



2020 JETRO Survey on Business Conditions of Japanese Companies in Europe

- Serious impact on business performance from novel coronavirus
- Japanese-affiliated companies based in Europe seeking to implement digitalization -

Japan External Trade Organization (JETRO)

Overseas Research Department

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Survey Overview

Survey Objective : This survey analyses the activities of Japanese-affiliated companies based in Europe, in order to comprise an understanding of their operating challenges that could be directly impacting their business performance. It intends to be used as a basis of information for Japanese-affiliated companies in making management decisions as well as for policy makers to take appropriate measures, or to introduce appropriate economic instruments to support companies.

Survey Target : This survey was sent to a total of 1,419 companies between the 3rd to 24th of September 2020. 949 responses from companies based in 15 countries in Western Europe and 8 Eastern and Central European Countries were received, giving a response rate of 66.9%.

Please Note :

- Survey results were totalled using the information sources that can be considered reliable by JETRO offices in Europe, however JETRO cannot guarantee complete accurateness of the information provided by the companies.
- Not all respondents answered every question. The component percentages in the tables and charts of the document have been rounded off and therefore may not always add up to 100%. Furthermore, the percentages for questions of which multiple answers are given may not add up to 100%
- "n=" refers to the number of respondents.
- Some countries or industries may not be listed if the number of respondent companies for each are less than 5.

Survey Results :

1. Operating Profit Forecast
2. Current Domestic Market and Future Prospects
3. Operational Challenges
4. COVID-19 crisis
5. Britain's Exit from the European Union
6. Impact of Changes in Trade Environment
7. EPA/FTA
8. Local Procurement and Future Direction
9. Future Promising Sales Destinations
10. Business Outlook for Next 1 or 2 Years

Survey Overview

Manufacturing

- Food/Processed food, agricultural or fishery products
- Textiles
- Textile apparel/Textile products
- Lumber/Wood products
- Daily necessities/Stationery/Sundries
- Furniture/Interior/Fixtures
- Paper/Pulp
- Printing/Publishing
- Chemical and allied products/Petroleum products
- Medicines
- Plastic products
- Rubber products
- Ceramic/Stone and clay products
- Iron and steel
- Non-ferrous metals
- Fabricated metal products
- General machinery
- Medical equipment
- Precision machines and instruments
- Electrical machinery/Electronic devices
- Electrical machinery parts/Electronic device parts
- Information and communication electronics equipment/Office machines
- Transportation equipment (Motor vehicles/Motorcycles)
- Transportation equipment parts (Motor vehicles/Motorcycles)
- Transportation equipment (others)
- Transportation equipment parts (others)
- Miscellaneous manufacturing industries

Non-Manufacturing

- Agriculture/Forestry/Fisheries
- Mining
- Construction/Plant/Engineering
- Electricity/Gas/Heat supply/Water
- Transport activities/Logistics/Warehouse
- Communications/IT/Software/Information system/Digital service
- Wholesale
- Retail trade / Non-store retailing
- Advertising/Marketing/Research
- Business Process Outsourcing (BPO)
- Trading
- Sales company/ Sales subsidiary
- Banks
- Non-banks
- Real estate
- Consulting
- Holding/managing company
- Worker dispatching/Staffing
- Specialty service such as legal, accounting and tax services
- Accommodations/Travel
- Restaurant
- Rental
- Amusement/ Living-related and personal
- Education/ Research institutions
- Medical/Welfare/Health care
- Media/Mass communication/Contents
- Repair/Maintenance/Inspection and analysis
- Building and facility management
- Design/Architectonics
- Others

Number of participants by country/region	Number of Participants	
	Valid responses	Percentage
Overall	949	100.0
■ Western Europe	849	89.5
Germany	286	30.1
UK	162	17.1
France	111	11.7
Netherlands	87	9.2
Belgium	53	5.6
Spain	24	2.5
Austria	21	2.2
Ireland	20	2.1
Italy	18	1.9
Finland	16	1.7
Switzerland	16	1.7
Sweden	15	1.6
Portugal	12	1.3
Denmark	8	0.8
■ Central & Eastern Europe	100	10.5
Czechia	35	3.7
Poland	32	3.4
Romania	17	1.8
Hungary	8	0.8
Slovakia	4	0.4
Serbia	2	0.2
Slovenia	1	0.1
Bulgaria	1	0.1

Summary of Survey Results

Synopsis

- ❖ A certain proportion of companies expressed concern regarding trade between Britain and the EU in 2021 and beyond, after the transitional period governing Britain's exit from the European Union (Brexit) comes to an end. **The greatest concern related to Brexit was "Economic slump in the UK".**
- ❖ For trade between Japan and the EU, **the simple average of companies' responses (value-based procurement) from Japan for Japanese-affiliated companies based in the EU** was 36.6%, **an increase of 5.2 percentage points** from the 2018 survey, conducted **before the EU-Japan EPA came into effect**. **With the utilization of the EU-Japan EPA** also increasing, **use of the self-declaration system is gradually being adopted**. **More than 70% of Japanese-affiliated companies based in the UK that import from Japan plan to utilize the Japan-UK EPA, or are considering utilizing it.**
- ❖ **In 2020 the percentage of companies predicting that they will be profitable was 48.5%, recording the lowest level since 2012**, when the non-manufacturing sector began to be included in the survey new. Operational challenges emerged in the form of **"Restrictions on cross-border movement"** and **"Declining consumer demand"** caused by the spread of COVID-19.
- ❖ When asked **when they expected business activity to normalize**, the most common answer, at 30.0%, was **"Second half of 2021"**. The next most common was "First half of 2021", at 26.6%, showing that companies have expectations for 2021 and beyond. In terms of initiatives for 2021 and beyond, while many companies cited measures to reduce expenses, such as "Rationalization through personnel reductions" and "Reducing the number of expatriates", there was also evidence of companies tackling new initiatives such as **"Reviewing products sold"**, **"Promoting digitalization"**, and **"Reviewing suppliers"**. For these reasons, policies offered by EU countries in relation to **"Support for investments in digitalization"** and **"Support for green investments"** are attracting attention.

1. Operating profit forecast, domestic market conditions, and domestic market future prospects

- **The proportion of companies predicting profitability** in 2020 was **48.5%**. This was a 22-point decrease over the 70.5% of the previous year. This is **the lowest level recorded since the survey** changed from the previous manufacturing sector-only survey to include the non-manufacturing sector **in 2012**. The percentage predicting a loss recorded a new high (slide 1-1).
- Responses indicating a decrease in operating profit (57.4%) for 2020 relative to the previous year were significantly higher than those indicating an increase (13.0%). **The Hotel/travel industry has been seriously affected** (1-5).
- The proportion of companies responding "Better" or "Slightly Better" in relation to current market conditions in the country they are based in decreased significantly from 32.6% in the previous year's survey to 8.0% (2-1).

Survey Results Summary (continued)

2. The impact of COVID-19 and realignment of businesses

- **The most common operational challenge** selected by all Japanese-affiliated companies based in Europe was **"Spread of COVID-19", at 57.2%**. By country, particularly high responses were recorded in Spain (87.5%), Switzerland (86.7%), and France (67.9%). In terms of specific COVID-19 issues, a high proportion of companies in Spain cited "Decline in consumption demand", while in Switzerland and France it was "Restrictions on cross-border travel" (3-1, 3-5).
- Companies affected by COVID-19 **seek to digitalize their operational strategies and business models**. The expansion of working from home, and the enthusiastic use of initiatives such as utilization of virtual exhibitions and promotion of AI usage is striking (4-2).
- For 2021 and beyond, a relatively high proportion of companies planned to begin "Changeover in procurement sources", "Streamlining by staff reduction", and "Reduction of expatriates" (4-2).
- **In terms of support policies offered by individual countries, "Support measures for investment in digitalization" attracted the most attention** at 34.1%, **with particularly high proportions in Italy (53.3%), the UK (42.7%), and Belgium (36.8%)**, which shows the enthusiasm of Japanese-affiliated companies based in Europe for digitalization (4-3).

3. Britain's exit from the EU

- **The most common operational challenge for Japanese-affiliated companies based in the UK continued to be "UK's exit from the EU" (3-4)**.
- In terms of trade issues after the end of the transitional period, nearly 70% of manufacturing companies based in the UK expressed concern regarding "Export from the UK to the EU", underpinning the importance of the EU market. 51.7% of manufacturing companies based in the UK expressed concern about "Export from the EU to the UK", reaching 78.3% if all companies expressing anxiety about either imports or exports were counted.
- In terms of concerns about the business environment, **the most common response for companies both in the UK and the EU was "Economic slump in the UK". In terms of specific concerns common to companies both in the UK and the EU in relation to "Changes in UK Regulations and Legislation", the most frequent response for the manufacturing sector was "CE marking", whereas for the non-manufacturing sector it was "Constraints of free movement of persons between the EU and UK" (5-5, 5-6)**.
- For UK-based Japanese-affiliated companies from the manufacturing sector, the simple average of companies' responses (value-based procurement) from the EU was 13.5%, a decline of 10.4 percentage points over that of the previous year's survey. In response to questions about the future direction of procurement, 25.0% selected "Decrease", a rise of 2.3 points (8-2, 8-3).

Survey Results Summary (continued)

4. Utilization of the EU-Japan EPA

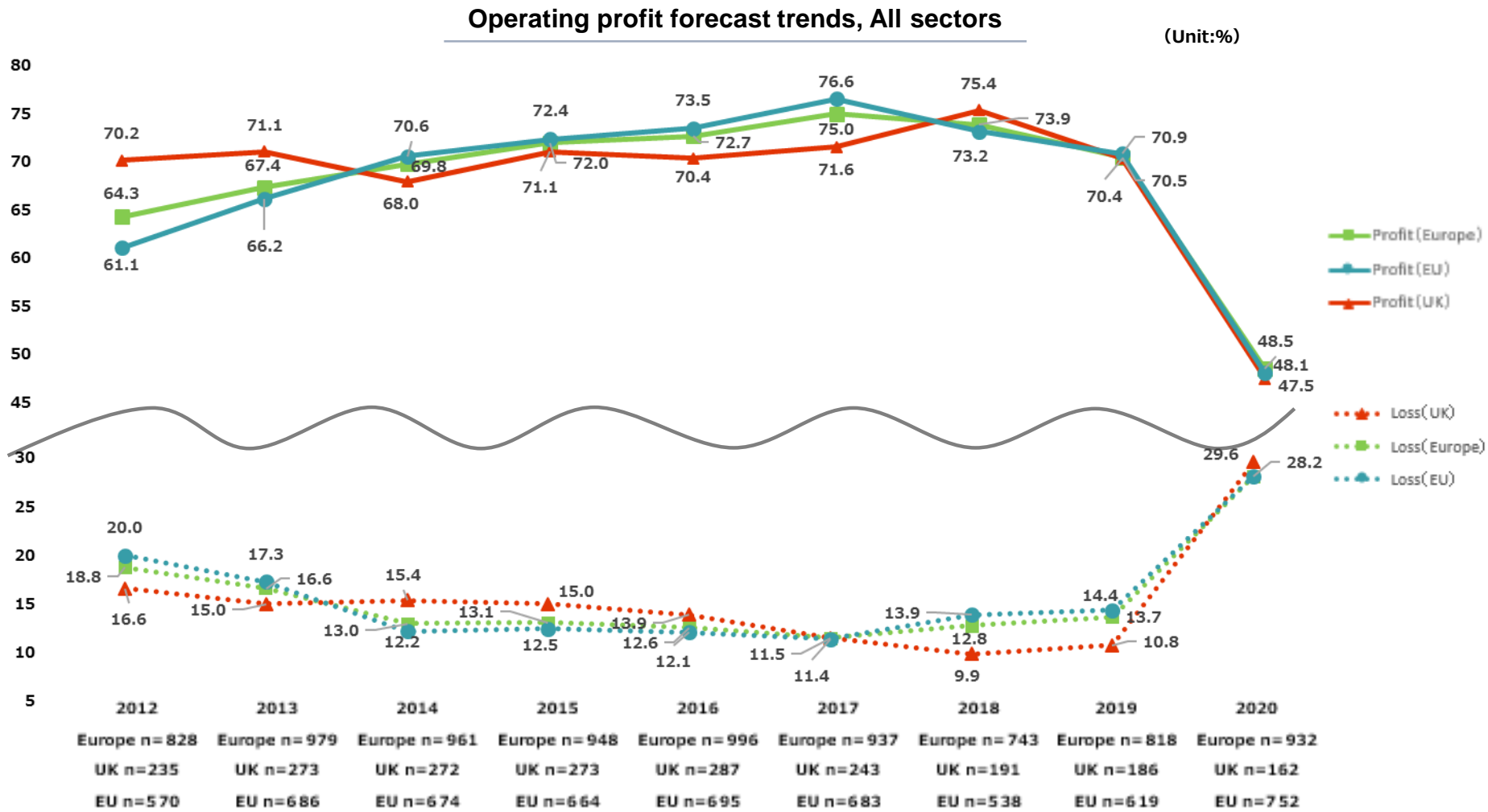
- Regarding the utilization of the EU-Japan EPA by Japanese-affiliated companies based in the EU, the proportion of companies responding that they utilized it for imports from Japan to the EU (including the UK) was nearly half the total, at 48.1%. If "Preparing to utilize" and "Considering to utilize" are included, this rises to approximately 80%. By country, relatively high levels were recorded in Czechia (75.0%), the Netherlands (56.0%), Belgium (50.0%), Italy (50.0%), and Germany (46.0%) (7-1).
- **In terms of issues associated with utilization, approximately half of respondents cited "Cooperation with supplier/business partners", but on the other hand the "Proof of origin procedures (self-certification)" that occupied the top spot in the previous year's survey declined by more than 10 percentage points in the 2020 survey.** With utilization of the EPA beginning to spread, **securing the necessary rules of origin documentation from suppliers and business partners remains an issue** for some companies (7-5).
- The simple average of companies' responses (value-based procurement) from Japan for Japanese-affiliated companies based in the EU was 36.6%, which has grown by 5.2 percentage points from the 2018 survey, conducted before the EU-Japan EPA came into effect. In Germany and the Netherlands, where there are clusters of Japanese-affiliated companies and where the EPA is heavily utilized, the average rate exceeded 40% (8-1).
- For Japanese-affiliated companies based in the UK that import/export between the UK and Japan, **the proportion that responded that they were "Planning to utilize" or "Considering utilizing" the Japan-UK EPA for "Imports from Japan to the UK" was 73.7%.** This appears to show the intention of companies based in the UK to achieve a smooth transition from the EU-Japan EPA to the Japan-UK EPA when it comes into effect on January 1, 2021 (7-9).

5. Other major trends

- In relation to current market conditions in the country they are based in, **companies in Central and Eastern Europe responding "Better" and "Slightly Better" totaled 23.4%,** significantly higher than the same figure for Western Europe (6.3%). As for prospects, the percentage exceeded that for Western Europe by more than 10 percentage points (2-1, 2-2).
- **In terms of Business outlook for the next 1 or 2 years, the proportion of the Central and Eastern European manufacturing sector responding with "Expansion" was 45.2%,** which was again more than 10 percentage points higher than the manufacturing sector in Western Europe (10-1).
- In terms of operational challenges, the proportion of manufacturing sector companies based in Central and Eastern Europe responding "Rapid labour costs growth", although lower than in the previous survey, exceeded that of "Spread of COVID-19" (4-3).
- Approximately 30% responded "Poland" when asked about **future promising sales destinations. Of the top 10 such countries, 5 were in Central and Eastern Europe, showing that expectations towards this region are shifting from the previous perception of being primarily production bases to becoming markets in their own right (9).**

1-1 | The lowest proportion of profitable respondents and the highest proportion of loss-making respondents since 2012

- Looking at trends over the past nine years of operating profit forecasts, in 2020 the proportion of Japanese-affiliated companies based in Europe that responded with "Profit" was 48.5%, recording the lowest level since the non-manufacturing sector began to be included in the survey in 2012. Conversely, the proportion of companies responding with "Loss" was 28.2%, the highest ever.

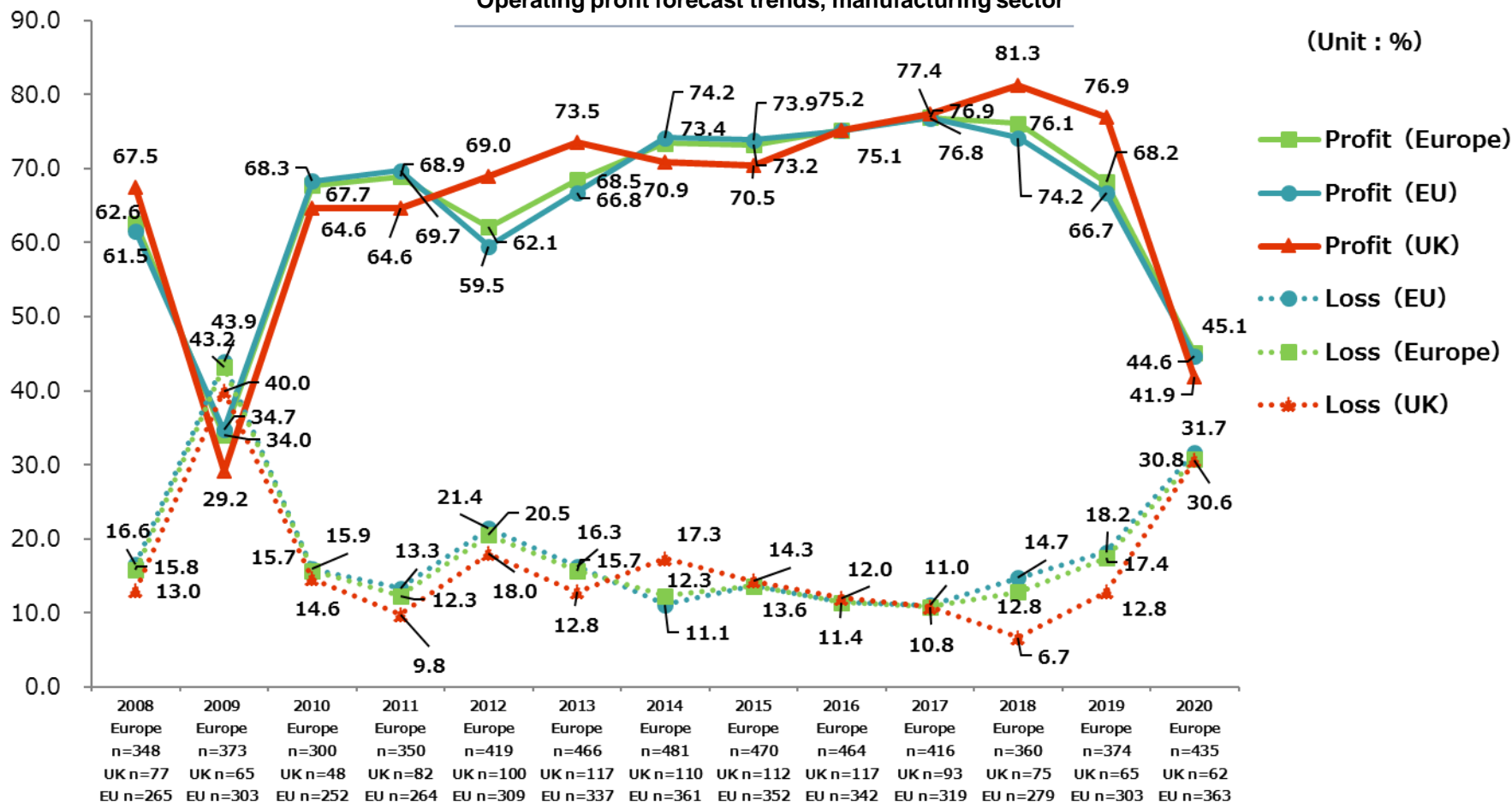


(NB) 'n' includes companies that responded "Breakeven".

1-2 | The proportion of profitable respondents is the lowest recorded since in 2010, following drop caused by the global financial crisis in 2009

- Looking at manufacturing sector Japanese-affiliated companies based in Europe, the proportion forecasting operating profit in 2020 was 45.1%, a decline of 23.1 percentage points from the previous survey.
- The proportion of manufacturing sector Japanese-affiliated companies based in the UK responding with "Profit" was 41.9%, a decline of 35.0 percentage points from the previous survey. For manufacturing sector Japanese-affiliated companies based in the EU, the proportion forecasting operating profit in 2020 was 44.6%, a drop of 22.1 points. In all three cases, these were the lowest figures for the past 10 years.

Operating profit forecast trends, manufacturing sector

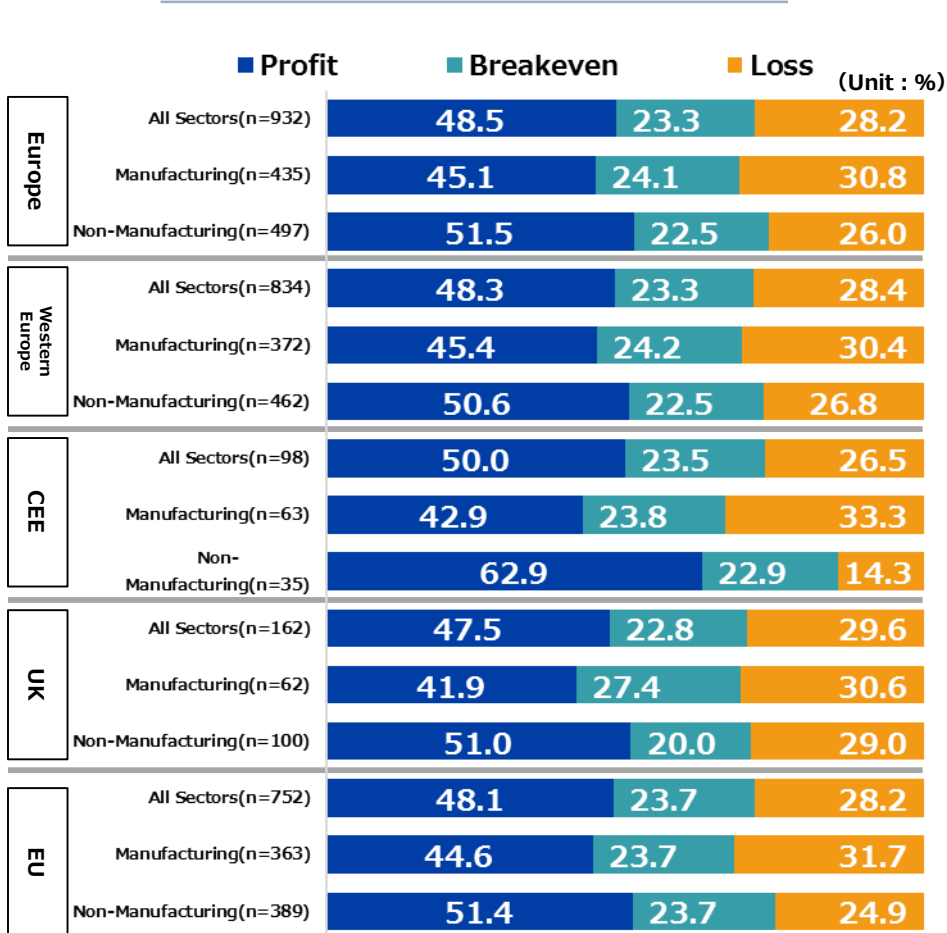


(NB) 'n' also includes companies that responded "Breakeven".

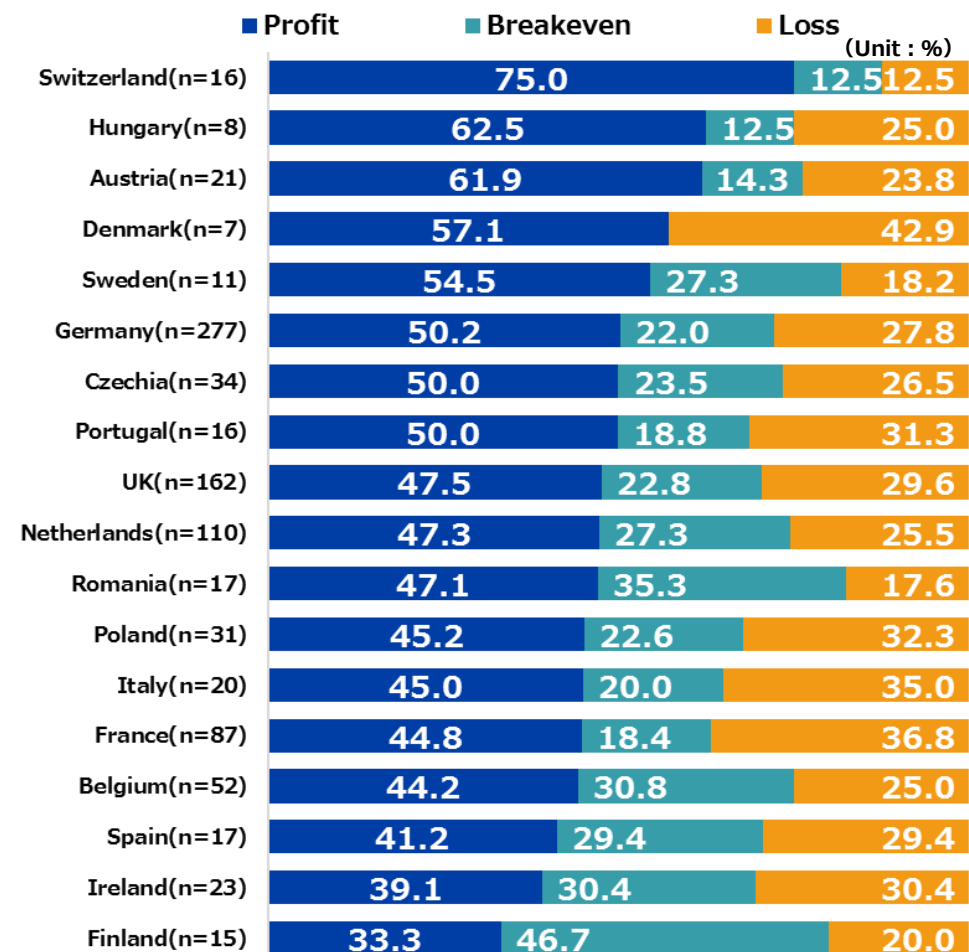
1-3 | The proportion of “Profit” fell, while the proportion of “Loss” rose

- For operating profit in 2020, the proportion forecasting “Profit” was 48.5%, “Breakeven” was 23.3%, and “Loss” was 28.2%.
- Both Manufacturing and non-manufacturing sectors in Europe, Western Europe, Central and Eastern Europe, the UK, and the EU recorded lower proportions of profitable respondents than in the previous year, and the number of loss-making respondents increased.
- Large numbers of companies pointed to the impact of COVID-19.

2020 Operating Profit Forecast (By Industry)



2020 Operating Profit Forecast (By Country)

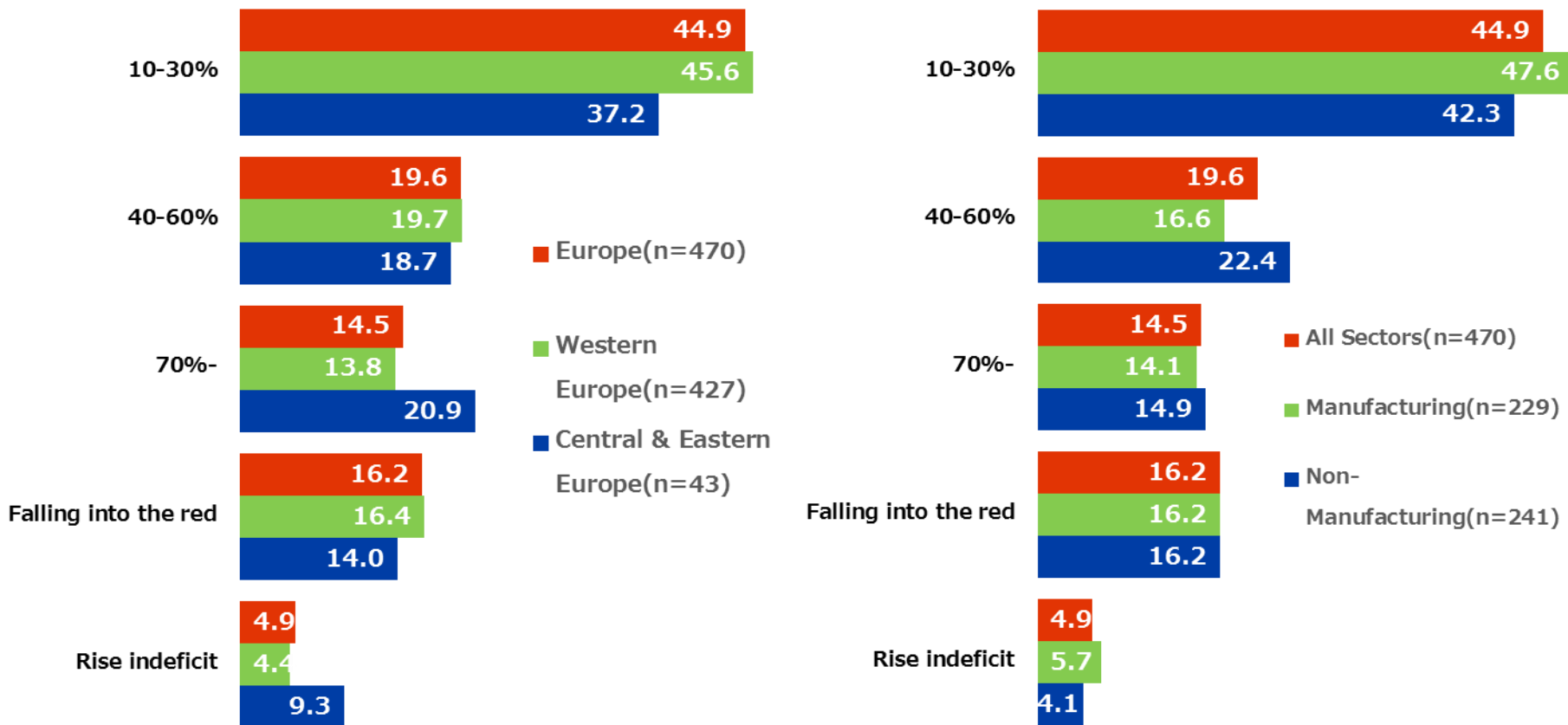


1-4 | Rates of decline in operating profit of 10-30%

- When companies who responded with a forecast for lower operating profit in 2020 were asked for the scale of the projected decline, those indicating between 10% and 30% came to 44.9% of the total, the largest grouping.
- Viewed by region, the most common response in both Western Europe and Central and Eastern Europe was “10-30% decline,” followed by “40-60% decline” in Western Europe, and by “more than 70% decline” in Central and Eastern Europe.
- Looked at by industry, the proportion of companies in the non-manufacturing sector forecasting a decline of 40% or more is higher than in the manufacturing sector.

Forecast decline in operating profit for 2020 (Left: by region, Right: by industry)

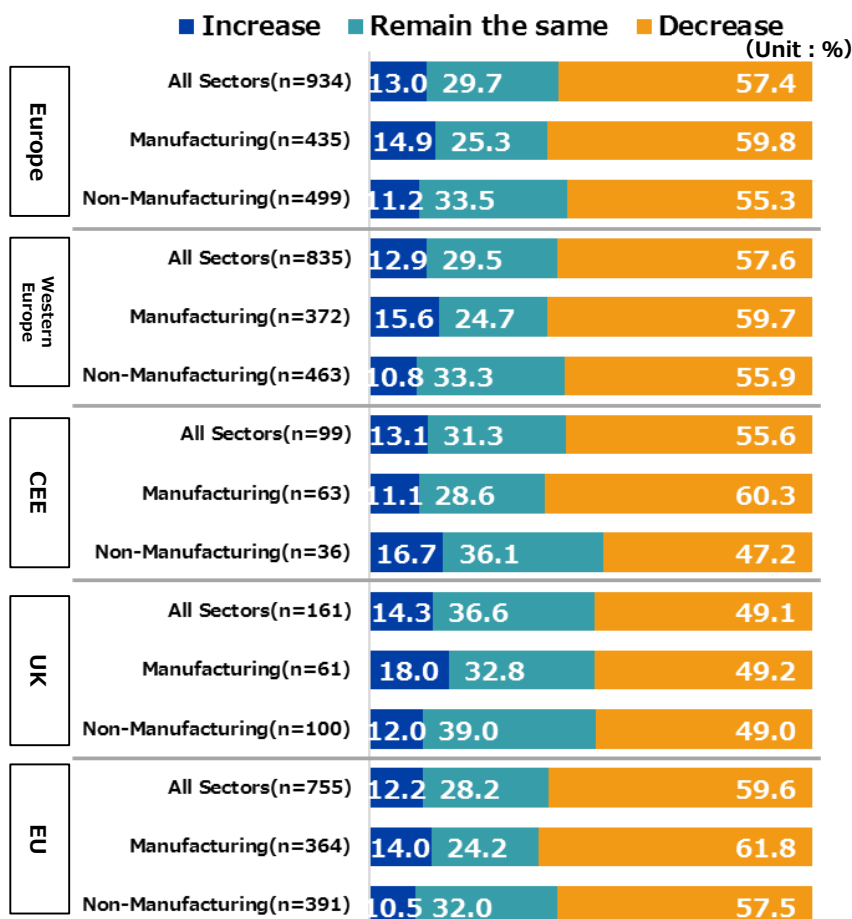
(Unit: %)



1-5 | Serious impact from COVID-19, a blow to the hotel/travel industry

- For Europe as a whole, the proportion of respondents selecting "Decrease" (57.4%) significantly exceeded those who selected "Increase" (13.0%) for their operating profit forecasts in 2020, relative to the previous year.
- By industry, the proportion of companies responded "Decrease" was high for "Accommodations/Travel" where all companies responded with "Decrease".
- The most common reason cited for the "Decrease" caused by COVID-19 was "Sales decrease in local markets", followed by "Sales decrease due to export slowdown".

2020 Operating Profit Forecast compared to 2019 Operating Profit results(by industry)



2020 Operating Profit Forecast compared to 2019 Operating Profit Results: ratio of "Decrease" responses by Industry

"Decrease" (n=536)		(Units : cos, %)	
		Responses	%
1	Accommodations/Travel	14	100.0
2	Rubber products	7	87.5
3	Retail trade/Non-store retailing	6	85.7
3	Ceramic/Stone and clay products	6	85.7
5	Textiles (Spinning/Woven fabrics/Chemical fibres)	5	83.3
5	Printing/Publishing	5	83.3

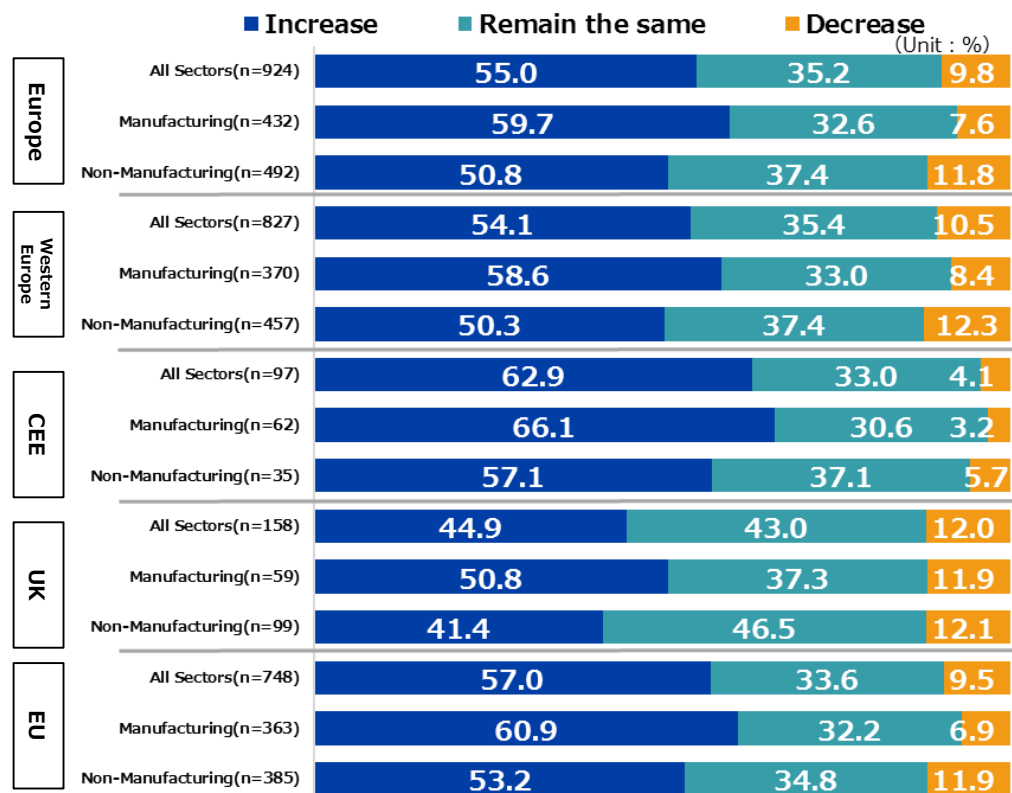
2020 Operating Profit Forecast Compared to 2019 Operating Profit Results Reasons Given for "Decrease" (due to Covid-19)

"Decrease" (n=530)		(Units : cos, %)	
		Responses	%
1	Sales decrease in local markets	434	81.9
2	Sales decrease due to export slowdown	216	40.8
3	Increase of procurement costs	46	8.7
4	Effects of exchange rate fluctuation	37	7.0
4	Production costs insufficiently shifted to selling price of goods	37	7.0

1-6 | Operating profit forecast to improve year on year in 2021

- More than 50% of companies responded "Increase" when asked for their 2021 operating profit forecast, relative to 2020. This appears to be a rebound from 2020. Reasons cited for "Increase" included "Sales increase in local markets" and "Sales increase due to export expansion", with 75.5% and 38.8% respectively. In terms of reasons indicated by companies for "Decrease", the most common was "Sales decrease in local markets", at 57.8%. Next most frequent was "Spread of COVID-19" at just under 40%, showing that certain proportion of companies are concerned about the effects on business performance of COVID-19 even in 2021 and beyond. Among Japanese-affiliated companies based in the UK, a relatively high proportion of which indicated "Decrease", more than 30% of companies cited "Effects of Brexit", foreseeing negative impacts after the end of the transitional period for the UK's exit from the EU.

Operating profit forecasts in 2021, relative to 2020 (by industry)



Reasons for "Decrease" or "Increase" in the 2021 forecast relative to the previous year

Europe (All sectors) (n=503) "Increase" (Units : No. of respondents, %)

	Responses	%
1 Sales increase in local markets	380	75.5
2 Sales increase due to export expansion	195	38.8
3 Improvement of sales efficiency	83	16.5
4 Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	72	14.3
5 Improvement of production efficiency	70	13.9

CEE (All sectors) (n=59) "Increase"

	Responses	%
1 Sales increase in local markets	40	67.8
2 Sales increase due to export expansion	25	42.4
3 Improvement of production efficiency	22	37.3
4 Reduction of procurement costs	12	20.3
5 Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	11	18.6

Europe (All sectors) n=90) "Decrease"

	Responses	%
1 Sales decrease in local markets	52	57.8
2 Spread of COVID-19	33	36.7
3 Sales decrease due to export slowdown	23	25.6
4 Increase of labour costs	11	12.2
5 Increase of procurement costs	10	11.1

UK (All sectors (n=19) "Decrease"

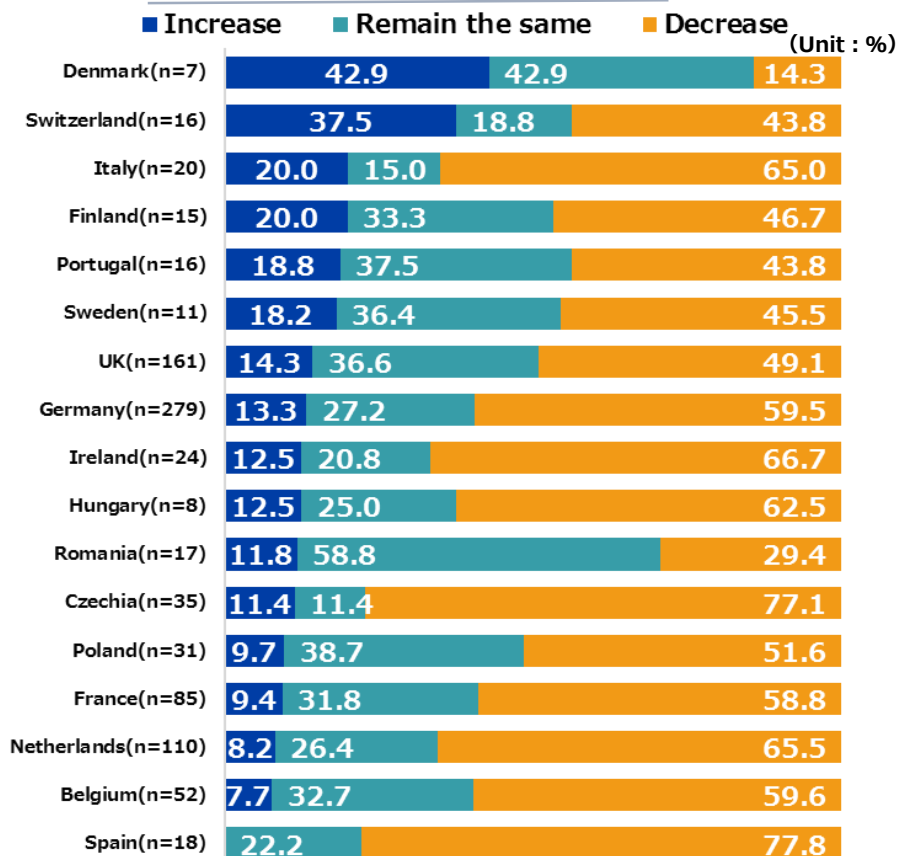
	Responses	%
1 Sales decrease in local markets	8	42.1
2 Sales decrease due to export slowdown	7	36.8
3 Spread of COVID-19	7	36.8
3 Effects of Brexit	6	31.6

1-7

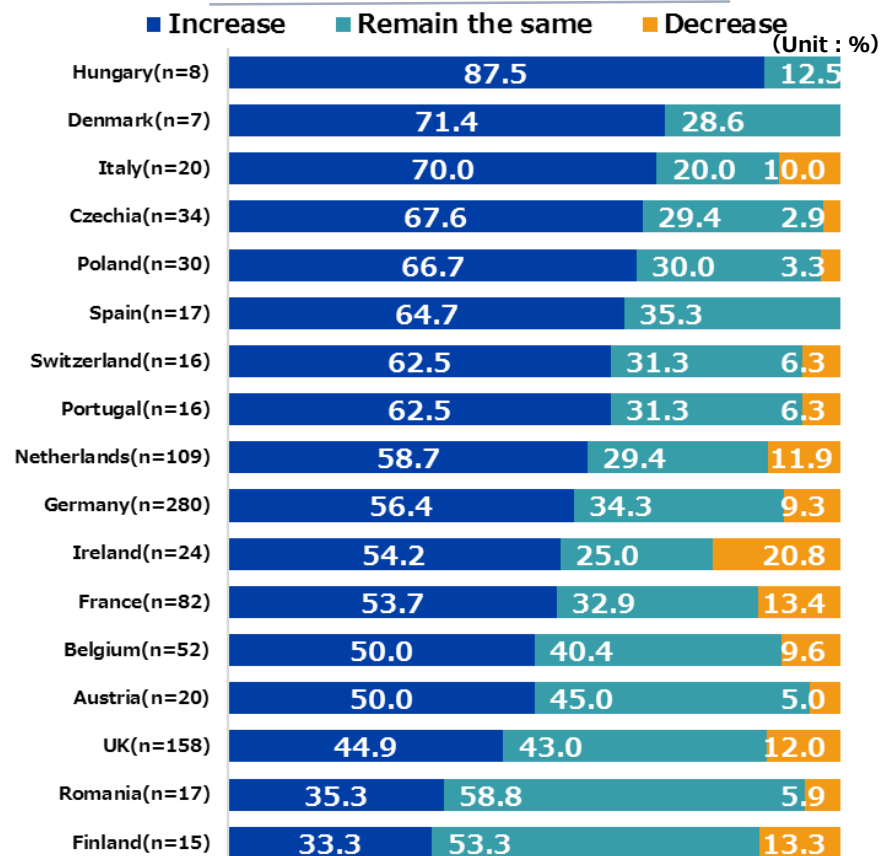
Proportion of "Increase" rises in all countries, possible rebound from COVID-19?

- When we compare the forecast for 2020 operating profit relative to 2019 to the forecast for 2021 operating profit relative to 2020, the proportion of those responding "Increase" rose by over 10 percentage points in all countries. This appears to be a rebound from the impact of COVID-19 on 2020.
- When compare the forecast for 2020 operating profit relative to 2019 to the forecast for 2021 operating profit relative to 2020, with the exception of Ireland, in all countries the highest proportions cited as reasons for "Increase" and "Decrease" were "Sales increase in local markets" and "Sales decrease in local markets" respectively.

2020 operating profit forecast relative to 2019 results (by country)



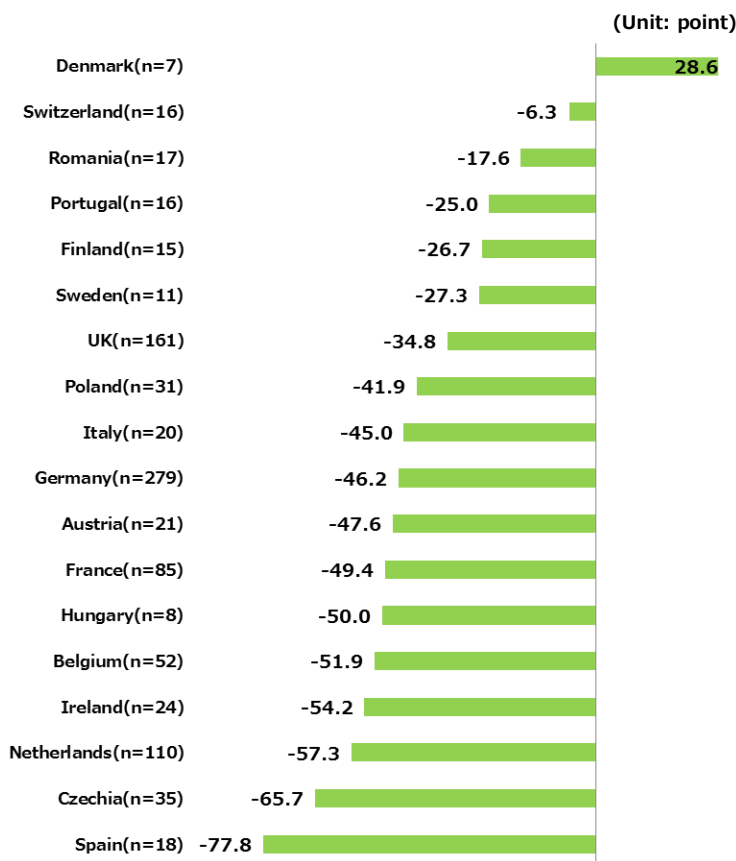
2021 operating profit forecast relative to 2020 (by country)



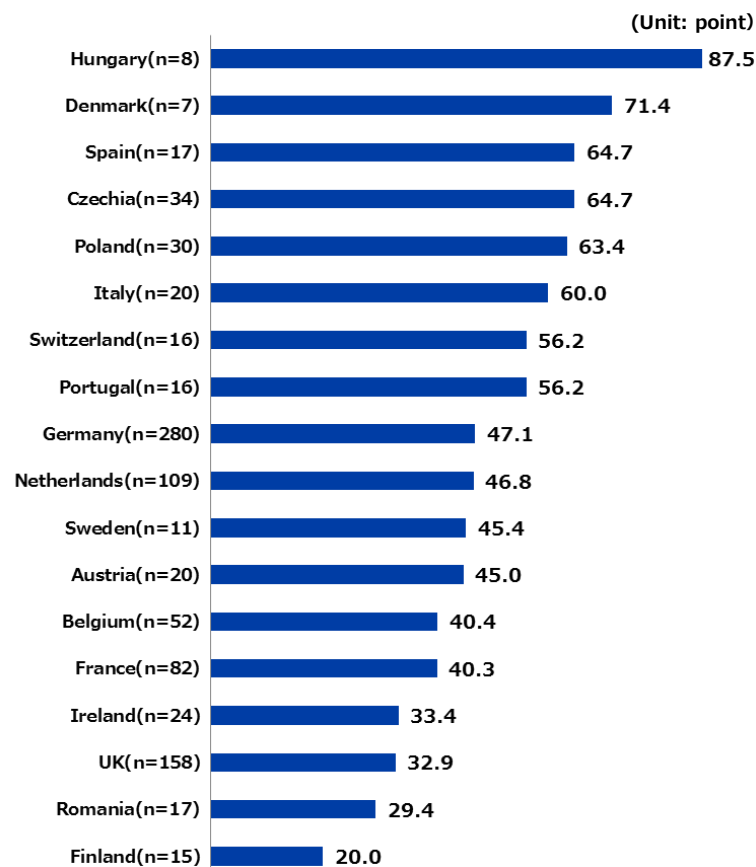
1-8 | In 2020 the Diffusion Index (DI) deteriorated in nearly every country

- When 2020 operating profit forecasts relative to 2019 are viewed through the DI, all countries apart from Denmark recorded negative values.
- When 2021 operating profit forecasts relative to 2020 are viewed through the DI, all countries recorded strongly positive figures due to the rebound from COVID-19 in 2020.

2020 operating profit forecast DI (by country) relative to previous-year (2019) results



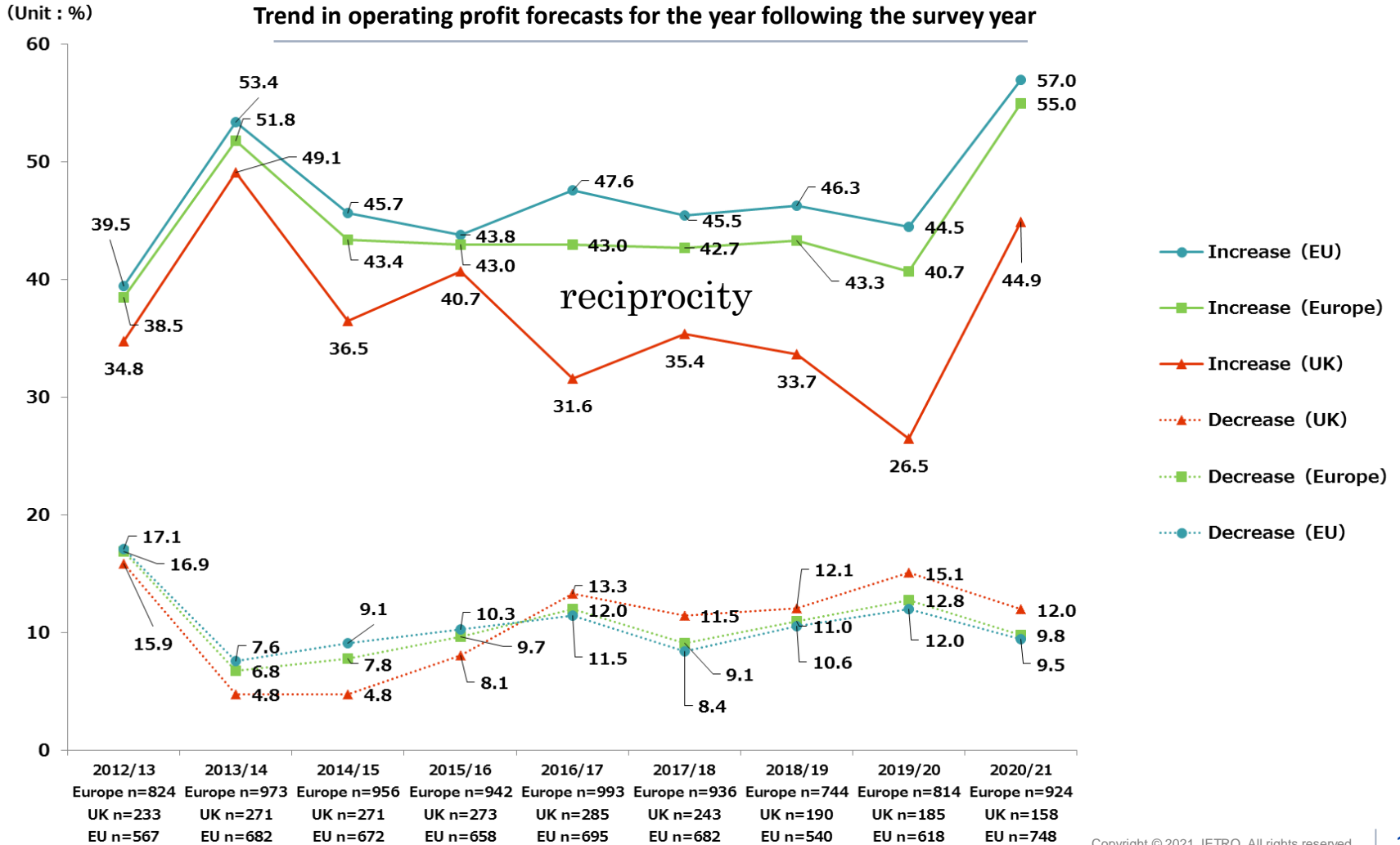
2021 operating profit forecast DI (by country) relative to 2020



(NB) The Diffusion Index (DI) is a value obtained by deducting the proportion of companies who replied "Decrease" from those that replied "Increase". It is an indicator for showing in numerical form how business confidence is changing.

1-9 | Forecast improvements in operating profit for the following year are the highest in 9 years in Europe/the EU

- The proportions of Japanese-affiliated companies operating in Europe and the EU responding with "Increase" for the 2021 operating profit forecast relative to 2020 were 55.0% and 57.0% respectively, both of which mark a nine-year high. The proportion of companies based in the UK responding with "Increase" also increased by 18.4 percentage points over the previous year's survey, to 44.9%. In both cases this appears to be a rebound from the significant impact of COVID-19 on 2020.

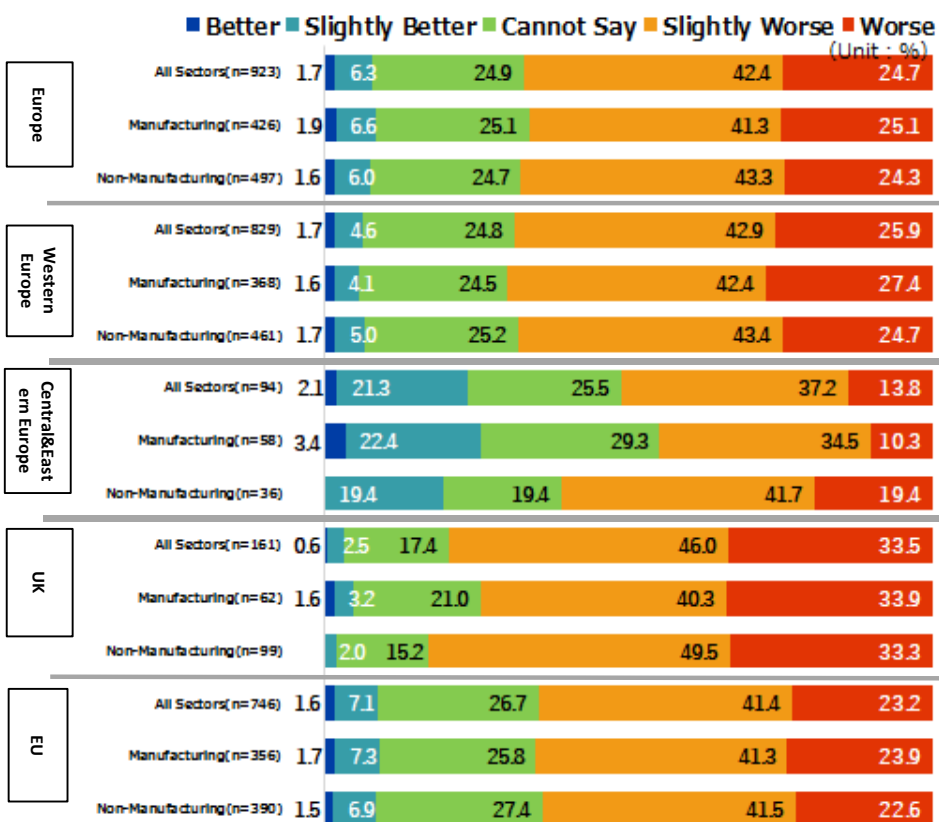


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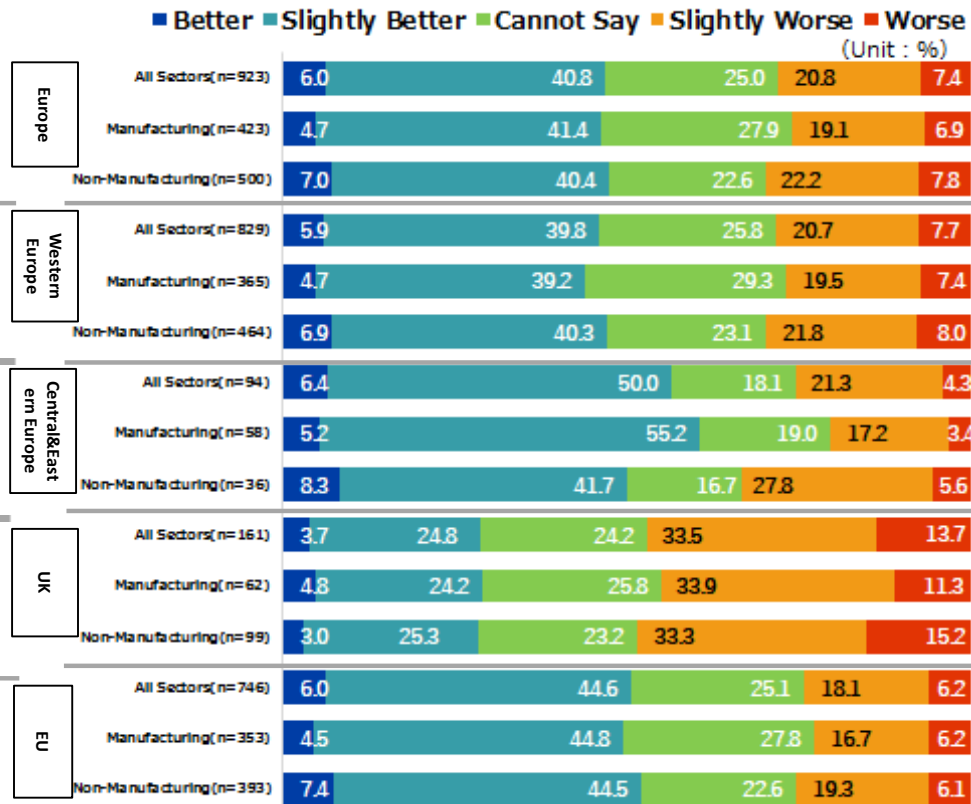
Overall, current market conditions are significantly worse than in the previous year

- Regarding the companies' views on current market conditions in the country that they are based in, the proportion of all companies in Europe responding "Better" (1.7%) and "Slightly better" (6.3%) totaled 8.0%, a significant decrease of 24.6 percentage points over the previous year's survey (32.6%). While the equivalent proportion for Western Europe was 6.3%, for Central and Eastern Europe the total of "Better" (2.1%) and "Slightly better" (21.3%) came to a relatively high 23.4%.
- In the UK, "Better" (0.6%) and "Slightly better" (2.5%) responses totaled 3.1%, down 12.6 percentage points over the previous year, with the non-manufacturing sector recording a particularly large decline of 16.3 points, to 2.0%. On the other hand, companies responding "Improving" (3.7%) and "Slightly improving" (24.8%) in relation to future prospects for the UK market came to 28.5%, an increase of 20.3 points over the survey of the previous year, but the combined total of "Slightly worse" (33.5%) and "Worse" (13.7%) was the highest rate of any of the surveyed countries.

Domestic Market Conditions (By Industry)



Domestic Market Prospects (By Industry)

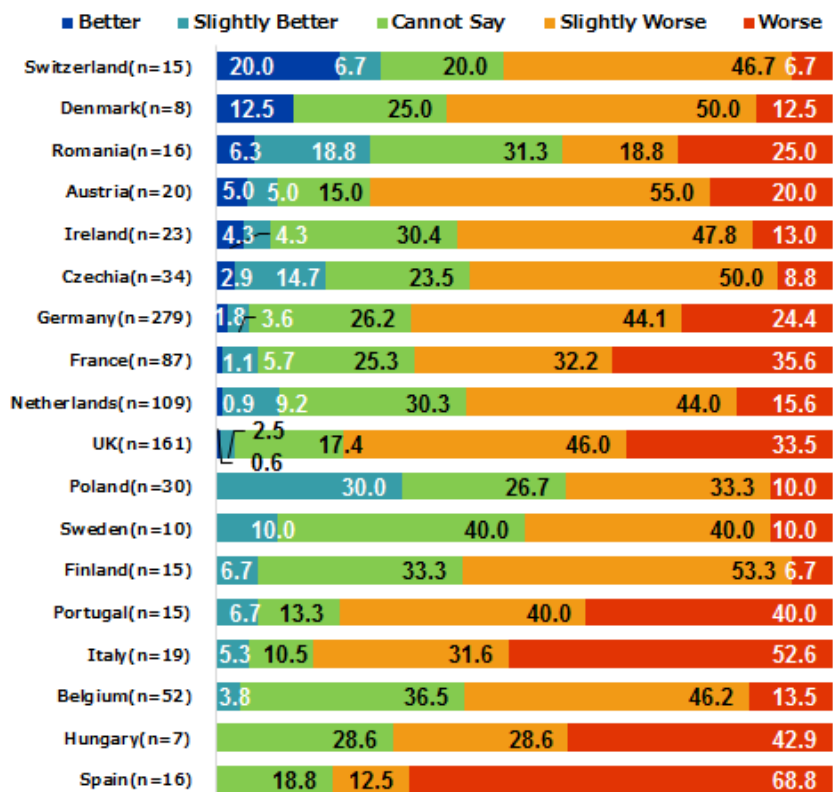


2-2

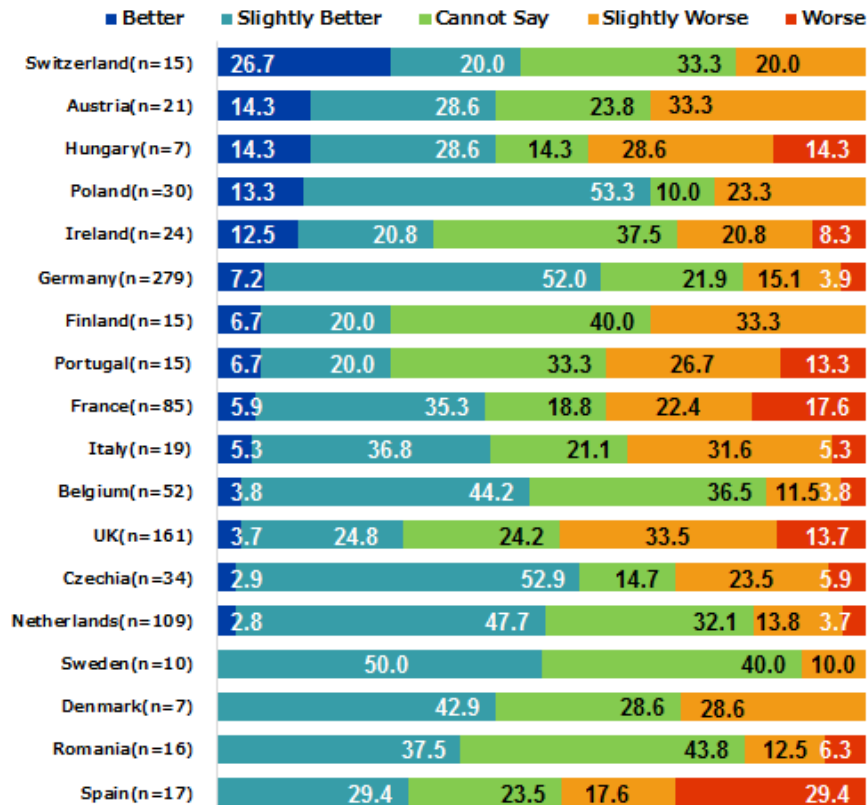
Market conditions worsening in Southern European countries, Eastern European countries hanging on

- Looking at market conditions by country in which companies are based, the proportion of companies taking a positive view (those responding with "Better" and "Slightly better") was 30% or lower for every country. The highest proportion of "Better" responses was for Switzerland, at 20.0%. Companies in Central and Eastern European countries had a relatively positive view of conditions, with the proportion of "Better" and "Slightly better" responses combined reaching 30.0% for Poland, 25.1% for Romania, and 17.6% for Czechia. On the other hand, in Italy and Spain the combined proportion of those companies responding "Worse" and "Slightly worse" exceeded 80%.
- The highest combined proportion of companies responding with "Improving" and "Slightly improving" for market prospects was recorded in Poland (66.6%), followed by Germany (59.2%).

Domestic Market Conditions (By Country)



Domestic Market Prospects (By Country)



3-1 | COVID-19 becomes the most common operational challenge in Europe

- In terms of operational challenges, the most commonly cited item was "Spread of COVID-19", which was added as a new item in 2020. The uncertainty and the changes in the business environment that have resulted from the spread of infection have become a major burden on Japanese business in Europe.
- "High labour costs" (40.4%) remained at the same level, with an increase of 0.1 percentage points over the previous year, but was still the second most common operational challenge in 2020.
- "UK's exit from the EU" saw a significant decline over the previous year, falling 16.8 percentage points to 39.7%.
- Conversely, "Economic recession, shrinking of markets" (27.0%) and "Strict dismissal laws" (26.8%) increased by 2.5 percentage points and 3.3 points respectively over the previous year, while "Transfer pricing taxation" (18.7%) rose by 7.9 points year on year.

Operational Challenges <Europe, Multiple Answers Given>

(Units: %, points)

	2019 (n=803)	2020 (n=891)	Change since 2019	Sector					
				Manufacturing			Non-Manufacturing		
				2019 (n=367)	2020 (n=419)	Change since 2019	2019 (n=436)	2020 (n=472)	Change since 2019
1 Spread of COVID-19	-	57.2	-	-	58.0	-	-	56.6	-
2 High labour costs	40.3	40.4	0.1	41.4	40.1	△ 1.3	39.4	40.7	1.3
3 UK's exit from the EU	56.5	39.7	△ 16.8	55.6	38.4	△ 17.2	57.3	40.9	△ 16.4
4 Securing Human Resources	41.8	34.0	△ 7.8	46.6	36.5	△ 10.1	37.8	31.8	△ 6.0
5 Lower prices offered by competitors	33.0	29.7	△ 3.3	41.7	37.5	△ 4.2	25.7	22.9	△ 2.8
6 Economic recession, shrinking of markets	24.5	27.0	2.5	24.0	25.5	1.5	25.0	28.4	3.4
7 Strict dismissal laws	23.5	26.8	3.3	19.6	25.5	5.9	26.8	28.0	1.2
8 EU General Data Protection Regulation (GDPR)	32.5	25.8	△ 6.7	27.8	24.3	△ 3.5	36.5	27.1	△ 9.4
9 Visa/work permits	25.5	24.9	△ 0.6	23.2	24.1	0.9	27.5	25.6	△ 1.9
10 Rapid labour costs growth	30.8	23.5	△ 7.3	37.9	28.2	△ 9.7	24.8	19.3	△ 5.5
11 Exchange rate fluctuations	26.4	19.2	△ 7.2	29.4	21.5	△ 7.9	23.9	17.2	△ 6.7
12 Transfer pricing taxation	10.8	18.7	7.9	10.6	21.2	10.6	11.0	16.5	5.5
13 Heavy social security burdens	18.8	18.7	△ 0.1	20.2	18.6	△ 1.6	17.7	18.9	1.2
14 Quality of workforce	21.9	18.4	△ 3.5	21.5	18.6	△ 2.9	22.2	18.2	△ 4.0
15 European social and political situation	29.4	18.0	△ 11.4	28.9	16.7	△ 12.2	29.8	19.1	△ 10.7

(NB) "COVID-19" and "UK's exit from the EU" were added as new items in the 2020 and 2019 surveys respectively.

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3-2 | COVID-19 was the most common operational challenge for Western Europe also

- For Western Europe as a whole, the most common operational challenge was "Spread of COVID-19" (57.4%), and responses for manufacturing and non-manufacturing sector companies were both high at just under 60%.
- "High labour costs" remained one of the most notable challenges in 2020 (42.2%, down 1.1 percentage points), but this declined by 3.8 points for the manufacturing sector (42.4%).
- "UK's exit from the EU", which had been the most common operational challenge in 2019, fell 15.7 percentage points in 2020 to 41.7% and third place. Elsewhere, the impact of factors such as personnel reductions following restrictive measures aimed at preventing COVID-19 led to a reduction in "Securing human resources", which fell 6.7 points over the previous year to 32.3%, with the decline in the manufacturing sector being particularly noticeable (down 8.2 points to 33.0%)

Operational Challenges in Western Europe <Multiple Answers Given>

(Units: %, points)

	2019 (n=702)	2020 (n=798)	Change since 2019	Sector					
				Manufacturing			Non-Manufacturing		
				2019 (n=301)	2020 (n=361)	Change since 2019	2019 (n=401)	2020 (n=437)	Change since 2019
1 Spread of COVID-19	-	57.4	-	-	57.9	-	-	57.0	-
2 High labour costs	43.3	42.2	△ 1.1	46.2	42.4	△ 3.8	41.1	42.1	1.0
3 UK's exit from the EU	57.4	41.7	△ 15.7	56.1	40.2	△ 15.9	58.4	43.0	△ 15.4
4 Securing Human Resources	39.0	32.3	△ 6.7	41.2	33.0	△ 8.2	37.4	31.8	△ 5.6
5 Lower prices offered by competitors	31.9	29.3	△ 2.6	40.5	37.4	△ 3.1	25.4	22.7	△ 2.7
6 Strict dismissal laws	26.4	28.4	2.0	23.3	28.0	4.7	28.7	28.8	0.1
7 Economic recession, shrinking of markets	24.6	27.3	2.7	24.6	25.8	1.2	24.7	28.6	3.9
8 EU General Data Protection Regulation (GDPR)	32.9	27.2	△ 5.7	28.9	25.8	△ 3.1	35.9	28.4	△ 7.5
9 Visa/work permits	23.4	23.2	△ 0.2	19.3	20.8	1.5	26.4	25.2	△ 1.2
10 Heavy social security burdens	19.1	19.3	0.2	19.9	19.9	0.0	18.5	18.8	0.3
11 Rapid labour costs growth	25.1	19.2	△ 5.9	28.6	21.9	△ 6.7	22.4	16.9	△ 5.5
12 Transfer pricing taxation	11.0	19.0	8.0	10.0	21.1	11.1	11.7	17.4	5.7
13 Exchange rate fluctuations	25.8	18.3	△ 7.5	29.2	20.2	△ 9.0	23.2	16.7	△ 6.5
14 European social and political situation	28.3	17.9	△ 10.4	28.6	16.6	△ 12.0	28.2	19.0	△ 9.2
15 Quality of workforce	20.8	17.7	△ 3.1	18.9	17.5	△ 1.4	22.2	17.8	△ 4.4

(NB) "COVID-19" and "UK's exit from the EU" were added as new items in the 2020 and 2019 surveys respectively.

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3-3 | Rapid increase in labour costs an issue in Central and Eastern Europe

- Even during the coronavirus crisis, for Central and Eastern Europe as a whole "Rapid labour costs growth" continued to be the most common challenge (60.2%, down 10.1 percentage points). For the manufacturing sector it fell 13.1 points over the previous year's survey, to 67.2%, but remained an important issue.
- "Spread of COVID-19" was the second most common operational challenge, at 55.9%. Responses for the manufacturing sector (58.6%) were higher than for the non-manufacturing sector (51.4%), showing that COVID-19 countermeasures are more of a challenge for manufacturing sites.
- "Securing human resources" (48.4%, down 13.0 percentage points) declined for the same reasons as for Western Europe, with both manufacturing and non-manufacturing sectors decreasing by more than 10 points. "UK's exit from the EU" saw a halving of the previous year's level, falling 27.9 points to 22.6%.

Operational Challenges in Central and Eastern Europe <Multiple Answers Given>

(Units: %, points)

	2019 (n=101)	2020 (n=93)	Change since 2019	Sector					
				Manufacturing			Non-Manufacturing		
				2019 (n=66)	2020 (n=58)	Change since 2019	2019 (n=35)	2020 (n=35)	Change since 2019
1 Rapid labour costs growth	70.3	60.2	△ 10.1	80.3	67.2	△ 13.1	51.4	48.6	△ 2.8
2 Spread of COVID-19	-	55.9	-	-	58.6	-	-	51.4	-
3 Securing Human Resources	61.4	48.4	△ 13.0	71.2	58.6	△ 12.6	42.9	31.4	△ 11.5
4 Visa/work permits	40.6	39.8	△ 0.8	40.9	44.8	3.9	40.0	31.4	△ 8.6
4 Lower prices offered by competitors	40.6	33.3	△ 7.3	47.0	37.9	△ 9.1	28.6	25.7	△ 2.9
6 Exchange rate fluctuations	30.7	26.9	△ 3.8	30.3	29.3	△ 1.0	31.4	22.9	△ 8.5
7 High labour costs	19.8	24.7	4.9	19.7	25.9	6.2	20.0	22.9	2.9
8 Economic recession, shrinking of markets	23.8	24.7	0.9	21.2	24.1	2.9	28.6	25.7	△ 2.9
9 Quality of workforce	29.7	24.7	△ 5.0	33.3	25.9	△ 7.4	22.9	22.9	0.0
9 UK's exit from the EU	50.5	22.6	△ 27.9	53.0	27.6	△ 25.4	45.7	14.3	△ 31.4
11 Procurement costs	26.7	20.4	△ 6.3	30.3	29.3	△ 1.0	20.0	5.7	△ 14.3
12 Customs clearance issues	15.8	19.4	3.6	13.6	22.4	8.8	20.0	14.3	△ 5.7
13 REACH	13.9	19.4	5.5	15.2	24.1	8.9	11.4	11.4	0.0
14 Transportation costs	16.8	19.4	2.6	19.7	25.9	6.2	11.4	8.6	△ 2.8
15 Movement towards Gasoline & Diesel car bans	16.8	19.4	2.6	21.2	27.6	6.4	8.6	5.7	△ 2.9

(NB) "COVID-19" and "UK's exit from the EU" were added as new items in the 2020 and 2019 surveys respectively.

3-4 | UK's exit from the EU a challenge for 76.1 % of Japanese-affiliated companies based in the UK

- Even during the coronavirus crisis, for Japanese-affiliated companies based in the UK, "UK's exit from the EU" continued to be the most common challenge (73.7%, down 2.4 percentage points). At 70.3%, the non-manufacturing sector response was unchanged from the previous year's survey, when there had been the possibility of a disorderly exit, but the manufacturing sector declined by 8.4 points to 78.7%.
- The next most common challenge cited, "Spread of COVID-19" (55.9%), had a particularly high response rate (60.4%) in the non-manufacturing sector.
- The response rates for "Customs clearance issues" (32.2%, up 5.5 percentage points) and "Complex/unclear administrative procedures for trade" (15.8%, up 9.7 points), saw particularly large increases in the manufacturing sector at 7.2 points and 16.5 points respectively. With the end of the transitional period approaching, it is believed that this result reflects the concerns of companies in relation to procedures for moving goods between the UK and the EU.

Operational Challenges in the UK <Multiple Answers Given>

(Units: %, points)

	2019 (n=180)	2020 (n=152)	Change since 2019	Sector					
				Manufacturing			Non-Manufacturing		
				2019 (n=62)	2020 (n=61)	Change since 2019	2019 (n=118)	2020 (n=91)	Change since 2019
1 UK's exit from the EU	76.1	73.7	△ 2.4	87.1	78.7	△ 8.4	70.3	70.3	0.0
2 Spread of COVID-19	-	55.9	-	-	49.2	-	-	60.4	-
3 Exchange rate fluctuations	45.0	34.2	△ 10.8	54.8	41.0	△ 13.8	39.8	29.7	△ 10.1
4 Customs clearance issues	26.7	32.2	5.5	37.1	44.3	7.2	21.2	24.2	3.0
5 High labour costs	31.7	31.6	△ 0.1	29.0	27.9	△ 1.1	33.1	34.1	1.0
6 Securing Human Resources	36.1	30.9	△ 5.2	40.3	32.8	△ 7.5	33.9	29.7	△ 4.2
7 EU General Data Protection Regulation (GDPR)	35.6	28.3	△ 7.3	27.4	16.4	△ 11.0	39.8	36.3	△ 3.5
8 Economic recession, shrinking of markets	24.4	27.6	3.2	27.4	21.3	△ 6.1	22.9	31.9	9.0
9 European social and political situation	32.2	21.1	△ 11.1	35.5	21.3	△ 14.2	30.5	20.9	△ 9.6
10 Lower prices offered by competitors	23.3	20.4	△ 2.9	41.9	32.8	△ 9.1	13.6	12.1	△ 1.5
11 Transfer pricing taxation	8.9	17.8	8.9	14.5	19.7	5.2	5.9	16.5	10.6
11 Visa/work permits	21.7	17.1	△ 4.6	16.1	8.2	△ 7.9	24.6	23.1	△ 1.5
13 Strict dismissal laws	17.8	16.4	△ 1.4	14.5	14.8	0.3	19.5	17.6	△ 1.9
14 Trade Legislation/Procedures are complex and/or lack of transparency	6.1	15.8	9.7	8.1	24.6	16.5	5.1	9.9	4.8
15 Quality of workforce	18.9	15.1	△ 3.8	21.0	16.4	△ 4.6	17.8	14.3	△ 3.5

(NB) "COVID-19" and "UK's exit from the EU" were added as new items in the 2020 and 2019 surveys respectively.

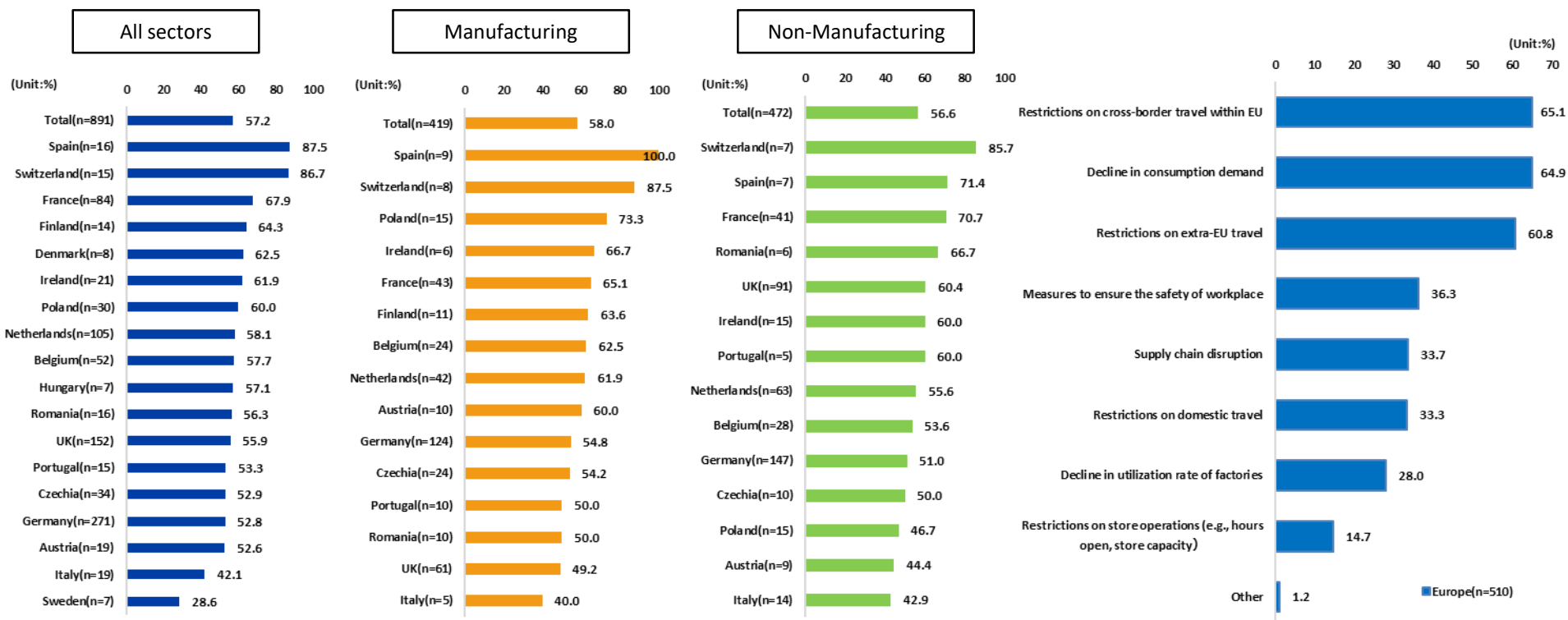
3-5 | Spain saw the highest response rate for companies expressing concerns about COVID-19

- With regard to "Spread of COVID-19", which had a response rate for Europe as a whole of 57.2%, particularly high responses were recorded in Spain (87.5%), Switzerland (86.7%), and France (67.9%). In these three countries response rates were high for both manufacturing and non-manufacturing sectors.
- In terms of specific concerns associated with "Spread of COVID-19", the most commonly cited were, in order of frequency, "Restrictions on cross-border travel within EU" (65.1%), "Decline in consumption demand" (64.9%), and "Restrictions on extra-EU travel" (60.8%).
- In Spain, where the response rate was the highest, the most commonly cited concern was "Decline in consumption demand" (13 companies, 92.9%), while in Switzerland and France the most commonly cited were "Restrictions on extra-EU travel", with nine companies at 69.2%, and 40 companies at 17.2%, respectively.

1. Spread of COVID-19

Response Rate by Country
<Multiple Answers Given>

Specific Concerns regarding Spread of COVID-19
<Multiple Answers Given>



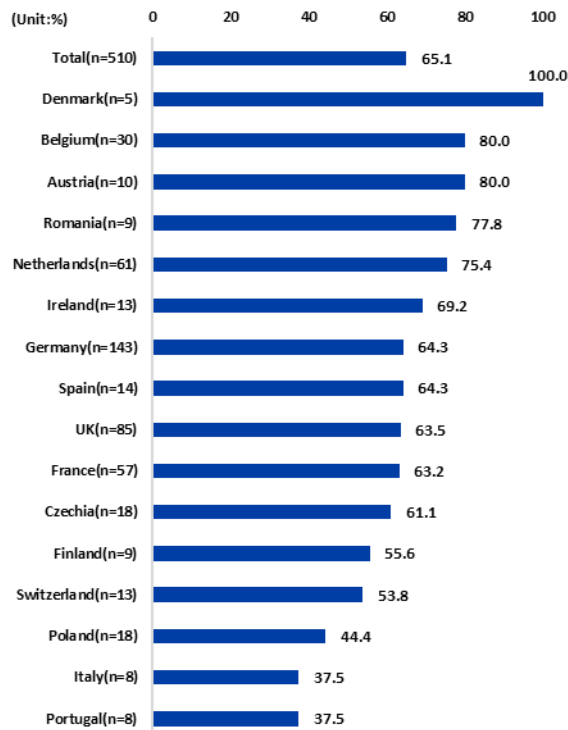
3-6

Declining consumer demand resulting from COVID-19 becomes an issue in Central and Eastern Europe

- Looking at specific matters of concern that had a high response rate (namely "Restrictions on cross-border travel within EU", "Decline in consumption demand" and "Restrictions on extra-EU travel") by country, "Restrictions on cross-border travel within EU" was cited frequently in Denmark (100%), Belgium and Austria (the latter two both at 80.0%). "Decline in consumption demand" was frequently cited in Spain (92.9%), Czechia, Poland and Romania (the latter three all at 77.8%). The most frequent citations for "Restrictions on extra-EU travel" came from Romania (77.8%), Belgium (73.3%) and France (70.2%).

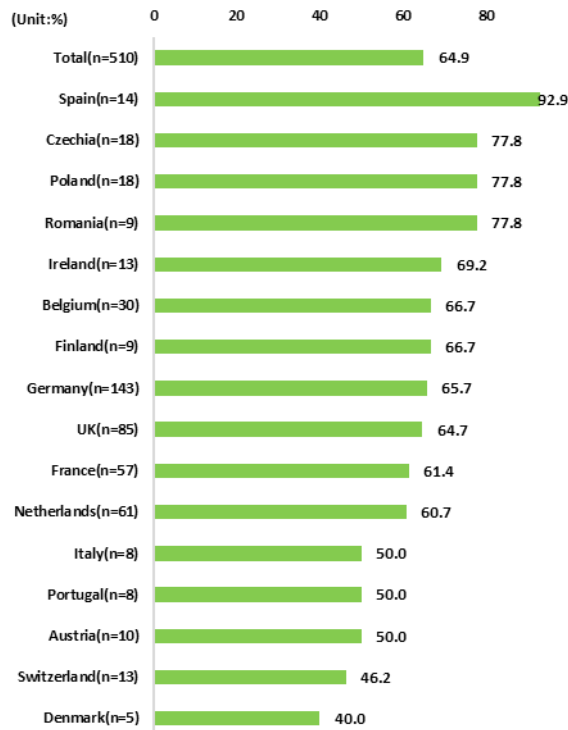
1. Spread of COVID-19

Restrictions on cross-border travel within EU

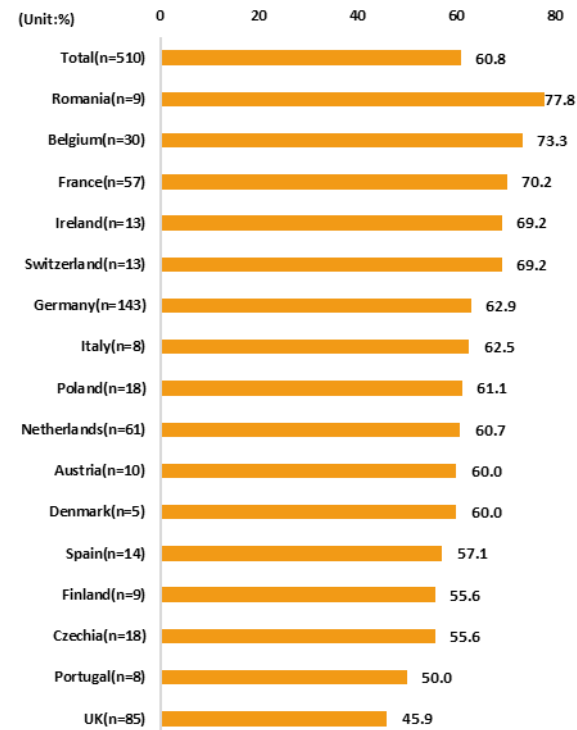


Specific concerns (Response Rate by Country) <Multiple Answers Given>

Decline in consumption demand



Restrictions on extra-EU travel



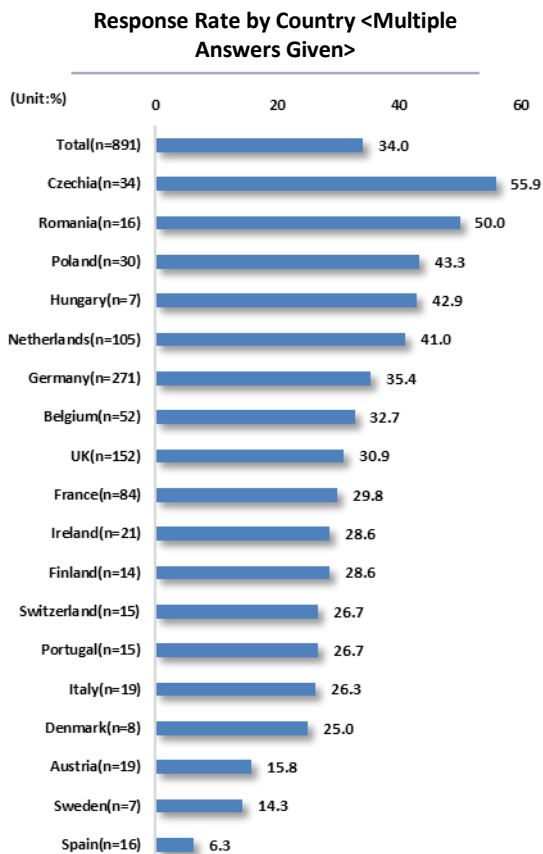
3-7 | High response rate in Central and Eastern Europe for securing human resources being a challenge

- The response rate for "Securing human resources" (34.0% for Europe as a whole) is particularly high in Central and Eastern Europe. Czechia, which according to Eurostat had an unemployment rate of 2.8% in September 2020, continued to have the highest response rate, of 55.9%, although this represented a 23.4 percentage point decline from the previous year. Other highly ranked countries were Poland, which saw a decline of 14.4 points, and Hungary, where the decline was 29.3 points, suggesting that the coronavirus crisis has improved supply-demand balance slack of human resource.
- Looking at the breakdown of "Securing human resources", "Management personnel" were cited as most difficult to secure, followed by "Factory workers" and "IoT/AI specialists". In Western Europe the area most commonly cited by companies was "Management personnel", while in Central and Eastern Europe it was "Factory workers".

4. Securing human resources

Breakdown of Human Resources Sought <Multiple Answers Given>

(Above: Number of respondents, Below: %)



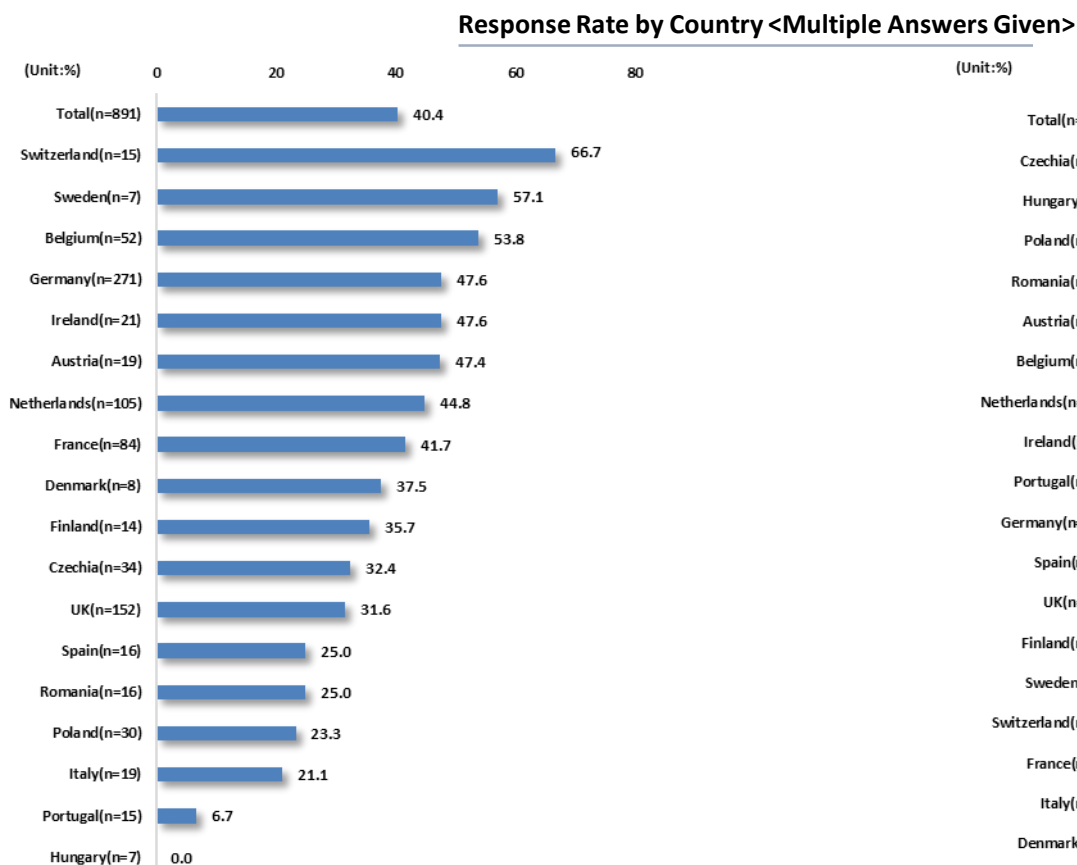
	No. of responses	IoT/AI specialists	Management personnel	Factory workers	Other
Europe	303	65	203	68	64
	100.0	21.5	67.0	22.4	21.1
Western Europe	258	52	180	37	63
	100.0	20.2	69.8	14.3	24.4
Germany	96	18	70	14	22
	100.0	18.8	72.9	14.6	22.9
UK	47	10	29	7	14
	100.0	21.3	61.7	14.9	29.8
Netherlands	43	3	31	6	10
	100.0	7.0	72.1	14.0	23.3
France	25	9	20	2	5
	100.0	36.0	80.0	8.0	20.0
Belgium	17	2	14	0	3
	100.0	11.8	82.4	0.0	17.6
Central & Eastern Europe	45	13	23	31	1
	100.0	28.9	51.1	68.9	2.2
Czechia	19	5	9	15	1
	100.0	26.3	47.4	78.9	5.3
Poland	13	3	8	8	0
	100.0	23.1	61.5	61.5	0.0
Romania	8	4	5	4	0
	100.0	50.0	62.5	50.0	0.0

(NB) Countries and regions with responses of 8 or more only

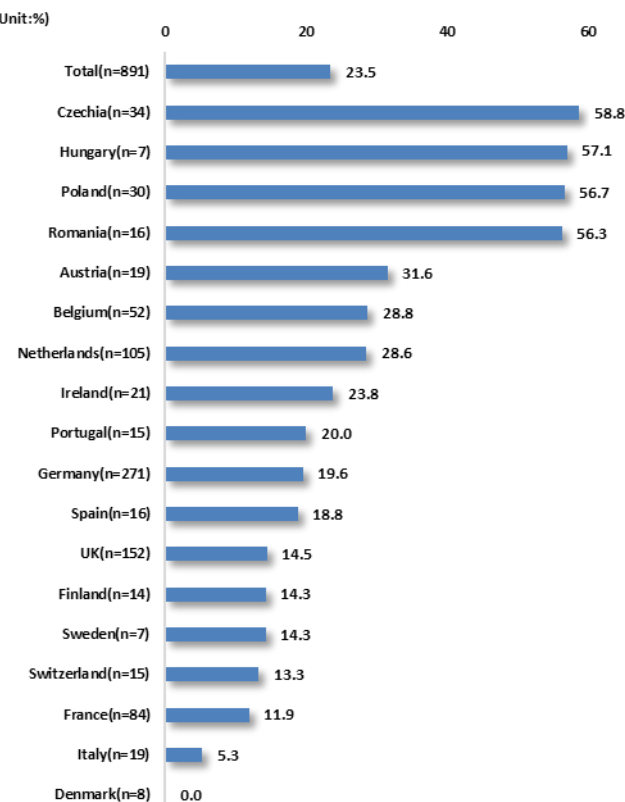
3-8 | High labour costs remain an issue for Switzerland

- The response rate for "High labour costs" (40.4% for Europe as a whole) was highest in Switzerland (66.7%), as was the case last year. "High labour costs" was cited as an operational challenge elsewhere, with the rate exceeding 50% in Sweden (57.1%) and Belgium (53.8%).
- The response rate for "Rapid labour costs growth" (23.5% for Europe as a whole) was particularly high in such Central and Eastern European countries as Czechia (58.8%), Hungary (57.1%), Poland (56.7%), and Romania (56.3%), but these all posted declines, of 20.5 percentage points, 20.7 points, 8.7 points, and 4.8 points respectively.

2. High labour costs



10. Rapid labour costs growth



3-9 | "Strict dismissal laws" an issue for over 50% of respondents in Italy and France

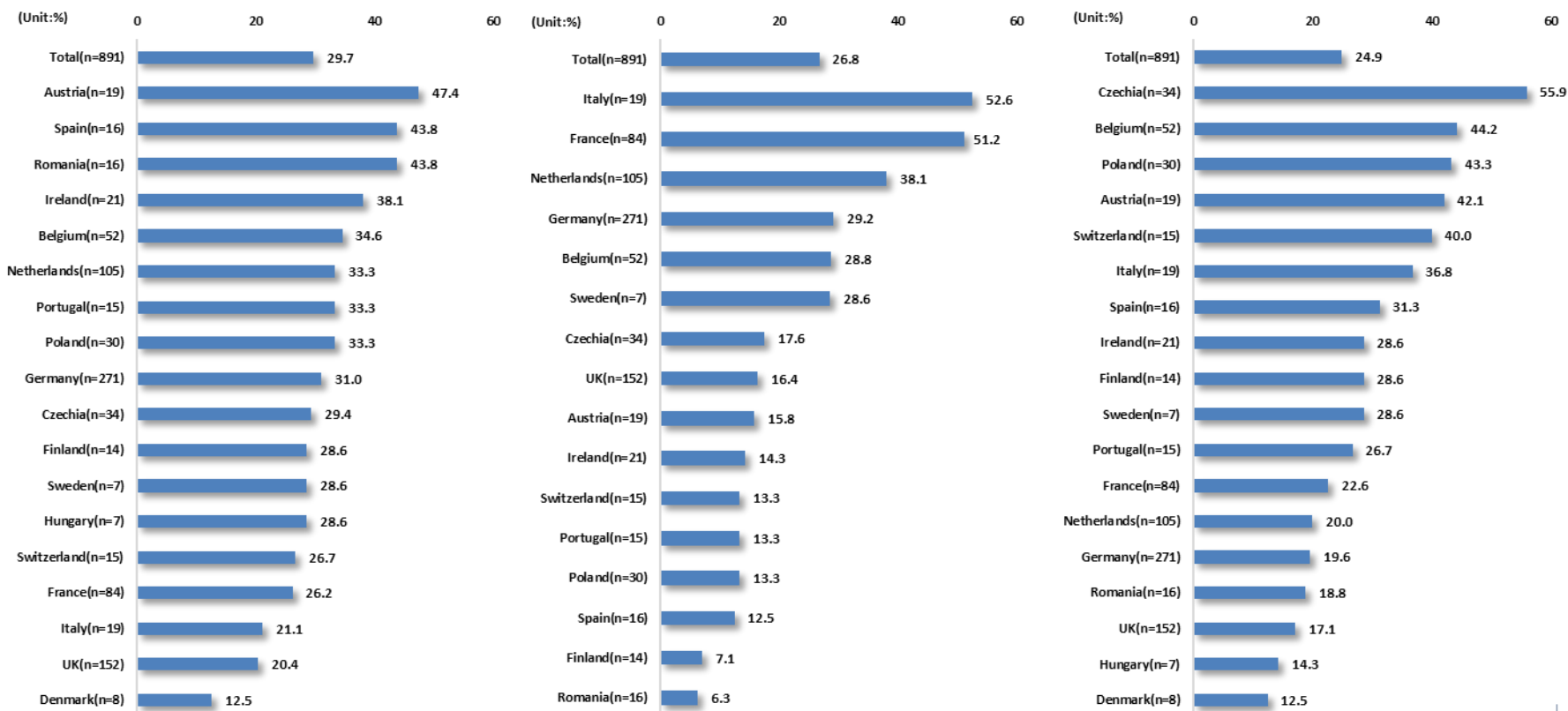
- Highest for "Lower prices offered by competitors" was Austria (47.4%), followed by Spain (43.8%), and Romania (43.8%).
- "Strict dismissal laws" rose to seventh in the ranking of operational challenges. This was cited as an issue by many companies in Italy (52.6%, 28.6% in 2019) and France (51.2%, 42.2% in 2019), which appears to be the result of pressure to reduce personnel following the coronavirus crisis, resulting in an increase in companies coming face-to-face with the challenge posed by dismissal laws in the two countries mentioned in particular.
- Response rates for "Visa/work permits" were notably high in Czechia (55.9%), Belgium (44.2%), Poland (43.3%), and Austria (42.2%). It appears that the situation in Belgium and Poland was affected by changes to systems and procedures in 2019.

5. Lower prices offered by competitors

7. Strict dismissal laws

9. Visa/work permits

Response Rate by Country <Multiple Answers Given>

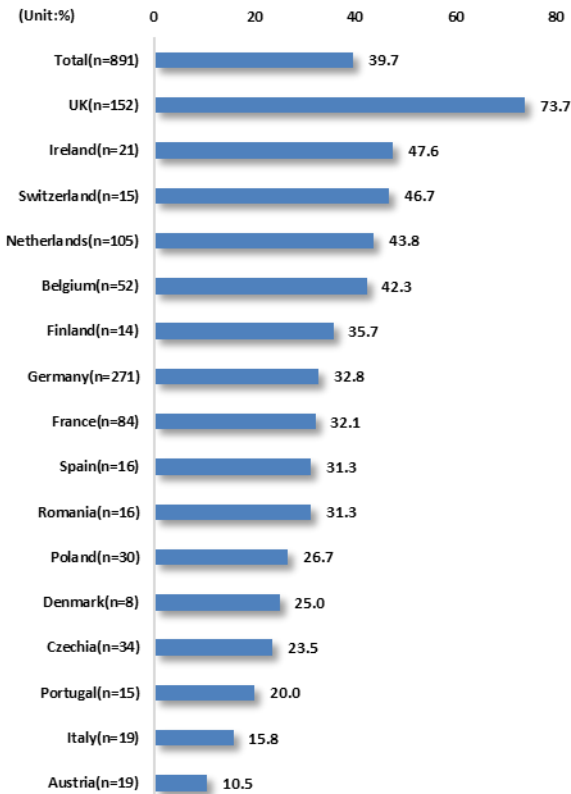


3-10

Economic recession, shrinking of markets become challenges for Japanese-affiliated companies in Western Europe

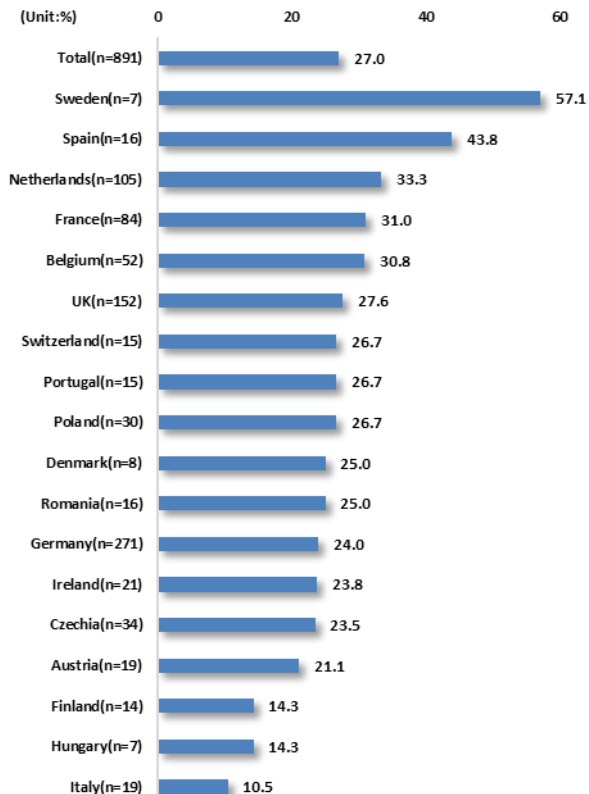
- The highest response rate for "UK's exit from the EU" (39.7% for Europe as a whole) was easily the 73.7% recorded in the UK, a long way ahead of Ireland (47.6%) in second place. Response rates were high in countries that serve as distribution bases, such as the Netherlands (43.8%) and Belgium (42.3%).
- Response rates for "Economic recession, shrinking of markets" were high in Western Europe, such as those recorded in Sweden (57.1%), Spain (43.8%), the Netherlands (33.3%), France (31.0%), and Belgium (30.8%).
- For "EU General Data Protection Regulation (GDPR)", response rates were highest in Switzerland (46.7%), an increase of 30 percentage points over the previous year.

3. Britain's exit from the EU



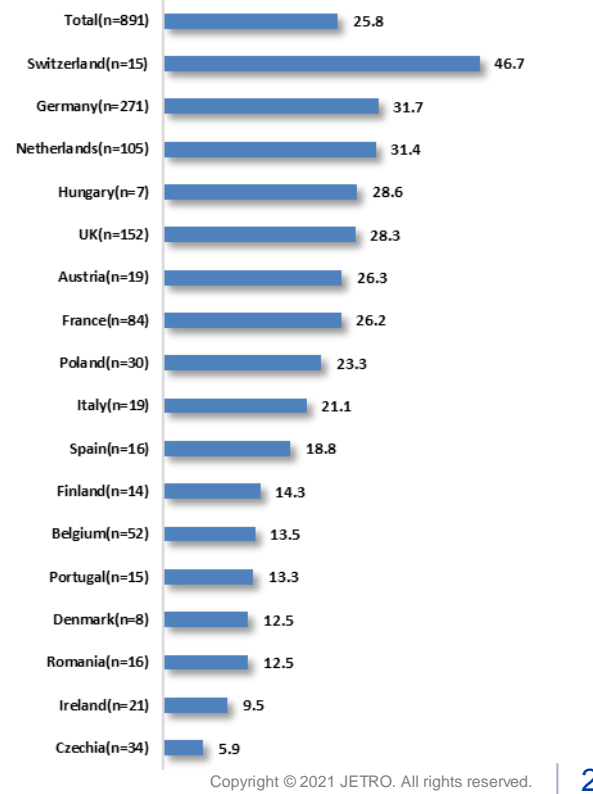
6. Economic recession, shrinking of markets

Response Rate by Country <Multiple Answers Given>



8. EU General Data Protection Regulation (GDPR)

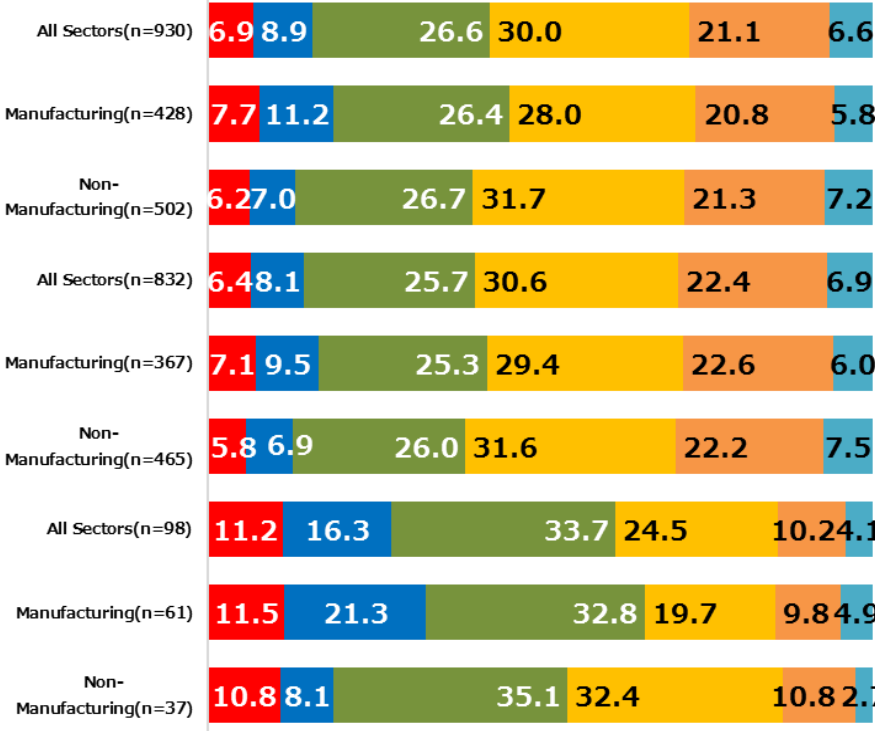
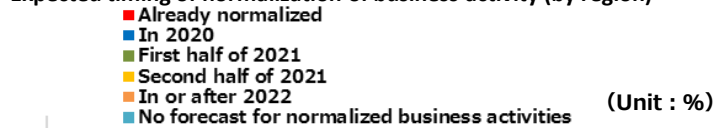
(Unit:%) 0 20 40 60



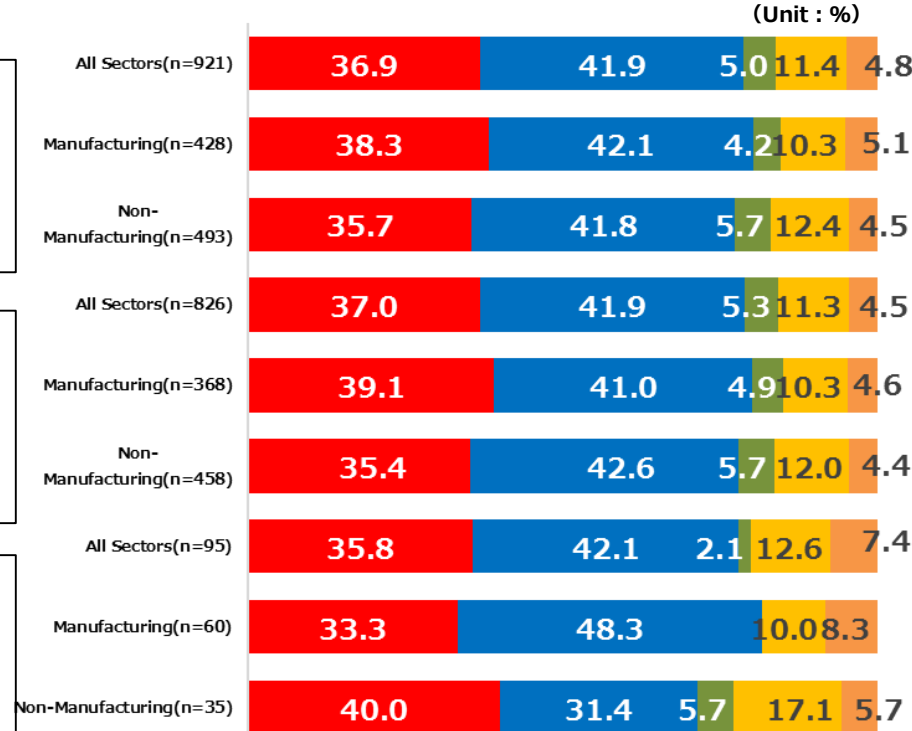
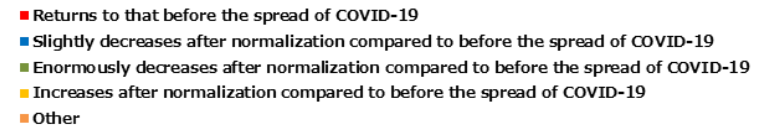
4-1 | Business activity to normalize from 2021 onward

- Asked when they expected business activity to normalize after the COVID-19 crisis, 77.7% of companies based in Europe selected 2021 onward.
- Looked at by industry, more companies in the non-manufacturing sector than in the manufacturing sector face unforeseeable effects from the COVID-19 crisis. Looked at by region, a higher proportion of companies in Central and Eastern Europe responded with "Already normalized" or "In 2020" than in Western Europe.
- With regard to the demand environment after normalization, the proportion of companies based in Europe that responded that demand for products and services would be lower than before the spread of COVID-19 was 46.9%.

Expected timing of normalization of business activity (by region)



Demand environment after normalization (By region)

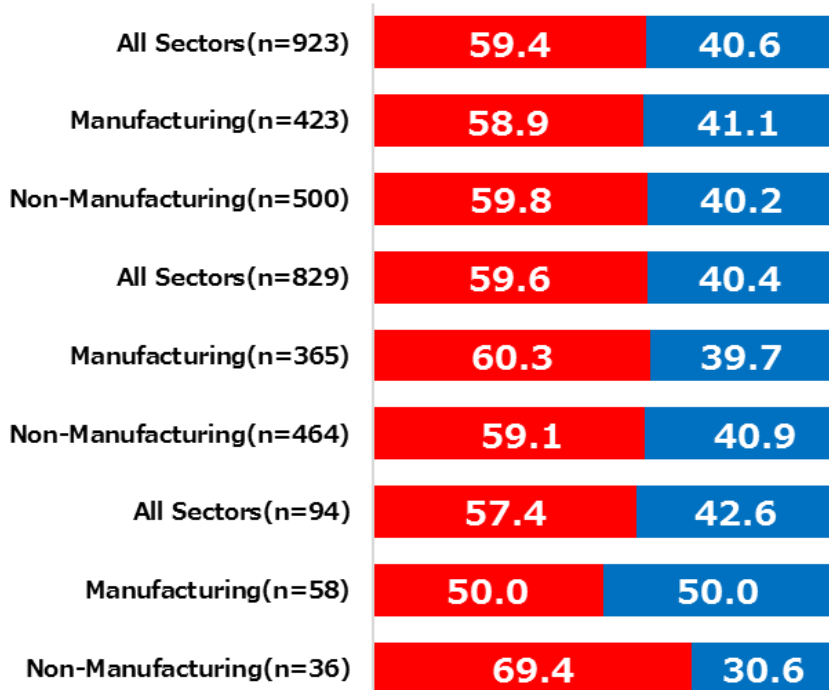


4-2 | 59.4% reviewing operational strategies and business models

- With regard to whether or not companies based in Europe are reviewing business strategies and business models, slightly less than 60% responded that they had carried out or intended to carry out such reviews. For non-manufacturing-sector companies in Central and Eastern Europe, that rose to just under 70%.
- Review initiatives most commonly cited by companies after the spread of COVID-19 include "Expansion of the utilization of work from home and teleworking", "Promoting utilization of virtual exhibitions, etc.", "Cancellation/postponement of new investment/capital investment", and "Adjustment to the compensation package for staff".
- Initiatives that responding companies plan to begin in 2020 include "Promoting digitalization, such as the use of AI", "Promotion of utilizing virtual exhibitions, etc.", and "Review of sales destination".
- Among respondents having cited initiatives such as "Changeover in procurement sources", "Streamlining by staff reduction", and "Reduction of expatriates", A high proportion of those plan to work on in 2020 and beyond.

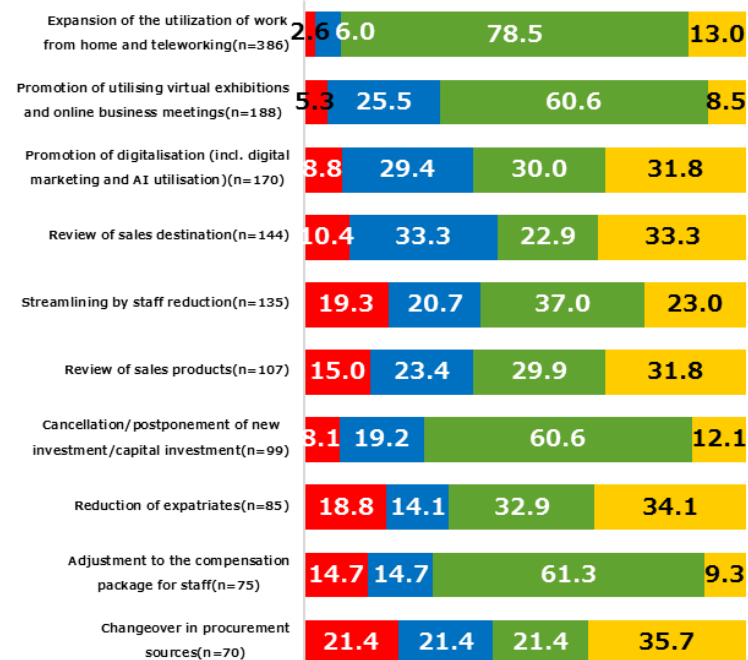
Review Of Business Strategies and Business Models (By Region)

■ Reviewed (Have a plan to review) (Unit : %)
 ■ Have not reviewed (Have no plan to review)



Specific initiatives to be reviewed (top 10)

■ Planning after 2021 (Unit : %)
 ■ Planning in 2020
 ■ Begin after the spread of COVID-19
 ■ Begin before the spread of COVID-19

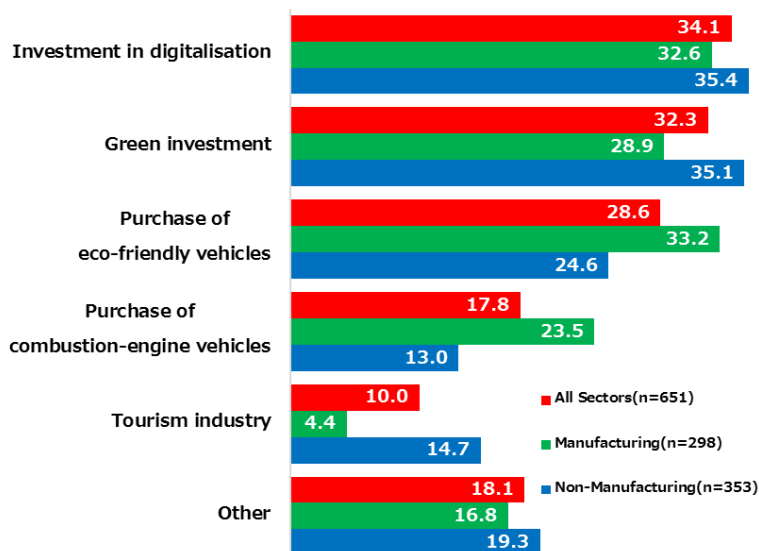


4-3 | Digitalization, support for green investments

- When we asked companies which initiatives they were interested in among those introduced by the EU and individual member states with the aim of reviving business after the coronavirus pandemic, the most common response was support measures for investments in digitalization and 34.1%, followed by support measures for green investments at 32.3%.
- Looked at by industry, in the manufacturing sector the most common response was support measures for purchasing eco-friendly vehicles, at 33.2%. The response rate for Transportation equipment (Motor vehicles/Motorcycles) setcor was a high 65.4%.
- Viewed by country, the rate for "support measures for investments in digitalization" was highest in Italy (53.3%), the UK (42.7%), and Belgium (36.8%), showing the enthusiasm of Japanese-affiliated companies, particularly those based in these countries, for digitalization.

Support measures recognized as an opportunity (by industry)

(Unit : %)



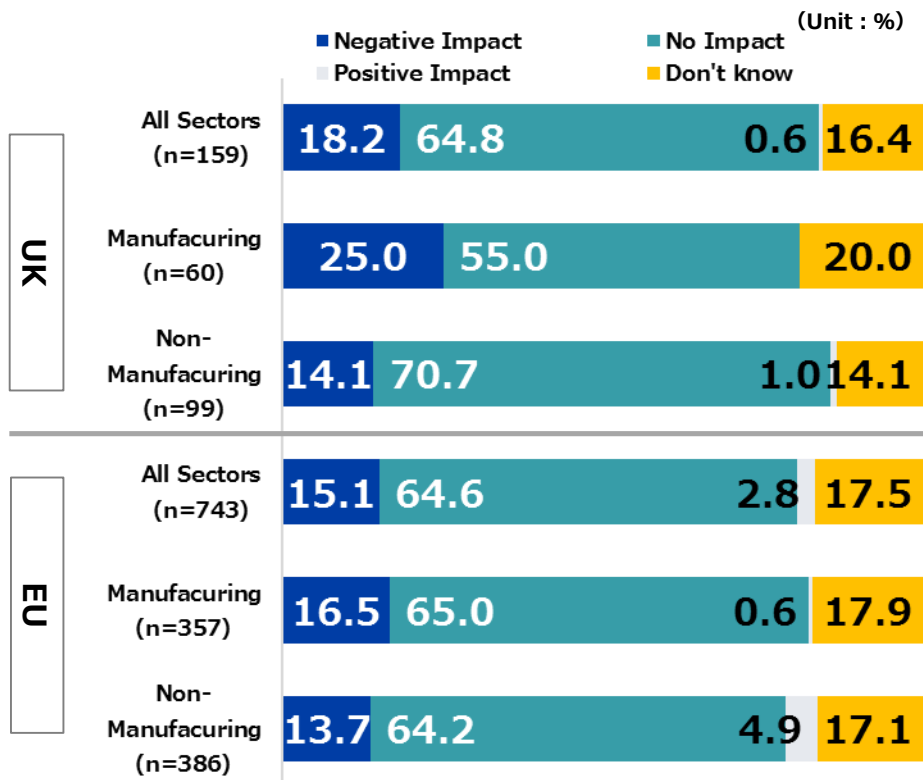
Support measures recognized as an opportunity (by measures) (Units : Number of respondents, %)

	Total	Investment in digitalisation	Green investment	Purchase of eco-friendly vehicles	Purchase of combustion-engine vehicles	Tourism industry	Other
Germany	189	67	51	75	44	10	30
	100.0	35.4	27.0	39.7	23.3	5.3	15.9
UK	110	47	39	21	13	11	15
	100.0	42.7	35.5	19.1	11.8	10.0	13.6
Netherlands	84	27	31	20	15	10	14
	100.0	32.1	36.9	23.8	17.9	11.9	16.7
France	53	18	19	12	7	13	8
	100.0	34.0	35.8	22.6	13.2	24.5	15.1
Belgium	38	14	11	12	9	1	14
	100.0	36.8	28.9	31.6	23.7	2.6	36.8
Czechia	26	3	10	15	12	0	5
	100.0	11.5	38.5	57.7	46.2	0.0	19.2
Poland	23	3	10	7	4	0	6
	100.0	13.0	43.5	30.4	17.4	0.0	26.1
Ireland	18	6	8	2	0	6	3
	100.0	33.3	44.4	11.1	0.0	33.3	16.7
Austria	17	6	5	2	0	2	4
	100.0	35.3	29.4	11.8	0.0	11.8	23.5
Italy	15	8	2	2	1	4	3
	100.0	53.3	13.3	13.3	6.7	26.7	20.0
Spain	14	2	7	2	2	2	2
	100.0	14.3	50.0	14.3	14.3	14.3	14.3

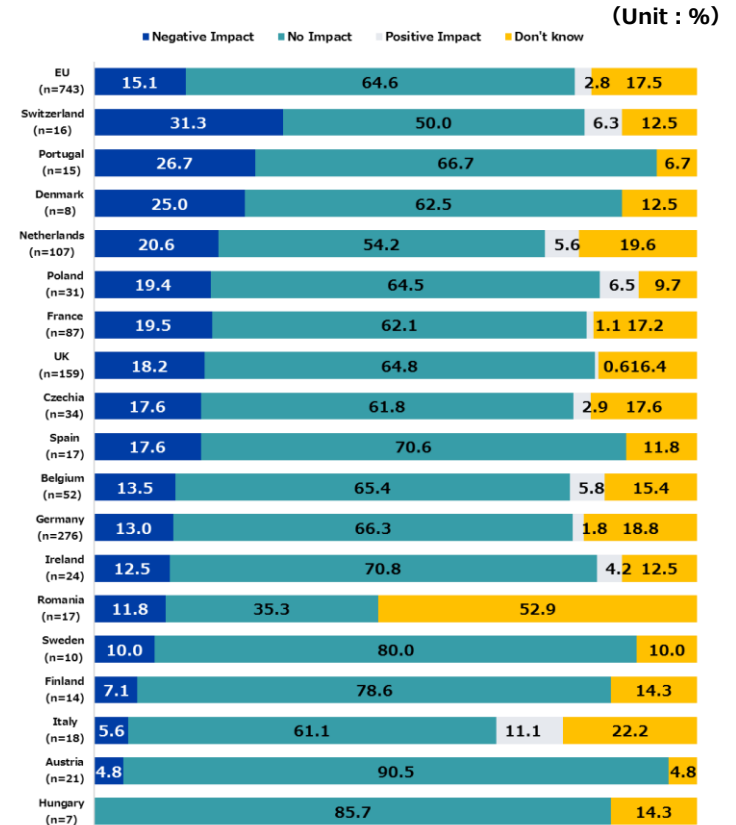
5-1 | Around 65% of companies unaffected during the transition period following the UK's exit from the EU

- With regard to the impact on operations during the transition period following the UK's exit from the EU, the proportion of Japanese-affiliated companies based in the UK that responded with "Negative impact" was 18.2%, and the equivalent figure for EU-based Japanese-affiliated companies was 15.1%. On the other hand, the proportion of those responding with "No impact" was 64.8% and 64.6% respectively, showing that the impact on corporate activity during the transition period, in which the same trade status that had applied during the period of EU membership was maintained, was relatively small.
- Examined by industry, the proportion of UK-based manufacturing companies responding with "Negative impact" was 25.0%, 10.9 percentage points higher than the 14.1% response rate of non-manufacturing companies. In terms of specific "Negative impacts", Japanese-affiliated companies based in the UK and the EU both pointed to "Costs for stockpiling" in anticipation of confusion in logistics and at customs, and "Customers scaling back or withdrawing from operations".

Business Impact During Transition Period (By Industry)



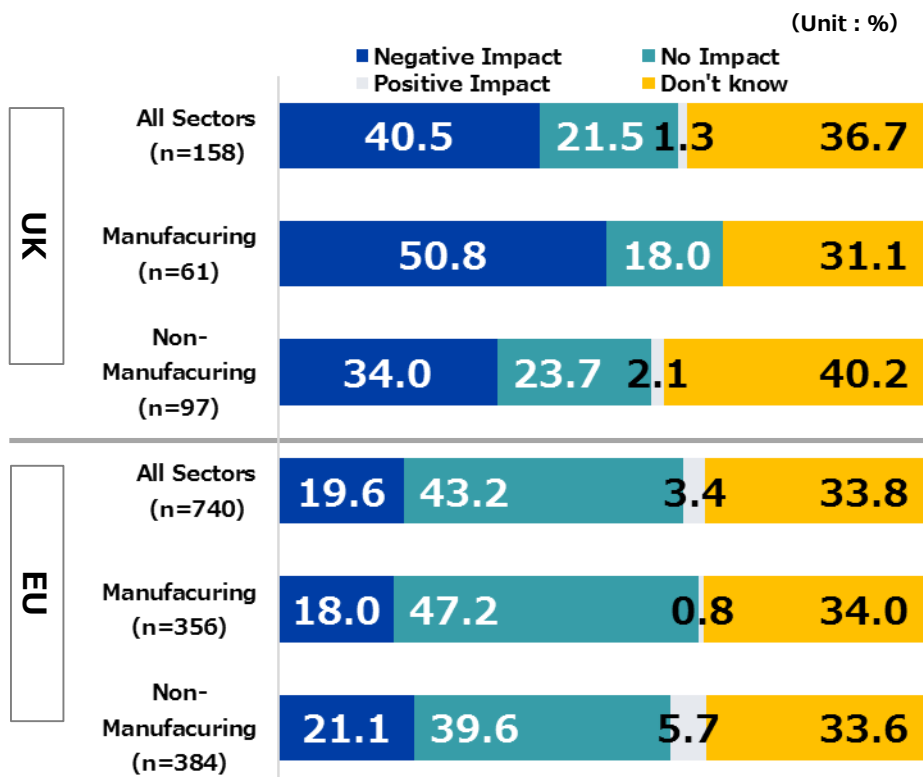
Business Impact During Transition Period (By Country)



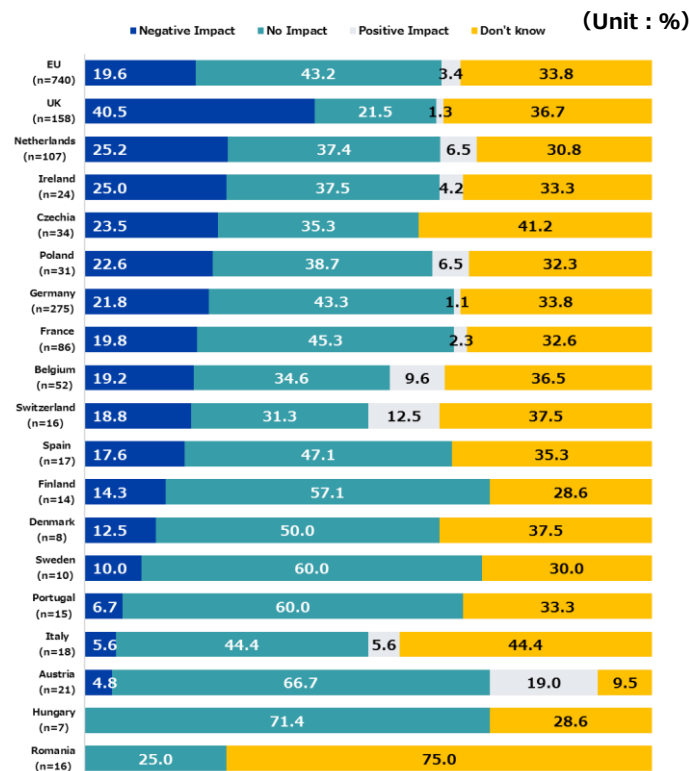
5-2 | Negative impact on 40.5% of companies based in the UK after the end of the transition period

- With regard to the impact on operations after the end of the transition period following the UK's exit from the EU, the proportion of Japanese-affiliated companies based in the UK that responded with "Negative impact" was 40.5%. For those in the EU it was 19.6%. In terms of specific "Negative impacts", companies based in the UK and in the EU both cited "Confusion in logistics and at customs", "Tariff-related costs", and "Customs clearance procedures", while UK-based companies pointed to such factors as "Concerns about securing human resources from Europe".
- With regard to the impact on operations after the end of the transition period, 36.7% of UK-based companies and 33.8% of EU-based companies responded with "Don't know", confirming that a certain number of companies have been exposed to uncertainty in relation to the aftermath of Brexit".
- When examined by industry, the proportion of UK-based manufacturing companies responding with "Negative impact" was the highest at 50.8%, being 32.8 percentage points higher than the 14.1% response rate of EU-based manufacturing companies.

Impact on Operations After the End of the Transition Period (By Industry)



Impact on Operations After the End of the Transition Period (By Country)

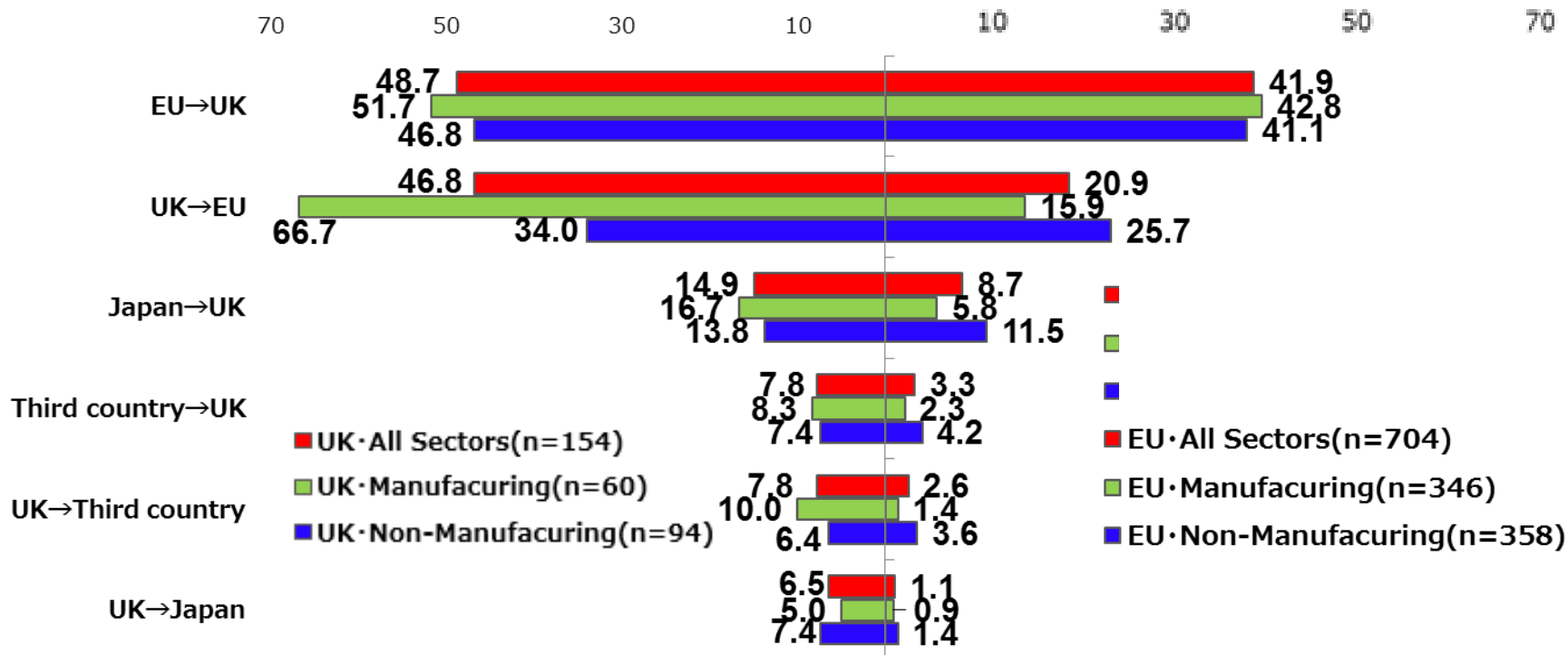


5-3 | 66.7% of Japanese-affiliated manufacturing companies based in the UK are concerned about exports to the EU

- In terms of trade-related concerns after the end of the transition period, 48.7% of responses from Japanese-affiliated companies based in the UK, and 41.9% of those based in the EU, cited "Imports from the EU to the UK (exports from the EU to the UK)", as well as 51.7% of UK-based manufacturing companies, rising to 78.3% expressing anxiety about either imports or exports between the UK and the EU.
- 46.8% of Japanese-affiliated companies based in the UK cited "Exports from the UK to the EU" as a concern, although this figure was just 20.9% for Japanese-affiliated companies based in the EU. In particular, for Japanese-affiliated manufacturing companies based in the UK, this proportion rose to nearly 70% (66.7%), underlining the importance of the EU market for UK-based companies.

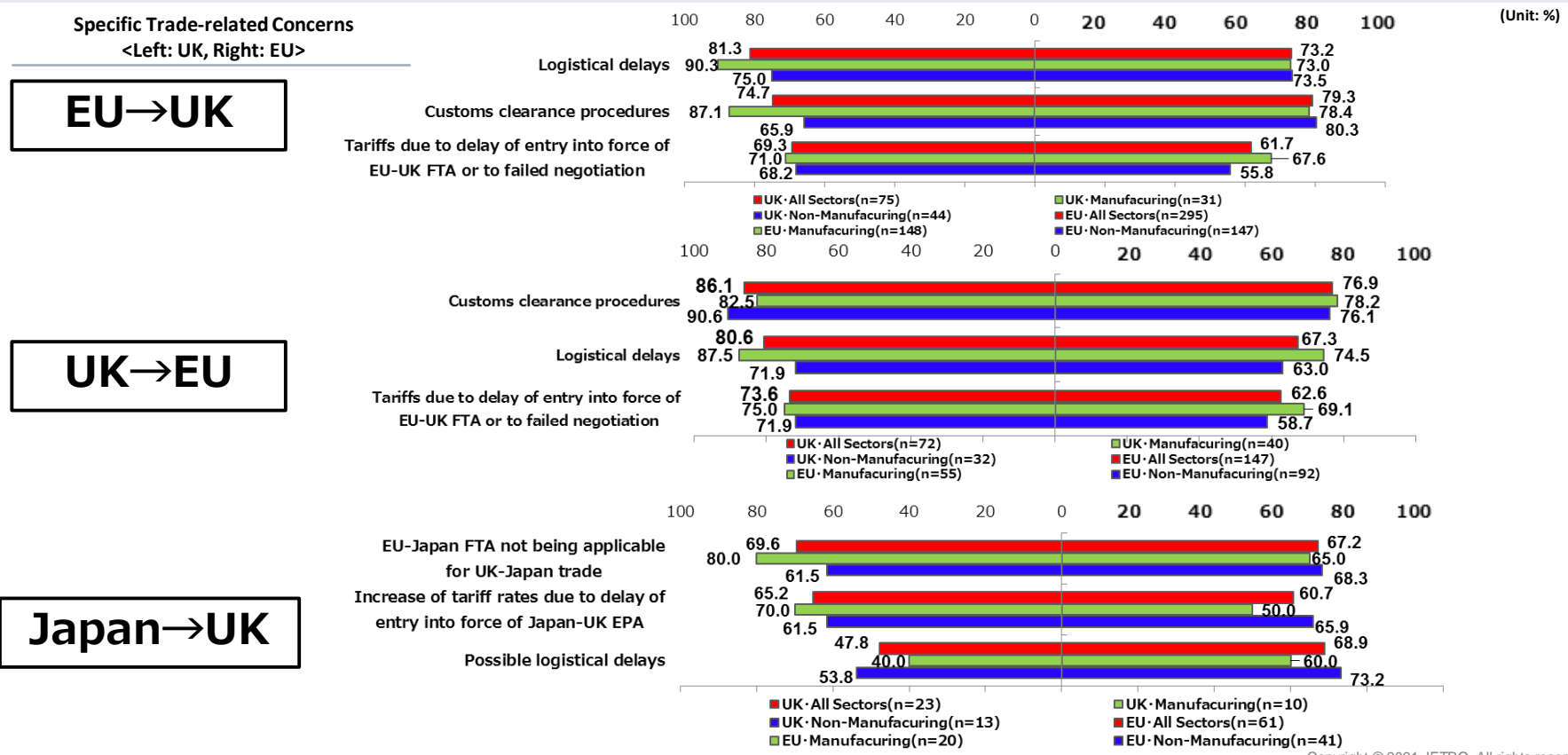
Concerns of Japanese-affiliated Companies Related to Trade <Left: the UK, Right: EU>

(Unit : %)



5-4 | 86.1% of Japanese-affiliated companies based in the UK are concerned about customs clearance procedures for exports to the EU

- In terms of specific concerns related to trade after the end of the transition period, 86.1% of Japanese-affiliated companies based in the UK that expressed concern about "Exports from the UK to the EU", cited "Customs clearance procedures". Approximately 80% of Japanese-affiliated companies based in the UK cited "Logistical delays" in relation to either imports or exports. Conversely, slightly less than 80% of Japanese-affiliated companies based in the EU cited "Customs clearance procedures" for either imports or exports, and around 70% pointed to "Logistical delays".
- Examined by industry, Japanese-affiliated manufacturing companies based in the UK had high response rates for many items, including "Logistical delays" when importing from the EU, and "Logistical delays" and "Tariffs due to delay of entry into force of EU-UK FTA or to failed negotiation" when exporting to the EU.
- 69.6% of the Japanese-affiliated companies based in the UK that cited concerns related to "Imports from Japan to the UK" were worried about "EU-Japan Free Trade Agreement not being applicable for UK-Japan trade", while for 65.2% the concern was "Increase of tariff rates due to delay of entry into force of Japan-UK FTA", with the proportions for UK-based manufacturing companies being 80.0% and 70.0% respectively.

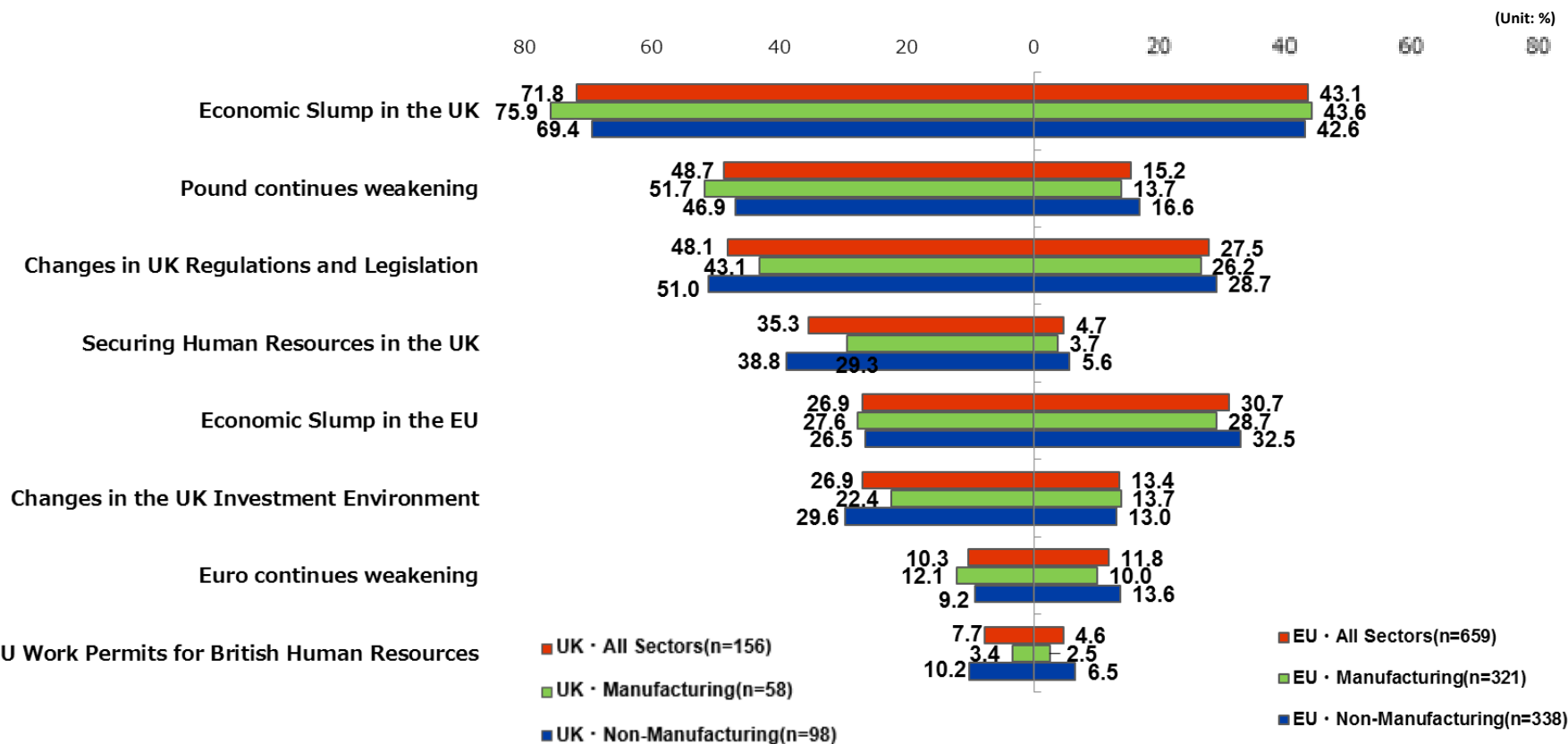


5-5

Companies based in the UK and in the EU both concerned about "Economic slump in the UK"

With regard to business environment concerns related to the exit of the UK from the EU, the most common for both those based in the UK and those in the EU was "Economic slump in the UK". For Japanese-affiliated companies based in the UK, the next most common concerns were "Pound continues weakening" and "Changes in UK Regulations and Legislation", while for Japanese-affiliated companies based in the EU, they were "Economic slump in the EU" and "Changes in UK Regulations and Legislation".

Concerns of Japanese-affiliated Companies Related to Business Environment <Left: UK. Right: EU>

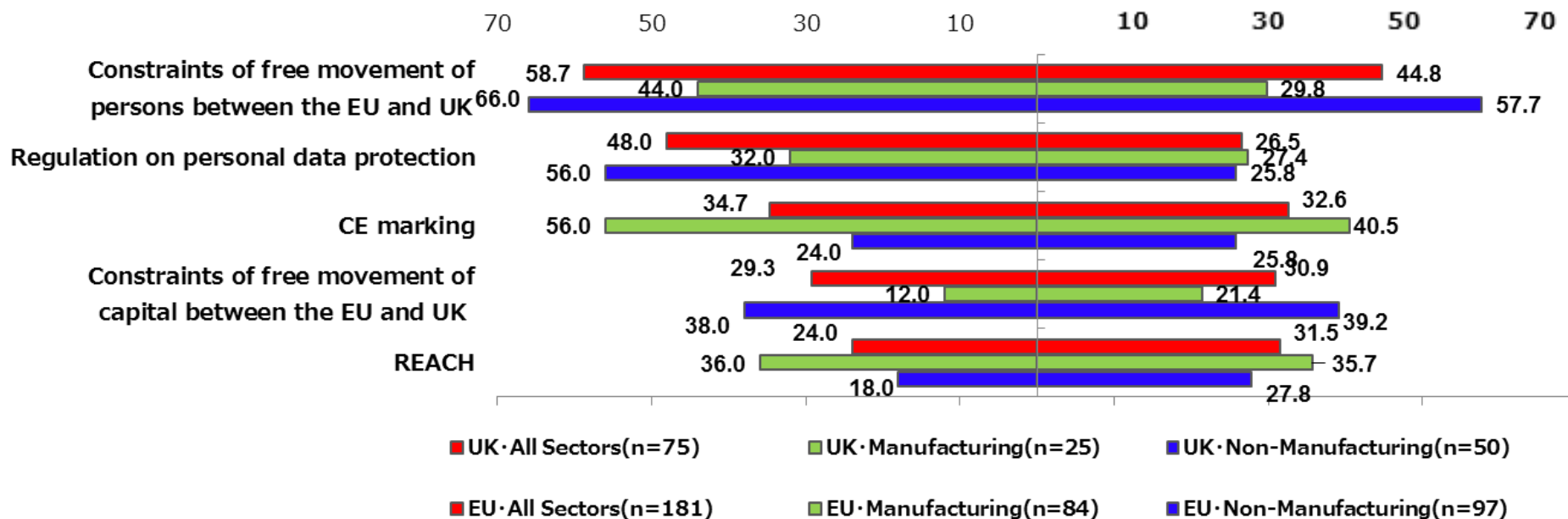


5-6 | Manufacturing sector concerned about changes in CE marking

- With regard to specific concerns related to "Changes in UK Regulations and Legislation", the most common among Japanese-affiliated companies both in the UK and the EU was "Constraints of free movement of persons between the EU and the UK". These concerns ran particularly high among non-manufacturing companies. Non-manufacturing companies based in the UK were also deeply concerned about "Regulation on personal data protection".
- For manufacturing companies, concerns about "CE marking" were high among both those based in the EU and those based in the UK.

Concerns Related to "Changes in UK Regulations and Legislation" <Left: UK, Right: EU>

(Unit : %)

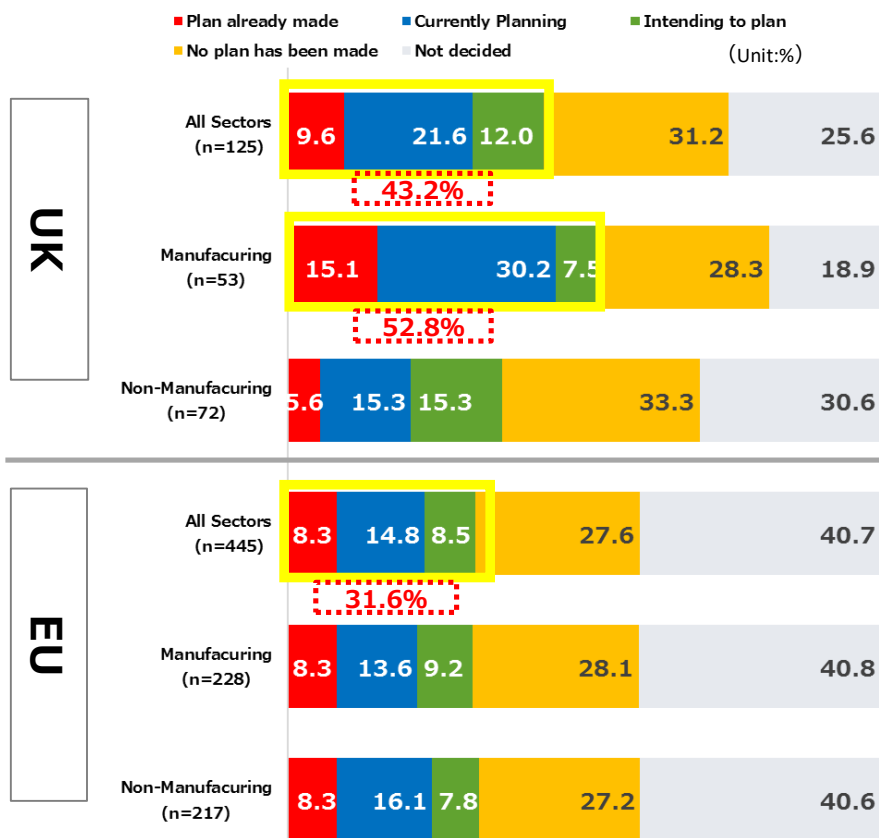


5-7

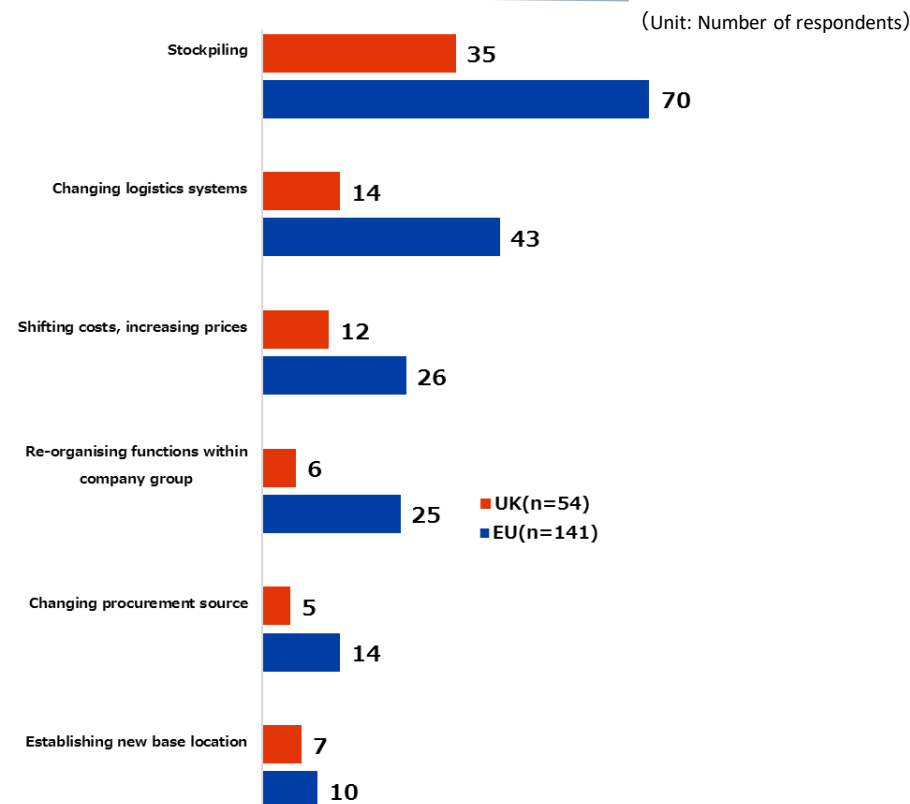
Over 50% of manufacturing companies based in the UK are preparing /implementing countermeasures

- With regard to countermeasures to be taken in the event that the transition period ends without agreement on the future relationship, including an FTA between the UK and the EU, the combined total of "Plan already made", "Currently planning", and "Intending to plan" came to 43.2% for Japanese-affiliated companies based in the UK, and 31.6% for those based in the EU. Examined by industry, Japanese-affiliated manufacturing companies in the UK recorded an especially high ratio of 52.8%.
- The top three specific countermeasures cited were "Stockpiling", "Changing logistics", and "Shifting costs, increasing prices". Among these, 82.1% of UK-based manufacturing companies that responded with either "Plan already made" or "Currently planning" or "Intending to plan" cited "Stockpiling" as a countermeasure.

Countermeasure preparation



Breakdown of countermeasures



Note 1: these figures consist of the total number of companies in all countries/regions that responded with "Plan already made" or "Currently planning" or "Intending to plan"

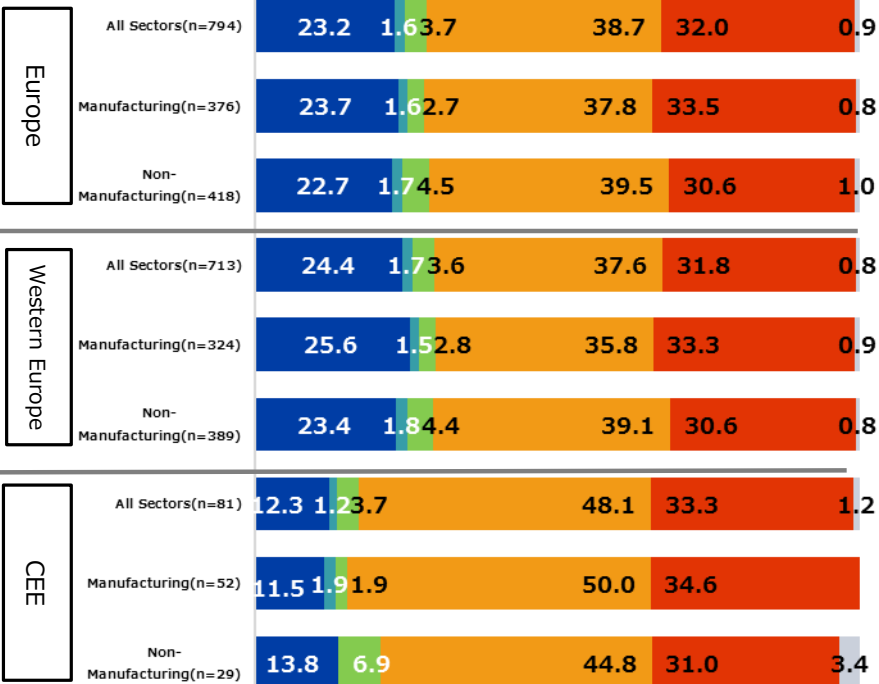
Note 2: count does not differentiate between "Plan already made", "Currently planning", and "Intending to plan"

6-1 | Significant impact on 2020 business performance in Western Europe by change in Trade Environment

- When asked about the impact of "Changes in trade environment" on business performance in 2020, 23.2% of companies in Europe as a whole indicated that there had been a negative impact. The response rate for a negative impact was higher for Japanese-affiliated companies in Western Europe than it was for those in Central and Eastern Europe.
- In terms of specific policies, including future possible measures, that have an impact, the most common responses were "Export control and strengthening regulations on investment by the US government", and "US national security investigation of imports of automobiles and automobile parts (not yet implemented)", both at 22.9%.
- Specific negative impacts cited included "Slowdown in the global economy", "Restrictions on procurement countries", and "Impact on customer businesses".

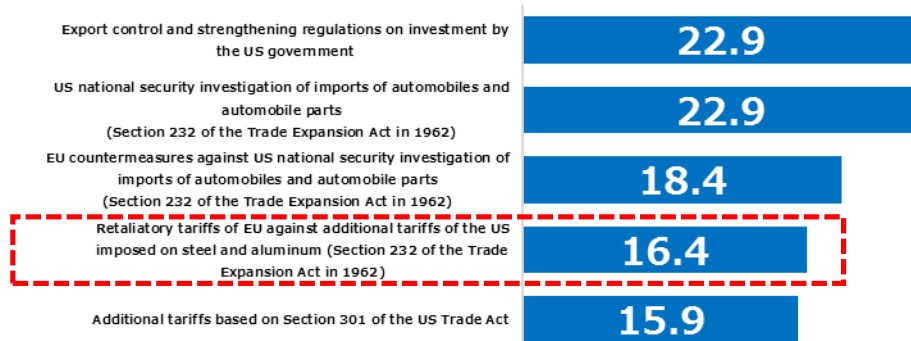
Impact as of the time of the survey

■ Negative impact overall
■ Positive impact overall
■ Positive and negative impacts to the same degree
■ No impact
■ Do not know
■ Other



Top 5 Policies with the Greatest Impact (As of the Time of the Survey)

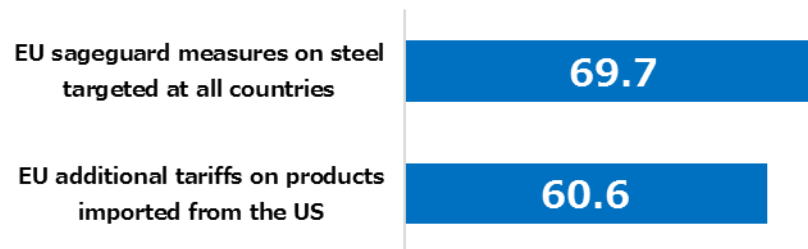
(Unit: %) n=201



(Note) "Positive impact", "Negative impact", and "Both positive and negative impacts" were not differentiated when tallied.

Breakdown of EU's Retaliatory Tariffs that have an Impact (As of the Time of the Survey)

(Unit: %) n=33

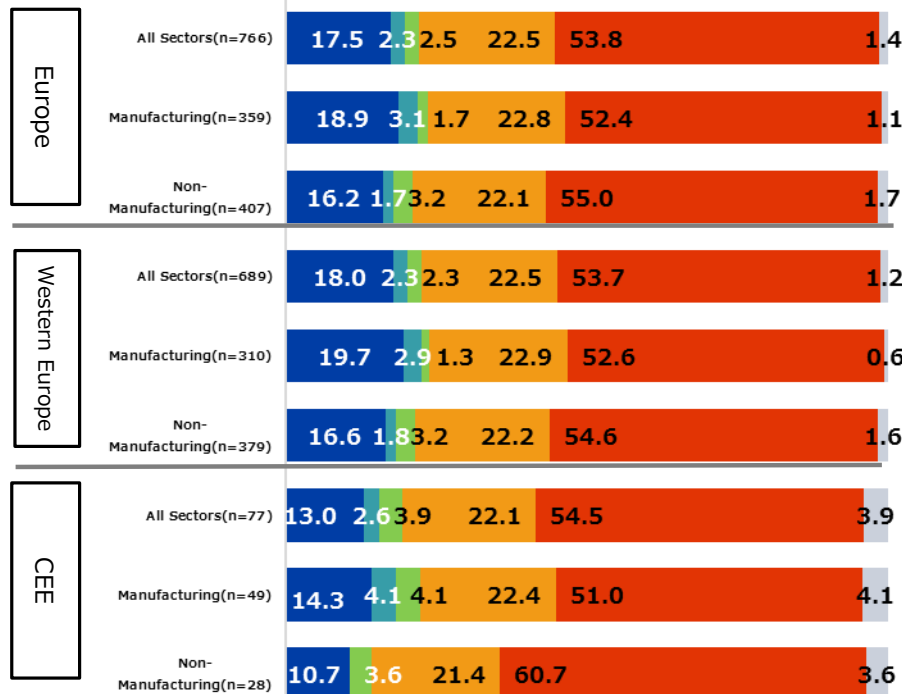
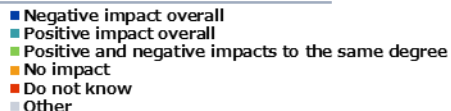


(Note) "Positive impact", "Negative impact", and "Both positive and negative impacts" were not differentiated when tallied.
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6-2 | Significant impact from strengthened controls on US exports/restrictions on investment

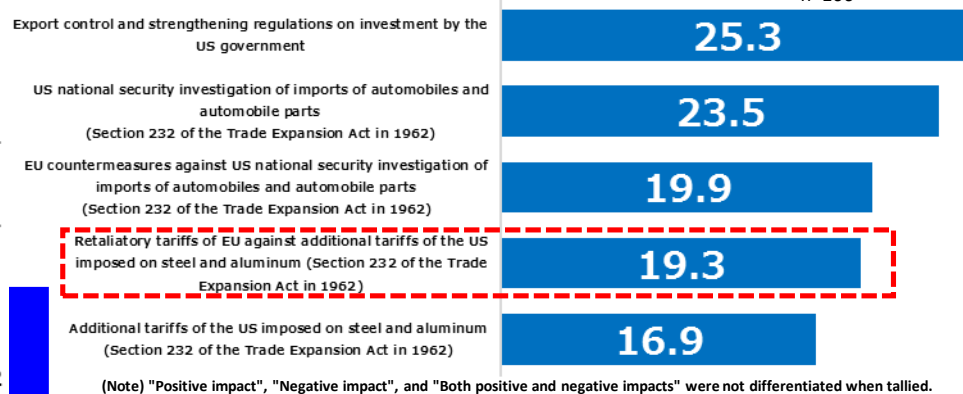
- When asked about the impact of "Changes in trade environment" on business performance over the next 2-3 years, 17.5% of companies in Europe as a whole selected "Have a negative impact overall". As was the case for the impact in 2020, the rate for Japanese-affiliated companies based in Western Europe responding with "Negative impact" was 18.0%, higher than the 13.0% recorded for Japanese-affiliated companies in Central and Eastern Europe.
- In terms of specific policies that may have an impact of some kind going forward, the highest rate was recorded for "Export control and strengthening regulations on investment by the US government", at 25.3%. Next was "US national security investigation of imports of automobiles and automobile parts (not yet implemented)" at 23.5%.
- Specific negative impacts cited included "Stagnation of global movement of goods", "Declining sales in China", and "Higher investment risks".

Impact over next 2-3 years



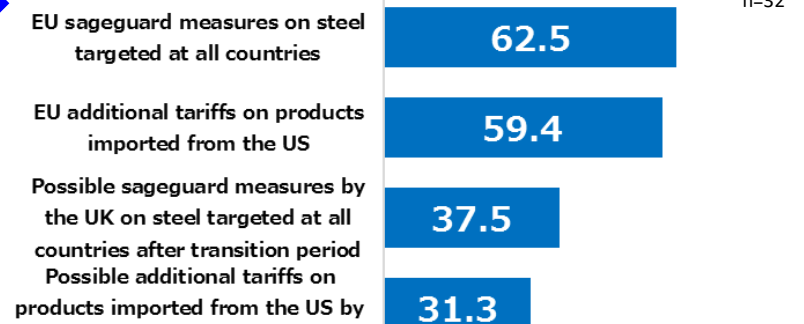
Top 5 Policies with the Greatest Future Impact

(Unit: %)
n=166



Breakdown of EU's Retaliatory Tariffs that have Future Impact

(Unit: %)
n=32

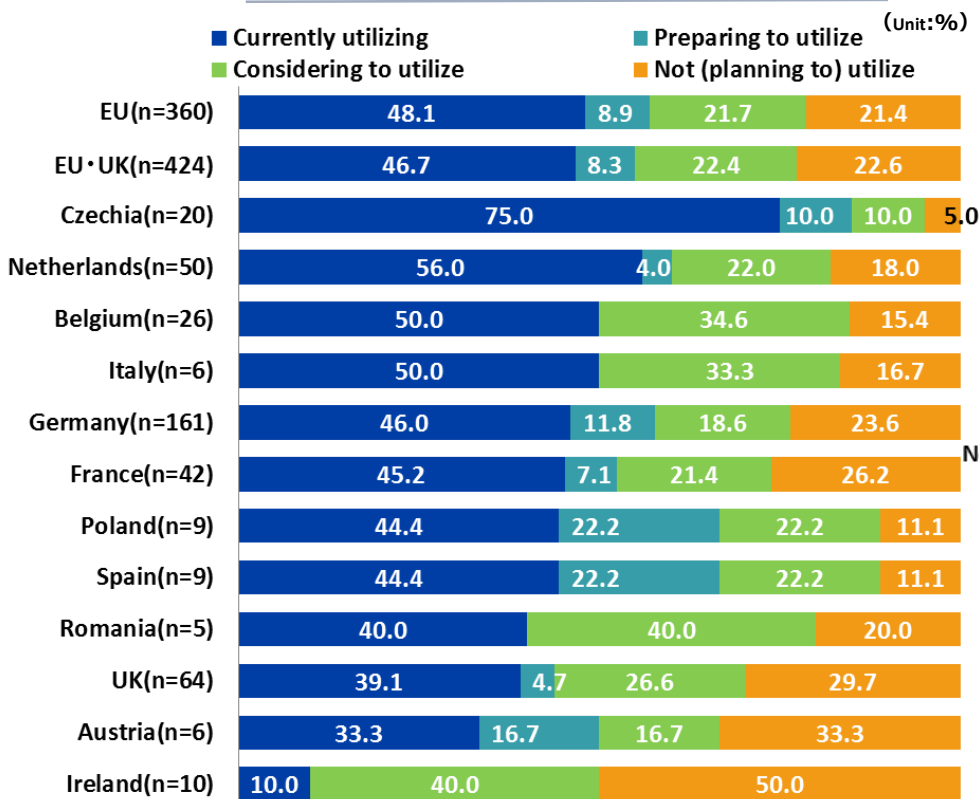


(Note) "Positive impact", "Negative impact", and "Both positive and negative impacts" were not differentiated when tallied.

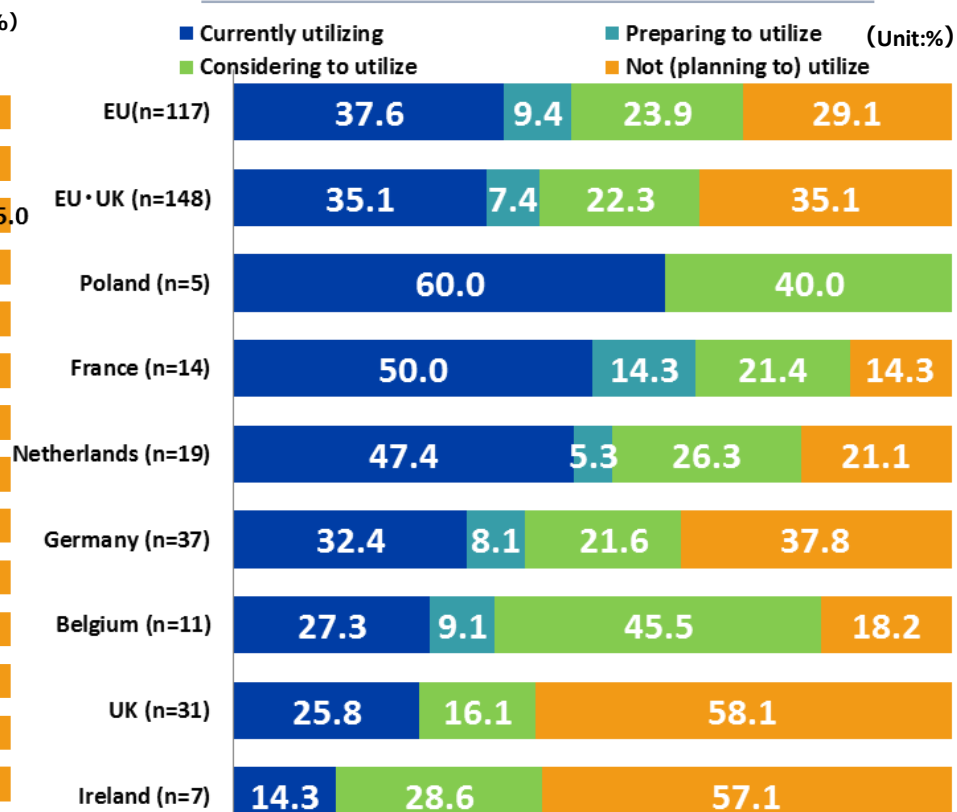
7-1 | Around 40% of companies use the Japan-EU EPA for both import and export

- With regard to the utilization of the Japan-EU EPA by Japanese-affiliated companies based in the EU, for the EU as a whole, 48.1% of companies responded that they use it for import from Japan to the EU (including the UK), while 37.6% use it for export from the EU (including the UK)-to Japan. Including responses of companies based in the UK (during the transition period), the proportion of companies who responded that they use the EPA for import from Japan falls slightly to 46.7% and 35.1% for export from EU to Japan respectively.
- As for imports from Japan to the EU, the highest rate of companies who responded that they use the EPA was Japanese-affiliated companies based in Czechia (75.0%), followed by the Netherlands (56.0%), Belgium (50.0%), Italy (50.0%), Germany (46.0%), France (45.4%), Poland (44.4%), and Spain (44.4%).

**Utilization of the Japan-EU EPA
: Imports from Japan to the EU (By Country)**



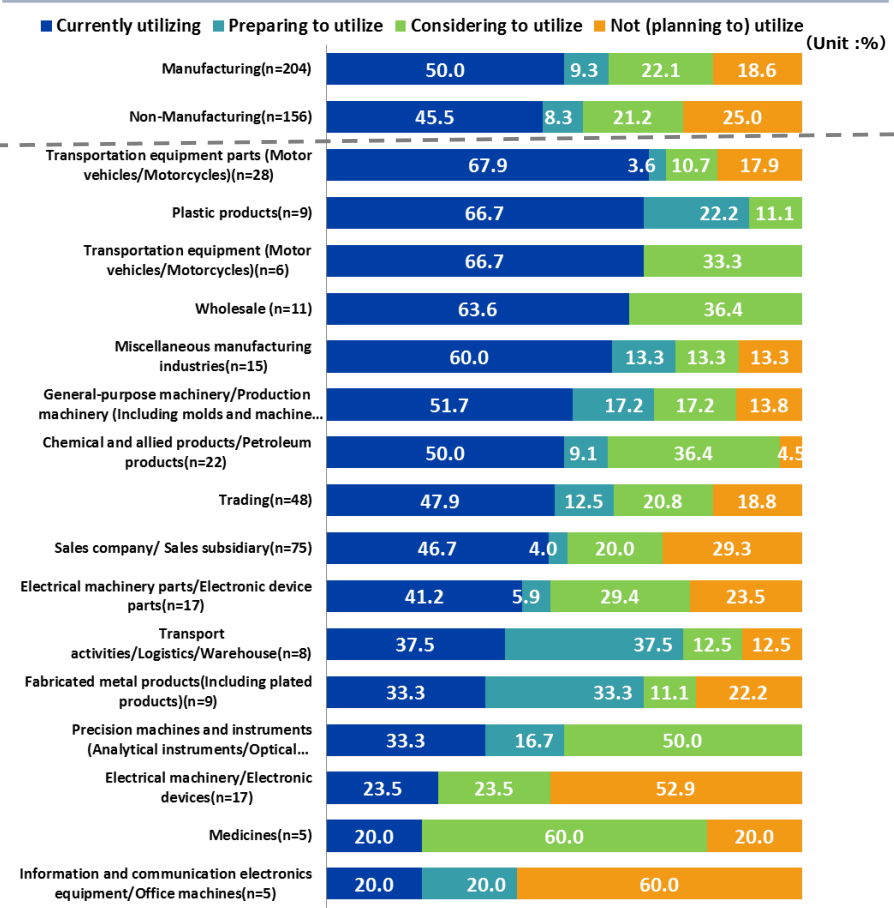
**Utilization of the Japan-EU EPA
: Exports from the EU to Japan (By Country)**



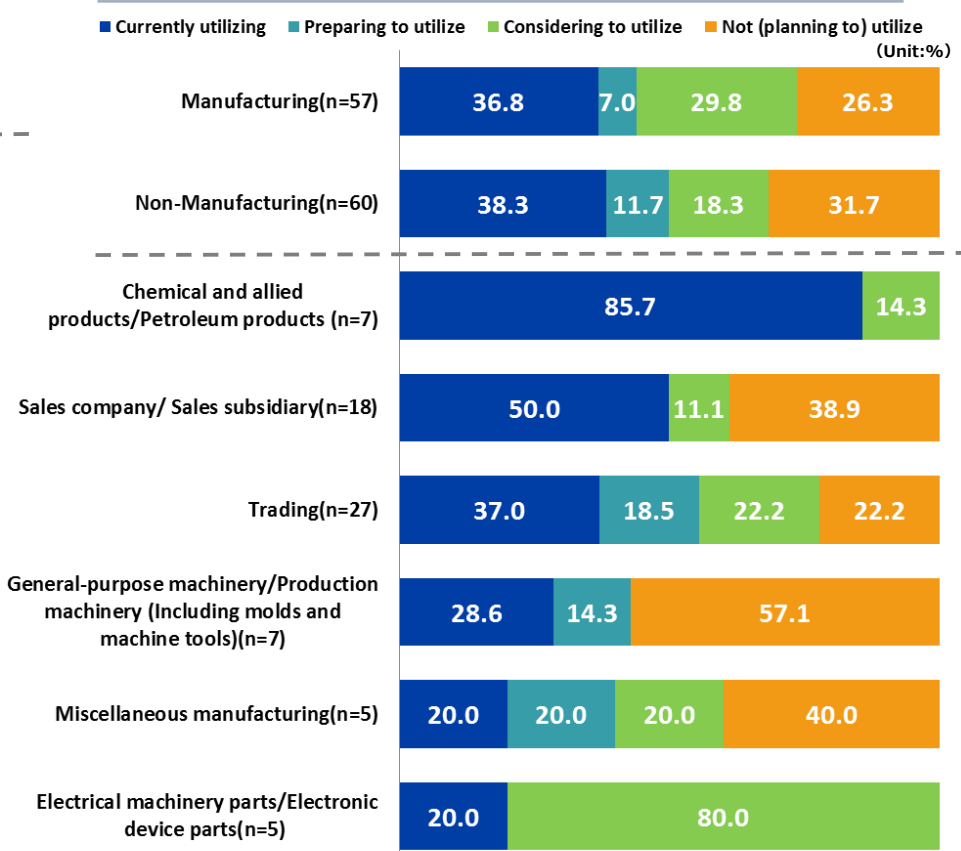
7-2 Higher response rate of companies using the Japan-EU EPA in import to the EU for transportation equipment parts and plastic products

- Looking at the rates of Japanese-affiliated companies based in the EU who responded that they utilize the Japan-EU EPA by industry, for imports from Japan to the EU (including the UK), high rates exceeding 60% were seen for transportation equipment parts (motor vehicles/motorcycles), plastic products, transportation equipment (motor vehicles/motorcycles), wholesale, and miscellaneous manufacturing industries. For plastic products and transport equipment (motor vehicles/motorcycles) in particular, if the responses "Preparing to utilize" and "Considering to utilize" are taken into account, this figure reaches 100%, showing a high degree of interest in utilization.
- For exports from the EU (including the UK) to Japan, higher rates of companies who responded that they utilize the EPA were seen in industries such as chemical and allied products/petroleum products (85.7%) and sales company (50.0%).

Utilization of the Japan-EU EPA by Japanese-affiliated companies based in the EU : Imports from Japan to the EU (By Industry)



Utilization of the Japan-EU EPA by Japanese-affiliated companies based in the EU : Exports from the EU to Japan (By Industry)



7-3 | Around 20% of companies do not use the Japan-EU EPA for imports to the EU

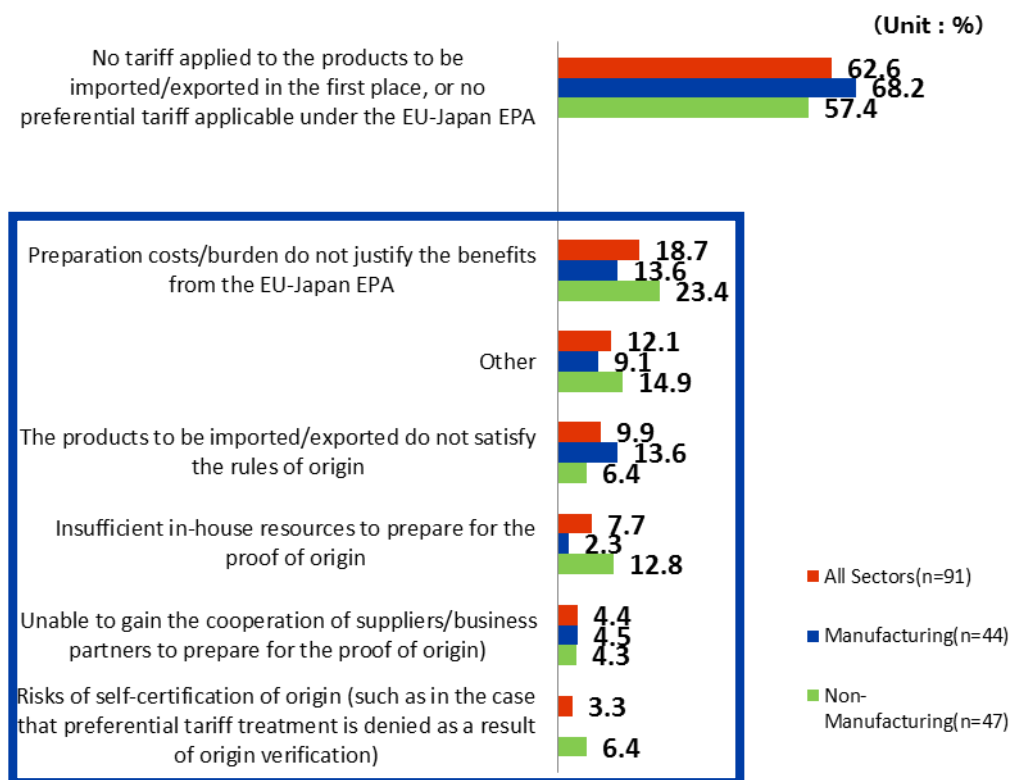
- Despite being engaged in trade between Japan and the EU, 77 out of 360 companies (21.4%) responded that they are not utilizing the Japan-EU EPA for imports from Japan to the EU (including the UK). For exports from the EU (including the UK) to Japan, 34 out of 117 companies (29.1%) responded that they are not utilizing the agreement.
- When asked why they did not utilize the Japan-EU EPA, despite being engaged in trade between Japan and the EU, the most common response was "No tariff applied to the products to be imported/exported in the first place, or no preferential tariff applicable under the Japan-EU EPA" at 62.6%.

Utilization of the Japan-EU EPA by Japanese-Affiliated Companies Based in the EU^{Note 1}

Status of Utilization of Japan-EU EPA	Responses	%
Japan → EU	360	100.0%
Currently utilizing	173	48.1%
Preparing to utilize	32	8.9%
Considering to utilize	78	21.7%
Not (planning to) utilize	77	21.4%
EU → Japan	117	100.0%
Currently utilizing	44	37.6%
Preparing to utilize	11	9.4%
Considering to utilize	28	23.9%
Not (planning to) utilize	34	29.1%

Reasons for Not using the Japan-EU EPA^{Note 1}

<Multiple Answers Given>

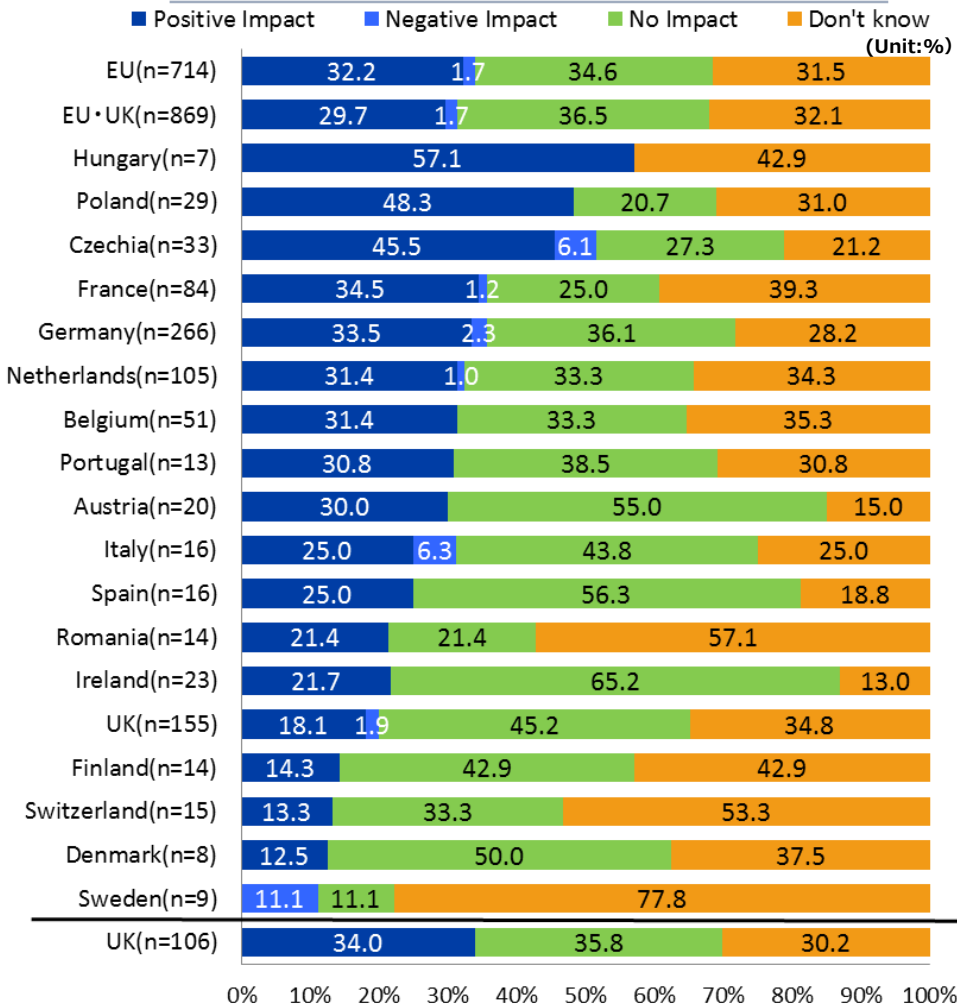


(Note 1) Proportion of Japanese-affiliated companies based in the EU engaging in trade between the EU and Japan. (Note 2) "The EU" includes the UK. (Note 3) n (sample size) includes both companies that import from Japan to the EU and those that export from the EU to Japan.

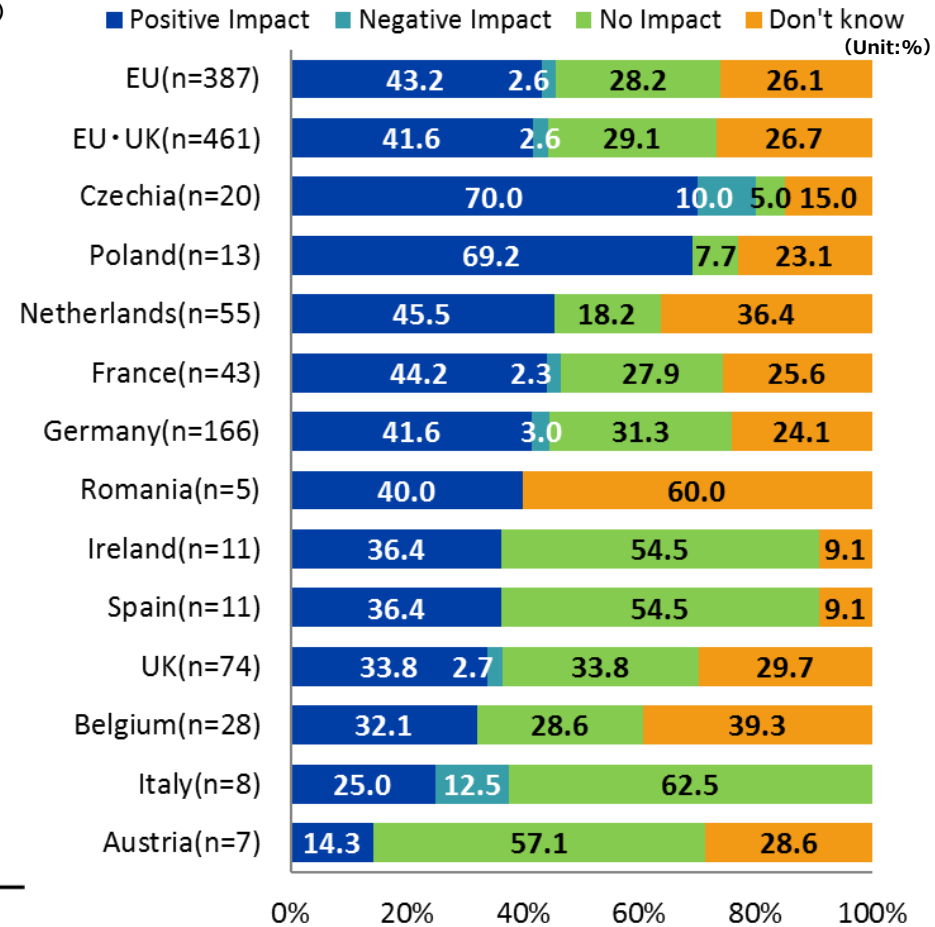
7-4 | Around 40% of companies see "Positive Impact" from Japan-EU EPA

- When asked about the impact of the Japan-EU EPA, 32.2% of all EU based companies selected "Positive Impact".
- Among companies engaging in trade between Japan and the EU, 43.2% of all EU based companies selected "Positive Impact". Looking at companies engaging in trade between Japan and the EU by country, the response rates for "Positive Impact" were especially high in Czechia (70.0%) and Poland (69.2%). For UK, this figure was only 33.8%.

Japan-EU EPA Impact by Country (All Respondees)



Japan-EU EPA Impact by Country (Only Companies Engaging in Trade between Japan and the EU)

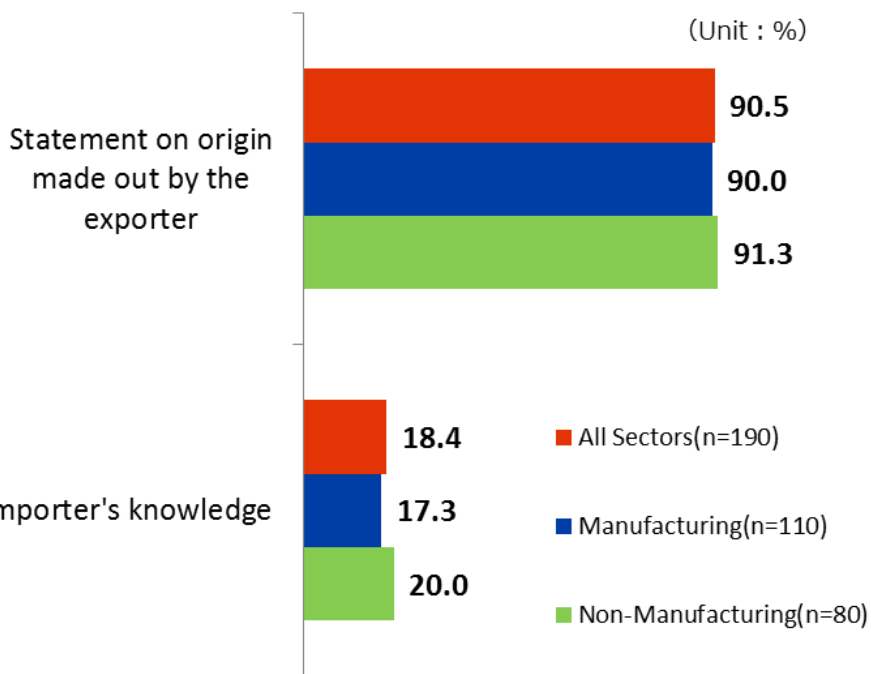


7-5

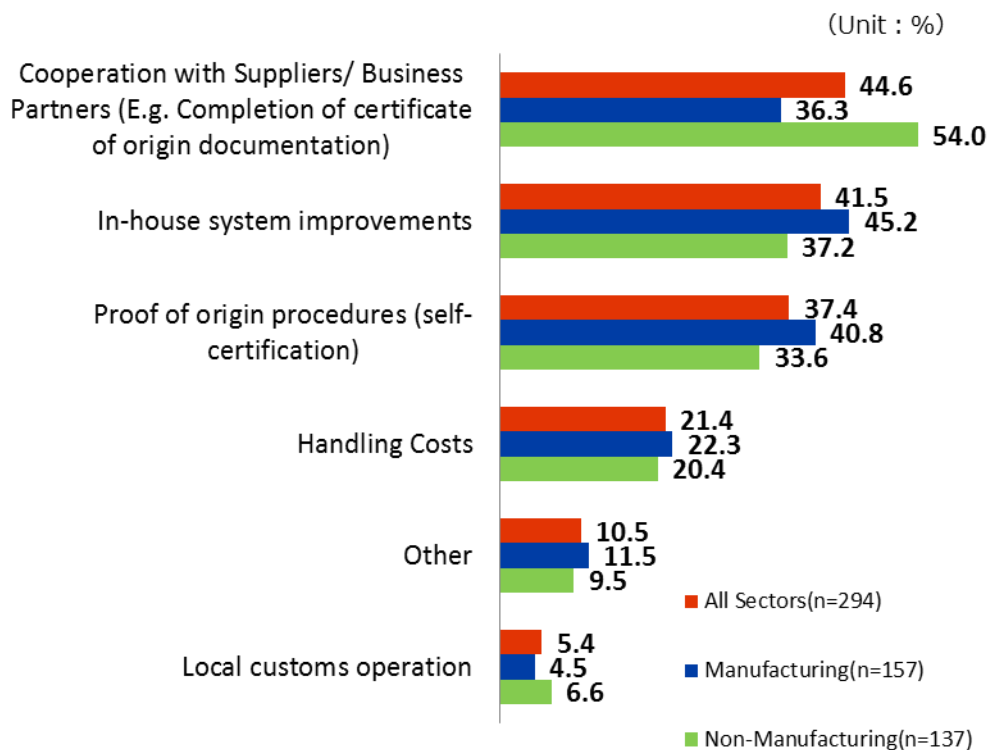
Cooperation with suppliers/ business partners is a major challenge for utilization of Japan-EU EPA

- The majority (90.5%) of companies use the "Statement on origin made out by the exporter" when applying for the preferential treatment under the Japan-EU EPA.
- In terms of challenges associated with utilization of the Japan-EU EPA, "Cooperation with suppliers/ business partners (e.g. completion of certificate of origin documentation)" was selected by roughly half (44.6%) of the EU based companies. "Proof of origin procedures (self-certification)", which was the most selected response in the previous year's survey at 47.5 %, fell by over 10 percentage points to 37.4% this year, suggesting that companies are becoming more familiar with the self-certification procedure. In addition, "In-house system improvements" (41.5%) increased relative to the previous year's survey. This probably indicates that the number of companies attempting to utilize the Japan- EU EPA has increased.

Method of application for preferential treatment when using the Japan-EU EPA (Only companies based in the EU) <Multiple Answers Given>



Challenges Regarding the Use of the Japan-EU EPA (Only companies based in the EU) <Multiple Answers Given>



(Note) n (sample size) includes both companies that import from Japan to the EU and those that export from the EU to Japan

7-6 Many companies point out inconsistencies in treatment of customs clearance among EU member states

Issues and obstacles related to the use of Japan-EU EPA and desired measures/ assistance from the Government (based on individual responses)

Impact of Japan-EU EPA on company's own activities (based on individual responses)

<Integration and clarification of operation >

- Inconsistent treatment by customs (inspector) when making customs clearance declaration for imports.
- Rules and required documents sometimes vary from country to country in Europe.
- Information that is normally considered unnecessary is sometimes requested by Japanese customs. This ultimately leads to creating unnecessary documents in order to avoid disputes with the Customs, or switching to normal customs clearance procedures and not using the EPA.

<Simplification>

- Application procedures are too complicated and infeasible.
- Difficulty of gathering cost information from suppliers. Increase in administrative load within the company to prepare necessary documents and information.
- Verification of the origin of the materials is required even for parts which are imported from our parent company.

<Verification, Penalties, etc.>

- Verification rules and policies are unclear.
- We have all the documents prepared, but it is unclear if we can submit them promptly when a verification is performed.

<Others>

- HS code decisions and applications are unclear.
- Relaxation of rules of origin, relaxation of rules concerning certificates of origin.
- Only a few of our products are made entirely in Japan, including materials and finished parts. In global supply chains, it's difficult to define which country a product belongs to.

<Tariffs>

- Reductions in purchasing/procurement costs.
- Application of preferential tariffs for parts imported from Japan.
- Removal of tariffs lead to growth in profits and increase in income.
- Reduced our selling price.

<Certification of origin>

- Administrative work has increased to create necessary documents.
- Additional costs for expenses of document creation by suppliers.

<Other>

- Enhanced price competitiveness in Europe.
- Increase in trade volumes caused by expansion in trade.
- Rise in associated man-hours in order to apply the EPA but unable to return to profit. Also adds delay in delivery.
- Reorganization of internal systems to deal with EPA.
- Growth in business opportunities driven by revitalization of economic relationship between Japan and Europe.

Companies utilize the EU-Turkey Customs Union and the EU-Vietnam FTA the most

- Regarding utilization of bilateral and multilateral free trade agreements (FTA) already in effect, for imports into the EU, a notably high proportion of companies selected "Currently utilizing" and "Considering to utilize" for the EU-Turkey and the EU-Vietnam agreements. For exports, companies selected "Currently utilizing" the most for the EU-Turkey agreement.

Utilization of the EU's Bilateral or Multilateral FTAs by Europe-Based Companies <Multiple Answers Given> (Units: Number of respondents, %)

Are you currently/considering to utilize preferential tax rates provided by these FTAs for <u>import to the EU?</u>	Responses	Currently utilizing	Considering to utilize (*1)	Not (planning to) utilize
(Reference) Japan-EU	428	199	133	96
	100.0%	46.5%	31.1%	22.4%
Turkey	38	18	11	9
	100.0%	47.4%	28.9%	23.7%
Vietnam	29	14	11	4
	100.0%	48.3%	37.9%	13.8%
Korea	28	14	5	9
	100.0%	50.0%	17.9%	32.1%
Japan-Switzerland*2	25	14	7	4
	100.0%	56.0%	28.0%	16.0%
Switzerland	23	10	5	8
	100.0%	43.5%	21.7%	34.8%
Mexico	11	7	3	1
	100.0%	63.6%	27.3%	9.1%
Singapore	11	4	4	3
	100.0%	36.4%	36.4%	27.3%
Mediterranean countries (Including Middle East)*3	10	4	2	4
	100.0%	40.0%	20.0%	40.0%
South Africa	9	3	2	4
	100.0%	33.3%	22.2%	44.4%
Canada	6	3	2	1
	100.0%	50.0%	33.3%	16.7%

(Note 1) Total of "Preparing to utilize" and "Considering to utilize" for "Japan-EU".

(Note 2) "Japan-Switzerland" concerns import from Japan to Switzerland.

(Note 3) Middle East and North African countries such as Morocco, Tunisia, Jordan, Israel, Egypt (excluding Turkey).

Are you currently/considering to utilize preferential tax rates provided by these FTAs for <u>export from the EU?</u>	Responses	Currently utilizing	Considering to utilize (*1)	Not (planning to) utilize
(Reference) Japan-EU	151	52	46	53
	100.0%	34.4%	30.5%	35.1%
Turkey	88	33	22	33
	100.0%	37.5%	25.0%	37.5%
Switzerland	83	33	18	32
	100.0%	39.8%	21.7%	38.6%
Mediterranean countries (Including Middle East)*3	52	15	14	23
	100.0%	28.8%	26.9%	44.2%
Lichtenstein, Norway, Iceland (EEA)*4	46	19	8	19
	100.0%	41.3%	17.4%	41.3%
South Africa	43	16	10	17
	100.0%	37.2%	23.3%	39.5%
Mexico	21	10	7	4
	100.0%	47.6%	33.3%	19.0%
Korea	18	8	4	6
	100.0%	44.4%	22.2%	33.3%
Singapore	18	1	8	9
	100.0%	5.6%	44.4%	50.0%
Vietnam	17	4	5	8
	100.0%	23.5%	29.4%	47.1%
Canada	9	3	4	2
	100.0%	33.3%	44.4%	22.2%

(Note 4) These three countries are equal partners in the internal market, on the same terms as the EU member states through the EEA Agreement.

Utilization by Europe-Based Companies of Potential, Signed FTAs Awaiting Entry into Force (Europe as a whole) <Multiple Answers Given>

Are you planning/considering to utilize preferential tax rates provided by these FTAs for <u>import to the EU or UK?</u>	Responses	Planning to utilize	Considering to utilize	Not planning to utilize
Japan→UK*5	148	51	60	37
	100.0%	34.5%	40.5%	25.0%
TPP11→UK	150	39	59	52
	100.0%	26.0%	39.3%	34.7%
UK→EU*5	105	37	45	23
	100.0%	35.2%	42.9%	21.9%
Mercosur→EU	6	3	3	0
	100.0%	50.0%	50.0%	0.0%

Are you planning/considering to utilize preferential tax rates provided by these FTAs for <u>export from the EU or UK?</u>	Responses	Planning to utilize	Considering to utilize	Not planning to utilize
EU→UK*5	182	64	65	53
	100.0%	35.2%	35.7%	29.1%
UK→TPP11	47	10	16	21
	100.0%	21.3%	34.0%	44.7%
UK→Japan*5	44	10	16	18
	100.0%	22.7%	36.4%	40.9%
EU→Mercosur	13	6	7	0
	100.0%	46.2%	53.8%	0.0%

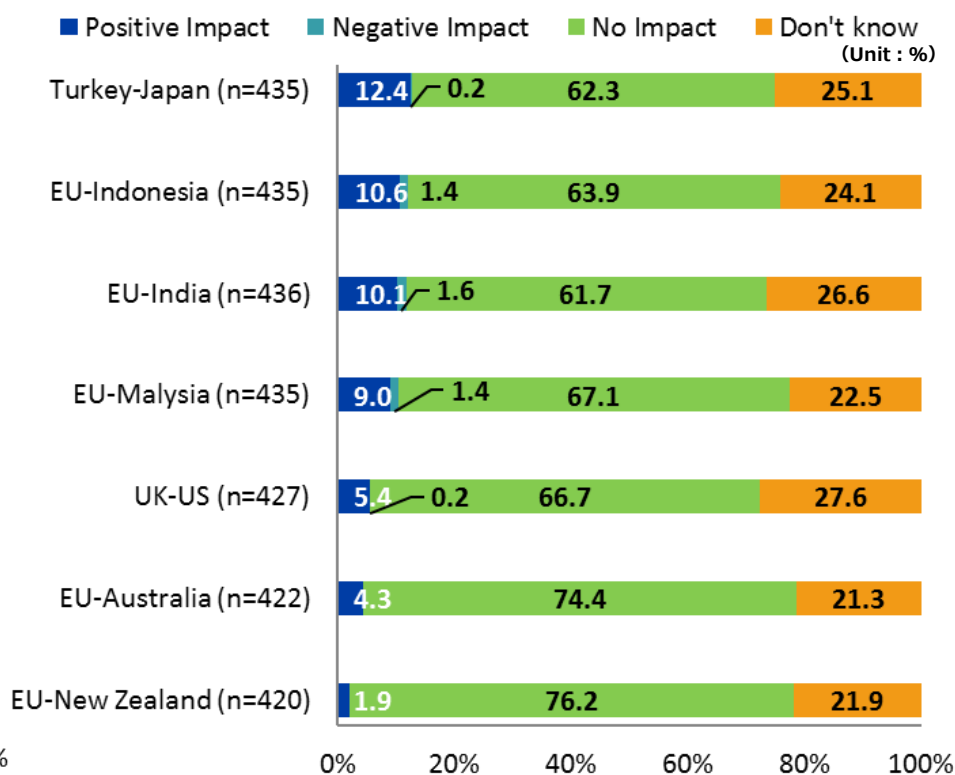
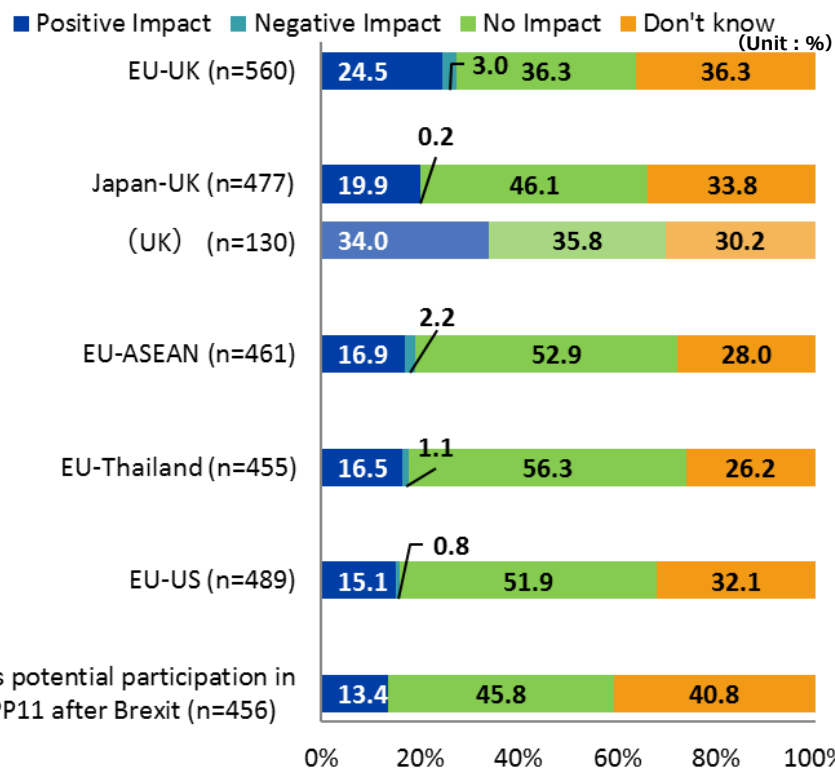
(Note 5) Agreements that have not yet entered into force at the time of the survey. The Japan-UK CEPA came into effect on Jan. 1, 2021 and the EU-UK FTA came into effect provisionally on Jan. 1, 2021.

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7-8 | 34% of companies based in the UK believe Japan-UK EPA will have a "Positive Impact"

- Among the FTAs and EPAs under negotiation by the EU or the UK, or potential FTAs that might be negotiated in future at the time of survey, those with a high response rate for "Positive Impact" were: the EU-UK FTA (24.5%), the Japan-UK EPA (19.9%), EU-ASEAN FTA (16.0%), and EU-Thailand FTA (16.9%).
- When responses were limited to Japanese-affiliated companies based in the UK, the Japan-UK EPA received the highest rate at 34.0%.
- Many companies who responded that they will gain a "Positive Impact" from FTA/EPAs cited reduced tariffs as the major benefit.
- Among companies that selected "Positive Impact" in relation to the EU-UK FTA, a number of companies commented that "It would enable them to maintain existing trade between the EU and the UK".

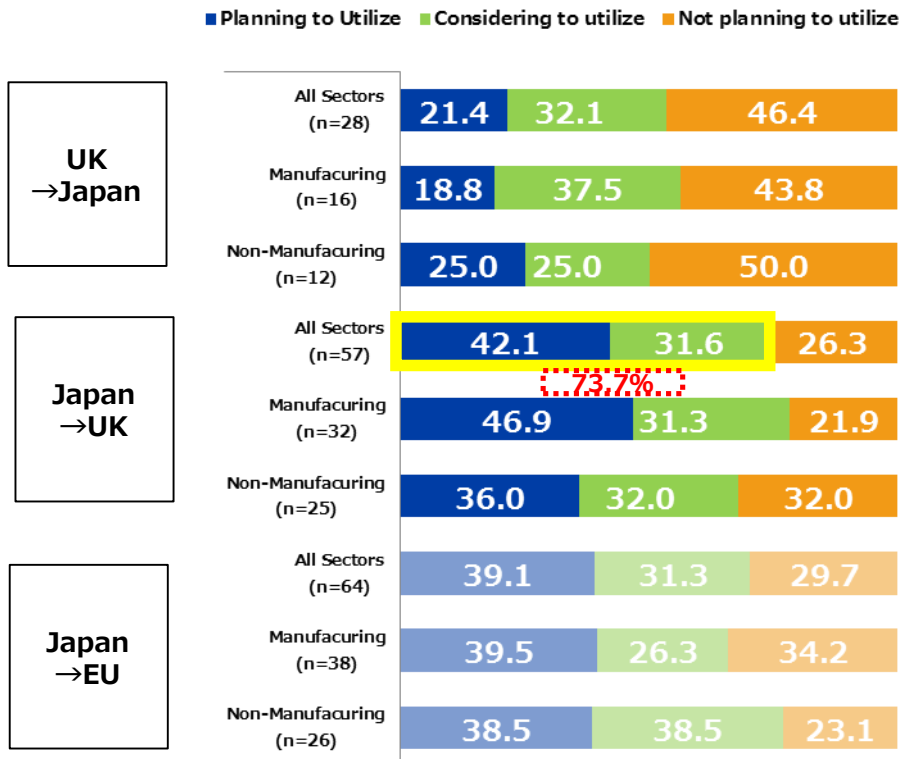
EPA/FTA Impacts (Europe-Based Companies)



7-9 | More than 73.7% of companies importing to the UK plan to use or consider using the Japan-UK EPA

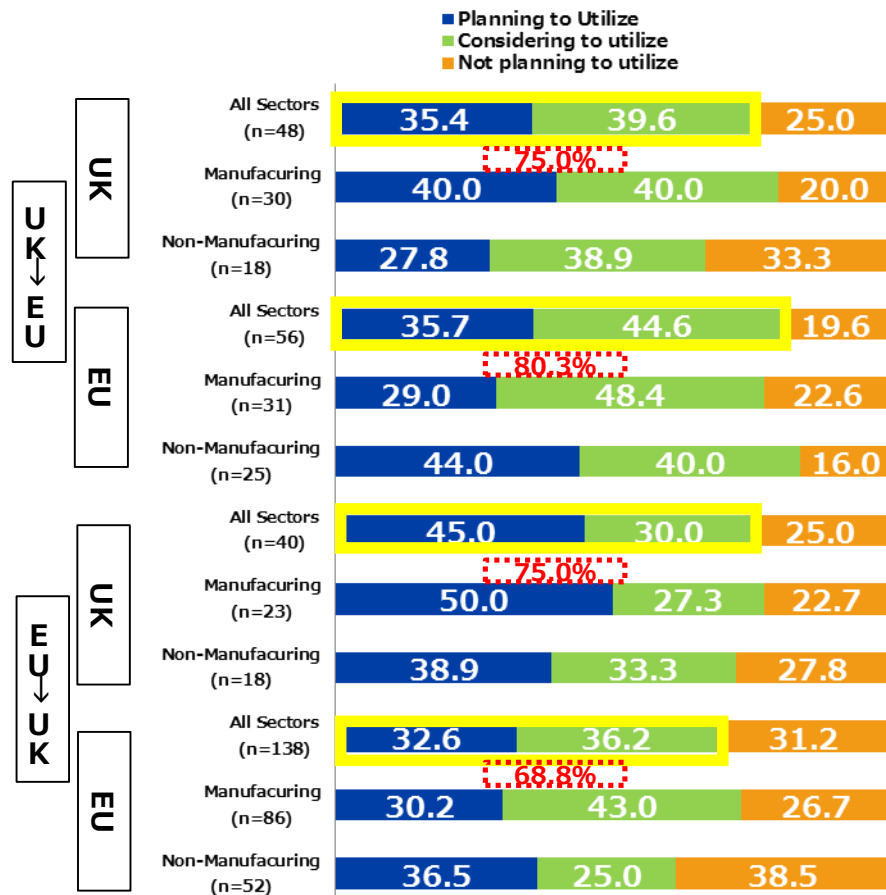
- Among Japanese-affiliated companies based in the UK that engage in trade between the UK and Japan, companies who responded “Planning to utilize” or “Considering to utilize” the Japan-UK EPA for “Imports from Japan to the UK” was 73.7%.
- When asked if they consider the utilization of the EU-UK FTA, regarding “Exports from the UK to the EU”, 75.0% of Japanese-affiliated companies based in the UK and 80.3% of companies based in the EU selected “Planning to utilize” or “Considering to utilize.” As for “Imports from the EU to the UK”, 75.0% of companies based in the UK and 68.8% of companies based in the EU selected “Planning to utilize” or “Considering to utilize.”

Consideration of the utilization of the Japan-UK EPA (companies based in the UK)



Note: for utilization of the Japan-EU EPA, the selections were “Currently utilizing,” “Preparing to utilize,” “Considering to Utilize,” and “Not utilize.” For the purpose of comparison, the figures for “Preparing to utilize” and “Considering to utilize” have been totaled and presented as “Considering to utilize.”

Consideration of the utilization of the EU-UK FTA



8-1

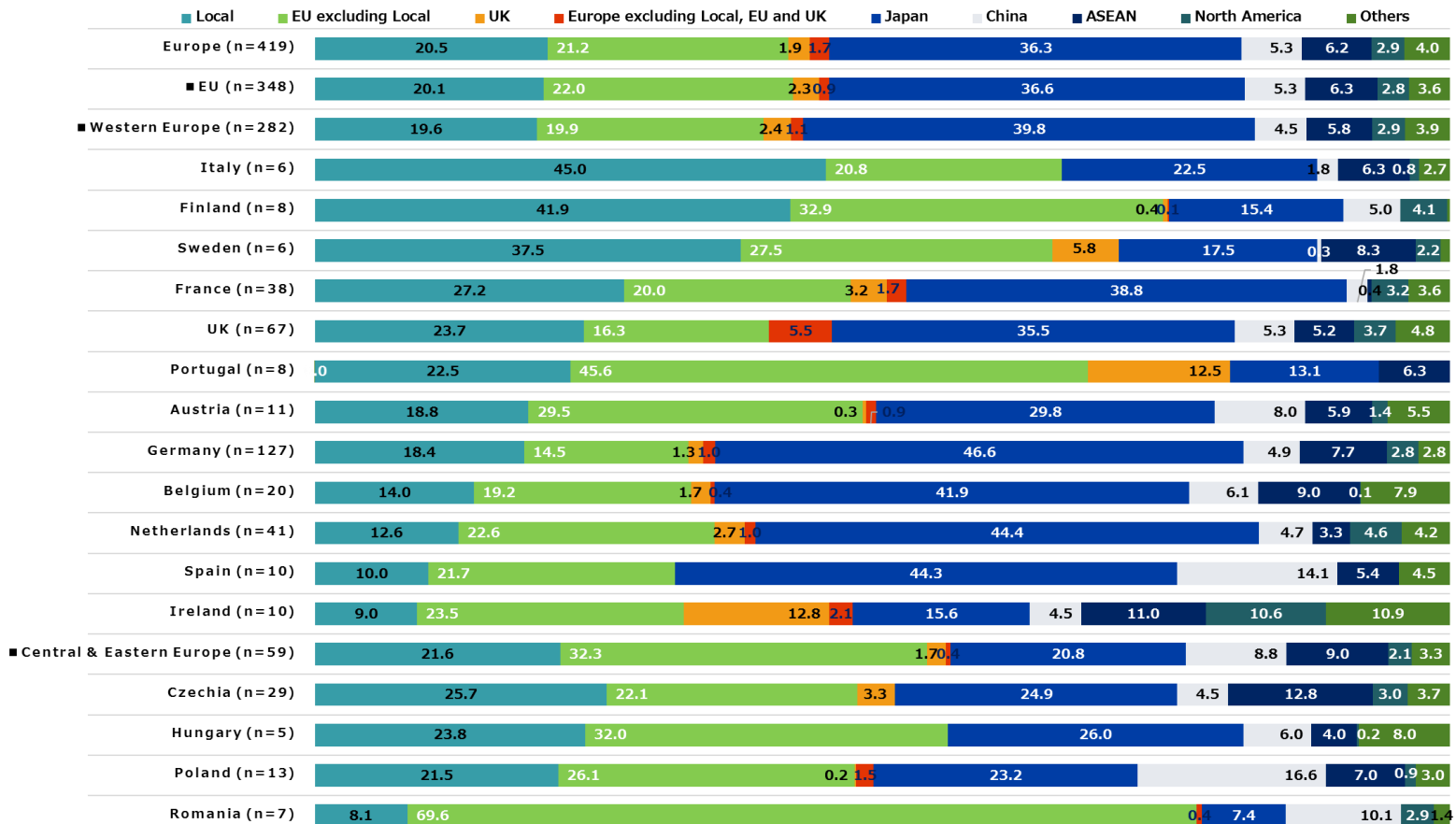
EU Markets remain a major procurement source for EU based Japanese-affiliated companies

- Regarding the procurement of parts and raw materials for Japanese-affiliated companies based in the EU, the simple average of companies' responses (value-based) was calculated. The simple average of companies' responses (value-based procurement) from "Local" and "EU excluding Local" combined was 42.1%.
- The simple average of companies' responses (value-based procurement) from "Japan" was 36.6%. This represents an increase of 5.2 points from the 2018 survey*, which was conducted before the Japan-EU EPA came into force. The rates for Germany and the Netherlands, where Japanese-affiliated companies are clustered most densely, were particularly high at 46.6% and 44.4% respectively. In these two countries, the response rate for Japanese-affiliated companies utilizing the Japan-EU EPA was also high.

* EU excluding the UK

Breakdown of Parts & Raw Material Suppliers for All Sectors by Country and Region (value-based)

(Unit : %)



*1 This graph shows the average response rate given by companies for each sales destination. When combined, procurement sources for each company total 100.

*2 "Local" refers to the country/region listed. For each choice, countries where the denominator consisted of fewer than five respondents were excluded.

*3 For Western Europe and Central and Eastern Europe, only EU member states are included.

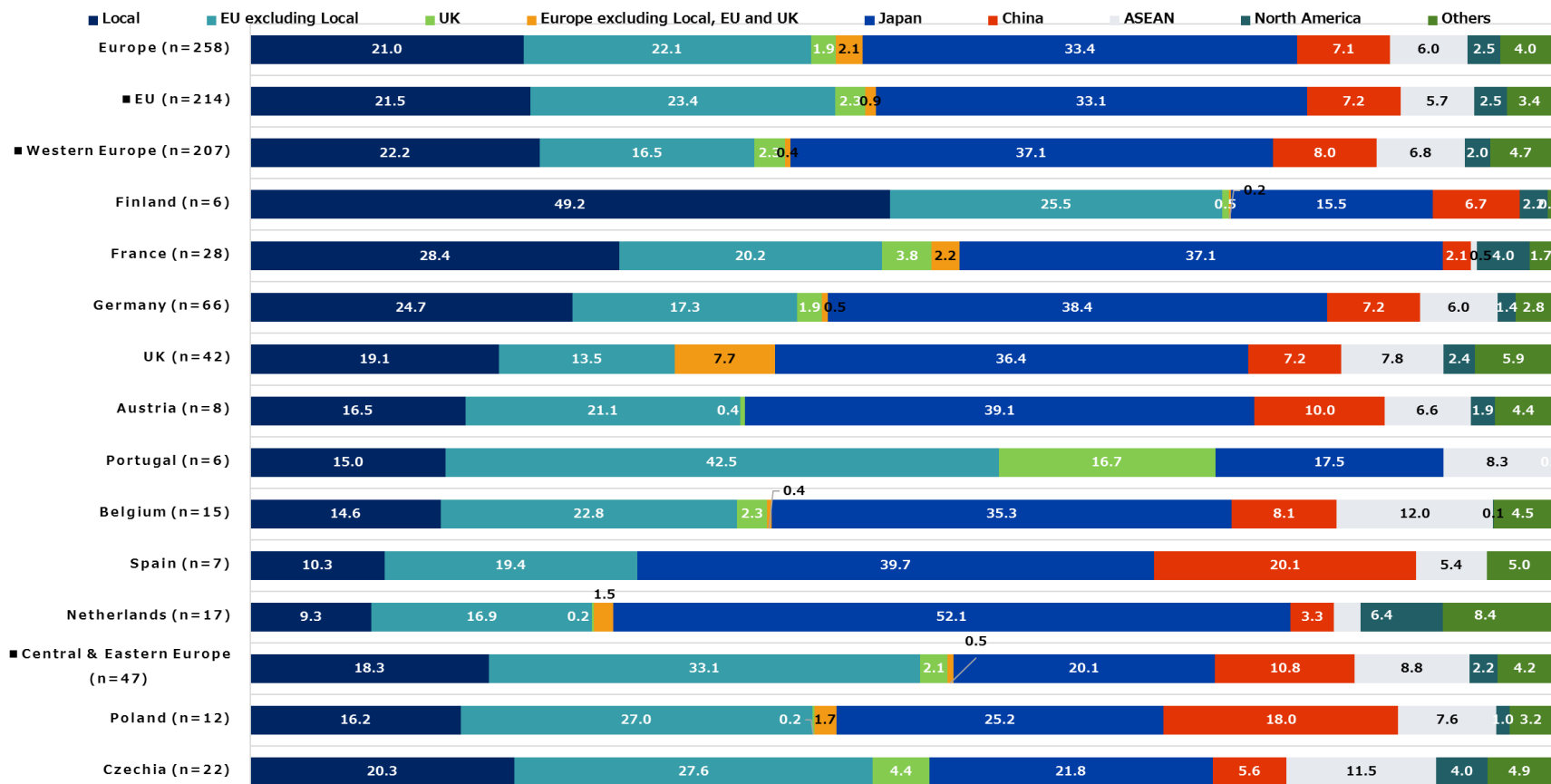
8-2

Procurement from Japan by EU based Japanese-affiliated manufacturing companies has increased significantly

- Regarding the procurement of parts and raw materials for Japanese-affiliated manufacturing companies based in the EU, the simple average of companies' responses (value-based) was calculated. The simple average of companies' responses (value-based procurement) from "Japan" increased significantly by 7.3 points over the previous year's survey* to 33.1%, and it remains the largest procurement source. The application of the preferential tariffs under the Japan-EU EPA results in considerable benefits in terms of reduced tariffs at the time of import.
- The next largest was "EU excluding local" at 23.4%, followed by "Local" at 21.5%.
- For UK-based Japanese-affiliated companies from the manufacturing sector, the simple average of companies' responses (value-based procurement) from "EU" was 13.5%, a decline of 10.4 percentage points over that of the previous year's survey. * EU excluding the UK

Breakdown of Parts & Raw Material Suppliers for Manufacturing Sector by Country and Region (value-based)

(Unit : %)

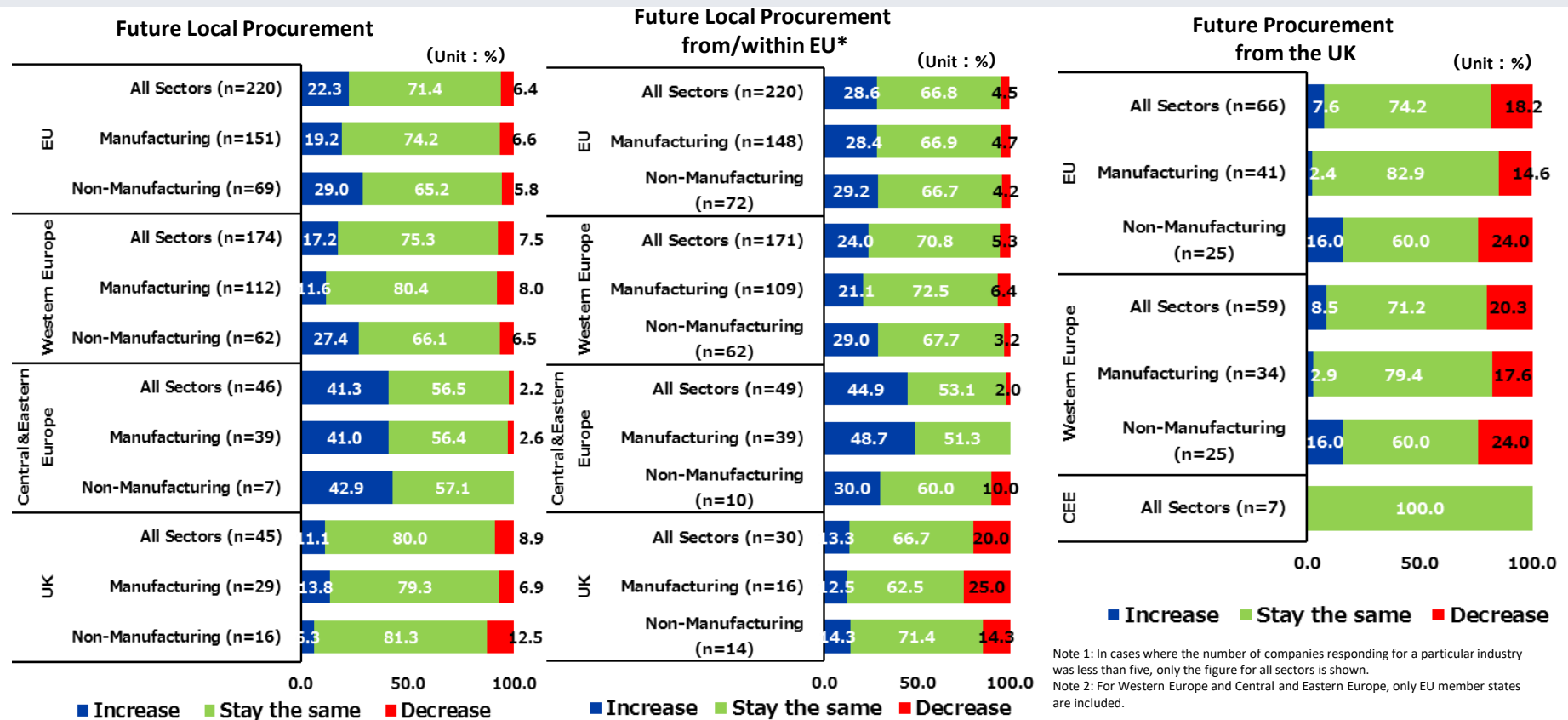


*1 This graph shows the average response rate given by companies for each sales destination. When combined, procurement sources for each company total 100.
 *2 "Local" refers to the country/region listed. For each choice, countries where the denominator consisted of fewer than five respondents were excluded.
 *3 For Western Europe and Central and Eastern Europe, only EU member states are included.

8-3 Focus on intra-regional procurement for manufacturing companies in the EU, primarily Central and Eastern Europe

- When asked about future policy for procurement from the local suppliers, 22.3% of all EU based Japanese-affiliated companies selected "Increase". When restricted to the manufacturing sector, this proportion was 19.2%, a 10.6 percentage point decrease over the previous year's survey*. However, looking at future policy within the EU, "Increase" was a high 28.4%, displaying a trend by Japanese-affiliated manufacturing companies based in the EU towards aiming for increased procurement within the EU. This was especially noticeable in the manufacturing sector in Central and Eastern Europe, which rose 15.4 points to 48.7%.
- For Japanese-affiliated manufacturing companies in the EU, the proportion of companies selecting "Stay the same" for procurement from the UK rose 7.9 percentage points to 82.9%. The proportion of "Decrease" fell by 10.4 points to 14.6%, suggesting that changes to procurement sources have been paused.
- For manufacturing companies in the UK, the proportion of companies selecting "Decrease" for procurement from the EU rose 2.3 points to 25.0%.

* EU excluding the UK

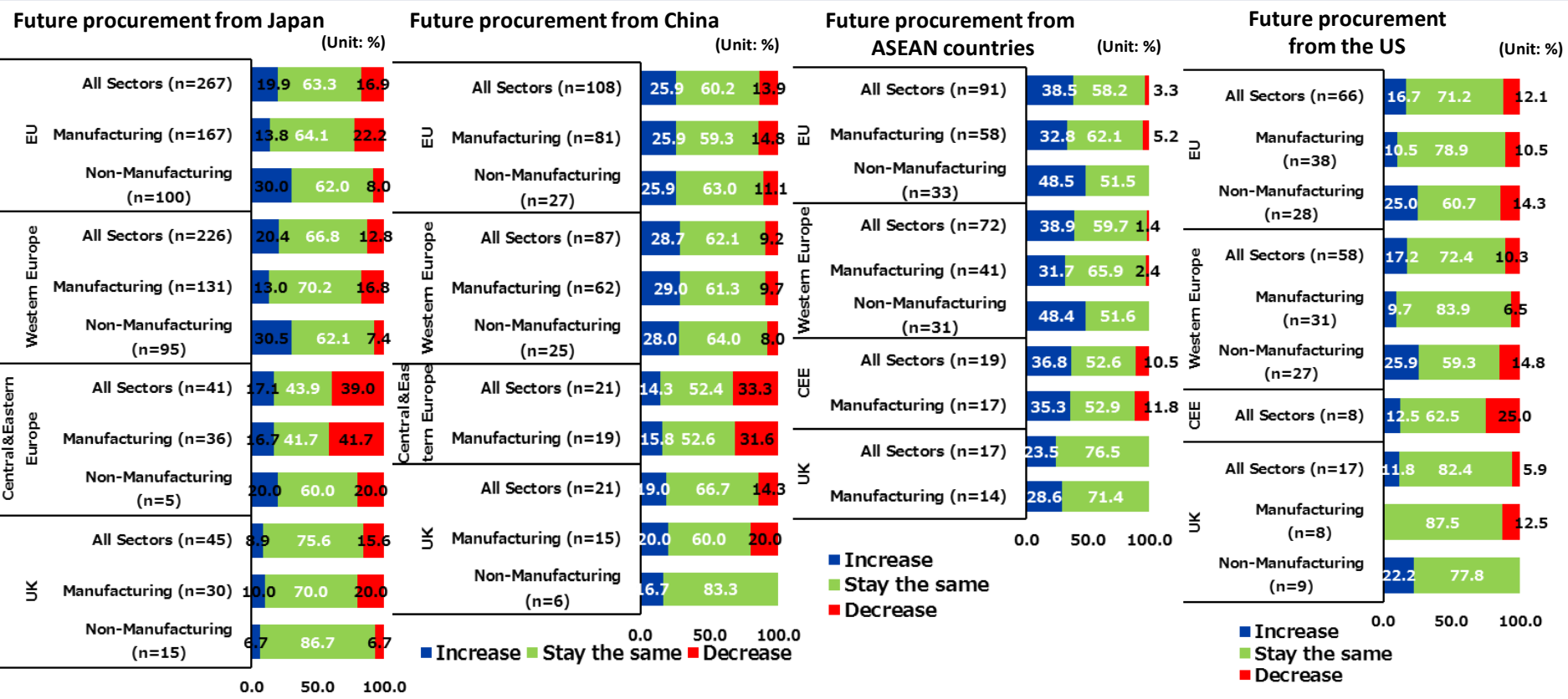


Note 1: In cases where the number of companies responding for a particular industry was less than five, only the figure for all sectors is shown.
 Note 2: For Western Europe and Central and Eastern Europe, only EU member states are included.

* Excluding "local" and Ireland

8-4 | Nearly 40% of Japanese-affiliated companies based in the EU intend to increase procurement from ASEAN countries

- 19.9% of Japanese-affiliated companies based in the EU selected "Increase" for future procurement from Japan. Within this, the response rate for "Increase" in the manufacturing sector was 13.8%. Relative to the previous year's survey, these have fallen 3.5 percentage points and 7.0 points respectively. On the other hand, "Stay the same" rose by 8.5 points for all sectors, and rose 13.3 points for the manufacturing sector.
- Many companies are aiming to increase procurement from ASEAN countries, with 38.5% of Japanese-affiliated companies in the EU selecting "Increase" as a response. Conversely, the number of Japanese-affiliated companies based in the EU selecting "Increase" for procurement from the US was just 16.7%.
- The number of Japanese-affiliated manufacturing companies in Central and Eastern Europe that responded with "Decrease" with regard to procurement from Japan and China was striking. On the other hand, as noted above, there is a visible trend towards increasing procurement from local suppliers and other EU countries, which suggests that the supply chain's center of gravity is shifting towards the EU.



Note 1: In cases where the number of companies responding for a particular industry was less than five, only the figure for all sectors is shown.
 Note 2: For Western Europe and Central and Eastern Europe, only EU member states are included.

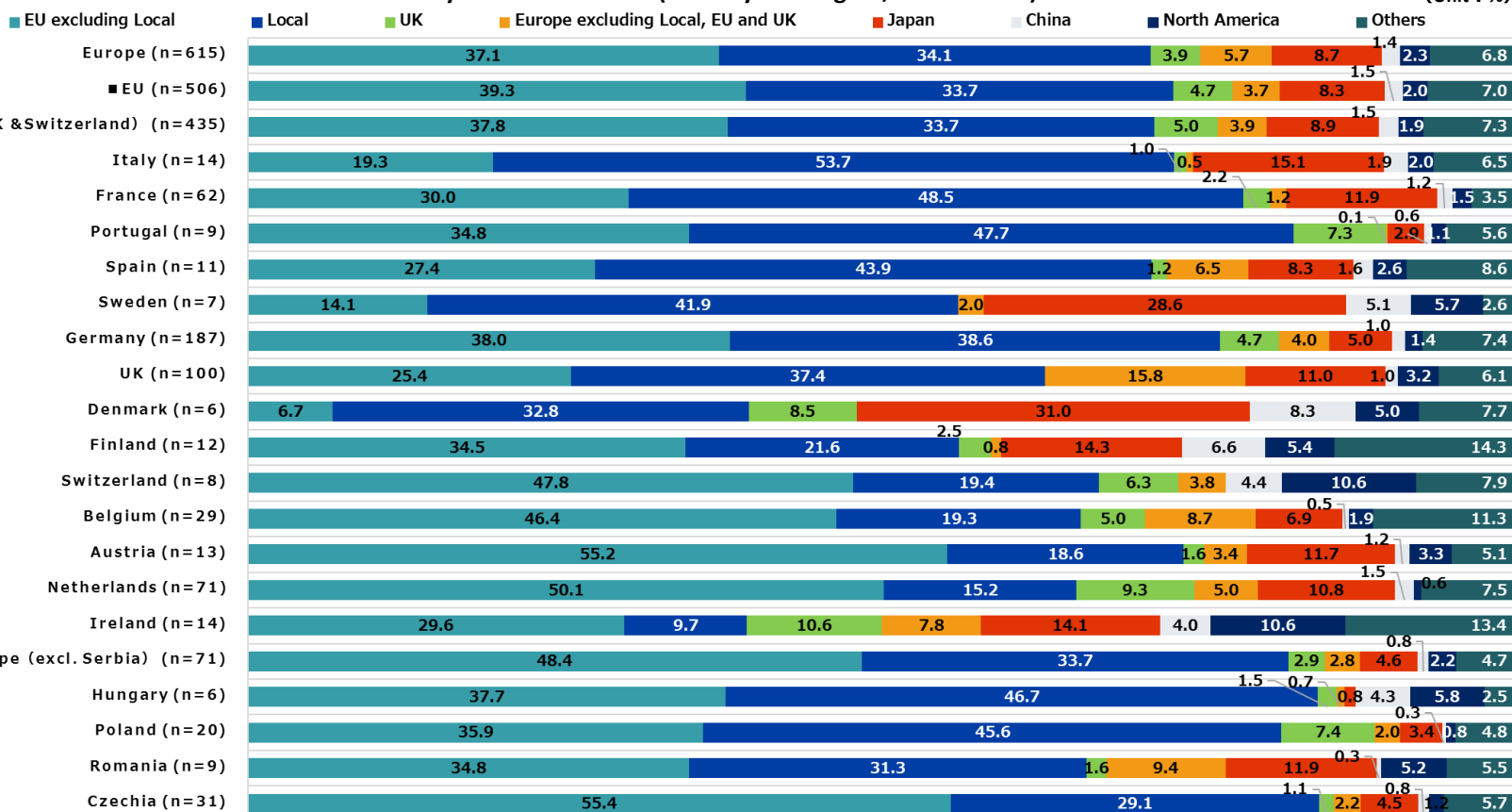
8-5

The share of EU markets is falling as a proportion of sales destinations for Japanese-affiliated companies in the UK

- Regarding sales destination (by country and region), the simple average of companies' responses (value-based) was calculated. For Japanese-affiliated companies based in the EU (including the local country) in total sales destinations was 73.0%, showing that for many their main sales market is the EU. For Japanese-affiliated companies based in Germany, the proportion accounted for by the local country rose 4.4 percentage points to 38.6%, suggesting a greater presence of the domestic market. On the other hand, those based in France saw a 4.2 point decline for the local-country proportion, but the rate for the EU excluding the local country rose 4.8 points, reflecting the higher relative importance of EU markets outside France.
- For UK-based Japanese-affiliated companies from the manufacturing sector, the average rate for EU markets was 25.4%, a decline of 8.0 percentage points over that of the previous year's survey. For Japanese-affiliated companies based in Ireland, the share of UK market remained high at 10.6%, although it declined 3.3 points from the previous year's survey.

Breakdown by Sales Destination (Country and Region, value-based)

(Unit : %)

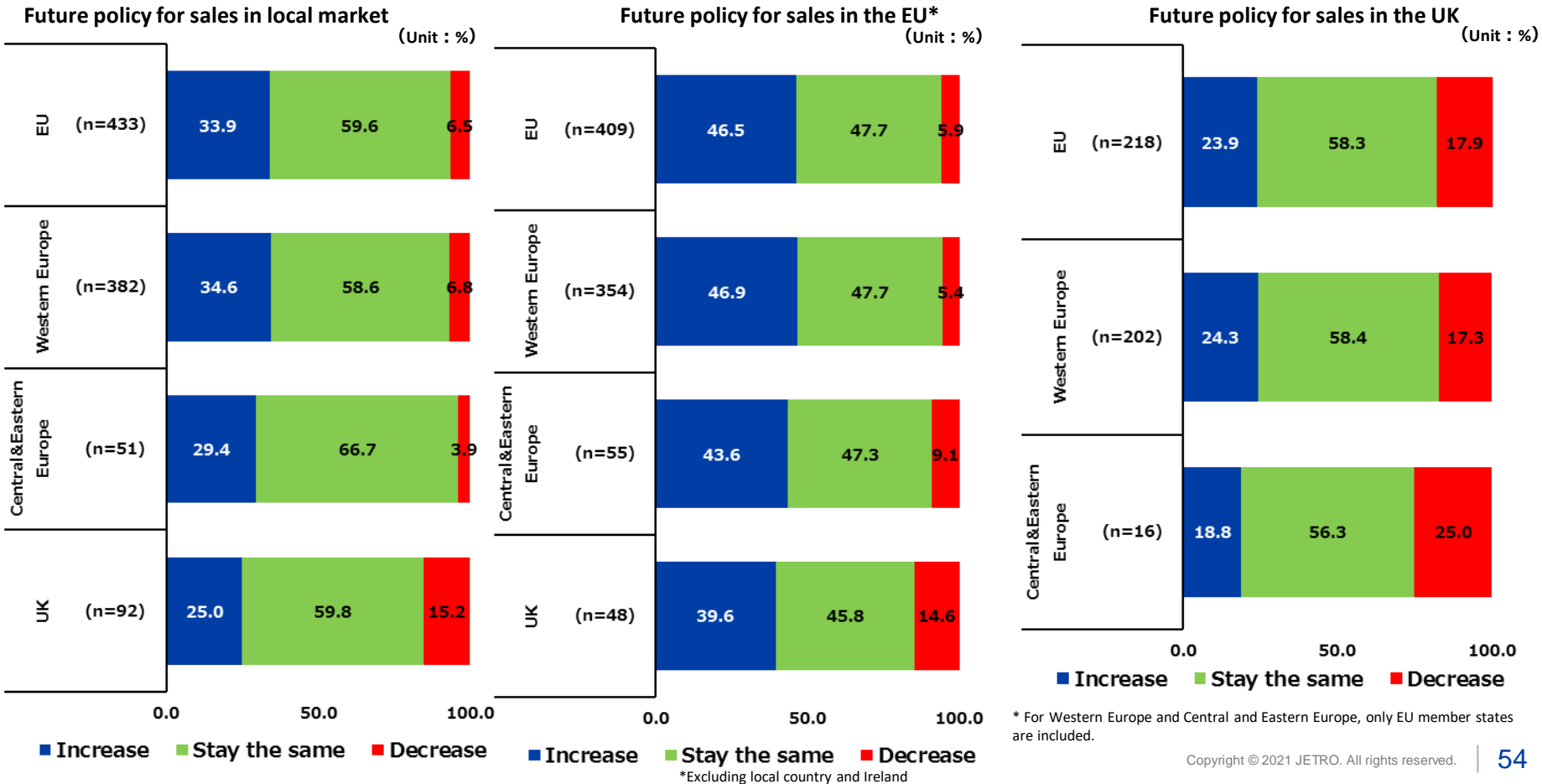


Note 1: This graph shows the average response rate given by companies for each sales destination. When combined, sales destinations for each company total 100. Copyright © 2021 JETRO. All rights reserved.
 Note 2: "Local" refers to the country/region listed. For each choice, countries where the denominator consisted of fewer than five respondents were excluded.

8-6

Japanese-affiliated companies based in the EU intend to expand EU sales channels

- When asked about their future policy for sales in the local market, 33.9% of Japanese-affiliated companies based in the EU selected "Increase". 34.6% of Japanese-affiliated companies based in Western Europe responded with "Increase" for sales in their local market going forward, a higher figure than the 29.4% recorded for their peers in Central and Eastern Europe. 46.5% selected "Increase" for their future policy for sales in the EU market, a higher figure than for local market, conveying the intent to expand sales in the EU as a whole.
- When asked about both the UK and the EU markets, the "Increase" response rates for both markets for UK-based companies were low compared to the overall response rate, and the rates for "Decrease" were high.
- When asked about the UK market, the percentage of Japanese-affiliated companies in Central and Eastern Europe that responded with "Decrease" was high, suggesting a trend towards building a supply chain focused on customers in the EU after the exit of the UK.

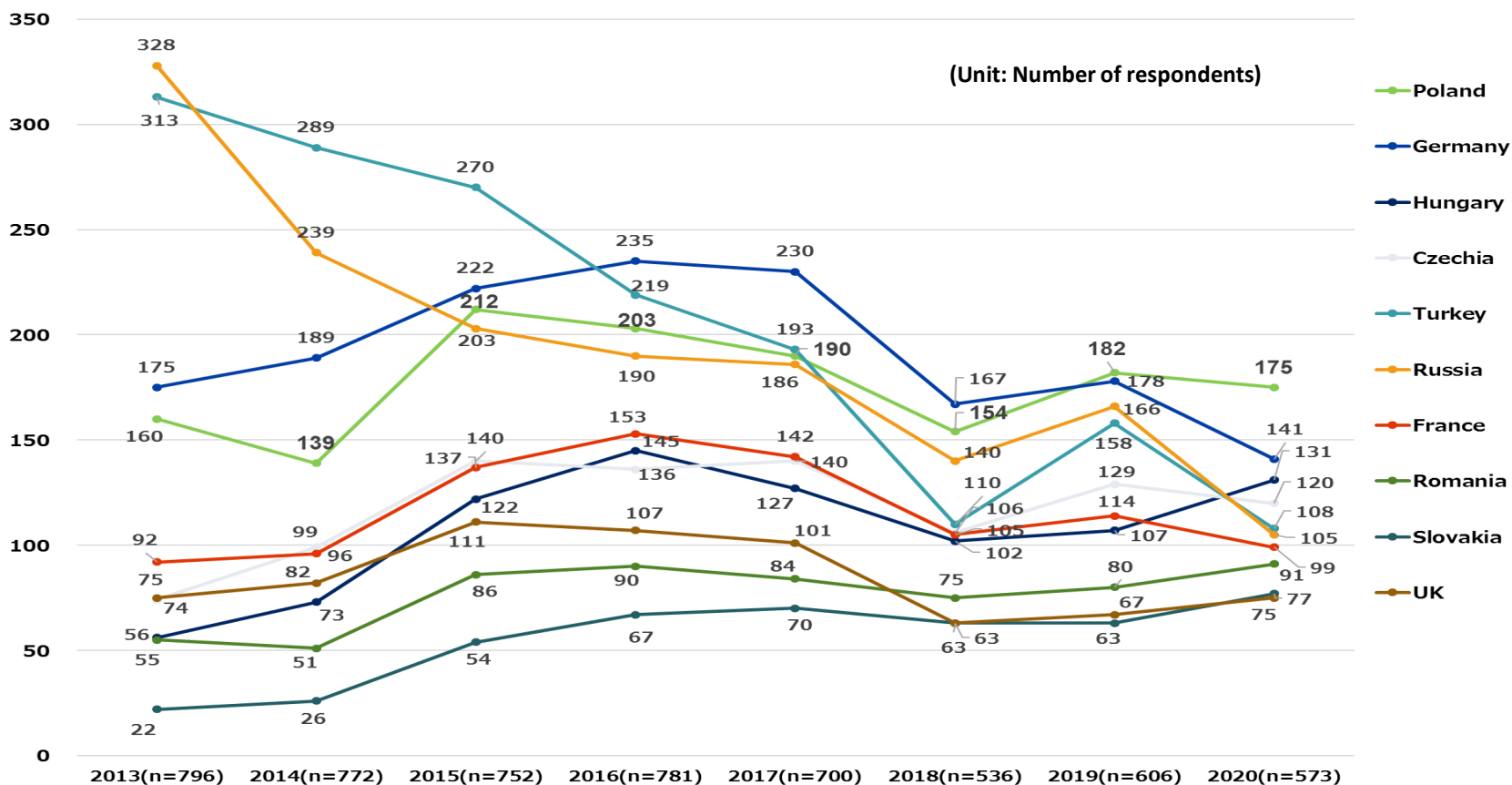


9

Five Central and Eastern European countries accounted for half of top 10 future promising sales destinations

- Approximately 30% responded with "Poland" when asked about future promising sales destinations, enabling it to maintain its top position from the previous year.
- The number and proportion of companies selecting Turkey and Russia, which showed a recovery last year, fell dramatically this year. Five Central and Eastern European countries accounted for half the top ten countries. Many companies cited as reasons for this the expansion of markets and demand that have been driven by economic growth, and relocation and new expansion by business partners.

Top 10 Future Promising Sales Destinations Trends for 2020 <Multiple Answers Given>

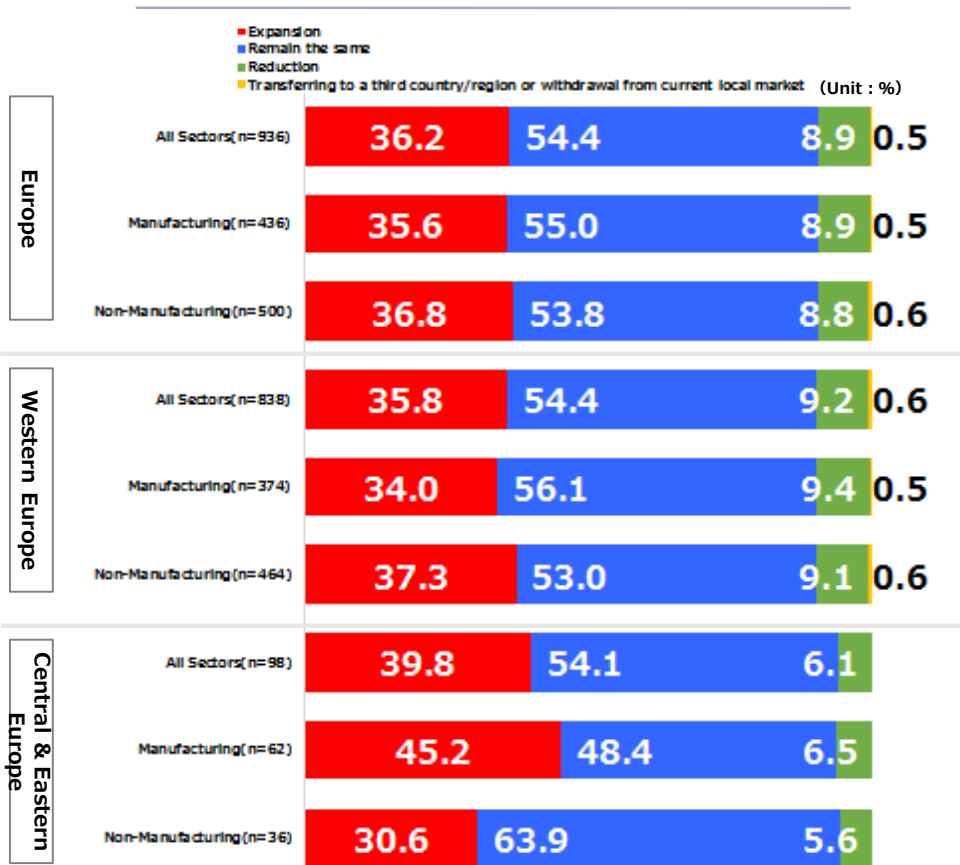


10-1

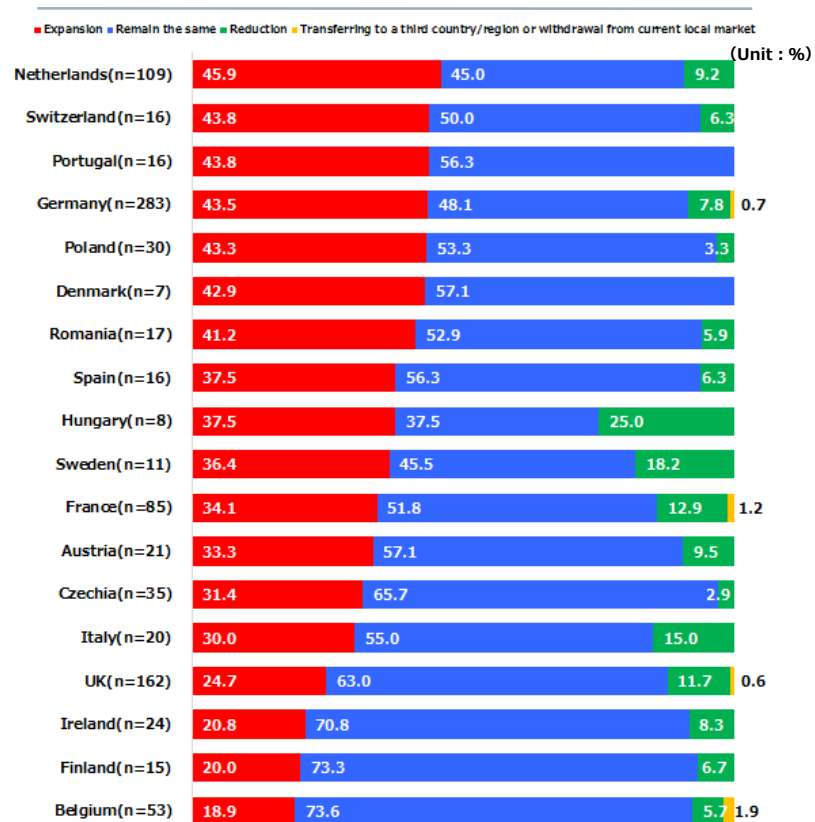
The number of companies taking a wait-and-see approach in relation to business outlook has increased significantly

- When asked about the business outlook for the next 1-2 years, for Europe as a whole, the proportion of companies selecting "Stay the same" was 54.4% and "Decrease" was 8.9%, representing increases of 9.2 percentage points and 5.7 percentage points respectively from the previous year's survey. This was due to the decline in demand and the uncertainty caused by COVID-19. On the other hand, "Increase" was 36.2%, a decline of 14.6 points. The highest response rate for "Increase" was observed in the manufacturing sector in Central and Eastern Europe at 45.2%.
- Looked at by country, the highest response rate for "Increase" was from the Netherlands with 45.9%. In many other countries the response rate for "Stay the same" exceeded 50%, and the number of companies taking a wait-and-see approach has increased significantly due to the unpredictable global situation resulting from novel coronavirus, etc.

Business Outlook For Next 1 or 2 Years (By Industry)



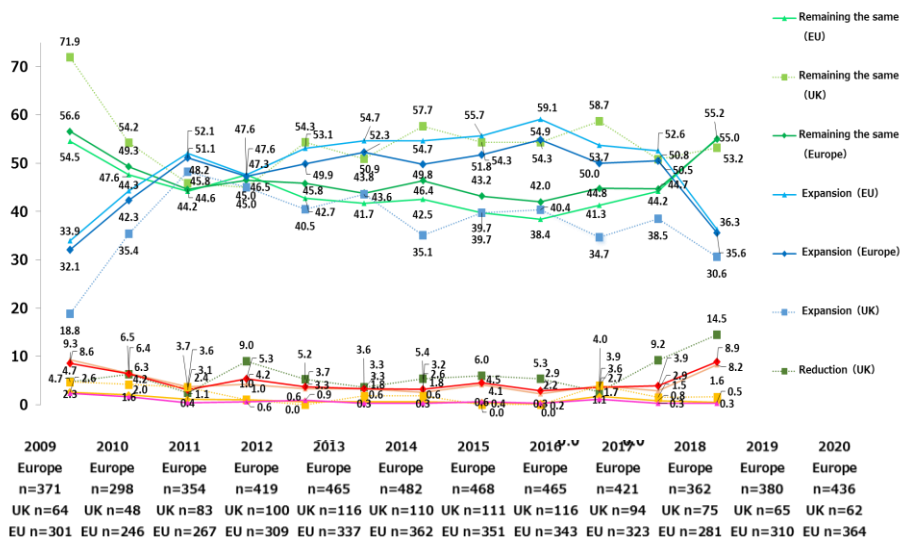
Business Outlook For Next 1 or 2 Years (By Country)



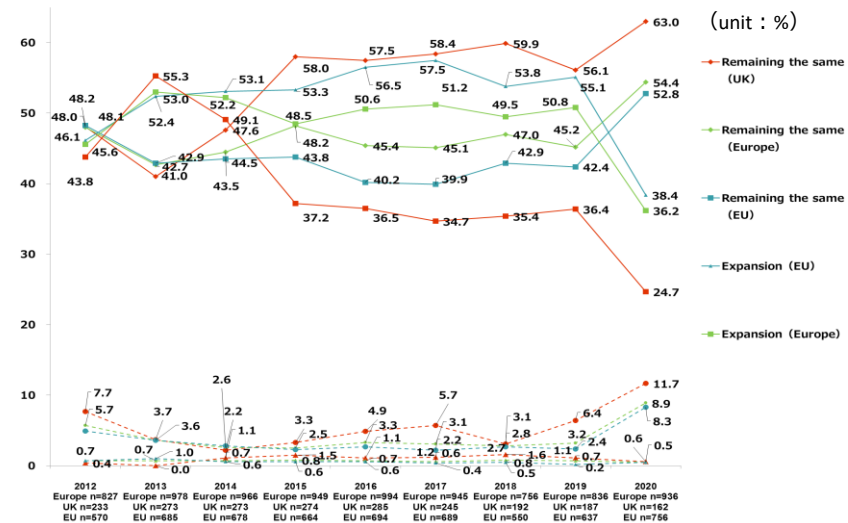
10-2 | "Stay the same" reaches its highest level since 2012

- When asked about the business outlook for the next 1-2 years, the proportion of companies in all sectors responding with "Stay the same" reached its highest level since 2012.
- For Japanese-affiliated manufacturing companies based in the UK, the proportion selecting "Decrease" deteriorated by 5.3 percentage points over the previous year's survey, to 14.5%, showing that the impact of the UK's exit from the EU is gradually becoming noticeable.
- For Japanese-affiliated manufacturing companies based in the EU, the proportion selecting "Stay the same" increased by 11.0 percentage points, while "Increase" declined by 16.3 points and "Decrease" increased by 5.3 points. In the non-manufacturing sector also, the proportion selecting "Stay the same" increased by 9.8 points, and "Increase" declined by 17.2 points.

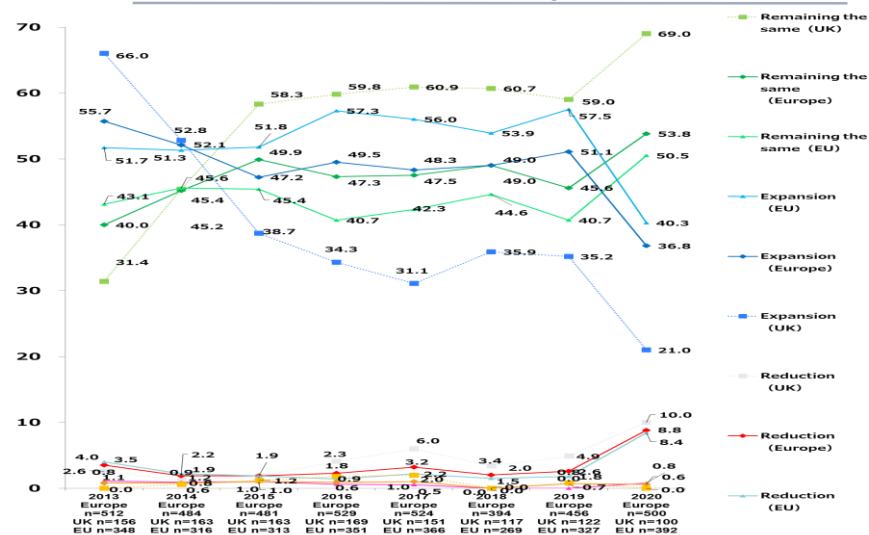
Trend in outlook for business development over next 1-2 years (Manufacturing Sector) (unit : %)



Trend in outlook for business development over next 1-2 years (All Sectors)



Trend in outlook for business development over next 1-2 years (Non-manufacturing Sector) (unit : %)



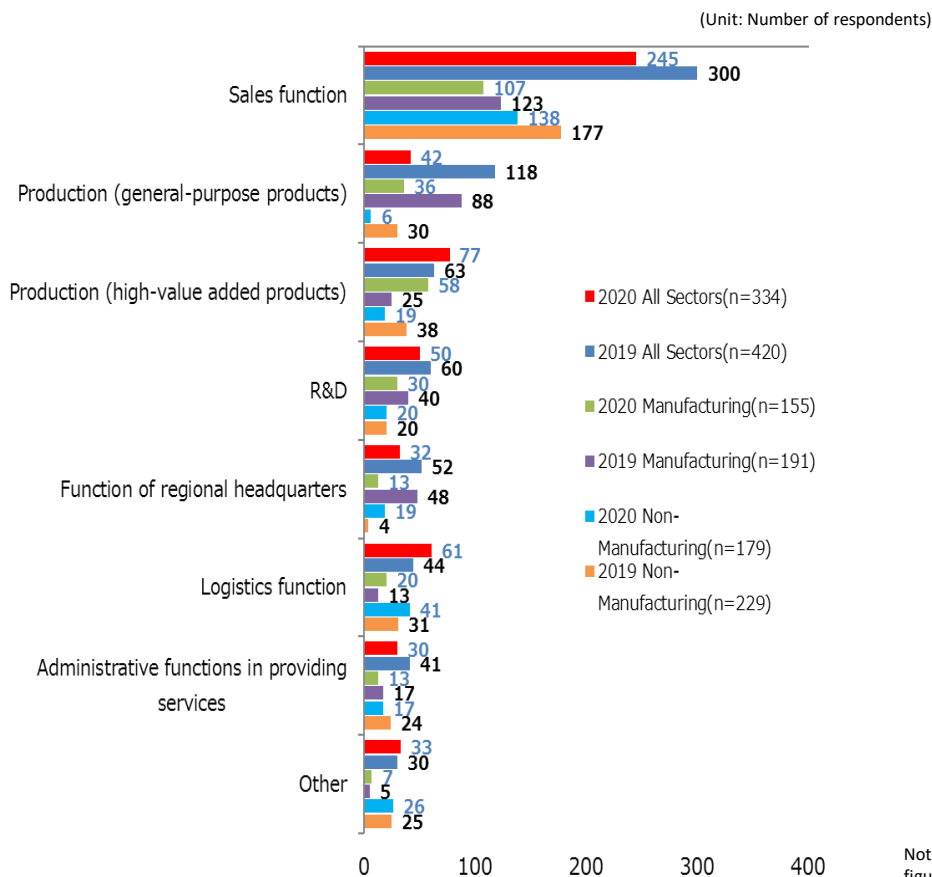
Note: Because until FY2011 this survey covered only the manufacturing sector, when using historical data only the manufacturing sector is used for comparison.

10-3

Large number of companies are expanding "Sales" and "Production (high-value added products)"

- When companies that selected "Increase" in response to the business outlook for the next 1-2 years are asked for specific functions they are expanding, many of them cited "Sales" followed by "Production (high-value added products)".
- The highest number of companies selecting "Increase" was that of Japanese-affiliated companies based in Germany, and when viewed by the function they intend to expand, in a continuation of the previous year, companies based in Germany accounted for the highest number of responses for all such functions. In addition, the number of companies based in Germany selecting "Function of regional headquarters" increased 1.6 times from the previous year's survey.

Functions to Expand (multiple answers given)



Top Countries Who Selected Expansion of Functions

Function	Germany	Netherlands	UK	France	Spain
Sales function	97	35	27		
Logistics function	22	11	7		
R&D	23	6	3		
Production (general-purpose products)	26		7		
Production (high-value added products)	16		4		

(Unit: Number of respondents)

Number of companies selecting Function of regional headquarters

	2015	2016	2017	2018	2019	2020	Change since '19
Total	52	43	53	37	41	32	△ 9
Germany	11.6	8.7	11.3	10.1	9.8	9.6	△ 0.2
Netherlands	13	10	19	14	11	26	15
UK	11.3	8.3	15.3	12.8	9.8	21.5	11.7
Spain	7	11	10	1	8	4	△ 4
France	24.1	26.8	20.8	8.3	18.6	8.0	△ 10.6
UK	19	9	8	9	2	3	1
Spain	18.6	8.7	9.5	13.6	2.9	7.7	4.8
France	0	1	3	2	3	1	△ 2
Spain	0.0	3.8	14.3	15.4	23.1	16.7	△ 6.4
France	2	3	3	2	6	1	△ 5
France	6.1	7.9	5.8	5.9	14.6	3.6	△ 11.0
Austria	0	1	1	2	1	1	0
Austria	0.0	14.3	8.3	16.7	8.3	14.3	6.0
Belgium	2	3	3	1	2	1	△ 1
Belgium	8.7	14.3	20.0	7.7	10.0	10.0	0.0

Note: Companies selecting "Expansion" for the next 1-2 years were asked which functions they intended to expand. The figure for Germany, "14.9%", means that 14.9% of German based companies that replied they were intending to expand over the next 1-2 years chose the "Regional headquarters" function.



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