



Brief summary: After Brexit – Recommendations for Swedish priorities in upcoming negotiations

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The United Kingdom's exit from the European Union will affect Sweden's opportunities to trade with the UK. This analysis shows which issues Sweden should prioritize from a strict trade perspective, in order to reduce the risk of new trade barriers occurring.

When the UK leaves the EU, the international trade rules established under the auspices of the World Trade Organisation will be key, at least in a non-agreement situation. The WTO rules are not as comprehensive as the EU Internal Market rules. This may, at least in the long run, give rise to extensive regulatory divergence, and increase costs for Swedish businesses. The risk alone, of rules and regulations drifting apart, is sufficient to produce a negative effect on trade between our countries.

The purpose of the analysis is to identify what is most important to Sweden in a future EU-UK agreement, in order to deal with Brexit's negative effects. The key sectors proposed as Swedish priorities will need (1) to be of great importance to Sweden's trade with the UK and (2) to be sectors where Brexit might lead to significant trade barriers.

The risks posed by Brexit seem to be relatively limited in some of the sectors/areas where Sweden has very specific interests (mineral oils, paper, iron and steel, protection of intellectual property and retail). This means that the applicable regulatory frameworks do not appear to create significant problems to the sectors as a whole. Still, individual companies may suffer – especially if they deal with price-sensitive products. Even if trade in goods within these sectors would not be subject to higher tariffs, Brexit will still mean increased administration and requirements, such as customs formalities. This will increase costs for business.

We conclude that two specific sectors need to be in focus: motor vehicles and business services. Motor vehicles is a sector with detailed technical regulations and high tariffs. Some sort of solution, such as the ones already created for Switzerland, Japan and South Korea, may be needed in order to avoid serious trade barriers.

Sector-specific solutions are not very useful when it comes to business services, except for certain professions. Horizontal rules covering areas such as movement of persons and data are important to all sectors, but they are particularly important to the business services sector.

As far as possible, the principles laid down in the EU Services Directive, the Professional Qualifications Directive and today's EU model for movement of data, need to remain in force after Brexit. Issues concerning data flows are expected to be easy to resolve, whereas movement of persons will be more difficult.

A main conclusion in this analysis is that priority should be put to horizontal issues, such as movement of persons and data, tariff-free access with liberal rules of origin, trade facilitation, openness in public procurement and ways to assure compliance with agreed rules. These broad issues are necessary preconditions for all trade between Sweden (EU) and the UK after Brexit, in any sector - both for economic and for legal reasons.

In economic terms, Sweden is a diversified economy with interests in most sectors. Besides, the business reality is that value chains make the sectors interlinked. This is why the National Board of Trade recommends the Swedish government to push these issues within the EU.

In legal terms, the regulatory frameworks identified as key for a specific sector, are often equally important for other sectors. There may be problems arising in one sector, but the solution is often found elsewhere. EU law is a complex and comprehensive system, and it would not be sufficient for the UK just to copy current legislation into national law in order to avoid trade barriers. Mechanisms for compliance and dispute settlement will be needed in order to reduce future regulatory divergence. This requires that a strong legal framework is agreed between the EU and the UK. The National Board of Trade suggests that Sweden push for a far-reaching horizontal agreement, binding the UK as close as possible to EU law.

From a Swedish perspective, the best solution would be for the UK to join the European Economic Area (EEA). This solution is, in most but not in all cases, the closest we get to maintaining status quo in EU-UK trade relations, and it would mitigate the negative effects of Brexit. However, the EEA would not always be the best solution. Depending on the issue, other solutions may be preferred. In some cases, the broad and deep DCFTA with Ukraine would serve as a model, while in other cases a customs union such as that with Turkey would be more adequate – or a solution with many partial agreements, such as that Switzerland. All of these agreements 'expand' EU law, its principles and application to the other states.

There is not *one* single model that would be the preferred solution in all cases. From a strict trade perspective, the best solution would be to use elements from different models.

A more traditional FTA will not solve all of the potential trade barriers that Brexit may lead to, regardless of whether we opt for an advanced and ambitious agreement, such as that with Canada (CETA), or agreements such as those with Japan or the South Korea. Such agreements generally both lack harmonised rules and the principle of mutual recognition. This means that these cannot be compared with today's simple conditions for trade between Sweden (EU) and the UK.

For now, the report is only available in Swedish. There will be a translation in English in the coming weeks which will be distributed here on our website as well as in social media.

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