

## Market drove Hynix closure

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Hynix officials said on Wednesday that they decided to close the Korean company's only plant in the United States because of plunging computer memory chip prices and the industry's rapid move away from the dimension of silicon wafers used at the Eugene plant to make computer and consumer product chips. To upgrade the Eugene facility to the new industry standard would cost \$4 billion, company officials told state economic development officials.

That isn't just a corporate line, industry and economic development officials say.

"I think it's as straight up as Hynix explained it," said Bob Merritt, a memory market analyst with Semico Research, based in Phoenix, Ariz. "It was an older facility. It would be expensive to bring it up to par with what they needed."

Hynix has declined to give any more information other than the statement it issued Wednesday regarding its reasons for closing the plant.

The computer memory industry always has been highly cyclical, with times of feast, when supply was tight and chips fetched high prices, and times of famine, when the market was glutted with inexpensive chips.

In the past year, the market for the type of chip the local Hynix plant has churned out for a decade, dynamic random access memory chips, or DRAM, has gone through wrenching changes. Those changes have been so swift, dramatic and unexpected that Hynix isn't the only chip maker shedding outmoded 8-inch wafer factories, analysts said. Taiwanese manufacturers recently announced plans to do the same.

"In general, it's unusual to have (DRAM) prices decline so rapidly," Merritt said. As chip makers around the world upgraded from the production of 8-inch wafers to the more cost-effective 12-inch wafers, the industry rapidly achieved a new level of efficiency, he said.

"The rate at which this (12-inch) equipment became optimized suddenly just triggered a whole lot of capacity, which caused the price to fall much faster than was expected," Merritt said.

"It just took a lot of people by surprise."

Bruce Laird, a business development official with the state Economic and Community Development Department, has been in constant contact with Hynix officials for years and kept a close eye on the DRAM market. He said he remembers seeing DRAM prices so low recently that he thought there must be a mistake.

It was no mistake.

Eight of the new 1 Gigabit DRAMs manufactured by Hynix and others equal a single gigabyte of memory storage, Merritt said. Those eight units would sell for \$20 today. A decade ago, around the time that the Eugene plant swung into production, that same amount of memory storage would

have sold for over \$1,300, he said.

Every day the Eugene plant stays open is another day of mounting losses. Hynix officials said they'd been operating at a loss for some time, said Tim McCabe, director of the state Economic and Community Development Department.

Hynix's plans to close the Eugene plant and lay off 1,113 workers in the next two months may seem hasty to some.

But "the cash hemorrhaging on this thing is enormous," Laird said, "and I'm sure it's one of those (actions) that had to be taken carefully and with a lot of regret."

Some industry observers have suggested that Hynix was motivated by more than poor market conditions and the rapid move to larger 12-inch wafers.

Hynix is involved in an ongoing legal dispute with Rambus Inc., a California designer and licensor of memory chips. Rambus won a patent infringement lawsuit against Hynix, and last month it asked a federal judge in San Jose, Calif., to grant an injunction barring Hynix from selling DRAM in the United States.

As an alternative, Hynix and Rambus could agree to settle, with Hynix paying millions in licensing fees to Rambus.

"It (the lawsuit) may have been secondary," Merritt said, "but it was definitely not the main motivation."

Other industry watchers speculated that the potential removal next year of tariffs the U.S. government had imposed on Hynix chips produced in South Korea made the Eugene plant expendable.

"I think it (the tariff issue) is even further down than secondary," Merritt said. "I know it's happening in about the same time frame, but I don't think it entered the equation."

McCabe, the state economic development director, said the changing technology was the sole reason Hynix officials gave for their decision to close the Eugene plant.

Jack Roberts, executive director of Lane Metro Partnership, an economic development agency, said he had been aware of the downturn in the DRAM industry, but thought Hynix officials would announce something short of a shutdown.

As recently as 18 months ago, "we were talking to the local (Hynix) folks and trying to help them position themselves in the event they wanted to build another fab (factory)," he said.

Around last spring, the local officials said "we're not looking at that now," Roberts said.

Hynix officials told state economic development officials earlier last week that it would cost \$4 billion to upgrade the Eugene facility to make chips from 12-inch wafers, Laird said.

New 12-inch factories cost anywhere from \$2 billion to \$4 billion, industry analysts said. Hynix's \$4 billion estimate to retool the Eugene plant probably would include some additional floor space, but the bulk of the expense would be for new equipment, Merritt said.

Roberts said when he heard that the top executive of Hynix Semiconductor planned to meet with Gov. Ted Kulongoski, Eugene Mayor Kitty Piercy and University of Oregon President Dave Frohnmayer on Wednesday, he didn't suspect the plant would be closed.

"I figured he's not coming all this way to tell us he's shutting (it) down because that's not (what)

most CEOs in this country would do,” he said.

Most U.S. companies make such announcements through press releases from headquarters or local managers who immediately leave town.

“I thought this potentially was going to be a good thing for us, to get a commitment to reinvest to make sure we emerged on the other side of this down market,” Roberts said.

Rick Steers, a UO professor emeritus of organization and management who has written about Hynix and other Korean conglomerates, said when Hyundai, which later changed its name to Hynix, came to Eugene more than a decade ago, top company officials met with the governor, the mayor and the UO president to open a dialogue and begin negotiations.

“Now as the plant is about to close, it is not surprising that the chairman has returned to accept personal responsibility for the decision and smooth the transition as much as possible,” Steers said.

“In my view, this is not just the Korean way; it is also responsible management for any company. My only question is why American CEOs don’t follow the same practice.”

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