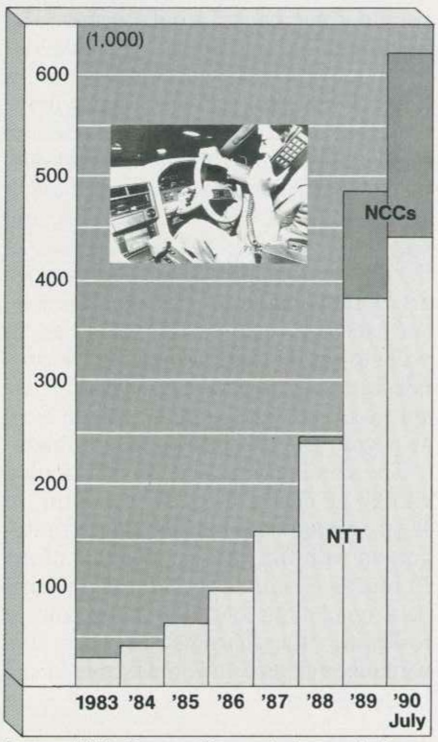
Unanswered Questions

The question of whether to break up Nippon Telegraph and Telephone Corporation (NTT) was settled for the time being at the end of March 1990, when the Liberal Democratic Party (LDP) proposed a revision of the NTT Law.

The LDP plan calls for the following: 1) Splitting its business into long-distance and regional communications operations and ensuring complete disclosure of information on revenues and expenditures; 2) preparing, disclosing and implementing a thorough rationalization program on a voluntary basis; 3) considering recycling earnings to shareholders in the form of larger dividends; 4) carrying out the necessary deregulation; and 5) conducting a study of the desirable structure of NTT, based on the above results, in fiscal 1995, and reaching a conclusion based on that study. For NTT, the LDP proposals leave some important questions unanswered, notably whether to separate its mobile telecom division.

Of the so-called new common carriers (NCCs), the three long-distance telecom operators are well under way in their operations, although a disparity in profits remains. In fiscal 1989, Daini-Denden Inc. and Japan Telecom Co. completely recovered their cumulative losses, while Teleway Japan Corp. produced a surplus for the year. In the year ahead, the thrust of competition against NTT is expected to shift from conventional price-cutting wars to contests for more diversified services, i.e. toward the kind of competition that exists today in the United States.

Number of Car Phone Subscribers



Sources: White Paper on Communications and others

In the case of regional NCCs, Tokyo Telecommunication Network Inc. has markedly expanded sales. All companies, however, including Tokyo Telecommunication Network, have suffered considerable losses, and therefore continue to face hard times.

The two international NCCs–called "second KDDs"–showed rapid growth following their start-up in October 1989, and hold a combined market share of 30%. KDD, in response, reduced its prices and thus set off a year of intense price competition. The competition is expected to enter a new phase this year, when International Digital Communications Inc.'s North Pacific Cable starts operation in February.

As for NCCs with satellite capabilities, the breakdown of the *Super Bird A* satellite in December means Space Communications Corp. will face an uphill battle. Japan Communications Satellite Co. is within reach of an annual surplus, with yearly sales reaching nearly ¥8 billion as planned, but it remains to be seen how a series of accidents will affect demand for satellite services.

NTT's INS Packet service (a kind of integrated services digital network) started in June last year, following delays in negotiations with VAN operators over link-up conditions. The consumer cost of the service is much less than the packet exchange service of VAN operators. The existing VAN companies therefore face tough competition from NTT.

In international VAN services, high-efficiency facsimile communications were decontrolled last year under a final agreement between Japan and the U.S. in late April, when Japan-U.S. telecom talks also produced an accord that opened the international VAN market to foreign competition. The international VAN operators therefore face competition not only among themselves, at home and abroad, but also from Type 1 common carriers who operate their own lines.

Photo: Nihon Keizai Shimbun

The world's smallest portable telephone, made by NTT. The soaring popularity of portable cellular phones was one of the major developments in the communications field in 1990.

The most rapid changes in the communications field last year took place in the automobile and portable telephones sector. The total number of these cellular phones sold by NCC-affiliated companies soared from 4,200 at the end of March 1979 to 110,000 at the end of March 1990. In particular, sales of portable units expanded explosively, reflecting the popularity of the Microtac, the new small, lightweight product from Motorola, Inc.

The scale of the car phone market is expected to top 1 million units by the end of 1991. The frequency shortage is reaching serious proportions especially during the rush hours in areas of heavy traffic like Tokyo. To cope with this problem, digitalized cellular phones are expected to be introduced in fiscal 1991. Already various companies, including foreign firms, are actively seeking ways to fully exploit their access opportunities.

Moves are also under way to start the practical use of second-generation cordless phones. Specifications for these types of mobile phones were drawn up in April 1990. Attempts to stake out a competitive edge in next-generation micro-cellular portable phones are also expected to gain momentum. These types of phones are regarded as the ultimate in portable phones, and a large market is predicted for them. Developments in automobile and portable phones will merit close scrutiny in the coming fiscal year.

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