

FINANCIAL MARKETS

THE WITHDRAWAL
AGREEMENT:
WILL IT PASS?



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THE END GAME

FOREWORD

After 18 months of Brexit negotiations between the UK and EU, a draft 585-page Withdrawal Agreement has finally been agreed.

However, despite this development, Prime Minister Theresa May is facing stern opposition to the deal from both her own MPs and those in rival parties.

In December 2018, MPs in parliament will vote on the draft agreement. In this eBook, we explore whether the Withdrawal Agreement will get the support of the majority of MPs.

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PM MAY'S BREXIT DEAL

THE STICKING POINT

Within the Withdrawal Agreement, there is one (albeit significant) 'sticking point' which is proving contentious with many MPs. It's why many political commentators believe the Withdrawal Agreement is likely to be rejected by parliament.

THE IRISH BORDER BACKSTOP

The main issue centres around the Irish border backstop. An unforeseen consequence of the UK leaving the EU was the uncertainty over the soft border that currently exists between Ireland and the Republic of Ireland.

However, with the UK leaving the single market and customs union, some speculated a hard border with customs checks may have to be created. Given the complexity of Ireland's history and provisions within the Good Friday Agreement, both the UK and EU are keen to avoid such a situation.

To achieve this, both the UK and EU agreed to the need for a 'backstop' back in December 2017. Think of this as an insurance policy to avoid a hard border on the island of Ireland.

Over recent months, the exact nature of this backstop has been vehemently debated between the UK and EU.

But as of November 2018, a final position seems to have been agreed between the UK and the EU.

Essentially, the backstop will see the whole of the UK remain in a temporary single customs territory if a future trading relationship with the EU isn't agreed during the transition period (which is due to end in December 2020).

Should the backstop come into force, Northern Ireland will also have to align to certain EU single market rules.

Firstly, this arrangement has angered many Brexiteers because abandoning the backstop (if it was ever enforced) would require agreement between the UK and EU. In other words, Brexiteers are worried that the UK would be unable to unilaterally terminate the backstop, meaning that the UK would be bound to the EU customs union for an indefinite time.

Secondly, the backstop is facing criticism from the DUP (Ireland's unionist party). They believe the backstop threatens the integrity of the United Kingdom, as Northern Ireland would be required to align to certain EU single market rules, unlike the rest of the UK.

Thirdly, many who favour staying within the EU just thinks the

backstop arrangement makes no sense. They believe the UK is giving up its influence in forming customs union rules, yet agreeing to stay in for an indefinite period should the backstop be triggered.

WHAT HAPPENS NEXT?

INITIAL REACTION

Following Theresa May's announcement of the draft Withdrawal Agreement, a number of her senior cabinet ministers resigned.

Shailesh Vara (former Minister of State for Northern Ireland), Dominic Raab (former Brexit Secretary), Esther McVey (former Work and Pensions Secretary) and Suella Braveman (former Brexit Minister), all resigned because they didn't agree with the Withdrawal Agreement.

This caused a noticeable reaction in the UK markets.

Most notably, the pound fell 1.7% against the US dollar after the announcement of cabinet resignations. This was its biggest drop in two years. The FTSE 100 saw little movement - but the FTSE 250 (which largely consists of UK businesses) fell by 1.6%.

PASSING THROUGH PARLIAMENT

For this draft to pass through parliament, Prime Minister Theresa May needs to win a 'simple majority'. At the time of writing, this looks unlikely to happen.

Let's explore the numbers.

There are 650 MPs in the House Of Commons. From that total, only 639 that are eligible to vote. This is because seven Sinn Fein MPs, the speaker and his three deputies are excluded from voting.

So in order for the Withdrawal Agreement to pass through parliament, a majority of 320 votes is needed.

Remember - after the 2017 election - Theresa May's Conservative Party came out with 315 seats in parliament (six seats short of a majority). In order to pass her government's legislation, Theresa May negotiated a 'confidence and supply' arrangement with the DUP (which holds ten seats). So together, the Conservatives and DUP have 325 seats in total - which constitutes a majority in the House Of Commons.

However, as we've already explored, the DUP are deeply dissatisfied with the draft Withdrawal Agreement.

However, even if the DUP were onside, many Brexiteers within the Conservative Party still oppose this deal. Jacob Rees-Mogg, a fellow Conservative Party member, has announced that 80 MPs from his European Research Group are ready to vote against this plan.

Support from other parties also seems in short supply. Both the SNP and Liberal Democrats favour a 'People's Vote' on the Withdrawal Agreement. They are likely to vote against Theresa May's deal.

Labour - the official opposition - are also unlikely to support the deal, as a general election could be called if parliament votes down the Withdrawal Agreement.

Having said this, some moderate Labour MPs - such as Caroline Flint - could support the deal because of the sentiment within their own constituencies. Whether there are enough Labour MPs inclined to vote this way remains to be seen.

Traders should prepare for a gridlock scenario in parliament in early December. If such a scenario occurs, it's likely we'll see a leadership challenge launched against Theresa May. A general election, or even a People's Vote could also take place.

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