

Outline of Proceedings of the 3rd Meeting of the Study Group on Future Images of Universal  
Service Fund System

1. Date and time: 16:00 to 18:00, Tuesday, April 24, 2007
2. Location: Special Conference Room 1, 8th Floor, Bldg. 2, Central Common Government Office
3. Attendees

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

Junichiro Fujiwara, , Yuji Oie, Masahiro Sekiguchi, Minoru Sugaya (Chairperson), Atsushi Togashi, Masatsugu Tsuji (Deputy Chairperson), and Hirotaka Yamauchi

(2) Observers (Entered in alphabetical order of entity names)

Communications and Information Network Association of Japan; eAccess Ltd.; Fusion Communications Corporation; Japan Business Federation; Japan Cable and Telecommunications Association; KDDI Corporation; Kyushu Telecommunication Network Co., Inc.; Nippon Telegraph and Telephone Corporation; Nippon Telegraph and Telephone East Corporation; Nippon Telegraph and Telephone West Corporation; SoftBank Telecom Corporation; Telecom Service Association; and WILLCOM, Inc.

(3) Ministry of Internal Affairs and Communications

Mori, Director-General of the Telecommunications Bureau; Sakurai, Director-General of the Telecommunications Business Department; Taniwaki, Director of the Tariff Division; Ninomiya, Senior Planning Officer of the Tariff Division; Suzuki, Deputy Director of the Tariff Division; Katagiri, Deputy Director of the Tariff Division; and Shirai, Deputy Director of the Tariff Division

4. Agenda

- (1) Presentations by observers of the study group □
- (2) Free discussions

5. Outline of proceedings

○ Presentations by observers □

[Nippon Telegraph and Telephone Corporation, Nippon Telegraph and Telephone East Corporation, and Nippon Telegraph and Telephone West Corporation]

(Document 3-3)

- The requirements for universal service composition remain unchanged; that is, conceptually they are the same as before.
- It is inappropriate to treat multiple services as universal services within the same area. A service that can be provided at relatively low cost in any area under consideration should be treated as a universal service.
- For the following reasons, we consider it inappropriate to include cellular telephone services within the scope of universal services at the present time: user fees are still high compared to fixed telephone services; and it is extremely costly to provide service coverage to areas that

currently have none.

- Thorough studies must be undertaken on broadband services as the following facts cause the costs to the user to increase: there is a lot of competition between providers of broadband services; and development costs are higher than for fixed telephone services.
- If qualified telecommunications carriers are to be obliged to provide services at fees below maintenance costs, a compensation program must be created. Such compensation should be calculated not on the basis of long-term incremental costs, but on the basis of actual costs.
- With regard to the “affordability” of universal services, price caps should not be uniformly imposed in competitive markets, such as the fixed telephone market, but should be limited to universal services in high-cost areas with lower number of service providers.
- Regarding the designation of qualified telecommunications carriers, it is inefficient to designate multiple qualified telecommunications for the same area and let users select their service provider as this means multiple providers need to be compensated, leading to increased negative social costs.
- If it becomes possible due to technological advances to provide cheaper cellular telephone services that are equivalent to fixed telephone services, it would mean duplicate maintenance costs would be incurred, thus bringing about increased social costs. It would therefore become unnecessary to fulfill the obligation to provide universal fixed telephone services as specified in Article 3 of the Law Concerning Nippon Telegraph and Telephone Corporation, Etc.
- Regulations such as rules relating to the removal of metallic cables must be formulated so that the changeover from PSTNs to IP networks can be carried out smoothly.
- The proposed review of the fund system which was investigated by the Council in April is based on a proposal that universal services cannot be provided unless fees in high-cost areas are increased to be equal to the “average nationwide fees, plus 2σ.” Therefore, in order to maintain the policy goal of uniform prices, the method of recovering NTS costs, which until now has tended to be through compensation, must be drastically reviewed.

[SoftBank Telecom Corporation] (Document 3-4)

- It is necessary to ensure the provision of universal services that meet current needs.
- “Universal access” is a new concept. This concept must be clearly defined in terms of the following factors: the relationship of users to universal services; technologies to be utilized; and, items to be secured.
- The efficient provision of high-quality services at lower costs should be ensured to promote competition between service providers by the following means:
  - 1) Portions of NTT East Japan and West Japan’s access lines should be separated by function;
  - 2) Use of facilities should be shared among telecommunication carriers; and
  - 3) Networks installed by local autonomous bodies should be utilized.
- Studies relating to services to be universally provided should address the following factors:

entities that will have access to universal services; functions; and technologies used to provide universal services.

- Studies relating to the universal provision of cellular telephones services should take into consideration the definition of service provision areas and the huge costs of developing undeveloped areas.
- Studies relating to the universal provision of broadband services should take the market environment into consideration.
- The current universal service system should be evaluated taking into consideration, among other things, the following factors: the necessity of providing grants to NTT East Japan and West Japan, whose overall balance sheets are in the black; how qualified telecommunication carriers' intangible profits are to be dealt with.
- Universal service provision should be secured by the efficient utilization of resources, and should not be dependent on the availability of funds or subsidies.

[eAccess Ltd] (Documents 3-5)

- There should be wide social consensus as to what services are considered to be “essential” universal services to prevent excessive increases in costs. They are minimum-essential services for a safe and rich life. Currently, fixed telephones that are capable of emergency calls fit this requirement.
- Determination of actual fees to guarantee their “affordability” should be made after awareness surveys relating to current basic fees are conducted on users of fixed telephones.
- There should be no disparity between areas in terms of “availability” of services. In terms of fees, a certain degree of disparity between areas is permissible to ensure burdens are shared fairly.
- The timeline for the changeover from fixed telephones to IP telephones, which forms part of the study on the universal services, should not be established until after the plan for the changeover is presented by NTT, which has not thus far happened.
- In terms of the “review of essentiality,” studies should be conducted examining not only the availability of broadband access but also broadband content services.
- If cellular telephones are to be included within the scope of universal services, deliberate studies should be conducted to address the huge costs of developing coverage in areas currently lacking coverage. However, if cellular telephone services can be provided at higher cost superiority over fixed telephones, it is appropriate to partially include cellular telephones within the scope of universal services.
- IP telephones should only be included within the scope of universal services after the following requirements, among others, are met:
  - 1) “essentiality”
  - 2) cost superiority over fixed telephone services
  - 3) verification of NTT's plan (after it is presented) for changeover to IP

networks in terms of costs

4) the elimination of any factor which would hamper competition.

- It is premature to discuss the inclusion of broadband services within the scope of universal services as the market environment is not yet ready and no study has thus far been conducted on content services in terms of the “essentiality” requirement.
- In order to prevent excessive increases in charges, advantages given by the long-term incremental cost method and the benchmark method should be maintained in determining cost calculations.

○ Main points made during free discussions are as follows:

[Universal access]

(Member)

When considering future universal services, whether discussions should be conducted in terms of “universal services” or “universal access is important. NTT’s explanation came from the point of view of universal services. Is NTT thinking of including IP telephones in universal services coverage if IP telephone services become widespread? What does SoftBank Telecom think of enrichment of access? eAccess seems to be making arguments based on the importance of access. Are those arguments correct?

(NTT)

The very concept of universal access is not clear. As shown in Document 3-3, if voice services alone are considered, it is a fact that fees for broadband services are more affordable than those for fixed telephone and cellular telephone services. However, currently voice services are provided in combination with broadband access, and therefore the total burden on users is large. Instead, the point that should be under consideration is the fact that even if broadband access is widely available, some users still only want to use voice services.

(SoftBank Telecom)

On other occasions, our company has been advocating the proposal for a universal line company which would enable the provision of FTTH services for as low as 690 yen. We do not think that the cost of broadband services is an issue. Moreover, if the universal access takes the form of the various communication patterns shown in the visualization chart of next generation broadband services on page 14 of Document 3-4, then we think that universal services based on such access will be spontaneously provided.

(eAccess)

An important point for consideration when conducting studies is the changes in the market environment. In the case of fixed telephones, services and access are integrated, and universal service funds have been applied to ensure their nationwide distribution and maintenance. However, isn’t it problematic to apply that model as is to broadband services? First of all, studies on how to resolve disparities between regions should be conducted. Isn’t it premature to try to extend broadband services throughout the country?

(Member)

According to page 6 of Document 3-3, when any metallic cable is to be removed, it is necessary to notify the relevant DSL carrier four years in advance. If studies are to be made by 2010 to formulate a specific plan for matters such as removal of PSTN facilities in keeping with changeover to IP networks, will there be enough time to make arrangements by starting studies now? What is meant by the statement that such studies are to be carried out by 2010?

(NTT)

We think that it is necessary to start conducting studies earlier than that. Our goal is to have 50 percent of customers using optical access systems. Since it is costly to simultaneously maintain two sets of facilities, we think that it is necessary to make a decision prior to that time.

(NTT West Corporation)

FTTH cables for regional areas are funded by government subsidies as a region-particular issue. With 70 to 80 percent of users subscribing to IP telephone services, conventional telephones subscription is decreasing. Nevertheless, NTT is obliged to provide universal services and therefore continues to incur maintenance costs for conventional subscriber telephone lines. It is true that this only applies to a limited number of areas at the moment, but the number of autonomous local bodies considering FTTH and use of these cables may increase. A doubling-up of networks and costs is already occurring, therefore these matters must be considered in parallel.

(Member)

The terms “universal services” and “universal access” frequently appear side by side in Document 3-4. Where does SoftBank Telecom believe the border between universal services and universal access lies? For example, to which side do switchboards belong?

(SoftBank Telecom)

We have not been able to decide on a clear definition. “Access” relates to users while “services” relates to contents, but we have been unable to decide on the details.

(Member)

The phrase “multiple services in the same area” is mentioned on page 2 of Document 3-3. What is the definition of “the same area”?

(NTT)

There is no specific definition. Cost structures are different from area to area even within the same prefecture, and thus the basic idea is to make as detailed observations as possible.

(NTT East Corporation)

Situations are different from area to area. Provision costs are low in areas with high

population densities and are high in areas with low densities. The question remains, how should services be maintained in high cost areas in circumstances where competition takes place in urban areas? Compensation is necessary in such circumstances, and we understand that the issue as to who will bear the costs will be ongoing even if the changeover to IP telephones is made.

(SoftBank Telecom)

Our company does not believe fees will fall outside affordable limits.

(NTT)

SoftBank is arguing that the separation of functions is necessary from the view of competition. To begin with, there is a basic question as to whether it is necessary to hold these discussions if universal services can be maintained by means of competition only. In reality, there are large cost disparities among different areas. Therefore if fees are established on the basis of costs, then prohibitive fees will result.

(SoftBank Telecom)

We think that the separation of functions is a means of not only implementing competition policies but also realizing affordable fees.

(eAccess)

It is understood that there is a need for compensation in high cost areas. However no specific arguments can be made at present in discussions about universal services in the age of IP telephones, as the plan for changeover from PSTN services to IP telephone services has not yet been presented by NTT.

(Member)

In terms of future universal services, is it correct to understand that emergency calls can be made using IP telephones?

(NTT East Corporation)

At the present time, it is impossible to provide IP telephone services for about the same fees as for conventional subscriber telephone services, as independent costs are incurred in the provision of IP telephone services. It is also impossible to supply electric power during electricity failure.

(Member)

As far as price caps are concerned, price caps and universal services are two different matters. Am I to understand that if competition occurs, no price caps are needed in the relevant areas?

(NTT)

The price-cap system is still available from a policy point of view as a means curbing fees. However, since the greater part of fees is determined by competition no restrictions are needed. Regarding the provision of universal services, where no competition takes place, if policy dictates that fees in high cost areas are to be brought down, then it is necessary to take relevant measures.

(Member)

The price-cap system only sets upper limits on fees—prices can be lowered freely. It is possible to freely set fees within the cap limits.

(NTT)

Restrictions are all the more unnecessary in the market environment where competition pressure causes prices to decrease. The restriction method known as the price-cap system is fine in cases where it is merited by scale. However it is unreasonable to continue to impose restrictions under circumstances where scale demerits occur in the maintenance of fixed telephone services. At this stage it is difficult to improve productivity. Therefore, we have doubts about restrictions imposed in order to improve efficiency.

(Member)

Won't technological innovation cause things to proceed in a favorable direction from now on? Are there cases where universal service costs have been lowered due to such factors as changeover to IP telephone services? Moreover, if, by using the optical fibers networks of autonomous local bodies, it becomes necessary to be subjected to both IP telephone services and conventional subscriber telephone services, then I have a feeling that it will be difficult to use them efficiently.

(NTT)

We are considering the issue of cost reduction for both broadband services and IP telephone services. At the present time, it is still true that broadband services are more costly.

(Member)

Isn't it the case that if PSTN services shrink and progress is made in changing over to IP telephone services, then provision costs will drop? Isn't it the case that if the greater part of PSTN services continue, then no progress will be made in the changeover to IP telephone services, thus increasing burdens on NTT East Corporation and West Corporation? For these reasons as well, I would like NTT to issue the switchover plan soon.

(Member)

This question relates to cases where equivalent services are offered at low costs in the future. Is it assumed that multiple providers of universal services will exist within the same area?

(NTT)

That situation is conceivable. Even in such a case, under the current relevant law, NTT is obliged to provide universal services, with the result that maintenance costs for conventional subscriber telephone lines will be generated continuously. We think that if any other economical means exists, then it is not necessary to oblige NTT to provide universal services.

(Member)

My response to the presentations given this time is that it is regrettable that there were no suggestions as specific as I had expected. I would like positive suggestions to be made in the next and subsequent meetings.

(Member)

With regard to the universally provided telephone services mentioned in Article 3 of the Law Concerning Nippon Telegraph and Telephone Corporation, Etc., is it the case that no telephone services other than voice analog fixed telephone services are taken into consideration?

(NTT)

So far, in the course of conducting our business we have not taken other telephone services into account. Therefore, our thinking is along that line.

(Member)

Isn't it the case that there will be no problem in terms of the law, even if the changeover is made to IP telephone services?

(NTT)

We think that this is not a matter for NTT to decide. We believe that it will be decided by social consensus.

(Member)

Regarding emergency telephone calls, many of such calls are currently made using cellular telephones. Isn't it the case that in about five years, not many people will be using fixed telephones? It is necessary when having these discussions to consider what the situation will be, for example, in 2010 or 2020?

(Member)

In the first place, discussions should be held about the contents of universal services to decide who is to assume duties and what the scope should be. When the current system was developed there were arguments about what should be done about Article 3 of the Law Concerning Nippon Telegraph and Telephone Corporation, Etc. If the concept of "telephones" as described in Article 3 of this law is fixed from the beginning, it will be impossible to conduct wide-ranging discussions on future visions of the universal service system. Shouldn't legal consolidation, including Article 3 of this law, be dealt with after future visions of the universal service system are discussed?

(Member)

eAccess referred to content services in the context of studies of the "essentiality" of universal services. As telecommunication carriers, what do the observers think about further expanding the range of universal services in such a way as to enlarge the scope of fixed telephone services, which permit emergency calls to be made, in consideration of the fact that broadband services are utilized in education and medical care?

(NTT)

The NTT Group is considering dealing with broadband services for education and medical care on a business basis. The universal service system requires discussion about compensation in unprofitable high cost areas, and thus this system should be premised on services that cannot be pushed on a business basis. In conducting discussions on the expansion of services, it is necessary to consider how to strike a balance with respect to the issue of accompanying social burdens.

(SoftBank Telecom)

Discussions should first be conducted on how to push services on a business basis even in high cost areas.

(3) Others

- The 4th meeting is scheduled to be held on May 29, 2007

Details will be posted on the Website of the Ministry of Internal Affairs and Communications.

End