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Intel attacked for stifling competition

A Japanese investigation could put the chip maker in the same line of fire as Microsoft. **Paul Durman** reports

CRAIG BARRETT, chief executive of Intel for the past seven years, will soon visit Britain on a farewell tour of the computer-chip giant before he hands over day-to-day control to Paul Otellini.

Although Intel has suffered a year of product setbacks and a sliding share price, it remains financially bullet-proof. Last year it made net profits of $7.5billion (Pounds 3.9billion) on record annual sales of $34.2billion. Despite losses in parts of its business, the group continues to earn gross profit margins of almost 60%—a testament to its core microprocessor business.

Yet, as Otellini prepares to take over, there are the first signs that Intel's 25-year dominance of its industry may be coming under threat. This is partly due to the lack of progress Intel has made in supplying chips for mobile phones the personal computers of the future.

But it is also because the company is coming under fire for the tactics that have allowed it sustain a near-90% share of the PC market.

This month Japan's Fair Trade Commission found Intel guilty of using the offer of rebates and other incentives to shut out its competitors. It said Intel had acted "contrary to the public interest" and had "substantially restrained the competition in the market".

Intel may yet decide to take the issue to court, potentially exposing it to more embarrassing disclosures. It continues to reject the commission's findings, insisting that its practices are fair and lawful.

The companies influenced by Intel's inducements are some of the most famous names in Japanese industry—Toshiba, Sony, Fujitsu, NEC and Hitachi.

The implications of the commission's findings extend far beyond Japan. The European Commission is already investigating Intel's marketing practices. The risk for Intel is that this could develop into a broader attack similar to that faced by Microsoft.

Although the PC industry has grown enormously, most of the profits have ended up in the coffers of just two companies—Microsoft and Intel. With the notable exception of Dell, few PC makers have managed to make decent margins. Microsoft's dominance has raised a vociferous army of critics, and the software company has endured years of bruising and costly competition investigations.

In contrast, Intel has escaped lightly, despite a similar level of market power.

Although it had a brief run-in with America's Federal Trade Commission in the late 1990s, it has avoided the hate campaign to which Microsoft has been subjected.

Advanced Micro Devices (AMD), Intel's most determined competitor and critic, believes the Japanese ruling should serve as a catalyst for policymakers to subject its larger rival to some long overdue scrutiny.

Tom McCoy, AMD's head of legal affairs, said: "What happened in Japan is a dramatic example of how Intel uses Intel Inside and other rebate loyalty schemes to ensure exclusivity. These rebate schemes are all about raising prices, not lowering prices."

McCoy argued that the poor profitability of PC manufacturers made them vulnerable to Intel's offer of rebates for achieving volume sales. He talked about "the climate of fear in the industry"—a consequence of manufacturers' reliance on receiving timely supplies from Intel.

AMD's chips are typically much cheaper than similar components from Intel, potentially offering PC makers better profits. Yet in recent years, AMD's Japanese market share has fallen sharply. Toshiba and Sony stopped using its chips altogether.

McCoy said: "What we care about is consumers having the right to choose. We just want our technology to have access to the marketplace. Those who are allowed to use our technology can save a lot of money."

Of late, some experts believe AMD has secured a technological edge over Intel with its Athlon and Opteron processors. Yet in Britain and much of Europe, sales of AMD-powered systems to government and big business remain modest. Why?