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## European Union Seeking to Strengthen Semiconductor Ecosystem

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### RECENT DEVELOPMENT

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On February 8, 2022, the European Commission formally proposed what's commonly referred to as the [European Chips Act](#). The legislation plans to build on Europe's strengths and address weaknesses to develop a thriving domestic semiconductor ecosystem and resilient supply chain, while setting measures to anticipate and respond to future supply chain disruptions. In the short term, the Act seeks to bolster EU capabilities to anticipate future chips crises, strengthen manufacturing activities in the EU, and support scale-up and innovation across the whole value chain. In the mid- to long-term, it seeks to reinforce Europe's technological leadership while developing mechanisms to support transfer of knowledge from the lab to the fab and position Europe as a technology leader in innovative downstream markets.

### ANALYST COMMENT

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Successful investments in key technological innovations have consistently produced substantial economic returns from one of several perspectives: revenues and profits, operational cost savings, and scientific discovery addressing large global societal challenges. The returns have predominantly been realized by commercial institutions large enough to shoulder the risk of the required considerable investments. Recognizing the potential economic returns and benefits for their countries and constituents, national and regional governance entities are increasingly providing direct funding and/or passing legislation to encourage or even require adoption of indigenous technologies. This type of support for regional investment in industry can foster increased competition, accelerate technological advancement, reduce dependence on foreign supply chains, and retain the economic returns in the governance area.

However, to bring out the best possible outcome for this effort, policy planners will need to foster an R&D environment that tolerates failure to ensure a range of innovative, and perhaps risky, efforts are given the opportunity to progress. Similar government-driven programs that have shown the best chance of success supported a level playing field for a wide range of technology options and stayed clear of trying to pick technology or even commercial winners or losers.

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