

STANDARDS: TODAY'S TRADE BARRIERS ARE TOMORROW'S GLOBAL MARKETS

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INTRODUCTION

Contrary to the view of standardization as only a technical topic, it is in fact a critical business issue with implications for market access, anti-trust, product liability, patent policy and protection, new product development, occupational health and safety, the environment, government acquisition reform, and even our very quality of life.¹ The combined impact of market globalization and the rapid pace of technological development has reinforced both the importance of standards to business competitiveness and their potential for introducing distortions in both domestic and global markets.²

BARRIERS TO TRADE

Trade barriers elude fixed definitions, but may be broadly defined as government laws, regulations, policies or practices that either protect domestic products from foreign competition or artificially stimulate exports of particular domestic products. Categories include:

Import policies such as tariffs;

Standards, testing, labeling and certification;

Government procurement;

Export Subsidies;

Lack of intellectual property protection;

Service barriers;

Investment barriers;

Anti-competitive practices with trade effects tolerated by foreign governments; and

Other barriers such as bribery or corruption.

The National Trade Estimate (NTE) report covers significant barriers, whether they are consistent or inconsistent with international trading rules. Many barriers to U.S. exports are consistent with existing international trade agreements.³

TYPES OF STANDARDS

One needs to consider all standards and standards processes that influence national economic performance. Three different kinds of standards are relevant, namely: 1) product standards, 2) control standards, and 3) process standards.⁴

Product standards embody information and can have both negative and positive effects on the economy, and will most likely promote trade. Whether or not standards will be beneficial or not in any given instance will depend largely on factors such as market structure and pace of technology change.

Control standards generally address a societal problem or hazard often taking the form of regulations and can affect supply and demand of a product, through their impacts on costs of production, price, and consumer perceptions. These impacts are global in their effects.

Process standards facilitate and support socioeconomic transactions and interactions. Future economic interactions will likely be governed by standardized electronic data interchange and (or) the internet.

METHODS OF ACHIEVING STANDARDS

Criteria for judging standards processes change over time. As circumstances change, so too do the demands placed on the standards process. Three different kinds of standards are considered, including product standards, control standards, and process standards. Standards can be set : 1) through the market, on a de facto basis; 2) through the government using regulatory processes; and 3) through a voluntary consensus process. A detailed discussion of these standards processes is given elsewhere.⁴

THE FAST TRACK

The commercial viability of products marketed in foreign countries may be seriously hindered due to delays in obtaining required certification, especially for products subject to rapid obsolescence, such as telecommunication or information technology. Standards development must keep pace with the rate of progress. Interim international standards is one means of bringing the latest technology to industry.⁵ The U.S. government has an important role to play by seeking to reduce standards-related barriers to market entry. The ability to influence standards that are used abroad is critical to U.S. interests. U.S. products shall be more readily accepted in a global market if U.S. industry is supported by standards that are compatible with those of our trading partners. We cannot be different from the community we serve. The U.S. approach to product and process development must be made available on a global basis. Markets are global and domestic standards need to become internationally recognized standards.

There are hundreds of organizations involved in international standards. Unfortunately, it appears that the international community does not understand the U.S. system of consensus standards development which is undeniable slow, and about as fragmented as it could possibly be, but has served the country well.⁶ During wartime, when speed was essential, government assumed control over standards setting. However, in the postwar period it relinquished the responsibility to the private sector.⁴ Internationally, monolithic national standards organizations prevail. Once a product has been certified by a centralized accredited organization, it is accepted all across the country. Its a real benefit to manufacturers. In contrast, each jurisdiction in the United States may have its own standards and regulations.⁷

Recently, however, it appears that in the case of some oil, gas, and energy related industries, the need is to incorporate company specifications into American Petroleum Industry (API) standards. These company specifications may be more restrictive than those normally anticipated by the API and is self-serving. Unfortunately, such actions undermine the legitimacy of the consensus process, both in the opinion of its members as well as in the eyes of the rest of the world. Companies may argue that if the requirements were standard, costs could be reduced but with little regard for increased cost to domestic producers, or distributors of oil field products. This may impact the national economic performance negatively.

GOING GLOBAL

Is liberalization of highly protected markets possible? Mutual recognition agreements can make an important contribution to increasing U.S. competitiveness. The World Trade Organization/Technical Barriers to Trade (WTO/TBT) agreement

establishes rules and procedures regarding the development, adoption and application of voluntary and mandatory standards and the procedure used to determine whether a particular product or service meets such standards and is described in detail elsewhere.⁸ However, standards are subtle and effective methods to thwart the intent of treaty agreements. One would be naive to believe that trading “*block voting*” does not occur - the U.S. is probably as guilty as anyone else. The European participants of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), the U.S. and 27 other hemispheric countries which are members of WTO are constantly trying to create blocks of support to get their position agreed to in the standards development game. This may not always be in the best interests of international standards and other countries may be more effective in their lobbying efforts than the U.S.

To quote President Clinton in February 1993, “We will continue to welcome products and services into our markets but insist that our products and services enter theirs on equal terms.” President Clinton has steadfastly pursued that goal and negotiated nearly 200 agreements to open foreign markets, identifying barriers to U.S. exports, negotiating agreements to reduce them, and monitoring and enforcing those agreements, as well as our trade laws. However, despite the progress many of the barriers are inconsistent with trade agreement obligations, including those under the WTO agreements. Since the establishment of the WTO in 1995, the United States has used WTO dispute settlement procedures to address foreign trade barriers eleven times. However, significant progress has been made.⁹

One may wonder about the possibility that specification development has goals other than the publication of international consensus documents considering comments by Dr. Hermann Franz, chairman of the Siemens' supervisory board: "Europe must set standards worldwide just as it did in the past. We must take care not to allow other countries and regions to set international standards and thereby preempt the markets for themselves. European standardization is a tool for creating competitive advantage and should come to dominate the contents of international standards."¹ Such comments should caution the U.S. (and other developing nations), not to perpetuate the myth that one's interests are always best served internationally.¹⁰ However, there are only two kinds of countries and organizations: those who have embraced the international standards process, and those who will. Those who dominate the standards process dominate world markets.¹¹ Unfortunately, there appears to be a growing perception that ISO and IEC are the only international standards organizations and that international standards equate to ISO (the ISO process in developing international standards has been tremendously successful), and IEC standards.¹² If U.S. business and government allow this concept to permeate trade negotiations, it will undoubtedly have negative implications for the U.S. to compete in the international market. Does the one-country/one-vote provision of ISO and IEC, ensure fair opportunity of representation for all countries? ISO membership is no guarantor of the technical quality or commercial merit of the resulting standards.

The international mandate should continue to be, development of the best technical standards possible, not ignoring the growing influences of government involvement and commercial interests, which may compromise technical content. To

acquire the title of international standards, the standards should be in use in the global market. The ones that survive are generally the good technical standards. The best international standards and standards developing organizations shall be those that withstand the test of time, such as the American National Standards Institute (ANSI), American Society for Testing and Materials (ASTM), and Underwriters Laboratories (UL), but to mention a few in the U.S. Good international standards support the concepts of free access to international markets and facilitate trade.¹² To be acceptable for use in international trade, standards need not bear the imprimatur of ISO or other international and regional standards bodies.¹³

STRATEGIC INITIATIVES

The evolution of technologies in the fields of information, communication, advanced manufacturing equipment, and new materials is undoubtedly the focus toward greater efficiency and a better adapted strategy.

Organizations in the U.S. are rapidly realizing that adopting strategic standards management initiatives as a key business policy, is central to their future success and survival. The U.S. private and public sectors must work together in this respect and participate aggressively in standards activities that can generate entirely new markets. The collaboration should seek to eliminate costly redundancy and recertification often required by governments, with the goal being, one conformance, one accreditation, and one recognition. The Center for Strategic Standardization Management opened last year by ANSI offers help to companies seeking strategies for tracking standards trends.

The strategic value of international standards to the national economy is beyond doubt. U.S. standards must be recognized by our trading partners in NAFTA, the European Union, the Market of the Americas, and the Asia-Pacific Economic Cooperative if one product, tested once, is to be sold worldwide. American industry must get involved at the grass roots levels, proposing technologies as the basis for national and international standards - the rewards can be enormous. Influencing the writing of standards and understanding the issues is central to competitive business.

The United States has many more standards available for application than most other nations.¹⁴ For developing countries, the international standard is sometimes an irreplaceable support of technology transfer. Effective U.S. involvement in international standardization must be expanded to developing countries who generally tend to use

international standards. This can save developing countries unnecessary costs and efforts in building their national industries and entering world markets. This strategy would benefit the U.S. from the stand point of standards compatibility, interchangeability, and the need to service and maintain products far from the source of original production. By unifying market requirements, standards can provide competitive options to users and consumers.

International standards development should be pragmatic. Enthusiasm, and patience will achieve more than force. Breadth of mind and vision is required in the field of international standardization - patriotism alone is not enough. International standardization is also a powerful link contributing to international understanding.

BUILDING BLOCKS FOR THE FUTURE

The U.S. has lead standards development for most of this century and in my opinion shall continue to do so in the 21st century. However, the U.S. must provide U.S. companies both large and small, with access to global markets through international standards and assist them in influencing foreign market requirements. Opening up markets gives greater opportunity both to the manufacturing exporter and to the importer.

Companies using international standards still have to identify and satisfy the certification, testing, inspection, and approval provisions of the importing country. These requirements are complex and continues to be a major barrier to trade in technical products. The U.S. must vigorously concentrate internationally on establishing reciprocal recognition between different countries to eliminate these barriers. A typical example, is the "CE" mark required for U.S. exports to Europe. The CE mark is not a

quality mark and does not indicate conformity to a standard, rather it indicates conformity to the legal requirements of the European Union Directives. Unfortunately, many U.S. manufacturers view the process of securing a CE mark as difficult and time consuming.¹⁵

The future of standardization lies in ensuring that standards are seen by all potential stake holders, from the technical standards-writer to the senior executive, as opening doors to trade. Alternative strategies and options that the United States might consider include:

The U.S. Government should take an even greater role in funding international standards development.

Flexibility in dealing with different industry sectors which have different standardization requirements.

Maintain dialogue with developing countries, assisting with standards, and related matters that can enhance U.S. trade, adopting a *“fast track”* policy.

Industry must develop integrated strategic standardization management initiatives. Focus on the private sector not to view the U.S. Governments participation in standardization with suspicion and paranoia.

Unify the private sector standards community, with better coordination and policy making at the Federal level.

Develop extensive outreach and educational programs for the business community (other than publications of standards directories and reports).

Standards development must be fair to prevent any single interest from dictating the outcome.

Foster standards harmonization and mutual recognition agreements in parallel to assure competitiveness.

Evaluate the effect of substituting voluntary standards for regulation, if it benefits trade initiatives for private sector organizations.

IN CLOSING

As far as standardization is concerned, the picture remains a complex one. Many of the integration groups have different normative traditions, and different priorities, and urgencies, which may or may not be a barrier to trade. The grand objective is the consolidation of all the common markets. The increase in the ***visibility*** of U.S. standards is critical.

This paper presents the authors position as a very interested participant in standards discussions and the continuing evolution of the standards process, primarily from the standpoint of the producer.

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