

REPORT TO CONGRESS ON THE 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 on the Progress of the Vessel Disposal Program

INTRODUCTION

This report is submitted pursuant to the following statutory direction:

- The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. 106-398, § 3502, 114 Stat. 1654 (2000) [the Act], which requires periodic reporting on the progress of the program developed for the disposal of the Maritime Administration's (MARAD) obsolete National Defense Reserve Fleet (NDRF) vessels, and
- The Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. 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 since the last report dated October 2004 and outlines the current ship disposal challenges and plans for FY 2005 and beyond. In the interest of timely submissions, this report, unlike ones prior to October 2004, does not address the program's accomplishments from its genesis in FY 2001 through FY 2003. A review of the Ship Disposal Program's, hereafter referred to as the Program, previous reports since April 2001 can provide a historical perspective of the Program. 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.

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, MARAD established the Program to accomplish the requirements of the Act. It became apparent at the start of the Program 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. Since the establishment of the Program, MARAD has aggressively pursued all feasible disposal alternatives including foreign recycling.

At this time, due to statutory constraints contained in the Toxic Substances Control Act (TSCA), foreign disposal of obsolete vessels is not a commercially practicable 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.

There are currently 128 vessels in the NDRF designated as obsolete and not under contract for disposal. Even with the significant progress made since 2003, MARAD will be unable to achieve the requirements of the Act by the statutory deadline of September 30, 2006. Sufficient funding resources and the use of all disposal options that are not currently

available, such as foreign disposal, will be necessary to achieve expedited and cost-effective vessel disposals.

I. MARITIME ADMINISTRATION ACCOMPLISHMENTS AND ACTIVITIES SINCE THE LAST REPORT

Ship Disposal Funding

The Consolidated Appropriations Act, 2004 (Pub.L. 108-199) included \$16.2 million for the disposal of obsolete ships, not including a 0.59 percent reduction pursuant to Section 168(b), Division H of Pub. L. 108-199. The Consolidated Appropriations Act, 2005 (Pub.L. 108-447) included \$21.6 million for the disposal of obsolete ships, not including a 0.80 percent reduction pursuant to Division J, Title I, Sec. 122 of Pub. L. 108-447. The FY 2005 appropriation was available for use beginning in the second quarter of FY 2005. Of the \$21.6 million appropriated in FY 2005, \$2.0 million is earmarked for the continued decommissioning process for the remnants of the reactor and hazardous materials on board the retention nuclear vessel NS SAVANNAH.

Ship Disposal Contracts

MARAD implemented the use of Standing Quotations as the primary procurement method for soliciting ship disposal services. The use of Standing Quotations is a simplified acquisition procedure for the competitive procurement of commercial services (ship dismantling/recycling). The complete transition to the use of Standing Quotation process commenced with the posting of a request for quotations in January 2005 in response to which interested vendors may submit quotations and proposals continuously throughout the period of one year. Proposals are currently being received and those received to date are being evaluated. The evaluation process will result in a pool of standing quotations from technically acceptable Offerors from which specific price proposals will be solicited and contract awards will be selected on a best value to the government basis. In addition to the use of Standing Quotations for the acquisition of ship dismantling/recycling services, a sales solicitation will be posted to accommodate qualified facilities that are interested in purchasing obsolete ships for recycling.

Table 1 lists the disposal contract awards made from the start of FY 2004 through the end of February 2005. Dismantling contracts for 13 vessels were awarded in FY 2004 and an additional 3 ships have been awarded to date in FY 2005. Of the 16 ships awarded, 14 have been removed from the fleet sites to contractor facilities. All contract awards in FY 2004 and through the end on February 2005 have been to domestic facilities. In addition to the activities shown in Table 1, MARAD removed nine (9) ships in FY 2004 from the fleet sites that are associated with contracts awarded prior to FY 2004. Additionally, MARAD completed the disposal of six (6) ships in FY 2004 and 2005 that are associated with contracts awarded prior to FY 2004.

Since the start of FY 2001, MARAD has awarded contracts for the disposal of 48 obsolete ships, and has removed 39 ships, 80 per cent of which were high priority. The other 20 per cent included vessels that were either purchased for disposal or were included in negotiated

best-value packages for disposal along with high priority vessels. Of the 128 non-retention ships currently in the fleets and not under contract, 28 were retention ships that were downgraded over the last 15 months.

MARAD's accomplishments in FY 2004 were a result of executing its disposal management plan to continue the removal of the high-priority ships in the James River Reserve Fleet (JRRF) moored in Virginia waters. Export delays caused by legal challenges provided MARAD the opportunity to negotiate the removal of nine high priority ships associated with the Post Service Remediation Partners (PRP) /Able UK contract. This action cleared the way for MARAD to follow its management plan and commitment to expedite the removal of high priority ships from the JRRF. Eight of the nine ships destined for the UK were in turn awarded for disposal to domestic facilities for disposal -- the ninth ship is not a high priority ship. The nine ships removed from the PRP/AbleUK contract will be substituted with other ships at a later date after the export legal challenges have been resolved. The selection of the substitute vessels has been completed and vessel towing requirements are in the process of being identified in preparation for the removal of the nine ships in calendar year 2005.

Vessel Name	Fleet /High Priority (Yes/No)	Contractor	Destination /Location	Award Date	Contract Type	Departure Date *	Contract Amounts \$
FURMAN	BRF/No	Marine Metals	Brownsville, TX	10/30/03	Sale	11/20/03	\$450
NAECO	BRF/No	Esco Marine	Brownsville, TX	2/18/04	Sale	3/8/04	\$500
AMER. BANKER**	JRRF/Yes	Marine Metals	Brownsville, TX	6/24/04	Fixed Price	10/27/04	(\$1,302,877)
SANTA CRUZ**	JRRF/Yes	Marine Metals	Brownsville, TX	6/24/04	Fixed Price	8/5/04	(\$1,009,885)
AMER. RANGER**	JRRF/Yes	Esco Marine	Brownsville, TX	8/9/04	Fixed Price	8/26/04	(\$796,600)
MORMACWAVE**	JRRF/Yes	Esco Marine	Brownsville, TX	8/9/04	Fixed Price	10/26/04	(\$1,396,095)
SANTA ISABEL**	JRRF/Yes	Esco Marine	Brownsville, TX	8/9/04	Fixed Price	10/27/04	(\$970,772)
MORMACMOON**	JRRF/Yes	North American Ship Recycling	Baltimore, MD	9/13/04	Fixed Price	3/01/05	(\$1,309,853)
LAUDERDALE	JRRF/Yes	North American Ship Recycling	Baltimore, MD	9/13/04	Fixed Price	3/01/05	(\$985,620)
DONNER**	JRRF/Yes	All Star Metals	Brownsville, TX	9/13/04	Fixed Price	11/15/04	(\$565,207)
PROTECTOR**	JRRF/Yes	All Star Metals	Brownsville, TX	9/13/04	Fixed Price	11/29/04	(\$569,930)
GENL WALKER	JRRF/Yes	All Star Metals	Brownsville, TX	9/13/04	Fixed Price	1/04/05	(\$1,336,350)
GENL DARBY	JRRF/Yes	Marine Metals	Brownsville, TX	9/13/04	Fixed Price	2/16/05	(\$1,137,878)
MEACHEM	BRF/No	Esco Marine	Brownsville, TX	10/08/04	Sale	10/15/04	\$1000
SHIRLEY LYKES	JRRF/Yes	Bay Bridge Enterprises	Chesapeake, VA	12/18/04	Fixed Price	1/26/05	(\$860,000)
NEOSHO	JRRF/No	International Ship Recycling	Brownsville, TX	12/18/04	Fixed Price	2/9/05	\$1

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

**High priority vessels removed from the PRP/AbleUK contract to allow disposal without the delays caused by the export legal challenges.

With award of the contracts shown in Table 1, only three high priority JRRF ships remain and those three ships are not available for disposal because two are being held for donation to non-profit organizations and one is being assessed for historical significance. In the Suisun Bay Reserve Fleet (SBRF), four high priority vessels are not awarded for disposal with one

of the four not available for disposal because it is being assessed for historical significance. MARAD Beaumont Reserve Fleet (BRF) in Texas has one high priority ship that is under historical review. After removal of the four high priority vessels that are available for disposal, MARAD's disposal plan focuses on the approximately 23 obsolete vessels in poor condition moored in the SBRF and the 17 obsolete vessels in poor condition moored in the JRRF. MARAD's management plan is to expedite the disposal of these ships so that they do not become high-risk vessels from advanced deterioration.

MARAD is working to identify cost-effective, qualified facilities on the U.S. West Coast and in foreign markets that are interested in recycling the obsolete vessels located in the SBRF. A few foreign facilities have identified cost-effective proposals for disposal of a large number 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. 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, and is subject to the restrictive nature of environmental regulations. There are currently no operational U.S. West Coast facilities dedicated to vessel dismantling/recycling available to the Navy or MARAD.

Ship Disposal Alternatives

Foreign Recycling - Based upon proposals received and an investigation of facilities abroad, MARAD continues to believe 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 128 obsolete ships and mitigation of the environmental threat they represent. However, as explained in more detail in the June 2004 Report, MARAD has been unable to successfully recycle any vessels abroad due to legal challenges and statutory impediments. In spite of the difficulties involved, a best value contract award for the disposal of 13 ships was made, and the export of four of the 13 ships to a qualified UK facility occurred in 2003. The four exported vessels remain on hold for disposal and are thus unable to be dismantled until the UK legal issues are resolved.

Since the initial hearing in the U.S. in October, 2003, MARAD has conducted an Environmental Assessment (EA) regarding the potential environmental impacts of sending the additional nine vessels to the PRP/Able UK dismantling facility in Teesside, England. 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 U.S. Court for the District of Columbia, arguing that this EA is inadequate and does not sufficiently comply with the requirements of National Environmental Policy Act (NEPA). A hearing on cross motions for summary judgment took place on October 15, 2004. On March 2, 2005 the Court concluded the EA prepared by MARAD fully met its obligations under NEPA and dismissed the plaintiff's complaint. Further the Court ordered that the defendant's motion for summary judgment be granted and further ordered the plaintiff's motion for summary judgment be denied. In its ruling the Court dismissed the claims of the plaintiffs primarily on technicalities: a) the Basil Action Network (BAN), lead plaintiff, lacked standing to file suit; however, the co-plaintiff, the Sierra Club does have standing; b)

the plaintiffs did not bring their initial TSCA claims within the requisite 60 day-notice period as required by the citizen's suit provisions of TSCA; and c) the risk of threatened harm is not present because there is no current or ongoing violation by MARAD of the provisions of the Resource Conservation and Recovery Act (RCRA). The plaintiff has filed a request for reconsideration by the U.S. District Court of its decision related to RCRA, and the Court's decision on that request is pending. The period allowed for plaintiff's appeal of the U.S. District Court's decision will start after the court decides on the request for reconsideration. The court ruling does not remedy the underlying environmental issues which triggered the legal action initially and does not preclude plaintiffs or other citizens from immediately filing another civil action against MARAD to deny the export of its obsolete ships.

In addition to the process followed by the PRP/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 nine months 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. This is a significant setback to the availability of cost-effective, expedited disposal of MARAD ships.

MARAD has remained in close contact with the UKEA. PRP/Able UK has prepared and submitted the necessary documents for a new Waste Management License and the appropriate local planning approval permits. Those applications are currently under review by the cognizant local and national government agencies. Several critical activities will need to be completed after the permissions are in place and prior to the vessels being towed to the UK. Those activities include a favorable ruling from the U.S. District Court, 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 unresolved issues and time constraints, the remaining nine vessels may not be able to be delivered to the UK this calendar year.

Domestic Recycling – To date the domestic approach is the most expedient but also the most costly disposal alternative and remains the least cost effective disposal option for MARAD and Navy obsolete ships. Limited domestic ship recycling facilities (i.e., lack of cost-effective and productive capacity and industrial throughput), make this disposal method effective only for the removal of a small number of ships on a per contract basis. In FY 2001, MARAD contracts involved only three domestic companies. Since then three additional companies have been awarded ship dismantling contracts. MARAD is encouraging increased domestic competition to increase cost-effective and productive capacity.

In light of the export limitation, and continuing challenges associated with alternative disposal methods, the rate of disposal is highly dependent on the availability of cost effective domestic facilities. Industrial capacity, in terms of annual ship disposal rates, is difficult to quantify because of several factors including the variance in vessel condition and the scope of hazardous material remediation that is necessary. However, due to capacity and resource limitations, the six domestic facilities that have been awarded contracts over the past few years have demonstrated a potential cost effective capability to dismantle and recycle up to 15 to 20 vessels per year. Further, even at award rates that are lower than the 15-20 ship potential, the limitations of many domestic facilities often result in significant delays of four to five months after contract award before the facility finally takes possession of the vessels and commences dismantling work. It is also not uncommon for domestic facilities to request significant extensions for completing the work. Over the past year, with the exception of two facilities, domestic facilities have had significant production throughput problems, which significantly delayed completion of recycling projects awarded by MARAD.

Artificial Reefing - Reefing has 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 sharing in the significant costs associated with reefing activities. Cost sharing with the States has the potential to increase demand to some degree. However, MARAD will only consider providing significant financial assistance to States for vessels MARAD considers to be a higher priority. Generally, higher priority ships are not good reefing candidates.

Limited demand is also a result of the lack of national standards to prepare ships for reefing. Draft Best Management Practices (BMP) for the preparation of ships to be used as artificial reefs have been developed through the interagency efforts of the MARAD, Environmental Protection Agency (EPA), Navy, National Oceanic and Atmospheric Administration (NOAA), United States Coast Guard (USCG), Army Corps of Engineers (ACOE) and National Marine Fisheries Service (NMFS). The draft BMPs were published in the Federal Register on August 2, 2004, for a 60-day public notice and comment period. The draft BMPs are still in the internal EPA review process with an EPA target for completion of summer 2005. The requirements in the draft BMPs to remove all solid PCBs above the regulated limits could negate the cost advantage of artificial reefing compared to conventional dismantling.

Vessel Sales - This is a low revenue to no-cost option to the Government for selected vessels. It is not a significant disposal option in terms of numbers of ships. In spite of the domestic sale of two vessels in FY 2004 and one thus far in 2005, the increase in domestic vessel purchases was a result of the increased market price of steel and “sales of opportunity” for the companies purchasing the vessels -- it is not considered a trend that can be relied upon.

There is however, a large demand for scrap metal on the international markets and MARAD has received numerous inquiries for the sale of its obsolete vessels to foreign ship recyclers. Due to the environmental impediments of TSCA, which protracts the export of MARAD

ships, foreign sales currently are not commercially practicable in the present legal environment, even to environmentally sound facilities.

Vessel Donation - Donation of vessels is based on the demand of non-profit historical preservationist and humanitarian groups. Historically, donation has not been a significant disposal option in terms of numbers of vessels; however, MARAD has established a formal donation program to support the efforts of legitimate not-for-profit groups to acquire and preserve vessels. The formal program is intended to replace the previous practice of organizations obtaining special legislation for the donation of ships. The authorization for the formal program is contained in Section 3512 of Pub. L. 108-136, The National Defense Authorization Act for Fiscal Year 2004.

Deep Sinking - Joint Navy/MARAD ship disposal projects 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. 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. 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. Pursuant to this agreement, the vessel GAGE has been prepared by the Navy; however, the sinking of this vessel has been postponed due to the historical assessment process and donation interest in the vessel. In 2005, MARAD has requested the Navy to provide cost estimates for the SINKEX preparations of six SBRF vessels. The feasibility of SINKEX as a future disposal option will depend on cost-effective estimates from the Navy that are comparable in cost to MARAD's other disposal alternatives. A disposal rate of one to two ships per year through deep-sinking at this point is considered possible.

Foreign Military Sales - MARAD reviewed draft legislative language proposed by the Department of Defense (DOD) that would allow MARAD vessels, which were former Navy vessels, to be included in DOD's security assistance ship transfer process for foreign navies 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. MARAD is awaiting the status of the draft legislation from the Navy.

Ship Disposal Management Approach

MARAD's comprehensive disposal management plan is a flexible approach that maximizes disposal opportunities. MARAD's approach is a dual track, market based approach that strives to mitigate disposal impediments and to maximize the full potential of all disposal methods while disposing of the most vessels possible given the resources and disposal methods available. The management approach in place assesses, on a continuous basis, all variables that affect the disposal of obsolete ships. Those variables include market conditions; the number, condition and location of obsolete ships; disposal alternatives realistically available to MARAD; capacity, capability and production throughput of disposal facilities; and available resources.

The assessments feed into and allow the development of meaningful Department level goals associated with DOT's environmental stewardship responsibilities; development of realistic MARAD program performance goals; development of fiscally responsible budget requests; development of procurement strategies that foster competition and increased capacity; establishment of comprehensive project oversight to ensure timely disposal and environmentally safe disposal; and, review of and changes to the management approach to maximize the disposal rate in a fiscally and environmentally responsible manner. MARAD is concerned about the environmental threats that currently exist with its highest priority vessels, and with the potential for that threat to increase as all obsolete vessels continue to age and deteriorate. This concern is emphasized in the disposal approach that is planned and managed by all levels of leadership within the Department.

While the Congressionally mandated September 30, 2006, deadline was for the removal of all vessels, MARAD has in place an achievable alternative plan 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 that exceeds the number of obsolete vessels entering MARAD's fleets. This in itself is a formidable challenge given the projections that approximately 30 additional ships will become available for disposal over the next 3 years and be added to the list of obsolete vessels.

MARAD has developed a ship disposal "end state" which sets achievable, realistic long range and annual goals. The main "end state" elements are as follows:

- To eliminate the backlog of high priority vessels that accumulated in the 1990s. This has essentially been accomplished with only eight high priority vessels remaining in three MARAD fleet sites -- and only three of those eight ships are currently available for disposal by recycling or artificial reefing. Of the five high priority vessels not available, two are legislated donations and three are considered potentially historically significant and are undergoing a historic review process.
- To remove from the fleet sites all "high" and "moderate" priority 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 an additional 30 ships as obsolete over the next three 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. 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.

- To have a level of funding that permits the “end state” near term disposal rate of 20-24 ships and then a level of funding in the out years 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 a realistic and environmentally responsible disposal “end state” include:

- Foreign recycling becoming a viable disposal option in 2005-2006 and beyond.
- The Ship Disposal Program is funded at levels in 2006 and beyond allowing consideration of proposals that include economies of scale.
- The majority of vessels to be designated as obsolete in the future are in “fair” or “good” condition.

Conclusions

In spite of the legal challenges and domestic industry opposition to the export of obsolete ships by MARAD, an aggressive program of maximizing disposal funding and pursuing all feasible disposal options resulted in the award of contracts of a significant number of high-priority vessel disposals in FY 2003 and FY 2004. The 25 vessels awarded for disposal in FY 2003 is the highest number of vessel disposal awards since 1993. That reversed a trend of growth in the number of obsolete ships in MARAD’s custody. The legal challenges to the 2003 AbleUK foreign recycling contract have delayed the removal of remaining nine 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 the possibility exists that nine ships obligated under the contract may not be removed from the fleet in FY 2005.

Whether the nine vessels are eventually removed for disposal in the UK or not, it has become clear to MARAD, that under existing environmental laws and regulations, the export of ships for recycling is currently not a commercially practicable method of disposal for MARAD or for recycling companies interested in foreign recycling. Four vessels departed the United States to the Able/UK facility due to 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 contest export actions, MARAD is convinced that future export of vessels can only be accomplished with any certainty through an exemption to TSCA provided in 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 one to two years, to comply with all of the regulatory requirements to export vessels containing PCBs. Additionally, the process cannot even begin

before a facility is selected. The TSCA exemption rulemaking 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 imposed by TSCA, that must be met before any foreign vessel disposal can take place, MARAD is relegated to using only domestic recycling facilities. The March 2, 2005 ruling by the U.S. Court for the District of Columbia did not provide MARAD relief from the requirements of TSCA. The Department of Transportation is available to provide technical assistance to the Congress related to possible statutory changes to allow MARAD to carry out such disposals.

Less than two years remain in the statutory disposal deadline of September 30, 2006. MARAD first reported to the Congress in 2002 that it was unlikely that MARAD would be able to dispose of the more than 120 obsolete ships by the deadline due to external impediments that do not allow access to all cost-effective disposal methods and additional competitive ship disposal capacity. Those constraints still exist today, and with the addition of legal challenges to vessel export that began in 2003, the 2006 deadline will not be met. The legal challenges to the PRP/Able UK export contract have effectively suspended the export of vessels containing solid PCBs as a ship disposal option. 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 that we may identify, to expedite the disposal of its obsolete vessels at qualified facilities and at the least cost to the Government, while giving consideration to worker safety and the environment, as required by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001.

The progress and momentum gained since FY 2003 needs to be sustained to achieve the outcomes identified by the Administration, the Congress, and the States where MARAD’s three fleet sites are located. The award and removal of the majority of MARAD’s high priority ships since the start of the Program in 2001 has significantly mitigated the threat of residual oil discharge into the environment. Section 3502 of the National Maritime Heritage Act (P.L. 106-398 signed October 30, 2000) extended the Congressional disposal mandate to September 30, 2006. Section 3502 also listed 39 obsolete ships that posed the most immediate threat to the environment. Of the 39 ships identified in 2000, only four ships that are still considered high priority for disposal have not yet been removed from MARAD’s fleets, and only two of the four ships are not yet awarded in a disposal contracts.

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 through contract awards to three different facilities were awarded. The final unit costs were approximately \$220 per ton. In FY 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 was \$104 per ton. In FY 2004, contracts were awarded by MARAD for the disposal of 13 ships at a unit cost of \$118 per ton. This unit cost computation excludes the two vessels which were sold. The decrease in per ton costs since FY 2001 is attributable mainly to the increased competition represented by foreign proposals and an increase in the international market price of recyclable steel.

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. Without access to all disposal methods the rate of disposal is unlikely to increase beyond the current rate and the costs associated with ship disposal will be unlikely to decrease.

PROGRESS OF THE U.S. NAVY'S VESSEL DISPOSAL 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 the Consolidated Appropriation Resolution, 2003 regarding Navy-titled obsolete vessels in the MARAD's National Defense Reserve Fleet, and updates the progress of the U.S. Navy's vessel disposal program that was addressed in the October 2004 report to Congress released by the Secretary of Transportation.

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 these vessels.

Accomplishments Since October 2004

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 October 2004, six additional ships have been completely dismantled and recycled under the Navy's Ship Disposal Project contracts. As fiscal year 2004 was the last year of the five-year Indefinite Delivery/Indefinite Quantity (IDIQ) contract originally awarded on September 29, 1999, no additional task orders have been awarded. Table 2 highlights the status of task orders under the Navy's Ship Disposal Project contracts that were competitively awarded on a best value basis since 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 12 Sep 01, 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 February 2005, the Navy and MARAD entered into a Memorandum of Understanding to provide on-site contract surveillance of MARAD ships awarded to International Shipbreaking, Ltd (ISL), where MARAD funds Navy surveillance of its ships and the Navy shares its personnel resources at the ISL yard.

Also since Oct 2004, six additional ships and craft¹ 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. Ex-Capable (AGOS 16) was title transferred to the National Oceanographic and Atmospheric Administration and four PC-1 Cyclone Class vessels were transferred to the USCG for continued use. The wooden drydock YFD 54 was completely dismantled by Portland Shipyard, Portland, OR on an emergent basis due to vessel deterioration.

In December 2004, the Navy completed the environmental preparation of ex-ORISKANY (CVA 34) in conformance with EPA's draft Best Management Practices for Preparing Vessels Intended to Create Artificial Reefs. The ship was towed to the Port of Pensacola, FL where it remains pending completion of ecological and human health risk assessment reports supporting issuance of a risk-based PCB disposal approval by EPA Region IV for the solid PCB containing materials remaining onboard (e.g., electrical cable insulation, various rubber products, applied paint).

As of February 28, 2005, the Navy's inventory of inactive conventionally powered ships includes 55 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

A Request-for-Proposals was issued on December 30, 2004 for three new five-year Indefinite Delivery-Indefinite Quantity Ship Disposal Project contracts. Proposals were received on February 24, 2005. Three new contracts are to be awarded by May 2005. Each contract is a five-year IDIQ contract with only the initial ship guaranteed. The initial task orders are firm-fixed-price with an award fee for environmental and safety performance. Follow-on task orders will be competed between the three IDIQ contractors.

The Navy continues to work in cooperation with EPA on completion of the Prospective Risk Assessment Model (PRAM), a computer simulation model that predicts the ecological and human health risk of solid PCB containing materials built into the construction of a vessel. Completion of PRAM is necessary to complete the risk assessments for ex-ORISKANY and subsequent vessels intended to be sunk as artificial reefs.

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 and Suisun Bay Reserve Fleet by providing MARAD the option to fund Navy to environmentally prepare a MARAD owned ship for Navy sink exercise, when such an option is a cost-effective alternative for MARAD. However, this option is only available for a limited number of ships based on Navy Fleet sink exercise requirements. The Navy and

¹ Inactive ships sunk during Fleet at-sea live-fire training exercises since October 2004 include ex-Arcata (YTB 768), ex-Gosport (IX 517), ex-Haylor (DD 997), ex-Conserver (ARS 39), ex-Schenectedy (LST 1189), ex-Inchon (LPH 12).

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

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.

III APPENDICES

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
Fox (CG 33)	MARAD Beaumont, TX	Navy Sink Exercise or artificial reefing	\$750,000
Gallup (PG 85)	MARAD Beaumont, TX	Navy Sink Exercise or artificial reefing	\$250,000
Triumph (AGOS 1)	MARAD Suisun Bay, CA	Transfer to another Navy activity	\$0
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	Ship Dismantling	\$2,500,000
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	Jul 2004 +	\$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	Oct 2004	\$1,097,851	\$187
Sellers (DDG 11)	Metro Machine Corp.	Sep 2003	Sep 2004	\$2,455,863	\$744
MacDonough (DDG 39)	Metro Machine Corp.	Sep 2003	Sep 2004	\$3,020,864	\$580
Roarke (FF 1053)	International Shipbreaking Ltd.	Oct 2003	Oct 2004	\$598,665	\$184
Gridley (CG 21)	International Shipbreaking Ltd.	Nov 2003	Feb 2005	\$358,875	\$62#
Lawrence (DDG 4)	Metro Machine Corp.	Nov 2003	Oct 2004	\$2,572,898	\$780
Luce (DDG 38)	Metro Machine Corp.	Mar 2004	In progress	\$2,857,162*	\$549*
Aubrey Fitch (FFG 34)	Metro Machine Corp.	May 2004	In progress	\$1,840,106*	\$631*
Leahy (CG 16)	International Shipbreaking Ltd.	Jul 2004	In progress	\$1,948,000*	\$348*#

* 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.

Towing accomplished by Navy assets, not part of contract cost.