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| **Title** | *LEAD: European business lobby slams Japan plan to ban prepaid cellphones* |

The European Business Community in Japan on Wednesday criticized a plan by Japan's ruling coalition to present a bill to the Diet, possibly during the current session, to ban the use and sales of prepaid mobile phones, on grounds that they are often used in crimes.

Launching an annual report on the Japanese business environment for 2004, the EBC also touched on the privatization of Japan's postal services and urged the Japanese government to establish a level-playing field with private-sector competitors during and after the process.

The EBC, which represents more than 3,000 European companies and individuals in Japan, asked Japan to ensure that the same tax deferral rules on capital gains currently available for corporate reorganizations between Japanese companies are extended to cross-border stock-for-stock mergers.

In the 96-page annual policy paper, the EBC called the coalition's plan a “disproportionate response,” saying the problem “is not with prepaid itself, but with the current weakness in the ID check system, which criminals have exploited.”

“No country has banned prepaid,” the EBC said, calling for the Japanese government's support for growth of the nation's prepaid phone market, which it says is expanding. “Banning prepaid would harm Japanese consumers.”

The report, the fifth of its kind and expected to be taken up at a Japan-European Union regulatory reform meeting Thursday in Tokyo, said similar problems have emerged in other countries but they have responded by strengthening their ID verification systems.

The EBC's demand reflects requests by Japanese units of European telecom carriers including Vodafone K.K. It came in response to moves by policymakers of the Liberal Democratic Party and the New Komeito party to submit legislation to ban prepaid mobile phones during the current Diet session, which runs through Dec. 3, or next year's ordinary session to be convened in January.

The report said prepaid issues should be kept in perspective, noting that only 0.1 percent of prepaid phones are used in crimes and there is three times as much Internet crime.

In releasing the report, EBC Chairman Richard Collasse said in a speech the EBC “feels strongly that Japan will not be able to attract more foreign investment until the government takes decisive action to address the structural impediments to business development in the private sector.”

He cited a 10 percent fall in flows of foreign direct investment into Japan over the past two years, despite the Japanese government's goal of doubling such investment within five years from 2003.

Collasse, president of Chanel K.K., stressed the need for reform designed to increase mergers and acquisitions involving foreign companies in Japan, saying it is not easy for foreign companies to use their own shares to buy a Japanese company.

“We're expecting changes to the Commercial Code sometime next year that will allow so-called 'triangular mergers' between Japanese and foreign firms, but the real key will be whether the Ministry of Finance will allow tax deferral on theses transactions,” he said.

Cross-border triangular measures mean that foreign parent companies are entitled to use their shares through a 100 percent Japanese subsidiary when merging with or acquiring another Japanese company if that Japanese company is in distress and if its revitalization plan is approved by the Japanese government.

“The MOF has promised to review relevant tax laws, but we all know that a MOF promise to 'kento shitemasu' (We are studying it) does not always translate into real action,” Collasse said.

On the privatization of the state-backed Japan Post, the EBC urged Japan to put the state-run “kampo” life insurance services under the same regulations as private operators and not allow any new or altered kampo products until a level playing field is established, a request also filed by the United States.

“Japan Post's kampo insurance business should be subject to the same capital, solvency margin, tax and policy-holder protection funding requirements as private sector insurers,” the report said.

“Strict limits should be placed on the ability of Japan Post to expand its business until appropriate competitive safeguards have been established to prevent Japan Post from using its dominant position in existing markets to cross-subsidize new business.”

Japan's basic policy on postal privatization, adopted in September, calls for splitting Japan Post into four entities that will take over its mail delivery, savings, life insurance, and management of over-the-counter services at post offices under a holding company, with the process beginning in 2007 and ending by 2017.

The latest report highlights current situations, problems and recommendations for outstanding issues in 29 sectors in Japan, including legal services, banking, insurance, airlines, food, animal health and environmental technology.