

Primer: Understanding UK’s new Trading Scheme for Developing Countries (DCTS) and Implications for Sri Lanka’s Exports

Key Insights

- DCTS Shows the UK's dedication to boosting trade with developing countries.
- Compared to its predecessor, the current UK Generalized System of Preferences (GSP), DCTS is easier to use and more generous.
- Although Sri Lanka is a substantial receiver of UK trade preferences, data indicates that there are unexplored opportunities for Sri Lankan goods to take advantage of zero tariffs under the scheme.

What is DCTS?

As an independent trading nation, the UK restructured its trade with developing countries for the benefit of all. In the Summer of 2023, the United Kingdom will replace its present Generalized Scheme of Preferences (GSP) with the Developing Countries Trade Scheme (DCTS). The DCTS is one of the world's most generous trade preference schemes and was created to increase trade with developing nations. The scheme lowers tariffs, streamlines LDCs' rules of origin, and makes it easier for those countries to meet the requirements to access new Enhanced Preferences.

Exhibit 01 - Key Changes and Impact of DCTS

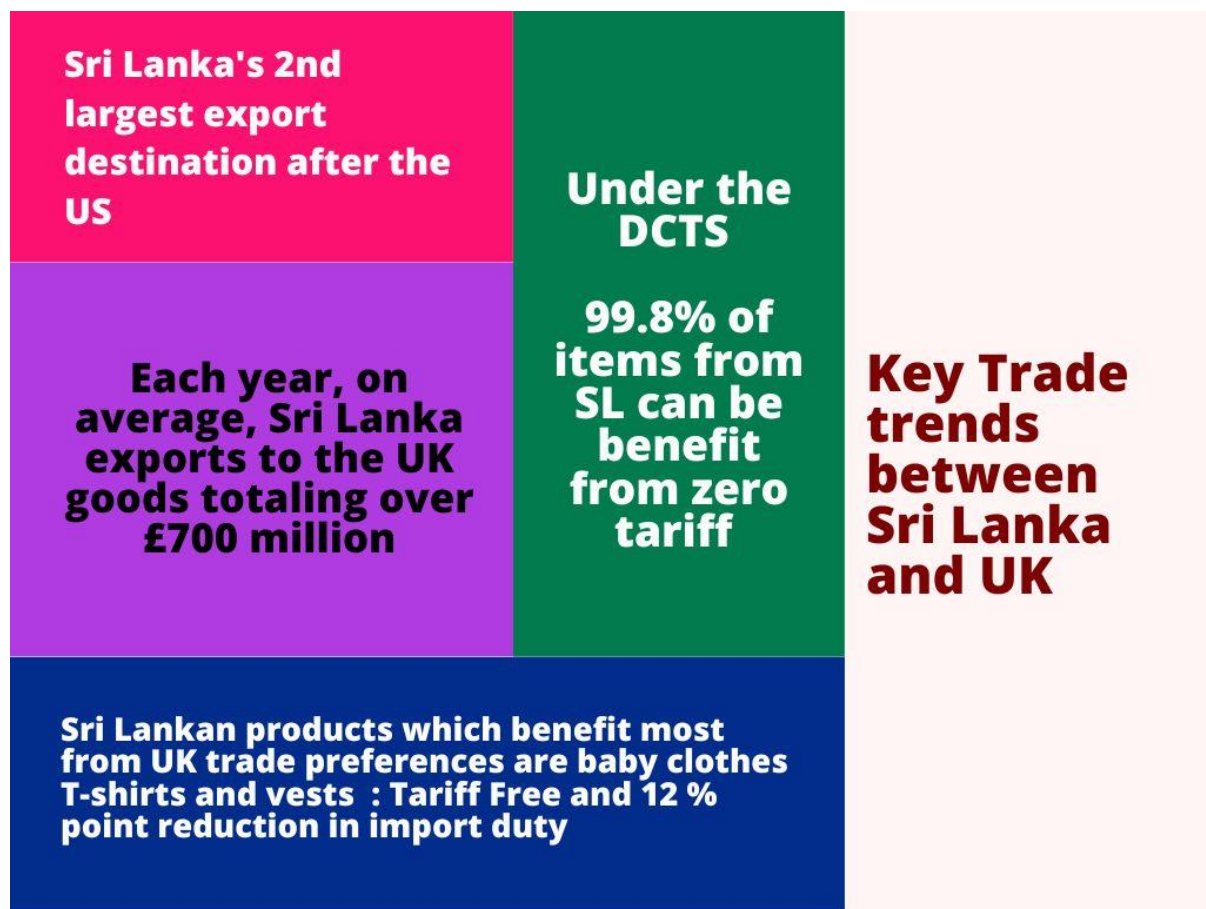
Changes	Impact
Tariffs New tariff reductions	Overall, DCTS saves businesses £750 million in duties because at least 92% of the commodities in Enhanced Preferences are now zero-rated.
More countries receive Enhanced Preferences.	Tariff reductions result in the immediate trade benefits of up to £41 million, trade benefits of over £2 billion by 2030, and a more seamless transition from LDC classification. ¹
Reducing the seasonal and disruptive tariffs	Fewer regulations for businesses

¹ The removal of an obligation to ratify a series of Conventions to access enhanced preferences in the DCTS means that more countries will be eligible to benefit from reduced tariffs in this category. It also means that graduating LDCs can move directly to this category.

<p>Goods Graduation²</p> <p>Revised graduation standards that preserve the current status quo</p> <p>Reduced the graduation criteria to exclude only competitive items</p>	<p>Preferences are suspended for each nation's</p> <p>The current value of trade is similar: India: £750m vs. £790m now Indonesia: £62m vs. £88m now</p> <p>Textiles for India and vegetable oils (including palm oil) for Indonesia were among the similar products that were halted.</p> <p>Certain modifications, such as the lifting of the ban on Indian metal and chemical products.</p> <p>Due to changes in the mix of commodities, there was a small duty save (£11m).</p>
<p>Conditions</p> <p>Retained and expanded ability to suspend any country</p> <p>Enhanced Preferences put a strong emphasis on the economic vulnerability of countries</p>	<p>A simpler and more open basis for removing participants from the program</p> <p>Incorporating treaties on climate change and the environment can reduce trade that harms the environment.</p> <p>Stronger trade ties encourage discussion of variety of topics, such as human rights</p> <p>More favorable terms of trade favor economically more fragile countries.</p>

² Goods graduation is the suspension of preferential rates of customs duty on goods that are deemed competitive and do not require preferences to compete in the UK market. This only applies to countries receiving Standard Preferences (Only applied to India and Indonesia).

Key trade trends between the UK and Sri Lanka



Opportunities for Sri Lanka under the new Trade Scheme

- Sri Lanka will benefit with at least 85% duty-free under the Enhanced Preferences scheme, and Sri Lankan goods will be more competitive in the UK market.
- The DCTS would save on tariffs by over £69 million a year if preferences were fully utilized, making Sri Lanka one of the top five beneficiaries of the program.
- Sri Lanka also exports cotton fabrics, resins, undergarments, gloves, nuts, seeds, and cinnamon. These products are imported into the UK in relatively small amounts from Sri Lanka.
- Trade between LDCs and Sri Lanka is made simpler without requiring tariff trade status, which raises the possibility of supply chain development.
- Due to the UK's growing desire for sustainable, fair trade, and healthier products, SL can cater to a niche market by exporting premium goods with a higher price point.
- Sri Lanka is ideally positioned to meet that demand.
- There are more opportunities for businesses in Sri Lanka to export goods like rubber gloves, tea, and pet food. Further access to trade-related information can foster expansion in high-potential industries.
- The main international exports from Sri Lanka among the new products included in the scope of Enhanced Preferences are animal feed, wheat, oats, and sugar products. Further alternatives could exist with strawberries, tomatoes, garlic, and gherkins.

How to Export under the scheme

Below provide details of a few key areas, which can help exporters understand the process of exporting under the scheme, the benefits, and other details relevant to the scheme so that exporters can better leverage the scheme to utilize its benefits.

Details regarding the government's policy for DCTS and how the responses to the public consultation affected the policy is provided in the following link.

<https://www.gov.uk/government/publications/developing-countries-trading-scheme-dcts-new-policy-report>

Trade privileges are granted to qualified developing nations under the UK Generalized Scheme of privileges (GSP). Due to these trade preferences, the UK's import duty (tariff) rates are decreased or eliminated. Information on the current UK trade preferences scheme, its tariff rates, and rules of origin that were carried over into the new scheme are provided in the following link.

<https://www.gov.uk/government/publications/trading-with-developing-nations>

There are many steps for importing goods into the UK, including tax and duty permits and certificates. For Information on how to bring goods into the UK from any country, including how much tax and duty you'll need to pay and whether you need to get a license or certificate is provided in the following link.

<https://www.gov.uk/import-goods-into-uk>

To increase trade and investment information including increasing operations in the UK, investing in the UK, and Purchasing from the UK, inquiries can be submitted at;

<https://www.great.gov.uk/international/contact/>

--- The UK will publish a set of detailed digital guides for businesses and update the information at the sites above when the DCTS comes into force ---

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