

Key recommendations for EU-US trade relations

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Introduction

The United States is the most important export market and investment location for the German mechanical and plant engineering industry. In 2020 alone our industry exported goods worth around EUR 18.2 billion to the US—11.4% of the total German machinery exports. At the same time, the United States is also an important supplier for the German market. In 2020, Germany imported machinery worth around EUR 4.9 billion from the United States. This makes the US the third most important foreign machinery supplier, accounting for 7.3% of the German machinery imports.

Accordingly, trade relations with the US are of key importance to the Mechanical Engineering Industry Association (VDMA). This explains why we prepared in December 2020 the publication “Biden’s trade and economic policy election promises - A classification from the perspective of VDMA”, in German.

Below you will be able to find VDMA’s key policy recommendations for the EU-US trade relations, as outlined in this publication.

Key recommendations for EU-US trade relations

- **Trade agreements on conformity assessment and elimination of industrial tariffs**
VDMA strongly supports the implementation of the EU’s two negotiating mandates for mutual recognition of conformity assessment procedures, and for the elimination of tariffs for industrial goods between the EU and the US. We hope that the two sides will reach an agreement in these areas as soon as possible. Both agreements are in the vital interest of the European mechanical and plant engineering industry. An agreement on conformity assessment would in particular bring considerable advantages to our SME companies. VDMA views the newly established EU-US Trade and Technology Council as a promising framework that could provide a channel for these two issues to be negotiated and resolved.
- **Retaliatory tariffs in the Airbus/Boeing dispute**
VDMA welcomes the suspension of the tariffs in the Airbus/Boeing dispute and applauds the EU and the US for its constructive dialogue toward a negotiated solution that finally ends the Airbus/Boeing dispute, and which regulates state aid for the civil aircraft industry. Even though the retaliatory tariffs are WTO-compliant, they impact the engineering sector - which is unconnected to aircraft subsidies - on both sides of the Atlantic. For example, until the suspension of tariffs, manufacturers of certain tools, induction furnaces and special excavators had been subject to US retaliatory tariffs.
- **Punitive tariffs following Section 232 of the Trade Expansion Act of 1962**
VDMA appreciates that the Biden Administration has not escalated the threat of US punitive tariffs under Section 232, in particular on imports of cars and automotive parts. Nonetheless, VDMA continues to view the existing US punitive tariffs on EU products (such as steel and aluminium) as unconstructive, as imports from the EU do not endanger American national security. Therefore, VDMA urges the EU and the US to work diligently to remove all tariffs in the steel and aluminium dispute. VDMA considers the EU’s announcement in mid-May 2021 to temporarily suspend the increase of its rebalancing measures in the steel and aluminium dispute as a constructive sign. Moreover, VDMA views the US anti-dumping duties on common alloy aluminium sheet from countries such as Germany, Italy and Spain as unconstructive and believes they should be eliminated as well.
- **Harmonization of Carbon Border Tax**
Policymakers in both the EU and the US are developing frameworks under which certain imported goods would be taxed based on the quantities of carbon dioxide emitted during

production. As this policymaking process moves forward in both Brussels and Washington, the VDMA encourages the EU and US to coordinate and harmonize their emerging standards to the maximum extent feasible. Rules on how to measure carbon content, on compliance and verification, among others, are likely to become complex and bureaucratic. Harmonizing these rules within the transatlantic trade zone will inspire confidence and minimize unnecessary costs for VDMA's member companies, as well as provide a template for other like-minded countries that wish to join the transatlantic approach.

- **Extra-territorial effects of US sanctions**

The extra-territorial effects of sanctions of third countries are unacceptable in every respect. They are increasingly becoming a problem for VDMA member companies. The industry needs political, legal and financial support measures to avert the risk of extra-territorial sanctions. This includes for example secure payment channels in all countries of the world. VDMA strongly supports the political discussions in the EU on measures against extra-territorial sanctions, e.g. an update of the Blocking Statute.

- **WTO reform**

VDMA strongly believes that the role of the World Trade Organization (WTO) should be maintained and strengthened. Several measures can be envisaged to maintain and strengthen the role of the multilateral organization. First, a reform of the WTO's dispute settlement mechanism, including the Appellate Body, is urgently needed. The EU should continue to advocate that the US and other countries are on board when it comes to the multi-party interim appeal arrangement (MPIA). Second, the WTO Secretariat needs to be strengthened in the monitoring of rules as well as in the enforcement of rules. Third, it is important for the engineering industry that new rules are created to address issues such as industrial subsidies, state-owned enterprises and forced technology transfers.

- **EU-US-China trade relations**

VDMA perceives a unique window of opportunity for the EU and the US to work more closely together again. As open and democratic societies and market economies, both sides agree, for example, on the challenge that China poses to them. There are a number of areas where both parties can take joint action, for example in reforming the Agreement on Subsidies and Countervailing Measures and dispute settlement in the WTO. VDMA also considers the newly established EU-US Trade and Technology Council as a promising initiative that could lead to more transatlantic cooperation in setting global standards. The EU and the US are the two largest pillars for German mechanical and plant engineering. Closer integration of the two regions can, therefore, only be beneficial.

- **“Buy American”**

The US should ensure that public procurement procedures are transparent, open and predictable. Moreover, these procedures should always be based on the principle of equal treatment. VDMA, therefore, rejects any requirements for national minimum content rules in public tender procedures and “Buy American” provisions. Ultimately, full market liberalization must be pursued and national treatment must be guaranteed to foreign bidders at all levels of government procurement, be it at the federal, state or local level. In the meantime, the Biden Administration's newly established Made in America Office should continue to grant waivers to allow government contractors the flexibility to source machinery and components from outside the United States.

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