

# Rationale for Compliance to International Standards

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# Outline

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1. Introduction: Standards and quality infrastructure
2. Trade effects of standards
3. International standards
4. Why harmonize?
  1. Market access
  2. Export competitiveness
  3. WTO law
5. Conclusion and policy implications

# Key messages

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1. Standards are one part of quality infrastructure. Compliance with international standards is one part of a broad-based approach to promoting quality.
2. There are strong rationales for complying with international standards, grounded in market access, export competitiveness, and WTO compliance.
3. Harmonization with international standards can facilitate trade, and have onward gains for employment and income.

# Key messages

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4. Standards are becoming increasingly important in the world economy, with a shift from mandatory/public standards to voluntary/private standards.
5. Developing countries need to keep up with the standards economy, as their ability to take advantage of preferential market access depends on compliance.
6. Partners need to facilitate participation by developing countries in international standards bodies.

# 1. Introduction: Standards and quality infrastructure

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- ▶ Standards are documents that lay down characteristics that a good, service, or system should meet in order to be considered compliant.
- ▶ Focus here on product standards, i.e. standards that apply to goods.
- ▶ Distinguish various types of standards:
  - ▶ Mandatory vs. voluntary.
  - ▶ Private vs. public.

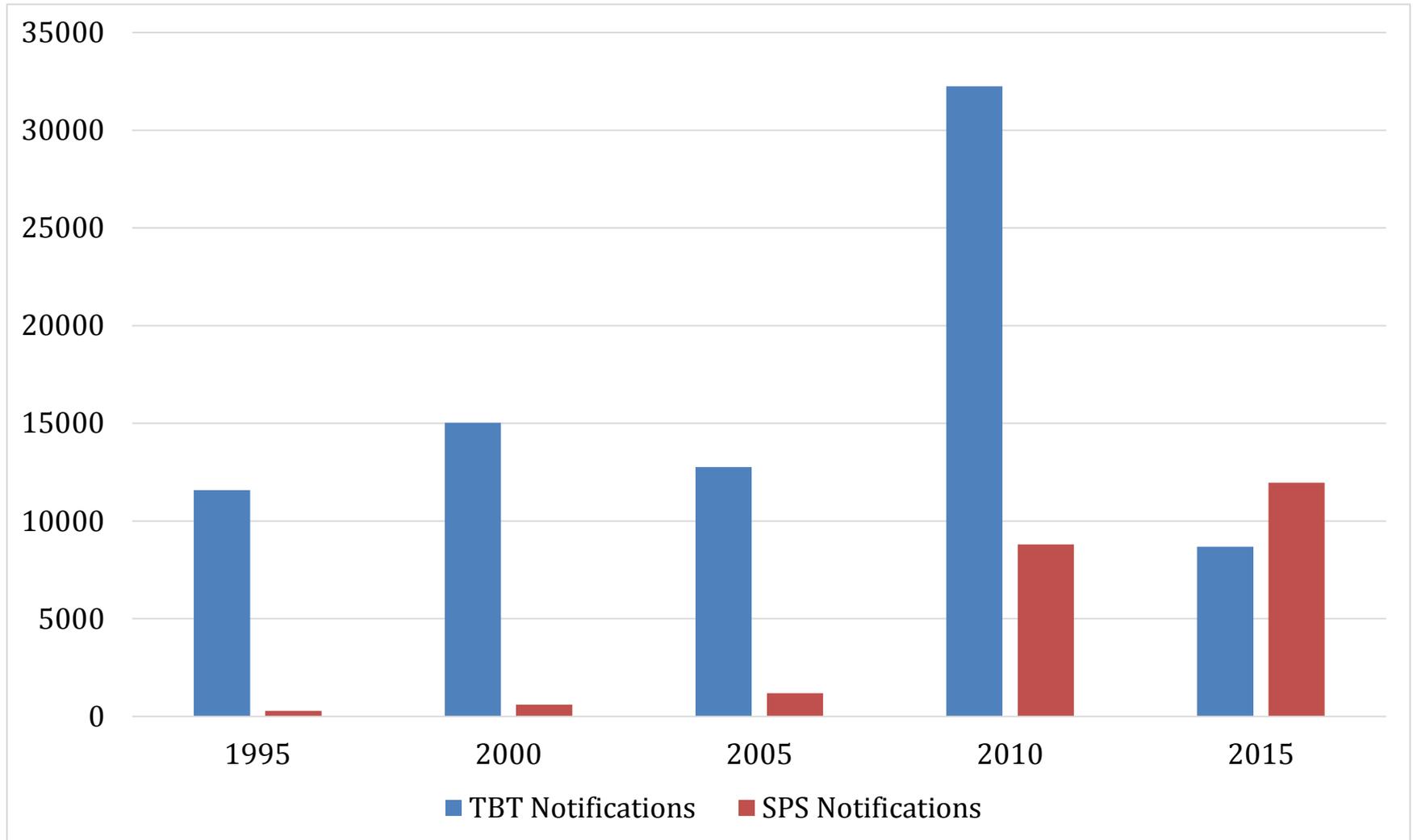
# 1. Introduction: Standards and quality infrastructure

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- ▶ Particularly in the developed countries, there has been a strong move towards private, voluntary standards over recent decades.
  - ▶ Greater room for technological innovation.
  - ▶ Co-existence of multiple compliant products in the marketplace.
  - ▶ Easier to update standards as conditions change.
- ▶ As a rule of thumb, mandatory public standards are usually only maintained for core consumer protection objectives (health, safety, etc.).
- ▶ Part of a general shift towards more market-friendly regulatory frameworks.

# 1. Introduction: Standards and quality infrastructure

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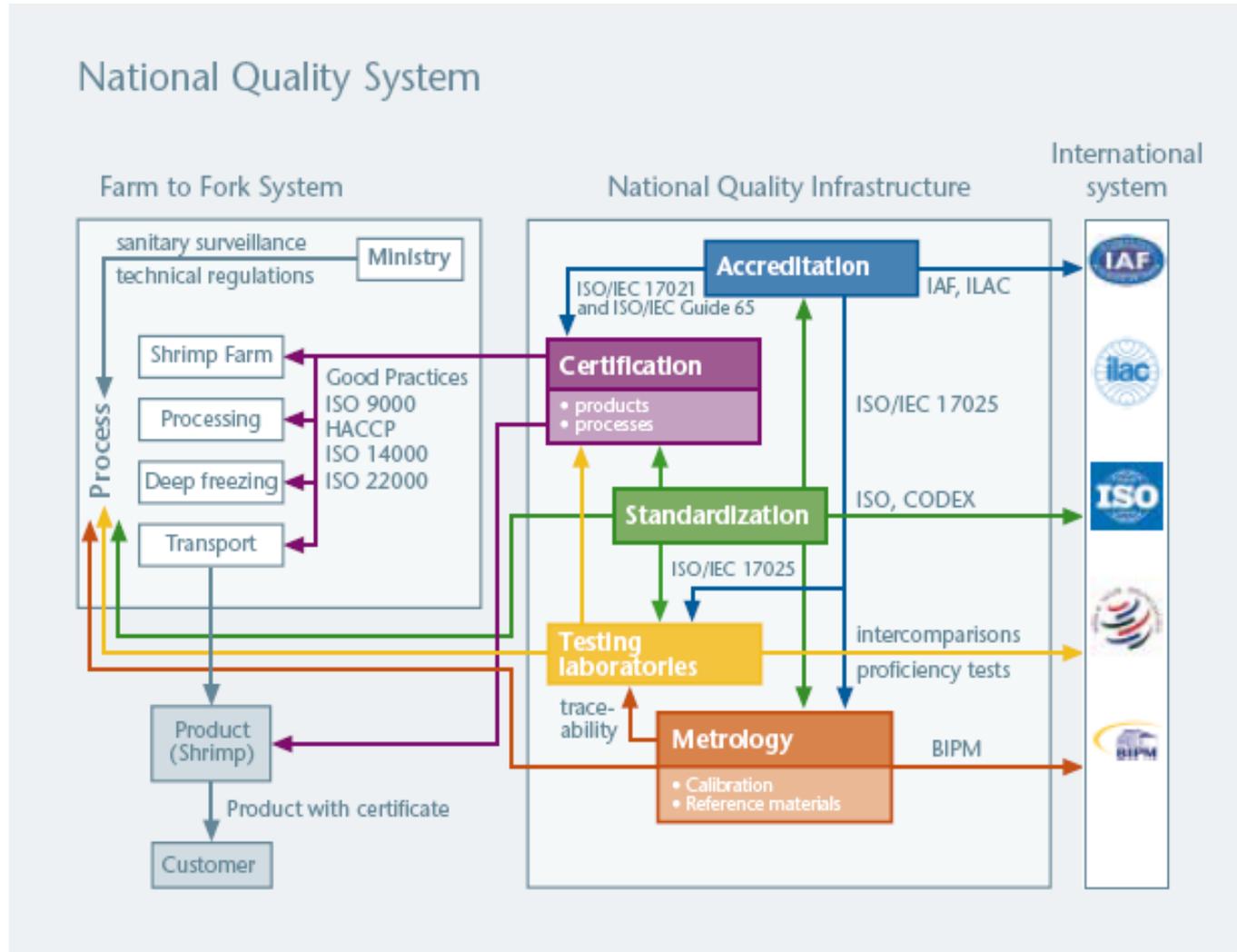


# 1. Introduction: Standards and quality infrastructure

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- ▶ Standards are one element of quality infrastructure, a comprehensive and sophisticated system that ensures that production meets particular criteria.
- ▶ Other key elements of quality infrastructure:
  - ▶ Standards bodies: Responsible for issuing standards.
  - ▶ Testing laboratories: Undertake conformity assessment, i.e. determination of whether or not production meets a given standard.
  - ▶ Accreditation bodies: Certify testing laboratories as complying with relevant standards for conformity assessment.
  - ▶ Certification bodies: Authorize producers to affix a particular mark to their products, based on conformity with standards.
  - ▶ Metrology organization: Ensures that measurement is conducted using appropriate instruments and standards, with an acceptable level of accuracy.

# 1. Introduction: Standards and quality infrastructure



# 1. Introduction: Standards and quality infrastructure

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- ▶ Historically, quality infrastructure has been primarily national.
- ▶ But there is now a strong international dimension:
  - ▶ International and regional bodies.
  - ▶ International and regional rules.
  - ▶ International and regional standards.
- ▶ Developing and upgrading quality infrastructure needs to take full account of the international dimension if it is to be effective.
- ▶ Part of that agenda involves compliance with international standards—but it is important to keep the discussion in perspective.

## 2. Trade effects of standards

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- ▶ Standards can have major effects on international trade, in particular as tariff rates are at historical lows in many countries.
- ▶ Even if other market access barriers (such as tariffs and quotas) are lifted, standards remain as a “gatekeeper” of the domestic market.
  - ▶ Implications for LDCs (DFQF treatment under WTO preferences).
- ▶ But standards are not like other measures that affect trade: they are rarely protectionist in intent, even though they sometimes have that effect in practice.

## 2. Trade effects of standards

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- ▶ How can standards act as de facto market protection?
  - ▶ They can be “too strict”, i.e. keep out products that should be regarded as acceptable, with the effect of reserving the domestic market for largely domestic production.
  - ▶ They can be different in different countries, which means that foreign producers have to pay multiple costs to enter multiple markets (competitive disadvantage).
- ▶ Standards, particularly divergent ones, can therefore be a source of trade costs.
- ▶ This potential is recognized at WTO level in the form of the SPS and TBT Agreements, as well as a number of high profile legal disputes over standards.

## 2. Trade effects of standards

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- ▶ There is extensive empirical evidence indicating that divergences in national standards can impede bilateral trade in some cases.
  - ▶ This effect is particularly felt in developing countries, where there are more significant barriers of human, financial, and technical capacity.
  - ▶ Applies to voluntary as well as mandatory standards.
- ▶ Example: African exports of textiles and clothing, as well as agricultural products, to the EU.

## 2. Trade effects of standards

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- ▶ Unlike traditional trade measures, the trade and standards agenda cannot simply be about “rollback”.
  - ▶ Standards perform important economic functions.
  - ▶ They also represent social goals like consumer protection, safety, and environmental protection.
- ▶ The question is therefore how to manage divergent standards so that adequate levels of protection can be maintained, without allowing disguised protectionism.
  - ▶ “Protection of people, not markets”.

## 2. Trade effects of standards

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- ▶ Instruments have been developed to try and limit the additional trade costs associated with standards.
- ▶ Two of the most important are harmonization and mutual recognition.
  - ▶ Harmonization: Countries A and B agree to adopt the same standard.
  - ▶ Mutual recognition: Countries A and B recognize each other's standards as equally valid even though they are different.
- ▶ In addition, some countries have engaged in mutual recognition of conformity assessments to avoid costly retesting.

## 2. Trade effects of standards

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- ▶ Harmonization can be undertaken in a variety of ways:
  - ▶ Unilaterally: Country A accepts that goods meeting certain foreign/international standards can be sold in its market.
  - ▶ Regionally.
  - ▶ Multilaterally (international standards).
  
- ▶ Focus of this discussion is international standards, but reference will also be made to the other two means of harmonization.

### 3. International standards.

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- ▶ International standards are usually not mandatory unless they are translated into mandatory domestic standards.
- ▶ Even for voluntary standards, a process of domestic translation is usually undertaken.
- ▶ International standards include regional standards.
- ▶ Some international standards bodies have a potentially global membership (ISO), whereas others have more focused scope (SMIIC).

# 3. International standards

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- ▶ Many bodies are responsible for issuing international standards:
  - ▶ ISO: Private body, general remit focusing on manufactured goods (as well as systems).
  - ▶ IEC: Private body, remit covering electrical goods.
  - ▶ Codex Alimentarius: Established by FAO and WHO to deal with standards for food safety.
  
- ▶ Various regional standards bodies are relevant to OIC members:
  - ▶ CEN (EU), primarily for Turkey.
  - ▶ GCC bodies for the Gulf countries.
  - ▶ PAFTA bodies for Arab countries.
  - ▶ APEC-related bodies, as well as SAARC-related bodies, for Asia.
  - ▶ Pan-African bodies, as well as sub-regional initiatives, in Africa.

# 3. International standards

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- ▶ Empirical evidence on the trade effects of international standards is limited, due to the difficulty of obtaining appropriate data.
- ▶ But there is some evidence available for the EU:
  - ▶ EU standards tend to hold back developing country exports of agricultural products, and textiles and clothing.
  - ▶ But that effect is mitigated, or even reduced to zero, if EU standards are equivalent to ISO standards.
- ▶ It appears likely that at least some of the negative trade effects of product standards can be offset by adopting international standards whenever possible.

### 3. International standards

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- ▶ However, international standards are not only a source of benefits. They also come with challenges.
- ▶ They can be costly to implement, which is a particular barrier for developing countries.
- ▶ They can unduly reflect the preferences of the countries that were most active in designing them, typically developed countries.
- ▶ It is important for all countries to play an active part in the development of international standards, so that they are set appropriately and reflect diverse circumstances.

## 4. Why harmonize?

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- ▶ Significant efforts are underway to harmonize product standards, including through international standards.
- ▶ The rationale for complying with international standards is essentially about harmonization.
- ▶ Three main reasons for harmonizing with international standards:
  1. Market access.
  2. Export competitiveness.
  3. WTO law.

## 4. Why harmonize? Market access.

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- ▶ Standards are the gatekeepers of markets, particularly in the developed countries.
- ▶ From an exporting country's perspective, harmonizing is a way of accessing more than one market with single product design.
- ▶ International standards are a special case: harmonizing with them potentially allows access to a wide range of countries for goods that comply with local practices.

## 4. Why harmonize? Market access.

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- ▶ Adopting international standards locally can therefore effectively increase the size of the market that producers can access.
- ▶ The economic effects of improved market access include:
  - ▶ Higher exports, which can translate into employment and income gains.
  - ▶ Increased export diversification.

## 4. Why harmonize? Export competitiveness.

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- ▶ Improving market access is not the only rationale for complying with international standards.
- ▶ For many developing countries, changes to standards overseas—including international standards—can have a profound impact on production processes.
  - ▶ As standards are raised, an incentive is created for firms to produce higher quality goods; if they cannot, they must leave the market.
  - ▶ Typically, firms split into those that can upgrade production to meet the new norms, and those that cannot.
  - ▶ Resources shift from low productivity firms to high productivity firms, quality increases, and the sector retools for higher performance.

## 4. Why harmonize? Export competitiveness.

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- ▶ Economic effects of this process can include:
  - ▶ Higher observed productivity.
  - ▶ Higher export prices.
  - ▶ Over time, increased production and exports.
- ▶ Example: EU aflatoxin standards and African groundnut exports.

## 4. Why harmonize? WTO law.

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- ▶ The WTO recognizes that standards can have trade effects.
- ▶ Two key agreements:
  - ▶ Sanitary and Phyto-Sanitary Measures (SPS) (animal or plant life or health).
  - ▶ Technical Barriers to Trade (TBT) (all sectors).
- ▶ The WTO Agreements on standards only apply to mandatory public standards.
  - ▶ There are accompanying Codes of Conduct for standards bodies, but they are voluntary only.

## 4. Why harmonize? WTO law.

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- ▶ The existence of the WTO Agreements provides a third rationale for complying with international standards: WTO consistency.
- ▶ The WTO does not require compliance with international standards, but favors it.
- ▶ Concretely, domestic standards that are harmonized with international ones are assumed to meet the requirements of the SPS and TBT Requirements (although infringements can be demonstrated by evidence).

## 4. Why harmonize? WTO law.

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- ▶ In general terms, the key principles of WTO law for standards are as follows:
  - ▶ Right to regulate: Countries may impose SPS measures and TBTs, provided that they pursue a legitimate objective.
  - ▶ Non-discrimination: Countries cannot unduly favor national production or particular trading partners.
  - ▶ No disguised restrictions on international trade.
  - ▶ Preference for international standards, if applicable.
  - ▶ Transparency and communication.

## 4. Why harmonize?

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- ▶ market access, export competitiveness, and compliance represent powerful rationales for compliance with international standards.
- ▶ Countries need to adopt cost-benefit analyses, particularly when standards are designed for very different circumstances.
- ▶ Departures can be appropriate in some cases, but in general international standards can be favored.
- ▶ It is not just issuing standards that matters, but also enforcement—in the context of the broader question of quality infrastructure.

## 5. Conclusion and policy implications

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- ▶ Product standards are an important part of the economic landscape in most countries.
- ▶ They are one important part of quality infrastructure.
- ▶ Like other parts of the quality infrastructure, standards incorporate national and international aspects.
- ▶ Although international standards are not always applicable, compliance with them can in many cases bring significant economic benefits.

# 5. Conclusion and policy implications

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- ▶ The report identifies three clear rationales for the use of international standards:
  1. Market access: harmonizing with international standards provides manufacturers with access to a larger (potentially global) market.
  2. Export competitiveness: international standards can in some cases push the process of productive upgrading.
  3. WTO compliance: it is important to keep standards in line with WTO requirements, and international harmonization can do that.
- ▶ Economic benefits of international standards can include increased trade, export diversification, higher prices in world markets, and flow on effects to employment.

## 5. Conclusion and policy implications

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- ▶ The potential role of international standards within national quality infrastructures highlights the importance of ensuring broad-based participation in international standards bodies.
- ▶ Historically, those bodies have been dominated by high income Northern economies.
- ▶ Arguably, some standards reflect the preferences of those countries, and might not always be appropriate for adoption.
- ▶ It is important to provide financial and technical support for the participation of developing countries in international standards bodies.