

2018 JETRO Survey on Business Conditions of Japanese Companies in Europe

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Japan External Trade Organization (JETRO)

Europe, Russia and CIS Division

Overseas Research Department

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 overseas operation strategies and policy planning. It is also intended to be used as a basis of information, so that governmental agencies can provide sufficient support towards Japanese- affiliated companies based in Europe.

Survey Target

- This survey was sent to a total of 908 companies between the 27th of September to the 25th of October 2018.
- Exactly 763 responses were received, giving a response rate of 84.0%.
- The survey was sent to companies based in 14 countries in Western Europe and 8 Eastern and Central European Countries.
- 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 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.
- 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.
- In this Survey the Czech Republic is referred to as its other official name Czechia.
- If “Multiple Answers Given” is written next to the graph, it means some companies chose more than one answer.
- This survey has been running continuously since 1983. At first it focused on only manufacturing industries, but in 2012 the survey expanded to include non-manufacturing industries. However this means that data accumulated from 6 years ago or more only compares and analyses within the manufacturing industries.
- Please note there are some differences between the Japanese and English publication.

Survey Results: Target Countries & Industry Breakdown

Manufacturing

- Food/processed food, agricultural or fishery products
- Textile Fabrics (Spinning/Woven fabrics/Chemical fibers)
- Textile apparel & products
- Lumber& Wood products
- Furniture & Fixtures
- Paper& Pulp
- Printing & Publishing
- Chemical, allied & petroleum products
- Medicines
- Plastic products
- Rubber products
- Ceramic, stone & clay products
- Iron & steel (Including cast and wrought products)
- Non-ferrous metals
- Fabricated metal products (Including plated products)
- General-purpose & production machinery (Including molds and machine tools)
- Business oriented machinery (Including office machines, analytical instruments & medical equipment)
- Electrical machinery & devices (Including parts)
- Information & communication electronics equipment
- Motor vehicles & Motorcycles (Transportation equipment)
- Motor vehicles & Motorcycles parts (Transportation equipment)
- Railroad vehicles/Ship/Aircraft/Industrial trucks (Transportation equipment)
- Railroad vehicles/Ship/Aircraft/Industrial truck parts (Transportation equipment)
- Miscellaneous manufacturing industries

Non-Manufacturing

- Agriculture & forestry
- Fisheries
- Mining
- Construction/Plant
- Electricity/Gas/Heat supply/Water
- Transport activities/Warehouse
- Information & communications (Including software)
- Wholesale and retail trade(Including trading)
- Sales company
- Finance & insurance
- Real estate
- Professional & technical services
- Hotel/Travel/Restaurant
- Amusement/Living-related services
- Education
- Medical/healthcare & welfare
- Miscellaneous service industries

Survey Results

1. Operating Profit Forecast
2. Current Domestic Market and Future Prospects
3. Operational Challenges
4. Changes in Number of Employees
5. Britain's Exit from the European Union
6. Local Procurement
7. Business Outlook For Next 1 or 2 Years
8. High Value-Added & Differentiation Initiatives
9. Future Promising Sales Destinations
10. EPA/FTA

(Units:cos, %)

	Number of participants		Industries	
	Valid response	Ratio	Manufacturing	Non-Manufacturing
Overall	763	100.0	367	396
■ Western Europe	678	88.9	312	366
UK	193	25.3	75	118
Germany	182	23.9	86	96
France	85	11.1	50	35
Belgium	49	6.4	23	26
Spain	24	3.1	14	10
Ireland	23	3.0	7	16
Austria	23	3.0	12	11
Netherlands	21	2.8	7	14
Italy	20	2.6	8	12
Finland	19	2.5	13	6
Sweden	14	1.8	5	9
Switzerland	11	1.4	5	6
Portugal	8	1.0	4	4
Denmark	6	0.8	3	3
■ Central & Eastern Europe	85	11.1	55	30
Poland	25	3.3	12	13
Czechia	22	2.9	17	5
Romania	16	2.1	9	7
Hungary	12	1.6	11	1
Slovakia	4	0.5	3	1
Serbia	3	0.4	1	2
Bulgaria	2	0.3	1	1
Slovenia	1	0.1	1	0

Survey Results Summary (1)

1. Operating Profit Forecast, Current Domestic Market and Future Prospects

Operating Profit Forecast Continues at a High Standard and Increasing Labour Costs in Czechia are Seen to be the Main Impact to Shrinking Profits.

- Although the 2018 operating profit forecast indicated that the percentage of Japanese-affiliated companies in Europe predicting that they will be profitable has decreased by 1.1 percentage points to 73.9%, a high standard has continued to be maintained, as this is still the second highest percentage since 2012; the same year that the non-manufacturing sector started to be included in this survey. However this year the percentage of Japanese-affiliated companies in Europe predicting a loss of profit was 12.8%. Although when the European economy started to recover in 2014, the response rate predicting loss greatly reduced (13.0%), despite remaining low since 2015, this year's result indicates it is again beginning to increase. (page 6,7)
- Amongst UK based Japanese-affiliated companies, despite that the UK's withdrawal from the EU (Brexit) negotiations are uncertain, the overall response rate for predicting a profit has increased by 3.8 percentage points to 75.4%. Companies gave reasons such as improvement in profit margin by increasing prices. (page 6,7)
- Comparing 'DI: 2019 Operating Profit Forecasts compared to 2018' and 'DI: 2018 Operating Profit Forecast compared to 2017 Operating Profit Results' by country, for both years, Czechia's DI operating profit forecast has been in the negative. When looking at the company's domestic market, companies based in Czechia gave the highest response rate that their domestic market is better at 59.1%. Combining this percentage with companies who responded that the market is slightly better 31.8% amounts to over 90%. Although this gives an impression that the local economy is really improving, operational challenges for companies in Czechia can be seen, caused by issues such as "Rapid labour cost growth", low unemployment and securing human resources are restricting profits. (page 11,14)

2. Operational Challenges

Securing Human Resources Remains Top Challenge, For Companies in the UK Political and Social Stability Continues to be a Challenge due to Brexit Negotiations

- This year "Securing human resources" 43.6% still continues to be the key operational challenge for all companies, despite the response rate reducing by 8.1 percentage points from 2017. Notably in Central and Eastern Europe more than 70% of companies (70.4%) cited it as an issue; of which it was observed that response rates from Czechia 90.5%, Hungary 66.7%, Romania 64.3% and Poland 60.0% all exceeded 60%. These 4 countries also cited that "Rapid labour cost growth" is an issue at 90.5%, 83.3%, 50.0% and 64.0% respectively. (page 15,18, 20)
- Europe based companies responded that within the "Securing human resources" operational challenge, "Management personnel" was cited as most needed at 57.1%, followed by "Factory workers" at 33.5% and "IoT/AI specialists" at 18.7%. Amongst companies in Central and Eastern Europe, 61.4% responded that "Factory workers" were needed the most. For "IoT/AI specialists", looking by country high response rates were observed from German based companies at 28.9% (24 companies) and Poland based companies at 33.3% (5 companies). (page16)
- This year "European social and political situation" was the third biggest operational challenge at 37.8%, falling by 11.0 percentage points from 2017. By country, the highest response rate was from UK based companies at 57.1% (101 companies), with Brexit negotiations continuing, Romania also shared the same response rate at second place (8 companies). Although the third highest response rate came from Spain based companies at 54.2%, this has fallen greatly by 28.7 percentage points from 2017, as the situation in Catalonia calms down. (page15, 20)

Survey Results Summary (2)

3. Britain's Exit from the European Union and Local Procurement

UK Economic Slump is the Key Concern, Some Companies Especially From Finance & Insurance Sectors are Partly Relocating Their Regional Headquarter Offices

- As the UK prepares to exit the EU, companies were asked what impact has there been to their business so far: the overall response rate for “Negative Impact” was 16.1%, 2.0 percentage points up from last year; amongst Ireland based companies the response rate was as much as 38.1%, a huge increase of 25.1 percentage points since last year. Also it could be seen that there is a fixed supply chain between Ireland and the UK, as Ireland based companies have the highest procurement rate of goods from UK suppliers at 15.3% compared to other EU states.
- Furthermore the response rate for “Negative Impact” from UK based companies was 25.3%, similar to the previous year (26.2%). (page 24,32)
- When companies were asked how the UK's exit from the EU will affect their future business: 60% of UK based companies gave the highest response rate for “Negative Impact” (59.8%), up 12.9 percentage points since 2017. Many reasons were given such as: “custom duties”, “custom procedures” and “reviewing the UK as European headquarters or logistics hub”, that is to say the consequences of Brexit have begun to appear. (page 25)
- Addressing the concerns of Japanese-affiliated companies, for both UK based as well as other EU states based companies the key concern is “Economic slump in the UK”. Amongst UK based companies the top 3 concerns remain the same from last year and the response rate has slightly increased. The top 3 concerns are “Economic slump in the UK” at 71.3% (up 1.9 percentage points from 2017). “Changes in UK regulations and legislation” at 58.0% (up 3.9 percentage points) and “Pound continues weakening” at 54.1% (up 2.0 percentage points). However the top 3 concerns for EU (excl. UK) based companies are “Economic slump in the UK” at 46.1% (1.0 percentage point down), “Exporting from EU base (excl. UK) to UK” at 38.0% (5.9 percentage points up) and “Changes in UK regulations and legislation” at 34.5% (1.7 percentage points down). (page 26)
- Companies were asked to expand on why “Changes in UK Regulations and Legislation” is a big concern: 77.3% of all companies said it was due to “Compliance with EU Regulation” (UK based companies 74.3% and EU (excl. UK) 79.9%); for UK based companies the largest response was “Adjusting the company's internal structure to comply with UK Regulations and Legislation Changes”; also another top concern for both UK based and EU (excl. UK) based companies were “Customs Tariffs” at 68.2% and 75.3%, notably it was higher in the manufacturing sector at 86.4% and 82.9%, other particularly high concerns are “Non-tariff barriers” 41.2% and 46.8% and “Standards and certification” 30.6% and 31.2%. For UK based manufacturing companies the response rate for “Personal data protection (consistency with EU rules)” at (41.2%) was higher than “Standards and certification” indicating that they are working on these issues for when Brexit has occurs. (page 26 & 27)
- In preparation for the UK's withdrawal from the EU, when companies were asked if they had already decided to relocate/withdraw or already have relocated/withdrawn from its base location: the “Regional Headquarter Office” function received the largest response rate at 61.0% (25 companies), followed by ‘Sales’ functions at 29.3% (12 companies) and ‘Manufacturing’ at 14.6% (6 companies). Also within the “Regional Headquarter Office” function category, more than 80% of respondents (80.4%, 21 companies) said they would “partly relocate” this function. Destinations of companies who had already decided to relocate or already have relocated: finance/insurance hub destinations such as Germany, Luxembourg and the Netherlands were cited for relocation of regional headquarter offices; Germany was mentioned for relocation of “Sales” functions; and Poland, the Netherlands and the Philippines were mentioned for “Manufacturing”. (page 29)
- Concerning companies' contingency plans for if the UK were to leave the EU with “No Deal”: there was no significant difference in proportion between UK based and other EU state based companies who selected “Plan already made” and “Currently planning”. However when combined with the choice “Intending to plan”, it was indicated that 26.8% of UK based companies were undertaking contingency plan measures, whereas only 12.8% of EU (excl. UK) states companies had undertaken any planning procedures at all. Companies who responded that the status of their contingency plan was “Plan already made”, “Currently Planning” or “Intending to plan”, were asked to provide more details; 95 companies gave individual responses about what kind of plans were being made, of which each company cited a variety of different measures. Overall the most common plan cited was “Stockpiling goods”, which was given by 20 companies (21.1%). (page 30)

Survey Results Summary (3)

4. Business Outlook for Next 1 or 2 Years

As Brexit Negotiations Continue, UK Japanese-Affiliated Companies Seek to Strengthen Company Brand and Add High Value to Products

- It still appears that Japanese-affiliated companies' business outlook for the next 1-2 years have not yet been greatly impacted by the UK's movement towards leaving the EU. However within the manufacturing sector, a trend is beginning to appear from both UK and other EU state based companies' response rate for "Remain the same", which both has increased by 4.4 and 2.9 percentage points respectively reaching 58.7% and 41.3%. (page 35)
- It was observed that ahead of the UK's withdrawal from the EU, UK based companies are attempting to shift towards differentiating from price-oriented products to quality-oriented and technological products. When UK based companies were asked which functions they intend to expand in the next 1-2 years, the most common answer was to expand "Sales functions" (46 companies, 19 companies less than 2017). Continuing from last year the second most common answer was expansion of "Production (high-value added products)" (17 companies), followed by R&D (11 companies). Also in terms of what initiatives were being undertaken to differentiate or add high value to their products and services being sold: high response rates were given for "Strengthening Company Brand" at 52.2% and "Strengthening Technical Skill Training Resources & Increasing number of Skilled Engineers" at 30.2% (page 39, 42)

5. EPA/FTA Advantages and Challenges

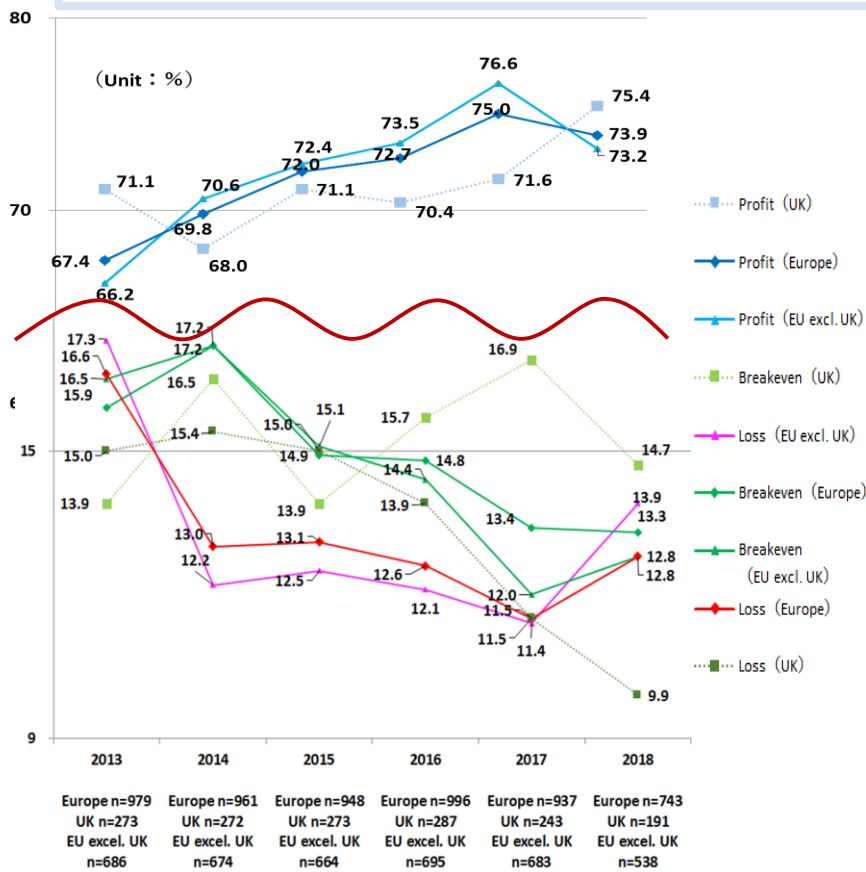
When Using the Japan-EU EPA Adjusting In-House System & Cooperation with Supplier & Business Partners Could be Problematic

- Concerning the Japan-EU EPA, which is expected to come into effect in 2019, the response rate from all Europe-based companies for "Positive Impact" was 42.0%, down by 12.3 percentage points from 2017. Overall compared to last year the response rate for "No Impact" and "Don't Know" has increased by 6.0 and 5.6 percentage points respectively to 25.3% and 30.9%. Amongst EU (excl. UK) companies, the response rate for "Positive Impact" was 48.1%, a similar result to last year. However for UK based companies the response rate for "Positive Impact" fell by 20 percentage points to 25.1%, appearing to show that the number of UK based companies who think that they cannot enjoy the same effects from the EPA as other EU members has risen, due to the UK's withdrawal from the EU. (page 45)
- In terms of items that may be problematic when using the Japan-EU EPA, the top issues were "In-house system improvements" at 47.4%," followed by "Cooperation with supplier/business partners e.g. completion of certificate of origin documentation" at 43.1% and "Proof of origin procedures (self-certification)" at 34.6%. When the details of the agreement became clear after the signing in July 2018, these issues have become more real as the date the agreement comes into effect draws closer. (page 47)
- Currently the EU is moving towards signing the EU-Vietnam FTA, it can be seen that all companies' expectations are rising as the response rates for "Planning to Utilize" and "Considering to Utilize" from companies who import were 39.5% (15 companies) and 34.2% (13 companies) respectively. (page 50)
- Regarding current EU EPAs and FTAs under negotiation as well as the potential future FTA negotiation with the UK, those that received large response rates for "Positive Impact" were: the EU-US (TTIP) FTA 14.2%, the EU-Thai FTA 13.9% and the EU-ASEAN FTA 13.6%. For European based Japanese companies, the response rates for positive impact from the Japan-UK EPA 12.2% and the UK TPP11 participation 7.7%, were lower. The reason that some companies cited the UK participation of TPP11 (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership), as a "Positive Impact" was due to fact that many companies are manufacturing products in member countries such as Vietnam. (page 51)

1. Operating Profit Forecast(1)

- Looking at operating profit forecast trends over the last 7 years, this year for the first time the percentage of Japanese-affiliated companies in Europe predicting that they will be profitable has marginally decreased by 1.1 percentage points to 73.9%, but a high standard has continued to be maintained as the percentage of companies predicting profit reached the second highest percentage since 2012; the same year that this survey first started to include the non-manufacturing sector.
- Compared to 2017 the percentage of Japanese-affiliated companies in Europe who predicted a loss increased in 2018. However the percentage of companies from the manufacturing sector predicting a profit was 76.1%, only a slight decrease of 0.8 percentage points from the previous year.
- This year, the percentage of Japanese-affiliated companies in the UK predicting a profit was 75.4%, increasing by 3.8 percentage points since last year. The percentage of companies in the manufacturing sector predicting a profit was 81.3% and the percentage predicting a loss has decreased to 6.7%.

Operating Profit Forecast Trends for Europe and UK



Manufacturing Operating Profit Forecast Trends for Europe and UK

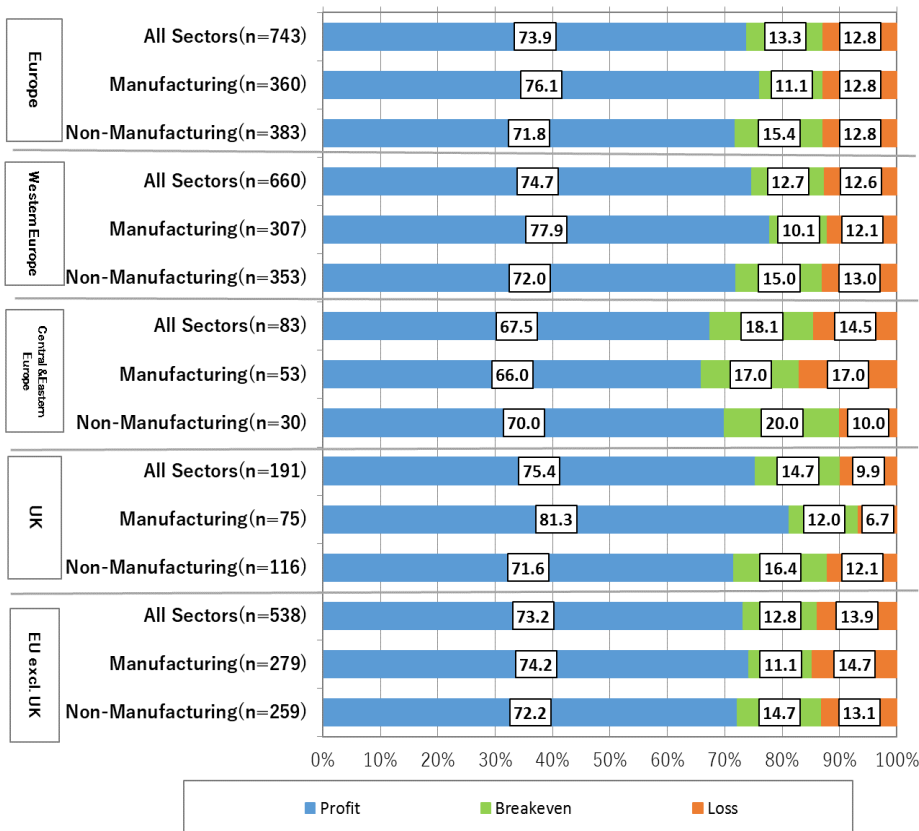


1. Operating Profit Forecast (2)

- For the 2018 operating profit forecast, 73.9% of all respondents answered that they would be profitable, 13.3% estimated that they would break even and 12.8% at a loss.
- Continuing from last year, the proportion of Western Europe manufacturing sector predicting a profit remained higher at 77.9%, than Central and Eastern Europe 66.0%.
- The proportion of UK based only companies predicting a profit was higher in the manufacturing sector at 81.3% than the non-manufacturing sector at 71.6%.

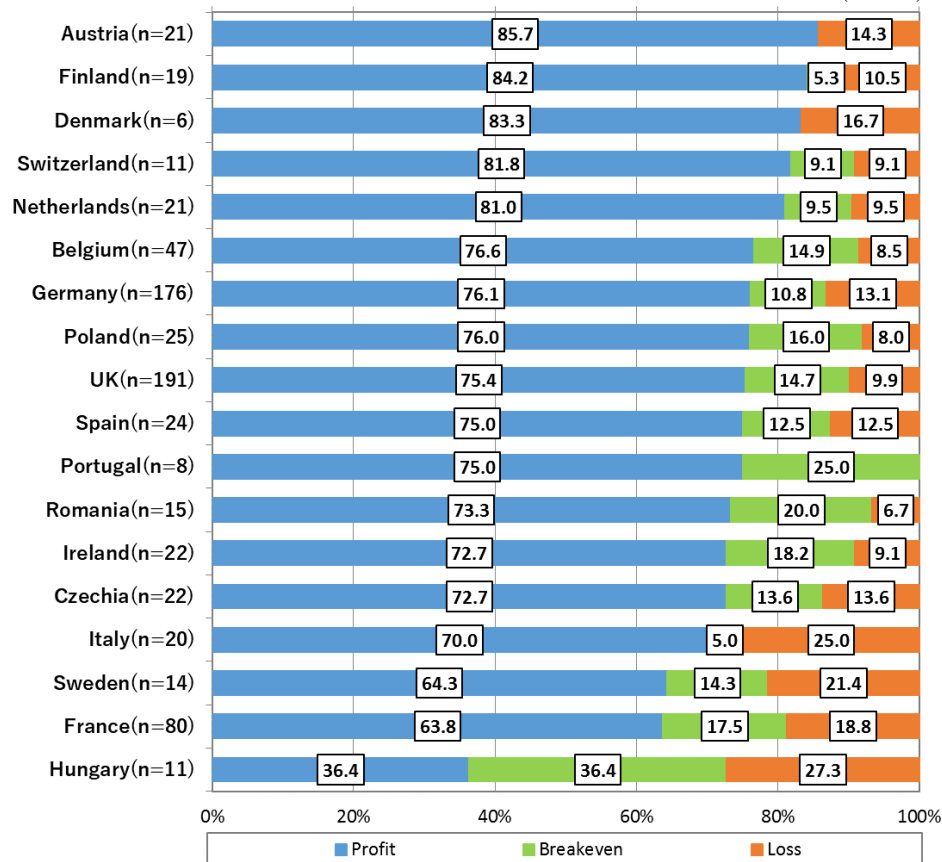
2018 Operating Profit Forecast (By Industry)

(Unit : %)



2018 Operating Profit Forecast (By Country)

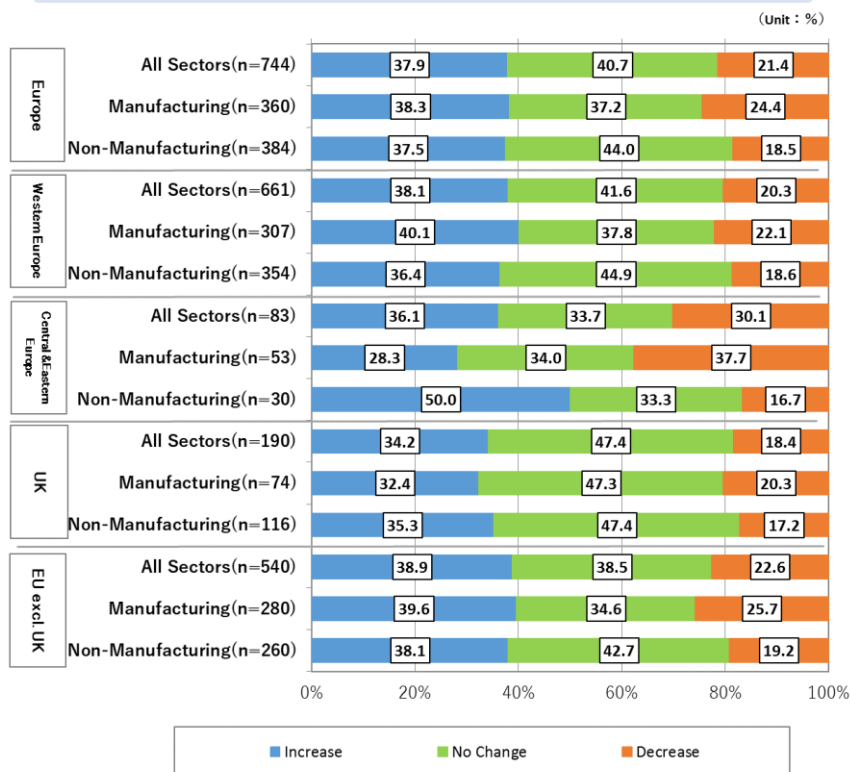
(Unit : %)



1. Operating Profit Forecast (3)

- When comparing the 2018 operating profit forecast to the 2017 operating profit results, companies from the non-manufacturing sector who responded that their profit forecast will “Increase” were particularly high in Eastern and Central Europe (50.0%). More than 70% of these companies said that this was due to “Sales increase in local markets”.
- Many companies cited an “Increase” in their operating profit forecast, of which particularly high response rates came from these sectors: ‘General-purpose machinery/Production machinery’ sector at 64.3% (18 companies), ‘Food/Processed food, agricultural or fishery products’ at 66.7% (12 companies) and ‘Information and communications (Including software)’ at 63.2% (12 companies). Overall the two main reasons given by companies who cited “Increase” were “Sales increase in local markets” and “Sales increase due to export expansion”. However amongst those who replied “Decrease”, the response rate was relatively high from ‘Transport activities/Warehouse’ companies at 43.9% (18 companies), of which the main reason given was due to “Sales decrease in local markets”.

2018 Operating Profit Forecast compared to 2017 Operating Profit Results (By Industry)



2018 Operating Profit Forecast compared to 2017 Operating Profit Results “Increase”, “Decrease” ratio by Industry

Increase (n=282)		(Units : Cos,%)		Decrease (n=159)		(Units : Cos,%)	
	Responses	%		Responses	%		%
1	Non-ferrous metals	4	80.0	1	Textile apparel/Textile products	3	60.0
2	Professional and technical services	6	75.0	2	Business oriented machinery (Including office machines, analytical instruments and medical equipment etc)	9	52.9
3	Food/Processed food, agricultural or fishery products	12	66.7	3	Ceramic/Stone and clay products	4	50.0
4	General-purpose machinery/Production machinery (Including molds and machine tools)	18	64.3	4	Transport activities/Warehouse	18	43.9
5	Information and communications (Including software)	12	63.2	5	Transportation equipment parts (Motor vehicles/Motorcycles)	23	37.1

2018 Operating Profit Forecast compared to 2017 Operating Profit Results Reasons Given for “Increase”, “Decrease”

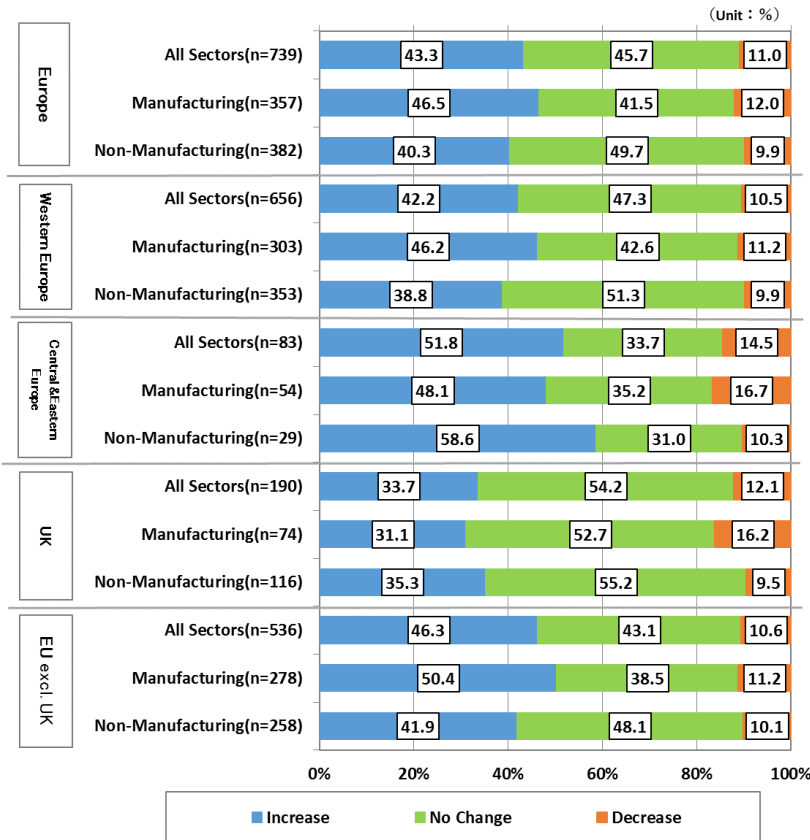
(Multiple Answers Given)

Reasons for forecasting an Increase (n=281)		(Units : Cos,%)		Reasons for forecasting a Decrease (n=156)		(Units : Cos,%)	
	Responses	%		Responses	%		%
1	Sales increase in local markets	197	70.1	1	Sales decrease in local markets	69	44.2
2	Sales increase due to export expansion	105	37.4	2	Increase of labor costs	56	35.9
3	Improvement of sales efficiency	48	17.1	3	Reduction of procurement costs	40	25.6
4	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	44	15.7	4	Other	34	21.8
5	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	40	14.2	5	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	31	19.9

1. Operating Profit Forecast (4)

- Looking at the response rates for '2019 compared to 2018 operating profit forecasts', 45.7% of all respondents answered that their 2019 operating profit forecast expected to remain the same as 2018, 43.3% expected to see a profit increase and 11.0% expected a decrease in profits.
- If one compares the two tables '2019 compared to 2018 operating profit forecasts' (pg.9) to '2018 Operating Profit Forecast compared to 2017 Operating Profit Results' (pg.8), the proportion of companies in Central and Eastern Europe who stated "increase" have greatly risen by 15.7 percentage points reaching 51.8%. 2 key reasons given for this were "Sales increase in local markets" and "Sales increase due to export expansion".
- Looking across all sectors, the profit increase forecast for Information and Communications sector was relatively high in 2019 compared to 2018, at 63.2% (12 companies).

2019 compared to 2018 Operating Profit Forecast (By Industry)



2019 Operating Profit Forecast compared to 2018 Operating Profit Results "Increase", "Decrease" response rates by Industry (Multiple Answers Given)

Increase (n=320)		Decrease (n=81)	
	Responses	Responses	
1	Textiles (Spinning/Woven fabrics/Chemical fibers)	4	80.0
1	Textile apparel/Textile products	4	80.0
1	Non-ferrous metals	4	80.0
4	Plastic products	7	70.0
5	Information and communications (Including software)	12	63.2

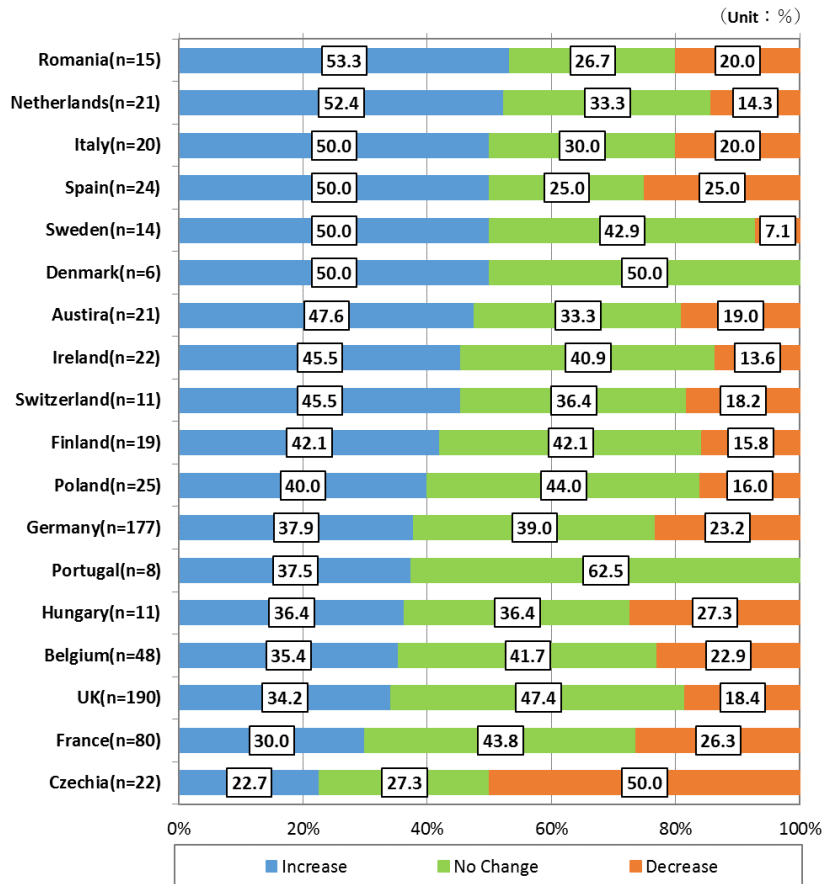
2019 compared to 2018 Operating Profit Forecast Reasons Given for "Increase", "Decrease" (Multiple Answers Given)

Reasons for forecasting an Increase (n=318)		Reasons for forecasting a Decrease (n=80)	
	Responses	Responses	
1	Sales increase in local markets	232	73.0
2	Sales increase due to export expansion	107	33.6
3	Improvement of production efficiency* (manufacturing industry only)	74	23.3
4	Improvement of sales efficiency	61	19.2
5	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	46	14.5
1	Sales decrease in local markets	41	51.3
2	Increase of labor costs	24	30.0
3	Other	19	23.8
4	Increase of procurement costs	16	20.0
5	Sales decrease due to export slowdown	15	18.8

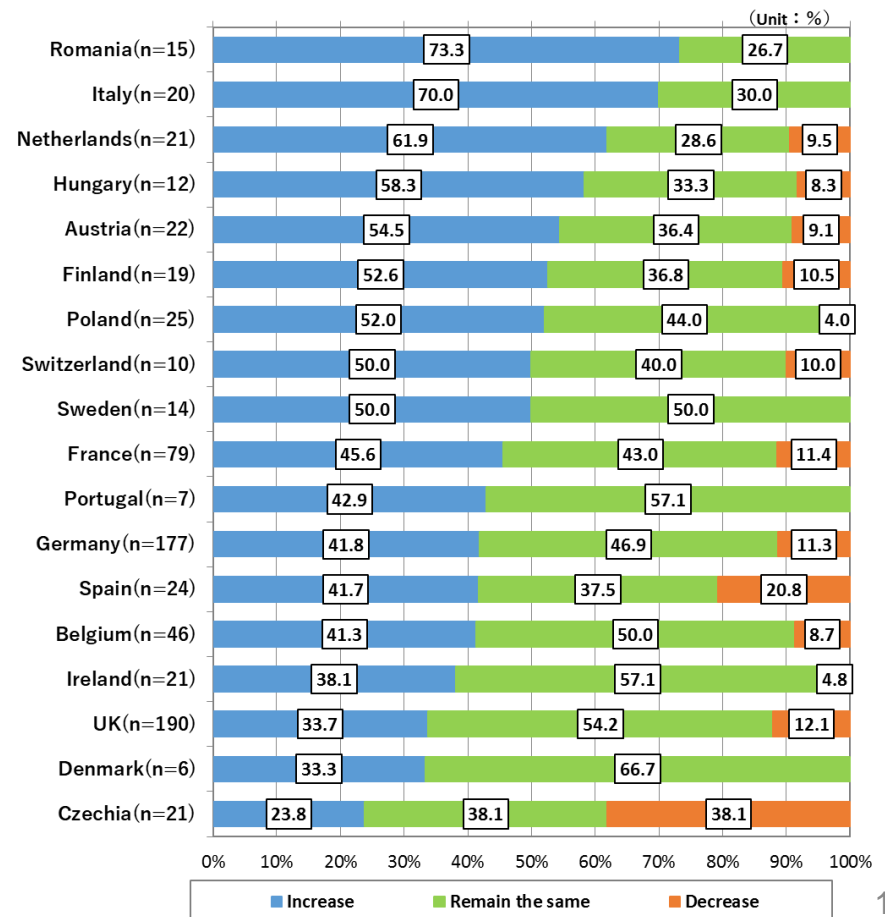
1. Operating Profit Forecast (5)

- Comparing these two graphs '2018 Operating Profit Forecast compared to 2017 Operating Profit Results' and '2019 Operating Profit Forecast compared to 2018' by country, it can be seen that the "Increase" response rate has risen by more than 10 percentage points for Hungary, Romania, Italy, France, Poland and Finland; indicating that companies in these countries have a particularly high expectation for their 2019 operating profits.
- The most common reason for this "Increase" was due to "Sales Increase in Local Markets", whereas for "Decrease" the reason was usually due to "Sales reduction in Local Markets".

2018 Operating Profit Forecast compared to 2017 Operating Profit Results (By Country)



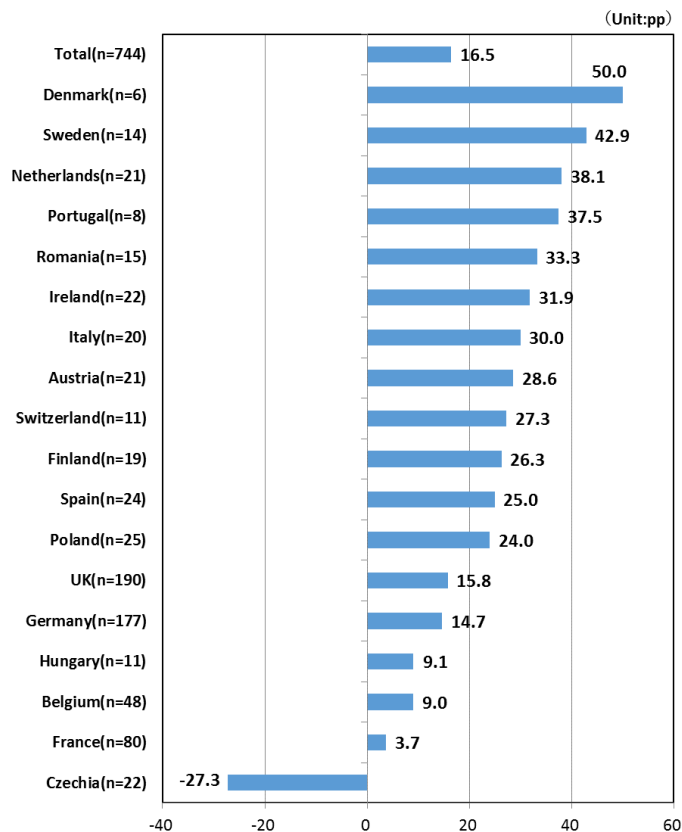
2019 Operating Profit Forecast compared to 2018 (By Country)



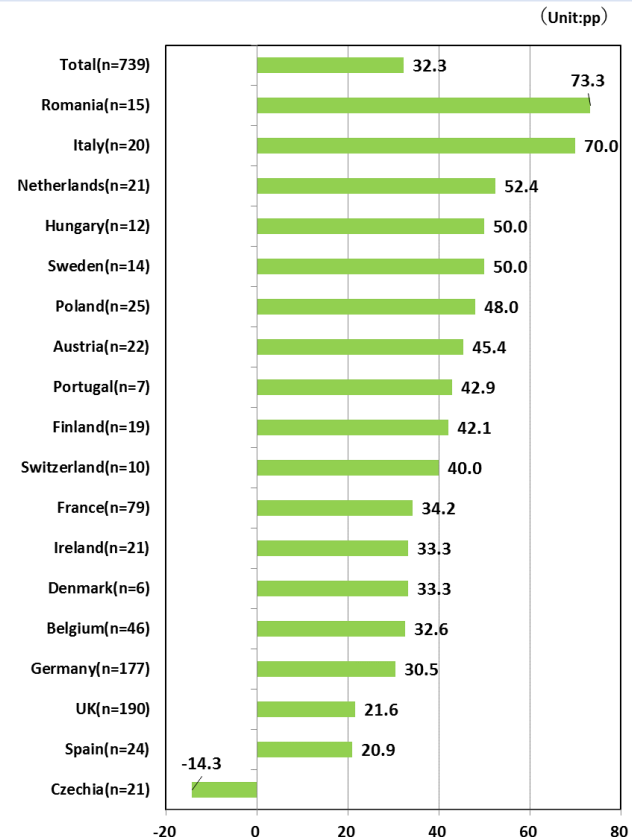
1. Operating Profit Forecast (6)

- Comparing 'DI: 2019 Operating Profit Forecasts compared to 2018' and 'DI: 2018 Operating Profit Forecast compared to 2017 Operating Profit Results' by country, for both years, Czechias' DI operating profit forecast has been in the negative.
- The 'DI: 2018 Operating Profit Forecast compared to 2017 Operating Profit Results' by country shows that France's DI operating profit forecast was 3.7 percentage points, the second lowest after Czechia.
- The 'DI: 2019 Operating Profit Forecasts compared to 2018' indicates that Spain (20.9pp) and the UK's (21.6pp) have low DI operating profit forecasts after Czechia, which ranks the lowest.

DI: 2018 Operating Profit Forecast compared to 2017 Operating Profit Results (By Country)



DI: 2019 Operating Profit Forecasts compared to 2018 (By Country)

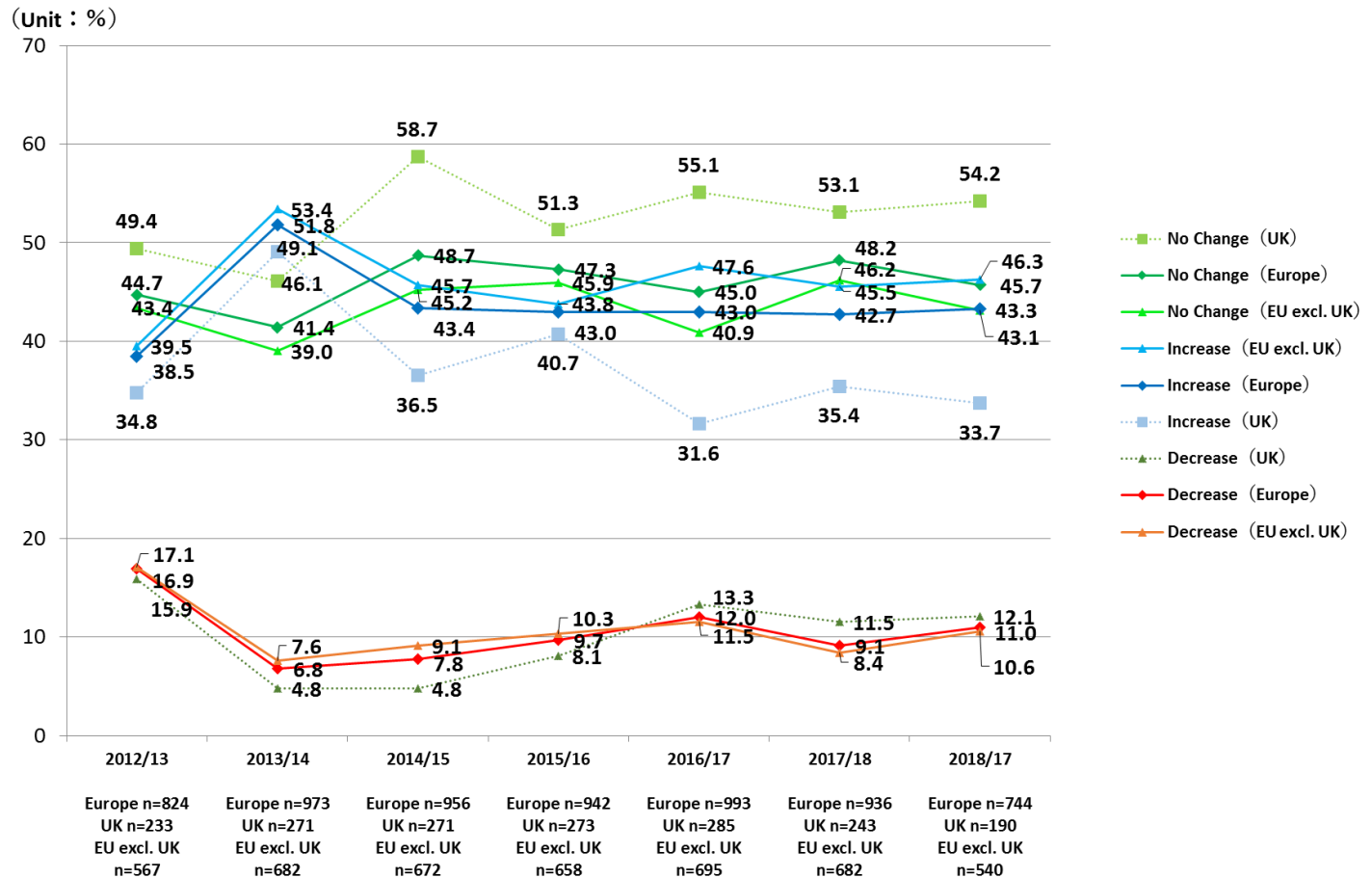


DI= Diffusion Index is a method of summarizing the common tendency of a group of statistical series, which is helpful in assessing the overall state of the economy. This value is obtained by deducting the proportion of companies who replied "Decrease" from those that replied "Increase".
 (NB) Countries where the count is less than 5 are not included.

1. Operating Profit Forecast (7)

- For the 2019 compared to 2018 operating profit forecast, the response rate for all companies in Europe who replied “Increase” was 43.3%, increasing by 0.6 percentage points from last year. The response rate for “Decrease” also increased by 1.9 percentage points to 11.0% and “No Change” decreased by 2.5 percentage points to 45.7%.
- For UK based Japanese-affiliated companies the 2019 compared to 2018 operating profit forecast showed the response rate for “Decrease” has risen. According to many of these companies this is due to a reduction in sales caused by the UK’s departure from the EU (Brexit) and also Brexit preparation costs.

UK & Europe Operating Profit Forecast Trends



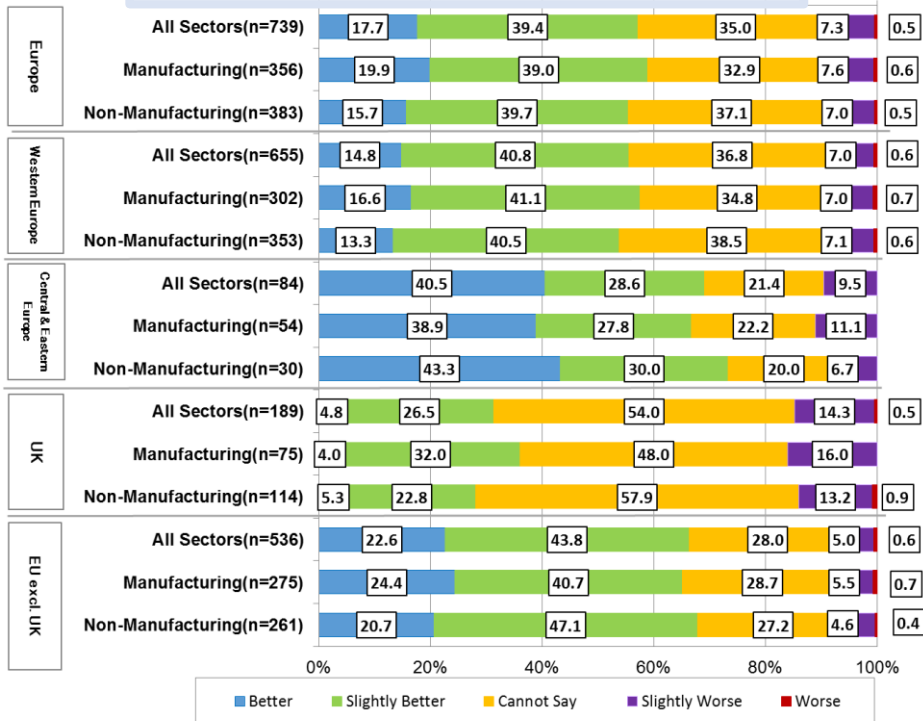
*This graph displays trends from comparing operating profit forecasts between companies based in the Europe and the UK. It is made by compiling the operating profit forecast graphs which draw a comparison between the forecast given for the survey year and the following year.

2. Current Domestic Market and Future Prospects (1)

- Regarding the company's views on current market conditions in the country that they are based in: results indicated that Central and Eastern European countries domestic markets had improved more compared to Western European countries; the proportion of all Central and Eastern European-based companies who responded "Better" rose by 8.9 percentage points from last year reaching 40.5%; within this increase, manufacturing increased by 10.9 percentage points to 38.9% and non-manufacturing rose by 6.6 percentage points to 43.3%.
- The proportion of UK based companies from all sectors who replied "Better" was 4.8%, increasing by 1.1 percentage points since the 2017 survey. Notably non-manufacturing increased by 3.3 percentage points to 5.3%. However in terms of future prospects for the UK domestic market the response rates for "Slightly worse" and "Worse" combined amounted to a total of 48.4%.
- Looking at current domestic markets for all Europe-based companies by industry, relatively high "Improving" response rates were from the General-purpose machinery/Production machinery (Including molds and machine tools) industry at 28.6% and the Wholesale and retail trade (Including trading) industry at 22.2%. In terms of future prospects for the domestic market, the Electrical machinery/Electronic devices (Including parts) industry had a high response rate for "Improving" at 11.3%.

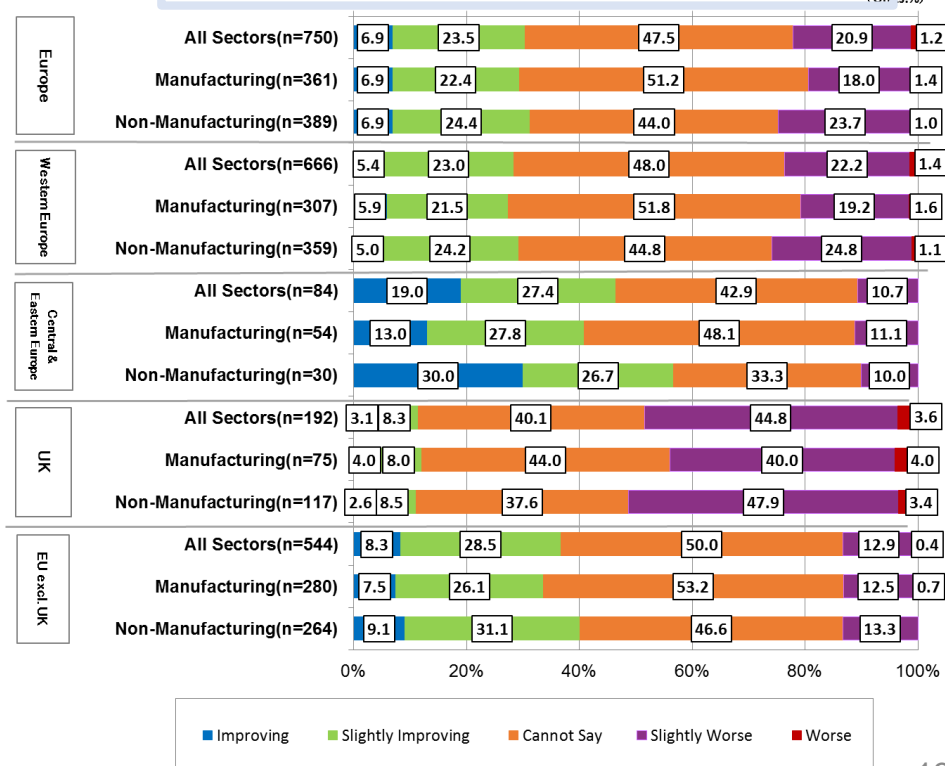
Current Domestic Market (By Industry)

(Unit:%)



Domestic Market Future Prospects (By Industry)

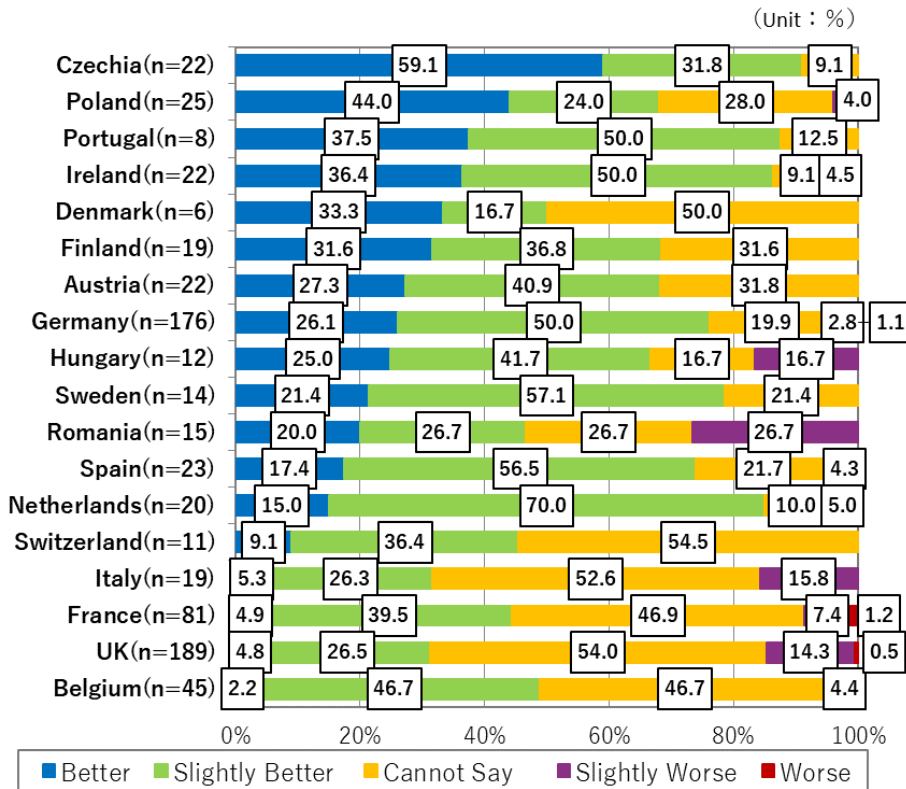
(Unit:%)



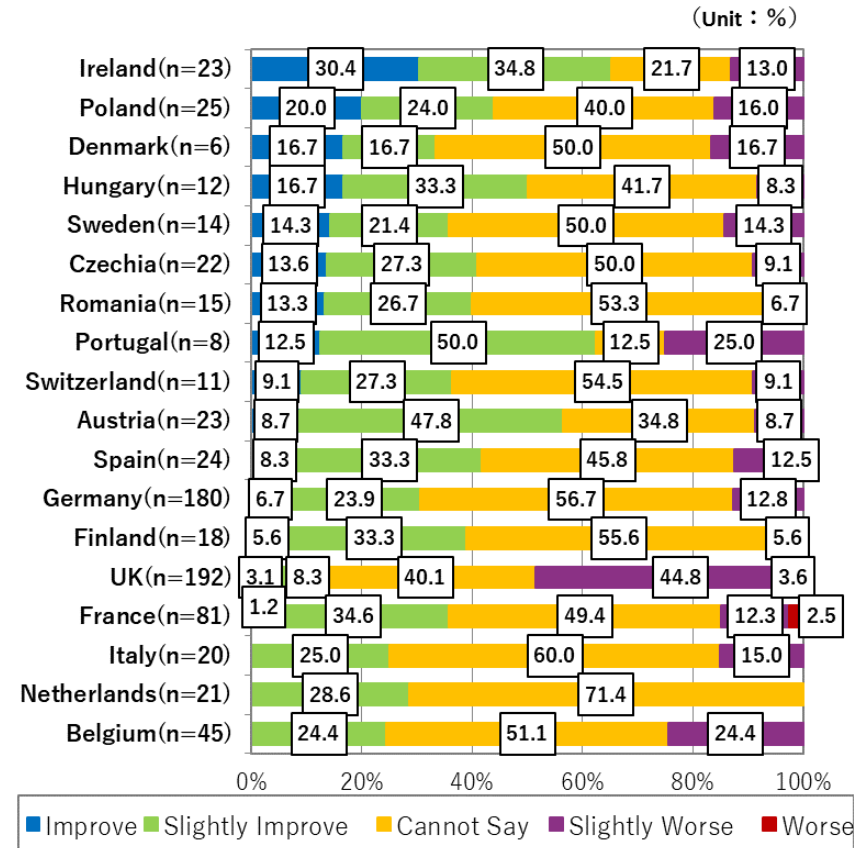
2. Current Domestic Market and Future Prospects (2)

- This year companies based in Czechia gave the highest response rate that their domestic market is doing better at 59.1%; furthermore another 31.8% of Czechia based companies responded that the market is doing slightly better; these two figures combined amount to over 90%, giving an impression that the local economy is really improving. Notably 70.0% of “Transportation equipment parts (Motor vehicles/Motorcycles)” industry respondents (7 companies) replied that the market is better. However on page 20 results show that in terms of operational challenges for Czechia “Rapid labour cost growth” caused by issues such as low unemployment and securing human resources are restricting profits.
- On the other hand UK based companies gave the lowest response rate for “Better” and “Slightly Better” together totalling 31.3%. For future prospects in the domestic market, UK based companies gave the largest response rate for “Slightly worse” at 44.8%, increasing by 11.3 percentage points since last year’s survey. It seems there is much more concern about economic slowdown brought on by Brexit.

Current Domestic Market (By Country)



Domestic Market Future Prospects (By Country)



3. Operational Challenges (1)

- Issues surrounding labour remains the key operational challenge for companies. Although since last year “Securing human resources” has fallen by 8.1 percentage points to 43.6%, it still continues to be the biggest challenge. Notably in Central and Eastern Europe more than 70% of companies (70.4%) cited it as an issue; within this category, the highest proportion of responses was observed from Czechia (90.5%), other countries such as Hungary (66.7%), Romania (64.3%) and Poland (60.0%) also exceeded 60%. The second key issue was “High labour costs” increasing by 1.8 percentage points to 40.5% and 5th place was “Rapid labour cost growth” increasing by 10 percentage points to 30.5% since 2017.
- Previously in 2016 “European social and political situation” was the biggest operational challenge, this year it was the third biggest operational challenge at 37.8%, falling by 11.0 percentage points since 2017.
- The “EU General Data Protection Regulation (GDPR)”, which was put into effect in May 2018, ranked the 6th biggest operational challenge at 30.0%, increasing 3.7 percentage points since last year. This issue was rated particularly high by companies in Denmark (40.0%), Austria (38.1%) and Belgium (37.0%).

Operational Challenges

		2016 (n=957)	2017 (n=909)	2018 (n=711)	Change since 2017	Sector (Unit :%)							
						Manufacturing				Non-Manufacturing			
						2016 (n=453)	2017 (n=406)	2018 (n=347)	Change since 2017	2016 (n=504)	2017 (n=503)	2018 (n=364)	Change since 2017
1	Securing Human Resources	47.8	51.7	43.6	△ 8.1	49.9	53.9	53.0	△ 0.9	45.8	49.9	34.6	△ 15.3
2	High labour costs	41.2	38.7	40.5	1.8	43.7	40.9	40.1	△ 0.8	38.9	37.0	40.9	3.9
3	European social and political situation	47.9	48.8	37.8	△ 11.0	45.3	49.0	32.6	△ 16.4	50.2	48.7	42.9	△ 5.8
4	Transfer pricing taxation	37.1	36.5	32.2	△ 4.3	41.1	39.4	36.6	△ 2.8	33.5	34.2	28.0	△ 6.2
5	Rapid labour costs growth	19.3	20.5	30.5	10.0	24.1	26.4	36.6	10.2	15.1	15.7	24.7	9.0
6	EU General Data Protection Regulation (GDPR)	-	26.3	30.0	3.7	-	22.4	24.8	2.4	-	29.4	34.9	5.5
7	Lower prices offered by competitors	33.3	33.4	29.4	△ 4.0	42.8	36.0	34.9	△ 1.1	24.8	31.4	24.2	△ 7.2
8	Entry of new competitors	32.4	26.3	27.3	1.0	32.9	26.6	26.2	△ 0.4	31.9	26.0	28.3	2.3
9	Visa/work permits	25.7	24.4	26.4	2.0	22.7	22.2	26.2	4.0	28.4	26.2	26.6	0.4
9	Strict dismissal laws	28.2	28.5	23.3	△ 5.2	27.4	26.8	19.3	△ 7.5	29.0	29.8	27.2	△ 2.6
11	Exchange rate fluctuations	47.8	30.9	23.2	△ 7.7	51.4	34.0	26.2	△ 7.8	44.4	28.4	20.3	△ 8.1
12	Quality of workforce	24.7	26.0	21.9	△ 4.1	25.2	28.8	25.1	△ 3.7	24.2	23.7	19.0	△ 4.7
13	Procurement costs	17.9	19.8	21.4	1.6	24.5	29.8	34.3	4.5	11.9	11.7	9.1	△ 2.6
14	US Protectionism and EU measures towards the US	-	-	20.8	-	-	-	23.6	-	-	-	18.1	-
15	Heavy social security burdens	19.2	19.9	19.7	△ 0.2	24.1	26.4	19.3	△ 7.1	17.9	18.7	20.1	1.4

*EU General Data Protection Regulation (GDPR) was added from 2017

*US Protectionism and EU measures towards the US was added from 2018

3. Operational Challenges (2)

- In Europe as whole, the key operational challenge was “Securing human resources”, of which within this category “Management personnel” was cited as most needed at 57.1%, followed by “Factory workers” at 33.5% and “IoT/AI specialists” at 18.7%. Amongst companies in Western Europe, the most selected response was “Management personnel” at 59.7%, whereas for Central and Eastern European based companies it was “Factory workers” at 61.4%.
- Looking at the answers selected by country for “IoT /AI specialists”, relatively high response rates were observed from Germany (24 companies) at 28.9% and Poland (5 companies) at 33.5%.

Breakdown of Human Resources Needed

(Above: Cos, Below=%)

	No. of responses	IoT/AI specialists	Management personnel	Factory workers	Other
Europe	310	58	177	104	79
	100.0	18.7	57.1	33.5	25.5
Western Europe	253	48	151	69	64
	100.0	19.0	59.7	27.3	25.3
UK	63	9	32	21	20
	100.0	14.3	50.8	33.3	31.7
Germany	83	24	55	23	13
	100.0	28.9	66.3	27.7	15.7
France	29	4	19	5	9
	100.0	13.8	65.5	17.2	31.0
Belgium	21	3	10	4	9
	100.0	14.3	47.6	19.0	42.9
Spain	11	2	8	1	3
	100.0	18.2	72.7	9.1	27.3
Ireland	9	1	4	2	2
	100.0	11.1	44.4	22.2	22.2
Central & Eastern Europe	57	10	26	35	15
	100.0	17.5	45.6	61.4	26.3
Czechia	19	1	8	12	6
	100.0	5.3	42.1	63.2	31.6
Hungary	8	0	4	7	2
	100.0	0.0	50.0	87.5	25.0
Poland	15	5	7	9	3
	100.0	33.3	46.7	60.0	20.0
Romania	9	2	4	4	2
	100.0	22.2	44.4	44.4	22.2

*Countries and regions with responses of 8 or more only

3. Operational Challenges (3)

- Companies in all of Western Europe cited “High labour costs” as the biggest operational challenge at 42.5% increasing by 2.0 percentage points since 2017, the second biggest challenge is “Securing human resources” at 40.2%, falling by 10.0 percentage points since the previous year.
- The third biggest challenge was “European social and political situation” falling by 11.9 percentage points since 2017 to 37.9%. However when looking by country, respondents from the UK, which is currently in negotiations over leaving the EU, cited this as the biggest challenge at 57.1%, followed by Spain at 54.2% and Italy at 40.0%.

Operational Challenges in Western Europe

(Unit: %)

		2017 (n=834)	2018 (n=630)	Change	Sector					
					2017 Manufacturing (n=360)	2018 Manufacturing (n=295)	Change	2017 Non-Manufacturing (n=474)	2018 Non-Manufacturing (n=335)	Change
1	High labour costs	40.5	42.5	2.0	43.6	42.7	Δ 0.9	38.2	42.4	4.2
2	Securing Human Resources	50.2	40.2	Δ 10.0	51.4	48.8	Δ 2.6	49.4	32.5	Δ 16.9
3	European social and political situation	49.8	37.9	Δ 11.9	50.0	32.2	Δ 17.8	49.6	43.0	Δ 6.6
4	Transfer pricing taxation	37.5	33.2	Δ 4.3	41.4	38.0	Δ 3.4	34.6	29.0	Δ 5.6
5	EU General Data Protection Regulation (GDPR)	26.6	30.6	4.0	22.8	25.1	2.3	29.5	35.5	6.0
6	Lower prices offered by competitors	33.0	28.4	Δ 4.6	35.6	34.6	Δ 1.0	31.0	23.0	Δ 8.0
7	Entry of new competitors	25.8	27.1	1.3	26.1	26.4	0.3	25.5	27.8	2.3
8	Rapid labour costs growth	15.6	25.2	9.6	19.4	28.8	9.4	12.7	22.1	9.4
9	Strict dismissal laws	30.3	24.9	Δ 5.4	29.7	22.0	Δ 7.7	30.8	27.5	Δ 3.3
10	Visa/work permits	23.5	23.3	Δ 0.2	21.1	21.0	Δ 0.1	25.3	25.4	0.1
11	Exchange rate fluctuations	30.9	23.2	Δ 7.7	33.3	26.8	Δ 6.5	29.1	20.0	Δ 9.1
12	US Protectionism and EU measures towards the US	-	21.0	-	-	23.4	-	-	18.8	-
13	Heavy social security burdens	19.9	20.6	0.7	21.1	20.3	Δ 0.8	19.0	20.9	1.9
14	Quality of workforce	25.2	20.2	Δ 5.0	26.9	22.4	Δ 4.5	23.8	18.2	Δ 5.6
15	Customs clearance issues	15.3	19.7	4.4	17.2	22.4	5.2	13.9	17.3	3.4

3. Operational Challenges (4)

- Companies in Central and Eastern Europe cited “Rapid labour cost growth” as the key challenge, the same as last year, however it reduced by 3.1 percentage points to 71.6%. For companies in Czechia it was 90.5%, Hungary 83.3%, Poland 64.0% and Romania 50.0%.
- The second key challenge for Central and European companies was “Securing human resources”, which is widely considered to be becoming a serious issue, increasing by 2.4 percentage points to 70.4%. Notably in the manufacturing sector, which increased by 3.0 percentage points to 76.9% from the previous year.
- Within the manufacturing sector “Visa/work permits” has rapidly risen since 2017 by 25.4 percentage points to become the 3rd biggest challenge at 55.8%.

Operational Challenges in Central and Eastern Europe

(Unit: %)

	2017 (n=75)	2018 (n=81)	Change	Sector					
				2017 Manufacturing (n=46)	2018 Manufacturing (n=52)	Change	2017 Non-Manufacturing (n=29)	2018 Non-Manufacturing (n=29)	Change
1 Rapid labour costs growth	74.7	71.6	Δ 3.1	80.4	80.8	0.4	65.5	55.2	Δ 10.3
2 Securing Human Resources	68.0	70.4	2.4	73.9	76.9	3.0	58.6	58.6	0.0
3 Visa/work permits	34.7	50.6	15.9	30.4	55.8	25.4	41.4	41.4	0.0
4 Procurement costs	21.3	37.0	15.7	26.1	40.4	14.3	13.8	31.0	17.2
4 Lower prices offered by competitors	38.7	37.0	Δ 1.7	39.1	36.5	Δ 2.6	37.9	37.9	0.0
4 European social and political situation	38.7	37.0	Δ 1.7	41.3	34.6	Δ 6.7	34.5	41.4	6.9
7 Quality of workforce	34.7	35.8	1.1	43.5	40.4	Δ 3.1	20.7	27.6	6.9
8 Entry of new competitors	32.0	28.4	Δ 3.6	30.4	25.0	Δ 5.4	34.5	34.5	0.0
9 Transfer pricing taxation	25.3	24.7	Δ 0.6	23.9	28.8	4.9	27.6	17.2	Δ 10.4
9 High labour costs	18.7	24.7	6.0	19.6	25.0	5.4	17.2	24.1	6.9
9 EU General Data Protection Regulation (GDPR)	22.7	24.7	2.0	19.6	23.1	3.5	27.6	27.6	0.0
12 Exchange rate fluctuations	30.7	23.5	Δ 7.2	39.1	23.1	-	17.2	24.1	-
12 Shortage of domestic procurement sources	24.0	23.5	Δ 0.5	34.8	26.9	Δ 7.9	6.9	17.2	10.3
12 Highways	26.7	23.5	Δ 3.2	19.6	23.1	3.5	37.9	24.1	Δ 13.8
12 Increasing energy cost	14.7	23.5	8.8	21.7	30.8	9.1	3.4	10.3	6.9

3. Operational Challenges (5)

- For UK-based Japanese-affiliated companies, “European social and political situation” remains the biggest challenge, however compared to last year it has reduced by 7.6 percentage points to 57.1%. This year “EU General Data Protection Regulation (GDPR)” became the third key challenge at 33.9%, up 3.2 percentage points and “Customs clearance issues” is becoming more and more significant, rising by 9.5 percentage points since last year to 27.1%. In the event of a ‘No Deal’, these issues will become a reality without a transition period or moving towards a future UK-EU relationship; therefore a contingency plan urgently needs to be formulated.
- For the UK, labour issues were also remarked as key challenges. “Securing human resources” continued to be the second biggest challenge at 35.6%, however this has decreased by 18.2 percentage points. “High labour costs” is ranked as the 4th biggest challenge at 32.8%, decreasing by 5.9 points since 2017.

UK Operational Challenge Trends

(Unit: %)

	2016 (n=271)	2017 (n=238)	2018 (n=177)	Change from 2017	Sector							
					Manufacturing				Non-Manufacturing			
					2016 (n=112)	2017 (n=93)	2018 (n=71)	Change from 2017	2016 (n=159)	2017 (n=145)	2018 (n=106)	Change from 2017
1 European social and political situation	55.0	64.7	57.1	Δ 7.6	58.0	62.4	53.5	Δ 8.9	52.8	66.2	59.4	Δ 6.8
2 Securing Human Resources	47.2	53.8	35.6	Δ 18.2	55.4	55.9	49.3	Δ 6.6	41.5	52.4	26.4	Δ 26.0
3 EU General Data Protection Regulation (GDPR)	-	30.7	33.9	3.2	-	25.8	21.1	Δ 4.7	-	33.8	42.5	8.7
4 High labour costs	46.1	38.7	32.8	Δ 5.9	51.8	36.6	25.4	Δ 11.2	27.0	40.0	37.7	Δ 2.3
4 Exchange rate fluctuations	59.8	46.6	32.8	Δ 13.8	69.6	50.5	38.0	Δ 12.5	52.8	44.1	29.2	Δ 14.9
6 Visa/work permits	31.0	31.9	28.2	Δ 3.7	25.0	26.9	25.4	Δ 1.5	35.2	35.2	30.2	Δ 5.0
7 Customs clearance issues	13.7	17.6	27.1	9.5	18.8	25.8	35.2	9.4	10.1	12.4	21.7	9.3
7 Transfer pricing taxation	32.1	32.8	27.1	Δ 5.7	33.9	38.7	26.8	Δ 11.9	30.8	29.0	27.4	Δ 1.6
9 Rapid labour costs growth	19.9	15.1	26.0	10.9	22.3	20.4	26.8	6.4	18.2	11.7	25.5	13.8
10 Entry of new competitors	27.7	23.1	24.3	1.2	33.9	26.9	23.9	Δ 3.0	23.3	20.7	24.5	3.8
11 Lower prices offered by competitors	27.3	28.2	22.6	Δ 5.6	38.4	35.5	25.4	Δ 10.1	19.5	23.4	20.8	Δ 2.6
12 Quality of workforce	27.7	26.1	20.3	Δ 5.8	28.6	33.3	26.8	Δ 6.5	27.0	21.4	16.0	Δ 5.4
13 Shortage of domestic procurement sources	18.1	21.4	18.1	Δ 3.3	32.1	33.3	33.8	0.5	8.2	13.8	7.5	Δ 6.3
14 Economic recession, shrinking of markets	39.5	18.9	16.4	Δ 2.5	36.6	18.3	12.7	Δ 5.6	41.5	19.3	18.9	Δ 0.4
15 Heavy social security burdens	10.7	15.5	15.8	0.3	12.5	19.4	9.9	Δ 9.5	9.4	13.1	19.8	6.7
15 Strict dismissal laws	18.8	15.5	15.8	0.3	17.9	18.3	11.3	Δ 7.0	19.5	13.8	18.9	5.1

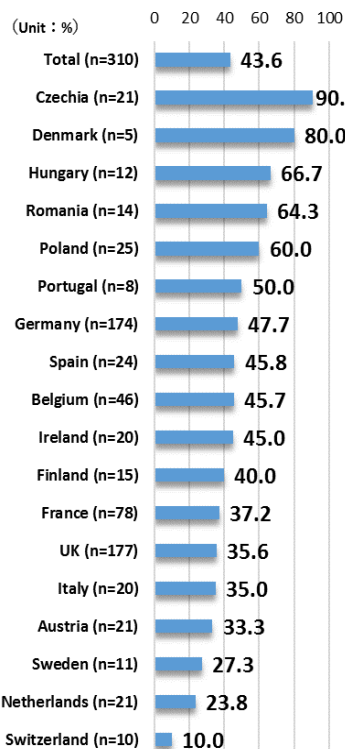
*EU General Data Protection Regulation (GDPR) was added from 2017.

3. Operational Challenges (6)

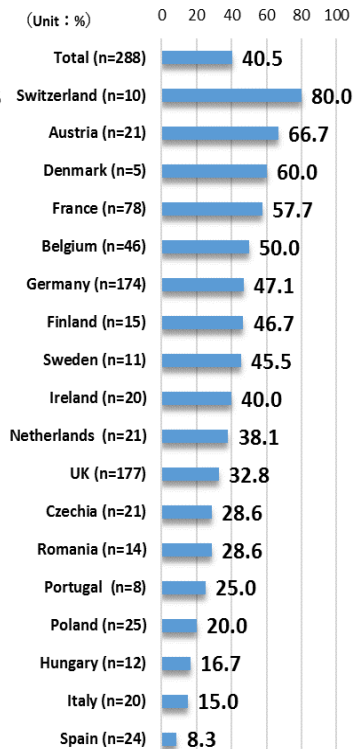
- The response rate from Central and European based companies for “Securing human resources” was particularly high. According to Eurostat in September 2018, the unemployment rate was: 2.2% in Czechia (selection rate 90.5%), 3.7% in Hungary (66.7%), 3.9% in Romania (64.3%) and 3.8% in Poland (60.0%), all of which are in the top 5 countries who selected this answer. These 4 countries are also in the top 5 respondents to “Rapid labour cost growth” respectively at 90.5%, 83.3%, 50.0% and 64.0%
- Switzerland continued to have the highest response rate for “High labour costs”, this year at 80%, followed by Austria at 66.7% and Denmark at 60.0%

Top 10 Operational Challenges —Response rate by Country—

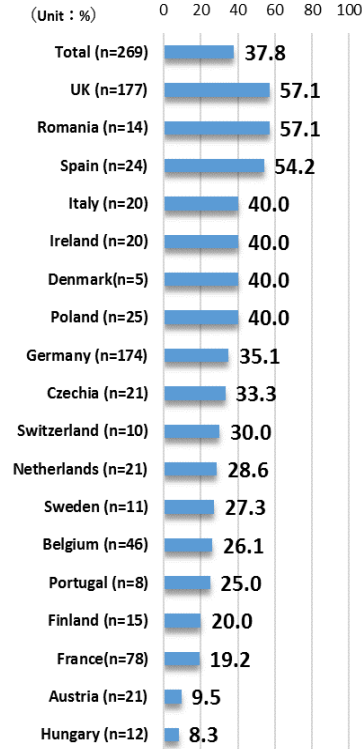
Securing Human Resources



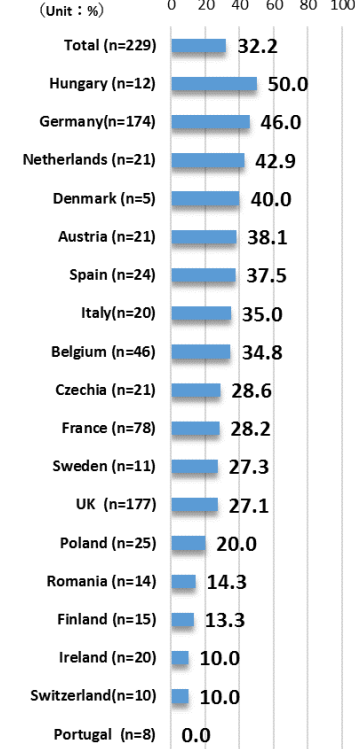
High Labour Costs



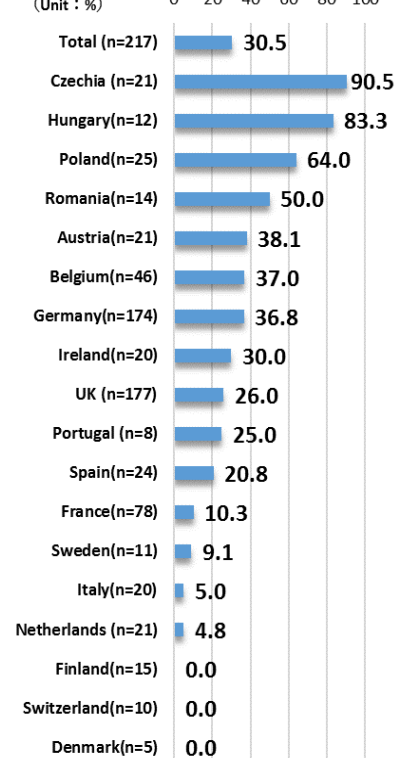
European Political and Social Conditions



Transfer Pricing Taxation



Rapid Labour cost growth

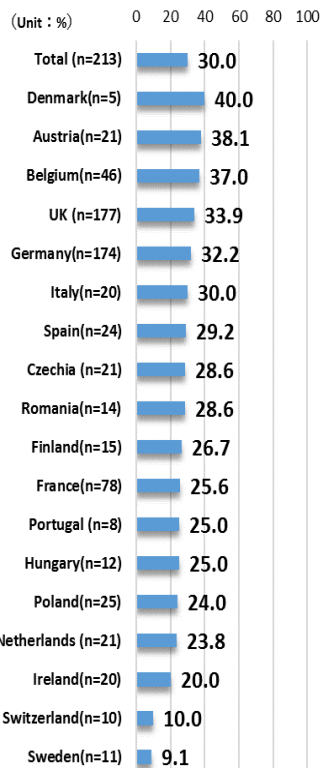


3. Operational Challenges (7)

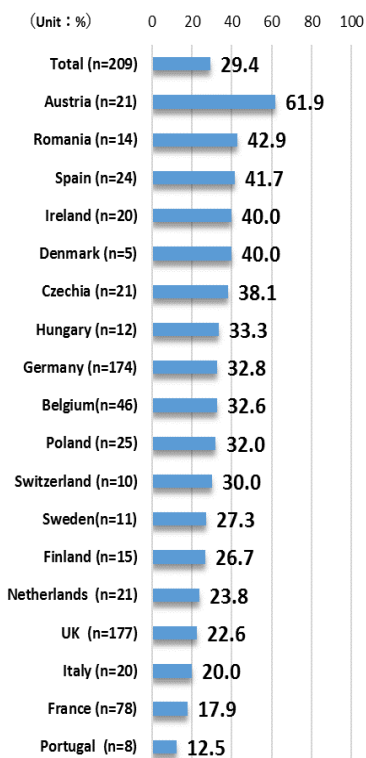
- Czechia (85.7%), Austria (52.4%) and Poland (52.0%) had notably high response rates towards “Visa/ work permits” as a key challenge.
- Companies in France gave the highest response rate for “Strict dismissal Laws” at 46.2%. President Macron is implementing the labour law reform as a top priority policy, by making changes such as simplifying legal procedures and setting a cap on compensation for unfair dismissal in order to give more flexibility to the labour market. However companies say these changes have not yet been realised.

Top 10 Operational Challenges —Response rate by Country —

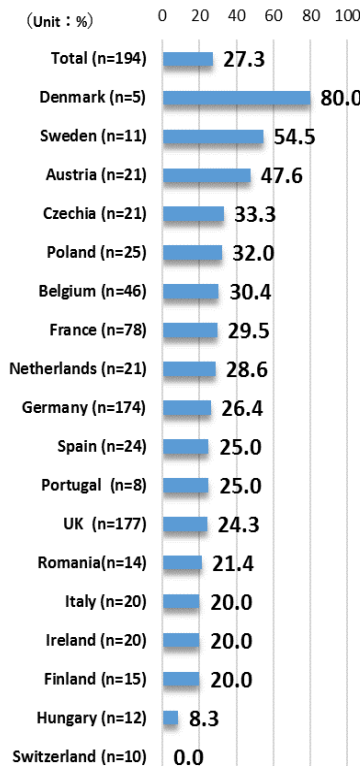
EU General Data
Protection Regulation
(GDPR)



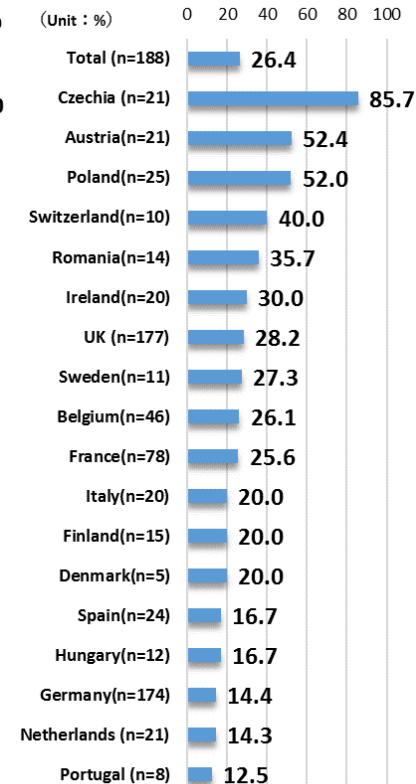
Lower Prices Offered by
competitors



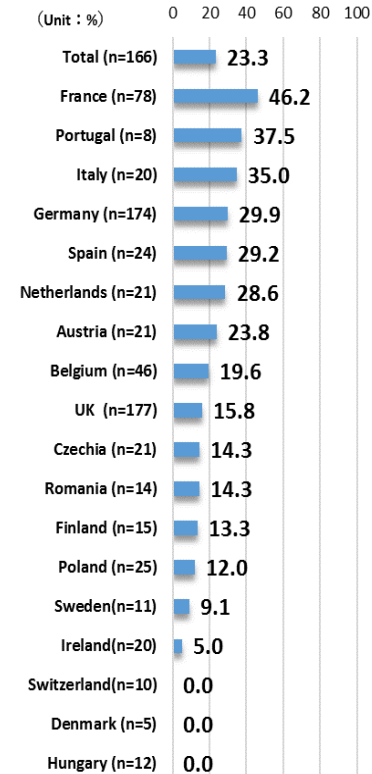
Entry of New Competitors



Visa/ work permits



Strict dismissal laws

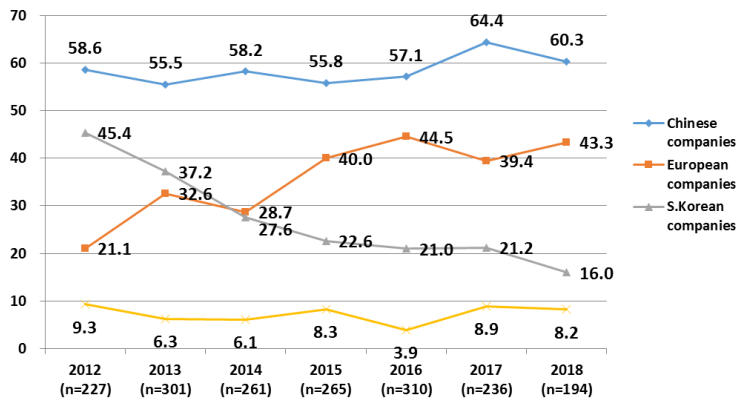


3. Operational Challenges (8)

- 27.3% of all respondents cited "Entry of new competitors" as an operational challenge, increasing 1.0 percentage point since last year. The top most selected nationality of these new competitors was Chinese at 60.3%, overall a decrease of 4.1 percentage points since 2017. Although within Western Europe the response rate for Chinese new competitors was 62.6%, a marginal decrease of 2.0 percentage points, for Central & Eastern Europe, the response rate was 43.5%, a huge reduction of 19.0 percentage points compared to the previous year.
- In Central & Eastern Europe, the percentage of new European competitors continued to be high at 60.9%, shifting to the top new competitor for this region.

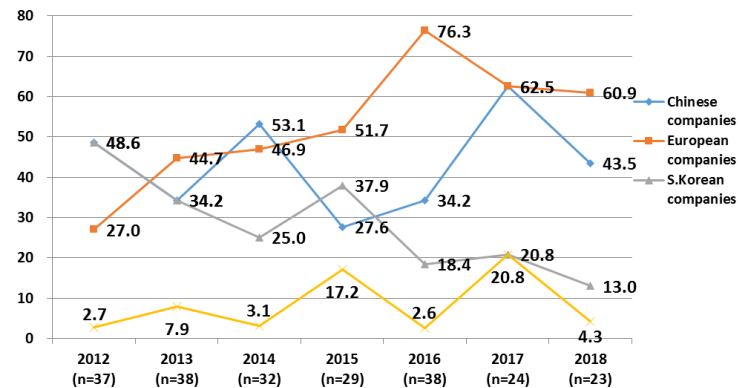
Nationalities of New Competitors

Europe

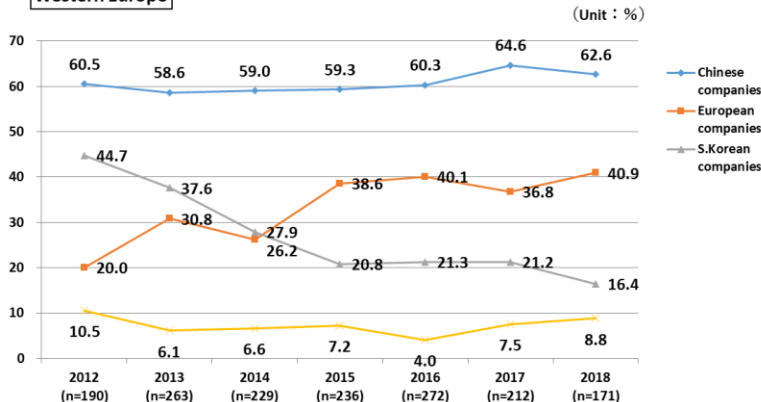


(Unit : %) (Multiple Answers Given)

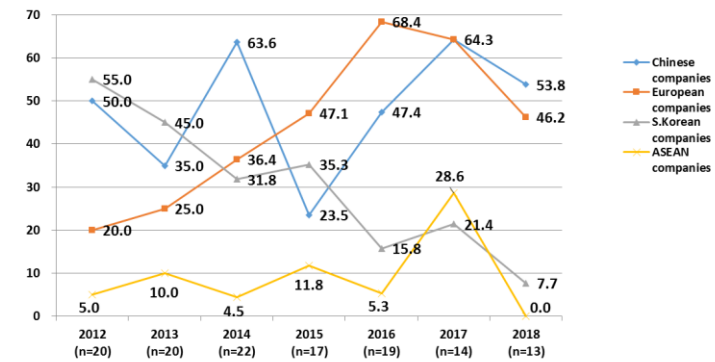
Central & Eastern Europe



Western Europe



Manufacturing in Central & Eastern Europe

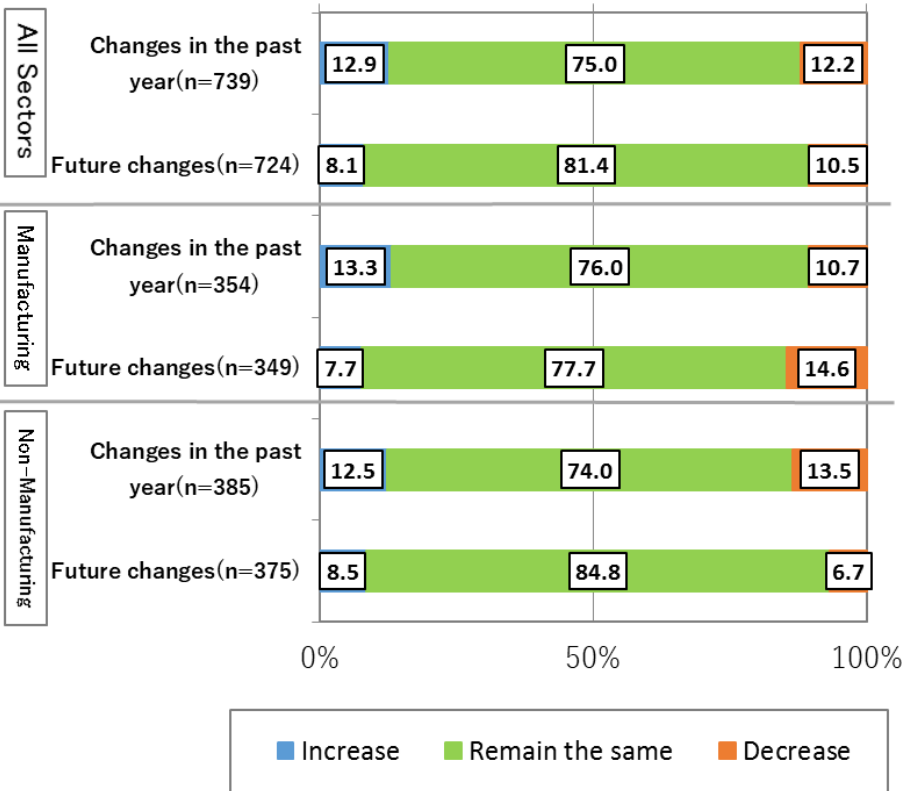


4. Changes in Number of Employees

- This year's survey results have maintained the same trend as last year, in response to changes to the number of Japanese expat staff and local employees over the last year and also intentions for the future, the highest response rate was "Remain the same".
- The response rate for "Increase" in the number of Japanese expat staff has only risen by 0.8 percentage points; the response rate for "Decrease" has reduced by 1.7 percentage points.
- The response rate for "Increase" in the number of local staff has risen by 4.3 percentage points, in addition to this trend, the response rate for "Decrease" has reduced by 1.0 percentage point.

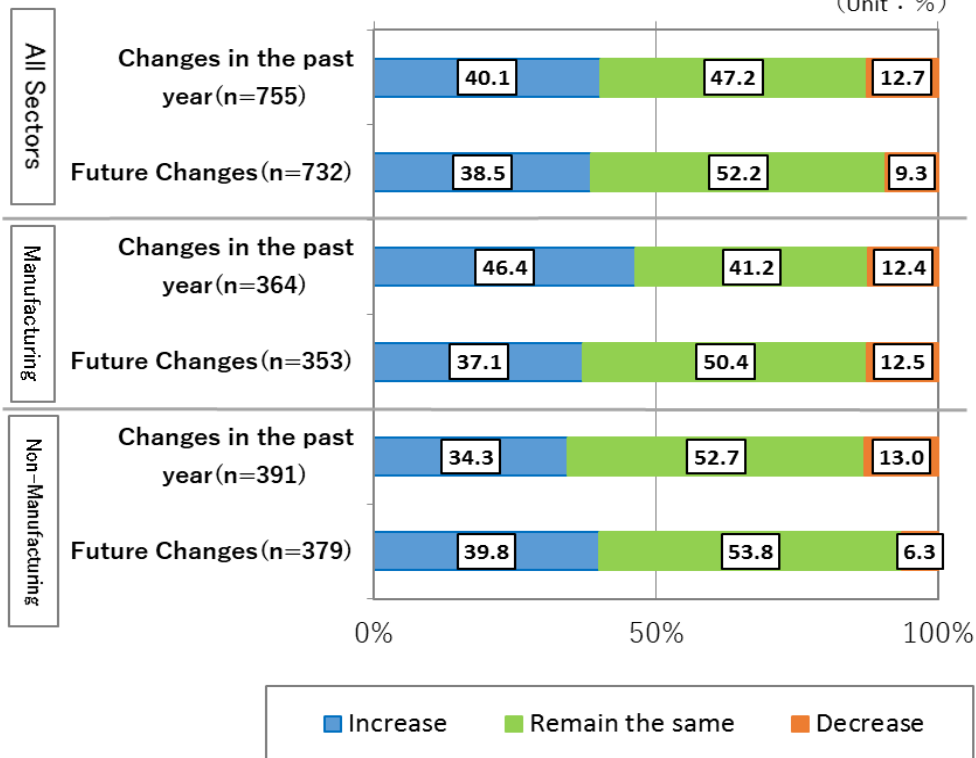
Changes to no. of Japanese Expat Staff in Past Year and Future

(Unit : %)



Changes to no. of Local Employees in Past Year and Future

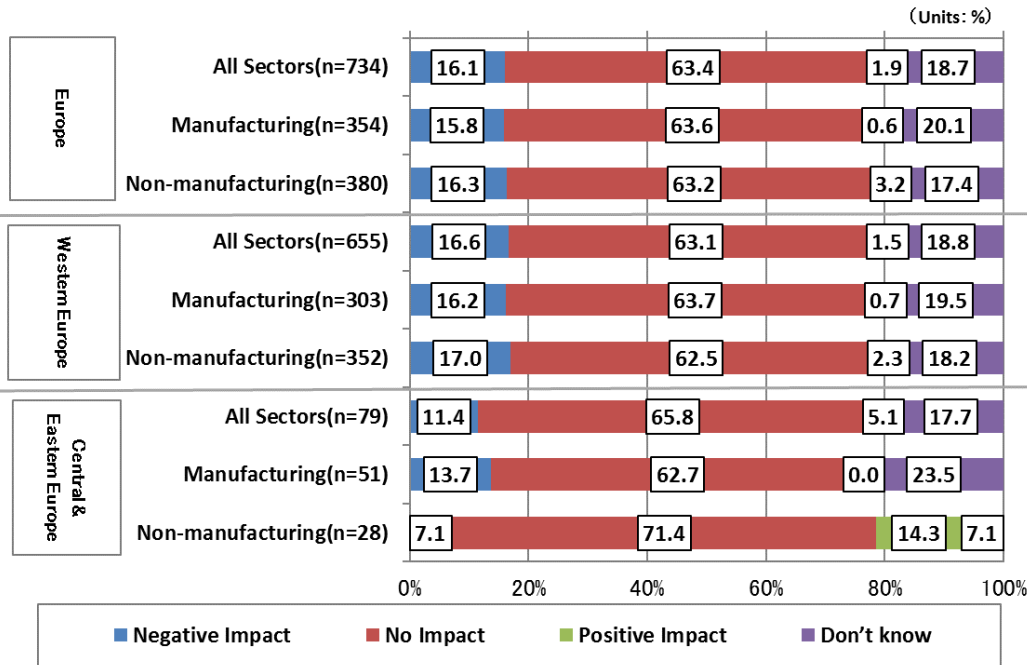
(Unit : %)



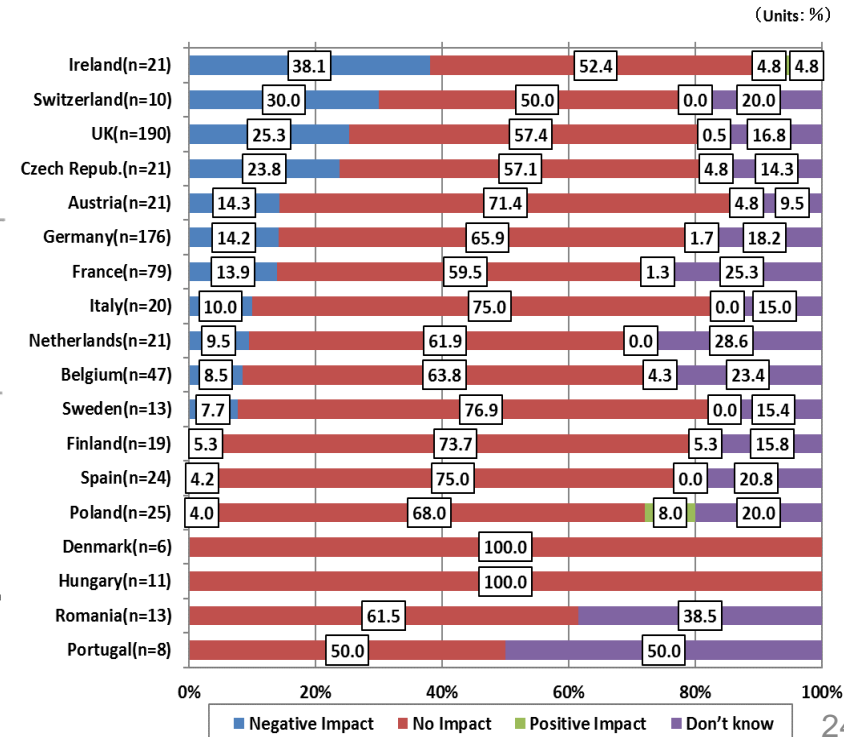
5. Britain's Exit from the European Union (1)

- As the UK prepares to exit the EU, companies were asked what impact has there been to their business so far: 63.4% of all respondents answered "No Impact" decreasing by 2.7 percentage points compared to the previous year, also the percentage of respondents for "Negative Impact" increased by 2 percentage points to 16.1%.
- The response rate for "Positive Impact" increased amongst Central and Eastern European non-manufacturing companies, rising by 10.9 percentage points since 2017 reaching 14.3%.
- When examining by country, companies in Ireland gave the highest response rate for "Negative Impact" at 38.1%, a huge increase of 25.1 percentage points since last years' survey; followed by Switzerland at 30.0% and the UK at 25.3%. The highest response rate for "Positive Impact" came from companies in Poland at 8.0%, a 4.6 percentage point increase since last year.
- Ireland based companies cited reasons for choosing "Negative Impact" such as "Finding procurement sources in place of UK suppliers" and "Decline in sales to UK customers". UK based companies gave reasons such as "Costs incurred by preparing to leave the EU", "Profit deterioration caused by foreign exchange rate fluctuation after the UK referendum to leave the EU", "Declining sales trend in the UK", "Anxiousness amongst EU citizen employees from the EU" and "Cut back on capital investment as trading partners consider relocating to the EU".

Impact on Business So Far (By Industry)



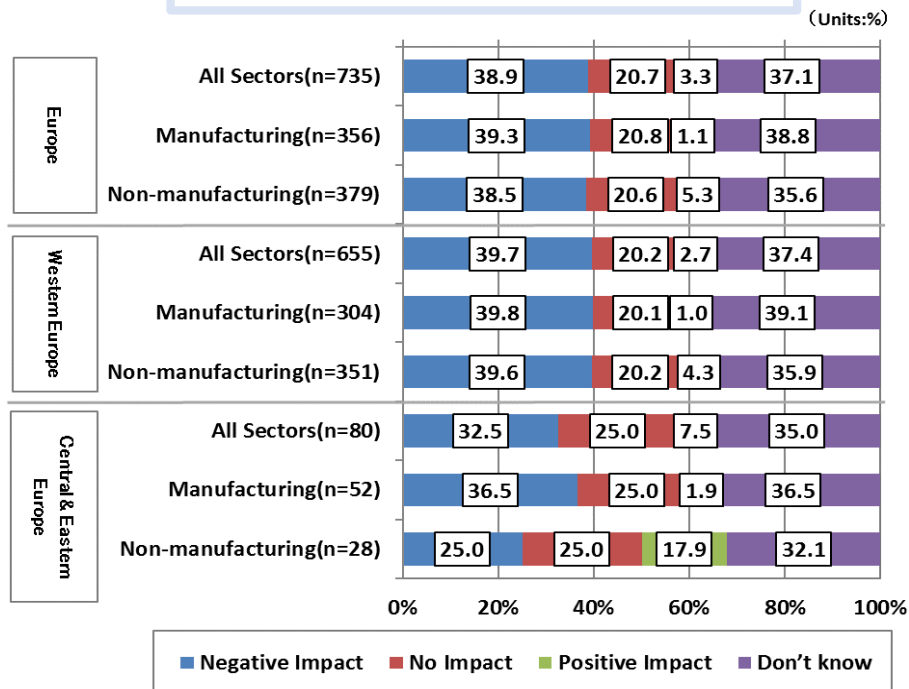
Impact on Business So Far (By Country)



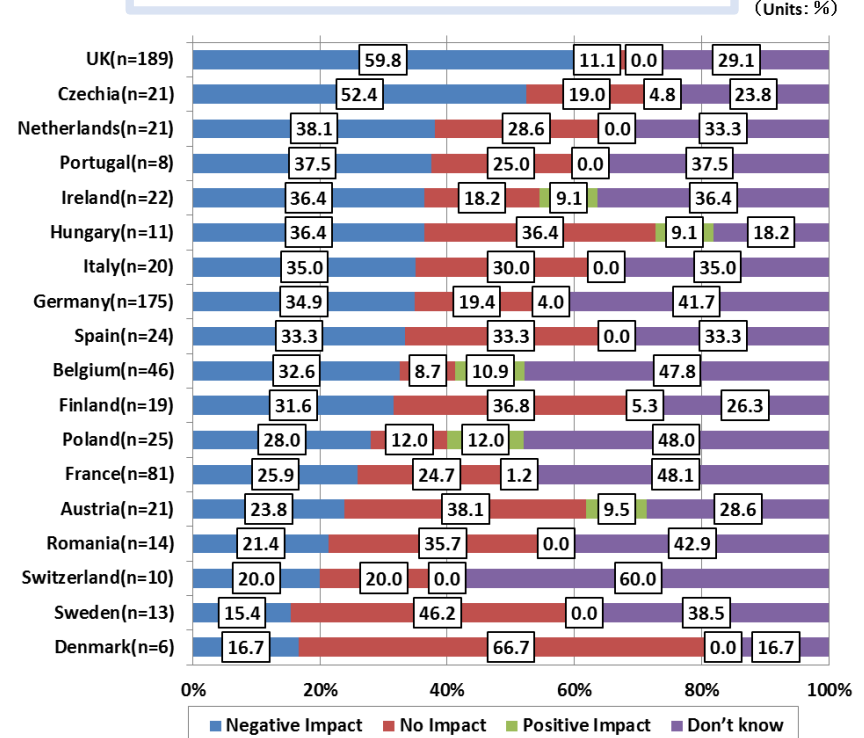
5. Britain's Exit from the European Union (2)

- When companies were asked how the UK's exit from the EU will affect their future business, the largest response rate was "Negative Impact" at 38.9%, a large increase of 12.0 percentage points since 2017. Also "No Impact" responses fell by 7.5 percentage points to 20.7%. "Don't Know" still remained close to 40% of all responses at 37.1% only reducing by 3.3 percentage points since 2017; indicating that many companies still could not predict the impact Brexit will have on their future business.
- Looking at the responses by country, almost 60% of UK based companies gave the highest response rate for "Negative Impact" (59.8%), up 12.9 percentage points since 2017. Many reasons were given by UK based companies such as: "custom duties", "custom procedures", "reviewing the UK as European headquarters or logistics hub", "acquiring a business license in other EU countries", "postponement of clients' new investment" and "securing staff from other EU member countries". Other EU based companies gave reasons such as "custom duties", "delays to distribution of goods" and "decline in UK consumption".
- EU based companies who cited "Positive impact" gave many reasons: some transportation and warehouse companies foresee new business opportunities e.g. "relocating bases for goods distribution to the EU" and "customs clearance procedures being put into place"; whereas some non-manufacturing companies from finance and construction industries felt that business could become revitalised as company activities are relocated to continental Europe.

Future Business Impact (By Industry)



Future Business Impact (By Country)

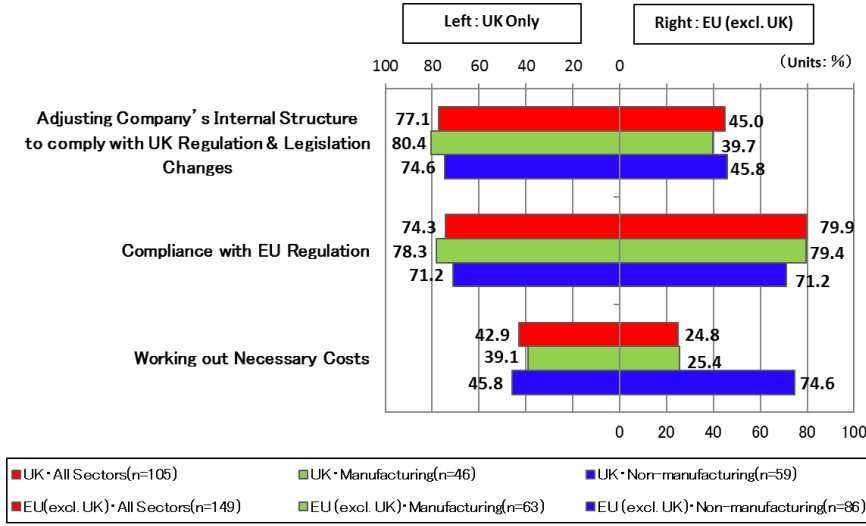
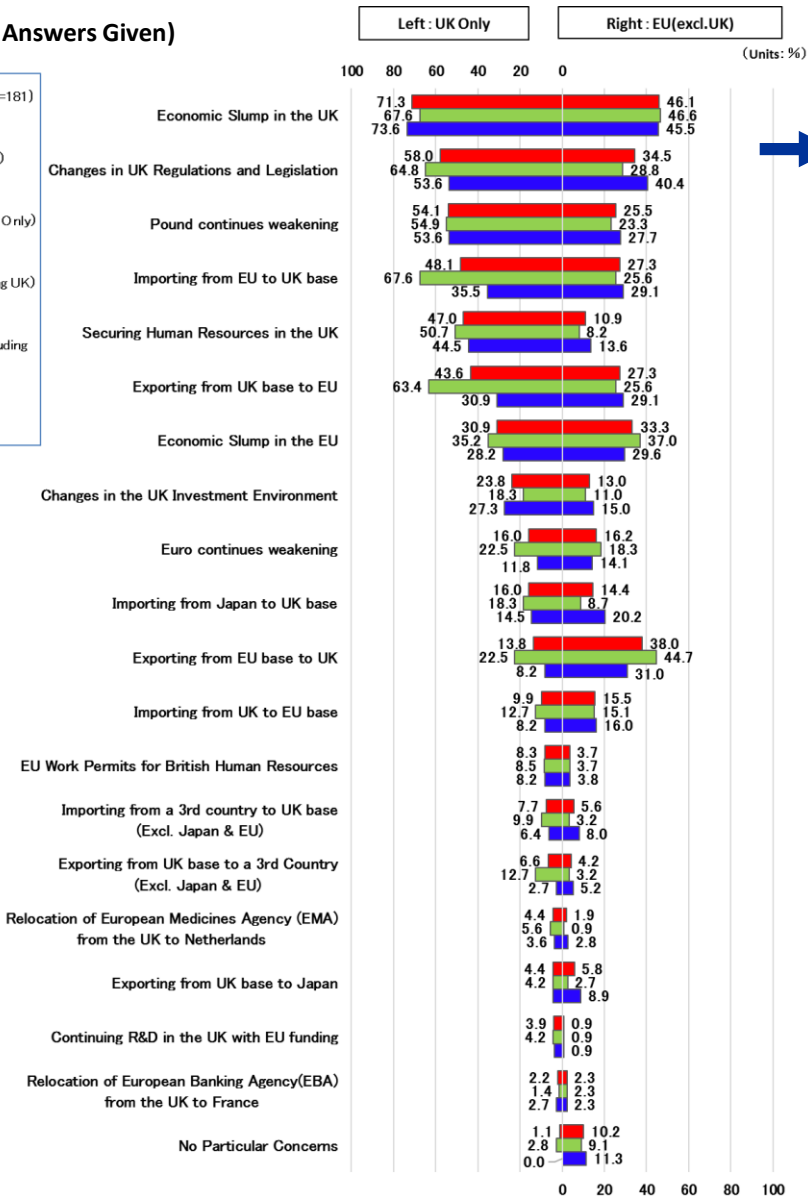


5. Britain's Exit from the European Union (3)

Concerns of Japanese-Affiliated Companies

(Multiple Answers Given)

- All sectors (UK Only) (n=181)
- Manufacturing (UK Only) (n=71)
- Non-manufacturing (UK Only) (n=110)
- All sectors (EU excluding UK) (n=432)
- Manufacturing (EU excluding UK) (n=219)
- Non-manufacturing (EU excluding UK) (n=213)



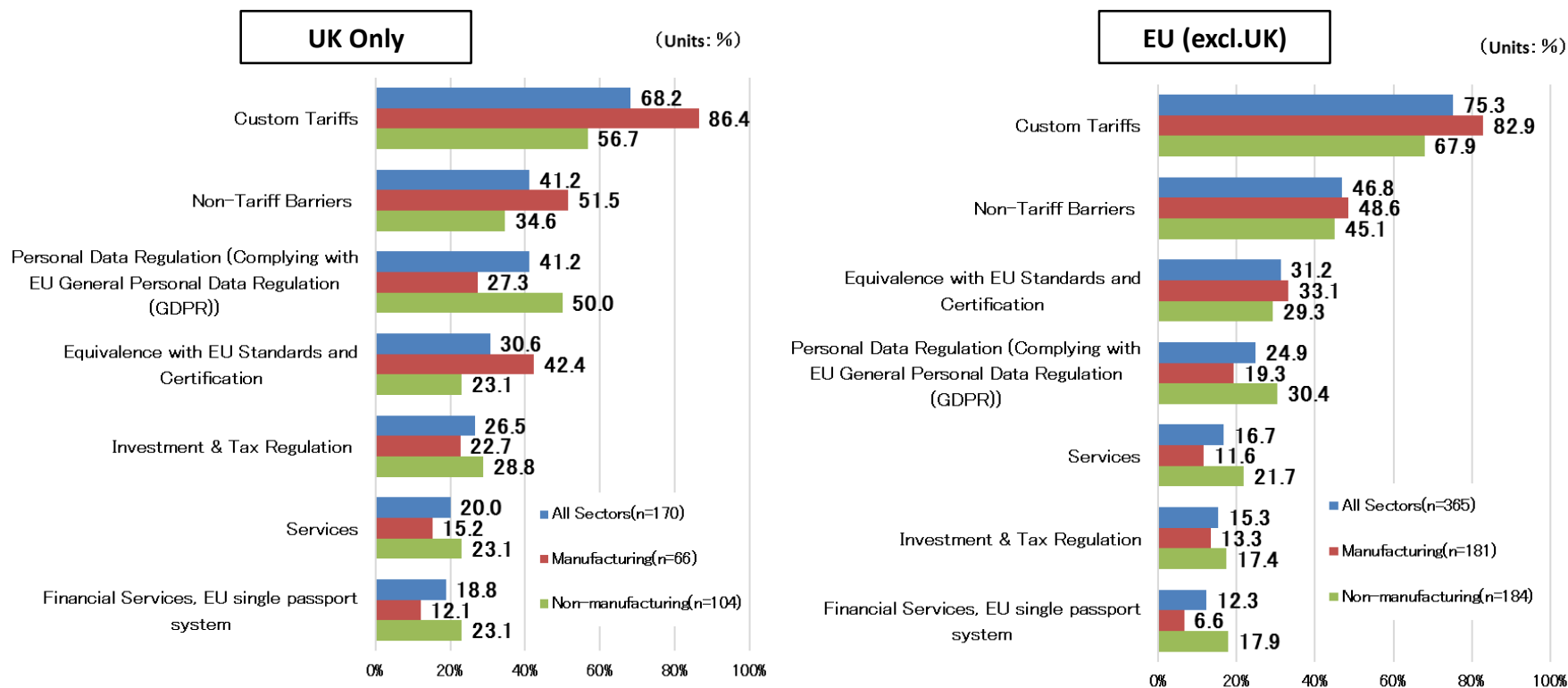
- UK · All Sectors (n=105)
- UK · Manufacturing (n=46)
- UK · Non-manufacturing (n=59)
- EU (excl. UK) · All Sectors (n=149)
- EU (excl. UK) · Manufacturing (n=63)
- EU (excl. UK) · Non-manufacturing (n=86)

- This year the key concern for Japanese-affiliated companies in the UK and other EU states is "Economic slump in the UK". The second and third top concerns were: for UK based companies "Changes in UK regulations and legislation" and "Pound continues weakening"; for EU states (excl. UK) it was "Exporting from an EU base to UK" and "Changes in UK regulations and legislation".
- UK based companies' response rates for the top 5 concerns have considerably increased since last years' survey.
- The two biggest concerns for UK based manufacturing companies were "Economic slump in the UK" and "Importing from EU to UK base"; whereas for EU (excl. UK) based companies they were "Economic slump in the UK" and "Exporting from EU base (excl. UK) to UK".
- Regarding "Changes in UK Regulations and Legislation" companies were asked to expand on why this is a concern: for UK based the largest response was "Adjusting the company's internal structure to comply with UK Regulations and Legislation Changes", indicating that preparation has become a reality; however for companies based in EU states (excl. UK) the largest response was "Compliance with EU Regulation".

5. Britain's Exit from the European Union (4)

- It is evident that many companies have taken into account the possibility of leaving without a future deal between the UK and the EU and are increasingly expressing concern towards future changes to UK regulations and legislation. Since last year both UK and other EU states based companies continue to say that "Customs Tariffs" are their main concern increasing respectively by 5.8 and 3.1 percentage points to 68.2% and 75.3%. The response rates from the manufacturing sector were particularly high at 86.4% and 82.9% respectively. Compared to last year for "Non-tariff barriers (e.g., UK/EU customs clearance procedures, sanitary and phytosanitary measures [SPS], etc.)", the response rate from UK based companies increased by 4.5 percentage points but the response rate for EU (excl.UK) based companies' increased even more by 7.9 percentage points. Also the response rate for concern surrounding "Complying with EU standards and certification" was high at 30.6% and 31.2% respectively.
- For concern surrounding Personal data regulation (complying with the EU General Personal Data Regulation [GDPR]) UK based companies' concern is 16.3 percentage points higher than companies based in other EU states. In fact 50% of UK non-manufacturing companies expressed concern.
- Amongst UK based companies, the response rate for all items of concern have risen compared to last year, but "Complying with EU standards and certification" increased the most by 9.4 percentage points.

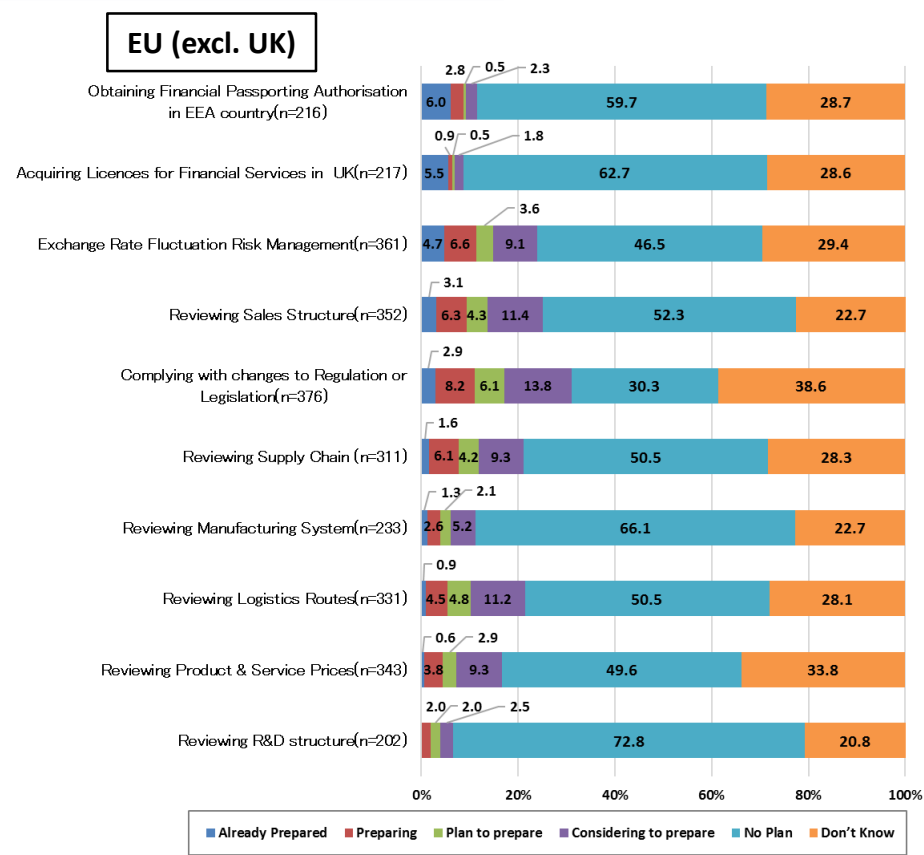
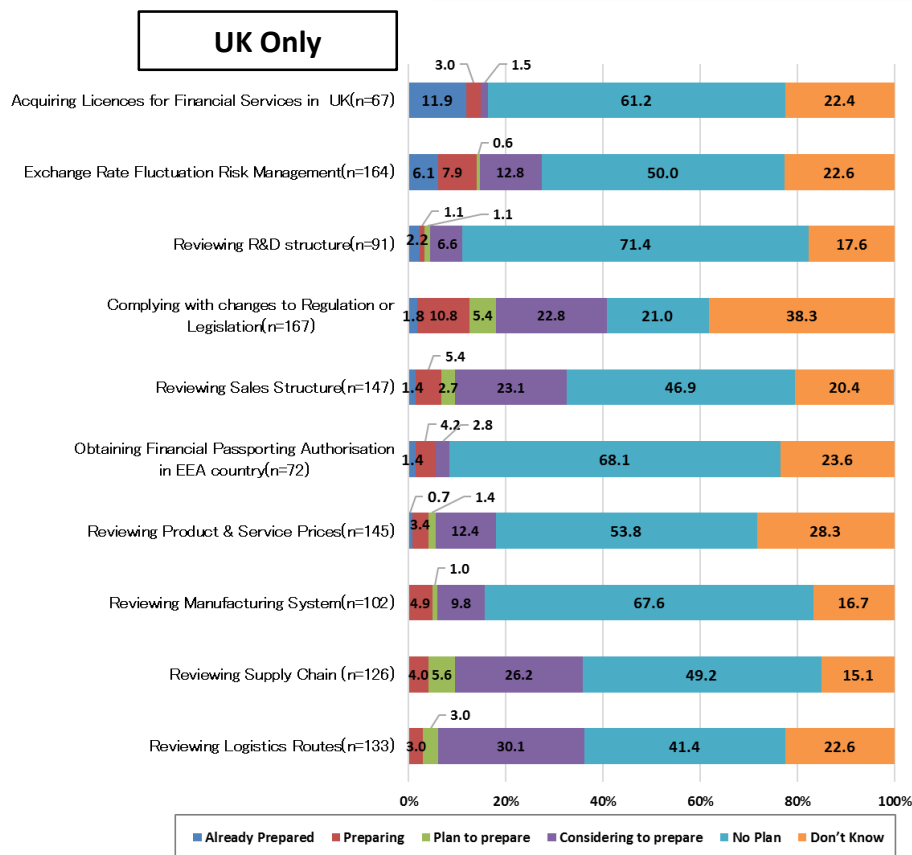
Main Concerns Regarding Future Changes to UK Regulation and Legislation



5. Britain's Exit from the European Union (5)

- In terms preparation for the UK's exit from the EU so far, the highest response rate for the "already prepared" category was: from UK companies towards "Acquiring Licences for Financial Services in the UK"; and from EU (excl. UK) based companies it was towards "Obtaining Financial Passporting Authorisation in another EEA country", of which some companies mentioned that Germany, The Netherlands and Luxembourg were countries where this authorisation had been obtained.
- Also this year the response rate from EU (excl. UK) based companies, citing they had "Already prepared" for "Acquiring Licences for Financial Services in the UK", "Exchange Rate Fluctuation Risk Management", "Reviewing Sales Structure", "Complying with changes to Regulation or Legislation" and "Reviewing the Supply Chain" were higher than last year.
- For UK based companies, the highest response rate for currently "Preparing" was "Complying with changes to Regulation or Legislation" at 10.8%. Specific examples for this were "Compliance with EU General Data Protection Regulation" and "Acquiring Authorised Economic Operator (AEO) status".

Current Stage of Preparation for the UK's Withdrawal from the EU

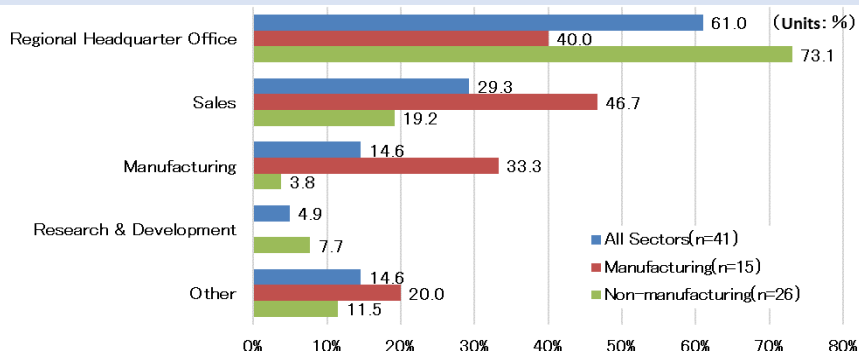


5. Britain's Exit from the European Union (6)

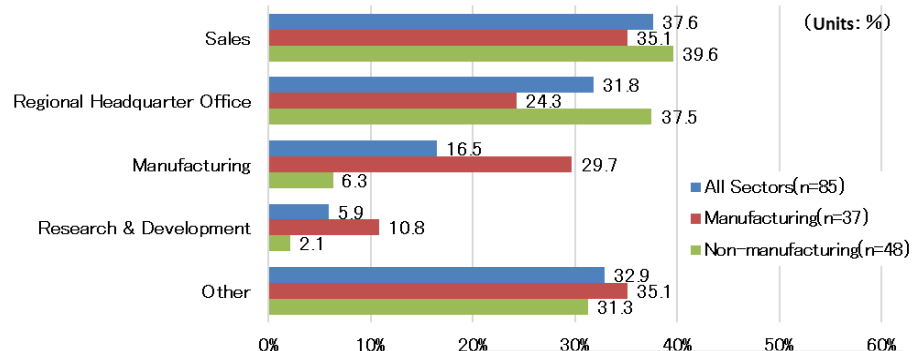
- In preparation for the UK's withdrawal from the EU, when companies were asked if they had already decided to relocate/withdraw or already have relocated/withdrawn certain functions from their base location: all respondents gave a 61.0% rate for the function category "Regional Headquarter Office", of which within this category more than 80% (84.0%) selected "partly relocate"; for companies who were considering to relocate/withdraw from their base location, 37.6% of respondents chose the "Sales" function category, of which within that category 60% (59.4%) selected "partly relocate".
- Destinations of companies who had already decided to relocate or already have relocated to: finance/insurance hub destinations such as Germany, Luxembourg and The Netherlands were cited for relocation of regional headquarter offices; Germany was mentioned for relocation of "Sales" functions; and Poland, The Netherlands and the Philippines were mentioned for "Manufacturing".

UK's Exit from the EU Preparation

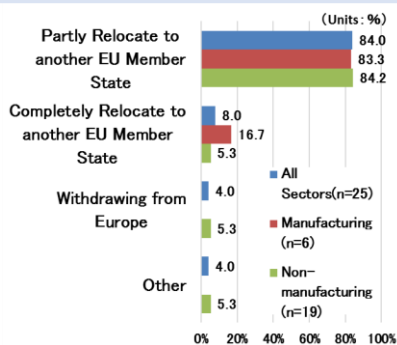
Decided to Relocate/Withdraw or have Relocated/Withdrawn from Base Location



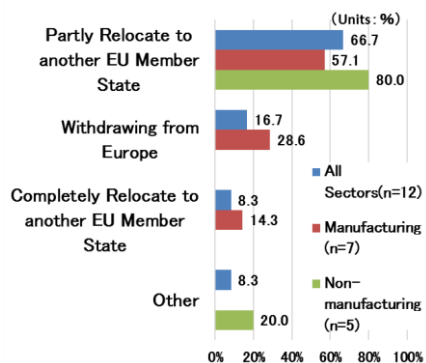
Considering to Relocate/Withdraw from Base Location



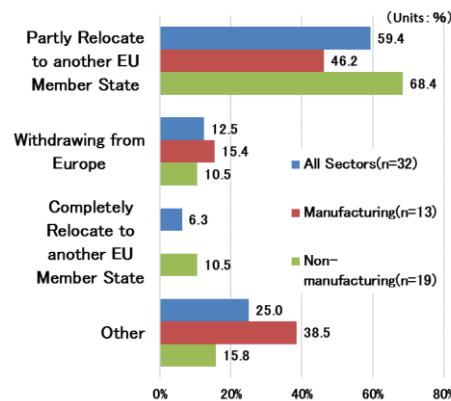
Regional Headquarter Office Review



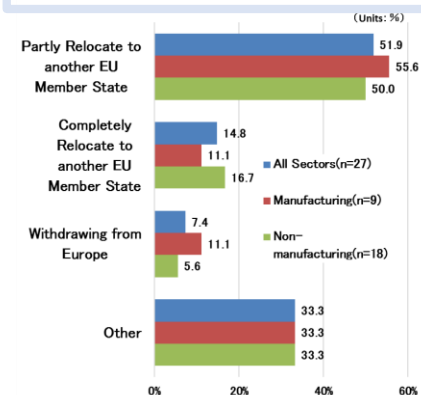
Sales Function Review



Sales Function Review



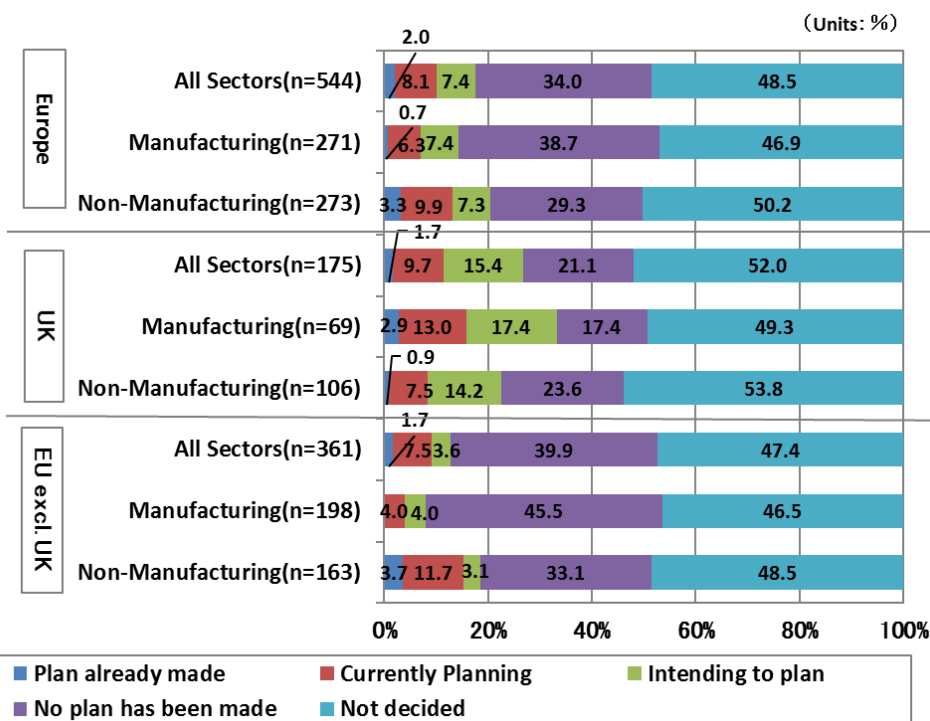
Regional Headquarter Office Review



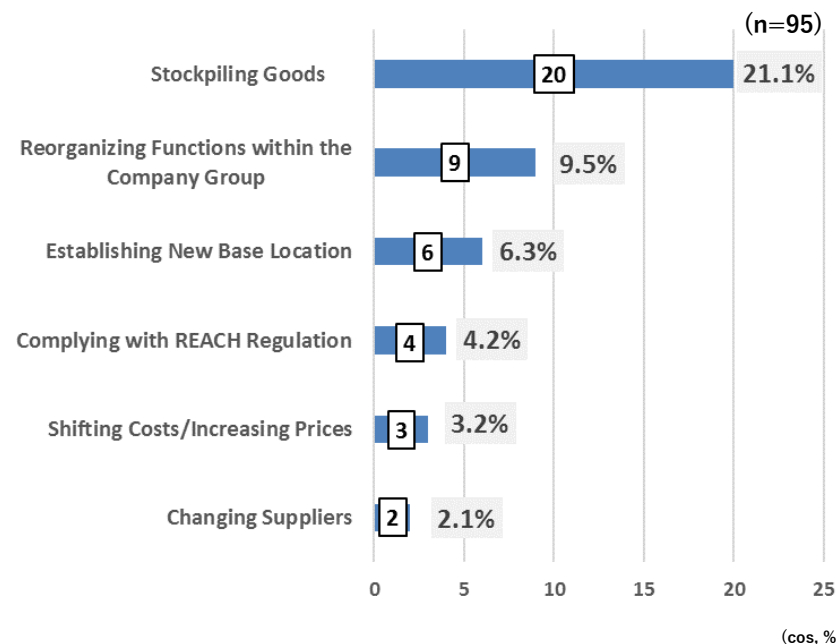
5. Britain's Exit from the European Union (7)

- Concerning contingency planning measures for if the UK were to leave the EU with "No Deal": there was no significant difference in proportion between UK based and other EU state based companies who selected "Plan already made" and "Currently planning". However when combined with the choice "Intending to plan", it was indicated that 26.8% of UK based companies were undertaking contingency planning measures, whereas only 12.8% of EU (excl.UK) states companies had undertaken any planning procedures at all.
- Companies who responded that the status of their contingency plan was "Plan already made", "Currently Planning" or "Intending to plan", were asked to provide more details. 95 companies gave individual responses about what kind of plans were being made, of which each company cited a variety of different measures. The bar chart below shows these different measures separated by category. The most common plan cited was "Stockpiling goods", which was given by 20 companies (21.1%); 9 companies (9.5%) responded that they would reorganize functions within the company group; and 6 companies (6.3%) replied that they were establishing a new base location.

Countermeasure Preparation (Contingency Plan)



Breakdown of Countermeasures (Contingency Plans) Based on Company's Individual Responses

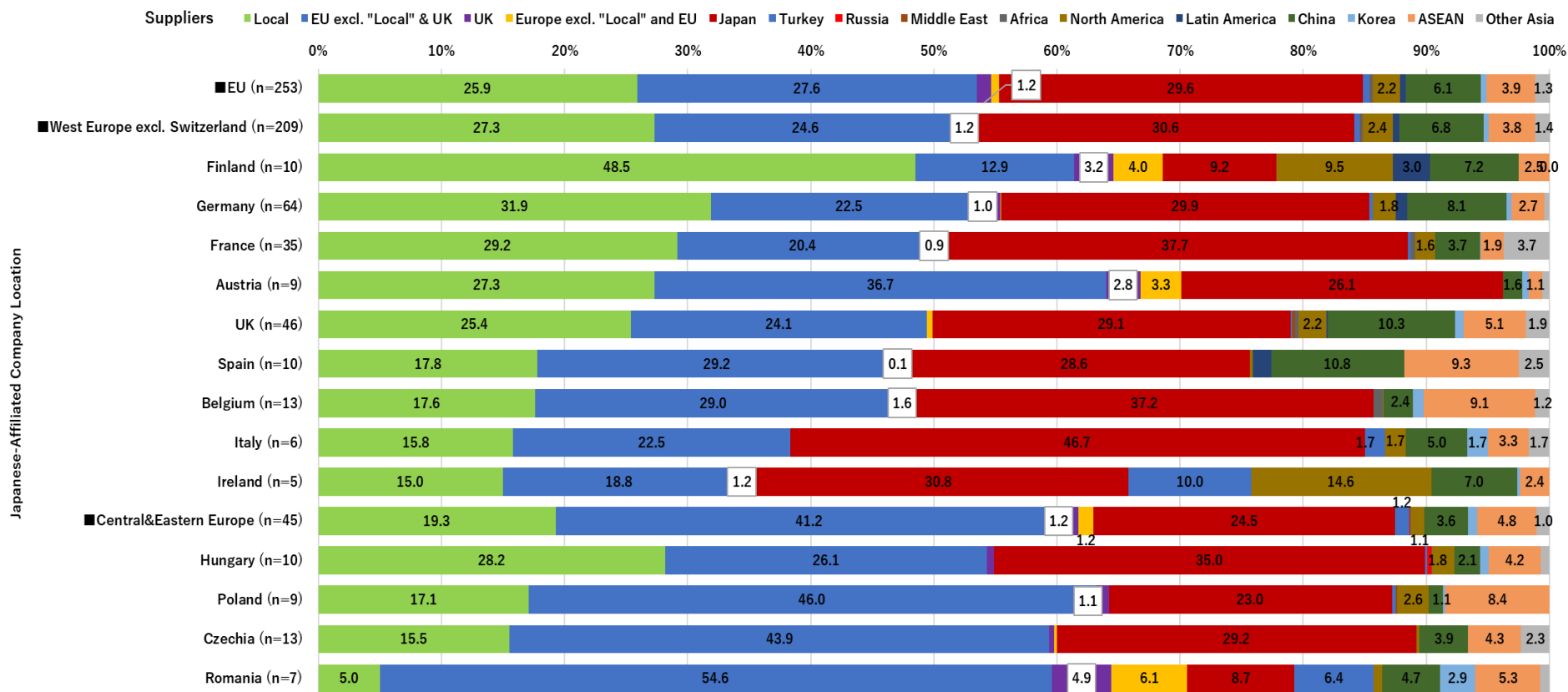


* Please note for this bar chart, the perimeter for 100% is calculated by the total number of companies (95 companies) who selected these 3 options: "Plan already made", "Currently Planning" or "Intending to plan".

6. Local Procurement(1)

- Regarding the local procurement of parts and raw materials for EU based manufacturing companies, each company's response was calculated on the simple average of the purchasing value. For all EU based companies, the average procurement rate from local and EU suppliers was 54.7%, however for Central & Eastern Europe based companies it was higher at 61.7%, notably within this figure 41.2% came from EU (excl. local) suppliers.
- For UK based manufacturing companies: although 25.4% of the average local procurement rate came from local suppliers, 24.1% came from suppliers in EU (excl. UK) countries. After the UK's withdraws from the EU, even if tariffs were not imposed on trading of goods between the UK and the EU, there is concern of impact caused from introducing customs clearance procedures.
- For EU based manufacturing companies, this year the average procurement rate of supplies from Japan continues to be around 30 % (29.6%), down 1.6 percentage points from 2017. It would be greatly beneficial for these companies if tariffs on these imports were to be eliminated or reduced by the Japan EU-EPA coming into effect.

Parts & Raw Material Suppliers for Manufacturing Sector by Country and Region (Breakdown Based on Value)



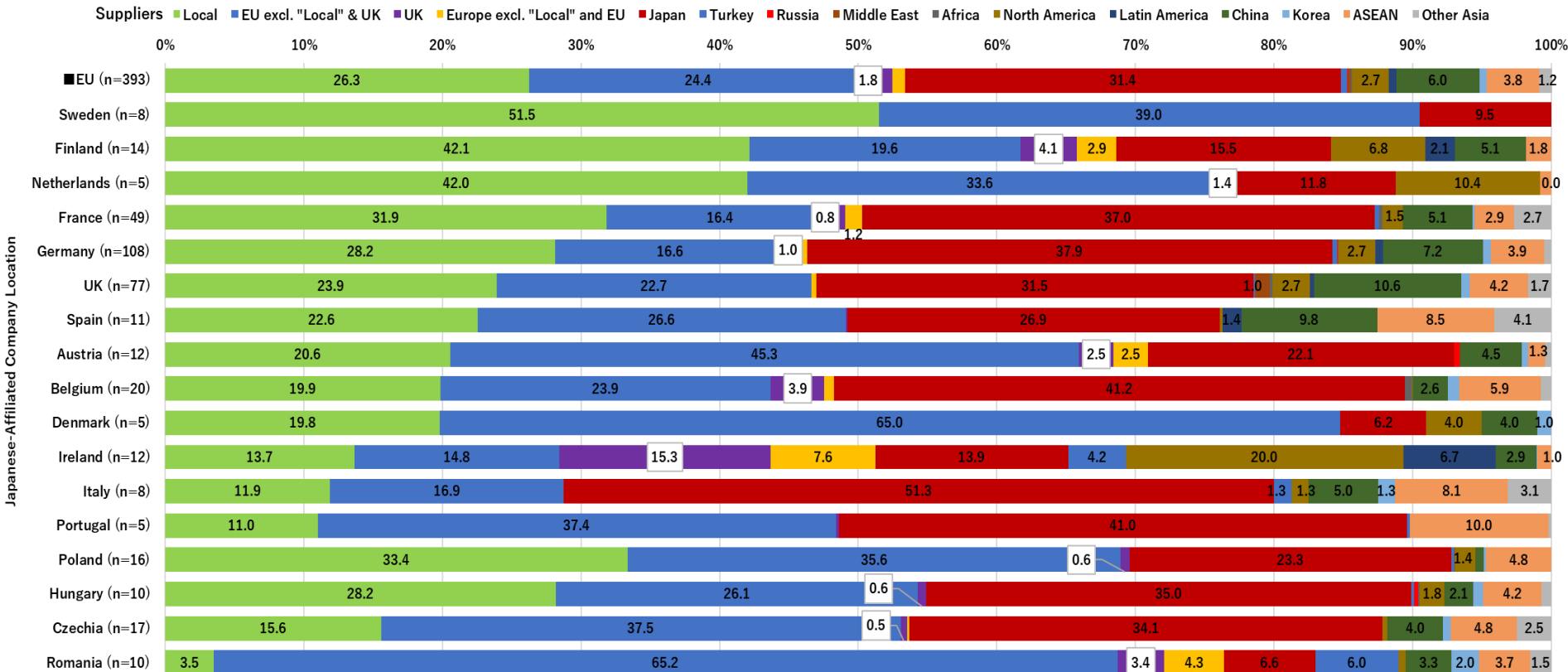
*1 This graph shows the companies average response rate given for each procurement source. Each company calculated the percentage of their procurement sources to amount to 100%.

*2, 'Local' indicates the country/region listed, Countries where respondents are less than 5 were excluded.

6. Local Procurement (2)

- For UK based companies from all sectors, although 23.9% of the average procurement rate of supplies were from local suppliers, 22.7% were also from EU (excl.UK) suppliers (up 5.6 percentage points from 2017). This is concerning due to the potential impact of tariffs on UK-EU trade due to the UK leaving the EU.
- It can be seen that there is a fixed supply chain formed between Ireland and the UK, as Ireland based companies have the highest procurement rate of goods from UK suppliers at 15.3% compared to other EU states .
- It is expected that the Japan-EU EPA will be much more beneficial for all EU based companies across all sectors than solely the manufacturing sector: for all sectors, 31.4% of the average procurement rate of supplies came from Japan (down by 3.0 percentage points from last year), which is higher than the average procurement rate of supplies from the manufacturing sector (29.6%).

**Parts & Raw Material Suppliers for all Sectors by Country and Region
(Breakdown Based on Value)**

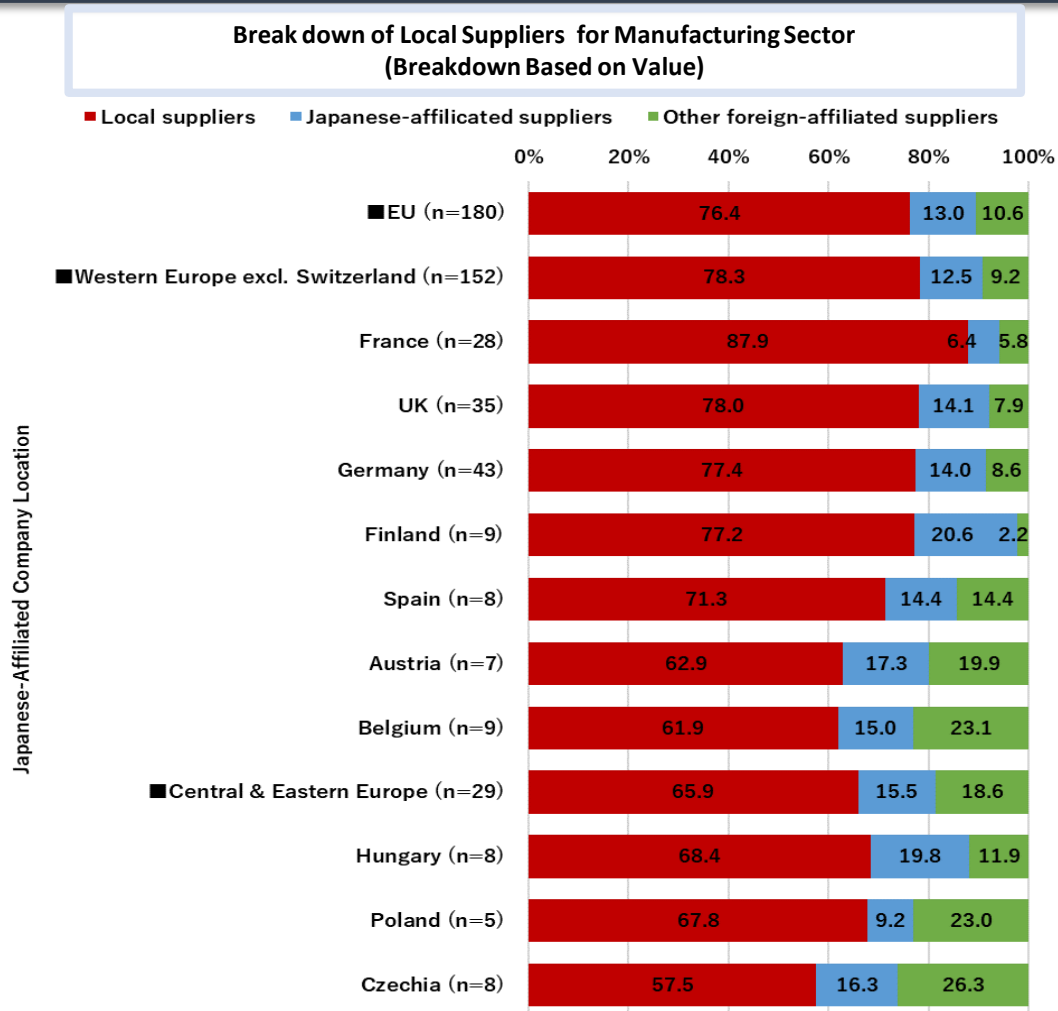


*1This graph shows the companies average response rate given for each procurement source. Each company calculated the percentage of their procurement sources to amount to 100% .

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

6. Local Procurement (3)

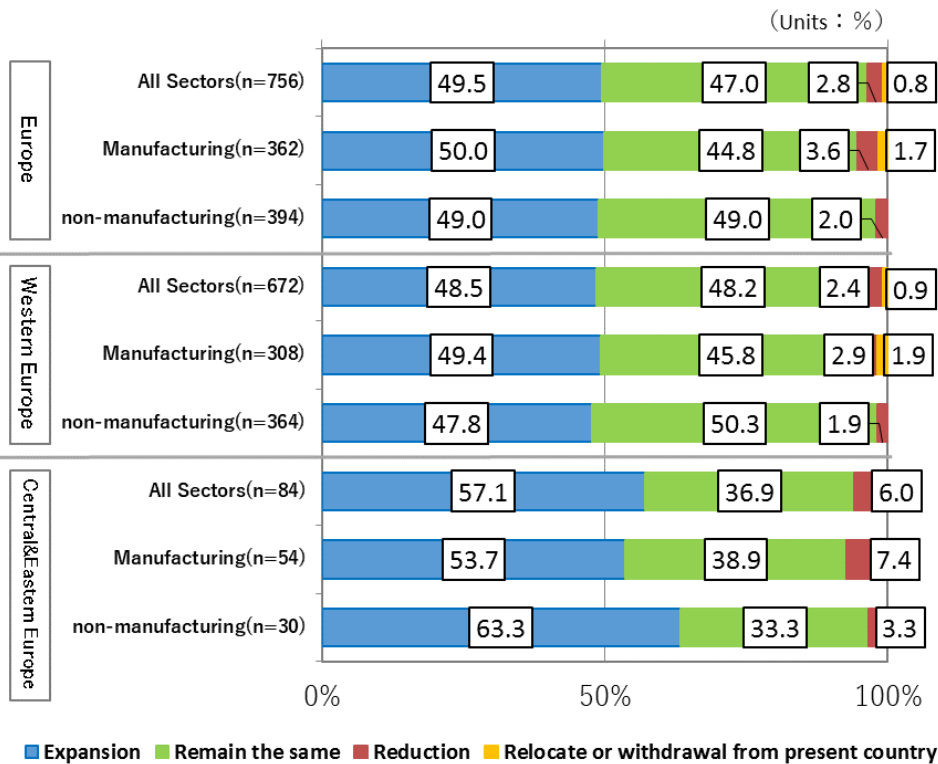
- Looking at the breakdown of local procurement for the manufacturing sector: the largest average came from local suppliers at 76.4% (up 0.9 percentage points from 2017), 13.0% from local Japanese-affiliated suppliers (down 1.7 percentage points) and 10.6% from other local foreign-affiliated suppliers (up 0.8 percentage points).
- It can be seen that companies are increasingly sourcing their supplies from local companies. Although the procurement rate of local supplies by Central and Eastern European based companies is lower compared to Western Europe (excl. Switzerland) based companies, the rate has still increased by 6.7 percentage points from last year.



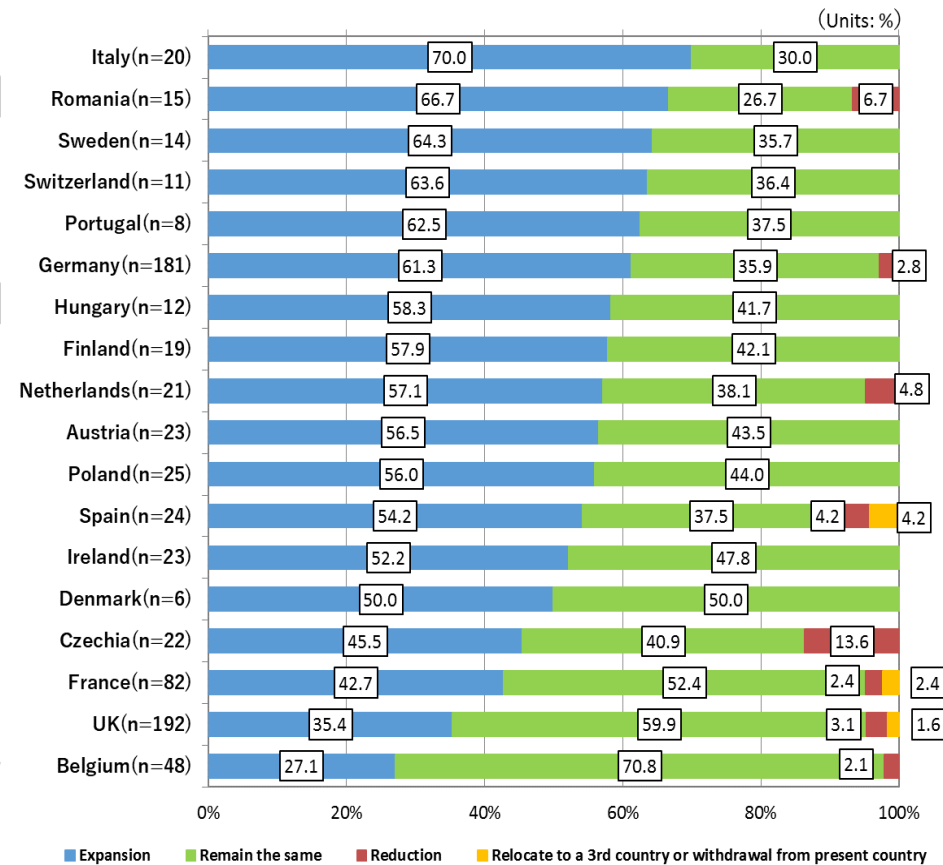
7. Business Outlook For Next 1 or 2 Years (1)

- For the next 1-2 year business outlook across all sectors in Europe: 49.5% said “Expansion”, 47.0% said “Remain the same”, 2.8% said “Reduction” and 0.8% said “Relocation to a third country or withdrawal from present country”.
- Within the manufacturing sector, both Western Europe and Central & Eastern Europe based companies indication for “expansion” had reduced by 5.0 percentage points from the previous survey. However non-manufacturing Central & Eastern European companies response rate for “Expansion” had increased by 6.6 percentage points.
- By country, continuing the same trend as last year for “Expansion”: the response rate from Italy was 70% and the UK remained second from the bottom at 35.4%.

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



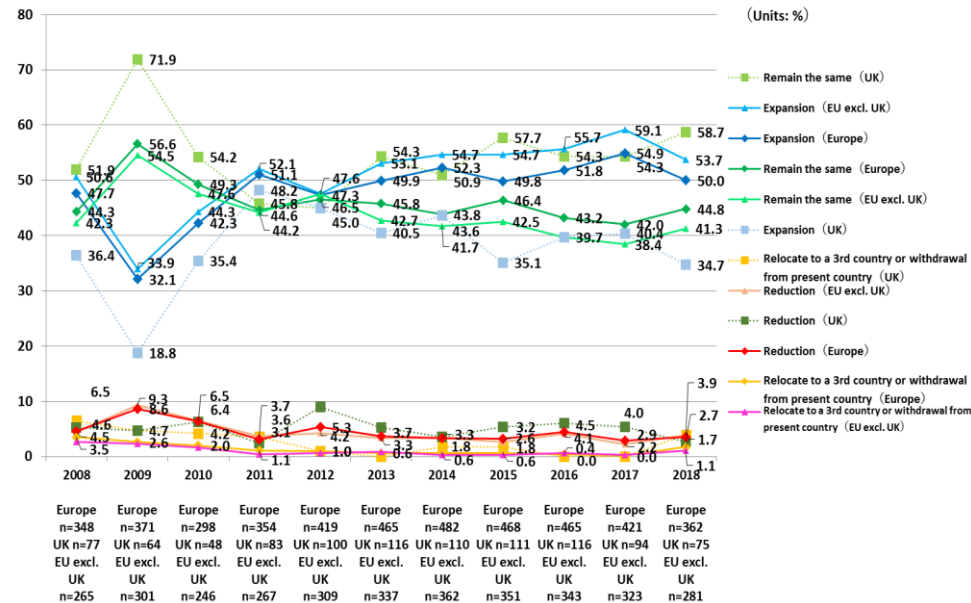
Business Outlook For Next 1 or 2 Years (By Country)



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

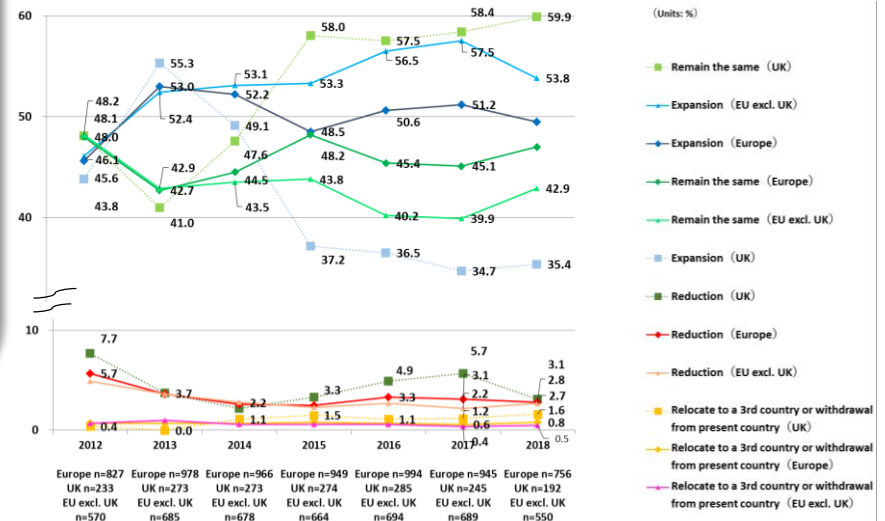
- It still appears that Japanese-affiliated companies' business outlook for the next 1-2 years have not yet been greatly impacted by the UK's movement towards leaving the EU.
- However within the manufacturing sector, a trend is beginning to appear from both UK and other EU state based companies' response rate for "Remain the same", which both has increased by 4.4 and 2.9 percentage points respectively reaching 58.7% and 41.3%.
- Within the UK based companies: the response rate for "Expansion" within non-manufacturing has increased; amongst all sectors the response rate for "Reduction" has decreased by 2.6 percentage points to 3.1%. It is suspected that these results could indicate that the number of companies who will have completed their necessary Brexit contingency plans are going to increase; as well as companies who are carefully keeping an eye on future trends.
- Due to Brexit there were also companies who responded that certain functions would be expanded as the company group was reorganized.

1-2 yr Business Outlook Trends for Manufacturing Companies in Europe and UK

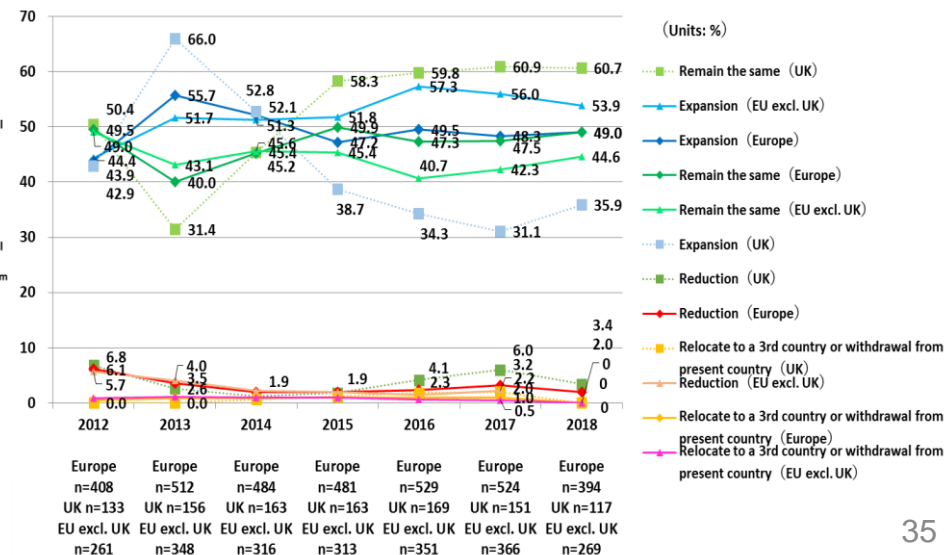


*Please note Non-Manufacturing was only introduced from the 2012 survey, therefore data can only be compared over the last 6 years.

1-2 yr Business Outlook Trends for All Sector Companies in Europe and UK



1-2 yr Business Outlook Trends for Non-Manufacturing Companies in Europe and UK



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

- For all companies in Europe, continuing from last year these 2 sectors 'rubber products' and 'processed food, agricultural or fishery products' remained in the top 5 sectors who had the highest response rates for "Expansion" over the next 1-2 years.

1-2 yr Business Outlook Trends – Highest Response Rate for “Expansion” or “Remain the Same” by Industry

Expansion

【Europe】(n=374) (Units : cos, %)				【Western Europe】(n=326) (Units : cos, %)				【Central & Eastern Europe】(n=48) (Units : cos, %)				【UK】(n=68) (Units : cos, %)			
	Industry	Responses	%		Industry	Responses	%		Industry	Responses	%		Industry	Responses	%
1	Textiles (Spinning/Woven fabrics/Chemical fibers)	5	100.0	1	Textiles (Spinning/Woven fabrics/Chemical fibers)	5	100.0	1	Information and communications (Including software)	5	100.0	1	Food/Processed food, agricultural or fishery products	6	100.0
2	Information and communications (Including software)	17	89.5	2	Professional and technical services	7	87.5	2	Electrical machinery/Electronic devices (Including parts)	4	80.0	2	Information and communications (Including software)	8	88.9
3	Professional and technical services	7	87.5	3	Information and communications (Including software)	12	85.7	3	Wholesale and retail trade (Including trading)	4	66.7	3	Business oriented machinery (Including office machines, analytical instruments and medical equipment etc)	3	60.0
4	Rubber products	6	66.7	4	Rubber products	4	66.7	4	Miscellaneous manufacturing industries	3	60.0	4	Wholesale and retail trade (Including trading)	8	50.0
5	Food/Processed food, agricultural or fishery products	12	63.2	5	Food/Processed food, agricultural or fishery products	12	63.2	4	Construction/Plant	3	60.0	5	Finance and insurance	9	47.4

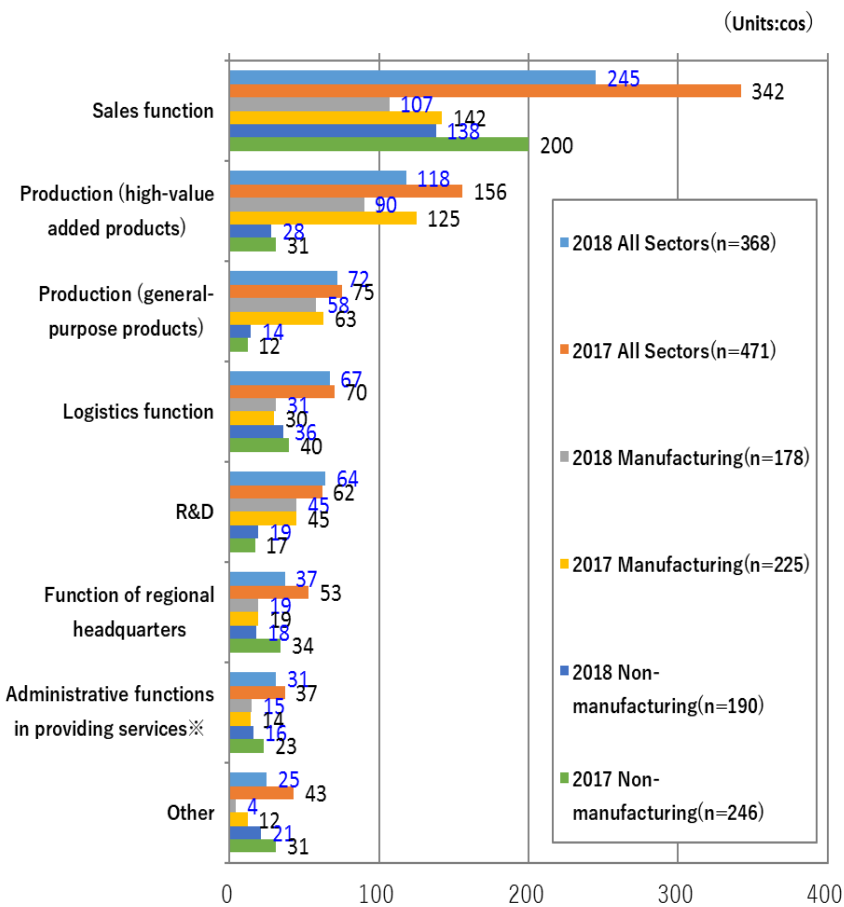
Remain the same

【Europe】(n=355) (Units : cos, %)				【Western Europe】(n=324) (Units : cos, %)				【Central & Eastern Europe】(n=31)(Units : cos, %)				【UK】(n=115) (Units : cos, %)			
	Industry	Responses	%		Industry	Responses	%		Industry	Responses	%		Industry	Responses	%
1	Information and communication electronics equipment	4	80.0	1	Accommodations/Travel/Restaurant	8	80.0	1	Transportation equipment parts (Motor vehicles/Motorcycles)	12	46.2	1	Miscellaneous manufacturing industries	7	87.5
1	Accommodations/Travel/Restaurant	8	80.0	2	Miscellaneous manufacturing industries	16	64.0	2	Sales company	4	44.4	2	Sales company	27	77.1
3	Construction/Plant	6	66.7	3	Transportation equipment parts (Motor vehicles/Motorcycles)	22	59.5	3	Construction/Plant	2	40.0	3	Transport activities/Warehouse	8	72.7
4	Miscellaneous service industries	17	65.4	4	Transport activities/Warehouse	23	57.5	4	Electrical machinery/Electronic devices (Including parts)	1	20.0	4	Miscellaneous service industries	8	61.5
5	Transportation equipment (Railroad vehicles /Ship/Aircraft/Industrial trucks)	3	60.0	5	Ceramic/Stone and clay products	4	57.1	4	Miscellaneous manufacturing industries	1	20.0	5	Transportation equipment parts (Motor vehicles /Motorcycles)	7	58.3

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

- Continuing the same trend as last year, when companies were asked which functions were intended to be expanded in the next 1-2 years, the most common answer remained to expand “Sales functions” (245 companies).
- German based companies were seen to be most active in expanding their functions. In fact they had the highest number of responses indicating “Expansion” across all functions.

Specific Functions being Expanded (Multiple Answers Given)



※ Shared Services, Call Centers, etc.

Top Countries Who Selected Expansion of Functions

Sales functions

Germany	81
UK	46
France	27

Production (high-value added products)

Germany	31
UK	17
France	13

Production (general-purpose products)

Germany	20
UK	7
France	6

Logistics functions

Germany	18
France	13
UK	9

R&D

Germany	23
UK	11
France	6

Administrative functions in providing services

Germany	7
UK	5
France	5

Function of regional headquarters

Germany	14
UK	9
France	2
Spain	2
Austria	2

* Note: The country is where the company is based, not the place where functions are being expanded to. It is believed that this expansion will take place at the companies' base location.

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

- The top reason given for expecting business expansion in the next 1-2 years was “Sales increase in local market”. Within the manufacturing sector: in addition to sales increase, “Sales increase due to export expansion” and “High receptivity for high-value added products/services” were also driving factors. Within non-manufacturing: “High growth potential” also had a large response rate as a favorable condition for market expansion.
- However for companies who answered “Reduction” or “Transferring to a third country/region or withdrawal from current local market”: the most common reason given was “Sales decrease in local market”; within the non-manufacturing sector the key reason given was “Low growth potential”.

Reason For Expecting Business Expansion in the next 1-2 years

(Units:cos, %)

All Sectors (n=370)

	Responses	%
1 Sales increase in local markets	278	75.1
2 Sales increase due to export expansion	153	41.4
3 High growth potential	142	38.4
4 High receptivity for high-value added products/services	118	31.9
5 Relationship with clients	71	19.2

Manufacturing (n=179)

	Responses	%
1 Sales increase in local markets	137	76.5
2 Sales increase due to export expansion	94	52.5
3 High receptivity for high-value added products/services	69	38.5
4 High growth potential	59	33.0
5 Reviewing production and distribution network	35	19.6

Non-manufacturing (n=191)

	Responses	%
1 Sales increase in local markets	141	73.8
2 High growth potential	83	43.5
3 Sales increase due to export expansion	59	30.9
4 High receptivity for high-value added products/services	49	25.7
5 Relationship with clients	42	22.0

Reason for Expecting Business Reduction, Withdrawal or Relocation to a 3rd country In the next 1-2 years

(Units:cos, %)

All Sectors (n=26)

	Responses	%
1 Sales decrease in local markets	14	53.8
2 Low growth potential	10	38.5
3 Increase of costs (e.g., procurement/labor costs)	9	34.6
4 Sales decrease due to export slowdown	5	19.2

Manufacturing (n=18)

	Responses	%
1 Sales decrease in local markets	12	66.7
2 Increase of costs (e.g., procurement/labor)	6	33.3
3 Low growth potential	5	27.8

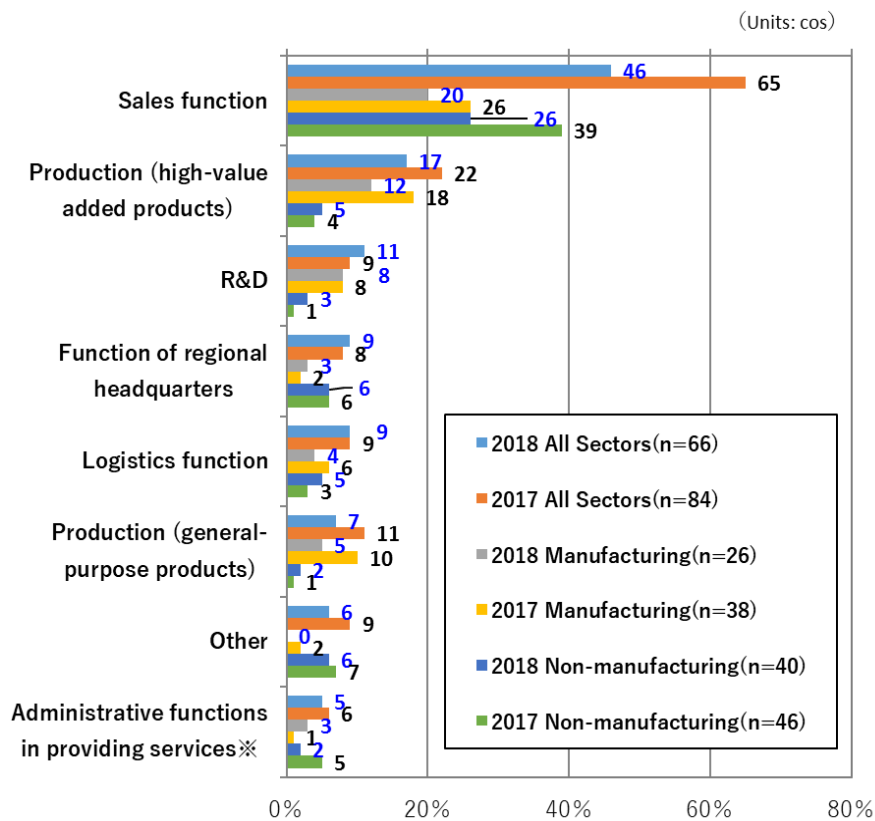
Non-manufacturing (n=8)

	Responses	%
1 Low growth potential	5	62.5

7. Business Outlook For Next 1 or 2 Years (6)

- When UK based companies were asked which functions they intend to expand in the next 1-2 years, the most common answer was again to expand “Sales functions” (46 companies, 19 companies less than 2017).
- Continuing from last year the second most common answer was expansion of “Production (high-value added products)” (17 companies), followed by R&D (11 companies). However “Production (general-purpose products)” reduced down to just 7 companies. This could indicate that ahead of the UK’s withdrawal from the EU, UK based companies attempt to shift towards differentiating from price-oriented products to quality-oriented and technological products.

Specific Functions being Expanded by UK based Companies



※ Shared Services, Call Centers, etc.

(Multiple answers given)

Reason For Expecting Business Expansion in the next 1-2 years for UK based Companies

All Sectors (n=67)		(Unitis:cos, %)	
		Responses	%
1	Sales increase in local markets	51	76.1
2	High growth potential	30	44.8
3	Sales increase due to export expansion	29	43.3
4	High receptivity for high-value added	22	32.8
5	Relationship with clients	16	23.9

(Multiple answers given)

7. Business Outlook For Next 1 or 2 Years(7)

- These tables show the countries where companies are based, who responded that they were expanding “Regional headquarter function” and “Production (high value-added products)” function in the next 1 to 2 years. Looking at the countries where companies responded that they planned to expand “Regional headquarters Function”, the UK ranked second place with a response rate of 13.6% (9 companies), an increase of one company since last year; there were also some responses from Central and Eastern European based companies.
- Germany had the most companies who selected expansion of “Production of high-value added products” function (31 companies) at 28.4%.
- Other countries with a particularly high response rates for expanding “Production of high-value added products” function were Portugal and Finland.

Top Countries in Europe , where Companies Selected Expansion of “Regional Headquarters” and “Production of High Value-Added Products” Functions

No. of responses (Units:cos)	Regional headquarters	2015	2016	2017	2018	Change since '17	Production (high-value added products)	2015	2016	2017	2018	Change since '17
		Results	Results	Results	Results			Results	Results	Results	Results	
Ratio (Units:%)	Total	52	43	53	37	Δ 16	Total	140	153	156	118	Δ 38
		11.6	8.7	11.3	10.1	Δ 1.2		31.2	30.8	33.1	32.1	Δ 1.0
	Germany	13	10	19	14	Δ 5	Germany	37	39	41	31	Δ 10
		11.3	8.3	15.3	12.8	Δ 2.5		32.2	32.2	33.1	28.4	Δ 4.7
	UK	19	9	8	9	1	UK	25	21	22	17	Δ 5
		18.6	8.7	9.5	13.6	4.1		24.5	20.4	26.2	25.8	Δ 0.4
	Austria	-	1	1	2	1	France	13	15	17	13	Δ 4
		-	14.3	8.3	16.7	8.4		39.4	39.5	32.7	38.2	5.5
	Spain	-	1	3	2	Δ 1	Finland	4	4	6	6	0
		-	3.8	14.3	15.4	1.1		50.0	57.1	66.7	54.5	Δ 12.2
	France	2	3	3	2	Δ 1	Belgium	5	8	8	6	Δ 2
		6.1	7.9	5.8	5.9	0.1		21.7	38.1	53.3	46.2	Δ 7.1
	Switzerland	-	1	1	1	0	Italy	9	7	12	6	Δ 6
		-	14.3	50	14.3	Δ 35.7		37.5	31.8	37.5	42.9	5.4
	Hungary	-	-	-	1	1	Spain	7	10	10	6	Δ 4
		-	-	-	14.3	14.3		36.8	38.5	47.6	46.2	Δ 1.4
	Czechia	1	-	-	1	1	Portugal	2	5	3	4	1
		9.1	-	-	10.0	10.0		33.3	50.0	37.5	80.0	42.5
	Romania	-	-	1	1	0	Netherlands	2	7	10	4	Δ 6
		-	-	33.3	10.0	Δ 23.3		6.9	17.1	20.8	33.3	12.5
	Finland	1	-	-	1	1	Romania	2	3	1	4	3
		12.5	-	-	9.1	9.1		28.6	30.0	33.3	40.0	6.7
	Netherlands	7	11	10	1	Δ 9	Ireland	3	4	4	4	0
		24.1	26.8	20.8	8.3	Δ 12.5		25.0	30.8	30.8	33.3	2.5
	Belgium	2	3	3	1	Δ 2						
		8.7	14.3	20.0	7.7	Δ 12.3						
	Italy	3	-	1	1	0						
		12.5	-	3.1	7.1	4.0						

Note : "-" means that no companies responded.

8. High Value-Added & Differentiation Initiatives (1)

- When European based companies were asked what initiatives were being undertaken to differentiate or add high value to their products and services being sold: the most common response was “Strengthening company brand” at 50.1% (this category was a new option for this years’ survey); followed by “Strengthening technical skill training resources and increasing the number of skilled engineers” at 35.6% (0.2 percentage points up from 2017). Reasons such as “Although the brand is well known in Japan, it is less known in the assigned market, preventing sales expansion” and “Expect to be able to accept more orders if engineers were better trained” were given for these choices.

High Value-Added & Differentiation Initiatives for Selling Products & Services in Europe

(Multiple Answers Given)
(Unit: %)

	2017 (n=821)	2018 (n=674)	Change	By Industry					
				2017 Manufacturing (n=385)	2018 Manufacturing (n=344)	Change	2017 Non- Manufacturing (n=436)	2018 Non- Manufacturing (n=330)	Change
1 Strengthening the company's brand*	-	50.1	-	-	45.6	-	-	54.8	-
2 Strengthening skills training resources and increasing the number of skilled workers	35.4	35.6	0.2	41.3	40.1	Δ 1.2	30.3	30.9	0.6
3 Strengthening R&D functions	30.1	27.7	Δ 2.4	41.6	39.2	Δ 2.4	20.0	15.8	Δ 4.2
4 Thorough analysis of competitors	34.2	25.5	Δ 8.7	29.4	35.5	6.1	38.5	28.5	Δ 10.0
5 Renewing production sites	17.7	20.5	2.8	32.2	22.7	Δ 9.5	4.8	4.8	0.0
6 Acquiring or allying with competitors that own advanced technology or necessary brands/technologies for your business	19.0	16.5	Δ 2.5	15.1	14.2	Δ 0.9	22.5	18.8	Δ 3.7
7 Strengthening alliances with universities and research institutes	13.6	13.1	Δ 0.5	15.8	13.7	Δ 2.1	11.7	12.4	0.7
8 Strengthening/ revising your company's intellectual property strategy	17.5	9.2	Δ 8.3	13.5	7.6	Δ 5.9	21.1	10.9	Δ 10.2
9 Taking advantage of taxation systems during early stages of R&D e.g. Tax deduction	2.7	2.2	Δ 0.5	4.4	2.9	Δ 1.5	1.1	1.5	0.4
10 Taking advantage of taxation systems targeted for commercial activities post R&D e.g. Patent box systems	1.2	0.9	Δ 0.3	1.8	0.9	Δ 0.9	0.7	0.9	0.2
Others	11.4	5.9	Δ 5.5	7.5	3.8	Δ 3.7	14.9	8.2	Δ 6.7

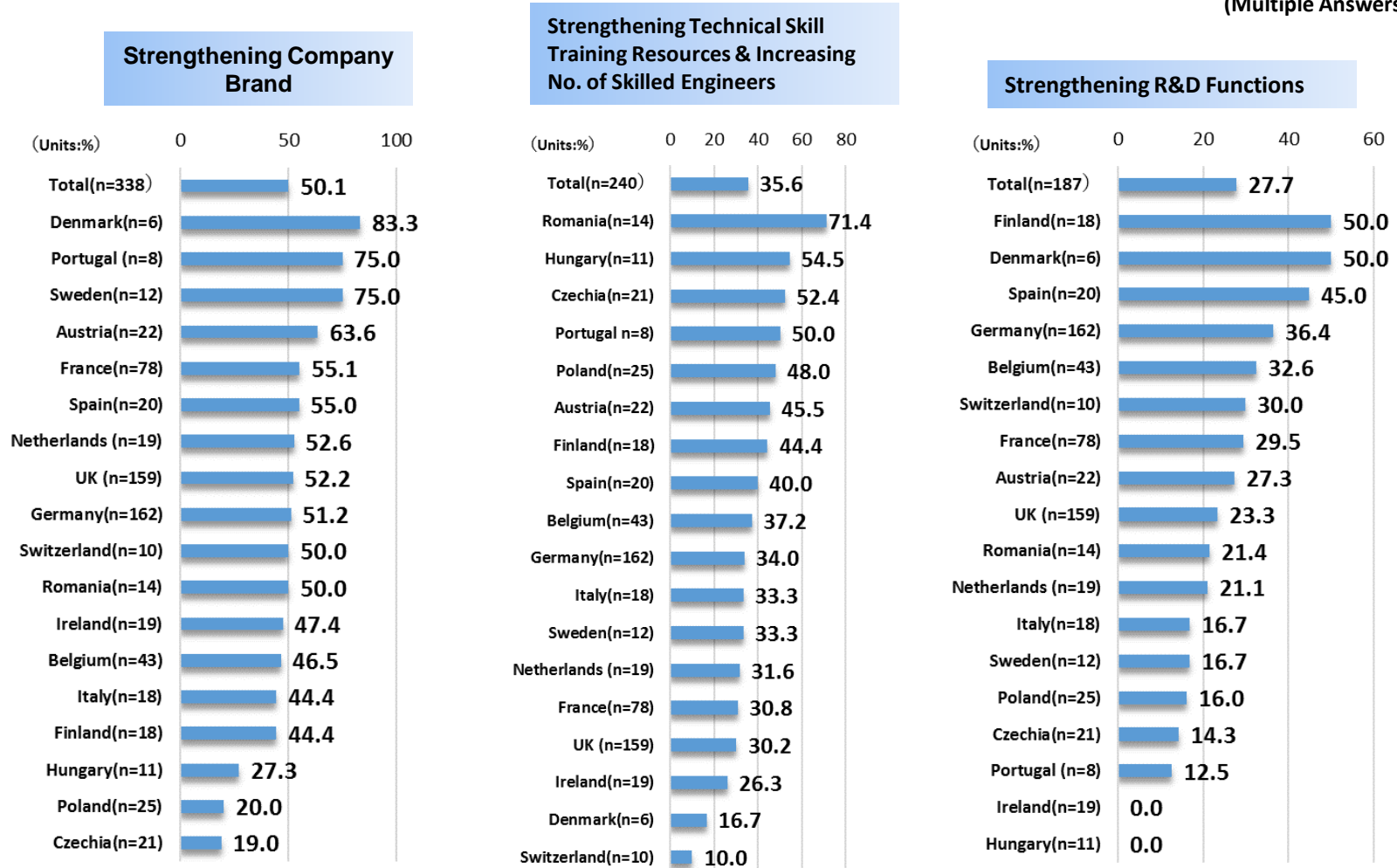
* New option for this years' survey

8. High Value-Added & Differentiation Initiatives (2)

- The largest proportion of responses of “Strengthening technical skill training resources and increasing the number of skilled engineers” came from Central and Eastern Europe based companies: Romania (71.4%), Hungary (54.5%), Czechia (52.4%), Poland (48.0%) and Austria (45.5%).

High Value-Added & Differentiation Initiatives for Selling Products & Services in Europe

(Multiple Answers Given)

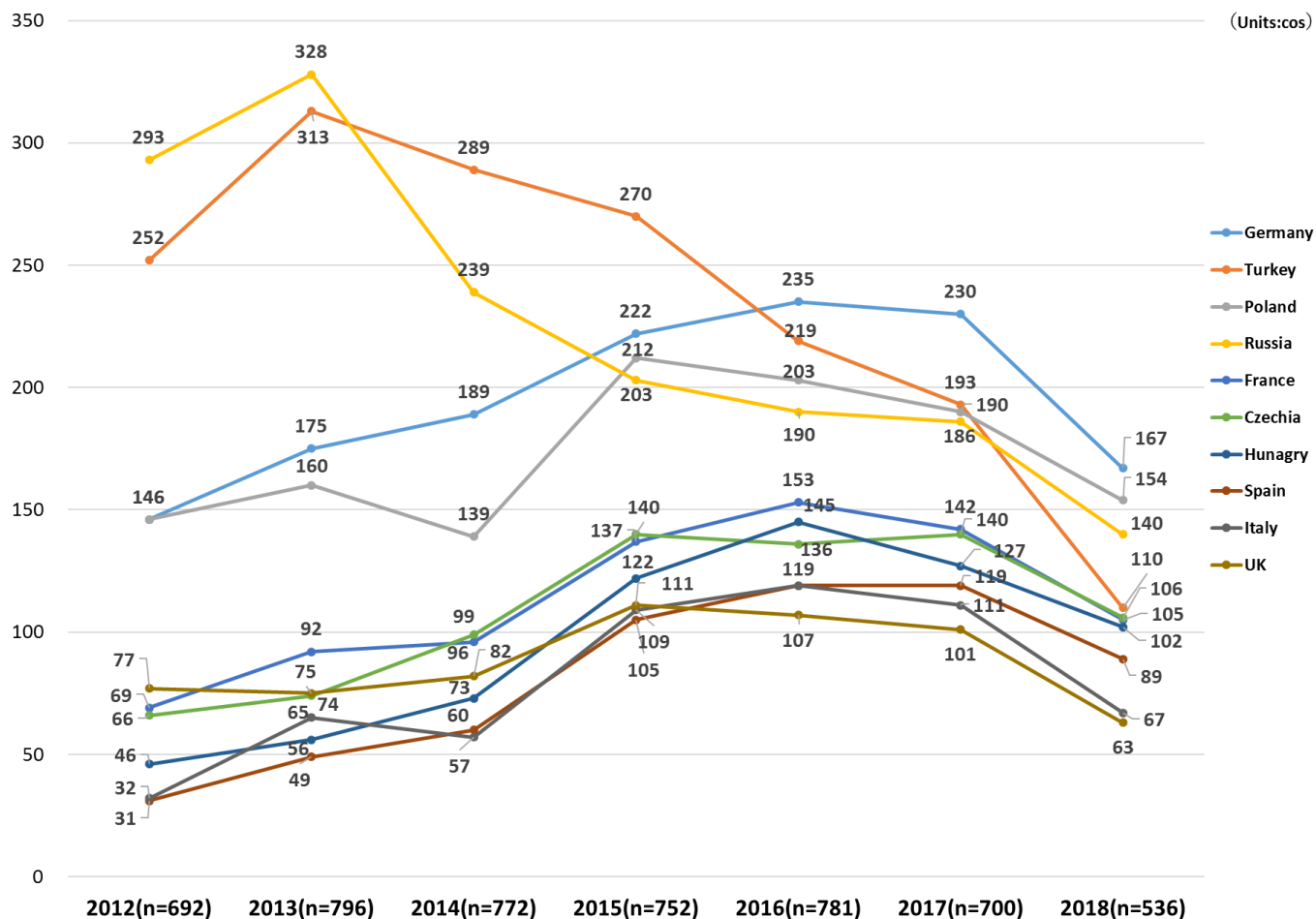


9. Future Promising Sales Destinations (1)

- Germany was selected as the top future promising sales destination, followed by Poland. The proportion of respondents selecting Poland has also increased.
- Since 2014 the number of companies selecting Turkey and Russia as promising sales destinations, have continued to decline. However this year it can be seen for Russia the downward trend has stopped, whereas for Turkey the number and proportion of respondents have sharply declined.

Top 10 Future Promising Sales Destinations Trends for 2019

(Multiple Answers Given)



9. Future Promising Sales Destinations (2)

- “Sales growth is expected” was selected as the primary reason for choosing promising sales destinations, of which the response rate for selecting Central and Eastern Europe as a promising sales destinations was higher than Western Europe.
- For Western Europe as a promising sales destination, it could be seen the response rate for “Existing business partners have bases in the country/region” has increased.
- For the Middle East, the response rate for “New business partners have been found in this country/region” has increased. Also the number of companies who cited African countries as a promising destination became larger than those who cited Russia and CIS countries.

Responses (Units: cos)
Ratio (Units: %)

Reasons given for Future Promising Sales Destination

(Multiple Answers Given)

Reason for selecting country(ies) in Western Europe	2012 (n=302)	2013 (n=369)	2014 (n=386)	2015 (n=425)	2016 (n=451)	2017 (n=435)	2018 (n=333)	Change
1 It is a country where sales growth is expected	113	172	178	193	200	218	160	▲ 58
	37.4	46.6	46.1	45.4	44.3	50.1	48.0	▲ 2.1
2 Existing clients have bases in the country/region	111	131	133	131	166	174	151	▲ 23
	36.8	35.5	34.5	30.8	36.8	40.0	45.3	5.3
3 Good receptivity of high value-added products / service	104	121	140	141	143	127	102	▲ 25
	34.4	32.8	36.3	33.2	31.7	29.2	30.6	1.4
4 New clients have been found in the country/region	89	106	86	97	145	124	86	▲ 38
	29.5	28.7	22.3	22.8	32.2	28.5	25.8	▲ 2.7
5 Sales are poor in existing markets	31	37	25	33	166	23	23	0
	10.3	10.0	6.5	7.8	36.8	5.3	6.9	1.6

Reason for selecting country(ies) in the Middle East	2012 (n=298)	2013 (n=374)	2014 (n=343)	2015 (n=336)	2016 (n=329)	2017 (n=278)	2018 (n=170)	Change
1 It is a country where sales growth is expected	254	316	272	266	226	202	105	▲ 97
	85.2	84.5	79.3	79.2	68.7	72.7	61.8	▲ 10.9
2 Existing clients have bases in the country/region	75	93	101	92	96	98	58	▲ 40
	25.2	24.9	29.4	27.4	29.2	35.3	34.1	▲ 1.2
3 New clients have been found in the country/region	58	59	56	52	67	57	41	▲ 16
	19.5	15.8	16.3	15.5	20.4	20.5	24.1	3.6
4 Good receptivity of high value-added products / service	37	60	52	50	61	45	32	▲ 13
	12.4	16.0	15.2	14.9	18.5	16.2	18.8	2.6
5 Sales are poor in existing markets	12	16	12	10	9	8	6	▲ 2
	4.0	4.3	3.5	3.0	2.7	2.9	3.5	0.6

Reason for selecting country(ies) in Central & Eastern Europe	2012 (n=256)	2013 (n=292)	2014 (n=285)	2015 (n=322)	2016 (n=331)	2017 (n=332)	2018 (n=264)	Change
1 It is a country where sales growth is expected	172	213	207	211	206	223	164	▲ 59
	67.2	72.9	72.6	65.5	62.2	67.2	62.1	▲ 5.1
2 Existing clients have bases in the country/region	79	79	92	99	114	121	89	▲ 32
	30.9	27.1	32.3	30.7	34.4	36.4	33.7	▲ 2.7
3 New clients have been found in the country/region	69	67	61	55	87	86	70	▲ 16
	27.0	22.9	21.4	17.1	26.3	25.9	26.5	0.6
4 Good receptivity of high value-added products / service	30	35	33	39	46	36	34	▲ 2
	11.7	12.0	11.6	12.1	13.9	10.8	12.9	2.1
5 Existing customers are relocating to the country/region	17	16	9	16	21	23	17	▲ 6
	6.6	5.5	3.2	5.0	6.3	6.9	6.4	▲ 0.5

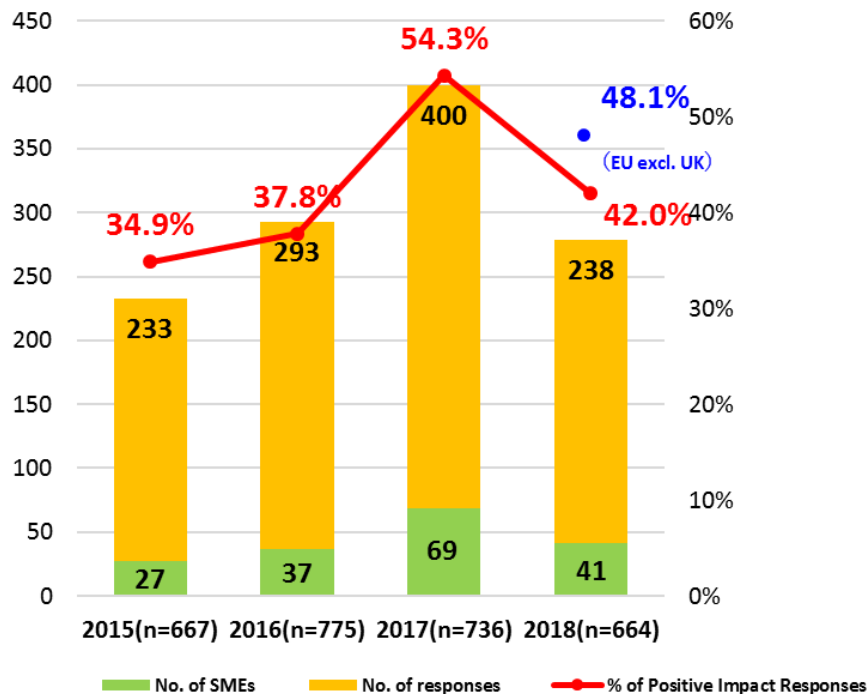
Reason for selecting country(ies) in Russia and/or CIS	2012 (n=314)	2013 (n=353)	2014 (n=247)	2015 (n=200)	2016 (n=189)	2017 (n=203)	2018 (n=153)	Change
1 It is a country where sales growth is expected	277	299	195	129	110	136	104	▲ 32
	88.2	84.7	78.9	64.5	58.2	67.0	68.0	1.0
2 Existing clients have bases in the country/region	79	78	63	51	61	68	41	▲ 27
	25.2	22.1	25.5	25.5	32.3	33.5	26.8	▲ 6.7
3 New clients have been found in the country/region	52	63	33	26	38	44	35	▲ 9
	16.6	17.8	13.4	13.0	20.1	21.7	22.9	1.2
4 Good receptivity of high value-added products / service	54	47	37	34	27	30	25	▲ 5
	17.2	13.3	15.0	17.0	14.3	14.8	16.3	1.5
5 Sales are poor in existing markets	18	17	12	9	9	5	4	▲ 1
	5.7	4.8	4.9	4.5	4.8	2.5	2.6	0.1

Reason for selecting country(ies) in Africa	2012 (n=154)	2013 (n=212)	2014 (n=187)	2015 (n=220)	2016 (n=225)	2017 (n=190)	2018 (n=158)	Change
1 It is a country where sales growth is expected	114	172	136	159	137	133	114	▲ 19
	74.0	81.1	73.9	72.3	60.9	70.0	72.2	2.2
2 Existing clients have bases in the country/region	49	52	43	61	63	58	39	▲ 19
	31.8	24.5	23.4	27.7	28.0	30.5	24.7	▲ 5.8
3 New clients have been found in the country/region	37	45	32	37	47	46	30	▲ 16
	24.0	21.1	17.4	16.8	20.9	24.2	19.0	▲ 5.2
4 Good receptivity of high value-added products / service	17	27	22	17	24	27	15	▲ 12
	11.0	12.7	12.0	7.7	10.7	14.2	9.5	▲ 4.7
5 Existing customers are relocating to the country/region	10	9	7	7	6	7	9	2
	6.5	4.2	3.8	3.2	2.7	3.7	5.7	2.0

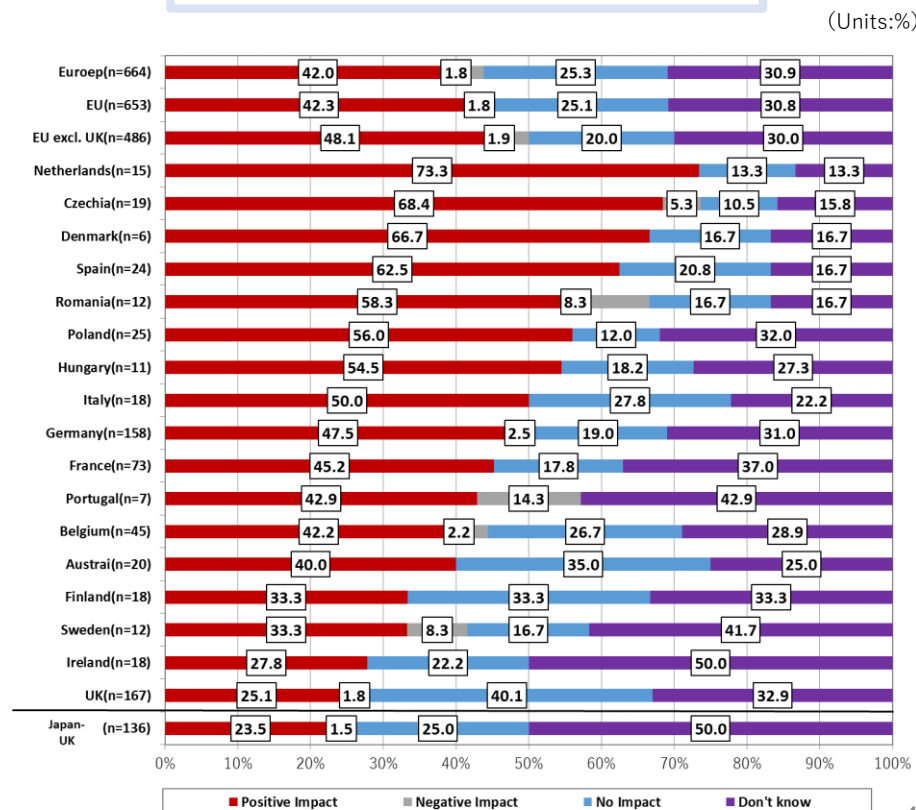
10. EPA/FTA (1)

- The Japan-EU Economic partnership agreement was signed in July 2018, however the response rate for “Positive Impact” was 42.0% from all Europe-based companies, down by 12.3 percentage points from 2017. Although the response rate for positive impact from EU (excl. UK) based companies was close to last years’ result at 48.1%, from UK based companies it has dramatically reduced by 20 percentage points to 25.1%. It is believed that the number of companies who think that they cannot enjoy the same impact as other EU members has risen, due to the UK’s withdrawal from the EU.
- Overall compared to last year the response rate for “No Impact” and “Don’t Know” has increased by 6.0 and 5.6 percentage points respectively to 25.3% and 30.9%. It shows that to a certain extent that some companies are not yet able to judge the benefits of the Japan EU-EPA.
- The response rate for “Positive Impact” from companies in Netherlands (73.3%), Czechia (68.4%), Denmark (66.7%), Spain (62.5%), Romania (58.3%) and Poland (56.0%) all surpassed 50%; indicating a particular high expectation.
- UK based companies indicated that their expectation for a positive impact from the Japan-EU EPA was higher than from a potential Japan-UK EPA. 23.5% of UK based companies indicated that there would be a positive impact if there were to be a Japan-UK EPA, which is lower than their response rate for the Japan-EU EPA (25.1%).

Companies who Responded
“Positive Impact” from Japan-EU EPA



Japan-EU EPA Impact by Country



10. EPA/FTA (2)

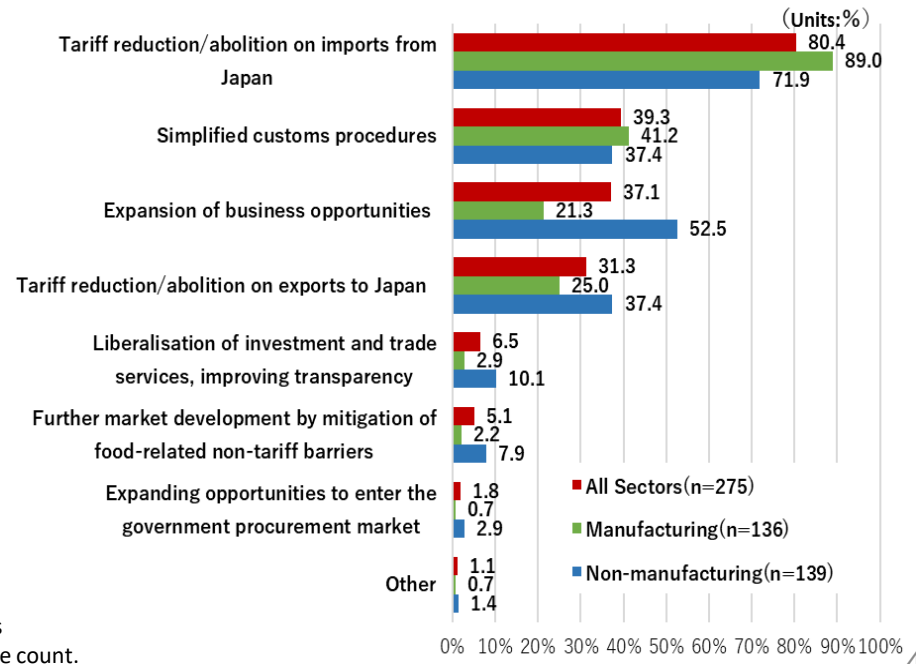
- Looking at sectors of EU based companies that had a high response rate for “Positive Impact”: Textile Fabrics (Spinning/Woven fabrics/Chemical fibers) at 80.0%, Transportation equipment at 78.6% and Transport activities/Warehouse at 71.1%. To put these results into context, these sectors expect that once the Japan-EU EPA is put into effect, tariffs will be abolished; in fact across the EU, textiles are generally subjected to high tariffs.
- Amongst EU based companies who responded the Japan-EU EPA was a positive impact, over 80% (80.4%, 221 companies) selected “Tariff reduction/abolition on imports from Japan” as a reason for this impact; of which within the manufacturing sector the selection rate was almost 90% (89.0%,121 companies). Sectors where 10 companies or more selected this reason: Electrical machinery & devices (Including parts) at 100% (20 companies), Motor vehicles & Motorcycles 96.0% (24 companies), Sales companies 94.0% (47 companies) and other manufacturing companies 93.3% (14 companies).
- Looking at countries where 10 companies or more selected this reason: Spain at 93.3% (14 companies), Germany 82.4% (61 companies), the UK 81.0% (34 companies) and France 78.8% (26 companies).
- Furthermore, 5.1% (14 companies) cited “The Japan EU-EPA allows further market development by relaxing food-related non-tariff barriers” as a reason for positive impact, of which a high response rate came from the UK based companies at 9.5% (4 companies).

Key Sectors that see Positive Impact from Japan EU EPA EU based Companies Only

(Units:cos, %)			
	Industry	Responses	%
1	Textiles (Spinning/Woven fabrics/Chemical fibers)	4	80.0
2	Transportation equipment (Motor vehicles/Motorcycles)	11	78.6
3	Transport activities/Warehouse	27	71.1
4	General-purpose machinery/Production machinery(Including molds and machine tools)	16	66.7
5	Plastic products	6	60.0
5	Fabricated metal products(Including plated products)	3	60.0
5	Information and communication electronics equipment	3	60.0
8	Wholesale and retail trade (Including trading)	41	57.7
9	Food/Processed food, agricultural or fishery products	7	53.8
10	Sales company	52	43.7

*Less than 5 responses were excluded from the count.

Reasons Given for Positive Impact from Japan EU EPA EU based Companies Only

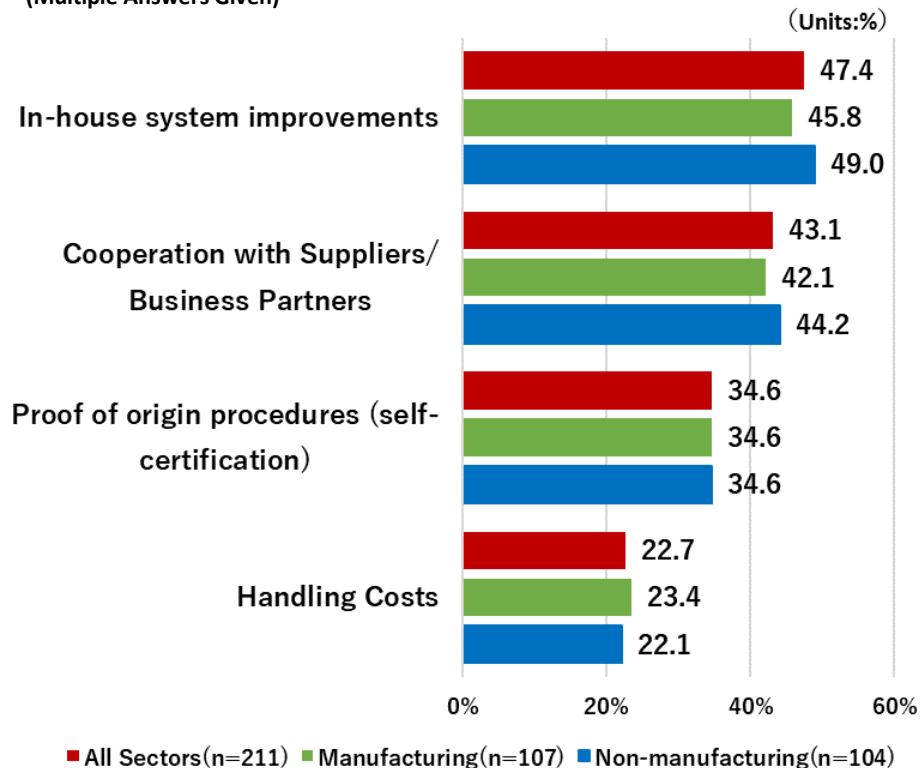


10. EPA/FTA (3)

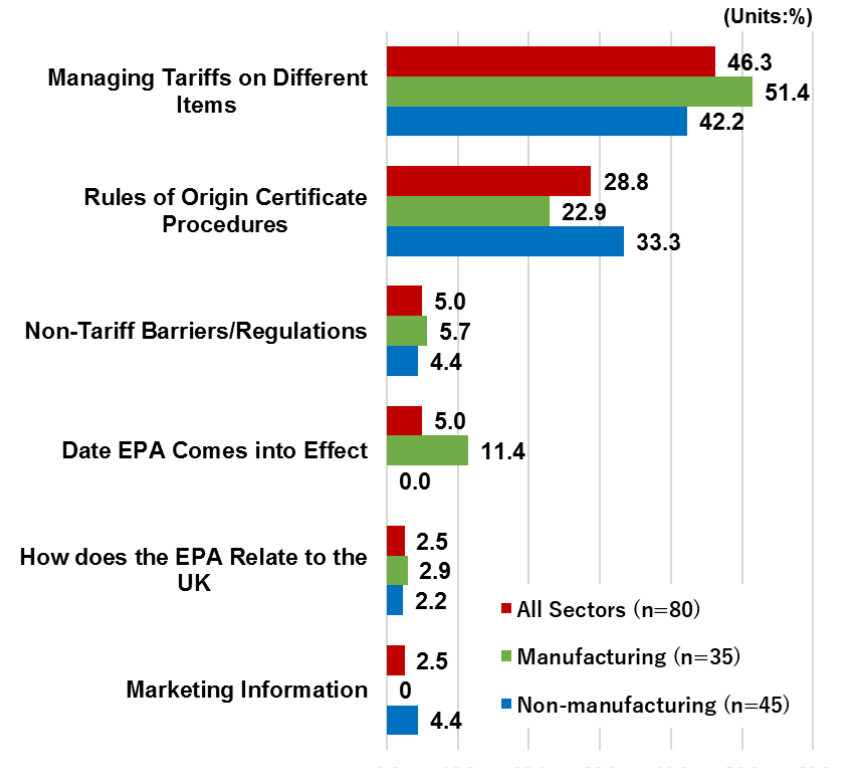
- In terms of items that may be problematic when using the Japan-EU EPA, within EU based companies, the top issues were “In-house system improvements” at 47.4%,” followed by “Cooperation with supplier/business partners e.g. completion of certificate of origin documentation” at 43.1% and “Proof of origin procedures (self-certification)” at 34.6%. When the details of the agreement became clear after the signing in July 2018, these issues become more real as the date the agreement comes into effect draws closer.
- When companies were asked to provide more details about what kind of information is needed in order make use of this EPA, many companies gave a variety of individual answers, of which were broken down and separated into categories seen in the chart below. The most common answer given was “Managing tariffs on different items” at 46.3%, followed by Information about “Rules of origin certificate procedures” at 28.8%. Concerning managing tariffs on different items, there is already a published guide available, however finding and understanding this guide can be difficult. Also in order to actually use the EPA there is a high demand to receive more information about its procedures.

**Issues when Using Japan-EU EPA
Based on EU Companies**

(Multiple Answers Given)



**Necessary Information in Order to Utilize Japan-EU EPA
Based on Individual Responses from EU Companies**



10. EPA/FTA (4)

- In regards to how companies intend to make use of the Japan-EU EPA: Combining the response rate for EU (excl.UK) based companies that selected "Planning to Utilize" or "Considering to Utilize", reached almost 70% for both Imports and Exports. The EU (excl.UK) based companies' selection rate for "Planning to Utilize" for import was 34.3%, whereas UK based companies was 20.8%, showing a difference of more than 10 percentage points between the two figures.

How Companies Plan to Use the Japan-EU EPA in the Future

(Multiple Answers Given)

Are you planning/ considering to utilize preferential tax rates provided by these FTAs?

(Units:cos, %)

For Export	Responses	Planning to utilize	Considering to utilize	Not planning to utilize	For Import	Responses	Planning to utilize	Considering to utilize	Not planning to utilize
Europe	173 100%	45 26.0%	70 40.5%	58 33.5%	Europe	363 100%	114 31.4%	126 34.7%	123 33.9%
EU	173 100%	45 26.0%	70 40.5%	58 33.5%	EU	361 100%	114 31.6%	125 34.6%	122 33.8%
EU excl. UK	147 100%	38 25.9%	63 42.9%	46 31.3%	EU excl. UK	283 100%	97 34.3%	99 35.0%	87 30.7%
Germany	65 100%	15 23.1	28 43.1	22 33.8	Germany	109 100%	39 35.8	39 35.8%	31 28.4%
UK	26 100%	7 26.9%	7 26.9%	12 46.2%	UK	77 100%	16 20.8%	26 33.8%	35 45.5%
France	15 100%	4 26.7%	3 20.0%	8 53.3%	France	44 100%	11 25.0%	12 27.3%	21 47.7%
Italy	8 100%	4 50.0%	3 37.5%	1 12.5%	Belgium	22 100%	10 45.5%	4 18.2%	8 36.4%
Spain	10 100%	3 30.0%	6 60.0%	1 10.0%	Spain	18 100%	7 38.9%	6 33.3%	5 27.8%
Ireland	7 100%	2 28.6%	3 42.9%	2 28.6%	Czechia	16 100%	6 37.5%	6 37.5%	4 25.0%
Belgium	10 100%	1 10.0%	4 40.0%	5 50.0%	Italy	12 100%	5 41.7%	4 33.3%	3 25.0%
Austria	7 100%	1 14.3%	4 57.1%	2 28.6%	Hungary	9 100%	4 44.4%	1 11.1%	4 44.4%
Czechia	7 100%	1 14.3%	4 57.1%	2 28.6%	Austria	11 100%	3 27.3%	6 54.5%	2 18.2%
Poland	5 100%	1 20.0%	3 60.0%	1 20.0%	Poland	13 100%	2 15.4%	7 53.8%	4 30.8%

10. EPA/FTA (5)

- Regarding utilization of bilateral and multilateral free trade agreements (FTA) that have already been put into effect, amongst exports the largest response rate for “Utilizing” was for the EU-Turkey Custom Union agreement. For Imports, the response rate for both “Utilizing” and “Considering to Utilize” were notably high for the EU-Korea and the EU-Turkey agreement.

Utilization of the EU’s Bilateral or Multilateral FTAs

(Multiple Answers Given)

Are you planning/ considering to utilize preferential tax rates provided by these FTAs?

(Units:cos, %)

For Export	Responses	Planning to utilize	Considering to utilize	Not planning to utilize	For Import	Responses	Planning to utilize	Considering to utilize	Not planning to utilize
Turkey	101 100.0%	32 31.7%	20 19.8%	49 48.5%	Korea	33 100.0%	17 51.5%	9 27.3%	7 21.2%
Switzerland	91 100.0%	26 28.6%	13 14.3%	52 57.1%	Turkey	33 100.0%	14 42.4%	12 36.4%	7 21.2%
Mediterranean countries (Including Middle East)*	57 100.0%	18 31.6%	8 14.0%	31 54.4%	Switzerland	19 100.0%	7 36.8%	6 31.6%	6 31.6%
South Africa	51 100.0%	13 25.5%	8 15.7%	30 58.8%	Mexico	11 100.0%	4 36.4%	5 45.5%	2 18.2%
Korea	37 100.0%	12 32.4%	6 16.2%	19 51.4%	Mediterranean countries (Including Middle East) *	8 100.0%	3 37.5%	3 37.5%	2 25.0%
EEA **	40 100.0%	10 25.0%	7 17.5%	23 57.5%	South Africa	4 100.0%	0 0.0%	2 50.0%	2 50.0%
Mexico	34 100.0%	9 26.5%	10 29.4%	15 44.1%	EEA **	3 100.0%	0 0.0%	1 33.3%	2 66.7%
Chile	20 100.0%	4 20.0%	6 30.0%	10 50.0%	Canada	3 100.0%	0 0.0%	2 66.7%	1 33.3%
Canada	17 100.0%	4 23.5%	5 29.4%	8 47.1%	Chile	0 0.0%	0 0.0%	0 0.0%	0 0.0%

*Mediterranean countries (including Middle East): Morocco, Tunisia, Jordan, Israel, Egypt, Middle East and North African countries (excluding Turkey)

**Lichtenstein, Norway, Iceland

10. EPA/FTA (6)

- Currently the EU is moving towards signing the EU-Vietnam FTA, it can be seen that all companies' expectations are rising as the response rates for "Planning to Utilize" and "Considering to Utilize" from companies who import were 39.5% and 34.2% respectively. Furthermore when focusing on UK based companies, 50 % (6 companies) said that they were "Planning to Utilize" and 33.3% said that they were "Considering to Utilize" these agreements, these were the largest number of companies from all countries within the EU.

How Companies Plan to Use the EU-Vietnam FTA & EU-Singapore FTA

(Multiple Answers Given)

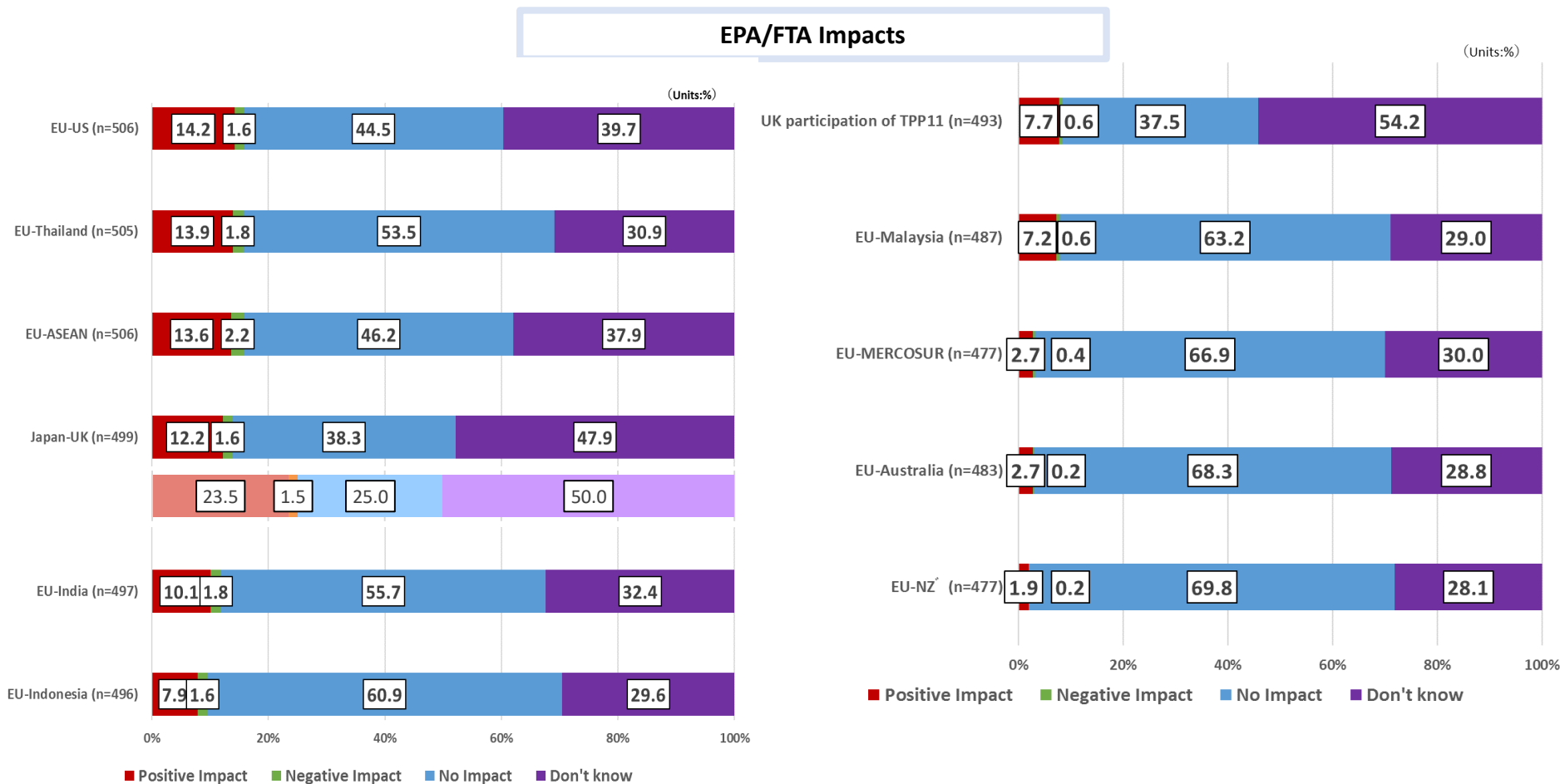
Are you Planning/ Considering to Utilize Preferential Tax Rates Provided by these FTAs?

(Units:cos, %)

For Export		Responses	Planning to utilize	Considering to utilize	Not planning to utilize	For Import		Responses	Planning to utilize	Considering to utilize	Not planning to utilize
Vietnam (Finalising Agreement December 2015)	Europe	27 100%	8 29.6%	6 22.2%	13 48.1%	Vietnam (Finalising Agreement December 2015)	Europe	38 100%	15 39.5%	13 34.2%	10 26.3%
	EU	27 100%	8 29.6%	6 22.2%	13 48.1%		EU	37 100	15 40.5%	12 32.4%	10 27.0%
	EU excl. UK	23 100%	7 30.4%	6 26.1%	10 43.5%		EU excl. UK	25 100%	9 36.0%	8 32.0%	8 32.0%
	UK	4 100%	1 25.0%	0 0.0%	3 75.0%		UK	12 100%	6 50.0%	4 33.3%	2 16.7%
Singapore Agreement (Negotiations Concluded October 2014)	Europe	32 100%	7 21.9%	6 18.8%	19 59.4%	Singapore Agreement (Negotiations Concluded October 2014)	Europe	34 100%	8 23.5%	10 29.4%	16 47.1%
	EU	32 100%	7 21.9%	6 18.8%	19 59.4%		EU	34 100%	8 23.5%	10 29.4%	16 47.1%
	EU excl. UK	27 100%	7 25.9%	6 22.2%	14 51.9%		EU excl. UK	29 100%	8 27.6%	8 27.6%	13 44.8%
	UK	5 100%	0 0.0%	0 0.0%	5 100.0%		UK	5 100%	0 0.0%	2 40.0%	3 60.0%

10. EPA/FTA (7)

- Regarding current EU EPAs and FTAs under negotiation as well as the potential future FTA negotiation with the UK, those that received large response rates for “Positive Impact” were: the EU-US (TTIP) FTA 14.2%, the EU-Thai FTA 13.9% and the EU-ASEAN FTA 13.6%; the response rates for positive impact from the Japan-UK EPA 12.2% and the UK TPP11 participation 7.7% were lower.
- The reason that some companies cited the UK participation of TPP11 (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership), as a “Positive Impact” was due to fact that many companies are manufacturing products in member countries such as Vietnam.





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