2013 JETRO Survey
Business Conditions of Japanese Companies in Europe

March 2014
Japan External Trade Organization (JETRO)
Overseas Research Department,
Europe, Russia and CIS Division

Preface

This survey of "Business Conditions of Japanese Companies in Europe" researched and analyzed the business situation (e.g., each company's business outlook, future business development plans, and managerial issues) of Japanese companies operating in Europe and Turkey. Replacing the survey of "Japanese Manufacturing Affiliates in Europe and Turkey" that had been conducted continuously since 1983[1], starting with fiscal 2012 this survey has expanded the scope of industries surveyed to include both manufacturing and non-manufacturing industries[2].

We would like to express our great appreciation for the sincere responses received from each company which, over the years, have enabled us to constantly improve both the survey itself and the report on the results. We hope that this report helps the companies and other interested parties understand business development in Europe and Turkey.

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1 Central and Eastern Europe were added to the survey beginning in 1998, and Turkey was added beginning in 1999.
2 In Turkey, only companies in manufacturing industries were surveyed.

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Overview of the Survey

1. Purpose of the Survey
   This survey researches, collects data on, and analyzes the activities of Japanese companies operating in Europe and Turkey to make clear the managerial issues and other matters directly impacting their business performance, for the purpose of assisting the implementation of strategic international business planning at Japanese enterprises and policy planning at related agencies. It also is intended to help identify and provide efficient support to the facilities of Japanese companies operating in Europe and Turkey.

2. Targets of the Survey
   The survey subjects consisted of Japanese affiliates in 16 nations of Western Europe*, 10 nations of Central and Eastern Europe**, and Turkey, for which the Japanese direct or indirect investment ratio is 10% or more. (For Turkey, the survey targeted Manufacturers only.) This includes companies established by Japanese affiliates operating in Europe or elsewhere (i.e., lower-tier affiliates). Its subjects did not include representative offices, liaison offices, or companies set up by Japanese persons locally.

   * 16 nations of Western Europe: UK, Germany, France, Italy, Netherlands, Belgium, Spain, Ireland, Finland, Switzerland, Portugal, Sweden, Austria, Denmark, Greece, Luxembourg
   ** 10 nations of Central and Eastern Europe: Czech Republic, Hungary, Poland, Romania, Bulgaria, Slovenia, Serbia, Lithuania, Montenegro, Serbia

3. Method of Conducting the Survey
   The survey was conducted by sending an e-mail containing an Internet link (URL) to the online questionnaire form to the respondents and by asking them to reply directly online.

4. Period of the Survey
   October 8 through November 12, 2013

5. Response Status
   Of the 1,498 Japanese enterprises in Europe or Turkey to which we sent questionnaires, we received responses from 1,000 companies (response rate of 66.8%).

6. Notes on the Survey Results
   (1) Survey results were totaled using information sources that can be considered reliable by the JETRO offices in Europe and Turkey. However, we do not guarantee the accuracy and comprehensiveness of the information.
   (2) Not all the respondents answered every question. The percentages for questions on which multiple answers were acceptable do not necessarily add up to 100%.

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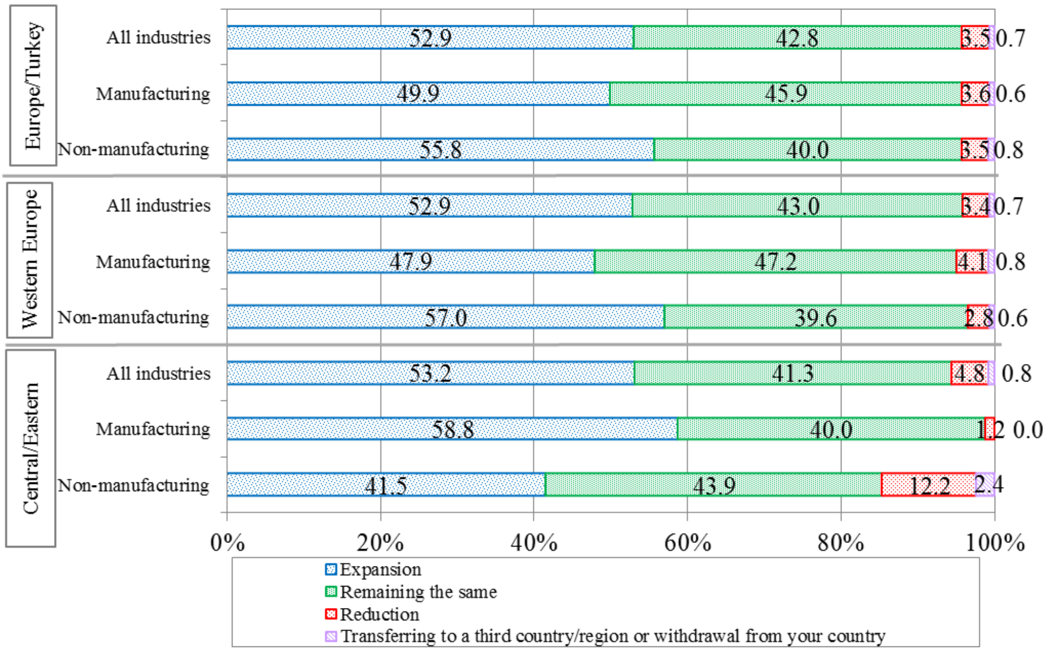
Survey Results

I. Future business outlook

1. Business outlook in the next one or two years

Asked about their business outlook in the next one or two years, from all industries in Europe and Turkey 52.9% of respondents reported expecting “Expansion,” 42.8% “Remaining the same,” 3.5% “Reduction,” and 0.7% “Transferring to a third country/region or withdrawal from your country.” Similarly, in all region and industry categories roughly 40 - 50% of respondents reported outlooks of “Remaining the same” or “Expansion,” respectively.

Fig. 1: Business outlook in the next one or two years (Unit: %)



* Only manufacturing for Turkey.

A look at the responses by industry shows that for Europe and Turkey together the industry with the greatest number of “Expansion” responses was ceramics and cement (85.7%), while for Western Europe it was plastic products (88.9%) and for Central/Eastern Europe and Turkey it was trading companies (64.3%).

Fig. 2: Industries with large numbers of respondents reporting future outlooks of “Expansion” or “Remaining the same” in the next one or two years

Industries with high percentages of respondents answering "Expansion"

[Europe/Turkey] (Units: cos., %)

	Industry	Responses	Percentage
1	Ceramics and cement	6	85.7
2	Clothing and textile products	4	80.0
3	Securities	8	72.7
4	Distribution	5	71.4
5	Trading company	55	68.8

[Western Europe] (Units: cos., %)

	Industry	Responses	Percentage
1	Plastics products	8	88.9
2	Ceramics and cement	6	85.7
3	Rubber products	4	80.0
4	Securities	8	72.7
5	Distribution	5	71.4

[Central/Eastern Europe, Turkey] (Units: cos., %)

	Industry	Responses	Percentage
1	Trading company	9	64.3
2	Motor vehicle and motorcycle parts and accessories	22	61.1
3	Rubber products	5	55.6
4	Electric machinery/electronic hardware	4	50.0
5	Sales company	4	40.0

(Note) “Sales companies” refer to manufacturers and other firms that only perform sales, but do not carry out local production.

Industries with high percentages of respondents answering "Remaining the same"

[Europe/Turkey] (Units: cos., %)

	Industry	Responses	Percentage
1	Motor vehicles and motorcycles	15	71.4
2	Hotel/travel/dining out	11	68.8
3	OthersManufacturing	12	60.0
4	Transport/warehousing	32	56.1
5	Nonferrous metals and products	3	50.0
5	Iron and steel (including cast and forged products)	8	50.0
5	Electric machinery and electronic equipment	20	50.0
5	Precision equipment	8	50.0

[Western Europe] (Units: cos., %)

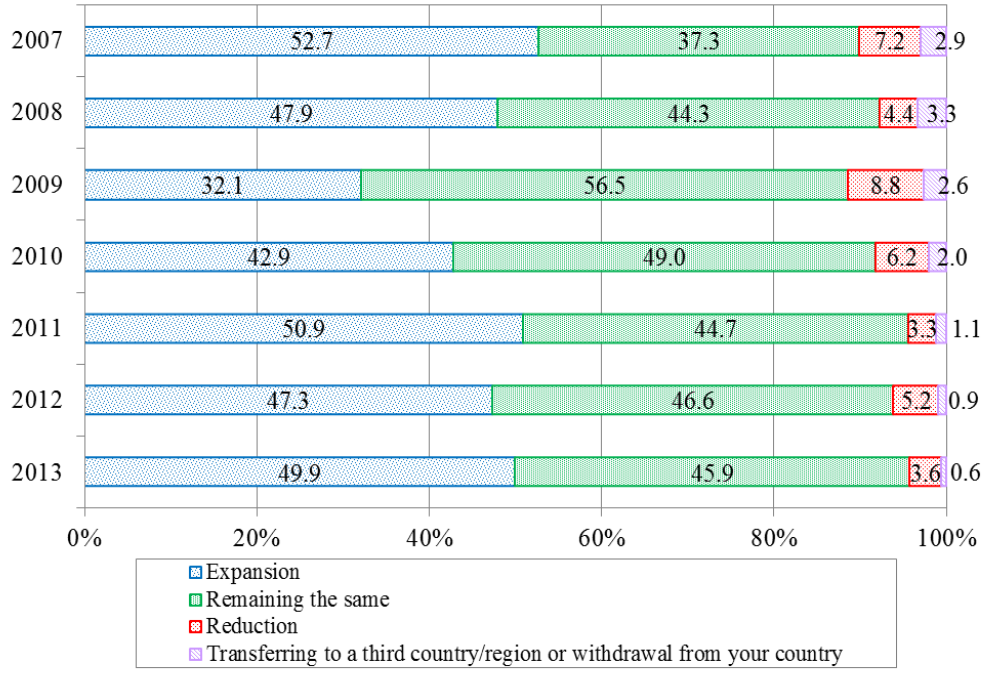
	Industry	Responses	Percentage
1	Motor vehicle and motorcycle parts and accessories	13	76.5
2	Hotel/travel/dining out	10	66.7
3	OthersManufacturing	12	63.2
4	Nonferrous metals and products	3	60.0
5	Motor vehicle and motorcycle parts and accessories	25	55.6

[Central/Eastern Europe, Turkey] (Units: cos., %)

	Industry	Responses	Percentage
1	Transport/warehousing	6	75.0
2	Electric machinery and electronic equipment	6	66.7
3	Electric machinery/electronic hardware	4	50.0
3	Sales company	5	50.0
5	Motor vehicle and motorcycle parts and accessories	14	38.9

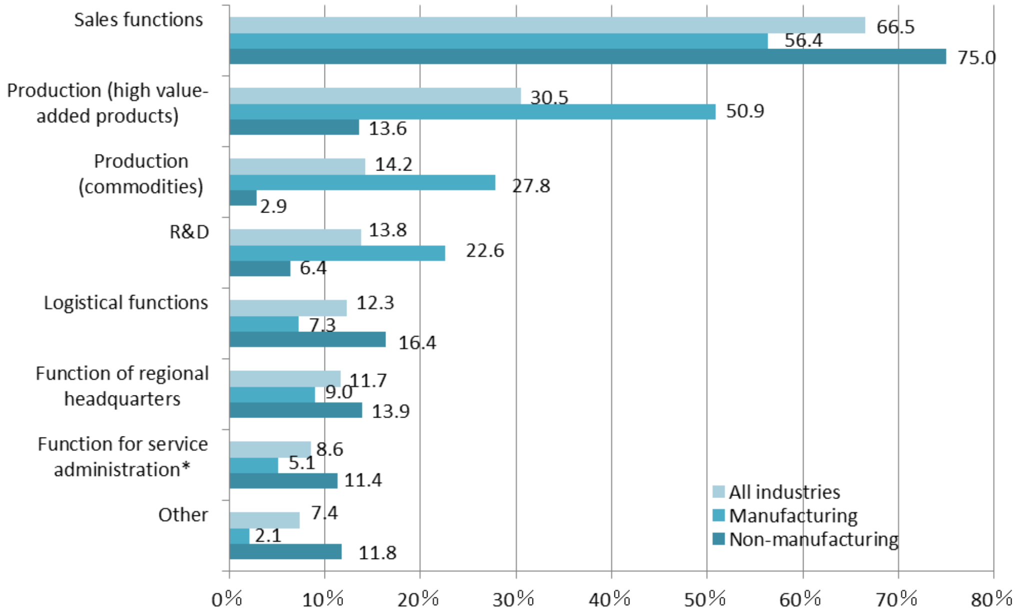
The percentage of Japanese-affiliated manufacturers in Europe reporting future outlooks of “Expansion” in the next one or two years came to 49.9%, representing a 2.6 point increase from the 47.3% in 2012. However, this has not yet returned to the levels from prior to the outbreak of the global financial crisis precipitated by the collapse of Lehman Brothers and the European debt crisis (this was 52.7% in 2007).

Fig. 3: [Manufacturing industry] Business outlook in the next one or two years (Unit: %)



When Japanese affiliates who responded that they expected business "Expansion" over the next one or two years were asked about specific details, in all industry categories the highest percentage of companies reported an expansion in "Sales functions." In manufacturing industries, the highest percentage, at over 50%, answered an expansion in "Production functions (high value-added products)."

Fig. 4: [Europe/Turkey] Specific functions being expanded (multiple answers) (Unit: %)



* Shared services, call centers, etc.
[Note] Only manufacturing for Turkey.

When asked about the reasons for business expansion in the next one or two years, across all industry categories an overwhelmingly high percentage of anywhere from just under 80% to just under 90% of respondents answered "Sales increase." The second most commonly cited reason in all industries was "High growth potential." In manufacturing industries the third highest percentage of respondents reported "High receptivity for high value-added products," which drew attention.

Fig. 5: [Europe/Turkey] Reasons for business expansion in one or two years (multiple answers)

"All industries" (Units: cos., %)

		Responses	Percentage
1	Sales increase	430	83.2
2	High growth potential	193	37.3
3	High receptivity for high value-added products	129	25.0
4	Reviewing production and sales networks	108	20.9
5	Relationship with clients	97	18.8

"Manufacturing" (Units: cos., %)

		Responses	Percentage
1	Sales increase	208	88.5
2	High growth potential	84	35.7
3	High receptivity for high value-added products	79	33.6
4	Reviewing production and sales networks	46	19.6
5	Relationship with clients	41	17.4

"Non-manufacturing" (Units: cos., %)

		Responses	Percentage
1	Sales increase	222	78.7
2	High growth potential	109	38.7
3	Reviewing production and sales networks	62	22.0
4	Relationship with clients	56	19.9
5	High receptivity for high value-added products	50	17.7

* Excluding Turkey.

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In addition, when Japanese affiliates reporting business outlooks of “Reduction” or “Transferring to a third country/region or withdrawal from your country” in one or two years were asked the reasons why, the answer “Sales decrease” was given by more than 60% of the respondents in all industries. Also, in all industries 46.3% continued to give the answer “Low growth potential.”

Fig. 6: [Europe/Turkey] Reasons for business reduction or transferring to a third country/region or withdrawal in one or two years (multiple answers)

"All industries" (Units: cos., %)

		Responses	Percentage
1	Sales decrease	26	63.4
2	Low growth potential	19	46.3
3	Increase of costs (e.g., procurement costs, labor costs)	12	29.3
4	Reviewing production and sales networks	7	17.1
5	Relationship with clients	6	14.6

"Manufacturing" (Units: cos., %)

		Responses	Percentage
1	Sales decrease	14	70.0
2	Low growth potential	10	50.0
3	Increase of costs (e.g., procurement costs, labor costs)	7	35.0

"Non-manufacturing" (Units: cos., %)

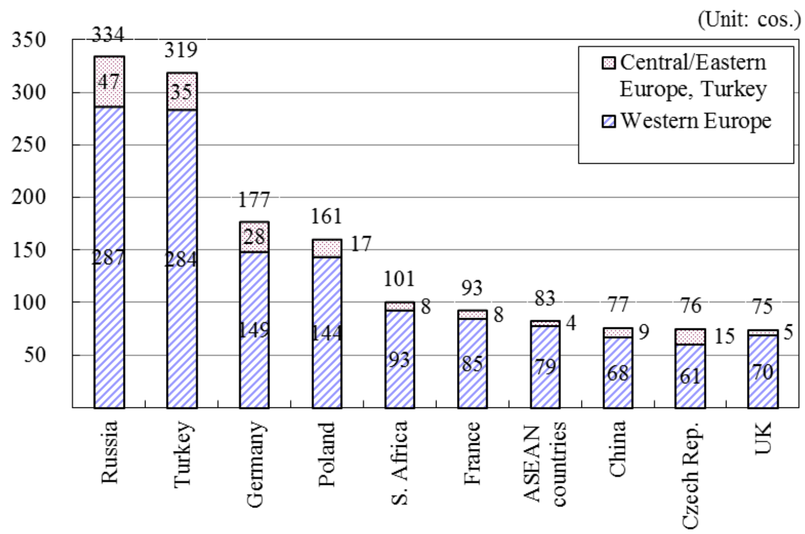
		Responses	Percentage
1	Sales decrease	12	57.1
2	Low growth potential	9	42.9
3	Relationship with clients	6	28.6
4	Increase of costs (e.g., procurement costs, labor costs)	5	23.8

* Excluding Turkey.

2. Promising future sales destinations

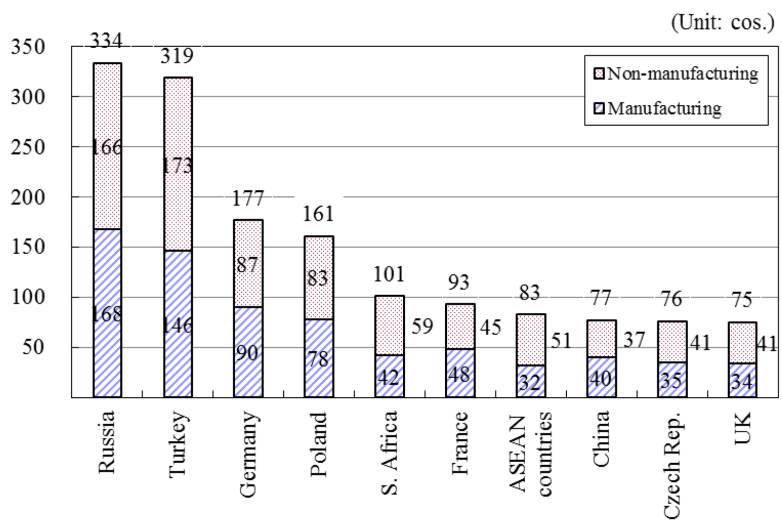
The most commonly cited future sales destination was Russia (given by 334 companies). Next came Turkey (319), Germany (177), Poland (161), South Africa (101), France (93), ASEAN countries (83), China (77), the Czech Republic (76), and the UK (75). Whereas South Africa was in tenth place (66) in the fiscal 2012 survey, it came in fifth place in this fiscal year.

Fig. 7: [Europe/Turkey, all industries] Promising future sales destinations (multiple answeres)



A look at responses by industry shows that Russia was most commonly cited (given by 168 companies) by respondents in manufacturing industries, as it was in the fiscal 2012 survey. At the same time Germany, which had been fourth place in the fiscal 2012 survey rose once again to third place (90), while Turkey remained in second place (146). For non-manufacturing industries Turkey came in first place (173) and Russia came in second place (166).

Fig. 8: [Europe/Turkey] Promising future sales destinations (multiple answeres)



* Only manufacturing for Turkey.

When respondents were asked the reasons why they considered the regions to which the top five countries belonged to be promising future sales destinations, in every case the highest percentage answered "Because it is a country where growth in demand is expected." While expectations of growth in demand stood out for Russia/CIS, the Middle East, Central/Eastern Europe, and Africa, when respondents were asked their reasons for choosing Western European countries, a high percentage answered, "Because existing clients have bases in the country/region" and "Because of the good receptivity of high value-added products/services."

Fig. 9: [Europe/Turkey, all industries] Reasons for choosing future sales destinations (multiple answers)

Reasons for choosing countries in Russia/CIS (Units: cos., %)

		Responses	Percentage
1	It is a country where sales growth is expected.	304	84.4
2	Existing clients have bases in the country/region.	79	21.9
3	New clients have been found in the country/region.	65	18.1

Reasons for choosing countries in Middle East (Units: cos., %)

		Responses	Percentage
1	It is a country where sales growth is expected.	320	84.2
2	Existing clients have bases in the country/region.	95	25.0
3	Good receptivity of high value-added products/services.	62	16.3

Reasons for choosing countries in Western Europe (Units: cos., %)

		Responses	Percentage
1	It is a country where sales growth is expected.	174	46.9
2	Existing clients have bases in the country/region.	131	35.3
3	Good receptivity of high value-added products/services.	122	32.9

Reasons for choosing countries in Central/Eastern Europe (Units: cos., %)

		Responses	Percentage
1	It is a country where sales growth is expected.	216	73.2
2	Existing clients have bases in the country/region.	80	27.1
3	New clients have been found in the country/region.	68	23.1

Reasons for choosing countries in Africa (Units: cos., %)

		Responses	Percentage
1	It is a country where sales growth is expected.	174	81.3
2	Existing clients have bases in the country/region.	53	24.8
3	New clients have been found in the country/region.	46	21.5

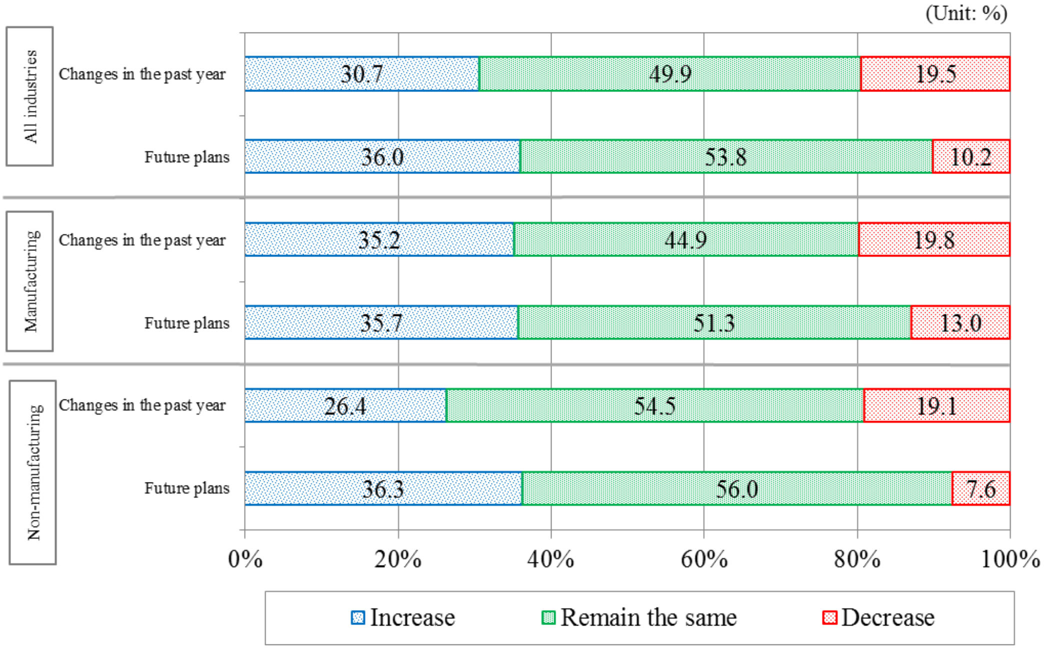
Reasons for choosing other countries (Units: cos., %)

		Responses	Percentage
1	It is a country where sales growth is expected.	184	77.6
2	Existing clients have bases in the country/region.	72	30.4
3	Good receptivity of high value-added products/services.	47	19.8

3. Changes in the number of employees

When asked about changes in the number of employees in Europe and Turkey, across all regions and industries the highest percentage of respondents reported "No change" both for changes this year compared to last year and for future plans. For non-manufacturing industries in particular those responding "Decrease" for their future plans was low at 7.6%.

FIg. 10: [Europe/Turkey] Changes in the number of employees this year compared to last year and for future plans



* Only manufacturing for Turkey.

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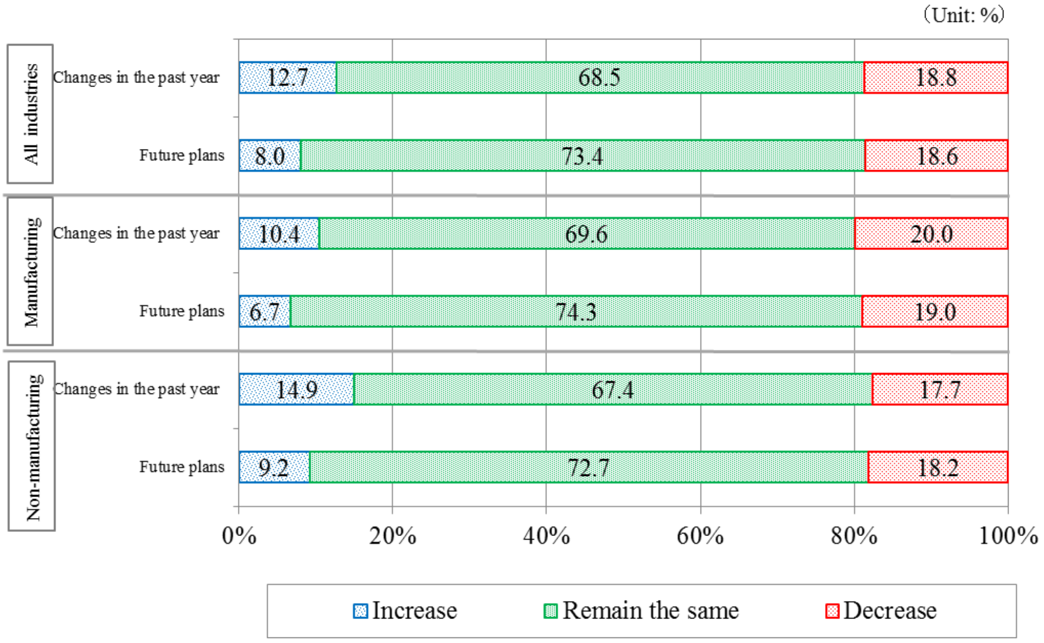
Similarly, when asked about changes in numbers of Japanese expatriates, a markedly high percentage – around 70% - reported “No change” both for changes this year compared to last year and for future plans across all industries. What is more, across all industries the percentage answering “Increase” for their future plans fell below 10%, while conversely those answering “Decrease” came in at just under 20%.

FIg. 11: [Europe/Turkey] Changes in the number of Japanese expatriates this year compared to last year and for future plans



* Only manufacturing for Turkey.

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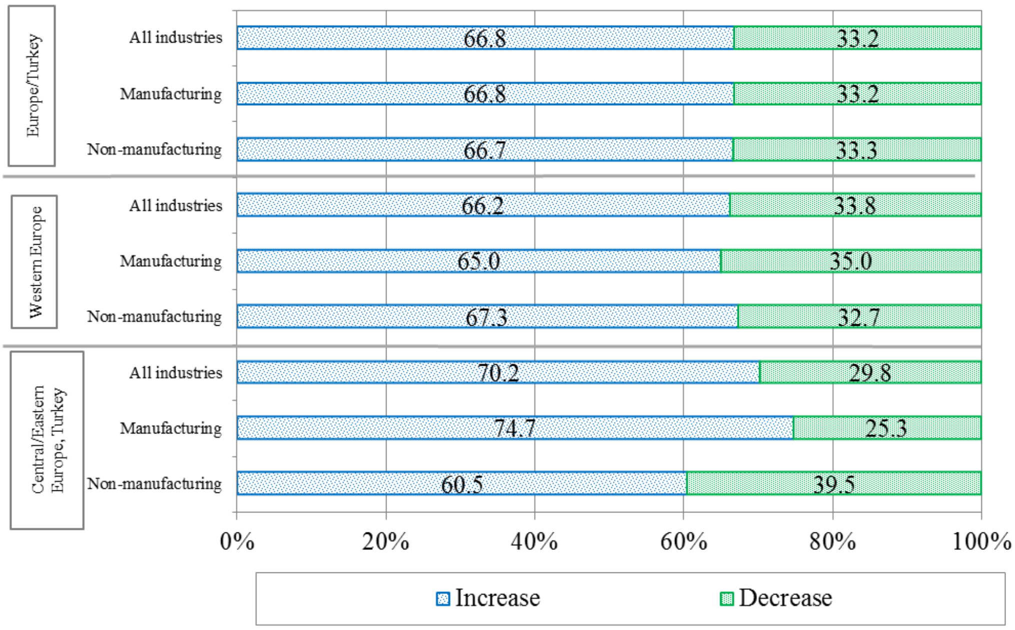
II. Business forecasts

1. Sales forecasts for 2013

A look at sales forecasts for 2013 across all industries in Europe and Turkey shows the number of respondents forecasting increases stands out. For the manufacturing industries in Central and Eastern Europe and Turkey in particular, 74.7% were forecasting an increase, which came to more than 30% higher than the results from the fiscal 2012 survey (40.6%).

Fig. 12: Sales forecasts for 2013 (Unit: %)



* Only manufacturing for Turkey.

When asked about the reasons for these forecasts, for all industries the most common reason given for forecasting a sales increase was "Increase of demand in your country market," followed by "Improvement of sales system" and "Improvement of quality of your products or service." Across all industry categories the most commonly given reason for forecasting a sales decrease was "Decrease of demand in your country market." A comparison of the manufacturing and non-manufacturing industries reveals the difference in that whereas "Rise of a competitor(s) in your country" (27.2%) was the second most commonly given response for the manufacturing industries, for non-manufacturing industries this was "Fall of price of your products or service" (21.3%).

Fig. 13: [Europe/Turkey] Reasons for forecasting sales increase/decrease

Reasons for a sale increase

"All industries" (Units: cos., %)

		Responses	Percentage
1	Increase of demand in your country market	294	48.4
2	Improvement of sales system	264	43.5
3	Improvement of quality of your products or service	198	32.6
4	Increase of demand outside your country market	175	28.8
5	Raise of price of your products or service	55	9.1

"Manufacturing" (Units: cos., %)

		Responses	Percentage
1	Increase of demand in your country market	142	48.0
2	Improvement of sales system	118	39.9
3	Improvement of quality of your products or service	103	34.8
4	Increase of demand outside your country market	101	34.1
5	Raise of price of your products or service	23	7.8

"Non-manufacturing" (Units: cos., %)

		Responses	Percentage
1	Increase of demand in your country market	152	48.9
2	Improvement of sales system	146	46.9
3	Improvement of quality of your products or service	95	30.5
4	Increase of demand outside your country market	74	23.8
5	Raise of price of your products or service	32	10.3

* Excluding Turkey.

Reasons for a sales decrease

"All industries" (Units: cos., %)

		Responses	Percentage
1	Decrease of demand in your country market	233	77.2
2	Fall of price of your products or service	70	23.2
3	Rise of a competitor(s) in your country	65	21.5
4	Decrease of demand outside your country market	63	20.9
5	Deterioration of sales system	26	8.6

"Manufacturing" (Units: cos., %)

		Responses	Percentage
1	Decrease of demand in your country market	106	72.1
2	Rise of a competitor(s) in your country	40	27.2
3	Fall of price of your products or service	37	25.2
4	Decrease of demand outside your country market	32	21.8
5	Deterioration of sales system	13	8.8

"Non-manufacturing" (Units: cos., %)

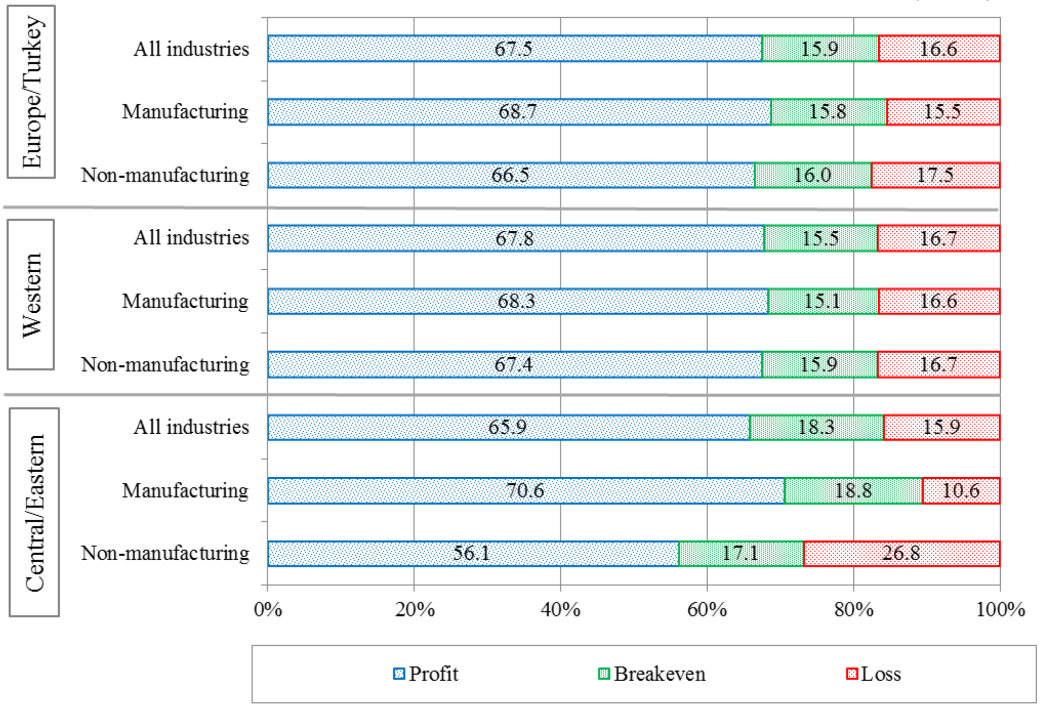
		Responses	Percentage
1	Decrease of demand in your country market	127	81.9
2	Fall of price of your products or service	33	21.3
3	Decrease of demand outside your country market	31	20.0
4	Rise of a competitor(s) in your country	25	16.1
5	Deterioration of sales system	13	8.4

* Excluding Turkey.

2. Operating profit forecasts for 2013

Across all industries in Europe and Turkey, 67.5% of respondents reported operating profit forecasts for 2013 (from January to December) of "Profit," 15.9% forecasted they would "Breakeven," and 16.6% forecasted a "Loss." With regard to Central and Eastern Europe and Turkey, a discrepancy was seen between the 70.6% of manufacturing industries forecasting a profit versus the 56.1% from non-manufacturing industries.

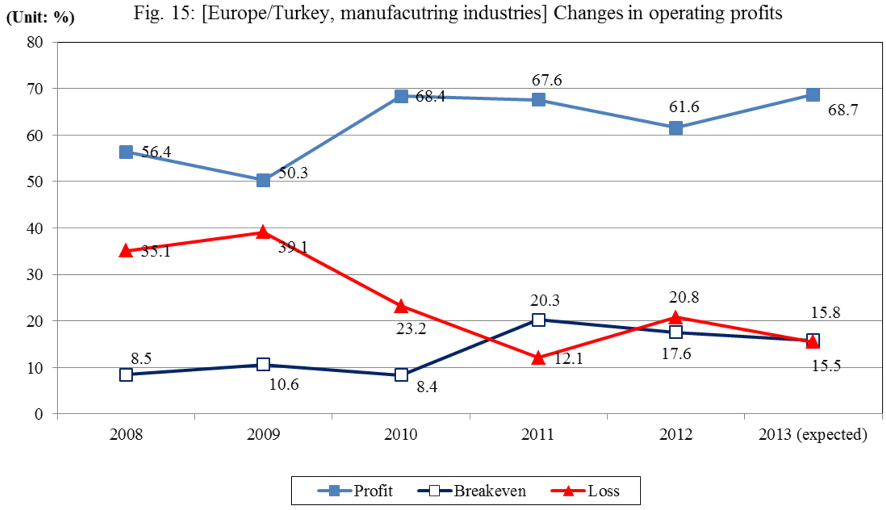
Fig. 14: Operating profit forecasts for 2013



* Manufacturing only for Turkey.

A look at changes over the past six years' surveys for manufacturing industries shows that while the percentage forecasting losses had been decreasing after peaking in 2009, in 2012 it increased again before once more decreasing in 2013. Signs of recovery can be seen in the fact that compared to 2012, for 2013 the number of respondents forecasting profits rose by 7.1 points while those forecasting losses fell by 5.3 points.

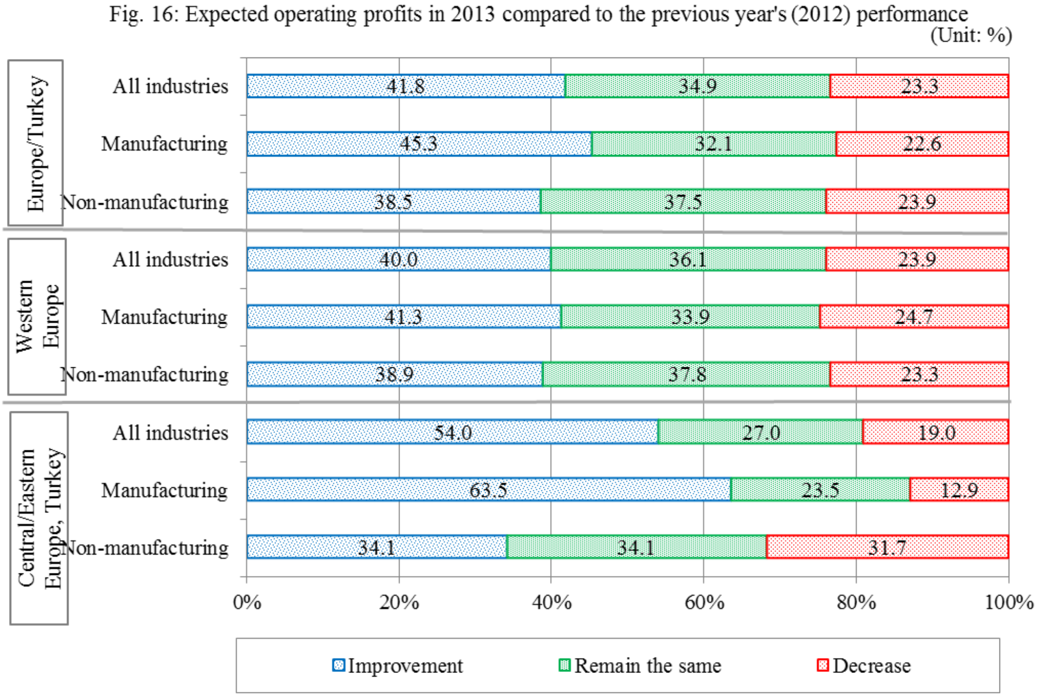
Fig. 15: [Europe/Turkey, manufacutring industries] Changes in operating profits



When respondents were asked how their operating profits for 2013 would change compared to the previous year (2012), across all industries in Europe and Turkey 41.8% answered "Increase," 34.9% answered "Remain the same," and 23.3% answered "Decrease." A comparison by region shows that in Central and Eastern Europe and Turkey the number of manufacturing industry respondents forecasting an "Increase" stands out.

A comparison with the operating profit forecasts from the fiscal 2012 survey for manufacturing industries shows an increase in the number of responses forecasting an "Increase." Substantial improvements were seen in Central and Eastern Europe and Turkey, where it rose by 33.9 points (from 29.6% to 63.5%), versus an increase of 12.4 points (from 28.9% to 41.3%) in Western Europe.

Fig. 16: Expected operating profits in 2013 compared to the previous year's (2012) performance



*Manufacturing only for Turkey.

When viewed by industry type for Europe and Turkey, more than 60% forecasted an "Increase" in the hotel/travel/dining out, clothing and textile products, and paper and pulp industries. Conversely, transport/warehousing was the industry with the respondents forecasting a "Decrease" at 39.0%, which was the highest percentage.

Fig. 17: [Europe/Turkey] Industries with high percentages of companies forecasting an "Increase" or "Decrease" in operating profit forecasts for 2013 compared to the previous year (2012)

Industries with high percentages of respondents forecasting an "Increase"

(Units: cos., %)

		Responses	Percentage
1	Hotel/travel/dining out	11	68.8
2	Clothing and textile products	3	60.0
2	Paper and pulp	3	60.0
4	Ceramics and cement	4	57.1
5	Motor vehicle and motorcycle parts and accessories	44	54.3

* Manufacturing only for Turkey.

Industries with high percentages of respondents forecasting a "Decrease"

(Units: cos., %)

		Responses	Percentage
1	Transport/warehousing	23	39.0
2	Precision equipment	6	37.5
3	Plastic products	4	33.3
3	Construction/plant	4	33.3
5	OthersManufacturing	6	30.0

* Manufacturing only for Turkey.

A look at the reasons for expecting an "Increase" in operating profit forecasts for 2013 across all industries in Europe and Turkey shows that at 59.1% the highest percentage chose the answer "Sales increase in your country." What is more, nearly 30% chose the answer "Sales increase due to expansion of exports." Among reasons for expecting a "Decrease," the number one reason chosen was a "Sales decrease in your country" (60.1%). "Sales increase/decrease in your country" is the largest reason given for both "Increase" and "Decrease".

Fig. 18: [Europe/Turkey, all industries] Reasons for expecting an "Increase" or "Decrease" in operating profit forecasts for 2013 compared to the previous year (2012) (multiple answers)

Reasons for forecasting an "Increase" (Units: cos., %)

		Responses	Percentage
1	Sales increase in your country	241	59.1
2	Sales increase due to expansion of exports	124	30.4
3	Decrease in personnel costs	101	24.8
4	Reduction of other expenditures (e.g., management, administrative and energy costs)	98	24.0
5	Exchange rate fluctuations	94	23.0

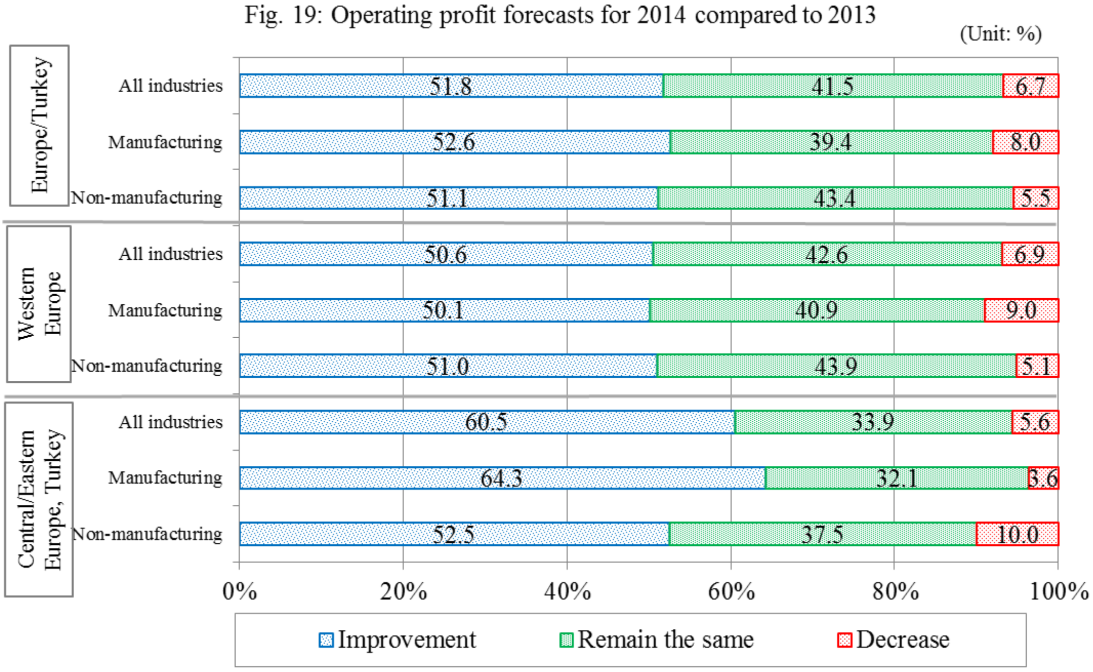
Reasons for forecasting a "Decrease" (Units: cos., %)

		Responses	Percentage
1	Sales decrease in your country	137	60.1
2	Sales decrease due to slowdown of exports	59	25.9
3	Costs insufficiently passed along in sales prices	47	20.6
4	Other	45	19.7
5	Rise in personnel costs	39	17.1

3. Operating profit forecasts for 2014 compared to 2013

When respondents were asked how their operating profits for 2014 would change compared to 2013, across all industries in Europe and Turkey 51.8% answered "Increase" (up 12.9 points from last year), 41.5% answered "Remain the same" (down 2.9 points from last year), and 6.7% answered "Decrease" (down 10.0 points from last year).

Fig. 19: Operating profit forecasts for 2014 compared to 2013



* Manufacturing only for Turkey.

A look at results by industry in Europe and Turkey shows that 75.0% of respondents in the plastic products industry expect an "Increase," as do 65.0% of those in the electric machinery and electronic equipment industry. On the other hand, there were some industries such as medical devices and foods, processed agricultural or marine products in which high percentages of respondents forecast a "Decrease," although such responses came to no more than 30% in each case.

Fig. 20: [Europe/Turkey] Industries with high percentages of companies forecasting an "Increase" or "Decrease" in operating profit forecasts for 2014 compared to 2013 (multiple answers)

Industries with high percentages of respondents forecasting an "Increase"

(Units: cos., %)

		Responses	Percentage
1	Plastic products	9	75.0
2	Electric machinery and electronic equipment	26	65.0
3	Rubber products	9	64.3
4	Trading company	51	63.8
5	Medical devices	5	62.5

* Manufacturing only for Turkey.

Industries with high percentages of respondents forecasting a "Decrease"

(Units: cos., %)

		Responses	Percentage
1	Medical devices	2	25.0
2	Foods, processed agricultural or marine products	5	23.8
3	Paper and pulp	1	20.0
4	Ceramics and cement	1	14.3
5	Iron and steel (including cast and forged products)	2	12.5
5	Precision equipment	2	12.5

* Manufacturing only for Turkey.

A look at the results by country shows that Sweden had the highest percentage of respondents expecting an "Increase" in operating profit forecasts for 2014, at 71.4%. The next highest percentages were in the Czech Republic, Portugal, Ireland, and Austria. As for the percentage of respondents forecasting a “Decrease,” just like with for “Increase” Sweden was the first place country, though the percentage of such respondents was low at 21.4%. This was followed by France (second place) and Poland (third place).

Fig. 21: [Europe/Turkey, all industries] Countries with high percentages of companies forecasting an “Increase” or “Decrease” in operating profit forecasts for 2014 compared to 2013

Countries with high percentages of respondents forecasting an "Increase"

(Units: cos., %)

		Responses	Percentage
1	Sweden	10	71.4
2	Czech Rep.	27	71.1
3	Portugal	11	68.8
4	Ireland	13	61.9
5	Austria	8	61.5

Countries with high percentages of respondents forecasting a "Decrease"

(Units: cos., %)

		Responses	Percentage
1	Sweden	3	21.4
2	France	13	17.3
3	Poland	3	11.1
4	Ireland	2	9.5
5	Italy	5	8.2

A look at reasons for expecting an “Increase” in operating profit forecasts for 2014 compared to 2013 across all industries in Europe and Turkey shows that the highest percentage chose the answer “Sales increase in your country.” Among reasons for expecting a “Decrease,” the highest percentage chose the answer “Sales decrease in your country.”

Fig. 22: [Europe/Turkey, all industries] Reasons for expecting an “Increase” or “Decrease” in operating profit forecasts for 2014 compared to 2013 (multiple answers)

Reasons for forecasting “Increase” (Units: cos., %)

		Responses	Percentage
1	Sales increase in your country	347	68.3
2	Sales increase due to expansion of exports	172	33.9
3	Improvement of sales efficiency	135	26.6
4	Reduction of other expenditures (e.g., management, administrative and energy costs)	105	20.7
5	Decrease in procurement costs	90	17.7

Reasons for forecasting “Decrease” (Units: cos., %)

		Responses	Percentage
1	Sales decrease in your country	39	60.0
2	Sales decrease due to slowdown of exports	18	27.7
3	Other	12	18.5
4	Rise in personnel costs	11	16.9
4	Costs insufficiently passed along in sales prices	11	16.9

III. Challenges in management

1. Challenges in management

The greatest challenge was “Economic slowdown, market contraction” at 45.7%. Compared to the survey from fiscal 2012, the response “High labor costs” rose 6.5 points from 33.4% to 39.9%, while the response “Difficulty in securing good workers” rose 7.9 points from 29.9% to 37.8% as challenges related to human resources begin to surface.

Fig. 23: [Europe/Turkey, all industries] Challenges in management (multiple answers)

"All industries"

(Units: cos., %)

		Responses	Percentage
1	Economic slowdown, market contraction	430	45.7
2	High labor costs	375	39.9
3	Difficulty in securing good workers	356	37.8
4	Exchange rate fluctuations	345	36.7
4	Lower prices offered by competitors	345	36.7
6	Transfer pricing taxation	309	32.8
7	Entry of new competitors	307	32.6
8	Stringent dismissal laws	299	31.8
9	Heavy social security burdens	259	27.5
9	Visa/work permits	251	26.7

A look at the results by industry shows that in manufacturing industries the highest percentage cited “Economic slowdown, market contraction” (48.3%), followed by “Exchange rate fluctuations” (44.3%), and “Lower prices offered by competitors” (43.4%). On the other hand, in non-manufacturing industries the highest percentage cited “Economic slowdown, market contraction” (43.3%), followed by “Difficulty in securing good workers” (41.1%), and “High labor costs” (37.6%).

Fig. 24: [Europe/Turkey, all industries] Challenges in management (multiple answers)

"Manufacturing"

(Units: cos., %)

		Responses	Percentage
1	Economic slowdown, market contraction	217	48.3
2	Exchange rate fluctuations	199	44.3
3	Lower prices offered by competitors	195	43.4
4	High labor costs	190	42.3
5	Transfer pricing taxation	159	35.4
6	Difficulty in securing good workers	154	34.3
7	Entry of new competitors	144	32.1
8	Stringent dismissal laws	138	30.7
9	Heavy social security burdens	137	30.5
10	Procurement costs	129	28.7

"Non-manufacturing"

(Units: cos., %)

		Responses	Percentage
1	Economic slowdown, market contraction	213	43.3
2	Difficulty in securing good workers	202	41.1
3	High labor costs	185	37.6
4	Entry of new competitors	163	33.1
5	Stringent dismissal laws	161	32.7
6	Transfer pricing taxation	150	30.5
7	Lower prices offered by competitors	150	30.5
8	Exchange rate fluctuations	146	29.7
9	Visa/work permits	138	28.0
10	European political and social conditions	130	26.4

* Excluding Turkey.

A look at the results by region shows that in Western Europe the highest percentage among all industries cited “Economic slowdown, market contraction” (44.9%). A look at issues cited in manufacturing industries in the countries with the three highest numbers of respondent firms shows that the most commonly cited answer in the UK was “Exchange rate fluctuations” (48.7%), while “High labor costs” were cited most often in Germany and France (51.0% and 75.0%, respectively). In non-manufacturing industries, the most common answer in both the UK and Germany was “Difficulty in securing good workers” (50.3% and 43.1%, respectively), while “Heavy social security burdens” was the most cited answer in France (55.6%).

Fig. 25: [Western Europe] Challenges in management

All industries in Western Europe (Units: cos., %)

		Responses	Percentage
1	Economic slowdown, market contraction	370	44.9
2	High labor costs	366	44.4
3	Difficulty in securing good workers	305	37.0
4	Lower prices offered by competitors	293	35.6
5	Exchange rate fluctuations	288	35.0
6	Transfer pricing taxation	280	34.0
7	Stringent dismissal laws	273	33.1
8	Entry of new competitors	266	32.3
9	Heavy social security burdens	228	27.7
10	Quality of workforce	209	25.4
11	Visa/work permits	205	24.9
12	European political and social conditions	202	24.5
13	Procurement costs	153	18.6
14	REACH	148	18.0
15	Deliveries	137	16.6
16	High labor cost growth rate	130	15.8
16	Collection of receivables	130	15.8
16	Better quality of products offered by competitors	130	15.8
19	Procedures for VAT refunds are complex and/or lack transparency	120	14.6
20	Change in tax rate	103	12.5

Manufacturing industries in Western Europe (Units: cos., %)

		Responses	Percentage
1	High labor costs	183	49.6
1	Economic slowdown, market contraction	183	49.6
3	Lower prices offered by competitors	157	42.5
4	Exchange rate fluctuations	155	42.0
5	Transfer pricing taxation	135	36.6
6	Stringent dismissal laws	124	33.6
7	Entry of new competitors	122	33.1
8	Difficulty in securing good workers	116	31.4
9	Heavy social security burdens	114	30.9
10	Procurement costs	106	28.7
11	Quality of workforce	93	25.2
12	European political and social conditions	85	23.0
13	Deliveries	83	22.5
13	REACH	83	22.5
15	Visa/work permits	81	22.0
16	High labor cost growth rate	70	19.0
17	Better quality of products offered by competitors	65	17.6
18	Collection of receivables	57	15.4
19	Quality	52	14.1
20	Union activities/strike	49	13.3
20	Shortage of domestic procurement sources	49	13.3

Non-manufacturing industries in Western Europe (Units: cos., %)

		Responses	Percentage
1	Difficulty in securing good workers	189	41.5
2	Economic slowdown, market contraction	187	41.1
3	High labor costs	183	40.2
4	Stringent dismissal laws	149	32.7
5	Transfer pricing taxation	145	31.9
6	Entry of new competitors	144	31.6
7	Lower prices offered by competitors	136	29.9
8	Exchange rate fluctuations	133	29.2
9	Visa/work permits	124	27.3
10	European political and social conditions	117	25.7
11	Quality of workforce	116	25.5
12	Heavy social security burdens	114	25.1
13	Procedures for VAT refunds are complex and/or lack transparency	75	16.5
14	Change in tax rate	74	16.3
15	Collection of receivables	73	16.0
16	Better quality of products offered by competitors	65	14.3
16	REACH	65	14.3
18	High labor cost growth rate	60	13.2
19	Frequent legislation revisions	54	11.9
19	Deliveries	54	11.9

Fig. 26: Challenges in management in leading Western European countries

"Manufacturing"

	UK	(%)		Germany	(%)		France	(%)
1	Exchange rate fluctuations	48.7	1	High labor costs	51.0	1	High labor costs	75.0
2	Economic slowdown, market contraction	45.1	2	Transfer pricing taxation	49.0	2	Heavy social security burdens	61.4
3	High labor costs	38.1	3	Economic slowdown, market contraction	45.9	3	Stringent dismissal laws	59.1
4	Lower prices offered by competitors	36.3	4	Lower prices offered by competitors	44.9	4	Lower prices offered by competitors	54.5
5	Difficulty in securing good workers	34.5	5	Exchange rate fluctuations	39.8	5	Economic slowdown, market contraction	52.3
6	Transfer pricing taxation	33.6	6	Difficulty in securing good workers	34.7	6	Quality of workforce	36.4
7	Visa/work permits	32.7	7	Stringent dismissal laws	30.6	7	Entry of new competitors	36.4
8	Procurement costs	30.1	8	Entry of new competitors	28.6	8	Visa/work permits	31.8
8	Entry of new competitors	30.1	9	High labor cost growth rate	26.5	8	Transfer pricing taxation	31.8
10	Heavy social security burdens	23.0	9	Procurement costs	26.5	8	Difficulty in securing good workers	31.8
10	Deliveries	23.0	11	Better quality of products offered by competitors	24.5	8	Exchange rate fluctuations	31.8
10	REACH	23.0	11	REACH	24.5	8	Procurement costs	31.8
13	Stringent dismissal laws	21.2	13	Quality of workforce	23.5	8	European political and social conditions	31.8
13	Quality of workforce	21.2	14	Deliveries	22.4	14	Union activities/strike	29.5
13	European political and social conditions	21.2	14	European political and social conditions	22.4	15	REACH	25.0
16	High labor cost growth rate	17.7	16	Heavy social security burdens	17.3	16	Deliveries	20.5
17	Frequent legislation revisions	15.9	17	Quality	15.3	17	Frequent legislation revisions	18.2
18	Procedures for VAT refunds are complex and/or lack transparency	13.3	18	Collection of receivables	14.3	18	Change in tax rate	15.9
19	Quality	12.4	19	Procedures for VAT refunds are complex and/or lack transparency	13.3	19	Collection of receivables	13.6
19	Shortage of domestic procurement sources	12.4	19	RoHS	13.3	20	Customs clearance issues	11.4
						20	Complicated administrative procedures and/or lack of transparency	11.4
						20	Quality	11.4
						20	Better quality of products offered by competitors	11.4

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"Non-manufacturing"

	UK	(%)		Germany	(%)		France	(%)
1	Difficulty in securing good workers	50.3	1	Difficulty in securing good workers	43.1	1	Heavy social security burdens	55.6
2	Visa/work permits	39.2	2	Economic slowdown, market contraction	42.2	2	Economic slowdown, market contraction	51.9
3	Exchange rate fluctuations	34.6	3	High labor costs	41.2	3	Stringent dismissal laws	48.1
4	Transfer pricing taxation	33.3	4	Transfer pricing taxation	39.2	4	Difficulty in securing good workers	44.4
5	Economic slowdown, market contraction	31.4	5	Entry of new competitors	38.2	5	Visa/work permits	40.7
6	High labor costs	29.4	6	Stringent dismissal laws	34.3	5	High labor costs	40.7
7	Entry of new competitors	28.8	6	Lower prices offered by competitors	34.3	7	Quality of workforce	33.3
8	Stringent dismissal laws	23.5	8	Exchange rate fluctuations	33.3	8	Lower prices offered by competitors	29.6
9	Quality of workforce	22.9	9	Quality of workforce	26.5	9	Transfer pricing taxation	25.9
10	European political and social conditions	19.6	10	Procedures for VAT refunds are complex and/or lack transparency	25.5	9	European political and social conditions	25.9
11	Change in tax rate	18.3	11	REACH	23.5	11	Frequent legislation revisions	22.2
12	Lower prices offered by competitors	17.6	12	Heavy social security burdens	19.6	11	Change in tax rate	22.2
13	High labor cost growth rate	15.0	12	Collection of receivables	19.6	11	Procedures for VAT refunds are complex and/or lack transparency	22.2
14	Frequent legislation revisions	13.7	12	Better quality of products offered by competitors	19.6	11	Exchange rate fluctuations	22.2
15	Other (regulations)	13.1	15	European political and social conditions	18.6	11	Entry of new competitors	22.2
16	Deliveries	12.4	16	Deliveries	13.7	16	Customs clearance issues	18.5
17	Better quality of products offered by competitors	11.8	16	RoHS	13.7	16	REACH	18.5
18	Procurement costs	11.1	18	Customs clearance issues	10.8	18	Complicated administrative procedures and/or lack of transparency	14.8
18	REACH	11.1	19	High labor cost growth rate	9.8	18	Complicated administrative procedures and/or lack of transparency	14.8
20	Inflation	10.5	20	Visa/work permits	8.8	18	Collection of receivables	14.8
20	Real estate bubble/steep rise in land prices	10.5				18	Procurement costs	14.8
						18	RoHS	14.8

In Central and Eastern Europe and Turkey, the most commonly cited answer was "Economic slowdown, market contraction" (51.3%). A look at issues cited in manufacturing industries in the countries with the three highest numbers of respondent firms shows that the most commonly cited answer in the Czech Republic was "Visa/work permits" and "Difficulty in securing good workers" (both at 66.7%), while "Exchange rate fluctuations" was cited most often in Hungary and Poland (62.5% and 60.0%, respectively). In non-manufacturing industries, the most common answer in the Czech Republic was "Visa/work permits" (100.0%), while "Entry of new competitors" was cited most often in Hungary (60.0%) and "Economic slowdown, market contraction" was the most cited answer in Poland (81.8%).

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Fig. 27: [Central and Eastern Europe/Turkey] Challenges in management

All industries in Central/Eastern Europe and Turkey (Units: cos., %)

		Responses	Percentage
1	Economic slowdown, market contraction	60	51.3
2	Exchange rate fluctuations	57	48.7
3	Lower prices offered by competitors	52	44.4
4	Difficulty in securing good workers	51	43.6
5	Visa/work permits	46	39.3
6	Entry of new competitors	41	35.0
7	Highways	37	31.6
8	European political and social conditions	35	29.9
9	Quality of workforce	34	29.1
10	Frequent legislation revisions	33	28.2
11	Customs clearance issues	32	27.4
11	Procurement costs	32	27.4
11	Shortage of domestic procurement sources	32	27.4
14	Heavy social security burdens	31	26.5
15	General road conditions	30	25.6
16	Transfer pricing taxation	29	24.8
16	High labor cost growth rate	29	24.8
16	Quality	29	24.8
19	Stringent dismissal laws	26	22.2
20	Change in tax rate	24	20.5

Manufacturing industries in Central/Eastern Europe and Turkey (Units: cos., %)

		Responses	Percentage
1	Exchange rate fluctuations	44	55.0
2	Difficulty in securing good workers	38	47.5
2	Lower prices offered by competitors	38	47.5
4	Economic slowdown, market contraction	34	42.5
5	Visa/work permits	32	40.0
6	Shortage of domestic procurement sources	28	35.0
7	Quality of workforce	26	32.5
8	Customs clearance issues	24	30.0
8	Transfer pricing taxation	24	30.0
8	Quality	24	30.0
11	Heavy social security burdens	23	28.8
11	Procurement costs	23	28.8
13	Entry of new competitors	22	27.5
13	European political and social conditions	22	27.5
15	Frequent legislation revisions	21	26.3
15	High labor cost growth rate	21	26.3
15	General road conditions	21	26.3
15	Highways	21	26.3
19	Change in tax rate	17	21.3
19	Procedures for VAT refunds are complex and/or lack transparency	17	21.3

Non-manufacturing industries in Central/Eastern Europe and Turkey (Units: cos., %)

		Responses	Percentage
1	Economic slowdown, market contraction	26	70.3
2	Entry of new competitors	19	51.4
3	Highways	16	43.2
4	Visa/work permits	14	37.8
4	Lower prices offered by competitors	14	37.8
6	Difficulty in securing good workers	13	35.1
6	Exchange rate fluctuations	13	35.1
6	European political and social conditions	13	35.1
9	Frequent legislation revisions	12	32.4
9	Stringent dismissal laws	12	32.4
11	Procurement costs	9	24.3
11	General road conditions	9	24.3
13	Customs clearance issues	8	21.6
13	Complicated administrative procedures and/or lack of transparency [trade system/procedures]	8	21.6
13	Complicated administrative procedures and/or lack of transparency [tax system/procedures]	8	21.6
13	High labor cost growth rate	8	21.6
13	Heavy social security burdens	8	21.6
13	Quality of workforce	8	21.6
13	Deliveries	8	21.6
20	Change in tax rate	7	18.9
20	Complicated administrative procedures and/or lack of transparency	7	18.9
20	Collection of receivables	7	18.9

* Excluding Turkey.

Fig. 28: [Central and Eastern Europe/Turkey] Challenges in management in leading countries of the region of Central and Eastern Europe and Turkey

"Manufacturing"

	Czech Rep.	(%)		Hungary	(%)		Poland	(%)
1	Visa/work permits	66.7	1	Exchange rate fluctuations	62.5	1	Exchange rate fluctuations	60.0
1	Difficulty in securing good workers	66.7	2	Lower prices offered by competitors	50.0	2	Customs clearance issues	40.0
3	Exchange rate fluctuations	55.6	2	European political and social conditions	50.0	2	Transfer pricing taxation	40.0
4	Shortage of domestic procurement sources	51.9	2	Economic slowdown, market contraction	50.0	2	Procurement costs	40.0
4	Lower prices offered by competitors	51.9	5	Heavy social security burdens	43.8	2	Lower prices offered by competitors	40.0
6	Economic slowdown, market contraction	48.1	5	Entry of new competitors	43.8	2	General road conditions	40.0
7	Transfer pricing taxation	40.7	7	Customs clearance issues	37.5	2	Highways	40.0
7	Quality of workforce	40.7	7	Frequent legislation revisions	37.5	8	Economic slowdown, market contraction	33.3
9	Heavy social security burdens	37.0	7	Change in tax rate	37.5	9	High labor cost growth rate	26.7
9	Quality	37.0	7	Deliveries	37.5	9	Difficulty in securing good workers	26.7
11	European political and social conditions	33.3	11	Transfer pricing taxation	31.3	11	Procedures for VAT refunds are complex and/or lack transparency	20.0
12	Frequent legislation revisions	29.6	11	High labor cost growth rate	31.3	11	Entry of new competitors	20.0
12	Procurement costs	29.6	11	Quality of workforce	31.3	11	Better quality of products offered by competitors	20.0
12	REACH	29.6	11	Quality	31.3	11	European political and social conditions	20.0
15	Entry of new competitors	25.9	11	Shortage of domestic procurement sources	31.3	15	Visa/work permits	13.3
16	Change in tax rate	22.2	16	Difficulty in securing good workers	25.0	15	Lack of transparency in investment incentive schemes	13.3
16	General road conditions	22.2	17	Procedures for VAT refunds are complex and/or lack transparency	18.8	15	Complicated administrative procedures and/or lack of transparency	13.3
16	Highways	22.2	17	Procurement costs	18.8	15	High labor costs	13.3
19	Customs clearance issues	18.5	17	REACH	18.8	15	Quality	13.3
19	High labor cost growth rate	18.5	20	Complicated administrative procedures and/or lack of transparency	12.5	15	Shortage of domestic procurement sources	13.3
19	Stringent dismissal laws	18.5	20	Visa/work permits	12.5	15	Railways	13.3
19	Deliveries	18.5	20	Lack of transparency in investment incentive schemes	12.5	15	Power supply	13.3
			20	Complicated administrative procedures and/or lack of transparency	12.5	15	REACH	13.3
			20	Other (tax system / procedures)	12.5	15	Vehicle CO2 regulations	13.3
			20	Stringent dismissal laws	12.5	15	Inflation	13.3
			20	Better quality of products offered by competitors	12.5			
			20	General road conditions	12.5			
			20	communications	12.5			

"Non-manufacturing"

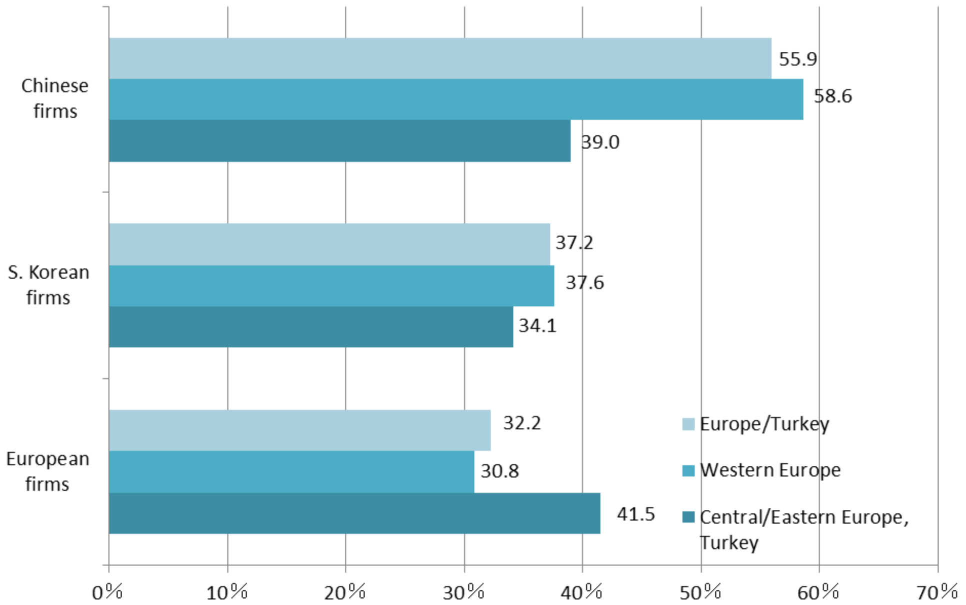
	Czech Rep.	(%)		Hungary	(%)		Poland	(%)
1	Visa/work permits	100.0	1	Entry of new competitors	60.0	1	Economic slowdown, market contraction	81.8
2	Economic slowdown, market contraction	90.0	2	Lower prices offered by competitors	50.0	2	Highways	72.7
3	Frequent legislation revisions	40.0	3	Frequent legislation revisions	40.0	3	Entry of new competitors	45.5
3	Difficulty in securing good workers	40.0	3	Exchange rate fluctuations	40.0	3	Lower prices offered by competitors	45.5
3	Procurement costs	40.0	3	Economic slowdown, market contraction	40.0	3	General road conditions	45.5
3	Deliveries	40.0	6	Complicated administrative procedures and/or lack of transparency	30.0	6	Difficulty in securing good workers	36.4
3	Entry of new competitors	40.0	6	High labor cost growth rate	30.0	6	Stringent dismissal laws	36.4
3	Highways	40.0	6	Difficulty in securing good workers	30.0	6	European political and social conditions	36.4
9	Customs clearance issues	30.0	6	Stringent dismissal laws	30.0	9	Transfer pricing taxation	27.3
9	Complicated administrative procedures and/or lack of transparency	30.0	6	Quality of workforce	30.0	9	Exchange rate fluctuations	27.3
9	Heavy social security burdens	30.0	6	RoHS	30.0	9	Railways	27.3
9	Stringent dismissal laws	30.0	6	European political and social conditions	30.0	12	Procedures for VAT refunds are complex and/or lack transparency	18.2
9	European political and social conditions	30.0	6	Inflation	30.0	12	High labor cost growth rate	18.2
14	Complicated administrative procedures and/or lack of transparency	20.0	14	Customs clearance issues	20.0	12	Quality of workforce	18.2
14	Transfer pricing taxation	20.0	14	Visa/work permits	20.0	12	Collection of receivables	18.2
14	Procedures for VAT refunds are complex and/or lack transparency	20.0	14	Complicated administrative procedures and/or lack of transparency	20.0	12	Procurement costs	18.2
14	High labor cost growth rate	20.0	14	Change in tax rate	20.0	12	Deliveries	18.2
14	Quality of workforce	20.0	14	Collection of receivables	20.0	12	Better quality of products offered by competitors	18.2
14	Exchange rate fluctuations	20.0	14	Highways	20.0	12	Ports	18.2
14	Quality	20.0	14	REACH	20.0	12	Euro5	18.2
14	Lower prices offered by competitors	20.0	14	Low birth rates/aging of society	20.0			
14	General road conditions	20.0						
14	REACH	20.0						

2. Nationalities of new competitors

When respondents across all industries in Europe and Turkey who cited “Entry of new competitors” as a challenge in management (32.6%; see Fig. 23) were asked the specific nationalities of these new competitors, the highest percentage was that of Chinese firms at 55.9%. As Chinese firms have purchased a succession of European firms in Europe, they are becoming powerful competitors, particularly in Western Europe. Next came South Korean firms (37.2%) and European firms (32.2%).

The highest percentage of Japan-affiliated firms in Central and Eastern Europe and Turkey cited European firms as becoming new competitors at 41.5%. What is more, the percentage of firms viewing South Korean firms as competitors surpassed those that saw Chinese firms as competitors in the survey from fiscal 2012. But in this fiscal year this reversed, with 34.1% viewing South Korean firms as competitors as opposed to 39.0% who viewed Chinese firms as competitors. The claim could be made that the presence of Chinese firms is on the rise in Central and Eastern Europe and Turkey.

Fig. 29: [All industries] Nationalities of new competitors (multiple answers) (Unit: %)



A look at detailed results by industry shows that sales companies and trading companies appear to keenly feel the rise of Chinese and South Korean firms. What is more, the greatest number of firms that recognized European firms as new competitors was in the transport/warehousing industry.

Fig. 30: [Europe/Turkey] Industries choosing firms of each nationality as new competitors (multiple answers)

Top three industries choosing "Chinese firms" (Unit: cos.)

		Responses
1	Sales company	50
2	Trading company	24
3	Chemicals and Petroleum products	14

Top three industries choosing "S. Korean firms" (Unit: cos.)

		Responses
1	Sales company	29
2	Trading company	16
3	Electric machinery/electronic hardware	8

Top three industries choosing "European firms" (Unit: cos.)

		Responses
1	Transport/warehousing	17
2	Sales company	16
3	Motor vehicle and motorcycle parts and accesories	10

3. Localization of Management

The percentage of companies across all industries in Europe and Turkey that are promoting the localization of management was the highest for "Appointing local human resources (department and section heads)" at 53.2%. On the other hand, for "Appointing local human resources (executive-level)" this was 30.3%.

Fig. 31: [Europe/Turkey] Initiatives for promoting the localization of management (multiple answers)

"All industries" (Units: cos., %)

		Responses	Percentage
1	Appointing local human resources (department and section heads)	522	53.2
2	Enhancing training and education for local human resources with an awareness of localization	498	50.8
3	Mid-career recruitment of local human resources that will serve as ready assets with an awareness of localization	424	43.2
4	Appointing local human resources (executive-level)	297	30.3
5	Strengthening local development capabilities for products and services	233	23.8
6	Revising meritocratic and other personnel systems with an awareness of localization	206	21.0
7	Transferring authority from head offices to local regions	188	19.2
8	Enhancing decision-making authority for sales strategies in local regions	187	19.1
9	Not taking any initiatives for localization	114	11.6
10	Acquiring human and managerial resources through M&A	61	6.2

The greatest challenges for promoting the localization of management for firms in all industries in Europe and Turkey is "Capabilities and consciousness on the part of local human resources" (33.9%), followed by "Difficulty in hiring candidates for executive positions" (31.3%).

Fig. 32: [Europe/Turkey] Challenges for promoting the localization of management (multiple answers)

"All industries" (Units: cos., %)

		Responses	Percentage
1	Capabilities and consciousness on the part of local human resources	326	33.9
2	Difficulty in hiring candidates for executive positions	301	31.3
3	No progress with transferring authority from the head office to local regions	205	21.3
4	No progress with educating local human resources	204	21.2
5	No particular challenges	197	20.5
6	Weak planning/marketing abilities in the local region	133	13.8
7	Difficulty in reducing Japanese expatriates	124	12.9
8	Weak development abilities for products and services in the local region	107	11.1
9	High turnover rate for candidates for executive positions	101	10.5
10	Language proficiency of local human resources (Japanese and English)	100	10.4

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VI. Free trade agreements (FTAs) and the future of the European economy

1. Use of bilateral or multilateral FTAs/EPAs

When firms operating in the EU were asked about the use of bilateral or multilateral FTAs/economic partnership agreements (EPAs), the highest percentages cited the EU-Turkey Customs Union (38.9%) for exports and South Africa (50.0%) for imports.

Fig. 33: Use of bilateral or multilateral FTAs/EPAs by firms operating in the EU

	Utilization of preferential tax rates provided by FTAs in exports				Utilization of preferential tax rates provided by FTAs in imports			
	Responses	Utilizing	Considering utilization	Not utilizing (No plan to utilize)	Responses	Utilizing	Considering utilization	Not utilizing (No plan to utilize)
S. Korea	40 100.0%	12 30.0%	8 20.0%	20 50.0%	43 100.0%	21 48.8%	8 18.6%	14 32.6%
Turkey Customs Union	149 100.0%	58 38.9%	16 10.7%	75 50.3%	26 100.0%	12 46.2%	8 30.8%	6 23.1%
European Economic Area (EEA)	174 100.0%	65 37.4%	18 10.3%	91 52.3%	90 100.0%	40 44.4%	10 11.1%	40 44.4%
Switzerland	114 100.0%	37 32.5%	14 12.3%	63 55.3%	13 100.0%	4 30.8%	2 15.4%	7 53.8%
Mediterranean countries (including the Middle East)	100 100.0%	29 29.0%	16 16.0%	55 55.0%	15 100.0%	3 20.0%	5 33.3%	7 46.7%
South Africa	83 100.0%	26 31.3%	7 8.4%	50 60.2%	10 100.0%	5 50.0%	- -	5 50.0%
Mexico	45 100.0%	13 28.9%	6 13.3%	26 57.8%	4 100.0%	- -	1 25.0%	3 75.0%
Chile	21 100.0%	6 28.6%	2 9.5%	13 61.9%	2 100.0%	- -	- -	2 100.0%

2. Impact of FTAs

When respondents were asked about the impact of the FTAs, they showed the highest expectations for the EU-Japan EPA, with 44.1% describing it as having "Major advantages." The results by region shows that this answer was given by a much higher percentage (55.6%) in Central/Eastern Europe and Turkey than in Western Europe (42.3%), indicating higher expectations in that region, which is home to a concentration of manufacturing facilities. A look at results by industry shows that the precision equipment industry had the highest percentage of respondents describing this as having "Major advantages," at 66.7%.

Fig. 34: Impact of FTAs

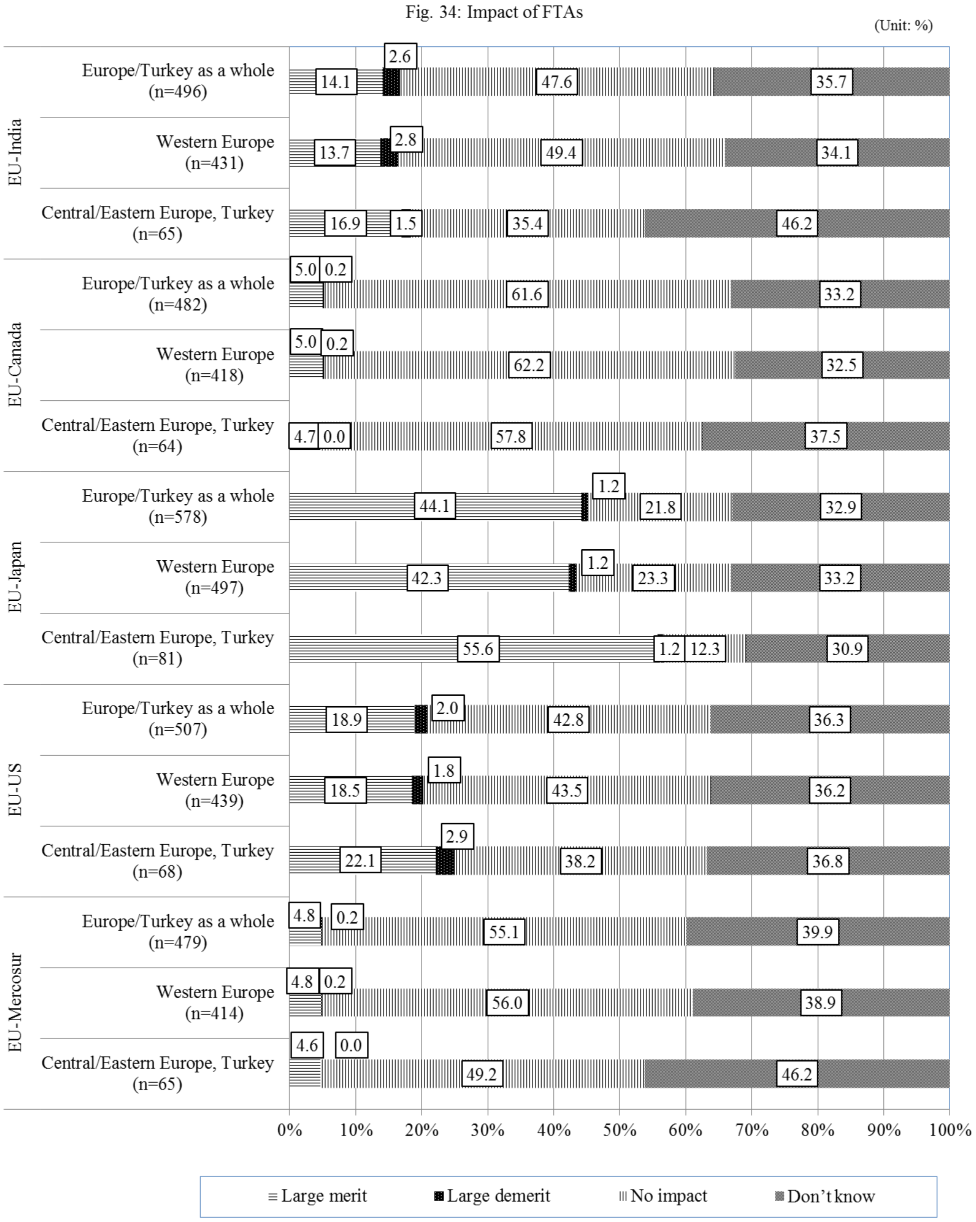


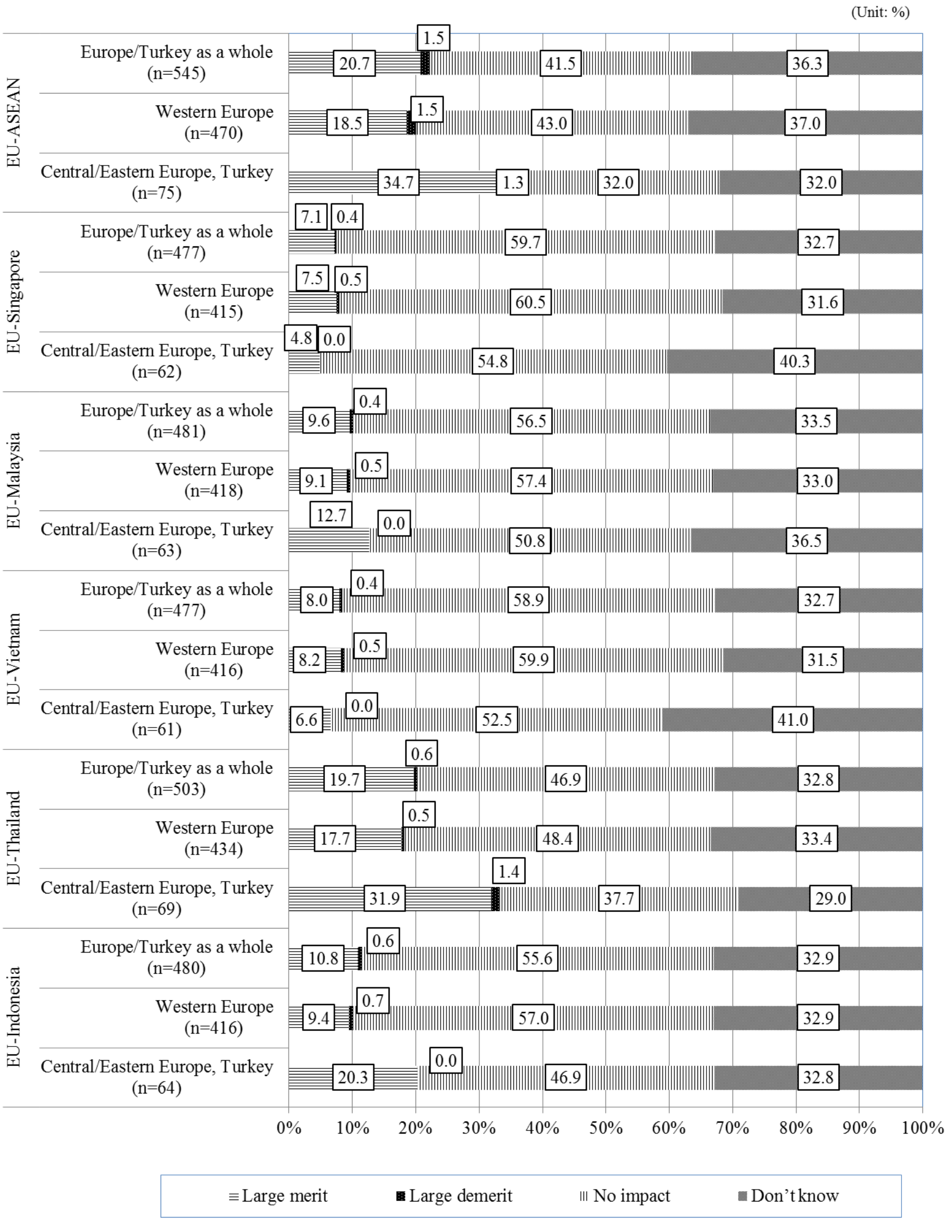
Fig. 35: Industries in which high percentages of companies responded that the EU-Japan EPA would have "Major advantages"

(Units: cos., %)

		Responses	Percentage
1	Precision equipment	6	66.7
2	Trading company	36	62.1
3	Motor vehicle and motorcycle parts and accessories	33	58.9

Moreover, 20.7% of respondents said that an FTA between the enormous markets of the EU and ASEAN would have "Major advantages," while 19.7% said the same for an FTA between the EU and Thailand.

FIg. 36: Impact of FTAs

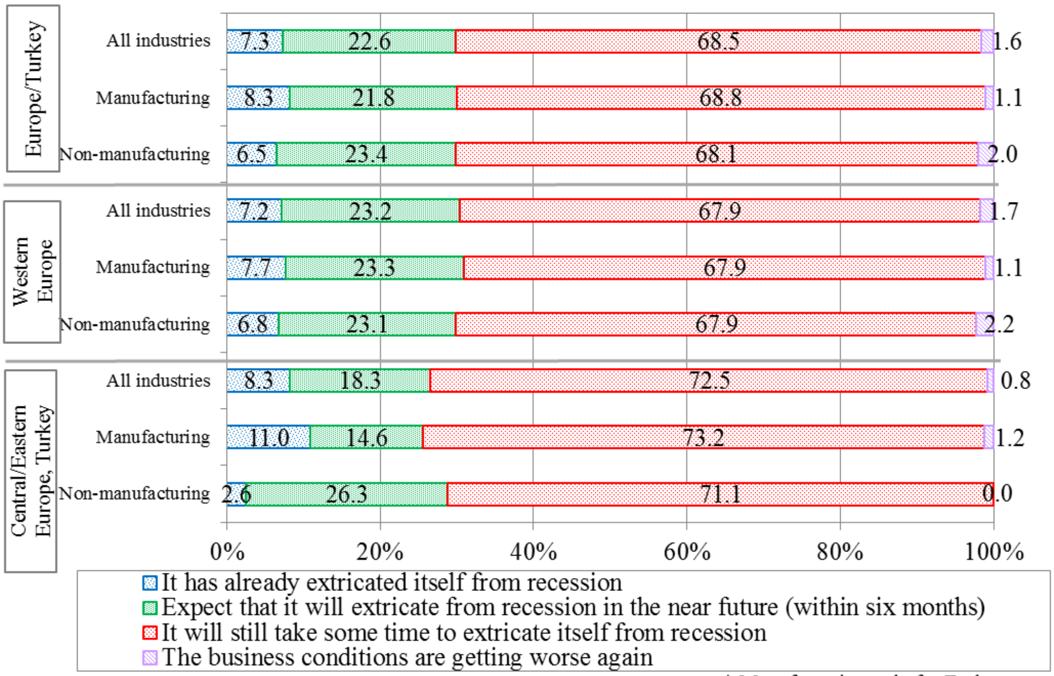


3. Future of the European economy

When questioned about the future of the European economy, only a mere 7.3% of respondents in all industries in Europe and Turkey answered that "It has already extricated itself from recession," while 68.5% answered that "It will still take some time to extricate itself from recession." When the responses are viewed by region and by type of industry, around 70% of the respondents (this was largest among manufacturing industries in Central/Eastern Europe and Turkey at 73.2%) replied "It will still take some time to extricate itself from recession." Even as signs of a recovery in performance are being seen many are taking a cautious view of future economic conditions.

Fig. 37: Views on the future of the European economy

(Unit: %)



* Manufacturing only for Turkey.

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To: Europe, Russia and CIS Division, Overseas Research Department, JETRO

● Questionnaire ●
Survey Report: 2013 JETRO Survey on Business Conditions of Japanese Companies in Europe

JETRO recently carried out the titular survey. We would like to ask for your cooperation with this questionnaire regarding your impressions upon reading the survey report. This information will be used as reference for selecting future survey themes and the like.

■ Question 1: How did you feel about the contents of this survey report? (Circle one)

4: Helpful 3: Somewhat helpful 2: Not very helpful 1: Not at all helpful

■ Question 2: Please list your: (1) Intended use and purpose, (2) Reasons for reaching the conclusion that you did above, and (3) Other impression regarding this report.

■ Question 3: Please list your requests and so forth for future JETRO survey themes.

■ Please list the name of your company and so on (optional).

Affiliation	☐ Company/ organization	Name of company/organization
	☐ Individual	Position name

* We properly manage and utilize customer information that has been supplied to us on the basis of the JETRO Personal Information Protection Policy (http://www.jetro.go.jp/privacy/). Moreover, the contents listed on the above questionnaire will be used to evaluate JETRO's business activities, improve its operations, and for the sake of operational follow-ups.

Thank you for your cooperation