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Opening Statement for PJICIS Infrastructure Security Panel - Review of the Security Legislation Amendment (Critical Infrastructure) Bill 2020 and the Statutory Review of the Critical Infrastructure Act 2018.

I am Air Vice-Marshal (Retired) John Blackburn, the Board Chair and cofounder of the Institute for Integrated Economic Research – Australia. I had 33 years full time service in the RAAF, my last post was as the Deputy Chief of the Air Force. I subsequently continued to serve in the Air Force Reserves for a further decade until 2019.

In the past 10 years I have focussed on topics such as national security and resilience as well as advocating for improved fuel and energy security. I am currently leading the Institute's Project examining our National Resilience; it is addressing the sovereign research capability, industry, energy, public sector policy, healthcare / pharmaceutical, and economic sectors.

Our project is highlighting that the Coronavirus pandemic has exposed a global lack of resilience as a result of a collective failure to assess and act on national risks and vulnerabilities in the face of a rapidly changing world. Australians have also been complacent with respect to the significant exponential changes occurring in the world and our growing lack of national resilience. We have reacted very well to the pandemic; but were we adequately prepared for this or a range of other significant risks that have either already manifested or could still eventuate? I do not think so.

We need to determine how we better react, prepare for, adapt to changing conditions and, where feasible, prevent disasters and crises. We need a national resilience framework, strategy, action plan and preparedness guidance.

I will address two topical issues that give rise to concerns about our lack of resilience; firstly, our health security and our medicines import dependency, and secondly our Energy Security, specifically our liquid fuels import dependency.

Prior to addressing these two areas I will bring to the Committee's attention the 8 June 2021 speech by Michael Brennan, the Chair of the Productivity Commission. In that speech he stated the following:

*"... in the height of the pandemic, while some shortages were met through domestic manufacturing (like gin makers shifting to hand sanitiser) **mostly we dealt with emerging needs – like for PPE – through trade. And it worked.** As the OECD pointed out in February, global access to COVID vaccines relies critically on trade – as they require inputs from multiple different source countries. Trade – rather than self-sufficiency – is the only feasible way to deal with these interdependencies. That is not to say vulnerabilities will never arise, and that policy should not **respond**. But as always **it should be determined on the evidence and the particulars of the case, rather than a general claim that we can no longer rely on trade and have to make things here.**"¹ (emphasis added)*

¹ <https://www.pc.gov.au/news-media/speeches/post-pandemic-priorities/post-pandemic-priorities.pdf>

Whilst I am sure that the Commissioner's conclusions make "economic" sense to an economist, they do not necessarily make sense through a security and resilience lens. Policy should not only respond; it should also anticipate and prepare. The need to manufacture some level of goods in Australia, that are critical for the function of our society in the event of a supply chain disruption, does not mean that we are claiming that "we can no longer rely on trade and have to make things here." It means that we are taking intelligent decisions to have selected sovereign capabilities. We refer to this as "smart sovereignty." In the case of the pandemic, we ignored the analysis of the global pandemic risk and fundamentally failed to prepare.

Healthcare and Medicine Supply Chains

Our Institute became interested in the healthcare sector and medicine supply chains in mid 2019 because of the July 2019 US Government US-China Economic and Security Review Commission⁴ public hearing on 'Exploring the Growing US Reliance on China's Biotech and Pharmaceutical Products'. It concluded that as China's market power continues to expand, US consumers are becoming increasingly reliant on drugs sourced from the country which presents economic and national security risks.

Testimony to the US hearing included this statement: supply chains are not understood, vulnerabilities are not fully understood, no one agency seems to have responsibility or accountability. The establishment of this US Government Commission in October 2000 indicated that the US sees the economic relationship with China through a national security lens and that economics do not simply override national interest and national security. Australia needs to adopt a similar principle.

In February 2020, our Institute published a report, *Australia's Medicine Supply Chain, is our health a national security / resilience issue?*² In our research for the report we found that like the US, in Australia supply chains and associated vulnerabilities were not fully understood, and that no one agency seems to have responsibility or accountability. In 2019 medicine / pharmacy lobby groups told our Institute that there were no problems with Australia being 90% import dependent for medicines despite long supply chains that could be vulnerable to disruptions.

Our report concluded that the health and well-being of Australians is a national security / resiliency issue and one that needs to be assessed for risks and vulnerabilities just like every other aspect of national security from energy to the economy to the environment to the military. We found that Australia's supply chain for the entire range of healthcare products was incredibly complex. There are, of course, national and international regulatory frameworks to ensure quality and ongoing supply. However, these were set up more than three decades ago. We asked, "Are they still fit for purpose?" Sadly not, as events would show in 2020.

In December 2020, our Institute published a second report: *The Australian Healthcare System - 'just in time' or 'just in case'?*³ During the pandemic the TGA listed in excess of 700 medicines as being in short supply and PPE shortages were a significant risk to our healthcare

² <https://www.jbcs.co/iieraustralia-health>

³ Ibid

professionals during the first months of the crisis. We were not prepared. The health sector professionals we engaged with in our research told us of critical medicine shortages, hospitals having insufficient ventilators and then, following the urgent production of additional ventilators, insufficient drugs to allow for intubation of ICU patients should the Coronavirus patient load increase rapidly. I doubt whether any of these doctors and nurses would be reassured by the Chair of the Productivity Commission claiming that “we dealt with emerging needs – like for PPE – through trade. And it worked.” *Timing is everything ...*

Energy Security and Liquid Fuels Supply Chains

Now to address the second issue – that of our energy security and liquid fuels supply. Australian Governments have largely reacted to impending crises rather than prepare for foreseeable system failures. Over the past decade, concerns regarding potential energy security risks were often minimised by Government Ministers from both sides of politics as well as the Energy Department⁴. In contrast, the 2018 International Energy Agency’s (IEA) review of Australia’s energy policies concluded that *“It is less clear how the country (Australia) would respond in the event of a serious oil supply disruption leading to market failure.”*⁵ They noted indicators of stress in the Australian energy system and highlighted that energy policy governance in Australia is very complex and fragmented. The review also stated that Australia is increasingly exposed to new challenges for maintaining security of supply and, had we had proper monitoring analysis and planning, these issues could have been signalled earlier and remedies could have been applied.

Australia is the only IEA member country, which is a net oil importer, that fails to meet its IEA member stockholding obligations. We currently import over 90% of our transport fuels and this will increase as more of our refineries close. In 2018, the Australian Government at last agreed to address this shortfall and committed to meeting our obligations by 2026, by using the purchase of “tickets” (options to purchase oil for release to the market) with the US and Europe that will, in reality, do little to improve our domestic energy security and resilience as the stocks would not be held in Australia and any stocks shipped to Australia would have to come on foreign owned / flagged ships that would not be under our control.

In 2020, faced with the impending closure of the last four oil refineries in Australia, the Government finally reacted. The Prime Minister acknowledged the risks we face when he said: *“Fuel security underpins our entire economy. Not only does it keep Australia moving, the industry supports thousands of people across the country ... the events of 2020 have reminded us that we cannot be complacent. We need a sovereign fuel supply to shield us from potential shocks in the future.”*⁶

⁴ In 2014 a senior official in the then Department of Resources, Energy and Tourism expressed the view the authors of this statement that it would be OK for Australia to have no oil refineries as it would be cheaper to import refined fuels than to refine oil in Australia. *He was an economist ...*

⁵ <https://www.iea.org/reports/energy-policies-of-iea-countries-australia-2018-review>

⁶ <https://www.pm.gov.au/media/boosting-australias-fuel-security>

Unfortunately, the action appears to be too little, too late, and too short-sighted as only two of the four refineries agreed to accept the Government's support plan and to be contracted to remain open until 2027. The Government reaction may have moved the issue off the agenda for the next Federal election; however, there is no public plan for what will happen with respect to our fuel security after 2027. Compounding this is the following trail of mismanagement:

- We do not have a current National Energy Security Assessment (NESA). The last NESA was conducted in 2011 ... a decade ago.⁷ Repeated Government commitments to produce an update NESA have not been kept.
- In March 2018, the Parliamentary Joint Committee on Intelligence and Security published an Advisory report recommending that the Government review and develop measures to ensure that Australia has a continuous supply of fuel to meet its national security priorities ... within 6 months. In April 2019 (13 months later), the "Liquid Fuel Security Review - Interim Report" was released; however, a further 24 months later there is still no final report released to the public.
- Without a NESA, nor a finalised Liquid Fuel Security Review, it is not surprising that there is no coherent energy security policy or long-term plan in Australia. We remain largely reactive to market crises as they occur.

Our Fuel Security risks cannot be addressed simply by delaying the closure of our last two refineries. Their eventual closure seems likely due to their small size and high operating costs, they simply cannot compete with much larger and lower cost Asian refineries. Therefore, the recent Government initiatives to stave off the closure of some refineries until after 2027 is a welcome initiative but it is not enough.

Post Pandemic Restructuring of Supply Chains

A further complicating factor with our supply chain vulnerabilities is the commitment of many major economies to "re-shoring" some capabilities shown as critical by the pandemic. This could result in a significant restructuring of global supply chains and dependencies. Given our limited understanding of supply chain complexities at a systems level, the restructuring could further impact our resilience. As we saw in the pandemic ... when faced with a global crisis, each nation looks after itself first. We have little in terms of manufacturing capability or preparedness to look after ourselves in such a circumstance. Our complacency could become our downfall.

Where to next?

Our Institute's National Resilience Project is highlighting Australia's lack of resilience and the need for a national resilience framework, strategy, action plan and preparedness guidance. In our work to date, we have concluded that there are three key characteristics or attributes that we need to strengthen in our society to improve our resilience. These are:

⁷ <https://www.energy.gov.au/publications/national-energy-security-assessment-2011>

- **Shared Awareness / Goals.** With shared awareness we can act rationally and prepare accordingly because we can then define a shared goal - a common aimpoint; without it, we just react to each crisis as it occurs.
- **Teaming / Collaboration.** We cannot solve our complex challenges by looking for incremental, stove-piped, quick wins; we need a team approach within our nation and, as importantly, with our neighbours and allies.
- **Preparedness.** There is no verb for 'resilience'; the verb 'prepare' is the most relevant in this case. There is an opportunity to learn from Defence preparedness concepts and systems and to adapt and implement them across our wider society. As a nation we need to prepare for future disasters / crises and not just wait to react. "Crossing our fingers" and hoping is not a method we can afford to employ.

A fuller discussion of these resilience issues in the Australian context can be found here:
<https://www.jbcs.co/iieraaustralia-projects>

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