

Committee Secretary

Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
Canberra ACT 2600

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**SHOAL GROUP PTY LTD SUBMISSION TO THE JOINT STANDING COMMITTEE
ON FOREIGN AFFAIRS, DEFENCE AND TRADE INQUIRY INTO COVID-19**

The Joint Standing Committee on Foreign Affairs, Defence and Trade has established an inquiry into the implication of the COVID-19 pandemic for Australia's foreign affairs, defence and trade, having particular regard to:

- Implications for Australia's Foreign Affairs, Defence and Trade policy, particularly with respect to strategic alliances and regional security
- Threats to the global rules based order that emerged due to actions by nation states during the pandemic, and how such threats can be mitigated in the event of future crises
- The impact on human rights
- Supply chain integrity / assurance to critical enablers of Australian security (such as health, economic and transport systems, and defence)
- What policy and practical measures would be required to form an ongoing effective national framework to ensure the resilience required to underpin Australia's economic and strategic objectives
- Any related matters.

Shoal Group Pty Ltd is a 100% Australian-owned consultancy specialising in systems thinking. We have significant involvement in the Defence, Space, Transport and Infrastructure markets and are pleased to provide this submission to the inquiry.

IMPLICATIONS FOR AUSTRALIA'S FOREIGN AFFAIRS, DEFENCE AND TRADE POLICY

Australia has had the relative luxury of geographic remoteness from centres of international tension. Since the publication of the initial Defence White Paper in 1976, Australia's defence policy has consistently focused on the importance of Indonesia, the remainder of South East Asia, Papua New Guinea, and the islands of the South West Pacific. This is unsurprising as Australia's sea lines of communication and the undersea communication cables that connect Australia to its major trading partners and key alliance partners pass through these areas. In addition, in a defence sense, it has long been recognised that any direct attack on Australia must also come through these regions.

Unlike many other countries, Australia has also had the benefit of not having had any existential threat. Potential threats have been geographically removed and have been indirect in that, as noted above, they need to move through our nearer regions and are therefore, potentially, more susceptible to detection and interception.

All this has been slowly changing in the more recent past, and the COVID-19 pandemic has arguably accelerated the process. China has seemingly taken the opportunity presented whilst regional countries have been otherwise diverted to put pressure on Taiwan, to take a number of the Paracel Islands from Vietnam, to further forcibly push its position around Natuna Island in northern Indonesia, and to further establish a position in Vanuatu. The US has also appeared to be increasingly self-involved and less interested in Asian developments.

The threat is coming closer. Serious consideration of Australian self-reliance and sovereignty is required.

The implications for Australia are profound, and are summarised as follows:

- China is increasingly in a position to close the South China Sea to non-military traffic
- Closure of the South China Sea would force non-military surface traffic, enroute to North Asia or transiting from South Asia, to the eastern Pacific around the south of Australia
- Australia would therefore need to implement capabilities to look south, something that we have never had to do before
- A Chinese military position in the South West Pacific would conceivably impact on Australian maritime traffic to North America and North East Asia.
- There is a pressing need to engage more closely with Papua New Guinea, Timor Leste and our South Pacific neighbours, and to counter the developing Chinese influence across this area.
- There is a pressing need to engage more closely and completely with Indonesia to ensure the stability and coherence of that country. A fragmented Indonesia, or a series of separate states across the Indonesian archipelago, would significantly complicate Australia's strategic planning.

- There is a pressing need to build resilience in our supply chains to offset the potential risks associated with disruption to supply chains, particularly for critical items.
- There is a pressing need to implement a National Strategy that considers all aspects of Australia's security and resilience to crisis events.

THREATS TO THE GLOBAL RULES BASED ORDER THAT EMERGED, AND HOW SUCH THREATS CAN BE MITIGATED IN THE EVENT OF FUTURE CRISES

It is a somewhat simplistic argument to suggest that threats to the global rules-based order have emerged due to actions by nation states during the pandemic. The pandemic has, however, accentuated trends that were already in the international community. A more realistic view is that the need for states to address their specific threat from the virus has also been a distraction for those countries who wish to retain the rules-based order and consequently a shield for those with interests inimical to the maintenance of that order. The distraction has, therefore, provided cover for countries such as China, Russia, Turkey and North Korea to advance their agendas without the level of scrutiny and resistance that might otherwise have been the case. Examples of these behaviours are:

- Increasing state-sponsored cyber attacks against Australia's institutions and infrastructure
- Increasing uncertainty regarding the role of the United States in world events
- China's actions with respect to the Paracel Islands
- Chinese actions in Hong Kong
- Increasing Chinese pressure on Taiwan
- Increasing Chinese pressure on Indonesia over Natuna Island
- Ongoing Russian interference in the Ukraine
- Increasing Russian interference in the civil war in Libya
- Ongoing Turkish interference in Syria
- Turkish interference in the civil war in Libya
- Increasing North Korean threats and belligerence.

On a global basis, the only nation with the capability and the capacity to address the range of threats that appear to be developing is the United States. However, the will of the United States to undertake this role appears to be wavering, and it is doubtful that their national appetite to take such a leadership role will remain. A change in US President in the November 2020 election may increase this appetite, but continuation of the current presidency is likely

to hasten the current retreat and potentially weaken the alliances that have been important for the maintenance of global stability since the end of World War II.

The current structure with the United Nations, and particularly the ability of a small group of nations to veto Security Council resolutions, suggests, however, that nothing is going to improve if the current structure is maintained.

An alternative structure is, therefore, required to provide a mechanism for the mitigation of future threats; both those that arise during any future pandemic and those that might arise at other times. Unfortunately, the increasing confrontational nature of world events makes acceptance of an alternative global structure highly unlikely and a multi-lateral grouping of nations with similar interests in the development and maintenance of, and adherence to, a set of international rules needs to be considered.

In this regard, the more recent commentary towards broadening the existing Five-Eyes intelligence framework into economic and other linkages is not considered as the best way forward due to the limited trade that Australia conducts with these nations, and the problematic behaviour of the United States, as noted. Any alternative structure would also need to include Australia's major strategic and trading partners such as Japan, South Korea, the European Union, other nations in South East Asia and India.

SUPPLY CHAIN INTEGRITY / ASSURANCE TO CRITICAL ENABLERS OF AUSTRALIAN SECURITY

The current COVID-19 pandemic has exposed elements of Australian society with respect to our ability to operate, indeed survive, through a concentrated period of national disruption. Whilst the current situation originated as a health crisis, it rapidly developed into an economic crisis and highlighted the importance of understanding the nature of the relationships between elements of the Australian society and the associated vulnerabilities. In that sense it has also become a social crisis.

The current crisis, therefore, provides an opportunity to assess these vulnerabilities and to also consider, at the strategic level, the vision for Australia as we move into a new reality. In this way, we can build a stronger, more resilient nation, and be better prepared when the next crisis develops.

Resilience can be addressed through concentration on a small number of factors, determining how they inter-relate and, hence, having a picture, a model, of this inter-connectedness. At the macro level these factors can be considered as:

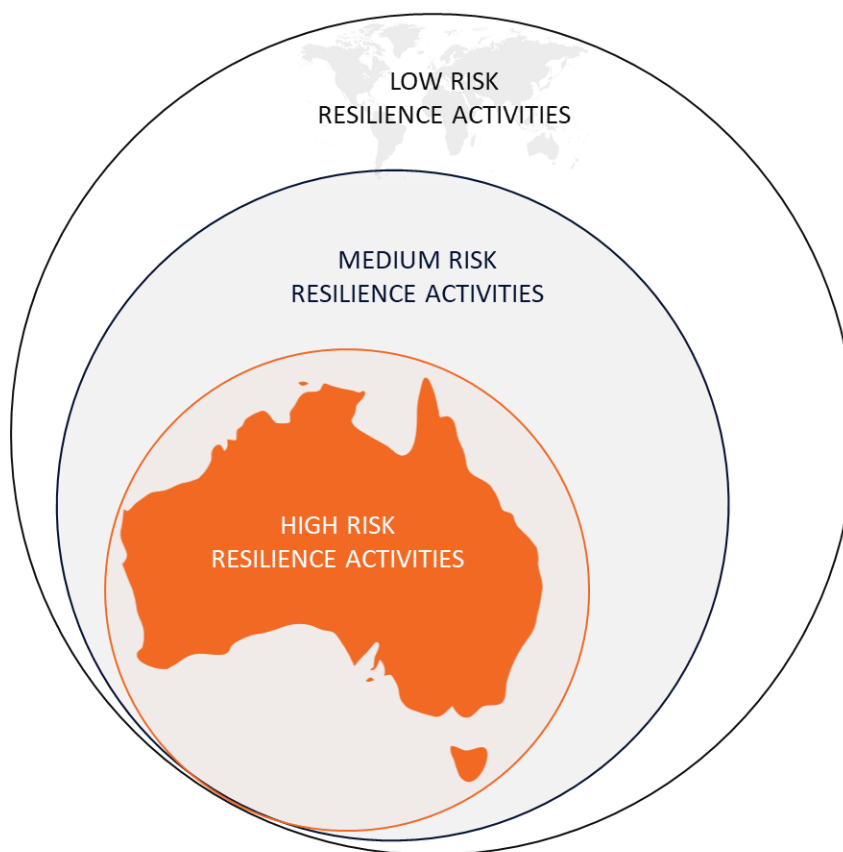
- Continuity of **government** – requires the ability to choose and to conduct free and fair elections
- A capable and functional **defence force** – necessary for deterrence and for defence. In turn, this depends on defence industry capabilities.
- Provision of **energy** in a reliable and sustainable manner
- A capable and functioning **health** system

- Ongoing provision of **food and water**
- A functioning **telecommunications** network, with a high level of **cyber protection**
- Robust **transportation** systems.

A risk-based approach to national resilience would see resilience activities, including supply chains, broken down into three categories. The first must be those associated with high risks – those goods and services that we must control from within Australia, as not to do so would expose us to totally unacceptable risks – existential risks. Addressing these risks cannot rely upon anyone else – not even the closest of allies, and solutions are not going to develop through a reliance on market forces. The Government needs to control and directly manage developments in this category.

The second category are those goods and services that are of medium risk – not potentially existential, but of sufficient concern that we cannot just rely upon market forces, and certainly not on authoritarian governments or easily-interdicted supply chains for their provision. The management of developments in this category would be through a close partnership between the public and private sectors.

The final category is comprised of low risk goods and services. In this case open, market-driven, global supply chains are acceptable, as we have made the determination that the risks are low. This does not mean that we just forget about items in this category. We need to understand the supply chain and, importantly, changes in those supply chains, in order to determine if / when they cease to be low risk and become something else.



POLICY MEASURES FOR AN EFFECTIVE NATIONAL FRAMEWORK TO ENSURE RESILIENCE

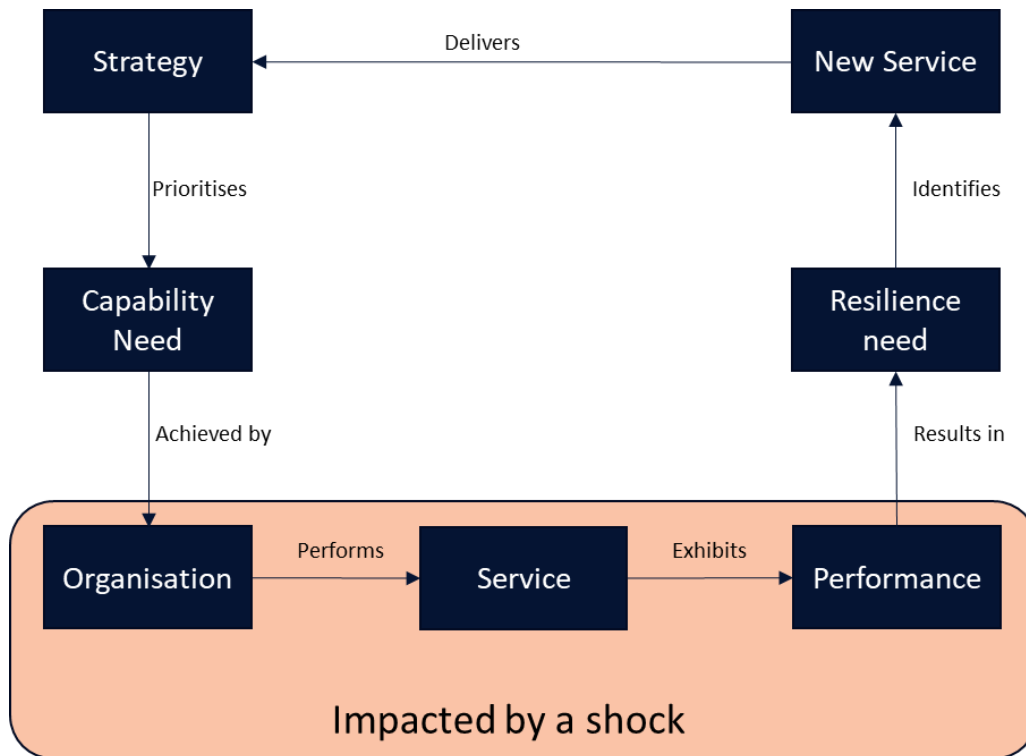
Policy measures naturally develop from the adoption of a risk-based approach, as discussed in the previous section.

First, is the need to vary policy according to the risk. High risk products and services are likely, in the near term, to require government investment to establish the relevant domestic capability – given that these are unlikely to currently exist. In the longer term, government monitoring and management is required, as high risk products and services are likely to change over time with geopolitical, technology and Australian society changes.

Whilst medium risk and low risk categories will require levels of investment commensurate with the risk, that is less investment with reducing risk, ongoing review will be required to account for the changes as outlined above.

The second issue relates to extent. It simply will not be acceptable to stove-pipe the policy settings required into the familiar departmental structures. The categories noted above cover a broad swathe of the Australian economy, all inter-related, and it will be important to understand these relationships and the flow-on effects across our economy and society of particular actions.

The third issue that flows directly from the second is that a National Resilience Roadmap is required, together with a National Resilience Framework, for its implementation. The Framework must capture the relationships between the various components within society in order that the most effective decisions can be made. As we have previously discussed in our [‘Reframing our future’ series](#), a [framework gives decision makers](#) a tool to identify relationships and adjust levers and see the cause and effect implications of each. [System performance measurement](#) over time will be an [important indicator of resilience](#), highlighting the need to adjust policy levers as we recover from each crisis. A pictorial representation of this flow is shown below.



RELATED MATTERS

Evidenced-based decision making across the whole of society will be important in addressing future crises to ensure that these decisions appropriately balance what might be competing or contradictory actions. The gathering and presentation of all the factors, their relationships, and an understanding of the various impacts on different parts of society will be critical in optimising future responses.

Two things are certain from the current situation.

The first is that the responses made on this occasion will provide the template for future responses. To this end we need to closely consider both the actions and the reactions, assess the various inputs and outputs from the particular situation, and hence gauge the importance of linkages and relationships. In this way the response to the next crisis may avoid the trap of being, at least in the initial reactions, less effective by being merely a carbon copy of the current situation.

The second certainty is that there is always room for improvement. That is, the template created from the current situation can be improved to potentially provide a more targeted, more nuanced, more effective response to the next crisis.

Reframing our future by introducing a National Resilience Framework is critical to understand and codify the complex inter-relationships between functional areas and activities, and to prioritise the Government's response efforts. This structured, codified, 'model-based' framework would allow the capture and implementation of the factors affecting resilience,

and the categorisation of their relationships and interactions. A model-based framework would enable structured analytical testing (contestability) and the addition and amendment to relationships and interactions as additional data and lessons become available without the overhead and delay associated with unstructured document-based plans.

Shoal Group is working on the development of such a framework as an extension to the work that we have typically achieved in understanding complex and future defence scenarios, and I would be pleased to discuss this further with the Committee.

Yours sincerely,



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