

Competition Evaluation Advisory Board Summary of Minutes (2nd Meeting)

1. Date

Thursday, February 22, 2007, 4 p.m. to 6 p.m.

2. Location

Conference Room 1, 1st floor, Low-Rise Building, Ministry of Internal Affairs and Communications

3. Attendees

- Members (last names in Japanese alphabetical order; honorifics omitted)

Koichiro Agata; Takanori Ida; Hiroshi Ohashi; Yosuke Okada; Masatsugu Tsuji; Sawako Nohara

- Ministry of Internal Affairs and Communications

Mori, Director-General of the Telecommunications Bureau; Suzuki, Director of the Telecommunications Policy Division; Imagawa, Director of the Office of Fair Competition; Nishizawa, Deputy Director of the Telecommunications Policy Division

4. Content of proceedings

○ Proceedings

A free discussion was planned on the draft of the market definition for the “FY2006 Evaluation of Competition in the Telecommunications Industry.” For the purpose of a free and robust exchange of opinions the meeting was not open to the public.

5. Main discussion

(1) How to proceed with the competition evaluation for FY2006.

- The secretariat explained how this meeting would proceed from now on based on the documents distributed, and the explanation was approved.

(2) Market definition in the telecommunications industry

- Mr. Ida (member) explained the overview of the econometric analysis concerning the market definition of the Internet access domain.
 - Supply substitutability is included in the criteria for the market definition. However, demand substitutability will be enough, and supply substitutability will be able to be discussed at the evaluation results stage.
- As specified in the basic policy, demand substitutability is mainly used as criteria for the market definition, and supply substitutability is used only for the complementary purpose. In

some cases, it is difficult to use supply substitutability; however, it is included as one of the criteria in the U.S.A. and the EU. In the case of telecommunications, it should be also noted that facility competition needs to be regarded as different from service competition.

- It may be possible to check the price elasticity of demand for each carrier.
- The trend of use of content applications is an important consideration. The current competition evaluation is focused on the physical layer.
- We recognize the importance of evaluation from the viewpoint of higher layers; however, there is a limited ability to incorporate it into the market definition. At present, content applications are regarded only to the extent that they are required as functions for each service. In evaluation and analysis, we will look at the relationship between ISPs, content applications and others with the selection of a carrier. However, it should be also noted that this competition evaluation is conducted within the scope of the Telecommunications Business Law.
- A relative comparison with different layers is important. It should be also noted that services are vertically integrated and provided.
- As for broadband categories, while the aspect of low supply substitutability is pointed out, they are included in the same market in the conclusion by the recognition of the substitutability. This process of theory should be clarified further.
- A revision will be made as pointed out.
- In one scenario there is an ultimate shift to FTTH in the Internet access domain. On the other hand, in the “network service for the corporate users” domain, consumers’ selections are based on security and cost, and services are not necessarily going to be converged into specific ones. It is interesting that the scenarios are different depending on the domain.
- The narrowband market and the broadband market are defined separately. Does it mean there is no competition between the two markets?
- The separate definition does not necessarily mean there is no competition. The market definition is based on factors, such as whether consumers are aware that services are identical, and it will be a matter of the extent to which those factors exist. However, since a too-broad definition is likely to result in a small market share for each carrier, sufficient attention should be paid to this point.
- The vertical integration of layers is most advanced in the mobile communications domain and there are quite a few issues relating to competition including content and applications; therefore, attention should be paid to this point in the market definition of this domain.
- Certainly, out of all the domains the vertical integration is most significant in the mobile communications domain. This has been taken into account so far for the evaluation and analysis; however, it has not necessarily been enough in some regards. While the standardized evaluation was planned in FY2006, the mobile communications domain is not regarded as a

key domain, and therefore the analysis may not be as comprehensive.

- The market definition involves a considerably significant factor concerning the Antimonopoly Act. The market definition is not essential from the perspective of economics. A necessary framework is set for the purpose of the evaluation and analysis, and the decision can be made in accordance with the policy objectives or the analysis objectives.
- The competitive situation should be determined in a comprehensive manner. The issue of radio spectrum allocation will have to be taken into account in the mobile communications domain.

(3) Others

- The secretariat explained the present situation of the market definition in the U.S.A. and Europe as well as the competition evaluation of the electricity industry and the gas industry in Japan.

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