

## Brexit update: Theresa May's biggest test yet?

The UK Prime Minister faces a series of challenging parliamentary votes on her plan to leave the customs union and single market after Brexit



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### The biggest test yet?

Almost exactly one year on from the her big election upset, Prime Minister Theresa May faces another mammoth challenge.

On Tuesday, the EU Withdrawal Bill – which would see all current EU rules enshrined into UK law in March 2019 – will return to the House of Commons. As part of this, parliament will debate and vote upon a series of controversial amendments that were passed by the House of Lords a few weeks ago. These votes will put pressure on the government to reconsider access to the customs union and EEA, as well as giving more clarity on parliament's so-called 'meaningful vote'.

A loss on one or many of these amendments would come as a major – albeit perhaps not fatal – blow to PM May's government.

## ? Where's all of this come from?

Leaving the customs union, along with the single market, has long been a central plank of the UK government's Brexit vision.

In the single market, the UK would have no control over immigration. It would also be bound by EU rules, whilst having only a limited say in defining them. And while a member of a customs union – which would require accepting a common external tariff on goods – ministers have argued that the UK would not be able to negotiate its own trade deals with the rest of the world.

International Trade Secretary Liam Fox once said that the country would effectively “have one hand tied behind its back” – in reference to being unable to offer concessions on goods trade, in exchange for potentially more lucrative market access for UK services.

But many members of parliament are less convinced. Amongst other reasons, many are concerned that a hard border with Ireland cannot be avoided unless customs union membership (and perhaps even single market access for goods) is retained.

The opposition Labour Party has recently made staying in a customs union its official policy, and a number of Conservative MPs appear to agree. For this reason, the government has repeatedly pushed back a vote in the House of Commons for as long as possible. But come Tuesday, and MPs will have a chance to have their say.

Given the government only has a tight majority, there's a reasonable chance they'll lose this particular vote.

## The Brexit options compared

	UK Red Lines/Priorities				EU Red Lines	
	No Free Movement	Negotiate trade deals	Access for services	No ECJ jurisdiction	No “hard” Irish border	No cherry-picking
EEA (Norway option)	X	X	✓	X	✓	✓
Customs Union	✓	X	X	✓	✓	✓
Managed Divergence/ Three baskets	✓	✓	✓	?	X	X
Canada-style FTA (No “plus”)	✓	✓	X	✓	X	✓

Source: ING

## ? Could this spell the end of Theresa May as leader?

If the government does lose the vote on the customs union, it would come as a major defeat on its flagship policy. But while Theresa May would no doubt be weakened by the results, it might not prove fatal.

This is partly because the wording of the amendment means that the government wouldn't be legally obliged to join a customs union, instead only required to report on its efforts to negotiate customs union access – so in theory a “we tried, but...” answer would suffice.

Even so, a heavy defeat would undoubtedly lead to calls for a fresh snap election, although we still think the chances of this materialising remain relatively low. Two-thirds of MPs would need to vote in favour of an early vote, and while numerous Conservative lawmakers on both sides of the Brexit divide are clearly frustrated with the government's Brexit approach, it's not clear they'd actively trigger a fresh election. Bookmakers suggest that 2022 is still the most likely date for the next national vote.

Labour may have fallen back in the polls over recent weeks, but the same was true in the run-up to last year's bruising snap election. As the old saying goes, 'Turkeys don't vote for Christmas'.

That said, PM May could still face a leadership contest. This would require 48 Conservative MPs signing a motion of no confidence, and press reports over recent months suggest this is feasible – although again we think this may not be so likely. For one thing, it's not clear that any other senior Conservatives would be keen to take the job – although as the last couple of years have proven, you never really know what's around the corner in UK politics!

## ? Is a customs union a good enough deal for the UK?

A customs union would undoubtedly go some way to reducing the amount of paperwork and checks required for goods trade after Brexit. Tariffs between the UK and EU would be removed, and firms would not become embroiled in complex 'rule of origin' regulations.

But that doesn't necessarily mean trade would flow as seamlessly as it does today. Unless the UK adheres to EU standards on goods (in other words, the single market rulebook), then there would presumably need to be some checks at the border. Likewise, unless an agreement were reached on VAT, this would need to be paid on entry at UK/EU ports. And without a deal on transport, there have been suggestions that lorry drivers (and their vehicles) may not be legally allowed to make deliveries overseas. With an acute shortage of drivers already occurring in the UK, this latter issue could result in major delays at UK ports.

However, even if these problems are overcome (which is likely, over time), we have to remember that the UK is predominantly a service-sector economy. A frictionless customs arrangement would do little to help here.

## ? Could the UK stay in the single market after all?

Given these issues, the possibility of joining the entire single market is coming a little more into focus.

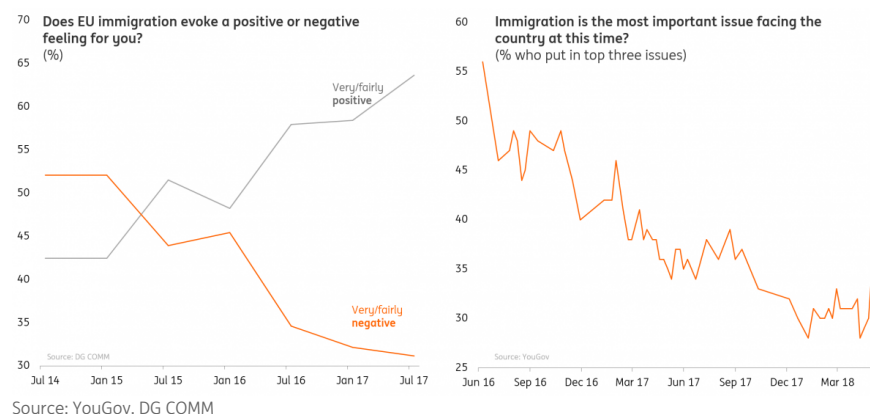
Membership of the European Economic Area (EEA) – or the 'Norway option' as it is more typically branded – had long been written off as an unviable post-Brexit option. Critics say that staying in the single market, whilst having little say on the rules, would be unacceptable for an economy as large as the UK's. But of course the far bigger issue is that of free movement of people – perhaps the 'reddest' of red lines of the Brexit debate.

Interestingly though, this appears to be less of a public concern than it once was. A recent survey by YouGov, which asked people what their biggest issues are, found that only 30% of people put immigration in their top three. Compare that to 55% back around the time of the referendum. A separate European Commission survey has identified a similar trend.

Admittedly none of this is likely to affect the outcome of next week's votes. Like the customs

union, there is also an amendment pushing EEA membership after Brexit, as well as Labour's own proposal that would retain "full access" to the "internal market". Neither are likely to be passed at this stage, although as the public's attitude appears to lighten, it will be interesting to see whether parliamentary support shifts as the negotiations go on.

## Immigration – less of a public red line after all?



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