

Universal Service Committee—19th Meeting Summary of Minutes

1. Date and Time

Thursday, September 6, 2007; 14:00–15:00

2. Location

Conference Room 901, 9th floor, Ministry of Internal Affairs and Communications

3. Attendees (honorifics omitted)

(1) Committee Members

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

(2) Secretariat

(3) MIC Representatives

Taniwaki (Director, Telecommunications Policy Division), Furuichi (Director, Tariff Division), Ninomiya (Senior Planning Officer, Tariff Division), Iimura (Deputy Director, Tariff Division), Suzuki (Deputy Director, Tariff Division), Teraoka (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.

Chair Kurokawa: The results of the public comment survey suggest the draft revisions of the ministerial ordinance are generally accepted because they include the measures to control cost sharing by users. Specifically, there were two main opinions. One was that the design and concept of the scheme should be treated separately, the other was that the design of the scheme only was associated with NTS costs.

We are now in a transitional period, during which the universal service may undergo remarkable change. We are currently focusing discussions on the topic of service options, such as public phones and emergency calls, but in the future the emphasis of discussions will shift to the elimination of digital divide problems. If broadband services and mobile phones become ubiquitous throughout the country, the estimation of reimbursements may depend on more than just the costs of NTT East and NTT West alone. I expect that universal services will be provided by separate technologies for different areas in the near future. There are many predictions about the universal service for the period until about 2010 but not

thereafter. For the period following, it will be essential to take a wider perspective in the devising of ideal policies regarding services, while expecting the development of a ubiquitous community of services users. In these circumstances, it is highly likely that various topics will be discussed at meetings held by the workshop for the future universal service scheme, from a mid- to long-term perspective.

After the briefing by the secretariat today, I have come to the general conclusion that the draft report should have included a discussion on the adoption of the approach taken toward transitional solutions to problems of costs associated with NTT East and NTT West. It should have also dealt with structural changes in the near future, which are currently expected. It is concerning that the transitional period may continue longer than originally envisioned. Frankly speaking, it is difficult to predict whether the structural change can be carried out easily or not.

It is generally understandable that the Telecommunications Council requested that the share borne by consumers of universal service-related costs be reduced. From an economic perspective, however, it may be appropriate for all interested parties to share costs on a fair basis. The passing-on by carriers of the costs to users may be considered fair in the context of the nature of the scheme. A simple and brief explanation of the issue is necessary, I think, to make sure consumers understand the essential discussion regarding the ideal cost-sharing situation in relation to the universal service scheme.

However, the results of the public comment survey suggest that all interested parties recognize the need for the universal service scheme.

Fujiwara: On page 4 of Attachment 2 to Document 1, in the paragraph headed "Idea 5" there is a sentence, "Even if leveling is performed, some users are expected to suffer disadvantages following the increase in cost per number in the current fiscal year." Is there a specific case of this?

Secretariat: The estimated cost per number for fiscal 2007 is in the range of four to six yen if leveling was not performed; whereas the estimate for fiscal 2008 is from six to eight yen if leveling was performed, suggesting an increase in the cost per number for fiscal 2007. Consumers canceling phone subscriptions in fiscal 2008 onwards, will have to bear additional costs if leveling is introduced, which appears to disadvantage them. This is an example of the kind of case that Idea 5 addresses.

Fujiwara: In such circumstances, the essential discussion on the appropriateness of leveling may change depending on the number of years for which the revised scheme is effective. If the revised scheme is only effective until the end of fiscal 2008, leveling is worth doing, even if exceptional gains and losses result as in the examples discussed. If the revised scheme is effective for an indeterminate period, however, a clear explanation for the limited application of leveling during the fiscal 2007 and 2008 should be given, otherwise consumers will misunderstand the issue.

Kurokawa: I disagree a little bit both with Comment 5 and Idea 5. The most important thing is to provide consumers with necessary, honest and accurate information. A prerequisite of universal services is that every beneficiary shares the costs on a fair basis, and therefore an explanation of the details of costs should be provided to ensure better understanding. Therefore, I cannot agree with the opinion that leveling has to be applied to prevent consumers from misunderstanding the issue because they will bear increased costs. However, I may support the position if it is established, for instance, that the annual costs to be shared by consumers is stabilized and finally leveled out for their benefit, because fluctuating amounts in terms of cost sharing increases the cost of collection.

In conclusion, it is essential to explain the process of increase or decrease in costs for the sake of consumers in such a case.

Fujiwara: At the moment only estimated values are available. Fixed values are not available. This suggests that leveling is impossible. If a mechanism to retrospectively collect the amount is established, the introduction of leveling will be possible, but neither the current nor the revised scheme call for such a mechanism to be included. It may be enough to state that “leveling is difficult due to its incompatibility with the collection mechanism of the scheme.”

Secretariat: Because the market environment surrounding the universal service has been changing rapidly and significantly, we recognize the need for the scheme to be continuously reviewed. How the existing scheme should be reviewed is being deliberated at the moment at the workshop for the future universal service scheme. Based on what is decided, the specific design of the scheme will be examined.

Most significantly, the appropriate way to deal with the issue is using the advice and

suggestions of committee members to avoid consumer misunderstanding of the issue.

Fujiwara: Were there any comments from consumer associations?

Secretariat: No.

Kurokawa: Because I believe it is more important that consumer associations—as opposed to any other organization—understand the mechanism of the universal service scheme, I was puzzled by the inclusion of the sentence “an increase in the costs borne will be likely” in the background to the section about requests to reduce cost sharing by consumers submitted by the Telecommunications Council. It gives the impression that the purpose of the review of the current scheme was taken from the deliberation of draft revisions of the ministerial ordinance.

On the other hand, I know that carriers will suffer damage if costs increase after they have already decreased. Interestingly, the rules of service provided by the mobile phone carrier to which I subscribe include a persuasive argument about the ideal concept of sharing service provision costs. Actually, I feel quite proud of sharing the costs.

Sekiguchi: It is my impression that the fixed cost per number for fiscal 2006 of seven yen is inappropriately recognized by a large number of interested parties. It may encourage the argument of “not acceptable if it exceeds the ‘seven-yen level.’” I think you should have explained that the seven yen is not a fixed figure but rather an estimate. Consumers are concerned about how much costs will increase, which may create an atmosphere of non-acceptance. In conclusion, I think the draft report should include the information that the amount of costs shared may vary according to the cost structure and the number of active phone numbers.

Kurokawa: I agree. I can see how the scheme is gradually becoming more sophisticated and easier to use through trial and error.

Vice chair Sakai: Analyzing the current situation based on comparisons with previous materials and so on, given that it resulted in opposition and questioning of why seven yen is exceeded, I assume it ended up giving a strong impression that there is a definite risk of “having to bear massive costs in the future.” If so, we should have in the previous stage provided forecasts further into the future to demonstrate that there would not be too much of

an increase in costs to be borne.

Also, the idea of the universal service itself is a very good, but the debate revolving around this system currently centers mainly on the RT-GC transmission route. This gives the impression that only one very small part of the network is being taken up. But if you take into account that, with the subscriber lines which make up a larger part of the network, the red underperforming areas are balanced by the black profit-making areas, you need to focus also on these areas with the growth of IP-based telecommunications services. Of course I'm sure basic charge is managed efficiently by internal cross-sectional compensation.

Indeed, the current situation can be said to be transitional, but now is not going to be the only transitional period. Probably five years from now, you will be saying the situation then is also a transitional period. In whichever case, it is important to differentiate in discussion on universal service between what will not change and what may change.

Tokai: I think processes such as the current reform of the universal service system themselves serve as a type of stimulus for thinking about the ideal future telecommunications service.

In whichever case, at the moment, we are able to deal with the tremors caused by various restrictions. However, given that the strains occurring in various places can cause major earthquakes, we need to establish a framework for deciding the overall picture of universal service in the near future.

Kurokawa: I feel that things were rushed and done a bit hastily up to now, but the introduction of this new universal service system helped clarify how related parties would react, what sort of problems may occur and how they should be resolved.

I think it is of great significance that when the system was first introduced, the idea was to use the telecommunications number based on the idea that everyone would bear the costs equally, and we have been able to come to this point with the support of many. I also think that, on the other hand, the burden should not be assigned sloppily and, where possible, there is a need to increase incentives to develop efficient technologies. I hope that this experience can be used to gradually perfect the universal system.

Fujiwara: On page 1 of Attachment 1 to Document 1, paragraphs 1 (2) (i) and (ii) do not include an assessment of the statements, "There is no prospect for the time being of controlling user-borne costs through the correction of the different charges between different

classes of stations” and “Of the 53 cost-sharing carriers with access to the telecommunications network, 50 want users to pay the costs concerned.” Only an explanation of the background is provided, with no outline of the future direction. Is this kind of description appropriate?

Secretariat: Regarding the basic charge, “correction of the different charges between different classes of stations” has been pointed out at Telecommunications Council meetings and so on. Most recently, the council report issued last November also seeks continuous review of the correction of station class categories in NTT East and NTT West. Based on this, reviews are currently being carried out by these two companies. So first, we need to track the reviews. Also, at present the workshop for the one future universal service scheme is also carrying out reviews based on the transition to IP-based telecommunications services, so we need to conduct our reviews based on this.

Another point with regard to requiring users to bear the burden is that I don’t think this can be done immediately, and again we need to conduct further discussions on this issue based on the reviews carried out by the workshop for the future universal service scheme.

Kurokawa: We need to discuss this issue based on the reviews by the workshop for the future universal service scheme, which is trying to come up with an ideal long-term system. So is it correct to understand that at this point we have stopped at a simple background description.

Fujiwara: It would be enough to just include this part of the discussion in the Summary of Minutes of this meeting.

Kurokawa: So, let’s place an outline of the proceedings of this committee in the Summary of Minutes, and at the same time, I hope that more detailed discussions will be held by the workshop for the future universal service scheme.

If there are no other comments, this committee will submit Document 1, the draft report, to the Telecommunications Business Sub-Council to be held on September 20.