

Flash Notes 12/03/2019

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Brexit - An extraordinary array of outcomes still possible. What's next?

A delay (short or long), a last-minute deal, a no-deal Brexit, a snap election or even another referendum, are all they still possible scenarios that can occur.

At what point do we find ourselves exactly?

We currently have a plan (Theresa May's Plan) agreed by the EU and the British premier that was rejected by the British parliament. What is being sought by London now is a series of concessions by Brussels that improve some aspects of that plan and thus can be approved by the UK parliament.

The starting point: Not everyone knows what May's plan is.

The plan covered 5 main areas:

1. The post-Brexit rights of EU citizens in the UK and British citizens on the continent.
2. It opens a transition period to set the terms of the comprehensive FTA (Free Trade Agreement) that the two sides are due to sign at some stage after Britain's departure from the bloc.
3. Faced with the risk that the FTA has not been signed in December 2020, the EU insists on the idea of establishing a border (set in the Irish Sea), keeping Northern Ireland within the Customs Union and Single Market and the rest of the UK outside. This formula is known as the "backstop" or "safeguard mechanism".
4. As this point kept the agreement stuck both parties had to make concessions in order to be able to sign an agreement that triggers the divorce and opens the transition period.
 - a. The EU accepted that the UK remains in the Customs Union (thus preserving the territorial integrity of the entire UK).

- b. The UK accepted the so-called "Lever Playing Field" (remaining in the Customs Union during the transition period, assuming the regulatory body of the single market in terms of state aid, competition, tax and commercial).
5. The agreement stipulates that in June 2020, the UK must decide between:
- a. Extending the transition period.
 - b. Accept the backstop.
 - c. Enter the Custom Union permanently

This plan, as detailed in these five points, was rejected in the UK parliament, where many British lawmakers objected to the backstop on the grounds that it could leave Britain subject to EU rules indefinitely or leave Northern Ireland away from the rest of the United Kingdom.

May's Strategy: To defend an enhanced version of her original plan

- PM May wants to obtain legally binding guarantees (legal promises) that the permanence of the UK in the Customs Union **as foreseen in the safeguard mechanism, will be temporary** in the event that it enters into force. This means being in the Customs Union, in order to avoid a border with the province of Northern Ireland, but without having to comply with the full regulatory flow of the EU (and instead set a free trade agreement).
- The EU confirmed that new offer had been put on the table, but when Mrs May presented this draft to the UK's general attorney Cox, he told her: "the offer provided by Brussels will not change my legal advice to MPs that the backstop could leave Britain trapped in the customs union". For her to succeed in Tuesdays' vote, Mr Crox have to change his legal advice to MPs.
- Brussels refuses to put exact limits on this mechanism, but insists that it will be able to find solutions.
- With no major changes yet secured, May's deal (as it is right now) will probably be defeated again on Tuesday, though Theresa May tries to make the Brexiters and the DUP see that this is the only alternative to the postponement or even the cancellation of the Brexit.

What's next?

If I had to bet on a central scenario in the next 20 days, I would say that we will see a short extension of the Article 50 exit process until May 24, or a last minute agreement (which would open us a period of tranquility - transition period - until December 2020). I would assign a 50% probability to each one.

Best regards