



# REASSESSING AUSTRALIA'S PHARMACEUTICAL PRODUCTION

PROTECTING AUSTRALIA AGAINST FOREIGN DRUG DEPENDENCY

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POLICY BRIEF - TOM GREIN AND LOUIE PARKER

# EXECUTIVE SUMMARY

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The effect of COVID-19 on global economic supply chains has raised a series of important questions about the robustness of international trade. Due to the health nature of the crisis, one of these focal points is the accessibility and reliability of medical equipment in times of acute need. Notably, COVID-19 has revealed the dependency many states have on other states for essential pharmaceutical products.

Australia, like most other advanced Western democracies, imports the vast majority of its pharmaceutical products. In fact, a mere 10 per cent of drugs in Australia are manufactured at home.[1] Acknowledging this figure, a February report by the Institute for Integrated Economics Research argued Australia's dependence on offshore drug manufacturing—particularly that of China—is a national security threat.[2]

This policy brief explores the effects of Australia's dependence on drug imports and, specifically, China's industry monopoly on Australia's national security. It proposes three policy recommendations that seek to address this challenge:

- Establish a parliamentary inquiry into Australia’s drug dependency on imports—particularly from China—and how this impacts Australia’s national security.
- Increase levels of domestic drug manufacturing for the sustainable production of essential medicines.
- Create more robust Therapeutic Goods Administration (TGA) labelling requirements that list the country of origin and manufacturer to increase product transparency.

## BACKGROUND

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### Drug manufacturing in China

China’s pharmaceutical industry has been pivotal to Beijing’s economic rise in recent decades. Today, China’s pharmaceutical industry maintains a steady growth rate of 4.7 per cent.[3] Despite Beijing’s unwillingness [4] to reveal its industry’s scope and scale, China is believed to be the world’s leading producer of pharmaceutical materials.[5] While many drugs mature offshore, much of the world’s rudimentary elements come from China. China principally produces basic materials including Active Pharmaceutical Ingredients (APIs), binding agents, drug dyes and gel capsules.[6]

In 2015, Chinese President Xi Jinping identified the pharmaceutical sector as an industry to push as part of Beijing’s “Made in China 2025” initiative.[7] The strategic plan aims to shift China from being the world’s cheap goods factory to producing higher value products and services. As an authoritarian state, the Chinese Communist Party’s (CCP) deep influence over Chinese pharmaceutical firms not only means the initiative is a strong focus of these firms, but also makes the CCP itself a versatile global industry player.

## Australia's position

COVID-19 has brought attention to Australia's weak position in the global pharmaceutical supply chain network. The Institute for Integrated Economics Research report states:

*"We (Australia) currently import 90% of our medicines, 90% of our fuels (a 50% increase over the last decade) and 98% of our imports and exports depend on the foreign owned /controlled maritime trade system. This, without having conducted an integrated systems risk analysis for any of these areas. We have, in effect, left our resilience, and therefore our sovereignty and security, to the largely foreign-owned market."*[8]

After Prime Minister Scott Morrison called for an independent investigation into COVID-19 [9], China's Ambassador to Australia threatened a consumer boycott of goods and services lest Morrison cease his push for an investigation.[10] Similarly, in retaliation to President Trump labelling COVID-19 the 'Wuhan Virus', which came after Beijing accused American Marines of creating the disease, the Chinese state-run media agency Xinhua wrote:

*"If China retaliates against the United States... it will announce strategic control over medical products and ban exports to the United States. Then the United States will be caught in the ocean of new coronaviruses."*[11]

These contemporary examples provide strong evidence for Canberra to reassess its dependence on foreign actors for key pharmaceuticals, and the potential effects of China's industry monopoly on Australia's national security.

# THE PROBLEM

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Australian consumers benefit financially from the current system of imports due to cheaper pharmaceutical prices. Australia's service economy is poorly suited to pharmaceutical manufacturing and it cannot compete with the economies of scale and lower labour costs of Chinese drug manufacturing, which represents the second-largest pharmaceutical market in the world by revenue.[12]

However, the benefit of cheaper medicines for Australian consumers is outweighed by important sovereignty and national security concerns. International supply chain disruptions have the potential to expose Australia to drug supply shortages and endanger the health and lives of Australian citizens.

This dependency also carries important safety concerns. Australia's domestic drug industry is regulated by the TGA, which provides important oversight and quality control of drugs sold in Australia. However, new TGA labelling requirements that come into effect on 1 September 2020 do not mandate listing the country of origin or manufacturer of medicines.[13] In addition, the TGA only conducts limited sample testing of listed and complementary medicines. [14] Prominent examples of contaminated pharmaceuticals produced in China means Australia's testing capacity must be robust enough to detect quality assurance failures from overseas-produced medicines.[15]

The consequences of changing the current system are significant. Reducing Australia's reliance on foreign drug manufacturing would reduce its risk of being exposed to coercion by foreign governments and unpreparedness for health emergencies. In addition, it would ensure that a higher proportion of medicines sold in Australia are safe and of reasonable quality, as Australian manufacturers would be subjected to stricter transparency requirements than Chinese firms. Several instances of defective medicines and faulty medical equipment being sold on the international market demonstrate the importance of this issue.[16, 17]

However, changes to the current system may also increase the cost of medicines for Australian consumers. It may also not be practical for Australia to become fully self-reliant in drug manufacturing.[18] Any changes enacted should ensure an adequate level of sovereign capability whilst also guaranteeing access to and supply of necessary medicines produced overseas.

## POLICY RECOMMENDATIONS

### 1

#### **Establish a parliamentary inquiry into Australia's reliance on foreign medicines**

An open, bipartisan, and empirical examination of the issue is clearly needed. Parliamentary inquiries are effective tools as they can be publicly accessible and incorporate legislators of both major parties, independent members and those belonging to minor parties. Furthermore, the participation of military personnel and bureaucrats with subject matter expertise would ensure that the inquiry is fact-based and has a national security focus.

The Senate Foreign Affairs, Defence and Trade References Committee is the most appropriate body for a parliamentary inquiry. The nexus of trade, security and foreign policy considerations requires that the views and expertise of decision-makers in these areas be considered.

The scope of the inquiry should include:

- Establishing the reasons for Australia's over-reliance;
- Evaluating Australia's vulnerability to supply chain disruptions;
- Evaluating Australia's exposure to national security risk due to over-reliance;
- Gaining visibility of the quantity and type of drugs Australia imports; and
- Committing to strategies that will curb Australia's over-reliance.

There is global precedent for a parliamentary-initiated review into reliance on foreign medicines. In 2019, the U.S. Congress initiated a hearing exploring the growing U.S. reliance on China's biotech and pharmaceutical products.[19]

## 2

### **Increase levels of domestic drug manufacturing for sustainable production of essential medicines**

To counter our reliance on foreign drug manufacturing, Australia cannot simply limit the number of medicines and APIs it imports. Substantial investment from the Federal Government is also required to develop Australia's sovereign capability in the field.

This investment should allocate funds for:

- Constructing the infrastructure necessary for pharmaceutical manufacturing, such as for relevant agriculture, laboratories to cultivate APIs, as well as other processing plants and laboratories.
- Developing the pharmaceutical research capabilities of Australian universities. For example, providing more government support to the University of Queensland's Pharmaceutical Centre of Excellence [20], or establishing comparable facilities at other tertiary institutions. This would likely lead to more Australian breakthroughs in biomedicine and pharmacology. It might also lead to a higher proportion of pharmaceutical patents being awarded to Australian firms and encourage greater investment and innovation at home.

# 3

## Create more robust Therapeutic Goods Administration (TGA) labelling requirements to increase product transparency

Greater transparency and consumer awareness of supply chains are crucial elements of an advanced pharmaceutical industry. The current absence of any TGA requirement to list a drug's country of origin and manufacture means consumers are armed with incomplete information.

The TGA should therefore amend its Therapeutic Goods Order 91 [21] and Therapeutic Goods Order 92 [22] to mandate that medicines sold in Australia list their country of origin and manufacturer. The benefits under this framework for both consumers and Australian firms include:

- Creating greater awareness of where medicines are manufactured and who is producing them;
- Implicitly encouraging consumers to preference the purchase of Australian products; and
- Seeking to change consumer habits towards purchasing drugs that are produced in countries, and by manufacturers, with a reputation for adherence to safety standards.

## CONCLUSION

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Canberra is in a unique position to make waves on foreign pharmaceutical dependency. Australia's relatively small population and strong tradition of quality healthcare provide a political license to push reform,

while our enviable minerals and trade surplus with China offer leverage to pursue our own interests despite Beijing's threats of consumer divestment.

The Chinese Communist Party's "Made in China 2025" initiative makes this issue ever more pressing. To meet the challenges of tomorrow, the Federal Government should implement a strategy to reduce foreign power over Australian pharmaceuticals. The proposed recommendations provide practical steps to achieve this objective, and position Australia to confront its greatest imminent geopolitical challenge effectively—the rise of China.

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