



Contract No. 114-C-00-03-00143-00

**Priority Focus Areas for International Standardization
(C.4.1)**

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MAY 31, 2004

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STANDARDS AND STANDARDIZATION

Introduction

Georgia inherited from Soviet times a complex and non-business-driven approach to standards and standardization. In preparing for its accession to the World Trade Organization, the country significantly reviewed its legislation and introduced a Law on Standardization (1999) to complement the 1996 Law on Product and Service Certification. With support from the donor community, framework legislation on standards was harmonized with the EU system.

Yet in practice, Georgia continues to meet only the minimum level of its commitments to the WTO, including on technical barriers to trade and sanitary and phytosanitary measures. While the texts call for adoption of international standards across Georgia as of 1 January, 2004, little was done to effect this move, assuming “international” standards could be defined (typically, there may be several such standards or indeed none for some products or activities). The State Department of Standardization, Metrology and Certification, Sakstandarti, retains primary responsibility for compliance and enforcement of over 20,000 mandatory Soviet “GOST” standards, most of which are obsolete, unachievable and/or unenforceable, and all inconsistent with international standards, while many of today’s products have no GOST standard.

Specifically, Georgia has failed to transform from a “command-and-control” system where every product imported, produced or exported is subject to a mandatory standard which often covers quality as well as safety, to modern market-based standardization where mandatory standards are kept to the minimum required to ensure safety, and all other aspects of products and services are left to the market (i.e. voluntary compliance with specifications acceptable to consumers and users).

Priority Areas for Standardization

Since its inception, GEGI has had numerous interviews and meetings on the issue of standards. Given the system of compulsory certification for all products produced and exchanged in Georgia, standards play a key role in most economic activity. Indeed, the current system is identified as an obstacle to business. Several groups and donors are involved in the different aspects of standardization, which includes not only standards themselves but extends to compliance, certification, metrology etc. GEGI has created a stakeholders¹ working group on standardization to address these topics. It is anticipated that the group’s membership will enlarge and change over time, as different issues and technicalities are investigated. Priority focus areas identified by the stakeholders are:

1. the separation of Sakstandarti’s functions and drastic reduction of its scope;
2. proper (accreditation of) testing laboratories; and
3. consumer protection.

¹ Initial participants are listed in the Appendix.

Standards, Standardization and Sakstandarti's Multiple Functions

In its current form, Sakstandarti represents an outdated Soviet-era institution which has undergone only insignificant changes since the collapse of the USSR. During the Soviet period, the Government would elaborate mandatory standards and supervise every step of the standardization process. These GOST standards were mandatory, covered over 90 percent of products, and their rigidity reduced innovation, increased production costs, and acted as trade barriers. The system granted central government the tasks of adoption; implementation; testing and conformity certification. Despite WTO accession, Georgia's standardization system is still ridden with obsolete Soviet principles, both institutional and legal.

In implementing state policy in standardization, Sakstandarti undertakes conformity assessment and certification; accreditation, control and supervision over the activities of accredited facilities; attestation of technical staff; and control and supervision over the consumer market. The accumulation of so many functions within a single institution creates a non-transparent, inefficient and non-participatory environment for standardization, and hinders efforts to implement necessary reforms. It has also encouraged abuses (such as unmotivated and illegal inspections) and in turn fueled corruption. While Sakstandarti argues it has made several attempts at separating its functions, observers contend that no real change has taken place, since departments which have become "independent" retain old reporting lines and hierarchy.

International experience suggests a better institutional approach entails the separation of functions², in particular between setting and regulating standards. The setting of standards must be participatory, including state, producers and consumers. In many cases, the state acts as a facilitator and a depository more so than as the decision-maker. Regulating standards will be both a state and an industry/market function. For mandatory regulations, the state will need to enforce, but it may delegate both testing and certification to private entities, with due qualification and accreditation. Specific agencies may be tasked with certain "high-risk" sectors, such as food or medicines. For voluntary standards, which typically reflect achievement of a quality over and above the basic safety levels, the market will usually regulate, through industry and consumer groups in particular. A schematic separation of functions for standardization is provided overleaf.

² Latvia has made significant progress in this separation of functions.

<u>Setting</u>	<u>Regulating</u>
<ul style="list-style-type: none"> ▪ Includes all stakeholders: state, producers, users, consumers ▪ Is benchmarked: is the standard still necessary/relevant? ▪ Standards Agency acts as a <u>facilitator</u> of discussions and keeper/disseminator of national standards ▪ This can be done on behalf of gov, not necessarily inside of it ▪ Certain sector/industry specifications may not be ratified as full standards <p>Proposal → recommendation to study → working group ↔ draft for public discussion → ratification → publication (+ appeal)</p> <ul style="list-style-type: none"> ○ International standards are cheap, easy and quick to adopt, plus they are WTO compliant ○ National standards may be more focused on country-specific needs but can be expensive and may abort or not be WTO compliant 	<ul style="list-style-type: none"> ▪ For health, safety or the environment → mandatory <ul style="list-style-type: none"> ↓ testing → <u>accreditation</u> ↓ (metrology) certification/conformity ↓ → <u>recognition</u> sanctions ▪ Special products: food, vehicles, electricals, medicines, fuels ▪ For quality → voluntary → testing/compliance → <u>consumer protection</u>

Testing

All products sold on the Georgian market must obtain a certificate of conformity (to whatever the Georgian standard), in contravention with the principle of voluntary compliance applied in international standardization and officially adopted by Georgia³. This rule extends to imports, regardless of foreign certification (which is not recognized in Georgia), which must also obtain a separate certificate of registration at their point of entry.

At present, there are over 50 Sakstandarti-accredited certification institutions and approximately 100 testing laboratories registered with Sakstandarti. Producers, consumers and traders (import and export) express many concerns over Georgian testing capacity, including:

- laboratories which exist only on paper,
- laboratories which have little or no technical or human capacity;
- obsolete equipment or testing methods,
- inability to check serial production (which imposes testing of each individual product),
- inappropriate checking by Sakstandarti (of facilities, equipment, personnel, methods) before accreditation,
- inappropriate accreditation by Sakstandarti,
- inappropriate monitoring by Sakstandarti of accredited institutions,
- imposed choice of Sakstandarti as to the testing facility used, regardless of capacity,
- consequently meaningless testing and opinions, and
- worthless and unrecognized certification as a result (particularly important for exports).

The question of professional testing and credible certification is crucial to economic activity, particularly in a relatively small economy like Georgia which must turn to international markets for both exports and imports. International trends aim to remove trade barriers, allowing the free flow of goods and services. This can only be achieved when a certain level of confidence is established in a country's product and service quality and certification, and in its environmental and inspection systems. In establishing such confidence, metrology, measurements, tests and methods will be scrutinized.

Accreditation of testing and certifying facilities using common established practices (in particular ISO/IEC 17020, 17025 and certification Guides⁴) is the most effective way to achieve the level of confidence required to improve Georgia's performance, locally and abroad⁵. Until this is accomplished, and the number of testing and certifying establishments is reduced to include only credible organizations, there will be no recognition of Georgian certification abroad and exports will suffer. Similarly, mutual recognition of internationally accredited certification must be introduced in Georgia, to remove the burden of unnecessary re-testing, which given the lower local testing capacity only opens the door to unprofessional practices and provides no extra consumer protection. Experts agree that a significantly reduced list of products subject to mandatory standards (of international norms), supported by a strong testing and certifying system, would much better protect health and safety.

³ Presidential Decree #830 of July 6, 2003.

⁴ The International Organization for Standardization has produced more than 14,000 International Standards for business, government and society; it also networks 148 countries' national standards institutes working in partnership with international organizations, governments, industry, business and consumer representatives.

⁵ It should be stressed that recognition will also require Georgia abandoning GOST standards.

Consumer Protection

Consumer protection covers a broad range of activities including policies, statutes, regulations and voluntary self-policing by vendors and service providers. Consumer protection is justified on two primary grounds. First, it promotes a more efficient functioning of the market by compensating for the imbalance between consumers and sellers. Consumers are typically individuals who do not have the substantial resources or daily access to government and courts that business organizations have. Therefore, sellers often have considerably more information and the cost to consumers of acquiring such information may be unaffordable. If legal protection of consumers is lacking, the market will fail to reflect consumers' needs and desires. The second justification for consumer protection is society's recognition of the right of consumers to be protected from dangerous goods and deliberate attempts by vendors to exploit consumers' weaker position. Legal structures are created to protect consumers from harmful substances such as defective foods and drugs. Consumer protection systems may also seek to protect consumers from making costly and dangerous mistakes because of a lack of information as to the quality and usefulness of the product or service they acquire. The intended effects of these socially motivated forms of regulation are the promotion of consumer confidence in the safety and justice of the marketplace.

The protection of consumer rights is provided by the Constitution of Georgia (Article 30), by certain provisions of the Civil Code in particular on contracts (Articles 336, 342-348), and by the Law on Protection of Consumer Rights (1996) and on Monopolistic Activity and Competition (1996). Specific issues are also addressed by sectoral laws, and by the Laws on Advertising (1998), and on Prices and Principles of Price Formation (1993).

The main state authority in this field is the State Antimonopoly Service of Georgia. This body is called to conduct market surveillance and provide advice to consumers. In addition, several private organizations protecting consumers' rights conduct testing of products and inform and educate consumers, which is of high priority as many low quality products can be found on the Georgian market. However, these organizations have very limited funds, which constraints their performance.

Georgia has made some good progress in adopting modern legislation on consumer protection. However, implementation of these rules remains weak. Progress in administrative capacity is limited and structures needed for monitoring and enforcement of legislation are not yet adequate. The mechanism for data collection, analysis and reporting is still new and not fully developed. Education of consumers and producers with regard to the new legal framework is essential.

In light of legislative changes in Georgia, consideration might be given to the codification of all consumer protection related laws and provisions into a single document, either a Consumer Protection Code or Consumer Protection Act. The process of codification would be time- and labor-intensive but a single document would be much more effectively used in practice by state authorities, courts, public organizations, consumers.

Decisive activities should also be carried out towards raising public awareness of consumer rights. In this regard, state authorities and public organizations should coordinate efforts on campaigns aimed at informing consumers about their rights and obligations. Consumers should understand that the law ensures the protection of their rights, in different situations, in relationships with sellers or producers. Competent state authorities for their part must ensure the protection of consumers' rights with the practical implementation of the law. To achieve this goal, certain capacity building will be required at the State Antimonopoly Service.

Conclusions

Despite generally adequate framework legislation, Georgia has failed to move to international practice in standardization. A significant change in attitude is required to bring the country in line with accepted principles, in particular voluntary compliance and mutual recognition. The most advantageous “international” standards for Georgia to adopt are EU ones, given the importance of this trading partner. The bloc has adopted a common approach whereby general essential requirements are established for product groups rather than detailed technical requirements at the product-level (as in the GOST system). If Georgia were able to accept this approach and provide suitable evidence that industry meets voluntary standards which satisfy the basic requirements, it would enjoy access to the enlarged EU market and greatly improve its export performance. Moreover, potential investors in Georgia would likely take into account the country’s recognized ability to produce to European standards.

Effective international standardization would entail:

- a minimum positive list of products subject to mandatory standards, set jointly by Government, producers and consumers, and aimed solely at safety and the public good;
- voluntary standards which typically demonstrate a quality superior to minimal mandatory requirements, are managed by industry and consumer interests;
- integration into international standardization organizations and systems.

Truly moving to international standards is a sustained effort which will require some time and significant commitment from Government. Nevertheless, it is overdue and the sooner transition work can begin, the greater the benefits to Georgia. Meaningful international standardization will improve consumer welfare by giving local producers access to international knowledge, improving product testing, broadening the range of products available, and advancing consumer rights protection. It will also boost export performance, both by letting Georgian products be recognized of a suitable standard, and by opening up opportunities (new products and new markets) previously unattainable to Georgian exports. Increased exports will directly and indirectly enhance economic performance, generating more tax revenues. The removal of obsolete standards and the cumbersome Soviet-inherited system, and the introduction of internationally-recognized standards and credible certification will also make Georgia more attractive as an investment location.

APPENDIX –STAKEHOLDERS

Name	Organization
Gogolidze, Paata	TUV-NORD GEORGIA
Borokhovich, Aleksandre	SAKSTANDARTI
Dangadze, George	RAPA/DAI-USAID
Katamadze, Ann	AYEG
Kemkhadze, Sophio	RAPA/DAI-USAID
Korakhashvili, Bidzina	RAPA/DAI-USAID
Ksovreli, Nugzar	GTZ
Kukhalashvili, Lasha	TACIS “Reform of the standardization system”
Lehmbruch, Barbara	TACIS “Reform of the standardization system”
Petriashvili, Givi	GBC
Shakulashvili, Michael	GTZ/TSU
Zhgenti, Konstantin	EAG