Universal Service Policy in Japan
## Background to the Development of the Universal Service Fund System

### Development

- **December 2000**
  - Telecommunications Council Report
  - "First Report on Desirable Pro-Competitive policy in the Telecommunications Business Field for Promoting IT Revolution"

- **June 2001**
  - Promulgation of the revised Telecommunications Business Law

- **June 2002**
  - Enforcement of the revised Telecommunications Business Law

- **October 2005**
  - Telecommunications Council Report on "Universal Service Fund System"
    - Adoption of the benchmark method
    - Contribution based on the number of telecommunications numbers

### Enforcement

- **December 2005**
  - Designated the universal telecommunications service support institution

- **March 2006**
  - Designated the eligible telecommunications carriers (NTT East and West)

- **August 2006**
  - Announced the balance in the universal service provided by NTT East and West
    - NTT East and West as a whole posted a deficit of 51.8 billion yen in FY 2005
      - NTT East: 29.4 billion yen deficit
      - NTT West: 22.4 billion yen deficit

- **November 2006**
  - **Approval of compensation and contribution**
    - Approx. 15.2 billion yen in compensation for NTT East and West

- **April 2007**
  - **Started collecting contribution and granting compensation**
Basic Elements of Universal Service

1. It is essential to the life of every person (essentiality)
2. It must be affordable for everyone (affordability)
3. It must be available everywhere without differences between regions (availability)

Providing Universal Service (Telecommunications Business Law Article 7)

Telecommunications carriers that provide universal service (telecommunications service defined by the Ministry of Internal Affairs and Communications (MIC) ministerial ordinance as a service that is essential to the life of every person and thus should be available throughout the entire country) must endeavor to provide that service in an appropriate, fair, and stable manner.

Scope of the Universal Service

(1) Subscriber line access
(2) Public telephones service
(3) Emergency calls service (Police, Fire department, Coast guard)
Rational Behind the Universal Service Fund System

[In the past]
- Cross subsidization
- Unprofitable areas (loss) → Profitable areas (gain)

[Current]
- Situation cannot be maintained on cross-subsidies alone
- Unprofitable areas (loss) → Profitable areas (gain)

- Competition is increasing in urban areas, so the profit in profitable areas is getting smaller.
  - A decreasing number of subscriber lines (As of end of fiscal 2004, 50.32 million subscribers. As of end of fiscal 2005, 46.91 subscribers)
  - An increasing number of mobile phones and broadband Internet connections

- NTT East/West cannot bear the entire cost.
  - Universal service provided by NTT East/West is in the red.
    - NTT East: -29.4 billion yen, NTT West: -22.4 billion yen (FY 2005)

- Under the universal service system (*) other telecommunications providers bear a portion of the cost for maintaining nationwide coverage.

- Providing universal service
  - Nationwide telephone coverage

- Other telecommunications carriers (providing nationwide communications via NTT East/West)

Telecommunications Business Law
Article 107: Support organizations will provide the following functions.
1. . . . where the amount of costs for providing universal telecommunications services ... is deemed to exceed the amount of revenues gained from universal telecommunications services ... provide supports as part of financial compensation for said estimated amount exceeding costs.

2. ...
Universal Service Fund System: Telecommunications carriers benefited from the facilities of the eligible telecommunications carriers contribute to the cost of the universal services.

**Summary of the Universal Service Fund System**

- **Eligible Telecommunications Carriers**
  - Calculation of the cost of the universal services
  - Issue of subsidies

- **Universal Service Administrative Agency**
  - Submission of relevant data
  - Application for the amount of the contribution and subsidies
  - Authorization
  - Notice of the contribution

- **MIC**
  - Carriers benefited from the facilities of the eligible telecom carriers
  - Mobile telephone carrier
  - Fixed telephone carrier
  - IP telephone carrier

- **Methods**
  - **Benchmark methodology**
    - Subject of the cost calculation: Cost of the high cost lines (top 4.9%)
  - Calculation of the contribution and subsidies
  - Collections of the contribution and issue of subsidies
  - **Numbers-based methodology**
    - Receive contribution from telecommunications carriers that have revenues exceeding 1bn yen
  - Payments of the contribution
Benchmark Method

- The compensation amount is calculated as the difference between the basic cost of the top 4.9% of access lines by cost, minus the average cost nationwide. (The basic cost is calculated based on the total element long-run incremental cost method (note) in order to eliminate the inefficiency of NTT East/West.)

Note: The total element long-run incremental cost method is a method for calculating carrier network costs based not on the actual current costs but on the estimated cost of a network built using today’s cheapest and most efficient equipment and technology and carrying the same number of subscribers and the same amount of traffic.
Compensation for NTT East and West

Compensation

For both
NTT East and NTT West

Approx. 15.2 billion yen

NTT East: 7.6 billion yen
NTT West: 7.6 billion yen

Support cost

Approx. ¥15.3 billion

\[ \frac{\text{Support cost}}{12 \text{ months}} = \frac{\text{Approx. 179.21 million numbers}}{\text{Provider’s burden per number}} \]

\[ \frac{\text{Provider’s burden per number}}{(Unit\ price\ per\ number)} = ¥7/\text{month} \]

Providers pay the contribution calculated as the unit price per number times the amount of telecommunications numbers.
Study on the Future of Universal Service Fund System

I. Background of USF review

- Transition to IP-enabled Network
- Possibility of structural separation of “network” and “service”
- Further integration of market in accordance with growing broadband and IP networks

II. Timeframe of USF review

- PHASE 1: Until the beginning of 2010’s (mixture of PSTN & IP networks)
- PHASE 2: After the beginning of 2010’s (towards & completion of full-IP networks)

III. Scope of USF

[PHASE 1]

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>0AB~J IP Telephony</td>
<td>Quality of service equivalent to subscriber lines</td>
</tr>
<tr>
<td></td>
<td>Problems remaining in security/trust level &amp; affordability etc.</td>
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<tr>
<td>050~ IP Telephony</td>
<td>Problems remaining in QoS, security, affordability etc.</td>
</tr>
<tr>
<td>Mobile Phone</td>
<td>Less than 100% of population coverage (99.7%)</td>
</tr>
<tr>
<td></td>
<td>Still complement to fixed-line services</td>
</tr>
<tr>
<td>Broadband services</td>
<td>Need to reconsider when it is accessible &amp; available to everyone</td>
</tr>
</tbody>
</table>

[PHASE 2]

“Universal Access”

Situation in which services of a certain level of quality are available via broadband access networks regardless of category of communications services