

Brexit Update ? Signs of 'Regrexit' Following UK General Election'

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The shock result in the UK General Election has caused further political and economic upheaval with no single party controlling the House of Commons. Serious questions are now being raised over the UK's approach to Brexit with negotiations set to commence next week.

Having triggered the EU withdrawal process in March (see our [previous briefing](#)), the UK Prime Minister, Theresa May, had sought to consolidate her mandate to negotiate the UK's exit from the EU by calling a 'snap' general election. This move stunned many, as the Prime Minister had previously insisted that she would not go to the country before the next General Election, scheduled for May 2020.

Claiming that divisions within the UK Parliament risked hampering the Brexit negotiations, Mrs. May, bolstered by opinion polls indicating she would be returned to power with an overwhelming majority, sent the country to the ballot box on 8 June.

However, the Prime Minister's plan of securing "*strong and stable*" leadership backfired spectacularly, with the election resulting in a 'hung' parliament – meaning no party won the 326 seats needed to have an overall majority in the House of Commons. Far from securing strength and stability, the inconclusive election result is likely to have a number of ramifications on the Brexit negotiations, with some commentators dubbing the result the "*Revenge of the Remainers.*"

Uncertainty

Credit agencies Moody's and Standard & Poor's have warned that the election result could delay and complicate Brexit negotiations and may also be negative for the economy. The pound collapsed on the announcement of the election results, with one commentator at Oanda stating that, "*A hung parliament is the worst outcome from a markets perspective as it creates another layer of uncertainty ahead of the Brexit negotiations and chips away at what is already a short timeline to secure a deal for Britain.*"

Return to Coalition Government

Although it has been suggested that the election saw a return to 'two party politics' with the Conservatives and Labour commanding more than 80 percent of the vote between them, no single party obtained a majority to govern. Rejecting calls for her resignation, Mrs. May has announced that she will form an alliance with the Democratic Unionist Party ("DUP") in order to obtain the required majority to pass legislation.

This arrangement means that the DUP, a Northern Irish party with 10 seats in the House of Commons, may now have a significant influence on the future of Brexit. Although the DUP is pro-

Brexit, its position on Northern Ireland may mean that the UK is forced to redefine certain aspects of its Brexit negotiating position during talks with the EU.

Softening of UK Brexit Policy

The Prime Minister is also reportedly facing mounting pressure from within her new cabinet to adopt a so-called 'soft' Brexit. As noted in our previous Brexit update, Mrs. May had outlined her proposal for what has become known as 'hard' Brexit, meaning a full withdrawal from the EU customs union and single market, with stringent controls on immigration. Pro-'Remain' supporters claim that the election result should be seen as a mandate for the cabinet to revisit its pre-election position on Brexit.

One intriguing possibility is that UK might seek to retain its membership of the EU single market through renewed membership of the European Free Trade Association (EFTA) – the so-called 'Norway option'. If that becomes official Government policy, it will require the agreement of all 27 EU members and the four members of EFTA before March 2019, when the UK is due to leave the EU.

Delay

It is now expected that the upcoming Brexit talks with the EU, due to start on 19 June, could be delayed while the Prime Minister tries to put in place a Brexit strategy that will unite the cabinet. Any delays to the Brexit negotiations could be detrimental to the UK's position given the short negotiating time frame.

In an interview with the *Financial Times*, the EU's chief negotiator Michel Barnier has warned that the UK risks leaving the EU without a deal on future relations if it wastes more of the limited time available for negotiations. He has urged the UK to start talks "*very quickly*," with a negotiating team that is "*stable, accountable and with a mandate*." Whether the Prime Minister will be in a position to deliver such a team remains unclear at this time.

For businesses operating or investing in the UK, the increased instability arising from the election result is likely to prolong the period of speculation and uncertainty. However, businesses will have been encouraged by Chancellor of the Exchequer, Philip Hammond's reported call on the Government to pursue a softer exit strategy that puts "*jobs, business and prosperity first*." This prospect seems far more likely now than it did when the UK triggered the start of the Brexit process just under three months ago.