Swedbank

How much havoc could Brexit bring?

The effects on Sweden and the Baltics

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Summary

No deal Brexit - a bad outcome that may cause short term shocks and significant long run costs

- No matter Brexit outcome, trade with the UK will continue but the magnitude of it will depend on future agreement. Over time, however, supply chains and trade patterns could change, making it harder to predict flows of goods and services. If a Brexit deal is followed by a transition period, obligations and rights for companies will be similar to today up until end-2020, at least. However, companies should prepare for all eventualities including a no-deal scenario. For example, Brexit may impact customs, transport and stocking, licensing and CE marking, contracts and agreements, as well as data distribution.
- The agreed political declaration and framework for the future relationship between the EU-UK states an aim to create a free trade agreement (FTA), with deep regulatory and customs cooperation, for goods and a liberal service trade that is more ambitious than EU-UK's WTO commitments. The service trade relationship should be built upon the Union's current FTAs. Hence, WTO should be the worst of the possible trade outcomes and therefore we base our calculations on this scenario. It should be emphasised that our calculations are static (based on data from 2016 and 2017). That is, they do not analyse how trade patterns may change as a result of relative price changes. Our findings show that a no-deal outcome followed by WTO tariffs is costly and damaging, where certain sectors (e.g., road vehicles) could face severely adverse conditions compared to today. Analysis shows that non-tariff barriers are about as costly as tariff duties.
- Under WTO rules Sweden would face higher trade weighted average tariff rates than the Baltics, however due to higher degree of openness potential costs as a share of GDP are higher in Latvia and Lithuania. Degree of damage would depend on institutional preparedness/contingency planning and ad hoc agreements for key issues such as financial services or air space.
- No existing trade agreement brings as much clarity and benefits to goods and services trade as the current UK-EU relationship. According to the National Board of Trade Sweden, the service sector would face limited changes if the UK becomes an EEA member in the future. The authority concludes that the effects on services could be mitigated since the sector is not affected by customs and rule of origins. Furthermore, regulation for services tends to be under national, rather than EU, law.

Source: UK government (Political Declaration setting out the future relationship between the European Union and the United Kingdom)

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Brexit is costly for Sweden and the Baltics, but our global firms are used to stormy waters

In transition, UK is part of single market & customs union

Some recommendations to Swedish business on Brexit related issues

- **The transition period**, if a deal is passed and ratified, warrants the same rights and obligations to businesses as if the UK was a Member State. Hence, there will be an exemption from duty for goods and services until this period elapses. During it the EU and the UK will work on and negotiate the detailed relationship/agreements that will follow thereafter. The transition period can be extended once, to 2022 at the latest. Alternatively, a UK-wide customs backstop will kick in if a new trade relationship after the transition period ends in a hard boarder between Ireland/Northern Ireland. This would keep Britain in an EU customs union until a permanent solution is found (i.e., a temporarily soft Brexit). There could be deeper provisions for Northern Ireland on customs and regulations than for the rest of the UK. After Brexit the UK will automatically transpose EU law into UK law (the European Union Withdrawal Act 2018). However, over time UK law may be subject to changes, causing rule divergence with the EU. Such a move could possibly be subject to a penalty payment.

- **Financial markets, and FX in particular, may be volatile** up until and directly after March 29, 2019 (the Brexit day). Discuss hedging possibilities with Corporate and Retail Sales on hedging possibilities. Reach our teams in **Stockholm, Gothenburg and Malmö on: +46 (0)8 700 99 99, +46 (0)31 739 78 50 and +46 (0)40 24 22 99**, respectively

- **SMEs in Stockholm** have, during the autumn, been able to apply for Brexit checks (financial support from the County Administrative Board). The financial support compliments the information and advices from other governmental authorities. The Brexit checks were a test pilot with approx. 25-30 applicants and granted support of approx. SEK 3.5m. But trade organisations and other regions than Stockholm have signalled an interest of similar support to more firms. For questions on financial support in 2019, contact Swedish Agency for Economic and Regional Growth and lansstyrelsen.se/sthlm/auc for more information (after January 1, 2019 the County Council will be responsible for checks in general).

Sources: National Board of Trade Sweden (Att fundera på inför Brexit and After Brexit), the County Administrative Board, The Swedish Tax Authority (Så här påverkas du av Brexit) and the Swedish Trade Federation

Possibly business not as usual over the long-run (1)

Some recommendations to Swedish business on Brexit related issues

- **Define your trade relationship with the UK – in particular the firm's policies, contracts, the firm's full supply chain and trade pattern should be reviewed.** Also remember to review if subcontractors or data processing services use British parts or are located in the UK; future regulation on data distribution is uncertain. EU could unilaterally accept data transfers on a personal level to the UK if the union finds the non-EU country "safe with respect to personal integrity" – but it could be withdrawn if the UK is "viewed as unsafe" in the future. Personal data transfers in both directions are likely to remain even after Brexit. Also look into warehouse capacity and its location since a firm with stocks in the UK also may face changes to regulation.
- **The future relationship will, no matter what, lead to new rules of conduct and likely higher administration costs.** Current contracts will likely have to be rewritten; the future trade relationship between the EU and the UK will be decisive for the shaping of the contracts. Decide whether the company should deal with the customs and administration on its own or outsource the tasks. The more administration, including documentation, may require more competences and resources allocated to the tasks.
- **Make sure to collect appropriate information.** Have a dialog with the Swedish Customs for details on trade to/from 3rd countries and on tariff rates for your goods/service. If re-import/re-export is conducted a reduction of the tariffs may be possible; license from the Customs might be needed. Companies should early on check with the Swedish Customs (or appropriate authority) that they have the right licences in place. Check whether suppliers/subcontractors are Authorized Economic Operators. VAT may change. The Swedish Tax Authority can advice on tax questions when trading with 3rd countries.

Sources: National Board of Trade Sweden (Att fundera på inför Brexit and After Brexit), the County Administrative Board, The Swedish Tax Authority (Så här påverkas du av Brexit) and the Swedish Trade Federation

Possibly business not as usual over the long-run (2)

Some recommendations to Swedish business on Brexit related issues

- **Check if the firm has goods that must follow EU's policy on goods of origin and be familiar with product rules for goods from 3rd countries.** For advice on goods of origin contact Business Sweden or the National Board of Trade Sweden. If the UK becomes a 3rd country previous UK distributors may become importers. Make sure that you know about what rules British distributors will have to follow after Brexit and make sure that your company follows Swedish and European product rules. New product requirements may come ahead. The responsibility for CE marking may change if UK becomes a 3rd country. There are no warranties that future trade deals will include full harmonisation of the product/service you are selling or that countries automatically will have mutual/reciprocal recognition.
- **Discuss with transport companies** if deliveries will change location and estimate how much delivery times will change.
- **E-commerce to the UK market** could be affected. Today the same consumer law in the EU makes it possible to sell goods or services on the same conditions as in Sweden. This may be changed in the future, as well as the process for disputes. Be prepared for a time with legal uncertainties after Brexit.
- **Job qualifications and academic requirements** may face new regulations in the future. Uncertainty also relates to validity of already existing recognitions. Companies that have staff in the UK or British staff in Sweden could be affected by changes. Staff sent on business trips or temporary work could need visas, working permits etc.

Sources: National Board of Trade Sweden (Att fundera på inför Brexit and After Brexit), the County Administrative Board, The Swedish Tax Authority (Så här påverkas du av Brexit) and the Swedish Trade Federation

Varied impact on different sectors

Agrifood, motor vehicle and textile face particularly high rates

	Average MFN import tariff, %	Average MFN export tariff, %	Estimates of non-tariff barriers for exporters to EU
Aerospace and defence	2.6	2.7	11.1
Agriculture, forestry and fishing	17.7	16.4	n/a
Chemicals (ex. Pharma)	3.8	3.5	15.1
Construction service	n/a	n/a	1.7
Cosmetics	n/a	n/a	20.1
Electrical machinery	2.6	2	2.7
Financial services	n/a	n/a	5.5
Food, drink & tobacco	13.4	10.3	30.1
Fuels & lubricants	1.7	1	n/a
Insurance	n/a	n/a	5.5
Machinery and equipment	2.7	1.8	n/a
Manufactured materials	3.6	4.3	n/a
Metals and metal products	2.0	2.3	7.4
Miscellaneous consumer products	1.9	1.6	n/a
Motor vehicles	9.0	8.5	11.7
Non-motor vehicles transport	1.8	1.3	11.7
Pharmaceuticals	0.0	0	6.4
Personal, cultural & rec services	n/a	n/a	1.6
Post and telecoms	n/a	n/a	8.2
Other manufactured goods	2.8	2.9	n/a
Other business service	n/a	n/a	7.6
Raw material	0.8	0.8	n/a
Scientific goods	1.3	1.6	n/a
Textiles, clothing and footwear	10.4	10.5	9.6
Wood & paper products	n/a	n/a	6.8

Sources: Confederation of British Industry & Swedbank Research
MFN- Most favoured Nation

- The table details the tariff rates applicable for EU-UK trade under WTO's most favoured nation (MFN) rules.
- Cost and delays of non-tariff barriers were estimated by Confederation of British Industry (CBI) and converted into tariff equivalent.
- Subcategories may face other rates. E.g. private cars may face a 10% tariff and carriages between 4.5-19%, according to National Board of Trade Sweden.

Sweden cushioned by large domestic economy

Tariffs put larger marks on Lithuanian & Latvian economies, but Sweden hit by higher rates

GOODS SECTORS IF NOT STATED DIFFERENTLY

Total cost, % of GDP

	Total	Tariffs	Non-tariff
Estonia	0,19%	0,11%	0,09%
Lithuania	0,41%	0,21%	0,19%
Latvia	0,39%	0,19%	0,20%
Sweden	0,28%	0,14%	0,14%

Trade weighted average tariff, %

	Export	Import	Service export tariff equivalent
Estonia	0,7%	1,6%	3,4%
Lithuania	2,4%	2,2%	2,7%
Latvia	1,8%	3,0%	2,6%
Sweden	4,5%	3,3%	3,3%

Source: Swedbank Research

- We calculated potential damage to Sweden and Baltics if trade rules revert to WTO.
- Calculations are based on current trade flows (2017 for goods and 2016 for services), tariff rates applicable under WTO rules and estimates of costs of non-tariff barriers made by CBI. Non-tariff equivalence take both export and import flows into account, but some sectors lacks estimates on non-tariff rates. Consequently, these are excluded from the aggregates.
- Trade weighted average tariffs use goods flows for 15 sectors and services flows for 6 sectors. The weights are based on share of UK trade.
- While Sweden faces potentially higher cost of trade in billion euros, Latvia and Lithuania could suffer more damage to their economies due to higher degree of openness.

Import duties to impact consumer prices and/or profit margins

Import tariffs more costly for Estonia and Latvia than export duties

Potential cost of import tariff's under WTO rules, MEUR

	Estonia	Lithuania	Latvia	Sweden
TOTAL	17.3	39.8	29.9	341.8
Food and animals	1.5	7.1	3.7	44.1
Beverages and tobacco	1.2	1.6	14.7	12.1
Crude materials w/o fuel	0.0	0.2	0.1	0.8
Fuels	0.4	2.9	0.0	17.4
Oils, fats and waxes	0.0	0.0	0.0	1.0
Chemicals and related products	1.6	6.0	1.6	42.5
Manufactured goods	1.0	3.1	1.0	34.4
Leather, leather manuf.	0.0	0.0	0.0	0.0
Textile yarn, fabrics, articles	0.8	3.8	0.5	4.4
Machinery and transport	5.9	8.9	3.2	73.3
Road vehicles	3.1	1.7	2.7	87.0
Other transport equipment	0.5	1.1	0.2	4.8
Misc. manuf. articles	1.2	3.3	2.3	19.7
Commodities	0.0	0.0	0.0	0.0

Source: Swedbank Research

- Firms importing from the UK would face larger costs in a WTO scenario as import tariffs would rise from zero for intra-EU trade to the amount of EU's external tariffs. The move to WTO rules would vary by sector; some sectors will face rates significantly higher than the trade weighted average.
- Total cost of import tariffs is nearly 0.1% of national 2017 GDP for the Baltics and Sweden.

Note: Calculation for goods are based on data from 2017, while calculations on services are based on 2016 data

Export tariffs to affect firms' competitiveness

Swedish road vehicles most sensitive, while food & manufactured goods hit in the Baltics

Potential cost of export tariff's under WTO rules, MEUR

	Estonia	Lithuania	Latvia	Sweden
TOTAL	7.9	49.8	20.2	344.6
Food and animals	0.9	20.4	5.0	64.4
Beverages and tobacco	0.0	1.3	0.4	13.8
Crude materials w/o fuel	0.6	0.5	2.3	7.9
Fuels	0.1	0.2	0.0	16.9
Oils, fats and waxes	0.0	0.0	0.0	0.9
Chemicals and related products	0.3	6.9	1.1	20.3
Manufactured goods	2.0	6.3	7.1	62.6
Leather, leather manuf.	0.0	0.1	0.0	0.0
Textile yarn, fabrics, articles	0.4	3.8	1.1	3.3
Machinery and transport	1.1	1.3	0.8	42.6
Road vehicles	0.3	0.5	1.3	93.1
Other transport equipment	0.0	0.1	0.0	1.7
Misc. manuf. articles	2.1	8.5	1.1	16.9
Commodities	0.0	0.0	0.0	0.3

Source: Swedbank Research

- The cost of export tariffs corresponds to slightly less than 0.1% of last year's national GDP in the Baltics and Sweden.
- Exporters also compete on quality and customer service, not only price.
- Export and import tariffs go to the Swedish Customs and improve public finances, but firms would lose in competitiveness which in the long-run could lower the government's tax incomes.

Note: Paper and pulp, iron ore and non-treated silver face zero tariffs in GATT/WTO, National Board of Trade Sweden.
We categorise wood manufactures, iron and steel among others as manufactured goods. Hence, in our calculations they faces tariffs. Calculation for goods are based on data from 2017, while calculations on services are based on 2016 data

Non-tariff barriers have become more significant over time

Regulatory divergence could emerge in the future, but likely costly to deviate from standard

Potential cost of non-tariff barriers under WTO rules, MEUR

	Estonia	Lithuania	Latvia	Sweden
TOTAL	20,3	81,4	54,1	661,4
Food and animals	n/a	n/a	n/a	n/a
Beverages and tobacco	2,8	7,3	34,0	67,4
Crude materials w/o fuel	n/a	n/a	n/a	n/a
Fuels	n/a	n/a	n/a	n/a
Oils, fats and waxes	n/a	n/a	n/a	n/a
Chemicals and related products	7,7	53,5	10,7	256,3
Medicinal and pharmaceutical	0,7	3,0	1,2	42,2
Manufactured goods	n/a	n/a	n/a	n/a
Leather, leather manuf.	n/a	n/a	n/a	n/a
Textile yarn, fabrics, articles	1,1	7,0	1,5	7,1
Machinery and transport	n/a	n/a	n/a	n/a
Road vehicles	4,6	2,8	5,4	241,3
Other transport equipment	3,4	7,8	1,2	46,1
Misc. manuf. articles	n/a	n/a	n/a	n/a
Commodities	0,0	0,0	0,1	1,0

Source: Swedbank Research

- Non-tariff barriers could, e.g., be burdensome customs procedures, quotas, discriminatory tax rules and practises and standards and conformity assessment procedures. They impact on competitiveness and make trade more complicated.
- Especially regulated areas (e.g. chemicals) face higher costs.
- For goods, non-tariff barriers are about as costly as total tariffs (export + import).

Note: Calculation for goods are based on data from 2017, while calculations on services are based on 2016 data

Nominal cost in the services sector will be higher in Sweden

Of the examined sectors, transport and other business services face largest additional costs

SERVICES SECTORS

Service barrier cost, MEUR

	Estonia	Lithuania	Latvia	Sweden
Transport	17.9	19.1	34.1	157.8
Construction	0.0	0.1	0.0	0.5
Insurance & pension services	0.1	0.1	0.1	5.6
Financial services	2.2	5.0	0.8	20.9
ITC	5.5	6.6	3.8	132.6
Other business	10.6	3.7	2.4	141.1
Total	36.3	34.6	41.2	458.6

Cost % of GDP

	Estonia	Lithuania	Latvia	Sweden
Transport	0.08%	0.08%	0.09%	0.03%
Construction	0.00%	0.00%	0.00%	0.00%
Insurance & pension services	0.00%	0.00%	0.00%	0.00%
Financial services	0.01%	0.02%	0.00%	0.00%
ITC	0.03%	0.03%	0.01%	0.03%
Other business	0.05%	0.01%	0.01%	0.03%
Total	0.17%	0.14%	0.11%	0.10%

Source: Swedbank Research

- Sweden is more vulnerable to potential non-tariff disruptions in services, particularly in transport, ICT and business services than the Baltics (in nominal terms).
- For all countries the transport sector is important, plus short term disruptions are likely in case of no-deal Brexit due to emergence of border checks.
- The rest of the services sectors face relatively lower risk - services are generally less integrated on EU level.

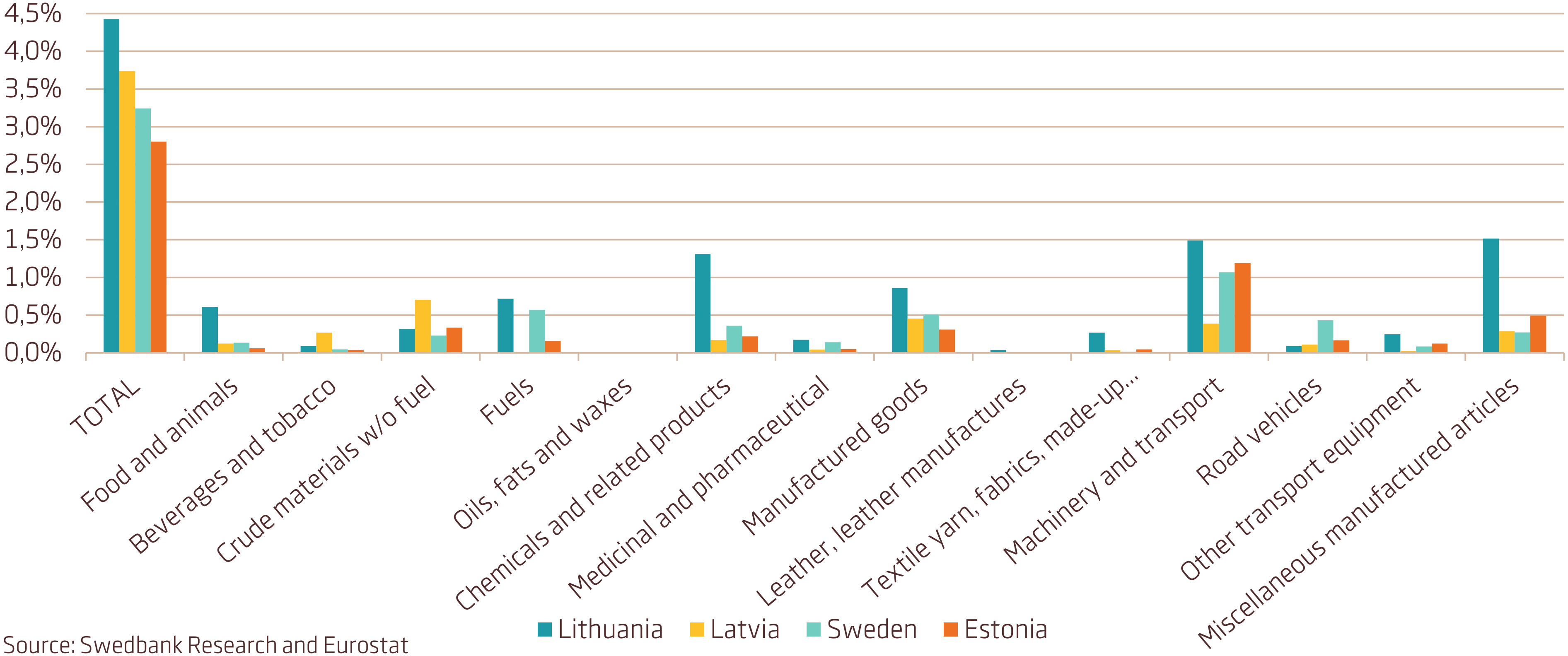
Note: Calculation for goods are based on data from 2017, while calculations on services are based on 2016 data

Limited risk for crucial Swedish sectors (paper, steel & iron)

Individual firms could, however, be hit especially if their products have high price elasticity

Varied exposure to UK trade

Imports and exports, % of GDP



Source: Swedbank Research and Eurostat

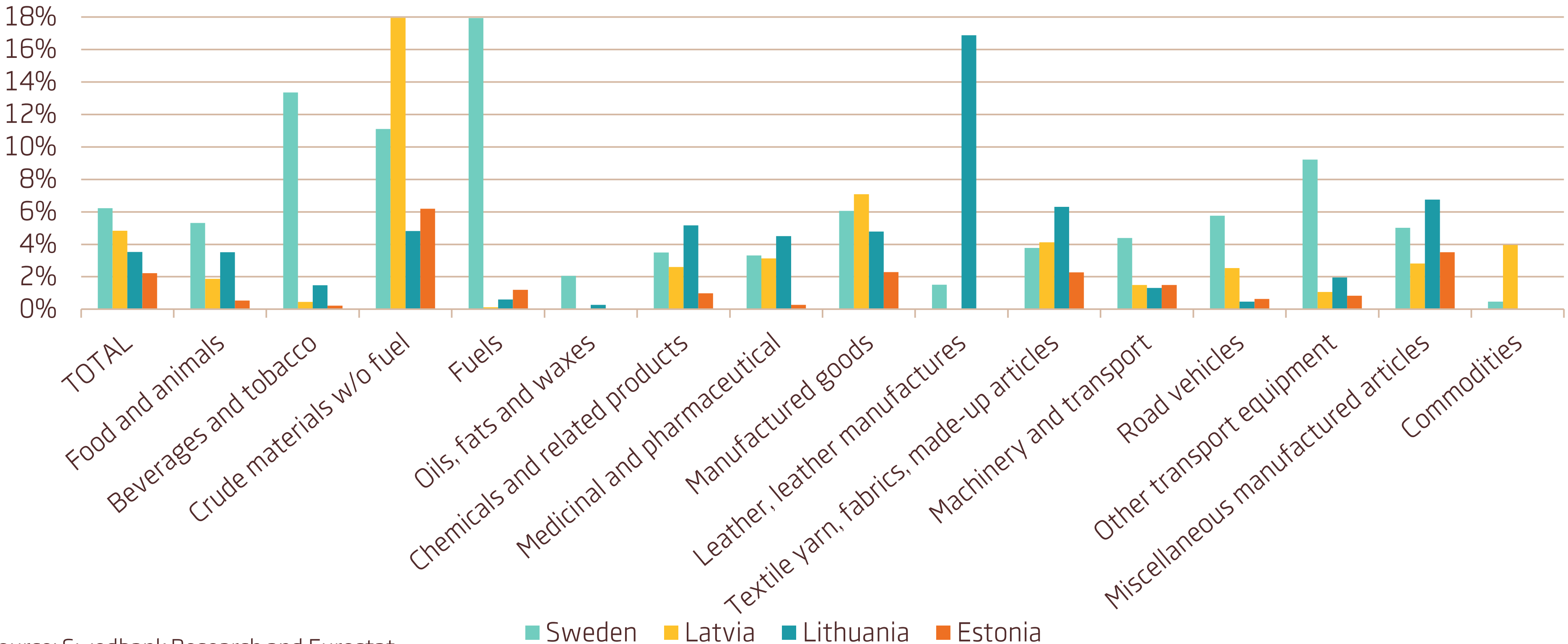
Note: Paper and pulp, iron ore and non-treated silver face zero tariffs in GATT/WTO, National Board of Trade Sweden. We categorise wood manufactures, iron and steel among others as manufactured goods. Hence, in our calculations they face tariffs. Calculation for goods are based on data from 2017, while calculations on services are based on 2016 data

Certain sectors may face significant difficulties in no-deal exit

UK is among Sweden's and the Baltic's top ten of the most important export markets for goods

A few sectors highly depend on UK to sell their products

Share of exports to UK in total in 2017, %



Source: Swedbank Research and Eurostat

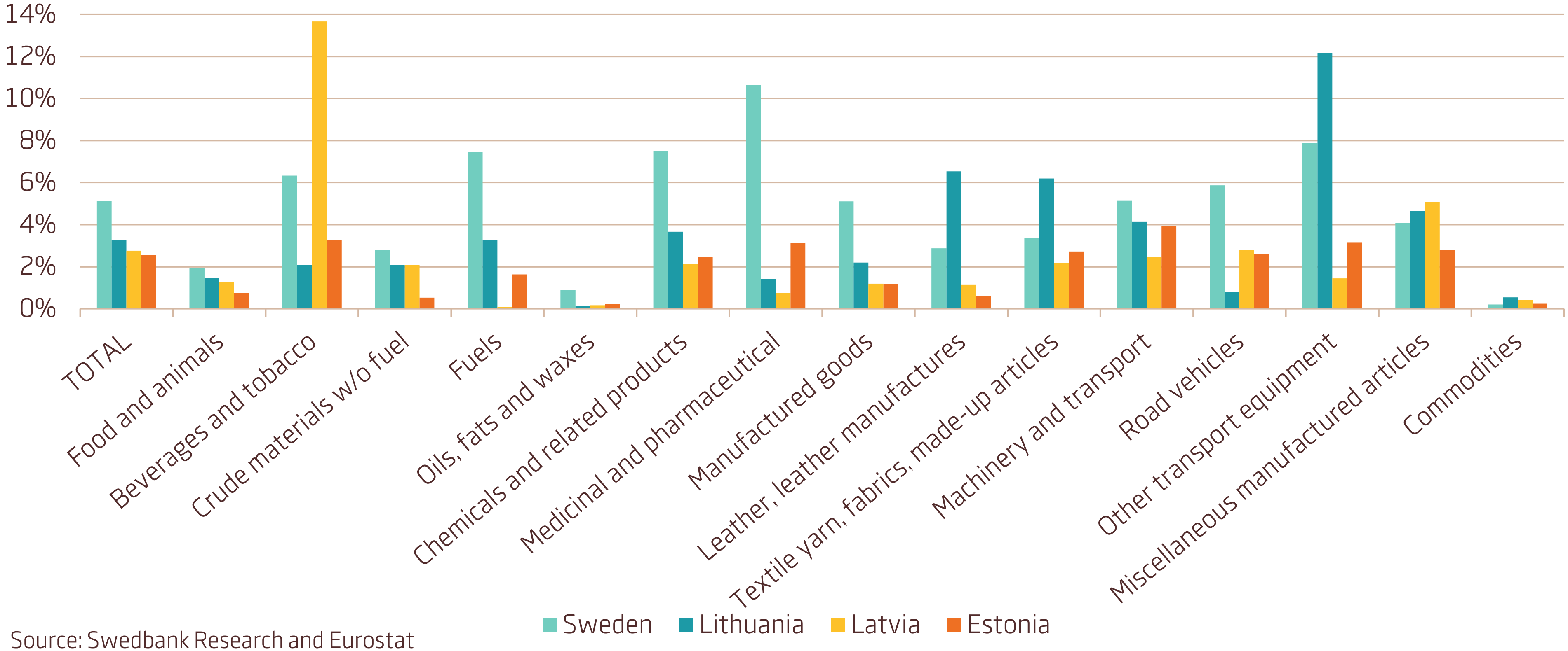
Note: Calculation for goods are based on data from 2017, while calculations on services are based on 2016 data. Most of the crude material exports from LV are wood products

The Baltics are not very dependent on goods imports from UK

Import disruptions may not cause major damage to cons. but Swedish inv. plans may change

Imports from UK generally replaceable for most of the sectors

Share of UK in imports in total imports in 2017, %



Source: Swedbank Research and Eurostat

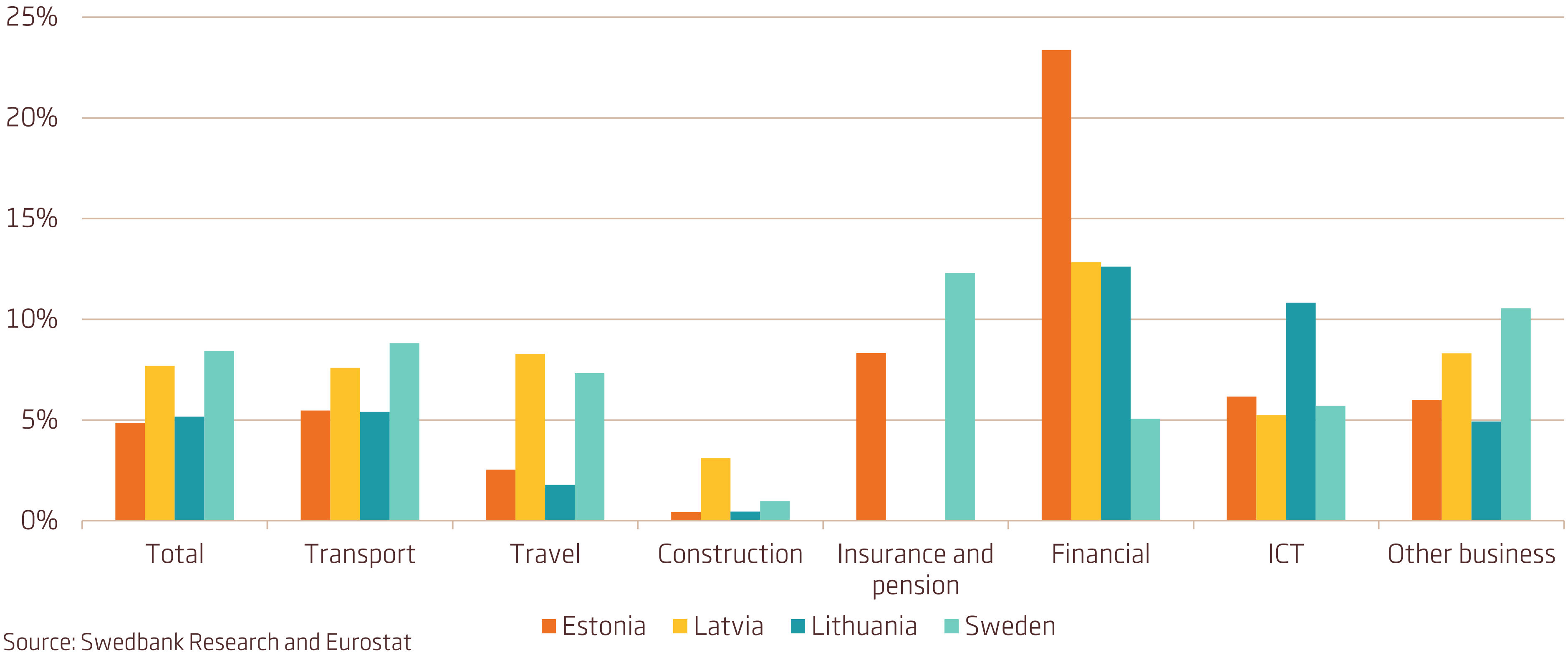
Note: Calculation for goods are based on data from 2017, while calculations on services are based on 2016 data

Disruption to services will depend on how they are regulated

Sectors, whose trade is regulated by treaties & mutual recognition, may face changes directly after Brexit. Harmonised areas were mutual recognition is incl. in secondary legislation also hit.

Finance most exposed – financial stability key priority to minimise risks

Share of services export to UK in total in 2016, %



Source: Swedbank Research and Eurostat

Information class
Public

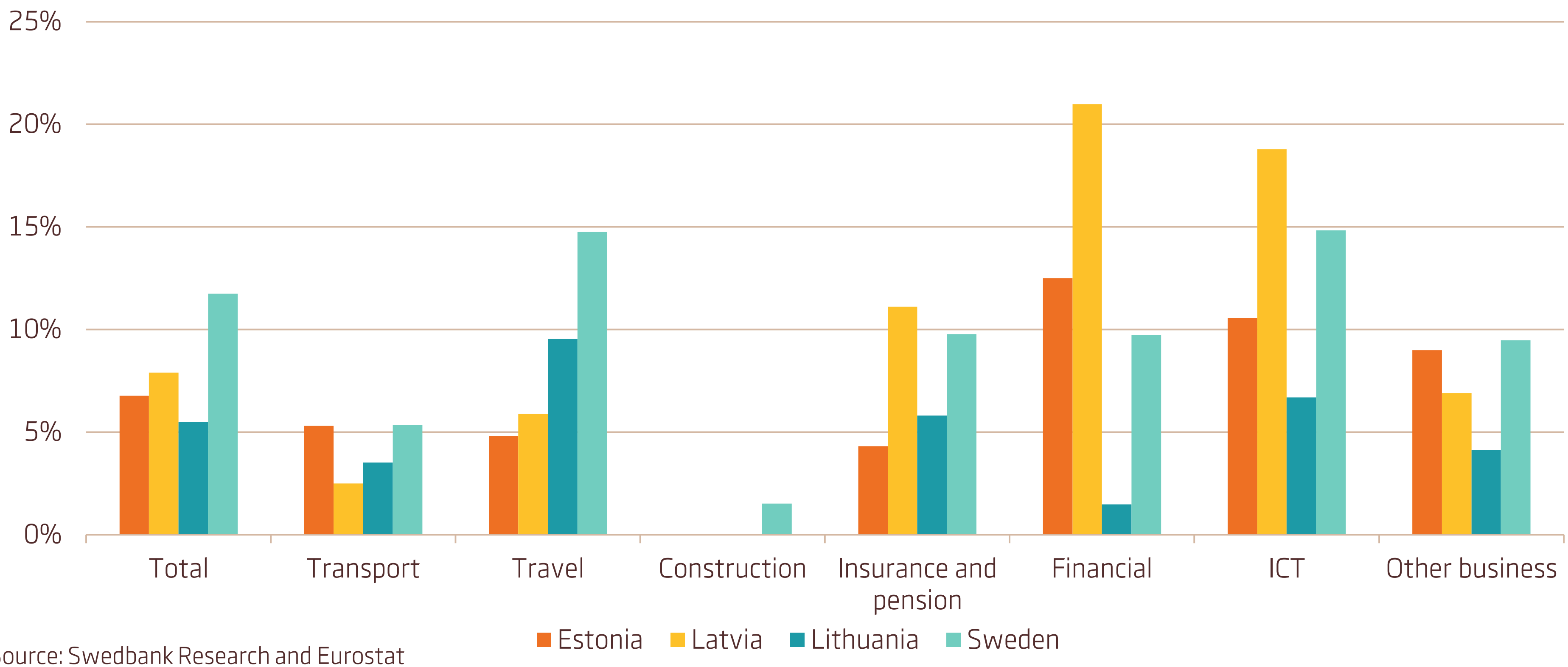
Note: Other businesses include R&D services, professional and management consulting services, as well as technical, trade-related and other business services. The financial sector is an example of a harmonised area that would be hit.

Higher value added sectors more dependent on UK

Quite a significant part of services are acquired from UK, especially in Sweden

Large share of financial and ICT services imports come from UK

Share of services imports from UK in total in 2016, %



Source: Swedbank Research and Eurostat

Markets react first on Brexit, trade & politics stickier

Sweden & the Baltics: Small countries with international companies used to stormy weathers

Distribution Channels

Financial Markets

£: Type of Brexit (*no deal, hard, soft or no Brexit*) decisive. A no deal will weaken GBP broadly, a deal similar to Norway's will strengthen GBP.

Stock Exchange: Volatile. Depending on how the future trade agreements are being drafted, sectors can be affected differently. FTSE has had a worse performance than OMXS30 in 2018.

FI: Type of Brexit is crucial. BoE factors in the effects of demand and supply as well as the currency

Increased uncertainty

Uncertainty may affect investment plans, possibly causing relocations & unwillingness to hire.

At a no-deal Brexit the confidence indicators could fall → real economy could be effected (lower investments & consumption)

Market stress could deteriorate the function of the Swedish financial market & clearing may be affected if there is a hard exit, but EEA offers much & new alt. likely to be created – a known risk that can be handled (FSA, '18)

Politics

Limited direct effect, future talks may change (EU27/EMU balance). Foreign & security policy, development of single market, competition & trade policy affected (Sieps, '17). Sweden and Baltics voted similar to UK on e.g. trade issues.

Swedish (financial) firms' activity in UK depends on UK rules, good opportunities via subsidiary/branches. Financial services' supply to be largely unchanged for Swedish households and firms. Limited stability risk (hard exit).(FSA, '18)

Given the structure of the value chains, Sweden should demand broad based solutions (National Board of Trade Sweden, '18).

Exports/Imports

Possibly reduced trade and/or new trade patterns.

Custom formalities and more administration? → Increased costs for businesses. EEA-solution would not cause a deterioration of services compared to today. No agreement would be as comprehensive as the EU (National Board of Trade Sweden, '18).

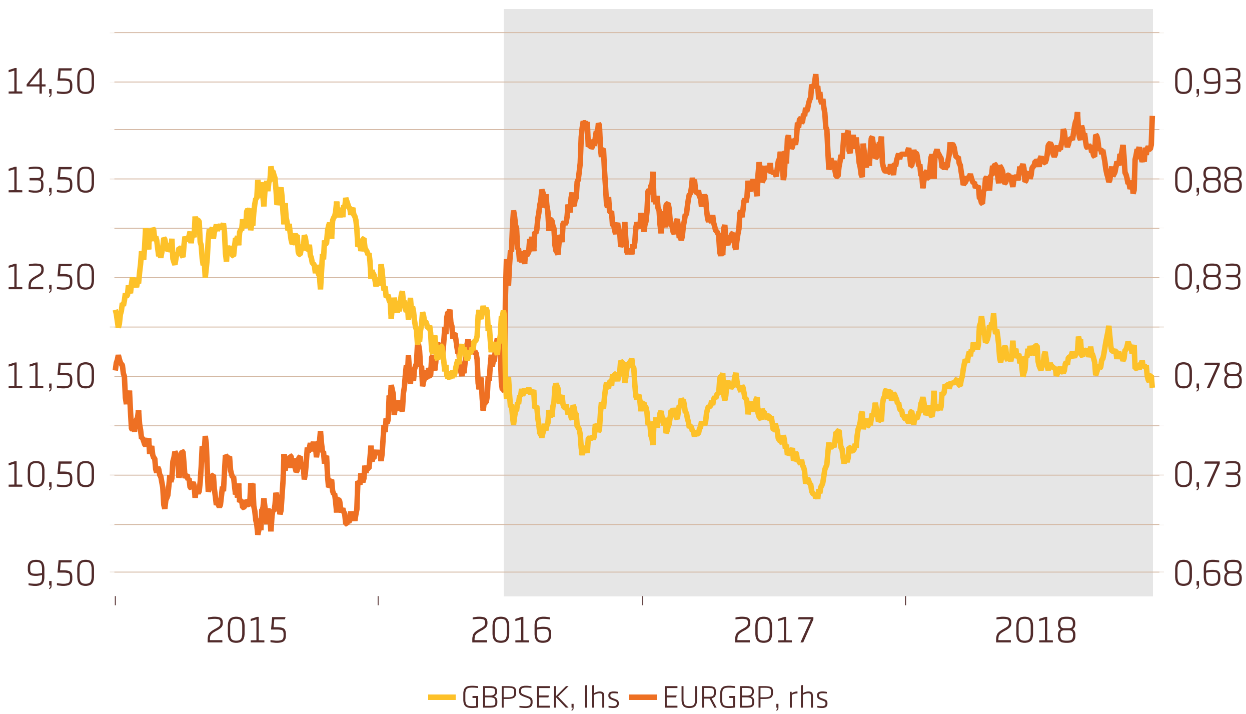
Diversion of (trade) rules could increase the cost for businesses (National Board of Trade Sweden, '18).

Significantly weaker GBP in a no-deal scenario

GBP depreciations could be a double-edge sword to companies

GBP weaker against EUR and SEK since vote

GBP-crosses



Sources: Swedbank Research & Macrobond

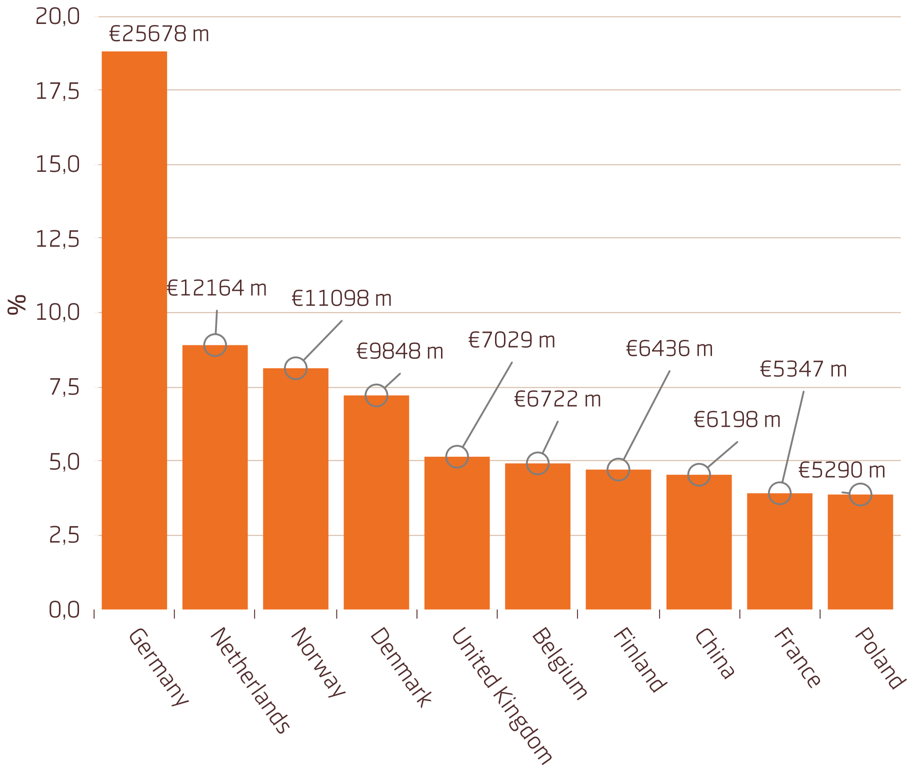
- Tariffs and restrictions could affect companies' profits and competitiveness in relation with those firms that do not trade with UK. Hence, other markets could, over time, be more prioritised trading partners than the UK.
- Some Swedish export companies are also large importers. Thus, the full currency effect depends on net flows.
- Hedging would temporarily limit the FX impact.

UK important to Swedish goods sector but crucial to services

Future trade agreement crucial for the Swedish goods' markets. Trade negotiations start once the UK is a 3rd country

Sweden's largest goods' imports markets in 2017

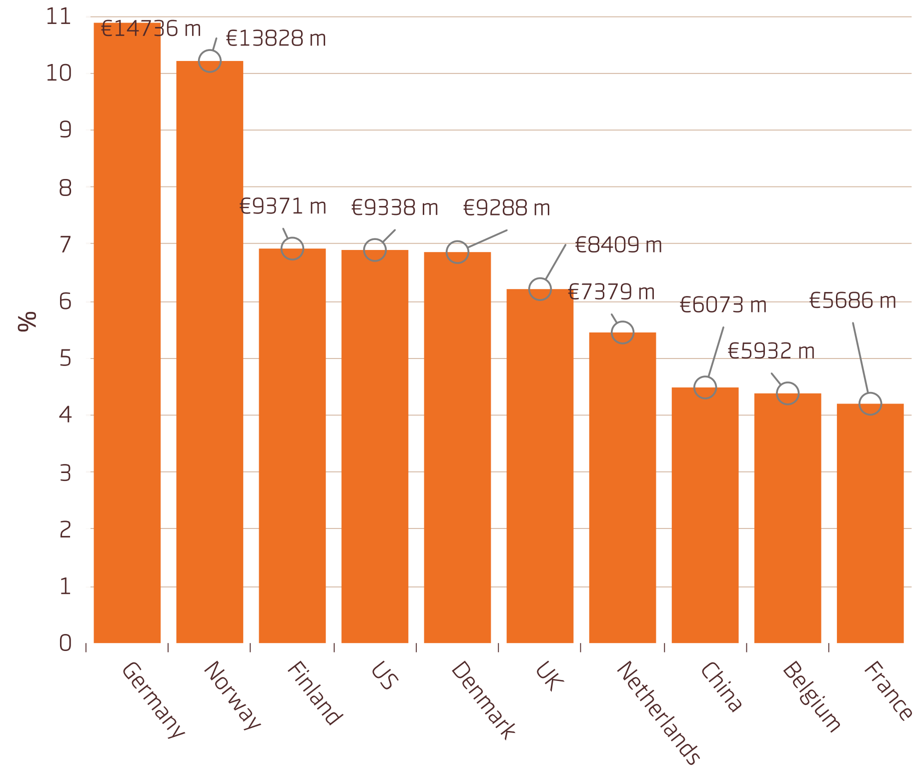
Share of total goods' imports



Sources: Swedbank Research & Macrobond

Sweden's largest goods' exports markets in 2017

Share of total goods' exports



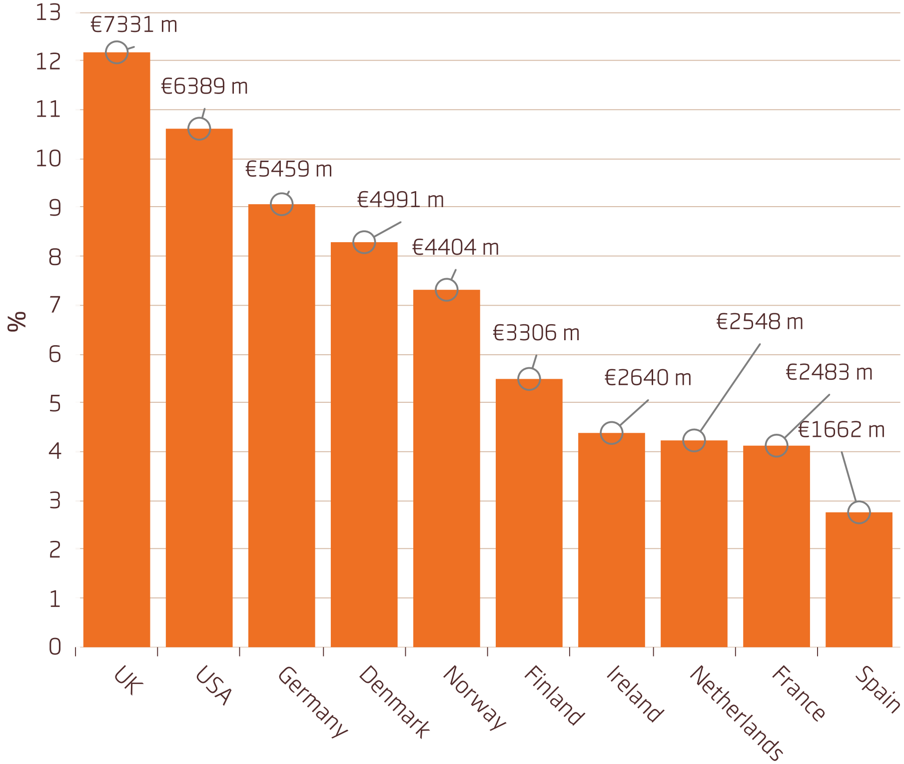
Sources: Statistics Sweden, Swedbank Research & Macrobond

UK is almost as important as Norway for Swedish services

Existing EU deals, or changes of them, may solve service access and delivery but not manage development of regulation & rule divergence. UK deal could cause changes to other FTAs too

Sweden's largest services' imports markets in 2017

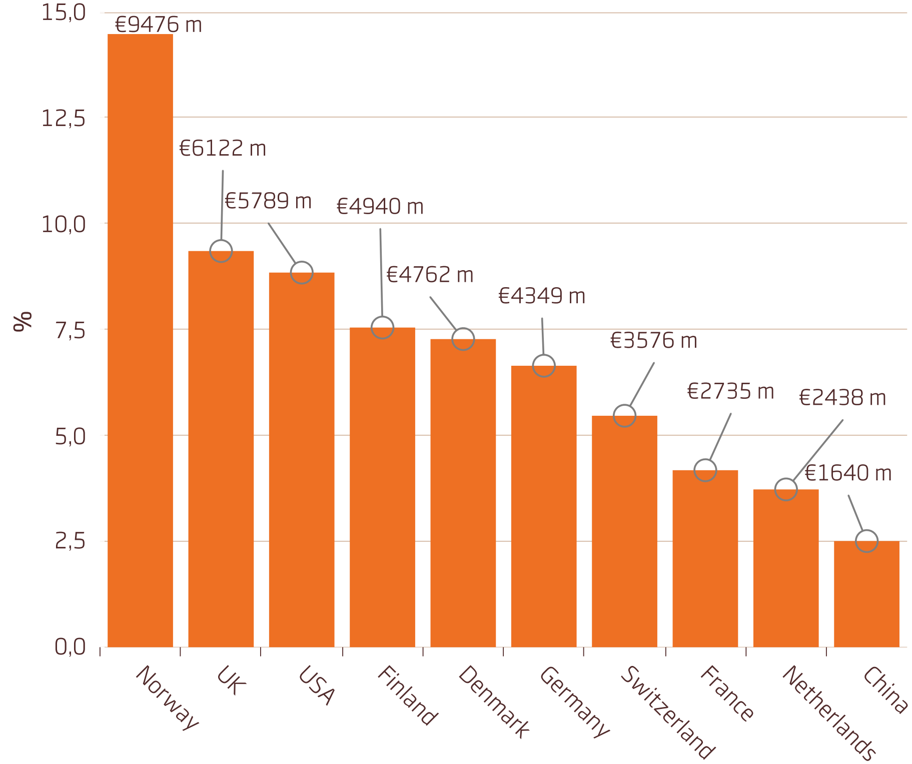
Share of total services' imports



Sources: Statistics Sweden, Swedbank Research & Macrobond

Sweden's largest services' exports markets in 2017

Share of total services' exports



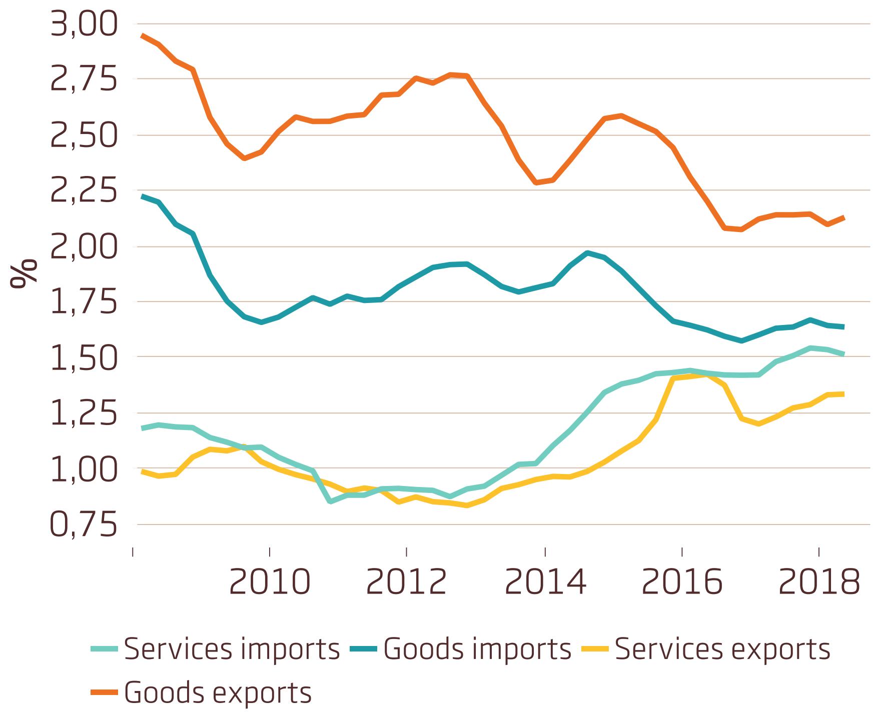
Sources: Statistics Sweden, Swedbank Research & Macrobond

No significant Brexit impact on Swedish or Baltic trade yet

Changing supply chains takes time, but a likely consequence if a no-deal scenario plays out

Services grown in importance

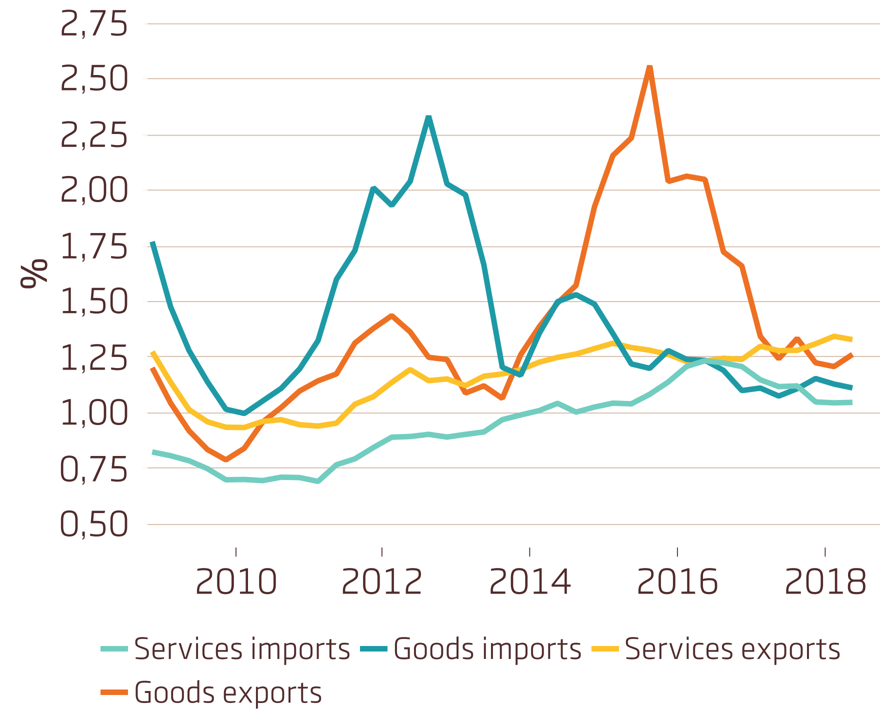
Sweden: Import & export with UK, % of GDP, 4Q ma



Sources: Swedbank Research & Macrobond

Declining importance of goods trade

Estonia: Import & export with UK, % of GDP, 4Q ma



Sources: Swedbank Research & Macrobond

UK trade more crucial for Sweden than for the Baltics

Service trade has become of greater importance, while goods trade has diminished over time

Increasing importance of UK trade

Latvia: Import & export with UK, % of GDP, 4Q ma

Sources: Swedbank Research & Macrobond

Trade with UK declining over time

Lithuania: Import & export with UK, % of GDP, 4Q ma

Sources: Swedbank Research & Macrobond

No existing model beside full membership is 100% satisfactory

Numerous possible scenarios; likely an ambitious partnership like those in orange font

MFN/WTO access to the internal market (tariffs on goods, restricted access for services)	Goods, not services, access to internal market	Selective access to internal market in services	Accept free movement of labour; Financial contribution to EU	Full access to internal market	Full participation in EU legislative process

Sharing of Sovereignty

No financial contribution , no obligation to follow EU regulations	**WTO access – “clean cut”**
Application of EU regulation by negotiation, but no financial contribution	**Customs union – “*Turkey model*”**
Selective application of EU regulation and no financial contribution	**Separate trade arrangement – “*Canada model*”**
Selective application of EU regulation and no financial contribution	**Scope depends on UA reforms – *“Ukraine model”***
Application of EU regulation by negotiation and partial financial contribution	**EFTA – “*Switzerland model*”**
Application of EU regulation and partial financial contribution	**EES + EFTA – “*Norway model*”**
Application of EU regulation and full financial contribution	**Full EU member**

Market access and integration with the EU

Note: Other agreements to look at would be the EU-Japan Economic Partnership Agreement
Source: Swedbank

UK to be able to trade on WTO terms in the short-run

Possibly trade disputes ahead as UK entered WTO as an EU-member. Summary of GATS (1/3)

- If a country leaves EU without a new deal in place, trade may be regulated through WTO, some international agreements, EU's trading rules with 3rd countries or national agreements.
- WTO's rules imply that two countries can only lower tariffs if:
  - ➢ A fully fledged trade deal is in place or…
  - ➢ …tariffs are lowered for all-comers
  - ➢ Exceptions are laws that give developing countries preferential access
- WTO's Trade-Facilitation Agreement does not prohibit checks on goods
- WTO does not regulate professional qualifications
- Much of the regulation on services is already under national law, however, EU has strict views on how these rules should apply to global firms.
- Regarding **intellectual property rights**, WTO's TRIPS agreement contains minimum rules for these issues, among others rules on patents but additional rights are not included. However, UK's protection for patents is stricter than TRIPS so its relevance might be small.
- **Public procurements** would, in a no-deal scenario, be regulated by WTO's GPA which incl. non-discrimination and rules on transparency among others. However, GPA includes less details which give larger flexibility to market access for global suppliers and more flexibility on rules of procedures for procurements etc. Note that the goods and services that are purchased could be subject to other rules (e.g. product requirements) than those for public procurements.
- To reduce trade barriers on services regulatory harmonisation is needed for the 164 WTO members. At the same time the possibility to introduce trade barriers will be greater in the future than in today's set up.

Sources: National Board of Trade Sweden (After Brexit), The Economist (Nov. 24-30, 2018), CBI

WTO worst of possible scenarios; the closer to EU the better

Summary of National Board of Trade Sweden's findings on GATS (2/3)

- **GATS** (in WTO) regulates services but is not as extensive as the EU membership. In a no-deal scenario, where UK reapplies to WTO, services will be regulated by GATS. If a future EU-UK deal does not cover something that is included in GATS, GATS rules will step in and be decisive. GATS allows for cross boarder trade for some/a few service sectors. Hence, the EU could block/hinder some UK firms' service offerings. GATS also means changes to the administration, mutual recognition (no general rules incl. in GATS) and practical functions for co-operations compared with EU's membership. The latter could result in longer and more uncertain process for getting licence.
- **Financial services & Insurances**: Equivalence is not covered by GATS. GATS covers much regulation that applies to the sector. Companies will be allowed to be established and expand in the UK, but the UK may have different procedures for this. There could be stricter rules for branches than for subsidiaries. In a no-deal scenario pass porting and equivalence is not warranted making it hard to access London's infrastructure if no branch or subsidiary is established. The EU could, however, make exceptions to the UK and allow, e.g., equivalence under GATS rules (chapter VII). The UK has made full commitments to cross-border trade with financial information and data, consultation and supportive services. Other financial services is not covered by GATS.
- **Transport, freight and reinsurance**: Sea transport, commercial air flights, space ships and goods in transit no matter if the supplier is the main deliverer or a middleman are warranted. Cross boarder service delivery is also open for risk assessment services etc. These sectors will not face quantitative barriers and no discrimination between domestic and foreign actors are permitted. Note that property insurance and personal insurance are not covered by GATS.
- **Data transmission**: is not regulated by explicit WTO rules. GATS could, however, to some extent come into play if barriers are implemented. The UK has made large commitments on business services and data services in GATS.
- **Retail sales** regulation in the UK is already liberal. In the future rules could change if UK wish so. There are no rules in GATS on e-commerce so UK can decide by themselves how they want to regulate the sector.
- Depending on service profession the UK may or may not be allowed to have labour market tests.

Sources: National Board of Trade Sweden (After Brexit and Finansiella tjänster och brexit), The Economist (Nov. 24-30, 2018)

WTO worst of possible scenarios; the closer to EU the better

Summary of National Board of Trade Sweden's findings on GATS (3/3)

- Movement of people, such as business trips, movement of staff in a corporate group and for indentures, will be regulated by UK's commitments in GATS. The commitments refers to some sectors and during a time limited period, assumed that the person in question meets qualifications. No labour market tests will be conducted for the service providers that fall within the framework of the commitments. For other movements of people UK law may be decisive.
- The UK has obeyed to not put discrimination measures into force. However, the UK has, in GATS, not signed up for having necessary and proportional requirements on service suppliers. Furthermore, the UK has exceptions in GATS meaning that there is a risk that trade barriers – that are not allowed in the single market today – may evolve over time.

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