



Brexit round-up: 11th July 2016

As both of Britain's major parties plunge into leadership contests, what does it mean for business and for Brexit?

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...and more intervention in the boardroom

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But both candidates agree that free movement of people must end

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But could there be room for a creative deal?

Expect little help from Labour's pro-European moderates

In the Anglosphere there is a willingness to cut trade deals with Britain but practical difficulties abound

Could Britons be asked to vote again on Brexit?

Could Britain be on course for another insurgent surprise? On September 9th we will know the identity of Britain's new Prime Minister and it comes down to the choice made by 150,000 Conservative party members. Although Home Secretary Theresa May took the lead in early opinion polls, this has not discouraged her opponent, Energy Minister Andrea Leadsom. Mrs Leadsom has the advantage of having been a committed and high-profile Brexiteer during the recent referendum campaign unlike the cautious Remainer Mrs May. Her stance plays well with eurosceptic Conservative members. Furthermore, Mrs Leadsom's resolutely right-wing instincts on issues such as gay marriage and fox hunting are more in tune with those of the party grassroots and could enable her to gain more support in the two month campaign. The first possible signs of success came when the pro-Brexit Leave.EU campaign published a poll at the end of last week claiming that 56 per cent of Tory members said they would back Mrs Leadsom against 44 per cent for Mrs May.

The Tory establishment is hoping two factors will save it. First, the reason that the insurgent Jeremy Corbyn was propelled to victory in the Labour leadership election last year was because left wingers from outside the party were able to join it during the leadership election in order to vote for their man. But anyone who joins the Tory party today to back Mrs Leadsom will find they are denied a vote for another three months – which will be too late for this contest. Second, old Westminster hands suggest that Mrs Leadsom may come unstuck under media scrutiny. After a shaky performance on the BBC's *Andrew Marr Show* where she first refused and then agreed to publish her tax return, Mrs Leadsom gave an interview to *The Times* which suggested that she thought as a mother she was better qualified to be Prime Minister than the childless Mrs May. The resulting furore caused Mrs Leadsom to criticise the 'disgusting' way in which *The Times* had written up her comments. Opponents argue she was either disingenuous (in saying that her comments had been taken out of context) or naïve (for not realising how they would be

reported). But supporters may rally to Mrs Leadsom if they feel she has been the victim of a media stitch-up.

Whatever happens, business can expect looser fiscal and monetary policy... Chancellor George Osborne made clear after the referendum that he no longer expects to meet his ambitious target of getting the UK public finances into surplus by the end of the decade. He also suggested that there could be corporation tax cuts ahead as a way of increasing investor confidence in the UK, while the leadership candidates have indicated there could be more investment in infrastructure. Governor of the Bank of England Mark Carney has hinted that interest rates could be cut over the summer, perhaps as early as this Thursday when the Bank's Monetary Policy Committee meets.

...and more intervention in the boardroom. At the formal launch of her leadership campaign today, Theresa May is expected to call for employees to be represented on the boards of listed companies and for shareholder votes on executive pay – which are currently advisory – to be made binding. This follows Andrea Leadsom's comment last week that executive pay rises which 'bear no relation to company performance' are 'unacceptable'. Incremental changes to corporate governance are unlikely to have a major effect on inequality in Britain, but these proposals show that the Conservatives do not want to give up their modernising centrist reputation under David Cameron – and so the occasionally tense relationship between government and big business may continue.

The outcome of the leadership election could have a significant impact on the timing of Brexit. Theresa May has said that she would not trigger Article 50, the clause of the EU Treaty that begins the two-year process through which a member state can withdraw from the Union, before the end of this year. That would suggest that Brexit might not finally be achieved until early 2019. Mrs Leadsom, on the other hand, has said that 'we need to get on with it' and that the 'ideal' scenario would be one in which Britain left the EU by early 2017, though she has set out little detail on how she expects to achieve this.

But both candidates agree that free movement of people must end. Perhaps unsurprisingly after a referendum campaign in which immigration featured so strongly, the candidates have emphasised that immigration curbs must be possible as part of any new deal that Britain reaches with the EU. *The Times* reported at the weekend that a colleague of Mrs May's had asked her which was her priority: tariff-free access to the EU single market or taking control of Britain's frontiers. "She said without missing a beat: "Take control of our own frontiers." Mrs Leadsom said when launching her campaign that 'freedom of movement will end and the British Parliament will decide how many people enter our country each year'.

That puts them on a collision course with Britain's European partners. Leaders of the EU institutions in Brussels say that a 'red line' in negotiations is that Britain can only enjoy full access to the EU single market if it accepts the four fundamental freedoms of goods, services, capital and – crucially in this case – people. The stances of the two sides therefore appear to rule out Britain joining the European Economic Area (the so called 'Norway option') which many in business and the City have been lobbying for. A more likely option could be membership of the European Free Trade Agreement (EFTA) plus a set of bilateral agreements (the 'Swiss option') or that Britain is treated simply as a third country, facing the EU's common external tariff under World Trade Organisation terms.

But could there be room for a creative deal? Even if one takes seriously the rhetoric from all sides thus far – and in any negotiation we know to treat the parties’ starting positions with a degree of scepticism – there could be room for a deal. The Tory leadership contenders in Britain have not ruled making significant contributions to the EU budget and neither have they committed to a cut in the absolute numbers of immigrants from the EU. On the European side, German Chancellor Angela Merkel has emphasised the need for Britain to be given time, and is having to balance competing calls from the Social Democrats in her coalition government who want Britain to be pushed to the exit immediately and German exporters who want to protect access to the British market. A change of government in key member states such as France or Germany – where elections are due next year – or Italy – where elections could take place this year if Prime Minister Matteo Renzi loses a forthcoming referendum on constitutional reform – could also make a lot of difference. With the summer holidays soon to get underway, the next key moment to watch will be the European Council meeting when heads of government gather on October 20th and 21st.

Expect little help from Labour’s pro-European moderates. The former Shadow Business Secretary, the ‘soft left’ Angela Eagle, is expected to announce today that she is challenging Jeremy Corbyn for the party’s leadership. Although she is more solidly pro-Europe than the ambivalent Mr Corbyn, there can be few grounds for thinking that Labour will make a significant contribution to the debate on Brexit in the coming months. For a start, Ms Eagle faces a tough internal battle: the party’s National Executive Committee is expected to meet tomorrow to decide whether Mr Corbyn will be on the ballot paper automatically as the incumbent or whether he will have to ask 51 Labour MPs and MEPs to nominate him (which he seems unlikely to achieve given that only 40 backed him in a recent no-confidence motion). In the former case, he will be the favourite to win given his strong support amongst the party’s grassroots members. In the latter case, a lengthy legal challenge could be launched to seek to overturn the NEC’s decision. Either way, Labour MPs will be distracted and ambivalent: distracted by the leadership contest, and ambivalent because they know that the strongest support for Brexit in the referendum was found in Labour-voting working-class constituencies.

In the Anglosphere there is a willingness to cut trade deals with Britain but practical difficulties abound. Among Britain’s historically closest allies – the United States, Canada, Australia and New Zealand – the impediments to trade deals might be fewer. Current and former US Trade Representatives have said publicly and privately that a US/UK trade deal could be agreed swiftly; and the Republican Congressional leadership appears to concur, with House Speaker Paul Ryan talking about ‘showing solidarity’ with the UK by cutting a deal sooner rather than later, either in a bilateral deal or by the UK joining the Trans-Pacific Partnership (TPP) or the North American Free Trade Agreement (NAFTA). This willingness could be increased if Britain’s commitment to defence spending and the NATO alliance is reaffirmed, as David Cameron suggested in Warsaw last week. Nevertheless, the US presidential election campaign and the wider political environment for trade deals mean that uncertainty remains, along with doubts about the British government’s capacity to negotiate trade deals simultaneously with the EU and the US.

Could Britons be asked to vote again on Brexit? Even though the Conservative leadership candidates have pledged that ‘Brexit means Brexit’ and that no second referendum can be considered, this might change when the negotiations get underway. The June referendum asked voters to back ‘Remain’ or ‘Leave’ but without specifying what trade-offs might be involved in any particular Brexit deal. If the British government looks set to agree to something similar to the ‘Norway option’, this could provoke serious protests from Leave voters who thought Britain was about to regain control of its borders. And if the government prioritises immigration curbs, it could anger voters who suddenly find themselves confronted with the price of more expensive trade and

less inward investment. In such circumstances, it is not inconceivable that pressure could emerge for the British people to be given their say on the precise terms of the deal that the new government negotiates, either in a general election which must be held by May 2020 at the latest, or in a second referendum.

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Brunswick Group (BRNSWK Nordic AB), Fourth Floor, Birger Jarlsgatan 15, 111 45 Stockholm, Sweden
Tel +46 (8) 410 32 180 **Direct** +46 73 441 67 29 **Mobile** +46 73 441 67 29

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