International Standards and Regulatory Policies—Impact on Manufacturing and Trade in the 21st Century

Bill Primosch
Senior Director, International Business Policy
National Association of Manufacturers
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- 11,000 members in all industries
- Mission to promote government policies that support economic growth and a strong manufacturing sector in the U.S.
- Advocate for open markets & trade liberalization
- International standards & regulatory policies an increasing concern
International Challenges to Industry

- Globalization of markets through more open trade and trade agreements
- Rapid pace of industrial modernization in key developing countries—China
- Need to have products that can move around the world to serve customers and global supply chains—importance of harmonized standards and regulatory polices
NAM Role on Technical Regulation & Standards--New

- Relatively new role on international regulation and standards
- Growing international interest responds to member concerns about regulatory policies & standards as trade barriers
- Environmental/health regulation receiving increased attention—particularly chemicals regulations
Today’s Class

- Examine trade flows to understand better why international standards & regulatory policies are important
- Look at the nexus of standards & regulatory policies
- Consider the influence of the EU
- Review impact of REACH, RoHS, WLAN regulations in EU and China
World Trade Today

- What is the value of world trade & how fast is it growing?
- What are the most important trading regions/countries?
- Who trades with whom?
- What country is the fastest growing participant in the trading system?
Trade Trends

- Major traders relatively small—EU, U.S., China, Japan, Canada, South Korea, Canada, Mexico, Russia, Taiwan and Brazil
- Key regions—North America, Europe, Asia
- Fastest growing—China. From 10th to 3rd place in 10 years
Trade’s Importance for the U.S. Economy

- 2006 gross domestic product $13 trillion.
- Total trade $3.7 trillion.
- U.S. exports $1 trillion.
- Manufactured goods exports: $800 billion.
- Key exports: computer-related, aerospace, automotive, chemicals, industrial equipment, medical, instrumentation & pharmaceuticals.
Standards & Trade in Manufactured Goods

- Importance of exports and market access for manufacturers
- Increasing reliance on global supply chains – computer and IT products, vehicles, aerospace, pharmaceuticals,
- Intra-company trade a key element of global trade
Global Supply Chain and Standards

“It’s a competitive advantage now that we’ve learned to work across corporate boundaries and get things done with real-time information systems that extend around the globe.”

Jim McNerney, President, Boeing
Financial Times June 18, 2007
Nexus of Standards and Regulatory Policies

- Bulk of technical standards set through industry standards development organizations, consortia, international standards bodies (e.g., ISO and IEC).
- Environmental, health and safety regulations increasingly influence technical standards.
- Examples: chemicals, electrical equipment, computers, vehicles
- Regulations, market access, manufacturing process linked
Impact on Small Companies—Dormont vs. Purafil

- Dormont
  - gas connector hose manufacturer
  - Blocked from entering EU market because safety standards changes

- Purafil
  - High performance air filtration systems
  - Gained international market access by helping to set the global standards to company’s technology
The EU Challenge—Setting the Global Regulatory Framework

- EU driving international regulation on environmental/health/safety
- Develop regulatory policies with global perspective
- Aggressively advocates for EU approaches internationally
- Large scale foreign technical assistance
What is the European Union

- Free trade community, not a political union
- 27 member states—most of Western and Central Europe
- Member states make most decisions, not European Commission
- Common standards and regulatory policies a key goal
EU Approach Differs from U.S.

- Top-down direction by government
- Restricted transparency in regulatory development
- Industry participation limited
- Use of the “precautionary principle”
- Goal from start to set the global standard
U.S. Approach Linked to Market

- Greater reliance on industry self-regulation and voluntary standards
- Higher transparency in regulatory process—Administrative Procedures Act
- Regulations based on sound science, risk assessment and economic criteria
- Openness to different approaches to compliance—domestic and international
Examples of Different EU Approaches—REACH and RoHS

- REACH—Registration, Evaluation & Authorization of Chemicals Legislation
- ROHS—Restriction on Hazardous Substances in Electrical/Electronic Equipment Directive
Implications of REACH

“In the case of REACH, a single body representing less than 5 percent of the global population would, in effect, be making chemicals policy for the entire globe.”

- Strategic Forecasting, Inc.
REACH vs. U.S. TSCA

TSCA--Toxic Substances Control Act

- Chemicals in use before 1980 assumed safe unless government proves unsafe
- After 1980 a Pre-Manufacturer Notification
- Case-by-case requirements for data on changes of use and volume
- Risk Assessment approach to control
REACH Expands Requirements

- All chemicals manufactured or imported over 1 m. ton must be registered (30,000 chemicals)
- Chemicals used over 100 m. tons must be evaluated (about 5,000 chemicals)
- Dangerous chemicals must be authorized
- Phase-in of registration over 11 years (to 2018) but only for “pre-registered”
REACH Industry Concerns

- Cost of unnecessary registration of chemicals that have proven safe
- Uncertainty about authorization for chemicals already widely used
- Lack of uniform application by member states
- Impact on finished products unclear
REACH Implementation

- On June 1, 2007, legislation went into effect with establishment of European Chemicals Agency in Helsinki.
- From June 1-December 1, 2008, existing chemicals can be pre-registered to be eligible for 11-year phase-in.
EU Restriction on Hazardous Substances--RoHS

- Bans the placing on the EU market of new electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame retardants
Impact of RoHS

- Changing the manufacturing process for wide range of electrical and electronic products (e.g., lead in circuit boards and components of electrical products)
- Affecting global supply chain of companies
- How to guarantee supply chain compliance a challenging concern
EU’s Expanding Global Influence on Chemicals Regulation--China

China ROHS—Effective March 1, 2007

- Adopts similar regulation to EU RoHS but takes regulation even further
- Includes labeling, testing and end-of-safe-use requirements
- Uncertainty about what products covered and conformity tests
- “Catalogues” will specify products but not yet released
Where China Goes, Goes the World?

- Will the world’s largest manufacturer and market for manufactured goods want to set world technical standards and regulatory polices? Important question for the future.

- Example of WAPI standards dispute.
WAPI Dispute

- **WAPI**: Wireless Local Area Network Authentication Privacy Infrastructure
- Chinese propose a unique national standard even though international standard exists
- Seek proprietary information as condition for obtaining standard
- Backs down under USG pressure
Impact of EU Regulation in U.S.

“We urge Congress to development legislation to strengthen TSCA using REACH as a model.”

Transatlantic Consumer Dialogue
What Industry Needs to Do in Response

- Do a better job of tracking foreign regulatory developments, particularly in the EU
- Use opportunities to participate in regulatory process as stakeholders to provide industry perspective
- Share information with both business and government stakeholders
What We Should Demand from the U.S. Government

- Work in partnership with industry to identify foreign regulatory concerns
- Devote more resources to outreach with foreign regulators to harmonize regulatory approaches where possible
- Promote good regulatory practices abroad—transparency, openness, good justification and sound science
U.S. Actions in the International Arena

- Insist on strict compliance with WTO Technical Barriers to Trade Agreement
  - Use technical requirements that don’t restrict trade
  - Use “international standards” rather than unique national standards
  - Notify foreign governments of technical requirements that affect trade

- Include strong TBT provisions in bilateral free trade agreements (e.g., Korea FTA)
  - Transparency
  - National treatment
  - Opportunity for participation in the regulatory process
U.S.-EU Initiatives on Regulatory Cooperation

- U.S.-EU Summit in April gave prominent attention to regulation & trade
- Reducing regulatory burdens a priority
- New Transatlantic Economic Council chaired by senior White House official
- New emphasis on implementing U.S.-EU Roadmap for Regulatory Cooperation
- Industry input welcomed
In Closing

- Technical standards and regulatory policies will have a major impact on trade flows in the 21st century.
- U.S. industry and government increasingly challenged to maintain international influence.
- CEOs, engineers and policymakers need to give more attention to how international standards and regulation affect U.S. industry and technology development.
Bill Primosch
Sr. Director, International Business Policy
National Assn. of Manufacturers
1331 Pennsylvania Ave. NW Ste 600
Washington, DC 20004
(202) 637-3145
bprimosch@nam.org