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New Zealand Productivity Commission
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Standards New Zealand's submission to the Productivity Commissions of Australia and New Zealand
Issues paper: Impacts and Benefits of Further Economic Integration

Introduction

The Productivity Commissions of Australia and New Zealand have invited submissions from interested parties on issues relevant to the terms of reference for their joint inquiry on the impacts and benefits of further economic integration between the two economies. The Commissions' aim is to identify specific areas for further reform, how they might best be achieved, and their likely impacts.

Standards often play a key role in the implementation of regimes to strengthen economic integration, at a national, regional, and international level. Standards New Zealand and Standards Australia work closely together on the development of joint Standards and participation at international fora to assist trade and harmonisation between the two economies, and internationally.

This submission provides an overview of this relationship and how joint Standards make a fundamental contribution to economic integration, as well as addressing a number of questions from the Commissions' April 2012 issues paper. Standards New Zealand has consulted with Standards Australia as part of the process of drafting this submission.

The relationship between Standards New Zealand and Standards Australia

There is a long history of collaboration between Standards New Zealand and Standards Australia. The national Standards bodies have a working relationship that is unique in the world. Our formal relationship dates back to 1992, when both organisations signed an Active Cooperation Agreement to meet objectives of Article 12 of the Australia/New Zealand Closer Economic Relations (CER) Trade Agreement. Today, a memorandum of understanding (MOU) between the two Standards bodies outlines our commitment to working together on joint Standards development and participation in international and regional fora. The MOU recognises joint Standards as a means to assist trade harmonisation between Australia and New Zealand, and by both countries to the rest of the world.

Australian/New Zealand joint Standards

Joint Standards are Standards that have been developed using joint committees and the consensus of all relevant Australian and New Zealand stakeholder interests. They can also be adoptions of International Organization for Standardization (ISO), International Electrotechnical Commission (IEC) or other international Standards. Over 80% of New Zealand's national Standards catalogue is currently comprised of joint Australian/New Zealand Standards.

International and regional collaboration

Standards New Zealand and Standards Australia actively collaborate when participating in international and regional Standards fora. Both national Standards bodies are members of ISO, IEC, and the Pacific Area Standards Congress (PASC).

The role of joint Standards in trade facilitation and economic integration

The Ministry of Foreign Affairs and Trade (2006) notes:

Regulations and Standards have an important role in protecting human health and the environment, and in preventing deceptive trade practices. However, when they are more onerous than necessary, lack transparency, or arbitrarily discriminate against products from particular countries, they can act as de facto trading obstacles or barriers to trade.¹

Examples of these barriers, which sometimes result from a lack of regulatory 'coherence' include:

- inconsistent use of international Standards
- inconsistent testing Standards
- onerous or unnecessary certification
- prescriptive and inconsistent labelling.

Where Standards are aligned, however, they facilitate trade by opening up opportunities to participate in markets, and allowing them to function efficiently.

The World Trade Organisation (WTO) cites two of the most important functions that Standards provide as compatibility and information.² Through joint Australian/New Zealand Standards, these functions provide a common understanding of the performance requirements for products and services across the Tasman, and a measure on which each partner (and consumers) can build trust and confidence, creating more seamless transactions and reducing associated and costs.

Business Economic Research Limited (BERL), in its 2011 New Zealand study into the economic benefits of standardisation notes:

'The use of Standards to reduce trade barriers and facilitate trade between New Zealand and Australia is growing in recognition. An example of significant trade benefits are the joint Electrical Appliance

¹ Ministry of Foreign Affairs and Trade. *Trade matters*. May 2006. Retrieved from <http://www.mfat.govt.nz/downloads/media-and-publications/tradematters-tbt.pdf> (29 May 2012).

² World Trade Organisation. *World trade report 2005: Exploring the link between trade, Standards, and the WTO*. 2005.

Standards, which are cited by regulators in Australia and New Zealand. Manufacturers such as Fisher & Paykel can produce appliances that automatically meet all the regulatory requirements to enter the New Zealand or Australian market. This makes importing and exporting easier and more efficient. Standards in this case are therefore reducing transaction costs as both parties are mutually aware of the technical characteristics, regulatory requirements and potential market'.³

Joint Standards can be used to harmonise trading arrangements either quite separate to, or as part of common legislative or regulatory approaches. They can be voluntary, or support a range of regulatory measures, and enhance trade by:

- promoting more flexible, performance based regulatory frameworks and regulatory efficiency
- providing the technical basis for regulations and as a means of regulatory alignment
- allowing a broad spectrum of government, industry, and community stakeholders to have input into, and develop a consensus around, what is acceptable practice
- improving competition in the market place by helping industries capture knowledge, share insights, enhance compatibility between products, and reduce risk
- covering subject areas that directly affect trade, such as raw materials, certain manufactured goods, test methods, information technology and communications.

The Productivity Commissions' issues paper notes that a potential cost of aligning regulatory frameworks is regulations that do not suit local conditions. The internationally recognised Standards development process used by Standards New Zealand and Standards Australia engages with stakeholders to reach consensus on what is acceptable practice. Joint Standards are produced by technical committees composed of expert (volunteer) nominees with support from national Standards body staff. Hundreds of organisations – from business, academia, research bodies, consumer groups and government – nominate committee members. This 'in kind' contribution by stakeholders is a cost effective way of promoting market driven harmonisation.

The need for balanced participation in Standards development committees is paramount to continue to ensure joint Standards are suitable to support technical regulation in both countries. Accordingly, support from both governments is critical to ensure adequate funding for, and coordination of, the joint Standards process, as well as participation in international Standards development.

³ Business Economic Research Limited. *The economic benefits of standards to New Zealand*. August 2011.

Responses to the Productivity Commissions' questions

Q4. What should governments do to reduce or eliminate [barriers to doing business across the Tasman]?

Standards New Zealand considers that further support for joint Standards would provide a cost effective means towards reducing barriers to trans-Tasman trade. Equally, joint Standards provide a solid technical and market foundation (that is, a precursor) for the implementation of higher-level legal frameworks, such as legislation and regulations.

While mutual recognition can address the issue of trade barriers, and in some instances with relatively low cost, harmonisation creates a more seamless trading environment and addresses issues of quality and inferior standards in some jurisdictions.

Because joint Standards are stakeholder driven and consensus based, they can also address and accommodate areas where jurisdictional differences exist, due to geographical, social, or environmental conditions, for example.

Q6. What lessons for future efforts can be taken from the 30-year history of the CER agenda? What aspects of specific reforms have worked, and what aspects have not worked well? Why?

Standards have effectively underpinned the delivery of outcomes from the Trans-Tasman Outcomes Framework (created to accelerate the creation of a single economic market (SEM) between Australia and New Zealand). For instance, the joint Australian/New Zealand Standard AS/NZS 6400:2005 *Water efficient products – Rating and labelling Standard* underpins the water efficiency labelling scheme (WELS) for harmonised labelling requirements between New Zealand and Australia.

Similarly, under the Equipment Energy Efficiency (E3) Programme, Australia and New Zealand set out tools to improve product energy efficiency to honour commitments under the Trans-Tasman Mutual Recognition Arrangement (TTMRA). The requirements for Minimum Energy Performance Standards (MEPS) and labelling requirements are set out in a number of joint Australian/New Zealand Standards on performance and testing. As the issues paper notes, however, there is progress to be made for further harmonisation in these Standards. While our balanced stakeholder committees make every effort to harmonise joint Standards, there are sometimes political and economic objectives that necessitate a national approach.

In particular, the joint Standards development committee EL-002 has been exemplary for driving harmonisation between Australia, New Zealand, and the rest of the world through joint Standards and the adoption of IEC Standards. EL-002, supported by a Standards New Zealand secretariat, is the committee for safety of household and similar electrical appliances and small power transformers and power supplies. Their success in aligning with international Standards and harmonisation between Australia and New Zealand wherever possible not only allows closer economic integration, it also builds strong relationships and standing internationally, allowing New Zealand and Australia to keep abreast of and influence international Standards development. In New Zealand, Energy Safety (a division of the Ministry of Economic Development) funds EL-002.

Standards New Zealand has received feedback from New Zealand industry stakeholders about the value and utility of joint Standards developed by EL-002. We would encourage the Commissions to explore this further with these stakeholders.

In 2011, the Australian and New Zealand governments agreed to proceed with a joint scheme for regulation of therapeutic goods (medicines, medical devices, etc). The creation of a joint regulatory scheme across both countries is aimed at safeguarding public health and safety, while encouraging economic integration and benefitting industry in both countries. Over time, the joint arrangements will be administered by a single regulatory agency, the Australia New Zealand Therapeutic Products Agency, which will absorb the current regulators, Australia's Therapeutic Goods Administration and New Zealand's Medsafe.

Earlier efforts to drive this reform faced political challenges and a significant degree of industry opposition. Arguably, the development of suitably robust joint Standards could have generated stakeholder and industry buy-in, avoided undue politicisation of the issues through consensus building, and created the conditions for a smoother transition to harmonised regulatory arrangements.

Q.15 Are there particular thresholds that should not be crossed in advancing a deeper integration agenda, on the grounds that they would compromise sovereignty?

Q.17 What emphasis should be given to trans-Tasman integration policy relative to broader regional and multilateral initiatives, and to unilateral action?

Q.18 Should trans-Tasman integration policy be designed so as to complement broader initiatives? Would there be net benefits in multilateralising some elements?

When developing Standards the emphasis given to national, trans-Tasman (or bilateral), and multilateral arrangements should balance international obligations, and national and regional policy objectives.

Under the World Trade Organisation (WTO) Technical Barriers to Trade (TBT) Agreement, to which both Australia and New Zealand are signatories, where international Standards exist, or their completion is imminent, standardising bodies should use them, or the relevant parts of them, as a basis for Standards they develop (there are exceptions under circumstances with urgent problems of safety, health, environmental protection or national security). The agreement also encourages all standardising bodies to play as full a part as resources will allow in the preparation of international Standards by the ISO and IEC.

The TBT Agreement requires WTO members not to discriminate in favour of domestically produced goods, to apply equal treatment to 'like products' from other members, and encourages them to adopt international Standards, or at least accept the equivalent regulations from other countries. Standards and conformity assessment provisions feature in almost all Free Trade Agreements negotiated by New Zealand and Australia, and a common element of bilateral trade agreements is that they must not contravene the agreements under the WTO that already bind signatories.

The Australian Productivity Commission's 2010 review found that while the CER had a positive impact on bilateral trade between Australia and New Zealand, it had a negative impact on the trade of both countries with the world. In the same way that joint Australian/New Zealand Standards facilitate bilateral trade, adoption of international Standards facilitates trade internationally. Joint Australian/New Zealand Standards that are adoptions of international Standards, for example, AS/NZS ISO 9001:2008 *Quality management*

systems – Requirements, ensure that our WTO obligations are met and facilitate international trade. First published in 1987, ISO 9001 has become the global benchmark for providing assurance about the ability to satisfy quality requirements and to enhance customer satisfaction in supplier/customer relationships.

The issues paper notes that multilateralisation of some of the preferential agreements could provide gains for the Australian and New Zealand economies. Joint Standards (including jointly adopted international Standards) are an important technological foundation to transition to other, multilateral arrangements.

Q.31 How could Australia and New Zealand enhance the creation and transfer of knowledge between the two countries to mutual benefit?

Standards are a key mechanism for cross-border innovation and knowledge transfer. Standards codify knowledge and best practice and allow it to be disseminated widely. While some argue that Standards constrain innovation, research shows that Standards create an invaluable platform to innovate from. Standards are a source of information for innovation activities, address issues of compatibility and quality, diffuse new technologies into markets, and provide consumers with confidence about the quality of new goods and services.

The development of joint and the adoption of international Standards is an efficient way to introduce new technologies that have been codified into Standards by experts in their field.

Q.34 What opportunities are there for Australia and New Zealand to work more closely to further common economic interests in international forums?

While there is active collaboration between the two Standards bodies in international fora, the Australian and New Zealand governments could work more closely together to identify opportunities, and positively influence Standards development to further common economic interests.

Work is underway in the international Standards community to consider how Standards could underpin emissions trading schemes (ETS). While the Australian and New Zealand governments are still investigating linking Australia and New Zealand's schemes, both national Standards bodies support a coordinated effort to align with international practices for the use of Standards as a supporting technical layer to an ETS framework, regardless of the final agreement.

Conclusion

Joint Standards provide a foundation for regulatory harmonisation and closer economic integration. They are tools not just to integrate New Zealand and Australia's economies, but also through the adoption of international Standards, to align with the rest of the world (the global economy).

In order to further enhance economic integration between Australia and New Zealand, more consideration should be given to the role Standards can play in reducing barriers to trade, through a consensus based approach that engages with stakeholders. Additionally support from government is required to ensure that trans-Tasman and international participation in Standards development is optimised, and that Standards can continue to be used as technological foundations for both bilateral and multilateral trading arrangements.

As Standards New Zealand and Standards Australia indicated to the Australian Productivity Commission during its previous inquiry into mutual recognition schemes, joint Standards are an important, but often overlooked, mechanism to effectively drive harmonisation and SEM objectives.

We would be happy to expand on any of the themes contained in our submission or answer any follow-up questions the Productivity Commissions may have.

Your sincerely

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