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Report to Secretary, Department of Commerce; by Henry Eschwege, Director, Community and Economic Development Div.

Issue Area: Facilities and Material Management (700).
Contact: Community and Economic Development Div.
Budget Function: Commerce and Transportation: Water Transportation (406).
Organization Concerned: Maritime Administration; General Services Administration; Department of Defense.
Congressional Relevance: House Committee on Merchant Marine and Fisheries; Senate Committee on Commerce.
Authority: Merchant Marine Act of 1936, sec. 508 (46 U.S.C. 1158). Federal Property and Administrative Services Act of 1949, sec. 203(i) (40 U.S.C. 484). 10 U.S.C. 7305.

There are inconsistencies among the legislation and policies used to govern the vessel sales programs at the Maritime Administration (MarAd), the General Services Administration (GSA), and the Department of Defense (DOD). Findings/Conclusions: Discussions with officials at the three Agencies indicated that it is not clear which policies are in the best interest of the Government and the American maritime industry. MarAd is authorized to sell surplus vessels from the National Defense Reserve Fleet for scrap or other nontransportation uses and to dispose of all surplus Government vessels determined to be merchant type or convertible to merchant type and weighing 1,500 gross tons or more. DOD is authorized to dispose of surplus military vessels that are not merchant class vessels or convertible to merchant class and merchant class vessels under 1,500 tons. GSA is authorized to dispose of surplus Government property including naval vessels. Only the laws covering the MarAd sales require that preference be given to U.S. citizens. Recommendations: The Secretary of Commerce, through the Assistant Secretary for Maritime Affairs, should review MarAd's policy of providing preference to the American shipbreaking industry, and should analyze MarAd's policy for restricting the sales of vessels of less than 1,500 tons, such as tugs, for scrapping or other nontransportation use. Included in this analysis should be an evaluation, together with DOD, of the effect of DOD selling similar vessels without the nontransportation requirement. The Secretary of Commerce should then propose legislation to the Congress to resolve this difference in MarAd's and DOD's legislation. (SC)

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

MAY 26 1977

B-169094

The Honorable
The Secretary of Commerce

Dear Madam Secretary:

During April 1976 we initiated a survey of the Maritime Administration's (MarAd's) ship sales program. Our survey included a comparison of the vessel sales programs of MarAd, the General Services Administration (GSA), and the Department of Defense (DOD), and was conducted at the Washington headquarters of these three agencies.

Our survey disclosed inconsistencies among the legislation and policies used to govern the vessel sales programs at these agencies. Discussions with officials of MarAd, DOD, and GSA indicated that it is not clear which policies are in the best interest of the Government and the American maritime industry. In conjunction with this letter, on January 26, 1977, we forwarded to the Assistant Secretary for Maritime Affairs specific recommendations for improving the effectiveness of MarAd's vessel sales program.

BACKGROUND

Surplus Government vessels are disposed of by three agencies--MarAd, DOD, and GSA. MarAd disposes of vessels in accordance with section 508 of the Merchant Marine Act of 1936 (46 U.S.C. 1158) and section 203(i) of the 1949 Federal Property and Administrative Services Act (40 U.S.C. 484). The 1936 act authorizes MarAd to sell surplus vessels from the National Defense Reserve Fleet for scrap or other nontransportation uses. The 1936 act also provides that preference be given to U.S. citizens in the sale of vessels. The 1949 act assigns to MarAd the responsibility for disposing of all surplus Government vessels determined to be merchant type or convertible to merchant type and weighing 1,500 gross tons or more.

DOD is authorized (10 U.S.C. 7305) to dispose of surplus military vessels that are not merchant class vessels or convertible to merchant class. DOD, however, does have the

authority to dispose of merchant class vessels weighing less than 1,500 tons. DOD policy requires that vessels determined to be combatant vessels be scrapped to assure effective demilitarization. Noncombatant type military vessels can be sold for either transportation or for scrap or other nontransportation use. Neither the statute nor DOD policy contains any provisions concerning preference to U.S. citizens.

The 1949 Federal Property and Administrative Services Act also authorizes GSA to dispose of surplus Government property including naval vessels. GSA's vessel sales program is substantially smaller than those of MarAd and DOD. Currently, most of GSA's vessel sales are for surplus Coast Guard vessels. Neither the statute nor GSA policy requires the sale of these vessels for nontransportation use only nor encourages preference to U.S. citizens.

REASSESSMENT NEEDED OF THE PREFERENCE GIVEN TO U.S. CITIZENS IN DISPOSING OF VESSELS

MarAd, in disposing of surplus vessels, is required by legislation to give preference to U.S. citizens. However, the degree of preference has been left to the discretion of the Secretary of Commerce. MarAd's current policy for selling vessels was established in 1973 and provides for three categories of bid invitations. According to MarAd officials, a vessel must be offered for sale at least once under each of the first two categories prior to being offered under the third. The three categories are:

Category I--Sales are exclusively to U.S. citizens for (1) nontransportation use within the United States or (2) scrapping within the United States.

Category II--Sales are exclusively to U.S. citizens for (1) nontransportation use worldwide, provided the vessels are converted or modified for nontransportation use in the United States or (2) scrapping within the United States.

Category III--Sales are (1) exclusively to U.S. citizens for nontransportation use worldwide without requirement for conversion or modification within the United States or (2) to U.S. citizens and noncitizens for scrapping on the world market.

Under this policy, foreign firms are effectively prohibited from competing in most sales solicitations although it has long been recognized by MarAd that sales proceeds increase by large margins when the sales solicitation is open to worldwide competition. Our analysis of MarAd vessel sales transactions for fiscal years 1972 through 1976 indicated that when MarAd permits foreign competition, foreign firms or citizens, notwithstanding their additional cost of towing vessels overseas, usually are willing to pay much more than the American bidders. We found that foreign bidders generally offer at least twice as much as American bidders and in some cases three to five times as much. In a December 1975 Department of Commerce Office of Audits' audit report a similar observation was made to the Assistant Secretary for Maritime Affairs for his consideration in future policy determinations.

During our survey we reviewed the legislative history of the preference requirement and noted that the preference requirement resulted from the intent of the Congress to maintain a domestic capacity for dismantling or breaking vessels for scrap. This shipbreaking industry was considered important to the maritime industry and necessary for national defense and mobilization requirements. In addition to its shipbreaking facilities, shipbreakers were also considered to have a ship repair capability. Notwithstanding the intent of the Congress and the substantial preference provided by MarAd's policy, the number of domestic firms having a shipbreaking capability has declined from about 60 to 70 in the 1950s to about 20 today. According to officials in MarAd's Office of Domestic Shipping, only eight or nine such firms actively compete under MarAd's vessel sales program.

Further, we found that MarAd has not evaluated the effectiveness or the benefits of their preference policy since 1964. At that time the acting Maritime Administrator, recognizing that revenues from the sale of MarAd's vessels could be increased by a large margin if the vessels were sold to foreign bidders, requested an analysis of MarAd's ship sales policies. In response to the then acting Administrator's request, MarAd's Office of Property and Supply performed such an analysis and concluded that there were two basic benefits attributable to MarAd's policy.

One benefit cited in the analysis was that the preference policy supports the shipbreaking segment of U.S. industry. During our survey we discussed this benefit with MarAd and

DOD officials. They informed us that the vessel repair capability of the shipbreakers operating today is rather limited. We were also informed that domestic shipbreakers are not specifically included in their mobilization plans. MarAd officials stated that although the shipbreaking industry cannot be discounted completely during a mobilization emergency, it is not significant enough to be placed in the mobilization plans.

The second benefit found during the 1964 analysis was that the preference policy had a positive effect on the U.S. balance of payments because most of the scrap resulting from the breaking up of MarAd's vessels is exported. As you know, in the mid-1960s the U.S. balance of payments was a major concern of the Department of Commerce. In more recent years, however, the significance given to the balance-of-payments considerations has varied. In addition, the effect of MarAd's policy on the balance of payments is minimal. Consequently, we believe that balance-of-payments considerations may be questionable as support for MarAd's preference policy.

Considering the revenue being forgone under the existing preference policy, the diminished role of the domestic shipbreaking industry, and the minimal effect of MarAd's policy on balance-of-payments statistics, we believe that a reassessment is needed to determine if the costs of MarAd's preference policy continues to be justified. This appears particularly true because neither DOD nor GSA programs operate under such a restriction.

RECOMMENDATION

Effective program administration requires periodic analysis and evaluation of a program's goals and implementing policies and procedures. Because MarAd has not performed such an analysis since 1964 of its vessel sales program with respect to the preference policy and implementing procedures, we recommend that the Secretary of Commerce, through the Assistant Secretary for Maritime Affairs, review MarAd's policy of providing preference to the American shipbreaking industry. Further, if the review indicates that the current preference policy no longer serves its original purpose, or that the cost is not worth the questionable benefits that result, we recommend that the Secretary report this matter to the Congress.

INCONSISTENT LEGISLATION AND POLICIES GOVERN THE DISPOSAL OF OCEAN-GOING TUGS

MarAd and DOD have conflicting policies concerning sales of ocean-going tugs because MarAd's legislation requires it to sell tugs for scrap or other nontransportation purposes only. DOD has no such requirement because its ocean-going tugs generally do not exceed 1,500 tons.

During our survey we found that there is a substantial increase in revenues received by the Government when tugs are sold for transportation purposes. To demonstrate this point we compared the sales of ocean-going tugs by MarAd and DOD. The MarAd tug purchasers were not permitted to use their tugs for transportation purposes, whereas the purchasers of the DOD tugs were. Our comparison showed that during the period of January 1, 1974 to August 11, 1976, DOD sold seven ocean-going tugs for an average price of $200,000. During the same period MarAd sold 20 ocean-going tugs at an average price of about $37,000.

We discussed this matter with MarAd officials and they agreed that there is a substantial increase in revenues when tugs are sold without the nontransportation restriction. However, they referred to their legislation which they felt does not give them a choice as to whether they can sell a vessel for transportation or nontransportation purposes. MarAd officials also said that the scrapping requirement was established to protect the U.S. maritime industry. We were told that if a vessel is sold to a foreign citizen for operations, the vessel may compete with an American flag vessel. Additionally, if the vessels are sold to American citizens for operational use, new purchases from American shipyards could be reduced. Although MarAd officials believe that selling vessels under 1,500 tons, such as tugs, for transportation purposes. has a harmful effect on the American maritime industry, they were not able to substantiate their statements with any facts or data demonstrating this. In addition, we were told by both DOD and MarAd officials that neither DOD nor MarAd has received any complaints from American maritime industry representatives concerning DOD's policy of selling its vessels of less than 1,500 tons for operations. Further, we found that MarAd has never evaluated the costs and benefits of their policy even though they recognize that substantial increases in revenue could be achieved by selling vessels for operations.

We believe that although MarAd feels constrained by its legislation to sell its vessels of under 1,500 tons for scrap, MarAd has the obligation to periodically review its legislative requirements and implementing policies to determine if they are currently consistent with the best interests of the Government. This is especially true when MarAd finds its programs in conflict with those of other agencies. We also believe that MarAd has the obligation, in fulfilling its responsibility to develop and maintain an efficient and safe merchant marine, to monitor the vessel sales activities of other agencies in regard to the effect of their programs on the American maritime industry.

RECOMMENDATION

We recommend that the Secretary of Commerce, through the Assistant Secretary for Maritime Affairs, analyze MarAd's policy for restricting the sales of vessels of less than 1,500 tons, such as tugs, for scrapping or other nontransportation use. Included in this analysis should be an evaluation, together with DOD, of the effect of DOD selling similar vessels without the nontransportation requirement. Further, we recommend that the Secretary of Commerce, based on the results of this analysis, propose legislation to the Congress to resolve this difference in MarAd's and DOD's legislation.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Director, Office of Management and Budget; the above committees; applicable legislative committees; the Secretary of Defense; and the Administrator, General Services Administration.

Sincerely yours.

Henry Eschwege

Henry Eschwege
Director