

Outline of Proceedings of the 1st Meeting of the Study Group on Mobile Business

1. Date: 15:00 – 17:00, Monday, January 22, 2007
2. Location: Special Conference Room 3, Ministry of Internal Affairs and Communications, 9th Floor, Central Joint Government Building 2
3. Attendees
 - (1) Members (Entered in alphabetical order of last names, with honorifics omitted)
Mariko Fujiwara, Yasumasa Goda, Takaaki Hasegawa, Shuichi Iizuka, Akiyoshi Ishiwata, Shunichi Kita, Tadao Saito, Harumasa Sato, Fumio Sensui, Nobuko Takahashi
 - (2) Ministry of Internal Affairs and Communications
Suga, Minister of Internal Affairs and Communications; Mori, Director-General of the Telecommunications Bureau; Sakurai, Director-General of the Telecommunications Business Department; Samura, Director of the General Affairs Division; Taniwaki, Director of the Tariff Division; Ohashi, Director of the Computer Communications Division; Ninomiya, Senior Planning Officer of the Tariff Division; Shirai, Assistant Director of the Tariff Division; Shibazaki, Assistant Director of the Computer Communications Division
4. Agenda
 - (1) Current situation of mobile business and tasks thereof
 - (2) Method for promoting future activities
5. Outline of proceedings

[Guidelines for Holding Meetings]

- Approval of the Guidelines for Holding Meetings (Document 1-4) proposed by the Secretariat was obtained.

[Election of Chairperson and appointment of Deputy Chairperson]

- Member Saito was elected Chairperson. Member Izumi was then appointed Deputy Chairperson by Chairperson Saito.

[Address by Minister of Internal Affairs and Communications]

- The environment surrounding the mobile communications business in Japan has undergone significant changes. The number of subscribers to mobile phone service amounts to 95 million. I think that, in one sense, the number of such users has reached the limit. Under such circumstances it is important that new business opportunities for dealing with the ubiquitous

society be found, thereby revitalizing the market.

- I usually have the following rudimentary questions: Is it true that business models whereby mobile phones can be purchased even if prospective users have no money can be accepted in foreign countries as well? Are not such models one reason Japanese mobile phones are not accepted in foreign countries? Is such a situation allowable from the Japanese people's viewpoint?
- The Ministry of Internal Affairs and Communications founded this Study Group on the presumption that it may be necessary to return to the basics to consider the issue of sales incentives, the optimal state of SIM locking, and the promotion of widespread MVNO participation.
- I think that the ICT field is important for Japan, where the population is aging and the birthrate is declining, to keep growing in the future as well. I recently visited Vietnam, Indonesia, and India. Second generation mobile phones are still used in these countries, but the changeover to third generation and fourth generation mobile phones is expected to take place. Under such circumstances, I presume that it may be possible for Japan to return to the basics, thereby considering branching out into foreign countries from now on. I hope that this Study Group will play important roles in this respect. I would like to thank you in advance for your efforts.

[Current situation of mobile business and tasks thereof]

- The Secretariat explained Current Situation of Mobile Business and Tasks Thereof (Document 1-1).
- Major statements made by members during free discussions were as given below:
 - Restraints on SIM locking in the United Kingdom are as stated in this document. In this regard, if I remember correctly, an EU directive was issued prior to these restraints that contained a provision that SIM locking should not be kept applied for two years or more. In addition, if I recall correctly, only one carrier actually applied SIM locking (for six months). I presume that the EU directive is regarded as not violated because of such background.
 - When people concerned observe the mobile phone market, they look at ARPU and prices. In this connection, it is also necessary to look at traffic data. I presume that it is also advisable to analyze durations per phone call, number of times of phone calls, and profit rates.
 - The issue of SIM locking is linked to business models for sales incentives. It is therefore necessary to determine how many carriers in major countries have actually applied SIM locking, rather than to investigate what restraints are imposed.
 - In Finland and South Korea, ARPU amounts dropped to about 20 percent compared to some time ago. ARPU amounts are conspicuously high in these two countries. It is necessary to verify whether these phenomena are related to sales incentives.
 - There are great differences between Japan and foreign countries in the methods used to sell

terminals. It is also necessary to consider the fact that in Europe, manufacturers sell terminals via sales outlets, and that it is rare for carriers to sell terminals.

- Sales incentives constitute a major cause of the fact that Japanese terminals fail to sell well in the global market although Japanese manufacturers have high technical capabilities. If communication layers come to be installed in transmission pipes and it becomes feasible to standardize terminal functions formed on such layers, it follows that efficient development of terminals will be realized, leading to the expectation that such terminals will be marketed overseas. This field is so important that it would have a decisive impact on the future national strength of Japan.
- Japanese terminals are a little larger than ordinary terminals in Europe. Unlike those in Japan, terminals in Europe and North America are divided into two types, very small ones dedicated to phone calls and very large high-performance ones equipped with a full keyboard. Japanese keyboards are very homogenized.
- It is true that there are problems with SIM locking and sales incentives, but there are sure to be advantages as well. Therefore, these matters should be discussed by striking a balance between advantages and disadvantages. It may be possible to export the vertical integration type model of KDDI Corporation and that of NTT DoCoMo, Inc. On the other hand, in the field of household electrical appliances, the competitiveness of Japanese manufacturers has dropped. It may be that there are common causes in the electrical equipment industry in Japan. In this connection, it is also necessary to study the extent to which the sales incentives constitute a cause of reduced competitiveness.
- I do not deny the necessity of verifying the present conditions of SIM locking and sales incentives. More importantly, however, discussions should be held on what it is advisable to do in preparation for future developments. It is, of course, necessary to verify the advantages and disadvantages of the heretofore-applied business strategies. In this regard, it is also necessary to hold discussions while keeping various viewpoints in mind, for example by presuming that devices created as mobile terminals will become equipment that will support daily lives as a whole in the future. If activities are limited only to verification of the merits and demerits of past developments and of the business models, then I feel that no warning will be given to people who will, from now on, play important roles in ensuring Japanese competitiveness in this field. It is necessary to give thought to what future images should be built as well as to verify past developments. Otherwise, no advances will be made in discussions.
- I presume that competition is carried out with no consideration given to consumers in the information and communications field. From now on, consideration should be given to a wide variety of consumers instead of only specific consumers like heavy users. If business models are such that people who frequently replace terminals with new types will profit and those who do not will lose, then I feel that such models are inappropriate. Therefore, discussions should be pushed ahead in such a way as to be able to aim at business models

that will be accepted by many people.

- I believe that the goal of this Study Group is to maximize consumer benefits. It will be fine if short-term consumer benefits and mid- and long-term consumer benefits can be achieved at the same time, but what is important is that there are cases where these two types of benefits conflict with each other. In order for mid- and long-term consumer benefits to be earned in the mobile market from now on with the aim of achieving further growth, discussions should be held with time spans kept in mind. I think that this is a matter of striking a balance. In the case of the mobile business in Japan, the reality is that carriers, manufacturers, sales agencies, and content providers have been building a splendid ecosystem. It is a fact that bad effects are produced. If errors are made in deciding what areas are to be corrected, there is a possibility that the whole system will collapse. It is necessary to hold discussions from a comprehensive viewpoint instead of from the point of view of local optimization. It is true that short-term pain will be suffered, but it is also a fact that, in this industry, there is no growth whereby everyone is free from pain.
- It seems to me that this industry is already in a considerably severe slump. I presume that thought should be given to how to make a recovery. It seems wrong to have an understanding that the industry is now enjoying prosperity. If anyone says that the industry is prospering, I would like to be shown substantiating data.
- I think that an opportunity is now provided to develop international competitiveness. Current business models are so weakened as to reach their limits. Carriers are heard mentioning their attempts to seek new models. Frequency assignment for broadband wireless access is scheduled, and carriers applying business models involving SIM locking and sales incentives desire to have frequencies assigned. I am anxious about whether it is permissible to entrust such carriers with Internet-based matters like broadband wireless access, thereby allowing them to employ business models similar to those for mobile phones.
- At present, there are floods of statements containing the term “platform.” Even small items are called platforms as long as they involve multi-applications. On the other hand, there is a concept where communication is performed through a transmission pipe, above which a platform is built, and multi-applications are placed on the platform. The same terms are used in both cases, but the meaning in one case is quite contrary to the meaning in the other case. There are so-called “iron rules” for platforms. In this regard, I believe that a sound platform is one which constitutes a kind of buffer and which does not depend on either the sub-platform below or the application above. If that system of a specific communications carrier which constitutes a sub-platform collapses, resulting in the collapse of any item above, then great impacts will be exerted.
- I investigated how corporate users employ IT. As a result, it turned out that this corporate user field lags significantly behind those in other countries in the world. Properly fostering this field will lead to the development of competitiveness. In this Study Group, discussions should be held on the corporate mobile market as well.

- If I remember correctly, an EU directive stating that 20 percent of third generation mobile phone users should be served by MVNOs was issued. It is necessary to confirm what happened subsequently. In this regard, we are now in a period of technological change. It will be inappropriate for carriers to adhere to existing business models to such an extent that new technologies fail to be utilized.
- Current business models are effective when carriers are growing significantly by acquiring users. In this connection, it is necessary to verify whether such models will be effective after maturation has advanced or what bad effects will be caused in that stage. Moreover, when seen from the consumer benefits viewpoint, communication charge structures are generally such that heavy users are treated advantageously, even if the matter of sales incentives is set aside. In this regard, there is an argument that these structures are unsatisfactory, since light users lose. I believe that this argument is wrong. It is necessary to analyze the construction of the overall economic structure.
- Domestic competition is different from international competition. Being successful in domestic competition is one thing. Whether success can be achieved in international competition is quite another. Discussions should be conducted by making a clear distinction between the viewpoint of domestic competition and that of international competition. There is an opinion to the effect that business models where people who do not frequently replace terminals with new types will lose are inappropriate. This opinion is not altogether incomprehensible, but it is a fact that the needs of people who frequently replace terminals with new types cause the evolution of terminal functions. I feel that it is somewhat wrong to assert categorically that it is disadvantageous not to replace terminals with new types.
- The fact that sales incentives are added to communication charges is not explained to users. Moreover, users cannot make choices between the presence and absence of sales incentives. That disadvantages are produced due to the above is a problem.
- The United States Copyright Office decision on SIM locking was explained. This matter is interesting. Models whereby sales incentives are used to lock SIMs have already reached their limits. There is a possibility that some other people will profit from terminals paid for by means of communication charges incurred by the users. The degree to which the carriers have a sense of crisis is unknown. Nevertheless, these models are already in a dangerous state.
- In the present circumstances where charge plans are becoming complicated, carriers mention the terms “basic charges” and “phone call charges,” as usual. This practice is inconsistent with the essential idea of basic charges for building and maintaining facilities. It is also necessary to study this reality.
- If there are any additional points to be investigated, or any additional opinions or comments to be offered, such items are requested to be submitted to the Secretariat.

[Method of promoting studies from now on]

○The Draft Method for Promoting Studies from Now On (Document 1-3) proposed by the Secretariat was explained, and the draft was approved.

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