THE UK'S NEW (AND IMPROVED?) DEVELOPING COUNTRIES TRADING SCHEME

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KEY POINTS

- Non-reciprocal trade preferences are a policy tool that can promote export-led growth in developing countries. In the UK, the current scheme – the Generalised Scheme of Preferences (GSP) – will be replaced by the Developing Countries Trading Scheme (DCTS) in 2023.
- The new DCTS introduces minimal changes to the preferential tariff schedules across the three sub-schemes. Instead, there are changes in the eligibility criteria for countries to access the more preferential Enhanced Preferences sub-scheme; and changes in the rules of origin (RoOs) enabling use of the preferences under the Comprehensive Preferences sub-scheme offered to Least Developed Countries (LDCs).
- Potential duty savings for countries moving from the GSP General Framework to the DCTS Enhanced Preferences are very small, as these countries do not trade much in products benefiting from GSP or DCTS preferences. However, the new system offers greater certainty which can contribute to growth and trade.
- Countries graduating from LDC status in the next few years (e.g. Bangladesh) will be able to access the Enhanced Preferences sub-scheme, instead of the Standard Preferences sub-scheme. This is the most important implication of the change in the Enhanced Preferences access criteria, as it will allow LDC graduates to maintain their current level of market access in the UK in key products.
- By applying a RoOs Restrictiveness Index (ROO-RI), we find that the RoOs under the DCTS are, on average, less restrictive than those under the GSP, particularly in industries like Textiles and Chemicals. Alongside more lenient cumulation rules, this means that LDCs could find it easier to meet the product-specific RoOs and thus facilitate greater use of the preferences offered by the scheme.

INTRODUCTION

In August 2022 the UK Government published the Developing Countries Trading Scheme (DCTS), which will replace the UK's Generalised Scheme of Preferences (GSP) in 2023. The UK GSP largely replicated the EU's GSP that the UK was part of previously. The policy offers non-reciprocal trade preferences, namely in the form of tariffs which are lower than the UK Global Tariff (UKGT)[1], on UK imports from low and lower-middle income countries that do not have a trade agreement with the UK.[2] At its core, the objective of the policy is to support the growth of poorer economies by improving their access to UK markets without exposing them to the strains of higher import competition that generally accompany bilateral agreements. Most developed countries have similar schemes.

1 The UK Global Tariff (UKGT) is the duty applicable on UK goods imports from any country which does not benefit from a preferential tariff arrangement with the UK (e.g., a Free Trade Agreement).

2 Note that preferential access is subject to product-specific rules of origin (RoOs), and the utilization of the preferential tariffs is far from complete. Using HMRC Imports data by preference, we estimate that in 2022 the preference utilization rate (PUR) of the GSP scheme was 72.4%.

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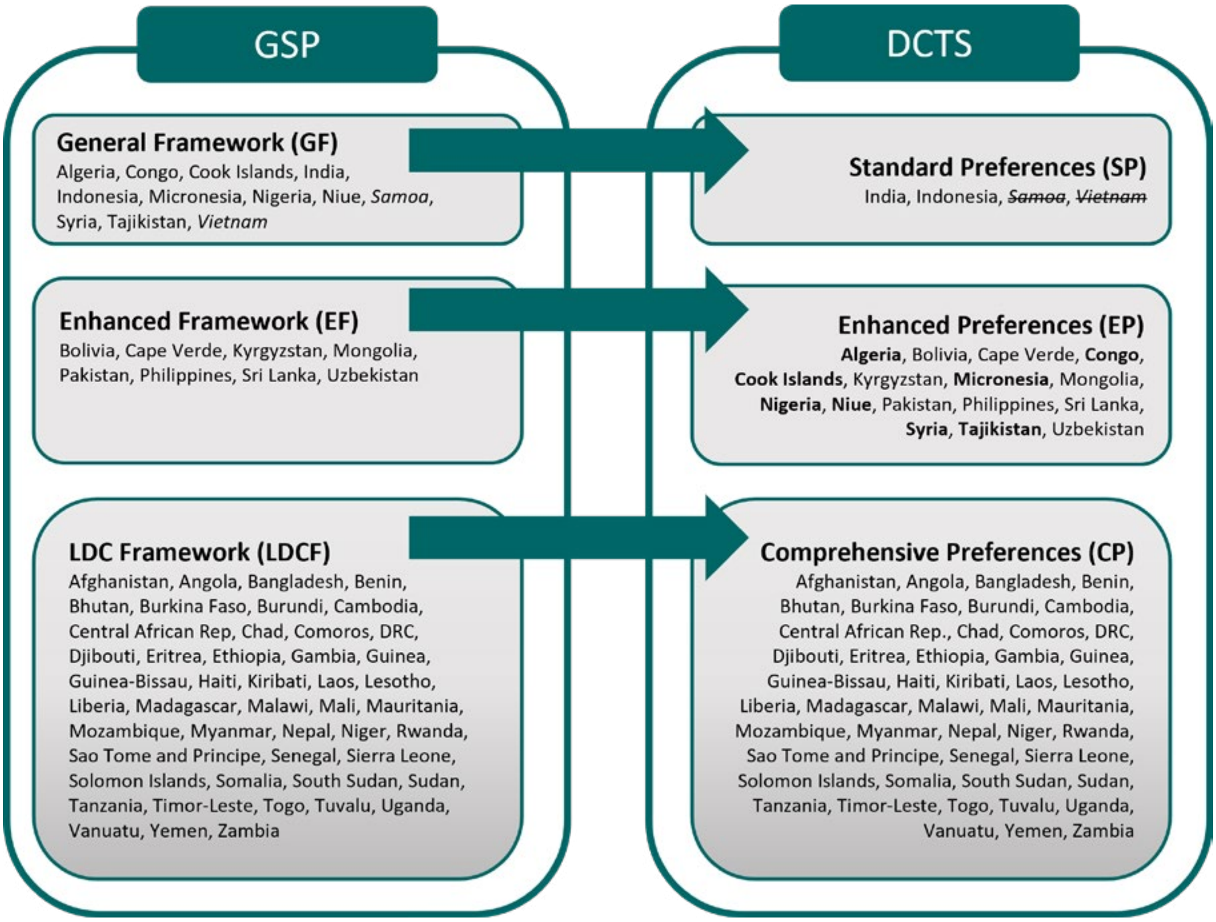
Figure 1: GSP vs DCTS



Note: Once the DCTS enters into force, Samoa and Vietnam will trade under their respective free trade agreements with the UK. See graduation notice: https://www.gov.uk/government/publications/country-graduation-from-uk-preferences-scheme-vietnam-and-samoa (24 November 2022)

Like the GSP, the DCTS features three sub-schemes with increasing levels of preferential market access:

- Standard Preferences (SP) will replace the GSP General Framework (GF) and offer partial or full removal of tariffs on about 80% of tariff lines.
- Enhanced Preferences (EP) will replace the GSP Enhanced Framework (EF). This sub-scheme extends preferences to about 83% of the tariff lines and offers zero duties on virtually all of them.
- Comprehensive Preferences (CP) will replace the GSP Least Developed Countries Framework (LDCF) and grant zero duties on all tariff lines except arms and ammunition.

In terms of membership, two countries will have access to the Standard Preferences, 16 countries to the Enhanced Preferences, and 47 LDCs to the Comprehensive Preferences (Figure 1).[3]

There are no major changes in the sub-schemes' tariff schedules (Table 1). The number of tariff lines eligible for preferences in the GSP-GF and DCTS-SP sub-schemes is the same (7,895), although in the new scheme, 33 more lines will now benefit from a zero applied tariff (this is currently 1.6% in the GSP-GF).

In the DCTS-EP, 156 tariff lines have been added relative to the GSP-EF, of which 132 will be granted zero-duty access. Furthermore, there are four tariff lines with seasonal duties that have been simplified under the DCTS-SP and fully liberalised under the DCTS-EP.

Notice, finally, that there is a substantial overlap between the zero-duty tariff lines in the GSP/DCTS and those in the UKGT: for instance, about two-thirds (3431/5163 = 66%) of the tariff lines with zero duties

3 We explain why some countries are moving from the GSP General Framework to the DCTS Enhanced Preferences as opposed to the DCTS Standard Preferences later in the paper.

Table 1: Number of tariff lines eligible for GSP and DCTS preferences

	GSP: GF	DCTS: SP	GSP: EF	DCTS: EP	GSP: LDC	DCTS: CP
Eligible	7,895	7,895	7,958	8,114	9,769	9,769
Applied tariff =0	5,163	5,196	7,815	7,951	9,769	9,769
Applied tariff >0	2,732	2,699	143	163	-	-
of which UKGT=0	3,431	3,431	3,435	3,435	4,472	4,472
(% out of zero-duty GSP/DCTS tariffs)	(66%)	(66%)	(44%)	(43%)	(46%)	(46%)

Note: The product eligibility for GSP and DCTS preferences is defined according to the Combined Nomenclature (CN) classification at the 8- and 10-digit level (9,791 tariff lines in total). See accompanying documentation at Gov.uk. MFN tariff data sourced from UNCTAD-TRAINS and downloaded via WITS.

in the Standard DCTS are also zero-duty in the UKGT so, in practice, no preferential treatment is being offered.[4]

Apart from an apparent rebranding of the scheme and minor amendments to the tariff schedules, however, the DCTS also introduces some more noticeable changes. In this paper, we comment on two of them: changes in the criteria to access the more preferential Enhanced DCTS, and changes in the rules of origin for LDCs.

NO MORE CONDITIONS, DEEPER PREFERENCES AND LESS UNCERTAINTY

A major change in the DCTS is that most countries currently eligible for the GSP General Framework will be eligible for the Enhanced DCTS, as opposed to the Standard DCTS. This is due to a change in the criteria and conditions used to determine eligibility for these schemes.

In the GSP[5], the Enhanced Framework is available to countries considered economically vulnerable under the criteria of size[6] and (lack of) export diversification[7], and those that ratified and effectively implemented a list of international conventions on human rights, labour rights, and environmental protection. In the DCTS, the ratification requirement has been removed, and vulnerability is going to be assessed in terms of the export diversification criterion only (i.e., the size criterion has been dropped). These changes mean that only India and Indonesia will remain in the Standard DCTS sub-scheme, as they are not considered "vulnerable" due to the diversification of their exports; all the other Standard GSP members will move to the Enhanced sub-scheme.

The elimination of the ratification condition marks a sharp turn from the approach pursued by the EU, which is instead planning to strengthen such conditions in its GSP+ (the equivalent of the UK's DCTS-EP, or GSP-EF) to pursue non-trade objectives. The desirability of conditionality in preferential schemes has long been debated. On the one hand, conferring an economic benefit (i.e., lower tariffs) in exchange for progress on sustainable development objectives would appear worthwhile in light of the poor environmental, human and labour rights performance of some developing countries. On the other hand, a lack of evidence about the effectiveness of this conditionality system (Beke and Hachez, 2015[8]; Zamfir, 2018[9]) would suggest that countries that are poor should not be deprived of an economic advantage. The change introduced by the UK Government in the DCTS appears to be motivated by this second argument. In addition, the elimination of the ratification/implementation condition also relieves the UK from the duty of checking that the conventions are effectively implemented – not a trivial task considering that some of the conventions lack monitoring bodies. The EU, for instance, performs monitoring exercises on GSP+ members every two years. Nevertheless, sustainable development issues are not entirely forgotten in the DCTS. Serious and systematic violations of 29 human rights, labour

4 The lower this overlap, the more generous the preferential scheme is with respect to the UKGT. In addition, notice that there are several (about 1,000) zero-duty tariff lines in the UKGT that are not among those eligible for GSP/DCTS preferences, except for the scheme for LDCs (this is shown by the larger number of UKGT-zero tariff lines eligible for the Comprehensive DCTS than for the Standard or Enhanced DCTS).

5 https://www.gov.uk/government/publications/developing-countries-trading-scheme-dcts-new-policy-report/developing-countries-trading-scheme-government-policy-response#annex-one

6 UK imports from a GSP country being less than 6.5% of total UK imports from all GSP countries.

7 UK imports of the largest seven sectors exceeding 75% of all imports from a GSP country.

8 Beke, L. & N. Hachez (2015) 'The EU GSP: A Preference for Human Rights and Good Governance? The Case of Myanmar', in Global Governance through Trade: EU Policies and Approaches. Cheltenham, UK: Edward Elgar Publishing, 185–213

9 Zamfir, I. (2018) 'Human Rights in EU Trade Policy: Unilateral Measures Applied by the EU', Briefing, European Parliament Research Service.

Table 2: Trade patterns and preferential margins of new Enhanced DCTS members

	(1)	(2)	(3)	(4)	(5)	(6)
Country	UK imports (£m)	% of exports going to UK	Avg. pref. margin GF GSP	Avg. pref. margin EP DCTS	Duty saving GF GSP (£m)	Duty saving EP DCTS (£m)
Nigeria	1,992.491	2.4%	0.025	0.037	0.488	0.741
Algeria	1,813.126	3.7%	0.038	0.050	0.659	0.872
Congo	14.462	1.4%	0.198	0.255	0.028	0.036
Syria	0.746	0.2%	2.092	6.447	0.015	0.048
Cook Islands	0.280	<0.1%	0.403	0.403	<0.001	<0.001
Tajikistan	0.044	0.1%	1.469	4.069	<0.001	0.002
Micronesia	0	-	-	-	-	-
Niue	0	-	-	-	-	-

Note: UK Imports from HMRC Overseas Trade Statistics for 2022 and for All Commodities; Export shares in column (2) retrieved from ITC Trade Map (2021). Shares for Algeria, Cook Islands and Syria are based on mirror data.

rights and environmental conventions can lead to the suspension of DCTS preferences for any of the countries across the three sub-schemes.

All in all, this change will effectively allow Algeria, Congo, Cook Islands, Micronesia, Nigeria, Niue, Syria and Tajikistan to access the more preferential DCTS Enhanced Preferences, instead of Standard Preferences.[10] This confers these eight countries a larger advantage over competitors trading under UKGT terms (i.e., it grants them a larger preferential margin) and, correspondingly, larger duty savings. Just how much of a difference will this make in practice?

Table 2 shows that trade-weighted preferential margins (the difference between UKGT and GSP/DCTS tariff rates - columns 3 and 4) and duty savings (columns 5 and 6) will increase very little when moving from the General Framework of the GSP to the Enhanced DCTS.[11] For Nigeria and Algeria, the countries in this group from which the UK imports the most, the mean preferential margins will increase from 0.025 and 0.038 percentage points (pp) to 0.037 and 0.050, respectively.[12] These extremely small margins are reflected in small duty savings (from £488,000 to £741,000 for Nigeria, and from £659,000 to £872,000 for Algeria). Note too, that only 2.4% and 3.7% of Nigerian and Algerian exports go the UK.

Such figures are due to the composition of UK imports from Algeria and Nigeria, predominantly in crude oil and natural gas, which already face zero tariffs under the UKGT – hence have no preferential margin under either the GSP or the DCTS scheme. Instead, some of the products that will enjoy a higher preferential margin under the DCTS-EP are, for example, imports of urea (an organic compound used as fertiliser) from Algeria (6 pp difference in the preferential margin relative to the GSP-GF), and imports of cocoa butter and frozen shrimps from Nigeria (2.5 pp and 0.6 pp difference in preferential margins relative to the GSP-GF, respectively). These products, however, represent less than 1% of the UK's total imports from each of the two countries.

The UK's main imports from Congo are somewhat more varied but, again, they are mostly in products that are already subject to zero-tariffs in the UKGT. Some types of footwear and articles of yarn will enjoy higher preference margins, but these also account for less than 1% of the UK's imports from Congo. As for the remaining countries, they are small and trade even less with the UK (columns 1 and 2). For Syria and Tajikistan, we observe relatively larger preferential margins under the EP DCTS, mainly driven by olives, cucumbers, and other vegetables for Syria, and by clothing accessories from Tajikistan. All in all, however, potential duty savings remain well below economically meaningful figures.[13]

10 The move from the SP to the EP regime for these eight countries is a consequence of the elimination of the ratification condition, and not of the size criterion, as all countries would have been considered vulnerable under that criterion.

11 These computations were done by matching UK trade data from HMRC at the CN 8-digit level to 8-digit GSP and DCTS tariff averages; where applicable, ad-valorem equivalents (AVEs) of MFN and GSP specific rates from UNCTAD-TRAINS were used to compute margins. More notes on the methodology can be provided on request.

12 Notice that there is not a single product to which such a small margin applies. These figures arise from averaging preferential margins over all products the UK imports from these countries, a large fraction of which faces a zero UKGT (hence zero preferential margin).

13 The new DCTS scheme also adds 156 products to the list of those eligible for Enhanced Preferences but not eligible for Standard Preferences (Table 1). This makes very little difference to the countries moving from Standard to Enhanced preferences, as we find that there are only a handful of products (one for Algeria, and five for Syria and Nigeria) that the UK imports from them.

Nevertheless, an additional, and perhaps less obvious consequence of moving to the Enhanced DCTS as opposed to the Standard DCTS is the greater degree of certainty attached to the trading regime. Standard DCTS countries are subject to 'competitiveness-related' graduations, i.e., every three years their preferences can be suspended in specific product groups in case they become particularly competitive.[14] This does not apply to Enhanced DCTS countries. Hence, the eight new EP member countries will also benefit from the elimination of the risk of seeing their preferential access in the UK worsen. Lower uncertainty can spur growth and trade because it allows firms to plan their investment and production decisions over a longer period. Previous UKTPO research[15] showed that the trade-enhancing impact of removing uncertainty from GSP preferences can be substantial. Therefore, this additional implication of the DCTS is welcome.

WHO WILL REALLY BENEFIT FROM THE CHANGES IN THE ENHANCED DCTS ACCESS CRITERIA?

A downside of deeper preferences offered to some countries is the possible erosion of preferences for other countries that already benefit from duty-free access to the UK. Table 2 suggests that due to the tiny increases in (trade-weighted) preferential margins, and the small trade flows between the UK and those eight countries, preference erosion should not be a big concern.

However, due to the heterogenous preferential treatment offered across the three DCTS sub-schemes, changes in the Enhanced DCTS access criteria might result in additional effects. To assess this more accurately, we identify the products for which countries in the Enhanced DCTS benefit from deeper preferences than in the Standard DCTS. We label these '*Deeper Preferences Products*'. There are approximately 2,500 *Deeper Preferences Products* at the 8-digit level, mostly concentrated in HS chapters[16] 03 (fish), 20 (preparations of vegetables and fruits), 61 and 62 (articles of apparel and clothing, knitted and not knitted), 55 (man-made staple fibres), 52 (cotton), 63 (textiles).[17]

To provide a bit more context to this concept, take the following example. Imports of cotton t-shirts into the UK are subject to a UKGT tariff rate of 12%. This product will be subject to a tariff rate of 9.6% under the DCTS-SP sub-scheme, 0% under the DCTS-EP sub-scheme, and, of course, 0% also under the DCTS-CP sub-scheme: a 9.6 percentage point difference in the preference margin between Standard and Enhanced DCTS is a very large gap.

Table 3: Mean preferential margins of Deeper Preferences Products across the DCTS schemes

	Mean Preferential Margin
Standard DCTS relative to UKGT	3.37 percentage points
Enhanced DCTS relative to UKGT	11.78 percentage points
Enhanced DCTS relative to Standard DCTS	8.41 percentage points

Note: calculations are authors' own using the UKGT and DCTS tariff rates available at Gov.uk and ad-valorem equivalents (AVEs) from UNCTAD-TRAINS. The average tariff rates are simple averages.

Table 3 confirms that in *Deeper Preferences Products*, there are potentially large duty savings to be made for countries in the Enhanced DCTS relative to being in the Standard DCTS, with the mean preferential margin gap between the two schemes being 8.41 percentage points.

How relevant are these *Deeper Preferences Products* (henceforth DPPs)? Table 2 above shows that the eight new Enhanced DCTS members do not trade much in DCTS-eligible products, or in products that face positive tariffs per the UKGT. It turns out, however, that DPPs are very relevant for some LDCs.

Table 4 shows the top 10 LDCs ranked according to the share of their exports to the UK in DPPs out of the total from a country (column 4). Hence, for Bangladesh, 96.4% of its exports to the UK are in DPPs. These shares are very high, the volume of trade is sizeable and, for Bangladesh and Cambodia, so is the relevance of the UK for them (e.g., 6.1% of all exports from Bangladesh are to the UK – column 2).

LDCs benefit from zero import duties on all products, including the DPPs, but a group of countries – Angola, Bangladesh, Bhutan, Laos, Nepal, and Sao Tome – are likely to graduate from their LDC status by 2030 and will, therefore, leave the Comprehensive DCTS. The removal of the conventions' ratification requirement and, in particular, of the size criterion from the definition of vulnerability, will allow these LDCs to access Enhanced DCTS instead of Standard DCTS when they graduate from their LDC status.[18]

14 The way competitiveness-related graduation works in the DCTS has also been changed compared to the GSP. In the DCTS, preferences are removed from a SP DCTS country in a 2-digit HS chapter if UK imports from that country-chapter exceed 6% of total UK imports in that chapter. The threshold is 1% in chapters considered sensitive (15, 56, 76, 87 and 88).

15 https://ideas.repec.org/p/sus/susewp/0520.html

16 HS chapters are broad (2-digit) product categories in the Harmonized System classification.

17 These chapters account for about 50% of the 2,500 DPPs.

18 These countries will still have to qualify for the DCTS under the export diversification criteria. Currently, they all do.

Table 4: Trade patterns of LDCs in 'deep preferences products' (DPP)

	(1)	(2)	(3)	(4)
Countries: Top 10 according to column 4	UK imports, all products (£m)	% of export to UK, all products	UK imports in 'DPPs' (£m)	% UK imports in 'DPPs' out of total
Bangladesh	3,523.273	6.1	3,395.849	96.4
Cambodia	766.577	4.2	728.241	95.0
Myanmar	434.936	2.6	412.641	94.9
Laos	8.607	0.4	7.796	90.6
Madagascar	43.320	1.0	39.086	90.2
Central African Rep.	0.093	0.1	0.068	73.6
Haiti	1.185	0.6	0.725	61.2
Nepal	15.416	1.4	8.510	55.2
Gambia	2.145	0.2	1.168	54.5
Uganda	14.160	0.3	7.426	52.4

Note: Data on UK Imports from HMRC for 2022. Export shares in column 2 retrieved from ITC Trade Map (2021). Shares for Bangladesh and Haiti are based on mirror data.

Table 5: Trade patterns in LDCs graduating from LDC status in products not eligible for DCTS-EP

	(1)	(2)	(3)	(4)
	Products affected (number)	Value (£m)	Share in UK imports (%)	Average MFN rate (%)
Angola	4	0.015	0.01	0.000
Bangladesh	53	8.323	0.24	8.587
Bhutan	0	-	-	-
Laos	6	0.357	4.15	36.16
Nepal	21	0.408	2.65	0.640
Sao Tome and Principe	1	0.005	0.31	0.000

Note: Data on UK imports from HMRC for 2022. DCTS product eligibility inferred using documentation from Gov.uk. Average MFN rate refers to a simple average.

Being able to access the Enhanced DCTS, instead of the Standard DCTS, will greatly cushion the potentially negative impact of graduating from LDC status. This is confirmed by Table 5. The table sheds light on the "losses" from leaving the Comprehensive DCTS: it shows the number of tariff lines that are not eligible for preference under the DCTS-EP and which the aforementioned countries currently export to the UK. These products do not represent large values of trade, and account for small shares in these countries' exports to the UK. Moreover, the UKGT rate for many of these products (i.e., the tariff rate that will eventually apply) is already 0%.[19] Hence there will be minimal changes in the market access in the UK for these countries. Taken together, tables 4 and 5 show that the DCTS is good news for the group of countries that will graduate from their current LDC status over the next few years.

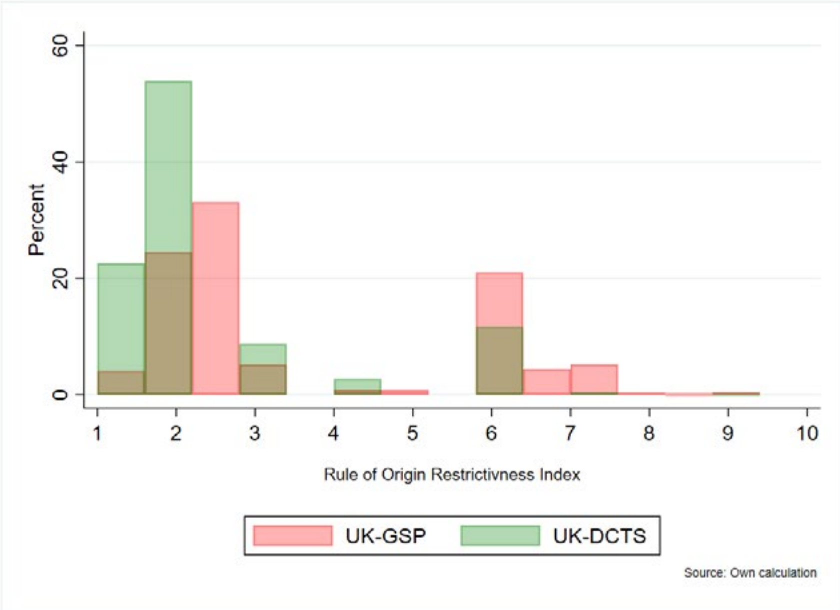
Indirectly, Table 4 and 5 also show that poorer LDCs, which will remain in the Comprehensive DCTS, will not benefit from lower competitive pressure in their favour. The exit of a large country like Bangladesh from the group of LDCs, and the higher tariffs on its exports to the UK which would have applied if Bangladesh accessed the Standard DCTS, could have made Bangladesh's exports less competitive relative to LDCs which continue to trade on duty-free terms. However, as Bangladesh (and the other graduating LDCs) will access the Enhanced DCTS, tariffs on a large range of key products (i.e., the DPPs) will not rise, leaving competitive pressure on other LDCs unchanged.

MORE FAVOURABLE RULES OF ORIGIN FOR LDCS

The DCTS also introduces changes to the rules of origin (RoO), i.e., the criteria used to establish whether a product originates in a DCTS country and is

19 The exceptions can be found for Bangladeshi exports of rice, Laotian exports of cane sugar, and Nepali exports of yams.

Figure 2: Distribution of RoO Restrictiveness Index across HS6 products: DCTS vs. GSP



therefore eligible for DCTS preferences.[20] To preserve the competitive advantage that LDCs have over other developing countries, this RoO simplification only affects LDCs in the Comprehensive DCTS, but not other DCTS members in the Standard and Enhanced DCTS.

Before describing our analysis on the extent to which RoOs have changed, it is worth summarising the main RoOs as they are typically found both in the GSP/DCTS, but also in Free Trade Agreements more generally.[21] These are:

- *Wholly Obtained (WO):* goods that need to be entirely produced within the country.
- *Value-Added (VA):* the maximum amount of value non-originating in the exporting country allowed in the product.
- *Change in Tariff Classification (CTC)*: whether a change of tariff classification has to occur from what was imported to what is produced and then exported. This rule can be applied at the HS2 level (Change in Chapter, CC), at the HS4 level (Change in Heading, CTH) or at the HS6 level (Change in Subheading, CTSH).
- *Specific Production Process (SP):* originating status is granted depending on whether a given production process has been undertaken.[22]
- *Any Heading (AH):* imports of inputs of any product heading are allowed to be used in a good's production process, without affecting its originating status.

A given product can be subject to one of these RoOs, or a combination of them. These rules can also be followed by allowances or exceptions that affect their degree of restrictiveness.

At a glance, the main interventions in the DCTS are the following. In more than half of the HS chapters, up to 75% of non-domestic content will be allowed[23]; product-specific RoOs have been simplified[24]; and many product-specific rules allow exporters to meet alternative rules, to allow for more flexibility. Furthermore, the simplification of RoOs also made sure that most HS chapters have a single set of rules that apply to the whole chapter: this means there are fewer rules at a more disaggregated level (HS4 or HS6), and therefore fewer exceptions and variations that exporters need to deal with.

To illustrate the extent to which the new rules of origin under the DCTS are more favourable than the GSP, we apply a RoO Restrictiveness Index (ROO-RI) which varies across HS6 products. This index, developed by

20 Products imported from DCTS members but that are not considered as originating in those countries will not receive a preferential treatment.

21 More detailed information on rules of origin can be found here: https://blogs.sussex.ac.uk/uktpo/publications/were-going-to-make-them-an-offer-they-can-refuse-rules-of-origin-and-the-uk-eu-free-trade-agreement/

22 We allow the ROO-RI to vary across sectors to which the SP rule applies, since the degree of difficulty to comply with this rule is to some extent industry-specific.

23 The threshold under the GSP was 70%.

24 This was done by reviewing RoOs in the UK's FTAs and EPA: where a more favourable (precedent) rule was found in these agreements, that was applied in the DCTS.

the UKTPO (see Ayele et al. forthcoming[25]) to assess the restrictiveness of rules of origin under the UK-EU Trade Cooperation Agreement, extends a previous index by Cadot et al. (2006)[26] and ranges on a scale from 1 to 10, where the higher the number the more restrictive is the underlying RoO.[27]

We have ranked the main RoO (described above) on the basis of how difficult it is for a product to obtain 'originating status', and thereby qualify for a preferential tariff treatment. Under the CTC rule, an imported input must be from a different tariff classification from that of the good to be exported, for that exported good to be granted originating status. That usually involves a more complicated transformation process the higher the level at which the rule works, i.e., it is harder to comply with at the Chapter level than at the Heading and Subheading levels. Therefore, we assume that a Change in Chapter is harder to comply with than a Change in Heading, which is in turn more restrictive than a Change in Subheading. Thus, we assign a score of 9 for CC, 6 for CTH and 3 for CTSH. Specific Production Processes (SP) are scored 6. Next, we assume that the Wholly Obtained (WO) and Any Heading (AH) rules are the easiest to fulfil, and therefore assign a score of 1 to these rules.[28] [29] As for the Value-Added rule (VA), we assign a score of 5 to a maximum non-originating content of 50%. That score falls for larger shares of foreign content permitted and rises for lower shares.

By applying the ROO-RI, we find that the DCTS has an overall average degree of restrictiveness of 2.50 at the HS6 product level, compared to an average of 3.59 for the GSP. Therefore, RoO under the DCTS are indeed more favourable for LDCs, i.e. easier to comply with than under the GSP. By way of comparison the average degree of restrictiveness in the FTA between the UK and the EU is 4.26.

Figure 2 compares the distribution of the ROO-RI across products for both trade schemes, and shows that the RoO restrictiveness under the DCTS is more skewed towards the lowest values than under the GSP, which has a larger share of products with restrictiveness scores above 5. Indeed, around 32% of products have a ROO-RI score above 5 under GSP, whereas that share is just about 12% for DCTS. Conversely, over 76% of all 6-digit products are scored up to 2 in the DCTS scheme, while under GSP such share is about 28%.

Figure 3 shows how the average degree of RoO restrictiveness under both schemes varies across industries, and that the DCTS is, on average, less restrictive than the GSP in all industries. The largest reductions are in the Textiles and Chemicals industries. The degree of RoO restrictiveness falls from 5.92 under the GSP to 3.02 under the new DCTS for Textiles, whereas for Chemicals, the average index decreases from 2.90 to 1.54. Nearly a 50% reduction in both industries. Under the GSP, textile products tend to be subject to rules demanding specific production processes, which are more restrictive than the DCTS rules that allow up to 75% of non-originating content. As for Chemicals, the GSP typically gives an option between the CTH rule and 70% of non-originating content, whereas the DCTS relaxes the restrictiveness by choosing between the CTSH rule and 75% of foreign value added.

Figure 4 provides a similar comparison at a more disaggregated HS section level, showing that rules tend to be easier to fulfil under DCTS in nearly all sections. One exception is the footwear and headgear sector, where HS Chapter 64 (footwear) moves from a rule allowing manufacturing from any heading with one specific exception under GSP to a more restrictive Change in the Heading rule under the new DCTS. Similarly, some chapters from the animal and vegetable products sectors pass from the Wholly Obtained rule under GSP to more restrictive Changes in the Tariff Classification under DCTS.

Next, we wish to identify which countries will be most favoured by the less restrictive RoOs provided by the new DCTS scheme. For that purpose, we compute a country-level weighted average ROO-RI, using the share of each HS6 product in a country's total

25 Ayele, Y., Gasiorek, M. and Tong Koecklin, M. Trade Preference Utilisation Post-Brexit: The Role of Rules of Origin (forthcoming).

26 Cadot, O., C. Carrère, J. De Melo, and B. Tumurchudur (2006). Product-Specific Rules of Origin in EU and US Preferential Trading Arrangements: An Assessment. World Trade Review 5 (2), 199–224.

27 The index by Cadot et al (2006) is on a 1-7 scale.

28 The decision to consider the Wholly Obtained rule as the easiest one was subject to long discussions, since for certain agri-food products like coffee, that rule might be highly restrictive for firms from a particular country, since that country does not have the climatic conditions to be a typical coffee producer hence to meet the WO rule would be extremely difficult. On the other hand, for those products which can be easily grown in that country, the wholly obtained rule is easy to fulfil. The ideal way therefore would be to rank each 6-digit product individually with regard to the WO rule. However, the same procedure should be applied for each of the different ROO rules and each 6-digit product. Doing so is (a) time consuming; (b) would mean the application of the index would have to be done separately for each free trade agreement being analysed. To a large extent this then defeats an important objective in constructing the index, which was to provide a practical (though imperfect) and easy to implement tool to assess RoO restrictiveness across a range of agreements. Additionally, a country focuses its exports on those agri-food products for which they do have the right conditions, and for which the WO rule is easy to fulfil.

29 In the case of agricultural products from Chapters 01 to 16 (animal and vegetable products), which can be easily grown in the beneficiary countries of GSP and DCTS, and are usually their main products exported to the UK, we adopt an exceptional scoring for the Change in Tariff classification (CTC) rule. Thus, we assign 3 to CC, 2 to CTH and 1 to CTSH.

Figure 3: Average RoO Restrictiveness Index across Industries: DCTS vs. GSP

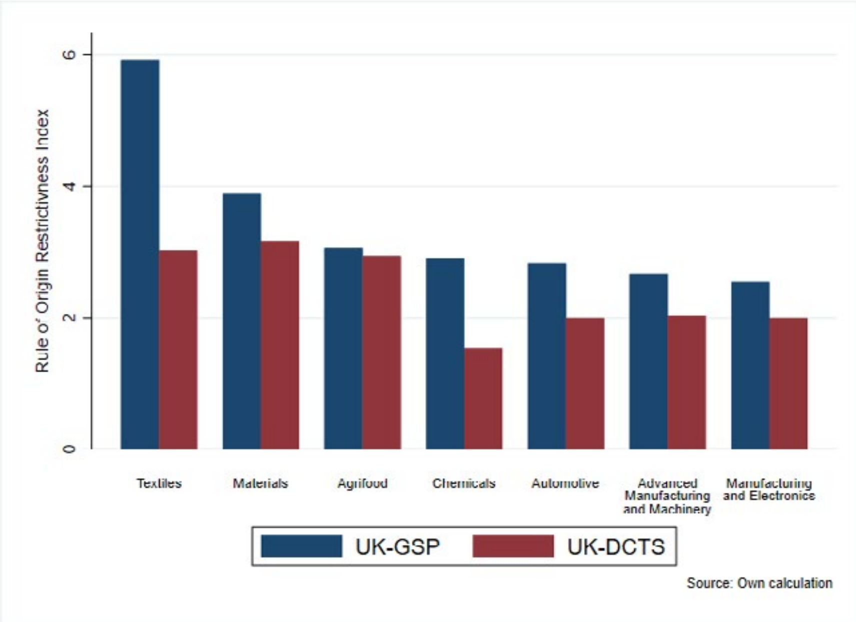
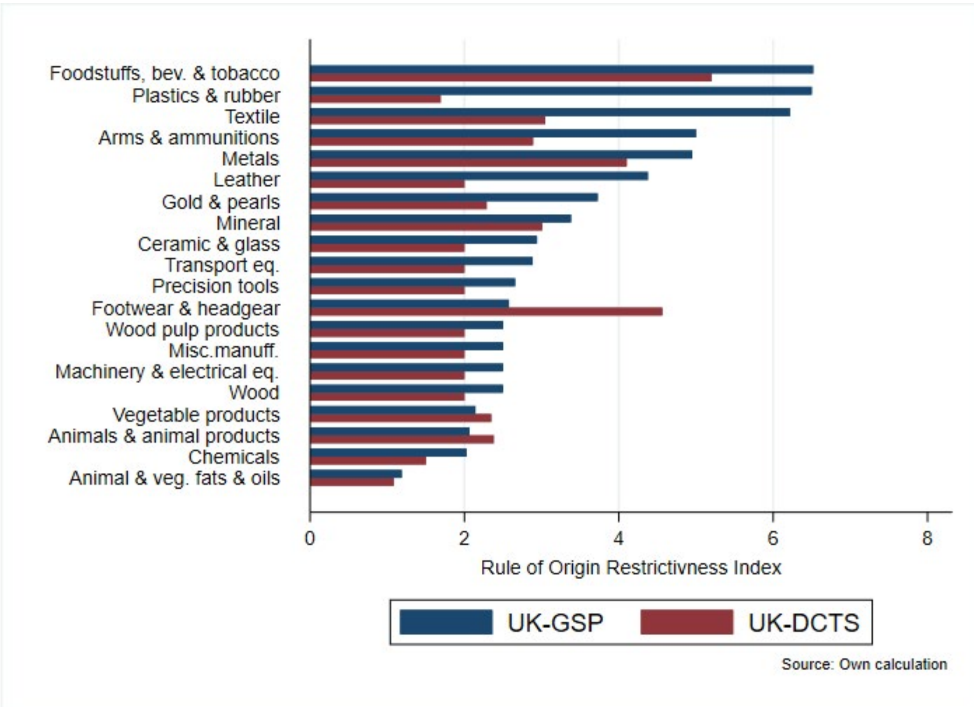


Figure 4: Average RoO Restrictiveness Index across HS Sections: DCTS vs. GSP



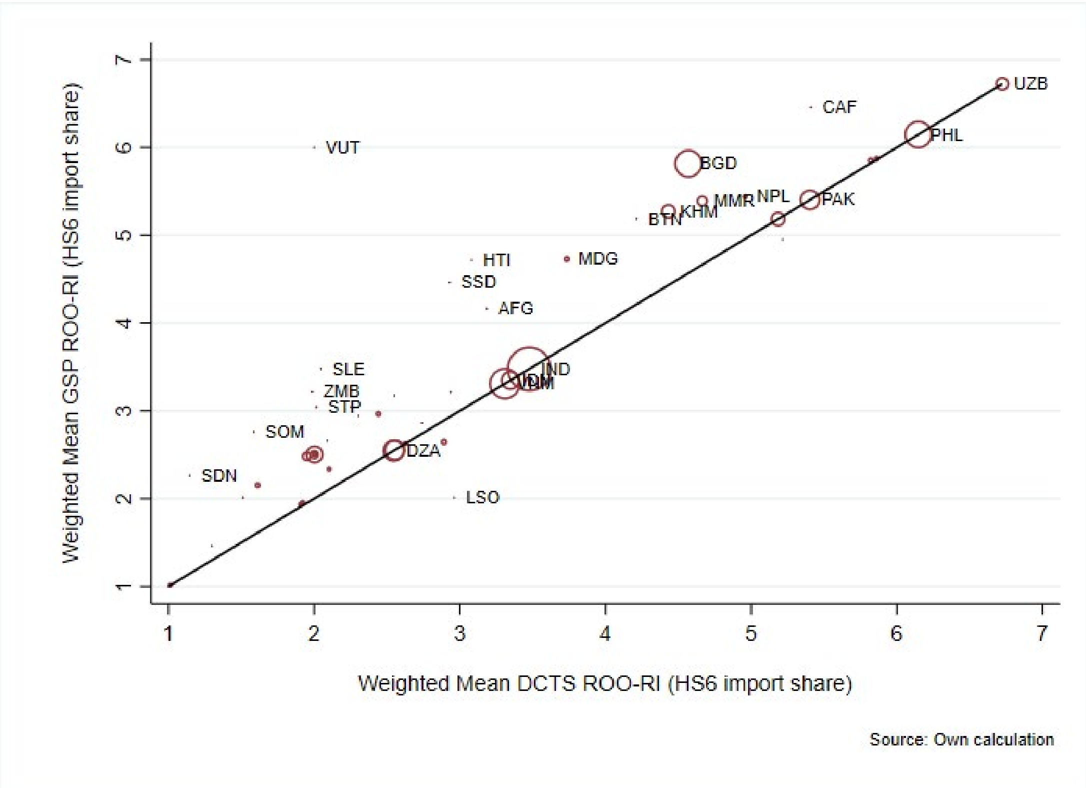
exports to the UK in 2022 as a weight. Thus, the country average ROO-RI will give a larger weight to the main products exported by each of the beneficiary countries.

Figure 5 presents a scatter plot of over 60 GSP and DCTS member countries, comparing for each of them the weighted average ROO-RI under the two schemes. The size of the bubbles represents each country's share of total UK imports from DCTS countries. As mentioned earlier, the new DCTS rules of origin will only affect LDCs. Hence, 18 DCTS member countries will trade under the same RoOs specified in the old GSP: these are the countries lying on the 45-degree line in Figure 4, such as India, Indonesia, Vietnam, Pakistan, Philippines, among others.

Most countries (40 in total) lie in the area above the 45-degree line meaning that, on average, their products are subject to easier RoOs under the new DCTS than under the GSP. Among the most benefiting countries, we can highlight Vanuatu, which moves from an average figure of 6 under the GSP to just 2 under the DCTS. All UK exports from that country in 2022 were worn clothing and other worn articles (HS6 630900), which under DCTS are able to opt between the CTH rule and 75% of non-originating content, unlike the GSP scheme, in which only the CTH rule was required. Other predominantly agricultural African countries like Sudan and Somalia obtain easier RoOs under the DCTS, with their average restrictiveness index falling from 2-3 to just over 1. Other countries like Bangladesh, Afghanistan, Haiti, Sierra Leone and South Sudan also see significant drops in the average ROO restrictiveness for their products. Bangladesh is the largest LDC trading partner of the UK and is one of the countries benefitting from the new DCTS RoOs, with an average RoO index falling from around 6 to 4.5, driven by its significant amount of textiles trade with the UK.

Lastly, another aspect of the DCTS worth mentioning is that LDCs will now be allowed to cumulate inputs with all the other DCTS countries, as well as countries having Economic Partnership Agreements (EPAs) with the UK and members of the Organisation of African, Caribbean and Pacific States (OACPS) (e.g., Kenya, Ghana, Cameroon, among others). This is in addition to cumulation of inputs with the UK and the EU which was allowed until now. The more generous cumulation rules, together with the simplified RoOs, is a very welcome change in the UK DCTS. This can potentially stimulate more value-chain integration among DCTS members, and also allow them to more easily qualify for the preferential treatment offered via the three DCTS sub-schemes.

Figure 5: Weighted Average RoO Restrictiveness Index by Country: DCTS vs. GSP (country export share)



CONCLUSION

In sum: are the changes in the DCTS significant? The removal of the conventions' ratification condition and country size from the criteria determining access to the Enhanced DCTS are changes that are only potentially of significance. Eight countries will be allowed to move from the Standard to the Enhanced DCTS, where preferential margins are significantly deeper, extend to a larger range of products, and are not subject to uncertainty. In practice, however, the countries that will currently benefit from these changes will probably see a minimal effect on their trading patterns, due to their trade with the UK being either small, in products not eligible for preferential treatment, or without preferential margins due to a zero UKGT rate (e.g., crude oil and gas).

On a more positive note, larger benefits are likely to be accrued by LDCs. In the short term, LDCs will be able to exploit simpler and more lenient rules of origin (and more generous cumulation rules), and will see more of their exports qualify for preferential treatment in the UK. In the longer term, as some countries graduate from LDC status and leave the Comprehensive DCTS, they will be eligible for the Enhanced DCTS. Under the preceding GSP rules, they would have switched to the equivalent of the Standard DCTS, which would have reduced their degree of preferential access to the UK market. Under the revised DCTS, they will be eligible for the Enhanced scheme (so long as they qualify under the export diversification criterion – which they currently do). This is likely to be of significance for some countries such as Bangladesh, a country for which the UK is a key export destination and whose trade is predominantly in products that obtain better preferences in the Enhanced DCTS scheme versus the Standard scheme.

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FURTHER INFORMATION

The UK Trade Policy Observatory (UKTPO), a partnership between the University of Sussex and Chatham House, is an independent expert group that:

1) initiates, comments on and analyses trade policy proposals for the UK; and

2) trains British policy makers, negotiators and other interested parties through tailored training packages.

The UKTPO is committed to engaging with a wide variety of stakeholders to ensure that the UK's international trading environment is reconstructed in a manner that benefits all in Britain and is fair to Britain, the EU and the world. The Observatory offers a wide range of expertise and services to help support government departments, international organisations and businesses to strategise and develop new trade policies in the post-Brexit era.

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