

Intelligence MEMOS



From: Lawrence Herman
To: Canadian investors, financial institutions and exporters of goods and services
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Re: **BREXIT PRIMER**

Let's slow down a bit when we talk about the Brexit doomsday scenario. Even if the June 23rd vote is won by the Leavers, it will be a long and winding road ahead before UK withdrawal becomes a reality.

That's not to say that UK withdrawal won't ultimately happen if the Leavers win— but it certainly won't happen the day after. Optimistically, it will take a minimum of two years, probably more, to settle all the details. Markets will have time to adjust.

There's a complex mix of domestic UK legal requirements and international treaty law that have to be dealt with.

First, some form of bill will have to be introduced in the UK Parliament to authorize official notification to Brussels of London's intention to withdraw and to begin withdrawal negotiations.

It's safe to assume the bill will eventually pass, given the likelihood that the Remain MPs will feel bound to act in accordance with public opinion. But with the Tories split and Labour plus the Scottish Nationalists firmly in the Remain camp, there will be hard fought battles over the authorizing legislation. It will ultimately pass but it won't pass easily.

Second, even with a legislated mandate, UK negotiators will confront the withdrawal requirements in Article 50 of the *Lisbon Treaty* which covers these kinds of matters. The treaty is binding on the UK until it is legally out of the Union.

The trouble is, Article 50 has never been invoked before, meaning we will be in uncharted territory. It requires any EU member to have formal notice of intention to withdraw and then the conclusion of a final withdrawal agreement. If both sides can't conclude such an agreement, withdrawal will kick in two years after initial notification unless extended by mutual agreement. It will be in London's and Brussel's mutual interest to extend it to be able to resolve all issues. And there will be many such issues to resolve.

Take the simple – or not so simple – matter of tariffs. While it's assumed that much of the bilateral trade after Britain leaves will be duty-free, there will be loss of duty-free access on both sides, meaning some kind of compensation agreement will be ultimately needed. That will take time to negotiate.

And tariffs are only one of hundreds and hundreds of issues requiring a phasing in of full withdrawal.

Article 50 of the *Lisbon Treaty*, then, doesn't end the process. It begins it. Dis-entangling the UK from the Continent will be a long, complex and frustrating process. It won't happen the day after.

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