



## Reexamining the Standards Institution of Israel

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*This paper reviews the Standards Institution of Israel (SII), which governs the preparation and publication of Israeli standards. The SII has direct impact on the high cost of living in the country, both through the significant barrier its authorities, structure and incentives pose to opening the Israeli market to competitive importation that would lower prices and through the direct and indirect costs it imposes on Israeli consumers, estimated at hundreds of millions of shekels a year. This paper examines standardization policies in other states around the world, and proposes a simple and costless reform to reduce consumer prices.*

The **first chapter** introduces the subject of the Standards Institution of Israel – its efficiency, its intended and actual goals, and alternatives to its operation.

The **second chapter** reviews the Standards Institution of Israel in its current form.

The **third chapter** examines different aspects of the Standards Institution of Israel through the prism of efficiency, covering: the burden on importers, the market entry barrier, internal and external tests for efficiency; and its structure as a barrier to optimization.

The **fourth chapter** addresses the question of who needs the Standards Institution of Israel, describing planned changes that were not implemented; the commission headed by Prof. Sinai Deutsch to examine standards review; and the Institution's successful obstruction of attempts at reform.

The **fifth chapter** discusses alternative policies, looking at both the issues uncovered and possible solutions.

### Summary

The Standards Institution of Israel (SII) operates under the Standards Law 5713-1953 and is the country's national standards body responsible for product certification and import regulations. The law grants it a monopoly on standardization, and its operations point to the fact that its primary objective is maintaining that monopoly, rather than serving the public.

It is an unwieldy agency that places significant regulatory burdens on importation to Israel, thus raising the prices of imported goods. When compared to standards institutions in other countries, the SII imposes a disproportionately heavy financial

burden on Israeli citizens and businesses. One main reason for this is that a primary original objective of the SII was to prevent free import and implement barriers in order to benefit local industrialists, big importers and the SII itself.

The Executive Committee of the SII is comprised of 28 members, not one of whom represents Israel's consumer public (the two ostensible consumer representatives come from the labor union *Histadrut* (the New General Workers' Federation) and the Israeli Consumer Council, and thus represent the *Histadrut* and the government, respectively). The bodies that have an inherent interest in maintaining the status quo - the Histadrut, the government, industrialists, and the SII itself — have a solid majority (60%). Such overrepresentation means that standardization can be used effectively to block importation.

Years of attempts to reform the SII's operations have yielded meager results. Despite two decades of government efforts to change the SII and align its standards with international practices, only a small fraction of mandatory standards has been updated to adopt international standardization protocols as written.

The main issues with the SII:

1. The SII has a significant, above average economic "footprint", imposing a heavy burden on the public by raising prices on imported goods, reducing competition and strengthening monopolistic importers and manufacturers.
2. The SII operates inefficiently and finds it difficult to handle market competition, even when strategically using "dumping prices" (below cost) to eliminate competitors.
3. The SII has been appointed to oversee the reduction of its own monopoly and income.
4. Authorizing the SII to both set standards and review their application creates a structured interest to set standards that require review (in other words, to avoid adopting international standards that importers can simply declare compliance with).
5. Small importers and manufacturers, as well as the public – all of whom are most affected by standardization policy - are not represented in official standardization procedures.
6. The SII's operations create real barriers to market entry: the existing rules play into the hands of local manufacturers and big importers, working against small importers.

## **Recommendations**

The solution to this state of affairs is to implement a full or partial competitive model to minimize or eliminate the SII's monopoly. Such an achievement would lower import costs, allow new players to enter the market and lower the prices of imported goods – all to the benefit of Israeli residents.

1. **The Competition Model:** The best solution is to introduce competition to the field of standardization. Adopting a model similar to the American or German one would enable additional bodies to establish a system of standards

determined by the bodies themselves or in accordance with international standards. Under this framework, the overwhelming majority of imported products (with the exception of items with security issues) would not require any import screening at all. Importers would bring in goods based on self-declared compliance with the standard of a standards body in Israel or a recognized and accepted international standards body (a declaration of conformity). The importers' activity would be constrained by their legal liability, with possible additional oversight by the Ministry of Economy imposed "in market"; that is, not at the port of entry but after the product's distribution. Importers who declare compliance bear legal liability in the event of a defect in their products. If compliance is backed by tests conducted by an Israeli standards body in Israel, that body would share the legal liability.

2. **The Separation Model:** Should a competition-based model prove unfeasible; a separation-based model is the next best option. The most important separation is between the body providing standardization services and the body providing testing and compliance services. While the monopoly granted to the SII on standardization seems impossible to abolish, it is certainly possible to separate its standardization role from its testing functions. The SII would continue to provide standardization services and sell the standards it creates, but product testing would be carried out by private laboratories, which could offer approval services. In a separation model, importers could approach any accredited laboratory and request a compliance test from a list of international, multi-national, or Israeli standards, or in some cases, declaring conformity with regulatory requirements, taking upon themselves legal liability in the event of non-compliance or a failure to meet requirements. In this model too, the Ministry of Economy could conduct additional "in market" oversight (i.e. after the product has been distributed).
3. **Partial Solutions:** Should fundamentally changing the current situation prove unattainable, there is still a need to work towards developing practical solutions to create internal checks and balances, and encourage standardization "players" to act differently. One way to minimize this problem is to ensure meaningful representation of importers and the general public in the standardization committees and in the formulation of procedures.
  - (1) Amend the "Adoption Committee": The adoption committee was established to review and recommend the adoption of international standards for products. The Minister of Economy can thus easily exempt a significant portion of imported goods from testing and standardization requirements (that is, replace them with importers' declaration of compliance). However, the committee's limited scope of authority (making non-binding recommendations subject to SII approval) and composition are obstacles. At present, the adoption committee consists of a government representative, a representative from the SII, and a public representative (who is often also a government or union employee), with observers from the industrial sector and importers. Such composition leads to predictable

conclusions. To turn the adoption committee into a meaningful tool, its composition must be changed and its recommendations must be binding and tied to a timetable (for example, a procedure stipulating an automatic transition to an international standard if the SII does not act within a defined timeframe).

- (2) Straightforward and Transparent Procedures and Standards: Another issue burdening importers is the extreme complexity of procedures and standards. A review of the highly complicated documents such as the imported goods testing procedures, imported goods price list, or standards price list - not to mention the standards themselves - reveals hundreds of pages of pricing schedules and standards, many of which are written in language that is difficult to decipher. Importers who try to comply with existing standards and procedures often find themselves subject to arbitrary decisions by the SII, to non-transparent and unclear standards, to unreasoned rulings, and to inconvenient timelines—all while a significant sum is deposited with the SII in advance as collateral.

For the [full Hebrew paper](#)