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What's next in the seemingly never-ending Brexit Saga?

By Angelo Katsoras

Introduction

When it comes to Brexit, the only certainty, it appears, is that there will be more uncertainty. Political positions regarding deadlines, elections and another referendum are in a state of flux.

The leaders of both major parties in the UK have recently been forced to make major policy reversals. Fears of mass Tory resignations, including many cabinet ministers, compelled Prime Minister Theresa May to allow a parliamentary vote on delaying Brexit if her deal is defeated. Jeremy Corbyn, the leader of the Labour Party, was forced to switch from opposing to now supporting a second referendum, despite being a lifelong Eurosceptic, because he, too, feared that more of his own MPs would abandon his party.

This report will attempt to lift the fog of uncertainty surrounding Brexit and explain how it could play out over the short-and long-term.

ACT 1: Rejection followed by delay (March 2019)

Prime Minister May is likely not to get the UK Parliament to approve her Brexit deal, on which she has promised to hold a vote on March 12. Immediately following this rejection, the Parliament is likely to vote by a strong majority to push back the March 29 exit date.

The PM will then ask the European Union to extend the exit date. Even if this must be approved by all 27 member states, the EU is likely to agree to postpone the UK's withdrawal deadline by another 90 days or so (until late June). It will do so because it would like to avoid a no-deal exit or, at the very least, to have more time to prepare for a hard Brexit, particularly with its economy slowing down.

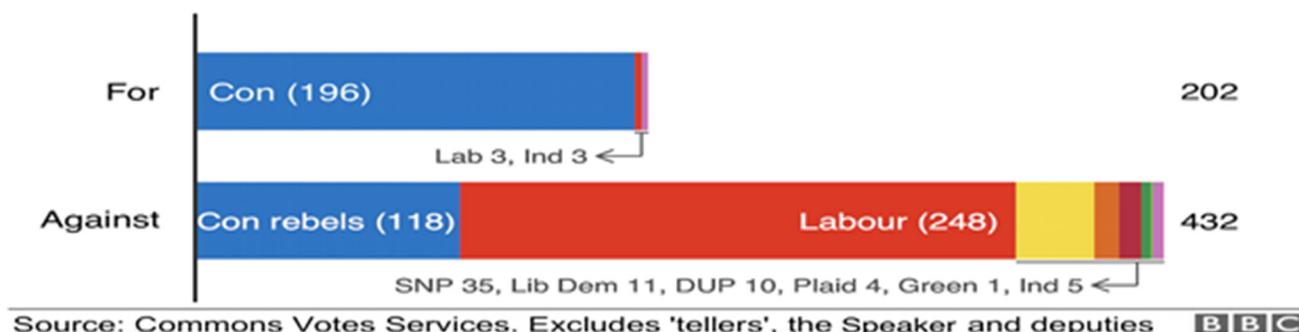
The UK is unlikely to be granted a delay of more than 90 days in ACT 1 because it would increase legal pressure on the UK to participate in the upcoming European parliamentary elections, which it is not currently scheduled to do. The elections are set for May 23-26, but the new European Parliament will not be seated until July 2.

ACT 2: Negotiations to further modify exit agreement with EU are successful (June 2019)

During the 90-day extension period, the UK government and the EU continue negotiating a compromise over the issue that has proved the deal breaker: the Irish border backstop. This is meant to ensure that there will be no return to a hard border after Brexit between Northern Ireland, the British province, and Ireland, the EU member.

The backstop is designed to remain in place until a new trade relationship between the UK and the EU renders it unnecessary. As long as it is in effect, the UK is prevented from negotiating its own free-trade deals and is forced to comply with all EU regulations. It is this point that prompted many Tories and their coalition partner, the Democratic Unionist Party (DUP) of Northern Ireland, to vote against May's EU Brexit agreement last January.

MPs rejected May's Brexit withdrawal deal by 230 votes last January



A potential compromise agreement with the EU could include a codicil, or legal appendix, to the exit agreement, stipulating that the backstop is not to be used unless absolutely necessary and then only for the shortest period of time possible.

ACT 3: The make or break moment (late June 2019)

Prime Minister May takes the latest compromise agreement negotiated with the EU back to the UK Parliament for a vote sometime in late June.

Scenario 1: The UK parliament narrowly votes yes (60% probability)

The pro-Brexit faction of the governing coalition concludes that the appendix added to the withdrawal agreement stipulating that the backstop is not to be permanent has sufficient legal standing. Their desire to vote yes has perhaps even more to do with the growing fear of either a never-ending extension or another referendum reversing Brexit. (Labour has recently come out in support of holding another referendum.)

While under this scenario the story ends here, the societal divisions surrounding Brexit remain. Indeed, even with the parliament having voted to approve the deal, a future subplot could be certain political parties running in the next election on a platform of holding another referendum.

Scenario 2: The UK parliament votes no (40% probability)

A critical mass of MPs from the governing coalition vote against the deal because they feel the appendix does not have sufficient legal standing. That is, it does not have the power to impose an end to the backstop should the two sides fail to agree on a border arrangement between the two Irelands.

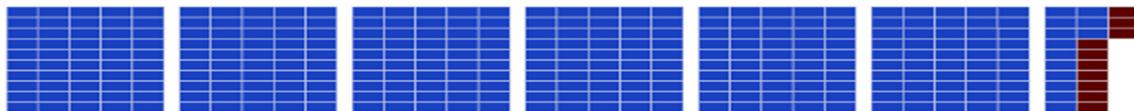
There are 650 elected MPs in the House of Commons. However, the speaker, three deputy speakers and seven Sinn Fein MPs do not, in practice, cast votes. There is also one vacant seat. This reduces the number of voting members to 638 and gives the coalition government, which includes 10 members of DUP, an effective working majority of only eight. Three Conservative MPs recently defected to the Independent Group made up of former Labour members.

The vast majority of Labour MPs, also, vote against the latest exit deal because they want another election and/or referendum.

Theresa May's parliamentary majority is slim *Current state of the House of Commons, by party*

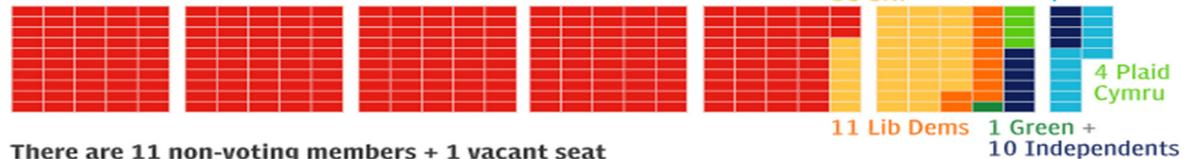
The Government 323

313 Conservatives + 10 DUP MPs



Opposition parties have 315 voting MPs

243 Labour MPs



There are 11 non-voting members + 1 vacant seat

7 Sinn Fein MPs Speaker + deputies Newport West



Extending the official Brexit date past July 2, when the new European Parliament session is to begin, is technically illegal. However, the EU is likely to find a way to legally get around this limitation if a second referendum and/or UK election appears imminent.

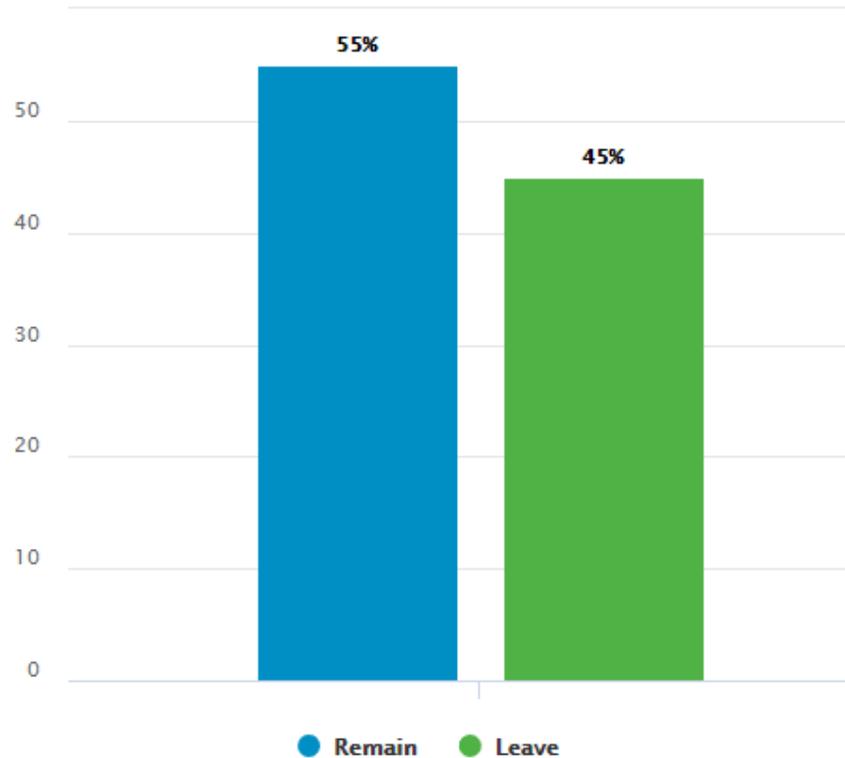
ACT 4: (if needed): Potential aftermath of a third no vote (July 2019 until well into 2020)

A rejected deal would dramatically raise the chances of a new referendum and prolong uncertainty well into 2020. It took Parliament seven months in 2016 to agree on previous referendum legislation, including the question. The law also requires a minimum 10-week campaign period.

Finally, it is important to note that another referendum would be highly divisive, with close to 50% of the population guaranteed to be angry with the outcome. The "remain" side is currently leading in the polls.

EURef2 Poll of Polls

Latest average of six polls from 30/01/19 to 05/03/19



Source: What UK thinks, February, 2019

The strong possibility of a new election being held

While the official election date is set for May 2022, a June vote against the renegotiated Brexit deal will probably force Prime Minister May to resign, cause the coalition government to collapse, and force new elections.

Polls indicate that the new pro-EU political party, Independent Group, made up of MPs from the two main parties, has hurt Labour more than Conservatives in the polls. This in turn has put the Conservatives in a good position to win the next election. But Labour's surprisingly strong performance in the last election and the ever-changing political environment means no outcome can be discounted. Indeed, Labour went from being behind 20% in the polls when the 2017 election was first called to only finishing 2.3 points behind the Conservatives. A new mainstream pro-EU Labour leader could also significantly change the political landscape.

Up until Labour's poll numbers fell recently, many analysts argued that the greatest risk facing the UK markets was not Brexit, but rather the election of a Corbyn-led Labour government.

Westminster voting intention

If there were a general election held tomorrow, which party would you vote for? %

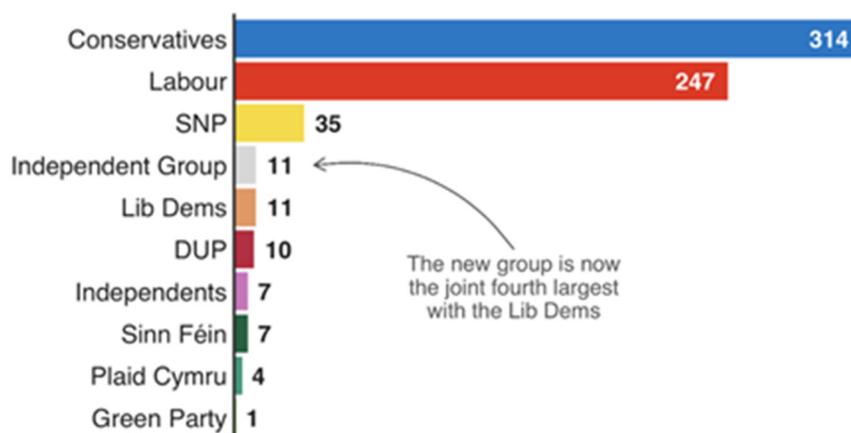


YouGov | yougov.com

3-4 March 2019

The current state of parties in Parliament

Number of MPs with each group in the House of Commons



Note: Sinn Féin MPs do not take their seats

Source: BBC research

BBC

Conclusion

While we continue to feel that an exit deal is ultimately more likely than a hard Brexit in the short-term, deal or no deal, the political impact of a Brexit will be long-lasting and substantial.

The greatest political divide is no longer between Labour and Conservative supporters, but between proponents and opponents of Brexit. This in turn risks further fragmenting UK's political landscape, a trend that has already deeply impacted continental Europe.

Regardless of the outcome of the Brexit negotiations, increased tensions with the EU appears inevitable. The EU in particular will remain torn between wanting to make life more difficult for the UK to discourage other countries from following its lead and the realization that hurting the world's fifth-largest economy and a major trading partner will only add to the EU's many political and economic challenges.

Finally, the UK's 2016 vote on Brexit is part of a larger trend of European countries holding referendums on major issues. Other countries or regions that have recently held referendums include: Greece 2015 (bailout conditions), Catalonia 2017 (disputed independence referendum), Italy 2016 (constitutional reforms), and Scotland 2014 (independence vote). More often than not, the referendums left these regions and countries more divided than before.

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