

United Kingdom

False start

By opting to leave the European Union (EU) without any exit plan, the United Kingdom has come face to face with an impossible choice. Week after week, the Brexit impasse has revealed the British Parliament's incapacity to make decision, starting with the ratification of the divorce terms, the fruit of 2-years of negotiations by Prime Minister Theresa May. In the end, the Brexit was simply postponed. First set for 29 March, then 12 April, the deadline for exiting the EU has now been extended to 31 October (a Halloween treat?). This date could be moved forward if the UK finally manages to ratify the withdrawal agreement, which it has rejected time and again. But the most probable scenario is that the UK will extend its participation to the EU, at least for a while...

Three years after voting by referendum to exit the European Union (EU) and after a 2-year divorce procedure, the United Kingdom has finally decided... to decide nothing. After failing three times to get the House of Commons to ratify the withdrawal agreement negotiated with the UK's 27 European partners, Prime Minister Theresa May had no other choice but to request a longer delay to trigger Brexit.

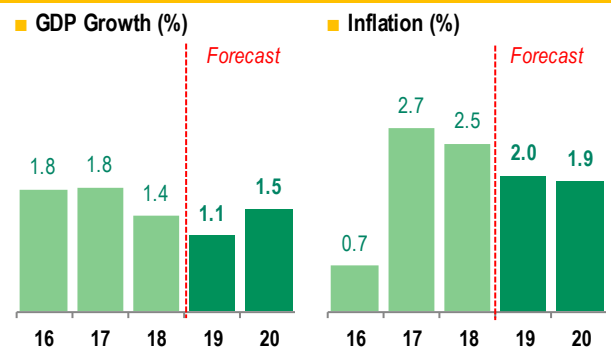
The European 27 granted extensions on two occasions. The deadline for the UK to exit the EU was first pushed back to 12 April, and has now been set for 31 October 2019, which is not only Halloween, but also the official end of the Juncker Commission's mandate. Between now and then, the field of possibilities is vast (see flowchart).

Although the European Council rules out any moves to reopen the withdrawal agreement, it has offered the House of Commons the possibility of ratifying it anytime between now and 31 October 2019, with Brexit taking effect on the first day of the following month. To avoid participating in European elections, however, the UK would have to ratify the agreement before midnight on 22 May (for an effective exit on 1 June). Since the alternative is "no-deal" Brexit after 31 May, it is more than likely that the UK will step into EU elections and prolong its participation to European institutions. This means that the UK will have to be reattributed 73 seats in the European Parliament, which would then be eliminated after 31 October, or redistributed according to the plan that has already been adopted (France would recover 5 seats, for example).

Of course, this sort of temporary solution is a first, and the Council wants to arm itself against any institutional blockage by instructing the UK to "abstain from any measures likely to endanger the realisation of the Union's objectives, especially when participating in the decision-making process..." Clearly, the Brexit question will continue to pop up in the middle of debates. Without being nil, there is very little probability that the UK Parliament will end up ratifying the withdrawal agreement. According to the indicative votes in the House of Commons, remaining in a customs union through a kind of "soft" Brexit seems to be the solution best positioned to win a majority vote. Although it is theoretically possible to hold a vote on a withdrawal agreement based on this option¹, it would have to be a bi-partisan proposal. For Prime Minister May's already fragile majority, this solution would be very hard to resist. European elections and/or the calling of early general elections could also be

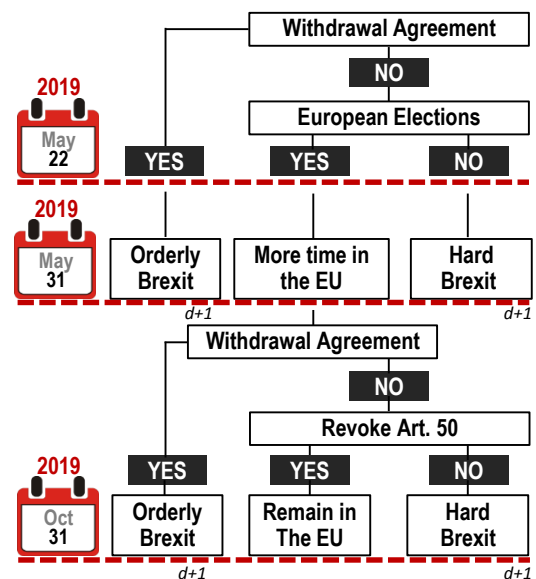
¹ The political declaration would undoubtedly have to be adjusted somewhat.

1- Growth and inflation



Source: National accounts, BNP Paribas

2- Non-exhaustive flowchart of possibilities



Source: European Council

the occasion to re-examine the Brexit question again. Unless of course the UK, still stuck in an impasse, decides to request another extension for Brexit, beyond 31 October.

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