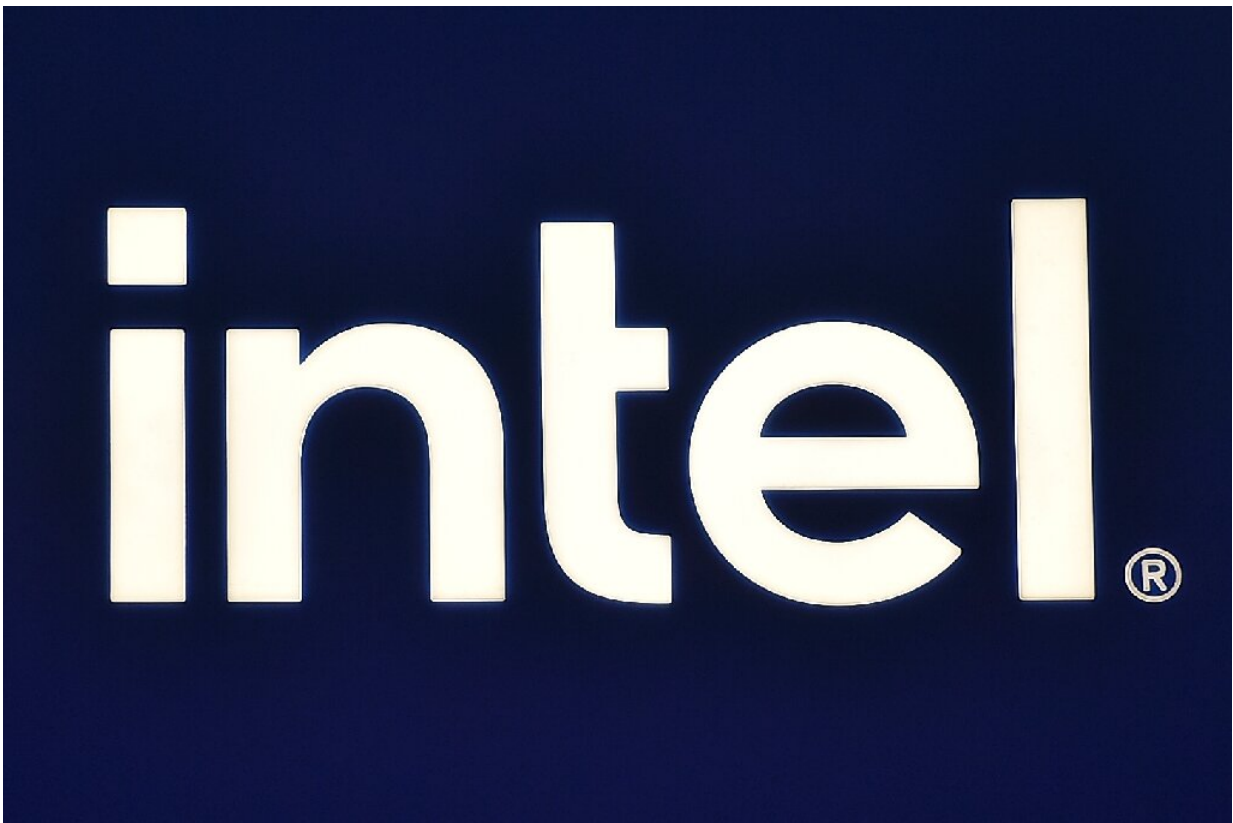


Berlin, Intel strike controversial chip plant subsidy deal

June 19 2023, by Sam Reeves



Germany subsidising the construction of an Intel chip factory to the tune of 10 billion euros has proved controversial.

Berlin agreed Monday to grant US chip giant Intel subsidies totalling almost a third of the cost of a 30-billion-euro (\$32.7-billion) German

plant in a controversial decision following a months-long row.

Government sources told AFP that Berlin would provide 9.9 billion euros to support the [project](#) in the eastern city of Magdeburg, up from a figure of 6.8 billion originally agreed.

Intel unveiled the mammoth project, the centerpiece of a European investment drive, in March last year.

The EU is seeking to boost production of semiconductors, used in everything from [fighter jets](#) to smartphones, and reduce reliance on Asia after pandemic-induced shortages hit some industries, and Russia's war on Ukraine brought home the risks of over-dependency.

Construction work on the Intel project was due to begin in the first half of this year but it stalled after the Ukraine war sent inflation soaring.

German officials and the company were then locked in talks for months, but both sides finally signed a deal Monday, which included the increased subsidies.

The project, now projected to cost a total of 30 billion euros, had originally been expected to cost 17 billion, the government sources said.

Chancellor Olaf Scholz, at a signing ceremony with Intel CEO Pat Gelsinger, hailed the agreement as "the single largest foreign direct investment in German history".

It represents "an important step for Germany as a high-tech production location—and for our resilience," he said.

'Unbelievable' subsidies

Gelsinger said the project would help forge a "balanced and resilient supply chain for Europe".

The project will involve two semiconductor manufacturing sites, with the first to enter production in four to five years.



Intel CEO Pat Gelsinger and German Chancellor Olaf Scholz oversaw the signing of the deal that will see Germany finance a third of the investment into the company's chip factory.

It is expected to create 3,000 permanent high-tech jobs at Intel, and tens of thousands of additional jobs across the industry ecosystem, the company said.

Under the new agreement, Intel will deploy more advanced technology at the sites than originally planned.

The huge state support has proved controversial in Germany, however, with newspaper Sueddeutsche Zeitung criticizing the "unbelievable amount of subsidies".

"Of the planned total investment of 30 billion euros, almost ten billion, or one third, will come from the taxpayer," it said in a commentary.

"The state subsidizes every new job with one million euros."

Clemens Fuest, who heads economic institute Ifo, also called the [subsidy](#) "questionable".

Delivery risks are part and parcel of business life, and 10 billion is a very high premium to pay as an "insurance" to ensure supply, he said.

Asked earlier this year about delays to the project, Intel had cited growing geopolitical challenges, declining semiconductor demand and rising costs, from [construction materials](#) to energy.

The German plant is the centerpiece of a sweeping European investment push by Intel totalling tens of billions of euros and encompassing the entire chip production process, from the research to manufacturing and packaging.

Last week, the firm—which dominates the market for PC chips—announced it will invest up to \$4.6 billion to build a new site in Poland, creating around 2,000 jobs.

With its "Chips Act", the EU is aiming to double the bloc's share of global semiconductor production to 20 percent by 2030, and mobilize

more than 43 billion euros in public and private investments.

It also seeking to counter huge subsidies on offer in the United States, which is also trying to boost domestic chip production.

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Citation: Berlin, Intel strike controversial chip plant subsidy deal (2023, June 19) retrieved 12 May 2024 from <https://techxplore.com/news/2023-06-berlin-intel-controversial-chip-subsidy.html>

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