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VDMA Recommendations for the December 2022 Meeting of the EU-U.S. Trade and Technology Council (TTC)

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Introduction

The 2nd Trade and Technology Council Ministerial Meeting in May 2022 provided some promising developments between the European Union and the United States in their joint cooperation to prevent and reduce barriers to trade between the two economies. The VDMA was supportive of the steps taken to facilitate greater cooperation between the EU and the U.S. related to conformity assessment, technology standards, and semiconductor supply chains, as the May 2022 joint statement laid the groundwork for important progress to be made to strengthen the transatlantic relationship. Building on this progress, the VDMA calls on the TTC, in its 3rd Ministerial Meeting, to provide tangible solutions for how transatlantic trade irritants facing the mechanical engineering industry can be remedied.

Provide a Concrete Strategy to Achieve a Mutual Recognition Agreement on Conformity Assessment

The VDMA is supportive and appreciative of the TTC's May 2022 joint statement language, which noted that the EU and the U.S. would like to identify specific sectors where regulatory cooperation on conformity assessment would be beneficial. The VDMA responded to this call to action by issuing its "Roadmap to an EU-U.S. Mutual Recognition Agreement on Conformity Assessment for Machinery and Electrotechnical Products." This regulatory proposal calls on the EU and the U.S. to reach a Mutual Recognition Agreement (MRA) that would significantly make it easier for machinery and electrotechnical exporters in both the EU and the U.S. to have products certified in their domestic jurisdiction to meet the standards and requirements of the importing market.

After publishing this regulatory proposal and having several stakeholder feedback sessions with VDMA member companies and government officials alike, the VDMA believes that now is the time for the TTC to provide a concrete strategy for how an MRA on conformity assessment for machinery and electrotechnical products can be reached in the immediate future. This recommendation is in line with the Council's 2019 mandate to negotiate a conformity assessment agreement with the U.S.

Prevent New Trade Irritants Forming from New Domestic Content Requirements

The "Inflation Reduction Act" (IRA) signed into law by President Biden in August 2022 provides clean energy equipment suppliers, many being VDMA member companies, new opportunities to sell products to the American market. However, the IRA's new domestic content requirement laws discriminate against multiple European industries, including the machinery industry, increasing the risk of a new prolonged trade dispute. With so much progress being made to improve the EU-U.S. relationship since 2021, it is critical to the success of the TTC that the EU and the U.S. work together through this forum to proactively find a solution that would treat European manufacturers no less favorably than American ones, and retroactively prevent this issue from escalating into a prolonged trade dispute. A possible solution to this problem would be for the EU to have similar treatment to IRA domestic content requirements as Canada and Mexico.

Align Standards Related to Artificial Intelligence and Machine Interoperability

The use of artificial intelligence in machines has grown over the past few years as the industry has become increasingly digitalized. To foster innovation in this sphere and to prevent new trade barriers from emerging which may further force American and European machinery and electrotechnical manufacturers to develop separate products for separate markets, it is vital that the TTC align emerging standards that are in the process of being developed for artificial intelligence. Therefore, the VDMA supports the idea of an EU-U.S. AI "roadmap" and hopes that the TTC can avoid standards divergence on this matter.

In addition, with the increase of “Industry 4.0” technologies on shopfloors in the EU and the U.S., there is a growing need for machines produced by different companies to communicate with each other in a secure and efficient way. The Open Platform Communication Unified Architecture (OPC-UA) as an international standard (IEC 62541) in addition to the OPC-UA Companion Specification have been proven to provide this secure and efficient platform incurring standardized semantics for machine interoperability across different vendors. However, the use of this platform varies by industrial market, so promoting the salience of this industrial global production language should be explored as a potential topic of discussion in Working Group 1 of the EU-U.S. Trade and Technology Council.

Strengthen Transatlantic Data Flows

For the export-oriented mechanical engineering sector, the flow of machine data between companies and across borders is essential. Therefore, we hope that the Trans-Atlantic Data Privacy Framework will soon enter into force. During the December meeting, the TTC should continue discussions to coordinate policy which would protect transatlantic data flows while avoiding new regulatory barriers, data localization obligations, prescriptive national technical requirements, or unjustified data disclosure requirements. To allow and promote cross-border digital services, any new corresponding rules should be streamlined and harmonized to the greatest extent feasible.

Coordinate on Semiconductor Investments and Export Controls

Since the May 2022 TTC Ministerial, some policy developments took place affecting the semiconductor supply chain. Notably, the U.S. passed the landmark CHIPS and Science Act, increasing the demand for the domestic production of semiconductors and semiconductor equipment. As several VDMA member companies produce semiconductor equipment, the new investments made by this U.S. law provide new opportunities for suppliers in this sector. However, the U.S. has also issued new export controls that restrict the supply of advanced semiconductors and semiconductor equipment not only from the U.S., but also from companies located in third countries that use U.S. technology. During this upcoming TTC Ministerial meeting, EU officials should make clear that their own export control policy should only be regulated by European officials, and that U.S. extraterritorial sanctions affecting European industry enacted without EU consent is unacceptable.

Provide More Clarity on “Climate Club” Efforts

The EU and the U.S. have engaged in discussions to coordinate potential future Carbon Border Adjustment Mechanisms (CBAM) for industrial products such as steel. The VDMA views this cooperation as essential, as divergent policies between the EU and the U.S. would create new and unnecessary technical barriers to trade. In contrast, harmonizing these rules within the transatlantic trade zone through the creation of a “climate club” of like-minded nations would inspire confidence and minimize unnecessary costs for VDMA’s member companies, as well as provide a template for other similar countries that wish to join the transatlantic approach. During this December meeting, the VDMA encourages the EU and the U.S. to coordinate and harmonize emerging standards to the maximum extent feasible and provide more clarity on how both governments will proceed with the process to create this “climate club” over the next few months.

Deepen Cooperation on the China Challenge

While China is an important export market for the mechanical engineering sector, China continues to undermine elements of the rules-based global trading system. Being democratic societies with free markets and the world’s two largest economies, the EU and the U.S. are uniquely situated to set guardrails for global trade. For example, the two economies can partner in curbing abuses of industrial subsidies, intellectual property violations, and forced technology transfers. During this upcoming TTC meeting, VDMA believes that the TTC

should provide a unified and transparent roadmap discussing how the two sides will collaborate on these challenges in the long-term.

In addition, with prospective proposals being weighed in the EU and the U.S. to create new outbound investment screening mechanisms, it is critical for the two sides to work closely together to make sure that these mechanisms do not unintentionally restrict investments between the two markets. The EU and the U.S. should ensure that any prospective new outbound investment screening mechanism is limited in scope, targeted at specific actions taken by third countries threatening transatlantic security, and unable to restrict investments that are made between the EU and the U.S. now and in the future.

Eliminate Industrial Tariffs

The ongoing global pandemic and war in Ukraine have given rise to unprecedented challenges for our industry. Reaching an agreement to fully eliminate industrial tariffs in both markets would only help secure supply chains and reduce inflationary pressures by expanding market access, while cutting costs for manufacturers, reducing prices for consumers, and creating new employment in both economies. While VDMA recognizes that reaching a wide-ranging Free Trade Agreement (FTA) is not feasible at the moment, the specific elimination of industrial tariffs is low-hanging fruit that was one of the least contested topics during negotiations of the Transatlantic Trade and Investment Partnership (TTIP), and accordingly should be agreeable by both sides.

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