

Seventh meeting of WSC - May 2003

**European Semiconductor Industry Association (EECA-ESIA)
Japan Electronics and Information Technology Industries Association (JEITA)
Korea Semiconductor Industry Association (KSIA)
Semiconductor Industry Association (SIA)
Taiwan Semiconductor Industry Association (TSIA)**

JOINT STATEMENT ON THE SEVENTH MEETING OF WORLD SEMICONDUCTOR COUNCIL (WSC) May 15, 2003 Nice, France

Members of the European Semiconductor Industry Association (EECA-ESIA), the Japan Electronics and Information Technology Industries Association (JEITA), the Korea Semiconductor Industry Association (KSIA), the U.S. Semiconductor Industry Association (SIA), and the Taiwan Semiconductor Industry Association (TSIA) today held the seventh meeting of the World Semiconductor Council (WSC). This meeting - held in Nice, France - is the fourth meeting conducted under the "Agreement Establishing a New World Semiconductor Council" approved at the third WSC meeting signed on June 10, 1999.

It is the purpose of the WSC to address issues of global concern in the semiconductor industry with a goal of expanding the global market for information technology products and services, and promoting fair competition and technological advancement and sound environmental, health and safety practices. The WSC encourages cooperation in a number of areas, including environment, safety and health practices, protection of intellectual property rights, open trade and investment liberalization, and market development. All WSC activities are guided by principles of fairness and respect for market principles consistent with World Trade Organization (WTO) rules and with the laws governing the respective WSC member associations. The WSC reaffirmed that markets should be open and competitive. Antitrust counsel was present throughout the meeting.

The meeting was chaired by Ulrich Schumacher of Infineon Technologies AG (EECA-ESIA), and opening statements were made by Kaoru Tosaka of NEC Electronics Corporation (JEITA), Yoon-Woo Lee of Samsung Electronics (KSIA), Steven R. Appleton of Micron Technology (SIA), and Morris Chang of Taiwan Semiconductor Manufacturing Company (TSIA).

During the meeting, the following reports were given and discussed, and actions taken:

1. Membership

The WSC has extended an invitation to the China Semiconductor Industry Association (CSIA) to apply for membership, and would welcome CSIA becoming a member as soon as it is able to do so.

2. Cooperative Approaches to Protecting the Global Environment

The WSC is firmly committed to sound, scientifically based, positive environmental policies and practices. The semiconductor industry is making a major contribution toward protection of the global environment - the members of the WSC are proactively working together to make further progress in this area.

(2a) PFC Emission Reduction

The companies represented by the members of the WSC are continuing efforts to reduce the emissions of PFC gases. To that end, the WSC has pledged to reduce PFC emissions by at least 10% by 2010 against the base year, even as semiconductor production is increasing. The base year for JEITA, EECA/ESIA and SIA is 1995, for KSIA it is 1997 and for TSIA it is 1998* (1998* represents the average of 1997 and 1999 emissions). Ever since the start of the program, WSC has been able to stay under the threshold target and aims to continue to meet its set commitments.

(2b) Energy Savings

At the 2002 WSC meeting, an Energy Savings Consensus Paper that charts a course for work in the area of energy savings was adopted. That paper recognizes that one of the key reasons why the semiconductor industry has been so successful is the ability to provide better, more desirable products, in an environmentally friendly manner, while substantially reducing their cost to the consumer. The efficient utilization of energy resources is an important ingredient to the realization of continued, cost effective manufacturing for both semiconductor manufacturers and their suppliers. The WSC is dedicated to promoting cooperation and sharing of information amongst members of the semiconductor manufacturing community worldwide on environmental issues, with a priority focus on the issue of energy savings.

The semiconductor industry's strategic suppliers will play an important role in accomplishing energy reduction objectives. To that end, work is continuing with the supplier community on this issue. In addition, the industry has achieved a common metric for measurement of energy savings and is moving towards data collection by all associations.

(2c) Chemical Management

The WSC is continuing work in the area of Chemical Management. Through the WSC's ESH Task Force, a set of objectives has been formulated regarding chemical management. Those objectives include chemical risk assessment, pollution prevention, and evaluation of ESH regulations and legislation. Target chemicals have been identified by the ESH Task Force for initial pollution prevention efforts.

(2d) Other ESH issues

The WSC confirms the objective of setting quantitative targets and charged the ESH TF to strive to establish feasible targets in specific ESH focus areas for February 2004.

3. Free and Open Markets

At its founding and throughout its history, the WSC has specifically recognized the importance of insuring that markets be open and free from discrimination, and that the competitiveness of companies and their products be the principle determinant of industrial success and international trade. The WSC has also actively supported the need for appropriate protection of intellectual property in world markets. These principles were reaffirmed by the WSC at the 2003 meeting.

Economic development increasingly depends on access to information technology products that utilize semiconductors - such products help foster productivity and growth. For these reasons, the Doha Development Agenda should focus on policies that promote access to semiconductors and other information technology goods, and foster investment in these sectors. Governments/authorities should insure full intellectual property protection, full transparency of government policies and regulations, non-discrimination for foreign products in all markets, and an end to investment restrictions tied to technology transfer requirements. In order to spread the benefits of information technology to consumers around the world, additional countries should be encouraged to join the Information Technology Agreement (ITA). In this context, WSC Members welcome the formal accession of China and Egypt to the ITA, bringing the total number of signatories to 59.

(3a) National Treatment for All Products

The World Trade Organization requires that products be granted national treatment status - this is a foundation upon which all companies rely in order to be able to compete fairly and openly in world markets. Today, China is one of the most rapidly growing markets in the world for semiconductors. China made great strides in opening its market as part of its WTO accession, including joining the ITA and eliminating its tariffs on semiconductors and other information technology goods. However, under China's current application of its Value Added Tax (VAT), a VAT of 17% is applied to all semiconductors, but companies designing and manufacturing semiconductors in China are eligible to receive a substantial rebate of the VAT paid on those semiconductors. This reduces the effective VAT burden on domestically designed or produced semiconductors to only 3%. Discrimination has the effect of limiting market access, distorting patterns of trade and investment, and negates the benefits China promised to provide when it joined the WTO. The WSC calls for China to lower its VAT rate to 3% for all semiconductors, regardless of origin.

The WSC will submit its recommendations as formal requests to our respective governments/authorities at the Governments/Authorities Meeting on Semiconductors (GAMS) scheduled to take place in California in November 2003. A Paper submitted by SIA regarding VAT practices, is attached as a reference.

(3b) Fair and Effective Antidumping Measures (see attached)

The Paper takes into account the unique characteristics of the semiconductor industry, and its considerable experience in antidumping matters. It is designed to give advice to governments and authorities on both principles and on specific suggestions for international trade agreements, especially as part of the ongoing Negotiations on Rules within the Doha Development Agenda. The principles and recommendations are based upon a common international understanding of what fair and effective antidumping means, indicates some shortcomings of the current antidumping regime and calls for specific measures, such as shortening timeframes for antidumping proceedings, establishing the process of wafer fabrication (diffusion) as the recognized origin for antidumping purposes or harmonizing elements of antidumping questionnaires.

The WSC adopted a Paper on *Fair & Effective Antidumping Measures in the Semiconductor Industry*. The WSC will submit its recommendations as formal requests to our respective governments/authorities at the Governments/Authorities Meeting on Semiconductors (GAMS) scheduled to take place in California in November 2003.

(3c) Full Protection of Intellectual Property

Semiconductor makers must invest a very high percentage of sales in R&D, and the intellectual property that results is the lifeblood of the company. Failure to adequately protect intellectual property is very damaging to the semiconductor industry. There are an increasing number of instances of counterfeiting of IC's and other semiconductors. One form of counterfeiting is the unauthorized direct optical copying of the chip, and reproduction of a mask work (layout design/topography) based on the optical copying, and then fabrication of a semiconductor based on this mask work and sale under a different company's name. Another form of counterfeiting involves reverse engineering a company's chip, and then producing a physically identical chip and selling it without authorization under the original company's name and trademark. Both types of unlawful counterfeiting must be quickly addressed and stopped.

The WSC will develop recommendations to its respective governments/authorities scheduled for the Governments/Authorities Meeting on Semiconductors (GAMS) to take place in California in November 2003. These recommendations should not impose new legal requirements on industry.

(3d) Market Based Competition

The WSC hereby re-affirms the principle of market competition as set forth in the Joint Statement Concerning Semiconductors by the European Commission and the Governments of the United States, Japan and Korea dated June 10, 1999 and re-iterated in May 2001, which provides that in all markets it is the competitiveness of semiconductor producers, and not trade-distorting measures, that should

be the principal determinant of success. The WSC recommends that Governments / Authorities continue to monitor situations where measures taken might be in contravention of the WSC Charter's principles.

4. Measures to Support the Growth of the 'Internet Society'

Semiconductors are the key enabling technology of the information technology revolution, and they are key component of the growth and spread of the Internet society. The growth of the Internet and the related information technology sector is improving education, creating new industries and improving existing ones, and it is speeding up communications capabilities. The spread of communications technology is a key driver for growth in our industry. It is very important that trade in this area remains as open as possible, and that international rules and domestic regulations foster an open and competitive market.

Policies being formulated around the world have the ability to either support or hinder growth in this key sector. The WSC supports the World Trade Organization's (WTO) Doha Ministerial Declaration on this subject, which states "electronic commerce creates new challenges and opportunities for trade and [WTO members] recognize the importance of creating and maintaining an environment which is favorable to the future development of electronic commerce." Providing a predictable and transparent regulatory regime - and encouraging industry to take responsibility to the maximum extent possible - is generally the best approach for governments/authorities formulating policy in this area. To this aim, the WSC believes that the WTO work program on e-commerce should include several features, including:

- The moratorium which the Trade Ministers in Doha committed to maintain on customs duties on electronic transmissions through the next WTO Ministerial in 2003 should be made permanent;
- International agreement should be reached to ensure that electronically delivered goods receive no less favorable treatment than similar products delivered in physical form and that their classification ensure the most liberal treatment possible; and
- Governments/authorities should refrain from enacting trade-related measures that impede e-commerce. Where regulations are necessary, governments should insure that they are transparent, non-discriminatory and employ the least trade-restrictive means available.

In this context, the WSC adopted the following:

(4a) WSC Paper on Copyright Levies (see attached)

To underline its approach to foster the growth the Internet Society, the WSC adopted the Paper on *The Dangers of Copyright Levies in a Digital Environment*.

Specifically, the WSC believes that the rapid proliferation of levies on digital products is an impediment to the development of the Internet Society and a rapidly emerging trade barrier that must be addressed. Levies were originally imposed on analog recording media to compensate copyright holders for non-commercial "private copying" by citizens. The current trend in many countries, however, is to extend this "private copying" levy to computers, software, and peripheral products, as well as digital consumer electronics, striving to compensate copyright holders for both "private copying" and revenue lost due to piracy (even though levies are in place to compensate for legal private copying, not piracy). Levies are unfairly and indiscriminately imposed on all technologies regardless on their intended use. A majority of technology products are sold to businesses or government, where by definition it is inappropriate to apply levies, yet the levy is applied to all technology products. In some cases, the cost of the levy even surpasses the cost of the product on which it is applied. Levies also jeopardize the joint efforts by content providers and the technology industry to develop new, flexible, and exciting ways for consumers to access and enjoy digital content while directly compensating artists.

The WSC believes that governments/authorities should commit themselves to not allow levies to be collected on digital equipment and blank digital recording media. In addition, the WSC encourages our governments/authorities to ensure that language opposing levies is included in new trade agreements

and to utilize WTO mechanisms (such as working groups on e-commerce and ITA) to address levies as a barrier to trade. We would also encourage governments/ authorities to ensure proper accountability and transparency of levy schemes, in order that the public may be made aware of where levies are paid, what amounts are paid and what they are supposed to compensate for.

The WSC will submit its recommendations as formal requests to our respective governments/authorities at the Governments/Authorities Meeting on Semiconductors (GAMS) scheduled to take place in California in November 2003.

5. Legislative & Regulatory Issues

High technology goods including semiconductors are increasingly affected by a varying array of regulatory measures in markets around the world. In situations where product regulations are deemed necessary they must be nondiscriminatory and based on sound and widely accepted scientific principles and available technical information and should not impede the effective functioning of the market. Consistent with existing WTO rules, regulations should be the least trade restrictive possible.

In this context, the WSC discussed in particular, the EU's Chemicals policy and the EU's review process of the RoHS (Restriction on Hazardous Substances) Directive.

6. Analysis of Semiconductor Market Data

The WSC reviewed a semiconductor market report, including data on market size and market growth. The long-term outlook for the industry remains solid as advances in technology continue to bring benefits to consumers and businesses worldwide. Semiconductor market growth will be further stimulated by the rapid development of the Asia Pacific market, including China.

7. Future Semiconductor Technology Development

Much of the growth in productivity gained by our economies has been the result of advances in semiconductor technology. The benefits of furthering these trends are similarly significant; by the end of the decade, the cost of memory may decline to 1/20 of today's cost and microprocessors may become 10 times faster, thus allowing for affordable streaming internet video, telemedicine, and other significant advanced applications. The WSC recognizes that making these advances requires ever increasing investments and wide-ranging skills. In order to properly assess these issues, international collaborative and cooperative efforts are necessary. Therefore, the WSC will continue to support international conferences, the International Forum on Semiconductor Technology (IFST) and the International Technology Roadmap for Semiconductors (ITRS).

The ITRS identifies a number of challenges that must be overcome to continue the pace of technology advances, including the introduction of new materials, new lithography technology, and new device structures. The Members of the WSC unanimously agree that solutions to these challenges are vital to the continued growth and development of the semiconductor industry and that additional resources are needed. For example, while projects are currently underway in several WSC member geographies to develop EUV and other advanced lithography technology to follow after 157nm, the task is beyond the capabilities of any single geography due to the significant cost and complexities involved - WSC encourages researchers in all regions to further cooperate on this pre-competitive technology.

8. Report to Governments/Authorities

The results of today's meeting will be submitted to the respective governments/authorities of the members of the WSC for consideration at the annual meeting of WSC representatives with the governments/authorities to be held in November 2003 in the United States.

The WSC's report will include the following:

(1) An updated report on semiconductor market data prepared by industry experts;

(2) Recommendations on trade-related issues including antidumping principles and recommendations, market opening policies, intellectual property protection, the fostering of electronic commerce, national treatment, and copyright levies that can be pursued through the WTO and other means;

(3) Reports on cooperative ESH activities, and recommendations regarding the development of regulations.

9. Next Meeting

The next meeting of the WSC will be hosted by the Korea Semiconductor Industry Association (KSIA) in May 2004.

10. Key Documents and the WSC Website

All key documents related to the WSC can be found on the WSC website, located at:

<http://www.semiconductorcouncil.org>.

Information can also be found on each association's respective website:

EECA-ESIA:

<http://www.eeca.org>

JEITA:

<http://www.jeita.or.jp>

KSIA:

<http://www.ksia.or.kr>

SIA:

<http://www.sia-online.org>

TSIA:

<http://www.tsia.org.tw>