

REPORT TO CONGRESS PROGRESS OF THE VESSEL DISPOSAL PROGRAM

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OBSOLETE SHIPS
JAMES RIVER RESERVE FLEET

Report to Congress



**U.S. DEPARTMENT OF TRANSPORTATION
MARITIME ADMINISTRATION**

Progress of the Vessel Disposal Program

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Report to Congress

Progress of the Vessel Disposal Program

Executive Summary

In the past three years, the Maritime Administration has awarded contracts for the disposal of 38 obsolete vessels utilizing \$41.1 million in funds appropriated in Fiscal Years 2001- 2003 and through limited vessel sales. Of the 38 vessels awarded, 27 have been removed from the fleets and towed to recycling facilities, and 23 of the 27 have gone to domestic facilities.

Based upon proposals received and MARAD's investigations of facilities abroad, MARAD believes that environmentally sound facilities exist abroad that offer the United States very competitive prices for the disposal of MARAD's obsolete vessels. The foreign option could provide the capacity and competition necessary to accelerate the disposal of MARAD's 119 obsolete ships and mitigation of the environmental threat they represent. However, as explained in more detail in this Report, MARAD has been unable to successfully recycle any vessels aboard to date.

Despite repeated efforts through a number of different Federal acquisition methods and industry proposals, MARAD has succeeded in exporting only four vessels to the United Kingdom in hopes that they could be recycled. Although those ships have not yet been recycled, simply exporting the vessels from the United States was successful only because of express congressional authority for MARAD to undertake one or more pilot projects of up to four ships. That same congressional authorization directed MARAD to report to the Congress on the success of such a pilot.

Based upon years of futile attempts to export ships for recycling and MARAD's experience with the pilot project to send ships to AbleUK, MARAD has concluded that foreign vessel disposal is commercially impractical under current U.S. law and regulation. The central barrier to the export of MARAD vessels is the Toxic Substances Control Act (TSCA) and the prohibition on export of polychlorinated biphenyls (PCBs), 15 U.S.C. §2605(e). As demonstrated by the current litigation surrounding the AbleUK contract, only an exemption established by a full rulemaking process would enable vessels to be disposed overseas. The length of time required to pursue such a rulemaking (likely a year or more), the uncertainty of receiving an exemption, and the restrictive nature of the exemption -- valid for only one year and limited to a specific export contract (such as ships going to the AbleUK facility), make overseas recycling untenable given the existing statutory constraints.

INTRODUCTION

This report is submitted pursuant to the following statutory and Congressional report direction:

- The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. No. 106-398, Appendix, § 3502, 114 Stat. 1654 (2000) [the Act], which requires periodic reporting on the progress of the program developed for the disposal of MARAD's obsolete National Defense Reserve Fleet (NDRF) vessels,
- The Bob Stump National Defense Authorization Act of 2003, Pub. L. No. 107-314, § 3504, 116 Stat. 2458, 2471 (2003), which requires reporting on the development of best management practices for artificial reefing and reporting on the pilot program on the export of obsolete ships for dismantlement and recycling.

This report summarizes MARAD's ship disposal accomplishments during fiscal years 2001-2002, details accomplishments during FY 2003, and outlines plans for FY 2004 and beyond. This report also describes MARAD's approach to investigating and pursuing more cost-effective strategies to its ship disposal challenge. In coordination with the Secretary of the Navy, this Report also includes the progress of the U.S. Navy's vessel disposal program, as required by the Act. Previous reports on the program were submitted to the Congress in April of 2001 and June of 2002.

The Act requires by September 30, 2006 the disposal of all vessels in the NDRF that are not assigned to the Ready Reserve Force or otherwise designated for a specific purpose. In 2001, in accordance with the Act, MARAD developed a program to accomplish the requirements using a phased and level-funded approach of predominantly domestic vessel dismantling awards. It quickly became apparent that conventional domestic dismantling, as the predominant means of disposal, was not adequate to make significant progress in the disposal of MARAD's non-retention vessels.

There are currently 119 vessels in the NDRF designated as obsolete and available for disposal including 25 ships under contract award in FY 2003 for disposal. The 25 ships will be subtracted from the 119 available for disposal after dismantling or other disposition of the ships is completed.

Direct funding for the program was appropriated for the first time in FY 2003 (\$11.1 million), and additional funding was also transferred from the Department of Defense (\$20 million). This combined funding gave MARAD the resources to consider multiple disposal methods and proposals that offered economies of scale for the disposal of larger numbers of ships. However, even with the significant progress made in FY 2003, it is unlikely MARAD will be able to achieve the requirements of the Act by the statutory deadline of September 30, 2006. Adequate resources and the use of all disposal options, including foreign disposal, will be necessary to continue to achieve the results from FY 2003 funding. The 2004 Consolidated Appropriations Act, 2004 (P.L. 108-199) included \$16.2 million for the disposal of obsolete ships.

At this time, due to statutory constraints contained in the Toxic Substances Control Act (TSCA), foreign disposal of obsolete vessels is not a commercially viable option. This is primarily due to the TSCA prohibition on the export of polychlorinated biphenyls (PCBs) and the amount of time necessary to complete the rulemaking process to gain the approval to export MARAD obsolete vessels containing PCBs.

I. PROGRESS OF MARAD'S VESSEL DISPOSAL PROGRAM

Background

FY 2001 ACCOMPLISHMENTS

MARAD and the U.S. Navy agreed on criteria for selecting priority ships for disposal based on a potential for causing pollution, creating an environmental hazard and cost of storage, as required by the Department of Defense Appropriations Act, 2001, Pub. L. No. 106-259 § 8136, 114 Stat. 656 (2000). The criteria were documented in a Memorandum of Agreement dated October 20, 2000 between MARAD and the Navy. Using the criteria, it was jointly determined that the National Defense Reserve Fleet (NDRF) vessels, which are under MARAD's custody, have the greater potential for causing pollution and creating an environmental hazard than the Navy's inventory of inactive ships. Thus, the Navy determined to transfer, and MARAD agreed to accept, the entire \$10 million appropriated by Section 8136 (*supra*) in order to accelerate the disposal of NDRF ships in FY 2001. The \$10 million was the sole source of funding until FY 2003 for disposal of obsolete MARAD NDRF ships and accounted for the award of service contracts for the dismantling of six vessels.

In FY 2001, MARAD contracted with a General Agent to award and manage the prioritized disposal of its highest risk ships, because MARAD had limited resources during the first year of standing up the ship disposal program. MARAD utilized existing staff to provide oversight and to plan FY 2003 and out-year vessel disposal activities. Further, MARAD planned to implement a program in FY 2002 directly managed by MARAD staff rather than relying on a General Agent. MARAD determined which ships were highest on the disposal list through an evaluation and prioritization process that considered each ship's material condition and potential for damage to the environment from releases of petroleum or hazardous materials.

A total of six vessels were dismantled under service contracts using the \$10 million FY 2001 funding. Table A shows the total FY 2001 funded contract award amounts of \$9,055,383 for the six vessels. The balance of the \$10 million (\$944,617) was allocated for general agent management fees, hazardous material remediation overages in excess of the hazardous material quantities specified in the disposal contracts, and audits to ensure for proper charges and hazardous material disposal in the contracts.

In addition to the six vessels being disposed of through dismantling service contracts, the disposal of three other vessels was completed in FY 2001. Two vessels (VEGA and EXPORT CHAMPION) were dismantled pursuant to sales contracts executed by MARAD with domestic ship disposal contractors prior to FY 2001. One ship (SPIEGEL GROVE) was transferred in FY 2001 to the State of Florida and was sunk in FY 2002 as an artificial reef for the conservation of marine life. The transfer of the ship for use as an artificial reef was accomplished at no cost to the Federal Government.

The average cost per ton of the six vessels awarded under dismantling services contracts with FY 2001 funds was \$250 with the range being \$163-454, which, although based on a small

sample, was comparable to the range estimated in the 2001 Report to Congress of \$240-440 per ton.

FY 2002 ACCOMPLISHMENTS

MARAD's strategy for FY 2002 was to continue to dispose of the high risk priority vessels using the most expedient and cost-effective options available, based on an anticipated \$10 million appropriation for ship disposal. Consistent with this strategy, MARAD released a draft Request for Proposal (RFP) on October 17, 2001 to allow for industry comments prior to finalizing the requirements and issuing the actual RFP. The RFP was to result in multiple, competitive awards by vessel location under long-term Indefinite Quantity, Indefinite Delivery (IDIQ) type contracts. It was anticipated that three to five best value awards would be made in Fiscal Year 2002, which would have resulted in the disposal of MARAD's three to five highest priority ships via conventional domestic dismantling. Since FY 2002 appropriations did not include funding for disposal of obsolete NDRF vessels in FY 2002, the RFP was not released.

Throughout FY 2002, MARAD continued to incur costs associated with remedial activity and vessel-condition monitoring of the highest priority ships at our three fleet sites. MARAD covered the costs associated with remedial activity from funds otherwise provided for ship preservation at an average cost of approximately \$25,000 per month. The age of approximately half of the obsolete vessels in MARAD's fleets at that time was 50 years or greater. All of the vessels that were in poor condition or worse range in age from 35 to 62 years. Substantially more maintenance was required on the oldest and highest priority vessels with poor hulls. The increase in spending for maintenance of the vessels with the most deterioration reduced the funds available for preservation of the vessels that were in fair condition. The result over time was that more vessels fell into the high risk priority category. Neglecting the high priority preservation work increased the likelihood of accelerated hull deterioration on more vessels and thereby increasing the potential for unnecessary hull failures and associated releases of oil.

In FY 2002, MARAD continued with the ship disposal activities obligated with FY 2001 appropriations. Table A shows the vessel award, removal and dismantling progress made throughout FY 2002. The 2002 disposals that are listed as a "domestic sale" are a result of sales contracts executed prior to 2000. The FY 2002 Appropriations Conference Report 107-278, which informed MARAD that funding was not included for the disposal of obsolete ships, required MARAD to continue to explore possible alternatives and develop plans to reduce the inventory of obsolete ships on a cost recovery basis. To comply with that requirement MARAD, in addition to completing prior year dismantling projects, advertised and posted a Program Research and Development Announcement (PRDA) that invited domestic and foreign proposals from the industry for ship disposal solutions. Due to domestic industry and market conditions, MARAD knew that the only possibility for vessel disposal on a cost recovery basis was through foreign proposals that offered to purchase vessels. In anticipation of ship disposal funding in FY 2003, MARAD evaluated and provisionally accepted those proposals with merit, which could be considered on a best value basis for award once funding was received in FY 2003.

Table A: FY 2001 and FY 2002 Vessel Disposal Activities

Vessel Name	Fleet	Contractor	Destination /Location	Award Date	Departure Date	Completion Date	Final Contract Amounts \$
CHAMPION	JRRF	Int'l Shipbreaking Ltd.	Brownsville, TX	06/09/98	06/10/98	6/13/01	14,000
VEGA	JRRF	D&D Steel, Inc.	Brownsville, TX	03/30/99	04/23/00	11/9/00	1,000
WASHINGTON	JRRF	D&D Steel, Inc.	Brownsville, TX	03/30/99	01/26/01	10/11/01	2,000
CRILLEY	JRRF	D&D Steel, Inc.	Brownsville, TX	03/30/99	11/30/01	04/18/02	500
CRANDALL	JRRF	D&D Steel, Inc.	Brownsville, TX	03/30/99	11/30/01	07/01/02	500
JOHN HENRY	BRF	WorldWideWater Foundation	Sabine, TX	12/17/99	10/17/00	10/17/02	0
BUILDER	JRRF	Int'l Shipbreaking Ltd.	Brownsville, TX	12/04/00	12/23/00	07/03/01	(1,613,349)
SPIEGEL GROVE	JRRF	State of Florida	State of Florida	02/27/01	06/12/01	05/17/02	0
CHALLENGER	JRRF	Int'l Shipbreaking Ltd.	Brownsville, TX	06/04/01	08/01/01	02/08/02	(2,473,600)
LYNCH	JRRF	D&D Steel, Inc.	Brownsville, TX	06/04/01	08/29/01	11/29/01	(544,418)
GEN'L PATCH	JRRF	Esco Marine, Inc.	Brownsville, TX	06/04/01	10/24/01	08/28/02	(2,732,541)
WAYNE VICTORY	JRRF	D&D Steel, Inc.	Brownsville, TX	06/04/01	11/21/01	04/01/02	(901,759)
WOOD COUNTY	JRRF	Transforma Marine	Brownsville, TX	05/29/02	06/06/02	11/07/02	(789,716)
LORAIN COUNTY	JRRF	Marine Metals, Inc.	Brownsville, TX	08/23/02	09/13/02	02/20/03	(180,000)
Total Sales for Ship Disposal							18,000
Total Expenditures for Ship Disposal Services							(9,235,384)

ACCOMPLISHMENTS AND ACTIVITIES

FY 2003

MARAD's Ship Disposal Program was directly funded for the first time in the amount of \$11.2 million and received an additional \$20 million from DOD appropriations to expedite obsolete vessel disposals. MARAD's performance goal for the request level was the removal of 4-6 ships. MARAD is currently anticipating the removal of 25 obsolete vessels through domestic and foreign dismantling contracts with FY 2003 funds. MARAD negotiated a contract, resulting from a PRDA proposal, to remove 15 of the 25 vessels with a single company -- 13 of those vessels are to be exported for recycling at a facility in the United Kingdom and the other two ships are to be placed into operational use. The FY 2003 funding level allowed MARAD to consider proposals for larger numbers of ships at significant cost-per-ton¹ savings which in turn results in the expedited disposal of a greater numbers of vessels at a lower cost per vessel. All foreign proposals received to date involve the recycling of large quantities of vessels and economies of scale, which include significant cost savings.

MARAD continued to consider domestic and foreign recycling as the primary vessel disposal options for FY 2003 and beyond. These options and several secondary options are discussed below. Vessel contracts that have been awarded from the following disposal options are contained in Table B.

- Domestic dismantling/recycling – The domestic approach is the most expedient but also the most costly disposal alternative. Due to limited domestic industry (limited by capacity and industrial throughput), this disposal method is effective for the removal of small numbers of ships on a per contract basis. In spite of recent cost decreases, domestic dismantling is still considered the least cost-effective disposal option. In 2003, MARAD awarded domestic contracts for ten ships to five domestic companies, two of which had not previously competed for MARAD ship disposal contracts. Nine of the 10 vessels will be removed from the James River Reserve Fleet (JRRF) and were awarded at a cost of \$156 per ton. The decreased cost, from the \$250 per ton costs of 2001 awards, is attributable to the increased competition represented by foreign proposals.
- Foreign dismantling/recycling – Foreign dismantling is potentially the most cost-effective option with the greatest capacity. This option is dependent on a thorough facility-by-facility review by the EPA and MARAD to determine the capability to recycle ships in a manner that protects the environment and worker safety and health. An export proposal submitted in FY 2003 by Post-Service Remediation Partners, LLC, subsequently becoming a subsidiary of AbleUK (collectively referred to as "PRP/AbleUK"), offered economies of scale that resulted in a contract award based on a best value determination. The total PRP/Able UK contract cost is \$17.8 million involving 15 ships of which two vessels may be converted for reuse.

¹ The cost "per ton" metric is used because it is the internationally accepted measure of ship dismantling and recycling costs. A cost "per ship" metric is less meaningful because of large variances in vessel size and condition, types and quantities of hazardous materials and quantities of recyclable material, all of which greatly affect the cost per ship.

Because \$31 million was available in FY 2003, MARAD was able to consider the PRP/AbleUK and other proposals that offered similar economies of scale. In addition to offering economies of scale, the PRP/AbleUK proposal also represented a significant increase in the number of vessels to be disposed of over and above the limited domestic ship recycling capacity. The UK facility is also capable of receiving and dismantling the 13 MARAD ships concurrently, representing a capability that is significantly greater than any domestic facility. Domestic bids submitted since MARAD's award of PRP/AbleUK foreign contract have been significantly lower than bids submitted prior to the award, which demonstrates the positive effect of increased competition resulting from the export option.

On September 26, 2003, the Basel Action Network (BAN) and the Sierra Club filed a claim in the U.S. District Court in Washington, D.C. to stop MARAD from recycling the obsolete ships at Able UK's facility in Teesside, United Kingdom under the Post Remediation Partners (PRP)/Able UK contract. The plaintiffs claimed in their original complaint that MARAD's recycling of these vessels abroad violated four statutes: the Toxic Substances Control Act (TSCA) (15 U.S.C. § 2601 *et seq.*), the National Maritime Heritage Act of 1994 (16 U.S.C. § 5401 *et seq.*), the National Environmental Policy Act of 1969 (NEPA) (42 U.S.C. § 4321 *et seq.*) and the Administrative Procedure Act (5 U.S.C. § 551 *et seq.*). The District Court allowed MARAD to export only four of the 13 ships awarded for disposal PRP/Able UK contract. The Court allowed the four ships to proceed based upon a finding of specific congressional intent in establishing a four-ship pilot project. The District Court has questioned the propriety of the use of the EPA's enforcement discretion powers with respect to the remaining nine vessels going to Teesside for recycling.

Since that date, the Plaintiffs have twice amended their original complaint to include a citizen suit action under TSCA, alleged export of polychlorinated biphenyls (PCBs) and the Resource Conservation and Recovery Act (RCRA)(42 U.S.C. 2672)(alleged illegal export of RCRA regulated waste). MARAD and the EPA, through the U.S. Department of Justice, are defending the current challenge to the recycling of the 13 ships in the United Kingdom. However, the citizen suit provisions of statutes, such as the TSCA and RCRA and the uncertain requirements of NEPA have a costly and disruptive effect on MARAD's ability to comply with Congress' mandate to dispose of its obsolete ships in a timely manner and without predisposition to foreign or domestic facilities. Judicial delays and litigation risks remain ever-present problems hampering commercial recycling contracts abroad. Even where EPA has determined that the export of the vessels is safe and not a risk to the environment, a third party can challenge the recycling of said vessels as an export of hazardous substances prohibited under TSCA and RCRA in citizen suit actions.

A hearing on cross motions for summary judgment is currently set for 1 October 2004. In the interim since the date of the initial hearing in October 2003, MARAD has conducted an Environmental Assessment (EA) regarding the potential environmental impacts of sending the additional nine vessels to Teesside. On the basis of this EA, MARAD has concluded that this project will have no significant impact to human health or the natural environment. Plaintiffs are challenging this EA in the District Court, arguing that this EA is inadequate and does not sufficiently comply with the requirements of NEPA.

In addition to the process followed by the AbleUK recycling contract, there is a process under TSCA for petitioning EPA for an exemption to allow the export of PCBs. However, the process requires a formal rulemaking that would take a minimum of 9 months and more likely a year or more to complete. If an exemption is granted, it may only have a one-year life span and in every case will be limited to a specific activity or circumstance, e.g., the recycling of ships at Able UK. Once EPA issues a final rule in an export situation, that rule is subject to legal challenge, which is likely in the recycling area. Such a process, when viewed in the context of the realities of commercial business contracting, the length of time associated with the Federal procurement process, the ever changing business considerations of the ship recycling industry, and the legal limitations on appropriations, makes it nearly impossible to pursue any export ship recycling/dismantling contract.

The pilot program related to the export of ships, as authorized by Congress², involving the PRP/AbleUK facility in the UK was to have commenced upon arrival of the first four ships in November 2003. The four ships arrived at the AbleUK facility in mid-November 2003. MARAD and the EPA were prepared to monitor the pilot project and report the results to the Congress upon completion.

At the end of October 2003, while the ships were enroute to the UK, the Friends of the Earth initiated legal challenges to the dismantling of the ships in the British High Court. The filings called for a judicial review of the procedures and approvals made by UK government agencies related to the import of MARAD ships for recycling at the AbleUK facility. Concurrent with and precipitated by the legal action, the UK Environment Agency (“UKEA”) notified MARAD that previously-provided approvals related to the facility’s waste management license and the transfrontier shipment of waste approvals were considered invalid by the Agency because of issues related to local planning approvals and UKEA procedural errors in granting the licenses and approvals.

The High Court preliminary hearing on November 5, 2003, resulted in a ruling that allowed the four MARAD vessels to be received by the PRP/AbleUK facility, although no work on the ships could commence. Hearings in December determined the validity and status of the local planning approvals and the facility’s waste management license. In decisions by the High Court of Justice Queen’s Bench Division, London, the permissions previously granted to PRP/AbleUK were disallowed.

In a December 11, 2003, decision, (docket [2003] EWHC 3193 (Admin)), the Court determined that the UKEA had improperly modified, “the conditions attached to a waste management licence originally issued to Able UK Limited . . . on 31st October 1997” and, therefore, the license had to be reissued. A new environmental impact assessment has to be done pursuant to Council Directive 92/43/EEC on the Conservation of Natural Habitats and of Wild Flora and Fauna and its 1994 regulations.

² Sec. 3504(c) of P.L. 107-314, Pilot Program on Export of Obsolete Vessels for Dismantlement and Recycling, directed the Secretary of Transportation, Secretary of State and the Administrator of the EPA to carry out one or more pilot programs through MARAD to explore the feasibility and advisability of the export of obsolete vessels as a disposal alternative.

In a December 18, 2003, decision (docket [2003] EWHC 3278 (Admin)), the Court determined that the existing permission issued by the Hartlepool Borough Council local planning authority covering "dismantling/refurbishment of redundant marine structures and equipment" did not include a "ship" within the existing permission to dismantle a "marine structure." Therefore, the previously approved permission was insufficient. A new permission has to be issued, and a new environment impact assessment has to be performed pursuant to the Town and Country Planning (Environmental Assessment) (England and Wales) Regulations 1999 and/or an 'appropriate assessment' under Regulation 48 of the 1994 Regulations.

MARAD has remained in close contact with the UKEA. PRP/Able UK has prepared the necessary documents for a new Waste Management License and the appropriate local planning approval permits. While it is apparent that PRP/Abel UK will have all of the necessary UK permissions in place by September/October of 2004, insufficient time will remain for several critical activities to be completed prior to the closing of the 2004 weather towing window. Those activities include MARAD obtaining a TSCA exemption through a formal rulemaking process, application and consent for transfrontier shipment of hazardous materials to the UK, vessel surveys and tow preparations, and coordination of the transatlantic tows. Because of the time constraints, the contractor and MARAD conclude that the remaining nine vessels will not be able to be delivered to the UK until the spring of 2005.

In 2003, MARAD and EPA representatives traveled to China, Mexico, and England to meet with government officials and to visit ship-recycling facilities to assess their capability. MARAD also visited a facility in Wales that had indicated an interest in ship dismantling. MARAD will continue to evaluate vessel export proposals and visit the associated countries and facilities in order to find cost-effective ship recycling opportunities with qualified ship recycling companies that responsibly protect the environment and worker safety/health.

MARAD continues its international involvement in ship disposal forums. MARAD continues to pursue a Global Action Program (GAP) involving Norway, Netherlands, Canada, International Labor Organization (ILO), International Maritime Organization (IMO), Conference of the Parties of the Basel Convention and the United Nations Environmental Programme, which has shown some promise of an integrated international effort to solve the challenge of the disposition of obsolete ships. GAP's interest is in the development and implementation of universally acceptable standards for safe, environmentally responsible, and sustainable ship disposal through the use of an integrated risk management program, which incorporates assessment, training and technologies. The State Department and the World Bank have also indicated an interest in this effort. In addition, MARAD continues to work through the International Maritime Organization (IMO) on the development of guidelines for recycling.

As a result of the EPA enforcement discretion letter directed at the PRP/AbleUK contract, allowing MARAD to export vessels to the UK, the opposition to vessel export by some domestic companies, some Congressional members, and some citizen and environmental groups began in earnest and continues. In spite of the opposition, MARAD strongly believes

that the export disposal option provides MARAD with increased competition and additional industrial capacity to meet program requirements of expedited, cost-effective disposal. The loss of vessel export as a disposal option would be a severe setback to cost-effective and expedited ship disposal. If MARAD does not have the export option available for disposal, future disposal costs will likely be significantly greater than \$200 per ton, and depending on domestic market conditions could equal or exceed the 2001 costs which averaged \$250 per ton. Moreover, unless domestic capacity grows significantly, MARAD will not be able to achieve its ship disposal deadline.

- Artificial Reefing – Reefing has significant potential that is currently constrained by limited demand for ships by the coastal States. The limited demand is a result of a general reluctance of States to be responsible for the preparation, tow and sinking of the ships, and the sharing in the significant associated costs. Limited demand is also a result of the lengthy application process and lack of national standards to prepare ships for reefing. Cost sharing with the States has the potential to make reefing significantly more cost effective than domestic recycling. As part of an interagency Federal Reef Team, MARAD is working with other Federal agencies to streamline the process and standardize the preparation requirements.

In recent letters received from the Atlantic and Gulf regional marine fisheries commissions, it is apparent that MARAD's newly gained authority³ to provide financial assistance to States for the preparation of ships as artificial reefs is not satisfactory to those organizations. The regional commissions (with apparent agreement of member coastal States) have recommended that MARAD bear the entire cost of vessel preparations, towing and sinking. If the coastal States accept this recommendation, it will limit the effectiveness of reefing as a significant vessel disposal method. In FY 2004 MARAD and the Navy met with a working group that was formed by the Atlantic States Marine Fisheries Committee and the Gulf States Marine Fisheries Committee to discuss obstacles to States accepting vessels for artificial reefing under existing legislation. While that meeting did not resolve the outstanding issues, MARAD continues to meet with the Navy and the committees to seek ways to increase the number of obsolete vessels used as artificial reefs.

The extended completion date (March 31, 2004) for finalizing the best management practices for artificial reefing with the EPA and other Federal agencies was not met due to a lengthy, and still on-going, in-house review process by the EPA. The best management practices must still go through publication in the Federal Register and a 60-day public comment period prior to being finalized. These delays also act to limit the number of near and mid-term reefing projects. In spite of the challenges, MARAD has received applications from Texas, New Jersey and Delaware for ships and has had strong interest by Florida for additional ships. The applications and discussions from these four States include proposals for MARAD to contribute either all or a significant amount of the cost of vessel preparations.

³ The Bob Stump National Defense Authorization Act of 2003, Pub. L. No. 107-314, § 3504, 116 Stat. 2458, 2471 (2003), "Preparation as Artificial Reefs and Scrapping of Obsolete Ships," granted the Secretary of Transportation authority to provide financial assistance to States for preparing obsolete ships for use as artificial reefs. The Secretary has discretion in the approval and amount of assistance to be granted.

The Ship Disposal Program office will reassess on a continuous basis the feasibility of reefing as a disposal alternative.

On October 13, 2003, MARAD and the Navy signed a Memorandum of Agreement (MOA) to establish an integrated process for the solicitation, receipt and evaluation of applications for obsolete ships to be used as artificial reefs. The MOA will allow MARAD and the Navy to share resources to accomplish common artificial reefing goals. The obsolete Navy vessel ex-ORISKANY is the first vessel included in the joint process.

The Navy is exploring the feasibility of using workforce development and job training dollars to lower the cost of preparing vessels for reefing as part of a "Pilot Program" in Brownsville, Texas. Workers would be trained to decontaminate vessels for artificial reefing using the Best Management Practices as the training standard. The concept of using workforce development and job training funds for artificial reefing was introduced to the Navy, and initial meetings coordinated, by MARAD. The Navy's efforts in exploring the feasibility of the concept could also benefit MARAD's program.

The artificial reefing program authority for MARAD has now been amended by statute to include U.S. possessions, commonwealths and foreign countries, in addition to States. This change was requested in response to strong interest shown in reefing obsolete ships by government entities other than coastal States. MARAD believes the initiatives and proposals described above will result in loosening the constrained demand for ships to be used as artificial reefs (section 3516, Pub. L. 108-199).

- Deep Sinking - Cost-effective joint NAVY/MARAD disposal projects for a few vessels per year through the Navy's sink at-sea live-fire training exercises (SINKEX Program). Deep-sinking is a low volume option with costs comparable to artificial reefing. The goal is the disposal of one to two ships per year through deep-sinking. MARAD and the Navy executed a Memorandum of Agreement on September 5, 2003, for the deep sinking of MARAD ships through the Navy's program and has resulted in one vessel being prepared by the Navy. Vessels are prepared for sinking by the Navy in accordance with procedures that protect the environment as agreed to between the Navy and the EPA
- Vessel Sales/Barter – This is a low revenue to no-cost option to the Government for selected vessels, but it is not a significant disposal option in terms of numbers of ships. MARAD continues to receive limited offers for the purchase of selected obsolete ships for recycling. MARAD has also received barter offers for obsolete vessels in exchange for dismantling services of other obsolete vessels. MARAD will continue to take advantage of the no-cost vessel disposals that result from sales and barter.
- Vessel Donation – Based on the demand of non-profit historical preservationist groups. Donation is not a significant disposal option in terms of numbers of vessels, however, MARAD is in the process of standing up a formal donation program to support the efforts of legitimate groups to acquire and preserve vessels of historical significance. The formal program is intended to replace the previous practice of obtaining special legislation for the

donation of ships. The authorization for the formal program is contained in Section 3512 of Public Law 108-136, The National Defense Authorization Act for Fiscal Year 2004.

- Foreign Military Sales – MARAD is currently in the process of reviewing draft legislative language developed by the Department of Defense (DOD) that would allow MARAD vessels, that were former Navy vessels, to be included in DOD’s security assistance ship transfer process for foreign navy and coast guards that have an interest in those vessels. The benefit of such legislation is that an additional cost-effective ship disposal option would be available to help reduce MARAD’s obsolete ship inventories.

TABLE B shows the contract awards made in FY 2003 with FY 2003 funding involving 25 obsolete vessels. Included in the 25 ships are 24 ships moored in Virginia waters of which 20 are considered high-priority. With the removal of the 24 ships, 4,749 tons of oil would also be removed from the JRRF. This amount represents 41 percent of the oil on board obsolete vessels in the JRRF -- a significant mitigation of the threat to the environment made possible by adequate funding. The disposal results made possible by the additional \$20 million in FY 2003 funding is significant. The results achieved in FY 2003 demonstrate the potential of an appropriate level of funding that allows the use of more than one disposal option.

While MARAD achieved its goal to award all of the contract actions listed in Table B, several of the vessels associated with those awards will not actually be removed from the fleet until FY 2004 or later. Table B shows the estimated vessel departure dates. After the total cost of all contract awards are known, additional FY 2003 funds may remain, which could result in additional vessel removals through awards associated with the next Program Research and Development Announcement (PRDA) and additional Invitations for Bid (IFB).

Table B: MARAD FY 2003 Vessel Disposal Contract Awards						
Vessel Name	Fleet	Contractor	Destination	Award	Departure	Contract
			/Location	Date	Date	Amounts \$
MIRFAK	JRRF	Marine Metals, Inc.	Brownsville, TX	2/14/03	3/21/03	(414,768)
MORMACDAWN	JRRF	Esco Marine, Inc.	Brownsville, TX	7/7/03	11/4/03	(778,837)
CALOOSAHATCHEE	JRRF	PRP, Inc.	Teesside, UK	7/25/03	10/6/03	(1,489,895)
CANISTEO	JRRF	PRP, Inc.	Teesside, UK	7/25/03	10/6/03	(1,551,082)
CANOPUS	JRRF	PRP, Inc.	Teesside, UK	7/25/03	10/16/03	(1,825,194)
COMPASS ISLAND	JRRF	PRP, Inc.	Teesside, UK	7/25/03	10/16/03	(2,049,691)
AMERICAN BANKER	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(1,729,001)
AMERICAN RANGER	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(1,091,384)
DONNER	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(769,972)
ECKFORD	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	1,050,000
ISHERWOOD	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	1,950,000
MORMACMOON	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(1,091,384)
MORMACWAVE	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(1,441,293)
PROTECTOR	Portsmouth	PRP, Inc.	Teesside, UK	7/25/03	TBD	(748,419)
RIGEL	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(1,171,232)
SANTA CRUZ	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(1,443,896)
SANTA ISABEL	JRRF	PRP, Inc.	Teesside, UK	7/25/03	TBD	(1,443,896)
CATAWBA VICTORY	JRRF	Bay Bridge Enterprises	Chesapeake, VA	8/27/03	10/23/03	(1,103,206)
MARINE FIDDLER	JRRF	Bay Bridge Enterprises	Chesapeake, VA	8/28/03	10/30/03	(1,258,890)
ROBERT CONRAD	JRRF	Bay Bridge Enterprises	Chesapeake, VA	8/28/03	11/21/03	(99,000)
OPPORTUNE	JRRF	Bay Bridge Enterprises	Chesapeake, VA	8/28/03	12/5/03	(135,490)
PETREL	JRRF	Bay Bridge Enterprises	Chesapeake, VA	8/28/03	12/11/03	(166,500)
ALBERT E WATTS	Mobile, AL	Resolve Marine Group	Mobile, AL	9/3/03	9/3/03	(3,452,193)
GAGE	JRRF	US Navy/Sinkex	Portsmouth, VA	9/5/03	11/3/03	(653,000)
SANTA ELENA	JRRF	Int'l Shipbreaking Ltd.	Brownsville, TX	9/11/03	10/27/03	(1,349,185)
Total Sales/Barfers for Disposal of Obsolete Ships						3,000,000
Total Contract Awards for Ship Disposal Services						(27,288,070)
Note: Domestic sale contract amounts are revenues; figures in () are expenditures. Contract amounts may not represent final costs.						

FY 2004

The Consolidated Appropriations Act, 2004 (H.R. 2673), provided \$16.2 million for ship disposal. MARAD's performance goal for the President's request of \$11.4 million was the removal of four obsolete vessels for disposal. With funding of \$16 million, additional vessels will be removed from the fleets. In FY 2004, MARAD continues to use the PRDA as the primary procurement processes for disposal awards.

MARAD's focus in FY 2004 was to continue the removal of the high-priority ships in the James River Reserve Fleet (JRRF) moored in Virginia waters and in the Suisun Bay Reserve Fleet (SBRF) in California. With the delays in removing nine ships associated with the AbleUK contract, MARAD negotiated the removal of those ships from the contract, seven of which are high priority. This action cleared the way for MARAD to move ahead with its

commitment to expedite the removal of high priority ships from the JRRF. Thus far in FY 2004, three of the seven ships have been awarded for disposal at domestic facilities and MARAD is in negotiations for the awards of the other vessels. The nine ships removed for the AbleUK contract will be substituted with other ships at a later date after the legal challenges have been resolved.

Table C shows the contracts awarded thus far in FY 2004 along with additional planned contract actions. After removal of the high priority vessels, MARAD's disposal efforts will focus on the approximately 45 obsolete vessels in poor condition that are moored mostly in our West Coast fleet, the SBRF and the JRRF. Without expedited disposal of these 45 ships, it is only a matter of time before they become high-risk vessels from advanced deterioration with the increased potential for oil discharges while in anchorage awaiting removal.

MARAD is working to identify cost-effective, qualified facilities on the West Coast and in foreign markets that are interested in recycling the 50 obsolete vessels located in the SBRF. Approximately 25 of these vessels are in poor material condition. A few foreign facilities have been identified in promising and cost-effective proposals for disposal of large numbers of ships. MARAD's challenge is to ensure the facilities have the capability of dismantling ships in a manner that protects the environment and worker safety and health. The initial indications are that some foreign facilities have that capability. Of course MARAD's ability to award future contracts to foreign facilities is contingent to a large degree on the outcome of the legal challenge to the export of ships to the UK for recycling. There are currently no operational U.S. West Coast facilities dedicated to vessel dismantling/recycling.

MARAD continues to pursue alternative disposal methods such as export and artificial reefing initiatives with the EPA and State Department. Three of the initiatives involve multi-agency workgroups involved in exploring the establishment of responsible measures and procedures that lead to an enforcement discretion action by the EPA to allow export of vessels for foreign recycling, the development of national best management practices for preparing ships for use as artificial reefs, and the development of a multi-agency team to streamline the application, review and approval process for artificial reefing. These initiatives involve EPA, State Department, United States Coast Guard, National Marine Fisheries, Navy, National Oceanic and Atmospheric Administration, Army Corps of Engineers, and Fish and Wildlife Service. Another significant initiative continuing in 2004 is the PRDA, which solicits innovative industry proposals for the disposal of obsolete ships through sale, barter or purchase of scrapping services. MARAD is also exploring partnerships with domestic and international agencies and organizations to accomplish vessel condition assessments, hazardous materials identification, waste-stream minimization and applied technology testing on MARAD obsolete ships, while developing training and technology that can be applied internationally to the hazardous material remediation and recycling of obsolete ships, thus raising industrial standards worldwide. The goal of all these initiatives is to provide MARAD with flexibility in the availability and choice of the most cost-effective and environmentally sound vessel disposal options.

The House and Senate Committees on Appropriations, pursuant to Public Law 108-199, the Consolidated Appropriations Act, 2004, required MARAD to detail the agency's competitive

bid process for disposal of obsolete vessels in the National Defense Reserve Fleet. MARAD is complying with that requirement by developing a separate report for submission to the Congress in the near future. Public Law 108-199:

...encourages MARAD to promote aggressive competition amongst the domestic and scrapping industry and international disposal facilities for funds appropriated for disposal. MARAD is directed to submit a report...detailing the agency's competitive bid process for ship disposal. Specifically, this report should highlight any changes to the agency's proposal review process and compare the proposals from domestic and international ship scrapping entities over the last five years.

While the report details MARAD's competitive bid process, it does not offer any substantive changes to the proposal review process, because MARAD's process has been and continues to be consistent with the Federal Acquisition Regulations (FAR) for each procurement method used by MARAD. Also, the report compares contract awards resulting from domestic and international ship recycling entities since 2001, which was the first year MARAD had authority to use appropriated funds for the purchase of dismantling services.

Due to the high level of interest in MARAD's Program, the General Accounting Office (GAO) has been tasked to conduct a review of the Program including all aspects of the competitive procurement processes used by MARAD for ship disposal and the effect that international competition has had on domestic prices. The GAO review began in November 2003 and it is still ongoing.

Vessel Name	Fleet /High Priority Ship (Yes/No)	Contractor	Destination /Location	Award Date	Estimated Departure Date *	Contract Amounts \$
FURMAN	BRF/No	Marine Metals	Brownsville, TX	10/30/03	11/20/03	\$450
NAECO	BRF/No	Esco Marine	Brownsville, TX	2/18/04	3/8/04	\$500
MORMACMOON	JRRF/Yes	PRDA	Brownsville, TX	6/24/04	7/29/04	(\$822,405)
AMER. BANKER	JRRF/Yes	PRDA	Brownsville, TX	6/24/04	8/2/04	(\$1,302,877)
SANTA CRUZ	JRRF/Yes	PRDA	Brownsville, TX	6/24/04	9/30/04	(\$1,009,885)
MORMACWAVE	JRRF/Yes	Under Negotiations				
SANTA ISABEL	JRRF/Yes	Under Negotiations				
LAUDERDALE	JRRF/Yes	Proposals Under Evaluation				
DONNER	JRRF/Yes	Proposals Under Evaluation				
GENL WALKER	JRRF/Yes	Proposals Under Evaluation				
GENL DARBY	JRRF/Yes	Proposals Under Evaluation				
PROTECTOR	JRRF/Yes	Proposals Under Evaluation				
IX 509	JRRF/No	TBD	TBD	Pending	TBD	TBD
TEXAS CLIPPER I	BRF/No	State of Texas	Artificial Reef	Pending	TBD	TBD
SPHINX**	JRRF/Yes	Dunkirk Historical Museum	Dunkirk, NY	Pending	TBD	0
GLACIER**	SBRF/No	Glacier Society	Connecticut	Pending	TBD	0

*Bolded departure dates are actual dates, all other dates are estimated.

**Vessel is a legislated donation to a non-profit museum group that has until 12/2/04 to satisfy donation requirements and take custody of the ship.

Table D below shows the number of obsolete vessels coming into MARAD's custody and the number removed from the fleets on an annual basis. The 25 ships that are projected to be removed in FY 2003 are vessels that were subject to contract action using FY 2003 funding. The actual removals for 23 of the 25 ships will occur in FY 2004 or later. It is projected that approximately 15 ships will be added each year to MARAD's custody as obsolete ships in 2004, 2005 and 2006. In spite of significant progress in awarding ship disposal contracts in 2003, the 45 ships projected to be added to MARAD's list of obsolete ships over the next three years illustrates the nature of MARAD's Ship Disposal Program, i.e., as a revolving inventory of non-retention ships to be disposed of.

Table D: Number of Obsolete Vessels in MARAD's Custody by Fiscal Year

Obsolete Vessels in NDRF	1998	1999	2000	2001	2002	2003	2004	2005	2006
On hand, start of year	74	77	114	117	132	133	107	112	127
Transfers in	6	42	7	20	7	2	15	15	15
Removed	3	5	4	5	6	2	-	-	-
Projected to be removed	-	-	-	-	-	25*	10	-	-
On hand, end of year	77	114	117	132	133	107	112	127	142

*Contract awards involving 25 vessels were made in FY 2003. The late receipt of FY 2003 funding will result in the removal, from the fleet, of 23 of the 25 in FY 2004 or later.

CONCLUSIONS

MARAD is concerned about the environmental threat that currently exists with our highest priority vessels, and with the increasing threat as all obsolete vessels continue to age and deteriorate.

In spite of the legal challenges and domestic industry opposition to the export of obsolete ships by MARAD, an aggressive program of maximizing FY 2003 funds and pursuing all feasible disposal options resulted in the award of contracts of a significant number of high-priority vessel disposals in 2003. The 25 vessels awarded for disposal in 2003 is the highest number of vessel disposal awards since 1993. This reverses a trend of growth in the number of obsolete ships in MARAD's custody. Eleven of the 25 vessel awards were made to domestic companies. The legal challenges to the AbleUK foreign recycling contract have delayed the removal of remaining nine high priority ships from the fleet site to the UK facility for recycling. It is now evident that because of time constraints resulting from the legal challenges that the nine ships will not be removed from the fleet until FY 2005, causing further delays in mitigating the environmental threat through the removal of obsolete vessels from the fleet sites.

Whether those nine vessels are eventually removed for disposal in the United Kingdom, it has become clear to MARAD, that under existing environmental laws and regulations, the export of ships for recycling is not a commercially viable method for disposal of MARAD vessels. Four vessels were able to leave the United States to the Able UK facility because of the express congressional authorization for MARAD to engage in one or more pilot projects. Export of the remaining nine has been halted by litigation. Because of the standing afforded to citizens under TSCA to export actions, MARAD is convinced that future export of vessels

can only be accomplished with any certainty through an exemption to TSCA provided by a rulemaking by the EPA. However, given the legal and practical requirements for a TSCA exemption rulemaking, it will take at least nine months, and more likely in excess of a year, to comply with all of the regulatory to export vessels containing PCBs. Additionally, the process cannot even be begun before a facility is selected. This process is not workable in a federal procurement action with a commercial facility. Thus, it is evident that the legislative requirement to select disposal facilities on a “best value” basis without predisposition towards foreign or domestic facilities is a practical impossibility given the legal requirements that must be met before any foreign vessel disposal can take place.

The Department is available to discuss with Congress, possible statutory changes to allow MARAD to carry out such disposals.

Under existing constraints, it is unlikely that MARAD will be able to dispose of the more than 119 obsolete ships by the statutory deadline of September 30, 2006. The legal challenges to the Able U.K. export contract have effectively suspended the export of vessels containing solid PCBs as a ship disposal option for all of FY 2004. In addition, MARAD has suspended the active contracting of other cost-effective export proposals.

Notwithstanding the export challenges, MARAD will continue to investigate all alternatives identified in this report, and others which we may identify, to expedite the disposal of its obsolete vessels at the least cost to the Government, while giving consideration to worker safety and the environment, as required by the Act.

While the congressionally mandated September 30, 2006 deadline was for the removal of all vessels, an achievable alternative plan is to first remove all vessels that have a high or moderate risk to the environment as soon as possible. At the same time, MARAD is continuing to work on disposal alternatives, which with the necessary funding in place, will ensure that the remaining obsolete vessels can be disposed of at a rate which exceeds the number of obsolete vessels entering MARAD’s fleets.

For this alternative, MARAD has developed a ship disposal “end state” as an achievable goal with a target date of September 30, 2006. The main “end state” elements are as follows:

- To have eliminated the backlog of vessels that accumulated in the 1990s
- To have removed from the fleet sites all “high” and “moderate” priority ships (approximately 65 ships) at a rate of 20-24 ships per year. Elimination of high and moderate priority ships from the fleets also mitigates the high and moderate risks to the environment at MARAD’s fleets. The number of vessels removed by each disposal alternative will be determined by the industry proposals, funding availability, the outcome of the current foreign recycling litigation, and other factors.
- To maintain only “low” priority/low-risk ships at the fleet sites. The target number of obsolete vessels to be maintained on an annual basis is a total of 40-60 at all three fleet sites. With the projected designation of 45 ships as obsolete over the next 3-5 years,

which includes DOD vessels, an annual disposal rate of 20-24 ships will have to be maintained for 3-4 years beyond 2006 in order to achieve and maintain an obsolete vessel fleet size at a maximum range of 40-60 ships. In addition to maintaining only “low” priority obsolete ships at the fleets, further mitigation of environmental risks will be achieved by continuing to use the established protocol for the acceptance of vessels into the National Defense Reserve Fleet and the practices used when downgrading vessels to non-retention status. This includes accomplishment of material condition and liquid load surveys, removal of readily removable hazardous materials, preliminary residual hazardous material characterization, and defueling of vessels to the maximum practical extent. In addition, as newer vessels (built after 1980) are downgraded to non-retention status and enter the fleets, a decline in the quantities of hazmats such as PCBs will be evident.

- To have a level of funding that permits the disposal of at least the number of ships that are designated as obsolete on an annual basis. A failure to achieve that level of funding and to maintain all disposal options will result in an accumulation of obsolete vessels such as occurred in the 1990s.

Critical factors which impact the achievement of the 2006 “end state” include:

- Foreign recycling is a viable disposal option in 2004-2006 and beyond.
- The Ship Disposal Program is funded at levels in 2004-2006 and beyond allowing consideration of proposals that include economies of scale.
- The majority of vessels to be designated as obsolete in 2004-2006 are in “fair” or “good” condition.

The progress and momentum gained in FY 2003 need to be sustained to achieve the outcomes identified by the Administration, the Congress, and the States where MARAD’s three fleet sites are located.

While MARAD will continue to pursue all disposal options to ensure the best value disposal decisions, limited funding will result in less utilization of the higher-cost disposal options including domestic dismantling, which is the highest cost of all ship disposal options available. Generally, higher funding levels increase the cost-effectiveness of disposal awards by effectively lowering the unit cost of disposal (i.e. cost per ton) and allowing the Government to take advantage of economies of scale for the disposal of greater numbers of ships. In FY 2001, six ships were disposed of domestically as single ship contracts to three different facilities. The final unit costs were approximately \$250 per ton. In 2003, the PRP/AbleUK contract involved the export of 13 ships at a unit cost of \$144 per ton, and with the barter provision for title to two additional obsolete ships the total disposal costs for 15 ships is \$104 per ton.

While disposal methodologies such as foreign recycling and artificial reefing present many difficult challenges, the cost-effective, long-term solution to responsible and safe ship disposal must include these disposal alternatives.

II. REPORT TO CONGRESS ON THE NAVY-TITLED OBSOLETE VESSELS STORED IN THE MARITIME ADMINISTRATION NATIONAL DEFENSE RESERVE FLEET AND ON PROGRESS OF THE U.S. NAVY'S VESSEL SCRAPPING PROGRAM

Introduction

Pursuant to Division M - Section 102 of House Joint Resolution 2 for the 108th Congress (Public Law 108-7), the Secretary of the Navy and the Secretary of Transportation shall report to the congressional defense committees no later than March 1, 2003, regarding the total number of obsolete vessels in the Maritime Administration National Defense Reserve Fleet designated for disposal, the comparative condition of the vessels, the method of disposal, and the projected costs for disposal of each vessel.

Further, pursuant to Section 3502 of the Fiscal Year 2001 Department of Defense Authorization Act (Public Law 106-398), the Secretary of Transportation, in coordination with the Secretary of the Navy, is also required to report on the progress of any other scrapping of obsolete Government-owned vessels.

This portion of the report responds to H.J. RES. 2 regarding Navy-titled obsolete vessels in the Maritime Administration National Defense Reserve Fleet, and updates the progress of the U.S. Navy's vessel scrapping program that was addressed in a June 2002 report to Congress released by the Secretary of Transportation, Maritime Administration (MARAD).

Navy-Titled Obsolete Vessels in the Maritime Administration National Defense Reserve Fleet

The total number of Navy-titled vessels that are designated for disposal and that are remaining in MARAD National Defense Reserve Fleet (NDRF) facilities is 11. Table 1 provides information regarding the method of disposal and projected cost of disposal for these vessels.

Accomplishments Since June 2002

The Navy continues to execute its strategy of utilizing multiple ship disposal methodologies to reduce the size of the inactive ship inventory, including foreign military sales, ship donations, experimental/target use, and domestic ship dismantling. In addition, Public Law 108-136 provides authority for the Navy to transfer vessels stricken from the Naval Vessel Register directly to a State, Commonwealth, possession of the United States, municipal corporation, or political subdivision for use as an artificial reef.

Since June 2002, eight ships have been completely dismantled and recycled under the Navy's Ship Disposal Project contracts. Also, task orders for the dismantling of eight additional ships, ex-Gridley (CG 21), ex-England (CG 22), ex-Lawrence (DDG 4), ex-Sellers (DDG 11), ex-Luce (DDG 38), ex-MacDonough (DDG 39), ex-Mahan (DDG 42) and ex-Roark (FF 1053) have been competitively awarded in fiscal years 2003 and 2004.⁴ Table 2 highlights

⁴ As addressed in the Navy's January 3, 2001 Report to Congress on the Scrapping of Naval Ships Under the SDP, in order to ensure competition existed for the follow-on task orders, two Indefinite Delivery/Indefinite Quantity (IDIQ) contracts were awarded for each coastal lot, for a total of four contracts. Each contractor was guaranteed a

the status of task orders under the Navy's Ship Disposal Project contracts that were competitively awarded on a best value basis in September 1999. This program enables the Navy to continue the reduction of its inventory of stricken ships, as expected in Senate Armed Services Committee report 107-62 of September 12, 2001, while ensuring that ship dismantling will be completed in a timely and cost effective manner while remaining in compliance with all environmental and occupational safety laws and regulations.

In the fiscal year 2003 and 2004 Defense Appropriations Acts, Congress appropriated \$3.5 million and \$7.0 million respectively for expenses related to the domestic dismantling and recycling of stricken U.S. Navy warships. This additional funding augmented budgeted funds and enabled the award of one additional ship in fiscal year 2003 and three additional ships in fiscal year 2004.

Also since June 2002, twenty-four ships and craft⁵ have been environmentally prepared and sunk during Fleet at-sea live-fire training exercises in water depths of at least 6,000 feet and at least 50 miles from land, in accordance with Title 40 Code of Federal Regulations Section 229.2. Under the Foreign Military Sales program, ex-Wadsworth (FFG 9), ex-Frederick (LST 1184) and ex-Estocin (FFG 15) have been transferred from the active Fleet upon decommissioning to allied navies for continued operations. Also, the ex-Paul F. Foster (DD 964) was decommissioned in March 2003 and is being retained for experimental use.

On September 29, 2003, the Navy awarded a contract to Resolve Marine Service/ESCO Marine Joint Venture for the environmental remediation of ex-Oriskany (CVA 34) in accordance with draft U.S. Environmental Protection Agency Best Management Practices guidance that will enable this ship to be sunk as an artificial reef. This award was enabled by a Congressional appropriation of \$2,800,000 in the fiscal year 2003 Defense Appropriations Act specifically for the disposal of ex-Oriskany.

As of March 12, 2004, the Navy's inventory of inactive conventionally powered ships includes 59 ships designated for disposal by Foreign Military Sales transfer, ship donation for public display, Navy sink exercise, domestic dismantling, or artificial reefing. Of this total, 11 are stored at NDRF facilities under a reimbursable agreement with MARAD.

Planned Activities

Fiscal year 2004 is the last year of the five-year Indefinite Delivery-Indefinite Quantity Ship Disposal Project contracts that were awarded in September 1999. During fiscal year 2004, the Navy intends to solicit a follow-on contract that allows for either ship dismantling or

minimum quantity of one ship for dismantling. As the Navy's Request for Proposal (RFP) required offerors to submit separate technical and cost proposals if intending to compete for both coastal lots, the RFP contemplated that additional task orders for East Coast lot ships would be competed between the two contractors awarded the East Coast lot IDIQ contracts. Likewise, additional task orders for West Coast lot ships would be competed between the two contractors awarded the West Coast lot IDIQ contracts. Ex-Sampson was competed between Baltimore Marine Industries and Metro Machine Corp., but awarded to Metro Machine under an Urgent and Compelling justification due to a flooding casualty that occurred on February 18, 2003.

⁵ Inactive ships sunk during Fleet at-sea live-fire training exercises since June 2002 include ex-Okinawa (LPH 3), ex-Wainwright (CG 28), ex-Hepburn (FF 1055), ex-Harold Holt (FF 1074), ex-Rathburn (FF 1057), ex-White Plains (AFS 4), ex-Towers (DDG 9), ex-Caron (DD 970), ex-Navigator (ATA 203), ex-Bigelow (DD 942), ex-Weehawken (YTB 776), ex-Ketchikan (YTB 795), ex-Nogalesen (YTB 777), ex-Mandan (YTB 794), ex-Samuel Gompers (AD 37), ex-Dixon (AS 37), ex-Seneca (ATF 91), ex-Ingersoll (DD 990), ex-Merrill (DD 976), ex-Leftwich (DD 984), ex-Downes (FF 1070), ex-Henry B. Wilson (DDG 7), ex-Yosemite (AD 19) and ex-Peterson (DD 969).

environmental preparation for artificial reefing of naval vessels, including warships, amphibious and auxiliary type vessels.

The Navy and MARAD are also engaging in cooperative strategies addressing their respective inactive ship inventories and are meeting at regular intervals to share lessons learned on ship disposal programs. For example, the Navy will assist MARAD in the removal of some ships from its James River Reserve Fleet by providing MARAD the option to fund the Navy to environmentally prepare a MARAD owned ship for a Navy sink exercise, when such an option is a cost-effective alternative for MARAD. The Navy and MARAD have entered into a Memorandum of Agreement for this purpose, and MARAD has identified the ex-Gage (APA 168) as the first ship from the James River Reserve Fleet and to be prepared for a Navy sink exercise. However, this option is only available for a limited number of ships based on Navy Fleet sink exercise requirements. Additionally, the Navy and MARAD have entered into another Memorandum of Agreement to designate MARAD as the lead agency for States to request the transfer of federal ships, whether MARAD merchant-type ships or Navy warships, for use as artificial reefs.

Conclusions

As addressed in the Navy's August 10, 2001 Report to Congress on the Disposal and Scrapping of Stricken U.S. Navy Ships, the Navy remains committed to reducing and eliminating any environmental risks posed by its inactive ships, and to reducing the size of the inactive ship inventory utilizing multiple ship disposal methodologies (i.e., foreign military sale transfers, ship donations, experimental/target use, title transfers to MARAD, domestic ship dismantling, and artificial reefing) that are most advantageous to the Navy, while also evaluating additional options for ship disposal.

Delaying ship disposal creates unnecessary risks and increases life cycle costs as inactive ships designated for disposal continue to deteriorate with age and the cost to maintain them increases. However, the Navy cannot sustain full utilization of all available ship disposal methodologies with limited future budgets for ship disposal and is therefore decreasing its emphasis on ship dismantling, which is the highest cost of all ship disposal options available.

Table 1 – Navy-Titled Obsolete Vessels in the MARAD National Defense Reserve Fleet designated for disposal

Ship	Location	Method of Disposal	Projected Cost of Disposal
AFDM 2 drydock	MARAD Beaumont, TX	GSA donation to Texas State Office of Federal Surplus Property, for the Port of Port Arthur, TX	\$0
Triumph (AGOS 1)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$300,000
Leahy (CG 16)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$750,000
Jouett (CG 29)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$750,000
Horne (CG 30)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$750,000
Sterett (CG 31)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$750,000
Fox (CG 33)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$750,000
Proteus (IX 518)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$800,000
New Orleans (LPH 11)	MARAD Suisun Bay, CA	Donation for public display	\$0
Fort Fisher (LSD 40)	MARAD Suisun Bay, CA	Navy Sink Exercise or artificial reefing	\$400,000
Hoga (YTM 146)	MARAD Suisun Bay, CA	Donation for public display	\$0

Note: Ships designated for Navy sink exercise or artificial reefing may also be placed under contract for domestic ship dismantling based on availability of funding and determination of the disposition that is most advantageous for the Navy for the purpose of inactive ship inventory reduction.

Table 2 – Ship Disposal Project Task Order Status

Ship	Contractor	Awarded	Completed	Final Net Cost to Navy	Cost per ton
Blakely (FF 1072)	Metro Machine Corp., Philadelphia, PA	Sep 1999	Sep 2000	\$5,172,449	\$1,592
Paterson (FF 1061)	Baltimore Marine Industries, Baltimore, MD	Sep 1999	Jun 2000	\$4,385,074	\$1,349
Bagley (FF 1069)	International Shipbreaking Ltd., Brownsville, TX	Sep 1999	Sep 2000	\$2,997,529	\$922
Lockwood (FF 1064)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech), San Francisco, CA	Sep 1999	Aug 2000	\$3,385,985	\$1,042
Voge (FF 1047)	Metro Machine Corp.	May 2000	Jan 2001	\$2,614,337	\$968
Gray (FF 1054)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech)	May 2000	Aug 2001	\$2,922,153	\$899
Cochrane (DDG 21)	International Shipbreaking Ltd.	Nov 2000	Oct 2000	\$2,268,025	\$687
Biddle (CG 34)	Metro Machine Corp.	Dec 2000	Jan 2002	\$3,700,814	\$661
Lot of seven minesweepers	Baltimore Marine Ind.	Dec 2000	Feb 2002	\$3,825,039	\$869
Meyerkord (FF 1058)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech)	Dec 2000	Sep 2001	\$2,925,127	\$900
Lang (FF 1060)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech)	Jan 2001	Sep 2001	\$2,924,651	\$900
Harry E. Yarnell (CG 17)	Metro Machine Corp.	Feb 2001	Apr 2002	\$3,302,625	\$590
Hewitt (DD 966)	International Shipbreaking Ltd.	Tow Aug 2001 Scrap Nov 2001	Nov 2002	\$3,144,520	\$524
Edward McDonnell (FF 1043)	Metro Machine Corp.	Dec 2001	Jul 2002	\$2,272,377	\$842
Claude V. Ricketts (DDG 5)	Metro Machine Corp.	Dec 2001	Oct 2002	\$2,702,506	\$819

Coontz (DDG 40)	Metro Machine Corp.	Feb 2002	Apr 2003	\$3,376,077	\$650
Francis Hammond (FF 1067)	International Shipbreaking Ltd.	Feb 2002	Jan 2003	\$1,436,224	\$442
Preble (DDG 46)	Metro Machine Corp.	Mar 2002	Jan 2003	\$3,377,173	\$532
Halsey (CG 23)	International Shipbreaking Ltd.	Nov 2002	Nov 2003	\$2,933,079	\$500
Mahan (DDG 42)	Baltimore Marine Ind.	Jan 2003	In progress +	\$3,141,501*	\$603*
Sampson (DDG 10)	Metro Machine Corp.	Feb 2003	Oct 2003	\$2,818,980	\$854
England (CG 22)	International Shipbreaking Ltd.	Sep 2003	In progress	\$4,371,894*	\$781*
Sellers (DDG 11)	Metro Machine Corp.	Sep 2003	In progress	\$2,833,463*	\$859*
MacDonough (DDG 39)	Metro Machine Corp.	Sep 2003	In progress	\$3,272,904*	\$629*
Roarke (FF 1053)	International Shipbreaking Ltd.	Oct 2003	In progress	\$2,422,110*	\$433*
Gridley (CG 21)	International Shipbreaking Ltd.	Nov 2003	In progress	\$1,857,478*	\$332*
Lawrence (DDG 4)	Metro Machine Corp.	Nov 2003	In progress	\$2,722,594*	\$825*
Luce (DDG 38)	Metro Machine Corp.	Mar 2004	In progress	\$2,857,162*	\$549*

* estimate at completion

+ Due to the bankruptcy of Baltimore Marine Industries, the contract has been terminated for default and the ex-Mahan task order has been re-awarded to Metro Machine Corp. for dismantling in Philadelphia.