



# Brit Risk 2015

## Britain's uncertain election

# Contents

|   |           |
|---|-----------|
| <b>Introduction</b>   | <b>3</b>  |
| <hr/>   |           |
| <b>1. The British political landscape in 2015</b>           | <b>5</b>  |
| <hr/>   |           |
| Current voting intentions and net voter switches since 2010 | 8         |
| <hr/>   |           |
| <b>2. 2015 Parliamentary Scenarios</b>                      | <b>19</b> |
| <hr/>   |           |
| Parliament and governing: the fundamentals                  | 21        |
| <hr/>   |           |
| Scenario 1: A Miliband Win                                  | 22        |
| <hr/>   |           |
| Scenario 2: A Pyrrhic Conservative Victory                  | 23        |
| <hr/>   |           |
| Scenario 3: Borgen Britain                                  | 24        |
| <hr/>   |           |
| Scenario 4: Belgian Britain                                 | 25        |
| <hr/>   |           |
| Labour-led government                                       | 28        |
| <hr/>   |           |
| Conservative-led government                                 | 30        |
| <hr/>   |           |
| <b>3. Britain and Europe after May 2015</b>                 | <b>33</b> |
| <hr/>   |           |
| <b>Conclusion: certain uncertainty</b>                      | <b>40</b> |
| <hr/>   |           |
| <b>About Global Counsel</b>                                 | <b>43</b> |
| <hr/>   |           |

# Introduction

The outcome of the UK's May 2015 election is uncertain. It is the most open and unpredictable British national election for a generation.

- **This election may well lead to the first British government to take office as a minority since the 1970s.** The recovery in votes needed by Labour or the Conservatives in the next few months to secure a majority would be historically unprecedented at this stage in a Parliament. Another coalition is of course possible, but what looks likely to be a weakened and re-aligned Liberal Democrat party may not make an attractive (or willing) partner for either side. That means a new British experiment in minority administration.
- **However, some minorities would be a lot more durable than others and the centre-left looks to have a strategic advantage at Westminster.** The odds are that this election will produce a centre-right plurality in the country but a centre-left majority in Parliament. The centre-right could outpoll the left but find it harder to secure a stable government. With the SNP likely to gain seats and only likely to support a centre-left administration, this election either means new leverage for the Scottish nationalists, or a scenario in which Scotland may be further alienated from Westminster.
- **The Europe problem will loom large in the wake of the election, but not in the way many assume.** A referendum is only guaranteed in the event of a Tory majority win, and will be hard to secure otherwise. This makes it a lot less likely than many seem to assume. Nevertheless, the public mood on Europe will remain hostile and restless and both parties will have pledged to secure difficult-to-achieve change in Britain's relationship with the EU, most particularly on migration. Acute Brexit risk may not be the result of this election. Chronic Brexit risk will remain.
- **Any British government will be bound to tough deficit reduction, and neither major party has been clear or fully credible on how this will be achieved.** Labour would tax more and protect public sector employment where possible, but a weak Conservative chancellor would be on the lookout for politically opportune revenue raising to balance a political commitment to public sector retrenchment and budget surplus. Expect a Parliament of stealth taxes and pressure on businesses to 'do their bit', including swiftly passing on lower energy costs to consumers.

- **A Labour government would aim to follow through on commitments to ‘fixing broken markets’ and improving living standards in the UK, but a Conservative government would also have its own political incentives to act tough on big business.** Labour would intervene in energy prices, raise the minimum wage and look for tough outcomes from ongoing competition investigations in energy and banking. But governments of both stripe could be expected to present a mix of moral suasion and intervention on tax, high pay and profits.

This report sets out why we believe these are likely outcomes of May’s vote. It identifies the areas where the election will play an important role in defining policy choices in the next Parliament. Part 1 covers the political landscape in Britain in 2015. Part 2 looks at the most likely compositions of the next Parliament and at what the most likely of those scenarios might mean for policy and politics. Part 3 looks at some of the consequences for Britain in Europe. This report has been written by Global Counsel’s team of analysts and economists.

**Stephen Adams**  
Partner, Global Counsel

29 January 2015

# 1. The British political landscape in 2015

# The British political landscape in 2015

In 2015 the three political parties that have dominated British politics - the Conservatives, Labour and the Liberal Democrats - find themselves in an unpopularity contest in which they are struggling to be the least disliked. Labour and the Conservatives have poll ratings in the low to middle 30s. The Liberal Democrats have seen their support slump to single figures. The ‘insurgents’ are on the rise: The UK Independence Party (UKIP), the Scottish National Party (SNP) and the Greens are achieving record polling numbers.

For the 2015 election, the Conservative Party is making a renegotiation of the terms of Britain’s membership of the EU and a referendum on staying in or leaving the EU a part of its platform.

Labour and the Liberal Democrats oppose a referendum on membership but support a ‘renegotiated’ relationship with a ‘reformed’ EU. The Conservatives propose a trajectory of public expenditure cuts to fund future tax cuts; Labour and the Liberal Democrats have committed to balancing the UK budget for current spending. These will be key dividing lines in the election, but they will not be the only issues shaping it.

## Britain is entering a new multi-party system

The story of the 2010 Parliament is one of two halves. For the first two years Labour and the Conservatives were ascendant and appeared to be reasserting the traditional two-party structure at the expense of the now-governing Liberal

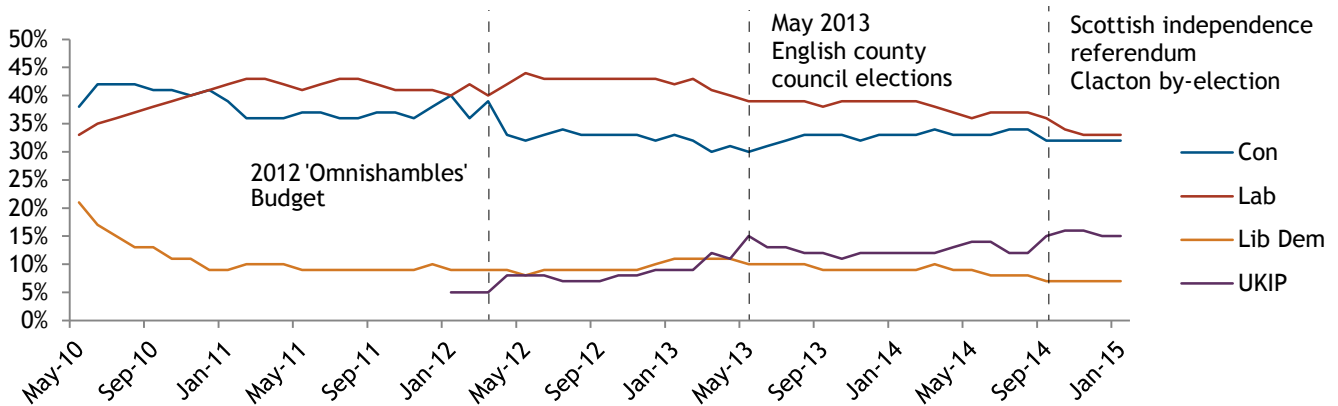


Figure 1: Monthly party polling averages  
Source: Yougov

Democrats. Labour attracted the support of Liberal Democrats disillusioned by the Party's participation in the coalition government. The Conservatives won the support of voters who believed tough action was needed to tackle the country's public finances.

The 2012 Budget proved to be a turning point. Its combination of top rate cuts, tax hikes on what many regarded as everyday essentials (including pasties) and the subsequent stumbling policy reversals damaged the Conservatives' credentials for economic competence and made them look out of touch with most voters. Labour got a boost from the Budget fall out, but of greater significance was the increasing number of voters turning to UKIP. It was the start of a UKIP rise that produced a growing presence on English local councils, a historic triumph in the 2014 European

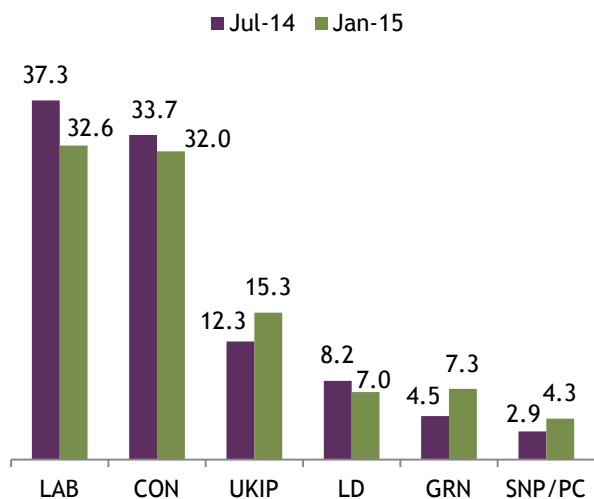


Figure 2: Monthly party polling averages  
Source: Yougov

Parliament elections and two Parliamentary by-election wins that provided the party's first elected Westminster representation.

Labour's 2012 boost proved difficult to sustain. The party struggled to re-establish a reputation for economic competence, with too many voters unpersuaded by its call for the deficit to be cut "more slowly, less deeply" and blaming the UK's economic problems on the former Labour government rather than the coalition. Labour's leader, Ed Miliband, struggled to connect with voters as a potential leader of the country. The result was that while the first wave of UKIP support was drawn disproportionately from the ranks of unhappy former Conservatives, as the Parliament progressed, Labour too lost support to UKIP.

2014's Scottish independence referendum added a further twist. The result was a majority No vote to independence, but the Yes cause won the poll in Glasgow and in Labour's electoral heartlands along the Clyde. A fallout of the referendum has been a surge in SNP support in the polls that threatens a broad swathe of Labour seats across Scotland. The referendum has also produced a febrile debate on both further Scottish devolution (about which UK Labour is highly ambivalent) and greater power for English MPs over English issues (a question on which the Conservatives' relative strength in England leaves Labour at a disadvantage).

But as Labour has faltered, the Conservatives have scarcely gained. Since the start of 2015 the Conservatives have at best drawn level

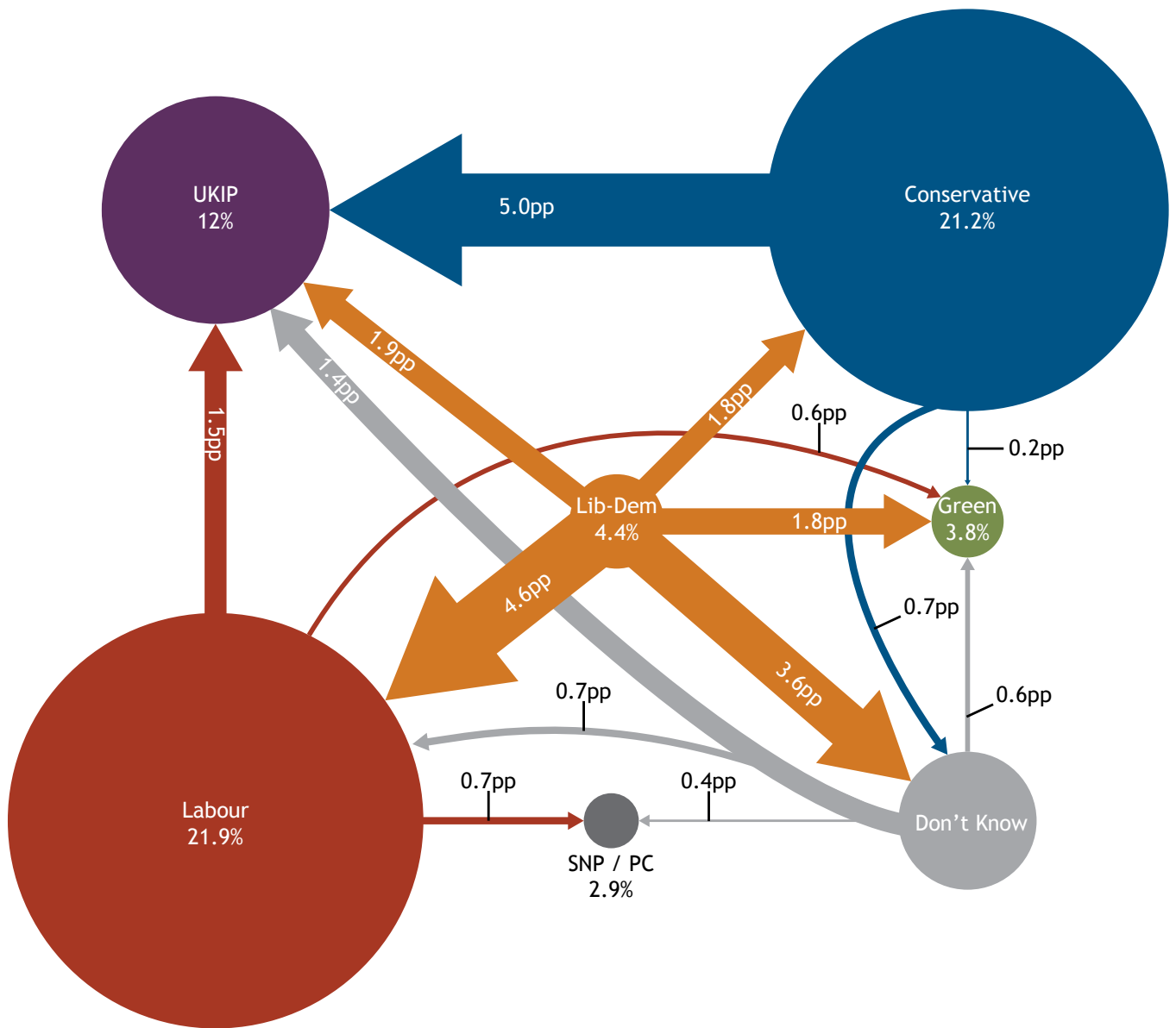


Figure 3: Current voting intentions and net voter switches since 2010  
 Source: Yougov data - October 2014



with Labour in the national polls. Despite strong economic growth numbers and better ratings on the economy and leadership the Conservatives find themselves flat-lining. UKIP meanwhile has begun 2015 with solid, but not rising, percentage poll support in the mid-teens. The SNP has surged to its highest ever support. And the Greens are polling at significant single figures. The one point of continuity throughout the Parliament has been the Liberal Democrats. After the coalition's formation, Liberal Democrat support dropped to single figures, where it has largely remained.

This shifting landscape reflects fragmenting and volatile voter allegiance in Britain. More than four out of ten voters say they will back a different party in 2015 to the one they did in 2010. However there is almost no net transfer of votes between the Labour and Conservative parties; the switches are happening elsewhere. The Conservative Party has suffered the largest leakage of support since 2010 - a fifth of its 2010 vote now says it will vote UKIP. The Party's only compensation has been to attract some of the many Liberal Democrat defectors. Labour gained a significant share of the 2010 Liberal Democrat vote early in the Parliament, but has subsequently lost some support in turn to UKIP and the Greens, and in Scotland a significant amount of support to the SNP.

### The pessimists: UKIP

UKIP and its leader Nigel Farage made much of the UK political weather in 2014. After

its triumph in the European elections the challenge was to avoid a repeat of its fate in previous general elections when support quickly evaporated. In autumn 2014 Douglas Carswell left the Conservatives and resigned as MP for Clacton before fighting and winning the seat in a by-election as UKIP's candidate. Clacton and the subsequent Rochester and Strood by-election provided UKIP with a bridge into 2015. Clacton could not have been a better opportunity for UKIP. Its voters are a near perfect match for the demographics most attracted to UKIP: older, less affluent, without university education and socially conservative in outlook.

UKIP's voters are pessimists about the Britain they live in. In a recent YouGov poll, UKIP voters were the most worried they would be a victim of burglary or mugging, about losing their home, of suffering ill health and losing their job due to cheaper imports. They are close to Labour voters, and a long way from current Conservative voters, in being worried they will suffer directly from cuts in public services and will not have enough money to live comfortably. In 2015, UKIP and Nigel Farage face a twin challenge: to translate their current opinion poll numbers into votes in May and, crucially, to have that support sufficiently focussed in Britain's first-past-the-post constituencies to extend the Party's narrow Parliamentary bridge head. It is that battle for seats, constituency by constituency, which will decide the future of the UKIP phenomenon.

## The optimists: the SNP

The SNP are an established feature of the Scottish political landscape, winning a majority in the Scottish Parliament in 2011 following four years during which they ran a minority government and surprised many by gaining a reputation for competent administration. However in the wake of the 2014 Scottish independence referendum

they have inserted themselves into British national politics in a dramatic way, chiefly by threatening to take a large number of Labour's Scottish Westminster seats. This would sharply erode Labour's prospects of achieving a British majority, which has long benefitted from its dominance of Scottish elections to Westminster and the Conservative's striking weakness north of the border.

|                        |               | “There is an economic recovery in my area and I have felt it personally” | “There is probably an economic recovery but I have not felt this personally” | “There is no economic recovery in my area” |
|------------------------|---------------|--|--|--|
|                        | <b>All</b>    | <b>14%</b>   | <b>57%</b>   | <b>29%</b>                                 |
| <b>Gender</b>          | Male          | 15%  | 57%  | 28%  |
|                        | Female        | 13%  | 57%  | 30%  |
| <b>Age</b>             | 18-34         | 19%  | 56%  | 25%  |
|                        | 35-54         | 13%  | 54%  | 32%  |
|                        | 55+           | 11%  | 60%  | 29%  |
| <b>Social status</b>   | ABC1          | 16%  | 58%  | 25%  |
|                        | C2DE          | 12%  | 55%  | 33%  |
| <b>Political party</b> | Con           | 27%  | 65%  | 8%   |
|                        | Lab           | 13%  | 47%  | 40%  |
|                        | LD            | 17%  | 65%  | 17%  |
|                        | UKIP          | 8%   | 55%  | 37%  |
| <b>Region</b>          | London        | 18%  | 57%  | 25%  |
|                        | Scotland      | 14%  | 52%  | 35%  |
|                        | South East    | 17%  | 61%  | 22%  |
|                        | North East    | 10%  | 42%  | 48%  |
|                        | West Midlands | 13%  | 63%  | 23%  |

Figure 4: Perceptions of UK economic recovery - October 2014  
Source: Populus

### Best party on 'the economy in general'

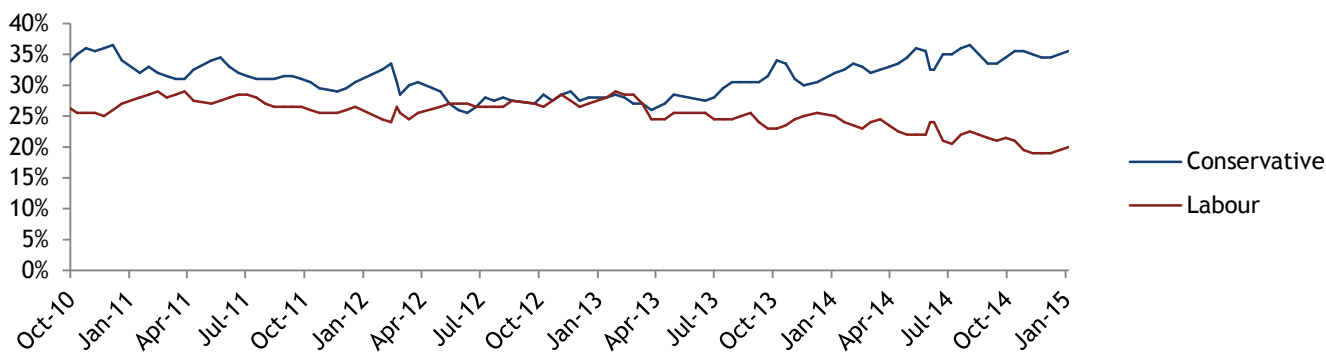


Figure 5  
Source: YouGov

### Net leader approval ratings

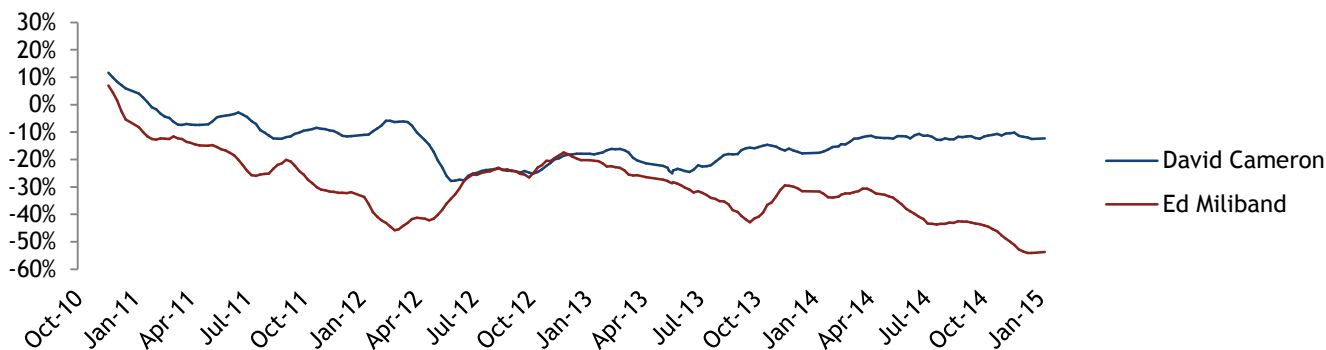


Figure 6  
Source: YouGov

### Net government approval

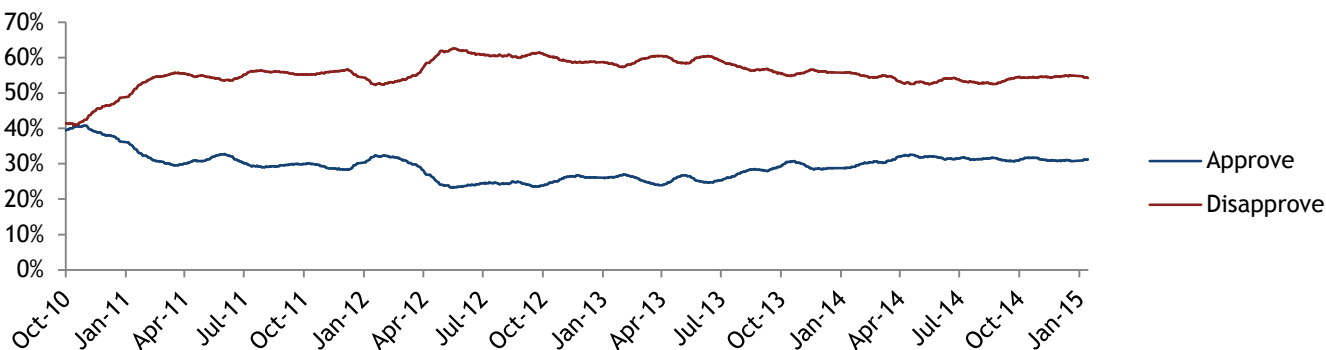


Figure 7  
Source: YouGov

Then-SNP leader Alex Salmond fought a relentlessly upbeat campaign for independence and will almost certainly be elected to Westminster in 2015 where he will continue to press the Scottish cause. While he trades on the same scepticism of the Westminster political class that animates UKIP and Nigel Farage, his message is fundamentally optimistic and has mobilised younger Scots, especially those in their 20s and 30s who see independence as a credible route to more economic prosperity. His vision of a ‘liberated’ Scotland firmly part of the EU is reflected in the fact that Scots voters are now ten percentage points more supportive of continued EU membership than the British average.

### The issues

At one level the campaigning landscape in 2015 looks relatively conventional. The Conservatives poll strongly on overall economic competence, where they will focus campaigning, but less well on living standards (Fig. 5). Their weakness and Labour’s strongest issue, is on the British National Health Service (NHS). David Cameron polls significantly better than Ed Miliband as a preferred Prime Minister (Fig. 6), although Miliband is seen as more in touch with voters’ social and economic concerns. Overall, approval of the coalition government’s record remains low (Fig. 7).

This is reflected in the unevenness of perceptions of recovery across the UK. Headline figures suggest the UK economy is now growing pretty

strongly, but many British voters do not see it or feel it, at least in their personal circumstances (Fig. 4). Absent a clear recovery that voters feel should be politically rewarded, it may yet be the economy issue turns on perceptions not of the current government’s achievements but of the future: a contest about the perceived risks attached to Labour’s economic credibility versus the perceived social and personal costs of the Conservative’s plans for public spending and services.

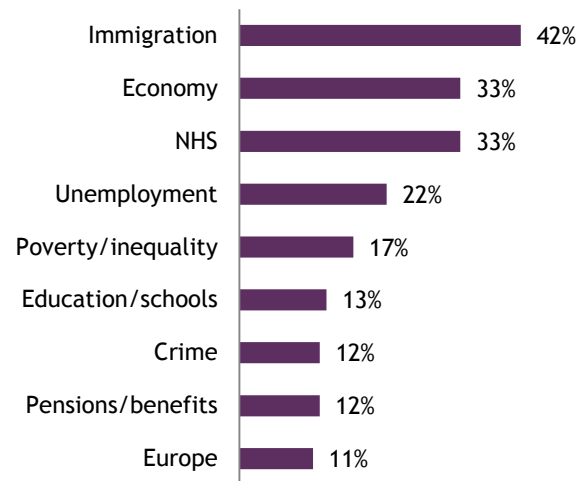


Figure 8: Most important issues facing Britain, by % mentioning  
Source: IPSOS Mori - December 2014

However, to a much greater extent than any previous British election immigration and Europe will also be central to the debate in 2015 (Fig. 8). When asked to rank the most important issues, few British voters rush to choose Europe. However, immigration does consistently rank high in voter priorities. Gordon Brown’s unhappy

encounter on immigration with Rochdale voter Gillian Duffy in 2010 appeared to demonstrate a serious disconnect between popular and elite sentiment and the opinion polls at the time showed Mrs Duffy was not alone in her concerns.

Not only has the issue not gone away, but it has gained a new potency by becoming intertwined with discontent over the EU and UKIP's advocacy for reasserting British independence from EU rules on freedom of movement. The result is that immigration is consistently at or near the top of the voter 'salience list' and a plurality of voters trust UKIP above the major parties to take their preferred course of action to address it.

Britons have generally always been reluctant Europeans, most approving of the EU when it is perceived to be intervening as little as possible the conditions of life in the UK. 'Europe' has generally been seen by them as an economic proposition rather than a political one, and to a much lesser extent as an opportunity to increase the UK's political influence on a global stage. Voters believe, by small majorities, that the UK often gets a bad deal and has too little influence in Brussels (Figs. 14-16).





The twin perceptions that the Eurozone poses an economic risk rather than an opportunity to the UK post-2008 and that membership of the EU has imposed large-scale migration on the UK have helped drive dissatisfaction with the EU to levels that suggest that a referendum on continued membership would be a close run thing (Fig. 9). Sceptics show little sign of being convinced

that there would be any cost economically or in British influence in leaving the EU, and even pro-Europeans are much more convinced of the economic costs of leaving the EU for the UK as a whole than they are for themselves personally (Figs. 11-13).

There is however a large generational divergence in these views. Dissatisfaction with the EU is much weaker for younger Britons, and much more concentrated in Britons over 55, especially outside of London (Figs. 9-10). This is the baby boomer generational cohort whose working lives have spanned the profound social and economic change of the last 30 years and who have provided so much of the support for UKIP. Important also is the fact that this dissatisfaction with the status quo and desire for 'renegotiation' extends to those who favour British membership, which a majority of both sceptics and pro-Europeans saying that the EU needs to be more accountable, less interfering or both (Figs. 17-18). However a majority of voters also think such a renegotiation will prove impossible or limited (Fig. 19).

This is the social and political landscape that, filtered through the vagaries of the first-past-the-post Westminster election system, will lead to the formation of new UK government in May 2015. It has far-reaching implications that may extend well beyond the next British political cycle: setting the terms not only of domestic policy but also of the UK's membership of the EU and place in the world. How these anxieties and ambitions are translated into policy will depend on the precise composition of the British Parliament after the 2015 election.

**'If a referendum on the UK's membership of the EU were held tomorrow, would you vote for the UK to stay in or to leave the EU?'**

|                | All | Conservative  | Labour  | LibDem  | UKIP  |
|----------------|-----|--|---|--|--|
| Leave the EU   | 40% | 47%  | 29%   | 26%  | 78%  |
| Stay in the EU | 37% | 38%  | 54%   | 57%  | 9%   |
| Would not vote | 5%  | 2%   | 2%  | 2%   | 3%   |
| Do not know    | 18% | 12%  | 15%   | 15%  | 10%  |

|                | Male | Female | ABC1 | C2DE | 18-34 | 35-54 | 55+ |
|----------------|------|--------|------|------|-------|-------|-----|
| Leave the EU   | 41%  | 38%    | 38%  | 42%  | 28%   | 36%   | 53% |
| Stay in the EU | 39%  | 35%    | 40%  | 33%  | 50%   | 37%   | 27% |
| Would not vote | 5%   | 5%     | 4%   | 7%   | 7%    | 6%    | 3%  |
| Do not know    | 15%  | 22%    | 18%  | 18%  | 16%   | 21%   | 17% |

Figure 9  
Source: TNS/Global Counsel - January 2015

**'If a referendum on the UK's membership of the EU were held tomorrow, would you vote for the UK to stay in or to leave the EU?'**

|                | All | Scotland | North East/<br>Yorkshire<br>and the<br>Humber | North<br>West<br>England | East and<br>West<br>Midlands | South<br>East/East<br>of England | Greater<br>London | Wales<br>& South<br>West<br>England |
|----------------|-----|----------|---|--------------------------|------------------------------|----------------------------------|-------------------|-------------------------------------|
| Leave the EU   | 40% | 25%      | 44%   | 36%                      | 46%                          | 44%                              | 36%               | 35%                                 |
| Stay in the EU | 37% | 54%      | 29%   | 41%                      | 32%                          | 30%                              | 44%               | 40%                                 |
| Would not vote | 5%  | 4%       | 4%  | 5%                       | 5%                           | 7%                               | 4%                | 6%                                  |
| Do not know    | 18% | 17%      | 22%   | 18%                      | 17%                          | 20%                              | 15%               | 18%                                 |

Figure 10  
Source: TNS/Global Counsel - January 2015

## If the UK left the European Union, do you think the UK would be...

|                         | All | 'Leave the EU' | 'Stay in the EU' |
|-------------------------|-----|----------------|------------------|
| Better off economically | 32% | 65%            | 9%               |
| Worse off economically  | 31% | 5%             | 70%              |
| No difference           | 17% | 22%            | 9%               |
| Do not know             | 20% | 8%             | 11%              |

Figure 11  
Source: TNS/Global Counsel - January 2015

## If the UK left the European Union, do you think you personally would be...

|                         | All | 'Leave the EU' | 'Stay in the EU' |
|-------------------------|-----|----------------|------------------|
| Better off economically | 16% | 30%            | 9%               |
| Worse off economically  | 18% | 4%             | 42%              |
| No difference           | 40% | 53%            | 31%              |
| Do not know             | 25% | 13%            | 18%              |

Figure 12  
Source: TNS/Global Counsel - January 2015

## If the UK left the European Union, do you think the UK would have...

|                              | All | 'Leave the EU' | 'Stay in the EU' |
|------------------------------|-----|----------------|------------------|
| More international influence | 12% | 21%            | 7%               |
| Less international influence | 35% | 11%            | 72%              |
| No difference                | 33% | 57%            | 11%              |
| Do not know                  | 20% | 11%            | 10%              |

Figure 13  
Source: TNS/Global Counsel - January 2015

**‘The UK has less influence in the EU than other member countries of a similar size, like France or Germany’\***

|                            | All | ‘Leave the EU’ | ‘Stay in the EU’ |
|----------------------------|-----|----------------|------------------|
| Agree                      | 47% | 71%            | 37%              |
| Disagree                   | 12% | 8%             | 27%              |
| Neither agree nor disagree | 25% | 17%            | 29%              |
| Do not know                | 15% | 4%             | 8%               |

Figure 14

Source: TNS/Global Counsel - December 2014

**‘The EU interferes too much in domestic British politics’\***

|                            | All | ‘Leave the EU’ | ‘Stay in the EU’ |
|----------------------------|-----|----------------|------------------|
| Agree                      | 57% | 85%            | 44%              |
| Disagree                   | 9%  | 3%             | 24%              |
| Neither agree nor disagree | 19% | 9%             | 26%              |
| Do not know                | 15% | 3%             | 7%               |

Figure 15

Source: TNS/Global Counsel - December 2014

**‘The UK is often unfairly treated during EU negotiations’\***

|                            | All | ‘Leave the EU’ | ‘Stay in the EU’ |
|----------------------------|-----|----------------|------------------|
| Agree                      | 52% | 81%            | 35%              |
| Disagree                   | 11% | 3%             | 26%              |
| Neither agree nor disagree | 22% | 12%            | 29%              |
| Do not know                | 15% | 3%             | 9%               |

Figure 16

Source: TNS/Global Counsel - December 2014



**'David Cameron has said that he intends to renegotiate the conditions of the UK's membership of the EU. Are you in favour or against such a renegotiation taking place?'**

|                            | All | Con | Labour | LibDem | UKIP | 'Leave EU' | 'Stay in EU' |
|----------------------------|-----|-----|--------|--------|------|------------|--------------|
| In favour of renegotiation | 55% | 78% | 55%    | 56%    | 50%  | 55%        | 58%          |
| Against renegotiation      | 17% | 8%  | 19%    | 14%    | 32%  | 16%        | 25%          |
| Do not know                | 28% | 14% | 26%    | 30%    | 18%  | 29%        | 17%          |

**Figure 17**

Source: TNS/Global Counsel - January 2015

**'If you are in favour of renegotiation, which of the following aspects do you think David Cameron should make the number one priority when renegotiating the conditions of the UK's membership of the EU?'**

|   | All | Con | Labour | LibDem | UKIP | 'Leave EU' | 'Stay in EU' |
|---|-----|-----|--------|--------|------|------------|--------------|
| A greater say for the UK gov't/parliament over EU legislation | 44% | 41% | 46%    | 50%    | 26%  | 33%        | 56%          |
| More control of EU migration into the UK                      | 39% | 43% | 33%    | 30%    | 50%  | 50%        | 27%          |
| Reducing the UK's contribution to the EU budget               | 17% | 16% | 20%    | 21%    | 19%  | 17%        | 17%          |

**Figure 18**

Source: TNS/Global Counsel - January 2015

**'If David Cameron is re-elected as Prime Minister and seeks to renegotiate the UK's relationship with the EU, which of the following outcomes do you think is the most likely?'**

|  | All | Con | Labour | LibDem | UKIP | 'Leave EU' | 'Stay in EU' |
|--|-----|-----|--------|--------|------|------------|--------------|
| David Cameron will succeed in renegotiating powers from the EU, and recommend the UK stay in the EU in a referendum  | 14% | 32% | 9%     | 15%    | 6%   | 12%        | 18%          |
| David Cameron will fail to renegotiate powers from the EU, and recommend the UK leave the EU in a referendum         | 17% | 21% | 22%    | 8%     | 12%  | 21%        | 16%          |
| David Cameron will fail to renegotiate powers from the EU, but still recommend the UK stay in the EU in a referendum | 38% | 30% | 46%    | 46%    | 62%  | 46%        | 40%          |
| Do not know  | 32% | 17% | 23%    | 31%    | 20%  | 20%        | 26%          |

**Figure 19**

Source: TNS/Global Counsel - January 2015

## 2. 2015 Parliamentary Scenarios

# 2015 Parliamentary Scenarios

There are many possible scenarios for the composition of the Westminster Parliament after May 2015. In principle a majority government of either side remains possible, but it would require poll recoveries of unprecedented magnitude for this stage in a Parliament for both Labour and the Conservatives. Disadvantaged by the structure of constituencies in the UK, a majority would be a particularly spectacular recovery for the Conservatives. In the absence of a majority government, we look at four more probable scenarios for Westminster.

- **A Miliband win**, in which Labour does not achieve a majority but polls strongly enough for Labour leader Ed Miliband to choose governing alone as a minority, rejecting a coalition with the electorally-weakened Lib Dems in the knowledge that under a new more left-leaning leader they will support his programme in many respects. The SNP could sustain this government in office, extracting a high price in further devolution. With a centre-left ‘majority’ in Westminster - but not necessarily the country - this government could be surprisingly durable.
- **A pyrrhic win for the Conservatives**, in which the Tories lead Labour strongly enough for Prime Minister David Cameron to hold on to Downing Street as a minority leader. This could prove a pyrrhic victory, with key Conservative pledges such as a referendum on Europe and even a first budget facing numerical blocking majorities in the House of Commons.
- **Borgen Britain**, in which no party emerges with a clear prospect of minority government. In this scenario a Labour-led coalition majority or minority would be the most likely outcome, replicating many of the features of the Labour minority, except with the Lib Dems inside the tent and the SNP even stronger in selling its support.
- **Belgian Britain**, in which no credible governing coalition of any kind seems possible without uniting the two large parties. The most likely outcome in this case is some form of emergency budget and a second election. Should that election also produce a serious hung Parliament the UK will have entered the territory of constitutional crisis and options such a ‘national’ government or reform of the voting system might genuinely come into play. However Labour and the Conservatives would have powerful resistance to coming together.

# Parliament and governing: the fundamentals

| Region           | Seats |
|------------------|-------|
| England          | 533   |
| Scotland         | 59    |
| Wales            | 40    |
| Northern Ireland | 18    |

Figure 20: UK Parliament by region

| Party        | Vote % | Seats     |
|--------------|--------|-----------|
| Conservative | 36.1%  | 306 (+97) |
| Labour       | 29.0%  | 258 (-91) |
| LibDem       | 23.0%  | 57 (-5)   |
| UKIP         | 3.1%   | 0         |
| BNP          | 1.9%   | 0         |
| SNP          | 1.7%   | 6 (=)     |
| Green        | 0.9%   | 1 (+1)    |
| Sinn Féin    | 0.6%   | 5 (=)     |
| DUP          | 0.6%   | 8 (-1)    |
| Plaid Cymru  | 0.6%   | 3 (+1)    |
| SDLP         | 0.4%   | 3 (=)     |
| Alliance NI  | 0.1%   | 1 (+1)    |
| Ind          |        | 1 (+1)    |
| Speaker      |        | 1         |

Sinn Féin operates a policy of abstentionism and refuses to take their seats in Westminster.

The Social Democratic and Labour Party of Northern Ireland informally takes the Labour whip.

Although the Alliance Party of Northern Ireland has links to the Liberal Democrats, it does not take the LibDem whip in the House of Commons.

The Speaker does not vote.

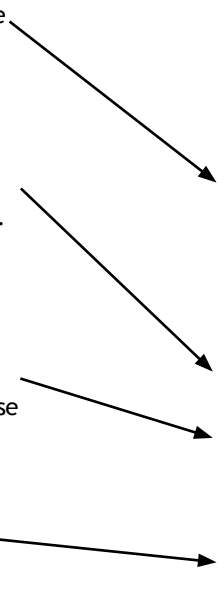


Figure 21: UK Parliament by party - 2010 election result

## Scenario 1: A Miliband Win

- In this scenario, Labour has clearly won the election despite falling just short of an overall majority. Ed Miliband has managed to very successfully counter the threat from the nationalists, who return to Westminster bitterly disappointed with their result despite Alex Salmond winning the seat of Gordon.
- The Conservatives have lost over 40 seats to Labour mainly as a result of UKIP, but Nigel Farage has failed to make a breakthrough and only 3 UKIP MPs are returned.
- Ed Miliband takes over, and in all likelihood decides to run a minority administration. Meanwhile, the LibDems somewhat outperform expectations and return nearly two-thirds of their MPs, but with no return to government Nick Clegg has no choice but resign, and is replaced by the more centre-left Tim Farron, who Labour finds it easier to deal with on a case-by-case basis.

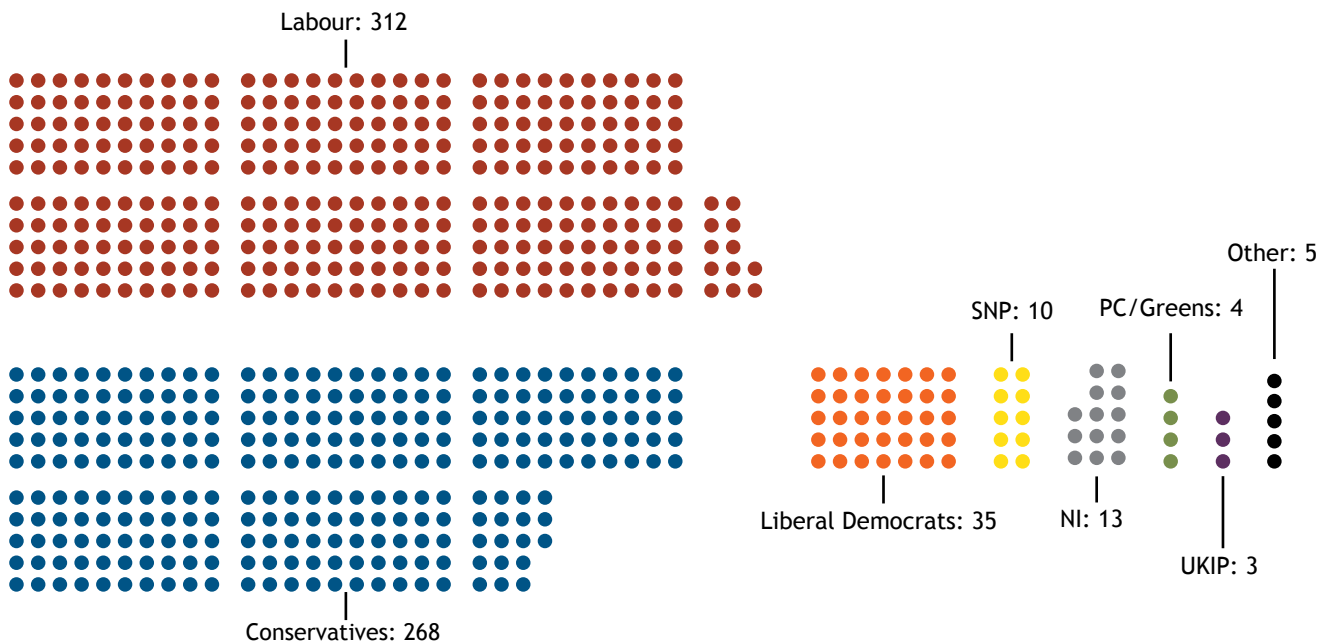


Figure 22: Distribution of seats in Parliament

## Scenario 2: A Pyrrhic Conservative Victory

- David Cameron has outperformed expectations and successfully contained the UKIP threat, returning nearly the same number of MPs as in 2010, balancing their losses to Labour with gains from the LibDems. Labour's gains in England and Wales from the Tories and the LibDems exceed losses to the SNP, who have more than quadrupled their seat numbers.
- Cameron has two choices: either he renews the coalition with the LibDems, who may well be sceptical of entering into government with much less relative

influence and can no longer grant him the parliamentary stability he current enjoys, or more likely, he attempts to run a fairly constrained minority occasionally able to strike deals with the LibDems.

- Ed Miliband and Nick Clegg both resign as party leaders due to their parties' disappointing performances. Nigel Farage might resign if he fails to win a seat in Parliament.

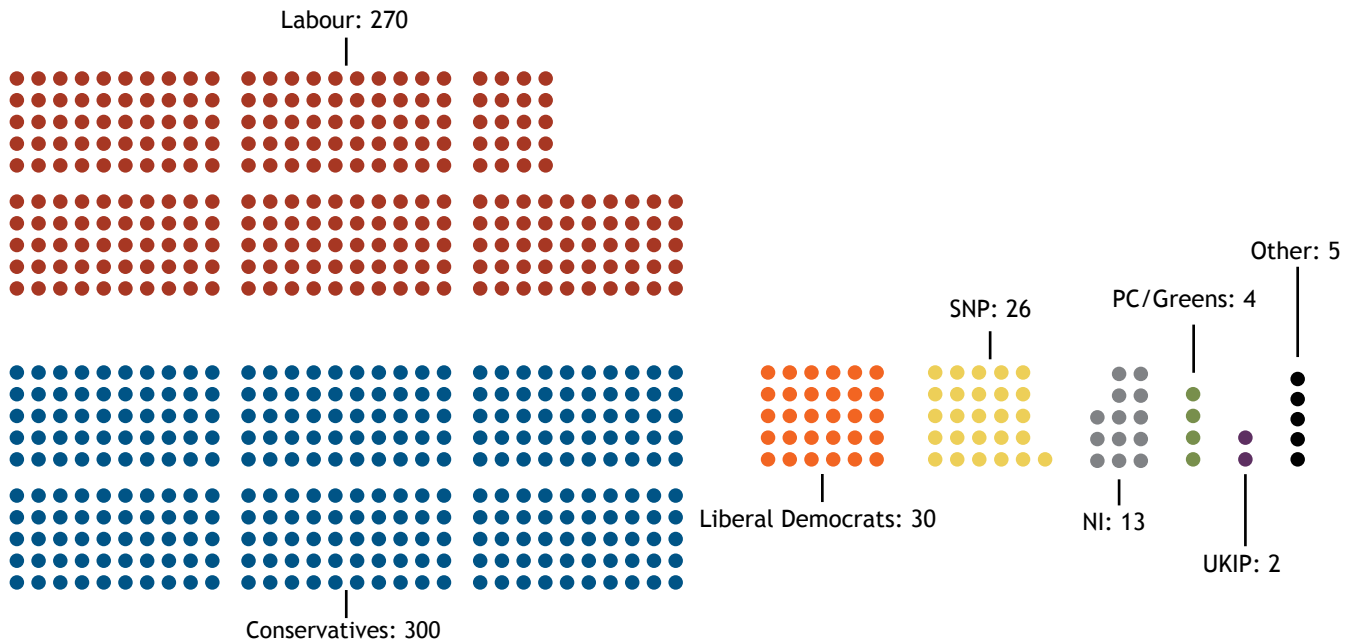


Figure 23: Distribution of seats in Parliament

## Scenario 3: Borgen Britain

- In this scenario, the Conservatives have narrowly beat Labour both in terms of votes and seats, but have still lost around 20 seats and are well short of a majority, even if adding the reduced number of LibDems. Labour are disappointed with only 25 net gains, and have suffered heavily from the SNP, who nearly manage to become Westminster's third-largest block of MPs.
- Labour's third systemic advantage, the centre-left majority in Parliament becomes evident. Miliband manages to form a Labour-LibDem minority coalition, reliant

on the support of the SNP, who will have to carefully calibrate their demands.

- This government nevertheless faces questions of legitimacy, being formed of the second and fourth-most voted for parties, and propped up by another one that wants to break the Union. The Conservatives elect a new more right-wing leader that runs an aggressive opposition. A vote on an EU Referendum Bill could potentially make it through the Commons with Labour rebel support.

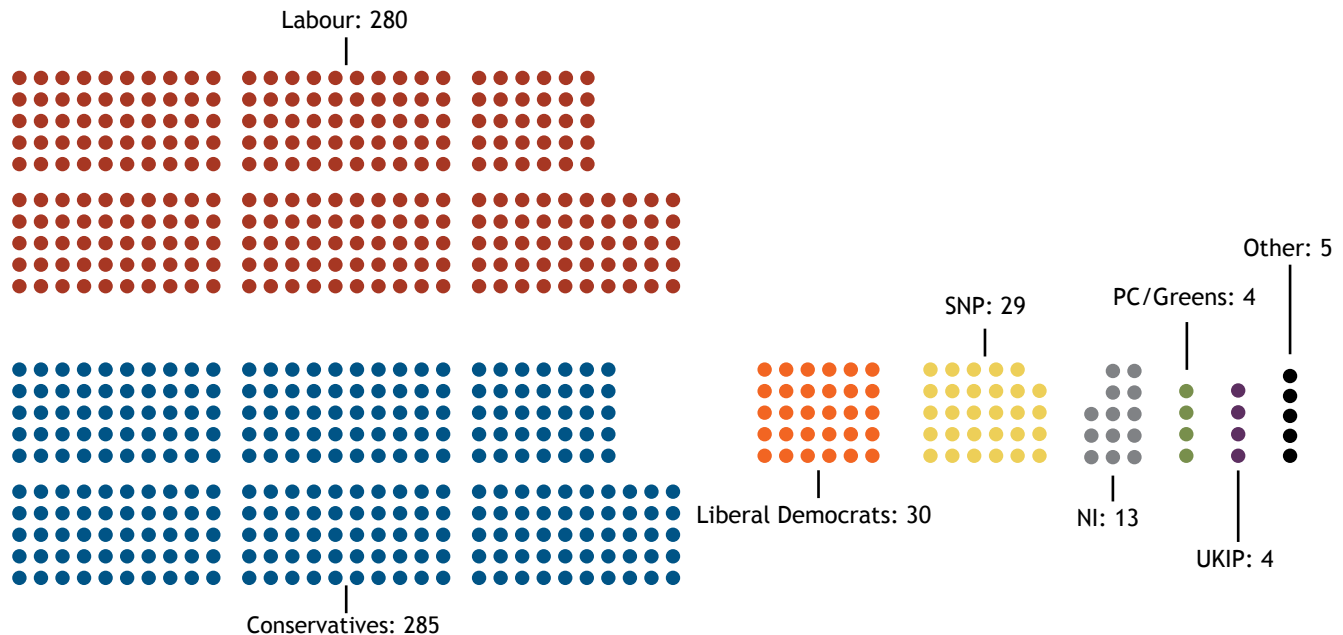


Figure 24: Distribution of seats in Parliament



# Scenario 4: Belgian Britain

- This is the triumph of the margins. UKIP have exceeded even their own expectations and won a dozen constituencies, mostly from the Conservatives but a few from Labour as well. Meanwhile the SNP achieve a landslide in Scotland and reduce Labour and LibDem representation north of the border to a small rump of MPs, while Plaid Cymru also increases its representation.

- The Greens have also had a very good day, and not only return Caroline Lucas but win a number of other target seats in student areas. The LibDems have a disastrous night and go back to early 1990s levels of representation.
- A coalition deal with the nationalists appears impossible. Labour and the Conservatives agree on passing an emergency budget, and Britain prepares for a snap second general election later in the year.

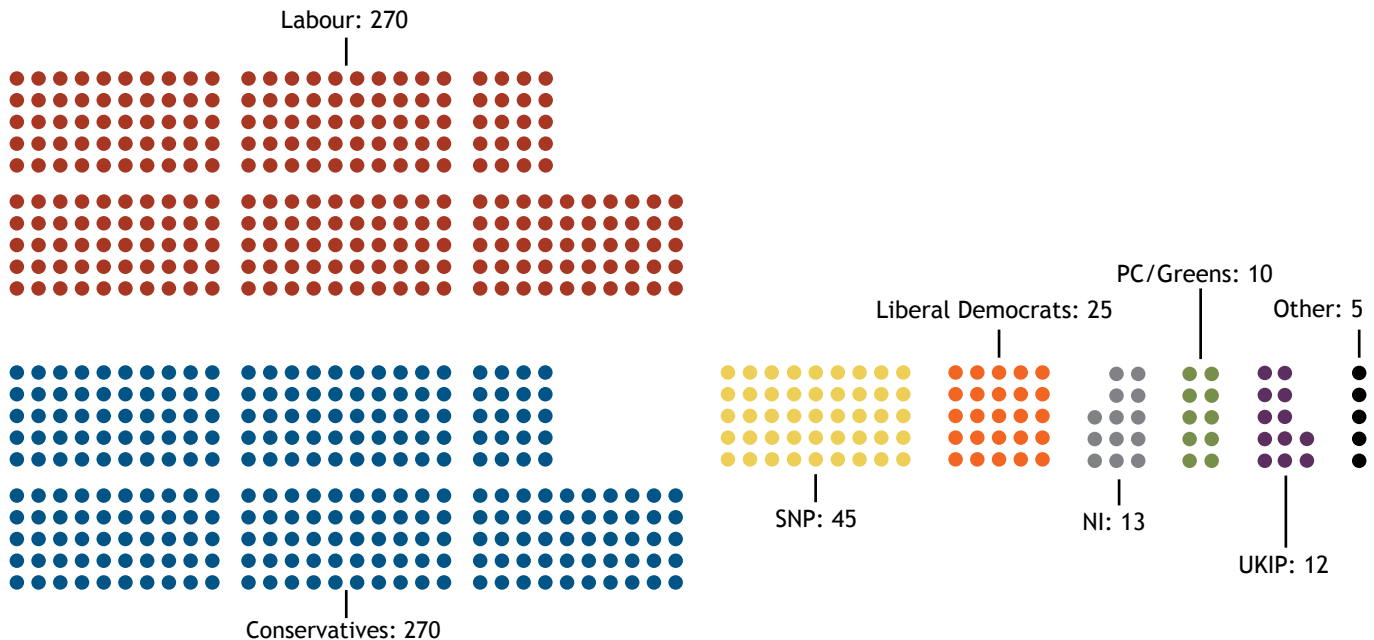


Figure 25: Distribution of seats in Parliament

A number of things are important to note in these scenarios.

*Passing an EU Referendum Bill looks very difficult*

These election scenarios for 2015 in the UK suggest that a referendum on British EU membership in 2017 or earlier is very far from certain (Fig. 26), even if a majority of the British population say they support one, or vote for parties that advocate one. This is for the simple reason that the Conservatives are unlikely to win a majority. Moreover, the better UKIP does, the greater will be the damage to the Conservatives hopes of winning a majority; it is most unlikely that UKIP will win sufficient seats to sustain the Conservatives in a coalition or cooperative agreement. Assuming that Labour sustains its current position through an election campaign (and in a close election, with UKIP exerting pressure on Labour’s core vote, this cannot be an unqualified assumption) then Labour will not support a referendum 2017.

Aside from an unlikely Conservative majority there are two plausible scenarios in which a referendum occurs: if a minority Conservative government or opposition were able to push through a referendum bill with sufficient Labour rebel support or abstention, or if a Conservative-Lib Dem coalition were committed to a referendum bill. In either case the Conservatives might seek an earlier date than 2017 for tactical reasons. However the Liberal Democrats look likely to be significantly weakened at the election, with a new leader who takes them to the left and who will see no attraction in supporting the Conservatives.

*A centre left majority in the House of Commons makes a Labour minority much more viable than a Tory one.*

A plurality of Britons will almost certainly vote for centre right or ‘right wing’ parties in 2015. They will, however, elect a Parliament with a centre-left bias, especially if the battered Lib

**Likelihood of EU referendum, by potential government outcomes**



Figure 26

Dems realign more explicitly to the left. This makes the prospects for minority government a lot more viable for Ed Miliband than it does for David Cameron. A Labour minority would potentially start work with a legislative majority on many of its key policy aims. A Conservative minority would not.

*A Tory minority government would be an unpredictable one*

Even before it contemplated an EU Referendum Bill, a Tory minority government would need to pass a budget with a numerical minority in the House of Commons. Assuming a Tory chancellor aimed to sustain George Osborne's deficit reduction commitments, this would be an act of political high stakes - effectively daring the opposition to vote down the Finance Bill. Securing support for a basic deficit reduction package would mean eye-catching populism and could pull the Conservatives in highly unpredictable directions. The budget would be just the start of the legislative struggle.

*A second election is possible, but not simple*

Especially in a Tory minority scenario the instinct on either or both sides may be to return to the country and try again. However, with fixed term Parliaments now a statutory obligation in the UK this is not as simple as dissolving Parliament. The government would have to lose a vote of confidence - potentially one it had tabled itself. The instincts of the other parties

on prompting another election will depend on their polling, depleted finances and calculus of the likely outcome. A swift second election is only genuinely likely in a scenario in which no party can form a viable majority or minority government of any kind.

# Labour-led government

A Labour-led government could be much stronger or more stable than its poll result might initially suggest, either as a formal coalition with the Liberal Democrats or supported by them in Parliament. Labour would attempt to take the European referendum question off the table, but would bring a commitment to policy change in a range of business and market-related areas.

---

## Britain in Europe

- In almost any scenario for a Labour-led government a referendum on EU exit is very unlikely. Ed Miliband is likely to sustain his opposition to a timetabled referendum throughout the election campaign and none of the parties supporting his government have an incentive to push for one.
- However, it is possible that following a very tight election the Conservative opposition are able to table and pass a Referendum Bill with sufficient Labour support or abstentions. If this were to happen - with a Conservative Party out of government, under a new Eurosceptic leader, who could quite conceivably campaign against EU membership - then this is the scenario in which Brexit becomes the most likely.
- Even without a referendum a Labour-led government will still have a European problem. The Tories would become openly more Eurosceptic and Labour MPs would feel under pressure from UKIP themselves on Europe, especially if the UK unions become increasingly hostile to migration and the EU. The problems would be compounded if the Conservatives and UKIP together secure a higher share of the vote than the government.
- This government would push hard for tighter European rules on migration and would be under constant pressure to take a tougher line on EU issues - although it would not favour treaty change of any kind.
- From Brussels this government would be greeted with relief, but it would look like a difficult government to do business with - weak, domestically focused, insular and Eurosceptic in its communications and posture. London's influence will suffer accordingly, especially as the approach of French and German elections in 2017 begins to dominate politics in Brussels.

---

## Tax and spending

- This government would seek to implement deficit reduction on Labour's proposed timeframes, with a marked bias to tax rises rather than spending cuts.
- A relatively strong government is likely to be more ambitious in raising taxes as a share of GDP for ideological reasons; a fragile government will be more cautious, but prone to selective tax increases that are populist.
- Corporation tax is likely to remain untouched. Income tax reductions for the upper band would be reversed.
- Revenue raising will be via stealth. Potential measures include: raising capital gains tax on short term profits; eliminating pensions reliefs for high earners; asset taxes such as the mansion tax; windfall taxes, especially for out-of-favour sectors; and higher sectoral levies for meeting the cost of economic regulators.

- Low fuel prices make higher fuel duties attractive.
- Although a relatively strong government would match George Osborne's department spending plans at least initially, beyond this its appetite for cutting spending further will be limited. It will hope that a combination of some higher taxes and growth will be sufficient to deliver deficit reduction.
- This government will be conservative on the way public services are delivered. But with the possible exception of the NHS, it would not reduce existing levels of private sector involvement.
- This government's stated targets for spending cuts or restraint: funding for free schools; Police and Crime Commissioners; savings from merging the four separate government motorist agencies; cutting senior military staff; and combining management functions in government departments, agencies, fire services and police forces.
- Scotland and Northern Ireland in this scenario can expect privileged treatment to the extent that the government is dependent on SNP and Northern Irish votes.

---

#### **Competition and Markets**

- Labour leader Ed Miliband will feel compelled to deliver on his re-inventing capitalism agenda in this area, with a focus on 'fixing' markets where a perceived lack of competition is failing consumers. Expect the CMA to be encouraged to take a tough line in its current review of the retail banking market and the FCA in its review of the payments system. Expect enforced vertical disintegration in UK energy markets, and possible intervention in housing markets to force the release of land to the market.
- A fragile government will look for a high-profile opportunity to intervene on energy prices, as a more immediate and populist fix to high energy bills than addressing perceived competition problems in the sector.
- This government would think seriously about raising the minimum wage and implementing a 'living wage'. A fragile government will seek to impose an early increase, whereas a stronger government with a longer time horizon will seek to change the terms on which the minimum wage is set so that increases are introduced gradually over time in the light of labour market conditions.
- This government could look to match the Low Pay Commission with a high pay one and to legislate on more disclosure and on the membership of remuneration committees. Expect heavy moral suasion on high pay.
- This government would see little shift in the UK's general bias to open trade, although migration from the EU will be a sensitive issue and UK unions are likely to focus on wage competition from EU migrants. Non-European political constituencies make a tough line on non-European migration more difficult than for a Conservative-led government.

---

#### **Environmental Issues**

- This government will tend to be pro-fracking and pro-nuclear, but it's commitment to nuclear may be tested if it relies on support from the SNP. The government will be more instinctively supportive at the European level of binding targets for emissions and renewables.
-

# Conservative-led government

Barring an unlikely re-pledging of vows with the Liberal Democrats, any Conservative-led government is likely to be a minority, immediately confronted with a numerical majority opposed to many of its priorities in the House of Commons. It would probably be both fragile and weak.

---

## Britain in Europe

- This government would have a significant incentive to move quickly to table a referendum bill and even to set a date in 2015 rather than 2017 - a weakened David Cameron will be looking for an issue on which to divide the Labour party and shore up his Eurosceptic backbenchers. Uncertain of the prospects of remaining in power two years, he could gamble on an earlier date. Blocking a referendum bill would require firm Labour discipline, and could not be fully guaranteed given the spectrum of views in the Labour Party and an election in which Labour backbenchers will have come under pressure on Europe on the campaign trail.
- Cameron would campaign for continued membership but a referendum could be a very close-run thing.
- This is British government whose standing in the EU would be as weak as any in recent times, especially if the government has succeeded in pushing for an early referendum. If the Tories hold to their position of demanding treaty change on migration (or anything else) this could be the government that convinces the rest of the EU that the UK is better off outside. London's ability to trade on anything else on the EU policy agenda will be severely limited.

---

## Tax and Spending

- The Chancellor of a Conservative-led minority government will face a serious test in passing his or her first budget. Assuming they calculate that it is impossible to abandon George Osborne's deficit reduction plans, this government's first budget will be as political as they come - combining tough deficit reduction and departmental spending plans with populist gestures designed to make it as hard as possible for the opposition to reject. For the Shadow Chancellor and the opposition, facing the trap of being accused of throwing the country into chaos by voting down a budget, this will be a key moment. Expect a pre-election post-election budget.
  - Corporate tax rates will remain untouched, but reversing the cuts to the top rate cannot be ruled out and nor can a wide range of industry levies - including on energy companies that have not passed on lower energy prices to consumers. These populist tax increases will be used to legitimise deep spending cuts.
  - Current Conservative spending plans imply tough departmental spending cuts across the board and as-yet unspecified further cuts in areas such as social-spending. However, the tactical imperative for this government will be to prevent a Labour poll recovery (which could prompt the opposition to call for a vote of no confidence and a new election) so Conservative instincts in areas such as outsourcing, NHS reform and welfare spending will be seen through this prism and softened.
  - Low fuel prices make higher fuel duties attractive.
-

---

**Competition and Markets**

- The same logic will apply across all other policy areas. This government could be expected to be opportunistic in its choice of industry targets for criticism on competition, high pay or prices - seeking to flank Labour politically.
- While the government would sustain the UK's traditional open attitude to trade, it could be unreliable on support for foreign acquisitions and demanding on commitments from foreign investors in sensitive areas.
- On issues like migration this government will be aggressive, seeking changes to EU rules to delay the payment of certain benefits to migrants and new checks at UK borders.

---

**Other issues**

- On Scotland, this government will be willing (more so than a Labour government) to hand significant further tax and spending powers to the Scottish Parliament. But attached to this will be a move to reduce Scottish representation at Westminster and restrict the ability of those representatives to determine legislation in the area where power has been devolved.
-

**DOWNING  
STREET SW1**

**CITY OF WESTMINSTER**

**WH  
SW**

**CITY C**



## 3. Britain and Europe after May 2015

# Britain and Europe after May 2015

More than any recent British general election, the 2015 vote will have a clear European dimension, although neither major party will seek to debate it openly. UKIP will aim to turn the election into a plebiscite on European membership and the promise of renegotiated European membership will be a central plank of the Conservative electoral offer. Although the current Labour opposition have ruled out a referendum at a pre-set date and will have little appetite for campaigning on Europe, their own manifesto will include pledges on seeking European reform and limiting access of EU migrants to certain UK social benefits.

For businesses and investors the idea of a referendum on British membership of the EU and consequent 'Brexit' is a deeply unnerving one. However, as we have seen, such a referendum is in fact unlikely on balance in the immediate term. Nevertheless, the avoidance of a referendum may remove one element of uncertainty from the British political risk landscape, but it would leave many big questions behind on Britain's relationship with the EU.

A Conservative loss in the 2015 election would probably see David Cameron removed and replaced with a leader who is likely to be more overtly Eurosceptic, if not committed to exit. The Conservative party would be highly likely to campaign for a referendum immediately following

the 2020 General Election and could even introduce a commitment to exit as party policy. The referendum question would be postponed, not removed. For business and investment, the uncertainty over Britain's commitment to the EU would remain.

Moreover, any British government elected after May 2015 will have a European 'problem'. The Conservatives and UKIP will probably win a plurality of votes in this election, even if not a majority of seats. In these circumstances the political mood is likely to be especially hostile to migration and the EU and Labour will need to balance its refusal to hold a 2017 referendum with a 'tough' approach to the EU in this and other areas. While it will not seek treaty change, Labour will seek policy change on limiting benefits to migration and a package of other measures to demonstrate its own commitment to EU reform.

As noted above, even a majority of those Britons who favour EU membership in the UK want the substance of the relationship changed to offer greater accountability, more national control or both. Many of the pro-Europeans who take this view may only need minimal change to satisfy their dissatisfaction. But UK politicians, across the political spectrum, have accepted that the terms of membership must change - and be seen to change - in order to justify continued

British commitment to the EU. The imperative to deliver substantive change would be much higher in the context of a referendum, with or without a formal renegotiation. But the question of the terms of the UK's membership will still require a political answer even without one.

What might the UK seek in and from the EU in the wake of the 2015 election? Under any government migration controls or checks on benefits to migrants will probably be at the centre of British demands, possibly along with

changes to the way the EU makes decisions, the EU budget and elements of single market reform. As the Eurozone pushes forward with greater integration, UK concerns for the protection of its own interests are understandably strong. There are some overlaps in the kinds of things both major British parties might seek to achieve, but Conservative demands are likely to be significantly more far reaching and tread more explicitly into areas that are sensitive to the UK's EU partners.

### Potential treaty change and referenda

A core test for the success of a UK 'renegotiation' strategy in the EU is whether UK demands will require treaty change and whether the nature of that treaty change triggers referenda in other Member States. The political dynamic around referenda is unique to each Member State, but EU processes play a key role. In general, decisions about treaty change in different areas of EU policy reflect existing EU processes for policy decisions in that area. They can involve the European Parliament to a greater or lesser degree and it is the Parliament's involvement that is most likely to lead to creation of new EU powers and so trigger referenda.

Article 48 of the Treaty on the Functioning of the European Union (TFEU) specifies that any national Government, the European Parliament or the Commission can propose a Treaty change. If a simple majority (currently 15) of Member States are in favour of considering amendments, a Convention is called with national parliaments, national Governments, the European Parliament, the Commission and possibly the European Central Bank to agree amendments by consensus. At this stage, others would add their own demands to the mix. Alternatively - with the consent of the European Parliament - the Member States can limit the Convention to National Governments. In these scenarios Member States have two years to ratify the Treaty and would almost certainly require referenda in Ireland, Luxembourg, and the UK, putting pressure on France, the Netherlands, Denmark, Sweden and Spain to do the same.

Article 48 also offers a simplified revision procedure, where amendments only repatriate powers from the EU to Member States in specified areas and do not increase EU competence. National Governments can agree such changes unanimously after consulting the other institutions, but this procedure is not possible for changes to the core principles of the EU, non-discrimination between EU citizens, common foreign and external policy, inter-institutional relations or the EU budget. In this scenario treaty change is possible without referenda.

Article 48 also offers a simplified procedure to amend EU powers in areas subject to unanimity, such as taxation or foreign policy. If the Council secures a majority approval from the European Parliament for it to amend powers in this area, it then proceeds to consider proposals from Member States and must agree them by unanimity. In this scenario referenda could also be avoided but national parliaments wield an effective veto, which they must exercise within six months of a deal being reached between national Governments.

It is important to remember that this will be a negotiation rather than a capitulation, even where other member states strongly favour continued UK membership. The composition and instincts of the next UK government may determine the precise question that is posed about the terms of the UK's membership, but the answer will in large part depend on the UK's European partners. How the other states interpret the motives, preferences and ultimate ambitions of the UK government will be key to the potential success of a negotiation.

A British government determined to hold a referendum would be regarded with hostility in Brussels and by the rest of the European Council. A Labour government that took the referendum question off the table, at least for a while, would be met with some relief in the rest of the EU, at least initially, and would probably generate a small stock of goodwill as it attempted to define a reform agenda that mutes British Euroscepticism. There are allies across the EU for some, if not all, of the UK's reform agenda.

Nevertheless some British demands will meet matching demands from others as the price extracted for change, and London's willingness to pay these prices with determine what it asks for and receives. The conditions for meeting UK demands will in turn be shaped by domestic politics in other EU member states. As French and German elections approach in 2017, British interests will increasingly be set against the political needs of the two largest Eurozone states. In some cases these may reinforce British asks - on

migration in France for example. In other cases they will make concessions to the UK agenda more difficult. UK requests for a reduction in EU spending, particularly cuts to the Common Agricultural Policy (CAP), would be a hard sell in France at any time, but especially during an election year - and the UK would inevitably be asked to give up its rebate in return.

Some of what the UK might seek could be achieved without changing EU treaties. Some would require minor treaty changes through the 'simplified procedure'. This would not trigger the full ratification process, which would involve holding referenda in many member states. Demands for treaty changes that require the 'standard procedure' and hence trigger referenda would be the most contentious, and raise the greatest chance that other states will bring their own requirements to the table in a way that the UK finds difficult to manage, or simply refuse to consider in the first place. The French government, concerned about the rise of the Front National and the challenge it will pose in the 2017 election, may regard a referendum as unwinnable under any circumstances. Many other Eurozone countries will share similar concerns. Unless a wider Eurozone crisis forces major treaty change back on to the agenda, it will almost certainly be regarded as a red line by the overwhelmingly majority of the Council.

So what might the UK seek, how would it be received in Brussels and other European capitals and what price might be extracted for meeting British requirements?

|               | Future Government commitment  | EU mechanisms and relationship to treaty change and referenda.  | Negotiating dynamics  |
|---------------|---|---|---|
| Immigration   | <ul style="list-style-type: none"> <li>Strengthen residency requirements for some benefits (CON, LAB)</li> <li>Stronger border checks of EU migrants (CON)</li> <li>Reduce numbers of EU migrants (CON)</li> </ul>      | <ul style="list-style-type: none"> <li>Reviews of EU Directives related to intra-EU migration (e.g. Free Movement of Persons Directive and Posting of Workers Directive) possible without treaty change, and Commission review of migration policy in 2015 could provide recognition of UK prerogatives on benefits.</li> <li>Clarifying UK powers to limit right of settlement and/or establishment possible under simplified procedure.</li> <li>Explicit derogation to principle of free movement may require standard procedure.</li> </ul> | <ul style="list-style-type: none"> <li>France and Nordic countries support limits on benefit access and on free movement from future accession countries.</li> <li>Mediterranean countries could impose corresponding restrictions on property and public services for UK citizens and/or UK-domiciled investors.</li> <li>Poland and other Eastern European countries could veto quantitative limits on migration, even if it risked Brexit.</li> </ul>  |
| EU budget     | <ul style="list-style-type: none"> <li>Reprioritise spending away from agriculture towards regional development and research (CON, LAB)</li> <li>Amend required UK contributions under funding formula (CON)</li> </ul> | <ul style="list-style-type: none"> <li>Spending programmes such as Common Agricultural Policy regularly reviewed without treaty change.</li> <li>Formalised UK non-participation in new programmes possible through simplified procedure.</li> <li>Revisions to funding formula to existing programmes may require standard procedure.</li> </ul>   | <ul style="list-style-type: none"> <li>Netherlands and other net contributors support limits to overall budget and to reviews of programmes.</li> <li>Most member states could require an end to UK rebate.</li> <li>France, Poland and Romania, and possibly even Ireland, could veto major changes affecting CAP, even if it risked Brexit.</li> </ul>  |
| Single market | <ul style="list-style-type: none"> <li>Protect UK interests in negotiations from Eurozone bloc vote (CON, LAB)</li> </ul>   | <ul style="list-style-type: none"> <li>Double majority voting on technical standards in the European Banking Authority could become the norm for 'level 2' technical standards without treaty change.</li> <li>Requiring independent assessments of impact of proposals on non-Eurozone countries possible under simplified procedure.</li> <li>Extending double majority voting to the co-decision process for financial regulation may require standard procedure.</li> </ul>   | <ul style="list-style-type: none"> <li>Other non-Eurozone countries support safeguards while group retains critical mass.</li> <li>France and other defenders of member state prerogatives could demand similar veto powers for non-finance sectors. Eurozone countries could resurrect demands for a 'Eurozone MEPs only' committee in European Parliament.</li> <li>Germany and others could veto the introduction of de facto vetoes into the co-decision process, even at risk of triggering Brexit.</li> </ul> |

|                              |   |  |  |
|------------------------------|---|--|--|
| Competitiveness              | <ul style="list-style-type: none"> <li>▪ Strengthen programme of simplification and deregulation (CON, LAB)</li> <li>▪ Greater focus on business impacts in Impact Assessments (IAs) (CON, LAB)</li> <li>▪ Restart EU-level supply side economic reform (CON, LAB)</li> </ul> | <ul style="list-style-type: none"> <li>▪ Introducing ‘regulatory budgets’, quantitative targets and/ or increased IAs for future EU regulation possible without Treaty change.</li> <li>▪ Re-instating a UK opt-out from the Social Chapter for future regulation possible under simplified procedure.</li> <li>▪ UK opt-out from existing legislation such as Agency Workers Directive may require standard procedure.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Netherlands and Nordic States support greater use of IAs both for new proposals and final political compromises on legislation. There is also wide support for the new Commission’s emphasis on deregulation and market opening in digital, energy, capital markets and professional services.</li> <li>▪ Eurozone member states could demand greater freedom to use enhanced co-operation in return for any UK opt-outs.</li> <li>▪ France and others could veto UK opt-outs from legislation already in force as a question of principle, even if risked Brexit.</li> </ul> |
| Trade Policy                 | <ul style="list-style-type: none"> <li>▪ Deliver agreement on TTIP including ISDS by 2017 (CON, LAB)</li> <li>▪ Explore own trade deals outside EU umbrella, in particular with Commonwealth countries (CON)</li> </ul>   | <ul style="list-style-type: none"> <li>▪ A less defensive EU stance in negotiations, and FTAs with the US and China, possible under existing Treaty</li> <li>▪ Revising terms and scope of Common Commercial Policy and Customs Union may require standard procedure</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Netherlands and Sweden support greater openness to reforming farm tariffs and reduced use of trade defence instruments</li> <li>▪ France, Italy, Spain and others could take opposite stance to UK in any review of trade policy.</li> <li>▪ All Member States could veto establishing bilateral trade policy, even if risked Brexit.</li> </ul>  |
| Limit ECJ and ECHR influence | <ul style="list-style-type: none"> <li>▪ Limit recourse to the ECJ to ‘clarify’ EU law (CON, LAB)</li> <li>▪ Develop review mechanisms for ECJ decisions (CON, LAB).</li> <li>▪ Opt out of the jurisdiction of the ECHR (CON).</li> </ul>                                     | <ul style="list-style-type: none"> <li>▪ Collaboration between national jurists in interpreting EU precedents to restrict ECJ powers possible without treaty change.</li> <li>▪ Mechanism for member states to object to ECJ interpretation and trigger a review of the relevant directive is possible under simplified procedure.</li> <li>▪ The Lisbon Treaty obligation on EU member states to join the ECHR means UK opt out from ECHR jurisdiction may require standard procedure.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Netherlands supports limiting the extent to which the ECJ makes EU law through judicial review.</li> <li>▪ Every Member State could have own area for restricting ECJ powers.</li> </ul>  |

- Strengthen 'yellow card' procedure for proposals by increasing power for national Parliaments to halt Commission proposals. (CON, LAB)
- Reduced threshold for triggering yellow card procedure possible without treaty change
- Near-universal support for role of national Parliaments among Member States

# Conclusion: certain uncertainty

For businesses, investors and policymakers the May 2015 British general election raises a large number of questions and uncertainties. A shifting political landscape has transformed the conventional three-party calculus of British politics into something much more complex and this will both shape the election and what happens afterwards.

The balance of probabilities is strongly in favour of neither of the two large parties winning a majority in 2015 and there is a serious prospect of minority government. Legislating in this context will be a labour-intensive and highly political business. Plans and priorities will be shaped by short term tactics as much as long term strategy. The ideological preferences and instincts of both sides may be hedged by Parliamentary circumstances - perhaps especially for the Conservatives.

The risk posed by this election for Britain in Europe is not chiefly the prospect of a public referendum on European membership - which is in fact far from certain. Rather it is an intensification of Britain's complex and difficult to resolve debate on its place and role in an evolving EU. This will be made more complex by the fact that Britain will seek to amend the terms of the relationship at a time when trust and support in Brussels is in limited supply.

If you are concerned about the impact of the British General Election for your business, portfolio investment or investment proposition contact [s.adams@global-counsel.co.uk](mailto:s.adams@global-counsel.co.uk).



# Notes

A series of horizontal dotted lines for writing notes.

A series of 20 horizontal dotted lines for writing notes.

# About Global Counsel

Global Counsel is a strategic consultancy that provides counsel, research and analysis for clients operating in markets where an understanding of the intersection of business, policy and politics is critical.

Global Counsel acts as senior counsel to Chief Executives, Boards, Corporate, Regulatory and Government Affairs, and to strategy teams, as they evaluate market opportunities, define corporate strategy and assess and respond to policy and regulatory trends and risks.



Global Counsel

**Global Counsel**

5 Welbeck Street, London, W1G 9YQ

**T:** +44 [0]203 667 6500

**E:** [info@global-counsel.co.uk](mailto:info@global-counsel.co.uk)

**W:** [www.global-counsel.co.uk](http://www.global-counsel.co.uk)



Front Cover Image: © Pres Panayotov

Document designed by: Jonathan Lissemore

## Global Counsel

5 Welbeck Street, London, W1G 9YQ

T: +44 [0]203 667 6500

E: [info@global-counsel.co.uk](mailto:info@global-counsel.co.uk)

W: [www.global-counsel.co.uk](http://www.global-counsel.co.uk)

Although Global Counsel makes every attempt to obtain information from sources that we believe to be reliable, we do not guarantee its accuracy, completeness or fairness. Unless we have good reason not to do so, Global Counsel has assumed without independent verification, the accuracy of all information available from official public sources. No representation, warranty or undertaking, express or implied, is or will be given by Global Counsel or its members, employees and/or agents as to or in relation to the accuracy, completeness or reliability of the information contained herein (or otherwise provided by Global Counsel) or as to the reasonableness of any assumption contained herein. Forecasts contained herein (or otherwise provided by Global Counsel) are provisional and subject to change. Nothing contained herein (or otherwise provided by Global Counsel) is, or shall be relied upon as, a promise or representation as to the past or future. Any case studies and examples herein (or otherwise provided by Global Counsel) are intended for illustrative purposes only. This information discusses general industry or sector trends, general market activity and other broad economic, market or political conditions. It is not research or investment advice. This document has been prepared solely for informational purposes and is not to be construed as a solicitation, invitation or an offer by Global Counsel or any of its members, employees or agents to buy or sell any securities or related financial instruments. No investment, divestment or other financial decisions or actions should be based on the information contained herein (or otherwise provided by Global Counsel). Global Counsel is not liable for any action undertaken on the basis of the information contained herein. No part of this material may be reproduced without Global Counsel's consent.