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Brexit Update: Out of control

Economic Comment
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- **The slightly amended EU-UK Brexit deal was rejected by the British Parliament for the second time on 12 March**
- **The rejection of a no-deal outcome on 13 March confirms the view that there is a parliamentary majority against this option**
- **An extension looks likely now that the UK Parliament approved a motion to pursue that on 14 March, and the EU is expected to approve such a request**
- **A short extension up to 30 June 2019 looks most likely given the fact that a longer extension would oblige the UK to participate to the European Parliament (EP) elections, a situation that seems undesirable for both the EU and the UK**
- **A longer extension is also in the cards if there is a fundamental change in British politics such as an early election or referendum**
- **We still see an orderly Brexit after an extension to 30 June as the most likely outcome and cooperation across the House of Commons will be needed for that to materialize**
- **However, the odds of a hard Brexit after the extension remain uncomfortably high given the current gridlock in British politics on Brexit**

Heading towards an extension

On 12 -14 March the UK Parliament held a series of cascaded votes that changed the course of the Brexit process, in line with a [parliamentary decision on 27 February](#). On 12 March the Brexit EU-UK deal was rejected by an overwhelming margin of 149 votes, despite PM May succeeded in getting additional assurances from the EU on the permanent nature of the Irish backstop. Paramount to garnering support for the deal on the back of these amendments was the reaction of General Attorney Geoffrey Cox to them. As the attorney did not change his conclusion that the backstop could tie the UK to EU rules indefinitely, the defeat was not surprising. Also unsurprising were the outcomes of the votes to reject a no-deal outcome on 13 March and in favour of extending article 50 on 14 March. The drama around the votes which led to old British politics conventions being broken down did surprise (see appendix). Both motions were adopted with clear majorities paving the way for an extension of article 50 and thereby rendering a no-deal Brexit on 29 March highly unlikely. The PM has indicated that if the deal would not be approved the MP's before 20 March, she would pursue a longer extension of article 50.

Three times is a charm?

In line with the motion brought forward on the extension of article 50, the government would pursue a short extension if Parliament was to approve the EU-UK deal by 20 March and they announced the intention to hold a third meaningful vote by this date. The second defeat on the deal was 81 votes lower than the first one, so we could argue that 2 more meaningful votes could get the deal over the line. However, the Brexit process is not an algorithm and it will not work like that. Nevertheless, fortunes do seem to be improving in favour of the deal as the Irish DUP has recently started talks with the government and more hardline Brexiteers have softened their tone. The DUP has in the past opposed the current deal and their shift in favour of the deal is regarded as crucial for getting a larger number of Conservative and perhaps even Labour MP's over the line. Their change of hearts has been linked to investigation by the UK on whether the Vienna Convention on Treaties would enable the UK to unilaterally retreat from the backstop, though the real motives behind the shift in position might differ. Either way, PM May's strategy of threatening with the risk of no Brexit at all to get the DUP and the Brexiteers on board for the current deal seems to be bearing some fruit. Only 20 Conservative MP's are estimated not to cave in no matter what, but this could reportedly be compensated by rebel Labour MP's. The odds for a deal approval still looks tight though.

The big question however is whether and when we will get a third meaningful vote after the Speaker of the House decided on 18 March that the current deal needs to be significantly altered before being brought forward for another vote in the House. The government is looking for ways of working around this decision. The fact that the EU27 are reportedly willing to be accommodative and hold a Brexit dedicated summit on 29 March to give the British PM more time to solve this impasse also bodes well for holding another meaningful vote before requesting an extension of article 50. Moreover, as we have argued before, a third rejection is not the end of the road. Actually, the [path of least resistance](#) towards an orderly Brexit is cooperating across the House with Labour on their support for a permanent Customs Union with the EU. The promised indicative votes in the coming weeks should pave way for such a cooperation.

The delay: how come, how long?

Following the 14 March vote an extension of article 50 now looks almost certain. The EU is likely to unanimously approve an extension, as they do not want to take the blame for an eventual hard Brexit. Arguments have been made for a long extension on both the EU and the UK side, including in the motion adopted by the UK parliament on 14 March. However, this seems to be rhetoric meant to support PM May's strategy of threatening that a rejection of her deal will lead to a long extension that could jeopardize the exit from the EU. But, long extension does not look like the optimal outcome for neither the UK nor the EU. The main hindrance is the fact that a long extension would oblige the UK to hold European Parliament Elections (EP) in May 2019. For the UK it would be peculiar to ask the British people to vote for an institution the country is planning to abandon. For the EU there is a risk that the participation of the UK could boost the presence of populists in the EP. Moreover, perpetuating Brexit uncertainty could risk subtracting political resources from other necessary EU reforms and prolonged uncertainty could affect the business environment.

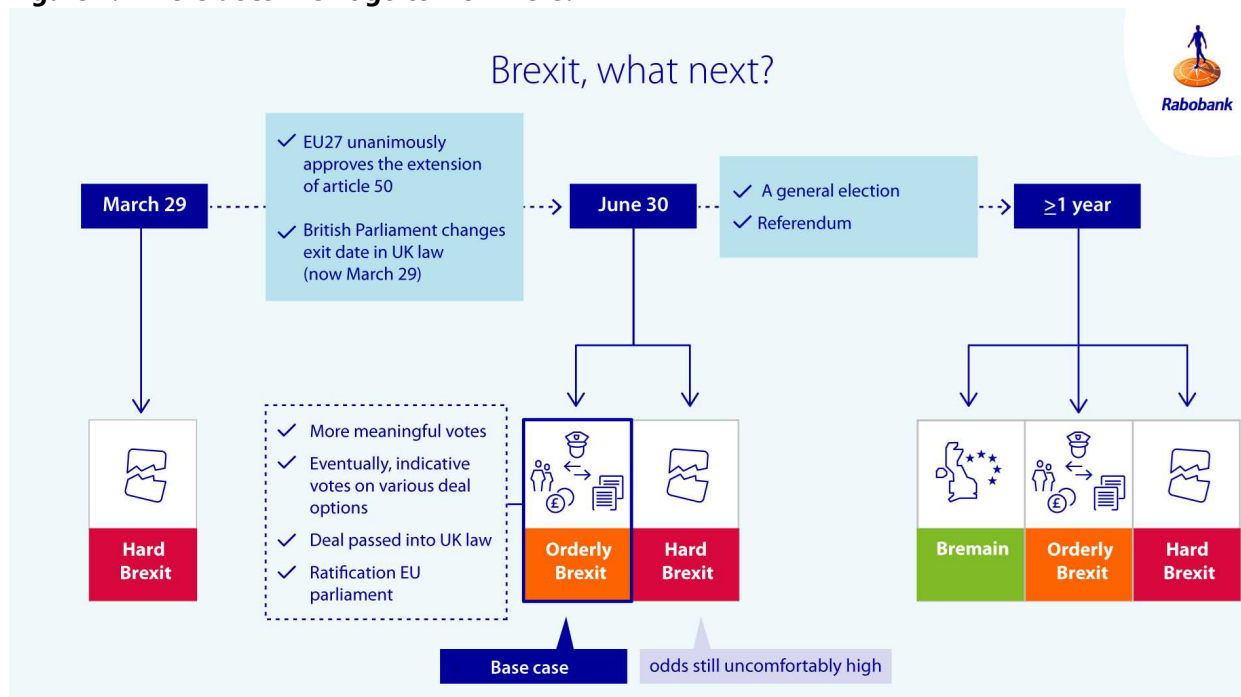
A longer extension could be considered by the EU if a significant shift in British politics were to take place, like an early election or a decision to hold a referendum. Such a shift is unlikely to materialize before the EU summit on 21-22 March or before 29 March when the EU27 might hold a Brexit dedicated EU summit, but could occur in the longer term. Hence we see a short extension up to 30 June as the most likely outcome. However, to avoid multiple decisions, the EU could make the decision for the longer extension contingent on developments in British politics.

What next?

So where does all this leave us moving forward in the Brexit process. The longer it takes, the more options there are. These are the main possible outcomes in chronological order (Figure 1):

1. 29 March: a Hard Brexit by accident. Leaving the EU on 29 March is currently the default in UK Law and without changing that it will be effective. With all minds concentrated on the deal this could materialize by accident, but we don't expect this to happen.
2. 30 June: a) an Orderly Brexit (our base case) or b) a Hard Brexit (odds still uncomfortably high). If the PM does reach out across the House to reach consensus on a Brexit outcome that enjoys parliamentary majority we could still get a deal approved by the end of June. The promised indicative votes should facilitate this path. However, if PM May continues to cater to Eurosceptics and the current gridlock in British politics continues, the UK is likely to crash out of the EU without any agreement. Hence, the odds of a hard Brexit after the extension remain uncomfortably high. Without fundamental political changes in the UK the EU is unlikely to agree to another extension. Theoretically, the UK could opt to just revoke Article 50 at the last minute, but we see this as merely a theoretical option.
3. Extension > 1 year: a) Orderly Brexit b) Bremain and c) Hard Brexit. If the British Parliament fails to reach a consensus on a desired Brexit outcome, an early election and/or a second referendum become very likely. Since this needs more time to be resolved, a second longer extension is likely and that opens up the possibility for the UK to remain in the EU after holding a referendum. However, there is no guarantee a referendum will lead to a Bremain, but it will prolong the current level of high uncertainty that is taking its toll on the UK economy.

Figure 1: Where does Brexit go to from here?



Source: Rabobank

Appendix: Another day another vote

The meaningless 'meaningful vote'

On 12 March, the PM May brought the EU-UK deal to the British Parliament for a second meaningful vote. The government had positioned the vote as the last chance for MP's to support an exit by the UK out of the EU on 29 March, since an extension of article 50 was likely to be approved in the subsequent days. Expectations for an approval were boosted by last minute assurances provided by the EU in three new appendices to the Withdrawal Agreement. The three documents basically provided additional clarification that the backstop is not intended as a permanent solution and reinforced the commitment to pursue negotiations on finding

alternatives to the backstop in good faith. Paramount for garnering support in Parliament was the reaction of general Attorney General Geoffrey Cox on these additional documents. While the Attorney noted the documents improved the UK's rights in case of talks collapsing in 'bad faith', he did not change his conclusion that the backstop could tie the UK to EU rules indefinitely. The deal was rejected by an overwhelming majority of 149 votes, bringing us back to square one.

The predictable but meaningful votes

In line with the 27 February decision in Parliament, the meaningful vote was the first in a series of three cascaded votes. The second vote on 13 March was on the option of a no-deal. The government's motion was initially phrased against such an option on 29 March. However, Parliament approved (by a thin majority of 4 votes) a non-binding amendment that rejected a no-deal under any circumstances. This amendment triggered the government to whip Conservative MP against voting for the motion they had proposed in order to keep the option of a no-deal on the table beyond March 29. Nevertheless, the British parliament adopted the motion by a margin of 43 votes. The same day the British Parliament rejected the option of postponing the exit day to 22 May to allow for a managed no-deal.

The third vote was held on 14 March and regarded the extension of Article 50, which was overwhelmingly approved by a margin of 211 votes. This happened despite the threat of a longer extension if the deal was not to be approved by 20 March. Several other amendments helped gauge parliamentary preferences on some Brexit aspects. An important development was the rejection of an amendment to hold indicative votes in the British Parliament, which would have allowed MP's to influence the future course of Brexit. The government did promise to hold such indicative votes in the two weeks following the 21-22 EU Summit nevertheless.

The outcome of the votes on 13 and 14 March was fairly predictable given the well-known parliamentary majority against a no-deal. Nevertheless, the results are crucial for the Brexit process as they set the course towards seeking an extension and thereby avoiding a no-deal outcome on 29 March. However, the path towards an orderly Brexit is still uncertain after Parliament failed to formalize government promises on holding indicative votes.

Total chaos

The votes on 13 and 14 March led to a lot of drama and old conventions in British politics being broken, which was particularly surprising given the fact that the outcome had been anticipated. Brexit had already brought many old non-written rules in politics under strain in the past half year by leading to unprecedented actions. A couple of examples are an MP breaking a pairing agreement in an important Brexit vote last year and the speaker of the House allowing Parliament to decide on the business of the Commons in February this year. The two votes last week crossed new boundaries in that sense, as during the two days we witnessed a breakdown of Cabinet collective responsibility.

To avoid a walk-down from the government both motions were left free by the government. However, the government changed stance and whipped against its own motion on 13 March, after the motion was amended. These orders were not followed by 45 Tory MP's without that having consequences for their jobs, which was unprecedented. Only two of these resigned and one of the votes was a pairing arrangement. The chaos was taken to new levels the next day when Brexit secretary Barclay voted against the motion he had defended in the House of Commons earlier and a motion he will have to implement in his function. A tweet of shadow Brexit secretary Starmer illustrates this incident best "That's the equivalent of the Chancellor voting against his own Budget. This is a Government that has lost complete control." These incidents won the PM a new nickname acronym with the Guardian, LINO "having long lost control of her party and of parliament — Theresa May lost control of her own government as well ... May is now a leader in name only. Lino". The chaos was not only a matter of the Conservative party. Labour had its own woes, as 42 Labour MP's rebelled against

orders to abstain on the second referendum amendment on 14 March.

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