



Brexit: Update March 2019

15 March 2019

Brexit: UNCERTAINTY CONTINUES

This week marked a watershed moment in the Brexit process, with the conclusion of UK and EU negotiations on the 'backstop', and three crucial votes subsequently put before the British Parliament.

Update on developments

On Monday evening (11 March), the Prime Minister and European Commission President Juncker agreed a 'legally binding instrument' providing clarifications on the Withdrawal Agreement, particularly relating to the Irish border 'backstop' (formally the Protocol on the Republic of Ireland and Northern Ireland).

The following morning (12 March), Attorney General Geoffrey Cox released his updated legal advice. He concluded that, despite additional assurances, his 'legal risk remains unchanged' - in other words that the UK would not be able to unilaterally leave the backstop (unless the EU were to act in 'bad faith').

That same evening, Parliament held the second Meaningful Vote, with the Government seeking to have its Withdrawal Agreement, together with the Political Declaration and the additional clarifying documents, approved. The Government lost by 149 votes. Having voted down the Withdrawal Agreement, on Wednesday (13 March) MPs voted in favour of a motion to rule out leaving the EU with no deal at any time, by a margin of 43 votes.

Then, on Thursday (14 March) MPs voted to request an extension to the Article 50 process, which passed by 211 votes. 'Meaningful Vote 3' is expected by 20 March and the Government has indicated that it will:

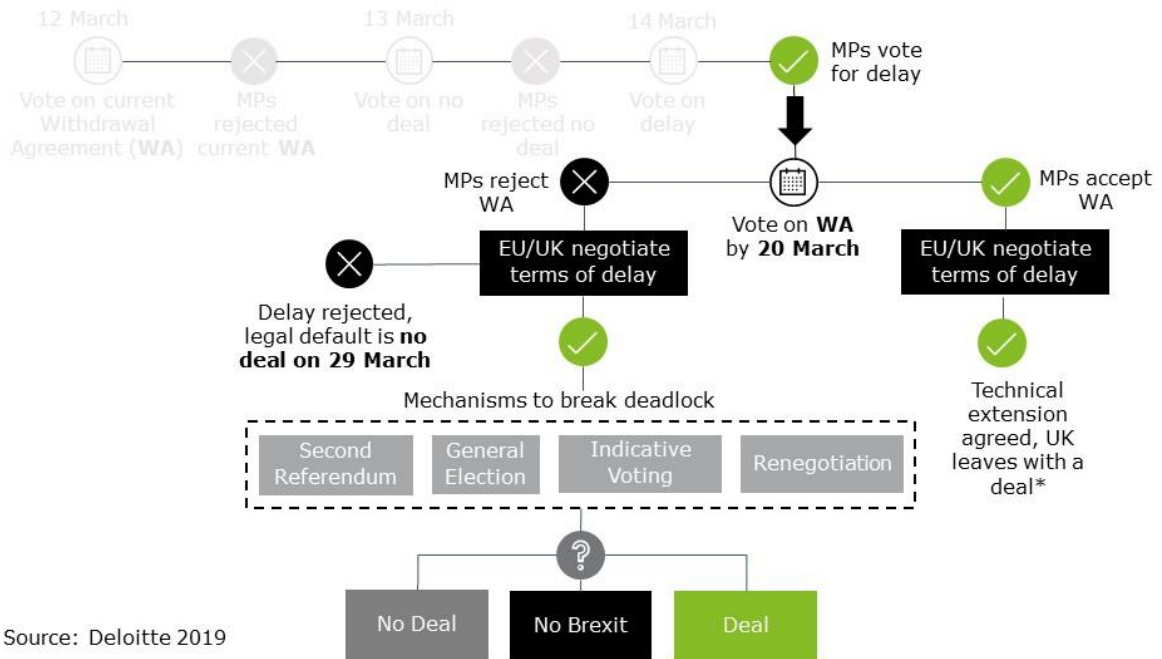
- seek a short, technical extension if the Withdrawal Agreement and the framework for the future relationship are both approved by 20 March,
- request a longer extension if there is no such approval, in order for the Government and Parliament to determine what course of action to pursue.

An extension will require unanimous approval by the EU27 (with a decision expected at the European Council meeting on 21 and 22 March). Obtaining approval, particularly for a longer extension, will not be straightforward, and the EU27 have indicated they, 'will expect a credible justification for a possible extension and its duration'.

We are still in uncharted territory politically, with only days to go until 29 March.

- The ambiguity is such that the options of a delay, no deal and the Prime Minister's deal are all still on the table.
- Parliament has demonstrated that there is a majority *against* many things, including leaving the EU without a deal and a second referendum, but a majority *for* nothing in terms of a specific course of action to define the UK's exit terms.
- A General Election is also a possibility if either the UK Government loses a vote of no confidence or calls a snap election.

The diagram below summarises the potential outcomes and mechanisms to break the deadlock:



Source: Deloitte 2019

*If MPs accept WA, the EU has stated it would agree to a short technical extension to allow for the necessary legislative procedures to be concluded

No deal still an option

Despite the clear rejection of a no-deal Brexit by the House of Commons, no deal is still the legal default until an alternative (be it the Prime Minister’s deal or something other) is agreed by both sides. Both the UK Government and the European Commission have stepped up announcements relating to no deal planning in recent days. For example, the UK Government has announced temporary rates of customs duty on imports after EU Exit, designed to minimise costs to business and consumers while protecting vulnerable industries: 87% (by value) of total imports into the UK would qualify for tariff-free access. In addition, it has announced the measures it would unilaterally put in place to avoid a hard border in Northern Ireland in a no deal scenario.

On the EU side, Michel Barnier said after the second Meaningful Vote on Wednesday that the EU’s no-deal preparations were now ‘more important than ever before’. EU Member States have responded similarly with Danish Prime Minister Lars Lokke Rasmussen saying that Denmark will intensify their own no-deal preparations.

So far, the UK Parliament has demonstrated that there is a majority *against* many things, including leaving without a deal or second referendum, but a majority *for* nothing. Without positive and concerted action backed by a majority of MPs, no deal remains the default option.

What does this mean for business?

- A delay will be welcome by some as it avoids the potential disarray of a no-deal exit in two weeks' time. But an extension, unless short and technical, would prolong the uncertainty for business, adding complexity to an already quickly evolving landscape.
- Those who have been planning for a no-deal scenario should continue to do so, while considering what will need to be updated in response to an extension to Article 50. Where business decisions have been made or postponed in preparation for an exit date of 29 March – from investment and financing decisions to manufacturing and inventory management – the prospect of further delay may prove more challenging.
- Businesses that have undertaken limited planning to date should use the time provided to plan for the range of potential outcomes, focusing on tactical actions.

As attention turns to the future, and with the additional time that an extension gives, businesses can start to consider their strategy for the future trading environment, building on the insights obtained from no deal planning. Whatever the outcome on the exit terms, uncertainty will remain on the UK's future trading relationship with the EU and third countries. Businesses that take early steps to develop strategic responses to changes in trade policy at national, regional and global level will be those who are well-positioned to navigate the post-Brexit landscape.

Further support

On Monday 18 March we will host a webcast to provide an update on the political developments and what this means for business; you can [sign up here](#).

Our [tactical actions paper](#) may be of use and please [Email us](#) for further support in understanding and planning for Brexit related risk. Sign up to our Brexit blog for regular updates.



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How can Deloitte help?

We are a leading voice in navigating Brexit considerations with business and governments. The experience and expertise of our multi-disciplinary team means we can partner with you to confront the short term challenges of a no-deal Brexit, and to develop longer term plans to adapt to a new UK/EU relationship.

For further information on how we can help, please contact us brexitsupport@deloitte.co.uk
For the latest insight, please visit our Brexit blog: <https://blogs.deloitte.co.uk/brexit/>
See other Deloitte material available on our internet site [here](#).



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