



FY2024

# Survey on Business Conditions of Japanese-Affiliated Companies in Europe

— Japanese-affiliated companies in Europe meeting the challenges of green and digital regulations and high costs —

Japan External Trade Organization (JETRO)

Research & Analysis Department

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# Overview of the Survey

<b>Purpose of the Survey</b>	Purpose of the survey: The purpose of the survey is to identify actual conditions at Japanese affiliated business activities operating overseas and to provide the results to a wide range of Japanese companies and policymakers.
<b>Survey method</b>	A questionnaire was distributed and collected online to/from 1,324 Japanese companies (local corporations with at least 10% Japanese-affiliated capital investment, excluding expatriate offices, liaison offices, and local corporations founded by Japanese nationals) in 14 Western European countries and 9 Central and Eastern European (CEE) countries selected through JETRO's overseas office network. Valid responses were received from 772 companies. The effective response rate was 58.3%.
<b>Survey period</b>	August 27 – September 19, 2024
<b>Notes</b>	<ul style="list-style-type: none"> <li>• The Japanese-affiliated companies in Europe covered in this survey were selected by JETRO's European offices based on information sources considered to be reliable. However, there are no guarantees regarding the complete accuracy or comprehensiveness of the information concerning the aforementioned companies.</li> <li>• The companies that provided their responses to the questionnaire did not necessarily answer all the questions. The composition ratios indicated in the figures, etc. shown herein are rounded figures, so their sums are not always 100%. The same is true for the outcomes of the questions for which more than one answer could be provided.</li> <li>• The figure “n” indicates the number of effective answers that were provided for each of the questions.</li> <li>• Any industry, country, or answer from multiple choices selected by less than five companies have been excluded from the survey.</li> </ul>
<b>Topics covered in this report</b>	1. Operating profit forecast 2. Future business direction for the next one to two years 3. European policies and regulations 4. Operational challenges 5. Changing competitive environment 6. Procurement and sales 7. Japan-EU EPA (Economic Partnership Agreement) and Japan-UK EPA 8. ESG Initiatives

# Overview of the Survey

## Manufacturing

Food / Processed food, agricultural or fishery products, Textiles, Textile apparel / Textile products, Lumber / Wood products, 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, Information and communication electronics equipment / Office machines, Medical equipment, Precision machines and instruments, Electrical machinery / Electronic devices, Electrical machinery parts / Electronic device parts, Transportation equipment (Motor vehicles / Motorcycles), Transportation equipment parts (Motor vehicles / Motorcycles), Transportation equipment (others), Transportation equipment parts (others), Daily necessities / Stationery/ Sundries / Sporting goods, 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, Business Process Outsourcing (BPO), Media / Mass communication / Contents, Advertising / Marketing/Research, Wholesale, Retail trade / Non-store retailing, Trading, Sales company / Sales subsidiary, Banks, Non-banks institutions, Real estate, Building and facility management /Air conditioning/Security/Cleaning, Rental, Consulting, Legal, accounting and tax services, Holding/managing company/Regional headquarter, Design / Architectonics, Repair / Maintenance / Inspection and analysis, Worker dispatching / Staffing, Accommodations / Travel, Restaurant, Amusement / Living-related and personal, Education / Research institutions, Medical / Welfare / Health care, Others

(Note) This document uses abbreviations to refer to certain industries.

Number of respondents by country/region	Number of companies surveyed	
	Number of effective respondents	Composition ratios (%)
<b>Totals</b>	<b>772</b>	<b>100.0</b>
■ <b>Western Europe</b>	<b>634</b>	<b>82.1</b>
Germany	271	35.1
United Kingdom	76	9.8
Netherlands	61	7.9
France	57	7.4
Belgium	43	5.6
Spain	21	2.7
Finland	18	2.3
Austria	18	2.3
Ireland	16	2.1
Italy	15	1.9
Switzerland	11	1.4
Portugal	9	1.2
Sweden	9	1.2
Denmark	9	1.2
■ <b>Central &amp; Eastern Europe</b>	<b>138</b>	<b>17.9</b>
Czechia	60	7.8
Hungary	30	3.9
Poland	20	2.6
Romania	17	2.2
Serbia	4	0.5
Slovenia	3	0.4
Bulgaria	2	0.3
Slovakia	1	0.1
Montenegro	1	0.1

# Key Findings I

1. **61.0% of the surveyed manufacturing companies expected “profit,” a decline of 7.7 percentage points from the previous year’s survey.**
  - Companies expecting positive operating profit accounted for 66.2% of the total, a decline of 3.2 percentage points from the previous year.
  - In terms of 2024 operating profit forecasts relative to the previous year’s actual results, the companies expecting “improve” slightly exceeded those anticipating “decrease.” In terms of the reasons behind decreases, the most common answer was “decreasing demand in local market,” followed by “rising of labor costs.”
2. **In the future business direction for the next one to two years, companies foreseeing the business “remaining the same” surpassed those expecting “expansion.”**
  - In terms of the future business direction for the next one to two years, 48.9% of respondents replied “remaining the same,” surpassing those expecting “expansion” (46.2%). In terms of corporate functions expected to be expanded, “sales” was the top function.
  - In terms of the areas of interest in reconstruction assistance and business activity in Ukraine, “trade and sales with Ukraine, restoration of existing distribution channels” (48.0%) and “investments and related businesses associated with infrastructure reconstruction” (46.4%) were selected by many respondents, especially those in the relevant business categories.
3. **CBAM was the topic of most concern in terms of the EU policies and regulations; for promotion of digitalization, a little less than 30% of respondents started to use AI.**
  - In terms of EU policies and regulations, the topic of most concern among Japanese-affiliated companies in Europe was “Carbon Border Adjustment Mechanism (CBAM)” (39.2%), as in the previous fiscal year. By industry, more than half of the companies in trading, fabricated metal products, and transportation equipment parts expressed significant impacts concerning this topic.
  - The EU has passed the AI Act ahead of the rest of the world, and plans to implement it from 2026. 27.9% of all respondents have already made use of AI in some form; high percentages are marked by ICT (81.5%), banks (50.0%), and trading (39.4%).
4. **The biggest operational challenge is how to secure human resources; and cost-related challenges are rated high.**
  - In terms of operational challenges, companies answering, “securing human resources,” “inflation,” and “high labor costs” increased from the previous year’s survey. On the other hand, the percentage of “situation in Ukraine,” the most significant operational challenge in the previous fiscal year, decreased.
  - Other high-rated challenges are “transportation costs” and “procurement costs.” Non-manufacturing companies rated “effects of exchange rate fluctuation” in the third place.

# Key Findings II

## 5. Japanese-affiliated companies competing squarely with powerful European brands

- In terms of the changes in market shares of companies' main products and services, 40.5% of respondents answered "increase" from the 2019 level, and 43.9% answered "remain the same" in the same period, representing relatively minor changes in comparison to those in the rest of the world. The most significant competitors are companies in the EU (61.1%). In comparison to Japanese-affiliated companies operating in other regions, those in Europe regard "brand and name recognition" as the most significant reason (49.5%) for viewing others as serious competitors. This choice in Europe is noteworthy.

## 6. Supply chains tend to be more diversified and shortened.

- In terms of supply chain strategy for the next one to two years, as in the previous year, the greatest number of respondents (48.3%) across all industries selected "diversification of procurement", as in the previous year. As much as 51.7% of manufacturing companies made the same selection. In the manufacturing sector, many companies explored the possibilities of "diversification of procurement" and "shortening supply chains and nearshoring."
- Many Japanese-affiliated companies in the EU answered "reduction" of procurement from China, as in the previous year's survey; 23.3% of respondents indicated the intention of "reduction." This trend is particularly noteworthy among the Japanese-affiliated companies in Central and Eastern Europe.

## 7. 58.5% of the companies utilize Japan-EU EPA for imports from Japan, an increase of 13 percentage points from the previous year.

- In terms of the status of Japan-EU EPA utilization by Japanese-affiliated companies in the EU, 58.5% said they were already making use of this arrangement for imports to the EU from Japan. This is an increase of 13.3 percentage points from the previous year's survey. High usage ratios were reported by companies involved in rubber products, etc.
- 12.9% of respondents answered that they were subject to verification by the customs authority in the importing countries for imports undertaken under the Japan-EU EPA. Challenges in utilization of the system included differing operational/verification levels in different countries and by different customs officials, as well as compliance with the Rules of Origin.

## 8. Another challenge lies in balancing corporate sustainability initiatives with increasing costs and other burdens.

- The percentage of respondents reporting that they were "conducting human rights due diligence (DD)" was 37.2% (38.0% in the previous year), and the ratio of respondents "making any effort toward decarbonization" was 59.7% (61.7% in the previous year); both results indicate slight declines, suggesting challenges in addressing increasing costs and other burdens.
- In terms of decarbonization-related business opportunities in which the respondents were interested, "battery / storage technologies" (44.9%) and "mobility and related infrastructure" (40.7%) were ranked high.

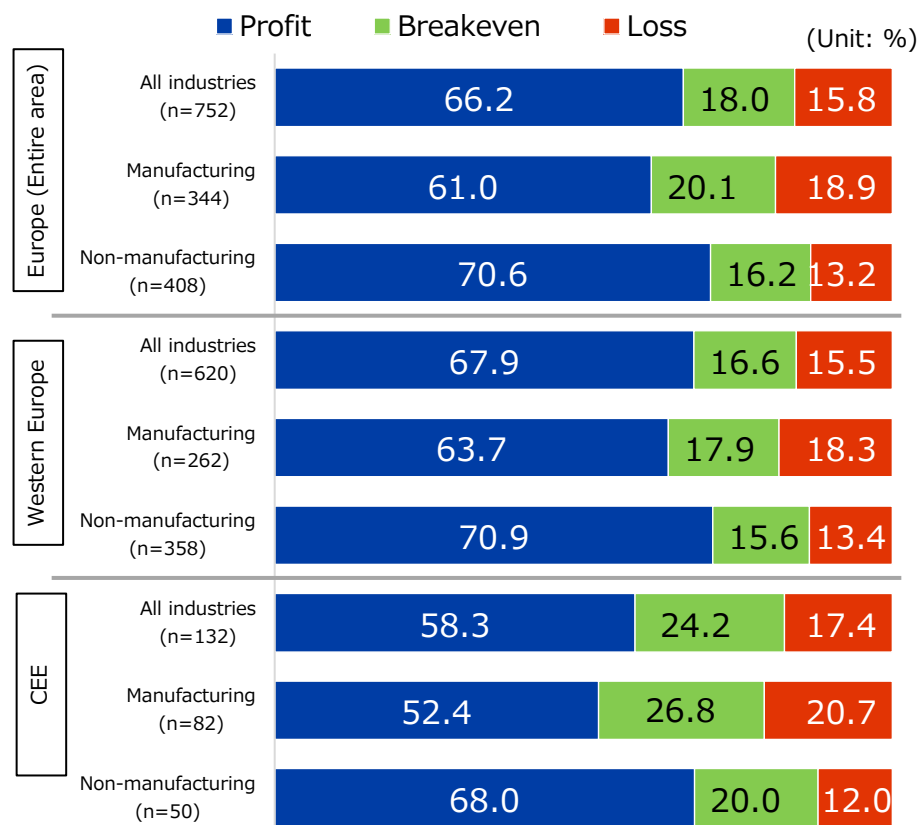
# **I. Operating Profit Forecast**



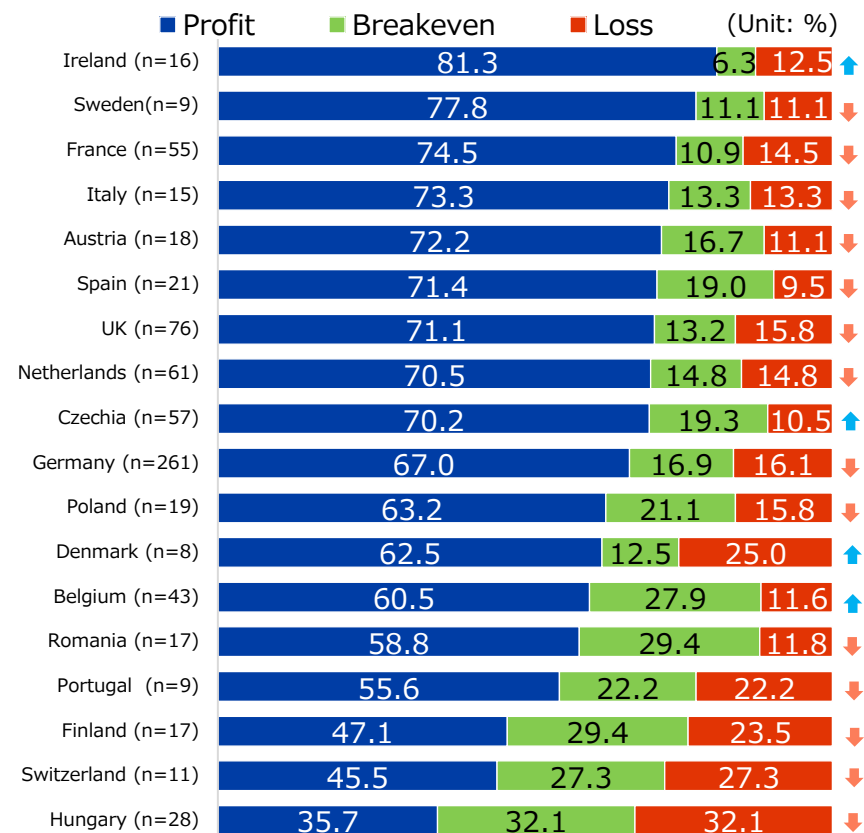
# 1 | Operating profit forecast for 2024 Manufacturing companies forecasting “profit” decreased by 7.7 percentage points.

- In comparison to the previous year, companies forecasting “profit” decreased by 3.2 percentage points across Europe; and manufacturing companies forecasting operating profit decreased by 7.7 percentage points. Manufacturing companies in Western Europe and Central/Eastern Europe forecasting operating profit were 63.7% and 52.4%, respectively, indicating significant declines in Central/Eastern Europe (62.1% in the previous year).
- In terms of the findings by country, the operating profit forecasts in most countries declined from the previous year. However, those in Ireland, Czechia, Denmark, and Belgium increased.

## Operating profit forecast for 2024 (by industry)



## Operating profit forecast for 2024 (by country)



(Note) ↑ indicates profit increase from the previous year, while ↓ indicates profit decreased from the previous year. Blanks with no arrows indicate no data due to  $n \leq 5$  compared to the previous year.

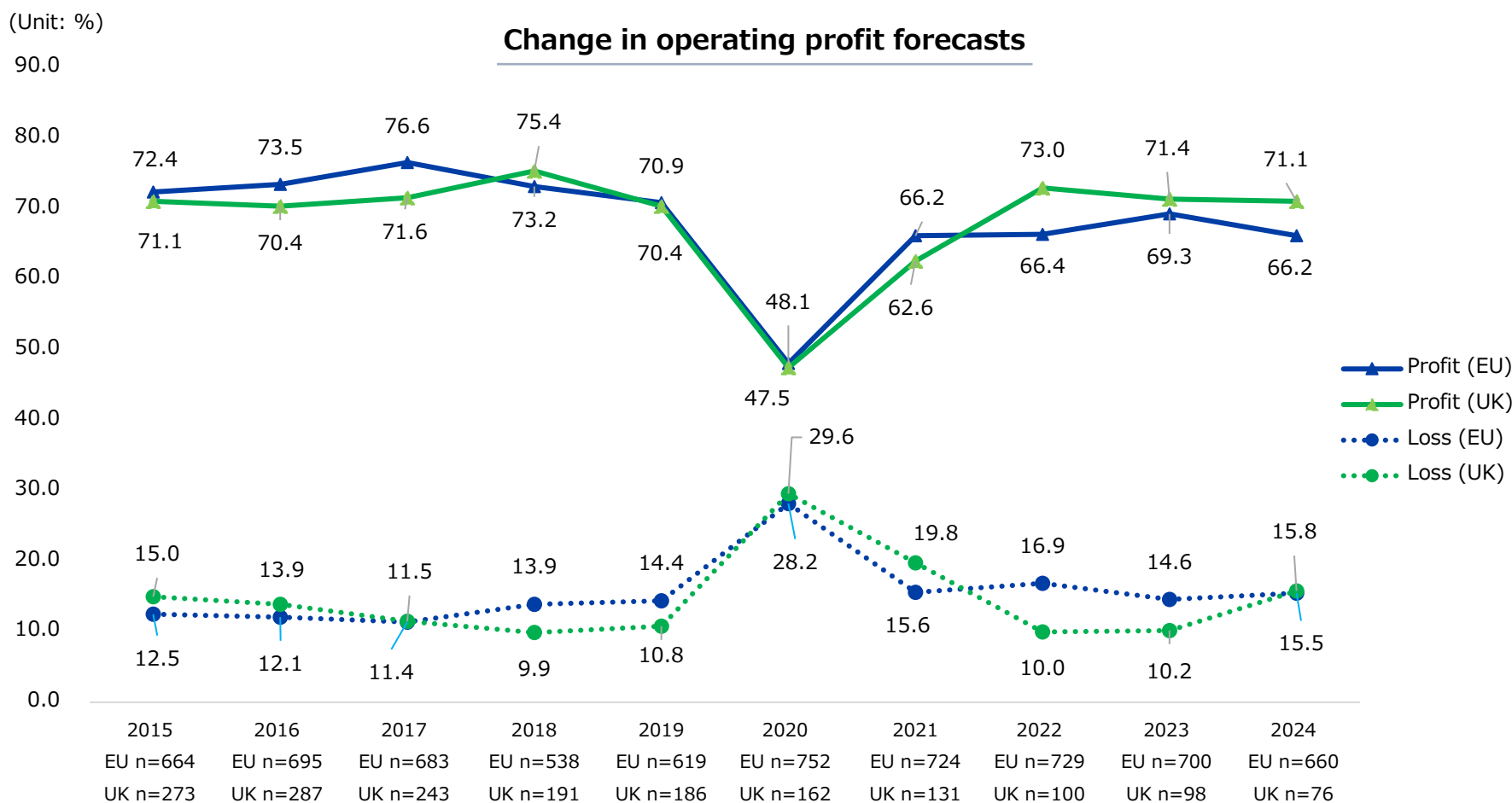


## 2

Change in operating profit forecasts (over the past decade; all industries)

## The ratio of EU companies forecasting positive operating profits declined for the first time in the post-COVID-19 period.

- The ratio of respondents expecting an operating profit for 2024 was 66.2% across the EU and 71.1% in the UK. **The figure for the EU dropped for the first time since the 2021 survey following the breakout of the COVID pandemic.**
- The ratios of respondents expecting an operating loss for 2024 was 15.5% across the EU and 15.8% in the UK, marking a YoY increase of over 5 percentage points in the UK.



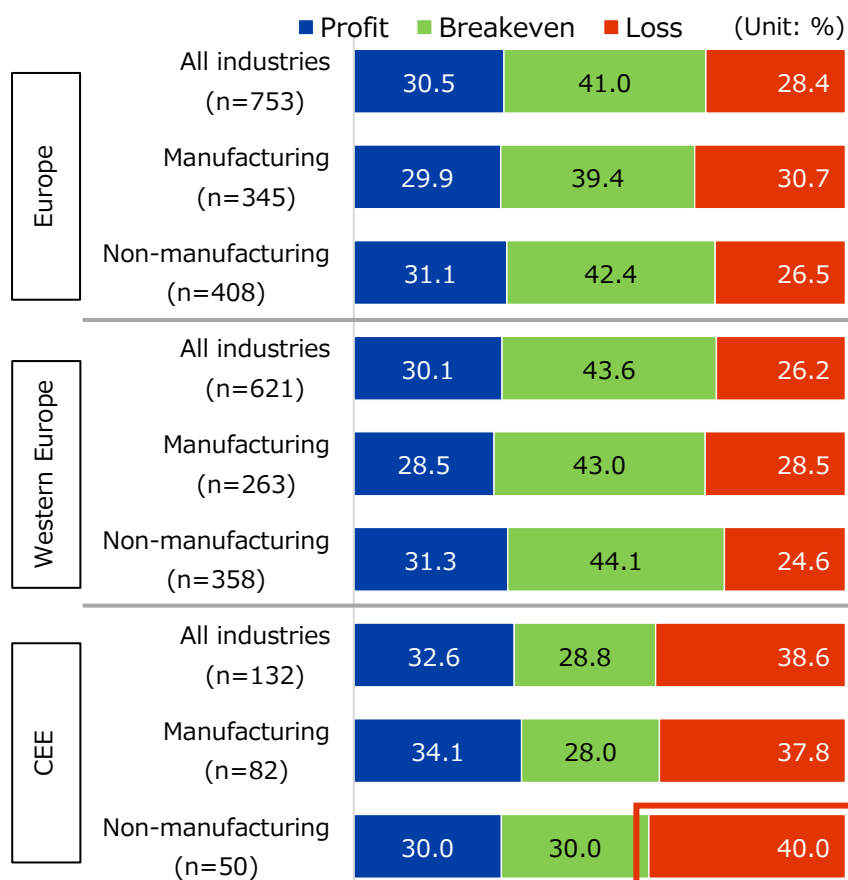
## 3

Operating profit forecast for 2024 compared to actual results for 2023

## Negative forecasts by non-manufacturing companies in Central and Eastern Europe grew significantly from the previous year.

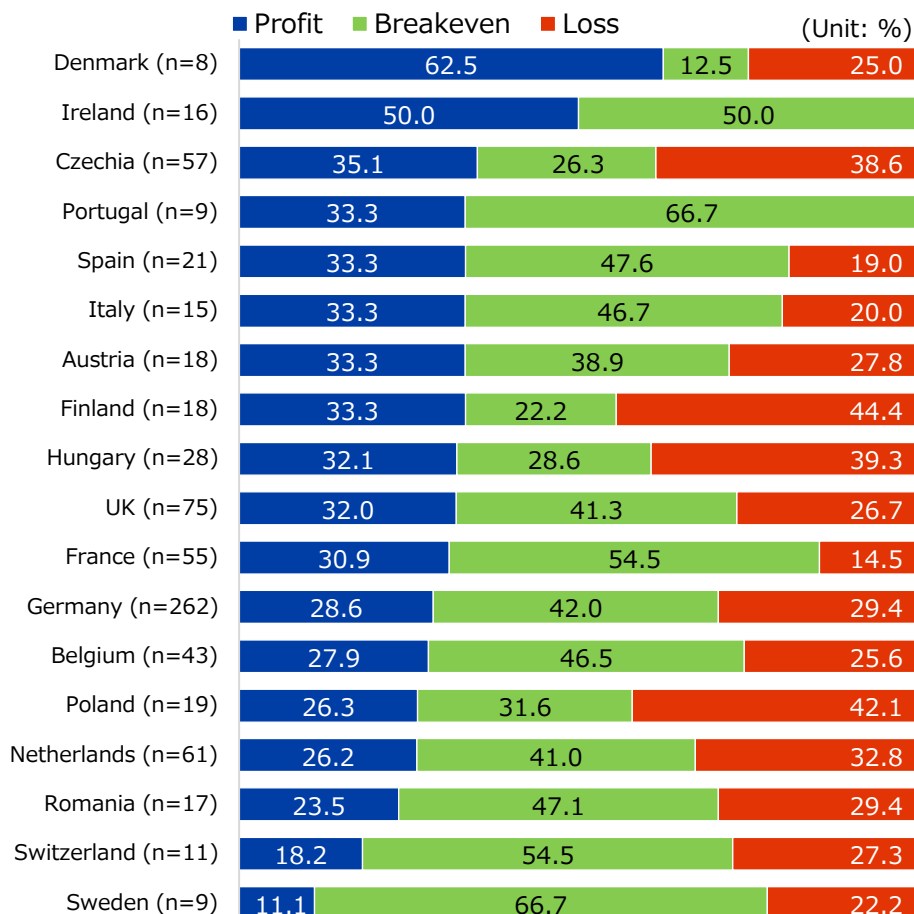
- In terms of operating profit forecasts for 2024 relative to the previous year's results, **the respondents that answered operating profit would "increase" exceeded those that forecast the figure would "decrease" by 2.1 percentage points across Europe (all industries). This gap continued to narrow from the previous year's survey, in which the figure had been 9.8 percentage points.**
- Negative forecasts among non-manufacturing companies in Central and Eastern Europe grew by 11.1 percentage points** from the previous year.

2024 operating profit forecasts relative to 2023 results (by industry)



11.1 percentage points ↑

2024 operating profit forecasts relative to 2023 results (by country)



## 4

## Reasons behind “increase” / “decrease” in operating profit forecasts for 2024

### Lower operating profit forecasts were attributed primarily to demand declines.

- Companies that forecast their operating profit would increase from the previous year **across Europe and Western Europe selected “increasing demand in local market” as the key reason** above all other listed factors. Manufacturing companies in Central/Eastern Europe selected “improvement in production efficiency, sales efficiency, the operating rate” as the key factor.
- Companies that **forecast their operating profit would decrease from the previous year for Europe as a whole, Western Europe, and Central/Eastern Europe, selected “decreasing demand in local market” as the key reason** above all other listed factors, followed by “rising of labor costs.”

### Reasons for increased operating profit forecast (from the previous year; multiple answers allowed)

(Unit: %)

Reasons for increased operating profit forecast (in order of rankings)	Europe			Western Europe			Central & Eastern Europe		
	All industries (n=228)	Manufacturing (n=102)	Non-manufacturing (n=126)	All industries (n=185)	Manufacturing (n=74)	Non-manufacturing (n=111)	All industries (n=43)	Manufacturing (n=28)	Non-manufacturing (n=15)
1 Increasing demand in local market	41.7	38.2	44.4	41.1	37.8	43.2	44.2	39.3	53.3
2 Strengthened sales structure in local market	30.7	26.5	34.1	33.0	32.4	33.3	20.9	10.7	40.0
3 Increasing demand in export destinations	28.1	32.4	24.6	29.2	35.1	25.2	23.3	25.0	20.0
4 Changes in sales prices	21.5	32.4	12.7	20.0	29.7	13.5	27.9	39.3	6.7
5 Improvement in production efficiency, sales efficiency, the operating rate, etc.	19.3	35.3	6.3	14.6	27.0	6.3	39.5	57.1	6.7

### Reasons for decreased operating profit forecast (from the previous year; multiple answers allowed)

(Unit: %)

Reasons for decreased operating profit forecast (in order of rankings)	Europe			Western Europe			Central & Eastern Europe		
	All industries (n=212)	Manufacturing (n=105)	Non-manufacturing (n=107)	All industries (n=161)	Manufacturing (n=74)	Non-manufacturing (n=87)	All industries (n=51)	Manufacturing (n=31)	Non-manufacturing (n=20)
1 Decreasing demand in local market	60.8	68.6	53.3	61.5	74.3	50.6	58.8	54.8	65.0
2 Rising of labor costs	43.9	45.7	42.1	44.1	44.6	43.7	43.1	48.4	35.0
3 Decreasing demand in export destinations	32.1	41.9	22.4	31.1	40.5	23.0	35.3	45.2	20.0
4 Intensified market competition with other companies	30.2	31.4	29.0	30.4	31.1	29.9	29.4	32.3	25.0
5 Rising raw material/parts procurement costs	29.7	35.2	24.3	31.1	35.1	27.6	25.5	35.5	10.0

(Note) Each of the items highlighted in orange above is the No. 1 reason selected specific to a region or industry.

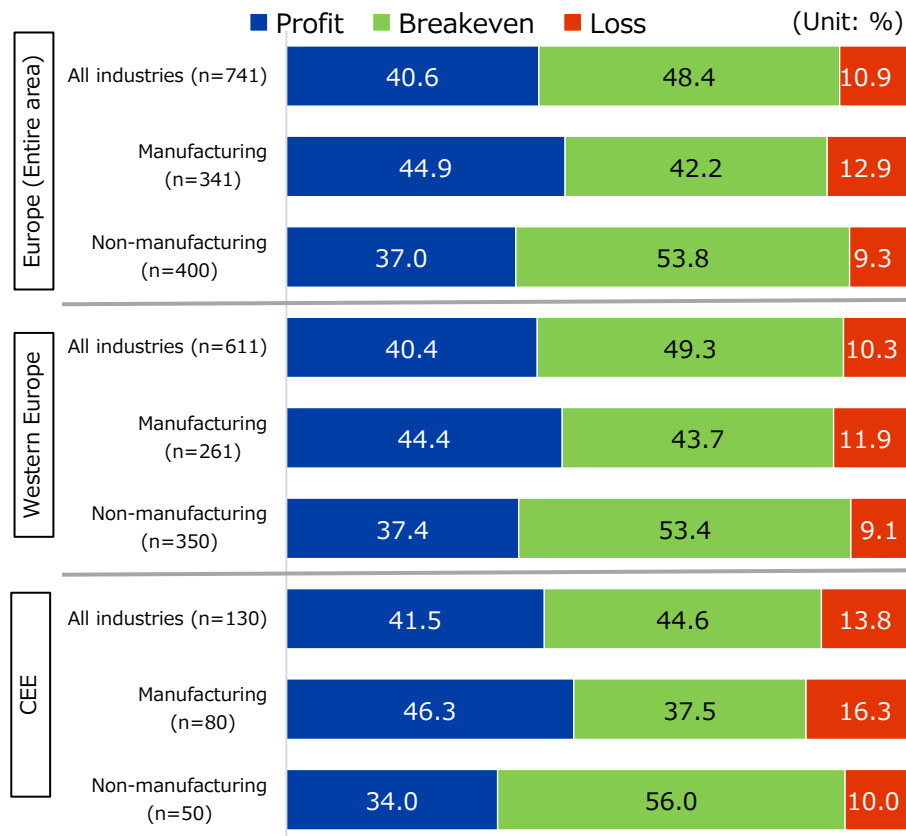
## 5

## Operating profit forecast for 2025 compared to 2024

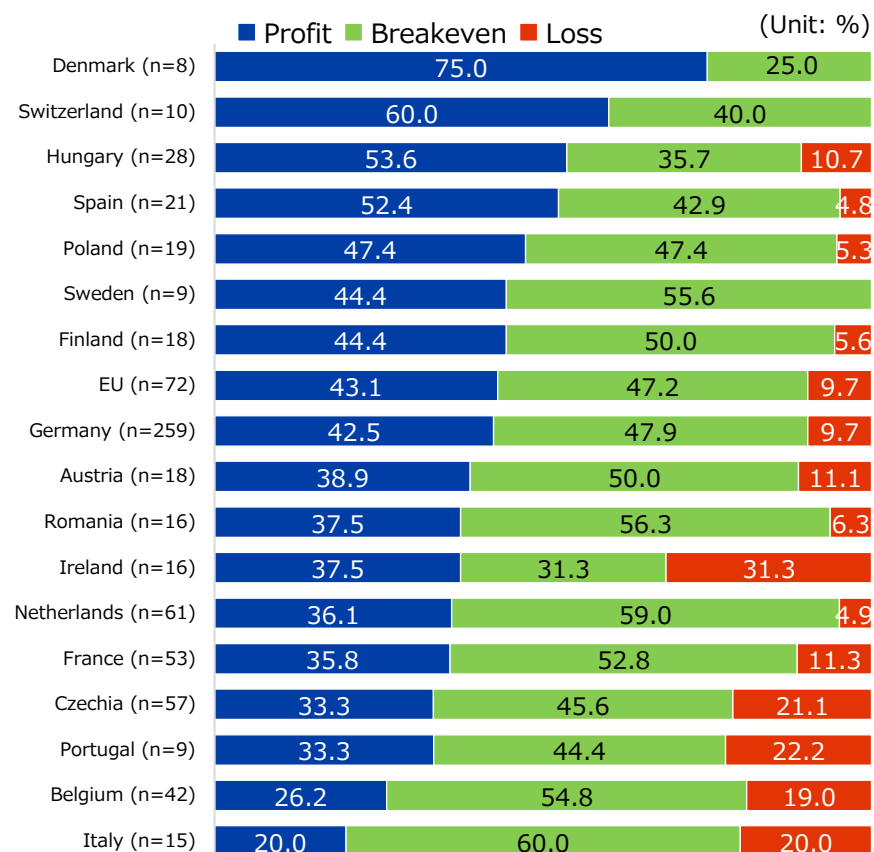
## Some 40% of respondents expect their 2025 operating profit to “increase” from 2024.

- In terms of operating profit forecast for 2025, **40.6%** of respondents across Europe forecast “increase,” which had risen by **0.5 percentage points** from the previous year’s survey; **10.9%** of respondents forecast the figure would “decrease.” This figure marks an increase of **0.2 percentage points** from the previous year’s survey.
- In terms of responses by country, in roughly **3/4 of the countries surveyed**, the sum of respondents that answered either “remain the same” or “decrease” surpassed those that thought the figure would “increase.” In Ireland, in particular, more than 30% of respondents forecast that operating profits would “decrease.”

## 2025 operating profit forecasts relative to 2024 (by industry)



## 2025 operating profit forecasts relative to 2024 (by country)



## **II. Future Business Direction for the Next One to Two Years**

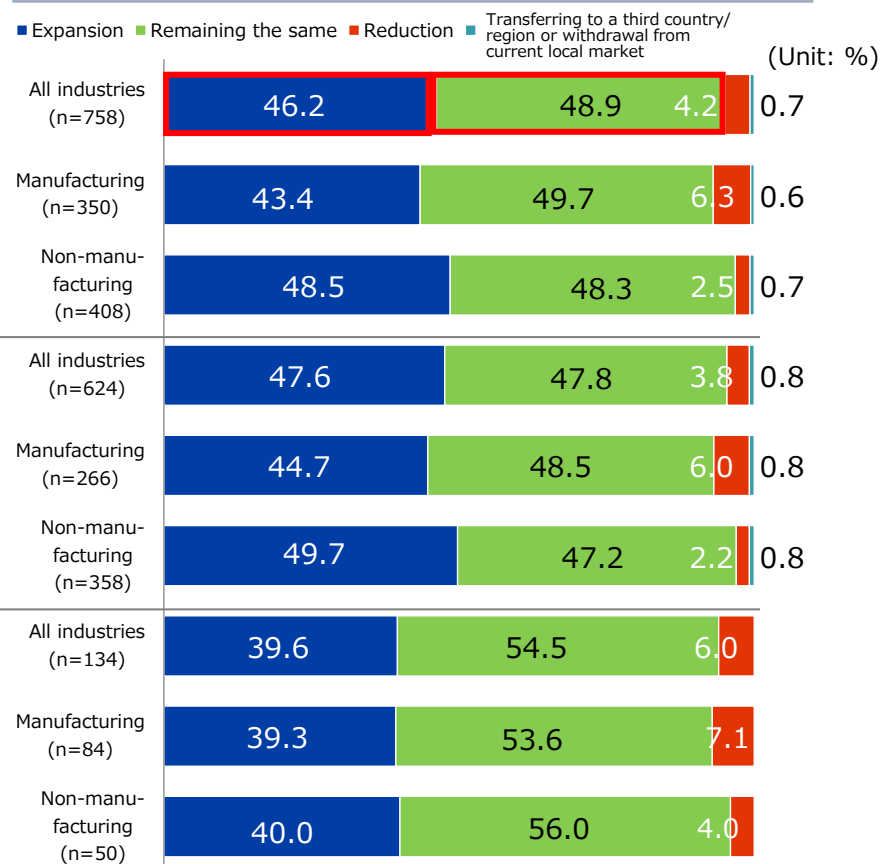
# 1

## Future business direction for the Next One to Two Years

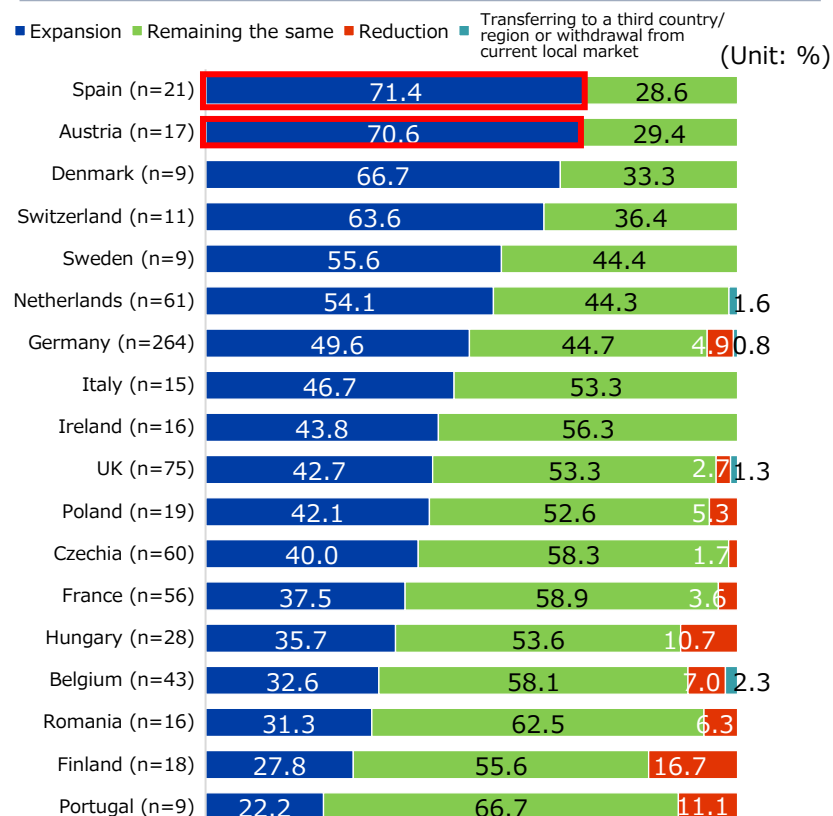
Companies anticipating business “expansion” decreased, while those expecting “remaining the same” and “reduction” increased slightly.

- In terms of business directions for the next one to two years, 48.9% of companies said they would likely see business “remaining the same,” surpassing those who anticipated “expansion” (46.2%). **While companies expecting business “expansion” fell by 5.4 percentage points from the previous year’s survey**, those that thought that their business would “remain the same” and expected “reduction” increased by 3.5 and 1.8 percentage points, respectively.
- In terms of results by country, more than 70% of companies in Spain and Austria responded that their business would expand. Major reasons included “increase of local market demand” (non-manufacturing), “high acceptability of high value-added products” (Spain), and “greater market dominance over competitors” (Austria).

### Future business direction for the Next One to Two Years (by industry)



### Future business direction for the Next One to Two Years (by country)



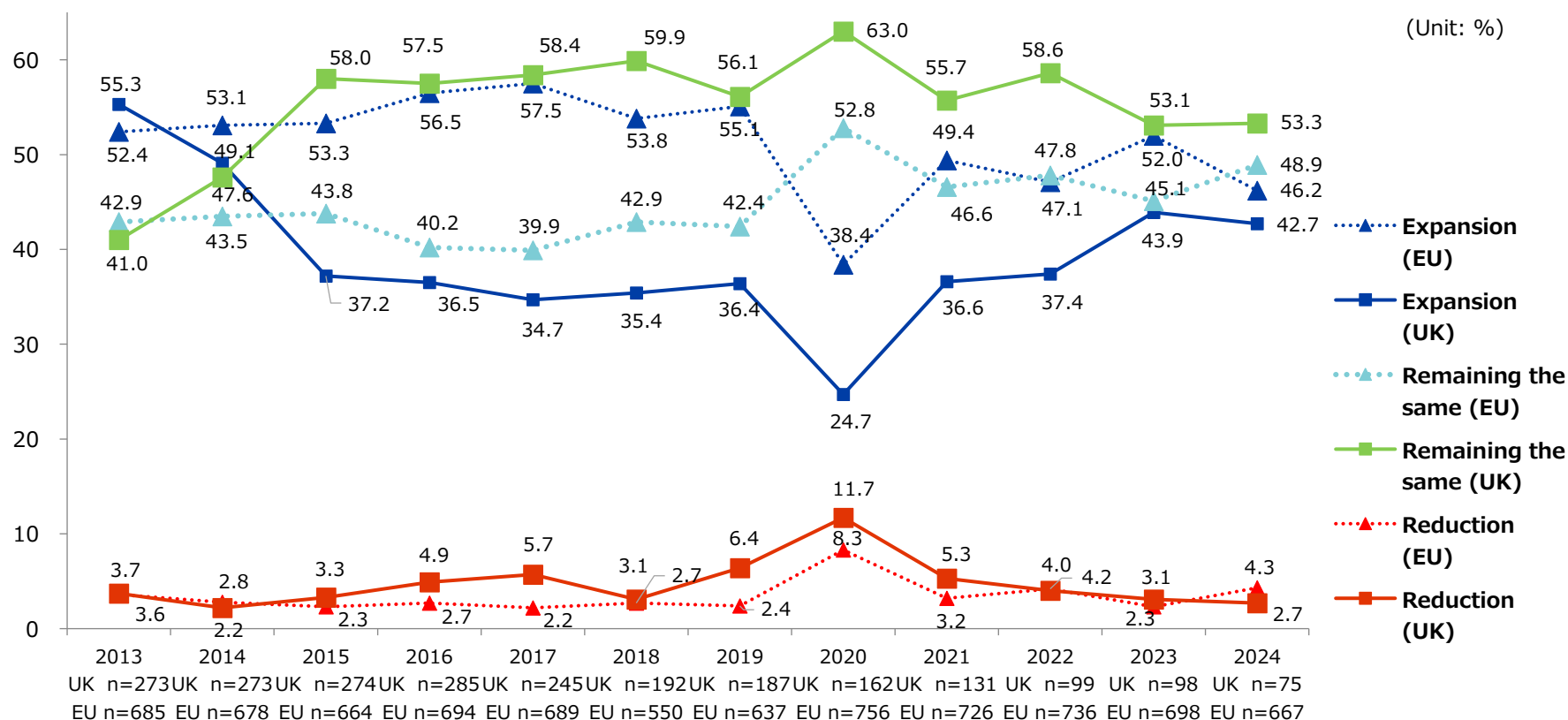
## 2

Change in future business directions for the next one to two years

## Companies in the EU and UK alike expecting business to “remaining the same” surpass those expecting “expansion.”

- Regarding business directions for the next one to two years, **the response rates of “remaining the same” in the EU and UK were 48.9% and 53.3%, respectively, both exceeding the rates of “expansion.”**
- In the EU, the ratio of the companies forecasting “reduction” was 4.3%, 2.0 percentage points higher from the previous year’s survey.

Change in future business directions for the next one to two years (all industries)





# 3

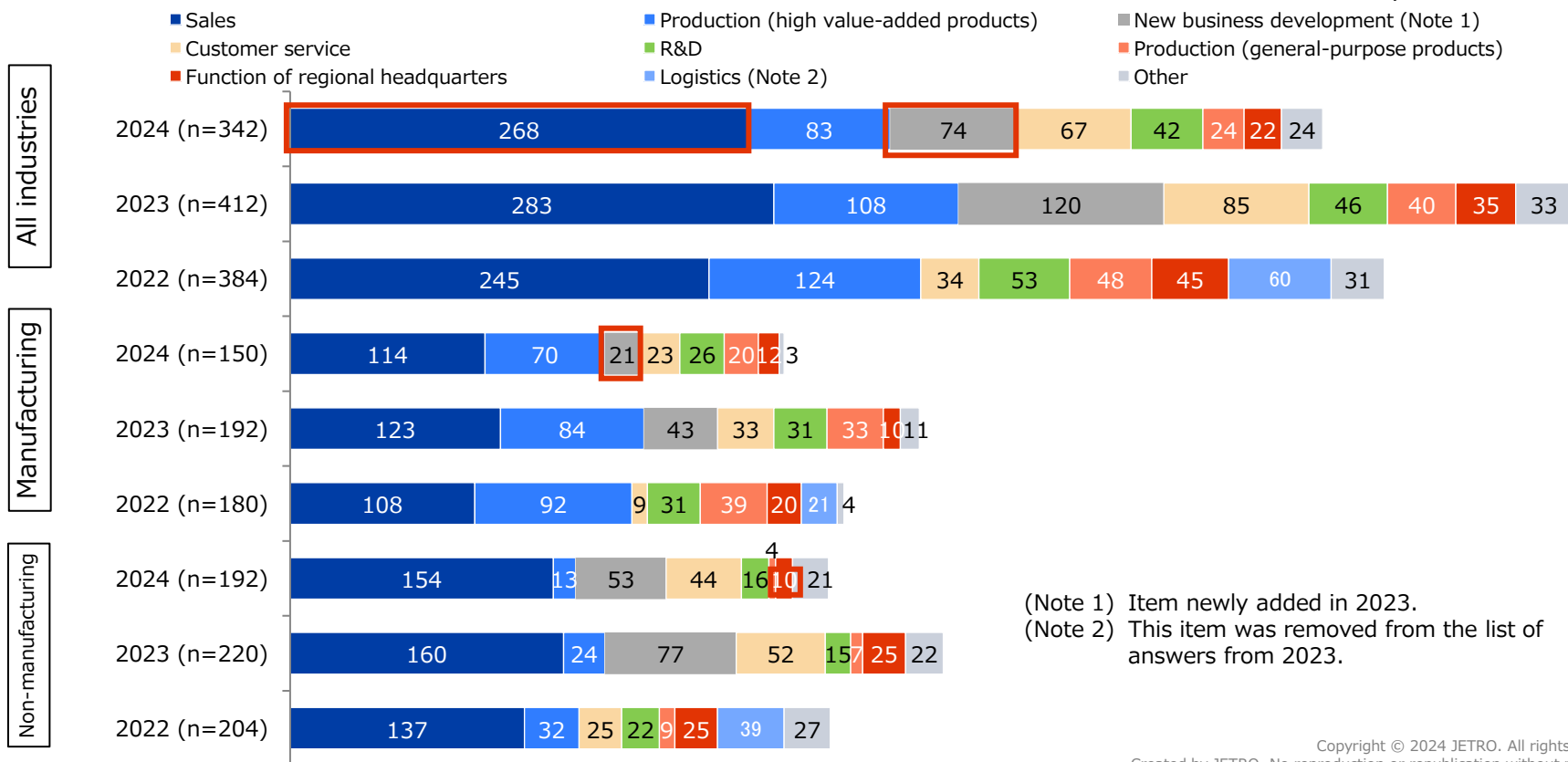
## Corporate functions planned for expansion (by industry)

Among the corporate functions expected to expand in the future, “new business development” was selected by fewer companies.

- The companies that answered they would expand their businesses in the next one to two years were asked which corporate functions they would likely expand. **Those that answered “sales” to respond to the increasing needs in their local markets increased by about 10% YoY.** Companies that answered “new business development” decreased in all industries; specifically in manufacturing, the number of the companies that answered “new business development” fell to less than half of the results for the previous year. Due to declining demand and rising costs, high priority is given to secure profits, and that might affect investment activity.
- Among non-manufacturing companies, those answering that they would expand their “functions of regional headquarters” fell by nearly half from the previous year’s survey.

## Corporate functions planned for expansion (multiple answers allowed)

(Unit: number of companies)



# 4 Corporate functions planned for expansion (by country)

## By country, “Sales” got the highest number of responses as the corporate function to expand

- The top three countries where the respondents stating that “sales” was the corporate function that should be expanded ahead of other functions were Sweden, Italy, and Poland.
- In the previous year, the countries where high ratios of companies answered that they would expand the function of “new business development” were Sweden, Czechia, Hungary, and France. They reduced their responses in this regard by 42.9, 35.9, 27.3, and 25.5 percentage points, respectively.

### Corporate functions planned for expansion (by country, multiple answers allowed)

(Unit: number of companies, %)

	Functions planned for expansion (in order of rankings)	Europe (n=342)	Western Europe (n=289)	UK (n=30)	Germany (n=127)	France (n=20)	Italy (n=7)	Netherlands (n=33)	Belgium (n=14)	Spain (n=15)	Ireland (n=7)	Finland (n=5)	Switzerland (n=7)	Sweden (n=5)	Austria (n=12)	Denmark (n=5)
Western Europe	Sales	268 78.4	232 80.3	21 70.0	109 85.8	17 85.0	7 100.0	24 72.7	10 71.4	12 80.0	6 85.7	3 60.0	4 57.1	5 100.0	9 75.0	4 80.0
	Production (high value-added products)	83 24.3	66 22.8	7 23.3	26 20.5	4 20.0	3 42.9	8 24.2	1 7.1	7 46.7	2 28.6	1 20.0	2 28.6	2 40.0	1 8.3	2 40.0
	New business development	74 21.6	66 22.8	8 26.7	26 20.5	4 20.0	1 14.3	8 24.2	3 21.4	4 26.7	2 28.6	3 60.0	1 14.3	0 0.0	5 41.7	1 20.0
	Customer service	67 19.6	60 20.8	5 16.7	24 18.9	3 15.0	1 14.3	7 21.2	2 14.3	5 33.3	2 28.6	3 60.0	1 14.3	3 60.0	4 33.3	0 0.0
	R&D	42 12.3	38 13.1	4 13.3	11 8.7	5 25.0	2 28.6	2 6.1	2 14.3	3 20.0	0 0.0	2 40.0	2 28.6	0 0.0	4 33.3	0 0.0
	Production (general-purpose products)	24 7.0	17 5.9	4 13.3	5 3.9	1 5.0	1 14.3	5 15.2	0 0.0	1 6.7	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
	Function of regional headquarters	22 6.4	21 7.3	4 13.3	7 5.5	1 5.0	0 0.0	5 15.2	2 14.3	0 0.0	1 14.3	0 0.0	1 14.3	0 0.0	0 0.0	0 0.0
Central & Eastern Europe	Functions planned for expansion (in order of rankings)	Europe (n=342)	Central & Eastern Europe (n=53)	Czechia (n=24)	Hungary (n=10)	Poland (n=8)	Romania (n=5)									
	Sales	268 78.4	36 67.9	16 66.7	4 40.0	7 87.5	3 60.0									
	Production (high value-added products)	83 24.3	17 32.1	8 33.3	5 50.0	2 25.0	0 0.0									
	New business development	74 21.6	8 15.1	4 16.7	0 0.0	2 25.0	1 20.0									
	Customer service	67 19.6	7 13.2	4 16.7	1 10.0	1 12.5	0 0.0									
	R&D	42 12.3	4 7.5	2 8.3	2 20.0	0 0.0	0 0.0									
	Production (general-purpose products)	24 7.0	7 13.2	4 16.7	1 10.0	0 0.0	1 20.0									
	Function of regional headquarters	22 6.4	1 1.9	0 0.0	0 0.0	0 0.0	0 0.0									

(Note 1) The figures in parentheses underneath the countries and regions indicate the number of companies that forecast business expansion over the next one to two years.

(Note 2) The figures in the top cells in the rows of corporate functions indicate numbers of companies selecting those functions for planned expansion, among their multiple answers; the figures in the bottom cells indicate their ratios as percentages of [n].

(Note 3) The cells highlighted in orange indicate the top three countries in all of Europe.

(Note 4) The cells highlighted in light blue indicate countries in which ratios fell significantly from the previous year.

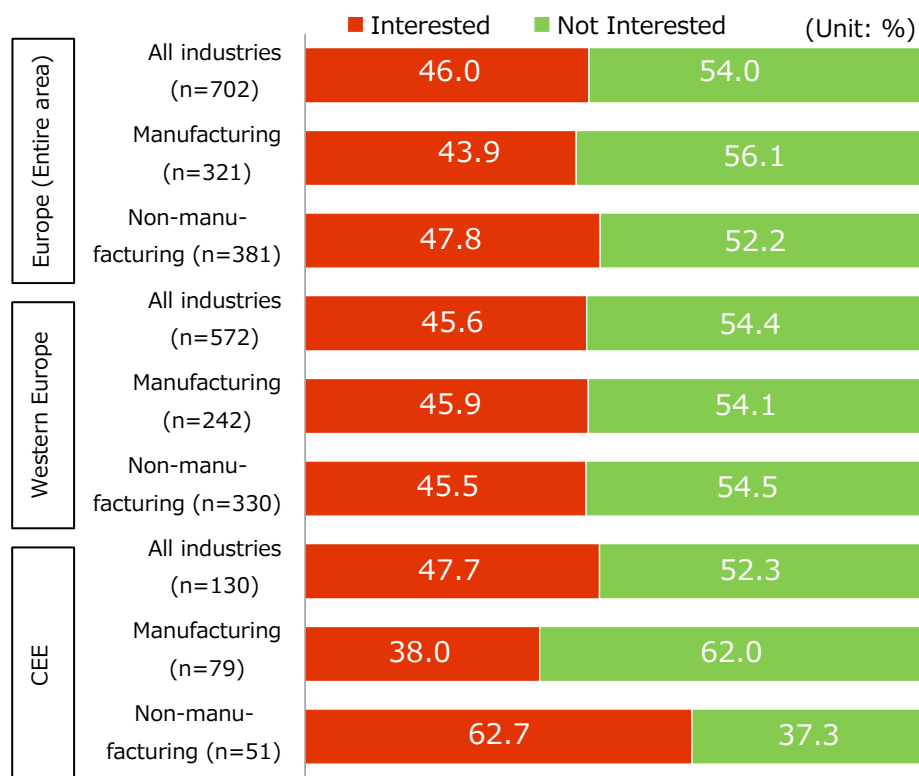
## 5

## Interests and challenges in providing reconstruction assistance and doing business in Ukraine

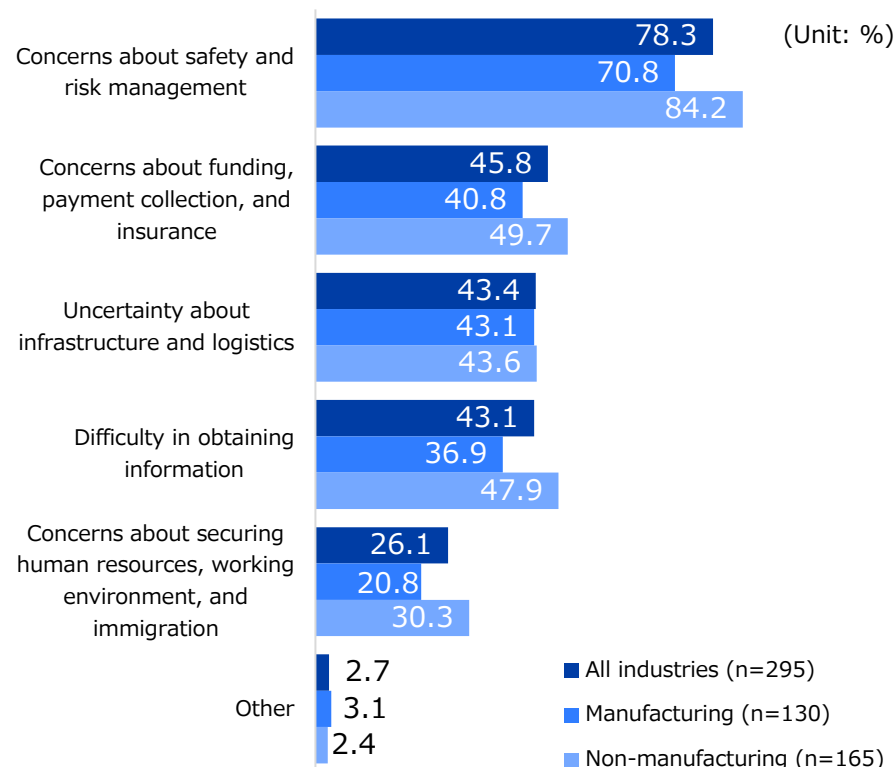
### A little less than 50% were interested in the reconstruction efforts. The biggest concerns were safety and risk management.

- 46.0% of companies expressed interest in supporting Ukraine's reconstruction and undertaking business in the country (48.3% in the previous year). This interest was **especially pronounced among non-manufacturing companies operating in Central and Eastern Europe (62.7%)**, an increase of 4.2 percentage points from the previous year's survey. Companies in warehousing and logistics, construction, sales companies, and trading, etc. in these regions expressed high interest.
- In terms of challenges and bottlenecks in providing reconstruction assistance and doing business there, **a high percentage of companies expressed concerns about safety and risk management (78.3%)**.

#### Interest in providing reconstruction assistance and doing business in Ukraine (by industry / region)



#### Challenges and concerns in providing reconstruction assistance and doing business in Ukraine (by industry)



(Note) Respondents include those who answered "Interested" in the figure to the left.

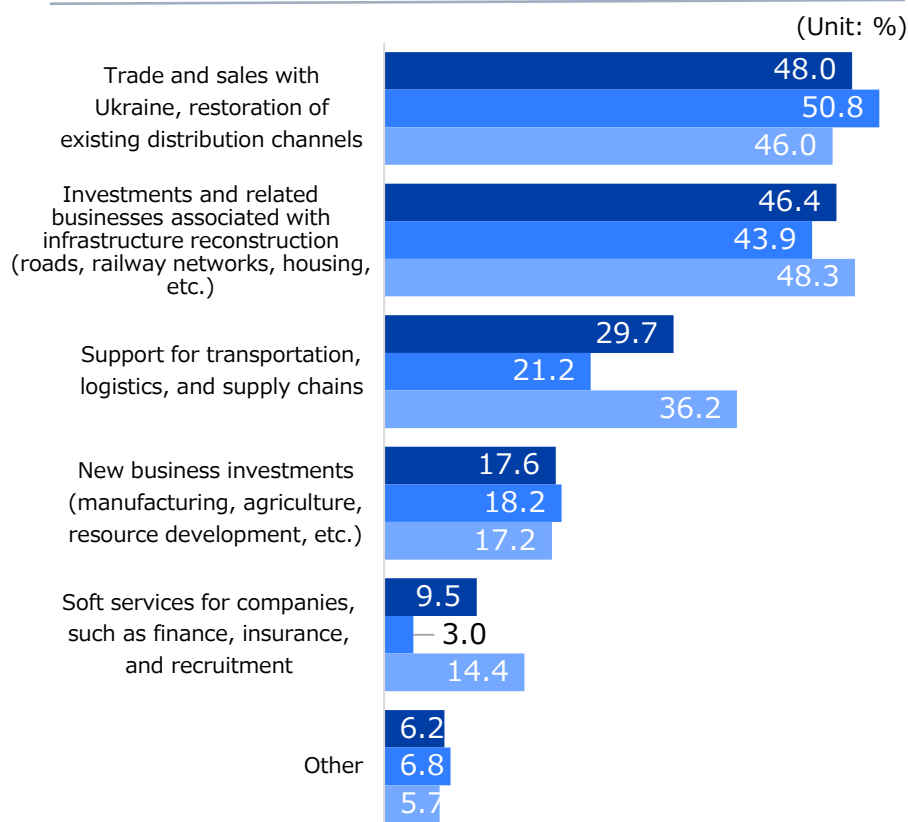
## 6

## Areas of interest in providing reconstruction assistance and doing business in Ukraine

### Respondents express keen interest in restoring trade/sales and commercial channels.

- With regard to specific areas of interest in providing reconstruction assistance and doing business in Ukraine, many companies in the relevant industries selected **“trade and sales with Ukraine, restoration of existing distribution channels”** (48.0%) and **“investments and related businesses associated with infrastructure reconstruction”** (46.4%).
- Answers to the open-ended question for “Other” included “the reconstruction of medical facilities and public hygiene” (a sales company in Germany), and “the enhanced efficiency of government services based on proprietary AI technologies” (a communications / ICT company in Austria).

#### Areas of interest in providing reconstruction assistance and doing business in Ukraine (by industry)



■ All industries (n=306) ■ Manufacturing (n=132) ■ Non-manufacturing (n=174)

#### Top Five detailed industrial categories in the left figure

(Unit: %)

1. Trade and sales with Ukraine, restoration of existing distribution channels	
Electrical and electronic devices (n=11)	81.8
Iron and steel (n=5)	80.0
Food products (n=9)	66.7
Sales companies (n=53)	66.0
Fabricated metal products (n=7)	57.1
2. Investments and related businesses associated with infrastructure reconstruction	
Construction (n=7)	85.7
Banks (n=8)	75.0
Trading (n=32)	71.9
Fabricated metal products (n=7)	71.4
General machinery (n=27)	70.4
3. Support for transportation, logistics, and supply chains	
Warehousing and logistics (n=39)	82.1
Transportation equipment parts (motor vehicles, etc.) (n=11)	45.5
Fabricated metal products (n=7)	42.9
Trading (n=32)	40.6
Chemical and Petroleum products (n=10) and Electrical and electronic components (n=10)	30.0

(Note) The number of companies indicates the number of companies that provided answers.  
Comparisons made among the industrial categories of at least n=5.

# **III. European Policies and Regulations**

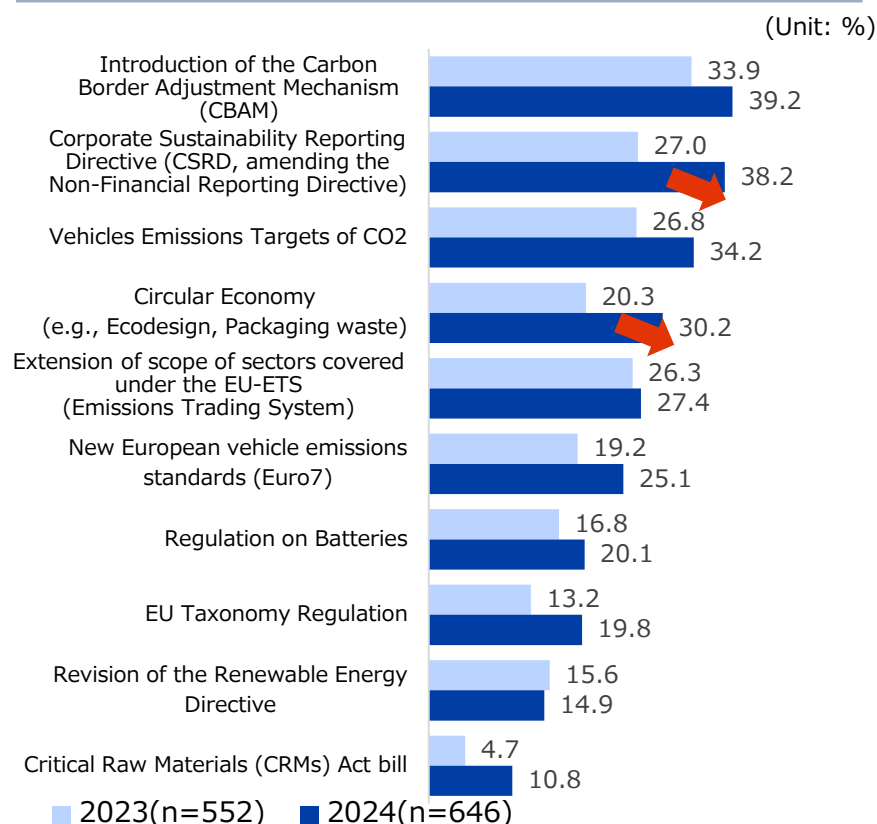
## 1

## EU policies and regulations drawing attention

# Carbon Border Adjustment Mechanism (CBAM) is the topic of most concern.

- In terms of the EU policies and regulations drawing the attention of Japanese-affiliated companies in Europe, **CBAM continued to be the most significant issue of concern (39.2%)** as in the previous year. By industry, this particular concern ranked high, exceeding 50%, among companies engaged in trading, fabricated metal products, and transportation equipment parts.
- Attention on the Corporate Sustainability Reporting Directive (CSRD) has increased to 38.2%, marking an uptick of more than 10 percentage points from the previous year's survey. By industry, the ratios for the attention on the directive are high among non-manufacturing companies. Another noteworthy area is the attention on the circular economy, with an increase of 9.9 percentage points over the previous year.

## EU green-related policies and regulations closely monitored by Japanese-affiliated companies in Europe



(Note) Responses for 2023 included other items.

## Ratios of companies tracking such EU policies and regulations by industry

(Unit: %)

Introduction of CBAM	
Trading (n=69)	69.6
Fabricated metal products (n=11)	54.5
Transportation equipment parts (n=48)	52.1
CSRD	
Banks (n=13)	69.2
ICT (n=12)	58.3
Trading (n=69)	47.8
Vehicles Emissions Targets of CO <sub>2</sub>	
Transportation equipment parts (n=48)	66.7
Fabricated metal products (n=11)	45.5
ICT (n=12)	41.7
Circular economy	
Non-ferrous metals (n=10)	50.0
Food products (n=18)	44.4
Electrical and electronic machinery (n=20)	40.0

(Note) Comparisons made among the industrial categories of at least n=10, excluding other manufacturing.

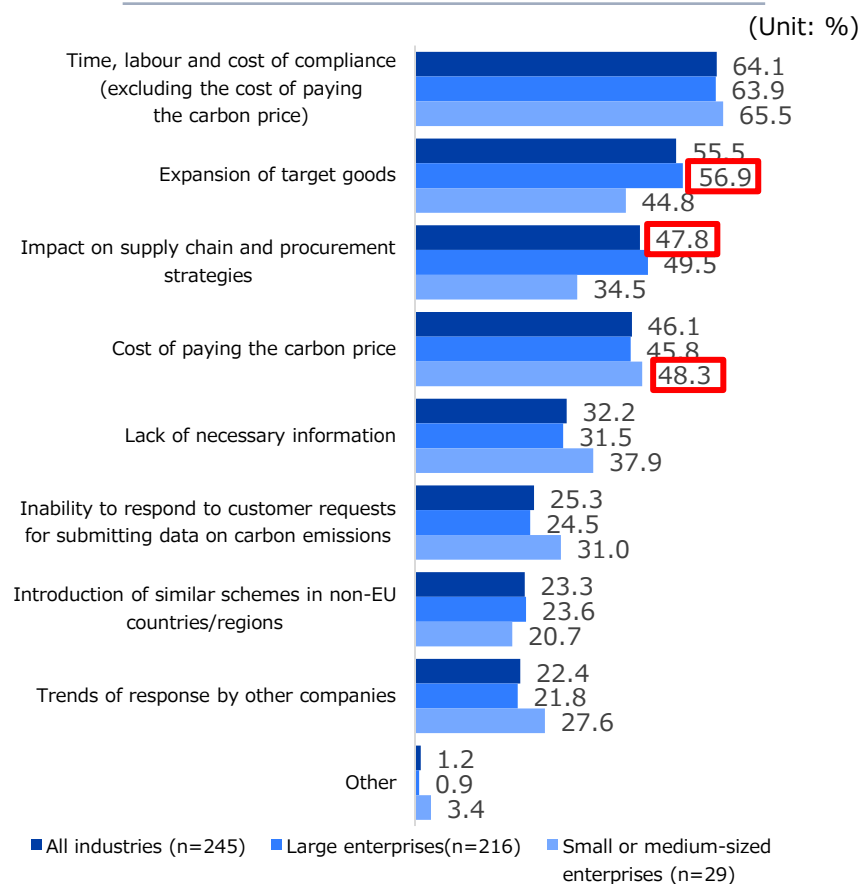
# 2

## Specific concerns regarding CBAM and CSRD

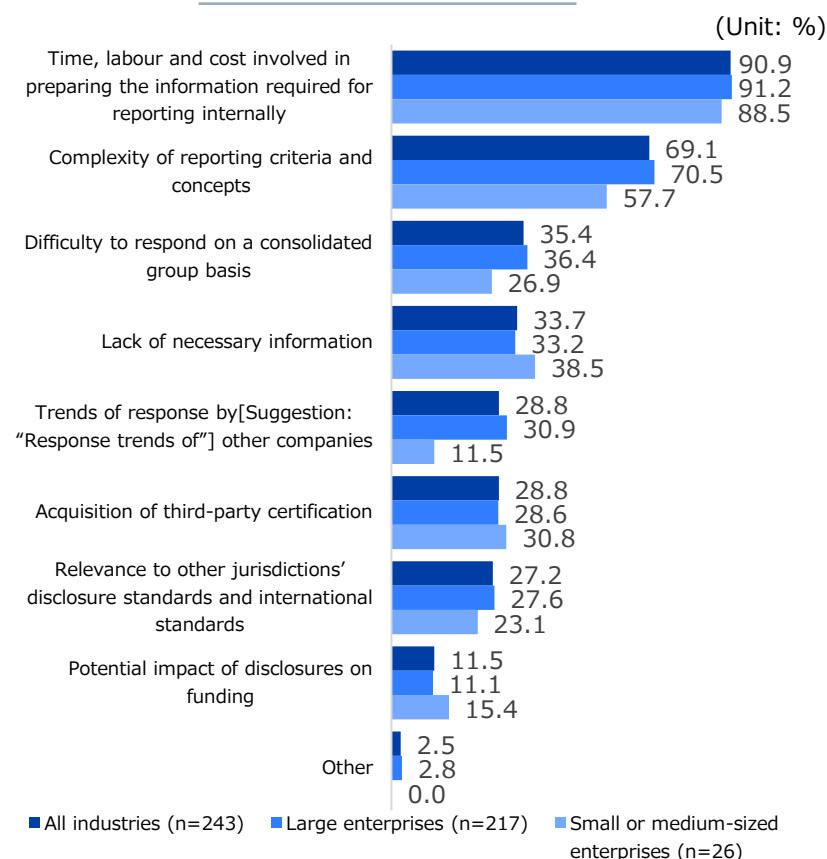
### With CBAM, companies are concerned about the potential expansion of product coverage, reporting methods, and increases in product prices.

- As specific concerns about the introduction of both CBAM and CSRD, most companies regarded the **challenges associated with handling costs** as the most significant factor.
- With regard to CBAM, while the second biggest concern among large enterprises was that coverage may expand to other products in the future, the second biggest concern among small or medium-sized enterprises was the costs incurred by payment of carbon prices. 47.8% of all industries expressed concerns about impacts on supply chains and procurement strategies.

#### Concerns about introduction of CBAM



#### Concerns about CSRD

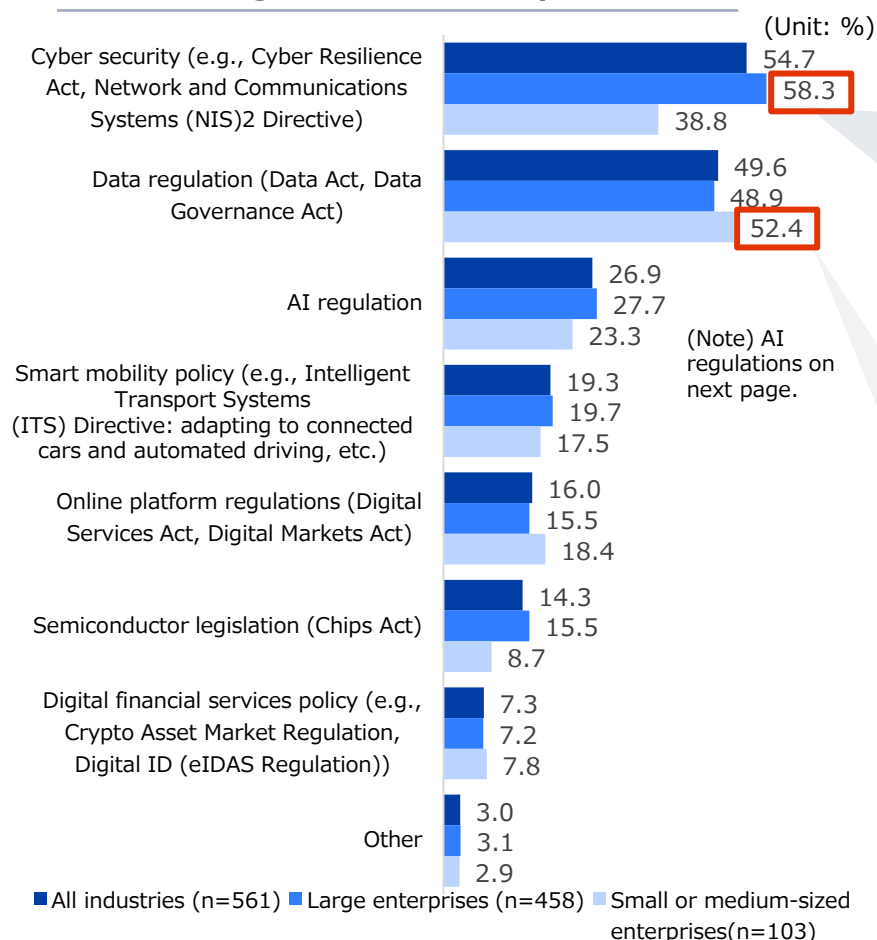




# 3 | Concerns about measures taken as digitalization-related measures Cybersecurity legislation is attracting considerable attention.

- In terms of digitalization-related measures, **the biggest concern among large enterprises was cybersecurity. Small or medium-sized enterprises mentioned data regulations as their biggest concern.**
- The Cyber Resilience Act attracted significant attention from companies concerned about the corresponding standards and criteria. As for data regulations, concerns were raised specifically by companies involved in automobile-related parts.

## Noteworthy digitalization policies and regulations in Europe



## Comments from companies (comments; excerpts)

### Cybersecurity

- **Promoting internal studies on conformity** to secure product development and manufacturing processes, based on IEC 62443, which could serve as the basis for the Cyber Resilience Act. (Finland, transportation equipment)
- Considering costs incurred for system construction, confirmation of how strictly the regulations will be implemented, and criteria for **correct handling of diversified approaches taken by different countries**, etc. (Germany, trading)
- Considering how much the company needs to respond to increasingly complicated cyberattacks, and how much these measures will cost. (Czechia, printing / publishing)
- IT enhancement for customer relations is now considered essential and continues to account for significant labor and costs. (Finland, general machinery)

### Data regulations

- Concerned about being subject to stricter restrictions on transfer and increasing costs for business processes to respond to the regulations. (Germany, electric / electronic machinery)
- Concerned about regulations governing **data transaction with Japan** (specifically, personal information, etc.) (France, transportation equipment parts (motor vehicles, etc.))
- While huge volumes of data are generated by the automobile industry and used for software development/optimization and new services, careful attention should be directed to the **legitimacy of the data management, protection, and utilization methods**. (Netherlands, transportation equipment parts).
- Stricter regulations are likely to **constrain business activities**. (Germany, trading)

# 4

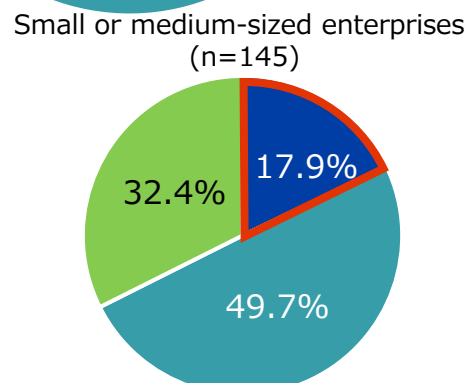
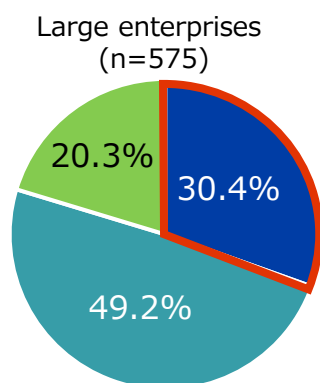
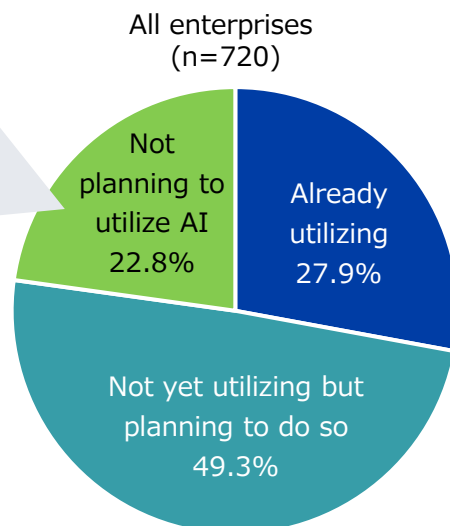
## AI utilization status

**Half of the respondents intend to study future utilization approaches; a little less than 30% of the companies have started utilizing AI.**

- The EU is playing a pioneering role in enacting its AI Act, ahead of any other region. It plans to begin enforcing the Act in 2026. **27.9% of all companies answered that they have already started utilizing AI.** The leading industries are IT, etc. (81.5%), banks (50%), and trade (39.4%).
- As indicated in the previous page, 26.9% of all companies concerned about the entire EU legal/regulatory measures answered that they would pay close attention to AI regulations. Comments from these companies include, “considering how AI regulations will relate to the international certification systems” and “studying how to proceed with formulating guidelines,” etc.

### AI utilization status

- Insufficient information and human resources
- Considering future utilization based on HQ initiatives
- Corporate guidelines have not been finalized.
- Cannot afford financially
- The company size is too small.
- Concerns about data / information leakage risks
- Due to information security concerns



### AI utilization status (by industry)

(Unit: %)

Already utilizing	
ICT (n=27)	81.5
Banks (n=12)	50.0
Trading (n=71)	39.4
Not yet utilizing but planning to utilize	
Construction (n=10)	80.0
Electrical and electronic machinery (n=23)	65.2
General machinery (n=42)	64.3

(Note) Comparisons made among the industrial categories of at least n=10.

#### Noteworthy aspects of AI regulations (remarks from the companies)

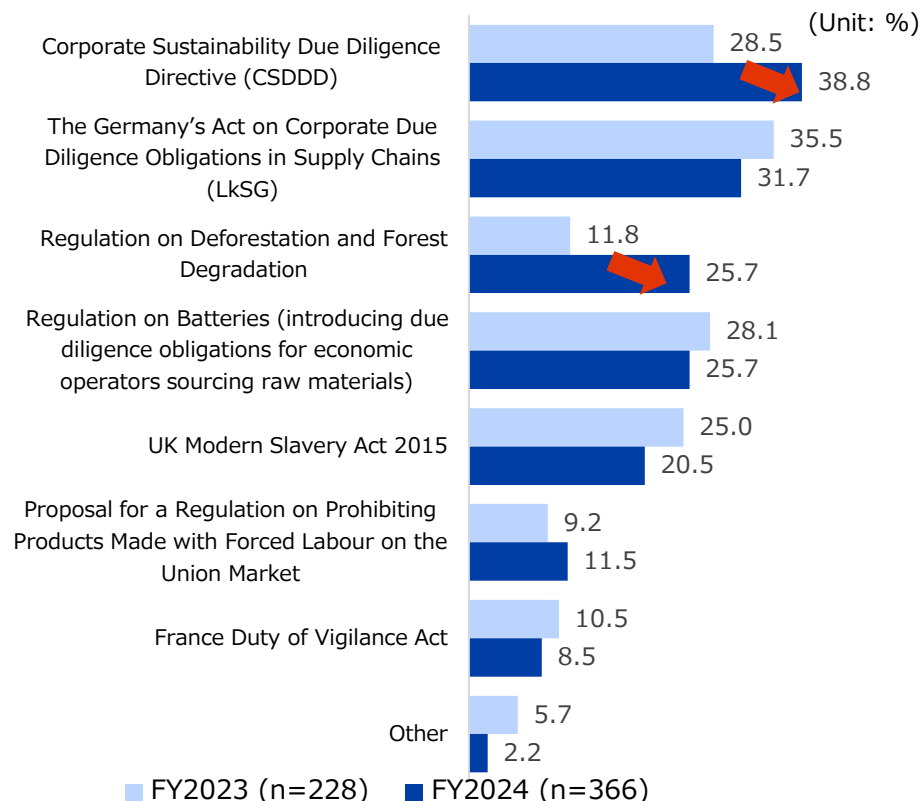
- How will they be implemented in the future? How will AI regulations **be related to the relevant international certification systems (ISO), etc.** ?(Austria, communications)
- As AI regulations may **affect the development/introduction of technologies**, flexible responses will be needed while advanced technologies are introduced. (Netherlands, transportation equipment parts)
- Paying attention to how we can establish corporate guidelines in the EU and utilize them for improvement of our operations (Sweden, miscellaneous manufacturing industries)
- How will the balance between regulations and innovation be discussed? (Denmark, communications)

# 5

## Laws and regulations on human rights and environmental due diligence (DD) The effects of CSDDD and the EU Regulation on Deforestation and Forest Degradation are significantly increasing.

- Of all laws and regulations that apply to human rights and environmental DD, the **Corporate Sustainability Due Diligence Directive (CSDDD)** was the one recognized as likely to have the greatest impacts on the respondents in the future, indicating an increase of 10.3 percentage points from the previous year. Furthermore, the companies citing the **due diligence rules for regulations governing deforestation and forest degradation would affect or likely affect them also significantly grew YoY.**
- By industry, CSDDD impacts were mentioned by many Non-banks financial institutions and those dealing in chemical and allied products and petroleum products. As for the due diligence rules for regulations on deforestation and forest degradation, **more than 70% of companies involved in rubber products and food / processed food, agricultural or fishery products mentioned current and future possible impacts from these rules.**

### Laws and regulations on human rights and environmental DD already having effect or with potential future effect (Left: by FY; Right: by industry)



(Note) Norway Transparency Act and Swiss Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour (DDTrO) were among selections in 2023.

Corporate Sustainability Due Diligence Directive (CSDDD)	
Non-banks financial institutions (n=9)	55.6
Chemical and petroleum products (n=21)	52.4
Transportation equipment parts (motor vehicles, etc.) (n=25)	52.0
The Germany's Act on Corporate Due Diligence Obligations in Supply Chains (LkSG)	
Rubber products (n=6)	50.0
Chemical and petroleum products (n=21)	42.9
Trading (n=45)	40.0
Regulation on Deforestation and Forest Degradation	
Rubber products (n=6)	83.3
Food products (n=15)	73.3
Trading (n=45)	40.0

(Note) Comparisons made among the industrial categories of at least n=5.

## **IV. Operational Challenges**

# 1 | Operational challenges in Europe (YoY; by industry)

## The most significant operational issue is securing human resources, and cost-related items are ranked high.

- The most significant operational challenge across Europe was “securing of human resources” (65.5%), with a significant YoY increase of 10.5 percentage points, followed by “inflation” (55.0%) and “high labor costs” (51.1%). On the other hand, “the situation in Ukraine” (48.1%), the biggest issue in the previous year, fell by 7.3 percentage points.
- For both manufacturing and non-manufacturing companies, “securing of human resources” and “inflation” are the biggest concerns. For manufacturing companies, the third was “transportation costs,” and the fourth was “procurement costs.” In non-manufacturing companies, the third was “fluctuating exchange rates.”

### Operational challenges in Europe (multiple answers allowed)

(Unit: %, percentage points; “△” indicates a negative figure)

	2024 survey (n=740)	2023 survey (n=749)	YoY change	By industry					
				Manufacturing			Non-manufacturing		
				2024 (n=341)	2023 (n=362)	YoY change	2024 (n=399)	2023 (n=387)	YoY change
1 Securing human resources	65.5	55.0	10.5	69.5	60.8	8.7	62.2	49.6	12.6
2 Inflation	55.0	53.4	1.6	54.8	55.2	△ 0.4	55.1	51.7	3.4
3 High labor costs	51.1	44.2	6.9	50.7	45.3	5.4	51.4	43.2	8.2
4 Effects of exchange rate fluctuation	50.7	31.9	18.8	49.3	32.0	17.3	51.9	31.8	20.1
5 Transportation costs	49.6	32.0	17.6	52.5	35.6	16.9	47.1	28.7	18.4
6 Situation in Ukraine	48.1	55.4	△ 7.3	49.9	58.0	△ 8.1	46.6	53.0	△ 6.4
7 Rapid labor costs growth	46.9	50.3	△ 3.4	49.9	53.6	△ 3.7	44.4	47.3	△ 2.9
8 Economic recession, shrinking of markets	42.2	29.2	13.0	44.6	29.3	15.3	40.1	29.2	10.9
9 Procurement costs	40.4	31.0	9.4	51.9	45.9	6.0	30.6	17.1	13.5
10 European social and political situation	37.0	19.9	17.1	37.8	20.4	17.4	36.3	19.4	16.9
11 Rising energy costs	36.1	43.7	△ 7.6	43.4	50.8	△ 7.4	29.8	37.0	△ 7.2
12 Quality of workforce	24.5	27.0	△ 2.5	23.5	29.3	△ 5.8	25.3	24.8	0.5
13 Delivery dates	23.9	22.2	1.7	25.8	24.9	0.9	22.3	19.6	2.7
14 Strict dismissal laws	23.6	22.6	1.0	21.1	21.3	△ 0.2	25.8	23.8	2.0
15 Cyberattack	18.9	16.3	2.6	15.5	18.0	△ 2.5	21.8	14.7	7.1

(Note) The figures indicated in red in the orange-highlighted cells are the top three choices for the industrial categories for 2024.

## 2

## Operational challenges in different regions (Top Five)

### The top operational issues in Western, Central, and Eastern Europe across the board were those relating to human resources and costs.

- In Western, Central, and Eastern Europe alike, “securing human resources” was ranked top in the operational issues. In Western Europe, “high labor costs” came in second. In Central and Eastern Europe, the second challenge was “rapid labor costs growth.” In Western Europe, companies with concerns about “securing human resources” grew by 11.8 percentage points from the previous year’s survey.
- As for “inflation,” companies in Western Europe raising the issue increased slightly from the previous year’s survey, but those in Central and Eastern Europe stating the concern decreased. All in all, **the situation this year seems to have stabilized in this regard.**
- 56.4% of the companies in Central and Eastern Europe are concerned about the “situation in Ukraine,” presumably due to geopolitical reasons. The concern about this issue decreased YoY, but still ranked fourth.

### Operational challenges in Western Europe (multiple answers allowed)

(Unit: %, percentage points)

Western Europe		2024 survey (n=607)	2023 survey (n=623)	YoY change	By industry				
					Manufacturing			Non-manufacturing	
					2024 (n=259)	2023 (n=277)	YoY change	2024 (n=348)	2023 (n=346)
							YoY change		
	1 Securing human resources	64.3	52.5	11.8	67.6	56.3	11.3	61.8	49.4
	2 High labor costs	54.0	45.7	8.3	54.1	47.7	6.4	54.0	44.2
	3 Inflation	52.9	49.0	3.9	50.6	48.7	1.9	54.6	49.1
	4 Effects of exchange rate fluctuation	50.9	29.9	21.0	48.6	28.2	20.4	52.6	31.2
	5 Transportation costs	49.1	30.5	18.6	52.1	33.6	18.5	46.8	28.0

### Operational challenges in Central and Eastern Europe (multiple answers allowed)

(Unit: %, percentage points; “△” indicates a negative figure)

CEE		2024 survey (n=133)	2023 survey (n=126)	YoY change	By industry				
					Manufacturing			Non-manufacturing	
					2024 (n=82)	2023 (n=85)	YoY change	2024 (n=51)	2023 (n=41)
							YoY change		
	1 Securing human resources	71.4	67.5	3.9	75.6	75.3	0.3	64.7	51.2
	2 Rapid labor costs growth	66.9	75.4	△ 8.5	68.3	78.8	△ 10.5	64.7	68.3
	3 Effects of exchange rate fluctuation	64.7	75.4	△ 10.7	68.3	76.5	△ 8.2	58.8	73.2
	4 Situation of Ukraine	56.4	65.9	△ 9.5	59.8	68.2	△ 8.4	51.0	61.0
	5 Procurement costs	51.9	43.7	8.2	63.4	55.3	8.1	33.3	19.5

(Note) The figures indicated in the orange-highlighted and blue-highlighted cells are the three items with the greatest year-on-year difference from 2023 to 2024.

## 3

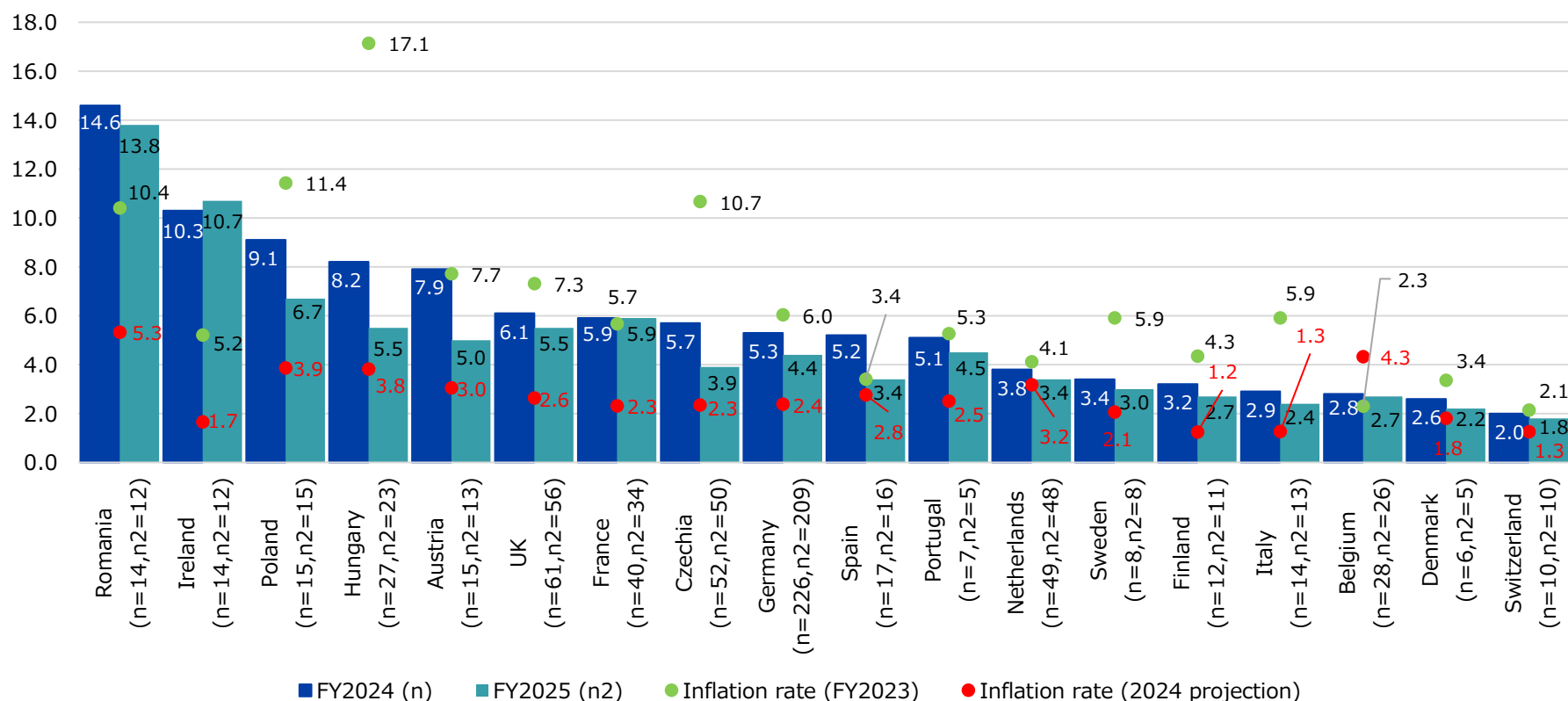
## Average salary increase rates

## Salary increase rates outpaced inflation in nearly all of the surveyed countries.

- The salary increase rates (nominal, average) for FY2024 were **higher than their respective inflation rates in all countries surveyed, except Belgium.**
- These rates are projected to decrease in the next fiscal year compared to FY2024 in all of the countries surveyed, except Ireland and France.

(Unit: %)

## Average salary increase rates (nominal, by country)





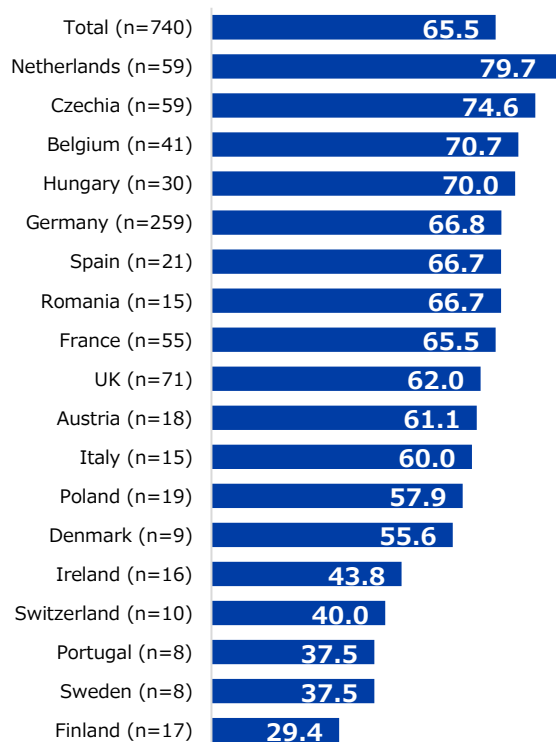
## 4

## Operational Challenges (securing human resources, high labor costs, rapid labor costs growth) Securing of human resources, as well as high labor costs and rapid labor costs growth continue to be crucial issues.

- “Securing human resources,” generally selected as the biggest operational issue across Europe (65.5%), was most serious in the following countries: Netherlands, Czechia, Belgium, and Hungary. In all these countries, figures for this particular issue exceeded 70%.
- The countries in which “high labor costs” (51.1%) were deemed serious were those in Western Europe; and “rapid labor costs growth” (46.9%) was selected primarily by Central and Eastern European countries.

### [Securing human resources: Ratios of responses]

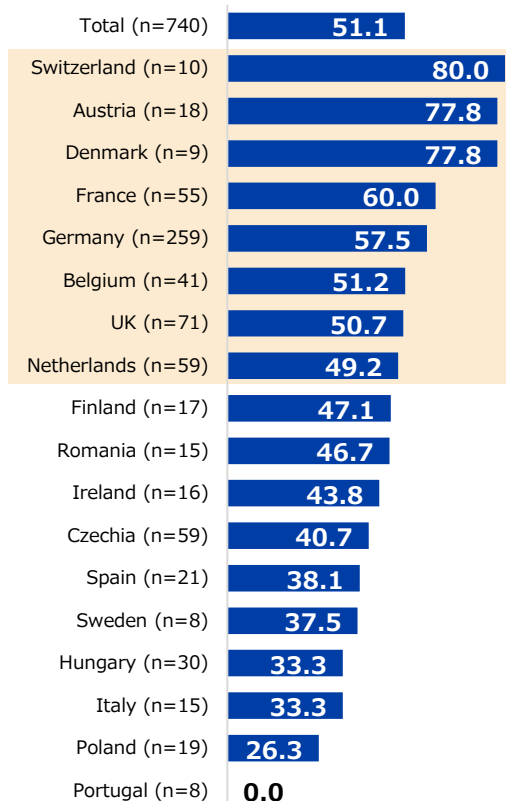
(Unit: %)



Mainly in Western Europe

### [High labor costs: Ratios of responses]

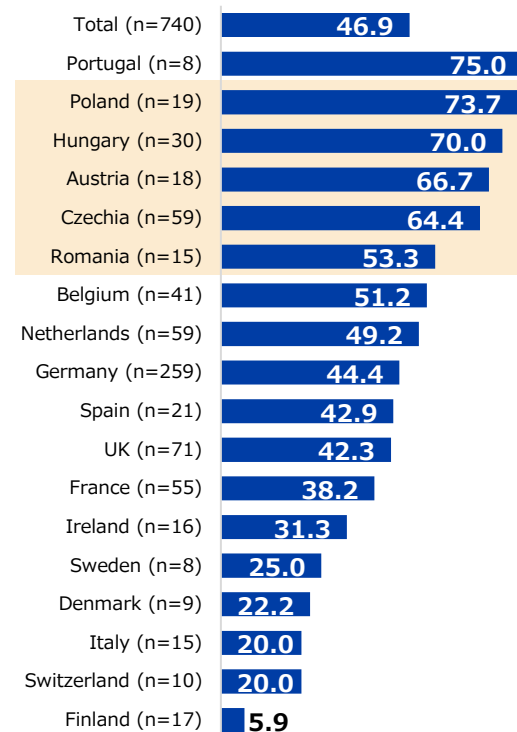
(Unit: %)



Mainly in Central/Eastern Europe

### [Rapid labor costs growth: Ratios of responses]

(Unit: %)



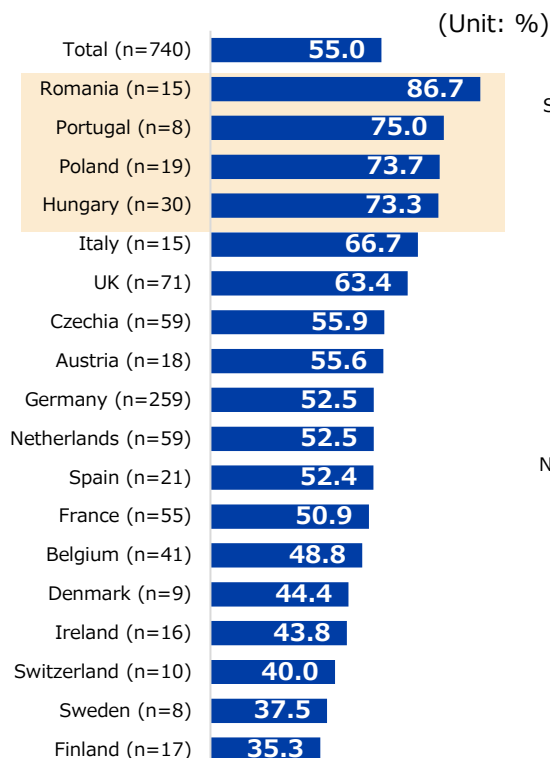
## 5

## Operational Challenges (Inflation, transportation costs, procurement costs)

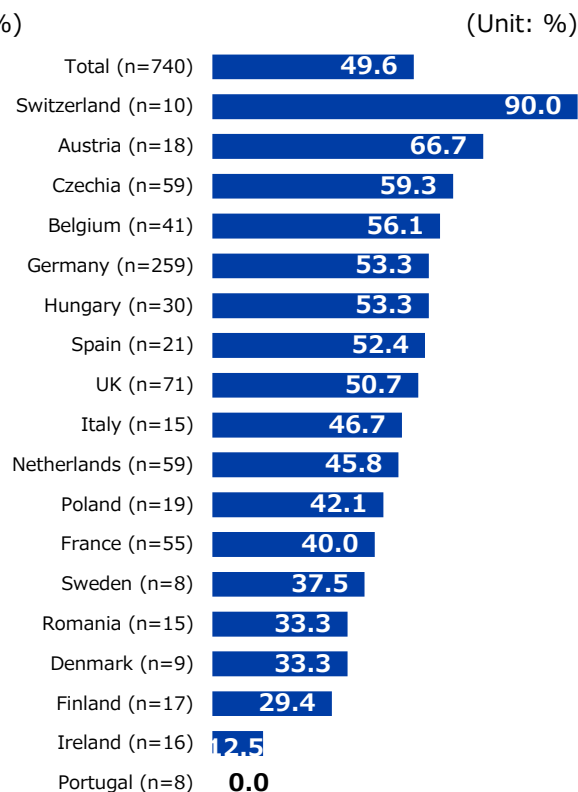
### Increasing costs, as indicated not just in inflation but in fluctuating exchange rates and transportation costs, etc., viewed as major challenge.

- **“Inflation,” ranking second across Europe (55.0%), was deemed serious by companies in Central and Eastern Europe**, including Romania (86.7%), Poland (73.7%), and Hungary (73.3%).
- **“Transportation costs” (49.6%) increased significantly YoY by 17.6 percentage points**, for which the top three countries were landlocked countries. This particular issue was ranked high by such manufacturing companies as those dealing in rubber products (72.7%), non-ferrous metals (63.6%), and electrical machinery / electronic devices (62.5%).
- For **“procurement costs” (40.4%)**, companies in Central and Eastern Europe, as well as Nordic countries, ranked high.

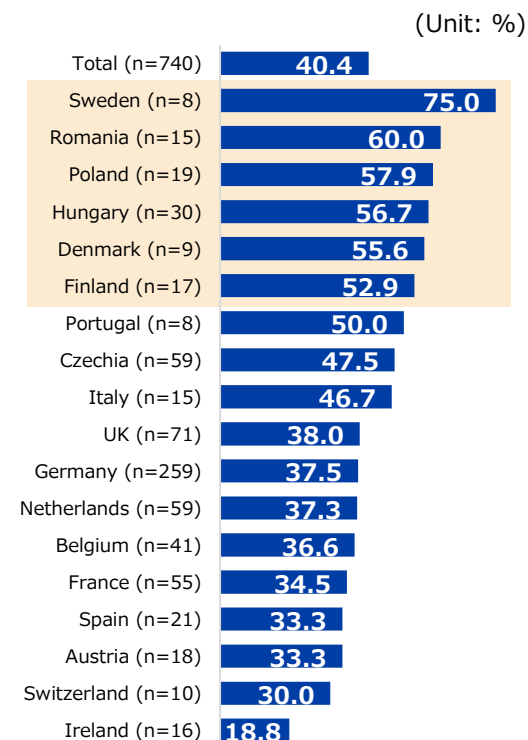
#### [Inflation: Ratios of responses]



#### [Transportation costs: Ratios of responses]



#### [Procurement costs: Ratios of responses]



## **V. Changing Competitive Environment**

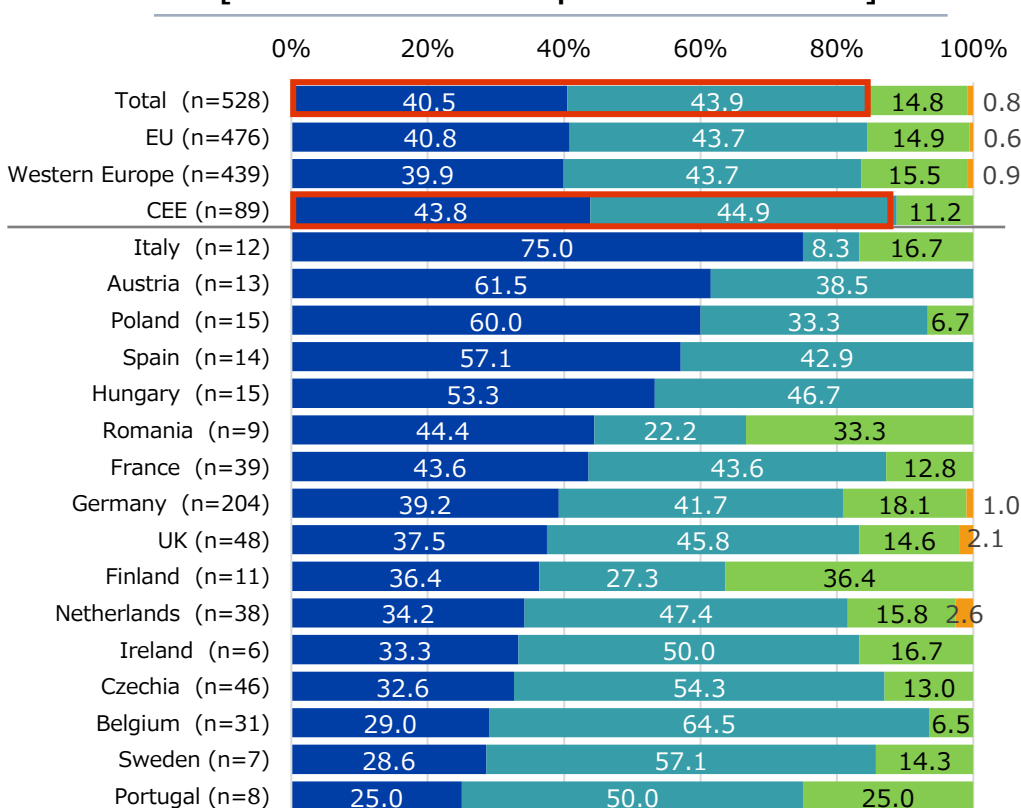
## 1

## Changing Competitive Environment (increase/decrease of market shares and competitors)

### More than 80% of respondents answered that their market shares increased/remained the same, compared with 2019 levels.

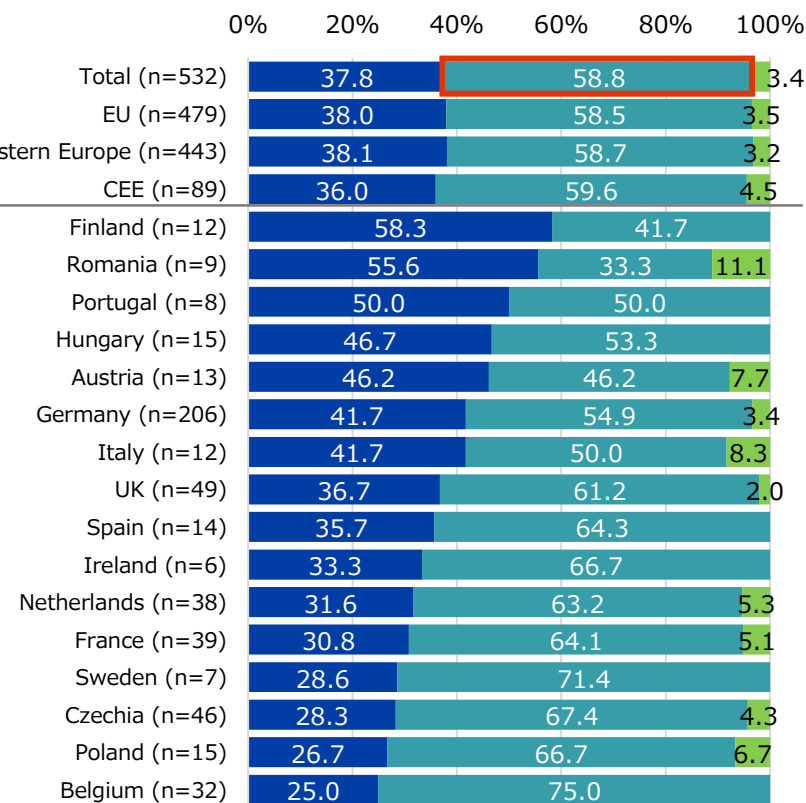
- Market shares of main products and services in the locales where Japanese-affiliated companies operate underwent **relatively minor changes compared with the 2019 levels**, as they answered that their market shares increased (40.5%) and remained the same (43.9%). In Central and Eastern Europe, the total of the responses of increasing/remaining the same was relatively high at 88.7%.
- In terms of the number of competitors in the markets where the respondent companies operate, most answered that the number remained the same (close to 60%). The greatest number of companies answering that their market competitors reduced in number were reported in Romania (over 10%).

**Changing competitive environment in the locales where the respondents operate compared with 2019 levels**  
[Market shares of main products and services]



■ Increase ■ Remain the same ■ Decrease ■ No competition in destination market

**Number of competitors**



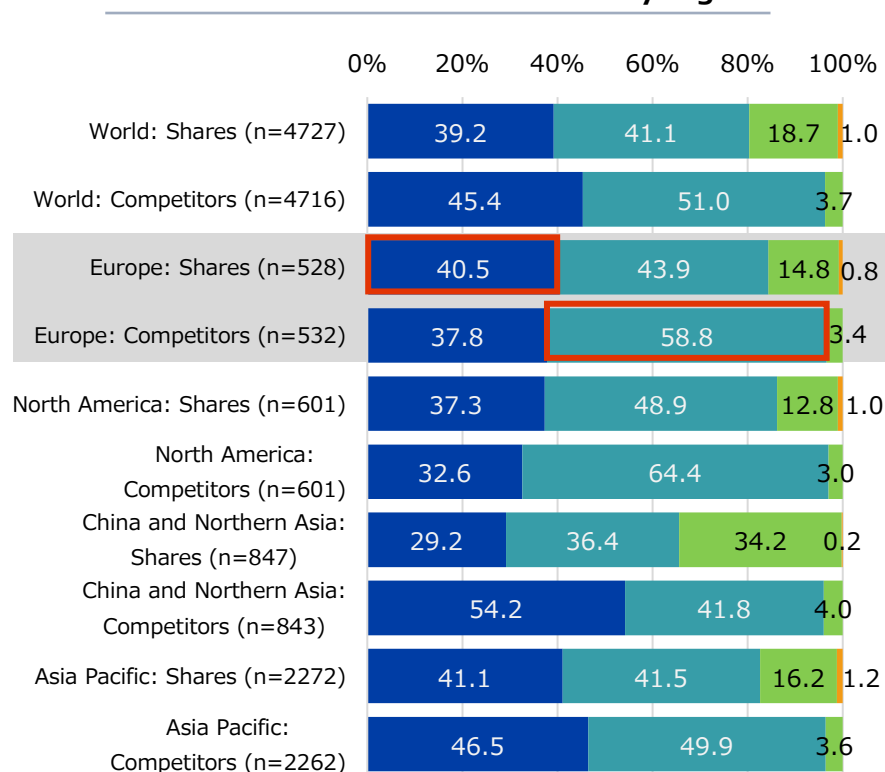
■ Increase ■ Remain the same ■ Decrease

## 2 | Changing Competitive Environment (Comparison with other regions)

### Europe maintains a relatively stable competitive environment.

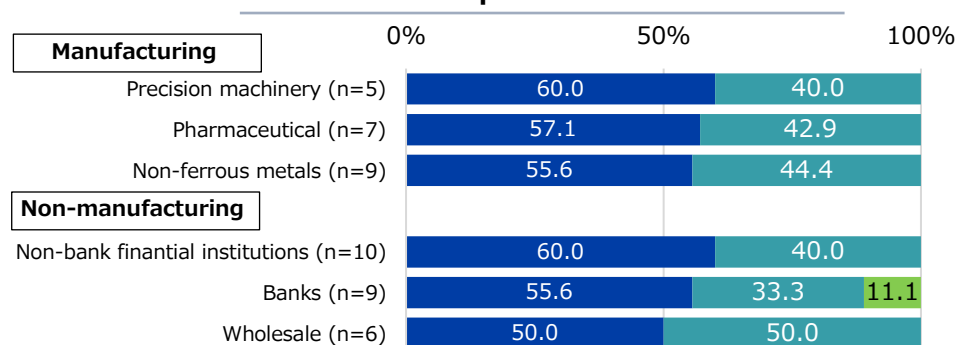
- Some **40%** of Japanese-affiliated companies in Europe **believe that their market shares increased**, and **some 60%** **believe the numbers of competitors remained the same**. Europe thus appears to be a relatively stable market compared to other world markets.
- By industry, market shares increased in precision machines and instruments and Non-banks financial institutions (respectively, 60%). The industries that noted increasing numbers of competitors were wholesale (100%) and transportation equipment (motor vehicles, etc.; 66.7%).

Changes in the competitive environment from 2019 in destination markets by region

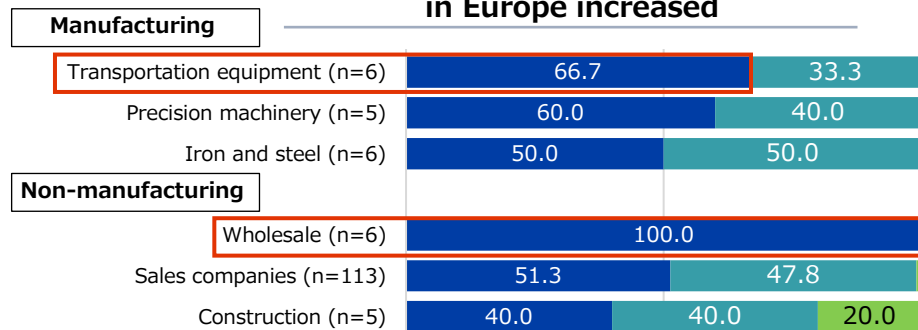


■ Increase ■ Remain the same ■ Decrease ■ No competition in destination market

Top three industries where market shares in Europe increased



Top three industries where competitors in Europe increased



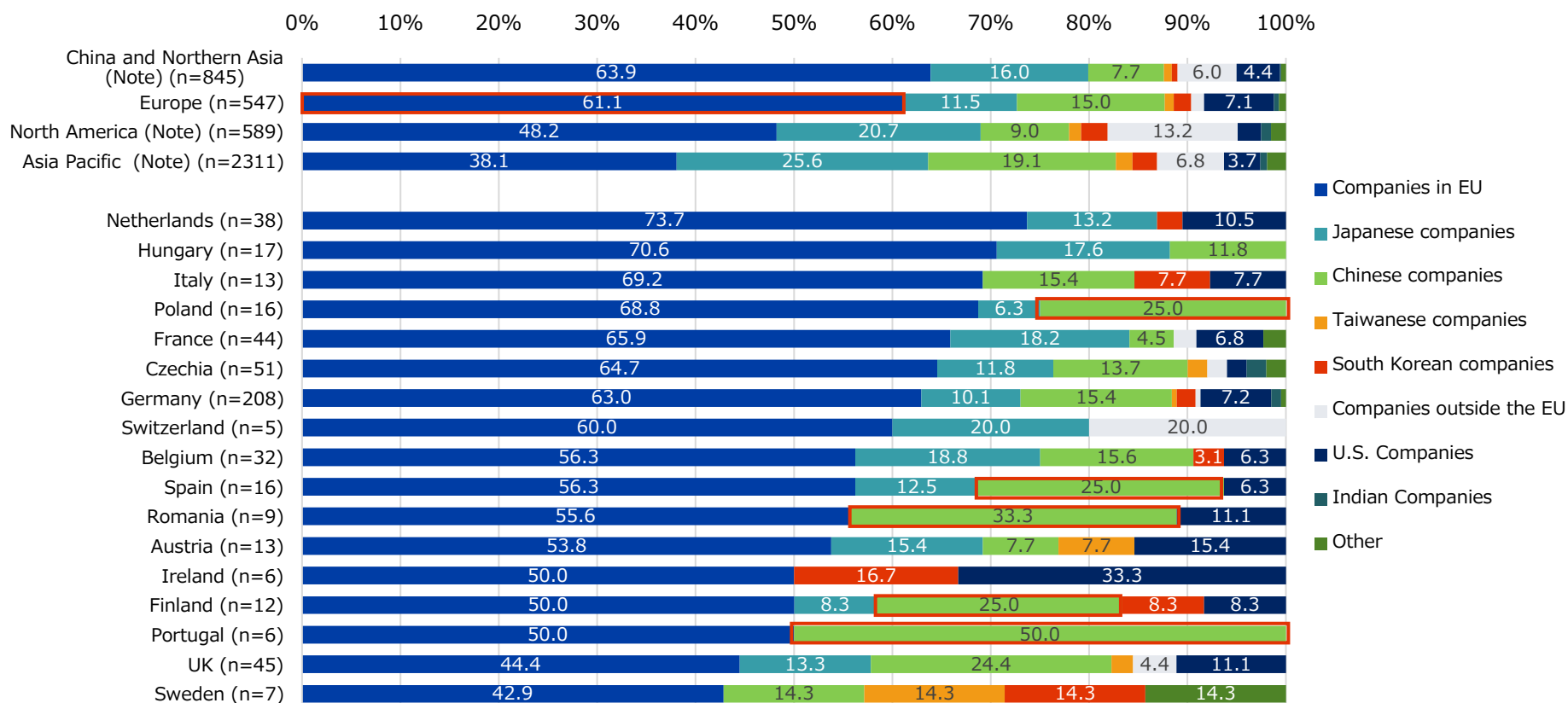
■ Increase ■ Remain the same ■ Decrease

# 3 | Changing Competitive Environment (Competitors)

## 60% of respondents regarded local companies as their biggest competitors in the destination market.

- In terms of competitors, Japanese-affiliated companies in Europe answered that their biggest competitors are companies in the EU (61.1%).** In terms of other regions, the ratio of Japanese-affiliated companies who answered that their biggest competitors are local companies was highest in China and Northern Asia. On the other hand, the rate of respondents stating that their competitors are other Japanese companies are relatively low (11.5%)
- By country, half of the respondents in Portugal answered that their competitors were Chinese companies. In Romania, 33%, and in Poland, Spain, and Finland, 25% of respondents selected Chinese companies as their competitors. **These results indicate that relatively high percentages of foreign-affiliated companies in Europe select Chinese companies as their competitors.**

The biggest competitors in the destination market



(Note) The top blue areas ( ) in China / Northern Asia, North America, and Asia Pacific indicate local companies.

Gray areas ( ) indicate European companies.

(Source) FY2024 Survey on Business Conditions of Japanese-Affiliated Companies Overseas: Global Edition

## 4

## Changing Competitive Environment (Reasons why they are considered the biggest competitors) Japanese-affiliated companies standing up squarely to European companies possessing brand power

- As reasons given by Japanese-affiliated companies in Europe for considering their most significant competitors in the destination markets, "cost competitiveness" (60.8%) ranked first, followed by "brand and name recognition" (49.5%) and "sales network" (37.5%).
- Compared with reasons selected by Japanese-affiliated companies in other regions, the ratio of the companies selecting "brand and name recognition" was highest in Europe. "Cost competitiveness" was selected by 70% of all regions of the world, as well as 70% of the companies in Asia.

### Reasons the respondents selected for consideration of their biggest competitors (multiple answers allowed)

(Unit: %)

	Whole world (n=4,771)	Europe (n=546)	North America (n=586)	Central and South America (n=273)	Russia (n=26)	Asia Pacific (n=2,294)	China / Northern Asia (n=837)	Middle East (n=94)	Africa (n=115)
Cost competitiveness	70.1	60.8	58.9	68.5	46.2	73.5	77.8	59.6	64.3
Technical level of products and services	27.4	36.4	35.2	26.4	23.1	24.1	27.2	25.5	17.4
Capability to develop products and services appropriate to local market needs	21.8	29.7	28.0	19.8	23.1	17.0	25.2	21.3	29.6
Brand and name recognition	34.6	49.5	47.3	37.7	30.8	29.7	27.6	41.5	37.4
Strong sales skills (e.g., public relations strategies, proposals to clients)	25.0	31.3	29.9	25.3	15.4	22.0	24.9	30.9	27.8
Sales network	29.3	37.5	34.0	28.9	23.1	26.9	25.3	33.0	40.9
Speed of delivery	15.0	18.7	14.2	11.4	26.9	12.4	21.4	19.1	10.4
Speed of decision making (e.g., customer support and adaptation to local market)	33.5	32.6	28.7	25.6	19.2	31.2	47.6	39.4	22.6
Differences in compliance	11.4	5.7	3.4	8.8	42.3	12.7	15.7	11.7	20.0
Collaboration and partnering with local companies	24.2	26.4	24.1	21.2	34.6	23.5	25.2	30.9	21.7
Collaboration and partnering with foreign companies, including Japanese companies	6.9	4.8	8.0	7.0	3.8	7.9	4.3	3.2	12.2
Competitiveness in hiring human resources (e.g., wages and benefits, recruitment activities, etc.)	13.5	17.9	15.2	13.6	3.8	12.2	13.5	17.0	7.8
Differences in privilege and incentives by local and/or foreign government (e.g., reduction/exemption of corporate tax, subsidies, etc.), FTAs, etc.	9.5	7.7	7.2	8.8	7.7	8.8	13.0	9.6	18.3
Differences in regulations of local and foreign governments	5.8	4.4	3.4	4.0	34.6	6.6	5.9	4.3	5.2
Others	3.0	3.3	2.4	4.4	11.5	3.2	1.4	6.4	6.1

(Note) Items in the orange cells in different shades indicate, respectively, the first, second, and third top ranking items. Darker hues indicate higher ratios. The "n" in each blue cell indicates the number of Japanese-affiliated companies giving the response.



## 5

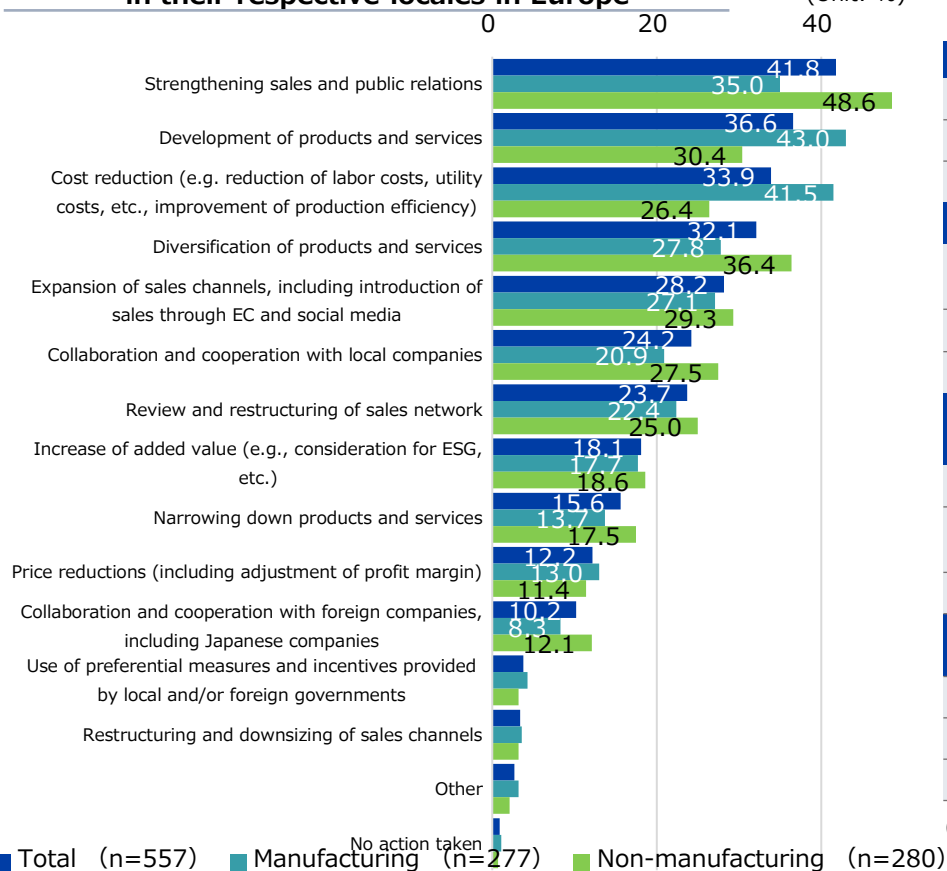
## Changing Competitive Environment (Countermeasures to competitions)

## As countermeasures to competitions, strengthening sales and public relations is emphasized.

- Among the key measures taken to compete in various locales in which the Japanese-affiliated companies operate, **“strengthening sales and public relations” ranked highest, at 41.8%**. This action was especially high in non-manufacturing companies, for which the result was 48.6%.
- On the other hand, “developing of products and services” was selected as largest among manufacturing companies (43.0%). This particular category was selected by more than 80% of companies handling transportation equipment parts. Cost reduction measures were taken mostly by companies handling iron/steel, transportation equipment parts, and construction, etc.

Measures taken by Japanese-affiliated companies in their respective locales in Europe

(Unit: %)



Top four measures and their industry-specific ratios

(Unit: %)

Strengthening sales and public relations	
Textiles (n=6)	66.7
Warehousing and logistics (n=37)	62.2
Electrical and electronic components (n=24)	58.3
Development of products and services	
Transportation equipment parts (railroad vehicles/ ships, etc.) (n=6)	83.3
Textiles (n=6)	66.7
Rubber products (n=6)	66.7
Cost reduction (e.g., reduction of labor costs, utility costs, etc., improvement of production efficiency)	
Iron and steel (n=7)	71.4
Transportation equipment parts (motor vehicles, etc.) (n=35)	68.6
Construction (n=6)	66.7
Diversification of products and services	
Pharmaceutical (n=7)	71.4
Trading (n=59)	44.1
ICT (n=16)	43.8

(Note) Comparisons made among the industrial categories of at least n=5.

## 6

## Changing Competitive Environment (Situations and concerns)

## Situations and concerns related to the competitive environment (from open-ended comments).

- Many respondents expressed concerns about environmental and trade regulations. Some commented that **environmental regulations increased future uncertainty and worsened the competitive environment**. Many companies also cited costs as a topic of major concern. In this regard, competition with Chinese companies appears to be particularly harsh. Another major factor that affects the competitive environment is geopolitical risks caused by unpredictable international situations.

## Situations and concerns related to competitive environments

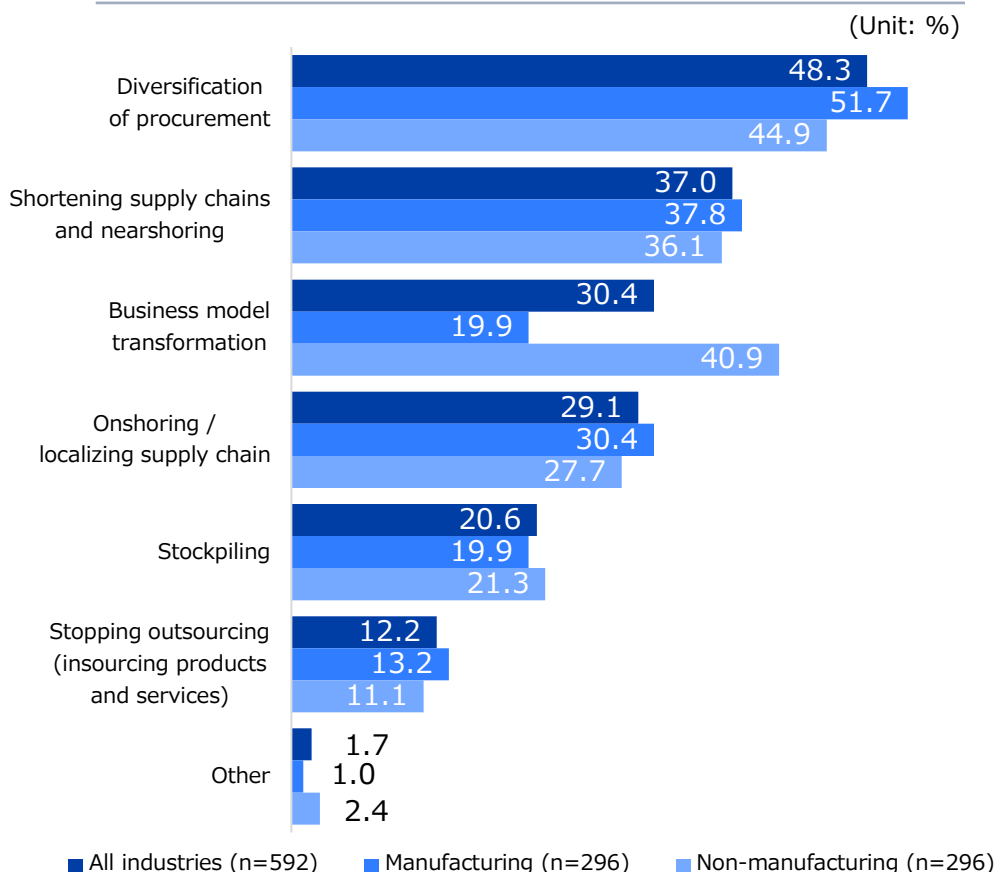
Regulations	Environment	<ul style="list-style-type: none"> <li>Tangible/intangible costs in European countries are mounting due to regulations, especially <b>environmental measures</b>, reducing competitive attractiveness/advantages, compared with other regions. (Germany, sales company / sales subsidiary)</li> <li>In the motor vehicle industry, the situation concerning the European regulations on the <b>climate change issues</b> is highly unpredictable, making it very difficult to formulate mid-to-long-term plans and decisions concerning maintaining or withdrawing operations. (Belgium, sales company / sales subsidiary)</li> </ul>
	Trade	<ul style="list-style-type: none"> <li>We import goods just from Japan. We're concerned about the murky situation of increasing/stricter <b>import regulations (on packaging and foodstuffs, etc.)</b> in Europe and whether we can continue to import our products. (Germany, sales company / sales subsidiary)</li> <li>Due to the <b>safeguard measures</b> on certain iron and steel products, the market competition principles do not work for iron sheets used for steel piles, making it difficult to make free choices. (Germany, sales company / sales subsidiary)</li> </ul>
Costs	Labor costs / securing human resources	<ul style="list-style-type: none"> <li><b>Labor costs increasing</b> due to the <b>rising inflation rates</b> post- COVID19 (Germany, sales company / sales subsidiary)</li> <li><b>Labor shortage</b> hindering cost reduction/productivity improvement efforts, making it difficult for us to catch up with competitors' pricing initiatives. (Hungary, metal products)</li> </ul>
	Competition	<ul style="list-style-type: none"> <li><b>Price differences from our Chinese competitors are widening by some 20–30%</b>, expanding the gap, generating a harsher competitive environment. (Spain, chemical and allied products / petroleum products)</li> <li>With their domestic market shares shrinking, <b>Chinese companies</b> are <b>actively advancing into the European market</b>. They have started providing products with a quality comparable to ours for the use of European users and with low process, which generates a major threat. (Germany, sales company)</li> </ul>
	Geopolitical risks	<ul style="list-style-type: none"> <li><b>Rising energy costs due to the Ukraine situation</b> make our competitors (<b>Chinese and Indian</b>) more formidable. (Czechia, medicines)</li> <li>Our primary products are imported from Japan and Thailand. Supplies of our products are affected by various geopolitical risks, etc., including the <b>Middle East situation, etc.</b> (Sweden, miscellaneous manufacturing)</li> </ul>
Economy in general		<ul style="list-style-type: none"> <li><b>In the midst of the economic downturn</b>, with aggregate demand not growing, <b>price competition</b> is growing increasingly fierce. (Netherlands, miscellaneous manufacturing industries)</li> <li>Our competitive environment is getting increasingly hard to handle due to <b>shrinking demand</b> caused primarily by the stagnant economy in Germany and a <b>flood of cheap articles from China/Korea</b>. (Germany, sales company / sales subsidiary)</li> </ul>
Other		<ul style="list-style-type: none"> <li>Our biggest concern is the <b>strong yen</b> due to the diminishing exchange rate gap between Japan and Europe. (Italy, textiles)</li> <li>The possibility of diminishing use of our products due to <b>advances with EV</b>. (Germany, chemical and allied products / petroleum products)</li> </ul>

## **VI. Procurement and Sales**

# 1 | Supply chain strategy for the next one to two years Diversification and shortening of supply chains are remarkably common.

- In terms of supply chain strategy for the next one to two years, **as in the previous year, “diversification of procurement” continued to rank highest across all industries at 48.3%. The same strategy was selected by 51.7% of manufacturing companies.**
- While the possibilities of “diversification of procurement” and “shortening supply chains and nearshoring” are explored by the manufacturing sector, **“business model transformation” was selected as the second choice by non-manufacturing companies.**

## Supply chain strategy for the next one to two years (by industry, multiple answers allowed)



## Industries selecting top three strategies in the figure on the left

(Unit: No. of companies, %)

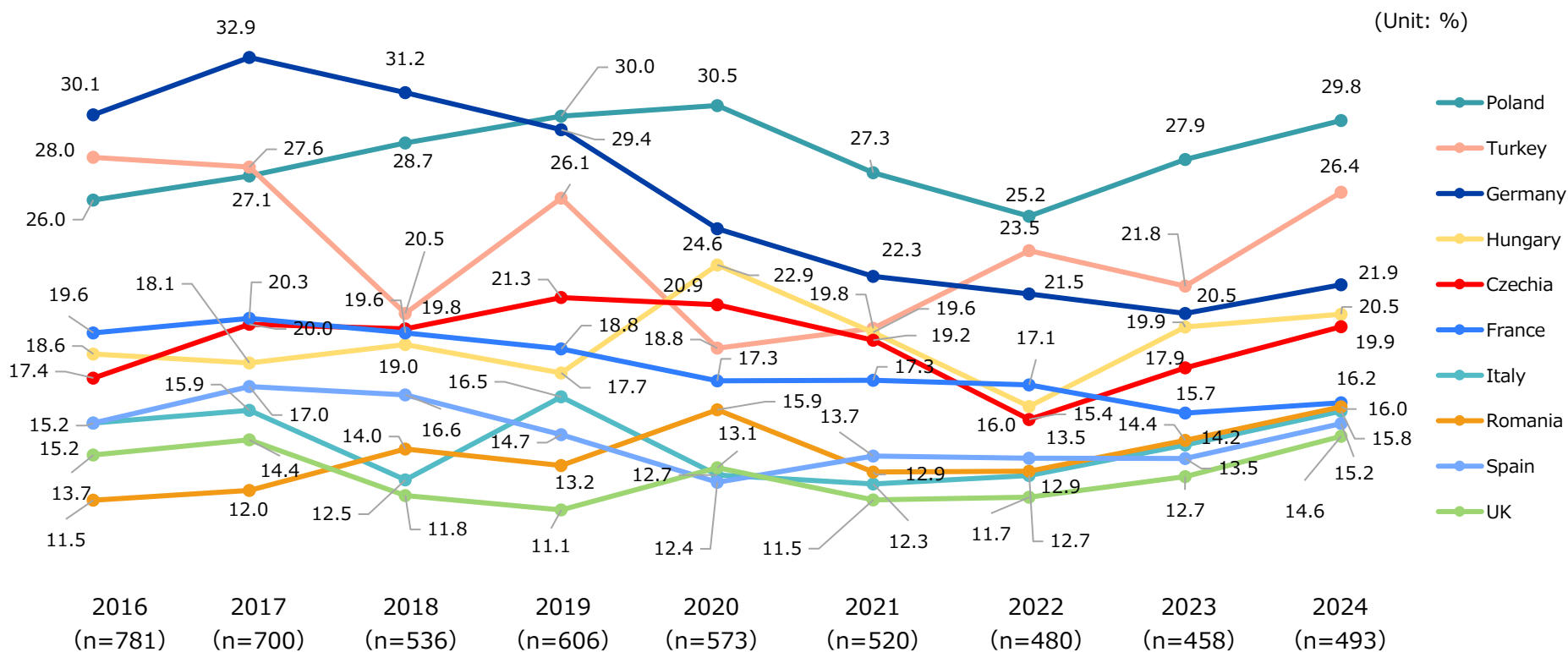
1. Diversification of procurement	
Chemical and Petroleum products (n=30)	70.0
General machinery (n=38)	63.2
Electrical and electronic machinery (n=24)	58.3
2. Shortening supply chains and nearshoring	
Electrical and electronic components (n=21)	71.4
Electrical and electronic machinery (n=24)	54.2
Food products (n=17)	52.9
3. Business model transformation	
ICT (n=17)	58.8
Non-bank financial institutions (n=12)	58.3
Warehousing and logistics (n=45)	46.7

(Note) The industrial categories of at least n=5. n indicates the number of companies that provided answers to the question on their supply chain strategy for the next one to two years.

## 2 | Changes in future sales destinations Poland continuing to rank highest for the sixth year in a row.

- **Poland ranked highest as a promising future sales destination for six years in a row.** The percentage reached 29.8%, close to the highest rate of 30.5% in 10 years, marked in 2020. Turkey retained its second position, with 4.6 percentage points up from the previous year's survey. England, not included in the top 10 last fiscal year, returned to the 10th position; Slovakia dropped out of the top 10.
- Respondents selected **Central and Eastern Europe** because many of them expect more Japanese-affiliated companies to continue to go there further economic growth.

### Changes in future sales destinations (Top 10 countries from the 2024 survey) <Multiple answers allowed>



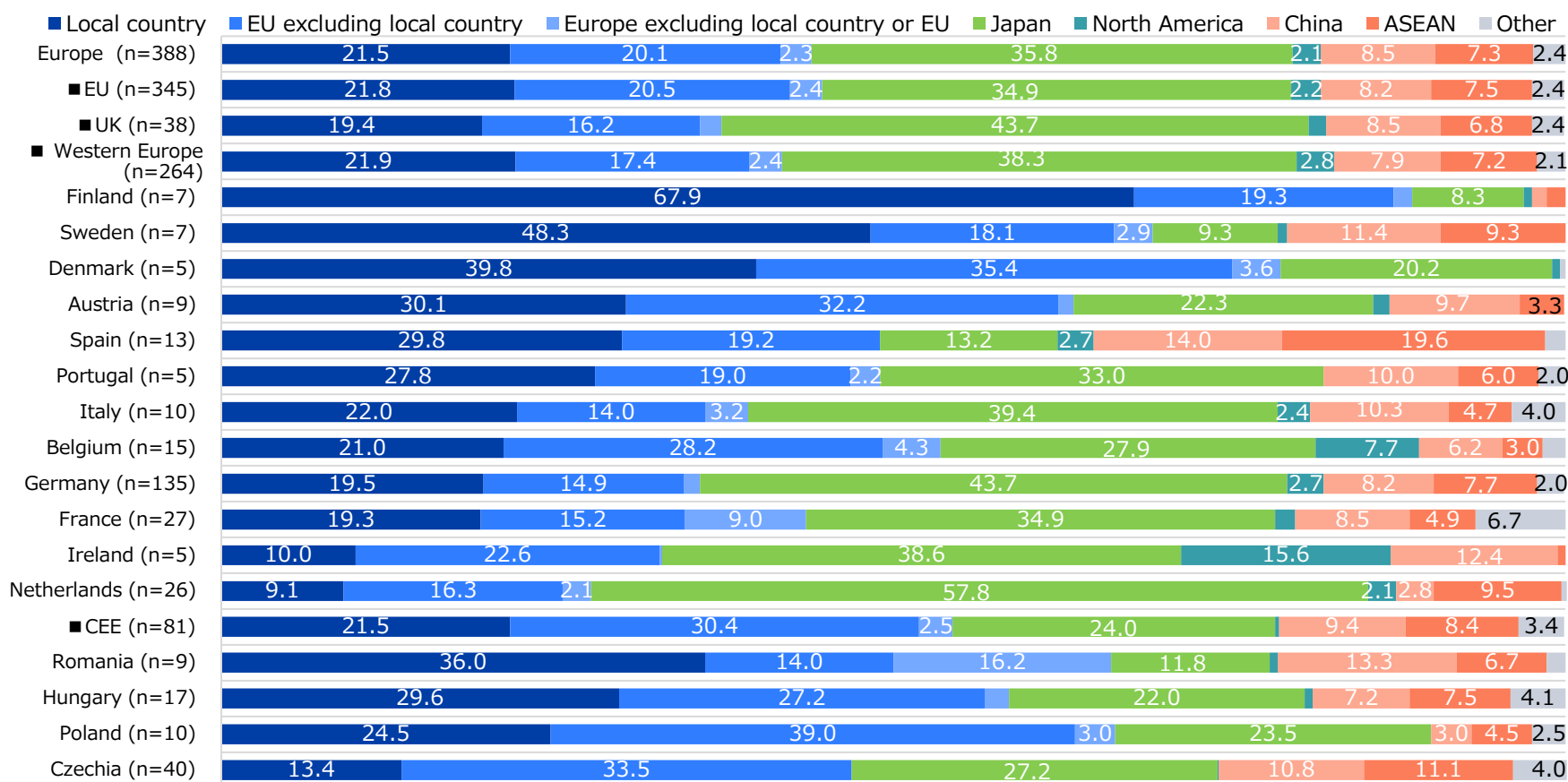
# 3

## Sources for parts and raw materials procurement (by country/region)

# Procurement of parts and raw materials from within the EU surpassed 40%, exceeding procurement from Japan.

- Sources for parts and raw materials procurement by country/region were calculated by simple averaging of the ratios of responses made by companies and monetary amounts involved.
- The average **ratio of sourcing from Japan** was 35.8%, **which continued to be the No.1 country for procurement**, followed by local countries (21.5%) and EU excluding local countries (20.1%), the sum of the latter two accounting for over 40% of all sourcing. **Such trend of sourcing from local and nearby countries** continued to emerge. **In the case of Central and Eastern Europe**, 21.5% of companies were sourcing from local countries, while 30.4% of them reported procurement from EU excluding their local countries, **the sum of which surpassed 50%.**

## Breakdown of sources of parts and raw materials procurement (by country/region) (based on monetary amounts) (Unit: %)



(Note 1) Average ratios of responses by companies were calculated. The sum of all sources of procurement by each company is 100%.

(Note 2) Each country that was not picked by at least five companies has been excluded.

(Note 3) Only the countries that are EU member states have been included, for both Western Europe and Central and Eastern Europe.

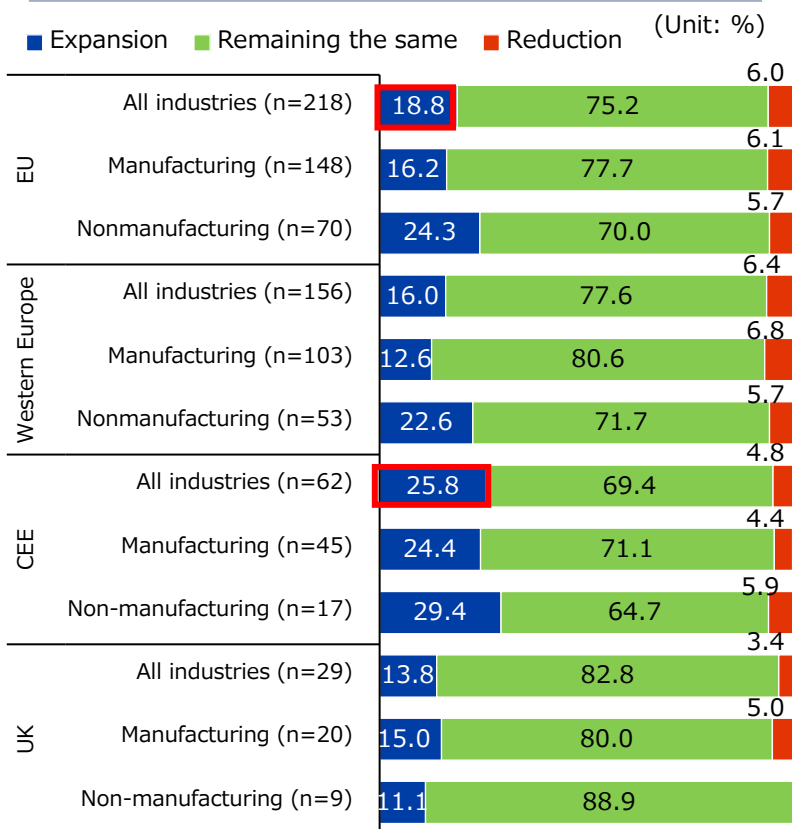
# 4

## Future procurement plans

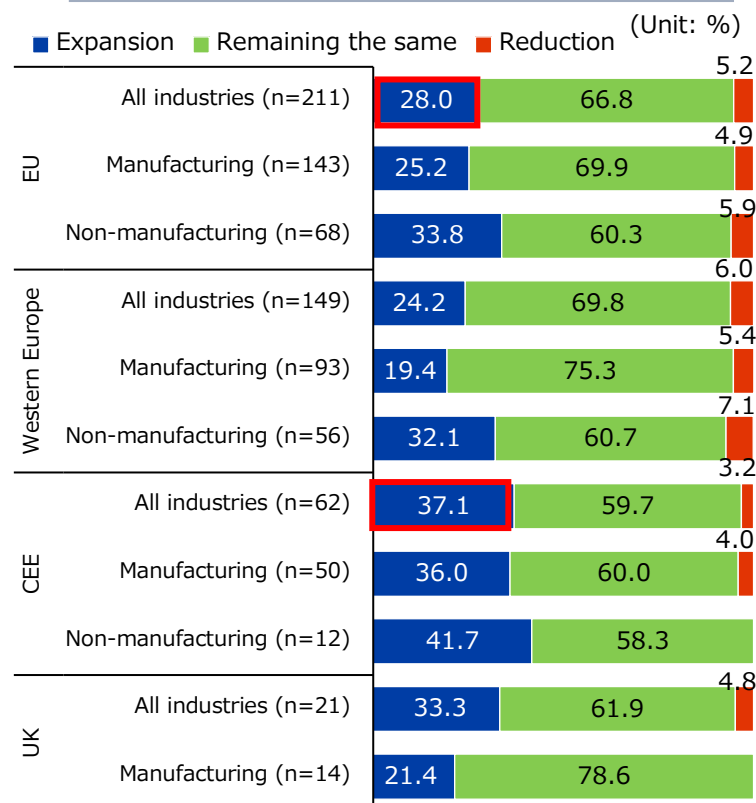
The percentage intending to expand procurement from local countries and within the EU remain virtually unchanged from the previous year.

- In terms of **future procurement plans from their local countries**, **18.8%** of Japanese-affiliated companies in the EU projected an “**expansion**,” and **25.8%** of Japanese-affiliated companies in Central and Eastern Europe indicated their “**expansion**” policies. In Western, Central, and Eastern Europe, “expansion” policies expressed by non-manufacturing respondents exceeded those expressed by their manufacturing counterparts.
- As for the companies’ **future plans for procurement from within the EU**, **28.0%** said they would “**expand**” it, and **37.1%** of Japanese-affiliated companies in Central and Eastern Europe said they would seek to “**expand**.” In Western, Central, and Eastern Europe alike, non-manufacturing companies expressed more significant “expansion” policies than their manufacturing counterparts.

### Plans for procurement from local countries



### Plans for procurement from within EU\*



\*: Excluding the countries in which the respondents are operating.

(Note 1) Any industrial category that was selected by less than five companies has been excluded.  
 (Note 2) Only the countries that are EU member states have been included, for both Western Europe and Central and Eastern Europe.

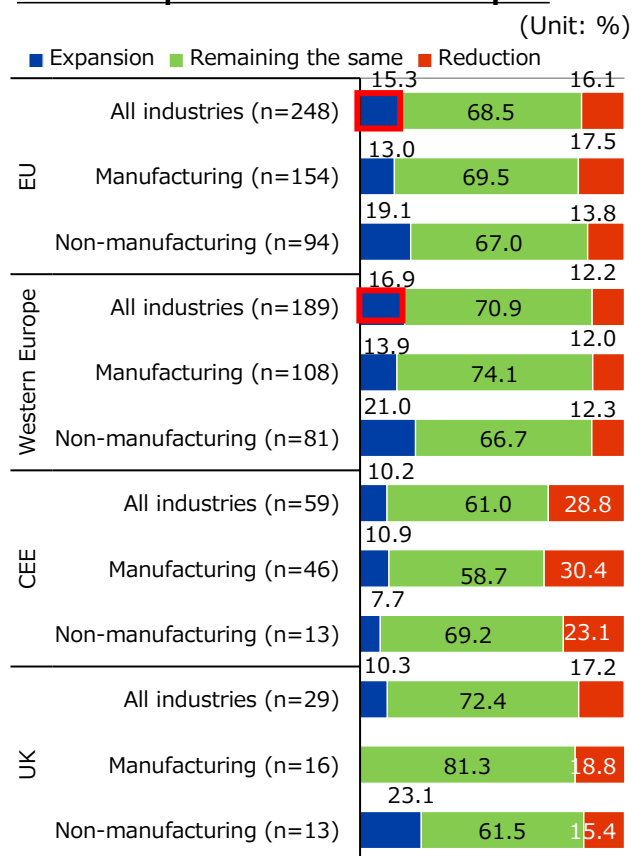
## 5

## Future procurement plans

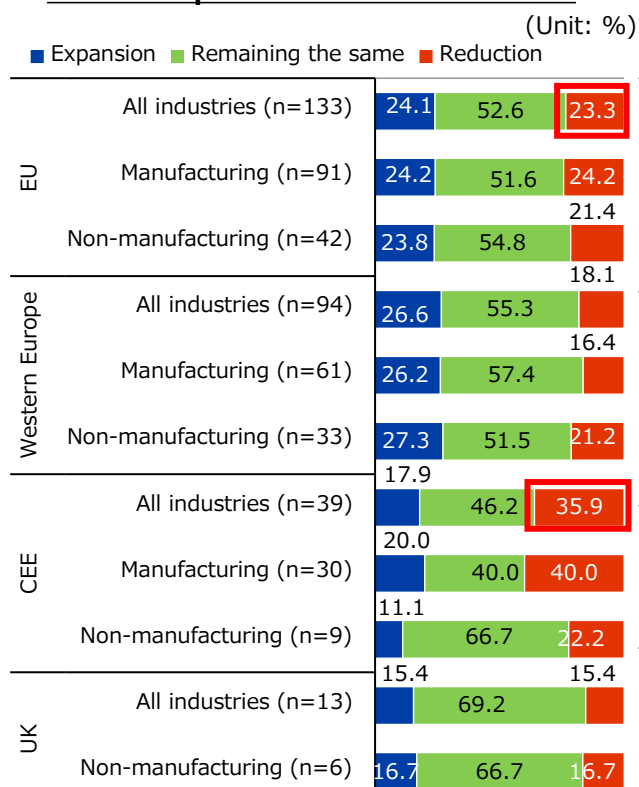
## Strong reduction trend in procurement from China in Central and Eastern Europe.

- Some **15.3%** of Japanese-affiliated companies based in the EU said they would “expand” procurement from Japan, an increase of 1.6 percentage points from the previous year’s survey. Particularly, in Japanese-affiliated companies in Western Europe, the same trend resulted in 16.9%, an increase of 2.5 percentage points YoY.
- 23.3%** of Japanese-affiliated companies in the EU said they would “reduce” procurement from China. Continuing from the previous year’s survey, this strong trend was especially notable in Central and Eastern Europe, where 35.9% of the companies reported plans to “reduce” such procurement.
- Up to 31.9% of Japanese-affiliated companies in the EU said they would expand procurement from ASEAN, in line with the trend from previous year.

## Plans for procurement from Japan



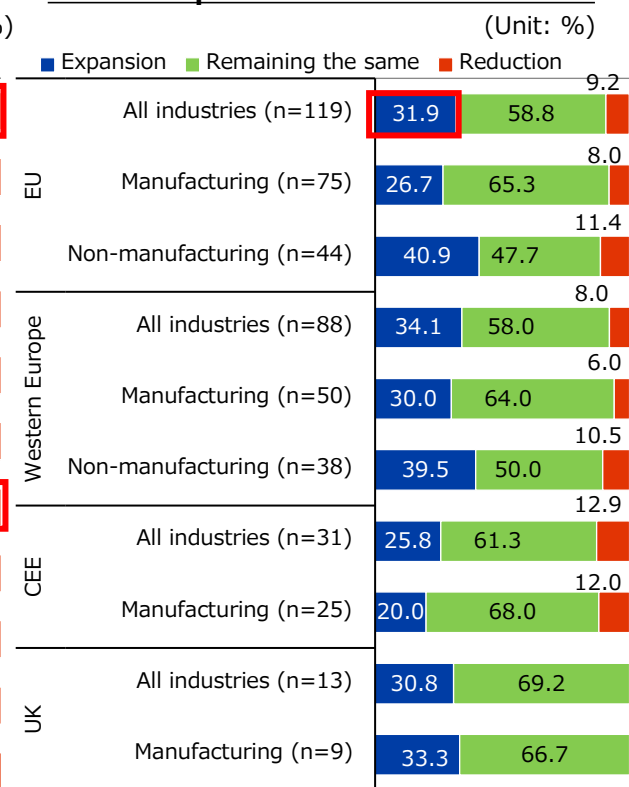
## Plans for procurement from China



(Note 1) Any industrial category that was selected by less than five companies has been excluded.

(Note 2) Only the countries that are EU member states have been included, for both Western Europe and Central and Eastern Europe.

## Plans for procurement from ASEAN



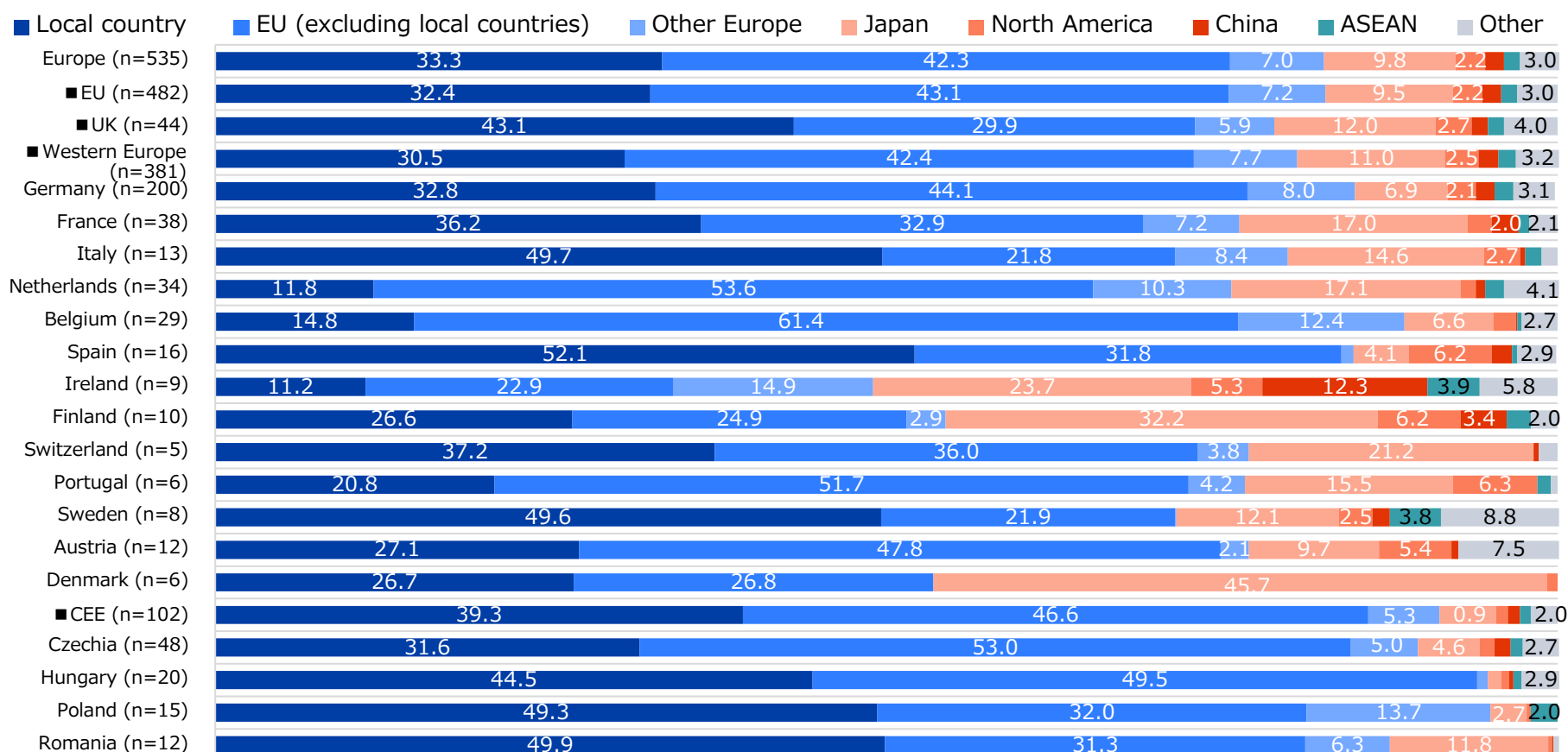


# 6 | Product sales destinations (by country/region)

## More than 80% of the sales destinations are in Europe. More than 90% of the companies in Central and Eastern Europe reported the same approach.

- Sales destinations (by country/region) were calculated by simple averaging of the ratios of responses based on monetary amounts.
- For all Japanese-affiliated companies in Europe, the average ratio of the local countries as sales destinations was 33.3% (a YoY decrease of 4.1 percentage points), while the figure for the EU excluding local countries was 42.3% (a YoY increase of 3.8 percentage points). The figure for other EU countries was 7.0%, resulting in **82.6% of the sales destinations being countries in Europe as a whole**.
- Especially for Japanese-affiliated companies in Central and Eastern Europe, the ratio of sales within Europe was **91.2%**, a figure much higher than for the companies in other regions.

### Breakdown of product sales destinations (by country/region) (based on monetary amounts) (Unit: %)



(Note 1) Average ratios of responses by companies were calculated. The sum of all sources of procurement by each company is 100%.

(Note 2) Each country that was not picked by at least five companies has been excluded.

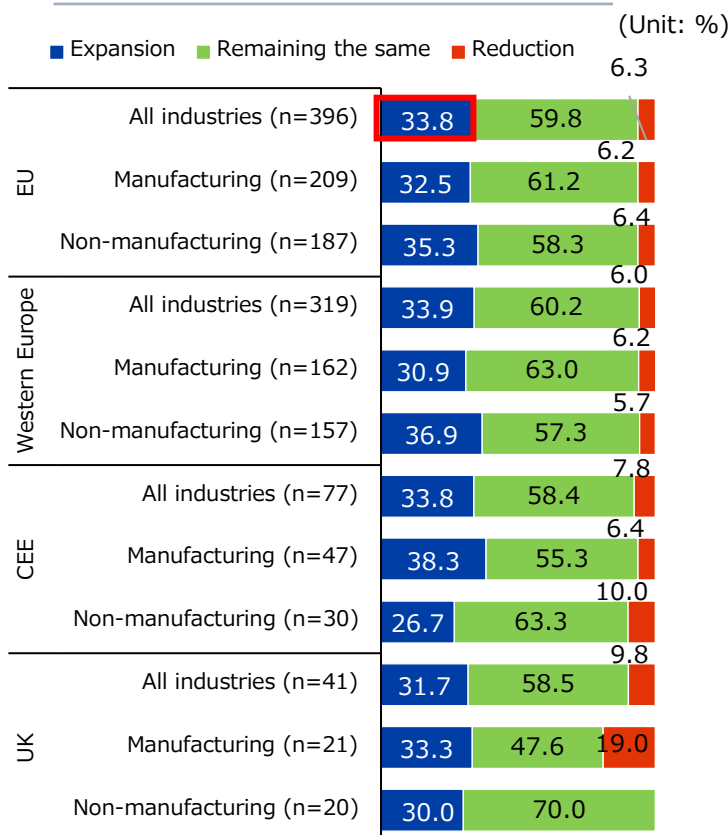
(Note 3) Only the countries that are EU member states have been included, for both Western Europe and Central and Eastern Europe.

# 7 | Future sales plans

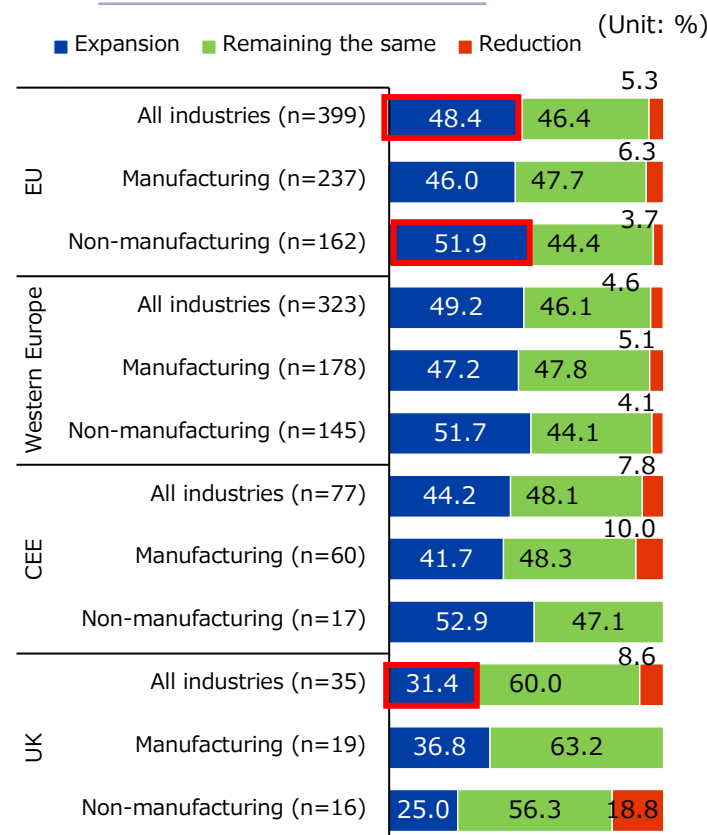
## About half of the companies intend to expand sales in the EU.

- In terms of future plans of Japanese-affiliated companies in the EU for sales in their local countries, 33.8% of them projected an “expansion,” an increase of 7.8 percentage points from the previous year’s survey, in line with the trend to boost sales in local countries.
- In terms of future plans of Japanese-affiliated companies in all industries in the EU for sales in the EU, 48.4% planned an “expansion.” For non-manufacturing companies, the figure tended to be higher, at 51.9%.
- In terms of future plans of Japanese-affiliated companies in UK for sales in the EU, 31.4% in all industries planned their sales in the EU. This was relatively low compared to the percentage of those located in the EU.

### Plans for sales in local countries



### Plans for sales in EU\*



(Note 1) Any industrial category that was selected by less than five companies has been excluded.  
 (Note 2) Only the countries that are EU member states have been included, for both Western Europe and Central and Eastern Europe.

\*: Excluding the countries in which the respondents are operating.

## **VII. Japan-EU EPA and Japan-UK EPA**

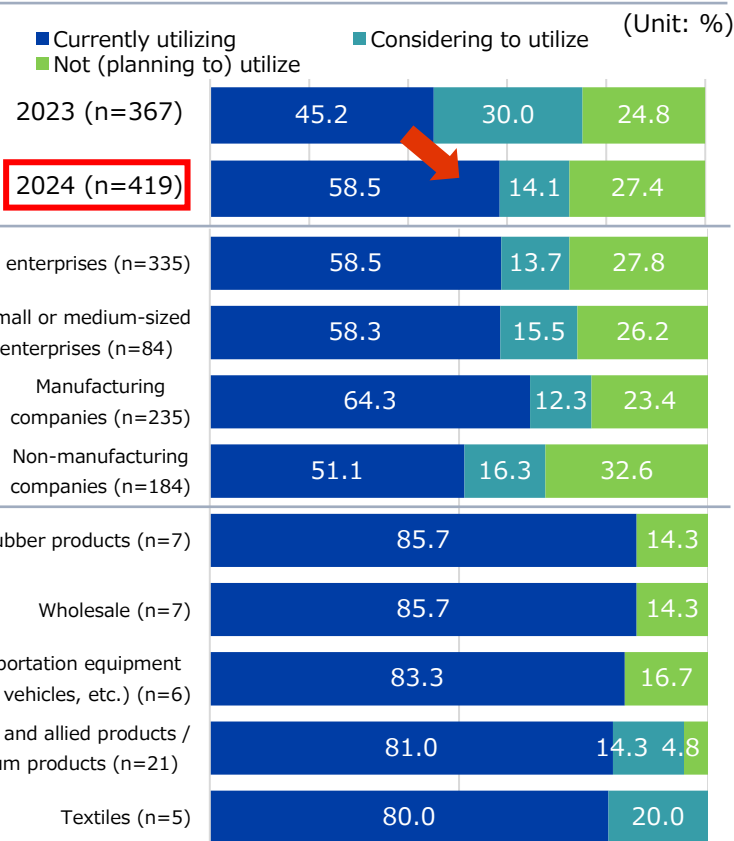
## 1

# Utilization status of Japan-EU EPA and Japan-UK EPA (from Japan to the EU, from Japan to UK)

## 58.5% of companies utilize the Japan-EU EPA, an increase of 13 percentage points from the previous year.

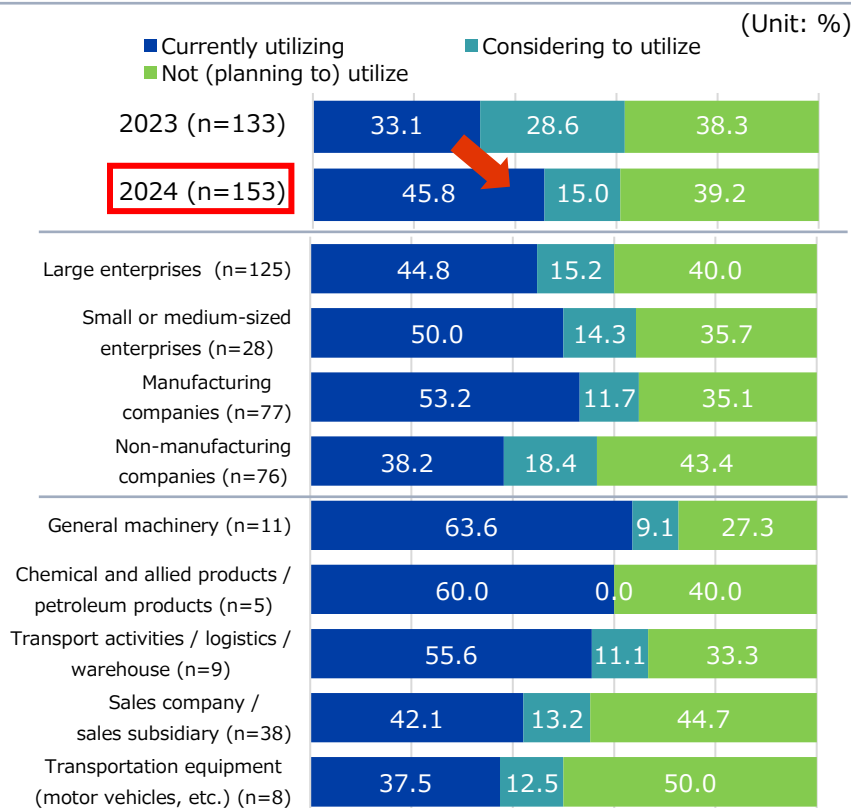
- In terms of the status of Japan-EU EPA utilization among Japanese-affiliated companies in Europe, 58.5% said they were already utilizing this for imports into the EU from Japan (Japan → EU), **an increase of 13.3 percentage points from the previous year's survey**. **Especially high usage rates were observed for rubber products.**
- In terms of the status of Japan-UK EPA utilization among Japanese-affiliated companies in Europe, 45.8% said they were already using this for imports to UK from Japan (Japan → UK), **an increase of 12.7 percentage points from the previous year's survey**. An especially significant usage increase (**20.3 percentage point**) was observed for small or medium-sized enterprises.

### Status of Japan-EU EPA utilization by Japanese-affiliated companies in Europe: Imports into the EU from Japan (Japan → EU)



(Note) n=5 or more

### Status of Japan-UK EPA utilization by Japanese-affiliated companies in Europe: Imports to UK from Japan (Japan → UK)



(Note) n=5 or more

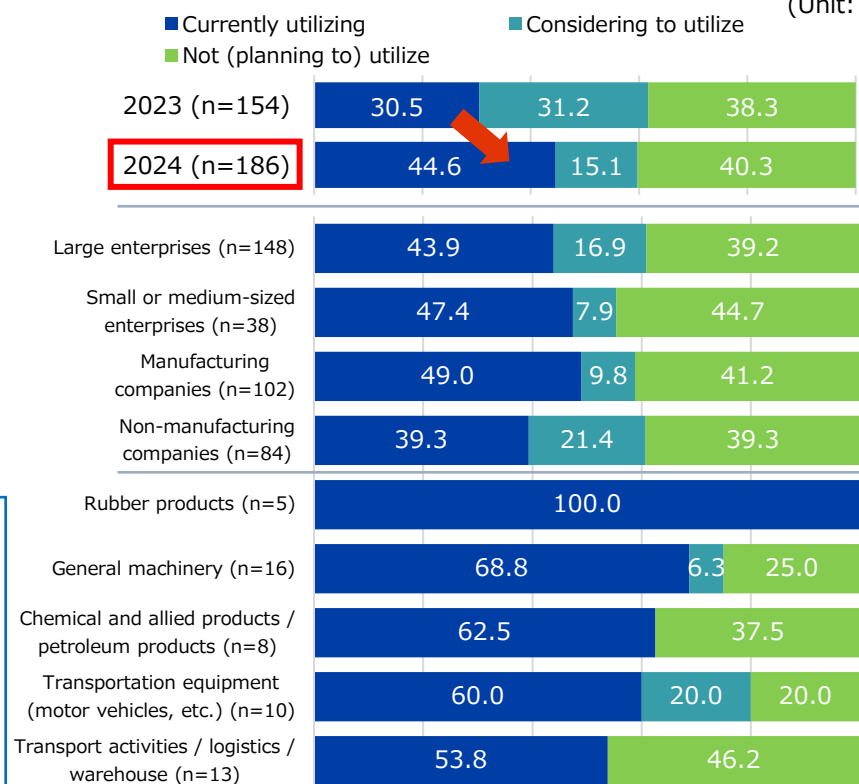
## 2

## Utilization status of Japan-EU EPA and Japan-UK EPA (from EU to Japan, from UK to Japan) Utilized in export from EU and UK, a significant increase observed in general machinery.

- In terms of the status of Japan-EU EPA utilization among Japanese-affiliated companies in Europe, 44.6% said they were already utilizing this for exports from the EU to Japan (EU → Japan), an increase of 14.1 percentage points from the previous year's survey. An especially significant usage increase **(38 percentage point)** was observed for general machinery.
- In terms of the status of Japan-UK EPA utilization among Japanese-affiliated companies in Europe, 31.0% said they were already utilizing this for exports from the UK to Japan (UK → Japan), an increase of 14.1 percentage points from the previous year's survey. An especially significant usage increase **(42.9 percentage point)** was observed for small or medium-sized enterprises.

### Status of Japan-EU EPA utilization by Japanese-affiliated companies in Europe: Exports from the EU to Japan (EU → Japan)

(Unit: %)

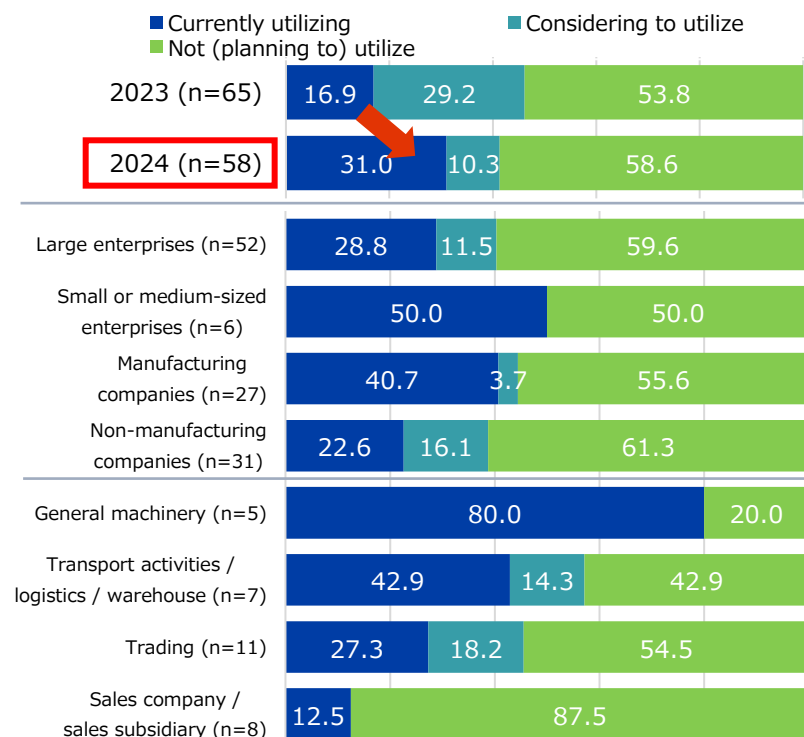


Top five industries in utilization ratios

By industry (n=5 or more)

### Status of Japan-UK EPA utilization by Japanese-affiliated companies in Europe: Exports from UK to Japan (UK → Japan)

(Unit: %)

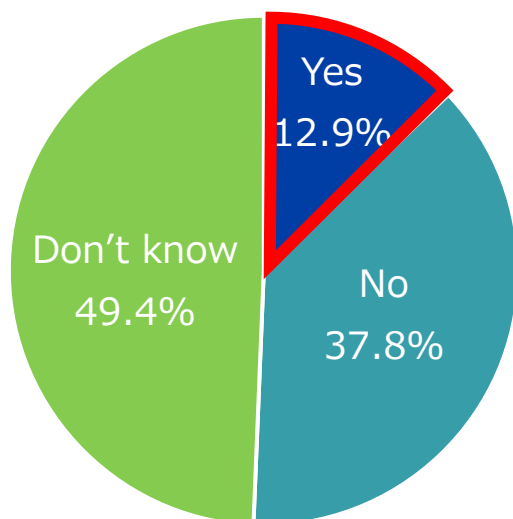


(Note) n=5 or more

### 3 | Origin verification status and other issues in Japan-EU EPA and Japan-UK EPA More than 10% were subject to verification on the originating status; Differences in the level of operation remained a key operational issue.

- 12.9% of all respondents answered that they have received a verification request on the originating status from the importing customs authority for imports under Japan-EU EPA; 37.0% of these cases occurred in Germany; 69.2% of the documents requested were statements of origin.
- Differences in the level of operation and confirmation by countries and customs officials and handling of the rules of origin were cited as challenges in utilization of the Japan-EU EPA.

Status of verification request on the originating status by customs authorities of importing countries for Japan-EU EPA



#### Problems, concerns, and issues in customs clearance and EPA utilization challenges (open-ended comments)

##### Japan-EU EPA

- Promotion of **smooth and expedited procedures on the EU side** (Romania, sales company / sales subsidiary)
- **Different verification levels** by different customs officers (Czechia, transportation equipment (motor vehicles, etc.), printing / publishing)
- **Operational rigidity of German Customs** compared to other EU countries (Germany, transport activities / logistics / warehouse)
- **Unified views / practices of HS codes, etc. should be promoted across the EU.** (Czechia, transport activities / logistics / warehouse)
- **Strict rules about originating status** and collaborative systems with suppliers/business partners (Germany, sales company / sales subsidiary)
- Difficult to arrange **certificates of origin for second-hand goods.** (Denmark, wholesale)
- As a custom-made facility equipment manufacturer, we find it very **difficult to obtain detailed proof of origin for equipment parts, etc.** every time **to self-declare the origin of status.** At present, we have our buyers pay the customs-related expenses. If the EPA can be utilized through **simplified procedures**, our **competitive advantages will be enhanced.** (Germany, sales company / sales subsidiary)
- UK after Brexit (Germany, sales company / sales subsidiary)

##### Japan-UK EPA

- **It is difficult to establish systems in Japan**, including arranging certificates of origin. (UK, miscellaneous manufacturing industries)
- **Customs clearance service providers often overlook EPA items, resulting in incorrect customs duties**, often leading to many correction requests. (UK, textile apparel / textile products)

## **VIII. ESG Initiatives**

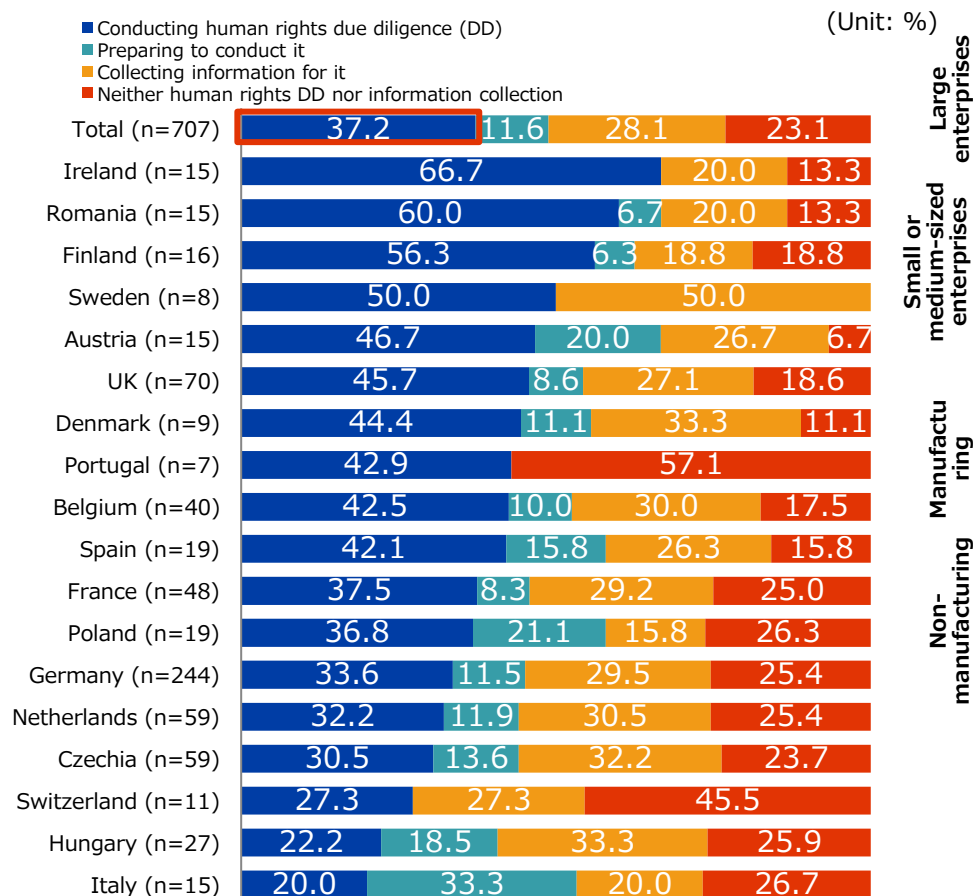
## 1

## Status of human rights due diligence (DD)

## Number of companies conducting human rights due diligence shifted to a declining trend

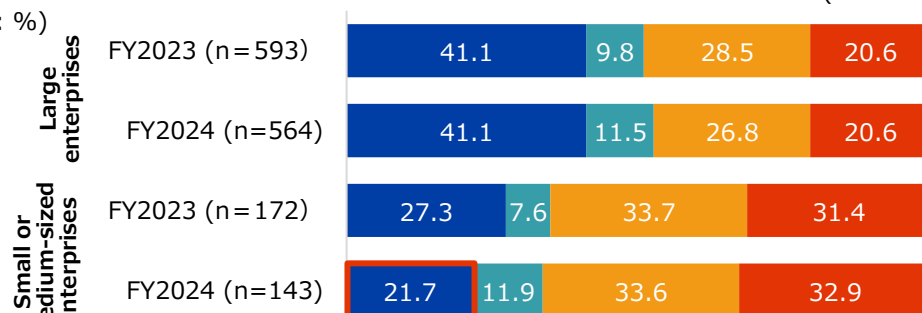
- Of Japanese-affiliated companies in Europe, 37.2% said they were “conducting human rights due diligence (DD),” a slight decrease from the previous year (38.0%). The same trend was observed for small or medium-sized enterprises (27.3% in the previous year → 21.7%) and for non-manufacturing companies (37.4% in the previous year → 34.9%).
- The percentage of these companies reporting that they were “neither planning to implement human rights DD nor collecting any information” rose YoY in Germany (from 23.9% to 25.4%). Slight increases from the previous year were also observed for small or medium-sized enterprises and for non-manufacturing companies.

## Conducting human rights due diligence? (by country, by industry)



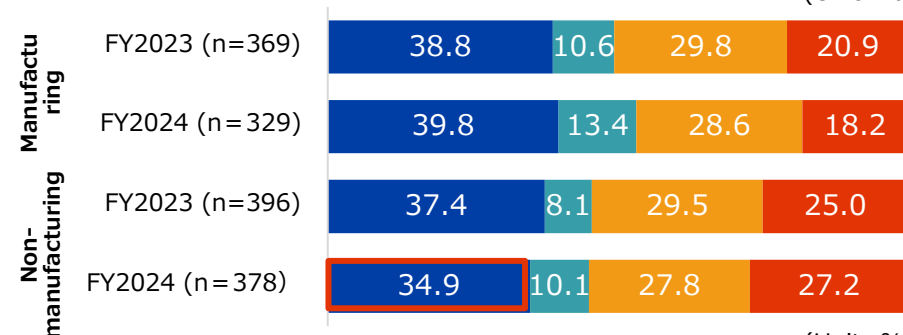
## Large enterprises / small or medium-sized enterprises

(Unit: %)



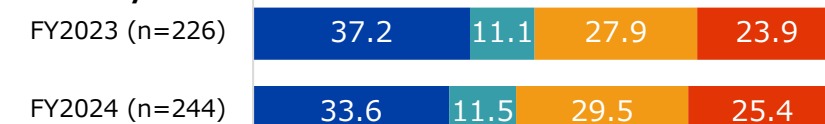
## Manufacturing / Non-manufacturing

(Unit: %)



## Germany

(Unit: %)





## 2

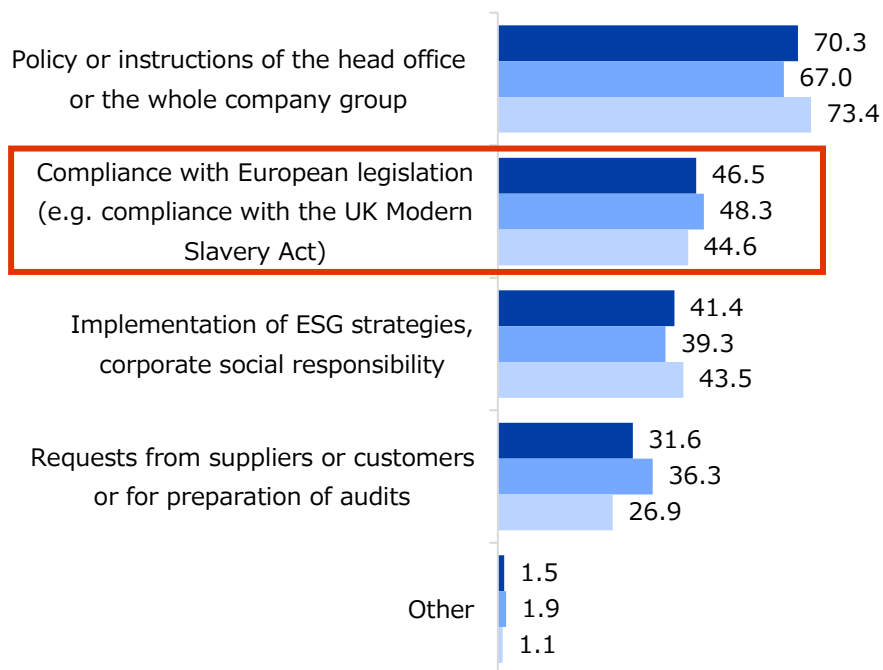
## Reasons for conducting or not conducting human rights DD

## A little less than 50% of the companies answered “compliance with European laws” as a reason.

- The **top reason** given for pursuing human rights DD or collecting related information was “**policy or instruction of the head office or the whole company group**” in all industries (70.3%), followed by “**compliance with European legislation**” (46.5%).
- The **leading reason** for not pursuing human rights DD was “**insufficient labor or information**” in all industries at **38.0%**. Non-manufacturing companies answered “not required due to the size of the company or the nature of its business” (40.8%), twice as many as for answers given by manufacturing companies (21.7%).

## Reasons for conducting human rights DD, or collecting related information (multiple answers allowed)

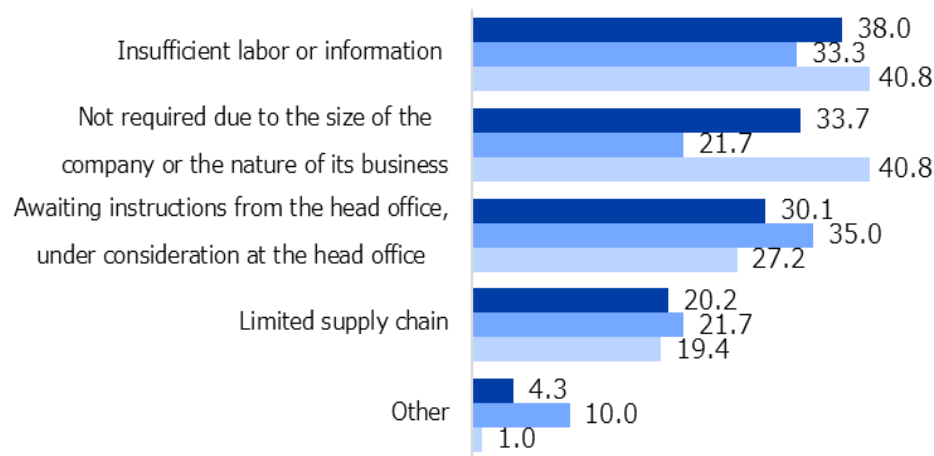
(Unit: %)



■ All industries (n=538) ■ Manufacturing (n=267) ■ Non-manufacturing (n=271)

## Reasons for not conducting human rights DD (multiple answers allowed)

(Unit: %)



■ All industries (n=163) ■ Manufacturing (n=60)  
 ■ Non-manufacturing (n=103)

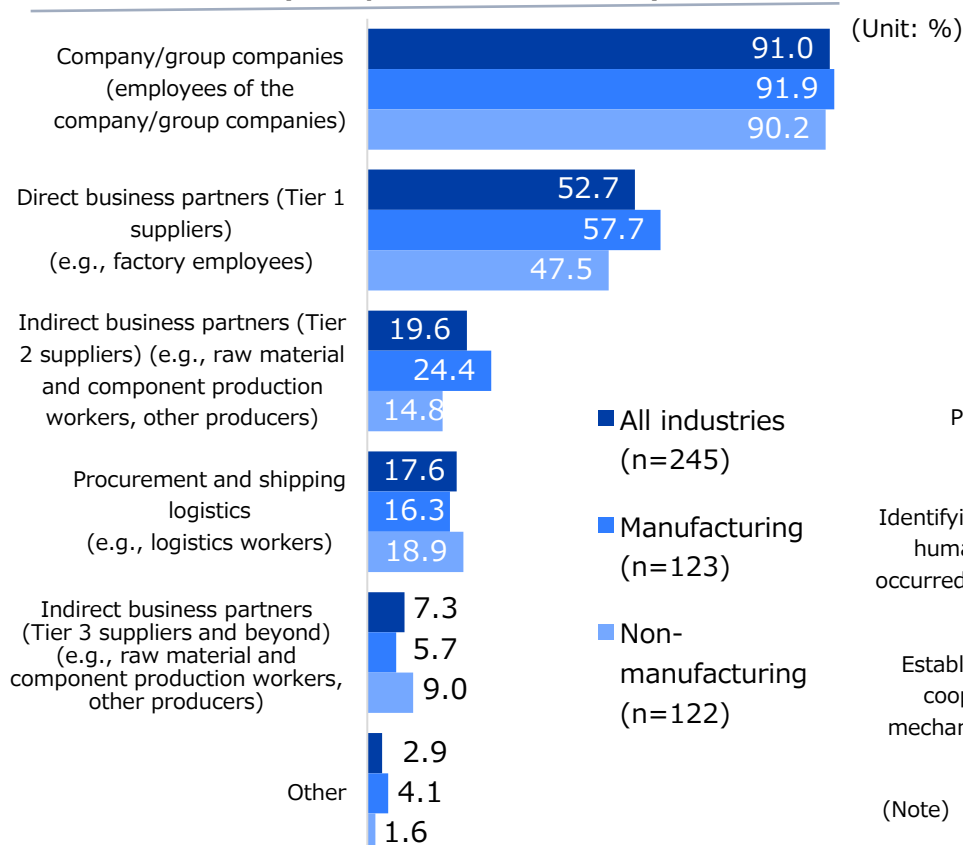
## 3

## Scope of conducted human rights DD and specific activities

## DD most commonly conducted within own companies / groups; formulation and publication of human rights policy increasing.

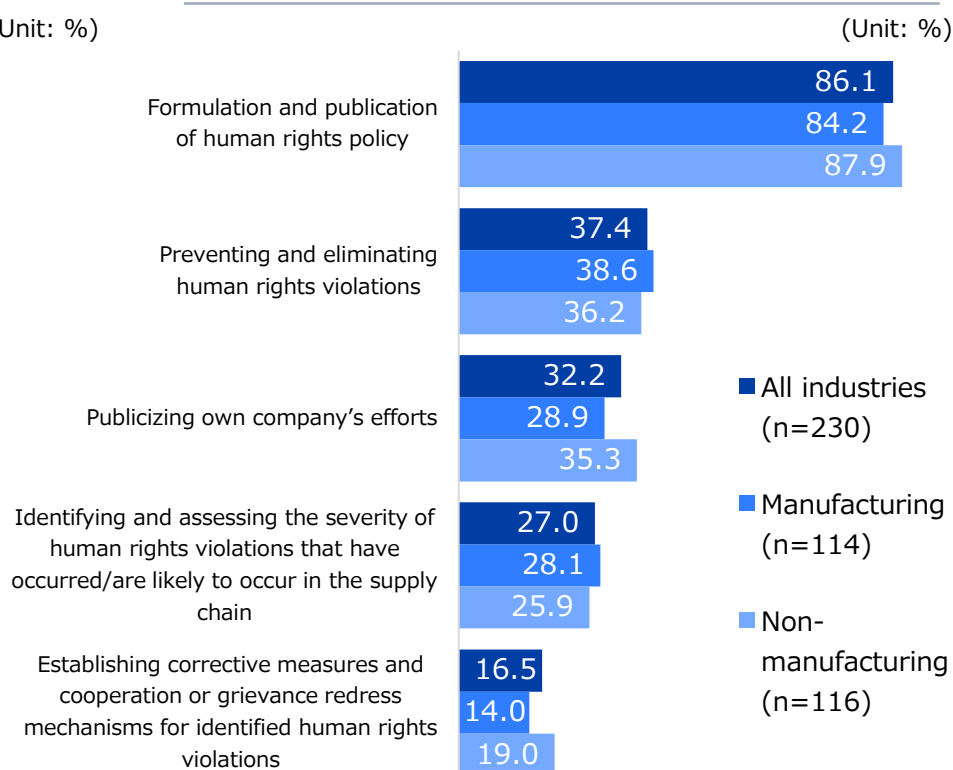
- As for the **scope of human rights DD**, “**company / group companies**” exceeded **90% of all respondents**. In terms of the scopes of activities conducted in Tier 1 and Tier 2, manufacturing companies exceeded non-manufacturing companies by about 10 percentage points. But for procurement and shipping logistics and Tier 3, non-manufacturing companies slightly exceeded manufacturing companies.
- Of all human rights DD activities, the most common was the “**formulation and publication of human rights policy**” at **86.1% of respondents**, a **YoY increase of 5.8 percentage points from the previous year’s survey**.

### Extent of human rights DD being conducted in supply chains (multiple answers allowed)



(Note) n indicates the number of companies that answered that they were “conducting human rights DD.”

### Specific human rights DD activities being conducted (multiple answers permitted)



(Note) n indicates the number of companies that answered that they were “conducting human rights DD.”

## 4

## Effects of conducting human rights DD activities, and challenges posed by the initiatives

### While positive effects were presented, some respondents reported little to no effects.

- While positive effects were reported by respondents who conducted human rights DD, many reported **no specific effects**.
- Challenges in conducting the DD activities were often mentioned, including the **lack of human resources and information**, as well as **operational burdens, including labor and time, etc.** Many expressed bewilderment concerning how to respond under various circumstances.

### Effects of conducting human rights DD activities and challenges posed by initiatives (open-ended comments)

#### Effects of conducting human rights DD

External	<ul style="list-style-type: none"> <li>Continuing customer contracts (Germany, Sales companies)</li> <li><b>Acquisition and maintenance of qualification for national bidding and international procurement opportunities</b> (Netherlands, Pharmaceutical)</li> <li>Securing human resources, corporate transparency, pursuit of fairness (Finland, General machinery)</li> <li><b>Good impression to European business partners and customers</b> (UK, Warehousing and logistics)</li> <li>Realizing fair recruiting policies and practices and positive evaluations from business partners (Ireland, Non-bank financial institutions)</li> <li><b>"Improved corporate image to stakeholders</b> through group-wide efforts, which had some positive impact on parent company stock price" (Spain, Rubber products)</li> </ul>
Internal	<ul style="list-style-type: none"> <li>Thorough implementation of the whistle-blower system <b>revealed internal harassment incidents, etc., allowing us to take proper corrective measures.</b> (Netherlands, Medical equipment)</li> <li>Internal severe work conditions and heavy-item handling practices were reviewed and rectified by introducing proper tools and equipment and changing work processes, resulting in reductions of employees' injuries and fatigue (France, Electrical and electronic machinery)</li> <li><b>Better working environment</b> for employees (Romania, Consulting)</li> </ul>

#### Challenges in the initiatives

Lack of human resources and information	<ul style="list-style-type: none"> <li>Lack of human resources and difficulty in acquiring proper information (Czechia, Construction)</li> <li><b>Lack of human resources</b> (Switzerland, Electrical and electronic components)</li> <li>The <b>lack of information</b> makes it difficult to initiate the relevant activities. (Denmark, Pharmaceutical)</li> </ul>
Operational burdens, including labor and time, etc.	<ul style="list-style-type: none"> <li>Since supplier information is summarized in Japan, the confirmation is carried out according to the workflow of the head office in Japan, taking <b>up significant labor and time.</b> (Germany, Sales company)</li> <li>Numerous suppliers are used, <b>taking time</b> to identify particular suppliers. (Belgium, transportation equipment)</li> <li>Identifying risks associated with human rights in global supply chains (Germany, Warehousing and logistics)</li> <li>We are now trying to determine the material impacts on environment/society but find it <b>difficult to handle many cases due to the lack of human resources.</b> (Germany, Construction)</li> <li>Formulation of a mid-term roadmap (Germany, Transportation equipment parts)</li> </ul>
Difficulty in evaluating effects and necessity	<ul style="list-style-type: none"> <li>Since the effects are indiscernible, we find it difficult to evaluate whether we are headed in the right direction. (Romania, ICT)</li> <li>It's hard to determine whether these initiatives are required or not as corporate policies. (UK, Food products)</li> </ul>

## 5

## Status of decarbonization activities

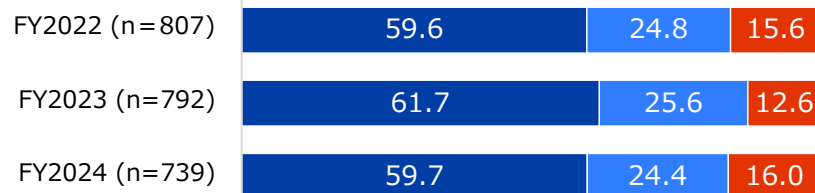
## Decarbonization activities appear to have peaked.

- 59.7% of companies said they were **implementing some kind of decarbonization action**, a **2.0 percentage point decrease** from the previous year's survey (61.7%). Excluding non-manufacturing companies making minor increases, **manufacturing companies and both large enterprises and small or medium-sized enterprises uniformly dropped their initiatives** in this regard.
- Further, companies reporting, **"We have no plan to make any effort," increased from the previous year's survey**; 16.0% in total (12.6% in the previous year), 19.4% in non-manufacturing (14.9% in the previous year), and 29.9% (22.7% in the previous year) for small or medium-sized enterprises.

### Status of decarbonization efforts (overall, by company size)

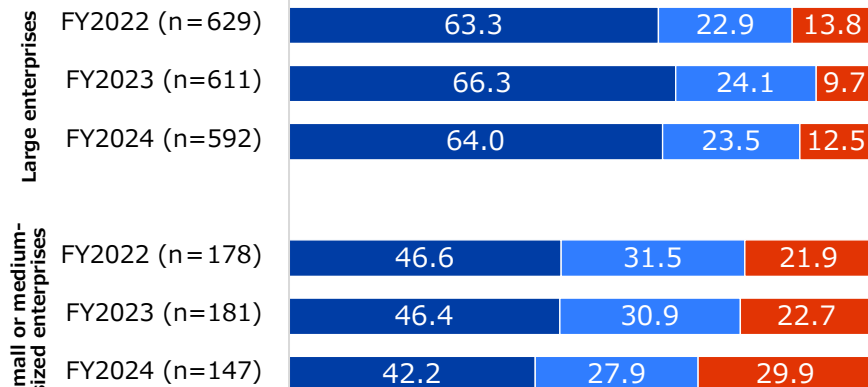
**Total** (Unit: %)

- 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.



### Large enterprises / small or medium-sized enterprises

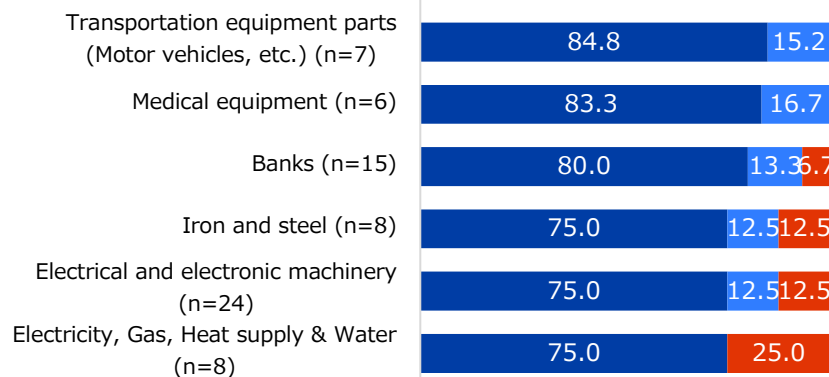
(Unit: %)



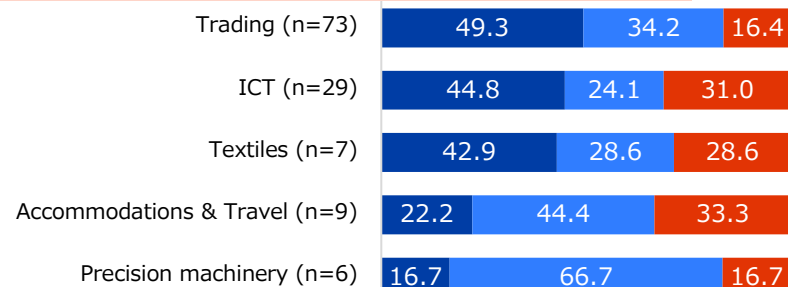
### Status of decarbonization efforts (by industry)

(Unit: %)

Top five industries in which the ratio of the companies already conducting decarbonization activities is high



Bottom five industries with the lowest percentage already working on this issue



## 6

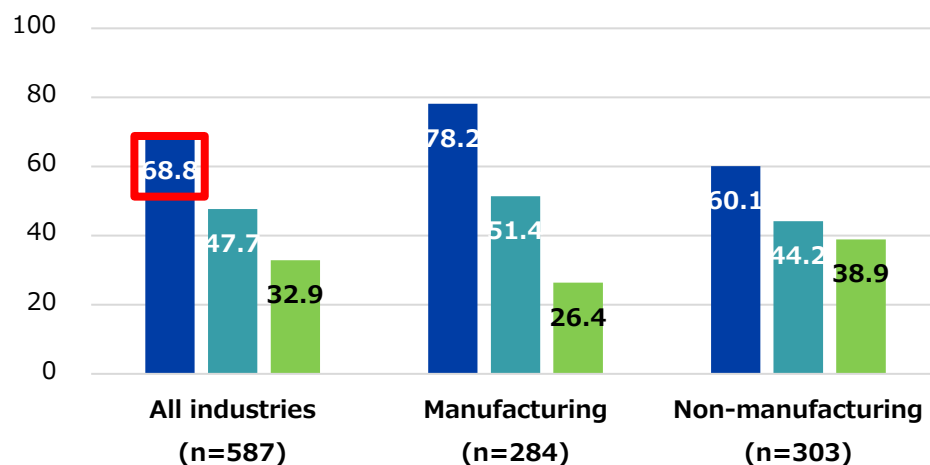
## Targets of decarbonization efforts, scope of grasp of greenhouse gas emissions

### Scope 1 activities rose; 70% of manufacturing companies sought to grasp emissions.

- Across all industries, **Scope 1** (direct greenhouse gas emissions by businesses themselves) was the most common target, accounting for **68.8%** of companies (65.3% in the previous year). In non-manufacturing, the figure was 60.1%, an increase of 7.0 percentage points from the previous year's survey.
- In terms of greenhouse gas emissions, nearly **70% of manufacturing companies grasped** the per-unit amounts of their products/services or **emitted amounts from their own companies**. However, this is where the **difference is conspicuous**; that is, more than half of non-manufacturing companies did not reach the level of grasping their own emission amounts, or grasped only part of the emissions.

### Targets of decarbonization efforts specific to Scopes 1 through 3 and plans (multiple answers allowed)

(Unit: %)



- Initiatives for Scope 1 (Direct greenhouse gas emissions by businesses themselves: fuel combustion, industrial processes)
- Initiatives for Scope 2 (Indirect emissions from the use of electricity, heat, and steam supplied by other companies)
- Initiatives for Scope 3 (Indirect emissions other than Scope 1 and Scope 2: emissions by other companies related to the business' activities)

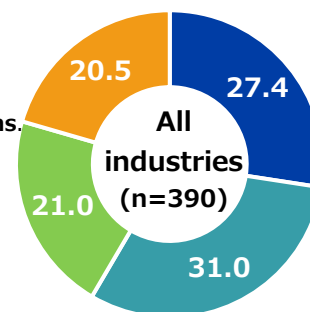
(Note) "n" indicates the number of companies reporting they were "already making" or "planning to make" some sorts of decarbonization efforts (reduction of greenhouse gas emissions) in their locales.

### Scope of greenhouse gas emissions grasped (all industries, by industry)

(Unit: %)

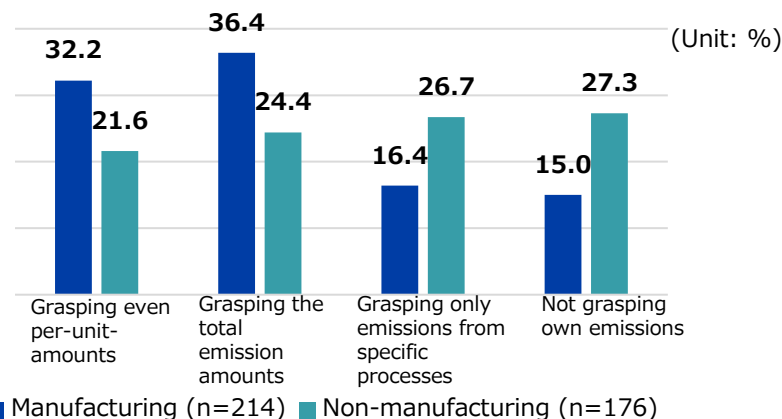
Although we are working on emission reduction, we do not have a quantitative grasp of our company's emissions.

We know the emissions of some specific processes, but not the total emissions.



We know the emissions per unit of our company's products and services.

We know the total emissions of our company as a whole, but we do not know the emissions per unit of product or service.



■ Manufacturing (n=214) ■ Non-manufacturing (n=176)

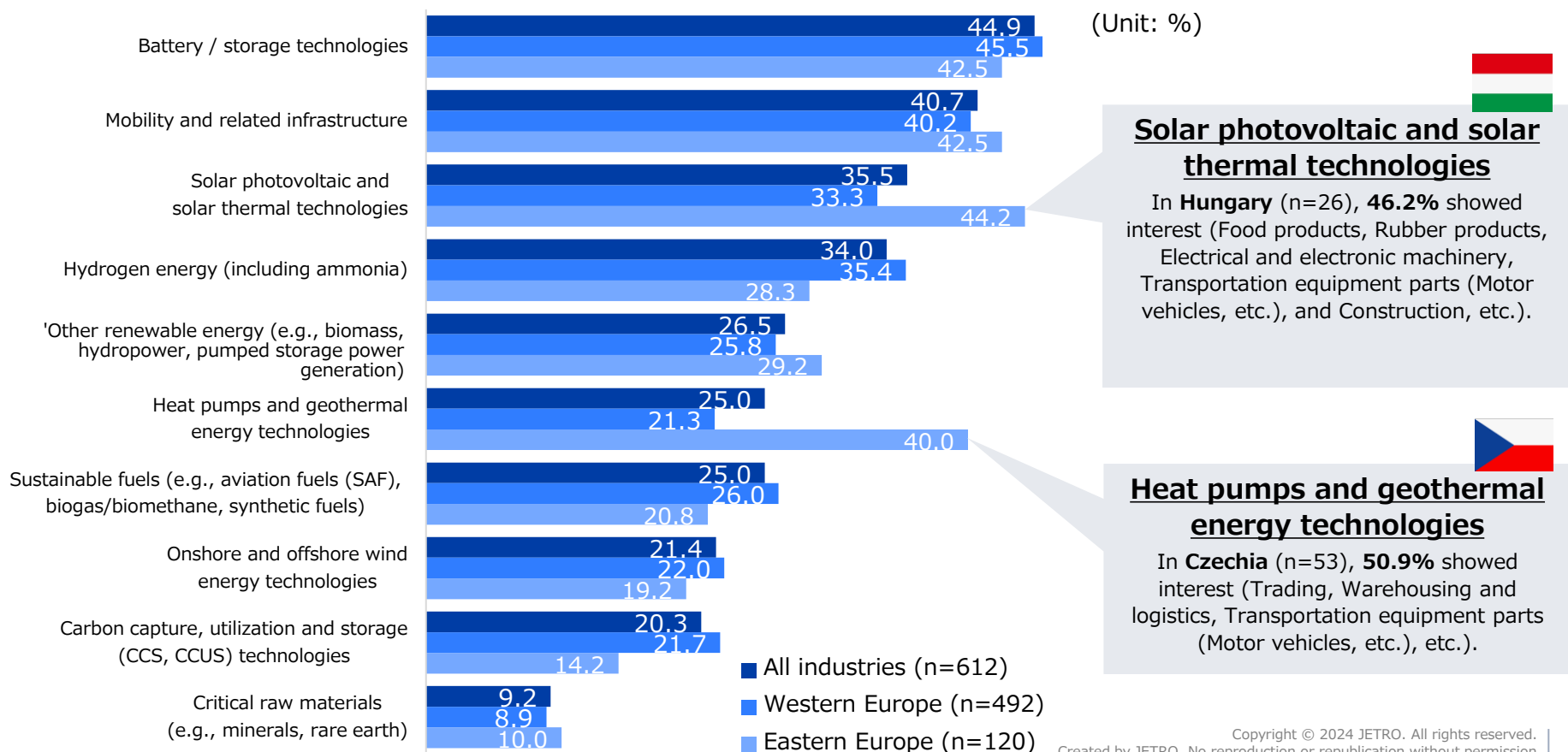
## 7

## Decarbonization-related business areas drawing great interest as business opportunities

### Battery is the top; companies in Central and Eastern Europe show keen interest in solar energy, etc.

- Of decarbonization-related business areas, **“battery/storage technologies”** is deemed most promising (44.9%), followed by **“mobility and related infrastructure”** (40.7%).
- Business areas drawing **the greatest attention in Central and Eastern Europe**, in comparison with Western Europe, were **“solar photovoltaic and solar thermal technologies”** (44.2%) and **“heat pumps and geothermal energy technologies”** (40.0%): respectively, 10.9 percentage points and 18.7 percentage points above those marked in Western Europe.

#### Decarbonization-related business areas attracting great interest (multiple answers permitted)



# 8 Challenges with decarbonization efforts, regulations and programs that are difficult to obey

## Challenges involve how to pursue decarbonization and economic rationality simultaneously, and how to respond to inconsistent regulations.

- In terms of cost-related challenges, many respondents were concerned not just about **increasing cost burdens**, but the **unpredictable response of customers and markets to rising prices traceable to corporate burdens**. They also find it **difficult to reconcile the pursuit of decarbonization with economic rationality**.
- Another serious challenge was **inconsistencies in regulations and their implementation methods**, because rules are different from country to country.

### Challenges with decarbonization efforts; regulations and programs that are difficult to obey (open-ended comments)

Costs	Increased burdens	Cost increases attributable to expenses for construction and initial investment	Gaps in programs and recognized details	<ul style="list-style-type: none"> <li>National regulations, implementation methods, and their introduction timing, etc. are not unified.</li> <li><b>No unified calculation formulas</b></li> <li>Different countries <b>use different symbols to indicate disposal methods</b>.</li> <li>Lack of common solutions for controlling CO2</li> <li>Different general perceptions between Japan and Europe</li> </ul>
	Lack of understanding among customers and markets concerning passing on price burdens	<ul style="list-style-type: none"> <li>Customers unwilling to accept price hikes; no consensus in this regard</li> <li>Lack of transparency concerning acceptability in markets</li> <li><b>Difficulty in passing on prices</b>, especially with respect to timing</li> </ul>		
	Balancing between decarbonization and corporate revenues/expenditures	Difficulty in pursuing economic rationality and promoting decarbonization simultaneously, and balancing them both		
Human and other resources		Difficulty in recruiting, developing, and securing knowledgeable human resources	Ambiguity	<ul style="list-style-type: none"> <li>Ambiguity of carbon calculation standards</li> <li>Ambiguity in control scope</li> <li>Ambiguity in emission measurement methods</li> <li>The systems are too complicated to be clearly understood.</li> <li>No clear priority</li> </ul>
Information		Difficulty in collecting information from suppliers		
Underdevelopment in infrastructure		<ul style="list-style-type: none"> <li>Power supply stations</li> <li>Stable supply networks of alternative energy sources</li> </ul>	Laws and regulations posing compliance challenges	CSRD / CBAM / UK Modern Slavery Act 2015 / Ecodesign regulation / EU Regulation on Deforestation and Forest Degradation
Technical challenges		<ul style="list-style-type: none"> <li>Inability to sustain operation based only on biomass energy</li> <li><b>Limited construction machinery capable of functioning only with alternative fuels</b></li> <li>We use natural gas for aluminum melting furnaces, but <b>no alternative technology exists</b> or is available.</li> <li>So-called green steel is difficult to obtain.</li> </ul>		
Investment decisions		Difficulty in determining SAF supply/demand balances and in reaching appropriate investment decisions	What will be needed	<ul style="list-style-type: none"> <li><b>Governmental and systemic support Incentives</b> for decarbonization and <b>regulations</b> for products with high carbon footprints, etc.</li> <li><b>Enhanced visibility</b> of specific CO2 reductions concerning green reprocessed materials</li> <li><b>Experimental studies on the effects</b> of these activities</li> </ul>

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