Japanese Market

- Population of 125 million.
- Second largest telecommunications market in the world. Twice UK market; 40% of US market.
- 15% of the world's top 2,000 global corporations are headquartered in Japan.
- 50.26 landlines/100 people (4th in region[Sing., HK, TW]); 37.38 mobile/100 people (2nd in region [HK]). ITU 1998 figures.
- Telephone installation costs 9x U.S. ($489 v. $55 [Bell Atlantic]).
- Internet penetration is approx. 12% (33% U.S.); charges for on-line time is twice the U.S. rate and the third highest among OECD countries.

Japanese Market, cont.

- NTT remains dominant in domestic market: local, long distance, and mobile.
- NTT was a government monopoly until 1985, and the government retains 59.1% ownership. This will be reduced, but majority control will remain.
- NTT employs 224,000 people directly + same number in joint ventures, suppliers, etc. Avg. salary in local units is $94k.
- New entrants in international market include NTT's affiliate and Power companies (TTNet).

Cable & Wireless IDC

- IDC was established in 1986, with C&W as one of the founding shareholders (17.7%). Other shareholders included NTT, Toyota, and Itochu (trading house).
- IDC started operations in 1987 as a Type I international carrier and had acquired approximately 20% of Japan's outgoing international traffic market by June, 1999.
- FY 99 IDC revenue ¥ 31.7 billion ($300 million) and operating profit of ¥ 4.1 billion ($39 million).

Cable & Wireless IDC

- Takeover of IDC concluded on June 16, 1999, with control of 97.69% of equity.
- NTT opposed C&W control of IDC and had made "informal," stock-swap counteroffers.
- NTT had provided much of the technological instruction when IDC was founded and expected to merge when allowed into international market, which occurred on Oct. 1, 1999.
- C&W "hostile" takeover was based on highest, formal tender offer of cash and international and media pressure. First time a foreign firm has acquired a Type I carrier.

Interconnection Charges

- 1997 Reference Paper; 1998 US-Japan Agreement on Interconnection
- Interconnection costs can be approx. 40% of a competing carrier's costs
- NTT's charges range from 2-3 times to as much as 8-10 times higher than those prevailing in the EU or US. Not justified due to high GDP, network build, and population density.
- MPT proposed two options to Telecom Council, both of which insufficiently reduced charges. Included problematic depreciation schedules and non-traffic sensitive costs.
- Current MPT proposal calls for a modest reduction over 4 years, slightly more aggressive then historical annual reductions.
- NTT DoCoMo high, unregulated termination rates. Rivaled accounting rate revenue for international carriers.

Rights-of-Way

- Costs of building networks and access to rights-of way is much higher in Japan when compared to other developed countries.
- Ministry of Construction rules add to costs (approx. $2,000/meter), which is 5x Europe, 10x Latin America.
- NTT permits use of ROWs, but only to those facilities it does not plan on using.
- Regulation needed to provide ROW with other utilities that have telco affiliates, power & rail.

Dominant Carrier Regulation

- 1999 NTT Split: two local, mobile, ld & int’l, data, and parent.
- Locals regulated, whereas mobile and int’l provider are not.
- Int’l provider introduced rates below all major competitors and has stated it will not make a profit for three years.
- Possible predatory pricing in flat rate, reduced NTT internet service combined with maintenance of high interconnect rates.
- No anticompetitive safeguards, such as 272, WETO, CPNI, or FCC dominant carrier regulations.

Other Issues

- Carrier pre-selection to be introduced May 1, 2000. Issues concerning use of NTT customer information, NTT default, and bundled services incentives. Compare U.S. and Australian methods.
- Establishment of notice and comment procedures - presently no publication of deliberations, no requirement for public comment, and no right of appeal. Compare APA.

Independent Regulator

- All issues, both present and future, are affected by MPT's independence.
- Government retains majority interest in incumbent.
- Government decisions are consistently skewed toward dominant incumbent, i.e. interconnection, dominance decisions.
- Government consistently expressing concern with incumbents profitability and employment, rather than concern with consumers or competition.
- Reference Paper obligation; Japan's role as a market leader.
- Predatory pricing and cost-based interconnect obligations.