Outline of Proceedings of the 7th Meeting of the Study Group on Mobile Business

1. Date and time: 1400 to 1615, Thursday, May 31, 2007

2. Location: Special 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;

(2) Ministry of 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; 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) Recent trends related to mobile business

(2) The accounting arrangement pertaining to sales incentives, as well as status on SIM locking

(3) 2nd Draft of Report on Major Issues

(4) Unfairness among users, as well as creation of new mobile markets

5. Outline of proceedings

<The Secretariat explained how to proceed with today's meeting.>

< (1) The Ministry of Internal Affairs and Communications explained Agenda item (1), "Recent trends related to mobile business". >

- ○ Status of studies in the "Study Group on Communications Terminals in IP Era"
- ○ Evaluation of the state of competition in the telecommunications field in 2006
- ○ Assignment of frequencies to broadband wireless access (BWA) systems

(Member)

With regard to communications terminals, this Study Group's understanding seems to be that terminals and services tend to be provided in such a way as to be integrated, thus the distinction between devices and services has become unclear. Am I right to understand that in the Study Group on Communications Terminals in IP Era, discussions are held on what should be done to separate devices from services?

(Secretariat)

In terms of the course of action, you are right.

(Member)

This question concerns delineation of responsibilities, which constitute the second issue in the Study Group. When networks based on horizontal coordination are formed in the future, there will be a fear that it will be difficult for users to discover where to call for information. Are discussions held on such a matter?

(Secretariat)

Various manufacturers and carriers participate in the Study Group, where discussions are held about delineation of responsibilities. Opinions were offered that services and business models should be considered and classified according to type, thereby making studies of models for the sharing of responsibility. We think that such a matter will constitute one of the items to be included.

(Member)

I am much concerned about the following. First, there will be a matter of whether or not communication is feasible. Second, unlike in the past where systems were homogeneous, it will be a matter of course that systems will comprise heterogeneous structures, and as a result, there will be the matter of whether or not devices themselves go into operation. That is to say, this will be a matter of delineation of responsibilities pertaining to the situation where devices manufactured by different manufacturers will be connected together. In other words, I think that the issue of delineation of responsibilities will arise pertaining to devices, and also relevant to communication. Has there been progress in the treatment of such issues?

(Secretariat)

In the Study Group, mention is made of the two issues pointed out. With regard to delineation of responsibilities for devices, there has been an understanding that it is necessary to hold discussions in such a way as to include the setup for certification. This is the current situation.

(Member)

What follows is true of this Study Group also. In the case of Internet-based matters, the current trend is that no decision is made as to what profiles, based on what protocols, are to be used to promote activities. I can understand the argument that it is inconvenient if profiles are established at too early a stage, however if the establishment of profiles is delayed, so many standards will be created that control is lost. With regard to NGNs, I request that no wrong judgment be passed on the timing. In this sense, I hope that this matter will not be left only to carriers. I would like the government also to push it forward.

(Member)

With regard to evaluation of competition, the paragraph on the existence of market power on page 5 concludes that such power exists. The paragraph on the exercise of market power states that last year there was a fear of this power being exercised, but that this year the possibility that market power will be exercised is low. The above is understandable in the case of the independent type. As regards the cooperative type, I presume that the fact that the possibility of market power being exercised is low means that such power does not exist. Am I right?

(Secretariat)

We have been pushing this point forward by consulting various experts. As regards the existence of market power, we check for the presence or absence of effective competition in relation to the necessity of advance control, thus what you pointed out in regard to the independent type is correct. In the case of the cooperative type as well, in light of the market structures, the possibility that cooperation will be carried out in the absence of advance control is not zero. The top three companies have high shares. Moreover, the HHI is high. Due to these facts, the possibility of cooperation being present cannot necessarily be denied. Therefore, that cooperation is “present” is indicated. It is concluded that, in view of the market environment, the possibility is low that such power will actually be exercised. There was an argument that, as you pointed out, market power did not exist. In regard to this point, the advisory board held discussions, and the high value of the coefficient for the market concentration was considered. Market power is indicated as “present” as a result.

(Member)

With regard to the same point, market power, which was indicated as being “not much exercised” last year, was indicated as being “not exercised” this year. Am I right to understand that the reason is as stated there? When thought is given to this industry, market share is not all that matters. Market power such as terminal procurement power is present in invisible areas beyond the scope of the Telecommunication Business Law, and this fact constitutes an issue. Aren't such points reflected here?

(Secretariat)

Many factors are taken into account, such as the maturity and transparency of the market, for the purpose of considering not only items expressed in numbers, such as market share and coefficients of market concentration, but also other items. Institutional guarantees including advance control are provided on the assumption that the top carrier not only has high comprehensive business ability, but is also capable of having market power. We therefore think that, as a whole, we are not in an environment where market power is exercised.

(Member)

I believe that in order to think about what things will be like five or 10 years from now in the same area, it is indispensable to know market share by generation. Do you have such data?

(Secretariat)

Relevant data are based on those reported by carriers. However, no data by generation exist.

< (2) The Secretariat explained the accounting arrangement pertaining to sales incentives, as well as the status of SIM locking. >

(Member)

According to page 5 of the Document, some carriers include part of sales incentives in connection fee costs, while others do not. Why is there such a difference? If the reasons for the difference in handling can be stated, I would like to be informed of them. In the case of infrastructure business involving fixed costs, the premise of the maintenance of networks is that users exist. I therefore feel that it is logical for part of sales incentives to be included in connection fee costs. I would like to ask the reason why some carriers include no part whatever of sales incentives in connection fee costs.

(Secretariat)

We have not conducted any hearing regarding specific reasons yet. In fact, some carriers regard such costs as those for expanding networks, while others do not feel so.

< (3) The Secretariat explained the major issues. >

○ Major statements made by members during free discussions are as follows.

- ○ By way of a basic point of view, things are going well in some areas of current mobile business while problems have arisen in other areas. It is my understanding that the whole situation would be divided into a first phase and a second phase, and that thought would be given by dividing each phase into the period up to 2010 and the period thereafter.
- ○ What follows is a request. Discussions are held by using the concept of layers. Usually, the terminal layer is placed at the bottom. In this regard, I believe that the concept of a customer contact layer is important in the world of mobile business. It seems that matters such as selling to customers, handling of claims, and implementation of customer support will become important. Customer contact layers where careful explanations are given to the general public in regard to services and fee plans, which are expected to become more complicated and sophisticated from now on, are requested to be properly developed. I presume that this is also necessary for the growth of the ICT industry of Japan.
- ○ Page 5 mentions the classification of phases. I think that it is also advisable to mention specifically what is considered to actually occur. If it is expressly stated that the full changeover to IP telephones will occur around 2010, for example, I presume that it will

be easier to form mental images.

○ I believe that we should have a somewhat neutral view of the future business model in this Study Group. There is a possibility that various services will come up from now on, however the current situation is that carriers' logic is strong. For example, priority is not placed on the accountability to customers, but on how to survive competition. I think that the report on major issues and the Draft Report should clarify this point and should mention how to achieve the accountability to end users.

○ As a whole, what is done, and for whom? The current situation is as follows. Carriers have done various things for their own competition, end users are left behind, and manufacturers are placed in a complicated situation.

○ I recommend that emphasis be placed on the content of Paragraph 4) on page 12. When competition policies are considered, there is a possibility for sales incentives to constitute an impediment factor when manufacturers compete to develop excellent products. It is important to conduct studies on whether or not this is the case. When customers look at products, they make an appraisal of the balance between excellence of a product and its cost. Usually, customers choose products by comparing them to other products. However, the current situation is that it is difficult to have any idea of equivalent values. I looked at the comments made by manufacturers during unofficial hearings. There was one opinion that stated it was impossible to manufacture terminals in which costs were linked to functions. This matter is important in ensuring the incentive for manufacturers to develop various models compatible with costs before going out into the world in the future.

○ What follows concerns the term "diversification". If a service specializing in a certain function or a service extending over multiple layers is to be provided, and if such a service does not fall into the category of diversification, but comes under the category of development of services or terminals specializing in a certain function, then I presume that it is better to describe that service separately.

Paragraph 6) on page 13 mentions "players other than telecommunications carriers (vendors and content providers)". In this regard, content providers include various types. I think that some of the content providers supply solutions as well. I therefore suggest that it be stated, for example, that vendors and content providers implement operations by involving other business categories. In the current situation, service domains not covered by the three carriers are not assumed. I hope that the method of making statements will improve, since this matter is very important when consideration is given to user convenience and market diversification.

○ Services and terminals which are planned by carriers and which appear on the scene are limited to those based on the greatest common denominator. I think that in the current situation, many of the functions provided are considered unnecessary by users. It is important, therefore, to introduce ideas of people working in domains other than those of telecommunications carriers.

What follows concerns MVNOs. According to the licensing policy for next-generation broadband wireless access systems, it is stated that MVNOs will be obligated to be licensed. Am I right to understand, basically, that an interface setup for any outside carrier constitutes a mandatory requirement?

○ Page 25 mentions the utilization of user IDs. Description is limited to content only. However, many other items are expected to be relevant, such as software and services, therefore I feel that such choices are also necessary.

○ Content providers and web sites have recently appeared on the scene. They only pertain to the world of the current virtual Internet. From now on, when people go around outdoors carrying mobile devices, the Internet will only play a partial role. I think that mobile devices, which will see frequent use in the real world, will play an important role.

○ On occasions such as hearings, it was emphasized that in reality, test costs would be incurred in the standardization of platforms. I presume that the government should take support measures, among others.

< (4) Mr. Kita, a member, explained unfairness among users, as well as the creation of new mobile markets. >

(Member)

I feel that the influence of broadband mobile wireless access is excessively strong in this area. There is a statement on 4G for cellular telephones. As soon as a broadband mobile wireless access rate exceeds a certain bit rate, voice will be transmitted as well as data. Then it is meaningless to make arguments separately. In that sense as well, I presume that it is necessary to hold discussions that consider broadband mobile wireless access.

(Member)

There is a possibility that low cost MVNOs will greatly change due to the advent of WiMAX. In this connection, there seems to be a move to restrict Skype by means of WiMAX. In this regard, however, I think that there is an argument that the establishment of broadband fees is not reasonable. Nevertheless, I am afraid that things will become very complicated if this argument is considered.

(Secretariat)

We agree with what you have just pointed out. In the future, BWA will appear on the scene. So will WiFi. There is no end to what we have to consider. Be the matter as it may, we would like to give consideration on a restrictive basis. That is, mobile access includes diverse types. We would like to limit competition policies to the extent where efforts to realize diverse services are made. This time, apart from technical studies, we would like to prepare a report from the viewpoint of realizing the following: ensure technical neutrality as much as possible; and clarify what should be done to broaden the range of user choice by not preventing many technologies coming out.

(Member)

Skype is not a Japanese company. In this regard, I think that in the age of diversification to come, it is important to develop an environment, in Japan, where good ideas will be born and relevant Japanese companies will be able to go out into the world.

End