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United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 82^d CONGRESS, FIRST SESSION

The Proposed Aluminum Industry for Montana—V

REMARKS

OF

HON. MIKE MANSFIELD

OF MONTANA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, October 17, 1951

Mr. MANSFIELD. Mr. Speaker, I am calling to the attention of the Congress a letter I have just received from the Honorable R. D. Searles, Under Secretary of the Interior, about the proposed loan to the Harvey Co. to establish an aluminum industry in the Flathead Valley of Montana.

I have received replies to my letters from the Attorney General of the United States and RFC Administrator Stuart Symington. This letter from Mr. Searles is in reply to my letter to Secretary Chapman asking for an explanation of charges made against the Harvey Co. My request to the Hardy investigating committee for an investigation of this matter has been granted and I am hopeful that it will issue its report shortly.

I have also introduced a bill in the House to establish a clearing house in the Department of Justice for the purpose of screening all companies seeking to do business with the Government. I have requested the gentleman from New York, Hon. EMANUEL CELLER, chairman of the House Committee on the Judiciary, to hold hearings on my proposal at the earliest opportunity and he has promised to do so.

Mr. Speaker, I am turning this material over to the Hardy committee for its consideration during the course of its investigation.

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UNITED STATES

DEPARTMENT OF THE INTERIOR,

Washington, October 17, 1951.

HON. MIKE MANSFIELD,

House of Representatives,

Washington, D. C.

Re Harvey Machine Co.

MY DEAR MIKE: This will supplement the information given to you over the phone in answer to your letter of September 17. Since I handled the negotiations on the proposed loan to the Harvey Machine Co. of Montana, I am writing a detailed answer to your letter. As we mentioned to you on the phone, we desired to make a thorough investigation of the questions which you presented to us before sending an answer to you.

We have conferred with both the Department of Justice and the Department of the Navy regarding their past experience with the Harvey Machine Co. and its personnel.

We held a conference in this Department with Mr. Symington of the RFC, Mr. Jess Larson of the GSA, Mr. Manly Fleischmann, Administrator of the DPA, Assistant Attorney General McInerney, and Mr. E. E. Wilcox of Secretary of the Navy Kimball's office. At this meeting all of the information which we have regarding the above company was given to those present.

In addition to the conference, we have furnished Mr. Fleischmann with copies of letters regarding this company which we have received from the Department of Justice and from the Department of the Navy. All of our findings have now been given to Mr. Fleischmann and we expect that a final determination on this loan will be made by him in the very near future.

In the conference of July 31 to which you refer, you were given in detail the basis on which we proposed to recommend to DPA the loan to the Harvey Machine Co. The final proposal as made by the Defense Minerals Administration to DPA was the same as that discussed at the above conference except for several additional restrictions

favorable to the Government. In turn, when DPA considered our recommendation they added several additional considerations and restrictions.

As you will recall, the Harvey Machine Co. in the spring of 1950, prior to Korea, showed their first interest in building an aluminum reduction plant in Montana. At that time they conferred with the Bonneville Power Administration on the purchase of power from Hungry Horse Dam for a two pot-line reduction plant. In subsequent months, after the Korean fighting started, it was quite evident that a large increase in aluminum capacity would be needed and this company undertook to expand their plans to three or four pot lines at the KallsPELL location.

In December of 1950 they were certified by DMA for an allocation for the production of 72,000 tons of aluminum and negotiated with GSA for a procurement contract.

After several months the company informed us that they were unsuccessful in obtaining the private financing with which they had anticipated building the plant. On May 31 they filed with us an application for a loan of \$70,274,861 for construction of a four pot-line plant at KallsPELL, together with an aluminum plant to be located near Tacoma, Wash.

On June 14 we informed the Harvey Co. that it would be impossible to consider the loan on the basis of the equity capital which they proposed to put into the new company but that consideration might be given for a loan to build a three pot-line plant.

On June 15 the Harvey Machine Co. informed us that they desired to modify their application and reduce the amount of the loan to \$50,000,000 for construction of a three pot-line plant. They proposed that they would pay into a new company \$6,000,000 which would be obtained in exchange for stock in a new corporation.

On July 10 Dr. James Boyd, then Administrator of the Defense Minerals Administra-

tion, made the following recommendation to the secretary:

"The recommendation for a Government loan to Harvey Machine Co. for three pot lines (54,000 tons) and an alumina plant, but not for their own bauxite facilities, in the amount of approximately \$45,000,000 contingent on their being able to complete these facilities with this amount and the proposed \$6,000,000 plus in cash equity; together with a tax amortization certificate which RFC requests that be granted with their DPA loans. I believe we have delayed a decision in this case too long, changing our minds so frequently that we are duty bound to give them the chance to finish up their deal, as they are already far advanced and a new company coming in at scratch will delay the program further."

Dr. Boyd also made this recommendation in his letter of July 16 addressed to Mr. E. T. Gibson, then Acting Administrator of DPA.

After several further conferences, the Harvey people advised us that they were unable to obtain the \$6,000,000 which they had expected would be forthcoming from New York financial interests. On August 1 they made the following proposal:

"A new company, Harvey Machine Co., Inc., of Montana, requests a loan of \$46,000,000 required to construct an integrated aluminum project.

"Harvey Machine Co., Inc. (a California corporation) proposes to furnish \$3,500,000 equity capital through the contribution of cash, equipment, and land to the new company. An additional \$3,500,000 cash is to be paid into the new company by the sale to purchasers, including such independent fabricators as desire to invest money to get an assured supply of aluminum, of company securities junior to the requested loan of a type or types satisfactory to the fiscal agent."

After further discussions, we recommended to DPA a loan of \$46,000,000 to the above company for the construction of a three pot-line reduction plant of 54,000 tons capacity, an alumina facility of 108,000 tons annual capacity, and for the purchase of ore boats. We sent DPA our recommendation on August 6, as follows:

"The company proposes a capitalization of \$7,000,000 of which \$3,500,000 will be paid in by contribution of cash, land, and equipment by the Harvey Machine Co., of California. This contribution is to be made prior to the date of the loan.

"The other \$3,500,000 is to be supplied through the sale of stock to be offered to the public and especially to independent fabricators. The Harvey Machine Co., of California, is to guarantee the sale of the addi-

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tional stock and is given a limit of 18 months in which to pay in this additional \$3,500,000. A copy of the California company's financial statement and Dun and Bradstreet's report are attached.

"In case the company fails to obtain the additional contribution of \$3,500,000, the Government is to have the option of selling the complete facilities to another operator, for which the Harvey Machine Co. would be reimbursed for the cost of the construction of the plant, the cost to be determined by the Government.

"A list of conditions and requirements of the loan is attached. This list is subject to any additional requirements that the fiscal agent (the RFC) may desire. There may be additional information that your office will want. If so, please contact Mr. Shooshan in my office, or Mr. H. Heckmann, of the Defense Minerals Administration."

The staff of the DPA discussed the loan with the Harvey Co. for approximately 10 days and added several conditions. One added condition required Mr. Leo Harvey, Sr., to put up a bond of \$1,000,000 to guarantee that the \$3,500,000 of additional money would be paid in within 18 months, the \$1,000,000 to be forfeited if the additional cash had not been contributed. If the Harvey Co. does not pay in the additional \$3,500,000 within 18 months the Government, in addition to taking the \$1,000,000 as a forfeiture, has the option of selling the complete facilities to another operator. The sale price would be based on the cost of the construction of the plant, the cost to be determined by the Government.

The Government loan has the following further protection. Condition 6 (a) of the loan was as follows:

"Disbursements of the loan proceeds to be made from time to time in such amounts and in such manner as fiscal agent may decide, provided that prior to each disbursement fiscal agent is in receipt of satisfactory evidence that the amount then to be disbursed is necessary and the construction for which payment is to be made is in accordance with the plans, specifications, cost estimate, and construction contract filed with the fiscal agent pursuant to condition 7 (c) hereunder."

Thus, the plant was to be constructed under the supervision and control of the Government so that there was to be complete knowledge of the cost and assurance of satisfactory design and construction.

Certain other conditions which protect the Government are as follows.

"Management agreement—This will be an agreement executed by borrower, providing

that until payment in full of the indebtedness evidenced by the note, the management of borrower will be satisfactory to Reconstruction Finance Corporation and the delegate agency and if within 30 days from the date of forwarding by RFC of notice to the borrower that borrower's management is not satisfactory and borrower does not make changes so that its management shall be satisfactory then the RFC with the concurrence of the delegate agency may at any time thereafter, without notice to borrower, accelerate the maturity of the indebtedness evidenced by the note.

"Agreement that if the applicant company remains wholly or preponderantly owned by the parent company, there is to be made available for repayment of the loan (A) all tax savings resulting from the accelerated amortization of the subsidiary company, (B) all tax savings accruing to the parent company through consolidation of its earnings with the subsidiary, (C) all earned accelerated amortization and depreciation of the subsidiary company, less actual replacements chargeable to depreciation, (D) one-half of the net income of the subsidiary company after taxes of the parent company as if there were no consolidation (it is understood that net income for this purpose shall be computed after amortization and depreciation of the parent company).

"An agreement as an alternative to (1) above that if the subsidiary company is not wholly or preponderantly owned by the parent company, and is therefore not consolidated with the parent company for tax purposes, there is to be made available for repayment of the loan (A) all tax savings resulting from the accelerated amortization of the subsidiary company, plus (B) all earned amortization and depreciation of the subsidiary company, less actual replacements chargeable to depreciation, plus (C) one-half of the net income of the subsidiary company after taxes."

Recommendation to DPA was based on the determination that the Harvey Machine Co. was in a position to construct this plant in as short or shorter time than any other company that was interested or available to build the plant. After they were allocated aluminum production in December 1950, this company placed orders for some \$20,000,000 of equipment for the plant, which equipment is under construction at the present time. This added greatly to their ability to be an earlier producer.

At the time the proposed loan was recommended all of the companies producing aluminum had just been granted a second

phase of expansion. The first and second phases are as follows:

Name	Location	Tonnage	Estimated cost
Alcoa.....	Washington.....	85,000	\$60,000,000
Do.....	Texas.....	185,000	115,000,000
Do.....	do.....	35,000	34,000,000
Kaiser.....	Louisiana.....	100,000	70,000,000
Do.....	do.....	100,000	75,000,000
Do.....	Washington.....	20,000	12,800,000
Reynolds.....	Texas.....	175,000	79,700,000
Do.....	Arkansas.....	23,000	14,300,000
Do.....	Oregon.....	2,000	475,000
Do.....	Washington.....	20,000	10,000,000
Total.....		545,000	471,275,000

¹ Includes power plant.
² Production rate: Actual capacity 27,500 tons.
³ Production rate: Actual capacity 24,000 tons.

NOTE.—Alumina facilities not included.
 Your attention is invited to the fact that 481,000 tons of the total tonnage (545,000 tons) was located in the South and Southwest, Texas, Louisiana, and Arkansas.

The Reynolds Co. had been given all of the additional expansion that they desired to take at that time. In order to handle the financing of the last 20,000 tons. GSA had found it necessary to agree to make them an advance payment of \$9,000,000 to be paid back in aluminum after this plant expansion was in production. As you will readily see, the engineering forces of these three companies were all well occupied, as were their administrative departments, with the vast expansion which they had on hand.

The Harvey Machine Co. had developed their plans for the Kalispell plant over a period of the last 8 months, and it appeared evident that they would be able to give the earliest production of aluminum over anyone to whom we could give this allocation.

Under the conditions of the loan, the \$7,000,000, of which \$3,500,000 was to be advanced originally by the Harvey interests and \$3,500,000 paid in from additional stock, was to be credited against the \$46,000,000 and act as repayment on the loan. Provided the plant was built for the \$46,000,000 estimated, the total loan made by the Government would be \$39,000,000. Because of the difficulty today to determine exactly the final cost of the plant, which requires 18 months for construction, the \$46,000,000 plus the \$7,000,000 of equity capital, or a total of \$53,000,000 was to be available for the plant. This meant that equity capital of 15 percent or more of the loan was being furnished by the borrowers.

As you know, the power to be used by the Harvey Aluminum Co. at Kalispell, Mont., does not come on the line for at least another year on completion of Hungry Horse Dam and filling of the reservoir. Regardless of statements to the contrary, it had no effects whatsoever on the current shortage of power in the Pacific Northwest. It is my understanding that this power has been allocated to the State of Montana by law

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and even if it were available at the present time, which it is not, its use would be restricted to Montana.

The Department has assumed that an applicant who makes a request from our defense agencies here, and who is currently enjoying a contract with any of the agencies of the Department of Defense, has been cleared as to ability, integrity, and loyalty. It would be an unnecessary duplication for the defense agencies to make a check if the Department of Defense has already made such a check and has contracted with the individuals for production of needed military goods. In addition, the sources of information in many cases would not be available to us.

Considering the country's urgent need for the production of aluminum, I still feel that this is a satisfactory financial risk for the Government. The terms and conditions are certainly as tight as they could possibly be and the Government's interests are surely well protected.

I feel that the staff of DPA did an excellent job in drawing up the final conditions. The question which was later raised as to the past operating experience of the company with the Department of Defense is, of course, a matter on which DPA will make their own decision.

It should be noted that Alcoa, Reynolds, and Kaiser all have contracts requiring the Government to purchase their aluminum capacity for a period of up to 5 years. This is a very important advantage for these companies and it is not an advantage that either DMA or DPA recommended or offered to the Harvey Machine Co.

In conclusion, as I mentioned earlier in this letter, we have furnished Mr. Fleischmann with all of the available information we have concerning the past operations of this company so that he may make his determination as to whether or not the loan proposal will be completed. For your information we are enclosing copies of the loan conditions and I feel sure that after studying them you will agree that they very well protect the interests of the Federal Government.

Sincerely yours,

R. D. SEARLES,
 Under Secretary.

HARVEY MACHINE CO. OF MONTANA, KALISPELL, MONT.—CONDITIONS OF DMA RECOMMENDATION OF LOAN TO DPA

1. Notes will be payable in equal quarterly installments beginning 1 year after completion of the new facilities. Interest at 4½ percent per annum will begin after date of the note. Final maturity 20 years. Fifty percent net earnings clause to be attached.

2. Collateral: A first mortgage will be given to cover all realty and machinery and equipment now owned and subsequently acquired.

3. Proceeds of the loan will be used only for construction of the plant, purchase of equipment and installation of the facilities which will be identified and listed.

4. No dividends will be paid by the company until the loan is repaid.

5. Salary restriction, management, tax deposit and after acquired property agreements are to be made.

6. An agreement that any additional capital must be approved by the fiscal agent.

7. Plans and specifications are to be approved by a delegated agency.

8. Borrower will submit evidence of adequate working capital which has been estimated at \$2,000,000.

9. On request for disbursement of the loan to the borrower, evidence of compliance with all of the above must be shown.

10. Disbursement of the loan will be made only on receipt of prior approval of the fiscal agent or his representative as construction progresses.

11. Preparation of these papers and all details concerning the loan will be subject to the approval of the Reconstruction Finance Corporation as fiscal agent.

12. Any tax saving resulting from a certificate of necessity will be applied on the loan in inverse order of maturity.

HARVEY MACHINE CO., INC., OF MONTANA, KALISPELL, MONT.—DPA CONDITIONS ON LOAN

Terms: To mature 20 years from date of note. Note will be payable in equal quarterly installments beginning 1 year after completion of new facilities. Interest at the rate of 4½ percent per annum payable monthly commencing 30 days from date of note.

Collateral: First lien on all land, buildings, building installations, machinery, equipment, furniture, and fixtures now owned or hereafter acquired by Harvey Machine Co., Inc. of Montana.

Disbursements:

Disbursements of the loan proceeds to be made from time to time in such amounts and in such manner as fiscal agency may decide provided that prior to each disbursement fiscal agent is in receipt of satisfactory evidence that the amount then to be disbursed is necessary and the construction for which payment is to be made is in accordance with the plans, specifications, cost estimate, and construction contract filed with the fiscal agent pursuant to condition 7 (G) hereunder.

The initial disbursement under this authorization may not be made later than

4 months from date of authorization unless this time limit is extended by fiscal agent provided that a time limit for the final disbursement hereunder may be stipulated upon receipt and approval of fiscal agent of the construction program and copy of construction contracts.

Other terms and conditions:

A. No dividends will be paid by the company until loan is repaid.

B. RFC loan agreement.

C. Agreement that no advance to or investments in associated companies be made without prior written approval by fiscal agent.

D. Management agreement: This will be an agreement executed by borrower, providing that until payment in full of the indebtedness evidenced by the note, the management of borrower will be satisfactory to Reconstruction Finance Corporation and the delegate agency and if within 30 days from the date of forwarding by RFC of notice to the borrower that borrower's management is not satisfactory and borrower does not make changes so that its management shall be satisfactory then the RFC with the concurrence of the delegate agency may at any time thereafter, without notice to borrower, accelerate the maturity of the indebtedness evidenced by the note.

E. After acquired property clause.

F. Tax deposit agreement.

G. No disbursement hereunder to be made until approval by fiscal agent of plans, specifications, cost estimates, and copy of construction contracts covering the proposed construction.

H. Working capital to be supplied by applicant. Evidence satisfactory to fiscal agent that not less than \$2,000,000 will be available for working capital upon completion of the facilities.

I. The applicant agrees to provide within 18 months of the date of the loan an additional \$3,500,000 by the sale of equity or junior debt securities. These funds will be applied as determined by the fiscal agent to the reduction of the loan or to defray con-

struction costs in excess of the estimated plant costs or in excess of the amount of the loan and the original capital contribution of the parent company, Harvey Machine Co., Inc., of California.

J. Applicant agrees to furnish a \$1,000,000 personal performance bond to be signed by Leo Harvey, Sr., to guarantee the above. The bond is to be forfeited by failure of the applicant to perform any of the conditions of the above item.

K. In addition to actual cash expenditures made by or for the account of the applicant up to the date of this certificate, as contained in Loan Application DMA 1919, as amended August 2, 1951, and properly chargeable to this project as determined by the fiscal agent, an additional amount in cash shall be deposited with the fiscal agent sufficient to provide a total cash investment by the applicant of not less than \$2,500,000 prior to any disbursement of the loan. Such \$2,500,000 is in addition to the working capital referred to in paragraph (H) and the \$3,500,000 referred to in paragraph (I).

L. Agreement that if the applicant company remains wholly or preponderantly owned by the parent company, there is to be made available for repayment of the loan (a) all tax savings resulting from the accelerated amortization of the subsidiary company, (b) all tax savings accruing to the parent company through consolidation of its earnings with the subsidiary, (c) all earned accelerated amortization and depreciation of the subsidiary company, less actual replacements chargeable to depreciation, (d) one-half of the net income of the subsidiary company after taxes, and (e) one-half of the net income after taxes of the parent company as if there were no consolidation (it is understood that net income for this purpose shall be computed after amortization and depreciation of the parent company).

M. An agreement as an alternate to (1) above that if the subsidiary company is not wholly or preponderantly owned by the parent company, and is therefore not consolidated with the parent company for tax purposes, there is to be made available for re-

payment of the loan (a) all tax savings resulting from the accelerated amortization of the subsidiary company, plus (b) all earned amortization and depreciation of the subsidiary company, less actual replacements chargeable to depreciation, plus (c) one-half of the net income of the subsidiary company after taxes.

N. The minimum repayment in any 1 year is to be one-twentieth of the loan, provided that if in any year earned depreciation and amortization plus earnings after taxes are less than this minimum payment, the excess of the cumulative total of repayments made in previous years over the cumulative total of minimum payments due may be applied to this difference.

O. Stand-by agreement in respect to any debts owed officers or stockholders.

P. Borrower will carry on property insurance of such type and in such amounts as may be required by fiscal agent.

Q. Applicant to agree to furnish fiscal agent monthly income statements as well as quarterly balance sheets not later than 30 days after the close of each quarter until repayment of loan. The income and balance sheet statements shall be in form satisfactory to fiscal agent and sworn to by borrower.

R. The new company shall grant an option in writing enabling the mortgagee to sell the complete project to another producer upon the reimbursement by the Government of the new company for the actual cost to the company exclusive of the cost of the bond referred to in paragraph (J) and without any consideration of the proceeds received by the Government under such bond, all costs to be determined by the Government according to standard accounting procedures; the option to provide that it may be exercised by written notice to the new company 18 months after the date of the loan, if the full \$3,500,000 additional capital has not been paid into the new company at the date of such notice, provided that the time within which such notice may be served may be extended and reextended by mutual consent.