

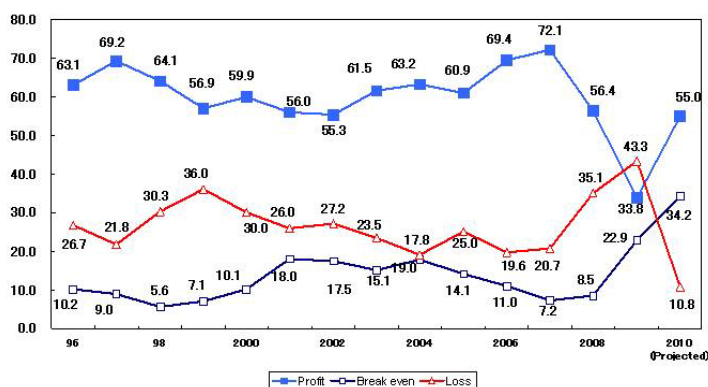
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**Supplementary Materials to  
 “2009 Survey of Japanese Manufacturing Affiliates in Europe and Turkey” (Summary)**

**1. Despite worsening performance in 2008, more than half of companies surveyed recorded profits**

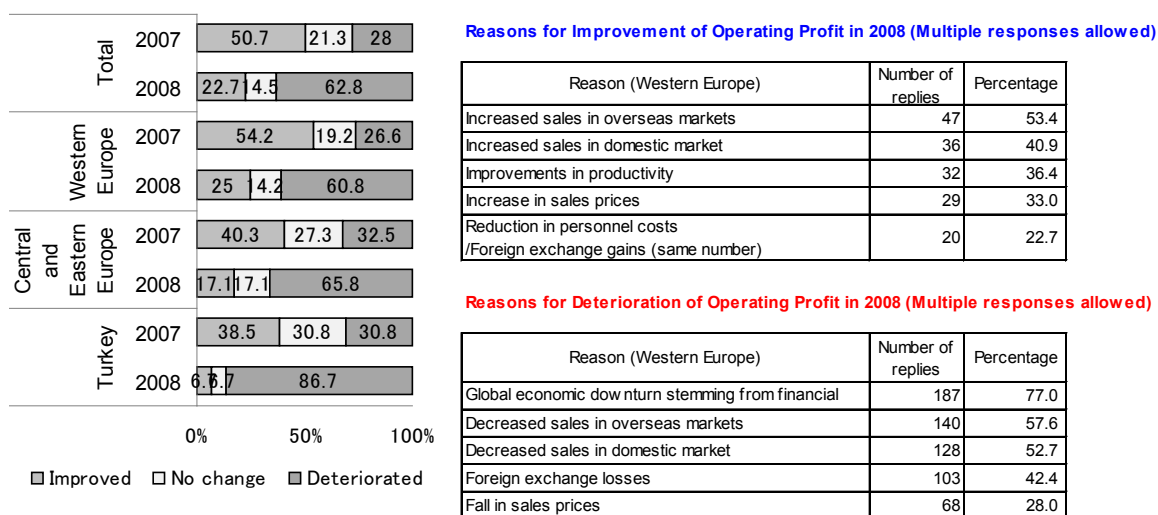
56.4% of Japanese manufacturing affiliates in Europe and Turkey recorded an operating profit in 2008 (against 72.1% in 2007), and 35.1% recorded an operating loss (20.7%). While 22.7% of companies reported an improvement in operating profit in comparison to the previous year (50.7%), there was a significant increase in the percentage of companies reporting a decline in operating profit at 62.8%, against 28.0% in 2007 (Diagrams 1 and 2). The most frequent responses (multiple responses were allowed) for the reason of declining in profits were: “Global economic downturn stemming from financial crisis” (77.0% of companies); “Decreased sales in overseas markets” (57.6%); “Decreased sales in domestic market” (52.7%); and “Foreign exchange loss” (42.4%). On the other hand, the most frequent responses for the reason of improving business (multiple responses were allowed) were: “Increased sales in overseas markets” (53.4%); “Increased sales in domestic market” (40.9%); and “Improvements in productivity” (36.4%). Among industry sectors in which five or more companies responded, the sectors in which the highest percentage of companies reported increased profits were wood and wooden products (three companies, 60%), pharmaceutical products (seven companies, 58.3%), precision machinery (four companies, 44.4%), and foodstuffs and processing of agricultural and fisheries products (seven companies, 33.3%), indicating comparatively good performance in lifestyle-related sectors. Differences in the effect of the global financial crisis were observed between industry sectors as well as between companies.

**Diagram 1 Change in Operating Profit for Japanese Manufacturing Affiliates**



(Note) The number of responses received differs for each year.

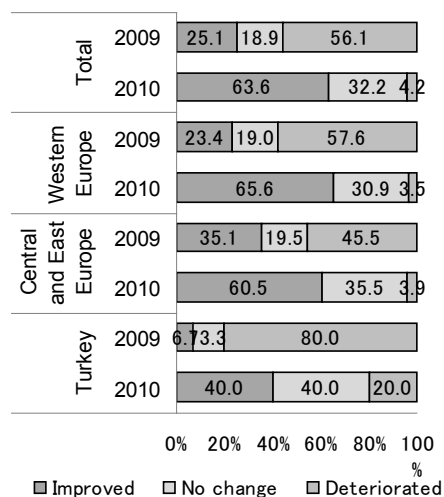
**Diagram 2 Operating Profit for Japanese Manufacturing Affiliates  
 (compared to the previous year)**



(Note) Figures for 2007 are drawn from previous survey (June-July 2008)

33.8% of the surveyed companies estimated an operating profit for 2009, while 43.3% estimated an operating loss. 25.1% of the companies responded that their performance would improve against 2008, while 56.1% estimated a decline, indicating that companies predicted that severe business conditions will continue. The most frequent responses for the reason of estimating improved profit were “Reduction in personnel costs” (58.8%), “Reduction in administrative and utility costs” (52.6%), and “Improvements in productivity” (52.6%), indicating that, against the background of continuing severity in the external environment, companies are seeking to improve business performance by restoring their internal environments. Companies which estimated a decline in 2009 against 2008 performance pointed out the same reasons in which companies reported decline in 2008 indicated: “Global economic downturn stemming from financial crisis” (82.9%); “Decreased sales in overseas markets” (60.4%); and “Decreased sales in domestic market” (56.2%) (Diagram 3). 55.0% of the companies surveyed expected to record an operating profit in 2010, while 10.8% project an operating loss. 63.6% of the companies estimated an improvement in returns against 2009, while only 4.2% expected their performance to worsen, demonstrating that the majority of companies expected an improvement in business conditions.

**Diagram 3 Operating Profit Outlook for Japanese Manufacturing Affiliates  
 (Compared to the Previous Year)**



**Reasons for Improvement of Operating Profit Outlook in 2009 (Multiple responses)**

Reason	Number of replies	Percentage
Reduction in personnel costs	57	58.8
Reduction in administrative and utility cost/Improvements in productivity (same number)	51	52.6
Increased sales in overseas markets	33	34
Increased sales in domestic market	23	23.7
Reduced costs for local procurement	18	18.6

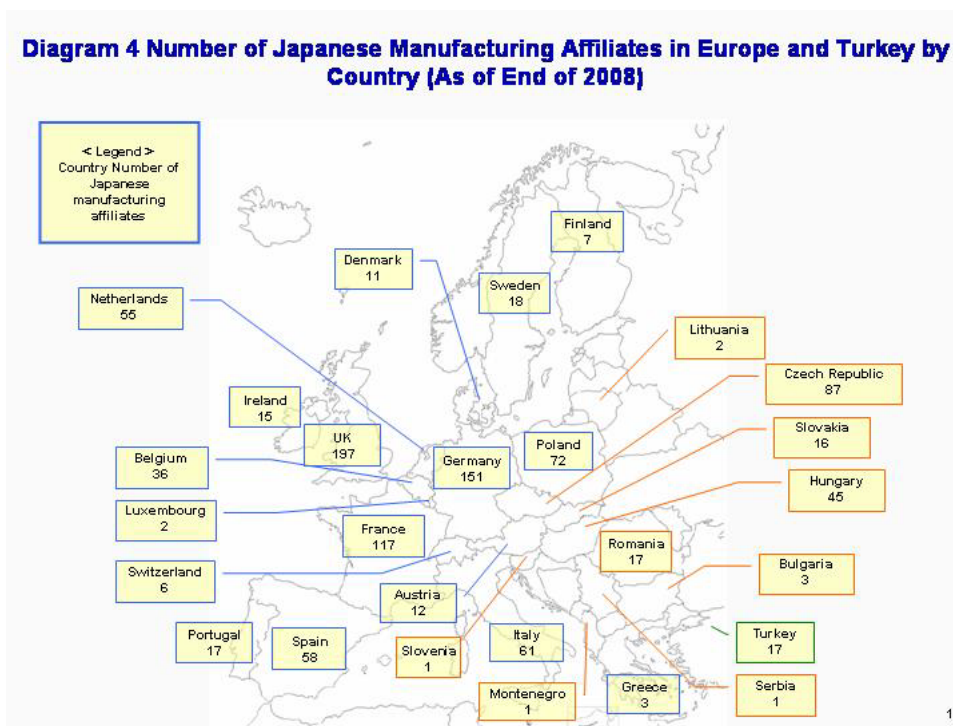
**Reasons for Deterioration of Operating Profit Outlook in 2009 (Multiple responses)**

Reason	Number of replies	Percentage
Global economic downturn stemming from financial	180	82.9
Decreased sales in overseas markets	131	60.4
Decreased sales in domestic market	122	56.2
Foreign exchange loss	62	28.6
Increase in administrative and utility costs	40	18.4

## 2. Largest numbers of Japanese manufacturing affiliates in Europe and Turkey concentrated in the UK, Germany, France, the Czech Republic, and Poland

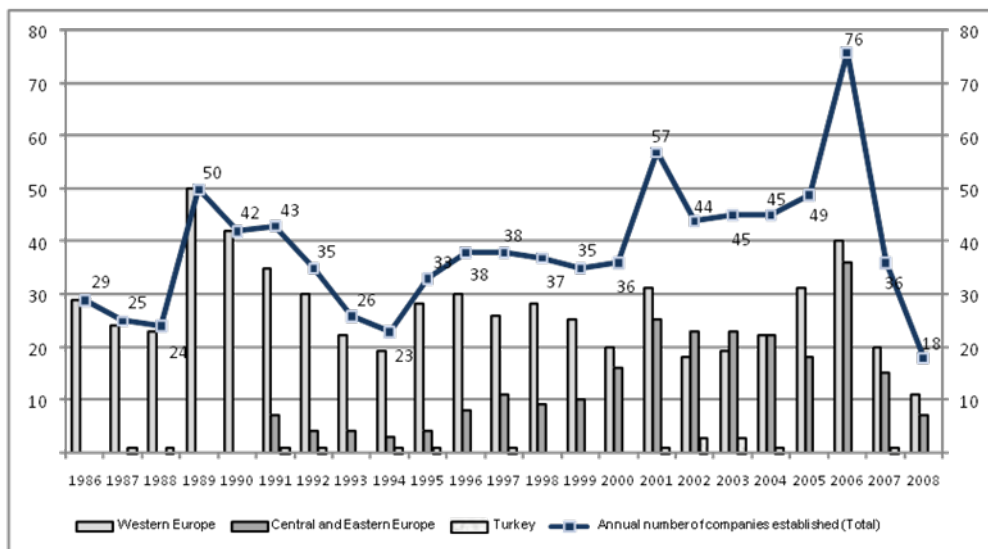
– Number of new market entries lowest-ever at 18 companies in 2008 –

The survey shows that the number of Japanese manufacturing affiliates in Europe and Turkey at the end of 2008 is 1,028 (against 1,041 in the previous survey) 766 in Western Europe (785), 245 in Central and Eastern Europe (239), and 17 in Turkey (unchanged). By country, in the UK was home to the largest of Japanese companies with 197 companies (against 203 in the previous survey), followed by Germany (151, against 146 in the previous survey), and France (117, against 130 in the previous survey). The 4th was the Czech Republic with 87 companies, against 84 in the previous survey) and followed by Poland (72, against 70 in the previous survey) (Diagram 4).



18 Japanese companies (11 in Western Europe, seven in Central and Eastern Europe, and none in Turkey) established affiliates Europe during in 2008 which was the lowest record since the survey has begun in 1983. This represents a significant drop from 2006, when the highest-ever figure of 76 companies was recorded (40 in Western Europe, 36 in Central and Eastern Europe, and none in Turkey), and from 2007, when a figure of 36 companies was recorded (20 in Western Europe, 15 in Central and Eastern Europe, and one in Turkey) (Diagram 5). In 2008, the largest number of affiliates in Germany, with six companies, followed by the Czech Republic with three companies, Denmark, and Poland with two companies. By industry, Japanese manufacturing bases were concentrated General machinery and transport machinery parts. The trend suggests a lull in the wave of new market entries in Central and Eastern Europe following the greater economic activation of these areas with the expansion of the EU in the latter-half of the 1990s.

**Diagram 5 Changes in the Number of Established Japanese Manufacturing Affiliates**

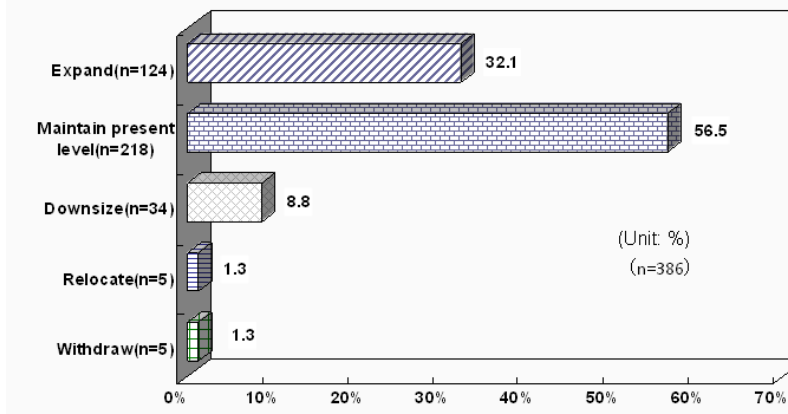


The industry with the largest number of Japanese manufacturing affiliates in Europe and Turkey was the transport machinery parts sector with 215 companies (20.9% of the total), followed by general machinery with 144 companies (14.0%), chemical and petrochemical with 90 companies (8.8%), and electrical and electronic parts with 88 companies (8.6%). More than half (52.2%) of the surveyed companies were in these four industry sectors. In Western Europe, 15.8% of the surveyed companies were in the general machinery, 15.4% were in transport machinery parts, and 10.8% were in chemical and petrochemical products. In Central and Eastern Europe and Turkey, Japanese affiliates highly concentrated in transport machinery parts with 97 companies (37.0% of the total in this sector).

This year's survey newly included the question concerning the appeal and advantages of the country in which the company located a base. The majority of companies located in Western Europe responded "Public Safety and Social conditions" (44.9%), "High quality of workforce" (35.8%), and "Widespread use of English language" (32.8%). On the other hand in Central and Eastern Europe "Low labor costs" (46.6%) and "Offers Strategic location" (42.5%) were highly ranked. In Turkey "High quality of workforce" (80.0%) and "Ease in securing factory workers" (66.7%) were particularly high, this result shows that Japanese affiliates in Turkey highly evaluate the workforce, with regard to develop manufacturing activities at existing bases in the next 1-2 years, approximately 30% planned to expand production. In Central and Eastern Europe, approximately half (46.8%) of companies planned to expand production. With regard to the specific policy for expansion, the most

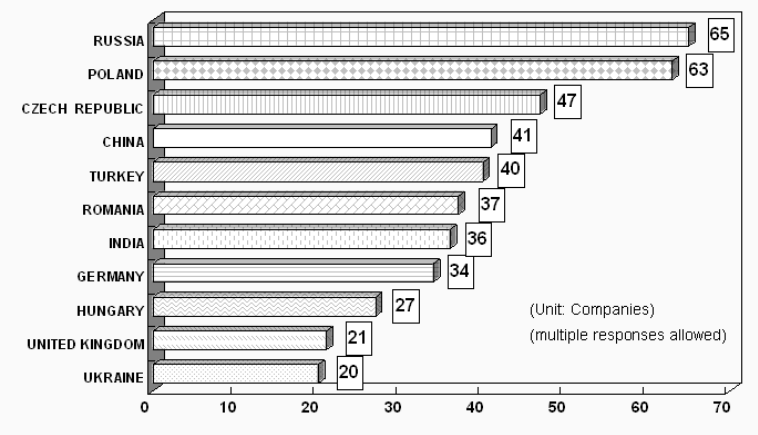
frequent responses were “expansion/diversification of product lines” (64.5%), “increasing in high value added product lines” (44.4%), and “expansion of business through additional investments” (42.7%) (Diagram 6).

**Diagram 6 Business Developments by Japanese Manufacturing Affiliates in the Next One to Two Years**



When asked which countries or regions were promising locations for new production bases (excluding countries or regions in which they had already located production bases) over the medium- to long-term (5-10 years), the top answer was Russia(65 companies). This was followed by Poland (63), the Czech Republic (47), China (41), Turkey (40), and Rumania (37), with companies favoring Central and Eastern European countries, China, and Turkey for new production bases. Emerging countries took the top positions, Germany ranked the highest position among Western European countries at 8<sup>th</sup> place (34) (Diagram 7; Number of respondents: 273 companies).

**Diagram 7 Countries and Regions Considered to be Promising Production Bases over the Mid-to-long-term (5-10 Years)**



**3. Volatile exchange rate instability is managerial issues common to Japanese manufacturing affiliates in the region**

**– High costs in Western Europe and increases in labor costs in Central and Eastern Europe and Turkey –**

Management issues for Japanese manufacturing affiliates in Western Europe, Central and Eastern Europe, and Turkey were “Global economic downturn stemming from financial crisis” (69.5%); “Volatile exchange rate fluctuation” (50.3%); “REACH (new regulations for chemical products)” (37.4%); “Procurement costs” (32.4%); “Domestic economic conditions” (30.3%); and “Visas/Work permits” (25.3%). Excluding “Global economic downturn stemming from financial crisis,” a notably high percentage of companies indicated “Volatile exchange rate fluctuation” as a managerial issue. Not only companies operating in Central and Eastern Europe and Turkey, where the economies were unstable but 42.0% of companies located in Western Europe, which represented the greater part of the Euro zone, gave the same response. By contrast, the rate for the response “Difficulty securing engineers” declined significantly against the previous survey in all regions. This suggests that the economic recession made it easier to secure personnel. It has been reported that Central and Eastern Europeans working in Western Europe have been returning to their own countries as a result of deteriorating economic conditions, and the results of the present survey provide evidence for this trend.

The top responses regarding managerial issues common to Japanese manufacturing affiliates in Western Europe were as follows: “Global economic downturn stemming from financial crisis” (67.7%); “High labor costs” (59.0%); “Volatile exchange rate fluctuation” (42.0%); “REACH” (38.2%); “Stringent dismissal laws” (37.5%); “High social security burden” (34.7%); and “Procurement costs” (33.3%). As seen in the responses “High labor costs,” “Stringent dismissal laws,” and “High social security burden,” labor-related costs were conspicuous. In the background here are high costs for generous worker protection programs (Diagram 8).

**Diagram 8 Managerial Issues for Japanese Manufacturing Affiliates in Europe**

Japanese manufacturing affiliates in Western Europe (No. Of responding companies: 288)				Japanese manufacturing affiliates in Central and Eastern Europe (No. Of responding companies: 77)			
Category	Problem	Respon	Percen	Category	Problem	Respo	Percen
Political economy/Social conditions	Global economic downturn stemming from financial crisis	195	67.7 %	Financial problems	Volatile exchange rate fluctuations	58	75.3 %
Labor problems	High labor cost growth rate	170	59.0 %	Political economy/Social conditions	Global economic downturn stemming from financial crisis	56	72.7 %
Financial problems	Volatile exchange rate fluctuations	121	42.0 %	Labor problems	High labor cost growth rate	35	45.5 %
Environmental regulations	REACH	110	38.2 %	Labor problems	Difficulty in securing engineers	35	45.5 %
Labor problems	Stringent dismissal laws	108	37.5 %	Insufficient infrastructure	General road conditions	31	40.3 %
Labor problems	High social security burdens	100	34.7 %	Labor problems	Difficulty in securing managerial personnel	30	39.0 %
Materials and parts procurement	Procurement costs	96	33.3 %	Materials and parts procurement	Shortage of domestic procurement sources	29	37.7 %
Political economy/Social conditions	Domestic economic conditions	83	28.8 %	Insufficient infrastructure	Highways	28	36.4 %
Labor problems	Quality of workforce	72	25.0 %	Environmental regulations	REACH	27	35.1 %
Tax systems/procedures	Transfer pricing taxation	68	23.6 %	Investment legislation/procedures	Visa/work permits	26	33.8 %
Investment legislation/procedures	Visa/work permits	64	22.2 %	Political economy/Social conditions	Domestic economic conditions	25	32.5 %
Labor problems	Union activities/strikes	57	19.8 %				

“Volatile exchange rate fluctuation,” is most significant managerial issue in Central and Eastern Europe, (three companies out of four indicated). Following this, as main managerial issues were labor-related issues such as “High labor cost growth rate,” “Difficulty in securing engineers,” and infrastructure-related issues such as “State of public roads.” In Western Europe, only 11 of 70 potential responses exceeded a response rate of 20%, while the figure was 20 of 70 in Central and Eastern Europe. The responses in Central and Eastern Europe also covered a wide range of issues, including finance-, labor-, infrastructure-, accommodation-, and living environment-related issues. A comparison with the results of the fiscal 2004 survey, conducted directly after 10 Central and Eastern European countries had become members of the EU, reveals no major improvement in terms of the gap between this region and Western Europe.

#### 4. Differences among companies in speed of response to environmental regulations.

##### Expectations of increased business opportunities in the environmental field

Japanese manufacturing affiliates located in Europe were queried regarding their responses to increasingly stringent and complex EU environmental regulations. Nearly 70% (263 companies) of the companies surveyed were subject to the REACH regulations, approximately 40% (149) to the Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS), and around 20% (89) to the Waste Electrical and Electronic Equipment (WEEE) regulations. The various regulations impact on a wide variety of industry types. Of the 23 industry types represented by the surveyed companies, 19 are subject to REACH, 16 to the RoHS Directive, 13 to WEEE, 13 to new CO<sub>2</sub> regulations, 12 to the Eco design requirements for Energy-using Products (EuP) Directive, and 10 to Euro 5 (exhaust emissions regulations).



More than 80% of the companies subject to the RoHS have achieved full compliance with the directive. The figure is approximately 50% in the case of the REACH, and approximately 30% in the case of Euro 5 and the new automotive CO<sub>2</sub> regulations, which will not be fully implemented for some time. The major issue for the surveyed companies was the increased costs entailed in the compliance with regulations, but many companies also indicated the existence of opaque application of the REACH and WEEE regulations.

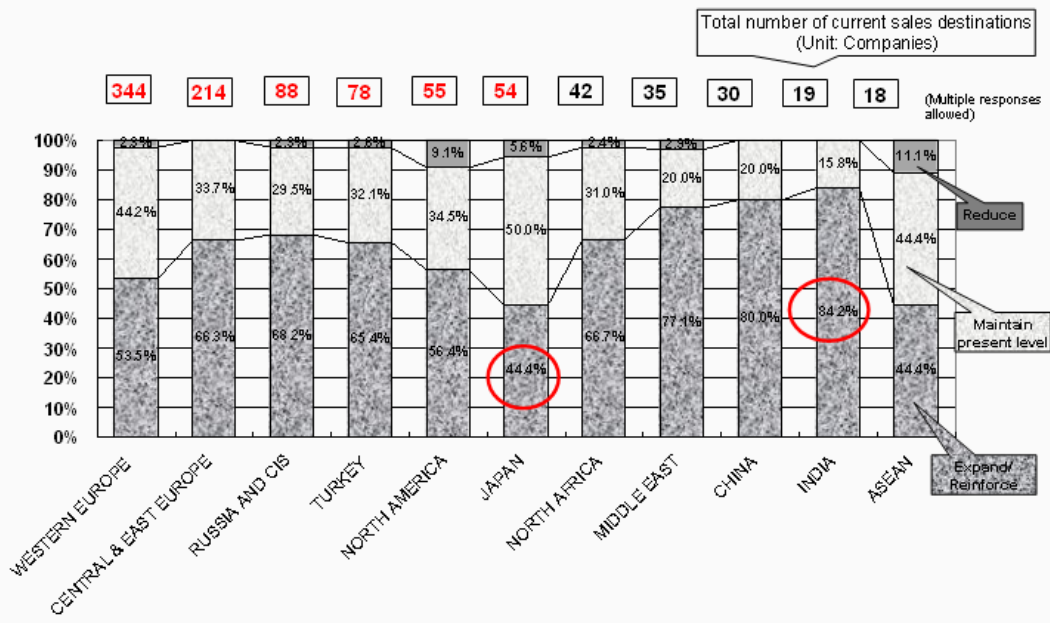
Questioned about the effect of incentives and economic stimulus measures in the environmental field, 37.9% of companies responded, “Expansion of environment-related business opportunities,” and 27.4% responded, “Enhanced competitiveness of proprietary products ’,” but there were also numerous negative responses, including, “Increased costs as a result of utilizing environmental incentives and other measures ” (26.6%) and “Tougher competition ” (19.8%).

#### **5. High level of interest in emerging markets, in particular Russia**

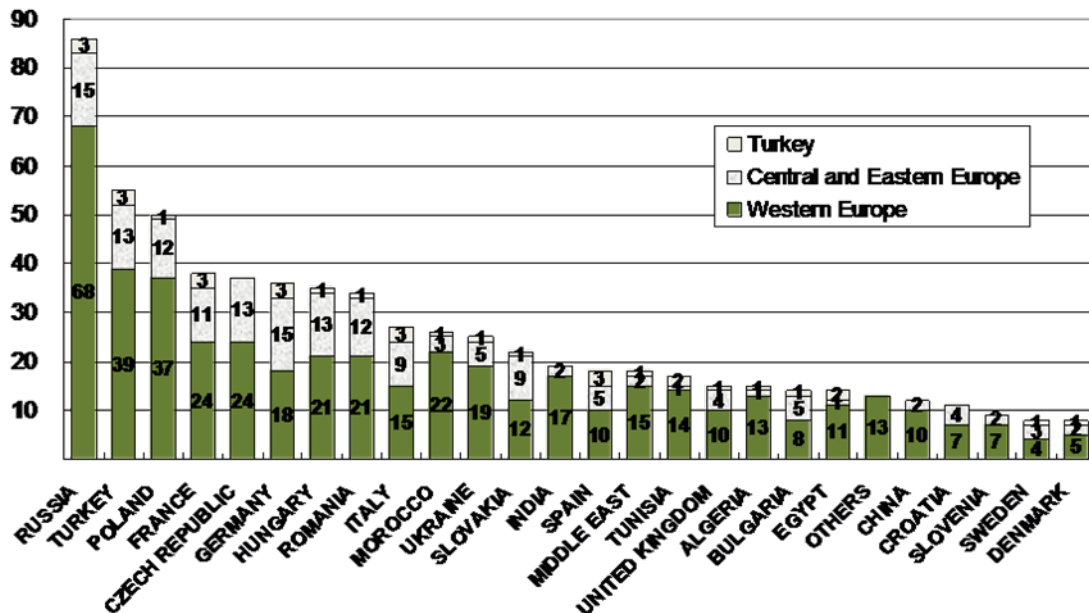
Turning to markets for Japanese manufacturing affiliates in Europe and Turkey, Western Europe was the main sales destination for companies located in Western Europe (93.3%), while for many companies located in Central and Eastern Europe, Central and Eastern Europe (67.5%) figured as a sales destination alongside Western Europe (75.3%). Among countries and regions which 50 or more companies indicated as current sales destinations, Russia and the CIS was the top choice as an area in which to expand sales in the future at 68.2%, followed by Central and Eastern Europe (66.3%), and Turkey (65.4%) (Diagram 9).

For the third consecutive year, Russia was also the top choice as a potential new market in the future, selected by 86 companies. Transport machinery parts (22 companies) and general machinery (11 companies), among others, were conspicuous as industry types. The next most popular choices as future markets were Turkey (55 companies), Poland (50 companies), France (38 companies), and the Czech Republic (37 companies). The level of interest in emerging economies was also marked, with Morocco selected as a future market by 26 companies, and Ukraine by 25 (Diagram 10). Taken together, results for future orientations with respect to existing markets and candidates for future markets suggest that there is a trend for companies to seek to improve business performance against the background of the continuing effects of the global economic downturn brought on by the financial crisis by expanding sales in emerging markets such as Russia, Turkey, North Africa, the Middle East, and India.

**Diagram 9 Future Sales Policies for Current Major Sales Destinations**



**Diagram 10 Countries and Regions Considered Promising Future Sales Destinations**

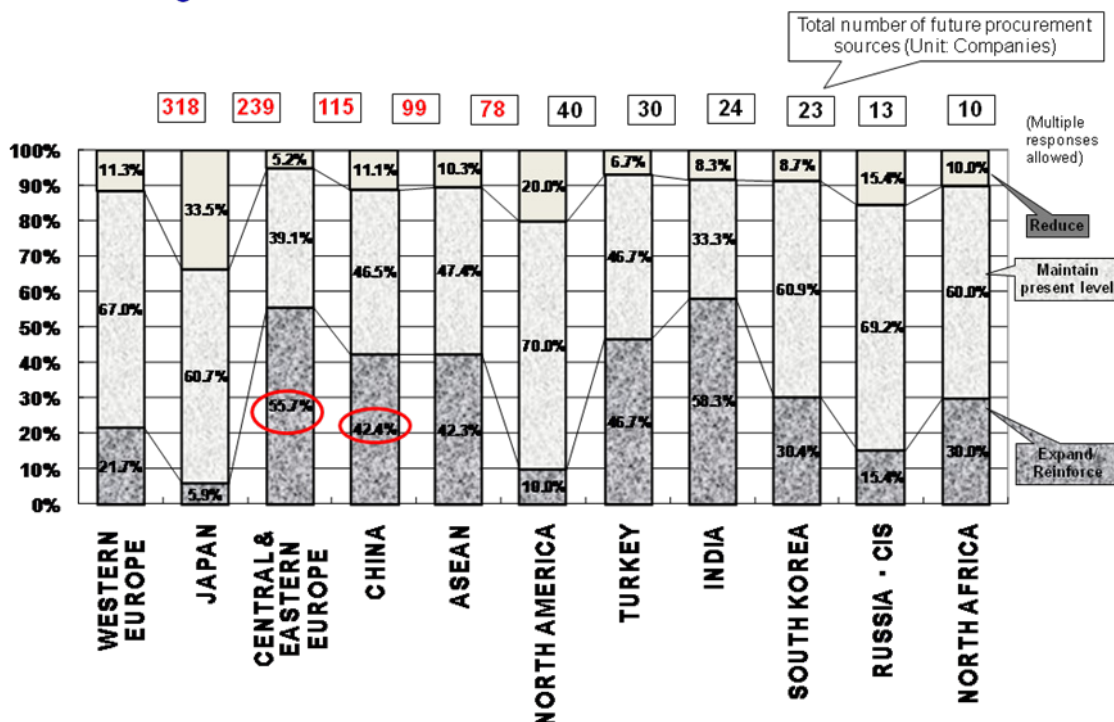


**6. The number of companies procuring materials and parts from Central and Eastern Europe and from China is growing, while the number procuring from Japan is declining**

The number of Japanese manufacturing affiliates located in Western Europe procuring raw materials and parts from Europe is continuing to increase. The number of Japanese affiliates located in Central and Eastern Europe procuring parts and materials from their immediate regions is also growing steadily. However, the number of companies procuring parts and materials in Japan is declining.

Among countries and regions from which 50 companies or more indicated that they would expand future procurement, Central and Eastern Europe was the top choice among companies located in Europe and Turkey, at 55.7% (Diagram 11). Among companies located in Western Europe, China was the top choice at 45.8%, followed very closely by Central and Eastern Europe (45.2%) and ASEAN (44.2%). Among companies located in Central and Eastern Europe, the main choice was Central and Eastern Europe (71.4%). More than 30% of the companies surveyed indicated that they would reduce their level of procurement of parts and materials from Japan. Continuing on from the previous survey, expectations were highest for China and for Central and Eastern Europe as future new sources of parts and materials.

**Diagram 11 Future Parts and Materials Procurement Policies**



**7. More than 40% of companies want a Japan-EU FTA. EU-South Korea FTA seen as major disadvantage for some industries**

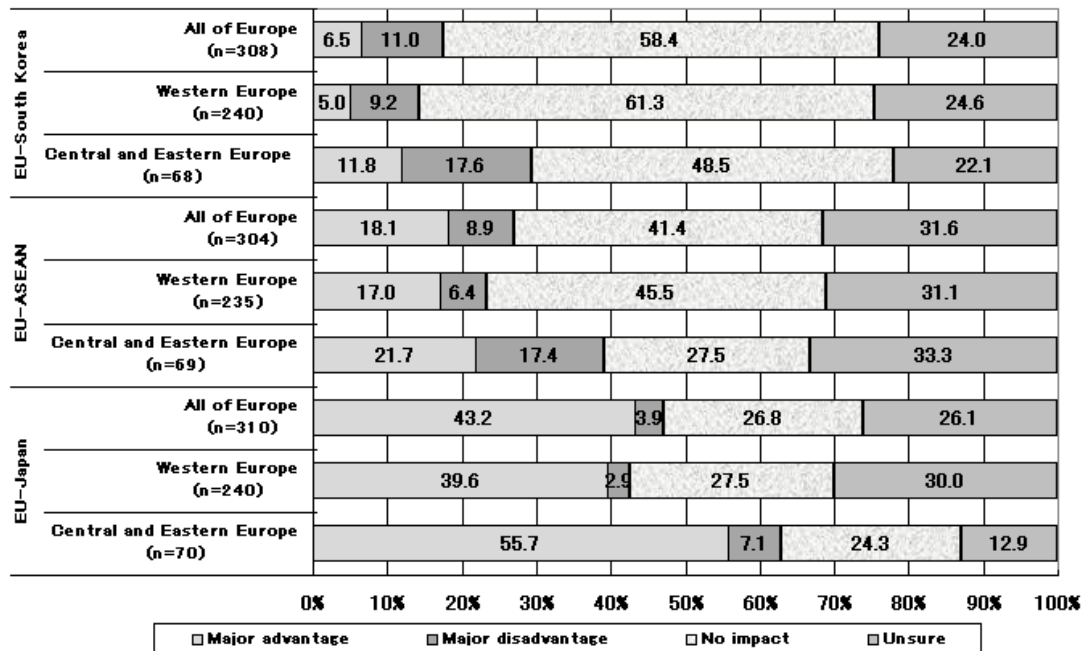
The survey questioned Japanese manufacturing affiliates located in Europe regarding the trend for the EU to actively pursue FTA in 2009 –for example, negotiations were commenced with Canada (May), and an agreement in principle was reached with South Korea (July). The response that the EU-South Korea FTA represented a major disadvantage was remarkable (Diagram 12). Especially among companies involved in transport machinery, electrical and electronic equipment, and other industry types to which high tariffs are applied in the EU. In these sectors, it was feared that the abolition of tariffs in the EU-South Korea FTA would reduce the competitiveness of exports from Japan, as the EU applies high tariffs on vehicle bodies, of between 10% (for passenger cars) and a maximum of 22% (for trucks), and a maximum tariff of 14% on home electronic equipment (televisions, etc.).

At 18.1%, the percentage of companies responding that the EU-ASEAN FTA would represent a major advantage far exceeded the 8.9% responding that it would be a major disadvantage. It is conjectured that the companies viewing the FTA as an advantage anticipate reductions in the cost of procuring parts from ASEAN countries following a tariff reduction on those parts, and those viewing it as a disadvantage fear competition from ASEAN imports. The attitude of companies towards the EU-ASEAN FTA appears to differ considerably depending on where they are positioned in the production process.

As expected, the result for an EU-Japan FTA was very different, with more than 40% of companies (43.2%) regarding such an FTA as a major advantage. In particular, more than half (55.7%) of companies located in Central and Eastern Europe viewed an EU-Japan FTA as a major advantage. However, it is also noteworthy that 7.1% (five companies) of companies located in Central and Eastern Europe regarded a potential EU-Japan FTA as a major disadvantage. This may be because the abolition of tariffs would reduce the significance of locating factories in Central and Eastern Europe (as the parent companies could export directly from Japan), and this could be disadvantage from the point of view of the local factories.

**Diagram 12 Impact of FTA between EU  
 and Asian Countries**

(Unit: %)



### **Survey Method / Noteworthy Points**

This is the 25<sup>th</sup> of a series of surveys that has been conducted annually since 1983 by JETRO centers and offices based in Europe and Turkey.

#### **1. Purpose of the Survey**

This survey analyzes the activities of Japanese manufacturing affiliates operating in Europe and Turkey (managerial issues, sales, procurement of parts and materials, and production setups, impact of the FTAs under negotiation between the EU and other Asian countries, etc.) for the purpose of assisting the implementation of strategic business planning and business activities at the Japanese enterprises.

#### **2. Targets of the Survey**

The survey targeted manufacturing companies in 16 countries in Western Europe (15 EU countries and Switzerland), 10 countries in Central and Eastern Europe (8 EU countries and Serbia and Montenegro), and Turkey, which derive 10% or more of their financing from Japanese companies, both directly and indirectly. Survey recipients also included companies (subsidiaries) set up by Japanese affiliates already operating in Europe or other regions.

\* The survey targets were 16 countries in Western Europe, 10 countries in Central and Eastern Europe, and Turkey. The survey targets in Western, Central, and Eastern Europe were as follows:  
Western Europe: Ireland, Netherlands, Belgium, Luxemburg, Portugal, Finland, Sweden, Denmark, the UK, Germany, France, Italy, Spain, Greece, Austria, and Switzerland;  
Central and Eastern Europe: Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Rumania, Bulgaria, Slovenia, Serbia, and Montenegro.

#### **3. Method of Conducting the Survey**

The survey was conducted by sending an e-mail containing an Internet link (URL) to the online questionnaire form to the respondents and asking them to reply directly online. However, some questionnaire sheets were sent by mail or facsimile. The answers to the surveys sent by mail and facsimile have also been included in the tabulated results.

#### **4. Period of the Survey**

May to June 2009

#### **5. Response Status**

Of the 1,028 Japanese manufacturing affiliates that were identified as active in Europe or Turkey, questionnaires were sent to 557 enterprises that agreed to cooperate in the survey. Of those, responses were received from 389 companies (response rate: 69.8%).

(Note) The number of Japanese manufacturing affiliates was totaled using sources that are considered reliable by the JETRO offices in Europe and Turkey and through the cooperation of each company. However, we do not guarantee the accuracy and comprehensiveness of the information.