

STATEMENT BY:
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EXCHANGES, COMMISSARIES AND MORALE WELFARE AND
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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, over 100 brokers and distributors, service companies, media outlets and more than 2,000 individual members who are actively engaged in providing goods and services to the military resale and MWR activities. Our members include companies listed on the Fortune 500 list such as Procter & Gamble, H. J. Heinz, Campbell Soup Company, Hewlett Packard, 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 Mother's Cookie Company, Sundrella Furniture, Carolina Beverage, Perky's Pizza Company, Schools 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 on a wide range of full-time and part-time positions located on or near U.S. military installations around the world. Military resale and MWR activities also offer jobs and careers.

I want to reaffirm ALA's strong commitment to maintaining 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 as 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 Quality of Life programs for uniformed service members. Currently, authorized patrons are 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, we believe shoppers should have a choice without restrictions on merchandise sold in exchanges. Our military members want and deserve access to products that meet their families' needs without restrictions. Military patrons should not be relegated to a second-class status relative to product choice and availability.

ALA appreciates this subcommittee's support last year for limited changes to ASER. While these proposals were not fully approved by Congress, ALA believes the effort is 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 proposals were a good beginning. However, we believe all of the restrictions should be

lifted since many of them have been overcome by technology improvements and are outdated.

For example, while TV size and format limits were lifted, exchanges still cannot sell projection televisions or TVs costing over \$3,500 in CONUS. Today, the price-per-inch of a 43-inch projection TV is more affordable than a 40-inch picture tube TV. In addition, digital TV technology has advanced to the degree that consumers can now purchase digital projection TV's (not sold in exchanges) at a lower price than digital tube TVs currently sold in exchanges. In fact, the industry has developed so quickly in the last three years, the importance of "traditional" projection TV has now given way to new technologies. Plasma TV, LCD TV and now Micro Display Technologies, a form of projection TV, (DLP and Projection LCD) have replaced the traditional Large Screen CRT Projection TV. Consequently, DLP and projection LCD are the only new technologies still being influenced by the ASER restrictions. Long term, price compression and increased screen size in flat panel, plasma and LCD TV's will allow these two technologies to continue their trend of dominating the Digital Television Category.

By lifting the projection restriction, exchanges will be able to sell the latest Micro Display (DLP and Projection LCD) TV's. However, in the long term, the price compression of flat panel TV's (Plasma and LCD) will help those technologies dominate the overall category. Given that the Federal Government has directed that by FY '06 all television transmission must be digital, the ASER restrictions for all televisions are counterproductive and should be eliminated. Service members, retirees and their families

are denied access to DLP and projection LCD TVs sold in exchanges which, in turn, reduce the MWR dividend that would result from increased sales.

Moreover, without this relief, military customers are forced to purchase popular projection televisions at commercial retail prices that often come with significantly higher interest rates. Many of these military patrons are young families utilizing credit for the first time and therefore, high interest rates can easily get them into financial difficulty. Mr. Chairman, ALA strongly supports lifting all ASER restrictions on exchange stock assortments.

The ALA supports the primacy of exchange and commissary stores on all military installations and in military 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 installations without the consent of the Board of Directors from the appropriate resale agency.

Exchange merchandise sales are a 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. 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 designated 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 is an issue of significant concern to our members. ALA does not support this initiative unless a substantive business-based analysis is offered that clearly demonstrates the change will not degrade the current benefit to the patron or the MWR dividend. In addition, any change cannot adversely affect the military resale industry and the stakeholders must agree that actions taken will achieve projected efficiencies. ALA also views with concern the impact this proposed merger may have on our small business members. Today, there are three DOD military exchange markets. Any merger may have a damaging impact on small business, as the number of contractual opportunities will diminish, effectively limiting competition and subsequently reducing 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 system. Many industry members believe exchange consolidation may be a precursor of a merged exchange and commissary system. Such consolidation under a non-appropriated funding (NAF) arrangement would eventually erode both the commissary and the exchange benefit, as the cost to the customer would have to increase to sustain the operation, significantly affecting the value of the benefit. In ALA's view, 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.

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. The philosophy for this approach is that by reducing "backroom" costs, the exchanges will have greater margins from which to offer their customers better pricing. ALA believes the objective is admirable. However, we continue to view the proposals with cautious interest until additional information becomes available. For example, implementation costs and transition costs are important components in the shared services decision and that information is not yet available. We will continue to monitor this proposal until a specific business case is made and the Services resolve all of the issues regarding the management and control of this approach.

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 – service members and their families are being asked to endure ever-greater workloads and ever-greater sacrifices. Repeated deployments, often near back-to-back, have greatly stressed the force and their families. In addition, Guard and Reserve operational tempo has placed enormous strains on reservists, their family members and their civilian employers. It is clear to us from the budget reviews that demands for funding to fight the war on terrorism are exceeding available resources. However, appropriated fund support of MWR programs is crucial as a key component of Quality of Life (Programs) for service members and their families. Several of the services are experiencing significant withholds or reductions in this year's APF support for Category A and Category B programs. Overall DOD budget pressures are driving reductions and FY 06 budget projections signal significant cuts to continue. We urge Congress to (request that) DOD honor 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 separations.

ALA also supports continued Second Destination Transportation Funding (SDT) for goods shipped for resale by the Army and Air Force Exchange Service (AAFES) to overseas locations. We appreciate the often-compelling need of the Army to identify additional funding for wartime operations and we understand that there is a routine requirement to verify and enhance the efficiency of the SDT account. However, this particular proposal to eliminate SDT funding support for AAFES with little regard for the Quality of Life impact it would have on the welfare of overseas military families is imprudent and unwise. Given ALA's concerns for the welfare of military families, we

strongly urge Congress to oppose any reduction by the Army 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, families 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.

Recent DOD initiatives included proposals to close a number of commissaries, replace the traditional three-star officer serving as chairman of the Commissary Operating Board (COB) with a political appointee and require a study on the Defense Commissary Agency's pricing strategies to determine the feasibility of introducing variable pricing. Two of these proposals were intended to save money by ultimately reducing the annual appropriation supporting DeCA. The COB recommendation was viewed as another indicator of DOD's ongoing interest in eventually privatizing the benefit. Subsequently, only a few previously approved closings were completed, a senior uniformed officer retained the COB Chairmanship and the variable pricing concept was dropped following a costly study. In addition, Congress enacted new legislation strengthening statutory protections for and defining the purpose of the commissary and exchange systems. ALA is appreciative for the continued, strong support of this Subcommittee in preserving this most important Quality of Life benefit.

ALA supports cost savings and effective oversight and management. However, we are concerned about the unrelenting pressure on DeCA to cut spending and squeeze

additional efficiencies from its operations, despite years of effective reform initiatives and recognition of the agency for instituting improved business practices.

The commissary is a highly valued Quality of Life benefit not quantifiable solely on a dollars appropriated basis.

Base Realignment and Closure (BRAC) issues also are of significant concern to our members. ALA urges Members of Congress to protect the interests of all beneficiaries impacted by base closures and realignments, including active duty, Guard and Reserve, retirees and their families. Mr. Chairman, we support preserving Quality of Life benefits such as commissaries, exchanges, MWR/Services, child-care, medical facilities and certain family services for the military community that remains at a BRAC installation. The precedents for this consideration are Fort Meade, MD and the Joint Training Facility, Fort Worth, TX. While both installations were closed or realigned under previous BRAC rounds, Quality of Life programs in those respective areas are larger today than when each served as an active duty facility.

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, ALA believes the interests of all beneficiaries should be included in the demographic criteria for preserving commissaries and other Quality of Life programs at BRAC installations.

Maintaining a dynamic military community with outstanding Quality of Life programs is essential in today's climate of repeated deployments, often back-to-back, ever increasing workloads and greater sacrifices for service members and their families. Eliminating commissaries, exchanges and other family services at BRAC installations is in our view, unwise and sends the wrong message to our military service members, Guard and Reserve, retirees and their families. We urge Congress not to let this happen.

Without the continued support of the Congress of the United States, we believe the benefits now afforded to our military community will be eroded and our service members, retirees and their families will suffer.

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.