

2013 JETRO Survey
Business Conditions of Japanese Companies
in Europe

March 2014

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

Preface

This survey of “Business Conditions of Japanese Companies in Europe” researched and analyzed the business situation (e.g., each company’s business outlook, future business development plans, and managerial issues) of Japanese companies operating in Europe and Turkey. Replacing the survey of “Japanese Manufacturing Affiliates in Europe and Turkey” that had been conducted continuously since 1983¹, starting with fiscal 2012 this survey has expanded the scope of industries surveyed to include both manufacturing and non-manufacturing industries².

We would like to express our great appreciation for the sincere responses received from each company which, over the years, have enabled us to constantly improve both the survey itself and the report on the results. We hope that this report helps the companies and other interested parties understand business development in Europe and Turkey.

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¹ Central and Eastern Europe were added to the survey beginning in 1998, and Turkey was added beginning in 1999.

² In Turkey, only companies in manufacturing industries were surveyed.

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Overview of the Survey

1. Purpose of the Survey

This survey researches, collects data on, and analyzes the activities of Japanese companies operating in Europe and Turkey to make clear the managerial issues and other matters directly impacting their business performance, for the purpose of assisting the implementation of strategic international business planning at Japanese enterprises and policy planning at related agencies. It also is intended to help identify and provide efficient support to the facilities of Japanese companies operating in Europe and Turkey.

2. Targets of the Survey

The survey subjects consisted of Japanese affiliates in 16 nations of Western Europe*, 10 nations of Central and Eastern Europe**, and Turkey, for which the Japanese direct or indirect investment ratio is 10% or more. (For Turkey, the survey targeted Manufacturers only.) This includes companies established by Japanese affiliates operating in Europe or elsewhere (i.e., lower-tier affiliates). Its subjects did not include representative offices, liaison offices, or companies set up by Japanese persons locally.

* 16 nations of Western Europe: UK, Germany, France, Italy, Netherlands, Belgium, Spain, Ireland, Finland, Switzerland, Portugal, Sweden, Austria, Denmark, Greece, Luxembourg

** 10 nations of Central and Eastern Europe: Czech Republic, Hungary, Poland, Romania, Bulgaria, Slovenia, Serbia, Lithuania, Montenegro, Serbia

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 by asking them to reply directly online.

4. Period of the Survey

October 8 through November 12, 2013

5. Response Status

Of the 1,498 Japanese enterprises in Europe or Turkey to which we sent questionnaires, we received responses from 1,000 companies (response rate of 66.8%).

6. Notes on the Survey Results

(1) Survey results were totaled using information sources that can be considered reliable by the JETRO offices in Europe and Turkey. However, we do not guarantee the accuracy and comprehensiveness of the information.

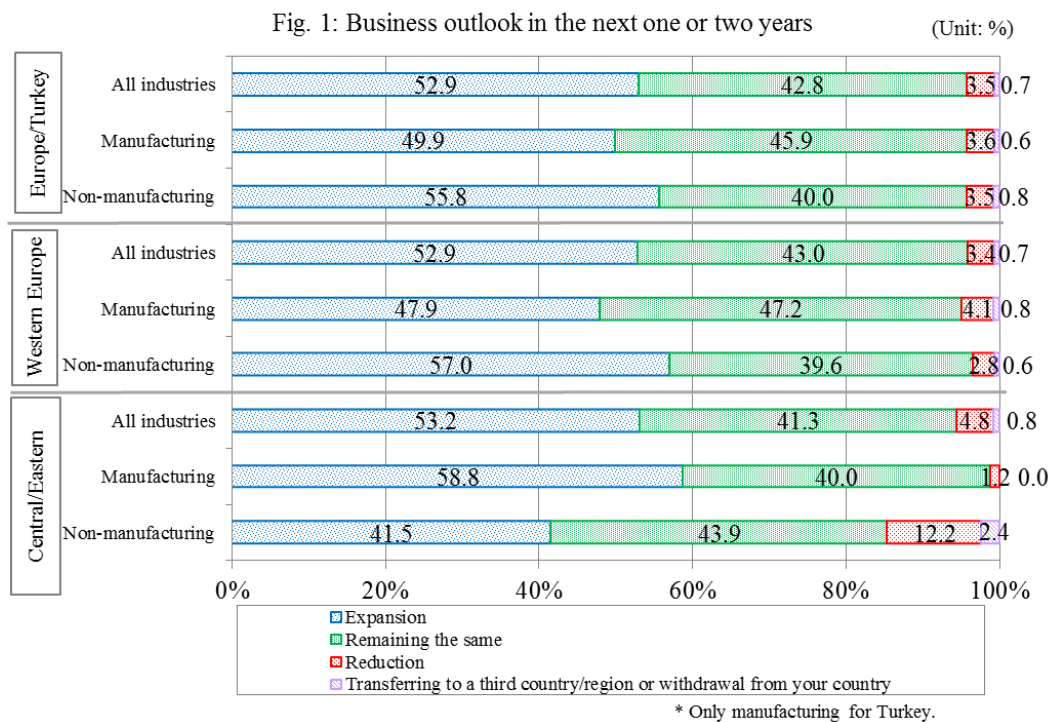
(2) Not all the respondents answered every question. The percentages for questions on which multiple answers were acceptable do not necessarily add up to 100%.

Survey Results

I. Future business outlook

1. Business outlook in the next one or two years

Asked about their business outlook in the next one or two years, from all industries in Europe and Turkey 52.9% of respondents reported expecting “Expansion,” 42.8% “Remaining the same,” 3.5% “Reduction,” and 0.7% “Transferring to a third country/region or withdrawal from your country.” Similarly, in all region and industry categories roughly 40 - 50% of respondents reported outlooks of “Remaining the same” or “Expansion,” respectively.



A look at the responses by industry shows that for Europe and Turkey together the industry with the greatest number of “Expansion” responses was ceramics and cement (85.7%), while for Western Europe it was plastic products (88.9%) and for Central/Eastern Europe and Turkey it was trading companies (64.3%).

Fig. 2: Industries with large numbers of respondents reporting future outlooks of “Expansion” or “Remaining the same” in the next one or two years

Industries with high percentages of respondents answering “Expansion”

| [Europe/Turkey] (Units: cos., %) | | | [Western Europe] (Units: cos., %) | | | [Central/Eastern Europe, Turkey] (Units: cos., %) | | |
|----------------------------------|-----------|------------|-----------------------------------|-----------|------------|--|-----------|------------|
| Industry | Responses | Percentage | Industry | Responses | Percentage | Industry | Responses | Percentage |
| 1 Ceramics and cement | 6 | 85.7 | 1 Plastics products | 8 | 88.9 | 1 Trading company | 9 | 64.3 |
| 2 Clothing and textile products | 4 | 80.0 | 2 Ceramics and cement | 6 | 85.7 | 2 Motor vehicle and motorcycle parts and accessories | 22 | 61.1 |
| 3 Securities | 8 | 72.7 | 3 Rubber products | 4 | 80.0 | 3 Rubber products | 5 | 55.6 |
| 4 Distribution | 5 | 71.4 | 4 Securities | 8 | 72.7 | 4 Electric machinery/electronic hardware | 4 | 50.0 |
| 5 Trading company | 55 | 68.8 | 5 Distribution | 5 | 71.4 | 5 Sales company | 4 | 40.0 |

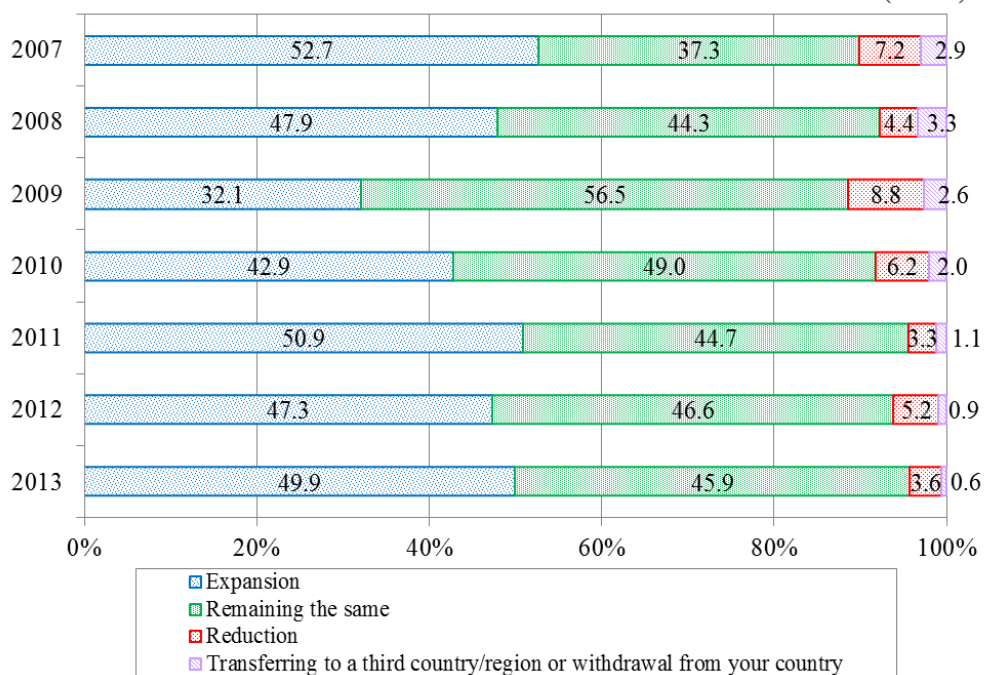
(Note) “Sales companies” refer to manufacturers and other firms that only perform sales, but do not carry out local production.

Industries with high percentages of respondents answering "Remaining the same"

| [Europe/Turkey] (Units: cos., %) | | | | [Western Europe] (Units: cos., %) | | | | [Central/Eastern Europe, Turkey] (Units: cos., %) | | | |
|----------------------------------|---|-----------|------------|-----------------------------------|--|-----------|------------|---|--|-----------|------------|
| | Industry | Responses | Percentage | | Industry | Responses | Percentage | | Industry | Responses | Percentage |
| 1 | Motor vehicles and motorcycles | 15 | 71.4 | 1 | Motor vehicle and motorcycle parts and accessories | 13 | 76.5 | 1 | Transport/warehousing | 6 | 75.0 |
| 2 | Hotel/travel/dining out | 11 | 68.8 | 2 | Hotel/travel/dining out | 10 | 66.7 | 2 | Electric machinery and electronic equipment | 6 | 66.7 |
| 3 | Others/Manufacturing | 12 | 60.0 | 3 | Others/Manufacturing | 12 | 63.2 | 3 | Electric machinery/electronic hardware | 4 | 50.0 |
| 4 | Transport/warehousing | 32 | 56.1 | 4 | Nonferrous metals and products | 3 | 60.0 | 3 | Sales company | 5 | 50.0 |
| 5 | Nonferrous metals and products | 3 | 50.0 | 5 | Motor vehicle and motorcycle parts and accessories | 25 | 55.6 | 5 | Motor vehicle and motorcycle parts and accessories | 14 | 38.9 |
| 5 | Iron and steel (including cast and forged products) | 8 | 50.0 | | | | | | | | |
| 5 | Electric machinery and electronic equipment | 20 | 50.0 | | | | | | | | |
| 5 | Precision equipment | 8 | 50.0 | | | | | | | | |

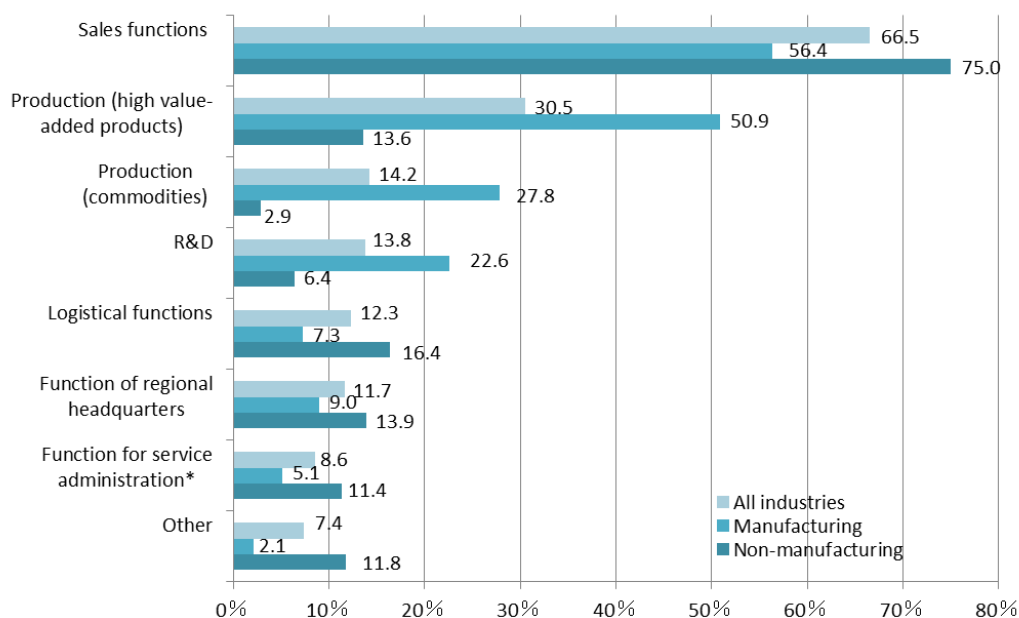
The percentage of Japanese-affiliated manufacturers in Europe reporting future outlooks of "Expansion" in the next one or two years came to 49.9%, representing a 2.6 point increase from the 47.3% in 2012. However, this has not yet returned to the levels from prior to the outbreak of the global financial crisis precipitated by the collapse of Lehman Brothers and the European debt crisis (this was 52.7% in 2007).

Fig. 3: [Manufacturing industry] Business outlook in the next one or two years (Unit: %)



When Japanese affiliates who responded that they expected business “Expansion” over the next one or two years were asked about specific details, in all industry categories the highest percentage of companies reported an expansion in “Sales functions.” In manufacturing industries, the highest percentage, at over 50%, answered an expansion in “Production functions (high value-added products).”

Fig. 4: [Europe/Turkey] Specific functions being expanded (multiple answers) (Unit: %)



* Shared services, call centers, etc.

[Note] Only manufacturing for Turkey.

When asked about the reasons for business expansion in the next one or two years, across all industry categories an overwhelmingly high percentage of anywhere from just under 80% to just under 90% of respondents answered “Sales increase.” The second most commonly cited reason in all industries was “High growth potential.” In manufacturing industries the third highest percentage of respondents reported “High receptivity for high value-added products,” which drew attention.

Fig. 5: [Europe/Turkey] Reasons for business expansion in one or two years (multiple answers)

| "All industries" (Units: cos., %) | | | "Manufacturing" (Units: cos., %) | | | "Non-manufacturing" (Units: cos., %) | | | | | |
|-----------------------------------|--|------------|----------------------------------|-----------|--|--------------------------------------|-----------|------------|--|-----|------|
| | Responses | Percentage | | Responses | Percentage | | Responses | Percentage | | | |
| 1 | Sales increase | 430 | 83.2 | 1 | Sales increase | 208 | 88.5 | 1 | Sales increase | 222 | 78.7 |
| 2 | High growth potential | 193 | 37.3 | 2 | High growth potential | 84 | 35.7 | 2 | High growth potential | 109 | 38.7 |
| 3 | High receptivity for high value-added products | 129 | 25.0 | 3 | High receptivity for high value-added products | 79 | 33.6 | 3 | Reviewing production and sales networks | 62 | 22.0 |
| 4 | Reviewing production and sales networks | 108 | 20.9 | 4 | Reviewing production and sales networks | 46 | 19.6 | 4 | Relationship with clients | 56 | 19.9 |
| 5 | Relationship with clients | 97 | 18.8 | 5 | Relationship with clients | 41 | 17.4 | 5 | High receptivity for high value-added products | 50 | 17.7 |

* Excluding Turkey.

In addition, when Japanese affiliates reporting business outlooks of “Reduction” or “Transferring to a third country/region or withdrawal from your country” in one or two years were asked the reasons why, the answer “Sales decrease” was given by more than 60% of the respondents in all industries. Also, in all industries 46.3% continued to give the answer “Low growth potential.”

Fig. 6: [Europe/Turkey] Reasons for business reduction or transferring to a third country/region or withdrawal in one or two years (multiple answers)

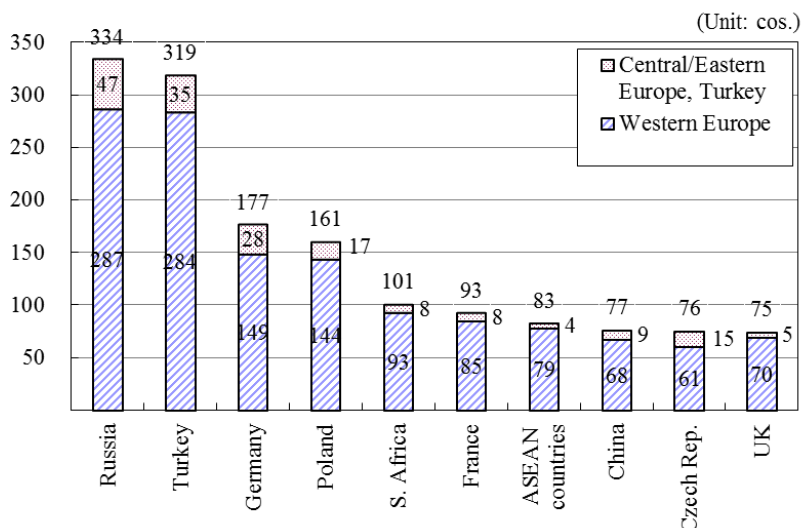
| "All industries" | | (Units: cos., %) | | "Manufacturing" | | (Units: cos., %) | | "Non-manufacturing" | | (Units: cos., %) | |
|------------------|--|------------------|------------|-----------------|--|------------------|------------|---------------------|--|------------------|------------|
| | | Responses | Percentage | | | Responses | Percentage | | | Responses | Percentage |
| 1 | Sales decrease | 26 | 63.4 | 1 | Sales decrease | 14 | 70.0 | 1 | Sales decrease | 12 | 57.1 |
| 2 | Low growth potential | 19 | 46.3 | 2 | Low growth potential | 10 | 50.0 | 2 | Low growth potential | 9 | 42.9 |
| 3 | Increase of costs (e.g., procurement costs, labor costs) | 12 | 29.3 | 3 | Increase of costs (e.g., procurement costs, labor costs) | 7 | 35.0 | 3 | Relationship with clients | 6 | 28.6 |
| 4 | Reviewing production and sales networks | 7 | 17.1 | | | | | 4 | Increase of costs (e.g., procurement costs, labor costs) | 5 | 23.8 |
| 5 | Relationship with clients | 6 | 14.6 | | | | | | | | |

* Excluding Turkey.

2. Promising future sales destinations

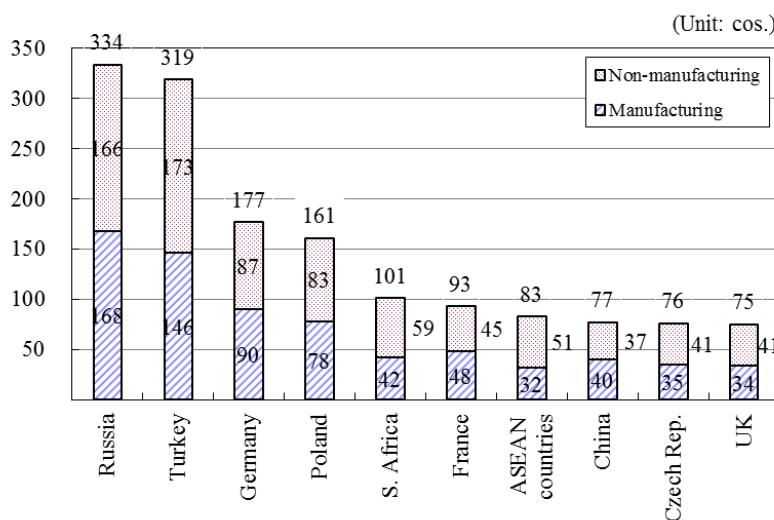
The most commonly cited future sales destination was Russia (given by 334 companies). Next came Turkey (319), Germany (177), Poland (161), South Africa (101), France (93), ASEAN countries (83), China (77), the Czech Republic (76), and the UK (75). Whereas South Africa was in tenth place (66) in the fiscal 2012 survey, it came in fifth place in this fiscal year.

Fig. 7: [Europe/Turkey, all industries] Promising future sales destinations (multiple answers)



A look at responses by industry shows that Russia was most commonly cited (given by 168 companies) by respondents in manufacturing industries, as it was in the fiscal 2012 survey. At the same time Germany, which had been fourth place in the fiscal 2012 survey rose once again to third place (90), while Turkey remained in second place (146). For non-manufacturing industries Turkey came in first place (173) and Russia came in second place (166).

Fig. 8: [Europe/Turkey] Promising future sales destinations (multiple answers)



* Only manufacturing for Turkey.

When respondents were asked the reasons why they considered the regions to which the top five countries belonged to be promising future sales destinations, in every case the highest percentage answered “Because it is a country where growth in demand is expected.” While expectations of growth in demand stood out for Russia/CIS, the Middle East, Central/Eastern Europe, and Africa, when respondents were asked their reasons for choosing Western European countries, a high percentage answered, “Because existing clients have bases in the country/region” and “Because of the good receptivity of high value-added products/services.”

Fig. 9: [Europe/Turkey, all industries] Reasons for choosing future sales destinations
(multiple answers)

Reasons for choosing countries in Russia/CIS (Units: cos., %)

| | | Responses | Percentage |
|---|--|-----------|------------|
| 1 | It is a country where sales growth is expected. | 304 | 84.4 |
| 2 | Existing clients have bases in the country/region. | 79 | 21.9 |
| 3 | New clients have been found in the country/region. | 65 | 18.1 |

Reasons for choosing countries in Middle East (Units: cos., %)

| | | Responses | Percentage |
|---|---|-----------|------------|
| 1 | It is a country where sales growth is expected. | 320 | 84.2 |
| 2 | Existing clients have bases in the country/region. | 95 | 25.0 |
| 3 | Good receptivity of high value-added products/services. | 62 | 16.3 |

Reasons for choosing countries in Western Europe (Units: cos., %)

| | | Responses | Percentage |
|---|---|-----------|------------|
| 1 | It is a country where sales growth is expected. | 174 | 46.9 |
| 2 | Existing clients have bases in the country/region. | 131 | 35.3 |
| 3 | Good receptivity of high value-added products/services. | 122 | 32.9 |

Reasons for choosing countries in Central/Eastern Europe (Units: cos., %)

| | | Responses | Percentage |
|---|--|-----------|------------|
| 1 | It is a country where sales growth is expected. | 216 | 73.2 |
| 2 | Existing clients have bases in the country/region. | 80 | 27.1 |
| 3 | New clients have been found in the country/region. | 68 | 23.1 |

Reasons for choosing countries in Africa (Units: cos., %)

| | | Responses | Percentage |
|---|--|-----------|------------|
| 1 | It is a country where sales growth is expected. | 174 | 81.3 |
| 2 | Existing clients have bases in the country/region. | 53 | 24.8 |
| 3 | New clients have been found in the country/region. | 46 | 21.5 |

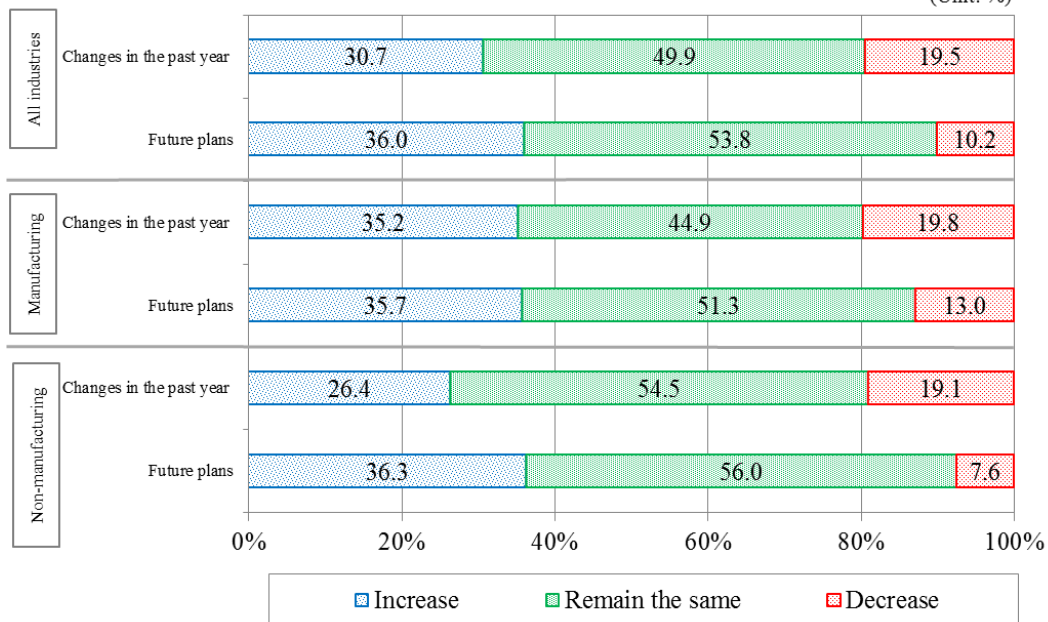
Reasons for choosing other countries (Units: cos., %)

| | | Responses | Percentage |
|---|---|-----------|------------|
| 1 | It is a country where sales growth is expected. | 184 | 77.6 |
| 2 | Existing clients have bases in the country/region. | 72 | 30.4 |
| 3 | Good receptivity of high value-added products/services. | 47 | 19.8 |

3. Changes in the number of employees

When asked about changes in the number of employees in Europe and Turkey, across all regions and industries the highest percentage of respondents reported “No change” both for changes this year compared to last year and for future plans. For non-manufacturing industries in particular those responding “Decrease” for their future plans was low at 7.6%.

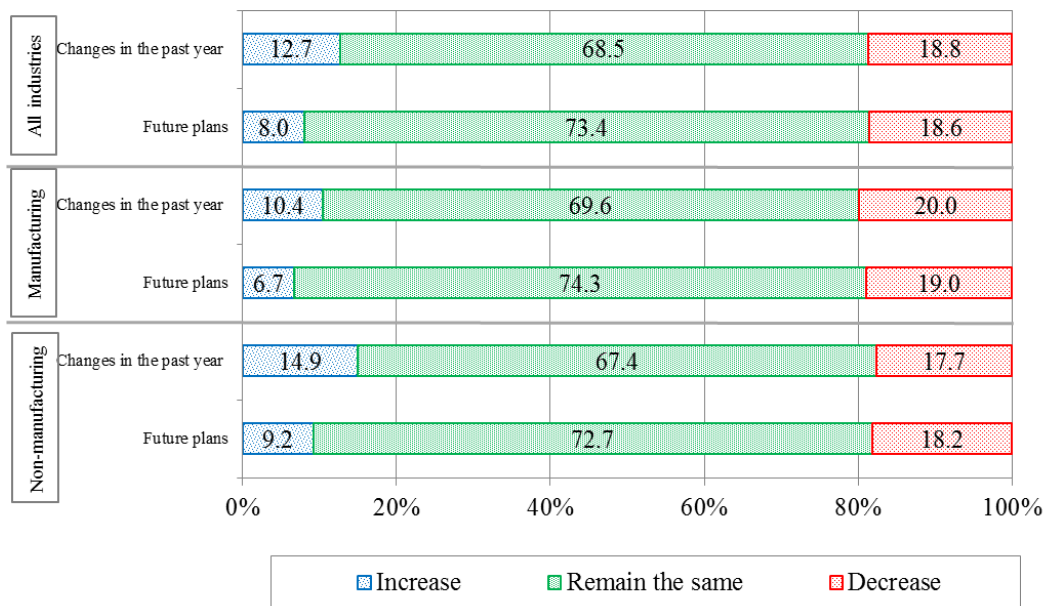
Fig. 10: [Europe/Turkey] Changes in the number of employees this year compared to last year and for future plans (Unit: %)



* Only manufacturing for Turkey.

Similarly, when asked about changes in numbers of Japanese expatriates, a markedly high percentage – around 70% - reported “No change” both for changes this year compared to last year and for future plans across all industries. What is more, across all industries the percentage answering “Increase” for their future plans fell below 10%, while conversely those answering “Decrease” came in at just under 20%.

Fig. 11: [Europe/Turkey] Changes in the number of Japanese expatriates this year compared to last year and for future plans (Unit: %)

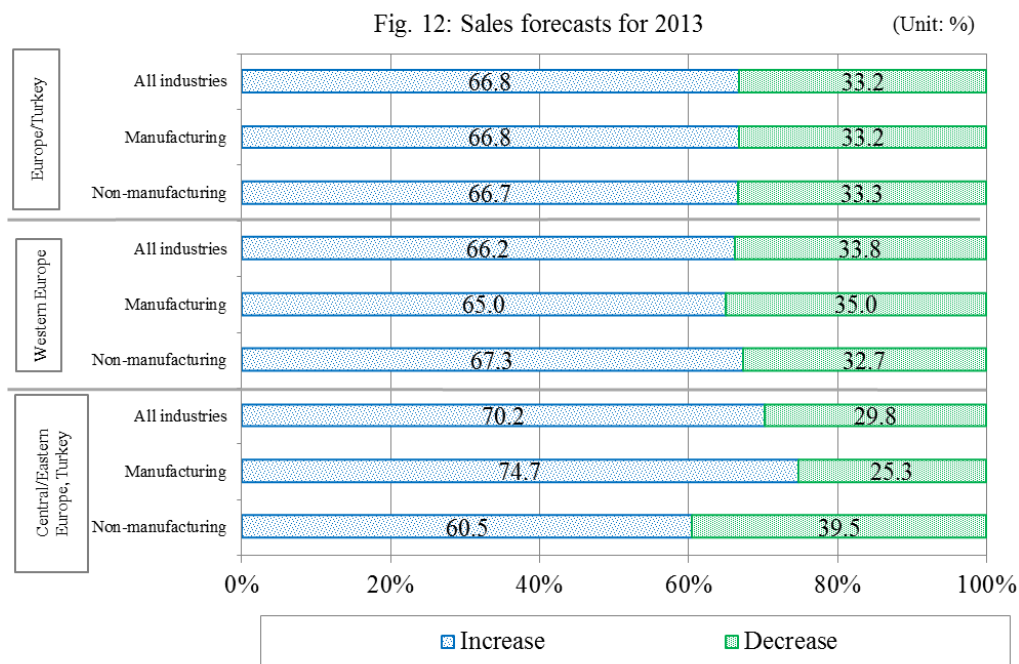


* Only manufacturing for Turkey.

II. Business forecasts

1. Sales forecasts for 2013

A look at sales forecasts for 2013 across all industries in Europe and Turkey shows the number of respondents forecasting increases stands out. For the manufacturing industries in Central and Eastern Europe and Turkey in particular, 74.7% were forecasting an increase, which came to more than 30% higher than the results from the fiscal 2012 survey (40.6%).



* Only manufacturing for Turkey.

When asked about the reasons for these forecasts, for all industries the most common reason given for forecasting a sales increase was “Increase of demand in your country market,” followed by “Improvement of sales system” and “Improvement of quality of your products or service.” Across all industry categories the most commonly given reason for forecasting a sales decrease was “Decrease of demand in your country market.” A comparison of the manufacturing and non-manufacturing industries reveals the difference in that whereas “Rise of a competitor(s) in your country” (27.2%) was the second most commonly given response for the manufacturing industries, for non-manufacturing industries this was “Fall of price of your products or service” (21.3%).

Fig. 13: [Europe/Turkey] Reasons for forecasting sales increase/decrease

Reasons for a sale increase

| "All industries" | | (Units: cos., %) | |
|------------------|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Increase of demand in your country market | 294 | 48.4 |
| 2 | Improvement of sales system | 264 | 43.5 |
| 3 | Improvement of quality of your products or service | 198 | 32.6 |
| 4 | Increase of demand outside your country market | 175 | 28.8 |
| 5 | Raise of price of your products or service | 55 | 9.1 |

| "Manufacturing" | | (Units: cos., %) | |
|-----------------|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Increase of demand in your country market | 142 | 48.0 |
| 2 | Improvement of sales system | 118 | 39.9 |
| 3 | Improvement of quality of your products or service | 103 | 34.8 |
| 4 | Increase of demand outside your country market | 101 | 34.1 |
| 5 | Raise of price of your products or service | 23 | 7.8 |

| "Non-manufacturing" | | (Units: cos., %) | |
|---------------------|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Increase of demand in your country market | 152 | 48.9 |
| 2 | Improvement of sales system | 146 | 46.9 |
| 3 | Improvement of quality of your products or service | 95 | 30.5 |
| 4 | Increase of demand outside your country market | 74 | 23.8 |
| 5 | Raise of price of your products or service | 32 | 10.3 |

* Excluding Turkey.

Reasons for a sales decrease

| "All industries" | | (Units: cos., %) | |
|------------------|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Decrease of demand in your country market | 233 | 77.2 |
| 2 | Fall of price of your products or service | 70 | 23.2 |
| 3 | Rise of a competitor(s) in your country | 65 | 21.5 |
| 4 | Decrease of demand outside your country market | 63 | 20.9 |
| 5 | Deterioration of sales system | 26 | 8.6 |

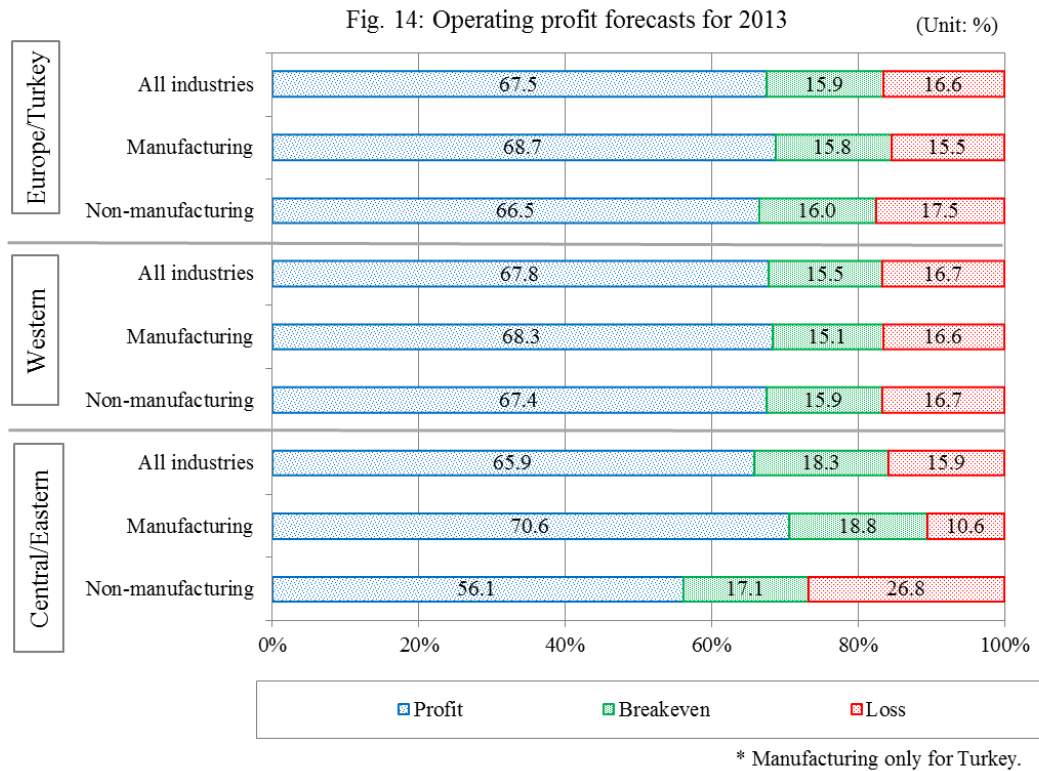
| "Manufacturing" | | (Units: cos., %) | |
|-----------------|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Decrease of demand in your country market | 106 | 72.1 |
| 2 | Rise of a competitor(s) in your country | 40 | 27.2 |
| 3 | Fall of price of your products or service | 37 | 25.2 |
| 4 | Decrease of demand outside your country market | 32 | 21.8 |
| 5 | Deterioration of sales system | 13 | 8.8 |

| "Non-manufacturing" | | (Units: cos., %) | |
|---------------------|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Decrease of demand in your country market | 127 | 81.9 |
| 2 | Fall of price of your products or service | 33 | 21.3 |
| 3 | Decrease of demand outside your country market | 31 | 20.0 |
| 4 | Rise of a competitor(s) in your country | 25 | 16.1 |
| 5 | Deterioration of sales system | 13 | 8.4 |

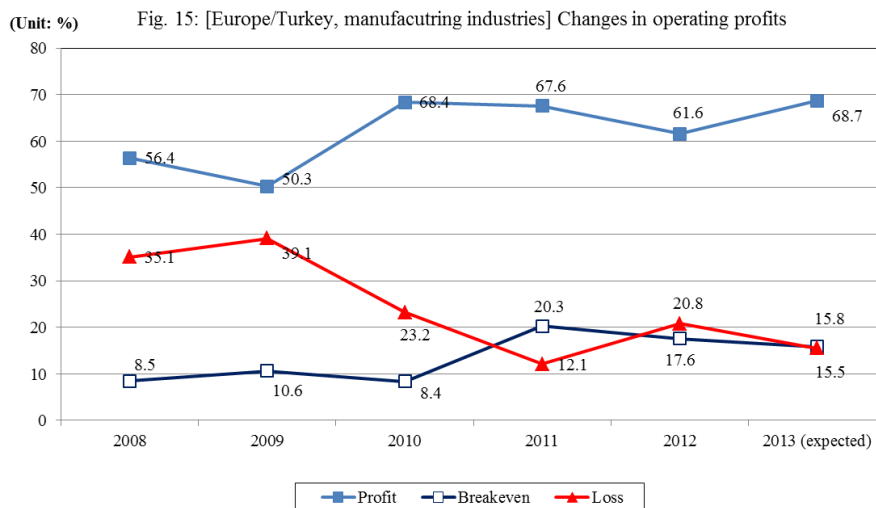
* Excluding Turkey.

2. Operating profit forecasts for 2013

Across all industries in Europe and Turkey, 67.5% of respondents reported operating profit forecasts for 2013 (from January to December) of “Profit,” 15.9% forecasted they would “Breakeven,” and 16.6% forecasted a “Loss.” With regard to Central and Eastern Europe and Turkey, a discrepancy was seen between the 70.6% of manufacturing industries forecasting a profit versus the 56.1% from non-manufacturing industries.



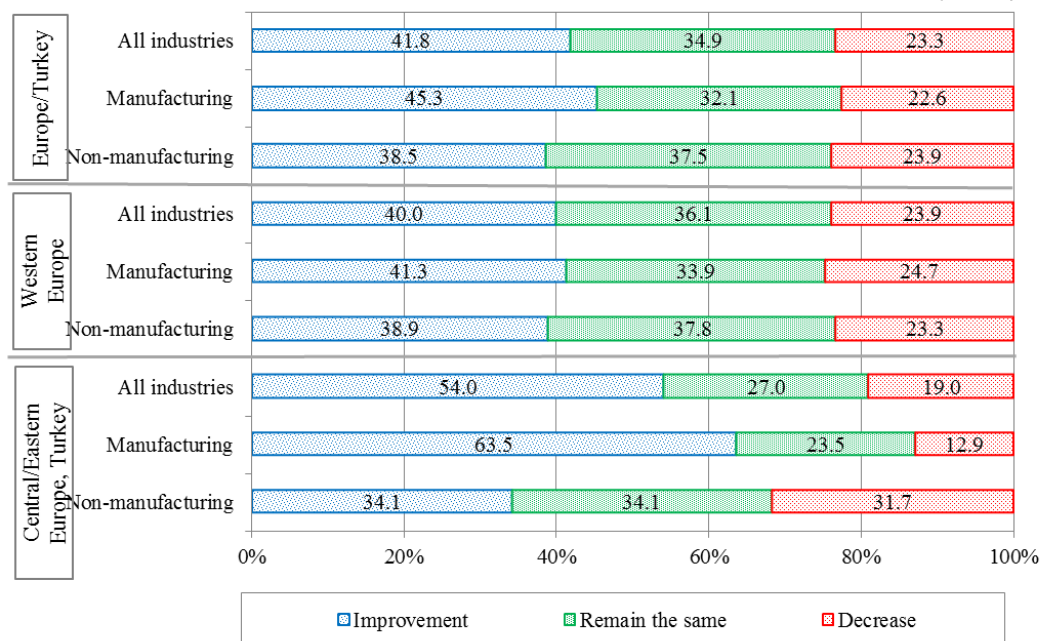
A look at changes over the past six years’ surveys for manufacturing industries shows that while the percentage forecasting losses had been decreasing after peaking in 2009, in 2012 it increased again before once more decreasing in 2013. Signs of recovery can be seen in the fact that compared to 2012, for 2013 the number of respondents forecasting profits rose by 7.1 points while those forecasting losses fell by 5.3 points.



When respondents were asked how their operating profits for 2013 would change compared to the previous year (2012), across all industries in Europe and Turkey 41.8% answered “Increase,” 34.9% answered “Remain the same,” and 23.3% answered “Decrease.” A comparison by region shows that in Central and Eastern Europe and Turkey the number of manufacturing industry respondents forecasting an “Increase” stands out.

A comparison with the operating profit forecasts from the fiscal 2012 survey for manufacturing industries shows an increase in the number of responses forecasting an “Increase.” Substantial improvements were seen in Central and Eastern Europe and Turkey, where it rose by 33.9 points (from 29.6% to 63.5%), versus an increase of 12.4 points (from 28.9% to 41.3%) in Western Europe.

Fig. 16: Expected operating profits in 2013 compared to the previous year's (2012) performance (Unit: %)



*Manufacturing only for Turkey.

When viewed by industry type for Europe and Turkey, more than 60% forecasted an “Increase” in the hotel/travel/dining out, clothing and textile products, and paper and pulp industries. Conversely, transport/warehousing was the industry with the respondents forecasting a “Decrease” at 39.0%, which was the highest percentage.

Fig. 17: [Europe/Turkey] Industries with high percentages of companies forecasting an “Increase” or “Decrease” in operating profit forecasts for 2013 compared to the previous year (2012)

Industries with high percentages of respondents forecasting an “Increase”

| | | (Units: cos., %) | |
|---|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Hotel/travel/dining out | 11 | 68.8 |
| 2 | Clothing and textile products | 3 | 60.0 |
| 2 | Paper and pulp | 3 | 60.0 |
| 4 | Ceramics and cement | 4 | 57.1 |
| 5 | Motor vehicle and motorcycle parts and accessories | 44 | 54.3 |

* Manufacturing only for Turkey.

Industries with high percentages of respondents forecasting a “Decrease”

| | | (Units: cos., %) | |
|---|-----------------------|------------------|------------|
| | | Responses | Percentage |
| 1 | Transport/warehousing | 23 | 39.0 |
| 2 | Precision equipment | 6 | 37.5 |
| 3 | Plastic products | 4 | 33.3 |
| 3 | Construction/plant | 4 | 33.3 |
| 5 | Others Manufacturing | 6 | 30.0 |

* Manufacturing only for Turkey.

A look at the reasons for expecting an “Increase” in operating profit forecasts for 2013 across all industries in Europe and Turkey shows that at 59.1% the highest percentage chose the answer “Sales increase in your country.” What is more, nearly 30% chose the answer “Sales increase due to expansion of exports.” Among reasons for expecting a “Decrease,” the number one reason chosen was a “Sales decrease in your country” (60.1%). “Sales increase/decrease in your country” is the largest reason given for both “Increase” and “Decrease”.

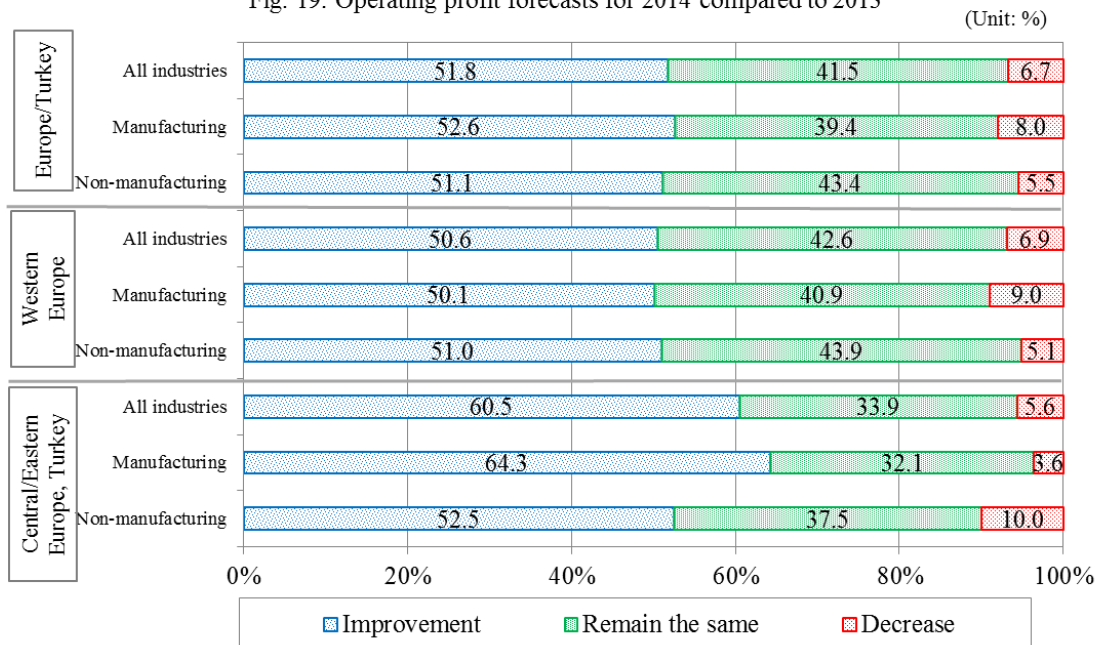
Fig. 18: [Europe/Turkey, all industries] Reasons for expecting an “Increase” or “Decrease” in operating profit forecasts for 2013 compared to the previous year (2012) (multiple answers)

| Reasons for forecasting an “Increase” (Units: cos., %) | | | | Reasons for forecasting a “Decrease” (Units: cos., %) | | | |
|--|---|-----------|------------|---|---|-----------|------------|
| | | Responses | Percentage | | | Responses | Percentage |
| 1 | Sales increase in your country | 241 | 59.1 | 1 | Sales decrease in your country | 137 | 60.1 |
| 2 | Sales increase due to expansion of exports | 124 | 30.4 | 2 | Sales decrease due to slowdown of exports | 59 | 25.9 |
| 3 | Decrease in personnel costs | 101 | 24.8 | 3 | Costs insufficiently passed along in sales prices | 47 | 20.6 |
| 4 | Reduction of other expenditures (e.g., management, administrative and energy costs) | 98 | 24.0 | 4 | Other | 45 | 19.7 |
| 5 | Exchange rate fluctuations | 94 | 23.0 | 5 | Rise in personnel costs | 39 | 17.1 |

3. Operating profit forecasts for 2014 compared to 2013

When respondents were asked how their operating profits for 2014 would change compared to 2013, across all industries in Europe and Turkey 51.8% answered “Increase” (up 12.9 points from last year), 41.5% answered “Remain the same” (down 2.9 points from last year), and 6.7% answered “Decrease” (down 10.0 points from last year).

Fig. 19: Operating profit forecasts for 2014 compared to 2013



* Manufacturing only for Turkey.

A look at results by industry in Europe and Turkey shows that 75.0% of respondents in the plastic products industry expect an “Increase,” as do 65.0% of those in the electric machinery and electronic equipment industry. On the other hand, there were some industries such as medical devices and foods, processed agricultural or marine products in which high percentages of respondents forecast a “Decrease,” although such responses came to no more than 30% in each case.

Fig. 20: [Europe/Turkey] Industries with high percentages of companies forecasting an “Increase” or “Decrease” in operating profit forecasts for 2014 compared to 2013 (multiple answers)

Industries with high percentages of respondents forecasting an “Increase”

(Units: cos., %)

| | Responses | Percentage |
|---|-----------|------------|
| 1 Plastic products | 9 | 75.0 |
| 2 Electric machinery and electronic equipment | 26 | 65.0 |
| 3 Rubber products | 9 | 64.3 |
| 4 Trading company | 51 | 63.8 |
| 5 Medical devices | 5 | 62.5 |

* Manufacturing only for Turkey.

Industries with high percentages of respondents forecasting a “Decrease”

(Units: cos., %)

| | Responses | Percentage |
|---|-----------|------------|
| 1 Medical devices | 2 | 25.0 |
| 2 Foods, processed agricultural or marine products | 5 | 23.8 |
| 3 Paper and pulp | 1 | 20.0 |
| 4 Ceramics and cement | 1 | 14.3 |
| 5 Iron and steel (including cast and forged products) | 2 | 12.5 |
| 5 Precision equipment | 2 | 12.5 |

* Manufacturing only for Turkey.

A look at the results by country shows that Sweden had the highest percentage of respondents expecting an “Increase” in operating profit forecasts for 2014, at 71.4%. The next highest percentages

were in the Czech Republic, Portugal, Ireland, and Austria. As for the percentage of respondents forecasting a “Decrease,” just like with for “Increase” Sweden was the first place country, though the percentage of such respondents was low at 21.4%. This was followed by France (second place) and Poland (third place).

Fig. 21: [Europe/Turkey, all industries] Countries with high percentages of companies forecasting an “Increase” or “Decrease” in operating profit forecasts for 2014 compared to 2013

Countries with high percentages of respondents forecasting an "Increase"

(Units: cos., %)

| | | Responses | Percentage |
|---|------------|-----------|------------|
| 1 | Sweden | 10 | 71.4 |
| 2 | Czech Rep. | 27 | 71.1 |
| 3 | Portugal | 11 | 68.8 |
| 4 | Ireland | 13 | 61.9 |
| 5 | Austria | 8 | 61.5 |

Countries with high percentages of respondents forecasting a "Decrease"

(Units: cos., %)

| | | Responses | Percentage |
|---|---------|-----------|------------|
| 1 | Sweden | 3 | 21.4 |
| 2 | France | 13 | 17.3 |
| 3 | Poland | 3 | 11.1 |
| 4 | Ireland | 2 | 9.5 |
| 5 | Italy | 5 | 8.2 |

A look at reasons for expecting an “Increase” in operating profit forecasts for 2014 compared to 2013 across all industries in Europe and Turkey shows that the highest percentage chose the answer “Sales increase in your country.” Among reasons for expecting a “Decrease,” the highest percentage chose the answer “Sales decrease in your country.”

Fig. 22: [Europe/Turkey, all industries] Reasons for expecting an “Increase” or “Decrease” in operating profit forecasts for 2014 compared to 2013 (multiple answers)

Reasons for forecasting “Increase”

(Units: cos., %)

| | | Responses | Percentage |
|---|---|-----------|------------|
| 1 | Sales increase in your country | 347 | 68.3 |
| 2 | Sales increase due to expansion of exports | 172 | 33.9 |
| 3 | Improvement of sales efficiency | 135 | 26.6 |
| 4 | Reduction of other expenditures (e.g., management, administrative and energy costs) | 105 | 20.7 |
| 5 | Decrease in procurement costs | 90 | 17.7 |

Reasons for forecasting “Decrease”

(Units: cos., %)

| | | Responses | Percentage |
|---|---|-----------|------------|
| 1 | Sales decrease in your country | 39 | 60.0 |
| 2 | Sales decrease due to slowdown of exports | 18 | 27.7 |
| 3 | Other | 12 | 18.5 |
| 4 | Rise in personnel costs | 11 | 16.9 |
| 4 | Costs insufficiently passed along in sales prices | 11 | 16.9 |

III. Challenges in management

1. Challenges in management

The greatest challenge was “Economic slowdown, market contraction” at 45.7%. Compared to the survey from fiscal 2012, the response “High labor costs” rose 6.5 points from 33.4% to 39.9%, while the response “Difficulty in securing good workers” rose 7.9 points from 29.9% to 37.8% as challenges related to human resources begin to surface.

Fig. 23: [Europe/Turkey, all industries] Challenges in management (multiple answers)

"All industries"

(Units: cos., %)

| | | Responses | Percentage |
|---|---------------------------------------|-----------|------------|
| 1 | Economic slowdown, market contraction | 430 | 45.7 |
| 2 | High labor costs | 375 | 39.9 |
| 3 | Difficulty in securing good workers | 356 | 37.8 |
| 4 | Exchange rate fluctuations | 345 | 36.7 |
| 4 | Lower prices offered by competitors | 345 | 36.7 |
| 6 | Transfer pricing taxation | 309 | 32.8 |
| 7 | Entry of new competitors | 307 | 32.6 |
| 8 | Stringent dismissal laws | 299 | 31.8 |
| 9 | Heavy social security burdens | 259 | 27.5 |
| 9 | Visa/work permits | 251 | 26.7 |

A look at the results by industry shows that in manufacturing industries the highest percentage cited “Economic slowdown, market contraction” (48.3%), followed by “Exchange rate fluctuations” (44.3%), and “Lower prices offered by competitors” (43.4%). On the other hand, in non-manufacturing industries the highest percentage cited “Economic slowdown, market contraction” (43.3%), followed by “Difficulty in securing good workers” (41.1%), and “High labor costs” (37.6%).

Fig. 24: [Europe/Turkey, all industries] Challenges in management (multiple answers)

| "Manufacturing" | | | | "Non-manufacturing" | | | |
|------------------|---------------------------------------|-----------|------------|---------------------|--|-----------|------------|
| (Units: cos., %) | | | | (Units: cos., %) | | | |
| | | Responses | Percentage | | | Responses | Percentage |
| 1 | Economic slowdown, market contraction | 217 | 48.3 | 1 | Economic slowdown, market contraction | 213 | 43.3 |
| 2 | Exchange rate fluctuations | 199 | 44.3 | 2 | Difficulty in securing good workers | 202 | 41.1 |
| 3 | Lower prices offered by competitors | 195 | 43.4 | 3 | High labor costs | 185 | 37.6 |
| 4 | High labor costs | 190 | 42.3 | 4 | Entry of new competitors | 163 | 33.1 |
| 5 | Transfer pricing taxation | 159 | 35.4 | 5 | Stringent dismissal laws | 161 | 32.7 |
| 6 | Difficulty in securing good workers | 154 | 34.3 | 6 | Transfer pricing taxation | 150 | 30.5 |
| 7 | Entry of new competitors | 144 | 32.1 | 7 | Lower prices offered by competitors | 150 | 30.5 |
| 8 | Stringent dismissal laws | 138 | 30.7 | 8 | Exchange rate fluctuations | 146 | 29.7 |
| 9 | Heavy social security burdens | 137 | 30.5 | 9 | Visa/work permits | 138 | 28.0 |
| 10 | Procurement costs | 129 | 28.7 | 10 | European political and social conditions | 130 | 26.4 |

* Excluding Turkey.

A look at the results by region shows that in Western Europe the highest percentage among all industries cited “Economic slowdown, market contraction” (44.9%). A look at issues cited in manufacturing industries in the countries with the three highest numbers of respondent firms shows that the most commonly cited answer in the UK was “Exchange rate fluctuations” (48.7%), while “High labor costs” were cited most often in Germany and France (51.0% and 75.0%, respectively). In non-manufacturing industries, the most common answer in both the UK and Germany was “Difficulty in securing good workers” (50.3% and 43.1%, respectively), while “Heavy social security burdens” was the most cited answer in France (55.6%).

Fig. 25: [Western Europe] Challenges in management

All industries in Western Europe (Units: cos., %)

| | | Responses | Percentage |
|----|---|-----------|------------|
| 1 | Economic slowdown, market contraction | 370 | 44.9 |
| 2 | High labor costs | 366 | 44.4 |
| 3 | Difficulty in securing good workers | 305 | 37.0 |
| 4 | Lower prices offered by competitors | 293 | 35.6 |
| 5 | Exchange rate fluctuations | 288 | 35.0 |
| 6 | Transfer pricing taxation | 280 | 34.0 |
| 7 | Stringent dismissal laws | 273 | 33.1 |
| 8 | Entry of new competitors | 266 | 32.3 |
| 9 | Heavy social security burdens | 228 | 27.7 |
| 10 | Quality of workforce | 209 | 25.4 |
| 11 | Visa/work permits | 205 | 24.9 |
| 12 | European political and social conditions | 202 | 24.5 |
| 13 | Procurement costs | 153 | 18.6 |
| 14 | REACH | 148 | 18.0 |
| 15 | Deliveries | 137 | 16.6 |
| 16 | High labor cost growth rate | 130 | 15.8 |
| 16 | Collection of receivables | 130 | 15.8 |
| 16 | Better quality of products offered by competitors | 130 | 15.8 |
| 19 | Procedures for VAT refunds are complex and/or lack transparency | 120 | 14.6 |
| 20 | Change in tax rate | 103 | 12.5 |

Manufacturing industries in Western Europe (Units: cos., %)

| | | Responses | Percentage |
|----|---|-----------|------------|
| 1 | High labor costs | 183 | 49.6 |
| 1 | Economic slowdown, market contraction | 183 | 49.6 |
| 3 | Lower prices offered by competitors | 157 | 42.5 |
| 4 | Exchange rate fluctuations | 155 | 42.0 |
| 5 | Transfer pricing taxation | 135 | 36.6 |
| 6 | Stringent dismissal laws | 124 | 33.6 |
| 7 | Entry of new competitors | 122 | 33.1 |
| 8 | Difficulty in securing good workers | 116 | 31.4 |
| 9 | Heavy social security burdens | 114 | 30.9 |
| 10 | Procurement costs | 106 | 28.7 |
| 11 | Quality of workforce | 93 | 25.2 |
| 12 | European political and social conditions | 85 | 23.0 |
| 13 | Deliveries | 83 | 22.5 |
| 13 | REACH | 83 | 22.5 |
| 15 | Visa/work permits | 81 | 22.0 |
| 16 | High labor cost growth rate | 70 | 19.0 |
| 17 | Better quality of products offered by competitors | 65 | 17.6 |
| 18 | Collection of receivables | 57 | 15.4 |
| 19 | Quality | 52 | 14.1 |
| 20 | Union activities/strike | 49 | 13.3 |
| 20 | Shortage of domestic procurement sources | 49 | 13.3 |

Non-manufacturing industries in Western Europe (Units: cos., %)

| | | Responses | Percentage |
|----|---|-----------|------------|
| 1 | Difficulty in securing good workers | 189 | 41.5 |
| 2 | Economic slowdown, market contraction | 187 | 41.1 |
| 3 | High labor costs | 183 | 40.2 |
| 4 | Stringent dismissal laws | 149 | 32.7 |
| 5 | Transfer pricing taxation | 145 | 31.9 |
| 6 | Entry of new competitors | 144 | 31.6 |
| 7 | Lower prices offered by competitors | 136 | 29.9 |
| 8 | Exchange rate fluctuations | 133 | 29.2 |
| 9 | Visa/work permits | 124 | 27.3 |
| 10 | European political and social conditions | 117 | 25.7 |
| 11 | Quality of workforce | 116 | 25.5 |
| 12 | Heavy social security burdens | 114 | 25.1 |
| 13 | Procedures for VAT refunds are complex and/or lack transparency | 75 | 16.5 |
| 14 | Change in tax rate | 74 | 16.3 |
| 15 | Collection of receivables | 73 | 16.0 |
| 16 | Better quality of products offered by competitors | 65 | 14.3 |
| 16 | REACH | 65 | 14.3 |
| 18 | High labor cost growth rate | 60 | 13.2 |
| 19 | Frequent legislation revisions | 54 | 11.9 |
| 19 | Deliveries | 54 | 11.9 |

Fig. 26: Challenges in management in leading Western European countries

"Manufacturing"

| UK | | (%) | Germany | | (%) | France | | (%) |
|----|---|------|---------|---|------|--------|---|------|
| 1 | Exchange rate fluctuations | 48.7 | 1 | High labor costs | 51.0 | 1 | High labor costs | 75.0 |
| 2 | Economic slowdown, market contraction | 45.1 | 2 | Transfer pricing taxation | 49.0 | 2 | Heavy social security burdens | 61.4 |
| 3 | High labor costs | 38.1 | 3 | Economic slowdown, market contraction | 45.9 | 3 | Stringent dismissal laws | 59.1 |
| 4 | Lower prices offered by competitors | 36.3 | 4 | Lower prices offered by competitors | 44.9 | 4 | Lower prices offered by competitors | 54.5 |
| 5 | Difficulty in securing good workers | 34.5 | 5 | Exchange rate fluctuations | 39.8 | 5 | Economic slowdown, market contraction | 52.3 |
| 6 | Transfer pricing taxation | 33.6 | 6 | Difficulty in securing good workers | 34.7 | 6 | Quality of workforce | 36.4 |
| 7 | Visa/work permits | 32.7 | 7 | Stringent dismissal laws | 30.6 | 7 | Entry of new competitors | 36.4 |
| 8 | Procurement costs | 30.1 | 8 | Entry of new competitors | 28.6 | 8 | Visa/work permits | 31.8 |
| 8 | Entry of new competitors | 30.1 | 9 | High labor cost growth rate | 26.5 | 8 | Transfer pricing taxation | 31.8 |
| 10 | Heavy social security burdens | 23.0 | 9 | Procurement costs | 26.5 | 8 | Difficulty in securing good workers | 31.8 |
| 10 | Deliveries | 23.0 | 11 | Better quality of products offered by competitors | 24.5 | 8 | Exchange rate fluctuations | 31.8 |
| 10 | REACH | 23.0 | 11 | REACH | 24.5 | 8 | Procurement costs | 31.8 |
| 13 | Stringent dismissal laws | 21.2 | 13 | Quality of workforce | 23.5 | 8 | European political and social conditions | 31.8 |
| 13 | Quality of workforce | 21.2 | 14 | Deliveries | 22.4 | 14 | Union activities/strike | 29.5 |
| 13 | European political and social conditions | 21.2 | 14 | European political and social conditions | 22.4 | 15 | REACH | 25.0 |
| 16 | High labor cost growth rate | 17.7 | 16 | Heavy social security burdens | 17.3 | 16 | Deliveries | 20.5 |
| 17 | Frequent legislation revisions | 15.9 | 17 | Quality | 15.3 | 17 | Frequent legislation revisions | 18.2 |
| 18 | Procedures for VAT refunds are complex and/or lack transparency | 13.3 | 18 | Collection of receivables | 14.3 | 18 | Change in tax rate | 15.9 |
| 19 | Quality | 12.4 | 19 | Procedures for VAT refunds are complex and/or lack transparency | 13.3 | 19 | Collection of receivables | 13.6 |
| 19 | Shortage of domestic procurement sources | 12.4 | 19 | RoHS | 13.3 | 20 | Customs clearance issues | 11.4 |
| | | | | | | 20 | Complicated administrative procedures and/or lack of transparency | 11.4 |
| | | | | | | 20 | Quality | 11.4 |
| | | | | | | 20 | Better quality of products offered by competitors | 11.4 |

"Non-manufacturing"

| UK | | (%) | Germany | | (%) | France | | (%) |
|----|---|------|---------|---|------|--------|---|------|
| 1 | Difficulty in securing good workers | 50.3 | 1 | Difficulty in securing good workers | 43.1 | 1 | Heavy social security burdens | 55.6 |
| 2 | Visa/work permits | 39.2 | 2 | Economic slowdown, market contraction | 42.2 | 2 | Economic slowdown, market contraction | 51.9 |
| 3 | Exchange rate fluctuations | 34.6 | 3 | High labor costs | 41.2 | 3 | Stringent dismissal laws | 48.1 |
| 4 | Transfer pricing taxation | 33.3 | 4 | Transfer pricing taxation | 39.2 | 4 | Difficulty in securing good workers | 44.4 |
| 5 | Economic slowdown, market contraction | 31.4 | 5 | Entry of new competitors | 38.2 | 5 | Visa/work permits | 40.7 |
| 6 | High labor costs | 29.4 | 6 | Stringent dismissal laws | 34.3 | 5 | High labor costs | 40.7 |
| 7 | Entry of new competitors | 28.8 | 6 | Lower prices offered by competitors | 34.3 | 7 | Quality of workforce | 33.3 |
| 8 | Stringent dismissal laws | 23.5 | 8 | Exchange rate fluctuations | 33.3 | 8 | Lower prices offered by competitors | 29.6 |
| 9 | Quality of workforce | 22.9 | 9 | Quality of workforce | 26.5 | 9 | Transfer pricing taxation | 25.9 |
| 10 | European political and social conditions | 19.6 | 10 | Procedures for VAT refunds are complex and/or lack transparency | 25.5 | 9 | European political and social conditions | 25.9 |
| 11 | Change in tax rate | 18.3 | 11 | REACH | 23.5 | 11 | Frequent legislation revisions | 22.2 |
| 12 | Lower prices offered by competitors | 17.6 | 12 | Heavy social security burdens | 19.6 | 11 | Change in tax rate | 22.2 |
| 13 | High labor cost growth rate | 15.0 | 12 | Collection of receivables | 19.6 | 11 | Procedures for VAT refunds are complex and/or lack transparency | 22.2 |
| 14 | Frequent legislation revisions | 13.7 | 12 | Better quality of products offered by competitors | 19.6 | 11 | Exchange rate fluctuations | 22.2 |
| 15 | Other (regulations) | 13.1 | 15 | European political and social conditions | 18.6 | 11 | Entry of new competitors | 22.2 |
| 16 | Deliveries | 12.4 | 16 | Deliveries | 13.7 | 16 | Customs clearance issues | 18.5 |
| 17 | Better quality of products offered by competitors | 11.8 | 16 | RoHS | 13.7 | 16 | REACH | 18.5 |
| 18 | Procurement costs | 11.1 | 18 | Customs clearance issues | 10.8 | 18 | Complicated administrative procedures and/or lack of transparency | 14.8 |
| 18 | REACH | 11.1 | 19 | High labor cost growth rate | 9.8 | 18 | Complicated administrative procedures and/or lack of transparency | 14.8 |
| 20 | Inflation | 10.5 | 20 | Visa/work permits | 8.8 | 18 | Collection of receivables | 14.8 |
| 20 | Real estate bubble/steep rise in land prices | 10.5 | | | | 18 | Procurement costs | 14.8 |
| | | | | | | 18 | RoHS | 14.8 |

In Central and Eastern Europe and Turkey, the most commonly cited answer was “Economic slowdown, market contraction” (51.3%). A look at issues cited in manufacturing industries in the countries with the three highest numbers of respondent firms shows that the most commonly cited answer in the Czech Republic was “Visa/work permits” and “Difficulty in securing good workers” (both at 66.7%), while “Exchange rate fluctuations” was cited most often in Hungary and Poland (62.5% and 60.0%, respectively). In non-manufacturing industries, the most common answer in the Czech Republic was “Visa/work permits” (100.0%), while “Entry of new competitors” was cited most often in Hungary (60.0%) and “Economic slowdown, market contraction” was the most cited answer in Poland (81.8%).

Fig. 27: [Central and Eastern Europe/Turkey] Challenges in management

All industries in Central/Eastern Europe and Turkey (Units: cos., %)

| | | Responses | Percentage |
|----|--|-----------|------------|
| 1 | Economic slowdown, market contraction | 60 | 51.3 |
| 2 | Exchange rate fluctuations | 57 | 48.7 |
| 3 | Lower prices offered by competitors | 52 | 44.4 |
| 4 | Difficulty in securing good workers | 51 | 43.6 |
| 5 | Visa/work permits | 46 | 39.3 |
| 6 | Entry of new competitors | 41 | 35.0 |
| 7 | Highways | 37 | 31.6 |
| 8 | European political and social conditions | 35 | 29.9 |
| 9 | Quality of workforce | 34 | 29.1 |
| 10 | Frequent legislation revisions | 33 | 28.2 |
| 11 | Customs clearance issues | 32 | 27.4 |
| 11 | Procurement costs | 32 | 27.4 |
| 11 | Shortage of domestic procurement sources | 32 | 27.4 |
| 14 | Heavy social security burdens | 31 | 26.5 |
| 15 | General road conditions | 30 | 25.6 |
| 16 | Transfer pricing taxation | 29 | 24.8 |
| 16 | High labor cost growth rate | 29 | 24.8 |
| 16 | Quality | 29 | 24.8 |
| 19 | Stringent dismissal laws | 26 | 22.2 |
| 20 | Change in tax rate | 24 | 20.5 |

Manufacturing industries in Central/Eastern Europe and Turkey (Units: cos., %)

| | | Responses | Percentage |
|----|---|-----------|------------|
| 1 | Exchange rate fluctuations | 44 | 55.0 |
| 2 | Difficulty in securing good workers | 38 | 47.5 |
| 2 | Lower prices offered by competitors | 38 | 47.5 |
| 4 | Economic slowdown, market contraction | 34 | 42.5 |
| 5 | Visa/work permits | 32 | 40.0 |
| 6 | Shortage of domestic procurement sources | 28 | 35.0 |
| 7 | Quality of workforce | 26 | 32.5 |
| 8 | Customs clearance issues | 24 | 30.0 |
| 8 | Transfer pricing taxation | 24 | 30.0 |
| 8 | Quality | 24 | 30.0 |
| 11 | Heavy social security burdens | 23 | 28.8 |
| 11 | Procurement costs | 23 | 28.8 |
| 13 | Entry of new competitors | 22 | 27.5 |
| 13 | European political and social conditions | 22 | 27.5 |
| 15 | Frequent legislation revisions | 21 | 26.3 |
| 15 | High labor cost growth rate | 21 | 26.3 |
| 15 | General road conditions | 21 | 26.3 |
| 15 | Highways | 21 | 26.3 |
| 19 | Change in tax rate | 17 | 21.3 |
| 19 | Procedures for VAT refunds are complex and/or lack transparency | 17 | 21.3 |

Non-manufacturing industries in Central/Eastern Europe and Turkey (Units: cos., %)

| | | Responses | Percentage |
|----|---|-----------|------------|
| 1 | Economic slowdown, market contraction | 26 | 70.3 |
| 2 | Entry of new competitors | 19 | 51.4 |
| 3 | Highways | 16 | 43.2 |
| 4 | Visa/work permits | 14 | 37.8 |
| 4 | Lower prices offered by competitors | 14 | 37.8 |
| 6 | Difficulty in securing good workers | 13 | 35.1 |
| 6 | Exchange rate fluctuations | 13 | 35.1 |
| 6 | European political and social conditions | 13 | 35.1 |
| 9 | Frequent legislation revisions | 12 | 32.4 |
| 9 | Stringent dismissal laws | 12 | 32.4 |
| 11 | Procurement costs | 9 | 24.3 |
| 11 | General road conditions | 9 | 24.3 |
| 13 | Customs clearance issues | 8 | 21.6 |
| 13 | Complicated administrative procedures and/or lack of transparency [trade system/procedures] | 8 | 21.6 |
| 13 | Complicated administrative procedures and/or lack of transparency [tax system/procedures] | 8 | 21.6 |
| 13 | High labor cost growth rate | 8 | 21.6 |
| 13 | Heavy social security burdens | 8 | 21.6 |
| 13 | Quality of workforce | 8 | 21.6 |
| 13 | Deliveries | 8 | 21.6 |
| 20 | Change in tax rate | 7 | 18.9 |
| 20 | Complicated administrative procedures and/or lack of transparency | 7 | 18.9 |
| 20 | Collection of receivables | 7 | 18.9 |

* Excluding Turkey.

Fig. 28: [Central and Eastern Europe/Turkey] Challenges in management in leading countries of the region of Central and Eastern Europe and Turkey

"Manufacturing"

| Czech Rep. | | (%) | Hungary | | (%) | Poland | | (%) |
|------------|--|------|---------|---|------|--------|---|------|
| 1 | Visa/work permits | 66.7 | 1 | Exchange rate fluctuations | 62.5 | 1 | Exchange rate fluctuations | 60.0 |
| 1 | Difficulty in securing good workers | 66.7 | 2 | Lower prices offered by competitors | 50.0 | 2 | Customs clearance issues | 40.0 |
| 3 | Exchange rate fluctuations | 55.6 | 2 | European political and social conditions | 50.0 | 2 | Transfer pricing taxation | 40.0 |
| 4 | Shortage of domestic procurement sources | 51.9 | 2 | Economic slowdown, market contraction | 50.0 | 2 | Procurement costs | 40.0 |
| 4 | Lower prices offered by competitors | 51.9 | 5 | Heavy social security burdens | 43.8 | 2 | Lower prices offered by competitors | 40.0 |
| 6 | Economic slowdown, market contraction | 48.1 | 5 | Entry of new competitors | 43.8 | 2 | General road conditions | 40.0 |
| 7 | Transfer pricing taxation | 40.7 | 7 | Customs clearance issues | 37.5 | 2 | Highways | 40.0 |
| 7 | Quality of workforce | 40.7 | 7 | Frequent legislation revisions | 37.5 | 8 | Economic slowdown, market contraction | 33.3 |
| 9 | Heavy social security burdens | 37.0 | 7 | Change in tax rate | 37.5 | 9 | High labor cost growth rate | 26.7 |
| 9 | Quality | 37.0 | 7 | Deliveries | 37.5 | 9 | Difficulty in securing good workers | 26.7 |
| 11 | European political and social conditions | 33.3 | 11 | Transfer pricing taxation | 31.3 | 11 | Procedures for VAT refunds are complex and/or lack transparency | 20.0 |
| 12 | Frequent legislation revisions | 29.6 | 11 | High labor cost growth rate | 31.3 | 11 | Entry of new competitors | 20.0 |
| 12 | Procurement costs | 29.6 | 11 | Quality of workforce | 31.3 | 11 | Better quality of products offered by competitors | 20.0 |
| 12 | REACH | 29.6 | 11 | Quality | 31.3 | 11 | European political and social conditions | 20.0 |
| 15 | Entry of new competitors | 25.9 | 11 | Shortage of domestic procurement sources | 31.3 | 15 | Visa/work permits | 13.3 |
| 16 | Change in tax rate | 22.2 | 16 | Difficulty in securing good workers | 25.0 | 15 | Lack of transparency in investment incentive schemes | 13.3 |
| 16 | General road conditions | 22.2 | 17 | Procedures for VAT refunds are complex and/or lack transparency | 18.8 | 15 | Complicated administrative procedures and/or lack of transparency | 13.3 |
| 16 | Highways | 22.2 | 17 | Procurement costs | 18.8 | 15 | High labor costs | 13.3 |
| 19 | Customs clearance issues | 18.5 | 17 | REACH | 18.8 | 15 | Quality | 13.3 |
| 19 | High labor cost growth rate | 18.5 | 20 | Complicated administrative procedures and/or lack of transparency | 12.5 | 15 | Shortage of domestic procurement sources | 13.3 |
| 19 | Stringent dismissal laws | 18.5 | 20 | Visa/work permits | 12.5 | 15 | Railways | 13.3 |
| 19 | Deliveries | 18.5 | 20 | Lack of transparency in investment incentive schemes | 12.5 | 15 | Power supply | 13.3 |
| | | | 20 | Complicated administrative procedures and/or lack of transparency | 12.5 | 15 | REACH | 13.3 |
| | | | 20 | Other (tax system / procedures) | 12.5 | 15 | Vehicle CO2 regulations | 13.3 |
| | | | 20 | Stringent dismissal laws | 12.5 | 15 | Inflation | 13.3 |
| | | | 20 | Better quality of products offered by competitors | 12.5 | | | |
| | | | 20 | General road conditions | 12.5 | | | |
| | | | 20 | communications | 12.5 | | | |

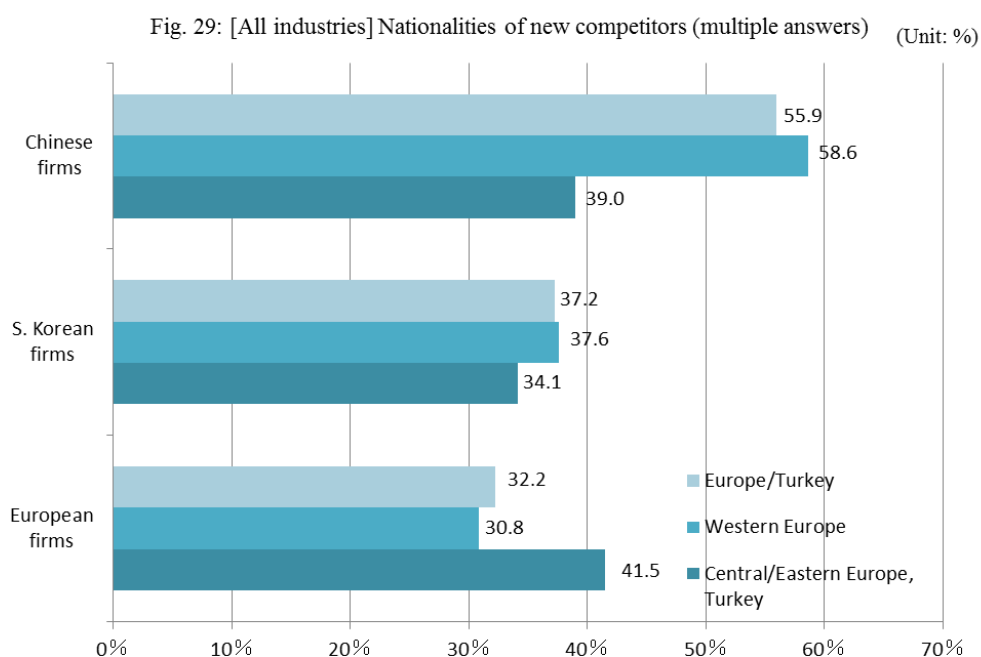
"Non-manufacturing"

| | Czech Rep. | (%) | | Hungary | (%) | | Poland | (%) |
|----|---|-------|----|---|------|----|---|------|
| 1 | Visa/work permits | 100.0 | 1 | Entry of new competitors | 60.0 | 1 | Economic slowdown, market contraction | 81.8 |
| 2 | Economic slowdown, market contraction | 90.0 | 2 | Lower prices offered by competitors | 50.0 | 2 | Highways | 72.7 |
| 3 | Frequent legislation revisions | 40.0 | 3 | Frequent legislation revisions | 40.0 | 3 | Entry of new competitors | 45.5 |
| 3 | Difficulty in securing good workers | 40.0 | 3 | Exchange rate fluctuations | 40.0 | 3 | Lower prices offered by competitors | 45.5 |
| 3 | Procurement costs | 40.0 | 3 | Economic slowdown, market contraction | 40.0 | 3 | General road conditions | 45.5 |
| 3 | Deliveries | 40.0 | 6 | Complicated administrative procedures and/or lack of transparency | 30.0 | 6 | Difficulty in securing good workers | 36.4 |
| 3 | Entry of new competitors | 40.0 | 6 | High labor cost growth rate | 30.0 | 6 | Stringent dismissal laws | 36.4 |
| 3 | Highways | 40.0 | 6 | Difficulty in securing good workers | 30.0 | 6 | European political and social conditions | 36.4 |
| 9 | Customs clearance issues | 30.0 | 6 | Stringent dismissal laws | 30.0 | 9 | Transfer pricing taxation | 27.3 |
| 9 | Complicated administrative procedures and/or lack of transparency | 30.0 | 6 | Quality of workforce | 30.0 | 9 | Exchange rate fluctuations | 27.3 |
| 9 | Heavy social security burdens | 30.0 | 6 | RoHS | 30.0 | 9 | Railways | 27.3 |
| 9 | Stringent dismissal laws | 30.0 | 6 | European political and social conditions | 30.0 | 12 | Procedures for VAT refunds are complex and/or lack transparency | 18.2 |
| 9 | European political and social conditions | 30.0 | 6 | Inflation | 30.0 | 12 | High labor cost growth rate | 18.2 |
| 14 | Complicated administrative procedures and/or lack of transparency | 20.0 | 14 | Customs clearance issues | 20.0 | 12 | Quality of workforce | 18.2 |
| 14 | Transfer pricing taxation | 20.0 | 14 | Visa/work permits | 20.0 | 12 | Collection of receivables | 18.2 |
| 14 | Procedures for VAT refunds are complex and/or lack transparency | 20.0 | 14 | Complicated administrative procedures and/or lack of transparency | 20.0 | 12 | Procurement costs | 18.2 |
| 14 | High labor cost growth rate | 20.0 | 14 | Change in tax rate | 20.0 | 12 | Deliveries | 18.2 |
| 14 | Quality of workforce | 20.0 | 14 | Collection of receivables | 20.0 | 12 | Better quality of products offered by competitors | 18.2 |
| 14 | Exchange rate fluctuations | 20.0 | 14 | Highways | 20.0 | 12 | Ports | 18.2 |
| 14 | Quality | 20.0 | 14 | REACH | 20.0 | 12 | Euro5 | 18.2 |
| 14 | Lower prices offered by competitors | 20.0 | 14 | Low birth rates/aging of society | 20.0 | | | |
| 14 | General road conditions | 20.0 | | | | | | |
| 14 | REACH | 20.0 | | | | | | |

2. Nationalities of new competitors

When respondents across all industries in Europe and Turkey who cited “Entry of new competitors” as a challenge in management (32.6%; see Fig. 23) were asked the specific nationalities of these new competitors, the highest percentage was that of Chinese firms at 55.9%. As Chinese firms have purchased a succession of European firms in Europe, they are becoming powerful competitors, particularly in Western Europe. Next came South Korean firms (37.2%) and European firms (32.2%).

The highest percentage of Japan-affiliated firms in Central and Eastern Europe and Turkey cited European firms as becoming new competitors at 41.5%. What is more, the percentage of firms viewing South Korean firms as competitors surpassed those that saw Chinese firms as competitors in the survey from fiscal 2012. But in this fiscal year this reversed, with 34.1% viewing South Korean firms as competitors as opposed to 39.0% who viewed Chinese firms as competitors. The claim could be made that the presence of Chinese firms is on the rise in Central and Eastern Europe and Turkey.



A look at detailed results by industry shows that sales companies and trading companies appear to keenly feel the rise of Chinese and South Korean firms. What is more, the greatest number of firms that recognized European firms as new competitors was in the transport/warehousing industry.

Fig. 30: [Europe/Turkey] Industries choosing firms of each nationality as new competitors
(multiple answers)

| Top three industries choosing "Chinese firms" | | (Unit: cos.) |
|---|----------------------------------|--------------|
| | | Responses |
| 1 | Sales company | 50 |
| 2 | Trading company | 24 |
| 3 | Chemicals and Petroleum products | 14 |

| Top three industries choosing "S. Korean firms" | | (Unit: cos.) |
|---|--|--------------|
| | | Responses |
| 1 | Sales company | 29 |
| 2 | Trading company | 16 |
| 3 | Electric machinery/electronic hardware | 8 |

| Top three industries choosing "European firms" | | (Unit: cos.) |
|--|---|--------------|
| | | Responses |
| 1 | Transport/warehousing | 17 |
| 2 | Sales company | 16 |
| 3 | Motor vehicle and motorcycle parts and accesories | 10 |

3. Localization of Management

The percentage of companies across all industries in Europe and Turkey that are promoting the localization of management was the highest for “Appointing local human resources (department and section heads)” at 53.2%. On the other hand, for “Appointing local human resources (executive-level)” this was 30.3%.

Fig. 31: [Europe/Turkey] Initiatives for promoting the localization of management (multiple answers)

| "All industries" | | (Units: cos., %) | |
|------------------|---|------------------|------------|
| | | Responses | Percentage |
| 1 | Appointing local human resources (department and section heads) | 522 | 53.2 |
| 2 | Enhancing training and education for local human resources with an awareness of localization | 498 | 50.8 |
| 3 | Mid-career recruitment of local human resources that will serve as ready assets with an awareness of localization | 424 | 43.2 |
| 4 | Appointing local human resources (executive-level) | 297 | 30.3 |
| 5 | Strengthening local development capabilities for products and services | 233 | 23.8 |
| 6 | Revising meritocratic and other personnel systems with an awareness of localization | 206 | 21.0 |
| 7 | Transferring authority from head offices to local regions | 188 | 19.2 |
| 8 | Enhancing decision-making authority for sales strategies in local regions | 187 | 19.1 |
| 9 | Not taking any initiatives for localization | 114 | 11.6 |
| 10 | Acquiring human and managerial resources through M&A | 61 | 6.2 |

The greatest challenges for promoting the localization of management for firms in all industries in Europe and Turkey is “Capabilities and consciousness on the part of local human resources” (33.9%), followed by “Difficulty in hiring candidates for executive positions” (31.3%).

Fig. 32: [Europe/Turkey] Challenges for promoting the localization of management (multiple answers)

| "All industries" | | (Units: cos., %) | |
|------------------|---|------------------|------------|
| | | Responses | Percentage |
| 1 | Capabilities and consciousness on the part of local human resources | 326 | 33.9 |
| 2 | Difficulty in hiring candidates for executive positions | 301 | 31.3 |
| 3 | No progress with transferring authority from the head office to local regions | 205 | 21.3 |
| 4 | No progress with educating local human resources | 204 | 21.2 |
| 5 | No particular challenges | 197 | 20.5 |
| 6 | Weak planning/marketing abilities in the local region | 133 | 13.8 |
| 7 | Difficulty in reducing Japanese expatriates | 124 | 12.9 |
| 8 | Weak development abilities for products and services in the local region | 107 | 11.1 |
| 9 | High turnover rate for candidates for executive positions | 101 | 10.5 |
| 10 | Language proficiency of local human resources (Japanese and English) | 100 | 10.4 |

VI. Free trade agreements (FTAs) and the future of the European economy

1. Use of bilateral or multilateral FTAs/EPAs

When firms operating in the EU were asked about the use of bilateral or multilateral FTAs/economic partnership agreements (EPAs), the highest percentages cited the EU-Turkey Customs Union (38.9%) for exports and South Africa (50.0%) for imports.

Fig. 33: Use of bilateral or multilateral FTAs/EPAs by firms operating in the EU

| | Utilization of preferential tax rates provided by FTAs in exports | | | | Utilization of preferential tax rates provided by FTAs in imports | | | |
|---|---|-------------|-------------------------|------------------------------------|---|-------------|-------------------------|------------------------------------|
| | Responses | Utilizing | Considering utilization | Not utilizing (No plan to utilize) | Responses | Utilizing | Considering utilization | Not utilizing (No plan to utilize) |
| S. Korea | 40 100.0% | 12 30.0% | 8 20.0% | 20 50.0% | 43 100.0% | 21 48.8% | 8 18.6% | 14 32.6% |
| Turkey Customs Union | 149 100.0% | 58 38.9% | 16 10.7% | 75 50.3% | 26 100.0% | 12 46.2% | 8 30.8% | 6 23.1% |
| European Economic Area (EEA) | 174 100.0% | 65 37.4% | 18 10.3% | 91 52.3% | 90 100.0% | 40 44.4% | 10 11.1% | 40 44.4% |
| Switzerland | 114 100.0% | 37 32.5% | 14 12.3% | 63 55.3% | 13 100.0% | 4 30.8% | 2 15.4% | 7 53.8% |
| Mediterranean countries (including the Middle East) | 100 100.0% | 29 29.0% | 16 16.0% | 55 55.0% | 15 100.0% | 3 20.0% | 5 33.3% | 7 46.7% |
| South Africa | 83 100.0% | 26 31.3% | 7 8.4% | 50 60.2% | 10 100.0% | 5 50.0% | - | 5 50.0% |
| Mexico | 45 100.0% | 13 28.9% | 6 13.3% | 26 57.8% | 4 100.0% | - | 1 25.0% | 3 75.0% |
| Chile | 21 100.0% | 6 28.6% | 2 9.5% | 13 61.9% | 2 100.0% | - | - | 2 100.0% |

2. Impact of FTAs

When respondents were asked about the impact of the FTAs, they showed the highest expectations for the EU-Japan EPA, with 44.1% describing it as having “Major advantages.” The results by region shows that this answer was given by a much higher percentage (55.6%) in Central/Eastern Europe and Turkey than in Western Europe (42.3%), indicating higher expectations in that region, which is home to a concentration of manufacturing facilities. A look at results by industry shows that the precision equipment industry had the highest percentage of respondents describing this as having “Major advantages,” at 66.7%.

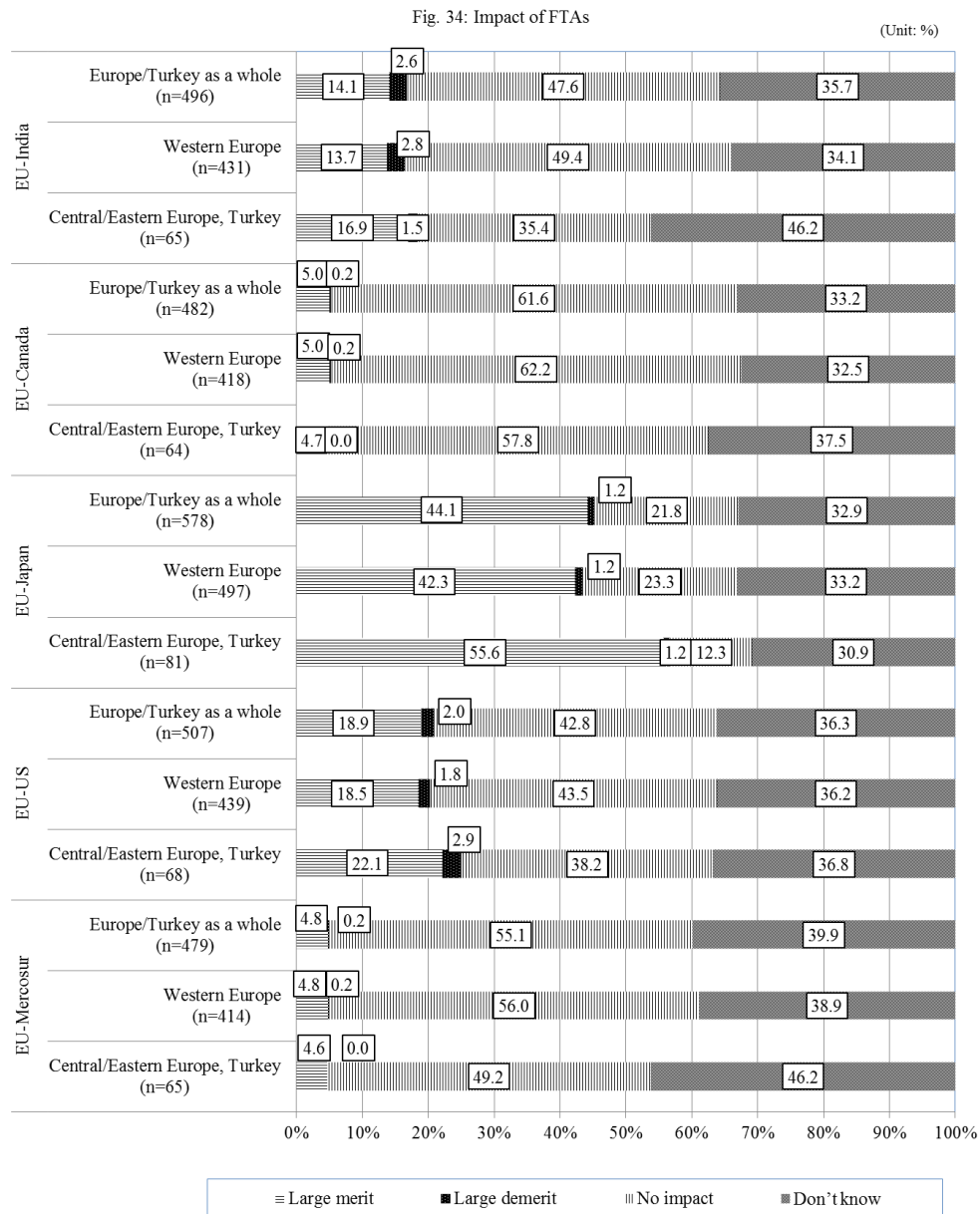
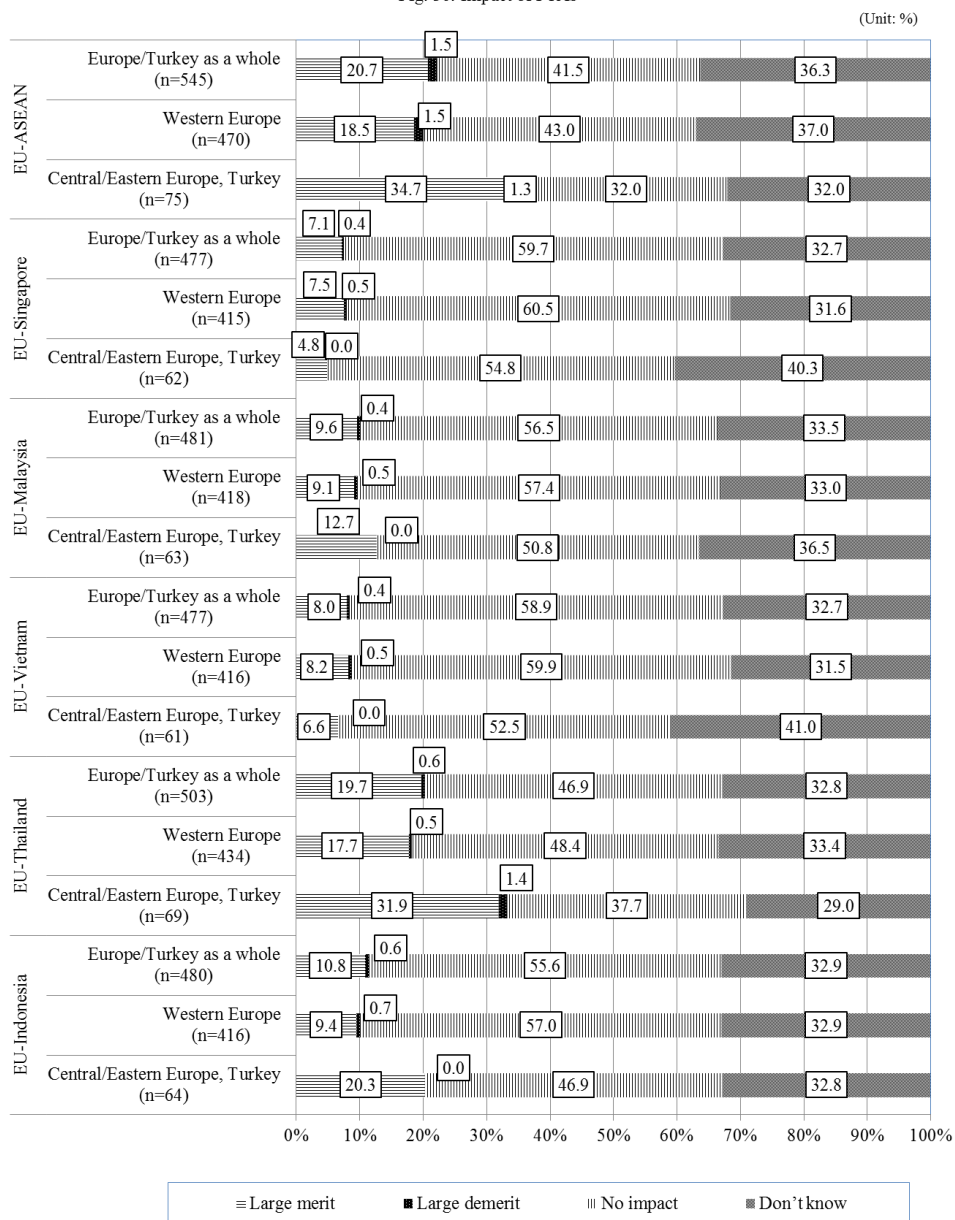


Fig. 35: Industries in which high percentages of companies responded that the EU-Japan EPA would have “Major advantages”

| | | (Units: cos., %) | |
|---|--|------------------|------------|
| | | Responses | Percentage |
| 1 | Precision equipment | 6 | 66.7 |
| 2 | Trading company | 36 | 62.1 |
| 3 | Motor vehicle and motorcycle parts and accessories | 33 | 58.9 |

Moreover, 20.7% of respondents said that an FTA between the enormous markets of the EU and ASEAN would have “Major advantages,” while 19.7% said the same for an FTA between the EU and Thailand.

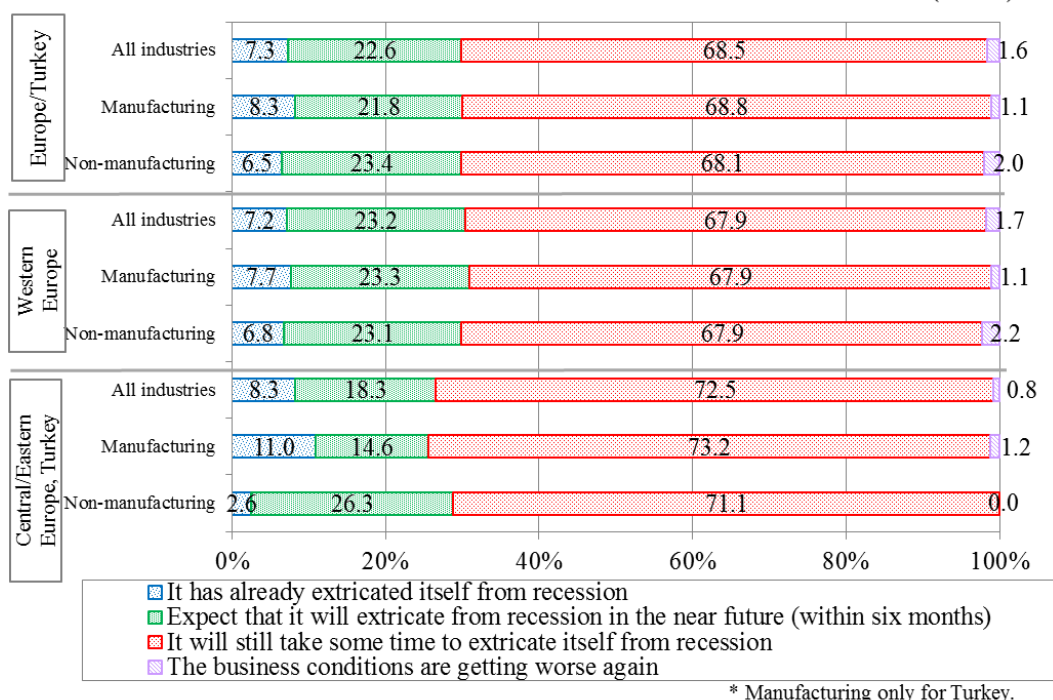
Fig. 36: Impact of FTAs



3. Future of the European economy

When questioned about the future of the European economy, only a mere 7.3% of respondents in all industries in Europe and Turkey answered that “It has already extricated itself from recession,” while 68.5% answered that “It will still take some time to extricate itself from recession.” When the responses are viewed by region and by type of industry, around 70% of the respondents (this was largest among manufacturing industries in Central/Eastern Europe and Turkey at 73.2%) replied “It will still take some time to extricate itself from recession.” Even as signs of a recovery in performance are being seen many are taking a cautious view of future economic conditions.

Fig. 37: Views on the future of the European economy (Unit: %)



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● Questionnaire ●
 Survey Report: 2013 JETRO Survey on Business Conditions of Japanese Companies
 in Europe

JETRO recently carried out the titular survey. We would like to ask for your cooperation with this questionnaire regarding your impressions upon reading the survey report. This information will be used as reference for selecting future survey themes and the like.

■ Question 1: How did you feel about the contents of this survey report? (Circle one)

4: Helpful 3: Somewhat helpful 2: Not very helpful 1: Not at all helpful

■ Question 2: Please list your: (1) Intended use and purpose, (2) Reasons for reaching the conclusion that you did above, and (3) Other impression regarding this report.

■ Question 3: Please list your requests and so forth for future JETRO survey themes.

■ Please list the name of your company and so on (optional).

| | | |
|-------------|---|------------------------------|
| Affiliation | <input type="checkbox"/> Company/ organization | Name of company/organization |
| | | |
| | <input type="checkbox"/> Individual | Position name |
| | | |

* We properly manage and utilize customer information that has been supplied to us on the basis of the JETRO Personal Information Protection Policy (<http://www.jetro.go.jp/privacy/>). Moreover, the contents listed on the above questionnaire will be used to evaluate JETRO's business activities, improve its operations, and for the sake of operational follow-ups.

Thank you for your cooperation