

EXECUTIVE SUMMARY

December 1992



The business voice of Europe speaks again

The European economic and political scene has undergone dramatic and tumultuous change since the research for the first UPS Europe Business Monitor was undertaken in early 1992. Who would have imagined, just six months ago, that we would today be confronting a position which is so different in so many ways?

Denmark has rejected the Maastricht Treaty. France and Ireland have approved it – France by the smallest of margins – and important questions have been raised about central authority and structure. Italy and the United Kingdom have left the European Exchange Rate Mechanism, and the French franc has come under very heavy pressure. The prospect of a single European currency now seems more remote than ever.

Despite the strength of its currency, German reunification has imposed increasing strains on that country's economy. Recession has continued to undermine the prosperity of every EC Member State, and at the time of writing there is little sign of recovery.

As we approach the intended completion of the Single Market in January 1993, what does the new situation mean for Europe's businesses? What effects have events over the last six months had on the attitudes and expectations of Europe's business leaders? How badly has confidence been damaged? Have views on the future of the European Community changed?

The first UPS Europe Business Monitor was reviewed around the world and welcomed as a valuable forum for Europe's leading business people. It provided them with a rare opportunity to express their views across a wide range of topics which affect their businesses and their trading prospects. This second report seems even more timely today, given the economic and political tensions that have arisen in the meantime.

The first UPS Europe Business Monitor proved invaluable to us in our own business activities, leading as it did to greater understanding of local markets and business attitudes. As we at UPS expand our distribution infrastructure throughout Europe, we sustain our commitment to the exchange of information in the best interests of European economic strength.

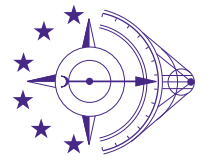


A note on the research

*The Harris Research Centre carried out a total of 1,485 interviews amongst European business leaders between 21 September and 30 October 1992. The following countries were included in the survey: Interviews **Belgium – 104, France – 255, Germany – 255, Italy – 256, Netherlands – 106, Spain – 251, UK – 258***

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 \$1.11 bn (872m Ecu).

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



Main findings

Since February/March 1992, when the research for the first UPS Europe Business Monitor was conducted, short-term confidence has declined throughout Europe and across all industry sectors. There is considerable economic gloom. 1993 is expected to bring low growth as well as increases in inflation and unemployment.

The research sheds light on business attitudes in the wake of the Maastricht Treaty and the Danish, Irish and French referenda. There is little support for the idea of a referendum in every Member State, and the Treaty itself meets with general approval. Only in the UK and Germany are there significant numbers who would vote against it if given the opportunity. And it is interesting that in France, in spite of the narrow result in the referendum, 82% of French business leaders say they voted in favour.

However, a majority of respondents feel that the Treaty should be renegotiated in order to bring Denmark back on board. And the proposal to increase the EC budget by 33% meets with little support. Most respondents feel that current expenditure should be reviewed first, or that a much lower increase should be negotiated. These results suggest that business leaders, while approving the Treaty in principle, have some doubts about its practical implications.

Other findings lend weight to that view. For example, most respondents believe that the economic needs of individual countries should take precedence over exchange rate stability within the ERM. Only in Belgium and the Netherlands is there a majority in favour of maintaining exchange rate parity, even if that means higher national interest rates than would otherwise be appropriate. As many as 45% across Europe believe that border controls will not disappear in 1993. And an overall majority think that employment laws should be left to individual nations rather than the EC – a view quite at odds with the provisions of the Social Chapter in Maastricht, but obviously of great practical importance to business people.

The explanation of our respondents' ready approval of the Treaty in principle may lie in the fact that for most of them, the Single Market already exists. 71% of business leaders intend to pursue strategies based on the reality of the Single Market, whatever happens to the Maastricht Treaty.

Other findings include a widespread confidence that Germany is fully capable of overcoming the economic strains of reunification; that Japan is seen by many as trading unfairly, although inward investment by that country is welcomed in Europe; that South Korea is thought likely to emerge as the 'next Japan' over the coming decade; and that North American free trade will not impede open markets between Europe and the US.

How do companies expect their economic position to change?

What are your company's economic prospects over the next 12 months? (See table 1)

- Confidence sags across Europe
- UK companies still most optimistic; German companies least

In the past six months, business leaders have become markedly less optimistic about the economic prospects of their companies.

When first surveyed in February/March 1992, 55% overall thought that their company's economic position would be better in 12 months time. Just 6 % believed it would get worse. This gave a net optimism score of +49%.

By October 1992, net optimism has fallen to just 19% overall. Only 38% of business leaders believe that their company's economic prospects will improve over the coming 12 months, while 19% think that their situation will get worse.

This decline in optimism is noticeable throughout Europe and across all industry sectors.

The UK remains the most optimistic country, despite its economic difficulties and the removal of sterling from the ERM. However, even here net optimism has declined from +70% in the first survey to +52%. Germany remains the least optimistic nation with a net optimism score falling from +25% in February/March to -11% in October, the only country to record a negative net score.

Which Western European countries will show the strongest or weakest growth? (See table 2)

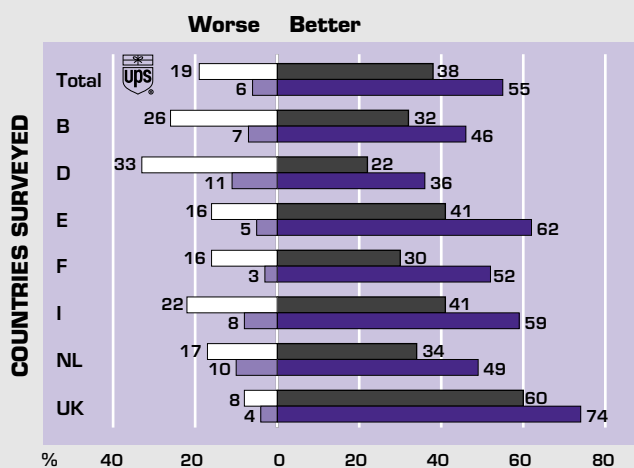
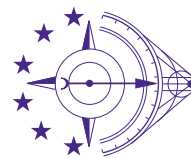
- Germany's prospects still brightest
- Weakest growth expected in Italy

Respondents were asked to compare likely growth in different countries. Germany is again expected to show the strongest economic growth in the medium-term. 71% of all respondents take this view. More business people now expect strong growth for France, which was mentioned by 48% of our sample and is now in second place, having been third – behind Spain – in the first survey.

Confidence in Spain's economic growth has collapsed from 54% in April '92 to 29% now – although this is still strong enough to achieve third place overall. The earlier figure might reflect the publicity surrounding the Olympic Games and Expo, then at its height.

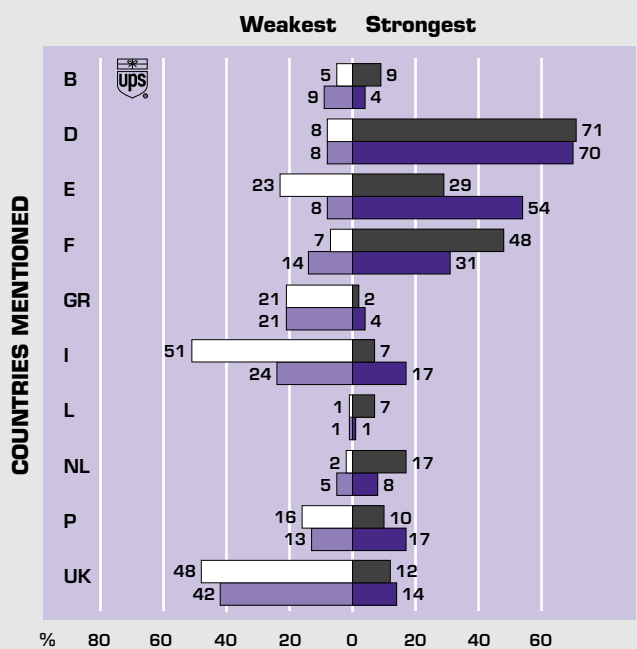
It is noteworthy that British industry retains some degree of confidence, although this is not shared by the rest of Europe. 33% of UK business leaders expect the UK to show the strongest economic growth over the next three years. Just 12% of their counterparts in Continental Europe agree. Dutch and Belgian business leaders, too, are more optimistic about their own prospects.

Italy is expected to show the weakest economic growth over the next three years according to 51% overall, and 54% of Italian business people. The UK was a close second, mentioned by 48% overall, but only by 30% of the British.



December 1992 survey results
April 1992 survey results

TABLE 1 How will economic position of company be in 12 months from now?



December 1992 survey results
April 1992 survey results

TABLE 2 Western European countries expected to show strongest or weakest economic growth over the next three years.

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom
GR Greece **L** Luxembourg **P** Portugal

How are key economic indicators expected to respond over the next 12 months? (See table 3)

- Inflation up
- Unemployment up
- Low growth

All European business leaders, with the exception of those in the Netherlands, foresee a period of increased inflation during 1993. However, the extent of the problem varies significantly between countries. Italy, with an expected rise from a latest figure of 5.3% to 6.1%, and Spain, from 5.2% to 6.1%, are the most pessimistic.

Unemployment is expected to rise across the community in 1993. The biggest increases, (1.5%) are foreseen in Spain and Italy, and in Belgium where a 0.8% increase is expected. In other countries the expected increases are generally 0.5% or less.

The GNP of the Community as a whole is expected to grow by less than 2% in 1993. Spain, the UK, Italy and Germany are the most tentative about their countries' prospects, all of them expecting growth of 1.25% or less.

What next for Maastricht?

Should all member states hold referenda on Maastricht Treaty? (See table 4)

- Majority in each country say referenda unnecessary
- Just over a quarter support referenda

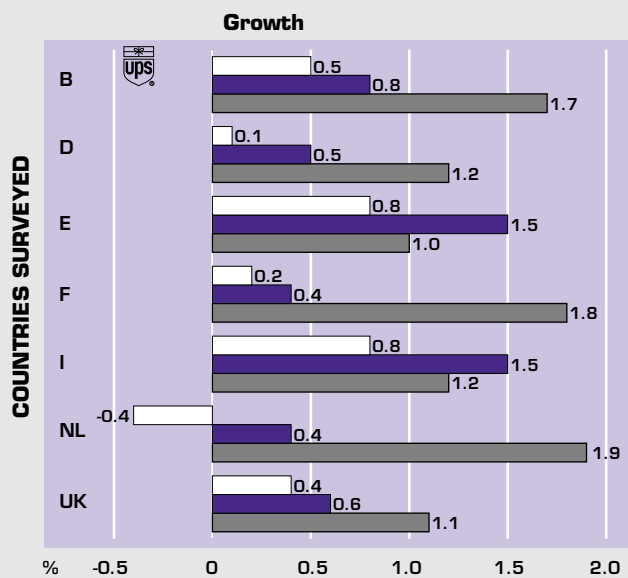
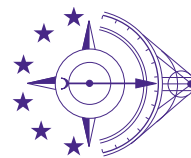
Following the referenda on the ratification of the Maastricht Treaty which were held in Denmark, Ireland and France, there is surprisingly little support for the idea of a referendum in every Member State. 73% overall see this as unnecessary, ranging from 61% of Spanish business leaders to 88% of those in the Netherlands.

Does European business support the Maastricht Treaty? (See table 5)

- Strong support for Maastricht
- Overwhelming French business support; British scepticism

The Maastricht Treaty clearly enjoys the overwhelming support of European business leaders. 79% say they would vote – or had voted – in favour of its ratification in a referendum. UK business people stand out as the most sceptical, with only 55% likely to vote in favour and 38% against. In Germany, a significant minority (21%), also opposed the Treaty.

Despite the close result of the French referendum in September 1992, 82% of French business leaders say they voted in favour of ratification, and only 12% against.



Growth in retail price index
 Growth in unemployment level
 Growth in GNP

TABLE 3 Expected changes in levels of retail price index, unemployment and GNP, by country, over next 12 months.

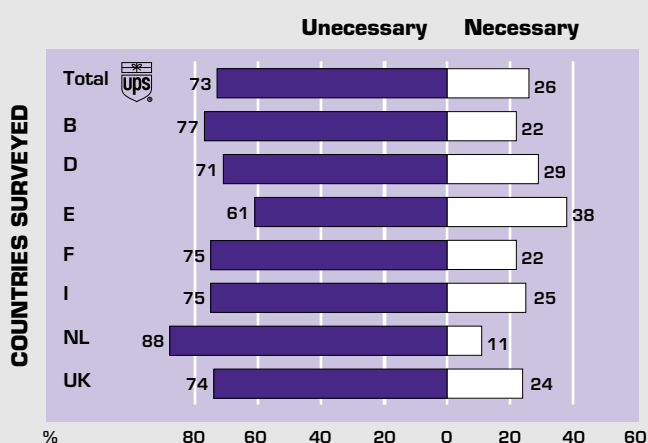


TABLE 4 Is a referendum necessary in all member states before the Maastricht Treaty is ratified?

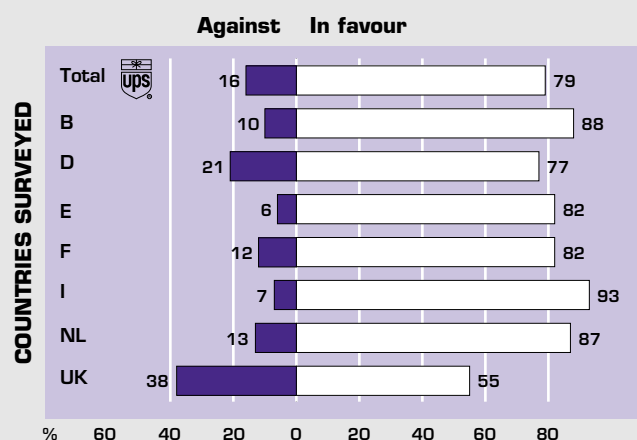


TABLE 5 Who would, or did, vote in favour in referendum on Maastricht?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom

Should the Maastricht Treaty go ahead or be amended? (See table 6)

- Redraft or renegotiation favoured
- Belgium, France and Netherlands say Europe should press ahead without Denmark
- Call for redraft strongest in UK and Spain

Despite the 'No' vote in the Danish referendum and the narrow victory in France, there is a seven to four majority in favour of redrafting or renegotiating the Treaty rather than pressing ahead without Denmark. The call for a redraft was strongest in the UK (32%) and Spain (27%) while 44% overall thought that the existing Treaty should be renegotiated to make it more acceptable to its opponents. 19% overall supported a return to first principles and the drafting of a completely new agreement.

Business leaders in Belgium, France and the Netherlands were most strongly in favour of pressing ahead with the current Treaty without Denmark.

How would business plans be affected by failure or delay in ratification of the Treaty? (See table 7)

- Single Market business activity underway with or without Treaty

Whatever political decisions are made, it seems that Europe's business leaders will press ahead towards a Single European Market. Their companies' business plans within Europe will be little affected by delay over the ratification of Maastricht, or even if the Treaty fails completely. 71% of business leaders say they will continue to base their strategies on the expectation of a Single Market, regardless of political setbacks.

Italian and Belgian business leaders are the most cautious. 21% of this group intend to keep their strategies and plans in line with the current political position on the Single Market. A further 11% in Italy say they will not formulate plans on the basis of a Single Market until the Maastricht Treaty has been ratified.

How should the finances of the EC be managed?

The Exchange Rate Mechanism – fixed or flexible? (See table 8)

- Interest rates take priority over exchange rate stability
- Belgians and Dutch show strongest support for ERM

European business leaders, while committed to the Single Market, are divided in their attitudes to the ERM and to its likely effects on the economies of their own countries. A majority of Belgian (61%) and Dutch (63%) business leaders think that parity within the ERM should be maintained, even if that means higher interest rates than might be appropriate for their own countries' economies. A strong minority in France (39%) also support this view.

However, business leaders overall think that interest rates should be set in line with the economic needs of individual countries and that this should take priority over exchange rate stability, even if that means frequent realignment within the ERM. Support for this view was strongest in the soft currency countries: the UK (81%), Spain (73%), Italy (64%) and also in Germany (64%) – a nation which enjoys such economic strength that its own interest rates tend to set minimum levels for other countries within the ERM.

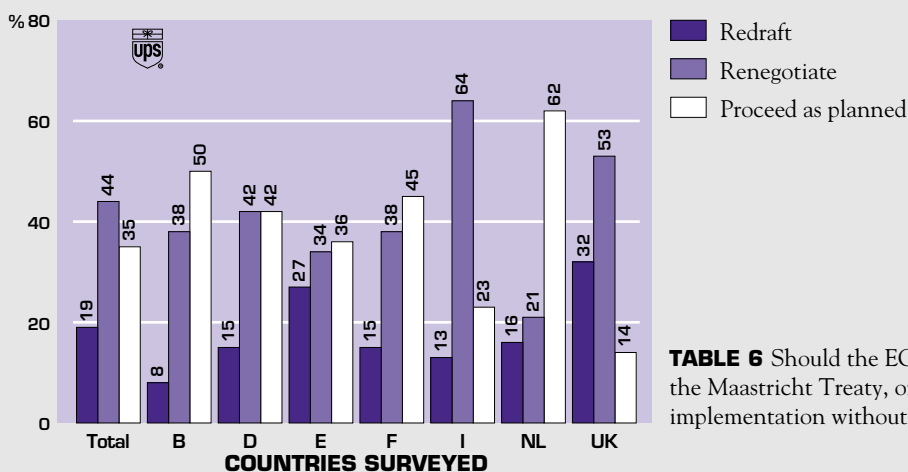
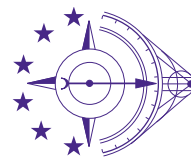


TABLE 6 Should the EC redraft or renegotiate the Maastricht Treaty, or continue with implementation without Denmark?

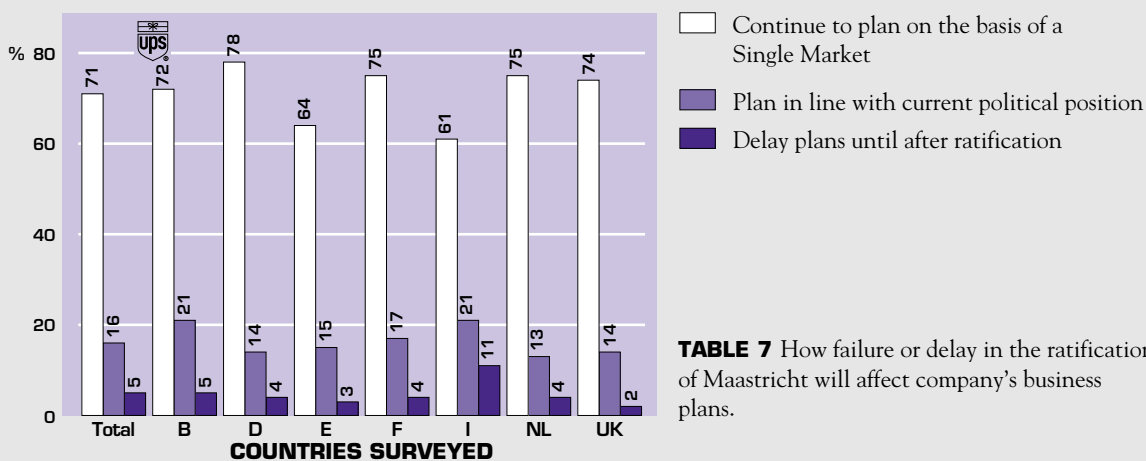


TABLE 7 How failure or delay in the ratification of Maastricht will affect company's business plans.

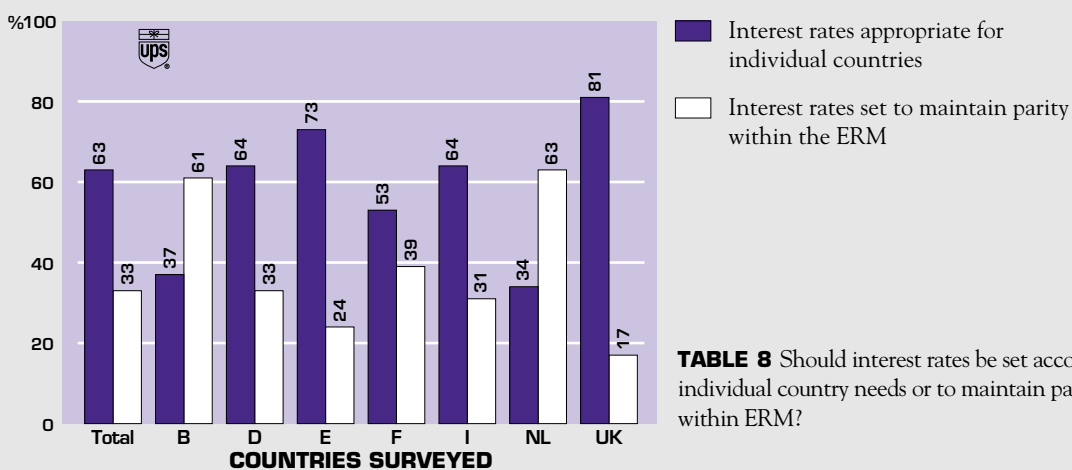


TABLE 8 Should interest rates be set according to individual country needs or to maintain parity within ERM?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom

Where should the European Central Bank be located? (See table 9)

- Frankfurt most favoured location for Central Bank

National pride appears to override more objective assessments in answering this question. Frankfurt is favoured by 73% of Germans, London by 59% of British, Amsterdam by 51% of Dutch and Brussels by 44% of Belgian respondents. 35% of French favour a French city. Overall, Frankfurt is the first choice with 21% in favour, followed by Brussels with 15% and London with 14%.

Should the EC budget be increased? (See table 10)

- Minimum increase favoured
- Rigorous review of EC spending supported

Jacques Delors' proposal to increase the EC budget by 33% by 1998 receives little support from business leaders. At the very least, they want a rigorous review of current expenditure before approving the increase. 37% of respondents take this view. A further 47% think that a minimum increase, well below the 33% requested, should be negotiated.

Countries wishing to keep tight control over the EC purse strings include the main net contributors to the EC budget – 69% in the UK, 57% in Germany, and 54% in the Netherlands want to keep the increase as low as possible. Only in Spain and Italy – both net beneficiaries of EC spending – is there significant minority support for agreeing the increase as requested.

How are EC Directives implemented?

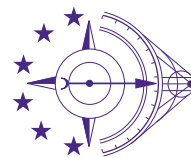
Are EC directives implemented equally in all Member States and which countries are least likely to comply? (See table 11)

- Implementation of EC directives widely seen as unequal
- Southern Mediterranean countries least likely to comply

European businesses are greatly affected by EC directives when these are implemented by their national governments. However, there is widespread agreement that directives are not implemented equally in all Member States. Overall, 89% believe this to be the case.

With views supported by even their own business leaders, countries to the south are generally seen to be least likely to implement EC directives. Italy is seen as the worst offender by 71% of Italians and by 66% overall, followed by Spain which is seen as worst by 68% of Spaniards though only 44% overall, and then Greece with 34% and Portugal with 30% overall.

With the exception of Italy and Spain, countries believe that they themselves honour EC directives, while being sceptical of their neighbours' commitment. French business leaders believe that their country generally follows EC directives – only 11% doubt this. However, their counterparts in other countries are more sceptical. 55% of UK respondents, 36% of Germans and 36% of the Dutch name France as one of the nations least likely to comply. Similarly, while only 10% of UK business leaders think their country is unlikely to implement EC directives, this view is strongly contradicted by German and French opinion – 41% and 43% respectively.



PER CENT RESPONSE FROM COUNTRIES SURVEYED


		Total	B	D	E	F	I	NL	UK
Preferred City	Frankfurt	21	12	73	12	5	14	10	6
	Brussels	15	44	4	12	12	35	10	4
	London	14	7	1	7	2	6	6	59
	Paris	6	0	2	8	10	13	2	1
	Amsterdam	5	2	1	0	1	2	51	2
	Strasbourg	4	1	0	2	17	2	0	0
	Luxembourg	4	8	2	2	7	5	2	1
	Barcelona	3	0	0	16	0	0	0	0

TABLE 9 Cities where respondents think Central European Bank will be located.

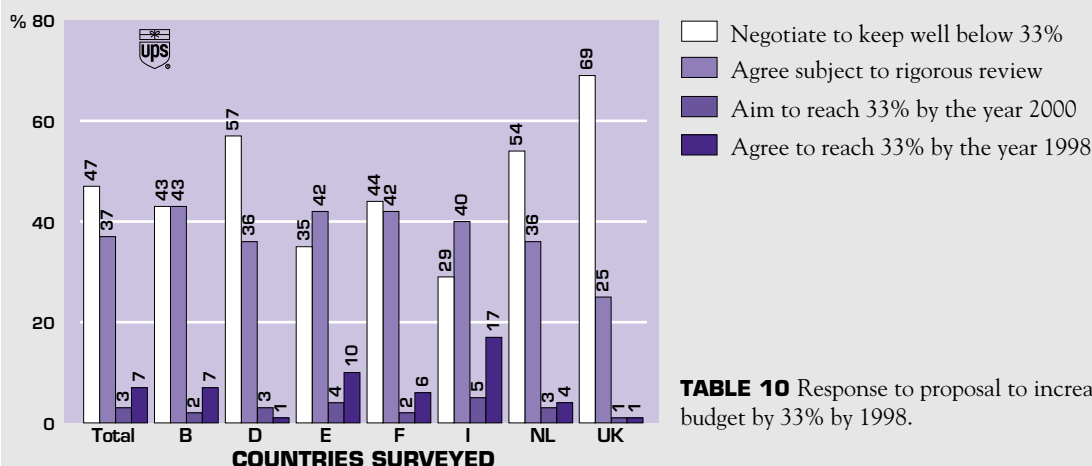


TABLE 10 Response to proposal to increase EC budget by 33% by 1998.

PER CENT RESPONSE FROM COUNTRIES SURVEYED


		Total	B	D	E	F	I	NL	UK
Some countries reluctant		89	89	95	77	91	82	95	96
Equally in all countries		8	7	4	14	7	14	3	2
Countries mentioned	I	66	57	64	47	69	71	77	74
	E	44	52	38	68	38	33	60	36
	GR	34	42	31	38	44	26	46	26
	P	30	33	32	44	34	22	33	18
	UK	29	26	41	21	43	34	16	10
	F	29	23	36	6	11	28	36	55
	D	9	10	4	3	8	25	5	10
	B	5	20	5	0	3	12	5	1
	DK	5	3	6	2	5	13	0	1
	Other	13	10	16	12	10	34	1	4

TABLE 11 Are EC directives implemented equally in all member countries? Which countries are least likely to comply?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom
DK Denmark **GR** Greece **P** Portugal

Who should be responsible for employment laws? (See table 12)

- Majority favours individual country
- Only Italy and Spain prefer EC regulation

An overall majority of 55% think that responsibility for drafting, passing and implementing employment laws should rest with individual countries, not with the EC. This view is most strongly held by the UK (83%), Germany (67%), the Netherlands (64%) and France (60%).

However, majorities in Italy (78%) and Spain (57%) believe that employment laws should be an EC responsibility, although even here business leaders often make the point that any central law should be flexible enough to cater to circumstances in individual countries.

Trade within and beyond the EC

Will border procedures and controls disappear in 1993? (See table 13)

- 45% believe that controls will not disappear
- Slight majority (51%) believe borders will disappear

It must be a matter of concern to the EC authorities that, in the third quarter of 1992, as many as 45% of key people amongst the top 15,000 European businesses do not believe that border controls are going to disappear.

The French at 69% and the Belgians at 68% are the most optimistic. Italian and UK business people take the negative view, with a majority believing that controls will stay in place.

Will the removal of controls make the movement of goods easier? (See table 14)

- Belgium and Spain most optimistic

Following the removal of border controls individual companies will need to take increased responsibility for the collection of VAT and statistical information. Despite this, 67% overall – strengthened by Belgium (81%) and Spain (82%) – believe that the movement of goods within the EC will become easier for them. Only 21% think it will be more difficult.

Which Eastern European countries offer the best prospects for growth and investment? (See table 15)

- Hungary and Czechoslovakia vie for first place

Hungary (67%) and Czechoslovakia (65%) are well ahead as preferred locations for future investment. Support for both countries was particularly strong amongst German and Dutch businesses. Poland (38%) was the only other country to be mentioned by significant numbers.

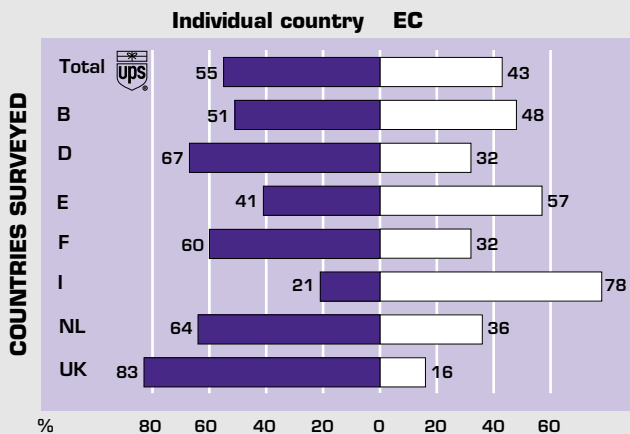
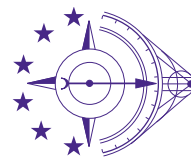


TABLE 12 Should employment law be drafted, passed and implemented by the EC or individual countries?

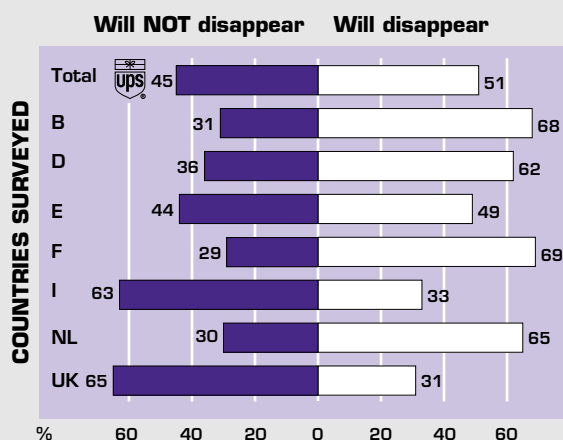


TABLE 13 Will EC customs procedures and controls at borders disappear in 1993?

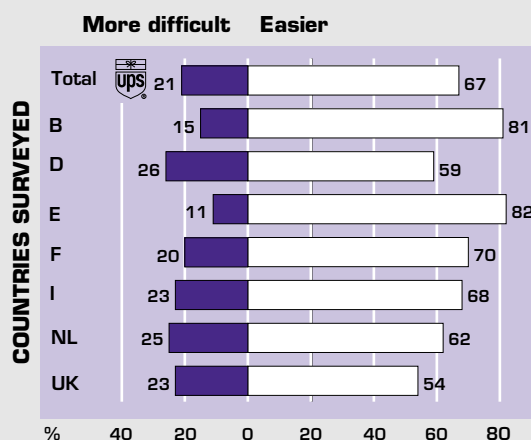


TABLE 14 Will the removal of customs procedures and controls make the movement of goods within the EC easier or more difficult?

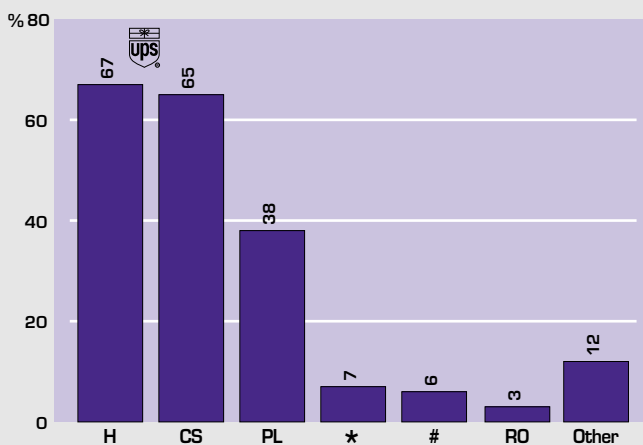


TABLE 15 Eastern European countries expected to offer the best prospects for growth and investment.

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom
H Hungary **CS** Czechoslovakia **PL** Poland ***** Independent State of Russia
The former GDR **RO** Romania

How will German reunification affect Europe's future? (See tables 16 & 17)

- Confidence in long-term strength of German economy
- Reunification seen as beneficial to the EC

Business leaders are united in their confidence that Germany is strong enough to overcome the economic difficulties of reunification over the next ten years, and that it will remain the strongest economy in Europe.

German respondents remain confident. Only 6% think reunification will have a long-term detrimental effect on their economy.

Similarly, 76% of respondents think that the reunification of Germany will benefit the EC as a whole. However, some in the UK (31%), Spain (27%), Italy (19%) and Germany itself (20%) expect German reunification to have a detrimental effect on the EC economy over the next ten years.

Why do European companies have difficulty making sales to Japan? (See table 18)

- Japanese trade barriers seen as main cause of difficulty

Japanese trade barriers are seen by 43% of all respondents as the main obstacle to doing business in Japan. This view is most strongly held in the Netherlands (53%), France and the UK (both at 48%).

Trading problems are attributed to Japanese cultural differences by 21% overall and by as many as 29% in France. Lack of effort by European countries is cited by 16% overall but by as many as 31% in Germany and 24% in Belgium. The high prices of European goods are thought to create problems by 12% overall, rising to 27% in Spain and 20% in Italy.

Japan's investment growth in Europe – good or bad? (See tables 19 & 20)

- Market share to grow
- Japanese investment welcome in Europe

Six out of ten business leaders expect Japan's share of the European market to increase over the next decade.

Although Japanese industry undoubtedly offers intense competition, inward investment by Japanese companies is generally welcomed. 21% say it is very good for their country and 61% that it is fairly good. 94% in the UK think it is either very or fairly good.

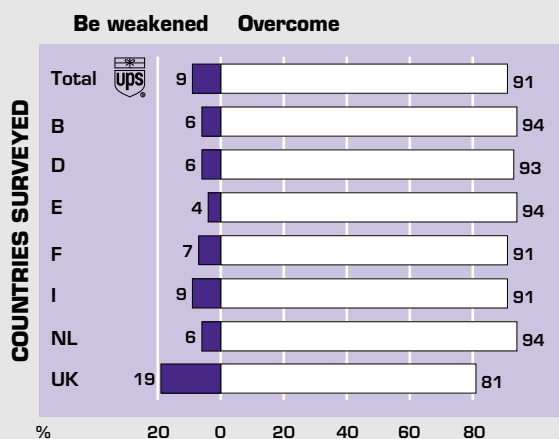
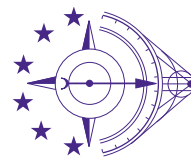


TABLE 16 Will Germany's economy overcome or be weakened by reunification in the next decade?

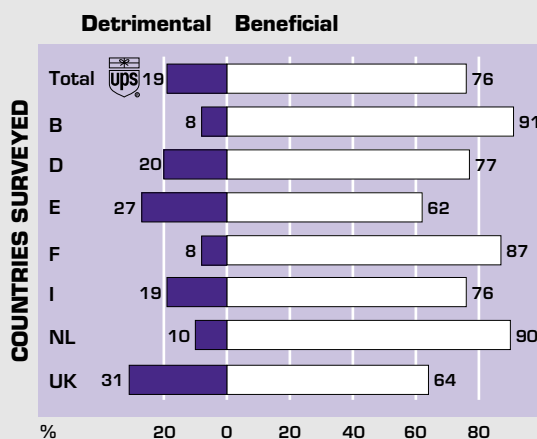


TABLE 17 Will the reunification of Germany be detrimental or beneficial to the EC as a whole over the next decade?

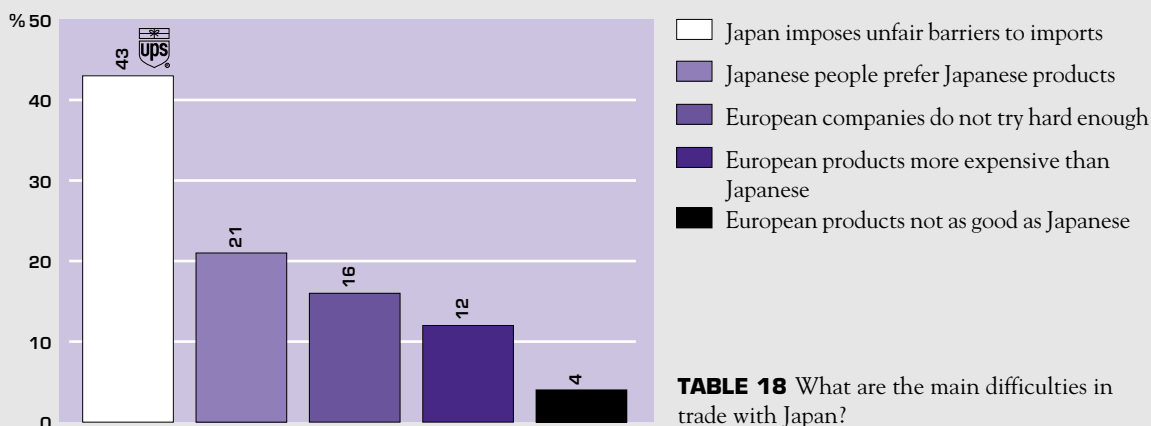


TABLE 18 What are the main difficulties in trade with Japan?

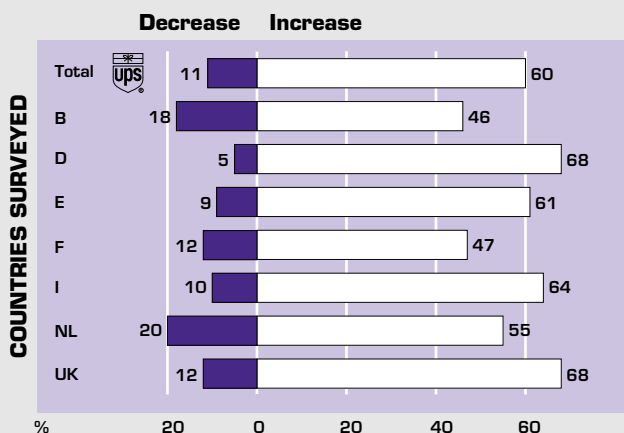


TABLE 19 Will Japan's overall share of the European market increase or decrease over the next decade?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom

Who will be the next Japan? (See table 21)

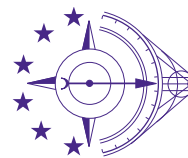
- South Korea – growth forecast to continue

52% of business leaders, rising to as high as 70% in Germany, believe that South Korea will offer the next great Far Eastern challenge to European markets. China (24%) and Taiwan (22%) are also thought likely to challenge Europe's markets seriously in the future.

Will NAFTA create a protectionist body or will the US remain committed to free trade? (See table 22)

- Majority believe US will remain a free trade economy
- French most concerned about protection threat

A majority of Europe's business leaders (61%) feel that the North American Free Trade Agreement (NAFTA) will not lead to increased protectionism in the United States, and believe that US attitudes to trade will remain largely unchanged. German business leaders (76%) believe this most strongly. French respondents (45%) are most concerned about the protectionist threat.



PER CENT RESPONSE FROM COUNTRIES SURVEYED


	Total	B	D	E	F	I	NL	UK
Very good	21	26	8	5	27	7	40	48
Fairly good	61	58	84	77	50	53	56	46
Fairly bad	12	11	7	9	14	30	4	3
Very bad	1	1	0	0	4	2	0	1

TABLE 20 Japanese investment – good or bad for your own country?

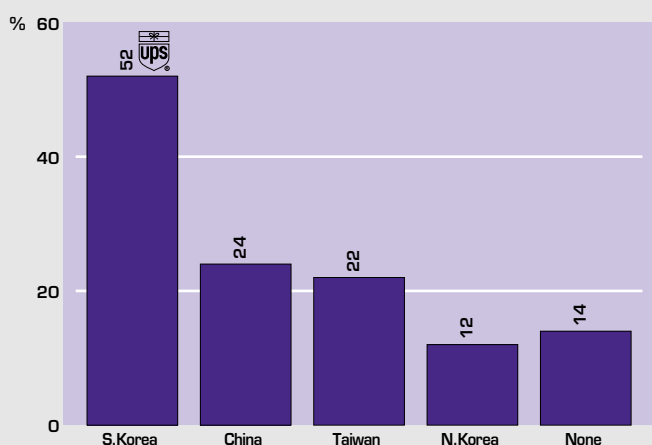


TABLE 21 Who is the next Japan? Which developing Far Eastern countries pose a serious long term challenge to European business markets?

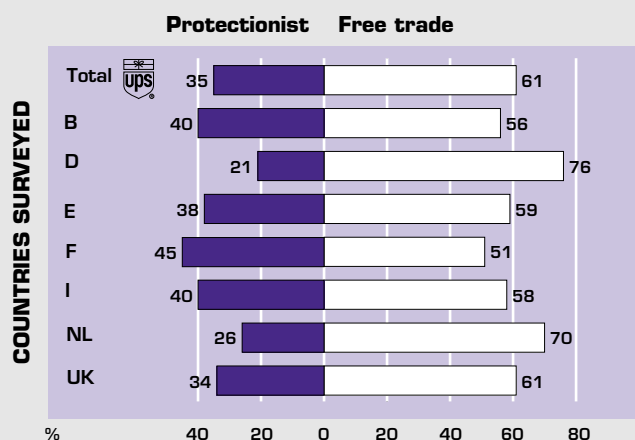


TABLE 22 Will NAFTA become a protectionist body or will the US remain essentially a free trade economy?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom

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following numbers:**

UPS Austria	1 71110 3556
UPS Belgium	02 247 2828
UPS Denmark	43 978600
UPS Finland	90 8702477
UPS France	01 48 92 5000
UPS Germany	01 30 6630
UPS Ireland	01 304003
UPS Italy	02 5079279
UPS Netherlands	020 5873 873
UPS Norway	02 122020
UPS Spain	91 507 0888
UPS Sweden	020 788799
UPS Switzerland	61 325 2755
UPS UK	0800 456789
UPS US and Americas	800 782 7892
UPS Asia-Pacific	65 730 6317



The information in this report is correct at time of going to press.

Survey undertaken by the Harris Research Centre.

Designed and produced in the UK by Edelman Creative Services for United Parcel Service.