

STATEMENT BY:
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BEFORE THE SUBCOMMITTEE ON PERSONNEL
ARMED SERVICES COMMITTEE
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HEARINGS ON
MILITARY RESALE AND MORALE, RECREATION, AND WELFARE
RECREATION PROGRAMS

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HOUSE ARMED SERVICES COMMITTEE

Mr. Chairman and Distinguished Members of the Subcommittee:

The American Logistics Association (ALA) is most grateful to this Subcommittee for continuing its strong leadership in preserving and improving the commissary, exchange and MWR benefits for service members, military retirees and their families.

It is an honor to be here today as Chairman of the Board of ALA representing over 400 of America's leading manufacturers, nearly 100 brokers and distributors, service companies, media outlets and more than 1,500 individual members who are actively engaged in providing goods and services to the military resale and MWR activities. Our primary goal is to enhance the quality of life for active duty, Guard and Reserve, and retired military personnel and their families. Our members include companies listed on the Fortune 500 list such as Coca-Cola, Procter & Gamble, H. J. Heinz, Campbell Soup Company, BIC USA, PepsiCo, The Clorox Company, Nestle USA, Hallmark Cards, Panasonic Company, ConAgra Foods and U.S. Nutrition. Our members are also small businesses such as Strive Smart Strength, Inc., Carolina Turkeys, Lighting and Sound Karaoke, School Specialty, Inc., and Hawaii Coffee Company.

ALA members supply goods and services to the military community and employ several thousand spouses, family members and retired service members. ALA member firms, including brokers, manufacturers and distributors, offer employment opportunities

through a wide range of full-time and part-time positions located on or near U. S. military installations around the world. Many military spouses have found career opportunities with our member companies.

I am proud to be ALA's spokesman and to reaffirm ALA's strong commitment to maintaining and improving the commissary and exchange benefit as an integral part of the total, non-pay compensation package for service members and their families. We support these dynamic programs; they provide a broad range of consumable products, goods and services for military personnel and their families, including essential financial support to MWR programs which benefit the entire military community.

Our association actively supports and promotes programs that enhance the quality of life for our military service members, retirees and their families. Exchanges are a key component of DOD's quality of life programs. Unfortunately, authorized patrons continue to be limited in their choice and selection of merchandise sold in exchanges. The Armed Services Exchange Regulation (ASER) delineates who is authorized to use the exchange benefit and what can or cannot be sold by the exchanges. Mr. Chairman, it is ALA's position that shoppers should have a choice without restrictions on merchandise sold in exchanges. Our military members want and deserve access to all products that meet their families' needs. ASER restrictions may well drive authorized patrons away from the exchange, negatively impacting their tendency to utilize the commissary and the exchange.

ALA appreciates this subcommittee's support last year for limited changes to ASER. While these proposals were not fully approved by Congress, ALA considers the effort to be a step in the right direction. Specifically, the subcommittee supported elimination of the prohibition on the sale of projection televisions and an increase in the cap on the unit cost to the exchanges on the sale of televisions from \$3,500 to \$4,000. In addition, the committee supported an increase in the cap on the unit cost to the exchanges on the sale of finished furniture from \$900 to \$1,100 and for a study to examine the demand for jewelry within the military market. To reiterate, the subcommittee's recommendations were a good beginning; however, all ASER restrictions should be lifted. Many of them have been overcome by technological improvements and changing lifestyles, and are simply outdated.

The ALA supports the primacy of exchange and commissary stores on all military installations and in military housing areas to include privatized housing areas. We believe that the current policy regarding this issue is appropriate. Civilian retail outlets should not have authority to operate in military housing areas or on military installations.

Exchange merchandise sales are the major source of funding for DOD's MWR programs. Each year exchanges provide hundreds of millions of dollars in dividends that are returned to military communities. In FY '05, for example, the exchanges provided more than \$318 million in dividends. Without these dividends, MWR activities would not be able to fulfill their mission, and as a result, many worthy programs such as child-care centers, youth activities and other quality of life programs would be negatively impacted.

Mr. Chairman, many of our MWR oriented members are concerned about the recent cancellation of exemptions to the Trade Agreements Act regarding the sale of

items from non-designated countries to Federal customers through GSA and other contracts under the Federal Acquisition Regulations. There are many key categories of products required by our federal customers that simply are not produced in any commercial volume in any nation compliant with the Trade Agreements Act. For example, one category of affected products is the simple ceiling paddle fan that is used extensively in military family housing and in federal offices.

As a result of the termination of the exemptions to the Trade Agreements Act, this key Quality of Life category is eliminated from all GSA Schedules and other forms of federal procurement. Unfortunately, there are a growing number of key categories of goods that are no longer available for federal procurement due to non-availability of production from approved sources.

ALA supports the former exemption process wherein warranted contracting officers may grant exemptions to the Trade Agreements Act in verified cases of product non-availability from designated sources.

Exchange consolidation remains an issue of significant concern to our members. ALA's position has not changed on this. We must be shown, beyond the shadow of doubt, that a substantive business-based analysis clearly demonstrates the change will not degrade the current benefit to the patron nor reduce the MWR dividend. When such a case is made, we would expect each DOD stakeholder to agree. ALA is privileged to serve as the watch dog for our industry. We take the industry's well-being seriously. Likewise, ALA also views with concern the impact a merger may have on our small business members. The presence of three military exchange markets provides better

contractual opportunities for small business. Fewer contractual opportunities will be damaging to small business, could reduce competition, and actually degrade the benefit.

Mr. Chairman, ALA appreciates the strong position you and other members of this subcommittee took last year in strengthening the commissary and exchange systems. Many industry members fear that exchange consolidation may be a precursor of a merged exchange and commissary system. Such consolidation could fundamentally change both the exchange and the commissary benefits. Nearly every aspect of both benefits would be altered beyond recognition. Costs to the consumer would increase and the MWR dividend would decrease: A lose/lose proposition. It is ALA's position that consolidation of exchanges and commissaries should not occur unless there is a substantive business-based analysis that shows the change will not, in any way, degrade the current benefit to the patron, the MWR dividend, or negatively influence the military resale industry. It is ALA's conclusion that such an analysis cannot be honestly produced.

Recently, the Unified Exchange Task Force has been developing several shared services models designed to reduce overhead costs in the areas of logistics, finance and accounting, information technology, human resources and non-resale procurement. It is suggested that, by reducing "backroom" costs, the exchanges will have greater margins from which to offer their customers better pricing. The objective is admirable; however, ALA continues to view the proposals with cautious interest and some degree of skepticism. Additional information must become available before any concept moves toward reality. There are many questions and, thus far, too few answers. Like the committee, ALA will continue to watch this closely.

While DOD continues to search for overhead efficiencies, the exchanges continue to make efficiency and joint marketing decisions where it makes sense to them. In the recent past, the Exchange Cooperative Efforts Board has made decisions on a common in-house credit card (Star Card), exchange catalog, and house-brand products (Exchange Select). Individual exchange agreements have also been made for distribution operations, IT support, gasoline supplies, and OIF/OEF support. Who knows better than the operators where to find efficiencies?

Mr. Chairman, as ALA views exchanges and the MWR dividend resulting from sales, our members are increasingly concerned about program funding given today's reality. In today's troubled world, service members and their families are being asked to endure ever-greater workloads and ever-greater sacrifices. Frequent, repeated deployments, often nearly back-to-back, greatly stress the force and every military family. In addition, Guard and Reserve operational tempo has placed enormous strains on reservists, their family members and their civilian employers. At these times, the presence of vibrant MWR activities is crucial.

The exchanges deserve an enormous amount of credit for the millions of dollars contributed to Service MWR programs. To ensure the well being of these important quality of life activities, DOD has made a commitment to provide appropriated fund support to Category A and Category B programs. Budget pressures are causing the military services to reconsider this obligation. In the end, the troops and the families suffer and the nation loses.

ALA urges Congress to ensure that DOD honors its commitment to the troops to fund these programs at least to the 85 percent level for Category A and 75 percent for

Category B requirements. These programs are especially critical to the readiness of our forces and the support of their families during this period of conflict and extended, unpredictable separations.

Funding for the Global War on Terror through wartime supplemental appropriations bills has helped meet immediate MWR, resale, family support services, and other quality of life activities at installations with deployed units. Permanent and long-term, robust funding levels in the normal fiscal year budget process would better highlight the importance of these essential programs.

We also view with concern recent actions contrary to the Title 10, USC provision authorizing the use of appropriated funds to restore facilities destroyed by “acts of God”. Exchange facilities at Gulfport and Keesler destroyed by Hurricane Katrina, a community recreation facility at Eglin Air Force Base leveled by Hurricane Ivan, and a community club at Patrick Air Force Base destroyed by fire, are all viable candidates for appropriated funds. Yet, in each instance, appropriated funds have been denied. Service members will be forced to foot the total bill for their own quality of life. ALA asks the committee to intervene in support of our service members. The letter and spirit of the law must be honored; appropriated funds must be provided for these restorations.

ALA applauds Congress for passing a provision in the National Defense Authorization Act for Fiscal Year 2006 that mandates appropriated funds be used to ship goods for sale in overseas commissaries and exchanges. ALA strongly supports continued Second Destination Transportation (SDT) funding for goods shipped for resale by the Army and Air Force Exchange Service (AAFES) to overseas locations. Given ALA’s concerns for the welfare of military families, we strongly urge Congress to

continue opposing any reduction by the Army (the Executive Agent) to the SDT account that would result in the increased costs of exchange goods being borne by service members. Of the many accounts within the budget of the Army, there are very few that have such a direct affect on the quality of life of service members and the communities in which they live.

Mr. Chairman, ALA is committed to preserving the value of the commissary benefit that is widely recognized as the cornerstone of quality of life benefits and a valued part of the service members' total compensation package. ALA appreciates the subcommittee's provision in the FY 06 NDAA that establishes a moratorium through December 31, 2008 on Commissary privatization studies to allow the Defense Commissary Agency (DeCA) time to reengineer its workforce prior to competing with civilian entities. ALA asks that you monitor DeCA's progress and favorably consider an extension, if necessary, due to circumstances beyond DeCA's control.

ALA will continue to advocate for full funding levels for the commissary. We will monitor store closures to ensure that closure criteria are appropriately and consistently applied. We will promote increased outreach by DeCA to expand patronage and enhance access to the commissary benefit for all beneficiaries, and we will monitor customer satisfaction survey data and encourage DeCA initiatives to enhance customer service.

ALA supports cost savings and effective oversight and management; however, we remain vigilant about the unrelenting DOD pressure on DeCA to cut spending and squeeze additional efficiencies from its operations. More than any other agency of the

federal government, DeCA deserves credit for its years of effective reform initiatives and improved business practices.

Overseas rebasing and Base Realignment and Closure (BRAC) issues also are of significant concern to our members. ALA is concerned about the potential impact on every quality of life program during the Defense department's transformation, global repositioning, Army modularity, and BRAC initiatives. Serious consideration must be given to the implications of such initiatives, not only currently serving military members and their families, but to all in the beneficiary population. As the military community continues to respond to heightened operations tempo and anticipates the movement of service members and families due to transformation initiatives, global rebasing, and base closure and realignment, ALA urges Members of Congress to protect the interests of all beneficiaries.

Congress must ensure necessary family support/quality-of-life program dollars are in line with the DOD/Military Services rebasing and BRAC plans. Crucial family quality-of-life programs include MWR, child care, exchanges and commissaries, housing, health care, education, family centers, and other traditional support programs. Adequate support services and infrastructure should remain in place at both the closing and the gaining installations throughout the entire transition period. There is no acceptable alternative.

Base Realignment and Closure (BRAC) issues also are of great concern to our members. All in the military community, especially retirees, are concerned about the impact base closures will have on their access to the commissary, exchange, and MWR benefits they have earned. Recognizing that the commissary shopping privilege is ranked

as a highly desired and important non-pay compensation benefit for military families, the delivery model requires a new look when a BRAC installation is transformed into a Guard and Reserve base. In recognition of DOD's new focus on the National Guard and Reserve force mission and recent congressional approval of unlimited commissary shopping privileges for Guard/Reserve, retirees and their families, it is ALA's position that the interests of all beneficiaries must be included in the demographic criteria for preserving commissaries and other Quality of Life programs at installations closed by BRAC.

There have already been indications of problems and lack of military and civilian community infrastructure and resources in implementing recent Army modularity initiatives. DOD must ensure that the Services adequately plan for the cost of family support and quality of life as part of any major troop movement whether due to BRAC, rebasing, modularity, or other initiatives. Lip service to these issues will hurt service members, military families, readiness, and retention.

Maintaining a dynamic military community with outstanding quality of life programs is essential in today's climate of repeated deployments, demanding workloads, and greater sacrifices by service members and their families. Without the continued support and active oversight of the Congress, the benefits now afforded to our military community may be placed in jeopardy and our service members, retirees and their families will suffer.

Mr. Chairman, ALA is grateful to this subcommittee for its active commitment to protect the commissary and exchange benefit, and its oversight and support of MWR and other quality of life support programs for the military community. Thank you, Mr.

Chairman and Members of the Subcommittee for providing industry the opportunity to present its views on these critically important topics. More importantly, thank you for your stewardship of these important benefits that are essential to our military families' quality of life.