

Outline of Proceedings of the 6th Meeting of the Study Group on Mobile Business

1. Date and time: 15:00 to 17:10, Thursday, April 26, 2007

2. Location: Conference Room 1, Ministry of Internal Affairs and Communications

3. Attendees

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

Aida, member; Fujiwara, member; Hasegawa, member; Iizuka, member; Ishiwatari, member;
Izumi, Deputy Chairperson; Kita, member;
Saito, 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; Suzuki, Director of the Telecommunications Policy Division;
Taniwaki, Director of the Tariff Division; Ohashi, Director of the Computer Communications
Division; Ninomiya, Senior Planning Officer of the Tariff Division; Katagiri, Assistant
Director of the Tariff Division; Shirai, Assistant Director of the Tariff Division; Shibazaki,
Assistant Director of the Computer Communications Division

4. Agenda

- (1) Results of overseas surveys
- (2) Sorting-out of issues

5. Outline of the proceedings

[Mr. Kita, a member, presented the results of overseas surveys.]

(Member)

According to page 19 of the reference material, carriers' original terminals have emerged. In Japan, all terminals are original and are equipped with function locks rather than with SIM locks. It may be a sound practice to carry out differentiation in new services for reasons of competition, but it does not seem sound for function locking to be applied by data-based services. What is the approximate number of usable functions of an original terminal when the SIM lock is released?

(Member Kita)

In contrast to the situation in Japan, almost all functions are usable. The functions in portions corresponding to what is called "i-mode" in Japan are not usable. In this regard, it appears that all carriers want to realize differentiation in the course of adjustment involving NW platforms and terminal platforms. All carriers seem to be fighting against manufacturers.

(Member)

I believe such is always the case with relationships among manufacturers, carriers, and users.

(Member)

I would like to ask a question from the point of view of fair competition. In Japan, people concerned talk about how fairness should be argued and how advertisements should be run. In Europe and North America, competition has progressed, and it seems that sales models are flexibly changed in keeping with user needs. Not only advertisements, but also sales explanations, are important in permitting users to make choices. I would like to know the status quo of such advertisements and explanations. Moreover, I would appreciate you informing me as to the current situation of consumer problems if you come to know them through data collection.

(Member Kita)

As shown in the photograph on page 10 of the reference material, the poster says that terminals are all free of charge and explanations are written in very small characters. This situation is the same as in Japan. For example, when I visited a mass retailer called “4u,” I was told that the upper limit of no-charge calls would be specially increased to a level higher than in the regular plan. Thereafter, I went to a carrier store to ask if such a tariff could possibly exist. As a result, the arrangement turned out to be such that a contract for a plan one rank higher the regular one would be concluded and that balance would be refunded in 18 months. That is to say, there are actually cases where proper explanations are not given. For example, there was a case where a problem arose between Vodafone and a mass retailer occurred over treatment of customers, with the result that the retailer stopped dealing in Vodafone’s merchandise. Consumer-related troubles occur due to heated competition. It seems that such a situation is similar to cases in Japan.

[Major issues]

- The Secretariat explained “Major Issues in the Study Group on Mobile Business (Document 6-2).”
- Major statements made by members during free discussions are as follows.
 - In Japan, there is no standard for functions in regard to websites. I hear it said that functions comply with WAP, but it is just that subsets are acquired. In various foreign countries work (profiling) has been carried out toward achieving uniformity, but no such work has been performed in Japan. I believe this is why terminal locking occurs. I presume that it is advisable to hold discussions on how to conduct the efforts on an overall basis.
 - How are sales incentives handled in terms of accounting in relevant companies? In which expense item are such incentives included? How are sales incentives handled on balance sheets? How do relevant companies handle sales incentives, which are the kind of investment for which assured recovery is not likely? I would appreciate it if the Secretariat would prepare a summary of how sales incentives are handled in terms of

accounting and report such at the next meeting of the Study Group.

- As regards the content of page 6, I can understand the statements on bundling and unbundling among layers and on opening. Apart from the above, I think that in reality, as a general practice, operations are performed in such a way that terminal services and network services are integrated. I believe that whether or not such operations should be opened is related to standardization and profiling. I am therefore of the opinion that it is advisable to deeply study that viewpoint. The reason for the above is as follows: when the changeover to IP telephones occurs, no peculiarity will surface, even if equipment competition is conducted, but a phenomenon is likely to take place in which terminals will be fixed by services and peculiar applications. Opening and standardization will then probably constitute big factors. I therefore feel that it is important to give consideration in such a way as to consider that viewpoint.
- In presentations by relevant companies, it was reported that it was impossible to establish connection even if SIM locking was removed. What discrepancy made it impossible to establish connection? Are data formats for applications inconsistent? Are methods of entering data inconsistent? I believe that it is necessary to clarify the cause of any failure to establish connection. If a discrepancy exists in spite of rationality in relation to hardware, then I feel that such failure is inevitable. In this sense, I believe that it is necessary to hold discussions on a case-by-case basis.
Moreover, apart from sales incentives, there are various purchase point systems. I would appreciate investigations being conducted on how such practices are handled in terms of accounting.
- As regards SIM locking, in the case of some companies, terminals can be used even if SIM cards are replaced with other ones, provided that the SIM cards are supplied by the same carrier. In the case of other companies, unlocked terminals brought in from abroad can be made operable even if Japanese SIM cards are inserted. Besides, it seems that in the case of still other companies, terminals cannot be brought into operation when SIM cards are replaced with other ones even though the SIM cards are supplied by the same company. How do relevant companies explain such matters to users? I hear that even under the current circumstances, if appropriate terminals are chosen depending on time, place, and occasion, and if SIM cards are replaced with compatible ones, then such terminals can be made operable. It seems that the situation differs from company to company. I would appreciate it if this matter could be summarized.
- Fairness and latitude were mentioned in regard to sales incentives. Page 24 of Member Kita's reference material says that even if period-restriction-type sales schemes are introduced, it turns out that a sense of unfairness will persist. I would appreciate an explanation of what the above means. If, for example, a period restriction model is presented, and if a user chooses it, then the dealer's own sales incentive will be recovered through its own communication fees. I therefore presume that this dealer does

not need to bear other entities' incentive costs.

- What I pointed out here means the following: for example, if the pricing is such that when the terminal is brand new, the basic fee is 35 pounds or more and the terminal is zero pounds, then it is no problem for the purchasing user to conclude a contract under the condition of period restriction. However, if the price of the terminal drops, with the result that the basis for the zero-pound terminal comes down, then not all of the additional cost incurred in acquiring that user will be able to be recovered by the carrier. This is what is meant by saying perfect fairness cannot be ensured.

In this connection, I think that what follows is concerned with items 1), 2), and 5) on page 11 of the reference material on issues. In Europe and North America, users who concluded contracts for 35 pounds, for example, will continue to pay basic fees even after incentives have been recovered. However, some of the users who subscribed to unnecessarily expensive plans with only the aim of purchasing terminals at low prices realize this fact. Only some of such users can switch to less expensive plans. Now please refer to page 15 of Document 6-1. In the case of Virgin Mobile, basic fees will uniformly be reduced by 20 percent after termination of the restriction period. I think that in order to solve items 1), 2), and 5) on page 11 of the reference material on issues under the current circumstances, installment sales will have to be conducted, to put it briefly. SoftBank Telecom Corporation is implementing the following plan. Terminals are purchased at list prices. If they are purchased at lower prices, then balances will be paid in installments. The problem is whether the price of 980 yen for the current SoftBank Telecom Corporation White Plan will be reduced after terminal incentive costs have been recovered. When users with high ARPU and users with low ARPU exist, then it is a fact that the latter users can use networks thanks to the existence of the former users, since fixed costs called network maintenance expenses are incurred. I presume that it is better to conduct an analysis to discover what the actuality is. It seems to me that it is advisable to conduct an analysis based on actual data to determine who is treated the most unfairly in reality.

- It is important to hold discussions based on actual data. The prices of older model terminals often drop. This is the case with television sets, too. The reason why the prices of older model terminals drop may be that they do not sell well or that design costs have been recovered. In contrast to the above, when a carrier purchases one million terminals in bulk for sales purposes, I think that there is a problem of who is to bear the amount by which prices are reduced, since there is no change in the purchase cost. Nevertheless, I presume that it is a general practice that, on an overall basis, carriers first sell terminals at high prices and sell them at lower prices later on. What is the allowable range in terms of bearable limits?

-I think that you are right as far as products sold on a nonreturnable basis are concerned. In this regard, I believe there is no problem with cell phones, since purchase costs are

- recovered by the means of monthly basic fees.
- To be sure, that problem can be solved if terminals are sold in installments. Even if they are sold in installments, the fact remains that prices of older model products come down. Therefore, it should be arranged that users would be sufficiently informed to be able to choose whether purchase prices will be recovered by basic fees or by installment payment amounts.
 - I also think that extreme unfairness should not be allowed. I believe that it is advisable for the following information to be disclosed so that users can make choices: what the cost structure is for the users' part; and whether the users will lose or gain.
 - It is important that steps be taken to permit users to pass judgment on fairness and unfairness. In order to realize the above, I feel that accounting should be made properly transparent. If part of terminal costs is included in communication fees, I think that what the fees would be if such included costs were eliminated should be made clear. I believe that the results of the above will contribute to the establishment of criteria for the calculation of connection fees and wholesale fees for MVNOs. It is also necessary to verify the purchase point system properly. In any case, I think that it is important to make it clear whether costs are proper.
 - In the past days of communication monopolies, terminals and services were completely linked together. At the time of fixed communication liberalization, most countries prohibited such linkage. In Finland, such prohibition was, in reality, applied to wireless communication as well. This fact led to the success of Nokia. This was not the case in many countries. In South Korea, this prohibition was applied some time after the liberalization. In the past, when terminals were sold on a nonreturnable basis and terminals and services were linked together, NTT was the only company that supplied cell phones. The opening of mobile terminals cut off such linkage. At that time, incomplete linkage was actually allowed.
 - A statement on page 14 says that if it is possible to combine terminals with communication service layers freely, then the effective significance of SIM locking will be lost. This sentence is difficult to understand. I presume that it is necessary to give a more detailed explanation.
 - I think that it is questionable how long conventional cell phone systems will last. I believe that this matter will have a great impact on business patterns of mobile communications carriers. Telephone communication starts with voice, on which data ride, resulting in a combination of voice and data. From now on, voice will ride on data. Then, basically, the upper portion and the lower portion will become separated from each other, and common platforms will be built. I think that it is important to hold discussions about in which areas of platforms cooperation will be provided and in which areas competition will be made. I hope that close attention will be paid to this point, and that it will be discussed along with the issue of soft landing.

- It will be inconvenient if a certain product is the only one available. It is therefore necessary that products be capable of being chosen. In future broadband communications, open-type WiMAX and WiFi will occupy a large portion. In Japan, Europe and North America, telephone carriers are going to branch out into that portion. I feel uneasy about what business models are going to be based upon. If even WiFi is enclosed, a very strange situation will arise. In the case of 3.5G, portions up to WiFi and WiMAX will be handed over vertically, and no enclosure occurs. If it is desired to use vertically integrated models, it is permissible for this to be done. However, if carriers using public radio waves insist that this is the only choice, then I think that such a stance is not ethically permissible. It is true that conventional enclosure models played some roles in certain phases. However, this practice is evidently not compatible with the direction of technological development in the world. I think that a self-analysis should be performed regarding the fact that Japan was the best in the world in this field in 2003, but now this is no longer the case.
- I think that depending on future developments, WiMAX will have so great an impact that the current discussion will become unnecessary.
- What follows may be related to the current discussion. I wonder what universal service is like. Universal service for fixed telephones has already been discussed. I believe that in reality, universal service should be shown to users in the framework of mobile services as well. Whether universal service consists of voice services seems to be a different thing. Discussions should be held on what universal service is, on condition that the changeover to IP telephones will occur. I think that, based on the above, it is necessary to hold discussions on what WiMAX and mobile business should be.
- Concerning the method of straightening out major issues, it is all right that in Chapter IV, the title, "Other Study Items Aimed at Vitalization of Mobile Business," is placed at the end. In this connection, I think that we should remember to have a perspective on further development when discussing vitalization. In particular, it is necessary to have a perspective on what should be realized from now on. Otherwise, whether it is permissible to put an end to studies at the same time as the issuance of the report scheduled for this summer is questionable. A question about what should be kept in mind in specific terms with regard to technologies and timetables was asked. This is a reasonable question. What I mean is as follows: it is not sufficient just to aim to vitalize current business; it is necessary for not only vitalization be carried out, but also for measures to take full advantage of the next opportunity to be secured as a pillar. I do not mean that the current documents are insufficient, but I suggest that the title of Chapter IV be revised by using an expression that is a little more elaborate.

[The future schedule of the Study Group was explained.]

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