

STATEMENT

OF

CAPTAIN WARREN G. LEBACK
MARITIME ADMINISTRATOR

ON

BEHALF OF

THE

MARITIME ADMINISTRATION
DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES,
AN ENERGY OF THE HOUSE COMMITTEE ON
SMALL BUSINESS

ON

BUSINESS OPPORTUNITIES FOR SMALL SALVAGE COMPANIES

JUNE 4, 1990

STATEMENT OF WARREN G. LEBACK, MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES, AND ENERGY OF THE HOUSE COMMITTEE ON SMALL BUSINESS ON BUSINESS OPPORTUNITIES FOR SMALL SALVAGE COMPANIES.

JUNE 4, 1990

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES, AND ENERGY, MY NAME IS WARREN LEBACK. I AM THE MARITIME ADMINISTRATOR IN THE DEPARTMENT OF TRANSPORTATION, AND I APPEAR BEFORE YOU THIS MORNING AS YOU BEGIN HEARINGS ON MATTERS RELATING TO BUSINESS OPPORTUNITIES FOR SMALL SALVAGE COMPANIES. WITH ME TODAY ARE MICHAEL DELPERCIO, CHIEF OF OUR OFFICE OF SHIP OPERATIONS, AND JON KASKIN, DIRECTOR OF STRATEGIC SEALIFT FOR THE CHIEF OF NAVAL OPERATIONS. MR. KASKIN IS HERE IN HIS CAPACITY AS THE OFFICIAL REPRESENTATIVE OF THE U.S. NAVY AT THIS HEARING.

PROVIDING ASSISTANCE TO SMALL BUSINESS IS THE JURISDICTION OF THIS COMMITTEE, AND YOUR INTEREST IN THE NATIONAL DEFENSE RESERVE FLEET (NDRF) IS FROM THIS PERSPECTIVE. IN YOUR INVITATION TO TESTIFY TODAY, YOU EXPRESSED CONCERN ABOUT THE DEGREE TO WHICH THE MARITIME ADMINISTRATION (MARAD) MAKES AVAILABLE SURPLUS NDRF ASSETS TO DOMESTIC COMPANIES FOR SCRAPPING AND SALVAGE; THE VALUE OF THESE ASSETS TO AMERICAN SALVAGERS; THE ECONOMIC IMPACT OF ACCELERATED SCRAPPING, INCLUDING THE POSSIBILITY OF INCREASED REVENUES TO THE TREASURY; AND THE DEGREE TO WHICH THE NDRF HAS BEEN PROPERLY MAINTAINED.

WITH YOUR PERMISSION, MR. CHAIRMAN, THE ANSWERS TO THE SPECIFIC QUESTIONS YOU SUBMITTED ARE ATTACHED TO MY STATEMENT FOR INCLUSION IN THE RECORD OF THIS HEARING.

AS MARITIME ADMINISTRATOR, I AM CHARGED WITH THE DEVELOPMENT AND MAINTENANCE OF A UNITED STATES MERCHANT MARINE SUFFICIENT FOR OUR DOMESTIC AND FOREIGN COMMERCE, AND -- VERY IMPORTANTLY -- THAT IS ALSO CAPABLE OF SERVING AS A NAVAL AND MILITARY AUXILIARY IN TIME OF WAR OR NATIONAL EMERGENCY. THESE REQUIREMENTS ARE CONTAINED IN THE MERCHANT MARINE ACT, 1936, AS AMENDED (46 APP. U.S.C. 1101). IN ADDITION, THE PRESIDENT'S NATIONAL SECURITY SEALIFT POLICY, SIGNED ON OCTOBER 5, 1989, MAKES THE DEPARTMENT OF DEFENSE (DOD) RESPONSIBLE FOR DETERMINING THE REQUIREMENTS FOR SEALIFT OF DEPLOYING FORCES, FOLLOW-ON SUPPLY AND SUSTAINMENT. HOWEVER, MARAD IS RESPONSIBLE FOR MEETING THESE REQUIREMENTS THROUGH PROMOTION OF AN ACTIVE MERCHANT MARINE AND THE MAINTENANCE OF A VIABLE RESERVE FLEET. PROGRESS IS SUBJECT TO REVIEW BY THE NATIONAL SECURITY COUNCIL. ANY INCREASE OR DECREASE IN NDRF ASSETS MUST BE CONSISTENT WITH THE DOD ESTIMATES OF SEALIFT REQUIREMENTS.

WITH YOUR PERMISSION, I WOULD LIKE TO SUBMIT FOR THE RECORD A MAY 29TH LETTER FROM VICE ADMIRAL PAPPAS, DIRECTOR FOR LOGISTICS FOR THE JOINT CHIEFS OF STAFF, STATING THAT:

"IN SPITE OF RECENT CHANGES IN EUROPE, OUR REQUIREMENT TO BE CAPABLE OF DEPLOYING A MULTI-DIVISIONAL FORCE TO SUPPORT A MAJOR REGIONAL OPERATION WITHOUT ALLIED ASSISTANCE REMAINS. SUCH A DEPLOYMENT REQUIRES A LARGE NUMBER OF SHIPS CAPABLE OF CARRYING UNIT EQUIPMENT THAT CANNOT FIT INTO THE CONTAINERSHIPS THAT PREDOMINATE IN TODAY'S U.S. MERCHANT MARINE. CONSEQUENTLY, WE MUST DEPEND PRIMARILY ON THE NDRF,

ESPECIALLY THE READY RESERVE FORCE (RRF) COMPONENT, TO PROVIDE THE MAJORITY OF THE NECESSARY UNIT EQUIPMENT SHIPPING."

MR. CHAIRMAN, I UNDERSTAND ONE OF YOUR SUBCOMMITTEE'S PURPOSES IS TO PROVIDE SMALL BUSINESS WITH ACCESS TO GOVERNMENT PROGRAMS. IN THIS CASE, THE NDRF IS THE PROGRAM IN QUESTION, SPECIFICALLY, HOW THE GOVERNMENT DISPOSES OF ITS ASSETS, THE SHIPS, UNDER EXISTING STATUTES. AGAIN, IN YOUR LETTER OF INVITATION, THE ISSUE IS RAISED WHETHER MARAD SHOULD MAKE "SURPLUS FLEET ASSETS" AVAILABLE FOR STRIPPING OR SCRAPPING BY DOMESTIC SALVAGE COMPANIES. THIS WOULD REQUIRE MARAD TO SELL THESE ASSETS IN A RESTRICTED, DOMESTIC MARKET AT LESS THAN THE WORLD MARKET PRICE. IN MY VIEW, THIS PLAN ALSO ASSUMES THAT A SIGNIFICANT SURPLUS FLEET EXISTS THAT IS AVAILABLE FOR DISPOSAL. MR. CHAIRMAN, AS THE AGENCY RESPONSIBLE FOR UPGRADING THE NDRF BY EXCHANGING THE LIMITED NUMBER OF SHIPS IN THE FLEET FOR NEWER SHIPS AS THEY BECOME AVAILABLE, MARAD HAS A RESPONSIBILITY TO OBTAIN THE HIGHEST POSSIBLE RETURN ON THESE GOVERNMENT ASSETS -- WHETHER IN A DOMESTIC MARKET OR FOREIGN MARKET. THEREIN LIES THE APPARENT CONFLICT BETWEEN THE GOALS OF YOUR SUBCOMMITTEE AND MARAD. HOW TO RESOLVE THIS APPARENT CONFLICT IS THE REAL ISSUE BEFORE US. I WOULD ALSO LIKE TO ADD THAT IT IS THE TRADE POLICY OF THE UNITED STATES TO PROMOTE SOLE AND UNRESTRICTED COMPETITION WITHOUT NATIONAL BARRIERS.

I WILL POINT OUT THAT WE SHARE THE COMMITTEE'S INTEREST IN SUPPORTING THE SMALL BUSINESS COMMUNITY. MARAD HAS AN OUTSTANDING RECORD OF CONSISTENTLY DIRECTING A LARGE PORTION OF

ITS CONTRACT DOLLARS TO SMALL BUSINESSES. FOR EXAMPLE, JUST OVER THE PAST YEAR AND A HALF, MARAD HAS AWARDED, FOR ITS NDRF AND RRF SHIP UPGRADES, AND MAINTENANCE AND REPAIR PROGRAM, A TOTAL OF 962 CONTRACTS TO SMALL BUSINESSES, TOTALING \$112 MILLION. THIS REPRESENTS 41 PERCENT OF THE TOTAL OBLIGATED PROGRAM FUNDING OVER THE SAME PERIOD BEING DIRECTED SPECIFICALLY TO SMALL BUSINESSES.

ALTHOUGH THE UNITED STATES HAS HISTORICALLY BEEN A MAJOR SEAFARING NATION AND DEPENDENT UPON OCEAN TRANSPORTATION FOR COMMERCE AND DEFENSE, OUR PRIVATELY OWNED MERCHANT MARINE AND ASSOCIATED SHIPBUILDING INDUSTRIES HAVE BEEN IN A STEADY DECLINE SINCE THE EARLY 1900'S. TWO EXCEPTIONS TO THIS DECLINE WERE THE PERIODS DURING WORLD WARS I AND II, WHEN THE NATION'S INDUSTRIES RALLIED TO THE NEED FOR SEALIFT TO ACHIEVE VICTORY.

THE MERCHANT SHIP SALES ACT OF 1946, AMONG OTHER THINGS, CREATED A GOVERNMENT OWNED AND ADMINISTERED FLEET OF WAR-BUILT, INACTIVE BUT POTENTIALLY USEFUL SHIPS. THIS RESERVE FLEET WAS CREATED TO PROVIDE A SURGE CAPABILITY TO MEET THE SHIPPING REQUIREMENTS WHICH COULD ARISE DURING NATIONAL EMERGENCIES, AND IT CONTINUES TO DO SO. UNDER CERTAIN PROVISIONS OF THAT ACT, THE MARITIME ADMINISTRATION PLACES IN RESERVE FOR THE NATIONAL DEFENSE THOSE SHIPS IT, AFTER CONSULTATION WITH THE SECRETARY OF THE NAVY, DEEMS APPROPRIATE TO RETAIN FOR THE NATIONAL DEFENSE. THAT ACT FURTHER PROVIDES THAT THE SHIPS IN THE RESERVE FLEET BE PRESERVED AND MAINTAINED BY MARAD FOR THE PURPOSES OF ACTIVATION TO MEET NATIONAL EMERGENCIES.

THE NDRF HAS THREE DISTINCT CATEGORIES OF SHIPS -- (1) THE

96 READY RESERVE FORCE (RRF) SHIPS, DEPLOYED AROUND THE UNITED STATES AND KEPT IN A STATE OF 5, 10, AND 20-DAY READINESS; (2) 122 VESSELS THAT ARE CONSIDERED MILITARILY USEFUL AND ARE RETAINED; AND (3) THE REMAINING 17 SHIPS SLATED FOR DISPOSAL. IT SHOULD BE NOTED THAT THE NUMBER OF THESE NON-RETENTION SHIPS IS AT AN ALL-TIME LOW. WE ARE LIMITING OUR DISCUSSION TO THE NDRF VESSELS TO WHICH MARAD HAS TITLE. THERE ARE ALSO 51 NAVY SHIPS WHICH ARE NOT PART OF THE NDRF, BUT ARE MOORED AT NDRF SITES.

THE RRF COMPONENT OF THE NDRF WAS ESTABLISHED IN 1976 IN RESPONSE TO THE DECLINE IN THE U.S.-FLAG MERCHANT FLEET. THE RRF CONSISTS OF A VARIETY OF MILITARILY USEFUL MERCHANT VESSELS KEPT IN AN ADVANCED READINESS STATUS UNDER MARAD CONTROL. THE SHIPS ARE MAINTAINED SO THAT THEY CAN BE ACTIVATED FOR OPERATION IN 5, 10, OR 20 DAYS AT PRE-DESIGNATED SHIPYARDS, REPAIR FACILITIES, OR OUTPORT BERTHS, WITHOUT DRYDOCKING. THE RRF CURRENTLY INCLUDES 75 CARGO SHIPS, 11 TANKERS, 8 CRANE SHIPS, AND 2 TROOPSHIPS.

SINCE BECOMING MARITIME ADMINISTRATOR IN OCTOBER, 1989, I HAVE BEEN MAKING INSPECTIONS OF THE NDRF AND RRF SHIPS TO UPDATE MYSELF ON THEIR CONDITION SINCE I LEFT MARAD AS DEPUTY ADMINISTRATOR IN 1984. THE DEPARTMENT'S INSPECTOR GENERAL IS CURRENTLY LOOKING AT THE RRF.

OUR MAINTENANCE AND READINESS EFFORT OBVIOUSLY IS FOCUSED ON THE RRF COMPONENT, BUT I MUST POINT OUT THAT THE OTHER MILITARILY USEFUL NDRF SHIPS HAVE BEEN BROKEN-OUT DURING SEVERAL PAST NATIONAL EMERGENCIES AND HAVE PERFORMED WELL. WE TAKE THE MANAGEMENT OF THE NDRF VERY SERIOUSLY. WE WORK QUITE CLOSELY

WITH THE NAVY, THE JOINT CHIEFS OF STAFF, AND DOD ON SEALIFT AND MAINTENANCE AND READINESS ISSUES.

AS FOR THE OVERALL NDRF, I AGREE THAT THE OUTWARD APPEARANCE OF MANY NDRF SHIPS IS POOR TO A VISITOR. BUT THE INTERIORS OF NDRF RETENTION SHIPS, INCLUDING ALL THEIR MACHINERY, ARE UNDER DEHUMIDIFICATION AND THEIR HULLS ARE UNDER CATHODIC PROTECTION, WHICH PREVENTS DETERIORATION. OTHER EXTERIOR MAINTENANCE IS PERFORMED TO PERMIT TIMELY ACTIVATION WHEN REQUIRED. IF GOVERNMENT FUNDS WERE BEING SPENT ON EXTERIOR COSMETICS, THERE WOULD, IN FACT, BE GROUNDS FOR CONCERN ABOUT THE BEST USE OF LIMITED GOVERNMENT FUNDS.

DUE TO EXISTING BUGETARY CONSTRAINTS, THERE IS ONLY ONE MEANS READILY AVAILABLE TO THE MARITIME ADMINISTRATOR TO UPGRADE THE ESSENTIAL NDRF RESERVE RESOURCES WHICH HAVE SERVED THE NATION SO EFFECTIVELY IN THE PAST. THIS IS THE AUTHORITY PROVIDED IN SECTION 510(i) OF THE MERCHANT MARINE ACT OF 1936, AS AMENDED.

SECTION 510(i), AMENDED IN 1977, AUTHORIZES THE SECRETARY OF TRANSPORTATION TO ACQUIRE "SUITABLE VESSELS ... IN EXCHANGE FOR OBSOLETE VESSELS IN THE NDRF" AT THEIR RESPECTIVE SCRAP VALUES. IN SECTION 510(i), A SIMULTANEOUS EXCHANGE OF TITLES OF THE "TRADE-IN" AND "TRADE-OUT" SHIPS IS REQUIRED. THIS REQUIREMENT FOR SIMULTANEOUS EXCHANGE DOES NOT FULLY MAXIMIZE THE RETURN TO THE GOVERNMENT. FOR THIS REASON, THE ADMINISTRATION HAS PROPOSED AN AMENDMENT TO THE 510(i) PROGRAM. AT OUR REQUEST, THE HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES HAS ADDED THIS AMENDMENT TO THE MARAD AUTHORIZATION BILL FOR FISCAL YEAR 1991,

H.R. 4205. IF ENACTED, THIS PROVISION WOULD AUTHORIZE THE SECRETARY TO SELL NON-RETENTION NDRF VESSELS FOR SCRAP WHEN SCRAP PRICES ARE HIGH, AND USE THE FUNDS AT THE MOST OPPORTUNE TIME TO ACQUIRE SUITABLE, MILITARILY USEFUL VESSELS FOR THE NDRF. THIS AUTHORITY WOULD GIVE THE SECRETARY THE NEEDED FLEXIBILITY TO RENEW THE NDRF AT THE MOST ADVANTAGEOUS COST TO THE GOVERNMENT.

SINCE IT WAS ENACTED, THE SECTION 510(i) EXCHANGE PROGRAM HAS BEEN A PRIMARY METHOD USED TO ACQUIRE NEWER SHIPS FOR THE NDRF, AS WELL AS DISPOSE OF OLDER SHIPS. 163 VESSELS HAVE GONE OUT UNDER SECTION 510(i) IN THE LAST 10 YEARS. THESE 163 VESSELS PROVIDED THE CURRENCY USED TO OBTAIN 47 NEWER AND MORE USEFUL VESSELS. THE SECRETARY AND I CONSIDER THE EXCHANGE PROGRAM UNDER SECTION 510(i) A PRIORITY DISPOSAL MEANS DUE TO THE CRITICAL NEED TO BRING NEW SUITABLE SEALIFT ASSETS INTO THE NDRF.

PRIOR TO THE 510(i) EXCHANGE PROGRAM, THE ONLY LAW PERMITTING DISPOSAL WAS SECTION 508 OF THE 1936 ACT. UNDER SECTION 508, THE SECRETARY OF TRANSPORTATION IS AUTHORIZED TO SELL OR SCRAP NDRF VESSELS WHEN DEEMED TO HAVE INSUFFICIENT VALUE FOR COMMERCIAL OR MILITARY OPERATION TO WARRANT FURTHER PRESERVATION. THESE SCRAP CANDIDATES FROM THE NDRF ARE DISPOSED OF THROUGH DIRECT SALE FOR SCRAPPING OR NON-TRANSPORTATION PURPOSES.

FEWER THAN 30 VESSELS HAVE BEEN DISPOSED OF UNDER SECTION 508 IN THE LAST TEN YEARS. ONLY TWO SHIPS HAVE BEEN DISPOSED OF UNDER THIS SECTION IN THE LAST SEVEN YEARS.

MANY OF THESE VESSELS WERE SOLD TO U.S. CITIZENS FOR NON-TRANSPORTATION PURPOSES WITH THE CONDITION THAT THE VESSELS ULTIMATELY BE SCRAPPED DOMESTICALLY. HOWEVER, LIMITED SHIPBREAKING CAPABILITY IN THE UNITED STATES CAUSED MARAD TO OPEN UP SECTION 508 DISPOSALS TO SCRAPPING IN FOREIGN COUNTRIES.

DURING THE 1980'S, FOR EXAMPLE, APPROVALS PREVIOUSLY GRANTED FOR SCRAPPING OR NON-TRANSPORTATION USE IN THIS COUNTRY WERE MODIFIED TO PERMIT RESALE FOR SCRAPPING IN FOREIGN AREAS DUE TO THE ABSENCE OF SHIPBREAKING ACTIVITIES DOMESTICALLY. POTENTIAL DOMESTIC BUYERS SIMPLY WERE NOT ABLE TO FIND FACILITIES INTERESTED IN SCRAPPING THESE SHIPS.

CONGRESS RECOGNIZED THIS IN MAY 1986, WHEN LANGUAGE WAS INCLUDED IN AN ACT TO MAKE MISCELLANEOUS CHANGES IN LAWS AFFECTING THE COAST GUARD THAT EXPRESSLY PERMITTED A DOMESTIC OWNER TO SCRAP THREE U.S. FLAG VESSELS IN A FOREIGN COUNTRY BECAUSE OF THE OWNER'S INABILITY TO PLACE THESE VESSELS IN FISHERIES OPERATION AND SUBSEQUENT DECISION TO SCRAP FOREIGN. SINCE MANY OLDER VESSELS CONTAIN HAZARDOUS MATERIALS, THERE ARE SERIOUS ENVIRONMENTAL PROBLEMS INVOLVING ASBESTOS, LEAD PAINT, AND PCB'S, WHICH ARE FACTORS WORKING AGAINST U.S. SHIPBREAKERS.

I SHOULD MENTION ONE OTHER VESSEL DISPOSAL PROGRAM. PROVISIONS OF LAW (16 U.S.C. 1220-1220d) AUTHORIZE THE SECRETARY OF TRANSPORTATION TO TRANSFER OBSOLETE VESSELS FROM THE NON-RETENTION CATEGORY TO A STATE FOR USE AS AN OFFSHORE ARTIFICIAL REEF FOR THE CONSERVATION OF MARINE LIFE. UNDER THE LAW, THE STATE MUST TAKE DELIVERY OF A DESIGNATED VESSEL AT THE NDRF SITE

IN AN "AS IS--WHERE IS" CONDITION. THIS LAW IS INTENDED TO PROVIDE THE STATE TAKING TRANSFER OF SUCH A VESSEL WITH A SOURCE OF REVENUE FROM STRIPPING TO PAY THE COSTS ASSOCIATED WITH TOWING THE VESSEL AND PREPARING IT FOR SINKING. THEREFORE, THE SECRETARY IS NOT AUTHORIZED TO STRIP THESE VESSELS OF SALVAGEABLE MATERIALS. SINCE ENACTMENT OF THE LAW IN 1972, 51 SHIPS HAVE BEEN TRANSFERRED TO STATES FOR USE AS ARTIFICIAL REEFS.

MR. CHAIRMAN, IF ALL NON-RRF, RETENTION VESSELS WERE SCRAPPED AT THE CURRENT, ESTIMATED WORLD MARKET SCRAP PRICE OF BETWEEN \$130 AND \$145 PER TON, THE ENTIRE NET RETURN TO THE GOVERNMENT OF BETWEEN \$97 AND \$109 MILLION WOULD BE LESS THAN THE REPLACEMENT COST OF THREE VESSELS. THE ANNUAL NDRF BUDGET IS CONSISTENTLY AROUND \$7 MILLION. THIS INCLUDES ABOUT \$14,000 PER SHIP FOR DIRECT MAINTENANCE OF NON-RRF VESSELS IN THE NDRF, AS WELL AS GENERAL MANAGEMENT AND SUPPORT ACTIVITIES FOR THE ENTIRE FLEET. THESE AMOUNTS REPRESENT A MODEST EXPENDITURE TO PROVIDE THE NECESSARY MILITARY SEALIFT CAPACITY. ALSO, IN A WARTIME OR OTHER EMERGENCY SITUATION, IT WOULD PROVE EXTRAORDINARILY DIFFICULT TO PROVIDE THIS NUMBER OF SHIPS IN A TIMELY MANNER AND IN ANY OTHER WAY.

IN SUMMARY, I HAVE OUTLINED THE IMPORTANCE OF THE NDRF TO THIS COUNTRY AS THE NATIONAL DEFENSE SEALIFT ASSET THAT IT REPRESENTS. WE HAVE STEADILY REDUCED THE SIZE OF THE NDRF AS WE HAVE TRADED OUT SEVERAL OLDER SHIPS FOR EACH NEWER ONE, AND AS OTHER NON-RETENTION SHIPS HAVE BEEN AWARDED TO STATES AS ARTIFICIAL REEFS AND STILL OTHERS SOLD FOR SCRAP AFTER BEING

DECLARED OBSOLETE. THE NUMBER OF NON-RETENTION SHIPS IS NOW AT AN ALL-TIME LOW.

THE DISPOSAL OF OBSOLETE SHIPS IS ACHIEVED THROUGH SECTION 508, SECTION 510(i), AND AS TRANSFERS TO STATES FOR ARTIFICIAL REEFS. THESE ARE ALL PUBLIC TRANSACTIONS. THE DISPOSALS, WHICH ARE THROUGH EITHER SOLICITATION OR INVITATION FOR BID PROCEDURES, ARE IN ACCORDANCE WITH FEDERAL DISPOSAL PROCEDURES, AND ARE FULLY OPEN TO DOMESTIC INTERESTS. THE NET VALUE OF THE SALVAGE PARTS AND MATERIALS ABOARD ANY ADVERTISED SHIP IS REFLECTED IN THE SCRAP PRICE BID FOR THE WHOLE SHIP.

THE LIMITED NUMBER OF REMAINING OBSOLETE NDRF ASSETS AND THE CONSEQUENTLY LIMITED AMOUNT OF SCRAP TONNAGE MEAN THAT THE NUMBER OF DISPOSALS WILL BE FAR LESS THAN IN PREVIOUS YEARS. IN SHORT, THERE WILL BE NO SIGNIFICANT SURPLUS FLEET ASSETS AVAILABLE. WE WILL ADVERTISE SUCH DISPOSALS IN THE COMMERCE BUSINESS DAILY AS WE HAVE IN THE PAST, AND NOTIFY ALL THOSE, BOTH DOMESTIC AND FOREIGN, WHO HAVE REQUESTED THAT THEY BE PUT ON THE BIDDERS LIST. MARAD HAS A RESPONSIBILITY TO OBTAIN THE GREATEST POSSIBLE RETURN IN ORDER TO REPLENISH THE RESERVE FLEET.

I MUST MAKE ONE FINAL COMMENT. I EMPHATICALLY DISAGREE WITH ANY SUGGESTION THAT THERE IS WIDESPREAD THEFT ABOARD NDRF SHIPS. MOST OF THESE SHIPS ARE LOCATED AT THREE FLEET SITES AND ARE WELL SECURED WITH ACCESS ALLOWED ONLY FOR MAINTENANCE AND PERIODIC INSPECTION. SECURITY MEASURES ARE ALSO TAKEN WHEN SHIPS ARE OUTPORTED TO PROTECT THESE NATIONAL DEFENSE ASSETS.

I RECOGNIZE THAT MEMBERS OF THIS SUBCOMMITTEE HAVE BEEN INTERESTED IN HAVING AN OUTSIDE GROUP VISIT THE SHIPS WITHIN THE NDRF. WE ARE, AT YOUR REQUEST, WORKING WITH "CITIZENS AGAINST GOVERNMENT WASTE" TO REVIEW THEIR INTEREST AND CONCERNS.

WHILE WE IN MARAD HAVE LITTLE EXPERIENCE WITH PARTIALLY STRIPPING SHIPS PRIOR TO SCRAP DISPOSAL, I AM FULLY AWARE OF THE NAVY'S TEST OR PILOT PROGRAM. I WOULD DEFER TO THE NAVY AS TO THE RESULTS OF THIS PROGRAM TO MAKE NAVY SHIPS AVAILABLE TO SALVAGERS PRIOR TO SINKING THEM AS TARGETS. IT IS MY OPINION THAT, IN THE CASE OF OUR DISPOSALS, SINCE WE ADVERTISE THEM AND INVITE PROSPECTIVE BIDDERS TO CONDUCT WALK-OVER INSPECTIONS, PARTIAL STRIPPING LIMITED TO U.S. SALVAGERS WOULD LOWER FINAL SCRAP BIDS AND RESULT IN LESS NET RETURN TO THE GOVERNMENT AND A DEGRADATION OF NATIONAL SEALIFT ASSETS.

THE DOMESTIC SHIPBREAKING INDUSTRY, WHICH DECLINED SIGNIFICANTLY IN THE 1970'S AND IS NOW VIRTUALLY NON-EXISTENT, CANNOT LOOK TO OBSOLETE NDRF VESSELS FOR ITS LIVELIHOOD. THE NDRF DOES NOT HAVE THE TONNAGE THAT IT USED TO HAVE; IT IS A SHRINKING POOL. WE ARE CERTAINLY AT A LOW POINT IN TERMS OF SCRAP TONNAGE.

MR. CHAIRMAN, THAT CONCLUDES MY STATEMENT. I WILL BE GLAD TO ANSWER ANY FURTHER QUESTIONS THAT YOU OR THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE.