

Hearings to Examine Why Navy Tankers Left to Rust

\$450 Million, 9 Years and 'Nothing to Show'

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Contract number N00024-85-C-2115 started unremarkably enough in 1985, at the height of the Reagan defense buildup. The Pentagon—on its way to constructing its vaunted 600-ship Navy—needed two Henry J. Kaiser-class oil tankers to service fleets at sea.

But \$450 million and nine years later the U.S. Navy still doesn't have its tankers. Half-finished, they now are anchored in the James River in Newport News, Va., muddying water lapping gently against their rusty hulls.

The Senate Governmental Affairs permanent investigations subcommittee, which today is holding hearings on the ships, and the Pentagon's inspector general say the tankers are evidence of years of bungling by the Navy, and uneven work by two financially desperate shipyards that

shouldn't have received the contracts in the first place.

"Nine years later, after spending \$450 million, we have absolutely nothing to show for it," said Sen. William V. Roth Jr. (R-Del.), the committee's chairman. "How do I go home to taxpayers and justify this? It's a devastating indictment of current acquisition procedures."

The ships also provide a case study of a lack of accountability in federal contracting, government officials say, because every party that played a role—the Navy, the two companies, even Congress—blames somebody else.

At today's hearings investigators will examine allegations that one shipyard submitted an improper low bid to build the two tankers. When the shipyard failed to build them properly, a second company, owned by New York Yankees owner George Steinbrenner, got the job to take over construction by pulling strings in Congress. Examiners also will look at years of suits and countersuits, as well as a recent settlement in which the Navy will pay Steinbrenner's firm \$18 million. The committee will also examine propos-

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als for toughening acquisition regulations.

Tankers are hardly complex vessels and should cost about \$100 million each. When the Navy first let the contract, it was for \$222 million and it came amid a flurry of big warship contracts. Three years before that, President Ronald Reagan had ended subsidies for commercial ships, and financially ailing shipyards had stopped building commercial ships. Desperate for Navy contracts, they were offering to do Navy work at cut-rate prices.

One shipyard, Avondale Industries Inc. in Louisiana, had built several tankers for the Navy, and was the

front-runner for the new contract.

But Pennsylvania Shipbuilding Co.—which hadn't built a tanker in years and had just been taken over by two Alabama real estate developers—submitted a bid that was 15 percent less than Avondale's. Some Navy officials feared Penn was trying to "buy in," or improperly bid low to get the job, knowing it could get more federal funds later.

The Navy knew at the time that Penn's parent firm was near bankruptcy, and it also feared that Penn's estimated labor and material costs were "overly optimistic," the Pentagon's inspector general said recently. But the Navy ignored its own fears and found Penn's bid "aggressive but not unreasonable." In 1985 it awarded Penn the \$222,476,849 contract, with the possibility of escalating the price.

In its defense, Penn said that its bid was not a "low-ball" offer, but was reasonable, and that the firm was financially sound and had plenty of experience doing complex ship construction.

But problems at the shipyard in Chester, Pa., outside Philadelphia, surfaced immediately. The firm was so short of cash that it diverted \$25,000 in employees' contributions to the United Way for its business, the committee said. The Navy made up the difference to the charity, it said.

The firm also had trouble hiring the high-priced mechanics it needed. It had problems using engineering drawings and Japanese construction techniques it bought from other yards. And it failed to win other anticipated contracts, so workers, fearing this was their last contract, slowed their work. "Every job that should take a half-hour took an hour," said one person knowledgeable about the yard.

The Navy responded by sending in teams of inspectors. "Warfare" erupted between Penn and the Navy, a company representative said.

Over time, the Navy changed the terms of the contract, and in 1988 raised its ceiling to \$331 million. A year later, it terminated the contract because Penn had run out of money—the very scenario some Navy officials had foreseen four years before.

Everyone in the Navy and industry involved in the contract expected

that Avondale, which by that point had built seven other tankers at a cost of \$100 million each, would take over Penn's contract.

But Steinbrenner swung into action. The majority shareholder of American Ship Building Co., which had its yard in Tampa, he lobbied the Florida delegation, as well as Sen. Daniel K. Inouye (D-Hawaii) and Rep. John P. Murtha (D-Pa.), then chairmen of the Appropriations defense subcommittees.

Key members of Congress directed the Navy to declare American Ship's Tampa Shipyards a distressed part of the nation's industrial base and to award it the contract, congressional aides said. The Navy did, despite industry protests that Tampa had not done this type of work before and that its \$49 million offer was \$6 million more than Avondale's.

"The Navy should have allowed these ships to have been completed at Penn Ship or alternatively, as understood with the Navy, at Avondale," said Robert S. Bennett, Penn's lawyer. "The death of these healthy ships was caused by the fatal decision to remove them to [the] Tampa shipyard. This decision was contrary to common sense and sound procurement practice."

It is difficult and unusual to transport a half-finished ship. The Navy had to pay \$10 million to prepare the

ships for the journey. Once on their way, one of them slipped its tow line and ran aground off North Carolina, incurring severe damage.

The problems continued once the tankers reached Florida. Immediately shipyard officials claimed that the Navy had lied to them by hiding the ships' poor condition. Steinbrenner called them "rust buckets."

"They were a mess," added Robert Banker, Steinbrenner's lawyer, who sued the Navy on Tampa's behalf. "Parts were all over the place, most of them unusable. The Navy said, 'Too bad, you took it as is.'"

Government officials said Tampa, which was already \$13 million in the hole from another disputed Navy contract, never had the trained workforce for the job. Soon, like Penn,

Tampa was having trouble paying suppliers and was at war with Navy inspectors.

"They didn't have the experience and didn't know what they were doing," said Mark Buse, legislative assistant to Sen. John McCain (R-Ariz.), who opposed awarding the contract to Tampa, as well as its later efforts to get congressional help. "Congress was responding to individuals using high-powered lobbyists."

In 1992, Tampa requested that the Navy give it \$25 million outright because it said its existence was endangered, but the Navy said no. Steinbrenner again lobbied the same members of Congress, to whom he'd recently given about \$16,000 in campaign funds. Inouye and Murtha overrode the Navy, inserting into the de-

fense appropriations bill \$45 million in added funds for the troubled tanker contract, congressional aides said.

Steinbrenner, who poured at least \$12 million into the failing venture, offered to finish the ships mostly with his money, but the Navy refused. In August 1993 the Navy terminated the contract, citing "severe financial and performance problems." Steinbrenner contends, however, that the Navy cut the contract because it doesn't need the tankers anymore.

The ships were towed north, to the James River. Investigators say the Navy spent about \$331 million failing to build the tankers at Penn, and another \$102 million in Tampa.



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The two half-finished tankers anchored in James River, Newport News, Va.