

Spotlight on Economic Security and the Dual Transition

14 Recommendations for the Fourth Ministerial Meeting of the EU-US Trade and Technology Council

May 2023

Background

The EU-US Trade and Technology Council (TTC) is standing at a crossroads. The third ministerial meeting fell short of expectations, delivering only limited progress. With the TTC's continuation following the 2024 US presidential elections far from certain, the fourth ministerial meeting, taking place on 30-31 May 2023 in the northern Swedish town of Luleå, marks a critical juncture. While the TTC proved an invaluable tool for transatlantic coordination following Russia's invasion of Ukraine, its success ultimately depends on both sides' ability to agree on concrete outcomes that are both commercially relevant and designed to outlast any potential changes of leadership on both sides of the Atlantic.

The Transatlantic Business Initiative (TBI) has drafted 14 recommendations for the fourth ministerial meeting, focusing on joint standards, the Transatlantic Initiative on Sustainable Trade (TIST), ICTS security and economic security – all of which will be vital for both, tangible progress within the TTC and transatlantic cooperation in the face of growing internal and external challenges.

Table of Contents

Background	1
Cooperation on Technical and Other Standards.....	3
Recommendation 1: Concrete results, better stakeholder engagement.....	3
Recommendation 2: Expand mutual recognition of conformity assessments.....	3
Recommendation 3: Harmonize the frameworks for sustainable finance.....	3
Recommendation 4: A template for commercial invoices to facilitate customs clearance ...	3
The Transatlantic Initiative on Sustainable Trade (TIST).....	4
Recommendation 5: Accelerate the roll-out of electromobility.....	4
Recommendation 6: Accelerate the scale-up of carbon neutral fuels	4
Recommendation 7: Coordinate regulations towards a circular economy transformation ..	5
Recommendation 8: Establish a dialogue on Green Public Procurement	5
Recommendation 9: Increase collaboration on rare earth magnets.....	5
Recommendation 10: Increase diversification and resilience in the semiconductor and solar supply chains	6
Recommendation 11: Enact key measures to facilitate (sustainable) trade	6
ICTS Security	7
Recommendation 12: Strengthen transatlantic cybersecurity and resilience without discriminating against EU or US suppliers.....	7
Economic Security.....	7
Recommendation 13: Strengthen the transatlantic market for dual-use goods.....	7
Recommendation 14: Evaluate existing investment screening mechanisms prior to considering new regulations	8
About the TBI	9
Imprint	9

Cooperation on Technical and Other Standards

Recommendation 1: Concrete results, better stakeholder engagement

Technical standardization must place greater emphasis on market needs and practicality. Standardization is business-driven and -supported. Economic operators ensure that the right content is standardized at the right time. All stakeholders should strive for harmonized international standards on different technologies, insofar as this is reasonable and practicable for industry as the recipient of such standards and related certifications. Both sides need to work together to develop international standards, e.g. regarding artificial intelligence, semiconductors, telecommunication networks, cloud and data governance, cybersecurity as well as fields for the green and digital transformation. Technical standardization should be carried out within the framework of recognized and established processes in international standardization organizations.

Recommendation 2: Expand mutual recognition of conformity assessments

The TTC, during the third ministerial meeting, agreed to make progress on streamlining conformity assessment procedures for the transatlantic trade of machinery products. The lack of conformity assessment bodies in the EU and United States that are authorized to certify machinery products in both markets continues to cause persistent backlogs that increase costs for exporters on both sides of the Atlantic. We urge the TTC to demonstrate concrete progress toward an agreement that will dismantle this long-standing technical barrier to transatlantic trade in machinery and electrical equipment.

Recommendation 3: Harmonize the frameworks for sustainable finance

In addition to technical standards there should also be a harmonization of the frameworks for sustainable finance. While there are differing views in the transatlantic community on the approach and necessary legislative and non-legislative steps to be taken, the standards and taxonomies developed in the EU, Canada, and the United States should be compatible and interoperable. Reducing fragmentation should therefore be a common priority across jurisdictions at the transatlantic level and beyond. Sustainability reporting standards should provide a focused, relevant, and decision-useful set of standardized metrics to be disclosed, combined with a clear materiality principle. There should also be an alignment on legacy bonds, i.e. there should be no disadvantage arising for bonds that have been emitted before agreeing on new common standards, which might not be met by all previously emitted sustainability bonds.

Recommendation 4: A template for commercial invoices to facilitate customs clearance

The TBI is a strong supporter of measures that facilitate the digitalization of border processes. A practical measure to achieve this objective could be the promotion by the EU and the United States of the development of a harmonized template for commercial invoices in international organizations such as the International Organization for Standardization (ISO).

- A commercial invoice forms the basis of the entry of the required data into the digital customs systems necessary for customs clearance.
- Unfortunately, there is a large diversity of formats of commercial invoices, hampering the

automized entry into customs systems. This also impedes efforts to use technology to automatize the “reading” of a given invoice and converting the data into an electronic file useable as input for customs systems.

- The main challenge of such technologies lies in fully and correctly identifying the necessary data field’s location/subject on each invoice format. A harmonized template would enable these technologies to read invoice data more accurately, enabling automatized transfers into respective customs systems.

In short, a standardized and harmonized template for commercial invoices would reduce mistakes and the use of paper-based documents, thereby increasing both transparency and efficiency.

The Transatlantic Initiative on Sustainable Trade (TIST)

Recommendation 5: Accelerate the roll-out of electromobility

Joint measures for a rapid scale-up of electromobility, including the necessary charging infrastructure, are essential for the decarbonization of transport. The EU and the United States should reinforce their efforts to harmonize operating requirements and testing procedures for e-vehicles and charging stations. The development of joint standards in battery and charging technology such as megawatt charging systems (MCS) for heavy duty vehicles would be particularly helpful.

Transatlantic cooperation as well as the integrity of supply chains and innovation-fostering production networks will be essential for accelerating the rollout of e-mobility markets. Both sides must avoid placing foreign companies at a disadvantage. Regulatory measures such as requirements regarding battery production and final assembly of electrical vehicles in the US Inflation Reduction Act (IRA) risk hampering the roll-out of electromobility around the world, including in the United States itself. The European Commission should use all available channels to ensure the implementation guidance of the US authorities is as inclusive as possible in order to minimize discrimination against European manufacturers.

Recommendation 6: Accelerate the scale-up of carbon neutral fuels

The decarbonization of transport will require a shift to carbon-neutral fuels in air, sea and non-electrified rail-transport as well as the existing fleets of cars and trucks. To achieve the scale-up necessary to achieve carbon neutrality in 2050, strong partnerships between the EU and the United States in research and development, production, the establishment of international sustainability criteria, the standardization of balancing and certification systems as well as the development of a transport and refuelling infrastructure for carbon-neutral fuels will be indispensable.

Policy-makers should further develop regulations on international air and sea transport, such as obligations for the use of carbon-neutral fuels or the mandatory compensation of emissions. By enforcing said regulations, the International Civil Aviation Organization (ICAO) and International Maritime Organization (IMO) must ensure a global level playing field, including to prevent carbon

leakage in international transport. Against this background, we urge Working Group 2 to double down on their efforts to accelerate the roll-out of carbon-neutral fuels.

Recommendation 7: Coordinate regulations towards a circular economy transformation

Prior TTC statements recognize the benefit of specific initiatives to accelerate the deployment of clean, low-carbon products and technologies, including those that support the transition to a more circular economy and thus help prevent environmental degradation. As part of its pursuit of a trade-facilitative approach to remanufacturing, refurbishment, repair, and reuse as part of the circular economy agenda, the TTC should establish initiatives that help ensure the transition from waste products to commercial feedstock, which would create even greater economic activity and recovery. Policy examples to promote such a transition include:

- Developing recycled plastic standards and EV battery passports;
- Common approaches to Extended Producer Responsibility (EPR) schemes;
- Efficient regulatory procedures to promote recycled content;
- Customs and trade facilitation measures that remove temporary import duties and restrictions on maritime transport and coordinate data collection and processing.

Recommendation 8: Establish a dialogue on Green Public Procurement

Given the huge volume of public procurement both in the United States and the EU, as well as the considerable impact of public purchasing on the green transition, there is a need for a dialogue on common basic approaches regarding Green Public Procurement (GPP). A common understanding regarding the basic elements and principles of GPP in line with the relevant US and EU legal frameworks would support industry on both sides. Furthermore, such an agreement could contribute to setting standards for cooperation with third countries. It would support common interests of the United States and the EU regarding global trade as well as benefit the green transition around the world. Activities on GPP might comprise a joint catalogue of best practices as well as a common understanding of the basic principles defining GPP.

Recommendation 9: Increase collaboration on rare earth magnets

The TBI shares the TTC's analysis of the importance of rare earth magnets for the economic and climate ambitions of the United States and the EU, including the challenges facing rare earth magnets supply chains. The concentration of exploration and the processing of rare earths in China has created a shared dependency and susceptibility to value chain risks. We welcome the close cooperation between the EU and United States within the framework of the TTC and in the Minerals Security Partnership. Likewise we welcome plans between the EU and the United States to forge a raw materials partnership for electric vehicles and batteries. As a next step, both sides should identify and plan concrete collaborations and investment projects, including by involving geological services and (export) financing institutions.

Recommendation 10: Increase diversification and resilience in the semiconductor and solar supply chains

In light of the increasing electrification of our economies as well as the ongoing digital transformation, resilient semiconductor supply chains as well as continuous technological advancements are of paramount importance. Therefore, the US and the European Commission should develop common strategies to secure semiconductor supply chains, including semiconductor equipment (hardware and software), materials, and raw materials, as well as assembling, packaging, and testing. A complimentary approach when it comes to the implementation of the EU Chips Act and US Chips and Science Act, taking into account regional strengths and demands of industrial customers, should be the way forward.

Both parties should also aim to find a common understanding of leading-edge semiconductors. The EU and United States should further continue to support investments in companies of all sizes throughout the entire value chain, especially to drive the digital transformation and advanced manufacturing throughout the entire value chain.

The agreement between the EU and the United States to establish a joint early warning system to address and mitigate semiconductor supply chain disruptions in a cooperative way is a welcome first step. However, the development of a common early warning and monitoring mechanism of the value chain must occur in close cooperation with industry. Such cooperation offers the possibility for qualitative assessments, identification and understanding of potential bottlenecks across semiconductor supply chains and mitigation of disruptions early on. Moreover, the proposed exchange of information on supply chains must safeguard the trade and supply chain secrets of the semiconductor industry. Mutual failsafe mechanisms and solid trust between both economic regions will be necessary pre-conditions for such an exchange to achieve its purpose.

While increasing the transparency of the EU semiconductor value chain is desirable, it should not be an end to itself. The collection of data must be restricted to such data that is essential for crisis prediction. The TBI welcomes the desire on both sides to avoid subsidy races and market distortions. A transatlantic partnership between research and industry should be further strengthened and the needs of customer industries should be kept in mind right from the start.

The EU and the United States should furthermore increase cooperation in diversifying and building up resilience in solar supply chains, for instance by establishing adequate framework conditions for (re-)building integrated value chains, taking current realities into account.

Recommendation 11: Enact key measures to facilitate (sustainable) trade

The TTC presents an excellent opportunity to align and enhance customs rules and processes in order to streamline and facilitate transatlantic trade, e.g. by harmonizing processes or simplifying and reducing bureaucracy.

Specific measures that could speed up EU-US trade at the border include:

- Maintaining a customs duty de minimis at a commercially meaningful level. De minimis thresholds should be maintained or, to reflect inflation, increased.

- Ensuring an entry clearance for low value shipments based on simplified procedures and reduced data requirements.
- Separating the physical release of goods from duty and tax collection in all EU member countries (systems-based controls).
- Harmonizing common data elements for both imports and exports.
- Enforcing and applying the WTO Trade Facilitation Agreement (TFA) provisions on expedited shipments.
- Facilitating the submission and processing of electronic documentation via a Single Window portal.
- Mutual consultation in the run-up to major customs reforms. At the very least, both parties should inform each other of upcoming changes to their legal frameworks and/or procedures.

Meanwhile, improving the speed of clearance can reduce emissions at the border as it reduces dwell and wait times. As such, trade facilitation is an element of the toolkit to advance sustainability goals.

ICTS Security

Recommendation 12: Strengthen transatlantic cybersecurity and resilience without discriminating against EU or US suppliers

The TBI strongly supports the goals of promoting common harmonized technical security requirements and improving the level of cybersecurity – ideally jointly developed between US and European private and public actors in international or bilateral standardisation bodies. The TTC can play a crucial role in promoting alignment, standards, and in strengthening a common approach to transatlantic cybersecurity.

Economic Security

Recommendation 13: Strengthen the transatlantic market for dual-use goods

In a world facing increasing geostrategic tensions, trade in dual-use goods is bound to become more complex. Since dual-use goods tend to epitomize technological advancements, especially by liberal-democratic economies, the United States and the EU should facilitate transatlantic trade in such goods. We therefore recommend the TTC consider the following measures:

- Listings of the Wassenaar Arrangement should be implemented according to a common timeline. Given the difficulty of further developing the Wassenaar Arrangement, this approach should also inform listings by any future plurilateral agreement on control cooperation;
- Regarding emerging technologies, we call for a common set of principles according to which such items would be listed;
- In order to permanently strengthen trade in dual-use goods, the United States and the EU should also look beyond the bilateral relationship. Reexport licensing requirements

should be streamlined and structural cooperation between the respective authorities strengthened.

Recommendation 14: Evaluate existing investment screening mechanisms prior to considering new regulations

In view of the emerging debates for new investment screening measures, the TBI calls for an assessment of the existing mechanisms at EU and national level before considering stricter conditions to screen inbound foreign direct investments. The instruments currently in place should be thoroughly applied and tested before new control mechanisms are proposed.

Any restrictions on outbound investment represent serious interventions in entrepreneurial freedom. A potential outbound investment screening mechanism must be restricted therefore to cases presenting clear and demonstrable national security concerns. Business must be consulted to ensure that any potential measures are effective while avoiding or minimizing any negative impact on competitiveness. Regulators should also consider potential adverse effects on multinational companies with subsidiaries in third markets in order to avoid overly bureaucratic requirements as well as barriers to investment.

About the TBI

The Transatlantic Business Initiative (TBI) is the point of contact for economic policy issues, particularly for the German government and the governments of the United States and Canada as well as for EU institutions. The initiative is supported by four business associations: the Federation of German Industries (BDI), the Association of German Chambers of Industry and Commerce (DIHK), the Federation of German Wholesale, Foreign Trade and Services (BGA) and the Association of German Banks (BdB) and advocates for strengthening the economic relations between Germany and the European Union on the one hand, and the United States and Canada on the other. Members of the TBI work in four steering committees, focusing in particular on trade and investment policy, energy and climate policy, data and the digital economy as well as business and finance, and seek to engage with policymakers, regulators and supervisors, business and trade representatives as well as other stakeholders to strengthen transatlantic ties and facilitate coordination on matters of shared interest.

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Transatlantic Business Initiative (TBI)
www.transatlanticbusiness.eu
c/o Bundesverband der Deutschen Industrie e.V. (BDI)
Breite Straße 29, 10178 Berlin
Phone: +49 30 2028-0
www.transatlanticbusiness.eu

Editors

Matthias Krämer
Coordinator, Transatlantic Business Initiative
Head, Department External Economic Policy
Federation of German Industries
E-mail: m.kraemer@bdi.eu

Joshua Webb
Project Manager, Transatlantic Business Initiative
Federation of German Industries
E-mail: j.webb@ifg.bdi.eu

Julia Howald
Deputy Head, Department External Economic Policy
Federation of German Industries
E-mail: j.howald@bdi.eu

Anna Kantrup
Senior Manager, External Economic Policy
Federation of German Industries
E-mail: a.kantrup@bdi.eu