



SEMI Europe Priorities on the European Economic Security Strategy

Priorities to the European Commission, European Parliament and the Council of the European Union

SEMI Europe | Rue de la Science 37, 1040 Brussels | EU Transparency Register : 597361847853-70

Tel: +32 (0) 2 609 53 18 | <http://www.semi.org/eu><http://www.semi.org/eu>

Background

Following the “*Joint Communication on a European Economic Security Strategy*” published last year in June, this year on January 24th the **European Commission has published five initiatives** as part of its European Economic Security Strategy, aimed at minimizing the risks arising from increased **geopolitical competition** and rapid **technological shifts**, while preserving **economic openness and competitiveness** in the European Union (EU). The newly proposed initiatives will aim to establish a **common framework** for achieving economic security by 1) **promoting** the EU’s economic base and competitiveness; 2) **protecting** against risks; and 3) **partnering** with the broadest possible range of countries to address shared concerns and interests.

In this context, SEMI Europe – a global industry association representing **3,000+ member companies and 300+ European companies** from across the **microelectronics manufacturing and design supply chain** – welcomes the European Economic Security Strategy as a positive step towards the creation of an independent **European approach to economic security**, especially in light of the **geopolitical tensions and strategic dependencies** that characterize the **European semiconductor industry**.

SEMI Recommendations to the European Union

In this light, based on the comments and observations presented throughout this document, SEMI Europe strongly encourages all the policymakers involved in this topic to carefully consider the following policy recommendations:

- Complement these initiatives with additional **promote-side measures and proposals** focusing on the strengthening of the **European high-tech ecosystem** and the **competitiveness of the EU** on the global stage.
- Increase efforts to strengthen **international cooperation** in the area of semiconductors and high tech, including through **free trade agreements** and other **international partnerships**
- Maintain a **proportionate approach** when drafting legislation that address specific risks while **avoiding unnecessary burden** for companies and maintain EU competitiveness.
- Swift and pragmatic mechanisms to **improve coordination and further harmonization** of EU export control policies with a view to achieve a strong EU voice on the global stage.
- Establish a continuous **structured dialogue with industry** to prevent **unnecessary due diligence, risk management and reporting obligations** that enhance administrative burden for companies

Positive Approach to Economic Security

SEMI Europe believes that while the European Economic Security Strategy is a positive step, a comprehensive approach to economic security inevitably requires a **positive approach based on support and incentives** at the European level and **international cooperation** globally, and thus should not focus solely on restrictive and

protective measures. Particularly in light of the ongoing **global geopolitical competition**, which could have a profound impact on the global semiconductor industry and other key industries, the EU should strive to maintain its commitment towards **multilateralism and a rules-based global order**.

In the joint communication released in June 2023, the European Commission placed a strong emphasis on the **protective dimension** of its economic security strategy, particularly in the face of **rising external threats**, while placing comparatively less emphasis on **promoting the competitiveness** of European industry and **partnering with third countries**. Taking into consideration the **complex and multidimensional nature of economic security**, it is fundamental that the European Commission fully adheres to the conceptual triad of “**promotion, protection and partnership**” that are outlined as the three fundamental priorities of its economic security strategy.

In this regard, the EU needs to implement a comprehensive strategy that places **equal emphasis on the dimensions of promotion and partnership**, in order to effectively achieve greater economic security in Europe. Although identifying and assessing risks are key aspects for the semiconductor industry, the aim of the strategy should also be foster **partnerships and cooperation with third countries**, based on mutual interests and dependencies, ultimately providing **more strategic options** that can guarantee economic security in geopolitical crisis scenarios.

The semiconductor supply chain is extremely **specialized, fragmented and globalized**, among the tens of thousands of players distributed around the world that are respectively involved in the design, manufacturing, testing, packaging and distribution of semiconductors, and thus it strictly requires a **high degree of openness and cooperation** along the supply chain.

Therefore, while the introduction of protective measures is an important aspect of the economic security strategy, a comprehensive approach to economic security must also build on a comprehensive industrial strategy that prioritizes **competitiveness and technological leadership** to achieve long-term growth. At this point in time, European semiconductor sector must be supported in the face of increasing global competition, through favorable framework conditions and less administrative burden, as stated by the objectives of the **European Chips Act**.

In this context, the EU should work to guarantee its companies the highest possible level of access to the global markets, which is a vital aspect of our industry, including through the negotiation of **free trade agreements (FTAs)** and **high-level industrial partnerships** with third countries. For this reason, SEMI Europe emphasizes the need for the European Commission to adopt a **positive approach to economic security** that places equal emphasis on the **protect, promote and partner** aspects of economic security.

Foreign Direct Investment (FDI) Screening Mechanisms

SEMI Europe acknowledges the European Commission’s legislative proposal for a **revision of the current Foreign Direct Investment (FDI) Screening Regulation (Regulation 2019/452)**, as an effort to improve the effectiveness of the current legislation. As a matter of fact, this legislative proposal aims to address the main shortcomings of

the current legislation, requesting all member states to **implement FDI screening mechanisms at the national level** with a common set of minimum requirements, establishing a **cooperation mechanism at the EU level** to notify any investments that may affect public order and security and introducing **FDI screening for greenfield investments**, among other provisions.

Given the highly **specialized and globalized nature** of the semiconductor supply chain, foreign direct investment is a **critical aspect of business operations** for the vast majority of SEMI members. The semiconductor industry is **highly capital intensive**, and over the last decades, European semiconductor companies have greatly benefitted from **substantial investment from outside the EU**, thereby contributing to their competitiveness and technological capabilities.

Henceforth, while SEMI Europe welcomes a **more harmonized approach** to FDI screening across the EU, the measures outlined in this legislative proposal should remain **proportional** to the objective sought. In this regard, we would welcome further clarification on the **goals of this proposal** and the **specific economic security risks** that the European Commission aims to address, in order ensure coherence with the existing legislative framework and to limit the administrative burden on companies that are already subject to multiple and far-reaching requirements, for instance, under the **EU Foreign Subsidies Regulation** and **national FDI regimes**.

In this context, SEMI Europe holds that economic security is best achieved by **strengthening international partnerships and mutual interdependencies** within the global supply chain. For this reason, we call upon the European Commission to carefully assess all the security benefits of implementing stronger FDI screening mechanisms, with a view on their impact on the **attractiveness of the EU** as an investment location, especially against the backdrop of the recently adopted European Chips Act and the **sizeable investments by non-EU actors** that this has generated. With regards to European Chips Act, it is important to consider that this legislative proposal also introduces **FDI screening for greenfield investments**, where a foreign investor or a foreign-owned subsidiary sets up new production facilities or a new undertaking within the EU, building these facilities starting from zero. On this matter, it is key for the future of the European semiconductor industry that the European Commission recognizes the **importance of greenfield investments** – European or from third countries – as a way to **enhance Europe's productive capabilities in this sector**, and ultimately avoids the introduction of excessive screening mechanisms that may **discourage non-EU investors** and undermine the potential success of the European Chips Act.

Therefore, SEMI strongly advocates for a **balanced approach** in order to maintain the necessary levels of FDI flows into Europe that can preserve the **global competitiveness of our industry**.

White Paper on Outbound Investments

SEMI Europe holds that the introduction of state controls on European companies' outbound investments is not the right policy path to achieve economic security since it would constitute a **major interference** within the realm of **companies' business decisions** and **international investment flows**.

Outward FDI allows European semiconductor companies to **access new markets, expand production capacity and engage in innovative partnerships**, thereby strengthening the European economy and achieving **greater economic security in the long term**. In the context of the semiconductor industry, this is particularly important as the effective functioning of the global semiconductor supply chain vitally depends on there being a **high level of cross-border investment and cooperation**. Thus, in order to guarantee the long term success and prosperity of the European semiconductor industry, our companies must be **as free as possible in their investment decisions** or otherwise risk **losing their agility and relevance** in the global markets.

Furthermore, considering the international dimension of most semiconductor companies, SEMI Europe would appreciate further clarification on how any potential measures on outbound investments would affect **intra-company investments and relations between subsidiaries**. Intra-company investments are a fundamental element within the increasingly globalized semiconductor supply chain, as these can facilitate the **transfer of skills, knowledge, technology and innovation** within a company, providing increased economic opportunities for European semiconductor companies and putting the EU in a **stronger position vis-à-vis third countries**. For this reason, in its attempt to propose measures on outbound investments, the European Commission should not infringe on the ability of European multinational companies to carry out the necessary intra-company investments.

With regards to Europe's economic security, **better coordination on export controls** should be assessed as the primary instrument to prevent **technology leakage** in areas that are critical to **national security**, since these already take into account technology transfers. In cases where existing instruments are found to be insufficient, **careful assessments** must be carried out to determine the extent to which they are effective, while for exceptional cases with genuine and demonstrable concerns for national security, **further options could be assessed as a last resort**, in close collaboration with industry stakeholders.

Henceforth, it is crucial for the European semiconductor industry that the initiatives on outbound investments **carefully assesses existing mechanisms** at the national and European level prior to considering the implementation of **stricter controls on European investments abroad**. Within this process, **Member states and all relevant industry stakeholders** must be closely consulted to ensure that any measures adopted are **effective** and have a **minimal impact** on the competitiveness of the **European semiconductor industry**.

White Paper on Export Controls

Considering the increased **geopolitical competition** and rapid **technological shifts** that characterize the semiconductor industry, the European Commission has rightly identified that a multiplication of national export controls across the EU would largely undermine the effectiveness of the EU export controls framework and the integrity of the single market. SEMI Europe thus foresees the need for a more **coordinated action at the European level on exports controls** to avoid a potential fragmentation and increase economic security .

SEMI Europe shares the European Commission's assessment that unilateral, diverging controls risk undermining the effectiveness of the EU export control framework and of member states' controls. Consequently, there is a

growing need to ensure **greater coordination and harmonization between EU member states** in the application of dual-use export controls, to 1. create a level playing field and to 2. To increase the effectiveness of the regulations.

The **Wassenaar Agreement (Multilateral Export Control Regime)** is today the core mechanism governing export controls of dual-use items at the international level, while the **EU Dual-Use Regulation (2021/821)** has introduced the possibility of greater voluntary coordination among member states. Nevertheless, due to the recent geopolitical developments, the Wassenaar Agreement is no longer able to define and determine multilaterally agreed export control rules, and there is **a need for an alternative forum**.

SEMI Europe would like to recall that the success of the European and global semiconductor industry is built upon **a complex supply chain** and that export controls should indeed be a last resort for cases with genuine concerns for national security. For this reason, in conjunction with increased EU coordination on export controls, the EU should continue to advocate for a **multilateral and rules-based global order**.

However, in light of the recent geopolitical tensions, and the prominent role that export controls in the semiconductor industry have played in this, it has become increasingly necessary for **the EU to speak with a common voice** on the issue of export controls, to effectively **protect the interests of European industry on the global stage**. Furthermore, as the semiconductor industry fully understands and embraces the importance of security concerns in the current geopolitical context, SEMI Europe encourages and requests from the EU to keep the Dual-Use Regulation **very targeted and focusing on clearly identified risks**. Overall, SEMI Europe believes that the European Economic Security Strategy should support the efforts of the European Commission towards achieving greater convergence across all EU member states, in order to **minimize the margin for different interpretations** at the national level, and to preserve **the level-playing field**. This would also reinforce the EU's ability to **confront possible unilateral actions** by third countries seeking to impose new export controls or to **manage cases of pressure (towards the EU or specific member states)** arising from third countries.

Supply Chain Reporting Obligations

SEMI Europe welcomes the numerous initiatives that are being implemented to promote Europe's competitiveness, including but not limited to **the European Chips Act, the Net Zero Industry Act** and the Critical Raw Materials Act, through which the European Commission aims to increase the **resilience of supply chains** on the one hand, and to prevent **coercive economic measures** on the other.

However, the semiconductor industry is increasingly concerned by the new reporting obligations that will be introduced under those pieces of legislation. This poses a wide range of challenges for our sector, considering the higher **structural complexity** of the semiconductor industry, the **supply chain opacity** due to **trade secrets** and **confidentiality of data**, and the **administrative burden** of carrying out **supply chain assessments**. Henceforth, in our view the economic security strategy should foresee a **structured dialogue with industry stakeholders**, based on a common understanding of supply chain risks and economic security, which is of utmost importance to derive meaningful conclusions and effective policy decisions.

Any reporting obligations of companies must be in line with the positive approach of the economic security strategy, thereby **reducing administrative burden and preserving the confidentiality of data**. As a result, SEMI Europe highlights the need to develop a set of instruments that effectively contribute to greater economic security, through a **close consultation between European institutions, member states and all relevant industry stakeholders**.

Association Contact – SEMI Europe Brussels Office

Stefano Ramundo Orlando

Manager, Advocacy and Public Policy

Contact: sorlando@semi.org



SEMI Europe | Rue de la Science 37, 1040 Brussels | EU Transparency Register : 597361847853-70

Tel: +32 (0) 2 609 53 18 | <http://www.semi.org/eu>