

TTC 6: Last Chance to Ensure Robust Results?

Six TBI recommendations for tangible progress

April 2024

Key Recommendations/Executive Summary

- The TTC is an important pillar in transatlantic cooperation and the most important forum for structured exchange on a number of important topics. It must be continued in the new legislative cycles of the United States and the European Union (EU). Concrete outcomes that are both commercially relevant and designed to outlast any potential changes of leadership on both sides of the Atlantic are necessary to ensure this.
- **Transatlantic Initiative on Sustainable Trade (TIST)**: The TBI supports the Transatlantic Initiative on Sustainable Trade's aim to create a green transatlantic marketplace. Transatlantic cooperation can facilitate the sharing of best practices and the implementation of innovative solutions to tackle climate change.
- **Mutual Recognition of Conformity Assessment Bodies**: The EU and the United States should continue to work towards an agreement on the mutual recognition of conformity assessment bodies, particularly for machinery and electrical equipment. Such an agreement should significantly reduce regulatory barriers that limit the ability of conformity assessment bodies in both markets to certify capital goods for each other's market's requirements.
- **Economic Security**: Economic security should mean more than trade controls or restrictions. For the TBI, economic security is the result of a healthy balance between controls as well as measures ensuring economic prowess at home and resilience abroad. Governments should first review and renew existing tools – export controls and inbound investment screening – to address concerns. New instruments would have to be measured as to how they contribute towards preventing unwanted technology transfers.
- **Semiconductors**: The TTC should develop a holistic approach on semiconductor ecosystems. This includes securing leadership along the whole semiconductor value chain as well as emphasizing know-how transfer, research and development, and the recruitment of skilled labor. Additionally, we recommend joint standardization efforts across industry-critical domains and security measures that are sensitive of supply chains.
- **Artificial Intelligence (AI)**: The EU and the United States should promote the potential of AI applications and innovations for industry through strengthening access to data and high-performance computing power for companies of all sizes, but especially small and medium-sized enterprises. They should keep the regulatory burden for business as low as possible to foster development of resilient and sustainable AI business models.
- **Quantum Technologies**: The TTC should expand its current focus on post-quantum cryptography and include quantum sensors, quantum computing, quantum communication, quantum simulation, Quantum AI, and their enabling technologies.

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General Remarks and Overview

Under the Administration of President Joe Biden, transatlantic relations between the European Union (EU) and the United States have enjoyed high levels of cooperation, notably in comparison to the previous four years under President Donald Trump. The EU-U.S. Trade and Technology Council (TTC) is an important pillar in transatlantic cooperation and the most important forum for structured exchange on several important topics. It must be continued in the new legislative cycles of the United States and the EU so both can jointly set the standards of the future for the green and digital transformation. Still, to date the TTC has fallen short of the expectations of the business community, especially regarding actionable trade policy outcomes.

The upcoming Ministerial in Belgium in April (TTC 6) is the last senior-level exchange before the elections later this year in the EU and in the United States and thus an important opportunity to resolve issues and make progress in the TTC. The TBI hopes that negotiators will be able to make significant progress within the Transatlantic Initiative on Sustainable Trade (TIST) towards a green transatlantic marketplace, as well as on conformity assessments, for example by expanding the EU-U.S. Mutual Recognition Agreement to include the mutual recognition of conformity assessment bodies, particularly for machinery or electrical equipment. Deepening cooperation on issues related to economic security should also be prioritized. With regards to technologies, the EU and United States should continue their cooperation on semiconductors and the wider ecosystem linked to this to jointly increase the competitiveness of their respective industries. They should also maintain efforts to harmonize standards on artificial intelligence (AI) and expand their work on quantum technologies.

TTC 6 should also be used to discuss the future of the TTC after the elections in the EU and the United States. While changes to the structure of the TTC might be necessary to streamline it, both sides must continue the forum in the future. Concrete outcomes that are both commercially relevant and designed to outlast any potential changes of leadership on both sides of the Atlantic will be necessary to ensure this. Both sides should also consider establishing a permanent secretariat or TTC office. This office could work on implementing a formalized process for including stakeholder input to ensure that outcomes make meaningful progress towards reducing existing and avoiding future barriers to transatlantic trade. This is necessary to maintain the interest of all stakeholders. The TBI continues to stand ready to support the negotiators with practical knowledge and expertise.

While not directly a part of the TTC framework, the EU and United States should also use the meeting to conclude the negotiations on a Critical Minerals Agreement (CMA)¹. Such an agreement, though potentially limited in impact, would be an important political signal. Finally, joining efforts regarding the nexus of trade and climate action is of utmost importance. More transatlantic cooperation in this field is crucial for the competitiveness of our economies. A potential Global Arrangement on Sustainable Steel and Aluminum (GSA)² could serve as the blueprint to

¹ In October 2023, the TBI published a paper on the negotiations of the Critical Minerals Agreement. The paper can be found here: https://transatlanticbusiness.eu/wp-content/uploads/2023/10/TBI_CMA_October_final.pdf

² In October 2023, the TBI published a paper on the negotiations of the Global Arrangement on Sustainable Steel and Aluminum. The paper can be found here: https://transatlanticbusiness.eu/wp-content/uploads/2023/10/TBI_GSA-position-October-2023_final.pdf

address non-market practices and climate-damaging global overcapacities while respecting relevant WTO rules. It can also be a basis for climate clubs and agreements in other sectors.

TBI Recommendations

1) Significantly advance the Transatlantic Initiative on Sustainable Trade (TIST)

The TBI supports the Transatlantic Initiative on Sustainable Trade's aim to create a green transatlantic marketplace. Transatlantic cooperation could facilitate the sharing of best practices and the implementation of innovative solutions to tackle climate change. A green transatlantic marketplace would also benefit from increased regulatory cooperation in emerging technologies as this could significantly reduce regulatory barriers to transatlantic trade. A common understanding of sustainable trade, including shared interpretations of circular economy and green public procurement, is crucial to advancing global climate protection and resource conservation. Establishing a transatlantic circular economy can help promote trade in repairable, remanufactured and recyclable products. Efforts to create a harmonized framework for sustainable finance would be of significant help in achieving our respective sustainability goals.

The EU and United States should also advance a common understanding of Green Public Procurement (GPP) to stimulate more sustainability and innovation. Negotiators should put forward a catalogue of criteria including examples of best practices, to be followed by a joint initiative on GPP. The latter should not limit itself to contributions of public purchasers but also consider the experiences and views of businesses. GPP contracts must not be awarded only on the basis of the lowest price but based on the principle of the economically most advantageous tender. That approach would also require consideration of additional criteria such as user costs, availability, compatibility, and length of life cycle (respectively, the costs over a full life cycle), in addition to price point. The criteria underpinning GPP should be linked directly to the subject matter of a given procurement contract and must not be used arbitrarily or to discriminate against certain bidders.

2) Expand the EU-U.S. Mutual Recognition Agreement of 1998 and agree on the mutual recognition of conformity assessment bodies

While the German business community is pleased that the EU and the United States continue to work together to reach an agreement, we urge both sides to make major strides by TTC 6 to finally resolve this longstanding technical barrier to trade. An agreement on the mutual recognition of conformity assessment bodies, particularly for machinery and electrical equipment, should be concluded by mid-2024. This could be done by extending the scope of the existing 1998 EU-U.S. Mutual Recognition Agreement.

Such an agreement should significantly reduce regulatory barriers that limit the amount of conformity assessment bodies in each market that can legally certify capital goods for each other's market's requirements. In addition, a prospective regulatory agreement should ensure that products certified by competent conformity assessment bodies located in the exporting market are

accepted throughout the entirety of the relevant importing market, regardless of which third-party laboratory is used.

Such an agreement would not harmonize product regulations or standards in the EU or United States but would nevertheless streamline cross-border conformity assessment procedures and reduce compliance costs for businesses. To eventually achieve a harmonization of standards between the EU and the United States, stakeholders on both sides should work together through relevant channels to make standards in the EU and United States more compatible with one another, based on existing international standardization principles. This process must be industry-led. Such efforts should be complemented by framework conditions created by governments and policymakers. In the long-term, the EU and the United States should strive towards a future of “one standard, one test, recognized everywhere.”

A recent study by the European Centre for International Political Economy concluded that an agreement on the mutual recognition of conformity assessment bodies for machinery and electrical equipment could increase trade between the EU and United States by up to 75 billion U.S. dollars. According to the study, U.S. exports to the EU would grow at a higher percentage than EU exports to the United States, while Chinese exports to both the EU and the United States would decrease.³

3) Add a positive agenda to the debate on economic security

Economic security should mean more than trade controls or restrictions. For the TBI, economic security is the result of a healthy balance between controls as well as measures ensuring economic prowess at home and resilience abroad. While Europeans certainly have domestic homework that they need to attend to urgently, the transatlantic partners should not lose focus of the economic gains trade in the North Atlantic would ensure. When thinking about this balance, it becomes clear that economic security has been solely approached as a control issue within the TTC. That needs to change. Particularly in geostrategic times like these, the impetus for a common transatlantic trading agenda will become greater the more the Western partners agree on new controls vis-à-vis their autocratic challengers. Trade controls must be measured and precise, so they do not create incentives for technology indigenization.

It is clear that the debate cannot be limited to technology or trade. When we look at technologies of strategic importance, such as biotechnology, artificial intelligence, related microelectronics, or quantum computing, the TBI stresses that strength in these areas is of common interest. Capabilities and economic capacities are well spread across the Atlantic. The transatlantic partners should seize the opportunity for developing technology leadership with a clear strategy that not only keeps high-risk technology away from actors posing national security threats, but also enables the economies on both sides of the Atlantic and like-minded partners to leap forward. Before the background of a positive trading agenda, further discussions about common trade control interests make sense.

³ Oscar Guinea, Vanika Sharma, Philipp Lamprecht, Dyuti Pandaya, Oscar du Roy, *Calling on the EU-US Trade and Technology Council: How to Deliver for the Planet and Economy*, European Centre for International Political Economy (ECIPE), <<https://ecipe.org/publications/eu-us-ttc-how-to-deliver-for-planet-economy/>> (accessed 4 March 2024).

The TBI remains skeptical regarding the proper European context for outbound investment controls. As a milder measure, governments should first review and renew existing tools – export controls, reporting obligations and inbound investment screenings – to address their concerns. New instruments would have to be weighed thoroughly as to whether and how they contribute towards preventing high-risk technology transfers. Given the challenges to the global non-proliferation regimes in general and the dual-use control regime in particular, we advocate for policies that ensure the status-quo-ante of Wassenaar before Russia’s latest invasion of Ukraine. Russia must not be allowed to obstruct an international regime that has created national security benefits. Moreover, Wassenaar has been instrumental in avoiding regulatory arbitrage as well as the fragmentation of Western control policies. The TBI agrees that unintentional or even predatory technology transfer should be reined in as much as possible. Before we have secured a controls regime without Russian influence, however, the debate about technology transfer protections through outbound investment controls does not seem to be methodologically fruitful but instead harmful to global investment flows.

4) Develop a holistic approach on the semiconductor ecosystem through innovation, technological leadership, and resilient supply chains

Semiconductors are vital building blocks to decarbonize and digitalize our lives and economies. Global demand for chips is projected to double by 2030 with special accelerations due to the demand for AI-addressing, IoT- and Quantum chips. Simultaneously, increasing geopolitical tensions have rendered semiconductor manufacturing capabilities a strategic asset. Government responses in the EU, Asia and the United States have included significant subsidies, which are likely to further intensify technological competition. As the global semiconductor ecosystem depends on international supply chains, efforts to strengthen the semiconductor industry should be coordinated and complement each other in order to support the entire value chain.

The TTC offers a unique opportunity to the semiconductor industry in Europe and North America to develop strategies to secure leadership along the semiconductor supply chain, including semiconductor manufacturing equipment and software, materials, as well as assembling, packaging, and testing. The TBI recommends the TTC take a comprehensive approach emphasizing know-how transfer, research and development, and the recruitment of skilled labor. Joint research and innovation funding for critical topics that impact both EU and U.S. manufacturers of chips, such as PFAS, should be a key priority for the transatlantic coordination process. Risk protection, as well as joint approaches to export controls and other trade defense instruments to avoid impending consequences on industrial growth across the Atlantic are also important. Critically, the TTC should advance joint standardization efforts across industry-critical domains.

We welcome the fact that the United States and the EU have completed a joint early warning mechanism for semiconductor supply chain disruptions. Mutual trust between both economic regions is a necessary pre-condition to achieve economic security in the semiconductor supply chain. Therefore, business secrets must be protected. With the respective Chips Acts the United States and EU succeeded to attract large projects to build up additional manufacturing capacities. They took important steps to further develop the semiconductor ecosystems in both regions. Building on this success, the EU and the United States should continue to ensure technological leadership. Sustained funding and support schemes for semiconductor manufacturing

technology, foundational semiconductors and industry-inclusive lab-to-fab transition, including pilot lines, and incentives for innovation and R&D, secures respective strengths. Government efforts towards supply chain transparency need to focus on material economic risks. Given how interlinked the semiconductor supply chains between the EU and the United States are, an aligned approach would be more effective and more efficient.

At the same time, the principle of open markets should be upheld. Safeguard measures on certain semiconductors should be considered only carefully and with prudent and anticipatory consideration of possible disruptive effects to supply chains. National chip policies should focus more sharply on transatlantic coordination processes and should embed a joint dialogue with the industry in EU and United States to avoid ecosystem-damaging constraints. There should not be any situation where security arguments for restricting trade within the global semiconductor ecosystem are put forward without a solid (ex ante) value chain examination. It is critical that policies with transatlantic elements do not impede the global footprint of the industry as such and do not exclude semiconductor ecosystem players.

5) Strengthen cooperation on artificial intelligence and intensify stakeholder engagement in harmonized standardization and certification

The TBI welcomes the efforts to harmonize standardization processes in the field of AI. Standardization and certification definitions must allow all companies regardless of their size to meet the respective requirements without undue costs and bureaucracy. Transatlantic partners should engage themselves in international (e.g. OMG), national, and regional standardization bodies or initiatives.

The TTC correctly noted that Generative AI presents both opportunities and risks to the well-being of humanity. To consistently address said risks, democratic values must underpin the development of AI and concomitant business models. We welcome the joint voluntary declaration of intent to make AI applications compliant with fundamental rights even before the AI Act comes into force. German business likewise welcomes U.S.-EU efforts to harmonize standardization processes and to join forces in pursuit of smart AI regulation. From a business point of view, this offers the opportunity to ensure legal certainty for international business actors, potentially creating a competitive advantage. However, stakeholders must ensure the voluntary code of conduct does not burden companies, including but not limited to SMEs and startups. Compared to major players in the AI ecosystem, SMEs and startups often lack the resources to comply with far-reaching compliance regulations. Inadvertently excluding these smaller companies would damage the innovative capacity of our economies. We therefore appeal for the process of standardization and certification definitions to be made sufficiently inclusive as to allow SMEs and startups to meet the requirements in a simple, unbureaucratic, and cost-effective fashion.

In addition to regulatory simplifications and inclusion in standardization structures, a balance should be created for SMEs and startups through improved access to high-performance computing infrastructure, which will enable young companies to successfully develop cutting-edge AI products. The acceleration of AI use is also increasing demand for more data centers and electrification.

AI holds opportunities for businesses and can also help address global challenges. The implementation of digital twins in climate research is an important example of a future-oriented application of artificial intelligence. AI and automation can also generate energy or raw material savings, reduce reject rates, and enable further efficiency gains that can help achieve climate goals and adapt to climate change in the manufacturing sector.

6) Foster cooperation on quantum technologies between science and industry to jointly develop standards

Regarding the promotion of quantum technologies, the TTC should expand its current focus on post-quantum cryptography and include quantum sensors, quantum computing, quantum communication, quantum simulation, Quantum AI, and their enabling technologies. New standards in these areas must not disadvantage companies of any size, and industry should be involved in the technical working groups.

It is important to promote science and technology cooperation in the field of quantum technologies between the EU and the United States. Quantum research often involves joint efforts across nations. Trust fosters cooperation, allowing scientists from different countries to work together on cutting-edge projects. Trust ensures that quantum standards are consistent globally, promoting interoperability and enabling breakthroughs in quantum technologies. At the early stages of technology development, the focus should be primarily on cooperation between companies and academia. The international collaborative research project with partners from science and industry (2+2) is a good and successful model of such cooperations. Intellectual property (including IP on critical components) must remain within the companies. Securing technological sovereignty is an important objective but must not come at the expense of intellectual property rights. Instead, the focus should be on existing legal tools, including export and investment controls. Openness to technology must prevail when considering quantum technologies. This wide range of technologies poses great challenges, especially when it comes to setting standards. Governments must enable companies of all sizes to participate in international, European, and national standardization committees. To achieve this, the TTC must seek input from the industry and integrating them into the Working Groups' discussions. The focus should be the emergence of international quantum hubs and centers to foster collaboration and innovation between academia and industries, the growing interest and exploration of quantum machine learning and hybrid quantum systems, and the need for more transparency, metrics, and practical algorithms to demonstrate quantum advantage and value for industries.

About the TBI

The Transatlantic Business Initiative (TBI) was established in 2021 to support closer transatlantic economic relations. It serves as a link between German business and the governments of Germany, the United States and Canada as well as the EU's 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).

Imprint

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