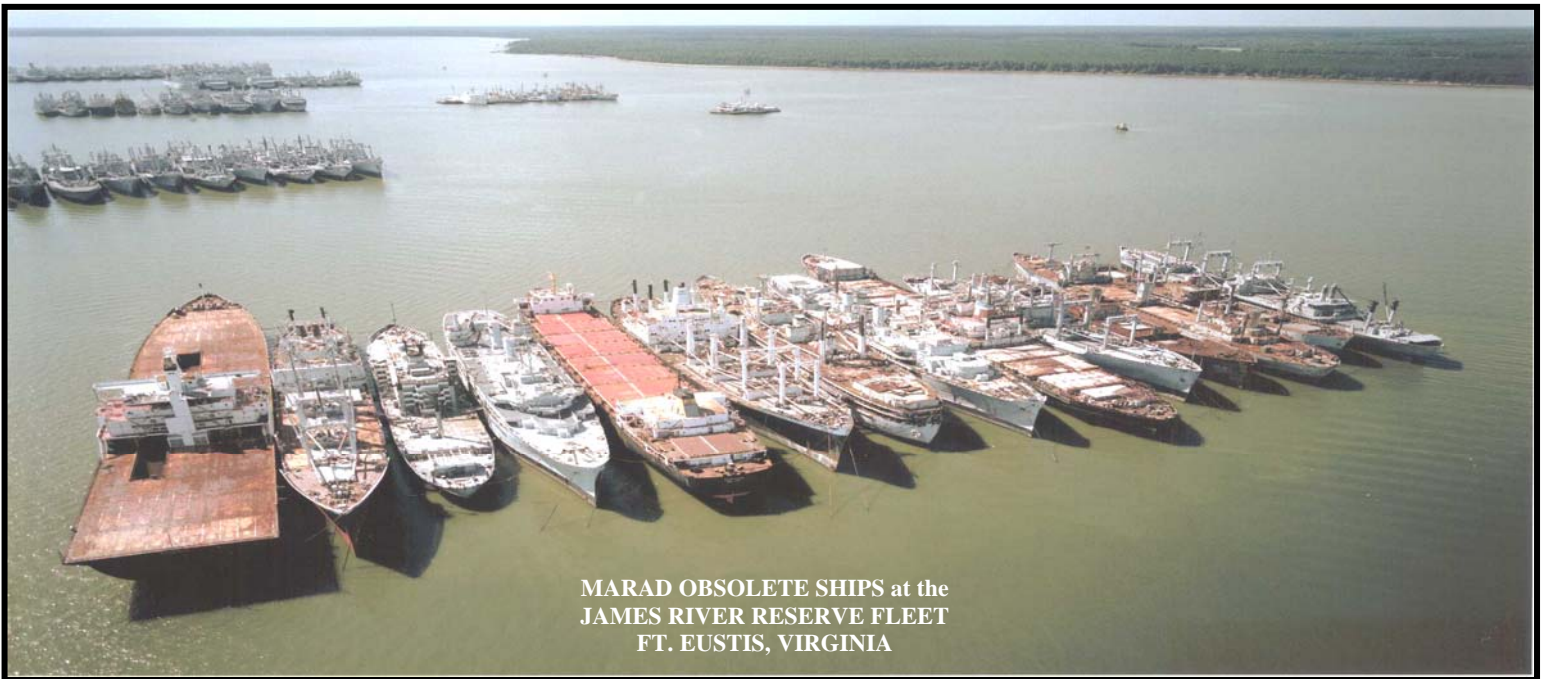


REPORT TO CONGRESS
ON THE PROGRESS OF THE
VESSEL SCRAPPING PROGRAM

February 2002



MARAD OBSOLETE SHIPS at the
JAMES RIVER RESERVE FLEET
FT. EUSTIS, VIRGINIA



U.S. DEPARTMENT OF TRANSPORTATION
MARITIME ADMINISTRATION

Report to Congress On the Progress of the Vessel Scrapping Program

I. Introduction

This report is submitted pursuant to Section 3502 of the Appendix to Public Law 106-398 (the National Defense Authorization Act of 2001) [Act], which requires a report every six months 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 period from June 2001 to the end of January 2002. The Act also requires this report to be made in coordination with the Secretary of the Navy and include the progress of any other scrapping of obsolete Government-owned vessels. To that end, the progress of the U.S. Navy's vessel scrapping program is included in this report.

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 a total of 139 vessels in the NDRF designated as obsolete and available for disposal. The MARAD's approach, as detailed in the June 2001 Report to Congress on the Program for Scrapping Obsolete National Defense Reserve Fleet Vessels (2001 Report to Congress), was to accomplish that requirement with a phased, level-loaded and level-funded approach of vessel scrapping awards during 2003-2006. Fixed price contracts to the private sector for conventional scrapping services were presented as the predominate method of disposal.

A review of MARAD's 2001 Report to Congress confirms that most of the estimates, projections and conclusions presented are still valid. (A copy of the June 2001 Report is attached for reference). However, since no funding was provided for the MARAD Ship Disposal Program in FY 2002, and future funding is uncertain, we do not expect to be able to achieve the requirements of the Act by the statutory deadline of September 30, 2006, with level-funded conventional scrapping as the predominate means of disposal. The 2003 President's Budget includes \$11 million for Ship Disposal. Accordingly, in addition to detailing the accomplishments of the Ship Disposal Program in FY 2001 and to-date in FY 2002, this report will describe MARAD's approach to investigating and pursuing more cost-effective strategies to our ship disposal challenge.

II. FY 2001 Accomplishments

MARAD and the Navy agreed on criteria for selecting ships 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 was 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 our 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 five vessels via service contracts to ship scrapping contractors. Another vessel was dismantled as a result of a service contract awarded under an urgent and compelling solicitation.

Of the six vessels under service contracts with FY 2001 funding, three have been disposed of, two are in progress at the contractors' facilities, and the sixth will begin dismantlement later this spring. Table A below shows the total FY 2001 funded contract amounts for the six vessels at approximately \$8 million. The table also lists the anticipated FY 2002 vessel disposals discussed in Part III of this report. The balance of the \$10 million is allocated for general agent management fees, a reserve for hazardous material remediation 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 service contracts, the disposal of three other vessels was completed in FY 2001. Two vessels were completely scrapped under sales contracts executed by MARAD with domestic ship disposal contractors prior to FY 2001. One ship was transferred in FY 2001 to the State of Florida to be sunk as an artificial reef for the conservation of marine life, and that ship is currently being cleaned in Norfolk, Virginia, under the direction of agents for the State of Florida. The transfer of the ship for use as an artificial reef was accomplished at no cost to the Federal Government.

FY 2001 Summary

- Total Ships removed from the NDRF fleets in FY 2001: Five (5) - BUILDER (Scrapping), EXPORT CHALLENGER (Scrapping), LYNCH (Scrapping), SPIEGEL GROVE (Artificial Reef - title and ship transferred but ship not yet reefed), and WASHINGTON (Domestic Sale).
- Total Ships disposed of (i.e. scrapping completed) in FY 2001: Three (3) - BUILDER (Scrapping), VEGA (Domestic Sale), and EXPORT CHAMPION (Domestic Sale).
- Total Ships awarded scrapping contracts with FY 2001 funds: Six (6) - BUILDER, EXPORT CHALLENGER, LYNCH, GENERAL PATCH, WAYNE VICTORY & LAUDERDALE.

The average cost per ton of the six vessels awarded under scrapping services contracts with FY 2001 funds is \$210 with the range being \$163-458, which, although based on a small sample, is comparable to the range estimated in the 2001 Report to Congress of \$240-440 per ton.

III. FY 2002 Accomplishments and Approaches

MARAD's strategy for FY 2002 and 2003 was to continue to dispose of our 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 scrapping.

Since the Commerce-Justice-State-Judiciary Appropriations Conference Agreement for FY 2002 (HR 107-278), of November 8, 2001, did not include funding for disposal of obsolete NDRF vessels, the release of the RFP for disposal of our highest risk ships in FY 2002 has been delayed, and will not be 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. Priority preservation work has been deferred to provide resources to cover the substantial amount of maintenance required on ships with poor hulls. Neglecting the high priority preservation work increases the likelihood of accelerated hull deterioration. MARAD's highest risk ships have known or suspected leaks in the underwater hull requiring a high level of maintenance and monitoring. It is only a matter of time before there is another significant oil discharge incident or before a vessel sinks, with significant potential liability for the Federal Government.

FY 2002 Activity

Being unable to fund additional vessel disposals in FY 2002, MARAD will continue with the management/oversight of the following disposal activities during 2002:

- Total Ships disposed of (i.e. scrapping completed) in FY 2002 to-date:
 - Four (4) – WASHINGTON (Domestic Sale), E. COMMERCE (Domestic Sale), LYNCH (Scrapping), E. CHALLENGER (Scrapping)
- Three (3) FY 2001 vessel disposal contracts that will continue into the 2nd, 3rd and 4th quarters of FY 2002 (PATCH, WAYNE VICTORY, and LAUDERDALE)
- The bid review, acceptance and closing on one (1) ship which MARAD has legislative authority to sell for limited use purpose (ECKFORD)
- Three (3) artificial reef actions:
 - Completion of the hazmat remediation and preparation of one ship for the State of Florida (SPIEGEL GROVE)
 - 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)
 (Note: Artificial reef disposals are at no cost to the Federal Government)
- Disposal of two (2) additional vessels sold in FY 1999 and 2000 for domestic scrapping, which arrived at the contractor's facility for dismantlement in December 2001 (CRILLEY, CRANDALL)

Table A: FY 2001 and FY 2002 Vessel Disposal Activities

Vessel Name	Contract Type	FY \$ Source	Gen'l Agent Used	Contractor	Destination /Location	Award Date	Est Comp Date	Comp Date	Contract Amount \$
SPIEGEL GROVE	Artificial Reef	N/A	N/A	State of Florida	Key Largo, FL	2/27/01	6/1/02		0
VEGA	Domestic Sale	N/A	N/A	D&D Steel, Inc.	Brownsville, TX	3/30/99	-	11/9/00	1,000
E. 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	6/4/01	-	11/29/01	(544,418)
GEN. A. M. PATCH	Scrap Services	01 DOD	OSI	Esco Marine, Inc.	Brownsville, TX	6/4/01	5/23/02		(2,042,086)
WAYNE VICTORY	Scrap Services	01 DOD	OSI	D&D Steel, Inc.	Brownsville, TX	6/4/01	3/29/02		(801,862)
LAUDERDALE	Scrap Services	01 DOD	OSI	D&D Steel, Inc.	Brownsville, TX	6/4/01	7/30/02		(784,646)
E. CHALLENGER	Scrap Services	01 DOD	OSI	Int'l Shipbreaking Ltd.	Brownsville, TX	6/4/01	-	1/29/02	(2,151,927)
E. 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	4/15/02		500
CRANDALL	Domestic Sale	N/A	N/A	D&D Steel, Inc.	Brownsville, TX	3/30/99	4/15/02		500
ECKFORD	Legislated Sale	N/A	N/A	J. D' Alessio, Co.	N/A	11/30/01	4/01/02		864,250

Note: Sale contract amounts are revenues, figures in () are expenditures. Contract amounts may not represent final costs.

In addition to these 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). Noteworthy ongoing and planned actions include:

- **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. MARAD received nine proposals by the initial response deadline of November 15, 2001. Proposals will be pursued that are judged to provide MARAD advantageous and cost-effective disposal solutions through innovations in technology, business structuring, financing, etc. Through this approach, MARAD is seeking innovations that could justify and support a request for a level of funding to execute proposed disposal solutions. Additional PRDA proposal submission dates were established for January, April and July 2002.
- **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 marine life conservation. 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 for the establishment of national standards for the pre-cleaning of hazardous materials from ships. Establishing national pre-cleaning standards will enable the Navy and 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 pre-cleaning estimates demonstrate artificial reefing is a cost-effective disposal alternative, the Navy and MARAD will be able to incorporate that option in their future disposal strategies and budget requests.

- **Solicitation for Sale of Vessels** – MARAD is issuing a solicitation in 2002 for the sale of NDRF vessels for scrapping. There have been some inquiries from companies indicating interest in the purchase of some selective NDRF vessels. Such a sale would probably result in the disposal of only a few specific ships containing materials/equipment with a level of resale value sufficient to offset the scrapping costs and provide a profit. It is not anticipated that the sales for scrapping would result in the disposal of any of our high-risk ships. However, while the focus is on disposal of high-risk ships, concurrent preventive actions, such as the sale of lower-risk ships, will reduce program costs long-term. Although, any proceeds from such sales would be minimal, it is certainly worthwhile to determine the market for purchase of our ships.
- **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 PRDA proposals received and anticipated from foreign entities.

IV. Conclusions

MARAD is gravely concerned about the environmental threat represented by these vessels, and as well, MARAD doubts that the 133 obsolete ships currently on-hand will be disposed of by the statutory requirement of September 30, 2006. The increased threat was most recently illustrated by an incident in November 2001 where one of our 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 prevented a potential sinking, discharge of oil, and negative publicity at a cost of more than \$100,000.

Nonetheless, MARAD will continue to investigate all alternatives identified in this report 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.

Progress of the U.S. Navy's Vessel Scrapping Program

I. Introduction

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 of Representatives Committees on Appropriations and Armed Services.

II. FY 2001 Accomplishments

In August 2001, Ship Dismantlement and Recycling Joint Venture completed the dismantlement and recycling of ex-Gray (FF 1054), and in September 2001 completed the ex-Meyerkord (FF 1058) and ex-Lang (FF 1060) in San Francisco, CA. Also in September 2001, International Shipbreaking Ltd. completed the dismantlement and recycling of ex-Cochrane (DDG 21) in Brownsville, TX. As of December 28, 2001, Metro Machine Corp. is nearing completion of the dismantlement and recycling of ex-Biddle (CG 34) and ex-Harry E. Yarnell (CG 17) in Philadelphia, PA; while Baltimore Marine Industries is nearing completion of the dismantlement and recycling of seven minesweepers in Baltimore, MD. Table 1 highlights the status of task orders under four Ship Disposal Project contracts competitively awarded on a best value basis in September 1999.¹

Table 1 – Ship Disposal Project Task Order Status

Ship	Contractor	Awarded	Completed
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	In progress
Harry E. Yarnell (CG 17)	Metro Machine Corp.	FY01	In progress
Lot of 7 minesweepers	Baltimore Marine Ind.	FY01	In progress
Hewitt (DD 966)	International Shipbreaking Ltd.	FY02	In progress
Edward McDonnell (FF 1043)	Metro Machine Corp.	FY02	In progress
Claude V. Ricketts (DDG 5)	Metro Machine Corp.	FY02	In progress

¹ 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.

III. FY 2002 Accomplishments and Approaches

In October 2001, a task order was competitively awarded to International Shipbreaking Ltd., for the dismantlement and recycling of ex-Hewitt (DD 966); and in December 2001, task orders were competitively awarded to Metro Machine Corp. for the dismantlement and recycling of ex-Edward McDonnell (FF 1043) and ex-Claude V. Ricketts (DDG 5). Based on budgeted funds, the Navy anticipates the award of only two additional ships in fiscal year 2002 for scrapping.

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 Corp. 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.

IV. 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 U.S. 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.