

**China Semiconductor Industry Association(CSIA)**

**Commentary**

**CSIA Opposes U.S. Use of National Security as a Justification to Destabilize the Global Semiconductor Supply Chain and Disrupt Free Trade in Semiconductor Markets**

On October 17, 2023, the Bureau of Industry and Security (**"BIS"**) of the U.S. Department of Commerce issued three rules. Two of the rules updated the **"*Implementation of Additional Export Controls: Certain Advanced Computing and Semiconductor Manufacturing Items Exported to China*"** issued on October 7, 2022, and updated the rules on additional export controls on advanced computing chips, supercomputers and semiconductor end uses, and semiconductor manufacturing equipment to impose enhanced restrictions on China's access to advanced semiconductors. At the same time, BIS issued a Federal Register notice placing 13 Chinese companies on the Entity List.

CSIA is of the view that, despite the widespread recognition that export controls undermine the normal development of the global semiconductor industry and the calls for a halt to the escalation of export controls, the U.S. Department of Commerce rolled out additional controls set to bring greater uncertainty to the global industrial ecosystem, further disrupt the global supply chain, and jeopardize the free trade in the semiconductor industry and the market. We hope that the U.S. Department of Commerce would heed the calls and suggestions from the industry and refrain from ramping up export control measures on semiconductors.

CSIA would like to offer the following comments in response to the U.S. Department of Commerce's updated export control rules:

1. We took note of the comments on "Topic 9" of the ***Advanced Computing Chips Rule (AC/S IFR)*** posted on the U.S. Department of Commerce's website, and echo the commenter's observation that "*trade with China brings many important benefits to the U.S. economy and American workers*." The commenter further noted that *"advanced U.S. manufacturers of all sizes and their American business partners and consumers have benefitted from globally integrated supply chains that have improved efficiency and lowered production costs for U.S. firms. Revenues generated in China are often reinvested in global and U.S. research and development (R&D) activities, which in turn allows U.S. companies to maintain their competitive edge over PRC and foreign competition*." In our view, the additional export controls will eventually result in diminishing the investment in new technology R&D by relevant U.S. firms.
2. The new rules adjusted the parameters and drastically broadened the scope of advanced computing chips under export control, meaning a great number of chips used in medical imaging, weather forecasting, geological exploration, financial risk control and other civil sectors would not be able to obtain export licenses. It is advisable that the Department of Commerce grant exemptions for advanced computing chips for civil use in light of the intended applications and the end-users.
3. The new rules expanded the scope of control on semiconductor manufacturing equipment, covering all aspects of semiconductor manufacturing, including epitaxial growth, ion implantation, etching, deposition, lithography, coating and developing, annealing, cleaning and removal, testing and inspection, etc. As immersion DUVs are not produced in the United States, there is little merit in adding a new paragraph (a)(3) to specify that there is no de minimis level for lithography equipment. The sales and servicing of equipment for mature lines at 28nm and above shall also be impacted by the expanded scope. It is widely acknowledged that such rules would force equipment makers to develop products free of U.S. technology, leading to the emergence of two or even more independent technology routes and causing disruption to the global supply chain.
4. The scope of semiconductor equipment in the new rules has been expanded arbitrarily. For example, the heading of ECCN 3B001 is revised by adding the phrase "*and equipment for manufacturing semiconductor manufacturing equipment*" after the word “*materials*”, which is way too broad, as most of the equipment are not specialized equipment for the production of advanced process equipment, and some may not even be specialized semiconductor manufacturing equipment. The overly broad scope of the new rules would not only undermine the interests of U.S. suppliers, but would also jeopardize the global semiconductor ecosystem.
5. For the contracts that have been concluded with Chinese companies prior to October 17, 2023, when the new rules came into effect, the relevant U.S. companies should honor the contracts and make deliveries. For the semiconductor equipment already delivered, the U.S. suppliers should provide the repair, maintenance, debugging and spare parts services as specified in the contracts.

The semiconductor industry originated in the United States, and China represents the largest semiconductor market with a huge appetite for continued innovation. As such, the interests of the Chinese industry should be duly recognized. The ratcheting up of export control measures by the United States has disrupted the global division of labor and industrial mutual trust built over the years, and the relevant companies would be forced to pursue supply chain diversification, independence and autonomy.

China is a massive market – there is an ever-expanding computing infrastructure, the world's largest new-energy vehicle market, a surging new-energy industry (wind power, PV, energy storage, etc.), and its industries are going digital, all of which offers enormous business opportunities for the global industrial chain. Given the robust demand in China, a shortage of supply of products and technology will invariably lead to the emergence of new industrial forces to fill the gap.

The U.S. Department of Commerce's unremitting suppression of China's semiconductor industry has sparked strong dissatisfaction amongst private citizens and the industry in China, manifested in numerous social media posts and distrust of products from the U.S. is spreading amongst Chinese industries and the public at large. The U.S. brought about the semiconductor export controls on China, and it might not end the way as the U.S. envisioned.

China's semiconductor industry remains committed to openness and cooperation. CSIA hopes that the U.S. Department of Commerce could give due consideration to our comments, heed the voices of the global semiconductor industry, facilitate and foster the cooperative development of the semiconductor industries for the benefit of the people both in the United States and in China.