

May 29, 2003

Secretary Norman Mineta
U.S. Department of Transportation
400 Seventh Street, SW
Washington, DC 20590

Ref: Docket #OST-2003-14480

Dear Secretary Mineta:

On behalf of the Semiconductor Industry Association (SIA), I urge you to deny the antitrust exemption requested by the International Air Transport Association (IATA) to amend Resolution 502. IATA is seeking an antitrust waiver in order to alter a cargo density standard that would effectively result in a significant price increase that would harm U.S. semiconductor firms. SIA believes that prices should be determined by the market, not by government decision, nor by coordinated action of a market-dominant organization such as IATA.

SIA is a member of the High Tech Air Freight Shippers Coalition, and fully supports the Coalition's comments and analysis as filed. However, I am writing to you separately to underscore the importance of this decision to the semiconductor industry.

In 2002, worldwide semiconductor sales totaled \$140.7 billion. The widespread use of just-in-time manufacturing for both internal operations and customer requirements necessitates that semiconductor companies rely on international air freight as a key component of the supply chain. The majority of international shipments are sent by air freight – some SIA members estimate that air shipments comprise nearly 100 percent of all international shipments. Semiconductors, like many other high-tech products, are low-density cargo due to the amount of protective packaging required.

SIA is a longtime advocate of free trade, open markets, and competition. Standards and prices are best determined in the marketplace, not through government decrees. International air cargo services also benefit from such free market principles. By requesting an antitrust exemption for Resolution 502, IATA seeks U.S. government approval of an anticompetitive action.

IATA's request is presented as a technical standard change, while in reality it is a non-market based price increase. The change in the volumetric conversion factor translates into a 20 percent increase in freight costs for low-density shipments. IATA represents most air cargo service providers, leaving few alternatives for time-sensitive

international shipping. Therefore, IATA's customers are forced to pay non-market based price increases.

The high-technology sector has suffered severely from the economic downturn over the last few years. Since semiconductors are key components in high-technology manufacturing, the downturn has been particularly difficult for the semiconductor industry. Higher air freight prices for U.S. semiconductor firms will result in higher operations costs, weakened financial performance, and higher prices for consumers. Implementation of the IATA standard change would pose a threat to the fragile recovery underway in this sector.

While the U.S. airline industry has also suffered during the downturn, the changes stemming from the IATA resolution will not result in significant economic benefits for U.S. airlines. In fact, most of the additional benefits will accrue to foreign flag carriers. These benefits will come at the expense of the U.S. high-tech community and other U.S. industries with low-density cargo.

Thank you for your consideration of the adverse impact that an antitrust exemption for IATA Resolution 502 would have on U.S. semiconductor firms and on the overall U.S. high-technology sector. I hope the U.S. government will send a strong signal to IATA that it should pursue market-based solutions rather than anticompetitive actions by denying the antitrust exemption request for Resolution 502.

Sincerely,

A handwritten signature in black ink that reads "George M. Scalise". The signature is written in a cursive, flowing style.

George M. Scalise
President