

2016 JETRO Survey on Business Conditions of Japanese Companies in Europe

5th December 2016

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



Responsibility for any decisions made based on or in relation to the information provided by this report shall rest solely on readers. Although JETRO strives to provide accurate information, JETRO will not be responsible for any loss or damages incurred by how the readers use the information provided in this report.

Reproduction without permission is prohibited.

Survey Overview

Survey Objective

- This survey analyses the activities of Japanese affiliated companies operating in Europe, in order to comprise an understanding of operating challenges etc. that could be directly impacting their business performance. This research can be used to assist these companies in developing an overseas operation strategy and policy planning. It is also intended to be used as a basis of information, so that that governmental agencies can provide sufficient support towards Japanese- affiliated companies based in Europe.

Survey Target

- This survey was sent to a total of 1,403 companies between the 20th of September to the 18th of October 2016. Exactly 1,000 responses were received, giving a response rate of 71.3%.
- This survey was targeted towards *Japanese Affiliated Companies*, which refers to a company where the ratio of direct or indirect investment from Japanese companies is 10% or more. It also includes European sub-subsidiaries established by European or non-European Japanese affiliated companies. However *representative offices*, *liaison offices* and *companies owned by Japanese persons locally in Europe* are not included in this survey.

Please Note

- Survey results were totalled using the information sources that can be considered reliable by JETRO offices in Europe, however JETRO cannot guarantee complete accurateness of the information provided by the companies.
- Not all respondents answered every question. The component percentages in the tables and charts of the document have been rounded off and therefore may not always add up to 100%. Furthermore, the percentages for questions of which multiple answers are acceptable may not add up to 100%.
- Some countries or industries may not be listed if the number of respondent companies for each are less than 5.
- If the industry, country or region has not been specified in a table or chart, this means the table or chart refers to Europe as a whole.
- This survey has been running continuously since 1983, but in 2012 the survey expanded to include non-manufacturing industries, as well as manufacturing industries. This means that only manufacturing industries can be compared when analysing data from 5 years ago or more.
- Please note that within the graphs “n=” refers to the number of respondents. Also “cos” refers to “companies”.

Survey Results: Target Countries & Industry Breakdown



Manufacturing

- Electric machinery/ electronic equipment
- Motor vehicle and motorcycle parts and accessories
- General machinery (including metal molds and machine tools)
- Chemicals and Petroleum products
- Electric and electronic parts and components
- Pharmaceuticals,
- Motor vehicles and motorcycles
- Food/agricultural/fishery processing
- Precision equipment
- Plastic products
- Fabricated metal products (including plated products)
- Medical devices

- Rubber products
- Ceramic/stone/clay
- Textiles (yarn/cloth/synthetic fabrics)
- Clothing and textile products
- Lumber and wood products (excluding furniture and interior products)
- Paper and pulp
- Iron and steel (including cast and forged products)
- Printed and Published
- Nonferrous metals and products
- Furniture and interior products
- Other manufacturing

Non-Manufacturing

- Sales company
- Trading company
- Transport/warehousing
- Communications/software
- Insurance

- Hotel/travel/restaurant
- Banking
- Securities
- Distribution
- Mining

- Real estate,
- Construction/plants,
- Fishery
- Other non-manufacturing

Survey results

1. Operating Profit Forecasts
2. Operational Challenges
3. Differentiation /Adding Value to products/Services
4. Business Outlook for the next One or Two Years
5. Future Promising Sales Destinations
6. Britain's Exit from the European Union
7. EPA/FTA
8. Local Procurement
9. Changes in the Number of Employees

(Units:cos, %)

	Number of		Industries	
	Valid response	Proportion	Manufacturing	Non-Manufacturing
Overall	1,000	100.0	466	534
■ Western Europe	896	89.6	411	485
UK	287	28.7	117	170
Germany	214	21.4	101	113
France	89	8.9	56	33
Italy	31	3.1	10	21
The Netherlands	70	7.0	24	46
Belgium	50	5.0	24	26
Spain	39	3.9	22	17
Ireland	24	2.4	7	17
Finland	19	1.9	12	7
Switzerland	15	1.5	6	9
Portugal	17	1.7	10	7
Sweden	18	1.8	11	7
Austria	12	1.2	7	5
Denmark	3	0.3	2	1
Greece	7	0.7	2	5
Luxembourg	1	0.1	-	1
■ Central & Eastern Europe	104	10.4	55	49
Czech Republic	26	2.6	14	12
Hungary	24	2.4	15	9
Poland	31	3.1	13	18
Romania	14	1.4	7	7
Bulgaria	2	0.2	1	1
Slovakia	7	0.7	5	2

Survey Results Summary (1)

1. Operating Profit Forecasts

European operating profit forecasts maintained a high level, however 2017 forecasts for UK based Japanese affiliated companies indicates a slight deceleration.

- Looking at the operating profit forecasts over the last 5 years, Europe overall has yearly been forecasting an increase in profit amount. 2016 operating forecast for “profit” was 72.7%, “breakeven” was 14.8% and “loss” was 12.6%. However different to Europe overall, UK-based Japanese affiliated companies’ response rate for profit was 70.4%, a 0.7pp decrease compared to last year. (Fig .1,2)
- Comparing 2017 and 2016 operating profit forecast for Europe as a whole, almost half the companies 45.0% responded “remain the same” , 43.0% responded “Increase” , whereas 12.0% responded “Decrease”. Looking at the number of companies that responded “Increase” by each country, Slovakia responded “increase” the highest at 85.7%, whereas Greece had the lowest at 14.3%. The UK was 2nd from the bottom at 31.6%. (Fig .8, 12)
- Over the past 5 years, comparing the trends of operating profit forecasts found by this annual survey, it can be seen that Japanese- affiliated companies in the UK and Japanese-affiliated companies in Europe have shown similar trends. However for the 2017 forecast, UK based companies could see the effects from the UK’s EU referendum result. The number of respondents answering “Increase” has drastically fallen by 9.1 percentage points compared to the previous year and the number of respondents selecting “No change” also rose by 3.8 percentage points. (Fig. 15)

2. Operational Challenges

European social and political conditions emerged as the biggest issue and there is rising competition between European companies in Central & Eastern Europe.

- Overall “European political and social conditions” was rated as the main operational challenge at 47.9%, increasing by 12.9 pp from last year’s 4th place. This could indicate increasing political uncertainty such as rising populism and EU scepticism as well as growing concerns about the impact on consumption and decreasing tourism, caused by terrorism and migration crisis. In the non-manufacturing category it was even higher at 50.2% (+13.1pp). (Fig.16)
- “Exchange rate fluctuations” rose from 5th place to 2nd place, increasing by 13.5 pp to 47.8%. Showing that the UK’s withdrawal from the EU seems to have had a big influence. Especially in the manufacturing industry, who responded that it was the biggest challenge at 51.4%, (+12.2 pp). “Securing Human Resources” was also the same rate as “Exchange rate fluctuations” 47.8%(+4.4pp). (Fig.16)
- Looking at UK based companies, this year the two highest responses are “Exchange rate fluctuations” increasing by 18.1pp to 59.8% and “European political and social conditions” increasing by 19.9pp to 55.0 % . Although “Economic recession and shrinking markets” had had a low response since 2013, in 2016 it suddenly increased by 16.3 pp to 5th place at 39.5%, showing possible concern about the economic impact of the UK 's withdrawal from the EU has strengthened. (Fig.19)
- In Particular, Central & Eastern European Non-Manufacturing firms cited “Entry of new competitors” as an operational challenge (32.4% in Europe, 39.6% Central & Eastern European non-manufacturing sector, see Fig. 16&18). When asked the specific nationalities of these new competitors, the top answer was “Chinese companies” at 57.1% (+ 1.3 pp last year), followed by “European companies” at 44.5% (+4.5pp) and “S. Korean companies” at 21.0%(-1.6pp). In Central & Eastern Europe, the largest response by far was “European companies” at 76.3%. (Fig.21)

Survey Results Summary (2)

3. Business Outlook for the next 1 or 2 years & Future Promising Sales Destinations

Brexit's Impact is still limited towards business outlook and Germany is emerging as the most promising future sales destination.

- Business outlook for the next 1-2 years, 50.6% of respondents answered “Expansion”, 45.4% chose “Remain the same”, 3.3% “Reduction” and only 0.7% responded “Relocate to a third country or withdrawal from present country.” Central & Eastern European manufacturing sector responded “Expansion”, increasing by 15.1pp to 71.4% (56.3% in 2015). By country, Poland had the highest response rate for “Expansion” at 80.6% and Greece was the lowest at 14.3%. UK again was the 2nd lowest after Greece. (Fig.24,25)
- The data shows UK's vote to leave the EU has not yet seemed to have had much effect on the business outlook for the next 1 or 2 years. Particularly if compared to the 2009 survey results after the 2008 financial crisis, the manufacturing sectors response seems also not have been too affected. Looking at the response rate for “Function of regional headquarters” by country, this year the UK ranked 6th place at 8.7% falling from last year's 2nd place at 18.6%. The UK's vote to leave the EU seems to have started to impact Japanese-affiliated companies regional headquarter strategy (Fig.26, 27, 28,33-1,33-2)
- For future promising sales destinations, this year Germany became first place and Turkey fell to 2nd place. Now that economic sanctions have been lifted, Iran suddenly rose to 10th place from last year's 19th place. Possibly due to the UK's vote to leave the EU, the UK fell from last year's 8th place to outside of the top 10. (Fig.36)

4. Brexit Response

Many companies are contemplating how to deal with regulation or legislation changes and exchange rate fluctuation.

- When UK-based companies were asked what factors would they take into consideration after the UK voted to leave the EU, manufacturing companies responded that “Planning risk management on effects of exchange rate fluctuation” was the biggest factor at 64.0%. Non-manufacturing replied theirs would be “Considering how to correspond to regulation or legislation changes” at 53.9%. Manufacturing's priorities were “Reviewing supply chain” (36%), “Reviewing logistic routes” (23.7%) and “Reviewing product and service prices” (22.8%). Some companies made comments such as “considering to relocate somewhere in the EU” and “looking into shifting the overseas headquarters elsewhere” (Fig.40)
- Looking at Companies based in the other EU countries excluding UK, manufacturing's biggest response was they “Don't Know” yet what factors should be considered at 41.6%. For non-manufacturing the largest response was “planning risk management on effects of exchange rate fluctuation” at 31.8%, however there is a difference in response ratio compared to UK-based non-manufacturing companies. (Fig.40)
- UK-based manufacturing companies 10.5% said they were considering to decrease production. Looking at “Expanding sales” UK-based companies (7.9%) had a slightly larger response rate to other EU based companies (6.3%). (Fig.40)

Survey Results Summary (3)

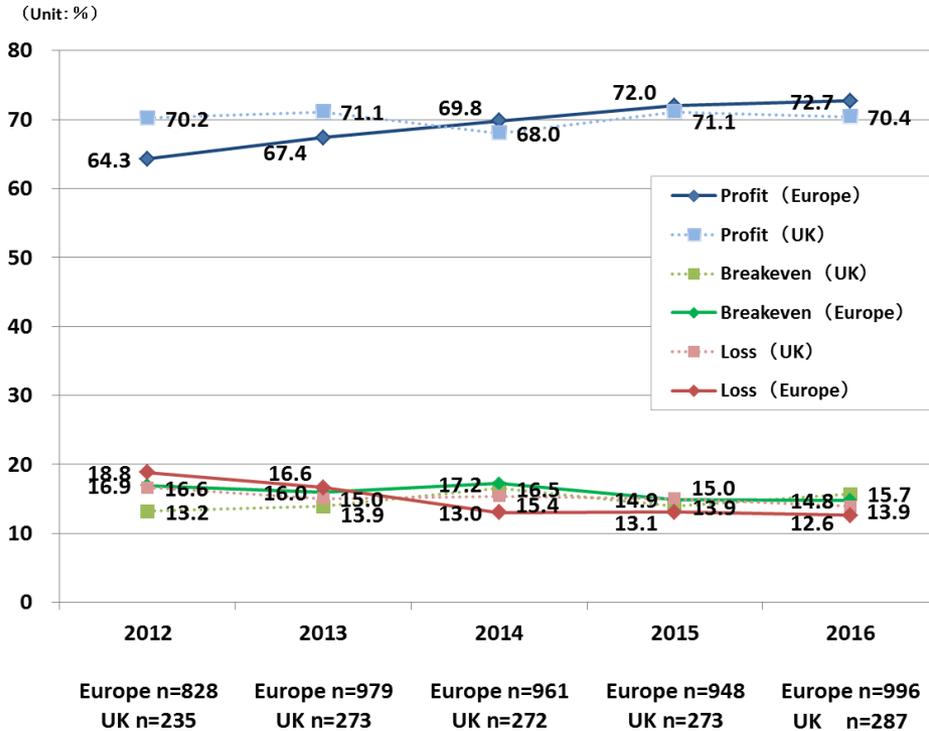
5. EPA/FTA Advantages & Local Procurement

Companies anticipate that the EU-Japan EPA will improve price competitiveness in Europe by abolishing and reducing tariffs.

- Looking at the impacts of Economic Partnership Agreements (EPA) and Free Trade Agreements (FTA) currently being negotiated by the EU, overall 37.8% responded that the EU-Japan agreement would have “major advantages” (+2.9pp since last year). This obtained the largest percentage compared to other EPA/FTAs. Especially in the case of Central & Eastern Europe based companies whose response rate for “major advantages” reached 46.3%, and in the manufacturing sector alone as high as 54.8%. There were many responses citing “improvement of price competitiveness” as a reason for the major advantage. (Fig.42)
- When examining suppliers of parts and raw materials for EU based companies from all sectors, the supply percentage for “local” parts and materials is 29.3% (-0.4pp) and “Europe excluding local” is 22.5% (+3.3pp), these two ratios combined exceeds 50% (51.8%). When focusing suppliers parts and raw materials for EU based manufacturing companies, the percentage for two ratios combined “local” with “Europe excluding local” reaches 53.1%. (Fig.44, 45)
- Looking at the breakdown of local suppliers for the manufacturing industry, the highest percentage of suppliers for EU-based companies is local at 73.0%. 13.8% were other foreign-affiliated companies and Japanese-affiliated companies were 13.2%. The ratio of local suppliers in Western Europe (excl. Switzerland) is 77.1%, this is much higher compared to Central & Eastern Europe at 48.2% showing that there are more local suppliers available in Western Europe. (Fig. 46)

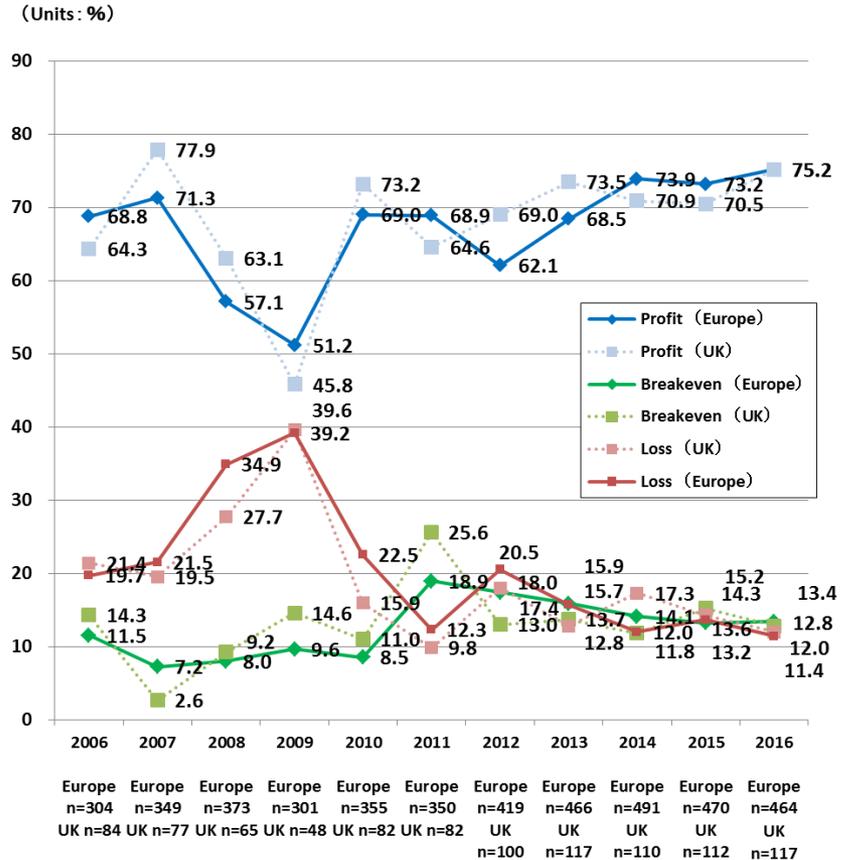
1. Operating Profit Forecasts (1)

Fig.1, Trends in Operating Profit Forecasts for Europe and UK



Results:2006-2010, Forecasts:2011-2016

Fig.2, Trends in Manufacturing Industry Operating Profit Forecasts for Europe and UK



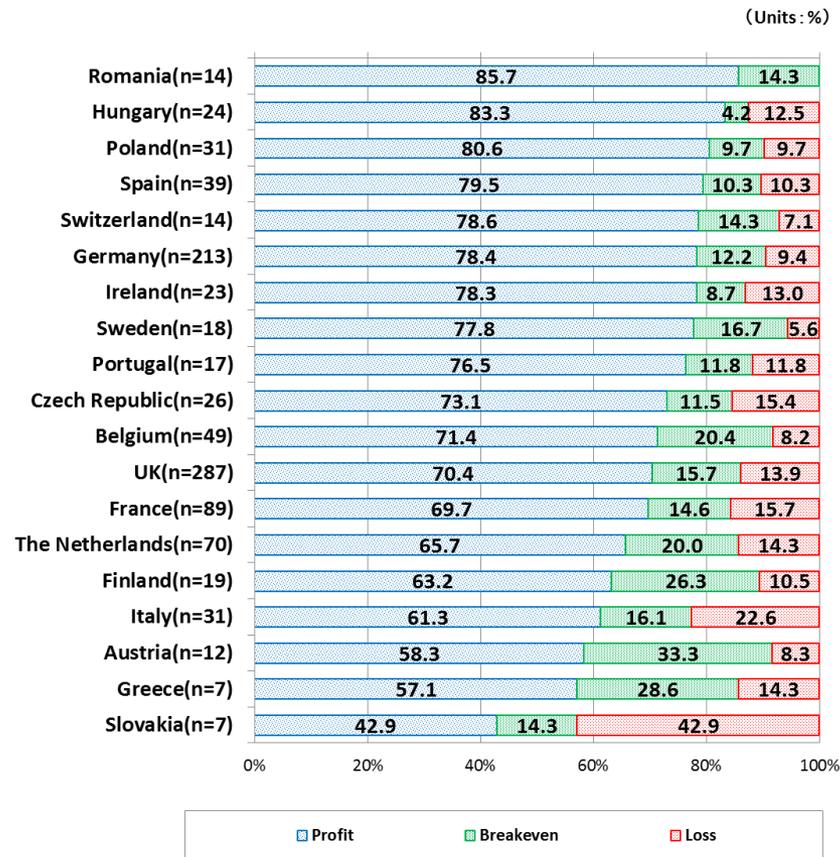
- When looking at the trends in operating profit forecasts over the last 5 years, Europe's overall profit ratio is increasing year by year.
- Only when looking at figures for Japanese-affiliated companies in the UK was the difference to the rest of Europe, the profit was at 70.4%, reducing by 0.7 percentage points compared to last year's survey.
- Looking at Japanese-affiliated manufacturing companies in Europe, 2016 operating profit forecasts have maintained the same high level the past 3 years as in 2007 before the financial crisis.
- However Japanese-affiliated manufacturing companies in the UK haven't yet reached the same standard as 2007.

1. Operating Profit Forecasts (2)

Fig. 3, Operating Profit Forecasts by Industry 2016



Fig. 4, Operating Profit Forecasts by Country 2016



- When asked their operating profits forecast for 2016, 72.7% forecasted a “Profit”, 14.8% answered “Breakeven”, while 12.6% reported a “Loss.”
- Looking at Central & Eastern Europe, 85.5% of manufacturing companies forecasted a much larger profit than non-manufacturing, which only predicted 67.3%. This showed a large gap that was also apparent last year.
- By country, Romania came first, forecasting an 85.7% profit followed by Hungary (83.3%) and Poland (80.6%).

1. Operating Profit Forecasts (3)

Fig.5, Operating Profit Forecasts, Performance by Industry, 2016 compared to 2015.

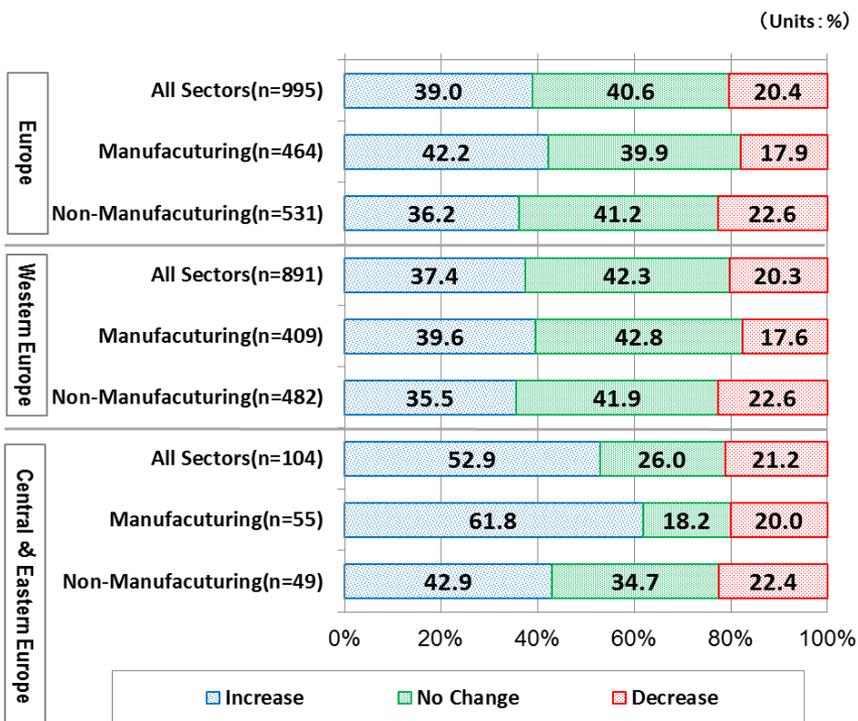


Fig.6, Operating Profit Forecasts by Industries forecasting a large percentage Increase or Decrease, 2016 compared to 2015 (multiple answers)

Increase (n=388) (Units: Cos,%)			Decrease (n=203) (Units: Cos,%)				
	Responses	%		Responses	%		
1	Food/agricultural/fishery processed	16	69.6	1	Hotel/travel/restaurant	10	47.6
2	Mining	4	66.7	2	Clothing and textile products	3	42.9
3	Medical Devices	5	62.5	2	Distribution	3	42.9
4	Motor vehicle and motorcycle parts and accessories	16	57.1	4	Transport/warehousing	25	38.5
5	Ceramic/stone/ clay	4	50.0	5	Precision equipment	8	38.1
5	Rubber Products	7	50.0				

Fig.7, Top 5 Reasons for an Increase or Decrease in Operating Profit Forecast, 2016 compared to 2015 (multiple answers)

Increase (n=384) (Units: Cos,%)			Decrease (n=203) (Units: Cos,%)				
	Responses	%		Responses	%		
1	Sales increase in local markets	245	63.8	1	Sales decrease in local markets	96	47.3
2	Sales increase due to export expansion	117	30.5	2	Exchange rate fluctuation	81	39.9
3	Reduction of labor costs	68	17.7	3	Increase of labor costs	40	19.7
3	Reduction of other expenditures (e.g. administrative/utility costs)	68	17.7	4	Production costs insufficiently transferred into selling price of goods	35	17.2
5	Improvement of production efficiency	64	16.7	5	Sales decrease due to export slowdown	34	16.7

- When asked how their operating profit changed in 2016 compared to 2015, 39.0% of respondents answered "Increase", 40.6%, answered "No Change" and 20.4% answered "Decrease". Especially Central & Eastern European Manufacturing industries replied that they had increased their forecast.
- By Industry, over 60% of respondents answered an increase in "Food/agricultural/fishery processing", "Mining" and "Medical devices". The reason for the increase in "Food/agricultural/fishery processing" could be due to comments such as "Increase in production volume and unit price increase" and increase in demand for Japanese food products. Also Central & Eastern European Manufacturing Industry shows that their automotive industry seems to be recovering "Electrical machinery/electronic equipment", "motor vehicle and motor cycles" had the highest "Increase" response rate.
- When asked about the reason for an increase in 2016 operating profit forecast, the highest response was "sales increase in local markets". Some respondents highlighted that a reason for a decrease in hotel/travel/restaurant profit forecast seemed to be due to "terrorism" and "migration and refugee crisis".

1. Operating Profit Forecasts (4)

Fig.8, Operating Profit Forecasts, Performance by Industry, 2017 compared to 2016

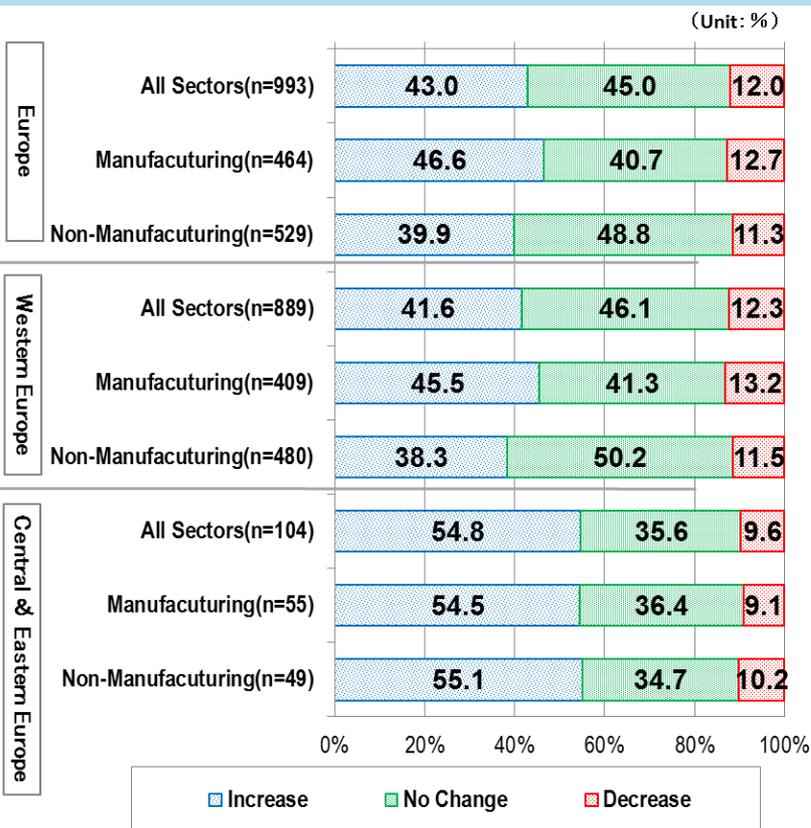


Fig.9, Operating Profit Forecasts by Industries forecasting a large percentage Increase or Decrease, 2017 compared to 2016 (multiple answers)

Increase (n=427)				Decrease (n=119)			
		(Units: cos.,%)				(Units: cos.,%)	
		Responses	%			Responses	%
1	Medical Devices	6	75.0	1	Mining	2	33.3
2	Plastic products	8	72.7	2	General machinery (including metal molds and machine tools)	10	27.0
3	Foods/agricultural/fishery processing	15	65.2	3	Insurance	6	26.1
4	Ceramic/stone/ clay	5	62.5	4	Securities	2	25.0
5	Fabricated metal products (including plated products)	8	61.5	5	Motor vehicle and motorcycle parts and accessories	12	21.1

Fig.10, Top 5 Reasons for an Increase or Decrease Operating Profit Forecast, 2017 compared to 2016 (multiple answers)

Reasons for forecasting an Increase (n=425)				Reasons for forecasting a Decrease (n=119)			
		(Units: cos.,%)				(Units: cos.,%)	
		Responses	%			Responses	%
1	Sales increase in local markets	296	69.6	1	Sales decrease in local markets	58	48.7
2	Sales increase due to export expansion	144	33.9	2	Exchange rate fluctuations	55	46.2
3	Improvement of production efficiency	88	20.7	3	Increase of procurement costs	25	21.0
4	Improvement of sales efficiency	74	17.4	3	Increase of labor costs	25	21.0
5	Reduction of other expenditures (e.g. administrative/utility costs)	70	16.5	5	Production costs insufficiently transferred into selling price of goods	23	19.3

- When asked their forecast for 2017 operating profits compared to the previous year, almost half of the respondents (45.0%) answered “No Change”, while 43.0% answered “Increase” and 12.0% answered “Decrease.”
- When viewed by industry type, the largest number of respondents who selected the answer “Increase” were for “Medical Devices”(75.0%) followed by “Plastic Products”(72.7%).
- The majority of respondents forecasted an increase in 2017 operating profits due to “Sales increase in local markets.” (69.6%)
- However 46.2% of respondents forecasted a decrease in 2017 operating profits due to “Exchange rate fluctuations” a huge increase compared to 2015 at 18.9%.

1. Operating Profit Forecasts (5)

Fig.11, Operating Profit Forecasts by Country, 2016 compared to 2015

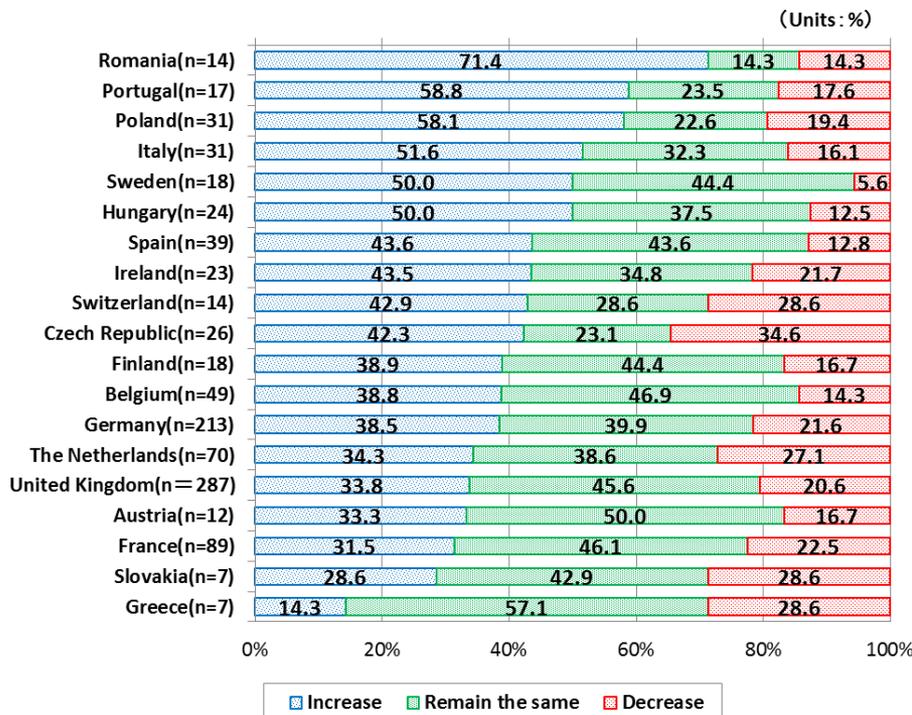
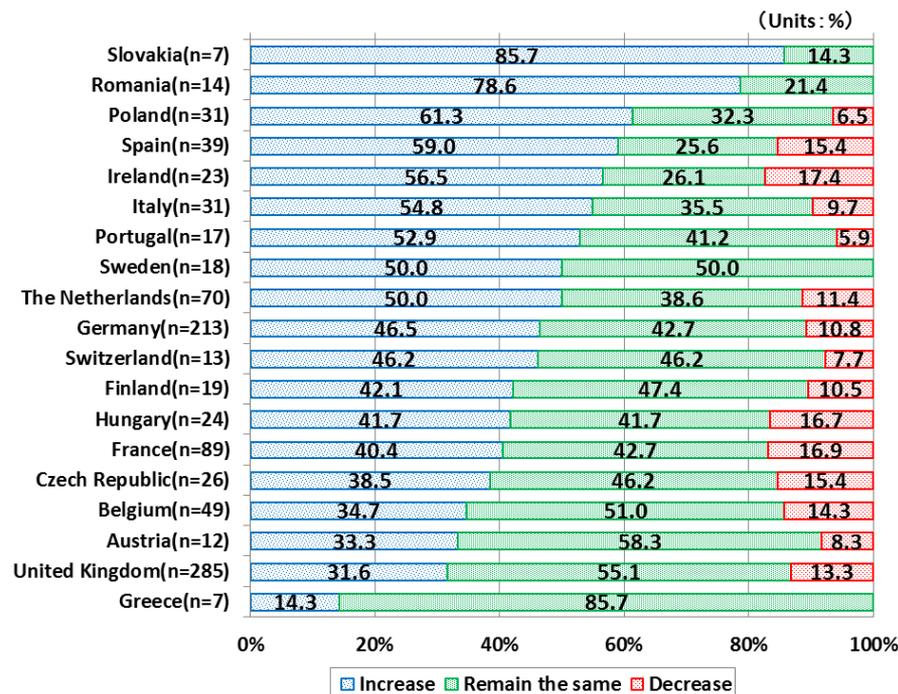


Fig.12, Operating Profit Forecasts by Country, 2017 compared to 2016



- When asked how operating profit forecasts would change for 2016 compared to the previous year by country, Romania topped with 71.4% answering "Increase", followed by Portugal, Poland, Italy, Sweden and Hungary, which were all above 50%.
- When asked how their operating profit forecasts would change for 2017 compared to the previous year by country, Slovakia lead with 85.7% answering "Increase", followed by Romania, Poland, Spain, Ireland, Italy, Portugal, Sweden and The Netherlands at more than 50%.
- The most common reason given for an increase in 2017 was "Sales increase in local markets". These 2 countries were particularly high at 88.9% in Sweden, 83.3% in Slovakia.
- There were 4 countries that showed a large proportion of change within those who answered an increase in profit forecast between 2016 to 2017. Slovakia topped with an increase of 57.1 percentage points (pp), followed by the Netherlands at 15.7pp, Spain 15.4 pp and Ireland 13.0 pp.
- When asked how their operating profit forecasts would change for 2017 compared to the previous year, by country, the UK was the second lowest with 31.6% predicting an increase, followed by Greece ranking bottom at 14.3%.

1. Operating Profit Forecasts (6)

Fig.13, DI of Operating Profit Forecasts by Country, 2016 compared to 2015

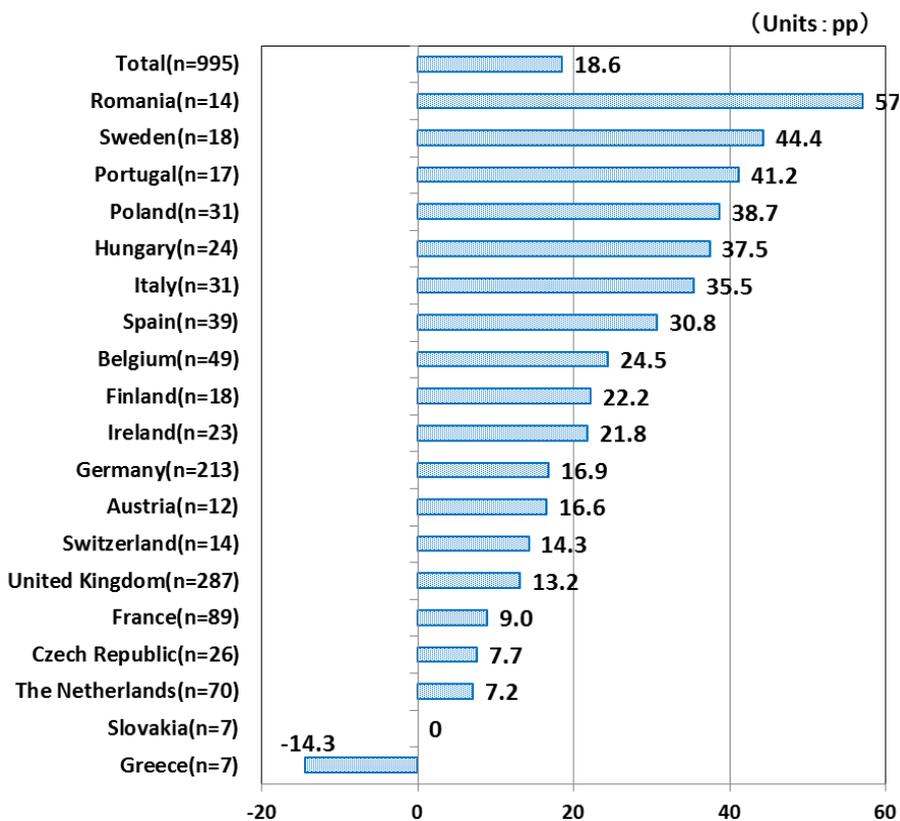
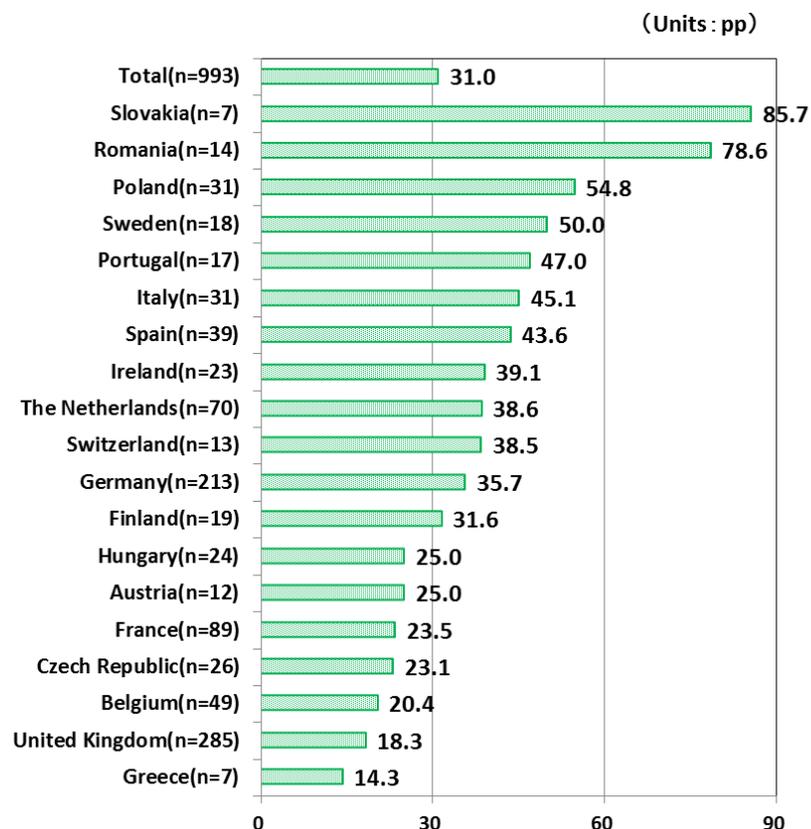


Fig. 14, DI of Operating Profit Forecasts by Country, 2017 compared to 2016



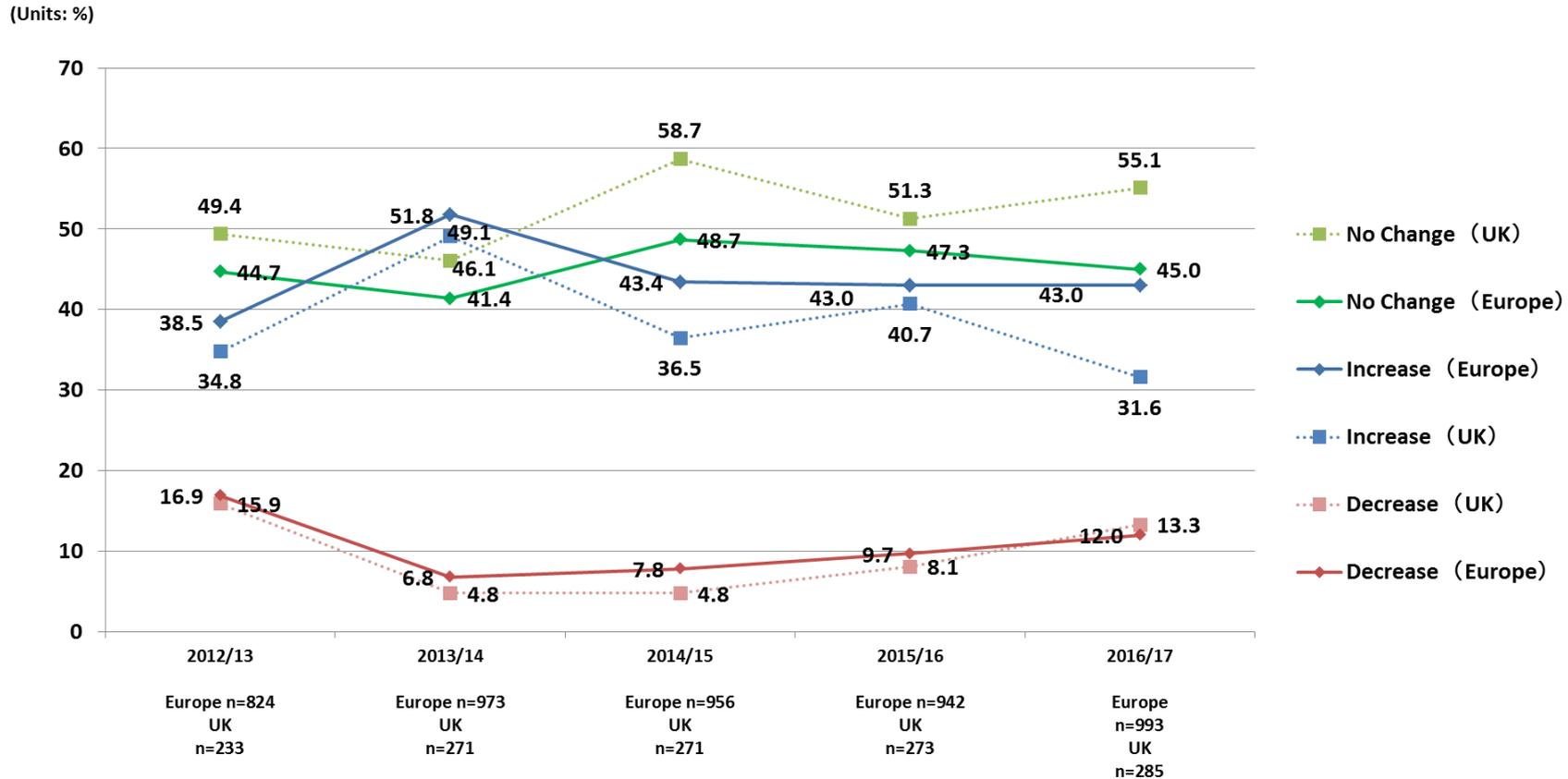
■ DI of Operating Profits forecasts for 2017 was 31.0 percentage points (pp), a 12.4pp increase from 2016. Slovakia topped at 85.7pp, the UK was 18.3 pp second lowest after Greece.

DI= Diffusion Index is a method of summarizing the common tendency of a group of statistical series, which is helpful in assessing the overall state of the economy.

1. Operating Profit Forecasts (7)



Fig.15, Operating Profit Forecasts over the last 5 years for Europe and the UK



- Over the past 5 years, comparing the trends of operating profit forecasts found by this annual survey, it can be seen that Japanese-affiliated companies in the UK and Japanese-affiliated companies in Europe have shown similar trends. However for the 2017 forecast, Japanese-affiliated companies in the UK could see the effects from the UK's EU referendum result.
- The no. of respondents answering "Increase" has drastically fallen by 9.1 percentage points compared to the previous year.
- The no. of respondents selecting "No change" also rose by 3.8 percentage points.

2. Operational Challenges (1)

Fig.16, Operational Challenges in Europe

All Sectors (n=957)			Manufacturing (n=453)			Non-Manufacturing (n=504)					
		(Units: Cos,%)			(Units: Cos,%)			(Units: Cos, %)			
		Responses			Responses			Responses			
		%			%			%			
1	European political and social conditions	458	47.9	1	Exchange rate fluctuations	233	51.4	1	European political and social conditions	253	50.2
2	Exchange rate fluctuations	457	47.8	2	Securing human resources	226	49.9	2	Securing human resources	231	45.8
2	Securing human resources	457	47.8	3	European political and social conditions	205	45.3	3	Exchange rate fluctuations	224	44.4
4	High labour costs	394	41.2	4	High labour costs	198	43.7	4	High labour costs	196	38.9
5	Transfer pricing taxation	355	37.1	5	Lower prices offered by competitors	194	42.8	5	Public safety eg, terrorism	190	37.7
6	Public safety eg, terrorism	327	34.2	6	Transfer pricing taxation	186	41.1	6	Transfer pricing taxation	169	33.5
7	Lower prices offered by competitors	319	33.3	7	Entry of new competitors	149	32.9	7	Entry of new competitors	161	31.9
8	Entry of new competitors	310	32.4	8	Economic slowdown, market contraction	139	30.7	8	Economic slowdown, market contraction	160	31.7
9	Economic slowdown, market contraction	299	31.2	9	Public safety eg, terrorism	137	30.2	9	Strict dismissal laws	146	29.0
10	Strict dismissal laws	270	28.2	10	Strict dismissal laws	124	27.4	10	Visa/work permits	143	28.4

- Overall “European political and social conditions” was rated as the main operational challenge at 47.9%, increasing by 12.9 pp from last year’s 4th place. This could indicate increasing political uncertainty such as rising populism and EU scepticism as well as growing concerns about the impact on consumption and decreasing tourism, caused by terrorism and migration crisis. In the non-manufacturing category it was even higher at 50.2% (+13.1pp).
- “Exchange rate fluctuations” rose from 5th place to 2nd place, increasing by 13.5 pp to 47.8%. The UKs withdrawal from the EU seems to have had a big influence. Especially in the manufacturing industry, who responded that it was the biggest challenge at 51.4%, (+12.2 pp).
- “Securing Human Resources” continued to be 2nd place, same as last year (47.8%,+4.4 pp).
- “Public safety eg, terrorism” ranked 6th place at 34.2%.
- Last year’s main challenge had been “High labour costs”, however this has decreased by 4.0 pp to 4th place at 41.2%.
- Many respondents highlighted that “the uncertainty associated with the UK withdrawing from the EU” affected many fields such as trade policy, investment policy, tax systems, labour issues and regulation.

2. Operational Challenges (2)

Fig.17, Operational Challenges in Western Europe

All Sectors (n=854)		(Units: Cos, %)		Manufacturing (n=398)		(Units: Cos,%)		Non-Manufacturing (n=456)		(Units: Cos, %)	
		Responses	%			Responses	%			Responses	%
1	European political and social conditions	418	48.9	1	Exchange rate fluctuations	211	53.0	1	European political and social conditions	239	52.4
2	Exchange rate fluctuations	415	48.6	2	High labour costs	193	48.5	2	Securing human resources	206	45.2
3	Securing human resources	389	45.6	3	Securing human resources	183	46.0	3	Exchange rate fluctuations	204	44.7
4	High labour costs	381	44.6	4	European political and social conditions	179	45.0	4	High labour costs	188	41.2
5	Transfer pricing taxation	317	37.1	5	Lower prices offered by competitors	171	43.0	5	Public safety eg, terrorism	182	39.9
6	Public safety eg, terrorism	305	35.7	6	Transfer pricing taxation	160	40.2	6	Transfer pricing taxation	157	34.4
7	Lower prices offered by competitors	276	32.3	7	Entry of new competitors	130	32.7	7	Economic slowdown, market contraction	148	32.5
8	Economic slowdown, market contraction	275	32.2	8	Economic slowdown, market contraction	127	31.9	8	Entry of new competitors	142	31.1
9	Entry of new competitors	272	31.9	9	Public safety eg,terrorism	123	30.9	9	Strict dismissal laws	140	30.7
10	Strict dismissal laws	254	29.7	10	Strict dismissal laws	114	28.6	10	Visa/work permits	129	28.3
11	Visa/work permits	209	24.5	11	Procurement costs	99	24.9	11	Quality of workforce	112	24.6
12	Quality of workforce	203	23.8	12	Quality of workforce	91	22.9	12	Lower prices offered by competitors	105	23.0
13	Expensive social security burdens	173	20.3	13	REACH	89	22.4	13	Expensive social security burdens	86	18.9
14	Procurement costs	153	17.9	14	Expensive social security burdens	87	21.9	14	Frequent investment legislation revisions	69	15.1
15	REACH	148	17.3	15	High labour cost growth rate	81	20.4	15	Competitors' improvement of product quality	66	14.5
16	High labour cost growth rate	144	16.9	16	Visa/work permits	80	20.1	16	High labour cost growth rate	63	13.8
17	Competitors' improvement of product quality	136	15.9	17	Deliveries	70	17.6	17	Collection of receivables	59	12.9
18	Frequent investment legislation revisions	119	13.9	17	Competitors' improvement of product quality	70	17.6	17	REACH	59	12.9
19	Deliveries	110	12.9	19	Quality	56	14.1	17	Personal Data Protection Act	59	12.9
20	Customs clearance issues	107	12.5	20	Customs clearance issues	55	13.8	20	Procedures for VAT refunds are complex and/or lack transparency	58	12.7

- In Western Europe, “European political and social conditions” (48.9%,+13.6pp) topped last year’s most popular choice, which was “High labour costs” (44.6%,-4.0pp).
- In manufacturing, compared to last year, “Exchange rate fluctuations” has increased by 13.1pp becoming the biggest issue at 53.0%, whereas “High labour costs” decreased by 3.7 pp to 48.5%, “Securing human resources” increased by 5.3pp to 46.0%.
- In non-manufacturing, “European political and social conditions” became the chief issue increasing by 15.0pp to 52.4%, “Securing human resources” decreased by 3.8pp to 45.2%, “Exchange rate fluctuations” hugely increased by 15.7pp to 44.7%.

2. Operational Challenges (3)

Fig.18, Operational Challenges in Central & Eastern Europe

All Sectors (n=103)			Manufacturing (n=55)			Non-Manufacturing (n=48)					
	(Units: Cos,%)			(Units: Cos,%)			(Units: Cos,%)				
	Responses	%		Responses	%		Responses	%			
1	Securing human resources	68	66.0	1	Securing human resources	43	78.2	1	Securing human resources	25	52.1
2	Lower prices offered by competitors	43	41.7	2	High labour cost growth rate	28	50.9	2	Exchange rate fluctuations	20	41.7
3	Exchange rate fluctuations	42	40.8	3	European political and social conditions	26	47.3	2	Lower prices offered by competitors	20	41.7
4	High labour cost growth rate	41	39.8	3	Transfer pricing taxation	26	47.3	4	Entry of new competitors	19	39.6
5	European political and social conditions	40	38.8	5	Visa/work permits	23	41.8	5	Visa/work permits	14	29.2
6	Transfer pricing taxation	38	36.9	5	Quality of workforce	23	41.8	5	Highways	14	29.2
6	Entry of new competitors	38	36.9	5	Lower prices offered by competitors	23	41.8	5	European political and social conditions	14	29.2
8	Visa/work permits	37	35.9	8	Exchange rate fluctuations	22	40.0	8	High labour cost growth rate	13	27.1
9	Quality of workforce	33	32.0	9	Entry of new competitors	19	34.5	9	Transfer pricing taxation	12	25.0
10	Economic slowdown, market contraction	24	23.3	10	Shortage of domestic procurement sources	15	27.3	9	Economic slowdown, market contraction	12	25.0
11	Shortage of domestic procurement sources	23	22.3	11	REACH	14	25.5	11	Collection of receivables	11	22.9
12	Highways	22	21.4	11	Public safety eg,terrorism	14	25.5	12	Quality of workforce	10	20.8
12	Public safety eg, terrorism	22	21.4	13	Procurement costs	12	21.8	13	Frequent investment legislation revisions	9	18.8
14	General road conditions	19	18.4	13	Economic slowdown, market contraction	12	21.8	14	High labour costs	8	16.7
15	Frequent investment legislation revisions	18	17.5	13	Increase of energy cost	12	21.8	14	Quality	8	16.7
15	Procurement costs	18	17.5	16	General road conditions	11	20.0	14	Shortage of domestic procurement sources	8	16.7
17	Quality	17	16.5	17	Procedures for VAT refunds are complex and/or lack transparency	10	18.2	14	General road conditions	8	16.7
17	REACH	17	16.5	17	Strict dismissal laws	10	18.2	14	Public safety eg, terrorism	8	16.7
19	Procedures for VAT refunds are complex and/or lack transparency	16	15.5	17	Competitors' improvement of product quality	10	18.2	19	Deliveries	7	14.6
19	Strict dismissal laws	16	15.5	20	Customs clearance issues	9	16.4	20	Procedures for VAT refunds are complex and/or lack transparency	6	12.5
				20	Frequent investment legislation revisions	9	16.4	20	Strict dismissal laws	6	12.5
				20	Quality	9	16.4	20	Procurement costs	6	12.5

- Continuing from last year “Securing human resources” maintained its position as the main challenge, in both Central & Eastern European manufacturing (78.2%) and non-manufacturing (52.1%). This perhaps indicates the amount of talent that is flowing towards the UK as well as other countries.
- In manufacturing, since last year “High labour cost growth rate” hugely increased by 20.0pp, reaching 2nd place at 50.9%. Furthermore “European political and social conditions” also increased by 14.6pp to 47.3% and “Transfer pricing taxation” (47.3%,+3.7pp) continued at the same rate. “Shortage of domestic procurement sources” was last year 2nd place, however fell by 16.3pp to 10th place at 27.3% showing improvement.
- In non-manufacturing, “Exchange rate fluctuations” increased by 6.0 pp to 41.7% and “Lower prices offered by competitors” reduced by 2.4pp to 41.7%, reaching 2nd and 3rd place. Compared to last year “Visa/ work permits” seems to have significantly improved, falling by 20.8 pp from 2nd place to 5th at 29.2% .

2. Operational Challenges (4)

Fig.19, Operational Challenges in UK

2012 (n=218)			2013 (n=267)			2014 (n=255)			2015 (n=259)			2016 (n=271)		
		(%)			(%)			(%)			(%)			(%)
1	Visa/work permits	35.8	1	Securing human resources	43.4	1	Securing human resources	42.7	1	High labour costs	44.8	1	Exchange rate fluctuations	59.8
2	Securing human resources	35.3	2	Exchange rate fluctuations	40.4	2	High labour costs	39.6	2	Securing human resources	43.6	2	European political and social conditions	55.0
3	Exchange rate fluctuations	34.9	3	Economic slowdown, market contraction	37.1	3	Visa/work permits	34.5	3	Exchange rate fluctuations	41.7	3	Securing human resources	47.2
4	European political and social conditions	29.8	4	Visa/work permits	36.3	4	Transfer pricing taxation	31.4	4	Visa/work permits	38.2	4	High labour costs	46.1
5	Transfer pricing taxation	29.4	5	Transfer pricing taxation	33.7	4	Exchange rate fluctuations	31.4	5	European political and social conditions	35.1	5	Economic slowdown, market contraction	39.5
6	Quality of workforce	28.9	6	High labour costs	33.0	6	Economic slowdown, market contraction	29.8	6	Transfer pricing taxation	30.9	6	Security eg, terrorism	32.8
7	Strict dismissal laws	28.4	7	Entry of new competitors	29.6	7	Quality of workforce	27.5	7	Lower prices offered by competitors	26.6	7	Transfer pricing taxation	32.1
8	Lower prices offered by competitors	28.0	8	Lower prices offered by competitors	25.5	8	Lower prices offered by competitors	25.9	8	Strict dismissal laws	25.1	8	Visa/work permits	31.0
9	High labour costs	27.5	8	Strict dismissal laws	22.5	9	European political and social conditions	23.5	9	Quality of workforce	23.2	9	Quality of workforce	27.7
10	Entry of new competitors	22.0	8	Quality of workforce	22.5	10	Strict dismissal laws	20.8	9	Economic slowdown, market contraction	23.2	9	Entry of new competitors	27.7
11	Procedures for VAT refunds are complex and/or lack transparency	15.1	11	European political and social conditions	20.2	10	Entry of new competitors	20.8	11	Entry of new competitors	22.8	11	Lower prices offered by competitors	27.3
11	High labour cost growth rate	15.1	12	Procurement costs	19.1	12	High labour cost growth rate	19.6	12	High labour cost growth rate	20.5	12	High labour cost growth rate	19.9
13	Competitors' improvement of product quality	13.8	13	Deliveries	16.9	13	Frequent investment legislation revisions	16.5	12	Procurement costs	20.5	13	Strict dismissal laws	18.8
14	Procurement costs	13.3	14	High labour cost growth rate	16.1	14	Expensive social security burdens	15.7	14	Expensive social security burdens	16.6	14	Procurement costs	18.1
15	REACH	12.8	14	REACH	16.1	14	Impacts to business from the issues surrounding the situation in Ukraine	15.7	15	Impacts to business from the discussion on withdrawing from the EU or the Eurozone	15.8	15	Frequent investment legislation revisions	16.6
16	Expensive social security burdens	11.9	16	Expensive social security burdens	14.6	16	Procedures for VAT refunds are complex and/or lack transparency	13.7	16	Frequent investment legislation revisions	15.1	16	Competitors' improvement of product quality	14.8
16	Collection of receivables	11.9	16	Frequent investment legislation revisions	14.6	16	Procurement costs	13.7	17	Competitors' improvement of product quality	14.7	17	Customs clearance issues	13.7
18	Deliveries	11.0	18	Change in tax rate	13.1	18	Deliveries	13.3	18	Deliveries	12.7	18	Quality	13.3
19	Frequent investment legislation revisions	10.1	19	Competitors' improvement of product quality	11.6	18	REACH	13.3	18	REACH	12.7	19	Deliveries	12.9
20	Change in tax rate	9.6	20	Procedures for VAT refunds are complex and/or lack transparency	11.2	20	Customs clearance issues	12.2	20	Customs clearance issues	10.8	20	Personal Data Protection Act	12.5
20	Quality	9.6												

* "Economic recession and shrinking markets" choice was added in 2013

- Looking at the UK, this year the two highest responses are "Exchange rate fluctuations" increasing by 18.1pp to 59.8% and "European political and social conditions" increasing by 19.9pp to 55.0%.
- Although "Economic recession and shrinking markets" had had a low response since 2013, in 2016 it suddenly increased by 16.3pp to 5th place at 39.5%. This could show that the concern about the economic impact of the UK's withdrawal from the EU has strengthened.

2. Operational Challenges (5)

Fig.20-1, Operational Challenges in Leading European Countries

UK (n=271)		(%)	Germany (n=207)		(%)	France (n=86)		(%)	Spain (n=39)		(%)	Italy(n=28)		(%)
1	Exchange rate fluctuations	59.8	1	Securing human resources	58.5	1	Strict dismissal laws	60.5	1	Exchange rate fluctuations	64.1	1	Strict dismissal laws	50.0
2	European political and social conditions	55.0	2	Exchange rate fluctuations	48.8	2	High labour costs	53.5	2	European political and social conditions	53.8	1	European political and social conditions	50.0
3	Securing human resources	47.2	3	European political and social conditions	46.9	3	Transfer pricing taxation	44.2	3	Entry of new competitors	46.2	3	Economic slowdown, market contraction	46.4
4	High labour costs	46.1	3	High labour costs	46.9	3	Expensive social security burdens	44.2	4	Economic slowdown, market contraction	41.0	3	Public safety eg,terrorism	46.4
5	Economic slowdown, market contraction	39.5	3	Transfer pricing taxation	46.9	5	Public safety eg,terrorism	41.9	4	Lower prices offered by competitors	41.0	5	Exchange rate fluctuations	39.3
6	Public safety eg,terrorism	32.8	6	Public safety eg,terrorism	39.6	6	Exchange rate fluctuations	40.7	6	Transfer pricing taxation	30.8	6	Transfer pricing taxation	35.7
7	Transfer pricing taxation	32.1	7	Lower prices offered by competitors	38.2	6	European political and social conditions	40.7	6	Securing human resources	30.8	6	High labour costs	35.7
8	Visa/work permits	31.0	8	Entry of new competitors	35.3	8	Lower prices offered by competitors	33.7	6	Competitors' improvement of product quality	30.8	6	Entry of new competitors	35.7
9	Quality of workforce	27.7	9	Strict dismissal laws	34.3	9	Visa/work permits	32.6	9	Strict dismissal laws	25.6	6	Lower prices offered by competitors	35.7
9	Entry of new competitors	27.7	10	REACH	26.1	10	Securing human resources	31.4	9	Public safety eg,terrorism	25.6	10	Visa/work permits	32.1
11	Lower prices offered by competitors	27.3	11	Quality of workforce	24.2	10	Union activities/strikes	31.4	11	Visa/work permits	23.1	10	Expensive social security burdens	32.1
12	High labour cost growth rate	19.9	12	High labour cost growth rate	23.2	12	Quality of workforce	30.2	11	REACH	23.1	12	Procedures for VAT refunds are complex and/or lack transparency	28.6
13	Strict dismissal laws	18.8	13	Economic slowdown, market contraction	21.7	12	Entry of new competitors	30.2	13	High labour costs	20.5	12	Securing human resources	28.6
14	Procurement costs	18.1	14	Expensive social security burdens	19.8	14	Economic slowdown, market contraction	29.1	13	Quality of workforce	20.5	14	Collection of receivables	25.0
15	Frequent investment legislation revisions	16.6	15	Procurement costs	19.3	15	REACH	23.3	13	Collection of receivables	20.5	14	Deliveries	25.0

- Compared to last year, across leading European Countries “Exchange rate fluctuations” generally rose by more than 10pp. In particular it was noted that Spain and Poland significantly increased by 33.1pp and 20.2pp. However Ireland, Czech Republic and Hungary decreased.
- Looking at “European political and social conditions” the UK, France, Spain, Ireland and Hungary response increased by more than 15pp. Strikingly, Irelands response rose by an amazing 40.9pp. Perhaps this might suggest that the UK’s withdrawal from the EU, as well as Northern Irelands future relationship could be influencing their concern.
- In France, Italy, the Netherlands and Belgium, the proportion that responded to “Public safety eg, terrorism etc.” was high.
- “Economic recession and shrinking markets” choice had been falling in rank since it was added in 2013, until this year, where it became striking amongst leading European countries. In fact the UK’s response rate increased by 16.3pp since last year.
- In France, Italy 50%, replied that “Strict dismissal laws” were the biggest problem.

2. Operational Challenges (6)

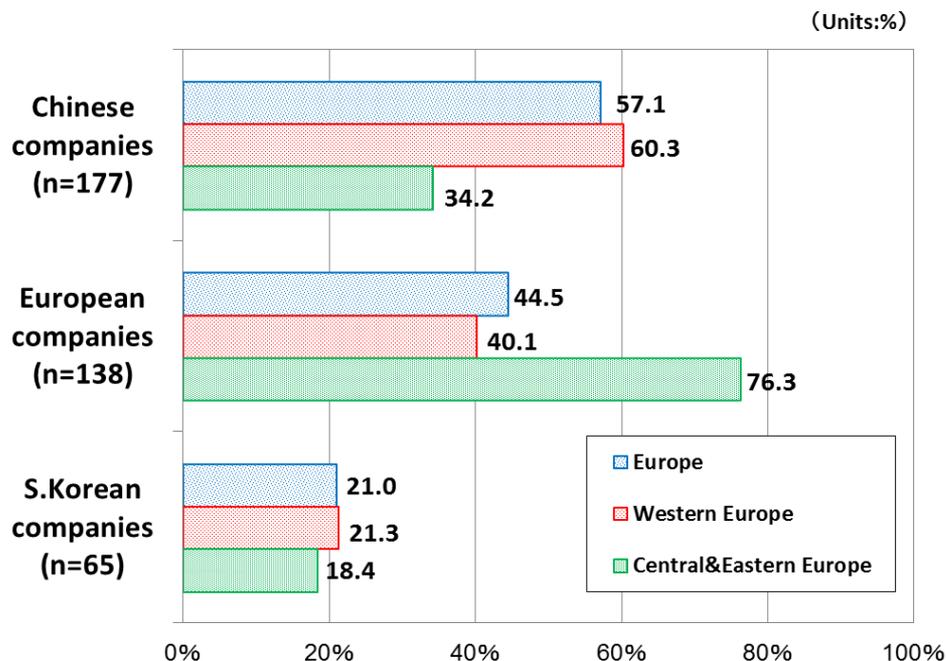
Fig.20-2, Operational Challenges in Leading European Countries

The Netherlands (n=69)		(%)	Belgium (n=49)		(%)	Ireland (n=22)		(%)	Poland (n=31)		(%)	Czech Republic (n=25)		(%)	Hungary (n=24)		(%)
1	European political and social conditions	55.1	1	High labour costs	53.1	1	European political and social conditions	54.5	1	Lower prices offered by competitors	61.3	1	Securing human resources	72.0	1	Securing human resources	87.5
1	Public safety eg, terrorism	55.1	2	Securing human resources	51.0	2	Entry of new competitors	40.9	2	Securing human resources	58.1	2	Transfer pricing taxation	56.0	2	High labour cost growth rate	62.5
3	Securing human resources	50.7	3	Public safety eg, terrorism	46.9	3	Exchange rate fluctuations	36.4	2	Entry of new competitors	58.1	3	European political and social conditions	52.0	3	European political and social conditions	50.0
4	Transfer pricing taxation	47.8	4	Exchange rate fluctuations	42.9	3	High labour costs	36.4	4	Exchange rate fluctuations	45.2	3	High labour cost growth rate	52.0	3	Quality of workforce	50.0
5	Strict dismissal laws	42.0	5	European political and social conditions	38.8	3	Transfer pricing taxation	36.4	5	European political and social conditions	41.9	3	Visa/work permits	52.0	5	Exchange rate fluctuations	41.7
6	Exchange rate fluctuations	40.6	6	Lower prices offered by competitors	30.6	6	Visa/work permits	31.8	5	Visa/work permits	41.9	6	Exchange rate fluctuations	44.0	5	Transfer pricing taxation	41.7
7	High labour costs	36.2	7	Economic slowdown, market contraction	28.6	6	Securing human resources	31.8	7	High labour cost growth rate	29.0	6	Lower prices offered by competitors	44.0	7	Economic slowdown, market contraction	37.5
7	Lower prices offered by competitors	36.2	7	Transfer pricing taxation	28.6	8	Economic slowdown, market contraction	27.3	8	Transfer pricing taxation	25.8	8	Quality of workforce	32.0	7	Entry of new competitors	37.5
9	Economic slowdown, market contraction	31.9	7	Visa/work permits	28.6	8	High labour cost growth rate	27.3	8	Public safety eg, terrorism	25.8	8	Shortage of domestic procurement sources	32.0	9	Visa/work permits	29.2
10	Entry of new competitors	26.1	10	Entry of new competitors	26.5	10	Change in tax rate	22.7	10	Competitors' improvement of product	22.6	10	Economic slowdown, market contraction	28.0	9	Shortage of domestic procurement sources	29.2
11	Quality of workforce	24.6	11	Expensive social security burdens	20.4	10	Strict dismissal laws	22.7	11	Economic slowdown, market contraction	19.4	10	REACH	28.0	11	Quality	20.8
12	Competitors' improvement of product	21.7	11	Personal Data Protection Act	20.4	10	Lower prices offered by competitors	22.7	11	Strict dismissal laws	19.4	12	Quality	24.0	11	Procurement costs	20.8
13	Expensive social security burdens	20.3	13	Procurement costs	18.4	13	Frequent investment legislation revisions	18.2	11	Collection of receivables	19.4	12	Procurement costs	24.0	11	Increase of energy cost	20.8
13	Procurement costs	20.3	13	REACH	18.4	13	Difficulty in obtaining credit	18.2	11	Deliveries	19.4	12	Highways	24.0	11	Public safety eg, terrorism	20.8
15	Visa/work permits	18.8	15	High labour cost growth rate	14.3	13	Procurement costs	18.2	11	Shortage of domestic procurement sources	19.4	12	Public safety eg, terrorism	24.0	15	Customs clearance issues	16.7
15	Collection of receivables	18.8	15	Strict dismissal laws	14.3	13	Housing bubble / sharp rise in land prices	18.2	11	Highways	19.4				15	Frequent investment legislation revisions	16.7
15	REACH	18.8	15	Quality of workforce	14.3				11	High labour costs	19.4				15	Change in tax rate	16.7
			15	Competitors' improvement of product quality	14.3										15	Procedures for VAT refunds are complex and/or lack transparency	16.7
															15	High labour costs	16.7
															15	Expensive social security burdens	16.7
															15	Strict dismissal laws	16.7
															15	Deliveries	16.7
															15	Lower prices offered by competitors	16.7
															15	REACH	16.7

- Germany, Czech Republic and Hungary cited “Securing human resources” as their biggest issue, as did the Netherlands, Belgium and Poland whose response ratio was more than 50%. For Japanese-affiliated companies, it is expected that as it becomes more and more difficult to secure the necessary human resources, there will be a greater focus on nurturing talent, such as recruiting for Industry 4.0 and IoT projects.

2. Operational Challenges (7)

Fig.21, Nationalities of New Competitors



Top 3 Industries choosing "Chinese companies" (n=177)

(Units: cos)

	Responses
1 Sales company	46
2 Electric machinery/electric hardware	17
3 Trading company	14

Top 3 Industries choosing "European companies" (n=138)

(Units: cos)

	Responses
1 Sales company	21
2 Transport/warehousing	19
3 Trading company	15

Top 3 Industries choosing "S.Korean companies" (n=65)

(Units: cos)

	Responses
1 Sales company	19
2 Electric machinery/electric hardware	6
2 Trading company	6

- Central & Eastern European Non-Manufacturing companies cited "Entry of new competitors" as an operational challenge (32.4% in Europe, 39.6% Central & Eastern European non-manufacturing sector, see Fig. 16&18). When asked the specific nationalities of these new competitors, the top answer given was "Chinese companies" at 57.1% (+ 1.3 pp last year), followed by "European companies" at 44.5% (+4.5pp) and "S. Korean companies" at 21.0%(- 1.6pp). In Central & Eastern Europe, the largest response by far was "European companies" at 76.3%.
- By Industry, many respondents from Sales and Electric machinery/electric hardware sectors selected Chinese companies and S. Korean companies as new competitors, whereas the Transport/warehousing sector companies selected European companies.

3. Initiatives for Producing Differentiated, High Value-Added Products & Services (1)

2015

Fig.22, Initiatives for Sales in Europe

Europe (n=820)			Western Europe (n=737)			Central & Eastern Europe (n=83)					
	(Units: cos,%)			(Units: cos,%)			(Units: cos,%)				
	Responses	%		Responses	%		Responses	%			
1	Strengthening R&D sectors	307	37.4	1	Strengthening R&D sectors	281	38.1	1	Strengthening technical human resource development and hiring more staff, etc	38	45.8
2	Strengthening technical human resource development and hiring more staff, etc.	282	34.4	2	Strengthening technical human resource development and hiring more staff, etc.	244	33.1	2	Conducting in-depth research and surveys on competitors	31	37.3
3	Conducting in-depth research and surveys on competitors	271	33.0	3	Conducting in-depth research and surveys on competitors	240	32.6	3	Strengthening R&D sectors	26	31.3
4	Acquisitions of/tie-ups with other firms with advanced technology or necessary brand names/technology (including under consideration)	153	18.7	4	Acquisitions of/tie-ups with other firms with advanced technology or necessary brand names/technology (including under consideration)	147	19.9	4	Developing cutting-edge manufacturing bases	25	30.1
5	Developing cutting-edge manufacturing bases	144	17.6	5	Enhancing tie-ups with universities/research institutions	124	16.8	5	Enhancing tie-ups with universities/research institutions	9	10.8
6	Strengthening collaborations with universities/research institutions	133	16.2	6	Enhancing or reviewing, etc. your company's intellectual property strategy	121	16.4	6	Enhancing or reviewing, etc. your company's intellectual property strategy	9	10.8
7	Enhancing or reviewing, etc. your company's intellectual property strategy	130	15.9	7	Developing cutting-edge manufacturing bases	119	16.1	7	Acquisitions of/tie-ups with other firms with advanced technology or necessary brand names/technology (including under consideration)	6	7.2
8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	30	3.7	8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	26	3.5	8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	4	4.8
9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	15	3.0	9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	14	1.9	9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	1	1.2
	Other	76	9.3		Other	68	9.2		Other	8	9.6

2016

Europe (n=880)			Western Europe (n=785)			Central & Eastern Europe (n=95)					
	(Units: cos,%)			(Units: cos,%)			(Units: cos,%)				
	Responses	%		Responses	%		Responses	%			
1	Conducting in-depth research and surveys on competitors	315	35.8	1	Conducting in-depth research and surveys on competitors	284	36.2	1	Strengthening technical human resource development and hiring more staff, etc	43	45.3
2	Strengthening technical human resource development and hiring more staff, etc	306	34.8	2	Strengthening technical human resource development and hiring more staff, etc	263	33.5	2	Conducting in-depth research and surveys on competitors	31	32.6
3	Strengthening R&D sectors	259	29.4	3	Strengthening R&D sectors	242	30.8	3	Developing cutting-edge manufacturing bases	26	27.4
4	Acquisitions of/tie-ups with other firms with advanced technology or necessary brand names/technology (including under consideration)	182	20.7	4	Acquisitions of/tie-ups with other firms with advanced technology or necessary brand names/technology (including under consideration)	170	21.7	4	Strengthening R&D sectors	17	17.9
5	Developing cutting-edge manufacturing bases	158	18.0	5	Developing cutting-edge manufacturing bases	132	16.8	5	Enhancing tie-ups with universities/research institutions	16	16.8
6	Enhancing tie-ups with universities/research institutions	130	14.8	6	Enhancing tie-ups with universities/research institutions	114	14.5	6	Acquisitions of/tie-ups with other firms with advanced technology or necessary brand names/technology (including under consideration)	12	12.6
7	Enhancing or reviewing, etc. your company's intellectual property strategy	114	13.0	7	Enhancing or reviewing, etc. your company's intellectual property strategy	106	13.5	7	Enhancing or reviewing, etc. your company's intellectual property strategy	8	8.4
8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	25	2.8	8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	25	3.2	8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	1	1.1
9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	14	1.6	9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	13	1.7				
	Other	98	11.1		Other	87	11.1		Other	11	11.6

- Across Europe “Conducting in-depth research and surveys on competitors” at 35.8%(+2.8pp), was the most common answer. A couple of respondents answered “conducting a study of cheaper products” and “when cost competitiveness intensifies, analyzing the advantages of my products and conducting sales promotions”.
- The highest choice for Western Europe was also “Conducting in-depth research and surveys on competitors” at 36.2%(+3.6pp). Central & Eastern Europe responded “Strengthening technical human resource development and hiring more staff, etc.” (45.3%, -0.5pp), the same as the previous year.

3. Initiatives for Producing Differentiated, High Value-Added Products & Services (2)

Fig.23, Initiatives for Sales in Europe

2015

Manufacturing (n=432)		(Units: cos, %)	
		Responses	%
1	Strengthening R&D sectors	223	51.6
2	Strengthening technical human resource development and hiring more staff, etc	165	38.2
3	Developing cutting-edge manufacturing bases	125	28.9
4	Conducting in-depth research and surveys on competitors	121	28.0
5	Enhancing collaborations with universities/research institutions	88	20.4
6	Acquisitions of/tie-ups with other firms with advanced technology or the necessary brand names/technology (including under consideration)	73	16.9
7	Enhancing or reviewing, etc. your company's intellectual property strategy	49	11.3
8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	28	6.5
9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	13	3.0
	Other	28	6.5

Non-Manufacturing (n=388)		(Units: cos, %)	
		Responses	%
1	Conducting in-depth research and surveys on competitors	150	38.7
2	Strengthening technical human resource development and hiring more staff, etc.	117	30.2
3	Strengthening R&D sectors	84	21.6
4	Enhancing or reviewing, etc. your company's intellectual property strategy	81	20.9
5	Acquisitions of/tie-ups with other firms with advanced technology or the necessary brand names/technology (including under consideration)	80	20.6
6	Enhancing collaborations with universities/research institutions	45	11.6
7	Developing cutting-edge manufacturing bases	19	4.9
8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	2	0.5
9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	2	0.5
	Other	48	12.4

2016

Manufacturing (n=433)		(Units: cos, %)	
		Responses	%
1	Strengthening technical human resource development and hiring more staff, etc	180	41.6
2	Strengthening R&D sectors	174	40.2
3	Conducting in-depth research and surveys on competitors	135	31.2
4	Developing cutting-edge manufacturing bases	132	30.5
5	Enhancing collaborations with universities/research institutions	83	19.2
6	Acquisitions of/tie-ups with other firms with advanced technology or the necessary brand names/technology (including under consideration)	72	16.6
7	Enhancing or reviewing, etc. your company's intellectual property strategy	39	9.0
8	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	23	5.3
9	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	11	2.5
	Other	27	6.2

Non-Manufacturing (n=447)		(Units: cos, %)	
		Responses	%
1	Conducting in-depth research and surveys on competitors	180	40.3
2	Strengthening technical human resource development and hiring more staff, etc.	126	28.2
3	Acquisitions of/tie-ups with other firms with advanced technology or the necessary brand names/technology (including under consideration)	110	24.6
4	Strengthening R&D sectors	85	19.0
5	Enhancing or reviewing, etc. your company's intellectual property strategy	75	16.8
6	Enhancing collaborations with universities/research institutions	47	10.5
7	Developing cutting-edge manufacturing bases	26	5.8
8	Utilizing tax structures related to post-R&D commercial activities (Patent Box system, etc.)	3	0.7
9	Utilizing tax structures at the initial stage of R&D (tax deductions related to R&D costs, etc.)	2	0.4
	Other	71	15.9

- Amongst Manufacturing Companies, “Strengthening R&D sectors” (40.2%) has dropped from the top by 11.4 pp, while “Strengthening technical human resource development and hiring more staff” has increased by 3.4 pp becoming the top Initiative.
- “Conducting in-depth research and surveys on competitors” was the most common answer for non-manufacturing companies, same as last year.

4. Business Outlook For Next 1 or 2 Years (1)

Fig.24, 1-2 year Business Outlook by Industry

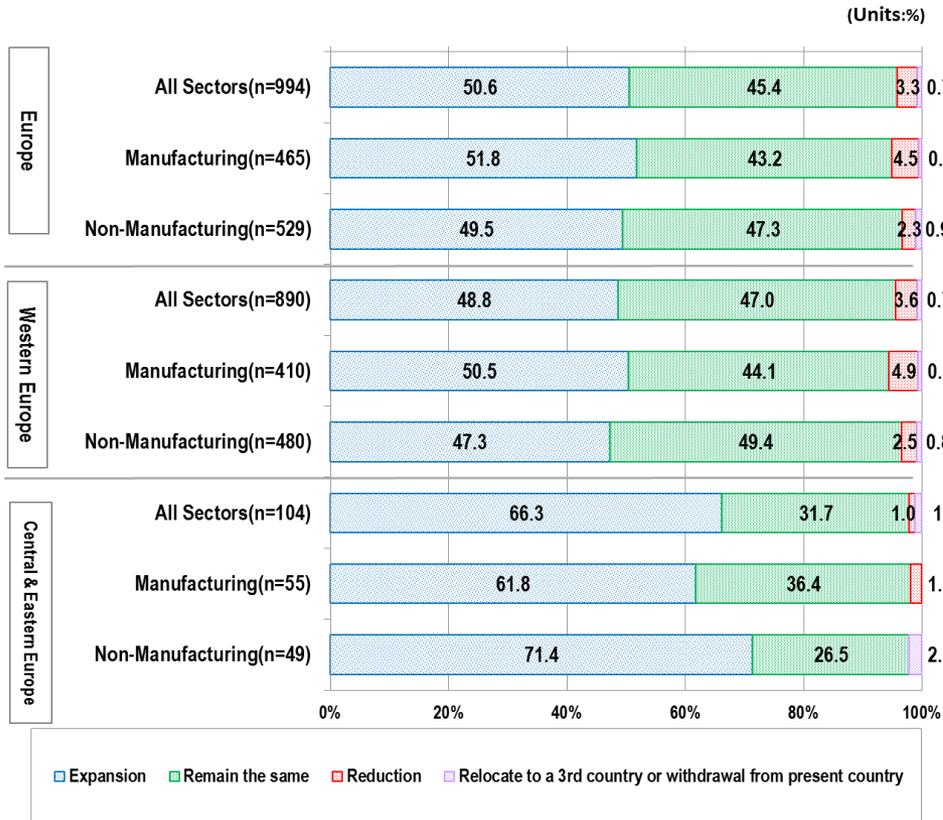
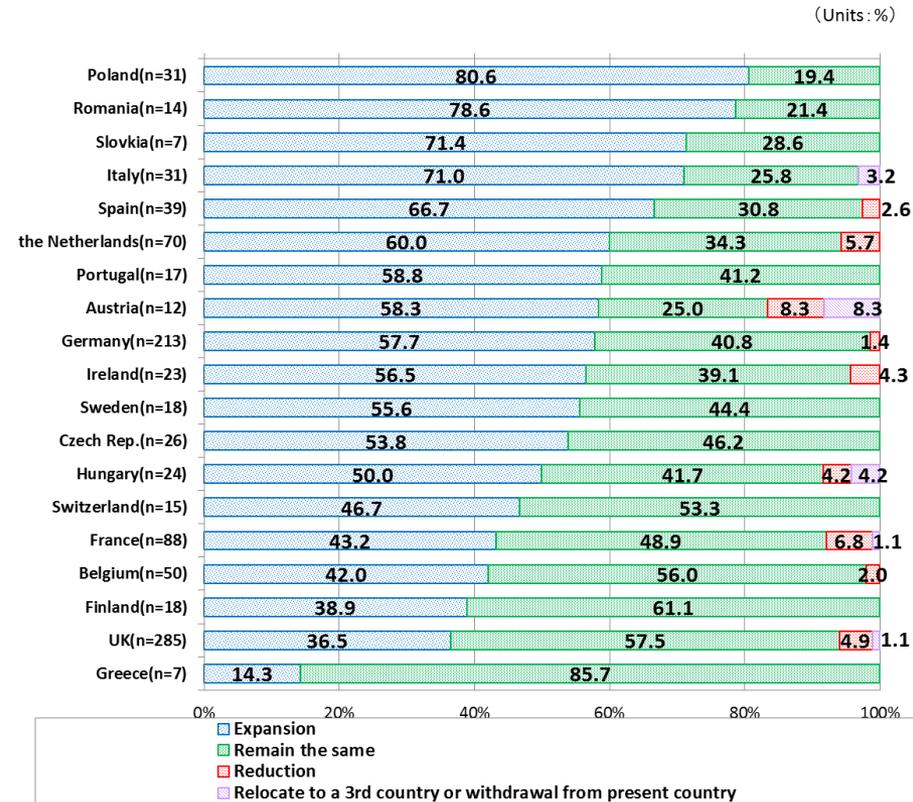


Fig.25, 1-2 year Business Outlook by Country



*Less than 5 responses were excluded from the count.

- For the next 1-2 year business outlook, 50.6% of respondents answered “Expansion”, 45.4% chose “Remain the same”, 3.3% “Reduction” and only 0.7% responded “Relocate to a third country or withdrawal from present country.” Central & Eastern European manufacturing sector responded “Expansion” at 71.4%, which has greatly increased since the 2015 survey (56.3%) by 15.1pp.
- By country, Poland had the highest response rate for “Expansion” at 80.6% and Greece was the lowest at 14.3%. UK again was the second lowest after Greece.

4. Business Outlook For Next 1 or 2 Years (2)

Fig.26, All Sector Companies based in Europe & UK 1-2 yr Business Outlook Trends

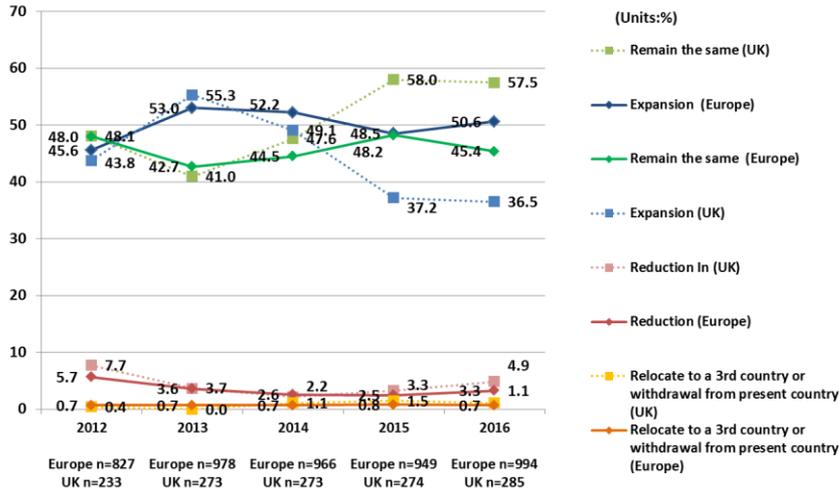


Fig.27, Manufacturing Companies based in Europe & UK 1-2 yr Business Outlook Trends

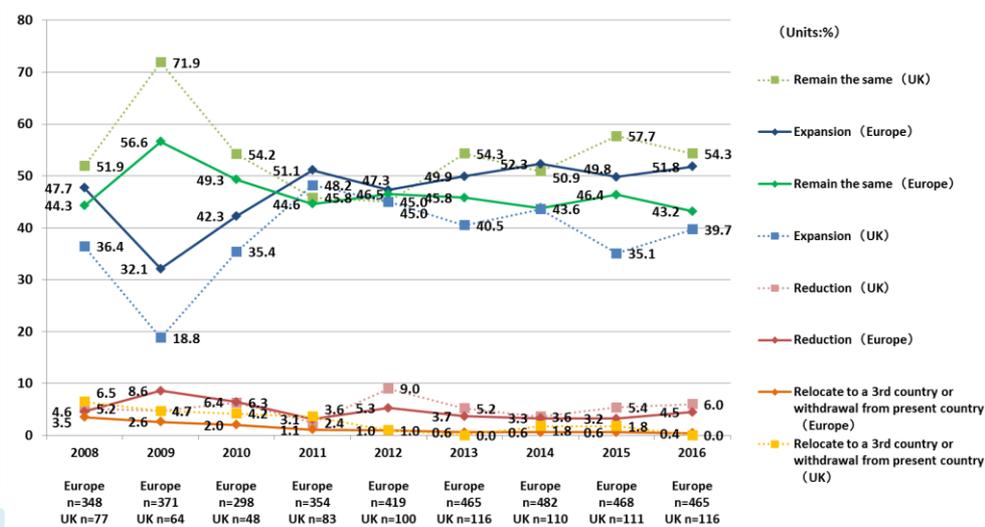
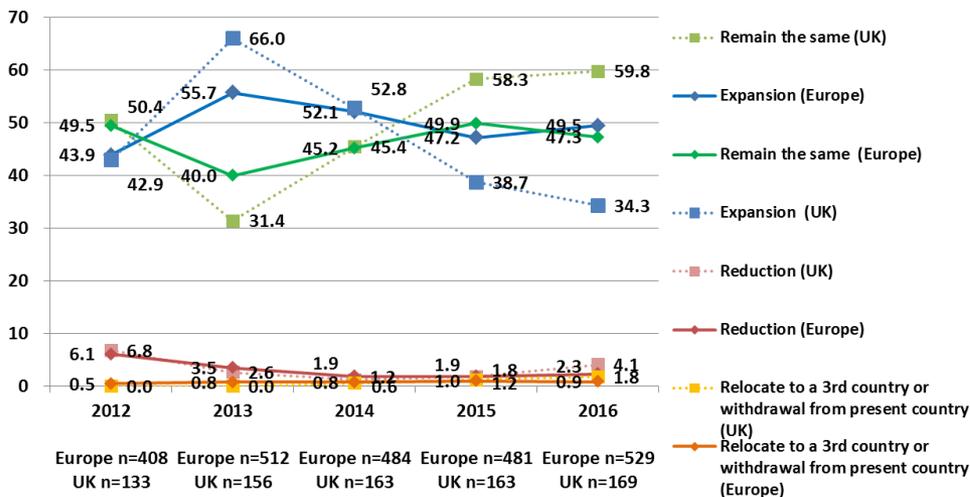


Fig.28, Non-Manufacturing Companies based in Europe & UK 1-2 yr Business Outlook Trends



*Please note Non-Manufacturing was only introduced from the 2012 survey, so data can only be compared over the last 5 years.

*"relocate to a 3rd country" is defined as relocating to a country that is not Japan or the country that the company is currently based in.

- Looking at this data, UK's vote to leave the EU has not yet seemed to have had much effect on the business outlook for the next 1 or 2 years.
- The manufacturing sectors' response seems also not have been too affected, if compared to the 2009 survey results after the 2008 financial crisis. However there are a few companies who responded "Relocating headquarters due to Brexit".
- Also the number of UK non-manufacturing sector respondents replying "Expansion" has reduced.

4. Business Outlook For Next 1 or 2 Years (3)

Fig.29, Industries where large numbers of respondents report “Expansion” or “Remain the same” in their next 1 to 2 year Business Outlook

Expansion Europe (n=503)				Western Europe (n=434)				Central & Eastern Europe (n=69)				UK (n=104)			
	Industry	Responses	%		Industry	Responses	%		Industry	Responses	%		Industry	Responses	%
1	Medical devices	6	75.0	1	Printed and Published	4	80.0	1	Construction/plants	6	85.7	1	Food/agricultural/fishery processing	6	75.0
1	Food/agricultural/fishery processing	18	75.0	2	Rubber products	7	77.8	2	Transport/warehousing	5	83.3	2	Electric machinery and electronic equipment	9	64.3
3	Clothing and textile products	5	71.4	3	Medical devices	6	75.0	3	Sales company	12	80.0	3	Chemical and Petroleum products	6	60.0
3	Rubber products	10	71.4	4	Food/agricultural/fishery processing	16	72.7	4	Electric machinery and electronic equipment	4	66.7	4	Communications/software	6	54.5
5	Fabricated metal products (including plated products)	9	69.2	5	Clothing and textile products	4	66.7	5	Rubber products	3	60.0	5	Trading company	11	50.0

Remain the same Europe (n=451)				Western Europe (n=418)				Central & Eastern Europe (n=33)				UK (n=164)			
	Industry	Responses	%		Industry	Responses	%		Industry	Responses	%		Industry	Responses	%
1	Securities	6	75.0	1	Distribution	4	80.0	1	Motor vehicles and motorcycles	3	60.0	1	Pharmaceuticals	6	85.7
2	Nonferrous metals and products	4	66.7	2	Securities	6	75.0	1	Trading company	6	60.0	2	Transport/warehousing	15	78.9
3	Hotel/travel/restaurant	13	61.9	3	Motor vehicle and motorcycle parts and accessories	26	63.4	3	Motor vehicle and motorcycle parts and accessories	8	47.1	3	Banking	6	75.0
4	Motor vehicle and motorcycle parts and accessories	34	58.6	4	Transport/warehousing	36	62.1	4	Rubber products	2	40.0	4	Motor vehicle and motorcycle parts and accessories	10	66.7
5	Transport/warehousing	37	57.8	5	Hotel/travel/restaurant	12	60.0	5	Electric machinery and electronic equipment	2	33.3	4	General machinery (including metal molds and machine tools)	6	66.7

*Less than 5 responses were excluded from the count.

- Responding “Expansion”, in Europe “Medical Devices” and “Food/agricultural/fishery processing” sectors had high response rate both at 75.0%. However last year “Medical Devices” sector expansion response rate was slightly larger at 76.9%. In Central & Eastern Europe “Construction/plants”, “Transport/warehousing” and “Sales Company” were all more than 80%.
- In the UK, “Food/agricultural/fishery processing” had the highest response rate at 75.0%, followed by “Electronic machinery and electronic equipment” at 64.3% and “Chemical and Petroleum products” at 60.0%.

4. Business Outlook For Next 1 or 2 Years (4)

Fig.30, Specific functions being Expanded for Europe based Companies

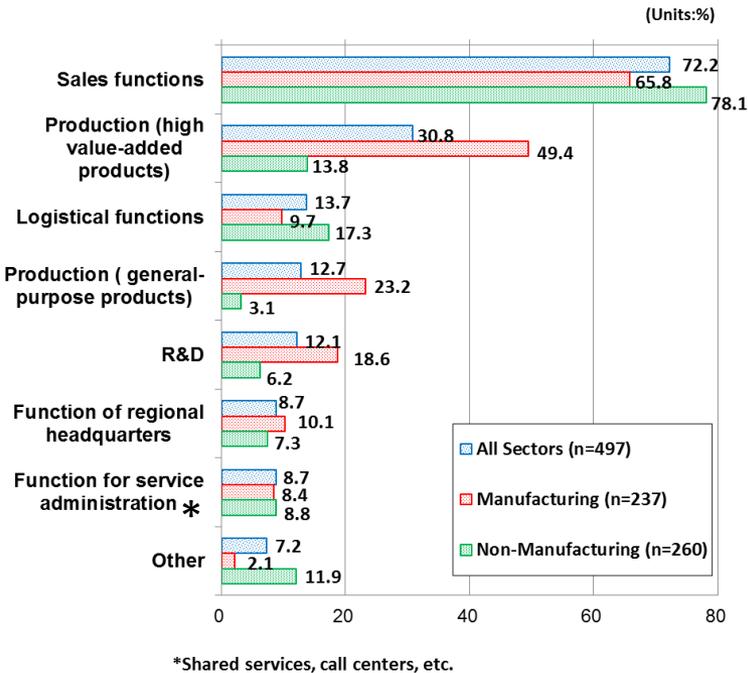


Fig.31, Reason for Expecting Business Expansion in the next 1 - 2 years for Europe based Companies

All sectors (n=503)			Manufacturing (n=241)			Non-Manufacturing (n=262) (Units:cos. %)		
	Responses	%		Responses	%		Responses	%
1 Sales increase	448	89.1	1 Sales increase	225	93.4	1 Sales increase	223	85.1
2 High growth potential	221	43.9	2 High growth potential	95	39.4	2 High growth potential	126	48.1
3 High receptivity for high value-added products	140	27.8	3 High receptivity for high value-added products	82	34.0	3 High receptivity for high value-added products	58	22.1
4 Reviewing production and distribution networks	91	18.1	4 Reviewing production and distribution networks	57	23.7	4 Reviewing production and distribution networks	57	21.8
4 Relationship with clients	91	18.1	5 Relationship with clients	34	14.1	5 Relationship with clients	34	13.0

Fig.32, Reasons for Business Reduction, Relocation to a 3rd country or withdrawal in the next 1-2 years for Europe based companies

All sectors (n=37)			Manufacturing (n=22)			Non-Manufacturing (n=15) (Units:cos. %)		
	Responses	%		Responses	%		Responses	%
1 Sales decrease	20	54.1	1 Sales decrease	11	50.0	1 Sales decrease	9	60.0
2 Cost increase (procurement costs, labour costs etc.)	14	37.8	2 Cost increase (procurement costs, labour costs etc.)	8	36.4	2 (procurement costs, labour costs etc.)	6	40.0
3 Reviewing production and distribution networks	11	29.7	2 Reviewing production and distribution networks	8	36.4	3 Low growth potential	5	33.3

*“relocate to a 3rd country” is defined as relocating to a country that is not Japan or the country that the company is currently based in.

- For both manufacturing and non-manufacturing the highest response rate was expansion of “Sales functions”.
- Nearly 50% of the manufacturing sector responded expansion of “Production (high value-added products)”.
- Within all sectors the most common reason for expansion was “Sales Increase” followed by “High Growth Potential”.
- Other reasons given were comments such as “Strengthening Sales Divisions.” and “Transferring production from the UK.”

4. Business Outlook For Next 1 or 2 Years (5)

Fig.33-1, Specific Functions being Expanded for UK based Companies

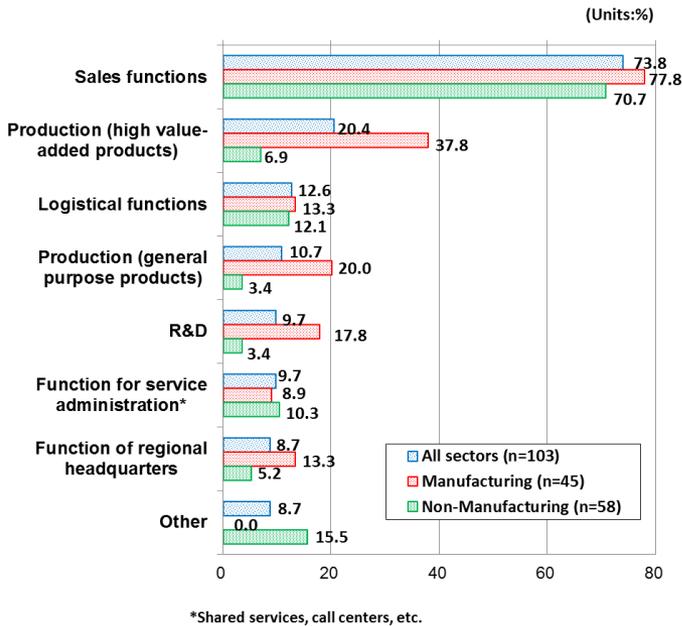


Fig.33-2, Top 10 countries chosen to expand their function to regional headquarters
<Europe, Multiple answers>

2015		2016	
Total(n=449)	11.6	Total(n=497)	8.7
The Netherlands (n=29)	24.1	The Netherlands (n=41)	26.8
UK(n=102)	18.6	Belgium(n=21)	14.3
Portugal(n=6)	16.7	Switzerland (n=7)	14.3
Italy(n=24)	12.5	Austria(n=7)	14.3
Finland(n=8)	12.5	Sweden(n=10)	10.0
Germany(n=115)	11.3	UK(n=103)	8.7
Czech Republic (n=11)	9.1	Germany (n=121)	8.3
Belgium(n=23)	8.7	Poland(n=25)	8.0
Ireland(n=12)	8.3	France(n=38)	7.9
Sweden(n=12)	8.3	Ireland(n=13)	7.7

Fig.34, Reason for Expecting Business Expansion in the next 1-2 years for UK based Companies

	All sectors (n=104) (Units:cos. %)	
	Responses	%
1 Sales increase	92	88.5
2 High growth potential	39	37.5
3 High receptivity for high value-added products	20	19.2
3 Relationship with clients	20	19.2
4 Reviewing production and distribution networks	19	18.3

Fig.35, Reasons for Business Reduction, Relocation to a 3rd country* or withdrawal in the next 1-2 years for UK based Companies

	All sectors (n=17) (Units:cos. %)	
	Responses	%
1 Sales decrease	10	58.8
2 Low growth potential	7	41.2
2 Cost increase (procurement costs, labor costs etc.)	7	41.2

*"relocate to a 3rd country" is defined as relocating to a country that is not Japan or the country that the company is currently based in.

- Both UK manufacturing and non-manufacturing companies highest response was expansion of "Sales functions", the same as European based companies.
- Looking at the response rate for the choice "Function of regional headquarters" by country, this year the UK ranked 6th place at 8.7% falling from last year's 2nd place at 18.6%. The UK's vote to leave the EU seems to have started to impact Japanese-affiliated companies regional headquarter strategy.
- In response to "Reasons for Business Reduction, Relocation to a 3rd country or withdrawal in the next 1-2 years", Some companies responded that they were "Looking into relocating headquarters due to Brexit".

5. Future Promising Sales Destinations (1)

Fig.36, Future Promising Sales Destinations by Country

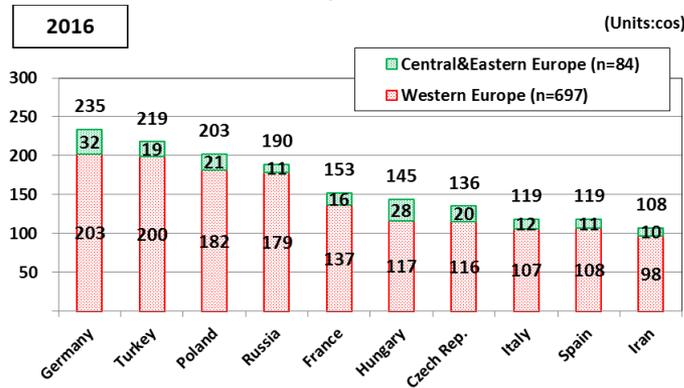
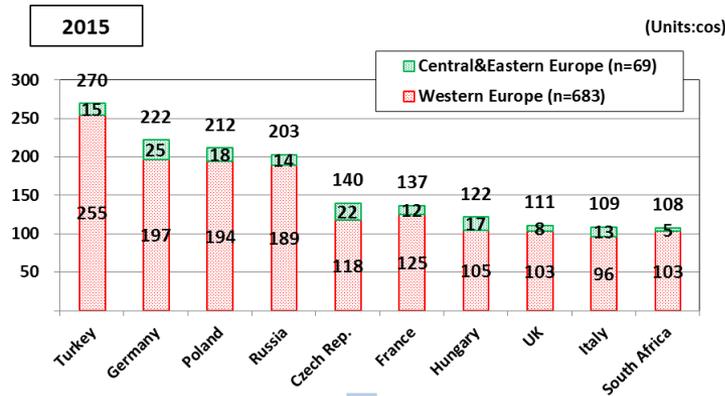
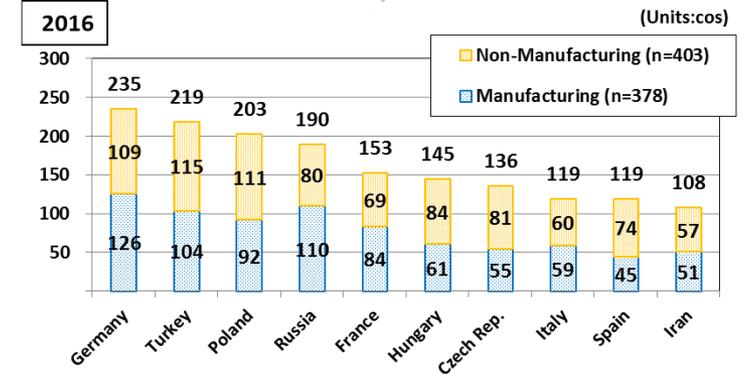
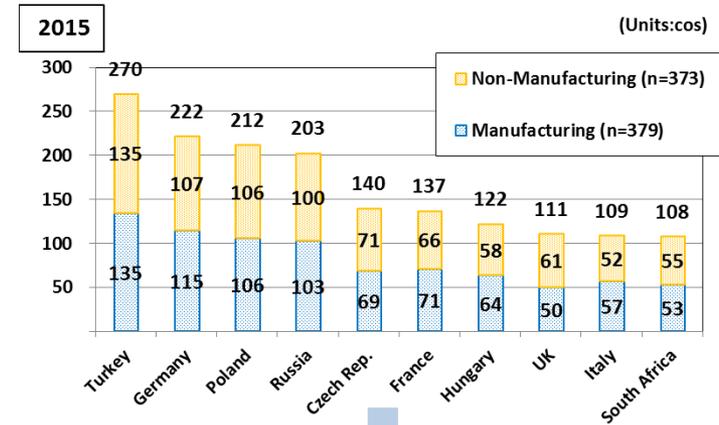


Fig.37, Future Promising Sales Destinations by Industry



- For future promising sales destinations, this year Germany became first place and Turkey fell to 2nd place.
- Poland and Russia remained at 3rd and 4th place.
- Last year Spain ranked at 11th place however this year it rose to 9th place. (105 respondents)
- Now that economic sanctions have been lifted, Iran suddenly rose to 10th place from last year's 19th place. (72 respondents)
- Possibly due to the UK's vote to leave the EU, the UK fell from last year's 8th place to 11th. (107 respondents)

5. Future Promising Sales Destinations (2)

Fig.38, Reasons for choosing Future Sales Destinations

2015

Western Europe (n=425) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	193	45.4
2 Good receptivity of high value-added products/services.	141	33.2
3 Existing clients have bases in the country/region.	131	30.8

Middle East (n=336) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	266	79.2
2 Existing clients have bases in the country/region.	92	27.4
3 New clients have been found in the country/region.	52	15.5

Central&Eastern Europe (n=322) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	211	65.5
2 Existing clients have bases in the country/region.	99	30.7
3 New clients have been found in the country/region.	55	17.1

Russia&CIS (n=200) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	129	64.5
2 Existing clients have bases in the country/region.	51	25.5
3 Good receptivity of high value-added products/services.	34	17.0

Africa (n=220) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	159	72.3
2 Existing clients have bases in the country/region.	61	27.7
3 New clients have been found in the country/region.	37	16.8

Other (n=242) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	169	69.8
2 Good receptivity of high value-added products/services.	72	29.8
3 Existing clients have bases in the country/region.	71	29.3

2016

Western Europe (n=451) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	200	44.3
2 Existing clients have bases in the country/region.	166	36.8
3 New clients have been found in the country/region.	145	32.2

Middle East (n=329) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	226	68.7
2 Existing clients have bases in the country/region.	96	29.2
3 New clients have been found in the country/region.	67	20.4

Central&Eastern Europe (n=331) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	206	62.2
2 Existing clients have bases in the country/region.	114	34.4
3 New clients have been found in the country/region.	87	26.3

Russia&CIS (n=189) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	110	58.2
2 Existing clients have bases in the country/region.	61	32.3
3 New clients have been found in the country/region.	38	20.1

Africa (n=225) (Units: cos, %)

	Responses	%
1 It is a country where sales growth is expected.	137	60.9
2 Existing clients have bases in the country/region.	63	28.0
3 New clients have been found in the country/region.	47	20.9

Other (n=249) (Units: cos, %)

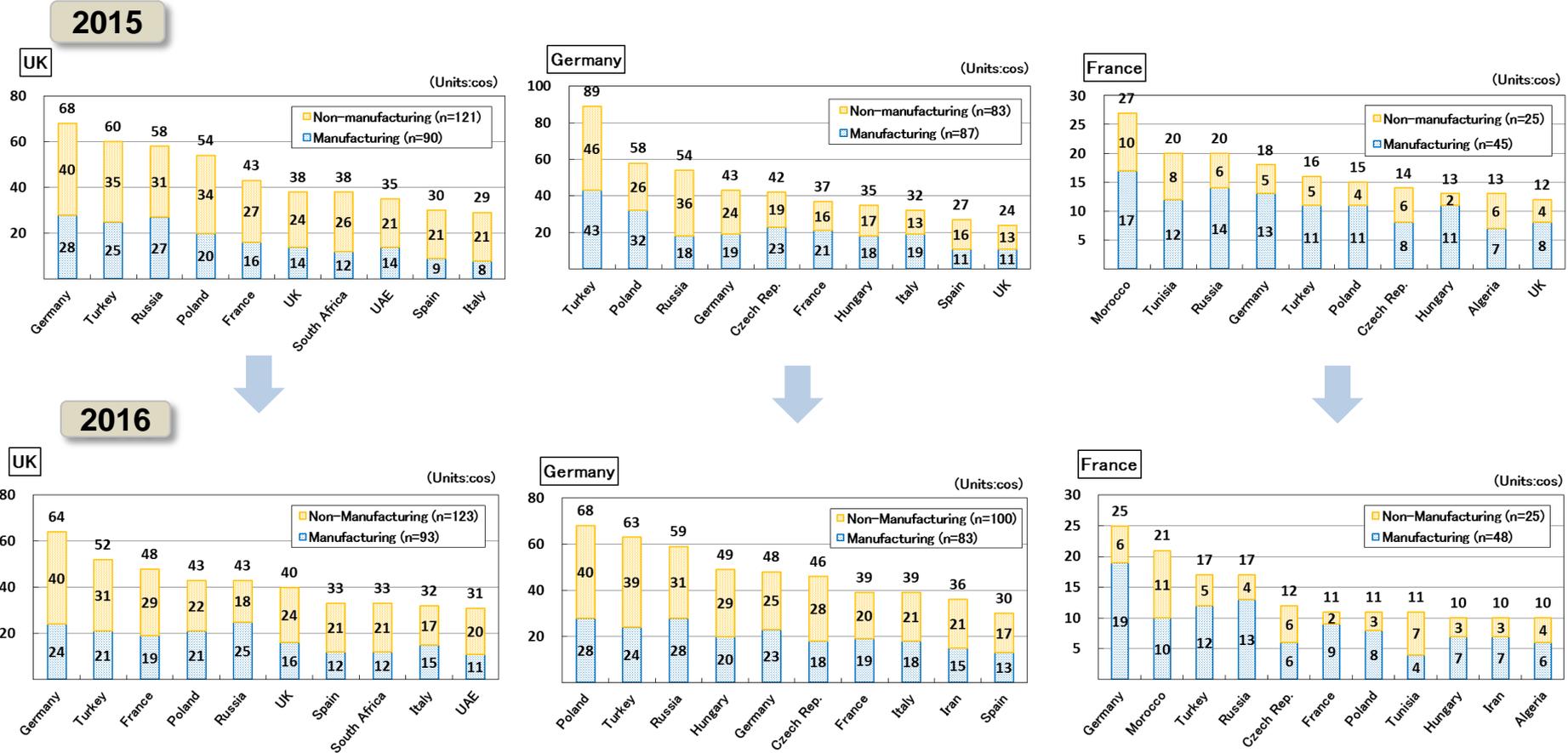
	Responses	%
1 It is a country where sales growth is expected.	160	64.3
2 Existing clients have bases in the country/region.	84	33.7
3 Good receptivity of high value-added products/services.	79	31.7

- By Region, when asked the reason for selecting these destinations, the most selected answer was “It is a country where sales growth is expected”, the same as last year.
- 2nd highest response was “Existing clients have bases in the country/region” and 3rd “New clients have been found in the country/region”. Both of these choices increased since last year.
- “New clients have been found in the country/region” had the largest percentage point increase compared to last year, in Western Europe it increased by 9.4pp to 32.2%.

* “Other” refers to Japan, China, India, ASEAN countries, U.S.A and any other countries that are not mentioned above.

5. Future Promising Sales Destinations (3)

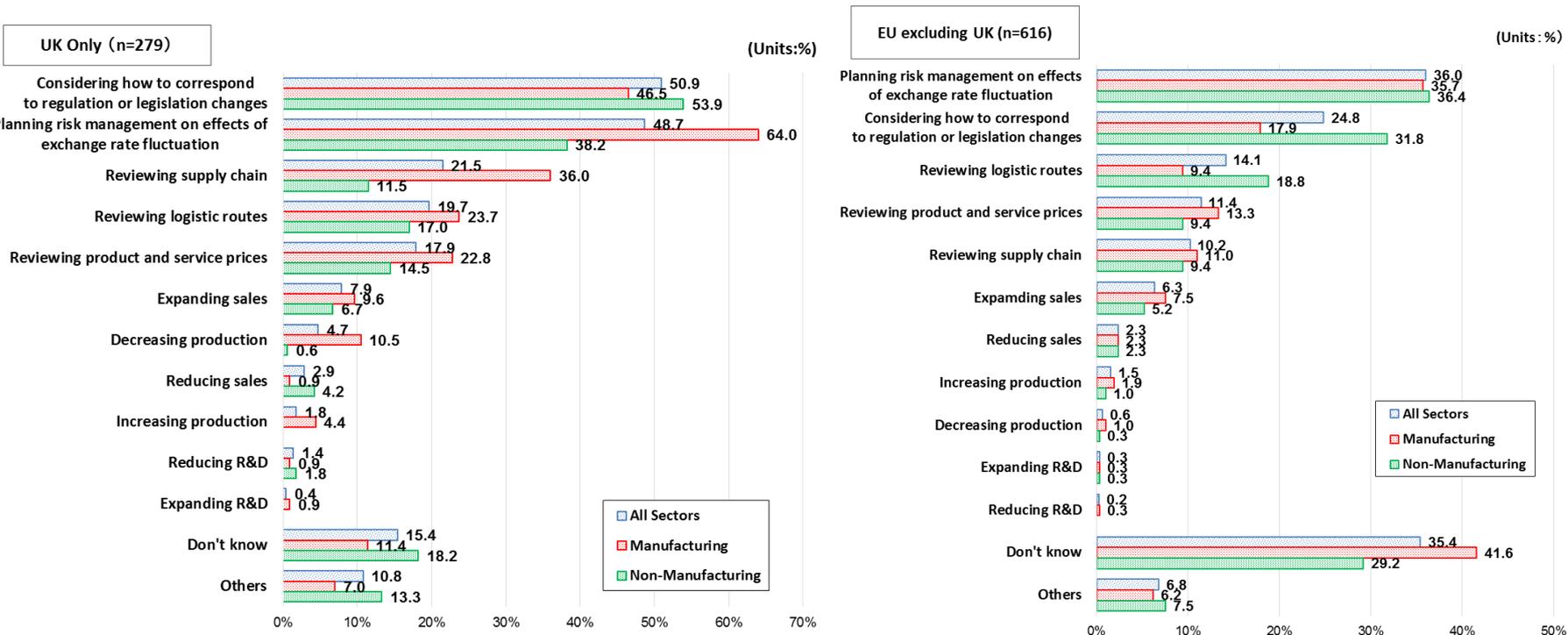
Fig.39, Future Promising Sales Destinations by Country where respondent is based



- Based on the response from Japanese-affiliated companies residing in France and Germany, in 2015 both countries ranked the UK 10th place as a future promising sales destination, however this year the UK didn't even make their top 10 destinations, potentially an effect of the EU referendum result being leave.
- For Germany based Japanese-affiliated companies, there seems to be increasing interest in the Central & Eastern European market, whereas for France-based companies Germany has jumped from 4th place to 1st place as a promising sales destination. For both countries, this year Turkey, Russia, Morocco and Tunisia have fallen in ranking, however there still seems to be great interest in these destinations.

6. Britain's Exit from the European Union

Fig.40, Factors to take into consideration after the UK voted to leave the EU



- When UK-based companies were asked what factors would they take into consideration after the UK voted to leave the EU, manufacturing companies responded that “Planning risk management on effects of exchange rate fluctuation” was the biggest factor at 64.0%, whereas for non-manufacturing replied theirs would be “Considering how to correspond to regulation or legislation changes” at 53.9%.
- In addition to these, manufacturing’s priorities were “Reviewing supply chain” (36.0%), “Reviewing logistic routes” (23.7%) and “Reviewing product and service prices” (22.8%). Some companies made comments such as “considering to relocate somewhere in the EU” and “Looking into shifting the overseas headquarters elsewhere”.
- Looking at Companies based in the other EU countries excluding UK, manufacturing’s biggest response was they “Don’t Know” yet what factors should be considered at 41.6%. For non-manufacturing the largest response was “planning risk management on effects of exchange rate fluctuation” at 36.4%, however there is a difference in response ratio compared to UK-based non-manufacturing companies.
- Within UK-based manufacturing companies 10.5% said they were considering to decrease production. Looking at “Expanding sales” UK-based companies (7.9%) had a slightly larger response rate to other EU based companies (6.3%).

7. EPA/FTA (1)

Fig.41, Use of bilateral or multilateral FTAs by firms operating in the EU

(Units:cos,%)

	Utilization of preferential tax rates provided by FTAs in exports			
	Reponses	Utilizing	Considering utilization	Not utilizing (No plan to utilize)
European Economic Area (EEA) (*)	191 100.0%	83 43.5%	16 8.4%	92 48.2%
Turkey	178 100.0%	68 38.2%	16 9.0%	94 52.8%
Switzerland	155 100.0%	60 38.7%	11 7.1%	84 54.2%
Mediterranean countries (including the Middle East)	109 100.0%	34 31.2%	7 6.4%	68 62.4%
South Africa	93 100.0%	24 25.8%	16 17.2%	53 57.0%
S. Korea	54 100.0%	18 33.3%	7 13.0%	29 53.7%
Mexico	47 100.0%	16 34.0%	5 10.6%	26 55.3%
Chile	26 100.0%	9 34.6%	2 7.7%	15 57.7%

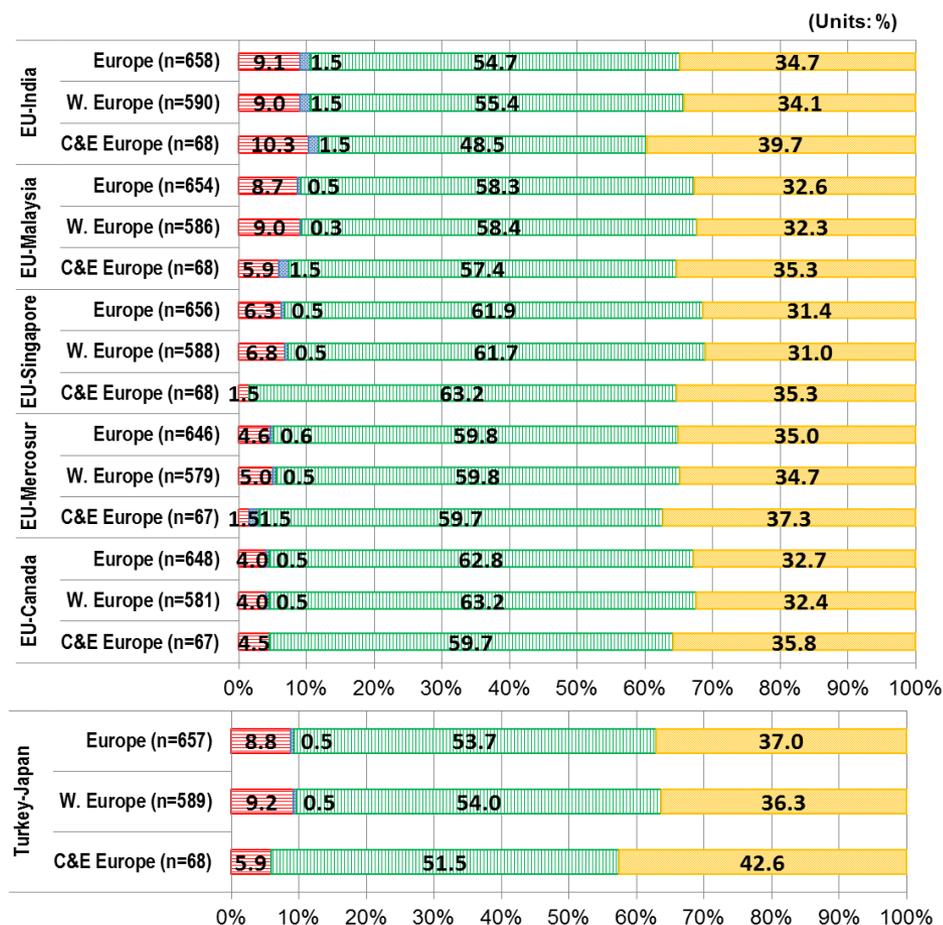
	Utilization of preferential tax rates provided by FTAs in imports			
	Reponses	Utilizing	Considering utilization	Not utilizing (No plan to utilize)
European Economic Area (EEA) (*)	81 100.0%	39 48.1%	7 8.6%	35 43.2%
S. Korea	56 100.0%	29 51.8%	6 10.7%	21 37.5%
Turkey	31 100.0%	20 64.5%	2 6.5%	9 29.0%
Switzerland	21 100.0%	10 47.6%	0 0.0%	11 52.4%
Mediterranean countries (including the Middle East)	14 100.0%	5 35.7%	1 7.1%	8 57.1%
Mexico	12 100.0%	5 41.7%	3 25.0%	4 33.3%
South Africa	6 100.0%	1 16.7%	1 16.7%	4 66.7%
Chile	2 100.0%	0 0.0%	0 0.0%	2 100.0%

* In this question, "European Economic Area (EEA)" refers to EFTA countries (Liechtenstein, Norway, Iceland) excluding EU and Switzerland.

- Regarding use of bilateral or multilateral FTAs by companies operating in the EU, companies reported that they often use them for both imports and exports between Liechtenstein, Norway and Iceland. Compared to last year the response rate indicates that utilization of all FTAs for importing and exporting have all increased except for South Korea, South Africa and Mexico. Also the number of companies utilizing the South Korea FTA for imports has increased since last year.

7. EPA/FTA (2)

Fig.42, EPA / FTA Impacts



- Looking at impacts of Economic Partnership Agreements (EPA) and Free Trade Agreements (FTA) currently being negotiated by the EU, overall 37.8% responded that the EU-Japan agreement would have "Major advantages" (+2.9pp since last year). This obtained the largest percentage compared to other EPA/FTAs. Especially in the case of Central & Eastern Europe based companies whose response rate for "Major advantages" reached 46.3%, and in the manufacturing sector alone as high as 54.8%. There were many responses citing "improvement of price competitiveness" as a reason for the major advantage.
- Central & Eastern European based companies also cited the EU-Thailand FTA as another major advantage at 24.6%. Especially Czech Republic who responded as much as 40.0%. Since January 2015 Thailand has been excluded from EU's general system preference tariff (GSP), causing many to hope for an early conclusion of the EU-Thailand FTA.

7. EPA/FTA (3)

Fig. 43, Industries in which many companies responded the EU-Japan EPA would provide “Major advantages”

(Units:cos,%)

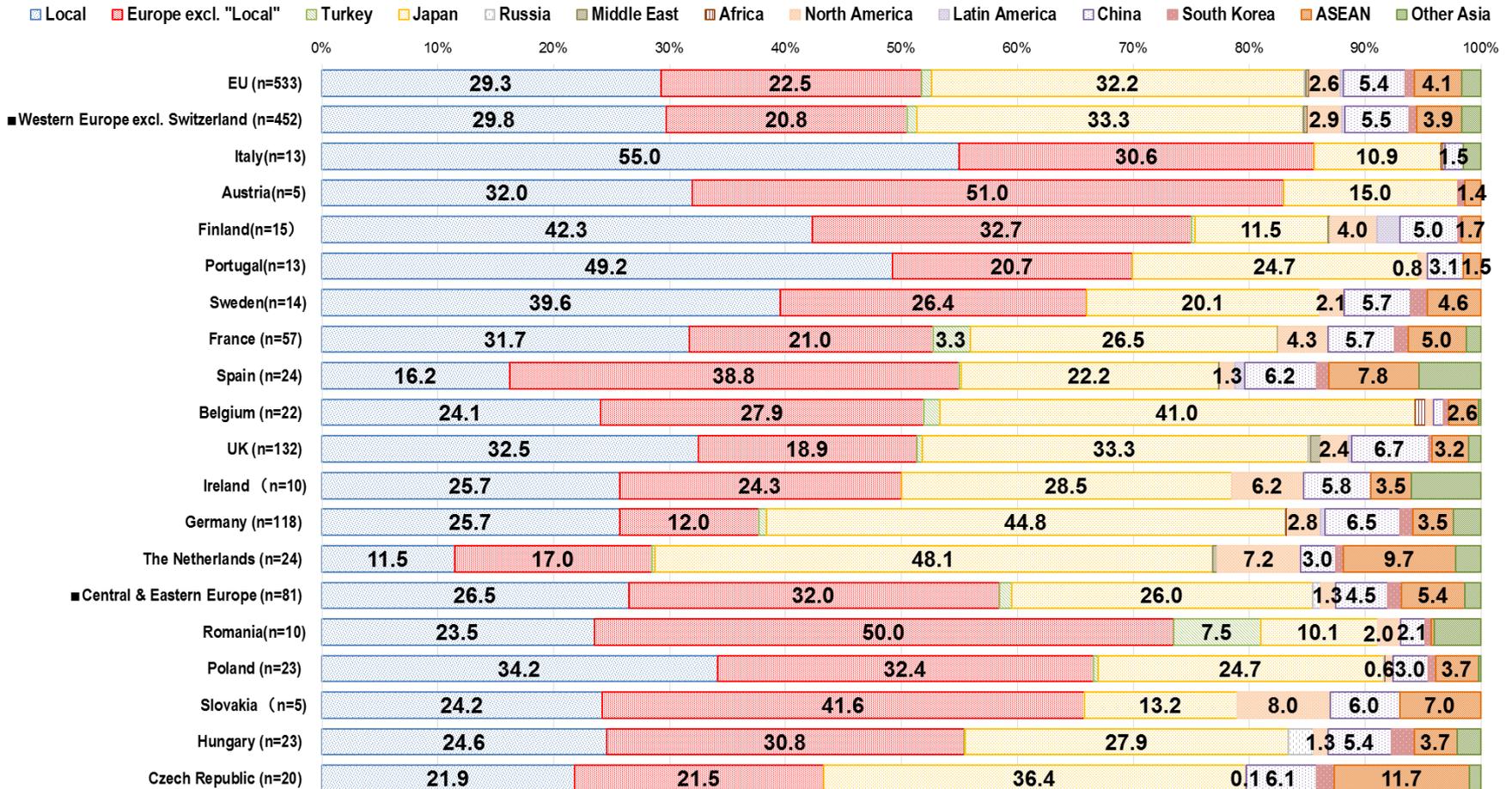
		Responses	%
1	Motor vehicle and motorcycle parts and accessories	27	52.9
2	General machinery (including metal molds and machine tools)	17	51.5
3	Motor vehicles and motorcycles	12	50.0

*Less than 5 responses were excluded from the count.

- The Industry which responded the most that the EU-Japan EPA would be a major advantage was “Motor vehicle and motorcycle parts and accessories” at 52.9%, followed by “General machinery (including metal molds and machine tools)” (51.5%) and “Motor vehicles and motorcycles”(50.0%).

8. Local Procurement (1)

Fig.44, Suppliers of Parts & Raw Materials for All Sectors, by Country & Region

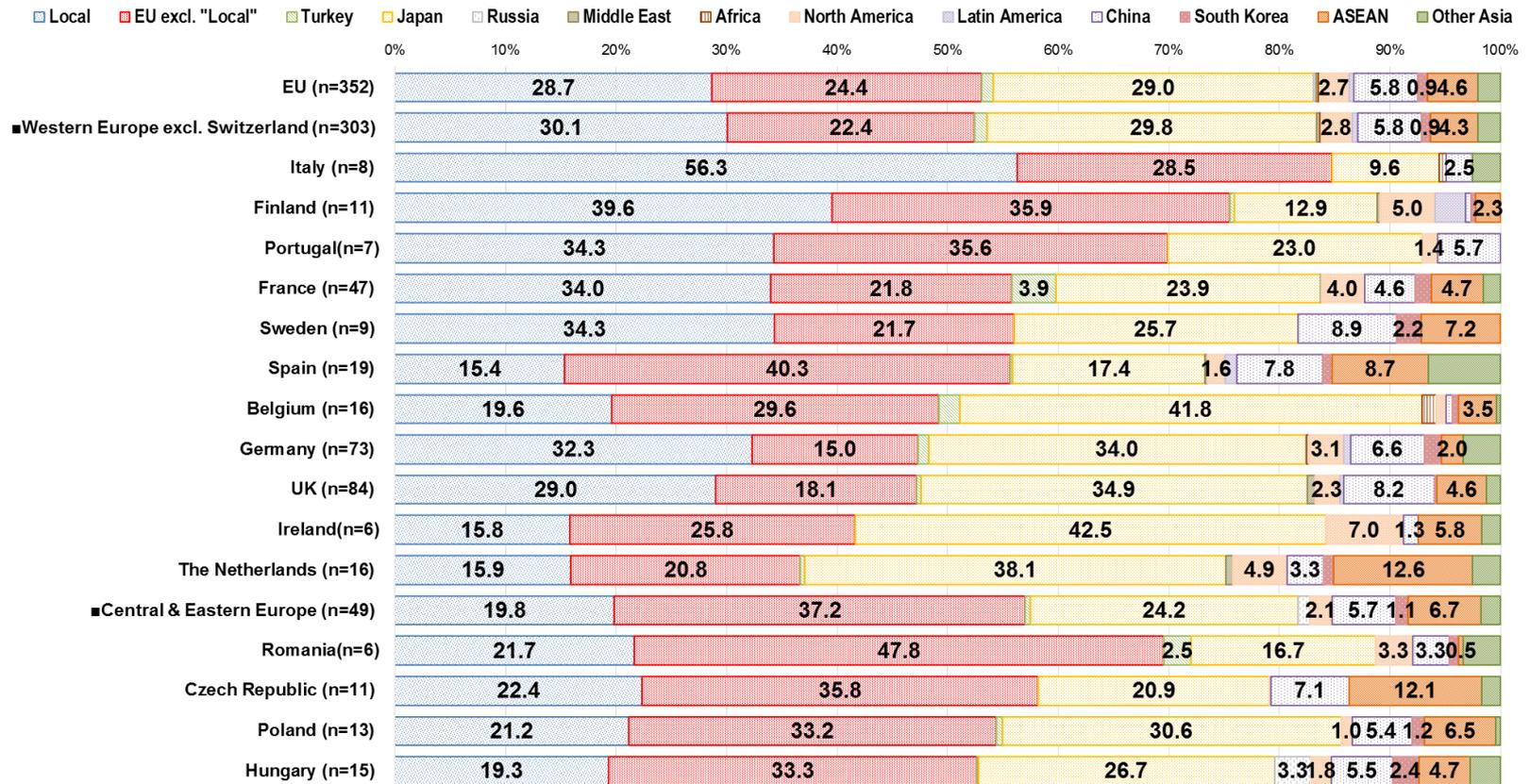


• "Local" indicates the country/region listed in blue. Countries where respondents are less than 5 were excluded

- When examining suppliers of parts and raw materials for EU based companies from all sectors, the supply percentage for "local" parts and materials is 29.3% (-0.4pp) and "Europe excluding local" is 22.5% (+3.3pp), these two ratios combined exceeds 50% (51.8%).
- The ratio of parts and raw materials supplied by Japan was 32.2%, down 2.3 pp from the previous year.

8. Local Procurement (2)

Fig.45, Suppliers of Parts & Raw Materials for Manufacturing Industry, by Country & Region

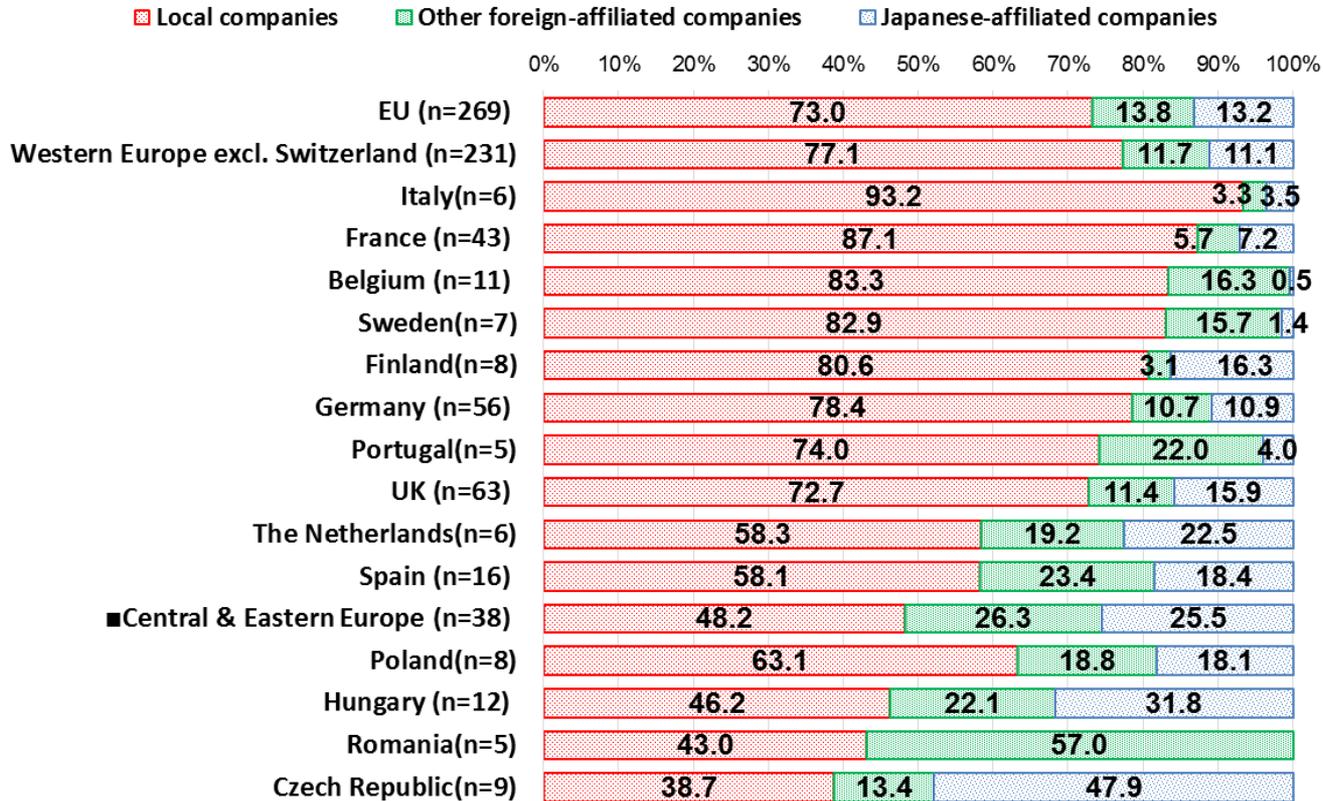


* "Local" indicates the country/region listed in blue. Countries where respondents are less than 5 were excluded

- When focusing suppliers parts and raw materials for EU based manufacturing companies, the percentage for "local" supply is 28.7% (-2.5pp) and "Europe excluding local" is 24.4% (+2.5pp), these two ratios combined reaches 53.1%.
- The ratio from Japan was 29.0%, down 1.0 pp from the previous year.
- Within Western Europe, if combining "local" and " Europe excluding local" the overall ratio is 52.5%.
- For Central & Eastern Europe the combined ratio is 57.0% and it is the highest ratio for all regions.

8. Local Procurement (3)

Fig.46, Breakdown of Local Suppliers Manufacturing Industry



- "Local Company" indicates the country/region listed in red .
- Countries where respondents are less than 5 were excluded.

- Looking at the breakdown of local suppliers for the manufacturing industry, the highest percentage of suppliers for EU-based companies is local at 73.0%, decreasing 3.9pp since last year. 13.8% were other foreign-affiliated companies (+2.9pp) and Japanese-affiliated companies were 13.2% (+1.0pp).
- The ratio of local suppliers in Western Europe (excl. Switzerland) is 77.1%, this is much higher compared to Central & Eastern Europe at 48.2% showing that there are more local suppliers available in Western Europe.

9. Changes in the Number of Employees



Fig.47, Changes in no. of Japanese Expat Staff in Past Year and Future

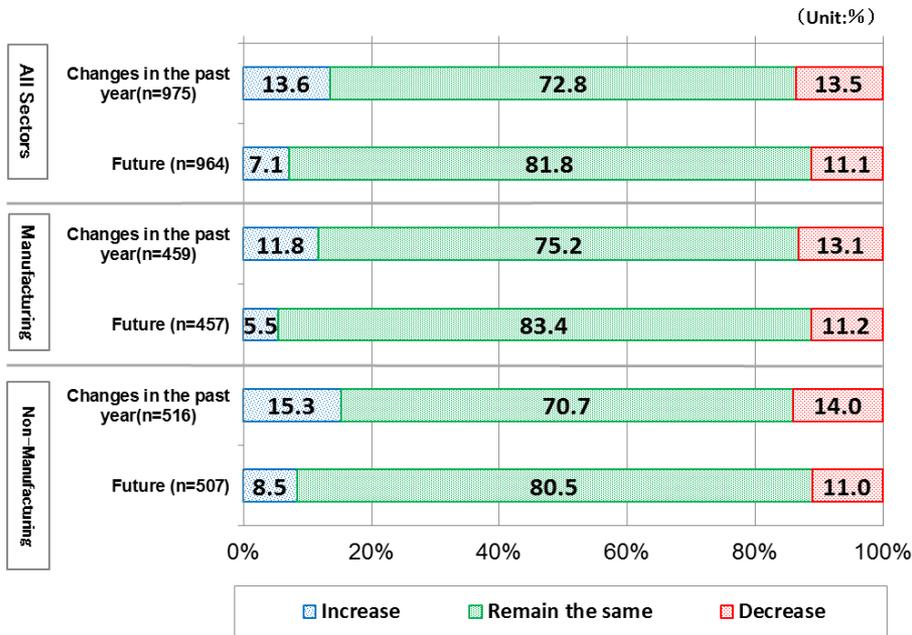
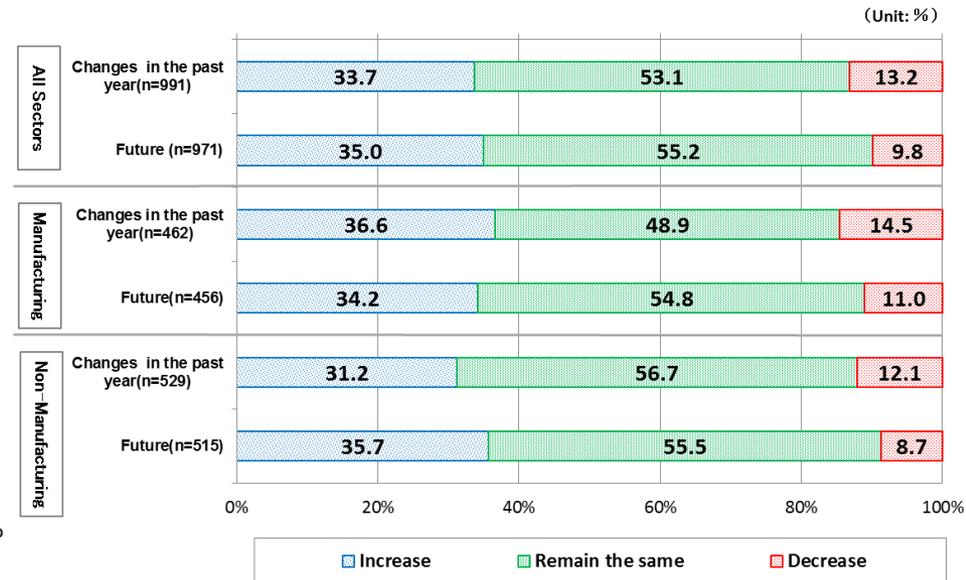


Fig.48, Changes in no. of Local Employees in Past Year and Future



- With regards to the changes in the number of Japanese expat staff and local employees, “remain the same” was the most common answer, just like the previous year. This was the same for changes in the past year and future plans.
- In the case of future changes in the number of Japanese expat staff, the “Increase” response rate has been decreasing since 2014. In the previous annual surveys, it was 8.4% in 2014, 7.6% in 2015 and 7.1% in 2016.



JETRO

Japan External Trade Organization

Contact details for inquiries :
Japan External Trade Organization (JETRO)
Overseas Research Department,
Europe, Russia and CIS Division

1-12-32 Akasaka, Minato-ku, Tokyo 107-6006
TEL : 03-3582-5569
E-mail : ORD@jetro.go.jp