



State Comptroller of Israel | Annual Report 72a – Part Two | 2021

Ministry of Economy and Industry
Israeli Standards Institute

The Standardization Reform

The Standardization Reform

Background

A large portion of Israel's economy is based on the import of products and services. Israel trades in a wide range of products, and imports a large portion of production inputs, consumer products and investment assets.

In 2000, the Ministry of Finance and the Ministry of Economy & Industry noticed that Israeli standards create non-tariff barriers (not customs related) on imports to Israel, thereby restricting competition and limiting the range of products available to consumers. This is leading to higher prices for many products. Accordingly, the Standardization Law 1953 was amended. The Israel Standards Institute would, generally adopt international standards¹ accepted in developed countries, when determining its standards.

Over the years, various committees were established to resolve the problem of the bureaucratic burden in the import process and the use of official standardization as an import barrier and to ease the financial burden imposed on Israel's citizens.

In 2016–2017 amendments to the Standards Law were enacted which were known as the "standardization reform". The amendments were designed to make the Standards Institute activities more efficient, and award the Standardization Commissioner the authority to authorize additional testing laboratories for imports. These changes were intended, among others, to reduce costs, shorten the timeframe for announcing obligatory standards updates and to improve service quality. The reform further determined a mechanism for expedited examination of non-binding national changes in obligatory Israeli standards.

The Institute is a public entity established under the Standards Law 1953, with three authorized laboratories working alongside it in 2020². They test imported goods for adherence to the requirements of the applicable required standards.

1 Concerning technical regulation, including standards or international regulation-based regulations.

2 A laboratory endorsed by the commissioner for performing tests over imported goods for compatibility with the official standard according to the Import Export Ordinance (New version) 1979.



Key figures

30,000
voluntary
standards

The number of voluntary international standards published by the ISO and IEC standards organizations. Compared to only 3,500 standards published in Israel.

USD 307
and **64**
hours

The average cost of adapting import documents in Israel and the duration of the process, compared to USD 98.1 and 8.5 hours on average in the OECD countries in 2020.

USD 70
and **44**
hours

The average cost of customs tests in Israel and duration of the process, compared to USD 23.5 and 3.4 hours on average in the OECD countries in 2020.

Only 3
private
laboratories

The number of private laboratories endorsed for testing imported goods in 2020.

2% only

The percentage of recommendations regarding laboratory test reports³ of imported goods requiring testing that were issued by private laboratories from May 2019 to September 2020, compared to the rate of almost 98% of recommendations issued by the Standards Institute.

37

Staffed positions of the 54 available positions in the Standards Administration in 2020.

42

The number of endorsed laboratories⁴ in 2019.

approx.
NIS 19
million

The cost of standard adherence tests for ceramic tiles (monopolistic area) in 2019 for approximately billion released items.

3 At the conclusion of testing, the laboratory provides the standards commissioner with a recommendation of whether to release the goods for marketing or not.

4 A laboratory registered by law as a corporation in Israel, with the professional capacity and skills, prepared to fulfill its duty as a laboratory in Israel for approvals, according to the terms and directives provided by the commissioner for this matter.

Audit actions

 From August 2020 to January 2021, the State Comptroller's Office performed an audit of the standards reform. The audit focused on the following subjects: implementation of the reform by the Ministry of Economy; the improvement in service and the increase in competition; the Standards Commissioner's functioning; early retirement of Standards Institute personnel according to a special collective agreement; promoting new reforms in 2020; and computerized data systems for goods imports. The audit included a public participation procedure survey of several importers and authorized private laboratories on the standards reform subject. The purpose of this procedure of the survey was to examine the effect of the reform on importers' work from various aspects of the import process, including the financial aspect, the professional aspect and the services offered by the Standards Institute and the private laboratories that entered the activity as part of the steps for opening the area to competition. The public survey was performed through interviews with seven officials in Israeli companies that deal with import and marketing in various areas. These included some of the leading and largest importers in the market, that operate with an import volume totaling billions of NIS annually, and others, smaller that operate or specialize in limited areas and import tens of millions of NIS annually. The audit was conducted in the Standards Administration of the Ministry of Economy. Supplementary examinations were conducted in the Standards Institute, the Ministry of Finance, the Competition Authority and the Israeli Tax Authority.

Key findings

-   **The efficiency of importing goods to Israel compared to OECD countries –** Indexes measuring document processing and customs testing of imports, import times and costs in Israel were several times higher than the OECD average. It takes more time for Israeli importers to import goods and the cost of testing during the import process is higher. Moreover, the relative situation in Israel compared to the OECD average worsened from 2015–2020: for example, in 2015 the costs of Israel's import tests were 250% higher than the costs of import tests in OECD countries, and in 2020 this difference had increased to 300%.
-  **Improvement of services to importers –** The Standards Commissioner has no data on the time elapsed from the moment of importers submit requests to the laboratories until they issue test results, or the amount of time required for laboratories to handle the importers' requests for test. In addition, no documentation was found of the tests performed by the Commissioner on service quality. From May 2017 to May 2019 there was a 10% improvement at the Standards Institute in the rate of testing orders processed within a week. The average number of days until testing orders were



processed decreased from 10 to nine. It should be noted that the Standards Institute executed 60% of the testing orders within two days during 2018–2019.

- 👉 Adapting obligatory national standardization to international standardization**
– Amendment 13 to the Standards Law was enacted two and a half years ago and required an examination of existing obligatory standards and their adaptation to international standards by August 2019. Nevertheless the examination of 115 obligatory standards (approximately 30% of the standards to which Amendment 13 applies) has not yet been completed. These standards had been referred to the Ministry of Economy's Commissioner for Import Legality for examination. He in turn submitted them to the Ministry of Finance for approval. As of May 2021, the audit completion date, approval was received for one standard only. Because the Ministry of Finance considers that there are national deviations that remain in these standards that should not be included in the obligatory standards, it has not approved them.
- 👉 The Ministry of Economy RIA⁵ report from 2016** – The Ministry of Finance and the Ministry of Economy have not examined if the expected savings to the economy following the legislation amendments cited in the RIA report have materialized. This examination is important in view of the agreement that the Ministry of Finance signed in 2017 with the Institute, whereby the Ministry of Finance undertook to finance 80%–90% of the early retirement costs of 300 Institute employees. Following this agreement, 140 of the Institute employees took early retirement by November 2020 at a cost of NIS 264 million, of which the Ministry of Finance covered NIS 219 million.
- 👉 Achieving the standardization reform objective to increase competition** – Despite that three years have passed since the imported goods testing market opened for competition, the percentage of tests performed by private laboratories is negligible – only 1.1 % of all tests and 2% of the standards that were opened to competition. This compared to the Standards Institute, which is still performing almost all of the tests. As of September 2020, the Standards Reform had not succeeded in achieving its basic objectives.
- 👉 The Standardization Administration supervision activities** – In 2020, only 36 of the 54 positions at the Standardization Administration were staffed. The number of inspections performed by the Standardization Administration to enforce the obligatory standards in 2019 (around 1,700) was 0.56% of the number of test laboratory reports for the same year (over 300,000). It was also found that the number of inspections to enforce the obligatory standards dropped from 2,300 in 2017 to 1,700 in 2019. In addition, the Standards Commissioner does not impose monetary sanctions on importers that breach any of the Import and Export Ordinance directives. The number of product

5 Regulatory Impact Assessment (RIA) Report.

return recalls published on the subject of standardization dropped from 34 in 2017 to 20 in 2019.

-  **Imposing monetary sanctions** – In January 2021 the Ministry of Economy had not yet completed preparations for imposing monetary sanctions according to the Import and Export Ordinance and the Standards Law and therefore did not utilize its authority to impose monetary sanctions.
-  **The process of submitting online applications** – The Customs "Maslul" (Route) system connects importers, exporters, customs agents and government authorities. However, the data regarding applications submitted by importers to the Institute via Maslul was transferred to Customs and the Commissioner in PDF format, which cannot be computer, processed. This makes risk analysis difficult since in this format processing the importer application data is impossible. Moreover, private laboratories were not connected to the customs "Maslul" computer system. This made it difficult for the Tax Authority to perform risk assessment in order to decide which goods should be sampled.
-  **Findings of the public participation procedure – importers and endorsed laboratories** – The public participation procedure survey of importers and private laboratories raised several issues. Service to importers has improved for standards for which there is competition between testing laboratories. The private laboratories are not yet attractive enough for the importers due to various impediments. The Standardization Commissioner should encourage competition and as much as possible, introduce additional authorized testing laboratories to the field. The Institute should invest funds in upgrading its equipment and its technological development.
-  **Promoting new reforms in 2020** – The 2020 RIA report estimated that performing the proposed changes would save NIS 210 million annually for importers, which would reduce prices for consumers by an estimated NIS 420 million annually, whereas the estimated cost of maintaining the existing situation was an additional NIS 900 million for consumers. As of the audit completion date, the Settlements Law and the State Budget for 2020 had not yet been completed and the reform had not yet been approved.



Defining new national standardization – In January 2021 it was more difficult for interested parties to announce a new obligatory standard that included unnecessary national changes, since Amendment 12 of the Standards Law determines that this procedure requires the consent of the Minister of Finance and the Prime Minister.

Actions to fill supervisory positions – The Ministry of Economy, the Ministry of Finance and the Civil Service Commission have commenced action to upgrade employment contracts for inspectors in the Ministry of Economy. During the audit period, formulation of employment contracts for inspectors in the standardization administration was completed, and most of the inspectors have signed the new contract.



Key recommendations

-  It is recommended that the Ministry of Finance, the Ministry of Economy and the Standardization Commissioner continue to act to improve Israel's import indexes to the level of OECD averages. The Ministry of Economy and the Standardization Commissioner should adopt a target of increasing the number of voluntary standards in Israel thereby providing a response to market requirements, including compilation of a list of standards appropriate for adoption and a multi-year plan for their adoption, with emphasis on adopting international standardization.
-  Further to Amendment 13 of the Standards Law regarding completion of obligatory standard reviews by August 2019, the Ministry of Finance and the Ministry of Economy should complete the handling of obligatory standards that are in dispute. It is recommended that the Ministry of Economy formulate a mechanism for reaching a decision when there is a disagreement between the standards adoption committees and the Ministry of Finance. In the absence of such a mechanism, the disputes should be submitted to the Prime Minister's Office CEO, and if the dispute is a legal matter, then it should be brought before the Attorney General.
-  It is recommended that the Ministry of Finance and the Ministry of Economy examine whether the RIA 2016 assessments concerning the expected savings to the economy materialized and what impediments prevent their realization, particularly for implementing the RIA 2020 report.
-  The Ministry of Economy should adopt a systematic, timely procedure for examining improvements in service quality according to the goals of the Standards Law amendment. It should fully document the work process and retain its findings, in order to contribute to service improvement.
-  It is recommended that the Ministries of Finance and Economy examine what impediments prevent an increase in the number of private laboratories that test standard performance of imported goods and take action to augment the share of private laboratories performing these tests. In addition, the Ministry of Finance, the Ministry of Economy and the Standardization Commissioner should continue examining alternatives for exemptions to the import regulation procedures. They should consider the new infrastructure used in Europe and the policy practiced in the USA and other countries, and examine Israel's import policy in a timely manner with international comparisons.
-  It is recommended that the Ministry of Economy Standardization Commissioner increase control and enforcement operations to maintain effective supervision designed to locate goods where the importer's declaration of compatibility to obligatory standards is

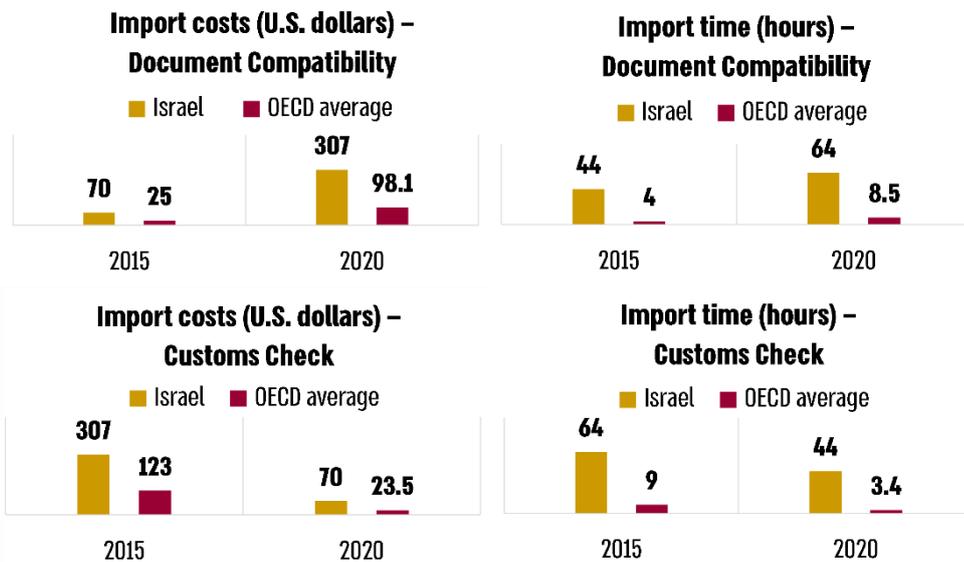
incorrect. It is further recommended that the Standardization Administration at the Ministry of Economy act to complete its preparedness for imposing monetary sanctions and exercising its powers.



The Standardization Commissioner and the Customs Administration at the Tax Authority should act to develop improvements in the "Maslul" system so that importers' applications can be transferred in computer compatible files, reach agreements that will enable private laboratories to connect to the system and complete defining the model for detecting suspicious deliveries at the early stages of import.

Duration of importing goods⁶ to Israel and its costs compared to the average in OECD countries.

The import efficiency measures for time and cost in two categories – adapting documents and customs checks for imports – in Israel compared to the OECD countries average for 2015 and 2020.



According to Doing Business data for 2020, processed by the State Comptroller's Office.

⁶ Acquiring, preparing and submitting documents during transportation, approval, testing and handling at the port or border of the originating country. Acquiring, preparing and submitting documents required by the destination country's economy and the transition country's economy. Including all the documents required by law and in fact, including submission of electronic data.



Summary

The standardization reform, designed to generate change in this sector, did not achieve its major objective. At the time of writing this report, there was very little competition from private laboratories. The Ministries of Economy and Finance recognized this fact, and since July 2020, they have been promoting an additional actual reform in standardization, making the previous reform devoid of any content. It was found that the reform did not deal with the process of testing the goods, including the process for receiving regulatory approval required for importing prior to marketing of the goods and its adjustment to the practices of developed countries. Therefore, the regulatory burden on importers that entails sample testing of the imported goods and deliveries, has improved only slightly. The public participation procedure regarding the reform, including importers and authorized laboratories, as performed by the State Comptroller's Office, showed that regarding standards where there is competition among authorized laboratories and the Standards Institute, the service and prices given to importers are better and more competitive. The State Comptroller's Office recommends that the Ministry of Finance and the Ministry of Economy continue to act towards increasing competition in the field of testing for adherence to standards, and increase the market share of tests performed by endorsed laboratories. They should take steps to remove impediments to approving authorized and approved laboratories to the field. They should also reduce the regulatory burden on importers in order to lower the cost of living and expand the variety of available goods, while maintaining vigilance and assuring that all goods entering the State's ports adhere to obligatory standards and do not present any hazards to public health.