

John R. Morrow
44 High Street
Belfast, Maine 04915

February 15, 2020

State of Maine
Board of Environmental Protection
17 State House Station
Augusta, Maine 04333-0017
Via Email: NordicAquaFarms.DEP@maine.gov.

Dear Board:

I respectfully submit these comments of interest to the DEP surrounding the proposed Nordic Aqua Farms project in Belfast/Northport Maine with a recommendation to perform more due diligence on financial and economic matters as expressed herein and required under Chapter 373.

Overview: The Applicant has proposed a fish farming and slaughter plant with environmental impact the scale of several cities the size of Belfast, that if completed will become a “Top 5 on the planet” industrial Concentrated Animal Feeding Operation (“CAFO”). The Applicant has proposed a location placed between a rural village and a small-town county seat, the ground zero for “Maine: The way life should be” territory. As such, much attention has rightly been focused on environmental risk factors. However, little attention has been placed on the business environmental conditions that make the proposed \$500MM project highly speculative, risky and concerning, to all the citizens of the State of Maine.

Following are observations that are meant to encourage further due diligence by State and local authorities in support of the BEP Department’s Financial and Technical Capacity Standards of the Site Law, Chapter 373.

Expert: John R. Morrow is an expert business analyst and thought-leading healthcare business performance benchmarking pioneer, having established the first US national ratings system for the US hospital industry; a \$1.4 trillion segment of the \$3.8 trillion US health care industry accounting for 19% of US GDP.

Morrow for 30-years has been a proponent of business transparency and performance improvement, from a financial, operational and clinical perspective having created the industry’s leading ratings programs thus resulting in reduced risk, improving quality and outcomes for hundreds of millions of patients. Morrow has led initiatives and operated businesses in the US and European Union.

His expertise has included expert testimony to: the US Congress, Wall Street’s secondary bond markets, research and trade industry policy and provider organizations. Today he provides business intelligence services to national consulting and advisory firms and national health care health care systems.

His management experience includes leadership in building companies as a founder or Director resulting in the capital raise, initial public offering and recapitalization of public and private US businesses. That

experience includes as a Control Person in organizations raising hundreds of millions of dollars of capital, debt and private equity investment and acquiring over thirty companies.

Personal: Morrow is a pro-business community member seeking on behalf of the reviewing authorities clarity on empirical issues that support subsequent environmental impact analysis such as financial, operational and qualitative issues not dissimilar from those required in any industry segment. Morrow is not a vegan, environmentalist or business obstructionist. He does strongly believe in transparency to drive best practices such as GAAP on the financial side. As such, with little local expertise being expressed by any party on business matters so critical to the long-term business environmental impact, a series of Due Diligence observation and answers are lacking and need to be sought.

Due Diligence – Given the nature, size, risk, permanency and potential liability of the proposed project, it is essential that the people of the State of Maine be protected from proposals whose short-term objectives do not meet the long-term master plan of the region or cause long-term damage to the natural resources for which they share. Best practices, standards, guidelines and diligence on risk are key tenants that the people of Maine expect from environmental review of any project. Should none of those standards be able to be met, or to the extent that standards do not exist, the Applicant should be rejected. IT IS NOT THE RESPONSIBILITY OF THE DEP OR OTHER REVIEW AGENCIES TO EVALUATE THE ECONOMICS OF HYPOTHETICAL TAX REVENUE, HYPOTHETICAL JOBS OR POLITICAL WILL, YET THEY MUST CONSIDER IF THE PROMISE OF ANY OF THAT, IN ANY FORM, CONTRIBUTES TO THE UNCERTAINTY OF THE PROJECT, IT'S RECOURSE SHOULD IT FAIL AND THE ACCURACY AND SURETY OF INFORMATION FOR WHICH IT HAS BASED ITS FINANCIAL AND TECHNICAL DECISIONS UNDER Chapter 373.

1. **Management** – Investors; venture capital, private equity, debt as well as ratings agencies, Moody's, S&P, Fitch for rated public debt e.g. Municipal bonds, place a disproportionate amount of weight in their decisions (up to 65%) on the experience and wisdom of the management team, and their history of performance over time with same store business performance. Good ratings lead to lower costs of capital. Low ratings, or speculative schemes incur higher costs of capital and have higher risk and investors demand higher returns in shorter periods. High-risk investments for municipalities are counter intuitive to the surety that citizens expect.
 - a. Reputation – The applicant admits to being quite new to the aquaculture field, having only several years of practical experience and only as a beneficiary thru a small acquisition of an existing flailing fish farm in Denmark. The applicant has no experience with having developed and produced a commercial product in Norway and has no substantial experience as an owner or operator of any business whatsoever in the US. The experience of the team is limited for any start-up claiming on making nearly US \$1.0B of expenditure in US markets. Does the BEP measure reputational risk the same as financial markets?
 - b. Nordic's parent company replaced and demoted its CEO (Heim) who was dispatched back to the US to pursue new business development initiatives. Nordic's new CEO has been vocal in negotiations of other speculative developments in California, yet is it uncertain of his own control given the deference Nordic has been taking to their board of directors. With such an influential board of directors has BEP performed due diligence

on them? The board made up of investors, not local business owners or experienced operators or developers of aquaculture facilities. Are their interests registered in offshore tax havens such as Isle of Mann, Bermuda, Cayman Islands and does this indicate a point of view on their financial intent? Do these interests have concern for local issues and are they intent on paying taxes to all US entities or will they be considered high-risk members of the management.

- c. **Credibility** – The applicant has made lofty financial claims, including what the SEC would consider as “Forward Looking Statements” in their communications with the US agriculture industry and agriculture investment trade publications. These statements include making claim that the Company had raised over EU \$50 million for their projects from the organizations such as the European Union. Simple verifications of these statements confirm these statements to be misleading points; worthy of note:
- i. Crunchbase reports that the applicant was in fact the recipient of a Grant from the EU. The amount was EU \$50,000 not the \$50 Million implied or reported by Heim. Has this been verified?
 - ii. Neither the Kingdom of Norway nor the US are members of the European Union, thus can one conclude that the Grant and its timing was designated for the Denmark subsidiary?
 - iii. If Grant funds from the EU have or will be used outside the EU, will the applicant have larger compliance problems with the EU and potential US investors?
 - iv. Start-ups entering a new market with no capital, making claims of investing US \$500mm or now \$900mm including CA, masked behind, multi-national ownership, private family office investment managers proposing development involving tax incentives could be questionable. Do the reviewing authorities pay attention to the details of uncapped ventures?
 - v. The due diligence that was coordinated between the City of Belfast and the applicant by Deloitte was suspect, the response to the City was simple and useless, as it answered no substantiate question that any businessperson would consider necessary for such a high-risk venture. The City’s residents deserve more professional oversight. Do the reviewing authorities commission independent review for projects of this scale or do they take the application at face value?
- d. **Experience** – The applicant has boasted its experience of its principals (Heim & Naess) including statements about Naess being a senior executive of America’s McKesson Corporation. A review of the applicant employment including their self-reported profiles on LinkedIn reveal a different profile:
- i. Naess’ role prior to joining her husband at NAF in the US was as commercial director of Norsk Medisinaldepot AS. That company is a subsidiary of another company, and that company is owned by McKesson. Naess has never been on the Executive Committee of McKesson Corp., never a “Control Person” as defined by the SEC, and in a role that in the US is known as head of sales. All of this “experience” from a third-tier subsidiary (a pharmaceutical distributor) of a company for which it is claimed being a “senior executive”. The marketplace

that role served is no larger than having sales responsibility for a population smaller than NY. This role and experience have been exaggerated and at face value is misleading.

- ii. Naess' role as "partner/wife/postleque" to Heim has not been clear, thus the qualifications and experience required for a multinational agriculture company seem to have been waived in lieu of convenience, and Naess' role spun curiously as something more than in fact it ever was. It does however confirm that Naess' experience is not in aquaculture or agriculture; it's in pharmaceuticals thus, one can only conclude a confusing, but self-reported weakness. Do the reviewing authorities understand this relationship?
 - iii. Naess' own self-reported LinkedIn profile is also contradictory claiming work experience for competing US consulting firms concurrently; something that Big Eight advisory firms rarely do when the employee operates at a professional level.
 - iv. Heim's self-reported experience is equally curious. Also having claimed to work for a big eight accounting firm but as reported a year before it was even formed, demonstrate falsity. Of greater need for transparency surrounds his venture entity Xenon; the vehicle for recording his declared investment in Nordic. Has the Applicant demonstrated the purpose of this sheltered entity? Have the review authorities questioned the principals...the only people here in the US with authority?
- e. **Indifference** – The applicant spends time in the media defending their interest in the Waldo County community, yet makes less than deferential statements about critics especially if they are not residents of Belfast, or if they are concerned about the environment, or are vegans...something that most Belfast residents in our Co-Op style town are more than proud. The applicant also conveniently claims to be Norwegian yet born in America and vice versa... yet chooses not to live within 100 miles of Belfast, Maine, the mothership of their US operations. It all bears further interest and questions about intent, which is confusing to residents and will be so to future investors. How does this mesh with what the reviewing authorities have been told?
- f. Questions about residency/citizen status – By self-reported accounts, both Heim and Naess attended university in the US, together in California and then in Oregon, having returned to Norway after short professional experience in the US. If one is to believe the self-reported claims that Heim or Naess are naturalized US citizens and perhaps dual citizens of Norway, has the Applicant confirmed to the reviewing authorities that since departing the US, they each have unendingly complied with US Federal IRS requirements that all Worldwide Income be declared through US filings, in spite of the source and type of income or the nature of bi-lateral tax treaties in countries where any had compensation? Have the reviewing authorities considered the risk had they not?
- g. Given the extent to which Federal, State and local municipalities and local taxpayers are contributing development incentives to the "invited commerce" of foreign national company, have the reviewing authorities confirmed that the Applicant has complied with US Federal Law, will continue to and will eventually re-patriate any profits back into

he US economy as all would expect? Does Chapter 373 allow for the extraction of natural resources at any risk without a return to the State?

2. Business Case

Thesis – The idea that the World cannot sustain its own demand for protein food sources and that Nordic is offering a solution is uninformed.

- i. Few believe that the applicant has such a high moral fiber as to be suggesting that end-product will end up in Darfur to meet the needs of hungry people.
- ii. It's clear that Nordic countries have polluted the Baltic Sea to a point of disrepair, and they are seeking alternative sites to manufacture and harvest using natural resources which are free (to them) and exploiting the US commercial generosity for attracting international trade.
- iii. No one believes the seafood importation numbers promoted, as most US produced seafood is processed offshore and returned to the US under an import designation.
- iv. No one believes that a couple from Norway have the US interests at heart by shifting import/export ratios, however they are counted.
- v. No one believes that reducing the transportation cost of frozen seafood materially solves the cost differential for products sold in retail by the ounce...even the applicant's own investors from Norwegian shipping companies know the exact cost of exporting frozen containers, and even Belfast's own Ducktrap salmon processing facility delivers product frozen to the local Hannaford Market. Have the reviewing authorities calculated the net impact on carbon footprint, and will they support the State's 2030 goals?
- vi. No one believes that fish grown in an unnatural tank somehow will become Sashimi-grade salmon, just because the producer says so. The world's highest value products come from the most natural of sources.
- vii. No one believes that the few jobs are worth the risk, disruption and pollution that the applicant claims won't occur.
- viii. No one believes that the current management will survive more than 5-years and their "word" will be only as good as some private equity fund manager's discretion on how to boost their ROI on the investment again.
- ix. No one believes that there is no risk to the environment on such an experimental project, especially at the worldwide scale as proposed.
- x. No one believes or has proforma modeled the net tax revenue base to the local economy after the reduction of Pine Tree Zone credits, TIFF benefits and subsequent grants, and after closed door benefits offered by State, Federal and Municipal entities whose job it is to keep themselves busy.
- xi. No one believes that the current requests for credits, debt subordination, and other subsidies will end this year...as evidenced by the applicant's second round of "asks" for an additional \$30-40 mm of clean-up in California.
- xii. No one believes that Nordic will be the sole long-term owner of NAF, and that in spite of the firm's own estimate that the expected capital life of the physical

plant is thirty-years, everyone in finance knows that the expected term for a high-risk return on investment is 5-7 years, assuming the technology works and the plant's experimental design produces a commercial fish crop...something Nordic has yet to do in its own history.

- xiii. No one knows how to re-cycle a massive concrete tank upon the end of the economic life or obsolescence of the physical structure.

All these doubts cast a shadow of risk for the Applicant's ability to raise capital for most of the proposed project. Or, to obtain financing for the 2-3 year grow out period for the first successful commercial fish crop. Have the reviewing authorities considered how to recapture natural resources in the event of failure?

3. Risks

- a. Financial – The Environmental risk are exacerbated by the financial risks.
 - i. Who cleaned up the chicken processing plants in Belfast? MBNA-like philanthropy doesn't come around very often.
 - ii. Who cleaned up the Stinson sardine processing plant in Belfast? Decades of false starts and ultimately lost funding, federal and local municipal TIF grants bailed out what should have been someone else's problem. Taxpayers.
 - iii. Who cleaned up the mills left behind, such as Verso? Was the mercury worth the jobs? Taxpayers.
 - iv. Who paid to fix the Veterans walking bridge when the road was removed? Taxpayers.
 - v. Who cleaned up the railroad track when Moosehead rail was kicked out? Taxpayers.
 - vi. Who will likely clean up the Armory?
 - vii. When special needs builds and projects are left behind it takes decades to restore, and those environmental costs and risks are seldom considered in the prop-forma model when the project first starts.

What clarity do the reviewing authorities have surrounding the end of life physical plant, site mitigation should that end of life come prematurely or through maturity?

- b. Environmental – Risks are significant if the applicant can't insure the project or insure the operating risk for failed fish crops, or provide surety bonds to protect the community from restorative and clean-up costs. There is a difference between restorative costs – removing the concrete, and degradation costs, polluting the Bay. Each has economic consequences that the reviewing authorities are responsible for calculating; have they been calculated?
- c. Reputational to Maine – Mid coast Maine's economy is based substantially upon tourism. Who wants to visit Northport/Belfast/Islesboro, or live near either, seasonally or permanently with one of the World's largest CAFOs pumping toxins into the Bay?

4. Liability

- a. What are insured and uninsured risks?
- b. Who is responsible for uninsurable obligations?
- c. Who bears responsibility for catastrophic risks?

5. Safety
 - a. Has there been a human/environmental risk assessment?
 - b. Has animal husbandry risk been assessed, even though it is a slaughterhouse?
 - c. Who has estimated the accidental contingencies?
6. Environment
 - a. What are the short-term risks?
 - b. What are the long-term obligations of the State?
 - c. Who is modeling catastrophic uncertainty; tide, weather, warming?
7. Investors
 - a. #1 Management team – The management team is not investment grade. The consequences are higher costs of capital, more pressure on cash flow, higher risk in operating at the best levels of environmental practice and risk of long-term sustainability.
 - b. #2 Business Case – The business case is high risk, as reported by the agriculture investment industry. If there is a high return associated with that high economic and environmental risk, have the reviewing authorities levied their own interests in a ROI for the State?
 - c. #3 Return on Investment – The term of investment, given 2-year fish crop cycles and 20% industry failure rates document a high-risk; risk that will drive up requisite ROI models and put safety and compliance at risk in exchange for financial returns.
 - d. #4 Cash flow margins – With an uninsurable production process, and experimental design, multi-year production cycles and risk of failure, cash flow margins become a risk for every investor, whether a supplier, municipal contributor, taxpayer or community member.
 - e. #5 Rate of recurring revenue – In aquaculture like agriculture a single crop is a single crop. That’s why there is a Futures Market for agriculture...it’s risky business. There is no guarantee that success in 1 year will have any impact on another year. No guaranteed recurring revenue, despite suggestions for economic purchase guarantees All will place the applicant at risk for cutting quality, safety, environmental corners to meet margins.
 - f. #6 Sustainable growth rate – Once constructed, there is no way to increase “same store” growth without expanding the plant. This negatively impacts the business model, places pressure to drive increased margins that can only come from reduced operating costs or higher prices. Reducing operating costs suggest placing further risk on the environment operation of the plant. Again, there’s no risk to the operator other than short-term failure and their loss of equity investment. What’s the cost to the community when an experimental scheme fails? What would the return have been if the proceeds all go offshore? It’s a zero-benefit business case for the natural resources and the community. Have the reviewing authorities addressed these questions?

I’d like to thank everyone who has put in the time and consideration for protecting out community and environment. I hope that answers to these questions will help the BEP with its role on behalf of all the citizens of Maine.

Sincerely,

A handwritten signature in blue ink that reads "John R. Morrow". The signature is fluid and cursive.

John R. Morrow

JRM\ns