Department for International Trade (https://www.gov.uk/government/organisations/department-for-international-trade)

Policy paper

Developing Countries Trading Scheme: government policy response

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Foreword

Foreword from Anne-Marie Trevelyan, Secretary of State for the Department for International Trade.

We are launching the Developing Countries Trading Scheme to harness the power of trade to help developing countries grow and prosper. The new scheme offers developing countries one of the most generous sets of trading preferences of any country in the world. The scheme demonstrates the UK's commitment to building long term, mutually beneficial relationships with emerging economies that are home to more than 3.3 billion people.

The Developing Countries Trading Scheme is a major milestone in growing free and fair trade with developing nations. The Developing Countries Trading Scheme applies to 65 countries, offering lower tariffs and simpler rules of origin requirements for exporting to the UK. The scheme helps countries to diversify their exports and grow their economies, while British households and businesses benefit from lower prices and more choice.

The public has helped to shape the Developing Countries Trading Scheme, with 300 consultation responses from individuals, businesses and developing countries. The consultation demonstrated the UK's resolve to improve on our market access offer to developing countries. We are using our status as an independent trading nation to go beyond what is offered by the European Union (EU).

The Developing Countries Trading Scheme cuts administrative costs for businesses by reducing more tariffs and bringing more countries in scope of the most generous tariff reductions. It also cuts red tape for developing countries, for example by simplifying rules of origin requirements for the least developed nations. This helps the world's poorest countries to export to the UK and play a more active part in fast growing global supply chains.

It also helps lower costs for UK businesses, leading to lower prices for consumers across a range of everyday products, by reducing tariffs on imports from low income and lower-middle income countries. Increasing trade and decreasing tariffs is another way the government is supporting businesses and individuals with cost-of-living increases.

I would like to thank all those who took the time to contribute to the creation of the Developing Countries Trading Scheme.

The government is committed to an inclusive and transparent tariff policy, so today, I am publishing our response to the Developing Countries Trading Scheme consultation (https://www.gov.uk/government/consultations/designing-the-uk-trade-preferences-scheme-for-developing-nations).

1. Introduction

The government is introducing the Developing Countries Trading Scheme (DCTS) to improve access to the UK market for developing countries. The DCTS will come into effect in early 2023. In line with the government's new International Development Strategy, the scheme contributes to developing countries' integration into the global economy, creating stronger trade and investment partners for the future, and strengthening supply chains. It grows free and fair trade with developing countries, boosting the economy and supporting jobs in those countries, as well as in ours.

The objectives guiding the design of the DCTS include making the new scheme simpler for partner countries and businesses to understand and use. The DCTS aims to support sustainable growth in developing countries through a more generous unilateral offer. The new scheme also aims to demonstrate the UK's leadership in the use of trade for development. This has led to provisions in the DCTS which reduce tariffs, liberalise rules of origin requirements and simplify the conditions attached to the scheme.

The DCTS applies to countries that currently benefit under the UK's Generalised Scheme of Preferences (GSP), (see Annex 1 for further information). The GSP includes 47 countries in the GSP Least Developed Country (LDC) Framework and 18 additional countries or territories classified by the World Bank as low income (LIC) and lower-middle income (LMIC). It does not apply to countries classified by the World Bank as upper-middle income for 3 consecutive years, or to LICs and LMICs with a free trade agreement (FTA) with the UK.

The DCTS has been developed in consultation with businesses, civil society, partner nations and the general public. As part of its inclusive and transparent trade policy, the government conducted a public consultation from 19 July until 12 September 2021. In total, the government received 300 individual submissions, including 280 GOV.UK questionnaire responses and 20 email submissions. Respondents were categorised into 5 groups: individuals, businesses, business associations, non-governmental organisations and public sector bodies.

The DCTS consultation questionnaire had 4 sections, covering rules of origin, tariffs, goods graduation and conditions. The use of a digital tool allowed respondents to comment on individual commodity codes and specify whether the current GSP tariff rate should be retained, reduced or removed.

The consultation received domestic and international interest and expertise from a wide range of individuals and organisations. The Statement of Direction (https://www.gov.uk/government/consultations/designing-the-uk-trade-preferences-scheme-for-developing-nations) and information pack (https://www.gov.uk/government/consultations/designing-the-uk-trade-preferences-scheme-for-developing-nations) that accompanied the consultation provided respondents with information on the government's proposals and wider details on the preference scheme. The full analysis of the responses to the consultation is available in UK trade preferences scheme for developing countries: summary of responses (https://www.gov.uk/government/consultations/designing-the-uk-trade-preferences-scheme-for-developing-nations).

This document sets out the government's policy response and is organised in 4 sections, covering rules of origin, tariffs, goods graduation and conditions. Each section describes how the consultation findings helped inform government policy.

2. Consultation summary

Overall, respondents to the consultation were supportive of the government's proposals for the DCTS as set out in the Statement of Direction. The full analysis of the responses to the consultation is available in UK trade preferences scheme for developing countries: summary of responses (https://www.gov.uk/government/consultations/designing-the-uk-trade-preferences-scheme-for-developing-nations). The main findings are summarised here and referenced in each section of this policy response.

The main consultation findings are as follows:

Rules of origin

Most respondents favoured increasing the permitted levels of non-originating content and expanding the provisions for cumulation for LDCs, in line with the policy direction indicated in the Statement of Direction. Opinions were more closely balanced between those favouring or opposing liberalisation of existing product specific rules (PSRs).

Tariffs

Most respondents supported reducing tariffs for goods from LICs and LMICs in line with the Statement of Direction and the UK's broader policy goals of trade liberalisation. LDCs already benefit from tariff reductions on everything but arms and ammunition. Some concerns were voiced about new tariff reductions eroding the existing preferential margins that LDCs benefit from and, in some instances, LICs and LMICs that receive enhanced preferences.

Goods graduation

Many respondents supported proposed goods graduation measures which protect preference margins for less competitive goods from other developing countries.

Conditions

Of those who responded on the conditionality elements of DCTS, the majority thought the impact of these conditions was negative for exports and business. With regard to the conditions which enable eligible countries to benefit from the more generous preferences in the GSP Enhanced Framework, a clear majority of those who opted to respond were in favour of simpler requirements.

Find further information about the [2021 trade preferences scheme public consultation (https://www.gov.uk/government/consultations/designing-the-uk-trade-preferences-scheme-for-developing-nations)](https://www.gov.uk/government/consultations/designing-the-uk-trade-preferences-scheme-for-developing-nations).

3. DCTS summary

The DCTS is one of the most generous preferences schemes in the world. It provides duty-free, quota-free trade to LDCs on everything but arms and duty-free, quota-free trade on 85% of eligible goods to most LICs and LMICs. The DCTS will replace the UK's Generalised Scheme of Preferences (GSP) in early 2023.

The government is introducing a new list of more liberal PSRs designed solely for LDCs. The scheme has tailored rules and avoids using overly restrictive requirements so that PSRs are easier for businesses to understand and use. The DCTS also expands cumulation for LDCs to allow extended cumulation with other DCTS countries and countries with Economic Partnership Agreements (EPAs) with the UK.[footnote 1] This makes it easier for LDCs to participate in regional and global supply chains serving the UK.

The government is making more goods eligible for tariff reductions and tariff removals for LICs and LMICs and simplifying the tariff schedule to get rid of nuisance tariffs and some seasonal tariffs. Goods that are being brought in scope of the scheme include tomatoes, olive oil, animal feed and pet food ingredients.

The government is applying a narrower basis for goods graduation, ensuring that only goods which are genuinely competitive are graduated out of the scheme. The DCTS reduces and simplifies the threshold of when products graduate and bases goods graduation decisions on UK import data. The interests of LDCs and our EPA partners are also protected.

The government is granting access to enhanced preferences based purely on the economic vulnerability of LICs and LMICs. This approach is more generous, with 8 countries (Algeria, Congo, Cook Islands, Micronesia, Nigeria, Niue, Syria, Tajikistan) becoming immediately eligible for enhanced preferences. The DCTS retains powers to suspend a country on the grounds of human rights and labour rights violations and broadens these powers to include violations in relation to anti-corruption, climate change and environment conventions.[footnote 2]

Finally, the government is renaming the tiers of preferences within the DCTS. The GSP LDC Framework is the DCTS Comprehensive Preferences. The GSP Enhanced Framework is the DCTS Enhanced Preferences. The GSP General Framework is the DCTS Standard Preferences. This is intended to reflect the UK's offer in each tier and the progression of most countries as their economies grow from DCTS Comprehensive Preferences to DCTS Enhanced Preferences and then DCTS Standard Preferences.

4. Rules of origin

Rules of origin (RoOs) are used to determine where goods are ‘from’, for example, where they have been produced or had substantial work done to them. This is used in determining appropriate tariff rates, access to preferential trade arrangements or application of trade sanctions.

Rules of origin provide the criteria for testing whether a good can be considered to have been produced in a particular country. They determine whether a good qualifies for any reduction in tariffs.

The government is committed to supporting LDCs by providing one of the most generous preferential schemes in the world through both low tariffs and simpler RoOs.

LDCs already receive duty-free, quota-free access for all products other than arms and ammunition.

Therefore, improvements for LDCs in the DCTS are being made through the simplification of RoOs by:

- simplifying and liberalising PSRs
- extending cumulation

LDCs make up around 13% of the world’s population but only account for around 1% of global trade in goods. Addressing barriers to trade such as RoOs can be an effective way to support LDCs entering global value chains. Simpler RoOs can increase trade with the UK, increase the manufacturing capacity of LDCs and encourage economic development. The UK also benefits from supporting LDCs in this way which strengthens supply chains, making them more resilient to economic shocks. LDC integration can support greater consumer choice and lower consumer prices in the UK. Addressing barriers to trade makes it easier for UK and overseas partners to bring goods into the UK.

4.1 Product specific rules (PSRs)

PSRs are the list of processing rules a product needs to meet to be considered as originating from the country that claims preferential tariff rates. The set of rules changes depending on the type of product.

Current position

Most of the existing LDC PSRs apply to both LDCs and other GSP countries, except for some products in the chemical, textile, apparel and machinery sectors which have LDC specific rules.

In the public consultation, the majority of respondents were in favour of liberalising and relaxing PSRs. Of those who expressed views, the majority would prefer higher non-originating content rules. Of those who did not agree with this proposal, half disagreed on the basis that it could provide an unfair advantage to LDCs and undermine the preferences of GSP General Framework and GSP Enhanced Framework countries. Some respondents also highlighted the difficulty of calculating the value of non-originating content due to the nature of the product concerned or complexity of the rules for doing so.

To design the new scheme, a review was undertaken of the PSRs in existing UK FTAs and EPAs along with a review of LDC trade volumes with the UK. Where a more generous precedent PSR was identified, this has largely been implemented in the DCTS. For sensitive UK products, an exception has been made and the current PSR has been maintained.

The government shares respondents' views on the need to protect LDC preferences and is therefore not revising the PSRs for other GSP beneficiaries. The government also shares respondents' view on the complexity of calculating non-originating content and is therefore introducing simpler alternatives to the value-added rule.

New policy

The government is introducing a new list of more liberal PSRs just for LDCs. Developing tailored rules provides the UK with an opportunity to avoid overly restrictive requirements and to make PSRs easier for business to understand and use.

The new PSRs schedule has been influenced by the Nairobi Decision principles[footnote 3] and responds directly to the requests of LDC countries.

Full details of the PSRs can be found in Product Specific Rules schedule for least developed countries (https://www.gov.uk/government/publications/developing-countries-trading-scheme-dcts-new-policy-report) and highlights include:

1) 48 chapters (half of all chapters) allow 75% non-originating content in the PSRs at the highest HS2 level[footnote 4]. This new threshold responds directly to the requests of LDCs and recognises the limitations faced by LDCs when participating in global value chains – low labour and other costs can make it hard for LDC products to meet higher non-originating thresholds.

2) Almost all PSRs allow for alternative 'or' rules. This can help businesses to meet UK requirements if one of the rules is difficult to meet or measure, for example:

Chapter	Description	Previous PSR	New PSR

Chapter	Description	Previous PSR	New PSR
31	Fertilisers	Manufacture from materials of any heading, except that of the good. However, materials of the same heading as the good may be used, provided that their total value does not exceed 20% of the ex-works price of the good or Manufacture in which the value of all the materials used does not exceed 70% of the ex-works price of the good.	Change of tariff sub-heading (CTSH) or maximum non-originating content of 75% (EXW).

3) Most (80) chapters have a single set of rules that apply to the whole chapter. This means that there are fewer exceptions, rules and variations depending on the type of product. This helps businesses to meet the RoOs required to qualify for preferential tariffs. For example, Chapter 38, which includes chemical products such as oils and dyeing chemicals, had 7 goods classified at the heading and sub-heading level (HS4 and HS6) with different rules. Under the new schedule it has been simplified to a single chapter rule as shown below:

Chapter	Description	Previous PSR	New PSR
38	Miscellaneous chemical products; except for:	Manufacture from materials of any heading, except that of the good. However, materials of the same heading as the good may be used, provided that their total value does not exceed 20% of the ex-works price of the good or manufacture in which the value of all the materials used does not exceed 70% of the ex-works price of the good	Change of tariff sub-heading; or a chemical reaction[footnote 5], or maximum non-originating content of 75% (EXW)
Ex 3803	Refined tall oil	Refining of crude tall oil or Manufacture in which the value of all the materials used does not exceed 70% of the ex-works price of the good	Change of tariff sub-heading; or a chemical reaction[footnote 6], or maximum non-originating content of 75% (EXW)

4) 16 chapters have some rules at the more detailed tariff heading level (HS4 rather than the HS2 chapter level) where the chapter rule is not suitable for all goods in the chapter or where a degree of protection is needed for these goods.

The government considered removing all processing rules, replacing them with change of tariff classification and value-added rules, as endorsed by LDCs. However, feedback from UK businesses highlighted some processing rules, particularly for textiles, that are helpful where value-added content is difficult to calculate. Furthermore, certain supply chains are already established to meet these processing rules. The government has decided to keep both the processing and the value-added rule, with the intention to meet the Nairobi Decision principles and avoid disruption for existing supply chains.

4.2 Cumulation

Cumulation allows a material from another country to be considered as 'originating' when used in the production of a product, as long as that final product has been processed beyond minimal levels. Cumulation can make it easier for countries to comply with the non-originating content limits in some PSRs.

Current position

GSP beneficiaries can currently cumulate with the UK[footnote 7] and British Overseas Territories[footnote 8], the EU and partially cumulate with Norway and Switzerland.

Certain Asian countries are permitted to cumulate with each other within 2 regional groups as follows:

- Indonesia, Philippines, Vietnam along with LDCs: Cambodia, Laos and Myanmar
- India, Pakistan, Sri Lanka along with LDCs: Bangladesh, Bhutan and Nepal

This means in GSP, only 6 out of 47 LDCs can automatically take advantage of regional cumulation. Individual applications for extended cumulation can be made to request cumulation with specific countries.

The majority of consultation respondents were in favour of extending cumulation for LDCs, frequently highlighting the benefit of regional integration, particularly for African countries. Some respondents highlighted that extended cumulation was essential for countries in existing regional cumulation groupings.

A small number of respondents did not support extended cumulation, on the basis that it would provide an unfair advantage to LDCs and affect the preferences of LICs and LMICs. Other areas highlighted in the consultation responses included the difficulty in finding out the required rules for each product and associated guidance and a general lack of clarity on the GSP RoOs.

Analysis to inform the government's position included assessing LDCs' imports from other LDCs, DCTS countries, EPA countries, UK FTA partners and countries trading on UK Most Favoured Nation (MFN) terms. This analysis highlighted that cumulation with UK FTA and

UK MFN countries could substantially increase the proportion of eligible imports to the UK that would receive preferential treatment. Analysis on the impact of cumulation was challenging as the data available on international supply chains is limited, particularly for LDCs. The government also relied on qualitative data gathered through business engagement both in the UK and overseas to inform this policy position.

The government shares respondents' overall views on extending cumulation for LDCs. The government also recognises the difficulty of accessing up to date RoOs information and will update and improve the current guidance and information available online.

New policy

The government is allowing extended cumulation for LDCs with DCTS countries and EPA countries, on materials that are duty-free and quota-free when traded between the cumulating partner and the UK. The new cumulation provisions are in addition to the existing cumulation provisions which permit cumulation with the EU, Norway and Switzerland and regional groupings to ensure business continuity.

This means that LDCs are able to participate in value chains involving materials from 95 countries and still export their final products to the UK duty-free, provided they meet the condition described above and the relevant PSRs. For example, an Ethiopian exporter to the UK will be able to use materials from Kenya (an EPA country) and treat those materials as originating in Ethiopia provided that they are duty-free in the EPA between the UK and Kenya and meet the EPA PSRs.

Expanding cumulation for LDCs in this way brings particular benefits for African LDCs which did not previously benefit from extended cumulation. The change should support regional integration in Africa, encourage exports and allow more goods to qualify for preferential tariffs. As most countries in Africa trade largely on duty-free, quota-free terms with the UK, the proportion of materials that can be used for cumulation purposes is very high.

Allowing cumulation of materials from DCTS and EPA partners also benefits Asian LDCs. It substantially increases the number of countries from which materials can be deemed as originating.

LDCs wishing to take advantage of the DCTS extended cumulation provisions need to have the necessary administrative arrangements in place to meet customs cooperation requirements and verification of proof of origin. Measures that allow cumulation to be restricted in cases of abuse or circumvention are included in the DCTS. Cumulation may also be restricted where products have bilateral safeguards in place.

The government also considered 2 alternative options.

One option would allow LDCs to cumulate all materials from LDCs only. Another option would allow LDCs to cumulate duty-free goods with DCTS countries, EPA partners, UK FTA partners and countries trading on UK MFN terms. The LDC only option was not selected as it would have very limited impact given the low level of trade between LDCs.

The second, more generous, option including UK FTA and UK MFN countries reflects existing LDC trading practices. It was not selected because it was considered to increase the risk of circumvention, particularly in relation to goods from UK FTA and UK MFN countries.

5. Tariffs

Tariffs are taxes applied to imports and are also referred to as 'import duties' or 'customs duties'. Importers are responsible for paying tariffs and the costs of these may be passed on to consumers. Importers pay UK Global Tariff (https://www.gov.uk/guidance/tariffs-on-goods-imported-into-the-uk) rates when they import goods into the UK, unless the UK applies preferential tariff rates, for example through a bilateral free trade agreement or the GSP which DCTS replaces.

As an independent trading nation, the UK is in a position unilaterally to offer better preferential tariff rates to developing countries with a view to increasing trade with the UK which supports growth and poverty reduction. Reducing tariffs has many benefits, including lowering the cost of trade and increasing product competitiveness. UK consumers can also benefit from greater choice and reduced prices. Tariffs can be applied in a number of ways, some of which are complex and difficult to administer. Administrative burdens, particularly on small and medium businesses, can be a deterrent to exporting and importing internationally and prohibit UK businesses from establishing new supply chains.

Current position

Countries can only benefit from unilateral preferential treatment for developing countries if they are classified by the World Bank as LICs or LMICs. This continues to be the case under the DCTS.

Under the GSP, LICs that are LDCs enjoy 0% tariffs on everything but arms and ammunition. Other LICs and LMICs (that do not have an FTA in place) are either in the GSP General Framework or the GSP Enhanced Framework and enjoy partial or full removal of customs duties on over 80% of tariff lines.

There was clear support from the consultation for offering greater tariff reductions on eligible goods as well as making more goods from LICs and LMICs eligible for tariff reductions. A number of respondents opposed making preferential tariffs for GSP General Framework countries more generous on the basis that LDCs and GSP Enhanced Framework countries should be prioritised. There was strong support for simplifying tariffs such as nuisance tariffs and seasonal tariffs where this did not erode the preferences of the least developed and most economically vulnerable countries.

Analysis to inform the government's position considered trade flows from relevant countries that could further benefit from the scheme. The government also took into account trade from LDCs and EPA countries and assessed goods from these countries which would be vulnerable to increased competition.

The government shares the view of consultation respondents that there is scope to simplify and liberalise tariffs in the DCTS. The government supports the view that least developed economies should get the most generous market access in the DCTS. The government agrees that economically vulnerable LICs and LMICs in the GSP Enhanced Framework should enjoy greater market access benefits than the economically stronger countries in the GSP General Framework.

New policy

The government is taking action in 5 areas:

Liberalising additional tariffs for economically vulnerable LICs and LMICs

Consultation respondents supported offering greater tariff reductions to LICs and LMICs. Under the GSP, more than 80% of eligible lines benefit from zero tariffs in the GSP Enhanced Framework.

Analysis has been undertaken to identify additional tariffs which could be lowered or removed in DCTS Enhanced Preferences. GSP General Framework tariff lines were not considered as other changes described in the next section mean that only India and Indonesia remain in DCTS Standard Preferences. LDCs' and EPA countries' interests are protected by excluding products where interests from these countries exist. Products with domestic interests or sensitivities are also excluded, based on consultation across government.

Products for which tariff reductions could provide the greatest benefit to DCTS Enhanced Preferences countries were identified by analysing exports from these countries to the UK and the world. Goods with global exports from these countries of over $1 million have been prioritised for reduction.

The government is lowering or removing tariffs on an additional 156 products in DCTS Enhanced Preferences. New tariff lines include tomatoes, olive oil and pet food (see UK Developing Country Trading Scheme (DCTS) tariff changes (https://www.gov.uk/government/publications/developing-countries-trading-scheme-dcts-new-policy-report)).

The result of this change is that more than 85% of eligible lines now benefit from zero tariffs in DCTS Enhanced Preferences, covering trade worth around £2 billion.

Allowing all economically vulnerable countries to access DCTS Enhanced Preferences

The government is allowing all economically vulnerable LICs and LMICs to access DCTS Enhanced Preferences, by removing the requirement for countries to ratify and effectively implement certain international conventions. This results in 8[footnote 9] countries moving to the more generous tier. Further detail on the rationale for this change is provided in the Conditions section of this report.

The impact is that £23 million of additional trade benefits from zero tariffs immediately. Up to £2.6 billion of trade could benefit in this way by 2030 as a further 6 LDCs[footnote 10] are expected to graduate from LDC status and move directly to enhanced preference tariffs.

Simplifying seasonal tariffs

Seasonal tariffs have different tariff rates applicable according to the time of year. The public consultation found strong support for removing seasonal tariffs, although some concerns were expressed regarding preference erosion for LDCs and EPA countries.

The public consultation identified 15 seasonal tariffs for potential simplification. These lines relate mainly to citrus fruits like satsumas, mandarins as well as grapes, peaches, strawberries, artichoke, and cucumbers. Almost all these lines have significant interests from LDCs and EPA countries for whom the UK is an important market. This includes the SACUM-UK EPA members, particularly South Africa and Namibia, as well as Zimbabwe, as big exporters of some of these products to the UK.

Due to these LDC and EPA sensitivities the government is maintaining all but 4 of the seasonal tariffs. For DCTS Standard Preferences, the seasonal tariff on cucumbers (0707005), globe artichokes (07099100), wilkings (08052900) and strawberries (08101000) are set to 8.5%, 6.5%, 12.5% and 6.5% respectively for the entire year. This is the lower tariff of the two-tariff structure for GSP General Framework countries. For DCTS Enhanced Preferences, the tariff for these products is set to 0% for the entire year. This change makes it simpler for countries to trade with the UK in these products.

Simplifying nuisance tariffs

In the public consultation we asked whether the government should set tariffs of 2% or less to zero, in line with the approach taken in the UKGT. Respondents generally supported the removal of nuisance tariffs for GSP General Framework countries, except where this might result in preference erosion for GSP Enhanced Framework countries.

To simplify the scheme, all 33 nuisance tariffs are set to 0% for DCTS Standard Preferences. These tariffs are already 0% in the GSP Enhanced Framework and continue to be 0% in DCTS Enhanced Preferences.

Maintaining tariffs on products where there are LDC/EPA sensitivities

A notable number of consultation responses raised concerns around preference erosion for the most economically vulnerable countries. These respondents raised concerns around specific products and preference erosion for LDCs. Products such as sugar, cut flowers, bananas and canned fish were identified as being particularly sensitive for LDCs. Respondents also argued in favour of tariffs designed to support value addition on products such as cocoa.

The government is therefore maintaining tariffs for DCTS Enhanced Preferences and DCTS Standard Preferences on these products, including bananas and raw sugar products.

Other factors

Other factors are relevant to the government's proposed approach on tariffs in the DCTS, including:

UK Global Tariff

The government is committed to supporting developing countries to reduce poverty through trade. The UK will ensure that developing country interests are carefully considered as part of any future changes to the UK Global Tariff, while also having regard to other relevant considerations, including the factors under Section 8(5) of the Taxation (Cross-border Trade) Act 2018.

UK business interests

The objective of the DCTS is to support economic growth in developing countries. Government and private sector stakeholders have been carefully consulted on UK market sensitivities in the design of the DCTS tariff provisions. Where there is a risk that the volume of trade from beneficiary countries reduces the competitiveness of UK products in the domestic market, the government has maintained tariffs.

6. Goods graduation

Goods graduation is the suspension of preferential rates of customs duty on certain imports. These imports are deemed to be highly competitive and to no longer need preferences to compete in the UK market. The goods graduation assessment applies to countries in the GSP General Framework only.

Graduation means that imports of a particular group of products originating in a given country lose preferences while imports of other groups of products from that country retain their preferential treatment. This means preferences are removed from products that no longer need them which provides greater opportunity to countries in greater need of preferential market access.

Current position

The goods graduation assessment only applies to countries in the GSP General Framework. Goods graduation suspends access to preferential tariffs on specific groups of goods where a country has been deemed highly competitive.

Many consultation respondents were in favour of the government amending its approach on goods graduation in the GSP General Framework. The rationale was to protect the interests of the least developed and more vulnerable developing countries in the scheme. Some respondents said it would be easier to align with the EU categorisation for simplicity. Responses were mixed on how frequently the government should run the goods graduation assessment. Some respondents favoured a shorter time period due to changing market dynamics. Others favoured a longer time to provide more certainty for business.

Analysis to inform the government's position was undertaken on the frequency, threshold and sensitivity of the goods graduation assessment. This highlighted the benefits of maintaining a goods graduation approach to ensure sufficient preference and space for exports from LDCs and more economically vulnerable countries. It also highlighted the need to continue to include sensitive chapters, with a lower graduation threshold, to support the interests and exports of the more economically vulnerable developing countries.

The government shares respondents' views on protecting the interests of more economically vulnerable developing countries and ensuring product graduation is targeted at goods that are genuinely competitive.

New policy

Given the changes to how enhanced preferences are accessed, the only DCTS Standard Preferences countries are India and Indonesia. Only these countries are subject to goods graduation. The government is graduating goods for DCTS Standard Preferences countries on the basis of HS chapters rather than GSP sections. This ensures that graduation is more objective, as the products in the HS chapter categories are more homogeneous. This also avoids graduation 'overshoots', removing preferences from some products which are not competitive simply because they are in a section which includes other very competitive products, potentially from a different industry.

The calculation is also based on an assessment of imports of goods from a country at the HS chapter level as a proportion of total UK imports. The threshold is reduced to reflect these changes and is set at 6% of total UK imports. For chapters that the government has deemed sensitive for other developing countries and our EPA partners the threshold is set at 1%. [footnote 11] Using UK imports means that the graduated products are more competitive for the UK market, which also helps support domestic UK industry.

This policy change only has an impact on imports from India and Indonesia and the proposed threshold ensures that a similar volume of imports graduate for both countries as under the current scheme. Many of the same products remain graduated, such as textiles for India and animal and vegetable oils for Indonesia. However, some products that India and Indonesia are especially competitive at exporting to the UK move on to the UKGT rate, such as leather for

India and musical instruments for Indonesia. Other exports that are not as competitive for the UK market, such as India's metal exports, move on to the DCTS Standard Preferences rate. Overall, this change in approach means £748 million of Indian exports graduate off the preferential rate, compared to £791 million in GSP. For Indonesia, £62 million of exports graduate compared to £88 million in GSP. See Annex 3 for full list of products graduated under the DCTS.

The government considered setting higher and lower thresholds and changing the frequency of the graduation assessment. It was decided that 6% struck a balance between the interests of developing countries, including LDCs and domestic industry.

Given divergent views from stakeholders on the frequency of the goods graduation assessment, the government has decided to retain the 3 year assessment period. This timeframe seeks to allow for diverging market trends while still providing a reasonable degree of certainty to business.

7. Conditions

The GSP has conditions which, if not met, allow for the suspension or variation of preferences from any beneficiary in any tier of the scheme.

The GSP Enhanced Framework is for economically vulnerable LICs and LMICs that have ratified, acceded to or otherwise expressed consent to be bound by, and are effectively implementing, specified international conventions.

Current position

The conditions on which suspension decisions are based include serious and systematic violations of human rights and labour rights contained in certain international conventions. There are also conditions that cover World Trade Organization (WTO) determinations; requirements of regional fisheries management organisations; export of prison labour goods; and illegal narcotics customs controls.

The GSP Enhanced Framework provides more generous trade preferences (compared to the GSP General Framework) as an incentive to economically vulnerable countries to ratify and effectively implement 27 international conventions. These are listed in Schedule 2 to the Trade Preference Scheme (EU Exit) Regulations 2020. A serious failure to effectively implement any one of the 27 international conventions may result in a GSP Enhanced Framework country being removed from that tier and placed into the General Framework (thereby a suspension of their enhanced arrangement).

The Trade Preference Scheme (EU Exit) Regulations 2020 set out a comprehensive process prior to the suspension or variation of preferences. This provides transparency to GSP countries. It also provides them with an opportunity to make representations during the process and to address the issues for which the Secretary of State for International Trade is considering suspending preferences.

Just over half of respondents to the consultation did not express a view about conditions within the scheme. Views expressed were that suspensive conditions were negative for exports and business but did have an impact on compliance with human and labour rights, good governance and sustainability obligations in GSP countries. Of those who expressed views, the majority would prefer simpler requirements to access enhanced preferences.

Analysis to inform the government's position included a comparison of the approaches in other preferences schemes, such as the US, Australia, Canada, New Zealand and Japan, from which it was clear that the EU GSP (and therefore the current GSP) apply many more conditions for accessing and removing preferences. Analysis of academic evidence related to the EU GSP highlighted that the threat of suspension of trade preferences has been shown to bring some countries to the table for diplomatic dialogue on improvements. On the other hand, the activation of suspension has not and has instead had negative impacts for poor people, businesses and investors. The use of enhanced preferences has in some limited cases encouraged the ratification of conventions but cannot on its own influence their implementation.

The government shares consultation respondents' views on the impact of preferences' suspension and on simplification of requirements to access enhanced preferences.

New policy

The government is retaining the power to suspend a country's preferences for serious and systematic violations of human rights and labour rights based on international conventions. The government is expanding the list of international conventions that form the basis for suspension. The new list includes conventions on anti-corruption, climate change and the environment (a full list of all international conventions relating to suspension can be found in Annex 4). The DCTS does not include suspensive conditions specifically related to WTO determinations; requirements of regional fisheries management organisations; export of prison labour goods; and illegal narcotics customs controls.

International conventions provide a clear legal basis to inform decisions, including requirements for monitoring and reporting. Existing international conventions bodies have clearly defined roles and responsibilities. The government believes that secure and growing trading relationships can increase UK influence and enable open conversations with partners on a range of issues, including human rights and labour rights. The inclusion of climate change and environment conventions is intended to contribute to minimising trade that is harmful to the planet.

Access to DCTS Enhanced Preferences is based solely on the economic vulnerability of eligible LICs and LMICs. This approach is more generous, with 8 more countries becoming immediately eligible for these preferences (Algeria, Congo, Cook Islands, Micronesia, Nigeria, Niue, Syria, Tajikistan). This approach creates a more gradual increase in tariffs for countries which graduate from LDC status by ensuring that all economically vulnerable LDCs graduate to DCTS Enhanced Preferences.

India and Indonesia are not eligible to be classified as economically vulnerable and therefore do not have DCTS Enhanced Preferences. Countries will lose DCTS Enhanced Preferences and move to DCTS Standard Preferences when their economies have developed enough to no longer be classified as economically vulnerable. The economic vulnerability assessment is revised in the DCTS, by suspending the criteria on export competitiveness and only applying the existing criteria on export diversification.[footnote 12] The government intends to complete a review of alternative options for assessing economic vulnerability within one year of the DCTS launch with a view to refining the basis for this assessment. The government grants DCTS Enhanced Preferences to existing GSP Enhanced Framework countries (without another preferential trading arrangement with the UK) for 3 years from the launch of the DCTS to ensure continuity for businesses.

The government considered retaining the requirement to ratify and implement international conventions to access enhanced preferences but rejected it. Reasons included the lack of evidence supporting the effectiveness of this approach in achieving improvements in the areas of concern, as well as the objective of simplifying the DCTS. Furthermore, fewer developing countries would benefit from the more generous preferences offer and the new UK scheme would have continued to be more complex than most other schemes.

Annex 1: overview of GSP countries and frameworks

The UK's Generalised Scheme of Preferences has been in place since 1 January 2021. The UK GSP largely replicates the EU GSP, providing continuity of trade access to UK markets for 70 developing countries. The scheme reduces and removes those tariffs reduced or removed by the EU GSP.

Preferential rate and eligibility by GSP framework

	Least Developed Countries Framework	General Framework	Enhanced Framework

	Least Developed Countries Framework	General Framework	Enhanced Framework
Eligibility Criteria	LDCs as classified by the UN	LICs and LMICs as classified by the World Bank	LICs and LMICs which meet the GSP criteria for economic vulnerability and have ratified and are effectively implementing 27 international conventions
Preferences	0% import tariffs on all products excluding arms and ammunition	Reduced tariffs on two-thirds of product lines	0% import tariffs on two-thirds of product lines.

GSP beneficiaries (as at 1 January 2022)

LDC Framework

Countries under the LDC Framework are:

- Afghanistan
- Angola
- Bangladesh
- Benin
- Bhutan
- Burkina Faso
- Burundi
- Central African Republic
- Cambodia
- Chad
- Comoros
- Congo, Democratic Republic
- Djibouti
- Eritrea

- Ethiopia
- Gambia
- Guinea
- Guinea-Bissau
- Haiti
- Kiribati
- Laos
- Lesotho
- Liberia
- Madagascar
- Malawi
- Mali
- Mauritania
- Mozambique
- Myanmar
- Nepal
- Niger
- Rwanda
- São Tomé and Príncipe
- Senegal
- Sierra Leone
- Solomon Islands
- Somalia
- South Sudan
- Sudan
- Tanzania
- Timor-Leste
- Togo
- Tuvalu

- Uganda
- Vanuatu
- Yemen
- Zambia

General Framework
Countries under the General Framework are:

- Algeria
- Congo
- Cook Islands
- India
- Indonesia
- Micronesia
- Nigeria
- Niue
- Samoa
- Syria
- Tajikistan
- Vietnam (has signed a trade agreement with the UK, however can still receive GSP market access during the transition to their new trade arrangement)

Enhanced Framework
Countries under the Enhanced Framework are:

- Bolivia
- Cape Verde
- Kyrgyzstan
- Mongolia
- Pakistan
- Philippines
- Sri Lanka

- Uzbekistan

Annex 2: list of countries LDCs can cumulate with under the DCTS

Country	Type of trading arrangement
Afghanistan	Comprehensive preferences
Algeria	Standard preferences
Angola	Comprehensive preferences
Antigua and Barbuda	EPA
Armenia	Enhanced preferences
Bangladesh	Comprehensive preferences
Barbados	EPA
Belize	EPA
Benin	Comprehensive preferences
Bhutan	Comprehensive preferences
Bolivia	Enhanced preferences
Botswana	EPA
Burkina Faso	Comprehensive preferences
Burundi	Comprehensive preferences
Cambodia	Comprehensive preferences
Cameroon	EPA
Cape Verde	Enhanced preferences
Central African Republic	Comprehensive preferences

Country	Type of trading arrangement
Chad	Comprehensive preferences
Comoros	Comprehensive preferences
Congo	Standard preferences
Congo, Democratic Republic	Comprehensive preferences
Cook Islands	Standard preferences
Cote d’Ivoire	EPA
Djibouti	Comprehensive preferences
Dominica	EPA
Eritrea	Comprehensive preferences
Eswatini	EPA
Ethiopia	Comprehensive preferences
Fiji	EPA
Gambia	Comprehensive preferences
Ghana	EPA
Grenada	EPA
Guinea	Comprehensive preferences
Guinea-Bissau	Comprehensive preferences
Guyana	EPA
Haiti	Comprehensive preferences
India	Standard preferences
Indonesia	Standard preferences
Jamaica	EPA

Country	Type of trading arrangement
Kenya	EPA
Kiribati	Comprehensive preferences
Kyrgyzstan	Enhanced preferences
Laos	Comprehensive preferences
Lesotho	Comprehensive preferences and EPA
Liberia	Comprehensive preferences
Madagascar	Comprehensive preferences and EPA
Malawi	Comprehensive preferences
Mali	Comprehensive preferences
Mauritania	Comprehensive preferences
Mauritius	EPA
Micronesia	Standard preferences
Mongolia	Enhanced preferences
Mozambique	Comprehensive preferences and EPA
Myanmar	Comprehensive preferences
Namibia	EPA
Nepal	Comprehensive preferences
Niger	Comprehensive preferences
Nigeria	Standard preferences
Niue	Standard preferences
Pakistan	Enhanced preferences
Papua New Guinea	EPA

Country	Type of trading arrangement
Philippines	Enhanced preferences
Rwanda	Comprehensive preferences
Samoa	EPA
São Tomé and Príncipe	Comprehensive preferences
Senegal	Comprehensive preferences
Seychelles	EPA
Sierra Leone	Comprehensive preferences
Solomon Islands	Comprehensive preferences
Solomon Islands	EPA
Somalia	Comprehensive preferences
South Africa	EPA
South Sudan	Comprehensive preferences
Sri Lanka	Enhanced preferences
St Christopher and Nevis	EPA
St Lucia	EPA
St. Vincent and the Grenadines	EPA
Sudan	Comprehensive preferences
Suriname	EPA
Syria	Standard preferences
Tajikistan	Standard preferences
Tanzania	Comprehensive preferences
The Bahamas	EPA

Country	Type of trading arrangement
The Dominican Republic	EPA
Timor-Leste	Comprehensive preferences
Togo	Comprehensive preferences
Trinidad and Tobago	EPA
Tuvalu	Comprehensive preferences
Uganda	Comprehensive preferences
Uzbekistan	Standard preferences
Vanuatu	Comprehensive preferences
Vietnam	Standard preferences
Yemen	Comprehensive preferences
Zambia	Comprehensive preferences
Zimbabwe	EPA

Annex 3: graduated goods under the DCTS

HS chapters graduating for India

HS chapter	Product
11	Products of the milling industry; malt; starches; inulin; wheat gluten
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes
41	Raw hides and skins (other than furskins) and leather

HS chapter	Product
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)
50	Silk
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric
52	Cotton
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn
54	Sewing thread of man-made filaments, whether or not put up for retail sale
55	Man-made staple fibres
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof
57	Carpets and other textile floor coverings
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin
88	Aircraft, spacecraft, and parts thereof

HS chapters graduating for Indonesia

HS chapter	Product
15	Lacs; gums, resins and other vegetable saps and extracts (animal or veg oils)
92	Musical instruments; parts and accessories for such

Annex 4: list of conventions related to suspension under the DCTS

The conventions include:

- Convention on the Prevention and Punishment of the Crime of Genocide
- International Convention on the Elimination of All Forms of Racial Discrimination
- International Covenant on Civil and Political Rights
- International Covenant on Economic, Social and Cultural Rights
- Convention on the Elimination of All Forms of Discrimination Against Women
- Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment
- Convention on the Rights of the Child
- Convention on the Rights of Persons with Disabilities
- Convention concerning Forced or Compulsory Labour, No. 29
- 2014 Protocol to forced labour convention No. 29
- Convention concerning the Abolition of Forced Labour, No. 105
- Convention concerning Minimum Age for Admission to Employment, No. 138
- Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour, No. 182
- Convention concerning Equal Remuneration of Men and Women Workers for Work of Equal Value, No. 100
- Convention concerning Discrimination in Respect of Employment and Occupation, No. 111
- Convention concerning Freedom of Association and Protection of the Right to Organise, No. 87
- Convention concerning the Application of the Principles of the Right to Organise and to Bargain Collectively, No. 98
- United Nations Convention against Corruption (UNCAC)
- United Nations Framework Convention on Climate Change (UNFCCC)
- Paris Agreement (to replace Kyoto Protocol in the GSP)
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

- Montreal Protocol on Substances that Deplete the Ozone Layer
- Kigali Amendment to Montreal Protocol
- Convention on Biological Diversity (CBD)
- Cartagena Protocol on Biosafety to the Convention on Biological Diversity (CBD)
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
- Stockholm Convention on Persistent Organic Pollutants
- Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade
- UN Fish Stocks Agreement (UNFSA)[footnote 13]

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1. For the purposes of the DCTS extended cumulation, EPA countries are understood as those within the Organisation of African, Caribbean and Pacific States (OACPS) that have a trade agreement with the UK.
2. The government is removing some suspensive conditions specifically related to WTO determinations; requirements of regional fisheries management organisations; export of prison labour goods; and illegal narcotics customs controls.
3. The Ministerial Decision on Preferential Rules of Origin for Least-Developed Countries (the 'Nairobi Decision' of 7 December 2013) outlines best practice for preference-granting members.
4. A further 3 chapters allow 75% non-originating content in all exceptions at a HS4 level.
5. Refer to the Product Specific Schedule for the type of chemical reaction required.
6. Refer to the Product Specific Schedule for the type of chemical reaction required.
7. The Channel Islands and the Isle of Man are also included in the GSP.
8. For the purposes of this definition, 'British Overseas Territories' does not include Gibraltar or the sovereign base areas of Akrotiri and Dhekelia.
9. Algeria, Congo, Cook Islands, Micronesia, Nigeria, Niue, Syria, Tajikistan
10. Angola, Bangladesh, Bhutan, Lao People's Democratic Republic, Nepal, São Tomé and Príncipe.
11. Sensitive HS chapters: 15, 56, 76, 87 and 88.

12. A country's export diversification is measured using its 7 largest GSP sections imports. If those imports, by value, represent more than 75% in value of its total imports of eligible goods it is determined economically vulnerable.
13. Full name is United Nations Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea (UNCLOS) of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks.

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