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WORLD TRADE
ORGANIZATION

WORLD SEMICONDUCTOR COUNCIL MEETING
GENEVA

24 May 2007

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Director-General

Ladies and Gentleman,

It is my great pleasure to join you all today at the World Semiconductor Council Meeting. First, I would like to brief you on recent developments in the Doha Round negotiations. Then, I will share with you my views on why the WTO is important to the semiconductor industry, and why your industry is important to the WTO.

THE DOHA ROUND

As most of you know, the WTO Doha Round, was launched in 2001. There are over 20 topics for negotiation, such as agriculture, industrial tariffs, services, trade facilitations, antidumping, fishery subsidies and many other issues. Though agricultural issues preoccupy most of the international media, I want to stress that this is not an "Agriculture Round". It is a comprehensive Round, aiming at achieving a more open but also fairer trading environment.

What we already have on the table represents two to three times what was achieved in the last Round— the Uruguay Round. Although this will not be enough to conclude the Round, the size of the potential package is a reminder of what could be the cost of failure.

A failure would go beyond the substantial package on the table; it could also mean the return to the law of the jungle in international trading relations, a weakening of the insurance policy against protectionism which has worked well in the last decades. A failed Doha Round would send to the world a message showing a weakening of international cooperation needed to face obviously increasing transnational challenges.

So our most immediate challenge is to wrap up the substantial package of trade opening and rule-making which is the Doha Round and to do that negotiators need to go the extra mile. This is a perfectly doable deal. Behind an economic appearance lies a much larger political challenge: sending a signal to the world that an equitable model of economic cooperation among states is alive and well.

The IT industry has contributed to globalization and world trade

The rapid evolution of the Information Technology Sector, to which the semiconductor industry is an essential component, has brought about revolutionary changes to our societies at large.

It has increased productivity, generated economic growth, created jobs and employment, and improved the quality of life for all. It has also reduced many traditional obstacles on doing business, especially those of time and distance. At the same time, the process of globalization has intensified competition and innovation, and expanded world trade in both goods and services.

I think it is fair to say that people all over the world have appreciated the contribution your industry has made to the history and the advancement of human beings. Let me also tell you that information technology is moving so fast that staff in my office are already fearing the day when I will be able not only to hear but also to see what they do while I travel around the world!

Why WTO is important to the Industry?

(i) Market Access: The Information Technology Agreement

Trade is always associated with the growth of this industry, as well as trade rules. Ten years ago, in 1997, the WTO Information Technology Agreement first came into force. For the first time in the history of trade negotiations, one particular sector was singled out for tariff elimination. Today, 70 Members, representing 97% of world trade in IT products are participants to the ITA. Members are committed to duty-free imports of these products on a MFN basis. As a result, all 150 WTO Members benefit from this liberalization. World exports of ITA products over the past 10 years have more than doubled in dollar terms, reaching 1450 billion in 2005 with annual growth of 8.5%. In 2005, trade on ITA products accounted for 14% of world merchandise exports, exceeding that of agricultural products and textiles and clothing together.

Today semi-conductors and semi-conductor manufacturing equipment account for more than one third of world exports of ITA products.

The success of the ITA as a sectoral initiative can serve as an example in the on-going WTO negotiations, where electronics and electrics, automobiles, bicycles and several other sectoral initiatives have been proposed for tariff eliminations or harmonization in this Round. You have a good story to tell on the importance of sectoral initiatives to achieve a higher degree of trade opening.

Regarding the next step for further ITA market access opportunities, these are two fold. The first relates to the further expansion of product coverage under the existing Agreement. Industry could play a bridging role here to

facilitate the discussions in the WTO ITA Committee. The second should focus on the enlargement of ITA membership. There are 150 members of the WTO, whereas the current membership of the ITA is 70, although this covers 97% of global ITA exports. However, from a systemic point of view, it is also important to involve the remaining WTO members and ensure a greater member coverage.

(2) Industrial Tariff Negotiations (NAMA)

Considering the wide application of semiconductors, the future market of this industry goes much beyond the ITA product coverage of today. This is why the industrial tariffs negotiations (NAMA) are also important for you. For the first time in history, WTO Members have agreed to use a "formula" to cut their industrial tariffs. A formula according to which higher cuts will be made on higher tariffs and which will also substantially reduce the "water" contained in Members tariff structure today (i.e. the difference between maximum rates and applied rates) and even provide for some new market access. As a whole, the tariff barriers faced by the industries will be further reduced and improved in non-ITA member markets on products that are not subject to ITA today. I would also like to note that these negotiations contain a chapter on non-tariff barriers which is also of relevance to your industry.

(3) Rules of Origin

When these conventional trade obstacles diminish, what are the major trade barriers this industry is facing today? Rules of origin, technical barriers to trade or antidumping come into the picture.

Rules of Origin are of vital importance to the semiconductor industry, as its production goes global. As you know, the WTO has been working on a project to harmonize non-preferential rules of origin since 1995. Faced with the reality of globalization and increasing multi-country production of a good, this work requires reaching an agreement on common specific rules of origin for every tariff line, of which there are more than 5,000. Although considerably delayed, significant work has been done, and an important breakthrough has been made over the last two years. I share the view of many delegations expressed at the last consultations, "we are now at the beginning of the end".

However, rules of origin for semi-conductor products still remain one of the main outstanding issues to be addressed by WTO Members. In this context, it appears very encouraging to me that members of the WSC themselves are working hand-in-hand to resolve this issue and have practically reached an agreement, apart from one final point. Your work is very helpful for all governments concerned, as well as for the successful completion of the remaining work on harmonizing non-preferential rules of origin in the WTO, especially in light of the significance and sensitivity of the semi-conductor industry in world trade and international trade policies. It would be good news for the whole world trade community if you could reach full agreement on the rules of origin issue in this session in Geneva.

(4) IPR protection

On Intellectual Property Rights, it is recognized that the semiconductor industry, together with the pharmaceutical industry is one of the most R&D-intensive industries with around 20% of its sales income spent on research and development. This is why the industry attaches great importance to the protection of intellectual property in general and to the TRIPS Agreement in

particular. I understand from your recent policy statements, that **enforcement** is your number one IP concern. The TRIPS Agreement again contains specific provisions regarding **design of Integrated Circuits**, the sole set of multilateral rules requiring the protection of layout designs. While this has been one of the least discussed areas of the TRIPS Agreement, both in WTO and in public debate more generally, recent changes in technology which make easier and less expensive the unauthorized optical copying of integrated circuits have increased the importance of these provisions. On **Patents**, semiconductor technology is the only area where the TRIPS Agreement limits the grounds on which compulsory licenses can be granted. All the above show that TRIPS Agreement is indispensable to the industry.

Of course, there are other trade policy issues relating to the semiconductor industry, such as the Technical Barriers to Trade Agreement (TBT) and trade remedy measures, whether antidumping or safeguard measures, which are also part of the on-going WTO negotiations.

How can the semiconductor industry help the WTO

Many of you have already noticed, the WTO and Doha Round is at a crunch moment and we have not yet concluded the package as we expected. The reasons behind this are complex: political difficulties, tactical positioning by negotiators, economic considerations and even systemic problems. The proliferation of FTAs also pose unprecedented challenges to the credibility and future of the multilateral trading system.

The first and most immediate challenge of the WTO today is therefore completion of the Doha Round. The success of this Round will define the

credibility and future of this institution. As I mentioned earlier, trade rules made in the WTO have a direct impact on the semiconductor industry. In addition, as an essential and influential globalized business, you have substantial commercial interests in the early completion of the Doha Round. At this crucial stage, I would like to call on your support in the following areas:

First, at the political level, I count on your strong support at this critical moment; please continue to work closely with your respective Governments, so as to complete the Round by the end of this year. I was informed that, as the outcome of this meeting, a Joint Statement will be issued supporting the WTO, we do appreciate that. Key members on which you should focus your attention today are the US, Brazil, India, Japan and the EU.

Second, please continue your fruitful work in the field of Rules of Origin. Make new collective efforts in addressing remaining issues and reaching a full agreement in this Rules of Origin Committee Session in Geneva.

Conclusion

The Doha Round is a once-in-a-generation opportunity to improve current rules, rebalance the system and establish new disciplines. Though faced with many challenges, it is still doable and it deserves our greatest efforts to conclude the Round by around the end of the year. The semiconductor industry has benefited from globalization, benefited from an open and transparent global trade environment, and from the multilateral trade disciplines as well. It is the time for the industry to work hand-in-hand with their Governments, to strengthen the system and achieve an early conclusion of the Doha Round. It is something we can do, we must do, together. I count on your support.

Thank you