

A NEW BREXIT DEAL? THAT WAS THE EASY BIT!

Even if the Commons were to endorse Boris Johnson's new deal on Saturday, further stumbling blocks remain.

IN A NUTSHELL

- The votes on Saturday look set to be very close, even under the most optimistic sets of assumptions of how many of them Boris Johnson might be able to cobble together.
- It seems quite likely that parliamentary scrutiny by both the Commons and the European Parliament will uncover plenty of technical problems in the coming days and weeks.
- Investors would be unwise to rule out various risk scenarios just yet.

"No deal is better than a bad deal," was one of Theresa May's more dangerous mantras, dating back to early 2017.¹ She belatedly ditched it in May 2019, realizing what a threat a chaotic, disorderly Brexit might pose to the UK, not just in economic terms.² Her nimble successor appears to have completed a similar intellectual journey rather more quickly. As always with Boris Johnson, it is hard to say how lasting his change of heart might prove to be. Investors would be unwise to rule out various risk scenarios just yet.

Boris Johnson has negotiated a new exit deal with the European Union (EU). That was the easy bit. In key respects, his proposal looks suspiciously like the EU version of a draft withdrawal agreement presented back in February 2018. At the time Brexiteers such as Mr. Johnson were up in arms at the prospect that Northern Ireland might stay in the single market and customs union after the rest of the UK "escapes EU vassalage," in their parlance.

Johnson's new deal now effectively enshrines a customs border down the Irish Sea between Northern Ireland and Great Britain (GB), i.e. the rest of the UK. As the European Commission points out in a helpful primer on the agreement, the EU's "Customs Code will apply to all goods entering Northern Ireland," along with plenty of other single-market provisions.³ That makes it likely that over time, Northern Ireland will economically re-orient itself towards the south. No wonder that the Democratic Unionist Party (DUP), which has propped up Johnson's minority government, has come out against the plan.

Worse still from the perspective of keeping the UK united in the longer term, is the consent mechanism agreed for Northern Ireland. Starting four years after the end of the transition period, the Northern Ireland Assembly will be able to withdraw its consent to the continued application of relevant EU law. In practice, this is unlikely to happen. Most major parties other than the DUP favor remaining in the EU, or alternatively for Northern Ireland to at least stay as closely aligned as possible. That reflects the pretty firmly enshrined preferences of the majority of voters in Northern Ireland. The same is, of course, also true in Scotland, which will have no such option to continuing, at least partial, participation in the EU's single market.

A prime minister as nimble but more farsighted than Johnson might as well have gone the whole hog and offered Scotland a similar deal. According to polls, Brexiteers appear quite willing to contemplate undermining the unity of the UK as the price of Brexit for England and Wales.⁴ And such a grand bargain with Scottish Nationalists might have equipped Johnson with a stable majority in the House of Commons to get his deal and the necessary legislation to implement it passed. As it is, Johnson appears to be mainly at the mercy of Tory rebels from various factions within his party, plus Labour members of parliament (MPs) in principle in favor of leaving.

The UK House of Commons is scheduled to start debating the new proposal on Saturday, October 19. As of today, it remains unlikely that Johnson will have enough support to get it passed. The votes on Saturday look set to be very

¹ <https://www.telegraph.co.uk/news/2017/01/17/brexit-theresa-may-tells-eu-no-deal-better-bad-deal-britain/>

² <https://www.politicshome.com/news/uk/foreign-affairs/brexit/news/103591/theresa-may-ditches-no-deal-better-bad-deal-she-hints>

³ https://ec.europa.eu/commission/presscorner/detail/en/qanda_19_6122

⁴ <https://yougov.co.uk/topics/politics/articles-reports/2019/06/18/most-conservative-members-would-see-party-destroyed>

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close, even under the most optimistic sets of assumptions of the sort of temporary coalition Boris Johnson might be able to cobble together. And even if the Commons were to endorse his deal, further stumbling blocks remain.

The way we see it, there are at least three sources of potential troubles. First, the very features that may make Johnson's new deal more appealing to some Tory Brexiteers – fewer firm commitments on continuing to apply EU standards in areas such as workers' rights and environmental protections – are likely to make it harder to win over Labour supporters. We would be surprised if more than a dozen Labour MPs were to side with Johnson on Saturday.

Second, any majority in the Commons will almost certainly not be sufficiently stable to beat opposition amendments in the coming days and weeks. Indeed, the self-styled "rebel alliance" already won yet another procedural victory on Thursday. It will probably now have the legislative means to insist the UK request an extension beyond October 31, whether or not the Johnson deal stumbles at the first Commons hurdles.

And third, the convoluted mechanisms chosen for Northern Ireland will create plenty of red tape for UK businesses. The deal is the result of several last minute fudges on such complex issues as customs duties and value-added-tax collection. At least on the UK side, we would be surprised if all the practical implications have been fully thought through. It therefore seems quite likely that parliamentary scrutiny in

both the UK and by the European Parliament will uncover plenty of technical problems in coming days and weeks.

Conversely, the deal looks better from the EU perspective than the UK-wide backstop that Theresa May had so painstakingly negotiated, precisely to avoid a border down the Irish Sea. Most importantly, it looks set to avoid giving away anything on the future relationship (a key concern about the backstop on the EU side). No wonder that the EU will try to pressure the Commons to pass the new deal and get it done within the coming two weeks. However, we are doubtful the EU would actually refuse an extension to, say, allow for a second, confirmatory referendum or snap elections.

Johnson looks set to present Saturday's vote as a choice between his deal and a chaotic "No Deal." A more honest way of describing his position might be to say that "a Bad Deal is better than No Brexit." That might convince ardent Brexiteers in his own party, now perhaps already wishing they had taken a more pragmatic and conciliatory approach earlier on. Make no mistake: the probability of a Brexit of any sort has probably shrunk further. We are likely to revise our DWS Brexit-scenario probabilities on Monday, depending on developments over the weekend. As a reminder, the most recent ones are as follows: No Deal 20%; Hard-but-orderly Brexit 25% (i.e. the Johnson deal getting ratified); Soft Brexit 15%; No Brexit: 40%.

GLOSSARY

Brexit

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

Conservative Party

The **Conservative Party**, also referred to as "Tories", is a center-right political party in the United Kingdom.

European Commission (EU Commission)

The **European Commission (EU Commission)** is the executive body of the European Union (EU) which represents the interests of the EU.

European Union (EU)

The **European Union (EU)** is a political and economic union of 28 member states located primarily in Europe.

House of Commons

The **House of Commons** is the lower chamber of the United Kingdom's parliament.

Labour Party

The **Labour Party** is a center-left political party and one of the three biggest parties in the United Kingdom.

Value-added tax (VAT)

A **value-added tax (VAT)** is a consumption tax that is collected based on the incremental value added in each stage of production (as opposed to a sales tax where only the final consumer is taxed).

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