The curious captains of a reckless industry
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No sale: The destroyer USS Forrest Sherman was among 12 ships returned to the Navy after North Carolina officials closed a Wilmington scrapyard contaminated by asbestos, oil and lead. (photo by Perry Thorsvik: Sun Staff)

"Second in a series
When the U.S. Navy began its great sell-off of surplus ships in 1991, Richard Jaross was among the first to see an opportunity.

He began dismantling Navy ships at a California scrapyard, where workers were exposed to lead and asbestos. He came to Baltimore to help put together the ill-fated Coral Sea project. He then set up a scrapyard in Wilmington, N.C., but the state shut it down for mishandling asbestos, polluting a river and contaminating the soil with oil and lead.
Troubled histories, it turns out, are not uncommon among the shipbreakers to whom the Navy has entrusted its ships. Among the others are:

- Andrew Levy: His company managed a maritime union retirement plan in the 1980s and lost more than $20 million, according to the U.S. Department of Labor. A federal court permanently barred him from managing private-sector benefit plans. He later became involved in the Coral Sea project and in a scrapping operation that was closed down in Rhode Island.

- Kreso Bezmalinovic: Before he got into shipbreaking, he pleaded guilty to paying off a government inspector. Later, he was convicted on federal fraud charges involving asbestos-abatement companies he controlled.

- Emilio Sanchez: A South Texas businessman with many interests, in 1994 he tried to negotiate in Mexico two stolen U.S. Treasury checks -- each made out to him for $10 million. Never prosecuted, he has bought the scrapping rights to several Navy ships since then.

- Kerry L. Ellis: The owner of a Baltimore company scrapping the Coral Sea, he tried to fool any inspectors who came around. Prosecutors finally caught up with him, leading to his conviction in May for mishandling asbestos and dumping oil and debris into the Patapsco River.

The shipbreaking industry, which involves about a dozen key operators, has left a dismal record of spills, accidents, deaths, lawsuits, bankruptcies and indictments at ports across the country.

"The history of ship scrapping in the United States in the past five years has been terrible in all ways," said E. Grey Lewis, a former Navy general counsel. "The people involved in it are one-night stands. They've been indicted or they've had to flee the area. And, of course, the United States Navy is now on notice that these people are not obeying the law."

The negligence at the scrapyards has been abetted by the Navy’s and Defense Department’s lack of vigilance. There is virtually no meaningful monitoring of the shipbreaking industry. Prosecutors and regulators from a disjointed network of agencies sometimes have stumbled upon violations at individual scrapyards, but the Defense Department agency that administers the scrapping program has done little to address its failings.

That agency, the Defense Reutilization and Marketing Service (DRMS), said it has raised standards for selecting scrappers. But critics say that is hardly enough.

"They sell a ship ... then all hell breaks loose," said F. Browne Gregg, whose company participated in a scrapping venture. "They literally lose control of the ship."

'CLEARLY NOT IN COMMAND'

On Sept. 16, 1993, DRMS sent its lone inspector, Tommy Evans, on his first visit to the Seawitch Salvage yard in Baltimore since the arrival of the aircraft carrier USS Coral Sea. But Evans didn’t inspect the vessel that day.

He thought it too dangerous.

"I could not get aboard the Coral Sea due to safety reasons," Evans wrote in his report.
The next day, a 23-year-old worker named Alfio Leonardi Jr. found out how unsafe the vessel could be. He and Kerry L. Ellis, the scrapyard operator, were walking on the flight deck when Leonardi stepped on a tabletop-size piece of deck plate that had been cut but hadn't fallen. The area wasn't roped off or marked. The plate dropped through and Leonardi fell with it, 30 feet to the hangar deck.

"I felt a burning feeling inside," he recalled. "There was blood coming out of my mouth. I didn't think I was going to live."

Leonardi suffered a ruptured spleen, a fractured pelvis and fractured vertebrae in the fall. He broke his arm so severely that two rods had to be inserted. He has been unable to return to the vigorous work he once loved.

"It's like my whole life stopped the day of that accident," said Leonardi. "I can't do nothing anymore."

Evans, the DRMS inspector, was new to the job when the accident occurred. He had a total of 20 hours' training in environmental issues. He declined to be interviewed, but others described him as intent on doing the right thing and completely unfamiliar with the world of shipbreaking.

"Tommy Evans was not appropriately trained and he didn't have any experience in shipbreaking," W. Warren Hamel, a federal prosecutor in Baltimore, told a jury last spring during Ellis' trial. "He was clearly not in command of the situation."

For Ellis, it was like having a free pass to violate the law.

When Evans called ahead to say he was coming, Ellis and his managers "would put up yellow caution tape and he was told no work was going on," recalled Neil Mandelman, a former supervisor at the yard. "After he left, we would go back to those areas."

The problem was not simply with Evans. His agency, DRMS, was set up to sell everything from boots to woolen hats to footlockers. Its goal is simple: Sell off inventory as fast as possible for the best price possible.

But a warship is different. The Navy retains title to the ships while they are scrapped, so it is not freed of responsibility for them. And it can take months or even years to break a ship apart. As the Navy's sales agent, DRMS is supposed to oversee the work but has little experience in monitoring something so complicated.

"I could put dead bodies on the ships, and they wouldn't know about it," said an environmental consultant, Said Farrokh, who has worked on ship-scrapping projects.

It was clear from the start that the Coral Sea project would be daunting. When Kerry Ellis took on the job, it was to be the largest shipbreaking project in Navy history. Ellis had scrapped bridges and drydocks before, but nothing remotely as big as the carrier. Andrew Levy, whose company hired Ellis to scrap the ship, said Ellis spent three months just trying to figure out where to begin.

When the cutting started, so did the chaos. There was no systematic plan to dismantle the ship. Workers often weren't protected with respirators or safety goggles, hard hats or hard-toed shoes. Ellis was frequently strapped for cash. His partners accused him of stealing scrap metal and even hired a helicopter to spy on the operation.

The workers weren't being paid, so they went back to Texas. "He said he was short and would be sending it along," said Pablo Saucedo, 60. "He never did."

Ellis simply replaced the men with others, similarly desperate enough for work that they would tolerate the unsafe conditions: the asbestos in the air, the risk of accidents, the repeated fires.

On Nov. 3, 1996, a fire broke out in the Coral Sea's engine room. With no one standing fire watch and with no hose nearby, the blaze quickly burned out of control. For the sixth time, the Baltimore Fire Department was called to the scrapyard.

Ellis was furious. He was even angrier a couple of days later, when another fire broke out.

"Kerry was screaming, 'Get down there! Get down there!' " said Epifanio Rodriguez, who went down into the ship with another worker and put the fire out because he didn't want to appear cowardly.

"It's just too dangerous. You could fall," he said. "If I didn't go down there, they'd curse me and fire me."
By then, Ellis was under indictment for asbestos and environmental violations. Typically, DRMS, the agency assigned to oversee scrapping operations, was largely unaware of the most serious problems on the Coral Sea and played no role in curbing them.

Ellis, convicted in U.S. District Court in Baltimore in May of dumping oil into the harbor and exposing workers to asbestos, is awaiting sentencing. He declined to be interviewed.

His son, Kerry R. Ellis, has taken over the Coral Sea project, which was intended to take 15 months but is now in its fifth year. While scrapping a warship is always complicated, the younger Ellis said, the difficulties with the Coral Sea were compounded by the Navy's failure to provide reliable information about the location of hazardous materials.

Ellis believes his father was prosecuted to cover up government mismanagement of the ship-scraping program.

"The Navy or DRMS knew they and their personnel were a big part of the problem," he said. "To protect themselves, they basically needed a fall guy."

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Gutting a ship: Aboard the carrier Coral Sea, the chaos began with the cutting. Workers often weren't protected with respirators, safety goggles or hard hats. (photo by Perry Thorsvik: Sun Staff)

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Better at the dreams

Ships have been scrapped for generations, but it took someone like Richard Jaross to envision shipbreaking as a modern U.S. industry, recycling on a grand scale.

Jaross, though, proved better at the dreams than the details.

"He's a guy you want to believe in," said Roy Dale, a lawyer who has worked with Jaross in South Texas for decades. "I think he's sincere and he goes into an idea with the idea he's going to make money. It's only when the thing goes south that he starts to look out for his own butt."

Those who have dealt with Jaross are familiar with the pattern. "He moves in, bends the rules to the extent possible, then just about the time the federal and state regulators realize there is a problem, he's finished scrapping the ship or he just takes off," said David Heeter, a North Carolina assistant attorney general.

Jaross showed up in Brownsville, Texas, 25 years ago, a young businessman from Dallas who believed that a fortune could be made in shipbreaking. He had the gift of good timing. Right after World War II, shipyards around the country, including Bethlehem Steel in Baltimore, had scrapped a huge number of surplus ships. In the 1970s, Jaross realized that another wave of ships -- a generation of merchant vessels -- was reaching retirement age.

And there was hardly any competition. Rising labor costs, followed by ever-stricter safety and environmental laws in the United States, had pushed shipbreaking overseas.

He recruited some bright young men, former members of the Boy Scout troop he led in Dallas. The money came easily in those early years; Jaross was able to buy a television station and invest in South Texas land deals. He even founded a Montessori school.

His success was helped immeasurably by his partnership with Emilio Sanchez, owner of Tex-Mex Cold Storage, which handles virtually all the shrimp coming into Brownsville. Sanchez was well connected. An ally was chairman of the port commissioners, and Sanchez's late brother was a Texas state
Emilio Sanchez, a South Texas businessman, bought scrapping rights to Navy ships; two men were killed on the project. (photo by Perry Thorsvik: Sun Staff)

Where Jaross is energetic and impulsive, Sanchez is serene and courtly. But acquaintances describe him as a tough businessman. His plain office is adorned with one painting, which shows a pride of ferocious lions about to bring down a gigantic bull. Over the years, Sanchez and Jaross have bought and sold more than 600 government and private ships for scrapping in the United States and overseas.

By the mid-1980s, though, the supply of old merchant ships was drying up. In 1985, a Jaross firm called Andy Machinery Co. pleaded guilty to defrauding the government. The company had been scrapping a Maritime Administration ship when investigators caught Jaross selling lead ballast that belonged to the government and pocketing the proceeds.

"They took a contract dispute and made something criminal out of it," Jaross complained recently. "We thought it better to just settle."

The company was ordered to pay restitution of $42,861 and a $10,000 fine. Soon after, Jaross filed for bankruptcy.

With the end of the Cold War, though, he realized before anyone else that a new opportunity beckoned.

In 1991, he helped start a venture to scrap Navy ships on Terminal Island, in Los Angeles harbor. The company, Southwest Recycling, acquired the USS Bonhomme Richard, an aircraft carrier, and three other vessels.

But after receiving complaints, federal Occupational Safety and Health Administration and state investigators turned up serious safety and environmental violations at the scrapyard.

Leaving his angry partner to deal with crushing financial problems and the unfinished scrapping job, Jaross moved on to Baltimore to help with the Coral Sea project. That, too, ended badly. Jaross was forced out by Kerry L. Ellis after complaining about how the scrapping was done and attempted to set up a rival yard. The Army Corps of Engineers caught him illegally filling in part of the harbor. In the end, the city refused to give Jaross required permits.

In 1994, Jaross went to Wilmington, N.C., to scrap more Navy ships. He had promised to set up a model yard, but what he delivered was far different.

One worker was killed, another seriously injured. A minesweeper sank. Asbestos, oil and lead contaminated the site. Oil spilled into the river.

It was next to impossible to keep track of the people and companies involved in the scrapping operation. Over two years, at least 16 companies and partnerships had a financial stake in the ships or the yard.

In July 1996, the state finally shut the operation, forcing the Navy to reclaim 12 ships. If it hadn't been for anonymous tipsters, state officials said, they never would have known of the problems at the yard. DRMS, the Defense agency, had turned up some of the violations, but it didn't alert the proper enforcement agencies.

Heeter, the assistant North Carolina attorney general, faulted DRMS for its lax efforts. "They are in the business of unloading this stuff and making as much money as they can," he said. "They're certainly not regulators from the standpoint of protecting the environment."

Jaross, 57, says he's out of the business. He's been selling used clothing to Africa. But he said he would love to try scrapping nuclear submarines ("I'd be like a kid with a toy"), or set up a "modern-type" yard for general ship scrapping in Baltimore. "That would be the place," he said.

Jaross acknowledged that there have been problems at his operations over the years but says he's been responsible in tackling a tough job.

"It's a very complicated business. I don't think you can do all these ships and not have problems," he said. "It's not like we're running around like wild men trying to break the law."

His former partner, Emilio Sanchez, has had his own problems in the past few years. He was caught up three years ago in a scheme by a scrap-metal dealer who happened to possess a half-dozen blank U.S. Treasury checks stolen from the St. Louis post office.

The dealer, Genaro Alvarez, and Sanchez drove to Matamoros, Mexico, and tried to negotiate two of the checks -- made out to Sanchez for $10 million apiece. Two banks there refused to handle them. U.S. authorities were alerted, and Sanchez and Alvarez were arrested soon after in Texas.

Prosecutors in St. Louis won convictions against Alvarez and others involved, but charges against Sanchez were dropped. In an interview, he maintained that he was an innocent victim of the scheme. He said he thought Alvarez was giving him legitimate checks to be invested in a steel mill in Monterrey, Mexico.
Since then, Sanchez has acquired three Navy ships for scrapping. He contracted with a Brownsville yard, International Shipbreaking, to dismantle them; two men were killed on the project.

In Baltimore: Against the backdrop of the harbor, downtown and Fort McHenry, scrappers demolish the aircraft carrier USS Coral Sea (right), the largest shipbreaking project in Navy history. (photo by Perry Thorsvik: Sun Staff)

**Selling shipbreaking**

Andrew Levy is a persuasive salesman, and from his Park Avenue office in New York over the past six years he's sold investors on shipbreaking. But the deals haven't always worked out.

"All I know is what I hear from Andy, and when you talk to Andy, everything is always great," said Harold Schein, the principal investor in a failed Rhode Island deal to scrap two ships. "It looked like a lucrative contract. But it turned out to be a headache for everybody. I never got any money out of it."

Levy, a graduate of Yale University and the Harvard School of Law, started out practicing law, then began dealing in oil leases and managed pension plans.

Among his customers in the mid-1980s was the International Organization of Masters, Mates and Pilots, based in Linthicum Heights, Md. Levy and his partners controlled $31 million in retirement funds and had a mandate, he said, to invest in companies creating maritime jobs.

But they put some of the money into businesses in which they had a direct interest and took fees of more than $1 million from those companies, according to a federal court ruling.

The Labor Department deemed that a clear conflict of interest. The department and union members also provided evidence in court that Levy and his partners had lost more than $20 million in union investments.

Levy disputes that, arguing that the investments eventually made money. But he and his two partners were permanently barred by court order from managing the assets of virtually all private-sector benefit plans. An appeal was turned down in 1992 by a panel of judges who wrote that Levy and his partners had engaged in "egregious self-dealing."

In the 1990s, Levy has been a key figure in buying Navy ships. He's lined up investors to put up the money and then found scrappers to dismantle the vessels.

In a 1995 brochure for prospective investors, for example, Levy's projections were enticing. He estimated that investors would get a 46.5 percent return in a venture to scrap 12 ships. While the project never went forward, the brochure illustrates Levy's optimism.

He planned to scrap the ships in 21 months. He figured on spending just $550,000 to clean up asbestos, PCBs and other toxic materials. He anticipated a profit of more than $4 million. But scrapping operations almost never run as smoothly as the brochure suggested, making those figures unrealistic.

That's because of a fundamental economic fact about shipbreaking: The proceeds from selling scrap are almost never enough to cover expenses, particularly the cost of removing hazardous materials properly.

In the Terminal Island shipbreaking project, for example, the scrapping company lost about $5 million. "Considering all the risks and dangers and environmental hazards," said Dan Cotter, who administered the project, "it's not even close to being a good business to be in."

In 1993, a San Francisco group called Arc Ecology concluded after a study that ship scrapping could not be profitable. "If the work was done properly, it really wasn't economically feasible," said Eve Bach, who helped prepare the study.
Levy’s Rhode Island project demonstrated the financial pressures.

In 1995, he obtained two guided-missile cruisers, the USS Biddle and USS Yarnell, and sent them to American Shipyard. The yard had turned out ships for the Union fleet during the Civil War and for more than a century repaired America's Cup yachts. But the Newport business was on the brink of bankruptcy.

Its owner was a Croatian immigrant named Kreso Bezmalinovic, who had run an asbestos-abatement firm in New York until it was caught in a bribery scandal involving payoffs to an Environmental Protection Agency inspector. Bezmalinovic eventually pleaded guilty to paying an illegal gratuity to the inspector.

In 1995, Bezmalinovic, who had no experience in ship scrapping, leased a state-owned pier at the old Seabee base near Quonset Point and hired a crew from Texas.

In the next year:

- Bezmalinovic was indicted by a federal grand jury in New York for conspiracy, fraud and obstruction of justice. Prosecutors argued that after his asbestos-abatement firm was barred from government contracts, he secretly used another company to obtain them. He was convicted in June.
- A state agency discovered unsafe practices at the Rhode Island scrapyard, including a lack of fire watches, monitoring for lead or asbestos exposure and an approved plan for PCB removal.
- The expected profits did not materialize and American Shipyard was pushed into bankruptcy.
- Levy attempted to hire a crew himself to scrap the ships, but the state obtained a court order and forced him out. "Why stay," he said in an interview, "where you're not wanted?"

Bezmalinovic said the project failed because of unexpectedly high costs. "In a desperate situation, you do what you can," he said, "but believe me, as desperate as it was, we didn't cut any corners."

For his part, Levy is disillusioned about the shipbreaking industry. "This is not all that great a business for the United States," he said. "It is a bit of dirty business and it has been proven that the localities don't want it."

And, he said: "Quite frankly, I can make a lot more money doing other things."

'Fundamental error'

With the current scrapping system in disarray, what should the Navy do?

Daniel Peck, a scrapper in Richmond, argued that the Navy should regard the dismantling of a ship as a cost it must bear and pay a private contractor a fair price to do the job properly.

E. Grey Lewis, the former Navy general counsel, agreed. "You have to give these ships away or pay for companies to scrap them," he said.

Alternatively, the Navy could pay a qualified contractor to remove asbestos and other hazardous materials from its ships, and then sell the vessels to scrapyards.

"The idea that we're solving significant hazardous waste problems on the cheap -- that's the fundamental error," said James Moorman, an environmental lawyer in Washington. "The Navy is just not owning up to the cost of disposal."

But the Defense Department has declined to pursue such options. Instead, it says, it has beefed up monitoring and is being tougher about who is scrapping Navy ships.

"The Navy is very concerned with the necessity of ensuring that ship scrapping is conducted in an environmentally sound manner and in a way that protects the health and safety of workers," the Navy said in a prepared statement. Navy and DRMS officials responsible for the ship-scrapping program repeatedly refused to be interviewed, though they have answered questions in writing.

DRMS said that it now has four inspectors monitoring ship-scrapping contracts instead of one. And since September 1996, bidders have been required to submit a proposal showing how they plan to dismantle a ship, how they will dispose of hazardous substances, how they will comply with health and safety requirements, and that they have the financial ability to complete a scrapping project.

Have those changes fixed the problems?

"Absolutely not," said Peck. "Nobody from the government who is checking out the qualifications of the bidders has any experience in scrapping ships. They have no idea whether a potential scrapper can do
what they represent they will do. They have very little understanding of what it takes to cut up a ship."

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