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STUDY GROUP REPORT

Report from Panel on Neutrality of Networks

Introduction

As Japan has been shifting to a network structure, moving from its existing legacy networks towards IP networks as part of the shift to broadband, the market environment has been undergoing major changes with the advent of new business models. It is likely that the future will see a need for adopting new measures from the point of view of safeguarding users and ensuring fair competition.

Against this background, the Panel on Neutrality of Networks was in operation from November 2006 until September 2007 with the aim of selecting and organizing mid-term topics for investigation, and investigating directions for future measures relating to next-generation IP-based networks from a wide variety of perspectives, starting with the basic criteria of fairness in network usage and fairness in network costs.

Basic point of view concerning neutrality of networks

The New Competition Promotion Program 2010 formulated by MIC in September 2006 took into consideration the report published in the same month of the same year from the Study Group on a Framework for Competition Rules to Address the Transition to IP-Based Networks which worked on investigating the neutrality of networks with the development of

IP based networks, which is in fact fairness in the use of networks (the neutrality of the communications layer in relation to other layers), and fairness in bearing the burden of the cost of networks (the neutrality of a cost-sharing model to strengthen communications networks). The group produced its initial report in the summer of 2007 having used neutrality in networks as a basic assumption, and selected and organized topics for investigation concerning competitive measures assuming the full-scale shift to IP networks, and conducted its investigations with the participation of relevant people from all fields. Investigations have continued since, taking this into consideration, and the results of the investigations are planned to be announced in the summer of 2008.

With this information in hand, the panel conducted its own investigations concerning a framework for maintaining neutrality in networks.

Fairness in bearing the burden of cost for networks

Along with the spread of broadband, network traffic has increased sharply due to the spread of video sites, resulting in congestion in networks. (Figure 1)

Against such a background, it has become necessary to

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investigate a framework for bearing the burden of the cost (fairness in the burden of cost) of strengthening communications

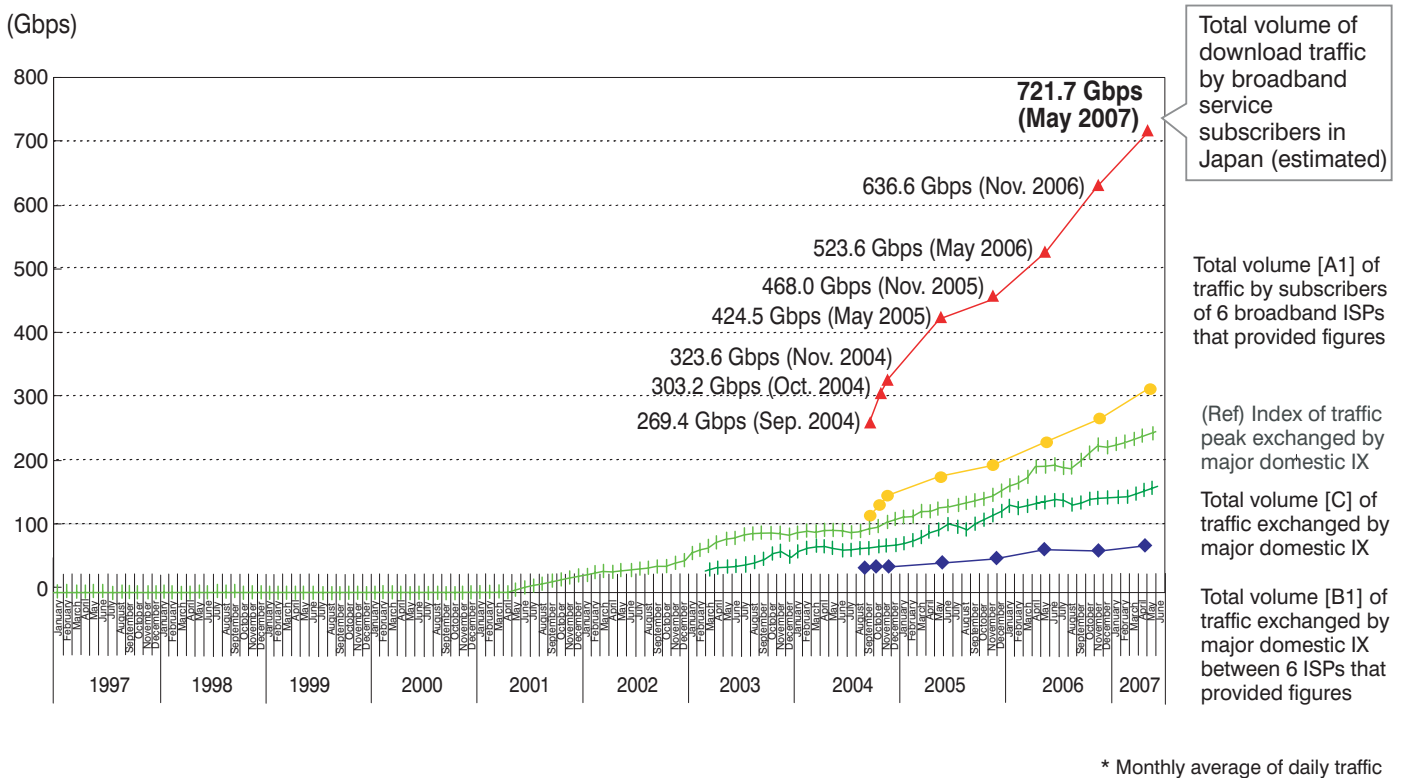
networks in conjunction with the sharp rise in traffic, among those concerned, including contents providers, ISPs (Internet Service

Providers), communications carriers and users.

Figure 1 The Progression in Internet Traffic in Japan

- o The scale of traffic being distributed over the Internet in Japan is approximately 700 Gbps, showing a growth rate of about 1.4 times in one year.
- o If this trend continues, it is estimated that the scale of Internet traffic will reach 1T (Terabyte) bps around May 2008.

The progression of Internet traffic in Japan (average)



Fairness in network usage

The construction of NGNs (New Generation Networks) is under way at the moment by telecommunications carriers. With regard to the NGNs being constructed by the dominant carriers that own the bottleneck facilities, these are the key for the healthy development of the broadband market and so, it is necessary, along with working for the openness of NGNs, to start work on the concrete revision on dominant regulations themselves (the specified telecommunications carrier system), and to maintain fair competition both within layers and

between layers.

With regard to a framework for competitive rules to maintain fairness in network usage, the fact that this is a market in which technological innovations happen rapidly should be taken into consideration, and a flexible approach that differs from the competitive rules that are the base of the existing line exchange network should be sought.

Desirable directions for developing measures

The problems surrounding network neutrality are compound, and with the rapid pace of change in market

structure, it is not impossible that working towards a rigid development of measures could harm the healthy development of the Internet. That is why the panel must work towards developing measures that place emphasis on consensus building among the various parties concerned, and has compiled topics for investigation (an investigation roadmap) for maintaining network neutrality. (Figure 2)

In order to respond appropriately the various issues in this investigative roadmap, MIC revised and announced on October 23, 2007, the New

Competition Promotion Program 2010, and has decided to continue developing new measures. In particular, and with regard to network neutrality, concrete topics such as (1) putting in place an

environment for efficient operation of networks, (2) investigation concerning a framework for network neutrality and a competition model, and (3) investigations for strengthening

platform coordination, have been proposed, with the aim of compiling the results of the investigations during the course of 2008.

Figure 2 Investigative Roadmap for Maintaining Network Neutrality

