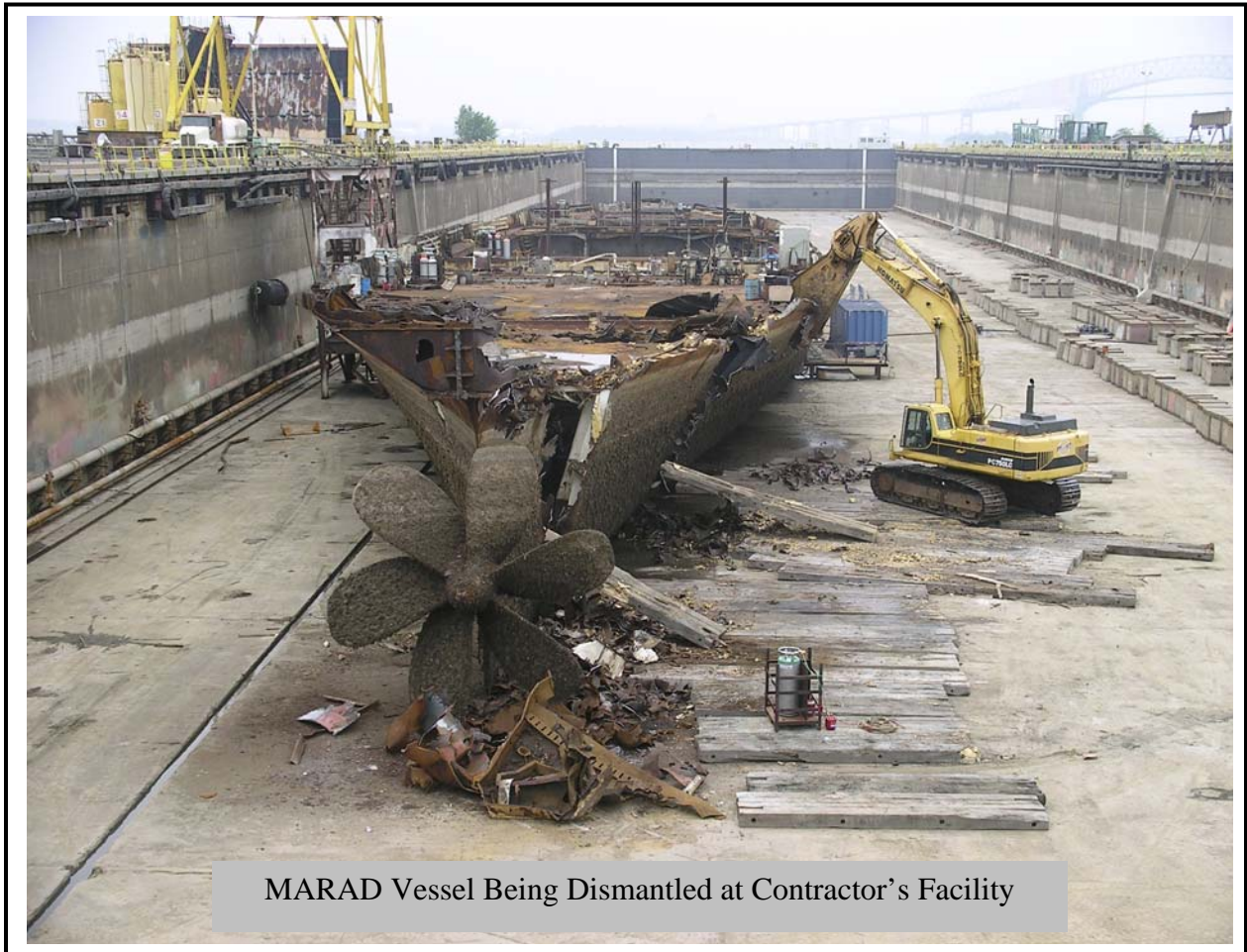


Comprehensive Management Plan for the Disposal of Maritime Administration (MARAD) Non-Retention Vessels FY 2006



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

**FY 2006
Annual Program Plan for the Disposal of
Maritime Administration (MARAD) Non-Retention Vessels**

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*** Sections that will be updated and summarized in the Quarterly Executive Summary Update to the Annual Program Plan**

I. Introduction

This document is the Comprehensive Management Plan for the Disposal of Maritime Administration (MARAD) non-retention ships. This annual plan is developed by MARAD'S Ship Disposal Program and is a cost-effective and feasible short and long-term strategy for the disposal of MARAD's obsolete ships. Strategy and performance elements of this plan are updated and presented to the Administrator as a quarterly executive summary of the Program's progress and status relative to this plan. The quarterly plan is necessary in order to stay current with the many variables that affect the selection and award of ships for disposal. In addition to the annual plan and the quarterly updates, ship specific disposal recommendations are developed throughout the year for the Administrator's review and concurrence prior to the award or transfer of any vessels for disposal via the various disposal alternatives pursued by and available to the Program.

Each Fiscal Year, MARAD will develop an annual installment to the Comprehensive Management Plan which will reassess MARAD's progress and all factors affecting the program and revise, if necessary, the short and long-term strategy and implementation plan for disposal of its obsolete ships.

II. Background

In October 2000, P.L. 106-398 was passed extending, until September 30, 2006, MARAD's ship disposal authority under the National Maritime Heritage Act. The extension mandated that the Secretary of Transportation "shall dispose of all vessels" by September 30, 2006. The law further restricted the disposal of ships to a list of 39 ships that posed "the most immediate threat to the environment." The restriction would remain in place until a report to Congress on MARAD's ship disposal program could be produced, after which MARAD could determine the disposal priority of its obsolete ships.

The required report was submitted to the Congress on April 30, 2001, which projected the need for an average of \$2.5 million per ship (or \$340 per ton) to dispose of the 155 ships identified in the report -- a total estimated funding requirement of \$388 million or \$78 million per year for the next five years. The October 1, 2000 requirement to dispose of "all vessels" by September 2006 was unrealistic. It did not take into account the reality that MARAD, as the disposal agent for Federally owned merchant-type ships, is subject to receiving obsolete ships into its disposal queue on a continuous basis for the foreseeable future. This fact renders the "all vessels" requirement unachievable given the resources and disposal options available. In fact, 73 additional obsolete ships have been added to MARAD's inventory in the past five years, 2001-2005. This is a 50 percent increase in the number of obsolete ships to be disposed of by MARAD. More vessels are expected to enter the obsolete inventory in the coming years.

In 2000, the domestic ship recycling industry indicated that at least 12 facilities existed that were willing to and capable of providing dismantling/recycling services with an annual capacity of accepting and dismantling a total of 73 ships. As shown in the table below, the 12 facilities never materialized as competitive, productive facilities, and the reality is that currently the actual competitive, productive capacity includes only seven facilities capable of handling about one-

third of the 73 ship capacity originally indicated. Further, only three of those seven facilities participated in MARAD disposal solicitations from 2001-2003 in a competitive, cost-effective manner. Additionally, a statement in 2000 from the President of the Shipbuilders Council of America (SCA) indicated that “the domestic capacity and expertise already exists to dismantle all of the surplus vessels in MARAD’s custody within a five-year period.” That domestic capacity, likewise, never materialized as a practical matter. Of the few facilities represented by the SCA that bid on dismantling work, none were in the competitive range to be considered for best value awards of MARAD obsolete ships.

Domestic Ship Recycling - Number of Facilities & Potential Annual Capacity				
	Domestic Location	Industry Input 2000	Actual 2001-2003	Actual 2004-2005
# of Facilities/ Annual Capacity (# of Ships)*	East Coast	4 / 22	0 / 0	2 / 7
	Gulf Coast	6 / 32	3 / 10	5 / 19
	West Coast	2 / 19	0 / 0	0 / 0
	Total	12 / 73	3 / 10	7 / 26

*The capacity figures listed in the actual columns are based on MARAD’s observation of contractor performance and include assessments of worker availability in addition to facility capacity. Most of the contractors are diversified to some degree; consequently, the capacity of those facilities is not solely available to MARAD.

The purpose of the 2000 mandate was for MARAD to establish a program to mitigate the environmental threat posed by deteriorated ships. While the backlog of obsolete ships increased significantly in the 1990’s, all obsolete ships in MARAD’s possession in 2000 did not pose such a threat. In fact, only approximately 25 percent of MARAD’s ships were considered a threat to the environment due to the potential risk for the discharge of residual oils and fuels.

Based on the purpose or intent of the law, a more realistic approach than the “all vessels” mandate would have been to structure a requirement for MARAD:

- To dispose of all deteriorated, high priority ships (#0, 1 & 2 condition hulls) within 12 months of their designation as such and being made available for disposal. An exception to this would be for vessels having significant historic interest;
- To give future deteriorated vessels disposal priority, i.e. a policy of “worst ships first”;
- To reduce the total number of ships on hand annually to a manageable number of approximately 50-70 mostly non-priority vessels;
- To maintain an annual rate of ship disposal that on average is greater than the number of vessels annually designated as obsolete; and,
- To request funding levels to support this approach.

This is the approach that MARAD developed when it was apparent in 2002 that the “all vessels” mandate was unachievable, even with large appropriations because of the limited available recycling capacity and external impediments that precluded full access by MARAD to all disposal options. The MARAD’s ship disposal approach since 2002 has been to invite industry proposals; consider industry capacity, production throughput, disposal alternatives and available resources; and set achievable disposal goals that are protective of the environment while

efficiently using the available financial resources. Success with this approach is dependent upon all disposal alternatives, including vessel export, being fully available to MARAD. This end state approach is discussed in detail in Section IV of this plan.

Other than two high priority ships that are not available for disposal because of donation and historical assessment processes, all high priority ships in the James River Reserve Fleet (JRRF) have been removed from the fleet or are awarded in disposal contracts and awaiting removal. Only two high priority vessels remain in the Suisun Bay Reserve Fleet (SBRF) and Beaumont Reserve Fleet (BRF), with the SBRF ship not currently available for disposal and the BRF ship in the bidding process for award. However, more work remains to be done in clearing additional vessels for disposal through the national Historic Preservation Act process.

The salient point is that since 2001 MARAD has taken action to identify ships that are significantly deteriorated, designate them as high priority for disposal, and expedite their disposal with available resources. The MARAD continues to monitor all of its vessels in recognition of the fact that vessel material conditions change over time, and such changes determine which vessels are designated as high priority and in need of expedited disposal.

Of the 39 ships identified in the October 2000 statute that posed an immediate threat, 34 continued to be assessed as high priority vessels as a result of additional condition evaluations. Of those 34 ships, 33 have been removed from the fleet sites for disposal including all 27 JRRF vessels, and four other high priority ships not included in the statute were also removed including ships that were located in Portsmouth, VA, Mobile, AL, and the BRF in Texas. The one remaining high priority ship is currently under assessment for historical significance and is not available for disposal.

Since 2001, there has been only one oil discharge incident that occurred on a vessel which has since been removed from the fleet. That incident involved approximately ten gallons of oil and caused no damage to the environment. The MARAD's disposal efforts and progress since 2001 have been significant and effective in mitigating the environmental threat.

In 2000, when the disposal mandate was extended to 2006 there were 124 ships available for disposal. Since then, 63 have been removed and 78 disposal contracts have been awarded at a cost of approximately \$120 per ton, which is significantly lower than the \$340 per ton projected cost in 2001. The MARAD's cost effective contract awards result in the disposal of more ships with the available limited resources. These results are in spite of the lack of direct program funding until FY 2003; the domestic capacity being limited to only three domestic facilities in Texas until 2003; and significant legal regulatory, and other external impediments that, to this day, preclude MARAD's full access to all cost-effective disposal alternatives and additional industrial capacity to expedite the disposal of obsolete ships.

As demonstrated by the above results, MARAD's ship disposal end state strategy has resulted in a significant reduction of the environmental threat that developed in the 1990's, and significantly mitigates the risk of environmental damage due to a build-up of deteriorated hulls. While the 2006 mandate will not be met, as first reported by MARAD to the Congress in 2002, the removal

of the high priority vessels available for disposal that pose a likely and immediate threat to the environment has already been accomplished, well ahead of the September 30, 2006 deadline.

The MARAD will continue to actively evaluate the material condition of all its obsolete vessels, and, through diligent application of its end state strategy, dispose of its obsolete vessels in a manner that reduces environmental threats at the fleet sites and that is environmentally safe at the disposal facilities. The “all vessels” mandate should be clarified and changed to an achievable mandate containing practical objectives that can be accomplished. It is recommended that MARAD request legislative changes to the September 30, 2006 deadline for the disposal of “all vessels” to reflect the “end state” approach discussed in Section IV of this report.

III. Decision Making Framework

The Office of Ship Operations manages the National Defense Reserve Fleet (NDRF) which includes the Ready Reserve Force fleet, the operational sealift component that supports the operations of the Department of Defense and the U.S. Transportation Command. The NDRF also includes the non-retention vessels referred to as “obsolete” vessels that are available for disposal. The Office of Ship Operations is supervised by an Office Director who reports to the Associate Administrator for National Security. The Director serves as the U.S. Government’s disposal agent for obsolete, government owned merchant-type ships pursuant to the Federal Property and Administrative Service Act of 1949 and is the responsible MARAD official for the disposal of obsolete NDRF vessels.

In 2001, pursuant to Public Law 106-398, MARAD established a Ship Disposal Program within the Office of Ship Operations. Maritime Administrative Order (MAO) #61-1 defines the organization, authority, and functions related to the Ship Disposal Program. Establishing the Program within the Office of Ship Operations took advantage of significant in-house private sector and government experience in the operation and management of marine industrial facilities.

The Ship Disposal Program Manager is responsible for developing ship specific disposal recommendations that are of “best value” to the government. Disposal recommendations are based on the industry responses/proposals to fee-for-service solicitations and sales solicitations; applications for vessels to be artificially reefed; opportunities to deep-sink vessels via a Memorandum of Agreement with the Navy to participate in their Deep Sink Exercises (SINKEX) Program; and other proposals and opportunities for disposal that may become available. MARAD’s disposal mandate further specifies the use of all feasible disposal options and qualified facilities without predisposition toward foreign or domestic facilities. All of these requirements are integrated into MARAD’s disposal strategy and plans.

The Program’s recommendations are based on “best value” determinations and consider other important factors, including the availability of funds and the disposal priority of the vessels. The Program’s ship specific disposal recommendations are documented with notification to the Director of the Office of Ship Operations, the Associate Administrator for National Security, and the Maritime Administrator. Upon notification, the recommendations are acted upon using the

appropriate MARAD process for vessel award or transfer resulting in the disposal of the vessel(s) per the approved recommendations and MARAD policy.

IV. Ship Disposal Strategy

The MARAD's disposal strategy is integrated to include critical elements that are considered for both the long-term disposal strategy and short-term disposal decisions. These elements effect the cost and disposal rate of MARAD's obsolete ships and include the following:

- Timing, level, and availability of annual appropriated funding
- Disposal alternatives available to the Program
- Non-retention vessel condition and location
- Availability of non-retention ships to the Program for disposal
- Suitability of vessels for various disposal options
- Environmental threat posed by specific vessels
- Ship specific proposals received by the industry
- Demand for ships to be disposed of through alternatives that include artificial reefing, purchased for recycling and deep-sunk through the Navy's SINKEX Program
- Domestic and international scrap steel markets
- Capability, capacity, and effectiveness of the various disposal options to cost-effectively expedite the disposal of ships

With the Program's emphasis on the expedited disposal of high and moderate priority obsolete ships, disposal alternatives such as artificial reefing, donation, deep-sinking, and sales are less effective because the best candidates for those disposal options are generally vessels that are cleaner and in better condition. The MARAD's responsibility is first and foremost the mitigation of environmental threats posed by the older, deteriorated hulls that contain residual oil. While MARAD's disposal strategy is to focus on recycling as the most expeditious option currently available, other disposal options are pursued. However, the pursuit of those options is tempered by MARAD's environmental stewardship responsibility and fiscal responsibility to dispose of the worst vessels as quickly as possible. Consequently, MARAD's disposal strategy does not include the arbitrary allocation or earmarking of scarce disposal funds to disposal methods that are not conducive to the expedited disposal of the worst ships first.

As the priority vessels (hull condition #0, 1, 2 & 3) are eliminated, the opportunities to apply appropriated funds to the other disposal alternatives will increase. That being said, several vessels identified elsewhere in this report are actively being considered and processed for artificial reefing, SINKEX, sale and donation.

Utilizing the \$19.5 million provided in FY 2005 (which excludes the \$2 million for decommissioning of the N\S SAVANNAH) MARAD's goal, based on past results and future projections was to remove approximately 15 additional high and moderate priority obsolete vessels from the NDRF. Due to a continued strong international scrap steel market and competition among six domestic contractors, the actual results exceeded this goal by three ships. The strong domestic competition resulted in the lowest per ton domestic prices in the last five years, which also contributed to a significant carryover of FY 2005 funding. This carryover

allowed for contract awards early in FY 2006 which leveled the release of contracts and ship disposal work to the recycling industry.

The MARAD's disposal plan is based on the aggressive pursuit of every feasible alternative to dispose of as many of the obsolete vessels by the September 30, 2006 deadline as possible. Disposal alternatives such as domestic and foreign recycling, artificial reefing, vessel deep-sinking, vessel sales and donations are the environmentally responsible methods utilized by MARAD. In spite of the aggressive pursuit of all feasible disposal methods, MARAD will not be able to meet the September 2006 disposal deadline.

The MARAD's current disposal plans are to expedite the disposal of any "high" (hull condition #0, 1 & 2) and "moderate" (hull condition #3) priority ship that becomes available for disposal. Currently, a few vessels are designated as high priority that are not under contract for disposal; however, those vessels are not available for disposal due to regulatory and legislative requirements. Because of this, MARAD's disposal plans are also focused primarily on "moderate" priority ships via full and open competition utilizing all feasible disposal options available to achieve an environmentally acceptable "end state." The MARAD has developed a ship disposal "end state" which sets achievable, realistic long range and annual goals. The main "end state" elements are as follows:

- To eliminate the backlog of high priority vessels that accumulated in the 1990s. This has essentially been accomplished with only four high priority vessels, not under contract for disposal, remaining in three MARAD fleet sites -- and only one of the four ships is currently available for disposal by recycling or artificial reefing. Of the three high priority vessels not available, one is under donation hold and two are considered potentially historically significant and are undergoing a historic review process.
- To remove from the fleet sites all "high" and "moderate" priority ships at a rate of 20-24 ships per year. Elimination of high and moderate priority ships from the fleets also mitigates the high and moderate risks to the environment at MARAD's fleets. The number of vessels removed by each disposal alternative will be determined by the industry proposals/pricing, funding availability, suitability of each ship for the disposal methods available/proposed, the outcome of the current foreign recycling litigation, the availability of obsolete ships for disposal and other factors.
- To maintain only "low" priority/low-risk ships at the fleet sites. The target number of obsolete vessels to be maintained on an annual basis is a total of 50-70 low priority vessels at all three fleet sites. With the designation of an average of 10-12 additional MARAD and Department of Defense (DoD) ships per year as obsolete, an annual disposal rate of 20-24 ships will have to be maintained for 2-3 years beyond 2006 in order to achieve and maintain an obsolete vessel fleet size at a maximum range of 50-70 ships. In addition to maintaining only "low" priority obsolete ships at the fleets, further mitigation of environmental risks will be achieved by continuing to use the established protocol for the acceptance of vessels into the National Defense Reserve Fleet. This includes conducting material condition and liquid load surveys, removal of readily removable hazardous materials, preliminary residual

hazardous material characterization, and defueling of vessels to the maximum practical extent prior to accepting the vessels into MARAD's fleet.

- To have a level of annual funding that permits the "end state" near term annual disposal rate of 20-24 ships and then a level of funding in the out years that permits the disposal of at least the number of ships that are designated as obsolete on an annual basis. A failure to achieve that level of funding and to maintain all disposal options will result in an accumulation of obsolete vessels such as occurred in the 1990s.

Critical factors which impact the achievement of a realistic and environmentally responsible disposal "end state" include:

- Foreign recycling becoming a viable disposal option in 2006 and beyond.
- The Ship Disposal Program is funded at levels which allow economies of scale.
- The majority of vessels to be designated as obsolete in the future are in "fair" or "good" condition (i.e. low priority vessels with hull conditions of #4 & 5).

Sufficient funding shall be necessary in 2007 and 2008 to achieve the ship disposal "end state" described above. Full and open competition utilizing all viable and environmentally safe disposal alternatives will ensure cost-effective, expedited disposal. Obviously, funding requests will be revisited annually and adjusted to match the reality and evolution of disposal alternatives and MARAD's ship disposal needs. It is also anticipated that the expanded sharing of domestic contractors by the Navy's and MARAD's Programs will have an upward effect on the costs of recycling due to an increase in demand for the limited recycling resources available in the U.S.

V. Program Progress and Performance Measures

a. Prior Year Progress

Table 1 lists disposal program actions (contract awards, ship removals, disposal completions and requested bids) during FY 2005 involving 40 obsolete vessels. Dismantling contracts for 20 vessels were awarded and the solicitation process has begun for an additional three vessels with FY 2005 funds. In FY 2005, 18 ships were removed from the fleet sites to contractor facilities. Disposal actions on 40 ships in a single year represent significant progress in the disposal of obsolete ships and mitigation of the environmental threat represented by those ships. The MARAD has exceeded its performance goals for numbers of ships awarded and removed from MARAD fleet sites. All contract awards in FY 2005 have been to domestic facilities.

The MARAD's accomplishments in FY 2005 were a result of executing its disposal management plan and emphasis to continue the removal of the high and moderate priority ships in the JRRF moored in Virginia waters. In addition, MARAD began the removal of high and moderate priority vessels in the SBRF in California and BRF in Texas.

b. Current Year Progress

Table 2 lists disposal program actions (contract awards, ship removals, disposal completions and requested bids) during FY 2006 through June 2, 2006. Dismantling contract for 13 vessels were awarded with 4 additional contract awards pending and 4 ships in the solicitation process.

Table 1: MARAD FY 2005 Ship Disposal Actions
(Bolded dates indicate FY 2005 ship disposal actions)

Ship	Fleet	Contractor	Site	Awarded	Removed	Disposed	Final Amount (\$)
NAECO	BRF	Esco Marine, Inc.	TX	2/18/04	3/08/04	10/14/04	\$500
MARINE FIDDLER	JRRF	Bay Bridge Enterprise	VA	8/28/03	10/30/03	11/15/04	(\$1,245,012)
CATAWBA VICTORY	JRRF	Bay Bridge Enterprise	VA	8/27/03	11/18/03	1/12/05	(\$1,135,915)
OPPORTUNE	JRRF	Bay Bridge Enterprise	VA	8/28/03	12/05/03	1/12/05	(\$135,413)
MEACHAM	BRF	Esco Marine, Inc.	TX	10/08/04	10/15/04	2/24/05	\$1,000
AMERICAN RANGER	JRRF	Esco Marine, Inc.	TX	8/09/04	8/26/04	4/21/05	(\$796,052)
SANTA CRUZ	JRRF	Marine Metals, Inc.	TX	6/24/04	8/06/04	5/20/05	(\$1,009,885)
SANTA ISABEL	JRRF	Esco Marine, Inc.	TX	8/09/04	10/26/04	6/10/05	(\$970,772)
DONNER	JRRF	All Star Metals, Inc.	TX	9/10/04	11/12/04	6/11/05	(\$559,554)
MORMACMOON	JRRF	N. Amer Ship Recycling	MD	9/13/04	3/4/05	8/24/05	(\$1,309,853)
SHIRLEY LYKES	JRRF	Bay Bridge Enterprise	VA	12/18/04	1/26/05	9/6/05	(\$849,800)
AMERICAN BANKER	JRRF	Marine Metals, Inc.	TX	6/24/04	10/27/04	9/19/05	(\$1,289,848)
LAUDERDALE	JRRF	N. Amer Ship Recycling	MD	9/13/04	3/14/05	9/26/05	(\$985,620)
MORMACWAVE	JRRF	Esco Marine, Inc.	TX	8/09/04	11/26/04	In Progress	(\$1,396,095)
PROTECTOR	Portsmouth	All Star Metals, Inc.	TX	9/10/04	11/29/04	In Progress	(\$569,930)
GENERAL WALKER	JRRF	All Star Metals, Inc.	TX	9/13/04	1/4/05	In Progress	(\$1,336,350)
NEOSHO	JRRF	Int'l Shipbreaking Ltd.	TX	12/18/04	2/9/05	In Progress	(\$1)
GENERAL DARBY	JRRF	Marine Metals, Inc.	TX	9/13/04	2/16/05	In Progress	(\$1,137,878)
MIZAR	JRRF	Bay Bridge Enterprise	VA	7/08/05	8/16/05	In Progress	(\$243,900)
TIOGA COUNTY	SBRF	Esco Marine, Inc.	TX	6/22/05	8/17/05	In Progress	(\$1,122,850)
SUNBIRD	JRRF	Bay Bridge Enterprise	VA	7/08/05	8/17/05	In Progress	(\$85,920)
WAHAKIACUM CNTY	SBRF	Esco Marine, Inc.	TX	6/22/05	8/24/05	In Progress	(\$1,102,850)
ALBERT MEYER	JRRF	Int'l Shipbreaking Ltd.	TX	7/18/05	8/30/05	In Progress	(\$399,726)
WABASH	SBRF	Marine Metals, Inc.	TX	6/22/05	9/2/05	In Progress	(\$1,366,580)
NEPTUNE	JRRF	Int'l Shipbreaking Ltd.	TX	7/18/05	Pending	TBD	(\$398,601)
MARSHFIELD	JRRF	Bay Bridge Enterprise	VA	8/26/05	Pending	TBD	(\$335,000)
WACCAMAW	JRRF	Int'l Shipbreaking Ltd.	TX	8/26/05	Pending	TBD	(\$496,319)
PRESERVER	JRRF	Bay Bridge Enterprise	VA	8/26/05	Pending	TBD	(\$107,640)
NEMASKET	SBRF	Esco Marine, Inc.	TX	8/26/05	Pending	TBD	(\$1,224,100)
CONNECTICUT	SBRF	Int'l Shipbreaking Ltd.	TX	8/26/05	Pending	TBD	(\$1,299,327)
PAWCATUCK	JRRF	Bay Bridge Enterprise	VA	8/26/05	Pending	TBD	(\$569,373)
SANTA LUCIA	JRRF	Marine Metals, Inc.	TX	8/18/05	Pending	TBD	(\$565,827)
MONTICELLO	SBRF	Navy SINKEX	CA	9/9/05	Pending	TBD	(\$1,077,875)
MAUNA KEA	SBRF	Navy SINKEX	CA	9/9/05	Pending	TBD	(\$839,250)
PYRO	SBRF	Navy SINKEX	CA	9/9/05	Pending	TBD	(\$929,250)

Note: 1) Removal from the fleets of the 11 ships listed as "pending" will begin in October 2005.

2) (\$) indicates a fee-for-service expenditure of appropriated funds, others are vessel sales.

Table 2: MARAD FY 2006 Disposal Actions through June 2, 2006
(Bolded dates indicate FY 2006 disposal actions)

Ship	Fleet	Contractor	Site	Vessel Award	Vessel Removal	Vessel Disposal	Final Amount (\$)
MORMACWAVE	JRRF	Esco Marine, Inc.	TX	8/09/04	11/26/04	10/31/05	(\$1,396,095)
NEOSHO	JRRF	Int'l Shipbreaking Ltd.	TX	12/18/04	2/9/05	11/8/05	(\$1)
SUNBIRD	JRRF	Bay Bridge Enterprises	VA	7/08/05	8/17/05	11/21/05	(\$85,920)
PROTECTOR	Portsmouth	All Star Metals, Inc.	TX	9/10/04	11/29/04	11/30/05	(\$569,930)
TIOGA COUNTY	SBRF	Esco Marine, Inc.	TX	6/22/05	8/17/05	1/4/06	(\$1,122,850)
WABASH	SBRF	Marine Metals, Inc.	TX	6/22/05	9/2/05	1/27/06	(\$1,366,580)
GENERAL WALKER	JRRF	All Star Metals, Inc.	TX	9/13/04	1/4/05	2/9/06	(\$1,136,350)
ALBERT MEYER	JRRF	Int'l Shipbreaking Ltd.	TX	7/18/05	8/30/05	2/10/06	(\$399,726)
MIZAR	JRRF	Bay Bridge Enterprises	VA	7/08/05	8/16/05	2/27/06	(\$243,900)
PRESERVER	JRRF	Bay Bridge Enterprises	VA	8/26/05	11/30/05	3/11/06	(\$107,640)
WAHIAKUM CNTY	SBRF	Esco Marine, Inc.	TX	6/22/05	8/24/05	3/13/06	(\$1,102,850)
NEPTUNE	JRRF	Int'l Shipbreaking Ltd.	TX	7/18/05	11/3/05	4/13/06	(\$398,601)
SANTA LUCIA	JRRF	Marine Metals, Inc.	TX	8/18/05	10/27/05	In Progress	(\$565,827)
GENERAL DARBY	JRRF	Marine Metals, Inc.	TX	9/13/04	2/16/05	In Progress	(\$1,137,878)
WACCAMAW	JRRF	Int'l Shipbreaking Ltd.	TX	8/26/05	10/11/05	In Progress	(\$496,319)
PAWCATUCK	JRRF	Bay Bridge Enterprise	VA	8/26/05	10/19/05	In Progress	(\$569,373)
CONNECTICUT	SBRF	Int'l Shipbreaking Ltd.	TX	8/26/05	10/25/05	In Progress	(\$1,299,327)
MARSHFIELD	JRRF	Bay Bridge Enterprises	VA	8/26/05	11/8/05	In Progress	(\$335,000)
NEMASKET	SBRF	Esco Marine, Inc.	TX	8/26/05	1/9/06	In Progress	(\$1,224,100)
MAGALLANES	BRF	All Star Metals, Inc.	TX	11/14/05	1/6/06	In Progress	\$25,286
POINT LOMA	SBRF	Marine Metals, Inc.	TX	12/15/05	2/14/06	In Progress	(\$897,792)
FLORENCE	SBRF	All Star Metals, Inc.	TX	12/28/05	2/15/06	In Progress	(\$996,992)
GILMORE	JRRF	Bay Bridge Enterprises	VA	2/10/06	3/30/06	In Progress	(\$742,675)
IX-509	JRRF	N. Amer. Ship Recycling	MD	2/16/06	4/3/06	In Progress	\$76,275
PRIVATE MURPHY	BRF	Esco Marine, Inc.	TX	2/23/06	4/11/06	In Progress	\$5,550
BEAUJOLAIS	BRF	Esco Marine, Inc.	TX	3/14/06	4/27/06	In Progress	(\$1,047,137)
MONTICELLO	SBRF	Navy SINKEX**	CA	9/9/05	5/3/2006	TBD	(\$1,077,875)
MAUNA KEA	SBRF	Navy SINKEX**	CA	9/9/05	Pending	TBD	(\$839,250)
PYRO	SBRF	Navy SINKEX**	CA	9/9/05	Pending	TBD	(\$929,250)
ALLISON LYKES	BRF	S. Scrap Material Co.	LA	5/31/2006	Pending	TBD	\$50,000
MALLORY LYKES	BRF	S. Scrap Material Co.	LA	5/31/2006	Pending	TBD	\$50,000
PRIDE II	BRF	All Star Metals, Inc.	TX	6/2/2006	Pending	TBD	(\$561,368)
SAUGATUCK	JRRF	Bay Bridge Enterprises	VA	6/2/2006	Pending	TBD	(\$549,999)
BRINTON LYKES	BRF	Marine Metals, Inc.	TX	6/2/2006	Pending	TBD	(\$541,647)
ORION	JRRF	N. Amer. Ship Recycling	MD	6/2/2006	Pending	TBD	(\$734,230)
HANNIBAL VICTORY	SBRF			Pending	TBD	TBD	
BARNARD VICTORY	SBRF			Pending	TBD	TBD	
OCCIDENTAL V.	SBRF			Pending	TBD	TBD	
SIOUX FALLS V.	SBRF			Pending	TBD	TBD	
TEXAS CLIPPER I	BRF			Bidding	TBD	TBD	
DUTTON	BRF	**		Bidding	TBD	TBD	
JASON	SBRF	**		Bidding	TBD	TBD	
MISSISSINEWA	JRRF	**		Bidding	TBD	TBD	

Notes: 1) **Vessels identified to the Navy Inactive Ships Program Office per FY 2006 Nat'l Defense Authorization Act requirement.
2) (\$) indicates a fee-for-service expenditure of appropriated funds, others are vessel sales.

c. Program Progress/Performance Measures

The Office of Management and Budget (OMB) guidance calls for “ambitious” performance targets. The ship disposal program targets are both ambitious and attainable. The Program’s performance measures of vessels awarded, vessels removed and vessels disposed of are the best and most direct measures as to the Program’s progress in disposing of obsolete ships and meeting the targets under the Department’s Environmental Stewardship. The performance measures reflect ship disposal actions related to all disposal options including recycling, artificial reefing, donation and deep-sinking. Performance measure projections are based on past and present factors including but not limited to the:

- timing of annual appropriations;
- feasible disposal methods available to the Program;
- legal challenges to the Program initiatives;
- competitiveness, capability, capacity, production throughput and performance of the disposal industry and individual contractors;
- cost of environmental remediation of hazardous material streams present on the obsolete ships; and,
- market price of recyclable steel.

Meeting future performance targets is subject to the same variables. Negative trends in any one or combination of those variables can significantly affect the attainability of the performance targets. The targets for each year are established during the annual budget request process a year and a half prior to the specified budget year. The Program’s ability to predict the listed factors a year and a half in advance is limited, and our ability to control those factors is also limited. Nevertheless, MARAD continues to believe the measures of obsolete vessel awards, removals and disposals are the most valid in terms of measuring Program progress. And while ambitious, the target levels for FY 2006 and 2007 are still considered achievable given the past and present indicators.

The three performance measures listed above are the major milestones of the ship disposal cycle. The annual cost-per-ton measure is indicative of the program’s efficiency even though variables that can significantly affect that particular measure, such as the market price of recyclable steel, are beyond the program’s control. In the following tables figures for 2005 include actual results and figures for FY 2006 and 2007 marked with an (*) are projections.

Number of contract awards for the removal of obsolete vessels from the National Defense Reserve Fleet (NDRF) sites for subsequent disposal.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Target:	3	3	11	14	15	13	13
Actual:	6	2	24	13	20	22*	

Number of obsolete vessels removed from the National Defense Reserve Fleet (NDRF) sites for subsequent disposal.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Target:	3	3	4	4	15	13	13
Actual:	6	6	2	15	18	22*	

Number of obsolete vessels disposed of (i.e. disposal action completed) from the National Defense Reserve Fleet (NDRF) sites.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Target:	3	3	4	4	15	15	15
Actual:	4	9	3	6	13	17*	

The following table shows the number of obsolete ships in our inventory and the effect of additions and removals on the total vessel inventory for the years FY 2001 through 2006.

<u>OBSOLETE VESSELS IN MARAD's CUSTODY BY FISCAL YEAR, FY 2001 - FY 2006</u>						
Obsolete Vessels in NDRF	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006*
On hand, start of year	115	132	133	132	138	143
Transfers in	19	7	2	16	17	13
Transfers out	2	6	3	10	12	23
On the books end of year	132	133	132	138	143	133
Removed from the fleets	6	6	2	15	18	22

Definitions: "Transfers In" refers to vessels from all sources that have changed in status from retention to non-retention. "Transfers Out" refers to vessels that have been taken "off the books" because of a completed disposal, title transfer through vessel sale, donation or other transfer action. "Removed from the fleet" refers to vessels that have been physically removed from the fleet sites. Except for vessel sales and donations, vessels removed from the fleet are not counted as "Transfers Out" until the disposal action is completed.

The table below is a breakdown by fiscal year indicating the average cost-per-ton for disposal actions for fiscal years 2001 through 2007 based on the value of contract awards. Figures for the fiscal years 2006 and 2007 are projections. Disposal actions include vessel sales, legislated sales, legislated donations, artificial reefing, deep-sinking and dismantlement services contracts. The actual cost-per-ton figure for FY 2005 of \$108 includes two SBRF vessels that were awarded to facilities in Texas because of a lack of qualified West Coast facilities. The cost-per-ton of those vessels was \$213 which elevated the overall cost-per-ton average for FY 2005. The award of West Coast ships to Texas facilities includes a significant cost premium for the 4000+ mile tow which includes a transit of the Panama Canal. As a point of comparison, the tow distance from the SBRF in California to Texas exceeds the 3000+ nautical mile distance from the JRRF to the AbleUK facility in the UK. Excluding the cost of the SBRF ships, the cost-per-ton has decreased from FY 2004 to 2005. This cost decrease is a result of increased domestic facilities and strong domestic competition that did not exist prior to 2004.

Annual Program Cost/Ton Based on Disposal Actions Awarded in the Fiscal Year							
	FY '01	FY '02	FY '03	FY '04	FY '05	FY '06	FY '07
Number of Ships	6	2	24	13	20	13	15
Target Avg. Cost/Ton	(\$250)	(\$250)	(\$200)	(\$150)	(\$175)	(\$200)	(\$200)
Actual Cost/Ton	(\$253)	(\$127)	(\$133)	(\$103)	(\$108)	-	-

d. Contractor Disposal Progress/Performance

During the bid phase of a vessel recycling solicitation, contractors are given an opportunity to inspect, survey and accomplish hazardous material testing on all vessels offered. Having direct knowledge through survey and available government furnished information for each ship, all contractors are required to submit a production schedule with their bids. The schedules are developed by the contractor and are based on the specific characteristics of each ship, the contractor's expertise, capability, resources, and capacity which include factors such as other work in their facility during the performance period for the vessel(s) for which they developed the schedule. The schedules are submitted via MARAD's on-line proposals system.

Once submitted, the schedule is then evaluated by MARAD to ensure completeness and the validity of the logic, duration and sequencing of the milestones and activities. The MARAD will accept the contractor's schedule once any questions are resolved. The schedules then become the contractor's schedule for the accomplishment of the recycling project. The dates for the accomplishment of the major milestones and overall period of performance are taken from the contractor's schedule and become the performance elements of the contract. Contractual periods of performance are not artificially derived and imposed upon contractors by the government.

Historically, as a group, the domestic ship recycling contractors generally have difficulty completing MARAD dismantling projects within the contractual period of performance established and based on the their own production schedules. Contractual performance issues have been frequent and varied and include timeliness difficulties with:

- acquiring required insurances
- acquiring required performance bonds
- accomplishing vessel tow preparations
- acquiring towing services
- adequate trained and skilled resources to complete the project
- production throughput to meet contractual milestones
- management of resources to accomplish schedule recovery when needed
- contract and project administrative requirements

The MARAD works with all contractors to not only ensure the success of individual projects, but also to increase the number of qualified domestic facilities and competition. The number of

qualified domestic contractors has increased from three in 2001 to seven currently. Without permission from the contractors, MARAD cannot provide data in this management plan specific to contractor performance because such data are business and procurement sensitive. However, in general the data shows that the actual performance of contractors' utilized by MARAD frequently, and sometimes significantly, exceeds the original performance schedules which are contractual requirements. While a portion of some schedule overruns are partially attributable to unusual weather or other circumstances beyond the contractor's control, the data show that schedule overruns by the domestic industry are common and attributable to issues related to contractor management, production control and resource availability. Schedule overruns due to factors beyond the contractor's control are not counted against the performance period. Contract modifications are issued to extend the period of performance where justified.

Contractor performance data show that the capacity and capability of domestic contractors is often and significantly overstated by members of the industry. The Navy has indicated that they generally also have contractor performance problems with their dismantling/recycling projects. A significant percentage of recycling contracts awarded by MARAD since the start of FY 2003 (including those in progress) have exceeded the original performance period without acceptable justification.

Of those, several of the contracts have exceeded the performance period by over 50 percent. In light of the high number of ship disposal contract awards made by MARAD in FY 2005, it is expected that the trend of project schedule overruns will continue with domestic contractors because of capacity, production throughput and resource limitations. In spite of domestic contractor capacity and capability claims, the situation highlights the importance of MARAD having access to all disposal options including foreign recycling.

The MARAD does apply contract sanctions as remedies to schedule overruns and performance shortfalls such as issuing Quality Deficiency Notices/Reports, liquidated damages, and contract payment adjustments. In spite of the application of sanctions, contractor performance issues have a real effect on the availability of industrial capacity for subsequent contract awards and MARAD's ability to dispose of its obsolete vessels in an expedited manner.

Some schedule overruns are attributable to contractors "stretching out" projects to keep key personnel employed while waiting for additional work at their facility or to "play" the scrap steel market. While some contractors try to justify such strategies as being good for their business, it is contractually unacceptable because it places the government in a position of making up for a contractor's lack of competitiveness, poor management and/or lack of diversification. Schedule overruns, for whatever reason, cost the government money and MARAD agrees to schedule extensions only when the reasons are beyond the contractor's control and are justified. In "best value" award determinations, MARAD does consider a contractor's past performance to ensure awards are not made that will clearly exceed any contractor's capabilities and capacity.

While the performance of many of the contractors in the limited domestic ship disposal industry is a challenge to the Program, it has in the past been considered manageable because of the direct, hands-on project/contract management and on-site facility oversight applied by the Program. However, an area of concern for FY 2006, and perhaps beyond, is the additional

pressure that will be on domestic industrial capacity as a result of the significant number of ship disposal awards made in FY 2005 by MARAD and Navy disposal programs. In July and September 2005, the Navy awarded contracts for the disposal of eight ships to three domestic contractors that are also qualified contractors under MARAD's program. Two of the three contractors, considered the two domestic facilities with the greatest capacity, have several on-going MARAD disposal contracts in addition to the Navy work. The combined effect of the Navy and MARAD awards to these two contractors will be to "max out" the capacity of those facilities for the balance of FY 2006 barring some unforeseen increase by those facilities in resources and production throughput.

While MARAD has aggressively pursued the participation of domestic facilities in the recycling of MARAD ships, and is encouraged by the increase from three to seven in the number of competitive qualified facilities since 2003, there is a note of caution moving forward because of the sharing of limited industrial facilities between MARAD and the Navy. The capacity, resources and management of domestic contractors will be tested in light of the significant number of disposal awards made in FY 2005, which will need to be completed in FY 2006, and in light of the number of vessel awards anticipated for FY 2006 by both Programs. Capacity claims by the domestic industry in the past, which heretofore have not materialized, will also be tested. Significant delays in the removal of awarded ships from the fleet sites and continued, as well as increasing, schedule overruns by dismantling contractors are anticipated in FY 2006 as the limits of domestic capacity are exceeded.

The anticipated continuation of these problems, as well as the absence of a viable recycling option on the West Coast, dictate that MARAD strongly renew its efforts to clear legislative and regulatory obstacles to foreign recycling of obsolete ships.

VI. Implementation Plan FY 2006

a. Ship Disposal Management Approach

The MARAD's comprehensive disposal management plan is a flexible approach that maximizes disposal options and opportunities. The MARAD's approach is a dual track, market based approach that strives to mitigate disposal impediments and to maximize the full potential of all disposal methods while disposing of the most vessels possible given the resources and disposal methods available. The management approach in place assesses, on a continuous basis, all variables that affect the disposal of obsolete ships. Those variables include:

- market conditions;
- the number, condition, and location of obsolete ships;
- disposal alternatives realistically available to MARAD;
- capacity, capability, and production throughput of disposal facilities;
- availability of non-retention ships for disposal; and
- availability of resources.

The assessments feed into and allow the following:

- development of meaningful Department level goals associated with DOT's environmental stewardship responsibilities;
- development of realistic MARAD program performance goals;
- development of fiscally responsible budget requests;
- development of procurement strategies that foster competition and increased capacity;
- establishment of comprehensive project oversight to ensure timely and environmentally safe disposal; and
- review of and changes to the management approach to maximize the disposal rate in a fiscally and environmentally responsible manner.

The MARAD is concerned about the environmental threats that currently exist with its highest priority vessels, and with the potential for that threat to increase as all obsolete vessels continue to age and deteriorate. This concern is emphasized in the disposal approach that is planned and managed by all levels of leadership within the Department.

While the congressionally mandated September 30, 2006 deadline was for the removal of all vessels, MARAD has in place an achievable alternative plan to first remove all vessels that have a high or moderate risk to the environment as soon as possible. At the same time, MARAD is continuing to work on disposal alternatives which, with the necessary funding in place, will ensure that the remaining obsolete vessels can be disposed of at a rate that exceeds the number of obsolete vessels entering MARAD's fleets. This in itself is a formidable challenge given the fact that an average of 11 ships per year are added to the disposal rolls as non-retention, obsolete ships.

The MARAD is working to identify cost-effective, qualified facilities on the U.S. West Coast and in foreign markets that are interested in recycling the obsolete vessels located in the SBRF. A few foreign facilities have submitted cost-effective proposals for disposal of a large number of ships. The MARAD's challenge is to ensure the facilities have the capability of dismantling ships in a manner that protects the environment and worker safety and health. The MARAD's ability to award future contracts to foreign facilities is contingent to a large degree on the outcome of the legal challenge to the export of ships to the UK for recycling, and is subject to the restrictive nature of environmental regulations. However, even success in this litigation will at best only provide regulatory approval for vessel recycling at the facility of AbleUK in Teesside, UK.

There are currently no operational U.S. West Coast facilities dedicated to vessel dismantling/recycling available to the Navy or MARAD. In this connection, the absence of a foreign recycling outlet will have a significant effect on the cost of disposing of the SBRF vessels because of the high towing costs through the Panama Canal to the nearest Gulf Coast recycler. The distance from the SBRF to the nearest operational domestic recycler is over 4,000 nautical miles. The high cost of disposing of West Coast ships results in higher cost-per-ton disposal rates which translate to the disposal of fewer ships with annual disposal appropriations.

b. Location/Disposal Priorities - Appendix A contains the list of NDRF ships that have been designated as non-retention vessels. The list is arranged in order based on the material condition of the ships (worse condition ships listed first) and amounts of total oil on board. Vessel condition information is provided from the Division of Reserve Fleet with ship specific input from MARAD's three fleet sites where the non-retention vessels are at anchorage. Vessel condition and factors such as the amount of oil on board are used as guidance in determining the order in which vessels are disposed of. Factors, other than vessel condition and oil, that are considered in the disposal decision process include funding availability, vessels on hold and not available for disposal, ship specific proposals from recycling contractors or other disposal opportunities that are advantageous to the government such as the purchase of ships for recycling, deep-sinking, artificial reefing or donation of ships.

As a group, vessels with hull conditions of #0, 1 and 2 are considered to be high priority for disposal and are considered to be a high environmental risk due to the potential for oil discharges through breaches in the hull. The MARAD policy is to limit the retention of these ships at anchorage in MARAD's fleet sites to the shortest time possible due to their deteriorated material condition. While there are distinctions among the three ratings (a #2 hull being in relatively better condition than a 1 & 0 rating), the disposal of all #0, 1 & 2 condition vessels is given the highest priority. Vessels with a #3 hull condition are considered a moderate risk and while the vessels do not pose a near-term threat to the environment, the long-term retention of these ships at anchorage in MARAD's fleet sites is not recommended. Vessels with a #4 or 5 hull condition are considered to be in such condition as to pose no more of a threat to the environment than any other vessel currently in operation. That being said, the program's goal is to ensure the removal of these ships prior to a significant deterioration in their material condition.

Ships are retained in MARAD's NDRF inventory report until the vessel has been completely disposed of with the exception of vessels transferred via sale or donation. The third column on the table in Appendix A shows the contract award date for each ship that has been awarded in a disposal contract and which is in the disposal process. If no date appears in the award date column and the ship's name is not highlighted in yellow then the ship has not yet been awarded in a contract for disposal.

For FY 2006, MARAD will follow through on the on-going disposal actions as reflected in Tables 1 & 2 (page 8 & 9). The vessels removed in FY 2005 and FY 2006, but not yet recycled, will be monitored at the contractor's facility until their disposal is complete. The vessels awarded, but not yet removed from MARAD's fleet sites, will be delivered to the contractor's facility to begin the disposal process. It is anticipated that the vessels listed as awarded, from Table 2, in May and June of 2006 will be removed from the fleets by the end of July, and the vessels listed as awards pending and bids pending will be awarded, and most of the vessels removed from the fleets, by the end of the fiscal year.

As of June 2, 2006 there are three high priority vessels remaining in the fleets, none which are available for disposal. The MISSION SANTA YNEZ, SBRF and HOIST, JRRF are currently on historic hold pending completions of the historic assessment process and the SPHINX, JRRF is on donation hold status. The vessel TEXAS CLIPPER I, BRF recently became a high priority ship when it developed a hull breach in the engine room in early May, 2006. The material

condition of the vessel was reassessed and the vessel assigned high priority disposal status. Because of its highly deteriorated condition, updated prices were requested from qualified contractors for only this ship in order to expedite the award and removal process. As the other three high priority ships are made available for disposal, or if the condition of other vessels is changed from moderate to high priority, the disposal of those ships will become the highest priority.

MARAD's goal for FY 2006 is the award of 13 obsolete ships. Depending on the production throughput of domestic facilities, and based on the 20+ vessels awards made with FY 2005 funding, it may be possible to significantly exceed the goal of 13 vessel awards if the market price for scrap steel remains strong, rising fuel costs and new hull fouling sampling requirements do not significantly raise disposal costs and if the domestic competition seen in FY 2005 remains robust. However, as previously mentioned, the production throughput of domestic facilities in 2006 may be significantly constrained due to the backlog of recycling work carried forward into 2006.

In addition to the high priority ships discussed above, the disposal priority for FY 2006 has been the group of moderate risk ships (#3 hull condition). Eighteen moderate priority ships are already under contract award for disposal with 4 more awards pending and 4 additional vessels in the bidding process which leaves a balance of 23 moderate risk ships. Only seven of the remaining 23 ships are currently available for disposal and two of those are being considered for artificial reefing. As seen in Appendix A, the majority of # 3 hull condition ships are on hold for historical assessment, stripping of spare parts and donation interest.

The two moderate priority JRRF ships that are available for disposal are the VANDENBERG and KITTIWAKE. The MARAD is pursuing interest from the State of Florida and the Cayman Islands, respectively, for the use of these two ships as artificial reefs. Due to the environmental considerations involved with the use of ships as artificial reefs and the involvement of numerous State and Federal agencies, the application, approval and preparation steps are a multi-year process. Now that Best Management Practices for preparing ships as reefs has been finalized by the EPA, the process should be shorter. Funding will be designated for these projects from FY 2006 funds if it becomes evident that the projects will be ready to commence within a 3-4 month timeframe, which is not seen as likely at this point. Otherwise, the FY 2006 funds will be applied to the disposal of other moderate priority ships or additional Navy deep-sinking opportunities.

Updated bids have also been requested for eight ships available for disposal. These include the BARNARD VICTORY, HANNIBAL VICTORY, OCCIDENTIAL VICTORY SIOUX FALLS VICTORY and JASON from the SBRF, the DUTTON and TEXAS CLIPPER I from the BRF, and the MISSISSNEWA from the JRRF. Contract awards for the four victory ships from the SBRF and for the TEXAS CLIPPER I from the BRF are expected by the middle of June 2006. The vessels JASON, DUTTON and MISSISSINEWA are currently under solicitation via the Navy's IDIQ contracting process. The Navy is scheduled to provide best value evaluations to MARAD in July at which time MARAD will make an Economy Act determination for proceeding with vessel disposals via the Navy contracting process. Decisions regarding the request for updated prices for additional ship disposals will be made after prices have been

submitted on these ships in order to make disposal decisions appropriate to the availability of FY 2006 funds. If funds are available after the award of these ships, additional ships will be selected for updated prices based on an updated assessment of their condition and availability for disposal.

At the end of FY 2005, MARAD executed an interagency agreement with the Navy for the deep-sinking of three MARAD vessels that could cost-effectively be deep-sunk through the Navy's SINKEX Program. The three vessels, MONTICELLO, PYRO and MAUNA KEA have been removed from the SBRF and have completed the SINKEX preparation process. The MAUNA KEA has arrived in Hawaii for participation in SINKEX exercises in July, 2006, while the MONTICELLO and the PRYO have returned to the SBRF and are awaiting departure. The Program is has provided a list of six additional vessels to the Navy that may make good SINKEX candidates. The Program will make decisions regarding the transfer of additional ships to the Navy in FY 2006 upon receipt from the Navy of the vessel shipboard cost estimates, which are currently being conducted.

In addition to the disposal activities initiated in FY 2005 and 2006 MARAD continues to pursue and support the FY 2003 contract with PRP/AbleUK. The MARAD believes the contract is still viable and worthwhile in seeing through to completion in spite of the legal challenges faced. The PRP/AbleUK contract has resulted in the removal of four obsolete ships from the JRRF, and will eventually result in the cost-effective removal of 11 additional ships. Section VI. d. (Foreign Recycling) of this report contains a detailed discussion of the status of the legal challenges associated with this contract.

c. Schedule/Milestones

Other than vessels for which updated prices or bids have been requested by MARAD, or vessels on hold for specific actions such as artificial reefing or donation, the selection of vessels for disposal is not specifically scheduled. Because of the dynamic nature of the material condition of obsolete ships and the difficulties involved in determining when non-retention ships will be available for disposal actions, the Program's strategy is to identify specific ships for disposal actions on a continuous basis as funds are available and not to identify specific ships for scheduled disposal action a year in advance.

This approach ensures the selection of ships for disposal includes the ships that are in the worst condition from the subset of ships that are actually available for disposal. The MARAD's strategy is to target vessels by group, based on their material condition, and then select individual ships for disposal. Once vessels are awarded for disposal, the milestones and schedule for disposal are established from the contractor's schedule which is incorporated into the contract as the period of performance. The Program's quarterly executive summary will identify specific vessels planned for disposal actions within the next three months.

The following table shows the distribution of obsolete ships that are not currently under contract action for disposal by each fleet location. The table includes the 11 retention NDRF vessels that were downgraded to non-retention status as of October 1, 2005 and two additional ships downgraded since then. The 13 ships are also included in the prioritized table of non-retention ships in Appendix A.

The historic review process is a continuous, on-going process. Until recently it was anticipated that high and moderate priority ships currently not available for disposal will have completed the historic assessment process and been made available for disposal in sufficient time so as not to delay the award of contracts with FY 2006 appropriations. However, recent projections by the Division of Reserve Fleet indicate the possibility of significant delays in making those vessels available for disposal.

MARAD Obsolete Ships Not Under Contract Award (Listed by Hull Condition) as of June 2, 2006							
Fleet	#0 Hull Condition	#1 Hull Condition	#2 Hull Condition	#3 Hull Condition	#4 Hull Condition	#5 Hull Condition	Total
Jamer River, VA	0	0	2 (2)	5 (3)	8 (3)	28 (20)	43 (28)*
Suisun Bay, CA	0	0	1 (1)	18 (13)	10 (8)	26 (17)	55 (39)
Beaumont, TX	0	0	1 (1)	7 (0)	7 (6)	3 (2)	18 (9)
Other	0	0	0	0	0	0	0
Total	0	0	4 (4)	30 (16)	25 (17)	57 (39)	116 (76)

- High Disposal Priority Ships
 - Moderate Disposal Priority Ships

(#) - Number of ships not currently available for disposal because of historic review, historical/donation hold.
 * - Includes 9 AbleUK contract ships not yet assigned and exported.

Review of the table above shows that only 14 of the 34 high and moderate priority ships currently designated as obsolete are currently available for disposal, which causes some concern to the Program. The historic review process will need to be accelerated in order to ensure that the worst condition ships continue to be available for disposal. Delays in completing the assessment process may result in the removal of some lower priority vessels over the next year. A reduction in the mitigation of the environmental threat at MARAD's fleet sites may also occur as a result of ships of the same relative condition but with less residual oil being disposed of first. The Program has requested an accelerated historic review process to make priority obsolete ships available for ship disposal.

d. Methods of Disposal

- **Domestic Recycling**

Historically, domestic recycling has been the most expedient but also the most costly disposal alternative. Until FY 2005, domestic recycling had also been the least cost effective disposal option for MARAD and Navy obsolete ships. Limited domestic ship recycling facilities (i.e., lack of cost-effective and productive capacity and industrial throughput) make this disposal method effective only for the removal of a small number of ships on a per contract basis. This is true even with an increase in the number of domestic contractors since 2003 from three to seven. In FY 2001, MARAD contracts involved only three domestic companies. Since then four additional companies have been awarded ship dismantling contracts; two of those companies are located on the East Coast and two are located on the

Gulf Coast. The MARAD is encouraging increased domestic competition to increase cost-effective and productive capacity.

In light of the export limitation, and continuing challenges associated with alternative disposal methods, the rate of disposal is highly dependent on the availability of cost effective domestic facilities. Industrial capacity, in terms of annual ship disposal rates, is difficult to quantify because of several factors including the variance in vessel condition and the scope of hazardous material remediation that is necessary. As discussed in Section II, due to capacity and resource limitations, the seven domestic facilities that have been awarded contracts over the past few years have demonstrated a potential cost-effective capability to dismantle and recycle up to 26 vessels per year. Further, even at award rates that are lower than the 26 ship potential, the limitations of many domestic facilities often result in the significant delays of months after contract award before the facility finally takes possession of the vessels and commences dismantling work. As discussed in Section V. c., it is also not uncommon for domestic facilities to request significant extensions for completing the work beyond the original contract performance period. Over the past two years, with the exception of three facilities, domestic facilities have also at times had significant production throughput problems, which significantly delayed completion of recycling projects awarded by MARAD.

- **Foreign Recycling**

Based upon proposals received and an investigation of facilities abroad, MARAD continues to believe that environmentally sound facilities exist abroad that offer the United States very competitive prices for the disposal of MARAD's obsolete vessels. The foreign option could provide the capacity and competition necessary to accelerate the disposal of MARAD's obsolete ships and mitigation of the environmental threat they represent. However, MARAD has been unable to successfully recycle any vessels abroad due to legal challenges and statutory and regulatory impediments. In spite of the difficulties involved, a best-value contract award for the disposal of 13 ships was made, and the export of four of the 13 ships to a qualified UK facility occurred in 2003. The four exported vessels remain on hold for disposal and presently cannot be dismantled until the UK legal issues are resolved.

Since the initial hearing in the U.S. in October 2003, MARAD has conducted an Environmental Assessment (EA) regarding the potential environmental impacts of sending the additional nine vessels to the PRP/AbleUK dismantling facility in Teesside, England. On the basis of this EA, MARAD has concluded that this project will have no significant impact to human health or the natural environment. Plaintiffs challenged this EA in the U.S. District Court for the District of Columbia, arguing that this EA is inadequate and does not sufficiently comply with the requirements of the National Environmental Policy Act (NEPA). A hearing on cross motions for summary judgment took place on October 15, 2004. On March 2, 2005 the Court concluded the EA prepared by MARAD fully met its obligations under NEPA and dismissed the plaintiff's complaint. Further, the Court ordered that the defendant's motion for summary judgment be granted and further ordered the plaintiff's motion for summary judgment be denied. In its ruling the Court dismissed the Toxic Substances Control Act (TSCA) and Resource Conservation and Recovery Act (RCRA) claims of the plaintiffs primarily for failure to satisfy certain constitutional and procedural

requirements: a) the Basil Action Network (BAN), lead plaintiff, lacked standing to file suit; however, the co-plaintiff, the Sierra Club was found to have standing; b) the plaintiffs brought their TSCA claims prior to the end of the 60 day-notice period required by the citizen's suit provisions of TSCA; and c) the risk of imminent threatened harm under RCRA was not present because the Court found that there was no current or ongoing violation by MARAD of the provisions of RCRA. The plaintiff filed a request for reconsideration by the U.S. District Court of its decision related to RCRA, and the Court ruled against the plaintiff's request for reconsideration on November 9, 2005. The timeframe for appeal of the Judge's ruling expired in January with no filing by the plaintiff.

The Court's ruling does not remedy the underlying environmental and regulatory issues that currently make the export of vessels for recycling commercially impractical. While these issues may be resolved as to exporting vessels to Able UK in England, these statutory and regulatory hurdles continue to exist as to any other recycling facility abroad. In fact, even with respect to the Able UK contract, it is anticipated that there will be continued litigation that could well further delay this project.

From the regulatory perspective, even once the litigation is decided, TSCA requires MARAD to petition the Environmental Protection Agency (EPA) for a rulemaking to allow the vessels to be exported. Since the vessels contain PCBs which cannot be removed without affecting the seaworthiness of the vessel, EPA considers the export of these vessels for recycling an export of PCBs. This rulemaking can take years to complete. The minimum amount of time necessary for a rulemaking is anticipated to be nine months. Under present law, if an exemption is granted, it may only have a one-year life span and in every case will be limited to a specific activity or circumstance, e.g., the recycling of ships at Able UK.

Once EPA issues a final rule in an export situation, that rule is subject to legal challenge, which is likely in the foreign recycling area. Such a process, when viewed in the context of the realities of commercial business contracting, the length of time associated with the Federal procurement process and the ever changing business considerations of the ship recycling industry make it nearly impossible to pursue any export ship recycling/dismantling contract. This is a significant setback to the availability of cost-effective, expedited disposal of MARAD ships.

The MARAD has remained in close contact with the UKEA. PRP/AbleUK has prepared and submitted the necessary documents for a new Waste Management License and the appropriate local planning approval permits. Those applications are currently under review by the cognizant local and national government agencies. Several critical activities will need to be completed after the permissions are in place and prior to the vessels being towed to the UK. Those activities include no change in the current favorable ruling from the U.S. District Court, MARAD obtaining a TSCA exemption through a rulemaking process, application to and consent from the UKEA for transfrontier shipment of hazardous materials to the UK, vessel surveys and tow preparations, and coordination of the transatlantic tows with the US and UK Coast Guards. Because of the unresolved issues and time constraints, the remaining nine vessels will not be exported for recycling to the UK in FY 2006.

In spite of the legal challenges, MARAD proposals for the export of obsolete vessels continue to be submitted and MARAD evaluates and considers these proposals using the same acquisition process and evaluation criteria as used for domestic proposals. The MARAD is obligated to pursue all disposal options and use qualified facilities without predisposition toward foreign or domestic facilities.

- **Vessel Sales**

This is a low-revenue to no-cost option to the government for selected vessels. It is not a significant disposal option in terms of numbers of ships. In spite of the domestic sale of two vessels in FY 2004, one in 2005 and 5 so far in FY 2006, the increase in domestic vessel purchases was a result of the increased market price of steel and “sales of opportunity” for the companies purchasing the vessels -- it is not considered a trend that can be relied upon for significant sales of vessels on an annual basis. However, it is an indication of the increase in competition among domestic facilities.

There continues to be a large demand for scrap metal on the international markets and MARAD has received numerous inquiries for the sale of its obsolete vessels to foreign ship recyclers. Due to the environmental impediments of TSCA, which delays the export of MARAD ships, foreign sales currently are not commercially practicable in the present legal environment, even to environmentally sound facilities.

- **Artificial Reefing**

The use of obsolete ships as artificial reefs has potential that is currently constrained by limited demand for ships by the coastal States. The limited demand is a result of a general reluctance of States to be responsible for the preparation, tow and sinking of the ships, and sharing in the significant costs associated with reefing activities. The MARAD has statutory authority that would provide MARAD the flexibility to determine the time and place of vessel transfer. This allows MARAD to assume more of the responsibilities for preparing a ship for reefing, which, under the current statute, falls entirely to the State. Cost sharing with the States has the potential to increase demand to some degree. However, MARAD will consider providing significant financial assistance to States only for vessels MARAD considers to be a higher priority. Generally, higher priority ships are not good reefing candidates.

Limited demand in the past was also caused by the lack of national standards to prepare ships for reefing. The draft Best Management Practices (BMP) for the preparation of ships to be used as artificial reefs was developed through the interagency efforts of MARAD, EPA, Navy, National Oceanic and Atmospheric Administration (NOAA), United States Coast Guard (USCG), Army Corps of Engineers (ACOE) and National Marine Fisheries Service (NMFS). The draft BMP was published in the Federal Register on August 2, 2004, for a 60-day public notice and comment period. The final BMP was released to the public by the EPA on May 12, 2006.

The delay in completing the BMP has been affected by the PCB issues on the ex-ORISKANY, an obsolete aircraft carrier that the Navy prepared for use as a reef and sank off the coast of Florida on May 17, 2006. The process involves the EPA and issues related to

leaving some PCBs above the regulated limits onboard the vessel when it sank. The decisions made related to the ex-ORISKANY may have a significant effect on the use of obsolete ships as artificial reefs in the future. The requirements in the draft BMP to remove all solid PCBs above the regulated limits could potentially negate the cost advantage of artificial reefing compared to conventional dismantling.

Coastal States may select vessels they believe are appropriate for the location they have in mind. The use of funds to provide state financial assistance will depend on the availability of funds, the condition/priority of the vessel(s) selected, and the timing of the process to transfer the vessel to the State. Due to the lengthy nature of the application review and approval process, MARAD does not commit funds to a reefing project until the project is within a 3-6 month window of commencing. This ensures that MARAD's disposal funds are not tied up on a project for several months to several years which is possible with reefing projects.

The three vessels with active reefing applications are the VANDENBERG (FL), TEXAS CLIPPER I (TX), and the KITTIWAKE (Cayman Islands).

- **Deep Sinking (Navy SINKEX)**

Joint Navy/MARAD ship disposal projects are possible through the Navy's sink at-sea live-fire training exercises (SINKEX Program). Deep-sinking is a low-volume option with costs comparable to artificial reefing. Vessels are prepared for sinking by the Navy in accordance with procedures that protect the environment as agreed to between the Navy and the EPA. MARAD and the Navy executed a Memorandum of Agreement (MOA) on September 5, 2003, for the deep sinking of MARAD ships through the Navy's program. Pursuant to this agreement, the vessel GAGE has been prepared by the Navy. However, the sinking of this vessel has been postponed due to the historic and donation interest in the vessel. In 2005, MARAD provided three vessels from the SBRF to the SINKEX program. The vessel MAUNA KEA is currently in HAWAII for participation in a live fire exercise scheduled for July 2006. The other two vessels, MONTICELLO and PRYO have been SINKEX prepped and are in the SBRF awaiting departure. In 2006 MARAD identified six additional SINKEX candidates and requested that the Navy provide cost estimates for their preparation and sinking.

The feasibility of SINKEX as a future disposal option will depend on cost-effective estimates from the Navy that are comparable in cost to MARAD's other disposal alternatives. A disposal rate of one to two lower priority ships per year through deep-sinking is considered possible.

- **Donation**

Donation of vessels is based on the demand of non-profit historical preservationist and humanitarian groups. Historically, donation has not been a significant disposal option in terms of numbers of vessels; however, MARAD has established a formal donation program to support the efforts of legitimate not-for-profit groups to acquire and preserve vessels. The formal program is intended to replace the previous practice of organizations obtaining special legislation for the donation of ships. The authorization for the formal program is contained

in Section 3512 of Pub. L. 108-136, The National Defense Authorization Act for Fiscal Year 2004.

There are currently two obsolete ships on donation hold, which makes those ships not available for disposal, including one high priority and one moderate priority vessels. These vessels have been placed on hold because acceptable applications have been submitted per MARAD's donation program criteria, and will remain on hold for a finite period of time. The potential donee must complete requirements that lead to the transfer of the vessel. If by the end of the donation hold period the donee has not completed the requirements the vessel will be taken off of hold status and will be made available for disposal. As with any non-retention vessel, vessels on donation hold whose material condition degrades to a point that MARAD believes the vessel represents a threat to the environment, navigation, worker safety and health or determined to otherwise be an unacceptable liability to the government will be taken off hold status and disposed of in the most expeditious manner.

- **Other**

The National Defense Authorization Act for FY 2006 includes a provision for MARAD to transfer to the Navy not less than four ex-Navy non-retention vessels in MARAD's custody for disposal by the Navy in FY 2006. MARAD has designated a total of six ships for transfer to the Navy for disposal via its ship disposal and SINKEX programs. Three vessels have already been prepared for SINKEX and three are currently out for solicitation in the Navy's IDIQ contracting process for recycling. Other than for the ships disposed by SINKEX, this provision is not considered a cost-effective, efficient use of disposal funding because the Navy's Program does not offer any additional industrial capacity and does not provide additional ship disposal alternatives not already available to MARAD. Additionally, the two contractors utilized by the Navy are qualified facilities under MARAD's disposal program. In addition, since the competition for ship disposal work in the Navy's program is limited to only two facilities the costs will be greater than if the vessels were retained and disposed of by MARAD through the competition of the seven domestic contractors qualified through and available to MARAD's program.

e. Procurement of Disposal Services

Utilizing the Federal Acquisition Regulation (FAR) Test Program for Certain Commercial Items, MARAD implemented the use of Standing Quotations in FY 2005 as the primary procurement method for soliciting ship disposal services. The use of Standing Quotations is a simplified on-line acquisition procedure for the competitive procurement of commercial services, such as ship dismantling/recycling. The complete transition to the use of Standing Quotation process commenced with the posting of a Request for Quotations in January 2005 in response to which interested vendors may submit quotations and proposals continuously throughout the period of one year. Proposals received are evaluated and those offers determined to be technically acceptable form a pool of standing quotations from which vessel specific price proposals are solicited. Based on the evaluation criteria posted in the Request for Quotation, contracts are then awarded from the offers that represent the best value to the government. In addition to the use of Standing Quotations for the acquisition of ship dismantling/recycling services, a sales solicitation has been posted to accommodate qualified facilities that are interested in purchasing obsolete ships for recycling.

The current Standing Quotation solicitation which was posted in FY 2005 was originally set to expire on December 31, 2005. Due to the success of this acquisition method, the Program's recommendation is to continue with Standing Quotations. Due to the success of this acquisition method and Congress' extension of the Test program to January 1, 2008, the Standing Quotation method is being amended for an extension of two years (until December 31, 2007). Even with the continued use of the Standing Quotation, MARAD will continue to consider other acquisition methods to ensure that the most appropriate method is employed to facilitate the disposal of our obsolete ships.

f. Funding/Resources

The Consolidated Appropriations Act, 2005 (P.L. 108-447) included \$21.6 million for the disposal of obsolete ships, not including a 0.80 percent reduction pursuant to Division J, Title I, Sec. 122 of Pub. L. 108-447. Of the \$21.5 million appropriated in FY 2005, about \$2.0 million is earmarked for the continued decommissioning process for the remnants of the reactor and hazardous materials on board the retention nuclear vessel NS SAVANNAH. The FY 2005 appropriation for ship disposal was equal to the Administration's budget request.

The National Defense Authorization Act for FY 2006 included \$21 million for ship disposal of which about \$3 million is for activities related to the NS SAVANNAH. Comments in the House report, the Senate's report and the Government Accountability Office (GAO) March 2005 Report on MARAD's Program allude to the concern regarding the progress, management and oversight of the Ship Disposal Program. There is no evidence however that MARAD could have awarded, removed and disposed of a greater number of vessels, nor was it shown that the ships that were awarded could have been awarded at a lesser cost-per-ship or cost-per-ton.

While MARAD shares with the Congress the disappointment in the level of the Program's progress, the disappointment by MARAD and the Congress appeared to be grounded in totally different perspectives. In addition to disposal delays caused by legal challenges, MARAD's disappointment lies in the fact that, despite accurate, early assessments of and attempts to mitigate the disposal impediments, little progress has been made to gain for MARAD the use of all qualified facilities without predisposition toward foreign or domestic facilities. Access to qualified foreign recyclers, without the environmental statutory impediments, would result in increased industrial capacity, increased competition, and the ability to evaluate and consider, in a best value process, proposals involving qualified foreign facilities for the disposal of MARAD's ships at no cost to the government. The realistic expectation should be related to the fact that MARAD awarded, removed, and disposed of as many ships as possible considering the disposal alternatives realistically available, the competitive nature of contractors involved in those alternatives and the domestic and international market for scrap steel and other recyclable materials.

Contract awards for the disposal of 20 ships were made in FY 2005 with the \$19.5 million appropriated for ship disposal. The 20 ships awarded exceeded the FY 2005 goal of 15 by five ships. In spite of awarding the targeted number of vessels there was a significant carryover of FY 2005 funds into FY 2006 in the amount of approximately \$10.5 million. The carryover amount is a result of robust domestic competition and continued strong international scrap steel

prices, both of which resulted in a significantly lower cost-per-ton disposal rate with FY 2005 awards. With less emphasis by the Navy on conventional dismantling as a disposal method and an increase in the number of domestic contractors competing for MARAD ships, the cost-per-ton disposal rate decreased significantly in FY 2005 which resulted in the awards and eventual disposal of more ships than anticipated. Through June 2, 2006 MARAD has awarded contracts for the removal of 13 vessels from all three fleets. The FY 2005 carryover coupled with the FY 2006 appropriations allowed MARAD to award contracts for additional obsolete ships in FY 2006 that contributed to leveling out the flow of work to the industry and lessen the risk of towing during hurricane season.

The MARAD's ability to export vessels for recycling continues to be impeded by legal challenges and statutory limitations. Because of the limitations, foreign recycling is lost as a practical disposal option as are some very cost-effective foreign proposals, some of which are no cost to the government. Accessing an increased domestic capacity, if it materializes, may result in an increased rate of obsolete ship disposal in the absence of more cost-effective foreign disposal options not currently available.

VII. External Factors and Mitigation Plans

Since the Program was established in 2001, MARAD has aggressively pursued all disposal alternatives that have the potential to provide MARAD with cost effective disposal sources to expedite the disposal of its obsolete vessels. While each disposal alternative had the potential to be a feasible disposal outlet in 2001 there were numerous external factors that prevented MARAD from fully realizing the potential cost benefits associated with the particular disposal option or from having full access to and use of the disposal alternative. Beginning in 2001 the program analyzed each disposal alternative and developed actions to mitigate the factors or impediments that prevented full benefit of each disposal option. The MARAD's actions, past and present, in mitigation of the external factors are outlined below for each of the six major disposal alternatives that MARAD considers to have the potential to benefit the Program.

Domestic Recycling – Between 1994 and 2000 MARAD did not have the authority to purchase dismantling/recycling services and was restricted to the sale of vessels domestically as its primary method of ship disposal. Primarily because of a weak scrap steel market during this period only a dozen vessels were sold to a few Texas recycling facilities. In 1999, the Navy began its pilot program to acquire recycling services domestically. That move, coupled with the weak scrap steel market, resulted in the loss of interest on the part of domestic contractors to purchase MARAD vessels, and, in fact, resulted in the default by domestic contractors in about a dozen sales contracts that MARAD had awarded in 1998 and 1999.

Since dismantling/recycling was, and continues to be, the most expedient disposal method, it was obvious that MARAD needed the authority to acquire recycling services as a disposal alternative. While the ability to acquire recycling services was needed by both the Navy and MARAD programs, one of the effects was that the small domestic industry (six total contractors for both the Navy and MARAD programs in 2001) abandoned any interest in the purchase of obsolete ships, and realizing they had a captive market with no foreign competition, the domestic facilities took full advantage of the situation by maximizing their profits. The result was artificially high

cost-per-ton disposal rates which had the effect on both MARAD and Navy programs of limiting the number of vessels that could be disposal of with the available funding.

In 2003, MARAD's efforts resulted in a contract for the disposal of 15 ships with a company in the UK. The addition of this one facility effectively doubled the annual domestic industrial capacity and resulted in domestic ship dismantling prices precipitously dropping by 50 percent in FY 2003. The MARAD's pursuit of the vessel export as a viable disposal option demonstrated that environmentally safe, cost-effective recycling capacity is available. While the completion of the UK contract is still being affected by legal challenges, the pursuit of this disposal option has yielded a lasting cost benefit by forcing domestic prices down to a level that is more in sync with market factors.

In addition to the pursuit of vessel export, MARAD also has vigorously promoted an increase in domestic capacity. At the onset of the Program in 2001, the effective productive, competitive domestic capacity was a total of three facilities, all located in Texas. The lack of facilities resulted not only in limited capacity and competition but it also resulted in higher per-ton disposal costs due to towing charges to get MARAD's Virginia and California sited vessels to the Texas facilities. The MARAD's outreach efforts and solicitations to the industry have resulted in an increase in qualified domestic contractors from three in 2001 to seven in 2006, adding two facilities on the East Coast and two on the Gulf Coast. The increase in facilities has gained MARAD valuable capacity and increased competition which has resulted in lower disposal costs.

Foreign Recycling - Section VI. c. of this report details the external impediments and legal challenges to the vessel export option of disposal and details MARAD's mitigation efforts related to the use of vessel export. In spite of the external impediments businesses continue to make cost-effective proposals to MARAD including some at no cost to the government. As long as feasible, cost-effective foreign proposals exist, MARAD will continue to pursue this option.

In 2001, domestic recycling was costly and extremely limited in productive, competitive industrial capacity. Realizing the situation, and supported by legislation that directed MARAD to use all qualified facilities (without predisposition towards foreign or domestic facilities), MARAD began to solicit disposal proposals from all sources including qualified foreign facilities. Indications were that significant cost savings and industrial capacity could be gained through the use of qualified foreign facilities that could recycle obsolete ships in a manner that was protective of the environment and worker safety and health. Concurrent with full and open service acquisition solicitation, MARAD began discussions with the EPA on how to overcome the statutory impediments to vessel export of the Toxic Substance Control Act (TSCA) while utilizing qualified foreign facilities that were capable of protecting the environment.

The MARAD's efforts since 2001 to export vessels for recycling have been legally challenged, and successfully defended, and yet the external factors such as the TSCA and other environmental statutes continue to impede the timely use of foreign facilities. A TSCA exemption through an administrative rulemaking process with the EPA is currently the only way to export ships that have components containing PCBs, which includes the majority of MARAD's obsolete ships. The formal rulemaking process resulting in an exemption to allow

export takes a minimum of 9-12 months and 1-2 years is more likely. Although at least one company at this time is staying the course, the reality is that the time requirement for a formal rulemaking makes the export of ships for recycling a practical impossibility from a business standpoint.

The MARAD's mitigation efforts to these external factors continue with discussions with the EPA and through dialogue with the Congress on possible legislative solutions to gain MARAD full and timely access to this viable, cost-effective and environmentally safe disposal option. A legislative solution to allow MARAD to make responsible vessel export decisions to qualified facilities appears to be the only viable solution to allow full use of this disposal option. The MARAD continues to work with the EPA and Congress toward such a solution.

Artificial Reefing – In 2001, analysis of the potential of artificial reefing as a viable obsolete ship disposal resulted in a determination that three fundamental changes would need to occur to facilitate the use of ships as reefs by increasing demand for ships from coastal States. Those three changes were as follows:

- the ability for MARAD to give financial assistance to coastal States to help with the costs associated with preparing ships as artificial reefs;
- the development of national environmental criteria for the preparation of ships as artificial reefs; and,
- the streamlining of the application review and approval process by the federal agencies cognizant over the use of ships as artificial reefs.

The MARAD requested and was granted in FY 2003 a change to the statute that allows MARAD to provide financial assistance to the States which would apply to costs associated with preparing ships to be used as reefs. The MARAD can now use disposal funds, on a best-value basis, to expedite the reefing process. The ability of coastal States to secure funding for reefing in a timely manner has always been a factor that has significantly prolonged the reefing application process. Cost sharing with the States has the potential to increase demand to some degree. However, MARAD will consider providing significant financial assistance to States only for vessels MARAD considers to be a higher priority. Generally, higher priority ships are not good reefing candidates. The MARAD's ability to provide financial assistance may now be applied to expedite worthwhile projects such as the vessel VANDENBERG for the State of Florida which is also a moderate priority vessel.

In 2002, MARAD began discussions with the EPA and other Federal agencies involved in the reefing process to develop national criteria to the preparation of ships as artificial reefs. This effort has resulted in the development of Best Management Practices (BMP) for the preparation of ships as artificial reefs. The final BMP was issued publicly by the EPA on May 12, 2006.

While working with the various Federal agencies involved on the BMP, MARAD also initiated a process to streamline the application review and approval process that involved those same agencies. The new process established MARAD as the administrative gatekeeper for reefing applications from coastal States for both Navy and MARAD vessels with all the cognizant Federal agencies as members of the Artificial Reefing Team. The process provides for the

concurrent review of reefing applications by all Federal agencies as opposed to the previous process, which had the coastal States submitting their application separately to all the involved agencies without any coordination of review, comment, and response to the State that is present in the streamlined process.

In 2004, the Navy changed its emphasis from dismantling /recycling to artificial reefing and SINKEX as its predominant and most cost-effective means of vessel disposal. With their reefing program, the Navy has the flexibility to decide if and when a ship and its title would be transferred to a coastal State for use as a reef. There exists a general reluctance of States to be responsible for the preparation, tow and sinking of the ships, and sharing in the significant costs associated with reefing activities. In addition to the three improvements currently in effect, MARAD has requested and was granted in FY 2006 statutory authority that provided MARAD the flexibility to determine the time and place of vessel transfer. This change will give the Program more flexibility that may result in an increase in interest from coastal States in MARAD ships for use as reefs. Prior to FY 2006 MARAD's artificial reefing authority did not have that discretion. This change will allow MARAD to take on more of the responsibilities for preparing a ship for reefing, which, previously fell entirely to the State.

Vessel Sales - Recognizing that there is occasional interest in the purchase of obsolete "vessels of value" by domestic contractors in 2005, MARAD has established a separate sales solicitation process to accommodate expressions of interest from the industry in specific vessels, and as a means for MARAD to request competitive bids for the purchase of specific vessels. Potential vessels of value represent only a small percentage of MARAD's obsolete ships and for the most part are the better condition vessels that are a low disposal priority. The MARAD's strategy is to offer these lower priority ships when annual funding has been committed to higher priority projects and prior to receipt of the next year's appropriation. This strategy also allows the facilities that are in between projects, and that recognize the relative value of a vessel, to respond to the sales solicitation.

Deep Sinking - In 2003, MARAD signed a Memorandum of Agreement (MOA) with the Navy's Program Executive Office – Ships that established a process whereby MARAD vessels could be prepared by the Navy on a reimbursable basis and sunk during Navy at-sea fleet training exercises commonly known as SINKEX. Like vessels used for artificial reefing not all of MARAD's obsolete ships are good candidates for deep-sinking; however, MARAD recognized the value of adding a disposal option to its Program even if it could be applied to only a few lower priority ships per year. In applying disposal funding to deep-sinking opportunities, MARAD will evaluate the cost-effectiveness and value to the program of each deep-sinking opportunity. Deep-sinking also provides a source of disposal capacity in addition to that of dismantling facilities.

Vessel Donation – Because of public interest in the preservation of a small number of potentially historically significant ships, MARAD requested statutory authority to establish a formal vessel donation program. In 2004, MARAD received the requested authority and established a formal donation program for not-for-profit organizations that are interested in receiving vessels for non-operational use such as historical preservation. The MARAD recognized the public interest in vessel donations as well as the value of donations as another

disposal option even though at best only a few ships have the potential to be donated due to the significant costs associated with the refurbishment and long term maintenance of old ships.

Other - Other actions taken by MARAD to gain efficiencies in the ship disposal process entering into a Memorandum of Understanding (MOU) with the Navy SUPSHIPS in 2004 to obtain services to assist in the on-site monitoring of MARAD contracts and facilities where SUPSHIPS has a presence because of Navy recycling projects. The MARAD and Navy implemented a trial project early in FY 2006 at a contractor's facility in Texas to familiarize the SUPSHIPS personnel with MARAD disposal contract requirements and project management requirements. The trial project was successful and has been extended to include an additional recycling project at the same contractor's facility. This sharing of government resources will result in a cost savings to MARAD's Program for project monitoring of ship recycling contracts.

VIII. Appendices:

- a. Vessel Condition/Disposal Priority Report**
- b. Congressional Requirement for the Comprehensive Management Report**

Appendix A

Vessel Condition/Disposal Priority Report

OBSOLETE VESSEL CONDITION DISPOSAL PRIORITY

(Sorted by "RANK")

		LEGEND	Awarded	Bidding	Reef Hold	Hist. Review	Historic Hold	Donation Hold	SinkX Cand	Strip Hold
		CODES	D=Donation	H=Historic	R=Reefing	S=Stripping	T=Training	X=Sinkex		
RANK		SHIP NAME	CONTRACT AWARD DATE	HOLD STATUS	LOCATION	YEAR BUILT	LIGHT SHIP DISPLACEMENT	HULL CONDITION	TOTAL OIL LIGHT TONS	TOPSIDE CONDITION
		NON-RETENTION SHIPS								
1		MAGALLANES	11/14/2005		BRF	1964	12580	0	157	2
2		TEXAS CLIPPER I			BRF	1944	7662	2	663	2
3		SAUGATUCK	6/2/2006		JRRF	1943	5623	2	100	2
4		NEMASKET	9/1/2005		SBRF	1942	1998	2	75	1
5		MISSION SANTA YNEZ		H	SBRF	1944	5000	2	73	2
6		CANISTEO	7/25/2003		UK	1945	10723	2	34	4
7		HOIST		H	JRRF	1945	1530	2	8	4
8		CALOOSAHATCHEE	7/25/2003		UK	1945	10300	2	2	4
9		SPHINX		D	JRRF	1944	1625	2	0	2
10		GETTYSBURG		H	SBRF	1957	9861	3	1091	4
11		DUTTON			BRF	1945	5645	3	992	3
12		AMERICAN EXPLORER			BRF	1958	8820	3	923	3
13		BRINTON LYKES	6/2/2006		BRF	1962	8720	3	651	2
14		GLACIER		D	SBRF	1953	5050	3	491	4
15		GEN WILLIAM O. DARBY	9/13/2004		JRRF	1945	11611	3	433	2
16		GEN EDWIN D PATRICK		H	SBRF	1945	12600	3	393	2
17		MAUMEE			BRF	1956	8606	3	379	2
18		POINT LOMA	12/15/2005		SBRF	1957	7404	3	372	3
19		GEN JOHN POPE		H	SBRF	1943	12833	3	359	3
20		ALLISON LYKES	5/30/2006		BRF	1964	12580	3	326	1
21		BARNARD VICTORY			SBRF	1945	4609	3	315	2
22		CONNECTICUT	9/1/2005		SBRF	1958	9856	3	307	2
23		PRIDE II	6/2/2006		BRF	1959	8881	3	290	2
24		LEXINGTON			BRF	1958	12842	3	284	2
25		SANTA LUCIA	9/1/2005		JRRF	1966	9037	3	281	1
26		SIoux FALLS VICTORY			SBRF	1945	4490	3	269	3
27		COMPASS ISLAND	7/25/2003		UK	1953	13950	3	240	2
28		CANOPUS	7/25/2003		UK	1965	12618	3	218	4
29		HANNIBAL VICTORY			SBRF	1945	4612	3	190	1
30		ORION	6/2/2006		JRRF	1943	9913	3	187	2
31		FLORENCE	12/28/2005		SBRF	1954	7789	3	175	2
32		MARYLAND			BRF	1963	9040	3	173	2
33		PENNSYLVANIA TRADER		S	BRF	1963	8728	3	156	2
34		SPERRY		H	SBRF	1941	9734	3	125	3
35		PVT FRED C. MURPHY	2/23/2006		BRF	1945	4929	3	122	1
36		OCCIDENTAL VICTORY			SBRF	1945	4567	3	122	2
37		JASON			SBRF	1943	9140	3	119	3

OBSOLETE VESSEL CONDITION DISPOSAL PRIORITY

(Sorted by "RANK")

		LEGEND	Awarded	Bidding	Reef Hold	Hist. Review	Historic Hold	Donation Hold	SinkX Cand	Strip Hold
		CODES	D=Donation	H=Historic	R=Reefing	S=Stripping	T=Training	X=Sinkex		
RANK		SHIP NAME	CONTRACT AWARD DATE	HOLD STATUS	LOCATION	YEAR BUILT	LIGHT SHIP DISPLACEMENT	HULL CONDITION	TOTAL OIL LIGHT TONS	TOPSIDE CONDITION
38		QUEENS VICTORY		H	SBRF	1945	4566	3	109	2
39		WINTHROP VICTORY		H	SBRF	1945	4526	3	107	2
40		RIDER VICTORY		H	SBRF	1945	4620	3	102	3
41		ARTHUR M. HUDDALL		H	JRRF	1943	3709	3	90	2
42		NEREUS		H	SBRF	1945	9813	3	87	3
43		MALLORY LYKES	5/30/2006		BRF	1965	12580	3	81	1
44		MARSHFIELD VICTORY	7/25/2005		JRRF	1944	6700	3	74	3
45		BEAUJOLAIS	3/14/2006		BRF	1954	7414	3	67	1
46		VULCAN		H	JRRF	1941	8692	3	65	3
47		EARLHAM VICTORY		H	SBRF	1945	4426	3	65	3
48		THOMASTON		H	SBRF	1954	7965	3	45	3
49		POINT DEFIANCE		H	SBRF	1954	6880	3	44	3
50		WACCAMAW	9/1/2005		JRRF	1946	9553	3	29	2
51		MONTICELLO	9/1/2005	X	SBRF	1956	6880	3	26	3
52		GEN VANDENBERG		R	JRRF	1944	11634	3	15	2
53		PAWCATUCK	7/25/2005		JRRF	1946	9989	3	1	3
54		TALUGA		H	SBRF	1943	6050	3	0	1
55		GAGE		H	JRRF	1944	6720	3	0	3
56		KITTIWAKE		R	JRRF	1945	1643	3	0	4
57		HATTIESBURG VICTORY		H	BRF	1945	4118	4	1045	3
58		DEL VALLE		H,S	BRF	1968	8230	4	786	4
59		DAWN			SBRF	1963	7380	4	758	1
60		MAINE			BRF	1944	7112	4	751	4
61		BAYAMON		H,S	JRRF	1970	11264	4	641	2
62		BUYER		H,S	BRF	1960	6840	4	611	5
63		HUNLEY			JRRF	1962	12055	4	609	3
64		DEL VIENTO		H,S	BRF	1968	8230	4	341	4
65		AMERICAN OSPREY		H,S	BRF	1958	10117	4	297	3
66		STATE		H	JRRF	1952	9550	4	278	2
67		LINCOLN		H	SBRF	1961	8018	4	199	3
68		PONCHATOUA			SBRF	1955	9553	4	115	4
69		TULARE		H	SBRF	1956	9467	4	99	4
70		PAN AMERICAN VICTORY		H	SBRF	1945	4820	4	78	1
71		BAY		H	SBRF	1961	7449	4	60	3
72		RIGEL			JRRF	1955	8097	4	15	2
73		TRUCKEE			JRRF	1955	10994	4	5	2
74		FLORIKAN		H	SBRF	1943	1653	4	4	1
75		BOLSTER		H	SBRF	1944	1530	4	2	4

OBSOLETE VESSEL CONDITION DISPOSAL PRIORITY

(Sorted by "RANK")

		LEGEND	Awarded	Bidding	Reef Hold	Hist. Review	Historic Hold	Donation Hold	SinkX Cand	Strip Hold
		CODES	D=Donation	H=Historic	R=Reefing	S=Stripping	T=Training	X=Sinkex		
RANK		SHIP NAME	CONTRACT AWARD DATE	HOLD STATUS	LOCATION	YEAR BUILT	LIGHT SHIP DISPLACEMENT	HULL CONDITION	TOTAL OIL LIGHT TONS	TOPSIDE CONDITION
76		SURIBACHI			JRRF	1956	9712	4	2	3
77		MAUNA KEA	9/1/2005	X	SBRF	1957	7470	4	1	4
78		ESCAPE		H	JRRF	1943	1712	4	0	3
79		MISSISSINEWA			JRRF	1954	10668	4	0	2
80		CLAMP		H	SBRF	1943	1530	4	0	3
81		RECLAIMER		H	SBRF	1945	1530	4	0	3
82		PYRO	9/1/2005	X	SBRF	1959	7470	4	0	4
83		YFNB 4		H	BRF	1944	700	4	0	4
84		CAPE CATAWBA		H,S	JRRF	1961	5800	5	1790	4
85		CAPE CATOCHE		H,S	JRRF	1962	5876	5	1469	4
86		CAPE CLEAR		H,S	JRRF	1963	5876	5	1346	4
87		CAPE CHARLES		H	JRRF	1963	5876	5	1209	3
88		CAPE CARTHAGE		H,S	JRRF	1963	5876	5	1090	4
89		LAKE		H,S	JRRF	1961	5889	5	1019	4
90		CAPE CANAVERAL		H,S	JRRF	1963	5876	5	953	4
91		ADVENTURER		H,S	SBRF	1960	4274	5	882	5
92		AMBASSADOR		H,S	SBRF	1960	4274	5	872	3
93		BANNER		H,S	BRF	1961	6840	5	853	5
94		OLON TURMAN		H	SBRF	1961	8605	5	832	3
95		ADONIS			BRF	1966	17997	5	820	3
96		SOUTHERN CROSS		H,S	JRRF	1962	5846	5	788	4
97		MISPILLION			SBRF	1945	9486	5	779	4
98		SCAN		H,S	JRRF	1961	5882	5	754	4
99		PRIDE		H	JRRF	1960	5963	5	669	4
100		H. H. HESS		H	SBRF	1978	13521	5	619	2
101		SHOSHONE		H,S	SBRF	1955	9380	5	611	5
102		COURIER		H,S	BRF	1962	6700	5	589	5
103		SAGAMORE		H,S	SBRF	1959	1132	5	471	4
104		AIDE		H,S	SBRF	1960	4274	5	400	5
105		PRESIDENT		H	SBRF	1961	8018	5	369	2
106		KAWISHIWI			SBRF	1955	9553	5	348	4
107		CAPE CANSO		H	JRRF	1962	5876	5	263	4
108		CAPE COD (AD 43)		H	JRRF	1982	13482	5	0	3
109		AGENT		H,S	SBRF	1961	4274	5	187	5
110		AMERICAN RELIANCE		H	SBRF	1965	6695	5	176	3
111		MOUNT HOOD			SBRF	1971	10312	5	169	4
112		WABASH (EX AOR 5)			SBRF	1970	12500	5	168	4
113		IX-509 (EX UEB1)	2/16/2006		JRRF	1942	1695	5	102	3

OBSOLETE VESSEL CONDITION DISPOSAL PRIORITY

(Sorted by "RANK")

		LEGEND	Awarded	Bidding	Reef Hold	Hist. Review	Historic Hold	Donation Hold	SinkX Cand	Strip Hold
		CODES	D=Donation	H=Historic	R=Reefing	S=Stripping	T=Training	X=Sinkex		
RANK		SHIP NAME	CONTRACT AWARD DATE	HOLD STATUS	LOCATION	YEAR BUILT	LIGHT SHIP DISPLACEMENT	HULL CONDITION	TOTAL OIL LIGHT TONS	TOPSIDE CONDITION
114		HARKNESS		H	JRRF	1967	3035	5	94	3
115		CAPE ALAVA		H,S	JRRF	1962	7300	5	58	4
116		ORTOLON		H	JRRF	1969	3518	5	31	4
117		VANCOUVER		H	SBRF	1963	8650	5	21	3
118		HASSAYAMPA			SBRF	1955	9553	5	14	4
119		MILWAUKEE			JRRF	1969	14210	5	8	4
120		BENJAMIN ISHERWOOD	7/25/2003		JRRF	1988	9348	5	7	4
121		AMERICAN RACER		H	SBRF	1964	8067	5	6	3
122		MONONGAHELA			JRRF	1981	11411	5	4	4
123		NORTHERN LIGHT		H,S	SBRF	1960	12460	5	3	5
124		PIGEON		H,S	SBRF	1969	3665	5	3	4
125		PLATTE			JRRF	1982	11482	5	2	4
126		MERRIMACK			JRRF	1980	11411	5	2	4
127		SAVANNAH (EX AOR 4)			JRRF	1970	12200	5	2	4
128		SHENANDOAH			JRRF	1983	13637	5	0	4
129		CIMARRON			SBRF	1979	8210	5	0	4
130		SYLVANIA			JRRF	1964	9852	5	0	3
131		NITRO			JRRF	1959	9050	5	0	3
132		RANGE SENTINEL		H	JRRF	1944	6559	5	0	3
133		KALAMAZOO			JRRF	1973	13622	5	0	3
134		CAPE COD		S	JRRF	1963	5876	5	160	4
135		VANGUARD		H	JRRF	1943	13882	5	0	4
136		YELLOWSTONE		H	JRRF	1980	13315	5	0	4
137		HOLLAND		H	SBRF	1963	11000	5	0	4
138		WICHITA		H	SBRF	1968	13000	5	0	4
139		WYMAN		H	SBRF	1971	1935	5	0	4
140		HENRY ECKFORD	7/25/2003		JRRF	1989	9348	5	0	4
141		KANSAS CITY			SBRF	1969	12500	5	0	4
142		ROANOKE			SBRF	1974	13000	5	0	4
143		WILLAMETTE			SBRF	1980	8210	5	0	4

Appendix B

Congressional Requirement for the Comprehensive Management Report

PUBLIC LAW 109-163—JAN. 6, 2006

**NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 2006**

PART III—AIR FORCE CONVEYANCES

- Sec. 2861. Purchase of build-to-lease family housing, Eielson Air Force Base, Alaska.
 Sec. 2862. Land conveyance, Air Force property, Jacksonville, Arkansas.
 Sec. 2863. Land conveyance, Air Force property, La Junta, Colorado.
 Sec. 2864. Lease, National Imagery and Mapping Agency site, St. Louis, Missouri.

SUBTITLE E—OTHER MATTERS

- Sec. 2871. Clarification of moratorium on certain improvements at Fort Buchanan, Puerto Rico.
 Sec. 2872. Transfer of excess Department of Defense property on Santa Rosa and Okaloosa Island, Florida, to Gulf Islands National Seashore.
 Sec. 2873. Authorized military uses of Papago Park Military Reservation, Phoenix, Arizona.
 Sec. 2874. Assessment of water needs for Presidio of Monterey and Ord Military Community.
 Sec. 2875. Redesignation of McEntire Air National Guard Station, South Carolina, as McEntire Joint National Guard Base.
 Sec. 2876. Sense of Congress regarding community impact assistance related to construction of Navy landing field, North Carolina.
 Sec. 2877. Sense of Congress on establishment of Bakers Creek Memorial.

DIVISION C—DEPARTMENT OF ENERGY NATIONAL SECURITY AUTHORIZATIONS AND OTHER AUTHORIZATIONS

TITLE XXXI—DEPARTMENT OF ENERGY NATIONAL SECURITY PROGRAMS

SUBTITLE A—NATIONAL SECURITY PROGRAMS AUTHORIZATIONS

- Sec. 3101. National Nuclear Security Administration.
 Sec. 3102. Defense environmental cleanup.
 Sec. 3103. Other defense activities.
 Sec. 3104. Defense nuclear waste disposal.

SUBTITLE B—OTHER MATTERS

- Sec. 3111. Reliable Replacement Warhead program.
 Sec. 3112. Rocky Flats Environmental Technology Site.
 Sec. 3113. Report on compliance with Design Basis Threat issued by Department of Energy in 2005.
 Sec. 3114. Reports associated with Waste Treatment and Immobilization Plant Project, Hanford Site, Richland, Washington.
 Sec. 3115. Report on assistance for a comprehensive inventory of Russian nonstrategic nuclear weapons.
 Sec. 3116. Report on international border security programs.
 Sec. 3117. Savannah River National Laboratory.

TITLE XXXII—DEFENSE NUCLEAR FACILITIES SAFETY BOARD

- Sec. 3201. Authorization.

TITLE XXXIII—NATIONAL DEFENSE STOCKPILE

- Sec. 3301. Authorized uses of National Defense Stockpile funds.
 Sec. 3302. Revisions to required receipt objectives for previously authorized disposals from National Defense Stockpile.
 Sec. 3303. Authorization for disposal of tungsten ores and concentrates.
 Sec. 3304. Disposal of ferromanganese.

TITLE XXXIV—NAVAL PETROLEUM RESERVES

- Sec. 3401. Authorization of appropriations.

TITLE XXXV—MARITIME ADMINISTRATION

- Sec. 3501. Authorization of appropriations for fiscal year 2006.
 Sec. 3502. Payments for State and regional maritime academies.
 Sec. 3503. Maintenance and repair reimbursement pilot program.
 Sec. 3504. Tank vessel construction assistance.
 Sec. 3505. Improvements to the Maritime Administration vessel disposal program.
 Sec. 3506. Assistance for small shipyards and maritime communities.
 Sec. 3507. Transfer of authority for title XI non-fishing loan guarantee decisions to Maritime Administration.
 Sec. 3508. Technical corrections.

Sec. 3509. United States Maritime Service.
 Sec. 3510. Awards and medals.

10 USC 101 note. **SEC. 3. CONGRESSIONAL DEFENSE COMMITTEES.**

For purposes of this Act, the term “congressional defense committees” has the meaning given that term in section 101(a)(16) of title 10, United States Code.

DIVISION A—DEPARTMENT OF DEFENSE AUTHORIZATIONS

TITLE I—PROCUREMENT

SUBTITLE A—AUTHORIZATION OF APPROPRIATIONS

- Sec. 101. Army.
- Sec. 102. Navy and Marine Corps.
- Sec. 103. Air Force.
- Sec. 104. Defense-wide activities.

SUBTITLE B—ARMY PROGRAMS

- Sec. 111. Multiyear procurement authority for utility helicopters.
- Sec. 112. Multiyear procurement authority for modernized target acquisition designation sight/pilot night vision sensors for AH-64 Apache attack helicopters.
- Sec. 113. Multiyear procurement authority for conversion of AH-64A Apache attack helicopters to the AH-64D Block II configuration.
- Sec. 114. Acquisition strategy for tactical wheeled vehicle programs.
- Sec. 115. Report on Army Modular Force Initiative.

SUBTITLE C—NAVY PROGRAMS

- Sec. 121. Virginia-class submarine program.
- Sec. 122. LHA Replacement (LHA(R)) amphibious assault ship program.
- Sec. 123. Cost limitation for next-generation destroyer program.
- Sec. 124. Littoral Combat Ship (LCS) program.
- Sec. 125. Prohibition on acquisition of next-generation destroyer through a single shipyard.
- Sec. 126. Aircraft carrier force structure.
- Sec. 127. Refueling and complex overhaul of the U.S.S. Carl Vinson.
- Sec. 128. CVN-78 aircraft carrier.
- Sec. 129. LHA Replacement (LHA(R)) ship.
- Sec. 130. Report on alternative propulsion methods for surface combatants and amphibious warfare ships.

SUBTITLE D—AIR FORCE PROGRAMS

- Sec. 131. C-17 aircraft program and assessment of intertheater airlift requirements.
- Sec. 132. Prohibition on retirement of KC-135E aircraft.
- Sec. 133. Prohibition on retirement of F-117 aircraft during fiscal year 2006.
- Sec. 134. Prohibition on retirement of C-130E/H tactical airlift aircraft during fiscal year 2006.
- Sec. 135. Procurement of C-130J/KC-130J aircraft after fiscal year 2006.
- Sec. 136. Report on Air Force aircraft aeromedical evacuation programs.

SUBTITLE E—JOINT AND MULTISERVICE MATTERS

- Sec. 141. Requirement that tactical unmanned aerial vehicles use specified standard data link.
- Sec. 142. Limitation on initiation of new unmanned aerial vehicle systems.
- Sec. 143. Advanced SEAL Delivery System.

Subtitle A—Authorization of Appropriations

SEC. 101. ARMY.

Funds are hereby authorized to be appropriated for fiscal year 2006 for procurement for the Army as follows:

(e) NATIONAL DEFENSE STOCKPILE DEFINED.—In this section, the term “National Defense Stockpile” means the stockpile provided for in section 4 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98c).

TITLE XXXIV—NAVAL PETROLEUM RESERVES

Sec. 3401. Authorization of appropriations.

SEC. 3401. AUTHORIZATION OF APPROPRIATIONS.

(a) AMOUNT.—There are hereby authorized to be appropriated to the Secretary of Energy \$18,500,000 for fiscal year 2006 for the purpose of carrying out activities under chapter 641 of title 10, United States Code, relating to the naval petroleum reserves.

(b) PERIOD OF AVAILABILITY.—Funds appropriated pursuant to the authorization of appropriations in subsection (a) shall remain available until expended.

TITLE XXXV—MARITIME ADMINISTRATION

Sec. 3501. Authorization of appropriations for fiscal year 2006.

Sec. 3502. Payments for State and regional maritime academies.

Sec. 3503. Maintenance and repair reimbursement pilot program.

Sec. 3504. Tank vessel construction assistance.

Sec. 3505. Improvements to the Maritime Administration vessel disposal program.

Sec. 3506. Assistance for small shipyards and maritime communities.

Sec. 3507. Transfer of authority for title XI non-fishing loan guarantee decisions to Maritime Administration.

Sec. 3508. Technical corrections.

Sec. 3509. United States Maritime Service.

Sec. 3510. Awards and medals.

SEC. 3501. AUTHORIZATION OF APPROPRIATIONS FOR FISCAL YEAR 2006.

Funds are hereby authorized to be appropriated for fiscal year 2006, to be available without fiscal year limitation if so provided in appropriations Acts, for the use of the Department of Transportation for the Maritime Administration as follows:

(1) For expenses necessary for operations and training activities, \$122,249,000.

(2) For administrative expenses related to loan guarantee commitments under the program authorized by title XI of the Merchant Marine Act, 1936 (46 App. U.S.C. 1271 et seq.), \$4,126,000.

(3) For expenses to dispose of obsolete vessels in the National Defense Reserve Fleet, including provision of assistance under section 7 of Public Law 92-402, \$21,000,000.

SEC. 3502. PAYMENTS FOR STATE AND REGIONAL MARITIME ACADEMIES.

(a) ANNUAL PAYMENT.—Section 1304(d)(1)(C)(ii) of the Merchant Marine Act, 1936 (46 App. U.S.C. 1295c(d)(1)(C)(ii)) is amended by striking “\$200,000” and inserting “\$300,000 for fiscal year 2006, \$400,000 for fiscal year 2007, and \$500,000 for fiscal year 2008 and each fiscal year thereafter”.

(b) **SCHOOL SHIP FUEL PAYMENT.**—Section 1304(c)(2) of the Merchant Marine Act, 1936 (46 App. U.S.C. 1295c(c)(2)) is amended—

(1) by striking “The Secretary may pay to any State maritime academy” and inserting “(A) The Secretary shall, subject to the availability of appropriations, pay to each State maritime academy”; and

(2) by adding at the end the following:

“(B) The amount of the payment to a State maritime academy under this paragraph shall not exceed—

“(i) \$100,000 for fiscal year 2006;

“(ii) \$200,000 for fiscal year 2007; and

“(iii) \$300,000 for fiscal year 2008 and each fiscal year thereafter.”.

SEC. 3503. MAINTENANCE AND REPAIR REIMBURSEMENT PILOT PROGRAM.

Section 3517 of the Maritime Security Act of 2003 (46 U.S.C. 53101 note) is amended to read as follows:

“SEC. 3517. MAINTENANCE AND REPAIR REIMBURSEMENT PILOT PROGRAM.

“(a) AUTHORITY TO ENTER AGREEMENTS.—

“(1) **IN GENERAL.**—The Secretary of Transportation shall carry out a pilot program under which the Secretary shall enter into an agreement with 1 or more contractors under chapter 531 of title 46, United States Code, regarding maintenance and repair of 1 or more vessels that are subject to an operating agreement under that chapter.

“(2) **REQUIREMENT OF AGREEMENT.**—The Secretary shall, subject to the availability of appropriations, require 1 or more persons to enter into an agreement under this section as a condition of awarding an operating agreement to the person under chapter 531 of title 46, United States Code, for 1 or more vessels that normally make port calls in the United States.

“(b) TERMS OF AGREEMENT.—An agreement under this section—

“(1) shall require that except as provided in subsection (c), all qualified maintenance or repair on the vessel shall be performed in the United States;

“(2) shall require that the Secretary shall reimburse the contractor in accordance with subsection (d) for the costs of qualified maintenance or repair performed in the United States; and

“(3) shall apply to qualified maintenance or repair performed during the 5-year period beginning on the date the vessel begins operating under the operating agreement under chapter 531 of title 46, United States Code.

“(c) EXCEPTION TO REQUIREMENT TO PERFORM WORK IN THE UNITED STATES.—A contractor shall not be required to have qualified maintenance or repair work performed in the United States under this section if—

“(1) the Secretary determines that there is no facility capable of meeting all technical requirements of the qualified maintenance or repair in the United States located in the geographic area in which the vessel normally operates available to perform the work in the time required by the contractor to maintain its regularly scheduled service;

Applicability.

“(2) the Secretary determines that there are insufficient funds to pay reimbursement under subsection (d) with respect to the work; or

“(3) the Secretary fails to make the certification described in subsection (e)(2).

“(d) REIMBURSEMENT.—

“(1) IN GENERAL.—The Secretary shall, subject to the availability of appropriations, reimburse a contractor for costs incurred by the contractor for qualified maintenance or repair performed in the United States under this section.

“(2) AMOUNT.—The amount of reimbursement shall be equal to the difference between—

“(A) the fair and reasonable cost of obtaining the qualified maintenance or repair in the United States; and

“(B) the fair and reasonable cost of obtaining the qualified maintenance or repair outside the United States, in the country in which the contractor would otherwise undertake the qualified maintenance or repair.

“(3) DETERMINATION OF FAIR AND REASONABLE COSTS.—The Secretary shall determine fair and reasonable costs for purposes of paragraph (2).

“(e) NOTIFICATION REQUIREMENTS.—

“(1) NOTIFICATION BY CONTRACTOR.—The Secretary is not required to pay reimbursement to a contractor under this section for qualified maintenance or repair, unless the contractor—

“(A) notifies the Secretary of the intent of the contractor to obtain the qualified maintenance or repair, by not later than 90 days before the date of the performance of the qualified maintenance or repair; and

Deadline.

“(B) includes in such notification—

“(i) a description of all qualified maintenance or repair that the contractor should reasonably expect may be performed;

“(ii) a description of the vessel’s normal route and port calls in the United States;

“(iii) an estimate of the cost of obtaining the qualified maintenance or repair described under clause (i) in the United States; and

“(iv) an estimate of the cost of obtaining the qualified maintenance or repair described under clause (i) outside the United States, in the country in which the contractor otherwise would undertake the qualified maintenance or repair.

“(2) CERTIFICATION BY SECRETARY.—

“(A) Not later than 30 days after the date of receipt of notification under paragraph (1), the Secretary shall certify to the contractor—

Deadline.

“(i) whether the cost estimates provided by the contractor are fair and reasonable;

“(ii) if the Secretary determines that such cost estimates are not fair and reasonable, the Secretary’s estimate of fair and reasonable costs for such work;

“(iii) whether there are available to the Secretary sufficient funds to pay reimbursement under subsection (d) with respect to such work; and

- “(iv) that the Secretary commits such funds to the contractor for such reimbursement, if such funds are available for that purpose.
- Deadline.** “(B) If the contractor notification described in paragraph (1) does not include an estimate of the cost of obtaining qualified maintenance and repair in the United States, then not later than 30 days after the date of receipt of such notification, the Secretary shall—
- “*(i)* certify to the contractor whether there is a facility capable of meeting all technical requirements of the qualified maintenance and repair in the United States located in the geographic area in which the vessel normally operates available to perform the qualified maintenance and repair described in the notification by the contractor under paragraph (1) in the time period required by the contractor to maintain its regularly scheduled service; and
- “*(ii)* if there is such a facility, require the contractor to resubmit such notification with the required cost estimate for such facility.
- Deadlines.** “(f) REGULATIONS.—
- “(1) REQUIREMENT TO ISSUE NOTICE OF PROPOSED RULE MAKING.—The Secretary shall—
- “*(A)* by not later than 30 days after the effective date of this subsection, issue a notice of proposed rule making to implement this section;
- Public comments.** “*(B)* in such notice, solicit the submission of comments by the public regarding rules to implement this section; and
- “*(C)* provide a period of at least 30 days for the submission of such comments.
- Public comments.** “(2) INTERIM RULES.—Upon expiration of the period for submission of comments pursuant to paragraph (1)(C), the Secretary may prescribe interim rules necessary to carry out the Secretary’s responsibilities under this section. For this purpose, the Secretary is excepted from compliance with the notice and comment requirements of section 553 of title 5, United States Code. At the time interim rules are issued, the Secretary shall solicit comments on the interim rules from the public and other interested persons. Such period for comment shall not be less than 90 days. All interim rules prescribed under the authority of this subsection that are not earlier superseded by final rules shall expire no later than 270 days after the effective date of this subsection.
- Deadline.** “(g) QUALIFIED MAINTENANCE OR REPAIR DEFINED.—In this section the term ‘qualified maintenance or repair’—
- Expiration date.** “(1) except as provided in paragraph (2), means—
- “*(A)* any inspection of a vessel that is—
- “*(i)* required under chapter 33 of title 46, United States Code; and
- “*(ii)* performed in the period in which the vessel is subject to an agreement under this section;
- “*(B)* any maintenance or repair of a vessel that is determined, in the course of an inspection referred to in subparagraph (A), to be necessary; and

“(C) any additional maintenance or repair the contractor intends to undertake at the same time as the work described in subparagraph (B); and

“(2) does not include—

“(A) maintenance or repair not agreed to by the contractor to be undertaken at the same time as the work described in paragraph (1); or

“(B) any emergency work that is necessary to enable a vessel to return to a port in the United States.

“(h) ANNUAL REPORT.—The Secretary shall submit to the Congress by not later than September 30 each year a report on the program under this section. The report shall include a listing of future inspection schedules for all vessels included in the Maritime Security Fleet under section 53102 of title 46, United States Code.

Records.

“(i) AUTHORIZATION OF APPROPRIATIONS.—In addition to the other amounts authorized by this title, for reimbursement of costs of qualified maintenance or repair under this section there is authorized to be appropriated to the Secretary of Transportation \$19,500,000 for each of fiscal years 2006 through 2011.”

SEC. 3504. TANK VESSEL CONSTRUCTION ASSISTANCE.

(a) REQUIREMENT TO ENTER CONTRACTS.—Section 3543(a) of the National Defense Authorization Act for Fiscal Year 2004 (46 U.S.C. 53101 note) is amended by striking “may” and inserting “shall, to the extent of the availability of appropriations,”

(b) AMOUNT OF ASSISTANCE.—Section 3543(b) of the National Defense Authorization Act for Fiscal Year 2004 (46 U.S.C. 53101 note) is amended by striking “up to 75 percent of”.

SEC. 3505. IMPROVEMENTS TO THE MARITIME ADMINISTRATION VESSEL DISPOSAL PROGRAM.

(a) REPEAL OF LIMITATION ON SCRAPPING; COMPREHENSIVE MANAGEMENT PLAN.—Section 3502 of the Floyd D. Spence National Defense Authorization Act of Fiscal Year 2001 (enacted into law by section 1 of Public Law 106-398; 16 U.S.C. 5405 note; 114 Stat. 1654A-490) is amended by striking subsections (c), (d), (e), and (f), and inserting the following:

“(c) COMPREHENSIVE MANAGEMENT PLAN.—

“(1) REQUIREMENT TO DEVELOP PLAN.—The Secretary of Transportation shall prepare, publish, and submit to the Congress by not later than 180 days after the date of the enactment of this Act a comprehensive plan for management of the vessel disposal program of the Maritime Administration in accordance with the recommendations made in the Government Accountability Office in report number GAO-05-264, dated March 2005.

Publication.
Deadline.

“(2) CONTENTS OF PLAN.—The plan shall—

“(A) include a strategy and implementation plan for disposal of obsolete National Defense Reserve Fleet vessels (including vessels added to the fleet after the enactment of this paragraph) in a timely manner, maximizing the use of all available disposal methods, including dismantling, use for artificial reefs, donation, and Navy training exercises;

“(B) identify and describe the funding and other resources necessary to implement the plan, and specific milestones for disposal of vessels under the plan;

“(C) establish performance measures to track progress toward achieving the goals of the program, including the expeditious disposal of ships commencing upon the date of the enactment of this paragraph;

“(D) develop a formal decisionmaking framework for the program; and

“(E) identify external factors that could impede successful implementation of the plan, and describe steps to be taken to mitigate the effects of such factors.

“(d) IMPLEMENTATION OF MANAGEMENT PLAN.—

“(1) REQUIREMENT TO IMPLEMENT.—Subject to the availability of appropriations, the Secretary shall implement the vessel disposal program of the Maritime Administration in accordance with—

“(A) the management plan submitted under subsection (c); and

“(B) the requirements set forth in paragraph (2).

“(2) UTILIZATION OF DOMESTIC SOURCES.—In the procurement of services under the vessel disposal program of the Maritime Administration, the Secretary shall—

“(A) use full and open competition; and

“(B) utilize domestic sources to the maximum extent practicable.

“(e) FAILURE TO SUBMIT PLAN.—

“(1) PRIVATE MANAGEMENT CONTRACT FOR DISPOSAL OF MARITIME ADMINISTRATION VESSELS.—The Secretary of Transportation, subject to the availability of appropriations, shall promptly award a contract using full and open competition to expeditiously implement all aspects of disposal of obsolete National Defense Reserve Fleet vessels.

“(2) APPLICATION.—This subsection shall apply beginning 180 days after the date of the enactment of this subsection, unless the Secretary of Transportation has submitted to the Congress the comprehensive plan required under subsection (c).

“(f) REPORT.—No later than 1 year after the date of the enactment of this subsection, and every 6 months thereafter, the Secretary of Transportation, in coordination with the Secretary of the Navy, shall report to the Committee on Transportation and Infrastructure, the Committee on Resources, and the Committee on Armed Services of the House of Representatives, and to the Committee on Commerce, Science, and Transportation and the Committee on Armed Services of the Senate, on the progress made in implementing the vessel disposal plan developed under subsection (c). In particular, the report shall address the performance measures required to be established under subsection (c)(2)(C).”

(b) TEMPORARY AUTHORITY TO TRANSFER OBSOLETE COMBATANT VESSELS TO NAVY FOR DISPOSAL.—The Secretary of Transportation shall, subject to the availability of appropriations and consistent with section 1535 of title 31, United States Code, popularly known as the Economy Act, transfer to the Secretary of the Navy during fiscal year 2006 for disposal by the Navy, no fewer than 4 combatant vessels in the nonretention fleet of the Maritime Administration that are acceptable to the Secretary of the Navy.

(c) TRANSFER OF TITLE OF OBSOLETE VESSELS TO BE DISPOSED OF AS ARTIFICIAL REEFS.—Paragraph (4) of section 4 of the Act entitled “An Act to authorize appropriations for the fiscal year

1973 for certain maritime programs of the Department of Commerce, and for related purposes" (Public Law 92-402; 16 U.S.C. 1220a) is amended to read as follows:

"(4) the transfer would be at no cost to the Government (except for any financial assistance provided under section 1220(c)(1) of this title) with the State taking delivery of such obsolete ships and titles in an 'as-is—where-is' condition at such place and time designated as may be determined by the Secretary of Transportation."

SEC. 3506. ASSISTANCE FOR SMALL SHIPYARDS AND MARITIME COMMUNITIES.

Grants.
Loans.
46 USC app.
1249.

(a) **ESTABLISHMENT OF PROGRAM.**—Subject to the availability of appropriations, the Administrator of the Maritime Administration shall establish a program to provide assistance to State and local governments—

(1) to provide assistance in the form of grants, loans, and loan guarantees to small shipyards for capital improvements; and

(2) for maritime training programs in communities whose economies are substantially related to the maritime industry.

(b) **AWARDS.**—In providing assistance under the program, the Administrator shall—

(1) take into account—

(A) the economic circumstances and conditions of maritime communities; and

(B) the local, State, and regional economy in which the communities are located; and

(2) strongly encourage State, local, and regional efforts to promote economic development and training that will enhance the economic viability of and quality of life in maritime communities.

(c) **USE OF FUNDS.**—Assistance provided under this section may be used—

(1) to make capital and related improvements in small shipyards located in or near maritime communities;

(2) to encourage, assist in, or provide training for residents of maritime communities that will enhance the economic viability of those communities; and

(3) for such other purposes as the Administrator determines to be consistent with and supplemental to such activities.

(d) **PROHIBITED USES.**—Grants awarded under this section may not be used to construct buildings or other physical facilities or to acquire land unless such use is specifically approved by the Administrator in support of subsection (c)(3).

(e) **MATCHING REQUIREMENTS.**—

(1) **FEDERAL FUNDING.**—Except as provided in paragraph

(2), Federal funds for any eligible project under this section shall not exceed 75 percent of the total cost of such project.

(2) **EXCEPTIONS.**—

(A) **SMALL PROJECTS.**—Paragraph (1) shall not apply to grants under this section for stand alone projects costing not more than \$25,000. The amount under this subparagraph shall be indexed to the consumer price index and modified each fiscal year after the annual publication of consumer price index.

(B) **REDUCTION IN MATCHING REQUIREMENT.**—If the Administrator determines that a proposed project merits support and cannot be undertaken without a higher percentage of Federal financial assistance, the Administrator may award a grant for such project with a lesser matching requirement than is described in paragraph (1).

(f) **APPLICATION.**—

(1) **IN GENERAL.**—The Administrator shall determine who, as an eligible applicant, may submit an application, at such time, in such form, and containing such information and assurances as the Administrator may require.

(2) **MINIMUM STANDARDS FOR PAYMENT OR REIMBURSEMENT.**—Each application submitted under paragraph (1) shall include—

(A) a comprehensive description of—

(i) the need for the project;

(ii) the methodology for implementing the project;

and

(iii) any existing programs or arrangements that can be used to supplement or leverage assistance under the program.

(3) **PROCEDURAL SAFEGUARDS.**—The Administrator, in consultation with the Office of the Inspector General, shall issue guidelines to establish appropriate accounting, reporting, and review procedures to ensure that—

(A) grant funds are used for the purposes for which they were made available;

(B) grantees have properly accounted for all expenditures of grant funds; and

(C) grant funds not used for such purposes and amounts not obligated or expended are returned.

(4) **PROJECT APPROVAL REQUIRED.**—The Administrator may not award a grant under this section unless the Administrator determines that—

(A) sufficient funding is available to meet the matching requirements of subsection (e);

(B) the project will be completed without unreasonable delay; and

(C) the recipient has authority to carry out the proposed project.

(g) **AUDITS AND EXAMINATIONS.**—All grantees under this section shall maintain such records as the Administrator may require and make such records available for review and audit by the Administrator.

(h) **SMALL SHIPYARD DEFINED.**—In this section, the term “small shipyard” means a shipyard that—

(1) is a small business concern (within the meaning of section 3 of the Small Business Act (15 U.S.C. 632); and

(2) does not have more than 600 employees.

(i) **AUTHORIZATION OF APPROPRIATIONS.**—There are authorized to be appropriated to the Administrator of the Maritime Administration for each of fiscal years 2006 through 2010 to carry out this section—

(1) \$5,000,000 for training grants; and

(2) \$25,000,000 for capital and related improvement grants.

SEC. 3507. TRANSFER OF AUTHORITY FOR TITLE XI NON-FISHING LOAN GUARANTEE DECISIONS TO MARITIME ADMINISTRATION.

(a) **IN GENERAL.**—Title XI of the Merchant Marine Act, 1936 (46 U.S.C. App. 1271 et seq.), as amended by subsection (d) of this section, is amended—

(1) by striking “Secretary” each place it appears and inserting “Secretary or Administrator” in—

- (A) section 1101(c), (f), and (g); 46 USC app. 1271.
- (B) section 1102; 46 USC app. 1272.
- (C) section 1103(a), (b), (c), (e), (g), and (h); 46 USC app. 1273.
- (D) section 1104A, except in— 46 USC app. 1274.
- (i) subsection (b)(7) and the undesignated paragraph that follows;
- (ii) paragraphs (1), (2), (3)(B), and (4) of subsection (d);
- (iii) subsection (e)(2)(F) the second place it appears;
- (iv) subsection (j); and
- (v) subsection (n)(1) the first place it appears;
- (E) section 1104B; 46 USC app. 1274a.
- (F) section 1105(a), (b), (c), and (e); 46 USC app. 1275.
- (G) section 1105(d) the first, second, third, fifth, and last places it appears; and
- (H) sections 1108, 1109 (except the second place it appears in subsection (c)), and 1113 (as redesignated by subsection (d) of this section); 46 USC app. 1279a, 1279b, 1279f.

(2) by striking “Secretary” and inserting “Administrator” in—

- (A) section 1103(i);
- (B) section 1103(j) the first place it appears;
- (C) section 1104A(b)(7) each place it appears but not in the undesignated paragraph that follows subsection (b)(7);
- (D) section 1104A(d)(1)(A) each place it appears except the first;
- (E) section 1104A(d)(3) each place it appears except in subparagraph (B);
- (F) section 1104A(j)(1) the first, fifth, and seventh places it appears;
- (G) section 1104A(n) each place it appears except the first;
- (H) section 1110 each place it appears except the first and fourth places it appears in subsection (b); 46 USC app. 1279c.
- (I) section 1111(a) and (b)(2) each place it appears; 46 USC app. 1279d.
- (J) section 1111(b)(4) each place it appears except the first; and
- (K) section 1112 each place it appears; and 46 USC app. 1279e.
- (3) by striking “Secretary’s” in sections 1108(g)(1) and 1109(d)(3) and inserting “Secretary’s or Administrator’s”.

(b) **ADDITIONAL AND CONFORMING TITLE XI CHANGES.**—

(1) Section 1101 of the Merchant Marine Act, 1936 (46 U.S.C. App. 1271) is amended—

- (A) by striking “title,” and all that follows in subsection n) and inserting “title.”; and
- (B) by adding at the end the following:

“(p) The term ‘Administrator’ means the Administrator of the Maritime Administration.”.

- (2) Section 1103(j) of such Act (46 U.S.C. App. 1273(j)) is amended by adding at the end the following:
 “The Secretary of Defense shall determine whether a vessel satisfies paragraphs (1) and (2) by not later than 30 days after receipt of a request from the Administrator for such a determination.”.
- Deadline
- (3) Section 1104A(d) of such Act (46 U.S.C. App. 1274(d)) is amended—
- (A) by striking “Secretary of Transportation” in paragraphs (1)(A) and (3)(B) and inserting “Administrator”;
- (B) by striking “the waiver” in paragraph (4)(B) and inserting “if deemed necessary by the Secretary or Administrator, the waiver”;
- (C) by striking “the increased” in paragraph (4)(B) and inserting “any significant increase in”.
- 46 USC app. 1274.
- (4) Section 1104A(f) of such Act (46 U.S.C. App. 1273(f)) is amended—
- (A) by striking “financial structures, or other risk factors identified by the Secretary or Administrator.” in paragraph (2), as amended by subsection (a) of this section, and inserting “or financial structures.”;
- (B) by striking “financial structures, or other risk factors identified by the Secretary or Administrator.” in paragraph (3), as amended by subsection (a) of this section, and inserting “or financial structures.”; and
- (C) by adding at the end the following:
 “(5) A third party independent analysis conducted under paragraph (2) shall be performed by a private sector expert in assessing such risk factors who is selected by the Administrator.”.
- 46 USC app. 1274.
- (5) Section 1104A(j)(2) of such Act (46 U.S.C. App. 1273(j)(2)) is amended by striking “The Secretary of Transportation” and inserting “The Administrator”.
- 46 USC app. 1274.
- (6) Section 1104A(m) of such Act (46 U.S.C. App. 1273(m)) is amended by striking the last sentence and inserting “If the Secretary or Administrator has waived a requirement under section 1104A(d), the loan agreement shall include requirements for additional payments, collateral, or equity contributions to meet such waived requirement upon the occurrence of verifiable conditions indicating that the obligor’s financial condition enables the obligor to meet the waived requirement.”.
- 46 USC app. 1274.
- (7) Section 1104A(n)(1) of such Act (46 U.S.C. App. 1273(n)(1)) is amended by striking “The Secretary of Transportation” and inserting “The Administrator”.
- 46 USC app. 1279d.
- (8) Section 1111 of such Act (46 U.S.C. 1279(f)) is amended by striking “Secretary of Transportation” each place it appears and inserting “Administrator”.
- (c) CONFORMING CHANGES IN OTHER STATUTES.—
- (1) Section 401(a) of the Ocean Shipping Reform Act of 1998 (46 U.S.C. App. 1273a(a)) is amended by striking “Secretary of Transportation” and inserting “Administrator of the Maritime Administration”.
- 46 USC app. 1280.
- (2) Section 101 of Public Law 85-469 (46 U.S.C. 1280) is amended by inserting “or the Administrator of the Maritime Administration” after “Secretary”.
- (3) Section 3527 of the Maritime Security Act of 2003 (46 U.S.C. App. 1280b) is amended by striking “Secretary of Transportation” and inserting “Administrator of the Maritime Administration”.

(4) Section 3528 of the Maritime Security Act of 2003 (46 U.S.C. App. 1271 note) is repealed. Repeal.

(d) TECHNICAL CORRECTION OF SECTION NUMBERING.—Title XI of the Merchant Marine Act, 1936 (46 U.S.C. App. 1271 et seq.) is amended by redesignating the second sections 1111 and 1112, as added by section 303 of the Sustainable Fisheries Act (Public Law 104-297; 110 Stat. 3616), as sections 1113 and 1114, respectively.

46 USC app.
1279f, 1279g.

SEC. 3508. TECHNICAL CORRECTIONS.

(a) INTERMODAL CENTERS.—Section 9008(b)(1) of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users is amended by striking “section 5309(m)(1)(C)” and inserting “paragraphs (1)(C) and (2)(C) of section 5309(m)”. Ante, p. 1926.

(b) INTERMODAL SURFACE FREIGHT TRANSFER FACILITY ELIGIBILITY.—Section 9008(b)(2) of that Act is amended by striking “section 181(9)(D)” and inserting “181(8)(D)”.

SEC. 3509. UNITED STATES MARITIME SERVICE.

Section 1306(a) of the Maritime Education and Training Act of 1980 (46 U.S.C. App. 1295e(a)), is amended by inserting “and to perform functions to assist the United States merchant marine, as determined necessary by the Secretary,” after “United States” the second place it appears.

SEC. 3510. AWARDS AND MEDALS.

Section 5(c) of the Merchant Marine Decorations and Medals Act (46 U.S.C. App. 2004(c)) is amended by striking “provide at cost, or authorize for the manufacture and sale at reasonable prices by private persons—” and inserting “provide—”.

Approved January 6, 2006.

LEGISLATIVE HISTORY—H.R. 1815 (S. 1042) (S. 1043):

HOUSE REPORTS: Nos. 109-89 (Comm. on Armed Services) and 109-360 (Comm. of Conference).

SENATE REPORTS: No. 109-69 accompanying S. 1042 (Comm. on Armed Services).

CONGRESSIONAL RECORD, Vol. 151 (2005):

May 25, considered and passed House.

Nov. 15, considered and passed Senate, amended, in lieu of S. 1042.

Dec. 18, House agreed to conference report.

Dec. 19, 21, Senate considered and agreed to conference report.

WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 42 (2006):

in. 6, Presidential statement.