



INTRODUCING PRODUCT ENVIRONMENTAL FOOTPRINT IN GEORGIA

For companies seeking entry into the EU market, the Single Market for Green Products (SMGP) initiative emphasizes the imperative to adhere to green product standards. To foster fair competition within the industry and enhance comparability and communication about environmental performance, the European Commission (EC) proposed the Product Environmental Footprint (PEF) method as the standard approach for evaluating the environmental impacts of products throughout their life cycles. Currently, the PEF method is increasingly used to support the reporting of environmental aspects in the forthcoming European Union (EU) legislation. For example, its application is mandatory in the adopted batteries regulation, and it has potential use in the adopted EU Taxonomy classifications.

To facilitate adherence to these regulations, the United Nations Industrial Development Organization (UNIDO), under the EUfunded "European Union for Environment" (EU4Environment) Action, is introducing the Product Environmental Footprint (PEF) methodology as one of the instruments of the EU SMGP initiative for the EU's Eastern Parentship (EaP) countries. In Georgia, this action is facilitated by CIVITTA, an international consortium blending digital and advisory services for public and private clients.

TECHNICAL BACKGROUND

THE SINGLE MARKET FOR GREEN PRODUCTS (SMGP)

Introduced by the EC in 2013, the SMGP initiative recommends a set of principles for communicating the environmental performance of products and organizations. This enables producers to substantiate their claims of being environmental friendly. The initiative addresses the need to establish and apply a single environmental assessment approach for products traded across the EU.

SOECD UNECE



PRODUCT ENVIRONMENTAL FOOTPRINT (PEF)

PEF is an EU-recommended methodology that involves a multicriteria measurement of the environmental performance of a good or service throughout its life cycle (from resource extraction to product manufacturing, and its end of life). It considers 16 environmental impact categories and provides concrete labelling rules that reduce freedom of interpretation while promoting stringent data quality and verification requirements. Product Environmental Footprint Category Rules (PEFCRs) are being developed for specific product groups. The objectives of PEFCRs are to provide consistent labelling rules for all products within a defined scope, to focus on the key environmental impacts within the product categories, and to facilitate product comparison. A PEFCR often includes the PEF results for one or several representative products, which serve as a benchmark within their product category or subcategory.

LIFE CYCLE THINKING (LCT)

Life cycle thinking considers the environmental, economic, and social impacts of a product throughout its entire life cycle. This way, LCT aims to improve a product's sustainability by identifying opportunities to enhance production processes.

ECO-LABELLING

Eco-labelling is a voluntary initiative designed to confirm a product's environmental quality. It encourages businesses to label their products and adopt environmentally friendly practices, ultimately providing dual benefits for both businesses and consumers.





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THE READINESS OF GEORGIA TO ACCESS THE SMGP

CURRENT LEGISLATIVE FRAMEWORK

On 30 July 2013, the Government of Georgia adopted Resolution No. 198 concerning bio-production. This resolution aims to systematize ecological products for both local consumption and export, better aligning Georgian producers with the EU regulation. It is based on Georgia's "Food Products/Animal Feed Safety, Veterinary, and Plant Protection" Code, the primary legislative act governing food safety, feed safety, veterinary control, and plant protection. In 2023, the Ministry of Economy and Sustainable Development of Georgia (MoESD) initiated the development of the "Green Growth Strategy" for the country. MoESD has emphasized the importance of green growth by designating the call for "Promoting the Development of the Green Economy for SMEs" as a priority in the "SME Development Strategy of Georgia 2021-2025". The draft "Technical Regulation on the Rules for the Production and Labelling of Organic (Biological, Ecological) Products" has been prepared in accordance with the latest consolidated version of the new European Regulation No. 2018/848 (EU) 2022/474, and is currently under review. Additionally, Georgia has made notable advancements in terms of public procurement by adopting legislation that introduces Sustainable Public Procurement (SPP), set to enter into force in January 2025. Overall, Georgia has limited legal acts related to eco-labelling, and this area remains insufficiently regulated.

SUPPORT MECHANISMS

While there have been no national eco-labelling programmes in Georgia since the halting of the Georgian EcoLabel (for tourism), several private companies continue to provide international standards consultancy and certification services, preparing the ground for future ecolabelling processes. These include the ISO 14001 Environmental Management Standard, which provides a platform for environmental labelling if certified enterprises choose to apply for the ISO 14020 series. Most certifying companies operating in Georgia have the capacity to introduce ecolabelling according to the ISO standards through locally available or invited auditors, though they stated that there has been no demand for this service. Furthermore, Georgian companies can acquire organic certification, which is the closest analogue to an eco-label. Some of the service providers offering environmental management and organic certification include (but are not limited to): ISO Consulting, Management Systems, ECO-SPECTRI, MSCC, GSO, and the Green Building Council Georgia.



ORGANIC CERTIFICATIONS

Certification imperatives are regulated by the Bioproduction Regulation, approved by Government Decree No. 198 on 30 July 2013. According to this regulation, a certificate of conformity can only be issued by a Certification Body accredited by either a national or international accreditation body. In Georgia, this function is managed by the National Accreditation Centre, which operates under the MoESD.

To obtain an eco-label for a product in Georgia, the interested party or company must be certified by an accredited organization. The Regulation No. 198 defines a Certification Body as one that holds international accreditation or acts as a Legal Entity of Public Law (LEPL). LEPL is the sole accreditation body accredited by the National Accreditation Centre, responsible for evaluating compliance with food, animal feed, and primary production standards. Currently, the only national organization authorized to issue organic certificates is Caucascert LTD, established in Georgia in 2005. Caucascert is the country's pioneering company for local organic certification. It offers certifications for a wide range of bioproducts, including unprocessed plant products (from plant production and wild plant collection), live animals or unprocessed animal products (including honey), processed agricultural products intended for human consumption (including organic wine), vegetative propagating materials (leaves, stems, roots) and seeds for cultivation.

MAPPING THE KEY STAKEHOLDERS

Stakeholder engagement encourages open dialogue and fosters transparency, which is pivotal when marketing green products. Throughout the implementation cycle of products carried out by producers and manufacturers, practices related to PEF also involve various stakeholders, such as international organizations, public authorities, expert institutions, and end-users. Some of the most relevant national and international stakeholders include, but are not limited to:

International organizations: UNIDO, OECD, UNECE, UN Environmental Programme, Austrian Development Agency, the World Bank, World Trade Organization, UNDP, EBRD, and ABD

Regional PEF stakeholder experts and institutions: Georgian Chamber of Commerce and Industry, Business Association of Georgia (BAG), and Export Development Association (EDA)

Public authorities: <u>Ministry of Economy and Sustainable</u> <u>Development of Georgia</u>, the Energy Efficiency, Renewable Energy Policy and Sustainable Development Department of MoESD, Foreign Trade Policy Department of MoESD, LEPL Unified National Accreditation Body – <u>Accreditation Center</u>, <u>LEPL</u> <u>Enterprise Georgia</u>, Ministry of Environmental Protection and Agriculture of Georgia (<u>MEPA</u>), Agriculture, Food and Rural Development Department of MEPA, LEPL Environmental Information and Education Centre, the <u>LEPL National Food</u> <u>Agency</u>, NNLE Rural Development Agency (<u>RDA</u>), and the Sustainable Finance Division of the National Bank of Georgia.

This stakeholder overview presents potential opportunities which could facilitate synergies for implementing PEF on a national scale in Georgia.

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NATIONAL MARKET TRENDS FAVORING THE SMGP INITIATIVE

DEMAND FOR CERTIFICATION AMONG EXPORT-ORIENTED COMPANIES

While environmental footprint may have limited appeal for Georgian enterprises focused on the domestic market, it offers a competitive edge for exporters targeting markets such as that of the EU. Currently, Georgia's primary exports to the EU include ferrous metals, mineral resources, apparel, fruits, and beverages. The future adoption of environmental certification by export-oriented companies will largely depend on the growth of exports to the Union. The below graph illustrates the five-year forecast of Georgia's export potential to the EU. The regulatory framework of the destination market will be a key driver for environmental certifications. Introducing PEF studies as a standard practice will also help Georgian companies comply with EU regulations and maintain competitiveness in the EU market.



NOTE The forecast is calculated based on the historical trade performance and excludes sectors that have not yet been successful in these directions.

LIMITTED AWARENESS OF THE COMPETITIVE ADVANTAGE OF GREEN PRODUCTS

Food and agricultural products have significant export potential to the EU. However, a survey (including interviews with ISO Certification Companies in Georgia) indicates that Georgian producers often misunderstand the labelling of agricultural products. Producers often seek organic certification, mistakenly assuming that it covers environmental labels. While organic labels focus on food composition, ecolabels emphasize sustainable production processes. Since its inception, Caucascert has certified 139 food and agricultural producers but also reported a high rate of decertification (106) and voluntary withdrawals (6). The challenges stem from the complex, cost, and marketingrelated requirements associated with maintaining organic certification, despite available tax benefits. This underscores the importance of raising awareness about the distinctions between organic certifications and eco-labels, as well as the benefits of adhering to the EU green product standards, achievable through PEF studies. Additionally, the methodology introduces PEFCRs to enhance comparability among PEF studies within specific product categories or sectors. PEFCRs aim to ensure transparent, reliable, comprehensive, and clear communication of environmental performance metrics.

THE BENEFITS OF APPLYING THE PEF METHODOLOGY FOR EXPORT-ORIENTED COMPANIES

PEF empowers enterprises to enhance the sustainability of their supply chains and product life cycle. Conducting a PEF study will offer valuable insights into the most impactful ingredients, processing steps, or life cycle stages of a product, making it an ideal starting point for mitigating negative environmental impacts. The potential benefits of applying the PEF methodology include:



THE SMGP READINESS ROADMAP FOR GEORGIA

The SMGP initiative aims to provide clear, reliable, and comparable information on the environmental performance of products and organizations by establishing a unified environmental assessment approach for products entering the EU market. The below SMGP readiness roadmap outlines the guided recommendations, actionable opportunities, and milestones suggested for Georgia to achieve readiness to access the SMGP. This preparation will enable the trading of environmentally friendly products across the EU.



FIGURE 1 The SMGP readiness building blocks

NATIONAL STRATEGIC DEVELOPEMENT INITIATIVES

Georgia has made significant progress in promoting Green Economy principles through the implementation of various laws and regulations. However, despite achievements in areas such as Sustainable Financing and Renewable Energy Development, the country still lacks comprehensive legal frameworks for eco-labelling, resulting in insufficient regulation in this crucial sector. To further bolster the position of exportoriented Small and Medium-sized Enterprises (SMEs), it is advisable to introduce internationally accredited national schemes focusing on certifying the origin of raw materials. This initiative would particularly benefit SMEs involved in assembling products made from locally sourced eco-labelled raw materials. Proposed schemes include the Forest Stewardship Council (FSC) for wood and wooden articles, the Marine Stewardship Council for the Black Sea fishing industry, and either the EU-Ecolabel or OEKO-TEX for leather goods (given the relatively higher availability of local leather materials compared to textiles).

Furthermore, evaluating the feasibility of reinstating the national certification scheme for the Georgian Ecolabel is recommended, as well as expanding its scope beyond statemanaged tourism-based products to include tourism SMEs. Additionally, granting companies a transitional period to comply with new regulations is advised. This approach can help ensure that businesses have sufficient time to adjust to new standards and mitigate any adverse market impacts.

Green public procurement: Georgia has made significant strides in public procurement by adopting legislation for Sustainable Public Procurement (SPP), which will enter into force in January 2025. Drawing upon the OECD's past work on SPP (especially under the EaP GREEN programme from 2017) can serve as a valuable reference to enhance the environmental and social performance of products, alongside market-driven tools such as eco-labelling. Georgia can also expedite the adoption of PEF assessments to improve product performance, stimulate demand and supply for green products, and empower consumers to make informed choices. The Georgian Government can also leverage insights from SPP initiatives, and closely collaborate with international organizations already supporting the effective implementation of PEF within the SPP framework. Such a collaboration would lead to an increased demand for sustainable goods, and improve the environmental performance of products and services.

Monitoring and evaluation systems: To ensure the successful implementation of policy and strategy initiatives, establishing a robust monitoring and evaluation system is crucial. To achieve optimal results, such a system should involve an executive body comprising stakeholders from key industrial clusters. Furthermore, it is essential to identify product categories that can become significant market players in the EU. Leading the development of PEFCRs for these product groups and ensuring consistent monitoring can further enhance Georgia's competitiveness in the EU market. This proactive approach also prepares the industries for upcoming EU developments. Lastly, developing local and geographically specific data is necessary to effectively conduct PEF studies. For instance, data should cover the country's electricity mix and other relevant technologies or activities for which background information is already available.



SOURCE Introducing the PEF methodology in "Santa" LLC, Georgia

CAPACITY BUILDING

Enhancing the availability of local PEF experts is essential, and requires the implementation of appropriate training programmes. Before conducting PEF studies, local experts must have a solid understanding of Life Cycle Assessment (LCA) and practical experience with LCA software such as SimaPro. Since the PEF methodology builds upon LCA, a solid foundational knowledge around LCA is crucial. PEF experts also need specific experience in constructing Environmental Footprint (EF) models using tools like SimaPro or similar platforms. This requires a thorough grasp of the software's functionalities and complexities, especially in developing EF models. Hence, training programmes should ensure that PEF experts acquire comprehensive knowledge of these essential software tools. Additionally, experts should also bear in mind that effective ecological footprint studies require access to specialized software and databases containing ready-made data sets of various industry processes (such as EF data).

SUPPORT MECHANISMS

Creating synergies among existing support mechanisms is crucial in fostering favorable conditions for the successful introduction of PEF. These synergies involve knowledge creation, experience sharing, and building an expert base, all of which are essential for generating significant impact across stakeholder groups. Furthermore, financial incentives targeting the promotion of PEF or the development of eco-labelling schemes have the potential to create favorable conditions for SMGP readiness in the country. An essential step toward promoting ecolabeling among SMEs involves leveraging the existing certification and co-finance mechanisms initiated by Enterprise Georgia. Providing tax incentives or other benefits for companies producing green products can also incentivize businesses to adopt sustainable technologies, supporting the transition to a green economy and promoting sustainable production practices. Additionally, companies taking loans for green purposes could be offered lower interest rates or longer grace periods to support their transition to sustainable production. Furthermore, creating cooperatives can support small-scale farmers who may lack the individual resources to meet the requirements of sustainable production standards. Consolidating their production can reduce costs and simplify compliance with new laws and regulations. This approach ensures that SMEs have equal opportunities to embrace sustainable technologies and practices, irrespective of their size or financial capabilities.



SOURCE Introducing the PEF methodology in "PEA", Georgia



SOURCE Introducing the PEF methodology in "Marta Bebo's Dambalkhacho", Georgia

AWARENESS RAISING

The current situation highlights the need for a proactive government involvement to support Georgian export-oriented companies. This includes establishing labelling standards, non-financial digital product passports, reporting requirements, and developing PEFCRs for relevant sectors, while promoting the broader adoption of PEF. These initiatives are essential in facilitating access to EU markets. Improving accessibility to information on labelling or certification procedures can also enable businesses to adopt sustainable technologies more effectively. Moreover, enhancing awareness of the benefits for investing in sustainability within the Georgian business community could significantly accelerate the adoption of best practices. Additionally, awareness events, educational meetings, and media campaigns can promote sustainable production practices and illustrate the advantages of sustainable technology investments. Such initiatives would simplify compliance with sustainable production standards for businesses of all sizes, and enhance overall market sustainability.

Within awareness-raising events, the following objectives should be prioritized for each stakeholder group:

- Government officials and policymakers: Increase awareness and garner support for decision-making reforms among relevant policymakers.
- **Businesses:** Foster awareness, collaboration, and synergies among companies, demonstrating the benefits of ecolabelling and PEF for products exported to the EU market.
- Eco-labelling experts: Enhance awareness about the existing types of certification and increase local capacity.

Supplementary activities could include:

- Conducting baseline studies to understand the current attitudes and behaviors of target audiences toward ecolabelling, and using this information to craft impactful messaging.
- Collaborating on studies with European environmental labelling schemes.
- Coordinating with national policymakers and Government institutions to develop an effective awareness campaign promoting the benefits of the PEF methodology.

FUTURE OUTLOOK

Based on the recommendations outlined above, the proposed SMGP readiness stages offer potential development scenarios for Georgia to establish an ecosystem conducive to successfully entering the EU SMGP. Ultimately, integrating environmental protection, resource and energy efficiency into all sectors of the economy is crucial. This involves initially preparing the country's market to apply PEF and subsequently integrating PEF into policy, potentially through PEFCRs.

The research highlights the need for preparing industries for forthcoming regulations by implementing PEF at the national level. The suggested stages presented below can be synergized through coordinated actions and effective collaboration among stakeholders.



INITIATING STAGE

This stage represents a think-tank-empowered ecosystem, facilitating effective awareness-raising and capacity-building initiatives. In this model, PEF aspects are integrated into a wide range of public policy and strategy documents, although specific plans for dedicated regulations are currently lacking. The designated national body should aim for international recognition and enhance internal capacities. Additionally, market players are encouraged to strictly adhere to correct labelling practices. NGOs and think tanks can play a crucial role in preparing the country for PEF practices, with the private sector demonstrating awareness and interest to start the initiative.

During this stage, it is also essential to explore the consumers' interests in purchasing products considered ecologically appropriate, and their willingness to pay a premium for such products. Moreover, defining the concept and criteria of ecologically appropriate product and outlining the criteria for "eco-labelling" in the legislation remain key tasks.



FACILITATING STAGE

The facilitation stage represents a synergetic ecosystem that fosters an enabling environment for the application of PEF methodology in Georgia. Within it, PEF aspects are explicitly integrated into public policy and strategy documents, and are supported by dedicated regulations. Whereas the designated national body achieves international recognition, the Government assumes a coordinating role, leading state-level support programmes, ensuring financial incentives, and promoting the use of Information Technology (IT) tools for data collection and analysis. NGOs and other think tanks serve as experts, and the private sector observes the successful business cases in the implementation of PEF practices, thereby enhancing country's presence in export markets.



CONSOLIDATING STAGE

This stage represents a mature level where the country's PEF system evolves into a comprehensive and well-functioning ecosystem with a strong quality infrastructure supporting the implementation of PEF. This include nationwide application of the PEF methodology (ensuring adherence to environmental standards). Additionally, PEF is used in eco-design proposals and labelling in the country, and is aligned with the EU Green Claims Proposal. The designated national body attains international recognition, and the local certification bodies (compliant with EU eco-labelling protocols), do not only certify the Georgian companies, but also engage with clients worldwide. Lastly, the Government collaborates closely with NGOs and partners, aligning policies and development priorities with PEF practices. The private sector demonstrates a robust commitment to sustainability by establishing strong PEF practices, and achieves recognition through PEF labelling.

About EU4Environment

The European Union (EU) funded EU4Environment Action aims to help the EU's Eastern Partnership countries preserve their natural capital and increase people's environmental well-being. It does so by supporting environment-related action, demonstrating and unlocking opportunities for greener growth, and setting mechanisms for better management of environmental risks and impacts. EU4Environment is implemented by five partner organizations: OECD, UNECE, UNEP, UNIDO, and the World Bank between 2019-2024, with a budget of EUR 20 million.

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