

**Telecommunication Business Policy Committee,
Information and Communications Council—5th Meeting
Summary of Minutes**

1. Date and Time

Tuesday, February 24, 2009: 14:00-14:50

2. Location

Special Conference Room, 1F, MIC

3. Attendees (Honorifics omitted)

(1) Committee Members

Mikio Tokai (Chair), Kiyomi Saito, Toshiyuki Shinmachi, Nobuko Takahashi (four in total)

(2) Temporary Committee Member

Akira Negishi

(3) Government Personnel

- Telecommunications Bureau

Shun Sakurai (Director-General, Telecommunications Bureau), Nobuhiro Takeuchi ((Director-General, Telecommunications Business Department), Tomohiro Ando (Director, General Affairs Division, Telecommunications Bureau), Atsushi Fuchie (Director, Telecommunications Policy Division), Hiroyuki Hishinuma (Examiner, Telecommunications Policy Division), Hirohisa Furuichi (Director, Tariff Division), Shigeru Muramatsu (Senior Planning Officer, Tariff Division)

- Secretariat

Kazunori Soejima (Director, Management Office, ICT Strategy Policy Division, Global ICT Strategy Bureau)

4. Agenda

Inquiry Issue

Interconnection Rules in Response to Changes in the Telecommunications Market Environment
[Inquiry No. 1210]

Opening Remarks

- Chair Tokai: The appointed time having arrived, we are now going to commence the 5th meeting of the Telecommunication Business Policy Committee, Information and Communications Council. Since five out of the seven regular and temporary committee members are present today, the members in the meeting form a quorum.

Please note that it will be held with open doors.

Agenda

Inquiry Issue

Interconnection Rules in Response to Changes in the Telecommunications Market Environment
[Inquiry No. 1210]

- Chair Tokai: I would like to move through the agenda based on the order of the meeting procedure at hand.

We have one agenda item today.

I would like to commence deliberation on Inquiry No. 1210: Interconnection Rules in Response to Changes in the Telecommunications Market Environment.

First of all, I wish to ask MIC to explain the inquiry issue.

- Director Furuichi, Tariff Division: Let me explain it based on Reference 5-1 at hand.

Please turn the front cover. You will find the inquiry document we attached for today's consultation on the second sheet. I would like to read it aloud.

"MIC intends to refer the subject of "Interconnection Rules in Response to Changes in the Telecommunications Market Environment" to the committee for advice as follows:

As interconnecting networks or other entities are indispensable for expanding businesses in the telecommunication business operations, from the viewpoint of ensuring an environment for fair competition, it is extremely important to review the interconnection rules in a timely and appropriate manner in the light of interconnection needs, which will become more diversified and complicated as the structures of networks and markets are changing.

The mobile market was positioned as being below the fixed communication market in 2001 when the interconnection rules were created, but its importance as a basic infrastructure for business and daily lives has been remarkably heightened, which has been indicated by the fact that the number of cellphone subscriptions exceeded 0.1 billion in 2007. The heightened importance causes opinions that seek to improve transparency, etc. of the interconnection charges and conditions or disputes over issues such as setting the interconnection charges.

FTTH rose to the top of the fixed broadband market in terms of the number of contracts in the first quarter of fiscal year 2008, replacing ADSL, which had pulled the market before then. In the fixed broadband market, including the FTTH market, approaches must be taken toward further vitalization of the market, as indicated in the FTTH market by the fact that NTT East Corp. and NTT West Corp. revised the estimates for the respective net increasing number of contracts in fiscal year 2008 downward while they continued to increase their share.

In addition to these existing markets, operations that are conducted under the configuration of using networks owned by other carriers, such as that operators deliver content with servers that are the only equipment they install or other operators provide authentication and billing functions to those who perform content delivery and the like, have shown an increasing trend. While those operations are expected to further develop into a communication platform market and a content delivery market in the future, it is required that the interconnection rules be considered with the focus on the relations between the new operators and those who operate business in the existing markets.

In addition to these trends, it is planned in the mobile market that access lines will be made faster and to carry larger volumes of traffic, and the relay networks will be changed to IP-based ones, such as the start of commercial 3.9-generational mobile communication system operations in fiscal year 2010. As the weakening difference and the fusion between the fixed and mobile networks is progressing rapidly at the network level, the full deployment of services that weld the fixed and mobile communications, such as FMC (Fixed Mobile Convergence) services, is expected at the service level as well. Amidst such a situation, the future will also expect that a comprehensive review of the designated telecommunications facilities systems, including the interconnection rules, will be required to address situations such as the progress of market integration.

In response to such situations and in the light of proposals received from carrier stakeholders and the like, MIC intends to refer the subject of Interconnection Rules in Response to Changes in the Telecommunications Market Environment to the committee for advice from the viewpoint of

ensuring the environment for fair competition in the telecommunications market."

This is it for the document.

I will continue additional explanation on the content of this committee inquiry based on the attached reference in landscape format.

Please turn the front cover to page 1. You will find a reference material that shows the changes in the number of subscriptions to the telecommunication services.

As shown in the reference, MIC received a reply from the council in December 1996 concerning the preparation of interconnection rules pertaining to the fixed communication field, with a central focus on fixed telephony. After that, the number of subscriptions for fixed telephony continued to gradually decrease, and it has now reached a level below 50 million.

On the other hand, the number of subscriptions for fixed broadband continued to rapidly increase after that, and it has now reached approximately 30 million subscriptions.

As for the breakdown of each field, as shown by the table on the lower left, FTTH outnumbered DSL and continues to mark a trend of expansion. In contrast, for the mobile communication field, MIC received a reply from the council in December 2000 concerning the preparation of interconnection rules pertaining to the mobile communication field. After that, as shown in this table, the number of subscriptions for cellular telephony rose far above that for fixed telephony, and it has now reached a figure higher than 0.1 billion, indicating that the mobile communication market is greatly expanding.

Page 2 indicates the ratios of fixed and mobile communication operations to the whole of telecommunication operations in the major carriers. As I just explained, mobile communication is greatly expanding. In terms of the ratios of operations for each carrier in the middle of that climate, the ratio of the mobile communication operations, indicated by the red part, has come to account for a very large percentage.

Next, please turn to page 3. The reference you are seeing summarizes the past changes of the environment in the mobile communication market, which is now expanding, as I just explained.

Let me repeat that MIC received a reply from the council in December 2000 concerning the preparation of interconnection rules pertaining to the mobile communication field. At that time, the field was in the age of so-called 2G cellphones, and services were based on those with a focus on sound. As for the relation between cellphones and fixed telephones, the cellphones were absolutely positioned as an optional communication means. The interconnection rules were developed and

streamlined on this assumption.

As the blue bar graph shows, however, the cellphone Internet connection services have been rapidly spreading since then. In fiscal year 2001, 3G cellphone services with higher speeds were launched, and they have also been rapidly spreading. Due to these trends, the usage of data communications based on packets in addition to sound, including Internet connection, has been rapidly expanding.

In addition, 3.5G cellphones or higher-speed cellphone services were launched in fiscal year 2006. Since then, the usage of various content and applications using the communication platform functions, such as music, games, and moving pictures, has been expanding similarly to the fixed broadband market.

Amidst this climate, as I explained before, the number of subscriptions to cellular telephony exceeded 0.1 billion, and in terms of communication time in domestic communication, that originated from cellphones passed that originated from fixed telephones for the first time in fiscal year 2007. These facts indicate that the cellphone services are becoming one of the basic necessities of life for the users and the public, and an important infrastructure for business operations.

Amidst these changes of the communication environment, as the lower section of the page shows, the configuration connecting to cellphone networks is taking various forms due to factors such as the entry of new carriers who have been allocated new frequencies for cellphones or that of many MVNOs (Mobile Virtual Network Operator) that use existing cellphone networks.

In the wake of these trends, for example, disputes related to the interconnection or opinions that request the improved transparency of interconnection charge calculation have occurred.

The mobile communication market itself has been expanding, but, as this red line graph shows, the increase-decrease rate compared with the previous fiscal year has recently reached a plateau. It means that the whole market must be expanded and vitalized by further developing the competitive environment in the entire mobile market.

As for the interconnection rules in the mobile communication field, they have not been greatly reviewed since 2000. MIC would think that the committee members had to take these large environmental changes in the past into full consideration in addition to this fact when deliberating on the interconnection rules in this inquiry.

Next, please turn to page 4, concerning the fixed broadband market.

I am coming to the status of the fixed broadband market. As I explained before, FTTH has outnumbered ADSL and the FTTH market shows a trend of expansion. In the wake of this trend, the shares of NTT East and NTT West mark a trend of increase, but the situation is changing, which is indicated by facts such as that their recent downward modification of their demand forecasts for FTTH.

The ADSL market marks a trend of shrinkage, but it shows a tendency lately of ceasing to shrink by taking measures such as providing cheaper services. Due to these facts, MIC thinks that the fixed broadband market also needs to take approaches toward further vitalization of the market similarly to those for the mobile communication market.

In the fixed broadband field, MIC has been reviewing the interconnection rules as needed until now, unlike the mobile communication field. As shown in the table on the right, MIC received the most recent reply regarding preparation of interconnection rules pertaining to revision of collocation rules from the Information and Communications Council in March 2007. MIC conducted verification last August on the handling of indoor wiring, relay dark fiber, and the like that the Council decided to continue to verify in the future, and it has just released the verification results. As for the verification results, MIC has decided to promptly refer the continuous verification items that are regarded as difficult to resolve early through consultations between the carriers to the council and take required measures after it has received a report from the council.

Regarding the so-called competition safeguard system to conduct verification on the targets to be specified as designated telecommunications facilities, those to be unbundled and the like, MIC is also receiving a wide variety of opinions from the viewpoint of interconnection to fixed broadband networks. MIC hopes that, in this inquiry, the committee will consider the interconnection rules for the fixed broadband field as well in the light of such opinions.

Next, please turn to page 5, which concerns the communication platform and content delivery markets.

As I explained before, while the mobile networks are getting faster, for example, 3.5G mode telephony services have started, and the networks are also further advancing in fixed broadband, indicated by the start of NGN, and the operating configurations that deliver content or applications by connecting these networks and using the communication platform functions based on such network environment developments are increasing lately in number.

As shown in the table on the left, it will be expected in the future that the size of the whole

market consisting of the communication platform market and the content delivery market, and the content and application service markets that are supported by the former markets, will be expanded in the midst of the future further maturity of the mobile and fixed broadband markets per se.

In the past, for example, in the mobile market, cellphone carriers have provided their respective services by vertically integrating the network functions with those for such as communication platform or content delivery, and have been greatly contributing to the expansion of the mobile market or the improvement of user benefits. However, the whole mobile market must be expanded and vitalized by further developing its environment so that other carriers may smoothly utilize such communication platform functions while the cellphone carriers further expand such vertical integration type of services in the future, based on the changing environments I have just explained.

In the fixed broadband market, the environment is also changing, for example, NTT East and NTT West started their NGN commercial services from the end of March 2008. As far as this NGN is concerned, development of the interconnection rules and other efforts has been carried out for it in the past. In particular, MIC knows there are opinions requesting that some functions such as NGN-specific quality control, line authentication, and session control be open so that new services can be provided by using them.

In light of this situation, MIC thinks that the interconnection rules should also be examined in the future with a focus on relations with new players such as operators in the communication platform market and the content delivery market, who operate their business through connections to the networks owned by the telecommunication carriers.

Next, please turn to page 6. You will find a reference that summarizes the plans for future business expansion and network deployment for the major carriers. As the reference shows, for example, in the fixed communication network, NTT East and NTT West started commercial services for NGN at the end of March 2008, as I explained before, and will expand the current B FLET'S areas, respectively, by the end of fiscal 2009 and by the end of fiscal 2010. At the same time, they plan to complete the transition of the existing IP networks to NGN at the end of fiscal 2012.

They also plan to release the general prospect in 2010 regarding the migration of subscription telephony or so-called PSTN users.

In addition, the convergence of fixed and mobile networks is expected to be rapidly progressing in the future, which will be seen, for example, in the launching of commercial 3.9G cellphone services based on IP networks in the mobile market in 2010.

Bearing in mind these changing environments, for example, in the middle of the reference, please look at the section surrounded by the red dotted line. It indicates that the NTT group intends to build full IP network infrastructures for both fixed and mobile networks and fully carry out the fusion and collaboration of their services in fiscal year 2010 as the approximate due date.

In light of such fusion of networks, as I explained before, the content delivery market or the communication platform market is expected to further advance, such as providing a communication platform that can be used seamlessly with both fixed and mobile networks.

Consequently, MIC should think that it would be necessary for the committee members to discuss the interconnection rules in the future with full attention to these environment changes that will be envisaged and expected for some years to come when deliberating on the matter.

Based on such situations, MIC compiled and released a draft summary of specific deliberation items, and broadly invited the public to propose comments on the draft summary between January 9 and February 9, 2009, before referring the subject to the council for deliberation. Page 7 compiles the draft summary of specific deliberation items.

The summary consists of four major pillars. The first pillar concerns the development of a fair competition environment in the mobile market. Specifically, it is related to verification of the category II designated telecommunications facilities system or the interconnection rules in the mobile communication field. For example, the summary of specific deliberation items includes, but is not limited to, the verification of the content and grounds of the interconnection rules, the concepts of so-called unbundling and cost calculation for interconnection charges, and the relation between the calculation and accounting from the subjects of the standard connection location or interconnection charge setting on a-per-function basis.

It also includes items related to the use and application of mobile network infrastructures, such as setting rules for sharing facilities such as pylons and equipment or the right and wrong of setting rules for so-called roaming services, or services where the users of a cellphone carrier receive services provided by another carrier outside of the service area of the former carrier.

The second pillar concerns the development of a fair competition environment in the fixed broadband market. First of all, for the optical fiber services, it includes items such as the indoor

wiring work of FTTH services and the right and wrong of setting rules for using the services, and, for the so-called FTTR services or services where optical fiber is laid to a telephone pole near a user and a metallic line is drawn from the pole to the premises of the user, it includes items such as the right and wrong of setting the interconnection charges that apply to the services.

In addition, it includes other things, such as the development of environments related to connection for DSL services and setting rules for the use and application of relay dark fiber using a wavelength division multiplexer or WDM.

The third pillar is related to the development of environments for fair competition that will promote entry to the communication platform market and the content delivery market.

Specifically, it includes the nature of opening the mobile networks or communication platform functions of NGN, dispute cases over moot points such as connecting the telecommunication carriers and the content delivery operators, etc. who engage in telecommunication business and are now regarded as exempted from the application of the Telecommunications Business Law, and how to process such dispute cases.

Finally, the fourth pillar concerns the nature of the interconnection rules in the age of fixed and mobile communication convergence or in other situations.

The summary includes items such as how to approach the so-called reverse balance problem or cases where in the midst of fixed and mobile communication convergence, for example, the interconnection charge level differs greatly between the carriers subject to the interconnection rules and the carriers exempted from them, or in the midst of drastically changing network environments, discussing the right and wrong of a new connection configuration called the bill & keep scheme, as we say, or the system where the carriers do not pay the interconnection charges to each other.

In addition, MIC really hopes that the committee will deliberate on how to adjust the nature of the interconnection rules as a whole in the age of fixed and mobile communication convergence as a future subject.

Next, pages 8 and 9 extract main opinions from those contributed to MIC when proposals were invited for the draft summary of specific deliberation items I just explained.

First of all, I wish to explain the extracted main opinions concerning the development of a fair competition environment in the mobile market.

First, as to the nature of the interconnection rules as a whole in the mobile communication field,

MIC received opinions that regulations similar to those for the fixed communication field may be required for the mobile communication field from organizations such as EMOBILE and MVNO Association, and on the other hand, opinions from NTT DOCOMO, KDDI and others that the regulations do not necessarily need to be made similar to those for the fixed communication field.

MIC also received opinions that the interconnection rules for the mobile communication field should apply to all the cellphone carriers from NTT East, NTT West, NTT DOCOMO, and others.

Next, as to the individual details of the interconnection rules, MIC received opinions that it is necessary to install standard connection locations and unbundle the functions from MVNO Association, STNet, and others, and on the other hand, opinions from NTT DOCOMO, KDDI and others that the unbundling regulation does not need to be introduced.

As for the cost calculation of interconnection charges, MIC received opinions that it is necessary to clarify calculation methods of the interconnection charges and calculation items from the viewpoint of improving transparency of calculation of the interconnection charges from EMOBILE, NTT DOCOMO, and others.

As to the relation between the interconnection charges and accounting, MIC received opinions from EMOBILE, NTT DOCOMO and others that the regulatory account must be streamlined, and on the other hand, opinions from KDDI and others that it is not necessary to set a regulation similar to that for the interconnection charges in the fixed communication field.

Next, as to the use and application of a mobile network infrastructure, MIC received opinions from EMOBILE, MVNO Association and others that sharing facilities such as pylons and equipment should be conducted preferentially, On the other hand, opinions from STNet and others stated that an all-too-easy manner of setting rules for sharing facilities may lead to a setback in facility competition.

As to roaming, MIC received the NTT DOCOMO opinion that setting rules for roaming may be acceptable, but it is necessary to treat it as a time-limited measure applicable only to new entrant carriers and clarify that all the carriers must take the same approach to it.

On the other hand, Softbank contributed the opinion that roaming must be required for carriers that have a high market share and are subject to the interconnection rules if the installation of a base station is difficult.

In addition, STNet submitted its opinion that roaming should not be institutionalized.

Next, I wish to explain the opinions concerning the development of a fair competition

environment in the fixed broadband market.

First, as to the handling of FTTH indoor delivery, MIC received an opinion from KDDI that ensuring fair competition based on business has limitations, or another opinion that it is necessary to first develop diversion rules for indoor wiring in the carriers' assets.

On the other hand, MIC received opinions from NTT East, NTT West and others that the interconnection rules are not applicable to indoor wiring, and that it is necessary to first match mutual awareness among the carriers toward the use and application of indoor wiring.

Next, I am coming to the handling of FTTR.

MIC received an opinion from Softbank that FTTR is expected to create new demand for metal lines and alleviate the rising trend of dry copper interconnecting charges. On the other hand, NTT East, NTT West and others expressed the opinion that it is not necessary to set the interconnection charges to address FTTR.

Turning to the next page (page 9), please look at the top section regarding the use and application of relay dark fiber. MIC received the opinion from Kansai Broadband and others that rules for leasing out a segment where WDM equipment has already been installed must be developed from the viewpoint of providing a broadband connection to areas without broadband platforms. On the other hand, NTT East and NTT West opined that the rules are premature.

Third, I wish to explain the main opinions concerning the development of a fair competition environment that will promote entry to the communication platform market and the content delivery market.

First, regarding communication platform functions in the mobile networks, MIC received opinions from MVNO Association, Mobile Content Forum and others that, after regarding the functions as facilities to which the interconnection rules must be applied, the required functions should be unbundled and standard connection locations should be installed, and, specifically, functions related to authentication and billing, content delivery and PUSH services should be unbundled.

On the other hand, MIC received opinions that the communication platform functions should be opened on a-per-business basis in principle from NTT DOCOMO, KDDI, Softbank and others.

Next, regarding the communication platform functions of NGN, MIC received the Telecommunications Services Association opinion that unbundling of the authentication, session control, and quality control functions must be requested. On the other hand, NTT East, NTT West

and others were of the opinion that NGN does not have communication platform functions independent of the communication transmission functions.

As for dispute cases over moot points such as connecting the telecommunication carriers and the platform operators, etc., MIC received opinions that the dispute settlement function should be applied to them from Mobile Content Forum and others, and on the other hand, NTT DOCOMO gave the opinion that it is necessary to do something such as clarifying the existing scope or streamlining the applicable scope of the dispute settlement function before expanding the applicable scope.

In addition, KDDI contributed the opinion that to settle such dispute cases by using the current, general dispute settlement means should be the principle.

Finally, I wish to explain the fourth group of main opinions that concerns the nature of the interconnection rules in the age of fixed and mobile communication convergence or in other situations.

First, as to the reverse balance problem, MIC received opinions from NTT Corporation and NTT Communications that demanding unreasonably high interconnection charges with the aim of generating profits from the charges falls under the category of reasons for rejecting connections.

On the other hand, Softbank contributed the opinion that the occurrence of differences in the interconnection charge level between the carriers cannot be seen as directly constituting one of the reasons for rejecting connections.

As for the handling of the bill & keep scheme, MIC received the opinion from EMOBILE that it is generally unfair and inappropriate for new entrant carriers and small-sized carriers. On the other hand, NTT East, NTT West and others gave the opinions that the introduction of the bill & keep scheme may be beneficial.

Last, I wish to explain the main opinions regarding the nature of the interconnection rules as a whole in the age of fixed and mobile communication convergence. MIC received the opinion that it is necessary to define the scope of an FMC service market in regard to this matter from Telecommunications Services Association.

MIC also received an opinion from Softbank saying that the nature of the regulation should be discussed because fair competition could be blocked due to the synergistically heightened competitive edge of the NTT group companies as the markets get closer and further fuse together.

NTT East, NTT West and others contributed their opinions that the nature of the regulation

should be reviewed, including the current dominant carrier regulation that has become a framework unfit for the current age.

On page 10, you will find the draft future schedule.

As I just explained, MIC invited the public to provide proposals for the draft summary of specific deliberation items for one month, from January 9, 2009, and it refers such to the committee for advice today, February 24. MIC proposes that it conduct a hearing on carrier stakeholders jointly with the Interconnection Committee following this meeting with the Telecommunication Business Policy Committee, further deliberate on the matter based on a variety of information including the results of the planned hearing on the carriers, and compile a draft report from the deliberations at the end of July.

MIC requests that the committee finalize and compile the report at the end of September after MIC invites the public to provide comments on the draft report. As far as MIC is concerned, it intends to carry out the required improvements of the systems as needed, based on the specific content of the finalized report.

Finally, page 11 describes the MIC proposal for the joint hearing with the Telecommunications Business Policy Committee and the Interconnection Committee, which I have just mentioned. Specifically, MIC wishes to propose that the hearing be carried out in two meetings, specifically, on Friday, March 6 and Monday, March 16. The carrier organizations to be invited to the first hearing meeting include NTT DOCOMO, KDDI, EMOBILE, Japan Communications and Mobile Content Forum. MIC plans to invite carriers and organizations, namely, NTT East, NTT West, Softbank, Telecom Service Association and Kansai Broadband, to the second hearing meeting. We hope that the committee will use the hearing results as a basis for future deliberations.

Note that we have attached many reference materials related to the content of this inquiry issue following this page, but I will omit any detailed explanation concerning them.

This ends my explanation.

- Chair Tokai: Thank you very much for your explanation.

We have just now received the explanation concerning the inquiry issue under the title of "Interconnection Rules in Response to Changes in the Telecommunications Market Environment." I assume that although he places a central focus on the keyword of interconnection, he has presented a considerably wide range of issues. I would appreciate you voicing your opinions

concerning how we should proceed with this inquiry, how we should take it, or questions or anything concerning Mr. Furuichi's explanation. Please, feel free to take the floor.

- Chair Tokai: Then let me ask one question.

Before I ask this question, I want you to understand that I do not mean for you to give me a direct answer, because I expect the answer will be given in the course of our deliberations. My understanding is that, bearing in mind the keywords such as essentiality and bottleneck regarding the interconnections and access between carriers, there has been an approach in the past to the way of setting the interconnection rules to impose regulations on the dominant carriers so that a fair competition environment may be developed.

In this inquiry issue, we will discuss issues related to mobile communication and the nature of the interconnection rules, including the convergence issue. The truth is that I do not feel that we have had very much discussion as to the form in which essentiality and bottlenecks similar to those in fixed communication have been present in the world of mobile communication since we developed the category II designated telecommunications facilities system in 2000.

If I understand it correctly, MIC requested us to look over the markets as a whole, such as the fixed and mobile markets, in this inquiry. If MIC has a line of thought we should follow in our deliberations concerning the whole market at present or for a few years to come, I would appreciate MIC explaining it.

- Director Furuichi, Tariff Division: As I explained before in the reference materials, we have included in the summary of specific deliberation items as one of the major items, for example, our line of thought concerning the grounds and content of the current category II designated telecommunications facilities system, as Chair Tokai just pointed out. I hope the members of the committee will deliberate on the specific details of the matter in future meetings, because I assume there are various opinions concerning that.

Assuming the future deliberations on the matter, I would like to mention how MIC has marshaled the interconnection rules in the past. They have been developed in such a way that the so-called category I designated telecommunications facilities that have overwhelming shares of the subscription lines in the fixed communication field, or as we say it, those with bottlenecks, must be regarded as essential facilities.

In contrast, the interconnection rules developed in 2000 for the mobile communication field recognized mobile communications as a powerful means that subscribers could directly access similarly to the fixed subscription networks, although they lack the bottleneck facilities. In addition, the interconnection rules have been developed on the assumption that, since three or four companies monopolize the cellphone operation market due to the finite nature of radio waves, the cellphone carriers that accommodate a relatively high ratio of terminal facilities in the market may have strong bargaining strength and gain the upper hand in connecting to the other carriers.

On the other hand, as I explained before on page 3 in the reference, various and large changes in the environment are also occurring in the mobile communication market. Based on these changes in the environment, MIC sincerely asks the members here to discuss how the designated telecommunications systems should be regulated as a whole as one of the major deliberation items.

Another deliberation item is the fourth among the pillars I described before. In the midst of launching 3.9G cellphone services, the fixed networks and the mobile networks will literally fuse together in the future. While we are in this trend, the current interconnection rules have created the systems on the assumption that the fixed and mobile networks are separate entities. I wonder whether the current interconnection rules can help the systems function well in the midst of the future convergence of the fixed and mobile networks. MIC really hopes that the committee will discuss this matter as well.

- Chair Tokai: Thank you, Mr. Furuichi.

I would like to raise another question related to the matter.

As shown in one of the figures included in the reference, I understand Mr. Furuichi explained to us that cases of dispute settlement related to this matter are gradually appearing. Please correct me if I am mistaken. Specifically, what issues related to the matters of interconnection itself and interconnections between carriers were brought to the Telecommunications Business Dispute Settlement Commission?

- Director Furuichi, Tariff Division: I hate to bother you, but please open page 19 of the attached reference in landscape format. It compiles the specific details from the recent dispute cases between the mobile communication carriers that Mr. Tokai just pointed out. As described on page 19, on the ground that consultations between carriers could not reach any agreement between a company called Japan Communications, which provided MVNO (Mobile Virtual Network Operator) services by using existing cellphone networks, and NTT DOCOMO, an existing

cellphone carrier, they appealed a ruling related to interconnection to the Minister of Internal Affairs and Communications on July 9, 2007.

The major moot points were how the interconnection charges should be set, the level to which they should be set, or how the development cost required for interconnection and the like should be borne. The Minister determined the dispute case specifically as described in this reference, particularly with a central focus on how the interconnection charges should be set, on November 30, 2007.

- Chair Tokai: Thank you, Mr. Furuichi.

Is there anyone who would like to make remarks?

- Temporary Member Negishi: The subjects included here are all vital and heavy. Of course, I am one of the members to deliberate on these subjects. Frankly speaking, however, I am wondering if I will be able to see a kind of direction concerning them according to this schedule, and I feel it is a serious task. Having said that, as they are all important issues and I think it mandatory to deliberate on this inquiry, I would like to ask all the members here to proceed with deliberation, using the summary of specific deliberation items.

What I am going to mention has something to do with what Professor Tokai has just said. For example, particularly in this consultation, mobile communications are becoming increasingly important and becoming an infrastructure. Only the fixed communications were assumed previously, but now, in addition to their importance, mobile communications are showing a strong presence. I assume that this reference material was compiled on such grounds. The first sheet numbered page 13 in the reference material shows the framework of the designated telecommunications facilities systems and it describes some differences between category I and category II. In a strict sense of the word, I do not think that category II necessarily means regulations for the dominant carriers.

I recognize there are differences between category I and II, and consequently the regulations category I imposes mean the dominant carrier regulation and has set something like an approval system, but the category II regulations provide a mechanism such as a prior notification system, and negotiations will follow that. That is my general understanding of it. Category II, however, adopts a mechanism of imposing additional regulations on carriers that are not regarded as

dominant carriers, but that exceed a certain share. In this consultation, I think there are issues as to whether the current mechanism should be continued, whether these regulations should apply to only particular carriers such as the dominant ones, or whether the objective of the regulations cannot be accomplished as a whole unless similar regulations should apply to the other carriers as well.

In addition, I do not understand anything at all from the dispute cases the secretariat introduced before, or those between the mobile communication carriers, which are shown on page 19 in the reference material. To put it plainly, since the Minister finally determined the dispute over interconnection, it could be interrupted as an order, and the parties involved would have to follow the ruling. It looks as if some form of interconnection obligations were set up and the Minister decided the details of the obligations. Such understanding could be possible. I would like to comment on this. Those regulations include something like a form of interconnection rules in a sense, and pose questions as to what future disputes they should control in general, whether such disputes should be settled on a-per-dispute basis, or whether the disputes should be controlled in a system on the assumption that they are the matter of interconnection. As this is related to mobile communications, the previous regulation rules or grounds indicate that there are not necessarily mechanisms where an approval system is set up, and the government decides on every detail of the system for approval. I suspect that in this dispute case, however, something similar to what I said perhaps occurred. If so, it means that we perhaps have issues as to whether these dispute cases should be settled on a-per-dispute basis or dispute settlement should be institutionalized in the future. This case concerns NTT DOCOMO, but how will the dispute settlement process proceed if a similar application is submitted to MIC regarding another company? Some issues are in there, including that one.

My opinion seems to have something to do with what Professor Tokai said, and I think it important to pay attention to these issues in deliberating the matter in the future.

- Chair Tokai: I think what Mr. Negishi pointed out is basically two problems. Under the understanding that, in either case, MIC referred this matter to us for advice precisely because such problems have occurred, I think all the committee members will have to deliberate on it from now on. For example, as to the dispute issues, I understand from his opinion that we must work out our standpoint on the problem. Should we enhance the function of the Telecommunications Business

Dispute Settlement Commission, or should we address the issues by setting rules for them as explained by Professor Negishi if the enhancement is not right? Is there anything the Secretariat wishes to add?

- Director Furuichi, Tariff Division:

As for what Mr. Tokai just pointed out, the systems set forth by the current Telecommunications Business Law provide the individual interconnection rules based on the category I or category II designated facilities system. The law provides another mechanism or dispute settlement function, such as the minister ruling that settles individual dispute cases concerning providing interconnection or wholesale telecommunication services or other things. The system is that the individual interconnection rules and the dispute settlement function work together to facilitate interconnection or development of a competition environment. MIC understands that it ensures a fair competition environment, as the two things complement each other.

In the specific dispute case on page 19, something is omitted in the reference. When the minister ruled on the individual dispute case, MIC referred it to the Telecommunications Business Dispute Settlement Commission for advice. The Commission issued a recommendation for the minister ruling. I do not remember the exact wording, but the recommendation made a statement to the effect that in the light of such individual case, for example, the nature of the interconnection charge calculations for MVNO and MNO should be examined as needed, and necessary measures should then be taken. Consequently, MIC thinks it is necessary to examine the future interconnection rules based on such recommendations.

- Chair Tokai: Thank you, Mr. Furuichi. Is there anything else? Please, take the floor.

- Member Saito: In the future discussions, there is something I really would like the committee to deliberate on as part of a general flow of discussion.

Looking at the chart of the mobile market on page 3, the market was growing rapidly, but this sudden drop of the increase rate indicates that mobile communications has already become a mature industry, doesn't it?

In other words, I think what will happen next is that mobile communication as an infrastructure will no longer be a powerhouse, but applications running on it will become a power to change the

world greatly in the future.

If that is the case, I would think that how we considered not only what was represented as mobile or hardware, but also applications, even when deliberating on this inquiry issue, would become important. I really hope that the members will also examine that point.

In the past, we have continued to stick to the concept of how we should protect new entrant companies from the companies regarded as dominant carriers that generate excessive profits or from the ones that enjoy monopolistic positions. In the wake of this trend, it would be very possible for the telecommunication industry to fall far behind the world because infrastructures would deteriorate and facility investment would not serve its purpose unless we reversed our thinking in the future, that we would have to protect the carriers said to be dominant that had responsibility for holding and maintaining infrastructures by continuing large facility investment. Looking at the chart, I thought it was time to change our mindset in this sense, too.

- Chair Tokai: Please, take the floor.

- Director Furuichi, Tariff Division: I think that is the very important point. As I explained using page 5 in the reference previously and as Member Saito pointed out, it is greatly expected, without doubt, that the communication platform market, content delivery market, and the very markets in the application field that both those markets will support will be expanding in the future. In this discussion of interconnection charges, the matter should be discussed and studied by paying full attention to the viewpoint Professor Saito pointed out.

In addition, she also pointed out that maintaining infrastructures would be very vital. We think that the point is also a very important viewpoint. For example, in discussing how we approach the use and application of mobile networks, we think it necessary to consider the matter by fully respecting the viewpoint.

- Chair Tokai: Anyway, I think everything she pointed out is very important. What we could do as we proceed with discussing the matter referred to us is to give consideration to the points in this meeting firmly based on the market environments.

Are there any other questions, opinions, or anything else?

- Member Takahashi: May I have the floor?

- Chair Tokai: Please, go ahead.

- Member Takahashi: I would like to comment from the viewpoint of end users.

As explained at the opening of the meeting, I fully understand that both the mobile and broadband markets are vital infrastructures and the very sources that vitalize lives for ordinary citizens and at the same create new industries and increase jobs, but I do not think that we can deny that they have an aspect of draining our purses further, as the communication cost increases the household burden dreadfully.

We started deliberation on the matter today. Once our committee commenced these discussions, reports concerning it had been appearing gradually in the news since the beginning of this year and I think that the public at large probably has a great deal of expectation that mobile communication rates, among others, will decrease. That is perhaps because they are interested in the fact that calls to cellular telephony lines have extremely higher connection rates than those to fixed lines. I agree with Member Saito's opinion concerning how better services will be provided at lower cost in the future, and I think it extremely important in this age not to make a wasteful investment on parts, such as pylons, which carriers can accomplish in cooperation. For this reason, bearing in mind the improvement of convenience and the services with user-friendly prices, I hope that really productive competition will be promoted and easy-to-use infrastructures will be constructed.

In that sense, I really wish for MIC to exercise its ingenuity in creating greater interest among the public before inviting public comment. According to the former procedure, when a draft report has been completed, MIC asks for public comment on it. In this way, as far as this type of issue is concerned, it frequently happens that only the carriers submit comments, and the public at large does not voice their opinions. For the past year or two, MIC has held briefings for the consumer organizations, but nearly 100 invitations for public comment are rushing in this summer, and in some cases, consumer organizations as well as bar associations cannot deal with them. For these reasons, I hope MIC will make every possible effort to focus on trying to hold a public hearing before a draft report is issued so that the draft may reflect opinions from the public, and to raise interest among the mass communication media to help them cover such reports in a straightforward way.

I have now finished my requests for MIC.

- Chair Tokai: Please, take the floor.

- Director Furuichi, Tariff Division: I would like to address what Member Takahashi has just pointed out. In the telecommunication field, MIC has already deregulated user rates and call charges, so telecommunication carriers can set them primarily, based on their business judgment. Consequently, it does not necessarily mean that the nature of the interconnection charges has a direct link to call charges.

However, MIC hopes the following scenario will be achieved. It will further promote a competitive environment in the fixed broadband field and the mobile field through this deliberation, various services or those with dirt-cheap prices will be launched through the promotion efforts, and finally, as a result, user benefits will be achieved.

As for the opinion concerning the public comment, MIC has received suggestions from Member Takahashi on other matters than this interconnection rules review. MIC wishes to make the public comment invitation process as easy as possible for the public and users, including the other matters.

- Member Shinmachi: May I have the floor?

- Chair Tokai: Please, go ahead.

- Member Shinmachi: Since I was appointed as a member from this year and I still need some time to catch up on the subject, I would appreciate if you do not think of my question as naive or an attempt to make fun of you. Any industry creates many problems in the process of growing. In that sense, this telecommunication market has produced environmental changes. One of the reasons is that various problems are being posed as the market is becoming more mature. This is one of my questions and, at the same time, what I think the committee must strictly deliberate on is the problems of the competitive edge and differentiation of each of the carriers. I think that as the carriers gradually grow, the committee must consider how both the community and the industry will be vitalized as a whole and how the vitalization will be reflected in the carriers. When we push this to the extreme end, the carriers will still remain, but the fact of their existence will block their competitive edge. When they have reached a point where differentiation is impossible, they will again further aspire to accomplish more advanced differentiation, which will crumble the

environment for vitalization that has been achieved through strenuous efforts and discrepancies will be felt everywhere. I think the course of development has such a tendency. I believe it necessary to modify the interconnection rules, including systems, into a robust framework at the very stage where we are now so that the carriers may create high-quality services as they exercise their competitive edge in good sense, because the first stage is very important.

- Chair Tokai: You are absolutely right. I sincerely hope in that sense that you will check the matter as a member from that viewpoint. It frequently happens that we are preoccupied with minor things only, and we sometimes fall into such a situation.

I think we must give due consideration to looking over the whole.

- Member Shinmachi: I am from an airline. The airlines also start by attempting to enhance their own competitive edge and differentiate them on their own, and then move forward to form alliances. As you may know, there are four or five alliances now. When we think about what configuration they should take for the development of the airline industry as a whole, they themselves will be a bottleneck. As I feel that any industry and any business field can have such a problem, I ask such a naive question.

- Chair Tokai: Thank you, Mr. Shinmachi.

It is getting late now. Do you agree, as the Telecommunication Business Policy Committee, with the proposition made before, that it will carry out the joint hearing in two meetings?

I would like to lay out the following procedure: After two hearing meetings, the Interconnection Committee will continue to consider the matter, and then we will deliberate on the results from the Committee and compile a report to MIC. Are there any objections?

The decision has then been made.

Closing Remarks

- Chair Tokai: Does the secretariat have anything else to say?

- Director Soejima, Management Office, ICT Strategy Policy Division, Global ICT Strategy Bureau: As the Telecommunications Business Division of the Telecommunications and Postal

Services Council plans to hold a meeting in this room after this meeting is over, I would like the members concerned to wait here.

That is all I have to say.

- Chair Tokai: Then, with that, we come to the end of today's meeting.

The secretariat will inform you separately of the schedule for the next meeting as soon as it is determined. Thank you very much for your time today.