

## Universal Service Committee—18th Meeting Summary of Minutes

### 1. Date and Time

Tuesday, May 15, 2007; 15:30–17:00

### 2. Location

Conference Room 1001, 10th floor, Ministry of Internal Affairs and Communications

### 3. Attendees (honorifics omitted)

#### (1) Committee Members

Kurokawa (Chair), Sakai (Vice Chair), Sugaya, Sekiguchi, Tokai, Fujiwara (a total of six members)

#### (2) Secretariat

#### (3) MIC Representatives

Sakurai (Director-General, Telecommunications Business Department), Taniwaki (Director, Tariff Division), Ninomiya (Senior Planning Officer, Tariff Division), Suzuki (Deputy Director, Tariff Division)

The secretariat confirmed the distribution of documents before proceedings began.

The secretariat gave an explanation based on Documents 1 and 2.

Vice Chair Sakai: The estimate for reimbursements has increased. Generally speaking, is this caused by the reassignment of non-traffic-sensitive (NTS) costs?

Secretariat: Basically, yes.

Chair Kurokawa: Out of 53 carriers that bear interconnection charges, 50 are asking their consumers to share the costs. Under the circumstances, if the current reimbursements trend continues upward, it is likely that consumers will be forced to share all costs.

Secretariat: It was not initially assumed that nearly all carriers would ask consumers to share costs. Furthermore, basic charge competition has not increased as much as expected. Taking these factors into account, consumers are likely to reject cost sharing if the differences in charges between different classes of stations remain unchanged and the costs borne by users continue to grow.

Sugaya: The report on the inquiry into LRIC-based interconnection charges issued on March 30, 2007 included input from consumer associations. They insisted that costs should not be passed on to consumers. How is this request being responded to?

Secretariat: In response to the requests contained in the report, on April 6, 2007 we made a written request to organizations that support basic telecommunications services to request carriers to reduce or control the consumers' share of the cost burden.

Sugaya: Did any carriers take concrete action after receiving the request?

Secretariat: Not yet, actually, but it should be noted that the revision of the ministerial ordinance addresses the review of the method of calculating reimbursements, which was one of the items requested in the council report.

Sugaya: Although requests were made to control cost sharing, no carriers have taken any action. The current situation will probably be clearer if the draft report includes this fact as background to the review.

Although the report gives examples from the United States to support the use of "mean national cost + (2 x standard deviation)" as a benchmark, I am concerned that the program will have to be revised in Japan if the U.S. system is revised in the future.

Kurokawa: I don't think that the background of the review has to be discussed in too much detail. It is appropriate that the amount of approximately seven yen should be maintained in the future. If the benchmark is changed to "mean national cost + (2 x standard deviation)" to keep this level at seven yen, I agree to the revision.

Sekiguchi: It is appropriate to include examples from the U.S. system as a rationale for revision, but the U.S. system incorporates elements of political support from states. In contrast, the self-help principle is employed in the Japanese scheme. What I mean is the two systems are not necessarily identical.

Secretariat: The United States, one of the leaders, employs the benchmark approach. There were apparent differences between the U.S. system and our draft revisions; however, the U.S. system was used as support for the determination of "2 x standard deviation" as the

appropriate benchmark.

Fujiwara: How long do you think “for the time being” will be? And what is the object of the discussion?

Secretariat: These revisions will be made on an emergency basis. They have no permanent effect. The system is required to be reviewed about three years after implementation. We expect that the current system will be effective for another two years. It may continue for a further period, depending on the revisions.

Fujiwara: In the survey of the last review, some carriers insisted that a uniform policy instructing consumers to bear the cost should be adopted, but the final decision was left to the discretion of the management of carriers. The seven-yen charge to consumers was what caused this revision. (If carriers bore the cost, it would not have become an issue.)

The draft report should be consistent with earlier ideas and policies or it will be criticized as being capricious. In addition to a short agenda point about reduced universal service fees, the remaining issue of the charge differences between different classes of stations should be discussed.

Tokai: The initial problem was the issue of interconnection charges. In fact, the discussion on the reassignment of NTS costs to consumers preceded the operation of the universal service scheme. Why was the focus of discussion placed on the treatment of NTS costs? Because increased voice over internet protocol (VoIP) has resulted in decreased fixed-phone traffic, and this requires other measures in addition to adjustment using LRIC-based access charges. Challenges related to NTS costs were not overcome during the discussions held by the Basic Charge Committee, which was established later, but were finally resolved through Universal Service Committee meetings in 2002 by employing fund-based measures under the concept of cross-subsidization by NTT East and NTT West. Their discussions also encouraged the introduction of the universal service scheme in this country. It seems that the basic structure for handling NTS costs remains unchanged.

The Telecommunications Council report issued on March 30 required that the issue of the reimbursements calculation method review be considered, with the aim of reducing the costs borne by users. In response, MIC requested the Telecommunications Business Sub-Council to propose a review. I think the proposals are worth discussing, criticism of capriciousness

notwithstanding.

Kurokawa: The ideal situation with regard to the universal service scheme would seem to be that costs needed to maintain it be shared by all interested parties. It is not fair if users bear the full costs. I think it would be appropriate to resolve the issue by including access and basic charges. Because most carriers require users to bear the costs, this revision may be necessary, but I think the policy on the revision should only be established after considerable deliberation.

Sekiguchi: The reassignment of NTS costs to the basic charge from interconnection charge has only worked in terms of the NTS costs, although the initial intention was to control the marked increase in LRIC access charges. Attachment 1 indicates changes in reimbursements prior to the revision on page 5. The figures were produced taking the provisional reassignment of NTS costs into account. This means that the increase in reimbursements was assumed at that stage. However, the impact of such an increase, or final increase in user costs, is different from our original expectation. The costs equivalent to “2 x standard deviation” will be shared by NTT East and NTT West following the revision. This will change the cost-sharing ratio among carriers. To achieve a fair ratio, interconnection charges should be adjusted. If a mechanism is built in to prevent the final costs to whoever will bear them from growing following the revision, I agree with the revision.

It would be easy if carriers were banned from adding increased reimbursements to consumer charges, but the Antimonopoly Act prevents such acts. I think, therefore, the draft revision is acceptable as the second best solution.

Sakai: If maintenance costs were increased in line with the spread of IP phones, it would be easier to take action, but the fact is that the reassignment of NTS costs is the main factor driving increases in maintenance costs, which has been recognized. The problem will not be eliminated if it is addressed within the framework of the universal service scheme. Initially, discussion began according to the policy of comprehensive operation of the scheme including access and basic charges. If the draft revision focuses on rebalancing the entire system, rather than discussion on individual topics, it will be accepted. I am concerned about using examples from the United States because the rationale for using them will have to be reestablished every time the scheme is revised. I think strongly established rationales are no longer necessary.

Sugaya: I agree with proposed revisions listed in the draft report as provisional measures. However, the issue of rebalancing the entire system should be deliberated by the council or commission members.

Regarding the policy of tariff limits, carriers are required to acknowledge that seven yen is the most they will be allowed to pass onto to their consumers. The current-year calculation of the amount borne by consumers based on the recent data happened to come up with the figure of seven yen per user, although it should be noted that this is not necessarily a reasonable amount.

Kurokawa: As part of the phone system, the first cross-subsidization mechanism among private carriers was employed to compensate areas disadvantaged in terms of access to telecommunications. It is, I think, significant because taxation was not used.

The initial purpose of the scheme—to require dominant carriers to incorporate efficient, appropriate technology—still stands. The scheme was reviewed because the council made a request to deliberate the issue of reduced cost sharing in the context that the competitive environment has changed and the costs borne by users were expected to increase.

Secretariat: There were two major changes in the market that were the impetus for the review. One was increased competition due to wider use of IP-based telecommunications rather than competition related to basic charges, which was what was initially expected to happen. The other was the fact that almost all the carriers eventually requested their users to share the costs.

There were concerns about the change in the cost-sharing ratio among carriers following the revision of the scheme. The issue will also be deliberated in parallel by the access committee, as suggested by the requests listed in the council report. The charge of seven yen, the initial item of discussion by the council, may be a benchmark as the council requested a lower figure.

Fujiwara: Based on the requests listed in the council report, I think that the background section should also include mention of the change in policy from “the decision on costs to consumers was left to the tariff strategy or discretion of the carriers” to “it is desirable to determine a policy for reducing the amounts of costs borne by consumers if possible.”

Sakai: Will the “mean national cost + (2 x standard deviation)” be appropriate in the future, in terms of complying with potential changes? The charge of seven yen is recognized relatively widely, but rationalization is not always necessary to prevent the future restriction of policy options.

Fujiwara: Because the specific period is not provided, as suggested by the telling phrases of “on an emergency basis” and “for the time being,” it may be able to respond to future changes.

Kurokawa: Relatively speaking, a full discussion of the background to the review is given, but I think it could be improved by more discussion regarding competition policy.

Fujiwara: Are the two policies of maintaining the seven-yen charge and avoiding increasing the costs to consumers compatible? What is the relationship between the council requests and the draft revisions?

Secretariat: In the context of management discretion, carriers should not be banned from requesting consumers to bear the costs. The intention of the requests listed in the council report is to examine potential measures, if any, to control the potential increase in costs to consumers.

Secretariat: Because the revised scheme will be effective from the next fiscal year, problems have to be reviewed immediately. Based on the discussion today, we will modify the draft report.

#### Miscellaneous

- The draft report will be modified by the secretariat, taking the comments made by members into account. Committee members will be asked to confirm alterations of the text. The final decision will be made by the chair.
- The chair will participate in the collaborative information-gathering session of the Telecommunications Business Sub-Council and Interconnection Committee, as the representative of the Universal Service Committee.
- The modified draft report will be submitted to the commission around July.