



German
Economic
Team

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POLICY BRIEFING
GEORGIA

Selection of sectors for the first wave of the EU-Georgia ACAA

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Summary

- » The EU-GEO Association Agreement allows the conclusion of the ACAA as a final step for the removal of technical barriers in trade
- » Products subject to potential ACAA play a noticeable role in GEO foreign trade, covering 19% of GEO exports and 32% of imports
- » The products embedded in potential ACAA constitute up to 45% of GEO industrial production
- » The systemic analysis of GEO characteristics of exports, imports and domestic economy allowed ranking of all potential ACAA spheres by their potential. The top 5 spheres are:
 - Personal protective equipment
 - Construction products
 - Low voltage equipment
 - Electromagnetic compatibility
 - Pressure equipment
- » We recommend further consultations with sector stakeholders to verify this prioritisation before the political decision regarding the ACAA is taken

Structure

- » Motivation
- » The concept of ACAA
- » GEO preparedness for ACAA
- » Methodology
- » The role of potential ACAA spheres in:
 - GEO exports
 - GEO imports
 - GEO production
- » Results
- » Annexes

1. Motivation

- » GEO has significantly progressed in the legal harmonisation of technical regulations and transposition of the EU standards
- » However, technical barriers to trade (TBT) were still identified as a key barrier limiting Georgian exports to the EU in previous analyses (see e.g. [GEO/PS/03/2023](#))
- » The next major step is the conclusion of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), the possibility of which is envisaged by the EU-GEO Association Agreement (AA)
- » The ACAA shall eventually cover all spheres embedded in Annex III-B of the AA
- » BUT: a selection of a limited number of spheres the ACAA should cover in the first round is needed

Aim of the policy briefing:

- » Screening of main economic and foreign trade characteristics of sectors earmarked for the ACAA
- » Identification of sectors with the highest ACAA potential

Disclaimer: The results should be treated as consultative and verified through the consultations with sector stakeholders before the political decision regarding the ACAA priority sectors is taken

2. The concept of ACAA

- » **Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA)** is a special case of mutual recognition agreements (MRAs) offered by the EU to its partners
- » MRAs provide mutual recognition of conformity assessment results performed by the designated conformity assessment bodies in the partner's country of goods' compliance with the requirements of the other partner
- » Reliant on strong institutions and trust, the MRAs are most typical among high-income countries. The EU has MRAs with the USA, Japan, Canada, Australia, New Zealand, Switzerland and Israel
- » The ACAA is a special type of EU MRA based on aligning the country's legislative system and infrastructure with the EU's.
- » The EU has the only ACAA with Israel, although the opportunity was offered to many other countries in Eastern Europe and the Mediterranean
- » Among the "Trio", Ukraine is the closest to concluding the ACAA with the EU (see Annex 1 for details). That would become the first ACAA concluded by the EU with a middle-income country

The steps towards ACAA

» The ACAA preparations could be tentatively divided into the following steps:

Step 1: The country aiming for the ACAA aligns horizontal (cross-sectoral) and vertical (sectoral) legislation and reforms the quality infrastructure according to the EU norms and practices.

Step 2: The EU conducts a technical assessment of the level of preparedness and provides recommendations for further alignment.

Step 3: The partner implements the recommendations to ensure full alignment.

Steps 2 and 3 can be repeated until full alignment is achieved.

Step 4: The EU conducts an official assessment and decides about the readiness for the ACAA, covering certain sectors (product categories).

Step 5: The EU and the partner formally negotiate and conclude the ACAA.

The channels of the ACAA impact

At the stage of ACAA preparations

Domestic production:

- Changed costs of implementing safety requirements for industrial products due to the implementation of the EU norms for the domestic market

Trade in goods:

- Lower costs for exporting to the EU and other markets applying the EU regulations as there is no need to meet additional safety requirements, stimulating current and new product exports
- Changed import costs due to the changed domestic safety requirements, with imports from the EU and other markets applying the EU regulations becoming potentially cheaper
- Reorientation of trade towards the EU and other markets applying the EU regulations

When the ACAA is concluded

Trade in goods:

- Lower costs of trading with the EU due to mutual recognition of conformity assessment and thus no cost duplication, stimulating current and new product exports
- Reorientation of trade towards the EU
- Stimulus for new (smaller) companies to enter foreign trade due to no additional conformity assessment costs

Investments/economic development:

- More domestic investment using the cheaper EU capital goods
- Incentives for FDI inflow and inclusion in global value chains
- Faster placement of new innovative products in both markets

Trade policy:

- Improved image as a partner
- Simplification of new MRA conclusion

ACAA in the EU-GEO Association Agreement

- » The ACAA may ultimately become a Protocol to the EU-GEO Association Agreement (Art. 48) upon the parties' consent
- » The ACAA includes:
 - A framework agreement, providing the recognition of equivalence of the conformity assessment, verification and accreditation procedures, and
 - Annexes setting out the products covered.
- » The product categories (sectors) covered by the ACAA are to be decided (the purpose of this PB is to identify the most potent sectors)
- » More product categories (sectors) could be added later. Annex III-B of the Association Agreement contains 20 sectors
- **The conclusion of the first ACAA, containing the framework agreement, is crucial as the institutional processes are essentially cleared at this stage**

3. GEO preparedness for ACAA

Sphere	The level of preparedness
Technical regulations	<p>The legislation is partly aligned with EU acquis (Nov'23)</p> <p>Designated to align legislation: cableways, gas appliances, protective systems intended for use in potentially explosive atmospheres, lifts, measuring instruments, civil explosives, recreational craft, eco-design, medical devices, construction products (22 types), radio equipment, and electrical equipment intended for use within certain voltage limits</p>
Standards	<p>The legislation is partly aligned with EU acquis (Nov'23)</p> <p>Since Jan'23, GEOSTM has been an affiliate member of the CEN/CENELEC</p> <p>As of Dec'23, GEO adopted 13,950 EU standards (out of 24,076)</p>
Conformity assessment	<p>The legislation is partly aligned with EU acquis (Nov'23)</p>
Accreditation	<p>The legislation is partly aligned with EU acquis (Nov'23)</p> <p>GEO is an associate member the European co-operation for Accreditation (EA)</p> <p>Scopes covered by EU MLA: calibration, testing, medical examination, product certification, certification of persons, inspections, proficiency testing providers</p>
Metrology	<p>The legislation is partly aligned with EU <i>acquis</i> (Nov'23)</p>
Market surveillance	<p>The legislation is partly aligned with EU <i>acquis</i> (Nov'23)</p> <p>GEO 'pre-notification' system of market surveillance before placement on the market is not aligned with the EU acquis</p>
Summary	<p>GEO is at the stage of legal alignment, prerequisite for ensuring institutional alignment</p>

4. Methodology (1/2)

- » **Aim:** conduct the screening of the main economic and foreign trade characteristics of sectors earmarked for the ACAA to identify sectors with the highest ACAA potential
- » **Disclaimer:** We do not consider the level of GEO sectoral preparedness for ACAA in the analysis. Instead, we focus on the economic impact of the potential ACAA. The final selection of the sector should be verified using additional information about the status of preparations and other factors
- » We screen three dimensions:
 - *Exports:* the role of potential ACAA sectors in GEO exports, including trade with the EU and partners applying (or aiming to apply) the EU *acquis* in the sphere of technical regulations (hereafter, they are labelled as “*harmonised countries*”)*
 - *Imports:* the role of potential ACAA sectors in GEO imports, including trade with the EU and the “harmonised countries”
 - *Domestic production:* the role of potential sectors ACAA in GEO industrial production
- » Each dimension consists of indicators listed in Annex 2

Note: * The UK, the EFTA, Western Balkan states, Turkey, Ukraine and Moldova

Methodology (2/2)

- » We analyse 20 ACAA spheres embedded in Annex III-B (see the list in Annex 3)
- » Spheres are ranked based on their compound score, with a higher score suggesting a higher ACAA potential
- » Compound score is a weighted sum of the scores for three dimensions: (1) exports, (2) imports, and (3) domestic economy

Compound score = $\frac{1}{2}$ SCORE exports + $\frac{1}{4}$ SCORE imports + $\frac{1}{4}$ SCORE domestic

- » Each indicator's normalised score is calculated based on the ranking. The score ranges from 0 to 100, with rank 1 equivalent to score = 100.
- » The dimension score is the simple average across scores of indicators
- » Period: 2018 – 2022
- » Sources: WITS, Geostat

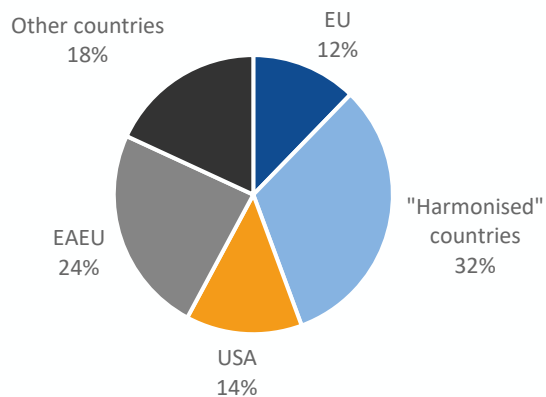
5.1. The role of potential ACAA spheres in GEO exports

GEO exports subject to potential ACAA



Source: WITS, exports without re-exports, own estimates; see Annexes 3 and 4 for the description of ACAA sectors and product selection

Geography of GEO exports subject to potential ACAA



Source: WITS, exports without re-exports, own estimates; see Annexes 3 and 4 for the description of ACAA sectors and product selection. Note: "harmonized countries" include the UK, EFTA, Western Balkan states, Turkey, Ukraine and Moldova that have to or approximated the same technical regulations

GEO exports subject to potential ACAA, 2023:

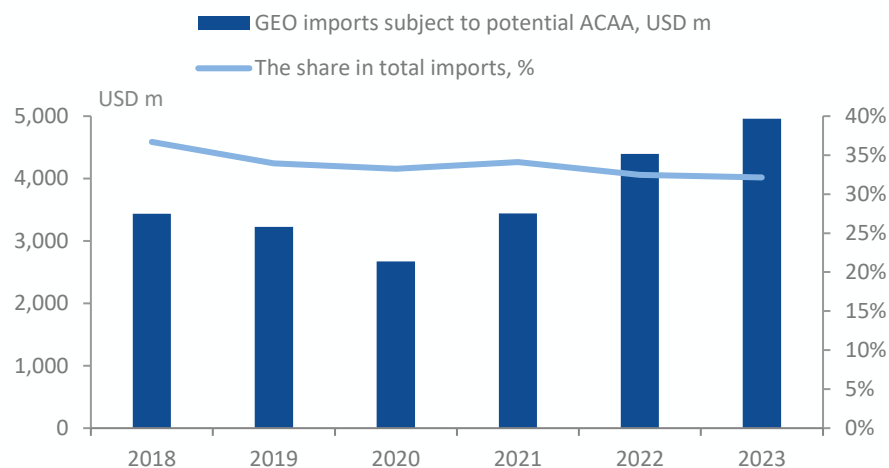
- » Value: USD 534 m
- » Share in total exports: 19%
- » Growth, 2023/2022: -37%
- » Growth, 2022/2018: +34%
- Moderate and volatile role in exports

Key destinations:

- » "Harmonised countries": USD 171 m, incl.
 - TUR: USD 162 m (30% of ACAA exports)
- » EAEU: USD 128 m, incl.
 - ARM: USD 63 m (12%)
 - RUS: USD 58 m (11%)
- » USA: USD 72 m
- » EU: USD 65 m, incl.
 - ITA: USD 14 m (3%)
- TUR is the largest destination of GEO exports subject to potential ACAA

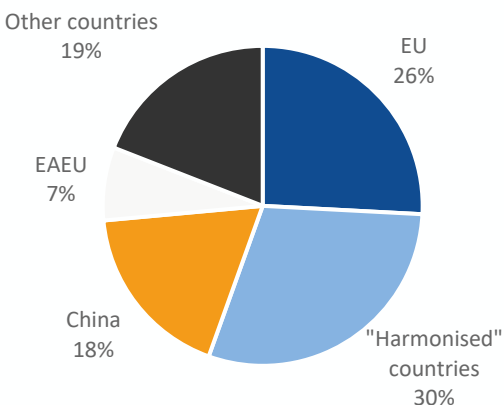
5.2. The role of potential ACAA spheres in GEO imports

GEO imports subject to potential ACAA



Source: WITS, own estimates; see Annexes 3 and 4 for the description of ACAA sectors and product selection

Geography of GEO imports subject to potential ACAA



Source: WITS, own estimates; see Annexes 3 and 4 for the description of ACAA sectors and product selection. Note: "harmonized countries" include the UK, EFTA, Western Balkan states, Turkey, Ukraine and Moldova that have to or approximated the same technical regulations

GEO imports subject to potential ACAA, 2023:

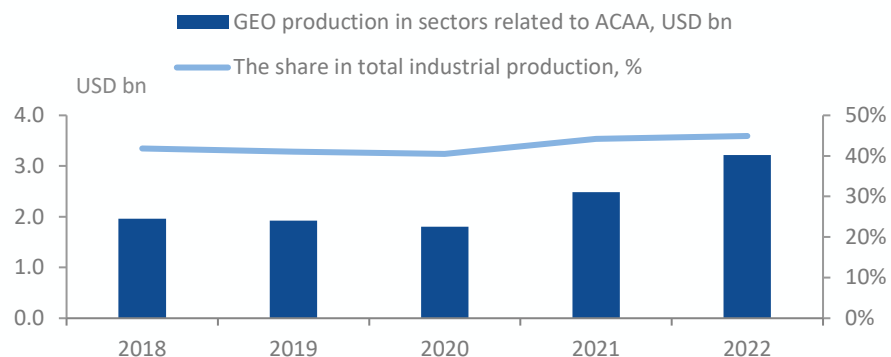
- » Value: USD 5.0 bn
- » Share in total imports: 32%
- » Growth, 2023/2022: +13%
- » Growth, 2022/2018: +28%
- Higher role in imports, with an upward trend

Key sources:

- » "Harmonised countries": USD 1.5 bn, incl.
 - TUR: USD 1.3 bn (26% of ACAA imports)
- » EU: USD 1.3 bn, incl.
 - DEU: USD 0.2 m (5%)
- » CHN: USD 0.9 bn
- TUR is the largest source of GEO imports, subject to potential ACAA
- The EU is more important as the source of imports rather than an export destination for ACAA products

5.3. The role of potential ACAA spheres in GEO production

GEO production in sectors subject to potential ACAA, upper-bound estimate*



Source: Geostat; own estimates; see Annexes 3 and 4 for ACAA sectors description and mapping.
Note: estimates are based on NACE 2-digits and should be treated as an upper bound for the role of the ACAA spheres in the GEO economy

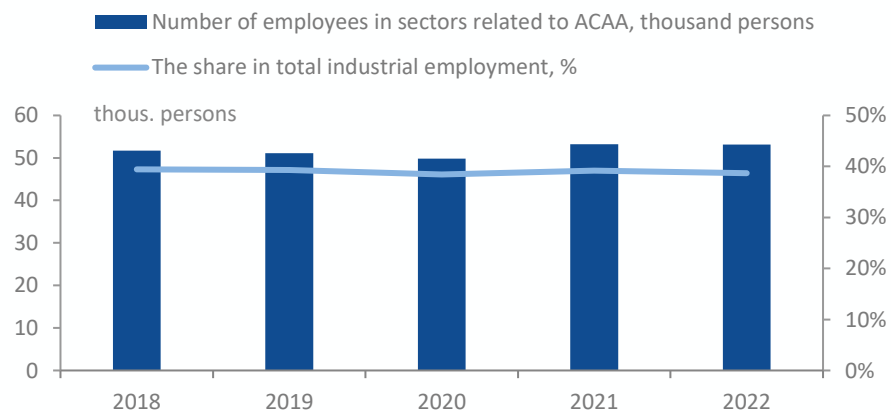
GEO industrial output subject to potential ACAA, 2022:

- » Value: up to USD 3.2 bn
- » Share in total industrial production: up to 45%
- » Growth, 2022/2018: +25%

Employment in sectors related to potential ACAA:

- » Number: up to 53 thousand persons
- » Share in total industrial employment: up to 39%
- » Growth, 2022/2018: +3%
- Moderate role of production related to potential ACAA in the GEO economy

GEO employment in sectors subject to potential ACAA, upper-bound estimate*



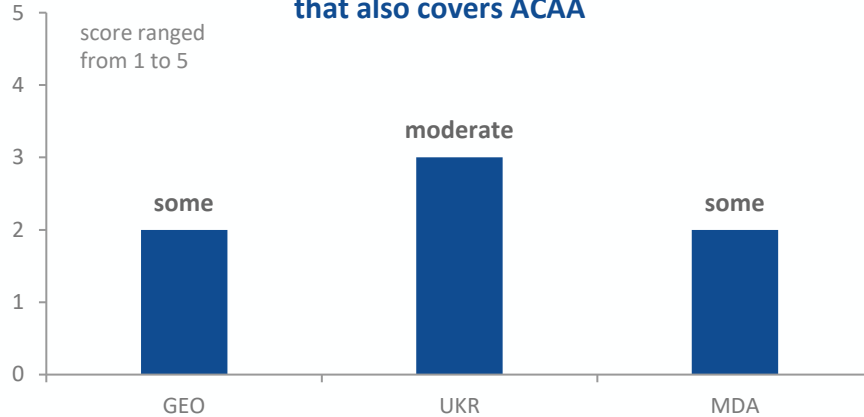
Source: Geostat; own estimates; see Annexes 3 and 4 for ACAA sectors description and mapping.
Note: estimates are based on NACE 2-digits and should be treated as an upper bound for the role of the ACAA spheres in the GEO economy

6. Results

Label	Description	Rank	Compound score	S1 Exports	S2 Imports	S3 Domestic
15PPEQ	Personal protective equipment	1	74	75	74	71
18CONS	Construction products	2	70	68	57	88
11LOWV	Low voltage equipment	3	65	65	53	75
10ELMC	Electromagnetic compatibility	4	63	64	50	75
03PRES	Pressure equipment	5	59	51	58	79
08EXEQ	Equipment and protective systems intended for use in potentially explosive atmospheres	6	59	60	43	73
12MEDC	Medical devices	7	53	45	50	73
14GASA	Gas appliances	8	53	49	59	55
16MACH	Machinery	9	51	57	48	43
05SIVE	Simple pressure vessels	10	49	35	58	69

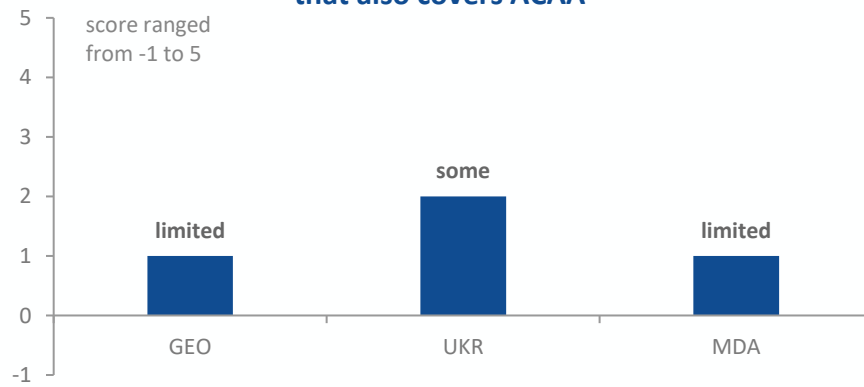
Annex 1: GEO, UKR and MDA progress towards ACAA

The level of preparation, Chapter 1 “Free movement of goods” that also covers ACAA



Source: EU Enlargement Reports 2023 for GEO, UKR, MDA; The report uses the following assessment scale to describe the state of play: early stage, some level of preparation, moderately prepared, good level of preparation and well advanced. The scale was converted into numeric scores from 1 to 5

Jun'22-Jun'23 progress, Chapter 1 “Free movement of goods” that also covers ACAA



Source: EU Enlargement Reports 2023 for GEO, UKR, MDA; The report uses the following assessment scale to describe progress made during the reporting period: backsliding, no progress, limited progress, some progress, good progress and very good progress. The scale was converted into numeric scores from -1 to 5

» GEO, UKR and MDA Association Agreements with the EU have different engagements for ACAA:

- GEO has the lowest level: “The Parties may ultimately agree to add the ACAA” (Art. 48)
- MDA is in the middle: “The Parties shall ultimately agree to add the ACAA” (Art. 174)
- UKR has the strongest commitment: “The Parties agree to add the ACAA” (Art. 57)

» UKR level of the ACAA preparation:

- EU expert mission assessment is completed
- Market surveillance and accreditation legislation is still partly aligned with EU *acquis*
- Sectoral legislation is aligned for three sectors earmarked for the first round of ACAA (machinery, low voltage equipment, electromagnetic compatibility)
- EU official assessment is expected in 2024

» MDA level of the ACAA preparation:

- Market surveillance legislation is not aligned
- Sectoral legislation is aligned for two sectors earmarked for the first round of ACAA (low voltage equipment, electromagnetic compatibility)
- Capacity development of relevant institutions is needed

Annex 2.1. Indicators for exports

- » Export value
- » Exports growth in real terms
- » Share of exports to the EU and countries having the same/approximating the same EU regulations (Ukraine, Moldova, EFTA, Western Balkan states, Turkey, the UK)
- » Product variety, i.e. number of HS 6-digit categories
- » Geographic variety, i.e. number of destinations
- » RCA globally and for the EU market:
 - $RCA \geq 1$ for the sector
 - Count of tariff lines at 6-digit HS with $RCA \geq 1$ with the sector

Source: WITS

Annex 2.2. Indicators for imports

- » The nominal value of imports
- » Imports growth, in volume
- » Share of imports from the EU and countries having the same/approximating to the same EU regulations (Ukraine, Georgia, EFTA, Western Balkan states, Turkey, the UK)

Source: WITS

Annex 2.3: Indicators for domestic production

- » The nominal value of production
- » Production growth, in real terms
- » The average number of employees
- » The value-added generated by the sector

Source: Geostat

Note: The data are used at the level of two-digits NACE codes

Annex 3: Spheres included in Annex III of the AA

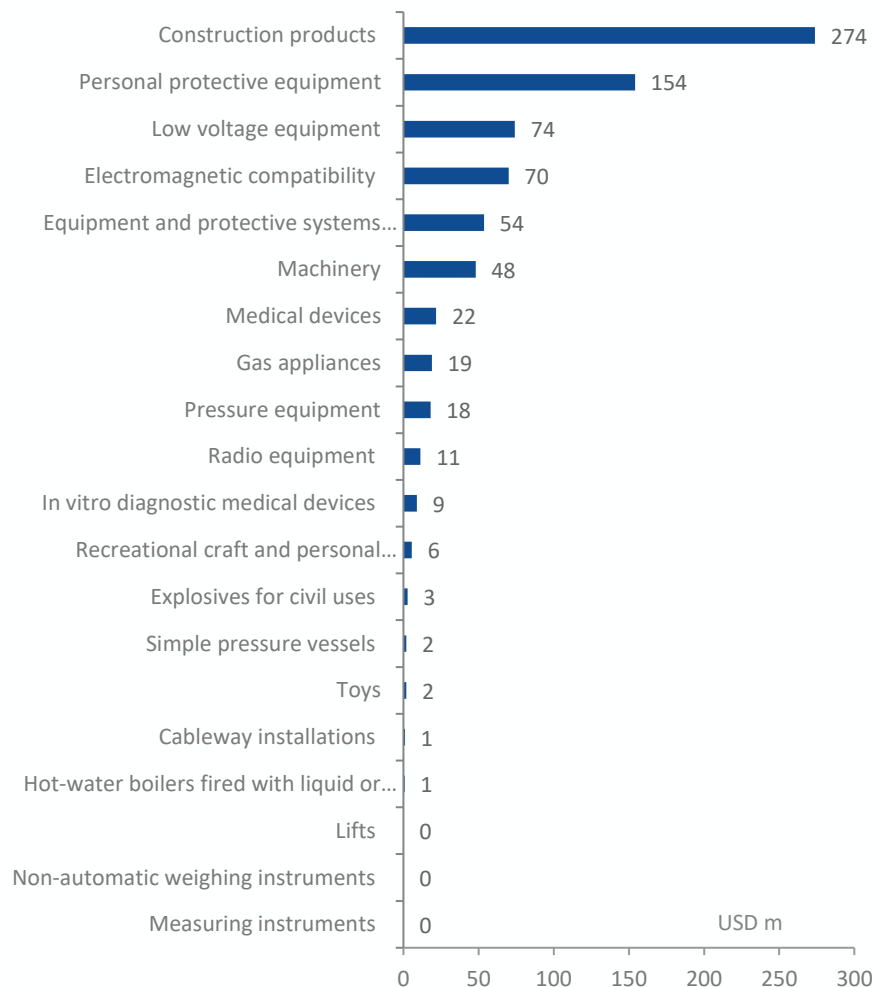
No.	Label	Description	EU <i>acquis</i> in Annex III
1	01CABL	Cableway installations	Regulation (EU) 2016/42
2	02LIFT	Lifts	Directive 2014/33/EU
3	03PRES	Pressure equipment	Directive 2014/68/EU
4	04BOIL	Hot-water boilers fired with liquid or gaseous fuels	Council Directive 92/42/EEC
5	05SIVE	Simple pressure vessels	Directive 2014/29/EU
6	06CRAF	Recreational craft and personal watercraft	Directive 2013/53/EU
7	07EXPL	Explosives for civil uses	Commission Directive 2008/43/EC
8	08EXEQ	Equipment and protective systems intended for use in potentially explosive atmospheres	Directive 2014/34/EU
9	09RADI	Radio equipment	Directive 2014/53/EU
10	10ELMC	Electromagnetic compatibility	Directive 2014/30/EU
11	11LOWV	Low voltage equipment	Directive 2014/35/EU
12	12MEDC	Medical devices	Regulation (EU) 2017/745
13	13VITR	In vitro diagnostic medical devices	Regulation (EU) 2017/746
14	14GASA	Gas appliances	Regulation (EU) 2016/426
15	15PPEQ	Personal protective equipment	Regulation (EU) 2016/425
16	16MACH	Machinery	Directive 2006/42/EC
17	17TOYS	Toys	Directive 2009/48/EC
18	18CONS	Construction products	Regulation (EU) No 305/2011
19	19NWEI	Non-automatic weighing instruments	Directive 2014/31/EU
20	20MEAS	Measuring instruments	Directive 2014/32/EU

Annex 4: ACAA spheres' mapping into HS and NACE codes

- » For each ACAA sphere, the list of HS 2017 codes at 6 digits was assembled
- » **Main source for ACAA spheres' mapping into HS codes:** UNCTAD, [TRAINS NTMs database](#), EU TBT measures
- » For “Equipment and protective systems intended for use in potentially explosive atmospheres”, the list is further verified using [Guide to the Application of the Directive 2014/34/EU](#), 3rd edition.
- » ACAA spheres mapping into ISIC/NACE codes was done using the correspondence of the BEC Revision 5 with HS 2017 and ISIC/NACE codes. The concordance table is available at: <https://unstats.un.org/unsd/classifications/Econ>.

Annex 5.1: Structure of GEO exports by ACAA spheres

GEO exports matched with potential ACAA spheres*



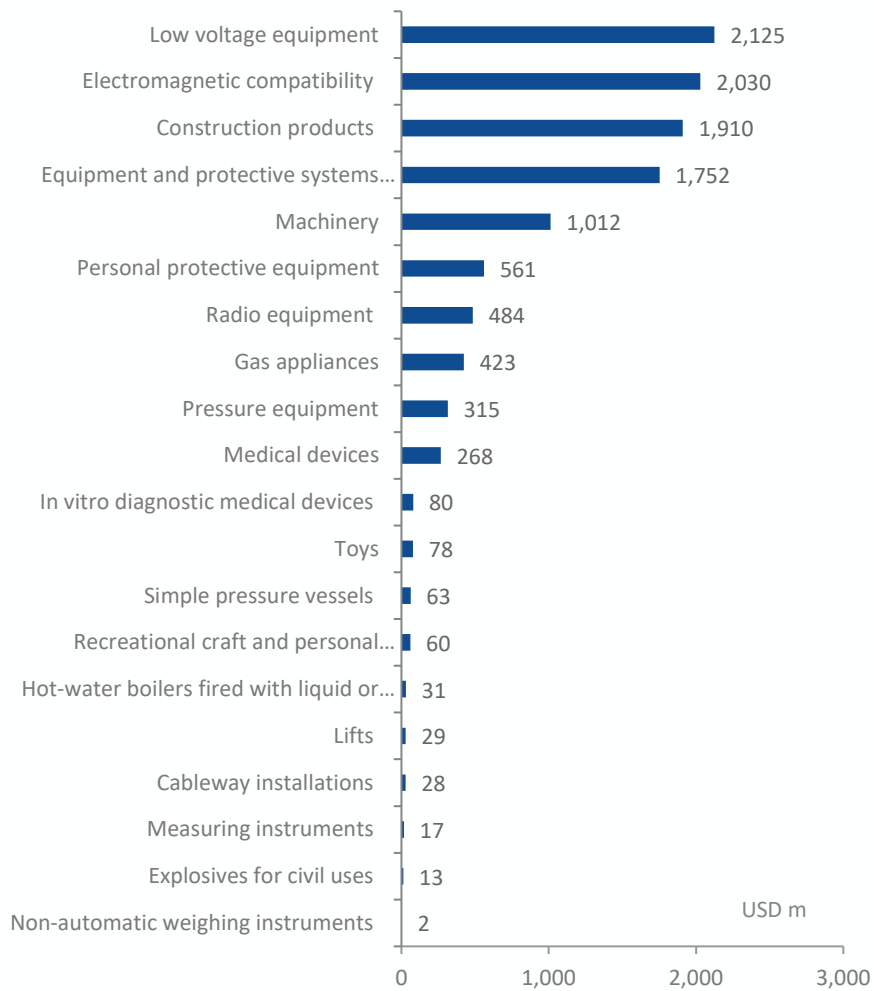
Source: WITS, exports without re-exports, own estimates; see Annexes 1 and 2 for the description of ACAA coverage and mapping into HS. Note: products (tariff lines) can be subject to multiple technical regulations. Therefore, the sum of exports by spheres is not equal to total exports subject to potential ACAA

Spheres earmarked for potential ACAA in GEO exports, 2023:

- » Top 3 export spheres by value:
 - Construction products
 - Personal protective equipment
 - Low voltage equipment
- » Top 3 export products by value:
 - Ferro-alloys (HS 7202): USD 181 m
 - T-shirts, other vests (HS 6109): USD 65 m
 - Jackets, trousers (HS 6103): USD 37 m
- » Top 3 export spheres by Revealed Comparative Advantage globally:
 - Explosives for civil uses
 - Personal protective equipment
 - Construction products

Annex 5.2: Structure of GEO imports by ACAA spheres

GEO imports matched with potential ACAA spheres*



Source: WITS, own estimates; see Annexes 1 and 2 for the description of ACAA coverage and mapping into HS. Note: products (tariff lines) can be subject to multiple technical regulations. Therefore, the sum of imports by spheres is not equal to total imports subject to potential ACAA

Spheres earmarked for potential ACAA in GEO imports, 2023:

- » Top 3 import spheres by value:
 - Low voltage equipment
 - Electromagnetic compatibility
 - Construction products

- » Top 3 export products by value:
 - Telephone sets (HS 8517): USD 2.6 bn
 - Jackets, trousers (HS 6204): USD 1.6 bn
 - Automatic data processing machines (HS 8471): USD 1.3 bn

Annex 6: Detailed results

Label	Description	Rank	Compound score	S1 Exports	S2 Imports	S3 Domestic
01CABL	Cableway installations	17	30	31	41	18
02LIFT	Lifts	19	22	25	19	19
03PRES	Pressure equipment	5	59	51	58	79
04BOIL	Hot-water boilers fired with liquid or gaseous fuels	15	35	22	55	41
05SIVE	Simple pressure vessels	10	49	35	58	69
06CRAF	Recreational craft and personal watercraft	16	35	22	51	43
07EXPL	Explosives for civil uses	12	42	36	48	48
08EXEQ	Equipment and protective systems intended for use in potentially explosive atmospheres	6	59	60	43	73
09RADI	Radio equipment	14	35	40	28	32
10ELMC	Electromagnetic compatibility	4	63	64	50	75
11LOWV	Low voltage equipment	3	65	65	53	75
12MEDC	Medical devices	7	53	45	50	73
13VITR	In vitro diagnostic medical devices	11	44	30	49	66
14GASA	Gas appliances	8	53	49	59	55
15PPEQ	Personal protective equipment	1	74	75	74	71
16MACH	Machinery	9	51	57	48	43
17TOYS	Toys	13	38	32	46	41
18CONS	Construction products	2	70	68	57	88
19NWEI	Non-automatic weighing instruments	20	19	16	24	19
20MEAS	Measuring instruments	18	24	23	34	18

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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