

## Brexit: Latest breakthrough no gamechanger for 'no deal' risk

The leaked draft of the UK-EU political declaration sent the pound soaring on Thursday morning, but what is still not clear is if this document will help secure the critical votes Prime Minister May needs to get her deal approved by Parliament



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It's fair to say that the draft Brexit withdrawal agreement that was announced last week hasn't gone down too well domestically. Pro-Brexit Conservative MPs have been deeply sceptical about the possibility of the all-UK customs arrangement that forms part of the Irish backstop. While it doesn't seem like this group of concerned MPs have the numbers so far to trigger a leadership challenge, they may well have enough backing to torpedo the deal when it is voted in Parliament.

Meanwhile, the Northern Irish Democratic Unionist Party (DUP) – whom the Conservative government relies on for its working majority in the House of Commons looks likely to reject the agreement too, citing concerns that the proposed backstop would create regulatory barriers between Northern Ireland and the British mainland.

In short, it now looks increasingly likely that the government will be defeated when the deal is presented to the House of Commons (most likely in mid-December).

## Will the political declaration be a Parliamentary game-changer?

This is where the political declaration comes in. This 26-page document, which has now reportedly been agreed between the UK and EU, sets out in fairly vague terms some aspirations for the future trading relationship.

The hope is that this document will be enough to give unconvinced UK lawmakers the reassurances they need to approve the deal in parliament. The pound's initial reaction to the leaked details was surprisingly positive – against the euro, sterling rose by almost 1% in a few minutes.

But will the declaration really be a gamechanger for the parliamentary vote? Looking beyond the warm and cooperative tone of the document, there are a few reasons to be cautious.

### 1 This is just a draft

Before thinking about parliament, it's worth remembering this declaration is still in draft stage and will now be circulated around EU member states ahead of an ad-hoc European Council meeting on Sunday to sign it all off.

Interestingly, the 27 remaining EU states - which have stayed surprisingly united throughout the Brexit process so far are beginning to split. In particular, the Spanish government is reportedly seeking last-minute changes to the withdrawal agreement to allow discussions on Gibraltar to take place separately to the overall EU-UK trade negotiations that will commence after March 2019.

EU leaders indicate this is unlikely to derail Sunday's summit - and [many commentators](#) have flagged the elections in the Andalucia region of Spain (which neighbours Gibraltar) at the start of December. The Spanish government appears to be taking a tougher stance in Brexit talks to boost its share of the vote.

### 2 "Determination" to avoid backstop might not be enough to convince Brexiteers

Given all the concerns about the Irish backstop, the prime minister's challenge now is to convince lawmakers that it will never be needed - and at face value, the declaration contains some statements that might help her cause.

The document states that both sides reiterate a "determination to replace the backstop solution". The key line here is that "parties envisage making use of all available facilitative arrangements and technologies" - a nod to PM May's earlier proposals to use a mix of new technology and reciprocal tariff collection agreements to avoid a hard border. Certainly, the so-called "max-fac" solution - by which the UK would collect EU tariffs on its behalf and vice versa has been advocated by many of the Brexiteers in parliament over recent months.

However, as with everything in the declaration, nothing is legally binding. In reality, the EU has been very sceptical in the past about the practical and political ramifications such a system might have. And despite these reassurances, the fact that the Irish backstop will form a legally-binding

part of the overall deal hasn't changed. We therefore still suspect many Brexiteers, along with the DUP, will feel inclined to reject the agreement when it is voted in parliament.

There are plenty of other interesting nuggets in the political declaration, but the upshot is that there is very little here to change minds in parliament — the challenge of getting the deal approved looks as tough as ever. This raises the question of what happens next if PM May lost the vote in December.

The most immediate question is whether there would be a Conservative leadership challenge. While the 48 letters required for this to happen didn't materialise this week, it still could happen in the aftermath of the parliamentary vote - although there is no guarantee Theresa May would lose.

As [we discussed in more detail last week](#), the next possibility is an election, although this would need two-thirds of MPs to vote in favour of it in a no-confidence vote. That would require a number of Conservative MPs to vote in favour of an election, and despite all the divisions among Tory lawmakers, this seems like a tall order. A second referendum could face similar opposition.

Even so, the political pressure for prime minister May to return to the negotiating table would likely be immense. If this were to happen, it seems unlikely that she would be able to win any fresh concessions on the withdrawal agreement (including on the Irish backstop), but the EU may be more open to changes in the political declaration - particularly given that none of this is legally binding.

In theory, this would then tee-up a second attempt to get the deal through parliament, potentially much closer to the UK's scheduled exit date in March. Many people have drawn parallels with the [Troubled Asset Relief Program \(TARP\)](#) vote in the US, which was rejected at first, but subsequently voted through the second time around after significant deterioration in financial markets.

Admittedly, it's not clear that the same circumstances would be true in the case of Brexit. Banks are widely perceived to be much sturdier than in 2008, while any market reaction to the mounting uncertainty will undoubtedly be adverse, but is unlikely to be as severe. That said, there appears to be a growing consensus amongst MPs that 'no deal' would be deeply damaging for the economy and on balance, we still feel the most likely outcome is that a fudge will be found to get the agreement approved.

But either way, we are unlikely to know for sure until much closer to the UK's scheduled exit date in March 2019. For the economy, this is likely to see growth slow over the winter months if businesses and consumers become more cautious, and we are unlikely to get another Bank of England rate hike before May next year at the very earliest.

[Read Brexit: What next for politics and the pound?](#)

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