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REAUTHORIZATION OF THE U.S. MARITIME ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

MAY 16, 2000

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ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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REAUTHORIZATION OF THE U.S. MARITIME ADMINISTRATION

TUESDAY, MAY 16, 2000

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m. in room SR–253, Russell Senate Office Building, Hon. John McCain, Chairman of the Committee, presiding.

Staff members assigned to this hearing: Rob Freeman, Republican Professional Staff Member; and Carl Bentzel, Democratic Senior Counsel.

OPENING STATEMENT OF HON. JOHN MCCAIN, U.S. SENATOR FROM ARIZONA

The CHAIRMAN. This hearing will come to order. Today the Committee meets in order to fulfill its oversight role of the U.S. Maritime Administration, MARAD. As MARAD celebrates its 50th year, I want to thank all MARAD employees, past and present, for their dedication to our nation's Merchant Marines. Today, we will hear testimony from three witnesses on MARAD's past performance, as well as issues facing its future. Our nation's maritime operations face many challenges in the world economy. While much of U.S. business and industry has had to make adjustments to adapt to new global markets, such is not the case with the maritime industry. Maritime transportation has always, by its nature, operated in a world market.

That is not to say the U.S. maritime industry is not facing changes. On the contrary, one has just to look at the number of mergers and sales of U.S. carriers over the last 3 years to know the industry is undergoing great change, which raises many important questions.

Why have these companies been sold or merged? Does the sale of the companies in many cases to foreign ownership impact our national security or our national commerce and, most importantly, is our overall national policy on maritime issues and the many associated problems effective in ensuring that our nation has a healthy and innovative merchant fleet that is able and available to meet our national security and commerce needs?

I am increasingly concerned that U.S. maritime interests rely too much on Government programs that create an environment of dependance and do not foster investment and risk-taking, and on Government regulations that protect them from economic competition. I am aware that MARAD has revised its methodology in re-

porting maritime ship statistics, thereby increasing the U.S. fleet from 280 in 1998 to over 37,000 in 1999, but I am not convinced that these larger numbers, which represent a wider range of commercial vessels in both the domestic and international trade actually present a clear picture of our merchant fleet's viability to meet the needs of national defense and our commercial base.

Additionally, with the expiration of the military security program, MSP, a few years away, it is time to begin to examine the merits of the program and look for ways to improve it. I believe that as part of this review we should take a serious look at overall reform of our maritime policy, with the goal of formulating a policy that will allow our merchant marine industry to grow and prosper in today's market.

I look forward to hearing from all of our witnesses on the status of the U.S. fleet, and especially from Admiral Holder on his concerns regarding fleet size and the manning of vessels in the ready reserve fleet.

Additionally, I am very interested in hearing from Mr. Hart on two issues raised in the Administration's proposal for reauthorization. The Administration proposal requests a temporary elimination of the 3-year period bulk or breakbulk vessels newly registered under the U.S. flag must wait in order to carry Government-impelled cargo.

This request is almost identical to a measure passed by the Committee as part of last year's reauthorization. While in general I do not support cargo preferences because of the high cost associated with such programs, I hope that agreement could be reached on needed reform in this area.

Current cargo preference law requires that 75 percent of U.S. government food aid to foreign countries be shipped under U.S. flag vessels. Because of this requirement, and a lack of dry bulk vessels under the U.S. flag, Government agencies have been forced to use less efficient and more costly vessels to ship food aid. According to a recent analysis performed by the Food Aid Administration, if just six new bulk ships had been available last year, U.S. taxpayers could have saved approximately $41 million in transportation of government food aid. I hope that Mr. Hart will be able to provide further explanation of why this is important not only to taxpayers' wallets but also to the health of our fleet.

The Administration has also requested an extension in the statutory deadline for disposal of obsolete vessels in the National Defense Reserve fleet. As noted by the DOT Inspector General, in a report issued last month, MARAD has scrapped only five vessels since 1995 and currently has 115 vessels awaiting action.

Of those 115 vessels, the IG reports that 41 are both an environmental hazard and navigational hazard to the waters in which they are now moored. Further extensions that allow these vessels to remain a threat to these waters must be justified.

MARAD's inaction in addressing this problem in a timely manner is inexcusable. I hope that Mr. Hart and Mr. DeCarli both will be able to provide some new insight into the difficulties MARAD has faced, and offer recommendations on how they be addressed. I am also looking forward to hearing from our witnesses on

MARAD's oversight of the Title XI loan guarantee for the revitalization of Four River Shipyard in Quincy, MA.

As I pointed out in a hearing 2 weeks ago on the Big Dig, I am very concerned that the Department of Transportation is providing poor oversight of how Federal funds are being spent on this project. I understand that the Department of Justice continues to investigate certain aspects of the project for possible criminal activity, and that the U.S. Attorney in Boston has convened a grand jury to hear testimony on criminal activity. Until these investigations are completed, I believe it may not be possible to get a complete picture of what went wrong on the project and how to prevent further loss of taxpayer funds, so it may be necessary to hold additional hearings. However, I would hope our witnesses will shed light on this matter.

As it stands today, U.S. taxpayers have paid out over $50 million for this project, yet despite that fact, MARAD does not have complete control of the yard due to the bankruptcy filing of the project operator, Massachusetts Heavy Industry, and MARAD does not have cooperation of State and local agencies in their efforts to have the filing set aside so they can proceed with foreclosure of the project. This Committee needs an explanation for what has occurred at the Quincy shipyard.

Again, I look forward to hearing from all of today's witnesses, and am eager to hear their views on how MARAD is operating and what we can do to ensure they continue to support our nation's maritime industry.

Senator Stevens.

[The prepared statement of Senator McCain follows:]

PREPARED STATEMENT OF HON. JOHN MCCAIN, U.S. SENATOR FROM ARIZONA

Today the Committee meets in order to fulfill its oversight role of the U.S. Maritime Administration (MARAD). As MARAD celebrates its 50th year, I want thank all MARAD employees, past and present for the dedication to our nation's merchant marines. Today we will hear testimony from three witnesses on MARAD's past performance as well as issues facing its future.

Our nation's maritime operations face many challenges in the world economy. While much of U.S. business and industry has had to make adjustments to adapt to new global markets, such is not the case with the maritime industry. Maritime transportation has always, by its nature, operated in a world market. That is not to say that the U.S. maritime industry is not facing changes.

On the contrary, one just has to look at the number of mergers and sales of U.S. carriers over the last 3 years to know the industry is undergoing great change, which raises many important questions. Why have these companies been sold or merged? Does the sale of the companies, in many cases to foreign ownership, impact our national security or our national commerce? And most importantly, is our overall national policy on maritime issues and the many associated programs effective in insuring that our nation has a healthy and innovative merchant fleet that is able and available to meet our national security and commerce needs.

I am increasingly concerned that U.S. maritime interests rely too much on government programs that create an environment of dependence and do not foster investment and risk taking, and on government regulations that protect them from real economic competition.

I am aware that MARAD has revised its methodology in reporting maritime ship statistics, thereby increasing the U.S. fleet from 280 in 1998 to over 37,000 in 1999. But I am not convinced that these larger numbers, which represent a wider range of commercial vessels in both the domestic and international trade, actually present a clear picture of our merchant fleet's viability to meet the needs of national defense and commercial base.

Additionally, with the expiration of the Military Security Program (MSP) a few years away, it is time to begin to examine the merits of the program and look for

ways to improve it. I believe that as part of this review, we should take a serious look at overall reform of our maritime policy with the goal of formulating a policy that will allow our merchant marine industry to grow and prosper in today's market.

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The Administration has also requested an extension in the statutory deadline for disposal of obsolete vessels in the National Defense Reserve Fleet (NDRF). As noted by the DOT Inspector General in a report issued last month, MARAD has scrapped only five vessels since 1995 and currently has 115 vessels awaiting action. Of those 115 vessels, the IG reports that 41 are both an environmental hazard and navigational hazard to the waters in which they are now moored. Further extensions that allow these vessels to remain a threat to our waters must be justified.

MARAD's inaction in addressing this problem in a timely manner is inexcusable. I hope that Mr. Hart and Mr. DeCarli both will be able to provide some insight into the difficulties MARAD has faced and offer recommendations on how they be addressed.

I am also looking forward to hearing from our witnesses on MARAD's oversight of the Title XI loan guarantee for the revitalization of Four River Shipyard in Quincy, Massachusetts. As I pointed out in a hearing two weeks ago on the Big Dig, I am very concerned that the Department of Transportation is providing poor oversight of how federal funds are being spent on this project.

I understand that the Department of Justice continues to investigate certain aspects of the project for possible criminal activity and that the U.S. Attorney in Boston has convened a grand jury to hear testimony on criminal activity. Until these investigations are completed, I believe that it may not be possible to get a complete picture of what went wrong on the project and how to prevent further loss of taxpayer funds so it may be necessary to hold additional hearings. However, I would hope our witnesses will shed light on this matter.

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Again, I look forward to hearing from all of today's witnesses and am eager to hear their views on how MARAD is operating and what we can do to insure they continue to support our nation's maritime industry.

STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

Senator STEVENS. Thank you very much, Mr. Chairman. I am concerned about the backlog in these applications for loan guarantees. It is my information that as of May 9, MARAD had 20 applications pending for loan guarantees for a variety of ships, cargo carriers, barges, et cetera, and I think that may well be a bottle-

neck as far as modernizing this fleet, and I am here to hear that testimony.

Thank you very much.

The CHAIRMAN. Thank you, Senator Stevens.

I welcome the witnesses, the Honorable Clyde J. Hart, the Maritime Administrator, the U.S. Department of Transportation, Mr. Raymond J. DeCarli, the Deputy Inspector General of the U.S. Department of Transportation, and Vice Admiral Gordon Holder, U.S. Navy Commander of Military Sealift Command.

We would like to begin with you, Mr. Hart. Thank you for appearing before the Committee today.

[The prepared statements of Senators Snowe, Hollings, Inouye, and Cleland follow:]

PREPARED STATEMENT OF HON. OLYMPIA J. SNOWE, U.S. SENATOR FROM MAINE

Mr. Chairman, I thank you for scheduling this hearing, and I would like to speak briefly on the Maritime Administration reauthorization and key maritime issues.

MarAd oversees the operations of U.S. Government-supported maritime promotion programs, such as the Maritime Security Program, the State maritime academies and the U.S. Merchant Marine Academy. My home State of Maine, of course, is a maritime state, and we have a maritime academy, the Maine Maritime Academy in Castine, which is very important to the state.

I also have an important shipyard in my state, Bath Iron Works, which is the largest employer in the state, so I am very interested in the Title XI shipbuilding loan guarantee program. The program makes it easier for shipowners and builders to obtain private financing for ship construction and fleet improvements in U.S. shipyards.

Each Title XI dollar generates an estimated $20 in private capital for shipbuilding projects. However, only $6 million was appropriated for these guarantees in FY 2000 and FY 1999. Many in the maritime industry believe that this level is inadequate. Since it was revived in 1994, the $40 to $50 million-a-year authorization-level program has generated over $2.1 billion in new U.S. commercial shipbuilding orders, and some 260 vessels have been built.

In order to remain viable, the shipyards upon which the U.S. Navy depends must capture commercial shipbuilding orders if they are to survive to meet the expected future demands for Navy shipbuilding. As U.S. shipbuilders restructure to capture commercial orders, their first market focus is construction of ships for the Jones Act trade. Construction of ships for this trade may enable U.S. yards to establish a series production so that they can in turn be competitive in building ships on the international market.

My hope is that as the legislative process continues, we can find a way to increase the appropriations for the Title XI program.

I also have serious reservations about a provision in this bill that would waive the current cargo preference 3-year waiting period for vessels newly re-flagged in the U.S. Current cargo preference law reserves most food aid to U.S.-owned, -built, and -crewed vessels. It allows the use of foreign built ships for government-impelled cargo, such as food aid, but only after a 3-year waiting period.

I am aware that there has been a significant increase in the amount of U.S. food aid—the Administration announced a large allocation of food aid for Russia and Indonesia, for example. However, foreign aid must not come at the expense of U.S. shipyards and their workers.

The waiver in this bill would permit U.S. companies to buy foreign built ships at rock bottom prices, as a result of the Asian financial crisis. Asian shipyards are no doubt more than willing to dump their ships on the U.S. market. A similar "one year" waiver in 1981 was later extended to 5 years and resulted in orders for additional foreign built ships, so I would urge caution on this matter.

In closing, I am hopeful that the Administration and our witness panels here today will also comment on what policies or initiatives we can consider that will grow and incentivize commercial shipbuilding at our nation's major shipyards, including efforts to incentivize the development of a domestic cruise industry with cruise vessels built in the U.S. by American workers. I am very interested in what Congress can do legislatively to encourage the growth of this industry in such a way

that the benefits, economic and otherwise, accrue to U.S. ports, shipyards, and workers.

Our nation has always been dependent upon the sea and has enjoyed a rich maritime tradition. Our merchant marine remains an integral part of our culture and our economy. Today, one out of every six jobs in the United States is marine related. America's ports support more than 95 percent of all our overseas foreign trade, and within the U.S., more than one billion tons of commercial cargo is transported by ship each year. We *must* do all that we can to preserve our maritime legacy for future generations, and programs and issues under MARAD's purview are key to this.

Again, I thank the Chair, and look forward to hearing from our witnesses. Thank you, Mr. Chairman.

PREPARED STATEMENT OF HON. ERNEST F. HOLLINGS,
U.S. SENATOR FROM SOUTH CAROLINA

Mr. Chairman, thank you for holding this hearing today to look into the various maritime programs of the Maritime Administration. As you know, I am a resident of Charleston, South Carolina, and I have always been aware of the importance of our coastal resources, and of our maritime trade. Over 95% of our international trade is carried on vessels, many of them using ports like Charleston, South Carolina, but most Americans are not aware of maritime trade. Most of us do not think about the movement of cargo, and I think that it is a testament to the efficiency with which the industry moves cargo, and the relative lack of disruption caused by their business operations.

I would like to take this opportunity to formally welcome Clyde J. Hart back to this Committee to testify in his capacity as Maritime Administrator. As many of you know, Clyde worked here on the Committee as our transportation counsel, and while we may have lost out, the Maritime Administration has gained a valuable asset to help implement maritime policy. Mr. Administrator, you have many difficult chores in front of you, but I for one know that you are up to the task.

Maritime policy is an arcane and difficult area to understand and master, but it is very important that the world's sole remaining superpower remain competent and self-reliant on our own maritime vessels. Even Adam Smith, the great proponent of free trade, identified one area that should not be considered under the principles of free trade. Here is what Mr. Smith said in his *Inquiry into Nature and Causes of the Wealth of Nations*:

> There seems, however, to be two cases in which it will generally be advantageous to lay some burden upon foreign government for the encouragement of domestic industry. The first is, when some particular sort of industry is necessary for the defence of the country. The defence of Great Britain, for example, depends very much upon the number of its sailors and shipping. The Act of Navigation, therefore, very properly endeavors to give the sailors and shipping of Great Britain the monopoly of the trade of their own country in some cases by absolute prohibitions and in others by heavy burdens upon the shipping of foreign countries.

The principles espoused by Mr. Smith in this paragraph still hold true today. The United States cannot be put in a position of depending on foreign nations itself for some important foreign policy objective. We cannot say to U.S. troops that supplies and weapons will be on the way, *in the event that we can charter foreign tonnage.*

I look forward to hearing this morning's testimony, but wanted to bring up a couple areas of concern. The first I would like to mention is the Title XI loan guarantee program. I support this program, and would like it noted that over the history and course of the entire program the government has made money while generating public sector economic returns.

Since 1985, after having recovered from over-expansion in oil and gas and agriculture, MARAD has guaranteed over $7 billion in ship construction and shipyard modernization, of that amount MARAD has only had two defaults totaling $56.7 million. During that same time frame, MARAD collected $110 million in fees which were deposited in the Treasury, and Congress set aside $260.5 million in appropriated funds to cover the risk of default. This program helps leverage private sector funding, and generates huge returns in the shipbuilding and marine supply industry. This is the sort of heavy industry know how that we need to maintain a strong industrial base and, as I said, this program efficiently utilizes federal resources to stimulate the private sector.

I am also heartened to see Admiral Holder of the Military Sealift Command here today. He runs the naval transportation system in supply of our armed forces.

Admiral Holder is the largest user of U.S.-flag vessels, and he is the largest employer of civilian mariners. He is going to tell us here today that he is getting to the point where he is short of men and women capable of working. We need to listen to what he has to say, and work to ensure that his concerns do not become a reality.

I would also like to touch on the area of research for maritime transportation. We all talk around here about intermodalism, and about the need to eliminate bottlenecks in order to have seamless service, and the need to promote policies that foster intermodalism. The Secretary of Transportation recognized the need to address this when he established the Maritime Transportation System Committee, and chartered it to evaluate what needs to be done federally to accommodate the projected doubling of trade within the next 20 years. One of the primary recommendations from that Committee was to increase research. However, according to a recent publication evaluating the Department of Transportation's research budget, in FY 2000 we invested $226 million in aviation research; $257 in surface transportation; and $22 million in rail, but none in maritime. We need to address this disparity, and spend some time properly thinking and researching the maritime and intermodal problems facing us today, before they affect us tomorrow.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF HON. DANIEL K. INOUYE, U.S. SENATOR FROM HAWAII

Mr. Chairman, it is with pleasure that we meet here today to discuss the Maritime Administration budget for Fiscal Year 2001. This Maritime Administration is critical to the continuation of a modern commercial fleet owned and operated by U.S. citizens and crewed by American seafarers. It also ensures America's economic competitiveness and national security. I am especially happy to have Clyde Hart here today testifying. As many of you may know, Clyde, in his previous life, worked to keep me well staffed, and while I miss him here, I am heartened to see him at the helm of the Maritime Administration.

The Maritime Administration (MARAD) reauthorization continues very important programs, and we need to finalize legislation rapidly to ensure its inclusion in the Department of Defense Reauthorization conference. I would say that I have some concerns about the level of funding provided for Title XI loan guarantees. Title XI is a truly national and international program. Title XI shipbuilders, their operation and their supplier base, cover almost every State in this country. Title XI has been vital in assisting our shipyards in competing internationally. There are a number of worthwhile projects that should not be precluded from being considered by MARAD for lack of funds. Not everyone may be aware, but over the entire course of its history, Title XI has earned the government money.

The reauthorization of MARAD will also include the funds for the operation of the U.S. Merchant Marine Academy at Kings Point, New York and continuing assistance to six State maritime academies. It is my understanding that U.S. Merchant Marine Academy is in a state of disrepair. We need to make sure the students have the proper facility for instruction. The U.S. Merchant Marine Academy may very well be one of the best maritime training academies in the world, but we need to provide it with the necessary support it needs to flourish. These students are the future of our country and our merchant marine.

This reauthorization should also recognize the importance of the merchant marine to our national security by its support for the recently enacted Maritime Security Program (MSP), a modern commercial fleet available to provide critical support to the Department of Defense during war or national emergency.

This year's reauthorization will also contain provisions which aim to strengthen our U.S.-flag fleet through a much needed infusion of new tonnage by eliminating the 3-year wait that a newly registered bulk or breakbulk vessel must currently wait to carry preference cargo. This opportunity, which would end in one year, would not just improve the vessel profile of this fleet, but also add U.S. jobs. Vessels allowed to enter the preference trade would be required to perform shipyard repairs and other work necessary to bring them up to U.S.-flag standards in our own U.S. shipyards.

Mr. Chairman, MARAD's budget should recognize the importance of sealift readiness and a strong U.S.-flag fleet. It should acknowledge the need for a healthy shipbuilding industry and also provide assistance for the education of our youth. I look forward to working with you to ensure that it does.

PREPARED STATEMENT OF HON. MAX CLELAND, U.S. SENATOR FROM GEORGIA

Good morning, and thank you for being here today. Administrator Hart, I would especially like to welcome you back to the Committee. As former Democratic Staff Counsel to the Committee, it is a pleasure to have the opportunity to hear your views on matters relating to this hearing.

Let me turn now to a subject of great interest to me. As a member of the Armed Services Committee, and as Ranking Member of the Personnel Subcommittee, I have spoken at considerable length about the urgent need to address our recruitment shortfalls in the military. One of the ways I believe we can correct the current situation is by improving quality of life. I understand that when the term "quality of life" is invoked, all too often it is simply idle rhetoric. But, rest assured, I am serious about improving the present situation in which our soldiers, sailors, airmen, and marines find themselves. If we are to encourage our young men and women to consider a career in the armed services, they must be assured that their domestic environment is one which will suit them well.

Having said that, I'll get right to the point. I have heard a good deal about the current situation of the physical structures, particularly the barracks, at the U.S. Merchant Marine Academy at Kings Point. I have received letters from concerned parents of Midshipmen who are rightly worried about the living conditions for their young sons and daughters. I have met with various groups of Kings Point Midshipmen who tell me that much of the potable water does not even meet minimum EPA safety standards. I have heard from my military academy advisory board and members of my staff who have personally visited the Academy. They tell me that these problems, in addition to such things as leaking roofs, dilapidated furniture, and general infrastructure concerns are all too common.

As you know, Kings Point, in addition to training officers to crew our merchant vessels, graduates leaders who enter all branches of our armed forces—Navy, Coast Guard, Air Force, Marines, even the Corps of Engineers. Many of these billets are filled by young officers who have a reputable comprehension of logistics and the know-how to "get there firstest with the mostest." As an old Army Air Cavalry officer, I can certainly can appreciate this doctrine. And, I believe Admiral Holder will share my beliefs not only on the importance of logistics, but also regarding the significant role of morale in recruiting and retaining our soldiers, sailors, airmen, marines, and support personnel. Your views on these issues, Admiral, would be most welcome.

Administrator Hart, I would be pleased to hear your opinions on the current State of the living conditions at the Academy, and I am most anxious to hear how the Administration proposes to remedy these shortfalls. Again, thank you for appearing before us today, and let me say that I truly appreciate your outstanding work. Each of you should be commended for a job well done.

STATEMENT OF HON. CLYDE J. HART, MARITIME ADMINISTRATOR, U.S. DEPARTMENT OF TRANSPORTATION

Mr. HART. Thank you, Mr. Chairman, Senator Stevens. I welcome the opportunity to be here today to discuss the Maritime Administration's fiscal year 2001 authorization request. Full funding of MARAD's budget request will allow the agency to address high priority needs such as the renovation of the Nation's Merchant Marine Academy, as well as fund our ongoing efforts in the Maritime Security Program, shipbuilding, the Marine Transportation System Initiative, the National Defense Reserve Fleet and Ready Reserve Force, and maritime education and training.

Secretary Slater has made passage of MARAD's authorization act for fiscal year 2001 a priority. In fiscal year 2001, we request $98.7 million for the Maritime Security Program. The request represents payments of approximately $2.1 million each to 47 vessels with proven national security capabilities. As of January 1, 2000, all of the 47 ships enrolled in MSP were participating in the program according to their operating agreements with MARAD.

Authorization for the MSP ends in fiscal year 2005. This year, we will conduct an evaluation of the impact of the MSP and the

Voluntary Intermodal Sealift Agreement on the readiness and capability of the commercial transportation system to meet national defense needs.

Revitalization of the nation's shipbuilding continues to be an Administration priority. The Title XI guarantee program is the centerpiece of our shipbuilding revitalization initiative, and has been very successful in stimulating shipbuilding activity.

An authorization request of $2 million would enable MARAD to provide loan guarantees of up to $40 million based on a 5-percent loan subsidy rate. $4.179 million for administrative expenses will enable MARAD to manage both existing and new loan guarantees.

I must mention that for the first time in nearly half a century, two large ocean-going cruise ships will be built in a U.S. shipyard. Title XI loan guarantees of more than $1 billion have helped make this project a reality, and we hope will launch a new segment of the industry.

I am aware of your interest in the status of the Quincy Shipyard Project. As you know, Massachusetts Heavy Industry failed to make two consecutive payments on its guaranteed obligations. On February 25 of this year, at the demand of the lender, MARAD made a payment for $59.1 million on MHI's defaulted loan. MHI subsequently filed for Chapter 11 bankruptcy, and MARAD is moving to foreclose on the shipyard.

Let me reassure you that MARAD has worked closely with the Department's Office of the Inspector General throughout this project. The agency has also kept Members of Congress apprised of the status of the Quincy Shipyard reactivation and modernization project at all times. It is our goal to see that productive use of the shipyard can someday be achieved. However, there remain both environmental and financial concerns which must be resolved.

The disposal of obsolete National Defense Reserve Fleet vessels remains a priority at MARAD. Currently, 112 vessels in the NDRF are slated for scrapping. It is estimated that this number will grow to 134 at the beginning of the year 2001 if additional vessels are not disposed of. MARAD has sought to scrap the vessels in the domestic market, where environmental and safety standards are high. Capacity of this market is limited. MARAD will be unable to dispose of all of the obsolete vessels in the NDRF by its September 30, 2001 deadline. Therefore, this year's authorization bill proposes to extend the disposal date by 5 years. This will provide MARAD with additional time to develop an action plan and begin to dispose of this growing number of vessels.

This year's authorization proposal will also provide a limited opportunity for modern, foreign-built bulk and breakbulk vessels to register under the U.S. flag and be immediately eligible to carry preference cargo in international trade. In return, the vessels would perform any shipyard work necessary to become a U.S. flag vessel in the United States.

This amendment could improve the vessel profile of the U.S. flag dry bulk and breakbulk fleets, add jobs for U.S. merchant mariners capable of crewing sealift ships in a mobilization, and increase the percentage of U.S. foreign commerce carried in U.S. flag vessels.

This year's funding request of about $37.2 million for the Merchant Marine Academy includes a $3.3 million increase over funds

appropriated in fiscal year 2000, including mandatory Federal salary and related cost increases. The increase will fund both operational and capital improvements at the academy, as well as enable the academy to improve existing academic and administrative programs. An overall facilities master plan is under development at the academy and is expected to be completed in July.

In addition to the funding for the Merchant Marine Academy, approximately $9.5 million is required for financial assistance to the six State maritime academies.

Congress recognized the importance of the marine transportation system, or MTS, when, as part of the Coast Guard Authorization Act of 1998, it tasked the Secretary, through MARAD and the Coast Guard, to establish a task force to assess the adequacy of the nation's MTS to operate in a safe, effective, secure, and environmentally sound manner.

Last September, Secretary Slater released a report to Congress entitled, "An Assessment of the U.S. Marine Transportation System." Representing an intense joint effort by industry, other maritime partners, and Government, the report will serve as a blueprint for the future of our MTS.

The first MTS council, comprised of representatives from 31 non-Federal organizations, will take place next week on May 24. Secretary Slater, Admiral Loy and I welcome the opportunity to provide leadership in this initiative, and we take this responsibility very seriously. America's marine transportation system has always delivered the goods, and we intend to help make sure that this tradition continues.

Among the ongoing efforts at MARAD is the assessment of the supply of mariners to meet commercial and mobilization crewing requirements, now and in the future. MARAD is hearing of recruitment and retention problems in the seagoing work force, just as every industry is facing labor shortages in this vibrant economy.

Based on our analysis of maritime data, there are enough qualified active seafarers to crew the DOD organic fleet for a short duration, but however, an extended mobilization of the entire Government-owned surge fleet would create pressure to rotate Government and commercial ship crews, by augmenting the pool with inactive mariners.

There is likely to be a mismatch between available mariners and the specific skills needed to fully activate the DOD organic fleet. We are also concerned that shoreside commitments of some of the inactive mariners, such as work and family, may also keep them from volunteering to serve, even with reemployment rights. These uncertainties concern us.

Mr. Chairman, I would like to report that one of your initiatives is now up and running at MARAD. The administrative waiver process of the U.S.-build requirements contained in the Passenger Vessel Services Act for small vessels, which was part of the Coast Guard Authorization Act of 1998, has been implemented.

Final regulations were published in the Federal Register on February 11, 2000. We have received 15 applications to date, and three applications have been approved, with many others close to completion.

That concludes my prepared statement. I would be happy to address any questions you may have.

[The prepared statement of Mr. Hart follows:]

PREPARED STATEMENT OF CLYDE J. HART, JR., MARITIME ADMINISTRATOR, U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Committee:

I welcome the opportunity to be here today to discuss the Maritime Administration's (MARAD's) Fiscal Year 2001 authorization request. I know that I do not need to tell you that MARAD is committed to U.S. merchant mariners and our maritime industry. The U.S.-flag merchant marine and the domestic maritime industry perform yeoman service for America at an affordable price. They deliver a cornucopia of goods to and from foreign markets. In war or crisis, they have a proven track record of responding professionally, often in dangerous environments, to the critical needs of our U.S. armed forces. America's preeminence in economic and military affairs has been bolstered in no small part by this industry. May 25th marks the 50th anniversary of MARAD as an executive agency. All who have had the privilege to serve here over the years are determined that this year be one that will long be remembered.

Full funding of MARAD's budget request will allow the agency to address high priority needs—such as the renovation of the Nation's Merchant Marine Academy, as well as fund our ongoing efforts in the Maritime Security Program (MSP), shipbuilding, the Marine Transportation System Initiative, the National Defense Reserve Fleet and Ready Reserve Force, cargo preference, and maritime education and training. The proposal would also provide MARAD with necessary time to develop a plan to dispose of obsolete government vessels. As a former staff counsel on this committee, I recognize the inevitable competing demands for scarce resources. However, we at MARAD strongly believe that every dollar requested is needed. This budget request in the first year of the new century will be viewed as an indication of what the future holds for this industry. Secretary Slater and I have made passage of the MARAD Authorization Act for fiscal year 2001 a priority.

I will now summarize our fiscal year 2001 budget request and note for the committee the contributions and progress of MARAD programs during the past year.

Maritime Security Program

The Maritime Security Act of 1996 established a Maritime Security Program (MSP) with the goal to ensure the continued presence of a fleet of U.S.-flag vessels engaged in international trade, that is also able to meet national security sealift requirements in times of war or national emergency. In fiscal year 2001, we request a total of $98.7 million for MSP payments. The request represents payments of approximately $2.1 million each to 47 vessels with proven national security capabilities.

As of January 1, 2000, all of the 47 ships enrolled in MSP were participating in the program according to their operating agreements with MARAD. The MSP continues to be a truly innovative program—at about half the cost per vessel of the Operating-Differential Subsidy program it replaced. MSP operators, through participation in the Voluntary Intermodal Sealift Agreement (VISA) program, make not only each participating vessel, but their state-of-the-art intermodal transportation system, available to the Department of Defense (DOD) for sealift support. This program provides essential support to DOD as the military increasingly relies on the commercial transportation industry for logistics capability. The MSP is a shining example of successful partnering between the Government and the private sector.

Mr. Chairman, as you know, authorization for the MSP ends in fiscal year 2005. During fiscal year 2000, we will conduct an evaluation of the impact of the MSP and VISA programs on MARAD and DOT national security goals of increasing the readiness and the capability of the commercial transportation system to meet national defense needs. This evaluation is being undertaken as part of our commitment to the Government Performance and Results Act.

Shipbuilding

Revitalization of the nation's shipbuilding continues to be an Administration priority. The Maritime Guaranteed Loan, or Title XI, Program is the centerpiece of our shipbuilding revitalization initiative, and has been very successful in stimulating shipbuilding activity. Title XI loan guarantees enable ship owners and U.S. shipyards to borrow private sector funds on more favorable terms than might otherwise be available. Government funds are obligated to offset the credit risk of loan guarantees and for administrative costs. Since 1993, shipyard construction and shipyard

modernization projects costing approximately $6 billion have been approved by MARAD. An authorization request of $2 million for the cost of loan guarantee commitments would enable MARAD to provide loan guarantees of up to $40 million based on a 5 percent loan subsidy rate. A carryover of amounts previously authorized for loan guarantees into fiscal year 2001 will allow for an appropriate level of loan guarantees. The $4.179 million request for administrative expenses will enable MARAD to manage both the existing portfolio of loan guarantees and new guarantees.

Thanks to Title XI funding, 11 new state-of-the-art double hull tankers have been delivered from U.S. shipyards since enactment of the shipbuilding revitalization initiative in 1993. These deliveries marked the first time that an ocean-going petroleum tanker had been built in the United States in over a decade, and the first ever deliveries of commercial double hull tankers in this country. Title XI financing has also been instrumental in the construction of numerous double-hull tank barges being utilized on the inland and coastal waterways.

This past year, more advances in modern American shipbuilding have been achieved by the Title XI program. In April 1999, Secretary Slater announced that two large ocean-going cruise ships will be built in the United States for the American Classic Voyages Company—the first time in nearly a half century that large, ocean-going cruise ships will be built in an American shipyard. The vessels are designed to embrace the amenities of modern cruise ship luxury, safeguard the environment and will carry up to 1,900 passengers each. This design was a direct result of a MARAD administered project under the now terminated MARITECH program. Construction is scheduled to begin sometime this year. Title XI loan guarantees of more than $1 billion have helped make this project a reality and, we hope, will help to launch a new segment of the industry. MARAD's Capital Construction Fund (CCF) Program has also made significant contributions to U.S. shipyard activity, such as facilitating the construction of three double-hull tankers for ARCO Marine in Louisiana, and two roll on/roll off (RO/RO) vessels for Saltchuk Resources at NASSCO.

Mr. Chairman, I am aware of your interest in the status of the Quincy Shipyard Project. As you know, in 1995, Massachusetts Heavy Industry, Inc. (MHI) approached MARAD regarding a Title XI loan guarantee to reactivate and modernize the Quincy Shipyard. MARAD determined that MHI would be unable to demonstrate the economic soundness necessary to secure a Title XI loan guarantee. Public Law 104–324, the Coast Guard Authorization Act of 1996, directed the Secretary to waive the Title XI requirements for economic soundness. Pursuant to that authority, on November 1, 1996, MHI received approval for a loan guarantee in the amount of $55 million to reactivate and modernize the shipyard. As required by the legislation, MARAD protected its security position to the maximum extent possible by obtaining a first mortgage, instituting strict escrow fund disbursal procedures, and entering into a favorable intercreditor agreement.

MHI missed a regularly scheduled $1.55 million debt service payment on June 1, 1999. Upon its request and the concurrence of the lending institution, Fleet Bank, MARAD deferred the payment until December 1, 1999. However, on December 1, 1999, MHI missed its second consecutive regularly scheduled payment of $2.1 million on the guaranteed obligations, as well as the payment owed from June 1st.

MARAD and MHI had continuing discussions in an attempt to provide a funding mechanism for the December 1, 1999 payment, at the urging of Fleet Bank. MARAD extended until late February 2000 the date on which this payment could be made to give MHI the fullest opportunity possible to make those payments. However, MHI was unable to obtain the necessary financing—in a form acceptable to MARAD—to make this payment or to complete the shipyard without substantially impairing MARAD's security and increasing MARAD's liability under the loan guarantee. Thus, a demand for payment under the Title XI guarantee was made to MARAD by the lending institution. On February 25, 2000, the agency honored this demand by making a payment for $59.1 million on the defaulted loan, which was the principal amount plus accrued interest. MHI subsequently filed for Chapter 11 bankruptcy protection and MARAD is moving to foreclose on the shipyard.

Mr. Chairman, let me reassure you once again, MARAD has worked closely with the Department's Office of the Inspector General (DOT IG) throughout this project. On September 15, 1999, the DOT IG recommended that, until it was clear whether the surety would act under its performance bond, MARAD freeze funds contained in the escrow fund established to pay for the reactivation. MARAD subsequently froze the escrow funds and work at the shipyard, which had been halted in August, was never resumed as a result of MHI's contract dispute with its general contractor. These funds, approximately $12 million, were used to offset MARAD's February 25, 000 payment on the loan guarantee, thereby reducing our initial losses. At all times,

MARAD kept Members of Congress with an interest apprised of the status of the Quincy Shipyard reactivation and modernization project.

Mr. Chairman and Members of the Committee, it is our goal to see that productive use of the shipyard can someday be achieved. However, there remain both environmental and financial concerns which must be resolved through court proceedings.

The National Defense Reserve Fleet and the Ready Reserve Force

The National Defense Reserve Fleet (NDRF) was established in 1946 in order to meet reserve sealift requirements for national defense purposes. NDRF vessels are located at three major sites: James River, Virginia; Beaumont, Texas; and Suisun Bay, California. There are currently 257 ships in the NDRF, 90 of which comprise the Ready Reserve Force (RRF). RRF ships are maintained in various states of readiness, and can sail in either 4, 5, 10, 20 or 30 days. The majority of RRF ships are outported to various locations throughout the country in proximity with likely loadout ports established by the Department of Defense.

When activated, RRF ships are fully crewed by civilian merchant mariners working to support DOD missions. From the time of the Revolutionary War to the present, the American merchant marine has always played a critical role in the protection of U.S. interests. The tradition continues today. MARAD's RRF ships played a critical role during the Gulf War, and have been used to provide assistance during crises in Somalia, Haiti, Bosnia, and hurricane- ravaged Central America. Four RRF ships are currently deployed as part of DOD's prepositioned forces to respond quickly to regional conflicts throughout the world.

Ship Scrapping

Some NDRF vessels remain idle at Reserve Fleet sites because they are beyond their useful lives. Currently, 112 vessels in the NDRF have been determined to be obsolete and are slated for scrapping. It is estimated that the inventory of obsolete vessels will increase to 134 at the beginning of the year 2001 if additional vessels are not disposed of.

MARAD's primary means of disposing of obsolete vessels has been to sell them for scrapping. Under the National Maritime Heritage Act of 1994, the agency is required to dispose of obsolete vessels in the NDRF by September 30, 2001, in a manner that maximizes financial return to the United States. However, since 1995, MARAD has refrained from scrapping obsolete NDRF vessels overseas due to concerns about the environment and worker health and safety at the foreign scrap sites. Although MARAD has sought to scrap the vessels in the domestic market, where environmental and safety standards are high, the capacity of this market is limited. Moreover, the Department of the Navy, which is responsible for the disposal of obsolete combatant vessels, has initiated a pilot program to pay for the costs of disposing of its obsolete vessels. MARAD has been reviewing bids and performing increased contract monitoring and oversight. Between 1987 and 1994, 130 vessels were sold to foreign scrappers for $108/ton, but only 10 vessels were awarded to be scrapped domestically in 1997–98 at an average of $4.60/ton. Last year, 12 vessels were awarded for only 27 cents per ton and three vessels were sold for $10 each, to be scrapped domestically. Many of the vessels that were sold domestically have not been picked up by the buyers. One sales agreement for five vessels was terminated last year because the purchaser did not take possession of the vessels.

MARAD will be unable to dispose of all of the obsolete vessels in the NDRF by the September 30, 2001 deadline. Therefore, this year's authorization bill proposes to extend the disposal date by 5 years to September 30, 2006. This extension will provide MARAD with additional time to develop an action plan and begin implementation of the plan to dispose of this growing number of vessels, given current scrapping conditions. The objective we all work to accomplish is to scrap vessels in an environmentally sound and economically reasonable manner.

I am sure that you are aware that about 40 NDRF vessels—containing PCBs (polychlorinated biphenyls), asbestos, fuel oil and other hazardous substances—are in extremely poor condition. These ships are monitored closely by MARAD to prevent sinking or a hazardous discharge. Nevertheless, they continue to deteriorate. To date, the Department of Defense has provided the necessary resources to ensure that no environmental damage occurs.

Cargo Preference

U.S. cargo preference laws are an important part of the overall statutory program to support the privately owned and operated U.S.-flag merchant marine. These laws require that a certain percentage of Government- impelled cargo be carried on U.S.-flag vessels. By guaranteeing the availability of cargo to U.S.-flag ships, these laws are important to the financial viability of U.S.-flag vessel operating companies. The laws ensure that the vessels, trained crews, and vessel service industries continue

to be available to support our nation's economic and national security. The laws also help protect our ocean commerce from domination by foreign companies, many of which enjoy significant tax breaks and direct subsidies. Monitoring compliance with the U.S. cargo preference laws is essential in encouraging other Federal agencies to maximize the use of U.S.- flag vessels. MARAD provides an annual report to Congress on the level of compliance among other Federal agencies, and is currently updating its cargo preference regulations.

This year's authorization proposal contains a provision that was also contained in our Fiscal Year 2000 proposal, to establish a 1-year waiver of the "three year rule" which mandates that foreign-built vessels brought under the U.S. flag must wait 3 years before carrying food aid preference cargoes. The proposed amendment provides a limited opportunity for modern, foreign-built bulk and break bulk vessels to register under the U.S.-flag and be immediately eligible to carry preference cargo in international trade. In return, the vessels must have any additional shipyard work necessary to become U.S.-flagged performed in the United States. The vessels would not be granted pre-approval to leave U.S. registry under section 9(e) of the Shipping Act, 1916, or be entitled to any benefit of the Capital Construction Fund, under section 607 of the 1936 Act.

We expect food aid programs for Russia, North Korea, and the Administration's recently announced Section 416(b) program, to generate about 5.2 million metric tons of bulk grain shipments this year, including the normal flow of aid cargoes to other countries. The existing U.S.-flag drybulk capacity may not be able to meet the anticipated need. The waiver would help to ensure that there are enough U.S.-flag vessels to carry 75 percent of the food aid to these countries, as required by law.

Most importantly, this amendment could improve the vessel profile of the U.S.-flag drybulk and breakbulk fleets, add jobs for U.S. merchant mariners capable of crewing sealift ships in a mobilization, and increase the percentage of U.S. foreign commerce carried in U.S.-flag vessels. Additional modern vessels in the U.S.-flag fleet also would increase the competition for carriage of government-impelled cargoes. This could result in substantial cost savings to the U.S. Government. Because these vessels would only be eligible for foreign trade, this proposal has no impact on the Administration's firm commitment to the U. S.-build requirement of the Jones Act. Foreign-built vessels have always been eligible to carry preference cargo after being registered for 3 years as a U.S.-flag vessel.

We also propose changing the cargo preference year for determining compliance so that it coincides with the Federal Government fiscal year. This would simplify record keeping and management of the program without impact on any involved agencies or shippers. Parties affected by the change have expressed support for the change.

Maritime Education and Training

A significant portion of MARAD's budget request is intended for ongoing maritime education and training activities. Our request for operations and training funds includes approximately $37.2 million to operate the U.S. Merchant Marine Academy at Kings Point, NY. The Merchant Marine Academy offers a 4-year undergraduate program that leads to a Bachelor of Science Degree, and a merchant marine license as a Third Mate or Third Assistant Engineer, or a dual license. In addition, the students are enrolled as midshipmen and are commissioned upon graduation as Ensigns in the U.S. Naval Reserve. The Academy's significance as a world-renowned institution of maritime education cannot be overestimated. Not only does the Academy produce highly qualified officers for the merchant marine, but it is also the largest single source of inactive duty Naval Reserve Officers. In peacetime, Academy graduates create and operate efficient, cost-effective marine transportation systems. In times of conflict, Academy graduates crew the ships that support our troops.

This year's funding request of about $37.2 million for the Academy includes a $3.3 million increase over funds appropriated in fiscal year 2000, including mandatory Federal salary and related cost increases. The increase will fund both operational and capital improvements at the Academy. The increase for operational improvements, approximately $1 million, will enable the Academy to improve existing academic and administrative programs, the costs of which have escalated due to contractual manpower and equipment/supplies cost increases. The remainder of the program increase requested is designated for capital improvements to address a serious maintenance backlog at the Academy's facilities. Because the condition of the utility systems in Academy buildings affects the health and safety of the students, faculty and staff, these repairs are a priority. An overall facilities master plan is under development at the Academy, and is expected to be completed in July.

In addition to the funding for the Merchant Marine Academy, approximately $9.5 million is requested for financial assistance to the six State maritime academies.

The State academies, like the Merchant Marine Academy, offer training for qualified individuals to become officers in the U.S. merchant marine. A portion of the requested funding will support the Student Incentive Payment (SIP) Program at the State academies, which results in a service obligation to the maritime industry and the Armed Forces reserves for the recipients. The request will also fund the costs of maintenance and repair for MARAD ships on loan to the State academies as training ships. Approximately $2.5 million is needed to renovate the New York Maritime Academy's aging training ship, the *Empire State.*

Marine Transportation System Initiative

Today, over two billion tons of goods produced or consumed in the United States move through our nation's ports and waterways. This volume is expected to more than double over the next 20 years. The number of recreational users is also expected to grow by over 65 percent to more than 130 million annually in the next 20 years, and high-speed ferry transportation is experiencing rapid growth in response to land-transport congestion. Cruise ships anticipate attracting 6.5 million passengers by the year 2002. Military reliance on the Marine Transportation System (MTS) for force projection and sustainment is also expected to grow in the new millenium.

Congress recognized the importance of the Marine Transportation System (MTS) when, as part of the Coast Guard Authorization Act of 1998, it tasked the Secretary—through MARAD and the Coast Guard—to establish a task force to assess the adequacy of the nation's MTS to operate in a safe, effective, secure and environmentally sound manner. The MTS initiative was launched by Secretary Slater nearly 2 years ago. Last September, the Secretary released a report to Congress entitled An Assessment of the U.S. Marine Transportation System, representing an intense joint effort by industry and Government. Secretary Slater has made it clear that the report will serve as the "blueprint" for the future of our MTS. On January 13, 2000, MARAD announced the establishment of the Marine Transportation System National Advisory Council (MTSNAC). The charter for the Council became effective January 28, 2000. The MTSNAC will advise the Secretary of Transportation, through MARAD, on current and future matters relating to the MTS—waterways, ports, and their intermodal connections. The MTSNAC will address: strategies to ensure a safe, environmentally sound, and secure MTS that improves the global competitiveness and national security of the United States; issues and concerns raised by the marine transportation industry; and other matters at the Secretary's request.

The Council will be composed of representatives from approximately 31 non-Federal organizations, representing a cross section of the diverse components that comprise the MTS, including private sector organizations and State and local public entities. The individual non-Federal participants have been nominated by their organizations. The first Council meeting will take place next week on May 24th.

MARAD welcomes its continued leadership in this initiative, and we take our responsibility very seriously. We look forward to continuing our partnership with the U.S. Coast Guard and others involved in this important effort. America's marine transportation system has always delivered the goods and we intend to help make sure that this tradition continues.

Manpower Needs

Among the ongoing efforts at MARAD is the assessment of the supply of mariners to meet commercial and mobilization crewing requirements, now and in the future. Right now, MARAD is seeing and hearing of recruitment and retention problems in the seagoing workforce, just as every industry is facing labor shortages in this vibrant economy. Based on our analysis of mariner data, there are enough qualified active seafarers to crew the DOD organic fleet for a short duration, but this could dry up much of the pool. An extended mobilization of the entire government-owned surge fleet would create pressure to rotate government and commercial ship crews, by augmenting the pool with inactive mariners. There is likely to be a mismatch between available mariners and the specific skills needed to fully activate the DOD organic fleet. We are also concerned that shoreside commitments of some of the inactive mariners—such as work and family—may keep them from volunteering to serve, even with re-employment rights. These uncertainties concern us.

American Fisheries Act

The American Fisheries Act of 1998 (PL 105–277) assigned MARAD the responsibility to ensure that proper citizenship standards are adhered to for ownership of fishing vessels 100 feet or greater. New regulations will require us to rigorously scrutinize transfers of ownership or control, with particular attention to leases, charters, mortgages, and financing arrangements for fishing vessels.

The final rule to implement the new citizenship requirements of the American Fisheries Act is currently in clearance within the Department of Transportation and will be forwarded to the Office of Management and Budget shortly. Because of the complexity of the issues involved, additional time was required to complete the final rule, which we expect to publish in the Federal Register in early June.

Administrative Waivers of the Coastwise Laws for Small Passenger Vessels

Mr. Chairman, I would like to report that one of your own initiatives is now up and running at MARAD—the administrative process for waiver of the U.S.-build requirement contained in the Passenger Vessel Services Act for small vessels, which was part of the Coast Guard Authorization Act of 1998. Under this provision, MARAD is charged with establishing and administering a waiver process that allows vessels carrying less than 12 passengers to engage in coastwise transportation. Waivers are available to qualified vessels so long as the intended employment of the vessel would not harm the domestic boat building industry or the existing business of any domestically built vessel.

Final regulations were published in the Federal Register on February 11, 2000. We have received 15 applications to date, and three applications have been approved with many others close to completion. We expect to receive about fifty applications each year. We are pleased to have been selected to administer this program. It offers a fair alternative to small vessel owners who might otherwise be prohibited from employing their vessels in coastwise transportation.

Conclusion

Mr. Chairman, the successes that MARAD can claim to date did not come without help. Committee Members and staff have determined not only the amounts of our authorizations, but also how we conduct business. I noted earlier that the year 2000 represents a special one for us, a year in which we not only wish to celebrate accomplishments but to reach out as never before to industry and Congress. If we are to create the domestic maritime industry that will embody the MTS vision statement in our report to Congress last September, we need your continued support. We at MARAD welcome the responsibilities and challenges that have been given to us and pledge our determination to meet those duties fully as stewards of the public's trust.

This concludes my prepared statement. I would be happy to address any questions you may have at this time.

The CHAIRMAN. Thank you very much, Mr. Hart. Mr. DeCarli, welcome back.

STATEMENT OF RAYMOND J. DECARLI, DEPUTY INSPECTOR GENERAL, U.S. DEPARTMENT OF TRANSPORTATION

Mr. DECARLI. Good morning, Mr. Chairman, Senator Stevens, Senator Kerry. We appreciate the opportunity to be here today to discuss the reauthorization of the Maritime Administration. Our statement today will focus on three issues.

First of all, we will discuss the approval and subsequent default of the Title XI loan guarantee to Massachusetts Heavy Industries to rebuild the Quincy Shipyard, then we will talk about MARAD's growing inventory of obsolete vessels and actions needed to scrap them, then finally we will talk about the need for improved controls related to the administration of contracts for maintaining the Ready Reserve Force fleet.

Let me begin with the Quincy Shipyard, but before we begin the discussion I think it is important to point out that the loan guarantee to MHI is not a good example of MARAD's Title XI program. Of the approximately $7 billion in Title XI loan guarantees that

MARAD has made since 1985, there has been only two defaults, a vessel for $1.7 million, and the MHI loan.

The goal of the Quincy Shipyard project was to bring the once-prominent shipbuilding industry back to Massachusetts. Obviously, this was a noble objective to help rebuild the nation's shipbuilding capacity and bring jobs back to the Quincy area.

In 1995, MHI first applied for a $55 million loan guarantee. Under existing regulations, MARAD was required to ensure the economic soundness of the MHI project prior to its approval. In other words, Mr. Chairman, MARAD had to see that the MHI could produce income necessary to repay that loan. The loan guarantee request could not pass that test, and MARAD rejected it at that time.

The following year, Congress passed a temporary amendment waiving the Title XI economic soundness requirement for closed shipyards. As a result, MARAD could not apply the repayment test and MHI's loan guarantee request was approved at that time. From the time that the guarantee was approved until the default, MARAD took appropriate actions to protect the Government's interests, and that was one of the requirements in the legislation.

Prior to closing on the loan, MARAD identified 28 significant requirements MHI had to complete, and there were several important requirements in there. First of all, MHI had to give a first priority lien of all assets to the Secretary of Transportation, and then MARAD had to exercise control over all loan disbursements in an escrow account. When it became apparent that MHI did not have the resources to make its future payments, once again MARAD acted. MARAD froze the balance in the escrow account, protecting the remaining $12 million, and then conducted an inventory of all assets at the shipyard.

In January of this year, after MHI missed its December payment, the bank made a payment demand on the loan guarantee. MARAD paid $59 million to settle the guarantee. The ultimate loss to the Government as it stands right now would be about $40 million less whatever amount is recovered through the liquidation process. The pay-off amount of $59 million is offset by the $12 million that was left in the escrow account, the $6.6 million subsidy that was provided by the State of Massachusetts, and the $2.6 million loan guarantee fee paid by MHI. Future decisions on where this ends up will be dictated by decisions made in the bankruptcy court.

Let me turn now to the ship-scrapping area. MARAD currently has 114 obsolete vessels awaiting disposal, and by the end of 2001 expects to have about 155 vessels. The chart in front of you illustrates the growth trend that exists. MARAD is under a legislative mandate to dispose of its obsolete vessels by September 30, 2001. It is required also to do this in a manner that yields financial benefits, and some of that money goes to the academy and maritime schools.

MARAD will not meet either of these requirements. Environmental dangers associated with MARAD vessels which are harbored in Virginia, Texas, and California are serious. The ships contain hazardous materials such as PCBs, asbestos, lead paint, and

fuel oil. Some vessels have deteriorated to the point where a hammer can penetrate the hulls.

The picture we are about to put up shows one of those ships. This is the 56-year-old *Mission Ynez* that is at Suisun Bay, CA. This ship has been awaiting disposal for 25 years. It has holes in the topside deck. The transformers contain PCBs. It is covered with lead-based paint.

From 1991 to 1994, 80 ships were scrapped overseas. The ships were sold at an average price of about $435,000. MARAD stopped selling ships overseas for scrapping in 1994 due to EPA restrictions. Since then, MARAD had been relying on the domestic scrapping market, and quite frankly that has not worked.

As you can see from the chart, that we are displaying now, few ships have been scrapped since 1994. Proceeds from sales have dropped dramatically, and in the United States, ships are sold for about $100, and what is even more important besides the low prices, there are few companies that are interested in buying these ships.

The current approach for selling vessels for domestic scrapping does not work. Today the Navy is paying contractors to scrap fleet warships, while MARAD is asking contractors to pay to scrap its vessels. Furthermore, domestic scrapping capacity is very limited.

We recently recommended that the Maritime Administrator seek legislative approval to obtain an extension on the disposal mandate and eliminate the requirement for financial returns on vessel sales. We also recommended that MARAD develop a proposal seeking authority and funding to pay contractors to scrap vessels and target the "worst condition" vessels for priority disposal.

In its authorization request for 2001, MARAD proposed a 5-year extension to develop and implement a plan to dispose of these vessels. In our opinion, Mr. Chairman, the MARAD proposal to begin disposal within 5 years is unacceptable. Considering the condition of the vessels, the environmental risks, and the cost to maintain them, the legislation should require more. It should not only require MARAD to develop a disposal plan, but require complete or substantial disposal of all the vessels within the 5-year period.

Let me turn last to internal controls over the maintenance contracts for Ready Reserve vessels. For the past several years, we have been participating with the FBI in a law enforcement effort. That investigation has focused on bribery, fraud, and kickbacks relating to the maintenance of both military sealift command ships and Ready Reserve fleet vessels.

In August 1999, the Department of Justice announced 23 indictments and information as a result of those investigations. Two MARAD employees pleaded guilty to accepting unlawful gratuities from contractors, and MARAD took action to debar or suspend 16 companies and individuals. The MARAD actions were quite bold.

We subsequently performed an audit to evaluate the adequacy of MARAD's internal control system for awarding and managing its contracts. We found that MARAD had effective policies and procedures related to the award of the new ship's contracts. However, the administration of those contracts with ship managers and general agents needed improvement. MARAD has agreed to strengthen

its controls for administering the contract and now must follow through on the necessary corrective action.

Mr. Chairman, that completes our statement. I would be pleased to answer any questions.

[The prepared statement of Mr. DeCarli follows:]

PREPARED STATEMENT OF RAYMOND J. DECARLI, DEPUTY INSPECTOR GENERAL, U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to be here today to discuss the reauthorization of the Maritime Administration (MARAD). Our statement focuses on three issues:

(1) The approval and subsequent default on the Title XI loan guarantee for the Quincy Shipyard in Massachusetts,

(2) MARAD's growing inventory of obsolete vessels and actions needed to scrap them, and

(3) The need for improved controls related to the administration of contracts for maintaining Ready Reserve Force (RRF) vessels.

Title XI Loan Guarantee to Massachusetts Heavy Industries (MHI)/Quincy Shipyard Fails

Title XI of the Merchant Marine Act of 1936, as amended, established the Federal Ship Financing Guarantee Program. Under Title XI, businesses secure loans in the private sector, and the U.S. Government guarantees repayment in the event of default.

As of April 2000, Title XI guarantees totaled approximately $4 billion and covered approximately 81 individual shipowners operating 600 vessels and 8 shipyard modernization projects. Of the approximate $7 billion in Title XI guarantees issued since 1985, MARAD has experienced only two defaults—a vessel for $1.7 million, and MHI. The goal of the MHI/Quincy Shipyard project was to bring the once prominent shipbuilding industry back to Massachusetts.

On December 19, 1995, MHI submitted an application for a $55 million loan guarantee to MARAD to reactivate and modernize the former Fore River Shipyard in Quincy, Massachusetts. MARAD was required to ensure the economic soundness of the loan guarantee application prior to its approval. In other words, MARAD had to see that MHI could produce the income necessary to repay the loan. Because the application did not include any firm shipbuilding contracts, MARAD questioned the economic soundness of MHI's proposal and rejected the application.

As a result of Congressional interest in the MHI/Quincy project, the Coast Guard Authorization Act of 1996 contained a provision waiving the Title XI economic soundness requirement for reactivation and modernization of closed shipyards in the United States. This provision was enacted only for one year and expired in 1997. Under this provision, MARAD concluded that the MHI application qualified for a Title XI loan guarantee. On November 1, 1996, MARAD approved the loan guarantee and issued a $55 million letter commitment to MHI.

Prior to closing on the loan guarantee, MARAD appropriately took a number of actions to protect the Government's interest. MARAD identified 28 significant requirements for MHI to complete, including granting a first priority lien on all assets to the Secretary of Transportation and establishing a MARAD-controlled escrow account for disbursing the loan.

In June 1999, MHI missed its scheduled loan payment and asked to defer that payment until December 1999. With the lender's concurrence, MARAD approved the deferral.

MHI made progress on the shipyard modernization until August 1999, when a dispute arose with the general contractor. MHI had torn down and refurbished buildings, purchased and began installing equipment, and made repairs to reactivate cranes. Approximately $47 million was spent out of the escrow fund to cover these and other expenses. However, the shipyard is not operational and considerable work remains to be done. The drydocks have not been repaired, equipment is still in crates, and machinery has been exposed to the elements. The Environmental Protection Agency (EPA) has advised MARAD that there are environmental problems in the shipyard that require remediation. MARAD estimates that cleanup costs could approach $1 million.

When it became apparent that MHI did not have the resources to make its future loan payments, MARAD again acted to protect the Government's interest. In September 1999, MARAD froze the balance in the escrow account and conducted an inventory of all assets at the shipyard.

In January 2000, after MHI missed its December 1999 payment, the bank made a payment demand on the loan guarantee. MARAD paid $59.1 million to settle the guarantee on February 25, 2000. However, the ultimate loss to the Government, and, ultimately the taxpayer, will be offset by the balance in the loan escrow account ($12 million), the original subsidy provided by the State of Massachusetts ($6.6 million plus accrued interest), the loan guarantee fees ($2.6 million), and whatever amount is recovered through liquidation.

Although MARAD has a first priority lien, the amount that can be recovered through liquidation cannot be determined at this time. First, the value of the shipyard and equipment is uncertain so MARAD has initiated an independent appraisal. Also, the resolution of MHI's plea to reorganize because of bankruptcy could impact MARAD's ability to recover additional funds.

Even before the loan guarantee was approved, this Committee asked us to review MARAD's actions to ensure taxpayer interests were protected. Since 1997, we have issued four reports related to the loan guarantee. Our primary concern throughout has been the absence of any firm contracts to build ships once the shipyard is completed. There was always a 6-ship foreign deal requiring another MARAD loan guarantee dangling as a possibility—but it never materialized and always appeared doubtful as a source of future revenue for the shipyard. MARAD was responsive to the majority of our recommendations, but stated the Congressional directive to waive the economic soundness criteria prevented it from acting on our recommendations to require evidence of contracts or sources of income.

MARAD's Inventory of Obsolete Vessels Is Growing, A Realistic Disposal Plan Is Needed

MARAD currently has 114 obsolete vessels awaiting disposal that require continued maintenance at taxpayer expense. MARAD is under a legislative mandate to dispose of its obsolete vessels by 2001 in a manner that will yield financial benefits. MARAD will not meet these requirements.

Environmental dangers associated with these old, deteriorating ships increase daily. The so-called "worst condition" vessels are about 50 years old and have been awaiting disposal 22 years on average. These vessels contain hazardous materials such as PCBs, asbestos, and fuel oil. Some vessels have deteriorated to the point where a hammer can penetrate their hulls. In addition, the inventory of obsolete vessels awaiting disposal is increasing, and MARAD expects to have 155 by the end of fiscal year (FY) 2001.

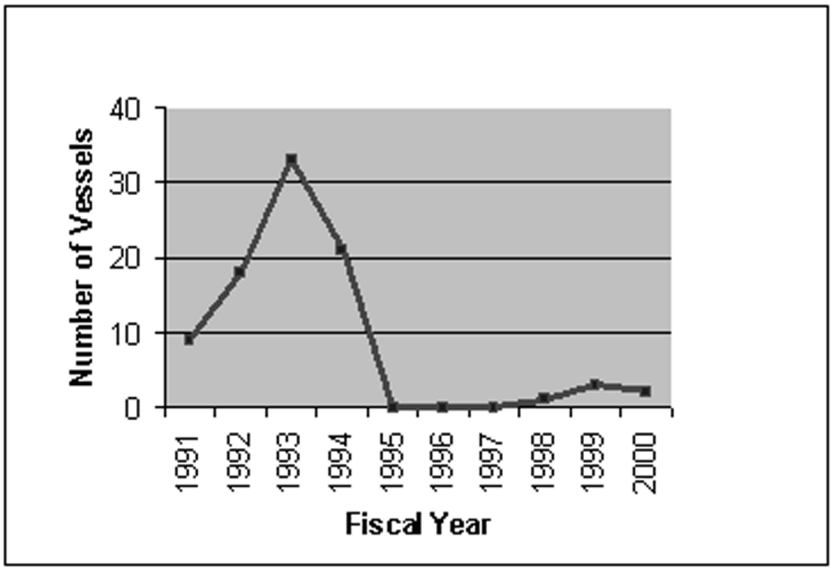
Vessels Awaiting Disposal at Suisun Bay Reserve Fleet

MARAD stopped selling vessels overseas for scrapping in 1994 due to EPA restrictions. In 1998, the Administration placed a moratorium on all sales of vessels for scrapping overseas. Although the moratorium expired in October 1999, MARAD has refrained from exporting obsolete vessels.

Since 1995, few vessels have been scrapped because there is limited domestic scrapping capacity. Although MARAD sold 22 vessels to domestic scrappers, only 7 have been scrapped. Last month two additional vessels were towed to scrapping

sites. The remaining 13 vessels are still in MARAD's Fleet, and recent contractor defaults raise a question as to whether these vessels will be removed. This represents a significant change from 1991 through 1994 when 80 ships were sold overseas at an average price of $433,000 per vessel. Recent sales yielded between $10 and $105 per vessel.

MARAD Vessels Scrapped



The current approach of selling obsolete vessels for domestic scrapping will not work in today's marketplace. MARAD cannot compete with a Navy pilot program that is paying contractors to scrap obsolete warships while it is asking contractors to pay to scrap its vessels. A program similar to the Navy's would require about $500 million to scrap the 155 vessels MARAD expects to have for disposal in 2001.

While MARAD has been pursuing ways to improve scrapping sales, its ability to explore creative solutions for disposing of vessels is constrained by the requirement to maximize financial returns. Also, the programs and alternatives MARAD is pursuing have capacity limitations and, therefore, do not have the potential to significantly reduce the backlog of vessels in a timely manner. These alternatives include: coordinating with the Navy and a west coast company on a proposal for a potential scrapping site; participating in interagency work groups to look for innovative ways to improve the ship scrapping process; and requesting approval from EPA to sell vessels to overseas markets.

We recently recommended that the Maritime Administrator seek legislative approval to obtain an extension on the disposal mandate and eliminate the requirement to gain financial returns on vessel sales. We also recommended that MARAD develop a proposal seeking authority and funding to pay contractors to scrap vessels, and target the "worst condition" vessels for priority disposal.

In its authorization request for FY 2001, MARAD proposed a 5-year extension "to develop and begin implementing a plan to dispose of these vessels." We do not believe it is acceptable to begin disposal within five years considering the condition of some of the vessels, the environmental risks, and the costs to maintain them. In our opinion, the legislation should require MARAD to develop a disposal plan and substantially dispose of these vessels within 5 years.

Internal Controls Over Maintenance Contracts for RRF Vessels Need to Be Strengthened

Since 1996, we have participated in a joint law enforcement task force led by the FBI. The task force investigated bribery, fraud, and kickbacks involving contracts for vessels in the Military Sealift Command and MARAD's Ready Reserve Fleet.

In August 1999, the Department of Justice announced 23 indictments and informations, as a result of the investigation. Two MARAD employees pleaded guilty to accepting unlawful gratuities from contractors, and MARAD and the Navy took action to debar or suspend 22 companies and individuals.

In light of the problems identified in the investigation, we reviewed MARAD's internal controls for the ship manager program. We found that MARAD implemented effective policies and procedures relating to the award of the ship managers' contracts. However, the administration of these contracts and those covering general agents needed improvement.

Specifically MARAD:

• Advanced $63 million to general agents without supporting documentation that costs were incurred,

• Allowed ship manager contractors to issue numerous noncompetitive subcontracts without required documentation, and

• Did not consistently ensure payments were for actual costs incurred and were related to the work performed.

MARAD agreed to strengthen its controls for administering ship managers' contracts. MARAD officials must now follow through on the actions they agreed to take.

Title XI Loan Guarantee to Massachusetts Heavy Industries (MHI)/Quincy Shipyard Fails

Title XI of the Merchant Marine Act of 1936 (as amended) authorizes the Secretary of Transportation to make loan guarantees to finance the construction, reconstruction, or reconditioning of eligible export vessels and the modernization and improvement of shipyards. Under this Title XI program, which is administered by MARAD, businesses secure loans in the private sector, and repayment is guaranteed by the U.S. Government. One of the criteria for eligibility for most loan guarantees is that the applicant's proposed project be economically sound.

Original Modernization Proposal Did Not Meet Title XI Criteria

On December 19, 1995, MHI submitted to MARAD an application for a loan guarantee of $55 million to reactivate and modernize the closed Fore River Shipyard located in Quincy, Massachusetts. The shipyard historically built military vessels, and MHI was seeking to reactivate it as an internationally competitive commercial shipyard. Because MHI's proposal did not include firm shipbuilding contracts, there were questions as to whether the shipyard would generate sufficient revenue to repay the guaranteed loan. MARAD concluded that the criterion that projects be economically sound was not met and rejected this application.

Congress Waived Economic Soundness Criteria

As a result of Congressional interest, the Coast Guard Authorization Act of 1996 contained a provision temporarily amending a key requirement of the Title XI loan guarantee program. Specifically, the amendment waived the economic soundness requirement for reactivation and modernization of closed shipyards in the United States. MARAD concluded that MHI's application for the closed Fore River Shipyard qualified for consideration under the amendment.

Although the amendment waived the economic soundness requirement, it required the Secretary of Transportation to "impose such conditions * * * as are necessary to protect the interests of the United States from the risk of default." On November 1, 1996, MARAD approved the loan guarantee and issued a $55 million letter commitment to MHI for reactivating the closed shipyard.

MARAD Acted to Protect the Government Interest Prior to Loan Guarantee Approval

The letter commitment contained 28 significant provisions to protect the interests of the U.S. Government including requirements that:

1. The State of Massachusetts deposit $6.6 million in cash, bonds, or a letter of credit to be held in a financing account (this amount equates to the required subsidy rate of 12 percent);

2. MHI have at least $3 million in capital available to ensure its ability to operate as a going concern to support normal operating expenses and routine start-up costs associated with the proposed project;

3. MHI have $2.6 million of its own funds available for use on the project to ensure that MHI stockholders have a personal stake in the project;

4. MHI grant the Secretary of Transportation a first priority lien on all assets, land, and other real and personal property owned or acquired by MHI to ensure, in case of default on the loan guarantee by MHI, that the U.S. Government has the right to assume ownership and sell the property to recover its funds; and

5. MHI deposit proceeds from the loan into an escrow account controlled by the Secretary of Transportation.

MARAD Recognized the Loan Guarantee to MHI Was High Risk

In order to limit the Government's potential losses, Title XI loan guarantee applicants (or in this case the State of Massachusetts) are required to submit to MARAD, at the beginning of the loan, resources to cover a percentage of the loan. This percentage, known as the subsidy rate, depends on MARAD's assessment of the applicant's risk of default. The higher the risk, the larger the subsidy rate.

MARAD assesses the risk of an applicant's default by assigning points to 10 different factors, weighted by importance. Also, subsidy rates can change over the term of the loan guarantee if the risk changes. To keep the subsidy rate in line with the risk, the Office of Management and Budget requires reassessments if actual events differ from the assumptions of the original assessment.

On November 7, 1997, prior to closing on the loan guarantee, we reported that MARAD had held MHI to the requirements of the letter commitment and followed applicable Title XI loan guarantee regulations. Our report recommended MARAD: (1) reassess the risk factor rating for MHI's application, and when reassessed, take appropriate actions; (2) require evidence of shipbuilding contracts or alternative sources from which revenues could be generated to repay the guaranteed loan; and (3) ensure MHI fulfills the remaining requirements contained in the letter commitment. While MARAD generally agreed with the recommendations, it was unable to implement the first two recommendations.

Based on a legal opinion by the Office of the Secretary of Transportation's Deputy General Counsel, dated November 12, 1997, MARAD concluded it had no legal authority to reassess the risk factor rating prior to closing. MARAD also said that the Coast Guard Authorization Act precluded it from requiring MHI's project to meet the economic soundness provision and was precluded from requiring evidence of viable shipbuilding contracts or alternative sources from which revenues could be generated to repay the guaranteed loans because these requirements were not stipulated in MARAD's letter commitment.

On December 17, 1997, we reported (Report Number MA–1998–048) our concern that MARAD was not planning to reassess the risk factor on the loan guarantee prior to closing. MARAD agreed to reassess the risk but suggested delaying any reassessment of risk until the last quarter of 1998, thereby giving MHI the opportunity to demonstrate that modernization is underway and that MHI is "aggressively marketing its products."

In a July 31, 1998 memorandum from the acting MARAD Administrator, we were informed that MARAD had ". . . completed a reestimation of the risk rating of MHI . . . . and can find no basis to change our original estimate. . . ." The assessment attached to the memorandum showed that the loan guarantee was rated as high risk.

MARAD's July 31, 1998 memorandum also stated that "The only change in the circumstances underlying our assessment is that MHI has entered into a technology transfer agreement with South Korea's Halla Engineering and Heavy Industries, one of the most advanced yards in Asia." This change would enable MARAD to assign MHI more points for "Historical Experience," but the additional points would not be sufficient to change the overall risk assessment. The memorandum also stated that MHI was actively pursuing a shipbuilding project with Intermare, a ship owner.

An application for a Title XI loan guarantee, for the project with Intermare, was received by MARAD in February 1996. Although there were major outstanding issues regarding this shipbuilding project, MARAD stated there was a reasonable basis to conclude that the Intermare proposal was still viable.

Risk of Default by MHI Materially Increased

In June 1999, MHI defaulted on its $1.55 million "interest only" payment owed to Fleet National Bank. A May 27, 1999 letter to MARAD, from attorneys representing MHI, cited unavoidable delays in reactivating the shipyard. According to the letter, the delays increased costs, and funds for the June 1999 payment were used instead for shipyard construction. MHI's attorneys requested approval from MARAD to delay the June 1, 1999 payment for 6 months (until December 1, 1999). In a written reply to MHI, dated July 7, 1999, MARAD requested MHI provide specific additional information demonstrating that the shipyard will be a going concern after completion of the reactivation. According to MARAD, this information was needed to assess the reasonableness of MHI's extension request. MARAD received this information in late July and early August 1999.

MHI's failure to make the June 1, 1999 payment, the request for a 6-month extension to make the payment, and lack of a shipbuilding project indicated a major change in MHI's risk of default. On July 20, 1999 (Report Number MA–1999–115), we recommended that MARAD:

1. Reassess the risk factor rating for MHI's loan guarantee as prescribed by OMB Circular Number A–11, and make the required adjustment to the subsidy rate.
2. Ensure it has all of the information required by the Title XI program to protect the interests of the United States from default prior to making a decision on MHI's request to defer its June 1, 1999 payment.
3. Ensure that MHI provides complete and current information as required by the Title XI program prior to making a decision on the loan guarantee application by Intermare.

In its August 6, 1999 response to our report, MARAD advised us that it would reassess the risk factor rating by December 1, 1999. According to MARAD, this would "allow sufficient time for the shipyard modernization to be completed and for MARAD to determine whether MHI will be able to finalize the Intermare shipbuilding contract on a viable basis."

On July 12, 1999, the mortgage holder informed MARAD that it intended to make a demand for payment under the guarantee on or about August 1, 1999, unless MHI's request to defer the missed payment was approved. On August 6, 1999, MARAD approved the deferral of MHI's missed June 1, 1999 "interest only" loan payment to December 1, 1999.

Work on Shipyard Modernization

On August 17, 1999, MHI's general contractor (and its subcontractors) for the shipyard modernization project walked off the job because of payment disputes of $3 million. The general contractor claimed it had not been paid since April 1999, when only a partial payment was made. On August 30, 1999, MARAD: (1) declared contractor default and formally terminated MHI's general contractor for the shipyard modernization project, and (2) called on the surety company to perform under the terms and conditions of the performance bond.

In a September 15, 1999 report (Report Number MA–127), we recommended that MARAD take action to immediately freeze the uncommitted balance in MHI's escrow account, conduct a physical inventory of all assets and property owned by MHI, and ensure the assets and property are safeguarded from loss or unauthorized disposition. MARAD agreed with our recommendations and took the necessary actions.

MHI Failed to Make Loan Payments and Bank Called Loan Due

On December 1, 1999, MHI missed its deferred "interest only" payment, as well as its regularly scheduled principal and interest loan payment to Fleet Bank. During the 30-day grace period, MARAD approved an extension to January 29, 2000 to make the payment. During this period, MHI continued to request additional extensions. On January 28, 2000, Fleet National Bank made a demand for payment under the MARAD guarantee.

On February 25, 2000, MARAD paid off the Fleet Bank loan of $59.1 million and ordered MHI personnel to vacate the shipyard. MARAD immediately recovered $12 million from MHI's escrow account and applied $6.6 million plus accrued interest that was deposited by the State of Massachusetts and the $2.6 million in loan guarantee fees to the payoff, thereby lowering MARAD's exposure to $36.6 million. This exposure will be further reduced because MARAD has first priority lien in liquidation proceedings. The value of the shipyard, and equipment in it, is unknown at this time. On May 8, 2000, MARAD contracted to have the shipyard real estate and equipment appraised. After paying off Fleet Bank, MARAD presented a claim to MHI for $47 million, plus accrued interest, on the principal amount.

On March 13, 2000, MHI sought bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. MHI has until July 11, 2000, to propose a reorganization plan in U.S. Bankruptcy Court. However, MARAD is scheduled to ask the Court to permit it to foreclose on MHI.

Last week, the EPA advised MARAD that there are environmental problems in the shipyard that require remediation. MARAD estimates that cleanup costs could approach $1 million.

MARAD is Making Little Progress Scrapping its Obsolete Vessels

The Merchant Ship Sales Act of 1946 created the National Defense Reserve Fleet (NDRF), a Government-owned and administered Fleet of inactive, but potentially useful, merchant and non- military vessels to meet shipping requirements during National emergencies. MARAD administers the Fleet, and the Department of Defense provides the funding to maintain the Fleet. The Federal Property and Administrative Services Act gave MARAD responsibility for disposing of all Federal Gov-

ernment merchant-type vessels of 1,500 gross tons or more. The National Maritime Heritage Act of 1994 required MARAD to dispose of obsolete vessels in the Fleet by September 30, 1999, in a manner that maximizes financial return to the United States, but the Act was amended to extend the original disposal date by 2 years, from 1999 to 2001.

Current Inventory and Age of Vessels

As of April 30, 2000, 114 obsolete vessels were designated for disposal because the majority of them are no longer operational. Ninety-one of the 114 vessels are slated for scrapping. The remaining 23 vessels will be disposed of through the fish reef program, used by a state or Federal agency, or held for useful parts and equipment.

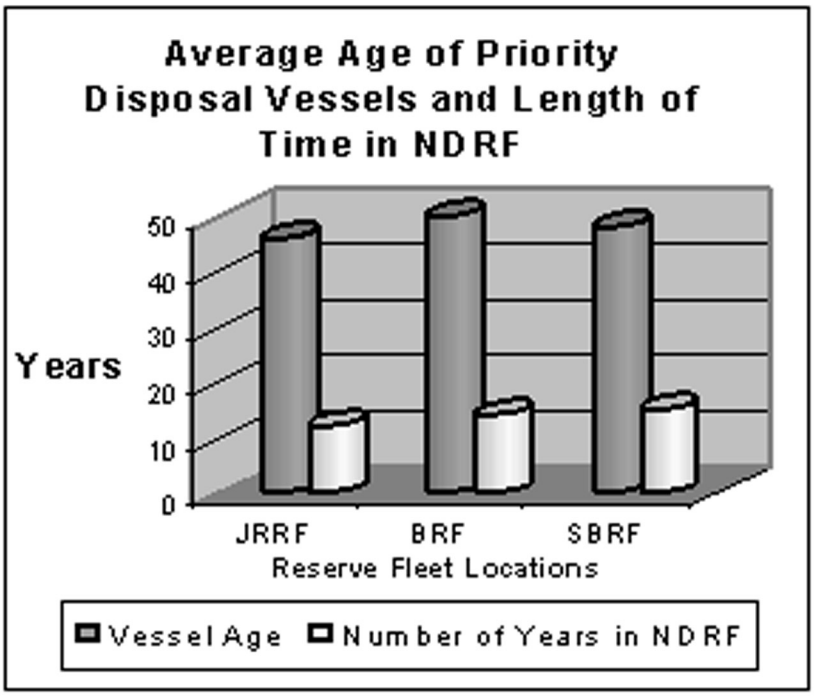
MARAD maintains the inactive vessels in the water at the following locations:

- James River Reserve Fleet (JRRF) at Ft. Eustis, Virginia (61 vessels);
- Beaumont Reserve Fleet (BRF) in Beaumont, Texas (9 vessels); and
- Suisun Bay Reserve Fleet (SBRF) in Benecia, California (42 vessels).

The Coast Guard holds two vessels in Mobile, Alabama.

As shown in the following chart, the average age of the 114 obsolete vessels is 48 years. These vessels have been in the Fleet for an average of 15 years.

Average Vessel Age

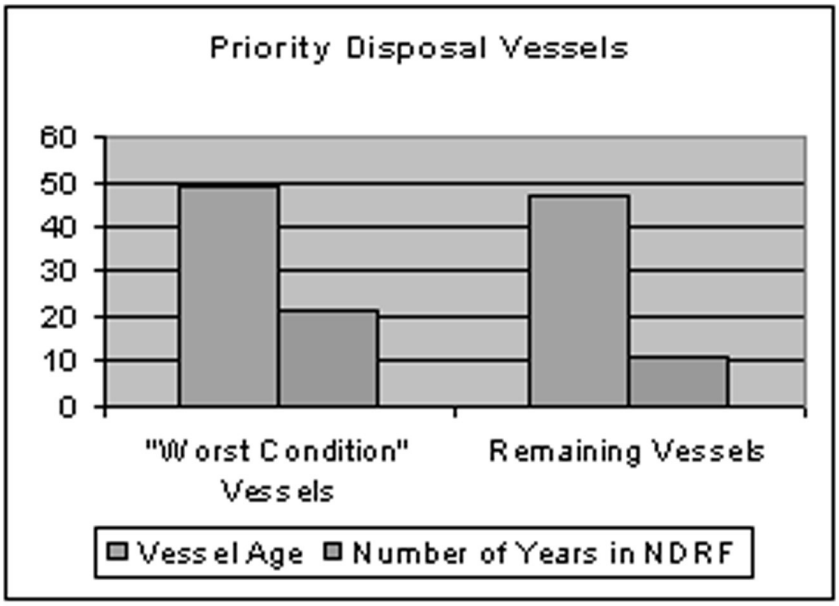


Obsolete Vessels Pose Environmental Risk

The 114 obsolete vessels currently awaiting disposal pose environmental risks because they are deteriorating, contain hazardous materials, and contain oil that could leak into the water. These vessels are literally rotting and disintegrating as they await disposal. Some vessels have deteriorated to a point where a hammer can penetrate their hulls. They contain hazardous substances such as asbestos and solid and liquid polychlorinated biphenyls (PCBs). If the oil from these vessels were to enter the water, immediate and potentially very expensive Federal and state action would be required.

In 1999, MARAD identified the 40 "worst condition" vessels. These vessels were classified as "worst condition" due to their severe deterioration and threat to the environment. As of April 30, 2000, 3 of the 40 had been moved out of the Fleet to domestic scrappers.

Worst Condition Vessel Ages



The remaining 37 "worst condition" vessels have been in MARAD's Fleet for an average of 22 years, are in particularly bad condition, and may require additional or special maintenance. Our inspection of 11 of the original 40 "worst condition" vessels revealed corrosion, thinning, and rusting of the hull; asbestos hanging from pipes below deck; lead-based paint easily peeled from the ship; solid PCBs (in cabling); and in some instances, remnants of liquid PCBs in electrical equipment.

Deteriorating Vessel at James River Reserve Fleet

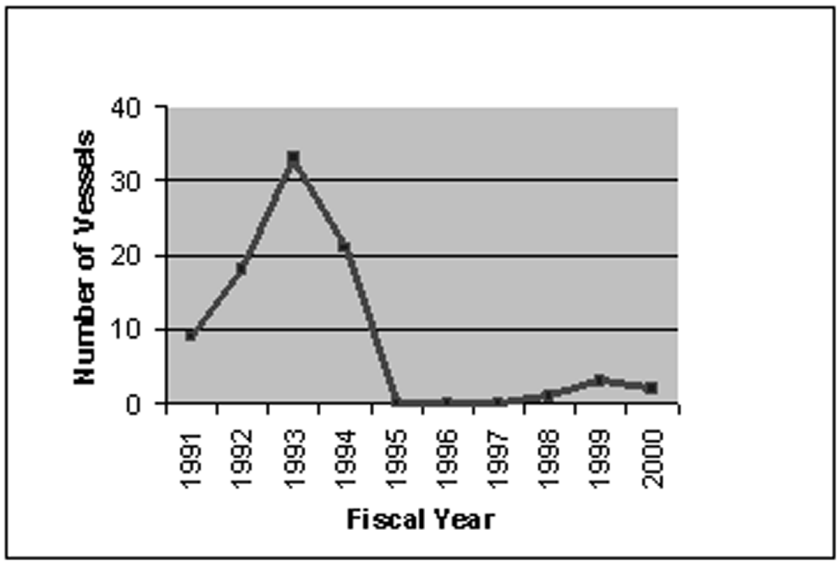
Costs to maintain these vessels will likely increase due to their deteriorating condition, leaks, and the need for additional time-sensitive maintenance. For example, MARAD spent $1.3 million to maintain 1 of the 40 "worst condition" vessels over the past 2 years. This vessel is over 35 years old, contains hazardous substances including asbestos, and it deteriorated to the point where oil leaked into the water requiring costly environmental clean-up. MARAD has applied over 20 patches to leaks, removed hazardous materials, deployed containment booms, and pumped oil out of the vessel. The vessel is disintegrating to a point where it will not be seaworthy much longer. Monitoring efforts for this vessel are ongoing.

Loss of Overseas Market and Limited Domestic Capacity Reduced Scrapping Progress

Although MARAD has sold 22 vessels since 1995, only 7 have been scrapped. Two other vessels have been towed to scrapping sites. The remaining 13 vessels sold are still moored in MARAD's Fleet, requiring continued maintenance at U.S. Government expense.

As shown in the following chart, this rate of progress is a significant change from previous years when vessels were sold to overseas scrappers.

MARAD Vessels Scrapped



Between 1991 and 1994, MARAD sold 80 vessels overseas for scrapping at an average price of $433,000 per vessel. During the past year, vessel sales yielded between $10 and $105 per vessel. On October 25, 1999, MARAD sold three vessels for $10 per vessel. The most recent sale was for two vessels at $105 per vessel on December 21, 1999.

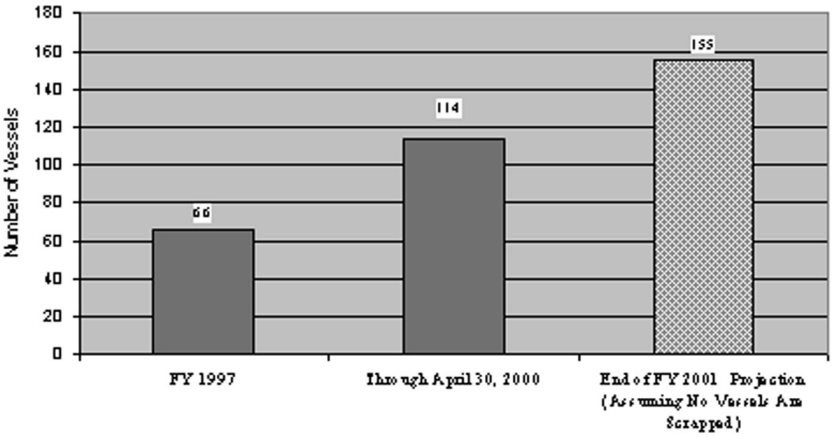
MARAD suspended the sale of vessels to overseas scrappers in 1994 because the EPA prohibited the export of Government-owned ships containing PCBs.

In September 1998, an Administration moratorium halted all sales of Government-owned vessels for scrapping overseas. As a result, MARAD has been relying on the domestic market, but capacity in the domestic market is limited. In the 1970s, there were 30 U.S. contractors in the ship scrapping industry. Over the past 19 months, however, only four companies have bid on MARAD's scrapping contracts and passed MARAD's technical compliance review to scrap vessels. Additional companies are not attracted to this industry because of the low profits currently available. Scrap steel prices in the United States are low and contractors must comply with environmental regulations. According to scrapping company officials, the number of vessels that a contractor can scrap at one time is approximately 1 to 5 vessels.

The Number of Vessels Awaiting Disposal Is Increasing

The number of obsolete vessels has almost doubled over the last 2 years. MARAD expects its inventory of obsolete vessels awaiting disposal will increase to 155 vessels by the end of FY 2001, as shown in the following chart.

Vessels Awaiting Disposal



This projected increase is due to additional vessel transfers from the Navy, downgrades of other NDRF vessels to obsolete status, and the inability to sell ships for scrap. Of the 155 vessels, 132 will be targeted for scrapping. Although the remaining 23 vessels are slated for other forms of disposal, some of these may be transferred into the scrapping category in future years if they cannot be disposed of through other means.

The Navy's Pilot Project May Be a Model for MARAD

The Department of the Navy experienced a similar inability to sell its combatant vessels for domestic scrapping. In 1998, Congress authorized and appropriated funding for a Navy pilot project for the disposal of obsolete warships. Under the pilot project, the Navy is not subject to a legal requirement to maximize financial returns on its obsolete vessels. On September 29, 1999, the Navy awarded four contracts amounting to $13.3 million for the scrapping of four warships.

The purpose of the Navy project is to quantify the costs associated with ship scrapping, which could lead to the disposal of 66 warships. If MARAD were authorized to implement such a project, it could cost as much as $515 million to dispose of the obsolete vessels that MARAD expects to have by the end of FY 2001.

Alternatives Offer Potential but Will Not Solve the Problem

While MARAD has been pursuing ways to improve scrapping sales, its ability to explore creative solutions for disposing of vessels is constrained by the requirement to maximize financial returns. Also, the programs and alternatives MARAD is pursuing do not have the potential to significantly reduce the backlog of vessels awaiting disposal in a timely manner. We have identified some additional alternatives that MARAD has not pursued that may have the potential to contribute to the goal of disposing of obsolete vessels.

Programs to improve scrapping sales and alternatives MARAD is pursuing include: coordination with the Navy and a West Coast Company on a proposal for a potential scrapping site; participation in interagency work groups to look for innovative ways to improve the ship scrapping process and establish consistent procedures; donation of vessels designated for disposal for uses such as museums and the fish reef program, given legislative or executive approval; and coordination with the Navy on its program to sink vessels in deep water after hazardous materials are removed.

MARAD may be able to explore alternatives that have the potential to assist in disposing of some of its vessels such as: selling vessels to other countries for non-military uses, given legislative approval and approval from the EPA to sell vessels to overseas markets that are capable of scrapping them in an environmentally compliant manner. According to MARAD, selling vessels overseas for non-military uses would require a change in the law that only allows MARAD to sell vessels for disposal or non-transportation use. However, legislation was passed in 1996 for four vessels to be sold on a competitive basis for operational use. One vessel was sold in 1999 and bids on two vessels are currently under review. The fourth vessel requires an EPA approval, which MARAD requested April 1999.

During the moratorium on overseas sales from 1998 to January 1, 1999, MARAD could not request any exceptions for exporting vessels. However, since January 1, 1999, it could have requested exceptions to this prohibition through the Chair of the Council on Environmental Quality. To obtain an exception, MARAD would have to ensure that vessels sold overseas would be scrapped in an environmentally sound and economically feasible manner. MARAD, however, has not requested any exceptions to sell vessels overseas.

Recommendations Based on Recent Audit

In our March 10, 2000 audit report, MA–2000–067, we recommended that the Maritime Administrator:

1. Seek legislative approval to extend the 2001 mandate to dispose of obsolete vessels and to eliminate the requirement that MARAD maximize financial returns on the sale of its obsolete vessels.
2. Continue to pursue programs to improve scrapping sales and identify alternative disposal methods that can contribute to the goal of reducing the number of obsolete vessels awaiting disposal, to include working with the Navy on the results of its studies on the environmental impact of sunken vessels.
3. Develop a proposal for submission to Congress seeking approval and funding for a project to pay contractors for vessel scrapping. The proposal should include a plan to target the "worst condition" vessels first, identify funding and staffing requirements, and provide milestone dates to dispose of all obsolete vessels.

MARAD concurred with our recommendations. In its FY 2001 authorization request, MARAD proposed a "five year extension [in the deadline that] will provide MARAD with additional time to develop and begin implementing a plan to dispose of these vessels." Considering the condition of some of the vessels, the environmental risks, and the costs to maintain them, we find the MARAD proposal unacceptable. MARAD must develop and implement a disposal plan for its obsolete vessels once legislative approval is obtained for an extension.

MARAD also needs to obtain legislative approval allowing it to eliminate the requirement to maximize financial returns on vessel sales. This would then allow MARAD to seek funding for a pilot program, similar to the Navy's, whereby it would pay for vessel scrapping. MARAD should focus first on disposing of its "worst condition" vessels and so state that in its plan.

MARAD should also continue to coordinate with the Navy on its disposal programs and seek legislative approval to sell vessels in the Fleet that are still operational, but will eventually become obsolete, to overseas companies for continued use. MARAD should also request exceptions from EPA to sell vessels to overseas scrappers that meet the environmental standards. A requirement for MARAD to report on its progress should be included in all legislative mandates.

Recent Legislative Actions Propose Different Solutions But MARAD Has Yet to Develop a Plan for Either

On April 5, 2000, a Bill was introduced in the House of Representatives to authorize funding for a ship scrapping pilot project for MARAD that would allow MARAD to pay qualifying U.S. shipyards to scrap its obsolete vessels. Such a program would help MARAD dispose of some of its vessels by generating interest among existing U.S. companies. Furthermore, this program would provide jobs for qualified workers in the areas selected. The Navy's current project would provide a model for MARAD. However, the average time to scrap a MARAD vessel is 4 to 6 months, and additional time would be required to implement such a program, while these vessels continue to be maintained at Government expense. MARAD's rate of progress indicates that this would serve as a long-term solution.

On May 1, 2000, a Bill was introduced in the Senate on MARAD's FY 2001 Authorization, to include a 3-year extension on disposing of its obsolete vessels and to allow for the disposal of MARAD's 39 "worst condition" vessels in foreign countries. The 3-year extension will provide additional time for MARAD to develop a plan to dispose of its vessels, which is a requirement in this proposed bill. As noted earlier, MARAD did not develop an implementation plan during its original extension from 1999 to 2001. In a February hearing, Congressmen noted that MARAD did not prepare a plan to dispose of its vessels during the original extension, and questioned whether MARAD would develop such a plan during this second extension.

The allowance for MARAD to again sell vessels overseas for scrapping would assist in disposing of its "worst condition" vessels that require high maintenance. However, MARAD would still be required to request approval from EPA to sell these vessels to overseas markets that are capable of scrapping them in an environmentally compliant manner. Additionally, the environmental and worker safety and health concerns in some countries remain and could continue to prohibit this prac-

tice. According to MARAD officials, it has coordinated with a scrapping company in Mexico that reportedly meets the environmental requirements and standards for its workers, although MARAD has not pursued this as a viable option due to the continual environmental and worker safety and health concerns.

Internal Controls Over Maintenance Contracts for Ready Reserve Force (RRF) Vessels can be Improved

In 1976, a Memorandum of Agreement between MARAD and the Department of Defense established the RRF as a component of the National Defense Reserve Fleet. MARAD is responsible for maintaining the RRF vessels in a heightened state of readiness so that they can be activated in 4 to 30 days to meet shipping requirements during National emergencies. As of March 2000, the RRF was composed of 91 militarily useful vessels with an estimated value of $1.58 billion.

MARAD administers RRF vessel acquisition, upgrade, activation, maintenance, operations, and subsequent deactivation through ship manager contracts and general agency agreements. Ship manager contracts are awarded to ship management companies, through competitive bids, to maintain vessels in the RRF. General agency agreements are issued to ship management companies and are usually used when a new vessel is acquired or a ship manager contract is terminated.

Three MARAD regional offices (Norfolk, Virginia; New Orleans, Louisiana; and San Francisco, California) administer the ship managers' contracts and general agency agreements. During the period of our audit, 57 vessels were maintained under ship manager contracts, and 32 vessels were maintained under general agency agreements. Two vessels, assigned for training purposes, were not maintained by either a ship manager or a general agent.

Fraud Identified in Department of Defense and MARAD Ship Managers' Contracts

The Federal Bureau of Investigation (FBI), Defense Criminal Investigative Service and the Naval Criminal Investigative Service initiated an investigation in 1994 to look into potential kickbacks between ship managers managing Military Sealift Command vessels and their subcontractors. The FBI named their investigation "Operation Octanova." MARAD was not the initial focus of the investigation, but we joined the investigation in 1996 because MARAD and the Military Sealift Command use the same contractors.

The investigation identified fraud and kickbacks involving contracts to maintain RRF vessels. In August 1999, the Department of Justice announced Federal indictments and informations of 2 companies and 21 individuals, including 2 MARAD employees. One MARAD employee in Beaumont, Texas subsequently pleaded guilty to accepting a large screen television and a videocassette recorder from a contractor. The contractor inflated invoices by the costs of the items given to the employee. A second MARAD employee in Norfolk, Virginia, also pleaded guilty to soliciting and accepting over $10,000 from an undercover agent who he believed was a potential ship repair contractor. The employee agreed to assist the contractor in being awarded a future contract. Also, in October 1999, we announced that a former MARAD employee had been charged for receiving $60,000 in unreported income to "put in a good word" for a ship repair company, which was subsequently awarded Navy contracts. This former MARAD employee also pleaded guilty.

As a result of the investigation, MARAD and Department of the Navy took aggressive debarment and suspension actions against 6 companies and 16 individuals. Also, a ship manager voluntarily withdrew from the program and numerous ship manager employees were convicted for accepting kickbacks to influence the award of subcontracts. In many of the kickback schemes, contractors recouped the money by submitting fraudulently inflated invoices.

Failure to Implement Controls Over Ship Managers' Contracts Create Vulnerabilities

During the joint investigation, we initiated an audit on RRF Ship Managers' Contracts, and in a report issued on May 12, 2000, we found that MARAD implemented effective policies and procedures relating to the award of ship manager's contracts. However, this was in sharp contrast to its failure to implement controls for the administration of these contracts. We found that MARAD has not adhered to established procedures and practices for administering the ship managers' contracts and general agency agreements.

Specifically, we found MARAD was not following existing procedures to ensure that payments to general agents and ship managers were for actual costs incurred, related to cited work orders, and did not duplicate previously paid invoices. For example, MARAD's Central and Western Regions paid $63.7 million during fiscal years 1998 and 1999 to general agents without supporting documentation that costs were incurred. Work orders did not adequately describe the work authorized, making it difficult for MARAD personnel to validate payments during the invoice review

process. Work orders were not closed timely, allowing the opportunity for ship managers to use funds from open work orders for unrelated work.

Finally, we reported that MARAD was not ensuring that ship managers justified the award of non-competitive subcontracts. We found a high percentage of subcontractor awards that did not comply with the Federal Acquisition Regulation. Ship managers often awarded subcontracts non-competitively, without required documentation justifying awards. Unjustified non-competitive awards create the potential for improper business dealings between ship managers and subcontractors and increase the potential for kickbacks. Therefore, MARAD has limited assurance that Federal funds are expended in a manner that is most advantageous to the Government.

When MARAD personnel do not follow existing procedures, they compromise their ability to ensure that Federal funds are expended for items received or for work authorized and performed. The control weaknesses we identified contribute to an environment where there is an increased risk of fraud occurring.

MARAD Agreed to Strengthen Controls Over Ship Managers' Contracts

In light of the recent joint investigation and audit on MARAD's controls over ship managers' contracts, MARAD has agreed to strengthen its procedures and practices for administering ship managers' contracts and general agency agreements. Specifically, MARAD agreed to:

1. Instruct regional employees on existing procedures for processing invoices and provide sufficient oversight to ensure that these procedures are followed.
2. Provide detailed, self-explanatory work statements, specifications or descriptions on all work orders.
3. Periodically review open and inactive work orders to identify those that should be closed, and reprogram any remaining funds.
4. Reinstate periodic reviews of ship manager procurement actions, including documentation justifying sole-source subcontractor awards and indications of split purchases.

MARAD must now follow through on the actions they agreed to take.

Mr. Chairman, this concludes our statement. I would be pleased to answer any questions.

Attachment

Department of Transportation Office of Inspector General

Summaries of Related Audit Reports

Status Update Massachusetts Heavy Industries, Inc. Title XI Loan Guarantee

(Report Number MA–1999–127, September 15, 1999)

This report presents our observations on the status of the Maritime Administration's (MARAD) Title XI loan guarantee for Massachusetts Heavy Industries, Inc. (MHI).

On August 6, 1999, MARAD concurred with our conclusion that the risk of default by MHI had increased materially. MARAD suggested deferring the risk reassessment until December 1999.

Additional significant events recently occurred. Specifically:

- On August 1, 1999, MHI missed a payment of $258,880 to the city of Quincy, Massachusetts. MHI is in arrears on a loan balance of $7.8 million to the city of Quincy obtained through the Housing and Urban Development program.
- On August 6, 1999, MARAD approved the deferral of MHI's missed June 1, 1999 "interest only" payment of $1.55 million to December 1, 1999. As a result, MHI will be liable to pay Fleet National Bank approximately $5.1 million on December 1, 1999.
- On August 17, 1999, MHI's general contractor (and its subcontractors) for the shipyard modernization project walked off the job because of payment disputes of $3 million.
- Based on discussions with representatives of MHI and its general contractor, MARAD concluded that MHI was unable to resolve its differences with its contractor. MARAD noted that each of the parties to the contract had declared the other in default of its obligations under the contract. Based on information provided by MHI and its general contractor, MARAD concluded that the general contractor might be in breach of material contract promises.
- On August 30, 1999, MARAD: (1) declared a "Contractor Default" and formally terminated MHI's general contractor for the shipyard modernization project and (2)

called on the surety company to perform under the terms and conditions of the performance bond. As a result, work on the shipyard stopped and the estimated completion date has slipped for an indeterminate amount of time.

• As of September 14, 1999, MHI had not provided MARAD any new or updated applications for shipbuilding projects. The potential shipbuilding project with Intermare is in question.

These events have reinforced and made more serious our previously reported concerns. Taken together, these events will delay completion of the shipyard for an indeterminate period of time and further increase the risk of default by MHI on the guaranteed loan.

As of September 14, 1999, approximately $12 million remained in the escrow account. Of this amount, approximately $5 million is committed to pay for equipment ordered but not yet received at the shipyard. According to MARAD, this amount is not in dispute. In the event of default by MHI, MARAD could use the funds remaining in the escrow account to reduce the Government's loss on the loan guarantee.

In order to protect the interests of the United States, we recommended that MARAD immediately:

1. Freeze the uncommitted balance in MHI's escrow account until negotiations relating to the performance bond are concluded.

2. Conduct a physical inventory of all assets and property owned or acquired by MHI for the shipyard.

3. Ensure that the assets and property identified in the inventory are safeguarded from loss or unauthorized disposition. This is important because, in the event of default on the guaranteed loan, the United States Government has a first priority lien on all assets and property owned or acquired by MHI.

Massachusetts Heavy Industries, Inc., Title XI Loan Guarantee

(Report Number MA–1999–115, July 20, 1999)

We prepared this report because MHI: (1) did not make the June 1999 "interest only" payment on the guaranteed loan, (2) requested approval of a 6-month extension to make this payment, and (3) has not secured a shipbuilding project.

Construction and reactivation at the shipyard is proceeding. However, MHI's estimated completion date for the shipyard has slipped from November 1998 to October 1999. Initial work completed by MARAD's Office of Ship Construction estimates the completion date may be later than October 1999. The only potential shipbuilding project identified by MHI requires MARAD approval of a Title XI loan guarantee application.

The risk of default by MHI has materially increased warranting action by MARAD. The missed June 1, 1999 payment and the request to defer this payment until December 1, 1999, reflect a major change in the assumptions underlying MHI's loan guarantee.

MARAD has not made a decision on MHI's request for deferral of its June 1, 1999 payment, nor has MARAD made a decision on the Title XI loan guarantee application submitted by Intermare for a proposed shipbuilding project at MHI, because there are unresolved issues regarding how MHI will implement the shipbuilding project. MARAD is reviewing additional information provided by MHI needed to determine the reasonableness of the deferral request and how MHI intends to satisfy requirements of the Title XI loan guarantee program.

MHI's failure to make the June 1, 1999, payment, the request for a six-month extension to make the payment, and lack of a shipbuilding project indicates a major change in MHI's risk of default. We recommended that MARAD:

1. Reassess the risk factor rating for MHI's loan guarantee as prescribed by OMB Circular Number A–11, and make the required adjustment to the subsidy rate. Ensure it has all of the information required by the Title XI program to protect the interests of the United States from default prior to making a decision on MHI's request to defer its June 1, 1999, payment.

2. Ensure that MHI provides complete and current information as required by the Title XI program prior to making a decision on the loan guarantee application by Intermare.

Management Advisory on Massachusetts Heavy Industries, Inc., Title XI Loan Guarantee

(Report Number MA–1998–048, December 17, 1997)

MARAD provided a status report for three recommendations made in a Management Advisory Report, Number MA–1998–007, dated November 7, 1997.

1. MARAD did not plan to reassess the risk factor (Recommendation 1) based on a legal opinion made by the Office of the Secretary of Transportation's Deputy General Counsel, which concluded MARAD has no legal authority to reassess the risk factor rating for MHI's application prior to closing. Further, MARAD, not the Commonwealth of Massachusetts, is liable for additional funds if subsequent reassessments identify increased risk.

2. MARAD is precluded from requiring evidence of viable shipbuilding contracts or alternative sources from which revenues can be generated (Recommendation 2) because these requirements were not stipulated in MARAD's letter commitment.

3. As of December 11, 1997, MARAD officials indicated that MHI had substantially fulfilled all of these requirements. The remaining requirements (13) contained in the letter commitment that were not complete at the time of the report (Recommendation 3).

Office of Management and Budget Circular Number A–11, Preparation and Submission of Budget Estimates, paragraph 33.11(e)(1)(3), recognizes the need to reassess risks "when a major change in actual versus projected activity is detected." Since the risk would appear to be greater now than when the original calculations were made, we believe MARAD must reassess the risk factor immediately after closing and obtain, from its permanent indefinite appropriation, additional funds necessary to cover additional risk identified by the reassessment.

As of December 11, 1997, MARAD officials indicated that MHI had substantially fulfilled all of these requirements. Other than obtaining legal opinions on MHI's performance bonds, MARAD needs to finalize documentation and work out minor issues before closing.

MARAD officials stated they were "* * * sympathetic to MHI's claim that it is difficult to obtain customers without the modernization going forward and being underway. . . ." MARAD agreed to reassess the risk but suggested delaying any reassessment of risk until the last quarter of 1998, thereby giving MHI the opportunity to demonstrate that modernization is underway and that MHI is "aggressively marketing its products." We understand MHI's difficulty in obtaining customers before it has the capacity to build ships. However, in our opinion, the change in risk, prudence, applicable regulations and circulars requires a formal reassessment of risk immediately after closing.

Management Advisory Report on Massachusetts Heavy Industries, Inc., Title XI Loan Guarantee

(Report Number MA–1998–007, November 7, 1997)

We reviewed the loan guarantee process to determine if (1) MARAD held MHI to the requirements in the letter commitment and followed applicable Title XI loan guarantee regulations and (2) the related tanker construction project qualifies for a Title XI loan guarantee.

On November 1, 1997, MARAD issued a $55 million letter commitment to MHI to reactivate the closed shipyard in Quincy, Massachusetts. Twenty-eight of the requirements contained in the letter to protect the interest of the U.S. Government were categorized as significant. At the time of the report, 15 of these requirements were completed and 13 were not complete.

The following requirements were designated as the five most important. As of November 5, 1997, MHI had not completed these five requirements.

1. *Provide working capital of $3 million*—MHI had not demonstrated, through applicable financial documents, that it had the required working capital.

2. *Demonstrate availability of capital contribution of $2.6 million*—MHI proposed using $2.6 million of incurred costs that included attorney and accountant fees. MARAD contended that the funds should have a direct impact on the project and should not include costs such as attorney and accountant fees. We agree with MARAD on this position.

3. *Assign first priority lien on collateral to MARAD*—MHI proposed dividing the shipyard property and providing MARAD with a first priority lien on area 1. In our opinion, MARAD should require first priority lien on all of the property.

4. *Enter into a reserve fund and financial agreement*—MARAD and MHI have not reached an agreement on the provisions of the financial agreement. In our opinion, MARAD should not deviate from the standard financial requirements.

5. *Place funds in escrow with specific withdrawal procedures*—MHI proposed making withdrawals for items that have not been fully paid for, have not been delivered and are still subject to prior claims. MARAD had not taken a final position on fund withdrawals. In our opinion, MARAD should not deviate from the standard escrow fund withdrawal procedures.

MARAD's first estimate of risk factored in a construction contract. This contract has not materialized and MHI has shown no proof of future contracts, increasing the cost of default: appraisal values provided to MARAD by MHI may not represent the amount that could be recovered in the event of default. Additionally, MARAD agreed in the letter to assume responsibility for any additional funds needed as a result of an increase in the risk of default.

We recommendations that MARAD.

1. Reassess the risk factor rating for MHI's application excluding the related tanker construction project. Based on the results of the reassessment, take appropriate action within the limits of MARAD's legal authority.

2. Prior to closing, require evidence of shipbuilding contracts or alternative sources from which revenues could be generated to repay the guaranteed loan.

3. Ensure MHI fulfills the remaining requirements contained in the letter commitment.

Report on the Program for Scrapping Obsolete Vessels Maritime Administration

(Report Number MA–2000–067, March 10, 2000)

The audit objectives were to evaluate MARAD's progress in meeting its legislative mandate to dispose of obsolete vessels in the National Defense Reserve Fleet by September 30, 2001; identify what action MARAD has taken toward meeting the mandate; and identify potential alternatives to assist MARAD in achieving its goals. We determined that MARAD will not meet its legislative mandate to dispose of its obsolete vessels by 2001 and maximize financial return to the United States. This is due to the prohibitions on selling vessels overseas for scrapping, a limited domestic ship scrapping market, and competition from the Navy's pilot project, which pays contractors to scrap ships.

We found that the obsolete vessels awaiting disposal pose environmental risks because they are deteriorating, contain hazardous materials, and contain oil that could leak into the water. We also reported that the number of vessels awaiting disposal is increasing, from 110 vessels to 152 vessels projected to be awaiting disposal by the end of FY 2001 (numbers have increased to 114 and 155, respectively since this report was published). Although we noted that MARAD had been pursuing ways to improve scrapping sales, the alternatives do not have the potential to significantly reduce the backlog of vessels awaiting disposal in a timely manner. We identified some additional alternatives that MARAD had not explored that may help to dispose of its obsolete vessels including: (1) selling vessels to other countries for nonmilitary uses, given legislative approval; and (2) requesting approval from the EPA to sell vessels to overseas markets that are capable of scrapping them in an environmentally compliant manner.

We recommended that MARAD:

1. Seek legislative approval to extend the 2001 mandate to dispose of obsolete vessels and to eliminate the requirement that MARAD maximize financial returns on the sale of its obsolete vessels.

2. Continue to pursue programs to improve scrapping sales and identify alternative disposal methods that can contribute to the goal of reducing the number of obsolete vessels awaiting disposal, to include working with the Navy on the results of its studies on the environmental impact of sunken vessels.

3. Develop a proposal for submission to Congress seeking approval and funding for a project to pay contractors for vessel scrapping. The proposal should include a plan to target the 40 "worst condition" vessels first, identify funding and staffing requirements, and provide milestone dates to dispose of all obsolete vessels.

A draft of this report was provided to the Maritime Administrator on February 8, 2000. MARAD concurred with the recommendations and indicated the actions planned or underway to implement them.

Report on the Ready Reserve Force Ship Managers' Contracts Maritime Administration

(Report Number MA–2000–096, May 12, 2000)

The audit objective was to evaluate MARAD's procedures and controls relating to the requirements, specifications, award, and administration of the ship managers' contracts. This audit was initiated during a joint investigation by the Department of Transportation, Office of Inspector General for Investigations; the Federal Bureau of Investigations; and the Department of Defense. The investigation identified fraud and kickbacks involving contracts to maintain Ready Reserve Force vessels.

We determined that MARAD has implemented effective policies and procedures relating to the requirements, specifications and award of the ship managers' con-

tracts. However, we found a sharp contrast between MARAD's implementation of procedures and controls for awarding ship managers' contracts and their procedures and controls for administrating ship managers' contracts and general agency agreements. We determined that MARAD has not fully adhered to their established procedures and practices for administering the ship managers' contracts and general agency agreements. Specifically, we noted that MARAD's failure to follow internal controls created vulnerabilities for fraud and that MARAD's lack of effective procedures to ensure ship management companies justify sole source awards created the potential for kickbacks.

To address our concerns, MARAD needs to strengthen its controls by implementing effective procedures and practices for administering ship managers' contracts and general agency agreements. We recommended MARAD:

1. Instruct regional employees on existing procedures for processing invoices and provide sufficient oversight to ensure that these procedures are followed.
2. Provide detailed, self-explanatory work statements, specifications or descriptions on all work orders.
3. Periodically review open and inactive work orders to identify those that should be closed and reprogram any remaining funds.
4. Re-instate periodic reviews of ship manager procurement actions including documentation justifying sole-source subcontractor awards and indications of split purchases.

Report on the Audit of Ship Manager Contracts Maritime Administration

(Report Number AV–3–013, August 25, 1993)

The audit objective was to evaluate MARAD's administration of the ship managers' contracts in the regions using selected items in the Quality Assurance (QA) Plan. The items selected for review were (1) initial deliverables, (2) specifications, and (3) invitations for bid. We found MARAD followed procedures in the Federal Acquisition Regulations and the request for proposal in awarding the ship manager contracts. However, there were noted inconsistencies in the administration of contracts and monitoring of ship managers' performance in the regions reviewed.

We recommended that MARAD Headquarters:

(1) Require the regions to implement the QA Plan for monitoring ship managers' performance,

(2) Provide sufficient guidance and oversight of regional contract administration with emphasis on the use of the QA Plan for monitoring contractor performance, and

(3) Establish general specifications and invitations for bid to facilitate the monitoring of ship managers' performance under the QA Plan. MARAD agreed with the finding and recommendations.

Report on the Audit of Activation of the Ready Reserve Force Maritime Administration

(Report Number AV–1–034, September 5, 1991)

The audit objectives were to evaluate the availability of (1) crew members to man the vessels, (2) shipyards to complete the activation work, (3) tugs to move the vessels, (4) supplies to fill ship stores, and (5) fuel to power the vessels. Additionally, we evaluated (1) the ability of the fleet to obtain the necessary certifications from the American Bureau of Shipping, the United States Coast Guard, and the Federal Communications Commission; (2) the ability to move vessels to shipyards in specific timeframes; and (3) the feasibility of performing dock trials on the vessels during periods of industrial assistance.

As a result of the activation of the Ready Reserve Force in support of Operation Desert Shield/Storm, we focused on actual activation work rather than testing the potential activation of the RRF as originally planned. We found Government and industry personnel associated with the activation of the RRF vessels achieved the activation requirements mandated by U.S. Navy's Military Sealift Command. Nonetheless, 78 percent of the vessels were not activated within the prescribed readiness periods to be available to load cargo in support of Operation Desert Shield/Storm.

We recommended that MARAD:

1. Amend contractual agreements to require ship managers and general agents to provide retention crews on selected RRF vessels to assist in maintenance, activation, and operation;
2. Finalize the reserve concept study and establish competent and dedicated personnel necessary to operate RRF vessels,
3. Develop a comprehensive plan to systematically activate the RRF vessels and request appropriate funding for activation,

4. Require newly acquired RRF vessels to be adequately tested in order to identify and correct mechanical problems prior to placing the vessels in the fleet.

MARAD officials fully concurred with the finding and recommendations.

Additional information, including selected audit reports summarized above, can be found on the DOT-Office of Inspector General website (http://www.oig.dot.gov).

The CHAIRMAN. Thank you very much.

Admiral Holder.

STATEMENT OF VICE ADMIRAL GORDON S. HOLDER, COMMANDER, MILITARY SEALIFT COMMAND

Admiral HOLDER. Good morning, Mr. Chairman, Members of the Committee. It is a pleasure to have the opportunity today to address the issues related to the U.S. Merchant Marine manpower needs. With your consent, I would like to submit my written statement for the record and provide a summation. I would first provide a brief overview of Military Sealift Command and how its mission fits into our national maritime strategy.

Sealift Command has four vital global missions. First, we provide combat-ready logistics ships for the underway replenishment of fuel, ammunition, and supplies to our Navy fleets around the world. We also provide ships for related support services such as hospital ships and ocean-going tugs.

Second, we provide special mission ships to support the DOD and various civilian agencies in the national security arena, including oceanographic research, ocean surveillance, missile tracking, and submarine rescue.

Third, in support of the military services we provide prepositioned ships which are stationed in three strategic areas and are combat-loaded for rapid response in any contingency, and fourth, using specialized ships we provide ocean transportation strategic sealift of heavy military equipment to sustain U.S. forces worldwide during peacetime and in war for as long as operational requirements dictate.

On an average day, approximately 112 ships are deployed and actively involved with fulfilling MSC's for missions. All MSC ships, unlike other U.S. Navy ships, are crewed by merchant mariners. As a result, MSC is the single largest employer of U.S. merchant mariners. MSC directly employs 3,200 Civil Service seagoing mariners to primarily operate the combat and logistics force ships. Our charters and ship-operating contracts are responsible for the employment of an additional 1,900 private sector merchant mariners.

Numerous international crises in the 1990s have underscored our vital role as a major contributor in the execution of our national strategy. During the Persian Gulf War, MSC distinguished itself as the largest source of defense transportation of any nation involved. Using more than 230 ships, both U.S. Government-owned and chartered, MSC delivered more than 12 million tons of wheeled-track vehicles, helicopters, ammunition, fuel and other supplies and equipment. Virtually all of these ships were crewed by commercially employed merchant mariners.

In more recent events, MSC combat logistics ships crewed by Civil Service mariners supported Navy operations in the Persian Gulf. Our surge sealift assets provided resupply cargo to Bosnia and Herzegovina. Two large, medium-speed roll-on, roll-off ships,

LMSR's, carried combat equipment and supplies to U.S. peacekeeping forces in Kosovo.

The motor vessel *Captain Steven Bennett* delivered prepositioned U.S. Air Force ammunition to support air operations over Kosovo.

Our sealift assets also proved invaluable in recent natural disasters in humanitarian relief efforts. MSC-controlled ships transported construction equipment, disaster relief supplies to the Caribbean after Hurricane Georges.

Four maritime Ready Reserve Force ships transported construction equipment and supplies needed to rebuild roads and bridges in Central American regions that were destroyed by the torrential rains following the aftermath of Hurricane Mitch.

Our success with these humanitarian relief operations reflects the increased usefulness of the RRF. MSC relies exclusively on our commercial partners to support our worldwide transportation requirements in peace and war. In peacetime we ship more than 1.6 million measurement tons of DOD cargo using privately-owned U.S. flagships crewed by private sector U.S. merchant mariners. In wartime, we depend on the private sector merchant marine work force to crew MSC surge sealift and prepositioning fleet, as well as the MARAD RRF.

Currently, in addition to our own assets, four RRF ships are being used as MSC prepositioned assets. The Ready Reserve Force contains an additional 86 ships maintained in a 4-, 5-, 10- or 20-day readiness status to fulfill part of our surge sealift requirements. Because of their configurations, these ships are uniquely capable of handling bulky, oversized military equipment. Whenever activated, the ships are crewed by U.S. merchant mariners.

Shipboard automation, increased productivity in modern container ships, and a decrease in the number of U.S. flag ocean-going ships have resulted in shrinking numbers of seafarers in the commercial seagoing industry. The overall result has been a smaller pool of mariners than existed in the past.

Given our mission, the issue of merchant mariner availability has been a concern to me since I took command of MSC over a year ago. MSC's efforts to improve both recruitment and retention of mariners led to an expansion of a program for entry-level Civil Service mariners which provides training to ordinary seamen so that they can advance to the able seaman rating. Our effort has resulted in better trained personnel and higher employee satisfaction, thus aiding in retention of MSC seagoing work force. This example is just one possible solution of many solution sets that would help this system.

Because MSC relies so heavily on the commercial Merchant Marines to meet our mission, I am concerned that MSC's difficultly in recruiting and retaining a professional cadre of Civil Service merchant mariners also extends to the commercial merchant fleet. As we have observed in other areas of our national workforce, including the military services, the United States' robust economic environment, and the availability of employment opportunities in less arduous careers, makes attracting and maintaining an adequate merchant mariner work force a significant challenge.

As the executive agent for the National Defense Transportation Association's Military Sealift Committee, I worked with the com-

mittee to form a working group charged with assessing our nation's ability to meet the crewing demand required to support our sealift mobilization. The group, comprised of ship operators, maritime and labor experts, has recently completed its study. It identifies the potential of mariner shortage that are now being analyzed. While the working group has developed numerous ideas for increasing the availability of both licensed and unlicensed mariners, work continues. We are not yet at the point where we can present coordinated, concrete recommendations.

I am pleased to report that throughout this past year I have experienced a wonderful and excellent relationship amongst the Transportation Command, MARAD, the Coast Guard, the maritime transportation industry, and labor partners as well as MSC employees. We mutually have a great and correct concern and commitment to identify the solutions to the Merchant Marine manning challenge.

Thank you for the opportunity to appear, and I am ready to answer any questions you might have.

[The prepared statement of Vice Admiral Holder follows:]

PREPARED STATEMENT OF VICE ADMIRAL GORDON S. HOLDER, COMMANDER, MILITARY SEALIFT COMMAND

Good morning, Mr. Chairman and Members of the Commerce, Science, and Transportation Committee. I am VADM Gordon Holder, Commander of the Military Sealift Command (MSC). It is a pleasure to have the opportunity to appear before you today. Before addressing issues related to the U.S. Merchant Marine Fleet and manpower needs, I would like to provide a brief overview of MSC and how its mission fits into our National Military Strategy.

The Military Sealift Command has four vital global missions:

1st: we provide combat ready logistics ships for the underway replenishment of fuel, ammunition and supplies to our Navy fleets around the world—a critical enabler of our Navy's ability to maintain a combat-credible forward presence in regions of national interest throughout the world. We also provide ships for related support services such as the hospital ships and ocean going tugs;

2nd: we provide special mission ships to support DoD and various civilian agencies in the national security arena, including oceanographic research, ocean surveillance, missile tracking and submarine rescue;

3rd: in support of the military services we provide prepositioned ships which are stationed in three strategic areas and are combat loaded for deterrence and rapid response in any contingency; and

4th: using specialized ships we provide ocean transportation—strategic sealift—of heavy military equipment to sustain U.S. forces worldwide during peacetime and in war for as long as operational requirements dictate.

On an average day approximately 112 ships are deployed and actively involved with fulfilling MSC's four missions—providing what we at MSC like to refer to as "Logistics . . . From the Sea".

All MSC ships, unlike other U.S. Navy ships, are crewed by merchant mariners. As a result, MSC is the single largest employer of U.S. merchant mariners. MSC directly employs 3,200 civil service seagoing mariners who primarily operate the combat logistics force ships. In addition, MSC's ship charters and ship operating contracts are responsible for the employment of 1,900 additional private sector merchant mariners.

Numerous international crises in the 1990s have underscored the vital role of the Military Sealift Command as a major contributor in the execution of our national strategy. During the Persian Gulf War, MSC distinguished itself as the largest source of defense transportation of any nation involved. Command resources were tasked to deliver more than 12 million tons of wheeled and tracked vehicles, helicopters, ammunition, dry cargo, fuel and other supplies and equipment. More than 230 ships, both U.S. government-owned and chartered commercial vessels, virtually all crewed by commercially employed merchant mariners, delivered and returned more than 95 percent of the international arsenal required to meet military requirements in the Gulf.

In more recent events, MSC's combat logistics ships, crewed by MSC's workforce of civil service mariners, supported Navy operations in the Persian Gulf, and our surge sealift assets provided resupply cargo to U.S. forces in Bosnia and Herzegovina. In 1999, two of MSC's large, medium-speed roll-on/roll-off ships, USNS Soderman and USNS Bob Hope, carried combat equipment and supplies for U.S. peacekeeping forces in Kosovo. Also in 1999, a privately owned ship chartered to MSC, MV Capt. Steven L. Bennett, delivered prepositioned U.S. Air Force ammunition to support air operations over Kosovo. All three ships, Soderman, Bob Hope and Bennett, were operated by commercial mariners.

These operations have highlighted the critical contribution made by MSC's ships and mariners to our Navy's efforts to operate from the littoral seas to directly and decisively influence events ashore. These responses by MSC and Navy units, throughout a spectrum from peacetime through a crisis and into war, have made a direct contribution to promoting a framework of regional security and stability that supports our national interests.

In addition to meeting military contingency and peacekeeping requirements, our sealift assets proved invaluable in natural disasters and humanitarian relief efforts by transporting vast quantities of construction supplies and equipment for victims in stricken countries. When Hurricane George hit the Caribbean, MSC joined in to help Puerto Rico and other nearby islands return to normal. We used one of MSC's Fast Sealift Ships, USNS Algol, and chartered space aboard the U.S.-flag ship MV Seacor Clipper, to transport construction equipment and disaster relief supplies. Again, both Algol and Seacor Clipper were crewed by private sector commercial mariners.

Four Maritime Administration (MARAD) Ready Reserve Force (RRF) Ships, under MSC operational control, transported equipment and supplies needed to help rebuild roads and bridges that were destroyed by the torrential rains following the aftermath of Hurricane Mitch. The RRF ship MV Cape Vincent was the first to arrive in Corinto, Nicaragua carrying heavy construction equipment, trucks and tractors. The RRF ships MV Cape Ducato, MV Cape Edmont and MV Cape Victory carried additional construction material to the Central America region. Our success with these humanitarian relief operations reflects the increased usefulness of the RRF. All of the RRF ships are crewed by private sector commercial merchant mariners.

We rely extensively on our commercial partners to support our worldwide transportation requirements in peace and war. In peacetime, we ship more than 1.6 million measurement tons of DOD cargo using privately owned U.S. flag ships crewed by private sector U.S. merchant mariners. In wartime we also depend on the private sector merchant marine workforce to crew MSC's surge sealift and prepositioning fleet, as well as MARAD's RRF.

Currently, four RRF ships are being used as MSC prepositioned assets. They include: SS Gopher State, an auxiliary crane ship with four 30-ton cranes stationed in Guam; SS Cape Jacob, a breakbulk ship prepositioned with Navy munitions; and two offshore petroleum discharge system tankers, SS Potomac and SS Petersburg, which are capable of delivering fuel from four miles offshore over undeveloped beaches. The RRF contains an additional 86 ships maintained in a 4-, 5-, 10- or 20-day readiness status to fulfill part of our surge sealift requirements. The RRF includes roll-on/roll-off cargo ships, breakbulk ships, barge carriers, auxiliary crane ships, tankers and two troop ships for surge sealift requirements. Because of their configurations, RRF ships are uniquely capable of handling bulky, oversized military equipment. In both prepositioning status and when activated, these ships are crewed by U.S. merchant mariners employed by commercial ship operating companies. The use of ships in these examples, plus the no- notice activation exercises conducted over the past ten years, has proven the reliability and readiness of the RRF.

Shipboard automation and increased productivity of modern containerships have resulted in shrinking numbers of seafarers in the commercial seagoing industry. Not only has the size of the ships' crew decreased, but the number of U.S. flag ocean-going ships has also decreased. The overall result has been a smaller pool of mariners than existed in the past. Given our mission and operations, the issue of merchant mariner availability has been a concern to me since I took Command of MSC over one year ago. MSC continuously looks for ways to improve both recruitment and retention of mariners. For example, in September 1999, after evaluating MSC's experience with seagoing manpower requirements and retention rates, we expanded a program for entry-level civil service mariners that provides training to ordinary seaman so they can advance to the able-bodied seaman rating. Our effort in grooming our entry level seamen for advancement has resulted in better trained personnel and higher employee satisfaction, thus aiding in retention of MSC's sea-going workforce.

Because MSC relies so heavily on the commercial merchant marine to meet our mission, I am concerned that MSC's difficulty in recruiting and retaining a professional cadre of civil service merchant mariners also extends to the U.S. commercial merchant fleet. As we have observed in other areas of our national workforce, including the military services, the United States' robust economic environment and the availability of employment opportunities in less arduous careers makes attracting and maintaining an adequate merchant mariner workforce a significant challenge.

As the executive agent for the National Defense Transportation Association's (NDTA) Military Sealift Committee, I worked with the committee's Chairman, Mr. Jim Henry, to form a working group charged with assessing our nation's ability to meet the crewing demand required to support a national sealift mobilization. The group, comprised of ship operators and maritime and labor experts, quickly started evaluating the issue and conducted in-depth discussions with the Maritime Administration and the U.S. Coast Guard.

The study has recently been completed. It identifies potential mariner shortages that are now being analyzed. Additionally, the Working Group is reviewing the impact the requirements of the Standards of Training, Certification and Watchkeeping (STCW) will have on the training of our mariners to ensure we meet international maritime standards. This is necessary to improve our professional standards and enhance our mariner forces. While the Working Group has developed numerous ideas for increasing the availability of both licensed and unlicensed mariners, the work continues and we are not yet at the point when we can present coordinated concrete recommendations.

I am pleased to report to you that we have an excellent relationship among the U.S. Transportation Command, MSC, MARAD, the U.S. Coast Guard and our maritime transportation industry and labor partners. We mutually have the correct concern and commitment to identify solutions to this merchant marine manning challenge.

Thank you again for this opportunity to appear before the committee. I am ready to answer any questions you may have.

The CHAIRMAN. Thank you very much, Admiral.

Mr. Hart, let us begin with the vessel scrapping issue. There is the chart there that displays the number of ships scrapped. I believe there have been two over the last 5 years, is that correct?

Mr. HART. I think that is close to correct, yes, sir.

The CHAIRMAN. Is one of the major reasons for this because we are not allowing foreign corporations or companies to partake in the bidding process to scrap the ships?

Mr. HART. I would say that is correct, sir.

The CHAIRMAN. That moratorium has been in place for how long, do you recall?

Mr. HART. I believe that moratorium was originally put in place around 1998. Prior to that, MARAD had entered into an export agreement with EPA to find a way to sell ships for overseas scrapping which was never implemented as a moratorium was put in place.

The CHAIRMAN. We are hearing that—and the information is more than anecdotal that some of these ships, which are as old as, I believe, 50 years, are causing some hazard both to the environment and navigation. Is that the information you have as well?

Mr. HART. I do not have any information that they are posing such a hazard. I certainly agree that it is possible that they would be a hazard if one of them began to leak. That would be an environmental hazard. As of now, I am unaware of any leaks, but it is something we worry about and something we check for almost every day.

The CHAIRMAN. Well, I had a look at this vessel right there at Suisun Bay Reserve Fleet. That is not comforting. Have you visited these areas?

Mr. HART. I have been to all three fleet sites, yes, sir.

The CHAIRMAN. Aren't you concerned?

Mr. HART. Yes, sir.

The CHAIRMAN. Just from what you can see visually?

Mr. HART. Yes, sir.

The CHAIRMAN. Mr. DeCarli.

Mr. DECARLI. Yes, sir. The latest problem was with the *Export Challenger*, which is down in the James River. That ship did spring a leak a year or so ago, cost about $1 million to plug that leak. Part of the concern here is that the ships are getting so bad that we may have to drydock some of them. If we do that it is going to cost probably between $800,000 and $1 million to bring it to drydock and put some steel on them and put them back in the water. We really need to take action to get rid of them.

The CHAIRMAN. Is it not also true that in some cases, Mr. Hart, we are paying as much as $1 million just to maintain one or more of these ships?

Mr. HART. Well, as Mr. DeCarli said, when the *Export Challenger* sprung a leak it cost us about $1.3 million to fix the leak and to remediate the damage that was caused, so that you could extrapolate from that that every time there is a leak it could cost us as much as $1.3 million. I have to say that the *Export Challenger* leak was not a major leak.

The CHAIRMAN. Mr. Hart, I understand the reason the moratorium was declared and written into law was so that domestic corporations or companies would have an opportunity to get into the scrapping business. Wasn't that the reason for it?

Mr. HART. I do not know why the moratorium was initiated. That was prior to my assuming my present position. I am not sure why.

The CHAIRMAN. Well, I quoted from a letter somewhere here in this documentation from Senators saying that that was the reason for it. Is that your understanding, Mr. DeCarli?

Mr. DECARLI. I think it was twofold, Mr. Chairman. I think it related to not wanting to get PCBs exported out in the world, and the conditions of some of the foreign places where these ships were scrapped, as well as the desire to get some of our shipyards additional business to scrap ships. Yes, sir, that was clearly part of the reason.

The CHAIRMAN. I guess that leads to the question, Mr. Hart, have you seen any indication the United States is domestically developing this capability?

Mr. HART. I know of one, as was brought up earlier, I think in Mr. DeCarli's testimony. There is a pilot project that the Navy has to scrap ships that is beginning. To that extent there is a startup there. There are a couple of other shipbreakers in Texas, but the industry is at this point very small.

The CHAIRMAN. Admiral Holder, do you have any comment on this situation?

Admiral HOLDER. I really am not in this field, sir. I need to use those ships, but those are not useful. I would tell you that I know of one, Baltimore Marine Industries, which is involved with the Navy in a ship-scrapping program that is just in its infancy. Beyond that, it is out of my field.

Mr. DECARLI. Mr. Chairman, the Navy has a pilot program going where they are paying scrappers to take these ships. They have four contractors they are currently using, including the one in Baltimore. It is costing them approximately $3 million per ship to scrap them. The Maritime Administration is currently using four contractors, all in Brownsville, TX, for scrapping operations, and that is pretty much the extent of the U.S. capacity presently.

The CHAIRMAN. Has the EPA been involved in any way in this issue, Mr. Hart?

Mr. HART. Yes, they have. Now that the moratorium is—the moratorium sunsetted itself October 1 last year. I wrote to the Administrator of the EPA last month to ask if we could get together and talk about ways to start scrapping ships in an environmentally sound manner. I also have had meetings with Admiral Amerault at the Pentagon, Deputy CNO for logistics about the same subject.

The CHAIRMAN. How many places in America do these ships reside?

Mr. HART. Three. James River, Beaumont, TX, and Suisun Bay in California, west of San Francisco.

The CHAIRMAN. Well, to state the obvious, if we do the math, and we have only done two ships in 5 years, with 114 ships remaining, it obviously means that we are facing I think severe environmental challenges. It seems to me that we need to, with some urgency, get together—you need to get together with the EPA and start resolving this problem. I have not been, but I intend to go and see some of these ships. When you have ships in the condition which I have heard descriptions of, this is a very serious environmental challenge, and when you are talking about some of the areas where these ships are located, then that threat becomes even more significant.

So, Mr. Hart, I am not belaboring you here. You did not pass the legislation that called for a moratorium, but I believe the intent of the legislation was as Mr. DeCarli stated. I do not think you disagree with those reasons. But now we have got, with some urgency, to try to move forward.

I would worry about PCBs being released some place in the world. I would also be deeply concerned about PCBs being released in these places where these ships now reside. I am sure the good people in San Francisco are not too interested in seeing that kind of problem, as well as Texas and Virginia.

So I would like, if you could, Mr. Hart, and I can write it into law if you like, but I do not see the point, I would like for you in about a month or two to give the Committee a full report as to where we are, what the threats are, and maybe we will ask for some similar assessment from the EPA so that perhaps we can get a handle on this and see what we can do to proceed.

I do believe there is some urgency associated with this problem. Do you agree, Mr. Hart?

Mr. HART. Yes, I do.

The CHAIRMAN. Mr. DeCarli.

Mr. DECARLI. Yes, sir.

The CHAIRMAN. I thank you. There will be another round of questions.

Senator Stevens.

Senator STEVENS. Mr. Chairman, I agree with you. I remember sitting through at least two previous hearings in the past 30 years on these ships, and it is high time we did it. Will you add one thing to that request, and that is an estimate prepared by the Navy of what it would cost to dispose of them in a 5-year period?

The CHAIRMAN. I would be glad to.

Mr. DECARLI. Mr. Stevens, I think the estimate is probably in the neighborhood of $½ billion, based upon a $2 to $2½ million per piece disposal cost.

Senator STEVENS. What is it costing to maintain them now?

Mr. DECARLI. For 1999 it was only $5 million, but there were no real significant problems, other than the one with the James River, but the costs are going to go up. The problems are going to get more severe. These things are deteriorating constantly.

Senator STEVENS. Well, Mr. DeCarli, we are paying out about $1½ billion a year right now on restoring formerly used defense sites. This is no different than that, no different at all. It ought to be included in that program, as a matter of fact, and I think the costs ought to be associated with that. They were used for military purposes in the past, and we ought to face up to it.

Let me start off, Mr. Hart, with thanking you for your administration under the American Fisheries Act. I think that is proceeding as we anticipated, and your agency has played a key role, and we thank you for that.

Mr. HART. Thank you very much, Senator.

Senator STEVENS. That is very essential to our area for that act to work. As I said, I am interested in this Title XI program, and I have got a series of questions. If you do not have the answers now, we can get them for the record. Do you know how much carryover money you have on Title XI at the beginning of this fiscal year?

Mr. HART. I believe it was in the neighborhood of $71 million carryover. It is now down to, I think, $45 million.

Senator STEVENS. It is down to about $45 million?

Mr. HART. I believe that is correct.

Senator STEVENS. My understanding last time we checked that about $77 million carried over from 1999 and we had about $42 million left at the beginning of the fiscal year, this fiscal year 2000, and—will have, rather, at the beginning of the fiscal year. No, that began last year. I had better get in tune here.

Mr. HART. Senator, you are right, it is $45 million.

Senator STEVENS. You have committed about $35 million in the first half of this year, is that correct?

Mr. HART. Yes, sir.

Senator STEVENS. Now, can you tell us what kind of projects you are approving now under that program?

Mr. HART. I have a pending list that I could read from.

Senator STEVENS. Is it going across the board in terms of construction? Are there guarantees for all types of vessels, or is it just one area of the country?

Mr. HART. No, sir. Reading from the pending list, I have deck barges that are being done in Louisiana, shipyard modernization being done in Louisiana, I have an inland double-skinned heated tank barge in Ashland City, TN and Jeffersonville, IN, a submers-

ible drill rig in Mississippi, a power barge in Portland, OR, a seagoing barge in Sturgeon Bay, WI and passenger and automobile ferry in Panama City, FL, high-speed container vessels in San Diego, CA, and a deep water semisubmersible in Brownsville, TX.

There are other projects that are ongoing, but that just gives you an idea of the States.

Senator STEVENS. Can you tell us how much you put out in terms of loan guarantees in the past 2 or 3 years? Do you have a schedule for that?

Mr. HART. Loan approvals in fiscal year 1998 were $734.3 million. In fiscal year 1999, $1.766.9 billion, and to date in this fiscal year, $398 million.

Senator STEVENS. It is my understanding there is about 20 applications pending at this time.

Mr. HART. I had 19, but 19 or 20.

Senator STEVENS. How long have they been pending, do you know?

Mr. HART. Well, some of them have been pending for a while. What happens, Senator, is when someone files a Title XI application we meet with them, we tell them what is required, and in some cases they go off and try and meet the requirements. We just let that application stay there until they get back to us, and so there may be longer times than others, but part of that is just the loan applicant trying to get the paperwork and necessary documentation together.

I cannot give you an average time, but I could certainly provide one for the record for you.

Senator STEVENS. Well, you know I come from a State that has half the coastline in the United States, and we own the ferries. We are in the ferry business. I have been doing ferries. People building ferries come from all over the world to visit us, and Title XI, you did decide Title XI for the first time covered an application for ferries at Allen Marina that has been built in Alaska for the first time, and many of the ferries being built in Louisiana and Mississippi and on the West Coast are Title XI-eligible, and I am worried about the fact that we have such a backlog that we will not be able to get our ferries done on time.

I am told that you have been notified that there are a number of additional filings that will be made for Title XI guarantees. Do you have notice of other guarantees being filed in the near future?

Mr. HART. Well, we always hear of potential applications. We have a number of premeetings with people before they file their applications. They will come in and say they are interested in doing Title XI and ask us what is required. We do not note those until we get a completed application, but we are always aware of people who want to build under Title XI.

Senator STEVENS. Now, there is very little of this employment that takes place in my State, but the utilization of many of the vessels takes place in my State. I am told if MARAD receives just $2 million that is requested by the Administration for Title XI you would be very limited in terms of the number of these applications that you could approve, is that right? How many do you think you could approve with $2 million?

Mr. HART. With $2 million, based on a 5-percent subsidy rate, that will give us the ability to approve loans in the neighborhood of $40 million. That, plus the amount that we have left, the $45 million we have left, we are talking in the neighborhood of $940 million worth of loans.

Senator STEVENS. How much of the total of those applications are before you now?

Mr. HART. Let us see, pending, it does not show. I could do the math and give you a rough estimate, or provide a more complete answer for the record.

Senator STEVENS. My people have told me that they estimate it to be somewhere in the vicinity of $4 billion would be required, $4 billion in loan guarantees, and that would require some $50 million for each $1 billion, so you would need $200 million for loan guarantees to approve the applications before you now.

Mr. HART. I do not know if we need that much, but I would agree that, if all of the pending applications prove out, and all of the pending lists are economically sound, then it would be about a $4-billion price tag.

Senator STEVENS. Are you capable of giving us a breakdown of what that would mean in terms of employment in the shipyards of the United States?

Mr. HART. We could probably work on a rough estimate for that, depending on size of the vessel, how long it takes, and where exactly it is being built. We could probably work up some sort of projection.

Senator STEVENS. We could get our ferries and our cargo ships for Alaska built overseas but for the Jones Act. We are prohibited from going overseas to have them built, and the reason for that is to maintain shipyard capability in the United States, so currently we are paying about—well, we are paying about 50 percent more for our vessels because they are built in the United States, and we are being held up now because we do not have enough loan guarantees to build them in the United States.

Mr. HART. Well, Senator, I am not sure we do not have enough to build them. As soon as the application is complete we make a determination yes or no. There is no hesitation on our part, or any reason for us to hold up any loan guarantee application.

Senator STEVENS. If you are limited by the $2 million the Administration has requested, how can you approve them?

Mr. HART. I understand what you mean, Senator, but that has not happened yet. We are not there yet. We do have sufficient money to approve a lot of the applications we have.

Senator STEVENS. You just testified you could do about, what, about a total of $40 million?

Mr. HART. Yes, sir.

Senator STEVENS. With the $2 million you have got now, but if my information is right you have got over $1 billion, or $4 billion in requests pending.

Mr. HART. That is right, but a couple of those are very large, very large projects, and——

Senator STEVENS. Well, give us a breakdown. What I am really looking for is what do you need in funds to keep a reasonable pro-

gram going as far as this concept is concerned? You also put them in. Can you do that for the record, give us a breakdown?

Mr. HART. Yes, I will.

[The information was not provided.]

Senator STEVENS. You also put these in some sort of a priority, do you not?

Mr. HART. If there is not going to be enough money to do all of the applications, we do domestic over foreign, we do militarily useful over not military useful, and the third category is, we do the newer ships first.

Senator STEVENS. Why isn't there a priority for those ships that cannot be built overseas, the Jones Act vessels? Why shouldn't they come first? If we are required to build in the United States and cannot build out of the United States, why shouldn't we have a priority for those that are required by the national law to be built in this country?

Mr. HART. Senator, honestly, that is a good idea.

Senator STEVENS. I hope you will look at it.

Mr. HART. I will.

Senator STEVENS. Thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Kerry.

STATEMENT OF HON. JOHN F. KERRY, U.S. SENATOR FROM MASSACHUSETTS

Senator KERRY. I just want a clarification. I am a little confused. Obviously the ships that are sitting there are an enormous hazard—or disaster waiting to happen. I understand some of the hulls are sufficiently weak that you can just hit them with a hammer and put a hole in them. Is that correct?

Mr. HART. That is correct.

Senator KERRY. Some are filled with asbestos, PCBs and so forth.

Mr. HART. That is correct also.

Senator KERRY. I am troubled. I understand that generally speaking we have looked at the foreign market in order to scrap these. Given that potential disaster for Texas or Virginia, why is there not some more focused intergovernmental effort to either have one of our military entities, or to create some kind of entity? It would seem to me in the value of the scrap, et cetera, there ought to at least be a cost neutrality there, is there not?

Mr. HART. It depends on the kind of ship. Generally, warships are more valuable to scrappers than commercial ships because of the steel used.

Senator KERRY. But taken as a whole, this disastrous fleet that is sitting there waiting to cost us an awful lot more. If there is a spill the Federal Government is involved, correct?

Mr. HART. Correct.

Senator KERRY. We will have to come in and clean it up. What is the cost of that? What is the cost of the PCBs that we are going to spend countless amounts of dollars in remediation on, correct?

Mr. HART. Correct.

Senator KERRY. Has that been cost-valued into the comparative cost? That is a liability we are going to assume if we do not scrap these.

Mr. HART. Senator, we at MARAD have been working with the Pentagon and the DOD to try and come up with a joint response to the scrapping that we both face.

Also, I might add that we are working with the IMO, the International Maritime Organization, because not surprisingly foreign shipowners are having the same problems scrapping ships, so we are on the same page of the hymnal, so to speak, trying to come up with a unified response to the scrapping problem.

Senator KERRY. What is the difficulty?

Mr. HART. Well, the difficulty is just coordinating three or four different agencies and trying to get together and come up with a uniform program that works. The Navy pilot program which they just put into place does show some promise, but again it is fairly expensive, and it is fairly limited. Right now you can only scrap so many ships at a time, but we are trying to put that together.

The CHAIRMAN. With all due respect, if I could interrupt, you are talking about 5 years now. You have been talking 5 years now.

Mr. HART. Yes, 5 years since MARAD stopped scrapping overseas.

The CHAIRMAN. You have had two ships in 5 years.

Mr. HART. We have had nine ships, sir. I just got an updated figure, but your point is correct. There has not been enough ships scrapped, and we need to scrap more, and we need to scrap them as quickly as possible, both warships and commercial.

Senator KERRY. I am just perplexed. I mean, either this is one of those things that gives Government a horrendous name, or there is a turf struggle that I am not aware of, or there is a cost struggle as to who is assuming this, and nobody wants to make a cut on it, but it just sounds like bureaucracy, frankly, at its worst.

We are sitting around with this disaster waiting to happen.

Mr. DECARLI. Senator Kerry, if I can, we could sell these ships overseas as we did back in the early 1990s. The problem over there is the environmental problems.

Senator KERRY. I know, we are being responsible. I understand.

Mr. DECARLI. In doing so, MARAD is locked into legislation that basically requires them to sell the ships. They have got to get actual money back from selling the ships. Nobody in today's market is interested in buying these ships. That is why the Navy has this pilot program where they are actually paying contractors to take them.

The Navy is paying about $3 million a ship currently to get the contractors to take these ships on a pilot basis. Then the Navy is sharing in the proceeds from the scrapped materials, from the steel, from the aluminum, from the brass, and so——

Senator KERRY. Does this cost get amortized in our expensing when we put a ship price down?

Mr. HART. No.

Senator KERRY. I think we ought to start measuring that.

Mr. HART. Frankly, some people agree with you in the industry that we should start taking into account how much it takes to take a ship apart when you are trying to put one together.

Mr. DECARLI. If you are going to do this domestically you are going to have to pay. Probably there is enough ships out there that MARAD needs flexibility in their reauthorization to do both. They

probably need flexibility to pay some contractors to take several of these ships off their hands and scrap them, and they also need the authority to get rid of some of these ships overseas when they are in such condition that they are going to be hazardous to the United States, and I think we need a combination.

Senator KERRY. Well, that is our responsibility legislatively to adjust that, and I think we ought to try to do it in quick order. I think it is appropriate for us to be concerned about the environmental conditions under which this takes place.

I think it is irresponsible for us to find some Third World country where they are willing to dispose of the ship, but it is in the worst ways that they do it, and we know that is happening, and obviously that is what we are trying to avoid. That is something we have an obligation to do.

Mr. Chairman, you have asked for some analysis here. I would like to see if that analysis cannot give us a comparison of the value of the ship in scrap versus the cost of scrapping it and see what the differential is. Maybe we can find some more efficient way of getting that differential picked up so there is less of an Alphonse and Gaston routine here. I think that part of the reason it is taking so long, is—everybody is afraid of being the one that is holding the bag. It is musical ships, rather than musical chairs.

Mr. Chairman, thank you.

The CHAIRMAN. Thank you. Senator Gorton.

STATEMENT OF HON. SLADE GORTON, U.S. SENATOR FROM WASHINGTON

Senator GORTON. Thank you, Mr. Chairman.

Administrator Hart, one of the small shipyards in my State, and some of the operators of smaller vessels, have asked me to prepare legislation to make Title XI more sort of user-friendly for smaller shipyards, and vessel owners. I have not made a decision on that yet, but perhaps you could enlighten me on how much use these smaller yards get out of Title XI at the present time and whether there is a way, either by a new bill or internally, to make the changes more usable and more widely usable by small shipyards.

Mr. HART. Thank you, Senator. Let me start this way. We know at MARAD that there is reluctance on the part of some people to come in and take on a Title XI application, and the reason we hear over and over again is because we are not user friendly. It takes too long, too much paperwork. We want too much documentation.

We constantly struggle with that. We are trying to streamline the process. We are trying to make it more user friendly, and that is an ongoing effort. I would love to sit down with your staff and kick around some ideas and maybe legislation to make it more user friendly. We see ourselves basically as a bank, and so we take seriously our responsibility to ensure that the projects have some hope of repaying the loan so that everybody goes home happy. It is something we struggle with constantly, how to make it more user friendly.

Senator GORTON. Well, you are entirely right, and other matters before the Committee indicate that the bank made bad loans, or bad guarantees, and we certainly do not want you doing that, but I take that invitation seriously, and we will try to submit to you

some of the questions and some of the proposed legislation, because there is a balance. You do have to be secure, but Title XI, if it is to do our shipyards any good, has got to be used by small ones as well as large ones.

So thank you. Thank you for that commitment, and if we can help with legislation that is still responsible and protects your security, we definitely want to do it.

Mr. HART. Thank you.

Senator GORTON. I am not sure whether you are the proper person for this question, or Mr. DeCarli is, but what is going to happen with the creditors of Massachusetts Heavy Industry, Inc. who have not been paid their bills?

Mr. HART. Well, now that MHI has gone into bankruptcy court, they have gone in under Chapter 11 for the authority to reorganize and take another shot at being a shipyard. The creditors will, like all creditors in most bankruptcies, line up and if there is something there after it is over, the bankruptcy court will apportion whatever it can among those creditors.

Senator GORTON. You have paid all your loan guarantee? You do not have any more left?

Mr. HART. Well, we have paid out the loan guarantee we were required to pay out to Fleet Bank, yes, sir, so that commitment is done. Now our commitment is to try and recover as much as we can.

Senator GORTON. Where do you stand in comparison with these other creditors?

Mr. HART. We are first.

Senator GORTON. So you are going to get your money back before these creditors get their money back?

Mr. HART. I am going to get some of my money back before the creditors get any of their money back, yes.

Senator GORTON. Thank you. That is a very clear answer.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Hart, I would be glad to get you a letter along with one to the EPA to try to get a handle on this scrapping issue.

Mr. HART. Thank you.

The CHAIRMAN. Obviously, it is going to require coordination. I think it is clear the moratorium was wrong. I think there are other ways of addressing concerns about what would happen in foreign shipyards, besides prohibiting any foreign entity from being able to at least attempt to qualify to engage in this activity. I intend to vigorously oppose an extension of the moratorium, because apparently we may experience the same virtual halt to the scrapping program.

Mr. HART. Sir, may I add one thing? On your opposition to—opposing an extension, let me just say, and this is where the IG and I disagree on the scrapping issue, I am not sure that if we had unlimited money and/or unlimited authority to scrap foreign, that we could scrap enough of the ships overseas within 5 years. That is because we are on the back of a long line of both the military and also foreign shipowners who now have the same problem.

The CHAIRMAN. Mr. Hart, I do not disagree with that, but there certainly is a dramatic difference from what was taking place from

1991 to 1995 and what has taken place since. That kind of progress, I think we would agree, would be unacceptable.

Mr. DECARLI. Mr. Chairman, our problem with the legislation is the word, begin, because as it is currently written the Administration proposal says, begin scrapping within 5 years, and we think that it ought to be substantial, or if we cannot get it done completely, we ought to get quite a bit of progress in that 5-year period, not just a beginning.

The CHAIRMAN. Well, I do not claim to be an expert on this, but from anecdotal media reporting and from information provided to this Committee from our sources, we have got a very serious environmental problem here, and what we have done in the last 5 years is clearly not sufficient to address it. We are in agreement with that. Now let us start moving forward as vigorously as possible.

You know, Mr. Hart and Mr. DeCarli, please do not take my comments as gloating, because I am very sorry about what has happened here. On February 4, 1997, I wrote a letter to the Secretary of Transportation, Secretary Peña.

In that letter I said, I wish to express my deep concern about a letter of commitment by the Maritime Administration to guarantee a loan for the reactivation of a shipyard in Quincy, Massachusetts. I am concerned that a Title XI loan guarantee for the Quincy Shipyard activation project will subject tens of millions of taxpayers' dollars to an unacceptable level of risk. I understand that the Maritime Administration has assigned a relatively low-risk factor to this project despite the absence of shipbuilding contracts with the shipyard. I am concerned that, et cetera, taxpayers' dollars should not be placed at undue risk.

I guess I should ask you, Mr. Hart and Mr. DeCarli, was I right?

Mr. DECARLI. I would say yes, you were right. Clearly the Maritime Administration was not in a position to look at whether or not the shipyard, once completed, would be able to repay the loan, and that was a problem. Without being able to take that into consideration, MARAD had to look to see how it would best protect the taxpayers' interest, and when they issued that letter of commitment they had 28 conditions in there. Some of them went probably about as far as they could conceivably go to protect that interest.

Giving us first right to the property if there was a default was something that MHI absolutely objected to. Controlling all of the funds through the escrow account was something they objected to. Having them put up $3 million in operating capital they did not want to do.

So given the constraints that MARAD was under, they did quite a bit to try to protect the interests, but it clearly was a risk. You know, Title XI loan guarantees are a risk to start with. If there were good commercial investments you would be able to go to the bank and get a loan without a guarantee, so you have got an inherent risk in the Title XI program, and then when you take the economic soundness criteria off of that, you obviously increase the risk.

Mr. HART. If I might just say that I agree with Ray's statement, and just to add that we knew that it would be a risk, so you were right.

The CHAIRMAN. Well, I believed it was an unacceptable risk. I believe most objective observers agreed with that, and while we are not gifted with any clairvoyance on this Committee, it was clear to me that this was an incredibly high, if not unacceptable risk. I not only wrote the letter, I called and I consulted with people. I called directly the Secretary of Transportation in voicing my strong opposition to moving forward, and apparently the taxpayers are out about $50 million.

In response to Senator Gorton's question, I am not sure how much we are even going to get back of what is remaining.

I guess one of my—Mr. Hart, over a period of 2 years the IG reported four times the risk factors for the Four Rivers Shipyard project were extremely high and circumstances had changed significantly. The IG recommended that MARAD should reassess the risk and adjust the subsidy rate accordingly.

On each occasion, MARAD responded that it did not agree and put off a reassessment. How do you justify not even making a reassessment?

Mr. HART. Well, I did not know that at the time of those reports. The time when we had our first inkling that this was not going to bear fruit—the MHI renovation was probably the first clear indication—was probably in June 1999. Before then, we knew they were falling behind on their work. It was only May 1999 when we were approached with a deferral of the interest payment that was due in June 1999 that the alarm bells started to sound in MARAD that this could possibly go south.

So I am not sure of the timeframe of the IG's reports, but from our perspective it was May 1999 when we started to really look at this as not coming to fruition and us having to step in.

The CHAIRMAN. So in July 1999 you granted a 7-month extension on the payments?

Mr. HART. That is right, with the concurrence of the lending institution, Fleet Bank. They agreed. They were on board with it.

The CHAIRMAN. Did anyone at MARAD ever suspect there could be criminal activity associated with the project?

Mr. HART. Not to my knowledge, sir.

The CHAIRMAN. In August 1999 you approved the termination of the general contractor on the Four Rivers Shipyard at the request of MHI. Why did you agree to the termination?

Mr. HART. Well, the information we had at the time showed that there was a major dispute between the two parties. In order to continue the work and possibly get this resolved, to get the work done, I thought it best to allow that termination so that a new general contractor could come in and perhaps finish the shipyard. Then Alberg & Sons would be in court, so we could handle it on a two-track basis but the work would still hopefully continue.

The CHAIRMAN. I will submit some of these questions to you in writing, but obviously there was a Price Waterhouse Coopers audit that indicated that there were serious problems there as well.

So I guess my question to you, Mr. DeCarli, is what is the future of the Four River project?

Mr. HART. I would like to see us foreclose on the yard and perhaps get another operator in there to try and finish the yard. Absent that——

The CHAIRMAN. What are the prospects of that?

Mr. HART. Candidly, Senator, I would not assign a numerical value to it, because I am just not sure if there is a need for another shipyard of that type in the United States. I do not know the answer to that.

The CHAIRMAN. Have you heard of anyone?

Mr. HART. I have not.

The CHAIRMAN. Let us assume there is not someone to take over the shipyard. Then what is going to transpire?

Mr. HART. If we are allowed to foreclose, then we will sell the equipment for what we can and then sell the land for what we can also and recoup our moneys that way. As I said, we are having an appraisal done now to give us an idea on what the range of monetary recoupment would be.

The CHAIRMAN. Obviously, you have some legal problems right now with the State of Massachusetts and other entities, but is there not also significant environmental cleanup that needs to be carried out?

Mr. HART. We have been informed by the EPA that there are environmental issues and environmental problems at the yard. I think the best estimate we have for cleanup right now is in the range of about $1 million.

The CHAIRMAN. Mr. DeCarli.

Mr. DECARLI. Yes, Mr. Chairman. The basic problem comes down to, if this thing is going to be an operating shipyard, which everybody hoped, certainly, that it would be when they made the loan, and would even hope so today, there has to be some interest in building ships there. Right from the beginning of this loan there was this six-ship deal coming out of Europe, dangling in front of us as a possibility, but that deal would have required another Maritime Administration loan of about $250 million, of which somebody would have had to come up with about $30 to $40 million in order to put up the equity in it, and there was nobody willing to step up to the table to put that money up, so this deal was always out there, but it never did materialize.

In order for Quincy to become an operational shipyard we have to find somebody who is interested in building ships there. Senator Gorton just talked about the need for a ferry. Well, if there is some company that is willing to step forward and wants to build ferries up there, that is certainly a possibility, but the yard has a lot of work to be done to it before it can become operational.

The drydocks have not been touched. The buildings are wide open on some ends. There is equipment there that has not been protected, and it is probably going to have some problems with it when it gets going. There are problems that we need to take care of regardless of what we do, so we do not know whether it will ever operate as such. We do not know at this point in time whether the bankruptcy court will give it to MHI under a Title XI reorganization, or whether the Maritime Administration will take title to it.

There is some very good equipment there, as I understand it. We have a Coast Guard facility at Curtis Bay that is quite old. Maybe some of that equipment could be used by the Coast Guard at its facility, but clearly somewhere between less than $40 million will be the ending number, or around $40 million or less, because the

difference between 59 and 40 we have pretty much covered, but we do not know where it is going to end in terms of loss to the taxpayers at this point.

The CHAIRMAN. At least $40 million?

Mr. DECARLI. Yes, sir. Well, I say at least $40 million, exclusive of what we end up getting out of the yard. It could be reduced by whatever we get out of the yard.

The CHAIRMAN. Obviously, Mr. Hart, you have been tracking the Philadelphia Naval Shipyard, or former Philadelphia Naval Shipyard project.

Mr. HART. I have.

The CHAIRMAN. What is your prognostication there?

Mr. HART. I know that there is a contract to build three vessels at the Philadelphia Shipyard. I understand that the State of Pennsylvania and the city of Philadelphia are quite happy with their position with that shipyard, and quite happy with those who are contracted to build those ships. I have not visited that shipyard in some time, but I understand it is going, and they are planning on building the contracted-for-three ships.

The CHAIRMAN. Mr. DeCarli, have you been?

Mr. DECARLI. I have not been to the Philadelphia Shipyard, sir. I am not familiar with it.

The CHAIRMAN. Would you do me a favor and check up on that project, both of you, and give us a report on it? I understand that there may be a problem with the market for those ships if they are constructed, and that there is not a contract for the purchase of those ships. Do you know if that is true or not?

Mr. HART. I do not know.

The CHAIRMAN. If you could provide me with whatever information you can.

I guess finally, Mr. Hart, I guess the former president, or former CEO of the corporation that was operating at Quincy is now residing in Greece.

Mr. HART. That is my understanding.

The CHAIRMAN. So that obviously would complicate any effort we might make in order to achieve a full accounting.

Mr. HART. Yes sir, it might.

Mr. DECARLI. I think that is correct, sir. We have some of the records from MHI. There have been two break-ins at the shipyard since the time that MARAD took possession of it. A computer has been stolen with a hard drive, and we do not know what was on that computer. You are right, it will be difficult to figure out.

The CHAIRMAN. That is remarkable. Two break-ins, and a computer was stolen.

Mr. DECARLI. Yes, sir.

The CHAIRMAN. These are interesting times.

Senator KERRY. Thank you, Mr. Chairman. Let me try to get some clarification here on some things I am a little personally puzzled about.

First of all, in 1993 the Congress in the defense authorization bill passed something called the national shipbuilding initiative, did we not?

Mr. HART. Yes, sir.

Senator KERRY. So Congress in that initiative declared that there was a forecast that commercial shipbuilding needs were increasing, and in order to compete with foreign yards the United States needed to increase capacity, is that correct?

Mr. HART. I believe that is correct, sir.

Senator KERRY. I will say that I know it is. That is exactly what the DOD authorization set out to do, and so the Title XI loan guarantees were to be used according to that policy to either modernize or reopen shipyards.

Mr. HART. Correct.

Senator KERRY. Quincy was designated in 1993 as a pilot project in that initiative, I believe.

Mr. HART. Yes, sir.

Senator KERRY. Now, Quincy had a 100-year history supplying and building ships for the U.S. Navy, all the way up until 1986. At that point in time there was a very short gap between its operational capacity and the new initiative to try to create shipbuilding.

It is my understanding that there was some entity, prior to MHI, that did not work out. Then MHI appeared on the scene. Now, first of all, the U.S. Government is not yet out of money at this point in time. We have taken out a loan, but we hold assets, is that not correct?

Mr. HART. Yes, sir.

Senator KERRY. The assets the U.S. Government holds, it is my understanding the yard when completed was estimated to be worth $100 million to $150 million at completion, and it is 80 percent complete today.

Mr. HART. Yes, sir.

Senator KERRY. Now, that estimate was based on the sale of other shipyards. In fact, in a letter to Senator McCain the Acting Maritime Administrator said, "the fair market value of the currently enacted yard is $122 million." Once this yard is rebuilt, its value should be substantially higher as the most technologically advanced yard in the United States.

So that was your position, or MARAD's position, at least, as to the evaluation and capacity of the yard.

Mr. HART. Yes, sir.

Senator KERRY. Now, if it is proceeding along—and this is what I do not understand. If it is proceeding along, paying out money, and it is only up to the $40 million level, and has a guarantee up to $59 million, why suddenly—what was the problem, that suddenly it ground to a halt? Was this more of a dispute in the contract between the person renovating the yard, or what fell apart here?

Mr. HART. What fell apart, Senator, was the prospect of, after having expended $40 million and with $12 million left to go, when you look at what needed to be done, $12 million was not going to cover it. There were significant concerns—I will just give you one example. The drydock requires a huge set of doors which are very big, and need several weeks to install. Those doors had not been ordered. Things like that.

There was equipment that seemed to be exposed to the elements rather than being covered. It just seemed—and my Deputy and my

Chief of my Title XI program were up there several times and did their own inspection.

Senator KERRY. So basically you are saying MHI was failing to perform, was falling short on its capacity to do what it had said it was going to do in that span of time.

Mr. HART. Yes, sir.

Senator KERRY. Now, I have serious questions about MHI. Lots of representations were made, lots of analysis was made, and I assume the bona fides were checked out.

Mr. HART. Well, I will say we did check out the bona fides as much as we could. I cannot sit here and tell you that we had questions about the bona fides beyond those that have already been raised.

Senator KERRY. I remember there were the six contracts on the ships. Were those contracts viewed?

Mr. HART. We never saw those contracts. That was one of the things that seemed wrong about that part of the project. Those six ships which were supposed to be built in the yard, we never really saw contracts, what we would call contracts.

Senator KERRY. I understand, they were contingent upon the completion, contingent on the granting of the guarantee itself.

Mr. HART. All right, yes.

Senator KERRY. But what I am trying to get at is, MHI's working capital and capacity to complete that task I assume was on the table.

Mr. HART. Yes, sir.

Senator KERRY. Was MHI paying itself during the course of this process?

Mr. HART. There were a couple of bills that we saw where MHI was paying itself, or a couple of its subsidiaries.

Senator KERRY. Does that raise any questions? I mean, it does to me.

Mr. HART. It certainly did to us also.

Senator KERRY. When did that flag go up?

Mr. HART. I think that flag went up about June 1999. It seems to me that is the first time I remember hearing from anybody that MHI or a subsidiary of MHI had put itself in for payment.

Senator KERRY. Now, who is being contacted? Who is one dealing with with respect to MHI at this point in time?

Mr. HART. From MARAD?

Senator KERRY. Yes.

Mr. HART. The Deputy Administrator, Mr. Graykowski.

Senator KERRY. Is dealing with MHI?

Mr. HART. With MHI.

Senator KERRY. Who is it specifically that is representing MHI right now?

Mr. HART. There were several people. There is a Mr. Dunkel, who is, I believe, one of the lawyers. There is a list of people that any time we had a meeting——

Senator KERRY. What about the principal, Mr. Emmanuel? He was certainly present and accounted for during the course of this earlier period. Is he present and accounted for now?

Mr. HART. No, he is not. I met Mr. Emmanuel once, I think in February, or January of this year for the first and only time.

Senator KERRY. Well, does that raise questions at this point in time?

Mr. HART. Well, that raised questions beforehand, and certainly raises questions now.

Senator KERRY. It is my understanding that the assets that you hold at this point in time are valued at a higher amount than the amount of money that has thus far been paid out.

Mr. HART. Sir, the problem with that, we are really not sure about that. That is why we are having an appraisal.

Senator KERRY. I understand you are doing an appraisal now, but we are certainly not looking at the $50 million, $59 million, quote, lost that I keep reading about in the paper.

Mr. HART. I do not believe so. As Mr DeCarli said, right now the possible high-side number seems to be $40 million, because we have got the $12 million that we did not disburse, and we have got the $6 million.

Senator KERRY. But the $40 million you are talking about is without any asset sale, without any asset disposition.

Mr. HART. That is correct.

Senator KERRY. So we are looking at, even if you discount it by 50 percent you are looking at considerably less than that.

Mr. HART. That is correct.

Senator KERRY. There is no reason at this point in time to make the judgment that you have to do that discount. You do not know, is the simple answer.

Mr. HART. That is right.

Senator KERRY. Now, is there any common sense at all in believing that some other builder of some kind, either for ferries or for smaller vessels or repair or other kinds of potential might, in keeping with the other—with the level of investment that has been made, is there some exploration going on with respect to other people who might have some subsidiary operation there that might, in fact, give value that way?

Mr. HART. We are looking, Senator, to see if there is someone or some entity who would want to take over all or part of the yard. I want to say we are limited in how much we can do, it seems, because we are in the middle of the bankruptcy proceeding and we do not want to taint that in any way. But we are looking to see what or who would be willing to take over all or part of the yard.

Senator KERRY. Well, I certainly want to work with you and with Senator McCain to see what kind of answers we can get in terms of MHI, because certainly countless numbers of people, the mayors, the Governor of the State, all Senators, Members of the delegation, everybody proceeded in good faith on the representations that were set forth during the course of this, and it troubles me greatly if, indeed, MHI may not have been dealing on the same plateau, let us say, and I think that is worthy of your further analysis and of ours.

Mr. HART. Yes, sir.

Senator KERRY. I intend to see that we continue to do that. I do not have anything to the contrary yet, I want to say that, but I just want to make certain that everybody is on an even keel here.

Mr. HART. If I may, as Senator McCain noted earlier, I understand that the U.S. Attorney up in Massachusetts is looking into

this and I think that the Inspector General at DOT is also maintaining an active file on this, and of course we cooperate with both entities as much as possible.

Senator KERRY. Well, that is worthy and important, because everybody deserves an answer as to what the facts are with respect to that basis.

With respect to the contract, do you know what happened with the contractor who was doing the work itself? There seemed to be sort of a growing dispute there.

Mr. HART. There was a dispute by—Alberg and Sons was the contractor. When they were removed, they immediately went to court, and as I understand it they got a judgment, a default judgment against MHI for $2.1 million, I believe, and that is where that remains. My understanding is they got a default judgment because nobody for the other side bothered to answer the summons.

Senator KERRY. But certainly the concept itself on which this was based, i.e., if you have six ships, and if you are going to have that job completed, that would, in fact, be a sound business venture.

Mr. HART. Clearly, if you have a revenue stream, and the building of those ships would be a revenue stream by which you could repay the loan for building the ships, or for revitalizing the shipyard, yes.

Senator KERRY. Fair enough. Thanks.

Mr. DECARLI. Senator Kerry, if I could add, the $55 million loan guarantee was originally intended to put together a fully operational shipyard. I visited the shipyard up there in December, and I think everybody would agree that in terms of the Alberg work that it is 80 percent done. I am not sure that everybody would agree that a fully operational shipyard is 80 percent done. As I said, the drydocks have not been touched, and there are a lot of things that have not been done.

As a matter of fact, when we visited the facility last December the pitch was really not to build a fully operational shipyard, but to spend the rest of MARAD's money to basically complete a steel fabrication and piping facility.

Senator KERRY. Who pitched that?

Mr. DECARLI. That was Mr. Sotiris Emmanuel at the time.

Senator KERRY. When was that?

Mr. DECARLI. Last December.

Senator KERRY. I would assume that——

Mr. DECARLI. I think that same proposal was made to MARAD.

Mr. HART. Yes, it was.

Senator KERRY. No kidding. That is interesting. I would assume that set off some more alarm bells.

Mr. HART. Yes, certainly coming in December, when another interest payment was due in December at about the time that this second proposal showed up, and of course we refused to grant them a second loan deferral.

Senator KERRY. So what percentage of an operational yard, as opposed to the work, would you say has been done?

Mr. DECARLI. I cannot answer that. I do not know.

Mr. HART. I am not sure that there is a quantifiable number I could give you, 50 percent of a real shipyard, a complete shipyard is there, or 60 percent.

Mr. DECARLI. One additional point I would make. In order to complete this deal to fabricate, to make a fabricating facility and a piping facility, one of the proposals was to get commercial financing and the MHI wanted to go out in the market and get additional financing.

In order to do that, one of the requirements would have been for the U.S. Government to subordinate its first lien priority against the property and give equal footing to whoever provided that loan. That loan was for about, I think somewhere around $15 million.

If the yard is, in fact, worth $100 million and the U.S. Government's interest in it is only $40 million at this point in time, that would tell somebody in the commercial market we have a $60 million asset out there available, and you would wonder why they would need first priority, why they would not take equal, or why they would not take second footing for the remaining $60 million.

Mr. HART. Why the new lender would not take second priority if there is an asset that is there net $60 million.

Senator KERRY. I follow you completely, and obviously the Government will hold the position—one of the good things that I think we did do was put in those 28 conditions, which was part of the discussion back then. I think it was an important part of it.

But the value of the yard in 1986 when it was sold to Massachusetts for sludge disposal was $49 million. That is the 1986 price, and since 1986 there has been considerable asbestos and other kinds of cleanup there as well as building rehab, so I would assume if it had that value back in 1986, given appreciation, one would hope that it would be more valuable than $50 million today.

Mr. HART. If I could just—my only caveat with that is that there are significant items that were required in a shipyard that are not there. Drydocks——

Senator KERRY. I am not talking about for a shipyard. I am talking about for whatever industrial use there may or may not be, and the point is, it is geared for industrial use, and it found other than shipyard use and valuation in 1986 of $49 million.

So, given land values and given its location and other kinds of industrial opportunity, I am saying I would hope—I have nothing to base this on except the valuation price of the sale in 1986—in the year 2000 you are in for $40 million and it is, I hope, worth more than $40 million since it was worth $49 million back in 1986.

Mr. DECARLI. We would certainly hope you are right. The $49 million was based on a specific—it was needed for a specific use. I think subsequently it was sold for about $10 million.

Senator KERRY. That was the transfer to the State as a part of this deal, that is correct, and I think that was Massachusetts trying to chip in its part to try to help bring shipbuilding back to a community that had a long history and a great deal of pride in shipbuilding, so that was not, "fair market value." That was the Massachusetts contribution to the effort to try to make this work.

I think it is appropriate that the U.S. attorney is looking at this, and I have great confidence in Don Stearn. He will do it properly.

I am concerned about MHI's role in this, and that is something that is harder to have control over, but I am deeply concerned about it, and I think we need to understand it better.

Thanks, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Kerry.

In 1997 we looked at this deal. We saw it was no good. I tried to stop it. It went through. $55 million of taxpayers' money was devoted to it, and now they are going to lose about $40 million. I predict again—I predict to you now, just as I predicted this project would fail, that they will lose at least $40 million on this deal. Watch. I think it is disgraceful. I think it is reprehensible. I think that when we allow something like this to happen with a project that is simply by any objective observer—and I am not an expert on shipbuilding.

We looked at it and other objective observers looked at it. We saw it was doomed to failure, and yet we went ahead and earmarked $55 million. We now have pollution problems. Never in my experience has there been a cleanup accomplished according to the original estimates. You say there are $1 million in cleanup costs, Mr. Hart?

Mr. HART. That is our estimate, sir. That is our estimate as of right now, but it is only an estimate.

The CHAIRMAN. I have never, ever seen a time when an environmental cleanup did not exceed its estimates, and never once have they come in under those estimates. I hope that another project will go there. I hope they build highrises. I hope they do something that will restore not only employment but everything else to the area.

This was a doomed project from the beginning. It is a doomed project now. We are subject now to a situation where the former person who ran it has fled to another country, or is residing in another country and refusing to return to help us resolve this mess, and I think that all of us, including this Committee, bear responsibility for a huge waste, as I say, of tens of millions of taxpayers' dollars. I will watch with great interest and care as we proceed with new ideas and new ways to address what is clearly a debacle.

So it is not that the signs were not there. It is not that there were not some of us who said this project will fail. We should not put $55 million in taxpayers' money into it. So this is one of those cases where at least some of us were fully appreciative of the risks here which far exceeded the prospects of success, and again it is my taxpayers' dollars that went into it as well. I will continue to do everything in my power, and I hope the next time one of these schemes comes up and we waive requirements, that the Congress will exercise its responsibility and not allow that to happen.

This hearing is adjourned.

[Whereupon, at 11:10 a.m., the hearing was adjourned.]

APPENDIX

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO RAYMOND J. DECARLI

Question 1a. In your statement, you note that MARAD acted appropriately to protect the Government's interest.

Is there anything else you think MARAD should/could have done?

Answer. Prior to closing on the loan guarantee, MARAD took a number of actions intended to protect the Government's interest. MARAD identified 28 significant requirements for MHI to complete, including a first priority lien on all assets to the Secretary of Transportation and establishing a MARAD-controlled escrow account for disbursing the proceeds from the guaranteed loan. After MHI defaulted on its June 1999 payment, questions arose as to whether it would be able to make subsequent loan payments. MARAD could have denied MHI's request to defer its missed June 1999 loan payment, thereby triggering actions to protect the Government's interest sooner. In agreeing to the deferral of the missed payment, MARAD noted that the lender was supporting MHI's request for deferral. The lenders' views should have carried little weight because the Government guarantee assured that, regardless of the ultimate outcome, the lender would receive all principal as well as additional interest.

Question 1b. Do you think the shipyard could be used to scrap vessels?

Answer. Yes, the shipyard could be used to scrap vessels. However, it would have to be set up as a scrapping facility. This would involve accommodations for the removal and disposal of hazardous materials and wastes; complete dismantlement of ships; recycling and disposal of materials from ships; and a system to sell the scrap material and reusable equipment.

Question 2a. According to your testimony, MARAD has the responsibility of overseeing approximately $4 billion in loan guarantees.

Based on your review of their actions at Quincy, should this Committee be concerned about MARAD's performance in overseeing these loans?

Answer. No. This loan guarantee is not a good example of MARAD's Title XI program. The Quincy shipyard is the only Title XI loan guarantee that contained an amendment which removed the economic soundness requirement for reactivation and modernization of closed shipyards.

Question 2b. Do you have any legislative recommendations for the Committee to consider that would improve upon MARAD's oversight of Title XI loan guarantees and better protect the interest of the United States?

Answer. The legislative provision that required MARAD not to consider economic soundness lasted for only one year and has expired. We would recommend that a similar provision not be adopted in any future legislation.

SHIP SCRAPPING

Question 3a. As you noted in your testimony, your office, in a report issued last month regarding scrapping of obsolete vessels in the NDRF recommended that MARAD seek elimination of their statutory requirement to maximize financial returns on the sale of obsolete vessels.

Why do you believe that to be necessary?

Answer. The current approach is not working. The Navy is paying contractors to scrap obsolete vessels while MARAD is asking contractors to pay to scrap its vessels. And, domestic capacity is very limited. MARAD will not be able to dispose of its obsolete vessels under the current legislative mandate requiring it to gain financial returns on the sale of these vessels. Also, MARAD's recent rate of progress in scrapping its vessels and the price at which its vessels are being sold indicates a need for a change to allow MARAD to pay for vessel scrapping.

Question 3b. How would the removal of this requirement affect MARAD's ability to dispose of obsolete vessels?

Answer. Removal of this requirement would allow MARAD more opportunities to dispose of its environmentally dangerous vessels. It would allow MARAD to participate with the Navy's pilot project and may be the incentive needed by entrepreneurs to develop additional capacity in the U.S. Although MARAD is currently exploring alternatives that have the potential to assist in disposing of some of its vessels, it is still constrained in the domestic market by the requirement to gain financial returns on its vessel sales.

Question 3c. If Congress does not act to remove the requirement that MARAD maximize financial returns on the sale of obsolete vessels will they be prevented from disposing of all obsolete vessels within the time frame presented in the Administration's reauthorization submission?

Answer. If that requirement stays in place, it is unlikely that MARAD will meet an extended deadline of September 30, 2006. MARAD would not be able to compete with the Navy's program, and the domestic scrapping capacity is very limited. Language in MARAD's authorization request stated that the extension would allow MARAD time to develop and begin implementing a plan to dispose of these vessels. However, our position is that it is not acceptable to simply begin disposal within 5 years considering the condition of some of the vessels, the environmental risks, and the costs to maintain them. The scrapping job for ships currently in the inventory should be substantially complete or fully complete by 2006.

Question 4. Why can't MARAD send these vessels overseas for scrapping?

Answer. MARAD stopped selling vessels overseas for scrapping in 1994 due to EPA restrictions. In 1998, the Administration placed a moratorium on all sales of vessels for scrapping overseas. Although the moratorium expired in October 1999, MARAD has refrained from exporting obsolete vessels. Based on a 1997 agreement between MARAD and EPA, MARAD is required to request EPA's approval to sell vessels to overseas contractors that can scrap them in an environmentally-compliant manner. The agreement requires MARAD to ensure that all liquid PCBs in transformers, capacitors, hydraulic and heat transfer fluids and that all "readily removable" solid PCBs are removed prior to exporting these vessels. This agreement also requires EPA to notify countries of import that they will be receiving vessels and that these vessels contain PCBs. To date, MARAD has not requested EPA approval to sell any of its vessels awaiting disposal to overseas scrappers. MARAD can now sell vessels overseas for scrapping, but it must meet the requirements of the EPA/MARAD agreement.

Question 5. Since the overseas market has been basically unavailable, how has MARAD fared in the domestic market?

Answer. MARAD has not fared well in the domestic market. Since the restrictions began on selling these vessels overseas in 1994, MARAD has sold only 22 vessels for scrapping. Of those, only 7 vessels have been scrapped. During the past year, vessel sales yielded only between $10 and $105 per vessel. MARAD has experienced numerous problems with its contractors, including a recent default on a contract to scrap 5 vessels, and continuous delays and requests for extensions for towing vessels (already under contract) to sites for scrapping.

SHIP MANAGERS' CONTRACTS FOR MARAD'S READY RESERVE FORCE

Question 6. The DOT IG participated in a nation-wide five-year joint cover investigation known as "Operation Octanova," which was conducted by the Federal Bureau of Investigation (FBI), Defense Criminal Investigative Service, and Naval Criminal Investigative Service and focused on the Military Sealift Command and the Maritime Administration (MARAD) ship repair industry to identify fraud and kickbacks. The investigation was made public at a joint press conference in August 1999, when the initial indictments of 21 individuals and 2 companies were announced.

Is the investigation complete and do you expect any additional MARAD employees to be indicted or charged?

Answer. The undercover phase of the investigation was concluded in August 1999. Since that time, the investigation has focused on leads generated by that operation and remains ongoing. At this time, we do not anticipate any additional MARAD employees being charged.

Question 7a. Your office recently completed an audit on the ship managers' contracts for the RRF and concluded that MARAD implemented effective policies and procedures relating to the award of ship managers' contracts. However, you stated that this was in sharp contrast to its failure to implement controls for the administration of these contracts. What control weaknesses did you identify during your audit?

Answer. We found that MARAD has not adhered to its procedures and practices for administering the ship managers' contracts. Specifically, MARAD:

• Paid contractors over $63 million before they incurred costs and delivered services;

• Allowed ship managers to issue numerous noncompetitive subcontracts without good reason; and

• Did not perform adequate reviews of invoices to ensure payments were for actual costs incurred; the work related to the work orders; and the invoices had not been already paid.

Question 7b. What action, if any, has MARAD taken in response to your audit?

Answer. In our May 12, 2000 audit report, we recommended MARAD:

(1) Instruct regional employees on existing procedures for processing invoices and provide sufficient oversight to ensure that these procedures are followed.

(2) Provide detailed, self-explanatory work statements, specifications or descriptions on all work orders.

(3) Periodically review open and inactive work orders to identify those that should be closed and reprogram any remaining funds.

(4) Re-instate periodic reviews of ship manager procurement actions including documentation justifying sole-source subcontractor awards and indications of split purchases.

MARAD concurred with our findings and these recommendations. MARAD must now follow through on implementation of the recommendations.

Question 8. On June 12, 1998, the Secretary of Transportation announced the award of 39 performance-based contracts to 10 American ship owning and operating companies to manage 89 RRF vessels which stand ready to support America's armed forces. The total estimated value of the contracts for five years was $1.1 billion. However, on July 2, 1998, MARAD rescinded these contracts. Why were these contracts rescinded?

Answer. The ship managers' contracts that were awarded in June 1998 were rescinded because of a technical error made by MARAD. A ship manager sent MARAD a letter outlining the terms for which it would accept a ship manager contract. This letter, however, was "lost" while MARAD determined the awards. Subsequently, MARAD made an offer to the ship manager that did not meet the criteria specified in the letter; thus, the contract was not valid. MARAD decided to rescind all ship managers' contracts so that awards could be re-evaluated.

Question 9a. On April 28, 2000, MARAD awarded new ship managers' contracts to nine ship management companies at an estimated cost of $1.1 billion. This is nearly 22 months after the 1998 ship managers' contracts were rescinded.

Is your office aware of the reason why there was a 22-month delay in awarding these contracts?

Answer. MARAD delayed the awarding of the new ship managers' contracts in part because of the ongoing criminal investigation. MARAD was extremely concerned about issuing a contract to a ship management company who subsequently would be indicted as a result of the ongoing investigation. Legal actions against MARAD from the first contracts awarded also contributed to the delay.

Question 9b. What steps, if any has MARAD taken to ensure that improved oversight controls were included in the new ship managers' contracts?

Answer. MARAD is changing the procurement section in the new ship managers' contracts to include instructions to regional employees on administering ship managers' contracts, which should go into effect by June 2000. MARAD is also developing a training session for all headquarters and regional personnel who are responsible for administering the new ship managers' contracts. These sessions will instruct the employees on existing procedures for processing invoices and provide oversight to ensure that these procedures are followed.

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO CLYDE J. HART, JR.

Question 1a. Over a period of 2 years starting in 1997, the Inspector General (IG) reported four times that the risk factors for the Fore River Shipyard project were extremely high and circumstances had changed significantly. In the reports, the IG recommended that MARAD should reassess the risk and adjust the subsidy rate accordingly. On each occasion MARAD responded that it did not agree and put off a reassessment.

Why didn't MARAD follow the Inspector General's recommendations to reassess the risk factor rating for MHI's application in a timely manner?

Answer. MARAD initially proposed reassessing the risk factor for the MHI project in the last quarter of 1998, rather than immediately after the Title XI guarantee closing in 1997 as recommended by the IG, because it was reasonable to give MHI a chance to get the yard up and running and to finalize a shipbuilding contract before concluding that the project risk had increased significantly.

MARAD did reassess the risk in July 1998, less than a year after closing, and concluded that there was no basis at that point to change the original estimate. MHI was actively pursuing the Intermare shipbuilding project and MARAD had engaged in discussions with Intermare's counsel. Although there were major outstanding issues regarding the Intermare project, the project was still considered viable.

In August 1999, MARAD advised the IG that it agreed with the need for a reassessment and proposed to complete one by December 1. MARAD believed this would allow sufficient time for the shipyard modernization to be completed and for MARAD to determine whether MHI would be able to finalize the Intermare shipbuilding contract on a viable basis. On December 1, 1999, MARAD reassessed the MHI project risk on the basis of the greatly increased likelihood of default since the yard had not been completed and there had been no progress on finalization of the Intermare contract.

Question 1b. When finally reassessed, did MARAD take appropriate action to adjust the subsidy rate and increase the amount held in reserve to protect against excessive loss to the Federal Government?

Answer. In February 2000, a final reassessment of the project risk was determined resulting in the re-estimate subsidy rate being adjusted to 60.5 percent. Accordingly the additional funds were subsequently transferred into the reserve account.

Question 1c. In doing the risk assessments, what factors were considered?

Answer. In doing risk assessment, the following factors are used in every Title XI project. These factors were established in conjunction with and approved by the Office of Management and Budget:

- Guarantee period
- Percentage of requested financing
- Financial position of company
- Project guarantee
- Employment of equipment
- Market segment
- Collateral
- Historical experience
- Country risk
- Construction period financing

Question 2a. We heard from Mr. DeCarli in his testimony that "MARAD believes the Congressional directive to waive the economic soundness criteria prevented it from acting on our recommendations related to firm contracts." However, the same measure that waived the economic soundness requirement directed [that] "The Secretary shall impose such conditions on the issuance of a guarantee to a commitment to guarantee under this section as are necessary to protect the interest of the United States from risk of a default."

Did MARAD follow this statutory directive throughout the life of the project?

Answer. MARAD did follow this statutory directive throughout the life of the project. MARAD ensured that strong and meaningful conditions attached to the commitment to guarantee that was issued on November 1, 1996 and to the issuance of the guarantee on December 17, 1997. As a result of this statutory directive, MARAD required MHI to grant MARAD, among other things, a first mortgage on the Shipyard properties, a security interest in all of the shipyard equipment, and a co-obligee, loss payee status on the surety bond for the main construction contract. MARAD also protected the interests of the United States by binding the MHI companies and their other lenders to strong Inter-creditor agreements and Subordination Agreements. During the life of the project, MARAD exercised diligent oversight over MHI's proposed changes in shipyard construction plans, the release of proceeds from the Escrow Fund, and requests for deferrals and release of MARAD collateral. As Mr. DeCarli, the Deputy Inspector General of the U.S. Department of Transportation observed at the hearing on May 26, 2000, before this Committee, when MARAD "issued that letter of commitment, they had 28 conditions in there, some of which went probably about as far as they could conceivably go to protect [the taxpayers'] interest."

Question 2b. What other shipyards have received Title XI loan guarantees for revitalization and what is the status of the projects?

Answer. Section 1139 of the Coast Guard Authorization Act of 1996 established a new temporary, 1-year Title XI program to reactivate closed shipyards (the "Reactivation" program). This is the statute that waived the economic soundness test and the statute pursuant to which MHI applied for Title XI guarantees. No other shipyards have received (or applied for) Title XI Reactivation loan guarantees under the provisions of section 1139.

Since 1994, MARAD has had a shipyard modernization program. Section 1112 of the Merchant Marine Act, 1936, as amended (the "Modernization" program), which requires, as a precondition to the issuance of a commitment to guarantee, that the agency make an economic soundness determination.

In 1995, MHI applied under the Modernization program and was informed that the agency could not approve its application because of the applicant's inability to demonstrate economic soundness.

Under the Modernization program, MARAD has approved a total of seven shipyard Modernization projects. The approved Modernization applications were from National Steel & Shipbuilding Company, Avondale Industries, North American Shipbuilding, T.T. Barge Services, HAM Marine, Inc., Bender Shipbuilding & Repair, Inc., and Eastern Shipbuilding Group, Inc. These seven projects are all on time and current with their debt service payments.

Question 2c. Has MARAD held other shipyard revitalization projects to the same standards as it has the Fore River project and if so, should we be concerned about the future of these projects?

Answer. It is difficult to compare the Modernization projects to the Reactivation project. Although applicants in both programs are held to a high standard, to ensure protection of the interests of the United States, MARAD can show more flexibility in structuring collateral packages for companies that have a backlog of contracts and a demonstrated record of success in the market place. At present, we see no reason to be concerned with the future of any of the Modernization projects.

Question 3a. In a July 20, 1999 report, the IG in expressing concern about the risk of default by Massachusetts Heavy Industry (MHI), noted that MHI still had not demonstrated that they had a source of income from contractual work or elsewhere that would allow them to repay the loan secured by the Federal Government. Yet MARAD, under your direction, granted what amounted to a 7-month extension on payments.

What was MARAD's rationale for granting the extension?

Answer. Representatives of MHI, the obligor, and Fleet Bank, the guaranteed obligee, requested that MARAD approve their proposal to defer the $1.55 million payment due on June 1, 1999, under MHI's Note to Fleet for 25 years. At that time, MHI was obligated to pay Fleet $56.55 million in principal and accrued interest under the Note. Representatives of MHI contended that MARAD's collateral would be substantially enhanced if MHI were permitted to complete the shipyard. In letters of July 16, 1999 and July 31, 1999, Mr. Sotiris Emmanuel, President of MHI and Mr. James Dunkel, MHI's Chief Financial Officer, on behalf of MHI, assured MARAD that it was their belief that the shipyard would be completed in October 1999. In conjunction with this, they assured MARAD that once the shipyard was a reality, they would be able to obtain sufficient numbers of shipyard contracts.

In reliance on MHI's assurances, MARAD partially approved the deferral request, granting a deferral until December 1, 1999, the date of the next debt service payment. MARAD's rationale for granting the extension was that if the yard were completed before the December first payment was due, this would increase MARAD's collateral value and give MHI the opportunity to demonstrate the truth of its contention that once the shipyard was completed they would obtain the necessary shipbuilding contracts.

Question 3b. What documentation was available to make MARAD believe MHI's financial problems would allow them to complete the shipyard?

Answer. At the time of the MHI deferral requests in May, June and July 1999, MARAD had reason to believe that the money in the Escrow Fund (maintained by MARAD in the Treasury Department) would be adequate to complete the shipyard. Although MARAD was aware of some contractual difficulties between MHI and its contractor, O. Ahlborg & Sons, at the time MARAD granted approval to the deferral, August 6, 1999, there was no reason for MARAD to believe that MHI would not complete the shipyard in the October timeframe.

Question 3c. How much was paid out of the escrow account between July 1, 1999 and February 28, 2000?

Answer. Between July 1, 1999 and February 28, 2000, MARAD paid out $3,137,490.19 from the MHI Escrow Fund to MHI's vendors and as emergency payments to protect the assets at the shipyard.

From July 1, 1999 until MARAD froze MHI's accounts on September 17, 1999, MARAD paid out $2,805,211.13 to MHI vendors.

Of this amount, MARAD was required by contract to release $720,378.13. MARAD released the remaining $2,084,833 in the belief that Ahlborg's Surety would complete construction of the shipyard pursuant to the Performance Bond. MARAD hoped that the construction would not be delayed. When it became obvious that the Surety was likely to study the issues closely, MARAD, at the recommendation of the Department's Inspector General, froze the Escrow Account, except as requested by MHI to meet exigent circumstances. After MARAD froze withdrawals from the Escrow Fund, MARAD released $332,279.06 from the Escrow Fund at MHI's request to pay for such items as insurance, security guards, and electricity.

Question 3d. If MARAD had taken action earlier to foreclose on the loan and take possession of the shipyard, would the Federal Government still be out $50 million?

Answer. Given the refusal of Fleet Bank to call on MARAD's Guarantee until sometime in August, MARAD would have had to pay out in excess of $57.25 million instead of the $59.1 million it ultimately paid. Pursuant to statute and contract, MHI's default of June 1, 1999, did not ripen into a callable Default until July 1, 1999, and the obligee Fleet Bank had 60 days to decide whether or not to call a Default and make a demand under the Guarantee. Thus, the amount of guaranteed interest could have continued to increase for an additional 90 days. MARAD may not foreclose until it has paid the obligee under the Guarantee. Had MARAD not granted the deferral, the earliest MARAD could have begun foreclosure would have been in late August 1999. The commencement of the foreclosure at an earlier date would not have saved the original $55 million in principal guaranteed by MARAD.

Question 4a. As I mentioned in my opening statement, the Committee is aware that the Department of Justice, as well as the U.S. Attorney's Office in Boston, is looking into accusations of criminal wrong doing associated with the project.

Did anyone at MARAD ever suspect that there could be criminal activity associated with the project, and if so, what action was taken with regard to these suspicions?

Answer. Yes. Referrals were made to the Department's Office of Inspector General.

Question 4b. How often did officials from MARAD meet with MHI to review progress on the project and what was the nature of the meetings?

Answer. There was frequent communication between MARAD officials and MHI officials, especially between representatives of MHI and MARAD's Office of Ship Construction regarding MHI's submissions of invoices in support of withdrawals from the Escrow Fund and information concerning the extent of construction. A MARAD representative periodically visited the shipyard to examine the extent of construction progress.

Question 4c. Should MARAD have been more vigilant of its oversight role in light of these investigations?

Answer. We believe that MARAD was sufficiently vigilant in its oversight of MHI's construction efforts.

Question 5 a-d. In August 1999, you approved the termination of the general contractor (Ahlborg) on the Fore River Shipyard revitalization project at the request of MHI. Why did you agree to the termination? At that time, how far behind was the project? In approving the termination, how did you believe the project was going to be completed? After agreeing to terminate the contractor, did MARAD seek enforcement of the performance bond against the Surety, and if not, why not?

Answers. The answers to these questions involve issues that are the subject of pending or threatened litigation by and among MHI, Ahlborg, MARAD, and other parties. Accordingly, MARAD believes that the answers to these questions should be made in the first instance to the courts that will address these issues.

Nevertheless, we would be happy to provide you and your staff with a briefing of pending matters related to the above referenced questions.

Question 6a and b. At the same time you approved the termination of the contractor, you froze $12.4 million that remained in the escrow account. What was the impact of freezing those funds? Did freezing those funds prevent MHI from moving forward with the project?

Answers. The answers to these questions involve issues that are the subject of pending or threatened litigation by and among MHI, Ahlborg, MARAD, and other parties. Accordingly, MARAD believes that the answers to these questions should be made in the first instance to the courts that will address these issues.

Nevertheless, we would be happy to provide you and your staff with a briefing of pending matters related to the above referenced questions.

Question 7a. During the 1980's, there were a large number of defaults on Title XI loan guarantees. As a result, were there any changes made to regulations to reduce the number of defaults?

Answer. Yes, in 1985 MARAD modified the Title XI regulations to strengthen the criteria for approval. For example, MARAD established specific objective criteria in analyzing a project's economic soundness.

Question 7b. What is the overall default rate of the Title XI loan guarantee program?

Answer. Since the inception of the program in 1955, MARAD has issued approvals for approximately $16.7 billion. The program has experienced defaults in the amount of approximately $2.7 billion. This default level does not include any money that MARAD recovered from selling the defaulted vessel/assets.

Over the entire history of the program, the cost of defaults has been less than 2 percent of the total guarantees. Program receipts from recoveries, fees and other sources total $2.5 billion, which have helped offset the default losses of $2.7 billion.

Question 7c. What is the total risk, in dollars, to the government for the whole of the Title XI loan guarantee program?

Answer. The program's current portfolio is slightly over $4 billion.

Question 7d. In the case of default, does MARAD have the ability to sue to recover lost funds from the company involved and its parent company, and if not, why not?

Answer. Yes, MARAD has the legal right to seek recovery from the defaulting Title XI company. Depending on the structure of the transaction, MARAD may also have the right to seek recovery from the parent of the Title XI company.

Question 7e. As part of the risk assessment, does MARAD consider whether or not the Federal Government will be able to recover the funding in the case of default?

Answer. Yes, In structuring the transaction MARAD seeks to obtain a collateral package that will minimize any loss to the government in the event of default. The expected recoveries from the collateral package are also considered in calculating the subsidy cost of the loan guarantee.

Question 8a. Shortly after MARAD started foreclosure proceedings at the shipyard, MHI filed for bankruptcy protection under Chapter 11.

What is the status of those proceedings?

Answer. MARAD did not have an opportunity to start foreclosure proceedings before MHI filed for bankruptcy protection under Chapter 11 . In the bankruptcy proceedings, MARAD has moved for relief from the stay so that it can convene foreclosure proceedings. A hearing of the motion took place on July 18, 2000, and the court gave MHI until August 23, 2000 to make substantial progress toward obtaining new financing.

Question 8b. What plan does MARAD have for the future of the shipyard and recovery of the Federal funds paid out on the loan guarantee?

Answer. MARAD would like to work closely with the local authorities and investors to find a productive use for the property which would produce jobs and tax revenue for the communities and which would repay the monies paid out by MARAD under its guarantee of MHI's defaulted debt to Fleet Bank.

Question 9. On April 15 , 1999 MHI was required to submit an audited Financial Statement. On April 12, 1999 MHI requested an extension for filing their audited financial statement until May 30, 1999. On April 14, 1999 MARAD approved the extension request. MHI did not complete the required annual audited Financial Statement until August 31, 1999. MHI hired Pricewaterhouse Coopers to do the Financial Statement and at its completion, Pricewaterhouse Coopers said "Further operations of the Company are dependent on, among other factors, completing the renovation of the shipyard and a customer securing the financing necessary to fund their orders" (for ships). "These matters raise substantial doubt about the company's ability to continue as a going concern." Pricewaterhouse Coopers further determined that MHI had a deficit accumulated during development stage of $2,520,615.00 as of December 31, 1998.

Why didn't MARAD raise serious concerns about the financial stability of MHI after receiving the audit from Pricewaterhouse Coopers?

Answer. None of the issues raised by the Pricewaterhouse Coopers audit were new. Initially, in 1995, MARAD had declined to finance MHI because it had insufficient customers and because it did not own a functioning shipyard. Congress passed a law precluding MARAD from taking into account the economic soundness of the venture. As a result of the passage of this law, MARAD issued, on November 1, 1996, a commitment to guarantee MHI's obligations. By the terms of this legislation, MARAD was unable to refuse to close on this financing commitment merely because the audit disclosed facts which were apparent to all, namely, that the shipyard had not been built and that the company had few, if any, genuine customers. The fact

that MHI had invested $2,520,615 during the development stage did not in and of itself raise any concerns.

Question 10. MHI officials identified Intermare shipbuilding projects as a potential source of revenue. Why was Intermare's application for a Title XI loan submitted to MARAD in January 1996 not approved?

Answer. MARAD did not regard the Intermare contract to be eligible for Title XI financing because, among other things, (i) the Intermare company never demonstrated to MARAD that it possessed the minimum equity required to qualify for the financing (12.5 percent of the actual cost of the vessel), (ii) there was an absence of market data to support the required finding that operation of the Intermare ships, if built at the proposed cost of $40 million each, would be economically sound, and (iii) MHI proposed to build most of the Intermare ships, if financed under Title XI, in a Korean shipyard (MHI was repeatedly informed that this proposal was unacceptable as a matter of law and policy).

Question 11a. The former Philadelphia Naval Shipyard has recently reopened and begun construction of several vessels.

Did the Philadelphia yard receive a loan guarantee?

Answer. No.

Question 11b. Did the Philadelphia yard receive any other Federal funding and if so, what type, how much, and how was it utilized?

Answer. Yes, both the Departments of Labor and Defense gave Federal funding of $50 million each to be used for job training.

Question 12a. MARAD has a statutorily mandated deadline for the disposal of obsolete National Defense Reserve Fleet (NDRF) vessels. As part of the National Maritime Heritage Act of 1994, MARAD is responsible for the disposal of obsolete vessels in the NDRF, and that these vessels be disposed of by September 30, 2001. MARAD currently has 114 vessels awaiting disposal, of which 91 are targeted for scrapping.

What is MARAD's plan for disposing of its obsolete vessels?

Answer. The DOT Inspector General's March 10, 2000 audit report recommends that MARAD "develop a proposal for submission to the authorization and appropriations committees in Congress seeking approval and funding for a project to pay contractors for vessel scrapping." By memorandum dated February 29, 2000, the Maritime Administrator responded that he fully concurred with this recommendation.

Question 12b. Does MARAD have a specific plan for disposing of its 37 "worst condition" vessels?

Answer. No. MARAD does not have any new plans for disposing of its 37 "worst condition" vessels. At this time, MARAD has sold 13 of these ships, four of them twice (due to the failure by contractors to take delivery of the vessels they had purchased). MARAD is working with the contractors to take delivery of these ships. Depending on the outcome of pending legislation, MARAD will take appropriate action to dispose of the remaining 24 vessels. MARAD may have the option of disposing of the vessels either under the current sales program, or selling them overseas as Senator McCain's amendment proposes, or paying contractors as proposed in other legislative amendments.

Question 12c. How much will MARAD spend in fiscal year 1999 to maintain obsolete vessels?

Answer. MARAD spent approximately $2.7 million in fiscal year 1999 maintaining obsolete vessels.

Question 12d. Does MARAD currently have the authority to pay for scrapping of obsolete vessels?

Answer. No. The National Maritime Heritage Act requires MARAD to dispose of all vessels "in a manner that maximizes the return on the vessels to the United States."

Question 12e. Is there a market for scrapping of any of these obsolete vessels that would allow MARAD to maximize financial return to the United States as directed by Congress in the National Maritime Heritage Act?

Answer. Only overseas scrapping will allow MARAD to maximize financial return to the United States. From 1987–94 MARAD sold 130 ships for overseas scrapping at an average price of $108/ton. MARAD has tried selling ships domestically for the last 3 years and watched prices received plunge from $10/ton to $10/vessel.

Question 13a. In the Administration's proposal for reauthorization, MARAD has asked for a 5-year extension to the statutory deadline for disposal of obsolete vessels. If the Committee acts on the request, this would be the second time the deadline has been extended.

Why should we believe that another extension is going to result in MARAD addressing the problem in a decisive manner?

Answer. MARAD has grappled with vessel scrapping since EPA applied the Toxic Substances Control Act to government-owned vessels in 1994. This action precluded

MARAD from selling ships for overseas scrapping. The only lawful option available to MARAD at this time is to sell vessels for scrapping in the United States. To date, this option has proven unsuccessful and unsatisfactory; only nine ships have been removed from MARAD's fleet sites for scrapping in the United States. Because these circumstances, we are requesting additional time to develop a program to scrap an estimated 172 ships over the next 5 years.

Question 13b. What other alternatives to scrapping is MARAD currently looking at for disposal of obsolete vessels?

Answer. MARAD has donated 51 ships to coastal states to be sunk as artificial reefs and plans to continue with that program. MARAD also donates ships to be used as museums and memorials when specific legislation is passed. MARAD is also working with the Navy to determine if any vessels would be suitable for Navy's SINKEX program, a program in which obsolete vessels are used as targets in live fire exercises.

Question 14. These vessels contain hazardous materials that pose a threat to the environment. As they age and continue to deteriorate, the likelihood of an environmental problem increases, as will the costs to maintain them. What proactive measures has MARAD planned or implemented to ensure that hazardous materials from these vessels are not spilled into our waters?

Answer. Various efforts have been initiated to assure that obsolete vessels that pose the greatest environmental risk are closely monitored. MARAD is putting cathodic protection on all the vessels at the three fleet sites to slow the deterioration of steel hulls in brackish water. We expect this to be completed by mid-FY 2001. In addition, MARAD has taken soundings of all ships' tanks to verify the kinds and quantities of liquids on board. MARAD has deployed oil booms to trap any leakage on suspect ships. MARAD has also conducted market research on oil consuming microbes and three vessels are being treated with them; the results are being monitored. MARAD has also gauged the higher risk vessels' hulls to determine hull metal thickness. In addition, since Hurricane Floyd, MARAD has spent $3 million shoring up the anchoring system in the James River Reserve Fleet to protect the ships from dragging their anchors and possibly sinking during a hurricane.

Question 15a. In the 1970's, there were 30 domestic ship-scrapping companies. Today, MARAD considers only four companies to be viable, and concerns have been expressed regarding those.

What actions has MARAD planned or initiated to draw additional companies to the ship scrapping industry?

Answer. MARAD has held many meetings with ship scrappers and visited numerous possible ship scrapping sites, located in Oregon, Texas, South Carolina, Alabama, New York and Virginia. In addition, MARAD has conducted debriefings with unsuccessful bidders to explain where their technical compliance plans were deficient. MARAD maintains a mailing list to provide information to bidders interested in scrapping. MARAD advertises its vessels in the Commerce Business Daily and puts its Invitations for Bid on the Internet. MARAD is also working closely with the Navy in sharing information.

Question 15b. Why has MARAD granted contractors numerous extensions for removing sold vessels from the Fleet?

Answer. In the current environment for selling vessels for scrap, there are a limited number of qualified available scrappers. MARAD has sought to work with these scrappers by granting extensions in some cases in order to dispose of as many ships as possible. Nevertheless, of the 22 ships sold for domestic scrapping since 1997, scrappers have taken possession of only nine. As a case in point, when MARAD reoffered 5 defaulted vessels for sale in September 1999, it received only two bids. Only one of the bidders passed MARAD's technical review, and only three ships could be awarded to that contractor due to its capacity limitations.

Question 16a. Current law requires MARAD to sell its scrap vessels. The Navy, however, recently implemented a pilot project to pay contractors to scrap vessels.

If MARAD is granted funding and approval for such a project, how does it intend to solicit contractors to scrap these vessels?

Answer. MARAD is developing an action plan to address this issue.

Question 16b. How does MARAD intend to implement such a project, i.e., through cost plus contracts, cost sharing, payment for remediation, etc?

Answer. MARAD is developing an action plan to address this issue.

Question 16c. Is MARAD coordinating with the Navy on its pilot project and the results?

Answer. Yes. MARAD maintains close contact with the Navy with respect to their ship-scrapping program. We expect to benefit from Navy's experience under their current scrapping pilot project.

Question 17. In a Memorandum of Agreement between the Maritime Administration (MARAD) and the Department of Defense, the Ready Reserve Force (RRF) was established as a component of the National Defense Reserve Fleet to meet shipping requirements during national emergencies. MARAD is responsible for RRF vessel acquisition, upgrade, activation, maintenance, operations and subsequent deactivation. How much does MARAD expend annually on maintaining the RRF vessels?

Answer. From FY 1996 through FY 2000, MARAD's budget for maintenance of the RRF, including ships in the NDRF, has ranged from a low of $262 million (FY 2000) to a high of $302 million (FY 1998). Of these amounts, approximately 60 percent is obligated for maintenance, repair and readiness of the ships; the balance of funding is assigned to salaries, ship management fees, berthing costs, logistics provisioning, vessel upgrades, and NDRF fleet maintenance. Our Program And Objectives Memorandum numbers for FYs 2001 through 2005 are similar.

Question 18. As a result of a joint investigation by the Department of Transportation, Office of Inspector General (DOT–IG), Federal Bureau of Investigation, Defense Criminal Investigative Service and Naval Criminal Investigative Service involving ship managers' contracts, two Maritime Administration (MARAD) employees were indicted and charged with accepting unlawful gratuities from contractors in exchange for actual or promised favorable treatment on ship repair contracts. What action has MARAD taken to prevent future occurrences of illegal activity within MARAD?

Answer. Ship Manager subcontracting procedures have been revised to increase requirements and controls. The revised procedures set forth more stringent guidelines for review and issuance of ship manager subcontracts, tracking of funds obligated for ship maintenance and repair, and de-obligation of excess funding and contract/task order closeout procedures. The new procedures will be incorporated into the 2000 Ship Manager contracts upon resolution of a bid protest.

Administrative Contracting Officers have been instructed to incorporate work descriptions and specifications into the task orders to facilitate the invoice review and tracking process.

Implementation of the electronic contract writing system at all MARAD procurement centers in fiscal year 00 provides greater electronic oversight to ensure that procedures are followed consistently.

The MARAD Office of Acquisition is in the process of acquiring a 2½ day training course focused on the administration of the 2000 Ship Manager contracts. The training will be available to all appropriate personnel at MARAD Headquarters and regional offices. Part of this course will focus on contractual controls and limitation of authorities for Government employees directly involved with the contract performance.

MARAD's Office of Chief Counsel will conduct annual, in-person ethics training to all MARAD employees emphasizing, as appropriate, recent occurrences.

Question 19a. The DOT-IG recently completed an audit on the ship managers' contracts for the Ready Reserve Force and identified weaknesses in the Maritime Administration's controls.

Do you believe that the weaknesses identified contributed to the fraud and kickbacks found during the joint investigation?

Answer. In Fall 1999 MARAD personnel met with investigators from the Department of Transportation Office of the Inspector General (DOT IG), the Federal Bureau of Investigation (FBI), the Defense Criminal Investigative Service (DCIS) and the Naval Criminal Investigative Service (NCIS) to discuss the ongoing investigation, and assess what actions MARAD could take to minimize the occurrence of fraudulent activity on the ship manager contracts. The FBI agent stated that in spite of the review processes implemented by MARAD, this type of wrongdoing could only have been uncovered by the sting operation and the inside information obtained during it. The agent further emphasized that the kind of fraudulent activities identified through the investigation could not have been identified through MARAD's review and approval oversight processes.

Question 19b. What actions has MARAD taken in response to the IG's findings?

Answer. Upon receipt of notification of criminal indictments resulting from the undercover sting operation conducted by the FBI, DCIS, NCIS, and the DOT IG, MARAD has consistently taken decisive action within the administrative remedies available under the regulations. In coordination with the U.S. Navy, MARAD has suspended or debarred eleven (11) businesses/individuals from Government contracting and Government-approved subcontracting for a period of up to three (3) years. Additionally, where improper activity did not result in indictments, MARAD has notified the individuals' employers in accordance with the contract provisions, to ensure that they could not work under a MARAD contract for a period of up to 3 years.

MARAD also took action against two MARAD employees, William Martin, Ship Operations Maintenance Officer, and Warren Hilton. Both individuals resigned before termination actions by the agency. The agency has debarred from government contracting or subcontracting both individuals for a period of 3 years.

Although MARAD has an extensive oversight system with checks and balances in the management of the Ship manager program, MARAD has decided to revise Ship Manager subcontracting procedures in light of the recent investigative results. The revised procedures are currently being reviewed and will be integrated in the recently awarded 2000 Ship Manager contracts.

Question 19c. How does MARAD plan to improve controls for administering ship managers' contracts and general agency agreements?

Answer. Under the recently awarded 2000 Ship Manager Contracts, MARAD has contracted with the Defense Contract Audit Agency (DCAA) for the review of ship managers' Commercial Purchasing System (CPS) procedures. In response to MARAD's requirement, DCAA has established a centralized office to coordinate and track all CPS reviews and incurred-cost audits.

In order to obtain approval of their CPS, ship managers must demonstrate a separation of duties between the individuals tasked with identifying the requirement, those writing the specification, and those soliciting and selecting the subcontractor.

Administrative Contracting Officers have been tasked to conduct periodic reviews of the ship managers' procedures to ensure compliance with established and approved subcontracting procedures. A complete CPS review will be conducted by the DCAA every three (3) years under the new ship manager contract.

Subcontracting procedures have been revised to establish more stringent requirements and controls. The revised procedures set forth more stringent guidelines for review and issuance of ship manager subcontracts, tracking of funds obligated for ship maintenance and repair, and deobligation of excess funding and contract/task order closeout procedures. The new procedures will be incorporated into the 2000 Ship Manager contracts upon resolution of a bid protest.

Question 20a. The Ready Reserve Force (RRF) was established as a component of the National Defense Reserve Fleet in 1976. The Maritime Administration (MARAD) is responsible for maintaining RRF vessels in a heightened State of readiness so that they can be activated in 4 to 30 days to meet shipping requirements during national emergencies. MARAD administers RRF vessel acquisition, upgrade, activation, maintenance, operations, and subsequent deactivation through ship manager contracts. In 1998, MARAD awarded ship manager's contracts and then rescinded them 20 days later. The ship managers' contracts were not awarded again until April 28, 2000. Has the delay in awarding the new ship managers' contracts had a negative effect on MARAD's ability to meet its readiness goals?

Answer. The impact of the delay in awarding the new ship manager contracts on RRF readiness has yet to be determined. Multiple temporary contract extensions over the past two (2) years have resulted in our delay of annual ship maintenance work, thereby deferring scheduled maintenance and upgrade items. No-notice test activations later this year and next year will indicate whether or not these delays have had adverse readiness implications.

Question 20b. How much more, if any, did it cost MARAD as a result of the delay?

Answer. Extensions to existing Ship Manager contracts were made at the 1998 rates. Consequently there has been no cost impact to the fixed-price portion of the contracts.

We have no quantifiable data on higher maintenance costs resulting from the delay in Ship Manager contract awards.

Nevertheless, we believe that doling out work in small increments, due to the short-term contract extensions granted over the past 2 years, loses any economy of scale to be realized by consolidating work into larger repair packages. It is not possible to estimate a meaningful cost associated with this issue.

Question 21a. No dry bulk vessels that would be covered by the waiver of the 3 year rule as proposed in the Administration's submission have been built in a U.S. shipyard in the past 20 years, and none has been built without Federal subsidies. Do you have any concern that enactment of this temporary amendment to Title XI would adversely impact U.S. shipyards?

Answer. We do not anticipate any adverse impact on U.S. shipyards. In fact, enactment of this amendment will have a positive impact on them. The large U.S. shipyards capable of building dry bulk vessels have stated they are not interested in the commercial marketplace. They especially have no desire to build dry bulk vessels, which are the cheapest and most competitive type of vessel to build. One U.S. shipyard stated that foreign shipyards are building these type vessels for less than the cost of materials in a U.S. shipyard. However, U.S. shipyards would gain new

repair business because the vessels would have any reflagging work and future maintenance and repair performed in U.S. shipyards.

Question 21b. Do you have any concern that this amendment would lead to excess U.S. flag tonnage for preference cargo if food aid levels drop?

Answer. It is possible that some excess U.S.-flag tonnage could develop if there was a major reduction in U.S. food aid levels. In such an event, the marketplace would drive down freight rates to a level where older vessels which are not designed for dry bulk carriage, such as single hull tankers, or older vessels whose maintenance and repair costs are excessive, could become non-competitive and effectively reach the end of their economic lives. In addition, the potential addition of multipurpose vessels to the U.S. could open up markets not fully served (i.e. PR–17) by current U.S. flag vessels.

Question 21c. Will this amendment have any effect on the Jones Act?

Answer. No, this amendment has no impact on the Jones Act. It only affects international trade for agricultural preference cargoes to foreign nations.

Question 21d. Why does this amendment address only the bulk sector of the U.S.-flag fleet?

Answer. Only the agricultural sector of preference cargoes is restricted to a 3-year waiting period before carriage by reflagged vessels is permitted. The amendment would put the agricultural sector on the same footing as the military cargoes, at least for the narrow limited window as proposed by the amendment.

Question 22a. It would seem that older bulk ships could charge the lowest rates because their capital costs have largely been amortized. However, the Administration claims that newly built U.S. flag vessel operators will be able to offer lower rates to government shippers. How is this possible?

Answer. While it is true that a newer vessel must amortize a higher capital cost than an older vessel, the newer vessel possesses a number of operating and cost advantages over the older vessel. As a vessel ages, it becomes increasingly more difficult to maintain the vessel's regulatory compliance and seaworthiness, resulting in sharply higher maintenance and repair costs. As an example of efficiency, the engines in today's new buildings are far more efficient and can easily cut fuel costs in half compared to many older vessels. More advanced technical and operating systems also allow newer vessels to operate with smaller crews and, in many cases, substantially reduce cargo loading and discharge expenses. In addition many newer vessels are more appropriately sized for the trade, further increasing unit efficiencies Lower freight rates typically follow a period of fleet upgrade. This occurred during the mid-1980's following the addition of several new bulkers to the U.S. flag fleet. At that time, freight rates to certain locations dropped by as much as 50 percent as newer vessels entered the trade.

Question 22b. How many Federal agencies are involved in the shipment of government food aid to foreign countries?

Answer. The U.S. Department of Agriculture (USDA), the U.S. Agency for International Development (AID), the State Department (State), and the Maritime Administration are the U.S. Government agencies involved in the shipment of government food aid to foreign countries.

Question 22c. What is the cost to the Federal taxpayer for these agencies' oversight of food aid shipments under cargo preference restrictions?

Answer. There is a negligible cost to the U.S. taxpayer for these agencies' oversight of food aid under cargo preference restrictions. There are 7.5 persons employed at the Maritime Administration to monitor the food aid cargo preference programs on a daily basis. Transportation personnel at USDA, AID, and State would not change since preference cargo is not the primary focus of their job. With respect to ocean freight differential costs between U.S.-flag and foreign flag vessels, the average annual cost for the 3-year period, 1997 through 1999, has been $87 million per year. This is less than one-half of one one-hundredth of a percent (0.00461) of the value of American farm exports. Moreover, the average $87 million per year helps maintain a portion of the U.S.-flag merchant marine which contributes to the pool of U.S. citizen mariners who crew Government controlled ships in contingencies.

Question 23a. The mission of the Maritime Administration (MARAD) is to ". . . promote the development and maintenance of an adequate, well-balanced, United States merchant marine, sufficient to carry the nation's domestic waterborne commerce and a substantial portion of its waterborne foreign commerce, and capable of serving as a naval and military auxiliary in time of war or national emergency". Since we now carry less than 3 percent of our total seaborne foreign trade tonnage on U.S. flagged vessels, and our shrinking active commercial fleet is one of the oldest in average age in the world, it would seem we have failed in fulfilling that mission. And now, it appears that we may be well into the beginning stages of a professional seafarer shortage in this country. What specific policy changes does MARAD

believe are realistically required to save our merchant marine from disappearing from the seas?

Answer. Our merchant fleet competes globally on a quality basis, offering premium level service to U.S. and foreign shippers The cost of their operations reflects the U.S. standard of living and the U.S. business operating environment generally, including our tax laws, employment standards, labor laws, environmental protection laws, and ship construction and operating laws and regulations. The U.S. fleet is frequently competing with shipowners operating in low cost countries, including so-called "open registry" or "flag of convenience" countries with little or no tax burden, and lax requirements on owners for vessel operations standards. Restructuring U.S. law and regulatory regimes to meet a "lowest common denominator" level of competition would require extreme reductions in regulatory protections that would be unacceptable to the American people, and compromise our protection of the natural environment and our national security readiness. However, continued full funding of the Maritime Security Program will help to ensure that a fleet of modern vessels will remain in the U.S. registry, serving their commercial customers and providing guaranteed sealift capacity for U.S. national security needs. Moreover, we can continue to implement significant regulatory reforms to conform outdated and burdensome U.S. laws and regulations to internationally accepted norms. In addition, there is merit in examining the various aspects of the business environment offered by competing nations to determine which, if any, could be adopted or adapted to the U.S. model. In the short run, the Maritime Security Program and our cargo preference programs will help preserve a core of U.S.-flag vessels and citizen mariners in U.S. foreign trade, while the Jones Act and Passenger Services Act support the domestic maritime industry. In the long run, the cost advantages enjoyed by ship operators in other countries could outpace the modest maritime programs in the United States.

Question 23b. What new initiatives are required to accomplish this task, based upon a comparison between the present and historical maritime performance record of the U.S. and that of other more successful maritime countries?

Answer. The merchant fleets of all traditional maritime countries with high living standards, regulatory standards, and tax rates such as those in the European Union and Japan have been in serious decline as a result of the same cost and regulatory disadvantages suffered by the U.S.-flag fleet compared to low cost "flags of convenience." Some countries such as Denmark and Norway have successfully created national "second" vessel registries that exempt or dramatically reduce tax burdens on their citizen vessel owners and seafarers engaged in international trade, in addition to other direct and indirect subsidies. On the other hand, some countries like Singapore have revamped their national registry to offer the same tax breaks to carriers and mariners that other countries offer through flags of convenience.

Some traditional maritime countries also have lowered the citizenship requirement for crews on their national or second registry's vessels. Our international security obligations, and our success in any deployment of military forces, rest heavily on massive sealift requirements. The Congress and successive Administrations have underscored the importance of relying on U.S. citizen seafarers to perform that critical mission. Eliminating the long-term requirement for citizen crews on U.S. flag ships is not a viable option for the U.S. We note that some countries that have reduced or eliminated their citizenship requirements are heavily dependent on the United States for some of their national and international security needs. Even the United Kingdom relied on U.S.-flag ships and crews to move its military equipment for the U.N. peacekeeping mission in Bosnia.

Question 23c. Is it not true that because of problems between MARAD and the U.S. Coast Guard during the past few years with collection, organization, coordination, and dissemination of information that we really do not know with any accuracy the current make-up our professional seagoing maritime skills base here in the United States?

Answer. The U.S. Coast Guard (USCG) and MARAD are working cooperatively to improve the Merchant Mariner Licensing and Documentation (MMLD) system. The MMLD is the primary source of data on documentation status and qualifying sea service of licensed and unlicensed mariners. The MMLD system was originally structured as a system to process applications and to maintain records on U.S. merchant mariners; the MMLD system has only been automated since 1982 and the USCG recognizes that the MMLD has some data integrity problems. MARAD and the USCG are working together to improve the accuracy of the data. The data problems do not preclude the use of the data to identify trends and outcomes regarding the overall size and make-up of the mariner pool.

Question 23d. Has MARAD done anything to identify the extent of the manning problem and to identify what seagoing professional maritime skills are at question?

Answer. Yes, MARAD monitors the availability of U.S. seamen in coordination with the U.S. Coast Guard. Information from seamen's discharges from the U.S. Coast Guard provides the statistical basis to determine generic shortfalls or deficiencies in specific skill areas. The data indicate that at the present time there are sufficient trained personnel to crew the privately owned, U.S.-flag merchant fleet in peacetime. However, during an extended full mobilization, the actively sailing labor force would be hard pressed. to simultaneously meet both commercial and defense crewing needs in which the RRF and other sealift assets were activated.

Anecdotal reports from the maritime industry indicate recruitment difficulties in some mid-level officer and entry-level unlicensed positions. MARAD is working with industry to discuss long-term recruitment and retention planning. In this regard, meetings have been recently held with key members of the National Defense Transportation Association. MARAD is also working closely with the Coast Guard's National Maritime Center to improve our capability to determine where specific deficiencies may first occur if an extended mobilization were to occur.

Question 23e. Does MARAD know the ages and experience levels of licensed mariners?

Answer. The USCG's MMLD system is MARAD's primary source of information on licensed and unlicensed mariners, including data on age and experience levels. A mariner's experience level is generally determined by the highest level of license held by an officer, or the highest rating held by an unlicensed mariner, combined with available information on afloat employment. Even though there are data integrity problems with the MMLD, MARAD can use the system to estimate the number, age, and qualifications (license, rating and sea service) of U.S. mariners with sufficient accuracy for analyzing trends and outcomes.

Question 23f. Does MARAD know how many license holders are STCW 95 certified, or how many are planning to allow their licenses to lapse due to the new certification requirements?

Answer. Yes, that information is available to MARAD in the USCG MMLD, MARAD's primary source of information on licensed and unlicensed mariners. The MMLD provides information on the status of documentation and reported sea service of licensed and unlicensed mariners. In addition to maintaining grades and ratings of licensed and unlicensed mariners, the MMLD also contains the age of each mariner.

All of the approximately 500 new graduates per year of the USMMA and six State maritime academies who receive USCG third mate or third assistant engineer licenses are STCW 95 compliant. All mariners sailing in deep-sea trades are required to have STCW 95 certification by February 2002. Due to the variety of opportunities to obtain certification, the costs and the time involved, it is not possible to predict the number of individuals who will allow their licenses to lapse because of the certification requirements.

Question 23g. How many of the license holders are actually professional mariners earning their living aboard ship?

Answer. MARAD estimates that approximately 7,100 licensed and 11,200 unlicensed civilian merchant mariners were employed on large merchant ships and vessels in the DOD organic fleet in the deep-sea trades in 1999. These estimates represent those mariners who are qualified and experienced on the types of vessels that are used in military sealift operations and do not include mariners employed on the inland waterways or Great Lakes.

Question 23h. What is MARAD doing to enhance the attractiveness of professional shipboard employment for the well-educated mariners who are making present and future career path decisions?

Answer. MARAD's chief activity in this regard is our operation of the world's leading maritime academy, the U.S. Merchant Marine Academy at Kings Point, New York, and our assistance to the six State maritime academies. Employment aboard modern, technologically advanced ships is a demanding but rewarding occupation, with high levels of responsibility and excellent remuneration. Yet, as waterborne shipping has evolved over the past decades with increased emphasis on technology and speed of delivery of commodities over the water, the historic attraction of a career at sea has diminished for some mariners. Faced with a number of career possibilities in today's job market, many highly qualified mariners may choose shoreside employment as an alternative to the seafaring lifestyle. The historic attraction of a career at sea is not likely to return. However, MARAD is providing the best possible education for maritime officers and is working with industry to provide supplemental training. In addition, MARAD's participation in the Department of Transportation's Garrett A. Morgan Technology and Transportation Futures Program provides mentoring and inspiration to help interest students of all ages in marine careers. Through these training programs that emphasize safety and human perform-

ance and interest in the maritime industry, MARAD helps to ensure that working conditions on U.S.-flag vessels are among the best in the world.

Question 23a. The current U.S. merchant marine presents a bleak picture of old ships and a declining billet job base. The taxation and regulation of companies and seafarers is now to a point that we cannot economically compete with our international shipping company competitors. In spite of this, it would appear that our maritime education programs have all but been ignored. As you mentioned in your opening statement, Mr. Hart, the U.S. Merchant Marine Academy is in need of major repairs. MARAD is responsible for a $450 thousand dollar contract with Grumman Samson Architects for a report outlining a Facilities Master Plan for the United States Merchant Marine Academy at Kings Point, NY that was due May 15, 2000. What is the status of this report?

Answer. Work on the Master Plan began in 1999 and is near completion. The Plan will contain a prioritized list of repairs, building upgrades and construction with cost estimates itemized for each activity. It will also provide a recommended schedule for completion of each activity over the next several years, with an itemized total for each year beginning with fiscal year 2001. The Plan will contain a description of facility repair, renovation, and campus-wide improvements recommended by the contractor. The Plan will also reflect potential new/expanded building projects.

Question 24b. Given the very strong shore side economy, what are your suggestions to attract and retain Americans to a professional career in our present U.S. Merchant Marine?

Answer. The decline in the number of large oceangoing U.S.-flag vessels and reduction in crew sizes due to increased shipboard automation and productivity have reduced shipboard jobs for U.S. mariners. This, coupled with the expansion of new technology-based careers, has attracted even some of those trained as mariners to seek careers in other industries. In addition, with unemployment at historically low levels due to the strong U.S. economy, many industries, not only maritime, have reported difficulties in finding the desired number of qualified employees.

In order to attract and retain mariners, it is important to continue operation of the world's leading maritime academy, the U.S. Merchant Marine Academy at Kings Point, New York, and our assistance to the six State maritime academies. Employment aboard modern, technologically advanced ships is a demanding but rewarding occupation. MARAD is providing the best possible education for maritime officers and is working with industry to provide supplemental training. In addition, programs that provide mentoring and inspiration, such as the Department of Transportation's Garrett A. Morgan Technology and Transportation Futures Program, are important to help interest students of all ages in marine careers. Through these programs that emphasize safety and human performance and interest in the maritime industry, MARAD helps to ensure that working conditions on U.S.-flag vessels are among the best in the world.

RESPONSES TO QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO CLYDE J. HART, JR.

Question 1. Mr. Administrator, can you tell me how much "carryover" funds were available for the Title XI loan guarantee program? Can you tell me how much is currently available?

Answer. The carryover funds into fiscal year 2000 were $70.8 million. Of this amount $7.6 million is restricted due to the annual limitation on fiscal year 1997 funds. With the additional $6.0 million appropriated funds for fiscal year 2000 there was a total of $69.2 million subsidy available for guarantee purposes at the start of fiscal year 2000. As of July 10, 2000 there is currently $27.9 million subsidy available for guarantee purposes.

Question 2. What type of projects has MARAD approved over the last two fiscal years, and what shipyards are handling these projects?

Answer. As per the attached approved list for fiscal year 1999 and fiscal year 2000 MARAD has approved a variety of vessels at many different shipyards. MARAD has also approved guarantees for two shipyard modification projects.

Question 3. What is the total amount of Title XI loans pending, and what sort of vessels are projected to be built pending the receipt of approval?

Answer. Currently MARAD has over $4 billion in pending Title XI projects. The attached pending list shows that the interest in the program is quite diverse ranging from deck barges to a large passenger ship.

Question 4. Does MARAD run a risk that they will run out of funds for Title XI this year?

Answer. There is always a possibility that MARAD will obligate all of its available subsidy by the end of the fiscal year if several projects come to fruition. It is MARAD's anticipation that the available subsidy will be sufficient to cover the rest of fiscal year 2000 and to have a carryover of funds into fiscal year 2001.

Question 5. Mr. Administrator, as a condition to receiving funds through the Maritime Security Program, U.S.-flag companies are required to sign an agreement to make their vessels and affiliated transportation equipment available to the Department of Defense. To implement these provisions we established the Voluntary Sealift Agreement, or VISA. How is the progress of this program?

Answer. Since the implementation of the MSP, MARAD has obtained signed VISA agreements whereby all of the MSP vessel capacity and associated intermodal transportation equipment and management systems will be made available to the Department of Defense during a VISA activation. In addition to the MSP capacity, MARAD has VISA agreements with non-MSP U.S.-flag carriers. There are currently 48 U.S.-flag carriers enrolled in the VISA program. These companies have enrolled 115 ships in the VISA program representing over 171,000 TEUs of committed capacity.

Through the U.S. Transportation Command's components at the Military Traffic Management Command and the Military Sealift Command, VISA carriers have negotiated VISA contingency contracts providing the DOD with push-button readiness to activate VISA capacity when needed to support a military contingency. These contracts enumerate the terms and conditions for carrying military cargo and equipment. In meeting the terms and conditions of these contracts, VISA carriers have negotiated contingency compensation rates utilizing on the shelf rate methodologies. These pre-lodged rates will facilitate DOD's access to VISA capacity and provide for a seamless transition from peacetime to wartime operations.

Question 6. Mr. Administrator recently MARAD's ship management program was investigated for criminal irregularities, as a result of this investigation what steps has MARAD taken to increase control over the program?

Answer. Ship Manager subcontracting procedures have been revised to increase requirements and controls. The revised procedures set forth more stringent guidelines for review and issuance of ship manager subcontracts, tracking of funds obligated for ship maintenance and repair, and deobligation of excess funding and contract/task order closeout procedures. The new procedures will be incorporated into the 2000 Ship Manager contracts upon implementation of the contract awards.

Administrative Contracting Officers (ACOs) have been instructed to incorporate work descriptions and specifications into the task orders to facilitate the invoice review and tracking process.

Implementation of the electronic contract writing system at all MARAD procurement centers in FY 2000 provides greater electronic oversight capability to ensure that procedures are followed consistently.

All MARAD Headquarters and Region personnel directly involved with ship manager contract performance will be required to attend a 2½-day training course focused on the administration of the 2000 Ship Manager contracts. Part of this course will focus on contractual controls and limitation of authorities for Government employees.

MARAD's Office of Chief Counsel will conduct annual, in-person ethics training to all MARAD employees emphasizing, as appropriate, recent occurrences.

Under the recently awarded 2000 Ship Manager contracts, MARAD has contracted with the Defense Contract Audit Agency (DCAA) for the review of ship managers' Commercial Purchasing System (CPS) procedures. In response to MARAD's requirement, DCAA has established a centralized office to coordinate and track all CPS reviews and incurred-cost audits.

ACOs have been tasked to conduct periodic review of the ship managers' procedures to ensure compliance with established and approved subcontracting procedures. A complete CPS review will be conducted by the DCAA every three (3) years under the new ship manager contract.

Question 7. Mr. Administrator, are MARAD, Coast Guard and MSC working together to implement a coherent maritime policy?

Answer. Yes, Maritime transportation is an integral link in the intermodal National Transportation System, serving the national interest in three critical aspects: the economy, national security, and safety. MARAD, USCG and MSC/Department of Defense function in varying and complementary capacities in implementing U.S. maritime policy in support of the national interest.

For example, MARAD and the U.S. Coast Guard are working together to ensure that the Marine Transportation System (MTS) in the 21st Century continues to be safe, secure, and environmentally sound, and helps the United States maintain its competitive position in the global economy.

MARAD also works with MSC to assure that U.S.-flag ships and U.S.-citizen mariners will be available to support national defense sealift requirements through the Maritime Security Program and the education and training of officers for the merchant marine.

Question 8. Mr. Administrator, my staff has visited the United States Merchant Marine Academy and they indicated that the facility is suffering from neglect and deferred maintenance, what steps has MARAD taken to address this problem?

Answer. Within the total request for fiscal year 2001 for the Academy, there is $1.85 million in the base for ongoing facilities maintenance and repair. Congress provided an additional $2 million in fiscal year 2000 for capital improvements at the Academy. The fiscal year 2001 Congressional budget continues the $2 million increase to continue the focus on addressing capital improvements that are a concern of both the Administration and Congress.

Work on the Facilities Master Plan began in 1999 and is near completion. The Plan will contain a prioritized list of repairs, building upgrades and construction with cost estimates itemized for each activity. It will also provide a recommended schedule for completion of each activity over the next several years, with an itemized total for each year beginning with fiscal year 2002 for items that have not been addressed using funds provided in fiscal year 2000 and anticipated to be provided in fiscal year 2001. With the assistance of the Master Plan, future budget requests will be based on a sound facility review and assessment.

Question 9. Mr. Administrator, the Marine Transportation System (MTS) report identifies a critical need to conduct maritime research, to my knowledge the Coast Guard has a small budget of about $16 million, and most of its research goes to help Coast Guard mission work, and the Maritime Administration has no budget for research. What are we doing to implement the MTS report recommendations for maritime research?

Answer. Our budget request includes $500,000 to continue MARAD's efforts and support of the MTS. MARAD will also have the joint responsibility with the Research and Special Programs Administration (RSPA) for developing and managing a University Marine Transportation research program. A total of $2.5 million is contained in the RSPA fiscal year 2001 budget request for this research. This program is proposed as a national cooperative MTS research and technology development program that would be conducted at leading universities in the U.S. It is expected that this program would improve the coordination and enhance MTS-related research by government agencies and the private sector, and foster and support intermodal MTS technology requirements that are beyond the scope of individual agency mandates and the funding priorities and interests of the private sector. This program will be modeled on the successful University Highway Transportation research program and the University Transit research program.

The attached approved list reflects original approvals of transactions as of the date indicated. Approvals involving refinancing of existing Title XI are not listed. Information contained in this list is subject to change and therefore it is advisable to contact the Maritime Administration to get the most up-to-date information.

Approved Applications.—July 10, 2000

Company Name	Shipyard	No. of Project	Type of Project	Project Cost	Title XI Guarantee**	Date Approved
FY 1994						
Cenac Towing Company, Inc.	NABRICO (Nashville Bridge Co.)	40	Double-Skin 30,000 Barrel Inshore Tank Barge	$51,108,701.00	$44,720,000.00	5/11/94
Penn Barge, Inc.	Alabama Shipyard, Inc./Halter Marine, Inc	2	Integrated Tug/Barges	35,000,000.00	26,250,000.00	6/22/94
Puerto Quetzal	McDermott Incorp.	2	U.S.-Flag Power Barges	95,000,000.00	25,000,000.00	5/11/94
Global Industries, Ltd.	Aker Gulf Marine	1	Swath Dive Support Vessel	23,711,000.00	20,852,000.00	7/6/94
National Steel & Shipbuilding Company	National Steel & Shipbuilding Company	N/A	Phase I and Phase II Capital Improvement Projects.	26,000,000.00	22,700,000.00	7/15/94
+Coastal Ship, Inc.	Trinity Marine Group	2	Catamaran-hull RO/RO	132,472,404.00	115,912,000.00	7/26/94
*Compania de Elecrticidad de Puerto Plata	McDermott Incorp.	1	Barge Mounted Power Barge	39,551,868.00	34,293,000.00	8/8/94
Total		48		$402,843,973.00	$289,727,000.00	
FY 1995						
Avondale Industries Inc.	N/A	N/A	Shipyard Modernization	$20,320,000.00	$17,780,000.00	10/24/94
*Fleves Shipping Corporation	Newport News Shipbuilding & Drydock Company.	4	Product Tankers	152,620,000.00	133,542,000.00	10/31/94
Edison Chouest Offshore	North American Shipbuilding	1	Undersea Warfare surface Support Ship	13,659,432.00	11,658,282.00	2/01/95
Bay Transportation Inc. d/b/a St. Phillip Towing.	Nashville Bridge Co.	2	Stern drive tractor tugs	11,628,540.00	10,174,000.00	2/7/95
American Heavy Lift Shipping Company	Avondale Industries, Inc.	4	Double-hulled Product Tankers	159,273,686.00	139,364,475.00	2/6/95
Surf Express, Inc.	Gulf Coast Yachts, Inc.	1	Wave Piercer Catamaran Ferry	1,850,000.00	1,480,000.00	2/14/95
Alpha Marine Service	North American Shipbuilding	6	Tractor-Type Tugs	13,484,704.95	11,799,000.00	2/24/95
Canal Barge Company, Inc.	Trinty/Newpark Ship/Conrad Ind.	4	Steel Liquid Tank Barges	4,982,452.00	4,359,645.00	4/13/95
		1	260′ Deck Barge			
		1	120′ Deck Barge			
Manson Construction & Engineering Company	Nichols Marine-Portland, OR	3	Dump Barges	9,766,976.00	8,544,000.00	5/31/95
Maryland Marine, Inc.	Trinity-Madisonville, LA	4	Double-skill unmanned tank barges	5,142,860.00	4,500,000.00	6/14/95
Martin Gas Marine, Inc.	AMFELS-Brownsville, TX	2	Tug/Barge unit	17,000,000.00	14,875,000.00	7/25/95
Great AQ Steamboat Company (formerly Delta Queen Steamship Development, Inc.).	McDermott-New Orleans, LA	1	Paddhewheel Steamboat	69,424,647.00	60,746,000.00	7/26/95
Alpha Marine Services, Inc.	North America-Larose, LA	1	Deepwater Supply Vessel	6,000,000.00	5,250,000.00	8/11/95
Edison Chouest Offshore, Inc.	North America-Larose, LA	1	Self-sustaining breakbulk Container vessel	17,000,000.00	12,883,000.00	8/21/95
Total		36		$502,153,297.95	$436,955,402.00	

FY 1996						
North American Shipbuilding, Inc.	North American-Larose, LA	N/A	Shipyard Modernization	$7,408,519.00	$6,386,000.00	10/23/95
SEAREX, Inc.	Gulf Coast-Lakeshore, MS	4	Self-propelled, Self-Elevating Vessels	60,197,928.00	43,961,000.00	10/28/95
Great Independence Ship Co.	Newport News-Newport News, VA	1	Reconstruction/Reconditioning of INDEPENDENCE.	46,399,628.00	33,332,000.00	11/16/95
Parker Towing Company, Inc.	Trinity Marine-Nashville, TN	20	Hopper Barges	6,709,782.00	5,570,000.00	11/22/95
		1	Rake deck barge			
		1	Rake deck crane barge			
Tugz International L.L.C.	Runyan-Pensacola, FL	2	Tractor Tugs	7,426,900.00	6,498,537.00	12/19/95
*Dannebrog Rederi AS	Alabama Shipyard-Mobile, AL	2	Double-hull 16,000 DWT Tankers	53,274,933.00	46,615,000.00	12/20/95
Canal Barge Company, Inc.	Trinity Marine-Gulfport, MS	20	Steel Liquid tank barges	20,321,280.00	17,781,000.00	12/22/95
	Newport News	1	260′ deck barge			
*Smith/Enron Cogeneration Limited Partnership.	Trinity Marine-Beaumont, TX	2	Barge Mounted Power Barges	205,000,000.00	50,000,000.00	12/22/95
Bay Transportation Corporation	Trinity Marine-Gulfport, MS	2	6700 HP Stern Drive Tractor Tugs	12,467,380.00	10,908,958.00	12/29/95
Hvide Van Ommeren Tankers I–V L.L.C.	Newport News-Newport News, VA	5	Double Eagle Product Tankers	246,700,000.00	215,862,500.00	2/9/96
Port Imperial Ferry Corp.	Gladding Hearn-Somerset, MA	5	96-foot Aluminum Monohull Vessels	6,991,980.00	5,117,000.00	3/7/96
T.T. Barge Services, Inc.	North American-Larose, LA	N/A	Shipyard Modernization	3,822,000.00	3,057,000.00	3/18/96
Alpha Marine Services, Inc.	North American-Larose, LA	1	Deep submergence rescue vehicle support ship.	15,640,000.00	13,000.000.00	3/21/96
Global Industries, Ltd.	Service Marine-Morgan City	1	Launch Barge	24,590,000.00	19,966,375.00	3/29/96
	Bollinger Shipyards-Lockport, LA	2	Lift Boats			
		1	Deck Barge			
***R.S.I. Barge Company, L.C.	Trinity Marine-Madisonville, LA	90	U.S.-flag Covered Hopper Barges	28,393,940.00	24,844,000.00	4/24/96
*Wak Orient Power and Light Ltd. (ex Maritime Power & Light (Pvt) Ltd. and Orient Energy Ltd. & Energy Transportation Group, Inc).	Marine Energy-Charleston, SC	6	Electric Power Generating Vessels	460,094,591.00	402,582,000.00	6/28/96
Penn ATB, Inc.	Halter Marine Inc.-Gulfport, MS	2	Integrated Ocean Tugs	49,001,220.00	42,876,000.00	9/24/96
		2	Double-hull Asphalt Barges			
Rowan Companies, Inc.	LeTourneau, Inc.-Vicksburg, MS	1	Self-elevating mobile offshore drilling unit (Jack-up rig).	174,962,065.00	153,091,000.00	9/30/96
Total		172		$1,429,402,146.00	$1,101,448,370.00	
FY 1997						
Massachusetts Heavy Industries, Inc.	Massachusetts Heavin Indus.-Quincy, MA	N/A	Shipyard Reactivation	$62,857,143.00	$44,000,000.00	11/1/96
*COSCO Line (America), Inc.	Alabama Shipyard-Mobile, AL	4	1432 TEU Container Vessels	157,356,689,00	137,687,000.00	01/30/97
CPD Barge Company	Trinity Marine Group-Gulfport, MS	18	Jumbo Hopper Barges	6,173,196.00	5,401,000.00	3/07/97
+Trailer Bridge, Inc. (ex Coastal)	Halter Marine-Pearlington, MS	2	Triple Stack Box Carriers	12,018,052.00	10,515,000.00	3/26/97
HAM Marine, Inc.	N/A	N/A	Shipyard Modernization	28,362,434.00	24,817,000.00	5/09/97

Approved Applications.—July 10, 2000—Continued

Company Name	Shipyard	No. of Project	Type of Project	Project Cost	Title XI Guarantee**	Date Approved
Riverbarge Excursion Lines, Inc.	Leevac Shipyards-Jennings, LA	2	Hotel River Barges	18,218,704.00	15,941,000.00	7/01/97
Mersea Ships I, Inc.	Bollinger Shipyard-Lockport, LA	2	SWATH 300-Passenger Commuter Vessels	34,173,445.00	29,901,000.00	08/18/97
Trico Marine International, Inc.	Eastern Shipbuilding Group, Inc.-FL	1	Twinhull Crewboat	12,858,317.00	9,643,000.00	09/29/97
*Secunda Atlantic, Inc.	Halter Marine Group-Gulfport, MS	1	240′ Anchor-Handling Tug/Supply Vessel	19,435,000.00	17,103,000.00	09/29/97
Cashman Equipment Corporation	Corn Island Shipyard-Lamar, IN	7	Single-skin Steel Flat Barges	7,563,924.00	6,612,000.00	9/29/97
	Tidewater Shipyard-Chesapeake, VA					
Trailer Bridge, Inc.	Halter Marine-Pearlington, MS	3	Triple Stack Box Carriers	19,335,869.00	16,918,000.00	9/29/97
Total		40		$378,352,773.00	$329,538,000.00	
Sargent Marine, Inc.	Bath Iron Works	1	Asphalt Vessel	$18,594,877.00	$13,141,000.00	03/31/97
(approved and withdrawn duuing FY 1997)	Atlantic Marine					
FY 1998						
Noble Drilling Corporation	HAM Marine-	1	Semi-Submersible Mobile Offshore Drilling Unit.	$110,733,817.00	$96,892,000.00	10/09/97
Tugz International L.L.C.	Marco Shipyard-Seattle, WA	3	Twin Z-drive Reserve Tractor Harbor/Escort/Tpwing Tugs.	16,033,560.00	14,029,000.00	02/13/98
Canal Barge Company, Inc.	Trinity Marine Group, Inc.-Madisonville, LA	30	Steel Open Hopper Barges	13,319,076.00	11,654,000.00	02/26/98
	Halter Marine, Inc.-Gulfport, MS	2	260′ Deck Barges			
	Offshore Ship Builders, Inc.-Houma, LA	10	120′ Deck Barges			
Attransco, Inc.	National Steel & Shipbuilding-San Diego, CA	3	Tank Vessels	71,523,779.00	48,819,622.00	03/16/98
(Refinancing of Title XI Debt)						
Western Power Co. (fka Ghana National Petroleum Corp.).	Halter Marine-Gulfport, MS	2	Power Barges	68,500,000.00	67,009,000.00	03/19/98
Marine Cranes (A Washington General Partnership).	Gunderson Marine, Inc.-Portland, OR	1	Split-hull ABS Loadline Hopper Barge	4,667,364.00	4,083,000.00	04/23/98
Maybank Navigation Company, LLC	Conrad Industries, Inc.-Morgan City, LA	1	Warehouse Barge	5,107,765.00	4,000,000.00	6/17/98
Vessel Management Services, Inc.	Nicols Brothers-Freeland, WA	10	Medium-High Horsepower Tugboats	86,237,530.00	75,536,000.00	7/02/98
*Perforadora Central, S.A. de C.V.	TDI Halter-Orange, TX	1	Jack-Up Mobile Offshore Drilling Unit	94,365,698.00	70,774,000.00	07/31/98
Astro Offshore Corporation	Halter Marine Group, Inc.-Gulfport, MS	2	Platform Supply Vessels	35,936,857.00	31,468,000.00	7/31/98
Rowan Companies, Inc.	LeTourneau, Inc.-Longview, TX	1	Self-Elevating Mobile Offshore Drilling Unit	195,437,532.00	171,007,000.00	9/25/98
Lightship Tankers III-V, LLC	Newport News Shipbuilding & Drydock-Newport News, VA.	3	46,095 DWT Tank Vessels	158,886,035.00	139,023,000.00	9/25/98
Total		70		$860,749,013.00	$734,294,622.00	

FY 1999						
*Empresa Energetica Corinto, Ltd.	Todd Shipyard-Seattle, WA	1	Power Barge	$68,700,000.00	$50,000,000.00	12/28/98
Bender Shipbuilding & Repair Co., Inc.	Bender Shipbuilding & Repair-Mobile, AL	N/A	Shipyard Modernization	16,684,127.00	14,598,000.00	2/02/99
Cashman Equipment Company	Corn Island Shipyard-Lamar, IN	5	Steel Deck Barges	9,038,931.00	7,887,000.00	2/10/99
*Petrodrill Offshore, Inc.	TDI Halter-Pascagoula, MS	2	Semi-submersible Drilling Rigs	342,638,238.00	299,808,000.00	3/11/99
Trico Marine International, Inc.	Eastern Shipbuilding Group-Panama, FL	2	230′ Supply Vessels	21,501,005.00	18,867,000.00	4/05/99
Torch Deepwater, Inc.	Dakata Creek-	1	300′ × 75′ Multi-Purpose DP Vessel	51,948,280.00	45,454,000.00	4/08/99
Project America, Inc. (ex Great Hawaiian)	Ingalls Shipbuilding-Pascagoula, MS	2	U.S.-flag Cruise Ships	1,233,744,415.00	1,079,525,000.00	4/08/99
Ensco Offshore Company	TDI Halter-Orange, TX	1	Semi-submersible Drilling Rig EMSCP 7500	222,556,179.00	194,736,000.00	6/21/99
*Secunda Marine Atlantic Ltd.	Halter Marine Group-Escatawpa, MS	1	Multi-Purpose Supply Vessel (THEBAUD SEA)	27,544,232.00	23,963,000.00	7/23/99
Canal Barge Company, Inc.	Trinity Marine Group-Ashland City, TN	7	Asphalt Tank Barges	28,922,307.00	26,004,000.00	8/31/99
	Newpark Shipbuilding-Galveston, TX	15	Liquid Tank Barges			
	Conrad Industries, Inc.-Morgan City, LA	2	180′ Deck Barges			
Eastern Shipbuilding Group, Inc.	Newpark Shipbuilding & Repair-Houston, TX .. Eastern Shipbuilding Group-Panama City, FL	N/A	Shipyard Modernization	6,898,349.00	6,036,000.00	9/30/99
Total		39		$2,030,176,063.00	$1,766,878,000.00	
FY 2000						
Rowan Companies, Inc.	LaTourneau, Inc. Vicksburg, MS	1	Jack-Up MODU-GORILLA VII	$211,695,000.00	$185,398,000.00	10/28/99
Global Industries, Ltd.	Atlantic Marine Inc.-Mobile, AL	1	Heavy Lift-Pipelay Barge	120,312,000.00	99,000,000.00	12/17/99
	Ham Marine, Inc.-Pascagoula, LA					
Manson Construction Company	Carliss Facility-Nichols Marine-Portland, OR	1	Hydraulic Pipeline Dredge	10,200,000.00	8,690,000.00	12/28/99
Coastal Queen East, LLC/Coastal Queen West, LLC	Atlantic Marine-Jacksonville, FL	2	U.S. Flag Cruise Boats	89,533,448.00	78,341,767.00	3/24/00
Port Imperial Ferry Corp.	Allen Marine, Inc.-Stika, Alaska	3	Coast Guard Certified Passenger Catamarans	6,170,048.00	5,398,000.00	4/06/00
Penn Tug & Barge, Inc.	The Red Fox Companies of Iberia, Inc.	2	Double-Hull Asphalt/Residual Oil Barges	24,328,052.00	21,287,045.00	4/24/00
Pasha Hawaii Transport Lines LLC	Halter Marine Group-Gulfport, MS	1	Pure Car/Truck Carrier	80,126,521.00	70,110,000.00	6/06/00
Cal Dive I-Title XI, Inc.	Amfels-Brownsville, TX	1	Ultra Deepwater Semi-Submersible Multi-Service Vessel.	155,941,542.00	136,448,000.00	6/16/00
Maybank Navigation Company, LLC	Bollinger Shipyards Lockport, LLC-Lockport, LA	1	Roll On/Roll Off Warehouse Barge	5,903,064.00	5,000,000.00	7/10/00
Total		13		$704,209,675.00	$609,672,812.00	

+Original approval in FY 1994 amended approval in FY 1997
*Export
**Reflects adjustments to originally approved amount as applicable
***Reflects withdrawal in subsequent fiscal year

The attached pending list reflects information contained in applications submitted to the Maritime Administration requesting Title XI financing. Information contained in this list is subject to change and therefore it is advisable to contact the Maritime Administration to get the most up-to-date information.

Maritime Administration.—September 6, 2000

Owner	No. of Ships	Types of Vessels/Projects	Shipyard	Actual Cost to Owner	Orig. Amount of Loan	Terms of Guarantee	Arrival Date
FY 2000							
Shibley Marine Services Corporation	1	ITB (Oceangoing Tug/Barge Unit)	Trinity Marine Group-Harvey, LA	$25,000,000.00	$21,875,000.00	25 yrs.	8/01/95
*Schahin Engenharia e Comercio Ltda	1	Semi-submersible Drilling Rig	Friede Goldman Offshore-Pascagoula, MS.	216,900,000.00	189,787,000.00	12 yrs	2/18/99
*PQP Limited	1	Power Barge	Cascade General-Portland, OR	119,388,000.00	73,598,000.00	12 yrs	4/12/99
Sea Hotel Company, LLC	1	Seagoing Barge	Bay Shipbuilding Co.-Sturgeon Bay, WI	150,812,000.00	131,960,000.00	25 yrs	5/07/99
Great Lakes Dredging & Dock Company	1	Trailing Suction Hopper Dredge	To be determined	51,822,000.00	45,344,250.00	25 yrs	6/17/99
McAllister Maritime Holdings, LLC	1	Passenger/Automobile Ferry	Eastern Shipbuilding Group-Panama City, FL.	14,941,119.00	13,073,000.00	25 yrs	7/14/99
FastShip Atlantic, Inc.	4	High-Speed Container Vessels	National Steel and Shipbuilding-San Diego, CA.	1,715,000,000.00	1,501,000,000.00	Const. Period +25 yrs.	9/22/99
Sterling Equipment, Inc.	10	Steel Deck Barges		8,661,000.00	7,386,655.00	15 yrs	11/01/99
*Geomar Enterprises S.A.	3	Passenger Vessels	Halter Marine Group, Inc.-Gulfport, MS	189,000,000.00	165,000,000.00	25 yrs	11/08/99
ACF Acceptance Barge I, LLC	11	Semi-Integrated, Double-Skin Tank Barges.	Trinity Marine Products, Inc.-Ashland, TN.	16,756,686.00	14,662,100.25	25 yrs	1/11/00
Vessel Management Services, Inc.	3	10,000 HP Specialized Tugboats	Dakata Creed Industries, Inc.	45,813,000.00	36,697,000.00	25 yrs	3/21/00
	2	Line Handling Boats					
World City America Inc.	1	6,200 Passenger, Siemens' SSP Propulsor-driven, GE Gas Turbine-Powered Passenger Ship- American World City-The Westin Flagship.	American Flagship Construction Co.-Cape Canaveral, FL.	1,508,851,840.00	1,320,245,224.00	25 yrs	11/30/99
Chiles Rig #14 LLC and Chiles Rig #15 LLC	2	350-foot Ultra-Premiun Cantilever Jack-up Rigs.	AMFELS, Inc.-Brownsville, TX	235,247,000.00	164,476,000.00	Const. Period +18 yrs.	5/22/00
Kvaemer Shipholding, Inc.	1	2600 TEU Container Carrier Vessel	Kvaemer Philadelphia Shipyard-Phila., PA.	80,966,444.00	70,845,000.00	25 yrs	5/30/00
Drilling Productivity Realized, L.L.C.	2	Submersible Drilling Rigs	Conrad Industries, Inc.-Morgan City, LA.	25,852,000.00	21,000,000.00	25 yrs	8/16/00
Great Pacific NW Cruise Line, L.L.C.	1	U.S.-Flag Cruise Boat	Leevac Industries, LLC-Jennings, LA Nichols Brothers Boat Builders, Inc-Freeland, WA. Cascade General, Inc.-Portland, OR	45,600,000.00	39,900,000.00	25 yrs	8/23/00

Maritime Administration.—September 6, 2000—Continued

Owner	No. of Ships	Types of Vessels/Projects	Shipyard	Actual Cost to Owner	Orig. Amount of Loan	Terms of Guarantee	Arrival Date
Alter Barge Line, Inc.	106	Covered Hopper Barges	Trinity Marine Products, Inc.-Caruthersville, MO.	29,093,500.00	24,834,000.00	25 yrs.	8/29/00
Stolt Marine Tankers II, LLC	1	Chemical Tanker	Jeffboat LLC-Jeffersonville, IN To be determined	25,000,000.00	21,750,000.00	20 yrs	8/30/00
Total	153			$4,504,589.00	$3,863,433,229.25		

*Export

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY HON. MAX CLELAND TO CLYDE J. HART, JR.

Question 1. As I remarked in my opening statement, I am interested to hear about the State of the Academy's barracks and the ongoing effort to restore them to livable conditions. Can you tell me if MARAD considers this a priority, and if so, how much money did the Administration request to be appropriated for the renovation of the Academy's physical facilities?

Answer. The Maritime Administrator and the Academy Superintendent consider the barracks to be a high priority. This and all facility-related needs are the subject of the Facilities Master Plan currently being developed. The fiscal year 2001 Congressional budget contains the increase of $2 million the Appropriations Committees added in fiscal year 2000 to address capital improvements. MARAD anticipates presenting facility needs with the completed and final Master Plan to the Department in the initial round of the 2002 budget process.

The Academy's most pressing infrastructure problems that require immediate attention are related to the physical plant that significantly impacts on the health and welfare of the Regiment of Midshipmen.

Question 2. It is my understanding that much of the potable water at the Academy does not meet EPA's minimum standards under the Safe Drinking Water Act. Can you tell us how many of these buildings fail to meet minimum safety standards? Has the Administration proposed funding to bring the Academy's drinking water infrastructure up to compliance with current law?

Answer. Six Academy buildings fail to meet the EPA's drinking water standards. Approximately $5,000 for piping and replacement has been used this fiscal year to replace coolers which were constructed using lead based solder. Some coolers were also replaced in fiscal year 1999. All new coolers installed meet EPA standards. The repairs have not completely alleviated the problem for several reasons. Some coolers and water fountains still have lead-based solder that must be replaced. In one building the piping was replaced all the way to the water main and the water testing still shows water conditions in some areas that are below the standards. All lead-based solder throughout the facilities will have to be replaced. Approximately $11,000 will be spent during fiscal year 2000 for bottled water for affected areas so that all facilities have safe drinking water. The Facilities Master Plan will address the full scope of the problem and estimate repair costs. Continued testing and monitoring of water conditions will continue until the problem is resolved.

Question 3. I have heard much about the deplorable state of the furniture in the Barracks. I further understand that this furniture—desks, bunks, chairs—was acquired from surplus stocks over a decade ago. I hope you share my views for the need to provide adequate furniture in order to support a decent environment to study, learn, and live. Has the Administration proposed funding to replace the outdated furniture?

Answer. The Academy requires approximately $3.2 million for midshipmen furniture. The increase requested in the Congressional budget includes $400,000 for furniture replacement. However, it should be noted that the Academy had planned to allocate this fiscal year to purchase furniture, but other critical needs presented themselves, precluding this initiative.

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