CONFORMITY ASSESSMENT

-BETWEEN RISK MANAGEMENT AND TRADE COSTS-

Thematic Session on Conformity Assessment Procedures
TBT Committee
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## Context (1): IRC in OECD work

### International Regulatory Co-operation in OECD work
- Regulatory Cooperation for an Interdependent World (1994)
- Council Recommendation on Regulatory Policy and Governance (2012)
- International Regulatory Co-operation: Addressing Global Challenges (2013) (incl. typology of IRC approaches)
- The Role of International Organisations (2016)
- Assessing the Trade Impacts of Regulation (2016)
- ... and many others

→ mostly looking at this from the (domestic) governance side

### Non-Tariff Measures in OECD sectoral and trade work
- Cost-Benefit Framework for the Assessment of NTMs in Agro-Food Trade (2009) and related cases (2010)
- Trade Facilitation Indicators (2011ff.)
- Strengthening Transparency Disciplines in Trade (2013)
- Services Trade Restrictiveness Index (2014ff.) and The Trade Effect of Regulatory Differences (2016)
- Voluntary Environmental and Organic Standards in Agriculture (2015)
- ... and many others

→ various angles to better understand NTMs and their trade effects

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### Context (2): Dimensions of an IRC Framework

#### Regulatory areas
- Product & production requirements (“rules”)
- Conformity assessment procedures (CAPs)

#### Regulatory status
- Different preferences for new regulations
- Heterogeneity in regulatory stock

#### Co-operative actions
- Upstream cross-border coherence
- Convergence
- Equivalence, mutual recognition
- Confidence building
- Dissemination of information to stakeholders

#### Trade cost reductions
- Specification costs
- Conformity assessment costs
- Information costs

#### Trade cost effects
- Fixed vs variable costs
- Impact on large firms vs SMEs
- Intensive vs extensive margin
- Choice vs price effects
## Context (3): Tackling conformity assessment costs

### Regulatory areas
- Product & production requirements ("rules")
- Conformity assessment procedures (CAPs)

### Regulatory status
- Different preferences for new regulations
- Heterogeneity in regulatory stock

### Co-operative actions
- Upstream cross-border coherence
- Convergence
- Equivalence, mutual recognition
- Confidence building
- Dissemination of information to stakeholders

### Trade cost reductions
- Specification costs
- Information costs

### Trade cost effects
- Fixed vs variable costs
- Impact on large firms vs SMEs
- Intensive vs extensive margin
- Choice vs price effects
Conformity assessment procedures (CAPs)

a) CA-methods (the WHAT)

• Methods for testing, examination and inspection, incl. sample sizes, documentation

• Purpose: provide objective measurement of product characteristics

• Significance of (scientific) evidence
  – Less related to countries’ “preferences”
  – Analogous to “horizontal” rules with limited domestic costs due to deviation

• Harmonisation or mutual recognition
  – Potentially develop “conversion” of results
Conformity assessment procedures (CAPs)

b) CA-systems (the WHO)

- Conformity assessment systems as a risk management tool
- Domestic costs due to reduced confidence, more market surveillance etc.
  - Expected damage from non-compliant imports
  - “Perceived certainty-equivalent” damage, function of
    - Perceived probability of non-compliance
    - Estimated damage of non-compliant products
    - Risk aversion
- Increasing trade costs
  - More restricted choice for suppliers
  - Shipment of samples to importing country for testing etc.
  - Possible duplication of testing
- Balance trade costs and non-compliance risk
  - markets with low potential damage: allow for flexible and least-cost CAPs
  - in markets with high potential damage: maintain control
  - Reduce damage potential through co-ordinated market surveillance and information exchange

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Net benefits of switching to less restrictive conformity assessment systems

\[ W_{ig} = T_i - p_i D_g \]

- Accepting SDoCs
- Accepting certificates (and test results) from exporting country
- Accepting test results from exporting country, but require certificates by importing country's body
- Least-Acceptance
Mutual recognition can help to lower conformity assessment costs

- Does not require changes in regulations
  - Addresses regulatory stock
- Reduces conformity assessment costs in GVCs
  - Streamlining the administrative process for market admission
- Requires establishing conformity assessment infrastructure
  - Shift costs to market surveillance, enforcement?
- Seen as costly by regulators and administration
  - Negotiation, maintenance of MRAs
- Works best in science-driven domains, large GVCs, low regulatory divergence, institutional proximity
  - Facilitated by GRP
Spectrum of mutual recognition

Mutual recognition of rules: equivalent objectives, regulatory requirements, standards, and conformity assessment procedures

The EU principle of Mutual Recognition as a corollary of the “free movement of goods” in the non-harmonised sectors

The Trans-Tasman Mutual Recognition Agreement

Mutual recognition of conformity assessment (procedures and results) for goods under different partner’s rules

MRAs incorporated in RTAs

Stand-alone MRAs

Government MRAs

Non-government MLAs (between CABs or Accreditation Bodies)

Bilateral MRAs

Multilateral MRAs

Questions? Comments?

Thank you!

Read the Framework on IRC:
http://oe.cd/IRC-TheoreticalFramework

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