



## EUROPE INDIA CHAMBER OF COMMERCE

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**Chairman: Ravi K Mehrotra, CBE Secretary General: Sunil Prasad**

EICC-2022

Brussels, 8 December 2022

Mr. Josep Borrell

EU High Representative for Foreign Affairs and Security Policy and

Vice-President of the European Commission

Brussels

Dear High Representative, Vice-President Mr. Borrell,

### **Re: European Union's Chips Act and New Pathways to Strengthen EU-India Strategic Partnership**

Adoption of the European Union's Chips Act Position Paper by the Council of Europe on November 28 is a “watershed moment” in EU's quest to become a dominant player in the global semiconductor ecosystem. We hope that it shall have smooth passage in the European Parliament to pave the way for a rapid implementation so that the EU can get on with the plans for making the region a global hub for high technology manufacturing.

With this Chips Act, the EU is at the cusp of one of the most important, exciting, and challenging times in the history of global enterprise. Building resilient supply chains, revitalising EU manufacturing, and fostering broad based economic growth it is a right step in the right direction. We believe that the Chips Act would also help meet EU's long-term challenge by incentivising semiconductor research, design, and manufacturing in the EU countries, and also strengthen national security in the EU.

Semiconductors, the nano-sized building blocks are the invisible engines of the world, running things as different as smartphones and automobiles. The world's fourth most traded product, its manufacture is limited to just a handful of countries. The global semiconductor industry is currently valued at USD 500-600 billion and caters to the global electronics industry currently valued at about USD 3 trillion. It was therefore necessary for EU to step its claim to join the world of semiconductor business.

The Europe India Chamber of Commerce, the Apex Chamber of Europe which promotes trade and economic relations between EU and India, strongly supports the Chips Act, as we believe this would enhance European Union's global competitiveness, and open new areas of collaboration.

Sir, in your statement on EU-China Relations in the European Parliament on November 22, you candidly admitted “.. the European Union needs to step up its work on reducing dependencies and strategic vulnerabilities – diversifying sources of supply and improving internal resilience. This applies to raw materials and semiconductors – both being critical for the green transition.” Of the 35 EU law makers who participated in the Debate, only three were in favour of boosting relations with China and the rest all were critical of EU's China policy and

wanted EU to take urgent steps to reduce its dependency on the country. In our view, if EU does not take urgent steps, it risks drifting into global irrelevance and further falling into the designs of China.

It is our view that that EU's approach to build its own resilient supply chains must draw on its greatest strengths - the vast innovation ecosystem, its people, its diversity, strength of its small and medium-sized businesses, and its strong relationships with allies and partners who share EU values. We are confident that a successful EU Chips Act will stimulate semiconductor research and development (R&D), and disincentivise investments in chip-making plants in China. However, the quest for onshoring manufacturing is not necessarily going to be the solution but what will help change is a new strategy on China; a strategy which is sharper, shrewder, smart, and sustainable.

Even though the EU has long been a centre of research and development for all kinds of nanotechnology, including chips, it has lagged far behind in taking the next step, however logical it has been, to move from research and prototype product development to industrial-scale manufacturing.

The western multinationals, including Europe's own home-grown giants, driven solely by profitability and shareholder values, forgot or rather wilfully ignored the interests of a much larger community of stakeholders – the country and the European Community. Unfortunately, the governments in the EU as well as the European Commission have also wilfully looked the other way even as the long-term interests of the community were being sacrificed at the altar of pure greed of the companies. As a result, though it represents a quarter of the global economy, it has barely over 10 pc share in the global semiconductor sales, indicating the extent to which the EU has been absent from the global debate about semiconductor manufacturing.

Thankfully, the approach has begun to change over the past two years with greater emphasis on local manufacturing within the EU. One does wonder, though, how much of this push came from the total disruption of supply chains during the peak pandemic period and how much from strategic concerns about the domination of China in this critical sphere. But now that there is an increasing awareness and a considered decision by most of the EU nations to reduce their dependence upon China, at least for critical elements, there is an increasing shift away from manufacturing in China to either manufacturing within the EU or in friendly third countries.

In this context, industries that are of strategic value to EU's economy must receive top strategic policy priority. And this is where EU and India can collaborate. With free trade negotiations between EU and India in progress, we are of the view that both the sides need to speed up and conclude the negotiations that have been going on for almost 20 years now.

One of the key issues that figures in these negotiations is the issue of mobility of skilled Indian workers across the single market as well as easier and faster process for granting of visas for them. It is in the vital interests of the EU to understand that instead of blocking the talks on this issue, they would be far better off in wholeheartedly supporting this clause as it will not only help India but will actually prove to be of critical use for the EU at this juncture. This is simply because the EU lacks the sheer number of trained workers needed to keep these chip-

making factories humming. The sooner this fact is understood and acknowledged by the EU, the better it will be for the region.

Sir, as you may know, the semiconductor manufacturing requires a diverse array of highly specialised skills. It needs the PhDs in materials sciences and electrical engineering for some advanced silicon technology work, it needs electrical engineers for manufacturing, and it also needs a lot of people who will be working on the software, or as print technicians, or factory machine operators. At present, in the EU semiconductor industry, a “skills gap” exists in virtually every job category, and it would be useful if EU can use growing talent-pool of highly skilled workers from India.

The talent shortage is the biggest challenge to semiconductor industry growth in Europe and globally. The chip-making skills gap has been long in the making. During the past several decades, much of Europe's chip manufacturing moved offshore or was outsourced to foundries in Asia. As a result, the chip-making competencies of the European workforce have eroded.

The EU aims to double its global market share in semiconductors from 10 pc to at least 20 pc by 2030 in order to ensure EU's future technological sovereignty. It is predicted that the EU workforce will shrink by 96 million workers by 2030 without migration – more than Germany's current population. Skills shortages in Europe will result in an unrealised output of USD 1.323 trillion by 2030, due to skilled workforce deficits, particularly in financial and business services.

The EU's falling share in global manufacturing and loss of competitiveness cannot be restored without collaboration and cooperation with like-minded trade partners. Therefore, it is important that EU and India join hands to address the common challenge of semiconductor supply chain and boost their semiconductor manufacturing capacities.

You may know that along with other countries like the US, India has been looking to forge strategic alliances around semiconductors. India has a number of strengths including semiconductor human power, which could help EU in the chipmaking world. Semiconductor design requires large numbers of skilled engineers, and this is where India's strength lies. Of the largest semiconductor firms in the world, eight have design houses in India and more than 20 pc of the global workforce in semiconductor design comes from India. Almost, all the top 25 semiconductor design companies have their design or R&D centres in India. Also, India is home to several of the world's top IT businesses like Microsoft, Cisco, Amazon, IBM, etc. It has enough talent to abide by the EU working standards.

Not only can India provide the skill sets needed, both in terms of value and volume, for the research and development part of the process, but also provide the foot-soldiers needed for keeping the machines working and churning out the number of chips needed.

The EU has long faced a huge shortage of trained manpower to keep its manufacturing and even service industries well supplied. However, so far, these gaps were either overcome by taking the factories to where the workers were or simply ignoring the need for manufacturing and resort to importing the products needed. But since the pandemic began to recede, the glaring gap in manpower needed for the EU economies to function normally has not only become highly visible but is also at a level where it can undermine the EU economy for a long time to come.

With the global order undergoing a dramatic change, it has become imperative for like-minded countries to develop partnership so that the supply chain continues to function smoothly. No country should have an absolute monopoly over the troika of equipment, materials and services which power the chip manufacturing ecosystem.

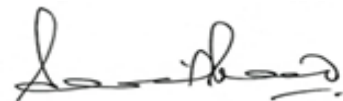
We may like to add that as the world's fifth-largest economy, India is on way to become a chip powerhouse, in one of the most important sectors in the world. India is also geographically well-located on global supply chain routes. In December 2021, India announced its roughly USD 10 billion-dollar production-linked incentive (PLI) scheme to encourage semiconductor and display manufacturing in the country. India's ambitions to create a domestic semiconductor manufacturing capability got a boost in September this year with the announcement of a USD 19.5 billion investment by Taiwanese electronic company Foxconn and Indian multinational Vedanta.

India based companies in the EU are making notable impact on the global stage. For over a decade, the Indian information technology industry has been contributing substantially to the EU economy through jobs and investments, for training next-generation talent and driving innovations. From the value chain through to the end customers, Indian technology companies have invested in European talent and technology that they have augmented with their global resources to develop and produce cutting-edge innovations for industries and clients. Two in every five companies in the EU is claiming to have difficulties in recruiting people with the required skills. India, on the other hand, maintains the highest rank in terms of global sourcing country for IT talent.

In view of what we have stated above, you shall see that our call for collaboration with India in the manufacturing of semiconductors offers to the EU one of the quickest and surest ways for the EU to stay relevant as a player of any consequence globally in this area.

With kind regards,

Yours sincerely,



Secretary General

Cc: Ms. Roberta Metsola, President, European Parliament

Mr. Valdis Dombrovskis, Executive Vice President and EU Commissioner for Trade, European Commission