

## THE ADAPTATION OF THE LOCAL PRIVATE SECTOR TO THE INTERNATIONAL STANDARDS' REQUIREMENTS

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Received 26 June 2015; accepted 10 November 2015; published online 29  
December 2015

### **Abstract**

The national standardization system of the Republic of Azerbaijan has been undergoing the significant reforms to meet the requirements of accession to the World Trade Organization and the process of integration into the European Union. In accordance with these reforms, existing national regulations are being replaced by strict international standards. In this process, it is necessary to bring the private sector in line with the new principles of standardization system, which is not easy and requires large investments. In the paper the authors analyses the changes applied to the existing national system of standardization, as well as aspects related to such a reform.

**Key words:** national standardization system, private sector, World Trade Organization, European Union, international requirements.

**Jel Classification Codes:** L15

As known, in relation to the membership of the World Trade Organization (WTO) and integration to the European Union (EU) the national standardization system of Azerbaijan has to be adapted to the requirements of those organizations. This will result in significant changes to the current system. Thus, unlike the current system, in the market economy system only the safety of products is regulated by the state. The quality of the products is regulated by the market itself. Therefore, the



requirements on the safety of products, called technical regulations, are mandatory for implementation. The product quality requirements are reflected in standards and application of the standard is voluntary. Enterprises that want to improve the quality of products and thus get ahead of the competition are voluntarily applying these standards. At the same time the government limits its control by security of products. Another important change is taking foodstuffs control out of the national standardization system. In order to fulfill all these requirements the thousands of the existing Azerbaijan standards will be renewed as mentioned to meet international standards.

**The aspects of adaptation of the national standardization system to meet international requirements**

In general, the adaptation of the national standardization system to the international requirements will be implemented according to the following aspects:

- Adapting of the system itself to the principles of the market economy. Thus, in accordance with the market economy the standardization as technical regulation providing and applying of the mandatory requirements to the safety of the products and standardization defining voluntary requirements to the quality of products should be divided into two parts. This, according to the state control over the economy and the quality of the products safety regulation limiting the market makes it necessary to release the law of supply and demand;
- standards that form the basis of the system requirements for the products to adapt to the requirements of international standards. It is redesigning the existing standards to meet international standards. This is the most difficult element of the adaptation of the standardization system. Because of the fact that standards in former Soviet republics do not meet international requirements the tens of thousands of the existing standards have to be redesigned;
- product safety requirements for each product, product group and its overall safety record for technical regulations is to be developed. The former GOST standards include safety and quality requirements for each product, and this requires the development of standard for each product. But in international practice the security requirements of the product are defined in terms of security parameters, not in terms of product. So, whatever product has a security parameter this product is applied to the relevant technical regulations;



- identification of general requirements to the products in the technical regulations and liberalization of methods to meet these requirements. Along with determination of the requirements for products in the former soviet republics' standards, there a single mechanism to meet these requirements is also reflected. In international practice technical regulations specifies the security requirements only, but how they've met is carried out according to the rules shown in referenced standards or defined by the manufacturers itself. The manufacturers shall be deemed to satisfy the requirements of the technical regulations in case of at least one of the standards or the self-defined method is applied;

- institutional reforms in the management of standardization system. One of the major changes brought by adaptation is change of the structure and authority in government agencies responsible for the management of the national standardization system. So that, is required to carry out the necessary reforms to identify requirements of state bodies' authorities for security of products and limitation of these requirements by ensuring, preparation of standards and liberalization of the authority use, conformity assessment carried out by the private sector, in order to ensure one-sidedness, transparency and public participation;

- improving the safety and quality performance of products in conformity assessment system. According to the former soviet standardization system almost all products are mandatory certified and certification is carried out by state authorities. In addition, compliance with both the production and the market is under state control. But compliance with international standards requires that only high-risk products must be mandatory certified, compliance assessment of low-risk and mid-risk products shall be carried out by the manufacturers themselves, conformity assessment activities shall be carried out not by the state, but by the conformity assessment bodies accredited in accordance with international standards [Aslanov Z.Y. 2009. p. 436-439; WTO. World Trade Report. 2005. p. 127].

Apparently, it is necessary to carry out the significant changes in the current system to adapt to international standards.

One of the key elements of harmonization of national standardization system with international requirements is taking into consideration the interests and potential of the private sector in Azerbaijan. Thus, the producers are the object of standardization. Those are parties who use the new norms. Therefore, changes made will affect manufacturers in the first place. Therefore, coordination should focus the



private sector as well. Thus, the adaptation of the private sector should be kept in the center of attention as well.

**Private sector related issues in the process of harmonization of national standards with international requirements**

There are the following private sector related issues in the process of harmonization of national standards with international requirements:

- to involve the private sector to the development of new technical regulations and standards;
- to educate the private sector about the new technical regulations and standards;
- to provide transitional period for adaptation to the new requirements, technical support, concessional loans and assistance to the private sector;
- to support of the establishment of private enterprises which will carry out activities on the national standardization system;
- to adjust the consumer market to the new products.

Now, let's comment each of these issues separately:

1. The involvement of the private sector to the preparation of new technical regulations and standards to the possible extent. As mentioned above, involvement of the private sector to the development of technical regulations and standards gives it a lot of benefits. So, by this participation they fully adopt the applied requirements, achieve taking into account its interests in these documents, learn other manufacturers' views and suggestions on this standard, get without investigation expenses scientific and technical progress achievements included in the standard etc. Therefore, according to the international experience it is considered appropriate that a most effective mechanism to adapt the private sector to the new rules is to involve it to the preparation of these rules. Although relative progress has been made in this area in recent years in our country, there are still problems in terms of unformed mechanism and lack of understanding of the importance of this issue by the private sector. In order to involve the private sector in this process the sectors or technical committees for products should be established. In the first phase it must be involved to develop mandatory subsequently applied technical regulations.

As known, the aim of the development of technical regulations is to ensure safety of products for people, animals and plants. While scientific achievements and innovations, best practices and higher requirements on the quality of the products are



considered when processing standards, whereas product safety indicators have taken as a basis when processing technical regulations. Therefore, accordingly the aim of participation of the private sector in processing of technical regulations should be development of safety requirements determined for its own products and while study of mechanisms to ensure it, the aim of participating in the development of standards should be in obtaining of the scientific achievements and new technologies and thus in improvement of the quality and competitiveness of their products. However, fulfillment of the safety requirements in technical regulations leads to safe and competitive manufacturers' products, and this in turn leads to increased confidence in their products and being more competitive. That is, in both cases the private sector achieves economic benefit when participated in the preparation of these documents [Kleinemeyer J. 1995. p.7-8; Grindley P.C. 1995. p.223].

In addition to the participation of the private sector in the national technical committees, its participation in the development of international standards and national standards of foreign countries should be encouraged. This is important either being a requirement of the WTO or taking into account the interests of the national economy in international standards and facilitate subsequent application of international standards in the country. On the other hand, the most important aspect which makes necessary the participation of the private sector in the development of regulatory documents is their contribution to how the provisions of the international standards, taken as a basis, complies with the interests of the national economy, and which adaptations should be made in the national technical regulations and standards adopted on the basis of this international standard in terms of local climate, geographical, technological, environmental and economic factors. Because, there might be such requirements of international standards, direct application of which, due to the above factors, is not appropriate in our country. In this regard, what adaptations should be justified by the private sector to substantiate its position [International Trade Center. 2004. p. 24]. So, involvement of the private sector in both technical committees, either created under the State Committee on Standardization, Metrology and Patents of Azerbaijan for development of the technical regulations, or under Azerbaijan Institute of Standardization and Certification for preparation of national standards, is a very important issue.

To ensure the participation of the private sector in the development of regulations the extensive educational work should be carried out first and then the



benefits provided by such participation should be delivered to them. Some countries practiced to use premium payments and awards as promotional tools to motivate the participation of the private sector. Although it is advisable to carry it out for the development of technical regulations in our country, but it can be difficult to apply for the development of standards. In many countries, however, private sector pays the membership fee for participation in the development of standards.

In addition to the participation of the private sector in the national technical committees their participation in the development of international standards and national standards of foreign countries should be encouraged. This, in addition to being a requirement of the WTO, is either important in terms of taking into account the interests of the national economy in international standards and further easier application of international standards in the country [Vries H.J. 2006. p. 11].

For this purpose, in accordance with the relevant technical committees of international standardization organizations an appropriate "mirror" committees should be established and discussion of international standards by these committees should be provided through the participation of local experts and the private sector. For this purpose, it is necessary to allocate funds from the state budget. At the same time, using the center of the inquiry and notification established on the basis of the WTO request the technical regulations of the WTO member states, the obtained projects of conformity assessment procedures passed to the private sector and review of these documents during the given period from the national interests point of view by the private sector must be provided.

2. To educate the private sector about the new standardization system. In our country, the representatives of the private sector are misinformed about the new approach due to operation based on the national standardization system requirements stand on Soviet era. While the national standardization system is in line with international requirements based on the proposed mechanism the private sector should be also well-informed about the nature of the new system. Thus, they must be tanned that the safety is the subject of regulation, but the quality is the subject of the market and they must be explained that implementation of either safety or quality requirements is the subject of competition and customer satisfaction in the market economy. It could be considered as a new approach for producers forced by the state to carry out such requirements for a long time. Therefore, the action plan to educate



the private sector to be developed and the essence of the new system to be delivered to them through the followings:

- by organization of public events, conferences and seminars;
- by setting up the Training and Consulting Center under Standardization, Metrology and Patents Committee and by providing through it a free training to the representatives of the private sector on the nature and requirements of the new system;
- by giving free consulting to the manufacturers on new technical regulations and standards for their products, as well as on their application using the established center;
- by creating an information portal on technical regulations and standards;
- by preparation of the guidance on the application of any adopted technical regulation and by placing it on the website;
- by creating a system of national awards for safe and quality products production;
- by preparing of training and printed materials on the new standardization system and distributing to the private sector through the Institute for Standardization, universities and research institutes;
- by organizing regular activities and events in the press to raise awareness about the new system;
- by implementing joint events and projects along with public and business associations and other non-government organisations (NGO) etc.

3. Providing the transitional period, technical support, soft loans and aids for the private sector to adapt to the new requirements. We've noted that one of the most difficult moments in adaptation of national standardization system to international requirements and in ensuring the transition to the new system is namely application of the new technical regulations and standards to the private sector. So, for a long time the producers operating in Azerbaijan have established their production process in accordance with the current standards of their products. Being tougher and different than in QOST standards the requirements of the new technical regulations and standards must satisfy the requirements of the new regulatory documents based on international standards by making a significant investments. This first of all includes the means of production, in particular, the equipment, raw materials, renewing of the production environment, training for updating



knowledges of professionals for new requirements, the assessment of compliance with the new requirements and other operating expenses.

In international practice the transition period is given for the application of new technical regulations by the private sector. In our country within the process of WTO accession both for national standardization system to meet international requirements, as well as for the provision of new requirements by the private sector 7-year transition period has requested. After Ukraine has adopted the new technical regulations, except for the necessary safety measures, 1-3 year transition period has allowed for its' mandatory application. During this period the manufacturers are gradually applying the new requirements to their production processes. During this period, the current standards also remain in force [Reforms on the way to the European Market. 2011. p. 81]. It is considered appropriate to apply this experience in our country. During the voluntary implementation period it's important for the government to help manufacturers to understand requirements and application of new technical regulations by constant education, as well as by providing of free training and consultancy services.

Another important point is provision of grants and soft loans to the producers, applying new technical regulations. For example, in this regard, the special state's financial aid program is carried out in Slovakia. So, within this program the government is covering the 65% of the expenses required to meet the guidelines of the European Union by producers [Reforms on the way to the European Market. 2011. p. 85]. This experience could be applied in our country in regard to manufacturers of the products which have a priority for the economy and export potential. Primarily, it would be advisable the fulfillment of the general requirements of technical regulations and compliance assessment to be met by these manufacturers. On the other hand, to apply technical regulations the preferential loans can be applied to the producers who guaranteed the safety of products and interested in the export of products. Thus, producers will be able to get preferential credit when they applied for it by noting that it aimed to apply the new technical regulations and standards. One of the main advantages of giving either soft loans or grants is safe and quality manufacturing of own products by manufacturers having such a support and by this to promote the government to manufacture the safe products in the local market. Therefore, it is necessary to use these experiences within the financial opportunities of our country. This should be done in close



cooperation with international organizations and financial institutions. Because, some of those agencies are carrying out these types of activities. For example, there is the program of the European Bank for Reconstruction and Development related to the covering of the 40-60% of the costs incurred for the implementation of international standards by the manufacturers of our country. The program is being implemented successfully.

4. Encourage the establishment of private conformity assessment bodies. Mandatory conformity assessment activities in the country for a long time carried out by the government prevented the establishment of private enterprises in this field. However, passing to the private sector this type of activity in our country as well paved the way for the creation of this type of enterprises. Most of the private certification companies operating in Azerbaijan are foreign and international companies. Local companies have shown little interest in this area. On the other hand, despite the fact that this area is liberalized, the provision of those services by state enterprises prevents the creation of private enterprises. Therefore, the expansion of this field is very important both from obtaining by manufacturers more competitive conformity assessment services and from the development of the business areas related to conformity assessment activities point of view. There are hundreds of private enterprises in this field in Europe. Competition among them leads to service quality improvement and price reduction for the services provided to the manufacturers.

In our country, to encourage the industry the awareness and promotion activities should be taken in the first place. As well as technical support to fulfill the necessary requirements of local businesses and their accreditation should be conducted. Because, the lack of accreditation of local businesses means absence of international recognition of their compliance documents, which in turn discourages manufacturers from using their services. The accredited local companies should be registered and those companies should be recommended to the manufacturers. [Aslanov Z.Y. 2015. p.149]

One more issue should be noted that some even international certification companies operating in our country deceive manufacturers by selling fake certificates to them or give them for extra money a certificate before necessary requirements met by manufacturers. That's means delusion of consumers and sale of unsafe products to them. Therefore, in addition to promoting the creation of private enterprises, their operation in accordance with requirements, especially the



mandatory certification of the products' safety parameters should be carefully controlled.

5. Adaptation of new products in the consumer market. Manufacturing of the products according to the new technical regulations and standards will lead to an increase of their production costs and thus, an increase of their market price. This will result in a rise in consumer prices in the market. Therefore, in order to prevent the increase of the prices of products as much as possible it is necessary to support the manufacturers to reduce their costs by usage of the above-mentioned financial aids, grants and soft loans. At the same time, the gradual measures in the direction of the improvement of social welfare and the increase to the level of consumer purchasing power in Europe should be taken.

Another important point is the improving citizens' consumer culture and to be more demanding of products purchased, including the implementation of comprehensive measures for the protection of consumers' rights based on international experience. The harmonization of the product safety regulation system with the international standards leads to the giving more freedom to the manufacturers, which in turn leads to the abuse of freedom by manufacturers. In a market economy consumers are getting better than government to prevent this kind of abuse. The exactingness of consumers makes manufacturers more sensitive than the exactingness of government. Therefore, the important measures aimed at developing a culture of consumer awareness should be promoted.

### **Conclusion**

One of the most important elements of the adaptation of the national standardization system with international standards should be especially the development of the private sector to new system requirements. Thus, that will require billions investment from the private sector for the transition to the new system to be able to apply the new national standards based on international standards. To do this, it needs to think in advance about the necessary investments and preferential loan programs. In addition to this, the new system requires from the private sector the establishment of closer cooperation and development of standards, based especially on the needs of the private sector itself. This in turn makes inevitable by private sector to take a more active role in this process, so in order to take that role by the private sector it should be properly informed and the mechanism for participation should be formed.



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