



2022

JETRO Survey on Business Conditions of Japanese Companies in Europe

— The situation in Ukraine and price increase are new operational challenges.
Efforts for decarbonization accelerate —

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 1,445 companies between the 1st to 26th of September 2022. 857 responses from companies based in 14 countries in Western Europe and 8 Eastern and Central European Countries were received, giving a response rate of 59.3%.

Notes

- Survey results were totaled 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 Items

- | | |
|--|--|
| 1. Operating Profit Forecast | 7. Local Procurement and Future Policies |
| 2. Current Domestic Market Conditions and Future Prospects | 8. Future Promising Sales Destinations |
| 3. Situation in Ukraine | 9. Business Outlook for the Future |
| 4. Operational Challenges | 10. Supply Chain |
| 5. Business Environment after Brexit | 11. Base Salary Increase |
| 6. EPA/FTA | 12. Business and Human Rights |
| | 13. Decarbonization Efforts |

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	857	100.0
■ Western Europe	720	84.0
Germany	284	33.1
UK	101	11.8
Netherlands	90	10.5
France	63	7.4
Belgium	44	5.1
Spain	30	3.5
Italy	26	3.0
Austria	19	2.2
Ireland	17	2.0
Switzerland	12	1.4
Finland	12	1.4
Sweden	9	1.1
Denmark	7	0.8
Portugal	6	0.7
■ Central & Eastern Europe(CEE)	137	16.0
Czechia	46	5.4
Hungary	32	3.7
Poland	31	3.6
Romania	21	2.5
Slovakia	3	0.4
Serbia	3	0.4
Slovenia	1	0.1

Summary of Survey Results

1. The invasion of Ukraine had a negative impact on approximately 80% of companies, and inflation emerged as an operational challenge.

- The proportion of companies predicting profit in 2022 was 67.1%, approaching to the pre-COVID-19 pandemic level in 2019 (70.5%) (p.6). On the other hand, due to factors such as rising logistics and procurement costs, and soaring fuel costs, 35.0% of companies in the manufacturing sector in Central and Eastern Europe(CEE) responded that their profit would decrease, which was almost equivalent to the companies who responded that it would increase (36.3%) (p.9, 11).
- The Russian invasion of Ukraine had a "negative impact" on 77.0% of companies (p.16). The biggest operational challenge was the "situation in Ukraine" (61.7%). In addition, the number of companies choosing "inflation" (49.9%) increased by 45.4 points from the previous survey (4.5%), and emerged as a new challenge (p.19).

2. Supply chains are being reviewed, a trend to expand procurement within the EU.

- From 2020 to present (as of the time of the survey), 48.2% of companies had reviewed their supply chain, and 55.5% of companies plan to review their supply chain in the future. The companies reviewed their procurement source, inventory level, and raised in sales prices (p.56~58). 37.8% of Japanese-affiliated companies based in the EU responded that they would "increase" their procurement plan in the EU, a 4.8-point increase from the previous survey. Among the manufacturing sector in CEE, half of the companies responded that they would "increase" their procurement within the EU, while 45.8% responded that they would "decrease" their procurement from China. There is a trend to shift supply chain focus to the EU (p.45, 46).

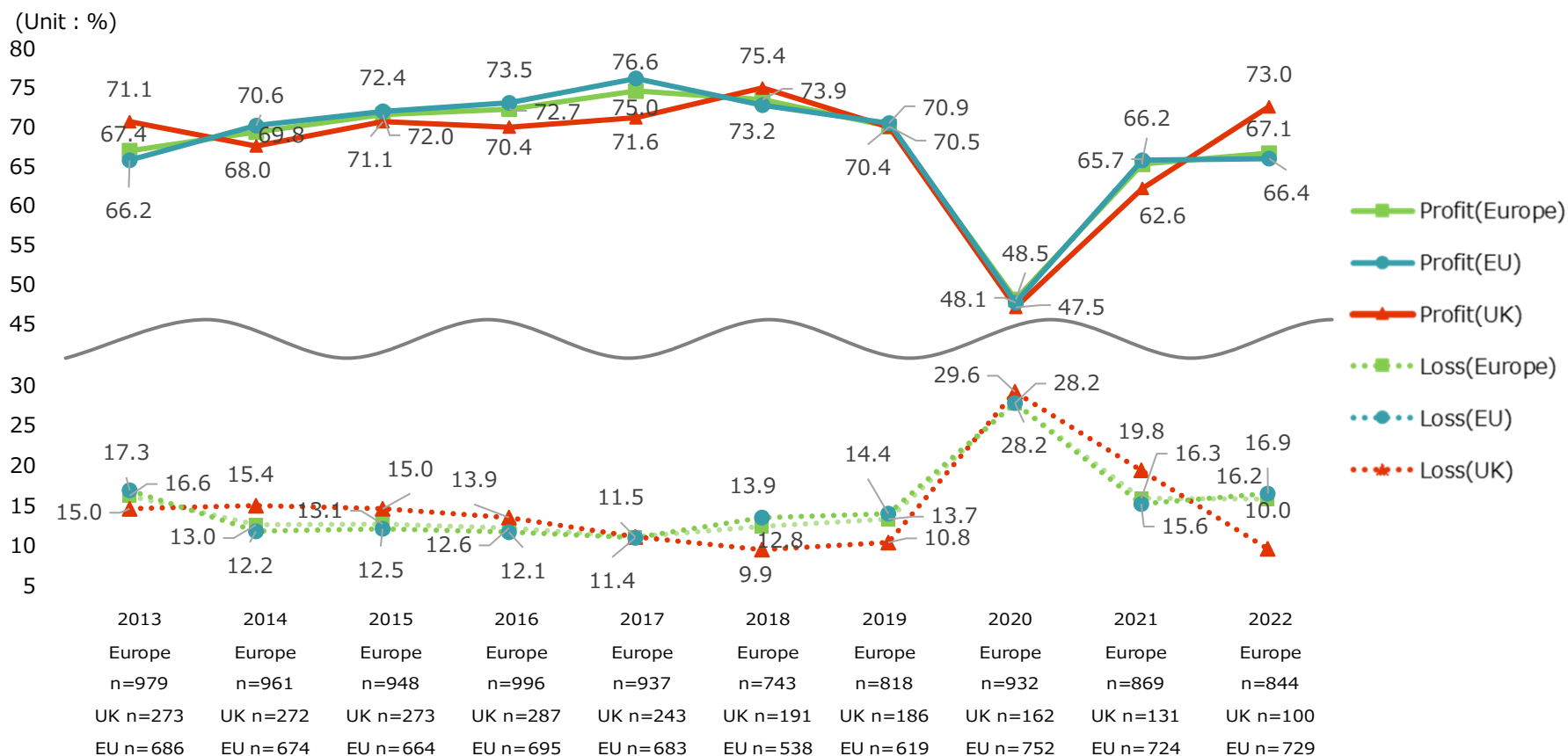
3. 60% of the companies making efforts toward decarbonization, up significantly compared to the previous year.

- 35.4% of all the respondents conduct human rights due diligence (DD). The proportions were higher in the UK (46.2%) and France (42.9%) where human rights DD laws have already been enforced (p.62). Among the companies conducting human rights DD, 80% require their suppliers to comply with their company's human rights policy. On the other hand, 40% of companies responded that they were required to comply with their client's policy (p.63).
- 59.6% of companies are already making efforts toward decarbonization (reduction of greenhouse gas emissions), a significant increase from the previous year (40.7%). More than 50% of companies in all countries answered that they are "already making efforts" (p.68).

1 | Proportion of "Profit" approaches the pre-COVID-19 pandemic level

- In 2022, the proportion of Japanese-affiliated companies in Europe forecasting "Profit" was 67.1%, approaching the level of 2019 (70.5%), the pre-COVID-19 pandemic level. The ratio was 73.0% for the companies in the UK, exceeding the 2019 level (70.4%).
- The proportion of companies based in Europe forecasting "Loss" was 16.2%, a 0.1-point decrease from the previous year, but not recovered to the 2019 level (13.7%).

Operating profit forecast trends, All sectors

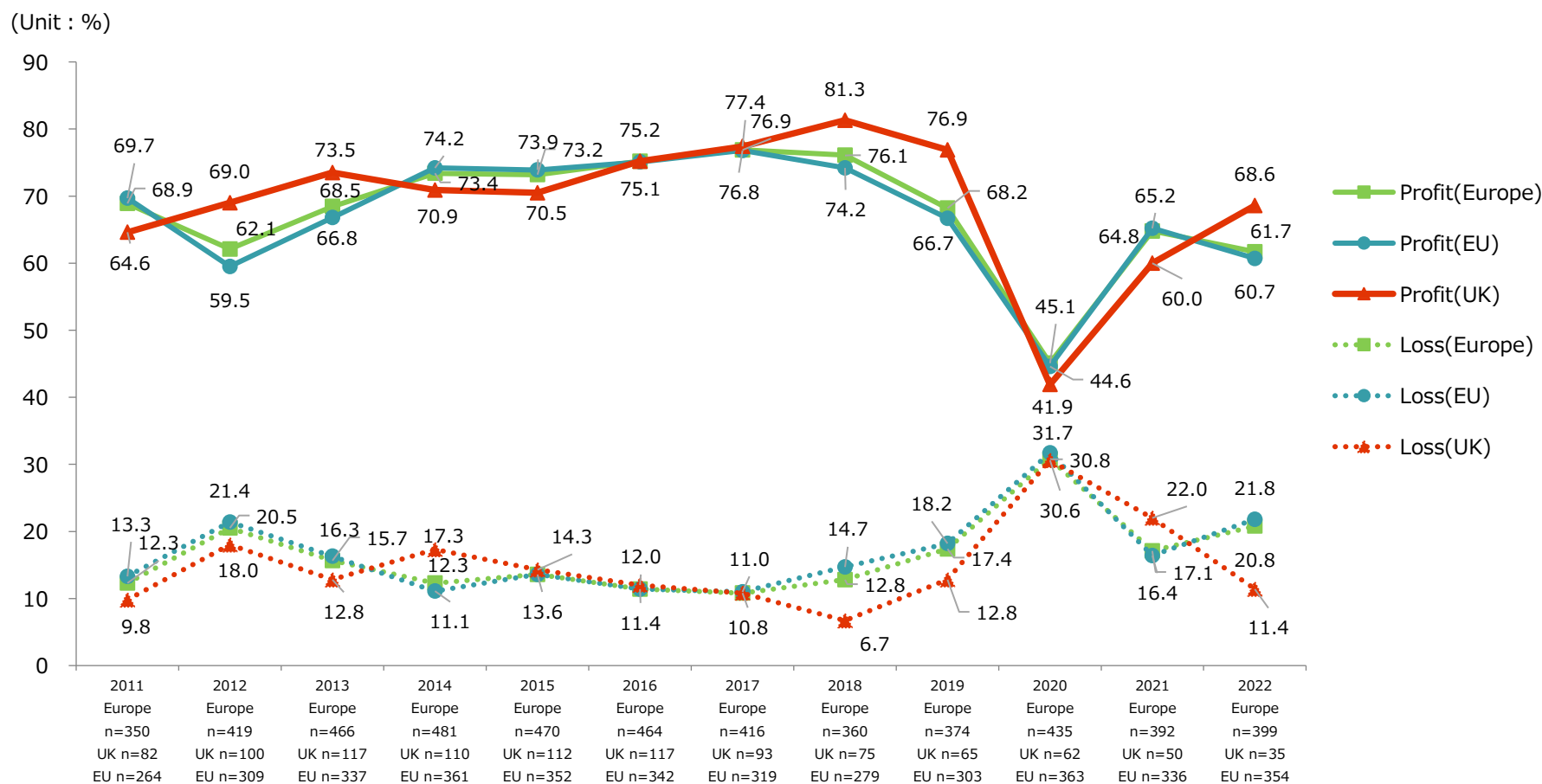


(Note) 'n' includes companies that responded "Breakeven".

2 | The proportion of "Profit" in the manufacturing sector decreased in the EU and increased in the UK

- Looking at Japanese-affiliated manufacturers in the EU, the proportion forecasting "Profit" for their 2022 operating profit decreased and the proportion of "Loss" increased.
- For the manufacturers in the UK, the proportion of "Profit" increased, and that of "Loss" decreased, for the 2nd consecutive year.

Operating profit forecast trends, Manufacturing sector

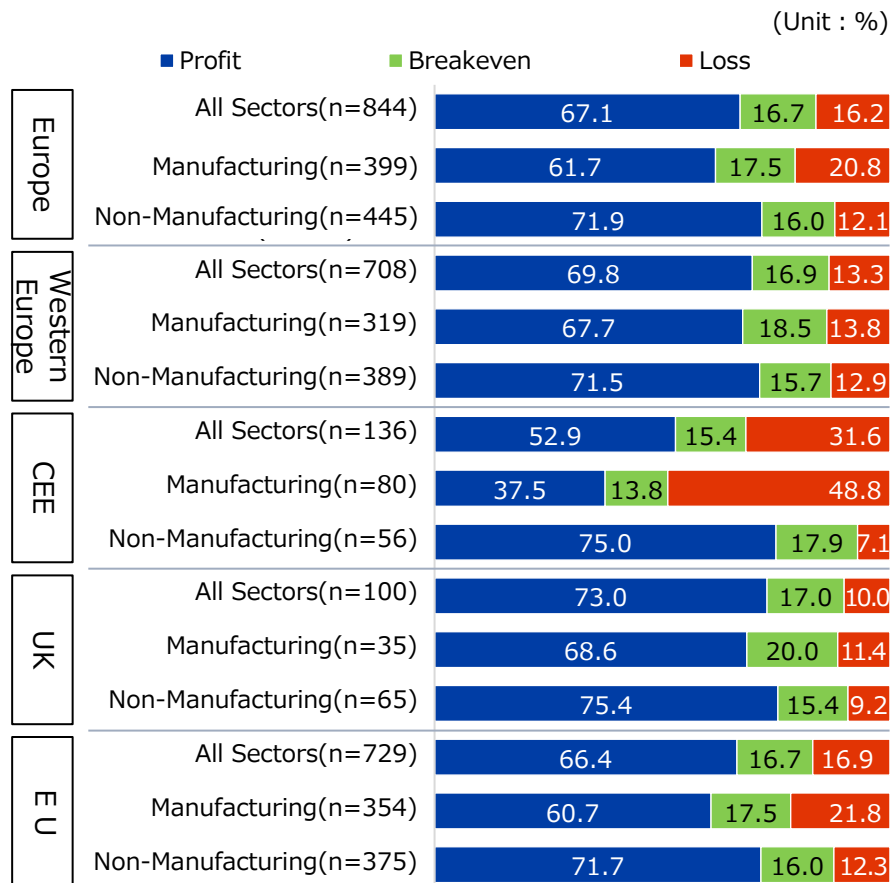


(Note) 'n' includes companies that responded "Breakeven".

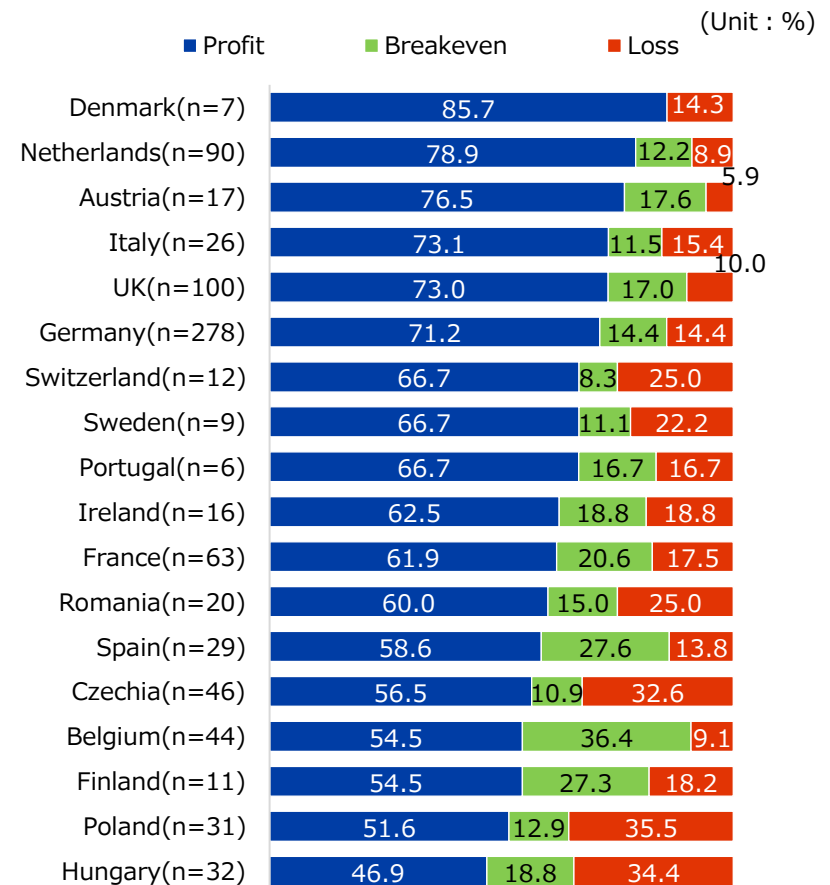
3 | The proportion forecasting “Loss” in the manufacturing sector based in CEE rose

- The proportion of “Profit” was higher in the non-manufacturing sector than in the manufacturing sector across all the regions - Western Europe, CEE, the UK and the EU.
- For the manufacturing sector based in CEE, the proportion of “Profit” decreased by 21.0 points compared to the previous survey, and the proportion of “Loss” increased by 25.7 points.

Operating profit forecast in 2022 (by industry)



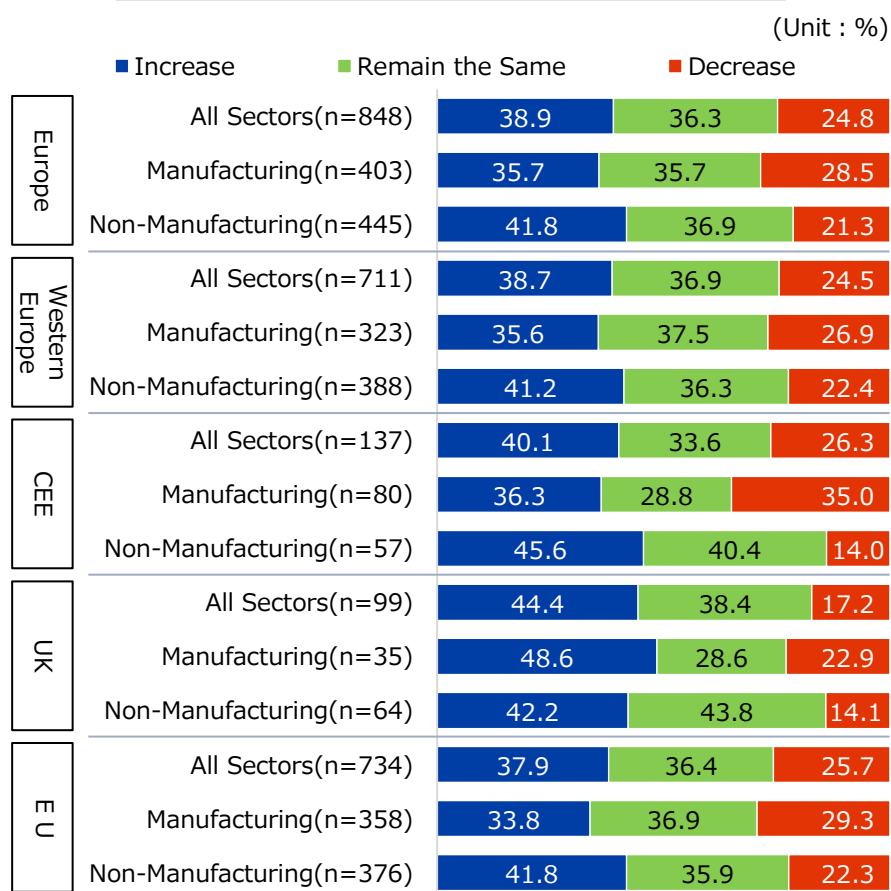
Operating profit forecast in 2022 (by country)



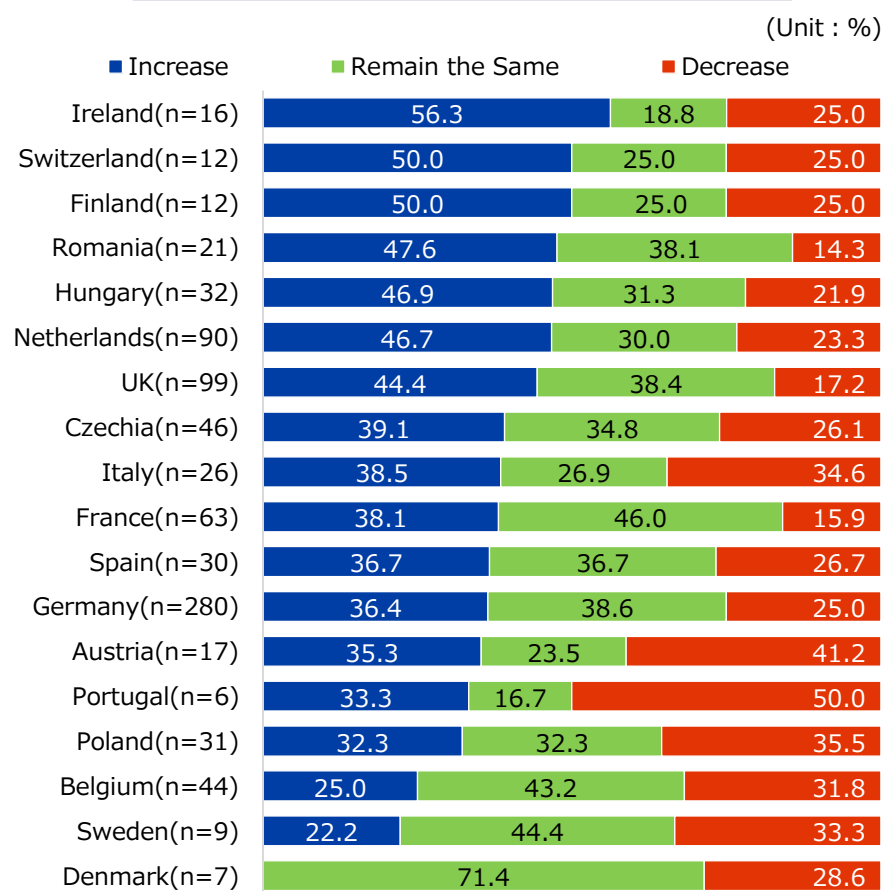
4 | 35% of the manufacturers in CEE forecast “Decrease”

- When compared to the previous year's results, for the 2022 operating profit “Increase” exceeded “Decrease” by 14.1 points in Europe as a whole. However, the proportion of “Increase” decreased, compared to the previous survey that had exceeded 40.2 points. The proportion of “Decrease” expanded, especially among the manufacturers in CEE.

**Operating profit forecast in 2022
relative to results of 2021(by industry)**



**Operating profit forecast in 2022
relative to results of 2021(by country)**



5 | Reasons for “Increase” in operating profit, top 2 related to COVID-19

- Regarding the reasons for “Increase” in operating profit compared to 2021, the top 2 in overall Europe are COVID-19 related (reactionary increase, easing of restrictions), followed by “Sales increase due to higher export price (unit price)”.
- In CEE, “Improvement in production efficiency” was the top reason for the manufacturers. For the non-manufacturers, “Reactionary increase due to the reduced impact of COVID-19” was the top, followed by a few reasons such as “Sales increase due to the situation in Ukraine”.

Reasons for “Increase” in 2022 forecast relative to 2021 <multiple answers given>

(Unit : %)

Reasons for “Increase” (in descending order)	Europe			Western Europe			CEE		
	All Sectors (n=318)	Manufacturing (n=140)	Non-Manufacturing (n=178)	All Sectors (n=264)	Manufacturing (n=112)	Non-Manufacturing (n=152)	All Sectors (n=54)	Manufacturing (n=28)	Non-Manufacturing (n=26)
1 Reactionary increase due to the reduced impact of COVID-19	41.8	41.4	42.1	44.7	45.5	44.1	27.8	25.0	30.8
2 Impact of easing of COVID-19 restrictions	29.6	21.4	36.0	32.6	24.1	38.8	14.8	10.7	19.2
3 Sales increase due to higher export price (unit price)	23.3	24.3	22.5	25.0	28.6	22.4	14.8	7.1	23.1
4 Sales increase due to expanded export volume	22.3	26.4	19.1	23.1	29.5	18.4	18.5	14.3	23.1
5 Established market dominance over competitors	16.0	18.6	14.0	17.0	22.3	13.2	11.1	3.6	19.2
6 Sales increase due to expanded export destinations (market growth)	15.4	12.9	17.4	16.7	15.2	17.8	9.3	3.6	15.4
7 Sales increase due to increased local purchasing power	12.9	12.1	13.5	12.1	11.6	12.5	16.7	14.3	19.2
8 Improvement in sales efficiency	12.9	10.7	14.6	12.1	9.8	13.8	16.7	14.3	19.2
9 Effects of exchange rate fluctuation	12.6	18.6	7.9	13.3	19.6	8.6	9.3	14.3	3.8
10 Other	11.0	9.3	12.4	10.2	7.1	12.5	14.8	17.9	11.5
11 Sales increase due to the situation in Ukraine	7.9	2.1	12.4	6.8	1.8	10.5	13.0	3.6	23.1
12 Improvement in production efficiency (manufacturing industry only)	-	17.9	-	-	13.4	-	-	35.7	-

(Note) The top 3 items by area and industry are indicated in red.

6 | Situation in Ukraine affects “Decrease” in operating profit

- As the reasons for “Decrease” in operating profit compared to 2021, items considered to be due to the situation in Ukraine , such as “Rising of logistics costs”, “Rising of raw material/parts procurement costs”, “ Rise in administrative/fuel costs” were chosen by many respondents. A large proportion of the manufacturers in CEE cited these reasons.
- The most common reasons for “Decrease” selected by the non-manufacturers in Western Europe were "Rising of logistics costs", "Cost increase due to the situation in Ukraine" and "Increase in cost due to COVID-19 ".

Reasons for “Decrease” forecast in 2022 relative to 2021 <multiple answers given>

(Unit : %)

Reasons for “Decrease” (in descending order)	Europe			Western Europe			CEE		
	All Sectors (n=210)	Manufacturing (n=115)	Non-manufacturing (n=95)	All Sectors (n=174)	Manufacturing (n=87)	Non-Manufacturing (n=87)	All Sectors (n=36)	Manufacturing (n=28)	Non-Manufacturing (n=8)
1 Rising of logistics costs	55.7	60.0	50.5	54.0	56.3	51.7	63.9	71.4	37.5
2 Rising raw materials/parts procurement costs	54.3	72.2	32.6	51.7	71.3	32.2	66.7	75.0	37.5
3 Rise in administrative/fuel costs	48.1	58.3	35.8	44.8	55.2	34.5	63.9	67.9	50.0
4 Cost increase due to the situation in Ukraine	42.9	46.1	38.9	42.5	44.8	40.2	44.4	50.0	25.0
5 Production costs insufficiently shifted to selling price of goods	34.3	41.7	25.3	33.9	41.4	26.4	36.1	42.9	12.5
6 Rising of labour costs	31.9	37.4	25.3	27.0	28.7	25.3	55.6	64.3	25.0
7 Sales decrease due to the situation in Ukraine	28.1	27.8	28.4	27.0	23.0	31.0	33.3	42.9	0.0
8 Increase in cost due to COVID-19	25.7	18.3	34.7	28.2	20.7	35.6	13.9	10.7	25.0
9 Reactionary decrease due to the reduced impact of COVID-19	20.5	13.9	28.4	21.8	14.9	28.7	13.9	10.7	25.0
10 Sales decrease due to decreased local purchasing power	15.7	13.9	17.9	17.2	17.2	17.2	8.3	3.6	25.0
11 Effects of exchange rate fluctuation	13.3	13.9	12.6	11.5	11.5	11.5	22.2	21.4	25.0
11 Other	13.3	13.0	13.7	12.6	12.6	12.6	16.7	14.3	25.0
12 Deterioration in the operating rate	11.0	15.7	5.3	6.3	6.9	5.7	33.3	42.9	0.0

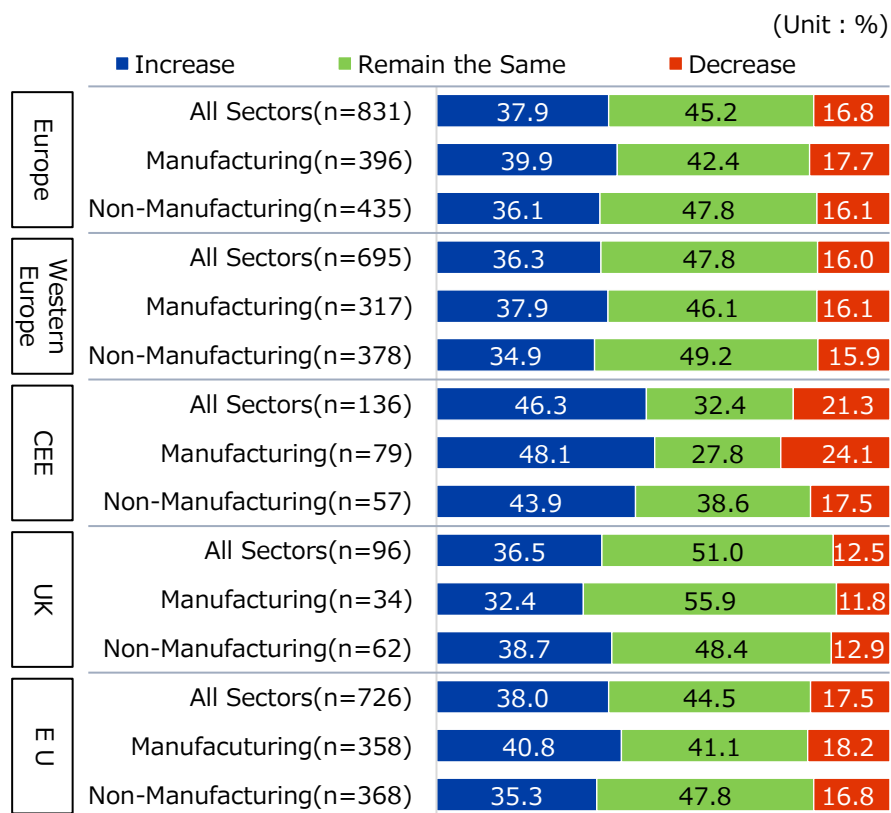
(Note 1) The top 3 items by area and industry are indicated in red.

(Note 2) “11 Other” includes problems related to parts/materials procurement.

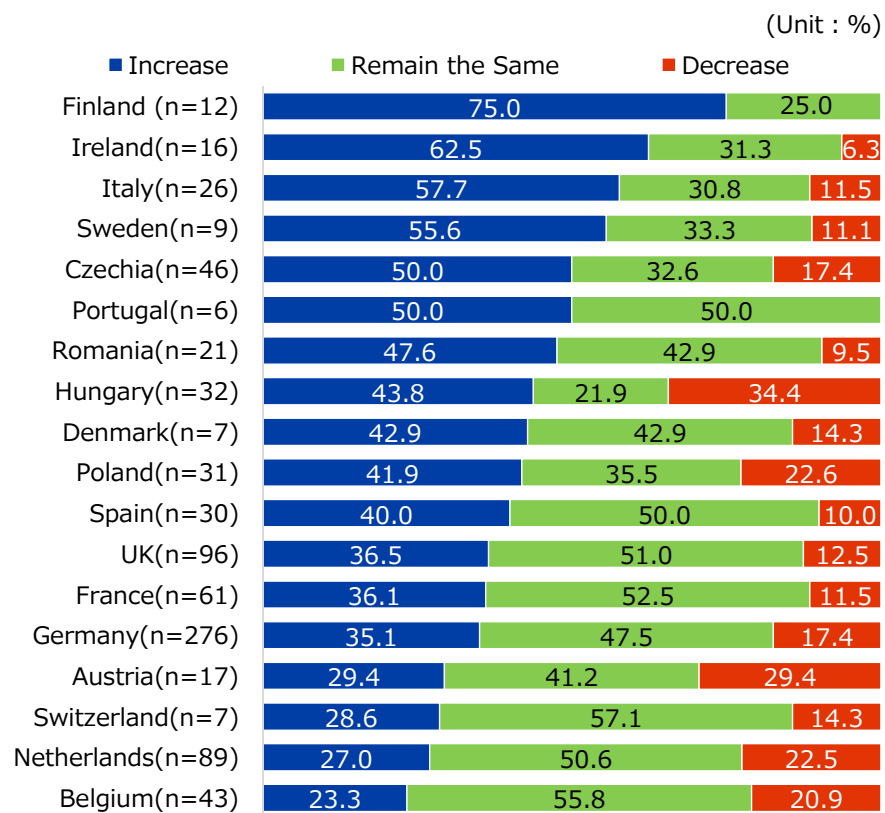
7 | About 40% companies forecast "Increase" of operating profit in 2023 compared to 2022

- When comparing the operating profit in 2023 with that in 2022, 37.9% of companies in Europe(all sectors) forecasting "increase," a 11.8-point down from the previous survey. And 16.8% forecast "decrease," a 9.5-point up from the previous survey.
- In proportion of responses by country, the sum of "Remain the same" and "decrease" exceeded "increase" in two-thirds of the countries.

Operating profit forecast in 2023 relative to 2022 (by industry)



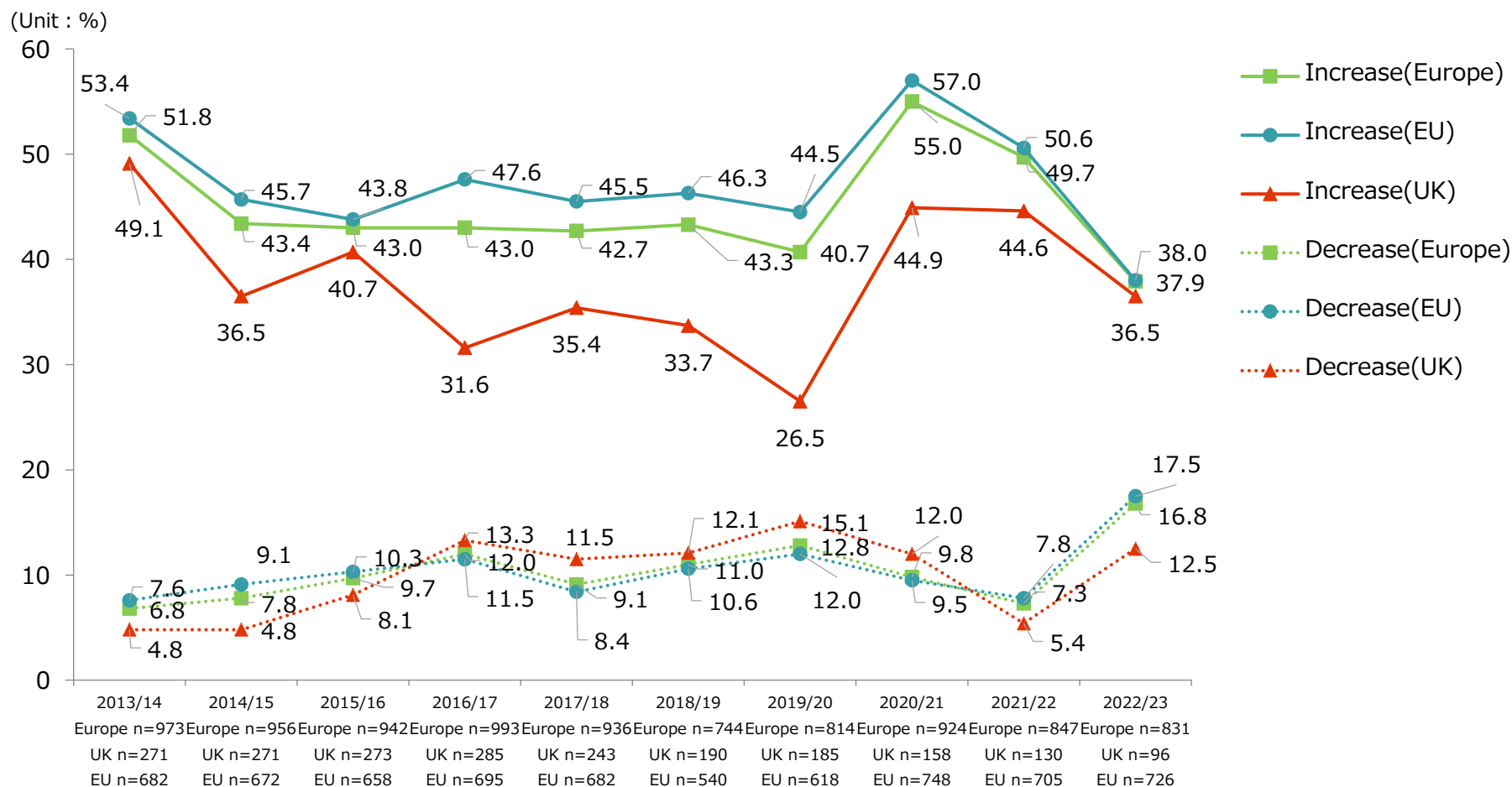
Operating profit forecast in 2023 relative to 2022 (by country)



8 | Operating profit forecasts in 2023, the proportion of "Increase" fell, while that of "Decrease" rose

- In terms of operating profit forecasts in 2023 compared to 2022, the proportion of Japanese companies in Europe responding "increase" continued to decline as in the previous year's survey. The proportion responding "decrease" turned upward from the previous survey.

Trend in operating profit forecasts for the year following the survey year

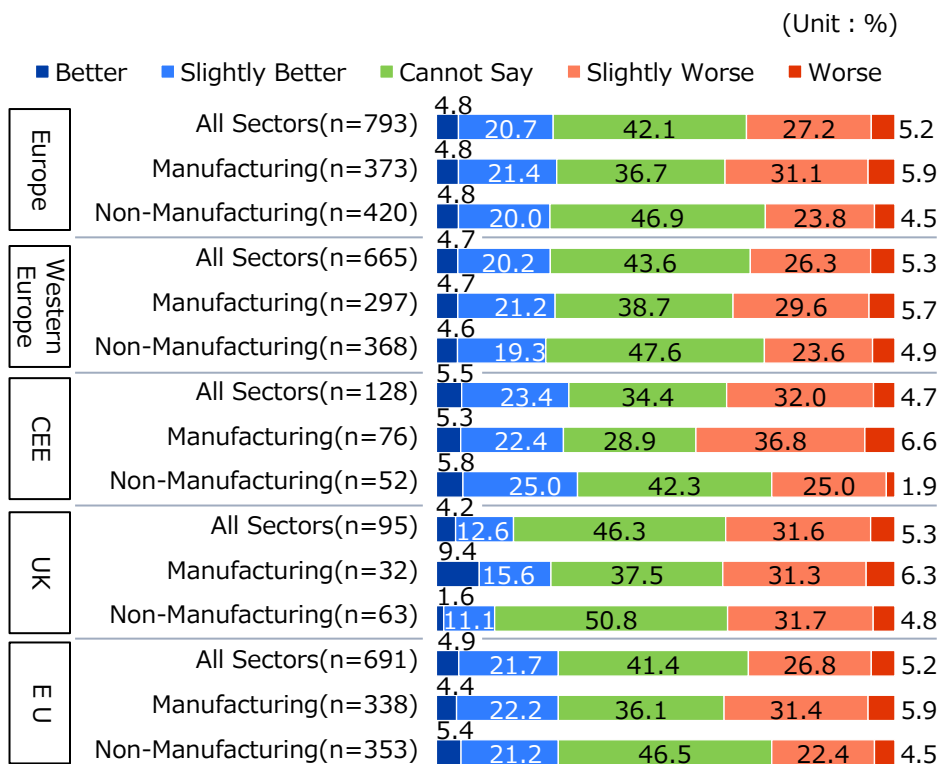


(Note) 'n' includes companies that responded "Breakeven".

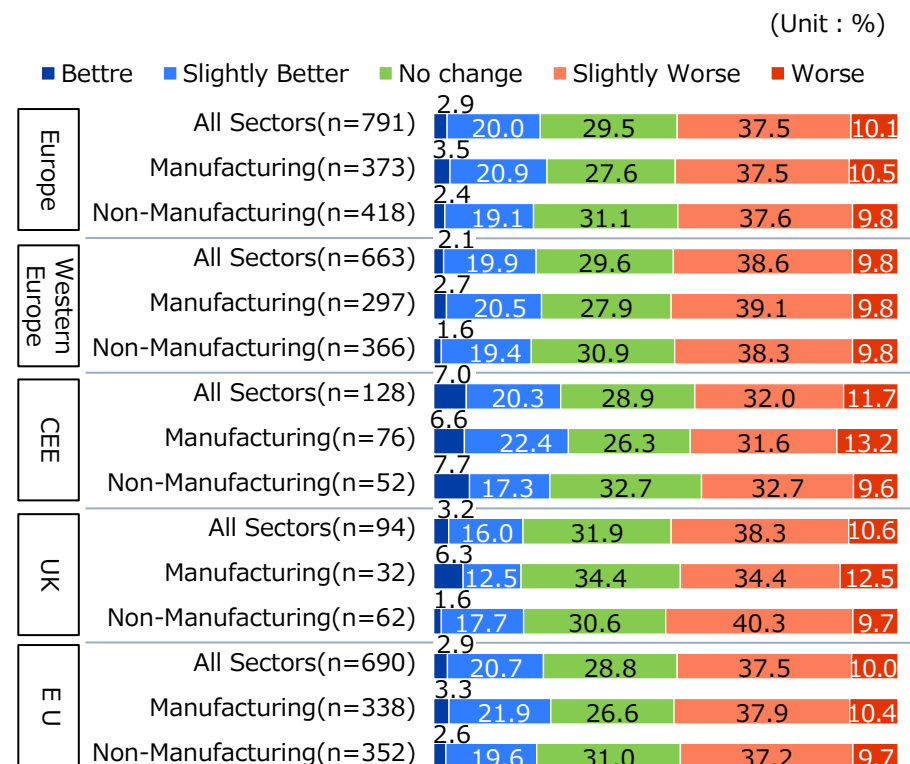
1 Overall current market conditions worsened drastically compared to the previous year

- Regarding the companies' views on current market conditions in the country they are based in, the proportion of all companies in Europe responding "Better" (4.8%) and "Slightly Better" (20.7%) totaled 25.5%, a decrease of 15.2 points over the previous year's survey. The sum of response ratio of "Worse" and "Slightly Worse" accounted for 32.4%. The sum was especially high at over 40.0% in the manufacturing sector of CEE.
- Regarding the companies' views on future market prospects, the proportion of all companies in Europe responding "Worse" and "Slightly Worse" totaled 47.6%, a drastic increase of 40.0 points over the previous year's survey. The sum of response ratio of "Better" and "Slightly Better" accounted 22.9%. The sum among manufacturers based in the UK, which left the EU, marked the lowest proportion at 18.8%.

Domestic market conditions(by industry)



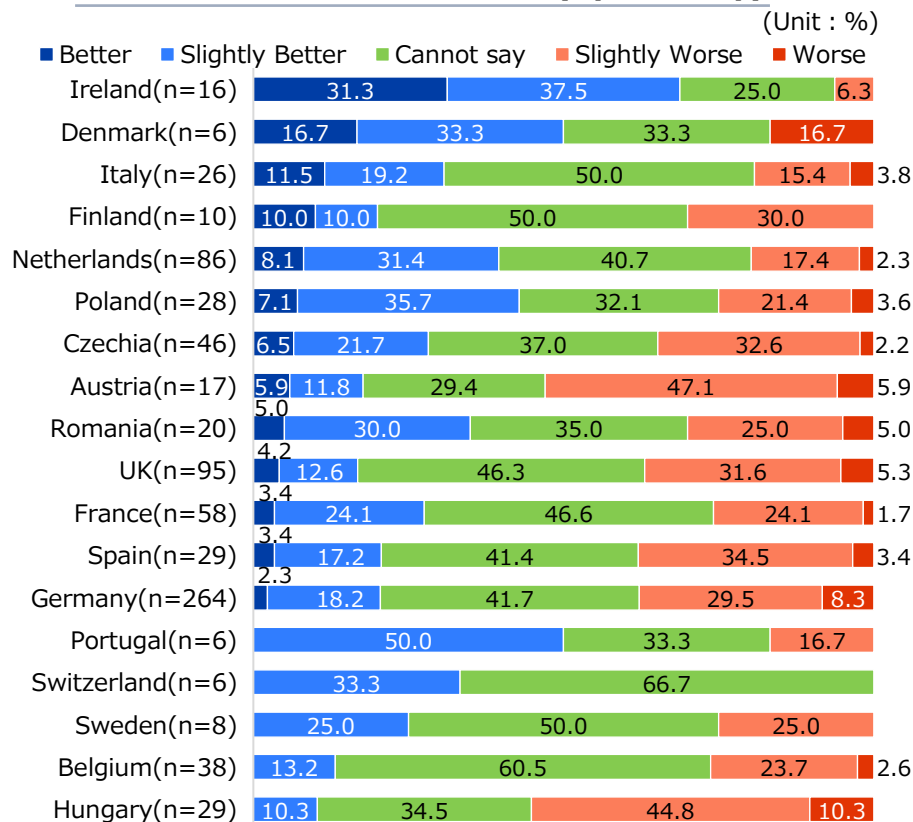
Domestic market prospects(by industry)



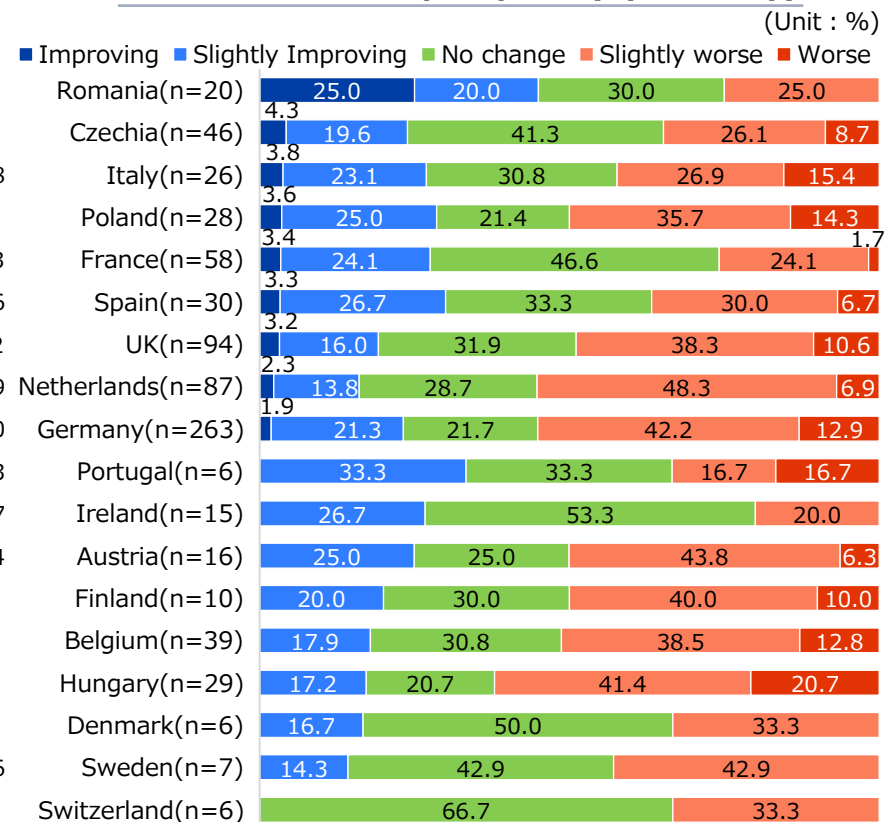
2 | Response ratio of “Worse” for “Future Prospects” increased drastically from the previous year

- Looking at the companies' views by country on current market conditions in the country they are based in, the sum of response ratio of “Better” and “Slightly Better” made up 68.8% in Ireland, followed by 50.0% in Denmark and Portugal. Compared to the previous survey, the sum of response ratio of “Worse” and “Slightly Worse” are increased in almost all countries. In Hungary and Austria, the sum made up more than 50.0%.
- Regarding the companies' views on future market prospects, the sum of response ratio of “Better” and “Slightly Better” fell drastically in all countries compared to the previous year's survey. The sum of response ratio of “Worse” and “Slightly Worse” was more than 50.0% in 7 countries, and it was especially high at over 60.0% in Hungary.

Domestic market conditions(by country)



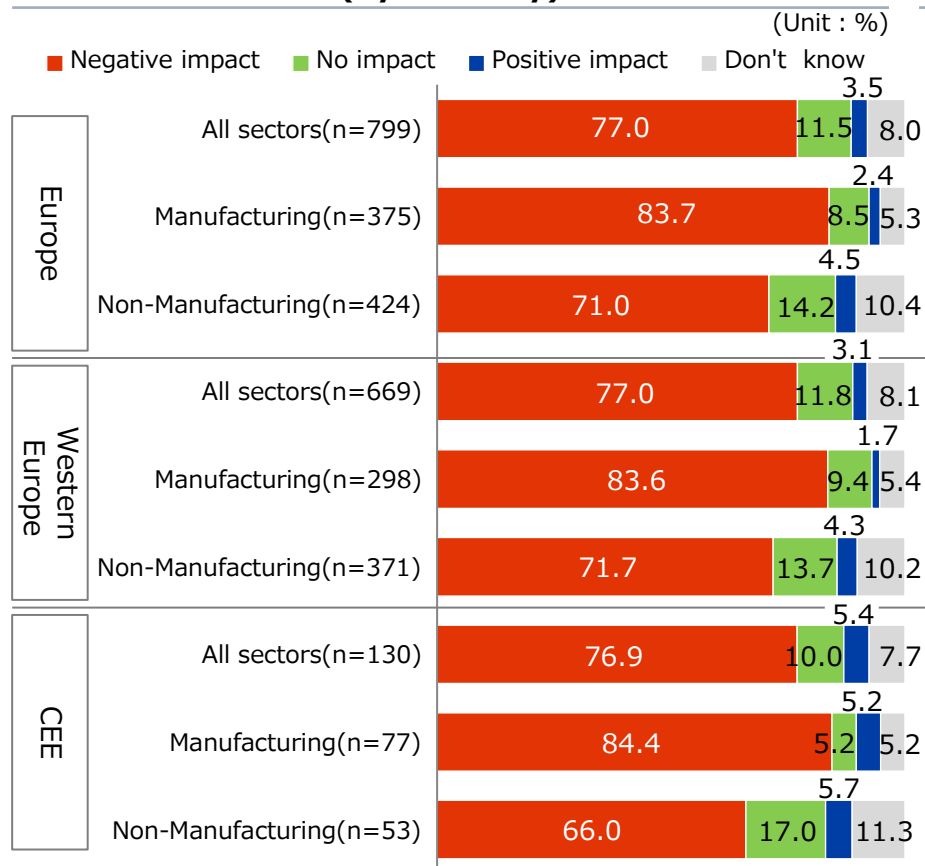
Domestic market prospects(by country)



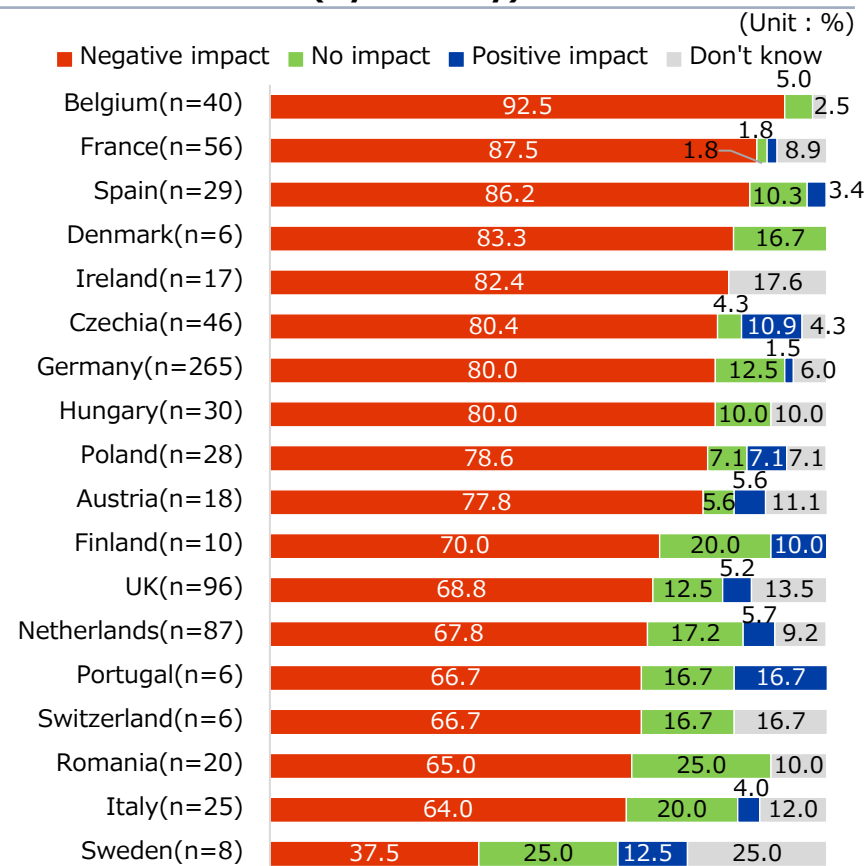
1 | 77% of Japanese-affiliated companies in Europe suffered negative impacts of the invasion of Ukraine

- The proportion of responses of “Negative impact” was particularly high in the manufacturing at 83.7%. Mainly in the manufacturing sector, the proportion exceeded 90% in some industries, including “Food/Processed food, agricultural or fishery products” affected by rising prices of raw materials and resources, and “Motor vehicles/Motorcycles” affected by rising costs of energy, raw materials/parts, and by reduction or suspension of trade with Russia.
- By country, the proportion of responses of “Negative impact” was high as around 90% in Belgium, France and Spain.

Impact on business due to the invasion of Ukraine (by industry)



Impact on business due to the invasion of Ukraine (by country)



2 | “Rising energy prices” was the most selected content as “Negative impact”

- In Europe, the top 3 responses as specific scope of “Negative impact” on business due to Russia’s invasion of Ukraine, were “Rising energy prices”, “Rising prices of raw materials and resources” and “Confusion and stagnation of logistics”. Similar trends were observed in Western Europe and CEE.

Scopes of “Negative impact” on business due to the invasion of Ukraine (multiple answers given, based on individual responses for 9 & 10)

(Unit: %)

	Europe			Western Europe			CEE		
	All sectors (n=605)	Manufacturing (n=311)	Non- Manufacturing (n=294)	All sectors (n=507)	Manufacturing (n=246)	Non- Manufacturing (n=261)	All sectors (n=98)	Manufacturing (n=65)	Non- Manufacturing (n=33)
1 Rising energy prices	65.1	74.6	55.1	63.1	72.4	54.4	75.5	83.1	60.6
2 Rising prices of raw materials and resources	55.9	64.6	46.6	54.6	63.8	46.0	62.2	67.7	51.5
3 Confusion and stagnation of logistics	54.0	55.0	53.1	54.8	54.9	54.8	50.0	55.4	39.4
4 Reduction or suspension of trade with Russia	45.5	49.5	41.2	47.7	54.5	41.4	33.7	30.8	39.4
5 Decrease in demand due to economic recession in Europe	34.0	33.8	34.4	33.1	32.5	33.7	38.8	38.5	39.4
6 Difficulty in procuring raw materials and parts	27.3	33.8	20.4	26.4	33.7	19.5	31.6	33.8	27.3
7 Reduction or suspension of trade with Ukraine	19.7	18.6	20.7	20.5	21.5	19.5	15.3	7.7	30.3
8 Difficulty in making settlements and collecting receivables due to economic sanctions raw materials and parts	15.0	13.2	17.0	17.4	16.7	18.0	3.1	0.0	9.1
9 Other	7.1	4.2	10.2	7.1	3.3	10.7	7.1	7.7	6.1
10 Difficulty in securing employees	4.5	3.9	5.1	3.6	2.4	4.6	9.2	9.2	9.1

(Note 1) The top 3 scopes by area and industry are indicated in red.

(Note 2) “9 Other” includes “Reduction, suspension or withdrawal of trade with Russia”, “Decrease in orders due to customers being affected by the invasion of Ukraine”, and “Suspension of the provision, decline in the quality, or rising costs of products and services”.

(Note 3) “10 Difficulty in securing employees” includes “Shortage of Ukrainian workers due to returning to Ukraine and delayed entry” and “Shortage of truck drivers”.

3 | Half of Japanese-affiliated companies in Europe passed on prices to customers, under the situation in Ukraine

- At the time of this survey, “Passing on the increasing prices to customers” and “Diversifying suppliers” were the 2 top countermeasures across Europe. The high proportion of manufacturers took “Building up inventory” as a countermeasure.
- By industry, the proportion of responses of “Passing on the increasing prices to customers” was the highest in “Ceramic/Stone and clay products” at 100.0%, followed by “Plastic products (85.7%)” and “Rubber products (75.0%)”, both of which are made from soaring petroleum.

Countermeasures taken as of now, under the situation in Ukraine (multiple answers given, based on individual responses for 7)

(Unit: %)

	Europe			Western Europe			CEE		
	All sectors (n=501)	Manufacturing (n=269)	Non- Manufacturing (n=232)	All sectors (n=415)	Manufacturing (n=211)	Non- Manufacturing (n=204)	All sectors (n=86)	Manufacturing (n=58)	Non- Manufacturing (n=28)
1 Passing on the increasing prices to customers	50.5	52.8	47.8	50.4	53.6	47.1	51.2	50.0	53.6
2 Diversifying suppliers	27.5	33.5	20.7	25.3	33.2	17.2	38.4	34.5	46.4
3 Developing new sales destinations	25.1	18.2	33.2	26.7	20.9	32.8	17.4	8.6	35.7
4 Building up inventory	23.8	29.4	17.2	21.7	26.5	16.7	33.7	39.7	21.4
5 Procuring alternative raw materials and parts	20.4	28.6	10.8	19.0	28.4	9.3	26.7	29.3	21.4
6 Improving the methods for making settlement and collecting receivables	13.0	11.2	15.1	14.2	12.8	15.7	7.0	5.2	10.7
7 Other	8.6	5.6	12.1	8.2	3.3	13.2	10.5	13.8	3.6

(Note1) The top 3 items by area and industry are indicated in red.

(Note2) “7 Other” includes “Changes in logistics routes” and “Cost reduction”.

1 | The situation in Ukraine became a new operational challenge in Europe

- The biggest business challenge of Japanese-affiliated companies in Europe was "Situation in Ukraine" (61.7%). The biggest operational challenge in the previous survey "Securing human resources" (54.8%) ranked 2nd in 2022, with an increase of 11.7 points. "Spread of COVID-19" was not ranked in the top 15 challenges.
- "Increasing energy cost" (53.0% at 3rd place) and the "Inflation" (49.9% at 4th place) emerged rapidly as new challenges.

Operational challenges in Europe < multiple answers given >

(Unit : %, points)

	2021 (n=803)	2022 (n=779)	Change since 2021	Sector					
				Manufacturing			Non-Manufacturing		
				2021 (n=363)	2022 (n=366)	Change since 2021	2021 (n=440)	2022 (n=413)	Change since 2021
1 Situation in Ukraine	—	61.7	—	—	63.4	—	—	60.3	—
2 Securing human resources	43.1	54.8	11.7	52.1	59.0	6.9	35.7	51.1	15.4
3 Increasing energy cost	14.8	53.0	38.2	20.1	60.1	40.0	10.5	46.7	36.2
4 Inflation	4.5	49.9	45.4	4.7	50.0	45.3	4.3	49.9	45.6
5 Transportation costs	36.2	47.8	11.6	41.3	54.9	13.6	32.0	41.4	9.4
6 Rapid labour costs growth	23.9	45.8	21.9	27.8	47.0	19.2	20.7	44.8	24.1
7 High labour costs	37.2	38.5	1.3	36.9	36.9	0.0	37.5	40.0	2.5
8 Procurement costs	24.8	37.5	12.7	37.7	49.7	12.0	14.1	26.6	12.5
9 Fluctuating exchange rate	10.5	33.9	23.4	11.8	35.0	23.2	9.3	32.9	23.6
10 European social and political situation	12.7	32.0	19.3	12.4	30.6	18.2	13.0	33.2	20.2
11 EU General Data Protection Regulation (GDPR)	27.6	29.3	1.7	24.2	22.4	△ 1.8	30.5	35.4	4.9
12 Delivery dates	22.9	29.1	6.2	29.8	34.2	4.4	17.3	24.7	7.4
13 Visa/work permits	19.9	25.4	5.5	19.3	25.7	6.4	20.5	25.2	4.7
14 Economic recession, shrinking of markets	9.7	24.0	14.3	9.6	24.3	14.7	9.8	23.7	13.9
15 Transfer pricing taxation	22.9	23.4	0.5	24.8	25.1	0.3	21.4	21.8	0.4

(Note 1) The question on 'Situation in Ukraine' was newly established in 2022.

(Note 2) The top 3 items of 2022 by industry are indicated in red.

2 | Increasing energy cost and inflation are major challenges in Western Europe

- In Western Europe, “Situation in Ukraine”(60.7%) was the biggest operational challenge. Furthermore, “Increasing energy cost” (increased 38.2 points over 2021 to 50.9%) and “Inflation” (increased 43.8 points to 47.7%) emerged rapidly as the major challenges.
- “Transportation costs” (47.2%) was the major challenge with an increase of 11.3 points in all sectors for the 2nd consecutive year, and the proportion reached more than half in the manufacturing sector.

Operational challenges in Western Europe <multiple answers given>

(Unit : %, points)

	2021 (n=710)	2022 (n=652)	Change since 2021	Sector					
				Manufacturing			Non-Manufacturing		
				2021 (n=303)	2022 (n=291)	Change since 2021	2021 (n=407)	2022 (n=361)	Change since 2021
1 Situation in Ukraine	—	60.7	—	—	61.2	—	—	60.4	—
2 Securing human resources	39.7	53.4	13.7	47.5	54.6	7.1	33.9	52.4	18.5
3 Increasing energy cost	12.7	50.9	38.2	14.9	56.0	41.1	11.1	46.8	35.7
4 Inflation	3.9	47.7	43.8	3.6	46.4	42.8	4.2	48.8	44.6
5 Transportation costs	35.9	47.2	11.3	40.3	53.3	13.0	32.7	42.4	9.7
6 High labour costs	39.3	41.9	2.6	39.9	41.9	2.0	38.8	41.8	3.0
7 Rapid labour costs growth	18.2	40.6	22.4	18.2	39.9	21.7	18.2	41.3	23.1
8 Procurement costs	22.8	34.5	11.7	34.0	46.0	12.0	14.5	25.2	10.7
9 Fluctuating exchange rate	9.3	32.7	23.4	8.9	32.3	23.4	9.6	33.0	23.4
10 European social and political situation	12.3	30.4	18.1	11.9	28.2	16.3	12.5	32.1	19.6
11 EU General Data Protection Regulation (GDPR)	28.3	30.2	1.9	24.1	22.7	△ 1.4	31.4	36.3	4.9
12 Delivery dates	21.8	27.9	6.1	28.4	33.0	4.6	17.0	23.8	6.8
13 Economic recession, shrinking of markets	9.9	24.4	△ 3.1	10.2	24.7	14.5	9.6	24.1	14.5
14 Transfer pricing taxation	23.0	23.5	△ 5.9	23.8	23.7	△ 0.1	22.4	23.3	0.9
15 Visa/work permits	17.5	22.1	△ 4.6	14.9	20.6	5.7	19.4	23.3	3.9

(Note 1) The question on ‘Situation in Ukraine’ was newly established in 2022.

(Note 2) The top 3 items of 2022 by industry are indicated in red.

3 | In CEE, rapid labour costs growth and securing human resources will continue to be challenges in 2022

- In CEE, 2021's biggest operational challenge "Securing human resources" (fell 6.6 points from 2021 to 62.2%), and 2nd biggest challenge in the previous survey "Rapid labour costs growth" (increased 4.7 points to 72.4%) remained as major challenges in 2022. "Situation in Ukraine" (66.9%) ranked 2nd.
- In both the manufacturing and the non-manufacturing sectors, there was a noticeable increase of companies who cited "Increasing energy costs" (increased 32.6 points to 63.8%), "Inflation" (increased 52.8 points to 61.4%), and "European social and political situation" (increased 24.1 points to 40.2%) as challenges.

Operational challenges in CEE <multiple answers given>

(Unit : %, points)

	2021 (n=93)	2022 (n=127)	Change since 2021	Sector					
				Manufacturing			Non-Manufacturing		
				2021 (n=60)	2022 (n=75)	Change since 2021	2021 (n=33)	2022 (n=52)	Change since 2021
1 Rapid labour costs growth	67.7	72.4	4.7	76.7	74.7	△ 2.0	51.5	69.2	17.7
2 Situation in Ukraine	—	66.9	—	—	72.0	—	—	59.6	—
3 Increasing energy cost	31.2	63.8	32.6	46.7	76.0	29.3	3.0	46.2	43.2
4 Securing human resources	68.8	62.2	△ 6.6	75.0	76.0	1.0	57.6	42.3	△ 15.3
5 Inflation	8.6	61.4	52.8	10.0	64.0	54.0	6.1	57.7	51.6
6 Procurement costs	39.8	52.8	13.0	56.7	64.0	7.3	9.1	36.5	27.4
7 Transportation costs	38.7	50.4	11.7	46.7	61.3	14.6	24.2	34.6	10.4
8 Visa/work permits	38.7	42.5	3.8	41.7	45.3	3.6	33.3	38.5	5.2
9 Fluctuating exchange rate	19.4	40.2	20.8	26.7	45.3	18.6	6.1	32.7	26.6
9 European social and political situation	16.1	40.2	24.1	15.0	40.0	25.0	18.2	40.4	22.2
10 Delivery dates	31.2	35.4	4.2	36.7	38.7	2.0	21.2	30.8	9.6
11 Quality of workforce	32.3	28.3	△ 4.0	33.3	29.3	△ 4.0	30.3	26.9	△ 3.4
12 Lower prices of products offered by competitors	26.9	26.0	△ 0.9	23.3	24.0	0.7	33.3	28.8	△ 4.5
13 EU General Data Protection Regulation (GDPR)	22.6	24.4	1.8	25.0	21.3	△ 3.7	18.2	28.8	10.6
14 Spread of COVID-19	47.3	23.6	△ 23.7	55.0	24.0	△ 31.0	33.3	23.1	△ 10.2

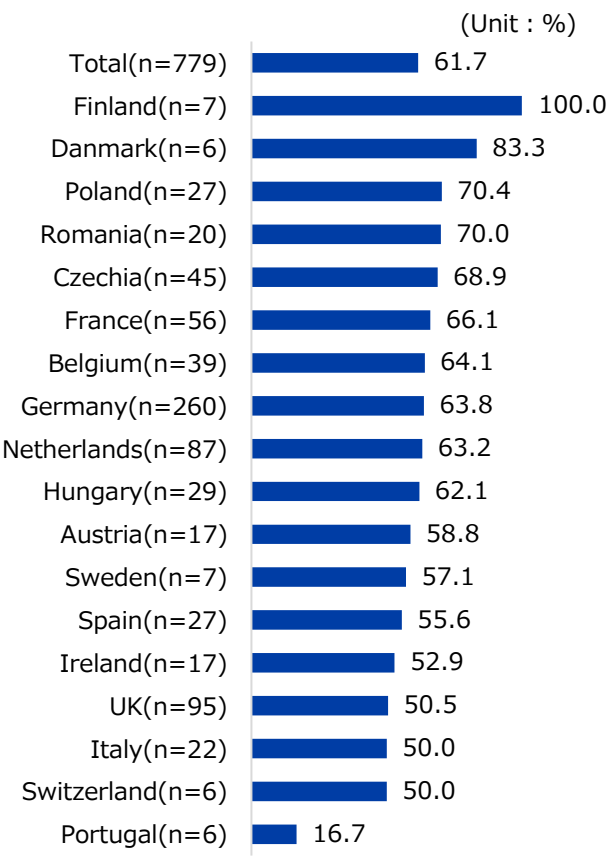
(Note 1) The question on 'Situation in Ukraine' was newly established in 2022.

(Note 2) The top 3 items of 2022 by industry are indicated in red.

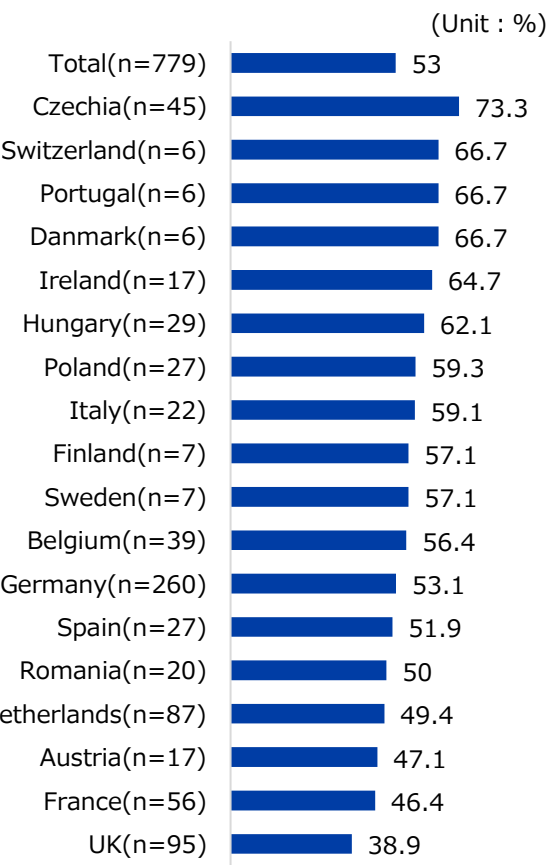
4 | More than half of respondents in almost all countries cited the situation in Ukraine as a challenge

- "Situation in Ukraine" (61.7%) was the biggest operational challenge in Europe overall, and its proportion of response was particularly high in Northern Europe and CEE, which have the border with Russia and Ukraine. It exceeded 50% in all the countries except Portugal.
- Czechia was the most affected European country by " Increasing energy costs " (73.3%) and "Inflation" (73.3%).

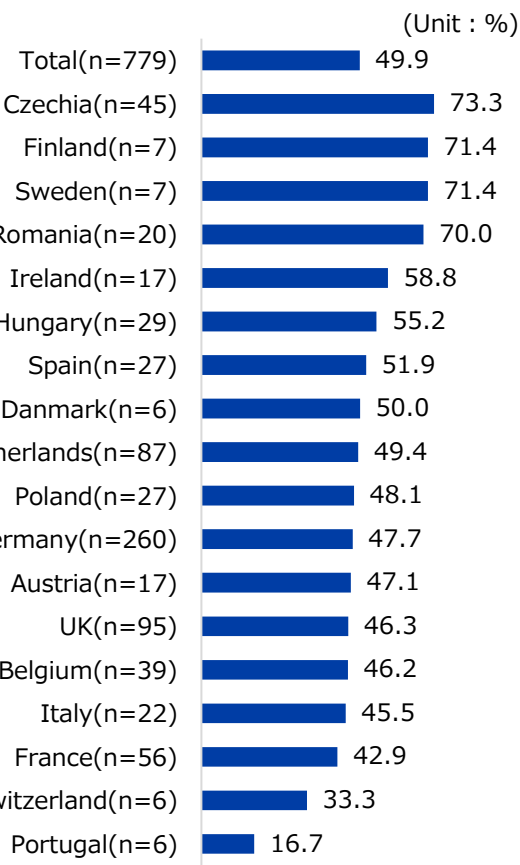
【Situation in Ukraine】 Proportion of responses <by country>



【Energy costs】 Proportion of responses <by country>



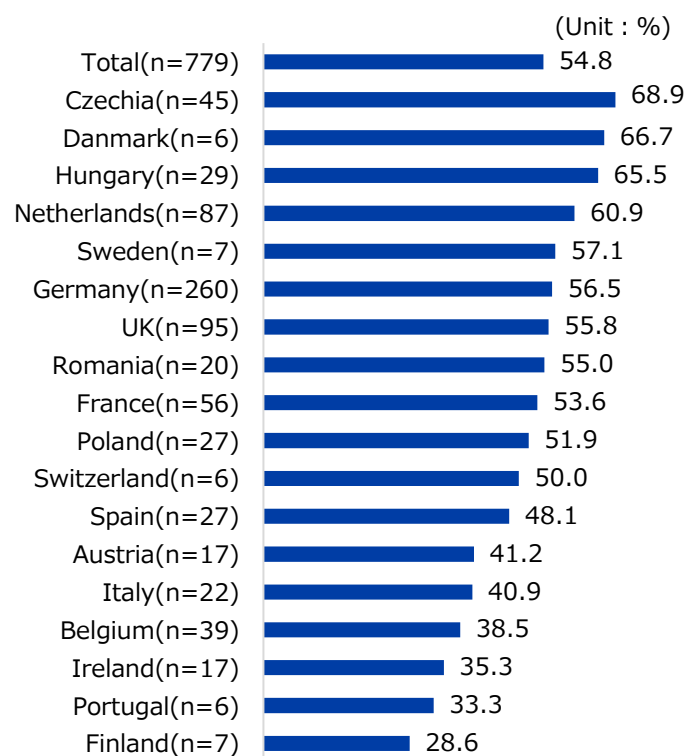
【Inflation】 Proportion of responses <by country>



5 | Securing human resources is a major challenge for Japanese companies in Western Europe as well as in CEE

- Proportion of responses of “Securing human resources,” the 2nd most frequently cited operational challenge in Europe overall, was particularly high in CEE, but is calming down in Czechia (fell 9.9 points from 2021 to 68.9%) and Hungary (fell 26.2 points to 65.5%). Meanwhile, “Securing human resources” is a challenge also in Western Europe, such as Denmark (66.7%) and the Netherlands (60.9%).
- The most needed “Human resources” was “Management personnel” in Western Europe (56.3%), and “Factory workers” in CEE(64.6%).

【Securing human resources】
Proportion of responses <by country>



Breakdown of Human resources sought
<multiple answers iven>

(Above: Number of respondents, Below: %)

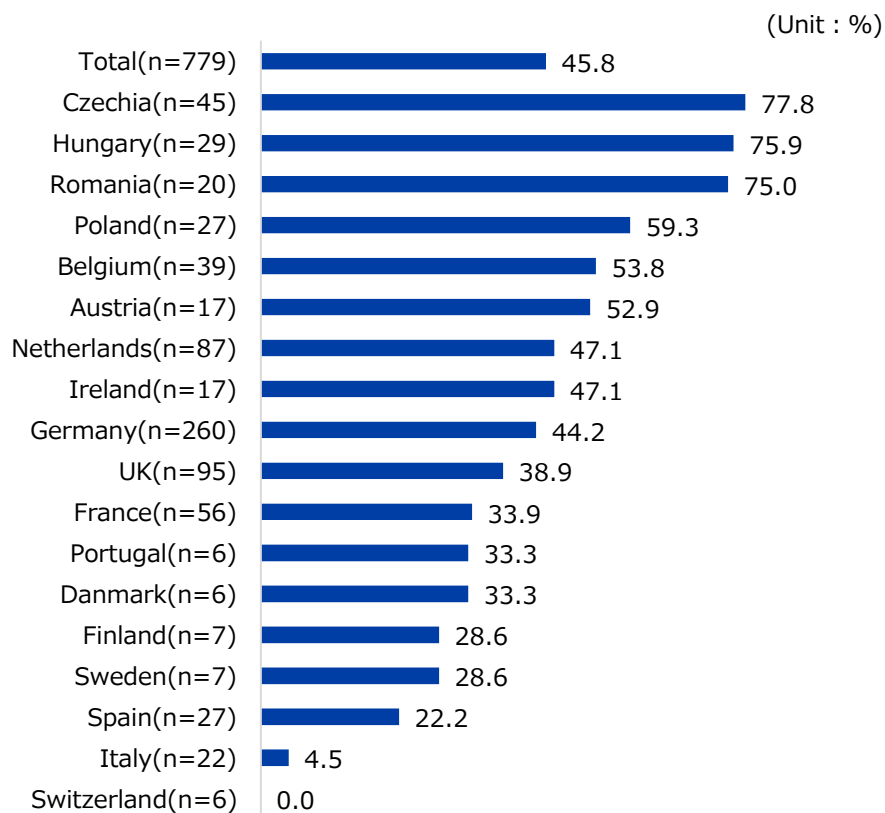
	Valid responses	IoT / AI specialists	Management personnel	Factory Workers	Engineers	Other
Europe	427	107	224	121	160	58
Western Europe	348	91	196	70	118	49
Germany	147	39	95	26	58	22
UK	53	12	25	12	12	9
Netherlands	53	13	35	15	12	6
France	30	6	12	5	8	5
Belgium	15	7	4	5	5	1
Spain	13	5	6	1	7	2
CEE	79	16	28	51	42	9
Czechia	31	7	14	24	14	1
Hungary	19	1	3	12	9	2
Poland	14	1	4	6	7	4
	100.0	25.1	52.5	28.3	37.5	13.6
	100.0	26.1	56.3	20.1	33.9	14.1
	100.0	26.5	64.6	17.7	39.5	15.0
	100.0	22.6	47.2	22.6	22.6	17.0
	100.0	24.5	66.0	28.3	22.6	11.3
	100.0	20.0	40.0	16.7	26.7	16.7
	100.0	46.7	26.7	33.3	33.3	6.7
	100.0	38.5	46.2	7.7	53.8	15.4
	100.0	20.3	35.4	64.6	53.2	11.4
	100.0	22.6	45.2	77.4	45.2	3.2
	100.0	5.3	15.8	63.2	47.4	10.5
	100.0	7.1	28.6	42.9	50.0	28.6

(Note) Countries and regions with responses 13 or more only.

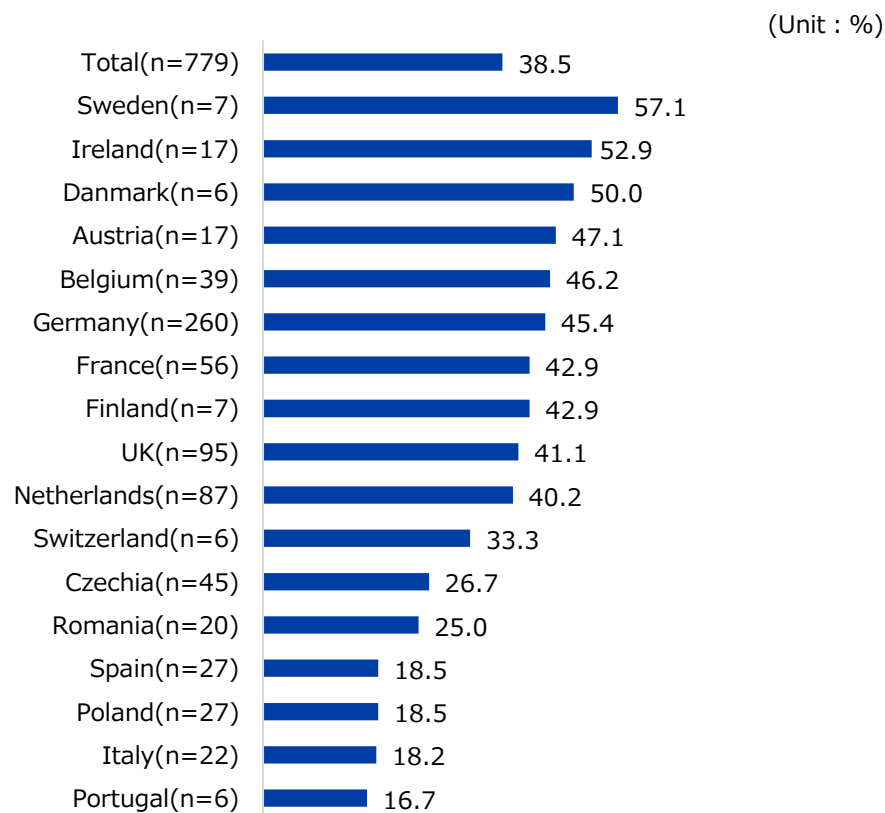
6 | Labour costs growth impacts Japanese companies in CEE, while labour cost affects them in Western Europe

- “High labour cost growth” was the sixth biggest operational challenge in Europe, and its proportion of response was 45.8% (21.9 points increase compared to 2021), and was high in CEE, including Czechia (77.8%), Hungary (75.9%), and Romania (75.0%).
- The proportion of responses of the 7th biggest operational challenge “Rapid labour costs growth” was 38.5% (increased 1.3 points) in Europe overall, and was high in Western Europe, such as Sweden (57.1%), Ireland (52.9%), and Denmark (50.0%).

【Rapid labour costs growth】
Proportion of responses(by country)



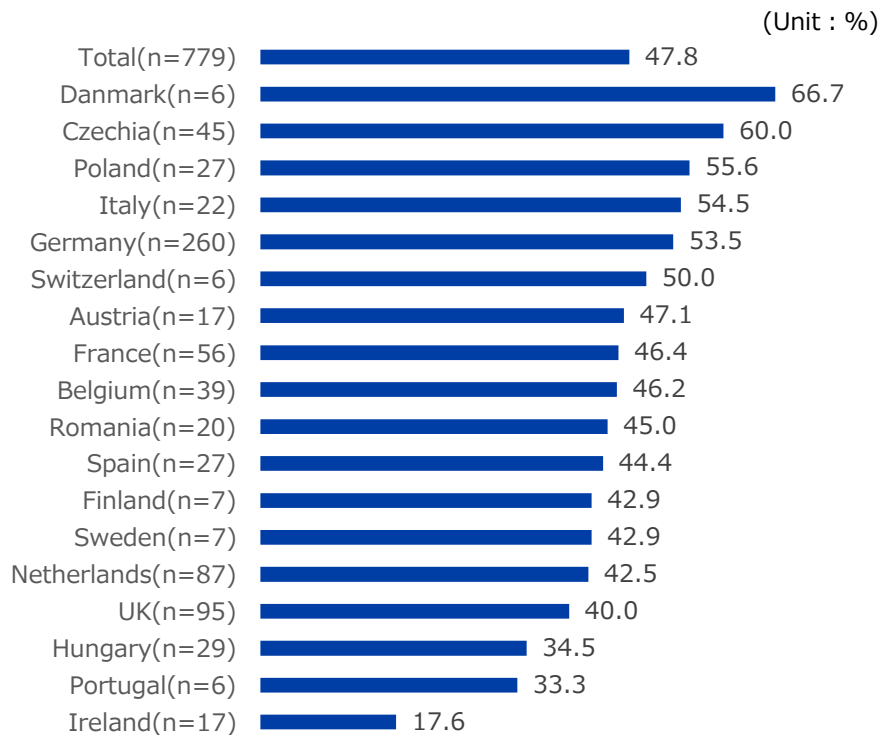
【High labour costs】
Proportion of responses(by country)



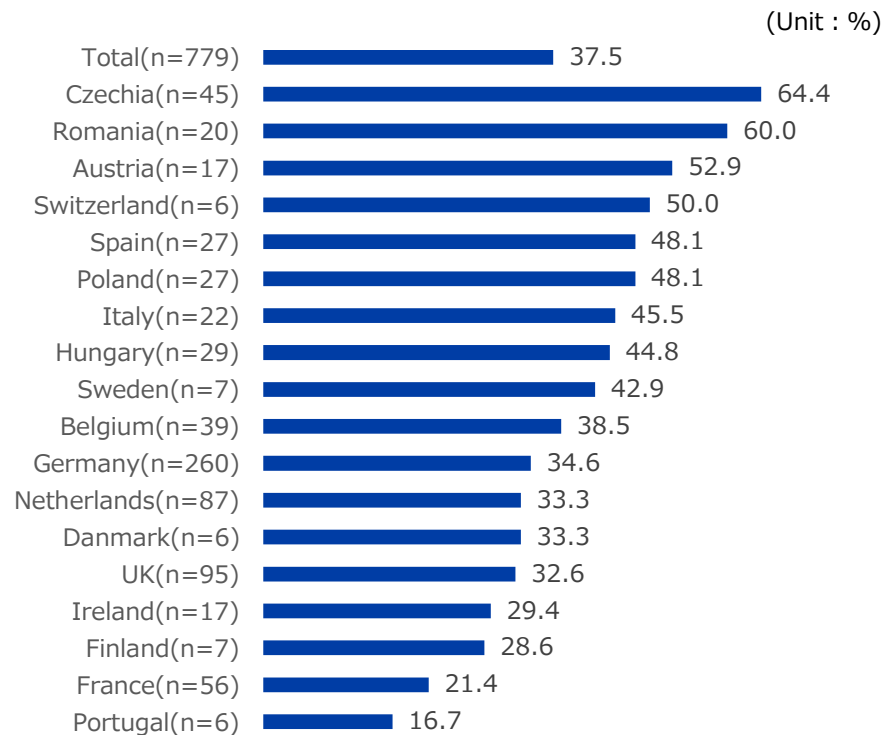
7 | Proportion of companies considering transportation and procurement costs as operational challenges was increasing

- The proportion of responses of “Transportation costs”, the fifth biggest operational challenge in Europe overall, was 47.8% (11.6 points increase compared to 2021). Czechia, which proportion was the highest in previous survey, kept high proportion at 60% in 2022 and ranked 2nd.
- Looking at proportion of responses by country of “Procurement costs”, the 8th biggest operational challenge in Europe overall (37.5%, increased 12.7 points), Czechia, which had ranked 2nd in 2021, was the highest at 64.4%. Czechia also ranked 1st in terms of “Increasing energy prices,” “Inflation” and “Rapid labour costs growth”, that resulted an operational challenge for the various costs increase.

【Transportation costs】
Proportion of responses (by country)



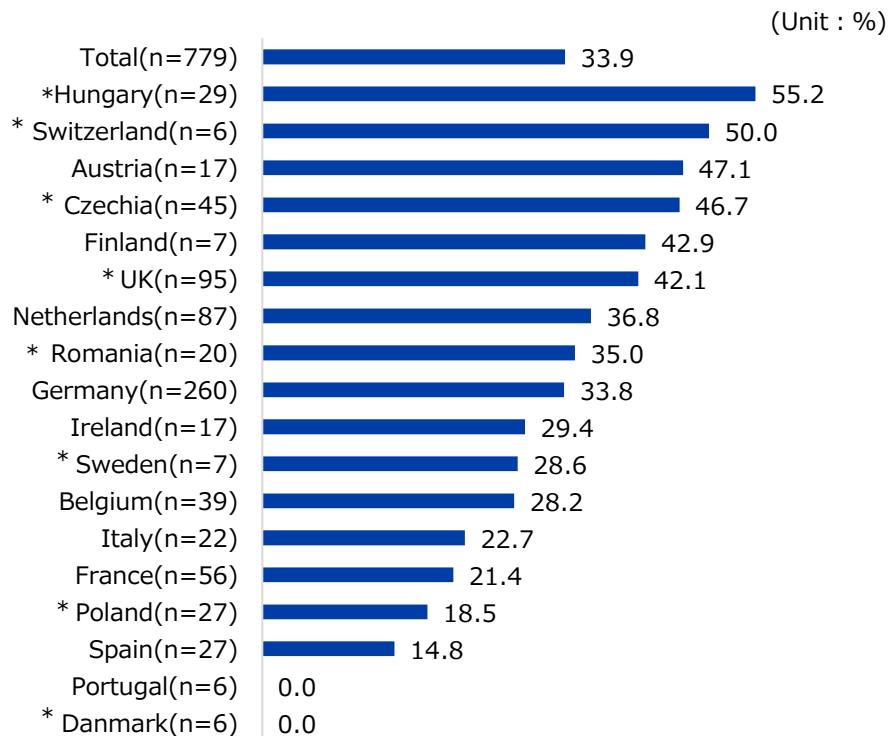
【Procurement costs】
Proportion of responses (by country)



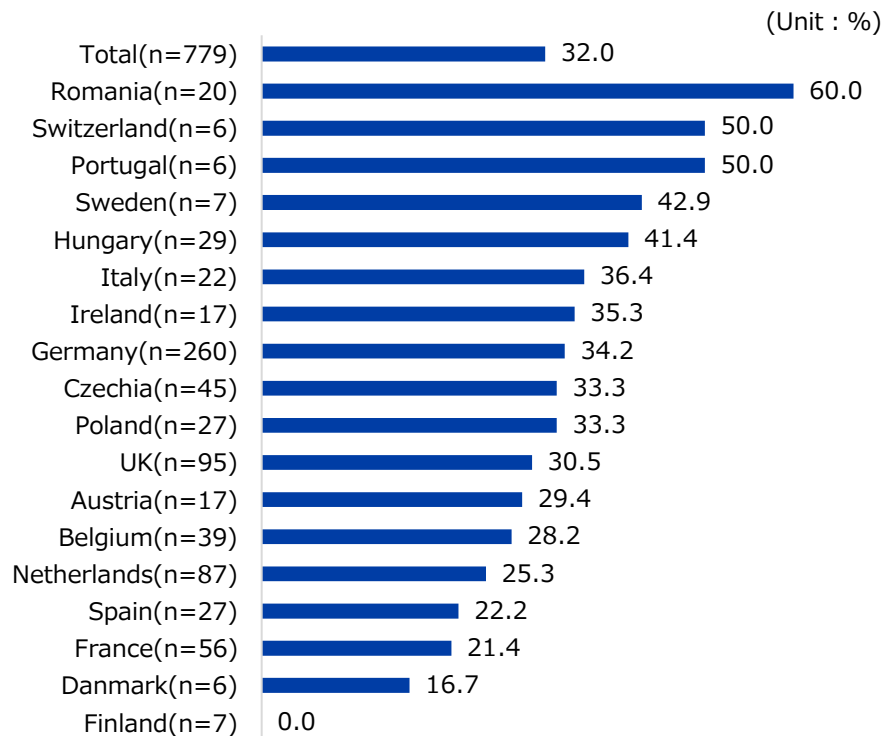
8 | Exchange rate fluctuations as well as political and social situation in Europe, became operational challenges

- The proportion of responses of “Fluctuating exchange rate”, the 9th operational challenge in Europe overall was 33.9% (increased 23.4 points over 2021). The proportion was relatively high in non-euro countries, such as Hungary (55.2%), Switzerland (50.0%), and Czechia (46.7%).
- Regarding the “Political and social situation in Europe” (increased 19.3 points to 32.0%), the 10th biggest operational challenge in Europe, Romania (60.0%) had the highest proportion of responses. The proportion of “Situation in Ukraine” by Japanese companies in Romania was 4th biggest in Europe, indicating that they regard the current unstable situation in Europe as a risk.

【Fluctuating exchange rate】
Proportion of responses (by country)



【Political and social situation in Europe】
Proportion of responses (by country)

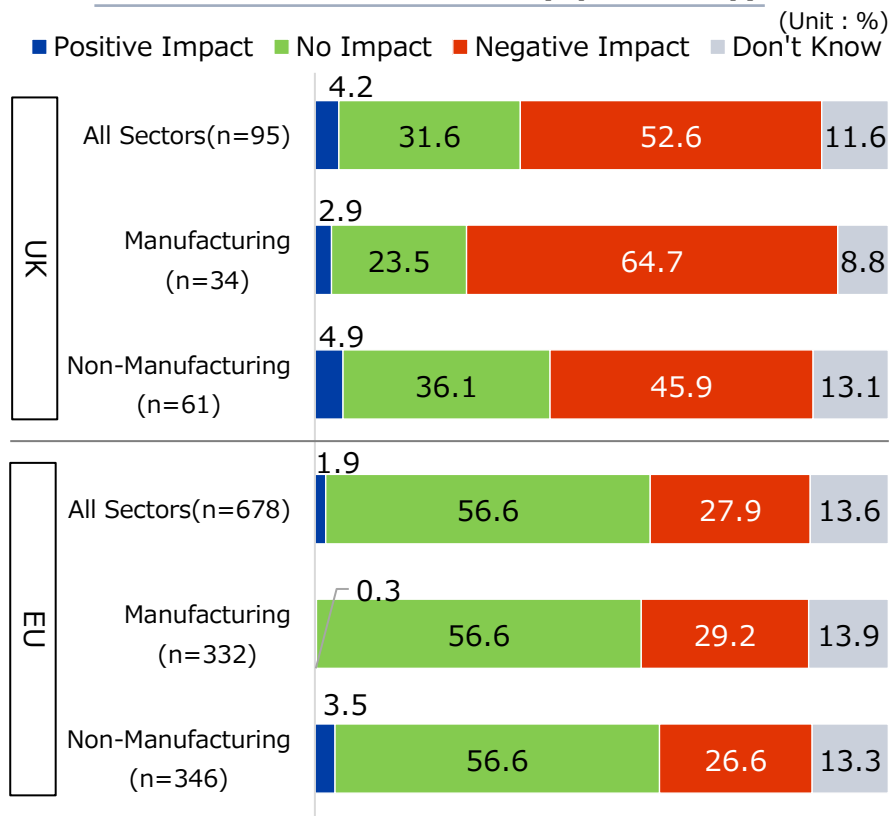


(Note) The countries with this mark (*) have not introduced the Euro.

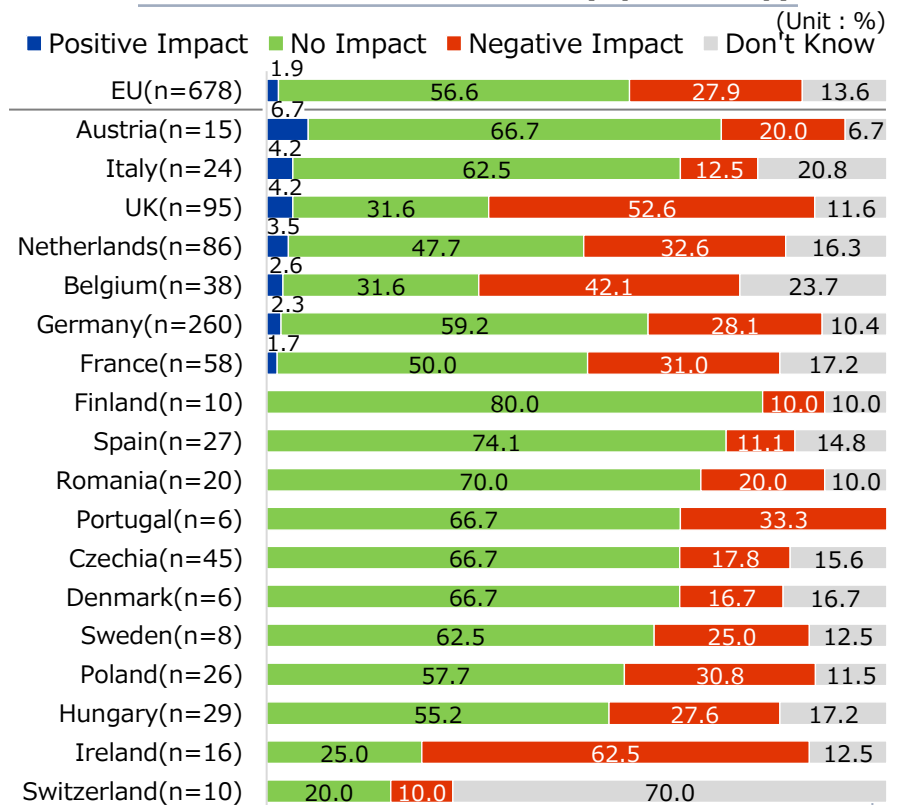
1 | More than 50% of UK-based companies suffered negative impacts due to Brexit

- Regarding the impact on business related to the Brexit, 52.6% of Japanese-affiliated companies based in the UK and 27.9% of those based in the EU responded that they had a "Negative Impact." On the other hand, the proportion of companies who responded that they had "No Impact" was 31.6% and 56.6% respectively, indicating that the impact on business to companies based in the UK was bigger than that on companies based in the EU.
- In particular, "Customs clearance procedures," "Logistical delays/rise in logistics cost," "Increase of tariff rates," "Preparations for UK regulations," "Withdrawal of customers from the UK," "Difficulty in securing human resources." etc. were given as "Negative Impacts" from both Japanese-affiliated companies based in the UK and the EU.

Impact on business related to the UK's exit from the EU (by industry)



Impact on business related to the UK's exit from the EU (by country)

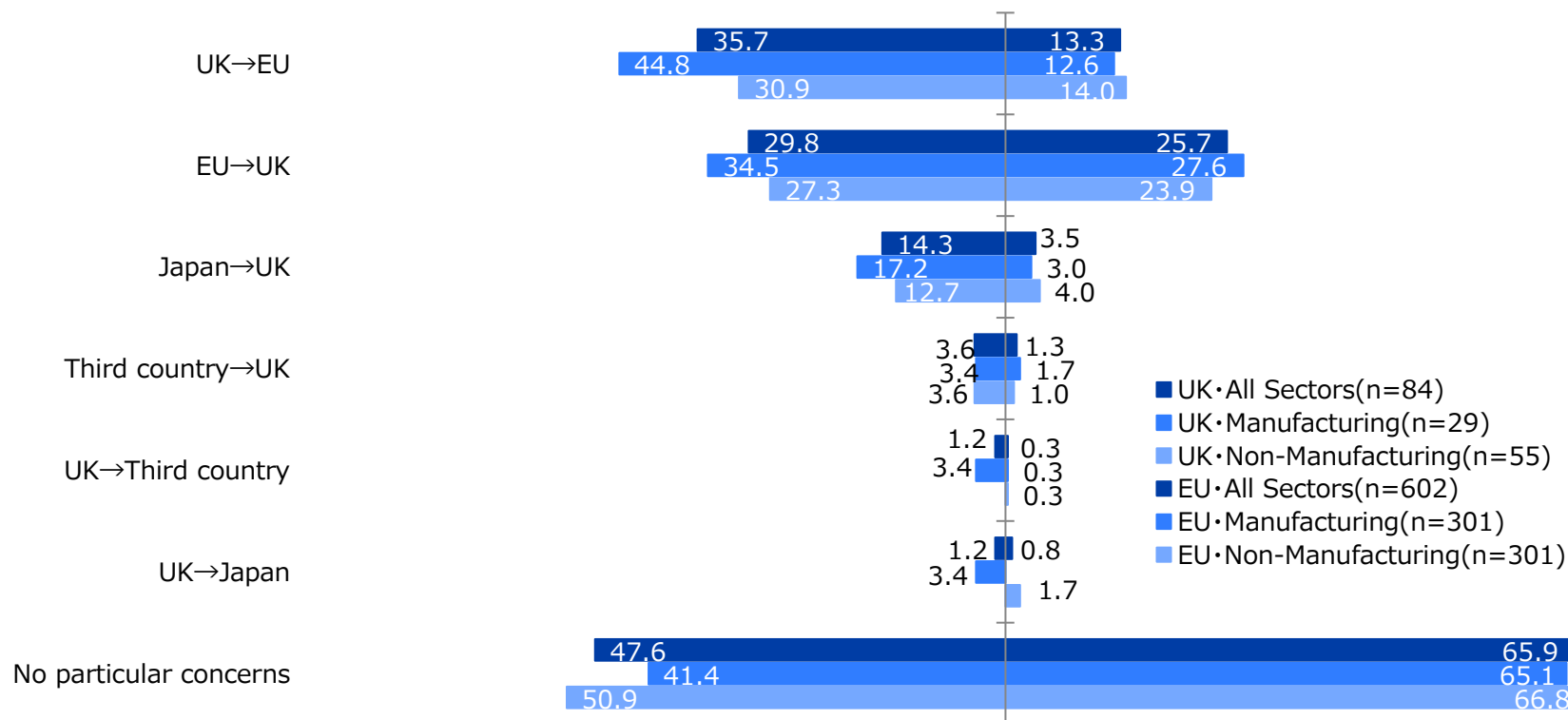


2 | More than 40% of Japanese manufacturers in the UK have problems with exporting to the EU

- Regarding trade issues after Brexit, 47.6% of Japanese-affiliated companies based in the UK and 65.9% of those based in the EU responded that they had "No particular concerns." A decrease of 12.4 points and 1.6 points respectively from 2021. By sector, Japanese-affiliated manufacturers based in the UK accounted for 41.4%, and those based in the EU accounted for 65.1%.
- While 44.8% of Japanese-affiliated manufacturers in the UK cited "Exporting from the UK to the EU" as a problem, 27.6% of those in the EU cited "Exporting from the EU to the UK" as a problem. A decrease of 1.9 points and an increase of 4.4 points respectively from the previous year.

Problems related to trade after the transition period <Left: UK, Right: EU>

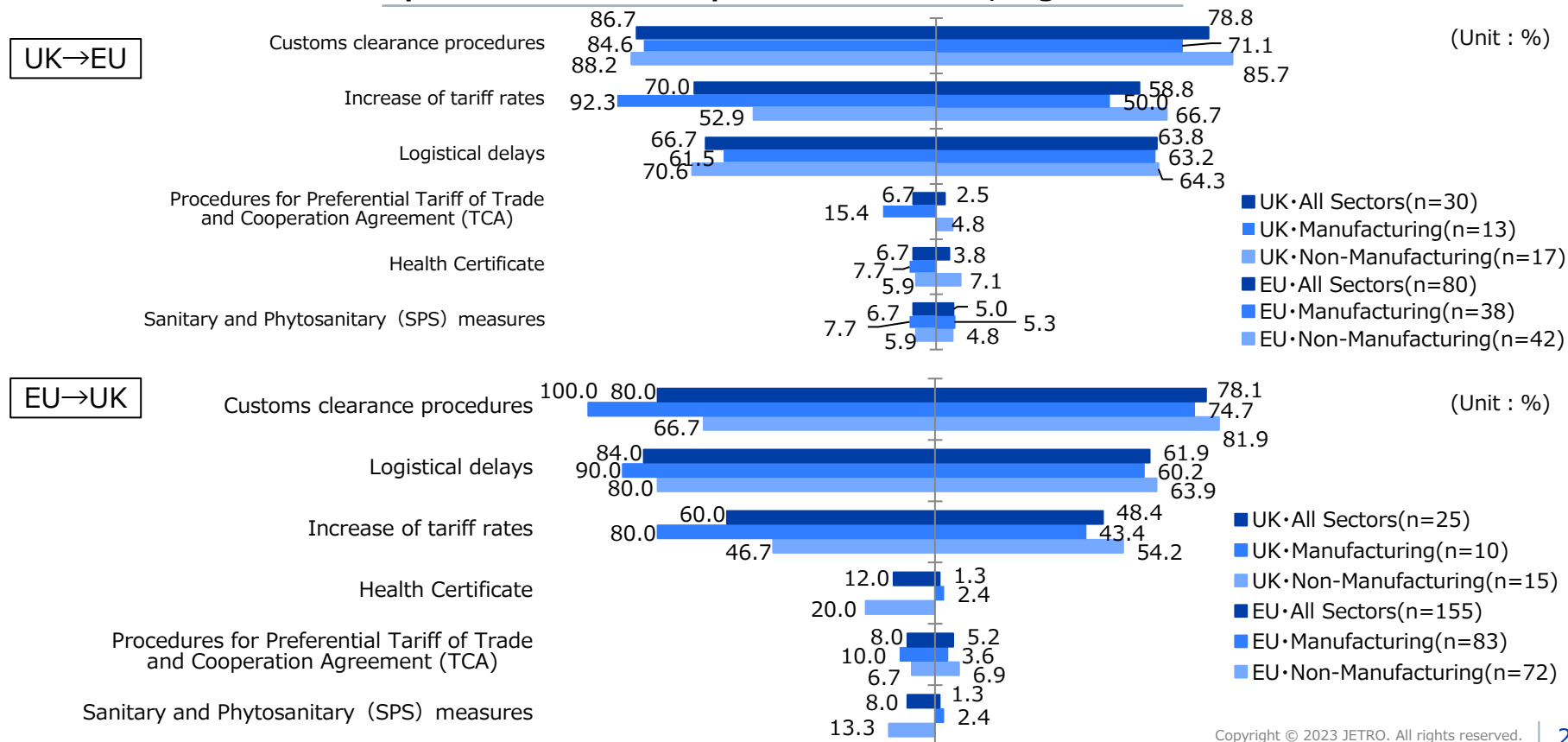
(Unit : %)



3 | Customs clearance for exporting is a concern for nearly 90% of Japanese-affiliated companies based in the UK

- As a specific problem, around 80-90% of Japanese-affiliated companies in the UK cited "Customs clearance procedures" for both importing and exporting. Less than 80% of Japanese-affiliated companies based in the EU responded the same for both importing and exporting.
- By sector, items that had a large proportion of responses among Japanese-affiliated manufacturers based in the UK were "Customs clearance" (100%) and "Logistical delays" (90.0%) when importing from the EU, and "Increase of tariff rates" (92.3%) when exporting from the UK. Additionally, for both importing and exporting, about 60% of Japanese-affiliated manufacturing companies based in the EU cited "Logistical delays" as a trade issue.

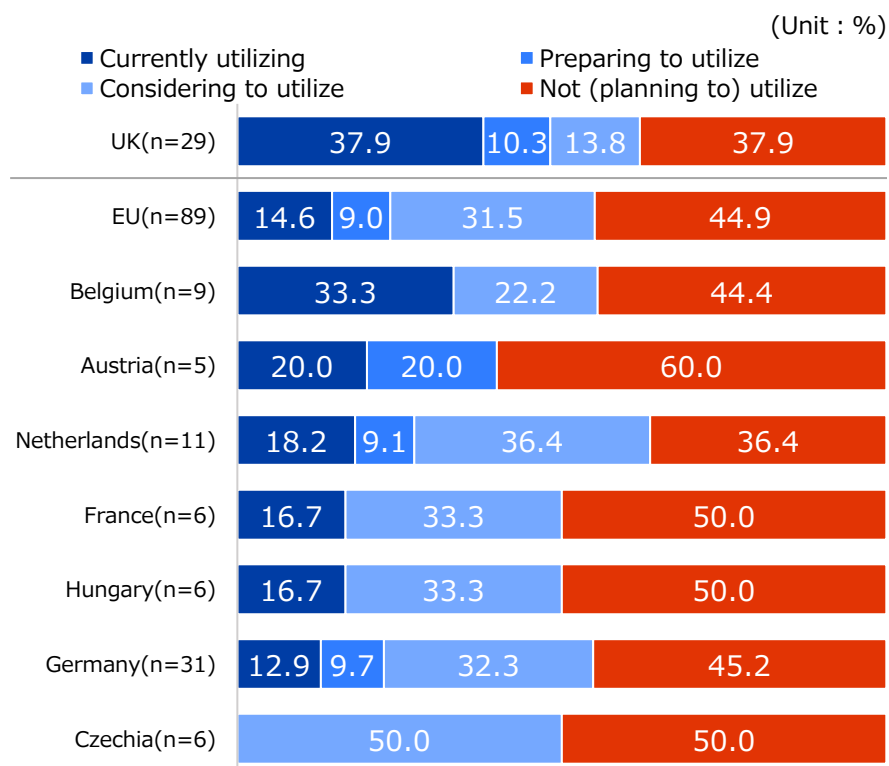
Specific trade-related problems<Left: UK, Right: EU>



4 | Increase of companies utilizing TCA

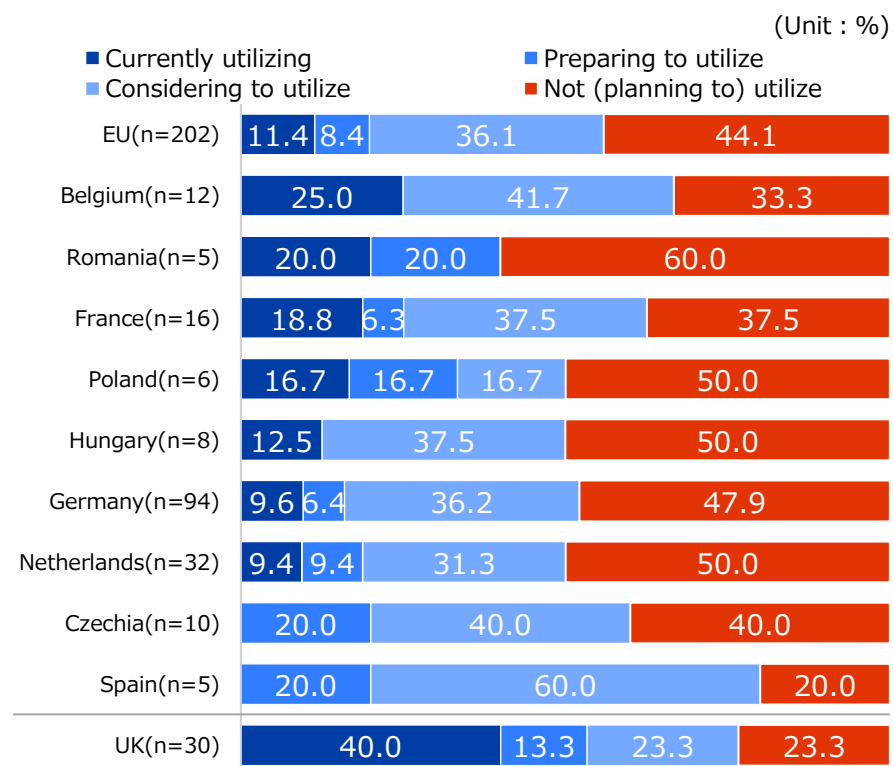
- Regarding the utilization of the EU-UK Trade and Cooperation Agreement (TCA) which officially came into effect in May 2021, 37.9% of respondents who export from the UK to the EU were already utilizing the TCA. This was an increase by 12.9 points from the survey of the year when TCA came into effect. For exporting from the EU to the UK, the utilization rate for the EU overall was 11.4%, slightly up by 1.0 points from the previous survey.
- For exporting from the EU to the UK, the rate of utilization was rather high in countries such as Belgium (25.0%), Romania (20.0%), and France (18.8%).

Utilization of the EU-UK TCA : Exports from the UK to the EU(by country)



(Note) Countries below EU indicate companies importing from the UK to the EU.

Utilization of the EU-UK TCA : Exports from the EU to the UK(by country)



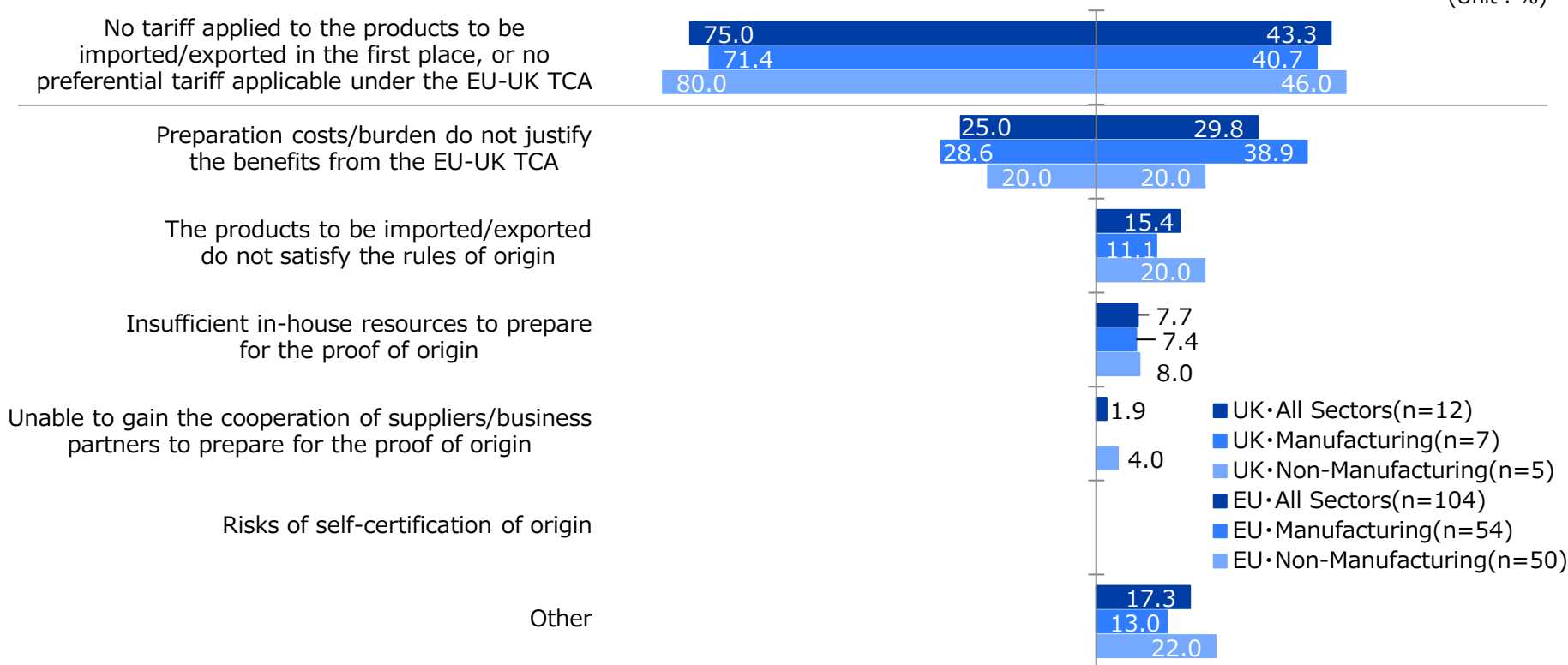
(Note) The UK indicates companies importing from the EU to the UK.

5 | Costs pointed out as a reason for not utilizing TCA from both the UK and the EU based companies

- Among the companies responding that they did not utilize the TCA despite importing/exporting between the UK and the EU, 75.0% of Japanese-affiliated companies in the UK overall and 71.4% of Japanese-affiliated manufacturers in the UK gave the reason as "No tariff applied to the products to be imported/exported in the 1st place, or no preferential tariff applicable under the EU-UK TCA". On the other hand, 43.3% of Japanese-affiliated companies in the EU overall gave the same reason.
- As reasons given for not utilizing the TCA despite preferential tariffs being applicable, a certain proportion of both Japanese-affiliated companies based in the UK and the EU cited "Preparation costs/burden do not justify the benefits". Additionally, for "Other" reasons, "no knowledge about the TCA" and "time-consuming arrangements for hygiene certificates" were cited.

Reasons for not utilizing the EU-UK TCA<Left: UK, Right: EU> (multiple answers given)

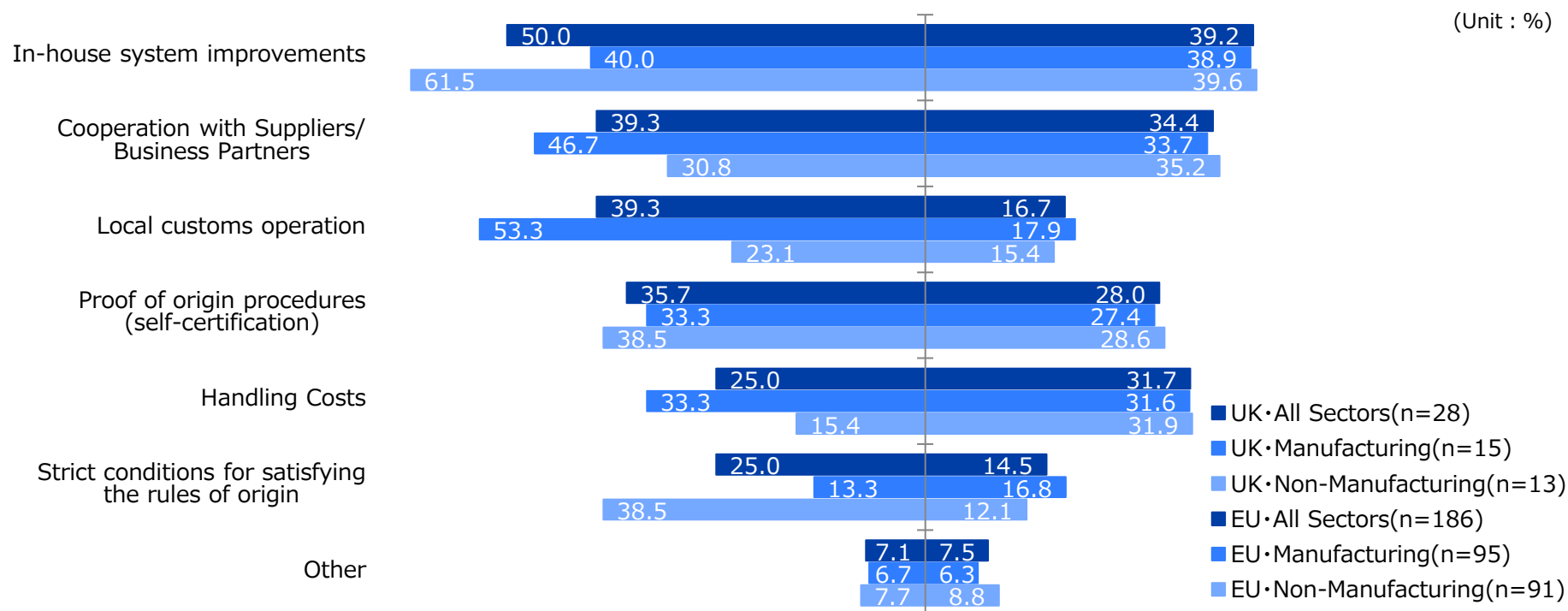
(Unit : %)



6 | Challenges for TCA utilization are in-house system improvements and cooperation with suppliers

- Regarding challenges for the utilization of the TCA, "In-house system improvements" had the highest proportion of responses among companies based in the UK and the EU overall. The proportion of responses in non-manufacturing companies based in the UK was 61.5%, and nearly 40% in manufacturing companies in the UK, manufacturing and non-manufacturing companies in the EU, indicating that there are a certain number of companies who have not yet improved an in-house system.
- "Cooperation with Suppliers/ Business partners" was the 2nd most common response among companies based in the UK and the EU overall. The proportion of responses accounted for 39.3% and 34.4% respectively. "Local customs operation" was also the 2nd most common response among UK-based companies overall. In particular, the proportion of responses by manufacturing companies was 53.3%, revealing that this is the biggest issue for the utilization of TCA by the UK manufacturing sector.

Challenges regarding the utilization of the EU-UK TCA<Left: UK, Right: EU> (multiple answers given)

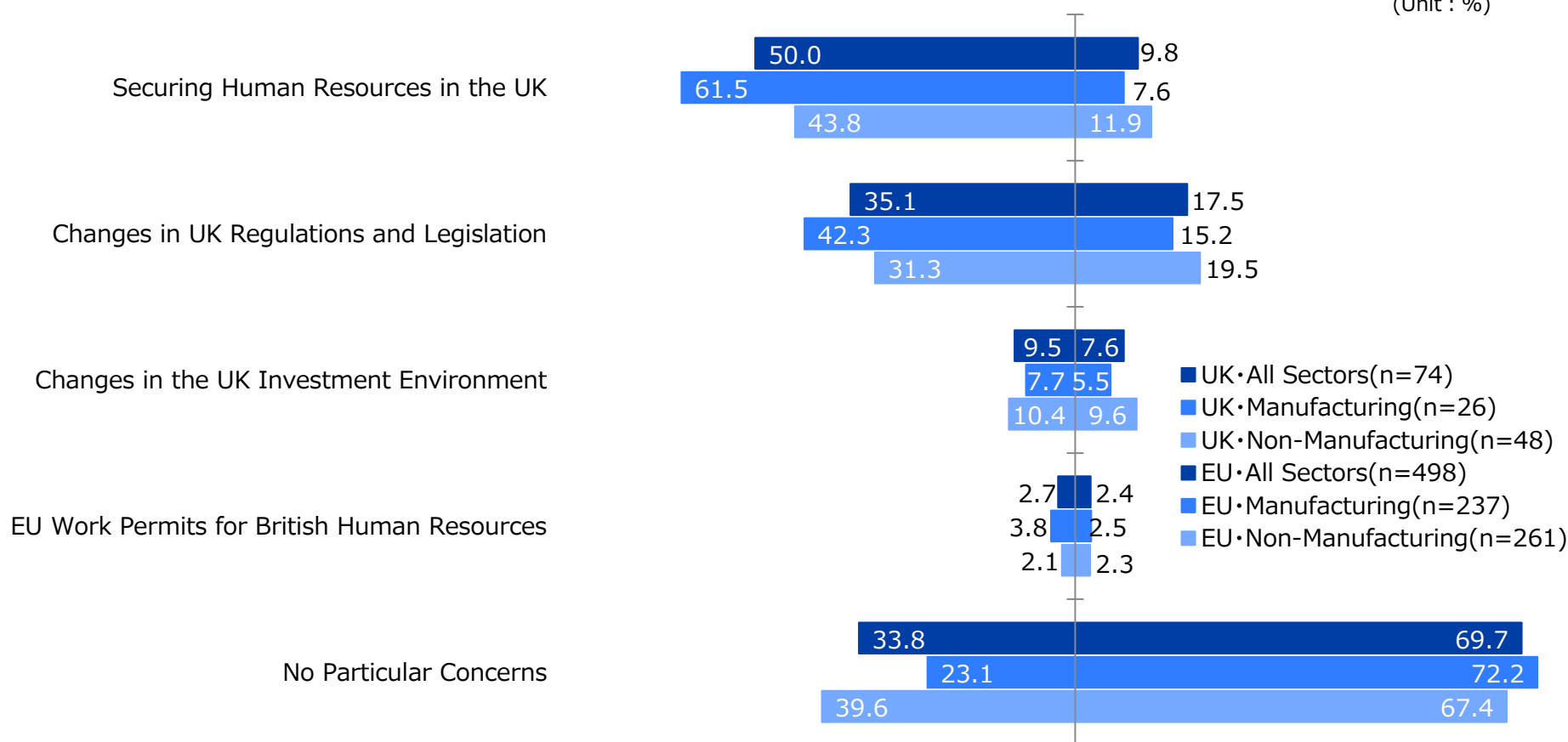


7 | Companies in the UK most concerned about securing human resources

- Regarding concerns held by Japanese-affiliated companies about the business environment after Brexit, 69.7% of those based in the EU responded that they have "No particular concerns." On the other hand, for companies based in the UK, "Securing human resources in the UK" and "Changes in UK regulations and legislation" were the most common concerns. The proportion of these responses were particularly high in the manufacturing sector.

Concerns of Japanese-affiliated companies related to business environment<Left: UK, Right: EU>

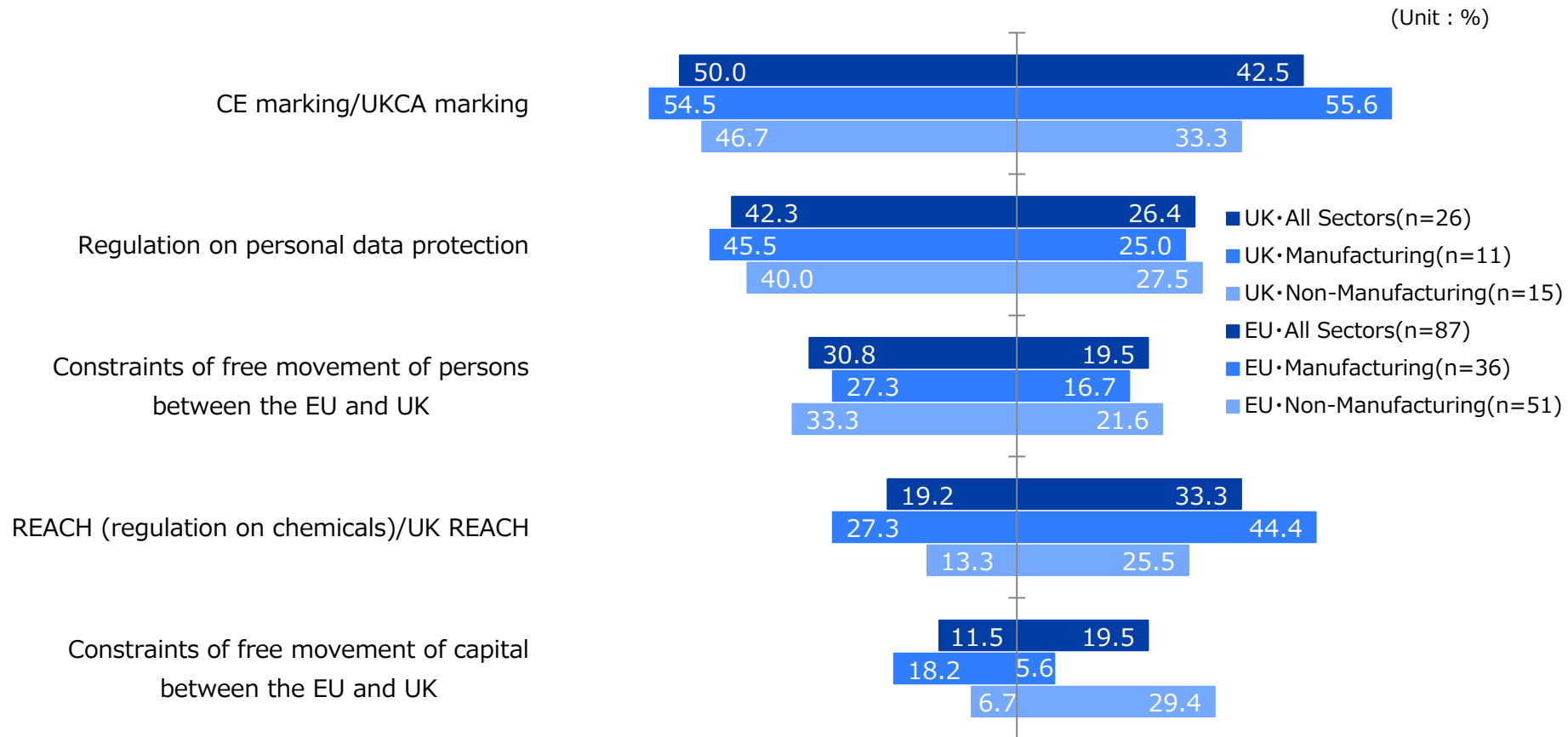
(Unit : %)



8 | Manufacturing sector continue to concern about CE/UKCA markings

- Regarding specific points of concern for "Changes in UK regulations and legislation," "CE markings/UKCA markings" was the highest in both the UK and the EU Japanese-affiliated companies, with the same concern particularly high in the manufacturing sector.
- The 2nd most common response among Japanese-affiliated companies in the UK was "Regulations on personal data protection", and among those based in the EU was "REACH (regulations on chemicals)/UK REACH".

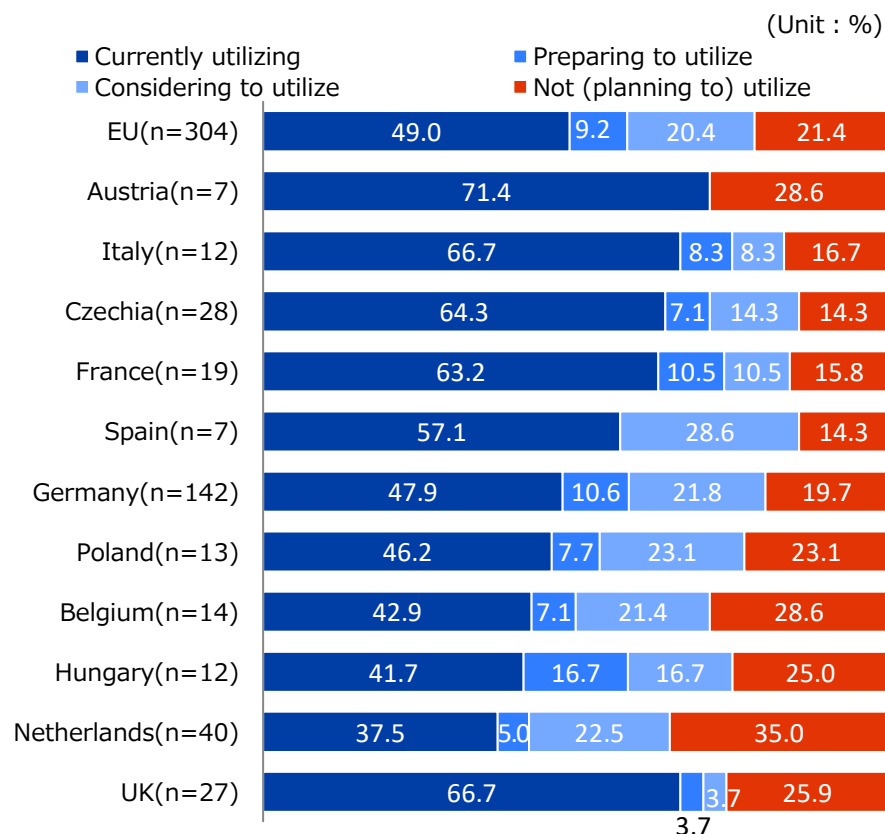
Concerns related to "Changes in UK regulations and legislation"<Left: UK, Right: EU>



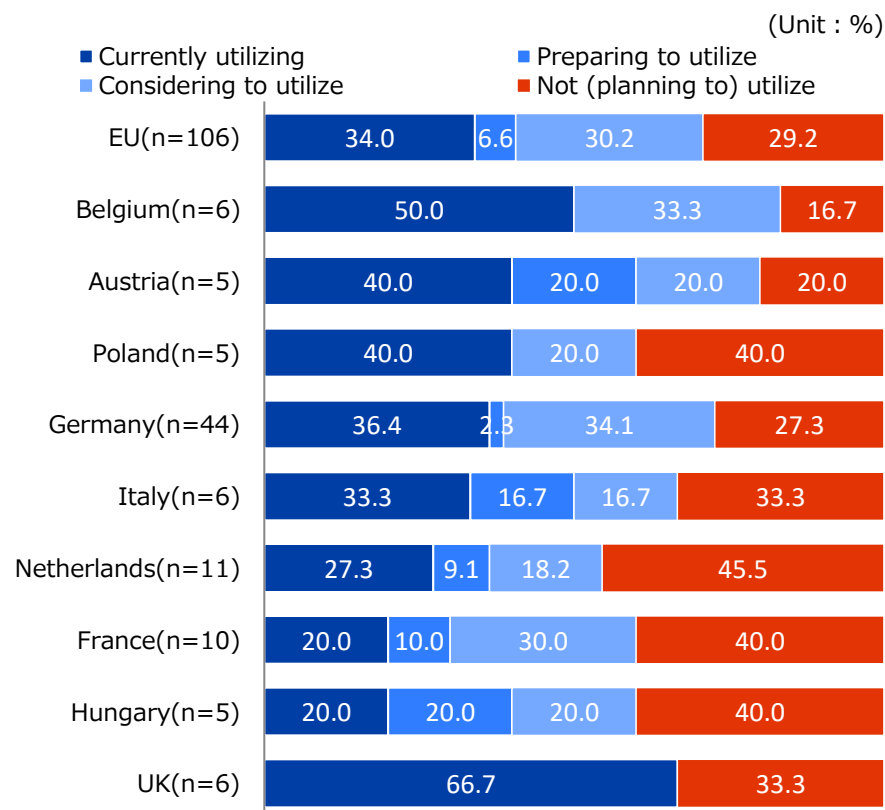
1 | About 50% of companies utilize the Japan-EU EPA for importing

- Regarding the utilization of the Japan-EU EPA by Japanese affiliated companies based in the EU, in the EU overall, 49.0% of companies importing from Japan to the EU and 34.0% of companies exporting from the EU to Japan responded that they were already utilizing the Japan-EU EPA.
- For Importing from Japan to the EU, it shows more than 50% of the utilization rates in Austria (71.4%), Italy (66.7%), the Czechia (64.3%), France (63.2%), and Spain (57.1%).

Utilization of the Japan-EU EPA t : Imports from Japan to the EU(by country)



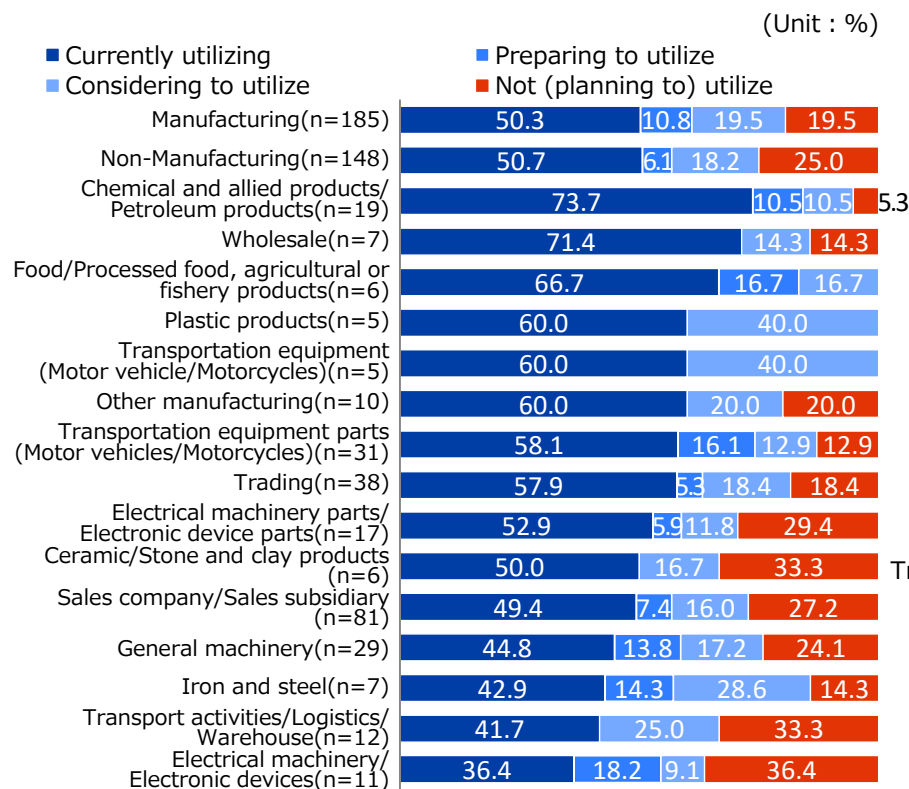
Utilization of the Japan-EU EPA : Exports from the EU to Japan(by country)



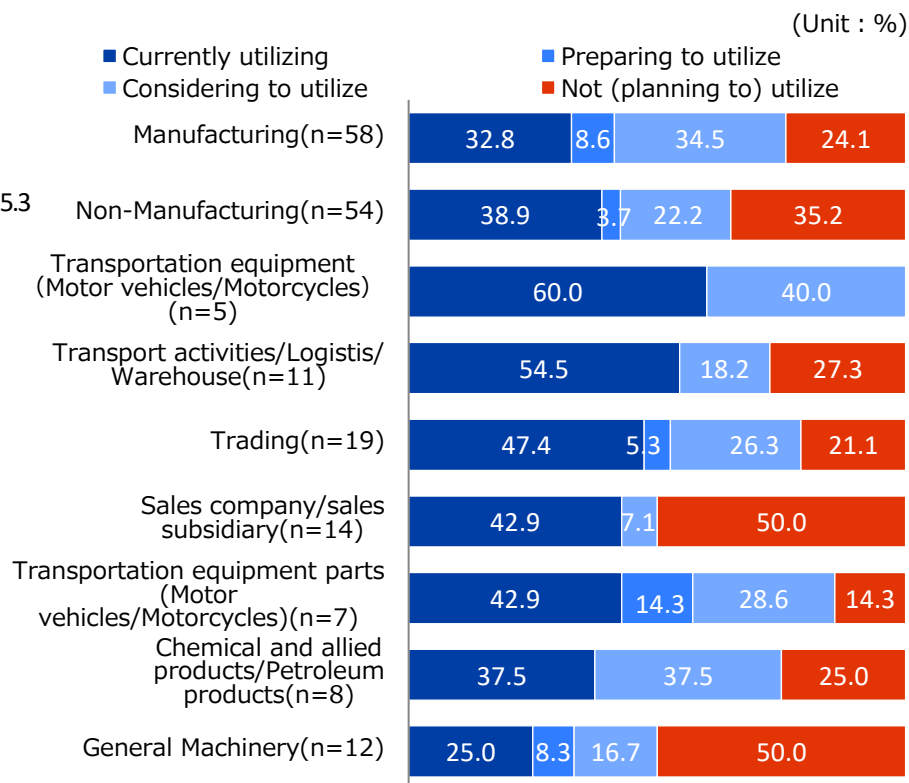
2 | Many companies in chemicals, Wholesale and Food use EPA for importing to the EU

- For importing from Japan to the EU, more than 70% of “Chemical and allied products/Petroleum products” and “wholesale” companies, and 60% of “Food/Processed food, agricultural or fishery products”, “Plastic products”, “Transportation equipment (Motor vehicles/Motorcycles)” companies indicate high EPA utilization rate.
- For exporting from the EU to Japan, EPA utilization rates exceeded 30% in both manufacturing and non-manufacturing companies. Especially, “Transportation equipment (Motor vehicles/Motorcycles)companies (60.0%) and “Transport activities/Warehouse “companies (54.5%) showed high EPA utilization rates.

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)



3 | Around 20% of companies do not use the Japan-EU EPA for import from Japan

- Despite being engaged in trade between Japan and the EU, 65 out of 304 companies (21.4%) importing from Japan to the EU responded that they were not utilizing the Japan-EU EPA. 31 out of 106 companies (29.2%) exporting from the EU to Japan responded that they were not utilizing the EPA.
- Among the companies based in the EU that did not utilize the Japan-EU EPA despite importing from Japan to the EU or exporting from the EU to Japan, 64.0% gave the reason as "No tariff applied to the products to be imported/exported in the 1st place, or no preferential tariff applicable under the EU-Japan EPA".

Utilization of the Japan-EU EPA by Japanese-affiliated Companies based in the EU

(Unit : %)

Status of Utilization of Japan-EU EPA	Responses	%
Japan → EU	304	100.0
Currently utilizing	149	49.0
Preparing to utilize	28	9.2
Considering to utilize	62	20.4
Not (Planning to) utilize	65	21.4
EU → Japan	106	100.0
Currently utilizing	36	34.0
Preparing to utilize	7	6.6
Considering to utilize	32	30.2
Not (Planning to) utilize	31	29.2

Reasons for not using the Japan-EU EPA* <multiple answers given>

(Unit : %)

No tariff applied to the products to be imported/exported in the first place, or no preferential tariff applicable under the EU-Japan EPA

64.0
62.8
65.1

Preparation costs/burden do not justify the benefits from the EU-Japan EPA

15.1
18.6
11.6

Insufficient in-house resources to prepare for the proof of origin

7.0
7.0
7.0

The products to be imported/exported do not satisfy the rules of origin

3.5
7.0

Unable to gain the cooperation of suppliers/business partners to prepare for the proof of origin

2.3
4.7

Failure to comply non-alteration rule due to customs clearance in the UK

1.2
2.3

Other

15.1
11.6
18.6

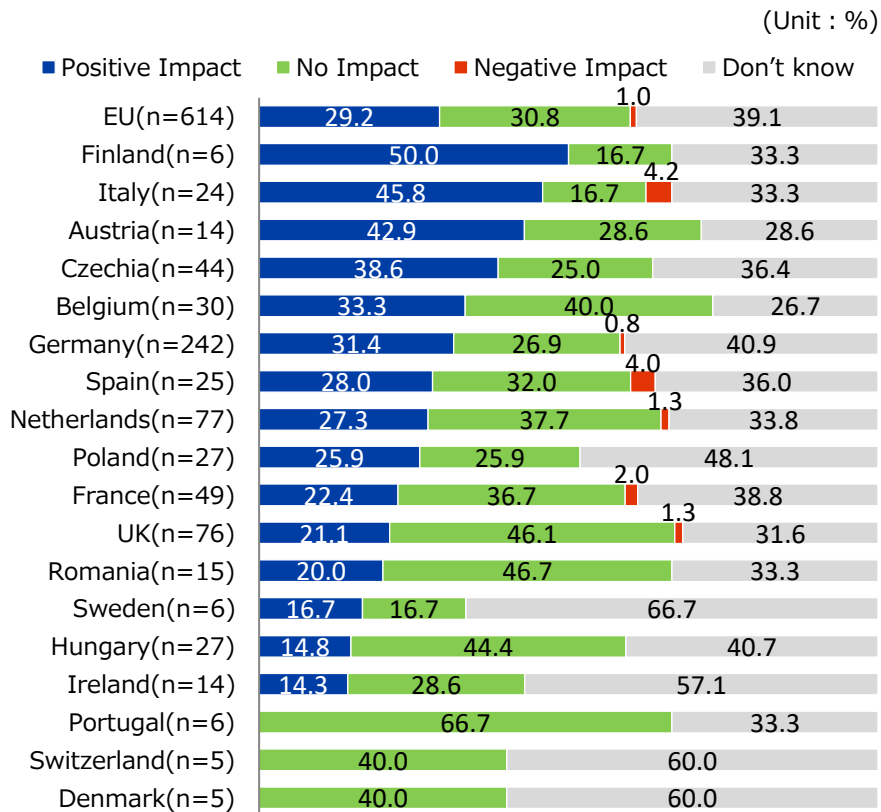
■ All Sectors(n=86) ■ Manufacturing(n=43) ■ Non-Manufacturing(n=43)

(Note) Proportion of Japanese-affiliated companies based in the EU engaging in trade between the EU and Japan.

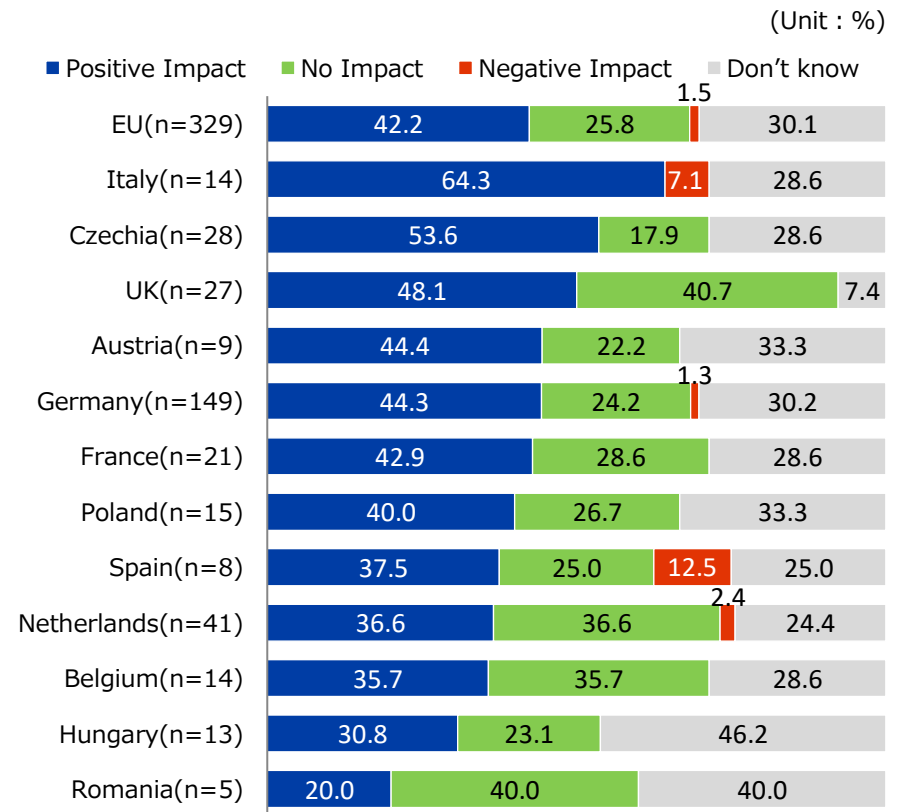
4 | Around 40% of companies see “Positive Impact” from the Japan-EU EPA

- Among companies engaging in trade between Japan and the EU, 29.2% of all EU based companies selected “Positive Impact”.
- Looking at companies engaging in trade between Japan and the EU by country, the proportion of responses for “Positive Impact” were especially high in Italy(64.3%)and Czechia (53.6%) . Even in the UK, which completely withdrew from the EU after the transition period, the rate was nearly 50%.

Japan-EU EPA impact by country(all respondees)



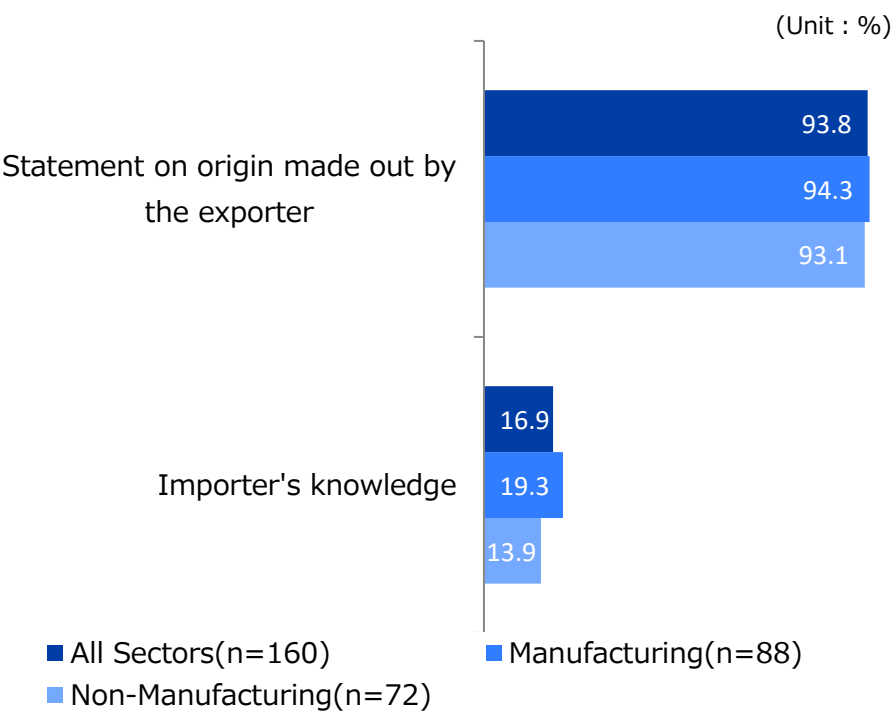
Japan-EU EPA impact by country (only companies engaging in trade between Japan and the EU)



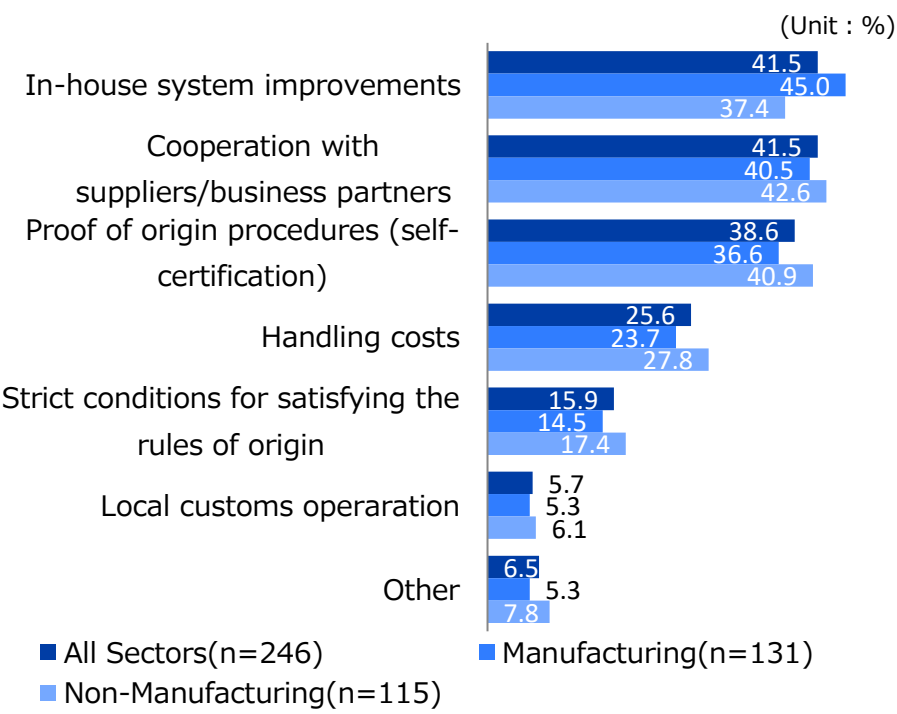
5 | In-house system improvements is a challenge for the use of the Japan-EU EPA

- The majority (93.8%) of companies use the "Statement on origin made out by the exporter" when applying for the preferential treatment under the Japan-EU EPA.
- Regarding the challenges in utilizing the Japan-EU EPA, the highest proportion of responses among all EU-based Japanese companies were "In-house system improvements" and "Cooperation with suppliers/business partners (e.g., documents for certificate of origin)", both at 41.5%. Compared to the survey from the previous year, "Proof of origin procedures (self-certification)" (38.6 %) increased by 4.3 points in all sectors and by 8.6 points in non-manufacturing, which may indicate that the number of companies attempting to use the Japan-EU EPA is especially increasing in the non-manufacturing sector.

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>



6 | Many continue to say that complicated procedures and costs are burdensome

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

<Integration and clarification of operation>

- Responses and filings may differ depending on the customs in EU country.
- HS code applications and decisions unclear and differ between Japan and the EU.

<Simplification>

- Application procedures are too complicated.
- Due to the complexity and effort required to prepare the supporting documents, the burden on the logistics department of the head office is large.
- It is not worth the amount of administrative work required for procedures, such as the cost of preparing documents.
- As the components and suppliers are diverse, it takes time and effort.
- Self-certification must be prepared for each product.
- Once cleared through the UK, impossible to meet the shipping standard. To meet that, the use of bonded warehouses is needed and costly.
- The burden on the supplier side is large, and in many cases, certification cannot be received in a timely manner.
- It is the importer who enjoys tariff reduction or exemptions, but the response work is mainly on the exporting country's side. Support by the head office is insufficient.

<Others>

- Lack of internal personnel and only few staffs understand EPA.
- Management costs for documents collected from suppliers increased.
- The expansion of manufacturing abroad reduced the volume of logistics from Japan to EU, and the benefits were lower.
- If there is a discrepancy in the customs views between the exporting and importing countries, a mechanism to provide support such as coordination is needed.

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

<Tariffs>

- Reduced tariffs on imports of Japanese-made parts.
- Removal of tariffs lead to growth in profits and increase in income. Removal of tariffs lead to growth in profits and increase in income.
- Return to sales prices through tariff reductions.

<Certification of origin>

- The burden on the head office such as preparation of documents has increased.
- Additional costs for expenses of document creation by suppliers.
- Preparation and acquisition of documents takes time.

< Others >

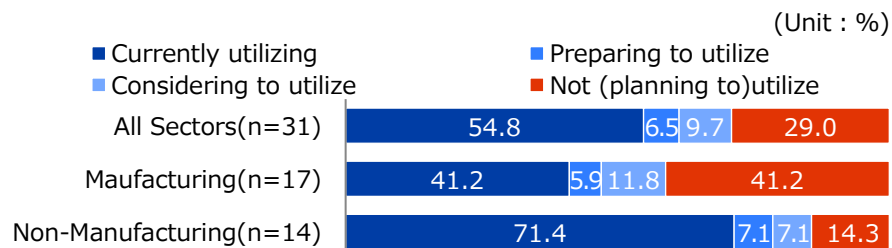
- Enhanced price competitiveness in Europe.
- Due to the export promotion effect of the EPA, the volume of goods has expanded.
- In the situation of yen depreciation, there is an advantage in purchasing products necessary for production from Japan.
- It leads to new business opportunities.
- Organizational response was initiated at the head office.

7

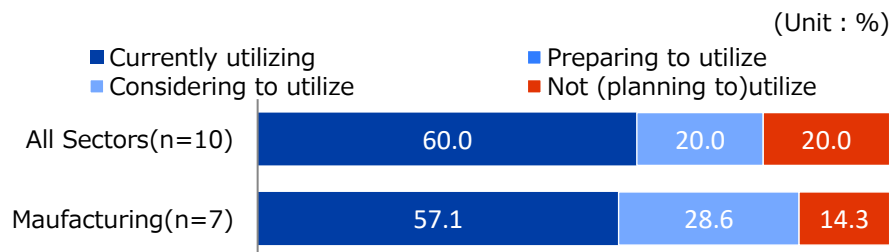
About 55% of companies importing use the Japan-UK EPA

- Regarding the utilization of the Japan-UK EPA which came into effect in January 2021, about 54.8% (an increase of 7.0 points compared to the previous survey) of Japanese affiliated companies based in the UK responded “Currently utilizing” for importing from Japan to the UK. For exporting from the UK to Japan, “Currently utilizing” accounted for 60%.
- “In-house system improvements” (48.1%) was the most common challenge in utilizing the Japan-UK EPA. The proportion of responses for “Proof of origin procedures (self-certification)”, which was the most common response in the previous year, was 29.6% (16.1point decrease compared to the previous survey). Japanese affiliated companies seem to have adapted to the procedures for the utilization of the Japan-UK EPA, but issues such as the development of an internal system continue to remain.

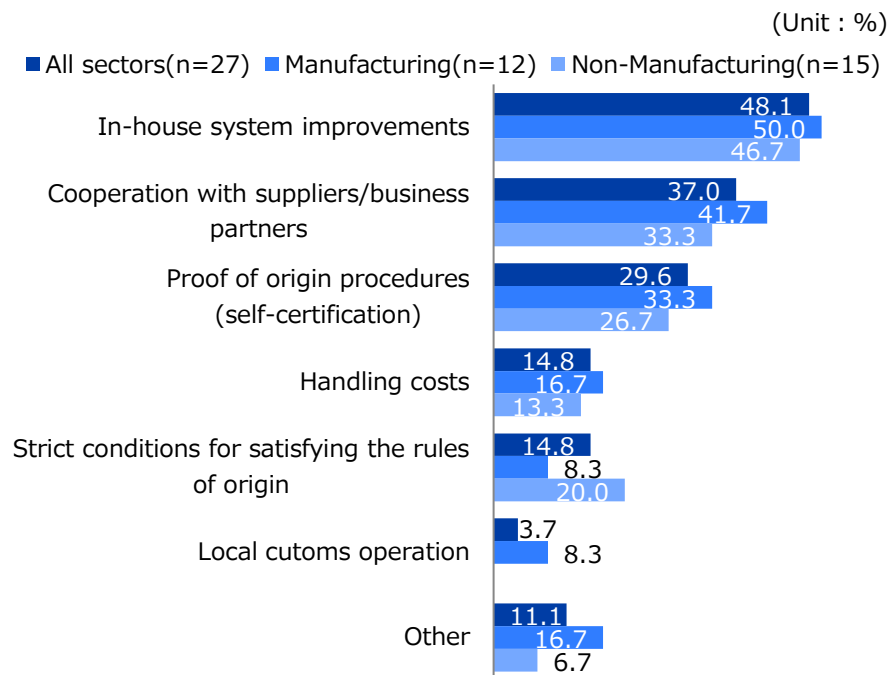
Utilization of the Japan-UK EPA by Japanese-affiliated companies based in the UK : Imports from Japan to the UK



Utilization of the Japan-UK EPA by Japanese-affiliated companies based in the UK : Exports from the UK to Japan



Challenges regarding the use of the Japan-EU EPA (only companies based in the UK)<multiple answers given>



8

Many companies utilized EU-Vietnam and EU-Turkey FTAs

- Regarding the utilization of bilateral or multilateral FTAs that have already come into effect between the EU, many companies were "Currently utilizing" FTAs with Vietnam and Turkey for importing to the EU. For exporting from the EU, FTAs with Mexico and Canada were the most utilized.
- For importing to the UK, many companies responded that they were "Currently utilizing" FTAs with Korea and Turkey.

Utilization of the EU's / UK's bilateral or multilateral FTAs by Europe-based companies

(Unit: Number of respondents, %)

Are you currently/considering to utilize preferential tax rates provided by these FTAs for import to the EU or UK?	Responses	Currently utilizing	Considering to utilize*1	Not (planning to) utilize
(Reference)Japan-EU	333 100.0	168 50.5	92 27.6	73 21.9
Vietnam→EU	33 100.0	19 57.6	7 21.2	7 21.2
Turkey→EU	33 100.0	16 48.5	9 27.3	8 24.2
Korea→UK	25 100.0	12 48.0	5 20.0	8 32.0
Switzerland→EU	19 100.0	7 36.8	4 21.1	8 42.1
Japan-Switzerland*4	19 100.0	9 47.4	4 21.1	6 31.6
Mediterranean countries (Including Middle East)*3→EU	10 100.0	1 10.0	2 20.0	7 70.0
Singapore→EU	9 100.0	1 11.1	3 33.3	5 55.6
Canada→EU	8 100.0	0 0.0	3 37.5	5 62.5
Mexico→EU	8 100.0	1 12.5	6 75.0	1 12.5
Korea→UK	7 100.0	4 57.1	1 14.3	2 28.6
Turkey→UK	7 100.0	3 42.9	3 42.9	1 14.3

Are you currently/considering to utilize preferential tax rates provided by these FTAs for export from the EU or UK?	Responses	Currently utilizing	Considering to utilize*1	Not (planning to) utilize
(Reference)Japan-EU	112 100.0	40 35.7	39 34.8	33 29.5
EU→Switzerland	97 100.0	31 32.0	22 22.7	44 45.4
EU→Turkey	96 100.0	31 32.3	25 26.0	40 41.7
EU→Norway, Iceland, Lichtenstein (EEA)*2	57 100.0	21 36.8	13 22.8	23 40.4
EU→Mediterranean countries (Including Middle East)*3	41 100.0	7 17.1	10 24.4	24 58.5
EU→Canada	16 100.0	6 37.5	3 18.8	7 43.8
EU→Mexico	14 100.0	7 50.0	4 28.6	3 21.4
EU→Korea	14 100.0	5 35.7	3 21.4	6 42.9
EU→Vietnam	11 100.0	1 9.1	3 27.3	7 63.6
EU→Singapore	11 100.0	1 9.1	2 18.2	8 72.7
UK→Turkey	10 100.0	2 20.0	4 40.0	4 40.0
UK→Norway, Iceland, Lichtenstein (EEA)*2	9 100.0	3 33.3	2 22.2	4 44.4

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

(Note 2) These 3 countries are equal partners in the internal market, on the same terms as the EU member states through the EEA Agreement.

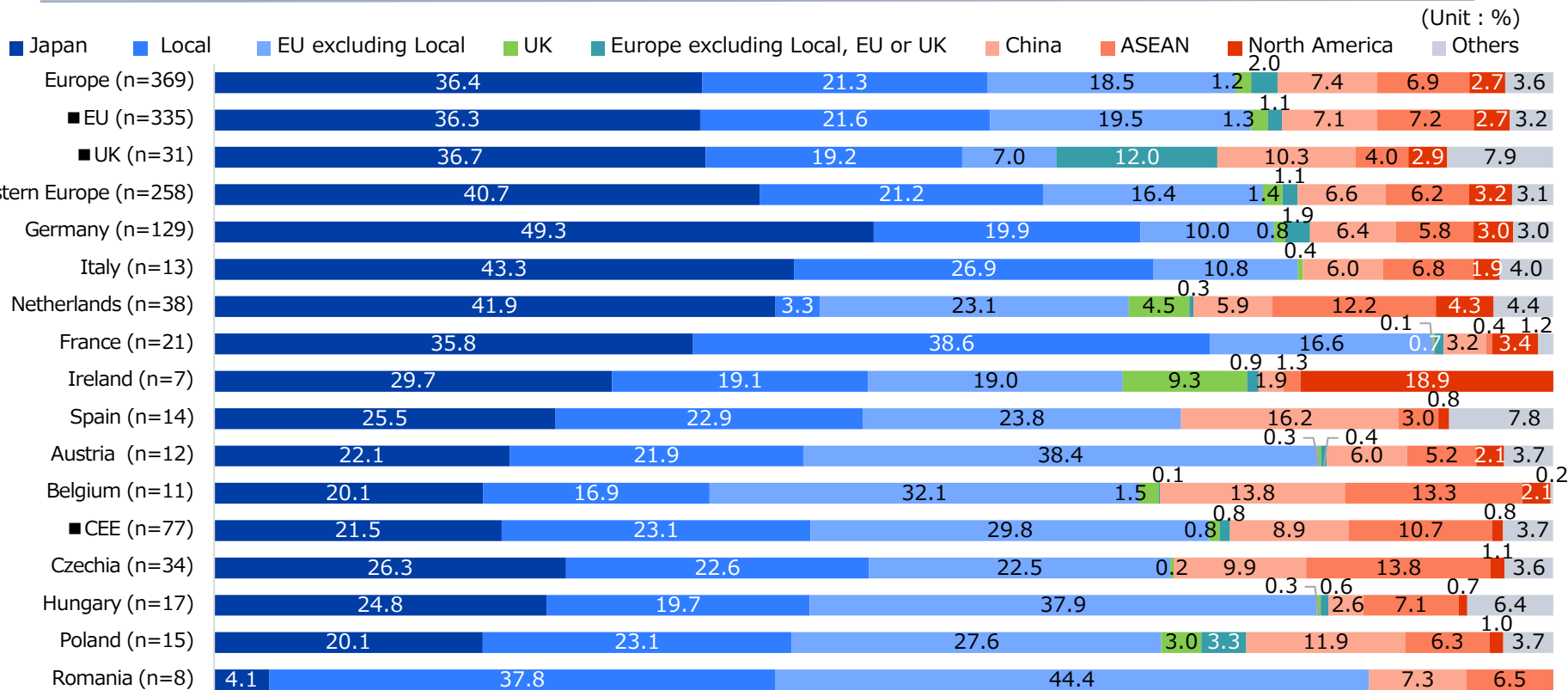
(Note 3) Middle East and North African countries such as Morocco, Tunisia, Jordan, Israel, Egypt (excluding Turkey).

(Note 4) "Japan-Switzerland" concerns import from Japan to Switzerland.

1 | Japan remain as a major procurement source for EU-based Japanese-affiliated companies

- Regarding the procurement source of parts and raw materials (by country and region), the simple average of responses (value-based) from EU-based Japanese-affiliated companies was calculated. The average procurement ratio from "Japan" was 36.3%, which remained as the largest source. The ratio among those based in Germany and Netherlands, where Japanese-affiliated companies are clustered most densely, were especially high at 49.3% and 41.9% respectively.
- The average procurement ratio from "Japan" was 40.7% among those based in Western Europe, and 21.5% among those based in CEE.

Breakdown of parts & raw materials suppliers for all sectors(by country and region, value-based)



(Note 1) This graph shows the average ratio of responses given by companies for each procurement source. When combined, procurement sources for each company will be 100 in total.

(Note 2) For each choice, countries where the number of companies responded was less than 5 respondents are excluded.

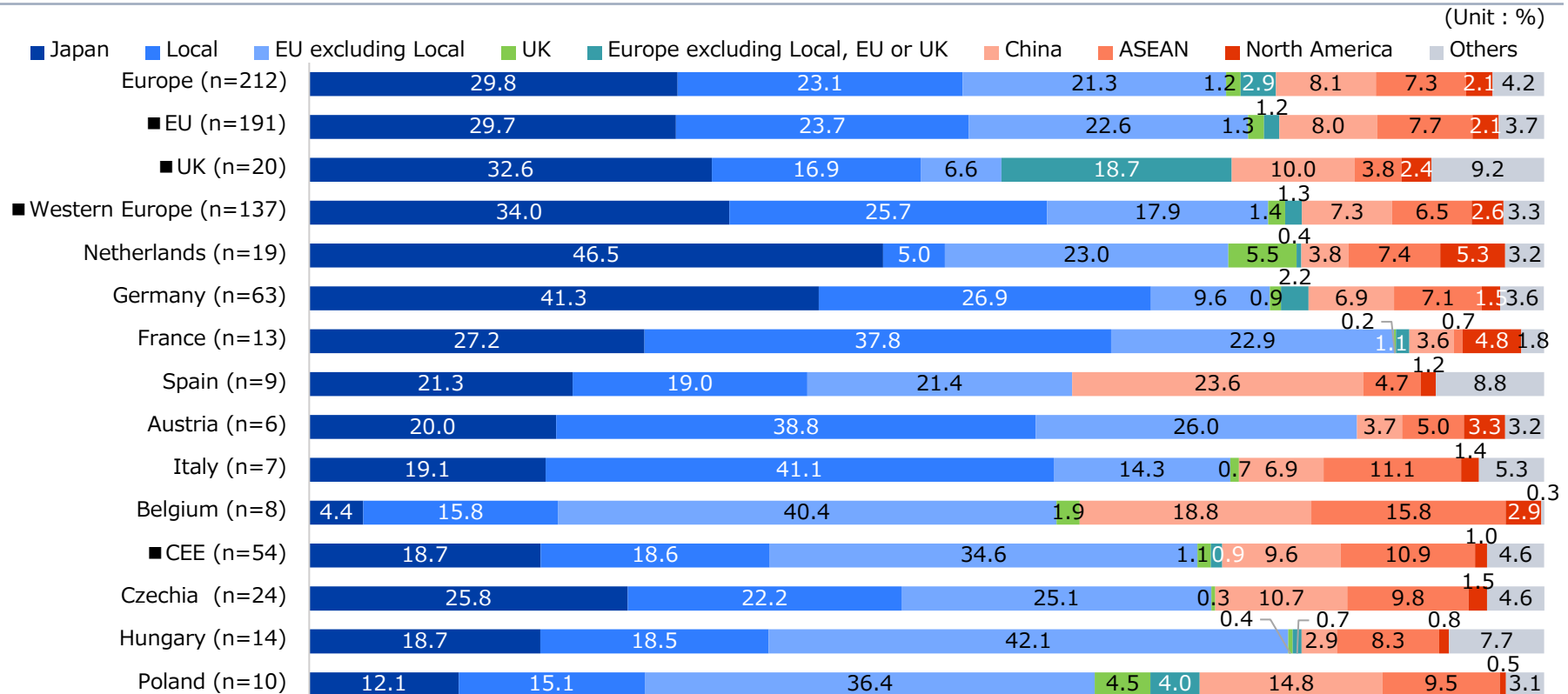
(Note 3) For Western Europe and CEE, only EU member states are included.

2 | Procurement from Japan remains stable among Japanese manufacturers in the EU

- Regarding the procurement source of parts and raw materials (by country and region), the simple average of responses (value-based) from EU-based Japanese-affiliated manufacturing companies was calculated. The average procurement ratio from "Japan" fell 1.6 points from the previous survey* to 29.7%, but the country remained the largest procurement source.
- Among UK-based Japanese-affiliated manufacturing companies, the average procurement ratio from the "EU" was 6.6%, a decrease of 4.3 points from the previous survey. On the other hand, the ratio from "Europe excluding EU or UK" increased by 5.9 points to 18.7%.

*EU excluding the UK

Breakdown of parts & raw materials suppliers for manufacturing sector(country and region, value-based)



(Note 1) This graph shows the average ratio of responses given by companies for each procurement source. When combined, procurement sources for each company will be 100 in total.

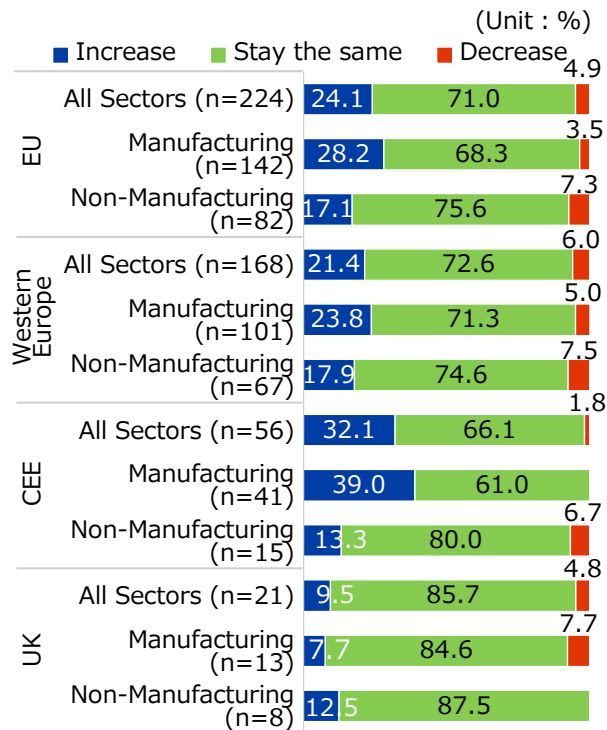
(Note 2) For each choice, countries where the number of companies responded was less than 5 respondents are excluded.

(Note 3) For Western Europe and CEE, only EU member states are included.

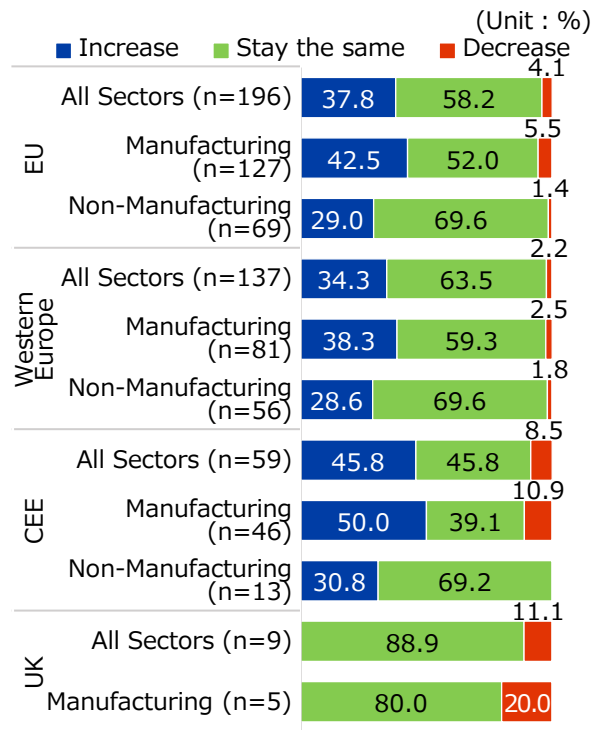
3 | Half of the manufactures in CEE intend to increase procurement within the EU

- Regarding future policy for procurement from local suppliers, 24.1% of EU-based Japanese companies answered they would "Increase". Looking at the policy within the EU region, 37.8% answered "Increase", a 4.8-point increase from the previous survey*, which reveals a continuing trend of aiming to increase procurement in the EU. This trend was particularly evident in the manufacturing sector in CEE, with an increase of 12.8 points.
- Among Japanese companies in the EU, the proportion of responses who answered that they would "Increase" their procurement from the UK increased by 6.9 points to 9.8%. On the other hand, among those in the UK, the proportion of responses saying that they would "Stay the same" in procuring from the EU increased by 19.7 points to 88.9%. *EU excluding the UK

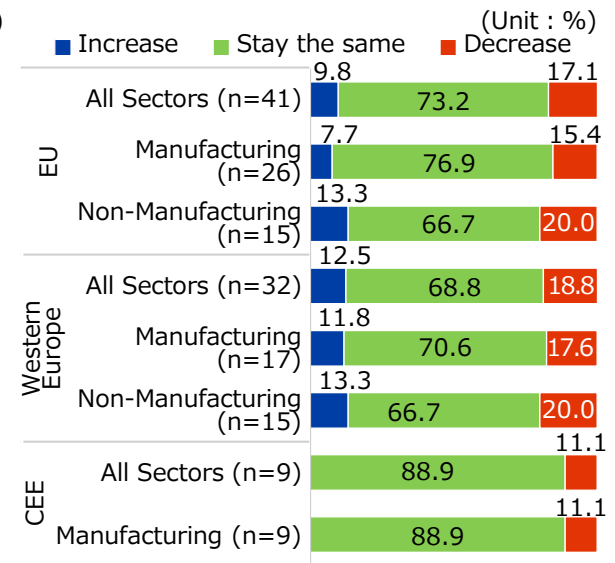
Future local procurement



Future local procurement from/within the EU*



Future procurement from the UK



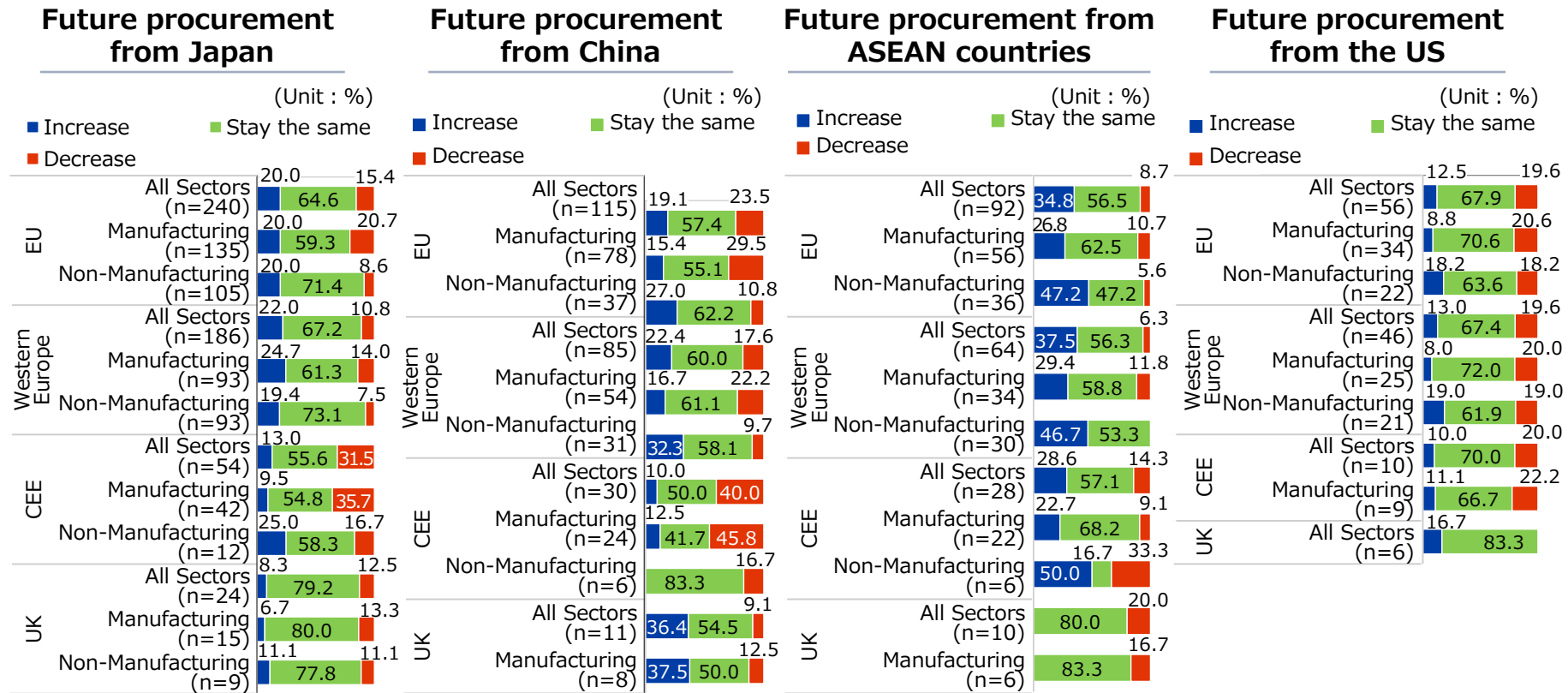
(Note 1) In the case where the number of companies responding for a particular sector was less than 5, they were excluded.

(Note 2) For Western Europe and CEE, only EU member states are included.

*Excluding local country and Ireland

4 | 35% of Japanese companies in the EU intend to increase procurement from ASEAN countries

- 20.0% of Japanese companies in the EU answered they would "Increase" future procurement from Japan. A trend of many companies seeking to increase their procurement from ASEAN countries continued, with 34.8% responded that they would "Increase". On the other hand, only 12.5% of EU-based Japanese companies responded that they would "Increase" their procurement from the US.
- A striking number of Japanese companies in CEE responded that they would "Decrease" their procurement from Japan and China. On the other hand, as noted in the previous page, there was a visible trend to increase procurement from local suppliers and other EU countries, which indicates that focus of the supply chain is shifting towards the EU.

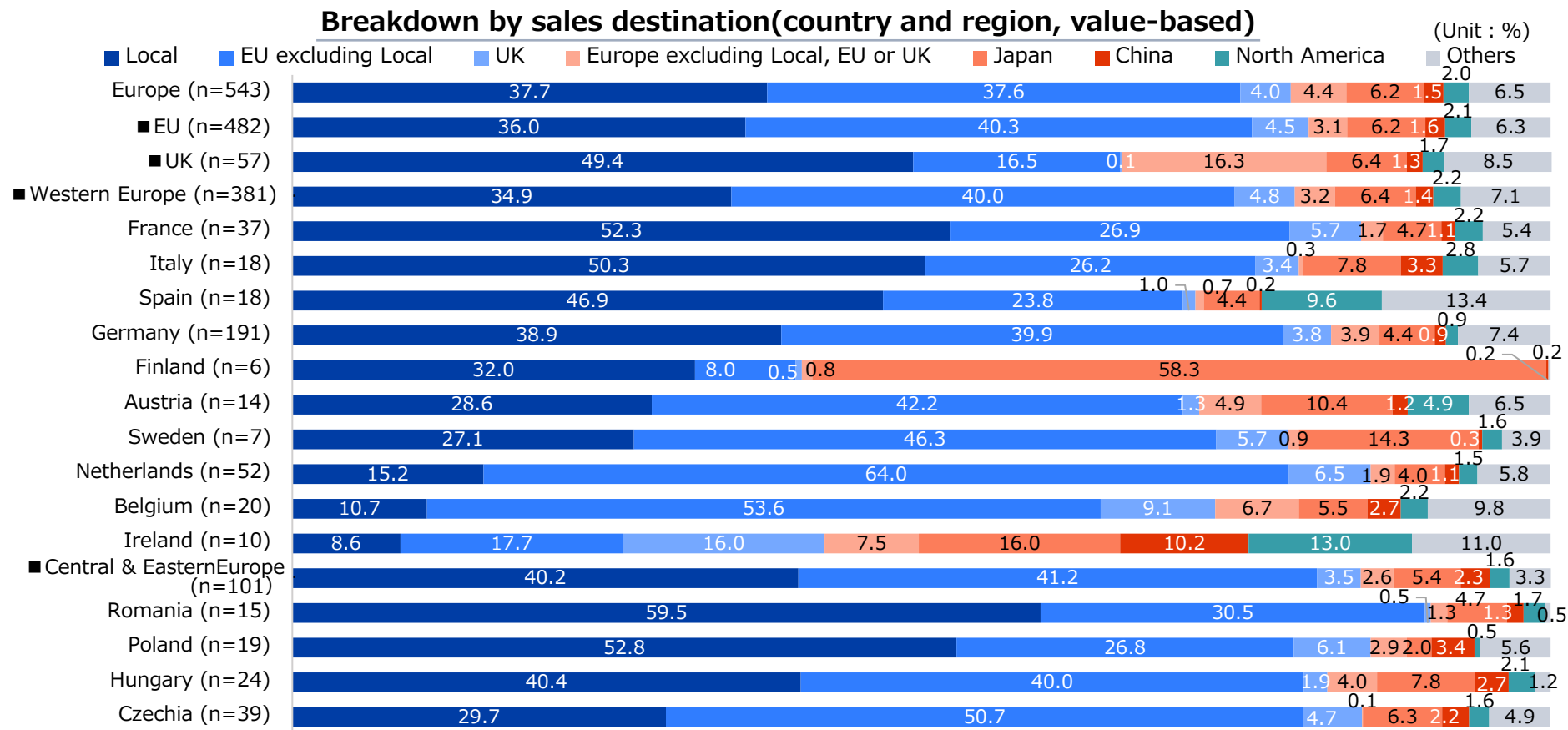


(Note 1) In the case where the number of companies responding for a particular industry was less than 5, they were excluded.

(Note 2) For Western Europe and CEE, only EU member states are included.

5 | UK's presence increased as a sales destination for UK-based Japanese companies

- Regarding sales destinations (by country and region), the simple average of responses (value-based) was calculated. Among EU-based Japanese-affiliated companies, the average share of the EU (including the country of operation) in total sales was 76.3%, indicating that for many companies their main sales market is the EU.
- Among Japanese companies in the UK, the share of the country of operation increased by 2.4 points from the previous survey to 49.4%, indicating the increasing presence of the UK market. Among those in Ireland, the share of the UK market remained high at 16.0%.



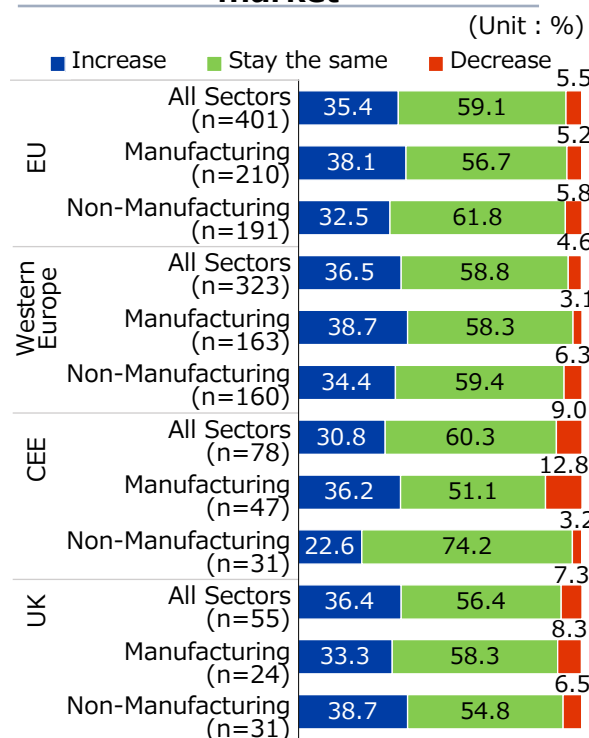
(Note 1) This graph shows the average ratio of responses given by companies for each sales destination. When combined, sales destinations for each company will be 100 in total.
(Note 2) For each choice, countries where the number of companies responded was less than 5 respondents is excluded.
(Note 3) For Western Europe and CEE, only EU member states are included.

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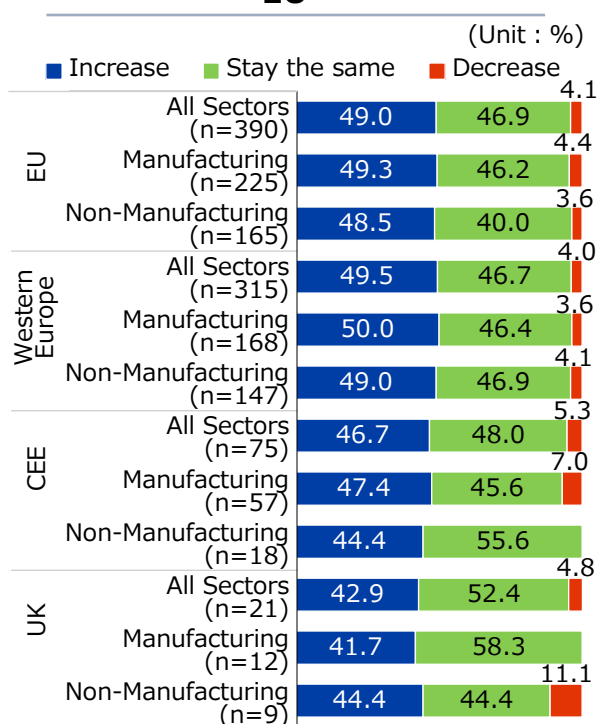
6 | Companies aim to expand sales channels in the EU

- Regarding future sales policy in the country of operation, 35.4% of Japanese companies in the EU responded "Increase." 36.5% of those in Western Europe responded "Increase," a higher figure than the 30.8% recorded among those based in CEE. Regarding the EU market, 49.0% of EU-based Japanese companies selected "Increase," a higher figure than local market, which reveals their intent to increase sales in the EU overall.
- Regarding the UK market, the proportion of responses answering "Increase" among EU-based Japanese companies was 29.7%, an increase of 5.8 points from the previous survey. In particular, the increase (17.0 points to 38.1%) in CEE was evident.

Future policy for sales in local market



Future policy for sales in the EU*

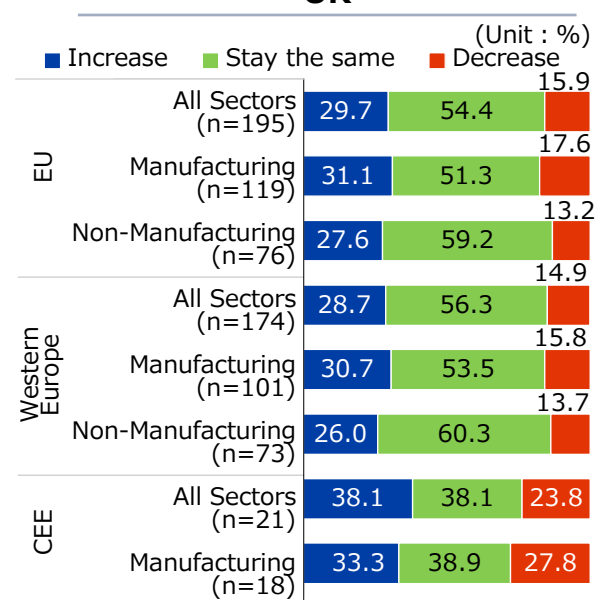


*Excluding local country and Ireland

(Note 1) In the case where the number of companies responding for a particular industry was less than 5, they were excluded.

(Note 2) For Western Europe and CEE, only EU member states are included.

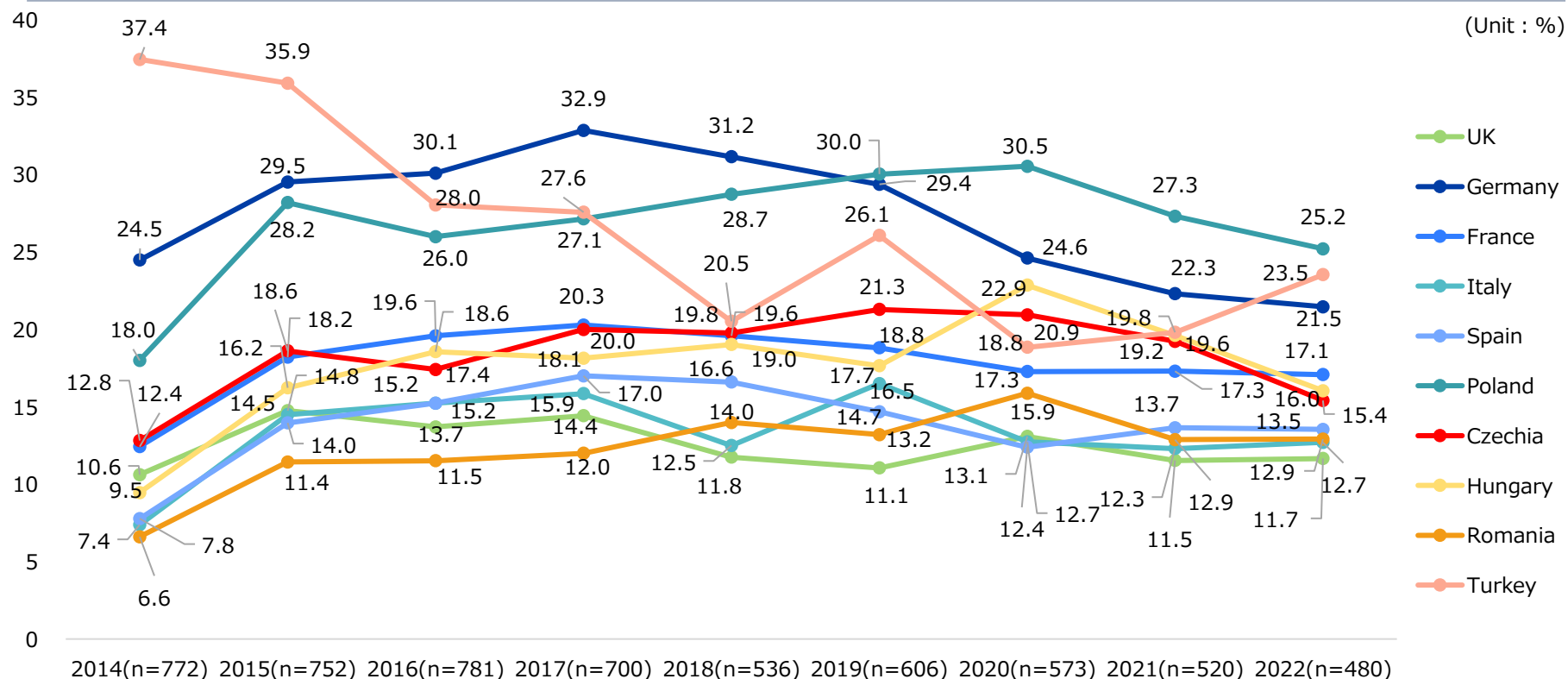
Future policy for sales in the UK



1 | Poland, Turkey and Germany are among the top promising sales destinations

- Poland maintained its top position for four consecutive years, followed by “Turkey” which exceeded “Germany” for the 1st time in 7 years. The UK ranked again in the top10. In CEE, in addition to Poland, Hungary (5th place), Czechia (6th) and Romania (8th) ranked in the top 10, and the main reasons for selecting CEE remained same for 3 consecutive years as “Increased demand accompanying economic growth” and “Relocation/expansion of business partners”.
- 9 (83 in 2021) companies selected Russia, and 19 (31 in 2021) companies selected Ukraine. These marked declines in number are seemed be the result of Russia's invasion of Ukraine.

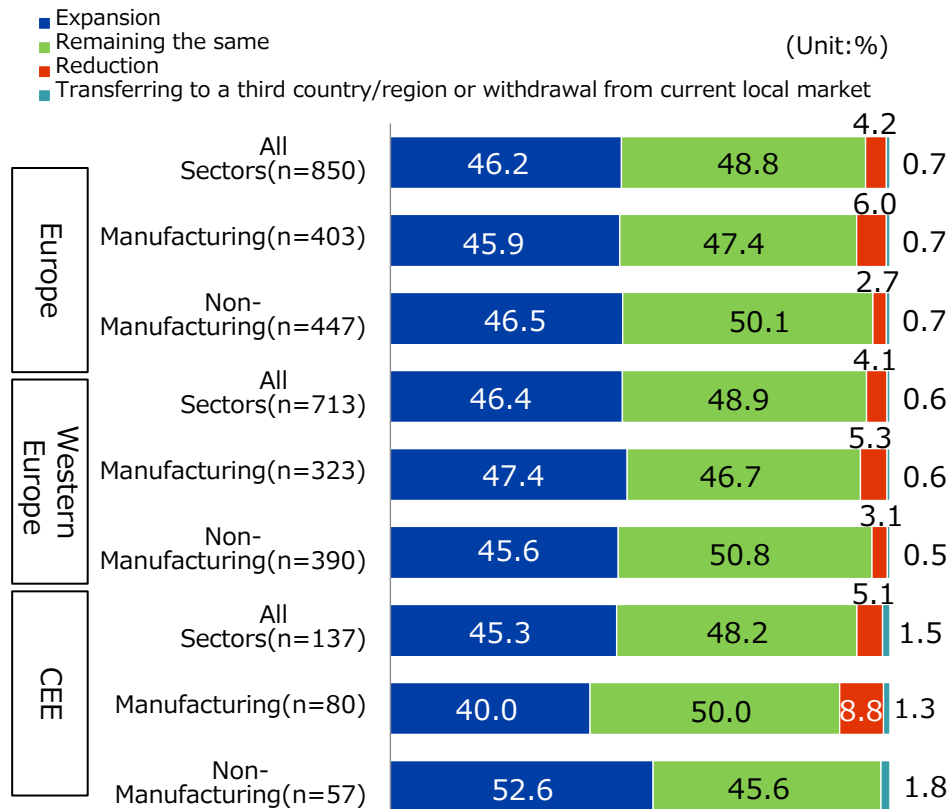
Future promising sales destinations trends (Top 10 countries in 2022 survey) <multiple answers given>



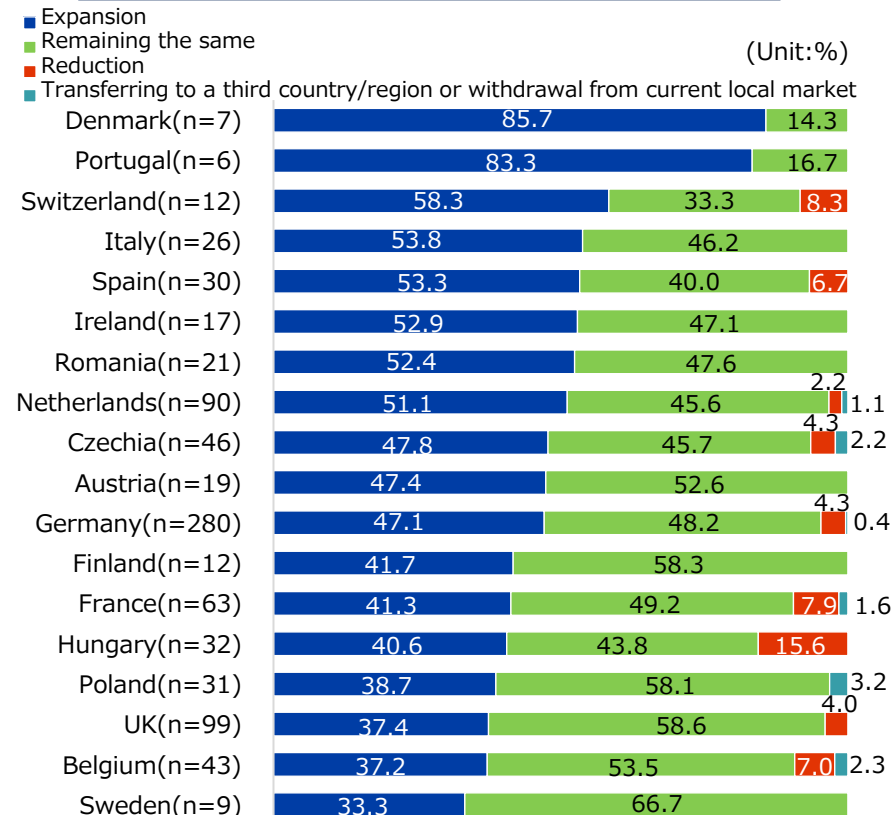
1 | Planning future business “Expansion” decreased slightly, “Remaining the same” and “Reduction” increased slightly

- 46.2% of companies responded that they planned for “Expansion” of business in the next 1 or 2 years, a decrease of 1.6 points from the previous year’s survey. The main reasons for doing so were “High growth potential” and “Sales increase due to expanded export destinations (market growth)”. On the other hand, 48.8% responded “Remaining the same” and 4.2% responded “Reduction”. These were an increase of 1.2 points and 0.8 points respectively from the previous survey.
- By country, the proportion of “Expansion” was the highest with 85.7% in Denmark, with voices pointing out “High growth potential” as the most common reasons.

**Business outlook in the next 1 or 2 years
(by industry)**



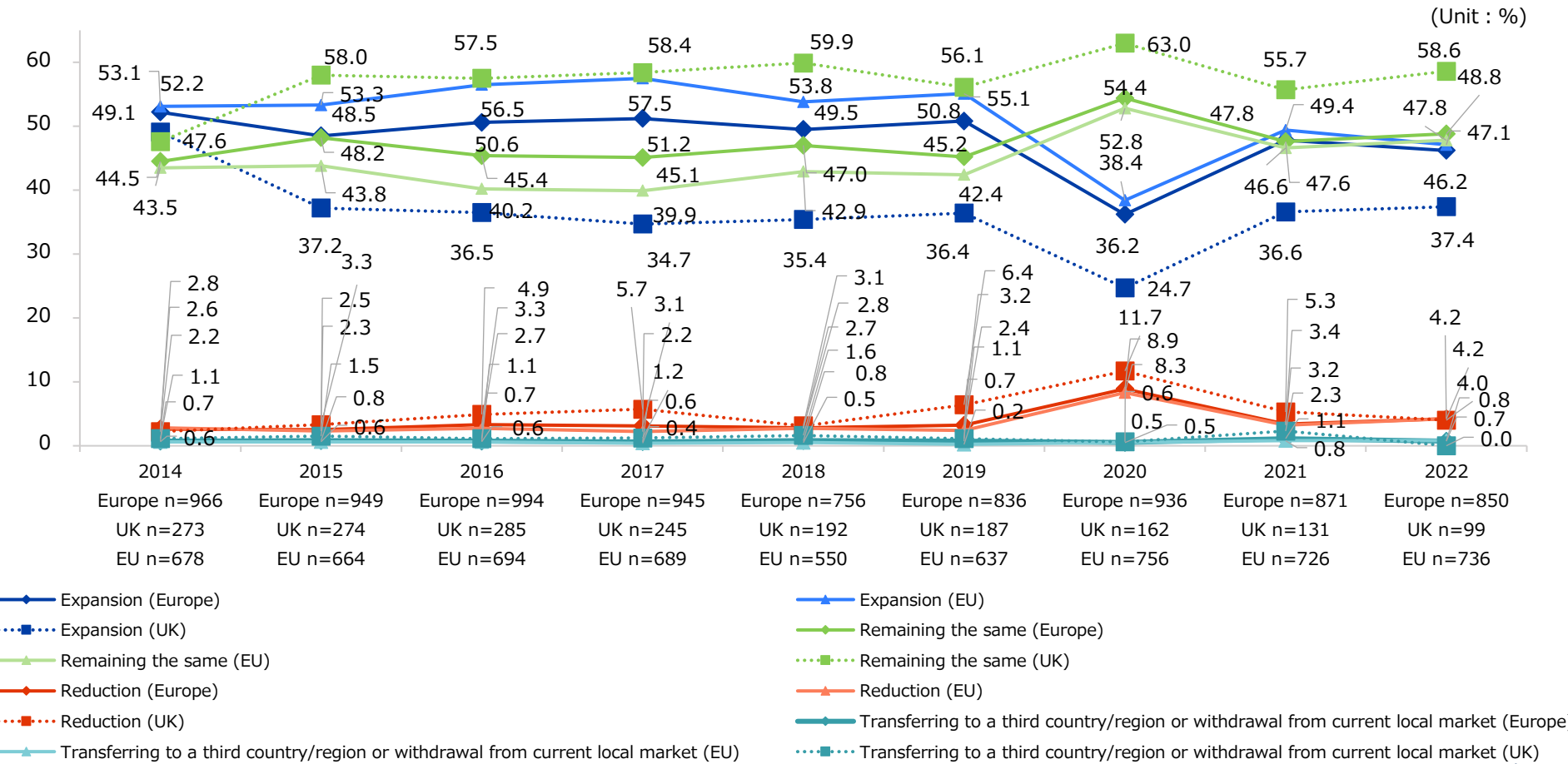
**Business outlook in the next 1 or 2 years
(by country)**



2 | “Remaining the same” exceeds “Expansion” in all sectors

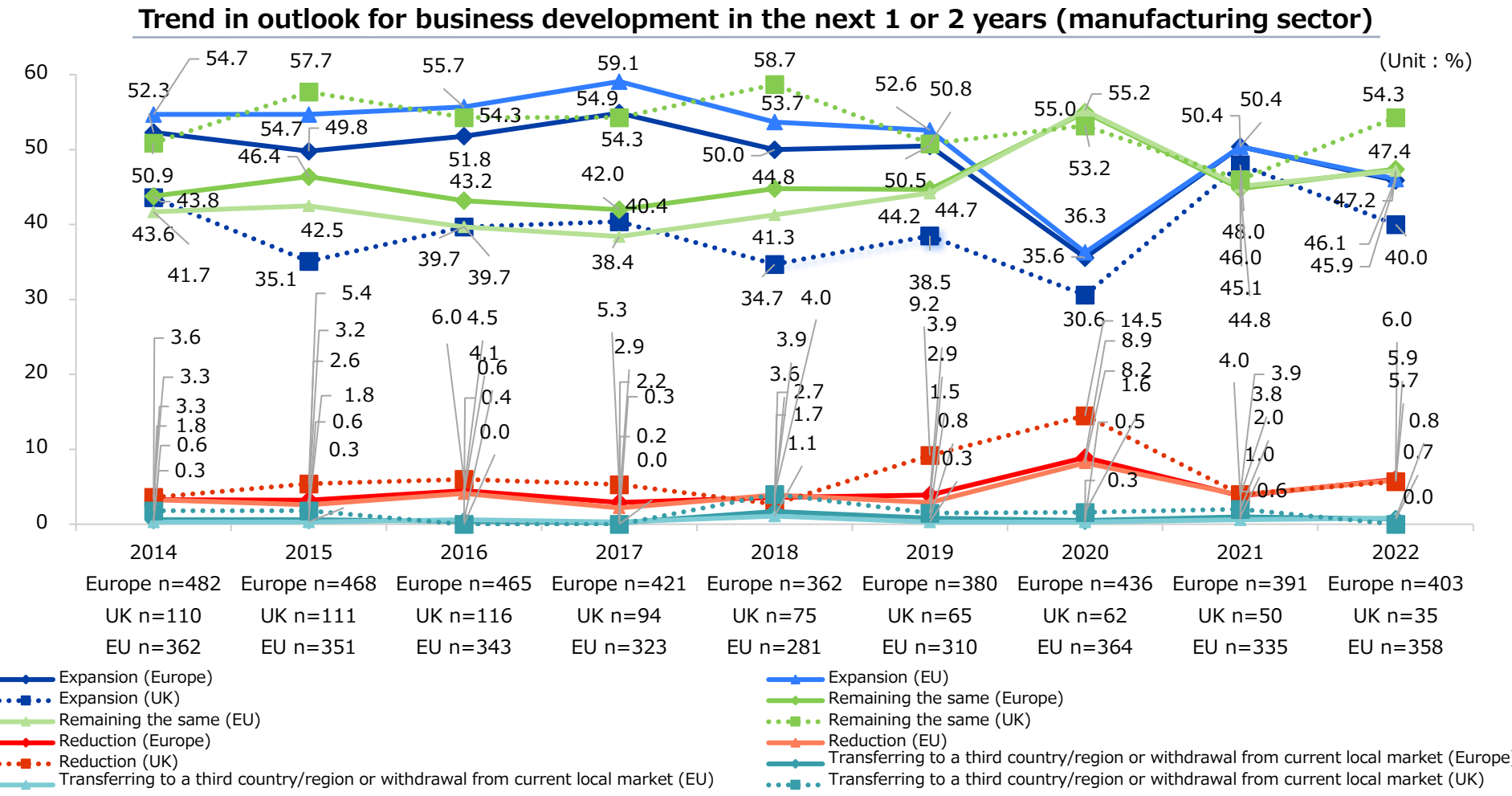
- Regarding business plans for the next 1 or 2 years, across all sectors, the response rate of “Remaining the same” was 48.8% and exceed “Expansion” in Europe overall, for the 1st time after 2020’s survey which had the impact of the COVID-19. There is a possibility that uncertainty about the future due to the situation in Ukraine affected the results. No Japanese affiliated companies in the UK responded to “Transferring to a third country/region or withdrawal from current local market”.

Trend in outlook for business development in the next 1 or 2 years (all sectors)



3 | In the manufacturing sector as well, the response rate of “Remaining the same” was the highest, with the UK at the top

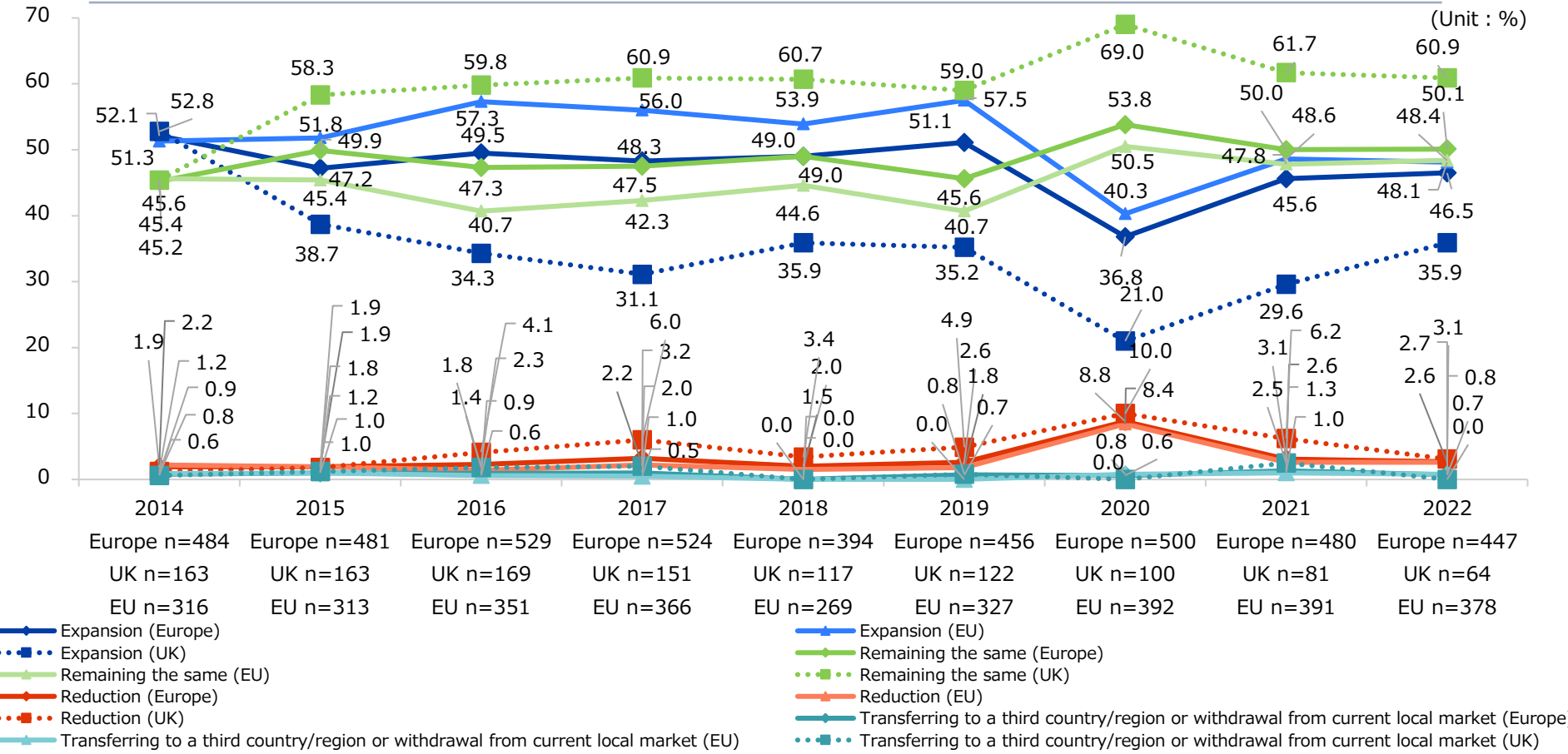
- In the manufacturing sector as well, the response rate for “Remaining the same” exceeded and reversed with “Expansion”. It is similar in the EU and the UK, and the response rate for “Remaining the same” in the UK was high at 54.3%. There is clear tendency to take a wait-and-see approach due to the situation in Ukraine.



4 | Non-manufacturing companies in Europe overall including EU also show the trend to wait-and-see

- The response rate for “Remaining the same” in the no-manufacturing sector was 50.1% in Europe overall, indicating that many companies will continue taking a wait-and-see approach as in the previous survey. Even in the EU where the response rate for “Expansion” exceeded “Remaining the same” in the previous survey, “Remaining the same” was the most common response by a narrow margin in the 2022's survey.

Trend in outlook for business development in the next 1 or 2 years (non-manufacturing sector)

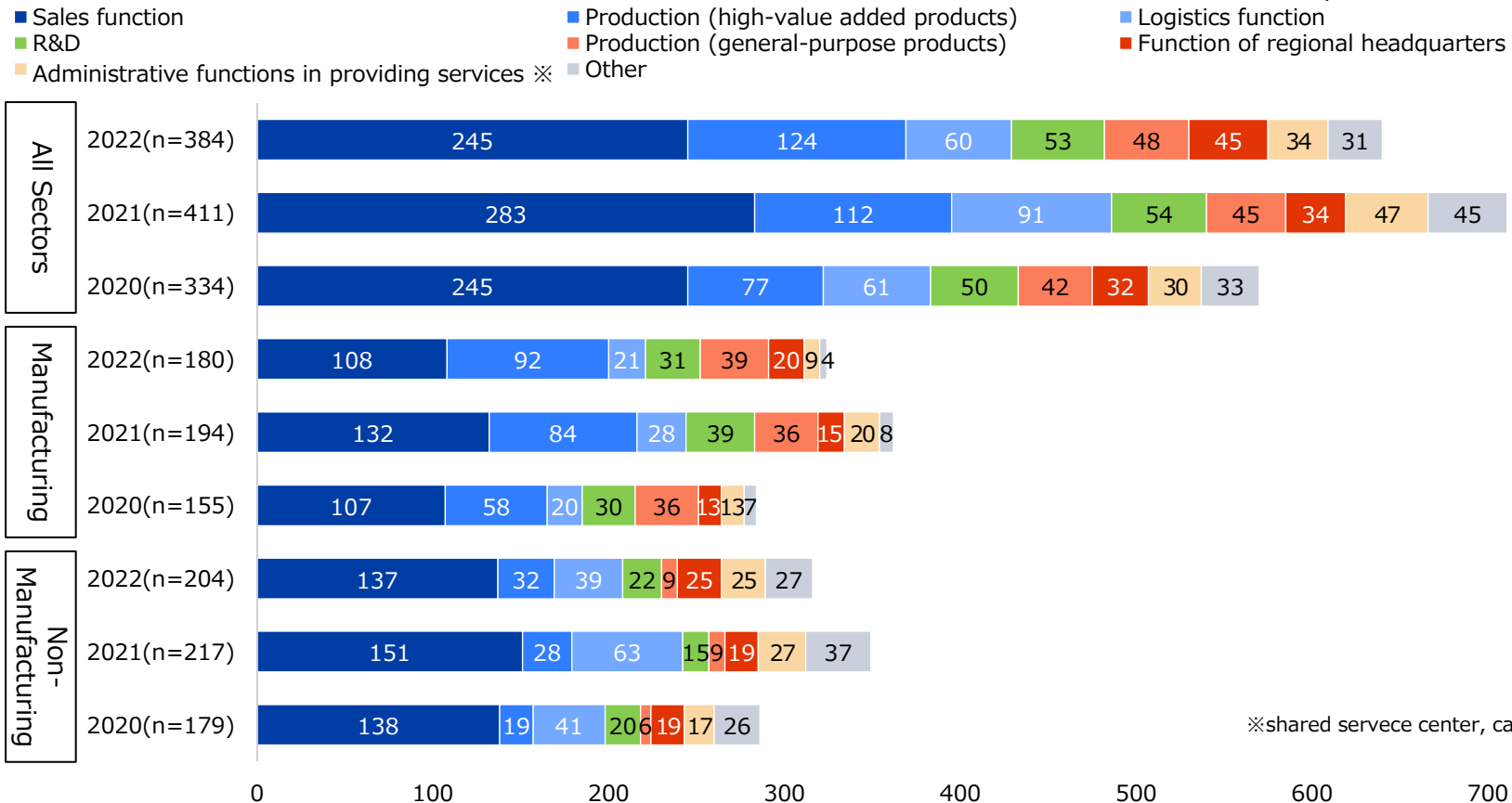


5 | “Sales” continues to be the highest function for “Expansion” as in the previous survey

- When companies responding that they planned for “Expansion” of business in the next 1 or 2 years were asked specifically what functions they intended to expand, “Sales function” was the most common answer. This is the same trend as the previous year, but in 2022's survey, “Function of regional headquarters” and “Production (general-purpose products)” surpassed “Administrative functions in providing services” respectively.

Functions to expand <multiple answers given>

(Unit : Number of respondents)



※shared service center, call center, etc.

6 | By country of operation, respondents in Germany cited “Expansion” the most, again

- Following the previous survey, Japanese-affiliated companies based in Germany accounted for the most responses of “Expansion” of business in the next 1 or 2 years. Looking at the functions to be expanded, Germany came in top for almost all functions as well. Regarding “Administrative function in providing services”, the Netherlands surpassed Germany for responses.
- Germany, the Netherlands and the UK continued to be the top 3 countries in the number of Japanese-affiliated companies which responded to expand “Function of regional headquarters”, followed by France and Poland which emerged as fourth and fifth respectively in 2022's survey.

Top countries with large numbers of responding companies selecting expansion by function

	1st	2nd	3rd
Sales Function	Germany (94)	UK (27)	Netherlands (23)
Production (high-value Added products)	Germany (35)	Netherlands (14)	Czechia (11)
Logistics Function	Germany (16)	Netherlands (12)	France (5)
R&D	Germany (16)	France, Spain (5 each)	UK, Belgium (4 each)
Function of regional headquarters	Germany (14)	Netherlands (8)	UK (5)
Production (general-purpose products)	Germany (11)	Spain (5)	France, Netherlands, Czechia, Romania (4 each)
Administrative function in providing services	Netherlands (7)	Germany (6)	France (5)

(Note) The figures in brackets indicate the number of responding companies.

Number of companies selecting function of regional headquarters

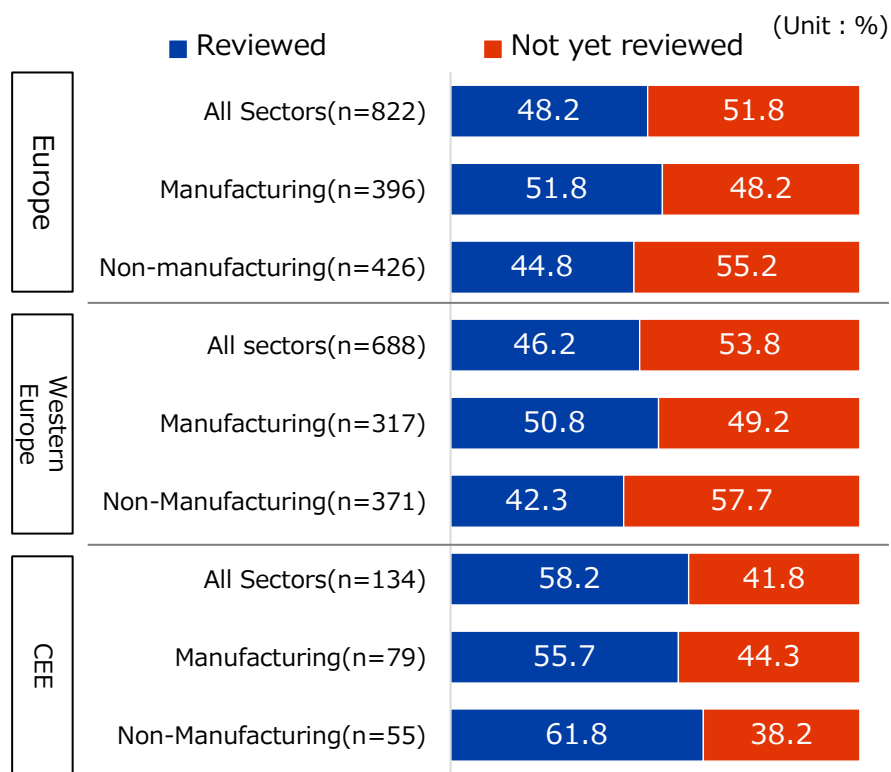
	2017	2018	2019	2020	2021	2022	Change since '2021
Total	53 (11.3)	37 (10.1)	41 (9.8)	32 (9.6)	34 (9.6)	45 (11.7)	11 (2.1)
Germany	19 (15.3)	14 (12.8)	11 (9.8)	18 (14.9)	12 (8.9)	14 (10.9)	2 (2.0)
Netherlands	10 (20.8)	1 (8.3)	8 (18.6)	4 (8.0)	9 (17.6)	8 (17.8)	△1 (0.2)
UK	8 (9.5)	9 (13.6)	2 (2.9)	3 (7.7)	4 (8.3)	5 (14.3)	1 (6.0)
France	3 (5.8)	2 (5.9)	6 (14.6)	1 (3.6)	1 (2.6)	4 (16.0)	3 (13.4)
Poland	1 (5.3)	0 (0.0)	1 (7.1)	0 (0.0)	0 (0.0)	3 (25.0)	3 (25.0)

(Note) The figures in brackets indicate the proportion of companies that selected the function of regional headquarters among companies that responded “Expansion”.
(Unit : %, “Change since 2021” indicates point)

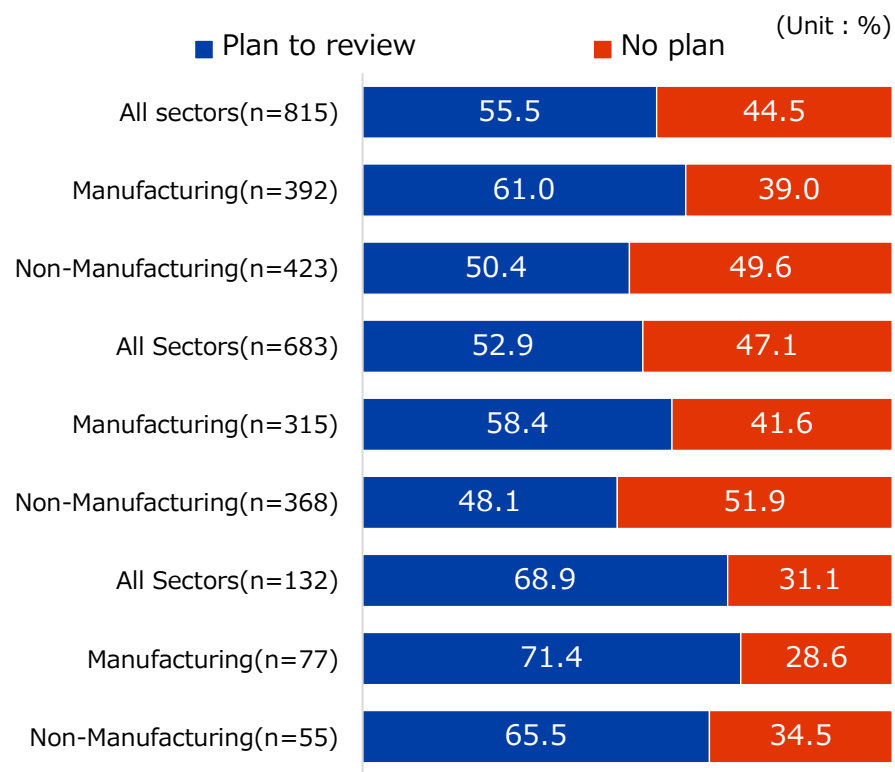
1 | About half of Japanese-affiliated companies in Europe has reviewed their supply chain(SC)

- In the manufacturing sector, ratio of “Reviewed (2020 onwards)” and “Plan to review” was higher than in the non-manufacturing sector. The proportion of “Reviewed” was the highest for “Medicines (76.9%)” followed by “Motor Vehicles/Motorcycles (72.7%)”.
- CEE exceeded Western Europe in the response rate of “Reviewed” and “Plan to review”. For “Reviewed”, Poland (66.7%), Sweden (66.7%) and Spain (65.5%) were in top ranking, and the ratio of “Plan to review” was high in Poland (80%), Spain (75.9%) and Denmark (71.4%).

Have you reviewed your SC (procurement /sales/production)2020 onwards?(by industry)



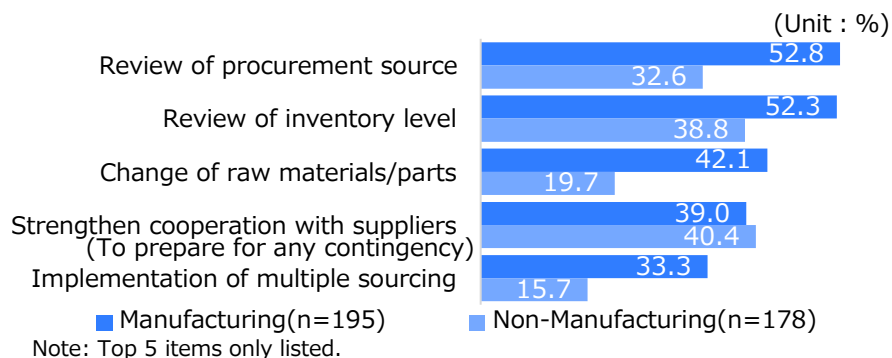
Do you plan to review your SC (procurement /sales/production)strategy? (by industry)



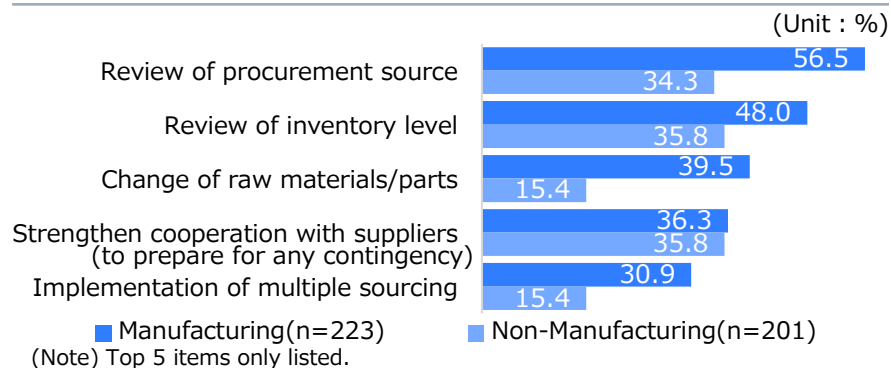
2 | Review of suppliers and inventory level are progressing in the manufacturing sector, mainly in CEE

- From 2020 to the present, more than 50% of manufacturing companies in Europe have already reviewed their suppliers and inventory level. In the manufacturing sector in CEE, 62.8% conducted "Changes of raw materials/parts", 58.1% conducted "Reviews of procurement source" and 55.8% conducted "Reviews of inventory level".
- The top reason for the future review of procurement was "SC disruption risk caused by logistics disruption" in the manufacturing sector, and "Soaring logistics cost" in the non-manufacturing sector. In the manufacturing sector in CEE, "Soaring raw material cost" was the top at 66.7%.

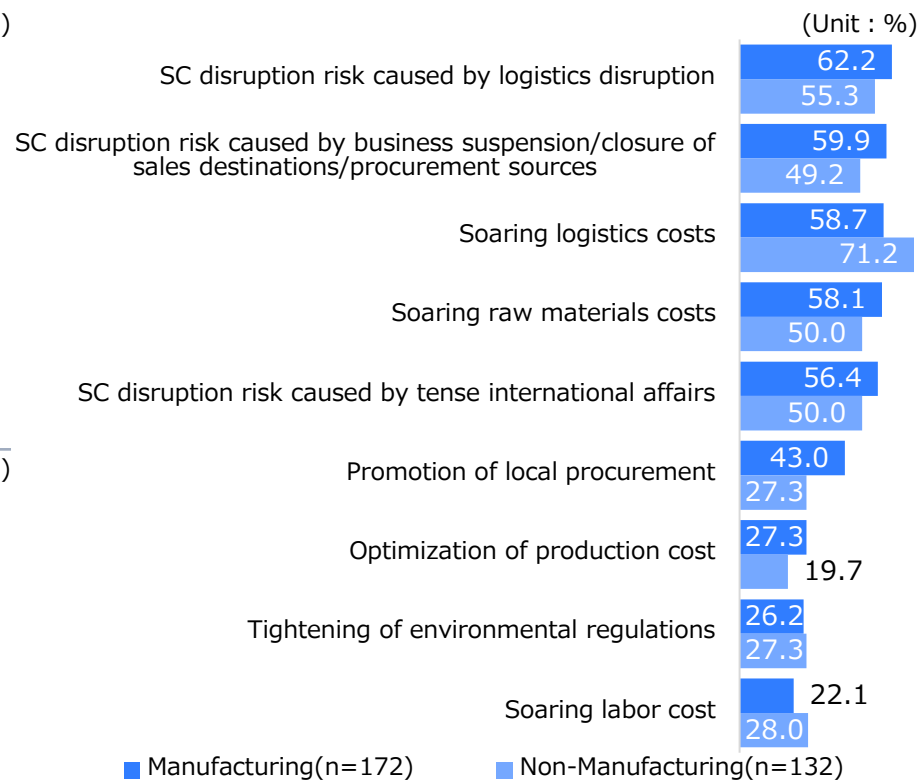
Contents of review of "Procurement" 2020 onwards <multiple answers given>



Contents of expected future review of "Procurement" <multiple answers given>



Reasons for expected future review of "Procurement" <multiple answers given>



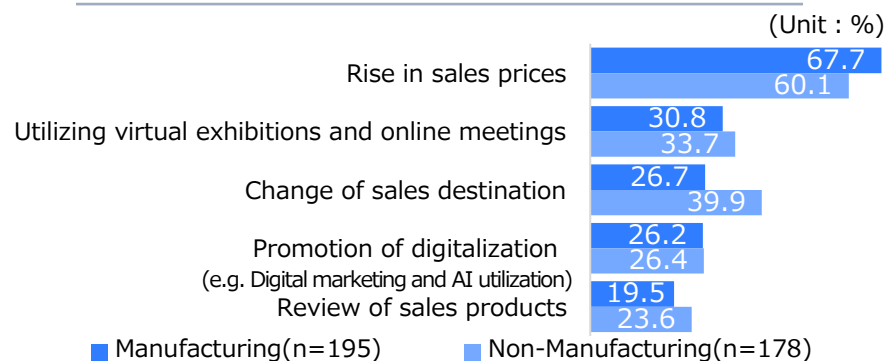
(Note 1) Top 9 items only listed.
(Note 2) "SC" stands for "Supply Chain".

3

Around 70% of manufacturing companies have already raised their selling prices

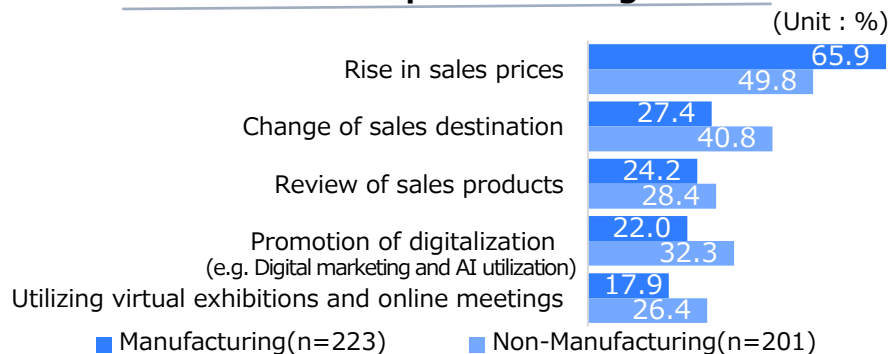
- From 2020 to the present, 67.7% of manufacturing companies in Europe have already raised their sales prices. By sector and region, the highest ratio of companies was 72.4% of the manufacturing companies in Western Europe, followed by 68.8% in the non-manufacturing companies in CEE.
- The most reason for expected future review of "Sales" was "Soaring logistics costs" in both the manufacturing and the non-manufacturing sector. Especially in non-manufacturing sector in CEE, the proportion reached 60.9%.

Contents of review of "Sales" 2020 onwards <multiple answers given>



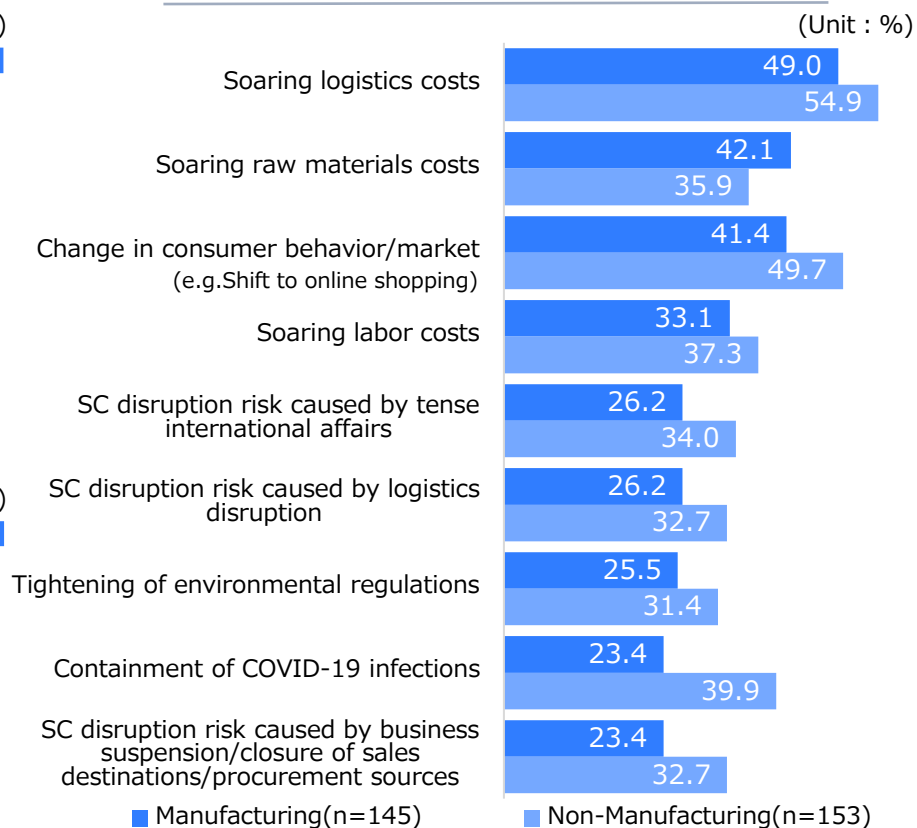
(Note) Top 5 items only listed.

Contents of expected future review of "Sales" <multiple answers given>



(Note) Top 5 items only listed.

Reasons for expected future review of "Sales" <multiple answers given>



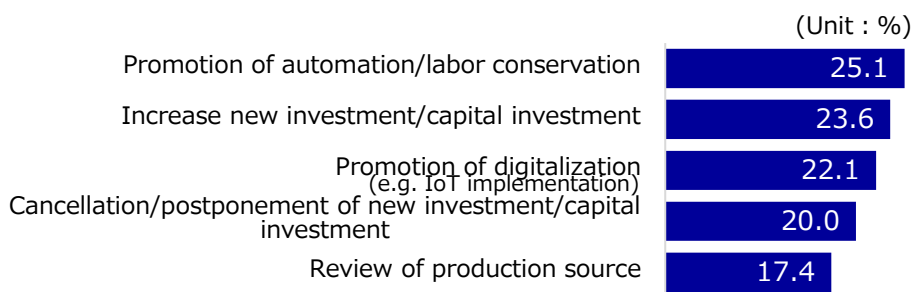
(Note 1) Top 5 items only listed.

(Note 2) "SC" stands for "Supply Chain".

4 | Production review through automation and investment reinforcement has progressed

- Regarding reviews already conducted in the manufacturing sector, the proportion of responses was high with “Promotion of automation/labour conservation” at 25.1% (32.6% in CEE and 23.0% in Western Europe) and “Increase in new investment/capital investment” at 23.6% (25.0% in Western Europe and 18.6% in CEE).
- As the reason for expected future review of production, “Optimization of production cost” was the top in the manufacturing in Europe and Western Europe. In CEE, “Soaring labour costs” gained the highest proportion at 63.3%, exceeding “Optimization of production cost” (60.0%).

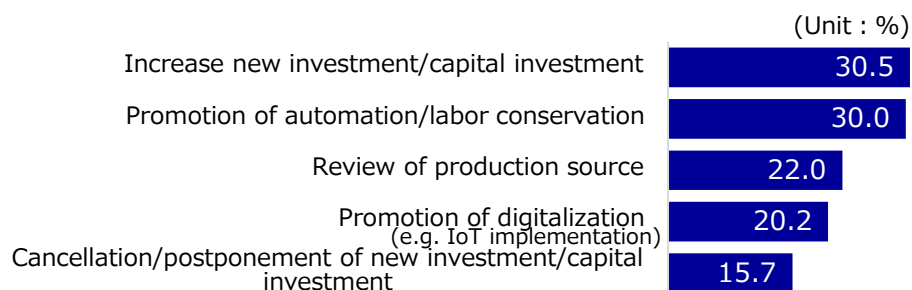
Contents of review of “Production” 2020 onwards <multiple answers given>



■ Manufacturing(n=195)

(Note) Top 5 items only listed.

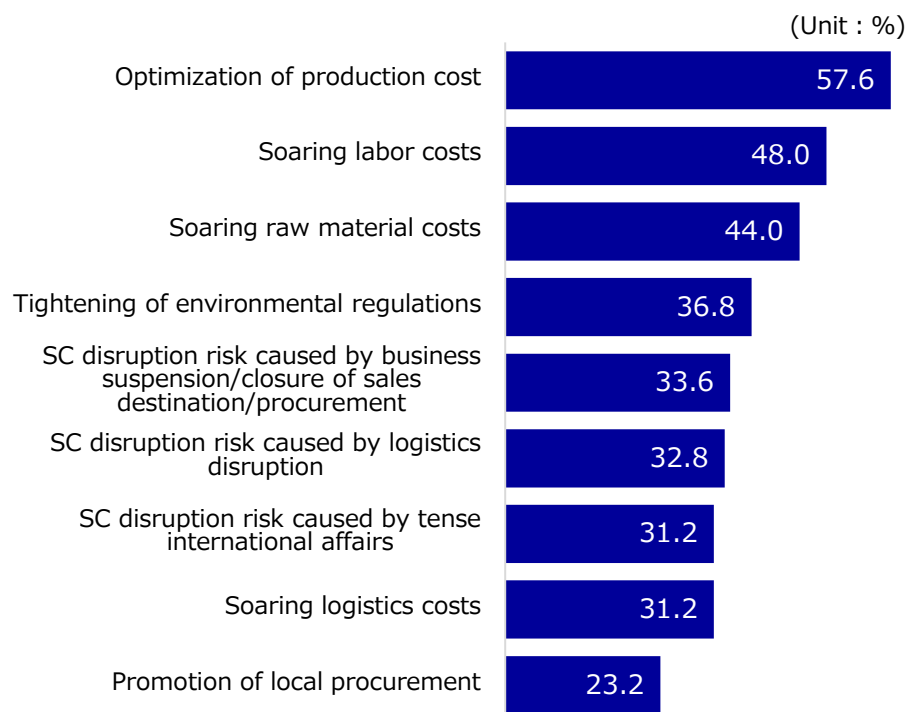
Contents of expected future review of “Production” <multiple answers given>



■ Manufacturing(n=223)

(Note) Top 5 items only listed.

Reasons for expected future review of “Production” <multiple answers given>



■ Manufacturing(n=125)

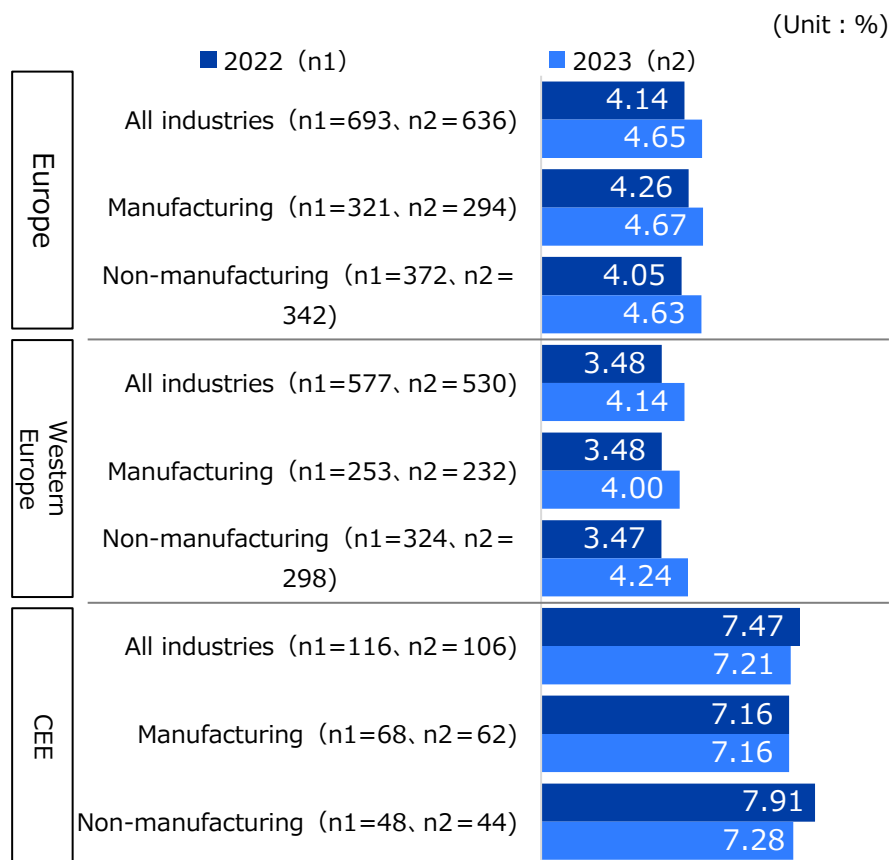
(Note 1) Top 5 items only listed.

(Note 2) “SC” stands for “Supply Chain”.

1 | Rate of increase in base salary was 4.14% for 2022, and estimated to be 4.65% for 2023

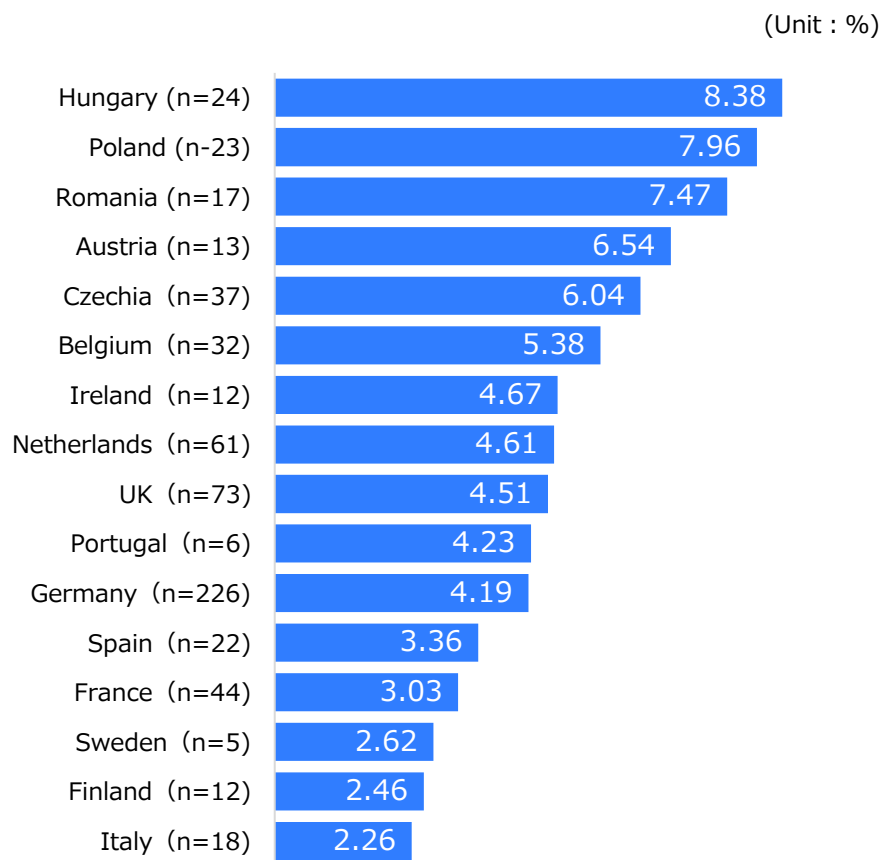
- Rate of increase in base salary (nominal and average) was higher in the manufacturing sector than the non-manufacturing sector, and in CEE than Western Europe respectively. The industry with the highest rate of increase was "Construction/Plant/Engineering (6.25%)" in 2022, and will be "Miscellaneous manufacturing industries (7.50%)" in 2023.
- By country, Hungary, Poland and Romania were the top 3 countries both in 2022 and 2023.

Rate of increase in base salary for 2022 (nominal and average) by industry



(Note) 2023's figures are estimation.

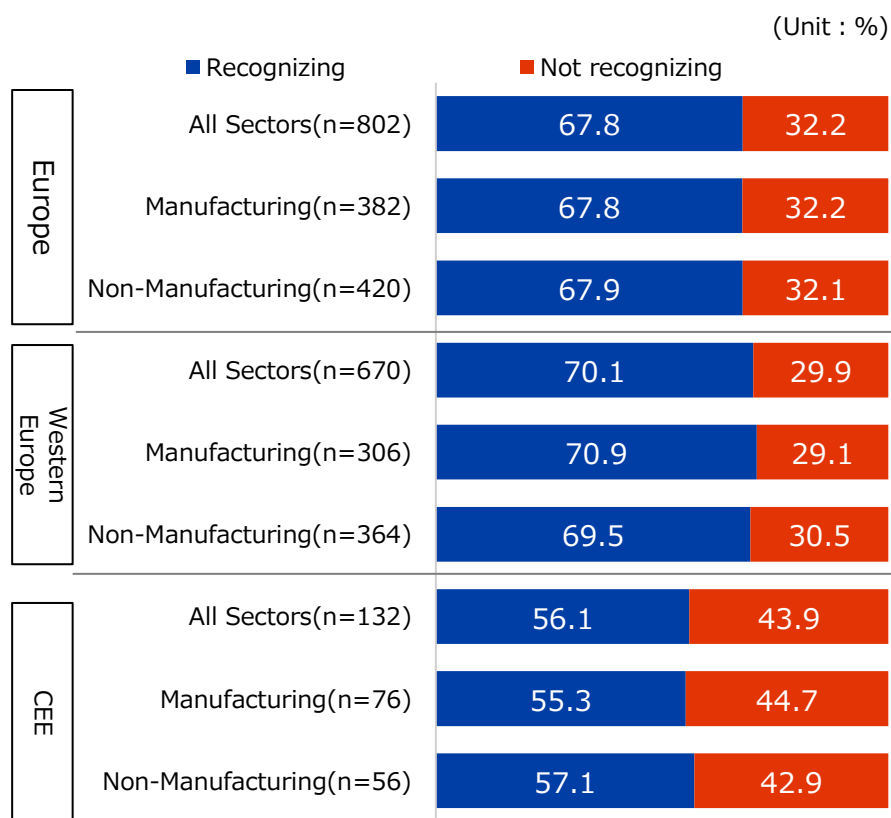
Estimated rate of increase in base salary for 2023 (nominal and average) by country



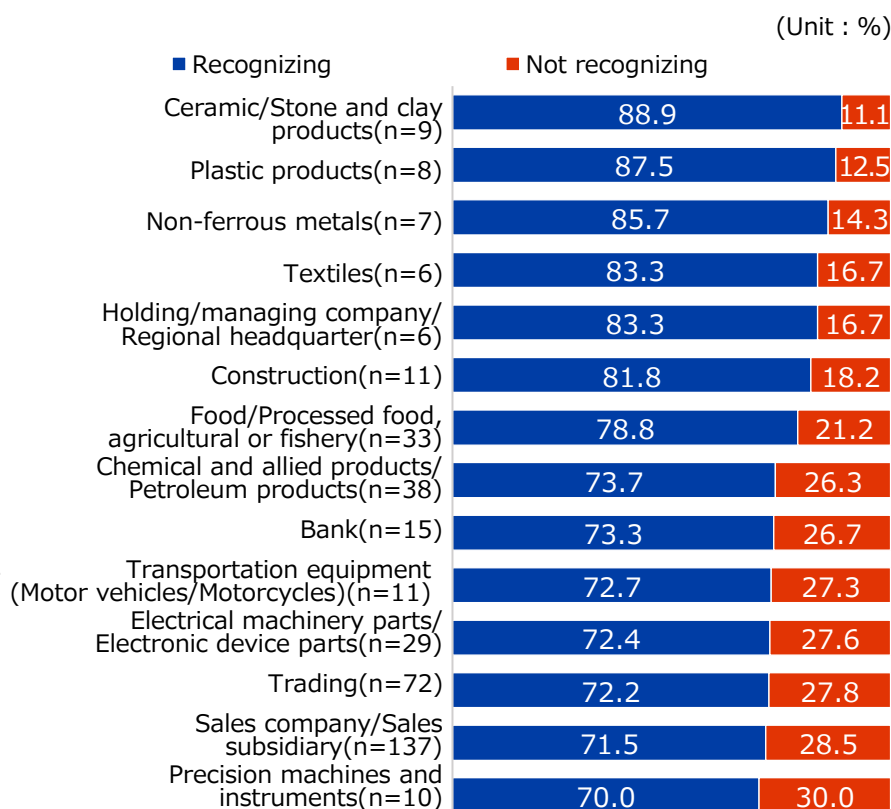
1 | Supply chains and human rights recognized by 70% as management issues

- Regarding human rights issues in supply chains (SC), 67.8% of Japanese-affiliated companies in Europe responded that they considered them as a management issue. By industry, about 90% of companies in ceramic/stone and clay, plastic products, and non-ferrous metals responded that they “Recognized” human rights issues.
- This trend is probably related to the preparation for the EU Corporate Sustainability Reporting Directive(CSRD), and the proposal for a directive on Corporate Sustainability Due Diligence which requires mandatory human rights due diligence in SC.

Recognition of human rights issues in SC as a management issue(by industry)



Recognition of human rights issues in SC as a management issue(by industry)

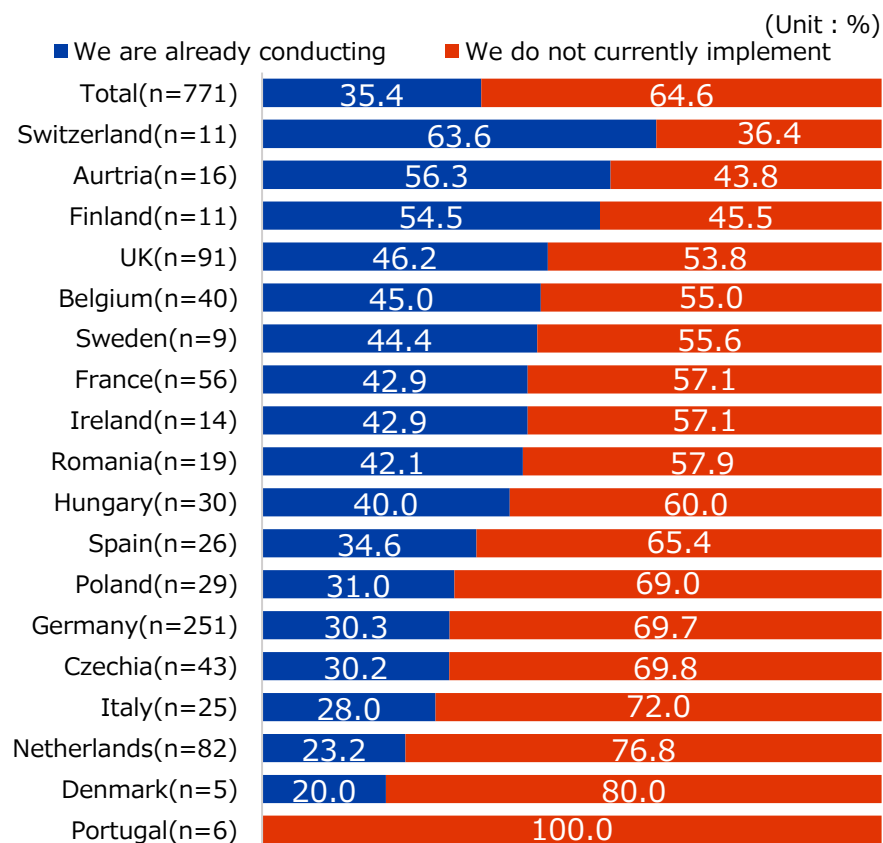


(Note) Only top 14 industries by rate of “recognized” listed.

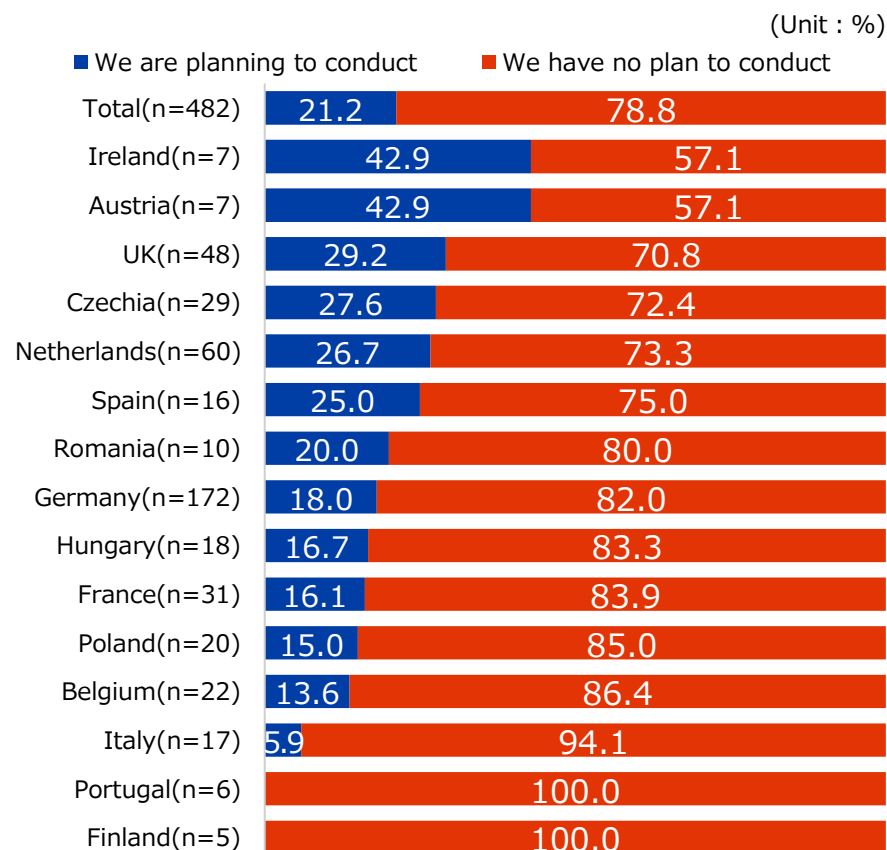
2 | Around 40% of companies conduct human rights due diligence

- 35.4% of Japanese-affiliated companies in Europe responded that they were conducting human rights due diligence (DD). Out of the companies that answered "We do not currently implement", 21.2% were planning to conduct DD in the future.
- A large proportion of respondents, mainly in Western Europe, answered that they were conducting human rights DD. The ratio was 46.2% in the UK and 42.9% in France, where human rights DD-related laws (Modern Slavery Act, Law on the Duty of Vigilance) are already in effect.

Implementation human rights DD(by country)



Plan to implement human rights DD(by country)



(Note) 'n' represents the companies responded that they did not conduct human rights DD.

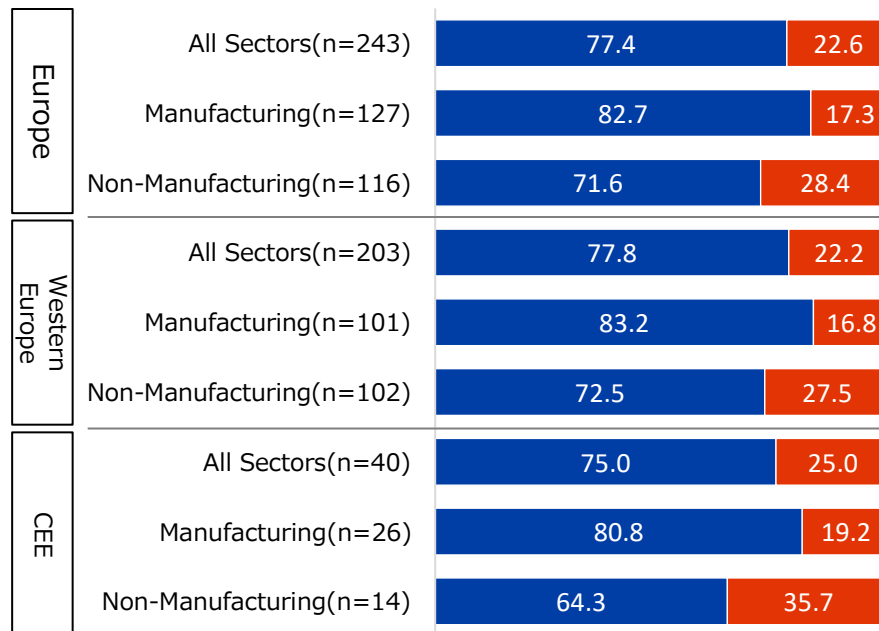
3 | 80% of Japanese companies in Europe require their suppliers to adhere to their policy

- 77.4% of companies require their suppliers to comply with human rights policies in their supply chain (SC). Especially in the manufacturing industry, 82.7% of the enterprises answered that they "require compliance".
- On the other hand, 40.4% of companies responded that they had been asked by their clients to adhere to their policy.

Do you require your suppliers to comply with your company's human rights policy?(by industry)

(Unit : %)

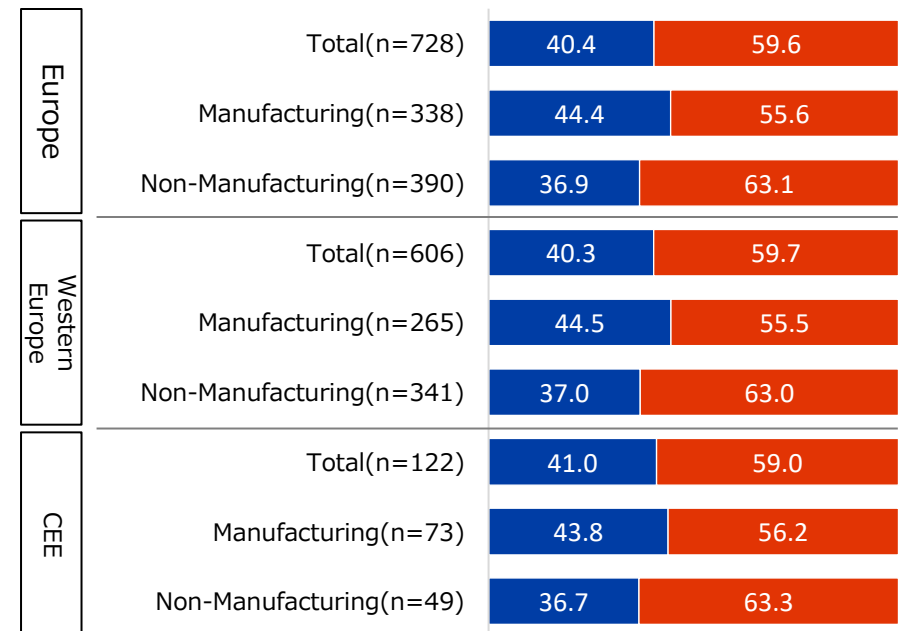
- We require our suppliers to comply with human rights policies
- We do not require our suppliers to comply with human rights policies



Has any of your clients required you to comply with their human rights policy? (by industry)

(Unit : %)

- Our corporate clients required us to comply with the policies
- We have never been required by our corporate clients to comply with the policies

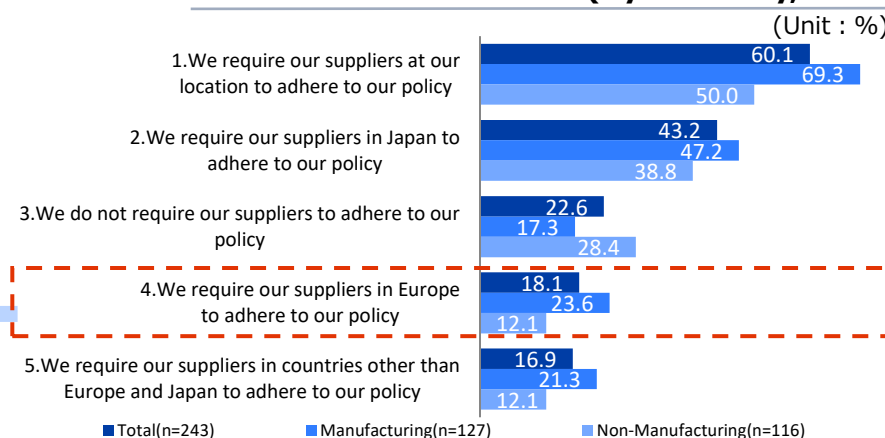


(Note) 'n' represents the companies responded that they did not conduct human rights DD.

4 | 60% of companies requiring local suppliers to adhere to their policy

- Among the companies responding that they “have a policy in place and require our suppliers to adhere to it,” 60.1%, the highest proportion, required it at their location. This was followed by 43.2% responding that they require it to Japanese suppliers.
- Companies responding that they required their suppliers in Europe (other than the country of their location) to adhere to their policy was 18.1%, with Germany (56.8%) followed by UK (52.3%) and France (52.3%) being the top 3 countries where suppliers were located.

Do you require your suppliers to comply with your company’s human rights policy? (by industry, multiple answers given)



Countries where the suppliers are located (n=44)



(Note) ‘n’ represents the companies responded that they were conducting human rights DD.

(Unit : %)

	1	2	3	4	5
Medicines(n=5)	100.0	40.0	0.0	20.0	20.0
Electrical machinery/ Electronic devices(n=7)	85.7	71.4	0.0	28.6	14.3
Food/Processed food, agricultural or fishery(n=13)	84.6	23.1	7.7	7.7	7.7
Miscellaneous manufacturing industries(n=5)	80.0	60.0	0.0	60.0	60.0
General machinery(n=13)	76.9	23.1	15.4	23.1	30.8
Banks(n=7)	71.4	28.6	28.6	14.3	14.3
Chemical and allied products/ Petroleum products(n=13)	69.2	53.8	23.1	15.4	7.7
Electrical machinery parts /Electronic device parts(n=9)	66.7	77.8	11.1	33.3	11.1
Transportation equipment parts (Motor vehicles/Motorcycles)(n=18)	61.1	44.4	27.8	22.2	22.2
Transportation equipment (Motor vehicles/Motorcycles)(n=5)	60.0	80.0	0.0	60.0	40.0

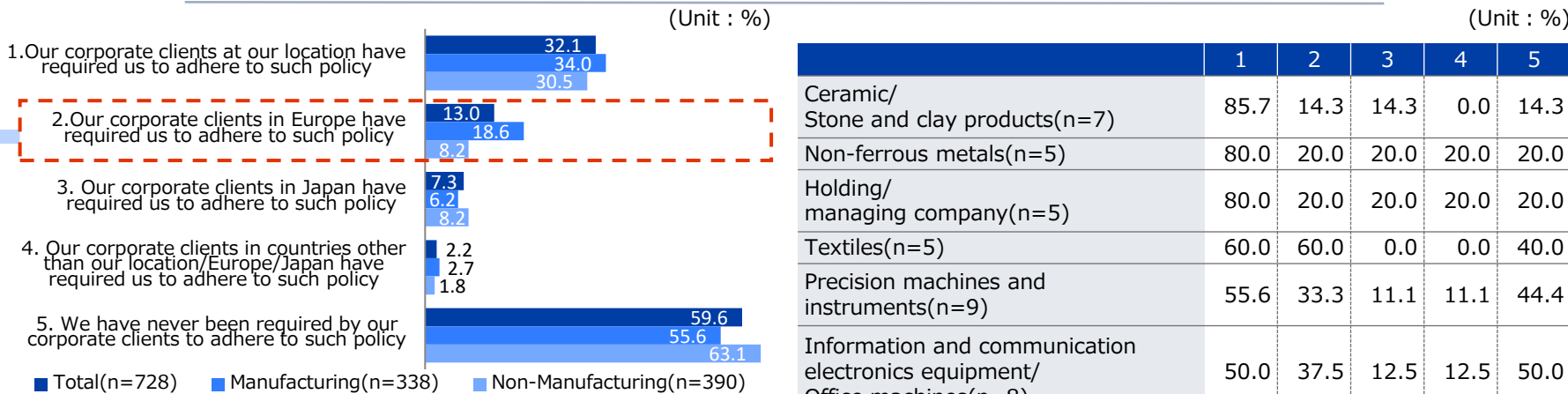
(Note 1) Only top 10 industries by rate of “We require our suppliers at our location to adhere to our policy”.

(Note 2) Items 1-5 are the same as left table.

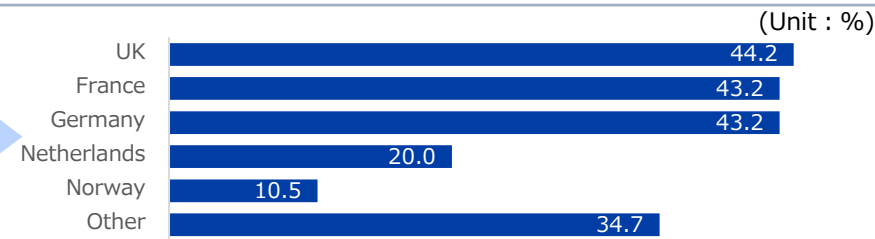
5 | 30% were required by their clients to adhere to their human rights policy

- Among the companies that were required to adhere to the human rights policy of their corporate clients, the proportion of companies that were required by “corporate clients at our location” was the highest at 32.1%, followed by “clients in Europe (other than the country of their location) ” at 13.0%.
- The ratios were high in the countries which already have related legislation in place such as the UK (44.2%), France (43.2%), and Germany (43.2%). On the other hand, 59.6% of companies responded they “have never been required by our corporate clients to adhere to such policy”.

Has any of your clients required you to comply with their human rights policy?
(by industry, multiple answers given)



Countries where the corporate clients are located
(n=95)



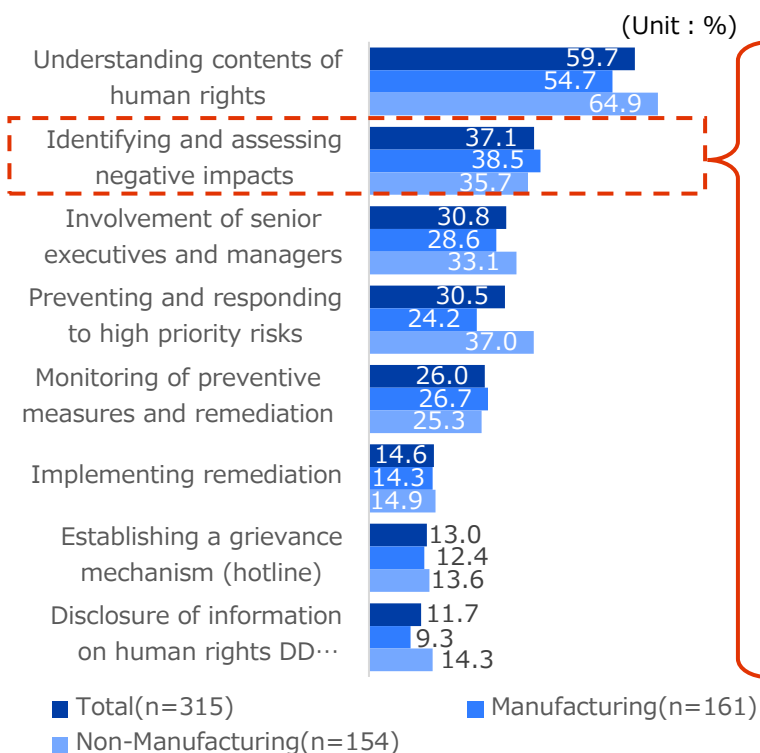
(Note 1) Only top 10 industries by rate of “We require our suppliers at our location to adhere to our policy”.

(Note 2) Items 1-5 are the same as the upper left figure.

6 | Issues include understanding of human rights and identification and assessment of risks

- As issues concerning human rights DD initiatives, many companies cited "Understanding contents of human rights" prior to implementation (59.7%), "Identifying and assessing negative impacts" (37.1%), and "Involvement of senior executives and managers" (30.8%).
- As for measures taken to "Identify and assess impacts on human rights risks", in addition to "Collecting information" and "Identification and visualization of supply chain (SC)", there were initiatives such as implementation of on-site verification and audits, the establishment of consultation desks, and consultation with experts.

Challenges for Human Rights DD efforts (by industry, multiple answers given)



(Note 1) Only top 8 rated industries.

(Note 2) 'n' represents the companies responded "We are already conducting" or "We are planning to implement conduct" human rights DD.

Measures taken to identify and assess the impact on human rights risks (by industry, multiple answers given)



(Note 1) Only top 8 rated industries.

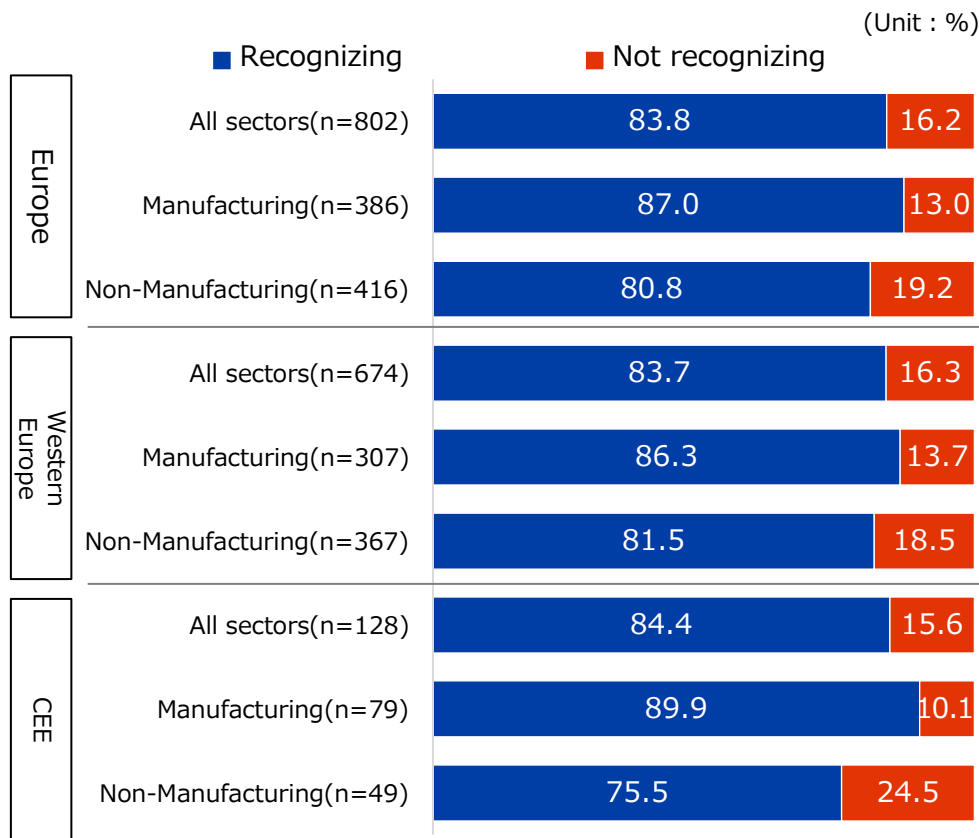
(Note 2) 'n' represents the companies responded "We are already conducting".

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1 Making efforts for decarbonization recognized by more than 80% as management issues

- 83.8% of companies in Europe in all sectors recognize decarbonization (reducing emissions of greenhouse gas) in the supply chain (SC) as a management issue. 90% of companies in the manufacturing industry in Central and Eastern Europe responded that they "Recognized".
- "Recognition by the head office as an issue" and "requests from customers" were cited as reasons to make efforts for decarbonization.

Do you recognize decarbonization in the supply chain as a management issue? (by industry)



Main reasons for responding "Yes"

- Because the head office recognizes it as an issue
- In response to customer demands
- To respond to changes in the market
- To fulfill our social responsibilities
- To tackle SDGs
- For ESG management
- As it is a global trend
- In response to the tightening of regulations for decarbonization

Main reasons for responding "No"

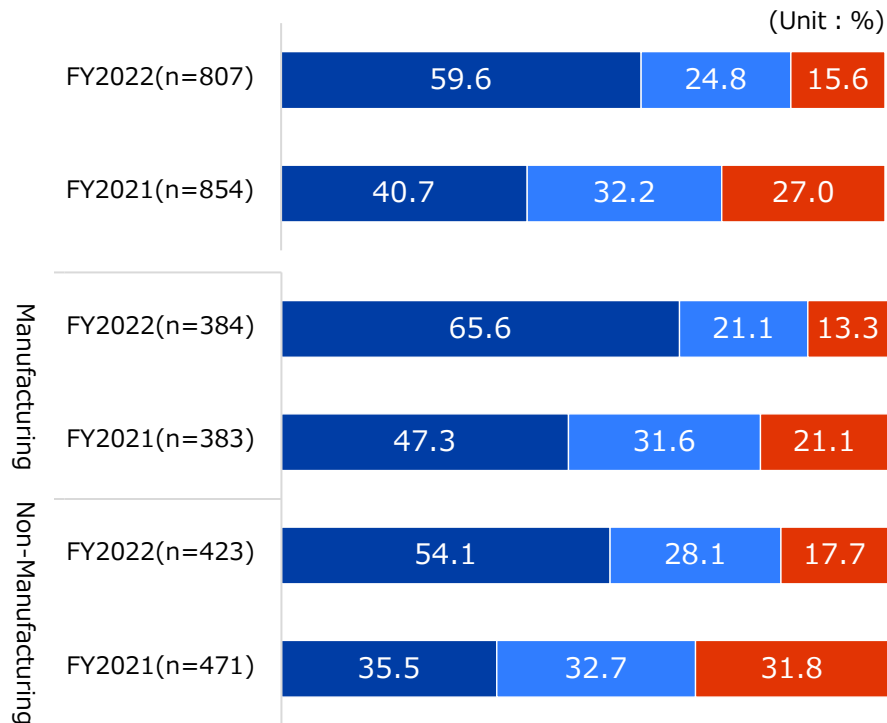
- As this is the response of the head office (response at the local base is not required)
- No/limited use of supply chain
- No/low carbon dioxide emissions
- Due to other priority issues

2 | 60% of companies were making efforts for decarbonization, major progress in 1 year

- The proportion of enterprises engaging in decarbonization was 59.6%, an increase of 18.9 points from the previous year's survey (40.7%). Compared to the non-manufacturing sector, the manufacturing sector is making progress, and 65.6% of the manufacturing industry responded that they are "already making efforts". By industry, "Transportation equipment" accounted for 75.0% and "General machinery" accounted for 70.4%.
- In all countries, the proportion of "We are already making efforts" exceeded 50%.

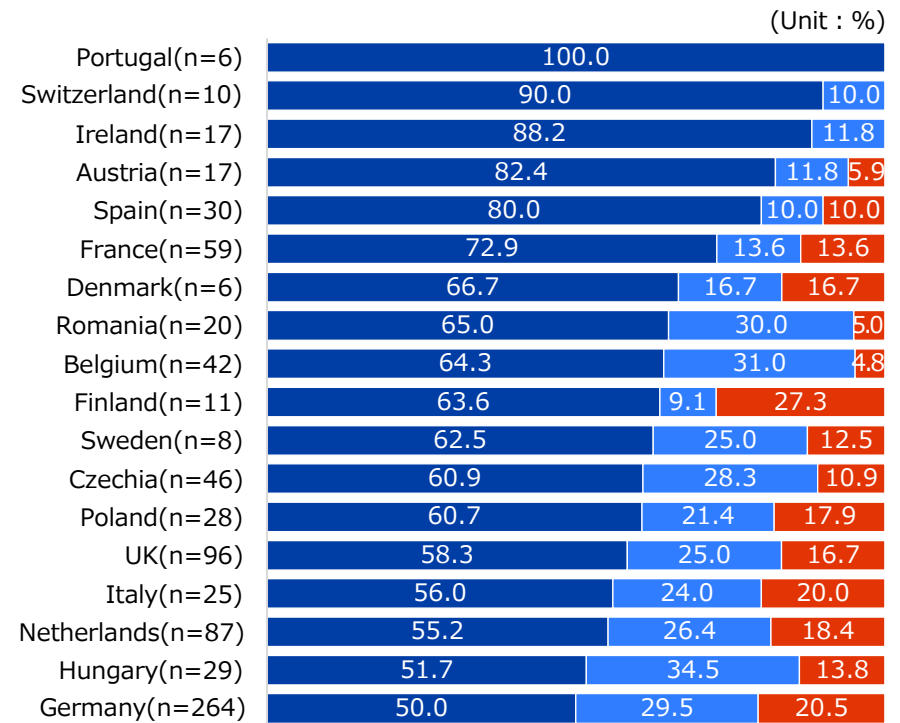
Situation of efforts for decarbonization

- We are already making efforts
- We have not made any effort yet, but we are planning to do so
- We have no plan to make any effort



Situation of efforts for decarbonization (by country)

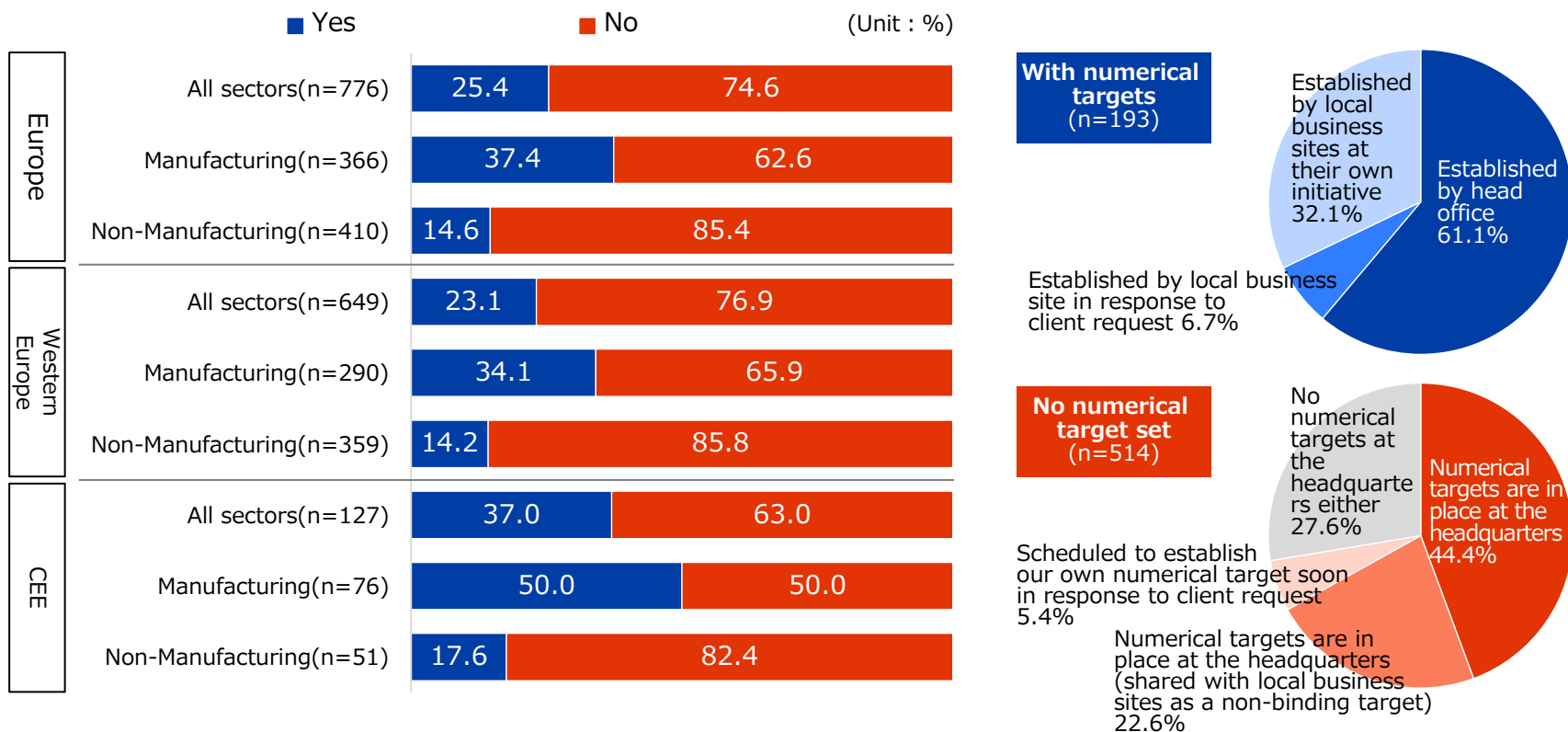
- We are already making efforts
- We have not made any effort yet, but we are planning to do so
- We have no plan to make any effort



3 | Initiatives accelerate, but one in four companies has set numerical targets

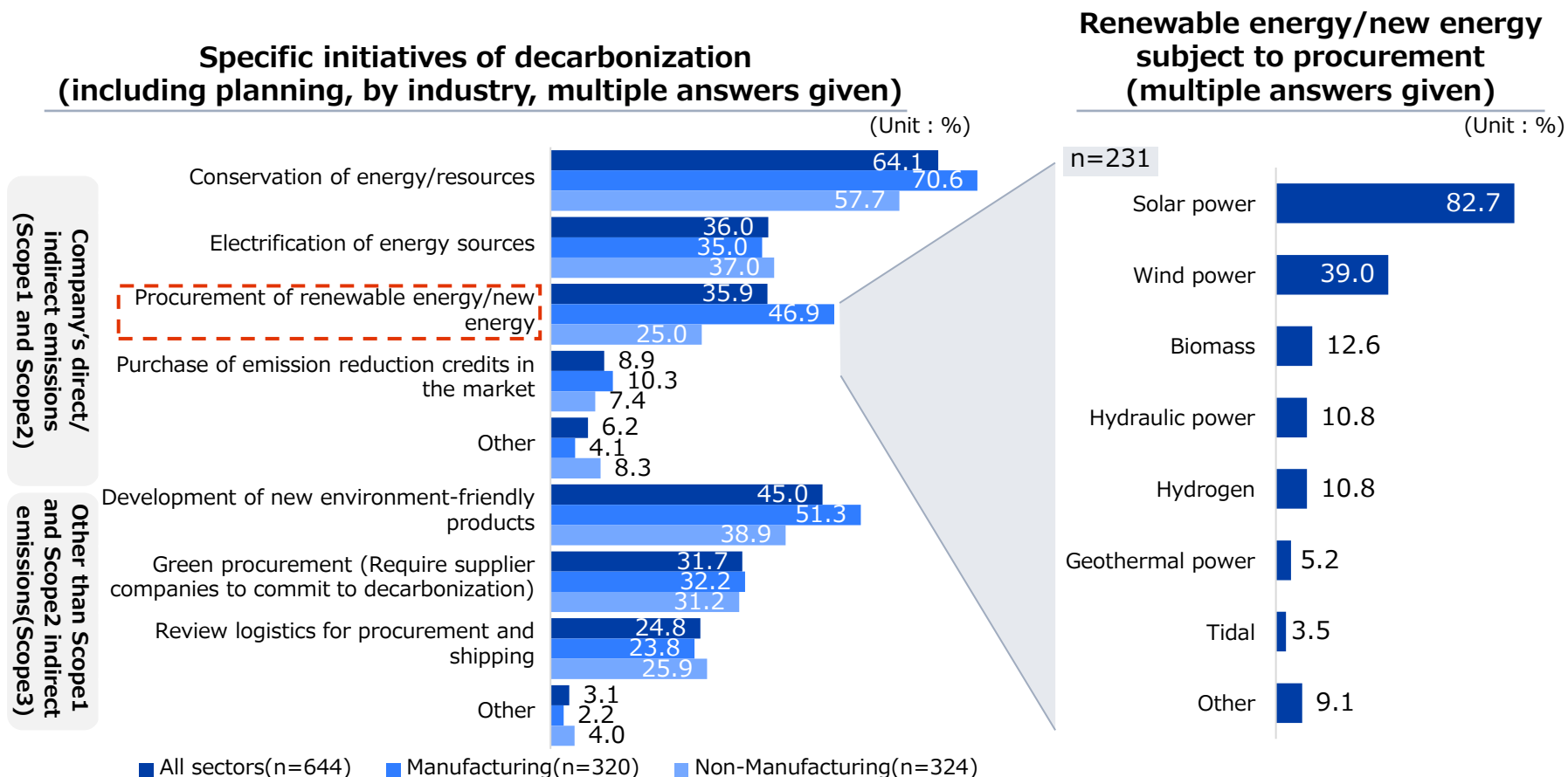
- Only 25.4% of companies had their own numerical targets at local bases. Meanwhile, half of manufacturing sector in CEE set numerical targets. By industry, "Transportation equipment" accounted for 63.6% and "Transportation equipment parts" accounted for 45.6%.
- Regarding the reason to establishing numerical targets, 61.1% responded "Established by head office" and only 6.7% responded "in response to client requests". On the other hand, 5.4% of companies that do not have numerical targets, plan to establish it by client requests.

Numerical targets for emission reduction and reuse of energy



4 | In the manufacturing sector, 70% conserve energy and resources

- "Conservation of energy/resources" was the most popular initiative (64.1%), a 14.4-point increase from the previous year. In the manufacturing sector, it reached 70%. The ratio of companies engaging in "Green procurement" increased sharply from 18.1% in the previous year to 31.7%.
- As for renewable energy/new energy subject to procurement, proportion of responses of "Solar power" (82.7%) was outstanding, followed by "Wind power" (39.0%). Proportion of responses for "Solar power" was high in Germany (49 companies, 92.5%).

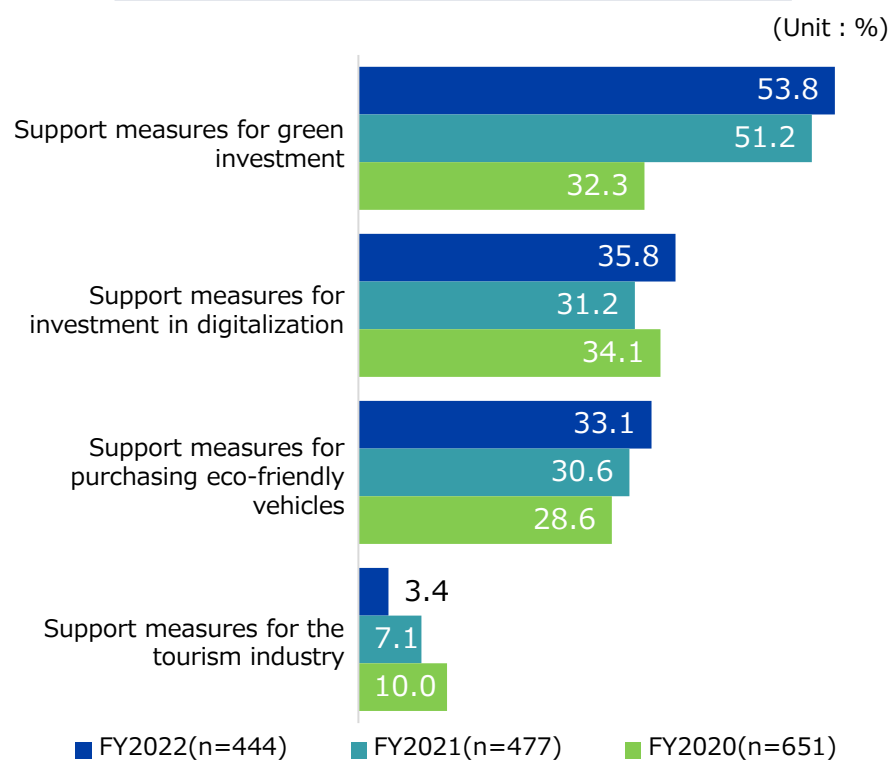


(Note) 'n' is the number of companies that responded "We are already making efforts" or "We have not made any effort yet, but we are planning to do so".

5 | Increased interest in support for green investment due to COVID-19

- Regarding measures implemented by respective EU member states to support business recovery from COVID-19, “Support measures for green investment” was the prime concern at 53.8%. In the manufacturing sector, it reached 67.0%. “Support measures for green investment” and “Support measures for purchasing eco-friendly vehicles” increased for two consecutive years since the 2020 survey.
- Proportion of responses of “Support measures for green investment” was the highest in countries except for Germany and Romania.

**Recovery support measures of interest
(multiple answers given)**



**Recovery support measures of interest in 2022
(by country, multiple answers given)**

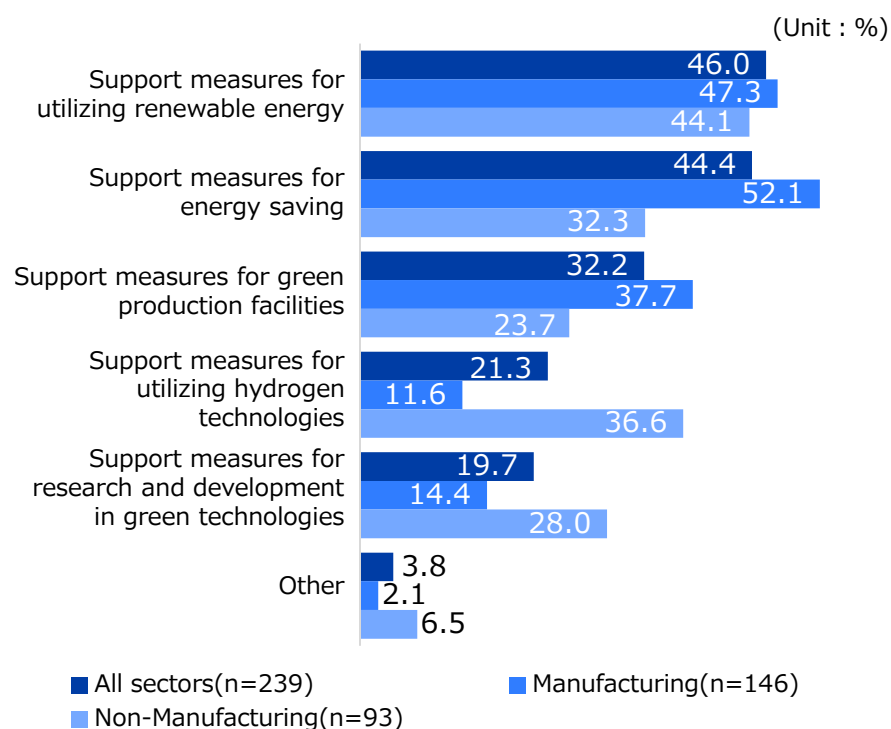
(Unit : %)

	Support measures for green investment	Support measures for investment in digitalization	Support measures for purchasing eco-friendly vehicles	Support measures for the tourism industry
EU(n=400)	53.5	36.5	34.0	3.3
Germany(n=148)	32.4	37.8	41.9	2.7
Netherlands(n=46)	63.0	32.6	30.4	4.3
UK(n=39)	59.0	25.6	25.6	5.1
Czechia(n=33)	81.8	36.4	24.2	0.0
Belgium(n=22)	63.6	27.3	36.4	0.0
Spain(n=22)	68.2	31.8	9.1	4.5
France(n=21)	52.4	23.8	14.3	14.3
Hungary(n=19)	52.6	42.1	26.3	0.0
Poland(n=18)	72.2	50.0	38.9	0.0
Italy(n=17)	70.6	41.2	29.4	0.0
Romania(n=15)	40.0	46.7	40.0	0.0
Austria(n=14)	78.6	28.6	71.4	14.3
Ireland(n=8)	87.5	25.0	25.0	0.0
Portugal(n=5)	80.0	60.0	0.0	0.0

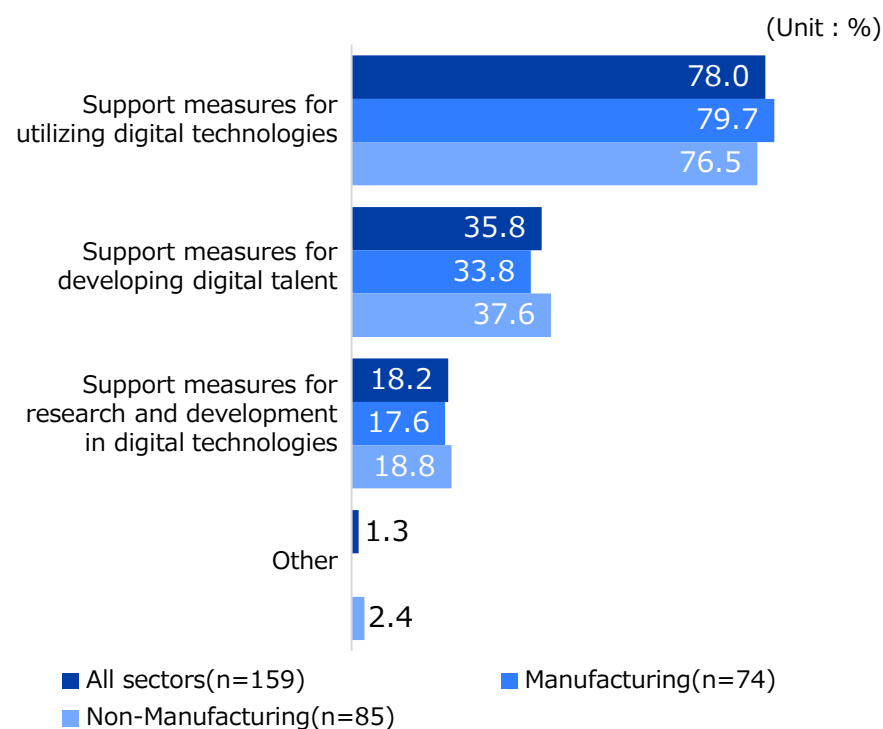
6 Interest in using support measures for renewable energy and digital technology

- As for the content of support measures for green investment interested to use, "Support measures for utilizing renewable energy" was the prime concern at 46.0%. In the manufacturing sector, "Support measures for energy saving" exceeded 50%. Specifically, the use of support for the installation of heat pumps and the promotion of the use of railways as a means of transportation were mentioned.
- As for the content of support measures for investment in digitalization interested to use, "Support measures for utilizing digital technologies" was nearly 80%. Many respondents cited utilization of digital transformation (DX), introduction of enterprise resource planning (ERP), and promotion of Industry 4.0.

**Support measures for green investment interested in use
(by industry , multiple answers given)**



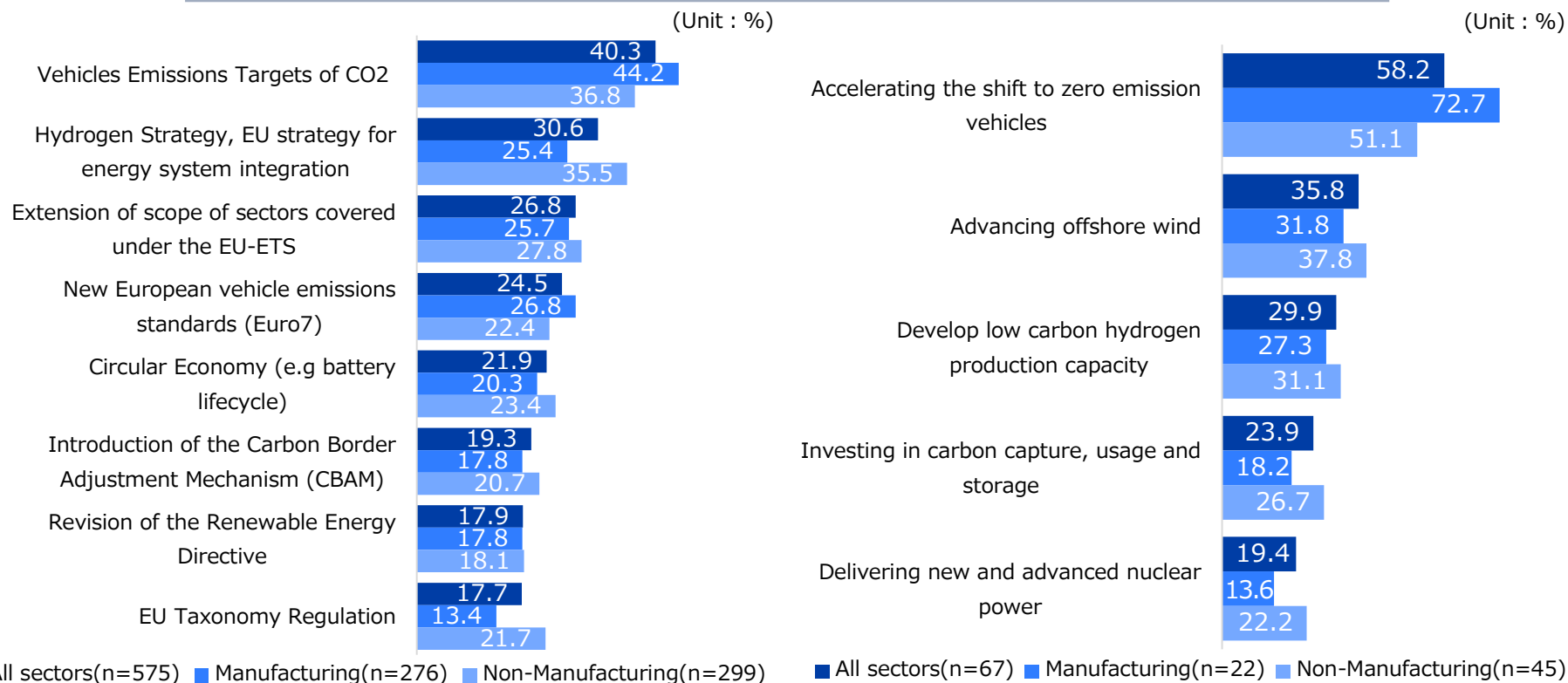
**Support measures for investment in digitalization interested in use
(by industry , multiple answers given)**



7 | Continued interest towards the shift to EV in Japanese companies in the EU and the UK

- Regarding green- and digital-related policies and regulations being promoted in the EU and the UK that companies were concerned with, "Vehicles Emissions Targets of CO2" (40.3%) in the EU and "Accelerating the shift to zero emission vehicles" (58.2%) in the UK had the most responses, showing that the shift to EV was gathering attention in the automotive industry respectively.
- In the automotive CO2 regulation in the EU, attention was paid to "Ban for sales of new internal combustion engine cars from 2035" (70.7%).

Policies or regulations for green or digital of interest <Left : the EU、Right : UK> (by industry, multiple answers given)



(Note) 'n' indicates Japanese-affiliated companies in Europe.
Only the top eight items are listed.

(Note) 'n' indicates Japanese-affiliated companies in UK.
Only the top 5 items are listed.

8 | Efforts to calculate greenhouse gas emissions vary among companies

- Regarding examples of new businesses and investment projects related to decarbonization, the introduction of alternative energy sources and the development and switching of products are conspicuous.
- Some companies have already worked on calculating and grasping greenhouse gas emissions, while others have cited it as an issue. Issues such as the difficulty of responding to laws and regulations are also highlighted.

New projects and new business opportunities

Alternative energy	• Utilization of renewable energy (implemented in each country) • Study for the introduction of next-generation energy (hydrogen, ammonia, etc.) (UK, Germany)
Carbon recycling	• Operation and effectiveness of CO2 recovery equipment (UK, Netherlands) • Participation in programme of Sustainable Aviation Fuel (SAF) and purchasing of SAF (Ireland, Belgium, Spain)
Product development and switching	• Reduction of parts weight for saving fuel (Netherlands) • Development of recycled materials (France) • Reduce emissions by changing to low GWP (Note) air conditioning (Spain, Austria, Czechia) • Differentiation by handling products using recyclable raw materials (Germany)
Visualization	• Introduced external software to track CO2 emissions (Netherlands) • Establishment target for reduction emissions of Scope3 (UK, Spain) • Appointment of full-time personnel (Ireland)

(Note) Abbreviation of Global Warming Potential.

Challenges for initiatives and local regulations and systems that are difficult to respond to

Cost	• Increase packaging material cost by de-plastic (UK) • Achieving both cost increases and economic rationality through decarbonization (Ireland, Germany, Czechia, Switzerland, etc.)
Laws and regulations	• Trends in EU ETS (Netherlands, Sweden) • Difficulties in responding to changes in product labels, etc., as recycling regulations differ from country to country (Germany) • Response to CBAM (Germany, Belgium, Sweden, Czechia) • Response to the Corporate Sustainability Reporting Directive (CSRD) (Germany) • Trends in proposal for Ecodesign for Sustainable Products Regulation (France)
System	• Positioning of PHEV and HEV for carbon neutral (UK)
Policy	• Government policy on conversion to hydrogen fuels (UK)
Visualization	• Difficult to calculate Scope3 (supplier survey) (Germany) • Calculation methods for Life Cycle Assessment (LCA) (Germany, Netherlands)

For Inquiries, Please Contact:

**Japan External Trade Organization
(JETRO)**

**Overseas Research Department
Europe, Russia and CIS Division**



03-3582-5569



ORD@jetro.go.jp



**6F ARK Mori Building, 1-12-32,
Akasaka, Minato-ku, Tokyo
107-6006**

■ Note

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