

Korean DRAM finds itself shut out of Japan

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Japan may claim that the countervailing duty it slaps against Korean DRAM chip maker Hynix from today is just a protest against unfair trade practices and to curb dumping, but there's a widespread belief that the country has an ulterior motive behind this move.

In its first punitive move against the high-technology industry Japan's Ministry of Finance imposed last week a countervailing duty of 27.2 percent on the Korean DRAM maker Hynix Semiconductor Inc. -- one of the world's leading memory-chip makers -- which will take effect from Jan. 27 and remain in place for five years.

Japan says that this move comes after a year of investigations into allegations from two domestic chip makers -- Elpida Memory Inc. and Micron Japan Ltd., a unit of U.S.-based Micron Technology Inc. -- that Hynix was dumping DRAM chips in the Japanese markets at unfairly low prices and was thereby hurting the Japanese chip industry. The two local companies also alleged that Korea has propped up Hynix through government-sponsored loans and allowed the chipmaker to manufacture DRAM with a lower cost structure than its competitors. This allowed Hynix to sell the DRAM at a lower cost and still turn a profit.

But even as the Japanese government insists that the imposition of the countervailing duty just mimics similar proposals filed in 2003 in the United States and the European Union, which essentially accused Hynix of dumping DRAM in the respective markets, critics say that Japan has an "ulterior motive behind its belated charges."

"No one denies Tokyo's right to protect the local industry from what it sees as unfair foreign competition," said the Korean newspaper Korean Times in its editorial, "but the Japanese government's decision to slap countervailing tariffs on Hynix Semiconductor's memory chips raises some questions as to its real intention. In its bid to cope with Korea's emergence as the world's largest memory chip powerhouse, Tokyo appears set to join its private sector to check the rapidly growing Korean makers."

Korean Times' logic seems to hold water because indeed Japan's moves have come at a time when the Korean government's subsidy to Hynix is almost coming to an end, and, it's a fact that dominance of Japanese semiconductors that once ruled the world markets in the heyday of the 1980s is sliding faster than the comfort of its semiconductor industry. In fact the dominance of the Japanese semiconductors, which were vaunted as Hinomaru (the name given to the Japanese "rising sun" flag) chips due to its 50 percent share in the global markets in the 1980s, has plunged consistently over the years. These days Japanese chips command a global share of just about 20 percent.

In comparison South Korean companies, including Samsung Electronics as well as Hynix, have emerged as key rivals to Japanese companies, such as Toshiba in computer chips and Sony in consumer electronics. For instance, according to industry reports, Korea's Samsung Electronics currently commands about 40 percent in the Japanese DRAM markets, and Hynix at \$506 million dollars sales in 2004 accounted for 16 percent of the Japanese market; whereas Japan's Elpida's share in its home is believed to be almost equal to Hynix's.

Still Elpida, formed in 1999 as a joint venture between electronics giants NEC and Hitachi, is stuttering. Coincidentally, perhaps, on the day Japan formally approved the punitive tariffs on Hynix, Elpida announced that it posted a 95 percent fall in quarterly net profit, hit by a slide in

memory-chip prices. The company also cut its outlook for the year ending in March 2006 by reversing its net forecast to a loss of 2 billion to 6 billion yen (\$17.4 million to \$52.1 million) from a previous forecast of a profit of 5 billion to 10 billion yen.

This is also despite the fact Elpida is currently Japan's only exclusive maker of DRAM chips, since all other Japanese electronics makers have pulled out of DRAM making in the backdrop of falling prices and intensifying competition in the sector.

For that matter, Hynix is not a sore point of just Elpida. The company reportedly is also locked in legal disputes with Japan's Toshiba over patents on NAND flash memory chips. Toshiba filed a lawsuit with the Tokyo District Court in November 2004 against Hynix, seeking damages for violations of NAND-related patents and an injunction against the sale of the "infringed products." Simultaneously Toshiba had also filed a similar suit with a U.S. court against Hynix and its U.S. subsidiaries over their alleged infringements on patents related to NAND chips as well as DRAM chips.

"It (countervailing duty) is positive for Elpida," said Naoki Sato, Morgan Stanley's analyst in Tokyo. "If Hynix is unable to sell its DRAM cheaply in the Japanese market, the overall DRAM market is likely to stabilize, which could ease pricing pressure on Elpida."

Other analysts also agree. "The beneficiaries of the move should be Elpida (and Samsung) as they are the top DRAM suppliers in the DRAM market share in Japan," said an analysis of the move by iSuppli Corp.

Hynix, however, insists it did not receive any illegal subsidies from the government of South Korea and whatever debts that it carries at subsidized rates in its books are a result of a bailout measure. "It is unfair for the Japanese government to regard the debt-restructuring plan

as a government subsidy, because it is obvious that we raised funds to pay back the debt and gain creditor control," Hynix had said in response to Japan's allegations.

Hynix nearly collapsed under huge mountains of debt several years ago. It was saved twice -- in 2001 and 2002 -- by its creditor banks, which were majority-owned by the Korean government.

Hynix also claims that it has subsequently recovered from the financial mess and its loan from the Korean government is nearing its end. The company also maintains that Japan's punitive action only has a limited impact on its fortunes since it would use its U.S. and Taiwan plants to supply Japanese clients.

Meanwhile, even as the Korean Government has threatened to take Japan to the WTO court for the "unfair" decision, experts worry that it may have negative repercussions not only on bilateral trade but also on overall industrial cooperation between the two neighbors.

"Japanese trade sanctions against Hynix come at an awkward time for relations between Tokyo and Seoul," says Hisane Masaki, a Tokyo-based scholar on international politics and economics. "Already bilateral relations have plunged to their lowest point in decades with the free-trade agreement negotiations, by Japan and South Korea launched at the end of 2003, stalling in the past year amid strained relations between the two Asian neighbors."

Moreover, "it also represents a significant shift in Japan's trade policy and portends a rise in protectionism in the world's second-largest economy," he added.

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