

Conformity Assessment Procedures Trade Impact on Manufacturers

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Some Thoughts on Trade from a Manufacturer's Perspective

- ***"Trade" is the term applied to the sum of all commercial transactions that take place between two or more sovereign countries***
- ***"Trade" implies a bi-directional flow of goods and services between countries***
- ***"Trade" expands the markets for goods and services for the participating countries***
- ***"Trade" raises the standard of living for the citizens of the participating countries***
- ***"Trade" involves multiple levels of economic and commercial activities in the participating countries***
 - ***E.g. Government to Government, Private sector to Government, Commercial to Commercial, Commercial to Consumer***

Regardless of transaction level, a sufficient degree of trust and confidence must exist between the parties (and other stakeholders) engaged in the transaction

- ***The product or service **supplier** is considered the 1st Party to the transaction. They must have confidence they will be adequately compensated***
- ***The **consumer** of the product or service is considered the 2nd Party to the transaction. They must have confidence their expectations will be met in exchange for their payment***
- ***Any breakdown in trust or confidence between the parties before the transaction will likely negate the commercial arrangement***
- ***Any breakdown following the transaction will likely negate any further transactions and may result in other actions***
- ***Government is an "interested stakeholder" in all commercial transactions and may also be a 1st, 2nd or 3rd Party to a transaction.***

The objective of Conformity Assessment is to provide the parties with sufficient trust and confidence for commerce to occur

- ***CA provides a way for consumers (and regulators) to gain confidence in the products and services offered by suppliers and differentiate between them***
- ***CA is a way for legitimate suppliers to build confidence in their products or services and differentiate themselves from competitors***
- ***This "process" – known as **Brand Building** – is critical to business survival because it ensures ongoing commerce***

Successful Companies attempt to differentiate themselves by "Brand Building"

- ***Effective Conformity Assessment builds Stakeholder Confidence***
- ***Stakeholder Confidence builds Brand Recognition***
- ***Brand Recognition only has value if it is based upon positive Brand reputation***
- ***Positive Brand Reputation is only earned by consistently meeting Stakeholder expectations***

All Conformity Assessment consists of four basic elements:

- 1. Standards & Regulations***
- 2. Inspection***
- 3. Testing***
- 4. Time***

- Standards & Regulations provide the baseline for assessment***
- Conformity Assessment Systems are classified by which party performs the Inspection and Testing.***
 - 1st party - Supplier's Declaration of Conformity (SDoC)***
 - 2nd party – Customer's assessment (Customer Satisfaction)***
 - 3rd party – "Independent" assessment***
 - Used voluntarily for "Brand Building" and Risk Mitigation***
 - Mandated for Market Access***

The 4th Element of Conformity Assessment is Time

- ***There is a legitimate market expectation that products will continuously meet requirements***
- ***Pre-market assessment ensures initial compliance***
- ***Post-market surveillance is required to ensure continued compliance***
- ***Effective Conformity Assessment utilizes both to optimize results***

Legitimate Manufacturers support the promise of the WTO TBT Agreement...

- ***"Conformity Assessment (CA) procedures are not prepared, adopted or applied with a view to or with the effect of creating unnecessary obstacles to international trade. This means, inter alia, that conformity assessment procedures shall not be more strict or be applied more strictly than is necessary to give the importing Member adequate confidence that products conform with the applicable technical regulations or standards, taking account of the risks non-conformity would create."***

but today that promise still remains unfulfilled.

Real Life Problems seen today

CA-system Requirements out of proportion to the risk

- ***EMI regulations for IT products require independent third-party certification.***
 - ***Shown to be low risk (likelihood of non-compliance and Harm from non-compliance)***
 - ***Historically evidence shows the adequacy of Supplier's Declaration of Conformity.***
- ***SDoC is acceptable for Earthmoving Equipment in the US and Europe with minimal negative experience but not acceptable in many other WTO member countries***
- ***Unique Agricultural Equipment Lighting and Marking Requirements requiring different colors, different configurations, different design specifications and different light sequencing (turn signals).***

Real Life Problems seen today

Unique and Non-value added Testing

- ***EMI regulations of IT products requires local testing (e.g., designated labs) based on non-technical, non-competence criteria. More rigorous technical test results are not acceptable.***
- ***Unique Agricultural Equipment Lighting and Marking Requirements (previously noted) requires expensive local testing***
- ***Unique Earthmoving Equipment requirements in a few countries requires local 3rd party testing beyond globally acceptable norms.***

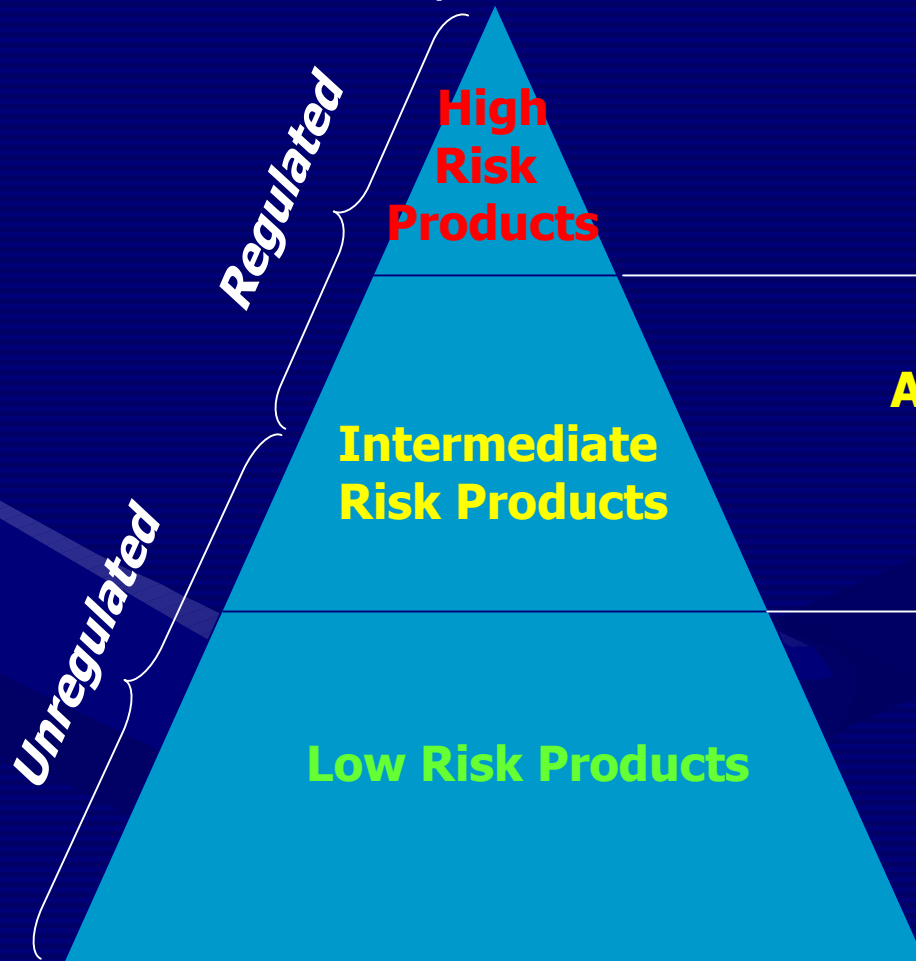
Trade Impacts of Conformity Assessment from the Manufacturer's Perspective

- **Market Access Requirements**
 - *Unique Standards & Regulations*
- **Time to Market**
 - *Measured from application to delivery*
- **3rd Party CA Capacity**
 - *Relates to Time to Market*
- **3rd Party CA Cost**
 - *Logistics*
 - *Resource*
 - *Administrative*
 - *Cost to risk ratio*
 - *Cost to Margin ratio*
- **Redundant 3rd Party CA Cost**
 - *Same or similar tests*
 - *Multiple markets*
 - *Significant Added Cost*
 - *No Added Value*
- **Inventory Costs**
 - *How many days of goods in the "pipeline" valued at retail ?*
- **Cash Flow**
 - *Days to Settlement ?*
- **Competitive Issues**
 - *Equal application of requirements*
 - *Costs passed to Consumers*
- **Business Risk**
 - *Does the revenue justify the expense?*

Industry Preferred Conformity Assessment Model

Product Classification
Pyramid

Conformity Assessment
Program



**Pre-market Surveillance
Requiring
Mandatory 3rd Party Certification
With MRA options**

**Pre-market Surveillance
Accepting Justified SDoC or 3rd Party
Certification from Accredited CA
Organizations with MRA options
Post Market Surveillance**

**Supplier's Declaration of Conformity
Voluntary 3rd Party Certification
Post Market Surveillance
Recall Mechanism
Penalty Mechanism**

Other CA Considerations

- *CA Systems should recognize and reward sustained good performance in the marketplace.*
 - *"Brand Building" benefits all stakeholders*
- *WTO Member Countries should "benchmark" product and Brand experiences among themselves before establishing unique requirements for market access.*
 - *Standards & Regulations*
 - *Regulated Product listings*
 - *Risk Management*
 - *Market Sanctions*

Factors to consider in implementing an effective Conformity Assessment process :

- ***The perceived risks associated with non-conformity to specifications.***
- ***Practical means of evaluating characteristics of interest***
- ***The scale and type of production operation or in the case of a service, the method of delivery***
- ***The Product Support, Warranties and Complaint Resolution available to consumers and end users***
- ***The Cost Impact of decisions on Consumers (and all potential market suppliers)***
- ***The effectiveness of marketplace mechanisms to remove non-conforming products from the market***
- ***The effectiveness of penalties for placing non-conforming products in the market***

WTO TBT Committee Challenges

- 1. Harmonization of Standards and Regulations to eliminate unjustified and unnecessary unique requirements***
- 2. Elimination of Redundant and unnecessary Inspection and Testing Requirements***
- 3. Harmonization of Product Risk Assessments and Regulated Product Lists among members***
- 4. Guidelines for member-states on setting up effective and non-discriminatory CA programs***

The Benefits of Meeting the Challenges...

For your citizens:

- *Greater product availability*
- *More choice*
- *More confidence*
- *Lower cost of goods and services*

For the Economy:

- *More Trade*
- *Faster Growth*
- *More Capital Investment*

For All Manufacturers:

- *Faster Time to Market*
- *Lower Cost*
- *More Effective Competition*
- *More Investment Opportunity*

Thank You

Questions or Discussion?

