

IPC Response

EU Trade Policy Review

IPC welcomes the opportunity to respond to the European Commission's consultation on Trade Policy.

IPC represents the electronics manufacturing value chain including printed circuit board designers and fabricators, assembly companies, suppliers and original equipment manufacturers. Our global membership includes over 6,000 company sites of which more than 900 are located in Europe and includes both large companies and a majority of SMEs.

Electronics lie at the heart of much of our daily lives from a socially indispensable telecoms infrastructure to life saving medical devices and from a potentially carbon neutral industrial environment to green mobility. It is particularly important that Europe's industry can be in a position to meet Europe's needs both during this time of pandemic-related transition and in the longer-term to support sustainable re-building and growth in line with Europe's values.

Question 1: How can trade policy help to improve the EU's resilience and build a model of open strategic autonomy?

IPC welcomes the European Commission's consultation and questioning as to the role and future requirements of the EU's Trade Policy. It is unquestionably a volatile time. Even before COVID 19, trade tensions between the US, China and the EU have created instabilities and direct costs for electronics manufacturers in the form of substantially increased tariffs and consequential unpredictability of the market. Accompanying this we have seen in various regions or countries a growing tendency towards closing down or resorting to forms of protectionism. The additional weakening of the WTO's role in the multilateral trade system makes global trade for businesses an increasingly uncertain and unpredictable activity.

For electronics manufacturers, as for many other sectors, COVID-19 has caused disruption in supply chains. Our sector relies on sophisticated global value chains through which services, raw materials, parts and components are exchanged between countries to support intermediate and final production of goods. When it comes to electronics manufacturing, no country is self-sufficient. Our sector, like many others, was impacted through the shut down in China and the associated rising freight costs as well as pandemic control measures taken in European Member States disrupting intra EU supply chains. In light of the pandemic, electronics manufacturers are also re-examining their supply chains for future resilience and examining diversification strategies.

The European Commission's consultation is therefore both timely and critical. Trade Policy has a direct impact on supply chains and future business with regard to sourcing, production and exports. IPC welcomes the opening of a debate on the concept of open strategic

autonomy, and what that might mean. We welcome the European Commission's intention to strike a healthy balance between a market that is open for trade and investment and ensuring European interests in strategic areas. The Europe Union's trade policy has always been based on eloquent advocacy of a multilateral trading system and a strong WTO. This continuing role is needed now more than ever before.

Future policies with regard to both trade and industrial strategy will need to work hand in hand if the concept of open strategic autonomy is to be translated into measures that are workable and useful. At this stage we note that the concept is still relatively broad and loosely defined. In this light, we would like to make a few points:

- First, we agree with the former Trade Commissioner Phil Hogan's 16th April statement to Trade Ministers with regard to open strategic autonomy.¹ It is a reality that not everything can or should be manufactured locally. This would not take into account the reality of current global supply chains which are well optimised and have evolved over many years to leverage expertise, reduce costs and serve customers.
- Global events, however, are forcing companies to reconsider and, often, shift their supply chains to hedge against geopolitical and exogenous shocks. These developments create new opportunities for Europe to establish a form of strategic autonomy that seemed unimaginable even a few years ago and to support the growth of key industries as more companies invest in regional supply chains. As this regionalisation of supply chains is a growing global trend it becomes ever more critical for Europe to ensure a supportive and level playing field for European companies.
- Europe's success in achieving this is contingent upon a holistic approach to industrial policy that recognises key industries that spur growth and innovation across the entire economy. The electronics manufacturing industry is a case in point. It is elementary that it is recognised as a strategically important sector. It is a horizontal industry that enables many other key industries such as healthcare, automotive, critical infrastructure, aerospace and defence. It is also a multi-layered industrial ecosystem in its own right requiring a robust supply chain for raw materials, connectors, electronic and microelectronic components, printed circuit boards, substrates, OSAT, semiconductor manufacturers as well as the manufacturers that assemble the parts and components into electronic systems that are incorporated into the final product, EMS and OEM companies.
- Where production can be stepped up regionally this must be tied to a strong industrial strategy that will support Europe's electronics manufacturing base and

¹ *Strategic autonomy does not mean that we should aim for self-sufficiency. Given the complexity of supply chains, this would be an unattainable goal. We need an evidence-based discussion on what it means to be strategically autonomous. For example, we need to look at how to build resilient supply chains, based on diversification, acknowledging the simple fact that we will not be able to manufacture everything locally"*

have as a key driver the objective of bringing down the cost of production to a competitive level and making Europe a manufacturing centre of excellence. Governments can help by supporting investment in more advanced equipment and technologies and facilitating migration to smart factories, supporting conditions for location and providing internationally competitive funding including R&D funding. Governments can also help by supporting industry workforce programmes and pursuing considered approaches to regulation and taxation as well as leveraging trade relationships as further discussed in this paper. We would highlight that the electronics ecosystem is only as strong as its weakest link. Investing singularly in some of its industries while neglecting others, risks compromising innovation, security and resiliency.

- Where production cannot take place in Europe it is quintessential that manufacturers can access the critical materials and components and inputs needed. As one facet of this, IPC welcomes the recent publication of the European Commission's Communication on Critical Raw Materials and looks forward to considered approaches to the raw materials critical to electronics manufacturing for current and emerging strategic technologies and products. More holistically it implies a network of trusted trading partners. It will therefore be important to identify existing and new reliable and strategic trading partners in order to build a reliable strategic trade area. Indeed, IPC would urge the European Commission to establish an electronics resiliency initiative that looks specifically to build resiliency amongst a network of trusted countries. This means seeking alliances and continuing to work with like-minded partners at the multilateral and bilateral level to avoid the creation of new tariff and non-tariff barriers (while continuing to work on lowering existing ones).
- Export Control remains an important tool to control military goods & technologies and dual use goods & technologies. IPC supports an export control policy that will find a healthy balance between European strategic security and foreign policy objectives and commercial business operations. Moreover, a workable, clear and predictable export control environment is key for European companies to be successful on the global market. We would also like to invite the EU to put serious efforts towards alignment of export control practices within the EU in order to ensure a level playing field for companies across the EU.

Question 2: What initiatives should the EU take – alone or with other trading partners - to support businesses, including SMEs, to assess risks as well as solidifying and diversifying supply chains?

IPC would welcome a three-pronged approach, the first point of which is explained in more detail in our response to Question 1.

1. Shoring up of manufacturing in Europe by providing an industrial strategy to support the electronics manufacturing Industry and bring down the cost of production;

2. Continuation, improvement and pursuance of strategic trade partnerships;
3. At the same time, continuation of a strong but mature EU-China trade relationship.

As we have noted, when it comes to electronics manufacturing, no country is self-sufficient. If cut off from markets in Asia, Europe would be unable to meet demand for electronics. This is also the case for other countries and regions including the US. The US is currently taking steps to build secure and resilient supply chains across allied countries and strategic trading partners for key markets and technologies. We consider it important for Europe to take similar steps in coordination with its partners.

The last point requires some explanation. China is the leader in electronics manufacturing. Moreover, China also remains a large export market. It is of mutual interest to have good trade relations with China. The reoccurring issues with China concern intellectual property rights and the limitations for EU companies on the Chinese market. On the horizon is the issue of data protection and security (e.g. 5G) in the broadest sense. The EU should forcefully engage through the EU-China Comprehensive Agreement (CAI) or other initiatives to address and resolve these matters in order to create a level playing field for EU businesses at home and abroad.

Question 3: How should the multilateral trade framework (WTO) be strengthened to ensure stability, predictability and a rules-based environment for fair and sustainable trade and investment?

The multilateral trade framework provides a predictable and stable environment that is essential for global trade at large and individual businesses in particular. The WTO has helped spur the growth of the global marketplace raising standards of living around the world.

IPC supports the WTO multilateral trading system and supports the EU to remain committed to its strengthening where possible. WTO working areas that require in our view special attention:

- Dispute settlement procedure should be more efficient & effective to address misuse of WTO law. Moreover, a higher level of autonomy for the dispute settlement body would be instrumental;
- Advance the reduction of tariffs and non-tariff barriers in order to facilitate equal market access (level playing field);
- Improve trade defence mechanisms & procedures to adequately address market distortions but also to prevent the abuse of those instruments;
- Improve and enforce the protection of Intellectual Property Rights;
- Harmonise the non-preferential rules of origin (with the exception of rules of origin for trade defence purposes).

An additional issue concerns standards. IPC works closely with the industry stakeholders to develop international standards for the electronics manufacturing industry. Our standards are used in the manufacture of approximately 85% of the high reliable electronics produced globally. These IPC standards have helped globalise supply chains by establishing common standards across countries.

Therefore, IPC would encourage efforts to enhance the Technical Barriers to Trade Agreement (TBT) and support harmonising standards and acceptance of them across the globe.

Question 4: How can we use our broad network of existing FTAs or new FTAs to improve market access for EU exporters and investors, and promote international regulatory cooperation—particularly in relation to digital and green technologies and standards in order to maximise their potential?

IPC agrees that it is important to help EU exporters, particularly SMEs, reap the full benefits of existing (and new) trade agreements, ensuring greater market access, protecting intellectual property rights and providing the stability and predictability that businesses need.

As a general remark we would like to mention that IPC would support upgrading the older FTAs to a full encompassing Economic Partnership Agreement (EPA) like Canada which enable the introduction of regulatory cooperation in relation to digital and green technologies and standards.

Moreover, IPC recognizes that utilising the patchwork of different FTAs is particularly challenging for SMEs. Hence, IPC would support the concept of harmonising the different FTAs as much as possible with regard to the applicable rules of preferential origin and to increase the possibilities for export simplifications.

In addition, FTAs should, as a matter of course, include SME chapters that dictate how Europe will work with trading partners to connect SMEs to export opportunities and to facilitate trade through as low barriers as possible.

Question 5: With which partners and regions should the EU prioritise its engagement? In particular, how can we strengthen our trade and investment relationships with the neighbouring countries and Africa to our mutual benefit?

IPC recognises that the EU holds the largest network of trade and investment agreements of all WTO members, with partners from around the globe. We welcomed the implementation of the EU-Japan Economic Partnership Agreement (EPA), EU-Canada EPA, EU-Vietnam, the modernised agreement with Mexico, as well as the political agreement of negotiations with Mercosur. The EU should also press ahead with FTA negotiations with the collective of Association of Southeast Asian Nations (ASEAN) countries; an important region with regard to electronics.

The US and China remain key markets for our companies and the most important in terms of goods exchanged and investment. Our sector's interest in these markets remains high.

China

While companies are indeed reviewing their supply chains in light of COVID-19, China remains a hub for production of electronics, a major export market for our industries and a large foreign investment destination. A strong and managed relationship between the EU and China is an important element creating opportunities for our European companies. At the same time, China should also abide by its WTO Commitments and enable fair competition. See also our considerations under question 2.

US

In parallel, the transatlantic relationship, despite its current turbulence, remains a priority for the electronics sector. Hence, IPC believes it is essential that policy makers and industry work together to develop a strong European strategy to overcome the current trade disputes and work towards a stable and predictable trade environment. While a bilateral trade agreement may not be a near-term opportunity, we believe that there are many other opportunities for Europe and the U.S. to jointly work toward creating more secure and resilient electronics supply chains.

ASEAN

In order to decrease dependency on China for electronics manufacturing it is also important to pursue new trade agreements. As ASEAN has a well-established electronics industry an elaborate collective (= with all ASEAN members) economic partnership agreement is an important strategic step to rebalance trade dependencies.

UK and Brexit

As the trade in electronics and electronic products is substantial between the EU and UK, IPC supports a comprehensive trade agreement with the UK. We hope that an agreement can be concluded before the end of the transition period. However, if this is not feasible, we support the continuation of the negotiation for a future agreement and optimal trade facilitation.

It is important to agree future relations in order to limit the impact on electronics manufacturing in terms of potential tariffs, standards, rules of origin and trade facilitation. (supply chain delays). A comprehensive trade agreement should maintain a level playing field, have no tariff (simple and easy to apply rules of origin) or non-tariff barriers and enable trade facilitation. Moreover, it should establish regulatory cooperation in relation to digital and green technologies and standards.

Africa

The electronics sector is underrepresented in Africa due to the lack of a regional industrial eco system. There are encouraging developments in South Africa, with whom the EU

already has an FTA, and we routinely see opportunities for growth of the industry in Africa as manufacturers explore new bases for global manufacturing facilities. We believe that bilateral trade initiatives with Africa could help spur greater industrialisation in parts of Africa while also serving to diversify Europe's supply chain.

[Question 6: How can trade policy support the European renewed industrial policy?](#)

Industrial and trade policies work hand in hand. As elaborated in Question 1, a well-formed industrial policy together with rules-based measures to (re) boost international trade could together enable a path towards sustainable recovery and growth for Europe. IPC would emphasise that all EU Policies from broad industrial (including taxation & education) to environmental to trade must be coherent in providing a framework which enables businesses including Europe's electronics manufacturers to grow and thrive.

An area we would highlight in this respect are the very tight margins under which electronics manufacturers operate rendering them highly sensitive to cost increases. IPC supports the EU's twin environmental and digital transition which, thoughtfully implemented, can provide great potential for growth. We would nonetheless call for an environmental regulatory regime which is as streamlined and efficient as possible and based on sound science and thorough impact assessments in order to ensure that new requirements do not undercut the competitiveness that Europe wishes to ensure. We believe that the EU can achieve its ambitious environmental goals and help European manufacturers to be competitive on European and global markets so long as the EU thinks innovatively about regulatory burden.

IPC fully supports the objectives of making Europe a hub for development and use of new digital technologies and for new digital business models. We believe that the European Commission's goal to build key technologies and support industrial ecosystems is an important one. Support to achieve this must include all key stakeholders. As we have noted in Question 1, the electronics manufacturing value chain is a critical supplier to all other industries and a complex ecosystem in its own right. The chain itself is only as strong as its weakest link.

It is only through a thorough analysis of Europe's industrial strengths and vulnerabilities that a strategic trade and partnership strategy can be fully forged. Building competences within our region and providing incentives to invest particularly in R&D and in advanced manufacturing technologies will be important factors enabling Europe to act from a position of strength and in line with the twin transition objectives.

Trade policy plays an important role in ensuring support externally for EU Industrial policy, enabling European companies to compete and to lead on global markets. This implies strong trade defence mechanisms (while ensuring that Europe remains an attractive region for foreign direct investment) measures to deal with protectionism, subsidising and

randomly applied tariffs in export markets and enhancing market access for European companies).

As discussed in Questions 1 and 2, it relies on Europe maintaining its role as defender of a multilateral trading system. Enhancing free trade of key components, materials and inputs by means of bilateral or multilateral (sectoral) trade agreements will moreover be quintessential.

Question 7: What more can be done to help SMEs benefit from the opportunities of international trade and investment? Where do they have specific needs or particular challenges that could be addressed by trade and investment policy measures and support?

SMEs are disadvantaged in the global marketplace. They do not have the resources to understand and comply with the multitude of international trade rules and regulations, including rules of origin requirements, health & safety standards, or even tariff rates. Therefore, affordable and easy access to comprehensible but customised advice and information regarding international trade and the export market would be an asset to increase SMEs' opportunities abroad. A further enhancement, but not limited to, of the EC export helpdesk and the Market Access Database would support SMEs.

As noted earlier under question 4, IPC would support harmonising the different FTAs as much as possible with regards to the applicable rules of preferential origin and increasing the possibilities for export simplifications. Moreover, the aim should further be to simplify the preferential rules of origin to the largest extent possible.

Question 8: How can trade policy facilitate the transition to a greener, fairer and more responsible economy at home and abroad? How can trade policy further promote the UN Sustainable Development Goals (SDGs)? How should implementation and enforcement support these objectives?

Using the EU's multilateral and bilateral priorities to promote consensus amongst like-minded partners; to not only support economic goals but also social and environmental is in line with the overall Sustainable Development Goals and identifies the interlinks between trade and sustainability.

The EU's trade and sustainable development chapters are comprehensive, covering labour rights, environmental protection, responsible business conduct and human rights. IPC supports this scope. We recognise that further efforts should be dedicated to the implementation and enforcement of these objectives.

Pursuing these standards in the EU's multilateral and bilateral trade relations can boost the competitiveness of European businesses and help make trade fairer. IPC supports provisions committing the parties to promote Corporate Social Responsibility/Responsible Business Conduct based on internationally agreed instruments and implement the Paris Agreement.

In this, however, IPC would note that a healthy balance is always required between economic, environmental and social objectives so that the trade agenda is able to meet its objective of seeking new markets and businesses opportunities.

The EU Conflict Minerals Regulation is a good example of how trade policy can contribute to a more responsible economy by ensuring that EU importers meet international responsible sourcing standards. It sets a precedent for combining EU legislation with internationally accepted guidelines while building on already existing industry schemes.

Integrating good governance and due diligence practices across global supply chains through trade policy will help to rebuild a more sustainable economy, in particular post-COVID-19. Promoting internationally recognized standards with the EU's trading partners will be key to ensure harmonisation.

IPC supports trade policies that are tailored to the specificities of industry sectors and their complex supply chains, while ensuring policy coherence and avoiding unnecessary burden for SMEs. In fact, it is crucial to offer SMEs tailored assistance on how to benefit from trade agreements while implementing effective corporate social responsibility practices.

We support the Paris Agreement objectives and recognise that the Carbon Border Adjustment Mechanism under consideration could be an important instrument to reduce the risk of carbon leakage should differences in climate ambitions levels across the world exist. Nonetheless, we have concerns regarding European competitiveness due to potential increased costs and our reliance on global supply chains. Hence a Carbon Border Adjustment Mechanism should not be used as a blunt instrument but as a precision tool with full impact analyses per industry sector.

Question 9: How can trade policy help to foster more responsible business conduct? What role should trade policy play in promoting transparent, responsible and sustainable supply chains?

A robust due diligence regime in trade policy, aligned with international best practices, like the OECD Due Diligence Guidance for Responsible Business Conduct can help promote transparent, responsible and sustainable supply chains. It can also reduce unfair competition and ensure a level playing field.

The electronics industry relies on sophisticated global value chains through which services, raw materials, parts and components are exchanged between countries to support intermediate and final production of goods. Given the importance of these global values chains, IPC is a strong advocate for a rules-based, level trade system and supports measures that promote responsible business conduct along the supply chain.

IPC supports Europe's objective to ensure a reduction in technology being used for human rights violations through a robust export control regime. We call for a balanced system, aligned with international best practices, that allows innovative businesses to grow and expand without placing undue constraints on them.

We support European and international efforts by public and private stakeholders to reduce human rights violations, violence, and environmental damage across the supply chain.

Question 10: How can digital trade rules benefit EU businesses, including SMEs? How could the digital transition, within the EU but also in developing country trade partners, be supported by trade policy, in particular when it comes to key digital technologies and major developments (e.g. block chain, artificial intelligence, big data flows)?

There is a clear and growing relationship between the electronics manufacturing sector and digital services. Electronics are at the heart of many products and systems that are crucial for businesses, consumers and governments and that symbiosis will continue to grow, creating upward momentum in multiple categories. Digital services are also becoming critical to the operation of digitally connected factories and supply chains.

IPC agrees that the current crisis has clearly accelerated the digital revolution. Electronics manufacturers, like many other sectors, have also moved to teleworking where such a transition has been possible in administrative and management roles. By using digital tools our companies have been able to react, inform employees of changing news and requirements and ensure their safety more quickly. At the same time, the crisis has even more clearly revealed the need for further acceleration of the digital transformation enabling greater automation so that we can be even more protective of our workforce in the future, more agile and have more real time visibility across the supply chain to react to supply and demand signals.

The data flows that enable global value chains and services enabling smart manufacturing are key for IPC Members. The EU should take a leading role in this field, promoting measures enabling European companies to take active part in the global data economy while ensuring that data flows meet our privacy and security standards.

Question 11: What are the biggest barriers and opportunities for European businesses engaging in digital trade in third countries or for consumers when engaging in e-commerce? How important are the international transfers of data for EU business activity?

IPC is not addressing in this response goods delivered digitally. The gravity point of our businesses concerns physical goods.

We would however note that forced data localisation measures, customs duties and fees on digital products as well as technology transfer requirements seriously hamper opportunities

for European businesses on third country markets. The prohibition on such requirements in FTAs is positive for electronics industry customers and as such benefits the electronics industry itself. As noted, the electronics manufacturing industry has a growing digital component and thus the ability to send data between countries is key along with the assurance of a high level of privacy and security for such data.

Question 12: In addition to existing instruments, such as trade defence, how should the EU address coercive, distortive and unfair trading practices by third countries? Should existing instruments be further improved or additional instruments be considered?

In recent years, we have seen an increase in unfair trading practices that distort the market and undermine the competitiveness of the electronics manufacturing industry. IPC supports robust trade defence instruments that comply with EU law and WTO rules and effectively restore a level playing field. Measures effectively addressing disproportionate foreign subsidies are necessary to allow European companies to expand in foreign markets. In this regard, IPC welcomes the recent White Paper on Foreign Subsidies and upcoming proposals in this area to close the current regulatory gap and effectively tackle distortions in the market. As the electronics industry's supply chain relies on a well-functioning, open trading system, it is important that all trade defence measures are workable for industry and do not impose additional administrative burden.