

**STANDARDS AUSTRALIA**

Submission to Standing Committee on Economics,  
Finance and Public Administration

**Inquiry into the current and future directions of  
Australia's service industries**



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## Summary

Australia's service exports were worth around \$36 billion in 2005, with the USA being the largest consumer (12 percent), followed by the UK (11 percent), Japan (9 percent) then New Zealand, China and Singapore. Sharing a common language, legal system and culture has, to some extent, allowed Australian service providers to more easily fit into some of these traditional markets and negotiate the hurdles to market entry, over and above the basic need to compete against more established businesses in the target market. These hurdles include:

- Understanding the service levels applying in the relevant market, particularly the more technical requirements
- Dealing with the differing requirements for qualifications of personnel delivering services
- Legal controls on specific service industries
- Registration systems for service providers

Many of these hurdles fall into the general category of the 'standards' that must be met, whether these be 'standards' in the more formal sense or simply industry norms. Standards Australia therefore believes it is appropriate to provide a submission to the Inquiry and explore some of the standards issues associated with services.

If Australian service industries are to expand its penetration beyond the more comfortable and familiar markets, they will need to be equipped to confront standards-based barriers to trade head-on.

# Standards for Services

## Overview

A considerable part of Standards Australia's activities as the national standards body is focussed internationally. However, a number of submissions to the current Productivity Commission Inquiry into Standards and Accreditation have questioned the value of international standardization to Australia when the flow of manufactured goods is largely into Australia and aligning standards simply facilitates this flow.

There are, of course, many sides to this discussion, including treaty obligations and commitments to trade liberalization policies. However, from a purely practical point of view, should Australia decide to isolate itself from international standardization activities, Australian practices will quickly evolve to be out of touch with the world market and we would risk stifling opportunities to export not just our goods but also our services. This is something the Australian steel industry found to its cost in the 1970's when it tried to export surplus steel production made in accordance with Australia's (then) unique standards and grading system. For a relatively small economy like Australia, with minimal leverage, there is little scope to expect the international market to bend to suit our practices. If Australia wishes to trade either goods or services, it needs to take account of the practices and requirements in the target markets.

As the terms of reference for the present House of Representatives Inquiry point out, it is important to look beyond the short-term trade situation and consider where Australia might need to position itself as market cycles go through their inevitable rises and falls. Clearly, Australia has a strong international reputation in many service sectors and the effects of our relatively high cost structures are of less of a competitive disadvantage than is the case with manufacturing exports, especially FMCGs. However, if we are to realise the opportunities to export our premium services, the prevailing standards in target markets will be one of the factors to be considered.

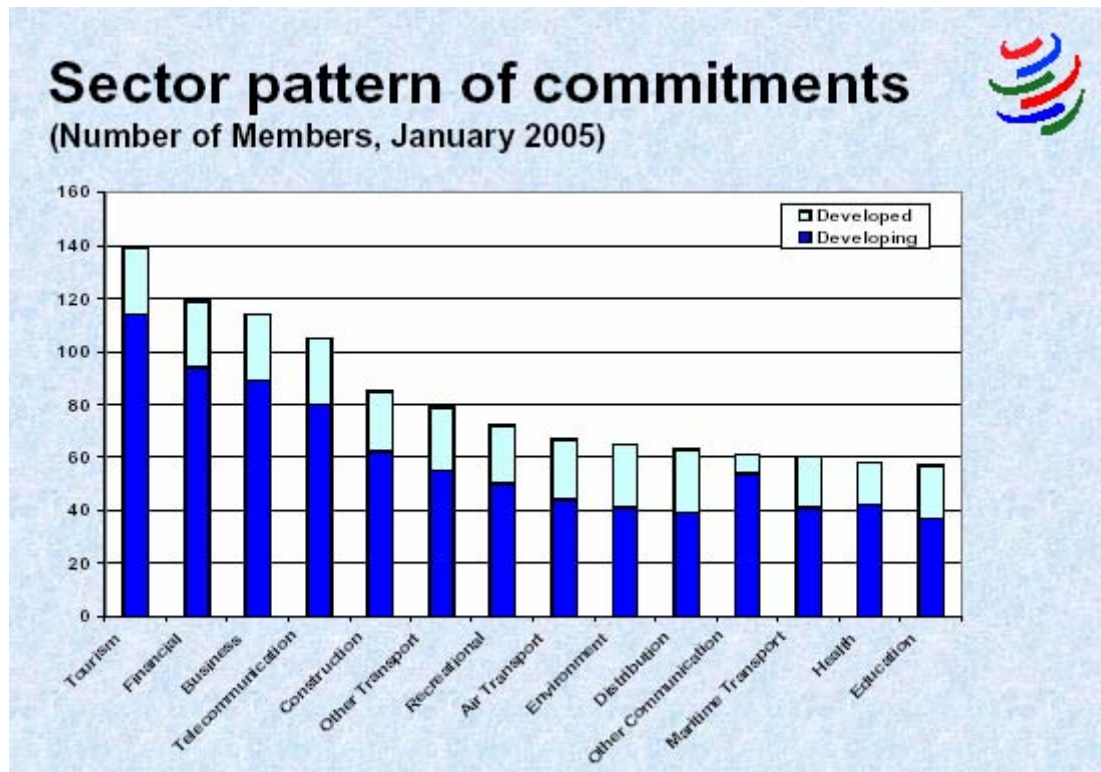
For Australian companies seeking to sell their services overseas, for example in the construction industry, familiarity with local standards can be a major success factor. A construction firm bidding for a contract to build a resort in Fiji can be reasonably confident in pricing the work because the Fijian Standards for construction are largely based on the Australian equivalents; and for example, any quantity surveying software developed for use in Australia should be applicable in Fiji, perhaps with some minor adjustments. However, if the job is in a country using the European Eurocodes, one cannot assume that Australian construction methods will be acceptable. As well, the Australia company may find itself over-designing the project compared to the competition, perhaps because some local requirements, such as for energy efficiency, may not be as stringent as in Australia.

## Service Standards and Trade Agreements

International trade in services is subject to the General Agreement on Trade in Services (GATS), under the WTO, and Australia is a signatory to that agreement. Services are a key discussion point within the Doha development round of negotiations and one of the mandates in the discussions is to 'develop "any necessary disciplines" to ensure that qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade'. However, at this stage, it is impossible to predict what the outcome of the negotiations will be; and it's best to look at the current agreement.

Unlike the WTO agreement that covers trade in durable goods (the Technical Barriers to Trade, or TBT, Agreement), GATS does not place the same strict reliance on the use of

International Standards. It is more about ensuring that foreign entrants to the market are treated in a reasonable manner and encouraging individual nations to make their own voluntary commitments to liberalizing market entry, generally through repealing legal controls on the supply of services. The bulk of those commitments have been made by developing economies to provide greater access to major international service providers in the tourism, banking and telecommunications industries.



The greater reliance on individual commitments, rather than on common standards, within the GATS Agreement is perhaps understandable in the context that, once manufactured, a durable good is not easily modified to suit differing national requirements; and the goal is to have a pool of goods in the world market that can freely move into any national market. However, services are seen as being more amenable to tailoring to suit the needs at the point of service delivery. The fact that services, such as banking, are so closely intertwined with management of the national economy also makes it more justifiable for nations to want to restrict free entry.

This is not to say that the GATS totally ignores the effects of standards; however, as indicated earlier, it has been recognized that the current rules in the GATS that apply to 'standards' (in Article IV, Section 4 – see box) have proven to be very difficult to police with only two cases having come forward to the Council for Trade in Services for arbitration since the GATS came into force. We can only hope that the situation changes following the Doha round of negotiations.

#### **Article IV, Section 4 of the GATS Agreement**

With a view to ensuring that measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services, the Council for Trade in Services shall, through appropriate bodies it may establish, develop any necessary disciplines. Such disciplines shall aim to ensure that such requirements are, *inter alia*:

- (a) based on objective and transparent criteria, such as competence and the ability to supply the service;
- (b) not more burdensome than necessary to ensure the quality of the service;
- (c) in the case of licensing procedures, not in themselves a restriction on the supply of the service.

### **International Standards**

Even though there isn't the same impetus for the local adoption of International Standards that flows from the TBT agreement, the harmonization of national service standards still has many benefits.

The International Organization for Standardization (ISO) has traditionally had a greater focus on tradeable goods, compared to services, although sometimes the distinction is blurred. Much of the international standardization in the ICT sector is about facilitating the delivery of services, such as banking, telephony and Web browsing through the use of common languages, protocols and approaches. International Standards for testing soil samples and noise transmission facilitate common approaches by environmental consultants; and logistics services rely on International Standards for the dimensions of pallets and shipping containers. However, while these types of standards do facilitate trade, they don't actually set out service levels.

In recent times, ISO has established a number of initiatives to develop service standards in new fields, for example in the tourism industry, for financial planning, education and a recent proposal for cleaning services. Although, there is still some reluctance to specify service levels (notably in the tourism industry), this is certainly the goal of these initiatives. Whether these relatively new International Standards will actually promote the mobility of service providers between countries is still to be seen.

The other major international standards organization, the International Electrotechnical Commission (IEC), has provided the International Standards that underpin the supply of electrical power for one hundred years. However, the details of wiring installations in customers premises has tended to be an area where unique national standards have traditionally been developed. These standards set out, in detail, the behind-the-wall approaches to safety and utility a consumer should expect when work is performed by an electrician.

To some extent the national approaches to wiring requirements have been driven by different styles of accommodation in various parts of the world. The relevant Australian Standard has comprehensive details about wiring around swimming pools; whereas in Japan wiring around highly flammable building materials, such as rice-paper, is more of an issue and in Sweden one needs to take account of the fact that electrical services commonly share service spaces with steam pipes leading to condensation and corrosion.

Perhaps the best examples of International Standards affecting service levels are those for quality management, widely recognized under the banner of the flagship standard, ISO 9001. While these standards don't actually specify service levels, they do set out a

common approach to determining and meeting customer requirements; and can give confidence to customers seeking to use foreign service providers, although this is generally in the business to business context.

A spin-off from the quality management standards are those for customer satisfaction, notably ISO 10002 *Quality management — Customer satisfaction — Guidelines for complaints handling in organizations*. This type of cross-sectoral standard has the advantage of facilitating a company using much of its existing customer service infrastructure in overseas markets with minimal need for adjustment to meet local expectations.

While these examples of International Standards for services are, no doubt, important to the mobility of service providers in certain industries, the truth is that they only represent a fraction of the total service sector. Building and Construction is probably the industry where there is least international harmonization of standards, yet it represents a major part of the Australian service sector, covering everything from architectural services, to construction management and the design of mechanical services. It is not just professional services, but skilled trades such as electricians, plumbers and welders all rely on the use of standards; and these are areas where there is little international standardization and even those International Standards that do exist are not widely used.

## **Regional Initiatives**

The Asia-Pacific Economic Cooperation (APEC) initiative has established a Group On Services (GOS) which is looking at liberalizing trade in services in our region. Some of the GOS initiatives include standardization of skills requirements for the nursing profession and in the tourism industry. Like all APEC initiatives, GOS relies on voluntary actions by the members economies and progress is necessarily slow.

Australia will be hosting APEC in 2007 and this may provide an opportunity to accelerate action within GOS.

## **Initiatives by the European Union**

With much of the Standards and Technical Regulatory Infrastructure now completed in the members 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<sup>1</sup>, 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.

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<sup>1</sup> Lord Vallance of Tummel, Chairman European Service Forum, June 2005

# Strategies to promote Australian service exports

## Current endeavours

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 services providers from the donor nation.

The Australia 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, for its part, 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 is 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 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 Australia industry experts to the European standards development committees so they can gain an understanding of the structure and operation of the European codes.

## Future actions

Taking these many factors into account, Standards Australia would like to offer the following potential recommendations for consideration by the Inquiry:

1. The impacts of service standards on trade in areas like design and construction need to be recognized as a key factor in promoting the export of Australian services.
2. At discussions relating to the GATS Agreement within the Doha development round, Australia should actively support the development of the necessary disciplines to ensure that qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade. This could include a greater emphasis on the need to develop and utilize International Standards for services.
3. Promoting the development of International Standards for service levels should be actively supported, particularly in fields where Australia is seeking to export services.
4. The development of links to national and regional standardizing bodies outside of the formal international standardization regime should be promoted in order for Australian service industries to gain access to information about service level requirements in trading partner countries.



5. The benefits for Australian service providers when Australia provides assistance to infrastructure development in trading partner nations needs to be more explicitly factored into decisions about assistance programs. Too often these programs are seen purely in terms of Australia's moral obligations to assist in development. We need to think about them much more in the trade context, as Europe does, and fund them appropriately.

