

Context Setting Paper

on

Quality and Standards in the WTO Regime

by

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I. Introduction

The World Trade Organization (WTO) is all set to bring about radical transformation of international economic system and regulation paraphernalia through instruments like zero-tariff regimes, abolition of quotas and application of non-discriminatory trade rules, and thereby open the markets for free trade flows within a multilateral rule-based framework. Nevertheless, free trade regime under the WTO rules is not as free as it seems to be at the outset. There are certain safeguards, which WTO Member countries can capitalize on to barricade the trade flows from other Member countries. At the same time, these safeguards can be used to protect local industry and promote national export potential. The most important of these safeguards are emergency clause, anti-dumping regulations and quality and standards.

Here I shall confine only to the quality and standards in context of WTO regimes. I shall highlight major issues and their implications for our industry, consumers and regulation structures. The purpose is to set a context for debate on the subject in this session. Other speakers will discuss these issues in detail.

II. Issues Concerning Quality and Standards in the WTO Regimes

Unfortunately, quality issues have not attracted significant attention of agenda setting entities in Pakistan. As a result, preparedness of Pakistan is not even near-competitive in the emerging WTO regimes. Following are the major issues:

a). It is a sheer unfortunate that Pakistan lacks in physical infrastructure to promote quality culture. The existing laboratories, for instance, do not conform to even minimal standards and therefore, fail to provide reliable information and services. To one's astonishment, there is not even a single accredited laboratory in Pakistan. Given the poor inter-lab reliability because of unaccredited labs, quality control remains a neglected area in Pakistan.

b). Human resource development is primordial for quality improvement and quality control. However, there is serious dearth of trained personnel for interpretation of technical data. The National Quality Policy, which is being formulated by the Pakistan National Accreditation Council, Ministry of Science and Technology, takes cognizance of this issue, and proposes to hire the services of foreign consultants for training human resource. This approach is likely to be constrained by lack of political will and scarce financial resources.

c). Industry is not quality conscious. Although, in comparison with the local industry, export sector possesses a degree of quality consciousness, but that does not suffice to make the industry competitive in the international market. Moreover, only large manufacturers and multinational companies have adopted international and Pakistan standards, but they too are least concerned with

quality control across the board. Small and medium size industries are not geared at all towards quality improvement in goods and services. Ironically, the level of awareness is very low with respect to compelling conditions under WTO system, which necessitate quality improvement. Pakistani industry needs to realize that without quality improvement, it will neither be able to get way into the international market, nor would it be able to retain the share in domestic market, which it holds presently.

d). Enforcement of documented standards is an instrument through which quality can be achieved. Pakistan Standards and Quality Control Authority (PSQCA) is responsible for formulation and enforcement of standards in Pakistan. Although the Authority has adopted about 15,000 standards, their enforcement remains in mess. The reasons are many: Mostly, adoption of these standards is voluntary. Mandatory adoption of standards applies to only a limited number of essential items mainly in the food and export sectors. Moreover, the Authority has very small inspection team with very limited capacity to enforce standards throughout the country. This is a matter of real concern that the government has not enforced even minimal standards for goods and standards in Pakistan.

e). There is serious dearth of research on quality from consumers' perspective. The public sector bodies do not conduct routine quality control tests. Even if various public agencies conduct studies to test the quality of products, the results of those studies are neither made public nor crosschecked by independent verifiers.

III. Implications

Implications of poor preparedness of Pakistan in terms of quality assurance can be viewed with respect to two dimensions. Exports and consumer safety

a). Growth in Exports

This is conceivable that immense export opportunities will become available under WTO in sectors in the sectors which Pakistan has an obvious comparative advantage such as cotton and textile, agro-livestock and fisheries, etc. If Pakistan is well placed to assure quality of its products and services, it can cater to diverse market niches. However, the dismal state of quality assurance has adversely impacted upon the export market of Pakistani products. A case in point is the export potential of Pakistani mango, which is constrained by safeguards adopted by importing countries related to health and hygiene standards. The United States had banned Pakistani mango 40 years back that continues even to date. Lately, Australia, Germany and Japan also banned imports of Pakistani mango due to Fruit Fly issue. In the past, we have witnessed similar problems with our cotton and wheat exports.

Given the dismantling of tariff and quota barriers, there is a natural temptation on the part of Member countries to make extensive use of technical trade barriers

such as standards. Evidence suggests that industrialized countries use above-minimal standards of health and hygiene and environmental standards to protect their local industry. They are well placed to prevent our exports enter their markets whereas we have not got even minimal standards enforced in industry.

b). Consumer Safety

Implications of poor standards enforcement for consumers can be seen at two levels-imports and locally produced goods and services.

Exporters find it easier to dump substandard products in countries where there is an inadequate quality control system. Unfortunately, Pakistan falls high on the list of such countries. The most common problems with imports may include food inhygeinity, pesticide residues, chemical additives, poor packaging and incomplete labeling, etc. Because we do not have adequate testing facilities available, it would be very difficult to institute a case in the WTO against low quality imports.

As far as the domestic aspect is concerned, the emphasis on adoption of standards, whatsoever, largely rests in the export sector due to which domestic industry has become de-linked from export industry. This de-linkage has serious implications for consumers as the industry hardly observes standards in manufacturing goods for local consumption and provision of services. Consumers have become intensely vulnerable to negative effects of low quality products and services. Low quality goods and services have flooded the market, posing serious health hazards. Food and edibles, for instance, are adulterated, unhygienic and short-measured in many instances. I will give you a recent example. The Weights and Measures Department has recently conducted a study o ghee mills. The study shows that 15 out of about 40 ghee mills were selling underweight products. This short-measuring ranged from 40 grams to 400 grams. This is so despite labeling standards exist. Such dismal state of affairs can safely be attributed to failure of the concerned authorities to enforce standards effectively.

IV. Regulation Mechanism

An important development in the contemporary trade system is the emergence of complex and multi-faceted regulation mechanisms for quality management and enforcement of standards.

a). Market-based Regulation

There exists market-based regulation system, which operates even outside the ambit of WTO rules. Importing countries require that safety and quality of products be proven through transparent and reliable conformity assessment system that may include accreditation and certification, etc. Most developed countries have established very stringent certification requirements, which hinder export potential of developing countries like Pakistan.

b). WTO Rules for Standards

In the new trade regime, previously voluntary standards are gaining quasi-legal status and being integrated in international and national legislations to create quality culture. Two WTO agreements have special significance with reference to quality and standards namely Sanitary and Phyto-Sanitary Agreement (SPS) and Technical Barriers to Trade (TBT). These agreements are binding on the Member countries. SPS agreement allows the Member countries to enforce such measures, which are necessary to protect human, animal and plant life or health, provided these requirements are based on scientific principles and do not constitute a means of arbitrary or unjustifiable discrimination between the Members where the same conditions prevail. The agreement encourages the Member countries to capitalize on international standards and regulations for the sake of harmonization with standards and safeguard measures of other countries and to reduce the risk of disputes. TBT also recognizes the need to enforce standards, provided they do not cause unnecessary barriers to trade. The standards under this agreement take into account quality aspects, packing, and labeling etc.

Although the SPS and TBT Agreements encourage adoption of international standards, they do not prevent Members from adopting national standards according to local conditions. This flexibility in WTO rules provides a space to develop indigenous specifications and take safeguard measures. This can prevent inflow of low quality products and services on one hand, and enhance export potential of domestic industry by making it competitive with the international market actors. Pakistan will have to create conditions that allow compliance with quality-related provisions of these agreements.

c) Pakistan's Quality Regulation System

Pakistan has an institutional framework in place for quality regulation, with a good aspect that it exists, and with a bad aspect that it remains largely ineffective. The formulation and enforcement of quality standards is the mandate of Pakistan Standards and Quality Control Authority (PSQCA). Due to financial constraints and scarce human resource, the Authority has not been able to effectively enforce the quality standards. Furthermore, there are certain important items, for which standards have not been formulated yet, tap water, for instance.

Pakistan National Accreditation Council (PNAC) is another important institution concerning certification and accreditation. It is the sole national apex body that is authorized to issue accreditation certificates to manufacturers and service providers, which meet the accreditation regulations and the ISO Guidelines, National, Regional and International Standards.

A recent encouraging development is the formulation of a National Quality Policy, which is a step in the right direction at a time, when world trade regimes under WTO rules and right-based movements are placing overwhelming emphasis on quality culture around the globe. The thrust of policy is to improve quality for exports, therefore, industry may be tempted to overlook the quality of goods, which would be produced for local consumption. The policy should equally emphasize on quality of goods for local consumption. This emphasis could not only ensure consumer protection but also prepare maximum segment of industry for harnessing export opportunities, create niche markets, and thereby contribute to the national development. There is a need to have a workable quality management framework that could be put into practice with the least hassle.

In the end, I would re-emphasize that we are not even least prepared to face the challenges concerning quality and standards under the WTO regime. The government must realize its responsibility to enforce at least minimal standards for ensuring consumer protection and optimize export potential of Pakistani products and services.