

**STANDARDS AUSTRALIA**

Submission to Standing Committee on Economics, Finance and  
Public Administration

Inquiry into the state of Australia's manufacturing industry now and  
beyond the resources boom



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## INTRODUCTION

An essential requirement for success for a manufacturer of products for export is that those products comply with international standards. Standards Australia therefore believes it is appropriate to provide a submission to the Inquiry which deals with the following aspects.

- An explanation of the benefits of standards to manufacturing for export
- Work that has and is currently being done to maximise these benefits
- Opportunities for further benefits.

Referring to the terms of reference of the Inquiry, this submission identifies the policies that could realize opportunities for Australia's manufactured exports. Dynamic application and exploitation of international standards is a key to maximizing the contribution of these exports to Australia's economy and society.

## SUMMARY

Standards Australia is Australia's national standards body and is recognised as such by the Federal Government.

Standards Australia is very active in the international standards community and currently around 80% of Australian standards are aligned with international standards where international standards exist. This supports the WTO agreement aimed at reducing technical barriers to trade through international harmonization of standards.

It has also assisted the Government in projects for training and capacity building of standards and conformance infrastructure in developing countries in our region.

Standards Australia's international standards harmonization activities underpin international agreements for mutual recognition and harmonization of regulatory regimes and free trade agreements and arrangements by contributing to the minimization of technical barriers to trade.

Australian standards also play a major part in contributing to good regulatory practice which along with the international harmonization initiatives all provide major benefits to Australian industry in general but particularly to manufacturers of products and services for export.

This submission provides background and explanation of the above matters and identifies a number of challenges and opportunities. It puts forward six recommendations for policies expected to provide significant assistance to global trade in manufactured products and associated services.

## INTERNATIONAL STANDARDS

### Harmonization

Australia is well served by a national standards body which is committed to alignment with international standards. Much has been done, around 80% of Australian standards are aligned with international standards where international standards exist and processes are in place within the organization to ensure this percentage is maximised and that any exceptions are well justified.

Standards Australia has conducted extensive consultation with stakeholders and is establishing a revised structure and operational model to, among other things, maximize its stakeholder responsiveness. This will enable it to be better placed to assist industry generally and specifically exporting manufacturers as detailed in this submission.

The Federal Government recognizes Standards Australia as the nation's peak non-government standards development and approval body. It accredits other Standards Development Organisations and prepares and publishes voluntary, technical and commercial standards for use in Australia.

Standards Australia is Australia's member of the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC) and the International Council of Societies of Industrial Design (ICSID), providing a link to international best practice and creating further efficiencies.

It meets national needs for contemporary, internationally aligned standards and related services that enhance Australia's economic efficiency and international competitiveness.

To ensure this, a Memorandum of Understanding has existed between Standards Australia and the Commonwealth Government since 1988. Among the principal accords are that no Australian standard will contravene the World Trade Organization's requirements that national standards should not be used as non-tariff barriers to free trade; and agreement that no new Australian standard will be developed where an acceptable international standard already exists.

Following is an explanatory statement from the WTO in relation to the agreement to deal with technical barriers to trade, TBT Agreement.

#### “Harmonization

For many years, technical experts have worked towards the international harmonization of standards. An important role in these efforts is played by the International Standardization Organization (ISO), the International Electrotechnical Commission (IEC) and the International Telecommunication Union (ITU). Their activities have had major impact on trade, especially in industrial products. For example, ISO has developed more than 9,600 international standards covering almost all technical fields.

#### Harmonization and the TBT Agreement

The Agreement encourages Members to use existing international standards for their national regulations, or for parts of them, unless “their use would be ineffective or inappropriate” to fulfill a given policy objective. This may be the case, for example, “because of fundamental climatic and geographical factors or fundamental technological problems” (Article 2.4). As explained previously, technical regulations in accordance with relevant international standards are rebuttably presumed “not to create an unnecessary obstacle to international trade”. Similar provisions apply to conformity assessment procedures: international guides or recommendations issued by international standardizing bodies, or the relevant parts of them, are to be used for national procedures for conformity assessment unless they are “inappropriate for the Members concerned for, inter alia, such reasons as national security requirements, prevention of deceptive practices, protection of human health or safety, animal or plant life or health, or protection of the environment; fundamental climatic or other geographical factors; fundamental technological or infrastructural problems (Article 5.4).”

#### “Participation in international standardizing bodies

Widespread participation in international standardizing bodies can ensure that international standards reflect country-specific production and trade interests. The TBT Agreement encourages Members to participate, within the limits of their resources, in the work of international bodies for the preparation of standards (Article 2.6) and guides or recommendations for conformity assessment procedures (Article 5.5).”

Standards Australia has studied the European and North American Standards Organizations to identify best practice. What is clear is that both take a very strategic approach to standards in relation to trade. Insights gained include the European Union’s use of standards as the major vehicle to achieve regulatory harmonization across Europe.

With much of the standards and technical regulatory Infrastructure now completed in the member states of the European Union, the European Commission is applying its considerable budget for standards and conformance in other directions. The so-called ‘accession countries’ are an obvious beneficiary; but so are the countries of South Asia and South-East Asia.

The EU strategy is simple enough, providing capacity building assistance allows the Europeans to influence the shape of the technical infrastructure in developing nations and standards professionals trained in the European system are more likely to suggest using European Standards in their country, opening the market up for imports of goods and services from Europe. The EU reported that it increased its external surplus in international trade in services from 37 billion in 2003 to 42.8 billion in 2004, so there is ample encouragement for Europe to continue to generously fund this proven strategy.

The other major world power in standards and conformance, the USA, has not sought to compete with the Europeans in terms of providing aid for this type of technical infrastructure development in Asia. Canada, on the other hand, has a quite substantial aid budget in this field. This perhaps reflects the fact that government has a significant involvement in standards and conformance in Canada and Europe; but in the USA, standards and conformance is seen as a private sector activity.

### **Recommendation 1**

That the Government investigates international use of standards to drive trade and regulatory harmonization in Europe, North America and South East Asia and benchmark findings against Australia's standards harmonization infrastructure.

### **Regional Assistance**

As noted in the comments on Europe, standards and conformance capacity building projects have a significant side benefit for the donors. By influencing the local technical infrastructure, the systems within the beneficiary country are more likely to be akin to those of the donor country, giving an advantage to goods and services providers from the donor nation.

The Australian Government has, for a considerable period of time, sponsored training and capacity building projects in standards and conformance for developing countries, for example, the current projects under the ASEAN-Australia Development Cooperation Program (AADCP). Standards Australia acts as a mentor for the Fijian Standards body and provides assistance to the Papua New Guinea standards body. Standards Australia undertook a training program on standards development in the Gulf region earlier this year and this has been followed up by a training program on accreditation by JAS-ANZ.

The Building and Plumbing Codes of Vietnam were developed with the assistance of experts from Standards Australia as was the new Ordinance on Standardization intended for release later this year. As well, the standards elements of the Regional Trade Facilitation Program for the Pacific Islands Forum were designed by a joint Standards Australia/Standards New Zealand team.

However, faced with the sheer volume of European funded assistance, the strategy of capacity building assistance alone will not necessarily provide Australian goods and service providers with confidence that the standards they will come across in target markets will be familiar. Standards Australia therefore decided to broaden its strategy and become a Partner Standards Development Organization to the European standards body, CEN, earlier this year.

Importantly, this move provides access for Australian industry experts to the European standards development committees so they can gain an understanding of the structure and operation of the European codes.

Even where standards are not mandated, exporting manufacturers can also gain market opportunities locally and internationally by producing products to Australian standards aligned with international standards.

### **Recommendation 2**

That the Government continues to sponsor training and capacity building projects in standards and conformance for developing countries.

## **INTERNATIONAL AGREEMENTS**

International agreements or arrangements to support trade are built on aligned standards and associated conformity assessment processes which support harmonized product and service regulatory regimes or regulatory mutual recognition.

It is important to note that associated with the negotiation activities, irrespective of whether a final and formal agreement or arrangement is achieved the information exchange and interaction itself often precipitates harmonization of standards, conformity assessment processes and regulatory arrangements either at the time of the negotiations or subsequent to them. This often results in significant and worthwhile benefits to trade whether or not the formal agreement or mutual recognition is achieved even though the best result might be that agreement or recognition. Examples of this are achievements associated with and precipitated by Australia's involvement and leadership in the Asia Pacific Economic Cooperation (APEC) Standards and Conformance Sub-Committee and associated processes.

Examples of these activities are mutual recognition agreements or arrangements with the European Union, New Zealand, Singapore, APEC, free trade agreements with the US, Thailand and closer economic cooperation agreements with Singapore and New Zealand. Standards Australia has actively participated in a number of these and its international standards activities and extensive international alignment of standards is the basis on which they are built.



An example of Standards Australia's active participation is its involvement in APEC and many of its associated conferences and forums. When the APEC meeting is held in Australia in 2007, the Standards and Conformance Sub-Committee will be chaired by a Standards Australia senior manager.

### **Recommendation 3**

That Australia continues to take a leadership role in pursuing international agreements and arrangements that support trade and minimize barriers. That in doing so it promotes the sound models of internationally aligned standards and conformity assessment processes established in this country as a good example. That at the same time it seeks further opportunities for international standards alignment in economies which currently do not have such a high degree of alignment.

### **Recommendation 4**

That the Government encourages manufacturers to use Australian Standards for their benefit even when there is no mandatory requirement.

## **CONTRIBUTION TO GOOD REGULATORY PRACTICE**

Following are five key areas where standards developed by Standards Australia can make a major contribution to good regulatory practice and in so doing provide major benefits for manufacturers of products for export.

### **1. Provide for national and international uniformity**

A large number of regulations that adopt Australian standards are made under state legislation. In any area of regulation if state based regulators agree to call up the appropriate Australian standard then a nationally uniform regulatory requirement is provided in that area. This provides for regulatory efficiency and certainty for nationally operating Industries.

If the regulation deals with products that are traded internationally, then the appropriate Australian standard which is usually aligned with international standards provides for international regulatory harmonization and mutual recognition and therefore minimum barriers to international trade. The result is that a regulated product manufactured in one country can then be readily traded in another country without further requirement for testing or without the need to produce different product versions for different countries.

## **2. Support full stakeholder consultation and involvement.**

Most states and territories have legislation that defines the process required for the making of regulations commonly known as a “Subordinate Legislation Act”. If a regulator does not follow this process then a Parliamentary Committee can advise the Parliament to subsequently disallow the regulation. A fundamental part of this process is the requirement for a regulator to undertake effective stakeholder consultation.

The Report of the Taskforce on Reducing Regulatory Burden on Business – January 2006 states under the heading of “7.1 The principles of good regulatory process, item 6) There needs to be effective consultation with regulated parties at all stages of the regulatory cycle. It is important that stakeholders are consulted both at an early stage when policy options and approaches are being considered, and later when the detailed design features are being bedded down. Stakeholders also need to be consulted when regulation is reviewed or reformed after implementation.”

Standards Australia’s consultation process is wide-ranging involving all appropriate stakeholders including the regulator, is consensus based and extends through all stages of the standard’s development. This provides an environment which enables the regulator to work openly and cooperatively with industry and community and for all parties including the regulator to be fully informed about industry/community impacts and needs.

The Standards Australia stakeholder consultation process therefore more than adequately supports the consultation requirement under the Subordinate Legislation Act for standards adopted in regulation and provides a means for the regulator to readily demonstrate that appropriate consultation has taken place. It also well achieves the recommendation of the Taskforce.

## **3. Standards Impact Analysis supports Regulatory Impact Statements.**

Another fundamental requirement under a Subordinate legislation Act is for the regulator to prepare a Regulatory Impact Statement (RIS). The RIS must provide background information, explain the need for regulation, examine alternatives including those of no regulation and industry self-regulation or co-regulation and it must include comprehensive cost/benefit analyses of all alternatives. These costs and benefits can be social, financial or a combination of both.

Standards Australia has recently prepared a Standards Impact Analysis process which assists in justifying the need and approach proposed in a new or modified standard and provides for a cost benefit analysis. If a standard is to be adopted in regulation then this analysis can provide very valuable input into the RIS process.

#### **4. Support performance based regulation.**

The Report of the Taskforce on Reducing Regulatory Burden on Business – January 2006 states under the heading of “7.1 The principles of good regulatory process, item 3) The option that generates the greatest net benefit for the community (taking into account economic, social, environmental and equity impacts) should be adopted. Importantly, this may not be the option that is easiest to administer. For instance, regulatory bodies often favour the control afforded by prescriptive regulation, but principles-based or performance-based regulation will often confer greater benefits overall.”

Focus on performance outcomes supports their understanding, acceptance and therefore achievement. With prescriptive regulation it can be difficult to see the “wood” for the “trees”. A performance-based approach also allows industry flexibility in methods of compliance while maintaining certainty where needed with the provision of associated deemed to comply solutions.

Standards Australia has developed highly regarded examples of performance-based standards with accompanying deemed to comply solutions which regulators can and have readily adopted in regulation. The current, about to be released revision of “The Wiring Rules” is a good example of this. Again this process allows a regulator/industry/community agreed consensus approach to achieving good regulation.

#### **5. Minimize need for regulation**

Again The Report of the Taskforce on Reducing Regulatory Burden on Business – January 2006 states under the heading of “7.1 The principles of good regulatory process, item 2 Where a prima facie case for action is established, a range of feasible policy options need to be identified and their relative merits rigorously assessed. This should include assessing the costs and benefits of regulatory alternatives, including quantifying compliance costs and undertaking risk assessments where appropriate. Self-regulatory and co-regulatory options also need to be investigated.”

Where there are good regulator/industry supported standards with resulting good voluntary compliance this minimizes or prevents the need for regulation. It also supports the alternatives of industry self-regulation or co-regulation.

#### **Recommendation 5**

That Australia continues its pursuit of regulatory reform locally and internationally using influence associated with trade agreement negotiations to maximize its advantage of internationally aligned standards and conformance infrastructure.

**Recommendation 6**

That to benefit most from harmonization, the Government through its Regulators adopts Australian standards in legislation and regulations wherever possible, rather than draft specific standards directly in regulation. That the Government also works with Standards Australia to maximize the development and legislative adoption of performance based standards and associated deemed to comply standards to provide for maximum regulatory efficiency and effectiveness and industry flexibility.

## **RECOMMENDATIONS**

### **Recommendation 1**

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