

Outline of Proceedings of the 3rd Meeting of the Study Group on Mobile Business

1. Date: 10:00 to 12:00, Thursday, February 15, 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; Sato, member; Sensui, Deputy Chairperson

(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; Watanabe, Director of the Telecommunications Systems Division; Ninomiya, Senior Planning Officer of the Tariff Division; Shirai, Assistant Director of the Tariff Division; Shibasaki, Assistant Director of the Computer Communications Division

4. Agenda

(1) Presentations by Study Group observers 2)

1) KDDI Corporation

2) Communications and Information Network Association of Japan

3) Index Corporation

(2) Free discussions

5. Outline of proceedings

(Member)

The KDDI Corporation document says that the number of communication modules and the number of business mobile phones total 10 million. Could you show me the breakdown?

(KDDI Corporation)

Business mobile phones account for 70 percent, and communication modules make up a little less than 30 percent.

(Member)

The document mentions the cumulative capital investment amount. What are the ratios of the investment in infrastructure networks and the investment in the development of terminals and

services?

(KDDI Corporation)

No investment is made in the development of terminals, since they are developed by manufacturers. Infrastructure investments include both hardware investments and software investments. We would like to investigate the ratios of these two categories from this time.

(Member)

I feel that in the interest of free competition, service development should also be carried out by entities other than carriers. In this connection, I would appreciate it if the extent to which costs are incurred in service development could be clarified.

(KDDI Corporation)

We made prior investments in the platform, and therefore it is not easy to quantitatively determine the amount of the service development cost, as it was in the estimation stage. In any case, we would like to investigate this matter from this time.

(Member)

I would appreciate it if the existing three carriers would each describe the roadmaps to the following matters that will occur in the future: changeover to IP telephones, FMC, and NGNs. When FMC, etc., are considered, how do you intend to handle terminal models and SIMs?

(KDDI Corporation)

Our corporation is dealing in fixed communication and mobile communication. The subject of discussion is therefore not simply mobile communication alone. We will standardize the infrastructures serving as foundations. It is difficult to prepare networks in advance in such a way as to appropriately deal with future needs. No in-house conclusion has been reached as to how to handle cost structures and prices. As far as mobile communication is concerned, we would like to take steps to improve communication speed, since we believe that the requirements for data communication will be diversified and upgraded.

(NTT DoCoMo, Inc.)

We are not in a position to state any specific idea. Nevertheless, we do not think that the current vertical models can be applied to FMC or NGNs. Such being the case, it is very difficult to apply the current incentive models. We believe that SIM locking has other problems. If various services are superimposed, we believe that it will be difficult to bring terminals into a fixed state.

(SoftBank Mobile Corporation)

There was no in-house discussion of this matter. Nevertheless, we feel that in the future days when the roadmaps are achieved, high mobility terminals will be applied. We believe that the vertical models will gradually collapse. We think that we will evaluate the installment sales model that we began last year from now on. We believe that we have the option of using that model.

(Member)

I have come to the understanding that all of the three companies admit the presence of problems with the current models as a matter of course and do not consider that the current incentive models will be applicable in the future.

(Member)

Index Corporation is doing business overseas as well. If there are any obstacles that are unique to Japan as compared to foreign countries, I would like to be informed of instances of such hindrances.

(Index Corporation)

It is almost impossible to take Japanese content to foreign countries, mainly because of cultural differences. In foreign countries, there are almost no business models where content is put on menus. There are merits and demerits in Japanese practices and overseas practices, examples of which are as follows: In Japan, the growth of mobile business took place by cooperation between carriers and content providers, whereas in foreign countries, general models are such that content providers themselves provide notification and thereby attract customers. In Japan, content providers only have to do soft jobs, and therefore they have a hard time when doing business overseas, for one thing. In foreign countries, SMS codes are run in magazines and on television, and if SMS codes are sent, content can be accessed.

(Member)

What are the circumstances as seen from user viewpoints in foreign countries?

(Index Corporation)

In Japan, the services provided are far more advanced. In foreign countries, services are much more diversified. On the other hand, Japan lags behind foreign countries as far as animated content is concerned. In Europe, about 30-minute-long animated content has come to be used.

(Parliamentary Secretary for Internal Affairs and Communications)

The KDDI Corporation document says that MVNOs will be encouraged to enter the mobile business after mutual understanding is deepened. In this regard, I feel that MVNOs will find it difficult to make their entry if the conditions are unclear. I presume that it would be better to clarify the conditions a little more.

(Member)

This question concerns the contents of page 3 of the KDDI Corporation document. Am I right to understand that up to the 1990s, terminals were purchased based on newly concluded contracts, and that since 2000, there have been increasing replacement demands? Furthermore, in regard to the contents of page 12 of this document, I think that in introducing separation models, matters related to the Antimonopoly Law, such as acts of maintaining resale prices and acts of enforcing long-term contracts, will come into question. I have the understanding that there are no big differences in this area of Antimonopoly Laws among Japan, Europe, and North America. Why can what is feasible in Europe and North America not be done in Japan?

(Member)

Page 9 of the KDDI Corporation document contains a statement on spectrum user fees. What is the intent of this statement?

(KDDI Corporation)

In the first place, we presume that you are asking us whether MNOs constitute hindrances to the entry of MVNOs. In this connection, it is necessary to have an understanding of how services are

actually provided, since it is impossible to pass judgment only based on generalities. Moreover, there is the matter of the effects on networks. It is therefore necessary to hold consultations with MVNOs regarding specific content. Otherwise, it is impossible to fulfill responsibilities including the stable provision of services by MNOs. We do not intend to cause any arbitrary hindrance.

(Parliamentary Secretary for Internal Affairs and Communications)

For instance, is it possible to explicitly show in advance the points for which explanations are requested?

(KDDI Corporation)

We think that it will be possible to do that when the number of instances increases. Relevant information is expressly given in the MVNO Guidelines of the Ministry of Internal Affairs and Communications. We would like to address this matter positively based on the above.

(Member)

The Parliamentary Secretary's question is whether it is possible to do that, not based on negative lists but based on positive lists. I feel that it is advisable to refer to instances in various foreign countries.

(KDDI Corporation)

This is our answer to the question on the contents of page 12 of our document. At present, we do not attach any strings to terminal prices, charge menus, or service periods. We are implementing a discount system. No scheme is available whereby menus are changed depending on terminal price levels. It is therefore a future task to combine relevant items into packages. We feel that the restrictions imposed on acts of maintaining resale prices are severe. Incentives for sales agencies are controlled, but there is no knowing how such incentives are used in the end. Therefore, in order to gain understanding about final terminal prices and charge plans, it is necessary to exert ingenuity. Close investigations need to be made to know why that is feasible in Europe. Nevertheless, we presume that a couple of the reasons are that, in Europe, single function terminals are used and that the incentive amounts are small. Besides, we think that the spectrum user fee per terminal is 420 yen at this time. In this regard, we only mean that it is presumably necessary, from now on, to hold discussions as to whether it is reasonable to set a fixed price per terminal uniformly.

(Member)

That is a matter of spectrum user fees. I understand that there are problems, but such fees have nothing to do with MVNOs for mobile phones.

(Member)

I hope that the combination into packages mentioned earlier will be addressed flexibly. Moreover, I think that there are various methods of dealing with acts of maintaining resale prices.

(Secretariat)

Page 19 of the KDDI Corporation document mentions administrative guidance. In this regard, covenants in those days were subject to government approval. In the case of the instance mentioned, the fact that a sales agency requested a covenant that differed from the contractual covenant came into question, resulting in administrative guidance being provided. There is an issue of whether it is possible to formulate charge plans depending on periods. In this connection, there even now exist

discount systems linked to periods. Thus our understanding is that charge plans depending on periods are allowed to exist if rational reasons exist, that such plans do not lead to undue discrimination, and that those plans are based on reasonable costs.

(Member)

A little while ago, in regard to SIM locking removal, it was mentioned that functional interchangeability poses a problem. In this connection, under current setups, technologies are developed depending on carriers. It is therefore a matter of course that if devices are replaced with a new type of product, then such new ones are not usable. If phone devices are changed over to mobile terminals in the future with the progress of diversification, what action is going to be taken?

(Member)

It was mentioned that abrupt changes to business models could lead to confusion in the market and hamper international competitiveness. At present, do Japanese manufacturers have it in mind to tackle international competition in the third generation mobile phone market?

(Member)

A look at NGN competition leads me to think that what is taking place in the current international arena is service platform competition rather than infrastructure competition. It seems to me that Japanese vendors keep carriers' platforms in mind, resulting in lagging behind in dealing with international platforms. What do you think about this?

(Member)

All relevant companies selected soft landing techniques on an *a priori* basis. In this regard, I would like to request each relevant company to submit a written scenario where a hard landing is not only made, but there are also prospects for growth thereafter. If, similarly to the contents of page 6 of the KDDI Corporation document, what will take place, at what timing, between a hard landing and a soft landing can be seen, it will be possible to visualize a rough time plan. Decisions will then be made regarding items to be run on the present business model and concerning items for which a subsequent business model is to be developed in parallel. I would like to request each relevant company to show a strategy for the above. So far, all relevant companies may have been able to get along snugly in the market. However, if they stick to the idea of getting along in the same way, it will not be possible to visualize strategies for market expansion.

(Member)

At the last meeting, it was mentioned that there were neither dual mode terminals nor multi-band terminals. I would like to request that documents be submitted which show specific numbers representing cost increase amounts that will result from the development of such machines. I would also like to request that the grounds for the argument that costs will increase be explained.

(Member)

I would like to request that a detailed investigation be made of the degree of difference in SIM interchangeability between W-CDMA and CDMA 2000. In this regard, I understand that in the case of CDMA 2000, SIMs are optional components.

(Communications and Information Network Association of Japan)

The costs of the work performed so far to deal with the diversification of technologies and of users turned out to be sum costs. If this situation is to be changed, switching costs will be produced. Such switching costs should be reduced as much as possible. It is impracticable for manufacturers alone to make changes, and we will therefore hold consultations with carriers as well. There is the issue of whether profits can be made if the switching costs are added to the costs that have so far been incurred. Judgment on this issue should be passed at the discretion of the relevant enterprises. No *a priori* decision should be made. It is, of course, necessary to deal with diversification. In this connection, we will keep holding consultations with all parties concerned.

By instinct, as an enterprise, we have it in mind to tackle international competition. In this regard, relevant enterprises should pass judgment on what action to actually take.

The terms “soft landing” and “hard landing” were mentioned. It is our understanding that that the mention of these terms points to a question of what prospects lie ahead. What are the items on which soft landings and hard landings are meant to be made at this time?

(Member)

Such items are SIM locking and sales incentives.

(Member)

I would like to request that scenarios be shown that reflect how hard landings or soft landings will be made. In cases where hard landings are made, there is a question of how enterprises will seek survival by instinct as enterprises. I would like to have answers to this question. Rough answers would be fine.

(Member)

Page 12 of the KDDI Corporation document shows a model that is not based on incentives and in which sales agencies are free to set prices. This is fine. However, it is a problem that incentives funded by the charges paid by the users themselves are diverted to other people. I would like to ask all relevant companies to provide information on bad points and ill effects of models that are not based on sales incentives. In this connection, I hear that, at present, incentives are 20-odd percent of ARPU. Since I am interested in specific trends, I would like to request that the actual numbers representing incentive amounts be shown.

It is stated that MVNOs will be welcomed, and that they will be requested to cover what MNOs do not. In this regard, I presume that a competitive situation is necessary.

(KDDI Corporation)

It is not that we are proposing separation models. With regard to sales incentives, which are currently called into question, we believe that some of the problems, including the setting of prices, can be solved if we improve operations based on the current business model. We would therefore like to discuss this nature from now on. As regards the relations with MVNOs, we have so far been frantically conducting facilities competition. From now on, however, we intend to get along with them frankly and in good faith.

(Member)

With regard to the opinions offered so far, I would like to say that if market mechanisms were

abruptly introduced into business models that differ widely from market mechanism-based ones, then the market would probably react violently. I therefore feel that it is necessary to use caution, but this does not warrant any failure to compete.

End