

STATEMENT
OF
DR. ROBERT MARTINEZ
DEPUTY MARITIME ADMINISTRATOR
ON
BEHALF OF
THE
MARITIME ADMINISTRATION
DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE
OF THE HOUSE MERCHANT MARINE AND
FISHERIES COMMITTEE

ON

H.R. 5118, THE SURPLUS VESSEL ACT OF 1990

SEPTEMBER 10, 1990

STATEMENT OF DR. ROBERT MARTINEZ, DEPUTY MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE OF THE HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE ON H.R. 5118, THE SURPLUS VESSEL ACT OF 1990, A BILL TO DEEM CERTAIN NATIONAL DEFENSE RESERVE VESSELS SURPLUS PROPERTY, TO DIRECT THE ADMINISTRATOR OF GENERAL SERVICES TO DISPOSE OF THOSE VESSELS BY SELLING THEM FOR SCRAPPING IN THE UNITED STATES, AND FOR OTHER PURPOSES.

SEPTEMBER 10, 1990

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON MERCHANT MARINE MY NAME IS ROBERT MARTINEZ. I AM THE DEPUTY MARITIME ADMINISTRATOR IN THE DEPARTMENT OF TRANSPORTATION. WITH ME TODAY ARE CAPTAIN MICHAEL DELPERCIO, CHIEF OF OUR OFFICE OF SHIP OPERATIONS, ROBERT H. MOORE, DIRECTOR FOR TRANSPORTATION POLICY, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR PRODUCTION AND LOGISTICS, WHO IS HERE IN HIS CAPACITY AS THE OFFICIAL REPRESENTATIVE OF THE DEPARTMENT OF DEFENSE, AND VICE ADMIRAL STANLEY R. ARTHUR, DEPUTY CHIEF OF NAVAL OPERATIONS FOR LOGISTICS, WHO IS HERE IN HIS CAPACITY AS THE OFFICIAL REPRESENTATIVE OF THE U.S. NAVY AT THIS HEARING.

H.R. 5118 WOULD REQUIRE THE DOMESTIC SCRAPPING OF APPROXIMATELY 100 VESSELS CONSTRUCTED BEFORE JANUARY 1, 1946, NOW HELD IN THE NATIONAL DEFENSE RESERVE FLEET (NDRF), AS AUTHORIZED BY SECTION 11 OF THE MERCHANT SHIP SALES ACT OF 1946.

THE ADMINISTRATION STRONGLY OBJECTS TO H.R. 5118 BECAUSE, PRIOR TO THE COMPLETION OF AN ONGOING GENERAL ACCOUNTING OFFICE STUDY OF THE NDRF, THE BILL WOULD MANDATE A DOMESTIC SCRAPPING OF VESSELS AND WOULD HAVE AN IMPACT ON OUR NATIONAL DEFENSE BY

QUICKLY DESTROYING A COMPONENT OF THIS NATION'S RESERVE SEALIFT CAPABILITY WITHOUT PROVIDING ANY REPLACEMENT ALTERNATIVE.

MARAD HAS IN ITS CUSTODY 328 VESSELS OF WHICH 236 COMPRISE THE NDRF. THE NDRF HAS THREE DISTINCT CATEGORIES OF MARITIME ADMINISTRATION-OWNED SHIPS. AS OF AUGUST 31, 1990, THESE WERE:

A. THE 96 READY RESERVE FORCE (RRF) VESSELS, BERTHED AROUND THE UNITED STATES AND KEPT IN A STATE OF 5, 10, AND 20-DAY READINESS. GENERALLY, APPROPRIATED FUNDS ARE USED TO ACQUIRE AND MAINTAIN RRF VESSELS. SO FAR 41 (AS OF AUGUST 31) OF THESE VESSELS HAVE BEEN CALLED FOR ACTIVATION TO TRANSPORT MATERIAL TO SUPPORT U.S. ARMED FORCES IN OPERATION DESERT SHIELD. NO BETTER JUSTIFICATION FOR MAINTAINING A RESERVE FLEET CAN BE SET FORTH.

B. THE 121 NDRF VESSELS THAT ARE CONSIDERED MILITARILY USEFUL AND ARE MAINTAINED IN RETENTION STATUS. MANY OF THESE VESSELS WERE ACQUIRED BY TRADING OUT OBSOLETE NDRF TONNAGE.

C. ANOTHER 19 NDRF VESSELS, 12 OF WHICH ARE SLATED FOR DISPOSAL AND 7 EARMARKED FOR OTHER PURPOSES. MOST OF THESE VESSELS WILL BE EXCHANGED FOR MORE MODERN VESSELS FOR INCLUSION IN THE RRF.

MARAD HAS ANOTHER 92 VESSELS IN ITS CUSTODY. TO AVOID ANY CONFUSION, LET ME POINT OUT THAT THERE ARE 50 NAVY VESSELS MOORED AT NDRF SITES AND ANOTHER 42 VESSELS AT NDRF SITES UNDER THE TITLE XI MORTGAGE GUARANTEE PROGRAM PENDING DISPOSAL. AS STATED, THESE 92 VESSELS ARE NOT PART OF THE NDRF BUT ARE MOORED AT THE SITES IN ORDER TO MINIMIZE HOLDING COSTS.

ALTHOUGH THE RRF IS A MAJOR PART OF THE NDRF, I WILL NOT DISCUSS THE RRF IN DETAIL AT THIS HEARING TO AVOID CONFUSING THE ISSUES CONCERNING H.R. 5118. HOWEVER, I WOULD NOTE THAT THE NDRF CAN ONLY BE UNDERSTOOD IN ITS SUPPORTIVE ROLE VIS-A-VIS THE RRF AND TO DIVORCE THAT RELATIONSHIP WITH THE RRF MISCONSTRUES THE TOTAL CONCEPT OF THE NDRF PROGRAM. THE NDRF PROVIDES BACK-UP SEALIFT CAPABILITY TO THE RRF BECAUSE THOSE VESSELS CAN BE BROKEN OUT AT SUBSTANTIALLY LOWER COST AND MUCH MORE QUICKLY THAN IT WOULD TAKE TO CONSTRUCT A VESSEL TO PROVIDE EQUIVALENT SEALIFT CAPACITY. OUR ABILITY TO SUCCESSFULLY ACTIVATE THESE VESSELS WAS DEMONSTRATED IN 1985 WITH THE BREAK OUT OF THE AMERICAN VICTORY AND HATTIESBURG VICTORY, WHICH ARE REPRESENTATIVE OF THE VICTORY CLASS VESSELS IN THE NDRF. FINALLY, THE 510(i) EXCHANGE PROGRAM, WHICH I WILL DISCUSS SHORTLY IS A MEANS BY WHICH TO USE THE NDRF TO ENHANCE THE RRF.

TO THE CASUAL OBSERVER, THE OUTWARD APPEARANCE OF MANY NDRF SHIPS IS POOR. HOWEVER, THE INTERIORS OF NDRF SHIPS ARE IN GOOD CONDITION -- ALL THEIR MACHINERY IS UNDER DEHUMIDIFICATION AND THEIR HULLS ARE CATHODICALLY PROTECTED. THIS SIGNIFICANTLY REDUCES DETERIORATION AND SUPPORTS ACTIVATION WITHIN THEIR SPECIFIED TIME FRAMES. IF GOVERNMENT FUNDS WERE BEING SPENT ON UNNECESSARY EXTERIOR COSMETICS, THERE WOULD, IN FACT, BE GROUNDS FOR CONCERN ABOUT THE BEST USE OF LIMITED FUNDS AVAILABLE TO MAINTAIN THESE ASSETS.

THE DEPARTMENT OF TRANSPORTATION HAS AUTHORITY TO DISPOSE OF OBSOLETE NDRF VESSELS UNDER SECTIONS 508 AND 510(i) OF THE MERCHANT MARINE ACT, 1936. SUCH OBSOLETE VESSELS CANNOT BE SOLD FOR TRANSPORTATION PURPOSES. 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. UNDER THE AUTHORITY OF SECTION 510(i), OLDER NDRF VESSELS ARE EXCHANGED FOR MORE MODERN BUT COMMERCIALY OBSOLETE VESSELS DETERMINED BY THE DEPARTMENT OF DEFENSE (DOD) TO BE ATTRACTIVE AS MILITARILY USEFUL FOR NATIONAL EMERGENCIES. THE OBSOLETE NDRF VESSEL IS THEN SCRAPPED ON THE WORLD MARKET, WITH BOTH DOMESTIC AND FOREIGN SCRAPPERS INVITED TO BID COMPETITIVELY. IN THIS MANNER, THE DEPARTMENT HAS BEEN SUCCESSFUL IN UPGRADING AND MAINTAINING NDRF ASSETS CONSISTENT WITH DOD ESTIMATES OF SEALIFT REQUIREMENTS. 163 VESSELS HAVE GONE OUT UNDER SECTION 510(i) IN THE LAST 10 YEARS. PROCEEDS FROM THE SALE OF THESE 163 VESSELS PROVIDED THE FUNDS USED TO OBTAIN 47 NEWER AND MORE MILITARILY USEFUL VESSELS OF EQUAL DEAD WEIGHT CAPACITY AND GREATER SPEED, 13 OF WHICH EVENTUALLY WERE UPGRADED AND PLACED IN THE RRF. THE SECRETARY, THE MARITIME ADMINISTRATOR, AND I CONSIDER THE EXCHANGE PROGRAM UNDER 510(i) A PRIORITY MEANS BY WHICH TO BRING NEWER, MORE SUITABLE SEALIFT ASSETS INTO THE NDRF AND THE RRF SPECIFICALLY. THE MERIT OF THIS APPROACH IS REFLECTED IN LEGISLATION CURRENTLY BEFORE THE

CONGRESS THAT WOULD AMEND 510(i) TO ENHANCE THE DEPARTMENT'S ABILITY TO RENEW THE NDRF AT THE MOST ADVANTAGEOUS COST TO THE GOVERNMENT. RATHER THAN REQUIRING A SIMULTANEOUS EXCHANGE OF OBSOLETE NDRF TONNAGE FOR NEWER VESSELS AS UNDER CURRENT LAW, THE AMENDED 510(i) WOULD ALLOW US TO SCRAP OBSOLETE NDRF VESSELS WHEN SCRAP MARKET PRICES ARE HIGH AND PURCHASE NEWER VESSELS WHENEVER ATTRACTIVE VESSELS BECOME AVAILABLE, THEREBY MAXIMIZING THE TAXPAYERS' RETURN ON THEIR ASSETS, ESPECIALLY IMPORTANT DURING THIS PERIOD OF BUDGETARY CONSTRAINT. THE ADMINISTRATION APPRECIATES THE COMMITTEE'S INCLUSION OF OUR PROPOSAL IN THE PENDING MARAD AUTHORIZATION BILL, AND HOPES FOR ITS ENACTMENT IN THE NEAR FUTURE.

IN CONTRAST TO THE CURRENTLY SUCCESSFUL PROGRAM UNDER 510(i), SECTION 2 OF H.R. 5118 WOULD SIMPLY DEEM CURRENT NDRF VESSELS CONSTRUCTED BEFORE JANUARY 1, 1946, TO BE SURPLUS PROPERTY UNDER THE FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES ACT OF 1949, AND DIRECT THE ADMINISTRATOR OF GSA, UNDER AUTHORITY PROVIDED BY SECTION 203, TO SELL FOR SCRAPPING IN THE UNITED STATES, 20 SUCH VESSELS IN THE FIRST YEAR AFTER ENACTMENT, 30 VESSELS IN THE SECOND YEAR, AND NOT MORE THAN 50 SUCH VESSELS EACH YEAR THEREAFTER. THE AUTHORITY OF THIS DEPARTMENT UNDER SECTION 203(i) OF THAT ACT AND SECTION 508 OF THE MERCHANT MARINE ACT WOULD NOT APPLY TO VESSELS DEEMED SURPLUS PROPERTY BY THIS BILL.

THE ADMINISTRATION IS STRONGLY OPPOSED TO SECTION 2 OF H.R. 5118, AS IT WOULD DIRECT THE ADMINISTRATOR OF GSA ARBITRARILY TO

DISPOSE OF CLASSES OF NDRF VESSELS WITHOUT ANY RECOGNITION GIVEN TO THE RESPONSIBILITIES OF THIS DEPARTMENT AND DOD AS TO U.S. NATIONAL SECURITY REQUIREMENTS. IN FACT, AFTER THE CURRENT MAJOR ACTIVATION OF THE RRF FOR DESERT SHIELD IS COMPLETED, THE DEPARTMENT OF TRANSPORTATION AND DOD WILL BE REVIEWING THE MAKEUP OF THE RRF AND THE ROLE OF THE NDRF. MARAD WOULD OBVIOUSLY BE A MAJOR PARTICIPANT IN SUCH AN ANALYTICAL REASSESSMENT AND WOULD BE PREPARED TO DISPOSE OF ANY NDRF VESSELS DEEMED NO LONGER USEFUL FOR NATIONAL DEFENSE PURPOSES -- BUT TO DO SO IN A MANNER THAT MAXIMIZES THE TAXPAYER'S RETURN.

AS YOU KNOW, ON JUNE 4, 1990, THE SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES AND ENERGY OF THE HOUSE SMALL BUSINESS COMMITTEE, HELD AN OVERSIGHT HEARING ON THE NDRF. ONE ISSUE AT THAT HEARING WAS THE POLICY OF THIS DEPARTMENT TO ALLOW FOREIGN AND DOMESTIC BIDDERS ON OBSOLETE NDRF VESSELS. IT IS OUR VIEW THAT DOMESTIC BREAKERS, OFFERED THE VESSELS BUT DECLINING TO BID, GENERALLY CANNOT COMPETE FOR A NUMBER OF REASONS, SUCH AS HIGH WAGES, ENVIRONMENTAL, AND HEALTH AND SAFETY REQUIREMENTS, AND RELATED COSTS. AT THAT HEARING THE BILL'S SPONSOR CONTENDED THAT THE MARITIME ADMINISTRATION "THUMBS THEIR NOSE AT A COST SAVING SUGGESTION" AND THAT THE BILL COULD RETURN SOME NEEDED DOLLARS TO OUR TREASURY. MARAD HAS COMPILED A COMPARISON OF FOREIGN VERSUS DOMESTIC SCRAPPING BIDS ON THE 55 OBSOLETE SHIPS OFFERED TO BOTH DOMESTIC AND FOREIGN BIDDERS WITHIN THE LAST FOUR YEARS. WE RECEIVED AN AVERAGE OF 4 FOREIGN SCRAP BIDS ON EACH

VESSEL OFFERED. DOMESTIC SCRAPPING OFFERS WERE RECEIVED ON ONLY 14 OF THE VESSELS. THE LAST WINNING BID FOR SCRAPPING IN THE UNITED STATES OCCURRED IN 1986. OF THE FOUR MOST RECENT SALES WITH U.S. BIDDERS, THE HIGHEST DOMESTIC BIDS AVERAGED ONLY 10 PERCENT OF THE HIGH BIDS FOR SCRAPPING IN FOREIGN COUNTRIES.

<u>VESSEL</u>	<u>DATE</u>	<u>DOMESTIC HIGH</u>		<u>FOREIGN HIGH</u>		<u>DIFFERENCE</u>
		<u>\$/TON</u>	<u>NO. BIDS</u>	<u>\$/TON</u>	<u>NO. BIDS</u>	<u>IN</u>
						<u>PRICE</u>
HOPE VICTORY	11/89	\$ 7.36	(2)	\$ 86.46	(4)	\$79.10
USS MONTRAIL	9/89	\$ 0.74	(1)	\$ 115.00	(2)	\$114.26
WESTWIND	9/88	\$ 23.82	(1)	\$ 123.44	(2)	\$99.62
EX-NORTON SOUND	6/88	\$ 22.96	(1)	\$ 208.53	(7)	\$185.57

WITH A SINGLE EXCEPTION, ONLY ONE DOMESTIC BID WAS RECEIVED PER SHIP. ON THE OTHER HAND, FOREIGN BIDS AVERAGED 4 BIDS PER SHIP. THE AVERAGE DIFFERENCE PER TON BETWEEN FOREIGN AND DOMESTIC BIDS WAS \$119.64.

I DO NOT NEED TO EMPHASIZE THE MAJOR FISCAL BUDGETARY RESTRAINTS WE ARE UNDER AT THE PRESENT TIME. THE U.S. TAXPAYER EXPECTS US TO USE THESE GOVERNMENT ASSETS IN A FISCALLY RESPONSIBLE MANNER. THE COMPARISON OF FOREIGN AND DOMESTIC BIDS SHOWS THAT MARAD HAS BEEN FISCALLY RESPONSIBLE AND THAT WE HAVE TRIED TO ENSURE THAT THE TAXPAYER GETS THE MAXIMUM VALUE FROM THESE ASSETS. MARAD HAS NEVER EXCLUDED DOMESTIC FIRMS BY

OFFERING SUCH VESSELS EXCLUSIVELY TO FOREIGN SCRAPPERS. MARAD WILL CONTINUE TO BROADLY PUBLICIZE TO U.S. SCRAPPERS THE AVAILABILITY OF THESE VESSELS THROUGH ADVERTISEMENT AND MAILING LISTS.

ALTHOUGH IT IS OBVIOUS THAT H.R. 5118 MIGHT ASSIST SOME DOMESTIC BREAKERS, THAT ASSISTANCE WOULD BE TEMPORARY. AS OF AUGUST 31, 1990, THERE WERE 92 NDRF VESSELS BUILT PRIOR TO 1946.

AFTER THESE NDRF VESSELS HAVE BEEN DISMANTLED, DOMESTIC BREAKERS WHO EXPANDED TO MEET THIS DEMAND WOULD REVERT TO THEIR PREVIOUS POSITION IN THE WORLD MARKET, AND IN THE PROCESS, THE UNITED STATES WOULD BE DEPRIVED OF A VALUABLE NATIONAL SECURITY ASSET AND WOULD HAVE SOLD GOVERNMENT ASSETS AT FAR BELOW THE FAIR MARKET VALUE.

MR. CHAIRMAN, IF ALL MARAD VESSELS THAT WOULD BE AFFECTED BY THIS BILL WERE SCRAPPED EVEN AT THE CURRENT ESTIMATED WORLD MARKET SCRAP PRICE OF \$140 PER TON, THE ENTIRE NET RETURN TO THE GOVERNMENT OF ABOUT \$63 MILLION WOULD BE LESS THAN THE REPLACEMENT COST FOR THREE EQUIVALENT VESSELS. IF WE HAD A FORCED DOMESTIC SCRAPPING OF THESE VESSELS WITHOUT ANY REGARD TO MARKET CONDITIONS THE ESTIMATED RETURN WOULD BE \$9 MILLION. H.R. 5118, IF ENACTED WOULD RESULT IN THE LOSS TO THE U.S. TREASURY OF ABOUT \$54 MILLION. DOES THAT SOUND LIKE GOOD FISCAL MANAGEMENT? FURTHERMORE, THE NDRF BUDGET FOR THE MAINTENANCE OF VESSELS IS \$1.7 MILLION. THEREFORE, IF THE ENTIRE NON-RRF COMPONENT OF THE NDRF FLEET WERE ELIMINATED WE WOULD ONLY SAVE \$1.7 MILLION A YEAR.

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