



Funded by
the European Union

ADVANCING PRODUCT ENVIRONMENTAL FOOTPRINT FOR SMALL AND MEDIUM-SIZED MANUFACTURING ENTERPRISES IN AZERBAIJAN



EU trade relations with Azerbaijan

The trade relations between the European Union and Azerbaijan are based on the 1999 Partnership and Cooperation Agreement¹. This reflects the values and principles of the European Neighborhood Policy and includes, amongst others, the aim to achieve economic development and market opportunities, as well as connectivity, energy efficiency, environment, and climate action.

On 11 July 2018, the EU and Azerbaijan also agreed on their new partnership priorities, marking an important step forward in identifying and fostering joint efforts that will guide and enhance the partnership over the coming years.

Beyond the promotion of common values and priorities, the EU-Azerbaijan Partnership and Cooperation Agreement also promoted not only trade and harmonious economic relations between the Parties to foster their sustainable economic development, but also provides a basis for legislative, economic, social, financial, civil scientific, technological and cultural cooperation. Market-oriented economic reforms are also planned as the result of the cooperation between the parties.

This further helped advance the agrarian reform and the modernization, privatization, and restructuring of Azerbaijan's agriculture, overall. The changes also led to the development of the agro-industrial and service sectors, which further enabled national manufacturers to benefit from favorable conditions in trade and the export of goods. Furthermore, the Agreement aims to enable the development of domestic and foreign markets for Azerbaijani products while ensuring the protection of the environment, and taking into account the necessity to improve food security as well as the development of agribusiness. Nevertheless, the Agreement also aims to cover the gradual approximation of Azerbaijani standards to the EU regulations related to industrial and agricultural food products (including sanitary and phytosanitary standards), which will create a benchmark for improving the quality of local products, long-term.

According to the Agreement the parties shall aim to combat environmental degradation by employing effectively monitoring the level of pollution and constantly assessing the state of the environment. Regarding Small and Medium-Sized Enterprises (SMEs), the approach of the EU-Azerbaijani Agreement was to offer technical assistance for company representatives (including specialized trainings in marketing, accounting, and quality control). The later is especially important as it is aligning itself with the activities rolled by UNIDO under the EU4Environment programme. Since 2019, the EU-funded EU4Environment Action has been supporting

Azerbaijan, alongside with the other Eastern Partnership (EaP) countries, in pursuing the path of green growth. UNIDO built national capacities to enable SMEs in switching to a Resource Efficient and Cleaner Production. In Azerbaijan, the implementation of the 1st phase of the RECP activities was launched in May 2021, when UNIDO contracted a National Implementing Partner comprised of a consortium of companies. Since then, both achievements and challenges have been reported in the efforts to support the creation of circular value chains through RECP and industrial waste maps (IWM).

EU - Azerbaijan trade statistics in a nutshell



Source: State Statistical Committee of the Republic of Azerbaijan, report on *The foreign trade of Azerbaijan*²

The EU is Azerbaijan's main trading partner, accounting for around 41.6% of Azerbaijan's total trade.³ The EU is also the biggest export market (with a 51% share of Azerbaijan's exports) and the second-biggest import market (16% share of Azerbaijan's imports). The EU imports from Azerbaijan chiefly consist of mineral fuels, lubricants, and related materials. Other EU imports mainly consist of food and livestock, chemicals and related products, as well as certain manufactured goods. Whilst the EU exports to Azerbaijan are dominated by machinery and transportation equipment, other EU exports include chemicals and related products, manufactured goods and articles, food, and livestock.⁴

1 Source: <https://www.consilium.europa.eu/en/policies/eastern-partnership/azerbaijan/>

2 Source: <https://www.stat.gov.az/source/trade/?lang=en>

3 Source: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/azerbaijan_en#:~:text=The%20EU%20is%20Azerbaijan's%20main,16%25%20share%20of%20Azerbaijan's%20imports

4 Source above

Azerbaijan's top non-energy exports in 2019



Figure 1. Azerbaijan's top non-energy exports⁵

Environmental performance in a nutshell

To become "environmentally-friendly" or obtain "eco-labels", products and services can employ a variety of voluntary methods to prove that they are ecologically preferable within their sector or category. This has a wide application (from food to industrial goods like machinery, manufacturing plants, all the way to construction and services). In the European Union (EU) alone, there are over 230 eco-labels which include ambitious sets of criteria, such as⁶:

1. the environmental impact of toxic substances
2. deforestation and degradation
3. poorly managed waste disposal and lack of recycling
4. the inefficient use of resources (water, energy, raw materials) and products (food waste, overuse of detergents, etc.)
5. unnecessary carbon emissions

Environmental performance in the European Union

For companies trying to market their products as environmentally-friendly in the EU, striking the right balance between market opportunities and market challenges can be difficult. This is because oftentimes, the vast range of choices, means of labelling or classification, results in additional costs or delays for the companies, and in confusion and mistrust for the consumers. In 2013, under the EU Single Market for Green Products (SMGP) initiative, the European Commission introduced the Product Environmental Footprint (PEF) methodology to address such issues and help harmonize checking, regulating, and promoting environmentally-friendly products.⁷

The SGMP is also strongly interrelated with other EU initiatives, such as the 2020 "Circular Economy Action Plan" which, together with PEF, will help establish a strong and coherent product policy framework that will make sustainable products, services, and business models the norm, rather than the exception.

The Product Environmental Footprint (PEF) methodology

PEF is a multi-criteria measurement of the environmental performance of a good or service throughout its life cycle. PEF information is produced with the purpose to reduce the environmental impacts of goods and services, taking into account their supply chain activities (from the extraction of raw

materials, throughout production and use, to final waste management). In a nutshell, PEF is the EU-recommended tool to quantify a product's environmental impacts, based on the Life Cycle Assessment (LCA). It does so by modelling the environmental performance of the flows of resources, materials, or energy, and by looking into the supply chain of the product to better identify waste streams associated with production.

The PEF method has important ties to the LCA, but it is not identical to it. LCA is a standardized methodology quantifying environmental pressures, benefits, trade-offs, and areas where improvements can be made in the life-cycle of a product. The LCA only looks at a product's phases (such as production, transport, use and end of life). Separately, PEF is a way of conducting an LCA, but with an added strength to deliver more consistent, reliable, and reproducible results. This is because the PEF methodology is less flexible than LCA, has more stringent requirements on data quality, and introduces weighting and normalization of databases.⁸

PEF and trade

To ensure and stimulate the trade of environmentally-friendly products, the EU Single Market for Green Products (SMGP) provides specific rules and requirements. In this sense, SMGP offers the Product Environmental Footprint Category Rules (PEFCR) and Organization Environmental Footprint Category Rules (OEF CR) to establish category and sector requirements of studies related to environmental footprint. PEFCR consists of PEF rules related to the specific product groups or categories and are valid for products sold and/or consumed in the EU regardless of the country of origin. Read more about the PEF methodology and its introduction in the Eastern Partnership (EaP) countries from our dedicated leaflet (available in English and Azerbaijani).

About EU4Environment

The EU-funded EU4Environment Action aims to preserve and better use the natural capital, increase people's environmental wellbeing, and stimulate greener economic growth in the Eastern Partnership countries. Its initiatives help deliver policy and legislative changes, make planning and investment greener, and stimulate the uptake of innovative technologies by adopting new business models and creating green jobs.

Disclaimer

This leaflet was produced with the assistance of the European Union. Its contents are the sole responsibility of UNIDO and do not necessarily reflect the views of the European Union. This leaflet has been produced without formal United Nations editing. The designations employed and the presentation of the materials in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as "developed", "industrialized" or "developing" are intended for statistical convenience and do not necessarily express a judgement about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO. The opinions, figures, and estimates set forth are the responsibility of the authors and should not necessarily be considered as reflecting the views or carrying the endorsement of UNIDO and its Member States.

© – 2023 – UNIDO. All rights reserved. Licensed to the European Union under conditions.



United Nations Industrial Development Organisation (UNIDO)
Ms. Tatiana Chernyavskaya
 EU4Environment Project Manager
 Tel: +43 1 26 0 26 3106
 E-mail: t.chernyavskaya@unido.org
 Web: www.unido.org



Regional Environmental Centre for the Caucasus (REC Caucasus)
Azerbaijan Branch,
Mr. Aslan Shikhaliyev
 Tel: +994-55-622-69-00
 E-mail: aslan.shikhaliyev@rec-caucasus.org
 Web: www.rec-azerbaijan.org

Action implemented by:



⁵Source: <https://documents1.worldbank.org/curated/en/09910000922236784/pdf/P17532606988e2056084e603c9c48d4c618.pdf>

⁶Source: <https://ec.europa.eu/environment/ecolabel/did-you-know.html>

⁷Source: <https://www.eu4environment.org/app/uploads/2022/05/Leaflet-advancing-product-environmental-footprint.pdf>

⁸Source: https://www.meti.go.jp/committee/kenkyukai/sangi/lca/pdf/001_04_00e.pdf