

Outline of Proceedings of the 2nd Meeting of the Study Group on Mobile Business

1. Date: Started at 13:00, Friday, February 2, 2007

2. Location: Special Conference Room 3, Ministry of Internal Affairs and Communications

3. Attendees

(1) Members (Entered in alphabetical order of last names, with honorifics omitted)

Fujiwara, member; Goda, member; Hasegawa, member; Iizuka, member; Ishiwata, member; Kita, member; Saito, Chairperson; Sensui, Deputy Chairperson; Takahashi, member

(2) Ministry of Internal Affairs and Communications

Taniguchi, Parliamentary Secretary for 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) Presentations by Study Group observers 1)

1) NTT DoCoMo, Inc.

2) SoftBank Mobile Corporation

3) MVNO Council

(2) Free discussions

5. Outline of proceedings

(1) At the beginning of the meeting, an address was given by Mr. Taniguchi, Parliamentary Secretary for Internal Affairs and Communications. Subsequent presentations were made by the three entities of NTT DoCoMo, Inc., SoftBank Telecom Corporation, and MVNO Council. Thereafter, free discussions were held on the basis of these presentations.

(2) Major statements made during free discussions were as given below:

(Member)

An explanation was given that even if SIM locking is removed, problems will be encountered in that communication methods differ depending on company and i-mode cannot be used. I would like to point out that such phenomena will occur only because current terminals are designed that way. I presume that it is a matter of course to take action to support multiple modes. I do not

negate the fact that Japanese manufacturers have been doing business based on current models. However, if this situation is left as it is, international competitiveness will be increasingly reduced. Therefore, function-related reasons do not warrant opposition to the removal of SIM locking. If such opposition is to be insisted upon, specific explanations should be given in terms of numbers. It is out of place to give absolute priority to the current reality, thus showing a stubborn reluctance to change it.

(Member)

It was mentioned that even if SIM locking is removed, only voice service and SMS could be provided. If any user wants to have SIM locking removed in spite of that, it would be fine to remove it. If SIM locking is removed for any user who does not want it done, he/she will still select a high-function mobile phone. It is unknown what bad effects will be caused when SIM locking is removed. It may be that some users will have two mobile phones, one with SIM locking intact and another with SIM locking removed. In this connection, I presume that such a practice is better, since consumers' choices are increased.

(Member)

I agree with the opinion that it is better if multiple modes are available. I feel that greater support can be gained from consumers if the possibility of realizing feasible things is studied than if infeasible things are discussed.

(Future Mobile, Inc)

We once took part in the standardization of third generation mobile phones. Incidentally, terminals for PDC systems and PHSs, which were manufactured to essentially permit users to freely enjoy various services by replacing SIMs under a multi-vendor environment, were numbered. Since terminal incentive measures were in place, such numbers were linked to terminals by way of a means that retained SIMs instead of freeing them. This was a partial continuation of the system where the competition between mobile phones and PHSs was so keen that mobile phone terminals and numbers were combined.

However, in the case of third generation mobile phones, the original purpose of standardization activities was to make it possible to enjoy services by means of various terminals under the same SIM number in a multi-vendor environment. It is true that i-mode was established based on carrier standards, but its basic functions include Internet connection and voice service. Therefore, I believe that it is a matter of course that i-mode can be used even if SIMs undergo changes. In this regard, I believe the reason foreign vendors can supply products at low prices is that basic functions are standardized.

Competition policies including MNP have been introduced. Current charge measures are such that subscriber transfers to other carriers are restrained to retain subscribers. We are under the impression that, in a word, efforts are made to retain subscribers from a negative point of view. On the other hand, in the United States for example, positive retention measures are taken where, for instance, the charges are reduced more the longer the subscribers use their carriers. In terms of user viewpoint, moves occur based on different points of view. For example, some

users want to enjoy various services at free terminals, while others want to move but are unable to do so because of the costs to be incurred. We hope that from now on, service competition will be accomplished. If SIM locking is removed, we feel that confusion will occur at first. Nevertheless, there is a wide variety of entry modes in free competition. It is not until final victories are won that competitiveness is obtained. We presume that some of the Japanese vendors may win final victories and branch out into foreign countries.

(Member)

NTT DoCoMo, Inc. explained that it is necessary to use caution when discussing platform coordination. I would like to be informed of the reason for the above. SoftBank Mobile Corporation explained that the strengthening of international competitiveness does not mean that Japanese vendors' terminals sell well in foreign countries. I would appreciate it if what the act of contributing to international competitiveness of Japan means could be explained.

(Parliamentary Secretary for Internal Affairs and Communications)

I think that changes should be made to the present state of SIM locking and of sales incentives. In this connection, it is said that the removal of SIM locking will result in reduced sales volumes. Will this really be the case? If SIM locking is removed, I presume that manufacturers will come to consider overseas markets as well.

(Member)

NTT DoCoMo, Inc. explained that in Europe and North America, the period restriction sales schemes are mainstream, but in Japan, it is difficult to adopt this type of sales scheme due to the Antimonopoly Law. I would appreciate it if it could be explained whether antimonopoly laws in foreign countries contain guidelines on period restriction sales schemes, as in Japan, and why it is difficult to adopt the above-mentioned sales scheme in Japan.

(NTT DoCoMo, Inc.)

As regards the presumption that it will be more advantageous to remove SIM locking, we, as a carrier, can remove SIM locking in terms of technology and effectiveness.

In this connection, it is fine if some customers use voice service only. However, 50,000 yen terminals equipped with only the voice service function will not sell. Terminals will not sell unless the price is 10,000 yen or so. At this price level, market shipment values will shrink. However, if the market can tolerate that situation, we will be willing to remove SIM locking. By way of policy discussions, we would like to request that the various effects be considered. Frankly speaking, our company would like to consider a model that does not involve incentives, but it is difficult to formulate an alternative plan. We think that this is because the current model is well-balanced.

As regards platforms, in order to open charges and services using subscriber information, it will be meaningless if the three mobile phone companies have access to different information. Therefore, it will become necessary to standardize such information. In this connection, we offered the opinion that, because of the above, versatility will be created, and trade-offs will have to be made between the versatility and the efficiency, affected by added costs, etc.

An opinion was offered that even if SIM locking were removed, terminal shipments would presumably increase. Frankly speaking, we cannot tell if such will be the case, since this is a market matter. The terminal sales volume is 50 million units per year at present. I think that the terminal cost is about 40 thousand yen per unit on average. It would be nice if the same number of terminals could be sold, if they would be sold at cost. I presume that, generally speaking, customers do not think that current terminals cost 40 thousand yen per unit.

In regard to the matter related to the Antimonopoly Law, we presume that what violate this law are not period restrictions, but discount restrictions as implemented in South Korea. We think that period restrictions become an issue depending on how severe the penalties imposed will be.

(Member)

An instance in South Korea was mentioned. In this regard, I presume that restrictions are imposed in South Korea based on permissible amounts of incentives to be paid, not on discounts.

(SoftBank Mobile Corporation)

We said that it would be better if services including web content and Sha-mail mobile phones (mobile phones equipped with a digital camera function) were provided with terminals. With regard to SIM locking, anticipated items are mentioned in the Document. As far as SIM locking alone is concerned, it is possible to remove locking in terms of technology. However, if SIMs are replaced with different types of products, with current terminals as they are, it is not possible to enjoy various services. In such cases, it is necessary to perform operation verification tests and to consider the fact that the applicable frequencies are different.

(Member)

What hindrances are expected to be caused to negotiations between MVNOs and carriers?

(Member)

I think that it is unreasonable to ask carriers to provide all information. I would like to request that MVNOs state what information is required, and that carriers think about how to meet MVNO requests. It is meaningless to simply reject all requests.

(MVNO Council)

To put it plainly, even if a download sales model is built for music and books, this model cannot be put to practical use. This is because use of the communications portions in the possession of carriers cannot be permitted. It is arranged that carriers recover communication charges from customers. This fact constitutes the most serious bottleneck.

Furthermore, in the present circumstances, when the changeover to IP phones is in progress, no new services can be created unless networks are interconnected. I wonder if it is possible to have networks interconnected. I also wonder if it is possible to have accounts settled among carriers. We are unable to show consumers easy-to-understand charges in which communication charges are included.

(Member)

In the case of the preceding statements, charging and certification are required. There is, of course, the issue of safety. It is therefore necessary to perform disassembly with respect to individual

components and to hold discussions on how to realize feasibility.

(MVNO Council)

For example, if NTT East Corporation and NTT West Corporation perform voice communication with another carrier, then this carrier should pay charges to the two NTT Corporations, since those two corporations have the price setting rights. This is because the scheme for charge account settlement is specified in the interconnection covenant between the other carrier and the two NTT corporations. However, this is not the case with packet communication charges.

(Member)

I do not think that it is infeasible to do that. However, if that is not feasible, I would like to request the Secretariat to provide a written response later.

(Member)

From the viewpoint of diversification of services, I believe corporate users have the need for substantial customization. So far, it has been impossible to meet such needs unless order lots are of a large scale. One of the countermeasures is for MVNOs to deal with customization needs by taking service diversification into account. I would like to ask relevant companies how they will deal with such needs.

(NTT DoCoMo, Inc.)

We are thinking about that, but we are not in a position to make specific statements. We will deal with such needs by developing terminals that have room for customization. We think that such terminals will be regarded as trendy from now on.

(SoftBank Mobile Corporation)

We have the same idea. If a small number of terminals are newly manufactured, such terminals will be very expensive. Conceivable methods include a technique whereby software is used to deal with customization.

(MVNO Council)

The most important matter for corporate services is to assume the responsibility for communication services as a whole on an overall basis. However, in the present circumstances, it is impossible to do so. There are great corporate needs. System integrators are capable of dealing with such needs, but MVNOs cannot do business unless mobile networks are opened up.

(Member)

I think that, on the part of carriers, they are of the opinion that they built facilities at their own risk and therefore they do not want to lend such facilities to MVNOs. However, in the case of fixed phones, wholesale services are provided by facility owning carriers to facility-less carriers. In spite of the above, why is it impossible to do that in the case of mobile phones?

Mobile phones feature the fact that very limited radio waves are used. It is not that anyone having money can do business. In this connection, I wonder if it is reasonable to shut out competitor carriers only because the facility-owning carriers made investments. Conventional models constitute one of the reasons why third generation mobile phones achieved success in Japan. On the other hand, I believe that such models constitute one of the reasons the international

competitiveness of Japanese manufacturers dropped. The cause of the above may be that the market environment for Japanese carriers is not at the same level as that in Europe.

(Member)

If NTT DoCoMo, Inc. has a suggestion for contributing to international competitiveness of Japanese communications companies, I would like to have an explanation of such a suggestion.

(Member)

Impacts to be exerted on the market when SIM locking is removed are considered to include effects on sales agencies and manufacturers. What else is conceivable?

(NTT DoCoMo, Inc.)

In the first place, in regard to the question as to why what can be done in the case of fixed phones cannot be done in the case of mobile phones, we would like to ask, on the contrary, why what can be done in the case of fixed phones ought to be capable of being done in the case of mobile phones. There are historical differences between fixed phones and mobile phones. As regards fixed phones, the issue is how opening should be carried out starting at the state of a 100 percent monopoly. In the case of mobile phones, the current situation is a result of facilities competition. At least in the case of fixed phones, no facilities competition comes into play.

Moreover, from the viewpoint of international competition, we are contemplating branching out into foreign countries. However, in the present circumstances, where there is no knowing what the domestic market trends will be like, it is difficult, frankly speaking, to do business in both the international market and the domestic market. In this sense, there are differences in market environments between fixed phones and mobile phones.

In terms of international competitiveness, W-CDMA has become predominant in the field of the third generation mobile phones, and i-mode has 6 million to 7 million users in foreign countries. From now on, there will be increases in the numbers of users in Asian countries outside of Japan. Such being the case, our company is now putting forth its utmost efforts. Regrettably enough, when we undertook to do business overseas, we did not do that in such a way that the carrier, the vendor, and the content provider joined to perform operations. This was one of the reasons for failure.

With regard to the impacts of the removal of SIM locking, when manufacturers go to foreign countries, we think that there will be no choice but to aim to deal in high-end terminals, since low-end terminals account for about 80 percent in foreign countries.

(SoftBank Mobile Corporation)

As far as sales incentives alone are concerned, we are conducting installment sales. Besides, we are giving thought to various measures.

(Parliamentary Secretary for Internal Affairs and Communications)

I would like to put this question to NTT DoCoMo, Inc. and SoftBank Mobile Corporation. Is there any possibility that carriers will undertake MVNO business?

(NTT DoCoMo, Inc.)

We think that there is such a possibility. Actually, we are providing services similar to MVNO

business in the interest of some large enterprises and users, whose names we are not in a position to mention. In these cases, good results are being achieved. Incidentally, in foreign countries, there are many cases where MVNO businesses involving low price prepaid terminals are undertaken, only to end up in failure. It is meaningless to pursue models pertaining to such cases. We would like to welcome MVNO businesses that will permit us to make profits.

(SoftBank Mobile Corporation)

It is a fact that user needs are diversified. Therefore, we feel that it is impossible for carriers alone to cope with such needs. We think that it is advisable for MVNOs to deal with those needs.

(Member)

It is necessary to promptly allow MVNOs to use networks. The term “win-win” sounds nice. I am afraid, however, that parochialism is justified by using this term.

The opinion that high-end terminals do not sell well and thus this situation is not beneficial to vendors was offered. However, users have no choice of inexpensive terminals. I presume, therefore, that users cannot help buying expensive terminals from win-win groups.

Some users may use simple terminals for a long time. In present-day Japan, it is common sense that the number of terminals is equal to the number of subscribers. Nevertheless, just as in the case of WILLCOM, Inc., there are cases where W-SIMs are inserted into PDAs or into lightweight terminals. I would appreciate it if judgments could be made from a wide viewpoint involving lifestyles and social maturity.

(3) After completion of free discussions, the Secretariat made the following statements regarding subsequent activities. The next meeting will be held on Thursday, February 15.

Relevant members should submit any questions and comments that were not covered during today’s discussions, for example, due to limitations on time. The companies and organizations that gave the presentations today should submit their written responses to such questions and comments separately. Such responses will be used as reference information in discussions to be held from now on in this Study Group.

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