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Nippon Telegraph and Telephone Corporation

NTT's Position on the Initial Report by the IT Competition Policy Committee of the Telecommunications Council

1. Today, the IT Competition Policy Committee of the Telecommunications Council released its Initial Report regarding "Telecommunications Business Competition Policy to Promote the IT Revolution."
2. To date, NTT has expressed the following opinions in public hearings with the Competition Policy Committee and in written responses to the draft of the Initial Report.
 - (1) While steadily advancing NTT's global business development, which was a goal of NTT's reorganization, NTT wants to contribute to the urgent national issue of promoting the IT revolution under the framework of the reorganization.
 - (2) The reorganization of NTT was the conclusion of long deliberations examining diverse aspects, including establishing fair competitive conditions and preserving the interests of NTT's shareholders, and NTT only recently implemented a major structural reorganization in July 1999.
 - (3) Accordingly, accepting the reorganization framework as a given prerequisite, NTT is asking for the necessary revision of certain laws and regulations to respond to changes in market conditions. Specifically, NTT desires <1>the relaxation and abolition of regulations on NTT shareholdings, <2>further clarification of how universal service will be maintained under competition, and <3>the establishment of a competition policy to promote the upgrading of fiber-optic infrastructure under competition.
3. The Initial Report discusses NTT's autonomous plans, including measures to improve management efficiency. The NTT Group will continue striving to improve its management efficiency, for example through the steady implementation of mid-term management improvement measures, to reduce user fees, to provide high-speed Internet access services (ASDL and fiber optics) toward advancing the IT revolution, and to actively develop its international business taking advantage of the NTT Group's merits, all on an autonomous basis.

The Initial Report states "If sufficient development of competition is still not observed after two years time, a fundamental review of the present holding company formation, including a complete separation of capital ownership, will be implemented." NTT finds any fundamental review that includes a complete separation of capital ownership to be entirely unacceptable.

4. Additionally, the overall tone of the Initial Report emphasizes the strengthening of regulations on the NTT Group from the perspective of promoting competition in the domestic telephone market. The Initial Report is not sufficiently responsive to such

urgent issues as the independence of Nippon Telegraph and Telephone East Corporation (NTT East) and Nippon Telegraph and Telephone West Corporation (NTT West) for promoting the advancement of the IT revolution, and the opportunities to strengthen its international competitiveness. NTT's opinions regarding the individual contents of the Initial Report are as follows.

- (1) Maintaining the capital relations within the NTT Group is necessary to strengthen the international competitiveness of the NTT Group's operations, to maintain the present levels of dividend payments and to implement the smooth realization of labor mobility within the NTT Group to achieve improved management efficiency at NTT East and NTT West; and from the perspective of preserving shareholders' interests, capital relations should be decided up to the autonomous judgment of NTT's management.
- (2) Based on the assumption that in practical terms competition on a facilities basis will not occur in regional telephone markets, operational competition is advancing in these markets through the opening of networks and the introduction of the Long Run Incremental Cost (LRIC) model. Meanwhile, NTT Communications Corporation (NTT Communications) and NTT DoCoMo, Inc. (NTT DoCoMo) are focusing on the Internet data telecommunications sector, which is projected to expand in the future, so even if the capital relations were diminished, it is practically inconceivable that either company could enter local telephone markets on a facilities basis.
- (3) NTT will continue to construct fiber optics infrastructure under competition with the aim of advancing the IT revolution. To ensure the investment incentive for such works, NTT has requested that fiber optics infrastructure be excluded from the regulations on specified telecommunications facilities so that it can be freed to pursue these works under the same rules applied to other companies, based on the principle of free competition. Nevertheless, the Initial Report assumes that "regional telephone markets are the monopolies of NTT East and NTT West", and fails to show any competition policy considering the differences between market environments for Internet and telephony, or fiber optics and metal lines.
- (4) The Initial Report accepts some relaxation of the business domain regulations on NTT East and NTT West under certain conditions. Given the inevitable shift of demand from telephone to Internet services, NTT believes that a rapid relaxation of the business domain regulations is essential to establish strong financial positions at NTT East and NTT West, and so that NTT can contribute to advancing the IT revolution.

Additionally, the imposition of additional regulations on subsidiaries in Internet business fields, which is already being implemented by NTT East and NTT West and is permitted for the Regional Bell Operating Companies (RBOCs) in the United States, will obstruct the improvement of management efficiency and the vitalization of their businesses via their subsidiaries at NTT East and NTT West.

- (5) As conditions in the long-distance and mobile communications markets are already sufficiently competitive and no bottlenecks exist in these markets, it is not necessary to impose asymmetric regulations on the long-distance carrier NTT Communications, for which there is no precedent overseas, nor on NTT DoCoMo as the dominant carriers.

Additionally, asymmetric regulations will weaken the competitiveness of those companies in the domestic market, and thus make it impossible to win the competition to establish their technologies (such as the i-mode) as the de-facto global standards, for which penetration rates are the key factor.

- (6) While the Initial Report specifies that the relaxation of foreign ownership regulations (the maximum foreign ownership of NTT to one-third of all outstanding shares) and of the approval system for the issuance of new shares should be implemented within FY 2001, NTT believes that the stipulations under the NTT Law that directly intervene in NTT's management (the approval system for NTT's business plans, appropriation of profits, and appointment and dismissal of directors) should be rapidly abolished from the perspective of facilitating flexible management to respond to radically changing market conditions.

Jun-Ichiro Miyazu, President
Nippon Telegraph and Telephone Corporation



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