

Competition Evaluation Advisory Board Summary of Minutes (6th Meeting)

1. Date

Friday, July 6, 2007, 2 p.m. to 4 p.m.

2. Location

Conference Room 1101, 11th floor, Ministry of Internal Affairs and Communications

3. Attendees

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

Koichiro Agata; Takanori Ida; Hiroshi Ohashi; Yosuke Okada; Masatsugu Tsuji; Sawako Nohara; Shuya Hayashi; Masayuki Funada; Masako Wakui

- Ministry of Internal Affairs and Communications

Sakurai, Director-General of the Telecommunications Business Department; Suzuki, Director of the Telecommunications Policy Division; Imagawa, Senior Planning Officer of the Telecommunications Policy Division; Nishizawa, Deputy Director of the Telecommunications Policy Division; Oya, Deputy Director of the Traffic Division

4. Content of proceedings

○ Proceedings

5. Main discussion

(1) Results of the invitation to submit opinions on the draft of the evaluation results and the public conference

- NTT's brand power must be broken down into the pre-privatization and post-privatization power. To censure simply because of strong brand power would be illogical.
- What is the breakdown of participants in the public conference? Did any parties other than business operators observe the conference? Measures should be taken so that the contents of the discussion can be communicated to an indefinite number of people.
- It seems that competing carriers are not really trying to compete in terms of facilities in the broadband market. One of the arguments on competition in services also tends to focus on trivial details. While we understand that the share of NTT East and West in the broadband market is 42.1%, we felt it necessary to make a rigorous analysis of competition, rather than arguing about impressions.
- On page 3 of Document 2 it says that the "personal information of subscribers to fixed telephone lines is used for marketing FTTH." How should this matter be regarded under the existing system?

→ It is difficult to judge whether this falls under prohibited practices or not.

(2) Draft of the evaluation results

* The secretariat explained the revised part of the draft of the evaluation results, and then a discussion was held that was particularly focused on the revision of the market share analysis for switched telephone services in Document 4-1.

○ The draft of the revision says that a weighted average of a total of four classifications of My Line and My Line Plus based on the respective traffic volumes is used. Does that mean that a subscription to local call services and a subscription to telephone services that do not use NTT's local circuits are different from each other in terms of unit?

→ Yes. In the draft for public comments, the calculation was made for My Line and My Line Plus by extracting the classification of long-distance calls to other prefectures only.

○ A weighted average of the four classifications of My Line and My Line Plus is used to give a single figure. However, it might be also an idea to create four kinds of data for the respective classifications.

○ The weighted average is obtained based on the traffic volume; however, sales volume can be also used from an economic point of view.

It is important that telecommunications carriers don't feel that there might be something amiss with the figures.

The HHI will vary substantially depending on whether NTT East and West are combined with NTT Communications or not. The opinion will be split on which option to choose. In either case, carriers will raise objections.

○ It is important to think about the meaning of "confirming market share." Four classifications of My Line and My Line Plus will be different from each other in terms of type. The services in the four classifications seem different. Therefore, a single figure obtained by putting them together gives us the impression that something might be amiss. The point will be whether competition is generated based on the combination of the four classifications as a set.

→ The simplest way is to show four figures, one for each of the respective classifications. However, it was pointed out that classifying switched telephone services into four categories is too detailed, and the discussion started with the point about whether or not those could be put together into a single figure. While users can select services independently from among the respective classifications, a discount is usually offered for subscriptions to a set of services offered by a single carrier.

○ The implication of the division of NTT is that it was done to facilitate competition among carriers.

○ In the case of fixed telephones, the concept of classification by distance may end up being

redundant.

→ Yes. With the progress in IP applications, that trend is actually getting stronger.

→ Fixed telephone services were originally completely (100%) monopolized by NTT. Competition was promoted, starting with medium- and long-distance calls. My Line and My Line Plus services were introduced, and through the restructuring of NTT, equal competition between medium-distance service carriers and competing carriers was realized. Since then, with the development of telephone services that do not use NTT's local circuits, as well as CATV phone services and 0ABJ-IP telephone services, the switched telephone service market is drastically changing. Under these circumstances, this draft of the revision is intended to indicate the necessity of analysis that includes telephone services that do not use NTT's local circuits.

○ One of the market sections, that is, the switched telephone service market, must be further classified into four categories. However, a market is essentially a place where competition exists, and in the case where the condition meets this definition, there will be no basic problem even if there is overlapping within the market section.

○ In that case, which is the subject market, the switched telephone service market or the market for all telephone call services?

→ In addition, 050-IP telephone services are also included. As pointed out, to be exact, the relevant market is not the one for switched telephone services but the one for services with 050-IP phone services subtracted from all fixed telephone call services.

○ Switched telephone services are a new concept and a supplementary footnote will be needed to avoid unnecessary confusion. With regard to the HHI, it will be neutral if both cases are described together, that is, the case where NTT East and West and NTT Communications are separated and the case where they are combined.

→ As pointed out, basically what we will do is describe four classifications separately and indicate a weighted average based on the traffic volume as a reference.

○ Does a weighted average based on the traffic volume include 0ABJ-IP telephones?

→ It is difficult to obtain a weighted average for each classification due to the difficulty in collecting data.

○ Is it possible to obtain a weighted average based on sales volume?

→ It is difficult to obtain it individually for each of the four classifications.

○ It will be impossible for NTT East and NTT West to enter the other's market after NTT is restructured and they will deal exclusively with each other. Is this understanding correct?

→ Exactly.

* In addition to the above, a discussion was held on the evaluation results as a whole.

○ Section 3 describes the penetration of broadband in various countries. While broadband services are usually subscribed to by individual households as a single unit, the number of subscriptions per 100 people is shown in Section 3. Is this appropriate? It will also be necessary to confirm that the definition of “broadband” is the same across countries. Broadband in Japan has the advantage of low prices and high connection speeds. However, the results shown in this document are mediocre. By saying this, I intend to stress that a precise evaluation must be made.

→ In principle, “per household” is used as a unit for fixed communications while “population” is used for mobile communications. “Population” is used very often as a unit for evaluation in Europe, including by the ITU. We have submitted our proposal on this matter to various organizations in Western countries.

○ Each section has graphs showing changes in the HHI. The unit of each axis should be made consistent with each other in the future.

Document 5, which describes the views of the Ministry of Internal Affairs and Communications, includes the expression, “We will use the opinion as a reference.” Does this expression indicate a difference in meaning from that of the other expressions?

Competition evaluation is assumed to objectively evaluate the market and to not directly lead to the creation of policy measures. On the other hand, if it is to be reflected in the policy measures, it will, needless to say, have a different meaning. It says, “Individual cases have not been verified in detail.” Is detailed verification planned for the future?

→ As for the expression “use the opinion as a reference,” expressions are differentiated depending on the point of discussion, such as the one related to the policy decision of the study group and the one that should be referred to in the next competition evaluation. We will closely examine the use of expressions.

At this stage, the objective of competition evaluation is not directly linked to specific regulations but, through the collection of data and other methods, it is intended to objectively show the current status of the market. Various issues are raised here and the relevant regulatory parties will decide whether they use the results. The working group of the Panel on Neutrality of Networks is now discussing how to incorporate the results of competition evaluation into the design for the dominant carrier regulatory framework. We intend to carry out the preparation for this matter in the future.

The present technique of competition evaluation is not suitable for dealing with individual cases; however, we will conduct research on how to evaluate individual cases if we are assigned the task. Meanwhile, based on the evaluation results, studies of individual cases are planned to be conducted separately in the future under the Competition Safeguard System.

○ Compared with the results of the invitation to submit opinions in other cases, where many

responded “unacceptable,” our impression of Document 5 is that many of the opinions included are generous and modest.

- Page 1 of Document 3 says, “Competition in the broadband market is degenerating.” This gives us the impression that the promotion of competition in terms of facilities and services has entered a difficult phase.
- It will be important to incorporate a medium-term perspective, with the management strategy of each carrier taken into account. The important thing is to establish regulations that allow each carrier some freedom to move, and it will also be important to take into account the movement of those players other than telecommunications carriers under the Telecommunications Business Law.

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