

Testimony of
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of the Committee on Homeland Security
U.S. House of Representatives

Hearing on
Assessing the Resiliency of the Nation's Supply Chain

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Chairwoman Sanchez, Ranking Member Souder, thank you for the opportunity to appear before the Subcommittee to discuss the vital topic of "Assessing the Resiliency of the Nation's Supply Chain." I also applaud Chairman Thompson for addressing resilience within the Homeland Security Committee by making May "Resilience Month."

The focus on resilience is a welcomed development at a critical time. Awareness of the importance of resilience to our security and economy must be encouraged throughout the Nation. Such awareness must be followed by action that is informed by and complements innovative efforts that are already underway in the private sector.

The Reform Institute is a non-partisan, non-profit public policy organization dedicated to strengthening the foundations of our democracy and building a resilient society. The Institute is committed to promoting and facilitating a national dialogue on resilience.

Simply stated, resilience is the ability to rapidly respond to and recover from a catastrophic event. It is imperative that resilience become a national priority. It must be given status equal to, and viewed in the same light as risk prevention is in our homeland security policy. Confronting the resilience challenge will provide the Department of Homeland Security with the overarching vision that it has lacked since its inception. Such a concept can also unify the disparate agencies within the Department and energize its mission.

The current myopic focus on prevention ignores reality and discourages essential efforts towards preparedness. The fact is that not every catastrophic event can be prevented. As painful as it is to admit, we can no more prevent a determined terrorist from achieving an isolated victory than we can prevent a hurricane or earthquake. What we can control, however, is how we prepare for catastrophic events and how we react when the sad eventuality occurs. Making resilience a priority will ensure that we are adequately prepared for the next Hurricane Katrina or terrorist attack and that such an incident does not severely disrupt vital economic and social activity in this country.

While government authorities have paid scant attention to resilience to this point, key actors within the private sector have embraced the concept. As part of the McCormick Tribune Foundation's Conference Series, the Reform Institute hosted in March of this year a national symposium on Building a Resilient Nation: Enhancing Security, Ensuring a Strong Economy in New York City that brought together corporate leaders and industry experts to discuss the importance of resilience to our national and economic security. Representatives from major sectors of the economy provided inspiring examples of their efforts to improve the ability of their firms to continue operating in the face of a crisis. They also offered a frank assessment of the enormous challenges that remain.

The public sector must learn from the progress made by these private sector leaders and foster the further development of such initiatives. Government agencies such as the DHS have a critical role to play as facilitators of private sector efforts towards resilience. The uninterrupted operation of U.S. businesses and the flow of goods and material through the global supply chain are vital to our national security and our viability as a global power. Supporting businesses in developing and exercising their continuity plans is one of the crucial roles that government can play.

There is a vital role for DHS to play as the Nation's cheerleader reminding industry of the fact that building resilience is very much in their own self interest. DHS needs to function as a key resource for U.S. industry and other institutions as they endeavor to become more resilient. The Department should serve as a clearinghouse for best practices in crafting business continuity plans by industry. There is also a major need for DHS to play a leading role in organizing and conducting exercises that allow the corporate sector to test their continuity plans and revise them accordingly. Developing continuity of operations plans and then allowing them to languish on the shelf would lead to a false sense of security perhaps more dangerous than having no plans at all. A regular schedule of joint public-private exercises will allow firms to enhance their response and continuity plans and will also bolster the working relationship between government and corporate officials who will have to cooperate closely in times of crisis in order to ensure a speedy and orderly return to regular operations.

The government has a particular role to play in assisting small- and medium-sized firms in strengthening their resilience; entities that lack the resources to properly accomplish the task on their own. These businesses are the backbone of our economy and are the most vulnerable. Even a relatively short disruption in operations could cause these firms to shut down.

Effective public-private partnerships will require better communication between agencies such as DHS and private firms. DHS must directly engage businesses and make them an integral part of the decision making process, instead of simply handing down directives with little input. There must also be an improved flow of information between the public and private sectors. Employers can more adequately prepare for possible contingencies when they have better information regarding the potential threats and risks to their business. Reliable lines of communication must also be established in the case of

emergency so that government authorities can effectively coordinate with businesses on response and continuity efforts.

Considering that some 85% of our critical infrastructure is in the hands of the private sector, extensive public-private partnership is an absolute necessity in order to strengthen the nation's resilience. The nation's aging infrastructure represents a serious vulnerability that must be addressed. Our infrastructure and supply chain are potential terrorist targets because they are so essential to the nation's economic vitality.

The need for enhanced resilience and increased public-private partnership is no more evident than as it pertains to the supply chain. The highly efficient and deeply integrated global supply chain is the heart and soul of our economy. However, our acute reliance on the "just-in-time" delivery of goods made possible by supply chain innovations leaves our economy severely vulnerable to a disruption caused by either a natural or man-made disaster.

Innovations in shipping and the opening of new markets due to globalization have resulted in goods moving from one end of the globe to another in a relative blink of an eye. The remarkable breadth and efficiency of the global supply chain has transformed commerce. Retailers and distributors have largely forgone the storing of merchandise in warehouses and instead rely on the continuous "just-in-time" delivery of goods. The quest for greater efficiency has generated lower prices and more product choices for consumers, but also has yielded over-stretched, single-source supply chains that lack the redundancy and robustness to withstand adequately a disruptive event, such as a natural disaster, industrial accident, or terrorist attack.

In the pursuit of leaner supply chains, too little attention has been paid by firms to ensure the continuity of their operations in the event of a disruption in their supply chain. The fact that many employers are unprepared for such a contingency means that a catastrophe that shuts down the global supply chain even briefly could bring economic activity to a virtual halt and cause damage to our economy in the near and long terms.

The West Coast dock strike of 2002 illustrates this point. This strike shut down West Coast ports for ten days. The cost of the strike to the U.S. economy was estimated at \$15 billion. It took many firms several months to recover from the disruption to their supply chains caused by the strike. The strike was a planned, anticipated and peaceful event. One can only imagine the economic consequences of an unexpected incident that causes all U.S. ports to shut down for a period of time.

Developing comprehensive continuity strategies must become an imperative for all ventures that rely on the global supply chain. Recommendations for bolstering business resilience in regard to the global supply chain were provided in the recent Reform Institute white paper, *Chain of Perils: Hardening the Global Supply Chain And Strengthening America's Resilience*.

DHS can and must assume significant responsibility in hardening the global supply chain in order to deter terrorists from targeting it in order to derail our economy. Supporting and promoting the implementation of innovative technologies such as “smart” containers and advanced container screening should be a priority for DHS. A significant deficiency is the fact that a National Intelligence Estimate focusing on supply chain vulnerabilities has yet to be done. This needs to be fixed right now.

The current patchwork of government initiatives falls well short of securing the supply chain. Under the Container Security Initiative (CSI), less than one percent of cargo containers are inspected prior to arriving at U.S. ports. CSI depends on cargo manifest lists provided by the carriers to target containers for inspection. However, manifests often provide little data on the origin and nature of the cargo. What data is provided can be unreliable and unverifiable.

Determined terrorists could exploit gaps in the security patchwork by placing a dirty bomb inside a cargo container prior to its loading at a foreign port and detonating it at a U.S. port or within our intermodal transportation system. On top of the loss of life and damage caused by the bomb, such an action would call into question the security of the entire supply chain. The likely government response would be to shut down U.S. ports as authorities searched for more bombs in the pipeline.

Closing American ports would set off a ripple effect throughout the global economy. The U.S. has no contingency plan for restoring the intermodal transportation system in the event of a nationwide closure of seaports for a number of days. Approximately 95% of global commerce is carried at sea with a significant amount borne in cargo containers. At any given time, about 60% of the world’s merchant fleet is at sea. Given this fact, it takes little imagination to consider the massive back-up of ships and “boxes” that even a minor shutdown would engender. Businesses that depend heavily on “just-in-time” delivery of goods and supplies would quickly run out of merchandise and material. Firms that are ill-prepared for such circumstances could possibly face having to lay-off employees or even shut down operations. This ripple effect, combined with fears of more attacks, would likely roil the markets.

The economic impact of such a scenario could be devastating and long-lasting, depending on how long the ports were closed and the resilience of American companies and our citizenry. The possibility of such a scenario occurring underscores the need for intensifying our efforts to harden the global supply chain and enhance the resilience of U.S. industry across all sectors.

These are not easy tasks by any means. Building greater resilience will require significant commitment and investment on the part of individual firms. However, these firms should view such expenditures as necessary for ensuring the long-term viability of the enterprise. They must also recognize that developing resiliency in an uncertain world will provide them with an advantage over competitors who are not prepared. By assisting businesses in pooling resources and sharing best practices and other vital information, public authorities can play an important role in facilitating this transformation.

Hardening the global supply chain will also necessitate significant public-private collaboration. Such cooperation will have to be on an international scale since shippers at foreign ports are a key part of the equation. Private firms and DHS must work closely together to establish an efficient yet effective process for screening cargo containers.

Although there are no easy solutions, the path has been cleared somewhat by pioneering firms that have led the way in promoting and implementing resilience. DHS must embrace public-private collaboration to implement innovative new systems and programs already being initiated by the private sector and exercise effective leadership to shepherd these changes through.

The Reform Institute is ready and willing to help encourage public-private partnerships towards resilience. Thank you again for this opportunity. I look forward to any questions you may have.