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FUTURE OF TAIWAN'S DRAM CONSOLIDATION STILL UNCERTAIN

In its *Taiwan Semiconductor Report – Q2, 2009* the US-Taiwan Business Council calls on the Taiwan government to move forward with a fair and equitable consolidation of the DRAM industry.

Council president Rupert Hammond-Chambers commented that “the recent launch of Taiwan Memory Company (TMC) and its subsequent investment in Japan’s Elpida is clearly a major development in the ongoing consolidation of Taiwan’s DRAM industry. That said, the broader issues of sector consolidation and high levels of indebtedness within the domestic market remain unresolved.”

While DRAM spot prices have risen over the past several months, Taiwan’s DRAM companies have mothballed considerable production capacity that can be brought on line relatively quickly. Utilizing that capacity would negatively impact the improving revenue picture, if - as global demand stabilizes - companies look to increase revenue in the short term by flooding the market with chips.

The outlook for the industry remains grim, with demand still soft from traditional customers in the PC industry and other sectors. Potential new areas of growth - such as for mobile devices and netbooks - require fewer chips. These sectors are therefore less able to address overcapacity issues, and are unlikely to single-handedly return the industry to higher levels of demand.

Hammond-Chambers went on to note that “overcapacity looms over the nascent attempts to place Taiwan’s DRAM industry on a more solid footing. The domestic DRAM industry still requires consolidation around several players, ideally with their own global technology partners. TMC simply adds a 7th player to an already crowded field. It is not clear that any of the remaining players will willingly fold themselves into TMC as the government previously outlined.”

In addition to probing the issues surrounding DRAM consolidation, the Q2, 2009 report also addresses investment issues for Taiwan chip companies in China and the lack of government guidelines for such investment; high levels of semiconductor industry debt held by Taiwan banks and subsequent liabilities; and Morris Chang’s replacement of Rick Tsai as chief executive of TSMC. The *Taiwan Semiconductor Report* has been published since the first quarter of 2002, and is distributed to members, government employees, and partner organizations as part of a suite of US-Taiwan Business Council information products.

About the US-Taiwan Business Council:

The US-Taiwan Business Council (www.us-taiwan.org) is a membership-based non-profit association, founded in 1976 to foster trade and business relations between the United States and Taiwan. The Council provides its members with business intelligence, offers access to an extensive network of relationships, and serves as a vital and effective representative in dealing with business, trade, and investment matters.

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