

Competition Evaluation Advisory Board Summary of Minutes (3rd Meeting)

1. Date

Thursday, March 29, 2007, 10 a.m. to 12:30 p.m.

2. Location

Conference Rooms 1/ 2/ 3, B2 floor, Ministry of Internal Affairs and Communications

3. Attendees

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

Koichiro Agata; Takanori Ida; Hiroshi Ohashi; Noboru Kawahama; Masatsugu Tsuji; Sawako Nohara; Masayuki Funada

- Ministry of Internal Affairs and Communications

Sakurai, Director-General of the Telecommunications Business Department; Suzuki, Director of the Telecommunications Policy Division; Imagawa, Director of the Office of Fair Competition; Katagiri, Deputy Director of the Traffic Division; Nishizawa, Deputy Director of the Telecommunications Policy Division

4. Content of proceedings

○ Opening

○ Proceedings

(1) Overview of the results of the invitation to submit opinions on the Draft 2006 Market Definition

(2) Supplementary opinions on the Draft 2006 Market Definition

(3) Free discussion

○ Closing

5. Main discussion

(1) Overview of the results of the invitation to submit opinions on the Draft 2006 Market Definition

○ Mr. Ida (member) explained the overview of the draft of the market definition, the overview of the econometric analysis using the draft, and the overview of the results of invitation to submit opinions on the draft of the market definition.

(2) Supplementary opinions on the Draft 2006 Market Definition

Based on the results of the invitation to submit opinions on the draft of the market definition, opinions were heard from carriers concerned and a free discussion was held.

Explanations were given by KDDI Corporation, Nippon Telegraph and Telephone West Corporation, K-Opticom Corporation, and SoftBank Telecom Corporation based on the documents submitted, and a free discussion was held.

○ The term “leverage” is used on page 5 in the document submitted by KDDI as, “Leverage between Adjacent Markets,” and on page 7 in the document submitted by SoftBank as, “Exercise of Market Power in the Monopoly Market (Leverage).” What does leverage imply?

→ There is no rigorous definition. NTT has market power in the fixed telephone market. For example, in the case of marketing OABJ-IP phones, users automatically receive NTT services as an extension of black phone services, while carriers newly entering the market must individually explain from the beginning in all cases. Market power in the fixed telephone market virtually gives an advantage in other telecommunications services markets. We consider this to be leverage.

→ NTT has extremely strong brand power and comprehensive capabilities. Staff in the front line of sales and marketing at NTT East and West may not really have to be thinking about, for example, the idea of “business expansion.”

○ What does “a defined market” and “a segment market” mean? Is a segment market not within the scope of evaluation?

→ Also for a segment market, the analysis of competition, such as market share, is conducted independently and the evaluation is also made.

○ You are requested to clarify the positioning of segment markets. If a problem such as a monopoly is found in a segment market, is it automatically regarded as a problem in the entire defined market as well?

→ Even if a problem is found in a segment market, it is not immediately regarded as a problem in the entire market. Based on the fact that the market is in a transitional period, an analysis was made from the broader perspective of the Internet domain as the broadband market.

○ What does each carrier think about demand substitutability in market definition?

→ In the case of ADSL, while the number of users with a low price plan is increasing, many of the users are shifting to FTTH, resulting in the diversification of users. Video distribution services trends are not so different between ADSL and FTTH. There will be no significant difference from the point of view of demand, though detailed examinations are necessary. However, a significant difference in the supply structure will give carriers the impression that ADSL and FTTH are different.

○ According to the description on page 10 in the document submitted by SoftBank, unbundling FTTH subscribers is impossible. Is it at all technically possible?

→ We have proposed unbundling by the unit using branching lines and the experiment is in progress. It is technically possible.

- The broadband market has diverse supply structures. There is the potential for misunderstanding. Does it make sense to count those fundamentally different from each other all together?
- Market definition must be determined basically based on demand substitutability. The market is the same if users consider that the same services are provided, even though there are differences in the supply structure.
- According to data by carrier, there are cases where ADSL has not decreased on a net basis. While own-elasticity is measured in the draft of the market definition, is it not necessary to take cross-elasticity into account?
- For the purpose of thinking about competition, it is necessary to take cross-elasticity into account. Cross-elasticity is checked in economics. The competition evaluation, however, is based on the SSNIP test, which has become the international standard now, and this is the framework under the Antitrust Law that focuses attention on own-price elasticity.
- Own-elasticity is used to see the range of the market concerned. On the other hand, cross-elasticity is used to see the relationship between markets and between segment markets in broader markets. Also from the perspective of the Antimonopoly Act, it is very likely that a politically important part will be extracted from the entire market as a segment market and analyzed.
- To conduct the econometric analysis, how were the reasons for the migration from ADSL to FTTH understood?
- In the user questionnaire this time, questions on the use of moving picture services were included. However, no particular trend has been found yet. Under circumstances where various users coexist, including those who have already shifted and those who are now shifting, it is rather difficult to analyze the reasons for migration.
- OABJ-IP phones are a key to the spread of FTTH. The recent method of advertising FTTH is to say that the advantage is that total charges for FTTH services and OABJ-IP phones are less than those for ADSL services and subscriber telephones. Users may regard the Internet and the fixed phone as an integrated whole and shift to FTTH.
- This analysis was made using the framework of the “Internet connection domain.” In order to include fixed telephones, the framework for analyzing models and others must be restructured. Due to the rapid progress of technologies, market definition in the telecommunications field is difficult and must be consistently reviewed.

Explanation was made by eAccess Ltd. and NIFTY Corporation based on the documents submitted and a free discussion was held.

- There is a description of One-stop Menu on page 4 in the document submitted by NIFTY.

What about the contract with users? Have the line part and the ISP part already been vertically integrated?

→ The situation used to be as described in (1) on page 22 of the Draft 2006 Market Definition, but now the description in (2) is applicable. The contact point for users to make a contract with is an ISP provider. It is vertical cooperation in a broad sense.

○ With regard to NTT East and West not being engaged in ISP business, in actuality there are ISPs with a single billing system available and those with such a system not available. This could be considered as cases where NTT East and West, which own an access part, exercise market power.

○ Voice communications and packet communications are planned to be separated. Does it mean that supply substitutability is low?

→ They are substitutable in terms of facilities; however, MVNOs have been well established in packet communications. New entry to either market requires a license under the Radio Law.

→ For market definition in the mobile communications domain, we will study the review next year and also consider taking into account the situation of card-type mobile communication terminals, MVNOs, public wireless LANs and new participants in the industry.

○ As for fixed and mobile communications, the way of considering mobility is important. The number of mobile phones is growing. On the other hand, the growth of fixed telephones is flat but not significantly declining. Either is not a complete substitute for the other but is more likely to complement the other.

○ Should the market be defined only by its present condition or should the definition also take into consideration the continuity into the future?

→ In principle, market definition is for the current market. However, the market is defined taking the continuity into account for a certain period of time because a frequent review every year, for example, will cause confusion, despite rapid technical innovations in the market.

○ How should the convergence of the fixed telephone and the Internet connection be regarded?

→ They are regarded as belonging to different domains. However, an “analysis on the mutual relationship with adjacent markets” is planned for the strategic evaluation. We will study it if the market situation develops further in future to the extent where market definition should be reviewed.

○ Our understanding is that the reason for defining the market each year is to see whether the convenience of consumers is appropriately ensured by the development of the telecommunications industry. With the rapid development of telecommunications, there may be areas that cannot be analyzed adequately based on the data available so far. The method for data collection should be also studied in cooperation with carriers.

○ I agree on the market definition as a broadband market. ADSL, CATV, and FTTH are

competing with each other within the whole market and this will continue in the future.

End