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IN CRISIS THERE'S OPPORTUNITY FOR TAIWAN'S DRAM SECTOR: US-TAIWAN BUSINESS COUNCIL REPORT

The US-Taiwan Business Council, in its "*Semiconductor Quarterly Report – Annual Review, 2008*," contends that Taiwan is right now facing a critical strategic crossroads that will impact the future of its semiconductor sector, and particularly the DRAM industry, for years to come.

As DRAM makers grapple with the impact of oversupply, high debt and plunging revenues, the Taiwan government is evaluating several proposed bailout plans asking to tap into the US\$3 billion it has made available to the industry. However, Taipei has stated that fund allocations are subject to certain criteria, and that approved plans must support its goals: developing Taiwan-owned intellectual property and increasing competitiveness – perhaps through consolidation.

Rupert Hammond-Chambers, president of the Council, noted that "Taipei appears to want to take the simplest approach and press the domestic players into consolidation, but that is problematic due to contracts between Taiwan DRAM makers and their foreign partners." "The bolder approach would be to look at the assets held by recently insolvent Qimonda AG, and to engage Taiwan's DRAM companies in a dialogue evaluating purchasing those assets. The proprietary technology in Qimonda's 20,000 patents, including the Buried Wordline manufacturing process, could offer Taipei the wholly-owned IP base it seeks."

If Taiwan wants to take a similar jump to the one in the 1970s - when the purchase of RCA IP assisted in launching the contract manufacturing model and flagships TSMC and UMC - the rewards could be substantial. This would be a long term strategy, however, and would not address shorter term challenges. In addition, the risks and costs associated with the potential deployment of Buried Wordline in Taiwan would be significant. The Council also expects China to take a strong interest in Qimonda's IP. This could either trigger a bidding war for its assets or make China receptive to Taiwan overtures regarding semiconductor consolidation across the Strait.

Shorter term, the distress impacting the semiconductor industry does allow for an acceleration of Taiwan's plans for the China market. Mothballed 8 inch plants could be moved to China to meet the demand for lower end chips, as well as addressing the demand for chips stemming from China's technology investments - including the roll out of its 3G mobile network. For Taiwan companies with significant cash holdings, including TSMC and UMC, the global economic downturn also offers an opportunity to accelerate their China footprints through acquisitions.

The state of Taiwan's semiconductor industry five years from now will depend largely on the willingness of the Taiwan government to be bold in its investment commitments, to explore underwriting a major technological manufacturing change, to allow an industry-led movement of dormant 8 inch facilities into China, and to support Taiwan companies on acquisitions.

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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