

Intel Accused Again

Reports of Cheap 740s Lead to Claims of Dumping



As if Intel weren't in enough trouble already for its actions in the CPU and core-logic businesses, the company is coming under fire for alleged anticompetitive practices in the graphics market. The claim is that Intel is selling its 740 graphics chips below cost to Asian graphics-card vendors to increase its market share at the expense of its competitors; some have suggested the FTC should add this complaint to its case against Intel.

Intel has responded with unusual candor to these claims. The company says it has two sales channels in the Asian market: direct sales, for high-volume buyers, and distributors, to handle the smaller customers that represent the bulk of the market there.

The distributor price, Intel says, is \$28 per chip—period. No 740s have been sold to distributors for a lower price, according to Intel. This is the sort of claim that could readily be disproved if it were not true, so it probably is.

Intel admits its direct customers receive quantity discounts off the \$28 price, but it insists these discounts are nowhere near as steep as the \$17 prices rumored to be available in Taiwan. On the other hand, the reports of cheap 740s are widespread, and there are also rumors of bundling deals that allow customers to buy 740s for as little as \$7 when purchased with Intel CPUs and core logic. Can these claims *and* Intel's be true?

Of course. Several sources have told me that there are substantial inventories of various graphics chips in Asia as well as in the United States. During the period of fab constraints last year, many graphics-chip vendors greatly increased orders from their fab partners, producing a temporary oversupply that hit in the first quarter of this year.

Board vendors increased their orders at the same time, building unusually large inventories of chips. Once it became obvious that the supply limits had lifted, some of these vendors—especially those in Taiwan—tried to sell off excess inventory, causing a sudden drop in the spot-market price.

With excellent alternatives available on the spot market for well under \$20, it seems inevitable that Intel's distributors for the 740 would have felt obliged to offer discounts on that chip, and I suspect this is what led to the published reports.

But even if Intel were voluntarily cutting prices on the 740 to increase its market share, what's wrong with that? It's likely that Intel can undercut other 3D-chip vendors with the 740. Intel doesn't buy its chip from merchant fab houses that

impose an extra layer of profit margin; Intel makes the 740 itself, in fabs that have long since paid for themselves by producing Pentium and Pentium II processors.

So far I've avoided using the "D" word: dumping. Selling chips below cost is the generally accepted definition of this term—and its illegal in the U.S. Because of Intel's cost model, its threshold for dumping is well below that of other vendors. Thus, Intel has no real need to dump the 740; it can compete effectively while still making a profit.

And what's wrong with a minority vendor of graphics chips selling them below cost, anyway? The usual claim is that this practice drives competitors out of the market, allowing the surviving vendor to jack prices back up again, hurting consumers. Frankly, the 740 simply isn't good enough to drive any but the weakest 3D vendors out of the market, and these vendors have more pressing problems to worry about in the form of S3's Savage3D (see MPR 7/13/98, p. 16) and other new chips that outperform the 740.

It's unclear how government intervention could help in a situation such as this. Vendors naturally rush to obsolete each other's chips, creating a surplus of previous-generation products at bargain prices. This is inherently a chaotic process. Would users be better off if government stepped in to impose order? Such government oversight would impede the 3D industry's rapid pace of innovation, forcing the more innovative hardware developers to move at the pace of their slowest competitors. The computer industry has been so successful largely because it has remained free from this kind of interference.

I've been a card-carrying member of the Libertarian Party much longer than I've worked in the computer industry, and I have always been appalled by how eager some companies are to entangle this industry in governmental red tape. Those who are encouraging more government intervention usually represent themselves as friends of the computer buyer, but they're doing consumers no favor.

It is the nature of unrestrained free trade that each trade always benefits both parties, in their own opinions and by their own free choice. This feature doesn't ensure the best possible outcome for everyone, and nothing can—but it prevents the sort of disasters that will inevitably follow if we trade free competition for government coercion. □

