

Briefing to the Incoming Minister of Commerce November 2008

Executive Summary

You are the Minister responsible for the Standards Council and its operating arm, Standards New Zealand.

Who are we? We are a user-funded, autonomous Crown entity responsible for overseeing the development and distribution of Standards across a range of national sectors. The Standards Council's role, function, and powers are mandated by the Standards Act 1988. Our goal is to boost New Zealand's economy and advance the welfare of all New Zealanders.

What are Standards? Standards are agreed specifications for products, processes, services, or performance that cover all sectors of the economy and wider community – they are essential to keep a modern society functioning efficiently. Standards help to:

- encourage economic growth and productivity
- keep people safe
- support quality regulation
- connect New Zealand to international markets
- give industry and community stakeholders greater voice.

How big is Standards New Zealand? We have 55 paid employees and over 2,000 voluntary participants. New Zealand's national Standards catalogue has over 2,900 Standards. We work closely with our Australian counterpart, Standards Australia, to develop joint Standards that underpin greater harmonisation between both economies. We are also New Zealand's representative on crucial international Standards bodies, and strive to ensure New Zealand's interests are well represented as new international Standards are developed.

How can Standards New Zealand assist the Government? We understand that the Government is looking to address a triple challenge:

- improve New Zealand's infrastructure
- build new export industries
- create a supportive regulatory environment.

Standards and the standards process provide an effective means to help meet these challenges. A coordinated, economy-wide programme of standardisation has the potential to add over 1% to New Zealand's gross national product. This would equate to a contribution of \$1.6 billion to our economy. The Standards Council makes a significant contribution to 'New Zealand Incorporated' through its current activities but has been constrained by its current business model and an increasing level of overlap from other agencies.

The way forward. To realise this untapped potential, we believe there are opportunities to:

- revisit the Standards Council's current mandate and operating model
- promote better coordination of standardisation activity across the State sector
- more effectively promote New Zealand trade interests through international Standards development.

At a more immediate level, the Standards Council would be happy to be sponsored to coordinate a cross government and industry approach to standardisation. Increased standardisation effort would act as a low-cost means of supporting and enhancing economic growth. We would welcome an opportunity to brief you more fully on these opportunities and discuss how the Standards Council is well placed to support Government's policy objectives.

1. Who we are

The Standards Council is an autonomous Crown entity under the Crown Entities Act 2004. Our mandate comes from the Standards Act 1988.

Standards New Zealand is the operating arm of the Council and employs some 55 staff in Wellington. We function as New Zealand's national Standards body. Our work is supported through the efforts of over 2000 people who serve voluntarily on Standards development committees and advisory groups, providing expert input. The Standards Council and Standards New Zealand have a strong reputation for independence and integrity.

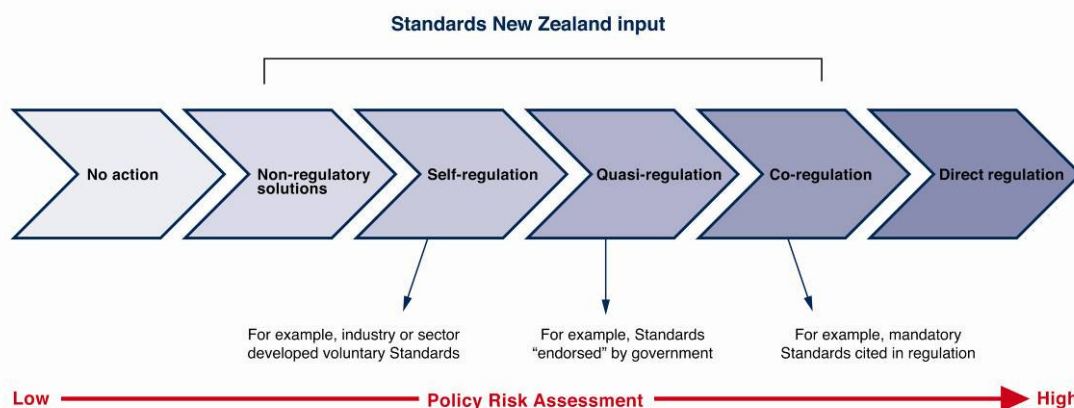
We are a user-funded, not-for-profit organisation that primarily generates its revenue from the sale of Standards publications and contracts from sponsors to develop Standards. (See Appendix A.3 for more detail on the current business model.)

As the national Standards body we are charged with connecting New Zealand to world best practice through membership of the International Organisation for Standardisation and the International Electrotechnical Commission. These memberships serve as an 'insurance policy' for our country, allowing us to influence global decision-making processes and seek a competitive edge for New Zealand's companies. We work closely with Standards Australia to develop joint Standards, which help drive and underpin harmonisation between the two economies. The value of this work has been affirmed by the Australian Productivity Commission in its current review of the Trans-Tasman Mutual Recognition Agreement (see Appendix A.5). International benchmarking has shown that our work is efficient. The International Standards Organisation takes an average of 3–5 years to prepare a new Standard; Standards New Zealand takes an average of 13 months. However, our ability to maintain and improve on this performance will be dependent on investment in the Council's physical assets and information technology infrastructure. There are also significant issues (see Section 3) that need to be part of a wider discussion on the Council's business model and long-term sustainability.

As a self-funded Crown entity we have delivered an excellent return on investment for the owner (Government), by creating valuable Standards content (Crown intellectual property) without direct funding. For example, Standards help the Building Code to function effectively by providing practical guidance to make complying with the Code achievable: 93% of all homes built today (a \$7 billion p.a. industry) are to Standard NZS 3604:1999 Timber framed houses.

2. Standards and the importance of standardisation

Standards are agreed specifications for products, processes, services, or performance. Standards are 'voluntary' and have no legal status until they are referenced or incorporated into law by a regulator. They can bridge the middle ground between direct 'black letter' government regulation and industry approaches to self-regulation. As such, Standards offer an adaptable low-cost approach, allowing government and industry to connect in a meaningful and productive way. Standards can be considered a 'light touch' regulatory option, and help to minimise business compliance costs when they form part of well designed policy.



Standardisation is the process of developing, implementing, and maintaining a comprehensive network of Standards to help New Zealand function better. Standards New Zealand uses a consensus-based process (see Appendix A.4) that follows international best practice. This approach taps into the best available expertise, distils out its key elements, and creates Standards that last. Many countries have recognised that standardisation helps underpin sustainable economic development. Specifically, Standards:

1. Boost international trade

By ensuring each nation’s technical requirements for imports are fair and transparent, Standards let exporters know exactly what they have to do to gain market access. In addition, being able to demonstrate compliance with widely recognised and respected Standards is a powerful marketing tool for differentiating New Zealand products in a competitive marketplace.

2. Support business growth

Government regulation is often perceived as heavy handed and inflexible, with regulations struggling to address the changing needs of business. Standards offer a more flexible, ‘lighter touch’ form of oversight that supports efficiency and market relevance.

3. Increase productivity and efficiency

By creating consistency, streamlining processes, and ensuring that groups of products can work together Standards eliminate wasteful duplication, broaden supplier options, and help boost productive output.

4. Create a healthier relationship between industry and government

The collaborative nature of the Standards development process means that government regulators and industry are brought together in a neutral environment that encourages constructive dialogue and builds positive longer term relationships.

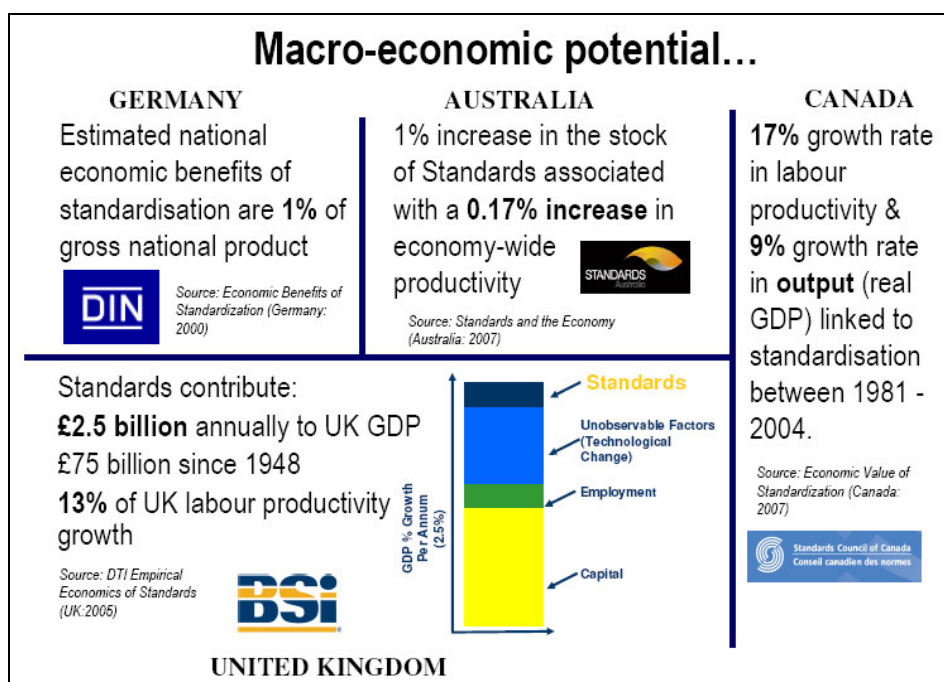
5. Advance innovation

Standards act as a tool for sharing core technical knowledge. Spending less time and money reinventing the basics means resources can be concentrated on developing new, more innovative products and services.

6. Protect consumers

Standards give consumers confidence that the goods and services they are using are safe, reliable, and will do what they are meant to. Maintaining that confidence is essential to the healthy functioning of the marketplace.

Through these six factors, coherent and well-resourced standardisation efforts can make an enormous difference to New Zealand in securing an international advantage. The significant economy-wide benefits of Standards and standardisation have been measured in four OECD countries.



Based on an average of the measures from Australia, Canada, Germany, and the United Kingdom an effective standardisation system could contribute an additional 1% to New Zealand’s gross national product. This would equate to a contribution of over \$1.6 billion to our economy.

While the Standards Council’s operation is efficient, New Zealand has fallen well behind other OECD countries in its investment in ‘public good’ Standards development and in international Standards participation. For many developed countries, there is a correlation between government support for its national Standards body and the country’s overall OECD ranking. Current underinvestment has had a negative impact on our international performance (see table below), and limited the Council’s ability to contribute to New Zealand’s economic and social prosperity.

Government appropriated funding as a percentage of the annual budget of national Standards bodies (2006 data)		
Country	Percentage	OECD Rank
Ireland	38.0	7
Norway	34.5	10
Finland	26.0	14
Australia	13.0	17
United Kingdom	2.3	23
New Zealand	0	28

3. The key issues moving forward

Given the significant potential outlined above, we believe there are important issues that need to be addressed if that potential is to be fully realised.

3.1 Improved national coordination

Standardisation activity in New Zealand lacks some coherence, having grown to involve many more organisations than the official standards and conformance bodies (see Appendix A.6). While many agencies contract the development of Standards out to the Standards Council, others undertake a wide variety of internal (often less robust) processes. There is an anomaly that exists between the Council’s competitive user-funded model and what appears to be a relatively high level of input funding for other forms of Standards development by government agencies.

This diversity of approaches creates several problems, including:

- difficulties for industry, consumer, and advocacy groups to find the resources to engage with multiple agencies and processes
- the risk of duplication, inconsistencies, and high costs
- challenges in the coherence of New Zealand’s involvement in Australian and international Standards development, putting market harmonisation at risk.

In recognition of these issues we have been trying to move towards a more proactive role:

- making our existing sector advisory structures more effective
- working across government to build understanding and improve coordination
- continuing our engagement with Standards Australia and other international bodies to help harmonise our approaches.

While these actions have been welcomed by stakeholders they can only deliver limited returns while the underlying fragmentation continues. Government needs to decide if it wishes to resolve this issue. This could be achieved by reaffirming the Standards Council as the national Standards-setting body, and giving it a role to coordinate a cross-government and industry approach to standardisation. Such an approach would not require additional expenditure by the Government, but instead could involve the redistribution of existing sector funding earmarked for Standards work or the implementation of structured partnership arrangements between regulators and the Council, or both.

3.2 Improved international participation

New Zealand is fortunate that a former CEO of Standards New Zealand, Rob Steele, has just been appointed Secretary-General for the International Standards Organisation (ISO) based in Geneva. This appointment, however, does not negate the need for 'NZ Inc.' to remain vigilant on the use of Standards as a means of creating barriers to trade. Rather, it provides a new and significant opportunity to advance New Zealand's interests internationally.

The present investment in this area (\$120,000 per annum from the Ministry of Economic Development), is several times less than the actual cost and many times less than what might be considered to be a reasonable premium for such vital risk insurance. New Zealand's participation in such international fora is in the process of diminishing at a time when the reverse is needed. For example, New Zealand's export and tourism trades run an extreme risk if international environmental Standards are developed from a Eurocentric viewpoint with a simplistic focus on 'carbon miles'. The net benefit (both in terms of market security and wider trade influence) to 'NZ Inc.' of Standards New Zealand's strong participation in the global Standards community would far outweigh the additional funding required.

4. Next steps

The full potential for Standards to contribute to New Zealand's growth and productivity needs to be unleashed, particularly given the current global economic situation. Standardisation, where properly implemented, is a low-cost means of increasing productivity and driving economic growth.

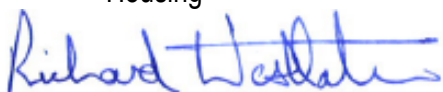
For this to occur, we believe there is a need to:

- 1) revisit the Standards Council's existing mandate, business model, and funding structure
- 2) commit to a coordinated cross-government and industry approach to standardisation covering key areas of the New Zealand economy, and directly supporting national policy objectives.

We would welcome an opportunity to discuss the issues raised here with you in greater detail, and, should you think it appropriate, provide a briefing to other Ministers with relevant portfolios.

These portfolios would include:

- Infrastructure
- Economic Development
- Trade
- Energy and Resources
- Health
- Environment
- Climate Change Issues
- Education
- Agriculture
- Forestry
- Transport
- Communications and Information
- Building and Construction
- Housing



Richard Westlake
Chair, Standards Council

Appendix A: Overview Information

A.1 The Standards Council

The Standards Council currently has ten members:

- Richard Westlake, Chair, appointed by the Minister of Commerce
- John Albertson, Deputy Chair, nominated by the NZ Retailers' Association
- Richard Gibbons, nominated by the Electricity Engineers' Association
- John Hannah, nominated by the New Zealand Vice Chancellors' Committee
- Sharon Kletchko, appointed by the Minister of Commerce
- Vivian Kloosterman, nominated by the Institution of Professional Engineers New Zealand
- Ellen Ramsay, nominated by the National Council of Women
- Vaughan Renner, nominated by Business New Zealand
- Carol Stigley, nominated by the Standards Council
- Michael Wallmannsberger, nominated by the Council of Trade Unions

The Standards New Zealand Chief Executive is Debbie Chin.

A.2 Standards snapshot

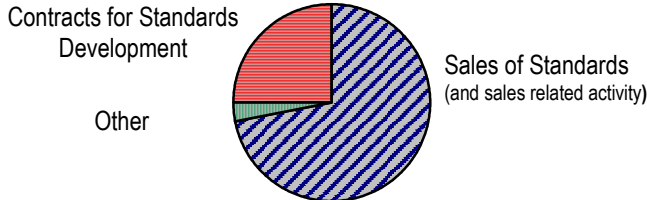
Our core operation is the development, maintenance, and marketing of New Zealand Standards, joint Australian/New Zealand Standards, International Organisation for Standardisation (ISO) Standards, and International Electrotechnical Commission (IEC) Standards:

- our catalogue includes 2985 Standards of which 80% are Joint Australian/New Zealand Standards and over 40% are based directly on ISO or IEC Standards
- 475 NZ, Joint Australian/New Zealand or Adopted Standards are cited in 123 Acts, regulations, and official codes of practice (total citations, including international Standards = 1018)
- 232 Standards were added to the catalogue during the 2007/08 year
- we have 317 joint Australian/New Zealand Standards development projects and 70 New Zealand Standards development projects under way this year
- over the past 12 months we sold more than 91,000 Standards and handbooks.

A.3 Our business model

The Standards Council's business model centres on the added value that comes from the development and use of Standards as solutions to technical, coordination, and assurance problems. Within it we are expected to operate as a fully commercial entity (receiving no input funding from government) with a not-for-profit and non-taxable status to enable the delivery of public good benefits.

Our revenue under this model comes from:



The business model depends heavily on voluntary contributions of time and expenses from the experts (and their employers) who serve on domestic and international Standards development committees, as well as resources supplied through joint work with Standards Australia.

While we receive \$120,000 per annum from the Ministry of Economic Development to support ISO and IEC activities, the actual costs of international participation are approximately ten times this figure. The difference is covered from other business functions (in particular sales revenue), which, given our total income is some \$9 million, has a significant impact on the Council's financial bottom line and ability to pursue other strategic priorities.

A.4 How we work

Sponsoring organisations fund the development of Standards. These organisations span the public and private sectors, and are generally responsible for regulation, accreditation, audits, and/or compliance.

Expert committees develop Standards. They comprise a number of representatives from sponsoring organisations, professional associations, and industry bodies. Standards New Zealand project managers facilitate committee meetings, providing project management expertise to ensure timelines are met and processes are adhered to. Committees use a consensus-based approach throughout.

Standards New Zealand's internationally recognised process ensures balanced representation and participation. When Standards are at draft stage, public comment is invited through a facilitated feedback process. All comments are reviewed by the expert committee prior to the Standard being finalised. When Standards are published they are promoted to users to help implement the Standard. Standards New Zealand also runs seminars to help users understand new or revised Standards.



A.5 Who we work with

The Standards Council and Standards New Zealand have a crucial role as a connector, linking government to industry, industry with wider sectors, and New Zealand to the world.

New Zealand

We develop and maintain Standards for more than 40 sectors, from large traditional sectors with many hundreds of Standards to small niche sectors with just one or two Standards. We maintain active links with regulators, industry, professional and consumer associations, and academics.

Examples of professional groups we have strong connections with include the Institution of Professional Engineers New Zealand, the Construction Industry Council, the Building Research Association, Registered Master Builders, the Electricity Contractors' Association, the Gas Association, and the Wind Energy Association.

Australia

Our work with Standards Australia (based on a formal cooperation agreement) is extensive; as noted under Appendix A.2 some 80% of our catalogue is made up of joint Australian/New Zealand Standards. Under national agreements both bodies are working to create greater harmonisation in support of Closer Economic Relations. The importance of joint Standards has been affirmed by the Australian Productivity Commission in its current review of the Trans-Tasman Mutual Recognition Arrangement (TTMRA).

The TTMRA gives effect to two basic principles: a) any good that may be legally sold in Australia may be legally sold in New Zealand, and vice versa; and b) a person registered in Australia to practise an occupation is entitled to practise an equivalent occupation in New Zealand, and vice versa.

Internationally

We are responsible for New Zealand’s membership of the International Organisation for Standardisation (ISO) and the International Electrotechnical Commission (IEC), and provide administrative support for the (mainly self-funded) organisations and individuals who participate in ISO and IEC technical committees and subcommittees.

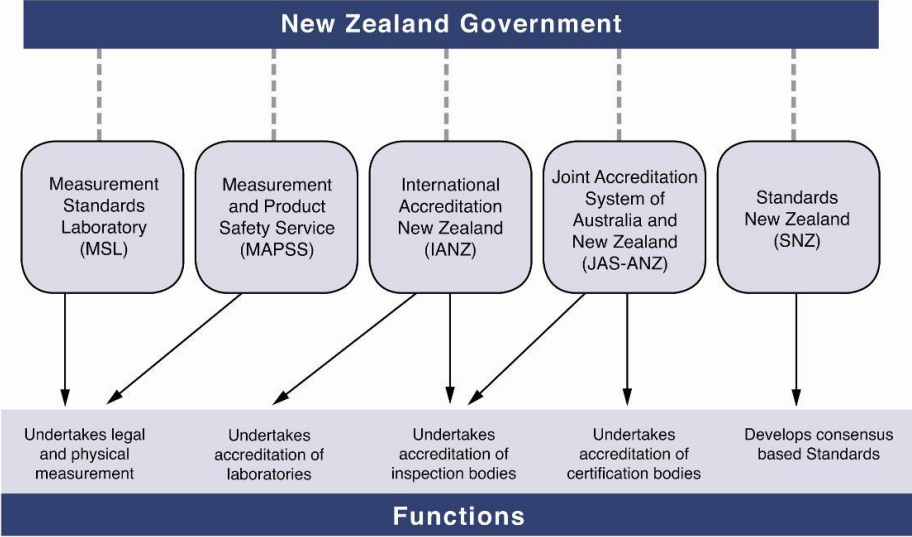
Currently, New Zealand participates and votes in 83 ISO technical committees and subcommittees, and 28 IEC technical committees and subcommittees. These numbers are low by international standards and particularly low for a trade-based country. For example, Australia participates in over 400 ISO and IEC technical committees and subcommittees.

In addition to our agreement with Australia, we have formal cooperation agreements with the national bodies of China, Fiji, and Papua New Guinea, and also work with the Standards bodies of Canada, Japan, the United Kingdom, and the United States. We are a member of the Pacific Area Standards Congress, which works to coordinate standardisation across the region and build capacity in smaller nations.

A.6 Official standards and conformance bodies

There are five official standards and conformance bodies involved in the end-to-end process from setting a specification through to judging whether a particular product, process or service meets that specification.

The official New Zealand bodies are:



A.7 Cross-portfolio impact

Given the cross-functional nature of the Standards Council’s work, and the number of portfolios that Standards contribute to, there is a question of what form of Ministerial oversight would provide maximum support to the Government. We would welcome a discussion on this issue, and whether there is a need for cross-Minister consultation.

Appendix B: Sector-Specific Issues

To deliver on our Statement of Intent, we have focussed our business and Standards development efforts on a number of key industry and 'cross-cutting' sectors.

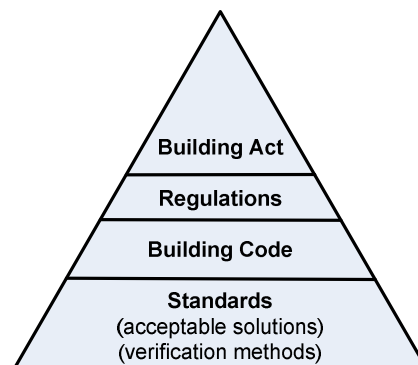
- Building and construction
- Energy and safety
- Health and disability
- Environmental sustainability
- Education and training

Many of the issues raised below span a number of government agencies and will involve clustered conversations with specific agencies and Ministers.

B.1 Building and construction

Standards New Zealand is an established, significant stakeholder in New Zealand's building and construction sector. Building Standards are where the Standards Council began 77 years ago following the Hawke's Bay earthquake. Today the sector is the Standards Council's single largest business area (generating income of over \$2.4 million per annum).

New Zealand Standards and joint Australian/New Zealand Standards are a critical part of the current building controls framework, with some 230 Standards referenced directly in the compliance documents that support the Building Code. These Standards provide technical details on 'acceptable solutions' under the Code:



There are over 660 Standards in total for building and construction in national catalogue. These Standards have been developed with the active participation and support of the sector, through a well established Sector Board and industry advisory groups. The in-kind contribution (for example, participation in expert Standards committees) from industry has been estimated at over \$2 million per annum.

In recent years the building and construction sector has been under pressure because of issues related to weather-tightness, durability, sustainability, affordability, and until recently, capacity. As a result there has been increased top-down regulation at the expense of bottom-up Standards solutions. We understand that many industry stakeholders view the current position as unbalanced with excessive prescription in regulatory documents and insufficient scope for input of industry knowledge and expertise. The Standards process could used as an important tool to recreate balance.

Standards New Zealand enjoys strong support from a broad range of building and construction industry organisations. We are working to strengthen these relationships by building strategic alliances with other organisations such as BRANZ (the Building Research Association of New Zealand).

We are actively seeking to become a recognised partner with the Department of Building and Housing to help influence future planning in the sector. As a first step towards this, a Memorandum of Understanding has been recently signed agreeing a 3-year programme of Standards development, including the updating of key Standards such as those for timber framed buildings.

B.2 Energy and safety

Standards help to regulate the flow of energy through the New Zealand economy by creating a supporting infrastructure. They help to safeguard people and property from the risks of electricity and gas, thereby allowing the energy sector to function safely, efficiently, and cost effectively.

At just over 800 in number, energy Standards form the largest segment in the national catalogue, and the second largest business area for the Council (by value). Of these Standards, nearly 750 are electricity related and most of these are joint Australian/New Zealand Standards that play an important function in underpinning the Trans-Tasman Mutual Recognition Agreement with Australia.

We have operated stakeholder advisory structures for the electricity and gas subsectors since the 1990s. These groups provide advice on Standards development priorities and act as useful fora for wider sector consultation.

An emerging challenge for the Council relates to the drive in recent years by Energy Safety (Ministry of Economic Development) to transfer some of its financial and regulatory responsibility to other agencies. This poses a risk of creating a fractured operating environment for standardisation, and a lack of central agency coordination, focus, and funding to maintain the joint Standards arrangement with Australia. This could also jeopardise harmonisation, and encourage Australia to pursue its own energy objectives. Given the fundamental importance of energy to New Zealand's economy, Standards New Zealand is working with Energy Safety to agree an ongoing programme of Standards development work and stable funding arrangements to provide certainty for the sector.

We are also working to build stronger relationships and the case for coordinated standardisation with agencies and industry groups in key areas such as renewable energy, security of supply, and energy efficiency.

B.3 Health and disability

Given the size and complexity of the health and disability sector, there is significant scope for Standards to play a key role in improving efficiency, patient safety, and the provision of quality services.

Often sector members develop their own service standards and best practice guidelines. Where Standards New Zealand can support the sector and Ministry of Health, is in the development of national Standards, guidelines, audit workbooks, and seminars on how to improve the underlying systems.

A good example of the improvements we can offer is in the Health and Disability Services (Safety) Act 2001. This Act was introduced to promote the safe provision of health and disability residential services. Standards New Zealand was contracted to develop sector Standards to provide the necessary framework for safe services. These Standards were designed as generic documents focusing on the basic fundamentals of quality care, allowing them to be eventually applied to a wide range of health and disability-based services. The model used with these Standards has the potential to align all service-based areas within the health system to one hub document which holds principles of consumer rights, responsive management, efficient service delivery, and a safe environment at its core.

Our challenge is to help to promote an overall standardisation strategy for the sector. As a step towards such a strategy, Standards New Zealand is looking to develop a Health and Disability Board that will consist of the main stakeholders in the health system. This group will advise on the development of priorities for Standards or audit tools, and help build a sector-wide focus on standardisation as a means of increasing safety and quality.

B.4 Environmental sustainability

New Zealand's environmental sustainability agenda crosses multiple agencies, but without a single agency charged with coordinating a national strategy. Since sustainability is an increasingly significant issue for many businesses' bottom lines, improved coordination is crucial to ensure New Zealand is not cut out of new international Standards developments that expose our export sector to huge risks. A very current example is 'Carbon Foot-printing' (originating from the 'food miles' concept), which is gaining traction in European government policies and consumer demand – the British Standards Institute has just published its new carbon specification, designed to measure carbon-content across the life-cycle of products and services. New Zealand must influence the direction of this Standard and other such developments to ensure our exporters are not disadvantaged by excessive compliance demands.

Standards New Zealand intends to establish an Environmental Sustainability Sector Board to bring together key stakeholders to provide advice on a comprehensive programme of involvement, with the aim of proactively influencing international Standards. We believe we could also play a key role in helping raise industry awareness of the demands of international Standards and ways to meet them.

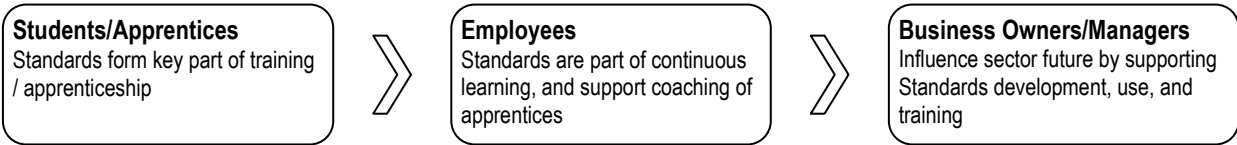
Emerging international Standards could also help inform Government thinking on the design and detail of New Zealand's Emissions Trading Scheme – we raised this topic with the Finance and Expenditure Committee of the House and would be keen to explore it further with the appropriate Minister. Standards New Zealand and Standards Australia have existing frameworks that are well placed to undertake development that could underpin a more Trans-Tasman focused scheme.

Standards could also form part of a new, more responsive Resource Management Act. Our well-recognised independence would have a positive influence on stakeholder dialogue and buy-in. Several agencies are also interested in creating their own National Environmental Standards. Standards New Zealand can offer transparent, centralised coordination of the development, implementation, and maintenance of such a suite of Standards.

B.5 Education and training

Standards, as tools in disseminating technical information and good practice, play an important role in the education and training sector. Indeed, many of Standards New Zealand's top publication purchasers are industry training organisations (ITOs) and education providers such as polytechnics and institutes of technology. These organisations use Standards content as part of their practical teaching, particularly in trades such as building and construction, the electrical sector, and plumbing and gas fitting. Standards publications are either compulsory reference materials or recommended reference materials. For apprentices and trades students Standards will form an ongoing part of their working lives.

Ensuring that the critical components of Standards are well integrated into training programmes will entrench effective work practices, and help build a more informed and productive workforce.



Standards New Zealand's challenge is to find ways to resource these initiatives. We have the knowledge and expertise to help and are identifying potential partners to assist us. However, we need to secure the funding required to progress this work.

We are looking at whether agencies would be prepared to commit extra funding in the Standards development process to enable the final product to be delivered in different formats, or whether we can secure industry-specific support for the conversion/updating of existing content into digital formats.