



2021

JETRO Survey on Business Conditions of Japanese Companies in Europe

- More than 60% of companies expected to be profitable, but not to recover to the 2019 level. High expectations for expanding green investments -

Japan External Trade Organization (JETRO)

Overseas Research Department

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Survey Overview

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

Survey Target This survey was sent to a total of 1,454 companies between the 3rd to 24th of September 2021. 881 responses from companies based in 14 countries in Western Europe and 8 Eastern and Central European Countries were received, giving a response rate of 60.6%.

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

Survey Items

1. Operating Profit Forecast
2. Current Domestic Market Conditions and Future Prospects
3. Operational Challenges
4. Business Environment after UK's Exit from the EU
5. EPA/FTA
6. Local Procurement and Future Policies
7. Future Promising Sales Destinations
8. Business Outlook for Next 1 or 2 Years
9. Risks in Supply Chain
10. Green and Digital
11. Human Rights Issues in Supply Chains

Survey Overview

Manufacturing

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

Non-Manufacturing

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

Number of participants by country/region	Number of Participants	
	Valid responses	Percentage
Overall	881	100.0
■ Western Europe	776	88.1
Germany	278	31.6
UK	131	14.9
Netherlands	91	10.3
France	82	9.3
Belgium	40	4.5
Spain	32	3.6
Finland	22	2.5
Austria	21	2.4
Italy	21	2.4
Ireland	20	2.3
Sweden	11	1.2
Switzerland	10	1.1
Denmark	10	1.1
Portugal	7	0.8
■ Central & Eastern Europe	105	11.9
Czechia	35	4.0
Poland	31	3.5
Romania	15	1.7
Hungary	13	1.5
Slovakia	5	0.6
Serbia	4	0.5
Slovenia	1	0.1
Bulgaria	1	0.1

Summary of Survey Results

Key Points

- The proportion of companies predicting profit in 2021 was 65.7%. This was a 17.2-point increase over the 48.5% of the previous year. However, this proportion did not recover to the pre-COVID-19 pandemic level (2019). Additionally, it became clear that, with the disruption to the supply chains and spread of the COVID-19 infection, Japanese-affiliated companies are advancing its “change of procurement source” and “review of sales prices.” In the manufacturing sector, “procurement costs” and “delivery” emerged as new operational challenges.
- Regarding the EU-UK Trade and Cooperation Agreement (TCA) which officially came into force in May 2021, among the companies that export/import between the UK and the EU, 25.5% of companies that export from the UK to the EU and 10.4% of companies that export from the UK to the EU responded that they utilize the TCA. Additionally, with regard to the utilization of the Japan-UK Comprehensive Economic Partnership Agreement (EPA) which came into effect in January 2021, about 50% of Japanese affiliates based in the UK responded that they utilize it for imports from Japan to the UK. The average proportion of procurement from Japan by Japanese-affiliated companies based in the UK was 39.1%, a 3.6-point increase over the previous survey before the Japan-UK EPA came into effect.
- Companies making efforts toward decarbonization accounted for 40% of the respondents. As EU and respective EU countries are coming up with measures to support the recovery from the COVID-19 crisis, Japanese-affiliated companies showed high interest in measures such as support for green investment (51.2%), support for investment in digitalization (31.2%), and support for purchasing eco-friendly vehicles (30.6%). Responses indicating interest in support measures for green investment increased significantly from the previous survey (32.3%).
- Regarding human rights issues in supply chains, 70% of companies recognized them as an operational challenge in Europe. About 60% of Japanese-affiliated companies based in Europe had a policy on human rights in supply chains, of which 36.6% required their suppliers to adhere to it as well. More than 40% responded that their corporate clients required them to adhere to their policy on human rights in supply chains. Among these, the proportion of companies who responded that they were required by “corporate clients at our location” was the highest at 33.2%. The proportion of companies who responded that they were required by “corporate clients in Europe other than our location” was 12.2%, of which, countries such as France (41.9%), Germany (37.6%), and the UK (32.3%), which already have related legislations in place, accounted for a high proportion.

Summary of Survey Results (continued)

1. Ratio of companies predicting profit rises, companies expecting increase in operating profit greatly exceeds those expecting decrease.

- The proportion of companies predicting profit in 2021 was 65.7%, a 17.2-point increase over the 48.5% of the previous year. However, this proportion did not recover to the pre-COVID-19 pandemic level in 2019. Companies predicting operating profit to increase in 2021 compared to the previous year was 53.6%, greatly exceeding the 13.4% that predicted their operating profit will decrease. On the other hand, compared to 2019, 38.3% of companies responded that their profit will increase, while 26.4% of companies responded that it will decrease.(Slides: 1-1, 1-4)
- The proportion of companies viewing the current economic situation of the country in which they are based as “Better” or “Slightly Better” was 40.7%, showing a great improvement of a 32.7-point increase from the previous survey. The proportion of responses to the same question in Central and Eastern Europe was 57.3%, greatly exceeding that of Western Europe (38.5%) (2-1).

2. Motivation to expand business exceeded “remain the same”, more companies reviewing business strategies.

- Regarding the outlook for business development over the next one or two years, the proportion of companies responding “Expansion” increased by 11.6 points from the previous survey to 47.8%, slightly exceeding the 47.6% that responded “Remain the same”. In the previous survey, “Remain the same” exceeded “Expansion” due to the impact of the spread of COVID-19, but the responses reversed in this year’s survey (8-2).
- On the other hand, it became clear that Japanese-affiliated companies based in Europe were advancing “Change of procurement source” and “Review of sales prices” given the confusion in supply chains and spread of COVID-19. From 2022 onwards, the proportions of companies that planned to undertake “Increase in new investment/capital investment”, “Adjustment to the compensation package for staff”, “Review of sales products” and “Automation/labor conservation” was relatively high (8-7).
- In the manufacturing sector, the proportion of companies that chose “Procurement costs” (37.7%) and “Deliveries” (29.8%) as operational challenges rose greatly from the previous survey by 20.3 points and 17.6 points respectively. This can be regarded as a result of logistical delays and lengthening lead times caused by a rise in raw material costs due to difficulties in raw material procurement, rise in logistics cost, and container shortages (3-1).

Summary of Survey Results (continued)

3. Companies engaged in trade between the UK and EU concerned about “Customs clearance procedures” and “Logistical delays”

- In regard to the EU-UK Trade and Cooperation Agreement (TCA) which officially came into effect in May 2021, among the Japanese-affiliated companies that engage in trade between the UK and the EU, 25.0% of companies exporting from the UK to the EU and 10.4% of companies exporting from the EU to the UK responded that they “Utilize” the TCA. While 46.7% of manufacturing companies based in the UK responded that they had some trade issues related to “Export from the UK to the EU,” only 11.3% responded the same among manufacturing companies based in the EU. As specific issues, many Japanese-affiliated companies based in the UK or the EU cited “Customs clearance procedures” and “Logistical delays” for both importing and exporting (4-6, 4-2, 4-3).
- The average procurement ratio from the EU by Japanese-affiliated manufacturing companies based in the UK was 10.9%, a fall of 2.6 points from the previous survey. However, companies responding “Expansion” in their future procurement policy was 30.0%, an increase of 17.5 points. On the other hand, the proportion of Japanese-affiliated manufacturing companies based in the EU responding “Stay the same” for procurement from the UK was 75%, a 7.9-point decrease, and the proportion responding “Decrease” was 20.0%, a 5.4-point increase. The results indicated a trend for Japanese-affiliated manufacturing companies based in the EU to cut back on cross-border procurement from the UK (6-2, 6-3).
- As for issues related to the business environment after the end of the transition period of Brexit, a total of 40% of Japanese-affiliated companies based in the UK cited “Changes in UK regulations and legislation” and “Securing human resources in the UK.” Regarding specific points for concern related to “Changes in UK regulations and legislation,” the most common response among companies based in the UK was “Regulation on personal data protection” at 53.5%. In the manufacturing sector, “CE marking/UKCA marking” had the highest proportion cited by both companies based in the UK and the EU (4-4, 4-5).

4. Around 50% of Japanese companies based in the UK utilize the Japan-UK EPA for importing from Japan to the UK.

- In regard to the utilization of the Japan-UK EPA which came into effect in January 2021, around 50% of Japanese-affiliated companies based in the UK responded that they “Utilize” it for importing from Japan to the UK. For challenges of utilizing the Japan-UK EPA, the most common response was “Proof of origin procedures (self-certification)” at 45.7%, followed by “In-house system improvements” (40.0%) and “Cooperation with suppliers/ business partners” (31.4%). Since the Japan-UK EPA had gone into effect only recently, it seems that many companies are at the stage of developing procedures and systems adapted to it (5-7, 5-8).

Summary of Survey Results (continued)

- The average procurement ratio from Japan by Japanese-affiliated companies based in the UK was 39.1%, a 3.6-point increase from the previous survey before the Japan-UK EPA came into effect (6-1).
- Regarding the utilization of the Japan-EU EPA by Japanese-affiliated companies based in the EU, about half, or 49.1%, of companies responded that they “utilize” it for importing from Japan to the EU. By country, Hungary (80.0%), Czechia (65.0%), Belgium (64.3%), Poland (53.3%), the Netherlands (52.8%), and Germany (48.4%) were relatively high (5-1).
- In terms of logistics routes of companies utilizing the Japan-EU EPA or the Japan-UK EPA, over 90% of companies responded that they imported directly from Japan to the EU or the UK respectively without going through a third country (5-9).

5. Companies making efforts towards decarbonization accounts for 40%, interest in green policies focuses on the shift to EVs

- Regarding decarbonization (reduction of greenhouse gas emissions), 40% of companies were already making efforts. If including companies that were planning to make efforts, the figure exceeded 70%. The most common reason for making efforts was “Because of the instruction/recommendation from the headquarters (parent company)” at 62.4%, followed by “Because of the regulations and/or preferential treatments set by the central/local governments in the country/region of our operation” (33.6%) (10-1, 10-3).
- In terms of utilization of digital technologies, the proportion of Japanese-affiliated companies in Europe responding “We are already utilizing such technologies” was 37.4%. By region, companies in Central and Eastern Europe (53.5%) had a higher proportion of digital technology utilization than those in Western Europe (35.3%). “Shortage of personnel” (45.6%) and “High costs” (44.9%) were cited as main challenges of utilizing digital technologies (10-5, 10-6).
- EU and respective EU countries are providing measures to support the recovery from the COVID-19 crisis. Among these measures, Japanese-affiliated companies were most interested in support measures for green investment at 51.2%, followed by support measures for investment in digitalization at 31.2%, and support measures for purchasing eco-friendly vehicles at 30.6%. Responses indicating interest in support measures for green investment increased significantly from the previous survey (32.3%). In relation to green or digital policies and regulations, “Vehicles emissions targets of CO₂” (48.5%) in the EU and “Acceleration of the shift to zero emission vehicles” (60.9%) in the UK gathered the highest interest, indicating that Japanese-affiliated companies are paying close attention towards the transition to electric vehicles in the automotive industry in both the EU and the UK (10-8, 10-10).

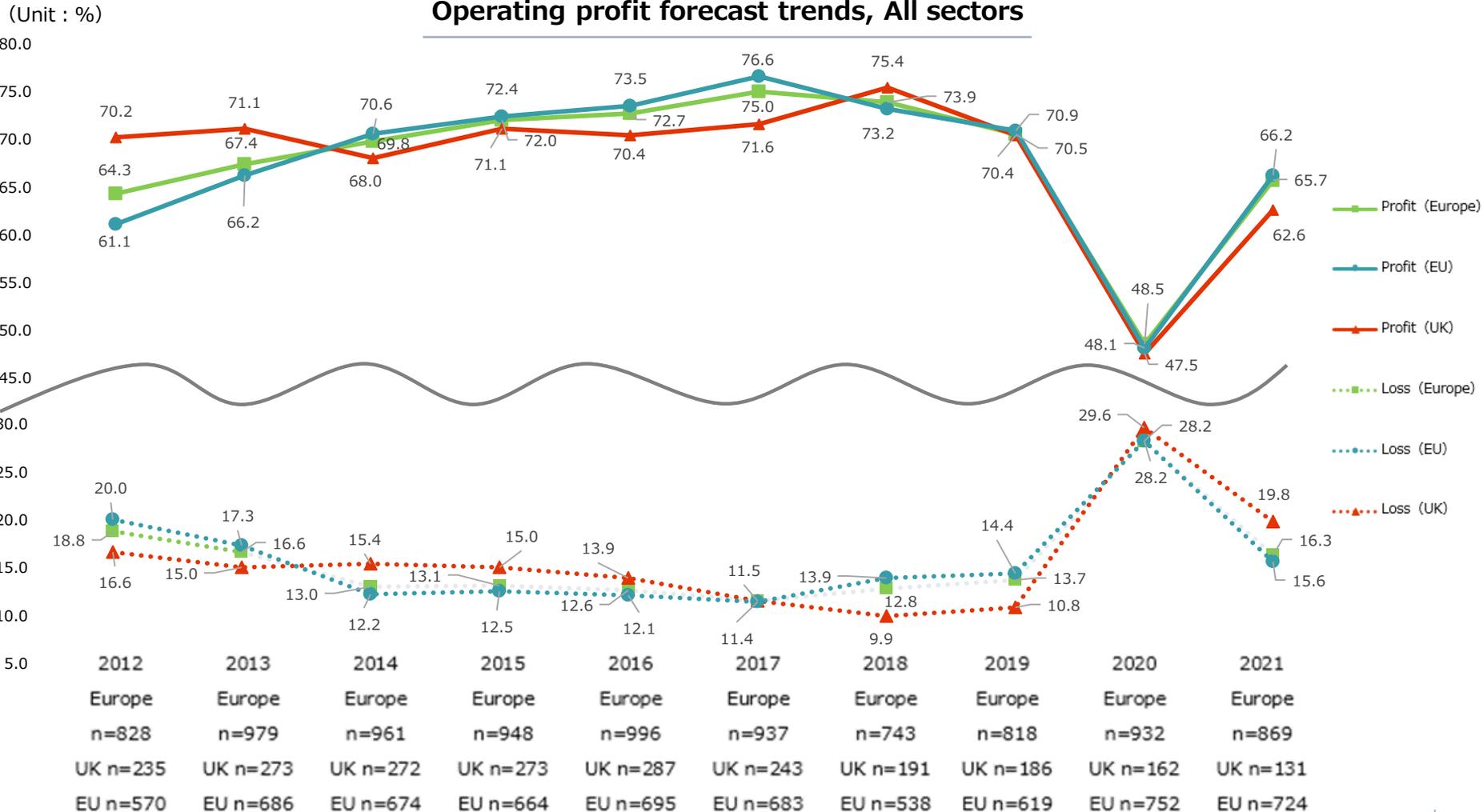
Summary of Survey Results (continued)

6. Human rights in supply chains: 70% recognize as an operational challenge

- In regards to the revision of the EU's Non-Financial Reporting Directive and the preparation a new directive by the EU requiring corporate due diligence on human rights, 70.1% of Japanese-affiliated companies based in Europe recognized that human rights with respect to matters such as labor, safety and health in supply chains is an operational challenge. Additionally, about 60% of companies responded that they had a policy in place concerning human rights in supply chains, of which 36.6% required their suppliers to adhere to it as well (11-1, 11-2).
- On the other hand, 42.7% of companies were required by their corporate clients to adhere to such policy, with the highest proportion of 33.2% required to do so by "corporate clients at our location," and 12.2% was required to do so by "corporate clients in Europe other than our location", of which, countries such as France (41.9%), Germany (37.6%), and the UK (32.3%), where they already have related legislations in place, accounted for a high proportion (11-4).
- In terms of human rights-related risks, many companies cited child labor and conflict minerals as specific concerns. This was probably related to the application of EU's Conflict Minerals Regulation since January 2021 (11-5).

1-1 | Proportion of profitable companies fell short of the pre-COVID-19 pandemic level

- Looking at changes in the operating profit forecast in the past nine years, in 2021, the proportion of Japanese-affiliated companies based in Europe forecasting "Profit" was 65.7%. While this was a 17.2-point increase from the previous year (48.5%) which was impacted by the COVID-19 pandemic, it did not recover to the pre-pandemic (2019) level. Similarly, the proportion of companies forecasting "Loss" fell at 16.3%, but it did not return to the 2019 (13.7%) level.



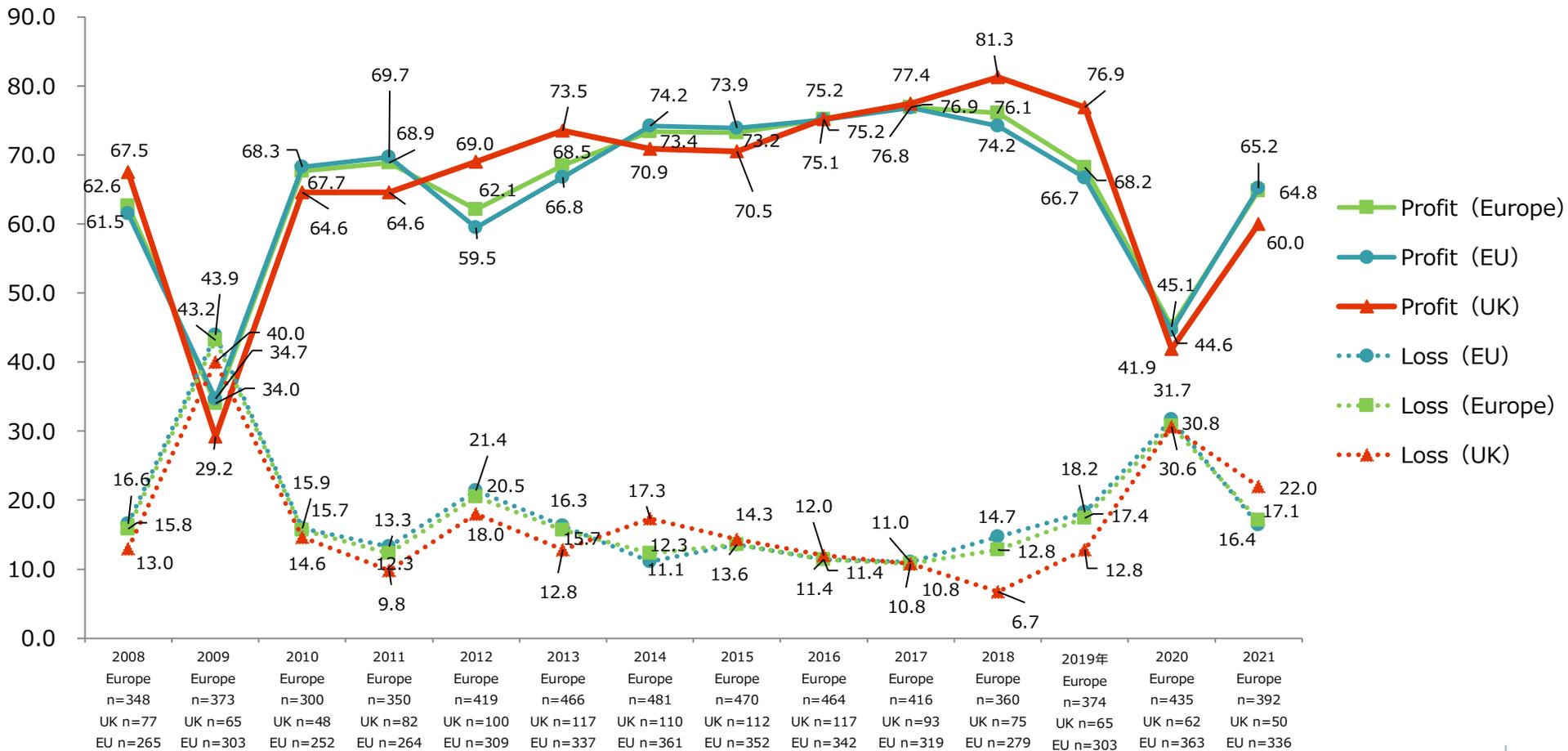
Note: 'n' includes companies that responded "Breakeven".

1-2 | Manufacturing sector not recovering to the pre-pandemic level either

- Looking at Japanese-affiliated manufacturers based in Europe, the proportion forecasting "Profit" for their 2021 operating profit was 65.2%, a 20.1-point increase from the previous survey.
- The proportion of Japanese-affiliated manufacturers based in the UK forecasting "Profit" for their 2021 operating profit was 60.0%, a 18.1-point increase since the previous survey. The proportion of Japanese-affiliated manufacturers based in the EU forecasting "Profit" was 64.8%, a 20.2-point increase. Neither recovered to the pre-COVID-19 level.

(Unit : %)

Operating profit forecast trends, Manufacturing sector

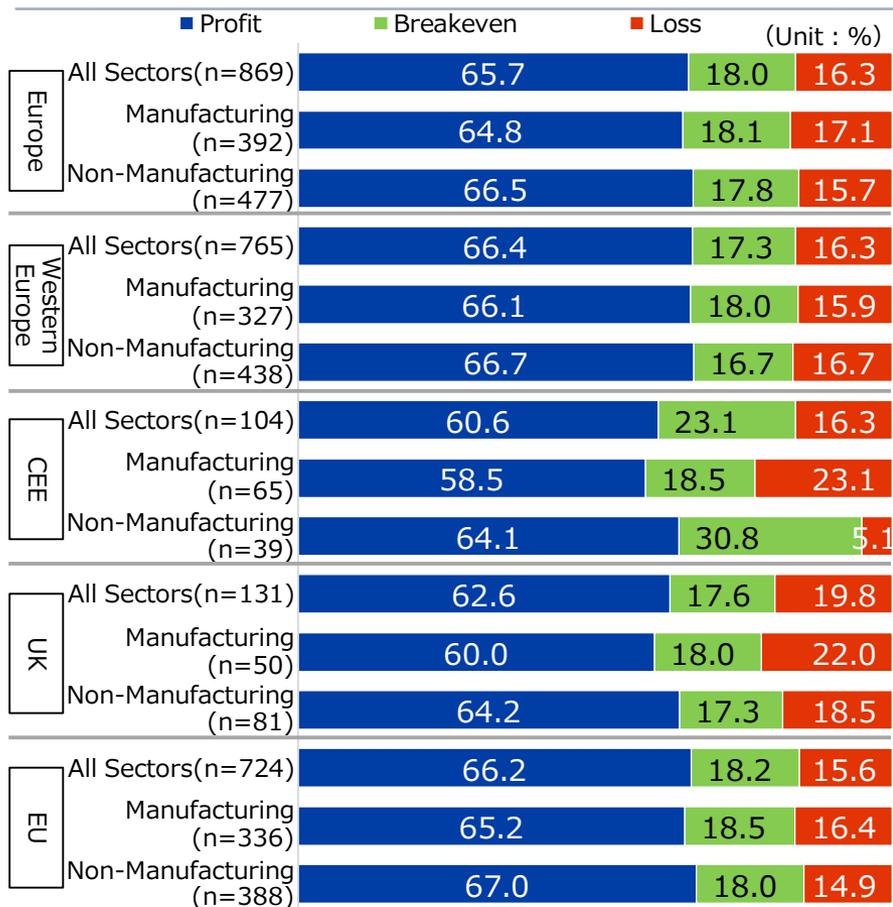


Note: 'n' includes companies that responded "Breakeven".

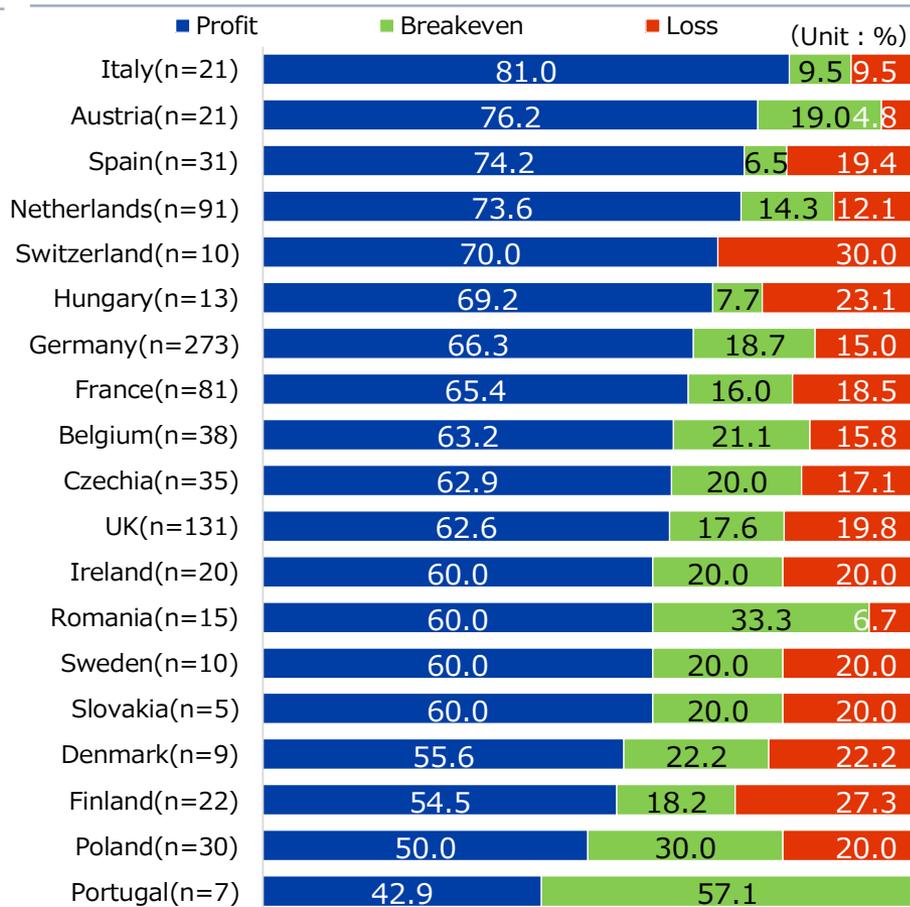
1-3 | The proportion of "Profit" rose, while the proportion of "Loss" fell

- For operating profit in 2021, the proportion forecasting "Profit" was 65.7%, "Breakeven" was 18.0%, and "Loss" was 16.3%.
- Across all sectors in Europe, Western Europe, Central and Eastern Europe, the UK, and the EU, the proportion forecasting a profit increased and the proportion forecasting a loss decreased compared to the previous survey.

Operating profit forecast in 2021 (by industry)



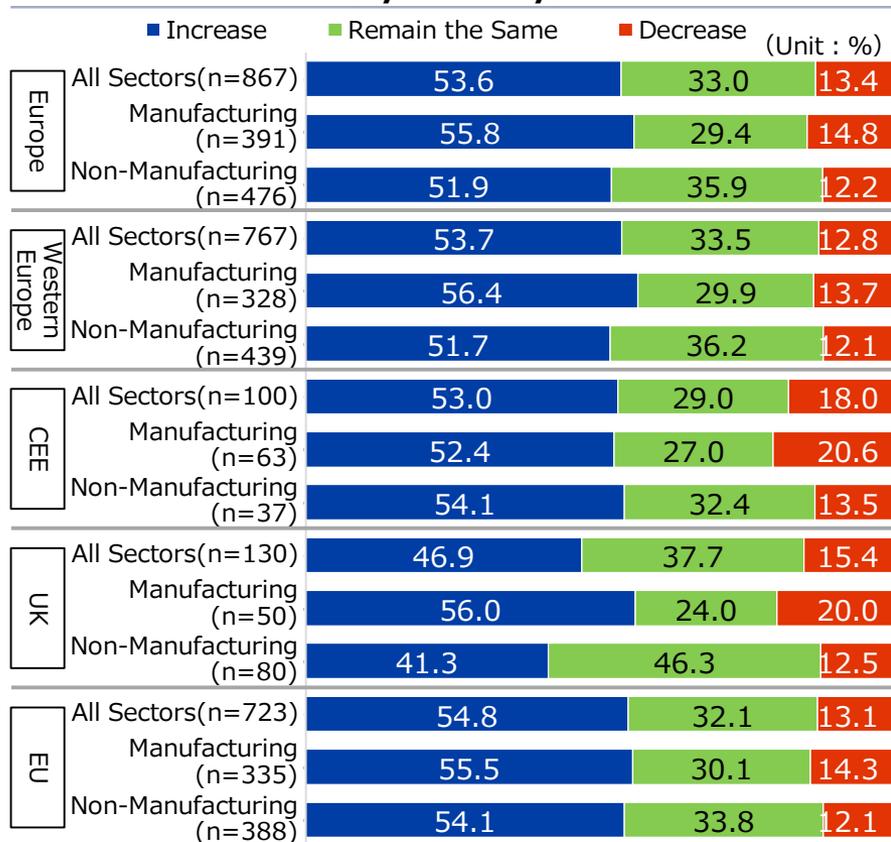
Operating profit forecast in 2021 (by country)



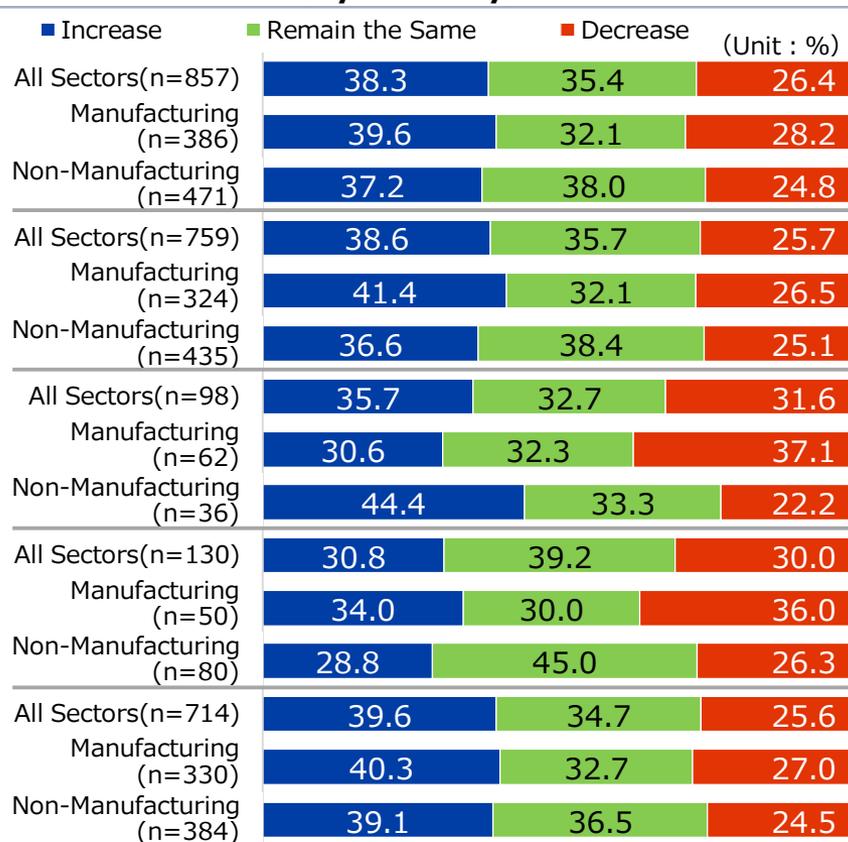
1-4 | About 30% responded “Decrease” compared to 2019 (pre-pandemic)

- When compared to the previous year (2020), for the 2021 operating profit forecast (by sector), “Increase” (53.6%) greatly exceeded “Decrease” (13.4%) among Japanese-affiliated companies in Europe overall.
- On the other hand, compared to before the COVID-19 pandemic (2019), “Increase” was 38.3%, while “Decrease” was 26.4%. Among Japanese-affiliated manufacturers in Central and Eastern Europe and in the UK, “Decrease” exceeded “Increase.”

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



Operating profit forecasts in 2021, relative to 2019 (by industry)

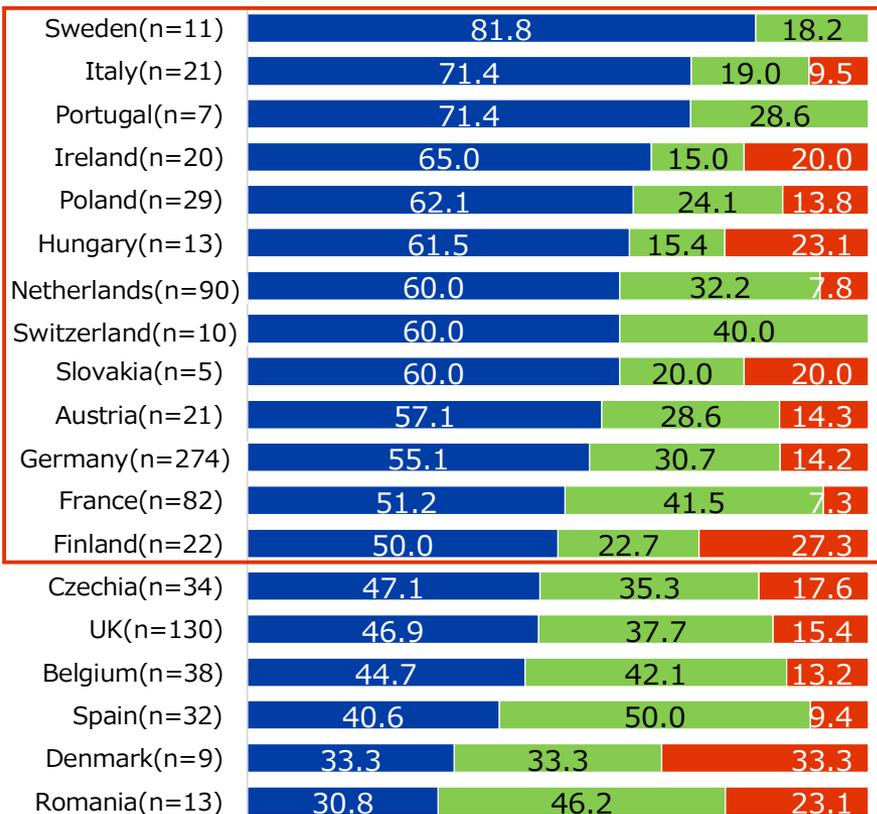


1-5 | Limited operating profit by country: "Increase" limited compared to 2019

- When looking at the 2021 operating profit forecast (by country) compared to the previous year (2020), the proportion of companies responding "Increase" accounted for the majority in 13 countries. In Sweden, Portugal and Switzerland, the proportion of "Increase" was large and no companies responded "Decrease."
- On the other hand, when compared to before the COVID-19 pandemic (2019), the proportion of companies responding "Increase" fell overall and "Increase" accounted for the majority in only four countries.

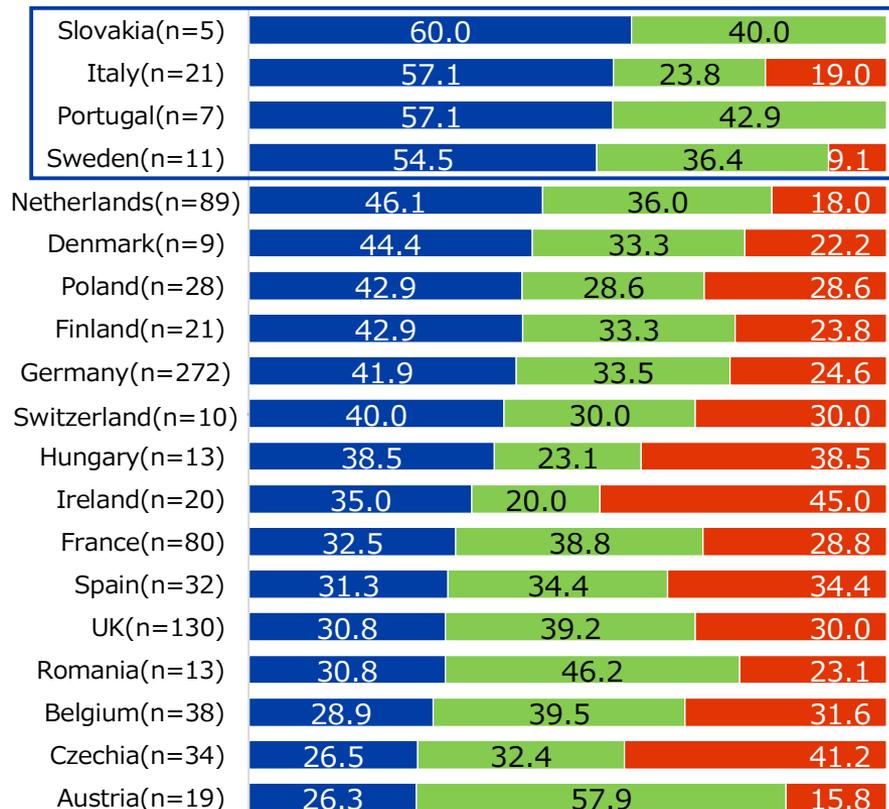
Operating profit forecasts in 2021, relative to 2020 (by country)

■ Increase ■ Remain the Same ■ Decrease (Unit : %)



Operating profit forecasts in 2021, relative to 2019 (by country)

■ Increase ■ Remain the Same ■ Decrease (Unit : %)

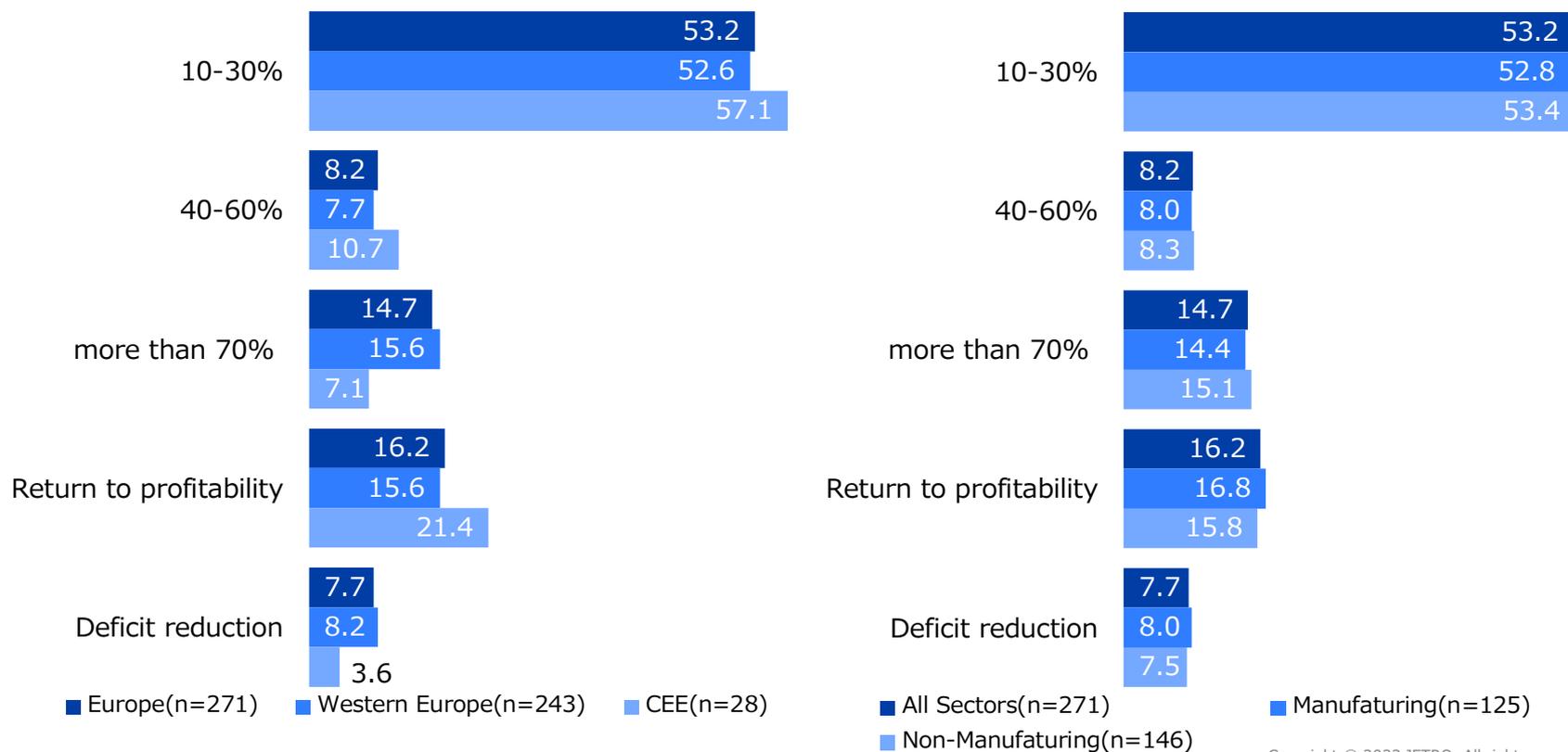


1-6 | About half responded "10-30%" profit increase rate

- When companies that responded "Increase" for their 2021 operating profit forecast were asked about the rate of increase compared to before the pandemic (2019), the most common response was "10-30%" at 53.2%.
- Looking by region, "Increase of 10-30%" was the most common response in Western Europe, and Central and Eastern Europe. In Western Europe, "Increase of more than 70%" was the next highest answer, while in Central and Eastern Europe, "Return to profitability" was the next highest.

Forecast increase in operating profit for 2021, relative to 2019
 (Left: by region, Right: by industry)

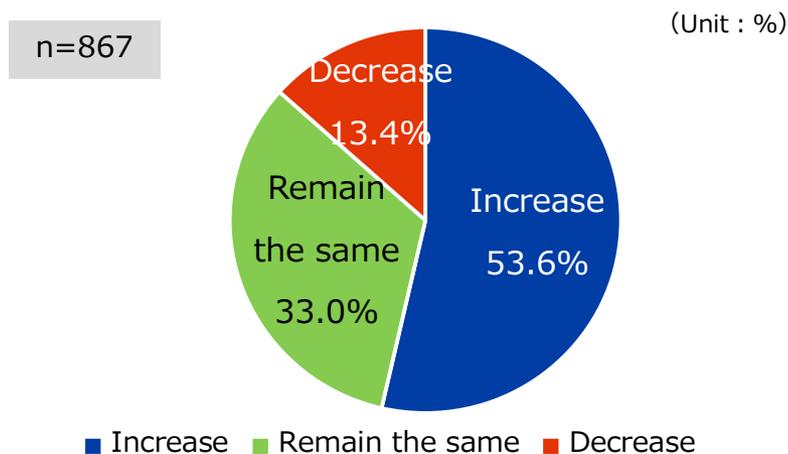
(Unit : %)



1-7 | Degree of impact of COVID-19 differs between sectors

- Looking at the 2021 operating profit forecast compared to the previous year (2020) by sector, many respondents answered "Increase." "Ceramic/stone and clay products" had the highest rate with all respondents of the category answering "Increase." "Banks" had the highest rate of responding "Decrease," followed by "transportation equipment parts (motor vehicles/motorcycles)." Both categories had more than 20% of companies responding "Decrease".
- While many companies cited "Reactionary increase from the previous year's decrease in sales due to COVID-19 (Reactionary increase)" as the reason for increase, many cited "Decrease in sales due to COVID-19" as the reason for decrease. This indicates that the degree of impact from COVID-19 differs by sector.

Operating profit forecast in 2021 for Japanese companies in Europe



Operating profit forecast in 2021 compared to 2020 : ratio of "Increase / Decrease" responses by industry

(Unit : No. of respondents, %)

「Increase」 (n=465)		Respondents	%
1	Ceramic/Stone and clay products	7	100.0
2	Rubber products	8	80.0
3	Food/Processed food, agricultural or fishery products	20	71.4
3	General machinery	32	62.7
5	Wholesale	13	61.9
「Decrease」 (n=116)		Respondents	%
1	Banks	5	26.3
2	Transportation equipment parts (Motor vehicles/Motorcycles)	15	23.8
3	Electrical machinery parts/Electronic device parts	5	19.2
4	Electrical machinery/Electronic devices	5	16.1
5	Trading	9	11.5

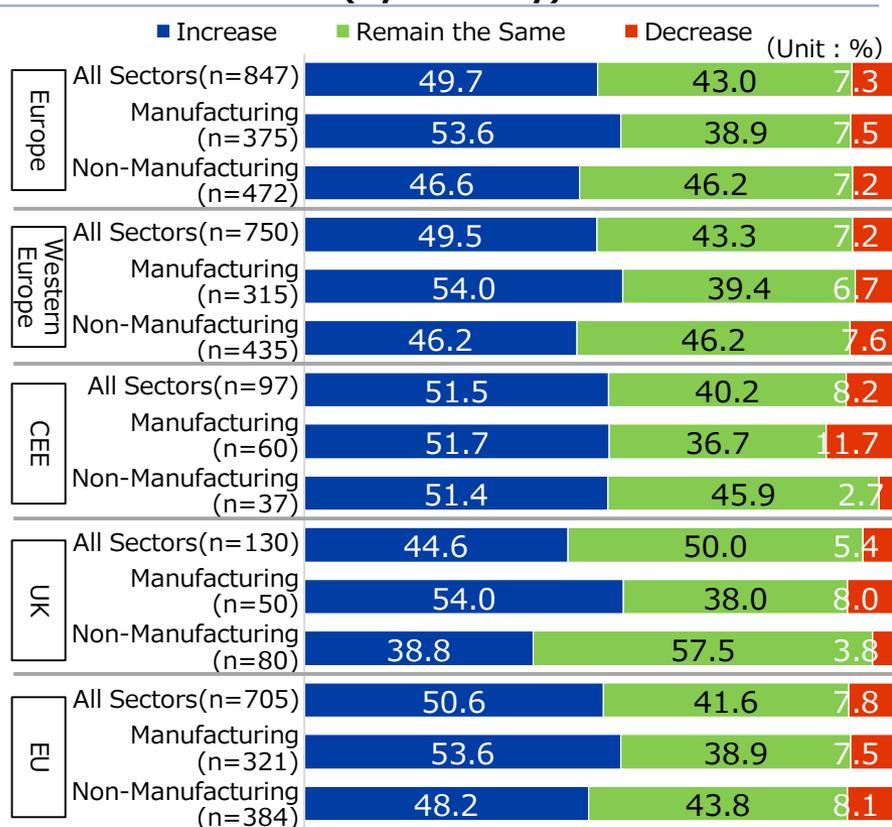
Reasons for "Increase" or "Decrease" in 2021 forecast relative to 2020 (Increase: n=459, Decrease: n=115) <Multiple Answers Given>

Reasons for "Increase"	Response rate	Reactionary increase from the previous year's decrease in sales due to COVID-19 (Reactionary increase)	Increase in sales due to COVID-19	Other
1 Sales increase in local markets	76.9%	65.4%	20.5%	29.1%
2 Sales increase due to export expansion	35.9%	66.0%	23.1%	26.9%
Reasons for "Decrease"	Response rate	Decrease in sales due to COVID-19	Reactionary decrease from the previous year's increase in sales due to COVID-19 (Reactionary decrease)	Other
1 Sales decrease in local markets	49.6%	68.5%	13.0%	33.3%
2 Rising of procurement costs	46.1%	64.0%	0.0%	50.0%

1-8 | Half forecast 2022 operating profit increase compared to the previous year

- When compared to 2021, the proportion of companies responding "Increase" for the 2022 operating profit forecast was about 50%.
- By sector, manufacturers in Western Europe had a high proportion of companies responding "Increase." The reasons for this were "Sales increase in local markets" and "Sales increase due to export expansion" (81.9% and 45.1% respectively).
- On the other hand, manufacturers in Central and Eastern Europe had the highest proportion of companies responding "Decrease." The biggest reason for this was "Rising of procurement costs" at 53.8%, followed by "Sales decrease in local markets" and "Sales decrease due to export slowdown" (both 46.2% respectively).

Operating profit forecasts in 2022, relative to 2021 (by industry)



Reasons for "Decrease" or "Increase" in 2022 forecast relative to 2021

(Unit : No. of respondents, %)

Western Europe (Manufacturing) (n=182) [Increase]

	Responses	%
1 Sales increase in local markets	149	81.9
2 Sales increase due to export expansion	82	45.1
3 Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	44	24.2
4 Improvement in the operating rate	36	19.8
5 Reduction of labor costs	30	16.5

CEE (Manufacturing) (n=13) [Decrease]

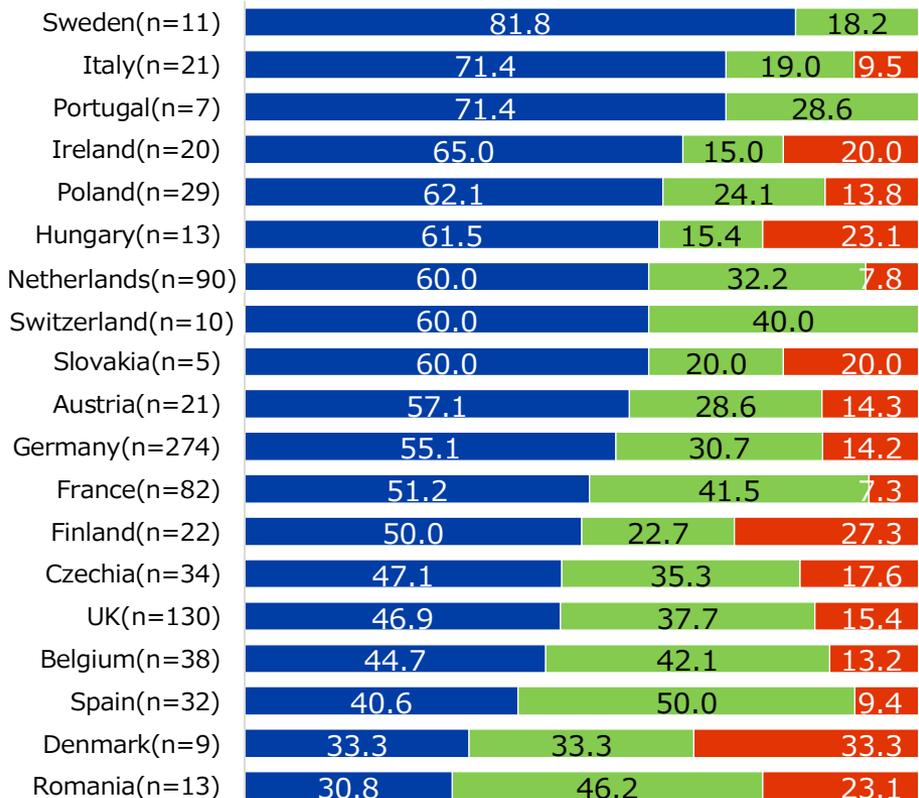
	Responses	%
1 Rising of procurement costs	7	53.8
2 Sales decrease in local markets	6	46.2
2 Sales decrease due to export slowdown	6	46.2
5 Increase of other expenditures (e.g., administrative/utility costs/fuel costs)	3	23.1
5 Production costs insufficiently shifted to selling price of goods	3	23.1

1-9 | More companies "Remain the Same" for the '22 operating profit forecast compared to '21

- When comparing the 2021 operating profit forecast and the 2022 operating profit forecast over the respective previous year, the proportion of companies responding "Increase" fell in most countries, but the proportion responding "Decrease" also fell and the proportion responding "Remain the same" increased.
- However, while companies responding "Increase" rose in Ireland, Czechia, Romania, etc., in countries such as Hungary and Portugal, the proportion responding "Decrease" increased, indicating that the trend of operating profit forecast differed by country.

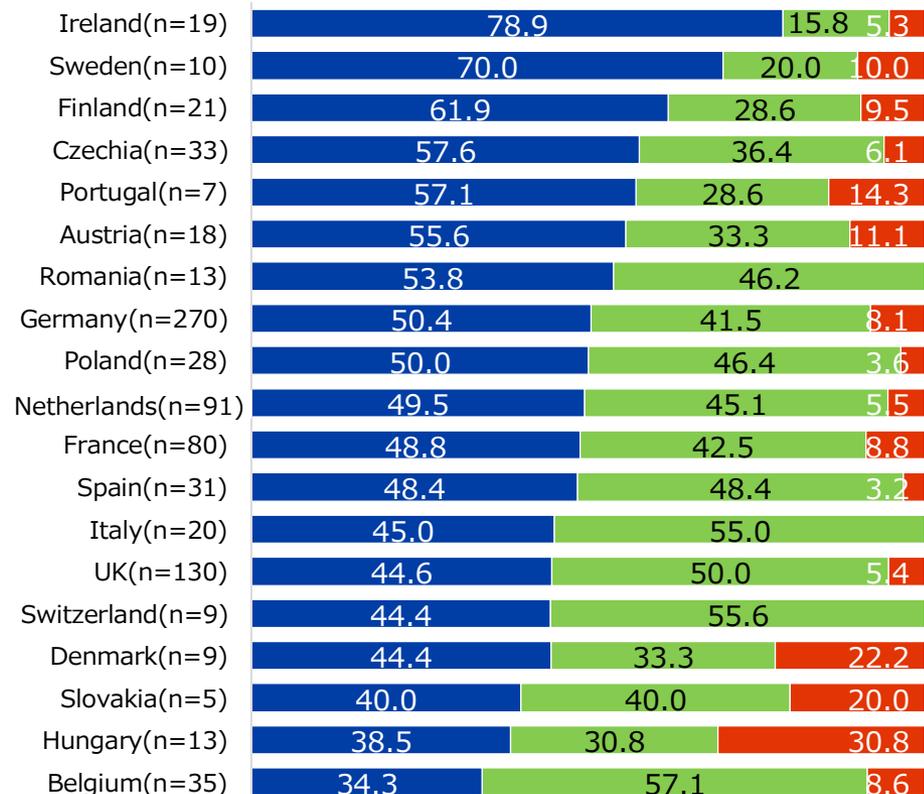
2021 operating profit forecast relative to 2020 results (by country)

■ Increase ■ Remain the Same ■ Decrease (Unit : %)



2022 operating profit forecast relative to 2021 (by country)

■ Increase ■ Remain the Same ■ Decrease (Unit : %)

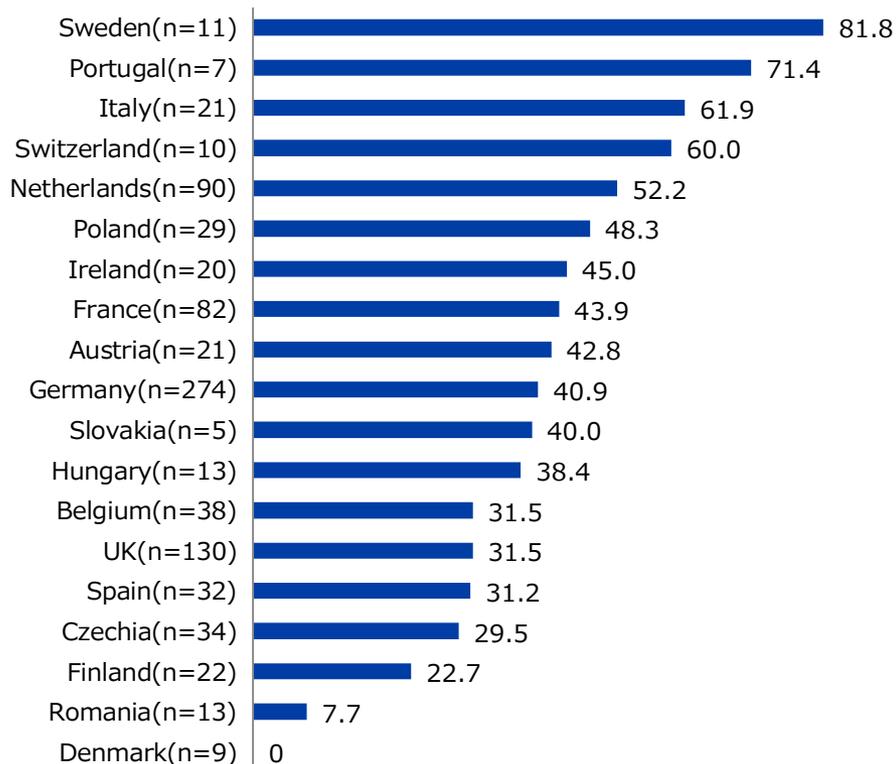


1-10 | Business sentiment for 2022 turned positive in all countries

- Looking at 2021 operating profit forecasts compared to 2020 by DI (diffusion index), all countries apart from Denmark recorded positive values.
- Looking at 2022 operating profit forecasts compared to 2021 by DI, all countries recorded positive values. The number of countries with 60 points or more fell, and the number of countries with less than 40 points also fell.

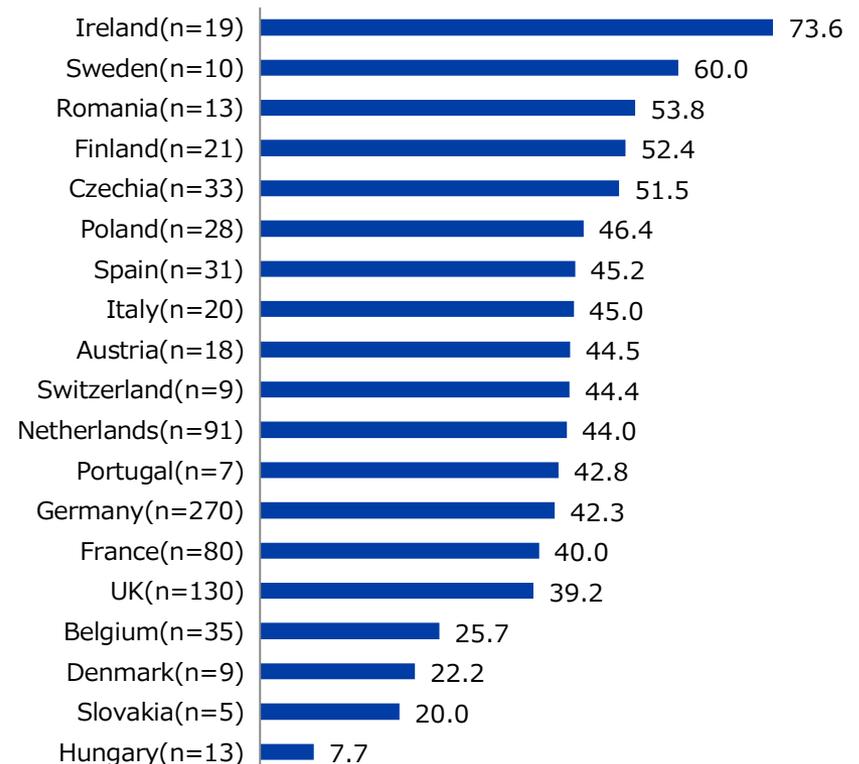
Operating profit forecast DI in 2021 relative to 2020 results (by country)

(Unit : point)



Operating profit forecast DI in 2022 relative to 2021 (by country)

(Unit : point)



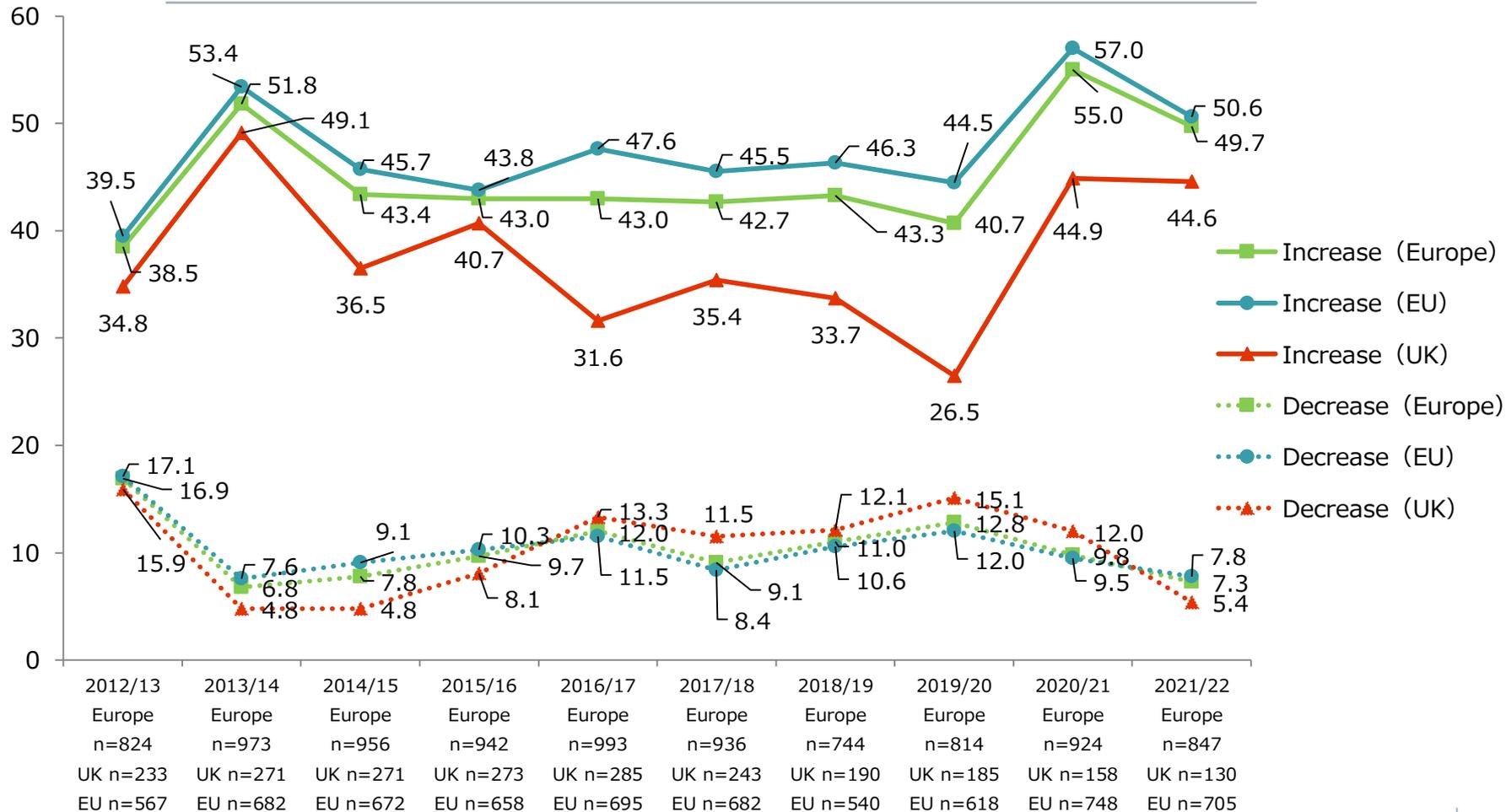
Note : The Diffusion Index (DI) is a value obtained by deducting the proportion of companies who replied "Decrease" from those that replied "Increase". It is an indicator for showing in numerical form how business confidence is changing.

1-11 | Less companies predict "Increase" or "Decrease" in 2022 operating profit forecasts

- For the 2022 operating profit forecasts compared to 2021, the proportions of Japanese-affiliated companies in both Europe and the EU responding "Increase" were 49.7% and 50.6% respectively, both figures falling compared to the previous survey. The proportion of Japanese-affiliated companies in the UK responding "Increase" fell 0.3 points to 44.6% compared to the previous survey. The proportions responding "decrease" also fell from the previous figures in all three regions.

(Unit : %)

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

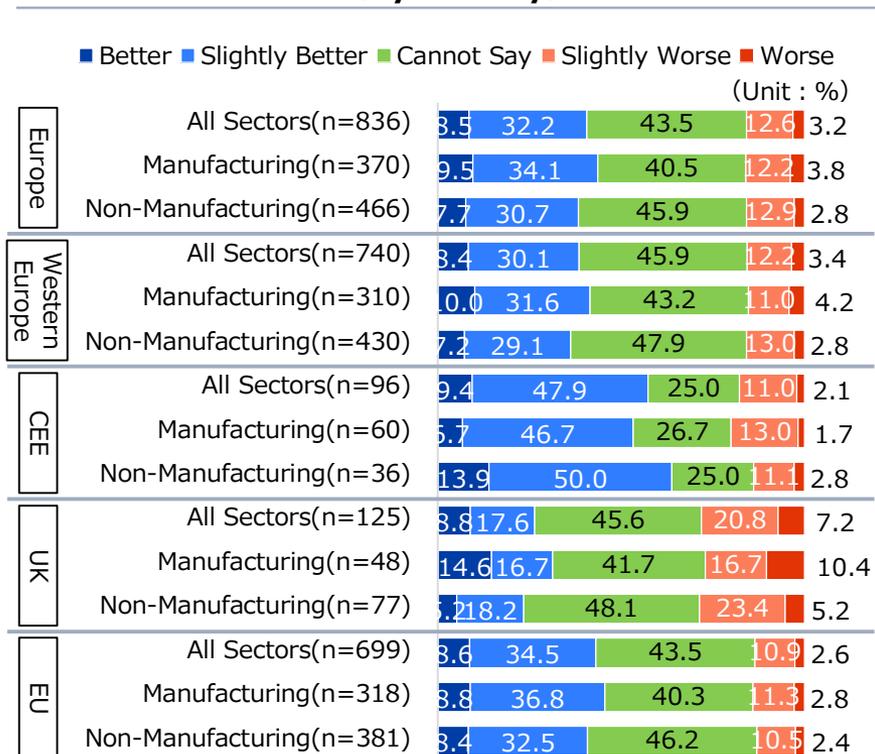


Note : 'n' includes companies that responded "Breakeven".

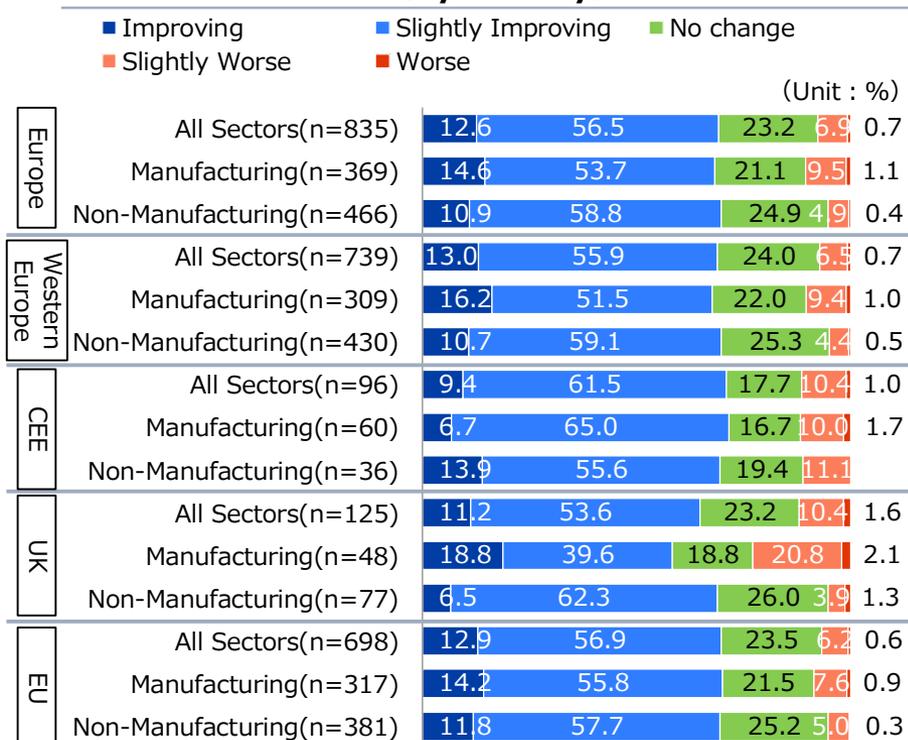
2-1 | Overall current market conditions improved dramatically compared to the previous year

- Regarding the companies' views on current market conditions in the country they are based in, the proportion of all companies in Europe responding "Better" (8.5%) and "Slightly better" (32.2%) totaled 40.7%, a dramatic increase of 32.7 points over the previous year's survey. The same proportion in Western Europe was 38.5%, while in Central and Eastern Europe, it was rather high at 57.3%.
- In the UK, which left the EU, the total responses of "Better" (8.8%) and "Slightly better" (17.6%) accounted for 26.4%, up 23.3 points over the previous year. Specifically in the manufacturing sector, such responses saw a 26.5-point increase to 31.3%. Regarding future prospects for the UK market conditions, replies combining "Improving" (11.2%) and "Slightly improving" (53.6%) accounted for 64.8%, a 36.3-point increase compared to the previous survey. On the other hand, the total responses of "Slightly worse" (20.8%) and "Worse" (2.1%) among manufacturers based in the UK marked the highest proportion at 22.9%.

Domestic market conditions (by industry)



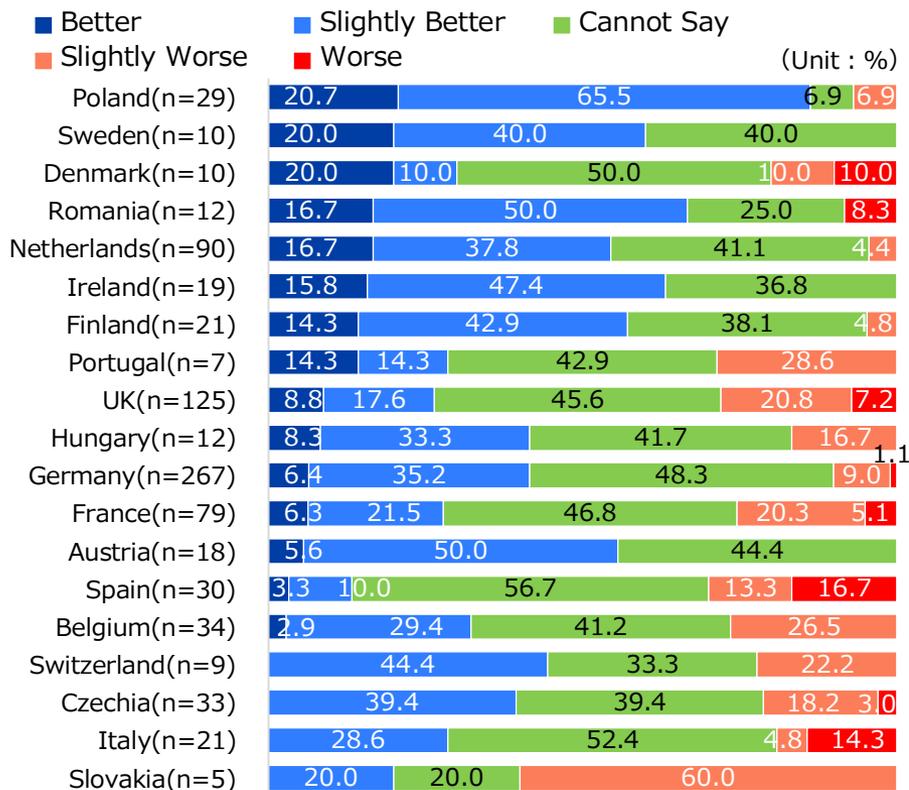
Domestic market prospects (by industry)



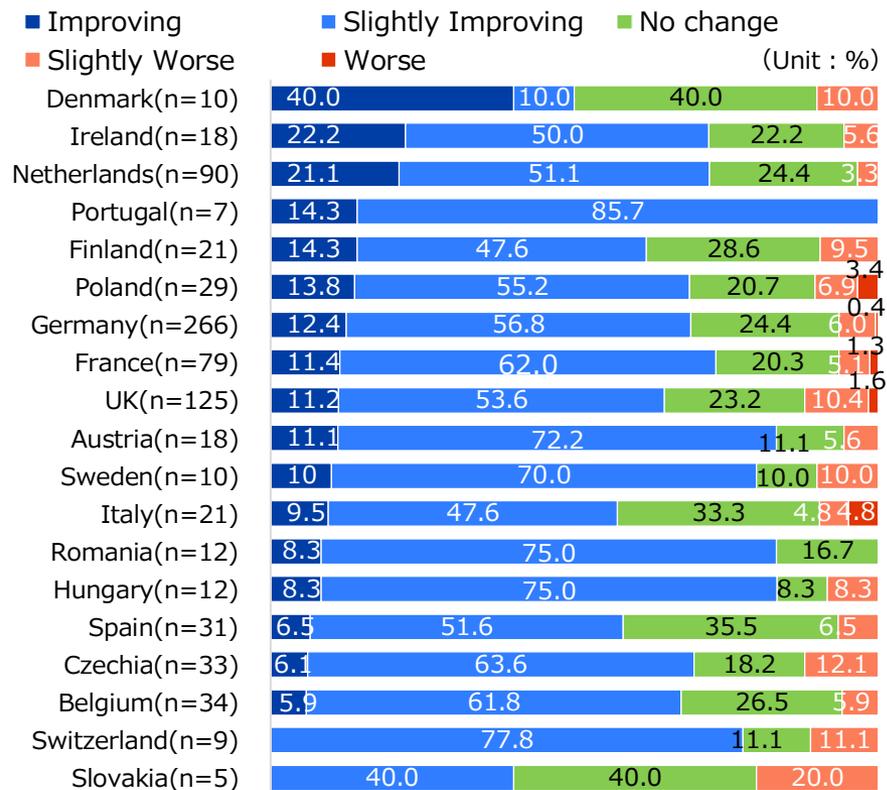
2-2 | Response rate of “Worse” for “Future Prospects” fell from the previous year

- Looking at the companies’ views by country on current market conditions in the country they are based in, Poland had the highest response rate of “Better” with 20.7%. The total responses of “Better” and “Slightly better” made up 86.2% in Poland, followed by 66.7% in Romania, 63.2% in Ireland, and 60.0% in Sweden.
- Portugal had the highest combined rate (100%) of “Improving” and “Slightly improving” for future prospects, followed by Austria, Hungary, and Romania, with 83.3% respectively. Compared to the previous survey, the response rates for “Worse” and “Slightly worse” fell in almost all countries.

Domestic market conditions (by country)



Domestic market prospects (by country)



3-1 | Securing human resources and procurement costs are new operational challenges in Europe

- The biggest operational challenge in Europe overall was “securing human resources” (43.1%). “Spread of COVID-19” (42.8%), which was the biggest issue last year, fell 14.4 points compared to the previous year, a drastic fall from the results of the previous survey.
- In the manufacturing sector, the 20.3-point increase over the previous year for “Procurement costs” (37.7%) and the 17.6-point increase for “deliveries” (29.8%) were notable, reflecting the shortage of raw materials.

Operational challenges in Europe <Multiple Answers Given>

(Units : %, points)

	2020 (n=891)	2021 (n=803)	Change since 2020	Sector					
				Manufacturing			Non-Manufacturing		
				2020 (n=419)	2021 (n=363)	Change since 2020	2020 (n=472)	2021 (n=440)	Change since 2020
1 Securing human resources	34.0	43.1	9.1	36.5	52.1	15.6	31.8	35.7	3.9
2 Spread of COVID-19	57.2	42.8	△ 14.4	58.0	45.5	△ 12.5	56.6	40.7	△ 15.9
3 High labour costs	40.4	37.2	△ 3.2	40.1	36.9	△ 3.2	40.7	37.5	△ 3.2
4 Transportation costs	39.7	36.2	△ 3.5	38.4	41.3	2.9	40.9	32.0	△ 8.9
5 EU General Data Protection Regulation (GDPR)	25.8	27.6	1.8	24.3	24.2	△ 0.1	27.1	30.5	3.4
6 Procurement costs	11.8	24.8	13.0	17.4	37.7	20.3	6.8	14.1	7.3
7 Rapid labour costs growth	23.5	23.9	0.4	28.2	27.8	△ 0.4	19.3	20.7	1.4
8 Transfer pricing taxation	18.7	22.9	4.2	21.2	24.8	3.6	16.5	21.4	4.9
8 Deliveries	9.5	22.9	13.4	12.2	29.8	17.6	7.2	17.3	10.1
9 Lower prices offered by competitors	29.7	22.8	△ 6.9	37.5	27.5	△ 10.0	22.9	18.9	△ 4.0
10 Strict dismissal laws	26.8	22.3	△ 4.5	25.5	21.2	△ 4.3	28.0	23.2	△ 4.8
11 Customs clearance issues	17.5	22.2	4.7	21.2	23.7	2.5	14.2	20.9	6.7
12 UK's exit from the EU	39.7	21.9	△ 17.8	38.4	17.1	△ 21.3	40.9	25.9	△ 15.0
13 Quality of workforce	18.4	20.7	2.3	18.6	21.8	3.2	18.2	19.8	1.6
14 Visa/work permits	24.9	19.9	△ 5.0	24.1	19.3	△ 4.8	25.6	20.5	△ 5.1

Note: The transition period for the UK's exit from the EU ended at the end of 2020. Responses in 2020 were for problems and risks for the exit from the EU itself, and responses in 2021 were for the handling of systems and procedures accompanying the exit from the EU.

3-2 | COVID-19 continues to be a challenge in Western Europe

- In Western Europe overall, “Spread of COVID-19” (42.3%) remained the biggest management issue since 2020. However, the rate fell 15.1 points over the previous year, suggesting the reduction of its impact on management.
- The “UK’s exit from the EU” (23.7%) fell drastically by 18.0 points over the previous year. Instead, “Transportation costs” (35.9%) rose rapidly as a new challenge, with a 21.4-point increase.

Operational challenges in Western Europe <Multiple Answers Given>

(Units : %, points)

	2020 (n=798)	2021 (n=710)	Change since 2020	Sector					
				Manufacturing			Non-Manufacturing		
				2020 (n=361)	2021 (n=303)	Change since 2020	2020 (n=437)	2021 (n=407)	Change since 2020
1 Spread of COVID-19	57.4	42.3	△ 15.1	57.9	43.6	△ 14.3	57.0	41.3	△ 15.7
2 Securing human resources	32.3	39.7	7.4	33.0	47.5	14.5	31.8	33.9	2.1
3 High labour costs	42.2	39.3	△ 2.9	42.4	39.9	△ 2.5	42.1	38.8	△ 3.3
4 Transportation costs	14.5	35.9	21.4	15.8	40.3	24.5	13.5	32.7	19.2
5 EU General Data Protection Regulation (GDPR)	27.2	28.3	1.1	25.8	24.1	△ 1.7	28.4	31.4	3.0
6 Strict dismissal laws	28.4	23.8	△ 4.6	28.0	23.8	△ 4.2	28.8	23.8	△ 5.0
7 UK’s exit from the EU	41.7	23.7	△ 18.0	40.2	18.5	△ 21.7	43.0	27.5	△ 15.5
8 Transfer pricing taxation	19.0	23.0	4.0	21.1	23.8	2.7	17.4	22.4	5.0
9 Procurement costs	10.8	22.8	12.0	15.5	34.0	18.5	6.9	14.5	7.6
10 Lower prices offered by competitors	29.3	22.3	△ 7.0	37.4	28.4	△ 9.0	22.7	17.7	△ 5.0
11 Deliveries	9.4	21.8	12.4	12.5	28.4	15.9	6.9	17.0	10.1
12 Customs clearance issues	17.3	21.7	4.4	21.1	22.8	1.7	14.2	20.9	6.7
13 Quality of workforce	17.7	19.2	△ 3.1	17.5	19.5	2.0	17.8	18.9	1.1
14 Rapid labour costs growth	19.2	18.2	△ 5.9	21.9	18.2	△ 3.7	16.9	18.2	1.3
15 Visa/work permits	23.2	17.5	5.7	20.8	14.9	△ 5.9	25.2	19.4	△ 5.8

Note: The transition period for the UK’s exit from the EU ended at the end of 2020. Responses in 2020 were for problems and risks for the exit from the EU itself, and responses in 2021 were for the handling of systems and procedures accompanying the exit from the EU.

3-3 | Challenges in Central and Eastern Europe are securing human resources and labour costs

- In Central and Eastern Europe overall, “Securing human resources” (68.8%), which was the third biggest concern last year, drastically increased 20.4 points over the previous year to become the biggest operational challenge. This was followed by “High labour costs growth” (67.7%), which increased by 7.5 points.
- In the manufacturing sector, noticeably more respondents cited “Procurement costs” (56.7%) by 27.4 points, “Transportation costs” (46.7%) by 20.8 points, “Increasing energy cost” (46.7%) by 24.3 points, and “Deliveries” (36.7%) by 26.4 points, over the previous year.

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

(Units : %, points)

	2020 (n=93)	2021 (n=93)	Change since 2020	Sector					
				Manufacturing			Non-Manufacturing		
				2020 (n=58)	2021 (n=60)	Change since 2020	2020 (n=35)	2021 (n=33)	Change since 2020
1 Securing human resources	48.4	68.8	20.4	58.6	75.0	16.4	31.4	57.6	26.2
2 Rapid labour costs growth	60.2	67.7	7.5	67.2	76.7	9.5	48.6	51.5	2.9
3 Spread of COVID-19	55.9	47.3	△ 8.6	58.6	55.0	△ 3.6	51.4	33.3	△ 18.1
4 Procurement costs	20.4	39.8	19.4	29.3	56.7	27.4	5.7	9.1	3.4
5 Visa/work permits	39.8	38.7	△ 1.1	44.8	41.7	△ 3.1	31.4	33.3	1.9
5 Transportation costs	19.4	38.7	19.3	25.9	46.7	20.8	8.6	24.2	15.6
6 Quality of workforce	24.7	32.3	7.6	25.9	33.3	7.4	22.9	30.3	7.4
7 Increasing energy cost	18.3	31.2	12.9	22.4	46.7	24.3	11.4	3.0	△ 8.4
7 Deliveries	10.8	31.2	20.4	10.3	36.7	26.4	11.4	21.2	9.8
8 Lower prices offered by competitors	33.3	26.9	△ 6.4	37.9	23.3	△ 14.6	25.7	33.3	7.6
9 Customs clearance issues	19.4	25.8	6.4	22.4	28.3	5.9	14.3	21.2	6.9
10 Transfer pricing taxation	16.1	22.6	6.5	22.4	30.0	7.6	5.3	9.1	3.8
10 EU General Data Protection Regulation (GDPR)	14.0	22.6	8.6	15.5	25.0	9.5	11.4	18.2	6.8
10 REACH	19.4	22.6	3.2	24.1	28.3	4.2	11.4	12.1	0.7
11 High labour costs	24.7	21.5	△ 3.2	25.9	21.7	△ 4.2	22.9	21.2	△ 1.7
11 Highways	16.1	21.5	5.4	17.2	18.3	1.1	14.3	27.3	13.0

3-4 | The UK's Exit from the EU remains a challenge for Japanese affiliates based in the UK

- For Japanese-affiliated companies based in the UK, the "UK's exit from EU" (47.9%) remains the biggest operational challenge. However, its impact on management fell, as shown with a 25.8-point decrease compared to the previous year. The "Spread of COVID-19 infections" (44.6%) also fell by 11.3 points.
- In the UK as well, "Securing human resources" (41.3%) and "Transportation costs" (29.8%) became new key issues post-pandemic.

Operational challenges in UK <Multiple Answers Given>

(Units : %, points)

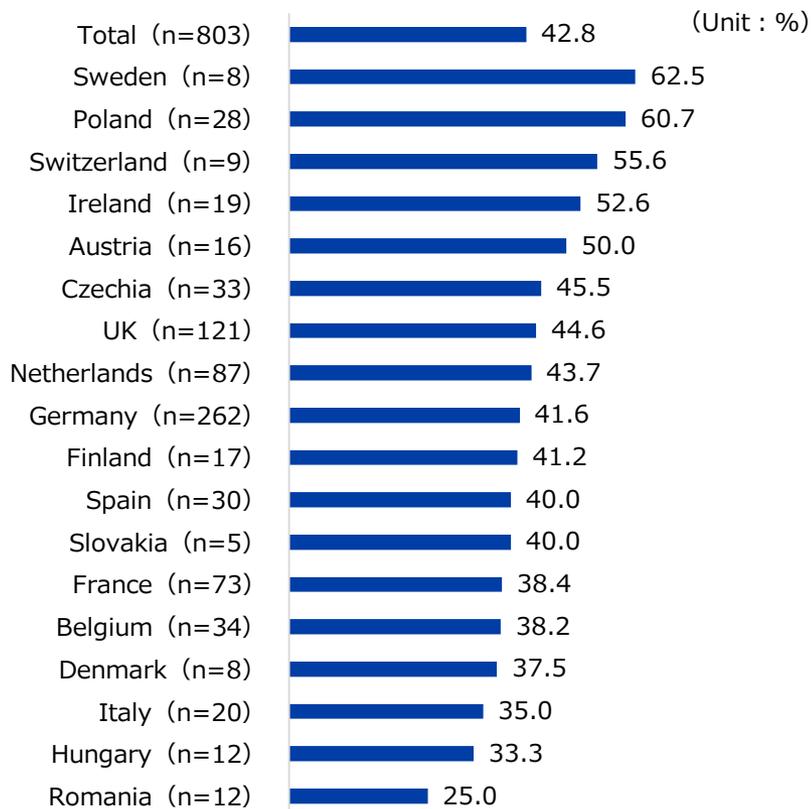
	2020 (n=152)	2021 (n=121)	Change since 2020	Sector					
				Manufacturing			Non-Manufacturing		
				2020 (n=61)	2021 (n=46)	Change since 2020	2020 (n=91)	2021 (n=75)	Change since 2020
1 UK's exit from the EU	73.7	47.9	△ 25.8	78.7	54.3	△ 24.4	70.3	44.0	△ 26.3
2 Spread of COVID-19	55.9	44.6	△ 11.3	49.2	47.8	△ 1.4	60.4	42.7	△ 17.7
3 Securing human resources	30.9	41.3	10.4	32.8	56.5	23.7	29.7	32.0	2.3
4 Customs clearance issues	32.2	38.8	6.6	44.3	58.7	14.4	24.2	26.7	2.5
5 High labour costs	31.6	29.8	△ 1.8	27.9	23.9	△ 4.0	34.1	33.3	△ 0.8
5 EU General Data Protection Regulation (GDPR)	28.3	29.8	1.5	16.4	23.9	7.5	36.3	33.3	△ 3.0
5 Transportation costs	12.5	29.8	17.3	16.4	41.3	24.9	9.9	22.7	12.8
6 Transfer pricing taxation	17.8	19.8	2.0	19.7	17.4	△ 2.3	16.5	21.3	4.8
7 Procedures for VAT refunds are complex and/or lack of transparency	11.8	19.0	7.2	9.8	19.6	9.8	13.2	18.7	5.5
7 Deriveries	11.2	19.0	7.8	16.4	28.3	11.9	7.7	13.3	5.6
8 Strict dismissal laws	16.4	18.2	1.8	14.8	15.2	0.4	17.6	20.0	2.4
8 Exchange rate fluctuations	34.2	18.2	△ 16.0	41.0	26.1	△ 14.9	29.7	13.3	△ 16.4
8 Procurement costs	12.5	18.2	5.7	16.4	32.6	16.2	9.9	9.3	△ 0.6
9 Rapid labour costs growth	14.5	16.5	2.0	14.8	19.6	4.8	14.3	14.7	0.4
9 Quality of workforce	15.1	16.5	△ 1.4	16.4	23.9	7.5	14.3	12.0	△ 2.3

Note: The transition period for the UK's exit from the EU ended at the end of 2020. Responses in 2020 were for problems and risks for the exit from the EU itself, and responses in 2021 were for the handling of systems and procedures accompanying the exit from the EU.

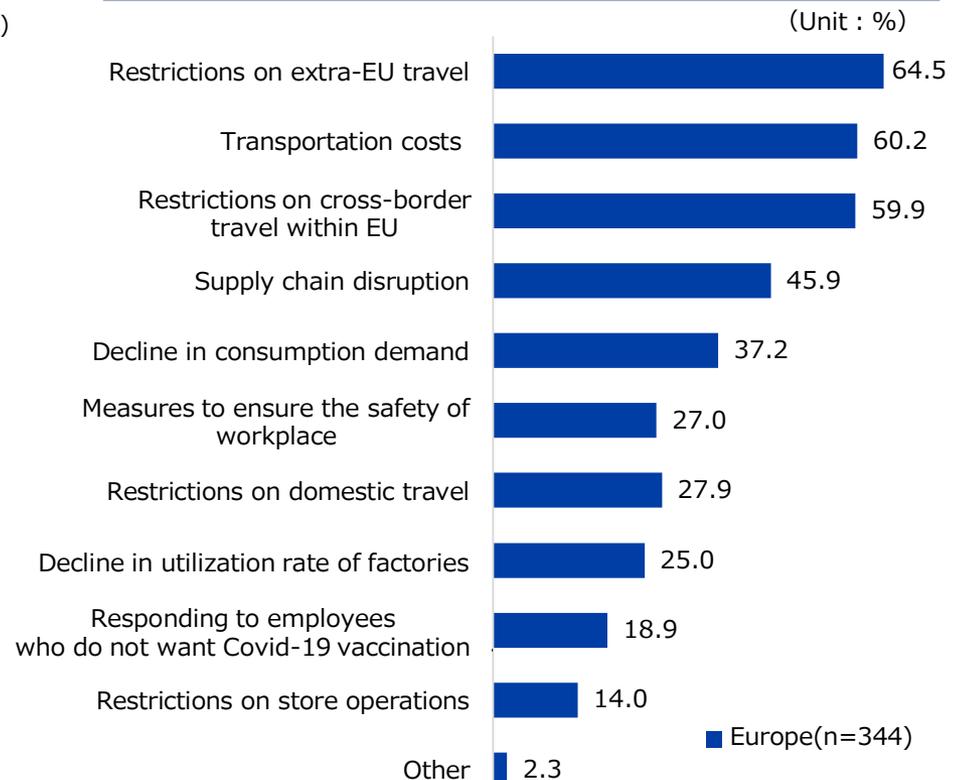
3-5 | Spread of COVID-19 infections has a major impact on the movement of persons and goods

- The response rate of “Spread of COVID-19 infections” (42.8%), which was the second biggest operational challenge in Europe overall, was particularly high in Sweden (62.5%), Poland (60.7%), and Switzerland (55.6%). Spain, which recorded the highest rate the previous year, had a 47.5-point decrease to 40.0%, falling below the European average (42.8%).
- “Restrictions on extra-EU travel” (64.5%), “Rise in logistics cost” (60.2%), “Restrictions on cross-border travel within EU” (59.9%) were cited as specific concerns. “Decline in consumption demand” (37.2%) showed improvement with the rate decreasing 27.7 points over the previous year.

Response rate by country
<Multiple Answers Given>



Specific concerns regarding spread of COVID-19
<Multiple Answers Given>

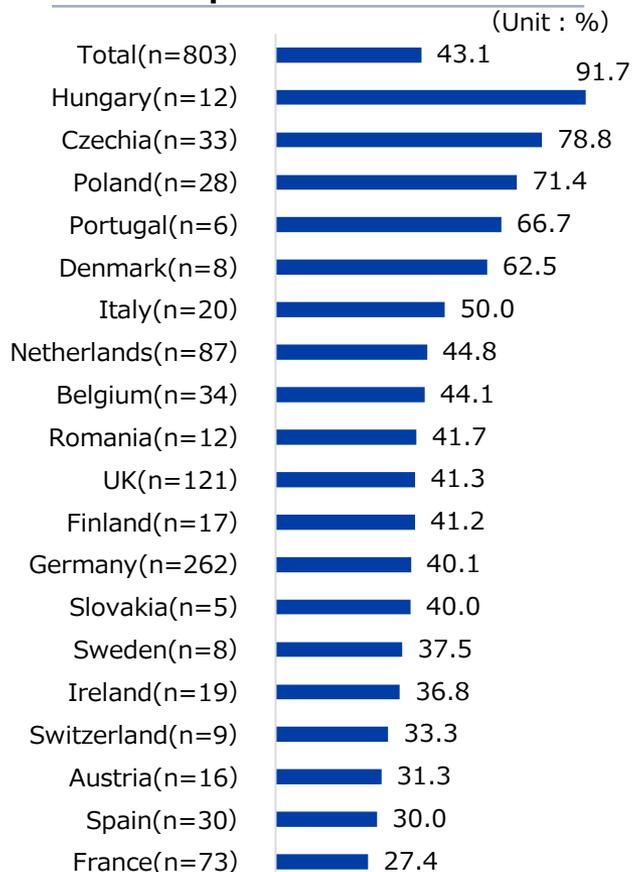


3-6 | Securing human resources is a major challenge for Central and Eastern Europe

- The response rate for “Securing human resources” (43.1%), which was the biggest operational challenge in Europe overall, was particularly high in Central and Eastern Europe, with Hungary (91.7%) having a 48.8-point increase over the previous year, Czechia (78.8%) having a 22.9-point increase, and Poland (71.4%) having a 28.1-point increase.
- Looking at a breakdown of “Securing human resources” needed, “Factory workers” (34.4% in Europe overall) increased by 12.0 points compared to the previous year.

Response rate by country

<Multiple Answers Given>



Breakdown of human resources sought

<Multiple Answers Given>

(Above: Number of respondents, Below: %)

	No. of Responses	IoT/AI specialists	Management personnel	Factory workers	Other
Europe	346	74	209	119	77
	100.0	21.4	60.4	34.4	22.3
Western Europe	282	57	176	74	71
	100.0	20.2	62.4	26.2	25.2
Germany	105	20	68	24	30
	100.0	19.0	64.8	20.0	28.6
UK	50	10	31	18	10
	100.0	20.0	62.0	36.0	20.0
Netherlands	39	8	31	9	8
	100.0	20.5	79.5	23.1	20.5
France	20	2	12	7	3
	100.0	10.0	60.0	35.0	15.0
Belgium	15	5	9	5	1
	100.0	33.3	60.0	33.3	6.7
Spain	9	2	6	1	3
	100.0	22.2	66.7	11.1	33.3
Central & Eastern Europe	64	17	33	45	6
	100.0	26.6	51.6	70.3	9.4
Czechia	26	8	13	22	3
	100.0	30.8	50.0	84.6	11.5
Poland	20	2	11	11	2
	100.0	10.0	55.0	55.0	10.0
Hungary	11	3	4	8	1
	100.0	27.3	36.4	72.7	9.1

Note: Countries and regions with responses of 8 or more only

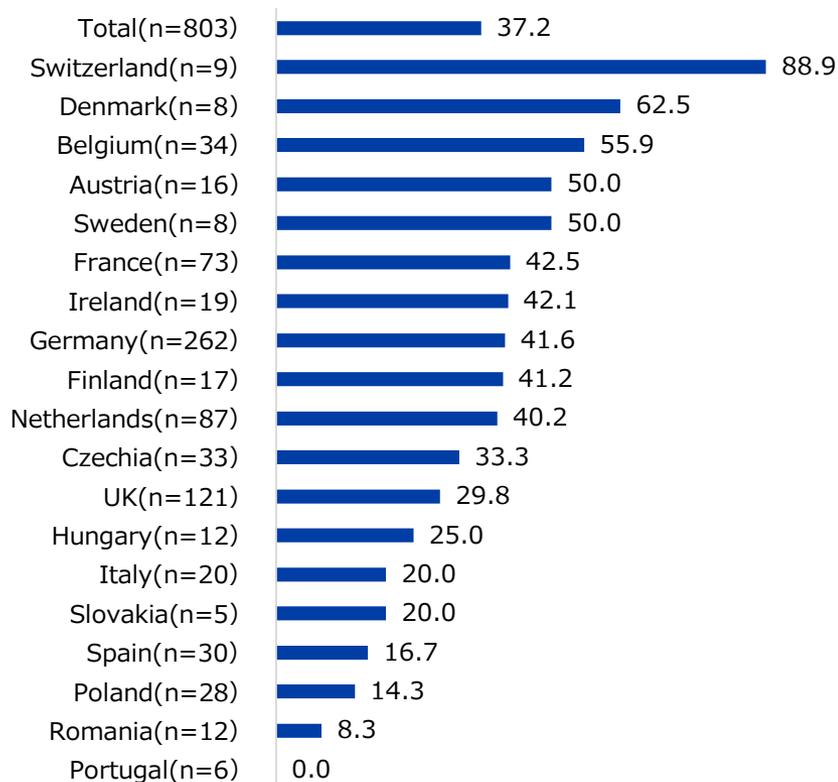
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3-7 | Labour costs affect Western Europe and labour costs impacts Central and Eastern Europe

- Looking at the response rate by country of “High labour costs” (37.2%) which was the third biggest operational challenge in Europe overall, Western European countries ranked high such as Switzerland (88.9%), Denmark (62.5%), and Belgium (55.9%). Switzerland showed an increase of 22.2 points compared to the previous year.
- Looking at the response rate by country of “Rapid labour costs growth” (23.9%), the seventh biggest operational challenge in Europe overall, Central and Eastern European countries such as Hungary (91.7%), Czechia (69.7%), and Poland (64.3%) ranked high.

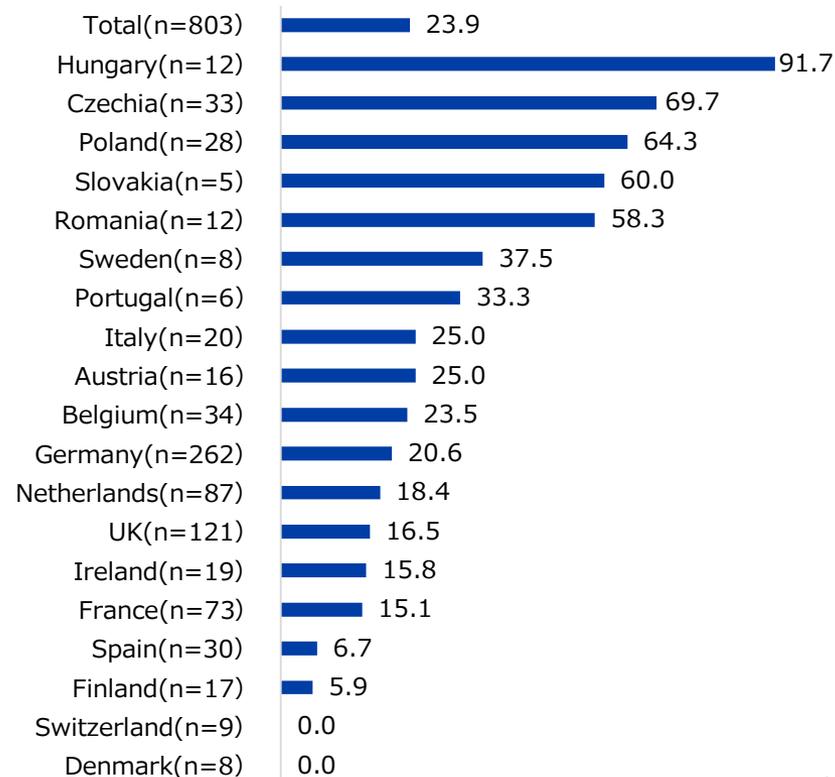
[High labour costs] Response rate by country
<Multiple Answers Given>

(Unit : %)



[Rapid labour costs growth] Response rate by country
<Multiple Answers Given>

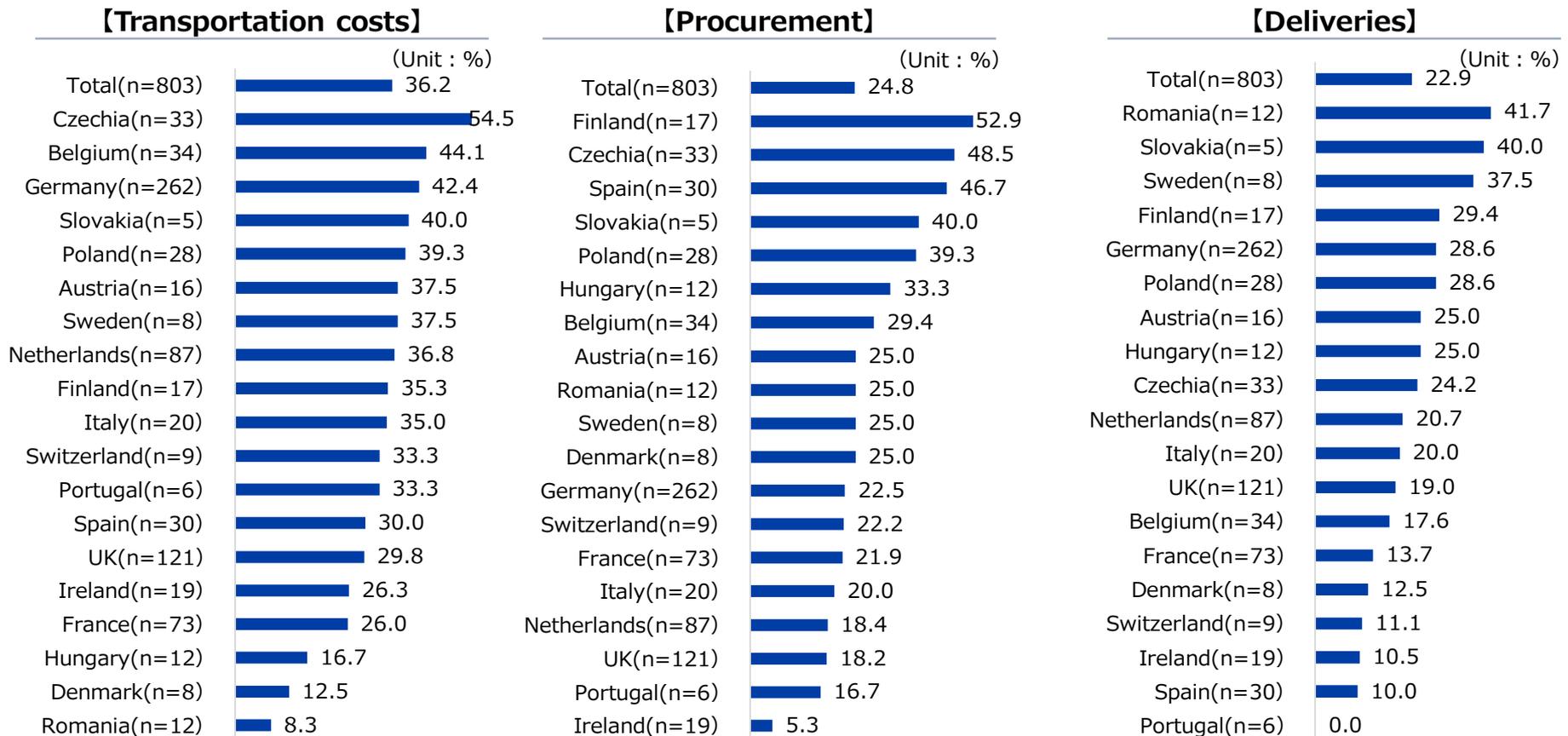
(Unit : %)



3-8 | Confusion in supply chains impacts Central and Eastern Europe

- The Czechia had the highest proportion of companies, 54.5%, that cited “Transportation costs” as an operational challenge, a drastic rise of 36.9 points compared to the previous year. “Procurement costs” also had a rise of 28.1 points to 48.5%, indicating a direct impact of the confusion in supply chains due to the COVID-19 pandemic.
- Romania had the highest proportion of companies, 41.7%, that cited “Deliveries” as an operational challenge. “Deliveries” was the third biggest operational challenge in the country.

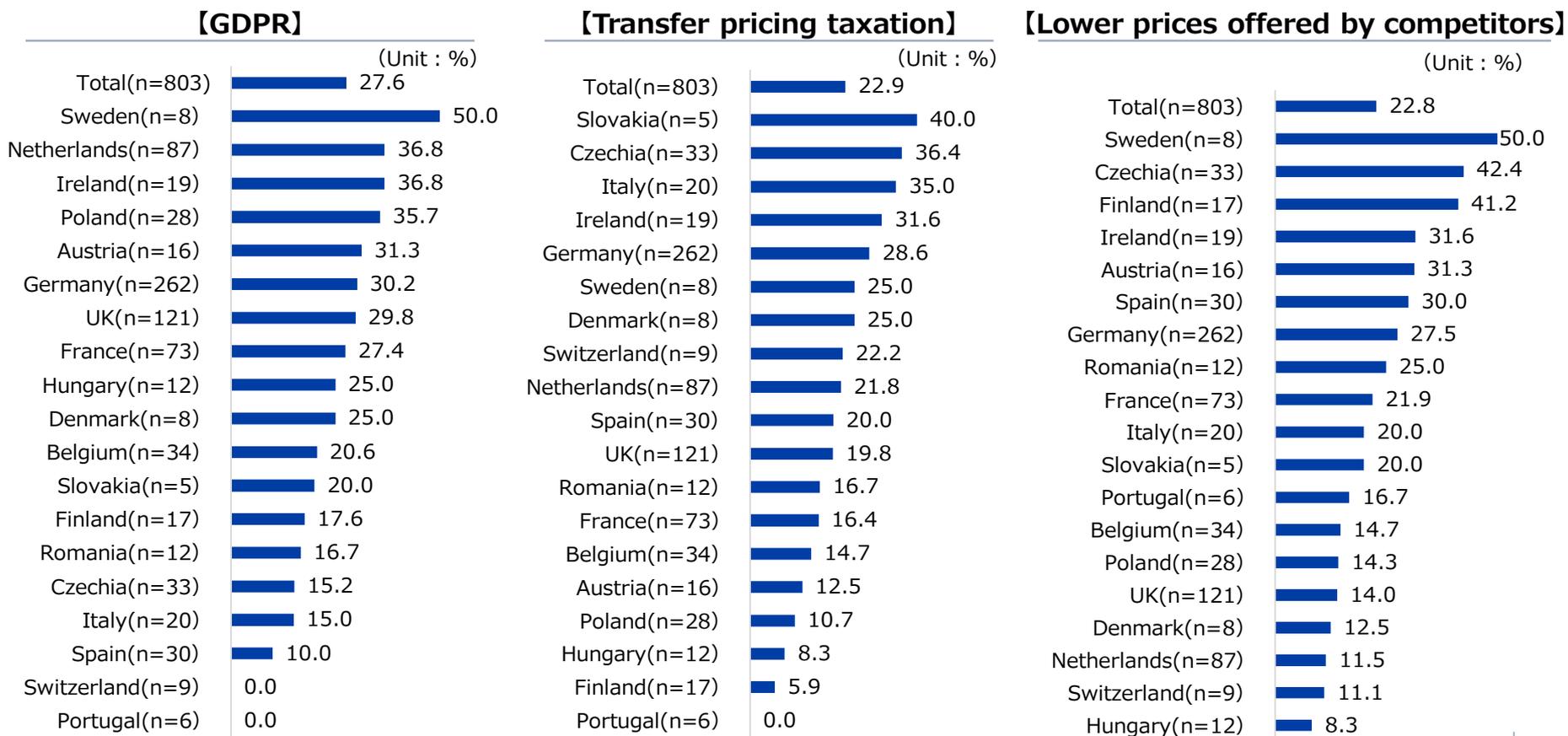
Response rate by country <Multiple Answers Given>



3-9 | A high proportion of companies in Western Europe see GDPR as an operational challenge

- In Western Europe and Central/Eastern Europe, 28.3% and 22.6% of companies respectively cited the EU General Data Protection Regulation (GDPR) as an operational challenge. Looking at the response rate by country, Western European countries ranked high with Sweden recording highest rate (50.0%) followed by the Netherlands and Ireland (both 36.8%).
- Slovakia had the highest rate of companies citing "Transfer pricing taxation" (40.0%). For "Lower prices offered by competitors," Central and Eastern Europe (26.9%) had a higher response rate than Western Europe (22.3%), however, in Europe overall, its priority as an operational challenge fell with a 6.9 point compared to the previous year.

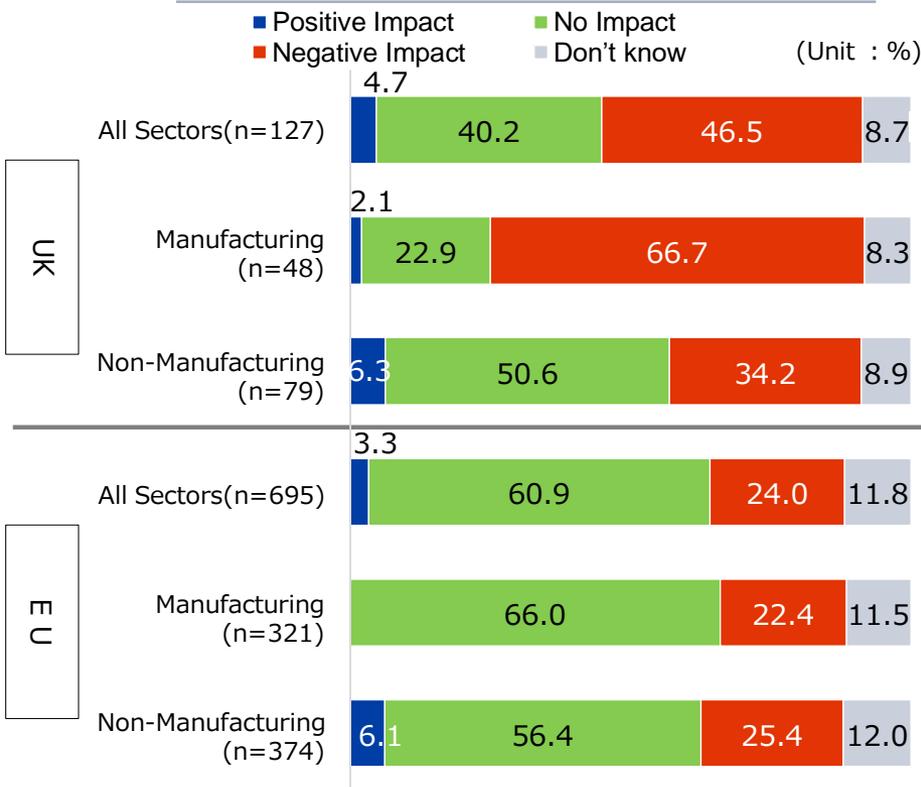
Response rate by country <Multiple Answers Given>



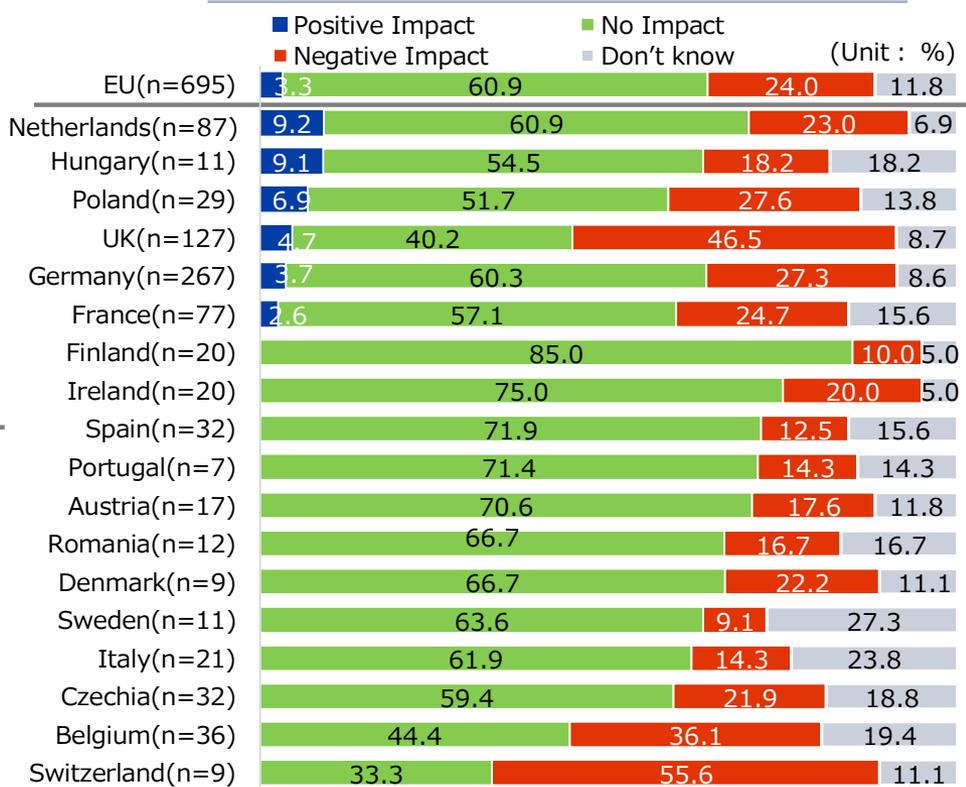
4-1 | About half of UK-based companies suffered negative impacts due to Brexit

- Regarding the impact on business related to the UK's exit from the EU, 46.5% of Japanese-affiliated companies based in the UK and 24.0% of those based in the EU responded that they had a "negative impact." On the other hand, the proportion of companies suffering "No impact" was 40.2% and 60.9% respectively. The results indicated that, while zero tariffs and zero allowances were secured for trade between the UK and EU by concluding the Trade and Cooperation Agreement (TCA), the impact on business to companies based in the UK was bigger than that on companies based in the EU.
- By sector, the response rate of "Negative impact" by Japanese-affiliated manufacturers based in the UK was proportionally high at 66.7%, exceeding that of Japanese-affiliated manufacturers based in the EU by 44.3 points. Specifically, "Customs clearance procedures," "Increase of tariff rates," "Preparations for UK regulations," "Logistical delays/rise in logistics cost," etc. were given as "Negative impacts" from both Japanese affiliates based in the UK and the EU.

Impact on operations related to the UK withdrew from the EU (by industry)



Impact on operations related to the UK withdrew from the EU (by country)

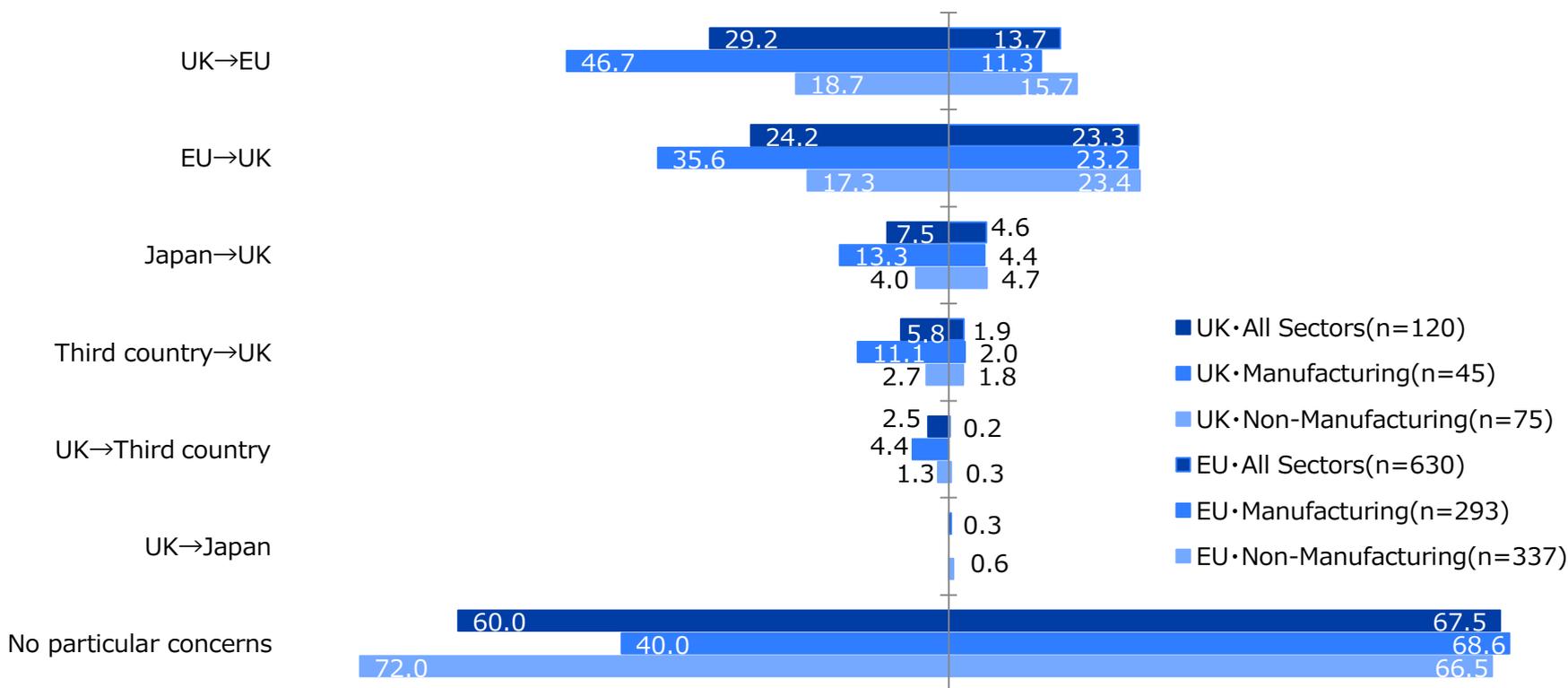


4-2 | About 50% of Japanese manufacturers in the UK have problems with exporting to the EU

- As a problem related to trade after the transition period, 60.0% of Japanese affiliates based in the UK and 67.5% of Japanese affiliates based in the EU responded "No particular concerns." By sector, Japanese-affiliated manufacturers based in the UK accounted for 40.0% and Japanese-affiliated manufacturers based in the EU accounted for 68.6%.
- While 46.7% of Japanese-affiliated manufacturers based in the UK gave "Exporting from the UK to the EU" as a problem, only 11.3% of Japanese-affiliated manufacturers based in the EU responded the same. This corroborates the importance of the EU market to Japanese-affiliated manufacturers based in the UK, while also indicating that some companies are still having problems with exporting to the EU.

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

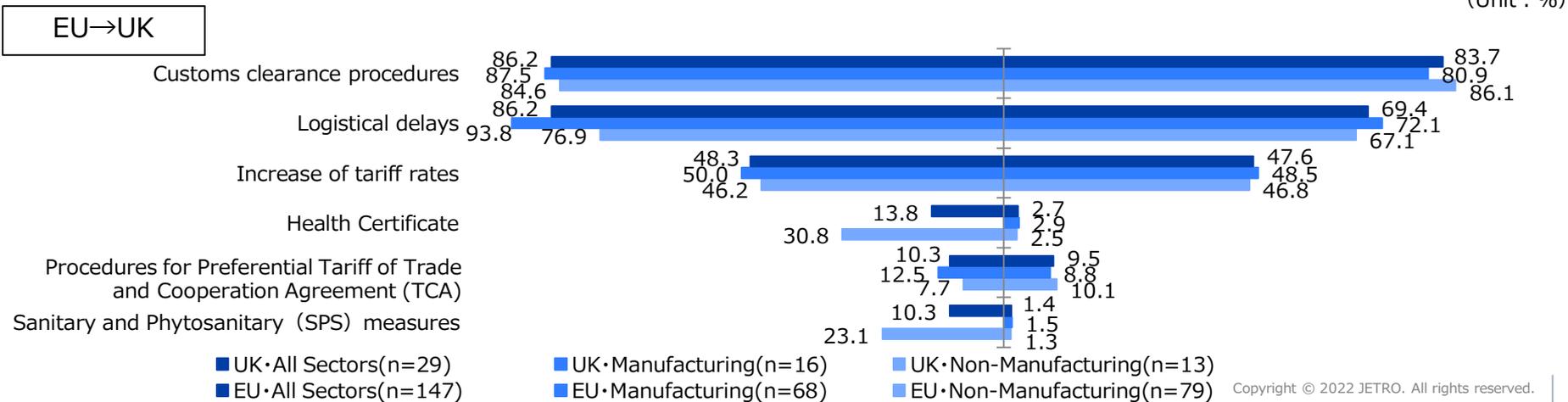
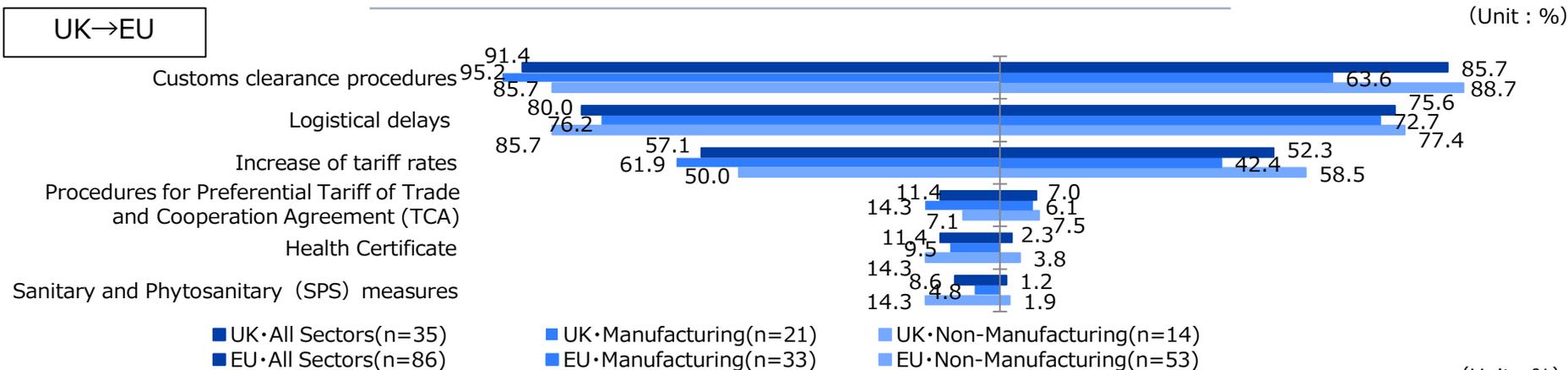
(Unit : %)



4-3 | Customs clearance for exporting are a concern for 90% of Japanese affiliates based in the UK

- As a specific problem for trade after the transition period, 91.4% of Japanese affiliates based in the UK that indicated concern about "Exporting from the UK to the EU" cited "Customs clearance procedures." "Logistical delays" was cited by around 80-90% of Japanese affiliates based in the UK as a concern for both exporting and importing. On the other hand, for both importing and exporting, more than 80% of Japanese affiliates based in the EU cited "Customs clearance procedures" and around 70% for "Logistical delays."
- By sector, among items that had high response rates among Japanese-affiliated manufacturers based in the UK were "Customs clearance procedures" when exporting to the EU (95.2%) and "Logistical delays" when importing from the EU (93.8%). Additionally, for both importing and exporting, more than 50% of Japanese-affiliated manufacturers based in the UK gave "Increase of tariff rates" as a trade problem.

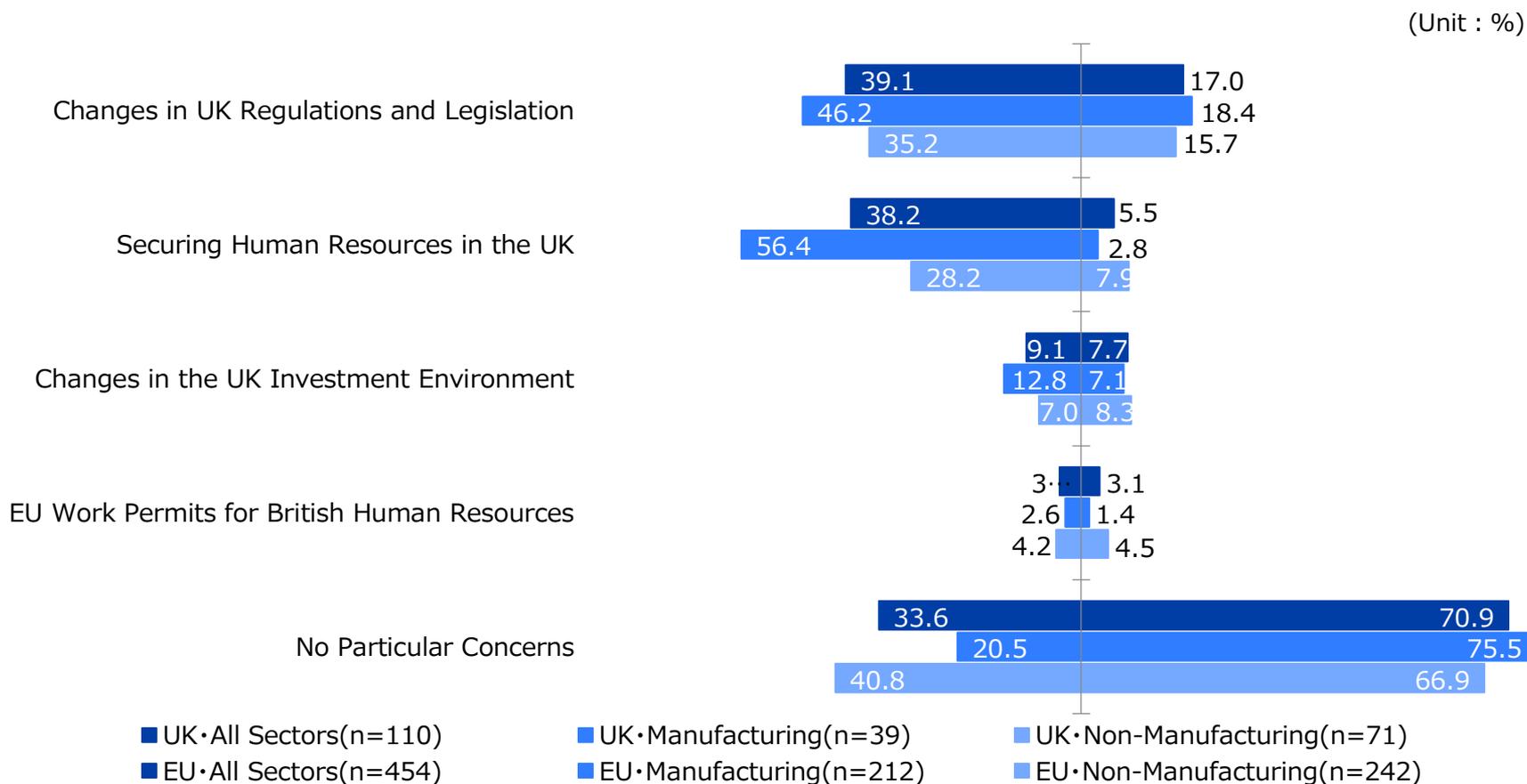
Specific trade-related problems<Left: UK, Right: EU>



4-4 | Companies in the UK continue to be concerned about changes in UK regulations and legislation

- Regarding concerns held by Japanese affiliates about the business environment after the transition period of the UK withdrawing from the EU, 70.9% of Japanese affiliates based in the EU responded that they have "No particular concerns." On the other hand, "Changes in UK regulations and legislation" and "Securing human resources in the UK" had the highest rates of responses from Japanese affiliates in the UK, in particular in the manufacturing sector.

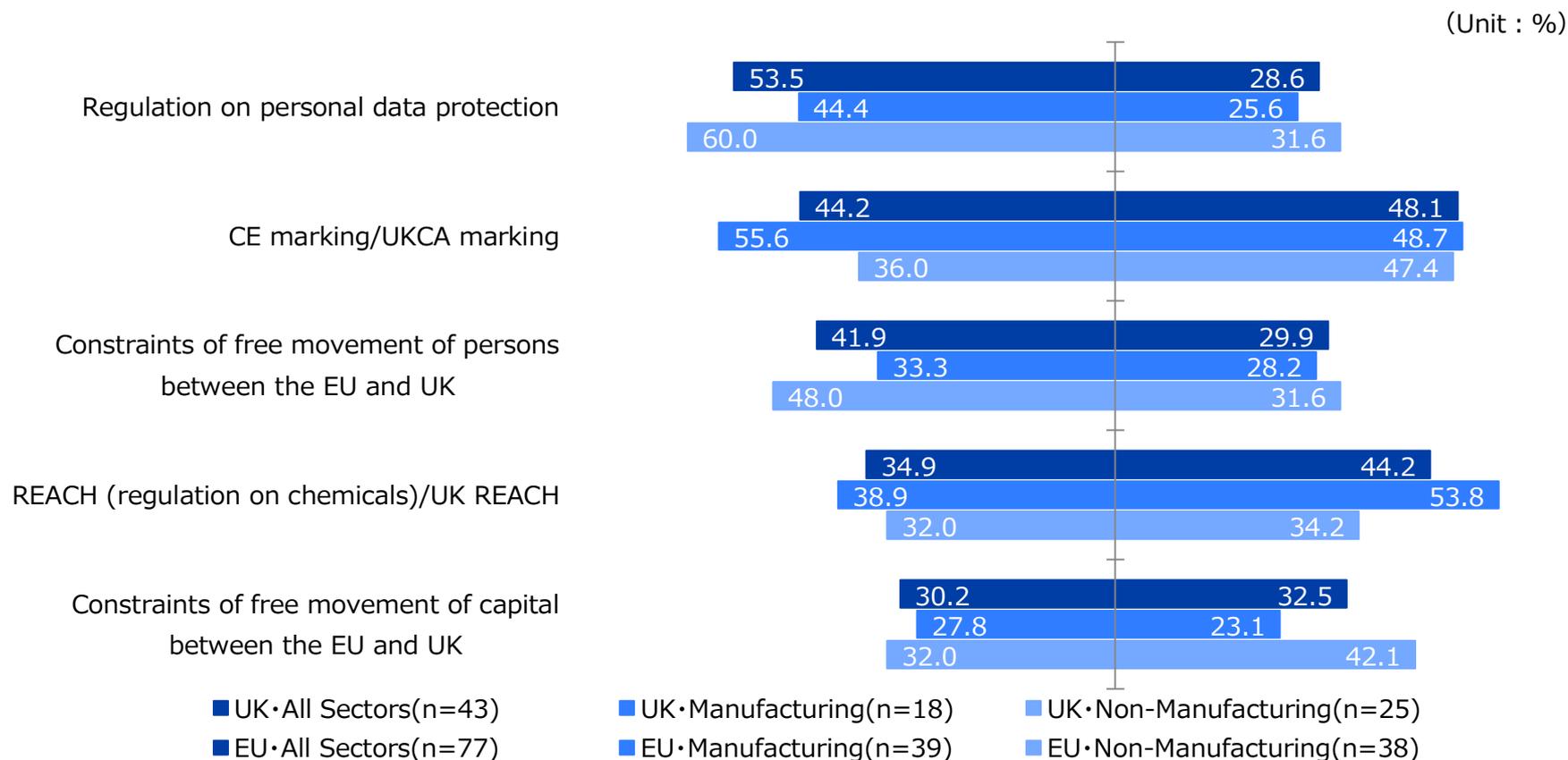
Concerns of Japanese-affiliated companies related to business environment <Left: UK, Right: EU>



4-5 | Concerns about the CE/UKCA markings in the manufacturing sector

- Regarding specific points of concern for "Changes in UK regulations and legislation," "Regulation on personal data protection" was the most common concern, especially in the non-manufacturing sector.
- Among Japanese affiliates based in the EU, "CE marking/UKCA marking" was the most common concern, with high responses from both Japanese affiliates based in the UK and the EU in the manufacturing sector. Additionally, in the EU manufacturing sector, many Japanese affiliates cited changes to "REACH (regulation on chemicals)/UK REACH" as a concern.

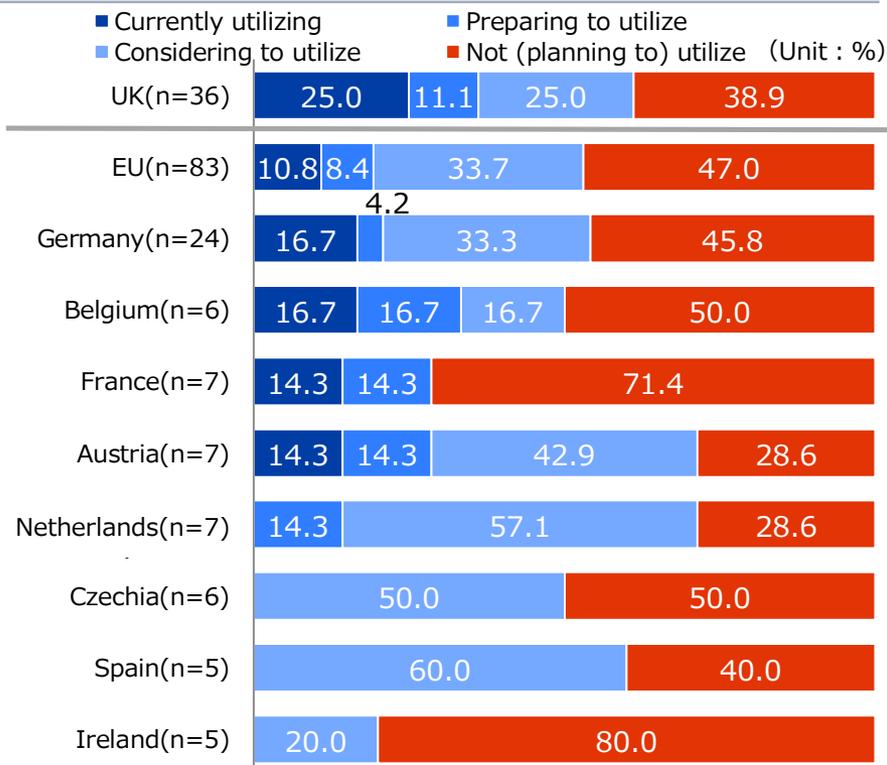
Concerns related to "Changes in UK regulations and legislation" <Left: UK, Right: EU>



4-6 | Companies not utilizing TCA account for 40%

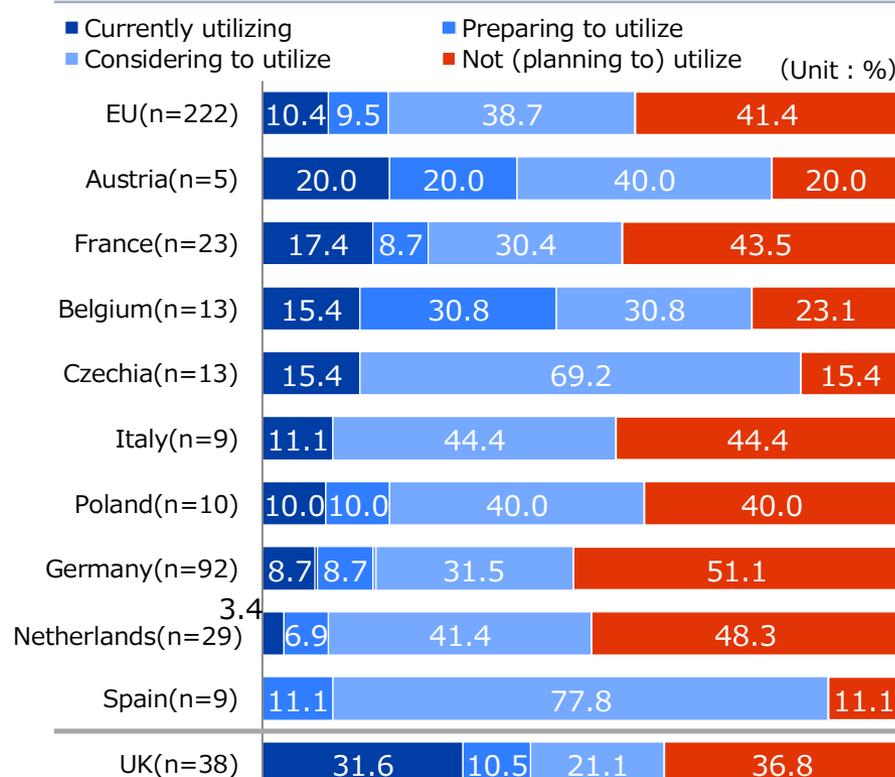
- Regarding the utilization of the EU-UK Trade and Cooperation Agreement (TCA) that officially came into effect in May 2021, 25.0% of respondents that export from the UK to the EU were already utilizing the TCA. For exporting from the EU to the UK, the utilization rate for the EU overall was low at 10.4%, and responses of "Considering to utilize" and "Not (planning to) utilize" both accounted for about 40% respectively.
- For exporting from the EU to the UK, the rate of utilization was rather high in countries such as Austria (20.0%), France (17.4%), Belgium (15.4%), and the Czechia (15.4%).

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



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

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



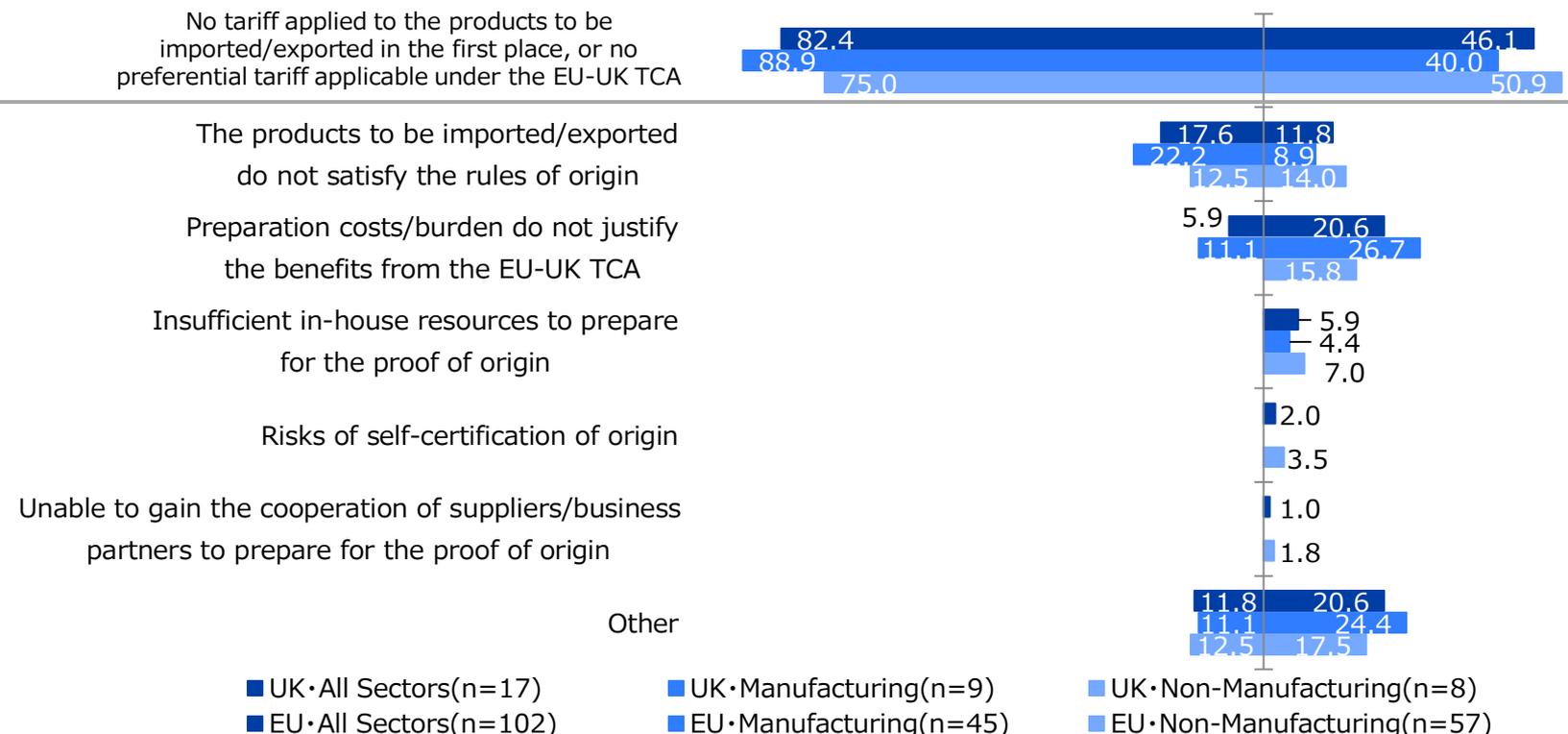
Note : The UK indicates companies importing from the EU to the UK.

4-7 | Reasons for not utilizing TCA: costs, rules of origin, etc.

- Of the companies responding that they did not utilize the TCA in spite of exporting/importing between the UK and the EU, 82.4% of Japanese affiliates based in the UK overall and 88.9% of Japanese-affiliated manufacturers based in the UK gave the reason as "No tariff applied to the products to be imported/exported in the first place, or no preferential tariff applicable under the EU-UK TCA". On the other hand, 46.1% of Japanese affiliates based in the EU overall gave the same reason.
- For reasons given for not utilizing the TCA in spite of preferential tariff being applicable, a certain proportion of both Japanese affiliates based in the UK and the EU cited "Preparation costs/burden do not justify the benefits" and "Do not satisfy the rules of origin." Additionally, for "Other" reasons, "not a large volume," "no knowledge about the TCA," and "occurrence of procedures" were cited.

Reasons for not using the EU-UK TCA
<Left: UK, Right: EU> (Multiple Answers Given)

(Unit : %)



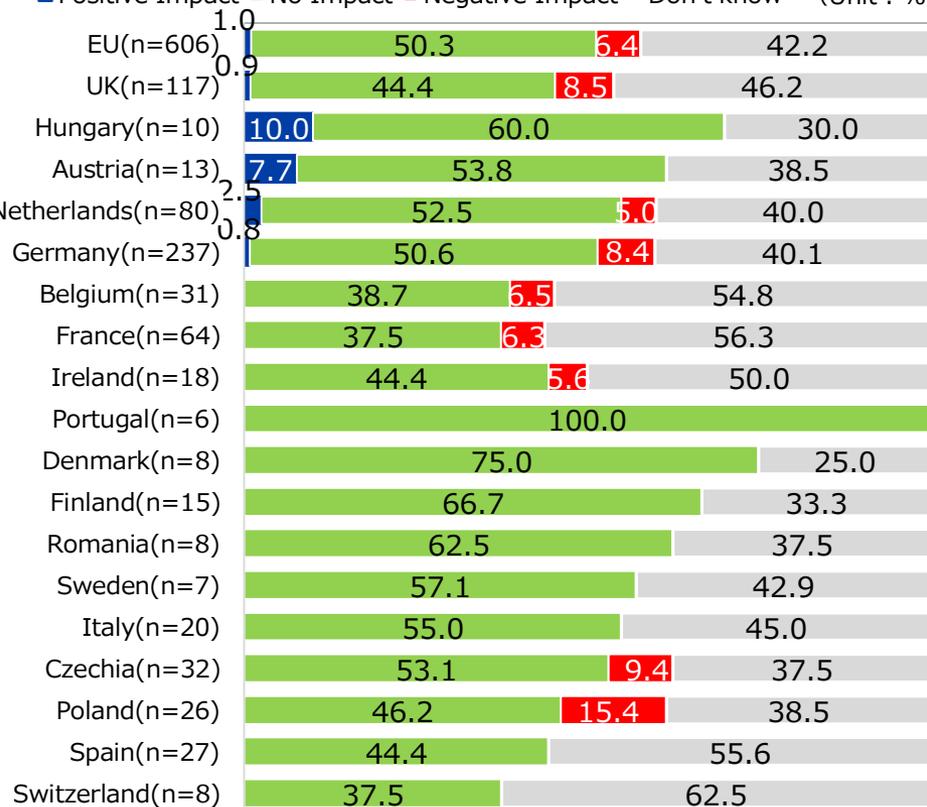
4-8 | More than 40% "Don't know" about the impact of the TCA

- Regarding the impact of the TCA on business activities, compared to when the UK was an EU member, 50.3% of companies based in the EU overall and 44.4% of companies based in the UK overall responded that there was "no impact" on them. Responses of "Don't know" accounted for more than 40% respectively as well.
- Compared to when there were no TCA, 12.9% of companies based in the UK responded that the TCA had a "positive impact." However, about 90% of companies based in the EU and 80% of companies based in the UK responded that there was "No impact" or they "Don't know." This indicates that the majority of companies did not feel any particular impact from the TCA.

EU-UK TCA impact by country

<Compared to before the end of the transition period>

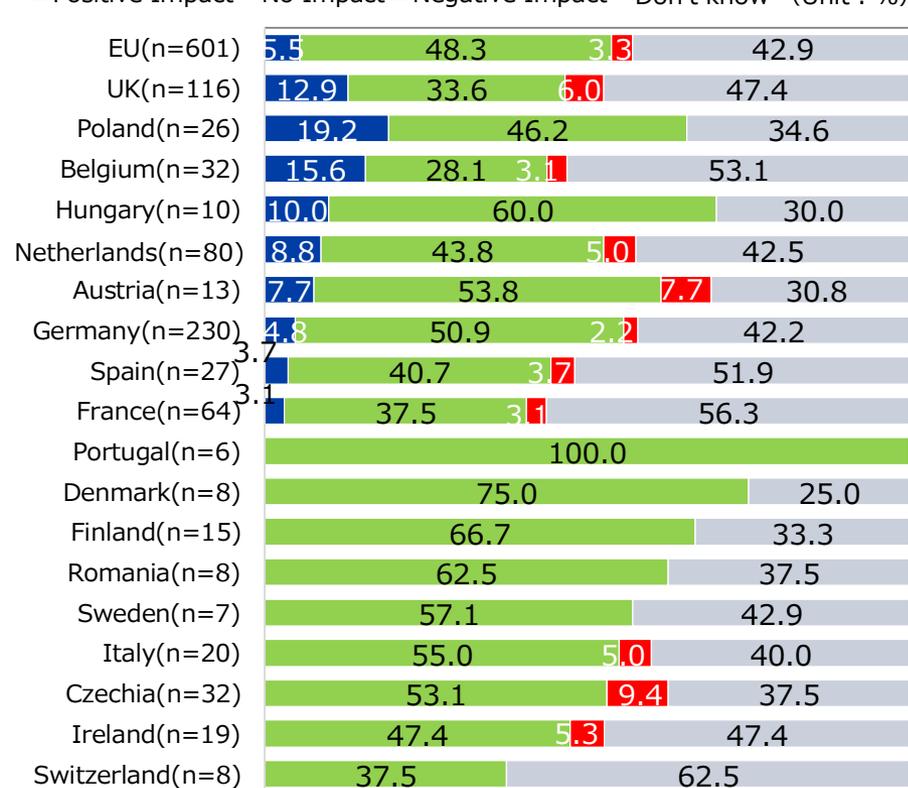
■ Positive Impact ■ No Impact ■ Negative Impact ■ Don't know (Unit : %)



EU-UK TCA impact by country

<Compared to the scenario where there were no trade deal between the EU and the UK>

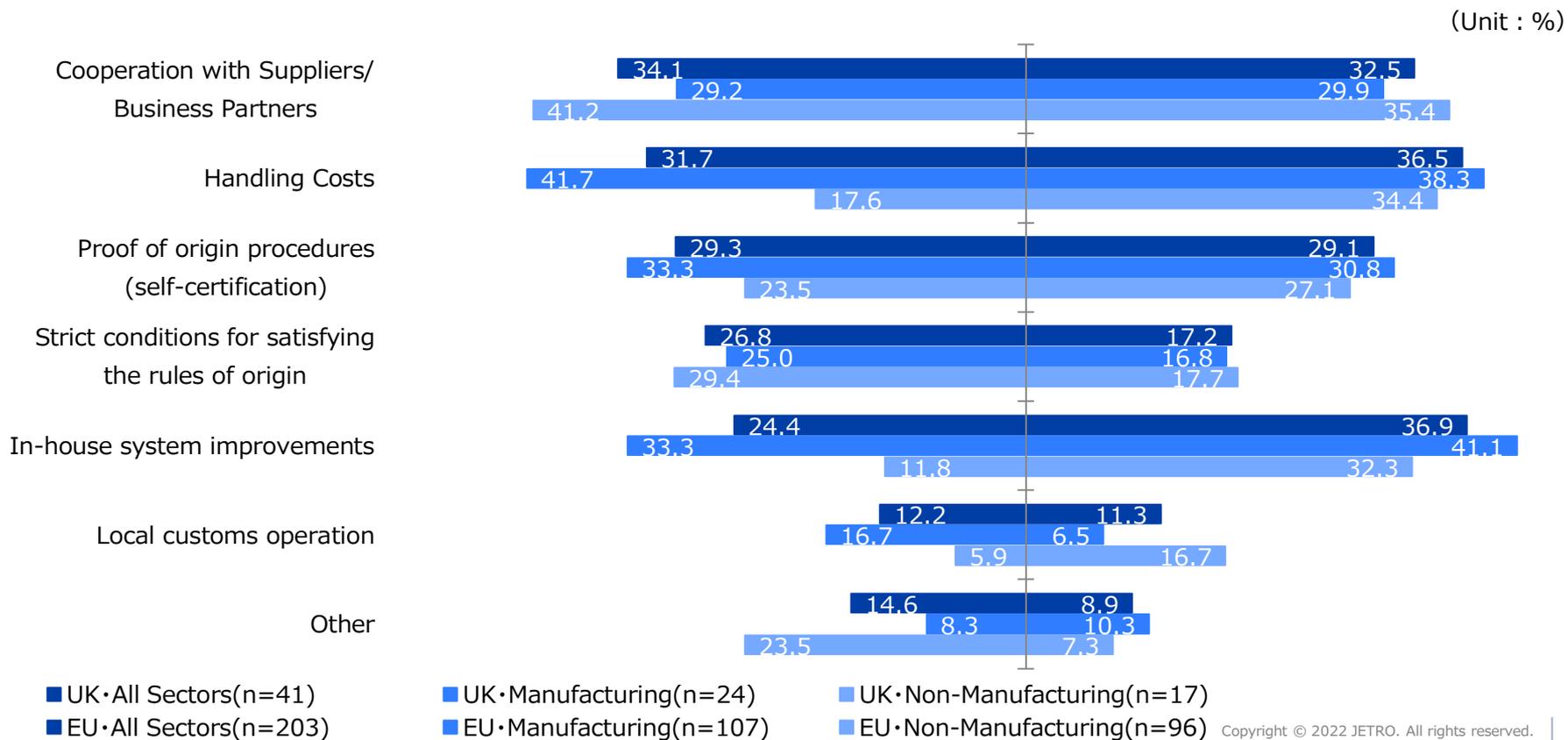
■ Positive Impact ■ No Impact ■ Negative Impact ■ Don't know (Unit : %)



4-9 | Issues for TCA utilization are in-house system improvements and handling costs

- Regarding issues for the utilization of the TCA, "Cooperation with Suppliers/Business Partners (e.g. Completion of certificate of origin documentation)" accounted for 34.1% of companies based in the UK overall. Specifically, the response rate in the non-manufacturing sector was about 40% and a certain number of companies seemed that they had not yet implemented a cooperation structure. On the other hand, among companies based in the EU overall, "In-house system improvements" (36.9%) was the biggest issue, and the rate for the manufacturing sector was 41.1%.
- "Handling Costs" was the second most common response among companies based in the UK and the EU overall. In the manufacturing sector in particular, about 40% cited this as an issue. It seems that the costs to receive preferential tariff benefits under the TCA and its merits are still unknown and many companies still seem to be in the consideration stage on whether to utilize it.

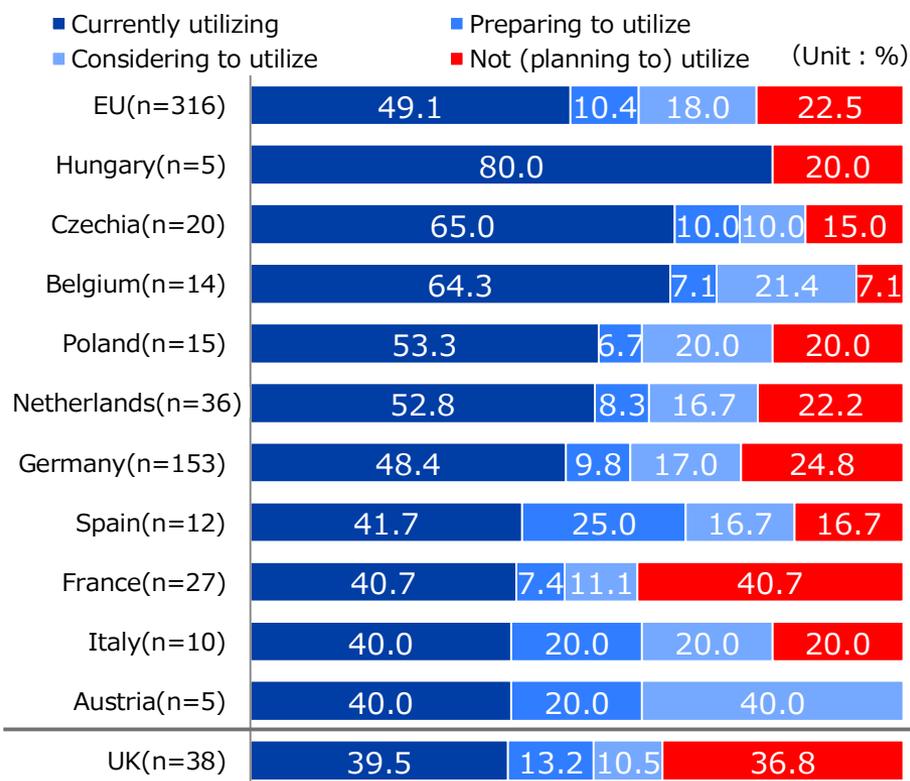
Challenges regarding the use of the EU-UK TCA <Left: UK, Right: EU> (Multiple Answers Given)



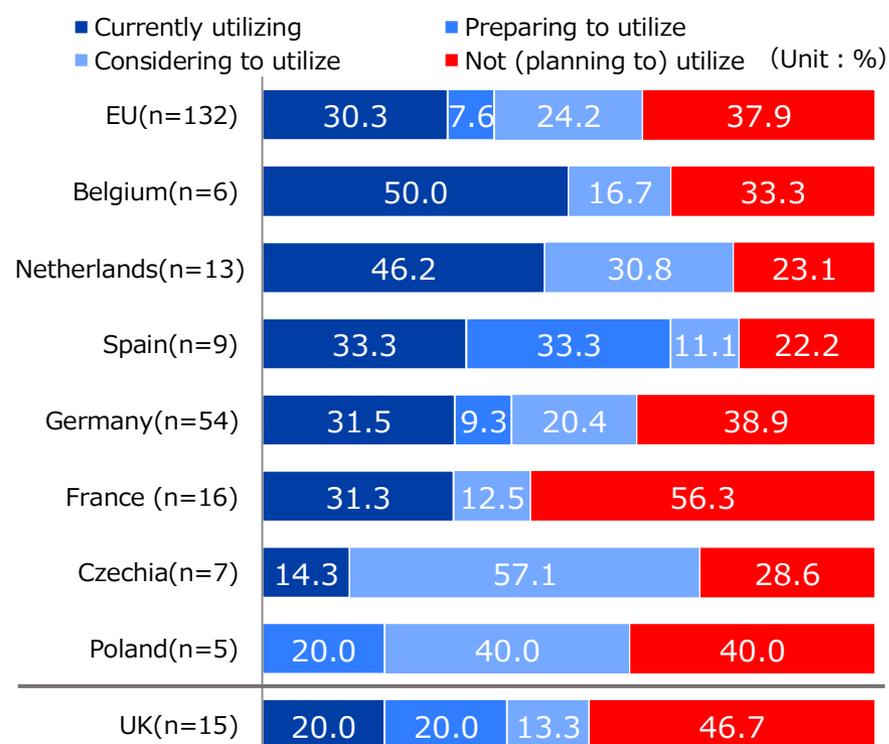
5-1 | About 50% of companies utilize the Japan-EU EPA for importing

- Regarding the utilization of the Japan-EU EPA by Japanese affiliates based in the EU, in the EU overall, 49.1% of companies importing from Japan to the EU and 30.3% of companies exporting from the EU to Japan responded that they were already utilizing the Japan-EU EPA. Looking at Japanese affiliates based in the UK since the Japan-UK EPA came into effect in January 2021, the rates of companies that continued to utilize the Japan-EU EPA were 39.5% and 20.0% for importing from Japan and exporting to Japan respectively.
- For importing from Japan to the EU, Hungary (80.0%), Czechica (65.0%), Belgium (64.3%), Poland (53.3%), the Netherlands (52.8%), Germany (48.4%), Spain (41.7%), France (40.7%), and Italy (40.0%) had high utilization rates in descending order.

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



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

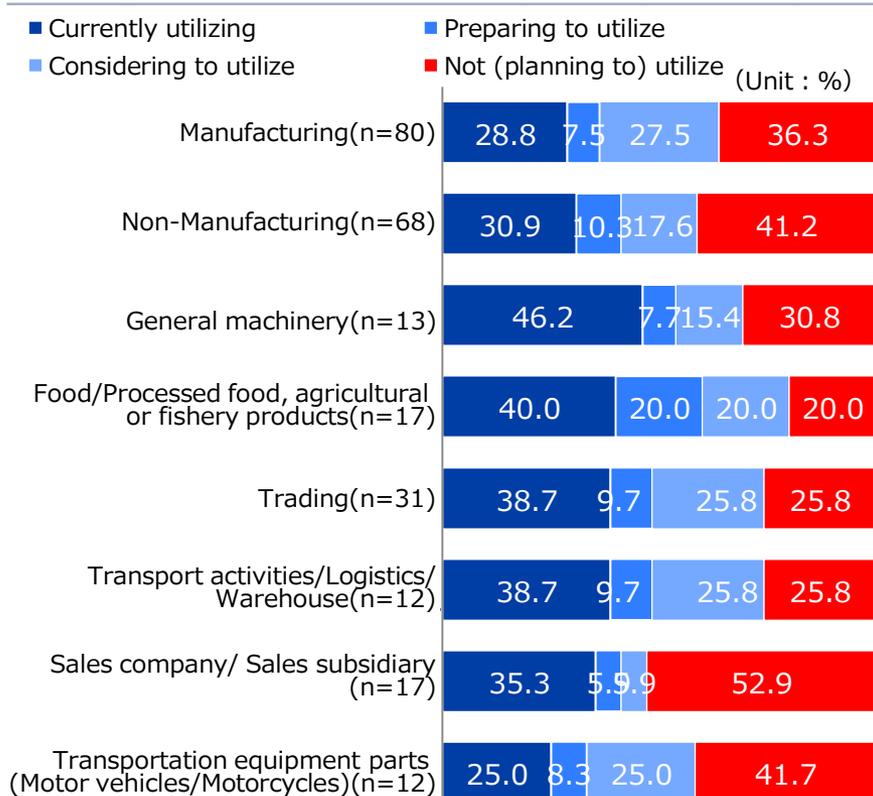
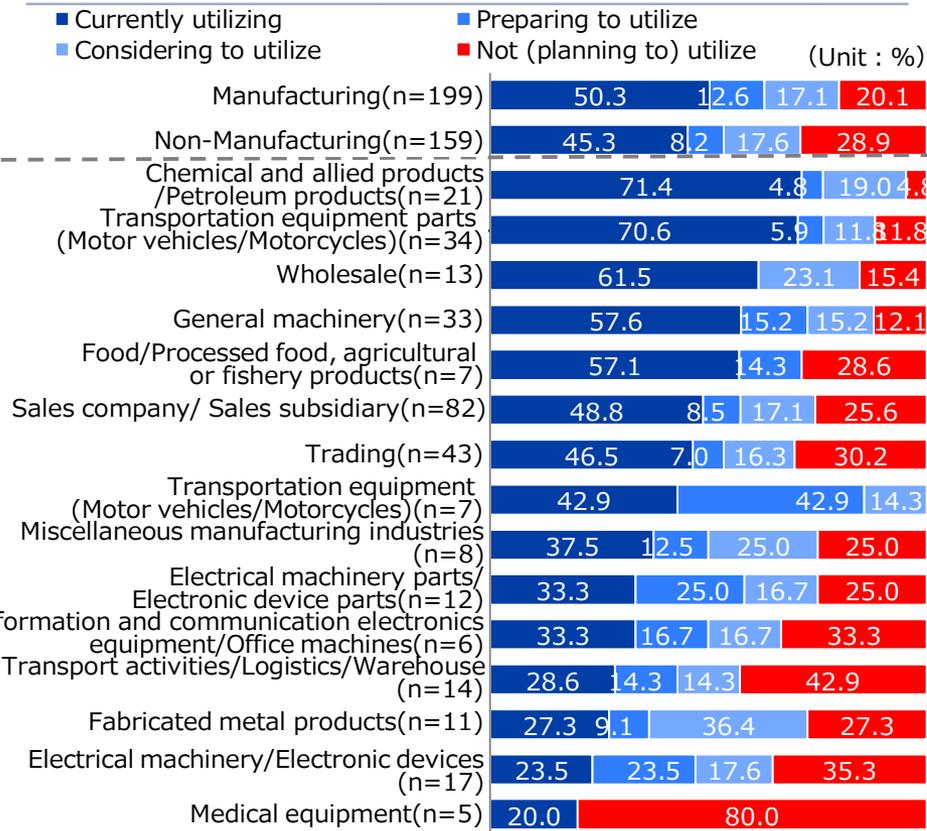


5-2 | Many companies in chemicals and transportation equipment parts use EPA for importing to EU

- The proportion of the Japanese-affiliated companies based in the EU that use the EPA for importing from Japan was high in the sectors of “Chemicals and allied products/Petroleum products” and “Transportation equipment parts (Motor vehicles/Motorcycles)” at 70%, and in the sectors of “Wholesale”, “General machinery”, and “Food/Processed food, agricultural or fishery products” at 60%. The proportion of companies in the “Transportation equipment parts (Motor vehicles/Motorcycles)” sector that responded “Preparing to utilize” or “Considering to utilize” the EPA combined reached 100%, indicating a high interest in the utilization of the EPA.
- For exporting from the EU to Japan, “General machinery” companies (46.2%), and “Food/processed food, agricultural or fishery products” companies (40.0%) showed high EPA utilization rates.

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

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



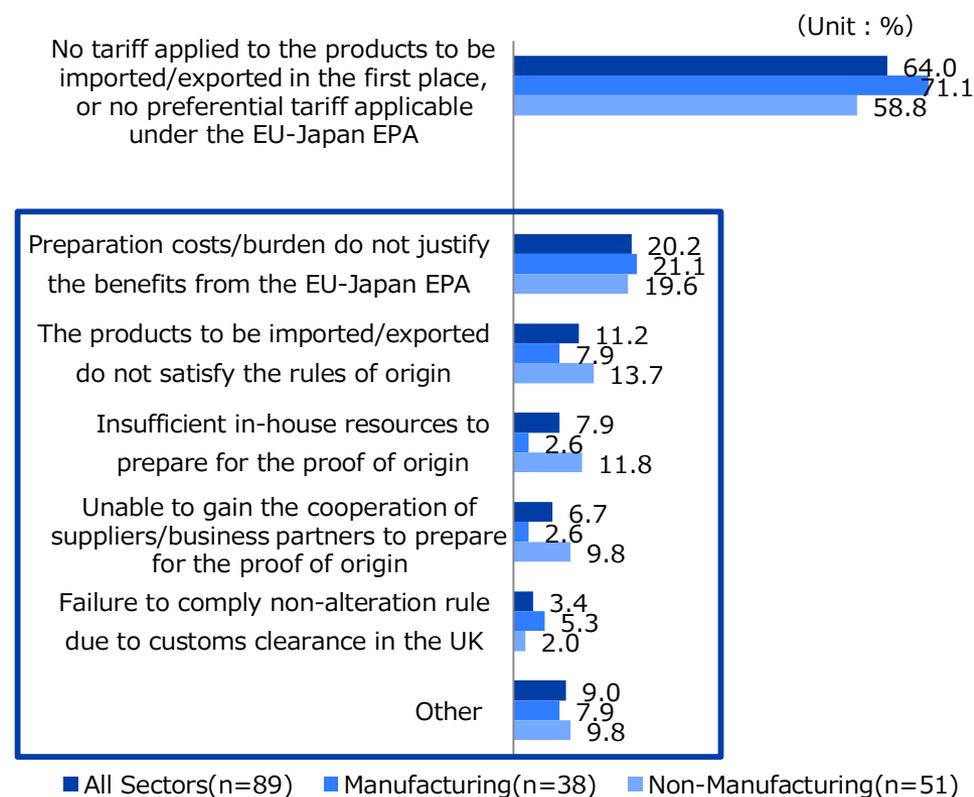
5-3 | Around 40% of companies do not use the Japan-EU EPA for exports from the EU

- Despite being engaged in trade between Japan and the EU, 71 out of 316 companies (22.5%) responded that they are not utilizing the Japan-EU EPA for imports from Japan to the EU. For exports from the EU to Japan, 50 out of 132 companies (37.9%) responded that they are not utilizing the agreement.
- Of companies based in the EU overall that did not utilize the Japan-EU EPA in spite of importing from Japan to the EU or exporting from the EU to Japan, 64% gave the reason as "No tariff applied to the products to be imported/exported in the first place, or no preferential tariff applicable under the EU-Japan EPA." The same response was 71.1% in the manufacturing sector.

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

(Unit : %)		
Status of Utilization of Japan-EU EPA	Responses	%
Japan → EU	316	100.0
Currently utilizing	155	49.1
Preparing to utilize	33	10.4
Considering to utilize	57	18.0
Not (planning to) utilize	71	22.5
EU → Japan	132	100.0
Currently utilizing	40	30.3
Preparing to utilize	10	7.6
Considering to utilize	32	24.2
Not (planning to) utilize	50	37.9

Reasons for not using the Japan-EU EPA* <Multiple Answers Given>

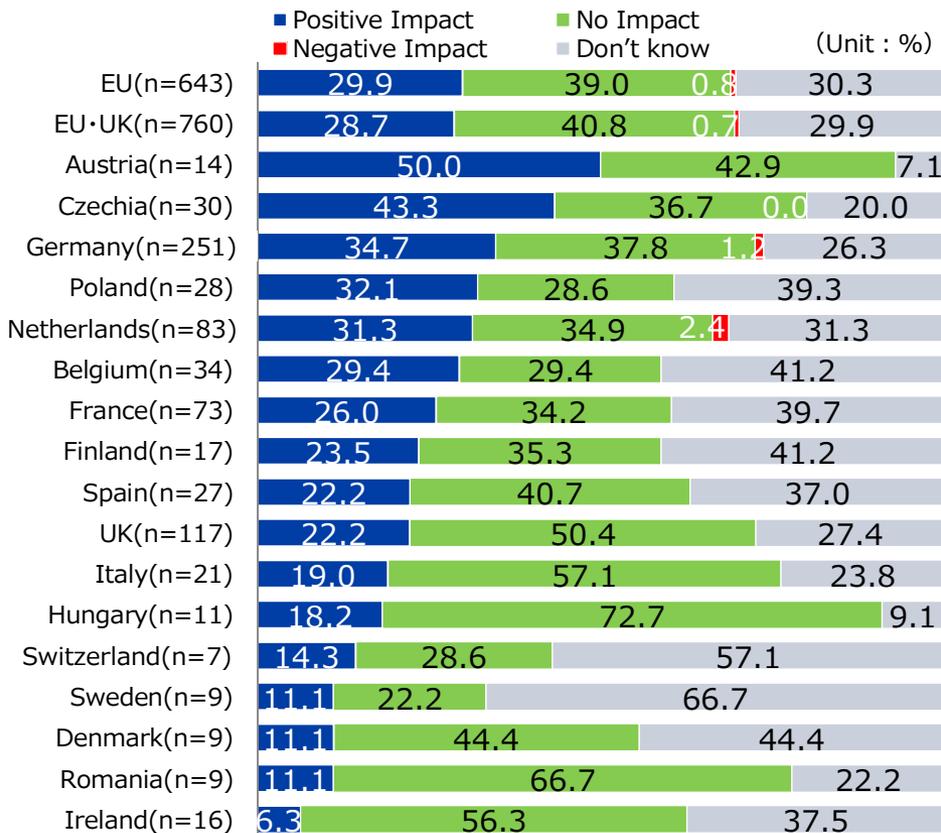


Note: Proportion of Japanese-affiliated companies based in the EU engaging in trade between the EU and Japan.

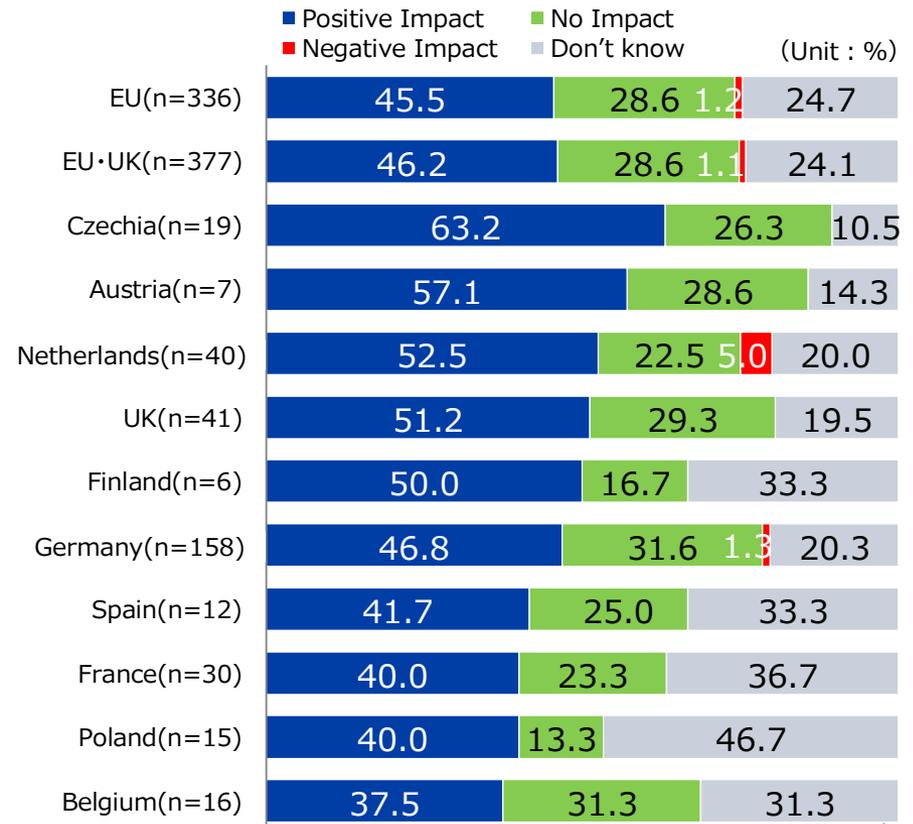
5-4 | Around 50% of companies see "Positive Impact" from the Japan-EU EPA

- When asked about the impact of the Japan-EU EPA, 29.9% of all EU based companies selected "Positive Impact".
- Among companies engaging in trade between Japan and the EU, 45.5% of all EU based companies selected "Positive Impact". Looking at companies engaging in trade between Japan and the EU by country, the response rates for "Positive Impact" were especially high in Czechia (63.2%) and Austria (57.1%). Even in the UK, which completely withdrew from the EU, the rate was 51.2%.

Japan-EU EPA impact by country (all respondees)



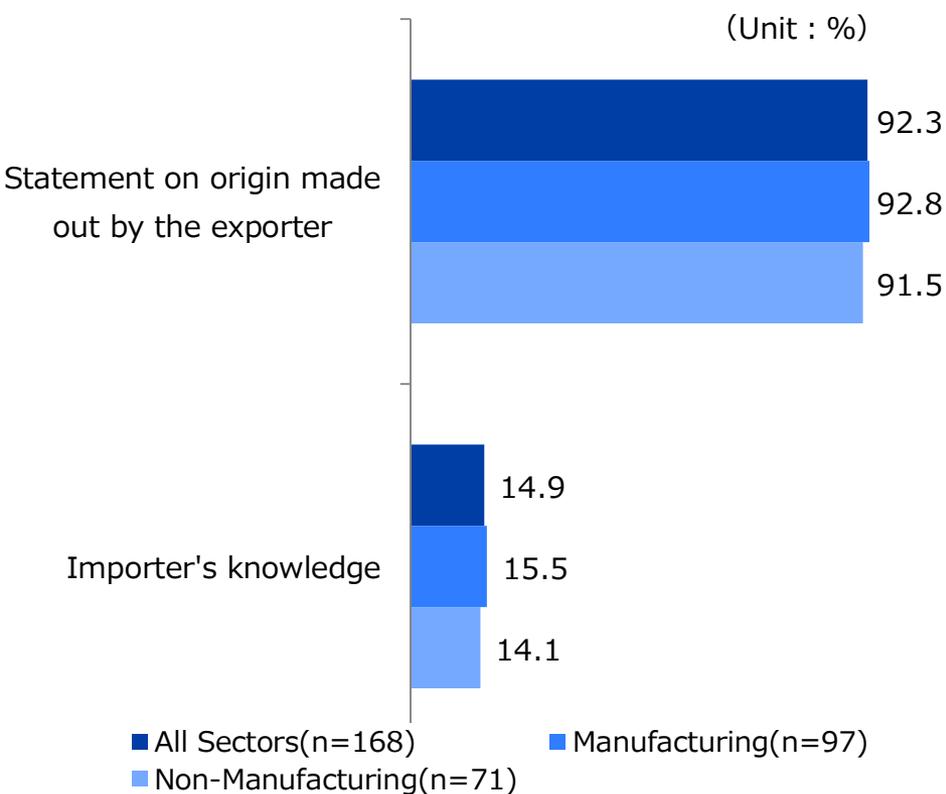
Japan-EU EPA impact by country (only companies engaging in trade between Japan and the EU)



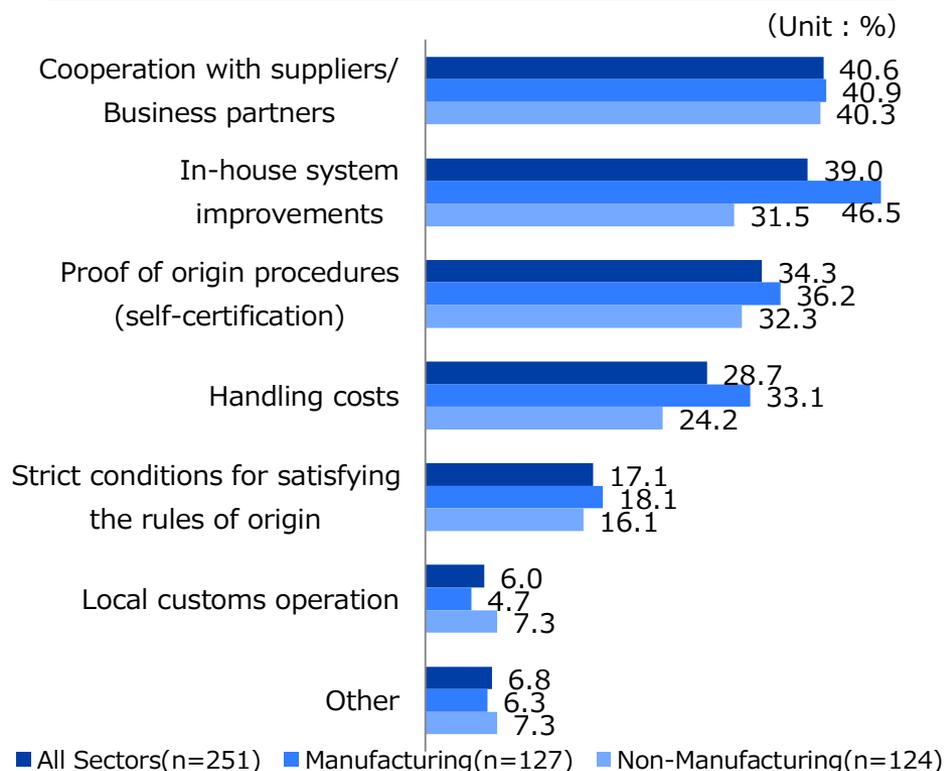
5-5 | Cooperation with suppliers/ business partners is a challenge for the use of the Japan-EU EPA

- The majority (92.3%) of companies use the "Statement on origin made out by the exporter" when applying for the preferential treatment under the Japan-EU EPA.
- As issues in utilizing the Japan-EU EPA, 40% of companies based in the EU cited "Unable to gain the cooperation of suppliers/business partners to prepare for the proof of origin" (40.6%), which continued to be the most common issue since last year. However, there was a decrease of 4 points since the previous survey, and in particular, a decrease of about 14 points since the previous survey in the non-manufacturing sector, indicating that the development of cooperation structures was advancing. In addition, "In-house system improvements" (39.0%) increased relative to the previous year's survey. This probably indicates that the number of companies attempting to utilize the Japan- EU EPA has increased.

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



Challenges regarding the use of the Japan-EU EPA (only companies based in the EU) <Multiple Answers Given>



5-6 | Many cited development of documents and cumbersome administration

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

<Integration and clarification of operation>

- Inconsistent treatment by customs (inspector) when making customs clearance declaration for imports. Handling should be coherent within Europe.
- Rules and required documents sometimes vary from country to country in Europe.

<Simplification>

- Application procedures are too complicated.
- Difficulty of gathering cost information from suppliers. Increase in administrative load within the company to prepare necessary documents and information.
- Verification of the origin of the materials is required even for parts which are imported from our parent company.
- Products that have many parts take time.
- The administrative burden is large such as products in bonded warehouses needing regular self-certification, or export documentation, etc. also being required when transported as stock by customs.
- Manufacturing costs change and regular review is necessary.
- The burden on suppliers is big and it is difficult to gain their cooperation.

<Others>

- HS code decisions and applications are unclear.
- Relaxation of rules of origin, relaxation of rules concerning certificates of origin.
- There are no human resources that have expertise in-house.
- Because documents, situations, languages differ depending on the respective EU member state, it would be good if there were a department that offered support.

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

<Tariffs>

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

<Certification of origin>

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

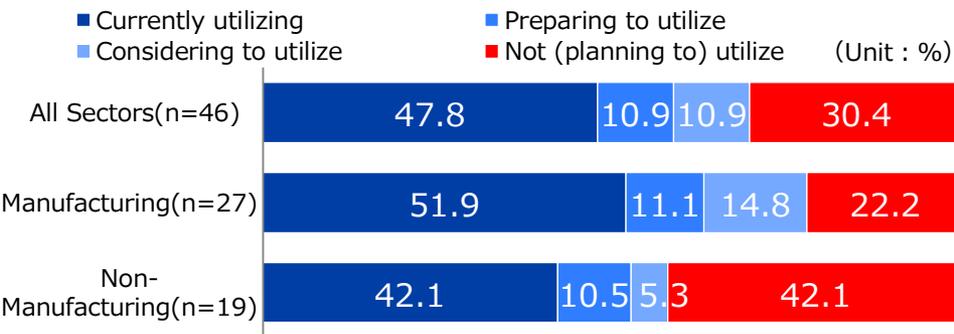
<Others>

- Enhanced price competitiveness in Europe.
- Increase in trade volumes caused by expansion in trade.
- Rise in associated man-hours in order to apply the EPA but unable to return to profit. Also adds delay in delivery.
- Reorganization of internal systems to deal with EPA.
- Human resource training.
- Put a dedicated person on the Japanese side.

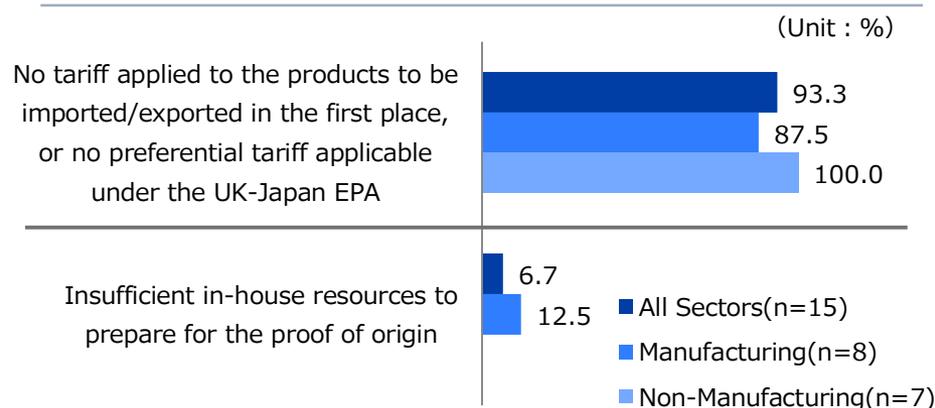
5-7 | About 50% of companies importing use the Japan-UK EPA

- Regarding the utilization of the Japan-UK EPA which came into effect in January 2021, about 50% of Japanese affiliates based in the UK responded "Currently utilizing" for importing from Japan to the UK. Looking at the manufacturing sector, 51.9% responded "Currently utilizing" for importing from Japan to the UK. For exporting from the UK to Japan, "Currently utilizing" and "Preparing to utilize" combined accounted for about 40%.
- Regarding the impact of the Japan-UK EPA on the activities of Japanese affiliates based in the UK, while over 30% responded "Positive impact" in the manufacturing sector, the proportion for this response in the non-manufacturing sector was only 16.2%.

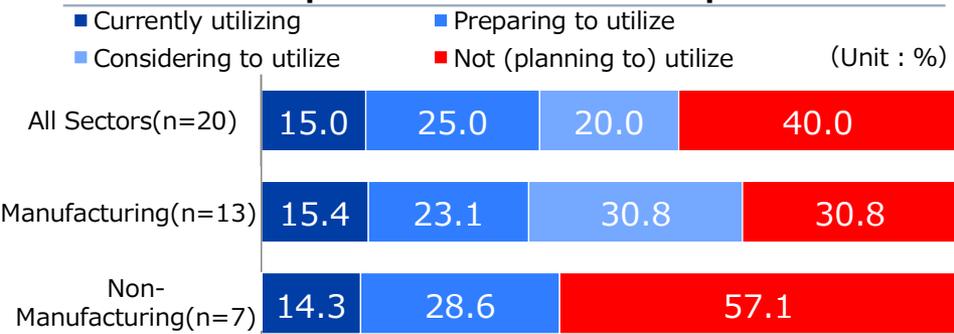
Utilization of the Japan-UK EPA by Japanese-affiliated companies based in the UK : Imports from Japan to the UK



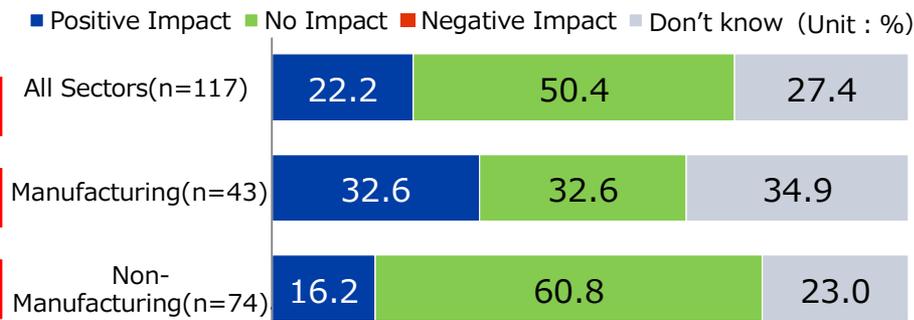
Reasons for not using the Japan-UK EPA <Multiple Answers Given>



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



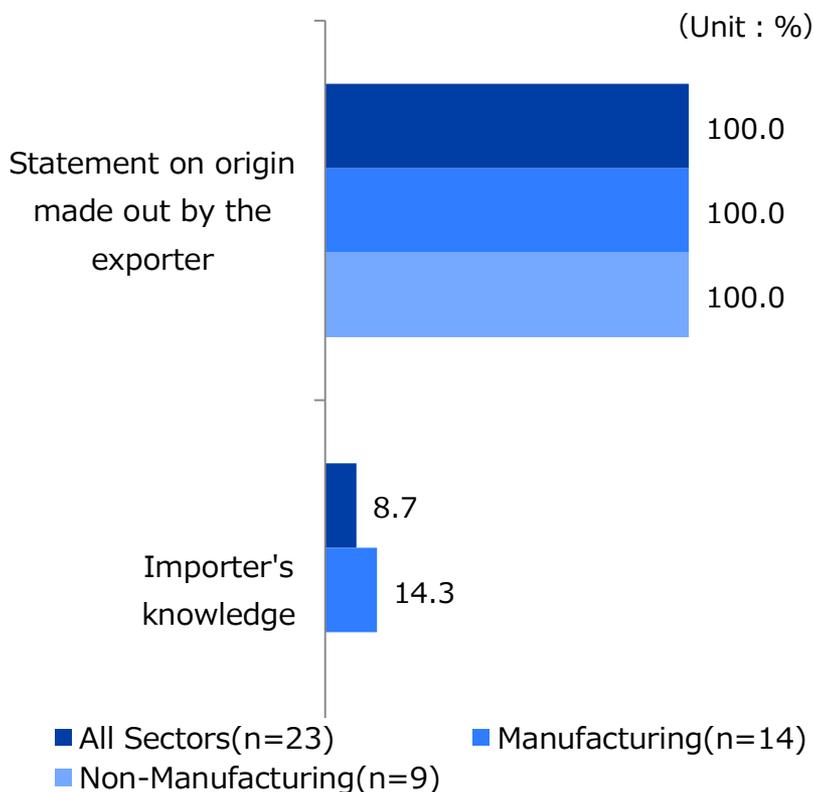
Japan-UK EPA impact by country (all respondees)



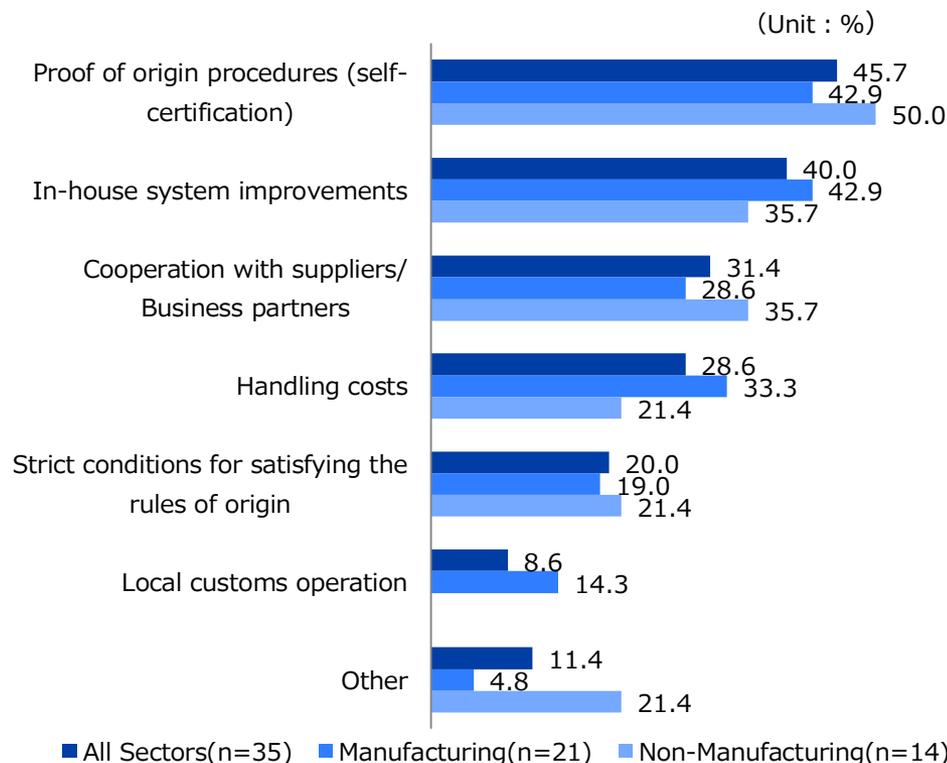
5-8 | Challenges for the Japan-UK EPA utilization include proof of origin procedures

- “Statement on origin made out by the exporter” accounted for 100% of the methods for claiming for preferential tariff treatment when utilizing the Japan-UK EPA.
- Regarding challenges for the utilization of the Japan-UK EPA, the most common response was “Proof of origin procedures (self-certification),” cited by 45.7% of companies. This was followed by “In-house system improvements” (40.0%) and “Cooperation with suppliers/Business partners” (31.4%). Since the Japan-UK EPA had gone into effect only recently, it seems that many companies are at the stage of developing procedures and systems adapted to it.

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



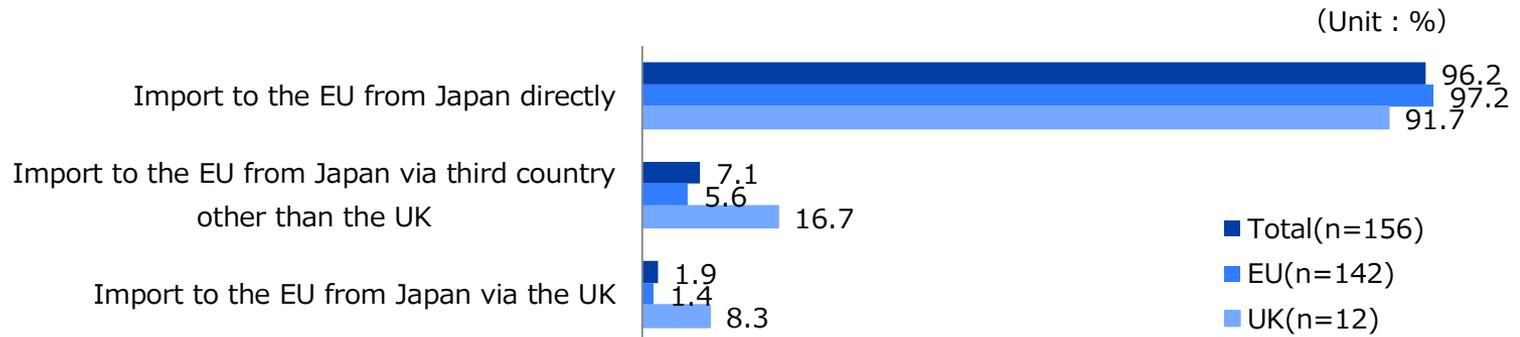
Challenges regarding the use of the Japan-UK EPA (only companies based in the UK) <Multiple Answers Given>



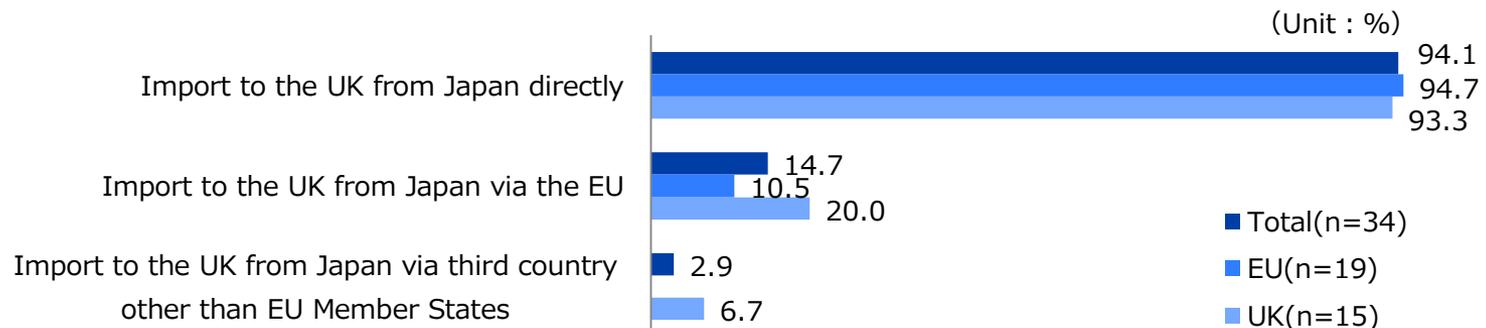
5-9 | Over 90% of companies import directly from Japan by using EPA

- Regarding the logistics route of companies utilizing the EPA, over 90% of companies importing to the EU and to the UK respectively responded that they import directly from Japan without going through a third country.
- Of companies utilizing the Japan-UK EPA, regarding importing from Japan to the UK, 20% of Japanese affiliates based in the UK responded that they import via the EU. Among Japanese affiliates based in the EU, the proportion was 10.5%.

Logistics of Japan-EU EPA from Japan to the EU <Multiple Answers Given>



Logistics of Japan-UK EPA from Japan to the UK <Multiple Answers Given>



5-10 | Many companies utilized EU-Vietnam and EU-South Korea FTAs

- Regarding the utilization of bilateral or multilateral FTAs that have already come into effect, for importing to the EU, particularly many companies were "Currently utilizing" an FTA with Vietnam or South Korea. For exporting from the EU, the most common response was "Currently utilizing" an FTA with Turkey or Switzerland. For importing to the UK, many companies responded that they were "Currently utilizing" an FTA with Vietnam or Turkey, and for exporting from the UK, the utilization of an FTA with Turkey was cited most by respondents.

Utilization of the EU's / UK's bilateral or multilateral FTAs by Europe-based companies <Multiple Answers Given>

(Units: Number of respondents, %)

Are you currently/considering to utilize preferential tax rates provided by these FTAs for import to the EU or UK?	Responses	Currently utilizing	Considering to utilize* ¹	Not (planning to) utilize
(Reference) Japan-EU	316	155	90	71
	100.0	49.1	28.4	22.5
Korea→EU	33	17	3	13
	100.0	51.5	9.1	39.4
Vietnam→EU	33	19	6	8
	100.0	57.6	18.2	24.2
Japan-Switzerland* ²	29	13	7	9
	100.0	44.8	24.1	31.0
Turkey→EU	22	9	5	8
	100.0	40.9	22.7	36.4
Switzerland→EU	21	10	3	8
	100.0	47.6	14.3	38.1
Singapore→EU	12	5	2	5
	100.0	41.7	16.7	41.7
Turkey→UK	10	6	2	2
	100.0	60.0	20.0	20.0
Korea→UK	10	5	2	3
	100.0	50.0	20.0	30.0
Vietnam→UK	10	7	1	2
	100.0	70.0	10.0	20.0
Norway, Iceland, Lichtenstein (EEA)* ³ →EU	9	5	0	4
	100.0	55.6	0.0	44.4

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

Note 2: "Japan-Switzerland" concerns import from Japan to Switzerland.

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

Are you currently/considering to utilize preferential tax rates provided by these FTAs for export from the EU or UK?	Responses	Currently utilizing	Considering to utilize* ¹	Not (planning to) utilize
(Reference) Japan-EU	132	40	42	50
	100.0	30.3	31.8	37.9
EU→Switzerland	91	30	16	45
	100.0	33.0	17.6	49.5
EU→Turkey	82	32	13	37
	100.0	39.0	15.9	45.1
EU→Norway, Iceland, Lichtenstein (EEA)* ²	55	21	7	27
	100.0	38.2	12.7	49.1
EU→Mediterranean countries (Including Middle East)* ³	40	14	5	21
	100.0	35.0	12.5	52.5
EU→Korea	17	5	2	10
	100.0	29.4	11.8	58.8
EU→Mexico	14	3	2	9
	100.0	21.4	14.3	64.3
UK→Turkey	14	6	2	6
	100.0	42.9	14.3	42.9
EU→Vietnam	12	2	3	7
	100.0	16.7	25.0	58.3
EU→Singapore	11	1	1	9
	100.0	9.1	9.1	81.8
UK→Switzerland	10	2	1	7
	100.0	20.0	10.0	70.0

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

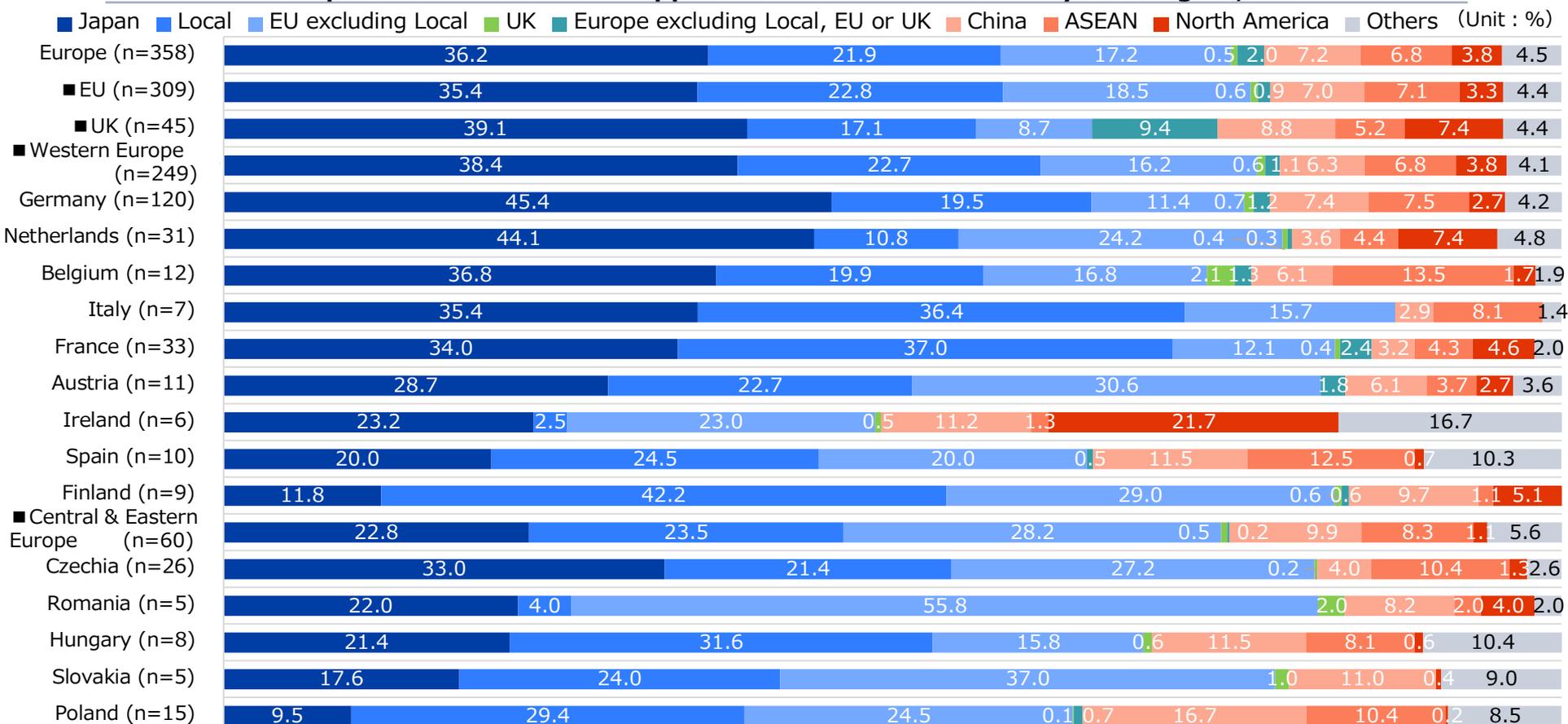
Note 2: These three countries are equal partners in the internal market, on the same terms as the EU member states through the EEA Agreement.

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

6-1 | Japan remain a major procurement source for EU based Japanese-affiliated companies

- Regarding the procurement of parts and raw materials for Japanese-affiliated companies based in the EU, the simple average of companies' responses (value-based) was calculated. The simple average of companies' responses from "Japan" was 35.4%. The rates for Germany and the Netherlands, where Japanese-affiliated companies are clustered most densely, were particularly high at 45.4% and 44.1% respectively.
- For UK-based Japanese-affiliated companies, the simple average of companies' responses (value-based procurement) from "Japan" was 39.1%. This represents an increase of 3.6 points from the previous survey, which was conducted before the Japan-UK EPA came into force.

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



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

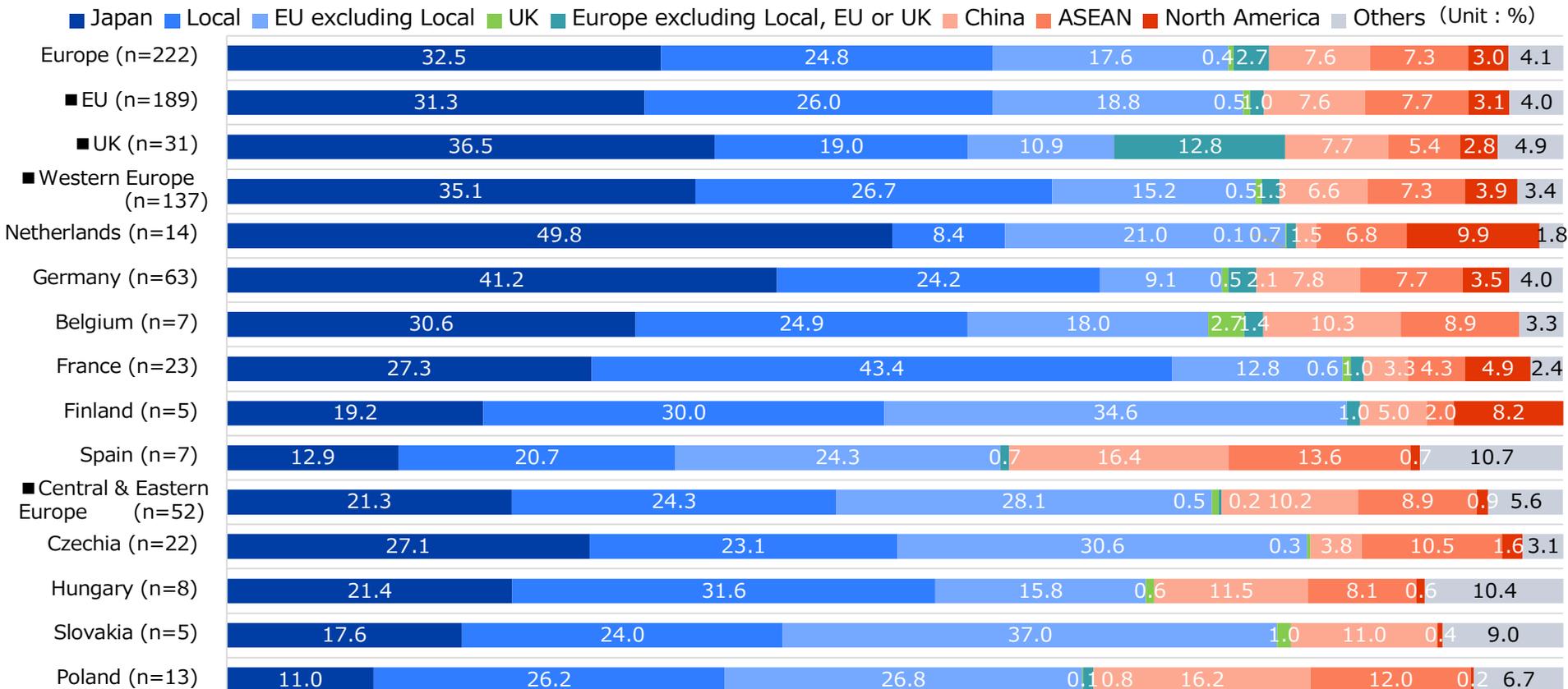
Note 2: For each choice, countries where the denominator consisted of fewer than five respondents were excluded.

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

6-2 | Procurement from Japan remains steady among Japanese manufacturers in the EU

- Regarding the procurement of parts and raw materials for Japanese-affiliated manufacturing companies based in the EU, the simple average of companies' responses (value-based) was calculated. The average rate of procurement from "Japan" fell 1.8 points from the previous survey* to 31.3%, but the country remained the largest procurement source. Additionally, asked about supplier country or region as procurement sources, "local" had 26.0% followed by "EU excluding local" at 18.8%. In particular, the former had an increase of 4.5 points compared to the previous survey. This trend was more notable in Central and Eastern Europe (increase of 6.0 points). *EU excluding the UK
- For UK-based Japanese-affiliated companies from the manufacturing sector, the simple average of companies' responses from "EU" was 10.9%, a decline of 2.6 points over that of the previous year's survey.

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



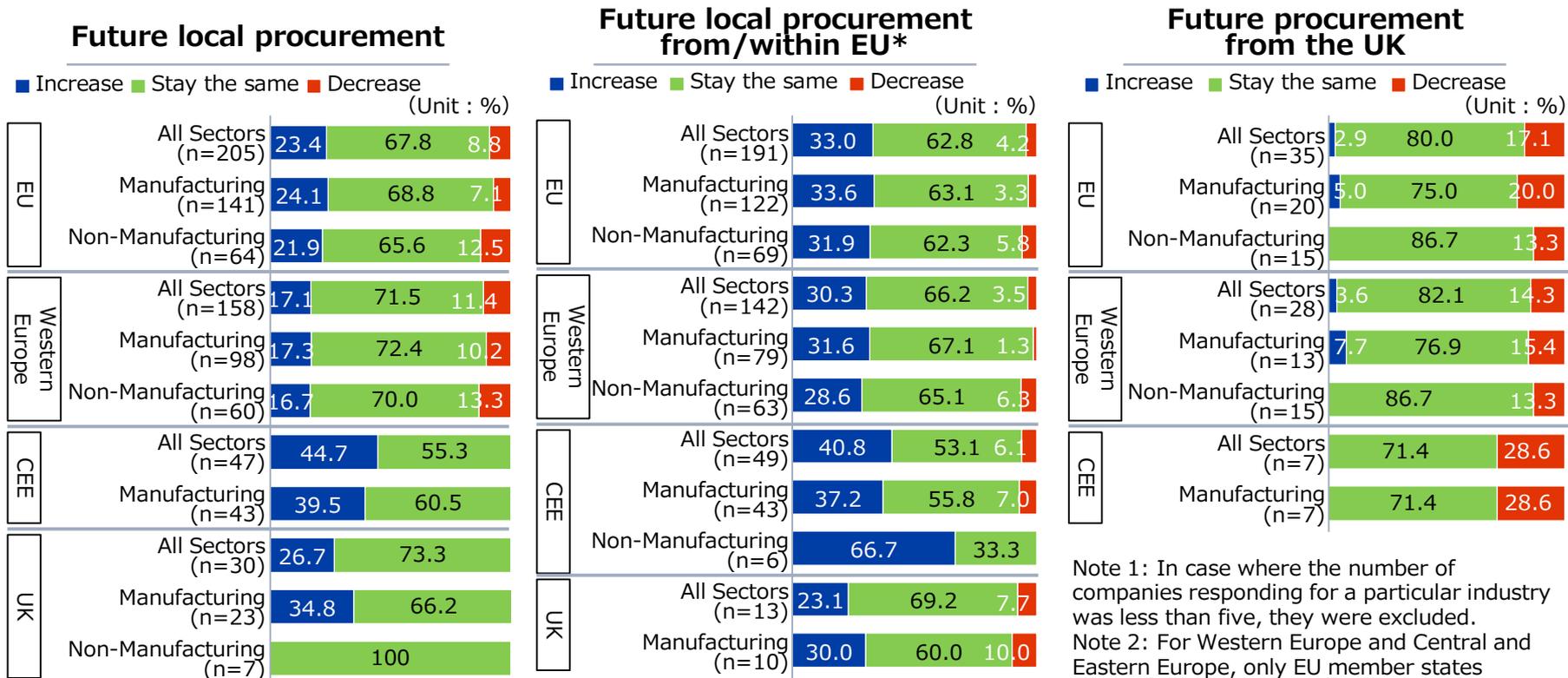
Note 1: This graph shows the average response rate given by companies for each sales destination. When combined, procurement sources for each company total 100.

Note 2: For each choice, countries where the denominator consisted of fewer than five respondents were excluded.

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

6-3 | Companies in Central and Eastern Europe intend to procure more from within the EU

- When asked about future policy for procurement from the local suppliers, 23.4% of all EU based Japanese-affiliated companies selected "Increase". Within the manufacturing sector, this rate was 24.1%, an increase of 4.9 points compared to the previous survey*. Additionally, looking at the plans for the future within the EU region, the proportion of "Increase" was large at 33.6%, indicating a trend for Japanese-affiliated manufacturers based in the EU to look to expand procurement within the EU. The future plan for expanding procurement within the EU was particularly prominent in the non-manufacturing sector in Central and Eastern Europe, with an increase of 36.7 points to 66.7%.
- For Japanese-affiliated manufacturers based in the EU, the rate of companies responding that procurement from the UK would "Stay the same" fell by 7.9 points to 75.0%. The rate of responses of "Decrease" increased by 5.4 points to 20.0%, showing a trend of cutting back on cross-border procurement from the UK, which completely withdrew from the EU in January 2021. On the other hand, for Japanese-affiliated manufacturers based in the UK, those planning to "Increase" procurement from the EU rose 17.5 points to 30.0%¹⁾, excluding the UK

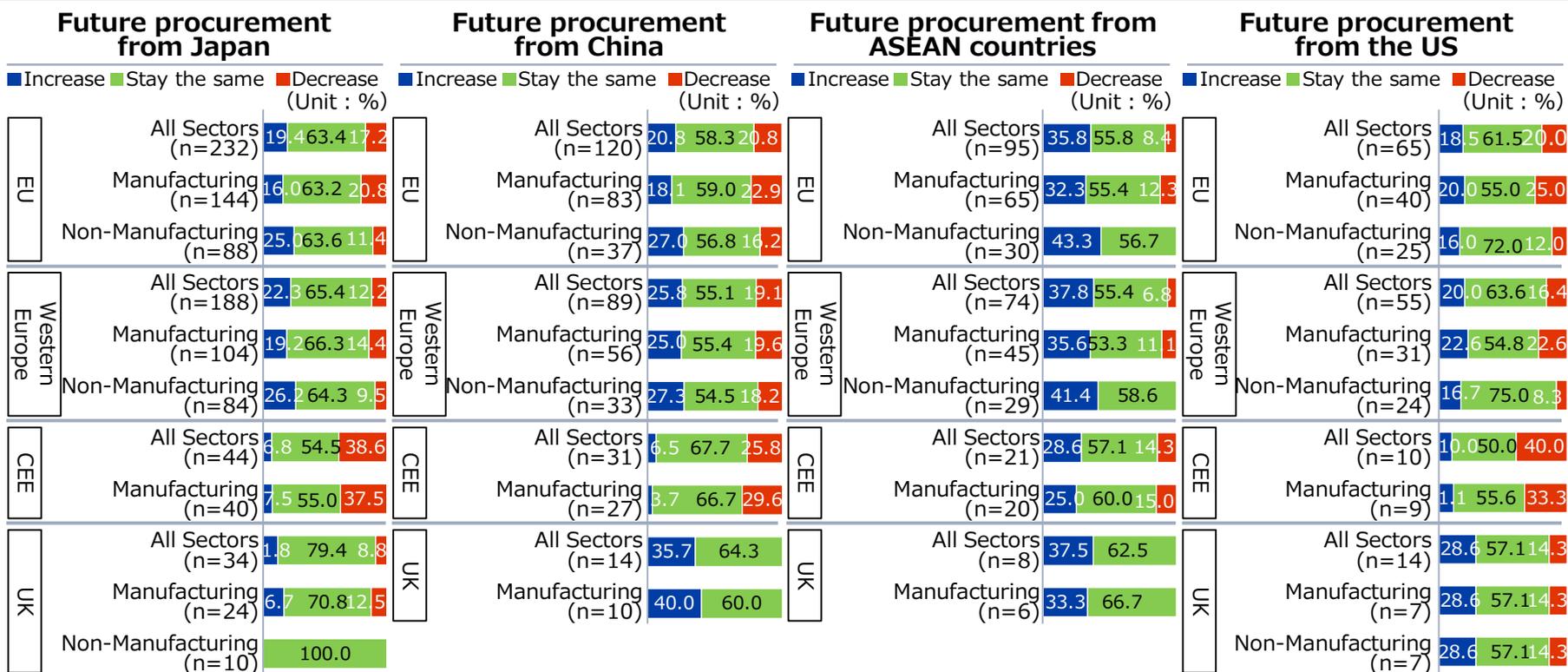


*Excluding local country and Ireland

Note 1: In case where the number of companies responding for a particular industry was less than five, they were excluded.
 Note 2: For Western Europe and Central and Eastern Europe, only EU member states are included.

6-4 | Nearly 40% of companies in the EU intend to increase procurement from ASEAN countries

- 19.4% of Japanese-affiliated companies based in the EU selected "Increase" for future procurement from Japan. Within this, the response rate for "Increase" in the manufacturing sector rose 2.2 points from the previous survey* to 16.0%. On the other hand, "Stay the same" rose by 0.1 points for all sectors, and fell by 0.9 points for the manufacturing sector. * EU excluding the UK
- Many companies are aiming to increase procurement from ASEAN countries, with 35.8% of Japanese-affiliated companies in the EU selecting "Increase" as a response. Conversely, the number of Japanese-affiliated companies based in the EU selecting "Increase" for procurement from the US was just 18.5%.
- The number of Japanese-affiliated manufacturing companies in Central and Eastern Europe that responded with "Decrease" with regard to procurement from Japan and US was striking. On the other hand, as noted above, there is a visible trend towards increasing procurement from local suppliers and other EU countries, which suggests that the supply chain's center of gravity is shifting towards the EU.



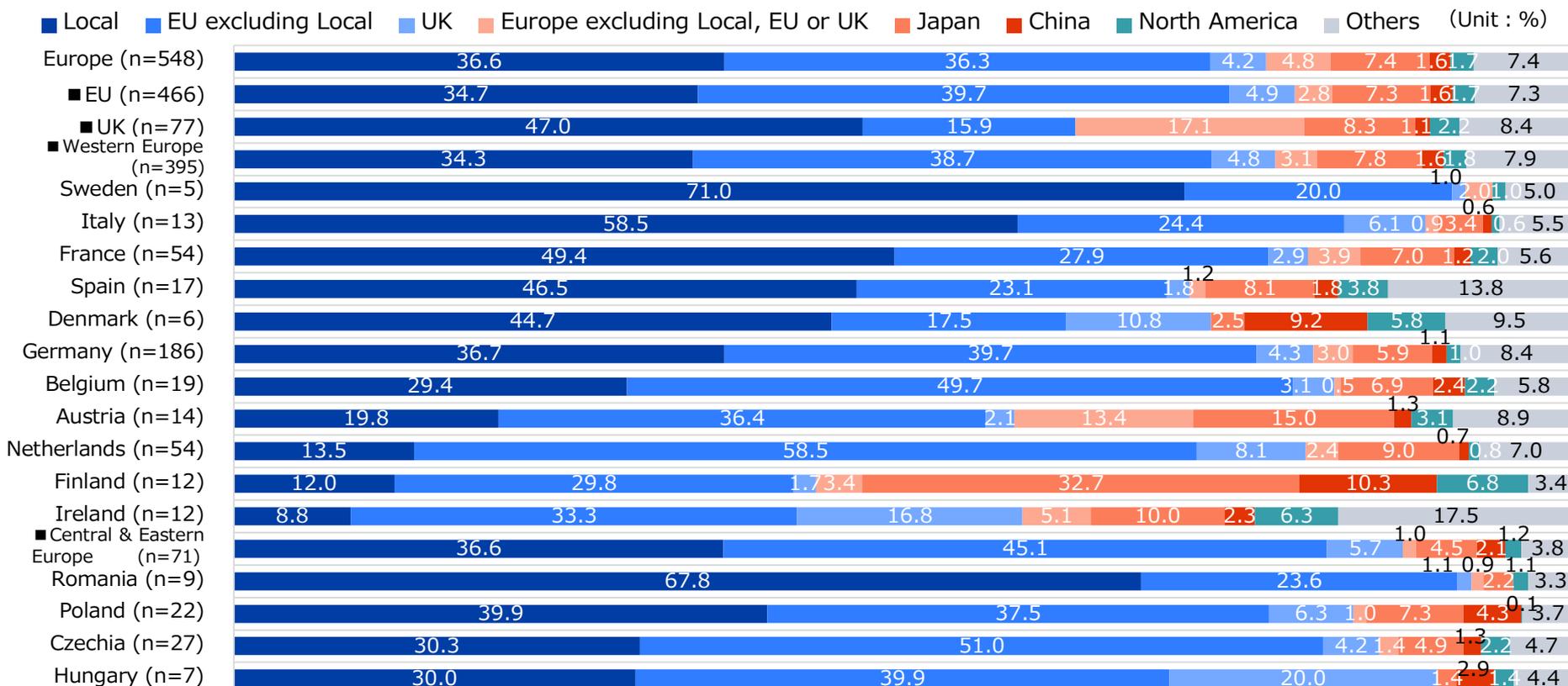
Note 1: In case where the number of companies responding for a particular industry was less than five, they were excluded.

Note 2: For Western Europe and Central and Eastern Europe, only EU member states are included.

6-5 | The share of EU is falling as a proportion of sales destinations for companies in the UK

- Regarding sales destination (by country and region), the simple average of companies' responses (value-based) was calculated. For Japanese-affiliated companies based in the EU, the average share of the EU (including the local country) in total sales destinations was 74.4%, showing that for many their main sales market is the EU. For Japanese affiliates based in the Netherlands, the rate of responses of "Local" fell by 1.7 points, but "EU excluding local" rose 8.4 points, indicating that the relative weight of the EU market outside of the country increased.
- Among Japanese affiliates based in the UK, the rate of responses of "Local" rose by 9.6 points to 47.0%, showing the increasing presence of the domestic market. Additionally, among Japanese affiliates based in Ireland, the share of the UK market remained high at 16.8%, an increase of 6.2 points compared to the previous survey.

Breakdown by sales destination (country and region, value-based)



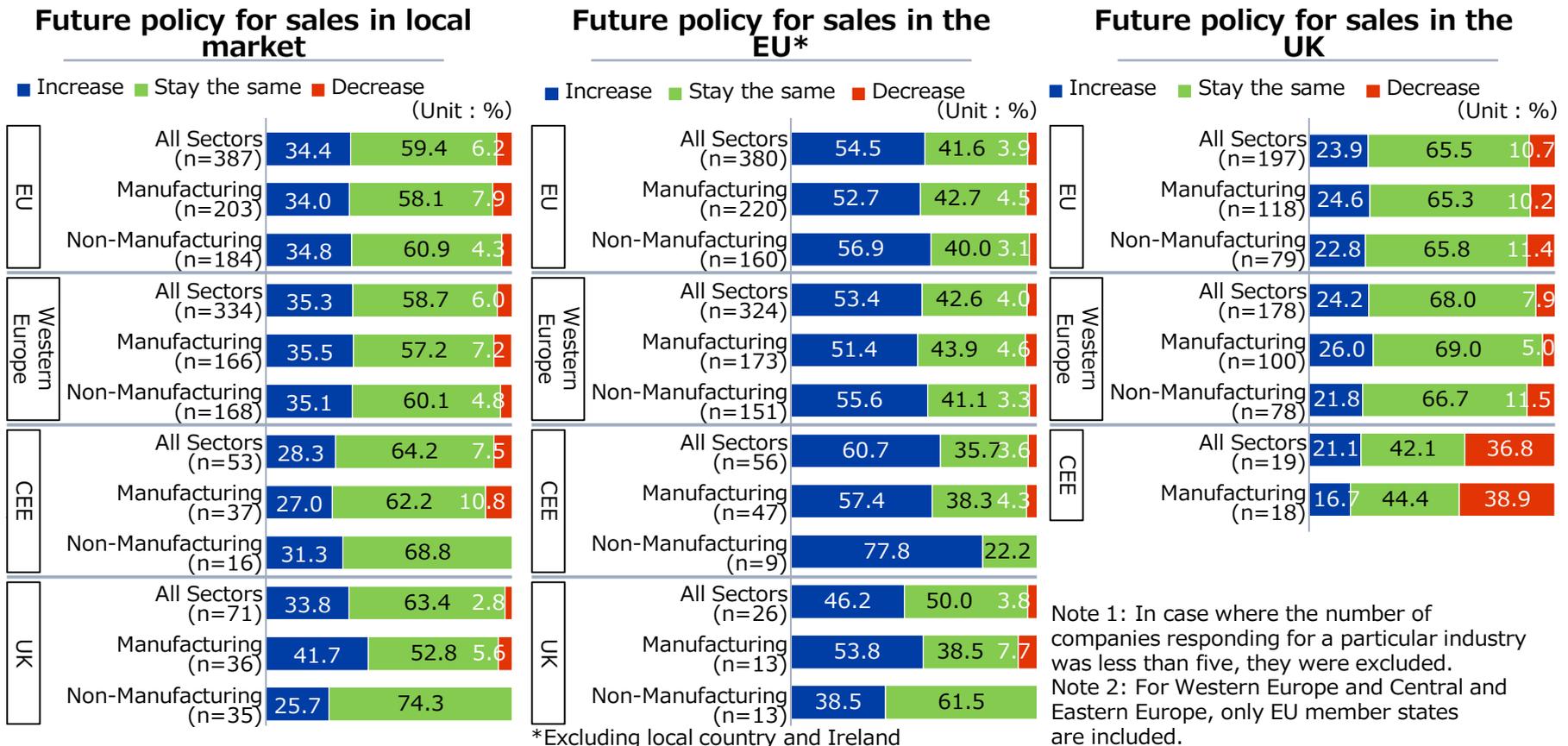
Note 1: This graph shows the average response rate given by companies for each sales destination. When combined, sales destinations for each company total 100.

Note 2: For each choice, countries where the denominator consisted of fewer than five respondents were excluded.

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

6-6 | Companies in Central and Eastern Europe aim to expand sales routes in the EU market

- When asked about their future policy for sales in the local market, 34.4% of Japanese-affiliated companies based in the EU selected "Increase". 35.3% of Japanese-affiliated companies based in Western Europe responded with "Increase" for sales in their local market going forward, a higher figure than the 28.3% recorded for their peers in Central and Eastern Europe.
- 54.5% selected "Increase" for their future policy for sales in the EU market, a higher figure than for local market, conveying the intent to expand sales in the EU as a whole. In particular, 60.7% of Japanese affiliates in Central and Eastern Europe responded "Increase," a 17.1 point increase compared to the previous survey.
- When asked about the UK market, the rate of Japanese manufacturing companies in Central and Eastern Europe that responded with "Decrease" was high, suggesting a trend towards building a supply chain focused on customers in the EU after the UK's complete withdrawal from the EU.

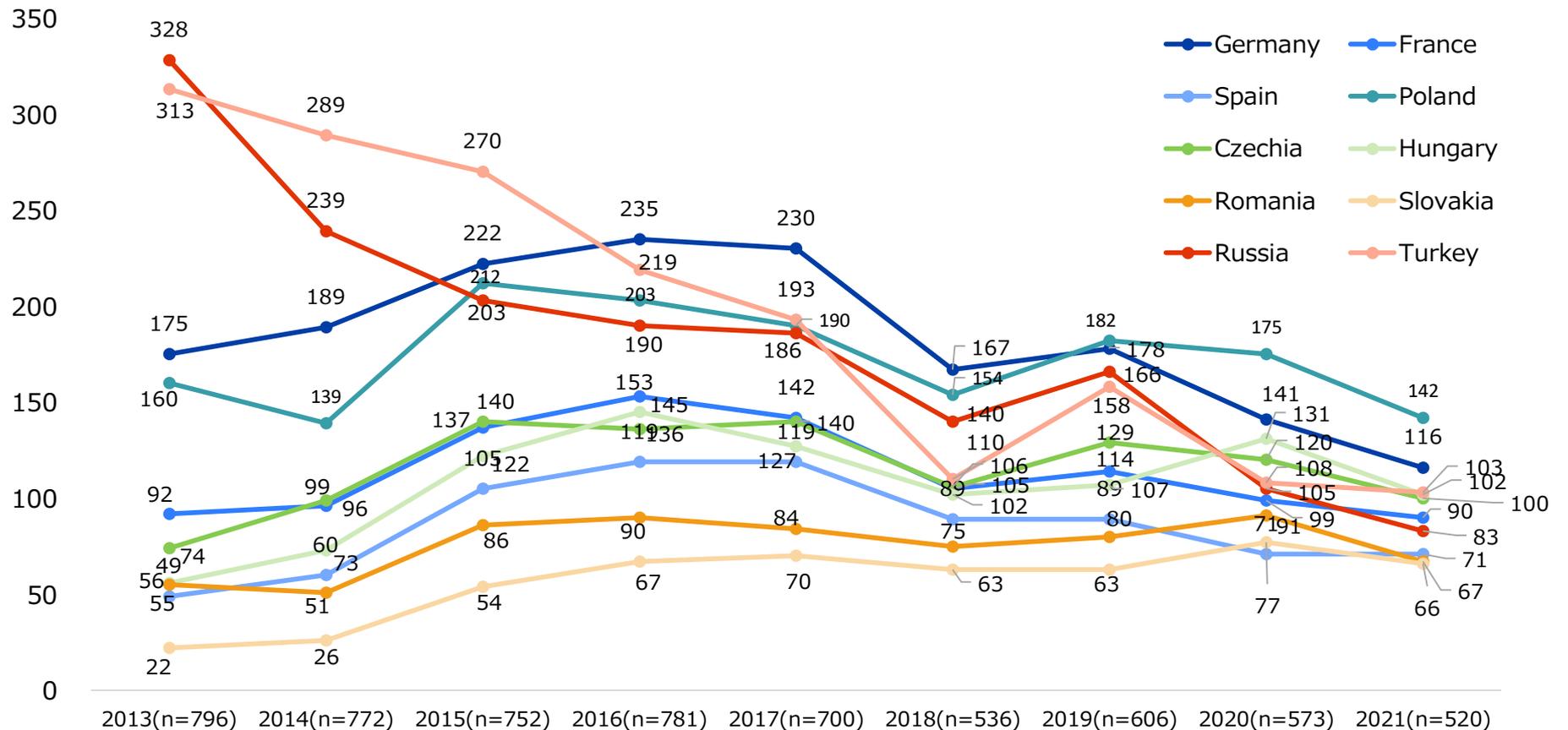


7 | Half of the top 10 future promising sales destinations are in Central and Eastern Europe

- As a future promising sales destination, about 30% selected "Poland," enabling it to maintain its top position for three consecutive years.
- Similarly as the previous survey, the reasons cited by many respondents for selecting Central and Eastern Europe were "Increased demand accompanying economic growth" and "Relocation/ advancement of business partners."
- Serbia, which was included as a choice from this year's survey, was in 11th place, exceeding Italy in 12th place, Morocco in 13th place, and the UK in 14th place.

Top 10 future promising sales destinations trends for 2021 <Multiple Answers Given>

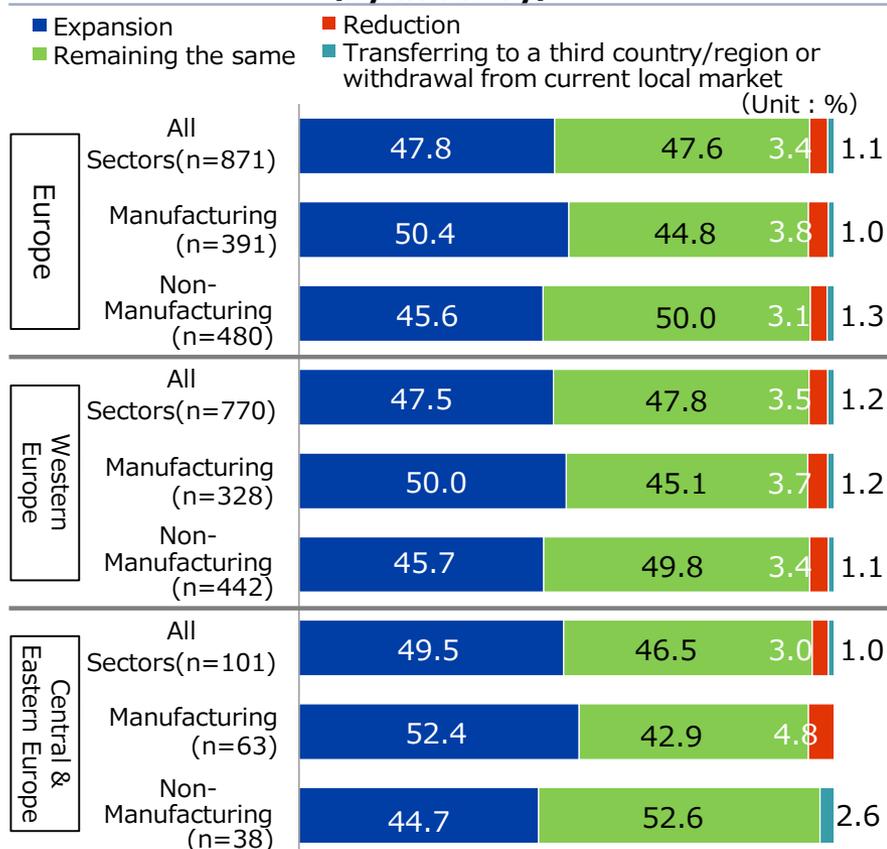
(Unit : Number of respondents)



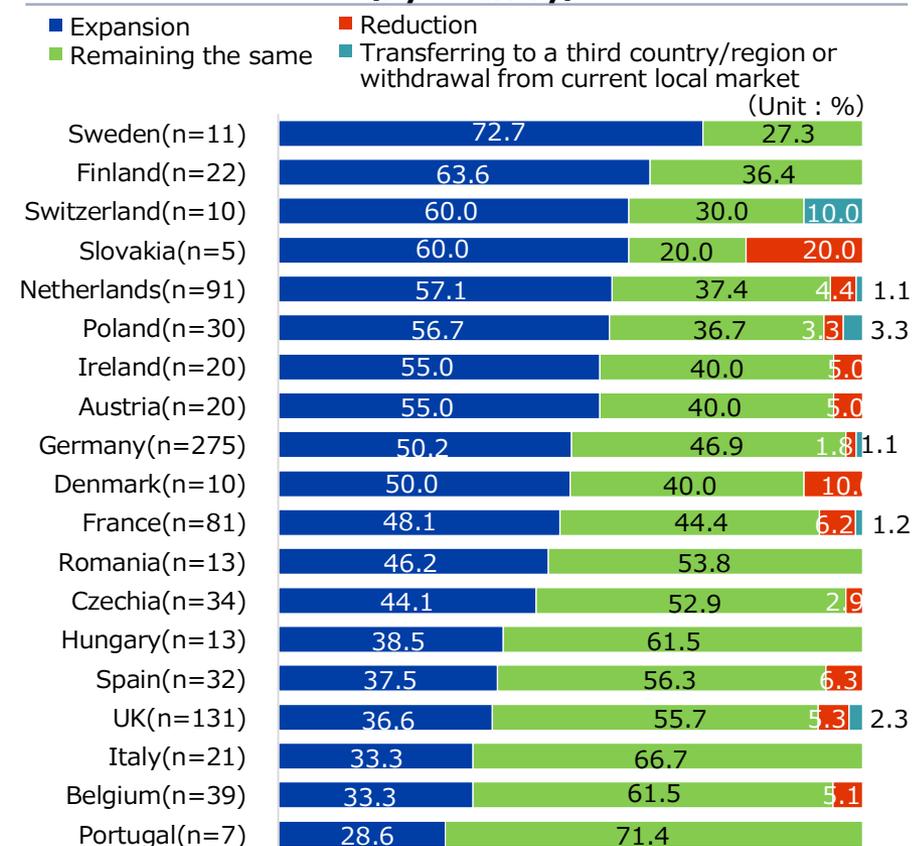
8-1 | Planning future business "Expansion" increased to about half of respondents

- In Europe overall, 47.8% of companies responded that they planned for "expansion" of business in the next one to two years, an increase of 11.6 points from the previous year. The reasons for doing so were diverse, such as expecting increased demand or business expansion, however, there were also companies that cited a rebound from the COVID-19 pandemic or economic recovery.
- On the other hand, 47.6% responded "Stay the same" and 3.4% responded "Decrease." These were a fall of 6.8 points and 5.5 points respectively from the previous survey.
- By country, Sweden had the highest proportion of "Expansion" with 72.7%, with voices pointing out that the market is expanding or expected to expand.

Business outlook for next 1 or 2 Years (by industry)



Business outlook for next 1 or 2 Years (by country)

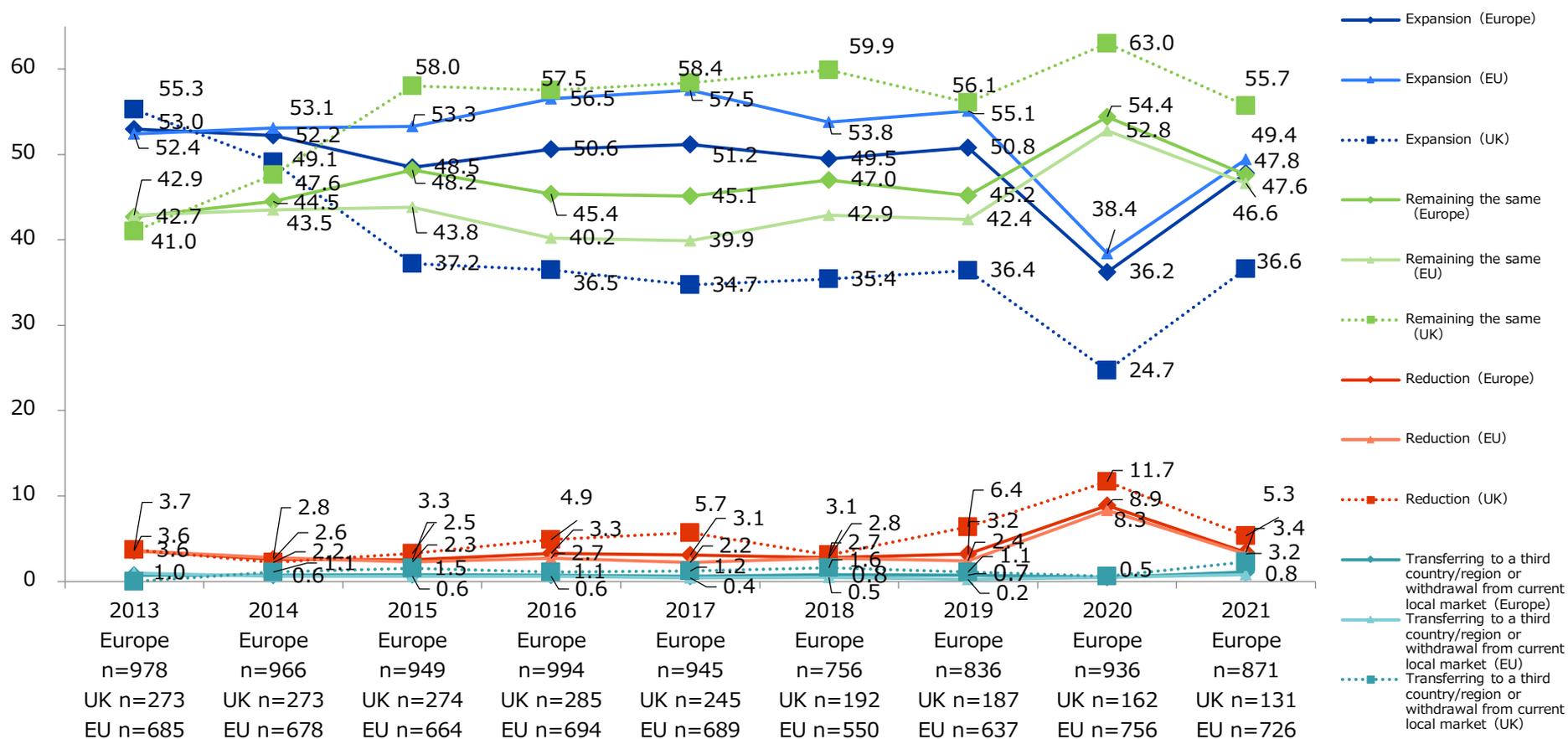


8-2 | "Expansion" exceeds "Stay the Same" in Europe overall and the EU

- Regarding business plans for the next one to two years, across all sectors, the response rate of "Expansion" was 47.8% in Europe overall and 49.4% in the EU, each exceeding the rates for "Stay the same." In the previous survey, "Stay the same" exceeded "Expansion" due to the impact of the COVID-19 pandemic, but the responses reversed again.
- Among Japanese affiliates based in the UK, across all sectors, the response rate for "Expansion" was only 36.6%, falling below the 55.7% of "Stay the same."

Trend in outlook for business development over next 1-2 years (all sectors)

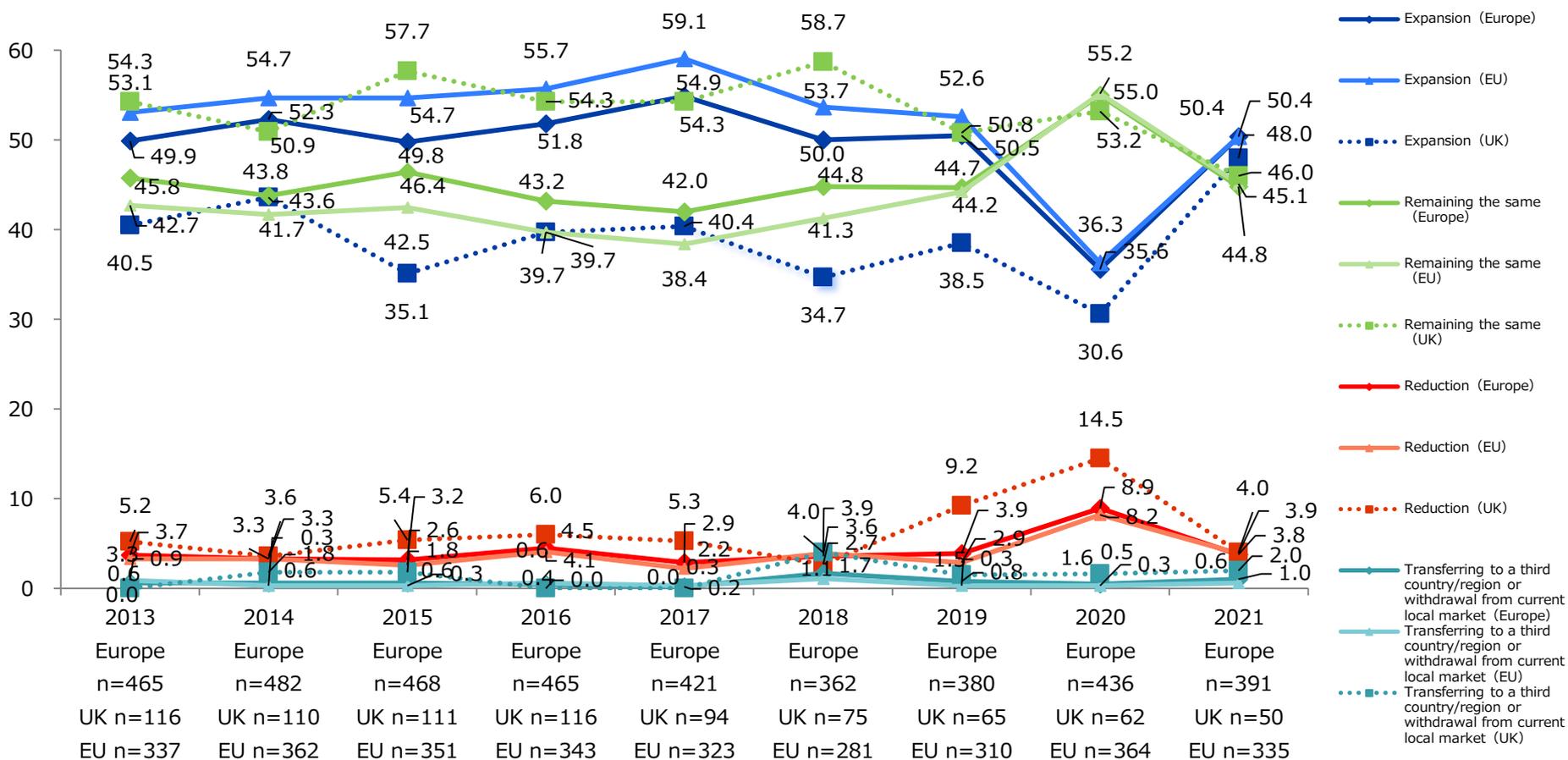
(Unit : %)



8-3 | In the manufacturing sector, "Expansion" was the highest including respondents in the UK

- Among Japanese-affiliated manufacturers based in the UK, for the first time since 2012, the response rate for "Expansion" of business in the next one to two years (48.0%, a 17.4-point increase over the previous year) exceeded "Stay the same" (46.0%, 7.2-point decrease over the previous year) and "Decrease" also fell 10.5 points to 4.0%.
- Among Japanese-affiliated manufacturers based in Europe and the EU, "Expansion" accounted for over 50% respectively, exceeding the response rates for "Stay the same."

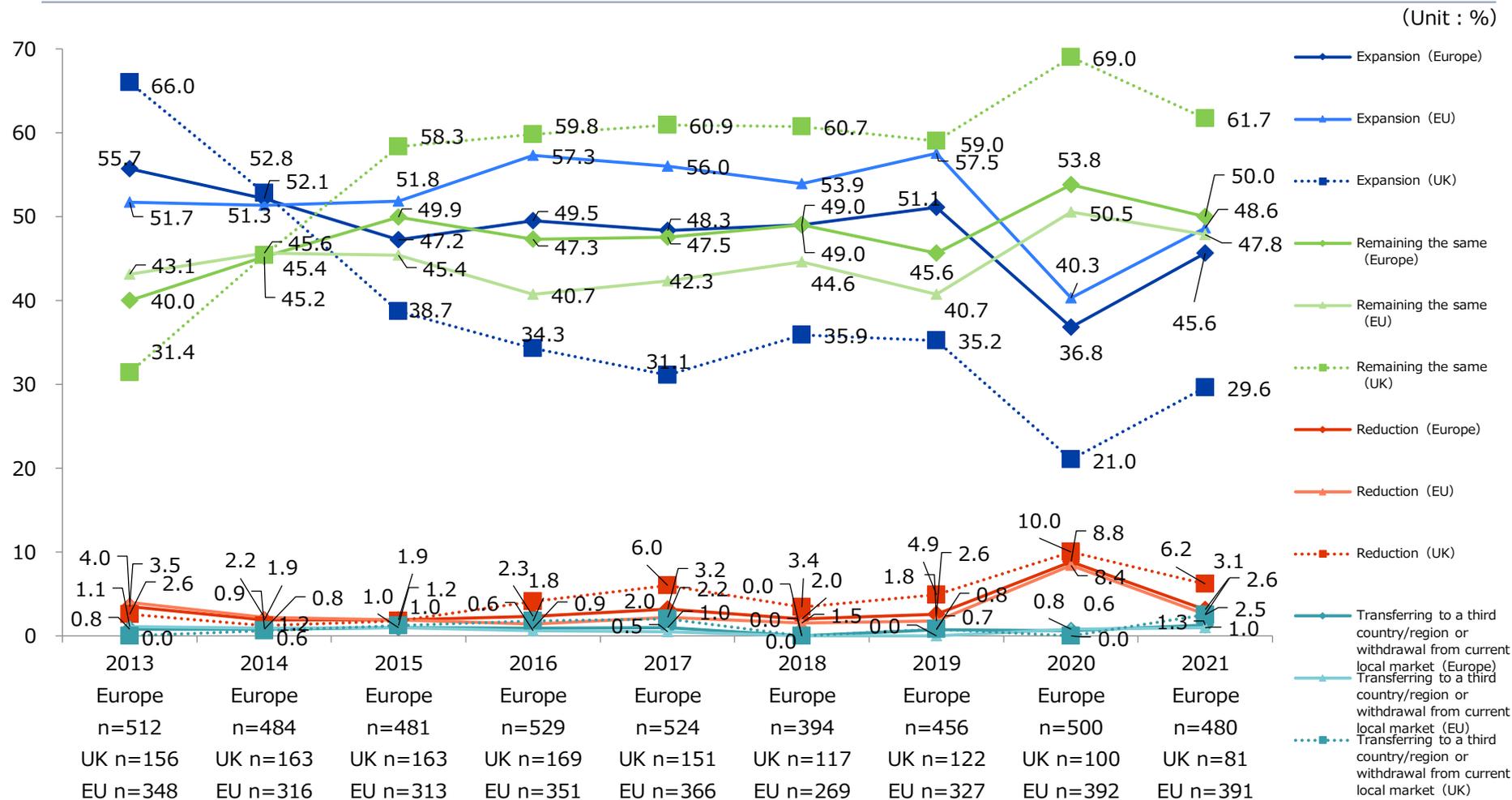
Trend in outlook for business development over next 1-2 years (manufacturing sector) (Unit : %)



8-4 | Non-manufacturing companies in Europe overall and the UK continues to wait-and-see

- The response rate for “Stay the same” in the non-manufacturing sector was 50.0% in Europe overall and 61.7% in the UK, indicating that many companies will continue taking a wait-and-see approach as in the previous survey. On the other hand, “Expansion” exceeded “Stay the same” by a narrow margin among respondents in the EU.

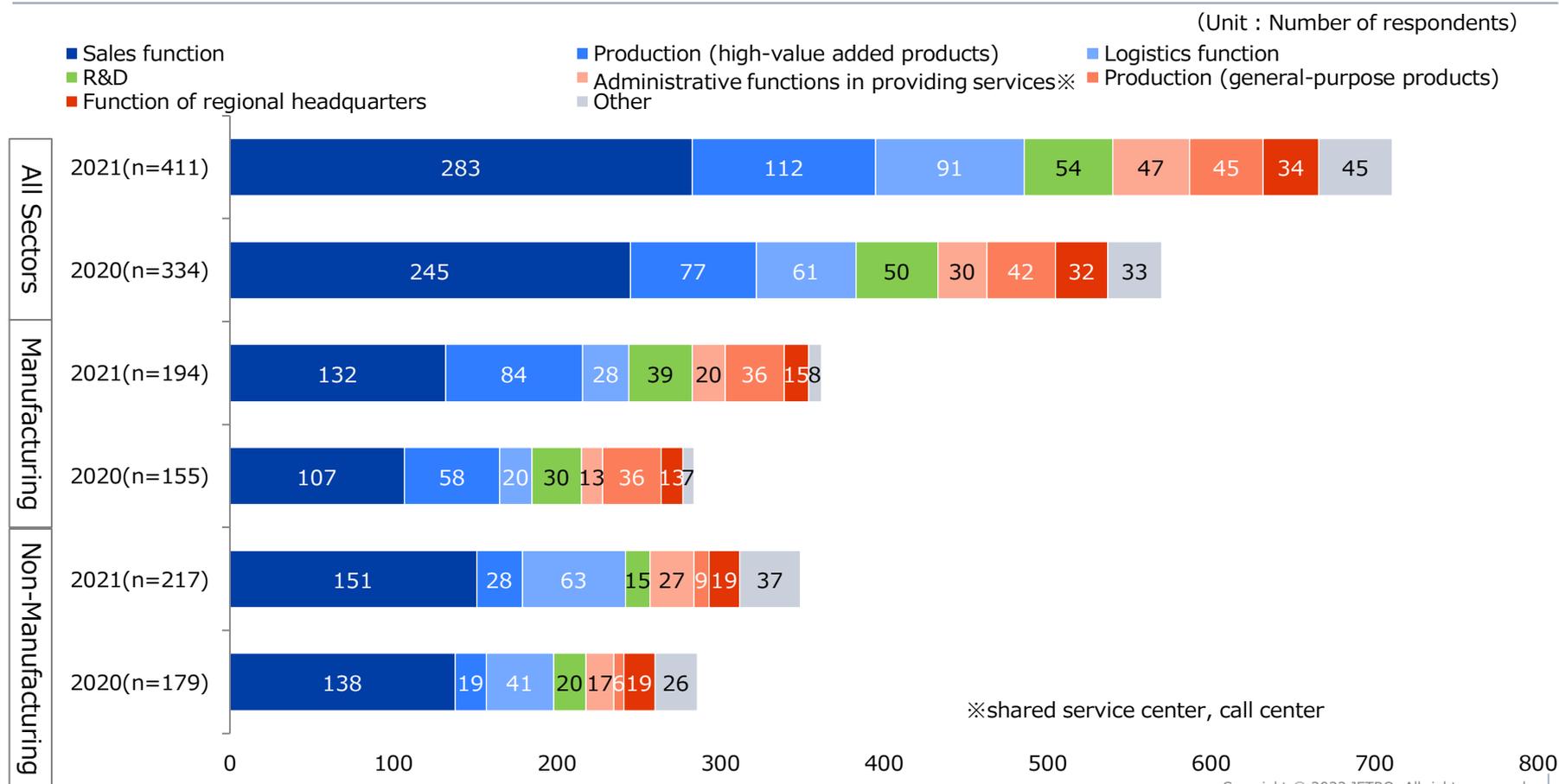
Trend in outlook for business development over next 1-2 years (non-manufacturing sector)



8-5 | “Sales” continues to be the highest function for “Expansion” from the previous survey

- When companies responding that they planned for “expansion” of business in the next one to two years were asked specifically what functions they intended to expand, “Sales functions” was the most common answer. This is the same trend as the previous year, but in this year’s survey, “Administrative functions in providing services” reversed places with “Production (general-purpose products)” by a narrow margin.
- The next highest response after “Sales functions” was “Production (high-value added products)” in the manufacturing sector and “Logistics function” in the non-manufacturing sector.

Functions to expand <Multiple Answers Given>



8-6 | By country of operation, respondents in Germany cited “Expansion” the most

- Following the previous survey, Japanese-affiliated companies based in Germany accounted for the most responses of “Expansion” of business in the next one to two years. Looking at the functions to be expanded, Germany came in top for responses for all of the functions as well.

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

	1st	2nd	3rd
Sales function	Germany (109)	Netherlands (33)	UK (30)
Production (high-value added products)	Germany (34)	France (14)	UK (11)
Logistics function	Germany (42)	Netherlands (14)	France (9)
R&D	Germany (12)	France (9)	UK (7)
Administrative functions in providing services	Germany (14)	France (8)	Netherlands (5)
Production (general-purpose products)	Germany (9)	UK (6)	Poland, Czechia (each 5)
Function of regional headquarters	Germany (12)	Netherlands (9)	UK (4)

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

Number of companies selecting function of regional headquarters

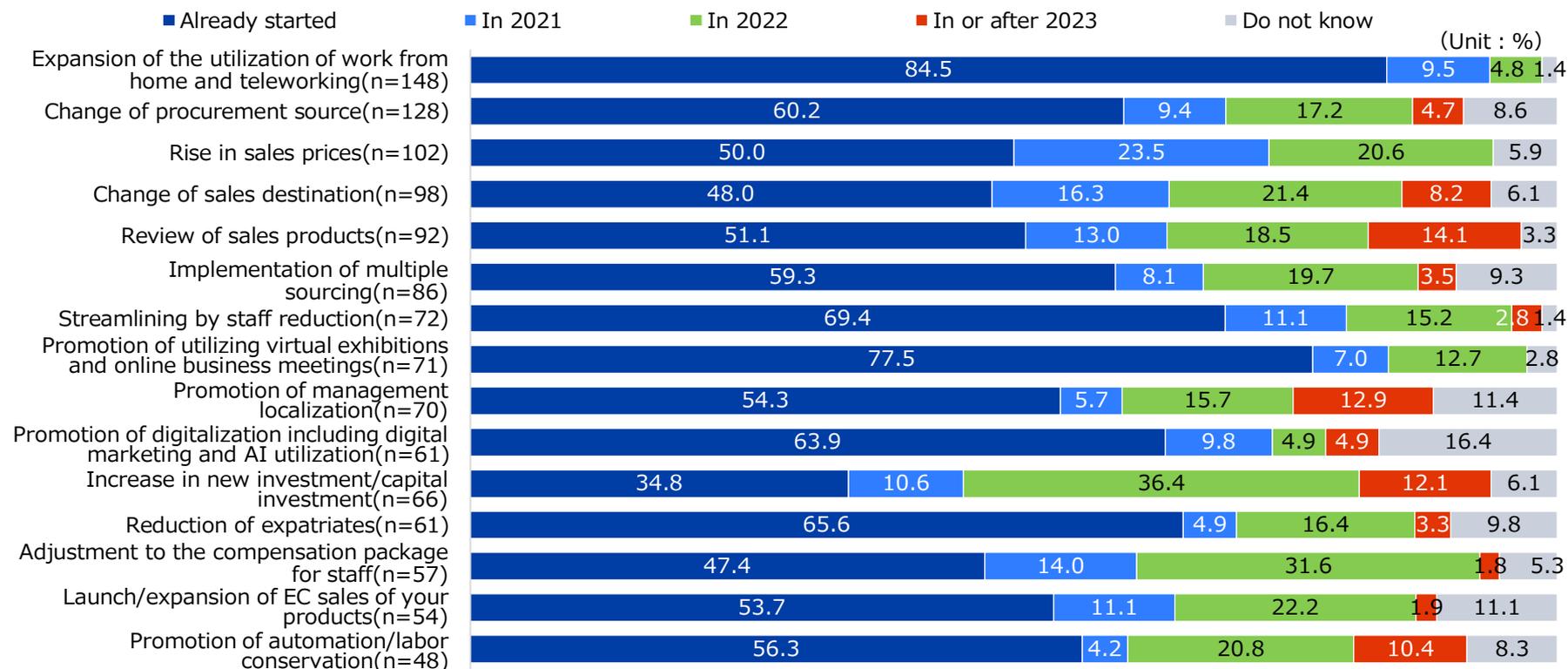
	2016	2017	2018	2019	2020	2021	Change since 2020
Total	43 (8.7)	53 (11.3)	37 (10.1)	41 (9.8)	32 (9.6)	34 (9.6)	2 (0.0)
Germany	10 (8.3)	19 (15.3)	14 (12.8)	11 (9.8)	18 (14.9)	12 (8.9)	△6 (△6.0)
Netherlands	11 (26.8)	10 (20.8)	1 (8.3)	8 (18.6)	4 (8.0)	9 (17.6)	5 (9.6)
UK	9 (8.7)	8 (9.5)	9 (13.6)	2 (2.9)	3 (7.7)	4 (8.3)	1 (0.6)
Spain	1 (3.8)	3 (14.3)	2 (15.4)	3 (23.1)	1 (16.7)	3 (25.0)	2 (8.3)

Note: The figures in brackets indicate the proportion of companies that selected the function of regional headquarters among companies that responded “Expansion.”

8-7 | Change of procurement sources and rise in sales prices advance

- Of the companies that responded that they had already conducted or are planning to conduct a review of business strategy, control, or management system, specific measures cited included "Expansion of the utilization of work from home and teleworking," "Change of procurement source," and "Rise in sales prices."
- Measures that had a high rate to be reviewed in 2022 onwards included "Increase in new investment/capital investment," "Adjustment to the compensation package for staff", "Review of sales products," and "Promotion of automation/labor conservation."

Review of control/management system and business strategy

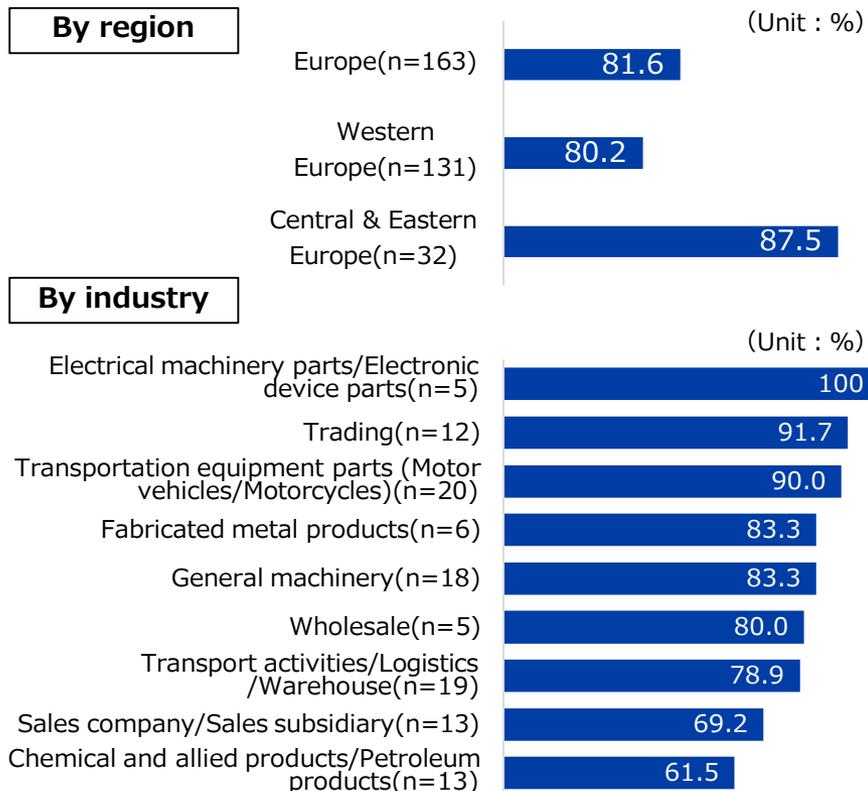


Note: Only top 15 items listed.

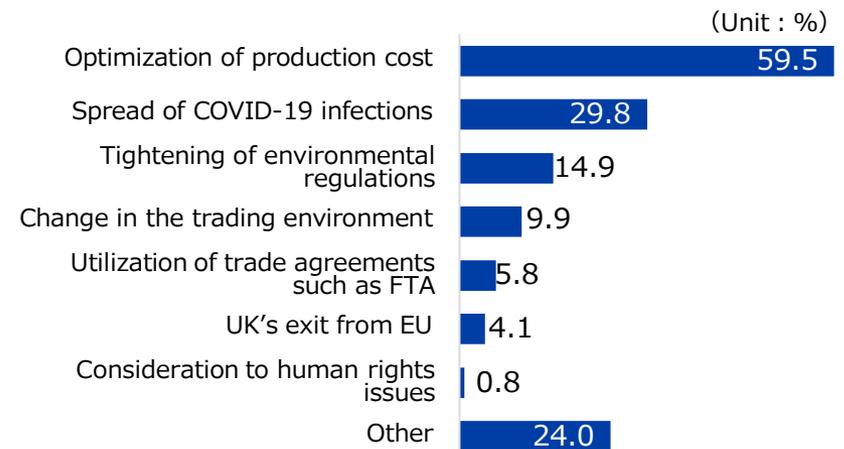
8-8 | Shortage of semi-conductors and rise in logistics costs impact reviews of procurement

- The proportion of companies conducting a review of procurement sources was higher in Central and Eastern Europe than in Western Europe. By sector, the proportion was high in sectors such as "Electrical machinery parts/Electronic device parts", "Trading", and "Transportation equipment parts (Motor vehicles/Motorcycles)".
- For reasons given for a review, "Optimization of production cost" (59.5%) was the most common, followed by "Spread of COVID-19 infections" (29.8%) and "Other" (24.0%). Many cited the promotion of procurement from local sources due to the rising logistics cost.

Change of procurement source



Reasons for "Change of procurement source" (n=121)

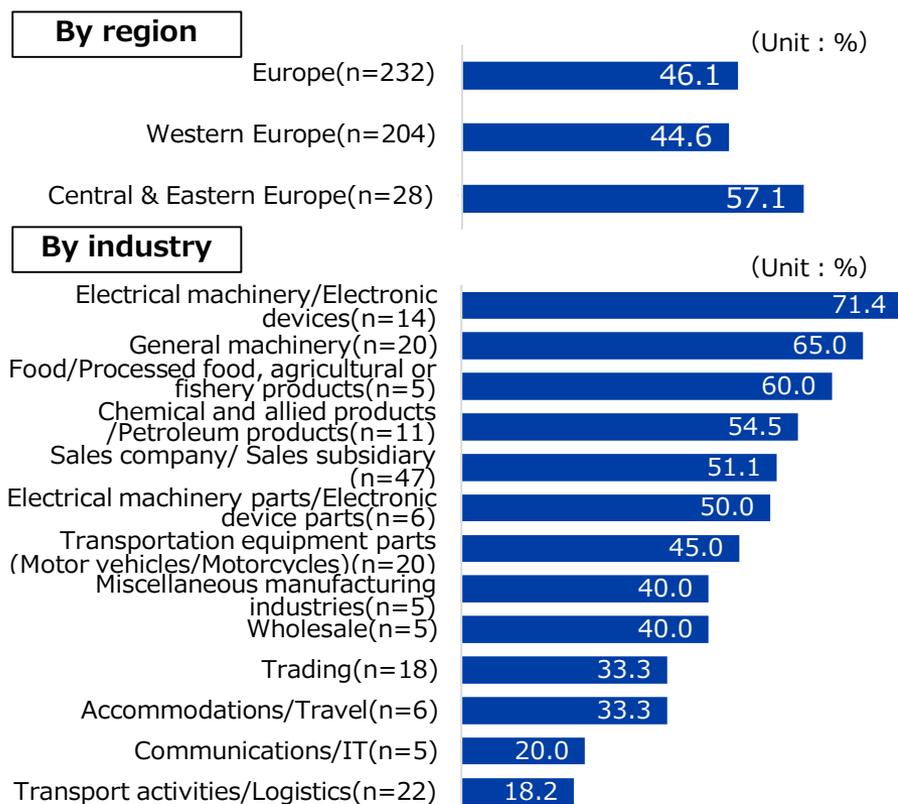


- Promotion of procurement from local sources due to the rising logistics cost
- Review of procurements costs
- Production supply problem due to semi-conductor shortage

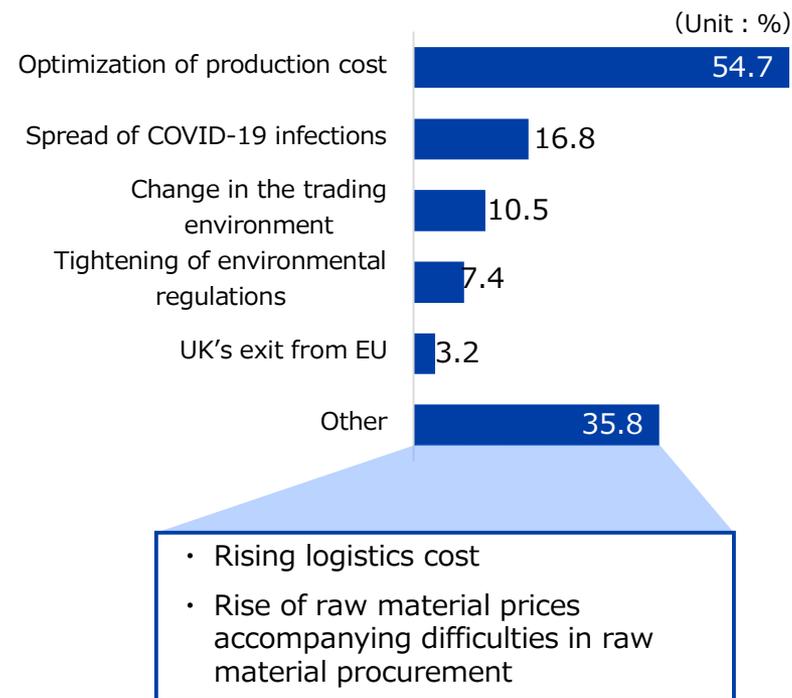
8-9 | Rising costs impact rise in sales prices

- The proportion of companies raising their sales prices was higher in Central and Eastern Europe than in Western Europe. By sector, the proportion was high in sectors such as "Electrical machinery /electronic devices", "General machinery, and food/processed food", and "Agricultural or fishery products".
- "Optimization of production cost" (54.7%) was the most common response for the reason for review, followed by "Other" (35.8%). Many cited the rise of logistics cost and rise of raw material prices, indicating that the confusion of supply chains accompanying the resumption of economic activities is causing an impact.

Rise in sales prices



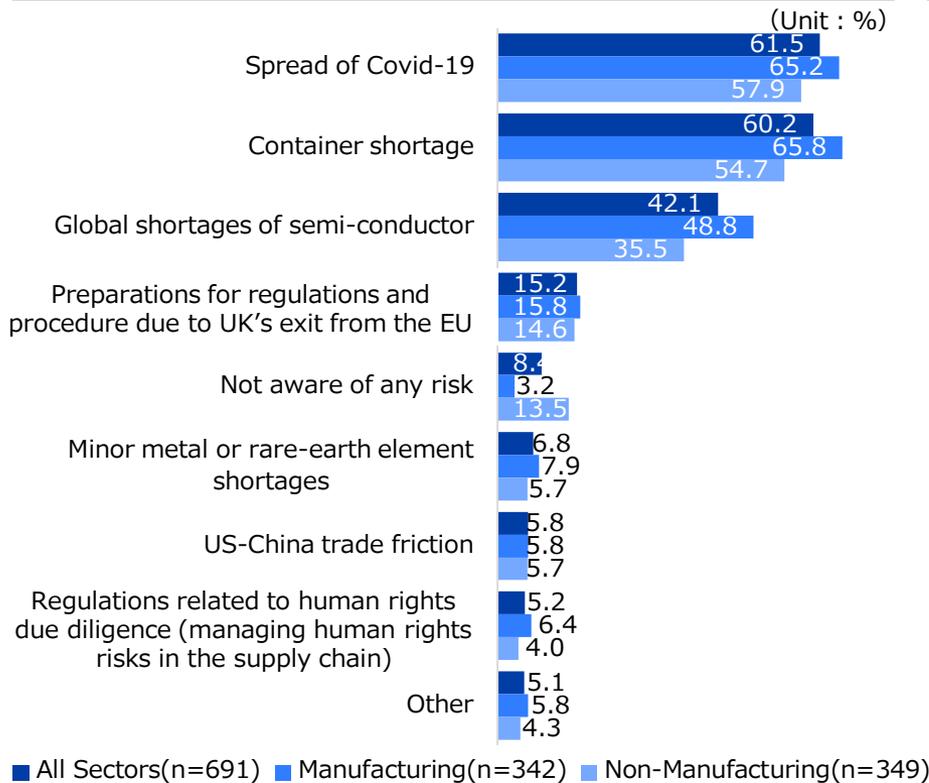
Reasons for "Rise in sales prices" (n=95)



9 | COVID-19, container shortage and semi-conductor shortage are risks

- As risks in supply chains, 60% of companies responded “Spread of COVID-19” and “Container shortage.” Suspension of production and decreased operating rate were cited in Europe and Asia as specific risks for the former, and rising transportation costs was cited for the latter.
- The response rate for “Global shortages of semi-conductor” exceeded 40%. Many companies were concerned about the decrease in vehicle production.
- There were also many comments on the rise of raw material prices and material prices.

**Risks in supply chain
(by industry, Multiple Answers Given)**



**Risks in supply chain
(by country, Multiple Answers Given) (Unit : %)**

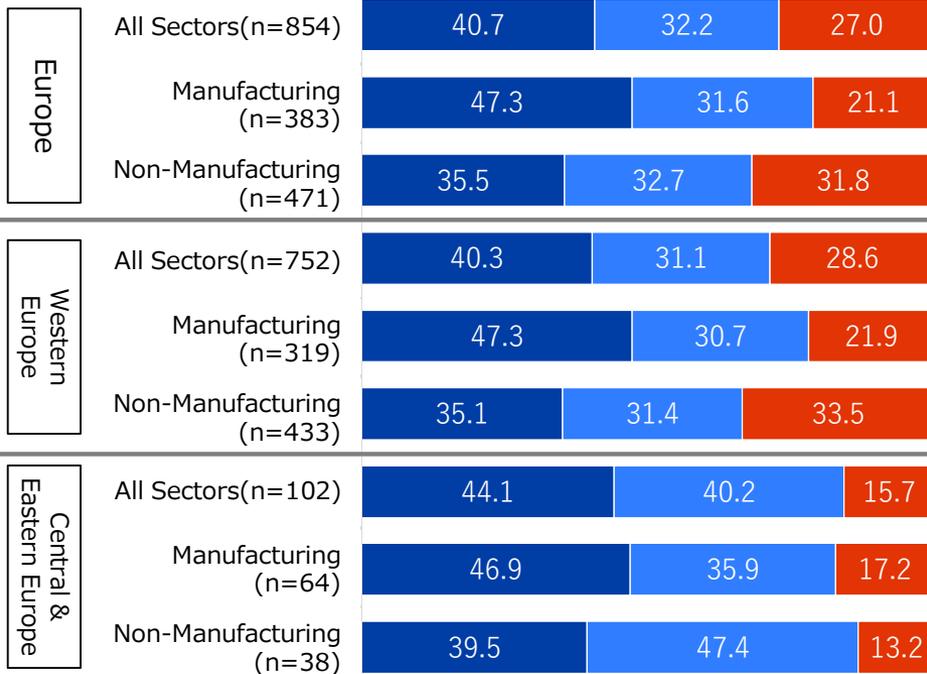
Country	Spread of Covid-19	Container shortage	Global shortages of semi-conductor	Preparations for regulations and procedure due to UK's exit from the EU
Germany(n=227)	61.2	67.0	45.4	10.6
UK(n=95)	52.6	47.4	28.4	40.0
Netherlands(n=75)	57.3	65.3	38.7	16.0
France(n=64)	54.7	48.4	35.9	10.9
Czechia(n=31)	77.4	80.6	77.4	9.7
Belgium(n=30)	60.0	56.7	50.0	16.7
Spain(n=26)	65.4	50.0	38.5	7.7
Poland(n=25)	76.0	76.0	68.0	12.0
Ireland (n=16)	56.3	31.3	25.0	25.0
Finland(n=16)	62.5	37.5	43.8	0.0
Italy(n=14)	71.4	78.6	35.7	7.1
Austria(n=13)	76.9	61.5	23.1	7.7
Hungary(n=11)	63.6	90.9	45.5	9.1
Sweden(n=9)	88.9	77.8	66.7	33.3
Romania(n=9)	66.7	44.4	55.6	0.0

10-1 | 40% of companies were making efforts for decarbonization

- Regarding decarbonization (reduction of greenhouse gas emissions), the combined rate of Japanese affiliates based in Europe responding “We are already making efforts” and “We have not made any effort yet, but we are planning to do so” exceeded 70%.
- In all countries excluding Portugal, the combined rate of “We are already making efforts” and “We have not made any effort yet, but we are planning to do so” exceeded 50%.

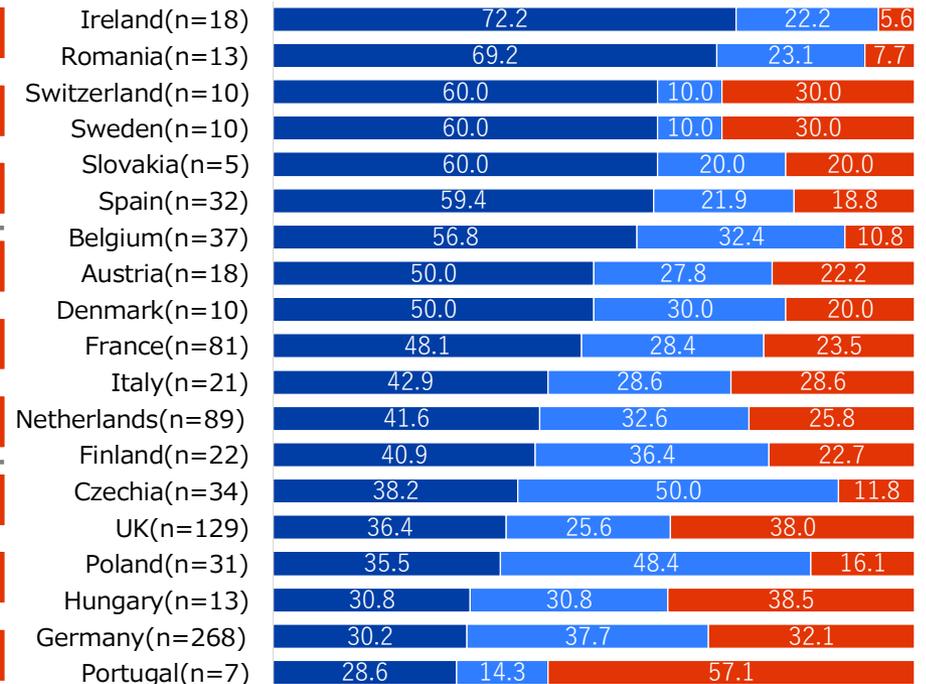
Situation of efforts for decarbonization (by industry)

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



Situation of efforts for decarbonization (by country)

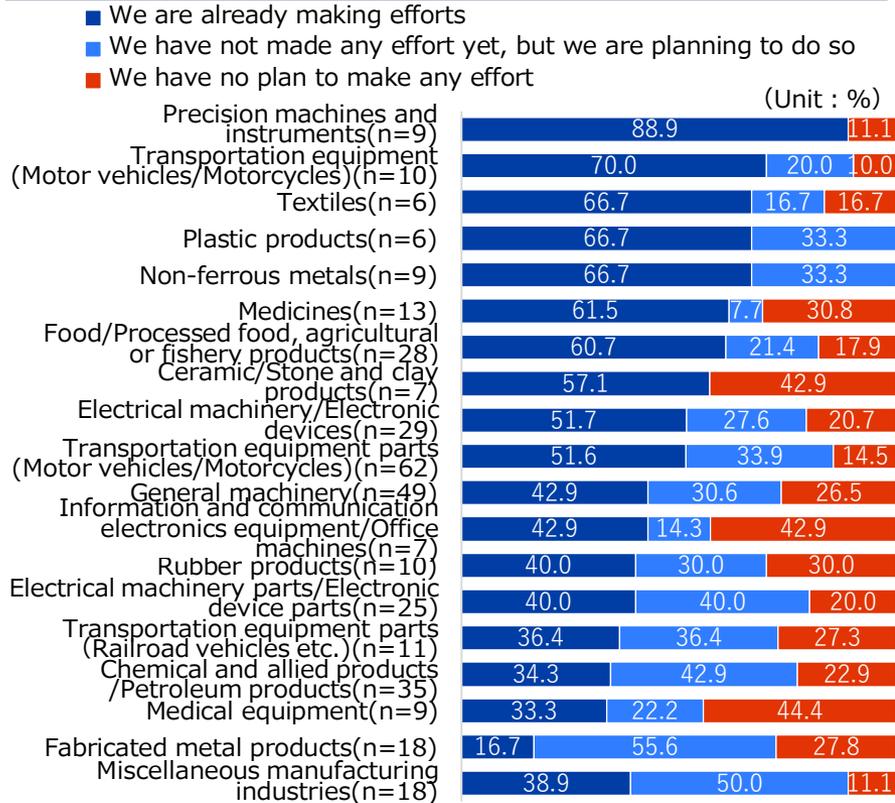
- We are already making efforts
 - We have not made any effort yet, but we are planning to do so
 - We have no plan to make any effort
- (Unit : %)



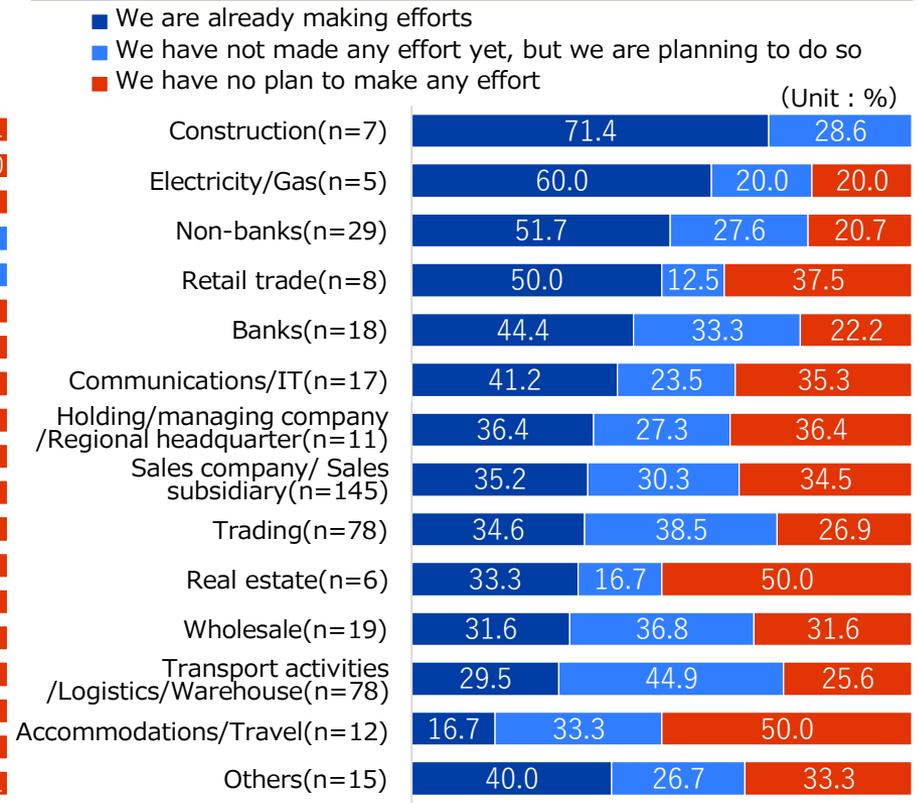
10-2 | Both in manufacturing and non-manufacturing sectors, some businesses are leading efforts

- In the manufacturing sector, the response rates for “We are already making efforts” were particularly high in “Precision machines and instruments” (88.9%) and “Transportation equipment (Motor vehicles/Motorcycles)”(70.0%), greatly exceeding the 47.3% average in the manufacturing sector.
- In the non-manufacturing sector, efforts were advancing in “Construction/plant/engineering” (71.4%) and “Electricity/gas” (60.0%). The proportion was also high in “Non-banks” (51.7%) and “Banks” (44.4%) sectors, which is seen because of expansion and strengthening of ESG investment and loans.

Situation of efforts for decarbonization (manufacturing, by industry)



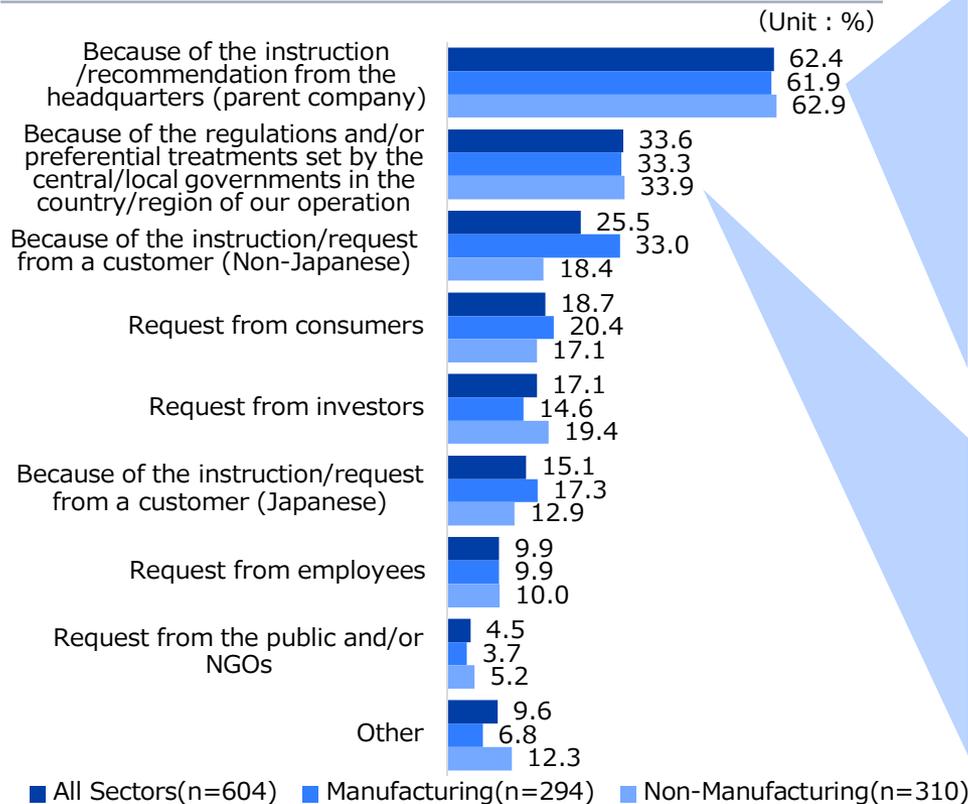
Situation of efforts for decarbonization (non-manufacturing, by industry)



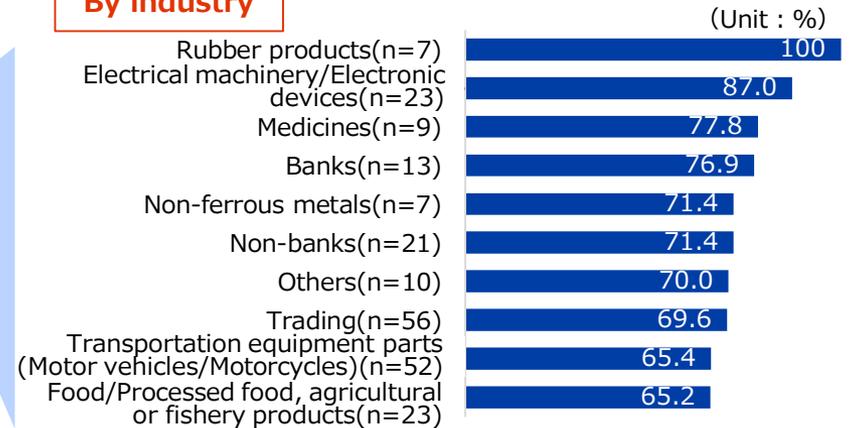
10-3 | Influenced by instruction from headquarters and customers, local regulations

- Regarding the reason for making efforts toward decarbonization, "Because of the instruction/recommendation from the headquarters" was the highest at 62.4%. By industry, rubber products had a 100% response rate.
- Following this was "Because of the regulations and/or preferential treatments set by the central/local governments in the country/region of our operation" (33.6%) had a high response, especially in Western Europe.
- In the manufacturing sector, the response rates for "Because of the instruction/request from a customer (non-Japanese)" was also higher than 30%, indicating that some companies are making efforts due to increasing request by third parties.

Reasons for making efforts for decarbonization (by industry, Multiple Answers Given)

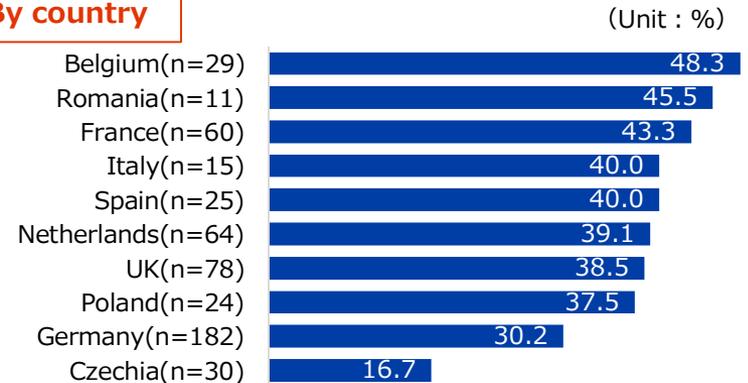


By industry



Note: Only top 10 industries listed.

By country

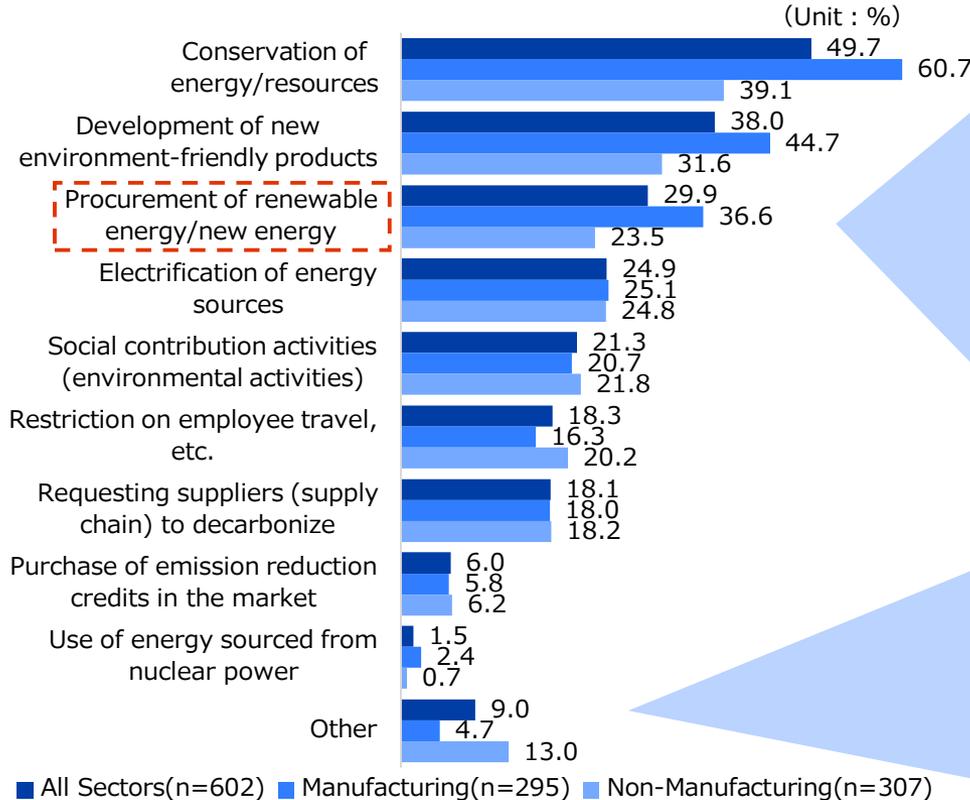


Note: Only top 10 countries listed.

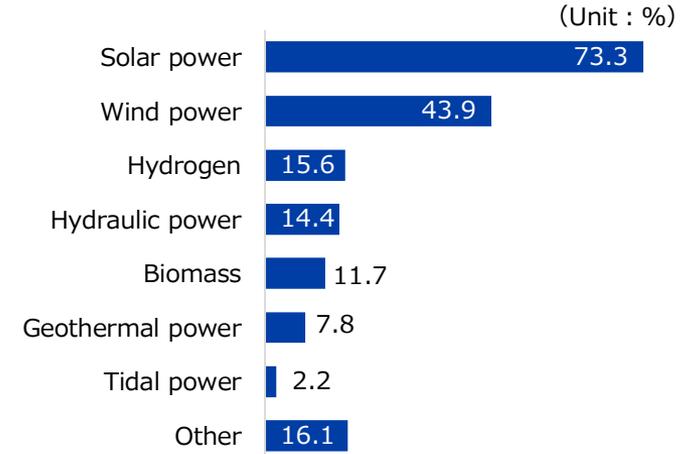
10-4 | In the manufacturing sector, 60% conserve energy and resources

- “Conservation of energy/resources” had the highest rate as a specific measure at 50%. In particular, the rate was 60% for the manufacturing sector.
- Of “Procurement of renewable energy/new energy” (29.9%), solar power (73.3%), and wind power (43.9%) had high rates of procurement, greatly overtaking other renewable energy sources. The response rates for solar power were highest in Netherlands (95.2%) and Spain followed (88.9%). There were cases in which the procurement of renewable energies was a condition of transaction. Some major company requires suppliers to manufacture parts using renewable energies.

Specific initiatives of decarbonisation (by industry, Multiple Answers Given)



Types of renewable energy (n=180)

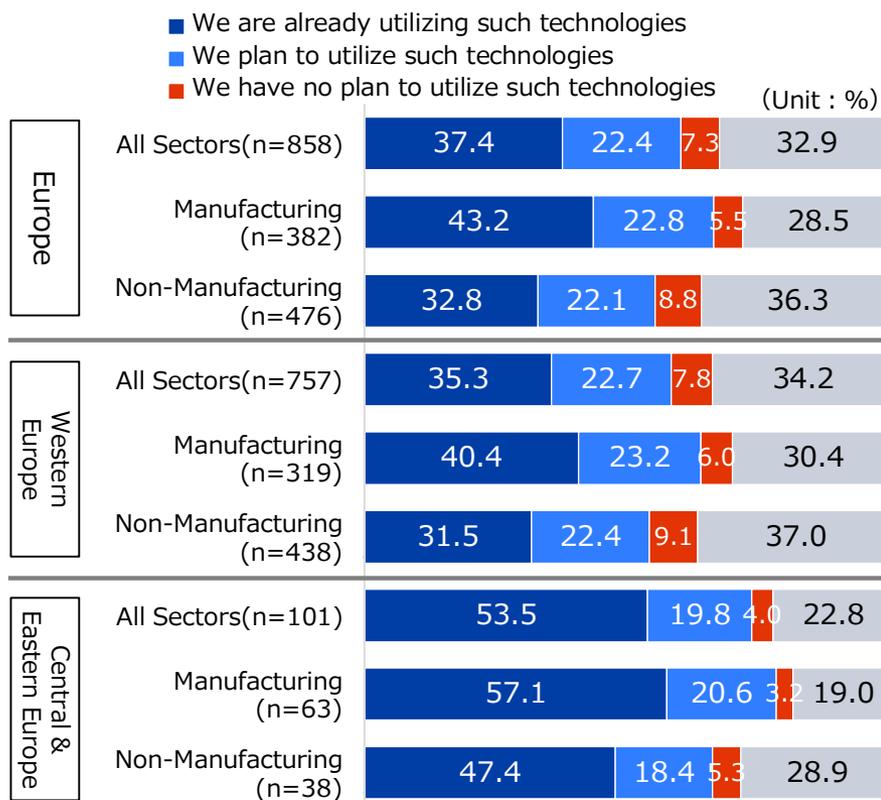


- Shift of company cars to EV
- Investment in renewable energy business
- Promotion of recycling
- Going paperless
- CO2 emissions calculations
- ESG investment and loans
- Elimination of plastic packaging

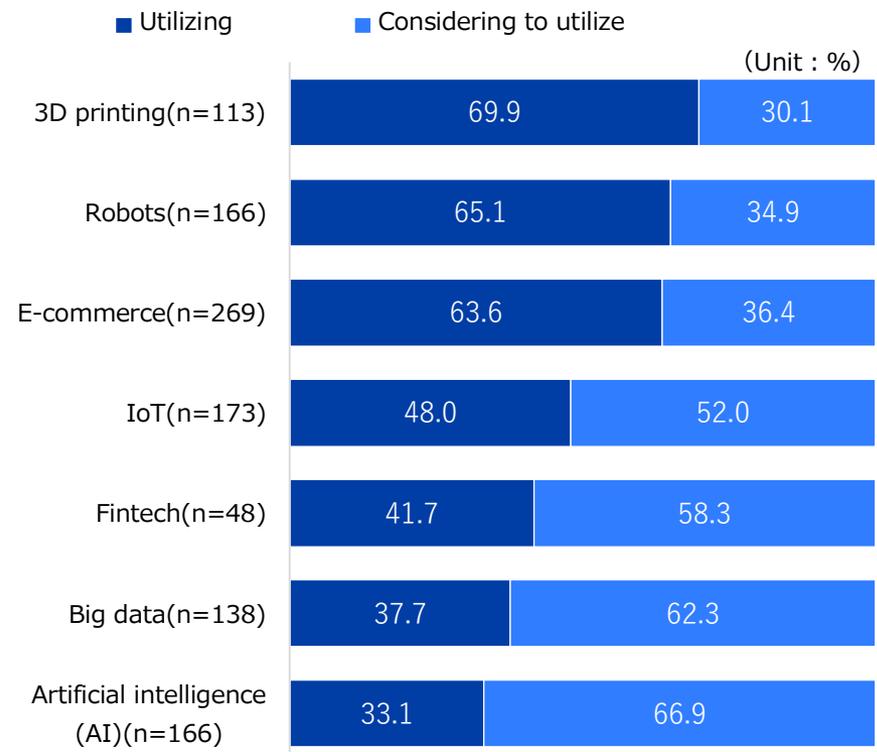
10-5 | Utilization of digital technologies advances in Central and Eastern Europe

- Regarding the utilization of digital technologies, 37.4% of Japanese-affiliated companies in Europe responded "We are already utilizing such technologies." By region, it was found that the utilization of digital technologies is more advanced in Central and Eastern Europe (53.5%) than in Western Europe (35.3%.) As the merits of utilizing digital technologies, 70% of Japanese manufacturing companies in Central and Eastern Europe cited "Ability to address the issues of increasing wages and labor shortage," "Stabilization and enhancement of the quality of products/services," and "Ability to streamline and optimize development/production processes and operation."

Status of utilization of digital technologies (by industry)



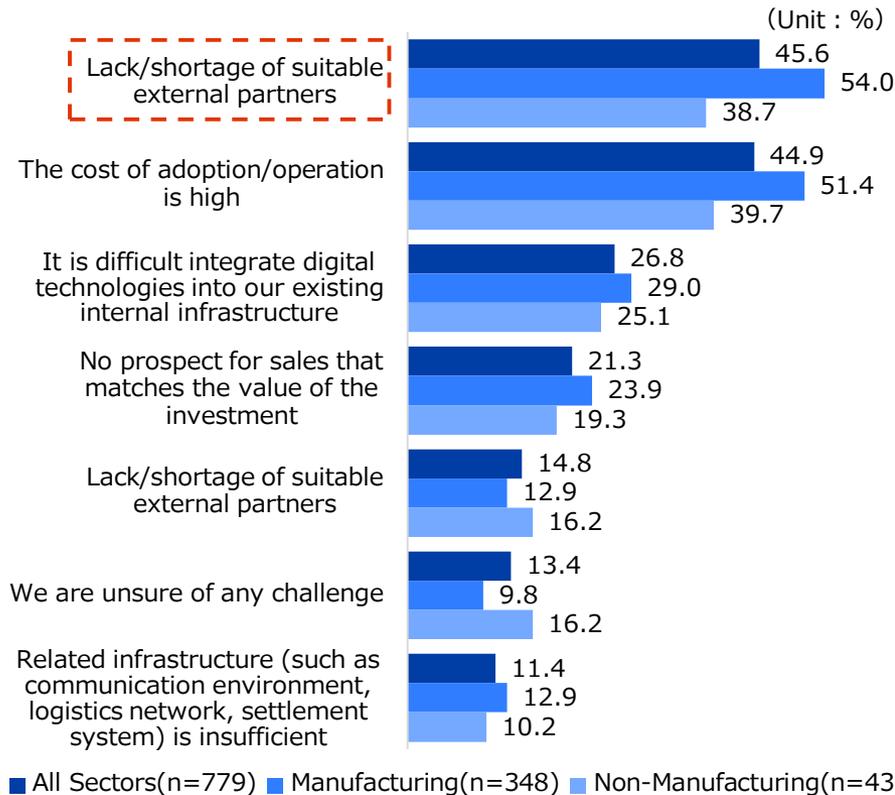
Status of utilization of digital technologies (by technology)



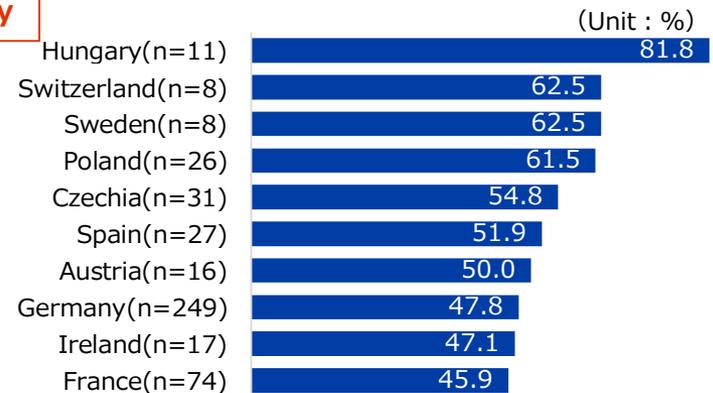
10-6 | Shortage of engineers and high cost are the challenges for digital technology utilization

- Many companies cited shortage of engineers (45.6%) and high cost (44.9%) as challenges to utilizing digital technologies.
- Response rates for a shortage of engineers were high in Central and Eastern European countries such as Hungary, Poland and Czechia. By industry, the manufacturing sector accounted for the top ranks across the board.

Challenge of utilizing digital technologies (by industry, Multiple Answers Given)

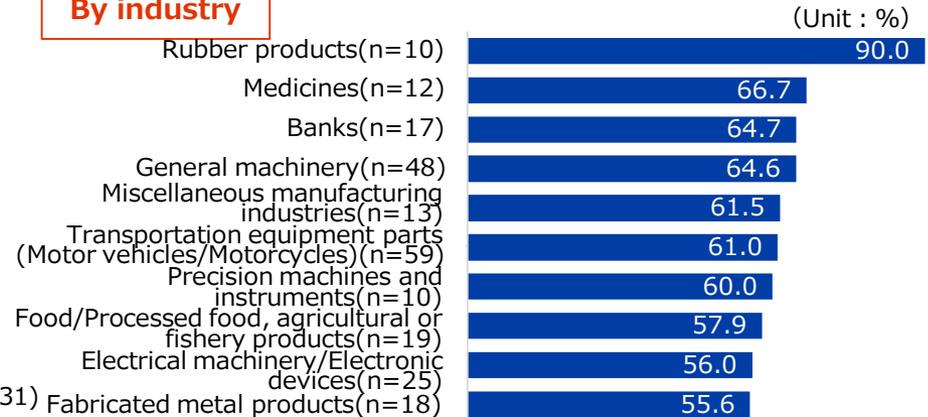


By country



Note: Only top 10 countries listed.

By industry

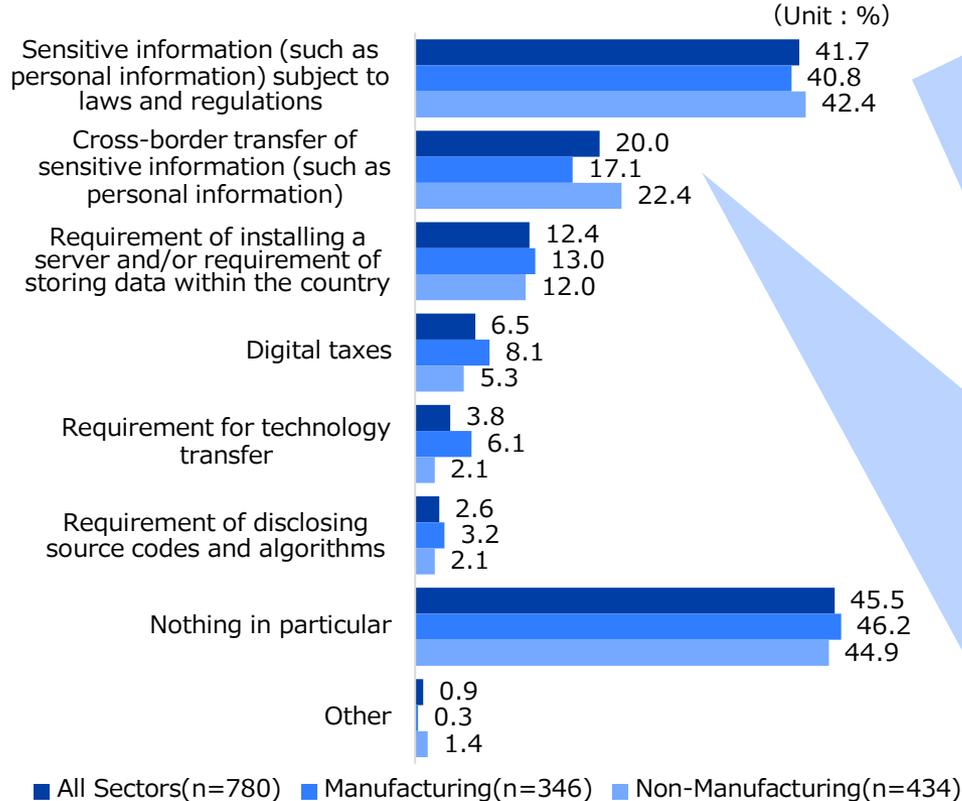


Note: Only top 10 industries listed.

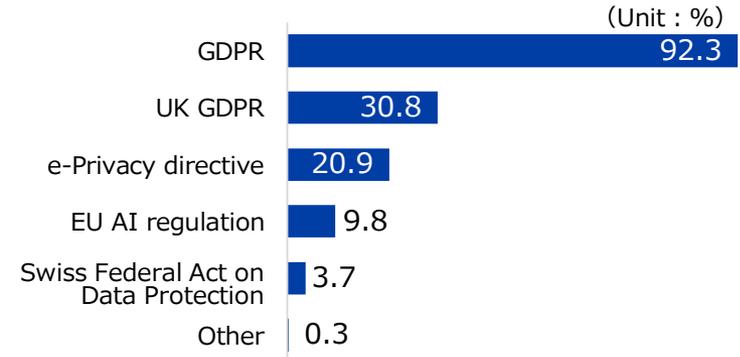
10-7 | Interest concentrates on personal data protection regulations such as the GDPR

- “Sensitive information subject to laws and regulations” accounted for 40% of policies in which companies had interest with respect to utilizing digital technologies. In particular, over 90% cited the GDPR, indicating high interest among Japanese-affiliated companies.
- On the other hand, 45.5% of companies responded “Nothing in particular” as well.

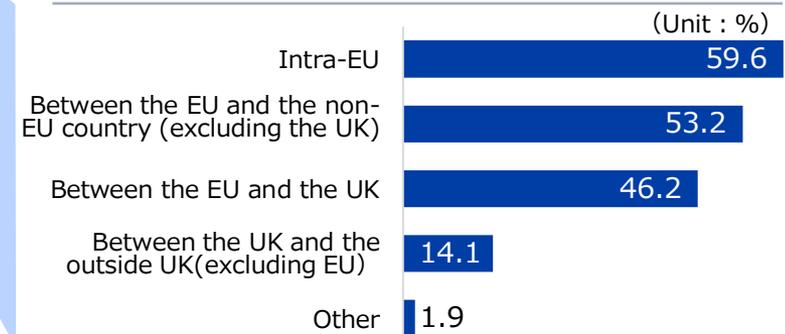
Policy topics of interest
(by industry, Multiple Answers Given)



Specific regulations (n=325)



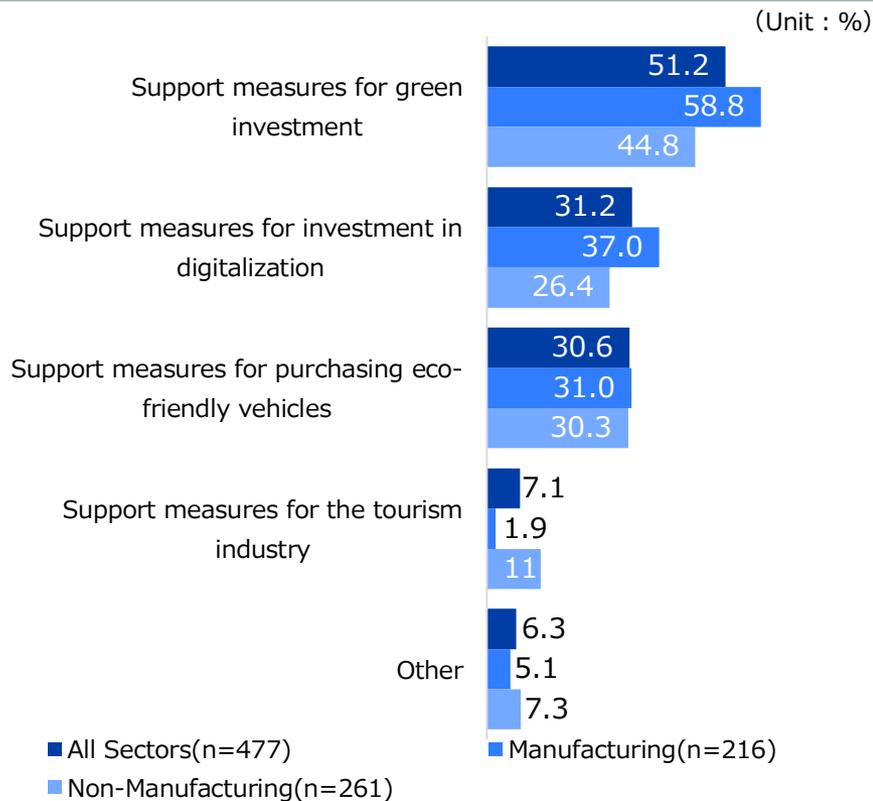
Specific transfer (n=156)



10-8 | Half of Japanese companies in Europe are interested in support for green investment

- Of support measures for respective EU member states to implement as efforts for business recovery from COVID-19, "Support measures for green investment" was the prime concern at 51.2%. This was followed by 31.2% for "Support measures for utilizing digital technologies" and 30.6% for "Support measures for purchasing eco-friendly vehicles." The response rate for "Support measures for green investment" increased drastically from the previous survey (32.3%).
- The response rate for support measures for green investment was highest respectively in the respondent countries excluding Italy and Romania.

Recovery support measures of interest (by industry, Multiple Answers Given)



Recovery support measures of interest (by country, Multiple Answers Given)

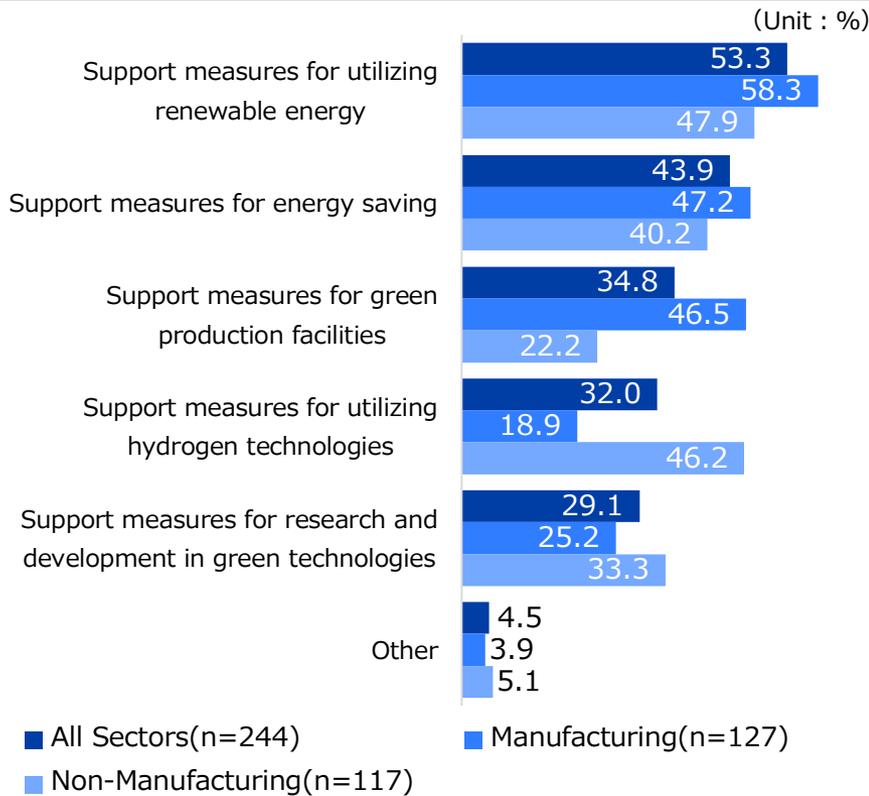
(Unit : %)

	Support measures for green investment	Support measures for investment in digitalization	Support measures for purchasing eco-friendly vehicles	Support measures for the tourism industry
Germany(n=143)	47.6	30.1	38.5	4.9
UK(n=65)	55.4	23.1	27.7	12.3
Netherlands(n=52)	50.0	25.0	32.7	1.9
France(n=42)	40.5	33.3	21.4	19.0
Czechia(n=25)	52.0	44.0	32.0	0.0
Poland(n=23)	69.6	30.4	21.7	0.0
Belgium(n=21)	57.1	23.8	47.6	4.8
Spain(n=21)	57.1	38.1	23.8	14.3
Italy(n=12)	33.3	66.7	25.0	0.0
Finland(n=12)	41.7	33.3	8.3	16.7
Austria(n=12)	50.0	50.0	33.3	0.0
Hungary(n=10)	80.0	30.0	20.0	0.0
Ireland(n=8)	62.5	12.5	0.0	25.0
Denmark(n=7)	85.7	28.6	42.9	0.0
Romania(n=7)	28.6	57.1	14.3	0.0
Portugal(n=5)	60.0	40.0	20.0	0.0

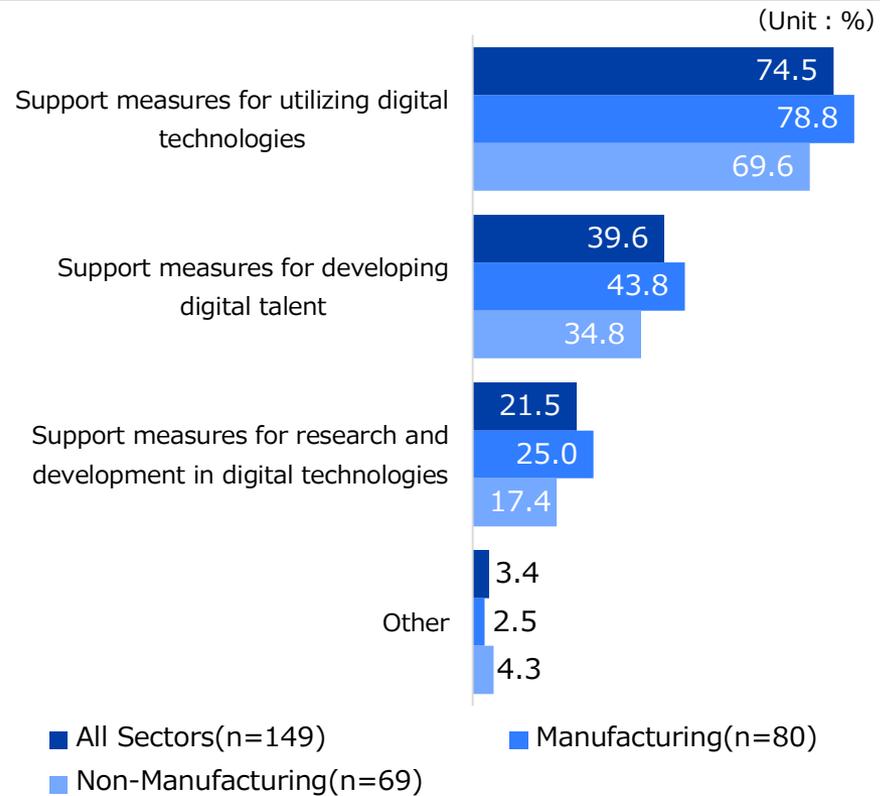
10-9 | Interest in using support measures for renewable energy and digital technology

- Among support measures for green investment, respondents were highly interested in the usage of “Support measures for utilizing renewable energy.” Specifically, many responses cited support measures such as subsidies or reduced taxes for solar panel installation and other renewable energy investment.
- Among support measures for investment in digitalization, respondents were highly interested in “Support measures for utilizing digital technologies” such as utilizing artificial intelligence (AI) or promoting Industry 4.0.

Breakdown of support measures for green investment (by industry, Multiple Answers Given)



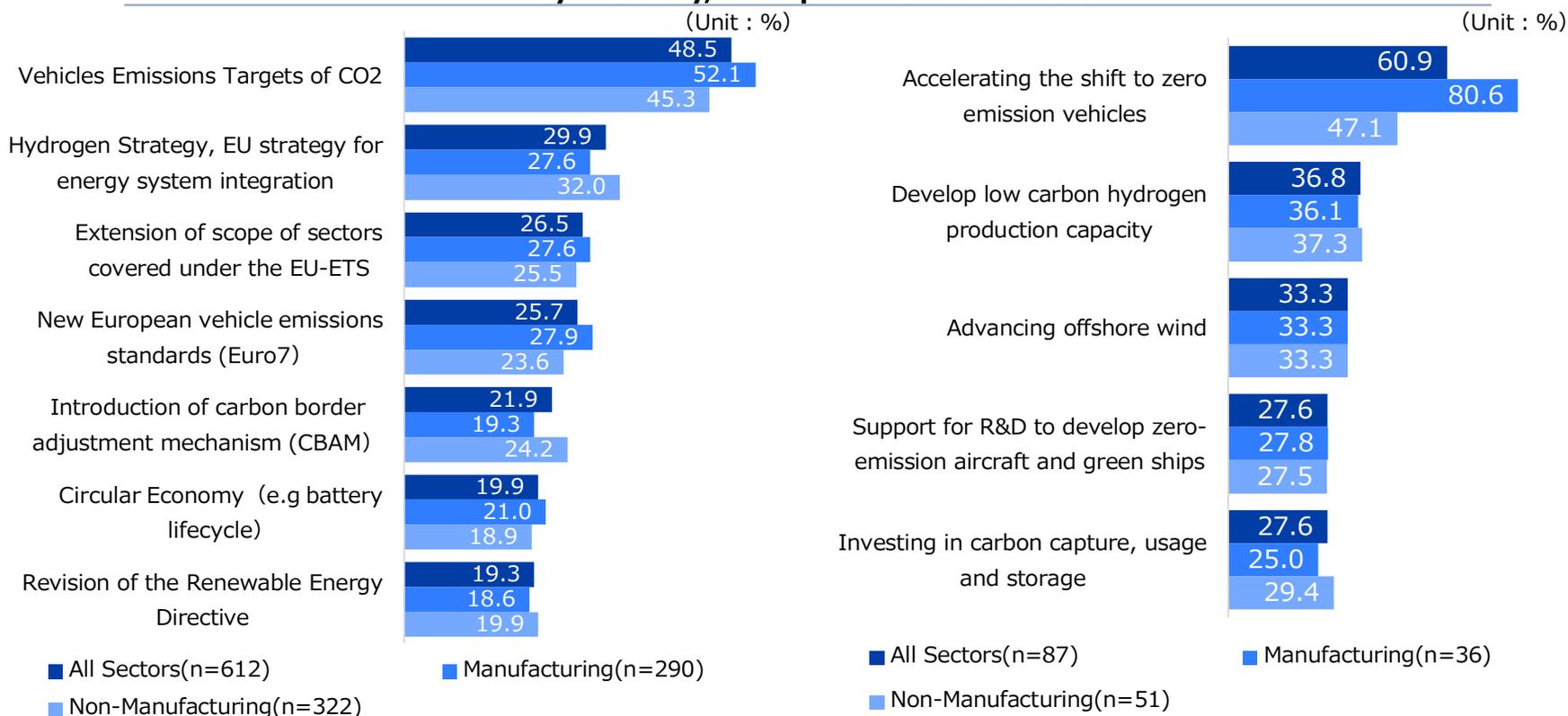
Breakdown of support measures for investment in digitalization (by industry, Multiple Answers Given)



10-10 Interest towards the shift to EV in Japanese companies in the EU and the UK

- Of green- and digital-related policies and regulations being promoted in the EU and the UK that companies were concerned with, “Vehicles Emissions Targets of CO2” (48.5%) in the EU and “Accelerating the shift to zero emission vehicles” (60.9%) in the UK had the most responses, showing that the shift to electric vehicles was gathering attention in the automotive industry respectively.

Policies or regulations for green or digital of interest <Left : the EU、 Right : UK>
(by industry, Multiple Answers Given)



Note: Only top 7 items listed.

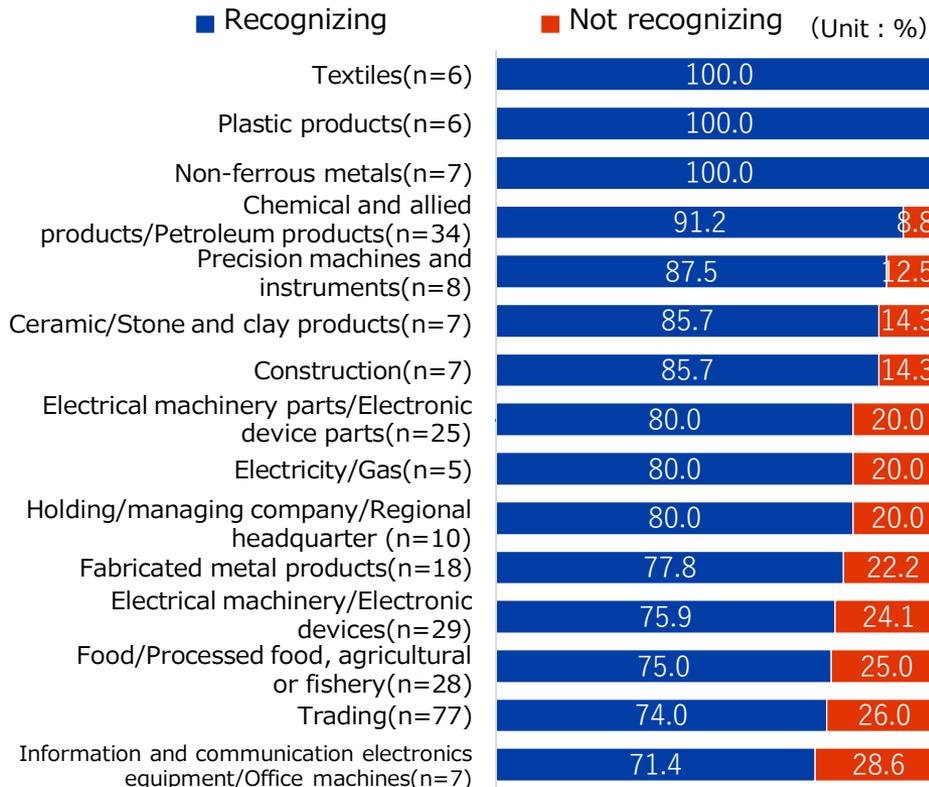
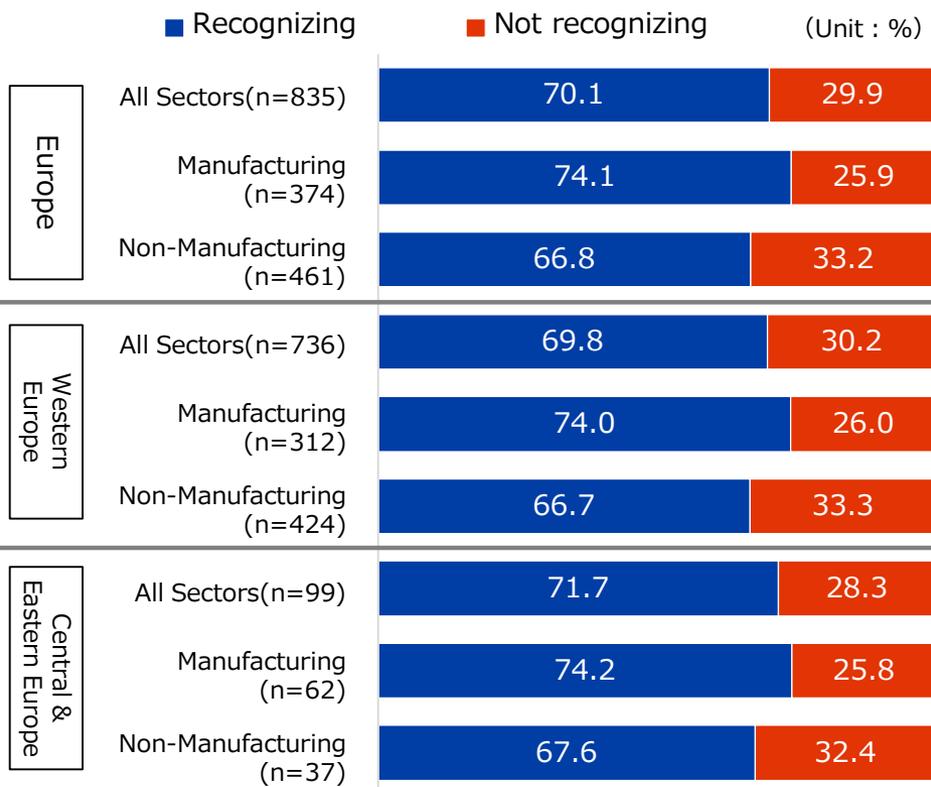
Note: Only top 5 items listed.

11-1 | Supply chains and human rights recognized by 70% as management issues

- Regarding human rights issues in supply chains (SC), 70.1% of companies in the EU overall responded that they considered them as a management issue. By industry, all companies in textiles, plastic products, and non-ferrous metals responded that they recognize them as a management issue.
- This trend probably related to the announcement of a draft revision to strengthen the Non-Financial Reporting Directive and preparations for a new draft directive to make human rights due diligence mandatory.

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

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



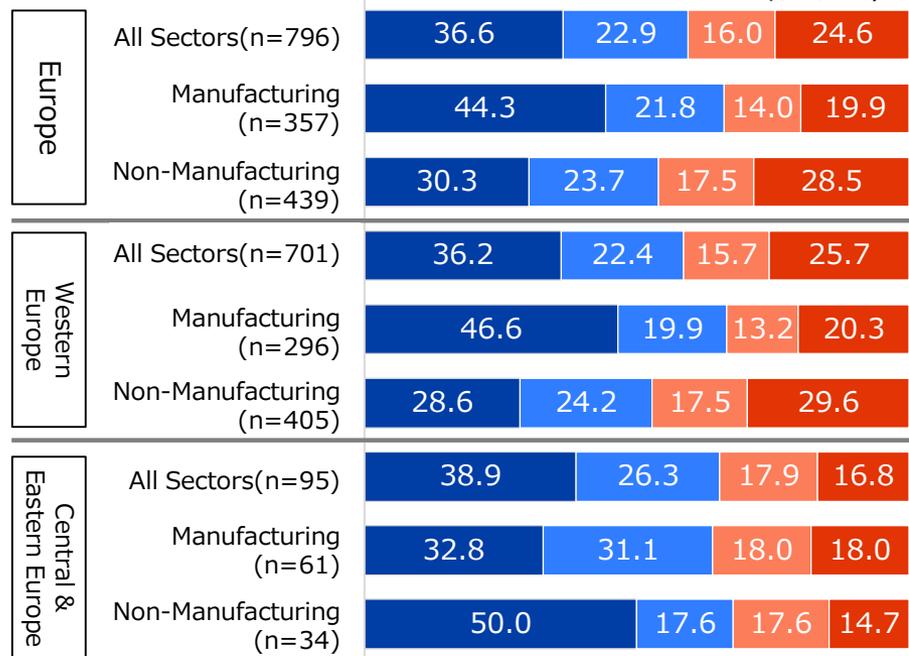
Note: Only top 15 industries by rate of "recognized" listed.

11-2 | 40% of Japanese companies in Europe require their suppliers to adhere to their policy

- About 60% of companies responded that they had a policy in place regarding human rights in supply chains, of which 36.6% requires suppliers to adhere to their policy.
- By industry, this was required by high rates of companies in “Precision machines and instruments” (85.7%), “Electrical machinery parts/Electronic device parts” (79.2%), and “Transportation equipment (Motor vehicles/Motorcycles)” (75.0%).

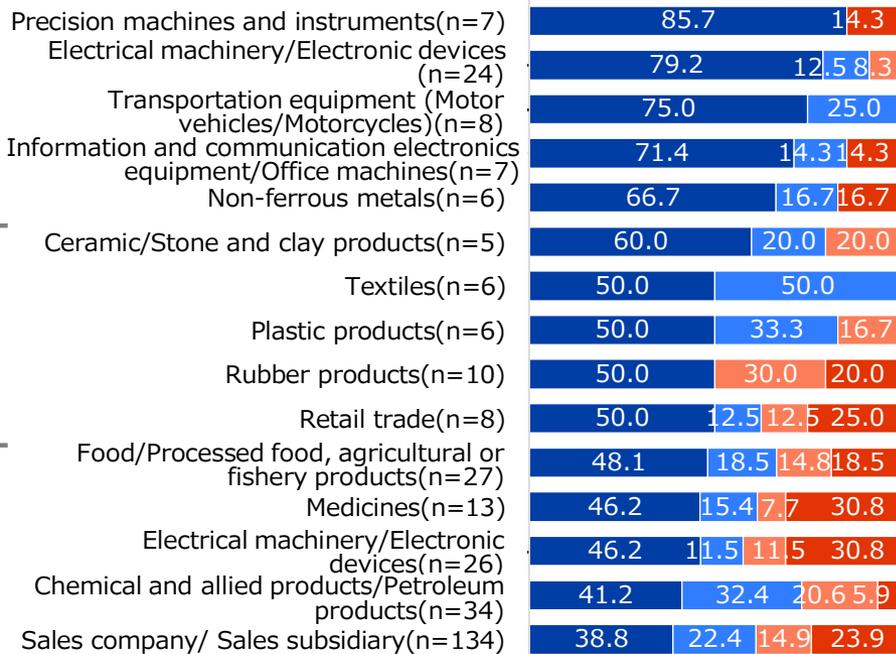
Policy regarding human rights in supply chains (by industry)

- We have a policy in place and require our suppliers to adhere to it
 - We have a policy in place, but we do not require our suppliers to adhere to it
 - We do not have a policy in place, but we plan to establish one
 - We do not have a policy in place, and we have no plan to establish one
- (Unit : %)



Policy regarding human rights in supply chains (by industry)

- We have a policy in place and require our suppliers to adhere to it
 - We have a policy in place, but we do not require our suppliers to adhere to it
 - We do not have a policy in place, but we plan to establish one
 - We do not have a policy in place, and we have no plan to establish one
- (Unit : %)

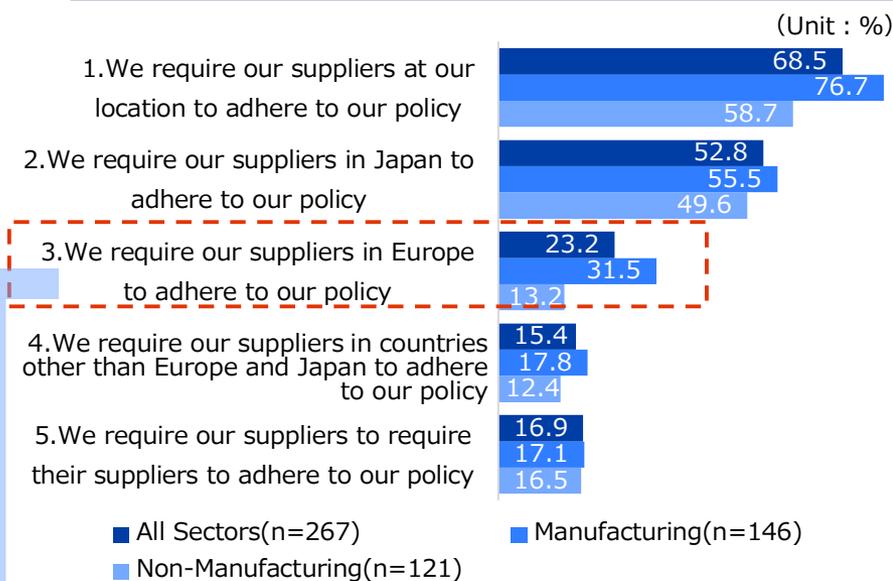


Note: Only the top 15 rated industries that responded “We have a policy in place and require our suppliers to adhere to it” are listed.

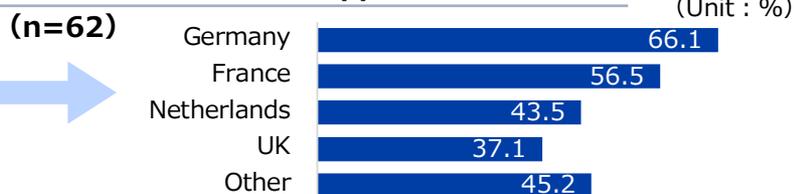
11-3 | 70% of companies requiring their suppliers to adhere to their policy, requires it in local

- Of the companies responding that they “have a policy in place and require our suppliers to adhere to it,” 68.5%, the highest proportion, required it at their location. This was followed by 52.8% responding that they require it to Japanese suppliers.
- Companies responding that they required their suppliers in Europe (other than the country of their location) to adhere to their policy was 23.2%, with Germany (66.1%) followed by France (56.5%) being the top two countries where suppliers were located.

Suppliers required to adhere to human rights policy (by industry, Multiple Answers Given)



Countries where the suppliers are located



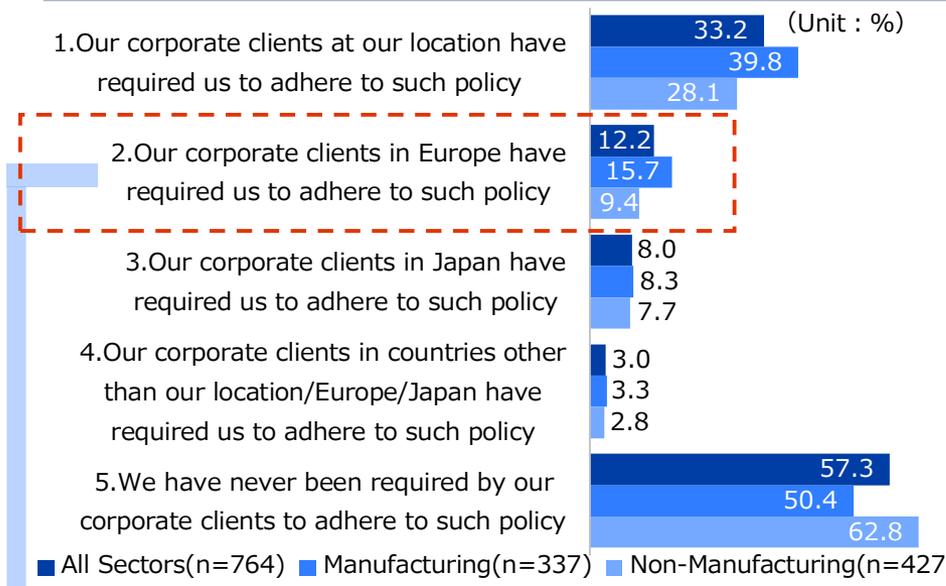
	(Unit : %)				
	1	2	3	4	5
Transportation equipment parts (Motor vehicles/Motorcycles)(n=20)	85.0	40.0	45.0	25.0	25.0
Electrical machinery parts/Electronic device parts(n=19)	84.2	78.9	26.3	5.3	0.0
Medicines(n=6)	83.3	50.0	33.3	0.0	16.7
Rubber products(n=5)	80.0	40.0	20.0	40.0	20.0
Information and communication electronics equipment/Office machines (n=5)	80.0	40.0	20.0	0.0	20.0
Communications/IT (n=5)	80.0	20.0	0.0	0.0	0.0
Chemical and allied products/Petroleum products(n=13)	76.9	53.8	7.7	7.7	7.7
Food/Processed food, agricultural or fishery products (n=12)	75.0	83.3	8.3	8.3	0.0
Electrical machinery/Electronic devices(n=12)	75.0	58.3	16.7	25.0	25.0
General machinery(n=15)	66.7	33.3	53.3	26.7	20.0
Transport activities/Logistics(n=18)	66.7	44.4	11.1	5.6	22.2

Note: Only the top 10 rated industries that responded “We require our suppliers at our location to adhere to our policy” are listed.

11-4 | More than 40% were required to adhere to human rights policy of their corporate clients

- Companies that were required to adhere to the human rights policy of their corporate clients accounted for 42.7%. The proportion of companies that were required by "Corporate clients at our location" was the highest at 33.2% and the proportion required by "Corporate clients in Europe (other than our location)" was 12.2%. Of which, countries such as France (41.9%), Germany (37.6%), and the UK (32.3%), which already have related legislation in place, accounted for a high proportion.
- On the other hand, 57.3% of companies responded "We have never been required by our corporate clients to adhere to such policy."

Corporate clients requiring adherence to human rights policy (by industry, Multiple Answers Given)



	1	2	3	4	5
Textiles(n=6)	83.3	33.3	0.0	0.0	16.7
Precision machines and instruments(n=7)	71.4	14.3	14.3	0.0	28.6
Ceramic/Stone and clay products(n=5)	60.0	20.0	0.0	0.0	40.0
Non-ferrous metals(n=5)	60.0	20.0	0.0	0.0	20.0
Electrical machinery parts/Electronic device parts(n=22)	54.5	18.2	22.7	0.0	31.8
Fabricated metal products(n=18)	50.0	27.8	0.0	5.6	38.9
Plastic products(n=6)	50.0	33.3	0.0	0.0	33.3
Chemical and allied products/Petroleum products(n=31)	48.4	35.5	19.4	6.5	32.3
Transportation equipment parts (Motor vehicles/Motorcycles)(n=57)	43.9	14.0	12.3	7.0	40.4
Information and communication electronics equipment/Office machines(n=7)	42.9	14.3	0.0	14.3	42.9

Countries where the corporate clients are located



Note: Only the top 10 rated industries that responded "Our corporate clients at our location have required us to adhere to such policy" are listed.

11-5 | Responses to conflict minerals advance; EU law applied from January

- Asked about specific human rights-related risks of concern, comments on child labor and conflict minerals were most cited by the respondents. This was probably related to the application of EU's Conflict Minerals Regulation since January 2021.
- Some respondents also commented that it was difficult for them to specify the target scope of region for their supply chains that were spreading to a wide area.

Human rights-related risks of concern and preventative measures in place (open-ended question)

Major risk	Specific details / Preventative measures
Child labour	<ul style="list-style-type: none"> • Investigate suppliers to see whether child labour takes place.
Labour standards Labour conditions	<ul style="list-style-type: none"> • Concern about potential risks of slavery, forced labour, and child labour in the upstream of supply chains (Netherlands) • Concerns about labour conditions in Asian production factories • Require suppliers to sign a declaration that they do not conduct forced labour and only do business with signed suppliers. (Germany) • Compliance with the Modern Slavery Act (UK)
Conflict mineral resources	<ul style="list-style-type: none"> • Investigate suppliers (including secondary and tertiary) to see whether they use minerals that have the risk of becoming funding sources for militant forces. • Regulation regarding mineral resources produced in conflict areas (Netherlands) • Confirmation with the Conflict Minerals Reporting Template received from suppliers (Germany)
Gender/ race discrimination	<ul style="list-style-type: none"> • Conduct in-house training every year about discrimination against non-UK employees and LGBT employees. Prepare LGBT-friendly facilities (changing rooms, toilettes, etc.). (UK) • Concern about discrimination depending on the country of origin of employees. • Concern about discrimination against minority groups
Others	<ul style="list-style-type: none"> • When multiple companies are involved in the supply chain, it is difficult to grasp the entire situation on human rights violations. • While we recognize that no human rights violation occurs in our supply chain, we concern about the lack of written document. (Germany) • Differences in standards due to the differences in the understanding of the scope of human rights in Europe and understanding of the scope of human rights in Japan. (Germany)

Note: The country name is not listed if there were responses from multiple countries.

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■ Note

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