



EUROPE BUSINESS
M O N I T O R



EXECUTIVE SUMMARY

April 1992



A Business Voice for Europe

The businesses of Europe confront a period of dramatic change. The Single Market, the opening up of Eastern Europe, new EC regulation and legislation, the unification of Germany, all present every company in every country with new constraints, new challenges, new opportunities.

Yet while economists speculate and Brussels legislates, where in the debate are heard the co-ordinated views of Europe's leading business people? Where can be found an authoritative presentation of opinions held by the pan-European business community?

The UPS Europe Business Monitor provides a much-needed forum for leading business people throughout Western Europe. Appearing at regular intervals, it will give a coherent voice to their opinions and attitudes.

It will chart the changing views and expectations of the people whose job it is to make European business successful in the markets of the world. The UPS Europe Business Monitor will allow everyone – including the economists and legislators – to benefit from the hands-on experience of Europe's business leaders; to share their understanding of Europe's markets and the future of European trade as a whole.

UPS, the world's largest package distribution company, has been operating in Europe since 1976, and over the last sixteen years, has built up a distribution infrastructure covering Europe.

This vigorous expansion has been guided by a simple philosophy – that UPS in Europe should at all times seek to understand local markets and the needs of customers in each country; that we should listen, not dictate; that we should work as partners with our customers, providing advice, information and practical solutions as well as outstanding services.

It is in this spirit of constructive contribution that we are producing the UPS Europe Business Monitor. We very much hope that you will find this first report both interesting and useful.

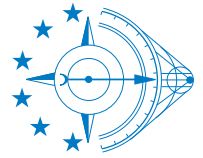


A note on the research

The Harris Research Centre carried out a total of 1,483 interviews amongst European business leaders between 13 February and 16 March 1992. The following countries were included in the survey: Interviews [Belgium – 103](#), [France – 266](#), [Germany – 255](#), [Italy – 252](#), [Netherlands – 99](#), [Spain – 252](#), [UK – 256](#)

Respondents were at director level in businesses selected from Europe's top 15,000 companies by revenue. Average turnover of the companies interviewed is US \$1.05 bn (848m Ecu).

Interviewing was conducted in the respondents' native tongue by interviewers working from the Harris International Telephone Research Centre in Richmond, London.



Main Findings

In this research we have found that national differences, by and large, outweigh differences in industry sector and company size. For example, a motor manufacturer in France will most likely think as a French person first and a motor industry person second – a tendency which is found across the board. Therefore our report concentrates on national viewpoints rather than industry sectors. However, where responses from a particular industry or size of company are startling we have referred to them in our text.

Despite these national differences in attitude, there is a consistent and very positive approach to the EC and the development of Europe. The majority of European businesses support the Maastricht Treaty and the EC control of money supply and interest rates that a single European currency would bring.

The research sheds light on the political tensions within the community, because despite the many positive attitudes there are still widely differing views of what the basic aims of the EC should be. There is general support for free trade as the main aim of the EC, though French business is more likely to see the formation of a trading block as the Community's major objective. In Germany a significant minority favour the objective of political stability. However, European business people appear sceptical about the implementation of EC initiatives. For example, a majority do not think that customs and border controls will be lifted in 1993 and there is great concern about many countries' abilities to meet the qualifying criteria of a single European currency. Obstacles to free trade within the EC are largely attitudinal rather than physical: nationalism, protectionism, and quotas are more challenging barriers than factors such as language, distance or technical standards.

Other important findings show that Germany is not nearly as dominant in Eastern Europe as is generally thought; that many anticipate EC action before trade with Japan becomes easier; and that businesses are in favour of the 'greening' of the environment – even though it involves them in considerable effort and cost.

What is the purpose of the EC and will it bring trading benefits?

What are the main aims of the EC? (see table 1)

- Widely differing views between countries over aims of the EC
- Free trade seen as most important overall (40%)
- Single political voice least important (6%)

Responses show that member states have widely varying views about the main aims of the Community. Perhaps this, rather than the difficulty of negotiations, accounts for many of the tensions within the EC.

All countries except France see free trade between member states as most important, but do so with varying degrees of enthusiasm. 36% in France see the main aim as the formation of a trading bloc to compete with the US and Japan. Only 16% overall think political stability should be the main aim – although as many as 21% in Germany support that objective. Establishing a common currency is seen as the most important issue by as few as 5% in the UK and 9% in Germany, but as many as 19% in France, 20% in Italy and 21% in Belgium.

What prevents free trade between EC countries? (see table 2)

- Barriers are attitudinal rather than practical
- Nationalism and consumer preferences (28%) and quotas/protectionism (26%) seen as the main stumbling blocks

These findings show that the barriers to free trade in the EC are mainly attitudinal – nationalism, protectionism, and quotas rather than physical barriers such as language or customs and border control.

In France, 26% think protectionism is a barrier to trade. Methods and rates of taxation constitute the only practical barrier that scores at all highly (17% overall). Only 8% think language is a problem.

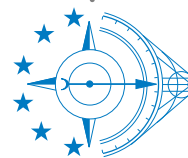
Which countries will benefit most and which will be hurt most? (see table 3)

- Germany (62%) and France (44%) expected to benefit most
- Many countries disagree with the European view of their own prospects

Germany and France are widely expected to benefit most. However, a country's views of its own prospects can contrast sharply with those of its peers. For example, 28% throughout Europe think Spain will benefit, but only 9% of Spanish business people agree. Conversely, the majority put Belgium well down the list with 14%, while Belgium itself expects to do well.

Low scores for the smaller countries may indicate that business people naturally think first of their main competitors.

We also asked who would be most hurt by open trade. Greece (28%) is considered most likely to suffer. Every country is more pessimistic about its own chances than are its peers – especially true of Spain (52%) and Italy (41%).



% OF COUNTRIES SURVEYED

	Total	Germany	UK	Spain	France	Italy	Belgium	Neths
Free trade between member countries	40	44	59	42	23	33	32	48
Forming a trading bloc to compete with US and Japan	23	18	17	26	36	20	23	20
Political stability within Europe	16	21	18	12	13	16	16	14
Establishing a common currency	14	9	5	13	19	20	21	10
Providing Europe with one political voice	6	7	1	2	9	8	7	4

TABLE 1 What respondents think to be the most important broad aim of the European Community.

% OF COUNTRIES SURVEYED

	Total	Germany	UK	Spain	France	Italy	Belgium	Neths
Nationalism/consumer pref's	28	28	38	18	30	32	25	20
Quotas/protectionism	26	31	23	18	26	20	50	25
Methods/rates of taxation	17	24	8	8	23	15	25	32
Social policy	9	8	1	7	11	10	17	19
Language	8	11	6	3	11	10	13	7
Culture/traditions	6	2	7	6	10	6	3	10
Industry/technical standards	6	5	7	10	8	5	5	4
Legislation	6	6	6	7	3	6	3	16
Customs/border controls	5	3	4	3	3	12	8	2

TABLE 2 Main stumbling blocks to free and open trade between EC countries. (Respondents were allowed to give more than one answer.)

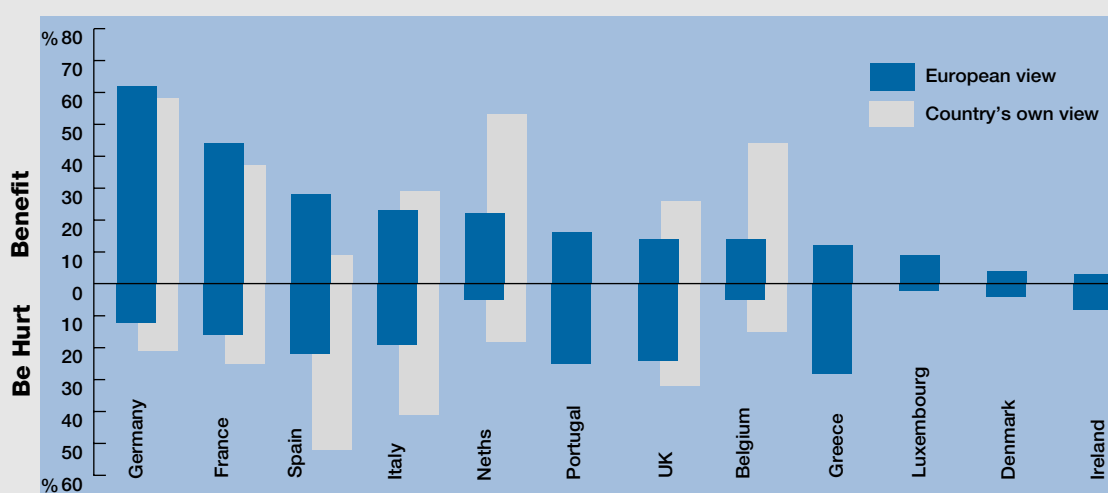


TABLE 3 Countries expected to benefit/be hurt most from open trade between EC countries.

Will border procedures and controls disappear in 1993? (see table 4)

- 51% overall think border controls will *not* disappear
- 65% of transport and distribution professionals take this view

In spite of vigorous promotion of the idea of a genuine single market in 1993, considerable scepticism exists among business people. 51% think that border controls and procedures will not disappear.

The UK (72%) and Italy (70%) are the most sceptical about their disappearance. This is understandable where the UK is concerned as it has no land borders, but is a surprising attitude for Italy. Spain (62%), Netherlands (57%) and Germany (56%) are the most optimistic about their disappearance.

The industry sector breakdown revealed the most striking answer to this question. 65% of people in the transport and distribution industries do not believe that border controls and procedures will disappear in 1993 – perhaps because they are the people closest to the problems.

What do businesses think about Maastricht and European unity?

The Maastricht Treaty, agreed in December 1991, commits EC countries to the concept of Economic and Monetary Union, including a single European bank and a single currency, among other measures. The UK insisted on an 'opt-out' clause under which the UK Parliament retains freedom to choose whether or not to join the single currency at a later date, or not at all.

Is the Maastricht Treaty a good thing or not? (see table 5)

- 50% of European business leaders approve of the Treaty
- France, Italy and Belgium particularly enthusiastic
- Germany least enthusiastic

Although the general balance is in favour of the Treaty there is no wild enthusiasm for Maastricht among European business people. However, very few seem to think that it will be actively bad for their country.

50% overall think that the Maastricht Treaty is good or very good for their country, against 10% who think it poor or very poor. Many are neutral about it. France and Italy are particularly enthusiastic and even in the UK 43% think it good or very good compared to 10% who think it poor or very poor. Germany is least enthusiastic, with 19% thinking it poor or very poor – a significant minority.

Who will fail to join the single currency? (see table 6)

- Across Europe, 46% think Italy will fail to join, and 24% think the UK will fail
- Only 2% in France think France will fail
- 18% of Germans think their country will fail

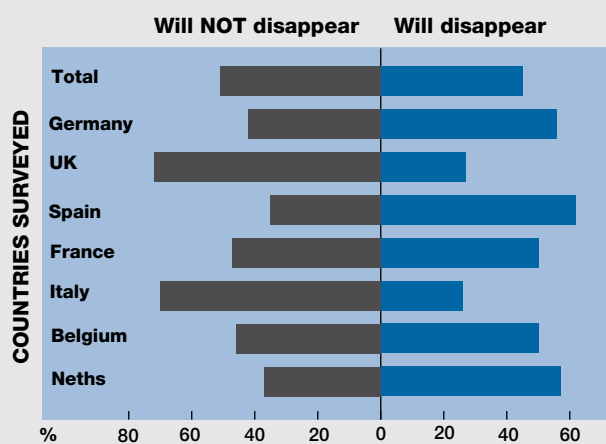
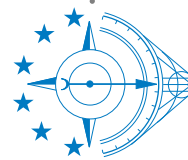


TABLE 4 Percentage of respondents who think customs procedures and controls at borders within the EC will disappear in 1993.

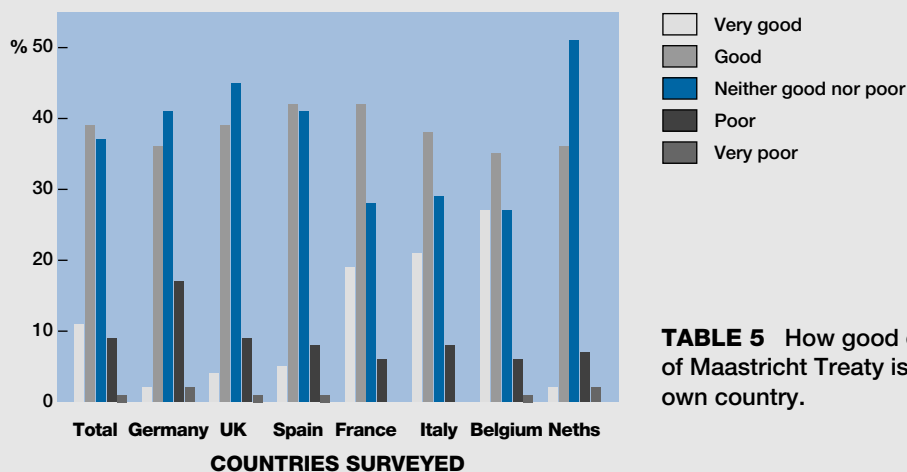


TABLE 5 How good or poor agreement of Maastricht Treaty is thought to be for own country.

% OF COUNTRIES SURVEYED

Countries mentioned	Total	Germany	UK	Spain	France	Italy	Belgium	Neths
Italy	46	60	44	23	37	77	24	38
Greece	40	39	31	51	32	48	27	52
Spain	37	37	35	48	30	35	28	45
Portugal	36	37	24	54	30	31	33	43
UK	24	31	29	10	28	21	18	40
Belgium	10	8	9	1	3	5	56	19
Ireland	8	6	10	11	5	7	7	9
France	6	10	13	-	2	7	6	6
Germany	6	18	4	-	5	6	2	6
Denmark	4	6	4	-	1	4	4	11
Neths	3	4	2	-	-	2	3	17
Luxembourg	1	3	2	-	-	2	-	5
Other	3	7	3	-	-	2	1	6

TABLE 6 EC countries thought to want to join single European currency in 1999 but will fail to meet criteria. (Respondents were allowed to give more than one answer.)

The criteria for joining the single European currency cover rates of inflation, exchange rates, government deficit, public debt and interest rates. There is a widespread belief that the Southern European countries will fail to meet the criteria for joining, with Italy heading the list at 46%. The Northern European country seen as most likely to fail is the UK, at 24%.

Many people are sceptical about their own country's chances of joining the single currency. Majorities in Italy and Belgium think that their own countries will fail to join, in contrast with the French who demonstrate great confidence; only 2% of French business people think that France will fail. On the other hand, 18% of the German sample think that Germany will fail to meet the criteria, in spite of the fact that Germany arguably has the strongest economy in Europe.

Will the UK join the single currency? (see table 7)

- 92% of British business leaders think the UK will seek to join in 1999 or later
- 86% across Europe support that view

Britain's cautious approach to the single currency is well known, yet 92% of UK business people think that the UK will seek to join the currency either in 1999 or later, and no less than 66% of British businesses think the UK will seek to join in 1999.

This view is supported by the fact that across Europe 86% think that Britain will seek to join at some time.

And 55% of companies with turnover of over US \$2bn (1.6bn Ecu) think the UK will seek to join in 1999 rather than later.

A central European bank – good or bad? (see table 8)

- Two out of three of Europe's top businesses think that central monetary control would be good for their companies
- Only 35% in Germany say "good"
- 65% of UK companies say "good"

Most companies are receptive to the idea of moving control of money supply and interest rates to a central European bank, although only 35% of the German sample agrees, suggesting their nervousness regarding loss of control of their currency.

65% of UK businesses think that a central bank would be good for their companies – a surprising finding, given the extent of opposition to the idea in the UK.

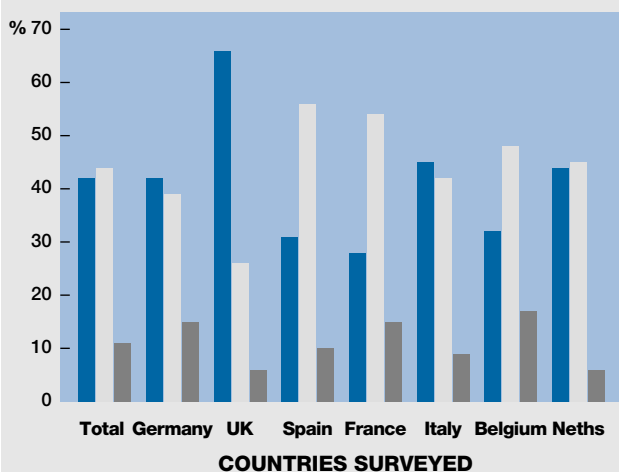
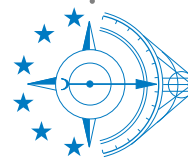
Spain (83%) and Italy (82%) are most strongly in favour.

The financial institutions are more sceptical, with just 49% thinking it would be good for their company.

Should critical industries be protected by subsidy or exposed to competition? (see table 9)

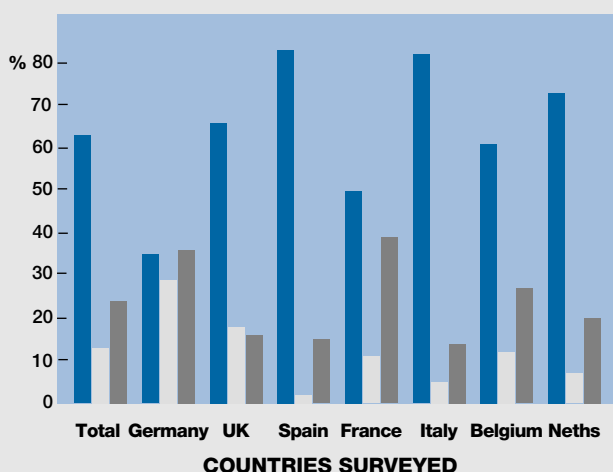
- 73% overall opt for free competition
- Germany (85%) and the UK (78%) most in favour of competition, France (61%) least in favour

It appears that business leaders tend to favour free trade – reassuring, perhaps, for those abroad who fear 'Fortress Europe'.



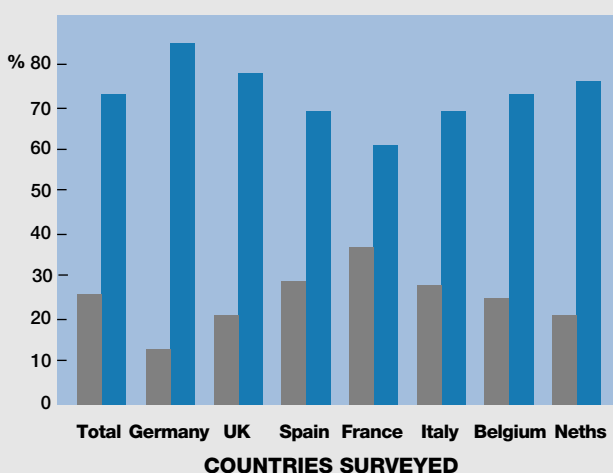
■ Seek to join with everyone else in 1999
■ Seek to join but later
■ Probably never seek to join

TABLE 7 Whether respondents expect the UK to join the single European currency.



■ Good
■ Bad
■ Makes no difference

TABLE 8 Whether respondents feel that moving control of money supply and interest rates to a central European bank will be good or bad for their company.



■ Protection by EC or national subsidies/regulations
■ Compete on own merits

TABLE 9 Whether respondents think critical industries should be protected by EC or national subsidies/regulations or left to compete in world markets entirely on their own merits.

No less than 73% overall think that critical industries – electronics, aerospace, motor etc – should be exposed to competition.

Whilst there are national differences in attitudes to this question, these are less marked than one might expect. Even in France 61% favour competition. It appears that those countries with non-protectionist policies are most in tune with the views of business people.

Does environmental legislation go far enough? (see table 10)

- 39% overall think legislation does not go far enough
- 68% in Spain think legislation does not go far enough
- In the Netherlands (40%) and Germany (32%), many think it goes too far

The majority of companies are in favour of either leaving environmental legislation as it is, or of introducing more. Those who think there's too little legislation outnumber those who think there's too much by more than two to one. Attitudes seem to reflect the amount of legislation already in place. In Spain where comparatively little legislation exists, there is strong feeling that more is needed. Conversely, in Germany and the Netherlands, significant numbers think it has gone too far and puts them at a competitive disadvantage. 24% of utilities think that environmental legislation has gone too far.

Who should monitor and police environmental matters? (see table 11)

- European Community the most favoured body overall (50%)
- 51% in the UK favour the national government

The European Community is the most favoured body to control environmental legislation and enforcement, although 42% in Spain and 51% in the UK (the only majority view) think it should be left to their national governments. Support for the United Nations is not strong, and at 22% is greatest in Germany and the Netherlands.

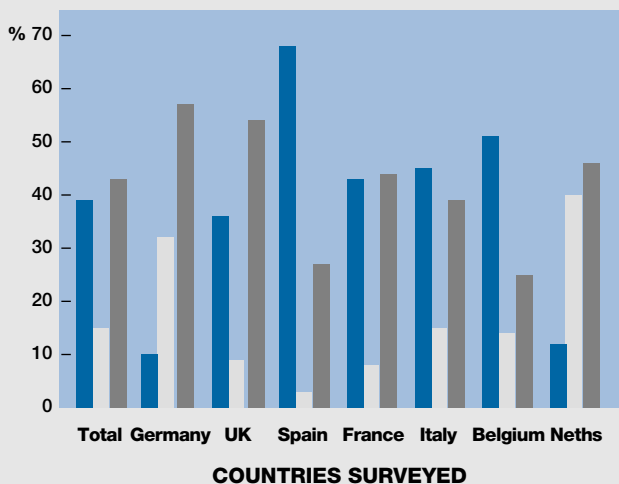
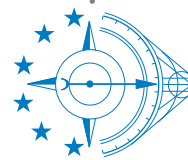
How optimistic are companies about growth and exports?

What are your company's economic prospects over the next 12 months? (see table 12)

- High levels of optimism, especially in the UK, Spain and Italy
- Those in Germany least optimistic about their company's economic prospects

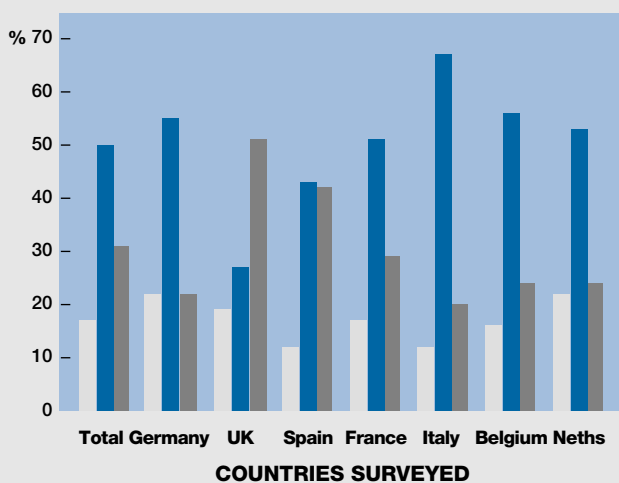
This question revealed a remarkable amount of optimism among business people about the future economic position of their companies. 55% overall think their company's economic position will be better in twelve months, while 6% think it will get worse, a net optimism score of 49%. Net optimism is no less than 70% in the UK, 57% in Spain and 51% in Italy. The UK shows the highest optimism, perhaps reflecting the expected end to the recession. Spanish optimism probably arises from the recent growth in their economy plus the added boosts of the Olympics and EXPO. Germany, though optimistic, is less so than anyone else (25% net), perhaps through the stresses of east/west German unification and the single Deutschmark.

The financial sector is the most optimistic, with a net optimism score of 68%.



■ Does not go far enough to protect environment
 ■ Goes too far and puts company at a disadvantage
 ■ Is about right

TABLE 10 Respondents' opinion of their country's environmental legislation.



■ United Nations
 ■ EC
 ■ Governments of individual countries

TABLE 11 Organisation thought most appropriate to monitor and police environmental matters.

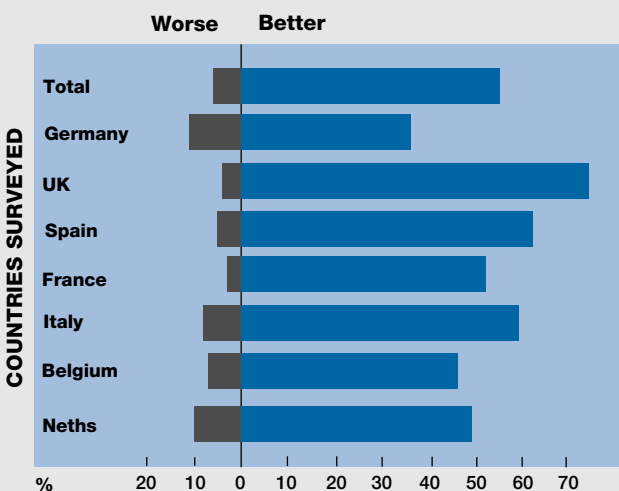


TABLE 12 How respondents think the economic position of their company will be twelve months from now.

Which Western European countries will show the strongest, and which the weakest, growth? (see table 13)

- Germany (70%) and Spain (54%) expected to show strongest growth
- 42% overall expect weakest growth in the UK

Respondents were asked to compare likely growth in different countries. Germany leads with 70%, while Spain is second strongest with 54%. The Spanish themselves vote 62% for their own country, indicating strong optimism in Spain.

The UK heads the list of those countries expected to show the weakest growth with 42% overall, though only 26% in the UK agree.

Italy is seen as the country with second weakest growth prospects. No less than 38% of Italian companies think that Italy will have the weakest growth, a figure that indicates considerable nervousness in Italy about their country's likely performance.

Will export revenues grow as a proportion of total company revenue over the next 5 years? (see table 14)

- Exports expected to grow from 35% to 40% of revenues
- Largest companies expect smallest growth in export

All countries across Europe expect revenue from exports to grow as a proportion of total company revenues. Although Belgium sees a relatively small increase, this could be because over 65% of company revenues are already generated from exports, and increases are therefore bound to be smaller. The very largest companies are least optimistic about export growth. For example, those with turnover of over US \$2bn (1.6bn Ecu) see exports rising from 30-34%, compared with companies of under US \$100m (80.8m Ecu) turnover where the increase is expected to be from 36% to 45%.

The future of trade with Japan? (see tables 15 + 16)

- 51% think the EC will take action to limit Japanese imports into Europe
- 39% think that exporting to Japan will become easier

51% of business people think that the EC will either definitely or probably take action to reduce the Japanese importers' share of European markets. At the same time, as many as 39% think that exporting to Japan will become either a little or much easier. Only 13% think it will become either a little or much more difficult.

The fact that just over half think action will be taken against Japanese imports could explain the optimism regarding the future ease of exporting to Japan. Many seem to expect the EC to take tough action to get the Japanese to open up their markets.

Interestingly, 55% of the finance and insurance sector think it will be a little or much easier to get into Japan in five years time.

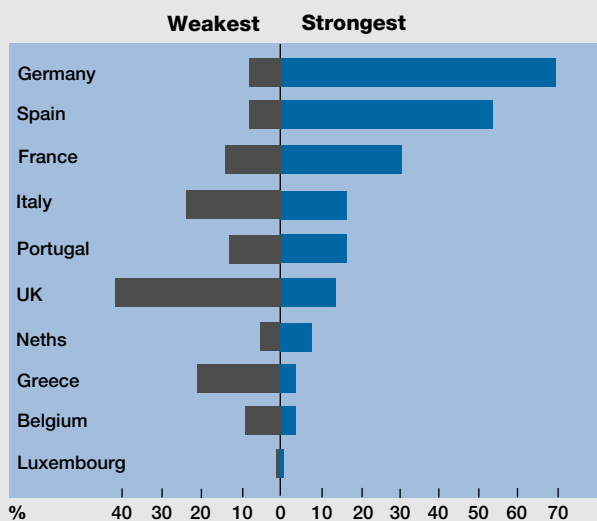
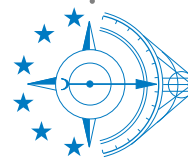


TABLE 13 Western European countries expected to show strongest and weakest economic growth over the next 3 years.

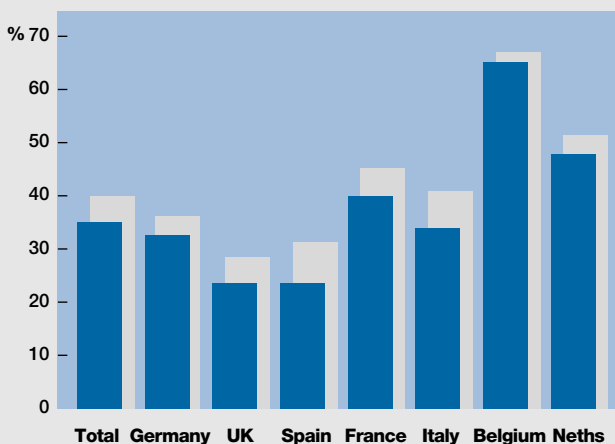


TABLE 14 Approximate percentage of company's revenues derived from exports currently; and expected five years from now.

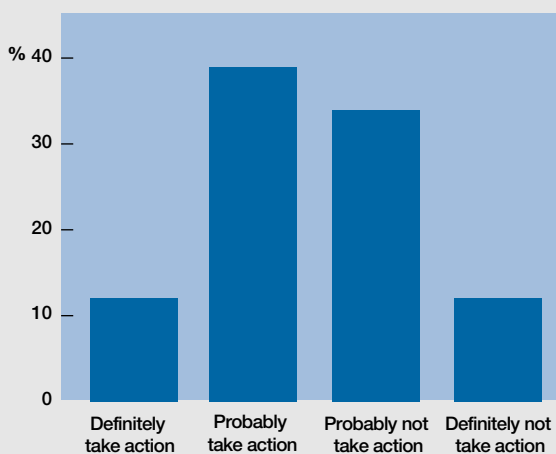


TABLE 15 Whether respondents expect the EC to take action to reduce Japanese importers' share of European markets within 5 years.

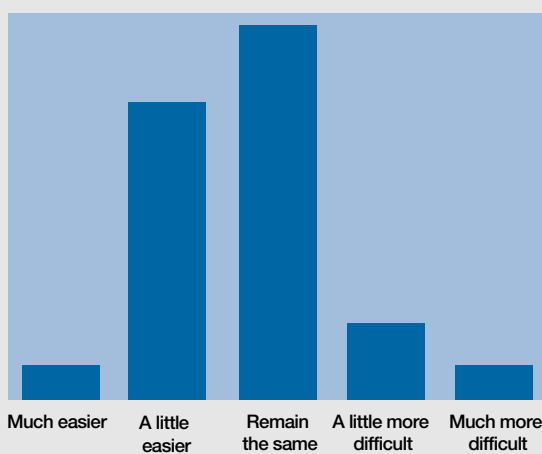


TABLE 16 Whether respondents expect exporting to Japan to be easier, more difficult, or just the same in 5 years time.

The future of trade with the US? (see tables 17 + 18)

- 32% in Spain and 24% in France think imports from the US will be limited by the EC
- Respondents split over ease of future trade with the US

Only 19% of people expect the EC to take action to limit imports from the US. Almost as many companies think exporting to the US will become more difficult (25%) as think it will become easier (27%). The former figure may have been influenced by the GATT talks which include agricultural issues, and which were topical when the research was carried out. It may be significant that Spain (32%) and France (24%) are the main countries that expect action, since their economies have a significant agricultural component.

Are businesses taking Eastern Europe seriously?

In which former communist bloc countries are businesses investing and where are the long term export prospects? (see table 19)

- 62% of German companies have invested in eastern Germany, but less than 20% in any other Eastern European country
- Germany apart, over 50% have not yet invested in former communist bloc countries
- Czechoslovakia (36%), Hungary (34%) and eastern Germany (34%) are thought to offer the greatest long term export potential

In all countries, except Germany, over half the companies have not yet invested in any former communist bloc country. 62% of companies in Germany have invested in eastern Germany but their investment in other Eastern European countries is no higher than the average. Impressions that Germany is moving into all these countries on a massive scale are perhaps exaggerated. Italian and, in particular, Spanish companies stand out as the slowest investors; all others are active at much the same level.

Across Europe, the general rule is the larger the company the more likely it is to have invested in Eastern Europe.

As potential export markets the countries fall into three categories: Czechoslovakia, Hungary and eastern Germany offer the greatest potential; then come Poland and the former USSR; then Romania and the rest.

German companies see greater long-term export potential in Eastern Europe than anyone else, possibly because they have already invested in and exported to eastern Germany on a massive scale. 53% of German companies favour Czechoslovakia for future investment. An untypical figure is the comparatively positive Italian view of Romania as a potential export market (12%), probably explained by historical and geographical links.

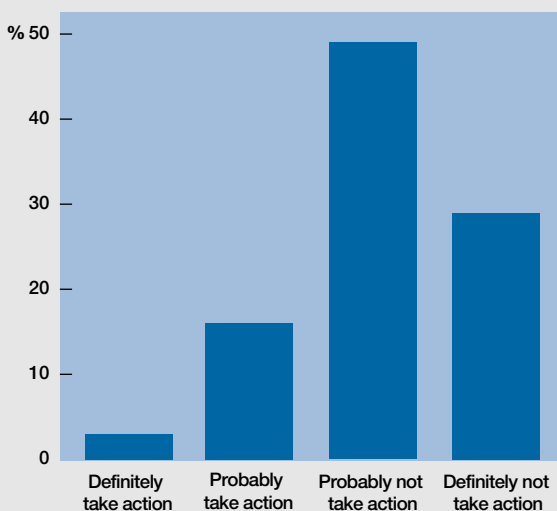
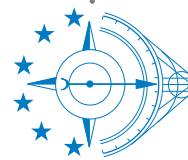


TABLE 17 Whether respondents expect the EC to take action to reduce US importers' share of European markets within 5 years.

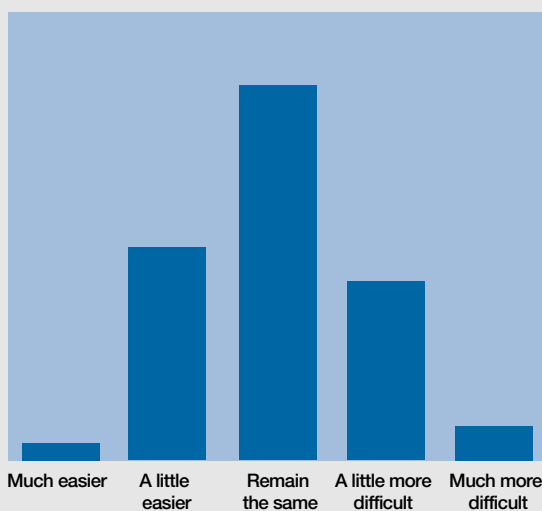
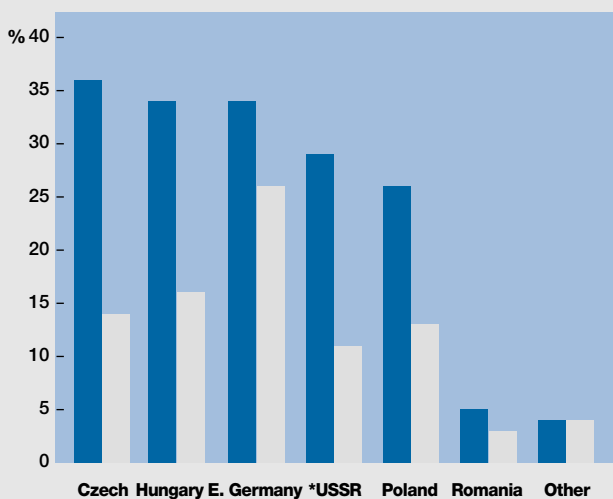


TABLE 18 Whether respondents expect exporting to the US to be easier, more difficult, or just the same in 5 years time.



■ Long term promise as export markets
 □ Companies have made investments

TABLE 19 Former communist bloc countries in Eastern Europe (including eastern Germany) where companies have already invested and which show most long term promise as export markets.

*Includes all elements of former USSR

Are company operations expected to change?

Do companies use 'Just-In-Time' (JIT) manufacturing techniques, or have plans to introduce them over the next five years? (see table 20)

- 46% of companies currently use 'Just-In-Time' techniques
- 55% will do so in the next five years

JIT, in the generally accepted meaning of the term, covers practices such as timed deliveries, reduced stockholdings of components, savings in storage space and similar measures conducive to high efficiency. 46% of companies overall use such techniques, with particularly high figures in Belgium (65%) and Italy (57%). Of the companies across Europe not yet using JIT, 18% plan to introduce it over the next five years. In the sectors where JIT is perhaps most appropriate – manufacturing and construction – 57% are currently using these techniques, rising to as many as 69% in five years time.

Will proportions of freight carried by road, rail and air change? (see table 21)

- 45% expect rail freight to increase as a proportion of total
- 30% think road freight proportion will rise, 31% that it will fall

Results indicate little change in the proportion of freight carried by road. Rather more think the proportion of freight carried by air will decrease (17%) than think it will increase (12%). In contrast, those expecting rail freight to grow outnumber those expecting it to decline by almost four to one.

To set these results in context, the latest available figures show that 73% of goods in Europe are carried by road, and just 17% by rail.*

Will inventory levels change?

- 12% expect increase in inventory levels
- 31% expect inventories to decrease
- 39% expect inventories to remain as they are

Respondents who expect a decrease in inventory outnumber those who expect an increase by more than two to one. Within the manufacturing, construction, retail and wholesale sectors these figures remain broadly consistent. In manufacturing and construction 12% expect an inventory level increase, while 35% expect a decrease. In retail and wholesale 15% predict an increase and 30% a decrease.

* Source: EC Green Paper on the Impact of Transport on the Environment – A Community Strategy for "Sustainable Mobility" February 1992.

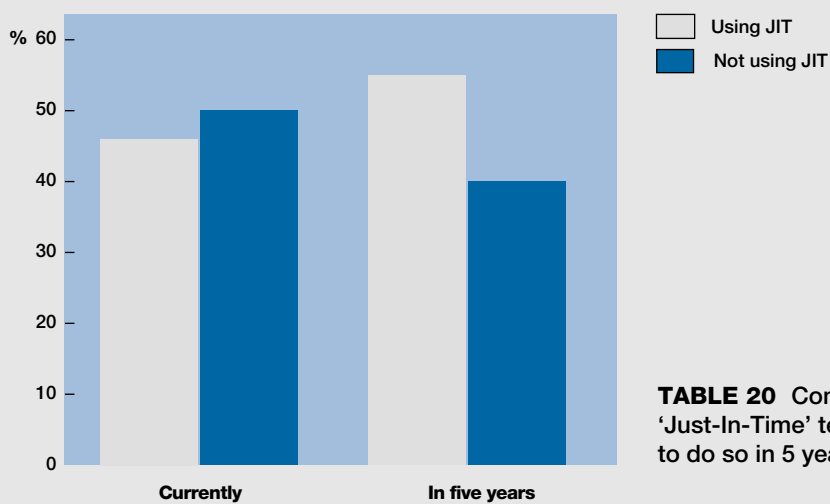


TABLE 20 Companies currently using 'Just-In-Time' techniques; and expecting to do so in 5 years time.

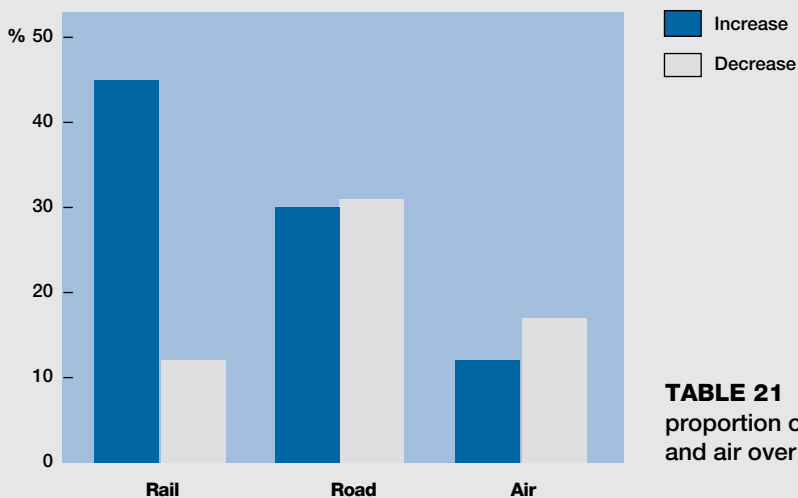


TABLE 21 Expected changes in proportion of freight carried by rail, road and air over next 5 years.

**For further information about
United Parcel Service and its
services please call one of the
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