Move to breathe life into chip industry

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For months, investors, industry watchers and executives have eagerly waited for the Taiwan government to make a decision on whether, and how, to bail out the island's troubled D-Ram chip industry.

Taiwan's six manufacturers of dynamic random access memory chips produce an essential but commoditised component used in computers for short-term storage. They employ 28,000 people and make Taiwan the world's second biggest D-Ram producer, behind South Korea.

The six groups together account for about 25 per cent of global production.

The scale and production capabilities of Taiwan's D-Ram companies, however, proved no defence when overcapacity in the industry, combined with a sudden drop in demand as a result of the global economic downturn, crashed the market.

D-Ram makers were forced to sell their products at a loss as spot prices plummeted from $1.25 in October to $0.58 by mid-December, according to DrameXchange.

These falls came as deadlines loomed on the large debts that many Taiwan D-Ram companies had earlier taken out to fund capacity expansion.

The weakest of them, ProMOS, hovered on the brink of bankruptcy last month until it secured an emergency loan from a consortium of state-owned banks.

Taiwan policymakers, under pressure to avoid an industry collapse that could spread to the island's financial system, have homed in on the one difference between Taiwan D-Ram makers and their foreign competitors: the lack of proprietary technology, which forces the Taiwanese to license the latest research from its competitors.

Their solution to this problem, unveiled yesterday in a hastily arranged press conference, was to set up a state-backed D-Ram company called the Taiwan Memory Company.

TMC is mandated to acquire key technologies from either Elpida of Japan or Micron of the US within the next three months, and then consolidate Taiwan's six D-Ram manufacturers.

John Hsu, the industry veteran who will head the consolidation project, said: "The prerequisite is to grasp the source of [D-Ram] technology."

He is aided in his efforts by the fact that both Elpida and Micron are in need of fresh capital. Elpida has already sought Japanese state support and Micron last month laid off 2,000 staff.

In the weeks leading up to yesterday's announcement, Yukio Sakamoto, Elpida president, made frequent visits to Taiwan officials to discuss a partnership and Micron reportedly offered access to about 2,000 of its chip patents.

The move has the potential to reshape a global industry that, according to the research firm iSuppli, still managed to generate $23.6bn in revenues last year despite a severe slump. If successful, it could put TMC on the same footing as South Korea's Samsung, the market leader, which commands about a quarter of the global market.

But the announcement, which was thin on details such as how much the government would invest in the new company, or how TMC would go about consolidating six independent chipmakers, left more questions than answers.

One senior Taiwan D-Ram executive said the lack of detail was because "there are a lot of things [the government officials] haven't decided yet".

One analyst said the announcement was a delaying tactic given that Mr Hsu said it would take three months to negotiate a transfer of technology, and another three months before TMC would begin operations.

"They just bought themselves six more months . . . nothing will be decided in the next two quarters," the analyst said.