

Study Group on Future Images of Universal Service Fund System — 7th Meeting
Summary of Minutes

1. Date and time

Friday, August 17, 2007; 14:00–16:00

2. Location

Special Conference Room 3, 9th Floor, Bldg. 2, Central Common Government Office

3. Attendees (honorifics omitted)

(1) Committee Members (entered in alphabetical order of last names)

Junichiro Fujiwara, Yuji Oie, Hiromasa Sekiguchi, Minoru Sugaya (Chair),
Atsushi Togashi, Masatsugu Tsuji (Vice Chair), Toko Yamashita,
Hirotaka Yamauchi, Noriyuki Yanagawa

(2) MIC Representatives

Terazaki (Director-General, Telecommunications Bureau), Takeuchi (Director-General,
Telecommunications Business Department), Ando (Director, General Affairs Division),
Taniwaki (Director, Telecommunications Policy Division), Furuichi (Director, Tariff
Division), Ninomiya (Senior Planning Officer, Tariff Division), Suzuki (Deputy Director,
Tariff Division), Iimura (Deputy Director, Tariff Division), Teraoka (Deputy Director,
Tariff Division)

4. Agenda

(1) Draft Gist of Report

(2) Free discussions

5. Meeting summary

- The Secretariat explained the “Draft Gist of Report of Study Group on Future Images of Universal Service Fund System” (Document 7-1) and the “Reference Document” (Document 7-2).
- Major statements made during free discussions were as follows:

[Review of method of calculating compensation amounts in Phase 1]

(Member)

The method of calculating compensation amounts is complicated, to begin with. A statement in the description of Phase 1 says that necessary amounts used to be calculated on the basis of the numbers of subscribers to metal cable telephone services, but that this time, the numbers

of those who subscribe to optical IP telephone services after metal cables are changed over to optical cables are also taken into account. This means that no consideration is given to cases where people who have not subscribed to metal cable telephone services subscribe to optical IP telephone services as entirely new customers. I presume that this situation is somewhat unreasonable.

(Member)

I had a similar question. In the case of Phase 1, it is decided that optical IP telephone services are not to be regarded as being in the category of universal service. Then why are metal subscriber cables that are changed over to optical IP telephone cables taken into account in calculating compensation amounts?

(Member)

In the case of Phase 1, the presence of the NTT Law makes it impossible to remove PSTNs. Taking this fact into account, my understanding is that the current relevant measures are meant to mitigate drastic changes. For this reason, I also have the understanding that the grounds for the current revision is that NTT East Japan and NTT West Japan have no alternative to maintaining metal cables and fiber-optic cables in parallel.

(Member)

In order to mitigate drastic changes, I think it is more straightforward to change the 4.9% value in “cables that belong to the top 4.9% of the high-cost category.” However, I presume that this approach may involve very difficult reasoning. I therefore think it is a good idea that subscriber telephone cables that are changed over to optical IP telephone cables will be taken into account in calculating compensation amounts.

However, if further progress is made in the transition to IP telephone services in urban areas in the future, resulting in a significant decrease in the number of metal cables, then I presume it would be necessary to establish new reasoning.

(Member)

It is impossible to remove PSTNs in Phase 1, and therefore, it is necessary to take the current measures. However, in Phase 2, I think that allowing PSTNs to be removed will be made possible by some means such as an amendment to the NTT Law.

(Member)

I once thought that the introduction of such a system would hinder competitive neutrality. Now, however, it seems that this will not be the case. In any case, system design methods will undergo complete changes, depending on the transition plans that will be presented by NTT East Japan and NTT West Japan.

(Member)

My understanding is that this is a last resort that is available in the transitional stage.

(Member)

I am asking this question from the perspective of technological neutrality. By taking such

measures, what impacts will be produced on the trend of transition to IP networks?

(Member)

The pertinent system should be designed in such a way as not to cause anxiety to consumers. On the other hand, I believe that operators should not presume upon the introduction of such a system. If such measures are not taken, compensation amounts will decrease, and operators will therefore have difficulty maintaining PSTNs, resulting in the possibility of even further efforts being made to promote the transition to IP networks. Taking advantage of measures to mitigate drastic changes may possibly delay the transition to IP networks, but such a situation should not be allowed to arise.

(Member)

I think that in the case of Phase 1, the pertinent system is designed on a soft-landing basis in such a way as to be connected very smoothly to the current system, resulting in no drastic changes. Nevertheless, I presume that what the costs will be like in specific terms will be a big issue in the future.

[Universal Service Fund System and charge policy]

(Member)

The following questions concern the interpretation of Information Material 10 in Document 7-2. Is it that geographical charge differences are accepted, and that charges in high cost areas will be raised to higher levels than in urban areas, resulting in service compensation amounts being reduced; or does this Information Material simply say that geographical charge differences arise as a result of corporate strategies?

(Member)

Is the following idea meant to be explained in the section on “availability”? Namely, if a cost-based principle is conformed to, charges are set on the basis of low costs in urban areas, while in high cost areas, it is inconceivable that charges capable of recovering all costs can always be set, but high costs can be reflected in charges to some extent.

(Member)

If it is assumed that multiple operators make entry as qualified telecommunications operators, with the result that there are two or more networks providing universal service, then I presume that it is easy to understand the fact that the time axis expressed by this illustration applies to Phase 1 and later stages.

(Member)

The term “socially allowable charge ranges” is mentioned. What opinions of what type of people are taken into account in relation to the “allowable ranges” in this term? Furthermore, the term “geographical differences in charges” is also mentioned. How small are the zones into which the “geographical areas” in this context are assumed to be divided?

(Member)

Page 14 of Document 7-1 mentions the term “price cap restrictions.” What are the specific actions meant by this term?

(Member)

There is an issue of definition as to what levels are referred to in association with “geographical charge differences.” Different results may come out if this matter is thought of in terms of cost-based policies or value-based policies. This time, the issue of geographical charge differences is understood in terms of “availability.” A doubt remains to some extent with regard to this approach. I presume that there is room for future studies.

(Member)

I am referring to Information Material 10 in Document 7-2. This illustration is expressed by two axes, namely the “area” axis and the “charge” axis. I, for one, understand this matter on the three-dimensional basis. Namely, I believe that there is another axis, which is the “service” axis. Current services include voice telephone calls and emergency calls. Nevertheless, the “services” in Phase 2 are closely related to “essentiality.” In the future, increasingly more advanced features will be required of indispensable “services,” as compared to what they are now. I think that “affordability” will be enhanced in keeping with such trends. In this respect, “charges” in such future days will have to be within “socially allowable charge ranges” that the citizens will agree to. In this connection, I presume that “geographical differences” which may occur on such occasions will be able to be understood under the concept of “availability.”

(Member)

It is important to mandatorily take into account the fact that even in the case of universal service, “geographical charge differences” will arise to some extent. On this basis, when multiple qualified telecommunications operators make entry after Phase 2 begins, I feel apprehensive that qualified telecommunications operators providing universal service only in urban areas, where a high profitability can be expected, may commit cream-skimming-like acts. This would result in other qualified telecommunications operators that provide universal service on a nationwide scale on an internal mutual assistance basis having no alternative but to raise charges in high cost areas. I presume it is necessary to study the measures to take on such occasions.

(Member)

At present, NTT East Japan and NTT West Japan provide universal service at a flat charge throughout the entire country. “Affordability” thus happens to be uniform throughout the country. However, if multiple qualified telecommunications operators make entry in the future, then cost structures will naturally be different from operator to operator. I therefore believe there will be a possibility of arguments being made that “affordability” will not necessarily be uniform across the country. In this respect, if “geographical charge differences” are understood to fall under the concept of “availability,” there is a fear that this approach falls into a category of ideas peculiar to Japan, and thus I have some doubts about this practice.

I presume that “socially acceptable charge ranges” differ from industry to industry in the case of public utility industries including electric power companies, gas companies, and water supply authorities, since such public utility industries have their respective different histories. As regards communications, I presume that “socially acceptable charge ranges” are unexpectedly narrow, since there is a history in which NTT used to monopolize this industry. In the future, however, there may be a possibility of changes gradually taking place.

[Studies of Universal Service Fund System in general in Phase 2]

(Member)

I think it is appropriate to conduct studies on whether services having mobility should be subjected to universal access in the future.

Furthermore, there may be cases where approval as qualified access operators is revoked or where such operators go bankrupt because of being private enterprises. From the point of view of stably providing universal service for a long period, studies should be conducted on what measures need to be taken in order for the services that used to be provided by these operators to continue to be supplied. In particular, I presume it is important to study methods of dealing with cases where no alternative operators exist.

(Member)

If a comparison is made between the cost of designating multiple qualified access operators and the risk of a case where a qualified access operator goes bankrupt (leading to invisible consumer burdens), I presume that the cost of designating multiple qualified access operators will not be so high if viewed from the perspective of the society as a whole. In the case of designating multiple qualified access operators, it seems that there is an advantage. Such operators become mutually conscious of the “risk of going bankrupt,” with the result that long-term stability of the system will be brought about.

(Member)

In the case of Phase 2, a situation is assumed where NTT will not be relied upon as a last resort. However, even if a qualified access operator goes bankrupt, it can be considered that replacement will be promptly made because the facilities used to provide services remain. I presume that in an area where a cable system and a wireless system coexist, it is possible to assume a case where both systems complement or replace each other.

(Member)

There can be various methods of providing universal access. Therefore, if the number of operators is unduly limited to one, bad effects will be caused to users. Consequently, I presume it is conceivable to leave diverse choices open. In this respect, what advantages are brought about if an operator is designated as a qualified access operator? In fact, a qualified access operator is subject to various strict restrictions in exchange for receiving subsidies. When this fact is taken into account, it is necessary to consider cases where no operator

volunteers to apply for designation as a qualified access operator.

(Member)

In the case of large-scale operators, there may certainly be no problem with the obligation to provide services. However, I presume that difficulties will be encountered by region-specific small-scale operators.

(Member)

It is considered that in the future, development of an environment that supports not only telephone services but also various communication services will take place. I presume it is appropriate to promote such services as universal access. However, in relation to the definition of the term “universal access,” there is an issue regarding the extent of services that are to be put in the category of universal access under the present circumstances where services are being diversified. Furthermore, the definition itself may change due to technological innovation. I therefore presume it is necessary to develop a scheme to continuously review the definition.

(Member)

There will be no choice but to establish specifications for universal access. It is necessary to have a general idea of contracts with qualified access operators on that occasion. In this respect, I think it is necessary to review such concepts after the lapse of certain periods of time. I presume that there are several approaches, depending on the methods in the contracts. For example, penalties such as damages for breach of contract will be imposed for sudden withdrawals, etc.

[Overall matters]

(Member)

I am speaking about the method of wrapping up the particulars of Phase 2. Is it permissible to formulate indefinite ones, or are they intended to be definite ones with mention made, for example, of what should be done about the NTT Law? How accurately are they intended to be wrapped up?

(Member)

The contents of Chapter 5, “Universal Service Fund System in Europe and North America,” do not necessarily serve to link Phase 1 to Phase 2. I therefore presume it would be better to reconsider the location of this chapter.

Furthermore, the contents of the problem areas that were additionally contained this time are too detailed to permit understanding of the main points. I would like to request that illustrations, etc., be used to answer the following questions clearly and in an easy-to-understand way. Is the current system intended to be revised? If so, how is it going to be revised?

End