

Challenges and Opportunities for a post-Brexit Mercosur-United Kingdom Agreement

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INTRODUCTION

The purpose of this paper is to contribute analytical elements, scenarios and alternatives for action that will make it possible to progress towards an Agreement between Mercosur and the United Kingdom following its exit from the European Union (Brexit).

In the first section, we will provide a trade potential snapshot, in light of the analysis of the trade flows between Mercosur and the United Kingdom during the last three years.

In the second section we will discuss the political and institutional context within which the relationship between Mercosur and the United Kingdom takes place, taking into account the potential obstacles to overcome and the challenges represented by the political dialogue environment.

In the third section we will identify and review a number of alternatives to make a stronger bond possible, emphasizing the windows of opportunity in the short term and, particularly, those that will make it possible to advance the negotiation objectives.

Finally, some conclusions are provided, putting emphasis on the process that lies ahead.

1) TRADE POTENTIAL SNAPSHOT¹

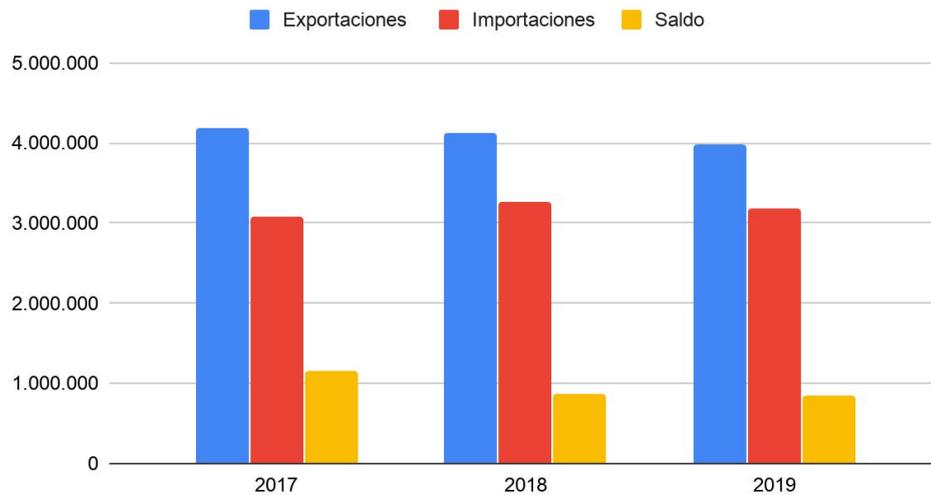
Compared with the 2015-2017 period, Mercosur trade balance with the United Kingdom did not experience major changes in the last three years. Figures show that the United Kingdom is not a significant market for the bloc's exports, accounting for slightly under 1% of its total external sales.

While in 2018 the United Kingdom improved its share as a destination for Mercosur countries exports, sales of Argentina, Paraguay and Uruguay (the latter is the only Mercosur country that has a deficit with the United Kingdom) dropped in 2019. Brazilian exports rallied from 2018, but did not reach 2017 levels.

¹ Total trade Exchange and agrifood Exchange figures between Mercosur and the United Kingdom for the 2017-2019 period were updated on the basis of information provided by the International Trade Center and the United Kingdom National Statistics Office (see statistical tables in the Annex). The trade potential review and the analysis focusing on tariff aspects were based on the 2017 report. "Ventajas Comparadas e Insumos Generalizados: Una plataforma para negociaciones de comercio internacional con aplicación a la relación comercial entre la Argentina y el Reino Unido".

Mercosur-United Kingdom trade in goods (in USD thousands)

Comercio Mercosur - Reino Unido (en miles de dólares)



Source: Prepared by GPS on the basis of Trademap (ITC) data.

The United Kingdom, as supplier of the region, accounts for less than 1% of total Mercosur imports. In the case of Argentina, imports increased marginally in the last three years, while varying in the other Mercosur partners: in Brazil and Paraguay, imports grew in 2018 and fell in 2019, while in Uruguay they dropped in the last two years.

Mercosur marginally increased its share as a destination for exports in the 2015-2017 period and, to a lesser extent, as a source of British imports by 1% and 29% respectively (the bloc became a more important trade partner for the United Kingdom). However, in the years that followed (2018-2019) figures did not change significantly.

It is worth mentioning that there was a significant year-on-year increase in Argentine wine exports, a sector that comprises over 100 companies from different provinces and that constitutes a paradigmatic example, showing that high-quality products for which there is an appropriate strategy can overcome unfavorable tariff headings in which our competitors have an advantage.

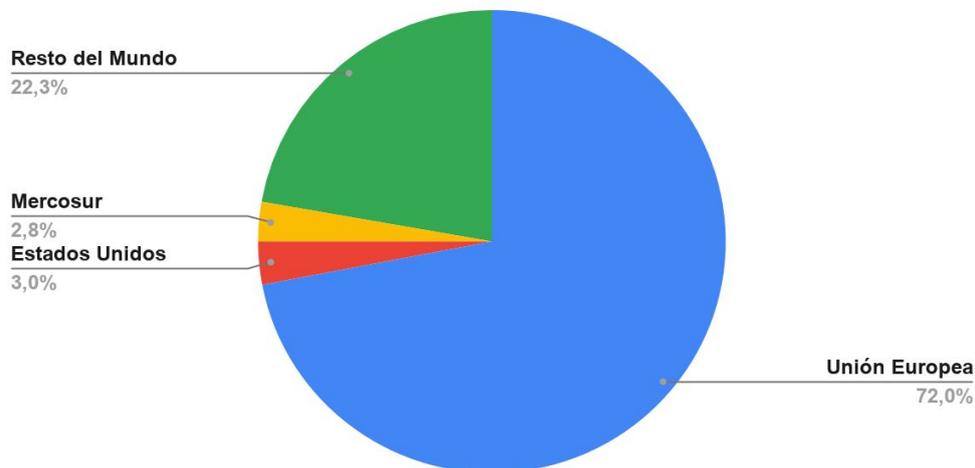
Trade in food

As regards trade in processed foods and agrifood products², it is worth noting that total United Kingdom imports in 2019, USD 41.6 billions, practically equal Mercosur exports to the world, which totaled USD 41,8 billions in that segment.

72% of the United Kingdom processed food and agri food products last year came from the European Union, with France, the Netherlands, Ireland and Germany as the main suppliers.

UK's main processed food and agri food products suppliers (2019)

Proveedores del Reino Unido de alimentos procesados y productos agroalimentarios (2019)



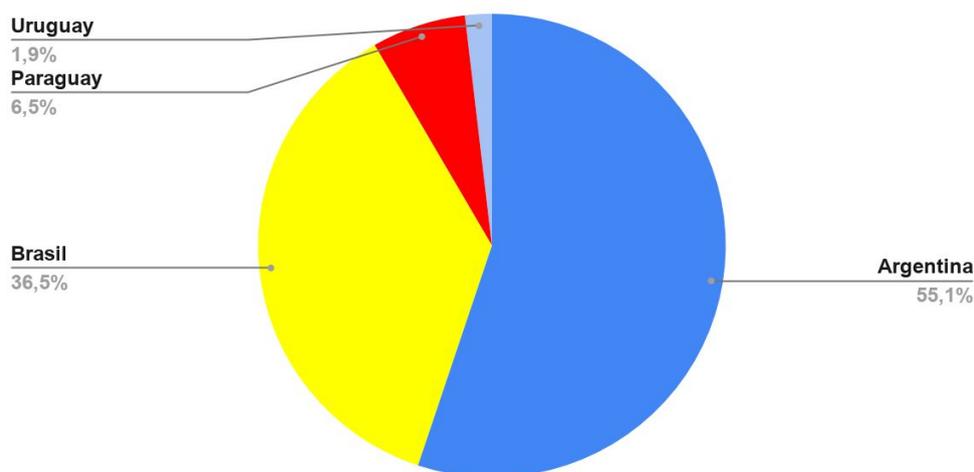
Source: Prepared by GPS on the basis of Trademap (ITC) data.

While Argentina ranks 12th and Brazil 15th, Mercosur countries do not have a significant share in the ranking of the main agroindustrial suppliers of the United Kingdom. Mercosur exports, totaling USD 1,1 billion, accounted for 2.8% of United Kingdom processed food and agrifood product imports in 2019. Argentina accounts for 55% of the value of such shipments, Brazil for 36%, Paraguay for 6.5% and Uruguay for slightly over 1%.

² Product group category used by Trade Map.

Country share of Mercosur´s processed food and agri food products exports to the United Kingdom (2019)

Exportaciones del Mercosur al Reino Unido de alimentos procesados y productos agroalimentarios (2019)



Source: Prepared by GPS based on Trademap (ITC) data.

Trade advantages and potential

As regards the potential for trade complementation between Mercosur and the United Kingdom, there are advantages for the sale of a number of agricultural products, although they are hampered by high tariff and non-tariff barriers in the British market. These include onion, garlic, leek (SA0703) and wine (SA2204). In addition, given the size of British imports, the market is particularly interesting for fresh beef (SA0201) and poultry meat (SA0207).

In 2019, the United Kingdom imported over USD 4 billions in wine (SA2204), almost USD 1 billion in fresh beef (SA0201) and USD 1 billion in poultry meat (SA0207).

In addition, there are four other sectors in which Mercosur has comparative advantages: sugar cane (SA1701), fruit and dried fruit preparations (SA2008), wines (SA2204) and fish (SA0303). All these are part of the sectors facing the highest import tariff levels, which suggests a departure between the British demand pattern and protection of the European market. It is thus to be expected that the United Kingdom will choose a lower import tariff in the post-Brexit stage. These are thus the items with the greatest immediate potential in the event of an Agreement with the United Kingdom.

Finally, there are three additional sectors in which the bloc and Argentina are competitive exporters, but where the penetration of the British market is low, and they are also in the group of sectors with the highest tariffs for entry into the British market: fresh bovine meat (SA0201), for which there are specific tariffs equal

to 50% of the value of the exports; fruit and vegetable juices (SA2009), for which the tariff is of more than 29%, and onions and leeks (SA0703), for which the tariff is of almost 30%.

2) POLITICAL AND INSTITUTIONAL CONTEXT

To address the possibilities of successfully undertaking a negotiation process between Mercosur and the United Kingdom, appropriate weight should be given to, and an evaluation should be made of the political dialogue environment and institutional context in which the players involved develop their ties.

In this connection, to identify challenges and potential obstacles to be overcome, a number of scenarios should be considered in four levels of analysis: the prospects for “Global Britain”, the Mercosur situation, the role of the Malvinas issue and the effects of Brexit and fishing in the South Atlantic.

Prospects for the “Global Britain” vision

The United Kingdom is at a turning point. Its political leadership seems determined to comply with the Brexit mandate and culminate the process of separation from the European Union.

The hard vs. soft Brexit scenarios are still on the table. There are too many interests at stake on both sides, which are heightened in the context of uncertainty of the pandemic and global economic recession. It is worth asking whether the circumstances provide a reasonable excuse, if required, to lengthen the transition period beyond December 31 (10 Downing Street is sending unequivocal signs that, under any scenario, the United Kingdom will leave the European Union next January).

It would then be time to make progress with developed economies such as the United States, Japan and the Commonwealth countries, particularly Australia and New Zealand. The case of the two latter countries is particularly important as a basic step for the United Kingdom joining the Comprehensive and Progressive Trans Pacific Partnership-CPTPP (a trade preference agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam³).

The Conservative Party Manifesto explains the negotiation priorities of the United Kingdom following Brexit. Such list includes the United States, Australia, New Zealand and Japan. Mercosur is not included.

The United States is the historical and priority partner with which the United Kingdom aspires to build a new “wealth cycle”, while the Commonwealth countries represent its historical areas of influence and thus, the main zones of British impact

³ On December 30, 2018 it went into effect among the first 6 countries to ratify the agreement: Australia, Canada, Japan, Mexico, New Zealand and Singapore. On January 14, 2019 it went into effect for Vietnam as well.

and influence. Finally, Japan is key because of its role as an investor in the United Kingdom and its strategic location in Asia, where other key players, such as for instance China or India, have fewer incentives to become partners on equal terms with London.

However, it is worth noting that, while our bloc is not an explicit priority in Global Britain's strategy, that does not mean that Mercosur is not an attractive negotiating option for the United Kingdom. Our bloc boasts the advantage of contributing to British strategy a sense of universality and multidirectionality in terms of its objectives, as well as an opportunity to expand sources of access to raw materials and food, a market with a certain purchasing power and the fact that it highlights its role as a global player and net capital exporter.

As we shall discuss in greater detail in the following section, the potential for progress in a trade negotiation with the United Kingdom is linked to the Mercosur-European Union process. If such process is completed in the last quarter of 2020, or in the first half of 2021, the interest of the United Kingdom could well increase, so as not to be left at a disadvantage with respect to its European partners (from which it will gradually and selectively "decouple" itself).

Current Mercosur situation

Mercosur, as a negotiating unit, is going through a complex time. There are two main trends which, if deepened, could affect the possibility of creating an appropriate framework for a Mercosur-United Kingdom negotiation to progress.

It is worth recalling that the Brazilian government, in line with that of Argentina, held initial conversations when British authorities launched rounds of exploratory talks with multiple partners within the context of Brexit. There are explicit statements in that regard, made by the Economy Minister Paulo Guedes, as well as by the Foreign Trade Secretary Marcos Troyjo, stating their intention of moving forward in the negotiation of an agreement similar to the one reached with Europe.

It will be essential whether the goal of signing a Mercosur-European Union agreement materializes and whether the provisional clause for the trade pillar enters into effect, which would require the approval of the European Parliament (in principle, approval by the Parliaments of European Union member countries would not be required for trade pillar aspects) and, individually, of the parliaments of Mercosur countries. This would mean, for example, that if the European Parliament and the Parliament of Uruguay approve the agreement, concessions would provisionally apply to Europeans and Uruguayans, without requiring the approval of the other Parliaments of Mercosur Member States (an interpretation whose legal and constitutional sustainability has been questioned, based on the Asunción Treaty).

The lesser sensitivities of the United Kingdom with respect to agro-industrial imports, coupled with the provisions already agreed with the European Union,

allow us to think that a negotiation between Mercosur and the United Kingdom might be more agile. However, current circumstances in Mercosur do not seem to indicate that there is a strong agreement to promote this agenda, owing not so much to specific limitations, but rather because of the general state of immobility existing in the bloc.

Role of the Malvinas issue

In terms of domestic policy, in the United Kingdom the Malvinas issue does not constitute limitations for action or a public debate taboo, as is the case in Argentina. British majority parties (Conservatives, Labour and Liberals) agree on the self-determination approach. There is consensus among them. Still, the Conservatives, who have recently won an important victory at the polls and will possibly remain in power for some time, have more pragmatic, less regulatory approach, and accordingly more in favor of exploring practical formulas.

For its part, the current Argentine government's policy regarding Malvinas for the time being seems to be similar to that of the 2003-2015 period. While there are some signs of continuity, the trend to differentiate itself from key initiatives of the previous government seems to predominate. Thus, considering that the tie depends to a large extent on signals from the Argentine Executive Branch, with bills concerning a new Malvinas Committee (with the opposition clearly in the minority and without the private sector acting as participant or observer), as well as on the extension of the Continental Platform and higher fines for illegal fishing, will no doubt have an impact, which is still difficult to estimate.

Contextualization is also required following the change of government in Argentina. Within the Brexit context, in the last years of President Mauricio Macri's administration, the Foreign Affairs Ministry, the Production Ministry and the Embassy in London worked to advance a number of items on the negotiation agenda.

Conceived as a long-term approach, both time and political will management are relevant. In that regard, the change in political sign with the arrival of President Alberto Fernández to power in December 2019 modified the balance of domestic preferences. The political climate changed, with a number of players whose positions exercise a centrifugal force towards stronger claims, relating to the past, and in a more aggressive tone towards the United Kingdom.

In that regard, the ability to manage the role of such players with veto power and at the same time create the appropriate climate for political dialogue while the necessary political economy coalitions are built will be essential to create a favorable environment to channel the talks.

Brexit and fishing: uncharted waters

As mentioned above, the exit process of the United Kingdom from the European Union is in its final stretch, but significant differences still exist. It is a race against time, to allow for ratification on both sides and permit the new relationship between the European Union and the United Kingdom to go into effect from January 1, 2021.

One of the basic issues still to be settled is fishing in United Kingdom territorial waters (one of the richest in the world). For the European Union, it is essential to reach an agreement that will allow its vessels to fish in British waters. Although the fishing sector accounts for less than 1% of European Union GDP and 0.1 of that of Great Britain, its political weight is significant.

It is also worth noting that fishing is also one of the red lines traced by Prime Minister Boris Johnson, who wants the difference with respect to the current situation to be clear. In addition, his negotiator-in-chief, David Frost, systematically insists on it⁴.

The pandemic adds greater uncertainty as to whether the December 31 deadline will be met. *No deal* continues to be a possible scenario. However, there is strong interest on both sides in reaching a compromise. Germany, *pro tempore* President of the European Union, has stated that after the vacation recess, they will be able to focus on Brexit, given that to date, efforts had focused on the budget and the recently approved community fund to combat the impact of COVID-19.

There are highly complex political, economic and security challenges in the South Atlantic fishing sector. The sustainability and climate change agenda is one of the critical factors, although they are clearly not exhausted there.

Sustainable management of seas and oceans requires precise and timely information more than ever. A long-term horizon, maintaining a high level of dialogue and building trust, and finding possibilities for synergy, particularly by developing the economic-trade angle of sustainable use of fishing resources, as well as of sea-related technologies and other unexplored niches are required to resolve these issues.

In a potential scenario in which the islanders lose the privileges the European Union has always granted them, the economic sustainability of the islands could well be affected, mainly by the impact of the changes in the rules of the game for fishing.

⁴ He recently declared: "*We have always been clear that our principles in these areas (State aid and fishing) are not simple negotiating positions but expressions of the reality that we will be a fully independent country at the end of the transition period*".

3) OPPORTUNITIES TO MAKE A CLOSER TIE POSSIBLE

Following the trade flow and trade potential snapshot provided in the first part, and the description of the complex political and institutional context in which relations between Mercosur and the United Kingdom exist, we shall now turn to some of the opportunities to make a greater economic tie possible, particularly in the short term.

It should be noted that our starting point is a comprehensive look at the economic tie with the United Kingdom, seeking to go one step beyond the trade flow potential, and focusing as well on the attraction of capital, productive investments and expansion of access to financial instruments.

In addition to it being a market with much space for growth (particularly for processed, high-quality, differentiated foods), it is critical to look at the United Kingdom in light of one of its main characteristics: it is an economy whose three quarters of GDP represent services and finance. We thus also need supplemental, investment and development approaches, to improve the competitiveness of Mercosur economies.

Worth remembering, and related to the above, is the historical role that British investments played in the past in some of the bloc's countries. Until the First World War, the United Kingdom was a leading investor, ranging from the meat and leather industry, extensive crops and the lumber sector, to the development of railroads, services and shipping companies, among others.

Brexit represents a before and after for British foreign trade. It is to be assumed that the United Kingdom will need to build associations and show results that support the advantages of its strategy of separation from the European Union. And in some terms, with certain scopes, Mercosur in general and the agribusiness ecosystem in particular are attractive.

The food issue is not without sensitivities for British tradition (and for European tradition in general) and it will most likely not be easy to effectively persuade the population concerning the import of cheaper products from the other side of the Atlantic, whether North or South America. In this connection, it will be essential to monitor United Kingdom decisions concerning the type of rules under which it will operate with each of its partners (American, European or new regulations of its own⁵).

There are some who regard this context skeptically and highlight the strong dependence of the British economy on communitarian trade and the complexity of formalizing new agreements. Others nuance this vision and trust that the United

⁵ For example, the Food and Drink Federation (FDF) and the National Association of British & Irish Millers (NABIM) of the United Kingdom filed a proposal concerning rules of origin designed to minimize disruptive effects in food value chains within the context of Brexit. According to specialists, it is a strong, well designed and ambitious project. Its goal is to extend the accumulation of origin in the draft Agreement between the European Union and the United Kingdom for the food and drink sector. This would make it possible to maintain and protect existing supply chains, with far more flexible rules and equivalences.

Kingdom will achieve advantageous agreements in the short term (negotiation prospects, mentioned above, with the United States, Australia, New Zealand and Japan). But in any event, it is clear that it will be in the interest of the United Kingdom to promote negotiations and agreements with the countries and the blocs with which the European Union has trade preferences and that London will no longer have once Brexit becomes fully effective.

Track1: Mercosur Approximation

The British position shows interest in progressing towards an Agreement with Mercosur⁶. It is worth pointing out that the United Kingdom played a positive role while Mercosur negotiated with Brussels for almost 25 years. In fact, Brexit and its resulting impact on London's influence during the last stage of the negotiation process entailed, for Mercosur countries, the loss of a partner to achieve balances and conclude negotiations even faster.

While it is difficult to forecast dates, there is enough agreement concerning the possibility that the Mercosur-United Kingdom Agreement will be on the table sooner rather than later.

The low level of sensitivities concerning mutual offensive and defensive trade interests constitutes an encouraging framework, although it is not expected to be an agenda with immediate results. There are many indications that the process, as such, is perceived by the players as an asset and that it provides a broad agenda for cooperation and strategic dialogue.

Developments vis-à-vis Mercosur-European Union

Brexit has impacts on this final stretch of the Mercosur-European Union negotiation. Depending on what Brussels ultimately agrees with London, there will be different scenarios for our regional bloc.

As of today, the Mercosur agreement in principle is with all the Member States of the European Union. It includes clauses that provide both for the addition and the reduction of members in both blocs, and the effectiveness of the agreement would thus not be interrupted for those reasons. But when Brexit takes place, the United Kingdom and the European Union will have to agree what percentage of the quotas and concessions made in all its Agreements each party will absorb. The concessions made by Brussels to Mercosur might thus be altered.

In this regard, post Brexit, the United Kingdom would lose the advantage of liberalization of 90% of trade granted by Mercosur to the European Union, and

⁶ The Embassy of the United Kingdom in Argentina has so stated within the framework of the interview of Foreign Office official Sam Gilbert, whose responsibilities include support to build a strategy of approximation to Mercosur as a bloc, independently of the development of bilateral Argentina-United Kingdom ties. This said, it can also be inferred from the analysis made and the talks held.

Mercosur will not be able to apply the concessions granted by the European Union for access to the United Kingdom, which entail almost 99% of trade and quotas.

Under these circumstances, the United Kingdom will have a strong motivation not to lose markets for its exports of goods and services, as well as to have rules that allow fluid trade and protection for its investments; there would thus be an opportunity for the United Kingdom and Mercosur to grant each other the same advantages they granted each other in the Mercosur-European Union Agreement⁷. And even, why not, to go a little further.

Mercosur might request additional concessions in the agroindustrial sector, given that the United Kingdom, as already mentioned, has lesser sensitivities than the European Union as a whole⁸. Thus, a window of opportunity might therefore open to negotiate with the United Kingdom with a Mercosur-European Union “plus” logic

However, it is essential to manage possible bottlenecks, since the United Kingdom will have to negotiate with several countries at the same time (as noted in the second section), which will entail the full use of its negotiating abilities. It is thus essential for Mercosur to position itself appropriately. Mercosur has not had a common and unequivocal position on this issue. And this could entail greater difficulty to negotiate at the speed that other countries will.

Worth noting again is the “reapportionment” process mentioned above, i.e. the manner in which proportionality is distributed among the quotas sent to the European Union and the United Kingdom. This process should be monitored in depth so as not to lose market share in the case of the European Union, and to maintain or increase flows, in the case of the United Kingdom.

British authorities are aware of the evolution of the Mercosur-European Union talks and of its interaction with the Brexit process. Their underlying goal is not to be left at a disadvantage with respect to other European companies, and hence the importance of maintaining the level of dialogue so that, at the appropriate time, the parties will be in a position to negotiate and conclude an Agreement within a reasonable period of time.

It is worth mentioning that the interest of the United Kingdom in an agreement with Mercosur could be strengthened by the progress that the bloc might make, for instance, as regards trade facilitation and enhancement of the intra-bloc agenda on regulatory cooperation and coordination.

In this context, it might be a good idea to explore creative ways of putting the negotiation of the final stretch with the European Union and with the United Kingdom on an equal footing. It would constitute ambitious progress towards a

⁷ For instance, Chile has already signed a preliminary document in which it states that it extends to the United Kingdom the same concessions it had as a member State of the European Union, provided there is reciprocity from the United Kingdom.

⁸ It is worth mentioning that, according to unofficial reports, it was countries such as France, Ireland, Poland, Spain and Italy that limited offers to the Mercosur in bovine meat, poultry meat, citric fruits, ethanol, sugar and wines, among other items.

global strategy and simultaneous negotiations (which are certainly not exhausted there).

There are no insurmountable technical reasons, independently of available (primarily human) resources, for various negotiating teams to progress simultaneously on the more complex aspects relating to the agenda for the “day after”, entry into force and future application. Facilitating players are required to accompany this process, and that is where public-private cooperation emerges as critical once again.

Tailor-made approach and new disciplines

The process of British separation from the European Union, global uncertainty and the growing heterodox trends that characterize the agenda of international trade negotiations provide a fertile context to explore formulas. For example, the vocation to negotiate an original, innovative Agreement that will show that it is a foreseeable negotiating agenda, but with greater nuances and flexibilities than the one carried out, for instance, with Brussels.⁹ In this regard, there seems to be sufficient space to develop tailor-made negotiation formulas, or ones that include new items in line with shared goals and interests.

On the one hand, impact studies have already been carried out. In that connection, it should be noted that all analyses of the Mercosur-EU Agreement were prepared while the United Kingdom was still a member of the European Union.

On the other hand, and as already pointed out, there are few reticences concerning the basket of goods to negotiate. Estimates indicate that three fourths of tariff lines would not face great sensitivities. This offers, within this context, greater margin to reach a quick agreement and build on that basic consensus.

Also to be taken into account is the fact that any new negotiation initiative with the United Kingdom needs to be built on pillars such as sustainability, environmental protection and the huge regulatory challenges ahead as regards environmental standards and certifications¹⁰.

The challenge of achieving an innovative agreement also includes respecting mutual competitiveness. Thus, Mercosur finding a market for its agricultural production makes sense for both parties (inasmuch as British consumers would, to a greater or lesser extent, need to diversify and substitute subsidized European products).

Intensifying the sanitary and phytosanitary dialogue, sharing information on techniques to ensure data protection and phytosanitary standards are critical.

⁹ The sui generis nature of the Commission predisposes it to address the negotiation with greater rigidity than the United Kingdom might have individually in the post-Brexit stage.

¹⁰ All the work that GPS has been doing in terms of sustainability initiatives (carbon neutrality, deforestation, etc.) will be critical to highlight the competitiveness agenda. In addition, there are outreach opportunities (which we will cover later) to work with UK public-private partners in building an environment conducive to future sustainable trade.

Dialogue between SENASA and its British counterpart on genetic trade issues already exists. This requires support and resources. As is the case with the European Union, discussions on competitiveness in connection with environmental standards for agroindustrial production will be an important part of any Mercosur-United Kingdom negotiation.

The scope of the negotiation between the United Kingdom and Australia¹¹, with the new British strategic approach in terms of post-Brexit negotiations, offers alternatives worth exploring, particularly in three disciplines:

1. Provisions of climate and environmental sustainability that meet the ambition levels of both parties. Carbon-neutrality initiatives (a goal the United Kingdom aims for 2050) and planet-friendly growth initiatives, within the framework of the commitments undertaken in the United Nations Framework Convention on Climate Change and the Paris Agreement.¹²
2. Specific aspects dedicated to the support and promotion of Small and Medium Size Companies in foreign trade, with focus on local development, and programs enabling access to information and favorable provisions to strengthen the participation in the Agreement of Small and Medium Size Companies and entrepreneurs.
3. Disciplines with a gender perspective, cooperation projects and initiatives favoring women's economic empowerment.

Multi-speed process

As we mentioned before, in terms of comprehensive and long-term agreements, the best way to explore is through Mercosur. However, while no tariff concessions are negotiated, the block allows for the generation of mechanisms to advance in the dialogue about multiple disciplines, including services, the intellectual property agenda, streamlining and trade facilitation, among others.

Possibly, the independence of Brussels to set negotiating priorities will allow London to focus much more on negotiations in the service sector.

A mechanism that could be explored is a similar instrument to that negotiated by the Mercosur countries with the United States: the Trade and Investment Framework Agreement (TIFA), which allows a bilateral broadening of negotiations per disciplines to the extent that no tariffs are negotiated.

¹¹ The negotiation of an Agreement with Australia is the first logical step of the United Kingdom facing its objective of becoming a member of the CPTPP.

¹² The Conference of Parties (COP 26) shall take place next November in Glasgow. There, it would be expected that the United Kingdom impresses a high level of ambition to its environmental commitment and progress in initiatives to lead global "green finances". In January, Boris Johnson appointed Mark Carney (then governor of the Bank of England) as its financial advisor for the COP 26, and he was also appointed special liaison to the UN for climate action and finances. It is worth mentioning that about a month ago the United Kingdom launched phase 1 of its new Emission Trade System (ETS), which is going from 2021 to 2030, and which entails link schemes with other systems, which should be timely studied and identifying opportunities in terms of carbon pricing.

This could be an intermediate step before going to a broader and deeper Agreement. However, this process also requires a very clear political decision of both parties. The United Kingdom has a great demand for negotiations at this time and it will prioritize those with chances of actual results.

Scientific and technological diplomacy

There is enormous mutual interest in cooperation in terms of science and technology. There is a huge chance and sufficient margin to explore those sectors that can play a strategic role, both under State-State mechanisms as well as within the framework of potential business and public-private associations. It is essential to strengthen and deepen these initiatives.

Recent examples of bilateral Argentina-United Kingdom cooperation in terms of science and technology have several advantages that can be capitalized (and can be extended to the rest of the Mercosur countries), as they allow the gradual building on different “stages” of reciprocal interest or, that later have the potential to become a broader and comprehensive vision (as in an block Agreement with the United Kingdom). In this sense, it is worth pointing out some bilateral initiatives that, if exploited, offer a cooperation platform going forward:

- In 2016, the Secretaries of Science and Technology of Argentina and the United Kingdom entered into a Declaration of Intention recognizing scientific cooperation as a key element of the bilateral relationship and it identifies collaboration areas with scientific approach.
- The Argentine Scientific Network was created in the United Kingdom, with more than 70 members.
- 54 bilateral visits took place, focused on the scientific relationship. The first visit by the current Main Scientific Advisor of the Foreign & Commonwealth Office (FCO), Carole Mundell to Argentina was scheduled for March this year, which was put off due to the current COVID-19 pandemic.
- Links to the main British scientific institutions were created: Royal Society, Royal Society of Chemistry, Rothamsted Research, Francis Crick Institute, Royal Institution, Natural History Museum and the agricultural-technological consortium N8, Agrifood.
- The Scientific Advisor of the FCO created a dialogue group on Argentina-United Kingdom scientific cooperation in order to drive projects in the matter.
- More than 20 inter-institutional agreements were entered into and funded exchanges were agreed both with public and private institutions.
- As consideration to the work developed by the Argentina Embassy in London, the British Government created a “mirror” area in its Buenos Aires office, through the appointment of a representative of the Science and Innovation Network of the British government.

Outreach: public-private coordination and dialogue

There are a series of spaces and mechanisms, both informal and formal, where it is worth promoting outreach initiatives that strengthen the coordination and dialogue between the Argentine-British public and private sectors.

One of them is the Argentina-United Kingdom business dialogue, created within the framework of the Memorandum of Understanding entered into by both countries in 2017, and which includes an annual meeting between the Argentine Secretary of Production and British Secretary of Commerce, in order to assess the progress of the work plan of the business dialogue.

Another important initiative to mention is that of the Undersecretariat of Multilateral and Bilateral Economic Negotiations of the Ministry of Foreign Affairs, which entails the creation of the “UK post-Brexit” strategic table. Inspired by the experience of the National Committee for Asia-Pacific (CONAPAC), the purpose of this space is to gather different public and private players (including companies and business chambers) periodically to outline a road map in the medium and long-term. In this articulation, the role of the Ambassadors of Mercosur countries before the United Kingdom, as well as that of British Ambassadors in the capitals of the bloc, will be essential.

In addition, it is worth pointing out the business and investment mission that has taken place since 2017 in coordination with the Argentine-British Business Chamber and was last held in 2019. In this sense and given the current limitations for the physical trans-border movement and social distancing actions to contain the spread of the COVID-19 pandemic, it is desirable to reimagine the way to empower the joint work of the different business associations that gather the main common economic interests and represent a relevant critical mass to empower those bonds. These are the two binational chambers (the mirror institutions Argentine-British Chamber of Commerce and the British-Argentine Chamber of Commerce), the two locales chapters of the International Chamber of Commerce (ICC Argentina and ICC United Kingdom) and the facilitation of Canning House.

Finally, developing public-private and public diplomacy initiatives may contribute to major exchanges and, consequently, to a broader dialogue and understanding between both countries and societies. Among others, such initiatives may include:

- Exploitation of sports, gastronomic and cultural affinities and interests. An example could be the support to Argentine artists for them to participate in the Bienal London Design (postponed due to the pandemic for June 2021).
- Generation of synergies and initiatives within the framework of the new European “green movement”, including public conferences, webinars and events with Argentine and British think tanks. Organizations such as CARI and Chatham House may carry out facilitation roles in this line.

- Financing and development of Argentine public opinion studies that allow us to show, as proven in some prior cases¹³, that the perception of mistrust of our society towards the United Kingdom is low compared, for example, to the United States or some neighboring countries.

South Atlantic and Antarctica: positive narrative and a project of future

The place of the Malvinas issue in Argentine foreign policy has been reflected in the diplomatic tradition since the seventies through the speeches in the Assembly of the United Nations and the Decolonization Committee. However, international law trends seem to favor the preeminence of the self-determination principle. While this is so, the incentive for the United Kingdom will be to preserve the status quo, so long as the conditions for negotiation are not built and generated.

It was under this logic, regardless of any political evaluation in this matter, that humanitarian initiatives such as that of the Red Cross were promoted in Malvinas. As well as, in the context of reiterating and safeguarding the claim of Argentine sovereignty, the Scientific Fisheries Subcommittee was reestablished with the United Kingdom with the aim of evaluating stocks that were overexploited due to the excess of licenses granted, and the flights of a commercial airline with a monthly stopover (round trip) in Córdoba that goes to the airport in the islands was initiated.

In the current situation of global economic uncertainty, geopolitical complexity and a global health crisis whose short-term solution is not guaranteed, privileging the status quo may become a non-option for the exploitation of our continental sea.

Vision, negotiating attitude and imagination are required to reach innovative formulas. The new regulation of maritime law allows it and a systematic effort should be made to use successful negotiation examples and lessons, at the same time, building the political capital needed to adapt them to what is wanted and what can be done. In many cases, it is also necessary to overcome mental prejudice.

The narrative about the future of the South Atlantic and Antarctica will be key. Its construction is what allows or validates the negotiation alternatives. There lies the importance of building a positive narrative with strong content about the future, in terms of sustainable use of natural resources and capacity development to exploit them for the benefit of Argentine society, in the interest of the southern regions of the country, and within the context of Argentine projection towards the Antarctic continent.

¹³ A public opinion study carried out by Universidad Torcuato Di Tella, Universidad de San Andrés, CAF, KAS and Fundación Vidanta (May 2016) asserts that 45% of Argentinians considers the United States are not a positive factor for international peace and stability, followed by Russia with 14% and Great Britain with 11%.

4) CONCLUSIONS

As we have been able to appreciate in the first part, the flow of trade between Mercosur and the United Kingdom is way below its potential, with a bloc participation in the total British foreign trade of about 1%. However, for the sector of processed food and agrifood products, such participation almost triples that. Nevertheless, none of the Mercosur countries is among the main purchase origins of the United Kingdom for processed foods and agrifood products (Argentina is the 12th and Brazil the 15th).

In addition, the wine sector clearly emerges as the exporting sector toward the United Kingdom that has shown the capacity to steadily increase the sales both in terms of quantity and value. This, even in more unfavorable tariff conditions compared to the competitors, not just European ones, but also in the region, such as Chile, and the rest of the world (Australia). There are certainly valuable lessons to extract from the experience of this sector during these years.

Undoubtedly, viticulture, together with other sectors such as that of beef and poultry (sectors that United Kingdom imports in total about USD 6 billions a year), and also to some extent the sector of onion, garlic and leek; sugar cane; fruit preparations and nuts; and fruit and vegetable juices, may be benefited by a potential reduction of tariffs and more access facilities to the British market within the framework of a negotiation process.

However, as we showed in the second section, the political and institutional context where the relationships are developed among Mercosur countries and the United Kingdom is not free of challenges and obstacles to overcome.

On the one hand, we find the “overload” both of the supply and the demand of foreign negotiations in London after its separation from the European Union (Australia, New Zealand, United States and Japan, as well as the adhesion to the CPTPP), and the contrast with the perspectives of the foreign agenda of Mercosur, vis a vis the final leg of its negotiation with Brussels.

On the other hand, conceived as a negotiating unit, Mercosur is going through a difficult time. The low level of the bilateral Argentine-Brazilian relationship, empowered by the gap in interests as regards negotiations and commercial priorities (with their consequent impact on the dynamics of the foreign agenda of Mercosur), does not offer a very promising outlook.

There are also aspects of domestic political nature that are sensitive, including the Malvinas issue, within the broadest scenario of Brexit and the future of the South Atlantic and Antarctica, where undoubtedly there are very complex political, economic and security challenges, particularly fishing. But, in spite of all this, it is worth highlighting that the complex negotiation context where the last leg of Brexit is developing, may offer a window of opportunity to advance the conversations.

It is important to point out that we have not been able to identify, in legal-institutional terms, any determining element due to which the Malvinas issue represents an impediment to advance and conclude a Mercosur-United Kingdom negotiation. To the extent that we manage to avoid regressions or to keep the status quo which does not damage the current trade and investment flows, there are opportunities and a margin to build shared agreements. This will require vision, imagination and a negotiating attitude, within the framework of the new maritime law regulations, and anchored in a new positive narrative with strong content about the future, sustainable use of natural resources and development of capacities to exploit them for the benefit of our societies.

Finally, in the third and last part, where we tackled the opportunities that may facilitate a stronger relationship with the United Kingdom, we see a series of instruments, spaces and windows of opportunity in the short term. From this perspective, we need the help of approaches that supplement the potential of trade and are aimed at the development of investment for the improvement of the competitiveness of Mercosur economies.

As numerous pointed out, the separation of the United Kingdom from the European Union will be a before and after for British foreign trade. The United Kingdom will need to build associations and show the results of its Global Britain strategy.

Mercosur economy in general and the agro-industrial and agro-technological ecosystem in particular (a set of assets with super low level of sensitivity, as show the impact studies already conducted) are attractive for the United Kingdom. This attraction certainly has the potential of increasing in the event of an agreement with the European Union, because London will look to equaling the level field for their competitor and not be at a disadvantage.

In line with the foregoing, there would be a chance for the United Kingdom and Mercosur to mutually grant the same benefits granted in the Mercosur-European Union agreement, and even to negotiate with the United Kingdom with a Mercosur- EU “plus” mindset.

In this context, it would be convenient to explore creative ways to place the negotiation of the final leg with the European Union and with the United Kingdom in an equal standing. For example, showing the call for negotiating an original, innovative agreement, which reflects this is about a foreseeable long-term negotiating agenda, but with more flexibility than that carried out, for instance, with Brussels.

There seems to be room to develop tailor-made negotiation formulas which include new elements matching the shared objectives and interests, such as respect for mutual competitiveness; environmental sustainability and planet-friendly growth provisions; support to small and medium size companies in foreign trade with a local development approach; and gender perspective and women economic empowerment.

It is worth remembering that Mercosur allows some paths for differentiated and multiple speeds in the negotiation agenda. It offers mechanisms to advance the dialogue on disciplines such as trade facilitation and services (post-Brexit, the independence of Brussels to set negotiating priorities that will allow London to focus more on those included in this sector).

On the other hand, scientific diplomacy and technological cooperation play a strategic role. They have the potential of being the spine of the negotiation agenda with the United Kingdom. It is crucial to strengthen and deepen the initiatives both within State-State and mixed mechanisms, with a strong participation of the Argentine agricultural technological sector.

Finally, business communities and civil society organizations may play constructive roles taking advantage of the informal and formal spaces where it is worth promoting outreach initiatives that strengthen coordination and dialogue between public and private Argentine-British sectors. In Argentina, the business dialogue mechanism between the Departments of Production and Trade stand out; the "United Kingdom post Brexit" strategic table within the Ministry of Foreign Affairs; the continual work with different business associations that gather the main common economic interests; public opinion studies; synergies with the European "green movement"; and public diplomacy initiatives taking advantage of sports, gastronomic and cultural affinities.

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Exhibit Business Details¹⁴

IMPORTS TO THE UNITED KINGDOM FROM ARGENTINA				
(in thousand dollars)				
Chapter	Product Description	United Kingdom imports from Argentina		
		Value in 2017	Value in 2018	Value in 2019
TOTAL	All products	898,800	932,296	813,521
23	Waste and byproducts of the food industries; prepared animal foods	546,592	593,478	481,629
22	Beverages, alcoholic liquids and vinegar	104,543	107,861	127,372
10	Cereals	28,162	46,701	50,582
12	Seeds and oily fruits; seeds and different fruits; industrial and medicinal plants;	46,731	37,630	36,862
8	Fruits and edible fruits; sour cuts (citric fruits), melons or watermelons	37,033	35,622	18,852
2	Meat and edible waste	9,688	13,420	11,679
84	Machinery, mechanical apparatus and artifacts, nuclear reactors, boilers; their spare parts	11,100	10,207	10,567
73	Welding manufactures, iron or steel	376	3,150	8,149
41	Fur (except leatherwork) and leather	13,523	10,934	6,503
7	Vegetables, plants, roots and edible tubers	8,818	9,844	6,253
3	Fish and shellfish, mollusks and other water invertebrates	5,245	5,397	6,194
38	Different products of chemical industries	4,592	5,223	6,015
20	Preparations with vegetables, fruit, other fruits or other plant parts	4,046	4,760	5,759
29	Organic chemical products	3,641	6,677	5,355
33	Essential oils and resinoids; perfume preparations, toiletries and cosmetics	6,452	2,815	3,889
9	Coffee, tea, mate and species	1,542	2,509	2,933
1	Live animals	2,942	3,762	2,728
71	Fine pearls (natural) or cultured, precious or semi-precious stones, precious metals.	1,516	1,558	2,372

¹⁴ Source: own preparation based on Trade Map.

51	Wool and fine or ordinary hair; thread and horsehair products	1,565	2,096	2,026
85	Electrical machines, apparatus and material and their spare parts; recording or reproduction devices.	687	2,281	1,950
35	Albuminoidal materials; starch-based or starch- modified products; glues; enzymes	2,934	1,933	1,453
15	Animal and vegetable fats and oils; processing byproducts; food fats.	1,061	3,444	1,398
44	Wood, vegetal carbon and wood manufactures	650	1,345	1,332
4	Milk and dairy products; bird eggs; natural honey; animal origin edible products.	1,645	2,251	1,294

IMPORTS TO THE UNITED KINGDOM FROM ARGENTINA:				
PROCESSED FOOD AND AGRIPRODUCTS				
(in thousand dollars)				
Code	Product Description	United Kingdom imports from Argentina		
		Value in 2017	Value in 2018	Value in 2019
TOTAL	All products	898,800	932,296	813,521
	Processed foods and agro-food products	708,896	723,795	632,054
230400	Cakes and other solid waste from the extraction of soy oil (soybean), even ground.	443,832	472,732	375,703
220421	Fresh grape wine, including head, grape wort, where fermentation has not been prevented	91,948	94,290	102,890
230800	Vegetal matters and waste, vegetable waste and byproducts, included in	70,607	94,595	84,258
220429	Fresh grape wine, including head, grape wort, where fermentation has not been prevented	12,041	12,947	23,478
230630	Cakes and other solid waste from the extraction of fatty matters or vegetable oils	32,143	26,136	21,661
382319	Industrial mono-carboxylic fat oils; acid oils of refinery (except stearic acid	3,499	4,387	4,137
200811	Nuts, peanuts, whether prepared or conserved (except confectioned with sugar)	2,891	3,248	4,127
330113	Essential lemon oils, whether separated or not, including "concrete" or "absolute"	5,108	2,496	3,730

30617	Frozen shrimp and prawn, even smoked, peeled or not, including shrimp	2,955	2,991	2,896
100620	Cleaned rice "cargo rice " or "brown rice "	63	943	1,928
151800	Animal or vegetable fats and oils, and their fractions, cooked, oxidized, dehydrated, . . .	0	1,220	1,398
40900	Natural honey	1,645	2,251	1,294
200939	Sour "citric" juices, without fermenting and without additions of alcohol, including the addition of sugar.	1,143	1,410	1,219
160232	Preparations and conserves of food or byproducts of cock or chicken, of domestic species (exc. . . .	1,139	786	1,151
220410	Sparkling wine of fresh grapes	196	276	636
200210	Tomatoes, prepared or conserved without vinegar or acetic acid, whole or in pieces	0	0	373
170199	Sugar cane or beet sugar and chemically pure saccharose, solids (exc. Those with addition of flavoring.	7,558	107	294
100640	Broken rice	0	0	169
220422	In recipients with capacity above 2 l but below or equal to 10 l	0	3	164
220300	Malt beer	357	324	158
100630	Semi whitened or whitened rice, incl. polished or glazed	5	14	100
330112	Essential orange oils, whether separated or not, including "concrete" or "absolute" (exc.	648	59	60
330129	Essential oils, whether separated or not, including "concrete" or "absolute" (exc. sour oils.	2	0	60

IMPORTS TO THE UNITED KINGDOM FROM MERCOSUR			
(in thousand dollars)			
Exporters	Value in 2017	Value in 2018	Value in 2019
World	640,907,689	671,694,258	692,580,063
Mercosur	4,311,628	4,185,877	4,031,491
Brazil	3,130,526	3,014,909	3,020,865
Argentina	898,800	932,296	813,521
Paraguay	89,529	111,405	91,713
Uruguay	70,859	76,572	62,710

IMPORTS TO THE UNITED KINGDOM FROM MERCOSUR: PROCESSED FOOD AND AGRIPRODUCTS

(in thousand dollars)			
Exporters	Value in 2017	Value in 2018	Value in 2019
World	39,975,598	42,373,582	41,631,197
Mercosur	1,190,649	1,213,042	1,146,758
Argentina	708,896	723,795	632,054
Brazil	391,584	383,503	418,611
Paraguay	71,034	92,559	74,696
Uruguay	18,512	12,680	21,229

MAIN SUPPLIERS FROM THE UNITED KINGDOM			
PROCESSED FOOD AND AGRIPRODUCTS			
(in thousand dollars)			
Exporters	Value in 2017	Value in 2018	Value in 2019
World	39,975,598	42,373,582	41,631,197
France	4,893,188	5,015,929	4,940,432
The Netherlands	4,648,993	4,894,339	4,761,964
Ireland	4,350,511	4,746,618	4,601,835
Germany	4,324,260	4,562,197	4,583,658
Italy	3,084,511	3,365,290	3,377,507
Belgium	2,623,398	2,769,093	2,718,355
Spain	1,797,039	1,972,191	2,008,511
Poland	1,723,696	1,844,984	1,760,469
United States	1,296,920	1,375,904	1,262,575
Denmark	1,307,352	1,396,187	1,136,130
Thailand	930,738	998,975	1,014,607
Argentina	708,896	723,795	632,054
China	548,048	594,684	612,424
India	594,748	438,569	501,051
Brazil	391,584	383,503	418,611
New Zealand	390,314	375,799	376,342
Greek	295,452	335,487	351,186
Australia	349,806	385,156	350,199
Austria	280,006	295,038	294,288
Portugal	270,871	262,458	277,036
Chile	256,413	289,391	271,208
Sweden	338,254	295,876	270,065
Vietnam	222,142	269,111	263,660
Turkey	212,300	255,171	262,927