

Why the six month Brexit extension may not be long enough

There are good reasons to think that the Brexit deadlock will not be broken before the new 31 October deadline, particularly if prime minister Theresa May is replaced by a more eurosceptic leader. But even if a deal can't be approved by then, we still think parliament would step in to avoid 'no deal'



British Prime Minister, Theresa May, after the EU summit on Brexit in Brussels

What has been agreed?

After a classic evening of EU negotiations in Brussels, European leaders announced that the Article 50 negotiating period would be extended until 31 October. This assumes that the UK participates in the European elections in May, although the British government has indicated that this will be the case. If a deal can be approved earlier, then the EU has said that the Brexit date could be brought forward to the first day of the month following ratification.

The question now is will this be long enough to break the Brexit deadlock, and if it isn't, does 'no deal' become more likely?

Will 6 months really be long enough?

There's little doubt that the agreement struck in the early hours of Thursday morning was a good old-fashioned fudge - the decision to extend Article 50 by six months was one few had predicted.

It is shorter than the 9-12 months European Council President Tusk and others had been pushing for, with the goal of kicking the can well into the long grass to give the UK time to break the deadlock, as well as allowing the EU some breathing space to focus on other priorities. It is also longer than the French side had pushed for, with the aim of keeping the pressure on Britain to make a decision, while limiting the ability of the UK to disrupt key legislative priorities over coming months.

In the end, it was a compromise between the costs of a short/long extension among EU leaders, but the big question is whether anything will really change during this time?

Well, in theory at least, six months should be long enough to facilitate change if the will exists to do so. For instance, UK lawmakers could decide to back the deal in its current form, potentially ending the extension early, though that still looks unlikely.

There are good reasons to think the deadlock will not be broken before October's deadline

Six months might also be long enough to hold a second referendum - the minimum time to pass the legislation, complete question testing and hold a campaign is assumed to be around 22 weeks. However, this assumes lawmakers decide to go down this path more or less immediately - again, unlikely.

We still think the most likely option to curry favour among British MPs is a permanent customs union, which the EU has made clear would take minimal time to make the necessary changes to the political declaration - the short non-binding part of the deal that looks at future trade aspirations.

In practice though, there are good reasons to think the deadlock will not be broken before October's deadline.

Even before the European Council, talks between PM May and Labour leader Jeremy Corbyn were moving slowly. While both leaders might not actually be that different when it comes to their favoured version of Brexit, their respective ministers, backbench MPs and grassroots supporters are poles apart. These talks may continue for few more weeks now Article 50 has been extended - and don't forget that Parliamentary recess begins from this evening until 23 April. But one way or another these talks still appear destined to be unsuccessful.

If that's true, then PM May has suggested she will instead give Parliament a voice through another round of so-called 'indicative votes' on different Brexit options. But even then, now that the deadline has been pushed back, some of the immediate pressure has been taken away and this reduces the chances of compromise among MPs at this stage.

When will Theresa May be replaced as leader?

The other reason to think October could be too early is that the UK might have another prime minister by then.

Current PM Theresa May has hinted over recent weeks that she is prepared to step down. She told Conservative MPs that she would step aside if her deal was passed, having also said in fairly strong terms that she couldn't stay if Article 50 was extended beyond June.

There is little doubt that her position has been weakened still further over the past few weeks and it therefore seems likely that she will step down at some point this year – almost certainly before December when Conservative backbenchers will have their next opportunity to stage a no-confidence vote in her leadership.

If Theresa May were to resign though, then the chances are that her replacement will be more eurosceptic

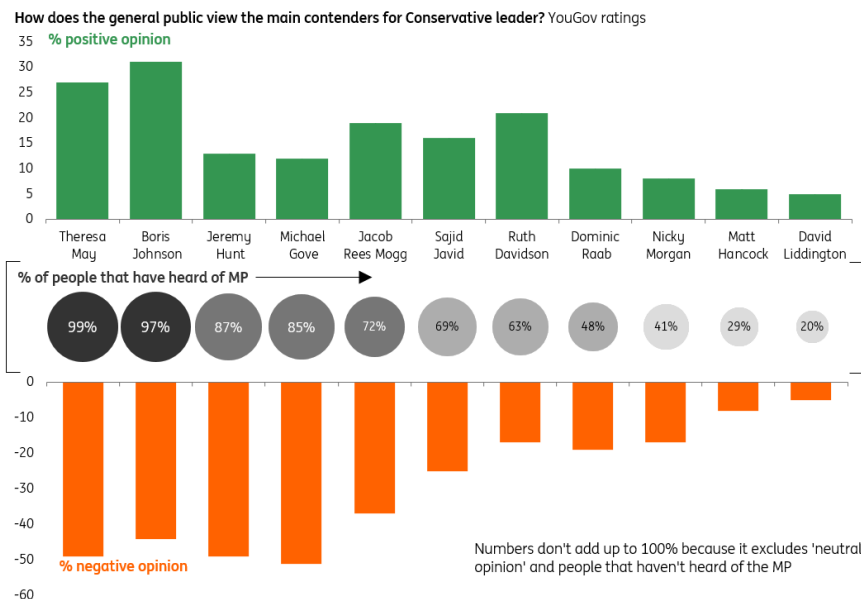
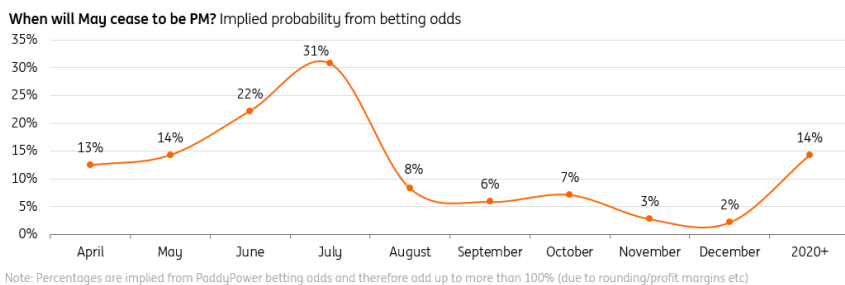
One possibility is that she chooses to step down to allow a leadership contest to take place over the summer, ahead of the annual Conservative Party conference at the end of September. This is certainly where the betting markets think things are heading, with July seen as the most likely time for PM May's departure. These contests do take time though, and unless things get moving soon, the window to hold a leadership challenge before the October deadline could close.

If Theresa May were to resign though, then the chances are that her replacement will be more eurosceptic. Assuming that a member of the pro-Brexit European Research Group (ERG) is one of the two MPs on the ballot paper, it seems likely that the grassroots of the Conservative Party would vote them in as leader. A recent YouGov poll indicated that 48% of Conservative voters believe a 'no deal' Brexit is a good outcome, and it's possible the percentage among actual party members is higher still.

With a eurosceptic leader in place, it's likely that the government would try to re-negotiate with the EU on the contentious issue of the Irish backstop – although it's highly unlikely that Brussels will budge. That could see a new leader simply push for 'no deal' instead.

The key question then is whether Theresa May tries to tie the hands of her replacement before stepping down. During the recent cross-party talks with Labour, there have been reports that negotiators have been looking at ways of creating a so-called 'Boris-proof Brexit'. As we said above, these talks are unlikely to bear fruit. But if Parliament instead can get behind a particular Brexit option sooner rather than later, it could be followed up with legislation to crystallise the decision in law, making it harder for a future PM to change course.

The British political situation



Source: PaddyPower, YouGov

Does this make 'no deal' on 31 October more likely?

If we are right and the landscape doesn't significantly shift before October, then the perceived risk of 'no deal' is likely to rise once again. If a new Eurosceptic leader is in place, then markets may become more concerned that they could be prepared to take the UK over the cliff-edge. Equally, we could see the EU become more fed-up. There is a view emerging among some officials that the costs of 'no deal' are lower than allowing the UK to stay half-in-half-out for a prolonged period of time.

If push comes to shove and lawmakers haven't been able to back any deal, we suspect a majority would choose to revoke Article 50 rather than accept 'no deal'

However, we still think the chances of 'no deal' are relatively low at this stage. Don't forget that in either scenario, the final decision rests with British MPs. While a new prime minister might be more open to 'no deal', the majority of MPs are not.

If lawmakers aren't able to back any deal, we suspect a majority would choose to revoke Article 50

rather than accept 'no deal'. After all, in the last round of 'indicative votes', 191 MPs voted in favour of revoking if a deal hadn't been agreed earlier this week. While this may be viewed as a fairly extreme move, it would likely be spun as a way of stopping the clock to allow time for a rethink on the Brexit plan, rather than revoking to remain permanently.

We wouldn't rule out a further extension to Article 50 either, and European Council President Tusk hinted at this on Thursday morning. And while he may not represent all the views among member states, there was a sense on Wednesday night that many within the EU are reluctant to be seen 'kicking the UK out' and taking any blame for 'no deal'. This stance could harden over the next six months, but for now we think the probability of 'no deal' remains around the 20-25% level.

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