

Daily Note

BATTLE OF BREXIT JOINED

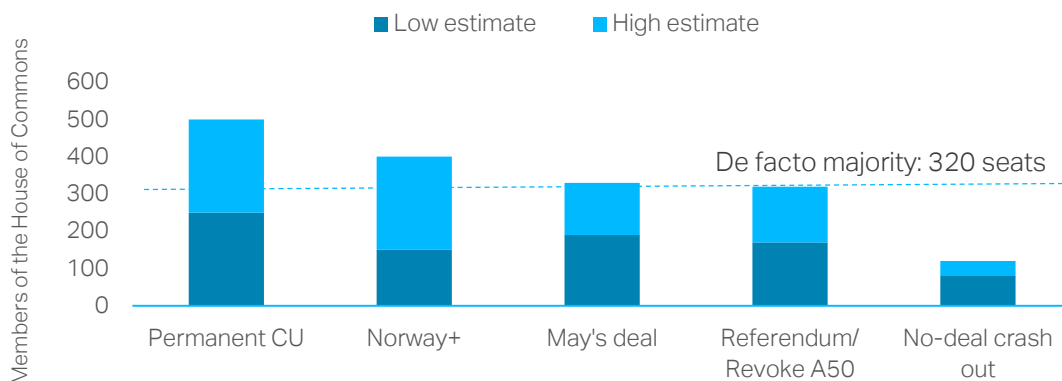
Christopher Granville/Constantine Fraser

- **Parliamentary defeat for May's deal starts real Brexit options contest**
- **Brexit day will slip beyond March; 'no deal' ever more reliably blocked**
- **How to spot the winner: look to see which camp shifts fastest and smartest from game-of-chicken logic towards bold gambits**

The phoney war phase of Brexit is over. Far from concluding anything, however, the "meaningful vote" that the UK parliament at last gets later today on the government-negotiated Withdrawal Agreement (WA) is more like a starting gun. The WA's certain defeat – now, thanks to last month's false start, just 73 days out from Brexit day as programmed by EU law – will trigger a frantic struggle to forge a parliamentary majority in support of one or other of the possible alternative approaches. The action so far has amounted to feints and manoeuvres; only now does the real political battle begin.

We resort to military imagery since the stock phrases of investment analysis – "uncertainty", "idiosyncrasy" – seem inadequate. A golden rule about battles was laid down in the famous dictum of the great German Field Marshal Helmuth von Moltke: "no plan survives contact with the enemy." This wisdom will be illustrated by the rejection of the WA in the House of Commons. During the last seven weeks since the WA was negotiated, Theresa May's government has been deploying different arguments to persuade diverse groups – hard-line Brexiteers, Ulster Unionists, Remainers – to overcome their misgivings about the treaty. This apparently subtle plan has failed on "contact with the enemy" in the sense of reinforcing the determination of most of the MPs concerned to save face by voting down the WA.

Parliamentary support ranges for alternative Brexit options



Source: TS Lombard estimates

The wide variety of politicians celebrating Mrs May's discomfiture later today would also do well to remember von Moltke's rule. The next step for all of them will be to push hard for their respective preferred alternatives. The above chart shows the by now familiar menu of options and our estimates of the range of parliamentary support for each of them. This chart is not meant as a ranking of outcomes by probability. The point, instead, is to highlight how the core support for all of the options falls short of a majority.

So the outcome of this multi-dimensional battle will hinge on a competition to win over sufficient converts to form a majority. Here, the end-March deadline under the EU's Article 50 rule creates a perverse incentive. Were it not for this deadline, the various camps might be expected to try and get ahead of each other by offering compromises and concessions designed to attract more supporters. As things stand, however, we must expect a game of chicken: the legal default option of a no-deal Brexit will encourage the players to stick to their guns in the hope that the fear of a crash-out will end up driving others into their camp. This analysis leads to two firm predictions.

- **Brexit Day now scheduled for 29 March will be postponed.** More time to enact enabling legislation would probably be needed even if the WA were ratified today; and this will certainly be the case if, as we expect, the game of chicken plays out well into February.
- **A no-deal crash-out will be avoided.** Here we are reiterating a long-standing view. The latest phase of pre-battle manoeuvres has produced further supporting evidence in the form of two parliamentary votes demonstrating the cohesion of the anti-no deal majority comprising all opposition parties and around 20 Europhile Conservatives. Those on the other side of this argument will point even now to the stern reality of no deal being the legal default. We would counter with a judgment call: in the last resort and for the sake of averting a crash-out, those pro-European Conservatives would vote with the opposition to bring down the government.

No such firm predictions can be made for now about which approach will prevail in the Battle of Brexit. But we do see a victory pointer worth looking out for. In our view, the winning side will be the one able to break away from the game-of-chicken logic and move in the direction of compromise and – switching the metaphor to chess – bold gambits involving sacrifices. For instance, Mrs May could well have avoided her impending defeat today by offering her own resignation and/or a general election as the price of winning support for the WA.

To take another example more relevant to the upcoming action, the Conservative Remainers favouring a new referendum have a potential solution to their main problem of converting the Labour leadership to their cause: they could propose a yes/no vote on the WA (avoiding the affront to Leave voters, including a part of the Labour base, of an explicit Remain option on the ballot) with the provision that a 'no' victory – in effect reversing the 2016 referendum result – would trigger Labour's priority of a general election. But there is no sign for now that the Tory pro-referendum camp is ready to risk a Labour government as the price for stopping Brexit.

The hurdles facing the referendum project look a bit less daunting for the 'permanent customs union' and 'Norway +' possibilities. This is because both these options would be compatible with ratifying the WA treaty as it stands – adjustments being required only to the accompanying Political Declaration (PD) that the EU would be only too pleased to accept. The cross-party majority supporting such an option would instead face the problem during post-Brexit negotiations of holding the present government to the terms of the modified non-binding PD which would have rubbed out all Mrs May's red lines. The answer to that would have to be the prior replication of the new PD in domestic law – which, incidentally, would demand additional time, underpinning our prediction that Brexit, if it happens, will happen later than March.