

Brexit and British general election

On 8 June 2017, general elections took place in the United Kingdom. Elections were called before the deadline of the Parliament due in May 2020. Prime Minister Theresa May, after having obtained the approval of the EU (withdrawal) bill, decided to call for early elections to win an electoral mandate and a stronger majority in Parliament in view of the negotiations with the European Commission on Brexit.

As is well known, on 24 January 2017, the Supreme Court rejected the government's appeal against the High Court ruling of November 2016, requesting the parliamentary vote to initiate Brexit's trial in accordance with art.50 TEU.

The parliamentary approval process was very fast, the European Union (Notification of Withdrawal) bill - also referred to as the "Great Repeal Bill" - was approved on 1 February 2017 by the House of Commons, and on 13 March 2017 by the House of Lords. The law was then formally approved by the Queen with a Royal Assent on 17 March 2017.

Already in December 2016, when Brexit was submitted to the High Court's judgment, Ms. May had stated that she did not fear new elections, that at the time were invoked by the opposition and by the fringe of the Conservative party. The parliamentary success achieved with a quick approval without any amendment of the European Union's (Notification of Withdrawal) Bill, made Ms. May to think there was a strong political support to the government and Brexit.

The announcement of the new political elections was given by surprise and with little notice on 4 April by Prime Minister May in a press conference, which was called for government communications. The conservative party voted on 5 April 2017 a vote of no confidence to make the government fall, so that the prime minister did not have to negotiate with the opposition to reach the 2/3 required for calling early general elections.

The prime minister's bet has achieved an opposite result, by getting what the British political jargon calls a "hung parliament". This means that no Party gets the majority required to form a government.

According to Prime Minister May, the elections should have reduced the fringe in Conservative Party, and the opposition of Labour and Libdem and, above all, it would stop Scottish request to resume the secession. In addition, Prime Minister May had been selected by the party, and she had never been voted as prime minister, so she wanted to receive an electoral mandate.

The electoral results

Just as the announcement of general political, also the conservative defeat has come by surprise. Democratic elections, as we all know, are unpredictable. According to a BBC survey of 18 April 2017, Conservatives had 43% of consensus against 25% of Labour.

The last exit polls were closer to reality, the Conservatives had to win in 316 seats - they got 319 - while the Labour marked a resounding comeback in the last few weeks with 266 seats.

The Labour party led by Jeremy Corbyn, a radical leftist, had a remarkable recovery over the elections of two years ago, and a substantial increase in parliamentary seats.

Election results have also cast doubt on the Conservative party's reconfirmation of Theresa May as Prime Minister.

At the end, Ms. May was confirmed in her position, but its leadership remained challenged. Prime Minister May will therefore not be able to negotiate with the EU, with the authority she hoped for.

In the House of Commons, considering that there are a total of 650 seats, a minimum of 50% plus one seat required to form a government is set at 326 seats.

As a rule of the thumb, the most voted party should form a government, but in the case of a "hung parliament" when the first party does not get the majority to govern, it is possible that the 2nd and 3th may be in theory eligible to form a government. There were only two cases of coalition governments in the United Kingdom: during World War II, and the 2010 Cameron government. Mr. Cameron, leader of the 1st party, the Conservatives, allied with the 3rd party, the LibDem. However, this not gave striking policy results, due to different visions on some government sectors. As far as our subject matter is concerned, the difference in views of Camron government focused on European integration – with Eurosceptic conservatives and Euro enthusiasts LibDem - and the nuclear-deterrent modernization "Trident" missile system, including four nuclear submarines – with the Conservatives supporting it, and LibDem against it.

After the election results of June 2017, the Democratic Unionists Party (DUP) of Northern Ireland, which has won 10 seats, has proposed the Conservative to give them support to form a government. Eventually, on June 26, conservatives agreed to the alliance, and they succeeded in forming a government. As a tradeoff for the DUP, a GBP 1 billion investment was planned for Northern Ireland over the next two years, in a move that has stirred up controversy. The new government reconfirms Theresa May as prime minister and many other ministers of the previous government.

According to what was decided at the time of calling the general election, the government should have been formed by June 13 and the Queen's speech was set for June 19.

Queen speech is the traditional speech devoted to the inauguration of the new parliamentary session, in which the Queen reads the government's agenda for the coming months and the proposed acts and its related parliamentary activity.

In fact, the Queen's speech was postponed to June 21; the Queen confirmed that the British government's program envisages the Great Repeal Act, which will cancel all European legislation from British internal law. However, the Queen has said that the United Kingdom intends to maintain "strong relations" with the European Union even after Brexit, but that the UK will be able to implement global trade agreements with third countries. The British Government also reaffirms its commitment to the mitigation of climate change and in particular to the implementation of the Paris agreement.

On 13 July 2017, the government submitted to Parliament through the Minister for Brexit, David Davis, a withdrawal Bill or a "Great Repeal bill" that will be scheduled for the vote in the fall. The text states that the 1972 European Communities Act of Association will be ineffective as of the day of the UK's exit from the EU (Art.1), so no new European legislation will be introduced in domestic law, but the legislation already deriving from EU standards should be amended or confirmed by Parliament's legislative work (art.2).

Recent developments in UK and EU relations

On 5 April 2017, the European Parliament approved, with 516 votes in favor, 50 abstentions and 133 against, the resolution on the negotiations for Brexit. The joint motion was supported by the PPE, S&D, Alde, Green and Left groups. Negotiation of European citizens' rights, Gibraltar's land border and the protection of the Northern Ireland peace agreement, the respect of the UK's financial commitments vis-à-vis the EU.

The start of the negotiations for Brexit between the United Kingdom and the European Union was set for 19 June 2017.

After thinking about postponing the start of negotiations, because of the pending formation of British new government, the negotiations took place regularly, albeit with little results.

It also appears that the new government may be more willing to a "soft Brexit" approach than it was before the general elections. Chancellor of the Exchequer Philip Hammond, the leading "Soft Brexiter", was re-elected and reappointed as minister, thus reinforcing the positions of the supporters of soft Brexit. Even DUP would not be in favor of a "hard Brexit" as they want to maintain an open frontier between Ireland and Northern Ireland.

Likewise, even 13 Conservative Member of Parliament elected in Scotland are in favor of a "soft Brexit".

A possible "soft Brexit" that could be acceptable to Europeans should respect the March 2019 deadline for formal British exit from the EU, with a transition period of at least 4-5 years during which the United Kingdom should remain in the European Economic Area (EEA), possibly adopting the models of Switzerland or Norway. A transition phase is needed to solve the many legal and economic issues and negotiating the new EU-UK relationship.

In the European Council of 22 June 2006 on Article 50 TFEU, a debate on the relocation from London to another Member State of the European Agency for Drugs and the European Banking Authority was held. For the latter, Frankfurt on the Main, Milan and even Paris are among the main contenders.

European negotiator Michel Barnier said that during the private meeting with EU ambassadors in Brussels at the end of July, the British government was not able to provide enough clarity on some key issues such as: the rights of European citizens in the United Kingdom; borders with Northern Ireland; and above all EU's (withdrawal) Bill required for the definitive separation of the two parties involved.

Moreover, as long as the United Kingdom will not pay the divorce bill from the European Union, which according to estimates is between 40 and 60 billion euros, the negotiations on Brexit will be put on hold, and there will be no discussions about trade, access to the single market and of future relations with the EU. Barnier's initial plan was that at the end of October, the European Council should decide on the progress made by the British on these issues, but he has now told EU ambassadors that this seems "very unlikely".

Effects on European Defence

A part of Brexit, the United Kingdom is important for European defence and European defence is important for the United Kingdom.

NATO is the main pillar of European defence, and this was recognized by the French too. The main reason why NATO has taken on this role again is the same as during the Cold War: the Russian threat.

Only NATO, through the American security umbrella, can guarantee the security of the Eastern European countries. The United Kingdom immediately recognized this role and decided to take the lead role of the "Spearhead" Rapid Reaction Force and to become a mentor on defence issues for Eastern European countries.

The European Union, namely the Common Security and Defence Policy (PSDC), has its value for the United Kingdom, primarily on being a single defence market. Nonetheless, the eventual separation of the British from the CSDP was a catalyst for the establishment of the European Defense Fund (EDF), the defence implementation plan, the European Defence Action Plan (EDAP) and the Defence Industrial Development Programme (DIDP) (see [Osservatorio Strategico issue number 3/2017](#)).

The European defence market, and especially research and development (R&D) funds, is an important business and a financing opportunity for the UK defence industry.

EU membership of the UK, and therefore UK participation to the CSDP was an incentive for US aerospace and defence companies establish branches in the UK. Boeing, Lockheed Martin and nearly all aerospace large and medium-sized companies have a branch in the UK, not only to enter the thriving British defence market, but also because it represented an important way of access to the European defence market.

In the event of a British exit from the CSDP, with the abolition by the Great Repeal Bill of all European directives on that matter, US companies should think about whether the UK market alone - perhaps enriched by the UK business relations with Middle East and Asia - is in itself an incentive to continue investing in the United Kingdom.

It is also true that the ongoing modernization plans of the British military equipment, from F-35 Lightning II to P-8 Poseidon, are programmes that will continue to engage US companies in the United Kingdom.

UK-based American aerospace companies, which are part of the UK's Defence Technological and Industrial Base (DTIB), are both a large employer for well-qualified and well-paid staff, and also a technology incubator, albeit with caveat on technology transfers typical of US on the subject. In turn, US companies through the creation of their supply chain help develop and grow SMEs in the UK defence sector.

However, as the DIDP would replace DTIB with the EU defence firms, it does not encourage US companies to invest in Europe, and right now UK participation to CSDP becomes less relevant.

Analysis, assessments and forecasts

Prime Minister May's bet did not fulfil her expectations, and the May government is now weaker and more dependent on the votes of its ally DUP, a small party, and less strong in front of the internal and external opposition. The May government must therefore cease to pursue a "Hard Brexit" and prepare itself for the idea of having to accept a "Soft Brexit".

This is especially so because Europeans will be inflexible towards the United Kingdom, both when it comes to European institutions and when it comes to Member States. Among the latter, chancellor Merkel has been repeatedly opposed to the fact to the British "cherry picking".

As usual when analyzing Brexit, it is necessary to make some final conclusions about the sterling fluctuations that closely followed the political events.

On April 4, when news of a prime minister's announcement had been released, the pound collapsed, but after the announcement of early elections, the pound had appreciated 1% against the dollar, or \$ 1.267, and 0.5% over the Euro to 1.186 euro.

With election results, a sharp fall for the pound has occurred. On the only European currencies market open, the British currency fell by 2% to 1.28 on the dollar and below 1.14 on the euro.

Remember that if it is unclear what the British decisions about Brexit will be, anyway, British government policy decisions particularly take into account the value of the pound, which is very important for both British and foreign investors.