



Implementing EU directives in the Georgian market of electrical and electronic products



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EU approximation is a central tenant of the Georgian government's agenda. Core to this legislative agenda is regulation that approximates many EU directives. One of final goal of this implementation process is reducing the share of non-conforming electrical and electronic products into the domestic market. The project is a part of the DCFTA (Deep and Comprehensive Free Trade Area) agreement between Georgia and EU signed in 2014. This is aimed at raising standards of local production, reducing trade barriers, and opening extra markets for domestic manufacturers.

Georgia's electrical and electronic market's analysis has identified several important issues:

- Georgia is not ready to fully integrate European directives in local electrical and electronic product markets;
- It is necessary to upgrade infrastructure and conduct awareness raising activities among stakeholders;
- Most of the burden of the introduction of European directives will be distributed on manufacturers, not importers;
- Georgian consumers are willing to pay high prices for greater security in products.

Georgia's electronic and electrical products' market is primarily made up of imported products. This means that the implementation of new directives will have the most impact on regulating imported electrical and electronic products by Georgian market surveillance bodies. The most predictable outcome of regulating imported electrical and electronic products will be a growth in the share of developed countries in total import statistics. One of the reasons for the directives implementation is to encourage Georgian export, although this is still only a long-term goal. Prior to promoting Georgian export European standards should be established in the local market, which will enable Georgian manufacturers to more simply pursue exporting practices in the future. Currently it is difficult for Georgian production to compete with foreign product manufacturing. The most optimal outcome of this directives adoption will be that Georgia will be able to replace a significant portion of foreign imports with domestically produced goods.

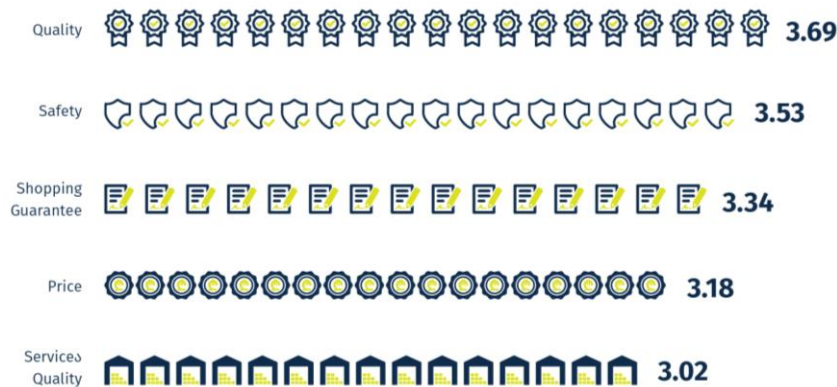
There is negative side to the implementation of European directives that must be considered - Georgian manufacturers and importers may find it difficult to adopt to modern European regulations. In 2014, within the framework of DCFTA, Georgia agreed that in the next 8 calendar years the European directives (Low Voltage Directive (LVD), Electro Magnetic Compatibility Directive (EMCD)) would be fully or partially implemented. However, during this period no activities have been taken by the government to promote awareness among manufacturers and thus there is little preparedness amongst relevant actors for technical reorganization. Formally Georgia has been in transition since 2014. However, the introduction of directives to the general public was only made by PMO Business Consulting in 2018, who have been working within the project of EU directives' regulatory impact assessment.

PMO’s survey of Georgian manufacturers and importers made it clear that it would be undesirable to bring European directives into the Georgian market without any change. The difficulties related to implement directives fully are as follows:

- Necessity to renew the manufacturers’ production line.
- Increase of manufacturers’ fixed and variable costs under limited financial resources
- Lack of infrastructure and human resources needed for regulating electrical and electronic products’ market properly.
- Protecting international trade agreements based on free trade principles.

The implementation of regulations will have a double effect: on the one hand the Georgian market will be promoting safe electrical and electronic products and on the other hand the market price of goods will increase. The government will have to make a choice between the safety of the products and an increase in price. However, the results of PMO’s consumer survey should be considered regarding this issue. This indicated that Georgian consumers are ready to take additional costs for greater safety guarantees. Within the survey consumers ranked the factors they pay the most attention to when making decisions on purchasing electronic household appliances (1-5 scale, 5 being pay very close attention to):

Factors affecting consumer’s decisions



Source: PMO Industry Focus

The consumer survey showed that the main factor for the decision making process is not price, it is the quality and safety of goods. The result of the survey provides evidence that Georgian consumers are ready to take on extra costs for additional safety guarantees.

The survey of Georgian manufacturers’ and importers’ outlined the aspects which will be critical while elaborating regulatory policy:

- Local manufacturers are not ready to quickly adjust to technical requirements, as the costs needed to meet requirements is high and therefore they may be forced out of the market.
- Only manufacturers who are already manufacturing conforming goods will benefit from regulation implementation.
- Compared to manufacturers, importers will be less likely to suffer as they will have to find other reliable suppliers in the worst case scenario.
- Local test laboratories do not meet European standards.
- It is necessary to increase awareness of new regulations among local manufacturers.

Implementation of directives is an inconvertible process, since the priority for the government is product safety and modernizing Georgia's regulatory framework. The introduction of the directives is further strengthened by the results of PMO's consumer survey, which clearly shows the importance of the product quality and safety.

The government must take an active role in introducing and implementing EU directives in local markets as without such intervention approximation will never occur. Without adequate financial backing, the regulations alone will result in inefficient functioning of market surveillance systems. It is necessary to establish a flexible system of checking goods at customs entrances, as to avoid long-term import delays and additional expenses for importers.

The government of Georgia tried to adopt its national trade mark in 2015 through the annulment of the old Russian GOST standards. The prime minister of Georgia issued a 134th decree, which deprived Russian GOST standards of any legal force and adopted the national GE marking as an analogue of European CE marking. However, the introduction of the GE marking alone was not successful as there was no inspection body in the Georgian market which would demand the mark from manufacturers. Therefore manufacturers had no desire or incentive to submit application for GE markings on their products. As a result, to this point the Institute of Standards and Metrology (GEOSTM) has received zero applications for the GE marking from any domestic manufacturers. A simple conclusion can be made: introducing directives will only be effective if actions to support compliance to these directives are taken by the state.

In the scope of DCFTA agreement Georgia has commitment to implement both LVD and EMC directives by 2022. The government of Georgia must take into consideration past experiences and try to avoid the same mistakes as earlier.

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