



International Trade Committee

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Rt Hon Kemi Badenoch MP
Secretary of State for International Trade
Department for International Trade
Old Admiralty Building
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7 November 2022

Dear Kemi,

I am writing to you in relation to my Committee's inquiry into the UK's trade approach towards developing countries. We launched this inquiry to examine the UK's trade strategy towards and trade relations with developing countries, including the Developing Countries Trading Scheme (DCTS) and the impact on developing countries of UK free trade agreements (FTAs) with developed countries.

Due to the recent heavy demands on the Committee's time for the scrutiny of FTAs, we have not conducted this inquiry in our usual way. Instead, we have collected and considered the written evidence we have gratefully received from your department and various stakeholders, and I am writing to present our findings and questions arising from them.

I would appreciate a full reply to this letter by 19 December, as your responses will closely inform our understanding and scrutiny of future FTAs, as well as other possible inquiries.

In accordance with our usual practice, this letter, along with any replies, will be published on the Committee's webpage.

Kind regards,

Angus Brendan MacNeil
Chair of the International Trade Committee

The Developing Countries Trading Scheme

We welcome the DCTS—designed to improve market access market for developing countries through specific trading preferences—and your department’s recent paper on it, which addresses many issues highlighted by evidence to this inquiry.¹ These include the risks of not widening the scope of the Enhanced Preferences Framework to encompass a broader range of economically vulnerable countries;² maintaining the right to remove preferences from states engaged in the systematic violation of human and labour rights, corruption or environmental damage;³ loosening and simplifying Rules of Origin requirements; expanding cumulation of origin;⁴ and narrowing the scope of goods graduation.⁵

Combined, these changes will potentially remove key obstacles preventing producers in the world’s poorest countries from trading with the UK while enabling British businesses and consumers to benefit from cheaper imports. However, other concerns from the evidence we received (set out below) are not addressed.

Trade strategy

I recently wrote to you about our trade and foreign policy inquiry,⁶ noting how evidence there had stressed the importance of a coherent trade policy. While we await your response to our latest report that raised the need for a single coherent strategy document,⁷ I note that we also received evidence on the importance of a cohesive strategy from this inquiry.⁸

Monitoring and enforceability of DCTS conditions

As with the Generalised Scheme of Preferences (GSP), the DCTS allows for countries to be suspended should they be found to be in serious breach of their human rights, labour rights, anti-corruption or environmental obligations.⁹

Some witnesses emphasised the importance of retaining these powers¹⁰, whilst others voiced concerns that conditions, if too stringent, could harm the most vulnerable countries by creating additional barriers to entry to the UK market.¹¹

¹ Department for International Trade, [Developing Countries Trading Scheme: government policy response](#), August 2022

² Dr Stephen Hurt ([TDC0006](#)); International Economics Consulting ([TDC0008](#)); Dr Eghosa Ekhaton and Dr Doyin Babajide ([TDC0009](#))

³ Business & Human Rights Resources Centre ([TDC0002](#)); Traidcraft Exchange ([TDC0004](#)); Dr Stephen Hurt ([TDC0006](#)); Trade Justice Movement ([TDC0007](#))

⁴ Traidcraft Exchange ([TDC0004](#)); Dr Stephen Hurt ([TDC0006](#)); Trade Justice Movement ([TDC0007](#)); The Fairtrade Foundation ([TDC0013](#))

⁵ International Economics Consulting ([TDC0008](#))

⁶ Angus Brendan MacNeil MP to Rt Hon Kemi Badenoch MP, [31 October 2022](#)

⁷ International Trade Committee, Fourth Report of Session 2022-23, [UK trade negotiations: Parliamentary scrutiny of free trade agreements](#), HC 815, paras 12-15

⁸ Traidcraft Exchange ([TDC0004](#)); Dr Stephen Hurt ([TDC0006](#)); ActionAid UK ([TDC0012](#)); The Fairtrade Foundation ([TDC0013](#))

⁹ The procedures for such a suspension are outlined in the Trade Preference Scheme (EU Exit) Regulations 2020 ([SI 2020/1483](#)), Section 19

¹⁰ Department for International Trade, [Developing Countries Trading Scheme: government policy response](#), August 2022; Business & Human Rights Resources Centre ([TDC0002](#)); Trade Justice Movement ([TDC0007](#))

¹¹ Africa Trade Policy Programme, London School of Economics and Political Science ([TDC0001](#)); Dr Stephen Hurt ([TDC0006](#))

We have also heard concerns that the DCTS does not clarify how the Government will monitor and assess country partners' compliance with these conditions.¹² Indeed, what little detail there is seems to indicate a considerable degree of individual discretion on the part of the Secretary of State.¹³

We therefore ask:

1. *How will the Government monitor DCTS partners' levels of compliance with the conditions of the Scheme?*

Consistent standards

The Trade Justice Movement expressed to us concerns that the standards to which the DCTS holds developing countries have more stringent enforcement mechanisms than those affecting the UK's existing FTA partners—which, to date, are generally richer, more developed countries.¹⁴ This raises the risk of double standards. For example, in the UK's FTA with Japan, each party “reaffirms” its commitments to implement International Labour Organization (ILO) conventions,¹⁵ but, in contrast to the DCTS, there is no mechanism by which the FTA could be suspended should either party be in violation of these conventions.

This may be less of a concern when dealing with Japan, a partner with a strong history of labour rights. However, the UK is planning to sign FTAs with states with more problematic records.¹⁶

We ask:

2. *How does the Government justify the different levels of stringency in enforcement mechanisms for the conditions to which developing countries are held under the DCTS—for example on human rights, labour rights, gender rights and the environment—compared to those applied to countries with which the UK has an FTA?*
3. *Will you seek to tighten current or future FTA enforcement provisions to bring them into line with those of the DCTS?*

Impact of existing UK trade agreements on developing countries

Development provisions in UK trade agreements

We welcome the inclusion of development chapters in the UK's recent FTAs with Australia and New Zealand, and chapters in these two agreements on trade and gender equality, which include some references to developing countries.¹⁷

¹² Business & Human Rights Resources Centre ([TDC0002](#)) para 5

¹³ Trade Preference Scheme (EU Exit) Regulations 2020 ([SI 2020/1483](#)), Section 19

¹⁴ Trade Justice Movement ([TDC0007](#)) para 26

¹⁵ [Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership](#), Article 16.3.2

¹⁶ “[Britain hands billions to projects linked to labour abuse and climate damage](#)”, *Guardian*, 31 March 2022; see oral evidence taken on 13 July 2022, HC (2021-22) 79, [Q43](#).

¹⁷ [Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and Australia](#), Chapters 23 and 24; [Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and New Zealand](#), Chapters 27 and 25 (respectively)

However, we were told that these chapters are not easily enforceable, as the wording of the provisions is non-committal, and none is subject to the agreements' respective dispute settlement provisions.¹⁸

The UK-Australia FTA provides for the establishment of a Committee on Cooperation, reporting to the Joint Committee under the Agreement. Its remit includes consideration of any matter under the development chapter relating to cooperation between the parties. In addition, the Committee has the role of supporting any joint development activities by the parties relating to trade and investment.¹⁹ It is not clear how the UK Government intends to use the Committee on Cooperation to further its development objectives—nor what weight (if any) the Committee's reports will carry with the Joint Committee.

The UK-New Zealand FTA provides for the establishment of an Inclusive Trade Sub-Committee, to monitor and review the implementation of (amongst other things) the FTA's provisions on developing countries.²⁰ In this case too, it is not clear what use the UK Government intends to make of the sub-committee in pursuit of its development aims.

We therefore ask:

4. *How will relevant decisions and reports of the Cooperation Committee (in the case of the UK-Australia FTA) and the Inclusive Trade Sub-Committee (in the case of the UK-New Zealand FTA) in relation to developing countries be considered, adopted and (if necessary) enforced?*

Furthermore, whilst the provision in the UK-New Zealand FTA to permit cumulation with “eligible developing countries”²¹ addresses some of the concerns raised in the evidence,²² we also ask:

5. *How soon are you aiming to finalise the list of “eligible developing countries”, and what criteria will you advocate the Rules of Origin and Customs and Trade Facilitation Working Group use to determine which countries and territories count as “developing”?*

Risk of preference erosion

ActionAid UK argued to us that a risk of channelling concerns around international development into separate chapters within FTAs is that they ignore “the potential socioeconomic harms that could be caused by other chapters of the trade deal”.²³

¹⁸ Dr Stephen Hurt ([TDC0006](#)); Trade Justice Movement ([TDC0007](#))

¹⁹ [Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and Australia](#), Articles 27.4, 23.3

²⁰ [Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and New Zealand](#), Article 30.8.5

²¹ [Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and New Zealand](#), Article 3.8

²² Traidcraft Exchange ([TDC0004](#)); The Fairtrade Foundation ([TDC0013](#))

²³ ActionAid UK ([TDC0012](#)) section 2

One area of potential harm for developing countries could be that of preference erosion.²⁴

We are concerned that producers in economically vulnerable developing countries will struggle to compete with producers from countries with large or well-developed industries, should the latter be given access to the UK market under the same conditions. For example, your department anticipates that the UK-Australia FTA will bring about trade diversion for raw sugar cane imports from developing countries such as Guyana and Belize. Similarly, we were told that future deals with Brazil and India could potentially affect UK imports of cut flowers from East African countries, and fruit and vegetables from other small developing countries.²⁵

We note the Government's statement that the issue of potential preference erosion in respect of sugar is addressed in the UK-Australia FTA by means of a gradually-rising quota for Australian sugar cane imports, to prevent a sudden shock for developing country sugar producers.²⁶ We also note the Government's commitment to monitoring potential adverse effects on developing countries from preference erosion as a result of that Agreement—and its failure to respond adequately to our recommendation that it set thresholds for taking remedial action, and say what such action would involve.²⁷

We ask:

6. *Will the Government commission and publish an independent assessment of the potential impact of preference erosion on DCTS-eligible countries before signing any new FTAs?*
7. *How will your department monitor potential adverse effects on developing countries from preference erosion as a result of trade agreements; how will it report its findings; what thresholds will it set for taking remedial action; and what would any remedial action involve?*

Economic Partnership Agreements

The existence of bilateral Economic Partnership Agreements (EPAs) with developing countries, rolled over from the EU,²⁸ alongside a unilateral trade preference scheme

²⁴ Preference erosion occurs when trade preferences initially granted to one trading partner country are extended to other trading partners, thereby undermining any advantage the former may have previously enjoyed.

²⁵ Trade Justice Movement ([TDC0007](#)); The Fairtrade Foundation ([TDC0013](#))

²⁶ Department for International Trade ([TDC0011](#)); Department for International Trade, [Impact assessment of the Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and Australia](#), updated May 2022

²⁷ International Trade Committee, First Special Report of Session 2022–23, [UK trade negotiations: Scrutiny of Agreement with Australia and Agreement with Australia: Government Response to the Committee's First and Second Reports](#), HC 704, paras 119–122

²⁸ For example, EPAs with Cameroon and Kenya: "[United Kingdom and Cameroon secure Economic Partnership Agreement](#)", Department for International Trade press release, 30 December 2020; "[UK and Kenya sign trade agreement](#)", Department for International Trade press release, 8 December 2020

(initially the GSP, and, from next year, the DCTS) has resulted in what was described to us as “a hotchpotch of short-term fixes”.²⁹

The new rules on cumulation of origin in the DCTS will go some way towards mitigating the concern, mentioned by witnesses, that the presence of EPA partners and DCTS partners in the same geographical area may exacerbate the regional fragmentation of markets.³⁰ However, our evidence warned that where an EPA commits trade partners to liberalise their markets prematurely, it can undermine developing country producers and damage nascent industries.³¹ We also heard in evidence that EPAs may reduce developing countries’ customs revenues from tariffs and obstruct imports from sectors in which producers—for example, African farmers—enjoy comparative advantage.³²

We ask:

8. *Will your department perform a thorough reassessment as to whether the EPAs that the UK has inherited from the EU are fit for purpose, particularly with regard to their impact on developing countries? We would appreciate receiving the outcomes of this assessment within six months of this letter.*

We also ask:

9. *Will the Government consider migrating EPA partners into the DCTS in regions where there is a high concentration of lower-income and lower middle-income countries?*

Multilateral action

Further to the related points raised in my letter on trade and foreign policy,³³ we were told that the Government should use its position of influence to press for reforms in multilateral fora—in particular, the World Trade Organization (WTO).³⁴ We welcome your department’s assurance that the Government will ‘seek multilateral solutions to global challenges’.³⁵

With regard to developing countries specifically, our evidence submissions were in favour of the UK continuing to support the principle of special and differential treatment³⁶—whereby WTO agreements contain “special provisions which give developing countries special rights and allow other members to treat them more

²⁹ Africa Trade Policy Programme, London School of Economics and Political Science ([TDC0001](#)) para 5

³⁰ “[New UK scheme to drive trade with developing countries](#)”, Department for International Trade, 19 July 2021; Africa Trade Policy Programme ([TDC0001](#)); Traidcraft Exchange ([TDC0004](#)); Dr Stephen Hurt ([TDC0006](#)); Trade Justice Movement ([TDC0007](#)); The Fairtrade Foundation ([TDC0013](#))

³¹ Traidcraft Exchange ([TDC0004](#)); Trade Justice Movement ([TDC0007](#))

³² Traidcraft Exchange ([TDC0004](#)); Trade Justice Movement ([TDC0007](#)); Dr Eghosa Ekhaton and Dr Doyin Babajide ([TDC0009](#))

³³ Angus Brendan MacNeil MP to Rt Hon Kemi Badenoch MP, [31 October 2022](#)

³⁴ Africa Trade Policy Programme, London School of Economics and Political Science ([TDC0001](#)); Dr Eghosa Ekhaton and Dr Doyin Babajide ([TDC0009](#)); Traidcraft Exchange ([TDC0004](#)); Trade Justice Movement ([TDC0007](#)); The Fairtrade Foundation ([TDC0013](#))

³⁵ Department for International Trade ([TDC0011](#)) Section 6

³⁶ Traidcraft Exchange ([TDC0004](#)); Trade Justice Movement ([TDC0007](#))

favourably”.³⁷ We also received evidence stating that the UK could “initiate disputes against other [WTO] members and ensure member countries are treated fairly”, helping to prevent the dumping of subsidised agricultural products on developing-country markets by developed countries.³⁸ There was also concern that “transparency and consensus-based decision making in WTO processes [...] can be impeded if plurilateral initiatives such as Joint Statement Initiatives (JSI) do not seek out or reflect developing countries concerns”.³⁹

In closing, we therefore ask:

10. *Will the Government undertake to continue upholding the principle of special and differential treatment for developing countries at the WTO?*
11. *What plans does the Government have to work alongside developing country partners to advocate restrictions on the use of agricultural subsidies and dumping by developed countries in developing-country markets?*
12. *How will the Government ensure that the concerns of developing countries are sought out and taken into account in any plurilateral discussions to which the UK is party?*

³⁷ WTO, ‘[Special and differential treatment](#)’, accessed 20 October 2022

³⁸ Dr Eghosa Ekhaton and Dr Doyin Babajide ([TDC0009](#)) para 7

³⁹ Traidcraft Exchange ([TDC0004](#)) para 49