

Study Group on Current Status and Issues on a Fair Receiving Fee Structure
Summary of Minutes (11th Meeting)

1. Date and Time: Wednesday, April 2, 2008, 17:00 to 19:00
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)
Funada (Chair), Nakamura (Vice Chair), Sugaya, Torii, Niimi, Hida, Yamashita (7 members)
 - (2) Observers
Ishioka, Ito, Oto, Kenjo, Takahashi (5 observers)
 - (3) NHK representatives
Mr. Tsukada, Manager, and Mr. Imai, Manager in Charge, Corporate Planning Bureau (Management Plan); and Mr. Watanabe, Manager in Charge, Audience Relations & Services Department
 - (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) Concept of reviewing the satellite broadcast receiving fee structure and possible effects/influences
 - (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 an NHK representative
- Remark made by an MIC representative

(1) Explanation by the secretariat (References 1 and 2)

(2) Discussion regarding (1)

The key questions and opinions voiced are as follows:

- On page 2 of Reference 2, it is mentioned that “the measures proposed in the First Report would partially solve the issue in (i).” Please be more specific regarding the word, “partially,” and what it means in this context.
- The discussions and proposals made in compiling the First Report focused on issues that arise when people who once lived in single-family housing where they received only terrestrial broadcast signals later move into collective housing where the environment for receiving satellite broadcast signals is available. We don’t know the exact number of such cases, but we believe that the number must be limited to some extent. Meanwhile, the reference states that the issue (1) can be “partially solved” because it does not limit the target to people who moved from single-family housing to collective housing, but takes into account those who are not receiving satellite broadcast signals but are in an environment to do so, thanks to the penetration of receivers capable of receiving signals for three types of broadcasting as well as community-reception antennae.
- What kind of initiatives has NHK considered in response to the First Report? Has it ever simulated the number within the target?
- △ As for measures for those within an environment for receiving satellite broadcast signals available to them as a passive consequence, we have reported that we would complete our study by around summer of fiscal 2008. For instance, we have studied how to prove the date when a person purchased a TV set or the date when a person moved. We need to figure out specific numbers in our future study, although we have simulated some figures and found out, for example, that the number within our target is doubled in an apartment where the AM system is implemented, compared to an apartment where the IF system is implemented.
- Regarding the enhancement of the message function, I understand that expanding the message area will make it difficult for people to watch a program and therefore works as a hindrance, but I also wonder if it will lead to a stronger antipathy.

△ If you send a message, “Please enter a contract,” people may do so. That’s a possible effect. On the other hand, however, some people may think they don’t have to pay a receiving fee, as you have pointed out. Careful assessment is required.

○ Is a tool like a descrambler, which makes messages unobservable with a little work, available? Also, when you watch a program that you have recorded, do you still see the message?

△ A tool like a descrambler is not available. The message is displayed by using the CAS function, without decrypting B-CAS encryption codes. Furthermore, the message still appears even when you watch a recorded program. If it is recorded with a digital system, deleting the message from the recorded program is possible.

○ It may depend on how you use the message function, but the enhancement of the message function seems more like scrambling than maintaining the status quo.

○ Does adoption of the “enhancement in the use of the message function” in I-B involve any changes to the assumptions for the system introduction?

● We have organized the assumptions for scrambling with the concept of “price for service” in mind. Meanwhile, in the case of enhancement in the use of the message function even when a viewer without a contract sees the message on the screen and has some difficulty watching a program, it has nothing to do with the issue of a receiving fee as a sort of price for service. From these perspectives, it may be easier to understand the issues of the increased use of the message function if we discuss them separately from the issue of scrambling. But, we also realize that some of the assumptions for its introduction must be re-organized, depending on how we enhance the message function.

△ Technically, the message function uses the scrambling technology. But the function is being operated based on assumptions different from a receiving fee being a price for service. With regard to the message area expansion, expanding the current five lines with 18 characters per line to eight lines is the limit of the existing system specifications. The message is not intended to cover the entire screen. We proposed it as one example of how to call for fair contribution.

● The current status of receiving fee payments is that 70% of households are paying the fee, which is different from the status at the time of its introduction. We understand that the proposal considered these circumstances and presented a way to utilize the message function, which had been introduced to facilitate completion of contracts. We believe that it does not change the objective of facilitating completion of contracts for receiving broadcast service. In

this case, expanding the message area seems to be a question of degree. It is also likely that we are required to present a new reason when introducing a system of redisplaying the message to those who have not completed a contract.

○ With regard to the enhancement in use of the message function, do you have any ideas other than the current specification of eight lines with the 18 characters per line?

△ In addition to the expansion of the message area, we have proposed redisplaying the message to those who have not completed a contract.

○ With regard to integrating a contract for satellite broadcasting into a contract for terrestrial broadcasting, “decrease in opportunities for external production companies” is cited as a possible influence on the satellite broadcasting industry. Please explain its meaning.

△ For example, when integrating a contract for satellite broadcasting into a contract for terrestrial broadcasting, all costs for satellite broadcasting will be covered by fees for terrestrial broadcasting services, meaning that securing content for media as quasi-key broadcasting becomes difficult. That’s what it means.

○ I assume that the degree of influence on the satellite broadcasting industry is different in the case of a fee for terrestrial broadcasting and the case of a weighted average price. I also wonder if a weighted average price is likely to decrease opportunities for external production companies.

△ In the case of a fee for terrestrial broadcasting, production of new content becomes more difficult so that there will be fewer opportunities for producing documentaries and nature programs. In the case of a weighted average price, fewer opportunities for external production companies are a possibility.

○ If you calculate a weighted average price, the more people there are watching a program without having completed a contract, the lower the price to be paid by the people who receive broadcast signals becomes. So, there is the possible issue that the audience may make an agreement between themselves not to complete a contract because it is to their benefit.

△ Depending on the penetration rate of satellite broadcasting, discussions on integrating a contract for satellite broadcasting into a contract for terrestrial broadcasting is worthwhile. Under the current situation, however, where the contractors account for only one third of the entire audience, there are difficult challenges. That’s our understanding.

- In case of integrating a contract for satellite broadcasting into a contract for terrestrial broadcasting, revenue from receiving fees that cover satellite broadcasting will disappear, drastically reducing total revenue. In this case, special expenditures for satellite become very difficult to incur without lowering the level of terrestrial broadcasting, making continuation of the provision of satellite broadcasting difficult. If current practice of satellite broadcasting, which is not simultaneous broadcasting, is to be continued, such a concept may not be viable. Meanwhile, if the fee structure is integrated into the weighted average framework, gaining understanding from contractors who will be subject to the fee increase will be difficult.
- Under the current circumstances, integrating a contract for satellite broadcasting into a contract for terrestrial broadcasting seems quite a challenge. But when considering that we continue to maintain public broadcasting that covers operating costs through receiving fees, operations will become more functional when we integrate receiving fees for so-called linear programs. As the number of people who receive satellite broadcast signals increases, integration with a phased approach will become more feasible.
- People think the lower the receiving fee, the better, but some of the public expect a wide variety of content from BS broadcasting, so, ideally, the quality of programs should not be debased. In that sense, integrating a receiving fee for satellite broadcasting into one for terrestrial broadcasting is not feasible. Moreover, considering the increased burden on contractors of terrestrial broadcasting, integrating the fee structure into the weighted average framework also seems infeasible.
- For your information, in 1968 when the B-type contract, which refers to a contract for receiving radio broadcasting services, was abolished, the number of contractors for A-type contracts—those for receiving radio and television broadcasting services—totaled 20,080,000 while the number of contractors for the B-type contract totaled 1,280,000 (these figures are estimates as of 1967). Contractors for the B-type contract accounted for about 6% of the total.
- When a contract for satellite broadcasting is integrated into one for terrestrial broadcasting, undoubtedly, revenue from receiving fees for satellite broadcasting will no longer be generated. On the other hand, existing contractors for terrestrial broadcasting services may complete a new contract. A 20% increase in the number of contracts will cover the 130 billion yen of revenue from receiving fees for satellite broadcasting services. Considering the situations in other countries, achieving a contract rate of about 90% does not seem completely impossible.
- △ With the one-third ownership rate for satellite broadcasting receivers, how many people

can enjoy these services is an issue. It seems difficult to expect that the number of contractors will increase immediately after the integration of a contract for satellite broadcasting into one for terrestrial broadcasting.

- In terms of scrambling, what is the difference between the non-profit type and the profit type?
- The non-profit type represents a concept of pricing based on the multiple costing method, which is the same as the current receiving fee structure. Meanwhile, the profit type reflects a concept of pricing to include profits, which is generally practiced by commercial enterprises.
- I don't think we should consider scrambling type B at all. As for type A, we may need to discuss a little further on how Japan should maintain its public broadcasting. Alternatives for scrambling should be eliminated as much as possible. Before working on these, we have to do things by taking the necessary steps.
- The non-profit type scrambling has no impact on people who are currently paying a receiving fee, but it does on free riders who are not paying a receiving fee. From that perspective, the non-profit type may be categorized as an enhancement of the message function.
- We want those people who do not watch television and therefore are not affected by the message to pay a receiving fee if they are in an environment that receives satellite broadcast signals. In that sense, the message function keeps the nature of receiving fees as a special contribution. Meanwhile, scrambling is on the basis of price for service, so that it will have a significant impact on the nature of the receiving fee as a special contribution. The fee may not be construed as a special contribution any longer.
- If we adopt scrambling type A, do we need to pay "the price for paid broadcasting service" on page 11, titled "Satellite Broadcasting and Receiving Fees in Other Countries," of the Information Paper?
- It depends on the assumptions of the non-profit type for scrambling type A. If you assume that it cannot be construed as a receiving fee, it should be replaced with a flat amount.
- Is the amount collected from contractors for the Archives on Demand service categorized as "Others" on page 11, titled "Satellite Broadcasting and Receiving Fee in Other Countries," of the Information Paper?
- △ We have made preparations for the Archives on Demand service, expecting that it would

take about six years to eliminate the cumulative deficit. Collected money will be recorded according to a separate accounting system.

- The Archives on Demand is a voluntary service, not one of the broadcasting services. Such an audience service of a limited nature can be provided by NHK, not by an affiliate. As for satellite broadcasting, even if it is provided to a limited audience, NHK has developed the environment for broadcast signal reception across the nation and the audience can decide whether or not to use the service. In that sense, it does not conflict with NHK's responsibility of ensuring reception across the board. Therefore, NHK's provision of satellite broadcasting as a non-profit service by collecting a fee as a price for service does not necessarily conflict with the nature of NHK as a special public corporation.
- It doesn't seem reasonable to assume that the adoption of accounting separation for the non-profit type and the self-supporting accounting system for the profit type would be a possible impact on the level of receiving fees when scrambling NHK satellite broadcasting. If individual program scheduling is to be thoroughly implemented, we should discuss satellite broadcasting and terrestrial broadcasting separately.
- From a logical perspective, it may not be necessary. As it has been mentioned, a key point in the discussion on scrambling must be whether provision of services on a kind of price-for-service basis complies with the nature of NHK as a public broadcaster.
- Thorough adoption of the self-supporting accounting system requires stand-alone cost, which makes it necessary to allocate huge amounts of cost. Meanwhile, it is apparent that the current receiving fee that covers satellite broadcasting, which allocates common expenses, is not on a stand-alone cost basis. But in a broad sense, it can be regarded as a kind of accounting separation. That is to say, the self-supporting accounting system is more like a stand-alone cost.

- The discussions on scrambling can ultimately go so far as to say scrambling should be adopted to terrestrial broadcasting as well. There is an issue of how to put the brakes on it.
- Scrambling may require changing the units of contract from household to receiver.
- △ In principle, it will be in the unit of receiver. But specific studies on the unit of contract in the case of scrambling have not been conducted.
- The concept of price-for-service requires NHK to satisfy the interests of the audience. But as a public broadcaster, NHK must be impartial and neutral and provide content for people of all ages. Discussion on scrambling must consider these issues as well.

○ Scrambling will solve some issues, for example, cases where you are forced to watch a program even if you don't want to watch it, or slumping contract rates. On the other hand, integrating a contract for satellite broadcasting into a contract for terrestrial broadcasting can solve these issues but not the issue of free riders for terrestrial broadcasting. What I mean is that the discussion on scrambling, which targets 13 million households, is on a different level from the discussion on contract integration with terrestrial broadcasting, which targets 36 million households, and therefore should not be handled in the same way. Whether our discussion focuses on 13 million or 36 million...

● We have prepared references based on our understanding that this study group should focus on policies for satellite broadcasting.

○ We do not understand to what degree NHK considers possibilities of revenue resources, such as domestic on-demand broadcasting and selling content to overseas broadcasters, in estimating costs under the national policy of promoting content distribution. Where, in the entire policy of communications and broadcasting, should we position NHK in determining issues?

● We have presented various figures calculated by using current conditions as fixed values, on the premise that they are just for reference in the discussions.

○ Scrambling seems impossible for two reasons.

One is that scrambling will inevitably stress the nature of broadcasting as a paid service, which means provision of high quality programs for high prices. It seems very difficult to assert that spending money to provide high quality programs at higher prices complies with the objectives of public broadcasting.

Additionally, in order to completely deter free riders by adopting scrambling, the unit of contract must be changed from household to receiver. Otherwise, the operation will be quite difficult.

With regard to the idea of abolishing a receiving fee for satellite broadcasting and unifying fees to the weighted average price framework, NHK has expressed its intention to creatively coordinate its program scheduling. Therefore, it may not be necessary to consider the current revenue from receiving fees as an assumption. Taking into account the possible revenue increase of four to five billion yen for each year, our discussion does not have to consider 1,600 yen as an assumption. We can handle the issue in a more flexible manner.

○ It seems that, at this stage, we are not ready to discuss either the level of fees for a terrestrial broadcast contract or unification of the weighted average price framework. Based on that understanding, it may be better to set the primary objective of solving unfairness in receiving fee payments. If we expect the role of more channels to be maintained, we are rather inclined to adopt scrambling. With regard to satellite broadcasting, we can discuss the legal nature of receiving fees later.