Department for
International Trade

UK-Gulf Cooperation Council

Free Trade Agreement
The UK's Strategic Approach

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Chapter 1:
UK-GCC FTA: Strategic Case

Introduction

The Cooperation Council for the Arab States of the Gulf (GCC) is an economic and political union of 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 (UAE).

A Free Trade Agreement (FTA) with the GCC is an opportunity to boost trade with an economically and strategically important group of countries, support jobs and advance our global interests. It supports the government's strategy of continuing to develop the United Kingdom (UK)'s status as an independent trading nation which seeks trade and investment opportunities, champions free trade, and supports the levelling up agenda in all regions of the UK.

GCC member states are important partners for the UK, and the bloc as a whole is equivalent to the UK's fourth largest non-EU export market behind the US, China and Switzerland. The GCC is made up of dynamic, high-income economies that are home to 54 million people and have a collective economy of $16 trillion. Its member states are important partners for the UK and our bilateral trading relationship is already significant, amounting to £44.6 billion in 2019 before falling to £32.4 billion in 2020 (due in large part to the Coronavirus (COVID-19) pandemic).[1] UK exports to the GCC were worth £23.1 billion in 2020, representing 71% of the UK's total trade with the GCC.

Securing an FTA that enhances our trade relationship will give the UK access to a market which promises both short-term and long-term benefits. An ambitious trade deal could boost UK annual workers' wages by around £0.6 billion to £1.1 billion every year in the long-run. It could also increase UK GDP by around £1.6 billion to £3.1 billion and boost trade by around £8.6 billion to £15.8 billion in 2035.

The government has been clear that an FTA with the GCC must work for the UK and benefit UK consumers, producers and businesses. We are equally clear that when we are negotiating trade agreements, we will protect the National Health Service (NHS). The government remains committed to upholding our high environmental, labour, food safety and animal welfare standards in our trade agreement with the GCC. An FTA will not impact on export controls in relation to arms exports.

The government also takes seriously its international obligations and commitments, including on human rights. The UK encourages all states to uphold international human rights obligations, and will continue to speak frankly about these issues with our GCC partners through Ministerial and diplomatic channels. An FTA will not impact on export controls in relation to arms exports.

Improving and boosting our trade with the GCC brings both economic and strategic opportunities for the UK, particularly as we explore the industries of the future such as technology, artificial intelligence (AI) and renewable energy. Our objectives for the FTA reinforce this.

An FTA with an important partner

The UK and GCC member states share a longstanding relationship that is as broad as it is deep. It is a relationship that over the years has evolved and strengthened into the modern partnerships the UK has with the 6 member states today. These relationships encompass extensive political, commercial, financial, security, and socio-cultural links, including trade and investment. GCC member states and the UK work closely through a range of government-to-government (G2G) dialogues and multilateral fora to progress mutually beneficial objectives.

The government has made a strategic commitment to long-term investment in UK-GCC partnerships, to build enduring partnerships that will make a difference to the UK, for example through the UK-Qatar Strategic Dialogue, the UK-Saudi Arabia Strategic Partnership Council, the UK-UAE Partnership for the Future, UK-Bahrain Joint Working Group, UK-Oman Joint Working Group and UK-Kuwait Joint Steering Group. These dialogues form the basis for deeper cooperation on security, development, trade and investment between the UK and GCC member states.

In June 2020, DIT launched the 'United Kingdom-Gulf Cooperation Council Joint Trade and Investment Review' (JTIR) working in collaboration with the GCC Secretariat. The review, completed in June 2021, covered analysis of the existing UK-GCC trade and investment relationship and enabled both sides to identify future opportunities to liberalise trade and enhance G2G cooperation in priority sectors such as food and drink, services, and renewable energy. This review provides an important stepping stone towards an FTA and will inform the UK's approach to negotiations.

1 ONS (2022), UK Total Trade, all-countries, non-seasonally adjusted.

The UK and GCC enjoy strong cultural links, including an excellent travel and tourism relationship. The UK remains one of the main travel destinations for GCC nationals, with the GCC also becoming a popular destination for UK tourists. The UK also remains a key destination for GCC nationals studying overseas for secondary and higher education.

Supporting economic diversification in the GCC region

All GCC member states have ambitious Vision Plans, which highlight areas for future economic growth and development.[2] Many of these areas overlap closely with sectors where the UK has competitive advantage and is world leading, including technology, cyber, life sciences, creative industries, education, AI, financial services and renewable energy. An ambitious FTA that breaks down barriers and promotes innovation through trade in these and other sectors will strengthen the position of UK businesses in a region that holds UK expertise in high regard. This will put the UK in a good position to aid the region's transition to more sustainable economies, moving away from a reliance on hydrocarbons and towards becoming more knowledge-based.

To deliver their Vision Plans, all GCC member states are driving their own significant economic reform agendas to make themselves more attractive to foreign investment. They are seeking to further integrate into world markets, pursue more cooperation in the development of technologies, and enhance the exchange of scientific knowledge. This moment of economic transition across the GCC offers huge potential and opportunity for UK-GCC collaboration through trade and investment, and the broadening of UK business across the GCC region. Now is an opportune moment to secure an FTA with these countries.

Supporting the UK's wider geopolitical objectives

An FTA with the GCC supports the prosperity pillar of HMG's Regional Strategy as part of the 2021 Integrated Review (IR). This is a combined review of foreign policy, defence, security and national development, setting out a strategic framework for achieving the UK's national security and international policy objectives until 2025. Improving trade and investment with the GCC will advance our commercial linkages with strategic partners and support the diversification of UK supply chains, furthering the UK's IR objectives on economic resilience.

The GCC region also provides an important gateway to the Indo-Pacific region, an area representing over 40% of global GDP and containing some of the world's fastest growing economies. As these economies expand, it is key that the UK has access to their markets. An agreement with the GCC would strengthen the UK's position in the Indo-Pacific and complement the UK's other commitments in this region, such as trade agreements with Australia and New Zealand and ongoing negotiations with India and the 11 member countries of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

New opportunities for businesses, consumers, and workers across the UK

Key benefits of an FTA with the GCC include:

Reduced barriers to trade in goods

A trade agreement with the GCC could make trade easier and cheaper for UK exporters, whilst improving choice and value for UK consumers. In 2019, the UK exported £15.1 billion of goods to the GCC, before falling to £10.9 billion in 2020 due in large part to the Coronavirus (COVID-19) pandemic.[3] The simple average tariff applied to UK exports by the GCC is estimated to be around 5.5%.[4] Removal of GCC tariffs on imports in a potential FTA could result in savings for UK companies and increase the competitiveness of UK products. The removal of tariffs and greater regulatory transparency provided by an FTA could support

2 Economic Vision Plans: Saudi Arabia https://www.vision2030.gov.sa/, UAE https://u.ae/en/more/uae-future/2021-2030, Qatar https://www.gco.gov.qa/en/about-qatar/national-vision2030/, Kuwait https://www.mofa.gov.kw/en/kuwait-state/kuwait-vision-2035/, Bahrain https://bahrain.bh/new/en/sdgs-plan_en.html, Oman https://omanuna.oman.om/en/home-top-level/eparticipation/oman-vision-2040
3 ONS (2022), UK Total Trade, all-countries, non-seasonally adjusted.
4 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021. The simple average tariff applied by the UK on imports from the GCC is estimated to be around 5.8%. UKGT Simple Average Tariff, 2021.

UK businesses in industries that are keen to export to the GCC market such as the automotive, agri-food, and machinery sectors. UK consumers could benefit from improvements in the variety and affordability of available products.

DIT sees opportunities for UK farmers and food producers to benefit from better access to a region that imports a significant proportion of its food and has strong demand for top-quality UK produce. An FTA could boost UK food and drink exports to GCC member states which were already worth more than £597 million in 2020[5] and includes products like cereals, biscuits, and chocolate.

Increased opportunities for UK services and investment

The UK's services exports to the GCC amount to £13.9 billion in 2019, reducing to £12.2 billion in 2020[6], making the region a key destination for UK services exports. As the world's second largest services exporter, the UK is well placed to support economic growth in the GCC through our provision of world leading financial, creative, digital, professional and business, education and technology services. These services are in high demand across the GCC where member states are implementing their Vision Plans to diversify their economies away from oil and gas, and to enhance the capability and capacity of the private sector to drive economic growth.

The UK and GCC also have a significant investment relationship. The GCC's foreign direct investment (FDI) holdings in the UK amounted to £6.8 billion in 2019, increasing to £15.7 billion into the UK in 2020.[7] GCC FDI in the UK is not dominated by a single sector and is diversified. A trade deal could pave the way for more investment from GCC investors into world-leading UK industries such as renewable energy, infrastructure, tech and life sciences. The UK is also a significant investor in the GCC with FDI holdings worth £13 billion in 2019, rising to £13.4 billion in the region in 2020. An FTA that provides greater market access and legal certainty would be significantly valuable for UK investors and could lead to greater investment into the GCC region.

Supporting innovation and trade in a digital era

The GCC's digital transition presents a great opportunity for the UK's pioneering digital sector. The UK's digitally delivered, cross-border services exports to the Gulf Arabian Countries were worth £7.8 billion in 2019, equivalent to 56.2% of total cross-border services exports. This increased to £9.3 billion in 2020, accounting for 75% of total cross-border services exports to these countries.[8] Each GCC member state has implemented digitalisation initiatives in line with their Vision Plans aimed at diversifying the economy. The ongoing Coronavirus (COVID-19) pandemic has further accelerated digitalisation in the region and made digital technology ever more relevant and critical as activities ranging from schooling, working, to shopping have shifted to online platforms. An FTA could present an opportunity for UK and GCC businesses to spearhead innovative commercial ventures in fields such as emerging tech, AI and cybersecurity.

As the government pursues the objective of establishing the UK as a global science superpower, it is important that our trade policy retains flexibility and can adapt to changes, in what and how we trade, as economies and trading relationships grow and develop. By securing provisions with the GCC which encourage trade in cutting-edge technologies and modernising our approach to emerging industries, we could foster conditions for innovation.

Supporting jobs for UK workers

A trade deal can provide smoother pathways for GCC investors, supporting key UK industries and creating opportunities for workers throughout the UK for years to come. GCC-owned businesses employ workers across the UK. In 2019, there were 592 GCC-owned local business units in the UK, employing over 25,000 workers, 3 times more than the 8,000 in 2009. The region with the most workers supported by GCC investment was in London (12,000 people), followed by the South East (4,000 people) and the North West (2,000 people).[9]

Exports to the GCC region also support a significant number of jobs across the UK. Exports to Saudi Arabia, the largest economy in the GCC, were estimated to support directly and indirectly around 120,500 UK jobs in 2018.[10] This figure could grow should the UK increase its exports to the GCC and receive greater investment from the region.

An FTA could lead to better jobs, increasing wages for UK households by between £0.6 billion and £1.1 billion every year in the long run, depending on the depth of the agreement.[11]

5 HMRC overseas trade statistics, December 2021.
6 ONS (2022), UK Total Trade, all-countries, non-seasonally adjusted.
7 ONS, Foreign direct investment (FDI) totals for inward and outward flows, positions, and earnings: 2019 and 2020.
8 ONS, Exports of services by country, by modes of supply. "Gulf Arabian Countries", in this instance, refers to GCC member states, Yemen and Iraq.
9 DIT analysis of ONS (2022), Business Structural Database. This work uses research datasets which may not exactly reproduce National Statistics aggregates.
10 DIT, Trade and Investment factsheet, Saudi Arabia Feb 2022
11 DIT modelling (2022)

Levelling up the UK

An FTA with the GCC could provide benefits for businesses and consumers across all nations and regions of the UK – supporting the government's levelling up agenda. UK businesses in every region of the UK trade goods with the GCC. In 2020 London, the South East, and the South West had the greatest share of total traded goods with the GCC. The North West also exported £1.3 billion worth of goods to the GCC (12.8% of total good exports to the GCC) and the North East £0.2 billion (1.9%). The East Midlands and Yorkshire and the Humber exported £0.8 billion (7.9%) and £0.4 billion (3.6%) respectively.[12] Scotland, Wales and Northern Ireland exported £0.9 billion worth of goods (8.5% of total goods exports to the GCC), £0.6 billion (5.8%), and £0.1 billion (1.4%) respectively. An FTA that removes tariffs and reduces barriers for goods could benefit businesses across the whole of the UK.

Empowering small and medium-sized enterprises (SMEs)

A trade agreement could open up opportunity for businesses throughout the UK, benefitting small and medium enterprises as well as large-scale UK exporters. In 2020, around 10,700 UK SMEs exported goods to the UAE, with 5,500 exporting to Saudi Arabia and 4,100 exporting to Qatar. These SMEs account for around 89% of total UK goods exporters to these countries.[13] Given financial and operational constraints, SMEs in particular stand to benefit from the increased transparency and reduced costs an FTA could provide, whilst lower importing costs would lead to the further growth of businesses of all sizes across the UK.

Promoting a modern and sustainable trade agenda for a resilient UK

The UK is a global leader on climate action. The government is committed to maintaining our standards of environmental protection within trade agreements, and an agreement with the GCC could represent a large opportunity for our world-leading renewable energy and green technology industries. The GCC member states recognise the need to transition towards renewable energy and reduce their reliance on fossil fuel production, as set out in their Vision Plans. We have also seen ambitious net zero commitments made recently by GCC member states, e.g. by the UAE and Saudi Arabia, which demonstrates their intentions in this area. The expertise and experience of UK companies could offer significant mutual benefits, bolstering all partners' commitments to green energy and climate action.

Conclusion

Our strong, historic ties with the GCC are vital to UK prosperity and security. An FTA offers the chance to deepen our significant economic relationship and boost strategic ties with a large, diverse and vibrant group - supporting a truly Global Britain. It can also enable the UK to build back better from the pandemic, support jobs across the country, invigorate trade and investment, and stimulate growth in every region and nation. A trade agreement with the GCC will benefit UK citizens and businesses, while supporting the government's wider ambitions of tilting towards the Indo-Pacific and championing free trade.

Our approach to these negotiations has been informed by a wide-ranging consultation on trade with the GCC, which received a wealth of responses from the UK public, businesses and civil society. Our response to the consultation on a UK-GCC FTA can be found in Chapter 2, while the Outline Approach and Economic Scoping Assessment can be found in Chapters 3 and 4 respectively.

12 HMRC Regional Trade Statistics (data extracted from the interactive tables in July 2021).
13 HMRC. 'Trade in Goods by Business Characteristics' 2020 (accessed February 2022). Only includes exports to Qatar, Saudi Arabia and the UAE due to data availability. SME proportion figures are a simple average of percentages for each country, all of which are within 1% point of each other. This count excludes the unknown category which may include SMEs and firms with over 250 employees.

Chapter 2:
Response to the consultation on trade negotiations with the GCC

In June 2020 the UK and the GCC discussed the principles of undertaking a Joint Trade and Investment Review (JITR). The review covered analysis of our existing trade and investment relationship, a deep-dive into key sectors to better understand the future opportunities, and the barriers faced by our firms as they trade in this region. It concluded in June 2021 with both partners committing to seeking a deeper trade and investment relationship.

Following successful completion of the review, the UK launched a public consultation, requesting input from the British people and British businesses, amongst others, to inform our negotiation objectives and understanding of the economic, environmental, and social impacts of an FTA with the GCC.

The consultation opened on 8 October and ran for 14 weeks, closing on 14 January. During this period, the Department for International Trade (DIT) also held a broad series of events and engaged stakeholders across the UK.

The Department would like to thank all who engaged with the process and submitted responses.

What we asked

The online consultation questionnaire had a total of 99 questions. All respondents were asked the same core 21 questions, alongside 5 questions for identification and for data protection purposes. In addition, demographic and logistical questions were asked, targeted at each group. Individuals were asked 10 questions, NGOs 8 questions, businesses 28 questions, trade associations 17 questions, and public sector bodies 10 questions.

Overview of the response

In total, DIT received 147 responses to the consultation. Respondents were given the option of replying either through DIT's online questionnaire, hosted by the Qualtrics platform, or to a dedicated inbox monitored by DIT. The questions that were included on the online platform were available to respondents in a PDF form to facilitate review and distribution. The division between the number of responses can be seen below:

Online questionnaire responses: 121
Emails: 26
Campaign: 0

Respondents were categorised into one of the following five groups:

- An individual – responding with personal views, rather than as an official representative of a business, business association or another organisation.
- Business – responding in an official capacity, representing the views of an individual business.
- Business association – responding in an official capacity, representing the views of a business representative organisation or trade association.
- Non-governmental organisation (NGO) – responding in an official capacity as the representative of a non-governmental organisation, trade union, academic institution or another organisation.
- Public sector body (PSB) – responding in an official capacity as a representative of a local government organisation, public service provider, or another public sector body in the UK or elsewhere.

A breakdown of responses by respondent group can be seen below:

Respondent group	Responses (portal)	Responses (email)
Individual	19	0
NGO	15	4
Business	63	4
Business association	20	15
PSB	3	3
Not disclosed	1	0
TOTAL	121	26

Policy response

This section contains the government's explanation of its policy in relation to the comments raised by the respondents in the public consultation on trade negotiations with the GCC. Individual policy areas that were raised in the consultation are summarised, including specific key asks. A short response has been provided here, whilst more detail about how the UK will approach each of these areas in the negotiations can be found in the accompanying outline approach in Chapter Three.

Summary of responses by policy area

The policy areas are:

Tariffs
Rules of origin
Customs procedures
Technical barriers to trade
Good regulatory practices and good governance
Sanitary and phytosanitary (SPS) measures
Competition, state-owned enterprises, subsidies, and consumer protection
Trade in services
Digital, audio-visual, data, and telecommunications
Movement of natural persons or business professionals
Investment
Innovation
Government procurement
Intellectual property (IP)
Trade and development
Labour standards
Gender equality and women's economic empowerment
Environment and climate change
Anti-corruption
Trade remedies
Dispute settlement
Small and medium-sized enterprises (SMEs)
Human rights and rule of law

Tariffs

Many respondents identified that whilst GCC tariffs are already relatively low (most UK exports face tariffs of 5%), the elimination of tariffs should remain a UK priority where they exist and would boost UK competitiveness in the market.

Respondents from the automotive, manufactured goods, and food and drink industries noted that the removal of tariffs is a key offensive interest for their sectors in forthcoming negotiations with the GCC.

Many respondents also noted that consistency of tariff treatment across the 6 GCC member states should be a goal of the FTA.

Policy explanation

Tariffs are customs duties on imported goods. Tariffs are normally applied on a Most Favoured Nation (MFN) basis. World Trade Organization rules require members to apply the same tariffs to all other members unless an exemption can be relied upon, including where a preferential trade agreement is in place.

In the UK-GCC FTA, the UK will seek to reduce or remove tariffs for UK exports, making them more competitive in the GCC markets. The government shares the respondents' views that reduction or removal of tariffs can offer significant opportunities for UK businesses in both industrial and agricultural sectors.

Rules of origin

Respondents were optimistic that there is a good market opportunity for exports to the GCC of British food and drink, automotive and other manufactured goods. An FTA with the GCC can further enable businesses to take advantage of these opportunities by establishing flexible and modern rules of origin that support the market access secured in the agreement.

Respondents, particularly businesses and business associations, focused on the importance of having simple, flexible and facilitative rules of origin that reflect complex global supply chains and individual market requirements for products, such as processing rules for chemicals products.

Respondents also called for the simplification of administrative requirements when complying with rules of origin. They requested procedures that are easy to understand, transparent and consistent.

Policy explanation

Rules of origin are used to determine the ‘economic nationality’ of a good. In an FTA they are the means by which the UK determines where goods originate and thus whether they qualify for preferential tariffs under an FTA.

The UK’s objective is to develop simple and modern rules of origin that reflect UK industry requirements considering existing, as well as future, supply chains. The government will also seek to develop rules that are supported by predictable and low-cost administrative arrangements.

Customs procedures

Reponses relating to customs largely focused on the need for transparent and consistent application of customs procedures and the swift clearance of goods across the GCC.

Respondents noted that a lack of transparency around customs procedures can make it difficult to export goods to GCC member states, particularly if customs requirements change without warning. The heavy administrative burden when trading with GCC member states was also raised as a common area of concern among respondents, with calls for simplified customs procedures and reduced administrative requirements. Additionally, it was noted that fees and charges on imports and exports were a consistent challenge when trading with the GCC.

Returns highlighted that this FTA is an opportunity to push for transparent, uniformly applied import procedures and requirements.

Policy explanation

The government notes the concerns raised by businesses and recognises the importance of securing customs procedures that are efficient, transparent, and consistent for both UK importers and exporters. The UK seeks to ensure through its free trade agreements that customs procedures are as facilitative as possible and administrative burdens are minimised, where possible.

In our negotiations with the GCC, the UK will seek provisions that reflect the needs of UK exporters and importers, promote supply chain security, and minimise burdens for businesses.

Technical barriers to trade

Respondents repeatedly cited the difficulties caused by a lack of transparency regarding regulations. It was also highlighted that a key challenge for businesses was a lack of regulatory cohesion. This impacts businesses across sectors who must meet (sometimes differing) regulations at both the GCC-wide and national level. Respondents saw this FTA as a good opportunity to address these issues.

Respondents said that the FTA should create further transparency between the UK and the GCC over the regulatory requirements for UK businesses. The UK should also promote the use of international norms for labelling regulations and certification requirements.

Policy explanation

All UK free trade agreements to date protect our right to decide our own regulatory standards and how the UK enforces them. The UK’s reputation for quality, safety and performance is what drives demand for UK goods and is key to our long-term prosperity. The government has been clear that any future trade deal must benefit UK consumers and enterprises, which means upholding our high regulatory standards.

The government also recognises the difficulties faced by businesses because of regulatory barriers, and is committed to reducing these through our trade agreements. Across all the GCC member states, the UK will seek improved transparency, making regulations more easily accessible so that businesses have greater clarity on what is expected of them. The UK will continue to promote the use of international standards as a basis for regulation and will aim to increase cooperation and information exchange with the GCC member states.

Good regulatory practices and regulatory cooperation

Respondents identified good regulatory practices and regulatory cooperation as areas of opportunity for the UK in an FTA with the GCC. Respondents indicated the importance of supporting businesses to benefit from good regulatory practices and a more transparent approach to regulatory processes.

Policy explanation

Through the UK-GCC FTA, the government will aim to reduce regulatory obstacles, facilitate market access, and improve trade flows by encouraging a predictable and stable regulatory framework.

The UK will seek provisions in a future FTA with the GCC that encourage good regulatory practices in the GCC member states through transparent processes such as public consultations, regulatory cooperation, and regulatory impact assessments. The government recognises the importance of encouraging clear and easily accessible regulations for businesses and will promote transparency in all aspects of trade.

Sanitary and phytosanitary (SPS) measures

Respondents said that a comprehensive FTA with the GCC, which reduces barriers whilst maintaining animal health, animal welfare and public health standards, offers an opportunity for increased exports of UK products of animal origin to the region. Respondents were concerned that SPS rules across GCC member states were complex and difficult to navigate. Comments indicated that greater transparency of import requirements and approval processes across the GCC, along with simplified export procedures, would provide greater clarity for UK businesses and enhance trade.

Respondents also made clear that the UK should retain its right to regulate as set out in the WTO SPS agreement. They also stated that the UK should not permit imports that fail to meet the current high animal health, animal welfare and public health standards of the UK market.

Policy explanation

The government recognises the opportunity to increase the UK's agri-food exports to the GCC region, building on the UK's reputation for high quality produce and high food safety, animal health and welfare standards. A trade agreement provides an opportunity to streamline procedures for UK food exports into GCC member states, by increasing dialogue, cooperation and transparency on SPS measures which present challenges to business, with a view to helping UK firms trade more easily. The UK recognises the importance of clear and easily accessible regulations and will promote transparency at all levels of trade.

Maintaining safety and public confidence in the food we eat is of the highest priority. The government remains firmly committed to upholding the UK's high standards on food safety, animal and plant health and animal welfare. The government has made a clear manifesto commitment that its trade negotiations will not compromise the UK's high environmental protection, animal welfare and food standards.

Competition, State Enterprises, Subsidies, and Consumer Protection

Competition policy, state enterprises and subsidies provisions ensure there is open and fair competition for businesses in each other's markets. Consumer protection provisions ensure that consumers are protected from harmful business practices.

Competition policy covers the rules and regulations concerning the way businesses operate within a market and the enforcement of such rules to ensure that markets remain competitive for the benefit of consumers. Overall, respondents called for the agreement to enhance competition laws and rules.

State enterprises provisions provide for open and fair competition between commercially oriented state enterprises and private businesses, for example rules around non-discrimination and subsidies. Respondents highlighted that there are a substantial number of state enterprises across the GCC. One respondent stated that it is difficult for UK businesses to compete with GCC state enterprises receiving state support.

Several respondents highlighted subsidies practices, including the granting of state subsidies to GCC competitor companies and state enterprises as a concern.

One respondent raised the opportunity to improve cross-border cooperation on consumer issues with the GCC member states. The respondent called for a consumer protection chapter that promotes consumer rights and protections, upholds the UK's online consumer protections, and enhances the choice of goods consumers have.

Policy explanation

Competition

The government is committed to upholding the UK's advanced, independent competition regime in its free trade agreements. The government will seek to ensure this through commitments on effective competition law and its enforcement, procedural fairness, and transparency.

Subsidies and State enterprises

The government recognises that commitments relating to subsidies and state enterprises in free trade agreements are important for businesses. The government will seek to promote open and fair competition ensuring that UK businesses operating in GCC member states can compete fairly with state enterprises.

The UK and GCC member states are signatories to the WTO Agreement on Subsidies and Countervailing Measures. The UK is committed to tackling unfair and harmful practices that can disrupt trade and competition, at the WTO and through its free trade agreements.

Consumer protection

The government is committed to ensuring that the interests of consumers are reflected in its free trade agreements. The UK will seek a consumer protection chapter that promotes the importance of protecting consumers from misleading, fraudulent, deceptive, and unfair commercial practices.

Trade in services

Respondents highlighted the strength of the current export market in services to the GCC and saw a future agreement as an opportunity to build on existing ties through further trade liberalisation. Many identified the potential for a broad range of interests within financial services, including financial technology (FinTech), banking and insurance. Rail, education and key professional and business service sectors were also highlighted as areas of mutual ambition.

Respondents underlined potential complications of negotiating with a trade bloc without an integrated services market, noting that each GCC member state operates unique regulatory and legal environments. Respondents expressed a desire for increased regulatory cooperation across the GCC member states, to establish greater transparency and legal certainty for UK businesses and investors.

Many SMEs also commented on issues regarding market access which were a particular barrier. Respondents were keen to see equity caps and residency requirements removed, to create a more level-playing field for UK businesses. Other key concerns centred on mobility, recognition of professional qualifications, data flow and arbitration.

Policy explanation

Services are the predominant driver of the UK economy, contributing around 80% of GDP[14] and employing over 26 million people (approximately 82% of total employment)[15]. In the GCC member states, services will play an increasingly important role as they look to deliver on their economic Vision Plans.

In 2020, total trade in services between both markets was £15.7 billion in 2020 (or 48% of total trade with the GCC). In 2020, UK service exports to the GCC was worth £12.2 billion, roughly equivalent to UK exports to France.[16] The GCC is an important potential growth area for services, and the UK will seek to use an FTA to encourage the liberalisation of trade in services for key UK export sectors such as financial and professional and business services. The UK will seek to improve market access for UK suppliers by targeting trade barriers and increasing legal certainty.

Digital and telecommunications

Respondents highlighted the importance of a digital chapter, underlining its key importance to businesses trading across a wide range of sectors in the region. Noting the opportunities of digital trade in the region, respondents encouraged increased digital cooperation and paperless trading with the GCC.

Several respondents noted current data localisation requirements and other restrictions to data flows as representing a barrier to the market and preventing potential growth, with the hope that the agreement will support the free flow of data. Some respondents stressed the importance of maintaining the UK's high standards on personal information protection standards and others noted the challenges of different data protection rules in the region. Other key issues included the need to protect source code, and the prevention of customs duties on electronic transmissions.

Policy explanation

The UK recognises the need to secure digital trade commitments that support all sectors of the economy. This would prevent new barriers emerging, promote greater openness, and reduce or remove unfair restrictions or conditions on British businesses as they trade overseas. The UK will also continue to champion data flows internationally, preventing barriers to data crossing borders, while maintaining the UK's high standards for personal data protection, including when it is transferred across borders.

On telecommunications, the UK will seek robust provisions to minimise barriers to trade in telecommunications services, promoting fair access to the GCC markets and transparent and non-discriminatory regulatory frameworks.

Movement of natural persons or business professionals

Several respondents raised the movement of persons between the UK and GCC as a key factor affecting trade in services, mentioning several sectors such as education and legal services. The current visa regimes in the region were described by some respondents as too slow and expensive and lacking transparency. Some respondents made suggestions around the pursuit of visa-free travel for those delivering services, or cheaper and easier visas allowing multiple entries into a country.

Some respondents also suggest that the UK make the visa regime for citizens of the GCC member states more flexible to benefit from tourism and consumer spending.

14 ONS, GDP output approach – low-level aggregates
15 ONS, Labour Force Survey – EMP13: Employment by industry (stat refers to service's sectors G-T, as defined by ONS)
16 ONS, UK Total Trade: all countries, non-seasonally adjusted.

Policy explanation

The UK recognises the importance of business mobility in facilitating trade in services. The UK will therefore be seeking to secure commitments on the temporary movement of highly skilled professionals which will make it easier for UK professionals to work across the GCC, and facilitate the ability of British businesses to bring in talent from abroad when they set up within the GCC. This would include provisions to reduce both administrative burdens and limitations on entry and length of stay.

Investment

Feedback from respondents highlighted the importance of the FTA in contributing to transparency and stability for investors. Several respondents noted current problems for investors doing business in GCC member states including market access barriers such as foreign equity restrictions, restrictions on the number of branches of a company and licensing restrictions. Businesses also highlighted the lack of regulatory coherence among the individual GCC member states as a particular issue. Two respondents highlighted a desire to include investment protections and investor-state dispute settlement provisions in the FTA. Several respondents stressed the need to reassure UK investors establishing and operating in the GCC.

Policy explanation

The government recognises the importance of maintaining and increasing investment into GCC and the UK. UK investment overseas enables UK businesses to access new markets, increase their financial returns and contribute to both the UK and foreign economies. Foreign investment into the UK provides capital for major projects, helps to fund start-ups, and generates economic growth. The UK-GCC FTA represents an opportunity to create a legal framework of clear and transparent investment rules which provide certainty for investors.

The government will ensure that UK-GCC FTA negotiations are consistent with the UK's interests and policy priorities. It will maintain, in all cases, the UK's continued right to regulate in the public interest to uphold public policy objectives, including for public health purposes.

Innovation

Innovation was considered favourably throughout the consultation responses with respondents recognising that increased engagement and collaboration would present opportunities for UK industry. Some respondents highlighted the UK-Australia FTA Innovation Chapter as a useful way to support innovation between the UK and the GCC.

Responses highlighted interest in supporting innovation between the UK and the GCC around research and development, and new technologies such as clean tech, AI, renewable energy, and electric vehicles.

Several respondents wanted to see more support for innovation through the agreement, including by furthering collaboration on standards and research. Other related areas of the agreement are mentioned as important for supporting innovation, notably on data flows and IP protection.

Policy explanation

The UK's Innovation Strategy sets out the government's ambition to be a global leader in innovation and secure free trade agreements that support innovation and innovative businesses. The UK is driving the consideration of the impacts of innovation on trade, ensuring the global trading system works for innovative businesses. The government will seek an FTA which is live to the challenges and opportunities innovation presents and remains fit for purpose as our trade relationships and our economies grow and develop across the lifetime of the agreement.

Government procurement

Several respondents highlighted opportunities for UK businesses in GCC government procurement markets, including in sectors such as professional services, pharmaceuticals and infrastructure.

Respondents identified barriers to accessing GCC government procurement contracts, including local purchasing preferences and requirements for local presence, local content and offsets. Difficulties in finding information on GCC government procurements and complexities in navigating the various procurement processes across the GCC member states were highlighted as burdensome for smaller sized businesses in particular.

Some respondents encouraged GCC member states to work towards becoming parties to the WTO Agreement on Government Procurement.

The protection of UK public services, including NHS health and care services, was a priority for respondents.

Policy explanation

Government procurement provisions in free trade agreements promote transparency, non-discrimination and competition within the trading partners' public procurement markets. FTA measures commonly ensure that for procurements covered by the agreement, suppliers, goods and services from the other party are treated the same as domestic suppliers, goods and services.

The government will seek to secure more extensive market access to government procurement in the GCC member states, creating opportunities for UK businesses. When competing for government procurement opportunities, businesses should receive fair and non-discriminatory treatment. The government will seek to agree provisions to ensure that procurement processes are fair, open, transparent and accessible for suppliers from the GCC and the UK.

The UK will ensure appropriate protections remain in place for key public services such as NHS health and care services and broadcasting, and for issues of public interest such as national security and defence.

Intellectual property (IP)

A balanced and effective IP regime is an essential element of a vibrant and creative economy, providing confidence and protection for innovators and creators, while also reflecting wider public interests. It also ensures consumers are clear about the origins and quality of the products and services that they buy.

Respondents expressed a desire for high standards on IP in the agreement and highlighted export potential in the region with an improved IP environment. Respondents made requests to strengthen IP protection in areas of interest to the pharmaceutical and creative industries. Several respondents raised concerns around the closure of the GCC Patent Office and the continued lack of clarity about its potential replacement. There were also calls for full and proper implementation of IP international treaties, a desire for provisions to ensure the robust enforcement of IP rights to tackle copyright piracy and trade mark counterfeiting in the GCC region, and for the establishment of an IP dialogue under the FTA to exchange best practice.

Policy explanation

The UK recognises the importance of a high standard IP chapter in the future UK-GCC agreement. The UK is widely recognised as being a world leader in IP protection. The UK sees the UK-GCC FTA as an opportunity to build on our global leadership, supporting national growth and innovation whilst fostering an environment that further enhances trade between partners.

The UK also recognises the importance of the UK continuing to be a party to the European Patent Convention (EPC), and notes that there are clear benefits for trade partners seeking a trade agreement with the UK to have access to patent protection in the UK and other EPC parties through the European Patent Organisation.

The fair treatment of the UK's innovative sectors across the GCC, including the pharmaceutical sector, to achieve an effective balance between rewarding research and innovation, whilst reflecting wider public interests, is important for the UK. The UK's standards of copyright protection are among the best in the world, and provisions that support UK creative industries through an effective and balanced global framework can bring significant benefits. The UK recognises the need for transparent, effective, and efficient enforcement of IP rights including for online IP infringement.

The UK recognises the importance of a deal that delivers a balanced outcome for right holders, users, consumers, and wider societal interests.

Trade and development

Several respondents mention development in their responses, arguing that the FTA should align with the UK's global work on development.

Policy explanation

Trade is a key driver of economic growth which can trigger positive changes in a country's economy. The UK will seek to promote cooperation with the GCC member states as partners to tackle development issues and support UK objectives on trade and development.

To further UK ambition to support free and fair trade, and to deliver on our public commitment to ensure our trade policies support development goals, the government will assess the impacts of the UK-GCC FTA on developing countries outside the agreement and consider measures to address risks and maximise opportunities for development.

Labour standards

Respondents highlighted the need to ensure that the parties affirm commitments to uphold labour rights and particularly to International Labour Organization (ILO) standards and conventions. This was an important element of a large portion of the responses. Respondents noted the importance of ensuring neither party weakens or reduces the levels of protection afforded by their respective labour laws in order to encourage trade or investment. Concerns were raised over differences in labour standards, employment practices and domestic enforcement, and the potential impact that an agreement could have on workers and business, particularly with regards to open and fair competition. Respondents also submitted comments on other areas such as human rights, women's economic empowerment, migrant workers, and the need to provide for the effective implementation and monitoring of labour provisions.

Policy explanation

The government shares the public's high regard for worker protections and has made clear that the UK will not compromise on these in our trade agreements. The UK will look to explore, alongside the GCC, how labour provisions within an FTA could support these objectives. The UK will maintain its high standard of workers' rights and continue to advocate for the highest standards and working conditions. The UK will seek to reaffirm parties' commitments to international labour standards, including at the ILO.

The UK has one of the most dynamic, flexible and supportive labour frameworks in the world, with important protections for individuals. The UK is also world-leading in our pursuit of the elimination of all forms of forced labour. The UK will preserve and maintain its sovereign right to regulate on its own level of domestic labour protections, as well as seeking to ensure that the FTA protects against labour rights being reduced to gain a trade advantage. The government will also explore appropriate mechanisms for the implementation, monitoring and dispute resolution of labour provisions.

Gender equality and women's economic empowerment

A number of respondents highlighted gender equality and women's economic empowerment as a concern with the agreement. They raised specific issues faced by women living in the region, including treatment under family and employment law and cultural norms. Some respondents noted having encountered issues for women doing business in GCC member states, while others stated that they had not encountered any issues. Several respondents supported the approach of using the FTA to advance women's access to trading opportunities. Others felt that a chapter on gender equality would not sufficiently address the multi-dimensional impacts of this deal on women, and that all aspects of the agreement should undergo assessment of their impact on gender equality. Whilst some respondents stressed that the GCC member states do more to uphold gender equality than may be perceived, some other respondents felt that the UK should not pursue a trade agreement with the GCC due to concerns around gender equality and women's rights.

Policy explanation

Gender equality is a crucial issue, affecting all areas of trade. As such, it is increasingly becoming a feature of modern international trade agreements. It can address issues such as discrimination, or barriers faced disproportionately by women in trade, such as lack of access to markets and business networks.

The UK is committed to ensuring that our trade policy supports women's economic empowerment and furthers our efforts to promote gender equality. The government will explore opportunities, in partnership with the GCC, to reflect this in our FTA.

Environment and climate change

Feedback from respondents highlighted their interest in preserving and protecting the environment. Returns indicated that respondents would like to see environment and climate at the heart of a UK-GCC FTA, ensuring commitment to climate-friendly practices. Respondents underlined the GCC region's reliance on fossil fuels but also highlighted the opportunities for UK industry to support the GCC's decarbonisation efforts. Respondents were clear that an FTA should not undermine UK environmental standards and supported the UK's commitment to clean growth, resulting in both economic and environmental benefits.

Policy explanation

The government is strongly committed to maintaining the UK's high standards of environmental protection in trade agreements, and environmental provisions within a UK-GCC FTA could support this objective. The UK is a world leader on climate action, and promotes delivery of its environmental and climate commitments in multilateral fora, as well as in its free trade agreements.

The UK and GCC member states are parties to many international multilateral environmental agreements, including the Paris Agreement[17]. The government is committed to upholding our international obligations under these agreements and will continue to play an active role internationally. The UK recognises countries' sovereign right to regulate for their own levels of domestic environmental protection and the government will ensure this is maintained under the UK-GCC FTA. The UK will also explore opportunities, in partnership with GCC member states, to support low-carbon sectors and advocate for clean growth and cooperation in the global fight against climate change.

17 Paris Agreement done at Paris on 12 December 2015 by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its 21st session.

Anti-corruption

Responses to the consultation from UK businesses identified concerns with bribery and corruption. Responses from organisations from a wide range of sectors identified anti-corruption as a priority for the FTA to address.

Policy explanation

Respondents were clear in their desire to see provisions related to anti-corruption within the FTA, which aligns with the aims of the government. The UK has a strong framework for tackling corruption through the UK Bribery Act 2010 and the government is seeking to build partnerships and uphold standards in this area. The UK will promote provisions that address the trade-distorting effects of corruption on global trade and fair competition.

Trade remedies

Respondents highlighted the importance of the UK having the ability to impose trade remedy measures to protect domestic producers from unfair trading practices.

Policy explanation

The government recognises the importance of trade remedies as part of a rounded trade policy. Trade remedies are about restoring a level playing field, applying measures that are at a sufficient and appropriate level to provide protection, whilst minimising harm to downstream users or consumers. The government will seek provisions which facilitate trade liberalisation whilst providing a safety net for UK businesses against injury caused by dumped, subsidised or unexpected surges of imports of goods.

The government is committed to seeking trade remedy provisions which uphold our WTO commitments and aims to ensure that trade remedy measures are applied in a proportionate and transparent manner.

Dispute settlement

Respondents highlighted the importance of including a clear and effective dispute settlement mechanism capable of resolving disputes in a fair manner.

Policy explanation

The term "dispute settlement" is commonly used in reference to the formal state-to-state mechanism for resolving disputes where one or more parties consider that there has been a breach of obligations under the relevant international trade agreement, and it has not been possible to resolve the dispute informally. Effective dispute settlement mechanisms give parties and stakeholders the confidence that commitments made under the agreement can be upheld, and that any disputes will be addressed fairly and consistently.

The government will seek to create a strong state-to-state dispute settlement mechanism that promotes compliance with the agreement. Provisions will ensure state-to-state disputes are dealt with consistently, fairly and in a cost-effective, and timely manner, whilst providing predictability and certainty for businesses and stakeholders.

Small and medium-sized enterprises (SMEs)

Many respondents noted significant opportunities for SMEs to grow and expand in the region. Key challenges identified for SMEs include burdensome and complex customs procedures, an unclear and swiftly changing regulatory environment, and inconsistency in regulation between GCC member states that can be hard to navigate.

Most respondents who referred to SMEs expressed desire for provisions that would ease mobility within the GCC for business owners and provide more detailed information on doing business in the region, and supported recognition of UK standards in the region.

Policy explanation

The government recognises the barriers faced by SMEs. Trade barriers tend to disproportionately burden SMEs, which often have fewer resources to overcome barriers than larger businesses. Through the UK's SME trade policy, the government is meeting the priority asks of the SME business community. These include increased transparency on rules and regulations; international cooperation with the aim of supporting SMEs; and free trade agreements that benefit the whole economy, including companies of all sizes.

The government will seek provisions such as publishing information for SMEs on trading with the GCC member states, and encouraging cooperation between the UK and the GCC to promote trade and investment opportunities for SMEs. It will also encourage SMEs to take full advantage of the opportunities offered by an FTA with the GCC.

Human rights and rule of law

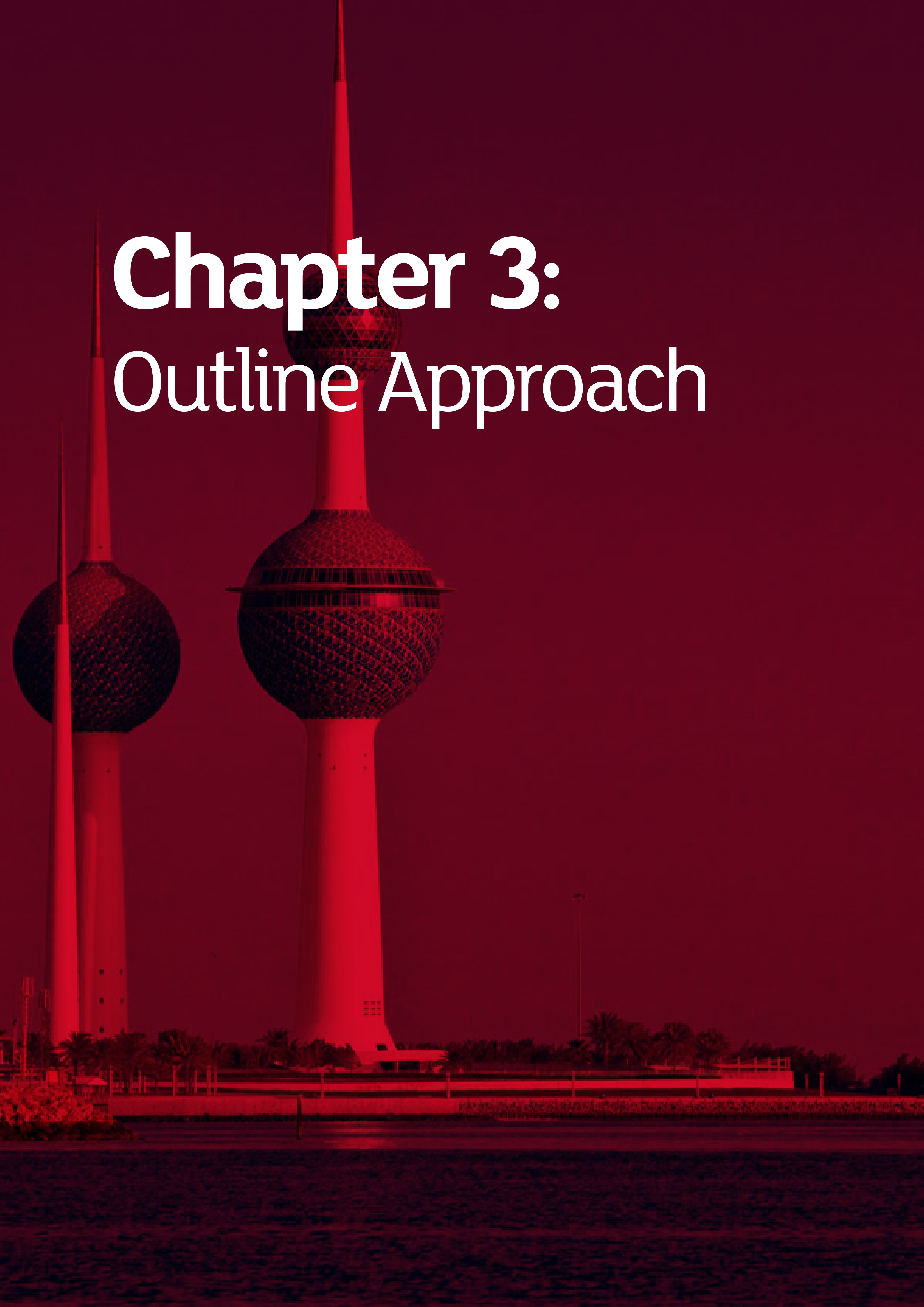
A number of respondents expressed concerns around violations of human rights and the rule of law in the region, including gender discrimination, discrimination against the LGBT community, violation of political freedoms, and violation of labour rights. Some respondents highlighted that these issues can pose a barrier to their entry into GCC markets, both on ethical grounds and because of reputational and security risks to their organisations. Some respondents expressed support for making trading arrangements conditional on upholding human rights obligations. Other respondents opposed any trade agreement with the GCC entirely, considering that such an agreement undermines the UK's values and commitment to protecting human rights.

Policy explanation

The government recognises that a number of respondents raised the protection of human rights as a priority. We will continue to speak frankly about these issues with our GCC partners through Ministerial and diplomatic channels. The UK enjoys strong and historical relationships with all GCC member states, based around cooperation on defence, security, trade and regional issues, which allows us to discuss such important issues as human rights.

The UK has a strong history of protecting human rights and promoting our values globally. The government will continue to encourage all states to uphold international human rights obligations and hold those who violate human rights to account. The Government's policy is to engage countries whose human rights record falls short, as opposed to isolation and removing our ability to support higher standards. By having strong economic relationships with partners, the government can have more open discussions on a range of issues, including human rights. The UK addresses, supports and engages on a broad range of human rights topics bilaterally and in multilateral fora.

Chapter 3:
Outline Approach



Overall objectives

Agree an FTA with the GCC that strengthens our economic relationship with the GCC member states; increases trade in goods and services, supports investment with GCC member states; and drives economic growth for all parties. This agreement will work for the whole of the UK, accounting for the UK's constitutional arrangements and obligations.

- Identify and seek to agree areas of mutual bilateral ambition where the UK and individual GCC member states wish to agree to deeper commitments than the whole bloc, within the overall ambit of the GCC-wide agreement.
- Support UK businesses, including SMEs to identify export opportunities and benefit from the economic potential of the GCC.
- Secure an agreement that promotes open and fair competition between our businesses, including in relation to the procurement of government contracts.
- Retain high standards and protections on products entering the UK market, whilst ensuring that UK businesses can readily access and easily understand the differing regulatory requirements for exporting to GCC member states.
- Protect the UK's right to regulate in the public interest, including on our strong environmental protection, animal welfare, labour and food standards.
- Send a clear signal to the rest of the world that the UK as an independent trading nation will continue to champion free and fair trade, fight protectionism, and remove barriers to trade at every opportunity.
- Uphold the government's manifesto commitment that the NHS, its services, and the cost of medicines are not on the table. To this end the UK will not accept any provisions that would increase the cost of medicines for the NHS. Protecting the NHS is a fundamental principle of our trade policy, and our commitment to this will not change during our negotiations with GCC.

Trade in goods

- Secure comprehensive access for UK industrial and agricultural goods into the GCC through the reduction or elimination of tariffs and non-tariff barriers.

Rules of origin

- Develop simple and modern rules of origin that reflect UK industry requirements and consider existing, as well as future, supply chains. Develop rules that are supported by predictable and low-cost administrative arrangements.

Customs and trade facilitation

- Promote customs processes that are predictable before, at, and where possible, away from the border.
- Secure commitments to simple, efficient and transparent customs procedures which aim to minimise costs and administrative burdens for businesses.

Technical barriers to trade

- Reduce technical barriers to trade by removing and preventing unnecessarily trade-restrictive measures in goods markets, while upholding the safety and quality of products on the UK market.
- Promote the use of international standards, to further facilitate trade between the parties.
- Promote a transparent approach to regulations, making information more accessible for businesses.

Sanitary and phytosanitary standards (SPS)

- Uphold the UK's high standards of food safety, animal and plant health, and animal welfare, and the UK's right to regulate in these areas in the public interest.
- Seek to reduce SPS related barriers to trade for UK agri-food goods exported to the GCC market through commitments to dialogue, cooperation and transparency on SPS measures, including GCC approval processes for UK goods.
- Seek enhanced cooperation on the important issues of animal welfare and antimicrobial resistance.

Good regulatory practices

- Reduce regulatory obstacles, facilitate market access, and improve trade flows by encouraging a transparent, predictable, and stable regulatory framework to give confidence to exporting businesses and investors.

- Seek commitments to the application of good regulatory practices to facilitate market access, improve trade flows, and enable regulatory cooperation, including:
  - internal coordination
  - transparency in the regulatory process, including making relevant information freely and publicly available online
  - meaningful public consultation in the development of regulatory measures
  - the use of regulatory impact assessments for proposed major regulatory measures
  - the periodic evaluation of regulatory measures in force.

Transparency

- Support market openness and increase the ease of doing business by ensuring appropriate levels of transparency between the UK and the GCC member states, particularly with regards to the publication of measures (such as laws and regulations) affecting trade and investment, public consultation, and the right of appropriate review of these measures, in order to support market openness and increase the ease of doing business.

Trade in services

- Support the UK's world-leading services industries to do business in GCC member states by pursuing ambitious rules for services sectors around transparency and addressing unnecessary bureaucracy and regulation.
- Seek sector specific rules, including for key UK export sectors such as financial services, professional and business services, including legal services, and maritime transportation services.
- Seek to improve access for UK businesspeople to operate in the GCC member states by enhancing opportunities for business travel.
- Continue to preserve the integrity of the UK's domestic immigration system.

Public services

- Protect the right to regulate the UK's public services, including the NHS and public service broadcasters.
- Continue to ensure that decisions on how to run the UK's public services are made by the UK governments, including the Devolved Administrations (DAs), and not our trade partners.

Telecommunications

- Seek robust telecommunications provisions with the GCC that will secure fair access to GCC networks and services and a level playing field, so that UK operators can seize the opportunities in GCC member states' telecommunication sectors.
- Benefit UK consumers and businesses in all sectors by supporting competition and promoting a sector that is ripe for further innovation.

Digital trade

- Seek the inclusion of a comprehensive digital chapter that maximises opportunities for digital trade across all sectors of the economy, and businesses of all sizes, across the UK.
- Seek commitments to facilitate more efficient and secure international trade through the use of digital technologies, including through paperless trading.
- Seek commitments that facilitate free and trusted cross-border data flows and prevent unjustified data localisation, while maintaining the UK's high standards for personal data protection.
- Promote online consumer protection and seek necessary business safeguards in digital trade.
- Seek to cooperate on evolving areas of trade such as innovation and emerging technologies.

Financial services

- Expand opportunities for UK financial services and ease frictions to cross-border trade and investment.

Investment

- Agree provisions that create new opportunities for UK investors in the GCC, whilst addressing existing barriers that investors currently face.
- Maintain the UK's right to regulate in the national interest and as the government has made clear, continue to protect the NHS.

Intellectual property

- Protect the UK's existing IP standards.
- Ensure rights holders receive protection and fair remuneration for the use of their works abroad, whilst ensuring reasonable and fair access for consumers.
- Achieve an effective balance between rewarding research and innovation, whilst reflecting wider public interests such as ensuring access to medicines.
- Secure adequate protection for brands and design intensive goods, whilst keeping the market open to fair competition.
- Promote the accessible, transparent, effective, and efficient enforcement of IP rights, including for online IP infringement, and facilitate cross-border collaboration on IP matters.
- Promote cooperation on an approach on geographical indications which ensures consumers are not misled about the origins of goods, while ensuring they have access to a range of products.
- Promote provisions which take account of emerging opportunities and challenges in the digital age.
- Ensure consistency with the UK's existing international obligations, including the European Patent Convention, to which the UK is party to.

Government procurement

- Seek access for UK businesses to government procurement markets in GCC member states.
- Seek to agree provisions to ensure that government procurement processes are fair, open, transparent and accessible for suppliers from the UK and the GCC member states.
- Ensure appropriate protections remain in place for key public services such as NHS health and care services, as well as broadcasting.

Competition policy and consumer protection

- Ensure the benefits of trade liberalisation are not undermined by anti-competitive, discriminatory, and unfair practices.
- Provide for effective competition law and its enforcement in order to promote open and fair competition for UK firms in the UK and in GCC member states.
- Provide for transparent competition laws, with procedural rights for businesses and people under investigation.
- Promote the protection of core consumer rights.
- Promote effective co-operation between enforcement agencies on competition and consumer protection matters.

Subsidies, state enterprises and enterprises granted special or exclusive rights or privileges

- Seek commitments on subsidies, state enterprises and enterprises granted special or exclusive rights or privileges to address discriminatory and unfair practices.
- Seek transparency commitments on state enterprises.
- Ensure that UK state enterprises and enterprises granted special or exclusive rights or privileges, particularly those providing public services, can continue to operate as they do now.

Trade remedies

- Ensure provisions support market access, uphold our WTO commitments, and are underpinned by transparency, efficiency, impartiality and proportionality.
- Agree provisions which facilitate trade liberalisation while protecting against unfair trading practices.

Dispute settlement

- Establish appropriate mechanisms that promote compliance with the agreement and ensure that state-to-state disputes are dealt with consistently, fairly and cost-effectively, promoting transparency and maintaining timeliness, whilst seeking predictability and certainty for businesses and stakeholders.

Small and medium sized enterprises (SMEs)

- Seek a dedicated SME chapter to facilitate co-operation between the UK and the GCC on SME issues of mutual interest.
- Seek to ensure that SMEs have easy access to the information necessary to take advantage of the trade opportunities generated by the agreement.

- Seek to include throughout the agreement SME-friendly provisions that support businesses trading in both services and goods.

Environment and climate change

- Include measures which allow the UK to protect our regulatory sovereignty, maintain the integrity, and provide meaningful protection, of the UK's environment and climate legislation.
- Reaffirm commitments to multilateral environmental agreements such as the United Nations Framework Convention on Climate Change[18] and the Paris Agreement.
- Seek assurances that parties will not waive or fail to enforce their domestic environment and climate protections in ways that create an artificial competitive advantage.
- Seek provisions that support and help further the government's ambition on environment, climate change and achieving net zero greenhouse gas emissions by 2050, including promoting trade and investment in environmentally and climate friendly goods and services.
- Seek appropriate mechanisms for the implementation, monitoring and dispute resolution of environment provisions.

Labour standards

- Reaffirm commitments to international labour standards.
- Seek assurances that parties will not waive or fail to enforce their domestic labour protections in ways that create an artificial competitive advantage.
- Include measures which allow the UK to protect our regulatory sovereignty, maintain the integrity, and provide meaningful protection, of the UK's labour protections.
- Seek appropriate mechanisms for the implementation, monitoring and dispute resolution of labour provisions.

Anti-corruption

- Seek measures to tackle barriers to trade posed by corruption such as bribery.
- Seek appropriate mechanisms for the implementation, monitoring and dispute resolution of anti-corruption provisions.

Trade and gender equality

- Promote women's access to the full benefits and opportunities of the FTA as workers, business owners, entrepreneurs and consumers.
- Seek recognition of the importance of advancing women's economic empowerment in trade and upholding existing commitments relating to gender equality.

Trade and development

- Seek provisions that support the government's objectives on trade and development.

Innovation

- Agree provisions focusing on the role of trade policy in facilitating innovation to ensure our FTA is flexible to emerging business models and global trends and events.
- Provide an opportunity to enhance co-operation on shared global and economic challenges and signal the UK's ambition to develop trade policy that is supportive and responsive to innovation.

General provisions

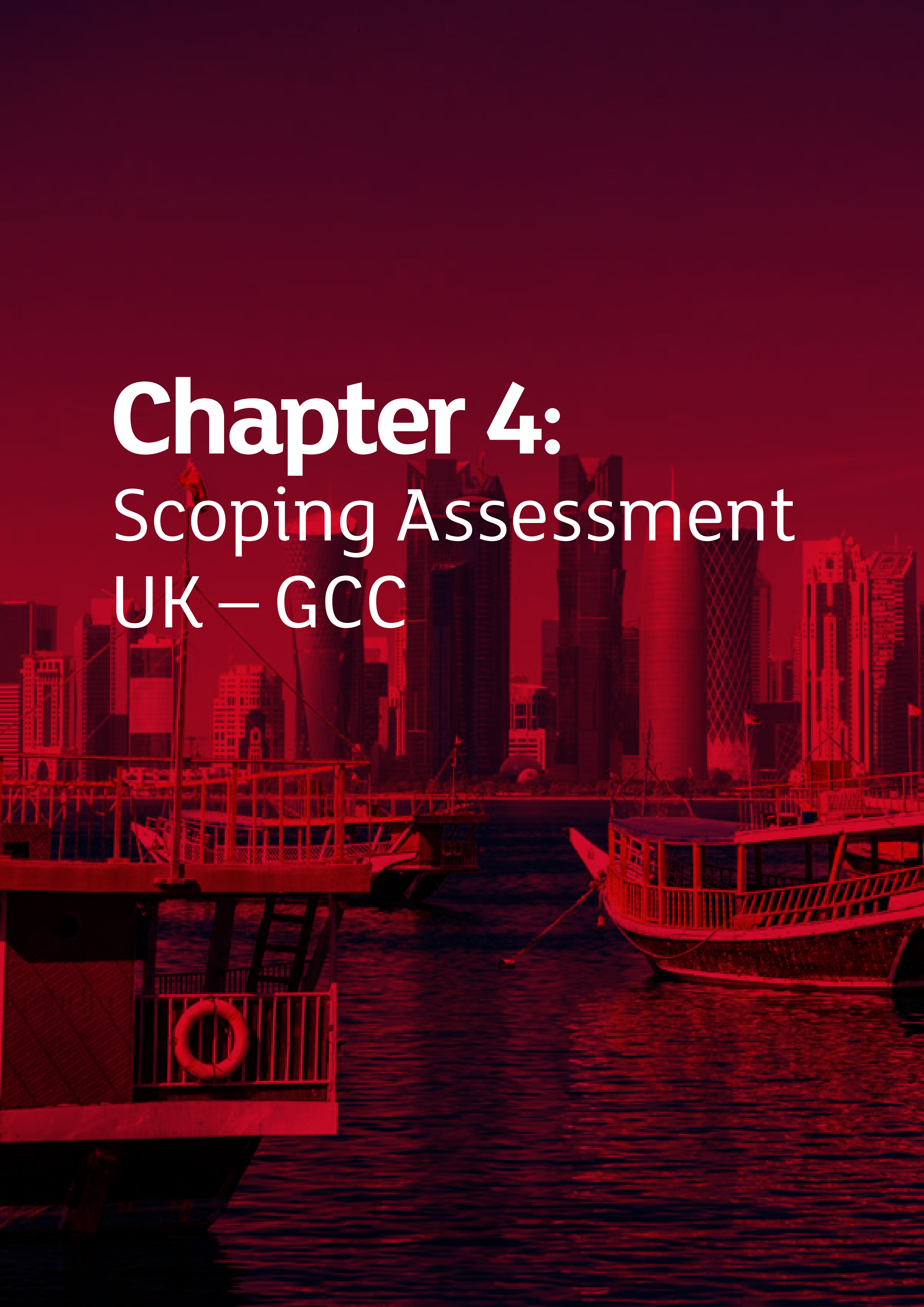
- Ensure flexibility for the UK government to protect legitimate domestic priorities by securing adequate general exceptions to the agreement.
- Provide for the option to review or have regular reviews of the FTA and its operation in the context of the economic relationship between the UK and the GCC member states. Allow for the agreement to be amended when necessary.

18 United Nations Framework Convention on Climate Change adopted on 9 May 1992 and opened for signature on 4 June 1992 at the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro.

Territorial application

- Provide for application of the treaty to all 4 constituent nations of the UK, taking into account the effects of the Ireland/Northern Ireland Protocol.
- Provide for coverage of the agreement to the Crown Dependencies, Gibraltar and other UK Overseas Territories, as appropriate.

Chapter 4:
Scoping Assessment
UK – GCC



Contents

Executive Summary

This scoping assessment sets out the potential economic impacts from an FTA between the UK and the GCC.

An FTA between the UK and the GCC provides an opportunity for British and GCC businesses. They could benefit from lower trade costs, boosting economic activity in both partners' areas of competitive advantage and providing opportunity for increased specialisation. An FTA could also support economic diversification in the GCC region, consistent with the Vision Plans of member states, and provide new opportunities for businesses across both economies.[19] Access to cheaper inputs could benefit existing supply chains, whilst creation of new trade could also provide the opportunity for new supply chains to develop. An agreement could benefit consumers directly through increased consumer choice, better product quality and lower prices.

The economies of GCC member states

In 2019, the combined economies of the GCC were equivalent to the world's 13th largest economy, with a nominal GDP of £1.3 trillion.[20] Of the GCC member states, Saudi Arabia is the largest economy with a nominal GDP of around £629.2 billion.[21] The GCC are also leading oil producers, with 70% of their goods exports to the world in mineral fuels or oils.[22,23] All GCC member states have ambitious Vision Plans to diversify their economies away from oil and gas and have highlighted areas for future economic growth and development. Many of these areas for future growth overlap closely with sectors where the UK has a competitive advantage, such as financial services, which could lead to increased demand for UK services and products as the GCC member states implement their Vision Plans.

£1.3 trillion

The GCC's nominal GDP in 2019

Our existing relationship

An agreement with the GCC could enhance specialisation in areas of economic complementarity, supporting economic diversification in GCC member states, as well as raising productivity within industries, building upon a strong existing relationship.[24] In 2019, the combined economy of GCC member states would have been the UK's 3rd largest trading partner outside of the EU if it were a single country. Total trade was worth £44.6 billion in 2019, before falling to £33.3 billion in 2020 due in large part to the Coronavirus (COVID-19) pandemic.[25] The UK's FDI holdings in the GCC were at least £13.0 billion in 2019, and the GCC's FDI holdings in the UK amounted to £6.8 billion.[26] Our trading relationship supports jobs throughout the UK. The UK's exports to Saudi Arabia, the largest economy in the GCC, were estimated to support directly and indirectly around 120,500 UK jobs in 2018.[27]

£44.6bn

UK trade with the GCC in 2019

Trade flow data points to areas where the UK and the GCC economies complement one another. For example, in the exports of transport equipment, motor vehicles, pharmaceuticals and financial services, where the UK is strong. The GCC has export specialisation in natural resource extraction, petrochemicals, aluminium, and other manufacturing sectors. There are also many areas where businesses in both the UK and GCC economies are active, providing the opportunity to contribute to one another's supply chains.

As noted in the Joint Trade and Investment Review (JTIR), the UK is the world's second largest exporter of services, and these are high in demand across the GCC region where member states are implementing Vision Plans to diversify their economies and enhance the capability and capacity of the private sector to drive economic growth.[28]

19 Bahrain Economic Vision 2030; Kuwait Vision 2035; Oman Vision 2040; Qatar National Vision 2030; Saudi Vision 2030; UAE Vision 2021
20 IMF, World Economic Outlook Database: April 2022. Date Accessed 20/05/2022. Where appropriate data analysis is based on a 2019 reference period, prior to the Covid-19 pandemic to better reflect the long run historic trend.
21 IMF, World Outlook Database, April 2022.
22 WTO Stats Portal. Data accessed 20/05/2022.
23 These are a mixture of intermediate and final goods. Refined oil is defined as a final good, whilst crude and mineral oils are defined as a final good, according to Broad Economic Categories (Revision 5).
24 Trade complementarity indicates to what extent a country's export and import profiles complement one another.
25 Office for National Statistics (ONS), UK Total Trade: all countries, non-seasonally adjusted, April 2022.
26 Data for both inward and outward FDI between the UK and GCC are not available in the main ONS release(Foreign Direct Investment involving UK 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.
27 DIT Trade and Investment, Saudi Arabia Factsheet, May 2022
28 UK and Gulf Cooperation Council Joint Trade and Investment Review 2021

Barriers to trade and investment between the UK and the GCC

The GCC's barriers to trade and investment are currently higher than for many of our other major trading partners. The GCC applies a simple average tariff on UK exports of around 5.5%.[29] There is also significant room for increases, with a 25-percentage point difference between applied and bound rates on average.[30] Reductions in tariffs through an agreement could create important opportunities for British exporters and consumers.[31] Average annual duties on UK exports to the GCC are estimated to be around £525 million per year, including around £65 million per year incurred on exports of motor vehicles.

5.5%

Simple average tariff on UK exports to the GCC

In 2019, services exports accounted for 47.9% of the UK's total exports to the GCC.[32] The GCC's average barriers to trade in services exceed the OECD average.[33]

47.9%

of UK exports to the GCC are in services

Gains from an FTA

An FTA with the GCC could provide a substantial boost to UK GDP, trade, and wages.

DIT modelling shows:

- An FTA could boost UK GDP by around £1.6 billion to £3.1 billion in 2035 depending on the depth of the negotiated outcome (in 2019 prices).[34,35] This is equivalent to an increase in UK GDP of between 0.06% and 0.11% in the long run.[36]
- This increase in overall economic activity is underpinned by a significant increase in trade. Projected trade with the GCC could increase by around £8.6 billion in 2035 to around £15.8 billion in 2035, equivalent to increases of between 16.4% and 30.1%.[37] This would depend on the depth of the negotiated agreement.

£1.6bn - £3.1bn

Increase in UK GDP by 2035

£7.8bn - £13.8 bn

Increase in UK exports to the GCC by 2035

- UK exports to the GCC could increase by around £7.8 billion (22.3%) in 2035 to around £13.8 billion (39.5%) in 2035. UK imports from the GCC could increase by around £0.8 billion (4.8%) in 2035 to around £2.0 billion (11.5%) in 2035.
- Reducing tariffs alone could increase UK total trade with the GCC by £6.8 billion (12.9%), and UK GDP by £1.1 billion (0.04%) in the long run, compared to 2035 levels.
- An FTA could lead to trade creation. This leads to a net increase in trade for the UK, as increased trade flows with the GCC more than compensate for reduced trade flows with other partners.
- The UK may increase imports of manufacturing intermediates from the EU, and services from the EU and US to accommodate increased domestic demand.[38]

Individuals within the economy could see the benefits of these changes as well. UK wages could increase by £0.6 billion to £1.1 billion, dependent upon the depth of the agreement compared to 2019 levels in the long run.

An FTA could provide mutual benefits to both the UK and the GCC. The GCC's combined GDP could increase by around £1.2 billion in 2035, up to £2.8 billion in 2035 (in 2019 prices) under a deeper agreement.[39] This is equivalent to an increase in the GCC's GDP of between 0.07% and 0.16% in the long run.

£1.2bn - £2.8bn

Increase in the GCC's GDP by 2035

As with any modelling of this nature, there is significant uncertainty around these estimates, which are purely indicative of the impacts of any final negotiated agreement.

A UK–GCC FTA could deepen supply chain linkages. Around 52.1% of goods imported to the UK from the GCC are intermediate goods, whilst 73.5% of UK goods exported to the GCC are intermediate goods. Such interconnections are expected to strengthen further as trade becomes easier.

29 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021. The simple average tariff applied by the UK on imports from the GCC is estimated to be around 5.8%. UKGT Simple Average Tariff, 2021.
30 Bound rates are the maximum tariffs that GCC countries can apply to WTO members on an MFN basis, as set out in member states' Goods Schedules in accordance with the General Agreement on Tariffs and Trade (GATT).
31 Conditional on goods complying with Rules of Origin.
32 ONS, UK Total Trade: all countries, non-seasonally adjusted, April 2022.
33 This is based on the World Bank's Services Trade Policy Database (STPD), 2008, which includes information for all GCC member states except for the UAE.
34 For the purpose of this scoping assessment, 2035 represents the long run.
35 This is when compared to projected levels of GDP in 2035 (in 2019 prices) without the agreement. As with all modelling exercises, both the point estimates and the projections which they are applied to are subject to uncertainty. More details on the methodology and projections used can be found in the technical annexes.
36 In this context, long run impacts are typically assumed to be a period of around 15 years.
37 For context, the increase in total trade is estimated at £7.2 billion or £13.2 billion when compared to outturn levels in 2019.
38 Intermediate goods are defined as goods that are used as inputs in the production of another good.
39 A £1.3 billion or £2.5 billion increase based on 2019 GDP levels.

Impact on UK sectors, nations, and regions

The macro-level impacts set out above reflect a vast array of opportunities for individual importers, exporters, and consumers. This involves a shift in the mix of economic activity in both economies as, over time, resources are channelled into activities where they are most productive.

The distributional impacts of an FTA with the GCC will depend on a range of factors such as the structures of the UK and GCC economies, areas of relative specialisation and the ability of businesses to make use of the new opportunities which open up. These in turn will evolve over time in ways which are not predictable. The eventual impacts of the agreement will also be shaped by the final negotiated outcome. As such, we can say at this point that there are opportunities to unlock benefits for specific areas. There could also be risks for others as the mix of activity in each economy changes to reflect these new opportunities (though we expect such changes to be small overall across most sectors).

An FTA provides the opportunity for the UK and the GCC to become more specialised in areas that each economy is comparatively better at exporting. This allows businesses to become increasingly specialised in different parts of the production process, leading to increased trade in intra-industry and intermediate goods.

An FTA could unlock additional growth across a wide range of sectors.

A UK-GCC FTA is expected to result in an expansion of the majority of sectors modelled. The highest percentage increases in Gross Value Added (GVA) are seen in the manufacture of machinery and equipment, motor vehicles and parts, and textiles and apparel.

The modelling suggests a reallocation of resources away from the transport equipment sector, and to a lesser extent the processed foods, electrical equipment, and financial services sectors, towards sectors where GVA expands as a result of a UK-GCC FTA. Output in these sectors could therefore be lower than without an agreement. Increased competition could also provide opportunities for UK businesses in these supply chains, as imports of cheaper inputs and intermediate goods become available, making UK producers more competitive in global markets. Importantly, consumers could also benefit from more choice and lower prices.

The distribution of gains across the UK suggests that all nations and regions could see an increase in output from an FTA.

Manufacturing is the main driver of differential impacts across UK nations and regions. UK regions with a greater concentration of manufacturing activity in electrical equipment, machinery and motor vehicles are estimated to see the greatest expansions in GVA. Output in the West Midlands and North-East could be set to expand the most in relative terms. The estimated increase in output in the West Midlands and North-East is between 0.2% and 0.4% each depending on the depth of the agreement. This is an indicative order of magnitude based on 2019 nominal GVA, which equates to between £320 million and £560 million for the West Midlands, and between £120 million and £210 million for the North-East.

A UK-GCC FTA could benefit consumers directly through increased consumer choice, better product quality and lower prices by lowering tariffs and non-tariff measures (NTMs).

As a result of higher real wages for workers, our modelling estimates show that annual real consumer expenditure in the UK (a component of GDP) could increase. This is estimated to be in the range of £2.8 billion to £5.1 billion compared to 2035 levels, depending upon the depth of the agreement. UK consumers could also benefit from lower tariffs on imported goods from the GCC. Around £183.7 million worth of UK imports of final goods from the GCC are estimated to be subject to tariffs each year - with associated estimated annual duties of up to £7.9 million.

£7.9m

Estimated annual duties paid on UK imports of final goods from the GCC

These gains would feed through over a number of years (around 15 years) and our analysis does not tell us what path would be followed over this period. Similarly, DIT analysis assumes that over the long run the economy will adjust and a trade agreement will not impact on the overall employment rate. However, as the economy adjusts, certain sectors will expand their employment, while others demand less than they otherwise would have. For example, UK employment could slightly rebalance away from textiles and other business services towards manufacture of electrical equipment and other machinery and equipment. These changes reflect the limited structural changes the UK expects to see in the economy overall.

The representation of protected groups in sectors where employment falls relative to the baseline is broadly in line with their representation in the wider workforce. The exception is female workers, who are less represented in sectors where employment is estimated to fall relative to the baseline.

Wider impacts

An FTA could have wider effects on economic diversification in the GCC, as well as environmental impacts.

A UK-GCC FTA could help support economic diversification in the GCC. Modelling shows a small shift in the composition of GCC exports to the world away from oil and gas and towards sectors such as chemicals, wearing apparel and metals. This is observed for all GCC member states.

An FTA also provides an opportunity to support GCC member states' ambitions to stimulate domestic private sector growth outside of oil and gas sectors. Wearing apparel and insurance are the sectors estimated to experience the greatest percentage output gains across the GCC as a result of an FTA.

A UK-GCC FTA is not estimated to have any significant impact on the GDP of developing countries.

Economic growth and a small shift towards more output for more energy-intensive sectors, in addition to other channels of impact, are estimated to increase UK GHG by around 0.12% or 0.23% depending on the depth of the agreement. This is equivalent to an increase of around 0.59 $MtCO_2e$ or 1.11 $MtCO_2e$ per year, in the long-run, when compared to 2020 levels.

Economic growth in GCC member states is estimated to increase the GCC's GHG emissions by around 0.11% or 0.24%, depending on the depth of the agreement.[40] The impacts vary across GCC member states. On a global scale, GHG emissions are estimated to increase by up to 0.01%.[41]

Transport-related emissions associated with increased bilateral trade flows are estimated to increase by around 5% or 8% depending on the depth of the agreement. This is equivalent to an annual increase of around 0.11 $MtCO_2e$ or 0.19 $MtCO_2e$. This modelling does not account for improvements of carbon usage in shipping over time. The UK is committed to being at the forefront of tackling maritime emissions.

The above estimates do not account for other factors that might reduce emissions, such as policy measures to deliver the UK's Net Zero commitments.

The agreement would provide an opportunity to boost trade in environmental goods which can speed the development and uptake of environmentally friendly production techniques. 65 and 216 products classified as environmental goods by the OECD's combined list are currently subject to tariffs by the UK and GCC member states respectively.

The agreement could also affect air pollution, water quality, forests, biodiversity, and waste management as a result of economic changes within the UK and the GCC and shifts in global trade patterns. However, these impacts are not expected to be significant for the UK.

For the GCC, the agreement could add to air pollution, water resource and waste management pressures. However, these impacts are also expected to be limited. In addition, waste management strategies and policies that encourage research and development in recycling water, and regulations to improve air quality could help to mitigate these impacts.

40 This is equivalent to around 1.46 MtCO2e to 3.14 Mt CO2e compared to 2014 levels
41 This is equivalent to around 1.9 MtCO2e to 2.2 Mt CO2e compared to 2014 levels

1. Background

The UK and Gulf Cooperation Council Joint Trade and Investment Review was published in 2021. This was a year-long review analysing the current trade and investment relationship between both markets. Following this review, the government launched a public consultation on a potential FTA between the UK and the GCC between October 2021 and January 2022.

The aim of this Scoping Assessment is to provide Parliament and the public with a preliminary assessment of the potential long run macroeconomic, distributional, and environmental impacts of an eventual FTA between the UK and the GCC prior to the launch of negotiations. The content of any eventual FTA is not yet known. Once the provisions of the agreement have been negotiated, the government will publish a full impact assessment better reflecting the outcome.

In 2019, the UK and combined economies of the GCC were equivalent to the world's 5th and 13th largest economies respectively. Together they accounted for 5.2% of global GDP.

In 2019, GCC-owned businesses employed over 25,000 workers in the UK

Exports to Saudi Arabia alone were estimated to support directly and indirectly around 120,500 UK jobs in 2018

Supply chain links: 52.1% of the UK's GCC goods imports, and 73.5% of the UK's goods exports to the GCC were intermediate products

UK-GCC trade £44.6bn in 2019

In 2019, the GCC was equivalent to the UK's 3rd single largest export destination and 4th largest import supplier outside of the EU

The combined economies of the GCC are projected to become the 14th largest economy by 2030, excluding other trading blocs

The GCC's overall demand is projected to reach around £0.77 trillion by 2035

Economic case for a UK-GCC FTA

Reduce trade in goods barriers

Average tariffs on UK exports to the GCC stand at 5.5%

Reduce trade in services barriers

The GCC's average barriers to trade in services exceed the OECD average

Enhance specialisation in areas of economic complementarity

95.5% of the UK goods exports to the GCC in 2019 were manufactured products

Facilitate entry to a large import market

The GCC's demand for UK exports could increase by £8.7bn by 2035 in real terms

Benefit the UK as a whole

All nations and regions in the UK are expected to benefit from the FTA

Estimated macroeconomic impact of a UK-GCC FTA

Macro impacts by 2035

UK GDP + £1.6bn to £3.1bn

GCC GDP + £1.2bn to £2.8bn

Total trade + £8.6bn to £15.8bn

Distributional impacts

UK sector opportunities in manufacturing, agriculture, chemicals, textiles, and business services

All UK nations and regions could see an increase in output

Wider impacts

Minimal impact on developing countries

+ production emissions 0.59 or 1.11 $MtCO_2e$

+ transport emissions 0.11 or 0.19 $MtCO_2e$

Source: DIT estimates; World Bank Services Trade Policy Database; IMF World Economic Outlook, April 2022; DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021; DIT estimates [economic and middle class projections]; HMRC Business Structural Database; ONS, UK total trade: all countries, non-seasonally adjusted. (28 April 2022); HMRC Trade in goods and TradeMap [UK market share]; HMRC Trade in goods and BEC classification mapping [intermediate vs final goods – note that final goods are those which consumers would directly purchase. those which consumers would directly purchase. Intermediate goods are those which are processed by businesses into final goods].

2. The Economic Case

This section sets out the economic case for a UK-GCC FTA based on a range of analysis.

The GCC is one of the UK's key trading and investment partners, equivalent to the UK's 3rd largest trading partner outside of the EU if it were a single country in 2019.[42]

The UK and the GCC economies complement one another, providing an opportunity for an FTA to enhance specialisation in areas of relative strength. 95.5% of the UK's goods exports to GCC are manufactured products, with jewellery and cars being the top final goods exports in 2019.

A UK-GCC FTA could help support the government's levelling up agenda, supporting jobs across UK nations and regions. UK businesses in every nation and region of the UK trade goods with the GCC. Exports to Saudi Arabia alone, the largest economy in the GCC, were estimated to directly and indirectly support around 120,500 UK jobs in 2018.[43]

Even without an FTA, as the GCC economy expands, demand for UK exports could increase by £8.7 billion by 2035 in real terms. GCC's overall demand for imports is projected to reach £0.8 trillion.[44]

An FTA can reduce barriers to trade and investment, supporting UK businesses in GCC markets. The GCC's simple average tariff applied to UK exports is estimated to be around 5.5%. This is higher than what the GCC applies to its FTA partners, which is around 1%.[45] The GCC also has a relatively higher level of regulatory restrictions than the UK, affecting trade in services.[46]

The GCC is one of the UK's key trading and investment partners, equivalent to the UK's 3rd largest trading partner outside of the EU if it were a single country in 2019.

Trade with the GCC was worth £44.6 billion in 2019, before falling to £33.3 billion in 2020 due in large part to the Coronavirus (COVID-19) pandemic. In 2019, the GCC was equivalent to the 3rd single largest export destination for the UK, outside of the EU. UK exports to the GCC were worth £28.9 billion in 2019 (4.1% of UK exports), before falling to £24.0 billion in 2020 (3.9% of UK exports). The GCC was equivalent to the 4th single largest import supplier for the UK, outside of the EU, in 2019. UK imports from the GCC were worth £15.7 billion (2.2% of UK imports), before falling to £9.2 billion in 2020 (1.5% of UK imports). Of GCC member states, the UAE was the largest trading partner accounting for 37.8% of all trade, equivalent to £12.6 billion, in 2020. The next largest partner was Saudi Arabia, which is the largest economy in GCC, with total trade worth £10.6 billion in 2020.[47]

The UK and the GCC economies contracted sharply in 2020, as a result of the COVID-19 pandemic (with 9.3% and 5.1% decreases in real GDP respectively). However, the future growth prospects for the UK and GCC remain strong.[48]

The combined economies of the GCC were equivalent to the world's 13th largest economy in 2020 and are expected to maintain a similar position over time, projected to be the world's 14th largest economy by 2030, excluding other trading blocs.[49] Qatar is also one of the richest economies in the world, with its GDP per capita ranking 9th globally at $53,804 (£41,912) in 2020.[50]

The UK and GCC economies complement one another, providing an opportunity for an FTA to enhance specialisation in areas of relative strength

Trade flow data points to areas where the two economies complement one another. In 2019, the top UK goods exports to the GCC were mechanical machinery and power generators (intermediate), worth £7.6 billion (50.5% of all UK goods exported to the GCC), before falling to £5.5 billion in 2020 (50.6%). In 2019, the top UK final goods exports to GCC were jewellery, worth £1.2 billion (7.8%), and cars worth £1 billion (6.9%) before falling to £539.8 million (5.0%) and £564.9 million (5.2%) respectively in 2020. The UK is also strong in medicinal and pharmaceuticals products, with exports to the GCC worth £622.8 million (4.1%) in 2019, before falling to £511.8 million (4.7%) in 2020.[51]

42 ONS UK total trade: all countries, seasonally adjusted October to December 2021 edition, April 2022 release.
43 DIT, Trade and Investment factsheet, Saudi Arabia, Feb 2022
44 2035 projections for UK total exports and imports are calculated using the methodology described in the Global Trade Outlook (September 2021). Conversion using Bank of England annual average exchange rate, USD to GBP (2019).
45 EFTA and Singapore
46 World Trade Organisation (2008-11), 'Services trade policy database'
47 ONS, UK Total Trade: all countries, non-seasonally adjusted, April 2022.
48 IMF World Economic Outlook April 2022, Compared GDP in 2019 and 2020 at constant prices (National Currency). Value for GCC is an average of member states' percentage reductions in GDP.
49 DIT calculation based on data from Global Trade Outlook, September 2021.
50 FCDO Economics and Evaluation Directorate, Qatar Economic Factsheet, December 2021
51 ONS, Trade in goods: country-by-commodity exports, May 2022.

The UK also has a comparative advantage in services, particularly financial and business services. In 2019, exports of financial and business services to Saudi Arabia were worth £483 million (9.8% of total UK services exports to Saudi Arabia) and £2.9 billion (59.3%) respectively. Exports increased to £498 million (9.0%) and £4.1 billion (73.4%) respectively in 2020.[52] These sectors align closely with those in which the UK is specialised globally, according to revealed comparative advantage (RCA) analysis from the JTIR.

The GCC is relatively strong in natural resource extraction, petrochemicals, aluminium, and other manufacturing sectors. The GCC member states are also leading oil producers with 70% of their goods exports to the world in mineral fuels or oils.[53] Whilst the UK imported £4.6 billion worth of oil in 2019 (45.9% of all UK goods imported from the GCC), this represents only 10.5% of total trade between the UK and the GCC.[54]

As noted in the JTIR, services are high in demand across the GCC where member states are implementing Vision Plans to diversify their economies and enhance the capability and capacity of the private sector to drive economic growth. Of all UK exports to the GCC in 2019, 47.9% were in services. The UK also reported a trade in services surplus of £8.2 billion with the GCC in 2019.[55]

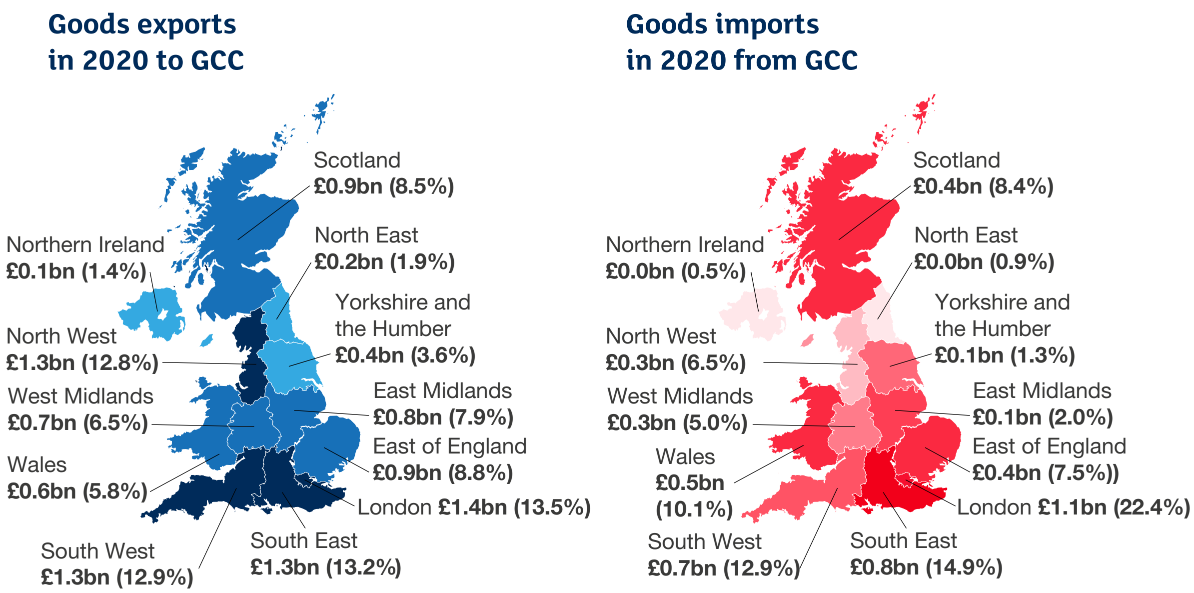
A UK-GCC FTA could help support the government's levelling up agenda, supporting jobs across UK nations and regions

An FTA with the GCC will support jobs across the UK. Exports to Saudi Arabia were estimated to support directly and indirectly around 120,500 UK jobs in 2018.[56]

GCC-owned businesses also employ workers across the UK. In 2019, there were 592 GCC-owned local business units in the UK, employing over 25,000 workers in the UK, three times more than the 8,000 in 2009. The most were employed in London (12,000 workers), followed by the South East (4,000 workers) and the North West (2,000 workers).[57]

There will be opportunities for businesses in all UK nations and regions as a result of the FTA with GCC. As seen in Figure 2, UK businesses in every region of the UK trade goods with GCC. In 2020 London, the South East, and the South West had the greatest share of total traded goods with GCC.[58]

Figure 1: Total goods trade (exports and imports) with the GCC by UK region, 2020



Source: HMRC, January 2022

52 ONS data for UK trade in services: service type by partner country, non-seasonally adjusted includes Saudi Arabia and 'Residual Gulf Arabian countries', which includes the UAE, Qatar, Kuwait, Bahrain, Oman, Iraq and Yemen. Due to limited data availability, it was not possible to calculate total UK trade in services: service type for the GCC collectively.
53 WTO Stats Portal. Data accessed 20/05/2022.
54 Oil refers to both refined and crude oil
55 ONS, UK Total Trade: all countries, non-seasonally adjusted, April 2022.
56 DIT, Trade and Investment factsheet, Saudi Arabia Feb 2022
57 DIT analysis of ONS (2022), Business Structural Database. This work uses research datasets which may not exactly reproduce National Statistics aggregates.
58 HMRC Regional Trade Statistics (data extracted from the interactive tables in July 2021).

As the GCC economy expands, demand for UK exports could increase by £8.7bn by 2035 in real terms[59]

The GCC's global demand for imported goods and services is estimated to continue to grow as its economy expands. DIT's dynamic projections suggest that the GCC market could grow by around £0.2 trillion between 2019 and 2035. Overall demand is projected to reach around £0.8 trillion per year in real terms (today's prices) by 2035.[60] This represents around a 35% increase in the size of the import market in real terms compared to 2019.

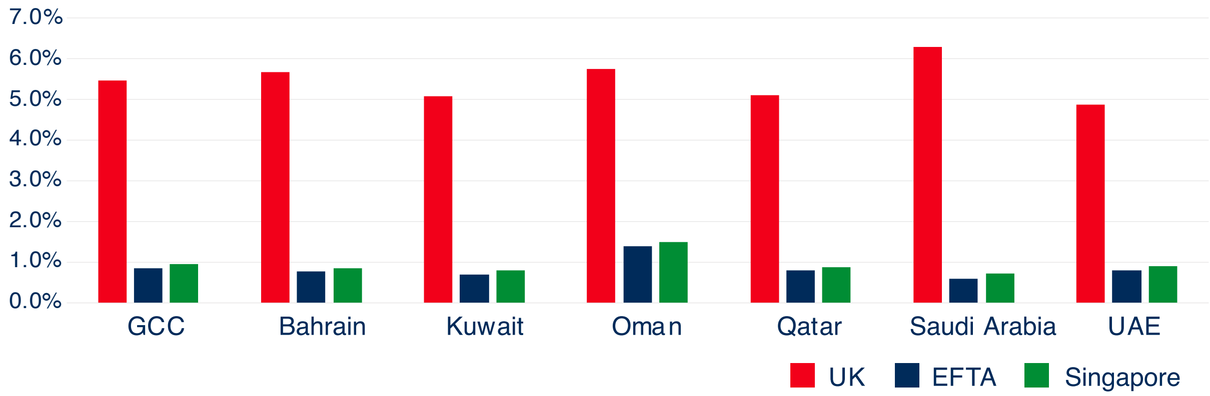
UK exports to the GCC will depend on how its share of that growing market evolves. If the UK maintains its 2019 market share in the GCC, rising demand in the GCC would translate into an additional £8.7 billion in UK exports by 2035 in real terms. If the UK's share of the GCC's trade evolves in line with the UK's expected global market share, UK exports to the GCC could increase by £1.4 billion in real terms by 2035. The UK's expected global market share is projected to fall by around a fifth between 2019 and 2035.[61]

An FTA can reduce barriers to trade and investment, supporting UK businesses in GCC markets.

Goods trade

The simple average tariff applied to UK exports by the GCC is estimated to be around 5.5%.[62] This is higher than what the GCC applies to its FTA partners.[63] This is the case for all GCC member states (Figure 2).[64] It is estimated that UK products entering GCC markets incur around £525 million in tariff duties on average each year.[65] Tariffs applied in the GCC normally range between 0% and 5% on most products with some country exceptions. Where tariffs exceed this across the GCC they tend to be on products containing pork and alcohol, as well as tobacco. Tariffs on these products can exceed 100%.

Figure 2: Simple average tariffs applied to the GCC's imports from the UK, compared to preferential simple average tariffs applied to the GCC's imports from FTA partners



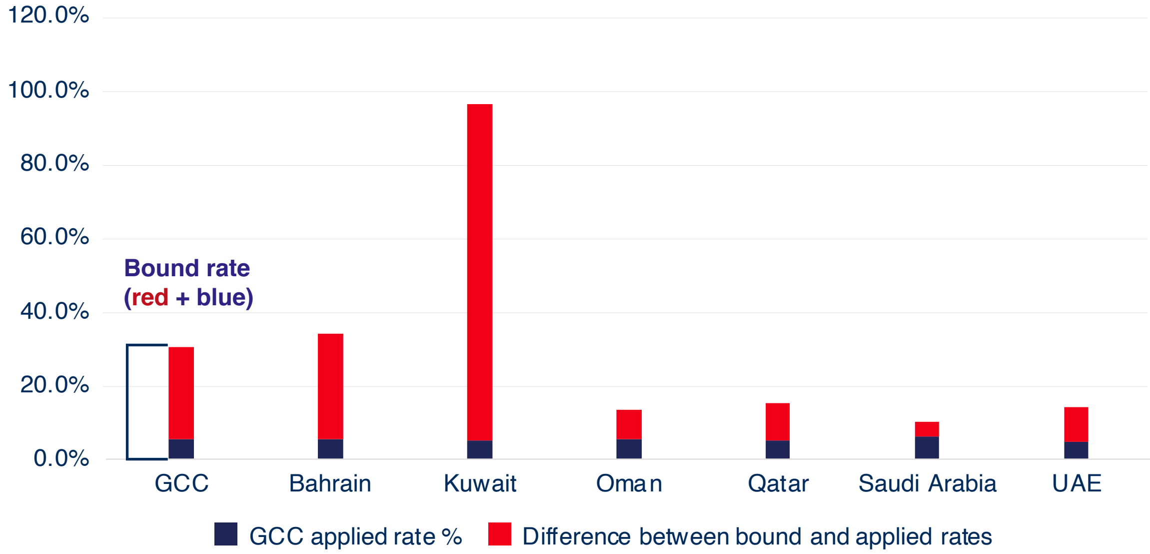
Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021. GCC simple average tariffs applied to imports from FTA partners: Market Access Map (2020), International Trade Centre, www.macmap.org

When countries join the WTO, they commit to apply MFN tariffs on imports, except where they have a preferential trade agreement (such as an FTA) in place with a partner country. MFN rates are the highest tariffs that WTO members can charge one another in the absence of a trade agreement.

The average applied MFN tariff rates on GCC member states' imports are notably lower than their average MFN bound rates (the maximum tariffs that GCC member states can apply to WTO members on an MFN basis). The difference between the GCC's average MFN bound and applied rate is around 25 percentage points (Figure 3).[66,67] This provides the GCC with discretion to increase applied MFN tariff rates to other WTO members (including the UK) with which it does not have preferential trade agreements.

59 US$36 billion at market exchange rates. Market share is maintained at 4.6% of GCC imports. Conversion using Bank of England average annual exchange rate, USD to GBP (2019).
60 2035 projections for UK total exports and imports are calculated using the methodology described in the Global Trade Outlook (September 2021). Conversion using Bank of England annual average exchange rate, USD to GBP (2019).
61 DIT internal analysis. The UK's market share is estimated to reduce by 2035 at the same rate as the projected decline in the UK's market share in its trade with the rest of the world, in line with projections from the Global Trade Outlook (DIT, 2021).
62 DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff data reflecting 2020 and 2021 values. Tariff rates accessed September 2021. The simple average tariff applied by the UK on imports from the GCC is estimated to be around 5.8%. UKGT Simple Average Tariff, 2021.
63 The GCC has FTAs with EFTA and Singapore.
64 There exists some variation in applied tariffs across GCC member states, despite the GCC formally being a customs union.
65 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021. Trade data from ITC Trade Map and Qatar official statistics, with current estimates a range of 2017-19, different averages throughout that period and single years.
66 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021.
67 A percentage point is a simple difference between two percentages. For example, moving up from 10 percent to 14 percent is an increase of 4 percentage points.

Figure 3: GCC member states' average bound compared to average applied tariff rates



Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021.

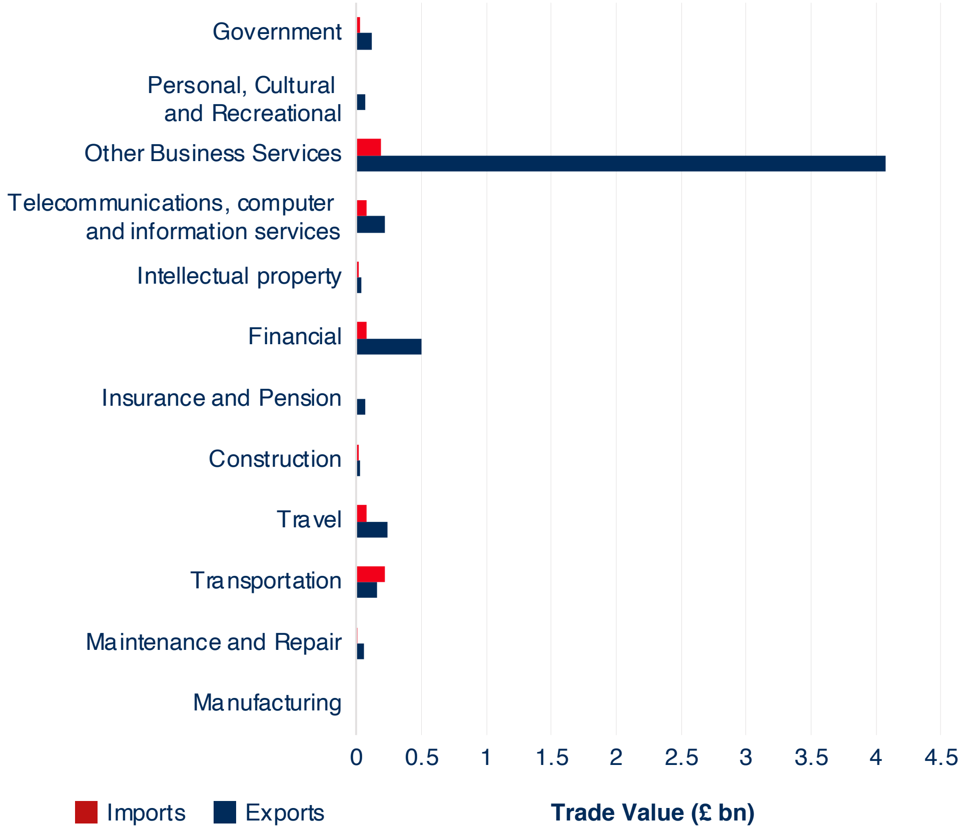
Services trade and investment

In 2020, services exports accounted for 54.6% of the UK's total exports to the GCC. The UK imported £3.4 billion worth of services (2.1% of the UK's total service imports) from the GCC and exported £13.1 billion (4.4% of total UK service exports), resulting in total services trade of around £16.6 billion.[68]

Of the GCC member states, ONS bilateral services trade statistics by sector are only available for Saudi Arabia.[69] In 2020, the UK's total services trade with Saudi Arabia was worth £6.3 billion. Services trade has been particularly affected by the Coronavirus (COVID-19) pandemic.[70] Total services trade with the GCC in 2020 was 15.3% lower than in 2019. In 2019, the UK imported £5.7 billion worth of services from the GCC and exported £13.9 billion, leading to total services trade of £19.5 billion.[71]

68 ONS, UK Total Trade: all countries, non-seasonally adjusted, April 2022.
69 Bilateral trade data on total services trade exists for all GCC countries. However, sectoral services trade data only exists for Saudi Arabia
70 WTO (2021), 'Services Trade Barometer', OECD (2021), 'The impact of Covid-19 on directions and structure of international trade', and ONS (2021), 'The impacts of EU exit and coronavirus (COVID-19) on UK trade in services: November 2021'.
71 ONS, UK Total Trade: all countries, non-seasonally adjusted, April 2022.

Figure 4: Saudi Arabia – UK Trade (£bn), 2020



Source: ONS, trade by country by sector, April 2022

In 2020, the UK's largest service sector export to Saudi Arabia was in other business services, accounting for 73.4% and 26.1% of the UK's total services exports and imports, respectively. This was followed by financial (9.0% of UK services exports to Saudi Arabia) and travel services (4.3%).[72]

In terms of inward investment, the stock of FDI from the GCC in the UK was at least £15.7 billion in 2020 with the GCC accounting for at least 0.8% of total UK inward FDI stock.[73] In 2020, the UAE accounted for the largest share of UK inward FDI stock (£12.2 billion), followed by Bahrain (£1.4 billion), Kuwait (£0.4 billion) and Oman (£0.1 billion).[74]

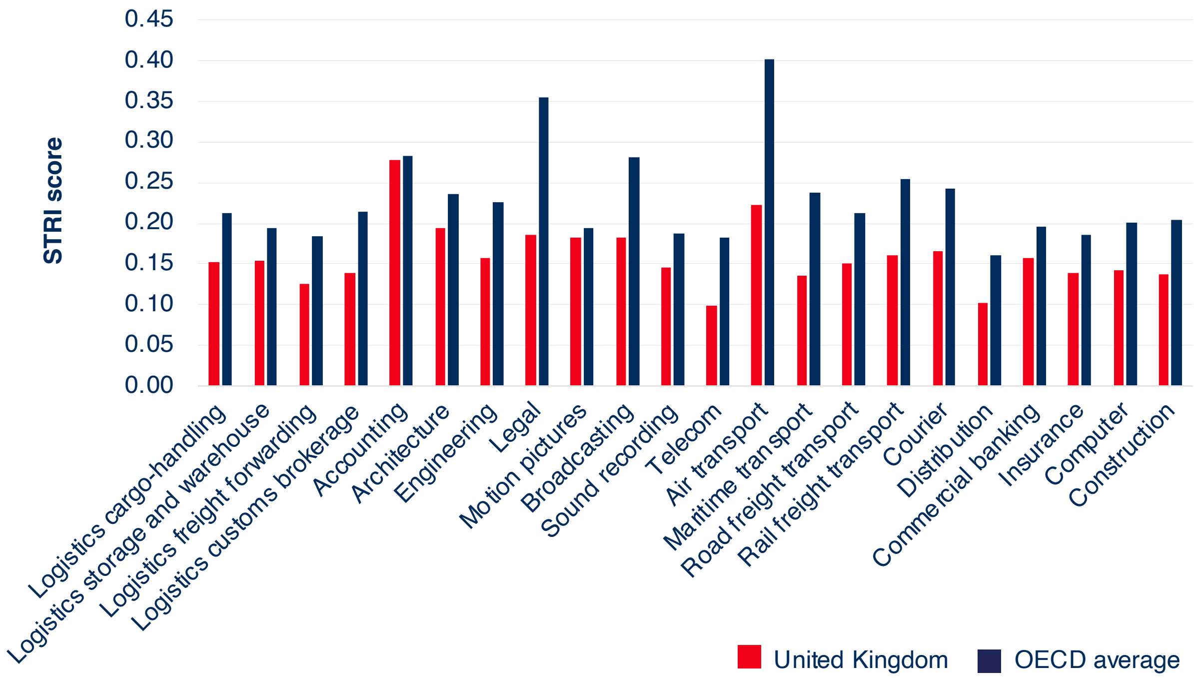
In 2020, the UK stock of FDI in the GCC was at least £13.4 billion, with the GCC accounting for approximately 0.8% of the total UK outward FDI stock. This is an increase from £13.0 billion in 2019.[75] In 2020, UK outward FDI stock to the UAE was £7.4 billion and £5.5 billion to Saudi Arabia. UK outward FDI stock is only disclosed for these two GCC member states.

The OECD's Services Trade Restrictiveness Index (STRI) provides a measure of regulatory restrictions to trade in services across 22 sectors, with 0 representing a sector which is completely open to foreign service suppliers and 1 representing a sector which is completely closed. The STRI does not cover any GCC economies.

72 ONS, UK Total Trade: all countries, non-seasonally adjusted, April 2022.
73 Data for both inward and outward FDI between the UK and GCC are not available in the main ONS release (Foreign Direct Investment involving UK 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.
74 UK inward FDI stock for 2019 is not disclosed for Saudi Arabia. In 2018, Saudi Arabia accounted for £0.066bn of UK inward FDI stock.
75 Some caution should be taken when comparing 2020 data to previous years. The methodology change has led to an increase in reported FDI, particularly inward FDI, in 2020. The effect of this methodology change will vary between partners, although it is not possible to quantify this specific impact for individual partners.

Figure 5 below shows that the United Kingdom has a lower STRI score than the OECD average across all 22 sectors.

Figure 5: United Kingdom and OECD average Services Trade Restrictiveness Index (STRI)



Source: OECD STRI index, 2021

Whilst the STRI does not include any information on GCC countries, the World Bank's Services Trade Policy Database (STPD) includes information for all GCC member states, except for the UAE.[76] The STPD is an index which measures comparable information on services trade policies across 106 economies, including 5 sectors and 19 subsectors, with an aim to measure a country's openness to services trade.[77] Caution is advised when interpreting the results as they are from 2008. The literature suggests that applied services policy do not significantly change year-on-year.[78] However, STPD data for Oman is available from 2008 to 2016 and shows an STPD score decrease of 8.3% between 2008-2016. In comparison, the UK saw an STPD decrease of 10.8% within the same period.[79]

The UK had a lower STPD score compared to GCC member states and the OECD average in 2008. In contrast, the average GCC STDP score (50.53) was significantly higher than the UK (14.35) and the OECD average (19.49). The GCC member state with the highest score was Qatar (60.14) whilst Saudi Arabia (42.53) was the lowest.[80]

In terms of sectors, the UK is extremely open in financial services (0.97), retailing (0.00) and telecommunications (0.00) compared to the GCC average which scored 42.38 in financial services, 37.50 in retailing, and 52.08 in telecommunications. The UK is more liberal than the GCC in every industry, with financial services, professional services, retailing and telecommunications significantly below the GCC average.[81]

In every sector the GCC average is significantly higher than the OECD average. Note that the OECD average only includes 19 countries and the GCC average does not include the UAE.[82]

Saudi Arabia has a relatively high level of regulatory restrictions affecting digitally enabled services and FDI. Data does not indicate the level of restrictiveness in other GCC member states.

The OECD's Digital Services Trade Restrictiveness Index (Digital STRI) builds on the STRI by identifying cross-cutting barriers that affect trade in digitally enabled services across five broad categories.[83] The one GCC member state that is covered by the Digital STRI is Saudi Arabia, whose score is 0.41 compared to the UK's 0.06 and thus has a more restrictive trading environment in this respect.[84]

76 The STPD scores are ranked between 0 and 100, with a score of 0 representing a sector which is completely open to foreign service suppliers and a score of 100 representing a sector which is completely closed.
77 Borchert, Ingo, Batshur Gootiiz and Aaditya Mattoo (2012), "Guide to the Services Trade Restrictions Database", World Bank Policy Research Working Paper (WPS6108). Unlike the OECD's STRI the STPD is not updated on an annual basis which means the latest available data for GCC economies is from 2008. The most recent is from 2016, however no GCC countries are included within this.
78 Borchert et al (2020), 'The evolution of services trade policy since the great recession'.
79 World Trade Organisation (2008-11),'Services trade policy database'
80 ibid
81 ibid
82 ibid
83 Infrastructure and connectivity; electronic transactions; payment systems; intellectual property rights; and other barriers affecting trade in digitally enabled services.
84 OECD (2020), Digital Services Trade Restrictiveness Index

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 UK and Saudi Arabia is accounted for by infrastructure and connectivity, such as cross-border data flows.

The OECD's Foreign Direct Investment Regulatory Restrictiveness Index (FDI RRI) assesses the restrictiveness of a country's FDI rules across four main types of restrictions.[85] The FDI RRI measures restrictions on a 0 (open) to 1 (closed) scale. Of the GCC member states, data is only available for Saudi Arabia. With an overall score of 0.21, Saudi Arabia is more restrictive to FDI than the UK with a score of 0.04. In comparison, the OECD has an average score of 0.06, which is significantly lower than Saudi Arabia but still higher than the UK.

Saudi Arabia is more restrictive to FDI across all the four types of restrictions covered in the FDI index. The UK is categorised as fully open to FDI (0.00 score) in all categories apart from equity restrictions.[86] Saudi Arabia is seen as relatively open or fully open in three categories: screening and approval (0.03 score); key foreign personnel (0.00), and other restrictions (0.03).[87] Nevertheless, it has a score of 0.16 on the equity restrictions category.

The UK 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, whereas Saudi Arabia is more restrictive than the OECD in the majority of sectors covered.[88] Saudi Arabia is more restrictive than the UK in all sectors except for maritime, media and radio, and TV broadcasting.

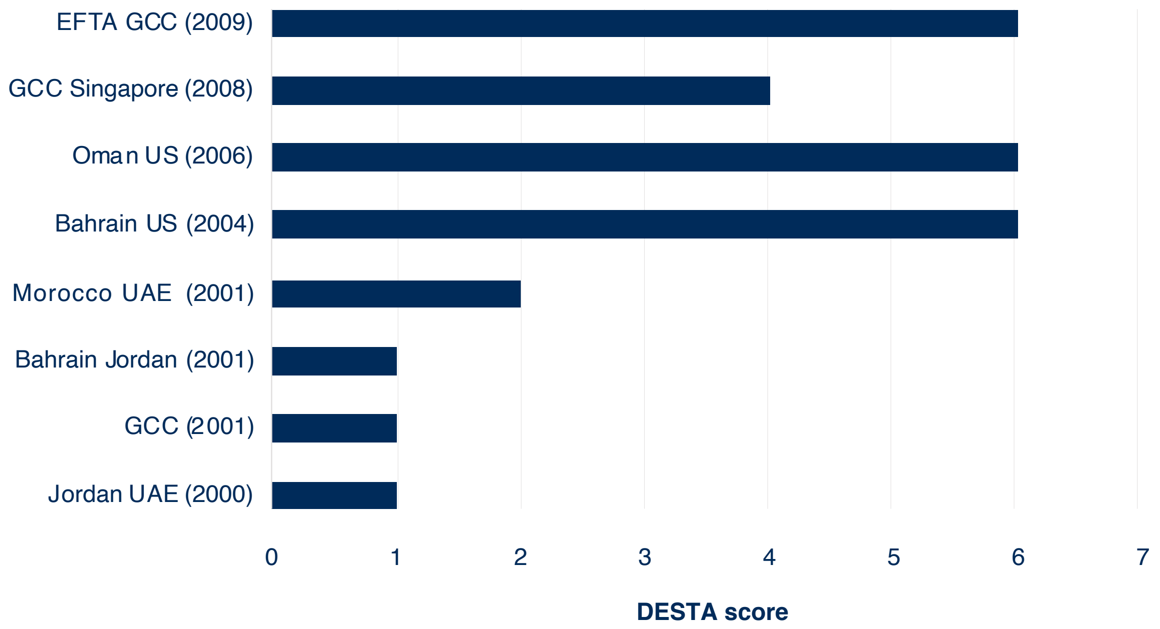
Fisheries and real estate investment are the most restrictive sectors in Saudi Arabia. According to the index, Saudi Arabia is fully closed to investment in fisheries, due to full foreign equity restrictions. Similarly, fisheries are also the UK's most restrictive sector to FDI.[89]

An FTA with the GCC represents an opportunity to reduce regulatory restrictions and increase certainty between the UK and the GCC in services, investment and wider digitally delivered trade, helping to support the competitiveness of UK exports in the GCC market.

The depth and coverage of the GCC and its member states' free trade agreements have increased over time, including more legally enforceable provisions that go beyond tariffs

Figure 6 illustrates the depth of the GCC member states' free trade agreements that were signed since 2000, based on the Design of Trade Agreements (DESTA) database score (0 – Low depth; 7 – High depth).[90] On this measure, the Bahrain US FTA (2004), Oman US FTA (2006), and the EFTA GCC FTA (2009) are relatively comprehensive with a DESTA score of 6.

Figure 6: Depth of GCC and its member states' free trade agreements

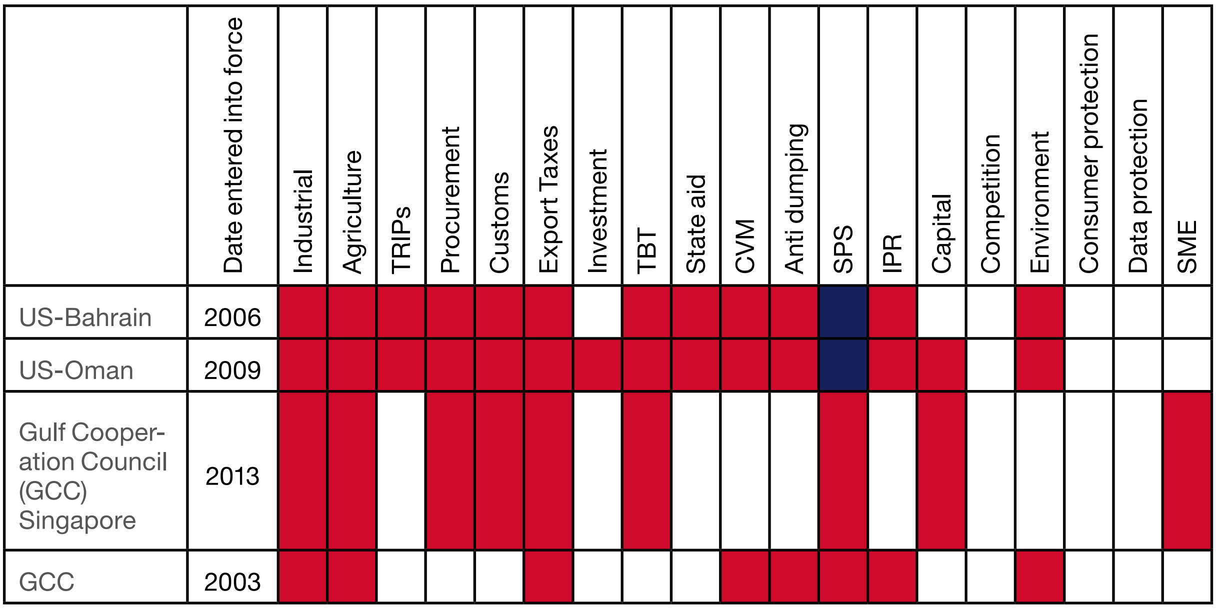


Source: DESTA database, depth (1-7). A score of 1 indicates a shallow agreement, a score of 7 indicates a comprehensive agreement.

85 OECD (2020), Foreign Direct Investment Regulatory Restrictiveness Index. Types of restrictions: 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. The FDI Index is not a full measure of a country's investment climate. A range of other factors come into play, including how FDI rules are implemented.
86 United Kingdom score in the 'Other restrictions' category is 0.003.
87 OECD (2020), Foreign Direct Investment Regulatory Restrictiveness Index. Saudi Arabia score in key foreign personnel is 0.004.
88 OECD (2020), Foreign Direct Investment Regulatory Restrictiveness Index. These sectors are: Agriculture, Electricity, Maritime, Radio and TV Broadcasting and Other Media.
89 United Kingdom score in fisheries is 0.55.
90 Design of Trade Agreements (DESTA) Database.

Chart 1 below illustrates the greater depth of the GCC and its member states' recent free trade agreements. It also shows the Economic Agreement entered into by all GCC member states which establishes the GCC customs union.[91] They cover a wider range of areas beyond tariffs. Data is not available for the GCC-EFTA FTA.

Chart 1 – Content of the GCC and its member states' free trade agreements



Source: Global Preferential Trade Agreements Database, World Bank. To note, white means that the provision is not mentioned in the agreement or not legally enforceable; blue means that the provision is mentioned, legally enforceable but explicitly excluded by dispute settlement provision; red means the provision is mentioned and legally enforceable. These terms follow the definitions of the World Bank's database.

91 Economic Agreement adopted by GCC member states at the GCC Supreme Council's 22th session on 31 December 2001 in Muscat. In Figure 7, this FTA is referred to as "GCC".

3. Quantifying the macroeconomic and trade impacts of a UK-GCC FTA

This section presents estimates of the long run impacts of the agreement on GDP, trade, and sectoral output in the UK. These are estimated using the department's Computable General Equilibrium (CGE) model, which provides a comparative static analysis. The estimates are applied to dynamic economic projections of the global economy from DIT's Global Trade Outlook to generate a forward-looking value for the expected GBP value of the agreement (expressed in today's money). While CGE modelling is a standard approach to assessing the impact of trade agreements, the modelling may not capture the full range of dynamic impacts of the agreement.

The main macroeconomic impacts are:

- **A long run boost to UK GDP.** A UK-GCC FTA is estimated to increase UK GDP by the equivalent of around £1.6 billion or £3.1 billion, depending on the depth of the agreement, when compared to projections of UK GDP in 2035.[92] This is equivalent to 0.06% and 0.11% respectively. Reducing tariffs alone could increase UK GDP by up to £1.1 billion (0.04%) in the long run, compared to 2035 projections.[93]
- **Increased opportunities for UK exporters, as UK exports are estimated to rise, driven by expanding manufacturing sectors.** As UK goods and services become more competitive in the GCC market, UK exports to GCC are estimated to increase by around £7.8 billion (22.3%) when compared to projected levels in 2035.[94] This could increase to around £13.8 billion (39.5%) under a deeper agreement in 2035.
- **Businesses and consumers could benefit from greater access to GCC products.** Imports of GCC goods and services are estimated to increase by £0.8 billion (4.8%) when compared to projections of 2035 levels.[95] This could increase to around £2.0 billion (11.5%) under a deeper agreement in 2035.
- **Better jobs.** The modelling estimates an increase in wages for UK households by between £0.6 billion and £1.1 billion every year in the long run, depending on the depth of the agreement.[96] This reflects increases of 0.06% or 0.12% respectively.

Economic gains from trade agreements

International evidence suggests that by reducing the costs of trade and investment, trade agreements can generate a wide range of economic gains through a variety of channels:

- **Increased specialisation across sectors.** Enhanced access to international markets and imports helps economies to specialise in producing goods and services in which they are relatively better at producing. Over the long run this greater specialisation increases the overall national output and wealth of the country.
- **A more efficient allocation of resources within sectors.** Enhanced openness to trade can spur innovation and the expansion of the most efficient firms within sectors, driving up the average productivity and wages within the sector, while at the same time generating increased choice and lower prices for consumers.
- **Increases in productivity.** These result from businesses becoming more efficient as they spread their costs across a higher number of products and services traded; increases in investment; and a boost to research & development.

92 Source: DIT CGE Modelling (2022). Note: Throughout this chapter, equivalent pound values are provided. These are calculated by multiplying the percentage changes from the model with the projections for 2035 where available. Full details, including numbers based on 2019 values are found in the technical annexes.
93 Figures are in 2019 prices and the scale of the impact is uncertain.
94 2035 projections for UK total exports and imports are calculated using the methodology described in DIT's Global Trade Outlook (September 2021). For bilateral trade between the UK and GCC in 2035, the projections are combined with a market share assumption where the UK maintains its 2019 market share of GCC's imports.
95 Source: DIT CGE Modelling (2022). Note: Throughout this chapter, equivalent pound values are provided. These are calculated by multiplying the percentage changes from the model with OBR projections of UK GDP in 2035.
96 Source: DIT CGE Modelling (2022). ONS: UK sector (S.1): Wages and salaries (D.11): Resources: Current price: Seasonally adjusted.

Approach to assessing macroeconomic impacts

The scale of the macroeconomic and sectoral impacts is estimated using CGE modelling undertaken by DIT. This is a standard technique used internationally to estimate the impacts of trade agreements. The approach is a stylised model of the world economy including links between countries and sectors.[97] The model estimates the impact on trade and the economy of reducing trade barriers.

The CGE model is 'static', in the sense that it estimates the economic changes resulting from reductions in existing trade costs using a snapshot of the world as it is now. This means that the modelling does not account for future trends which mean that the UK, GCC and wider global economy could look very different in the future. It means that the modelling estimates are not an economic forecast and they do not capture the full range of potential dynamic impacts from the agreement.

Box 1: Technical limitations of the CGE modelling

CGE modelling is the standard approach to estimating the impacts of trade agreements, adopted by governments and academics around the world. However, the modelling is subject to a range of technical limitations. These include:

Data

The modelling uses the widely used GTAP dataset.[98] GEMPACK (General Equilibrium Modelling PACKage) is a suite of economic modelling software. It is especially suitable for computable general equilibrium models. The latest available GTAP dataset draws on data from 2014. This means that changes in the pattern of trade between 2014 and today are not fully reflected in the estimates.

Comparative statics approach

The modelling is based upon a so-called comparative statics approach, which compares the level of economic variables such as GDP, trade, and wages before and after the effects of the agreement have worked through the economy. The estimated changes are in addition to any long-term underlying growth. In this context, the long run impacts are typically assumed to be a period of around 15 years.

This means that the modelling does not fully capture the impacts of, for example:

- Future growth in the size of the GCC economies or future growth in the relative importance and integration of the UK and GCC economies.
- Future policy choices which influence the value of the agreement.
- The future effects of global trends such as the rise of global value chains, the increasing importance of services trade, changing demographics, technological advancement, and economic development.
- The full potential range for the so-called 'dynamic effects' resulting from increased trade on the long-run growth rate of productivity in the economy.
- The impact of on-going or recently concluded negotiations that the UK is not party to.
- The value of increased resilience for UK exporters in the face of regional or global shocks owing to options provided through enhanced and more secure access to a diverse range of markets.

The net effect of future trends on the estimated impacts of the agreement is uncertain. The limitations mean that the modelling approach does not necessarily fully capture the complete range of potential dynamic impacts arising from trade agreements.

The full employment closure rule for the labour market

The full employment closure rule is a common technical assumption employed in CGE modelling. This reflects the assumption that in the long run there is no effect on the labour supply and the economy returns to equilibrium employment levels. The employment closure rule means that the overall level of employment in the long run (once the economy has adjusted to the agreement) is not affected by the FTA. This is consistent with the evidence that free trade agreements do not raise the long-run level of employment and means that workers experience gains dues to increases in wages due to higher productivity and by moving across sectors.

Annexes 1 and 2 provide further technical detail on the modelling including the choice of model structure and derivation of inputs used to model the agreement.

97 Results from the CGE modelling are not directly comparable to results presented in previous scoping assessments, as a different model specification has been used in some previous scoping assessments.
98 GTAP is a global network of researchers and policy makers conducting quantitative analysis of international policy issues. The consortium produces a consistent global economic database which is widely used to study prospective international economic policy.

Scenarios and inputs

The assumed magnitude of tariff and non-tariff cost reductions resulting from the agreement are an important determinant of the estimated scale of impacts. As the content or depth of the agreement is not yet known, the modelling exercise provides estimates based upon two illustrative scenarios, representing alternative assumptions regarding the depth of the agreement.

- **Scenario 1** assesses the impact of substantial, but not full, bilateral tariff liberalisation by the UK and GCC, combined with a 10% reduction in the levels of actionable NTMs and regulatory restrictions to services.[99]
- **Scenario 2** represents a deeper trade agreement. It assesses the impact of full bilateral tariff liberalisation, combined with a 30% reduction in the levels of actionable NTMs and regulatory restrictions to services.[100]

Table 1 summarises the assumed reductions in tariffs and NTMs for UK imports from GCC and UK exports to GCC.

Table 1: Tariff, NTMs and regulatory restrictions to services (AVEs) trade cost reductions (percentage point reductions)[101]

	Scenario 1		Scenario 2	
Percentage point reductions	**UK (barriers faced by GCC exporters to the UK)**	**GCC (barriers faced by UK exporters to GCC)**	**UK (barriers faced by GCC exporters to the UK)**	**GCC (barriers faced by UK exporters to GCC)**
Overall average trade cost reductions	**3.9**	**4.1**	**8.8**	**7.9**
Tariffs	2.3	3.4	2.8	4.1
NTMs and regulatory restrictions to services (AVEs)	2.3	1.7	6.8	5.0
Tariff trade cost reductions by sector	**2.3**	**3.4**	**2.8**	**4.1**
Agri-food	2.9	3.7	3.6	4.6
Industrial Goods	1.8	3.2	2.0	3.5
Overall NTM (AVEs) trade cost reductions for goods by sector	**2.4**	**1.5**	**7.1**	**4.5**
Agri-food	3.1	1.9	9.4	5.6
Industrial Goods	1.6	1.2	4.9	3.5
Overall regulatory restrictions to services (AVEs) trade cost reductions for services	**2.0**	**2.1**	**6.1**	**6.2**

A boost to trade, GDP, and wages in the UK

The modelling produces estimates for the long-run impact of the agreement relative to a baseline in which the UK and the GCC do not have a trade agreement. The long run is generally assumed to represent around 15 years from implementation of the agreement.

Results from modelling an FTA with the GCC show long term increases in the UK's GDP, trade, and wages. The macroeconomic impacts estimated are summarised in Table 2.

99 It is common in FTAs for some tariffs to remain after negotiations, particularly in agricultural sectors. Scenario 1 includes symmetric assumptions for both the UK and GCC, consisting of 80% tariff liberalisation on agricultural goods and 90% tariff liberalisation on industrial goods.
100 For both scenarios, we make an exception for the oil, gas, coal and petroleum, and other transport equipment sectors, assuming 0% reduction in the levels of NTMs, as we do not expect an FTA to impact on these sectors. Further justification for these assumptions can be found in Annex 2.
101 AVEs are calculated as simple averages of all AVE reductions across relevant sectors.

Table 2: Summary of estimates of UK macroeconomic impacts, long run changes against the baseline

Results from CGE model	£bn % change estimates, compared to 2035 projections	
	Scenario 1	Scenario 2
Change in UK GDP	£1.6bn (0.06%)	£3.1bn (0.11%)
Change in UK exports to the GCC	£7.8bn (22.3%)	£13.8bn (39.5%)
Change in UK imports from the GCC	£0.8bn (4.8%)	£2.0 bn (11.5%)
Change in total UK exports	£2.5bn (0.3%)	£4.5bn (0.6%)
Change in total UK imports	£2.5bn (0.3%)	£4.5bn (0.5%)

Source: DIT CGE Modelling (2022). Note: Throughout this chapter, equivalent pound values are provided. These are calculated by multiplying the percentage changes from the model with the data for 2035. Full details, including numbers based on 2019 values are found in the technical annexes.

The modelling estimates similar results for the change in total UK exports and change in total UK imports. These results are driven by the underlying mechanisms in the CGE model, and the input assumptions used.

DIT's dynamic projections suggest that the GCC import market could grow by around £0.2 trillion between 2019 and 2035.[102] This represents around a 35% increase in the size of the import market in real terms (today's prices) compared to 2019.

The modelling shows that as a result of an FTA total trade with GCC could additionally increase by around £8.6 billion for a shallower deal to around £15.8 billion for a deeper one (compared to 2035 levels in 2019 prices). This is equivalent to an increase of total trade between the UK and the GCC of 16.4% or 30.1%.[103]

Around 69% (scenario 1) or 43% (scenario 2) of the gains in UK total trade with the GCC are attributed to tariff liberalisation. This is equivalent to around £5.9 billion in 2035 (2019 prices), up to £6.8 billion under a deeper agreement.

DIT's dynamic projections suggest that even in the absence of an agreement, GCC import growth could translate into an extra £8.7 billion in UK exports by 2035 assuming the UK maintains its 2019 market share in the GCC (4.6% of GCC imports). This represents a 33% increase in UK exports to the GCC in real terms (today's prices) compared to 2019.

The modelling estimates point to an FTA leading to an additional increase in the long run level of UK exports to the GCC by around £7.8 billion in 2035 to around £13.8 billion in 2035, in 2019 prices.[104] This represents an increase of between 22.3% or 39.5%.[105] Around 71% or 46% (equivalent to £5.5 billion or £6.3 billion) of the gains in UK exports to the GCC are attributed to tariff liberalisation, depending on the depth of an agreement.[106]

Exports of most sectors are estimated to increase due to an FTA. The greatest export increases are in manufacturing, which are estimated to account for around 89% to 92% of the increase in exports to the GCC depending on the depth of the agreement. Exports of motor vehicles, machinery and equipment, and electrical equipment combined account for over half of this increase. Increases in services and agriculture exports account for 4.0% to 7.4% and 3.7% to 3.9% of the increase in total UK exports to the GCC respectively.

Overall, UK exports to the world are estimated to increase by around £2.5 billion, when compared to projected levels in 2035, to £4.5 billion under a deeper agreement.[107] This represents an increase of between 0.3% and 0.6%. The estimated increase in exports to the GCC represents increased export opportunities, mainly driven by expanding manufacturing sectors and UK producers diverting their existing exports to the GCC from other countries.[108] Given the majority of products in the manufacturing sector face tariffs of around 5%, liberalisation from an FTA could help generate these new export opportunities given the UK has a comparative advantage in sectors such as motor vehicles.[109]

102 2035 projections for UK total exports and imports are calculated using the methodology described in the Global Trade Outlook, (September 2021)
103 Source: DIT modelling. 2035 projections for UK total exports and imports are calculated using the methodology described in DIT's Global Trade Outlook (Sept 2021). For bilateral trade between the UK and GCC in 2035, the projections are combined with a market share assumption where the UK maintains its 2019 market share in GCC (4.6% of GCC imports). For context, the increase in total trade is estimated between £7.2 billion to £13.2 billion when compared to levels in 2019.
104 Source: DIT modelling. 2035 projections for UK total exports and imports are calculated using the methodology described in the Global Trade Outlook, (September 2021)
105 For context, this represents an increase of £6.4 billion or £11.4 when compared to levels in 2019.
106 Source: DIT modelling (2022). Tariff liberalisation drives the majority of the gains in scenario 1 given it is assumed there is moderate NTM liberalisation relative to tariff liberalisation. In comparison scenario 2 accounts for larger NTM reductions relative to tariffs and therefore NTMs drive a larger proportion of the gains.
107 Source: DIT modelling. 2035 projections for UK total exports and imports are calculated using the methodology described in the Global Trade Outlook (September 2021).
108 Assessment based on the analysis of the CGE model outputs suggests that trade redirection is accounting for 55% of the increase in exports to GCC whilst new production accounts for 45%.
109 Conditional on goods complying with Rules of Origin.

As the UK economy imports more, production shifts towards areas of comparative advantage, resulting in a more efficient allocation of resources across the economy in the long run. There could be adjustments whereby activity may be reduced in less efficient parts of the economy in the face of import competition and pressure to use resources for activities which are more competitive.

The modelling estimates point to an increase in UK imports from the GCC of between £0.8 billion to £2.0 billion, equivalent to 4.8% or 11.5%, depending on the depth of agreement when compared to projected levels of imports in 2035.[110] The greatest estimated import increases are in the chemicals, the wearing apparel, and the leather sectors. Around 46% or 22% (equivalent to £0.4 billion or £0.5 billion) of the increase in UK imports from the GCC are attributed to tariff liberalisation, depending on the depth of an agreement. The estimated increase in UK imports from the GCC is smaller than the estimated increase in UK exports to the GCC. This is partly due to an FTA enhancing existing trade flows, where the UK already exports a greater amount to the GCC than it imports.[111]

Overall, UK imports from the world are estimated to increase by around £2.5 billion, when compared to projected levels in 2035, to £4.5 billion under a deeper agreement.[112] This is equivalent to an increase of between around 0.3% and 0.5%.

The modelling predicts that the FTA drives increased UK demand for imports from the GCC, in addition to the EU and US. The increase in imports from other countries are greater than the increase in imports from the GCC. This occurs as UK manufacturing firms expand output and demand more imported intermediates to take advantage of increased export opportunities in the GCC and greater domestic demand arising from higher incomes in the UK.

The estimates point to a long run increase in UK GDP equivalent to £1.6 billion in 2035, up to £3.1 billion in 2035, depending on the depth of the agreement.[113] This relates to a modelled increase in UK GDP of between 0.06% or 0.11%, and is applied to projected GDP in 2035 (around 15 years from the implementation of the agreement).[114] The largest contribution comes from an increase in consumer spending.

Real wages (wages in today's prices) are estimated to rise by 0.06% or 0.12% depending on the depth of the agreement. This is equivalent to £0.6 billion or £1.1 billion annually when compared to 2019 levels, as workers benefit from higher productivity in the economy.

110 Source: DIT modelling. 2035 projections for UK total exports and imports are calculated using the methodology described in the Global Trade Outlook, (September 2021).
111 In 2019, UK exports to GCC were worth £28.9 billion compared to UK imports from GCC, worth £15.7 billion
112 Source: DIT modelling. 2035 projections for UK total exports and imports are calculated using the methodology described in the Global Trade Outlook (September 2021).
113 Source: DIT CGE Modelling (2021). Note: Throughout this chapter, equivalent pound values are provided. These are calculated by multiplying the percentage changes from the model with the projections for 2035 where available. Full details, including numbers based on 2019 values are found in the technical annexes.
114 For context this is equivalent to an increase of around £1.3 billion to around £2.5 billion depending on the depth of the agreement when compared to 2019 levels.

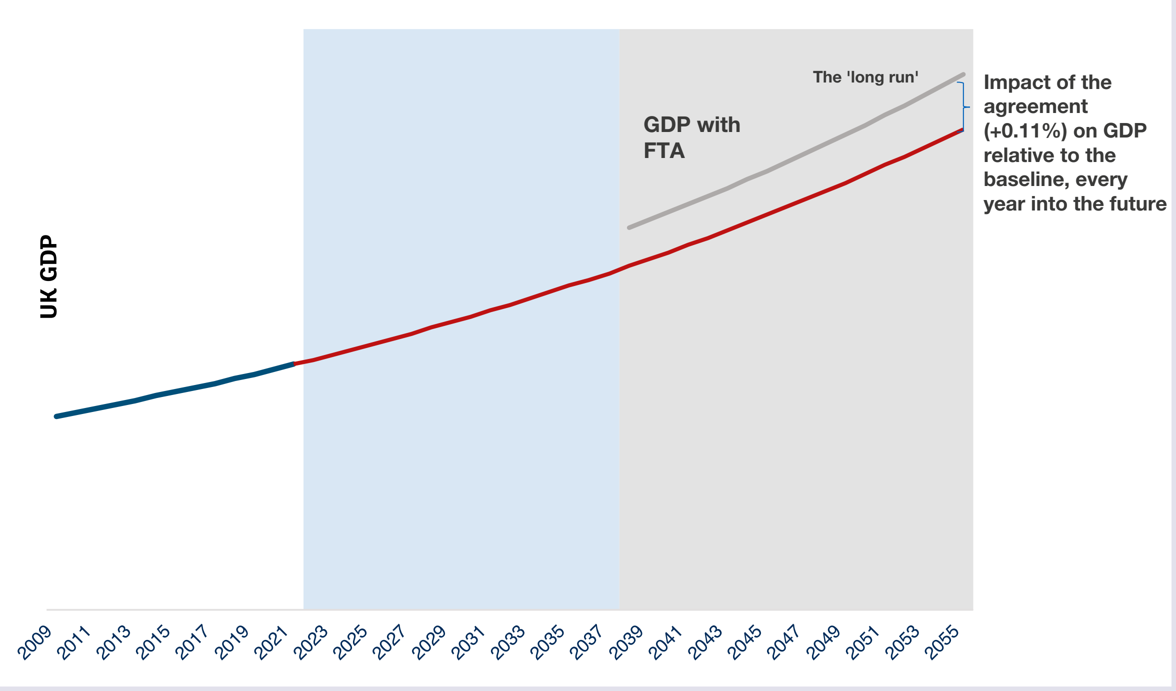
Box 2: Interpreting the macroeconomic impacts in a comparative steady-state model

The 'long-run' here refers to the time period after the economy has fully adjusted to the new trade agreement – where the economy enjoys a more efficient allocation of resources within and across sectors and geographies of the economy. This is typically considered to be around 10-15 years after the agreement enters into force.

The chart below provides a stylised representation of the impact of the agreement on GDP to help interpret the results and what they mean. There are three points to help understand the estimates of the agreement on UK GDP:

- The impact on annual GDP is permanent; the level of GDP is higher every year into the future.
- If the economy grows over the next 15 years – 0.06% to 0.11% could translate into a higher GBP value in future.

The impact of the agreement is compared to a situation without the deal – the baseline.



Macroeconomic impacts on the GCC

Our modelling shows that the GCC's annual GDP is estimated to increase in the long run by 0.07% or 0.16% compared to not having an agreement with the UK. This is equivalent to £1.2 billion and £2.8 billion respectively compared to 2035 projections of GDP levels.[115] The results demonstrate that the long-run gains to the GCC economy grow with the assumed depth of agreement.

Summary results for the impact on GCC's economy are set out in the table below.

Table 3: Summary of estimates of the GCC's macroeconomic impacts, long run changes against the baseline

Results from CGE model	£bn % change estimates, compared to 2035 projections	
	Scenario 1	Scenario 2
Change in GCC GDP	£1.2bn (0.07%)	£2.8bn (0.16%)
Change in the GCC's exports to the UK	£0.8bn (4.8%)	£2.2bn (11.5%)
Change in the GCC's imports from the UK	£7.9bn (22.3%)	£13.9bn (39.5%)
Change in the GCC's exports to the world	£1.1bn (0.1%)	£2.5bn (0.2%)
Change in the GCC's imports from the world	£1.4bn (0.2%)	£2.7bn (0.4%)

Source: DIT modelling. Projections of the GCC's GDP in 2035 using the methodology as described in the Global Trade Outlook.

115 2035 projections for GCC GDP are calculated using the methodology described in the Global Trade Outlook, (September 2021)

4. Distributional impacts

In addition to the macroeconomic benefits of a boost to trade, GDP and wages, an FTA could also generate important distributional impacts.[116] The FTA could affect sectors, nations, and regions of the UK differently and affect various businesses, consumers, and workers.

The distributional impacts, such as who is most affected by the trade agreement, are likely to depend on the interaction of a range of complex factors. These include the structure of each economy and the products and services that each country is relatively better at producing (specialisation, or 'comparative advantage'), as well as the ability of businesses and individuals to adjust and respond to the opportunities opened up by a trade agreement.

The distributional impacts also depend upon the outcome of the negotiation and shape of the eventual agreement. Therefore, the assessment of the potential distributional impacts of the FTA is preliminary at this stage of the FTA process and is subject to high degree of uncertainty.

Sectoral opportunities

Trade agreements provide the opportunity to open markets, enabling economies to become more specialised in goods and services which they are comparatively better at producing – as well as becoming more specialised in parts of the production process, leading to increased trade in intra-industry and intermediate goods.

Trade flow data indicates a positive degree of complementarity between the UK and the GCC, with both markets mostly exporting goods and services to one another in different sectors in which they have a comparative advantage.

There are also opportunities for facilitating closer integration of UK and GCC supply chains, particularly in manufacturing sectors, through improved access to imported intermediate inputs.

An FTA could provide the opportunity to increase economic output and trade by:

- Enhancing and securing market access from the removal of tariffs and non-tariff measures which could lower trade costs, boosting economic activity in areas of competitive strength and providing opportunity for increased specialisation.
- Facilitating closer integration of UK and GCC supply chains through the export and import of intermediate goods and services.

Specialisation and Trade

Table 4 below sets out a measure of export specialisation for the UK and the GCC, as well as global demand growth between 2019 and 2030. Revealed comparative advantage (RCA) values have been highlighted in green for the UK and the GCC. A positive RCA value indicates sectors with a comparative advantage.

The UK specialises most strongly in manufacturing engines and vehicles, and providing financial, business, and recreational and media services. UK exporters tend to specialise in producing goods and services tailored to high income markets and in some areas where consumer demand in GCC member states is projected to grow strongly. GCC member states are specialised in natural resource extraction, acting as a global industrial hub for energy-related manufacturing services.

116 Winners and losers from international trade: what do we know and what are the policy implications, UKTPO (2019).

Table 4: Relative export specialisation in the UK and the GCC by sector[117]

		UK RCA	GCC global import demand growth, 2019-2030	GCC RCA	UK global import demand growth, 2019-2030
Goods	Advanced Manufacturing	-2.07	28%	-2.17	43%
	Engines and motors & other transport equipment	2.56	102%	-1.55	87%
	Agriculture	-1.76	3%	-3.16	88%
	Automotive	0.29	37%	-2.90	60%
	Chemicals	-0.59	19%	1.00	33%
	Clothing & Footwear	-1.41	38%	-3.33	-27%
	Food & Beverages	-1.01	38%	-2.42	66%
	Pharmaceuticals, medicines, and devices	1.06	73%	-3.54	38%
	Machinery & Equipment	-1.86	92%	-3.34	55%
	Mining & metals	-1.38	9%	0.12	28%
	Oil & Gas	-1.30	88%	18.19	-19%
	Other Consumer Goods (NIE)	0.02	62%	-0.06	52%
	Other Industrial Inputs	-1.78	23%	0.06	66%
	Power & Utilities Infrastructure	-0.65	40%	-2.83	102%
Services	Recreational & Media Services	6.15	66%	-3.14	104%
	Business Services	6.84	50%	-3.90	54%
	Construction	-0.29	102%	-1.99	117%
	Telecommunications, computer and information services	1.71	81%	-1.96	61%
	Financial Services	14.93	73%	-0.04	101%
	Other Private Services	0.08	73%	-3.85	188%
	Public Services	1.58	42%	-0.46	69%
	Transport Services	0.08	22%	0.64	49%
	Travel Services	0.30	4%	-0.33	32%

Source: DIT Global Trade Outlook September 2021; Data as of 17 February 2022.

The removal of tariffs and NTMs could improve the competitiveness of UK businesses and provide opportunities to increase UK exports to the GCC. Sectors that may benefit from this include:

- Agriculture, Forestry and Fisheries – GCC member states are highly dependent on food imports and their global import demand for agricultural products is expected to increase by 3% by 2030.[118]
- Chemical, rubber, part-plastic products – the GCC's global import demand for chemical products is expected to increase by 19% between 2019 and 2030.
- Textiles and apparel – UK exports to the GCC in this sector totalled £272.2 million in 2019, with the GCC's tariffs set at 5% for most products.[119,120]
- Other Business Services – the UK has a significant comparative advantage in the business services sector. The GCC's global import demand in this sector is expected to increase by 50% between 2019 and 2030.

117 RCA values use a 3-year average for exports, from 2017-19, as this can be volatile year-to-year. Underlying export data for some GCC member states are not available from UNCTAD. Goods and services sectors are classified using the Standard Industrial Classification Codes (SITC) and Extended Balance of Payments Services (EBOPS) respectively.
118 Strategy& Part of the PwC network, How GCC countries can ensure their food security
119 World Bank, World Integrated Trade Solutions, United Kingdom Textiles and Clothing Exports by country and region in US$ Thousand 2019.
120 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021.

Supply chain linkages

International production is increasingly organised within global value chains, where different stages of the production process are located across different countries. There are likely to be greater gains from trade when firms optimise production in economies which specialise in that area, leading to increased trade in intra-industry and intermediate goods. Intermediate goods are defined as goods that are used as inputs in the production of another good. Over the last decades the UK has imported an increasing amount of the inputs required to produce its goods and services.

Trade flow data between the UK and the GCC provides evidence of close supply chain linkages between both economies. Between 2017 and 2019, an average of 52.1% of UK goods imports from the GCC were intermediate goods, with £525 million of intermediate goods subject to import tariffs. Conversely, 73.5% of the UK's goods exports to the GCC were in intermediate goods.[121]

There are opportunities for facilitating closer integration of UK and GCC supply chains through the import of intermediate goods and services, including improved access to imported inputs. For example:

1. Motor vehicles and parts – between 2017 and 2019, an average of 59.8% of UK imports from the GCC in this sector were intermediate goods, with tariffs up to 18% for certain products.[122] UK imports of motor vehicles and parts from the GCC are estimated to increase by between 50.0% and 96.7%.
2. Machinery and equipment – between 2017 and 2019, 98.5% of UK imports from the GCC in this sector were intermediate goods. Over the same period, on average the UK imported £17.2 million of appliances for pipes, boiler shells, tanks, vats, or the like, with tariffs set at 2%.[123]

The removal of UK tariffs on imports could reduce costs for UK businesses operating in these sectors, improve productivity and pass benefits onto consumers in the form of lower prices.[124] Consumers could benefit directly from lower trade costs on final goods. In some instances, UK businesses may face greater import competition due to a reduction in import costs to trade.

Estimated impact on output in economic sectors under various scenarios

Our modelling shows that the majority of UK sectors are expected to see a long-run expansion following an FTA with the GCC.

Manufacturing sectors are estimated to expand the most in absolute terms in scenario 1, while services sectors are estimated to expand the most in scenario 2. Manufacturing sectors such as machinery and equipment, motor vehicles and parts, and textiles and apparel are expected to expand the most proportionately in both scenarios (i.e. experience the highest rate of growth).

However, there are other parts of the economy where activity may be reduced as expanding sectors compete for resources such as labour and capital. Our modelling suggests the other transport equipment sector, and to a lesser extent the processed food, electrical equipment, and financial services sectors, could experience a fall in output as a result of greater competition for resources.

The scale of estimated impacts across sectors means that there is only a very marginal impact on the composition of the UK economy.

Overall output for the UK – measured on a GVA basis – is estimated to increase because of an FTA with the GCC.[125] This is over and above the underlying future growth of the economy which is not captured in the static modelling.

As a result of an FTA with the GCC, some sectors are expected to grow relative to other sectors of the economy. This occurs as the UK's more competitive businesses take advantage of enhanced and more secure access to the GCC's market, improved access to imported inputs and as they respond to increased competition from international markets. This raises the share of UK output that is accounted for by those faster-expanding sectors. This is reflected in the modelling as more resources and investment, such as capital and labour, move into these sectors with higher returns, expanding output overall. As a result, some

121 Estimates based on trade data from HMRC for 2017-19, classified as intermediate or final using Broad Economic Categories (Revision 5).
122 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021.
123 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021.
124 Conditional on goods complying with Rules of Origin.
125 Gross value added (GVA) is an alternative measure of economic output to GDP. At a sector level, it is the output of that sector minus the value of intermediates that have been used to produce the goods and services in that sector. At the national level, GVA is also the equivalent of the value of GDP plus government subsidies, minus taxes.

sectors account for a smaller proportion of the expanded output of the economy than would have otherwise been the case. The static modelling does not take account of expected underlying growth in the UK economy; in general, most sectors are likely to be larger than they are today.

A UK-GCC FTA is estimated to generate increases in GVA in the majority of sectors in both scenarios. The largest estimated percentage increases in UK GVA are seen in machinery and equipment, motor vehicles and parts, and textiles and apparel sectors (Table 5). These GVA increases are due to reductions in tariffs and NTMs applied on these sectors.

UK manufacturing sectors are likely to benefit from increased export opportunities following a UK-GCC FTA. The expansion of UK manufacturing exports is due to both the UK's comparative advantage in many of these sectors and the complementary demand from the GCC for manufacturing products.

As a result of the agreement, services sectors are estimated to account for just under half of the predicted total growth in GVA in scenario 1, and the majority of predicted GVA growth in scenario 2. The growth of service sectors is largely driven by increasing domestic demand, rather than new export opportunities. The expected increase in domestic demand is caused by rising wages in other sectors, such as manufacturing.

There is estimated to be a reduction in GVA in the other transport equipment sector, between 0.60% and 1.04%. For this sector, no liberalisation has been assumed within the CGE model, which results in labour and capital reallocation away from the other transport equipment sector in favour of sectors that do see an expansion from the FTA. Other transport equipment has not been liberalised in our modelling due to the prevalence of components from aircraft from the UK to the GCC. Due to international supply chains, it is unlikely an FTA will be able to grow demand for UK aerospace components.[126]

The modelling also suggests the processed food, electrical equipment, and financial services sectors could experience a small (<0.1%) fall in GVA due to greater competition for resources such as labour and capital.

126 Annex 1 and 2 provide further technical detail on the modelling including the choice of model structure and derivation of inputs used to model the agreement.

Table 5: Changes in UK Output by Sector (GVA, Long Run % Change on baseline)[127]

Sector	Description	Baseline GVA Share	Scenario 1	Scenario 2
Agri-Food	Agriculture, Forestry and Fisheries	0.92%		
	Beverages and tobacco products	0.56%	+	+
	Processed food	0.45%	-	-
	Food products n.e.c.	0.95%	+	+
Industry	Chemical, rubber, part plastic products	2.57%	+	+
	Energy	2.48%		
	Manufacture of electrical equipment	1.09%	-	
	Machinery and equipment n.e.c.	1.95%	++	++
	Motor vehicles and parts	0.76%	+	++
	Transport equipment n.e.c.	0.60%	--	--
	Manufactures n.e.c.	0.91%	+	+
	Minerals, ferrous metals and wood products	2.23%	+	+
	Paper products, publishing	0.87%		
	Textiles and apparel	0.60%	+	++
Services	Other business services	15.64%		
	Communications	6.18%		
	Construction	6.80%	+	+
	Other financial services	5.68%		-
	Insurance	1.47%		
	Services	14.02%	+	+
	Recreational and other consumer services	3.81%		+
	Public services	16.18%		+
	Trade and distribution services	13.27%	+	+
Key:				
Above 0.5% (++)	0.05 to 0.5% (+)	-0.05 to 0.05%	-0.05 to 0.5% (-)	Below -0.5% (--)

Source: CGE Modelling Results (2022). Baseline shares are rounded to 2 decimal places. Note: 'n.e.c' refers to 'not elsewhere classified'.

127 Sectors are based on the GTAP23 database.

Estimates of impacts by nation and region of the UK

The distribution of sectors across the country suggests that all nations and regions of the UK could see an increase in GVA from an FTA. The West Midlands and North-East are expected to benefit the most in proportional terms from a UK-GCC FTA. This is primarily due to the concentration of manufacturing sectors within these regions, which are estimated to have the largest relative increase in GVA.

International evidence suggests that trade agreements and trade liberalisation affect regions within an economy differently.[128] This is primarily because trade agreements affect sectors asymmetrically; the sectoral composition of output, employment and productivity vary systematically across regions.

Based on the sectoral composition of GVA across the nations and regions of the UK, the central estimates suggest that all nations and regions could see an increase in output from a UK – GCC FTA. The pattern of results is similar under both scenarios, with differences in magnitude primarily driven by differences in the level of trade barrier reductions and the modelled expansion of manufacturing.

GVA in the West Midlands and North-East could be set to expand the most in relative terms as a result of an agreement. The estimated increase in GVA in the West Midlands and North East is between 0.2% and 0.4% each depending on the depth of the agreement. This is an indicative order of magnitude based on 2019 nominal GVA. The increases equate to between around £320 million and £560 million for the West Midlands, and between £120 million and £210 million for the North-East when compared to 2019 levels of nominal GVA. The estimated increase for all UK nations and regions can be seen in Chart 2 below. Manufacturing is the main driver of differential impacts across UK nations and regions. UK regions with a greater concentration of manufacturing activity in machinery and motor vehicles are estimated to see the greatest expansions in GVA.

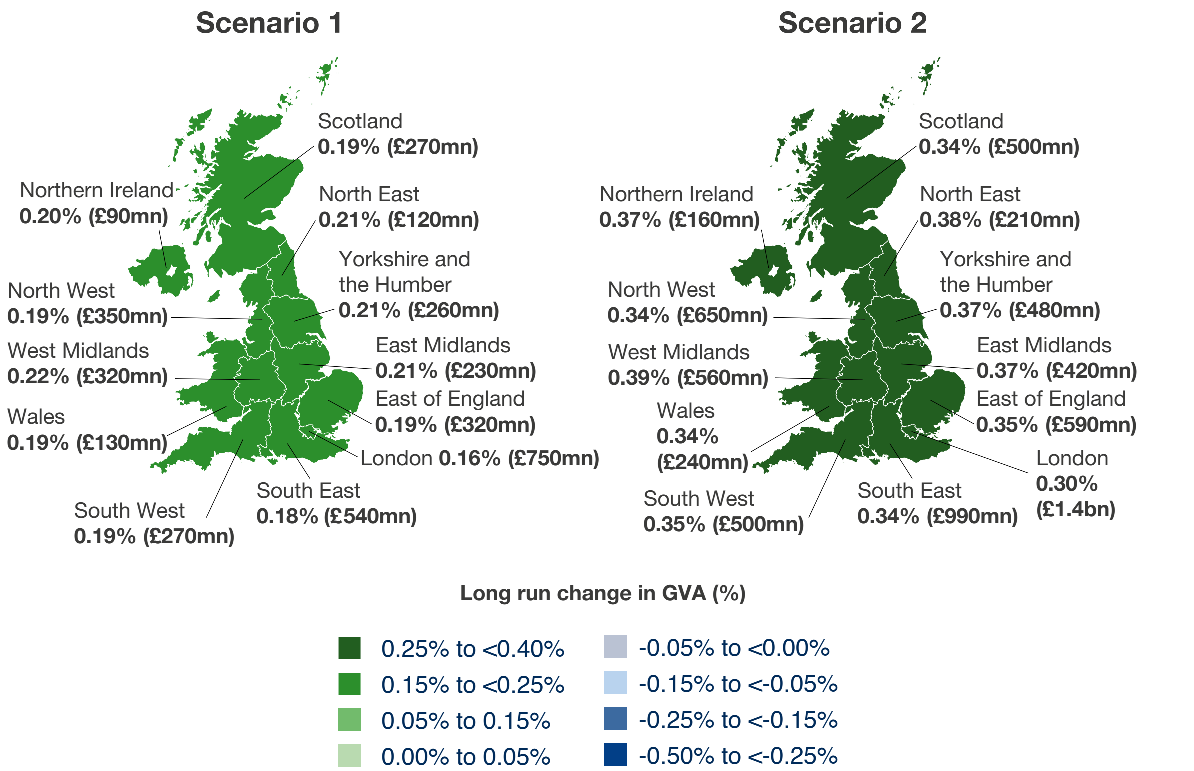
The concentration of services activities across all UK nations and regions means that small estimated expansions lead to relatively large increases in GVA. Sectors such as real estate activities, wholesale and retail trade make up the largest services sectors in all UK regions. Whilst most services sectors are estimated to expand, this is not expected to be driven by an increase in exports, but a reorientation of services to meet additional domestic demand from expanding manufacturing industries. Expansions in largely non-tradeable services sectors are therefore likely to be more pronounced in regions that have a high concentration in the manufacturing sectors, due to supply chain and multiplier effects from additional rounds of consumer spending.

The methodology used in this analysis does not account for intra-UK supply chains. As a result, this may overestimate potential impacts for regions with a large concentration of services but relatively less activity in manufacturing industries, and underestimate impacts for regions with relatively higher activity in manufacturing. Further information on the limitations and assumptions behind this approach are outlined in Annex 4.

The sensitivity analysis in section 7 shows that the estimates of impacts by nation and region of the UK are robust (not highly sensitive) to assumptions regarding the presence and scale of local economic effects.

128 See, for example: *'Making Trade Work for All'* (2017) and Local Jobs, trade and investment: why does the local picture matter for trade policy?' Department for International Trade (2021) . *'Making Trade an Engine of Growth for All'* 2017 (viewed December 2018), for an overview of the international evidence.

Chart 2: Changes in UK nations and regions value added, long run % change (Lower and Upper Bound Scenario)



Source: DIT Calculations (2021)

Our modelling does not provide these estimates directly since the CGE model only produces impacts at the whole economy level. The estimated impacts on GVA and monetised values, as well the approach used to provide the estimates above and its limitations are set out in Annex 4.

All of the sub-national impacts are subject to a high degree of uncertainty. They directly relate to the CGE estimates for sectors and so are subject to the same limitations. In addition, the estimates do not account for future changes to the location of production for various sectors or local economic multiplier effects. The long-run impact of increased trade liberalisation on regions is subject to a high degree of uncertainty due to the mobility of firms across regions. Evidence shows businesses in similar fields tend to concentrate in a particular region as this may generate knowledge spill overs or easier access to inputs and workers. For example, car production is highly concentrated in the Midlands and the North East of England. Reduction in trade costs could further incentivise this type of local concentration of businesses.[129]

Regional comparative advantages can change significantly over time resulting in changes to the sector make-up of different regions. This means that the location of production for various sectors may evolve significantly over the 15-year time horizon for the economic modelling. The pace at which sectors and regions adjust will depend on a multitude of factors, for example the relative labour market conditions and productivity across and within regions and sectors.

The expert modelling review panel are exploring ways to help improve DIT's modelling toolkit, including improving the estimation of sub-national impacts.

129 Winners and losers from international trade: what do we know and what are the policy implications, UKTPO (2019).

Business and small and medium-sized enterprises (SMEs)

A UK–GCC FTA could enhance the competitiveness and resilience of UK businesses of all sizes. This could occur through enhanced and more secure access to the GCC's established market for UK exporters and from improved access to imported inputs and services from the GCC for UK businesses.

Annual duties on UK exports to the GCC are estimated to be around £525 million, and annual duties on UK imports from the GCC are estimated to be up to £24 million.[130]

The majority of duty savings from GCC imports come from intermediate goods, providing benefits for businesses that make use of GCC imports in their production processes.

The number of UK businesses exporting goods to and importing goods from GCC member states in 2020 are outlined below in Table 6. Lower barriers to trade and investment could enhance the competitiveness of existing traders of both types, as well as incentivising businesses which do not currently export to do so. Provisions enhancing transparency and providing better information for SMEs could enable new UK businesses to enter GCC markets.

Table 6: Number of UK businesses exporting to and importing from GCC member states in 2020

	Number of UK businesses exporting to country	Number of UK businesses importing from country
Qatar	4,926	445
Saudi Arabia	6,465	718
UAE	12,444	3,121

Source: HMRC, UK trade in goods by business characteristics 2020. Figures only show businesses which traded in goods as data is unavailable for services firms. Only trade with Qatar, Saudi Arabia and UAE is included due to data availability. Businesses may trade with multiple countries, so figures should not be added together.

Some UK businesses could experience greater import competition from GCC exporters. The evidence shows that competition from trade promotes business innovation and growth.[131] Some businesses may expand, creating more jobs, but some businesses may be adversely affected by the increased competition.

Export opportunities and business growth: improved market access leading to a greater diversity of export markets for UK businesses.

Annual duties on UK exports to the GCC are estimated to be around £525 million. These include annual duties of £65 million on motor vehicles, £16 million on electric generators and £10 million on appliances for pipes, boiler shells, tanks, vats, or the like.[132]

Removing tariffs through an FTA would benefit UK businesses by increasing competitiveness, especially when compared to competitors exporting to the GCC from countries without an FTA.

An FTA could also provide dynamic benefits to UK businesses and the UK economy more widely by providing the option to export to a greater diversity of export markets.

An FTA with the GCC represents an opportunity to support the UK's objective to cement market access in a growing number of markets across the globe to support the resilience of UK exports in the face of global or regional economic shocks which disrupt demand for UK exports in particular markets.

Disruptions in demand can arise from global or regional business cycles (e.g. recessions in particular countries or regions) or from policy changes, such as the adoption of protectionist policies in particular markets.

Since exports are a component of GDP, dampening the impact of shocks on UK exports reduces the impact of these disruptions on short-run GDP, helping businesses and the economy to operate closer to their potential on a more consistent basis.

130 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021. Trade data from ITC Trade Map and Qatar official statistics, with current estimates a range of 2017-19, different averages throughout that period and single years. UK tariff rates based on UKGT tariff schedule, 2021. UK import data from Eurostat, 2017-19 averages, converting Euro into Sterling using Bank of England annual average spot exchange rates for each year.
131 CMA (2015) Productivity and competition: A summary of the evidence.
132 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021. Trade data from ITC Trade Map and Qatar official statistics, with current estimates a range of 2017-19, different averages throughout that period and single years. Specified products are at HS4 level.

Import opportunities and more diverse supply chains: improved access to imported inputs and a greater diversity of import suppliers to build resilience in an uncertain world.

An FTA with the GCC could enhance competitiveness by reducing costs and expanding choice for the thousands of UK businesses importing goods from the GCC. 52.1% of UK goods imports from the GCC are intermediate goods, covering over £4.6 billion worth of goods.[133]

The annual duties paid on imports from the GCC are estimated to be up to £24 million. The majority are estimated to affect intermediate goods (those goods which are used in the production of final goods by UK producers), while around 33% are estimated to apply to final goods, as seen in Table 7. Duty savings on final products are more beneficial for consumers whereas savings on intermediate products benefit businesses which use the goods for further transformation.

Table 7: Potential duty reductions on UK imports from the GCC, by end use

	Maximum duty savings, £m
Intermediate goods	16.1
Final goods	7.9
Total savings	24.0

Source: UKGT tariff rates and Eurostat import data.

These potential tariff reductions provide benefits for businesses that make use of imports from the GCC in their production processes. This could provide competitiveness gains for those UK businesses but could also result in increased competition between GCC producers, domestic producers, and imports from third countries on intermediate products with liberalised tariffs.[134]

A greater diversity of import suppliers could also provide dynamic benefits through helping build business resilience in an uncertain world.

Imports are crucial for business competitiveness. Imports of lower cost or higher-quality intermediates support productivity. Imports of lower price or high-quality final products support the economy's ability to meet consumer demands. The UK is highly integrated in global supply chains with 17.8% of all UK exports including imported components in 2018.[135]

As shown in recent years, access to imports from markets can be subject to disruption, leading to domestic bottlenecks in supply and production. In extreme cases, these bottlenecks can mean that key inputs are not available for businesses and that products are not available for consumers. In many cases, these lead to price increases.

The removal of tariffs and greater legal certainty provided by an FTA could support businesses to enter new, long-term, supply relationships with suppliers in the GCC, benefitting business productivity and consumers. For example, the modelling shows that the UK's market share of GCC imports from the world could increase to 4.7% or 5.3% depending on the depth of the agreement, compared to 3.8% baseline estimate levels.

In addition, the FTA would support the diversification of import supply options available to UK businesses in the face of supply shocks in particular markets. This would support the economy to avoid future bottlenecks and thereby operate more efficiently on a more consistent basis. This benefit is not well accounted for in the modelling.

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) may be defined as:

- Firms employing fewer than 50, and fewer than 250 employees, ('small' and 'medium' respectively); and
- Firms not exceeding either (a) £44 million in annual turnover or (b) an annual balance sheet total of £38 million.

97% of businesses exporting goods in 2020 were SMEs, accounting for 35% of total UK exports. SMEs form a key part of the supply chain for larger UK and global firms, by producing intermediate goods used in manufacturing. In 2020, around 10,700 UK SMEs exported goods to the UAE, with 5,500 exporting to Saudi Arabia and 4,100 exporting to Qatar. On goods trade, these SMEs produce around 30% of the UK's export value (in goods and services) to these GCC member states and represent around 89% of total UK goods exporters to these countries.[136]

133 Based on 2017-19 import data from Eurostat and UKGT tariff rates.
134 In some instances, the exporting business may absorb the cost of the tariff. For example, when there is a considerable domestic supply of a product, foreign firms may be forced to absorb tariff costs in order to remain competitive in the market or may not trade at all.
135 OECD TiVA, November 2021.
136 HMRC. 'Trade in Goods by Business Characteristics' 2020 (accessed February 2022). Only includes exports to Qatar, Saudi Arabia and the UAE due to data availability. SME proportion figures are a simple average of percentages for each country, all of which are within 1% point of each other. This count excludes the unknown category which may include SMEs and firms with over 250 employees.

NTMs addressed in free trade agreements may have a greater impact on SMEs than on larger businesses. This is because SMEs may have more limited financial and human resource capacities than larger businesses. They may be less equipped to overcome the challenges posed by different regulatory frameworks, have less access to information to help them navigate through trade regulations and absorb the financial risks associated with international trade. This means that FTA provisions which reduce the fixed costs of exporting can provide particular benefits for SMEs. This can raise the number of smaller firms which find it profitable to export, helping to spur innovation and increase productivity.

Voluntary costs for businesses in utilising the agreement

The one-off familiarisation and on-going administration costs to UK businesses trading under preferences are voluntary. Firms would have the option to choose whether to trade with businesses in the GCC under preferential terms through the negotiated FTA, or under MFN terms. There is therefore no net cost to businesses who do not wish to trade under the agreement's preferences.

Consumers

A UK-GCC FTA would reduce tariffs and NTMs, which could benefit consumers by increasing the variety of goods and services available in the UK, improving product quality and lowering prices.

Reducing tariffs and regulatory restrictions is likely to reduce the costs associated with cross-border trade, which can result in lower consumer prices. Consumers can also benefit indirectly from lower costs and greater variety of imported intermediate goods that are used by firms to produce final consumption goods and services.

As a result of higher wages for workers, modelling estimates suggest that annual real consumer expenditure in the UK (a component of GDP) could increase by approximately £2.8 billion or £5.1 billion over the long term, depending upon the depth of the agreement. Under a deeper FTA, annual UK imports from the GCC are estimated to increase by between £0.8 billion and £2.0 billion.

Consumers could also benefit from lower tariffs on imported goods from the GCC. In the absence of an FTA, an estimated £183.7 million worth of UK imports of final goods from the GCC would be subject to tariffs, with this figure growing as imports grow in future.[137]

Workers: labour market adjustment and protected groups

The modelling estimates that an FTA with the GCC could increase real wages (wages in today's prices) by around 0.06% up to around 0.12% depending on the depth of the agreement. This is equivalent to around £0.6 billion up to around £1.1 billion annually when compared to 2019 levels, as workers benefit from higher productivity in the economy. The increase in wages is estimated to benefit workers of all skill types.

The modelling shows a marginal shift in the distribution of employment across sectors over the long run. It suggests that any reallocation of employment across sectors in the long run will be modest, with increases and declines all equal to or below 0.03%.

It would suggest a slight rebalancing away from business services towards the manufacture of machinery and equipment. These changes reflect the limited structural changes we expect to see in the economy overall.

Impact on UK labour market

Workers can benefit from free trade agreements in several different ways. Where free trade agreements can boost productivity within firms and sectors, and across the economy, this is likely to increase employment opportunities and worker incomes. Where free trade agreements lower consumer prices, this is likely to benefit workers in the form of higher wages, meaning that they can purchase more even if wages were constant.

137 Estimates based on trade data from Eurostat for 2017-19 (accessed August 2021), for imports by the UK from the GCC, classified as intermediate or final using Broad Economic Categories (Revision 5). Processing costs have been removed from this trade data.

Trade liberalisation can also affect the structure of the economy over time. This can generate transitional costs for workers, who may move between jobs and sectors, as changes in the pattern of trade cause some sectors to expand and others to decline. 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.

The model estimates long run impacts, which is the time taken for the economy to fully adjust to the FTA. The model does not estimate the magnitude of any potential short run impacts and adjustments.

As is common in modelling exercises, it is assumed that both the supply of labour and overall rates of employment and unemployment in the economy are fixed in the long run (i.e., they are assumed to be unaffected by the FTA). This is appropriate as over the long term, the labour market would be expected to adjust, and free trade agreements do not influence the underlying drivers of the long run employment rate.

Gains through increased wages

The modelling estimates that an FTA with the GCC could increase real wages (wages in today's prices) by around £0.6 billion up to around £1.1 billion in the long run, dependent upon the depth of an agreement. The increase in wages is estimated to benefit both unskilled and skilled workers.

Gains through changes in employment across sectors

The modelling shows a marginal shift in the distribution of employment across sectors over the long run.[138] It suggests that any reallocation of employment across sectors in the long run will be modest, with increases and declines all less than or equal to 0.03%. The modelling suggests a slight rebalancing away from some services sectors such business services towards the manufacture of machinery and equipment. This reflects a marginal reduction in these sectors' share of total UK output as a result of an FTA. The shifts reflect a marginal shift to an existing growth path, rather than an expansion or contraction to today's employment levels.

Modern, dynamic economies change continuously in response to global developments. This leads to an ongoing process of worker and job transition in the labour market. Lower trade barriers and greater import competition could accelerate this ongoing process.

The transition of employment across sectors has the potential to generate long run gains for workers, for example leading to higher wages. Some workers may also incur short term adjustment costs and periods of transitional unemployment. The UK has a dynamic and flexible labour market, helping to facilitate adjustment and reduce the transition costs for workers.

Implications for protected groups in the labour market

> The representation of protected groups in sectors where employment falls relative to the baseline is broadly in line with their representation in the wider workforce. The exception is female workers, who are less represented in sectors where employment is estimated to fall relative to the baseline.

The representation of protected groups (in relation to age, sex, ethnicity, and disability) in sectors where employment falls relative to the baseline is broadly in line with their representation in the wider workforce.[139] However, females are less represented in sectors where employment is estimated to fall relative to the baseline. Recently published experimental analysis by the DIT and Fraser of Allander Institute shows that, in 2016, 64% of jobs directly and indirectly involved in exports were held by males, with the remaining 36% filled by females.[140]

Sex

- 47% of those in employment in the UK are female and 53% are male.[141]
- In scenario 1, 37% of the workforce in sectors where employment is estimated to fall relative to the baseline are female and 63% are male. In scenario 2, 35% of the workforce in sectors where employment is estimated to fall relative to the baseline are female and 65% are male.

Ethnicity

- 12% of those in employment in the UK are from an ethnic minority group and 88% report that they are white.
- In both scenario 1 and 2, 13% of the workforce in sectors where employment is estimated to fall relative to the baseline are ethnic minorities and 87% are white.

138 Employment is according to the ILO definition as specified by the relevant LFS indicator (ILODEFR). That is, a person is considered employed if they are 16 or over/16-64 and have been engaged for at least one hour within a 7-day reference period in any activity to produce goods or services. This also includes employed persons "not at work" i.e., those who did not work in the reference period due to temporary absence or working patterns.
139 Race is a protected characteristic under the Equality Act 2010. For the purposes of this analysis, we utilise data regarding ethnicity to consider this protected characteristic.
140 DIT, Evaluating the impact of exports on UK jobs and incomes, March 2021
141 According to DIT Analysis of the ONS three-year pooled Annual Population Dataset (2016-2018).

Age

- 12% of those in employment in the UK are aged 16-24, 84% are 25-64, and 4% are over 65.
- In both scenario 1 and 2, the proportion of workers in sectors where employment is estimated to fall relative to the baseline who are aged 16-24 is around 9%. The proportion of workers in sectors where employment is estimated to fall relative to the baseline who are aged 65+ make up around 4%.

Disability

- Around 13% of those in employment in the UK report that they have a disability (as defined by the Equalities Act 2010).[142]
- In both scenario 1 and 2, the proportion of workers in sectors where employment is estimated to fall relative to the baseline who have a disability is estimated to be around 11%.

There are several limitations to the preliminary analysis. For example, the analysis is based on the structure of the UK workforce from 2016-2018. This means it is not consistent with the CGE modelling results which reflect the global economy in the long run when the composition of the workforce may have changed. Added to this, we can expect to see the structure of the GCC economies evolving over time, in ways that we cannot currently predict, which may lead to different competitive pressures in the long term, compared to those reflected in our modelling.

Workers currently located in sectors where employment is estimated to be lower than would otherwise have been the case (in the absence of an FTA) may not necessarily be adversely affected by a UK-GCC FTA. For example, in some cases, workers who remain in the sector could benefit from increases in wages, owing to higher productivity in the sector. In addition, some of the adjustments may take place as workers leaving the labour market are not replaced, with new entrants more likely to find employment in sectors where employment is higher. Any workers who do transition across sectors may incur short-term adjustment costs or periods of transitional unemployment. However, they could also benefit from the creation of higher wage jobs in other sectors of the economy.

142 It is possible that non-response to this question in the Annual Population Survey affects the estimated proportion.

5. Economic diversification, development and labour standards

GCC member states are classified as 'high income' by the World Bank. At the moment their economies are heavily dependent on oil and gas export revenues, however they are looking to diversify in future.

A UK-GCC FTA could help support economic diversification in the GCC. Modelling shows a small shift in the composition of the GCC's exports to the world away from oil and gas and towards sectors such as chemicals, wearing apparel and metals. This is observed for all GCC member states.

An FTA also provides an opportunity to support GCC member states' ambitions to stimulate domestic private sector growth outside of oil and gas sectors. Wearing apparel and insurance are the sectors estimated to experience the greatest percentage output gains across the GCC as a result of an FTA.

A UK-GCC FTA is not estimated to have any significant impact on the GDP of developing countries.

Economic Diversification and Development

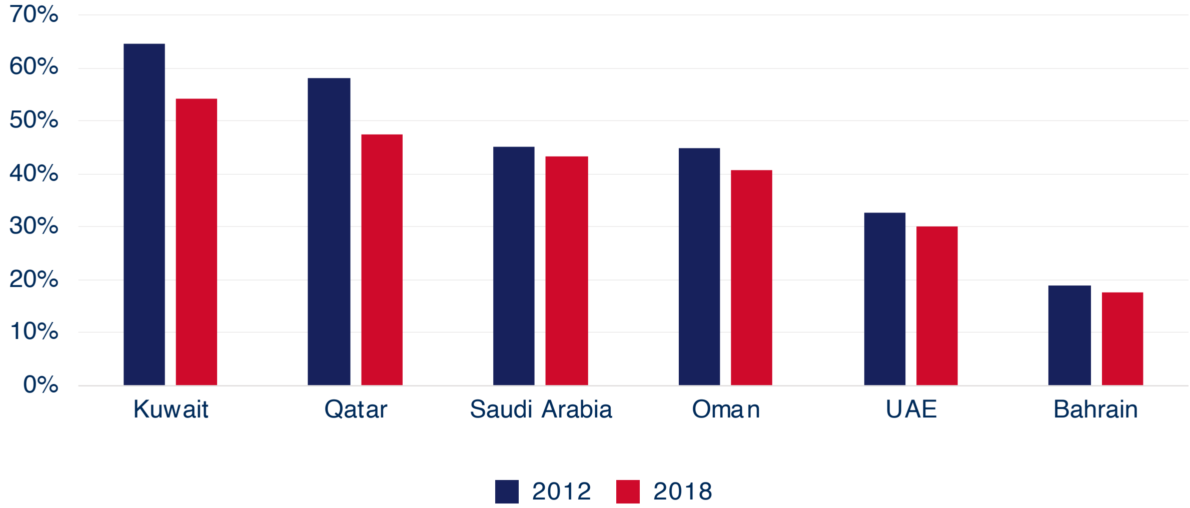
Economic diversification in the GCC

All GCC member states are classified as 'high-income' by the World Bank and have Human Development Index scores above 0.8, placing them collectively ahead of all other Middle East and North African (MENA) countries, and on the same level as some EU countries.[143,144] However, GCC member states face a challenge in diversifying their economies and stimulating development that is not dependent, directly, or indirectly, on oil and gas export revenues.[145]

As of 2018 oil and gas production accounted for over 40% of GDP in all GCC member states except for the UAE and Bahrain (Figure 7).[146] Likewise, oil and gas revenues accounted for over 70% of total government revenue in all GCC member states except for Saudi Arabia and the UAE (Figure 8). Volatile oil and gas prices may therefore put pressure on fiscal positions and the sustainability of economic and social development in future.

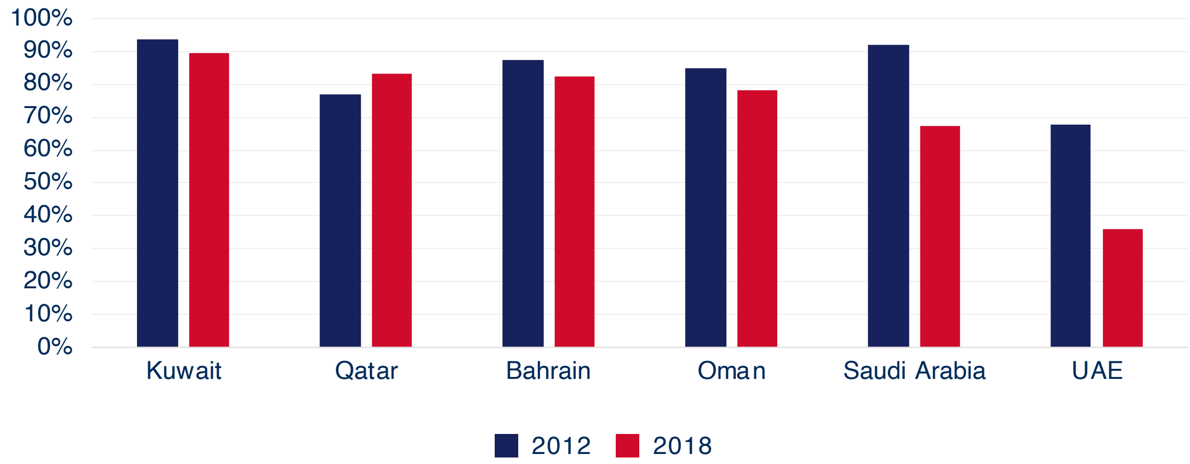
143 World Bank, 2021. However, the IMF does not classify GCC member states as 'advanced economies' given that export diversification is one of the three components used in the IMF classification methodology, alongside per-capita income and global financial integration.
144 United Nations Development Programme, Human Development Reports, 2020
145 Brookings Institution, Economic diversification in the Gulf: Time to redouble efforts, January 2021
146 Bahrain has largely depleted its oil reserves: IMF, "Economic Diversification in Oil-Exporting Arab Countries,"

Figure 7: Oil and Gas Sector (Share of GDP)



Source: World Bank Group, "Economic Diversification for a Sustainable and Resilient GCC", 54-59

Figure 8: Oil and Gas Revenues (Share of Total Government Revenues)



Source: World Bank Group, "Economic Diversification for a Sustainable and Resilient GCC", 54-59

There is some evidence that income volatility has declined in the GCC over the last few decades, due in part to improvements in sectoral diversification.[147] However, there remains considerable scope for progress. All GCC member states have expressed an ambition to stimulate private sector growth and diversify their economies further in their vision statements.[148]

In addition to income volatility, economic implications associated with overdependence on the oil and gas sector may include a loss of competitiveness in other tradeable sectors (such as manufacturing) during commodity price booms, and the depletion of finite oil and gas reserves.[149,150] This is compounded by the prospect of a long-run stagnation or decline in demand for oil and gas products, driven in part by a global transition towards renewable energy.[151]

FTA impact on economic diversification in the GCC

The effect of free trade agreements on economic diversification and income volatility is uncertain. Classical trade theory predicts that trade liberalisation will deepen sectoral specialisation in a country's comparative advantage and therefore increase income volatility. However, this depends on the distribution of liberalisation across sectors from an FTA. Furthermore, recent literature suggests that openness to international trade may enable countries to diversify sources of demand and supply across countries, such that an FTA could help reduce exposure to country-specific shocks.[152]

147 Koren, M and S. Tenreyro. 2011. "Volatility, diversification and development in the Gulf Cooperation Council countries." In D. Held and K. Ulrichsen (eds), *The Transformation of the Gulf: Politics, Economics and the Global Order,* Chapter 9, Routledge.
148 See Bahrain Economic Vision 2030; Kuwait Vision 2035; Oman Vision 2040; Qatar National Vision 2030; Saudi Vision 2030; UAE Vision 2021
149 Harding, T., Venables, A. The Implications of Natural Resource Exports for Nonresource Trade. IMF Econ Rev 64, 268–302 (2016)
150 IMF, "Economic Diversification in Oil-Exporting Arab Countries," Policy Paper, April 29, 2016, 17
151 Tokhir N. Mirzoev, et al., "The Future of Oil and Fiscal Sustainability in the GCC Region," IMF, Departmental Paper no. 20/01, February 6, 2020, 11
152 Caselli, F, et al. 2020. "Diversification Through Trade", *The Quarterly Journal of Economics,* Vol 135, 1:449-502

Liberalisation from a UK-GCC FTA could help support export diversification in the GCC. CGE modelling shows a small, long-run shift in the composition of GCC exports to the world away from oil and gas and towards sectors such as chemicals, wearing apparel, and metals – a pattern observed for all GCC member states.[153] In percentage terms, wearing apparel is the sector estimated to experience the greatest long-run export gains as a result of an FTA. This is largely due to UK tariff reductions on imports from the GCC in this sector, which are high compared to those that the UK applies on other industrial imports from the GCC.[154]

The FTA could also help GCC member states' efforts to stimulate domestic private sector growth outside of the oil and gas sectors, aiding wider economic diversification. Modelling suggests that wearing apparel and insurance are the sectors estimated to experience the greatest long-run percentage output gains across the GCC as a result of an FTA. An FTA could also support economic diversification through reducing regulatory restrictions on FDI, potentially building further capacity in the manufacturing export sector.[155]

Academic literature indicates that a trade-driven expansion of the clothing and textiles industry could lead to increased employment opportunities for women.[156] Paid employment can improve women's autonomy as well as their economic and social status.

FTA impact on third countries and other least developed countries (LDCs)

A UK-GCC FTA has the potential to affect the economies of certain least developed countries (LDCs), as well as of countries with close geographical proximity to the GCC region. The long-run GDP impact on third countries, including developing economies in the region, is not estimated to be significant.[157]

The modelling also does not suggest any substantial long-run change in the GCC's imports from developing countries overall as a result of an FTA. However, as the GCC expands and diversifies in the future, there could potentially be further opportunity for the GCC to import more from neighbouring developing countries.

Whilst the modelling shows a negligible impact of an FTA on the GDP of neighbouring and developing countries in the long-run, there could be short-to medium-term detrimental effects on some developing countries' exports to the UK. This is because free trade agreements raise the potential risk of developing countries facing trade diversion because of preference erosion – a reduction in exports to the UK as a result of GCC goods facing lower tariffs in the UK market.[158] The resulting trade diversion away from developing countries may negatively impact their trade balances, foreign reserves, employment, and overall economic growth potential. The government supports free and fair trade recognising the overall positive contribution of trade to poverty alleviation.

Developing countries which have a higher share of their trade with the UK, or countries exporting products in which the UK or GCC member states are highly competitive, are more likely to be impacted from goods liberalisation in an FTA. The products identified as at risk of trade diversion away from developing country producers following an FTA are presented in Table 24 in Technical Annex 9.[159,160] Based on the analysis, the risks of trade diversion through preference erosion from an FTA are not substantial, corroborating results from the CGE modelling.

Table 8 presents a number of developing countries' dependency on goods trade with the UK and the GCC. The analysis highlights East Africa as the region that could be most likely to be affected by an FTA, primarily due to the geographic closeness of East African economies to the GCC region.

153 "Oil and gas" is defined here as consisting of GTAP 63 sectors oil, gas, and petroleum and coal.
154 DIT calculations using 2017-9 average trade data from HMRC and UKGT tariff data.
155 IMF, Gulf Cooperation Council: Trade and Foreign Investment – Keys to Diversification and Growth in the GCC , December 2018
156 OECD, Trade for Growth and Poverty Reduction: How Aid for Trade Can Help, 2011
157 Both GDP percentage changes and £bn value changes not significant to two decimal places. GDP figures based on 2019 values from the IMF World Economic Outlook Database, April 2022.
158 "Preference erosion" refers to the loss of competitive advantage an exporting country enjoys in a foreign market due to preferential trade treatments being extended to other countries.
159 The method for identifying products which may be at risk of trade diversion from preference erosion is detailed in Technical Annex 9. These are products in which a) any GCC partner are a highly competitive exporter of that product, b) developing countries export at least 10% of that product to the UK and c) where the developing countries' exports of that product to the world are significant.
160 "Developing countries" are defined in the analysis as those countries trading under the UK's Generalised Scheme of Preferences (GSP), or those that have signed Economic Partnership Agreements (EPAs) or are African, Caribbean or Pacific member countries (ACP).

Table 8: Developing countries' share of goods total trade with the UK and the GCC[161]

High Dependency	Low Dependency
Burundi, Comoros, Ethiopia, India, Kenya, Malawi, Madagascar, Pakistan, Rwanda, The Seychelles, Sri Lanka, Sudan, Tanzania, Uganda, Yemen	The Bahamas, Cape Verde, Dominican Republic, Eswatini, Kiribati, Laos, Lesotho, Niger, Palau, Samoa, São Tomé and Príncipe, Solomon Islands, Tajikistan, Timor-Leste, Uzbekistan

Source: DIT calculations using data from UN Comtrade, accessed March 2022

Labour standards

An FTA is expected to increase imports from the GCC, and as such the UK would consume more goods and services that have been produced under GCC member states' labour standards. The UK and the GCC have a wide range of labour protections in place. The UK is a world leader in workers' rights and the UK will continue to advocate for the highest standards and conditions for its citizens. An FTA will not impact on the UK's legislation related to UK labour matters.

Assessing the labour impacts of Free Trade Agreements and trade liberalisation more widely is complex. Since 1994, it has become increasingly common practice for trade agreements to feature a labour dimension. This is to prevent workers' rights being reduced to secure a comparative advantage, and to guarantee safeguards against social dumping. 80% of all trade agreements that have been signed since 2013 include labour provisions.[162] These provisions have become increasingly comprehensive and used as a tool to promote labour standards. Cross-country empirical analysis of the impact of labour provisions is difficult for several reasons, such as the large number of different labour provisions and data availability, but where impacts have been identified, they have generally been positive. Provisions have been found to ease labour market access, in particular for working-age women. There is also evidence of the impact of labour provisions on the narrowing of the gender wage gap and they have been found not to divert or decrease trade flows.[163]

Summary of UK and GCC labour standards

The UK will continue to advocate for the highest standards of workers' rights and working conditions for its citizens. As a founding member of the International Labour Organisation (ILO), the UK has signed and ratified all eight of the fundamental conventions, based on the principles detailed in the 1998 *ILO Declaration on Fundamental Principles and Rights at Work.*[164] In comparison, GCC member states have ratified between 4 and 7 of the fundamental conventions, shown in Table 9. The fundamental conventions least commonly ratified by GCC member states refer to freedoms to join a union, rights to organise and bargain collectively, as well as equal remuneration for men and women.

161 91 countries have been included in the analysis. Countries are listed in alphabetical order. High refers to the 15 countries with the greatest share of goods trade with the UK and the GCC combined. The highest value recorded was for The Seychelles, where 41.1% of goods trade in 2017-2019 was with the UK (9.4%) and the GCC (31.7%). Low refers to the bottom 15 countries. The lowest value recorded was for Kiribati, where less than 0.1% of goods trade in 2017-2019 was with the UK and the GCC combined.
162 ILO (2016), "Assessment of Labour Provisions in Trade and Investment Arrangements", Studies on Growth and Equity
163 International Labour Organization, Ratifications by country.
164 Fundamental Conventions are: C029 – Forced Labour Convention, 1930; C087 – Freedom of Association and Protection of the Right to Organise Convention, 1948; C098 – Right to Organise and Collective Bargaining Convention, 1949; C100 - Equal Renumeration Convention, 1951; C105 – Abolition of Forced Labour Convention, 1957; C111 – Discrimination (Employment and Occupation) Convention, 1958; C138 – Minimum Age Convention, 1973; C182 – Worst Forms of Child Labour Convention, 1999.

Table 9: Ratifications of ILO Fundamental Conventions

Convention	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	United Kingdom
C029 – Forced labour[165]	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified
C087 – Freedom of association and right to organise		Ratified					Ratified
C098 – Right to organise and collective bargaining		Ratified					Ratified
C100 – Equal remuneration					Ratified	Ratified	Ratified
C105 – Abolition of forced labour	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified
C111 - Discrimination	Ratified	Ratified		Ratified	Ratified	Ratified	Ratified
C138 – Minimum Age	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified
C182 – Child labour	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified	Ratified

Source: ILO NORMLEX Information System on International Labour Standards[166]

The UK has the following protections in its domestic legal system for the areas raised above, including:

- The UK has legislation in place which provides for the right to collective bargaining and protections for employees who participate in official industrial action.[167]
- The UK has legislation in place which protects people from discrimination in the workplace and in wider society on the basis of age, race, sex, gender reassignment, disability, religion or belief, sexual orientation, marriage or civil partnership, pregnancy and maternity.[168]
- The UK has guaranteed access to a national minimum wage, which is enshrined in UK law.[169] This wage is based on a worker's age. There is also a specific rate for apprentices.
- The UK has legislation in place which gives law enforcement the tools to fight modern slavery, including a maximum life sentence for perpetrators and enhanced protection for victims.[170]
- The UK has legislation in place which regulates the minimum age children can work and other protections for children at work. Children can only start full-time work once they have reached the minimum school leaving age – they can then work up to a maximum of 40 hours a week.[171]

165 Does not include the 2014 Protocol to this Convention, which the UK has ratified. Of the GCC member states, only Saudi Arabia has ratified the 2014 Protocol.
166 International Labour Organization, Ratifications by country.
167 The Trade Union and Labour Relations (Consolidation) Act 1992 (as amended by the Trade Union Act 2016) in Great Britain and the Trade Union and Labour Relations (Northern Ireland) Order 1995 in Northern Ireland.
168 This is enshrined in the Equality Act 2010 in Great Britain, while there are equivalent provisions in Northern Ireland.
169 The National Minimum Wage Act 1998 and subsequent regulations set the National Minimum Wage and National Living Wage hourly pay rates. The rates change on 1 April every year. From 1 April 2022 the National Minimum Wage rates have been set at £6.83 for workers aged 18-20, £9.18 for workers aged 21-22 and £9.50 for workers aged 23 and above.
170 This is primarily enshrined in the England and Wales Modern Slavery Act 2015, Human Trafficking and Exploitation (Scotland) Act 2015 and Human Trafficking and Exploitation (Criminal Justice and Support for Victims) Act (Northern Ireland) 2015.
171 These protections are found in a number of pieces of legislation and local authority by-laws. Minimum age for full time work is provided by the Children and Young Persons Act 1933 in England and Wales. Restrictions on working hours are provided by the Working Time Regulations 1998 in Great Britain and the Working Time (Northern Ireland) Regulations 1998 in Northern Ireland.

6. Environment Impacts

The potential impact of an FTA on the environment

Assessing the environmental impacts of free trade agreements is complex. Trade agreements can influence a number of factors relating to climate change and the biosphere, including: the volume of greenhouse gas (GHG) emissions, changes in land use within countries, air and water quality, biodiversity, rate of technological and infrastructural change through the uptake of environmental goods and services.

Free trade agreements can affect the environment indirectly by expanding and redirecting economic activity. This may occur as trade liberalisation:

- Boosts economic growth, raising economic activity and its associated environmental degradation (scale effect).
- Changes the mix of a country's production and consumption (composition effect). If the sectors which expand are more environmentally harmful, other things equal, the composition effect could result in more environmental harm, and vice versa. If the sectors which expand the most are less environmentally harmful, the composition effect can offset some of the increase in environmental harm associated with increased economic activity overall.
- Changes the location of global production across countries, affecting the distance travelled by goods and the environmental impacts associated with transporting them from producers to consumers.
- Promotes the transfer and adoption of more efficient and environmentally friendly production techniques.

Trade liberalisation can also increase pollution and degradation of natural resources by amplifying existing market failures, especially in developing countries. Environmental externalities are often not completely priced in through regulations, so remain unaccounted for in market prices of traded goods. The result is a degree of environmental damage.

This section assesses the potential impact of an FTA on a range of environmental areas, including greenhouse gas emissions, carbon leakage, air quality, and biodiversity.

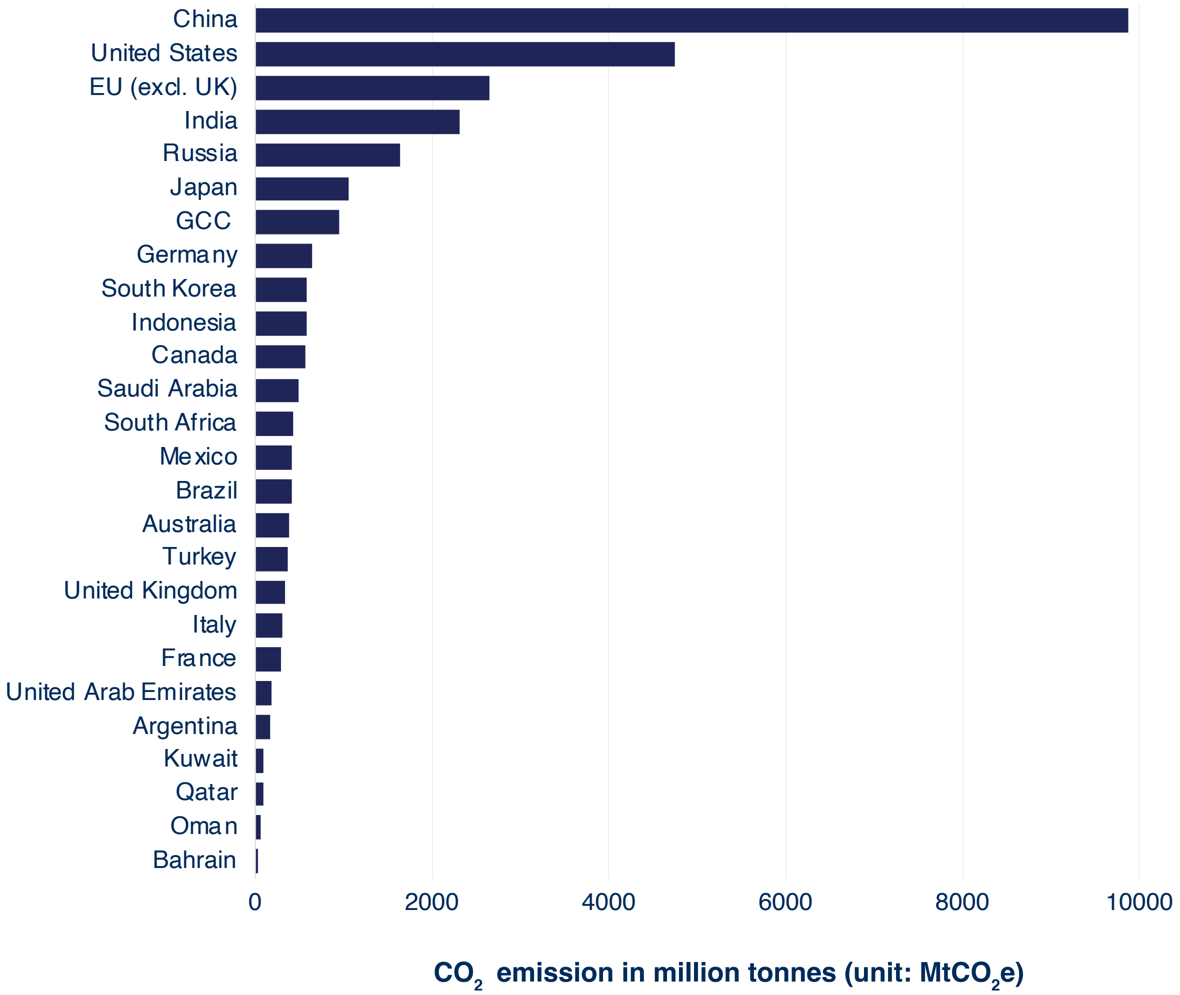
Greenhouse gas emissions and climate change

The UK is the world's 5th largest economy, with GDP of £2.3tn in 2019 and CO_2 emissions accounting for around 1% of global emissions. GCC member states recorded a combined GDP of £1.3 trillion in the same year.[172,173] Together, GCC member states accounted for around 3% of global CO_2 emissions in 2019.[174] Aggregate GCC CO_2 emissions were 951 $MtCO_2e$ in 2019, compared to 342 $MtCO_2e$ for the UK.[175] Saudi Arabia has the highest emissions amongst GCC member states (at 495 $MtCO_2e$) accounting for 52% of the GCC's CO_2 emissions.

In the UK, GHG emissions are dominated by carbon dioxide, estimated to have accounted for 80% of the UK's total emissions in 2019 shown in Figure 9. Weighted by global warming potential, methane accounted for about 12% of UK emissions and nitrous oxide for about 5% of emissions in 2019. Fluorinated gases accounted for the remainder, around 3%.[176]

172 IMF, World Economic Outlook Database, April 2022.
173 IMF, World Economic Outlook Database, April 2022.
174 OECD Data: Air and GHG Emissions (accessed March 2022).
175 When compared to G20 countries, the aggregated GCC CO2 emission is less than the top 6 highest emission countries (China, USA, EU27(excluding the UK), India, Russia and Japan).
176 BEIS, UK Greenhouse Gas Emissions, Final Figures: 2019, February 2021.

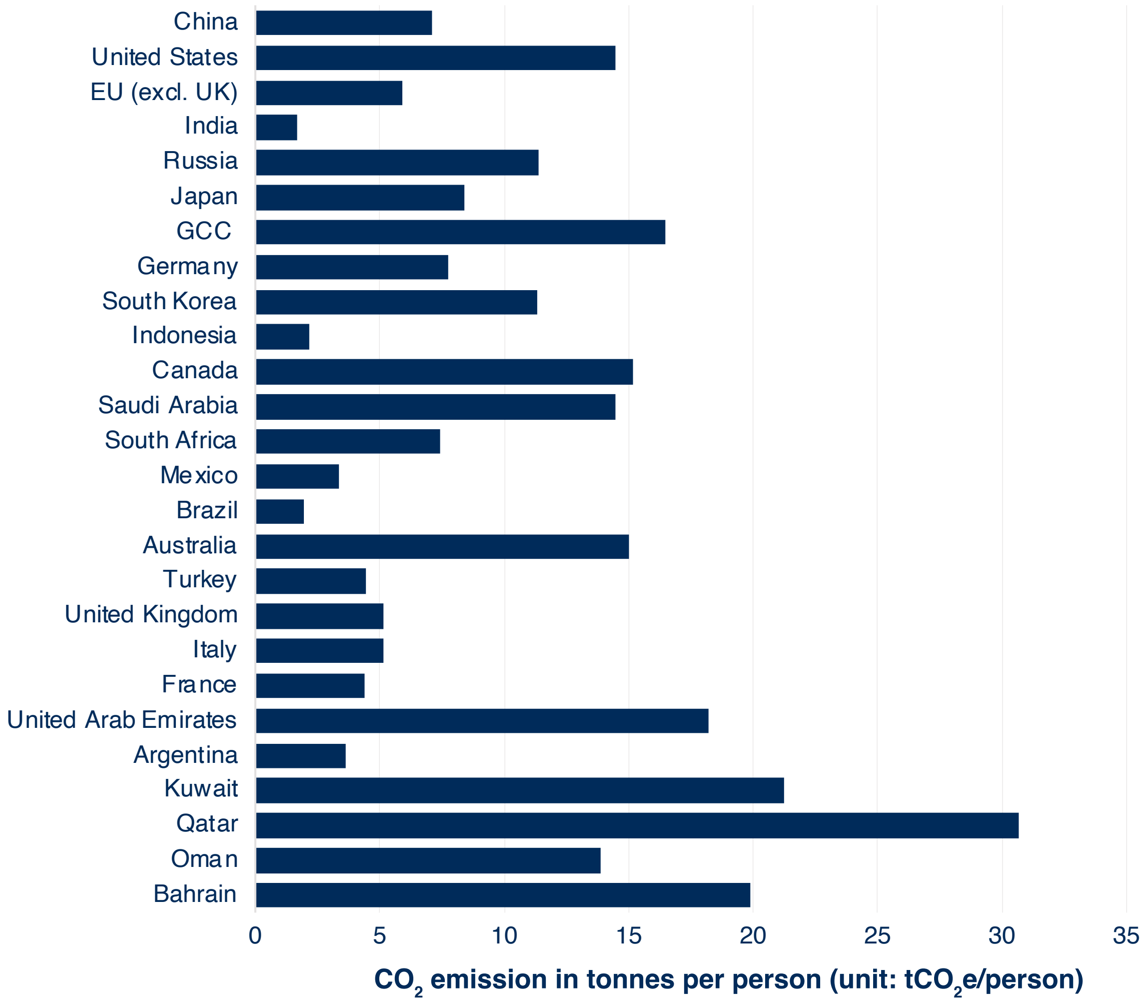
Figure 9: Territorial CO_2 emissions in 2019: GCC and G20 countries ($MtCO_2e$)



Source: OECD Data: Air and GHG emissions (accessed March 2022)

When adjusted for population, Qatar has the largest emission per person within the GCC (Figure 10). The average per person CO_2 emission for the GCC is at 16 tCO_2e which is higher than any of the G20 countries. In contrast, the UK had emissions of around 5 tCO_2e per person in 2019. Differences in rates across countries tend to reflect differences in population, the sectoral composition of the economies (such as reliance on heavy industry), the level of development within a country, or the use of more carbon intensive fuels such as coal for electricity generation.

Figure 10: Territorial CO_2 emissions per person in 2019: GCC and G20 countries ($tC0_2e$/person)

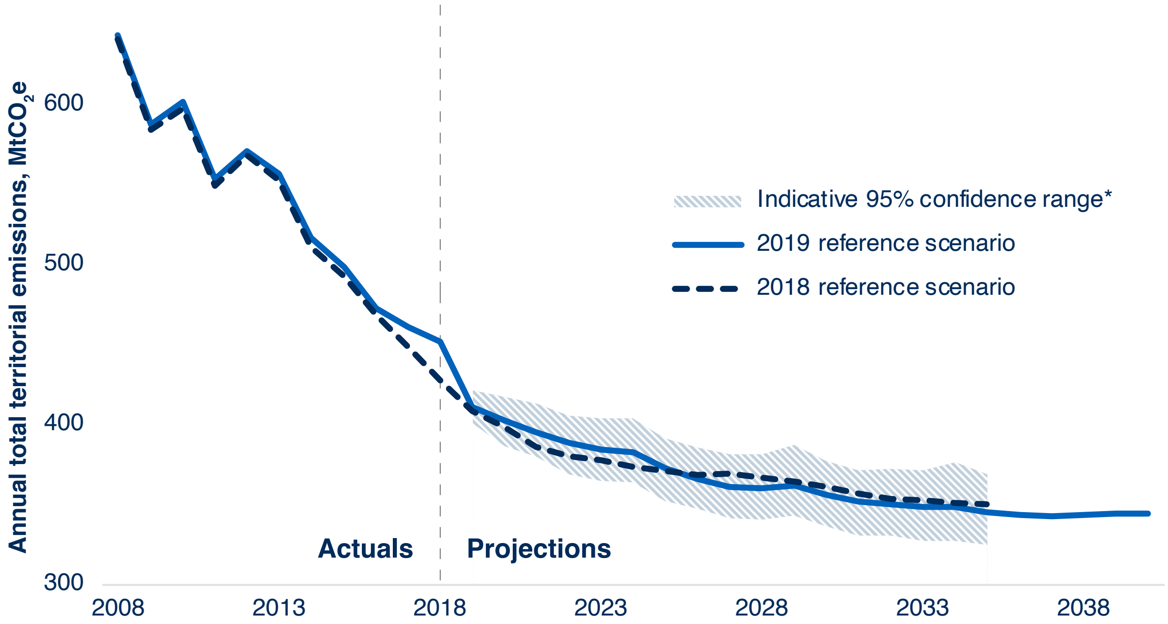


Source: OECD Data: Air and GHG emissions (accessed March 2022)

The UK and GCC member states have a number of commitments to reduce GHG emissions, although emission reduction goals vary across member states. UK emissions, which have fallen by around 44% since 1990, are projected to fall by a further 24% by 2040.[177]

177 BEIS: Updated energy and emissions projections 2019.

Figure 11: UK projected emissions, $MtCO_2e$



Source: BEIS, Updated energy and emissions projections: 2019 (October 2020).
* The uncertainty ranges are indicative and are based on EEP 2018. The figure includes LULUCF.

In 2019 the UK became the first G20 country to legislate binding commitments to bring all GHG emissions to net zero by 2050 to end its contribution to global warming.

Since 1990, the UK has reduced its greenhouse gas emissions by 44% - faster than any other G7 economy and has committed to protecting 30% of UK land by 2030 to support the recovery of nature.[178] The UK has also laid legislation for our sixth carbon budget, a target which would reduce GHG emissions by 78% by 2035 compared to 1990 levels and for the first time, includes emissions from international aviation and shipping.[179] This commitment will take the UK more than three-quarters of the way to its 2050 net zero target.

The GCC member states have also made commitments to reduce GHG emissions:[180]

- In 2017, the UAE launched its Energy Strategy 2050 to achieve net-zero. This includes reducing the carbon footprint of power generation by 70%, reducing its emissions by 23.5% by 2030, and generating 50% of its electricity from renewables and nuclear each by 2050. The UAE showcased its commitment by launching a successful bid to host the COP28 climate talks, due to take place in the country in 2023.
- Both Saudi Arabia and Bahrain are aiming to reach net-zero emissions of GHG by 2060.
- In 2021, Qatar launched a national climate change action plan that envisions achieving a 25% reduction in GHG emissions and reducing carbon intensity of its liquefied natural gas facilities by 25%, both by 2030.
- Kuwait's Vision 2035 targets reduction of energy consumption and raising renewables' share in the energy mix to 15% from the current 1%, however projections made in the Kuwait Energy Outlook 2019-2022 show this might be difficult to achieve.
- Oman has developed a National Strategy for Adaptation and Mitigation of Climate Change between 2020 and 2040, committed to reducing GHG emissions by 7% in 2030.

178 UK Government, PM commits to protect 30% of UK land in boost for biodiversity, 2020.
179 UK Government, UK enshrines new target in law to slash emissions by 78% by 2035, 2021.
180 Instinctif, COP26: GCC members walk the talk, 2021.

Quantitative estimates of the impact on emissions as a result of the FTA

UK greenhouse gas emissions are estimated to increase by around 0.12% or 0.23% in the long-run, depending on the depth of the agreement. This is driven by stronger economic growth in the UK, a small shift in economic activity towards more energy-intensive sectors, as well as other channels of impact. The estimates are subject to several limitations. In particular, they do not account for a range of other factors that might reduce emissions in future, such as policy measures to deliver the UK's Net Zero commitments. They may therefore overestimate the impact on emissions resulting from the agreement.

Trade liberalisation boosts economic growth, raising economic activity and energy use. All else equal, higher economic growth is underpinned by greater energy consumption by households and firms, resulting in higher levels of GHG emissions. This is known as a scale effect.

Trade liberalisation also changes the mix of a country's production towards those products where it has a comparative advantage. The re-allocation of resources across sectors is one of the ways in which trade improves economic efficiency. It can also affect GHG emissions. Changes in emissions arising from changes in the sectoral composition of the economy are known as the composition effect. The composition effect will result in less (more) GHG emissions if the expanding sectors are less (more) emission intensive than the contracting sectors.

UK-based GHG emissions

Estimates of the impact on GHG emissions are based on the GTAP-E model. The GTAP- E model is consistent with the GTAP modelling used to estimate the economic impacts. Further detail on this model can be found in technical annex 8.

The results from the GTAP-E model suggest that the FTA could increase UK GHG emissions by around 0.12% or 0.23% in the long-run, depending on the depth of the agreement. This is equivalent to an increase of around 0.59 $MtCO_2e$ or 1.11$MtCO_2e$ per year, when compared to 2020 levels of 481.0 $MtCO_2e$.[181] These results are driven by a scale and a composition effect, as well as other channels of impact, such as potential changes in the type of energy used and the amount of energy used by firms in production.

GCC-based GHG emissions

Results from the GTAP-E model suggest that the FTA could increase GHG emissions in the GCC by around 0.11% to 0.24% in the long-run, depending on the depth of the agreement. This is equivalent to around 1.46 MtCO2e to 3.14 $MtCO_2e$ per year, when compared to 2014 levels. The estimated impacts vary across GCC member states.

Impact on global GHG emissions

In addition to impacts via economic changes to the UK and the GCC, the agreement is estimated to affect global GHG emissions via its impact on the economic growth, the composition of output and energy use in other countries. Results from the GTAP-E model suggest that global GHG emissions (including the UK and GCC) could increase by around 0.01% in the long-run.[182] This is equivalent to around between 2.2 $MtCO_2e$ to 4.4 $MtCO_2e$ per year, when compared to 2014 levels, depending on the depth of the agreement. Third country environmental impacts are expected to be small.

Limitations

The above quantitative estimates are subject to a number of important limitations. They do not consider the following:

1. The projected decline in greenhouse gas emissions in various sectors or declines in emissions intensity that might be expected to follow from government policies. For example, decarbonisation or policy measures to deliver the UK's net zero commitment, and firm and consumer behaviour.
2. The modelling uses 2014 emissions data in the baseline and as a result does not capture the impact of falling emissions over the last 8 years.
3. Firm and consumer behaviour, such as the adoption of environmentally friendly production techniques, either through technology transfer or investment (typically referred to as the technique effect) which can lead to a decline in GHG emissions and emission intensity over the long-term.

181 UK absolute emissions changes are calculated using the latest ONS atmospheric emissions data: ONS, 'Atmospheric emissions: greenhouse gases by industry and gas', available at: https://www.ons.gov.uk/economy/environmentalaccounts/datasets/ukenvironmentalaccountsatmosphericemissionsgreenhousegasemissionsbyeconomicsectorandgasunitedkingdom
182 Rounding to 2 d.p does not change the result depending on the depth of the agreement.

Taken together these limitations indicate that the estimates may be an over-estimate of the eventual, long-run, changes in emissions resulting from the increased economic activity in the UK and the GCC.

The estimates also do not take into account the impact on transport emissions, which are assessed below, or emissions due to deforestation or land use change.

Trade-related transport emissions

A comprehensive FTA is expected to lead to an increase in transport emissions as a result of increased trade with the GCC. Bilateral trade in goods and services between the UK and GCC is estimated to increase by 16.4% to 30.1%, depending on the depth of the agreement. Estimates suggest that the increase in bilateral trade in goods in each scenario could increase annual transport-related emissions by around 0.11 $MtCO_2e$ or 0.19 $MtCO_2e$. The estimates do not account for the future decarbonisation of international shipping.

Global trade was estimated to be associated with 8,800 $MtCO_2e$ or 27% of global CO_2 emissions from fuel combustion in 2015.[183] International transport is estimated to be responsible for 33% of world-wide trade-related emissions, with shipping freight alone accounting for 3% of global GHG emissions.[184,185]

The scale of emissions associated with international trade in goods reflects a complex combination of factors including distance, weight (rather than value), and mode of transport. Different modes of transport vary greatly in their carbon intensity. Maritime freight is associated with far less emissions than aviation when transporting the same weight of goods over the same distance

The UK is committed to being at the forefront of tackling maritime emissions. The UK was a leading voice in the negotiations at the International Maritime Organization (IMO) in 2018, resulting in the first ever GHG strategy for the sector, agreeing a target of reducing emissions by at least 50% by 2050.[186] Both the IMO and the International Air Transport Association (IATA) recognise that transport emissions are a significant driver of global emissions and have made commitments to improve the climate impact of maritime and aviation transport: the IMO have adopted mandatory measures to reduce emissions of various pollutants under their pollution prevention treaty (MARPOL), and the IATA have adopted a four-pillar strategy to address the global challenge of climate change.[187]

In terms of weight, maritime freight contributes to approximately 99.5% of the weight by volume of trade with the GCC in 2019 whilst aviation freight contributes approximately 0.5% of the weight by volume.[188]

By increasing trade between the UK and GCC member states, a comprehensive FTA is estimated to lead to an average increase in annual GHG emissions of between 0.09 $MtCO_2e$ and 0.11 $MtCO_2e$ each year between 2020-2035 under scenario 1, and between 0.17 $MtCO_2e$ and 0.19 $MtCO_2e$ under scenario 2. This results from an estimated increase in the emissions associated with maritime and aviation freight between the UK and the GCC of between 4% and 5% in the shallow scenario, and 8% in the deeper scenario. The increase is small when compared to UK production emissions in 2018 of around 500 $MtCO_2e$.[189]

Table 10: Estimated impact of an FTA on trade-related maritime and aviation freight emissions under scenario 1

	Emissions from UK exports			Emissions from UK imports			Total
	Aviation	Maritime	Total	Aviation	Maritime	Total	
Average annual change ($MtCO_2e$)	0.04	0.03 – 0.04	0.07 – 0.08	0.01	0.02 – 0.02	0.02 – 0.03	0.09 – 0.11
Change relative to baseline (%)	17%	27%	21% - 22%	16%	1%	1% - 1%	4% - 5%

The range for maritime emissions is based on a sensitivity analysis of increasing the distance by 25% to reflect ships not always taking the shortest route.

183 OECD - CO2 Emissions embodied in international trade and domestic final demand.
184 A. Cristea, et al., Trade and the greenhouse gas emissions from international freight transport, Journal of Environmental Economics and Management, 2012.
185 International Maritime Organization Fourth Greenhouse Gas Study, 2020.
186 DfT's Clean Maritime Plan, July 2019.
187 International Convention for the Prevention of Pollution from Ships (MARPOL), signed 1973.
188 BEIS analysis of HMRC Trade Data 2019.
189 DIT calculations of UK production emissions which excludes UK consumption. 2018 ONS data for Greenhouse Gas emissions.

Table 11: Estimated impact of an FTA on trade-related maritime and aviation freight emissions under scenario 2 (deeper FTA)

	Emissions from UK exports			Emissions from UK imports			Total
	Aviation	Maritime	Total	Aviation	Maritime	Total	
Average annual change ($MtCO_2e$)	0.06	0.05 – 0.07	0.12 – 0.13	0.01	0.04 – 0.05	0.05 – 0.06	0.17 – 0.19
Change relative to baseline (%)	3%	43%	35% - 36%	32%	2%	3% - 3%	8% - 8%

The range for maritime emissions is based on a sensitivity analysis of increasing the distance by 25% to reflect ships not always taking the shortest route.

The increase is driven by the expected increase in the volume of bilateral trade and the estimated change in the composition of goods traded and associated modes of transport used. Where trade shifts from partners geographically closer to the UK towards GCC member states, the increased distance travelled would also increase emissions.

A large proportion of services trade does not involve any transport at all (for example Mode 1 service supply, rather than Mode 4).[190] Insofar as it does increase the movement of people, it could increase transport emissions. While it has not been possible to quantify this impact, it is expected to be small.

The analysis does not take account of any improvements we may expect to see in the emissions intensity of transport over time either in the baseline or resulting from an FTA. It also does not take into account the impact on transport emissions from changes in trade with third countries. More details on methodology can be found in technical Annex 8.

Whilst the above estimates capture the direct impact on transport emissions, the indirect impact of other non-CO_2 aviation emissions, such as water vapour, contrails, and nitrogen oxides, have also been explored. The modelling estimates that indirect aviation emissions could increase total emissions by up to 0.02 $MtCO_2e$ and 0.06 $MtCO_2e$, depending on the depth of the agreement. Overall, the FTA could therefore lead to an increase in emissions associated with the transport of goods up to 0.13 $MtCO_2e$ and 0.25 $MtCO_2e$. These estimates are subject to the same modelling limitations outlined above and in Annex 8.

Carbon Leakage

The displacement of GHG production emissions because of differing climate rules and policies across jurisdictions is known as ‘carbon leakage’. Carbon leakage can be said to occur if all the following conditions are satisfied:

- climate mitigation policies differ across jurisdictions;
- emissions shift to a region with lower climate mitigation obligations; and
- shifts in production to a firm in a different jurisdiction lead to a sustained increase in emissions intensity, higher than it would have been had production not moved.

As the UK implements emissions reduction policies to meet its 2050 net zero target, its effective carbon price will increase significantly over time. There is a risk of carbon leakage occurring in the future if there is a significantly lower effective carbon price in other countries, due to differing climate policies. The lower effective carbon price would make other countries more competitive than the UK, all else equal, and could therefore lead to the displacement of production from the UK to those countries. Free trade agreements can exacerbate carbon leakage risks by lowering trade barriers with countries with lower effective carbon prices, causing an increased flow of products from more carbon-intensive jurisdictions to the UK.

The UK’s two main trade partners in the GCC, the UAE and Saudi Arabia, have net zero commitments of 2050 and 2060 respectively.[191] Bahrain has also made a pledge of 2060, while the other member states have not made any public net zero commitments. The effective carbon price in the UK is therefore likely to diverge from GCC member states over the coming decades, although there is likely to be less divergence with the UAE, Saudi Arabia, and Bahrain, who account for over 70% of the UK’s trade with the GCC.[192] Over the longer-term, the net zero commitments of these countries are likely to mitigate some, but not all, of the carbon leakage risks associated with an FTA. However, in the short and medium term, carbon leakage risks may emerge given the UK is likely to implement additional climate mitigation policies at a faster rate than the GCC member states, in order to meet our carbon budget.

190 According to experimental data, Mode 4 trade made up around 13% of cross-border services trade (excluding Investment) with the GCC in 2019. Experimental data is not granular enough for each country in the GCC. Hence, we have used Saudi Arabia + Residual Gulf Arabian Countries as a proxy for the GCC. Thus, our analysis includes Yemen and Iraq which are unlikely to be distortive.
191 Net Zero Tracker.
192 ONS, UK total trade: all countries, non-seasonally adjusted, April 2022.

Across the next few decades, carbon leakage risks are likely to be greatest with GCC member states in sectors: (1) that are GHG-intensive; and (2) where imports from GCC members are expected to significantly increase as a result of an FTA (thus leading to a displacement of UK production by more carbon-intensive imports). According to CGE estimates, import increases as a result of an FTA are estimated to be most prominent in the 'chemicals', 'wearing apparel', 'metals', 'rubber and plastic', and 'computer & electronics' sectors. At present, GCC chemicals and textiles production is around 4 times more GHG intensive than the UK's, metals production is around 1.5 times more intensive, and computer and electronics production around 6 times more intensive.[193] The greatest carbon leakage risks are estimated to be in 'rubber and plastic' products where GCC GHG intensity of production is 29 times greater than in the UK. Furthermore, disparities in emissions intensities could rise in the future given differences in net zero targets, and if climate mitigation policies are implemented at a slower rate in GCC member states than in the UK.

However, the extent to which output is displaced from the UK to GCC member states (an important condition for carbon leakage) will depend on whether the UK and the GCC member states produce directly competing products within these sectors as comparative advantages change over time. For example, if the UK and the GCC produce different types of 'wearing apparel' which do not compete in the same market, then this would limit the risk of carbon leakage within this sector.

Opportunities for increased trade in environmental goods

Environmental goods and services refer to products and services with an environmental end use or benefit. Reducing trade barriers and increasing trade in environmental goods and services can increase their application and speed up the diffusion and take up of more environmentally friendly production techniques, resulting in positive environmental and climate outcomes.

Trade in these goods and the spread of technologies are two of the key ways in which free trade agreements could improve environmental outcomes.

There is no internationally agreed definition of environmental goods. This scoping assessment follows the OECD approach, using the Combined List of Environmental Goods.[194]

The UK and GCC member states currently impose tariffs on 65 and 216 products classified as environmental goods by the OECD's combined list of environmental goods respectively.[195,196] The GCC's average tariff applied on environmental goods is around 5.4%.[197] The GCC applies the highest average tariffs on goods involved in 'renewable energy plants' (5.7%) and 'wastewater management and portable water treatment' (5.6%).

The UK's most exported environmental goods to the GCC are gas turbines outside of turbojets and turbopropellers, such as those used in clean power generation from recovered landfill gas, coal mine vent gas or biogas. The UK exports £133.5 million worth of these products to the GCC each year, accounting for 0.9% of total exports to the GCC and 8.1% of environmental goods exports to the GCC.[198] These products currently face tariffs of 5.0%.

An FTA could reduce tariffs on environmental goods subject to negotiations. However, the marginal impact of trade liberalisation in environmental goods is likely to be small, at least in the short-term. This is due to the relatively small proportion of goods affected, as the UK and GCC currently impose tariffs on environmental goods accounting for 1.2% and 4.0% of total products imported respectively.[199]

193 Saudi Arabian GHG intensity is used as a proxy for the whole GCC region, as it is the only GCC member for which data is available in the OECD TECO2 database.
194 REPORT ON A SET OF POLICY INDICATORS ON TRADE AND ENVIRONMENT, Joint Working Party on Trade and Environment, OECD, 2019.
195 HS6 product level aggregation.
196 Figure for GCC only includes products on which all GCC member states apply tariffs.
197 Source: DIT best estimates using WTO TAO, WITS, Zakat, Tax and Customs Authority, and MacMap (Market Access Map, International Trade Centre, www.macmap.org) tariff line data reflecting 2020 and 2021 values. Tariff rates accessed September 2021.
198 UK export data based on 2017-19 averages from HMRC.
199 HS6 product level aggregation.

Impacts on natural capital and nature loss

Increased economic activity as well as increased production or trade in particular sectors or products can be associated with a wide range of environmental issues, beyond GHG emissions.

Whilst no significant impacts on natural capital and nature loss are expected as a result of an FTA, there is the potential for some limited environmental impacts in the GCC. However, there are potential policies and regulations which could help to mitigate these impacts. These include waste management strategies, policies that encourage research and development in recycling water, and regulations to improve air quality.

Air pollution

Air pollution is an important issue affecting human, animal, and plant health in both the UK and the GCC. The release of pollutants into the air is detrimental to the environment and the health of living organisms, as well as contributing to climate change.[200,201] Many sources of air pollution are linked to economic activities including burning fossil fuels, industrial processes, transport, agricultural food production, wood fires and use of chemicals.[202]

The Environmental Performance Index developed by Yale University shows that UK air quality is better than the global average and ranks 14th out of 180 countries. However, exposure to air pollution is still one of the UK's biggest public health challenges, shortening lifespans and damaging the quality of life for many people.[203] To tackle air pollution, the UK has implemented a mix of regulatory frameworks and encouraged investment in cleaner processes and a shift towards cleaner forms of energy.[204,205] Air quality has improved significantly in recent decades, but there are some parts of the UK where air pollution is higher than the national average, for example in large metropolitan areas.[206]

In the GCC, oil and gas production are the primary causes of air pollution.[207] Dust, traffic, industrial and water desalination plants are also significant contributors.[208,209,210] According to Yale's EPI, all GCC member states have shown small improvements in air quality over the last ten years. However, current air quality in the GCC varies. Kuwait has the highest EPI score ranking 45th - above the global average, whilst Oman ranks the lowest at 96th – below the global average.[211] Air pollution in GCC member states is one of the leading causes of death by risk factor, responsible for approximately 26,000 premature deaths in 2019.[212] Of the GCC member states, only the UAE is signed up to the UN's Climate and Clean Air Coalition.[213]

In the UK, GVA increases in most manufacturing sectors could lead to localised increases in air pollution, for example in areas where manufacturing production is concentrated. The manufacturing sector is linked to air pollution as it emits CO_2 and non-CO_2 gases through industrial combustion and chemical processes.[214] However, at a national level significant negative impacts are not expected, due to the domestic policies in place to address air quality.

In the GCC, GVA increases in the energy, chemicals and construction sectors could lead to increasing air pollution by emitting CO_2 and non-CO_2 gases through combustion and chemical processes.[215,216] While the proportional increases in GVA within these sectors are limited (between 0.1% and 0.3%), they represent some of the largest GVA increases in absolute terms. This could add pressure on the existing air quality issues in GCC member states. However better regulations and monitoring in the GCC to improve air quality may help to mitigate negative impacts.[217]

Water quality

Many economic sectors need water; agriculture, industry, and most forms of energy production.[218,219] Increased production in these sectors as a result of the FTA could therefore put pressure on water resources and quality. In addition, agricultural, industrial, and urban pollution can affect the chemical and ecological status of rivers, streams, lakes, estuaries, coastal waters, and groundwater.[220]

200 Defra, Air quality: explaining air pollution – at a glance, 2019.
201 UK Government, Air Quality and Climate Change: A UK Perspective, 2007,p.1.
202 Defra, Air quality: explaining air pollution – at a glance, 2019.
203 PHE, Health matters: air pollution, 2018.
204 Department for Environment, Food & Rural Affairs, Air quality factsheet, 2021.
205 Department for Business, Energy & Industrial Strategy, Net Zero Strategy: Build Back Greener, 2021.
206 Carnell et al, Modelling public health improvements as a result of air pollution control policies over four decades – 1970 to 2010, 2019.
207 Omidvarborna et al., Ambient air quality and exposure assessment study of the Gulf Cooperation Council countries: A critical review, Science of The Total Environment, 2018.
208 From natural (dust storms) and anthropogenic sources (such as cement, metal, stone cutting industries).
209 Farahat, Air quality in the Gulf Cooperation Council (GCC) countries, Asian Atmospheric Pollution, 2022.
210 Omidvarborna et al., Ambient air quality and exposure assessment study of the Gulf Cooperation Council countries: A critical review, Science of The Total Environment, 2018.
211 EPI, Air Quality, 2020.
212 Our World in Data, Number of deaths by risk factor, 2017. Calculation on 'Outdoor Air Pollution'.
213 UN Climate and Clean Air Coalition, 2019.
214 Department for Environment, Food & Rural Affairs, Air Pollution in the UK 2019, 2020.
215 PHE, Health matters: air pollution, 2018.
216 Defra UK Air, Cause of Air Pollution.
217 Red-on-line, Saudi Arabia: The Ministry of Environment begins implementing the executive regulations for air quality in the Kingdom, 2021.
218 UNESCO, The United Nations world water development report 2021: valuing water, 2021.
219 Al-Saidi and Saliba, Water, Energy and Food Supply Security in the Gulf Cooperation Council (GCC) Countries – A Risk Perspective, 2019.
220 Department for Environment, Food & Rural Affairs, 2010 to 2015 government policy: water quality, 2015.

The UK has fewer water pollution issues compared to the global average, ranking joint 6th out of 129 countries in the EPI for water resources. The UK also ranks 1st out of 178 countries in the EPI for sanitation and drinking water. However, the UK does experience localised water stress, notably in Southern and Eastern England due to increased demands for extracting water from natural sources.[221] Research by the National Infrastructure Commission has shown if this trend continues, England could endure significant water deficits by 2050.[222]

The EPI rankings of GCC member states for water resources varies between Bahrain and the UAE (ranked 17th and 21st respectively) who perform better than the global average, to Oman and Saudi Arabia (62nd and 64th) who perform below the global average.[223] The EPI ranks GCC member states above the global average for sanitation and drinking water, between 39th and 61st positions (Kuwait and Bahrain respectively).

GCC member states are extremely water scarce relative to other countries. The levels of water withdrawn far exceeds available internal water resources, for example Saudi Arabia uses almost 9 times more than its available internal water resources.[224] Most freshwater demands in the GCC member states are met by desalinated water and bottled water, however, it comes with high energy costs and emissions, as well as negative impacts on marine environments due to brine discharge.[225, 226,227] Scarce rainfall contributes to water scarcity in GCC member states, coupled with the use of groundwater resources for domestic agriculture.[228] However, policies that encourage research and development in recycling water used in oil production as seen in the UAE or investments in wastewater treatment plants to recycle water as seen in Bahrain, could help mitigate this issue.[229]

In the UK, GVA increases in manufacturing sectors could increase water pressures and affect water quality via untreated sewage – the second leading cause of water pollution in the UK – if businesses in these sectors demand more water for production.[230,231]

In the GCC, GVA increases in the energy, chemical and construction sectors may affect water use and quality. Processes within the chemicals sector can also lead to the release of harmful chemicals in ground water sources and materials within the construction sector such as cement and steel have a high-water footprint.[232] The expansion of these sectors could add to the water scarcity issue in the GCC, although the proportional increase in GVA in these sectors is limited, which may limit the overall impacts on water use and water quality. The sector with the largest proportionate increase in GVA in the GCC is the textiles, wearing apparel and leather sector, expanding by 1.3%. The chemicals used in textile manufacturing can contaminate water sources and depending on the production process can be highly water intensive.[233] Also, the GCC member states are large importers of "virtual water" which refers to the impacts of consumption in one region on water pollution elsewhere, for example via agricultural imports.[234] As imports of agricultural products are estimated to increase under the agreement, indirect negative impacts on water use in countries that export to the GCC (such as Brazil and India) cannot be excluded.

Marine habitats and fisheries

Trade in seafood has increased dramatically in recent decades and is amongst the most highly traded food commodities.[235]

UK exports of fish were worth £2 billion in 2019, with production accounting for 0.4% of global fish and seafood production in 2017.[236,237] The UK performs below the global average for sustainable fishing, ranking 109th out of 136 countries in the EPI. The largest fishing industries in the GCC are in Saudi Arabia and Oman – together with the UAE, these countries accounted for 0.3% of global fish production in 2017.[238] Both Saudi Arabia and Oman perform above the global average for sustainable fishing, ranking 26th and 17th respectively in the same index. However, GCC member states are generally net importers of fish and fish products.[239,240] Therefore, UK fishing practices are generally likely to be the main determinant of environmental impact from changes in the volume of trade in fish and fish products.[241]

221 WRAP, Freshwater availability and use in the United Kingdom, 2011, p.27.
222 National Infrastructure Commission 2018, p.2.
223 The wastewater index is based on a wastewater management index that measures the proportion of wastewater that undergoes at least primary treatment in each country, multiplied by the proportion of the population connected to a wastewater collection system.
224 SDG Tracker, Ensure access to water and sanitation for all.
225 Sherif, Water Availability and Quality in the Gulf Cooperation Council Countries: Implications for Public Health, Asia-Pacific Journal of Public Health, 2010.
226 Al-Rashed and Akber, Water security in the Gulf Cooperation Council (GCC) countries: challenges and opportunities, 2015.
227 World Bank, Beyond Scarcity : Water Security in the Middle East and North Africa, 2018.
228 Sherif, Water Availability and Quality in the Gulf Cooperation Council Countries: Implications for Public Health, Asia-Pacific Journal of Public Health, 2010.
229 World Bank, Beyond Scarcity : Water Security in the Middle East and North Africa, 2018.
230 UK Government, 25 Year Environment Plan Annual Progress Report April 2020 to March 2021.
231 Institute of Fisheries Management, Water pollution: How clean are the UK's rivers and lakes?
232 Gerbens-Leenes et al., The blue and grey water footprint of construction materials: Steel, cement and glass, Water Resources and Industry, 2018.
233 Muthu, S. Water in Textiles and Fashion, 2019
234 Saif et al., Water security in the GCC countries: challenges and opportunities, Journal of Environmental Studies and Sciences, 2014.
235 WTO, Trade and Fisheries: Key Issues for the World Trade Organization, 2021.
236 MMO, UK sea fisheries annual statistics report 2019, Section 4: Trade, 2020.
237 Global fish production, Our World in Data, 2017.
238 Global fish production, Our World in Data, 2017.
239 Except for Oman, which is a net exporter. FAO, Fisheries and Aquaculture Country Profiles – Oman, 2019.
240 FAO, Fisheries and Aquaculture Country Profiles – Saudi Arabia, 2017.
241 Marine Management Organisation, UK Sea Fisheries Statistics 2020.

There are currently 40 critically endangered species and 84 endangered species of fish present in GCC waters, and there may not be sufficient protection in GCC member states to avoid over-fishing of these species.[242,243,244] However, the vast majority of GCC capture fisheries are made up of small scale and artisanal fishing and largely avoids bottom trawling and pelagic trawling, which is more damaging to marine ecosystems.[245]

There may be a gap in Regional Fisheries Management Organisations (RFMOs) to manage collective fish stocks in the areas relevant to GCC member states, as their Exclusive Economic Zones (EEZ) are not geographically covered by RFMOs.[246] However, all GCC member states are members of the UN Regional Commission for Fisheries (RECOFI), which monitors levels of fish stock in the region. Marine Protected Areas are not prevalent in GCC member states' EEZ's (e.g. 11.5% for UAE, with other GCC member states ranging from 0.3% to 2.5%).[247] The UK seeks to promote sustainable domestic fishing through various policies, including through responsible investment in the industry and stock management.[248,249,250] Marine protected areas account for 25.97% of the UK's EEZ.[251]

The absolute changes in GVA terms for fish products as a result of an FTA are estimated to be small, suggesting a limited overall environmental impact.

Land use and land management

Land use change is a process that involves the management and modification of natural environment or wilderness into productive environments such as settlements and semi-natural habitats (e.g. arable fields, pastures, and managed woods). UK land use will be pivotal in achieving UK Net Zero Target by 2050.[252] In the UK forests are the largest source of national carbon sequestration, removing 18 million tonnes of CO_2e in 2017, whilst forests in the GCC are scarce.[253,254]

In 2020, woodland area in the UK covered 3.2 million hectares (m ha); 1.39m ha (43%) of which is independently certified as sustainably managed.[255] Forests cover 13% of the total land area in the UK.[256] In Yale University's EPI, the UK ranked 117th for tree cover loss, down on a decade earlier. However, the government manifesto commits to planting 30,000 ha of trees per year by 2025 across the UK.[257] The government has also pledged £50 million to the Woodland Carbon Guarantee to encourage woodland planting and develop the domestic market.[258] This is part of the 25 Year Environmental Plan introduced in 2018. Data is limited for GCC member states in terms of Tree Cover Loss. However, Yale University's EPI ranks Saudi Arabia as joint first for this indicator, with an EPI score of 100.

Yale University's EPI also includes an ecosystems services indicator, which measures tree cover loss alongside grassland and wetland loss. On this indicator, the UK ranks 115th out of 176 countries, with a score of 28.3. GCC member states ranked highest include Bahrain and the UAE, which rank joint 1st with EPI scores of 100, whilst Qatar ranks lowest at 176th.

GCC member states are characterised by arid land making them vulnerable to desertification and land degradation. Desertification poses a threat to biodiversity, agriculture, and food security in these states.[259] Mitigation strategies against some of these issues have been adopted by GCC member states and internationally. For example, the National Action Programme to Combat Desertification in the Sultanate of Oman and the United Nations Convention to Combat Desertification.[260,261]

In the UK, demand for land across many sectors has intensified - population changes and rising incomes are two key drivers of this intensification. Over the next 50 years, it is expected that the UK will experience greater pressures on land to deliver a growing level of services.[262]

Over the past 70 years, the GCC has urbanised rapidly going from less than 50% to over 90% of its population living in urban areas, this is expected to rise to 95% by 2050. The majority of this urbanisation occurred in Oman and Saudi Arabia.[263] Whilst a relationship between economic growth, urbanisation and desertification exists, it is difficult to determine how increased economic growth from this FTA will translate into urban infrastructure development.

242 IUCN Red List of Threatened Species. Filtered by Western Indian Ocean, endangered and critically endangered.
243 World Bank Advisory Assignment, Sustainable Management of the Fisheries Sector in Oman, 2015
244 Shellem et al, Red Sea fish market assessments indicate high species diversity and potential overexploitation, 2021.
245 Sea Around Us, 2018.
246 Except for Oman, which is a party to the Indian Ocean Tuna Commission.
247 World Bank, Marine protected areas (% of territorial waters).
248 Department for Environment, Food & Rural Affairs, Sustainable fisheries for future generations, 2018.
249 UK Government, MMO – Fisheries management and variations, 2014.
250 UK Government, UK Seafood Fund, 2021.
251 OECD Stat, Sustainable Ocean Economy, 2021.
252 CCC, Major shift in UK land use needed to deliver Net Zero emissions, 2020.
253 Office for National Statistics, UK natural capital accounts 2019.
254 World Bank, Forest area (% of land area), 2020.
255 Forest Research, "Forestry Statistics and Forestry Facts & Figures" Data: 2020.
256 World Bank, Forest area (% of land area), 2020
257 Tree planting on the up in England, "Defra Media", 2020.
258 UK Government, Woodland Carbon Guarantee, 2019.
259 Euro-Gulf Information Centre: Confronting Environmental Challenges in the GCC: The Initiatives at Play.
260 FAO, National Action Programme to Combat Desertification in the Sultanate of Oman, 2005.
261 UN, United Nations Convention to Combat Desertification, 2022.
262 UK Government, Land use futures: making the most of land in the 21st century, 2010.
263 Urbanization - Our World in Data. An average of the six GCC member states was calculated for the years 1950, 2020 and 2050 (prediction).

The total population of the GCC region has been growing rapidly since 2005 due to high birth and migration rates, and it has been estimated that significant investment in infrastructure is required to support the GCC's growing population.[264,265] Therefore, increased economic growth could translate into increases in urban infrastructure, putting greater pressure on land use change.

GVA of the agriculture, forestry, and fishing sectors – which are the industries most linked to land-use change from international trade – are projected to marginally decrease in the UK, posing limited risk of a negative impact of land use change from this sector. In contrast, in the GCC member states, there is a slight increase. However, the GCC also has a very small domestic agriculture sector which suggests that any land use change will occur in other countries, for example via agricultural food imports. This impact is anticipated to be small, given the small increase in economic activity compared to total agricultural output in these countries.

Waste management

As countries grow and industrialise, other factors remaining equal, they produce more solid waste as a result of production and consumption.[266] The volume of solid waste and effective waste management processes – such as those determining the disposal and recycling of goods – are an important determinant of the impact of increased economic activity on the environment.

Waste can endanger wildlife, the environment, and poor disposal practices can threaten human health.[267,268] In the UK policies to divert waste away from landfill have led to larger tonnages of waste now being treated at energy recovery facilities. In 2018, 8.5m tonnes of waste were processed at energy recovery facilities, up from 7.3m tonnes in 2016.[269] In GCC member states, there are increasing levels of regulation to improve the treatment of waste, and there are also some commitments to improve waste disposal.[270,271] Waste generation per capita is high in GCC member states and in the UK, both economies produce waste above regional averages. In 2016, this ranged from 1.2-1.8kg/day per capita for the GCC and 1.3kg/day per capita for the UK.[272]

According to Yale University's EPI, the UK collects and treats 93% of its household and commercial waste, ranking 17th out of 132 countries, placing it above the global average for waste management. GCC member states' collection and treatment of waste ranges between 60% and 61% (ranking between 56th and 60th on the EPI), except for the UAE which collects and treats only 27% of its household and commercial waste, ranking 93rd globally (measures for Kuwait and Oman are not available).[273]

Recycling and other recovery was the most common final waste treatment type in the UK in 2018 at 50.4%, while on average, GCC member states only recycle around 10% of plastic and metal waste.[274,275] The GCC member states are seeking to improve waste treatment through privatisation and investments, including waste to energy solutions.[276,277] The number of recycling systems is increasing and there may be opportunities for the UK to share expertise in this area with GCC member states.[278] The UK and all GCC member states are parties of the Basel Convention and the Rotterdam Convention, multilateral agreements to control hazardous wastes and chemicals.[279]

The construction industry is an intensive producer of waste in the UK.[280] CGE modelling shows that the UK construction sector is set to expand from the FTA, which may suggest an increase in waste generation in the UK. Based on the UK's commitment to policies such as the 25 Year Environment Plan, additional waste from the FTA could potentially be mitigated via domestic policies.[281] Some of the UK's most significant exports with the GCC are in manufactured products, including electronics, which could increase metal waste generation. An increase in the volume of metal and electronic waste could put pressure on waste disposal systems in both the UK and GCC member states.

The modelling estimates that chemical, rubber, and plastic production may also see small percentage increases in output in the UK as a result of the FTA relative to the large size of the sector (0.2% increase in GVA). Chemical and hazardous waste may therefore increase marginally.

264 Hassen and El Bilali, Food Security in the Gulf Cooperation Council Countries: Challenges and Prospects, 2019.
265 PWC, The GCC post-pandemic, 2021.
266 World Bank, What a Waste: A Global Review of Solid Waste Management, 2012, p. 8–13.
267 Briffa et al., Heavy metal pollution in the environment and their toxicological effects on humans, 2020.
268 Keep Britain Tidy, accessed May 2022.
269 Department for Environment, Food & Rural Affairs, UK Statistics on Waste, 2021.
270 ECOLEX, Regulation of the Municipal Solid Waste Management System, Saudi Arabia.
271 Saudi Green Initiative, 2035 Waste management transformation in Riyadh.
272 The average waste generation per capita in the Middle East and North Africa region is 0.81kg/day, while in Europe and Central Asia is 1.18kg/day, What a waste report 2.0, 2018.
273 Environmental Performance Index (EPI) for Controlled solid waste, 2020
274 Department for Environment, Food & Rural Affairs, UK Statistics on Waste, 2022.
275 PwC, The $6 billion GCC recycling opportunity, 2020.
276 Oxford Business Group, Oman completes privatisation of municipal waste management, 2017.
277 World Future Energy Summit, Waste-to-Energy enjoying renewed investment focus across the Middle East.
278 World Bank, What a waste report 2.0, 2018.
279 The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal
280 Department for Environment, Food & Rural Affairs, UK Statistics on Waste, 2021.
281 UK Government, A Green Future: Our 25 Year Plan to Improve the Environment, 2018.

Trade in recyclable goods, such as paper products, are estimated to moderately increase between the UK and the GCC as a result of the FTA. These increases may have relatively small effects on the environment in the UK, which has a recycling rate for paper of 67%.[282] In the GCC, this sector is also expected to expand (0.04% increase in GVA) due to the agreement. This may only increase waste marginally, but the lower recycling rate could have a negative impact on the environment.

Biodiversity and ecosystems

Biodiversity is the variety of life on Earth – the variety of ecosystems and species, and the genetic diversity.[283] The main causes of biodiversity loss in the UK and globally are over-exploitation of natural resources, climate change, the pollution of ecosystems, land-use change and invasive non-native species.[284,285,286] Increasing evidence identifies economic growth as the key global driver of biodiversity loss by driving greater resource use and higher emissions.[287] Increased trade can therefore negatively impact biodiversity through economic growth, with an estimated 30% of all species' threats due to international trade.[288]

Global rankings on biodiversity risk show how much consumption in the UK and GCC is associated with global species loss in land that is rich in biodiversity. Both the UK and the GCC have higher biodiversity risk than the global average, with the Middle East region (which is used as a proxy for the GCC as data is not available for GCC member states specifically) ranking 9th out of 49 countries and regions and the UK ranking 19th.[289] Most of the consumption in the UK and GCC member states has a higher impact on biodiversity abroad than domestically. For example, around 81% of UK consumption impacts occur abroad, and in 2017 agricultural products (including crops and cattle, but not other livestock) consumed in the UK accounted for an estimated 31.1k hectares of global deforestation (ranking 20th globally) and was associated with the predicted loss of 61 species (ranking 18th globally).[290,291] For the GCC, consumption of agri-food imports can impact biodiversity and species loss in its major agri-food import markets such as Brazil and India.[292] This could be through more intensive farming, such as the increased use of pesticides and fertilisers and greater mechanisation, as well as land use change and degradation.[293]

The EPI includes the Ecosystem Vitality index which is divided into Biodiversity and Ecosystem Services.[294,295] The UK performs strongly (better than the Global West regional average) in Biodiversity with a score of 88, ranking it 6th overall.[296] GCC member states generally have lower averages, with scores ranging from 80.9 to 18.9, ranking between 34th and 173rd overall. The UK has a below average score for Ecosystem Services, ranking 115th overall, while GCC member states with the exception of Qatar rank much better by this measure, ranking between 1st and 45th places. Qatar ranks 176th overall.

The UK has committed to tackling biodiversity threats as a member of the Convention on Biological Diversity and within the UK government 25-Year Environment Plan. Both the UK and GCC member states have signed multilateral agreements to address biodiversity, such as the Convention on Biological Diversity and Convention on International Trade in Endangered Species.[297]

In the UK, the agriculture, fisheries and forestry sector is expected to decline by a small proportion, so the FTA is not expected to have a negative impact on biodiversity in the UK. Further, through sustainable sourcing and other coordinated environmental policies, the UK aims to minimise biodiversity loss resulting from UK consumption.[298] The expected GDP increase in GCC member states due to the agreement will increase imports of agri-foods goods, affecting biodiversity in these producer countries. However, any substitution of GCC imports towards UK agri-food produce could help to mitigate biodiversity impacts, as the UK is on average a producer with lower environmental impacts than current major GCC import source countries.[299]

282 UK Confederation of Paper Industries Review 2020/21.
283 The Convention on Biological Diversity defines biodiversity as the variability among living organisms from all sources including, inter alia, terrestrial, marine, and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.
284 Convention on Biological Diversity, UK profile.
285 IPBES, Models of drivers of biodiversity and ecosystem change.
286 Land use change includes land clearing, the intensification of agricultural methods, and urbanisation.
287 Otero et al., Biodiversity policy beyond economic growth, Conversation Letters, 2020.
288 Lenzen et al., International trade drives biodiversity threats in developing nations, Nature, 2012.
289 JNCC, Tracking the environmental impacts embedded in commodity consumption, 2021. using the species-richness weighted area indicator of biodiversity risk.
290 Kitzes et al., Consumption-Based Conservation Targeting: Linking Biodiversity Loss to Upstream Demand through a Global Wildlife Footprint, 2016.
291 JNCC, Tracking the environmental impacts embedded in commodity consumption, 2021.
292 GCC member states' import values of HS chapters 01-23, averaged from 2017 - 2019 taken from TradeMap, show that India and Brazil were the top sources of agri-food imports. It's established that agri-food production is a major cause of biodiversity and species loss in these countries.
293 State of Nature, 2019.
294 Assesses the actions taken in each country to protect biodiversity. Comprised of seven indicators- Terrestrial biomes (national), terrestrial biomes (global), marine protected areas, Protected Areas Representativeness Index, Species Habitat Index, Species Protection Index, Biodiversity Habitat Index
295 This recognises the important service ecosystems provide to human and environmental well-being. It comprises three indicators – tree loss cover and two new pilot indicators for 2020 – grassland loss and wetland loss.
296 Global West region includes: EU (Austria, Belgium, Germany, Denmark, Spain, Finland, France, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Sweden), UK, EFTA (Norway, Iceland, Switzerland), Canada, USA, Australia and New Zealand.
297 Convention on Biological Diversity, signed 1992, and Convention of International Trade in Endangered Species of Wild Fauna and Flora (CITES), signed 1973.
298 UK Government, A Green Future: Our 25 Year Plan to Improve the Environment, Chapter 6, 2018.
299 Based on an assessment of Yale University's Environmental Performance Index (EPI), and governance and environmental indicators from the World Bank for the UK and GCC top agri-food importing countries.

7. Uncertainty and sensitivity analysis

Uncertainty affecting the scale of macroeconomic impacts

It is important to recognise that the scale of macroeconomic impacts, as well as the distribution across sectors and regions, are subject to a high degree of uncertainty from various sources.

Uncertainty in the estimated impacts relating to the model and key parameters

The scale of estimates for the macroeconomic impacts depends on the model structure, underlying data, key structural parameters (such as elasticities) and input assumptions (relating to the assumed scale of trade cost reductions). These influence the estimates and are all subject to uncertainty. For example, the elasticities in the model attempt to capture the behavioural response of businesses and consumers when faced with lower trade costs and a new set of relative prices in the economy. The model structure exerts the largest influence on the estimated impacts as this also determines the ways in which businesses in various sectors and consumers are assumed to respond to the FTA.

A set of sensitivity checks have been undertaken to investigate the robustness of the main estimated results, varying:

- The core parameters within the model.
- The estimates of the non-tariff measure reductions.
- Some of the model's structural assumptions.

In three separate steps the robustness of both scenarios has been tested. See Annex 1 for more details.

First, a statistical simulation was used to generate hundreds of estimates for the impact of the agreement based upon alternative, randomly sampled, values for trade elasticities. These govern the strength of model responses to a given reduction in trade barriers. The estimated results are relatively robust to the applied changes to trade elasticity across both core scenarios for the UK and the GCC, all other things equal. In more detail, the analysis suggests that for scenario 1 and 2 the 90% confidence interval coincides with our central estimate when rounded to two decimal places. For the deeper FTA scenario, the 90% confidence interval spans from 0.108% to 0.111%.

Second, a statistical exercise was run to test the robustness of our core scenarios to the applied NTM estimates. The findings suggest that estimates are relatively robust to the assumed changes in NTMs: for scenario 1 and 2, the 90% confidence interval coincides with our central estimate when rounded to two decimal places. For the deeper FTA scenario, the 90% confidence interval spans from 0.109% to 0.111%.

Thirdly, a sensitivity analysis was conducted to test the method of implementing the non-tariff barrier reductions in the model. This relates to the nature of NTMs, and the extent to which they may generate any benefits in the economy. This sensitivity test suggests that the applied assumption represents a conservative approach to the modelling: under the alternative specification in the deeper FTA scenario real GDP gains increase from 0.1096% to 0.1101% for the UK and from 0.1623% to 0.1796% for the GCC, all else equal. Under scenario 1 the respective values increase from 0.0570% to 0.0572% for the UK and from 0.0686% to 0.0740% for the GCC.

However, it is important to recognise that the ranges do not account for uncertainty in model structure, nor the uncertainty associated with the underlying projections. None of the estimates account for the full range of potential dynamic impacts of the agreement nor exogenous factors (described further below) which are likely to exert a greater influence on the eventual impact of the agreement. These factors are, by nature, difficult to quantify. They mean that it is possible, or even likely, that the eventual impacts of the agreement fall outside of the ranges suggested by the sensitivity exercises discussed above (which only capture the impact of uncertainty from modelling parameters or assumptions).

An uncertain future - exogenous factors affecting the eventual impact of the FTA

The CGE modelling provides ex ante estimates of the direction and broad orders of magnitude of the long-run impacts. The modelling is based on data for 2014 and, like many approaches to economic modelling, assumes 'all else remains equal'. That means that it assumes that factors outside of the modelling framework all remain the same. However, there are many geopolitical trends and changes to the UK and global economy which may continue over the long run (c.15 years and beyond). These may affect the eventual long run impacts of the agreement in quantitatively important ways, including the extent to which the predicted impacts materialise.

These factors include, but are not limited to those discussed in DIT's Global Trade Outlook, such as:

- Global trends such as the increased importance of Asia and Africa to the global economy.
- Changing demographics and the rising global middle class.
- Geo-political developments and their impact on global value chains and UK GCC trade in general.

It is not possible to quantify the impacts of these trends, but they may exert a large effect on the eventual impacts of the FTA. These and other sources of uncertainty mean that the impacts of the agreement are likely to differ from the central estimates and fall outside of the ranges estimated as part of the statistical exercise.

The analysis within this scoping assessment does not take into account the recent Ukraine-Russia crisis and any long-term implications of this. The impact of sanctions on Russia, leading to higher prices in energy markets, could increase GCC's global importance as an alternative source of energy given they are leading suppliers in oil and gas. If this persisted over the long run it could lead to an expansion in the GCC economy. A larger GCC economy could offer higher potential gains to the UK from an FTA. This potential increase is not reflected within the CGE modelling.

Uncertainty and sensitivities surrounding the impact on nations and regions

The impact on nations and regions of the UK are estimated by apportioning the estimated sectoral impacts from the CGE model to the nations and regions of the UK. These are apportioned using current output for each sector within each nation and region of the UK.

The apportionment approach means that the uncertainties affecting the sectoral impacts also affect the sub-national impacts. In addition, due to data availability, the national and regional impacts may also be subject to aggregation bias affecting the sub-national results.

In previous DIT analyses, the apportioned estimates have been adjusted using 'location quotients' in an attempt to account for local spending multipliers. The method is described further in Annex 4.[300]

There is some evidence to support the presence of regional multipliers resulting from changes in trade. These effects occur where tradable sectors and exporters pay higher wages and the expansion of exports leads to the creation of jobs in other non-tradeable sectors, through a 'local employment multiplier effect'.[301]

However, the estimates based upon this approach are now presented as a sensitivity analysis. The sensitivity analysis provides a broad indication of the direction of impacts if local economic effects were to persist in the long run. They are presented as a sensitivity analysis, rather than a central estimate because the scale and persistence of these multiplier effects is highly uncertain. On a conceptual level, they are particularly uncertain over the long-term horizon where in the CGE modelling framework, markets are assumed to adjust fully in the long term and that labour is mobile across regions, dissipating any local multipliers effects. On a practical level, there are limited examples in the literature where the local multiplier effects of trade policies have been estimated. As such, attempting to adjust the estimates for these potential impacts introduces additional uncertainty to the estimates.

In this case, the distribution of impacts is highly sensitive to the adjustments made to account for local spending multipliers. After including these adjustments, the estimated impacts are shown in Table 12. The estimated impacts excluding these adjustments can be found in Annex 3.

The pattern of results is similar using both the apportionment approach and location quotient-weighted approach. Magnitudes differ slightly due to weighting to account for relative sectoral specialisation in the location quotient-weighted approach. Sectors which see the largest expansions in GVA, such as

300 Location quotients are used to reflect how concentrated or specialised a sector is within a given nation or region.
301 These effects occur where tradable sectors and exporters pay higher wages and the expansion of exports leads to the creation of jobs in other non-tradeable sectors, through a 'local employment multiplier effect'. See, for example, Moretti (2010) "Local Multipliers" in American Economic Review: Papers & Proceedings 100 (May 2010): 1–7.

manufacturing, are relatively more concentrated in the West Midlands and North East. This is reflected in the greater magnitude of estimates for these regions in the location quotient-weighted results relative to the simple apportionment approach.

Table 12: Results for sensitivity analysis: estimated changes in UK nations and regions after adjusting for the potential for local multipliers (value added, long run % and £ million change)

Region	Scenario 1		Scenario 2	
	% change in GVA	Change in GVA £ million, 2019	% change in GVA	Change in GVA £ million, 2019
East of England	0.18%	310	0.34%	570
East Midlands	0.21%	230	0.37%	420
London	0.17%	790	0.32%	1490
North East	0.23%	130	0.40%	220
North West	0.17%	330	0.32%	610
South East	0.18%	520	0.33%	960
South West	0.18%	260	0.33%	470
West Midlands	0.25%	360	0.43%	620
Yorkshire and The Humber	0.21%	260	0.37%	470
Northern Ireland	0.20%	90	0.37%	160
Scotland	0.18%	260	0.33%	480
Wales	0.20%	130	0.36%	240

Source: DIT CGE Modelling (2022). Note: Based on 2019 data.

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