

# **REPORT TO CONGRESS PROGRESS OF THE VESSEL SCRAPPING PROGRAM**

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

# **Report to Congress**

## **Progress of the Vessel Scrapping Program**

### **TABLE OF CONTENTS**

<b>INTRODUCTION .....</b>	<b>1</b>
<b>I. PROGRESS OF MARAD'S VESSEL SCRAPPING PROGRAM</b>	
<b>FY 2001 Accomplishments .....</b>	<b>1</b>
<b>FY 2002 Accomplishments and Activities .....</b>	<b>2</b>
<b>Conclusions .....</b>	<b>8</b>
<b>II. PROGRESS OF THE U.S. NAVY'S VESSEL SCRAPPING PROGRAM</b>	
<b>FY 2001 Accomplishments .....</b>	<b>9</b>
<b>FY 2002 Accomplishments and Planned Activities .....</b>	<b>10</b>
<b>Conclusions .....</b>	<b>10</b>

# **Report to Congress**

## **Progress of the Vessel Scrapping Program**

### **INTRODUCTION**

This report is submitted pursuant to Section 3502 of the Appendix to Public Law 106-398 (the National Defense Authorization Act of 2001) [the Act], which requires periodic reporting on the progress of the program developed for the scrapping of the Maritime Administration's (MARAD) obsolete National Defense Reserve Fleet (NDRF) vessels. This report details MARAD's ship disposal efforts during the one-year period from June 2001 through June 2002. In coordination with the Secretary of the Navy, this Report also includes the progress of the U.S. Navy's vessel scrapping program, as required by the Act.

The Act requires the disposal of all vessels in the NDRF that are not assigned to the Ready Reserve Force or otherwise designated for a specific purpose by September 30, 2006. There are currently over 130 vessels in the NDRF designated as obsolete and available for disposal. In accordance with the Act, MARAD developed a program to accomplish the requirements, using a phased and level-funded approach of predominantly domestic vessel scrapping awards during 2003-2006. However, MARAD does not expect to be able to achieve the requirements of the Act by the statutory deadline of September 30, 2006, with conventional, domestic scrapping as the predominant means of disposal, because no funds were appropriated for the MARAD Ship Disposal Program in FY 2002 and future funding is uncertain. The 2003 President's Budget includes \$11 million for Ship Disposal.

In addition to detailing the accomplishments of the Ship Disposal Program in FY 2001 and to-date in FY 2002, this report describes MARAD's approach to investigating and pursuing more cost-effective strategies to its ship disposal challenge.

## **I. PROGRESS OF MARAD'S VESSEL SCRAPPING PROGRAM**

### **FY 2001 ACCOMPLISHMENTS**

MARAD and the 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 Section 8136 of Public Law 106-259. The criteria were documented in a Memorandum of Agreement dated October 20, 2000. Using the criteria, it was jointly determined that MARAD's NDRF vessels have the greater potential for causing pollution and creating an environmental hazard than the Navy's inventory of inactive ships. The Navy thus determined to transfer, and MARAD agreed to accept, the entire \$10 million appropriated by Section 8136 of the Department of Defense Appropriations Act for FY 2001 (Public Law 106-259) in order to accelerate the disposal of NDRF ships in FY 2001. This

\$10 million has been the sole source of funding to date for disposal of obsolete MARAD NDRF ships and accounted for the award of service contracts for the scrapping of six vessels.

In FY 2001, MARAD contracted with a General Agent to award and manage the disposal of its highest risk ships. MARAD utilized existing staff to provide oversight and plan FY 2003 and out-year vessel disposal activities, and had planned a directly managed program in FY 2002 with dedicated staffing rather than relying on a General Agent. MARAD determines which ships are highest on the disposal list through an evaluation and prioritization process that considers the ships' material condition and potential for damage to the environment from releases of petroleum or of hazardous materials or vessel sinkings. To date, MARAD's General Agent has awarded service contracts for five vessels to ship scrapping contractors. Another vessel was dismantled as a result of a service contract directly awarded by MARAD under an urgent and compelling solicitation.

Of the six vessels under service contracts with \$10 million funding in FY 2001, four have been disposed of and two are in progress at the contractors' facilities. Table "A" shows the total FY 2001 funded contract award amounts for the six vessels at approximately \$8 million. The balance of the \$10 million is allocated for general agent management fees, a reserve for hazardous material remediation overages beyond the hazardous material quantities specified in the disposal contracts, and for audits to ensure proper charges and hazardous material disposal in the current contracts.

In addition to the vessels being disposed of through scrapping service contracts, the disposal of three other vessels was completed in FY 2001. Two vessels (VEGA and EXPORT CHAMPION) were completely scrapped under 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 scrapping services contracts with FY 2001 funds is \$220 with the range being \$163-454, which, although based on a small sample, is comparable to the range estimated in the 2001 Report to Congress of \$240-440 per ton.

## **FY 2002 ACCOMPLISHMENTS AND ACTIVITIES**

MARAD's strategy for FY 2002 and 2003 was to continue to dispose of the highest risk vessels using the most expedient and cost-effective options available, based on an anticipated \$10 million appropriation for ship disposal. Consistent with this strategy, the 2001 Report to Congress, and a briefing provided to industry on April 6, 2001, 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-risk ships via conventional domestic scrapping. Since HR 107-278, of November 8, 2001, did not include funding for disposal of obsolete NDRF vessels in FY 2002, the RFP was not released.

MARAD continues to incur costs associated with remedial activity and vessel condition monitoring of the highest-risk ships through FY 2002. MARAD is covering costs associated with remedial activity from funds normally provided for ship preservation. This cost has averaged approximately \$51,000 per month since the last report. The age of approximately half of the obsolete vessels in MARAD's fleets is 50 years or greater. All of the vessels considered high-risk range in age from 35 to 61 years. Substantially more maintenance is required on the oldest and highest risk vessels with poor hulls. This increase in spending for maintenance of the vessels with the most deterioration reduces the funds available for preservation of the vessels that are in fair condition. The result over time will be that more vessels will fall into the highest risk category more quickly. Neglecting the high priority preservation work increases the likelihood of accelerated hull deterioration on more vessels. MARAD's highest risk ships have known or suspected leaks in the underwater hull requiring a high level of maintenance and monitoring. Despite maintenance and monitoring efforts, hull failures and associated releases of oil will continue to occur and may increase as more ships fall into the high-risk category.

In FY 2002, MARAD continues with the management/oversight of the following disposal activities. The 2002 disposals that are listed as "domestic sales" are a result of sales contracts executed prior to 2000. The disposals that are listed as "scrapping" are a result of FY 2001 funded scrapping service contracts. In either case, the ultimate result is that the ships are disposed of.

- Total Ships disposed of (i.e. scrapping/reefing completed) in FY 2002 to-date:
  - Eight – WASHINGTON (Domestic Sale), E. COMMERCE (Domestic Sale), LYNCH (Scrapping), E. CHALLENGER (Scrapping), CRILLEY (Domestic Sale), CRANDALL (Domestic Sale), WAYNE VICTORY (Scrapping) and SPIEGEL GROVE (Artificial Reefing).
- FY 2001 funded domestic scrapping contracts in progress that will complete in FY 2002: - Two - PATCH (Scrapping) and WOOD COUNTY (Scrapping).
- Two additional artificial reef actions at no cost to the Federal Government:
  - Application review for the transfer of one ship to the State of Texas (TEXAS CLIPPER)
  - Anticipate receipt of another application for ship transfer in FY 2003 from the State of Florida (HOYT VANDENBERG).

Completed and in-progress vessel disposals for FY 2002 are summarized in Table "A" on the following page.

**Table A: FY 2001 and FY 2002 Vessel Disposal Activities**

Vessel Name	Contract Type	FY Funding Source	General Agent Used	Contractor	Destination /Location	Award Date	Estimated Completion Date	Completion Date	Contract Amount \$
SPIEGEL GROVE	Artificial Reef	N/A	N/A	State of Florida	Key Largo, FL	2/27/01	-	5/17/02	0
VEGA	Domestic Sale	N/A	N/A	D&D Steel, Inc.	Brownsville, TX	3/30/99	-	11/9/00	1,000
EXPORT CHAMPION	Domestic Sale	N/A	N/A	Int'l Shipbreaking Ltd.	Brownsville, TX	6/9/98	-	6/13/01	14,000
WASHINGTON	Domestic Sale	N/A	N/A	D&D Steel, Inc.	Brownsville, TX	3/30/99	-	10/11/01	2,000
BUILDER	Scrap Services	01 DOD	N/A	Int'l Shipbreaking Ltd.	Brownsville, TX	12/4/00	-	7/3/01	(1,613,349)
LYNCH	Scrap Services	01 DOD	OSI	D&D Steel, Inc.	Brownsville, TX	8/13/01	-	11/29/01	(544,418)
GEN. A. M. PATCH	Scrap Services	01 DOD	OSI	Esco Marine, Inc.	Brownsville, TX	10/18/01	7/7/02		(2,042,086)
WAYNE VICTORY	Scrap Services	01 DOD	OSI	D&D Steel, Inc.	Brownsville, TX	11/15/01	-	4/1/02	(801,862)
WOOD COUNTY	Scrap Services	01 DOD	OSI	D&D Steel, Inc.	Brownsville, TX	5/29/02	8/30/02		(789,716)
EXPORT CHALLENGER	Scrap Services	01 DOD	OSI	Int'l Shipbreaking Ltd.	Brownsville, TX	7/19/01	-	1/29/02	(2,151,927)
EXPORT COMMERCE	Domestic Sale	N/A	N/A	Esco Marine, Inc.	Brownsville, TX	1/3/00	-	1/12/02	105
CRILLEY	Domestic Sale	N/A	N/A	D&D Steel, Inc	Brownsville, TX	3/30/99	-	4/18/02	500
CRANDALL	Domestic Sale	N/A	N/A	D&D Steel, Inc	Brownsville, TX	3/30/99	-	6/1/02	500

Note: Domestic sale contract amounts are revenues; figures in ( ) are expenditures. Contract amounts may not represent final costs.

In addition to the ship specific actions, MARAD is currently investigating and will continue to pursue every feasible and cost-effective disposal alternative as required by the Congress and Public Law 106-398 (as addressed in the 2001 Report to Congress). Planned actions include the following significant efforts currently underway:

- **Program Research & Development Announcement (PRDA)** - On October 19, 2001, MARAD posted an acquisition Program Research & Development Announcement seeking, from public and private entities, innovative solutions for the disposal of the obsolete vessels by the statutory deadline of September 30, 2006. Proposals that are judged to provide MARAD advantageous and cost-effective disposal solutions through innovations in technology, business structuring, financing, etc. will be pursued. Through this approach, MARAD is seeking innovations and private sector solutions to contain the cost of ship disposal. Through the PRDA approach MARAD will also gain insight into the cost dimension of domestic and international scrapping/recycling markets.

Since there have been some inquiries from companies indicating interest in the purchase of a few select NDRF vessels, MARAD included vessel sales and barter as proposal options under the PRDA. Such sales or barter offers would probably result in the disposal of only a few specific ships containing materials/equipment with a resale value sufficient to offset the scrapping costs and provide a profit. MARAD does not anticipate that the sales for scrapping would result in the disposal of any of our high-risk ships, nor does it anticipate that it will result in the disposal of a large number of ships. Likewise, MARAD does not expect that significant revenue will be generated from such sales. Nevertheless, such sales of lower-risk ships will reduce long-term program costs.

A total of six PRDA proposal submission dates for industry responses were established -- November 2001 and January, April, May, July and September 2002. Of the 17 proposals evaluated thus far, all propose that MARAD pay for direct disposal or related services, none has proposed the purchase of ships and one proposes a barter arrangement. The barter proposal offers the transfer of higher value ships from MARAD to the company in exchange for the disposal of number of lesser value ships. Two proposals involve foreign recycling of ships and are being considered in the joint MARAD/EPA initiative to consider vessel export for recycling through one or more pilot projects.

In addition to the PRDA for vessel disposal, MARAD is considering issuing a PRDA for hazardous material remediation to solicit industry proposals offering economies of scale in remediation efforts to be accomplished prior to vessel disposal. MARAD is also considering all opportunities to utilize recovered assets resulting from defaults in their Title XI program, as potential barter assets that could be exchanged for disposal of obsolete vessels.

- **Artificial Reefs** – MARAD considers the sinking of ships as artificial reefs to be a potential cost-effective method of ship disposal with the additional benefit of creating marine habitat and recreation. The Navy is involved in studies with the Environmental Protection Agency (EPA) to determine the long-term environmental effects of ships used as reefs, and the results of those studies are due in 2002. Also, the Navy has

commissioned a RAND feasibility study of artificial reefing, the completion of which is due to coincide with the Navy/EPA scientific studies. MARAD and the Navy are being kept apprised of the RAND study progress.

MARAD is concurrently working with the EPA, and other Federal agencies including the Coast Guard, Army Corp of Engineers and National Marine Fisheries, for the establishment of national environmental “best management practices” for the cleaning of hazardous materials from ships prior to being sunk as artificial reefs. Establishing such practices will enable MARAD to more accurately estimate costs associated with hazardous material remediation required in preparing vessels for reefing. More accurate estimates will allow valid comparisons to costs associated with other disposal methods. If the resulting cleaning estimates demonstrate artificial reefing is a cost-effective disposal alternative, MARAD will be able to incorporate it as one part of its future disposal strategies and budget requests.

MARAD is also working with the same federal agencies to streamline the application review and approval process for coastal States that request the transfer of ships from MARAD for use as artificial reefs.

Related to these efforts, MARAD has requested a legislative amendment to the Use of Obsolete Vessels as Artificial Reefs – Section 4 of the Act of August 22, 1972 (16 U.S.C. 1220a) to allow the Government to expend appropriated funds to prepare ships for reefing, if it is determined to be a cost-effective method of disposal. The amendment was formally transmitted to Congress in June 2002 in the MARAD Authorization Proposal for FY 2003. MARAD believes the initiatives and proposals described above will result in loosening the constrained demand for ships to be used as artificial reefs.

- **EPA Enforcement Discretion** – MARAD will continue to pursue negotiations with EPA regarding the export of some ships after the removal of all liquid and “readily removable” solid PCBs and after providing notification to importing countries.

Although EPA’s enforcement discretion would remove the largest domestic barrier to overseas recycling, resolution of other external barriers based upon international treaties, agreements, and policies, as well as notification requirements and importing country acceptance, will be jointly pursued by MARAD and the EPA. As progress is made, MARAD will include the Occupational Safety and Health Administration, the State Department, and other applicable agencies in the process at the appropriate time. It is possible that a government-to-government arrangement may be necessary between the U.S. and the importing country, especially in terms of compliance oversight and enforcement of agreed upon environmental standards specific to vessel disposal. Progress in this approach has some potential to dovetail with specific PRDA proposals received thus far and anticipated from companies proposing to recycle ships in foreign countries.

The joint MARAD/EPA vessel export initiative has progressed to the point where two PRDA proposals are currently being evaluated. Discussions are in progress regarding the



procedures and oversight measures that would need to be put in place to allow for the export of ships for recycling and to ensure environmental and worker safety and health issues are addressed responsibly.

- **Other Partnership Initiatives** – MARAD is also investigating partnerships and funding sources (domestic and international) associated with the environmental, safety and training aspects of ship disposal that can be directly translated into concrete benefits to the Ship Disposal Program. The objectives for pursuing these partnerships include:
  - Gaining access to resources (including funding), otherwise not available to the Ship Disposal Program, in order to make progress in the assessment, verification and remediation of hazardous materials contained in the obsolete vessels.
  - Development of educational and training opportunities for the purposes of advancing work force safety and skills related to hazardous material remediation and ship deconstruction/industrial processes in the international and domestic dismantling/recycling industry.
  - Participation of international organizations in MARAD initiatives to raise international ship scrapping/recycling standards.

The main criterion for all partnerships pursued is that MARAD's efforts, related to vessel assessment, hazardous material remediation and/or vessel disposal, have to result in moving MARAD toward its disposal goal. Some of the partnership initiatives currently being pursued include:

- **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 into MARAD's integrated effort to dispose of obsolete ships. GAP's interest is in the development and implementation of universally acceptable standards for safe, environmentally responsible, 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.
- **Department of Labor (DOL)** – Investigating the availability of workforce development funding from the DOL, economic development funding from Department of Housing and Urban Development (HUD) and grant funding from the National Institute for Environmental Health Sciences to support vessel hazard assessment training to be accomplished initially by the Alice Hamilton Occupational Health Center. Such a partnership has the potential to develop accurate estimates of hazardous material quantities for disposal contracts, best management practices for artificial reefing, and the development and implementation of best management practices for ship scrapping and worker and environmental protection.
- **Strategic Environmental Research and Development Program (SERDP-DOD/DOE/EPA)** – MARAD is engaged in meetings with SERDP in pursuit of additional opportunities to make the most effective use of available resources that may be applicable to the ship disposal challenge.

## **CONCLUSIONS**

MARAD is gravely concerned about the environmental threat that currently exists with our highest risk vessels, and with the increasing threat as all obsolete vessels continue to deteriorate. The increased threat was most recently illustrated by an incident in November 2001 when one of MARAD's ships, under tow to a scrapping contractor facility in Texas, began taking on water 12 miles off Miami Beach due to a breach in the underwater hull. Rapid response and emergency repairs of more than \$100,000 prevented a potential sinking, discharge of oil, and negative publicity.

Under existing constraints, it is unlikely that MARAD will be able to dispose of the 130+ obsolete ships by the statutory requirement of September 30, 2006. Nonetheless, 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.

## II. PROGRESS OF THE U.S. NAVY'S VESSEL SCRAPPING PROGRAM

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 updates the progress of the U.S. Navy's vessel scrapping program that was addressed in an August 10, 2001, report released by the Secretary of the Navy to the Senate and House Committees on Appropriations and the Armed Services Committees.

### **FY 2001 ACCOMPLISHMENTS**

Since August 2001, thirteen ships have been completely dismantled and recycled under the Navy's Ship Disposal Project contracts, and task orders for the dismantling of six additional ships have been competitively awarded. Table 1 highlights the status of task orders under four Ship Disposal Project contracts competitively awarded on a best value basis in September 1999.<sup>1</sup>

**Table 1 – Ship Disposal Project Task Order Status**

<b>Ship</b>	<b>Contractor</b>	<b>Awarded</b>	<b>Completed</b>
Blakely (FF 1072)	Metro Machine Corp.	FY99	FY00
Paterson (FF 1061)	Baltimore Marine Ind.	FY99	FY00
Bagley (FF 1069)	International Shipbreaking Ltd.	FY99	FY00
Lockwood (FF 1064)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech)	FY99	FY00
Voge (FF 1047)	Metro Machine Corp.	FY00	FY01
Gray (FF 1054)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech)	FY00	FY01
Cochrane (DDG 21)	International Shipbreaking Ltd.	FY01	FY01
Meyerkord (FF 1058)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech)	FY01	FY01
Lang (FF 1060)	Ship Dismantlement and Recycling Joint Venture (VSE Corp./Earth Tech)	FY01	FY01
Biddle (CG 34)	Metro Machine Corp.	FY01	FY02
Harry E. Yarnell (CG 17)	Metro Machine Corp.	FY01	FY02
Lot of seven minesweepers	Baltimore Marine Ind.	FY01	FY02

<sup>1</sup> 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 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.

Hewitt (DD 966)	International Shipbreaking Ltd.	FY02	In progress
Edward McDonnell (FF 1043)	Metro Machine Corp.	FY02	In progress
Ricketts (DDG 5)	Metro Machine Corp.	FY02	In progress
Coontz (DDG 40)	Metro Machine Corp.	FY02	In progress
Preble (DDG 46)	Metro Machine Corp.	FY02	In progress
Francis Hammond (FF 1067)	International Shipbreaking Ltd.	FY02	In progress

### **FY 2002 ACCOMPLISHMENTS AND PLANNED ACTIVITIES**

Based on funds available, no additional task orders for ship scrapping are planned for the remainder of fiscal year 2002.

In November 2001, Ship Dismantlement and Recycling Joint Venture advised the Navy that it was shutting down its Hunters Point, San Francisco shipyard operations due to the high cost of maintaining a drydock facility dedicated to ship dismantling with no work under contract and insufficient projected future throughput.

In December 2001, Metro Machine Corporation was awarded the Pennsylvania Governor's Award for Environmental Excellence, specifically for its ship dismantling operations in Philadelphia under the Navy's Ship Disposal Project contract.

### **CONCLUSIONS**

The withdrawal of Ship Dismantlement and Recycling Joint Venture from the Ship Disposal Project impedes the availability of competition for west coast lot task orders in fiscal year 2003 and beyond, and will require a change in the Navy's acquisition strategy. Ship Dismantlement and Recycling Joint Venture was the only privately operated facility on the west coast for dismantling of government ships in accordance with strict Federal, State, and local environmental and occupational safety laws and regulations. The establishment of another contractor ship dismantling facility on the west coast, if required or desired, will require new start-up costs to re-establish compliant ship dismantling processes. However, the requirement for another west coast ship dismantling facility will remain questionable without a long term funding stream that supports the award of at least three to four ships per year per facility.

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, and domestic ship scrapping) that are most advantageous to the Navy while also evaluating additional options for ship disposal.