

Intel hit with \$1.45B fine in Europe

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A Hewlett-Packard laptop running on AMD technology is shown on top of a laptop running on Intel technology at HP headquarters in Palo Alto, Calif., Wednesday, May 13, 2009. The European Union fined Intel Corp. a record €1.06 billion (\$1.45 billion) on Wednesday and ordered the world's biggest maker of computer chips to stop illegal sales tactics that shut out Silicon Valley rival AMD. (AP Photo/Paul Sakuma)

(AP) -- Intel Corp. was fined a record \$1.45 billion by the European Union on Wednesday for using strong-arm sales tactics in the computer chip market - a penalty that could turn up the pressure on U.S. regulators to go after the company, too.

The fine against the world's biggest chip maker represents a huge victory for Intel's [Silicon Valley](#) rival, [Advanced Micro Devices](#) Inc., or AMD, the No. 2 supplier of microprocessors to PC makers.

AMD has sued Intel and lobbied regulators around the world for the past

five years, complaining that Intel was penalizing PC makers in the U.S. and abroad for doing business with AMD.

Although the U.S. Federal Trade Commission is also investigating, AMD seems to have found its most sympathetic ear in Europe.

EU Competition Commissioner Neelie Kroes said Intel has harmed millions of European consumers by "deliberately acting to keep competitors out of the market."

"Intel did not compete fairly, frustrating innovation and reducing consumer welfare in the process," she said.

The commission told Intel to immediately stop some sales practices in Europe, though it wouldn't say what those were. Intel said it was "mystified" about what it was supposed to change but would comply while it appeals the fine.

The Santa Clara, Calif., company also defended its sales practices - which include rebates to big Intel customers - as legitimate.

"This is really just a matter of competition at work, which is something I think we all want to see, versus something nefarious," Intel CEO Paul Otellini said in a conference call with reporters.

AMD Chief Executive Dirk Meyer said the decision was "an important step toward establishing a truly competitive market."

"We are looking forward to the move from a world in which Intel ruled, to one which is ruled by customers," Meyer said in a statement.

The biggest previous fine levied by the European Union for anticompetitive behavior was \$1.3 billion, brought against Microsoft

Corp. last year.

Whether Intel could face punishment in the U.S. remains to be seen. But the EU's fine against Intel could push the issue to the forefront for the Obama administration.

"If there was ever a time not to appear to be a large firm behaving badly, this would be it, as the financial collapse has the U.S. and EU competing for which government is the most proactively protecting consumer rights," warned Rob Enderle, a technology industry analyst. "This judgment makes Intel the ball in what is likely an international game of one-upmanship."

The Obama administration signaled this week that antitrust enforcement would be pursued more vigorously than in the Bush administration, whose Justice Department filed only three anti-monopoly cases, all involving mergers. Yet the Justice Department has been silent on whether it is investigating Intel.

The Federal Trade Commission investigation of Intel could result in the agency asking a court to order Intel to alter its practices. A spokeswoman for the FTC declined to comment.

Stephen Kinsella, a lawyer specializing on European antitrust law, cautioned that Europe is known for its aggressive antitrust enforcement and that a case brought against Intel in the U.S. or elsewhere might be milder.

The EU fine is "hugely significant because it's Intel, and the amounts at stake are enormous," he said. But "it is known that the commission takes a very hard line on this type of behavior."

The Intel-vs.-AMD fight exposes an ugly part of the business for

microprocessors, which essentially are the brains of personal computers.

Unlike other parts of the PC industry that have lots of competitors, microprocessors come from only two sources. Intel has about 80 percent of the market, and AMD - headquartered a few miles away in Sunnyvale - has the rest. That means a victory for one is a defeat for the other.

The process of getting a chip into a computer and onto the shelves has two main steps, and AMD has cried foul about Intel's behavior at both stages.

First, a [computer maker](#) has to agree to buy the chips. In that stage, AMD has alleged, Intel has illegally used its dominant position by offering huge rebates to PC makers that promise to buy lots of Intel's chips. AMD argues that the discounts can effectively make some chip orders free, and that it would have to lose money on sales in order to keep up.

The case before the European Commission alleges that Intel illegally undermined AMD with computer makers Acer, Dell, Hewlett-Packard, Lenovo and NEC.

In AMD's U.S. lawsuit against Intel, set to go to trial next year in Delaware, executives from Gateway complained that Intel's threats of retaliation for working with AMD beat them "into guacamole." The lawsuit also quotes Toshiba officials saying Intel's financial incentives amounted to "cocaine."

Second, chip makers help persuade stores to carry PCs with their processors inside, and pay the retailers to help promote the machines. In the case before the EU, regulators said Intel paid Germany's biggest electronics retailer to stock only Intel-based computers at its MediaMarkt superstores - even in Dresden, where many AMD chips are

made.

Kinsella, the specialist on European antitrust law, said "loyalty rebate" programs are common, but become a problem when dominant companies use them. In a similar European case, tire maker Michelin was fined in 2001 over its rebate program in France.

Kinsella said the accusation that Intel paid companies specifically not to use AMD's products would set this case apart from others.

"If that's true," he said, "that would be pretty far out there in terms of examples of abuse."

Investors were expecting the Intel fine and seemed unfazed. [Intel](#) stock lost 8 cents to close at \$15.13. AMD was up 3 cents at \$4.38.

AP Business Writers Aoife White in Brussels and Christopher S. Rugaber in Washington contributed to this report.

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