

Study Group on Current Status and Issues on a Fair Receiving Fee Structure
Summary of Minutes (10th Meeting)

1. Date and Time: Friday, March 7, 2008, 16:00 to 18:00
2. Location: Special Conference Room 1 at MIC, 8th Floor, No. 2 Joint Government Building
3. Attendees
 - (1) Members of the study group (honorifics omitted; in the order of the Japanese syllabary)
Akio Torii, Kiyoshi Nakamura, Eriko Hida, Masayuki Funada (4 members)
 - (2) Observers
Katsutoshi Ishioka, Susumu Ito, Hiroyuki Kishi (3 observers)
 - (3) Hearing participants
The National Association of Commercial Broadcasters in Japan (NAB): Mr. Nobuya Wazaki, President, WOWOW INC., and Mr. Kamimura, President, Asahi Satellite Broadcasting Limited
Japan Broadcasting Corporation (NHK): Mr. Tsukada, Manager, Mr. Imai, Manager in Charge, and Mr. Tsuchiya, Manager in Charge, Corporate Planning Bureau (Management Plan)
 - (4) Ministry of Internal Affairs and Communications (MIC)
Ogasawara (Director-General, Information and Communications Policy Bureau), Kawauchi (Deputy Director-General of Minister's Secretariat), Yoshida (Director, Broadcasting Policy Division), Takeda (Director, Satellite and International Broadcasting Division), Nagashio (Senior Planning Officer, Broadcasting Policy Division), Osawa (Assistant Director, Broadcasting Policy Division)
4. Agenda
 - (1) Opening
 - (2) Items on the agenda
 - (i) Hearing with NHK and relevant organizations in the satellite broadcasting business
 - (ii) Others
 - (3) Closing

5. Outlines of Proceedings

The following symbols are used in this summary:

○ Remark made by a study group member or an observer

△ Remark made by a hearing participant

(1) Presentation by the National Association of Commercial Broadcasters in Japan (Reference 3)

(2) Presentation by Japan Broadcasting Corporation (Reference 4)

(3) A question and answer session was provided regarding items (1) and (2) above.

The key questions and opinions voiced are as follows:

○ NAB explained that scrambling will decrease the opportunities for people to be exposed to BS broadcasting. Please elaborate on it.

△ When satellite broadcasting services were first launched, NHK provided its satellite broadcasting services without scrambling while commercial broadcasters provided paid satellite broadcasting services with scrambling. NHK's services were the driving force of the entire satellite broadcasting industry. Today, commercial broadcasters are more competitive against NHK in terms of people's exposure to their programs. Particularly since the launch of digital broadcasting, commercial broadcasters' programs have become increasingly compelling. However, scrambling NHK satellite broadcast signals could prevent people from becoming interested in commercial BS broadcasters' programs when they watch NHK satellite broadcast programs, which consequently decreases the amount of exposure to satellite broadcasting as a whole.

○ NAB's reference states that "the more competitive commercial BS broadcasters become, the more intense their competition with NHK will become, which leads to improved quality of programs." What are the standards for "quality of programs" in this content?

△ There may be numerous arguments about quality of programs, but we think one of the criteria for quality is audience satisfaction, that means whether they think they have watched a program that is really worthwhile.

○ How do you survey audience satisfaction?

△ We use a profile research service by Video Research Ltd. According to research results, we have determined that audiences are dedicated to commercial BS broadcast programs; watching programs that they have decided to watch in advance, and less zapping are the factors that directly link to audience satisfaction.

○ You said that commercial broadcasters intend to schedule relaxing programs, different

from terrestrial broadcast programs, during prime time and on weekends and to improve the quality in the course of competition with NHK. Have you examined which age groups watch these “relaxing programs, different from terrestrial broadcast programs”?

△ The profile research has revealed that many purchasers of BS receivers are relatively well off. They are baby boomers, or around that age group, and they are our main target. Genres of programs that people around that age want to watch are information and travel programs, documentaries and movies. So, one of our policies is to cover such programs.

△ In the case of commercial paid BS broadcast services, main audience are people in their 40s and 50s, which are preceded by the enormous generation of baby boomers. Audiences of CS broadcasting are people in their 20s and 30s, which is similar to the audience of terrestrial broadcasting. The core target of commercial BS broadcasting, both free commercial broadcasting and paid broadcasting, is people in their 40s, 50s and 60s.

○ When I watch programs on BS channels, I see so-called infomercials, those programs that appear to be programs but are, at the same time, advertisements. What do you think of them?

△ Such long-format TV commercials are increasing as product functions and services become more diverse and complex so companies want to explain them more clearly to the audience. It is difficult to secure slots for long-format commercials with terrestrial broadcasting, but not so with BS broadcasting. That may be the reason for the increase in long-format commercials. However, long-format commercials that are apparently nothing but commercials are increasing, and I believe people rarely confuse them with real programs.

○ I suppose that a big issue in competition is the impact of scrambling NHK satellite broadcast signals on the entire satellite broadcasting industry. As NHK plays a leading role, purchasers of flat-screen TVs have an obligation to pay a receiving fee for NHK satellite broadcasting while payment is optional for WOWOW. This seems unfair in terms of competition. Do you have any idea of how to ensure equal opportunities for fair competition?

△ From the perspective of fair competition, I feel that commercial paid broadcasting is at somewhat of a disadvantage. Our position is that we will compete based on the view that the receiving fee that covers NHK satellite broadcasting is a contribution to support public broadcasting. But if you regard the receiving fee as a fee for a service, then what you have pointed out is a concern.

○ When a contract for satellite broadcasting is integrated into a contract for terrestrial broadcasting and contractors are charged a higher fee, as a result, people from all walks of life are likely to react strongly against it. With regard to this point, what kind of reactions do

you expect from the audience if programs that are currently available only to satellite broadcasting become available to terrestrial broadcasts as well?

△ Integrating a contract for satellite broadcasting into a contract for terrestrial broadcasting is likely to dissatisfy people who cannot receive satellite broadcast signals. Resistance could be lower if the number of households able to receive satellite broadcast signals grows as high as the number of households receiving terrestrial broadcast services. But given the present circumstances in which contractors for satellite broadcasting services are about one third of those for terrestrial broadcasting, there would be a wide variety of reactions from the audience, including resistance and requests for discounts.

○ What does NHK think about this point?

△ An increase in fees to be paid by people who cannot receive satellite broadcast signals will face huge discontent from the people. Audiences are very sensitive to the rate of fees. They will have difficulties in accepting a fee calculated like a weighted average price as they cannot watch programs. When a weighted average price is to be adopted, some benefits must also be provided to people who watch terrestrial broadcast programs only. NHK broadcasting cannot be viable if NHK does not take into account that, in programming, compelling programs are also available to terrestrial broadcasting.

○ Do you mean that the creative efforts in programming, which have just been explained, will help NHK to gain an understanding of its audience?

△ In the case of the weighted average price, fees to be paid by people who cannot receive satellite broadcast signals will also be raised. I recognize that whether or not that will be accepted is a very big issue.

○ The reference prepared by NHK, “Possible Effects and Influences of Review Options” states that “it is impossible to secure diversity in programs if scrambling is adopted.” Please explain the reasons.

△ From the standpoint of people who receive broadcast signals, when changing a receiving fee to something like that of a fee for broadcast service, the nature of receiving fees for public broadcast services should change drastically. That’s the assumption. If broadcast services are available to a limited audience, the broadcaster must respond to the interests of that audience in order to receive fees, and focus on producing programs that attract audiences. Producing programs that take a considerable amount of time, such as variety shows and dramas, will become difficult.

○ With regard to the issue of scrambling, NAB thinks intensifying competition will lead to

the improved quality of programs while NHK has a negative view that it will lead to conflicts. What do you think about this?

△ As a public broadcaster, NHK produces programs with a wide range of genres to respond to a broad spectrum of interests of the audience. We understand that competition in a good way will promote the entire business, but competition for similar plans and similar content will lead us in a direction far from the interests of the audience.

○ With regard to the issue that the enhancement in the use of the message function increase personnel expenses due to requiring additional call center personnel, I understand that there is a case that those expenses will be covered by increased contracts concluded by viewers who have received a message through the function. What do you think of such possible revenue increases?

△ While it is expected to increase revenue, it is also likely to increase expenditure. We need to identify and organize issues on the enhancement of the message function to some extent before determining the specific amount for each. At this stage, we have not calculated specific figures.

○ I understand that it had started on the premise that the message function is not scrambling so the audience can watch programs even if the message appears on the screen. If the displayed message gets bigger and bigger, it can be construed as scrambling, and the audience may think that it is different from these assumptions.

△ Currently, it is carried out as a confirmation. We presented a proposal which shows what will happen if it is pushed one step further.

○ NHK's pricing is based on the multiple-costing method. I think, from the perspective of cost-effectiveness, the multiple-costing is a system where incentives hardly work. What are other possible systems to adopt? What do you think about the method of multiple-costing?

△ People may have many different ideas of a pricing system. But we are not considering any system to replace the multiple-costing method.

○ In the table on "Impacts on the satellite broadcasting business," most alternatives are assessed as "Likely to decrease opportunities for external production companies." I suppose these assessments are made based on the assumption that NHK commissions external production companies when it has a sufficient budget. Outsourcing is generally considered as a means of improving management efficiency. I wonder if there is any possibility that NHK can improve management efficiency through the use of outside production companies.

△ As a public broadcaster, NHK does its business to provide a wide variety of content to the

audience, taking advantage of the expertise and diverse perspectives of external production companies. NHK has proactively taken such an approach for satellite broadcasting, in particular. Producing a wide variety of programs with external production companies has resulted in the diverse and colorful content of NHK programs as a whole. We do our business efficiently, but commissioning is not just for the purpose of improving efficiency.

- Please explain the grounds for the weighted average fee of about 1,600 yen, which you calculated for a contract that integrates satellite broadcasting and terrestrial broadcasting.
- I would like to understand if securing diversity in programs means “public roles unique to NHK,” such as taking initiatives, promoting broadcasting and improving TV broadcasting reception, or “securing diversity in a way unique to NHK.” Please explain NHK’s view.
- △ Our view is basically the same. We provide public broadcasting services on the premise that there will be something that we cannot deliver if we only seek profit. We think it is our social mission to deliver diverse programming. We wonder if scrambling would somewhat diminish that diversity.

(End of the hearing session—the representatives from NAB left the meeting.)

(4) The secretariat explained Reference 5, “Reference Submitted by the Secretariat.”

(5) Questions and answers regarding (4)

The key questions and opinions voiced by study group members are as follows:

- Technically, there are many ways to implement scrambling. Moreover, there are various possibilities in operation, including removing scrambling for a limited period of time, such as free service for several days. Does NHK have any ideas regarding these points?
- △ NHK is using scrambling technology for the confirmation message function, but our scrambling does not make programs completely unobservable—you can hear the sound and see the images. We also see to it that the confirmation message does not appear in the event of disaster. Therefore, the audience can always check whether NHK channels are in service. On the other hand, if signals are scrambled in a way to make programs completely unobservable, NHK channels will no longer exist in the minds of many people. The audience is aware that NHK BS1, BS2 and BS High Vision channels are always in service, even in the event of a disaster. And from that perspective, there is a big difference between the confirmation message system and, so-called, scrambling.
- The reception environment has been changing rapidly, and the percentage of community

reception facilities is increasing. At what level do you think it will be stabilized? For example, the prospective rate of community reception facilities in 2011 may significantly differ from the present situation being discussed based on the fact that the current percentage of people who receive BS broadcast signals is 40%. I would like to know your prospects on that point.

△ Currently, we do not have specific data.

○ Discussions on how NHK satellite broadcasting should proceed must also consider the role that public broadcasting should play. Rash conclusions might lead to a loss of what people should enjoy. We need to consider carefully.