

UK extends Brexit deadline and dissolves parliament for 12 December general election

RYO YAMADA
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

13 NOVEMBER 2019

(ORIGINAL JAPANESE VERSION RELEASED ON 1 NOVEMBER 2019)

On 17 October, UK and EU negotiators agreed to make changes to the withdrawal agreement made under former prime minister Theresa May, removing the 'backstop' which allowed the UK to remain in the EU customs union as a solution to the Northern Irish border issue (Table 1). On 22 October, there was another significant shift when the House of Commons approved the outline of the Withdrawal Agreement Bill (WAB, the bill to implement the revised withdrawal agreement in the UK) by 329 votes to 299, moving it on to the committee stage. Following these developments, the EU decided to approve the UK's existing request to extend the Brexit deadline until January 2020.

This is progress: it is the first time the outline of a withdrawal agreement has passed through the House of Commons. However, there are some who take a dim view of the revised withdrawal agreement due to the fact that it requires the introduction of custom checks between Northern Ireland and mainland Britain. This includes the Conservative Party's erstwhile allies the Democratic Unionist Party (DUP), who place a great deal of importance on the integrity of the union between Northern Ireland, and voted against the outline of the WAB on 22 October. The formal process for reviewing and discussing the WAB remains fluid.

Prime Minister Boris Johnson had publicly promised that he would deliver Brexit by 31 October, but was forced to extend the Brexit deadline after MPs decided to withhold support for his revised Brexit deal until the WAB passed through the commons and his condensed timetable for parliament to scrutinise the bill was rejected. The prime minister then proposed holding an election on 12 December with a view to changing the parliamentary arithmetic to firm up his position in future discussions and votes on WAB. Once the possibility of a 31 October 'no-deal' Brexit was eliminated, the opposition Labour party consented to a 12 December election in order to avoid discussions on WAB progressing at a pace set by the Conservatives.

The opposition party have made various claims on Brexit (Table 2), and are set to pledge to hold a second referendum in their manifesto. Based on current polling, a Conservative victory seems probable. If the Conservatives are able to secure a majority, the UK is likely to exit the EU with a deal.

Table 1: Key points of Johnson's Withdrawal Agreement

Topic	Key point
Backstop	Removes the 'backstop' which specified that unless a permanent solution is found by the end of the transitional period (end of 2020), the UK would remain in the EU customs union and Northern Ireland would remain subject to the rules of the single market
Customs union/ single market	Northern Ireland will exit the EU customs union in 2021 and remain in a customs union with the rest of the UK
	With the approval of the Northern Irish Assembly, Northern Ireland will follow EU rules on agricultural and manufactured products, and VAT application (= remaining in the single market) EU customs duties will apply to goods which flow from the UK mainland to the EU market on the island of Ireland
Border issues	No physical infrastructure to be introduced at the Northern Irish Border with customs checks to take place away from the border (for example at business' headquarters)
	Digitise and simplify customs arrangements, avoid setting up customs infrastructure on the island of Ireland by collecting customs from mainland Britain and Northern Ireland on behalf of the EU
Application period	Need to confirm continued application of EU rules every 4 years after the end of the transition period by majority in the Northern Irish Assembly

Source: EU, various news sources, MUFG Bank Economic Research Office

Table 2: Major UK Party Positions on Brexit

	Party	Position
Ruling	Conservative	Party has hard Brexit and soft Brexit supporting factions, but on the whole supports Brexit Aim to approve Johnson's withdrawal agreement and WAB
	DUP	Support Brexit Can't support' Johnson's withdrawal agreement from the point of view of the integrity of the union between Northern Ireland and UK.
Opposition	Labour	The party has pro-leave and pro-remain factions Plan to include pledge for second referendum in their manifesto Plan to set Brexit strategy as a party after general election
	Liberal Democrat	Support Remain Want to cancel Brexit, would support a second referendum
	Scottish National Party	Support Remain Support a second referendum to avoid Brexit
No seats	Brexit party	Support leaving the EU as soon as possible Strongly support 'no-deal' Brexit

Source: Various news sources, MUFG Bank Economic Research Office

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Ryo Yamada <riyou_yamada@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.