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HOUSE COMMITTEE ON ARMED SERVICES
READINESS SUBCOMMITTEE

STATEMENT OF
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HOUSE COMMITTEE ON ARMED SERVICES
READINESS SUBCOMMITTEE

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Good morning, Mr. Chairman and distinguished Members of the Subcommittee. I am Cornel Holder, Administrator of the Defense National Stockpile Center, a field activity of the Defense Logistics Agency. The Defense Logistics Agency's mission is to function as an integral element of the military logistics system of the Department of Defense. The Defense Logistics Agency is responsible for the procurement, management, storage and distribution of some five million items. The Defense Logistics Agency provides food, fuel, and medical items, as well as most of the clothing, construction materials and spare parts for worldwide support of this country's land, sea and airborne platforms and weapons systems and the forces that operate and sustain them. The Defense Logistics Agency's number one priority is logistics support to the American warfighter.

As a field activity of the Defense Logistics Agency, the Defense National Stockpile Center administers the storage, management and disposal of the Department of Defense's strategic and critical materials to ensure that the United States has sufficient materials to supply military, industrial, and essential civilian needs for national defense. I welcome the opportunity to appear today to discuss the Defense National Stockpile Center's management of the National Defense Stockpile and to specifically discuss the proposed reconfiguration of the National Defense Stockpile.

The National Stockpile operates under authority of the Strategic and Critical Materials Stockpiling Act, 50 United States Code §§ 98 et seq. This Strategic and Critical Materials Stockpiling Act provides that strategic and critical materials are stockpiled in the interest

of national defense to preclude dependence upon foreign sources of supply in times of national emergency.

The concept of a Federal Government stockpile dates back to World War One when shortages caused an imbalance in production schedules and program delays. The first real initiative to establish a reserve inventory of strategic and critical materials began with passage of the Naval Appropriations Act of 1938 and the Strategic Materials Act of 1939 which provided funds and a legal framework for stockpiling. The Munitions Board, established in 1922, had already established three separate lists of materials categorized as critical, strategic, and essential. These lists served as the basis for a postwar stockpile.

In 1946, Congress passed the Strategic and Critical Materials Stock Piling Act. Then in 1979 Congress passed the Strategic and Critical Materials Stock Piling Act, the second major revision of the 1939 legislation, which remains the basic statutory authority today. The 1979 Strategic and Critical Materials Stock Piling Act established the Transaction Fund which allowed the stockpile to be a self-funding agency based on sales of outdated materials.

Over the years the National Defense Stockpile fell under different agencies for administration while retaining its core mission of maintaining critical and strategic materials in the interest of national defense. Between 1949 and 1988, the General Service Administration and Federal Emergency Management Agency were responsible for the National Defense Stockpile.

In 1988, the responsibility for the program was delegated to the Secretary of Defense. The management and overall policy responsibilities for the National Defense Stockpile rest with the Undersecretary of Defense for Acquisition, Technology and Logistics as the Stockpile Manager. Program operation was assigned to the Defense Logistics Agency. The Defense National Stockpile Center was established within the Defense Logistics Agency to manage the program.

The requirements for materials in the National Defense Stockpile were based on military and national security scenarios which resulted in the National Defense Stockpile having build-up and reduction phases. In 1992, the requirements determination process concluded most of the materials held in the National Defense Stockpile were excess to defense industrial and essential civilian needs. Since then the sales of materials in the National Defense Stockpile have totaled in excess of \$6.4 billion. In 1994, there were 90 commodities stored in 85 locations. Today there are 24 commodities stored in 11 locations. The remaining inventory is valued at about \$1.4 billion.

Concerns regarding the global availability of strategic and critical materials by both the Department of Defense and Congress have resulted in a re-examination of the need for a reconfiguration of the National Defense Stockpile. Subsequently, Congress passed legislation and report language directing the Department of Defense to review the current National Defense Stockpile program and assess the need to reconfigure the National Defense Stockpile to meet current and future strategic and critical material needs.

The Department conducted a review of the current National Defense Stockpile disposal policy and identified a requirement for an in-depth analysis to assess the need to reconfigure the National Defense Stockpile. The National Materials Advisory Board of the National Academy of Sciences (NAS) was commissioned to conduct an independent study to assess the effectiveness of the National Defense Stockpile to respond to current needs and threats. The National Academy of Sciences study indicated a need for a new National Defense Stockpile strategy to meet current and future strategic and critical material needs of the Department and recommended the establishment of a new system for managing the supply of materials.

Following receipt of the National Academy of Sciences study, the Undersecretary of Defense for Acquisition, Technology and Logistics (USD/AT&L) established the Department of Defense Strategic Materials Working Group. The Strategic Materials Working Group was chaired by the Deputy Undersecretary of Defense for Industrial Policy and included representatives from the office of the Deputy Undersecretary of Defense for Industrial Policy, the office of the Deputy Undersecretary of Defense for Logistics and Material Readiness, the Defense Logistics Agency Defense National Stockpile Center, the Departments of the Army, Air Force, and Navy, the Joint Chiefs of Staff Force Structure, Resources, and Assessment and the Defense Contract Management Agency. The United States Geological Survey, the Department of Commerce and the Institute for Defense Analyses performed research and analysis on behalf of the group.

The Strategic Materials Working Group was tasked to determine whether the National Defense Stockpile should be reconfigured to adapt to current world market conditions to ensure future availability of strategic and critical material for defense needs and report to Congress its findings and determinations.

Concurrently, the Undersecretary of Defense for Acquisition, Technology and Logistics made the decision to suspend or curtail continued sales of 13 commodities in the National Defense Stockpile based on the limited access and availability of required inventory levels due to import dependency, lack of viable substitutes and the potential for market, geopolitical and logistical disruptions.

The report on the reconfiguration of the National Defense Stockpile submitted to Congress in April 2009, concluded the Department's National Defense Stockpile policy required reconfiguration to ensure future availability of strategic and critical material for defense needs. Material management is a complex and rapidly changing field.

Increasing global competition for raw materials has added a new depth of complexity, and continued reliance on the strength of the United States buying power is proving problematic. Ensuring the current and future availability of strategic and critical materials requires a more integrated and responsive approach on the national level.

The National Defense Stockpile has been successful in acquiring and holding strategic material, but has had isolated success in using the material strategically. Transforming the National Defense Stockpile into a Strategic Materials Security Program (SMSP) would enable the Nation to adapt more quickly to current world market conditions and

ensure the future availability of materials required for defense and national security needs. The proposed attributes being considered for the Strategic Materials Security Program include a broader internal Department of Defense profile albeit a reduced physical footprint, an expanded interface with other federal agencies, greater latitude in entering and exiting markets, and flexibility to develop risk-based value propositions.

The first step is for the reengineered program to be more properly aligned to sense and respond to today's military material needs in scenarios ranging from non-conflict to full mobilization. The current National Defense Stockpile is designed to respond to global war scenarios – those requiring national mobilization of all sectors of the economy – whereas today's military must respond to asymmetric national security threats wherever and whenever they occur, frequently on several fronts simultaneously.

The global growth in demand for scarce raw materials and the industrial surges in China, India, Russia, Brazil, and other developing countries require that the United States employ a new, integrated and responsive strategy for identifying and ensuring, on a continual basis, an adequate supply of strategic and critical materials required for the United States security needs.

In today's global economy, it is critical to ensure a strong domestic defense industrial base capable of meeting national security needs. Accordingly, the Department has developed a plan for a comprehensive Strategic Materials Security Management System that would identify, on an ongoing basis, those strategic and critical materials required for

national security. The Strategic Materials Security System would be founded on an interagency, collaborative approach, and bolstered by the use of experts and timely market research and intelligence. The system would employ an integrated risk assessment construct, compare demand to supply by analyzing supply sources and risks of supply chain interruption, and identify mitigation strategies to ensure an adequate and timely supply of those materials. The reshaped National Defense Stockpile, the Strategic Materials Security System, would continuously monitor global markets, establish supply chain commitments with producers/suppliers; monitor performance to ensure timely availability of materials, and store only limited amounts and types of materials.

The current policy to dispose of materials in the National Defense Stockpile could be modified to reflect the realities of today's global marketplace. Analysis by the Strategic Materials Working Group and risk assessment modeling supported the National Defense Stockpile's action to suspend temporarily or limit the sale of 13 selected commodities in the National Defense Stockpile inventory. The analysis also indicated that 39 other materials should be monitored, studied and/or considered candidates for future mitigation strategies to ensure availability. Further, the Strategic Materials Working Group concluded that 11 materials used in the largest quantities by the Department be addressed as potential candidates for strategic sourcing. The Department defines strategic sourcing as "...the collaborative and structured process of analyzing [what] an organization spends and using the information to make business decisions about acquiring commodities and services more effectively and efficiently..." Sales should continue for those materials still deemed in excess to the Nation's defense needs.

Challenges to implementing the Strategic Materials Security Program include ensuring the Department has programmatic flexibility to acquire the right materials efficiently and effectively and to ensure that essential strategic materials are available to respond to current and future needs and threats and ensuring the Department has sufficient resources to make strategic acquisitions, undertake other risk mitigation strategies and operate the stockpile program.

In closing, I would like to thank you for to the opportunity to discuss the Department's strategy to reconfigure the National Defense Stockpile to ensure the current and future availability of strategic and critical materials to meet national defense needs and I look forward to working with Congress as we implement this vital program.