Department for International Trade

An information note for the consultation relating to a free trade agreement between the United Kingdom and the Gulf Cooperation Council

Contents

1. Introduction

The Government's ambition is to secure free trade agreements (FTAs) with countries covering 80% of United Kingdom trade by the end of 2022. The Department for International Trade (DIT) aims to secure an ambitious programme of FTAs to benefit the whole of the United Kingdom and support businesses of all sizes across different sectors of the economy. The department is conducting a consultation, seeking views from a wide range of stakeholders, to inform our negotiation objectives and understanding of the economic, environmental and social impacts of an FTA with the Cooperation Council for the Arab States of the Gulf (herein the Gulf Cooperation Council, GCC). The GCC is a political and economic alliance between the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia, and the United Arab Emirates.

FTAs promote trade and investment, secure access for United Kingdom exporters to the markets of today and the future, give consumers access to a greater range of products at lower prices, and make the United Kingdom more innovative, competitive and prosperous.

Trade agreements have these effects by reducing trade barriers between countries. Barriers include taxes charged on goods as they cross borders (tariffs), as well as different rules and regulations that can add to trade costs. Trade and investment barriers make it more difficult and costly to trade or invest with businesses in partner countries. Reducing these barriers can help the flow of trade in goods, services and money for investment between countries. They help businesses access new markets they previously were not able to.

FTAs are expected to enhance economic growth and prosperity by:

- increasing import and export flows;
- increasing investment flows (both outward and inward);
- enhancing productivity through a more efficient allocation of resources and greater openness to international competition.

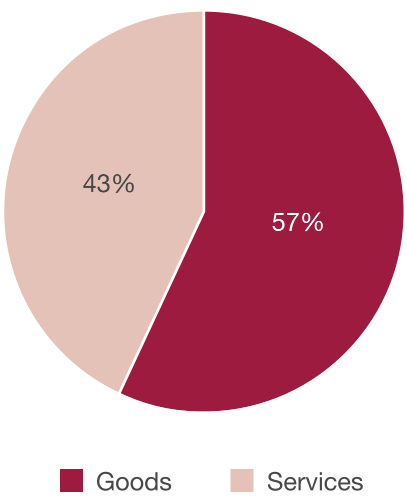
The United Kingdom has a strong bilateral relationship with the GCC. Following the conclusion of the United Kingdom–GCC Joint Trade and Investment Review in June 2021, both partners are seeking a deeper trade and investment relationship and are aiming to begin negotiations towards a new FTA in 2022.

Prior to launching these negotiations, DIT is conducting a consultation, seeking views from a range of stakeholders on their priorities for a future agreement. The responses to this consultation will inform our policy positions and negotiating objectives and will help us to secure an agreement that supports the whole of the United Kingdom.

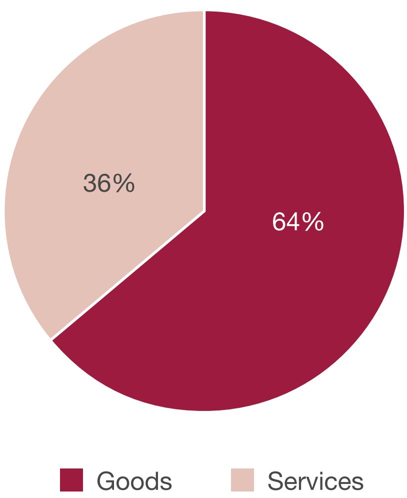
The aims of this information note are to:

- provide stakeholders with background evidence to support the consultation;
- clarify some of the terminology relating to FTAs; and
- provide information to respondents wishing to submit evidence on their priority areas and expected impacts of a United Kingdom-GCC FTA.

United Kingdom exports to GCC



United Kingdom imports from GCC



Top goods export to GCC	Top goods import from GCC	Top services exports to GCC	Top services imports from GCC
Mechanical power generators (intermediate)	Refined oil	Travel and Engineering	Travel and Telecommunications

2. Definition and scope of a Free Trade Agreement

A free trade agreement is an international agreement which removes or reduces tariff and non-tariff barriers to trade and investment between partner countries.

Trade and investment barriers make it more difficult and costly to trade or invest overseas. By removing or reducing them, FTAs can make it easier for businesses to export, import and invest. They can also benefit consumers by providing a more diverse and affordable range of imported products.

FTAs do not prevent governments from regulating in the public interest – for example, to protect consumers, the environment, animal welfare and health and safety. Equally, trade agreements do not require governments to privatise any service or prevent governments from expanding the range of services they supply to the public. For example, the United Kingdom Government has been clear about its commitment to protecting public services, particularly the NHS. No future free trade agreement would affect the fact that it would remain up to the United Kingdom and devolved administrations to decide how to run our publicly funded health services.

Types of provisions included in free trade agreements

The provisions included in FTAs vary across agreements. The World Bank has created a database that summarises the content of all FTAs that were in force and notified to the World Trade Organisation (WTO) until 2015.[1] It covers 279 FTAs. For each agreement, the commitments are classified in one of 52 categories (outlined in Table 1 below) and distinguished according to whether or not they are legally enforceable.

The World Bank classifies 18 of the 52 areas of policy cooperation as “core” provisions.[2] These are provisions which the World Bank identify as most meaningful from an economic point of view and have appeared most frequently in FTAs. “Non-core” provisions – which sometimes go beyond areas directly associated with trade and investment – have appeared less frequently in FTAs. As with all provisions, their inclusion typically depends upon the specific objectives of an agreement and the preferences of the partners involved.

Over time the scope and depth of FTAs has generally grown, including provisions addressing trade in services and investment. FTAs increasingly address domestic policies inhibiting trade and investment, known as “behind the border” barriers.

A comprehensive trade agreement goes further than just eliminating tariffs between partner countries. For example, a comprehensive FTA could cover a number of areas such as intellectual property, sanitary and phytosanitary measures, recognition of standards, environment, and provisions to reduce the cost of trading in services and investing cross borders.

1 Horizontal Depth: A New Database on the Content of Preferential Trade Agreements.
2 See page 5 on “Horizontal Depth, A New Database on the Content of Preferential Trade Agreements”, World Bank Policy Research Working Paper 7981.

Table 1 Areas of policy cooperation in Free Trade Agreements and Economic Partnership Agreements

"Core" provisions (as defined by World Bank)	• Tariffs on industrial goods • Tariffs on agricultural goods • Customs administration • General Agreement on Trade in Services (GATS) • Export taxes • Sanitary and phytosanitary (SPS) • State trading enterprises	• Technical Barriers to Trade (TBT) • Trade Related Aspects of Intellectual Property Rights (TRIPS) • Countervailing measures • Anti-dumping • State Aid/Subsidies • Public procurement	• Trade Related Investment Measures (TRIMS) • Intellectual property rights • Competition policy • Investment • Movement of capital
"Non-core" provisions	• Anti-corruption • Environmental laws • Labour market regulation • Consumer protection • Data protection • Agriculture • Political dialogue • Small or medium-sized enterprises • Social matters • Visa and asylum • Approximation of legislation • Audiovisual • Civil protection	• Innovation policies • Cultural cooperation • Economic policy dialogue • Public administration • Statistics • Education and training • Energy • Financial assistance • Health • Human rights • Illegal immigration • Regional cooperation • Taxation	• Illicit drugs • Industrial cooperation • Information society • Mining • Money laundering • Nuclear safety • Research and technology • Terrorism

Source: World Bank "Content of Deep Trade Agreements Database".

3. Areas of interest in our consultation

Our public consultation provides stakeholders with the opportunity to express their views about a potential United Kingdom–GCC FTA. We are particularly interested in views about:

- Which areas of a potential future free trade agreement provide the most opportunities in trade talks with the GCC?
- Are you facing challenges or constraints when attempting to trade or invest in the GCC, and if so, how significant is this to your business or organisation's activity?
- How do you expect your business or organisation to respond to a comprehensive FTA? For example, might you begin exporting to, or importing from, the GCC? Or look to invest in the GCC or attract investment from the GCC, increase output or hire more workers?
- How do you expect your business or organisation to respond to the removal of GCC tariffs in an FTA with the GCC?
- Is your business or organisation trading products related to the environment and/or a low-carbon economy with the GCC?

As part of this consultation, we are also interested in views that relate to individual GCC member states, for example, whether any specific opportunities or concerns relate to specific countries as opposed to the wider region. This will help ensure the United Kingdom pursues an FTA with the GCC that reflects wider stakeholder priorities. We are particularly interested in:

- Are the areas for opportunities from a potential future free trade agreement with the GCC specific to any GCC member states?
- Are you facing any challenges or constraints when attempting to trade or invest in specific GCC member states, and if so, how significant is this to your business activity?

4. Trade and investment relationship between the United Kingdom and the GCC

An FTA between the United Kingdom and the GCC would represent an important opportunity to deepen our bilateral trade and investment relationship. This section provides an overview of the United Kingdom and GCC economies and the existing trade and investment relationship between the two partners.

The United Kingdom was the 6th largest economy in the world in 2019, while the combined economies of the GCC would have ranked 13th in 2019.[3] Total trade in goods and services between the GCC and the United Kingdom reached £41.4 billion in 2019, which would place the bloc as the UK's 10th largest trading partner if it were a single country.[4] The United Kingdom and the GCC are strong investors in each other's economies, bringing long-term benefits to both partners.

The trade flow and gross domestic product (GDP) statistics in this information note are based on the period 2019. While data are available for trade in 2020 and early 2021 these have not been used as the reference period because of the coronavirus-related impacts on the economy of the United Kingdom and its trading partners.

4.1 Economies of the United Kingdom and the GCC

The GCC's GDP at purchasing power parity (PPP) was marginally lower than the United Kingdom's in 2019.[5] The total population of the bloc was also lower, leaving the GDP per capita slightly higher. Trade (imports and exports) were equivalent to 93% of the GCC's GDP in 2019, with the equivalent United Kingdom figure at 63%.

Services make up a larger proportion of the United Kingdom's economy than in the GCC, while industry represents a far higher proportion of the GCC's economy (Table 2). Agriculture is a small part of value added in both economies.

Table 2 Headline economic indicators for the GCC and the United Kingdom

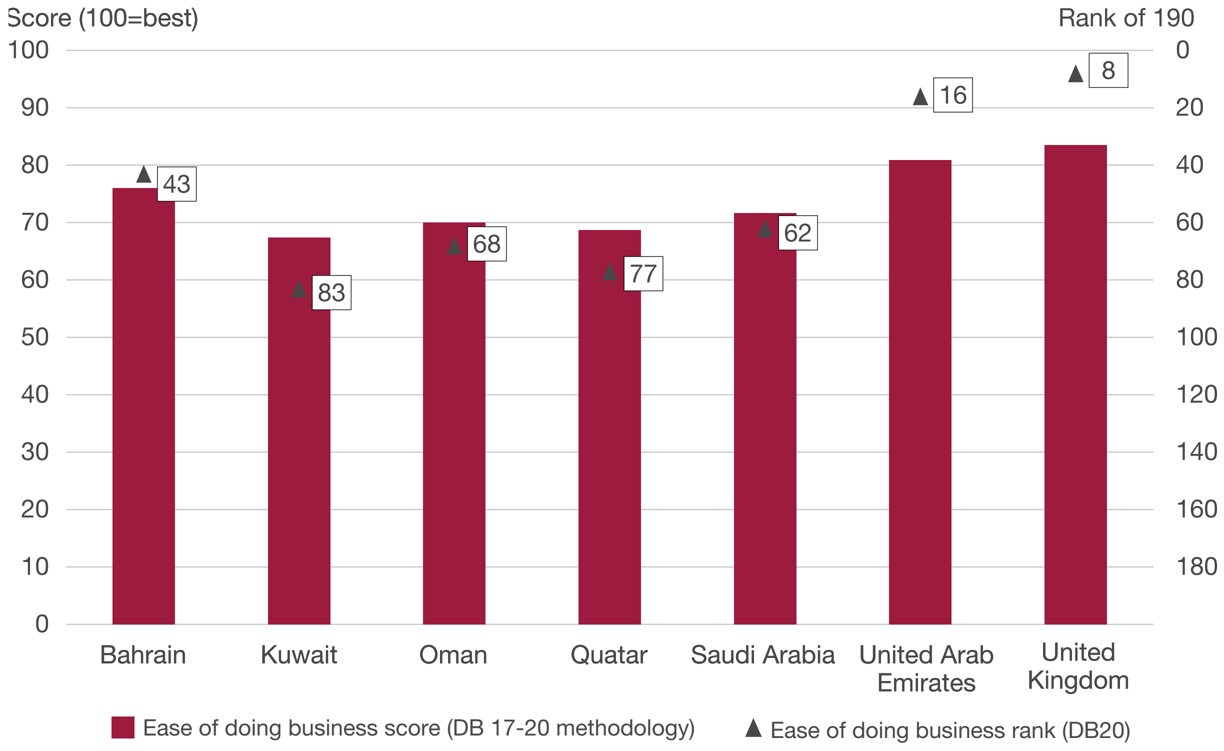
Economic Indicator (as of 2019)	GCC	United Kingdom
GDP (PPP[6])	£2.4 trillion	£2.5 trillion
GDP per capita (PPP)	£41,600	£38,000
Trade (% GDP)	93%	63%
Population	58 million	67 million
Services, value added (% GDP)	51%	71%
Agriculture, value added (% GDP)	2%	1%
Industry, value added (% GDP)	49%	18%

Source: World Bank Development Indicators, accessed August 2021.

In 2020, the World Bank's Ease of Doing Business index ranked GCC economies between 16th (United Arab Emirates) and 83rd (Kuwait) amongst 190 economies, where 1 is the best and 189 is the worst.[7] The United Kingdom was ranked 8th on the same basis.

3 World Bank Development Indicators, GDP (current US $). Accessed April 2021.
4 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021. Total United Kingdom trade with the GCC was £30.3 billion in 2020.
5 A purchasing power parity (PPP) adjustment has been applied to GDP figures. This adjustment accounts for differences in prices between two countries, such that the same GDP (on a PPP basis) would allow consumers to buy the same basket of goods in both countries.
6 Based on GDP (on a PPP basis) in GBP at 2017 prices, World Bank Development Indicators. Converted from USD using Bank of England annual average spot exchange rates for 2019.
7 https://www.doingbusiness.org/en/rankings?region=south-asia.

Figure 1 Ease of doing business score and rank



Source: World Bank, 'Doing Business 2020'

4.2 Overview of the trade relationship between the United Kingdom and the GCC

It has been estimated that in 2016, nearly 6.5 million jobs across the United Kingdom were directly and indirectly supported by exports. United Kingdom exports to Saudi Arabia – the largest economy in the GCC – were estimated to support directly and indirectly around 129,000 United Kingdom jobs in 2016.[8]

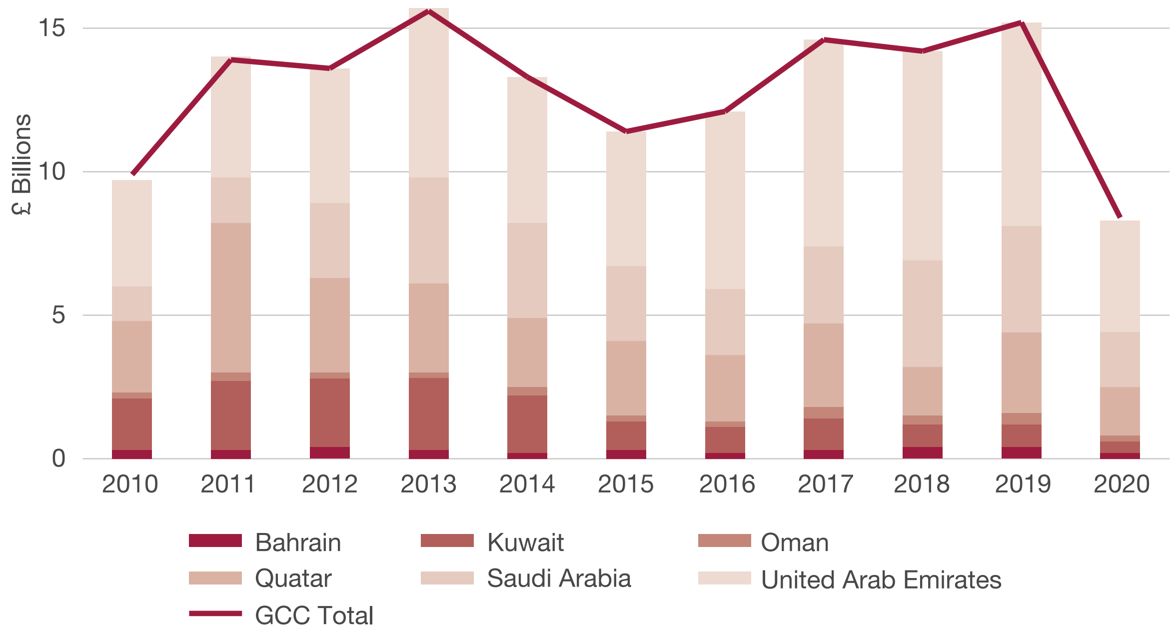
United Kingdom total trade with the GCC has been growing since 2010, reaching £41.4 billion in 2019. From 2010 to 2019, United Kingdom imports in goods and services from the GCC increased by 54% from £9.9 billion to £15.2 billion. In comparison, United Kingdom exports to the GCC increased by 48% from £17.6 billion to £26.1 billion over the same period.[9]

In 2020, United Kingdom imports from the GCC were down 44.8% from 2019 levels, compared with an 18.3% reduction in United Kingdom imports from the world over the same period. Conversely, United Kingdom exports to the GCC were down 16.3% over the same period, compared to a 16.1% reduction in United Kingdom exports to the world.[10]

Like other economic activity, trade between the United Kingdom and the GCC in 2020 was heavily affected by the impacts of the coronavirus pandemic. The fall in imports from the GCC was driven by falls in oil imports on the goods side and travel on the services side, which are the United Kingdom's largest import sectors in goods and services respectively. Both were disproportionately affected by the pandemic, and so fell by more than the overall level of imports.

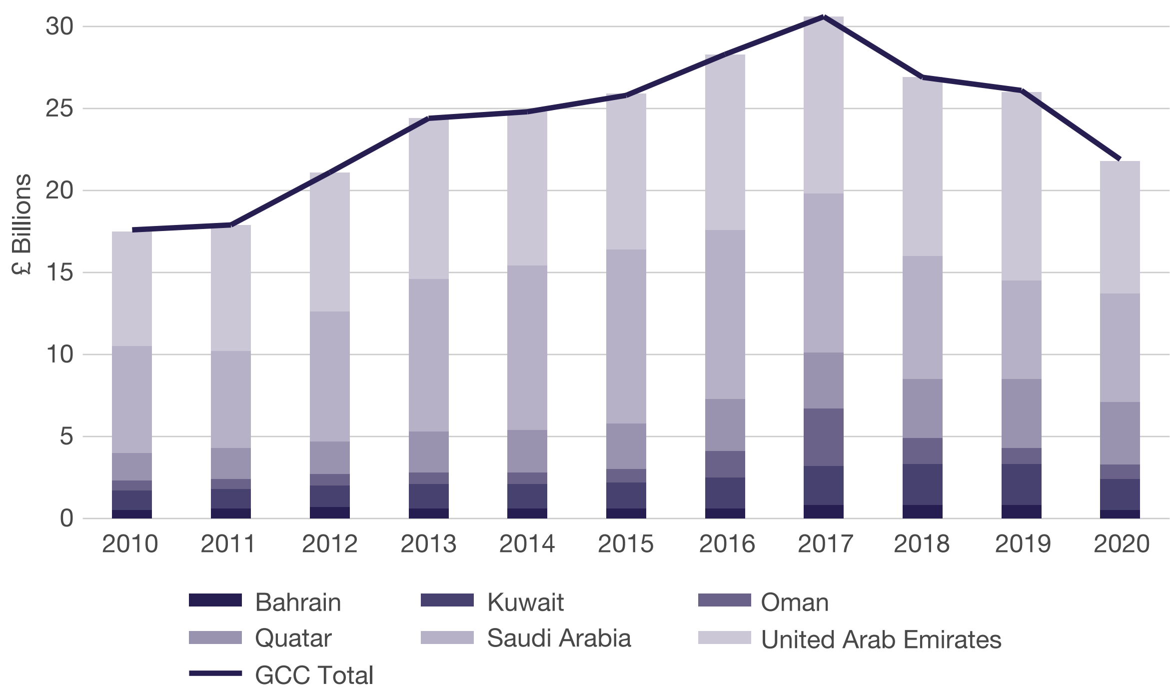
8 DIT, Evaluating the impact of exports on UK jobs and incomes (2021). Data unavailable for all GCC countries. https://www.gov.uk/government/publications/evaluating-the-impact-of-exports-on-uk-jobs-and-incomes
Note: estimates are experimental and relate to 2016 (i.e., they do not reflect the impact of economic shocks such as Covid-19 and EU exit). 'Direct' export-supported jobs are jobs in industries that export goods or services. 'Indirect' jobs are jobs in industries that are in the United Kingdom supply chain of exporting industries. These jobs are existing United Kingdom-based jobs (that is, 'supported') rather than newly created jobs ('created'). See published report for full list of caveats.
9 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021. Total United Kingdom trade with the GCC was £30.3 billion in 2020.
10 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021. Total United Kingdom trade with the GCC was £30.3 billion in 2020.

Figure 2 United Kingdom imports from the GCC, 2010 to 2020



Source: ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021.

Figure 3 United Kingdom exports to the GCC, 2010 to 2020

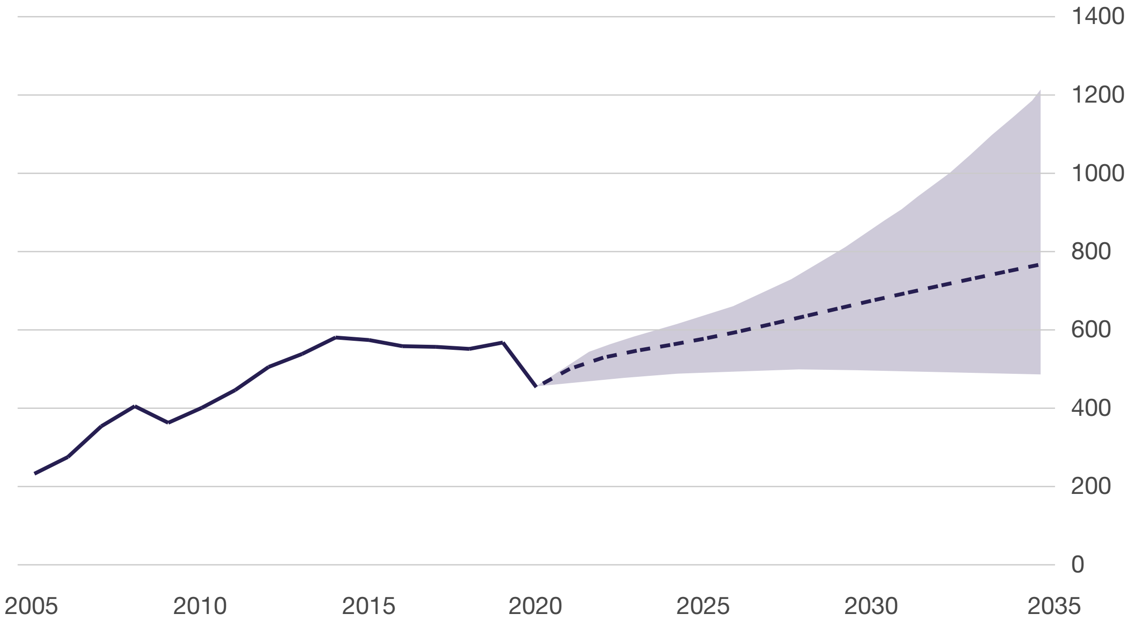


Source: ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021.

4.3 Future prospects

Between 2019 and 2035, the GCC's imports are projected to grow by around 35% in real terms (Figure 4). That equates to around £200billion in additional demand in real terms (i.e. in constant 2019 prices).

Figure 4 GCC real import demand (GBP billion)



Sources: IMF World Economic Outlook April 2021, UNCTAD, and DIT calculations. Note: Data show real imports in constant prices and exchange rates. The uncertainty band represents one standard deviation around the projection based on 2010-2019 outturns.

The extent to which higher import demand in the GCC translates into higher United Kingdom exports to the GCC will depend on how the UK's market share develops. If the UK's share of the GCC import market falls to 3.6% by 2035 - in line with the more general decline in the UK's share of global imports projected in DIT's Global Trade Outlook - UK exports would stand at £28 billion in 2035 (in 2019 prices), or 6% higher than their 2019 level.

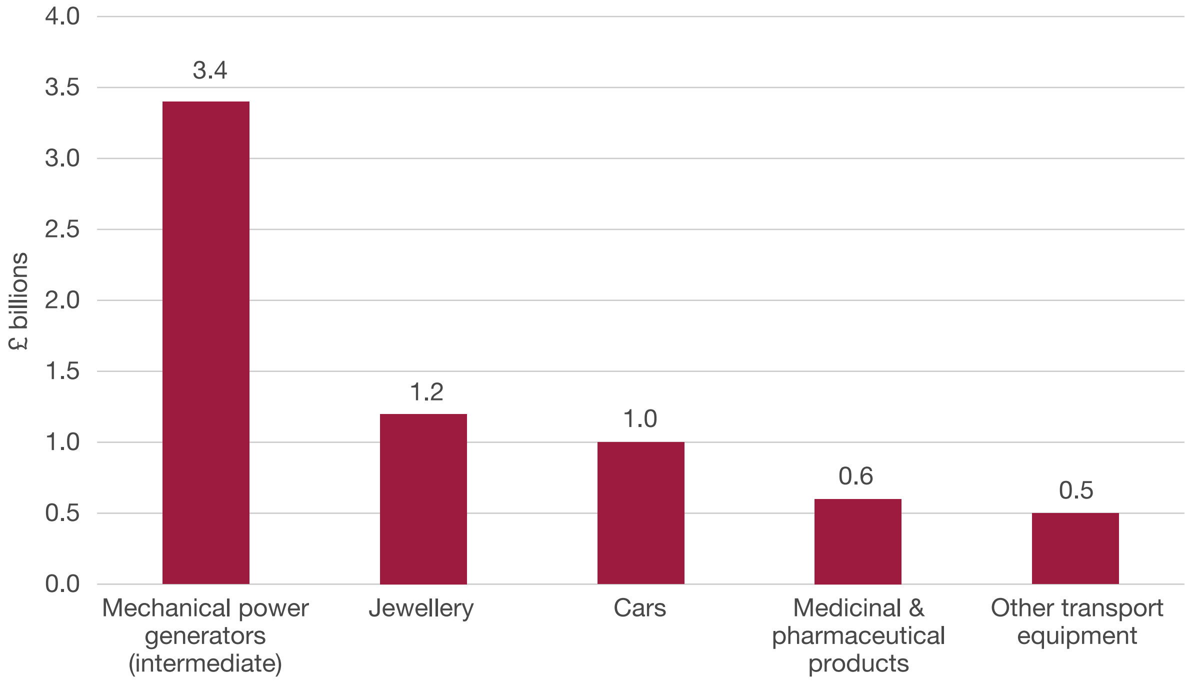
However, this scenario assumes there are no major structural changes to the GCC-UK dynamic, such as a new FTA, which would be expected to keep the market share higher than it would otherwise be. If the UK were to maintain its current market share of 4.6% out to 2035, this would translate to £35 billion in UK exports to the GCC by 2035 (in real terms) - 35% higher than their 2019 level.

5. Trade in goods

5.1 Overview of trade in goods between the United Kingdom and the GCC

In 2019, the United Kingdom imported £9.7 billion worth of goods from the GCC and exported £14.8 billion, leading to overall goods trade of £24.5 billion. Between 2010 and 2019, United Kingdom imports of goods from the GCC have increased by 41.6%, whilst United Kingdom exports of goods to the GCC have increased by 63.6% over the same period.[11]

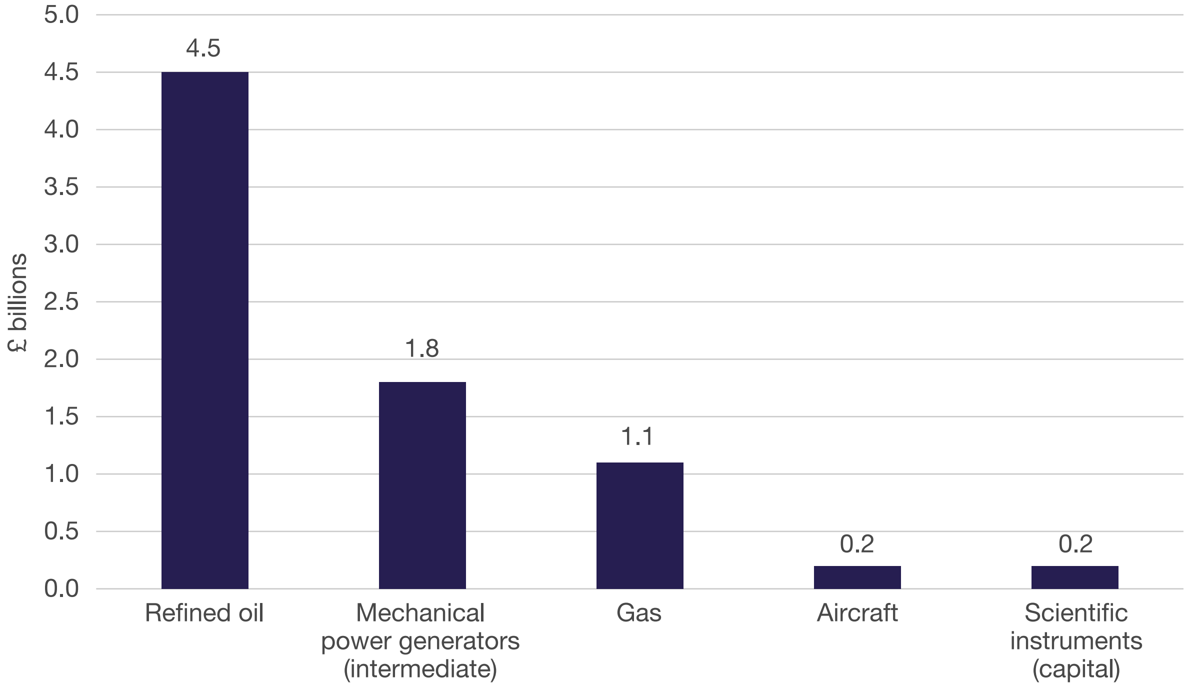
Figure 5 Top five United Kingdom goods exports to the GCC, 2019[12]



Source: ONS, trade in goods: country-by-commodity exports/imports. The commodities are categorised based on SITC codes using a mixture of level 2 and level 3 codes.

11 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021.
12 Trade in goods: country-by-commodity exports/imports. The commodities are categorised based on SITC codes using a mixture of level 2 and level 3 codes.

Figure 6 Top 5 United Kingdom goods imports from the GCC, 2019[13]



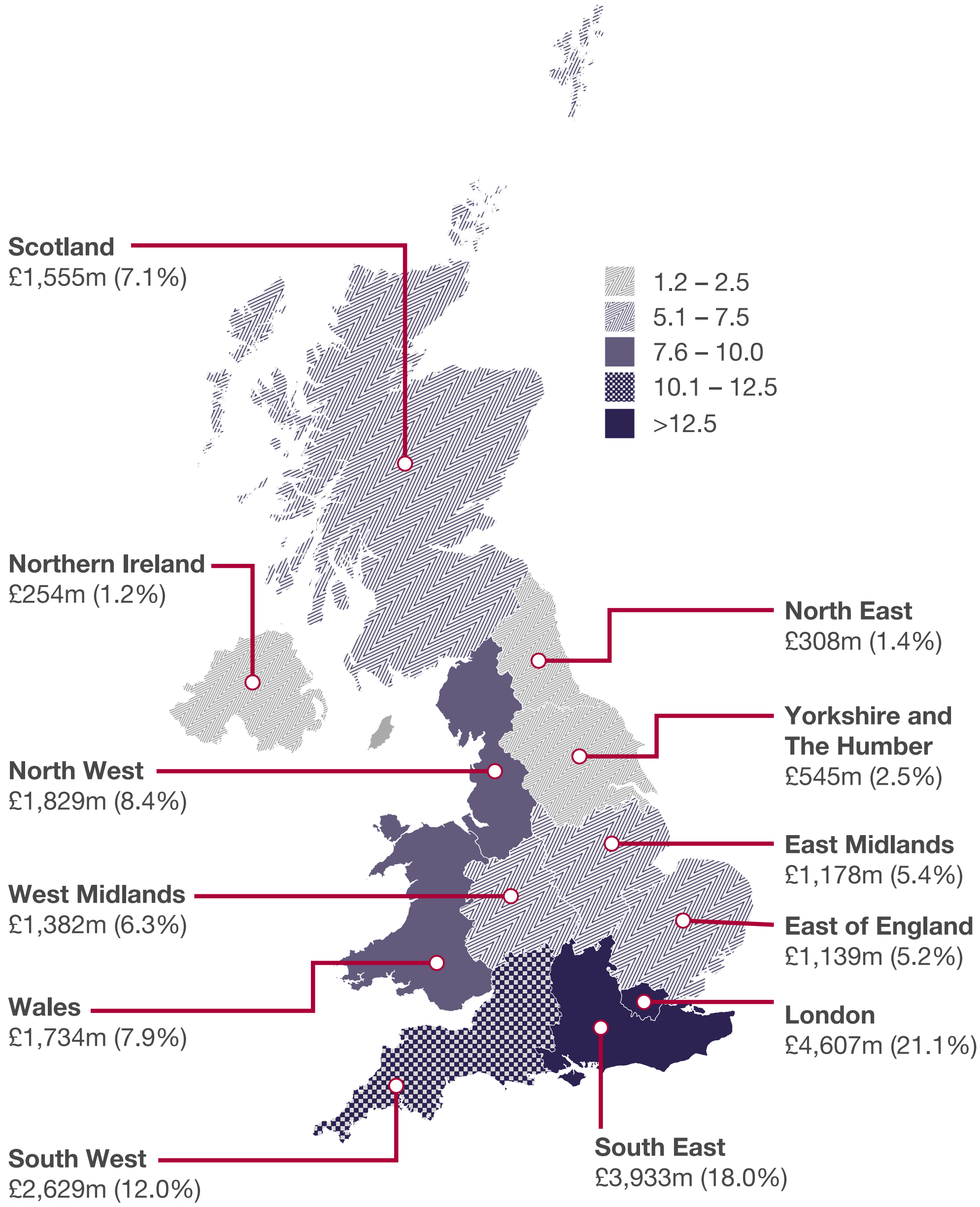
Source: ONS, trade in goods: country-by-commodity exports/imports. The commodities are categorised based on SITC codes using a mixture of level 2 and level 3 codes

The United Kingdom primarily exported mechanical power generators (intermediate), jewellery and cars to the GCC in 2019. Refined oil and mechanical power generators (intermediate) and gas were the main United Kingdom imports from the GCC in 2019.[14] GCC member states have been attempting to diversify their economies away from hydrocarbons for some time through investing in new sectors, such as tourism and green energy. For the moment, fossil fuels remain an important source of their national income.

Figure 7 shows that total regional trade flows between the United Kingdom and the GCC are largest for London and the South East, followed by the East of England and the West Midlands.

13 Trade in goods: country-by-commodity exports/imports. The commodities are categorised based on SITC codes using a mixture of level 2 and level 3 codes.
14 Trade in goods: country-by-commodity exports/imports. The commodities are categorised based on SITC codes using a mixture of level 2 and level 3 codes.

Figure 7 Total trade in goods (exports and imports) between the GCC and the regions and nations of the United Kingdom, in £m and as a % of total United Kingdom trade with GCC



Source: HMRC Regional Trade Statistics

5.2 Impact of FTAs on trade in goods

Evidence suggests that FTAs can lead to large, sustained increases in trade in goods between partner countries. A literature review on the impacts of FTAs found that they can increase total bilateral trade between partners by around 32%, although estimates from the literature vary widely.[15]

These studies indicate that more comprehensive agreements, i.e. those that reduce restrictiveness across a wider range of measures, tend to generate larger increases in trade.[16]

The impact on trade in goods is typically driven by reducing tariff and non-tariff measures affecting goods trade.

15 Head & Mayer (2013).
16 See for example: Egger et al. (2015).

5.3 Tariffs

Tariffs are customs duties on goods imported into a country. The simple average tariff on goods imported into the United Kingdom from the GCC is 5.8%, with the average tariff weighted by trade flows at 0.4%. The majority of oil and gas imports to the United Kingdom, which make up the majority of imports from the GCC, are imported tariff-free.[17] In comparison, the simple average tariff on United Kingdom exports to the GCC was 5.2%. The average tariff when weighted by trade flows in each product is 4.8%.[18]

Almost half (47%) of UK goods imported from the GCC face no tariffs. In comparison, products on 12% of tariff lines on United Kingdom exports to the GCC can enter tariff free.

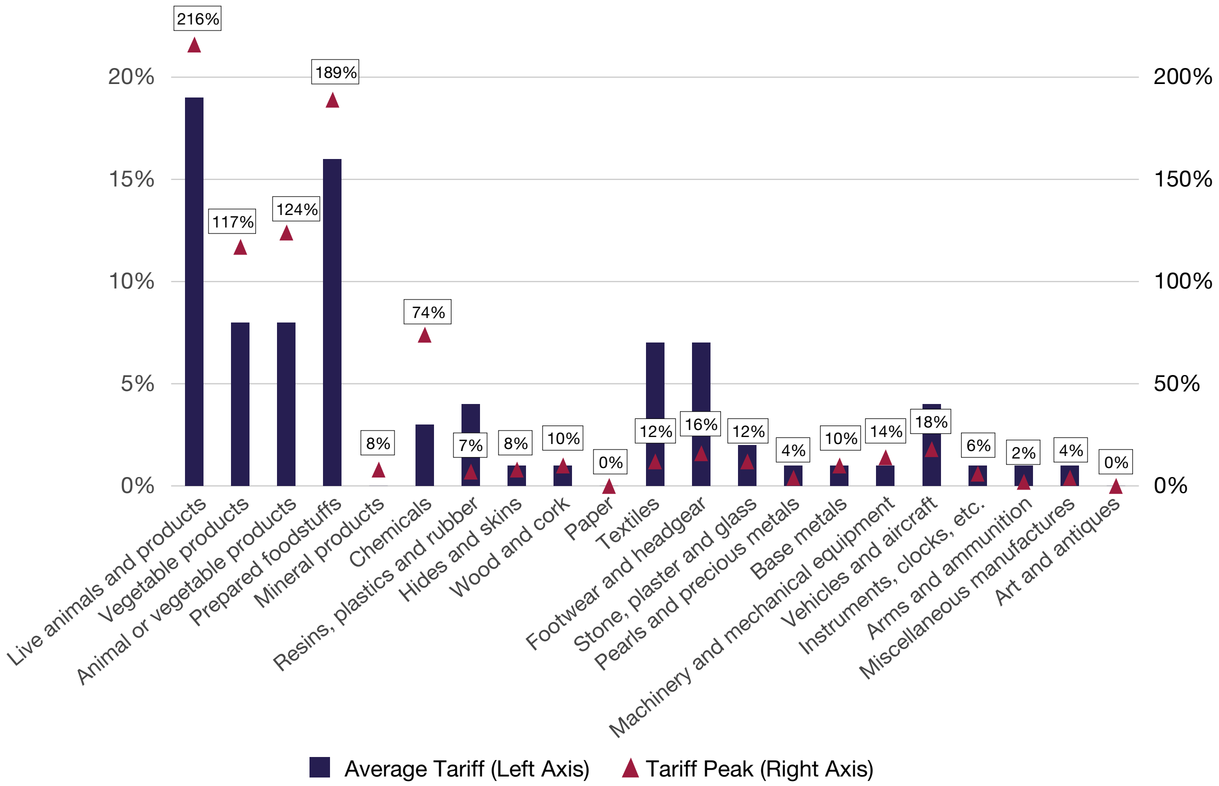
Table 3 Tariffs applied by the GCC on imports from the United Kingdom (ad-valorem equivalent)

	% of lines	£bn
MFN zero	12.1	2.5
MFN non-zero	86.9	8.0
MFN unavailable	0.9	0.0

Source: 2020 GCC tariff data from Mac Maps & WTO TAO, accessed July 2021. Imports data from Trade Maps & WTO TAO, accessed July 2021.

Figure 8 shows tariffs applied by the United Kingdom under the United Kingdom Global Tariff (UKGT). This shows higher average tariffs and higher peaks applying to food and agricultural goods (the sections to the left of Figure 8). The highest tariff peaks shown in Figure 8 are a category of bovine meat (216%) and a category of orange juice (189%).

Figure 8 Simple average tariff and tariff peaks by HS section applied by the United Kingdom[19]



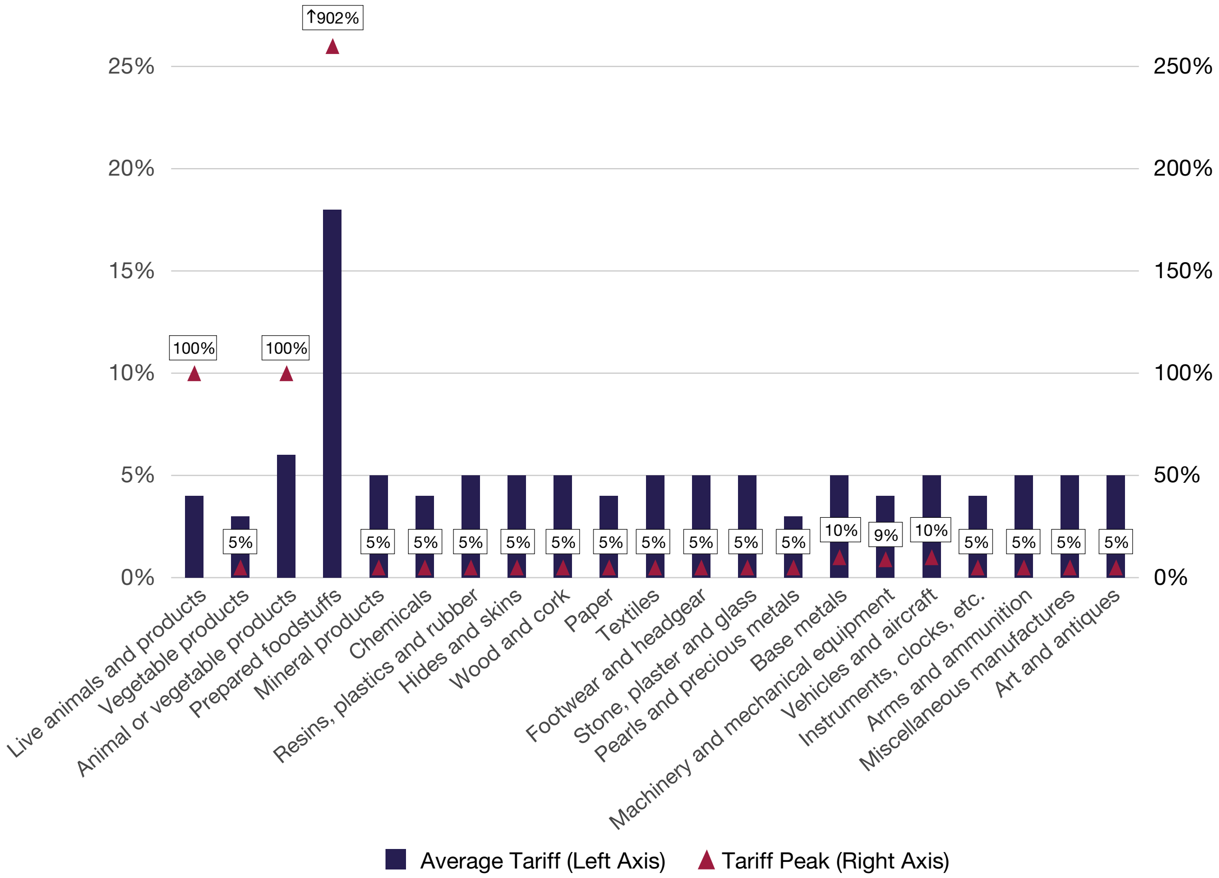
The GCC operates a customs union which creates a common external tariff with the rest of the world, with no duties levied on intra-GCC trade. Most external imports are tariffed at 5% when imported from countries with which the GCC does not have an FTA.

17 Tariff averages calculated using simple average of applied MFN tariffs by the United Kingdom. Weighted average tariffs calculated as (duties paid/total imports). Source: UKGT schedule for 2021, accessed August 2021, HMRC import data (2017-2019 average, accessed August 2021. Ad-valorem equivalents (AVEs) calculated for specific taxes. Specific taxes are taxes applied per unit volume/weight of good sold rather than as a proportion of overall value. AVEs convert these specific taxes (e.g. £5 per kilo) into the tariff rate that would be payable if items taxed according to its value. They may change in line with market prices per kilo.
18 Average tariffs calculated using simple average of applied MFN tariffs by GCC Countries taking latest available year. Weighted average tariffs calculated as (duties paid/total imports). Sources: a) Mac Maps & WTO TAO tariffs, taking latest available year, preferring MacMaps, accessed July 2021, b) Trade Maps, WTO TAO import data for GCC countries, taking an average of available years since 2017 up to 2019, preferring Trade Maps, accessed July 2021.
19 The Harmonized System (HS) is an international nomenclature for the classification of products. It allows countries to classify traded goods on a common basis for customs purposes. It is comprised of thousands of product descriptions, which can be grouped into 21 sections, or smaller groupings if need be. Bars represent simple average tariff within each section, triangles and values represent tariff peaks, i.e. the highest individual tariff on an 8-digit product line. Source: UK Global Tariff Schedule, 2021

There are country-specific exemptions. All countries exempt certain goods from tariffs, and some of the six GCC countries levy higher tariffs on various products which are domestically produced. The highest tariffs are levied on alcohol and tobacco, although certain member countries of the GCC prohibit or restrict the import of these products.

Figure 9 takes the average of the six member countries' tariffs on each product to account for this variation across countries. The graph then takes the average of the GCC tariffs alongside the highest single value within each of the 21 sections. The highest peak is on certain tobacco products at just over 900%.

Figure 9 Simple average tariff and tariff peak by HS section applied by the GCC[20]



5.4 Non-tariff measures affecting trade

A non-tariff measure is defined as being any policy measure other than customs tariffs that can potentially affect the quantity or price of international trade. Data from the WTO's Integrated Trade Intelligence Portal (I-TIP) shows that the greatest number of non-tariff measures applied by GCC members are in the sanitary and phytosanitary (SPS) and technical barriers to trade categories, by some margin. The former is a category which covers any standards which a country applies to ensure food safety, animal health or plant health standards. According to this data, GCC countries also apply a high number of technical barriers to trade, which include regulations, standards and procedures required to ensure that domestic legislative requirements are met.

The United Kingdom applies fewer non-tariff measures on GCC countries than apply in the opposite direction. Most of the United Kingdom's barriers are technical barriers to trade.

20 Source: GCC Tariffs from MacMaps and WTO TAO (2017 to 2020, with MacMaps and most recent year preferred).

Table 4 Numbers of non-tariff measures applied by the United Kingdom and GCC members on each other, by country

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC	United Kingdom
Sanitary and phytosanitary	221	69	114	122	327	147	955	4
Technical barriers to trade	589	564	430	586	1178	496	3823	56
Safeguards	3	4	3	2	3	3	18	1
State trading enterprises			2				2	

Source: WTO Integrated Trade Intelligence Portal. Non-bilateral NTMs either initiated or in force on 30 June 2021[21]

21 Within the data available, some NTM measures are listed as 'bilateral' and some listed as applying to 'all members'. The numbers on the table only represent those to 'all members'.

6. Trade in services

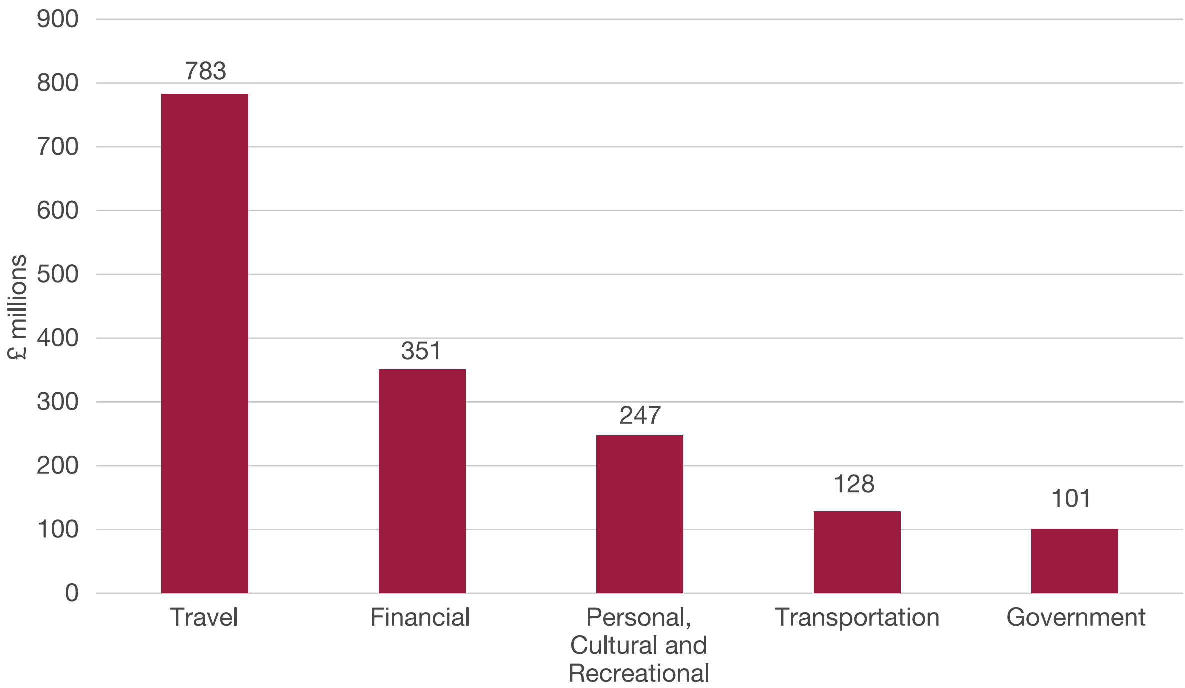
6.1 Overview of trade in services between the United Kingdom and the GCC

In 2019, the United Kingdom imported £5.6 billion worth of services from the GCC and exported £11.3 billion, leading to total services trade of £16.9 billion. Since 2010, United Kingdom imports of services from the GCC have increased by 83.5% while United Kingdom exports of services to the GCC have increased by 32.4%.[22]

Between the members of the bloc, the largest share of the exports went to the UAE (£4.5 billion) followed by Saudi Arabia (£2.6 billion), with the remaining £4.3 billion split between the other four members.[23] In terms of imports, £4.1 billion of the £5.6 billion came from the UAE and £0.7 billion from Saudi Arabia. The other four economies were responsible for the remaining £0.8 billion.

Saudi Arabia is the only member of the bloc for which United Kingdom trade in services data provides a breakdown.

Figure 10 Top 5 United Kingdom services exports to Saudi Arabia, 2019



Source: Total trade: ONS, United Kingdom trade in services: service type by partner country, non-seasonally adjusted (2021q1). Services are categorised on EBOPS 2010 basis. Trade in services by service type for Bahrain, Kuwait, Oman, Qatar and United Arab Emirates are not included in this analysis. Please note that data reported may be incomplete for these individual trading partners.

22 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021.
23 Figures appear not to sum due to rounding.

Figure 11 Top 5 United Kingdom services imports from Saudi Arabia, 2019[24]

Source: Total trade: ONS, United Kingdom trade in services: service type by partner country, non-seasonally adjusted (2021q1). Services are categorised on EBOPS 2010 basis. Trade in services by service type for Bahrain, Kuwait, Oman, Qatar and United Arab Emirates are not included in this analysis. Please note that data reported may be incomplete for these individual trading partners.

In 2019, travel was the largest United Kingdom services trade flow in both directions with Saudi Arabia, with around £0.8 billion exported and £0.3 billion imported. Financial services was the second-largest, and personal, cultural, and recreational services the third-largest services export sector in the same period. Other business services and transportation were respectively the second- and third-largest United Kingdom services imports from Saudi Arabia.[25]

The ONS United Kingdom trade in services (UKTiS) publication does not include a breakdown for Bahrain, Kuwait, Oman, Qatar, and United Arab Emirates, however ONS international trade in services (ITIS) does include data for these countries. ONS ITIS does however exclude the activities of travel, transport and banking industries.

According to ITIS, in 2019 engineering and telecommunication services were the two top traded services in each direction between the United Kingdom and the remaining GCC countries.[26] Other top traded services were management consulting, legal services and recruitment services.

In 2020, imports of services from the GCC fell by around half from £5.6 billion in 2019 to £2.8 billion the following year. This was driven by falls from all six economies, with the largest of these coming from the largest source of imports, i.e. the United Arab Emirates. Exports to the GCC fell by 5% from £11.3 billion in 2019 to £10.7 billion in 2020.[27]

24 Total trade: ONS, United Kingdom trade in services: service type by partner country, non-seasonally adjusted (2021q1). Services are categorised on EBOPS 2010 basis.
25 Total trade: ONS, United Kingdom trade in services: service type by partner country, non-seasonally adjusted (2021q1). Services are categorised on EBOPS 2010 basis. Trade in services by service type for Bahrain, Kuwait, Oman, Qatar and United Arab Emirates are not included in this analysis. Please note that data reported may be incomplete for these individual trading partners.
26 ONS, International trade in services, by service product and country (2019). The GCC countries covered by the ONS international trade in services are Bahrain, Kuwait, Oman, Qatar and United Arab Emirates. Saudi Arabia is covered by the ONS trade in services source.
27 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: January to March 2021.

6.2 Impact of FTAs on trade in services

Economic evidence suggests that deep trade agreements increase services trade via the inclusion of provisions on specific services sectors which tackle behind-the-border barriers, such as regulatory alignment and national treatment rights.[28]

FTAs can also boost trade in services by improving market access for foreign services providers through expanding upon existing commitments which ensure a level playing field between domestic and foreign service providers.

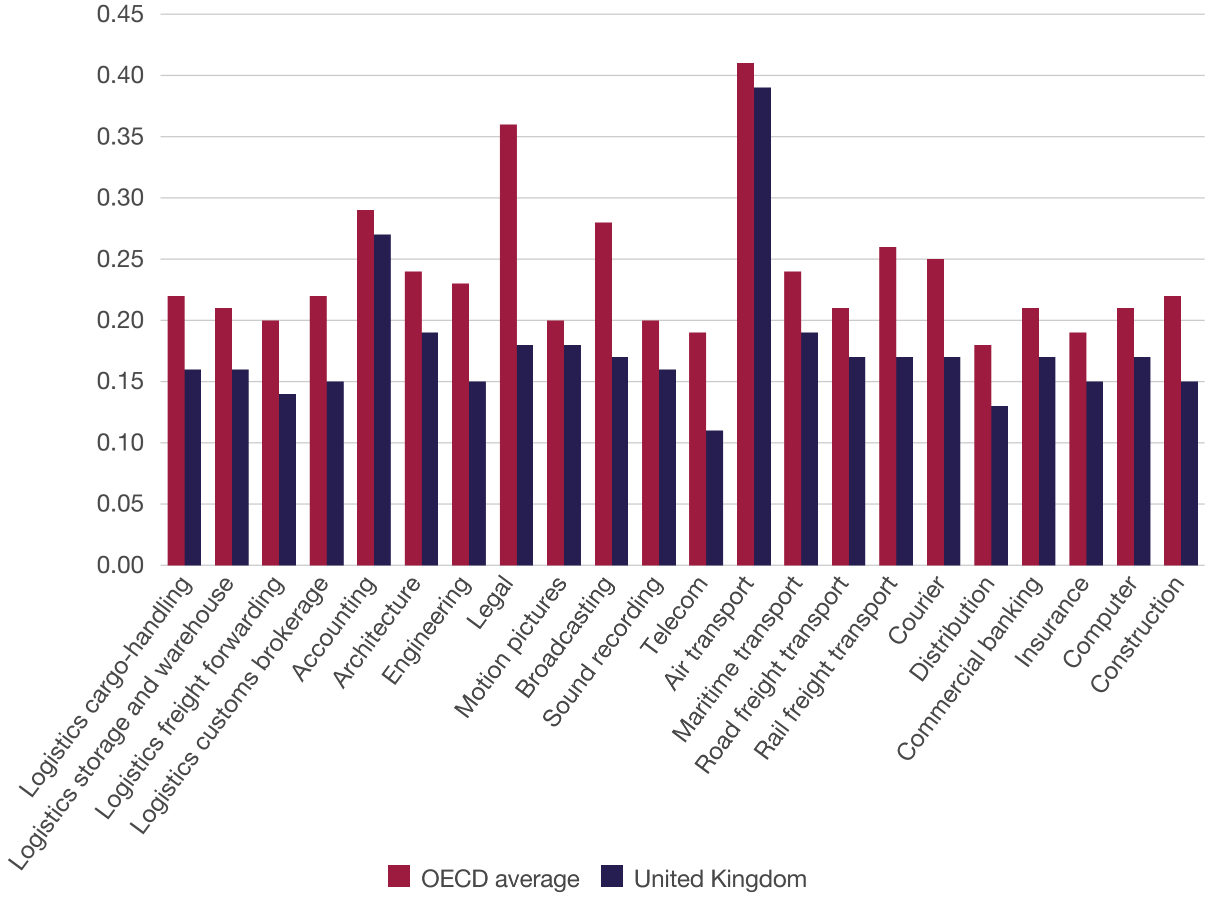
In addition, FTAs increase trade in services by including provisions which 'lock-in' levels of market access so as to prevent further restrictions to foreign service suppliers being imposed in future. The evidence suggests that this generates a more stable and predictable policy environment which encourages foreign service suppliers to export and invest in the partner's market.[29]

6.3 International evidence relating to barriers to digital and services trade

The OECD Services Trade Restrictiveness Index (STRI) database records restrictions to international trade in services. The STRI does not cover any GCC economies.

The OECD's Services Trade Restrictiveness Index (STRI) provides information on regulations that affect trade in services across 22 sectors. 0 represents a sector which is completely open to foreign service suppliers and 1 represents a sector which is completely closed.[30] Figure 12 below shows that the United Kingdom has a lower STRI score than the OECD average across all 22 sectors.

Figure 12 United Kingdom and OECD average Services Trade Restrictiveness Index (STRI)



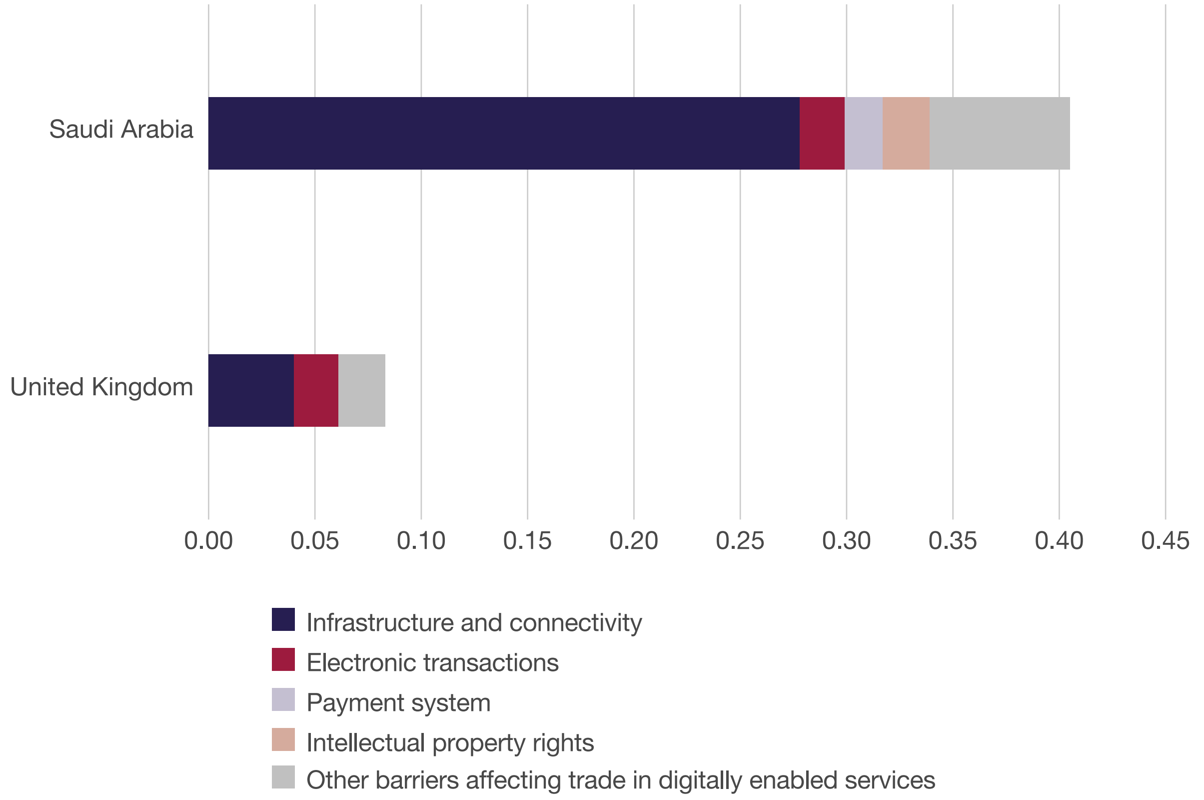
Source: OECD STRI, 2020 data

28 See for example: Guillin (2013); Lamprecht and Miroudot (2018).
29 See Ciuriak, Dadkhah and Lysenko (2020).
30 OECD STRI (2021).

The Digital STRI is a similar but distinct index which covers digital restrictions. As with the STRI, higher values represent a more restrictive trading environment. The one GCC nation that is covered by the Digital STRI is Saudi Arabia, whose score is 0.41 compared to the UK's 0.08 and thus has a more restrictive trading environment in this respect.

This is true across the five components of the index, apart from electronic transactions, in which aspect the two economies have the same level of restrictiveness. Much of the difference between the United Kingdom and Saudi Arabia is accounted for by infrastructure and connectivity, such as cross-border data flows.

Figure 13 Digital services trade restrictiveness index



Source: OECD Digital STRI, 2020 data

7. Foreign direct investment (FDI)

7.1 Overview of United Kingdom – GCC FDI relationship

The value of the total stock of inward FDI in the United Kingdom from the GCC was at least £6.8 billion in 2019. Comparison with the previous year is not available due to change in data disclosure for Qatar and Saudi Arabia. The value of the United Kingdom's total stock of outward direct investment in the GCC was at least £13.1 billion in 2019. Comparison with the previous year is not available due to change in data disclosure for Bahrain, Kuwait and Qatar.[31]

FDI is any investment that results in a greater than 10% stake in a company. However, investment covers more than just FDI. FDI makes up about 16% of United Kingdom investment assets and 15% of United Kingdom investment liabilities globally.[32]

7.2 Impact of FTAs on FDI

FTAs increasingly include provisions relating to investment.

The evidence shows that FTAs that contain investment provisions can contribute to a more competitive business environment, which in turn improves productivity, increases innovation and generates economic spillovers to the rest of the economy.[33]

FTAs can also seek to increase certainty for investors by providing them with protections against arbitrary or manifestly unfair treatment. Addressing risk and uncertainty is particularly important for companies that may incur significant "sunk" costs when they invest.[34]

Despite the benefits, global investment can be subject to restrictive measures. FTAs often aim to reduce or eliminate such restrictions on investment.

7.3 Restrictions on FDI

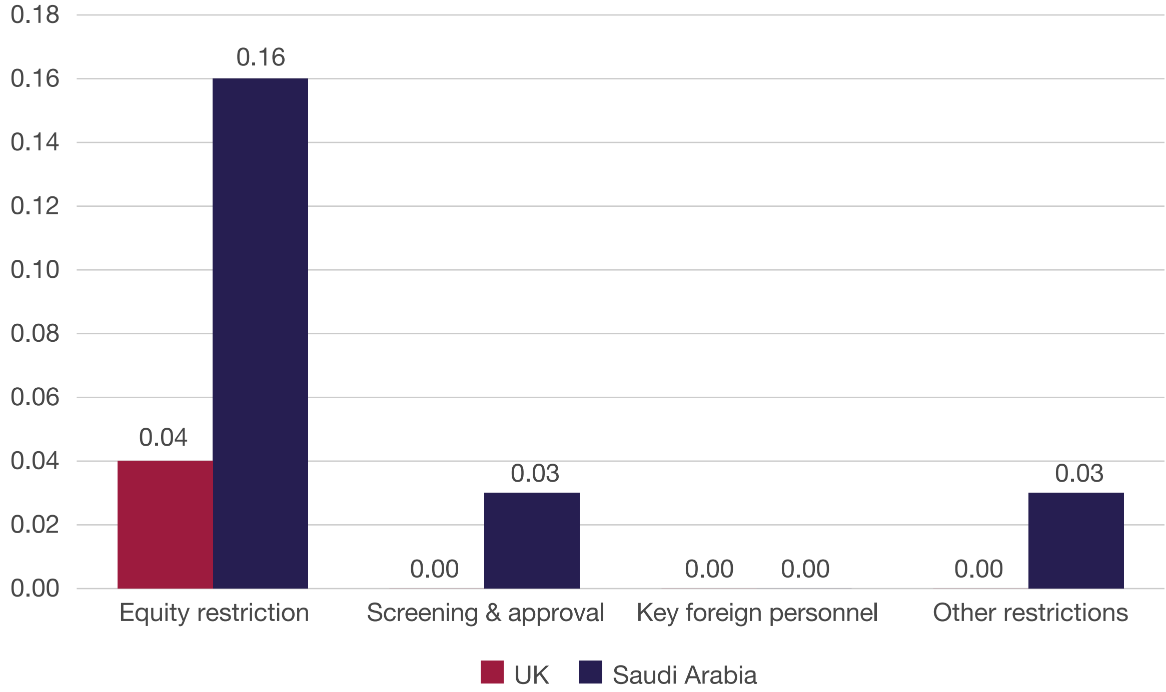
The OECD's FDI Regulatory Restrictiveness Index (FDI index) measures restrictions on foreign direct investment. Overall restrictiveness is evaluated on a 0 (open) to 1 (closed) scale. Of the GCC countries, data is only available for Saudi Arabia. Saudi Arabia with an overall score of 0.22, is more restrictive to FDI than the United Kingdom (0.04 score).

The FDI index estimates the restrictiveness of a country's rules by looking at four types of restrictions on FDI: 1) foreign equity limitations; 2) discriminatory screening or approval mechanisms; 3) restrictions on the employment of foreigners as key personnel and 4) other operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises.

As Figure 14 illustrates, Saudi Arabia is more restrictive to foreign direct investment across all of the four types of restrictions covered in the FDI index. The United Kingdom is categorised as fully open to FDI (0 score[35]) in all categories apart from equity restrictions, where the United Kingdom scores 0.04. Saudi Arabia is seen as relatively open or fully open in three categories: screening & approval (0.03 score); key foreign personnel (0.00); and other restrictions (0.03).[36] Nevertheless it has a score of 0.16 on the equity restrictions category.

31 Data for both inward and outward FDI between the United Kingdom and GCC are not available in the main ONS release (Foreign Direct Investment involving United Kingdom companies). Therefore, an ONS FDI ad-hoc data release is used to provide the latest FDI data for GCC where it is unavailable in the main ONS release.
32 United Kingdom Pink Book, Chapter 8 - 8.1
https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/8internationalinvestmentpositionthepinkbook2016.
33 See for example: technology transfers from investment in R&D-intensive countries (Van Pottelsberghe and Luchtenberg, 2001), positive impact on economic growth (Szkorupova, 2014), increase on employment, productivity and competitiveness (HMG, 2014), R&D (Lin and Yeh, 2005).
34 A sunk cost is a cost that once a business pays can no longer be recovered by any means.
35 United Kingdom score in the 'Other restrictions' category is 0.003.
36 Saudi Araba score in key foreign personnel is 0.004
Source: https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#

Figure 14 Saudi Arabia and United Kingdom investment restrictiveness, by type of restrictions

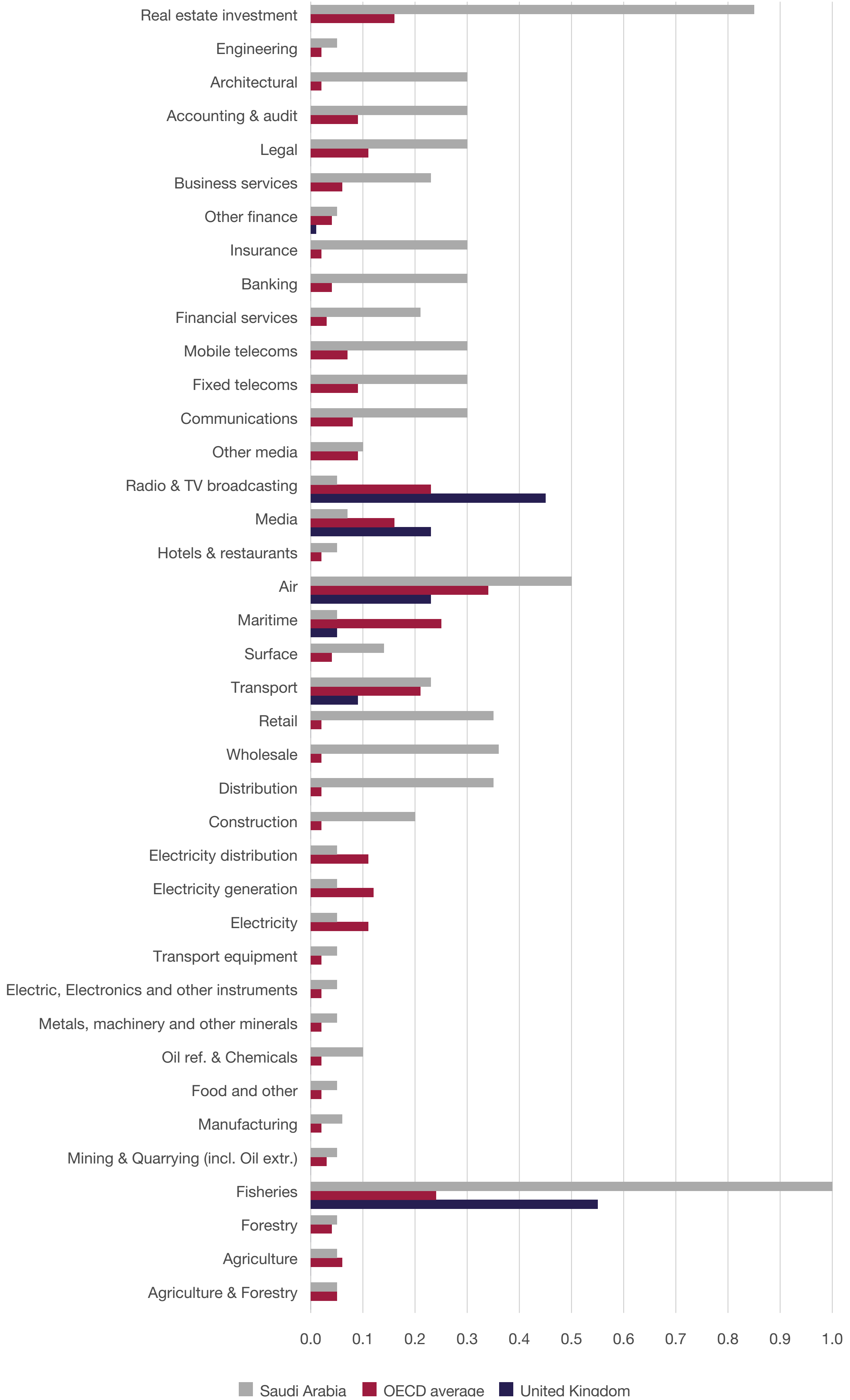


Source: OECD FDI Regulatory Restrictiveness Index, 2019 release (latest available as of August 2021). Data unavailable for the other GCC countries.

Although the data does not indicate the level of restrictiveness in other GCC member states, it suggests that Saudi Arabia is more restrictive than the United Kingdom and the average of all OECD countries with regards to investment in many of the sectors covered by the index.

The United Kingdom is less restrictive than the average of all OECD countries in all sectors captured by the index, except for fisheries, media, and radio & TV broadcasting. Saudi Arabia is more restrictive than the United Kingdom in all sectors except for maritime, media and radio & TV broadcasting. Fisheries and real estate investment are by far the most restrictive sectors in Saudi Arabia. FDI in fisheries is fully restricted as it has score of 1. Similarly, fisheries are also the United Kingdom's most restrictive sector to FDI.

Figure 15 Saudi Arabia and United Kingdom investment restrictiveness, by sector



Source: OECD FDI Regulatory Restrictiveness Index, 2019 release (latest available as of August 2021). Data unavailable for the other GCC countries.

8. Workers and the environment

8.1 Potential impacts of an FTA for workers

Just as FTAs present opportunities and challenges for businesses, they also generate opportunities and challenges for the workers of those businesses. They can also affect the dynamism of the labour market more widely.

Workers can benefit from FTAs through a variety of channels:

- Where FTAs boost productivity within firms and sectors, and across the economy more widely, this is likely to generate increases in the employment opportunities and real wages of workers;
- Where FTAs lower consumer prices, this is likely to benefit workers in the form of higher real wages, meaning that they can purchase more even at the same wage.

Trade liberalisation can also affect the structure of the economy over time. Workers may move between jobs and sectors, as changes in the pattern of trade leads to some sectors expanding and some sectors declining. The UK has one of the most dynamic and flexible labour markets in the world, which helps to facilitate adjustment and reduce transitional costs for workers.

Modern, dynamic economies are continually reshaping in line with global developments which drive a continual process of worker and job transition in the labour market. It is possible that lower barriers and greater import competition resulting from an FTA could accelerate this ongoing process.

8.2 Potential wider social impacts of an FTA

As described above, FTAs can affect employment prospects, wages and wider working conditions in specific sectors or for specific professions or skill levels. The characteristics of workers can sometimes differ across sectors, professions and skill levels. It is therefore possible that that these changes could affect various social groups differently and influence the distribution of income. The regional location of workers in different sectors and professions may also vary. This means that different areas or regions within a country may be affected differently by an FTA.

The impacts on different groups and regions will depend upon the details of each agreement. The Government will assess the potential impacts on different groups in more detailed studies before and after negotiations take place with new partner countries.

8.3 Potential impacts of an FTA on the environment

The economic changes resulting from FTAs have the potential to affect some aspects of the environment including, for example, greenhouse gas emissions, air pollution, water quality and land use.

The indirect impacts on the environment may occur as enhanced trade induces the economy to grow (a ‘scale’ effect affecting pollution for example) and as economic activity shifts between sectors with different levels of emissions (a ‘composition’ effect). FTAs can also positively impact the environment as increased trade leads to the transfer of new, potentially more environmentally friendly, technologies and production methods (a ‘technique’ effect).

The impact of FTAs on the environment will depend upon the design of an agreement and the economies of the countries involved. The UK Government is committed to maintaining high standards of environmental protection in trade agreements. The Government will assess the potential environmental impacts in more detailed studies before and after negotiations take place with new partner countries.

9. Drafting a consultation response

As with all other new FTAs, DIT is committed to negotiating an agreement which delivers benefits to stakeholders across the whole of the UK. The responses to this consultation will inform our policy making and negotiating positions for engaging with the GCC, and so it is important to us that you respond and set out your priorities for the shape of a future FTA.

Prior to submitting your response, we encourage you to talk to a range of experts in your business/organisation to understand the fullest picture of current trading priorities. A PDF version of the full set of questions is available before you complete the online questionnaire.

When responding, we would advise you to think about what you would want to see in an FTA that is designed for the future. Tell us which areas you think provide the most opportunities, and where we can secure provisions to help you overcome any barriers you are currently experiencing whilst trading and investing with the GCC. Note where these opportunities or concerns relate to specific member states to support our negotiations with the GCC.

When responding to the consultation you may find some questions are more applicable to you/your business/organisation than others. Aim to answer these questions accurately, and in as much detail as possible. This may include suggestions on what you would like to see included in certain chapters, or examples of where other agreements have strong provisions that we could look to replicate. Where it is relevant, we welcome the inclusion of figures or data to illustrate the examples you give in your response. Remember that more detailed answers will help us to best understand your needs.

10. Conclusions

FTAs have the potential to deliver substantial economic benefits to signatories, including increased trade and investment. This is driven by reducing trade costs, reducing uncertainty in the rules of trade, creating a level playing field for businesses across partner countries and increasing productivity.

The GCC is an important trade and investment partner for the United Kingdom and the deepening of our bilateral trade and investment relationship through an FTA could generate benefits to the United Kingdom and GCC economies.

This consultation will inform an evidence-based approach to decision-making and inform future assessments of the impacts of an FTA with the GCC. We are interested in better understanding your views on areas such as key opportunities in an FTA as well as current challenges in trading and investing in the GCC.

The United Kingdom Government has committed to publishing scoping assessments before entering into negotiations with partner countries for new FTAs, and to publishing an impact assessment prior to implementation.

11. Glossary

A) Glossary of trade terminology

Anti-dumping duty	Under WTO rules, countries can counteract the practice of 'dumping' by imposing additional duties on imported goods found to be 'dumped' and causing injury to domestic producers.
Bilateral agreement	An agreement negotiated between two sides.
Countervailing Measure (CVM)	Additional duties that WTO rules authorise countries to impose on imported goods to offset state subsidies received in the country of export after having conducted a domestic investigation and establishing that the subsidised imports are causing injury to the domestic industry.
Customs authority	A government body that administers laws and regulations relating to goods crossing a border, particularly import, export, movement and storage of goods. This can be by: 1) Collecting duties and taxes. 2) Controlling import & export of restricted goods, e.g. animals, and weapons. In the United Kingdom, Customs functions are undertaken by HM Revenue & Customs and Border Force.
Customs duty	A charge imposed by a country on the import or export of goods.
Customs procedures	Processes and procedures applied by customs authorities to control the export, import and transit of goods. Their improvement and simplification may lower costs and facilitate trade.
Dumping	Dumping occurs when goods are exported at a price less than their 'normal value', generally meaning they are exported for less than they are sold in the domestic market or are sold in export markets below the cost of production. WTO rules authorise action to counteract the practice of dumping when dumped imports are shown to cause injury to domestic producers.
Foreign Direct Investment (FDI)	Investment by an entity in a foreign operation, or establishment of a new operation in another country.
Free Trade Agreement (FTA)	A treaty among two or more countries to form a free trade area. This means having zero tariffs (or reduced tariffs) and reducing other regulatory restrictions on trade in substantially all goods and/or services.
Gross Domestic Product (GDP)	Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

Intellectual Property (IP)	Creations of the mind, such as inventions, literary and artistic works, designs, and symbols, names and images used in commerce. These creations are protected by law by a variety of intellectual property rights such as patents, copyright, trade marks, design rights and geographical indications.
Market access	Conditions set by governments to control which goods or services can or cannot enter their domestic market.
Most Favoured Nation (MFN)	A non-discrimination principle enshrined in many WTO rules that prohibits a WTO member from treating some WTO members more favourably than others. The MFN obligation requires each WTO member, in its trade with all other WTO members, to give the best ("most-favoured") treatment that it accords in trade with any other WTO member. If, for example, a country lowers tariffs on goods from the GCC , it must also do so on similar goods from Argentina. Exceptions to the MFN principle exist under WTO law, such as in the form of Customs Unions, Free Trade Agreements, Generalized System of Preferences and certain trade remedies. FTAs often contain their own MFN commitments between the treaty partners.
National Treatment	A non-discrimination principle enshrined in many WTO rules that prohibits a WTO member from treating imported goods or foreign services and services suppliers less favourably than domestic goods or services and services suppliers in its domestic market. The national treatment obligation helps ensure imported goods and services are not unfairly disadvantaged compared with their domestic counterparts. Such obligations may also be included in FTAs between the country parties.
Non-Tariff Barriers (NTBs) or Non-Tariff Measures (NTMs)	Any policy that restricts exports or imports other than a simple tariff.
Quantitative Restrictions (QRs)	Specific limits on the quantity or value of goods that can be imported (or exported) during a specific time period.
Regional Trade Agreement (RTA)	In the WTO, these refer to reciprocal trade agreements between two or more partners to liberalise tariffs and services. They include free trade areas and customs unions and economic integration agreements on services.
Rules of Origin (RoO)	Rules 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.
Safeguard Measures	Actions taken to protect a specific industry from an unexpected build-up of imports. They are generally governed by Article 19 of GATT and the Agreement on Safeguards.
Sanitary and Phytosanitary Measures (SPS)	Measures to ensure that food is safe for consumers, and to prevent the spread of pests or diseases among animals and plants.

Services Trade Restrictiveness Index (STRI)	STRIs are composite indices taking values between zero and one, zero representing an open market and one a market completely closed to foreign services providers.
Small- and Medium-sized Enterprises	In the United Kingdom this covers businesses with fewer than 250 employees.
Supply chain	The sequence of processes involved in the production and distribution of a good.
Tariff Rate Quota (TRQ)	The application of a higher tariff or tax on certain goods once an agreed quota (amount) of imports is reached.
Tariffs	Refers to customs duties on imports of goods, levied either as a percentage of value or on the basis of a formula (e.g. 10 per cent or £7 per 100 kg).
Technical Barriers to Trade (TBT)	These are regulations, standards, testing and certification procedures applied to imports and exports which could obstruct trade. The WTO's TBT Agreement aims to ensure that these do not create unnecessary obstacles to trade.
Trade liberalisation	The removal or reduction of restrictions or barriers to trade.
Trade remedies	Measures which allow WTO members to operate a safety net and protect domestic industry from injury caused by unfair trading practices or from injury caused by surges in imports. They are taken in response to subsidies, dumping and import surges. These usually take the form of additional duties on those imports.
WTO	The World Trade Organization.

B) Glossary of FTA chapter areas

Tariffs	Refers to customs duties on imports of goods, levied either as a percentage of value or on the basis of a formula (e.g. 10 per cent or £7 per 100 kg). Lowering import taxes (including tariff quota limits) so consumers and businesses can access goods and materials at a lower cost.
Rules of Origin (RoO)	Rules 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 negotiated in a trade agreement, and can be an important factor in determining levels of real access to a trading partner's market.
Customs Procedures	Processes and procedures applied by customs authorities to control the export, import and transit of goods. Their improvement and simplification may lower costs and facilitate trade. Improving and simplifying the procedures and processes which apply at the border to lower costs and increase the reliability of goods trade.
Product Standards, Regulation and Certification	Ensuring that approaches to regulation on products in each other's markets are as consistent as possible, don't unfairly favour one country's businesses over the other and that processes to comply with rules are as simple as possible.
Goods Regulatory Practices and Good Governance	Reduce regulatory obstacles, facilitate market access for United Kingdom businesses and investors, and improve trade flows by ensuring a transparent, predictable, and stable regulatory framework to give confidence and stability to United Kingdom exporting businesses and investors.
Sanitary and Phytosanitary Measures (SPS)	Measures to ensure that food is safe for consumers, and to prevent the spread of pests or diseases among animals and plants.
Services	Making it easier to provide services in each other's services markets such as in engineering, legal, consultancy and design, including allowing people to work temporarily in other countries to provide these services.
Digital	Enabling digital goods, digital services and digitally-enabled transactions of goods and services, whether digitally or physically delivered (including through telecommunications services), involving consumers, business or government, all underpinned by movement of data across borders.
Innovation	Provisions to ensure trade agreements are future-proofed and support innovative businesses to trade.

Competition Policy, Subsidies and State-Owned Enterprises (SOEs)	Ensuring businesses are treated fairly in each other's markets, including government financial support, the role of state owned businesses and the application of competition law.
Government Procurement	Improving the access businesses have to government contracts in each other's markets.
Intellectual Property (IP)	Creations of the mind, such as inventions, literary and artistic works, designs, and symbols, names and images used in commerce. These creations are protected by law by a variety of intellectual property rights such as patents, copyright, trade marks, design rights and geographical indications. Ensuring that protections for innovation and ideas are in place, for example seeking to ensure patents and copyright measures are respected.
Investment	Investment provisions make it easier for individuals or companies to invest into other countries, including to run businesses. Policy can also provide for protection of these investments once made.
Labour Standards	Policy to maintain and promote high labour protections in both countries.
Gender Equality/Women's Economic Empowerment	Policies and provisions aimed at supporting women's role in the economy with a view to realising the wider social and economic gains that can be achieved by improving gender equality.
Environment and Climate Change	Policy to maintain and promote high environmental/climate protections in both countries.
Trade remedies	Measures which allow WTO members to operate a safety net and protect domestic industry from injury caused by unfair trading practices or from injury caused by surges in imports. They are taken in response to subsidies, dumping and import surges. These usually take the form of additional duties on those imports. Provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports.
Dispute Settlement	Provides an effective mechanism for enforcing commitments, and for resolving any state-to-state disputes that may arise in the future.
Small- and Medium-sized Enterprises (SMEs)	In the United Kingdom this covers businesses with fewer than 250 employees. Ensuring that policy is designed in a way which supports small and medium sized businesses.
Recognition of academic and/or professional qualifications	The recognition of academic and/or professional qualifications allows people with professional qualifications obtained in one country to have these qualifications recognised in another.
Anti-corruption	Secure provisions that address the trade-distorting effects of corruption on global trade and fair competition to help maintain the United Kingdom's high standards in this area.

Department for
International Trade

Department for International Trade
The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

We are an international economic department, responsible for:

- supporting and encouraging UK businesses to drive sustainable international growth
- ensuring the UK remains a leading destination for international investment and maintains its number one position for international investment stock in Europe
- opening markets, building a trade framework with new and existing partners which is free and fair
- using trade and investment to underpin the government's agenda for a Global Britain and its ambitions for prosperity, stability and security worldwide.

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