Deloitte.

Brexit Update

01/03/2019

This week has not been as defining as it might have been for Brexit, with the watershed moment now expected to come between 12 and 14 March. However, some developments from the last few days could have material implications for how businesses assess their exposure to Brexit risks and decide on the plans they put in place.

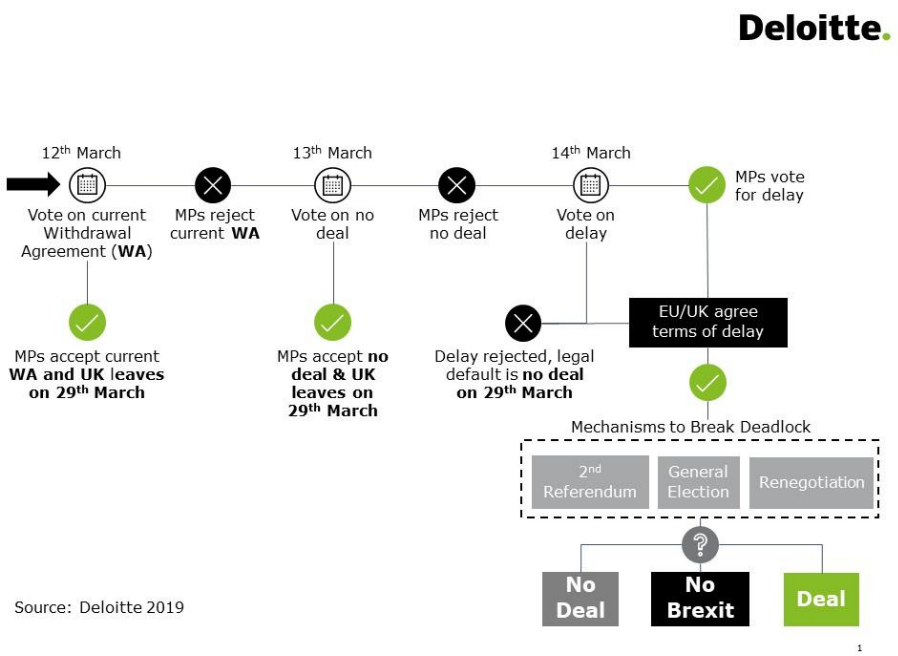
Update on developments

Following the UK Parliament's rejection of the proposed Brexit deal in January, the Prime Minister has been seeking to identify what changes could be made in order to gain majority support. However, at the time of writing there is neither a revised deal to vote on, nor enough of a shift in parliament to see the existing deal pass.

With time running out, the Prime Minister and the leader of the opposition have both set out strategies that will shape the coming weeks. Heading off a threatened rebellion, the Prime Minster has promised MPs a meaningful vote on her deal by 12 March, and, if that does not pass, subsequent votes on no deal, and then on a delay. This has bought more time for negotiations with the EU and could be seen to reduce the chance of no deal.

On 27 February, four motions were put forward for parliamentary vote, which have now set out a path forward for the next few weeks, and established some guiding principles for both leaders. Two were passed: the motion to delay Brexit if the Prime Minister's deal is not voted through, and a proposal that key elements on citizens' rights in the Withdrawal Agreement would be protected in the event of no deal. Two failed: the Labour Party's alternative Brexit vision of permanent UK membership of the Customs Union, and the SNP's proposal to take no deal off the table. On the first, the Labour Party will now back a second referendum, with 'Remain' on the ballot paper, although it is not clear at this point whether a second referendum would receive the backing of Parliament. On the second, the rejection of the SNP's attempt to remove the option of no deal means that outcome is still a possibility.

The diagram below outlines the sequence of events that will follow:



In summary:

- If, at the next meaningful vote, the Prime Minister's deal is approved, then the legislative process to legally bind the UK to the terms of the deal will take effect.

- If the deal does not pass, MPs will then be asked whether they are prepared to support a no-deal exit on 29 March.

- If that vote fails, MPs will then vote on whether to request a delay to Brexit. It is not clear what kind of extension MPs might support. Nor is it clear what would happen next if MPs rejected a delay, although the default legal position is that the UK will exit the EU on 29 March.

- An Article 50 extension will need the backing of all EU Member States and as yet, the EU has not officially stated whether it would support an extension or on what terms.

What does this mean for business?

It will be unclear until 14 March whether the UK asks for an extension to Article 50 - and what conditions the EU might attach to it - but it seems more feasible now that Brexit may be delayed. How this news is received by business depends on a range of factors. It may be welcomed by those who feel they need more time to plan for the range of possible outcomes, whilst for others it may be an inconvenience, as uncertainty will be extended. For those who have already put contingency plans in place for a March exit, a delay is likely to be frustrating – specifically those who have planned closures of manufacturing plants or stockpiled perishable goods. And, even if an extension is agreed, the eventual outcome could still be no deal.

Having a new deal date to work to, which may not be confirmed until very close to the end of March, only adds complexity to an already uncertain set of conditions for business. As it stands, there are several scenarios that could still play out and business should continue to plan for a range of outcomes, including no deal.

Further support

Our tactical actions paper may be of use and please contact the Brexit team for further support in understanding and planning for Brexit related risk. Sign up to our Brexit blog for regular updates.