165456

Dear Mr. Gross:

Further reference is made to your letter of October 10, 1968, requesting a report on the Federal Government's participation in establishing and financing a sugar beet processing plant in Aroostook County, Maine.

In response to your request, we reviewed legislative and appropriation hearings and pertinent records and interviewed officials of the Economic Development Administration, Department of Commerce; the Federal Water Pollution Control Administration, Department of the Interior; and the Agricultural Stabilization and Conservation Service, Department of Agriculture. Our work was performed at the agencies' headquarters in Washington, D.C. We have determined that the Small Business Administration has not participated in the financing of this project.

The Federal agencies involved in this project have approved and disbursed loans totaling \$8.7 million and have approved working capital guarantees totaling \$3.6 million. Also related is a grant of \$196,014 for a pilot pollution control study.

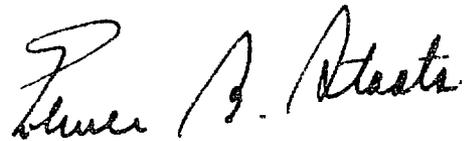
We cannot conclude, from the information that we have developed, that the Federal Government should not have participated in this project. The results of our review are presented in an enclosure with this letter.

We trust that the enclosed information will be of assistance to you. We have not obtained formal comments from the Federal or non-Federal organizations on the matters discussed in this report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after

B-165456

your agreement has been obtained or public announcement has been made by you concerning the contents of this report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Stacks".

Comptroller General
of the United States

Enclosure

The Honorable H. R. Gross
House of Representatives

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APPENDIX II

GENERAL ACCOUNTING OFFICE EXAMINATION INTO FEDERAL GOVERNMENT PARTICIPATION IN ESTABLISHING AND FINANCING A SUGAR PROCESSING PLANT IN AROOSTOOK COUNTY, MAINE

FEDERAL GOVERNMENT PARTICIPATION IN ESTABLISHING AND FINANCING A SUGAR PROCESSING PLANT

Our review showed that the Economic Development Administration (EDA) and its predecessor agency, the Area Redevelopment Administration (ARA), participated in financing the establishment of a sugar beet and sugarcane processing plant in Aroostook County at Easton, Maine. The processing plant is owned by the Aroostook Development Corporation and is operated by Maine Sugar Industries, Inc. (MSI). The Federal agencies involved in this project have approved and disbursed loans totaling \$8.7 million and have approved working capital guarantees totaling \$3.6 million. Also related is a grant of \$196,014 for a pilot pollution control study. These matters are commented on in the following sections.

Sugar beet processing

On January 24, 1964, ARA authorized a loan of \$6,921,300 to the Greater Presque Isle Development Corporation (ARA later approved substitution of the Aroostook Development Corporation for the Greater Presque Isle Development Corporation) to construct and equip a sugar beet processing plant for lease to an operator. The total estimated cost of the plant was \$17,554,540. This loan was authorized on condition that a sugar beet acreage allotment would be granted by the Department of Agriculture. The allotment was subsequently awarded by the Department on April 17, 1964. The basis for the action taken by the Department of Agriculture in awarding the acreage allotment is explained in the following paragraphs.

Section 302(b)(3) of the Sugar Act of 1948, as amended (7 U.S.C. 1132), provided for the Secretary of Agriculture to reserve each year, from 1962 through 1966, from the national annual sugar beet acreage requirements established by him, the acreage required to yield 65,000

short tons, raw value, of sugar for allotment to farms without regard to any other allocations to States or areas within States. Thus, an acreage which would yield 325,000 short tons of sugar would have accumulated during the crop years of 1962 through 1966. The reserve was established to provide for the growth and expansion of the sugar beet industry.

Allotments of acreage made by the Secretary through calendar year 1965 were expected to produce 225,000 short tons of sugar. The acreage expected to yield the remaining 100,000 short tons was available for allotment in 1966.

In determining allotments of the sugar beet acreage reserve, the act required the Secretary to base his determination and selection on the (1) firmness of capital commitment, (2) suitability for growing sugar beets, (3) proximity of other sugar beet mills, (4) need for a cash crop or a replacement crop, and (5) accessibility to sugar markets.

On April 17, 1964, the Acting Secretary of Agriculture authorized an allotment of 33,000 acres, estimated to yield 50,000 short tons of sugar, to farms in Aroostook County, Maine, commencing with the 1966 crop, for the purpose of growing sugar beets for delivery to a proposed factory near Presque Isle, Maine, which is the plant now operated by MSI.

This allotment was subsequently revised on January 28, 1966, to extend eligibility for acreage to any farm in Maine. A second acreage allotment expected to yield the remaining 50,000 short tons of sugar was made to farms in Arizona. In making these allotments, the Acting Secretary stated that, considering "all of the statutory criteria, the two localities to which commitments are made under this action are deemed to be the best qualified of all localities requesting 1966 reserve acreage."

With respect to the allotment for Maine, the Acting Secretary stated:

"The Aroostook area is the most distantly located (about 1100 miles) from existing United States beet factories of any locality requesting 1966 acreage, the most favorably situated in relation to the accessibility to sugar markets and the best qualified in regard to the need for a cash or a replacement crop. With respect to the other statutory criterion, suitability for growing

APPENDIX II

sugarbeets, feasibility tests indicate that the crop can be grown economically."

The Acting Secretary also determined that a firm capital commitment had been made to the Greater Presque Isle Development Corporation consisting of an insured first mortgage of \$8,000,000 to be placed privately; a loan from ARA for about \$7,000,000; and over \$2,600,000 pledged by farmers, other local interests, and the anticipated operator of the facility.

On June 1, 1964, the ARA loan authorization was amended at the request of the Greater Presque Isle Development Corporation to substitute a new borrower, the Aroostook Development Corporation. According to EDA records, the Great Northern Sugar Company was designated on March 22, 1965, as the operator of the proposed sugar beet plant.

Also, at that time, the amount of the loan authorization and the total estimated project cost were reduced by ARA to \$6,495,000 and \$14,700,000, respectively, resulting principally from a reduction of proposed plant capacity. The amended loan authorization provided for a note payable at an interest rate of 4 percent due on or before March 1, 1985, with a moratorium on principal repayment through February 1, 1969.

On March 25, 1965, Great Northern Sugar Company, the operating company, changed its name to Maine Sugar Industries, Inc. According to EDA records, this change resulted from action taken by the Great Northern Paper Company which claimed an infringement on its name. Construction of the plant began on the same date, and the plant was completed in late 1966. The plant commenced operations in January 1967 by processing the sugar beet crop which had been harvested in the fall of 1966.

The EDA records show that the first disbursement of the loan was made on July 8, 1965, and that the loan was fully disbursed as of September 29, 1967. The records further show that interest has been paid through November 17, 1968, and that accrued interest of \$25,976.54 was due as of December 23, 1968.

EDA also made two working capital guarantees for this project to banking institutions on June 30, 1966, and February 13, 1967,

totaling \$3,600,000 to enable MSI to privately borrow sufficient funds to provide to farmers, on a lease-purchase basis, the necessary equipment for the growing and harvesting of sugar beets.

Sugarcane processing

In regard to your questions on the justification for processing sugarcane at the MSI plant, we noted that EDA records showed that the original plans for the sugar beet processing plant provided for the future expansion of the plant for raw sugarcane processing should such action become necessary. The records also showed that because sugar beet acreage planted in 1966 was less than expected - about 3,500 acres in relation to the 33,000 acres allotted for sugar beet planting by the Department of Agriculture - sugar beet processing was expected to require only 15 days processing time. Therefore, to supplement sugar beet processing operations, the officials of MSI determined that sugarcane processing equipment should be installed and in May 1966 they applied to EDA for a loan to aid in financing the acquisition of sugarcane processing machinery and equipment.

On June 30, 1966, EDA authorized a 4.25 percent loan of \$2,250,300 to finance 65 percent of the estimated project cost of \$3,462,000. The loan authorization provided that principal repayments commence March 1, 1969, and that the due date for the final installment be on or before March 1, 1985.

According to EDA records, the first disbursement of the loan was made on August 23, 1966, and the loan proceeds were fully disbursed as of August 4, 1967. As of December 31, 1968, the interest payments were current.

Further, we noted that the Small Business Administration (SBA), which performs the preloan investigations for EDA, indicated in its report dated June 20, 1966, that sugarcane processing by MSI was technically feasible. The SBA report stated that "the expanded refinery *** will be the most efficient in existence." On August 10, 1966, MSI requested approval by the Department of Agriculture to produce refined sugar from raw sugarcane. Such approval was granted by the Department on May 23, 1967, and was based principally on the technical capabilities of the plant. On May 28, 1967, MSI received its first shipment of imported raw sugarcane. In our review, we did not evaluate the technical aspects of this project.

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We noted further that an SBA report prepared prior to approval of the loan for the sugarcane processing equipment indicated that the operation as planned including transportation, was economically justified. The report stated "the subject project will succeed economically to a higher percentage of profit than any operating plant now in existence because of the innovation and improvements contained in this plant as well as the favorable labor and railroad rates and the low cost of ship unloading at the port of entry they contemplate using at this time."

GROWING OF SUGAR BEETS BY MAINE FARMERS

Concerning your question as to the acceptance of sugar beets as a crop by Maine farmers and the profitability of growing sugar beets as opposed to potatoes, we noted that the available records indicate that in 1964 the Maine Sugar Beet Growers Association obtained commitments from 766 farmers for planting over 61,000 acres of sugar beets. These farmers also pledged subscriptions for over \$3 million of third mortgage bonds to provide funds for the construction of the sugar beet processing plant.

Although the acreage planted for the 1966 and 1967 crops, 3,263 acres and 9,397 acres, respectively, was substantially below the acreage allotment of 33,000 acres, an Agricultural Stabilization and Conservation Service (ASCS) official stated that the Department of Agriculture estimated that, for the 1968 crop, Maine farmers planted about 25,000 acres of sugar beets. According to the ASCS official, actual production figures for harvested beets will not be available until February 1969.

Also, the Sugar Act of 1948, as amended (7 U.S.C. 1131), authorizes incentive payments for the growing of sugar beets under a quota system. Further, an ASCS official informed us that the profitability of growing sugar beets in Maine was difficult to determine as of December 1968 since the results of growing sugar beets at a production level approximating the 33,000-acre allotment were not yet known.

The official stated further that the fluctuating market price for potatoes has been an important factor affecting sugar beet acreage planted. According to ASCS records, for the 1964 and 1965 potato crops, Maine farmers received significantly higher prices than in previous and subsequent years. The average prices per hundredweight of

potatoes received by farmers in Maine for the four crop years 1963 through 1966 were: \$1.90, \$3.82, \$2.36, and \$1.70, respectively. An ASCS official stated that, because of the higher prices received for potatoes in 1964 and in 1965, farmers were extremely reluctant to convert acreage to a new crop such as sugar beets.

To determine whether any officers or directors of MSI are holding sugar beet acreage allotments, we obtained from ASCS a listing of all Sugar Act incentive payments made to sugar beet growers in the State of Maine producing sugar beets under the Sugar Act acreage allotment for the 1966 and 1967 crops; no payments had been made as of December 31, 1968, for the 1968 crop.

The list did not include the names of any officers or directors of MSI; however, it showed that MSI received payments of \$6,023.67 and \$11,883.13 for the 1966 and 1967 crops, respectively; Vahlsing, Inc., which owns about 19 percent of the stock of MSI, received \$6,008.45 for 1966 and \$12,881.19 for 1967; and a partnership operating under the name of Z.B.P.W. and S. received a payment of \$5,239.20 for the 1967 crop.

ASCS provided information to us showing that the partnership consists of the following five members: William Ziegler, III, Bonnie Bubar, George Philbrick, Jr., William Witter, and Arthur Shadek. Messrs. Ziegler, Witter, and Shadek and Bonnie Bubar are all stockholders in MSI; none of the four hold a controlling interest. Mr. Ziegler is also the Executive Vice President of MSI. George Philbrick, Jr., is in charge of the partnership's farm operational functions. His father, George Philbrick, Sr., is Vice President of MSI and General Manager of Vahlsing, Inc. Bonnie Bubar is a secretary for Vahlsing, Inc.

According to ASCS records, the partnership leased 239 acres in 1967. From the available records, we could not conclude that any favorable treatment had been given by MSI in the handling of the sugar beet crop.

FINANCIAL INTERESTS OF OFFICERS AND
DIRECTORS OF MAINE SUGAR INDUSTRIES, INC.

Your letter requested a detailed account of the role of Mr. Frederick Vahlsing in this project, including his previous experience and the extent of his personal financial interest in the project. Our review

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showed that there is a Mr. Frederick H. Vahlsing, Sr., and a Mr. Frederick H. Vahlsing, Jr. EDA records show that Mr. Vahlsing, Jr., is President and Chairman of the Board of Maine Sugar Industries, Inc., and is the Executive Vice President and Chairman of the Board of Vahlsing, Inc. Mr. Vahlsing, Sr., is President of Vahlsing, Inc., and according to a Dun and Bradstreet report he has been active in growing and/or processing agricultural commodities since 1910.

Vahlsing, Inc.'s annual report for the fiscal year ended October 31, 1967, stated that the company is a grower and processor of various food commodities, including fresh and frozen vegetables, fresh and frozen potatoes, and frozen citrus concentrate.

With regard to the personal financial interests of Messrs. Vahlsing, Sr., and Vahlsing, Jr., in MSI, available records of the Securities and Exchange Commission (SEC) in November 1968 showed that they had no direct stock ownership in MSI. However, the SEC records, as well as available information in the EDA loan files, indicate that Messrs. Vahlsing, Sr., and Vahlsing, Jr., hold an indirect financial interest in MSI by virtue of their stockholdings in the Vahlsing Christina Corporation. According to SEC records, Messrs. F. H. Vahlsing, Sr., and Jr., equally own substantially all the stock of Vahlsing Christina which, in turn, owns approximately 40 percent of the common stock of Vahlsing, Inc. In addition, Vahlsing, Inc., owns about 19 percent of the outstanding stock of MSI.

The following schedule shows the major stockholders of MSI and their respective stockholdings, as indicated by SEC records in November 1968.

<u>Name</u>	Approximate percent <u>(note a)</u>
Vahlsing, Inc.	19%
American Maize-Products Co.	7
William D. Witter	6
Officers and Directors of Maine Sugar Industries, Inc., as a group (note b)	1.6

^a Based on outstanding stock at June 30, 1968, of 1,836,100 shares.

^b Does not include Messrs. Vahlsing Sr., and Jr.

With respect to the salaries of the officers of MSI, the SEC records show that for the fiscal year ended October 31, 1967, the total of the combined salaries paid to the officers was \$15,350.

FEDERAL GOVERNMENT PARTICIPATION IN
FINANCING A POTATO PROCESSING PLANT

The Federal Government has also participated in financing the expansion of a potato processing plant which is located adjacent to MSI. The plant is owned by the Easton Development Corporation and is leased to and operated by Vahlsing, Inc.

On June 12, 1964, ARA authorized a \$1,036,100 loan to the Easton Development Corporation to finance the expansion of the potato processing plant to provide additional storage facilities and the improvement of its waste treatment facility. The loan authorization provided for a note payable at an interest rate of 4 percent over a period of 17 years with a moratorium on principal repayments for the first 2 years. The EDA records show that the first disbursement was made on September 21, 1964, and that the loan was fully disbursed as of September 16, 1965.

The Easton Development Corporation applied to ARA for a loan to build and install a second frozen process line for the potato plant on January 26, 1965. A loan of \$574,600 was authorized on August 6, 1965, which provided for a note payable at 4-percent interest for 15 years with principal repayment to begin after the first six monthly interest payments. The EDA records show that the loan was disbursed in full on December 9, 1965. EDA records showed that, at December 31, 1968, principal and interest payments on both loans were being made in accordance with the applicable repayment schedules.

ACTIONS TAKEN TO CONTROL WATER
POLLUTION OF PRESTILE STREAM

Both the potato processing plant operated by Vahlsing, Inc., and the sugar processing plant operated by MSI are located on the Prestile Stream. The stream originates at a point just north of the two plants and flows in a general southeasterly direction across the international boundary and empties into the St. John River in Canada. According to the Federal Water Pollution Control Administration (FWPCA) files, in 1955 the stream was classified by the Maine State Legislature which assigned a B-1 classification to that area of the stream where the

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potato plant is now located. The State of Maine defines a B-1 classification as water acceptable for recreational purposes and, after adequate treatment, as a water supply suitable for drinking.

An undated report in the FWPCA files of the Maine Water Improvement Commission states that, after Vahlsing, Inc., began its operations in 1961, the plant repeatedly violated the waste disposal standards for the stream classification and on September 25, 1963, the Water Improvement Commission issued an order to Vahlsing, Inc., to abate pollution by August 31, 1964. In September 1964, a treatment plant was installed at the Vahlsing potato processing plant, but, according to the report, the treatment plant was not approved by the Commission as acceptable.

In 1965, according to the FWPCA records, the Maine State Legislature lowered the classification of the Prestile Stream to the D category to allow the proposed sugar beet refinery to discharge its waste. Maine State statutes define Class D waters as being devoted primarily to the transportation of sewage and industrial wastes without causing a public nuisance. The revised classification, however, was not to become effective until the sugar beet plant had been constructed.

An FWPCA official informed us that Maine State statutes prohibit the discharge of any waste to a stream classified as A, B-1, B-2, or C and that the discharge of waste from the sugar beet plant would definitely have violated any classification of water higher than Class D. He further advised that, in order for the State of Maine to grant a license to MSI for discharging waste water, which was essential to the operation, the State had to downgrade the water classification.

The official stated further, however, that FWPCA was not directly involved in the reclassification since at that time the Federal Water Pollution Control Act (33 U.S.C. 466) did not provide for establishing water quality standards for interstate waters. The FWPCA definition of interstate waters includes waters flowing across an international boundary.

In March 1967, the State of Maine reclassified the stream from Class D to Class C. The State statutes define Class C waters as suitable for recreational boating, fishing, and other uses but not for drinking water and swimming, unless adequately treated. The FWPCA official stated that, as a result of guidelines established by FWPCA, Maine

was encouraged to upgrade the stream classification. FWPCA's Guidelines for Establishing Water Quality Standards for Interstate Waters provide that "no standards of water quality will be approved which provide for the use of any stream or portion thereof for the sole or principal purpose of transporting wastes."

The FWPCA official stated that since Class D waters in Maine have, as their principal purpose, transportation of wastes, the reclassification to Class C was necessary. Although the stream has been reclassified, according to the FWPCA official, the stream is still being polluted; that is, below the C classification.

With regard to whether the potato plant or the sugar plant is causing the pollution of the stream, the FWPCA official stated that, even at the time the stream had a B-1 classification, the quality of water would not meet the standards for the classification and therefore "it can be assumed that Vahlsing (the potato plant) had an adverse effect on the water as it was the principal polluter." The FWPCA files indicate that the estimated waste discharge from the sugar plant operating at full capacity could equal or exceed the level of discharge from the potato plant; however, we were unable to ascertain which plant discharged the most waste.

FWPCA has also participated in financing a pilot pollution control study for potato and beet sugar wastes, using the Vahlsing, Inc., potato plant and the MSI sugar beet plant as a demonstration model. The previously cited report of the Maine Water Improvement Commission stated that, during 1965 and 1966, Vahlsing, Inc., continued to violate the waste disposal standards for the then-existing B-1 classification on the Prestile Stream.

On December 23, 1966, FWPCA awarded a grant of \$196,014 to Vahlshing, Inc., for a pilot study to demonstrate the feasibility of (1) treatment of potato processing waste by using an activated sludge system, (2) combining potato processing waste with sugar beet refining waste, and (3) three in-plant closed water waste systems in the sugar beet plant. This study had not been completed at December 31, 1968.

In addition, on August 1, 1968, the Northern Maine Regional Planning Commission submitted an application to EDA for \$130,000 to finance one half of the cost of a technical assistance study to

APPENDIX II

determine the optimum solution to pollution control programs on certain waters in Aroostook County including the Prestile Stream. The application was referred to FWPCA for its comments. No further action had been taken by EDA as of December 31, 1968.

Also, according to the EDA records, no applications for further financial assistance have been made in connection with this project.

BEST DOCUMENT AVAILABLE

