Transatlantic Business Initiative

The IRA and the EU's Response

Strengthening Transatlantic Trade and Investment

May 2023

Key deliverables

- **EU and US initiatives to promote clean tech innovation and green trade, investment and growth are crucial crucial to reach global sustainability goals while safeguarding Western competitiveness.**

- **The US must effectively stop discrimination of EU businesses for IRA programs. The EU should not contemplate similar discriminatory practices like Buy European or local content requirements either.**

- **The US and EU need to act to avoid a global subsidies race. Instead, a transatlantic initiative to update the global subsidies rulebook is needed.**

- **Managed trade must be pushed back. Governments should focus on encouraging trade and investment diversification instead of discouraging trade and investment flows.**

- **The EU's answer to the IRA must be a comprehensive competitiveness plan: cutting red tape, fostering innovation and skills, ensuring a competitive tax system, digital and transport infrastructure, as well as access to captial and staying open for trade instead of walling itself off.**

Addressing the IRA's challenges

The German business community welcomes the ambitions of the US on climate action, which provides new avenues for potential collaboration, including in the fight against carbon leakage. The Inflation Reduction Act of 2022 (IRA) offers increased business opportunities for some German companies. At the same time, the tax incentives in the IRA are already influencing German companies' investment decisions, drawing investment away from Germany and Europe as some tax credits are tied to discriminatory domestic content requirements. These potentially market distorting incentives pose challenges for larger parts of the German economy, including SMEs.

The EU and US should rapidly conclude a critical minerals agreement and set some conditions to improve access for EU companies to IRA-related programs, e.g. by including recycled in addition to extracted and processed minerals. However, also the underlying, basic conditions including the localisation requirements, should be addressed. The US should recognize EU companies' unique strengths and should give special consideration to its close partners across the Atlantic to put them on an equal footing with US companies. Finally, the US should implement the apprenticeship requirement in a way that would allow foreign headquartered companies to participate. This would require implementation guidelines that exempt foreign installation teams on energy or advanced manufacturing projects from the training requirements. The Treasury and Labor Departments should also recognize apprenticeships in other countries with which the US has a Memorandum of Understanding, such as Germany, as equivalent for the purposes of the tax credit.

Strengthening Transatlantic Trade and Investment

Strengthening bilateral market access, including on tariffs, non-tariff hurdles, and procurement, is crucial for businesses. The EU and US should also focus on ways to improve trade through mutual recognition agreements (MRAs). A transatlantic MRA for clearly defined "clean technologies" would cut red tape for companies and facilitate trade. The EU and US should swiftly agree to permanently end bilateral tariffs and quotas on steel and aluminium and make this an agenda item for the upcoming US-EU Summit in Autumn 2023. Also, a permanent solution should be found in the case on subsidies in the large aircraft sector. The EU-US Trade and Technology Council (TTC) is an important forum to coordinate and deepen transatlantic trade and economic relations. However, it should more strongly emphasize coordinating approaches to key green and digital technologies, as well as wider economic and trade issues. In that respect, the next meetings of the TTC should deliver concrete results for companies. This includes – among other things – harmonizing the frameworks for sustainable finance, interoperable digital standards, and close cooperation on export controls, as well as an MRA on conformity assessment for machinery and electrical equipment. Businesses should be closely involved in these discussions. The current process of stakeholder feedback on TTC proceedings is too opaque and slow, given the pressing challenges at hand and should be improved accordingly.

Getting the EU approach right

The IRA is a wakeup call for a new EU competitiveness agenda. Europe must do its homework if it is to remain a viable business location in the future. Protectionist approaches, such as localization obligations to qualify for EU subsidies and closing off the EU procurement market similar to “Buy America(n)”, however, would be lose-lose propositions. Instead, the EU should strengthen its resilience in key future technologies while keeping its markets open. In that respect, the EU should conclude trade agreements or strategic partnerships with key trading partners quickly. Instead of a detailed regulatory agenda that continuously creates new bureaucracy and reporting obligations as well as uncertainties for investors, horizontal location factors should be on the focus to create a business-friendly framework: cutting red tape, strengthening skills and R&D, creating a competitive tax environment, efficient infrastructure, affordable capital for private investors, and affordable energy. The EU’s “Green Deal Industrial Plan for the Net-Zero Age” must become more concrete in all of the above-mentioned issues. As per the EU’s “Think Small First” principle, strategic objectives must not lead to the exclusion of SMEs from tenders. This also applies to public procurement, which should not be overburdened with additional requirements. Important Projects of Common European Interest (IPCEI) can play a significant role in strategically relevant areas such as critical infrastructure in order to build value chains in the EU, for example in the field of hydrogen while here as well, the conditions should be much less bureaucratic so that processes can become quicker. Finally, there should be no inefficient subsidies as they create permanent dependencies and/or cement technologies or production processes that cannot survive in competition.

At the same time, measures of the EU Commission that go in the direction of “managed trade” should be avoided. While incentives for research,development and production are needed to make Europe more attractive as location for businesses, additional regulatory burdens like governmental diversification obligations, production limitations and reporting requirements including similar requirements for different regulations should be avoided. According to calculations by the EU Commission, the green and digital transition alone will require an additional 520 billion euros in investment each year during this decade. In order to raise these sums, large volumes of private capital are needed. This is why the EU member states should complete the integration of the internal market, including the necessary market harmonization, and the capital markets union.

Joint Transatlantic Leadership

The EU and US share a common goal: doubling-down on trade and climate action by promoting green and digital businesses. So instead of creating rivalries through discriminatory measures, the EU and US should show leadership. One desirable area of joint transatlantic leadership is constructively pushing for WTO reform, including by ensuring the dispute settlement mechanism can become fully functional again soon. Also, with a view of the upcoming 13th WTO Ministerial Conference, negotiations on environmental as well as health goods and services, e-commerce and the expansion of the General Procurement Agreement should be swiftly advanced and concluded. Updating the WTO rulebook on industrial subsidies is also a key deliverable. Finally, jointly advancing international cooperation on export controls, trade diversification, sustainability and climate should also be a shared priority. Here the focus should be on de-risking, instead of decoupling. Finally, the G7 should swiftly operationalize a WTO-compatible, effective and non-bureaucratic Climate Club to both strengthen climate action and trade.

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 German Chamber of Commerce and Industry (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.