Brexit timeline: The race to avert 'no deal'

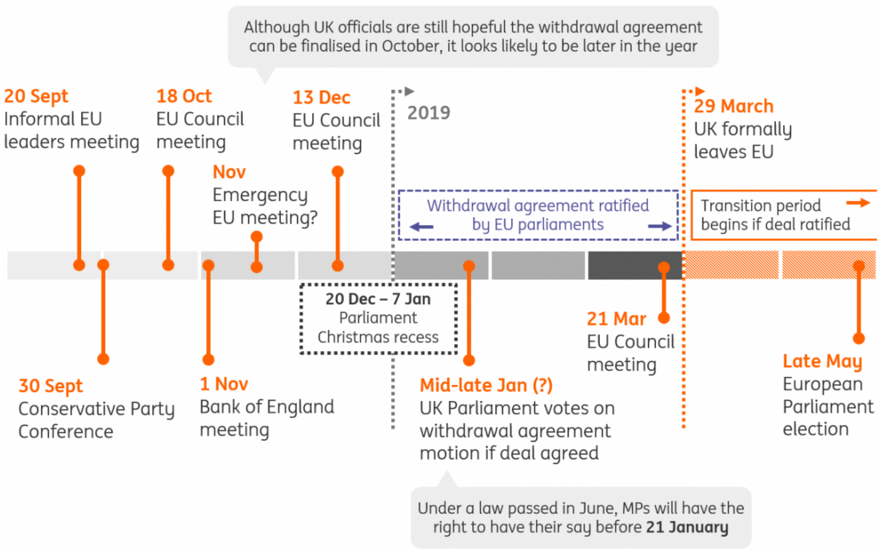
Despite the noise, we think the probability of a 'no deal' Brexit is still relatively low. However, it might not be well into the new year before we know for sure. Here's our guide to negotiations between now and March 2019

Source: iStock

There are seven months to go until the UK formally leaves the EU, and there are a number of big questions still unanswered. The biggest of them all, of course, is whether a deal will be agreed in time to avoid the UK crashing out of Europe on World Trade Organisation terms? But even if a deal is reached, will the UK parliament vote in favour of it – and when will we know for sure that 'no deal' has been averted?

Here's a guide to negotiations between now and March 2019.

The road to Brexit in March 2019



Source: ING

Will a deal be agreed with Europe – and when?

Between now and March 2019, there are essentially two things that need to happen. Firstly, and most importantly both sides need to reach a deal on the withdrawal agreement. That covers everything to do with the UK's exit including things like financial commitments, the transition period and the Irish border. On top of this, the goal is to agree on a 'political declaration' on what trade talks should be aiming for. Remember, these trade negotiations are unlikely to start in earnest before March.

Ever since the start of the Article 50 process, the plan was to get the withdrawal agreement and political declaration sorted in time for the October EU Council meeting. The theory: build in enough time for each member state to ratify whatever is agreed. And publically at least, the UK government has said it is "confident" a deal can be done by then. But with a few weeks left until the October gathering of the EU leaders, it looks increasingly unlikely this will be the case.

Prime Minister May has an incentive to hold off agreeing a deal

The last major issue that stands in the way of the withdrawal agreement being settled is the Irish backstop - and both sides remain poles apart on that. The EU is resolute this can only be Northern Ireland-specific, which the British government is concerned will create barriers and frictions within the UK itself.

Admittedly there have been a few subtle signs of progress on this issue over the summer. Lead EU negotiator Michel Barnier has suggested the language surrounding the backstop could be "de-dramatised", which could involve measures to minimise physical border infrastructure that might arise. There have also been reports that PM May is pushing for a commitment from Brussels that there could be a temporary UK-wide customs arrangement if the backstop were activated, to avoid a cliff edge situation for UK businesses.

There is still clearly a long way to go until a compromise is reached, but in the end, we think it's improbable Mrs May would walk away from negotiations without an agreement. If nothing else, the political pressure for her to return to the table is likely to be immense.

However, we doubt she will be prepared to give much ground in negotiations ahead of the Conservative Party conference at the end of the month. While it looks unlikely Theresa May's position as Conservative leader will be contested before then, she is under increasing pressure from Brexiteer MPs not to give in on the Irish border issue.

With this in mind, there appears to be an incentive for her to leave it as late as she can to agree to a deal with Brussels. The later the deal is agreed, the later Parliament will have its vote, and the more binary the choice between the agreement and a 'no deal' Brexit will appear.

Read How a 'no deal' Brexit could be avoided

Source: Shutterstock

It all comes down to the 'meaningful vote'

In reality, the latest she can leave it is probably November, or at a pinch the December EU Council meeting. The agreement needs to be ratified by member states, and that can't happen overnight, so assuming a deal is struck by the end of the year, this points to around mid-January for the UK parliament to have its say.

> *MPs will not be able to change the details of the agreement directly, but our understanding is they will have the opportunity to put forward amendments to the motion*

What does this mean in practice? Well, Parliament will get an opportunity to vote on a motion to either approve or reject what has been agreed with Brussels. Importantly MPs will not be able to change the details of the agreement directly, but our understanding is that they will have the opportunity to put forward amendments to the motion.

In other words, lawmakers can place some pre-conditions that must be met for the deal to be approved.

Parliament's options

Hypothetically, if MPs vote to approve the withdrawal agreement with relatively little fuss, we should know with more certainty that 'no deal' has been avoided in January/early February - assuming of course that other EU member states ratify the deal as hoped. This would enable the transition period to commence as planned from late-March 2019.

However, if MPs want further assurances about the future trading relationship - for example, Brexiteer MPs gather enough support to force the government to make firmer commitments about leaving the customs union and single market, then this may come as a blow to Theresa May, but it shouldn't be impossible to reconcile.

> *Things could get tricky if lawmakers demand key elements of the UK's exit terms to be renegotiated - for example, the divorce bill or the Irish backstop*

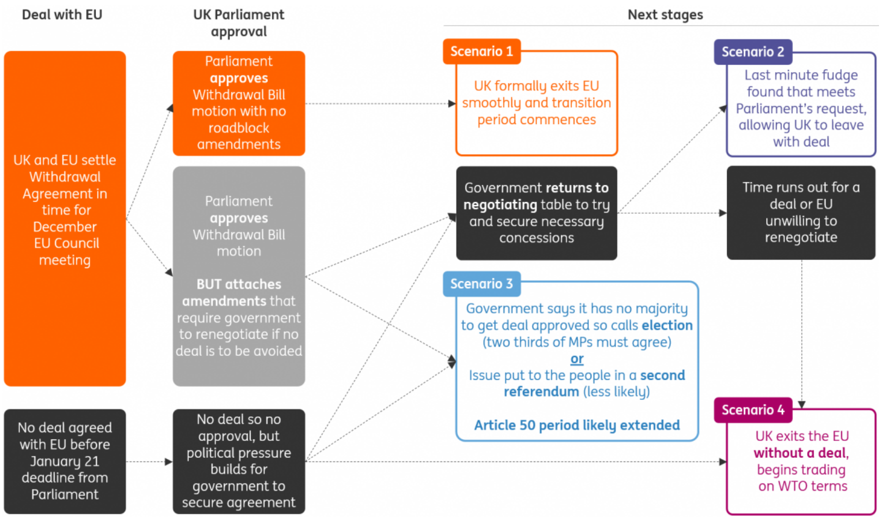
Reports suggest Brussels is prepared to be fairly flexible with the political declaration on future trade. After all, none of this is legally binding and is simply a political statement of intent, so we suspect the EU will be open to adding nice words if it helps get the withdrawal agreement through Parliament. Michel Barnier's hint that the EU could offer the UK a deal "the likes of which has not existed before" might be a flavour of what sort of language this declaration might contain.

In short, if MPs want further assurances on future trade, then this is unlikely to get in the way of the withdrawal deal being ratified in time - albeit there's a risk this happens quite late in the day.

Where things could get trickier is if lawmakers demand key elements of the UK's exit terms to be renegotiated - for example, the divorce bill or the Irish backstop. The EU is likely to be much less willing to offer concessions on these issues, and the time to renegotiate would likely be exceptionally short.

In this scenario, the probability of 'no deal' would become much more substantial.

Four potential scenarios for Brexit talks in early 2019



Source: ING

Note: The scenarios assume other EU member states ratify the withdrawal agreement as planned.

We still think the probability of 'no deal' is relatively low

We think parliament will approve the deal with relatively few roadblocks. In addition to raising the odds of 'no deal', attaching tricky amendments could also put pressure on Theresa May to call another election. While she would not take such a decision lightly given her party's position in the polls, and it would also require two-thirds of MPs to agree, the Prime Minister may view this as the only option if there is no majority in Parliament for the final agreement.

Similarly, with pressure reportedly rising on Labour leader Jeremy Corbyn to put the deal to voters, a second referendum also cannot be ruled out - although we'd note around six-nine months are required to pass the necessary legislation, which is unlikely to be feasible come January 2019. In either situation (election or referendum), an extension to the Article 50 period would almost certainly be required.

For Brexiteer MPs, who would be the most likely faction in Parliament to resist the approval of the withdrawal agreement, all of these scenarios are undesirable as they would raise the risk that Brexit is reversed at the last minute.

So while the parliamentary process may create a pretty uncertain period in early 2019, we feel that the most likely outcome is that Parliament approves the deal, enabling the transition period to commence from next March.

Find out how the economy could be hit by a 'no deal' scenario

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