



A Study of the European Cosmetics Industry

Final Report

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THE POWER OF PERSPECTIVE

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Introduction and Structure of the Study

- ◆ Section I of this report is a broad market study of the cosmetics industry in the EU, U.S., Japan, and China, and provides an overview and sizing of the cosmetics industry in the countries under consideration. This section will also examine both macro and microeconomic trends and aspects of the cosmetics market in each country, assessing the following major product segments: toiletries; hair care; skin care; decorative cosmetics; and perfumes and fragrances. Per capita spending on cosmetics in each country is examined, and five-, ten-, and twenty-year market forecasts are presented for each country. The structure and competitiveness of the cosmetics industry is considered here. Competitiveness is analysed by looking at trends in key indicators, including unit labour costs, productivity and industry purchases of intermediate goods.
- ◆ Section II delves into the nature of competition in the industry. The largest players in the global industry are profiled. This is followed by an evaluation of potential barriers to entry including regulatory environment, trade barriers, market structure, distribution channels, economies of scale and others.
- ◆ Section III investigates sources of competition specifically alternative approaches to skin care presented by the medical devices and pharmaceuticals industries. The role of SMEs in the cosmetics industry is examined through various case studies. The objective here is to highlight the contributions of SMEs to the process of innovation.
- ◆ Section IV examines different aspects of innovative activity in the cosmetics industry, including R&D activity conducted by firms manufacturing cosmetics, and the number of patents filed on cosmetic products in each country. Because product innovation can increase export success, we apply the well-known economic concept of comparative advantage to international trade data at the product level. In addition, each country's trade balance in cosmetics products is presented and trends in that balance are examined.
- ◆ Section V proposes strategic recommendations to the European Commission on policy options for the sector, based on the analysis in the previous chapters. The main policy issues, options, and recommendations are identified and presented with regard to preserving and enhancing innovation in the European cosmetics industry and, more generally, its ability to compete in the world market.

I. Broad Market Study - Macro/Microeconomic Characteristics

Summary

This chapter provides an overview of the broad cosmetics industry (also referred to as the cosmetics and toiletries (C&T) industry) in the EU, Japan, China, and the U.S. The total EU27 cosmetics market was valued at €63.5 billion in 2006, compared to €38.2 billion in the U.S., €23.7 billion in Japan, and €8.2 billion in China. Among the EU countries, Germany has the largest cosmetics market, valued at €1.7 billion, followed by France (€10.4 billion), the U.K. (€10 billion), Italy (€8.8 billion), and Spain (€7.4 billion).

Market Segments

The broad market segments considered in this study include: toiletries, skin care, decorative cosmetics, fragrance perfumes, and hair care. Among the EU countries, skin care, hair care, and toiletries each occupy a market share of roughly 25%, while fragrance perfumes account for 15%, and decorative cosmetics cover the remaining market share. Skin care has a decidedly more dominant market share in both Japan (40%) and China (39%). In the U.S., toiletries dominate the cosmetics market with a 32% share, while hair care, skin care, and decorative cosmetics have roughly equal shares, and fragrance perfumes are somewhat less important.

Per Capita Spending

The data on per capita cosmetics spending by country reveal that the average among the EU27 countries is €128 per year. Denmark and Sweden have the highest consumption of cosmetic products at €171, followed by Spain at €169 and France at €166. Spending per capita is low in Greece and Portugal at just €21 and €104, respectively. Over the period 2000-06, there was sluggish per capita consumption growth in two of the large European markets, France and Germany, and somewhat better performance in Italy and the United Kingdom. In contrast, there was strong growth in the high per capita consumption countries like Denmark, Sweden, Spain, and Norway.

Using a correction for purchasing power parity¹, per capita cosmetics spending was €174 in Japan, €127 in the U.S. and €24 in China.

Buying Patterns and Shifting Trends

The study found unique trends in buying patterns in particular countries, as well as some common across the board. In most countries, there are growing concerns about skin cancer and exposure to harmful rays that has led to the growing use of sun care products. Anti-aging creams and anti-cellulite skin care products are in high demand among an aging population in the developed countries. There is also a widespread and growing

¹ A measure of the long-run equilibrium which determines the exchange rate that equalizes consumers' buying power on a given basket of goods and services across the countries considered.

diversity of cosmetics products for men – especially men's fragrances – and a growing demand for natural / organic products in most countries. The declining birth rate in many countries has led to a drop-off in demand for baby care products. The study also found that technologically advanced products, such as self-tanning lotions and creams, are growing in popularity.² In the higher-income countries, there is a growing trend towards so-called "masstige", or premium, brands sold at lower prices. This is especially notable in the skin care segment.

Growth Forecasts

Global Insight's Global Consumer Markets product, which rigorously models and forecasts consumer spending activity based on a consistent set of drivers for all countries, was used to forecast the cosmetics market in this study. China is seen as the fastest-growing market, with significant growth potential, partly because current per capita spending on cosmetics is starting at a very low base. The cosmetics market in the new EU members will grow at a faster pace (8.6% compounded annually) than the EU15 countries (3.8%). The Japanese market is expected to grow strongly over the next five years (8% compounded annually), with more moderate growth expected after 2011. The U.S. is the slowest-growing market for cosmetics (annual growth below 3%).

Data Sources

The data sources for this project include national and official statistics, industry associations, market intelligence firms, and company reports. COLIPA is the main source for market data among the Western European countries (EU15, Norway and Switzerland), and Euromonitor is the main source for Eastern European countries, as well as the U.S., Japan, and China. Considerable care must be exercised when comparing what appear to be identical concepts across these data sources, because of differing definitions, criteria, and methodologies for collecting and reporting data. We caution that the data represented in this report should be interpreted as illustrative only, but we remain confident that it will provide a useful overall picture of competitiveness, growth, and potential in the individual countries and the overall marketplace.

I.1 - Market Sizes

Europe

Table 1 represents the size of the cosmetics market in Europe and the share of that market in each country. In 2006, the EU27 countries consumed €63 billion worth of cosmetics, with the five major EU countries – France, Germany, Italy, Spain, and the U.K. – making up approximately 70% of the total market at retail sales prices.

It is interesting to note that the cosmetics market of the 12 new members of the European Union (EU12) represents only about 9% of the EU27 total, although it covers 21% of the

² COLIPA – The European Cosmetic Toiletry and Perfumery Association, *European Cosmetic, Toiletry & Perfumery Market Overview: 2005*, Brussels – also referred to later in the study.

population – which indicates that most likely the new member states should be viewed as the most promising markets.

Table 1- 2006 Country Market Sizes and their Shares of the Total; Retail Sales Prices, Millions of €

2006 Country Market Sizes and their Shares of the Total; Retail Sales Prices, Millions of €					
Country	Market size	Share of Total	Country	Market size	Share of Total
EU15	57,586	90.7%	Denmark	928	1.5%
EU12	5,889	9.3%	Czech Republic	840	1.3%
EU27	63,475		Finland	758	1.2%
			Romania	655	1.0%
Germany	11,713	18.5%	Hungary	630	1.0%
France	10,440	16.4%	Ireland	567	0.9%
United Kingdom	9,993	15.7%	Slovakia	423	0.7%
Italy	8,793	13.9%	Cyprus	179	0.3%
Spain	7,442	11.7%	Lithuania	177	0.3%
Netherlands	2,437	3.8%	Bulgaria	172	0.3%
Poland	2,416	3.8%	Slovenia	162	0.3%
Belgium/ Luxembourg	1,720	2.7%	Latvia	93	0.1%
Sweden	1,552	2.4%	Estonia	85	0.1%
Greece	1,344	2.1%	Malta	59	0.1%
Austria	1,291	2.0%	Switzerland	1568	
Portugal	1,105	1.7%	Norway	1,022	

Source: Euromonitor, COLIPA Statistics Working Group

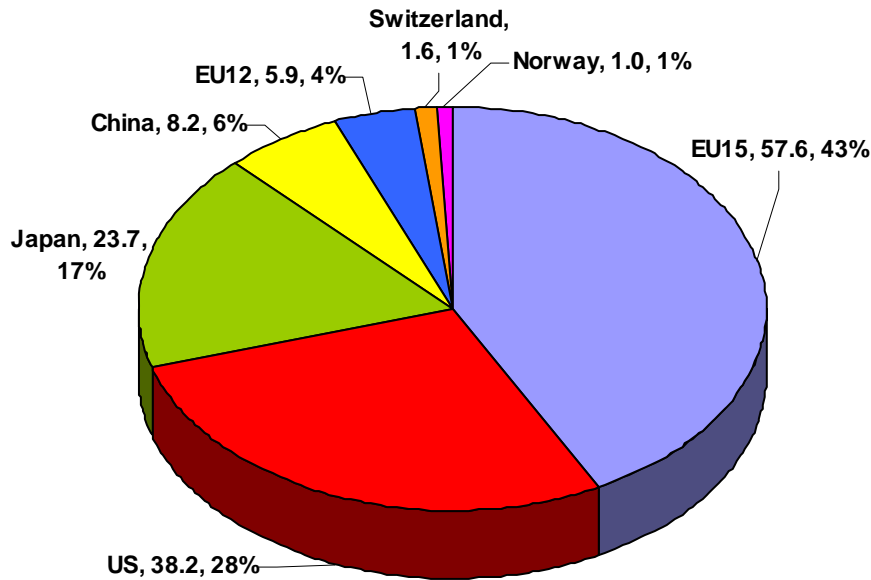
U.S., Japan, and China

Europe's market size is almost as large as the U.S. and Japan combined. According to Euromonitor, in 2006, the U.S. cosmetics market was €38.2 billion, while Japan's was €23.7 billion and China's €8.2 billion.

In euro terms, the Chinese cosmetics market and the EU12 countries have been the most dynamic, growing at a compound annual growth rate of 4.6% and 5.5%, respectively, over the 2001-06 period.

Meanwhile, the U.S. and Japan have decreased on average by about 4.7% and 3.8%, respectively, over the same period, although this is mostly due to a depreciation of their currencies vis-à-vis the euro. In local currency (LC) terms, they increased by 2.3% and 1.9%, respectively. During this time, the EU15 market has grown on average by about 3%, over the 2000-2006 period.

Figure 1 - Europe, U.S., China, Japan C&T Market Sizes, Retail Sales Price, 2006, Total market €136.2 billion



Source: Euromonitor, COLIPA Statistics Working Group

I.2 - Per Capita Cosmetics Consumption

This section analyses the per capita consumption patterns of the countries under review, presented in euro values as well as in euros at U.S. dollar purchasing power parity (PPP) exchange rates. In order to obtain the latter, per capita consumption in local currency units (LCU) was multiplied by the ratio of the spot to the PPP exchange rate (both in LCU per USD).

Table 2 depicts per capita spending on cosmetics in the EU27 countries. Among the EU15 countries, the biggest spenders are Danish, Swedish, and Spanish consumers. The EU15 average spending per capita in 2006 was €150, with the lowest per capita spending in Portugal. Country rankings do not change significantly when compared in terms of purchasing power parity, with a few exceptions: Greece and Italy move up, reflecting a lower price level and higher purchasing power than their euro-denominated per capita spending would suggest. The Netherlands on the other hand, moves down in ranking due to its higher price levels. Denmark moves from first place in the EU15 to nineteenth as the Danish krona is overvalued relative to the euro.

Norway and Switzerland have exceptionally high per capita spending, but in purchasing power terms, Norway falls into thirteenth place overall, due to its elevated price level and overvalued currency.

In euro terms, per capita consumption growth was sluggish in two of the large European markets, France and Germany, over the 2000-06 period, and somewhat more dynamic in

Italy and the U.K., which both grew on average at 2.5%. There was strong growth in high per capita consumption countries like Denmark, Sweden, Spain, and Norway.

Table 2 - Per Capita Consumption by Country –Europe

Country	C&T expenditure per capita (€), 2006	CAGR 2000-2006	C&T expenditure per capita (€) at US\$ PPP, 2006	ranking by PPP expenditure
Norway	219	5.7%	131	13
Cyprus	212	-1.1%	233	1
Switzerland	211	0.2%	144	6
Denmark	171	4.2%	119	19
Sweden	171	4.7%	139	7
Spain	169	4.3%	153	4
France	166	1.3%	138	9
United Kingdom	165	2.5%	137	10
Belgium/Luxembourg	164	3.5%	139	8
Austria	156	2.7%	129	15
Netherlands	149	2.4%	116	21
Italy	149	2.5%	133	11
Malta	144	2.9%	187	2
Finland	144	5.1%	120	18
Germany	142	1.0%	121	17
Ireland	133	2.9%	99	23
Greece	121	4.7%	124	16
Portugal	104	2.3%	118	20
Czech Republic	82	11.4%	145	5
Slovenia	81	6.7%	131	12
Slovakia	78	6.9%	162	3
Poland	63	4.7%	108	22
Estonia	63	6.1%	130	14
Hungary	63	8.4%	96	25
Lithuania	52	8.9%	99	24
Latvia	40	3.1%	83	26
Romania	30	9.7%	47	28
Bulgaria	22	7.6%	62	27
EU12	57	6.8%	98	
EU15	150	1.9%	132	
EU27	128	2.2%	124	

Source: COLIPA Statistics Working Group, Euromonitor

In the new member states of the European Union, there is greater divergence in per capita spending terms. By far the largest per capita cosmetics spender is Cyprus³, at €12. Malta is second at €44, with the Czech Republic and Slovakia following at a distance, with €82 and €81, respectively. At the very bottom of the list are the two newest members of the EU, Romania and Bulgaria. In purchasing power, the rankings remain relatively unchanged, and show that the new member states have higher purchasing power than their euro-value consumption levels would suggest, reflecting a lower price level in these countries.

³ Cyprus and Malta values are modelled and should thus be analysed with caution

Table 3 - Per Capita Consumption by Country, U.S., Japan, China

Country	C&T expenditure per capita (€), 2006	CAGR 2000-2006	C&T expenditure per capita (€) at US\$ PPP, 2006
China	6	4.0%	24
Japan	186	-4.5%	174
US	127	-3.8%	127
EU15	150	1.9%	132
EU12	57	6.8%	98
EU27	128	2.2%	124

Source: Euromonitor, COLIPA Statistics Working Group

Among the markets analysed, Japan has the highest per capita expenditure on cosmetics and toiletries, both in euro values and at purchasing power exchange rates. China has the lowest level of cosmetics consumption per capita, although in purchasing power terms this increases fourfold as a reflection of its heavily undervalued currency.

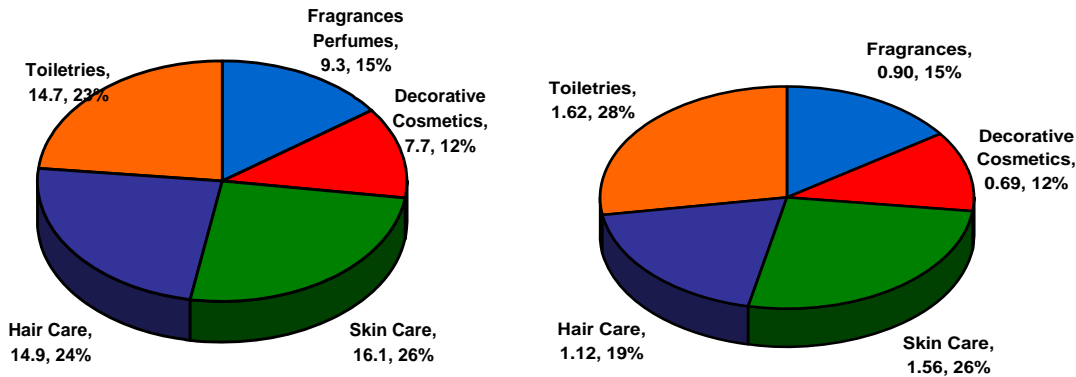
I.3 - Market Segments

The following section analyses five distinct categories in the cosmetics industry: fragrances and perfumes; decorative cosmetics; skin care; hair care; and toiletries. As the data come from two different sources – COLIPA for the Western European countries and Euromonitor for the rest – small differences may exist in the components included in the categories.⁴

The importance of these categories in the consumption baskets of the markets under review differs, as does their performance. Figure 2 depicts the importance of each product in the overall cosmetics market in Europe. Toiletries, hair care, and skin care products each represent about 25% of the overall market in Europe, while fragrance perfumes are 15% and decorative cosmetics are 12%. The EU12 consumes a similar mix of cosmetics, with the only difference being that toiletries have a relatively higher importance at the expense of hair products.

⁴ See Appendix for the components of the five categories

Figure 2 - C&T Market Shares by Product Category, Retail Sales Price, Billion €, Western Europe, 2006, Total market = €62.7 billion; EU12, 2006, Total market = €5.9 billion



Source: COLIPA Statistics Working Group, Euromonitor

Where the two markets differ is in terms of their growth patterns. The EU12 outpaced Western Europe's cosmetics and toiletries market growth by almost 4% in euro terms. Over the 2000-06 period, the Czech Republic grew the fastest, at an annual average rate of 11.5%, followed by Romania at 9%, and Hungary at 8.1%. This ranking changes, however, when growth in local currency is considered. This removes the effect of currency movements from the calculation and is a more accurate reflection of the performance of individual markets in retail sales terms. With this in mind, Romania grew on average by almost 20%, followed by Slovenia at 9.5%, and Hungary at 8.3%.

Table 4 - EU12 C&T Market Growth⁵

Country	CAGR 2000-2006 Euro terms	CAGR 2000-2006 LC terms
Bulgaria	6.5%	6.4%
Cyprus	0.1%	0.2%
Czech Republic	11.5%	7.3%
Estonia	5.7%	5.7%
Hungary	8.1%	8.3%
Latvia	2.5%	6.3%
Lithuania	7.4%	6.2%
Malta	3.6%	4.6%
Poland	4.5%	4.0%
Romania	9.0%	19.8%
Slovakia	6.9%	4.5%
Slovenia	6.9%	9.5%

Source: Euromonitor

Differences in growth patterns can be explained by developments in the two regions. While the developed countries of Europe experienced moderate growth in private

⁵ Values for Cyprus and Malta are modelled

consumption and per capita disposable income leading to sluggish growth in cosmetics consumption, the more dynamic EU12 have grown much faster due to rising incomes, boosting their overall consumption, including cosmetics products. It is interesting to note that the income effect has more than balanced the demographic effect in these countries. Indeed, the slight reduction in the population level is the only drag on the cosmetics and toiletries market in the EU12 region. However, growth in the EU15 has picked up strongly in 2006, registering the fastest growth since 2001, as the economic environment has become more favourable.

Table 5

EU15	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	50.42	52.74	54.59	55.52	57.16	57.65	60.08	3.0%
	Y/Y growth rate		4.6%	3.5%	1.7%	2.9%	0.9%	4.2%	3.0%
Per capita C&T consumption	Y/Y growth rate		2.2%	3.6%	-1.4%	1.4%	2.1%	3.4%	1.9%
Total population	Y/Y growth rate	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.4%
Population 65+	Y/Y growth rate	1.4%	1.5%	1.6%	1.6%	1.5%	1.4%	1.3%	1.5%
Private Consumption	Y/Y growth rate		4.1%	3.1%	1.7%	4.3%	3.5%	4.2%	3.5%
C&T as a % of total consumption		0.96%	0.97%	0.97%	0.97%	0.96%	0.93%	0.93%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Compound Average Growth Rates (CAGR) are calculated over the periods that data is shown as available in the table.

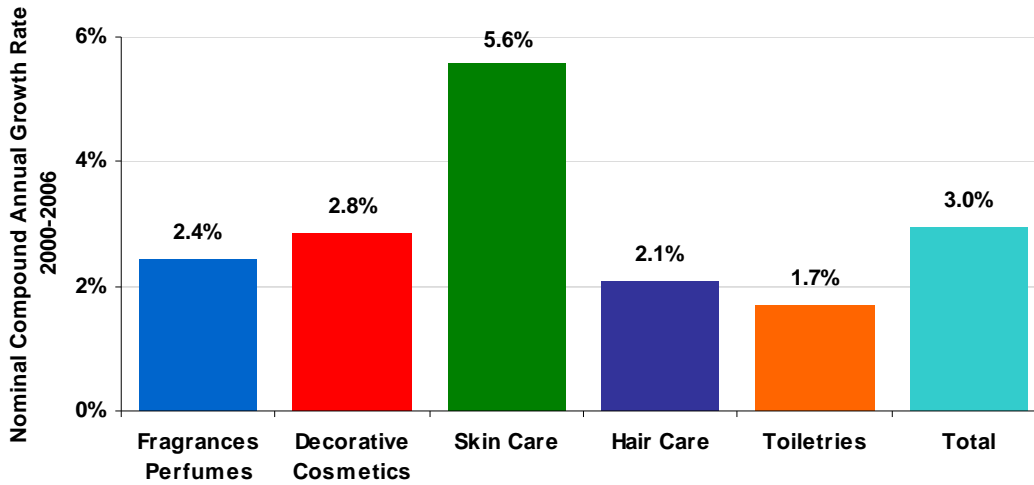
Table 6

EU12	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	4.07	4.51	4.75	4.67	4.87	5.54	5.89	6.4%
	Y/Y growth rate		10.9%	5.2%	-1.6%	4.4%	13.7%	6.3%	6.4%
Per capita C&T consumption	Y/Y growth rate		11.6%	5.9%	-1.4%	4.9%	13.8%	6.4%	6.8%
Total population	Y/Y growth rate	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Population 65+	Y/Y growth rate	1.3%	1.2%	1.2%	1.1%	0.9%	0.7%	0.4%	0.9%
Private Consumption	Y/Y growth rate		13.9%	8.8%	-2.7%	8.0%	16.0%	11.7%	9.1%
C&T as a % of total consumption		1.61%	1.57%	1.52%	1.53%	1.48%	1.45%	1.38%	

Source: Euromonitor, Global Insight, United Nations

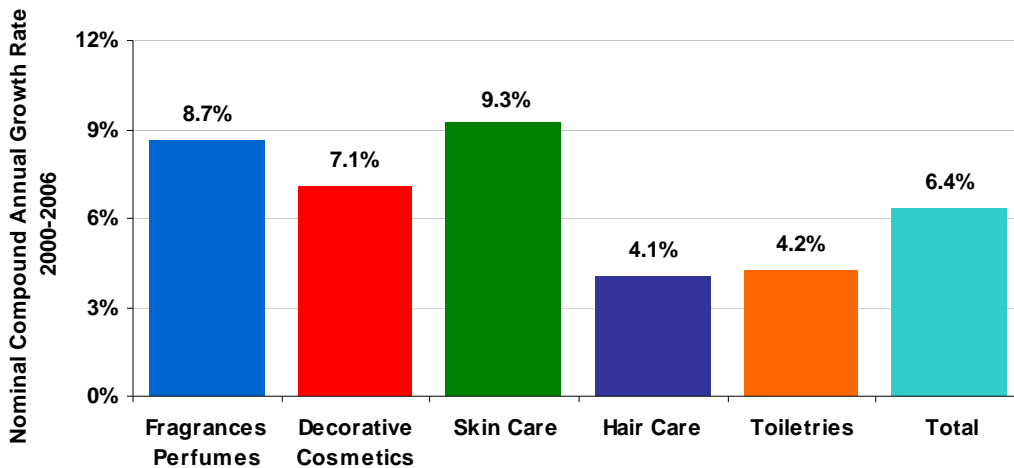
The next two figures represent the performance of the product categories in EU15 and the EU12, over the 2000-2006 period. Skin care led both markets in terms of growth, most notably in the EU15. This development is in part due to increased use of sun care products, as people become more aware of the dangers of sun exposure. Anti-aging creams also take a leading role, as the European population ages and more effective formulations come to market.

Figure 3 - Growth of EU15's Cosmetics and Toiletries Product Categories



Source: COLIPA Statistics Working Group

Figure 4 - Growth of the EU12 Cosmetics and Toiletries Product Categories



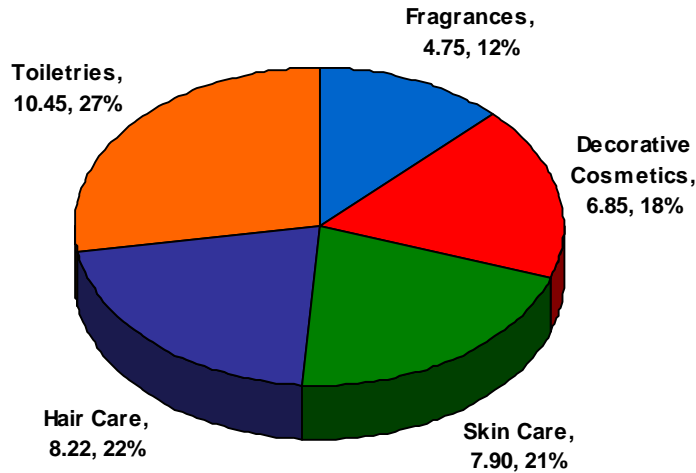
Source: Euromonitor

Fragrances experienced the slowest growth in the EU15, but were close behind the skin care segment in the EU12, expanding by 8.7%. This can be explained by economic factors: as the EU15 countries lagged in economic growth in recent years, consumers moved away from luxury products, whereas in the more dynamic economies of Central and Eastern Europe, consumers have seen their income grow strongly, allowing them to spend more on premium products. This also explains the stronger performance of the decorative cosmetics segment in the new member states. Toiletries and hair care were the slowest segments in both regions.

The composition of the U.S. cosmetics market is fairly similar to Europe's. Americans spend a slightly lower proportion of C&T expenses on skin care products and fragrances and more on decorative cosmetics than Europeans. The C&T market grew by an average 2.3% over the review period. Skin care products have been the strongest, as many of the

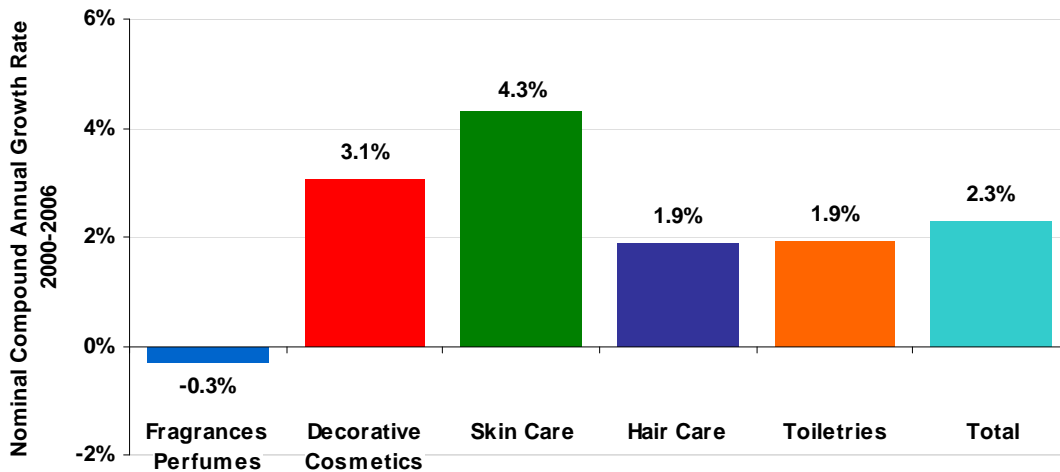
same trends observed in Europe were also seen in the U.S. Fragrances decreased slightly, as a drop in market value during the economic downturn in 2001-03 has not yet reversed.

Figure 5 - C&T Market Shares by Product Category, Retail Sales Price, Billion €, United States, 2006, Total market = €38.2 billion



Source: Euromonitor

Figure 6 - Growth of the U.S. Cosmetics and Toiletries Product Categories



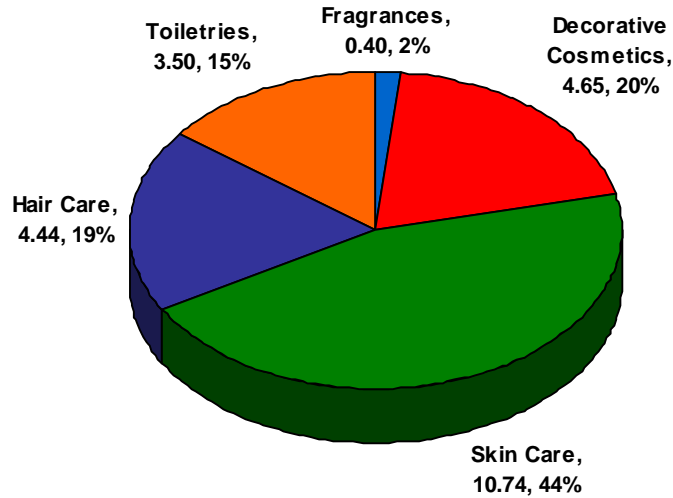
Source: Euromonitor

More differences exist in the cosmetics baskets consumed by Europeans and Americans on the one hand, and the Japanese and Chinese on the other. In Japan, fragrances make up just 2% of the market, indicating their relatively low popularity, while skin care products are over 40% of the total market, reflecting the importance the Japanese assign to their skin. This segment also experienced the fastest growth in both markets. In Japan, it was driven by anti-aging, skin lightening, and men's skin care creams,⁶ while in China sun

⁶ <http://strategis.ic.gc.ca/epic/site/imr-ri.nsf/en/gr126802e.html>

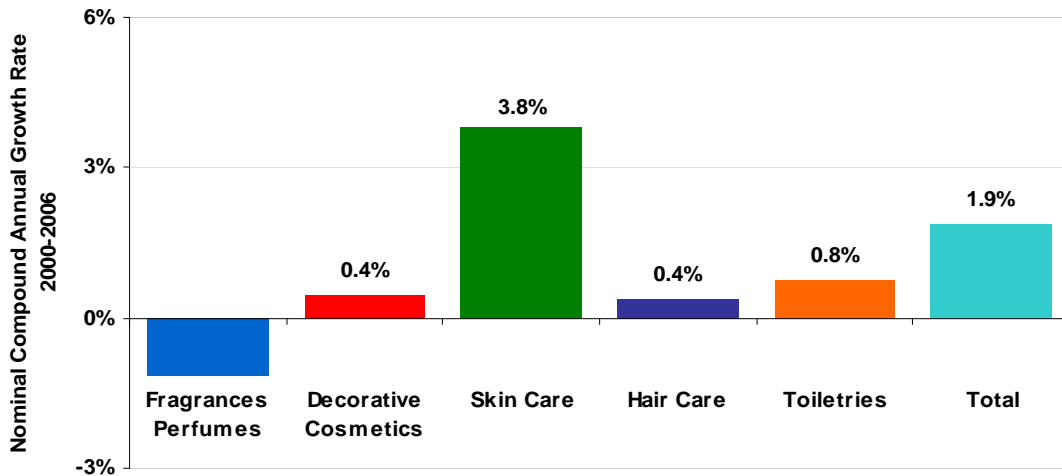
care products were the strongest.⁷ The Japanese skin care segment has been the only one to experience significant growth among the five cosmetics categories. Fragrances decreased over the review period, despite their still very small market share compared to other countries, while decorative cosmetics, hair care and toiletries remained roughly stagnant.

Figure 7 - C&T Market Shares by Product Category, Retail Sales Price, Billion €, Japan, 2006, Total market = €23.7 billion



Source: Euromonitor

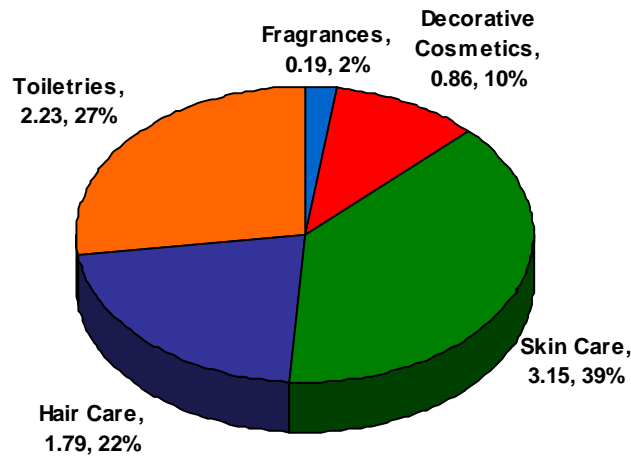
Figure 8 - Growth of the Japanese Cosmetics and Toiletries Product Categories



Source: Euromonitor

⁷ <http://strategis.ic.gc.ca/epic/site/imr-ri.nsf/en/gr118704e.html>

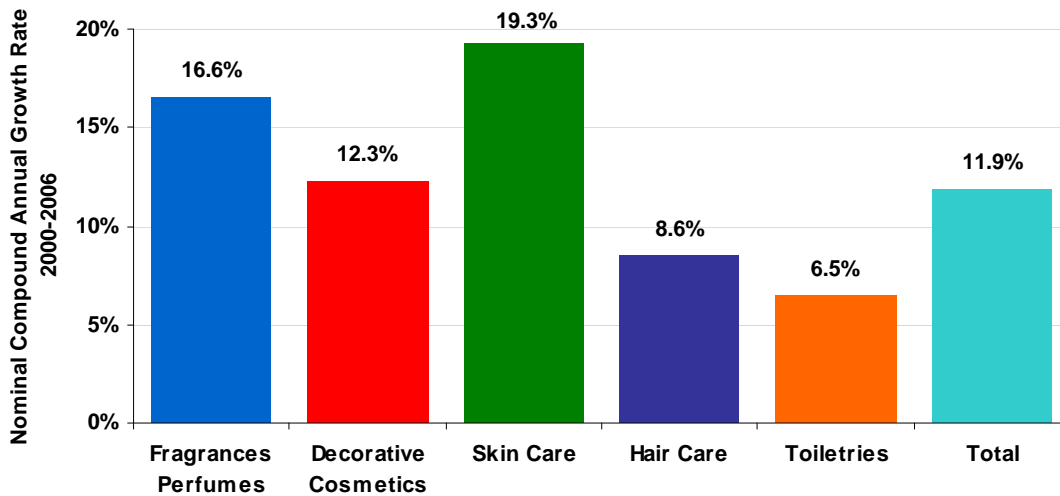
Figure 9 - C&T Market Shares by Product Category, Retail Sales Price, Billion €, China, 2006, Total market = €8.2 billion



Source: Euromonitor

The compound annual growth rate of the Chinese cosmetics market has been 11.9% in USD terms, roughly the same growth rate registered in the local currency, as the Renminbi is pegged to the USD. Skin care has once again been the strongest, growing by almost 20% every year since 2001. Fragrances followed closely, as growing numbers of affluent Chinese spent more money on luxury products and this segment's penetration is still very low.

Figure 10 - Growth of the Chinese Cosmetics and Toiletries Product Categories



Source: Euromonitor

I.4 - Main Product Trends

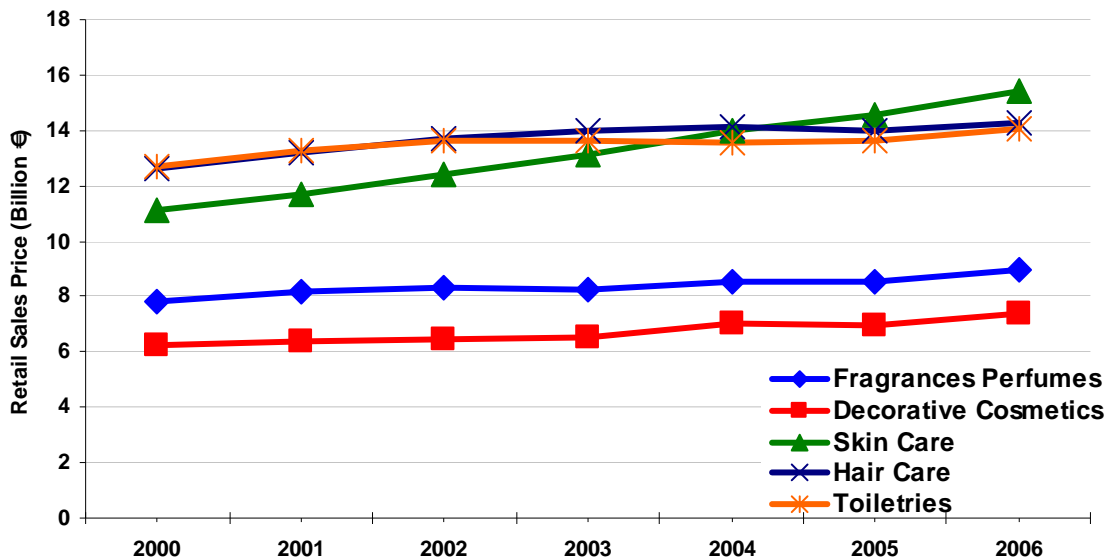
Market Size and Main Product Trends - EU15⁸

Preferences and trends in the cosmetics industry vary across European countries. Overall, the major cosmetic categories – skin care, toiletries, hair care, fragrances, and decorative cosmetics – achieved different results in 2006. Skin care, toiletries, and hair care products remain the most popular, and combined to garner nearly 75% of consumer spending in 2006. At the same time, skin care was the fastest-growing and only product segment that showed growth in every country.

From country to country, spending on cosmetics has varied by product type. The French, for example, primarily purchased skin care products, while Germans and the British spent the most on toiletries. The Nordic countries – Finland, Norway, and Sweden – spent a much lower share of their consumption basket on fragrances, compared to the EU average, while Spain and Portugal spent lower-than-average shares on decorative cosmetics.

New market trends, specifically toiletry and skin care products targeted towards a burgeoning male consumer marketplace, have provided a major source of new industry growth. Toiletry products grew by 6% in 2004, second only to the skin care segment, which grew 6.7%.⁹

Figure 11 – EU15 by Product Category



Source: COLIPA Statistics Working Group

⁸ Analysis of the EU15 segments performance is based on COLIPA data and the "European Cosmetic, Toiletry & Perfumery Market 2005" publication of COLIPA.

⁹ http://www.in-cosmetics.com/files/in-cosmetics05_Euromonitor_%20Mens_Grooming_Market.pdf

Table 7

EU15	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	15%	12%	26%	24%	23%	100%
CAGR 2000-2006	2.4%	2.8%	5.6%	2.1%	1.7%	3.0%
Contribution to Growth	0.4%	0.3%	1.4%	0.5%	0.4%	3.0%

Source: COLIPA Statistics Working Group

*Contribution to growth is the number of percentage points contributed by a category to total growth

Skin Care

The skin care market leads the way in the cosmetics industry. Traditional skin products along with new premium skin products, such as firming and anti-aging lotions and creams, night-time formulations to repair skin, and skin brighteners captured 25% of overall consumer cosmetics spending in 2006. Anti-aging products lead the dynamism in this market segment, where the U.K., Finland and Denmark reached double digit growth this past year. New skin care lines now include products designed to heal non-traditional body parts such as knees, elbows, and necks, and consumers are opting for more sophisticated, higher quality products. Steady growth in consumer demand for sun care products is also boosting overall skin care sales in Europe.

Toiletries

In an already saturated marketplace, the focus of toiletry manufacturers has been towards premium products highlighted by new formulations with natural ingredients. Like skin care products, sales of toiletry products have also been boosted by an expanding men's grooming business. Sales of these products, which are focused towards a specific type of consumer or with a specific aim, such as softening skin or reducing irritation, have had more success than their more generic counterparts.

Hair Care

Of the three largest cosmetic product segments, hair care had the least success in 2006. Product saturation, increased availability of discount products, and low brand loyalty which led to a decline in this category in 2005, is starting to be offset by more value added products. Segmentation such as the emergence of ethnic brands in France is proving successful. Advanced do-it-yourself products, such as hair colourants, which offer consumers alternatives to high salon prices as well as anti-aging and sun protection treatment shampoos, led the way in growth in this segment, and generated positive results that are expected to continue.

Decorative Cosmetics

Decorative cosmetics rebounded after a decreased in value terms in 2005, due to successful new product developments, such as the proliferation of ethnic-specific brands. Anti-aging, nourishing, and sun-protective attributes and quick, foolproof application systems are the latest trends in this category. Another emerging trend is the popularity of two-step products such as mascara used after a nourishing primer – consumers looking

for best results are spending more time and money for their make-up, yet multi-use products, such as anti-aging creams that provide sun protection, remain popular for their convenience and cost-effectiveness. Effectiveness is the most important differentiating factor in this segment.

Fragrances

As a luxury item, fragrances are benefiting from the region's upturn in economic growth. Unit prices have stayed elevated despite wider availability through mass distribution channels and the internet, due to a number of successful premium and celebrity branded launches. The dominant trend is a growing popularity of celebrity and fashion label fragrances and the renewed popularity of "old favourite" brands and artisanal fragrances. Segmentation is used to lure men and young adults into trading up from mass scents.

Box 1 - Skin Care Segment

The sun care segment has been a strong component of the skin care market over the past years, as consumers across the world are becoming increasingly aware of the damage caused by exposure to the sun's rays. Awareness of these damaging effects began some time ago, however, since that time consumers in various countries have differed markedly in the rates of adoption of sun care products.

Table 8 shows that sun care products have the highest share of the total skin care segment in the U.K. It is also very high in Denmark, Ireland, Spain and Portugal and a surprisingly low share in France, Germany, Sweden and Switzerland. These relatively low shares may be due to the growing popularity of other segments of the skin care market such as anti-aging creams that are gaining market share. It is also surprising that Japanese consumers seem to spend only 2% of their total skin care consumption on sun care, as with many Asian consumers, sun care products are considered popular among consumers of all ages. The new members of the European Union have lower adoption rates than their western counterparts, which can be attributed to lower awareness as well as income levels.

In general cross-country comparisons are difficult to explain at a broad market level, as other significant factors also influence the degree of sun care consumption as well as the markets' performance from year to year. The climate, changes in weather patterns from year to year as well as skin characteristics are just some of the factors that vary significantly from country to country.

Table 8

	Skin care CAGR 00-06	Sun care 00-06	Sun Care as a % of Total Skin Care		Skin care CAGR 00-06	Sun care 00-06	Sun Care as a % of Total Skin Care
Austria	5.1%	2.1%	12%	USA*	4.3%	5.3%	13%
Belgium/Luxembourg	7.2%	6.6%	12%	China*	19.3%	15.3%	5%
Denmark	8.4%	6.8%	17%	Japan**	3.8%	8.8%	2%
Finland	9.4%	3.6%	11%				
France	5.2%	5.0%	9%	Czech Republic	10.7%	7.3%	10%
Germany	3.4%	-1.2%	9%	Estonia	6.9%	8.5%	6%
Greece	9.4%	5.5%	13%	Hungary	10.3%	8.6%	6%
Ireland	5.4%	11.0%	17%	Bulgaria	13.9%	8.9%	9%
Italy	4.3%	3.8%	13%	Lithuania	6.1%	15.9%	8%
Netherlands	4.2%	6.8%	12%	Latvia	8.5%	12.2%	13%
Portugal	9.0%	11.4%	17%	Cyprus	0.1%	0.0%	15%
Spain	9.0%	8.7%	18%	Malta	8.0%	7.0%	18%
Sweden	10.1%	8.7%	8%	Poland	7.6%	-0.4%	7%
UK	8.3%	6.1%	21%	Romania	28.1%	22.2%	5%
Norway	9.9%	7.4%	13%	Slovenia	11.4%	10.6%	9%
Switzerland	1.6%	4.0%	6%	Slovakia	4.6%	6.2%	15%

*U.S. and China values are calculated based on USD market sizes

** Japan values are calculated based on Yen market sizes

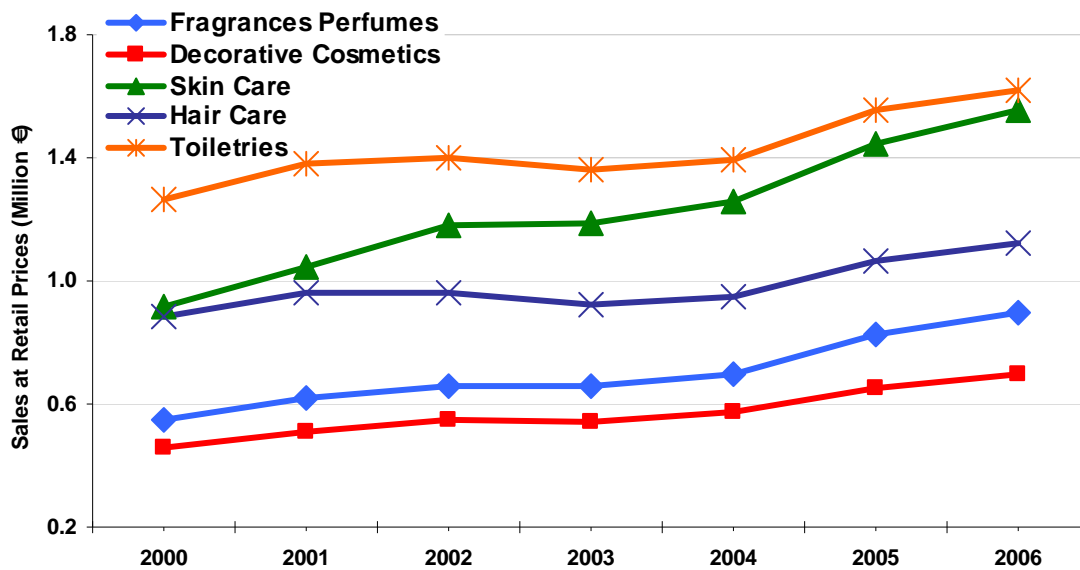
Source: Euromonitor

Market Size and Main Product Trends – EU 12¹⁰

Robust growth in the EU12 countries in the first half of this decade and solid increases in disposable income have raised people's standard of living boosting their consumption levels and allowed them to spend more on cosmetics. Growth in the five segments is broad based – consumers spent more on necessities such as toiletries, but particularly on such luxury items as fragrances and decorative cosmetics. It is interesting to note that people in the new member states spend around 1.5% of their total consumption on cosmetics compared to around 1% in Western Europe, but that this gap is narrowing as they become more affluent.

When analysing trends in the EU12, two important caveats have to be taken into account. The first is that all of the EU12 operated in their local currencies in the period under review, 2000 to 2006, thus currency fluctuations may play an important role in explaining market movements. The second is that inflation rates are generally higher in the new member states compared to the EU15, widening the gap between the nominal growth rates in the two regions.

Figure 12 – EU12 Market by Product Category



Source: Euromonitor

The shares of the five market segments are very similar in the EU12 and in EU15, with hair care taking up a slightly smaller share and toiletries a larger one. Skin care has also been the most dynamic, growing 9.3% over the review period, however, fragrances and decorative cosmetics have grown much more rapidly than in EU15 reflecting the increasing ability of new member states to spend more on luxury items.

¹⁰ Data on market segments are not available

Table 9

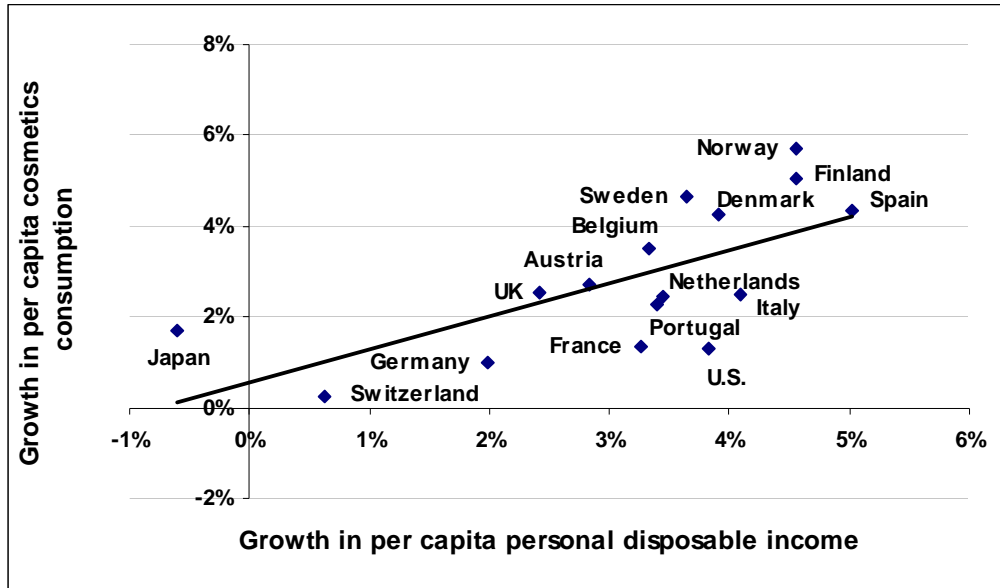
EU12	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	15%	12%	26%	19%	28%	100%
CAGR 2000-2006	8.7%	7.1%	9.3%	4.1%	4.2%	6.4%
Contribution to Growth	1.3%	0.8%	2.4%	0.8%	1.2%	6.4%

Source: Euromonitor

Box 2 - Income Growth and Cosmetics Consumption

Personal disposable income growth is the main driver of per capita cosmetics consumption. The relationship is quite evident in developed countries where personal disposable income data is available, as can be observed in Figure 13*.

Figure 13 – Growth in Per Capita Cosmetics Consumption, 2000 to 2006



Source: COLIPA Statistics Working Group, Global Insight

The fitting of a simple trend line suggests that on average a 1% increase in per capita disposable income will lead to a 0.7% increase in per capita cosmetics consumption. Differences between countries are, however, not trivial. In Germany, France and Italy growth in per capita cosmetics consumption has been sluggish, despite fairly stable income growth. Cosmetics demand is less income elastic in these countries (a smaller correlation coefficient). In the Nordic countries, per capita cosmetics spending outpaced income growth, suggesting that cosmetics demand is income elastic. Cosmetic products are perceived more as a luxury in these countries. In Japan, per capita cosmetics consumption has increased even as disposable income fell over the review period. In China (not represented in the chart) per capita cosmetics consumption grew at the same rate as per capita disposable income over the period.

In developing countries as income distribution changes, consumers shift demand from basic necessities to more sophisticated goods and high-end services. This shift is visible in two ways, particularly in the new member states. Consumption patterns have diversified over the last decade, decreasing the share that consumers spend on cosmetics out of their consumption budgets; secondly, segments with a higher concentration of luxury products such as skin care and fragrances have performed better than necessities such as toiletries.

* No comparable measure of personal disposable income is available for the remaining countries: Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia; thus they could not be included in the analysis. The OECD publishes a measure of gross national disposable income, for the countries presented plus the Czech Republic, Greece, Ireland, Poland and Slovakia, but is not comparable.

Poland has the largest cosmetics market, while the Czech Republic and Hungary are a distant second and third. Over the period from 2000 to 2006 the industry grew most rapidly in the Czech Republic (11.5%). Growth rates of 7-9% during the same period were seen in Romania, Hungary and Lithuania. These patterns are projected to continue into the future as long as purchasing power continues to rise, people believe that they are receiving quality products for their money, and innovations bring new products to consumers.

In the majority of countries, mass availability of products in supermarkets and drug stores has spurred growth. Direct sales of cosmetics are also extremely popular, allowing customers to have close interactions with sales representatives who can offer specific product advice. Greater visibility and cosmopolitan effects of the more developed markets have further increased the demand for hygiene products and raised individual consciousness of appearance. These factors have combined to create a thriving industry.

Despite these positive trends, domestic cosmetic manufacturers have suffered. Large international companies hold nearly the entire market share of this industry within the EU12 countries, while local producers find it hard to compete with the product availability and marketing and advertising resources of their larger counterparts.

I.5 - Country Summaries

This section provides details on each country in the areas under review. Included in this analysis is the performance of the five cosmetic segments, economic factors contributing to market developments, and observed market trends.

Market Size and Main Product Trends – Europe

Austria¹¹

A pick-up in per capita disposable income levels in Austria in 2003-06 boosted cosmetics and toiletries growth to 3% in 2005 and 3.4% in 2006 after a slow 2004.

Table 10¹²

Austria	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	1.08	1.12	1.16	1.19	1.21	1.25	1.29	3.0%
	Y/Y growth rate		3.2%	3.9%	2.6%	1.8%	3.0%	3.4%	3.0%
Per capita C&T consumption	Y/Y growth rate		3.0%	4.4%	2.5%	1.1%	2.4%	3.0%	2.7%
Total population	Y/Y growth rate	0.1%	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%	0.2%
Population 65+	Y/Y growth rate	1.0%	1.3%	1.5%	1.7%	1.9%	2.0%	2.1%	1.7%
Per capita disposable income	Y/Y growth rate		1.7%	1.2%	3.7%	3.7%	2.8%	3.9%	2.8%
Private Consumption	Y/Y growth rate		3.0%	1.2%	2.9%	3.5%	3.2%	3.6%	2.9%
C&T as a % of total consumption		0.93%	0.94%	0.96%	0.96%	0.94%	0.94%	0.94%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

As shown in Table 11 below, skin care product sales exhibited strong growth, thanks to new added-value products and a rising interest in men's grooming products. Reflecting general European trends, hair care products and toiletries have the highest market share

¹¹ COLIPA, Euromonitor, Bharat Book Bureau, The Infoshop, Research and Markets

¹² CAGR are calculated over the periods that data is shown as available in the table.

in Austria. In turn, hair care, along with fragrances had the lowest growth rates. Other major trends in Austria included increased demand for natural and organic cosmetics and toiletries, due to concerns about the harmful effects of chemicals contained in personal care products. Market researchers have found that Austrian consumers prefer innovative products from companies with a strong brand image.¹³

Table 11

Austria	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	11%	16%	22%	25%	26%	100%
CAGR 2000-2006	2.3%	3.4%	5.1%	1.8%	2.6%	3.0%
Contribution to Growth	0.3%	0.6%	1.1%	0.5%	0.7%	3.0%

Source: COLIPA Statistics Working Group

Belgium/ Luxembourg¹⁴

Together, Belgium and Luxembourg form the seventh-largest market for perfumes, cosmetics, and toiletries in Europe, with consumption of cosmetics close to the European average.

However, despite a pick-up in economic growth in 2004-05 and steady 3% growth rates in per capita disposable income, the Belgian cosmetics and toiletries sector and per capita spending decelerated sharply in 2004, after three strong years and remained slow ever since, being far outpaced by overall consumption, as can be seen below, in Table 12.

Table 12

Belgium/Luxembourg	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	1.42	1.48	1.57	1.65	1.66	1.70	1.72	3.3%
	YY growth rate		4.8%	5.9%	5.1%	0.3%	2.7%	1.1%	3.3%
Per capita C&T consumption	YY growth rate		4.5%	5.0%	4.7%	-0.1%	2.2%	5.0%	3.5%
Total population	YY growth rate	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.3%
Population 65+	YY growth rate	1.4%	1.3%	1.1%	1.0%	0.8%	0.7%	0.5%	0.9%
Per capita disposable income	YY growth rate		3.3%	3.0%	3.7%	3.6%	3.4%	3.0%	3.3%
Private Consumption	YY growth rate		3.1%	3.8%	3.1%	5.0%	4.8%	6.1%	4.3%
C&T as a % of total consumption		0.98%	0.99%	1.02%	1.05%	1.01%	1.00%	0.97%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Table 13, below, shows how hair care products dominate the Belgian market, at 29% of the cosmetics market, while toiletries consumption is below the European average. As in other European countries, skin care products have seen a higher rate of growth, while all other market segments grew by just 2-3%, due to the maturity of certain sectors.¹⁵

Table 13

Belgium/Luxembourg	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	19%	12%	24%	29%	17%	100%
CAGR 2000-2006	2.8%	3.0%	7.2%	2.3%	1.1%	3.3%
Contribution to Growth	0.5%	0.3%	1.7%	0.7%	0.2%	3.3%

Source: COLIPA Statistics Working Group

¹³ http://www.researchandmarkets.com/reportinfo.asp?report_id=367316

¹⁴ COLIPA, Euromonitor, Israel Commercial Office, Industry Canada

¹⁵ Colipa, http://www.euromonitor.com/Cosmetics_and_toiletries_in_Belgium

Among the important trends, the men's segment has experienced very rapid growth in recent years and is the most attractive in Belgium's market. Skin care products for men are the fastest growing segment. Among the younger males, such formerly women-focused products as bronzing powder, anti-wrinkle creams, and toning gels have increased in popularity. Sun care products have grown rapidly in importance as concern about skin cancer is growing. Finally, Euromonitor expects that the Belgian cosmetics market has the potential to grow significantly in the future as some of the smaller sub-segments currently have low penetration rates by EU country standards.

Denmark¹⁶

An improving national economy and government tax cuts have spurred growth in disposable income in Denmark. The sale of premium cosmetic products has benefited and there is increasing availability of upper-mass or "masstige" products.¹⁷ Over the review period, cosmetics and toiletries growth outpaced consumption growth in all years except 2004, when an unexplained decrease in cosmetics consumption took place.

Table 14

Denmark	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	701	737	813	838	788	859	928	4.8%
	Y/Y growth rate		5.2%	10.2%	3.1%	-5.9%	9.0%	8.0%	4.8%
Per capita C&T consumption	Y/Y growth rate		3.8%	9.4%	2.9%	-6.1%	8.8%	7.5%	4.2%
Total population	Y/Y growth rate	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%
Population 65+	Y/Y growth rate	0.0%	0.1%	0.3%	0.5%	0.8%	1.2%	1.5%	0.8%
Per capita disposable income	Y/Y growth rate		4.6%	4.4%	3.5%	3.1%	3.5%	4.3%	3.9%
Private Consumption	Y/Y growth rate		2.5%	3.1%	2.1%	6.6%	6.8%	5.5%	4.4%
C&T as a % of total consumption		0.86%	0.88%	0.94%	0.95%	0.84%	0.86%	0.88%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

The Danish market is dominated by hair care products, at 30% of cosmetics sales, as illustrated in Table 15. They consume less toiletries and skin care products than the average European. Fragrances and skin care products have seen the fastest growth rate.

Table 15

Denmark	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	17%	12%	21%	30%	20%	100%
CAGR 2000-2006	13.6%	3.0%	8.4%	3.3%	0.1%	4.8%
Contribution to Growth	2.3%	0.4%	1.7%	1.0%	0.0%	4.8%

Source: COLIPA Statistics Working Group

Danish consumers are very open to new products making the country a good test market for new products.¹⁸ Multifunctional products – for example, bath and shower products with the qualities of skin care products, and skin care products offering sun protection – are increasingly popular.

¹⁶ COLIPA, Euromonitor, Austrade

¹⁷ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Denmark, COLIPA

¹⁸ <http://www.austrade.gov.au/ArticleDocuments/1418/Denmark-Cosmetics-Seminar.pdf.aspx>

As in other European countries, major trends observed in Denmark include increasing demand for male grooming products, natural ingredients as well as technologically advanced and multifunctional cosmetics.

Finland¹⁹

The Finnish cosmetics and toiletries market was strong over the six year period, growing by a compound annual rate of 5.4%, solidly in line with growth in per capita disposable income. While the cosmetics and toiletries market slowed somewhat in 2004 it rebounded in 2005-06, as can be seen in Table 16.

Earlier in the decade an economic slowdown resulted in increased demand for cheaper products however the premium products sector remains solid now. Finnish lifestyle advertisements positively influenced cosmetics sales especially for hair and skin care products. They also contributed to a change in men's attitude towards cosmetic products and an increase in sales for male grooming products. Finnish consumers prefer to buy local products and this has helped the country's smaller domestic manufacturers to compete with large international players.²⁰

Table 16

Finland	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	552	592	618	656	651	697	758	5.4%
	YY growth rate		7.2%	4.5%	6.1%	-0.8%	7.1%	8.8%	5.4%
Per capita C&T consumption	YY growth rate		6.5%	4.4%	5.7%	-1.0%	6.7%	8.3%	5.1%
Total population	YY growth rate	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%
Population 65+	YY growth rate	1.3%	1.4%	1.5%	1.6%	1.6%	1.5%	1.4%	1.5%
Per capita disposable income	YY growth rate		5.4%	5.7%	4.9%	5.7%	1.1%	4.6%	4.6%
Private Consumption	YY growth rate		5.5%	4.9%	4.2%	3.7%	4.4%	4.7%	4.6%
C&T as a % of total consumption		0.85%	0.86%	0.86%	0.87%	0.83%	0.86%	0.89%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Hair care and skin care products dominate the cosmetics market in Finland at 34% and 26% of sales respectively (see Table 17). Notably fragrances are not very popular, at just 5% of total cosmetics sales; this is the lowest share in Europe. Growth in skin care products has contributed the most to the overall expansion of the cosmetics market; a pattern similar to other countries in our study.

Table 17

Finland	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	5%	15%	26%	34%	20%	100%
CAGR 2000-2006	6.0%	5.7%	9.4%	3.7%	3.8%	5.4%
Contribution to Growth	0.3%	0.9%	2.5%	1.3%	0.7%	5.4%

Source: COLIPA Statistics Working Group

Finns, like other Europeans, show increased interest in natural ingredients and formulas, and they are buying more perfume-free products primarily because of the fear of allergic reactions from sensitive skins.

¹⁹ COLIPA, Euromonitor, The Infoshop, Bharat Book Bureau, The Finnish Cosmetic, Toiletry and Detergent Association

²⁰ <http://www.the-infoshop.com/study/eo33308-cosmetics-finland.html>

Sales of men's grooming products were strong in 2005, driven by attitude changes and new product launches.²¹ Younger consumers are showing an increased preference for colour cosmetics and hair colourants. Euromonitor expects niche sectors, such as men's products and depilatories to show the most potential going forward.

France²²

France saw less growth in cosmetics than would be expected given its economic performance. The cosmetics market contracted in 2004 and again in 2005, while per capita disposable income continued to grow at steady rates, but seems to have rebounded strongly in 2006 growing at almost 4%. The French spent less on cosmetics and toiletries in 2006 (1.03% of total consumption) than they did in 2000 (1.13%). This challenging environment has caused cosmetics firms to push into the premium segment in order to squeeze higher value out of sales. They are hoping to shift consumer preference to "upper-mass" products.²³

Table 18

France	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	9.06	9.52	10.05	10.27	10.11	10.05	10.44	2.4%
	Y/Y growth rate		5.1%	5.5%	2.2%	-1.6%	-0.6%	3.9%	2.4%
Per capita C&T consumption	Y/Y growth rate		5.2%	1.9%	1.4%	-2.2%	-1.1%	3.0%	1.3%
Total population	Y/Y growth rate	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Population 65+	Y/Y growth rate	1.0%	0.9%	0.9%	0.8%	0.7%	0.6%	0.4%	0.7%
Per capita disposable income	Y/Y growth rate		4.4%	4.0%	2.1%	3.5%	2.5%	3.3%	3.3%
Private Consumption	Y/Y growth rate		4.3%	3.3%	3.9%	4.1%	3.9%	3.9%	3.9%
C&T as a % of total consumption		1.13%	1.14%	1.16%	1.14%	1.08%	1.03%	1.03%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Table 19 shows that skin care products have the largest share of the cosmetics market in France, and have by far grown the fastest during the review period. The market for decorative cosmetics and toiletries was slow, while the fragrances segment has stagnated since 2000 and now represents only 16% of the overall market in France.

Table 19

France	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	17%	11%	31%	23%	18%	100%
CAGR 2000-2006	0.0%	1.6%	5.2%	2.2%	1.2%	2.4%
Contribution to Growth	0.0%	0.2%	1.6%	0.5%	0.2%	2.4%

Source: COLIPA Statistics Working Group

As in other EU markets, natural/organic products have been a strong segment in the market. Men's grooming products have also performed very well and are expected to be the most dynamic segment going forward.²⁴ France's aging population is an important market driver for nourishing and anti-aging products.

A driver that is important to the French market is an ethnic segment that has created considerable growth potential for products like specialist make-up and other cosmetic

²¹ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Finland

²² COLIPA, Euromonitor, Austrade, Cosmetic Design Europe, Reuters

²³ COLIPA, "European Cosmetic, Toiletry & Perfumery Market 2005"

²⁴ http://www.euromonitor.com/Cosmetics_and_toiletries_in_France

products designed for darker skins. Product innovation has also contributed to the strong performance of skin and sun care products which has been bolstered by the increased awareness of the dangers of sun exposure. The market for sun care products is reaching saturation and consumers appear to have little brand loyalty.²⁵

Germany²⁶

During 2005 Germany's economic recovery was still in its early stages and consumers were cost-conscious and somewhat uncertain about the future of the economy. Depressed disposable incomes were still affecting demand for high-end products such as luxury personal care and decorative cosmetics while sales volumes for essentials such as toiletries however benefited during this period.²⁷ The cosmetics and toiletries market grew less than overall consumption levels and disposable incomes. 2006 data shows that the cosmetics market has rebounded strongly, outpacing overall consumption growth for the first time in six years.

Table 20

Germany	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	11.03	11.13	11.09	11.23	11.23	11.28	11.71	1.0%
	Y/Y growth rate		1.0%	-0.4%	1.3%	0.0%	0.4%	3.8%	1.0%
Per capita C&T consumption	Y/Y growth rate		0.7%	-0.7%	1.6%	0.0%	0.5%	3.9%	1.0%
Total population	Y/Y growth rate	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%
Population 65+	Y/Y growth rate	2.0%	2.5%	3.0%	3.1%	3.0%	2.7%	2.3%	2.8%
Per capita disposable income	Y/Y growth rate		3.7%	0.8%	1.8%	1.8%	1.6%	2.1%	2.0%
Private Consumption	Y/Y growth rate		3.7%	0.4%	1.5%	1.3%	1.6%	2.3%	1.8%
C&T as a % of total consumption		0.91%	0.88%	0.88%	0.88%	0.86%	0.85%	0.87%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

According to a 2004 study by the Mintel Group, Germans generally want to look attractive and well groomed, more so than other Europeans, and are more interested in their overall well-being. A survey by a well-known German women's magazine, reports that more than one-third of German women are price-sensitive when purchasing cosmetics (around 12% of women surveyed categorically buy the cheapest product). In addition they buy spontaneously, and are not brand loyal.

The domestic market is large and German consumers are used to high quality cosmetics, small- and medium-size enterprises (SMEs) have improved quality while making important investments to lower production costs.²⁸

²⁵ <http://www.researchandmarkets.com/reports/c33213>

²⁶ COLIPA, Euromonitor, Beauty-on-line, Cosmetic Business

²⁷ Private label products or services are typically those manufactured or provided by one company for offer under another company's brand. Private label goods and services are available in a wide range of industries and are often positioned as lower cost alternatives to regional, national or international brands.

²⁸ <http://www.beauty-on-line.com/ebn/newsletter.asp?eid=96>

Table 21

Germany	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	13%	10%	25%	24%	29%	100%
CAGR 2000-2006	2.3%	-2.0%	3.4%	0.2%	0.3%	1.0%
Contribution to Growth	0.3%	-0.2%	0.9%	0.1%	0.1%	1.0%

Source: COLIPA Statistics Working Group

The decline in Germany's birth rate, which is one of the lowest in Europe, has led to a dramatic drop in demand for baby care products. The general population has been aging – more so than in other European countries - boosting the demand for nourishing, anti-aging, and skin care products. In addition, busier lifestyles and an increasing number of women entering the workforce has led to more demand for practical, time-saving products for which Germans are willing to spend more money.²⁹ As is evident in Table 21, toiletries, hair care, and skin care products command the bulk of the market, but only skin care showed any real measurable growth over the period.

Greece³⁰

The Greek cosmetics market decelerated sharply in recent years after experiencing double-digit growth earlier in the decade. The cosmetics market has been supported by very solid growth in private consumption, cosmetics' share has however declined measurably.³¹ Hair care and skin care, as shown in Table 22, are the dominant segments, and have seen the fastest growth. Decorative cosmetics have been notably stagnant over the last few years in Greece.

Table 22

Greece	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	0.98	1.09	1.23	1.23	1.28	1.31	1.34	5.5%
	Y/Y growth rate		11.9%	12.6%	0.2%	4.1%	2.7%	2.3%	5.5%
Per capita C&T consumption	Y/Y growth rate		12.0%	3.9%	4.3%	3.7%	2.3%	2.1%	4.7%
Total population	Y/Y growth rate	0.4%	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Population 65+	Y/Y growth rate	2.4%	2.3%	2.2%	2.0%	1.6%	1.2%	0.7%	1.7%
Private Consumption	Y/Y growth rate		7.8%	6.5%	7.4%	7.4%	7.5%	6.9%	7.3%
C&T as a % of total consumption		0.89%	0.92%	0.97%	0.91%	0.88%	0.84%	0.80%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

A key trend in the Greek market is a shift from more expensive fragrances to deodorants. Products seen as necessities, such as colour cosmetics, depilatories, and sun care products have expanded according to Euromonitor.³²

Table 23

Greece	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	11%	11%	29%	33%	16%	100%
CAGR 2000-2006	8.4%	1.1%	9.4%	4.0%	4.2%	5.5%
Contribution to Growth	0.9%	0.1%	2.7%	1.3%	0.7%	5.5%

Source: COLIPA Statistics Working Group

²⁹ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Germany

³⁰ COLIPA, Euromonitor, The Infoshop, Bharat Book.Bureau, Cosmetics Design Europe

³¹ Disposable income data for Greece is not available.

³² http://www.euromonitor.com/Cosmetics_and_toiletries_in_Greece

Nonetheless it appears that consumers are still ready to spend more on quality and value-added products – e.g., upper mass, or premium, products – particularly for skin care, hair care, and sun care.³³ Advances in technology in new skin nourishers and anti-aging products are providing a lift to the demand for facial care products along with a preference among aging Greek women to keep their faces looking younger.

Unlike in other European countries, men's skin care remains a niche segment with little growth potential, as Greek men have shown minimal interest in these products.

Ireland³⁴

Ireland's buoyant economic environment lifted the expansion of the cosmetics and toiletries to very rapid rates earlier in the decade. More recently Irish consumers have become thriftier, looking for the highest quality cosmetics at the best prices³⁵. Cosmetics share of overall consumption has trended steadily downwards from 0.84% in 2000 to 0.70% in 2006.

Table 24

Ireland	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	424	456	500	514	521	546	567	5.0%
	Y/Y growth rate		7.4%	9.8%	2.8%	1.3%	4.8%	3.9%	5.0%
Per capita C&T consumption	Y/Y growth rate		6.3%	6.7%	1.5%	-0.4%	2.6%	1.3%	2.9%
Total population	Y/Y growth rate	1.4%	1.6%	1.8%	1.9%	1.8%	1.7%	1.5%	1.7%
Population 65+	Y/Y growth rate	0.8%	1.0%	1.1%	1.3%	1.4%	1.5%	1.5%	1.3%
Private Consumption	Y/Y growth rate		9.9%	9.3%	7.3%	5.5%	7.8%	9.1%	8.1%
C&T as a % of total consumption		0.84%	0.82%	0.82%	0.79%	0.76%	0.74%	0.70%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Ireland's economic boom has increased the number of women in the labour force and given them more spending power.³⁶ They have spent more on colour cosmetic products and in particular celebrity-endorsed products, foundation, and lipsticks.³⁷

Table 25

Ireland	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	15%	15%	20%	20%	29%	100%
CAGR 2000-2006	5.5%	7.4%	5.4%	3.9%	4.0%	5.0%
Contribution to Growth	0.8%	1.1%	1.1%	0.8%	1.2%	5.0%

Source: COLIPA Statistics Working Group

Men's grooming products were a driving force in Ireland's cosmetics and toiletries market in 2005. The growth has been skewed towards higher-quality products. The Irish cosmetics market is driven by innovation and advertising. New product developments has led to continued market segmentation and growth in more mature sectors such as skin care and bath and shower products. Stiff competition in the market alongside innovative

³³ <http://www.the-infoshop.com/study/eo30350-toiletries.html>

³⁴ COLIPA, Euromonitor, Mintel International group, Cosmetics Design Europe, Irish Sea Fisheries Board

³⁵ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Ireland

³⁶ Disposable income data is not available for Ireland.

³⁷ <http://www.cosmeticsdesign-europe.com/news/ng.asp?n=73960-mintel-l-oreal-foundation-lipstick-age-defying>

promotional offers and market entry of private label brands has caused unit prices in the industry to go down.

Decorative cosmetics, skin care, and fragrances led the way in growth rates over the 2000 to 2006 period – as seen in Table 25 – while skin care, hair care, and toiletries continue to hold the bulk of total sales (69%).

Italy³⁸

Ongoing difficult conditions in the Italian economy led to modest performance of the Italian cosmetics and toiletries market. This has increased the demand for mass products at the expense of premium products and a high rate of promotional activities, particularly for toiletries. Nonetheless growth in the cosmetics market has tracked below the path of per capita disposable income and has been quite volatile over the period we examined.

The economic climate and Italians' preference for quality products have mostly benefited upper mass products, particularly in the skin care segment. These upper mass products offer features previously exclusive to premium brands but at a lower price. Italian consumers consider skin care products, colour cosmetics and fragrances to be luxury items and sales in these segments have lagged to varying degrees. Italian consumers are driven by 'emotional' factors when making purchase decisions, opting for unique and distinctive technological attributes, scents, colours and packaging. They show preference towards innovative, formulation-based cosmetics, which serve as a substitute to cosmetic surgery.

Table 26

Italy	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	7.44	7.96	8.01	8.28	8.69	8.61	8.79	2.8%
	Y/Y growth rate		7.0%	0.7%	3.3%	4.9%	-0.9%	2.2%	2.8%
Per capita C&T consumption	Y/Y growth rate		7.0%	1.4%	2.7%	3.9%	-1.5%	1.6%	2.5%
Total population	Y/Y growth rate	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Population 65+	Y/Y growth rate	2.1%	2.1%	2.1%	2.1%	1.9%	1.6%	1.3%	1.9%
Per capita disposable income	Y/Y growth rate		7.2%	4.2%	2.9%	3.1%	3.7%	3.5%	4.1%
Private Consumption	Y/Y growth rate		3.4%	3.0%	3.8%	3.3%	3.0%	4.2%	3.4%
C&T as a % of total consumption		1.05%	1.08%	1.06%	1.06%	1.07%	1.03%	1.01%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Skin care and toiletries are the leading segments in the Italian market, in terms of growth rates, at 4.3% and 3.4% compounded annually, respectively – as shown in Table 27. These two categories are by far the sales leaders, while decorative cosmetics, hair care and fragrances have been more sluggish.

Table 27

Italy	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	12%	13%	27%	22%	25%	100%
CAGR 2000-2006	0.4%	1.7%	4.3%	3.4%	2.8%	2.8%
Contribution to Growth	0.1%	0.2%	1.2%	0.7%	0.7%	2.8%

Source: COLIPA Statistics Working Group

³⁸ COLIPA, Euromonitor, Industry Canada, Cosmetic Business, Research and Markets

Other important trends include a growing awareness about health issues that has stimulated demand for cosmetics containing natural ingredients, vitamins and aroma therapeutic properties. And men in Italy are focusing more on their well being, thus giving an impetus to men's grooming product segment.

The Netherlands³⁹

Growth in the cosmetics market turned negative in 2004 and 2005 after robust gains earlier in the decade in the Netherlands but regained strength in 2006 (see Table 28). Discounted and budget cosmetic products have become more attractive, a trend amplified by price discounts and volume offers in supermarkets and drugstores.

Table 28

Netherlands	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	2.04	2.24	2.36	2.43	2.39	2.36	2.44	3.0%
	Y/Y growth rate		9.7%	5.4%	2.8%	-1.4%	-1.5%	3.4%	3.0%
Per capita C&T consumption	Y/Y growth rate		8.5%	4.3%	2.5%	-1.7%	-1.7%	3.2%	2.4%
Total population	Y/Y growth rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.5%
Population 65+	Y/Y growth rate	1.1%	1.1%	1.1%	1.2%	1.2%	1.3%	1.4%	1.2%
Per capita disposable income	Y/Y growth rate		8.9%	4.5%	2.3%	0.9%	1.4%	2.8%	3.4%
Private Consumption	Y/Y growth rate		11.8%	3.9%	1.5%	1.1%	2.0%	0.0%	3.3%
C&T as a % of total consumption		1.02%	1.00%	1.01%	1.03%	1.00%	0.97%	1.00%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Consumer preferences in the Netherlands are turning to products with health benefits and other innovative products that meet specific needs. There is increasing use of firming/anti-cellulite products in order to cover the signs of aging. Product selection criteria for Dutch consumers have convenience of use and a premium / glamorous appeal near the top of the list.

Toiletries, hair care and skin care products dominate the cosmetics market in the Netherlands. As in other European markets, skin care products are showing the fastest growth, right behind decorative cosmetics (see Table 29).

Table 29

Netherlands	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	16%	12%	23%	23%	27%	100%
CAGR 2000-2006	5.4%	4.6%	4.2%	0.7%	2.1%	3.0%
Contribution to Growth	0.9%	0.5%	1.0%	0.2%	0.6%	3.0%

Source: COLIPA Statistics Working Group

The men's segment has been one of the most dynamic in the Netherlands in recent years, particularly in skin care, where new products have increased awareness and boosted demand.⁴⁰

Going forward, Euromonitor expects positive growth driven by increases in unit prices, further innovation, and growing offers of more segmented products.

³⁹ COLIPA, Euromonitor, The Infoshop, Industry Canada,

⁴⁰ http://www.euromonitor.com/Cosmetics_and_toiletries_in_the_Netherlands

Portugal⁴¹

Growth in the cosmetics market slowed recently following some very significant gains earlier in the decade. Cosmetics share of total consumption remains high relative to European averages. While many of the key cosmetics segments have reached maturity, the increased awareness of the benefits of cosmetics use has encouraged consumers in Portugal to spend more for products with specific functions, such as the recently invigorated market for depilatories and hair bleaches. The demand for luxury items like fragrances and toiletries has grown slowly.

Table 30

Portugal	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	0.91	0.97	1.02	1.04	1.09	1.10	1.10	3.3%
	Y/Y growth rate		7.1%	4.9%	2.0%	4.9%	0.8%	0.4%	3.3%
Per capita C&T consumption	Y/Y growth rate		4.4%	3.2%	1.6%	4.3%	0.2%	-0.1%	2.3%
Total population	Y/Y growth rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Population 65+	Y/Y growth rate	1.9%	1.8%	1.8%	1.7%	1.6%	1.4%	1.3%	1.6%
Per capita disposable income	Y/Y growth rate		5.2%	3.4%	2.7%	3.6%	3.8%	1.6%	3.4%
Private Consumption	Y/Y growth rate		4.7%	4.4%	2.9%	5.0%	4.6%	4.3%	4.3%
C&T as a % of total consumption		1.16%	1.19%	1.19%	1.18%	1.18%	1.14%	1.10%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Hair care products have the largest share (30%) of the cosmetics market in Portugal, as shown in Table 31. Strong expansion of the skin care market has been in part a result of government- and manufacturer-driven campaigns about the harmful effects of sun exposure. There has also been heightened interest in hair removers and lighteners.⁴²

Table 31

Portugal	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	17%	6%	25%	30%	22%	100%
CAGR 2000-2006	0.9%	1.5%	9.0%	4.3%	-0.5%	3.3%
Contribution to Growth	0.2%	0.1%	2.3%	1.3%	-0.1%	3.3%

Source: COLIPA Statistics Working Group

Consumers have become more quality conscious towards cosmetics and toiletries and they are willing to spend extra for products that cater to their specific needs. They prefer to buy international brands due to availability and quality and they prefer to buy from large distribution outlets such as supermarkets and hypermarkets.

Spain⁴³

Strong economic performance, with higher employment and income levels, has spurred growth in Spain's cosmetics and toiletries sector to 6.3% compounded annual growth over the 2000 to 2006 period. All market segments expanded rapidly over that period (see Table 32). Spain's higher than average population growth has also contributed to this growth, as have some important sociological shifts.

⁴¹ COLIPA, Euromonitor, Cosmetics Design-Europe, The Infoshop

⁴² <http://www.cosmeticsdesign-europe.com/news/ng.asp?id=53318-portuguese-cosmetics-and>

⁴³ COLIPA, Euromonitor, Austrade, Industry Canada, Business Network- Switzerland, Beauty Online, The Infoshop, Market Watch

Table 32

Spain	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	5.17	5.56	5.92	6.38	6.79	7.11	7.44	6.3%
	Y/Y growth rate		7.5%	6.5%	7.7%	6.5%	4.8%	4.6%	6.3%
Per capita C&T consumption	Y/Y growth rate		6.1%	5.0%	4.0%	4.8%	3.2%	2.9%	4.3%
Total population	Y/Y growth rate	0.7%	1.0%	1.2%	1.3%	1.2%	1.0%	0.7%	1.1%
Population 65+	Y/Y growth rate	1.7%	1.3%	0.9%	0.7%	0.7%	0.8%	1.0%	0.9%
Per capita disposable income	Y/Y growth rate		5.5%	4.5%	4.6%	5.6%	5.3%	4.7%	5.0%
Private Consumption	Y/Y growth rate		6.7%	5.8%	5.5%	8.6%	7.7%	7.4%	6.9%
C&T as a % of total consumption		1.40%	1.41%	1.42%	1.45%	1.42%	1.38%	1.34%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Among the sociological shifts is the increase of women in the labour force. This means delayed child-bearing and increased disposable income, enabling women to purchase more upper-mass market and premium products. The men's cosmetics market is quite small – about 10 percent of the total market however men are becoming increasingly conscious of their looks and appearance. Grooming is no longer seen as an effeminate pursuit and this has spurred growth in the men's cosmetics segment.⁴⁴

Spaniards spend much less on decorative cosmetics than other Europeans, and the remainder of their cosmetics consumption is almost equally divided among the other four categories (as Table 33 shows, these four categories all fall within the range of 20%-26% of total sales). Per capita consumption is higher than the European average despite their somewhat lower average incomes. Cosmetics share of overall consumption is also higher in Spain compared to the other EU countries.

Table 33

Spain	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	23%	8%	26%	23%	20%	100%
CAGR 2000-2006	5.2%	4.9%	9.0%	5.2%	6.0%	6.3%
Contribution to Growth	1.2%	0.4%	2.4%	1.2%	1.2%	6.3%

Source: COLIPA Statistics Working Group

The most evident trends are the emerging niches of natural skin care, and body and hair products. Subsegments of these are aroma-therapy products and natural oils, and cosmeceuticals such as anti-aging, sun protection, and anti-cellulite creams.⁴⁵ As in other countries, increasing awareness of the harmful effects of sun exposure is driving the skin care market.

Sweden⁴⁶

Swedish consumption of cosmetics has outpaced economic fundamentals: the average annual growth rate is 5.1% over the review period, compared to 3.6% growth in disposable income per capita. Swedes spent a higher share of their consumption baskets on cosmetics in 2006 than they did in 2000 (1.07% vs. 0.9%). This is likely a reflection of their increased focus on health and wellness which is the dominant feature of the local cosmetics market.

⁴⁴ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Spain

⁴⁵ <http://www.austrade.gov.au/Cosmetics-and-toiletries-to-Spain/default.aspx>

⁴⁶ COLIPA, Euromonitor, Industry Canada, Find Articles, GCI

Table 34

Sweden	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	1.15	1.09	1.16	1.26	1.46	1.53	1.55	5.1%
	Y/Y growth rate		-5.9%	7.1%	8.3%	16.0%	4.6%	1.6%	5.1%
Per capita C&T consumption	Y/Y growth rate		-4.6%	5.6%	7.3%	15.6%	4.1%	1.1%	4.7%
Total population	Y/Y growth rate	0.1%	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	0.4%
Population 65+	Y/Y growth rate	-0.1%	-0.1%	0.0%	0.2%	0.5%	0.9%	1.2%	0.5%
Per capita disposable income	Y/Y growth rate		8.0%	3.6%	3.2%	2.1%	2.7%	2.4%	3.6%
Private Consumption	Y/Y growth rate		-6.2%	4.3%	4.0%	3.1%	1.8%	4.6%	1.9%
C&T as a % of total consumption		0.89%	0.89%	0.92%	0.95%	1.07%	1.10%	1.07%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

A growing concern about skin cancer fed sales of sun care products, and Euromonitor reports that sun care was the most dynamic niche segment in 2005, together with depilatories, which is still an underdeveloped market.⁴⁷ Other important trends include a decline in sales of men's fragrances that is likely due to the declining metrosexual trend over the past few years. Markets for nail products and eye make-up products have declined with changing fashion trends as consumers are moving more towards the natural look.

Table 35

Sweden	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	10%	20%	21%	24%	24%	100%
CAGR 2000-2006	11.1%	8.8%	8.4%	3.3%	0.3%	5.1%
Contribution to Growth	1.1%	1.7%	1.8%	0.8%	0.1%	5.1%

Source: COLIPA Statistics Working Group

Euromonitor expects depilatories and sun care to continue being the sector's best-performing segments, and for product development and the aging population to be key drivers of growth.

United Kingdom⁴⁸

The U.K. cosmetics market has grown moderately over the review period. Its movements closely follow growth in per capita disposable income, albeit somewhat more modest. 2004 was a significantly slower year than 2005, due to aggressive discounting by major retailers, but growth rebounded strongly in 2006.⁴⁹

⁴⁷ http://www.euromonitor.com/Cosmetics_And_Toiletries_in_Sweden

⁴⁸ COLIPA, Euromonitor, Cosmetic Design, The Infoshop, Research and Markets, Bharat Book Bureau, Industry Canada

⁴⁹ COLIPA, "European Cosmetic, Toiletry & Perfumery Market 2005"

Table 36

United Kingdom	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	8.47	8.79	9.08	8.56	9.28	9.25	9.99	2.8%
	Y/Y growth rate		3.8%	3.3%	-5.8%	8.5%	-0.3%	8.0%	2.8%
Per capita C&T consumption	Y/Y growth rate		-7.0%	7.6%	1.2%	8.1%	-1.0%	7.4%	2.5%
Total population	Y/Y growth rate	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Population 65+	Y/Y growth rate	0.3%	0.3%	0.4%	0.5%	0.5%	0.6%	0.6%	0.5%
Per capita disposable income	Y/Y growth rate		4.4%	2.2%	-5.2%	5.2%	4.1%	4.1%	2.4%
Private Consumption	Y/Y growth rate		3.3%	4.2%	-4.7%	7.1%	3.1%	4.8%	2.9%
C&T as a % of total consumption		0.83%	0.83%	0.83%	0.82%	0.83%	0.80%	0.82%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

An elite, premium market is emerging in the U.K., driven by young female professionals and their male metrosexual counterparts, and increasingly by the older demographic. The U.K. is leading the way in the EU in terms of the rising popularity of products containing natural ingredients like herbs and plant extracts, aromatherapies and fruit extracts.⁵⁰ Foundation has become the single largest product category as mature women try to cover up aging lines. New lipsticks and glosses for younger looking lips are entering the market. The cosmetics market in the U.K. is strongly influenced by advertising, media and celebrity endorsements have a significant impact.

Table 37

United Kingdom	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	13%	18%	21%	22%	26%	100%
CAGR 2000-2006	1.6%	6.3%	6.3%	0.5%	0.8%	2.8%
Contribution to Growth	0.2%	1.2%	1.3%	0.1%	0.2%	2.8%

Source: COLIPA Statistics Working Group

Toiletries dominate the U.K. cosmetics market, while skin care products and decorative cosmetics have shown the most growth (see Table 37). Fragrances and skin care products have performed well in recent years due to new product developments in the "premium" and "masstige" segments. However, these gains were offset by major declines in the toiletries and hair care segments. Hair care is a mature market in the U.K., with little growth potential and a plethora of budget and private label products. British women are the biggest consumers of decorative cosmetics in Europe.⁵¹

Bulgaria⁵²

The cosmetics and toiletries market is thriving in Bulgaria, registering more than 6% growth over the review period largely due to increased consumer purchasing power. New product launches, greater brand availability, renewed marketing campaigns, and growing Westernisation has led to dramatically changing attitudes and demand for more premium

⁵⁰ <http://www.cosmeticsdesign.com/news/ng.asp?n=60389-global-organic-cosmetic>

⁵¹ <http://www.cosmeticsdesign-europe.com/news/ng.asp?n=71809-europe-cosmetic-perfume>

⁵² Euromonitor, The Infoshop, Cosmetics Design

and specialized cosmetics. 2006 experienced a slow down in the cosmetics market even as overall consumption growth remained solid.⁵³

Table 38

Bulgaria	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	118	128	135	145	155	167	172	6.5%
	Y/Y growth rate		8.5%	5.3%	7.3%	7.4%	7.5%	2.9%	6.5%
Per capita C&T consumption	Y/Y growth rate		12.1%	5.9%	7.9%	7.9%	8.1%	3.6%	7.6%
Total population	Y/Y growth rate	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%
Population 65+	Y/Y growth rate	0.4%	0.2%	0.0%	-0.2%	-0.3%	-0.4%	-0.5%	-0.2%
Private Consumption	Y/Y growth rate		12.4%	9.9%	9.2%	11.3%	12.8%	14.5%	11.7%
C&T as a % of total consumption		1.26%	1.22%	1.17%	1.15%	1.10%	1.05%	0.95%	

Source: Euromonitor, Global Insight, United Nations

Hair care has grown very slowly (see Table 39) throughout the study period however all other categories have seen continuous growth. Growth was quite dramatic in the case of skin care and decorative cosmetics. Growing popularity in men's cosmetic lines should help sustain this positive trend.

Growth of the cosmetics market has generally benefited foreign brands, while domestic companies struggle to maintain market share.

Table 39

Bulgaria	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	11%	12%	24%	19%	34%	100%
CAGR 2000-2006	6.6%	10.2%	13.9%	1.6%	4.4%	6.5%
Contribution to Growth	0.7%	1.2%	3.3%	0.3%	1.5%	6.5%

Source: Euromonitor

Direct sales, especially of skin care products, dominated this market in 2005. At the same time, retailers are putting a greater array of cosmetics on their shelves, backed by significant promotions to increase sales. Despite new trends towards greater sophistication, consumers continue to seek a balance between price and value.⁵⁴

Cyprus

Despite robust economic growth during the 2000-06 period, the Cypriot cosmetics market remained flat, as a sharp decline in 2002 was just reversed by a modest but steady performance thereafter. Fairly solid population growth relative to other European countries has not helped in boosting the weak performance of the cosmetics sector.⁵⁵

⁵³ Disposable income data is not available for Bulgaria.

⁵⁴ Euromonitor, *Cosmetics and Toiletries in Bulgaria: Executive Summary*, May 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Bulgaria#exec.

⁵⁵ Disposable income data is not available for Cyprus.

Table 40

Cyprus	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	178	176	161	166	169	175	179	0.1%
	Y/Y growth rate		-1.1%	-8.2%	3.0%	1.8%	3.6%	2.3%	0.1%
Per capita C&T consumption	Y/Y growth rate		-2.1%	-9.3%	1.1%	-0.5%	3.8%	1.2%	-1.1%
Total population	Y/Y growth rate	1.4%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.2%
Population 65+	Y/Y growth rate	2.6%	2.5%	2.5%	2.4%	2.4%	2.5%	2.6%	2.5%

Source: Euromonitor, modelled statistics, United Nations

Cypriots have very similar consumption patterns in terms of cosmetics compared to their European counterparts, but unlike in other countries skin care has experienced no overall growth, while fragrances have been the strongest.

Table 41

Cyprus - modelled	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	15%	10%	29%	18%	27%	100%
CAGR 2000-2006	1.0%	0.8%	0.0%	-0.2%	-0.1%	0.1%
Contribution to Growth	0.2%	0.1%	0.0%	0.0%	0.0%	0.1%

Source: Euromonitor, Global Insight, United Nations

Czech Republic⁵⁶

The cosmetics market in the Czech Republic has been the strongest in the EU12 in euro terms increasing by a compound annual growth rate of 11.5% over the review period, in line with private consumption growth.⁵⁷ In contrast to the general trend in the new member states, Czechs spent a larger share of their budgets on cosmetics in 2005 than they did in 2000, a trend that can only be attributed to increased interest in looking and feeling good.

Table 42

Czech Republic	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	438	506	614	643	693	775	840	11.5%
	Y/Y growth rate		15.5%	21.3%	4.7%	7.7%	11.9%	8.4%	11.5%
Per capita C&T consumption	Y/Y growth rate		16.2%	21.4%	4.7%	7.6%	11.6%	8.0%	11.4%
Total population	Y/Y growth rate	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Population 65+	Y/Y growth rate	0.5%	0.4%	0.3%	0.3%	0.5%	0.9%	1.3%	0.6%
Private Consumption	Y/Y growth rate		11.2%	14.2%	2.1%	5.5%	12.2%	11.4%	9.4%
C&T as a % of total consumption		1.38%	1.43%	1.52%	1.56%	1.59%	1.59%	1.54%	

Source: Euromonitor, Global Insight, United Nations

All product categories have kept pace with the buoyant overall growth, with skin care and toiletries having grown the fastest and have contributed the most to overall market growth.

⁵⁶ Euromonitor, Bharat Book Bureau, The Infoshop

⁵⁷ Disposable income data is not available for Czech Republic.

Table 43

Czech Republic	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	13%	14%	25%	23%	26%	100%
CAGR 2000-2006	9.9%	9.4%	14.9%	8.9%	13.0%	11.5%
Contribution to Growth	1.2%	1.3%	3.7%	2.0%	3.4%	11.5%

Source: Euromonitor

Increased product specialisation and sophistication played an important role in the dramatic growth of the cosmetic market from 2000-06. Czech consumers who were previously seen as traditional and conservative broke away from this reputation. The younger generation, more aware of global trends and fashions, has helped spur spending in this industry as positive product experience and brand image, rather than price, have become the most significant factor in purchase decisions.

Direct sales of cosmetics and toiletries have seen significant growth and are especially popular among female consumers. Manufacturers continue to target young women with children, as their consumption of cosmetic products is significantly higher than that of the rest of the population.⁵⁸

Estonia⁵⁹

Estonia's purchases of cosmetic and toiletry products grew by a compounded 5.7% over the 2000 to 2006 period (see Table 44). The market saw double-digit growth during 2005 and 2006. Developments in the cosmetics market are a reflection of strong GDP and consumption growth.⁶⁰ Cosmetics share of overall consumption fell noticeably over the period decreasing the share Estonians spend on cosmetics out of their total consumption.

Table 44

Estonia	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	61	64	66	66	68	75	85	5.7%
	Y/Y growth rate		5.1%	3.8%	-0.9%	3.7%	10.6%	12.8%	5.7%
Per capita C&T consumption	Y/Y growth rate		5.5%	4.2%	-0.5%	4.1%	10.9%	13.0%	6.1%
Total population	Y/Y growth rate	-0.8%	-0.7%	-0.6%	-0.5%	-0.5%	-0.4%	-0.4%	-0.5%
Population 65+	Y/Y growth rate	0.8%	1.2%	1.5%	1.5%	1.3%	0.8%	0.4%	1.1%
Private Consumption	Y/Y growth rate		13.9%	14.2%	7.8%	9.0%	11.1%	19.4%	12.5%
C&T as a % of total consumption		1.85%	1.71%	1.55%	1.43%	1.36%	1.35%	1.27%	

Source: Euromonitor, Global Insight, United Nations

New product launches helped make the skin care market very dynamic. It experienced on average a 6.9% rate of growth over the study period, outpacing all of the other categories (see Table 45). Increased advertising, more effective marketing strategies, and wider distribution and availability popularised these new products. Local brands were particularly successful at using advertising to boost sales. Natural ingredient-based cosmetics, anti-age formulations, and skin-firming treatments garnered great interest.

⁵⁸ Euromonitor, *Cosmetics and Toiletries in the Czech Republic: Executive Summary*, July 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_the_Czech_Republic#exec.

⁵⁹ Euromonitor, *Cosmetics Business*

⁶⁰ Disposable income data is not available for Estonia.

With a respectable 6.6% growth rate, bath products and shower cream are expected to be the main growth drivers.

Table 45

Estonia	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	12%	11%	37%	20%	20%	100%
CAGR 2000-2006	3.5%	4.8%	6.9%	4.9%	6.6%	5.7%
Contribution to Growth	0.4%	0.5%	2.5%	1.0%	1.3%	5.7%

Source: Euromonitor

Consumers increasingly purchased products through direct sales and the internet. Availability of cosmetics and toiletries in supermarkets also grew, making it easier to build public interest in these goods.⁶¹ Based on the patterns measured from 2000-06, it is expected that all categories of cosmetics will continue their healthy growth.

Hungary⁶²

Sales of cosmetics and toiletries in Hungary grew by 8.1% over the 2000 to 2006 period, experiencing double digit growth at the beginning of the period and decelerating sharply to negative growth in 2006 (see Table 46). This last development is in part due to a depreciation of the currency, although growth has also decelerated in local currency terms reflecting a less favourable economic environment in 2006 which also led to flat consumption levels after years of impressive performance.⁶³

Table 46

Hungary	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	395	451	517	559	608	650	630	8.1%
	Y/Y growth rate		14.1%	14.6%	8.3%	8.7%	7.0%	-3.0%	8.1%
Per capita C&T consumption	Y/Y growth rate		14.4%	14.9%	8.5%	8.9%	7.2%	-2.8%	8.4%
Total population	Y/Y growth rate	-0.2%	-0.2%	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Population 65+	Y/Y growth rate	0.5%	0.4%	0.4%	0.4%	0.5%	0.6%	0.7%	0.5%
Private Consumption	Y/Y growth rate		16.6%	21.4%	8.0%	8.6%	9.3%	-0.3%	10.4%
C&T as a % of total consumption		1.46%	1.43%	1.35%	1.35%	1.35%	1.32%	1.29%	

Source: Euromonitor, Global Insight, United Nations

Skin care, hair care and toiletries together make up 80% of the market as the two smaller segments make up lower shares than the European averages, possibly reflecting Hungarians' inclination to spend less on luxury cosmetics and more on necessities. All categories experienced comparable growth rates, although skin care was the strongest.

⁶¹ Euromonitor, *Cosmetics and Toiletries in Estonia: Executive Summary*, September 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Estonia#exec.

⁶² Euromonitor, Industry Canada, *Cosmetics Design*, Bharat Book Bureau

⁶³ Disposable income data is not available for Hungary.

Table 47

Hungary	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	12%	9%	24%	20%	36%	100%
CAGR 2000-2006	7.6%	8.9%	10.1%	6.8%	7.6%	8.1%
Contribution to Growth	0.9%	0.8%	2.4%	1.3%	2.7%	8.1%

Source: Euromonitor

Supermarkets and pharmacies dominate the distribution of these products. Direct sales of fragrances, colour cosmetics, and skin care products gained popularity and registered higher overall sales. Domestic companies are struggling for market share, holding only 10% of the total against the foreign producers' control of 90% of sales.⁶⁴

Moderate growth is projected to continue. On the one hand, both men and women become increasingly conscious of their appearance, while on the other hand many product segments are reaching saturation.

Latvia⁶⁵

The Latvian cosmetics and toiletries market has experienced subdued performance compared to other new member states, despite its very strong economic performance.⁶⁶ This can be explained only in small part by the negative population growth. The sharp decline in the share of consumption spent on cosmetics by Latvian consumers is in part due to by the increased standard of living, but per capita consumption of cosmetics remains one of the lowest in the EU12 region.

Table 48

Latvia	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	80	83	87	86	88	89	93	2.5%
	Y/Y growth rate		4.3%	4.2%	-1.0%	1.8%	1.5%	4.3%	2.5%
Per capita C&T consumption	Y/Y growth rate		4.7%	5.1%	-0.4%	2.3%	2.0%	4.8%	3.1%
Total population	Y/Y growth rate	-0.7%	-0.7%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	-0.6%
Population 65+	Y/Y growth rate	1.1%	1.5%	1.8%	1.8%	1.7%	1.4%	1.0%	1.5%
Private Consumption	Y/Y growth rate		9.0%	6.0%	0.7%	11.4%	13.4%	28.5%	11.2%
C&T as a % of total consumption		1.51%	1.45%	1.42%	1.40%	1.28%	1.14%	0.93%	

Source: Euromonitor, Global Insight, United Nations

As shown in Table 49, skin care and decorative cosmetics sales have been steadily climbing since at least 2001 and have shown respectable growth over the period at 4.6% and 5.0%, respectively. Toiletries, which shadowed the pattern of perfumes through 2005, have seen a sharp spike in sales from 2005-06, after a flat 2004-05. In specific sub-categories, the highest percentage sales increases are being seen in men's grooming products, baby care products, and depilatories.

⁶⁴ Euromonitor, *Cosmetics and Toiletries in Hungary: Executive Summary*, August 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Hungary#exec.

⁶⁵ Euromonitor

⁶⁶ Disposable income data is not available for Latvia.

Table 49

Latvia	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	14%	16%	24%	24%	22%	100%
CAGR 2000-2006	1.4%	5.0%	4.6%	1.2%	0.8%	2.5%
Contribution to Growth	0.2%	0.8%	1.1%	0.3%	0.2%	2.5%

Source: Euromonitor

Domestic Latvian producers hold only about 5% of the cosmetic and toiletry market, making it difficult for them to gain much more of a foothold in the foreseeable future. International direct sales companies are projected to capture 20% of the market within the next five years, challenging traditional retail outlets to come up with innovative marketing concepts before they can capture a significant portion of the Latvian market.⁶⁷

Lithuania⁶⁸

The cosmetics and toiletries market in Lithuania has been very strong over the 2000-06 period, underpinned by strong economic growth.⁶⁹ Once again total consumption outpaced growth in this market, sharply decreasing the share Lithuanians spend on cosmetics out of their budgets.

Table 50

Lithuania	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	115	127	138	143	148	158	177	7.4%
	Y/Y growth rate		10.6%	8.4%	3.7%	3.4%	6.8%	11.6%	7.4%
Per capita C&T consumption	Y/Y growth rate		17.1%	8.6%	4.3%	3.9%	7.4%	12.4%	8.9%
Total population	Y/Y growth rate	-0.6%	-0.5%	-0.4%	-0.3%	-0.3%	-0.4%	-0.4%	-0.4%
Population 65+	Y/Y growth rate	1.7%	1.7%	1.7%	1.7%	1.5%	1.4%	1.2%	1.5%
Private Consumption	Y/Y growth rate		9.4%	9.4%	9.4%	11.9%	14.0%	16.4%	11.7%
C&T as a % of total consumption		1.44%	1.45%	1.44%	1.36%	1.26%	1.18%	1.13%	

Source: Euromonitor, Global Insight, United Nations

Lithuanians spend a larger share of their cosmetics basket on fragrances and hair care than their European counterparts and less on toiletries and skin care. All segments have grown at healthy rates over the review period, but unlike other parts of Europe, hair care has been the strongest.

Overall sales, which increased by 7% in 2005 and 12% in 2006, are dominated by imported products, as they are throughout Eastern Europe.

Table 51

Lithuania	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	21%	13%	23%	23%	20%	100%
CAGR 2000-2006	6.3%	7.3%	7.3%	9.1%	6.9%	7.4%
Contribution to Growth	1.3%	1.0%	1.7%	2.1%	1.4%	7.4%

Source: Euromonitor

⁶⁷ Euromonitor, *Cosmetics and Toiletries in Latvia: Executive Summary*, July 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Latvia#exec.

⁶⁸ Euromonitor

⁶⁹ Disposable income data is not available for Lithuania.

Lithuanian consumers base cosmetic and toiletry purchasing decisions almost exclusively on price. As increases in disposable income continue, quality and brand names could become more important factors.

Nearly half of all Lithuanian cosmetic purchases are made in major supermarket chains. Direct selling, which is gaining in popularity and, accounted for 13% of total sales in 2005. While the market as a whole is dominated by foreign importers, the strongest area for local manufacturers was in bath and skin care products.⁷⁰

Malta

Malta's cosmetics and toiletries market has grown at a rate closer to the EU15 countries as its per capita spending and population growth are very close to the EU15 average. A pick-up in GDP growth in 2005-2006 is reflected in a stronger 2006 for the cosmetics market.⁷¹

Table 52

Malta	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	48	46	49	53	55	56	59	3.6%
	Y/Y growth rate		-3.5%	6.8%	8.8%	3.1%	2.6%	4.1%	3.6%
Per capita C&T consumption	Y/Y growth rate		-4.2%	6.1%	8.1%	2.4%	2.2%	3.6%	2.9%
Total population	Y/Y growth rate	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Population 65+	Y/Y growth rate	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%

Source: Euromonitor, modelled statistics, United Nations

Skin care and decorative cosmetics have been the drivers in the cosmetics market, with all other segments registering lacklustre growth.

Table 53

Malta - modelled	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	12%	15%	21%	19%	32%	100%
CAGR 2000-2006	2.1%	5.5%	6.9%	2.4%	2.2%	3.6%
Contribution to Growth	0.2%	0.8%	1.5%	0.5%	0.7%	3.6%

Source: Euromonitor, Global Insight, United Nations

Poland⁷²

Poland's growing economy, changing consumer lifestyles, and increased Westernisation have created market growth and new demand in the cosmetics and toiletry industry.⁷³ Growth in sales of both mass and premium products is expected to continue, buoyed by sales of fragrances, bath and shower, and men's grooming products. Due to the industry's growth potential, both new companies and new products are expected to enter the Polish market over the coming years. As interest rises in health and hygiene, marketing

⁷⁰ Euromonitor, *Cosmetics and Toiletries in Lithuania: Executive Summary*, July 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Lithuania#exec.

⁷¹ Disposable income data is not available for Malta.

⁷² Euromonitor, Industry Canada, *Cosmetics in Russia*, Intercharm, PRWEB, GCI

⁷³ Disposable income data is not available for Poland.

campaigns targeted at specific consumer groups will attempt to capture these new consumer trends.

Table 54

Poland	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	1.85	2.13	2.14	1.93	1.95	2.27	2.42	4.5%
	Y/Y growth rate		14.7%	0.5%	-9.6%	0.8%	16.8%	6.3%	4.5%
Per capita C&T consumption	Y/Y growth rate		14.7%	0.5%	-9.4%	1.7%	16.8%	6.5%	4.7%
Total population	Y/Y growth rate	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Population 65+	Y/Y growth rate	1.6%	1.6%	1.6%	1.4%	1.0%	0.6%	0.1%	1.1%
Private Consumption	Y/Y growth rate		16.0%	1.7%	-10.5%	4.1%	17.6%	9.9%	6.0%
C&T as a % of total consumption		1.59%	1.57%	1.55%	1.56%	1.51%	1.50%	1.45%	

Source: Euromonitor, Global Insight, United Nations

Skin care and toiletries are the largest segments in the Polish markets. Fragrances and skin care have been the most dynamic reflecting the improved living standards and growing appetite for luxury products, while hair care and toiletries have lagged far behind (see Table 55).

Table 55

Poland	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	16%	11%	28%	19%	27%	100%
CAGR 2000-2006	6.4%	4.3%	8.1%	2.2%	2.2%	4.5%
Contribution to Growth	1.0%	0.5%	2.3%	0.4%	0.6%	4.5%

Source: Euromonitor

In contrast to the other Eastern European markets, domestic manufacturers have had more success in Poland, due to more reasonably priced and higher-quality products. Sun care and skin care, which have traditionally been dominated by international brands, are seeing increasing strength in competition from local companies. Direct selling, which has been shown to build brand loyalty, remains extremely popular with consumers.⁷⁴

Romania⁷⁵

A very strong economic environment has boosted consumption and the cosmetics market in Romania over the review period, making it the second most dynamic market in the EU12 after the Czech Republic. Growth has been particularly impressive over the 2004-06 period, reaching 34% in 2005, in line with broader consumer spending and GDP growth.⁷⁶ This has brought significant improvements to living standard, making higher-class products the major driver in the Romanian cosmetic market. However, as basic hygiene products become more visible to the nearly half of the population that lives in rural areas, the industry should achieve tremendous growth. Between 2005 and 2010, the overall market is projected to grow by over 60%. Growing awareness of self-image and increasing purchasing power should also help spur this industry expansion.

⁷⁴ Euromonitor, *Cosmetics and Toiletries in Poland: Executive Summary*, May 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Poland#exec.

⁷⁵ Euromonitor, PWC, Ziarul Financiar

⁷⁶ Disposable income data is not available for Romania.

Despite the impressive growth in this sector, Romanians still have a very low per capita spending on cosmetics compared to other countries, and the lowest among the EU27 in purchasing power parity terms.

Table 56

Romania	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	389	386	390	384	423	567	655	9.0%
	Y/Y growth rate		-0.8%	0.9%	-1.5%	10.1%	34.1%	15.5%	9.0%
Per capita C&T consumption	Y/Y growth rate		-0.6%	3.7%	-1.1%	10.4%	34.3%	15.5%	9.7%
Total population	Y/Y growth rate	-0.4%	-0.4%	-0.4%	-0.3%	-0.3%	-0.4%	-0.4%	-0.4%
Population 65+	Y/Y growth rate	1.8%	1.8%	1.8%	1.6%	1.2%	0.7%	0.1%	1.2%
Private Consumption	Y/Y growth rate		11.6%	19.6%	-7.3%	18.7%	29.6%	23.1%	15.2%
C&T as a % of total consumption		1.39%	1.23%	1.04%	1.10%	1.02%	1.06%	0.99%	

Source: Euromonitor, Global Insight, United Nations

Toiletries, once the runaway leader in market share at more than 50% in 2000, have fallen off steadily and dramatically to just over one quarter of the total in 2006. Fragrances have grown at an impressive average annual rate of 28%, while skin care and decorative cosmetics have also been strong (see Table 57). Hair care and toiletries have been the laggards in the industry. Romanians spend considerably less out of their cosmetics basket on hair care products than the European average.

Table 57

Romania	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	23%	14%	22%	13%	28%	100%
CAGR 2000-2006	27.7%	15.1%	16.6%	2.6%	-0.4%	9.0%
Contribution to Growth	6.4%	2.1%	3.7%	0.3%	-0.1%	9.0%

Source: Euromonitor

Though international manufacturers led the way in most cosmetics lines, domestic companies garnered most of the fragrance sales because they could offer more affordable products to most Romanians. Competitive advertising campaigns and product promotions have helped consumers distinguish among the leading international cosmetic suppliers, allowing them to make more informed purchasing decisions. Hygiene products, such as shower products and toothpaste, are expected to provide the largest share of future industry growth.⁷⁷

Slovakia⁷⁸

Healthy economic performance enables Slovaks to increase their consumption levels at double digit rates over the first half of this decade, underpinning solid and steady growth in the cosmetics market.⁷⁹ New product development, increased use of promotional material and offers, and new social and fashion trends have also helped sustain growth in this sector.

⁷⁷ Euromonitor, *Cosmetics and Toiletries in Romania: Executive Summary*, May 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Romania#exec.

⁷⁸ Euromonitor, Industry Canada

⁷⁹ Disposable income data is not available for Slovakia.

Table 58

Slovakia	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	283	299	319	348	373	399	423	6.9%
	YY growth rate		5.5%	6.9%	9.0%	7.0%	7.1%	5.9%	6.9%
Per capita C&T consumption	YY growth rate		6.0%	6.9%	9.0%	7.0%	7.0%	5.9%	6.9%
Total population	YY growth rate	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Population 65+	YY growth rate	0.9%	0.8%	0.7%	0.6%	0.7%	0.7%	0.8%	0.7%
Private Consumption	YY growth rate		9.6%	10.1%	9.7%	15.6%	14.4%	15.5%	12.5%
C&T as a % of total consumption		2.30%	2.22%	2.15%	2.14%	1.98%	1.85%	1.70%	

Source: Euromonitor, Global Insight, United Nations

Certain segments, like sun care and premium products performed well, while sales in others, such as baby care and oral hygiene, remained stagnant. Growth in disposable income, especially in more urban areas, allowed Slovaks to purchase cosmetics like fragrances, hair care, colour cosmetics, and skin care products in greater quantities, as can be seen in the steady rise of sales in all categories from 2000 to 2006 (see Table 59)

Table 59

Slovakia	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	14%	13%	31%	17%	24%	100%
CAGR 2000-2006	6.7%	6.7%	7.0%	6.5%	7.3%	6.9%
Contribution to Growth	0.9%	0.9%	2.2%	1.1%	1.8%	6.9%

Source: Euromonitor

Supermarkets became the leading distributor of these products in 2005, as they are generally able to offer lower prices to consumers, compared to more specialised shops and drug stores. Direct selling also remained popular. Entrance into the EU in 2004 opened the Slovakian marketplace for international cosmetic companies who no longer face large import duties, placing a strain on domestic producers.⁸⁰

Slovenia⁸¹

Slovenia's cosmetic and toiletry market has grown inline with increasing income and consumption levels and is generally believed to have reached maturity in 2003⁸², with growth in most categories slowing down (see Table 60).⁸³ As a result, any significant new growth will have to come from new markets or product categories. New product innovations, natural-based cosmetics, men's grooming, and anti-aging facial care are looked at as formerly unconventional (or even unknown) sectors that will generate a large portion of any future growth. Currently, skin care, hair care, and toiletries combine to cover more than 75% of the market (see Table 61), while fragrances and decorative cosmetics lagged far behind at just 11% and 13% shares, respectively.

⁸⁰ Euromonitor, *Cosmetics and Toiletries in Slovakia: Executive Summary*, August 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Slovakia#exec.

⁸¹ Euromonitor

⁸² Euromonitor, *Cosmetics and Toiletries in Slovakia: Executive Summary*, August 2006, available at http://www.euromonitor.com/Cosmetics_And_Toiletries_in_Slovenia

⁸³ Disposable income data is not available for Slovenia.

Table 60

Slovenia	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	millions of €	108	117	132	143	149	157	162	6.9%
	Y/Y growth rate		8.3%	12.7%	8.3%	3.9%	5.7%	2.6%	6.9%
Per capita C&T consumption	Y/Y growth rate		8.1%	12.4%	8.1%	3.8%	5.6%	2.5%	6.7%
Total population	Y/Y growth rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Population 65+	Y/Y growth rate	2.3%	2.2%	2.1%	1.9%	1.7%	1.3%	1.0%	1.7%
Private Consumption	Y/Y growth rate		10.1%	9.2%	9.1%	6.2%	5.8%	5.8%	7.7%
C&T as a % of total consumption		1.08%	1.06%	1.09%	1.08%	1.06%	1.06%	1.03%	

Source: Euromonitor, Global Insight, United Nations

Slovenians have a fairly high per capita consumption level compared to their EU12 counterparts and in purchasing power parity terms it is close to the EU15 average. They put less emphasis on fragrances than other Europeans but consume relatively more skin care products. All segments have grown strongly over the review period, except for hair care.

Table 61

Slovenia	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	11%	13%	29%	22%	26%	100%
CAGR 2000-2006	7.1%	7.1%	8.7%	2.2%	9.7%	6.9%
Contribution to Growth	0.8%	0.9%	2.5%	0.5%	2.5%	6.9%

Source: Euromonitor

In Slovenia, prices for products consumed on a daily basis, along with effective marketing strategies for higher-end goods, are driving the industry's success. Customers have low brand loyalty and are easily swayed by lower-priced products. Multi-national manufacturers have consistently extended their dominance over the local market, and will continue to be a powerful force in the market.⁸⁴

Norway⁸⁵

In Norway, the cosmetics and toiletries sector experienced double-digit growth early in the decade, as can be seen in Table 62, slowing down thereafter and bringing the compound annual growth rate of the overall sector to about 5%. The cosmetics market performance tracked the growth rates registered in disposable income per capita and overall consumption. Movements in the local currency vis-à-vis the euro has contributed some volatility to the market performance measured in euros.

⁸⁴ Euromonitor, *Cosmetics and Toiletries in Slovenia: Executive Summary*, July 2006, available at http://www.euromonitor.com/Cosmetics_and_toiletries_in_Slovenia#exec.

⁸⁵ COLIPA, Euromonitor

Table 62

Norway	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	704	782	880	852	877	929	1022	6.4%
	Y/Y growth rate		11.0%	12.6%	-3.2%	2.9%	5.9%	10.0%	6.4%
Per capita C&T consumption	Y/Y growth rate		38.2%	0.5%	-13.9%	2.3%	4.6%	9.1%	5.7%
Total population	Y/Y growth rate	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Population 65+	Y/Y growth rate	-0.1%	-0.2%	-0.1%	0.0%	0.2%	0.5%	0.7%	0.2%
Per capita disposable income	Y/Y growth rate		3.3%	17.1%	-0.3%	0.0%	10.5%	-2.1%	4.6%
Private Consumption	Y/Y growth rate		5.4%	11.6%	-0.5%	1.8%	9.2%	6.0%	5.5%
C&T as a % of total consumption		0.89%	0.94%	0.95%	0.92%	0.94%	0.91%	0.94%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Table 63 shows that Norwegians spend almost equal amounts on toiletries, hair care, and skin care. All segments in the cosmetics market contributed to growth over the period - skin care contributed the most. It is interesting to note that Norwegians, like the Finns and the Swedes, spend the smallest shares of their consumption baskets on fragrances.

Table 63

Norway	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	6%	16%	28%	25%	26%	100%
CAGR 2000-2006	5.6%	6.5%	10.1%	4.2%	5.3%	6.4%
Contribution to Growth	0.3%	1.1%	2.8%	1.1%	1.4%	6.4%

Source: COLIPA Statistics Working Group

Euromonitor has noted that the growing domestic economy has contributed to Norwegians' spending on products that suited their skin type, personality, and individuality.⁸⁶ When it comes to baby care and sun care products, as well as deodorants, Norwegians prefer to use healthy products that are free of alcohol and perfume.

Norway is not a member of the EU so Norwegians enjoy tax-free shopping on all journeys abroad. This has hindered the growth in fragrances, colour cosmetics, and skin care according to the trade association KLF.

Switzerland⁸⁷

Poor per capita income growth in recent years has led to very slow growth in the Swiss cosmetics and toiletries market. Even the increases in 2001-02 are due only to a temporary depreciation of the Swiss franc against the euro. In addition to slow economic growth, household penetration in this sector is slow, as the market matures and growth potential declines.⁸⁸

⁸⁶ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Norway

⁸⁷ COLIPA, Euromonitor

⁸⁸ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Switzerland

Table 64

Switzerland	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €	1.49	1.58	1.69	1.63	1.65	1.58	1.57	0.8%
	Y/Y growth rate		5.7%	6.9%	-3.6%	1.1%	-4.2%	-0.5%	0.8%
Per capita C&T consumption	Y/Y growth rate		-15.9%	4.6%	20.1%	0.9%	-4.8%	0.0%	0.2%
Total population	Y/Y growth rate	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Population 65+	Y/Y growth rate	1.3%	1.3%	1.3%	1.4%	1.6%	1.8%	2.1%	1.6%
Per capita disposable income	Y/Y growth rate		5.3%	0.6%	-3.0%	-0.6%	0.8%	0.7%	0.6%
Private Consumption	Y/Y growth rate		5.8%	4.6%	-2.2%	0.8%	1.8%	1.8%	2.1%
C&T as a % of total consumption		0.93%	0.93%	0.95%	0.94%	0.94%	0.89%	0.87%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

Brand loyalty is low, so cheaper private labels are doing well. The price competition between private labels and branded mass retailers is an ongoing challenge for the industry. Added value, wellness, and convenience are the main selling points being addressed by manufacturers, and new launches are often supported by strong marketing activities and sales promotions.

The Swiss spend almost equal amounts on skin care, hair care, and toiletries, as can be seen in the "Share of Total" in Table 65. The table indicates how sales in all segments have remained relatively flat over the 2000-05 period.

Table 65

Switzerland	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	18%	10%	27%	22%	23%	100%
CAGR 2000-2006	2.3%	-2.8%	1.4%	1.2%	0.6%	0.8%
Contribution to Growth	0.4%	-0.3%	0.4%	0.3%	0.1%	0.8%

Source: COLIPA Statistics Working Group

According to Euromonitor demand for baby care, depilatories, and sun care has been strongest. Nourishers/anti-agers and firming/anti-cellulite body care both experienced healthy growth at the expense of general-purpose body care and facial moisturisers, as consumers began preferring specifically formulated products.

Market Size and Main Product Trends – United States⁸⁹

As the U.S. economy has grown strongly in the last few years, U.S. consumers have been resilient to high energy prices and interest rates, and continued to spend at a healthy rate on consumer goods, including cosmetics and toiletries. However, the cosmetics market has grown by 2.3% in U.S. dollar terms over the 2000-06 period, less than the average growth in U.S. consumers' expenditure of 5.5%.

⁸⁹ Euromonitor, Carefair, Cpcpkg Magazine, IEHN Cosmetic Report, Retailnet, The Infoshop, Find Articles, Cosmetics Design, GCI

Table 66

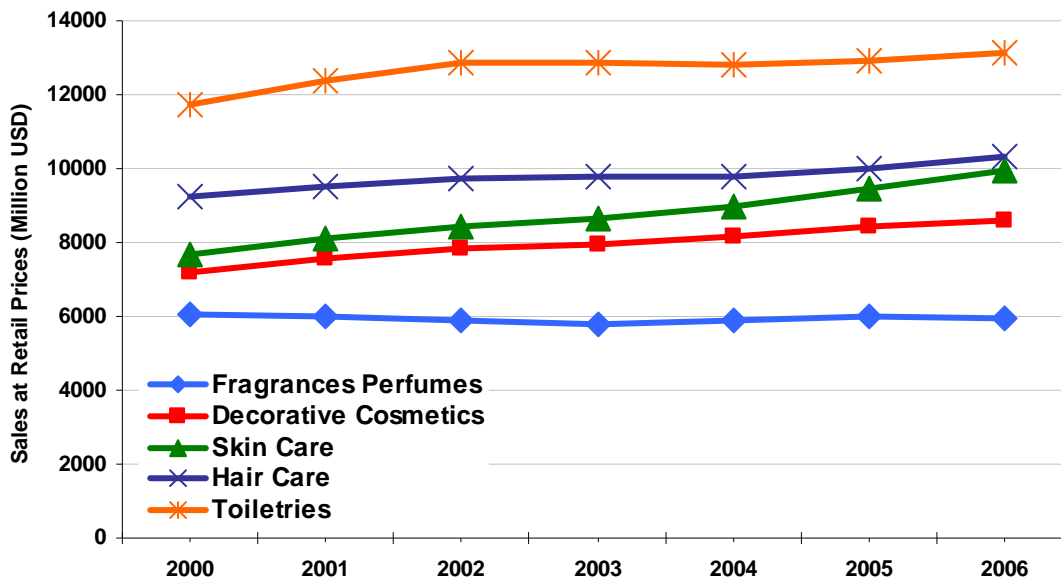
U.S.	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of USD	41.87	43.53	44.77	45.08	45.66	46.84	47.94	2.3%
	Y/Y growth rate		4.0%	2.8%	0.7%	1.3%	2.6%	2.3%	2.3%
Per capita C&T consumption	Y/Y growth rate		2.9%	1.8%	-0.3%	0.3%	1.6%	1.4%	1.3%
Total population	Y/Y growth rate	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	1.0%
Population 65+	Y/Y growth rate	0.9%	0.8%	0.8%	0.9%	1.0%	1.1%	1.3%	1.0%
Per capita disposable income	Y/Y growth rate		3.0%	3.8%	3.5%	5.4%	2.9%	4.3%	3.8%
Private Consumption	Y/Y growth rate		4.7%	4.2%	4.8%	6.6%	6.5%	6.0%	5.5%
C&T as a % of total consumption		0.62%	0.62%	0.61%	0.59%	0.56%	0.54%	0.52%	

Source: Euromonitor, Global Insight, United Nations

In general, consumers have become much more sophisticated buyers, expecting higher quality products, better product performance, enhanced package aesthetics, and / or improved product functionality⁹⁰ at an affordable cost.

The organic and natural personal care segment is growing very quickly in the U.S. – the market leader in terms of innovative product introductions⁹¹ – fuelled by strong consumer interest in pesticide- and hormone-free products.

Figure 14 – U.S. Market by Product Category



Source: Euromonitor

Skin care sales have been comparatively strong over the study period – and especially recently – driven by the baby boomers' high disposable incomes and their desire to look younger. Both women and men buy anti-aging creams, and patronize dermatological offices for procedures such as Botox injections, chemical peels, and microdermabrasion to fight off the aesthetic effects of aging.⁹² The market for sun care products has also been

⁹⁰ http://www.cpcpkg.com/magazine/06_11_color_cosmetics_packaging.php

⁹¹ <http://www.cosmeticsdesign.com/news/ng.asp?n=60389-global-organic-cosmetic>

⁹² http://www.euromonitor.com/Cosmetics_and_Toiletries_in_the_US

strong as consumers become more aware of the dangers of sun exposure, and demand additional features such as water resistance and self-tanning.⁹³

Table 67

U.S.	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	12%	18%	21%	22%	27%	100%
CAGR 2000-2006	-0.3%	3.1%	4.3%	1.9%	1.9%	2.3%
Contribution to Growth	0.0%	0.6%	0.9%	0.4%	0.5%	2.3%

Source: Euromonitor

The market for hair care is saturated and highly competitive. Innovative products targeted to ethnic minorities and men are giving a boost to this segment.⁹⁴ While in the decorative cosmetics segment, consumers are looking for improved features such as mascara that curls lashes, quick dry nail polish and smudge-proof lipstick.⁹⁵

Euromonitor expects moderate growth over the coming period, with the fastest-growing segments being hair care, depilatories, and oral hygiene.

⁹³ <http://www.gcimagazine.com/news/webexclusives/5692776.html>

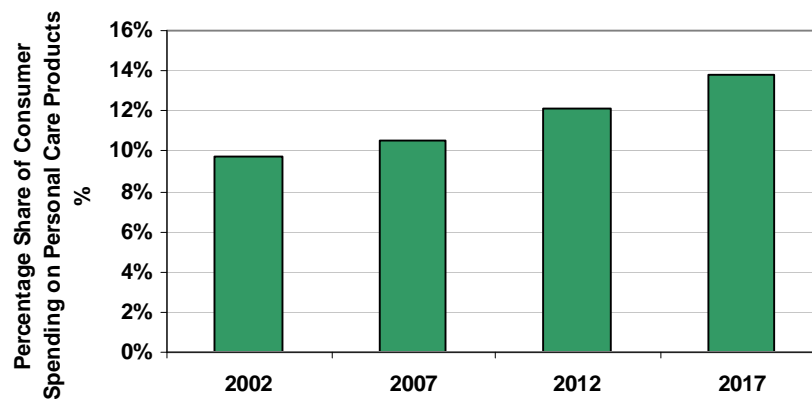
⁹⁴ <http://www.cosmeticsdesign.com/news/ng.asp?id=58809-us-hair-care>

⁹⁵ <http://iehn.org/filesalt/IEHNCosmeticsReportFin.pdf>

Box 3 - Changes in the U.S. Consumer Landscape

The U.S. Hispanic population currently accounts for 15% of the total U.S. population and is expected to near the 20% mark by 2020. Not only is the Hispanic population outpacing total population growth, individuals within the Hispanic community are also benefiting from a faster pace of disposable income growth. As a result, the Hispanic community's consumer "buying power" is becoming more prevalent and is being noticed by both retailers and consumer product manufacturers alike. In particular, Hispanic consumer spending on personal care products and services¹ is advancing at a rate faster than the non-Hispanic population. Retailers and personal care product manufacturers are incorporating strategies that specifically target this market, with tailored advertising campaigns (language-specific) and new product developments.

Figure 15 – U.S. Hispanic Population Share of Consumer Spending on Personal Care Products & Service



Source: U.S. Census Bureau, Global Insight

Table 68 - U.S. Hispanic Population Indicators

	Average Annual Growth Rates (%)		
	2002-07	2007-12	2012-17
Hispanic Population			
Population	3.4	2.9	2.6
Disposable Income (2000\$)	5.1	5.9	5.0
Average Household Income (2000\$)	1.5	2.5	2.0
Overall U.S. Population			
Population	1.0	0.9	0.9
Disposable Income (2000\$)	2.7	3.3	3.0
Average Household Income (2000\$)	1.6	2.1	2.1

Source: U.S. Census Bureau, Global Insight

Market Size and Main Product Trends – Japan⁹⁶

The Japanese market has continued to grow at a healthy rate in 2005, mainly driven by the skin care and decorative cosmetics segments.⁹⁷ The market has recently accelerated in 2005-2006 after a few slow years. In the improved economy, consumers have begun moving up-market, which has had a calming effect on the price competition from previous years. However, the Japanese regard certain cosmetics and toiletries as essential, making some sales insensitive to economic downturns.⁹⁸

Table 69

Japan	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of Yen	3,100	3,132	3,167	3,251	3,277	3,369	3,467	1.9%
	Y/Y growth rate		1.0%	1.1%	2.6%	0.8%	2.8%	2.9%	1.9%
Per capita C&T consumption	Y/Y growth rate		0.8%	0.9%	2.5%	0.7%	2.7%	2.8%	1.7%
Total population	Y/Y growth rate	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%
Population 65+	Y/Y growth rate	3.3%	3.2%	3.0%	2.9%	2.8%	2.8%	2.7%	2.9%
Per capita disposable income	Y/Y growth rate		-3.4%	-0.4%	-1.8%	0.8%	0.2%	1.1%	-0.6%
Private Consumption	Y/Y growth rate		0.5%	-0.4%	-0.5%	0.9%	0.7%	0.6%	0.3%
C&T as a % of total consumption		1.10%	1.10%	1.12%	1.15%	1.15%	1.18%	1.20%	

Source: Euromonitor, Global Insight, United Nations

In general, consumer needs and tastes are influenced by seasonal and quickly shifting trends and fashions, making it important for manufacturers to introduce new products very quickly. In addition, the Japanese are highly brand conscious, looking for new and innovative products and features from their favourite brands.

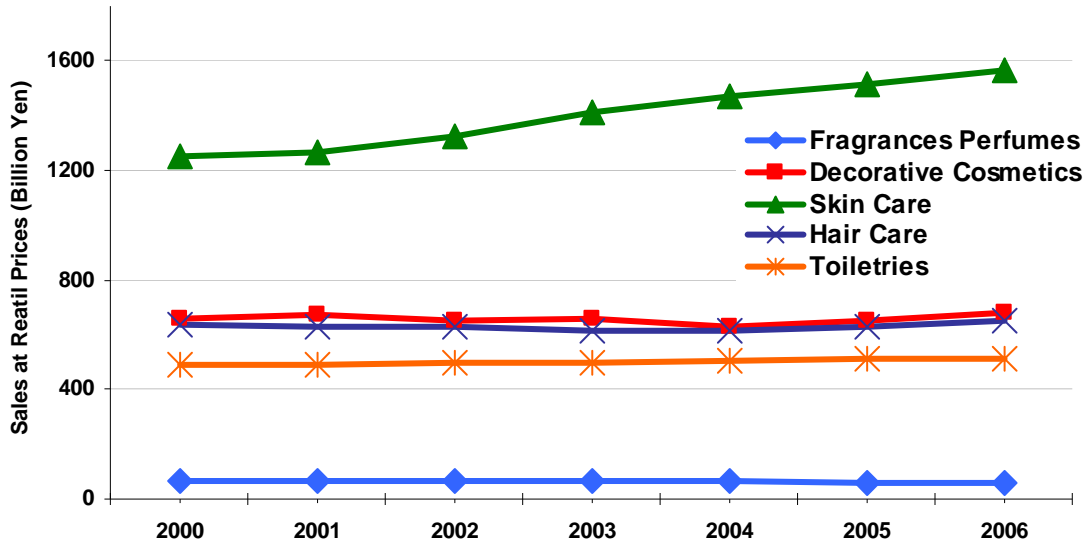
Aging is one of the most important concerns of the Japanese population. It is one of the world's most rapidly aging countries, and about one-quarter of its population is expected to be over the age of 65 by 2010. This is having a significant impact on the cosmetics market, particularly in hair dyes and premium skin care products. The latter is the fastest-growing and most competitive segment of the market.

⁹⁶ Euromonitor, Austrade, Industry Canada, The Infoshop, Beauty-on-line, Pacific Islands Centre

⁹⁷ http://www.euromonitor.com/Cosmetics_and_toiletries_in_Japan

⁹⁸ <http://www.beauty-on-line.com/ebn/newsletter.asp?eid=123>

Figure 16 – Japan's Market by Product Category



Source: Euromonitor

Table 70

Japan	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	2%	20%	45%	19%	15%	100%
CAGR 2000-2006	-1.2%	0.4%	3.8%	0.4%	0.8%	1.9%
Contribution to Growth	0.0%	0.1%	1.7%	0.1%	0.1%	1.9%

Source: Euromonitor

Japanese women, like most Asian women, consider their skin very different from Europeans, so it is important to offer products designed for and geared to the local market. Skin-lightening and anti-aging products are popular among consumers of all ages, with non-greasy, light-texture products that provide UV protection being the preferred choices. As shown in Table 70, skin care products make up nearly half of the Japanese market, with hair care and decorative cosmetics following far behind at 19% and 20% shares, respectively.

Men's skin awareness is dramatically increasing, to the point where it is estimated that the men's cosmetics market has tripled over the 1990s, with younger, more fashionable and trend-conscious consumers leading the way.

Fragrances are used much less in Japan than in Western countries, but are increasingly being seen as stress relievers. Because of the long tradition of low use of fragrances, Japanese consumers who do use fragrances prefer light over heavy perfumes.

In the decorative cosmetics category, consumers are looking for improved features such as mascara that curls lashes, quick dry nail polish, and smudge-proof lipstick.

Euromonitor expects strong growth, with skin care, colour cosmetics, and hair care continuing to lead the way. Price competition will subside further and premium products

will gain market share. Innovation and more effective distribution strategies will play key role in increasing sales.

Market Size and Main Product Trends – China⁹⁹

The Chinese cosmetics market is very dynamic, reflective of the tremendous GDP growth China has experienced over the past few decades, especially among the emerging middle class and its increased disposable income.¹⁰⁰ The overall market has grown by a cumulative annual growth rate of 11.9%. As the market is still in its relative infancy, consumers have little experience with cosmetics products, making brand loyalty a very difficult objective for new entrants.

Table 71

China	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	billions of €		5.89	6.47	7.14	8.00	9.06	10.33	11.9%
	Y/Y growth rate			9.9%	10.2%	12.2%	13.2%	13.9%	11.9%
Per capita C&T consumption	Y/Y growth rate			9.1%	9.5%	11.5%	12.6%	13.3%	9.2%
Total population	Y/Y growth rate	0.8%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%
Population 65+	Y/Y growth rate	3.2%	3.0%	2.9%	2.8%	2.6%	2.5%	2.3%	2.7%
Private Consumption	Y/Y growth rate		7.3%	6.8%	8.1%	12.3%	11.1%	10.4%	9.3%
C&T as a % of total consumption			0.99%	1.02%	1.04%	1.04%	1.04%	1.05%	

Source: Euromonitor, Global Insight, United Nations

As illustrated in Table 71, skin care products account for the lion's share of the market and have seen the fastest growth – an average of almost 20% over the 2001-06 period. Facial moisturisers, nourishers, and anti-agers are the best-performing sub-segments. Like other Asian countries, the Chinese prefer skin care products that provide lighter complexion and UV protection – while fragrances remain a very small share (2%) of the total market.

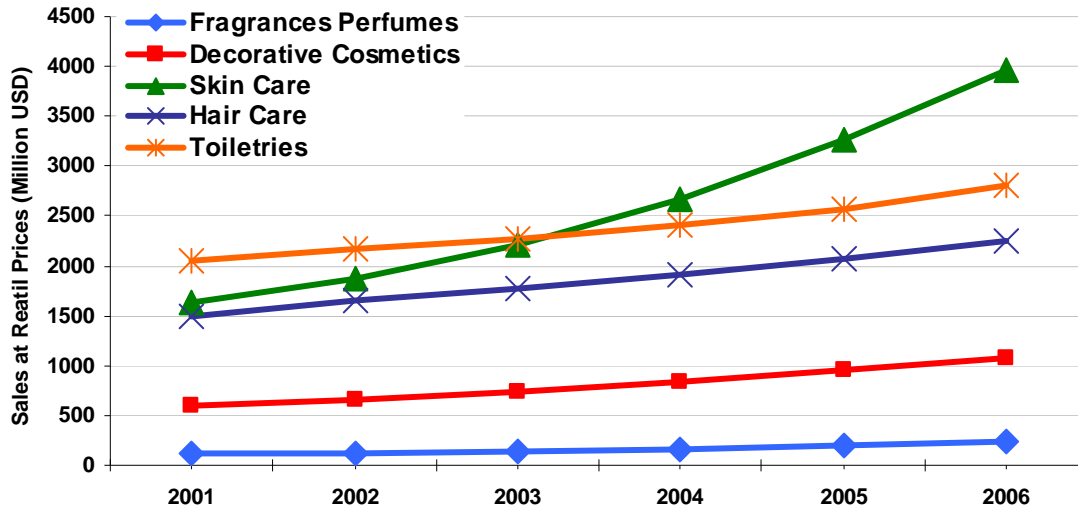
Keeping the body in good health is a deeply rooted tradition in Chinese culture, and consumers are returning to an interest in traditional medicinal herbs and plants.¹⁰¹ In addition, consumers are increasingly aware of health and safety issues, following a number of product withdrawals that have left no brand safe from a loss of public confidence.

⁹⁹ Euromonitor, China Daily, Beauty-on-line, China National Commercial Information Centre, Cosmetics Design, Hong Kong Trade Development Council

¹⁰⁰ Disposable income data is not available for China.

¹⁰¹ <http://www.beauty-on-line.com/ebn/newsletter.asp?eid=124>

Figure 17 – China's Market by Product Category



Source: Euromonitor

Table 72

China	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	2%	10%	38%	22%	27%	100%
CAGR 2001-2006	16.6%	12.3%	19.3%	8.6%	6.5%	11.9%
Contribution to Growth	0.4%	1.3%	7.4%	1.9%	1.8%	11.9%

Source: Euromonitor

Men's cosmetics sales surged 76% in 2004, according to Euromonitor, albeit from a very low base, and thus show a good deal of growth potential.¹⁰² The Chinese market has room to grow on all levels. As more people move to urban areas, there is growth potential in the essential, low-end of the market – and as these areas become more affluent they start trading up to more expensive brands and specialised products.

I.6 - Market Size Forecast

Methodology

The cosmetics market forecast is based on Global Insight's Global Consumer Markets product. This product provides internationally comparable estimates and forecasts of consumer spending, income distribution and other measures of consumer market characteristics. It is based on data from the International Monetary Fund, World Bank and the United Nations.

Consumer spending for each country is modelled using pooled data and estimated as a function of disposable income and allows for other determinants such as household wealth, population growth and income distribution to influence spending patterns.

¹⁰² <http://www.beauty-on-line.com/ebn/newsletter.asp?eid=124>

To forecast cosmetics market size in the various countries we focused on a sub-category within the Global Consumer Markets structure called personal care expenditures. Growth in this sub-category is used as a proxy to forecast spending on cosmetics and toiletries. Population projections are provided by the United Nations. The Global Consumer Markets forecast horizon is to 2020 and is extended to 2026 for the purposes of this project. Market size is forecasted in euro terms for all European countries, thus growth rates incorporate expected currency fluctuations in the countries which have not yet adopted the euro, and in local currency units for China, Japan and the United States.

Results

Table 73 shows our forecast of the cosmetics market in 5 year intervals for the countries of the European Union plus Norway and Switzerland. Table 74 provides an overview of the EU market along side the market projections for the U.S., Japan and China.

Table 73 - Market Size Forecast – Europe

Country	Market Size, Billions of €					CAGR	
	2006	2011	2016	2021	2026	2006-2016	2016-2026
Austria	1.29	1.59	1.95	2.40	3.09	4.2%	4.7%
Belgium/Lux.	1.75	2.04	2.41	2.84	3.50	3.3%	3.8%
Bulgaria	0.17	0.31	0.42	0.54	0.73	9.3%	5.8%
Cyprus	0.18	0.23	0.29	0.33	0.40	4.9%	3.2%
Czech Republic	0.84	1.36	2.02	2.80	3.97	9.1%	7.0%
Denmark	0.98	1.19	1.43	1.76	2.26	3.9%	4.7%
Estonia	0.08	0.18	0.26	0.34	0.44	11.7%	5.5%
Finland	0.75	0.96	1.18	1.46	1.91	4.6%	4.9%
France	10.49	12.56	14.84	17.67	22.06	3.5%	4.0%
Germany	11.31	13.14	15.11	17.51	21.37	2.9%	3.5%
Greece	1.41	1.94	2.51	3.26	4.43	6.0%	5.8%
Hungary	0.63	0.87	1.19	1.48	1.87	6.6%	4.6%
Ireland	0.57	0.76	0.92	1.12	1.42	4.9%	4.4%
Italy	8.79	10.54	12.59	15.09	18.94	3.7%	4.2%
Latvia	0.09	0.22	0.34	0.49	0.71	14.0%	7.4%
Lithuania	0.18	0.33	0.49	0.67	0.93	10.7%	6.6%
Malta	0.06	0.08	0.10	0.12	0.15	5.2%	4.7%
Netherlands	2.50	2.94	3.45	4.09	5.10	3.3%	4.0%
Poland	2.42	3.90	5.64	7.24	9.33	8.8%	5.2%
Portugal	1.17	1.51	1.90	2.39	3.18	5.0%	5.3%
Romania	0.65	1.45	2.41	3.33	4.72	13.9%	6.9%
Slovakia	0.42	0.81	1.13	1.48	1.99	10.3%	5.9%
Slovenia	0.16	0.23	0.30	0.39	0.54	6.5%	5.9%
Spain	7.56	9.52	11.67	14.26	18.39	4.4%	4.7%
Sweden	1.59	2.06	2.55	3.17	4.16	4.9%	5.0%
United Kingdom	9.50	11.06	13.43	16.17	20.65	3.5%	4.4%
Norway	0.98	1.19	1.45	1.80	2.34	4.0%	4.9%
Switzerland	1.62	1.80	1.99	2.20	2.53	2.1%	2.4%

Source: Global Insight based on Global Consumer Markets

The cosmetics market in the newer members of the EU is expected to continue growing at a faster pace than the EU15 over the forecast period, a reflection of their more rapid economic development and improving income distribution. During the second half of the

projection period growth slows however to more moderate rates in line with the general economy. The three Baltic countries as well as Romania and Slovakia are expected to be growth leaders, experiencing double digit average growth rates over the next 10 years, before decelerating.

Per capita spending in the new member states will also grow faster than in the EU15, helping to narrow the gap that currently exists between spending levels. The average consumer in the EU12 currently spends only about two-fifths of what their EU15 counterpart spends on cosmetics, we expect that this gap will narrow to about four-fifths by 2026.

Table 74 - Market Size Forecast – Overview

Country	Market Size, Billions of LC					CAGR	
	2006	2011	2016	2021	2026	2006-2016	2016-2026
China*	10.3	20.8	38.7	67.0	108.8	14.1%	10.9%
Japan**	3.5	3.9	4.7	5.7	6.7	3.1%	3.6%
U.S.	47.9	62.9	78.4	94.9	114.5	5.0%	3.9%
EU12	5.2	8.5	12.2	15.9	21.1	8.8%	5.6%
EU15	50.9	61.3	73.4	88.1	111.5	3.7%	4.3%
EU27	65.5	81.8	100.5	122.4	156.2	4.4%	4.5%

*Chinese market size is given in USD

**Japanese market size is in trillions of yen

Source: Global Insight based on Global Consumer Markets

The Chinese market is seen as the fastest growing of the countries examined, both in overall market growth and per capita spending levels. The rapid expansion of China's economy and its middle class will provide a strong underpinning to consumer spending. Spending on cosmetics is expected to maintain double digit growth rates over the whole forecast horizon. The market's growth potential is large given the currently low per capita spending levels. In 2006, the average Chinese consumer spent only USD8 on cosmetics that is expected to grow to about USD108 in 2026, although this will still be well below expected European averages.

The U.S. cosmetics market is expected to grow at rates comparable to the EU over the next 20 years, although the U.S. will be stronger over the first half of the projection. The EU stays strong overall as some of the slow down in the new member states will be outweighed by a pick-up in the EU15 countries. Growth in Japan's cosmetics market will be weighed down by projected declines in its population and very low inflation rates.¹⁰³

103 In euro terms growth in the U.S. cosmetics market will be weaker as the USD is expected to depreciate over the forecast horizon, while the Japanese market will seem stronger in the first half of the projection as the yen is forecasted to appreciate and then gradually depreciate again after 2011 slowing overall growth.

Figure 18 - Market Size Forecast – Per Capita Cosmetics Consumption

Country	Per Capita Spending, LC					CAGR	
	2006	2011	2016	2021	2026	2006-2016	2016-2026
China*	7.9	20.8	38.7	67.0	108.8	17.1%	10.9%
Japan**	27.1	30.1	36.6	44.9	53.0	3.0%	3.8%
U.S.	163.8	205.1	244.7	284.7	331.1	4.1%	3.1%
EU12	63.8	104.6	151.4	200.9	270.4	9.0%	6.0%
EU15	155.4	185.1	219.8	262.2	329.8	3.5%	4.1%
EU27	134.0	166.3	204.1	248.6	317.5	4.3%	4.5%

*China per capita spending is given in USD

**Japanese per capita spending is in thousands of Yen

Source: Global Insight

I.7 - Structure of Industry and Production

This section investigates the structure of the cosmetics industry in all countries under review. Economic concepts analysed include: production value, value added, labour productivity, number of employees, personnel costs and number of enterprises¹⁰⁴.

While the European and U.S. cosmetics industries are comparable – for instance in the size of their total production value – there are several differences in the market as well as their production structure.

The European market is clearly more fragmented than the cosmetics industries in Japan and the United States. While in the latter countries, the markets are dominated by a few large companies, a high number of small companies are acting in the European market. Consequently, production on the whole in the U.S. and Japan has higher capital inputs than in the EU, making it more productive. In Europe, labour input plays a stronger role in the production process. In France, the natural home country of the industry's high-end brand names, high-paid R&D staff are at work. The handcrafted character of many European products is expressed by a high share of micro-businesses – especially in Italy, while in the U.K., production processes are more similar to the United States. Poland, by far the most important manufacturer of cosmetics products in the new member states, is in the process of catching up, to a great extent due to outsourced production establishments that make use of significantly lower wages.

This characterisation holds not only for the current industry landscape, but also for developments on the employment market. While in the EU, and to a lesser extent in Japan, the cosmetics sector has continuously created jobs, the employment figures for the U.S. indicate a pronounced job reduction in recent years, leading to impressive growth in productivity.

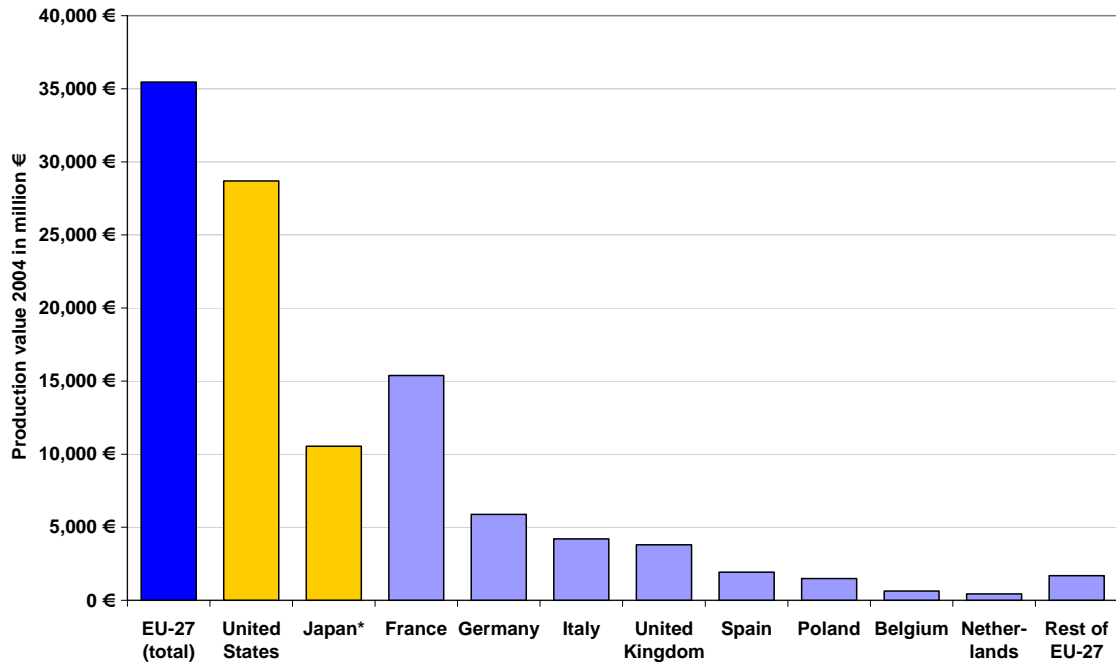
Production Value Comparison

When comparing the production value it can be observed that:

- ◆ In 2004, the European Union was the largest cosmetics manufacturer in the world, with a value in production of €35.5 billion, followed by the U.S. with €28.7 billion.
- ◆ Within Europe, France produces 43% of the total cosmetics industry output, which is two-and-a-half times as much as the next-biggest manufacturer, Germany.
- ◆ 95% of the overall production takes place in six key countries.
- ◆ Comparisons of production values between the U.S. and Europe can be difficult to make, due to different nomenclatures and definitions (e.g., double-counting of production value in the case of the data from the U.S. Census Bureau).

¹⁰⁴ Data obtained from national statistical agencies: Eurostat, U.S. Census Bureau and the Japanese Ministry of Economy, Trade and Industry (METI), thus methodologies of data collection may differ.

Figure 19 - Production Values Compared



Source: Eurostat 2004, U.S. Census Bureau - Statistics for Industry Groups and Industries 2005, Japanese Ministry of Economy, Trade and Industry (METI).

*Japan – 2003 value.

**Information on China not made available.

While Europe, the U.S., and Japan dominate worldwide cosmetics production, there are discrepancies regarding the growth rates of these industries. When comparing the level of production, one must take into consideration that the size of production in the U.S. was measured in current U.S. dollars. During the period from 1999-2004, the U.S. dollar fell against the Euro from 1.07 in 1999 (average of period, aop) to 1.25 (aop) in 2004.

Table 75 - Overall Production Value and Growth

	1999	2000	2001	2002	2003	2004	CAGR, 1999-2004
U.S.	23,455	29,610	31,966	35,314	28,052	28,693	3.4%
Japan	7,546	8,978	7,954	7,698	10,553		6.9%
EU27**	29,342	31,949	34,128	33,061	34,468	34,331	2.7%
France, Germany, Italy, U.K., Spain, Poland	27,333	29,861	30,880	32,202	32,465	32,704	3.0%

* Japan 1999-2003

** Data for single years not reported from: Belgium, Bulgaria, Czech Republic, Cyprus, Estonia, Ireland, Latvia, Lithuania, Luxemburg, Malta, Romania, Slovenia, Sweden, Norway, Portugal.

Source: Eurostat 2004, U.S. Census Bureau: Statistics for Industry Groups and Industries 2005, Japanese Ministry of Economy, Trade and Industry (METI) 2003.

Box 4 - Data Availability and Comparability Issues

The analysis presented in this section is based on various sources. For EU Member States, data have been collected from the Eurostat NewCronos database. We considered the NACE 24.52 category, which reports data on ‘Manufacture of perfumes and toilet preparations’. This class includes perfumes, toiletries, and virtually all make-up and beauty products, including sunburn prevention, oral hygiene, and depilatories. Not included is the production of essential oils.

Analysis for Japan is based on data stemming from the Industrial statistics office, published by the Economic and Industrial Policy Bureau of the Ministry of Economy, Trade and Industry. (METI). We considered category 1770 "Cosmetics, toothpaste and toilet preparations", which consists of three sub-categories: "Makeup and skin care products, including perfume and eau de cologne"; "Hair care products"; and "Miscellaneous cosmetics, toothpaste and toilet preparations" of the revised industrial classification of the census of manufacturers.

For the United States, data provided by the U.S. Census Bureau, basically published in the framework of the annual survey of manufacturers, have been used. We considered the NAICS category 325620 "Toilet preparation manufacturing", which covers almost the same production range as the respective categories in Europe and Japan. An exception is the production of toothpaste, which is included in NAICS 325611. In total, the categories are comparable, albeit not an exact match.

Because of the data collection procedures used, not every piece of information is available at 4-digit NACE or 6-digit NAICS codes. Sometimes it was necessary to use the more detailed data breakdown available on a slightly more aggregated level in order to estimate – e.g., the number of companies in the European cosmetics industry (which is available on the 4-digit level) or per size group (which is only available at 3-digit-level). Also, for some of the New Member States, data on the cosmetics sector is scarce. Furthermore, production of cosmetics is virtually non-existent in some countries. Since more than 95% of the market is well covered by the available data, the data situation can be characterised as sufficient.

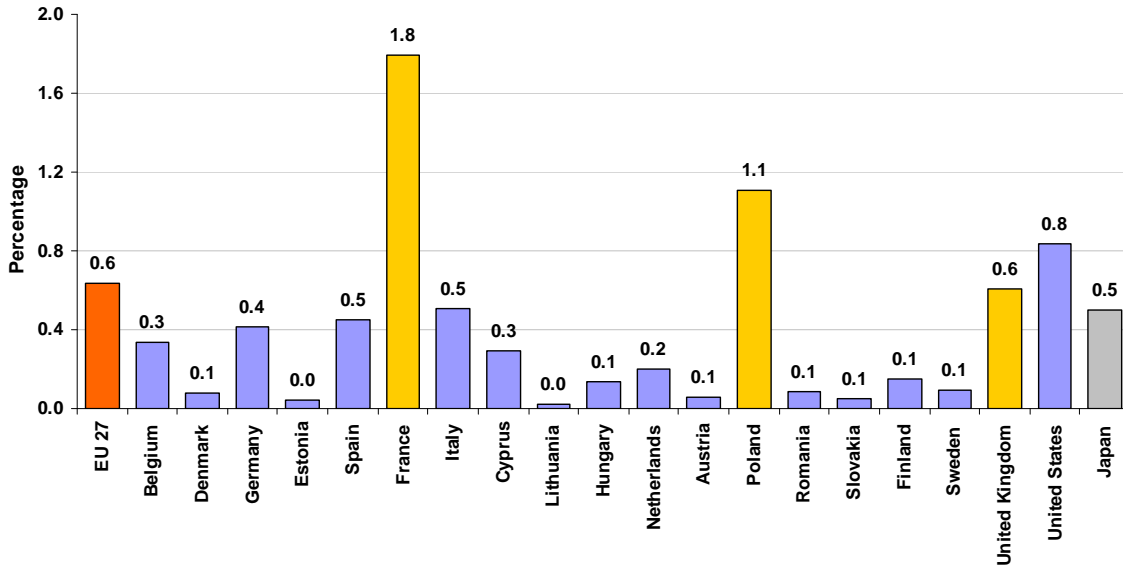
Although the available data on the cosmetics industry do in principle allow a comparison of productivity between countries, one has to be careful when using this indicator to compare international competitiveness. While undoubtedly useful to monitor productivity growth over time, the comparison of absolute values at a single point in time is flawed by a high number of inconsistencies. Thus, for this purpose adjusted data has to be included in the comparison, which is so far available only at a more aggregated industry level.

Comparison to the Overall Manufacturing Industry

In many European countries, the cosmetics industry contributes only a small share to the overall industrial production. The share of the cosmetics industry in Europe is on average about 0.6% of the total manufacturing production value. Single countries with a bigger share and larger cosmetics industries are France, Poland, and the United Kingdom. The

cosmetics industry in the U.S. has a slightly higher share in the total manufacturing sector, while the share of the Japanese industry is lower than in Europe.¹⁰⁵

Figure 20 - Production Value – C&T as Share of Total Manufacturing (2004)



Source: Eurostat 2004, U.S. Census Bureau: Statistics for Industry Groups and Industries 2005, Japanese Ministry of Economy, Trade and Industry (METI) 2003.

Employment and Structure of Companies

Over 142,000 people are employed in the cosmetics industry in Europe. France, Germany, Italy, the U.K., Spain, and Poland together account for more than 127,000 of these. In Japan, there are about 30,000 employees in the cosmetics industries, whereas in the U.S. about, 54,000 employees work in this industry.

Table 76 reports the development of the number of employees in the U.S., Japan, and the EU¹⁰⁶ since 1999. It is a striking observation that in the EU, the number of employees is 50% higher than in the U.S. and Japan taken together. Over time, opposite trends can be observed for the U.S. compared to both the EU and Japan – while the EU and Japan have added around 7% more jobs over the 1999-2004 period, the U.S. shed more than 15% of its workforce. The reduction of jobs in the U.S. took place mainly after 2002.

In the EU, employment growth has been remarkably pronounced in the new member states, with approximately 30% growth registered in 1999-2004, albeit starting from a low base, and has been more modest at 4.7% in the EU15. Especially strong growth, both in relative and in absolute terms, can be observed for Poland.

¹⁰⁵ Data source: Eurostat 2004, U.S. Census Bureau: Statistics for Industry Groups and Industries 2005, Japanese Ministry of Economy, Trade and Industry (METI) 2003.

¹⁰⁶ Since data on the cosmetics sector is not available for several new member states as well as for Greece, several groupings of the 27 EU member states are presented. Most of the European cosmetics sector is located in France, the United Kingdom, Germany, Italy, Spain and Poland. The numbers for these six countries have been presented together as the core of the European cosmetics industry.

The statistics on employment and production value tell two stories. Higher figures on gross value added and lower employment figures imply a higher level of productivity in the U.S. and Japan, suggesting that the American and Japanese industries are more efficient than Europe's manufacturers of cosmetics and toiletry.

Table 76 - Number of Employees in the C&T Industry

	1999	2000	2001	2002	2003	2004	CAGR, 1999-2004
U.S.	63,893	65,906	67,600	66,771	62,055	54,013	-2.8%
Japan	27,072	27,796	29,637	28,782	28,996		1.4%
EU-27***	132,574	134,047	138,200	142,214	143,329	142,122	1.2%
EU-15*	119,141	120,199	123,701	126,394	126,204	124,725	0.8%
EU-12**	13,433	13,848	14,499	15,820	17,125	17,397	4.4%
Germany, Spain, France, Italy, U.K.							
Germany, Spain, France, Italy, U.K., and Poland	109,467	110,661	113,375	116,953	115,777	114,241	0.7%
	118,340	120,095	123,214	127,903	128,614	127,125	1.2%

*Without Greece, Luxembourg

**Without Malta, Bulgaria, Czech Republic

***Without Greece, Luxembourg, Malta, Bulgaria, Czech Republic

****Growth in Japan between 1999 and 2003.

Source: Eurostat, U.S. Census Bureau: Statistics for Industry Groups and Industries, Japanese Ministry of Economy, Trade and Industry (METI)

At the same time, the European sector has been steadily creating new jobs since 1999, while U.S. companies have been reducing jobs. Since employment grew in the European countries, apart from being restricted to the new member states this process is essentially not a relocation phenomenon. In this view, this development can be regarded as a job-driven growth process, a European phenomenon contrasting recent U.S. developments, where growth across industries as a productivity-driven process.

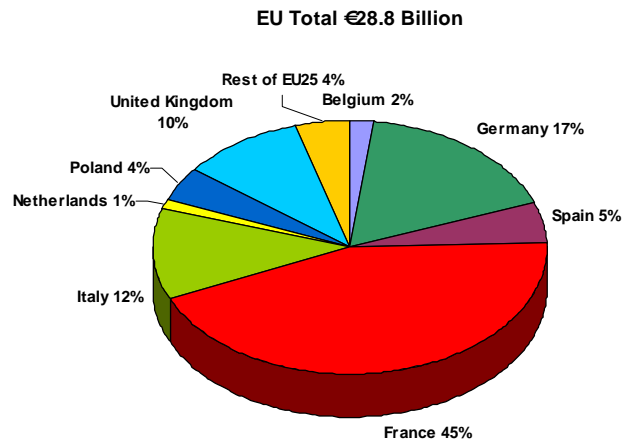
Purchase of Intermediate Goods and Services

It is not surprising, that the European countries with the biggest cosmetics industries have the highest shares when it comes to the purchase of intermediate goods and services in this particular industry. In Europe, the purchase of intermediate goods and services accounted for about 81.4% of the overall production value in 2004.¹⁰⁷ This number included the acquisition of raw materials, as well as services and goods purchased for resale.

A first look at the data suggests that these costs for intermediate goods are higher than in the U.S. or in Japan. In the U.S., according to the U.S. Census Bureau, the material costs account for only 41.8% of the production value.

¹⁰⁷ According to Eurostat data, which is based on data on national accounts stemming from the national statistical offices (NSI's).

Figure 21 - Purchase of Intermediate Goods and Services in Europe (2004)



Source: Eurostat

Remarkably, according to official statistics, there was an increase of the share of material costs in the U.S. from 31% in the year 2002 to 43% in 2005. The reasons have been worldwide rising costs for commodities in this period.¹⁰⁸

In Japan, the share of material costs, according to official statistics, averaged 31.7% in 2003, which can be partly explained by higher wages in Japan, while sharing similar raw commodity prices with the other countries.

¹⁰⁸ U.S. Census Bureau, Annual Service of Manufacturers 2005

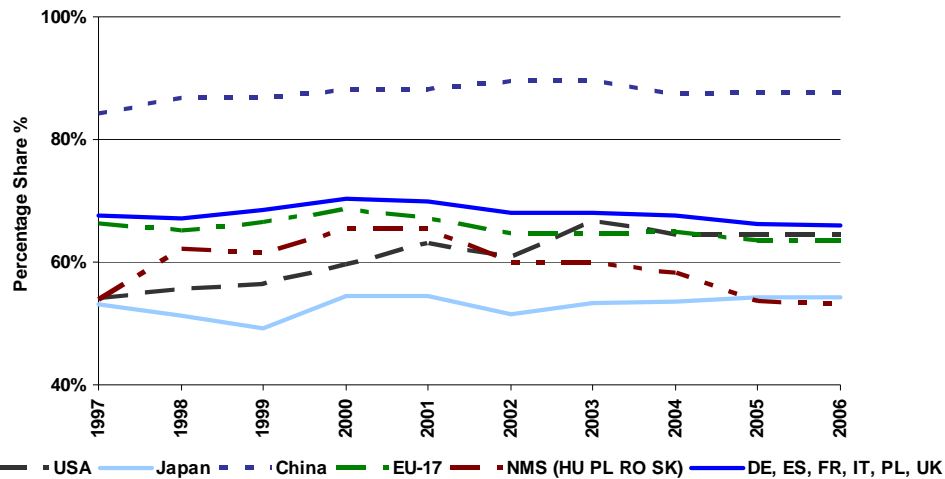
Box 5 - Share of Intermediate Goods:

How big are the differences between Europe, United States, and Japan really?

Although structural differences among the countries explain part of the statistical differences in the share of intermediate goods, they do not provide the whole picture. Since official national statistics at detailed industry level are often still not tailored for meaningful international comparisons, there are substantial differences in the definitions and concepts used when collecting data on purchases of intermediate goods and services.

Since cross-country comparisons on the industry-level, based on official statistics, suffer from a lack of conformity in data collection and presentation, adjustments are necessary in order to make them comparable. This task has been addressed in the construction of Global Insight's comprehensive World Industry Monitor. By including these data into the comparison, the striking differences stemming from the national data available are significantly reduced.

Figure 22 - Estimated Percentage Share of Purchases for Intermediate Goods (after data adjustment for world regions) 1997 - 2006



Including: Belgium, Denmark, Germany(DE), Ireland, Spain(ES), France(FR), Italy(IT), Hungary(HU), Netherlands, Austria, Poland(PL), Portugal, Romania(RO), Slovakia(SK), Finland, Sweden, United Kingdom(U.K.)
 NMS: New Member States- Hungary, Poland, Romania, Slovakia
 Source: Global Insight, World Industry Monitor; Eurostat

Figure 22 and Table 77 the development of the share of intermediate inputs on total C&T production value (based on the adjusted data) for the U.S., Japan, China, and several groupings of EU countries since 1997. The data show that in the year 2004 the share of purchases of inputs and supplies on the overall production value is basically similar in Europe (65%), the U.S. (64 %), and Japan (54 %). The share for China is remarkably higher (87%), which is in accordance with low factor costs, especially low wages, of the Chinese manufacturers while sharing world market prices for raw materials. For the U.S., the percentage is increasing over time, and the same applies for China. This development is already observable in the official statistics, reflecting commodity price increases. However, the share of intermediate inputs is not increasing for Europe and Japan, which can be explained by strong growth of labour input in the cosmetics sector in these regions.

Table 77 - Estimated Share of Purchases for Intermediate Goods in the C&T Sector

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
U.S.	54%	56%	56%	60%	63%	61%	67%	64%	64%	64%
Japan	53%	51%	49%	54%	55%	52%	53%	53%	54%	54%
China	84%	87%	87%	88%	88%	89%	89%	87%	88%	88%
EU-17*	66%	65%	66%	68%	67%	65%	65%	65%	64%	63%
NMS	54%	62%	61%	65%	65%	60%	60%	58%	54%	53%
Germany, Spain, France, Italy, U.K.	68%	67%	69%	70%	70%	68%	68%	68%	66%	66%
Germany, Spain, France, Italy, Poland, U.K.	68%	67%	69%	70%	70%	68%	68%	67%	66%	66%

*Including: Belgium, Denmark, Germany, Ireland, Spain, France, Italy, Hungary, the Netherlands, Austria, Poland, Portugal, Romania, Slovakia, Finland, Sweden, and United Kingdom.

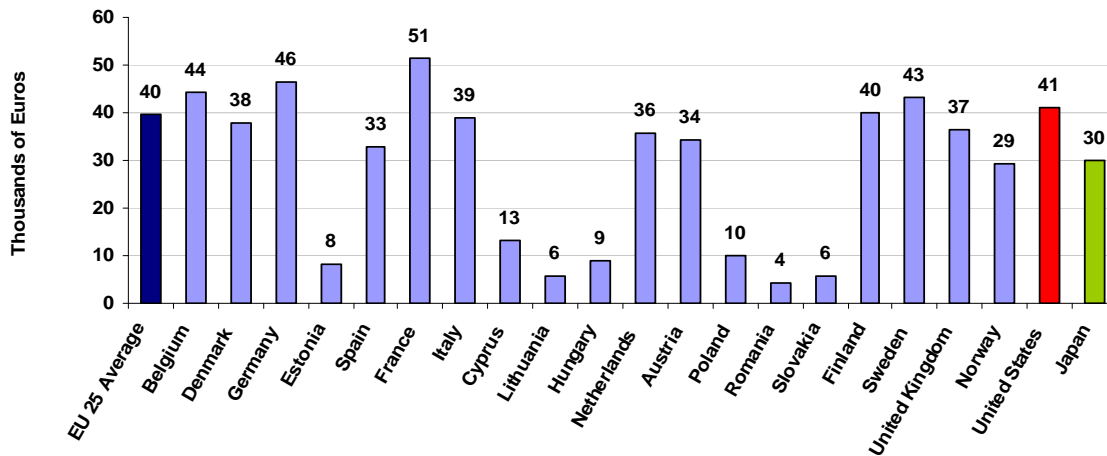
Source: Global Insight estimates, World Industry Monitor; Eurostat aggregated data.

Unit Labour Costs

The EU average unit labour cost in the cosmetics industry is at about the same level as in the U.S. and about 25 percent higher than in Japan.

Cosmetics industry workers in France, Germany, Belgium and Sweden are the highest paid in Europe, while at the lower end of the spectrum are workers in the new EU member states, where lower unit labour costs exists.

Figure 23 - Unit Labour Costs



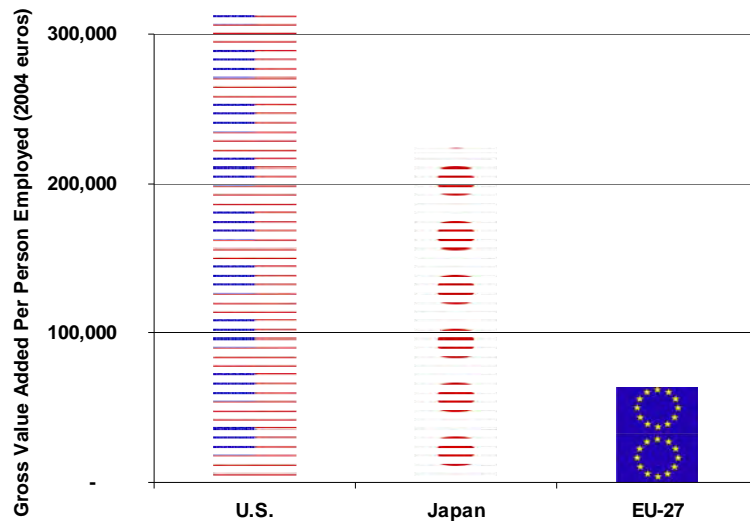
Source: Eurostat; U.S. Census Bureau; Ministry of Economy, Trade, and Industry – Japan

Labour Productivity

In order to compare national industries with regard to production efficiency, international comparisons of labour productivity are increasingly used as an indicator of industry competitiveness. We must, however, recognize various inconsistencies caused by differing classification schemes, idiosyncratic data collection procedures, the use of specific price deflator concepts, poor data availability at a disaggregated industry level, missing information on capital services and methodological differences in capital stock measurement.

In the case of the cosmetics industries of Europe, the U.S., and Japan, productivity calculations based on the available data sources show pronounced differences. For the U.S. apparent labour productivity based on the U.S. annual manufacturing survey shows a gross added value of 311,777 euro per person employed, the respective values for the EU15 countries are approximately one-fifth of this value.

Figure 24 Comparison of Apparent Labour Productivity (GVA per person employed) for the U.S., Japan*, and EU27 in 2004



*2003 estimated for Japan

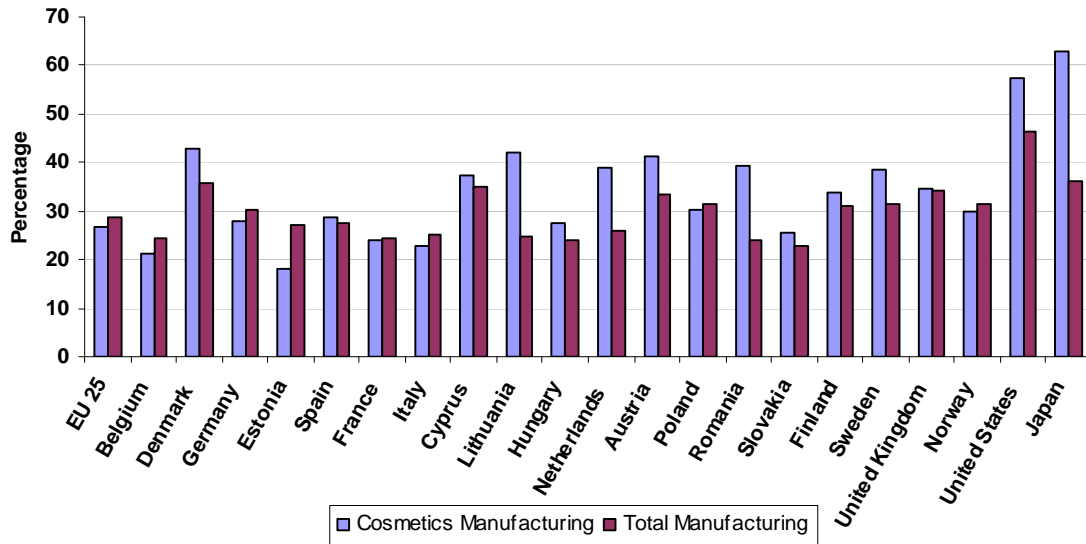
Source: Eurostat, U.S. Census Bureau: Statistics for Industry Groups and Industries, Japanese Ministry of Economy, Trade and Industry (METI)

Although all these data stem from official statistics, the above-mentioned basic difficulties do not allow one to draw the easy conclusion that the U.S. industry so dramatically outperforms the producers of cosmetics products in terms of efficiency.

The analysis of manufacturing productivity growth rates has been the heart of a variety of major research activities in the recent years, the EU KLEMS study being one of them. Most of these studies have found that since 1996 productivity growth in the U.S has outpaced European productivity growth significantly. This long-term growth difference explains a part of the productivity gap between the U.S and Europe.

A refined statistical analysis, as performed in the EU KLEMS study, reveals that the growth difference can be traced back to a greater share of ICT industries on total manufacturing, a better use of ICT in non-ICT producing industries, and to significant differences in the productivity growth of market services and differences in the growth of multi-factor productivity over the period since 1996. However, these findings can also only explain a part of total productivity growth.

Figure 25 - Value Added as a Share of Total Production Value



Source: Eurostat; U.S. Census Bureau; Ministry of Economy, Trade, and Industry - Japan

In the EU value added as a percent of total production is comparable to the overall manufacturing sector. The U.S. and Japan seem to have very productive cosmetics sectors compared to their manufacturing sectors. Japan's cosmetics value added as a percent of total production value is almost twice as large as the total industry average.

Box 6 - Measuring Productivity in the Cosmetics Industry Across Countries: Is the difference really that big?

When comparing productivity, several important points need to be addressed and discussed:

- First, the difference is significantly reduced when applying Purchasing Power Parities (PPP) to the comparison. While exact numbers on the hours worked are not generally available for the market under consideration, an estimate of the productivity per working hour, based on differences of hours worked in the national manufacturing industries also reduces the productivity gap slightly.
- The remaining gap can partly be explained by the differences in the national production structures. While in general, the cosmetics industry in all regions cannot be characterized as highly concentrated (the Hirshmann-Herfindahl* index for the cosmetics sector in the U.S. averages 8.04%), the fragmentation of production is far more pronounced in Europe than in both Japan and the U.S. The European market is characterised by an extremely high number of small- and medium-sized enterprises (SMEs)¹, while the Japanese and U.S. markets are dominated by large companies.
- Labour productivity is closely related to capital intensity. The obvious assumption that bigger companies are producing with a higher capital intensity and thus show a higher labour productivity is substantiated by the strong correlation observable between GVA (Gross Value Added) per person and company size as measured in employees.
- For Japan, the productivity ranges between 60,000 Euro per employee for small companies and 357,000 Euro per employee for companies up to 500 employees in the cosmetics market. For the specific segments of hair care products, the difference is even bigger.

For Europe, data on the 4-digit NACE code had to be calculated by combining information on gross value added and employment of the cosmetics sector with slightly more aggregated information on the distribution of company sizes on the 3-digit level. While slightly less pronounced, the correlation is also striking, with productivity values starting from 30,551 Euro per person for small companies and stretching to 89,253 Euro per person for companies with more than 500 employees.

These observations corroborate the conclusion that the cosmetics industries in the U.S. and Japan deploy more capital in the production process than the European industry¹.

*The Hirschmann-Herfindahl index is calculated as the sum of the squared market shares of all companies in a certain industry. The higher the index, the more activity is concentrated within a small number of firms. Generally, an index below 10% is regarded as low and the market is considered to be competitive.

Table 78 Apparent Labour Productivity (GVA per person employed) in the European C&T Industry (NACE 24.25) by Company Size, 2004

	Productivity (Euros per person) by Company Size (Number of Employees)					
	total	1 to 9	10 to 19	20 to 49	50 to 249	>=250
EU-27***	65,657	25,538	40,116	47,504	52,681	81,961
EU-15*	70,777	29,076	44,128	49,852	57,832	84,941
EU-12**	28,948	14,548	11,011	21,123	17,924	44,216
France, Germany, Italy, U.K., Spain	71,289	30,504	45,289	47,620	57,139	86,202
France, Germany, Italy, U.K., Spain, Poland	67,613	27,062	43,550	46,604	52,004	83,178

*Without Greece, Luxembourg

**Without Malta, Bulgaria, Czech Republic

***Without Greece, Luxembourg, Malta, Bulgaria, Czech Republic

Source: Eurostat data, Global Insight calculations for company breakdown

Number of Small and Medium-Sized Enterprises

There are a significant number of major international cosmetics firms in Europe - mainly in France and Germany. The market is however best characterized as several hundred small- and medium-sized companies (SMEs) in most countries. It is not uncommon for these firms to have fewer than 10 employees. In fact, there were 855 firms with fewer than 10 employees in France in 2004. Italy had over 1000 firms with fewer than 10 employees. Italy is unique among the large market countries in that 99 percent of companies in Italy have fewer than 250 employees. Relative to production value in Italy, the large number of SMEs renders their cosmetics industry considerably more fragmented than in France. It is not surprising that the smaller market countries are dominated by SMEs. In the U.S. and in Japan firms tend to be more vertically integrated. The industry in those countries is more consolidated with larger firms more prevalent. This is also the case in the U.K.

Data on SMEs for most European countries as well as the U.S. was obtained from the OECD's Structural Statistics for Industry and Services database. It is important to note that the total number of enterprises in this database is different from the ones presented from Eurostat, and the U.S. Census Bureau although the definition seems to be the same.

For the other countries not found in the OECD's Structural Statistics for Industry and Services database, data was obtained by searching a company database called Kompass. The numbers obtained this way seem very low which may be due to lack of records on companies in certain countries such as China, thus a meaningful analysis of this data set can not be done.

Table 79

	1-9	10-19	20-49	50-249	250+	Total SMEs	SMEs as a % of Total
Austria	75	12	12	9	1	108	99%
Belgium	129	11	15	11	7	166	96%
Czech Republic	164	16	13	25	2	218	99%
Denmark	55	13	12	10	1	90	99%
Finland	65	3	5	1	0	74	100%
France	855	104	126	116	46	1201	96%
Germany	317	104	87	106	37	614	94%
Hungary	123	22	8	9	3	162	98%
Ireland	12	1	6	8	3	27	90%
Italy	1146	206	107	68	17	1527	99%
Netherlands	75	15	20	20	5	130	96%
Norway	14	3	0	2	1	19	95%
Poland	655	43	39	58	17	795	98%
Portugal	143	22	0	12	0	177	91%
Slovakia	19	4	0	0	0	23	77%
Spain	803	131	155	58	18	1147	98%
Sweden	170	12	8	11	0	201	100%
Switzerland	188	21	27	18	3	254	99%
United Kingdom	446	59	65	75	33	645	95%
	1-9	10-19	20-99	100-449	250+	Total SMEs	SMEs as a % of Total
United States	1188	283	398	133	111	2002	95%

Source: OECD

Table 80

	1-10	11-20	21-50	51-100	101-250	Total SMEs
Bulgaria	7	5	4	3	3	22
Greece	6	17	21	9	11	64
Latvia	12	5	4	1	1	23
Lithuania	4	4	3	2	0	13
Luxembourg	1	1	2	1	0	5
Malta	1	2	0	2	0	5
Romania	49	15	27	15	10	116
Slovenia	10	1	3	1	1	16
China	0	3	16	11	16	46
	1-9	10-19	20-49	50-99	10-299	Total SMEs
Japan	79	81	124	55	59	398

Source: Kompass, Japan Ministry of Economy, Trade and Industry

II. Nature of Competition

II.1 - Key Global Cosmetics Industry Players

Currently, big cosmetic corporations combine to control over half of the cosmetics market. The table below lists each of the top 10 companies in 2006 and their respective shares of the global cosmetics market (retail sales value). The most significant development in 2006 was Kao Corporation's move to become tenth largest firm in the global cosmetics and toiletries industry. Kao is the second Japanese company to enter into this group of industry leaders, after acquiring Kanebo Cosmetics.¹⁰⁹ This acquisition completed in early 2006, was worth ¥279 billion (€1.8 billion) and allowed them to enter into the specialty and prestige cosmetics market.¹¹⁰ We expect that the trend towards consolidation with major companies buying up smaller niche brands will likely continue as large organizations seek to gain access to new local markets and new niche product lines.

Table 81 – Market Share for Top 10 Global Cosmetics Companies 2006

2006 C&T Sales		
Company	(€millions)	Share
Procter & Gamble Co*	18,360	12.7%
L'Oréal Group	15,011	10.1%
Unilever Group*	10,264	7.1%
Colgate-Palmolive Co*	5,783	4.0%
Estée Lauder Cos Inc	5,313	3.9%
Avon Products Inc	4,801	3.3%
Beiersdorf AG	4,327	3.1%
Johnson & Johnson Inc*	4,048	2.8%
Shiseido Co Ltd	4,314	2.6%
Kao Corp	3,235	2.5%

Source: market share data comes from Euromonitor¹¹¹

C&T sales are taken from annual reports for L'Oréal Group, Estée Lauder, Avon, Beiersdorf, Shiseido and Kao however fiscal years for reporting differ. C&T sales are not available as a line item in annual reports for Procter & Gamble, Unilever, Colgate-Palmolive and Johnson & Johnson. Value of cosmetics sales for these companies were calculated by Global Insight based on Euromonitor's market share data and the average implied global market of the companies that report annual C&T sales.

The top 10 companies generally posted positive growth trends in 2006. In this section we provide some details of the product segmentation and markets served for several of the largest cosmetic companies as provided in their annual reports. Sales figures for 2006 are expressed in €millions and cosmetic product sales as a percent of total sales, along with growth compared to the previous year. Several of the top ten companies did not provide segment data on their cosmetic operations or included them within other product categories; these companies are not detailed below.

¹⁰⁹ "Japanese Cosmetics Players Creep Up on Global Rivals", Cosmeticsdesign-europe.com, March 29, 2007.

¹¹⁰ "Kanebo Purchase Makes Kao a Force in Cosmetics", International Herald Tribune, December 18, 2005.

L'Oréal, headquartered in France, is the second largest global cosmetics firm and experienced significant growth in nearly all market categories in 2006. The sale of skin care products comprised the largest percentage of total sales and also showed the most year-over-year growth, following industry trend. Sales in Latin America and Eastern Europe also grew substantially. The acquisition of The Body Shop, which will be described in greater detail in the Case Study section of this report, has allowed L'Oréal to gain a foothold in the growing natural cosmetics market and forced the company to work at fully transitioning away from testing products on animals.

In 2006, L'Oréal's European sales garnered 12 percent of the entire EU-27 cosmetic market. Leading the way were market share gains in hair and skin care products. These gains were particularly strong in Western Europe, allowing for positive growth in that region's sales for the first time in several years. L'Oréal's products top the market in several Eastern European countries. The Garnier skin and hair care product line rose to second place in the U.S. market after only four years from launch. Fragrances also gained market share in North America.¹¹²

Table 82 – L'Oréal Group

Key Industry Players - L'Oréal Group			
Product Portfolio	2006 Sales (€millions)	% of Total Sales	Growth from previous year
Cosmetics			
Skin Care	3,850	24.4%	11.8%
Hair Care	3,633	23.0%	3.7%
Makeup	3,123	19.8%	3.5%
Hair Colourants	2,432	15.4%	3.1%
Perfumes	1,572	10.0%	6.9%
Other	402	2.5%	-4.6%
Western Europe	6,992	44.3%	3.7%
North America	3,954	25.0%	2.2%
Asia	1,476	9.3%	7.4%
Latin America	1,021	6.5%	18.6%
Eastern Europe	850	5.4%	24.8%
Other	718	4.5%	4.5%
All Cosmetic Products	15,011	95.1%	5.6%
The Body Shop /1/	435	2.8%	n/a
Dermatology	344	2.2%	8.1%
Grand Total	15,790	100.0%	8.6%

**Includes data since acquisition (July 1 - Dec 31, 2006).*

Source: L'Oréal 2006 Annual Report.

Estée Lauder, headquartered in the U.S., with total sales of over € billion, saw its growth mainly in the hair care and makeup market segments. As consumers continue to demand luxury products that are more affordable, the company has strengthened its

¹¹² L'Oréal 2006 Annual Report.

partnerships with salons to provide technical education to stylists as well as developing products which meet changing consumer needs. The development of new products which target the specific hair care needs of different demographic and ethnic groups has helped propel Estée Lauder's sales in this product area. The company has several different, highly successful lines of unique makeup products, with emphasis on allergy- and fragrance free, customizable colour, and aromatherapy products, which have helped propel makeup sales. Overall sales growth has not been as strong as that of some of its key competitors.

The company prides itself on being a leader in the prestige cosmetics market and strives to bring luxurious and innovative products to its customers. With over half of its business in the U.S. market, Estée Lauder is concentrating on meeting the needs of the global consumer and expanding their product lines into these new markets over the last several years. The company holds three of the top five prestige beauty product brands in the U.S. though they expect international business to drive future growth.¹¹³

Table 83 - Estée Lauder Companies

Key Industry Players - Estée Lauder Cos Inc			
Product Portfolio	2006 Sales (€millions)	% of Total Sales	Growth from previous year
Cosmetics			
Skin Care	1,973	37.1%	2.1%
Hair Care	262	4.9%	16.4%
Fragrance	997	18.8%	-3.8%
Makeup	2,058	38.7%	5.8%
Other	22	0.4%	0.8%
The Americas	2,833	53.3%	2.8%
Europe, Middle East, & Africa	1,765	33.2%	1.8%
Asia/Pacific	715	13.5%	6.1%
All Cosmetic Products	5,313	100.0%	2.9%
Grand Total	5,313	100.0%	2.9%

* Sales values were converted from \$ to € using an average exchange rate for the 12 months prior to the end of the fiscal year.

Source: Estée Lauder 2006 Annual Report.

Avon, headquartered in the United States, is one of the world's leading direct selling companies with innovative marketing techniques based on one-on-one representative to customer contact. Currently, Avon is in the midst of a multiyear turnaround plan during which the company aims to restore brand competitiveness through major advertising campaigns, revamping the corporate relationship with sales representatives, and implementing changes in the organizational structure to enhance global reach. Because they rely so heavily on direct selling, the company depends on maintaining the advantage over their competitors in this type of cosmetics sales. Business could also be restricted as a result of government regulation in specific expanding markets which could limit profits.

¹¹³ Estée Lauder 2006 Annual Report.

After completing its first year of restructuring in 2006, Avon experienced strong growth in their beauty division which includes cosmetics, skin care, fragrances, and toiletries. Avon's cosmetics colour line remains weak but the company plans to re-launch these products with broader shade palettes, innovative packing schemes, and new alliances with fashion designers and make-up artists. Sales in the U.S. accounted for one-quarter of the company's revenue in 2006 with Brazil as the next largest market contributing about 12 percent.¹¹⁴

Table 84 - Avon

Key Industry Players - Avon Products Inc			
Product Portfolio	2006 Sales (€ millions)	% of Total Sales	Growth from previous year
Cosmetics			
Beauty*	4,801	69.5%	7.9%
All Cosmetic Products	4,801	69.5%	7.9%
Beauty Plus**	1,335	19.3%	9.8%
Beyond Beauty***	774	11.2%	2.4%
Grand Total	6,911	100.0%	7.6%

*Sales values were converted from \$ to € using an average exchange rate for the 12 months prior to the end of the fiscal year.

*Product line consists of cosmetics, skin care, fragrances & toiletries.

**Product line consists of fashion jewellery, watches, apparel & accessories.

*Product line consists of home products, gift & decorative products.

Source: Avon 2006 Annual Report.

Beiersdorf's, headquarter in Germany, consumer segment produces skin and beauty care products sold as popular brands like Nivea and Eucerin. The sales in this division grew the strongest in the Africa/Asia/Australia region. Growth was particularly strong in China (46 percent) and Thailand (17 percent). Sales to the Americas also grew faster than the overall company as a whole. Within Europe, Beiersdorf garnered nearly 5 percent of the region's market share with some products experiencing at or near double digit growth rates with particularly strong gains in Eastern Europe.

The company aims to increase worldwide market share to 5.5 percent by 2010 thereby strengthening their position as a global competitor. The company hopes to achieve this goal through a more focused, bigger, better, and faster consumer business strategy by touting their superiority in brands, supply chains, and organizational talent matched with a clear geographical focus. The company's goals centre around their consumer focused strategy and new product concentration in the growing markets of China, Russia, Brazil, and India. Heavy advertising campaigns in hair care lines and anti-aging products have led the way in the consumer division's recent success.¹¹⁵

¹¹⁴ Avon 2006 Annual Report.

¹¹⁵ Beiersdorf 2006 Annual Report.

Table 85 – Beiersdorf AG

Key Industry Players - Beiersdorf AG			
Product Portfolio	2006 Sales (€millions)	% of Total Sales	Growth from previous year
Cosmetics			
Consumer Division	4,327	84.5%	7.2%
Europe	3,134	61.2%	6.0%
Americas	647	12.6%	7.5%
Africa/Asia/Australia	546	10.7%	14.0%
All Cosmetic Products	4,327	84.5%	7.2%
Tesa*	793	15.5%	8.2%
Grand Total	5,120	100.0%	7.3%

*The Tesa business segment develops state-of-the-art self-adhesive system and product solutions for industrial customers and consumers.

Source: Beiersdorf 2006 Annual Report.

Shiseido, headquartered in Japan, has instituted a multi-year plan intended to restructure the company by eliminating underperforming brands and reducing fixed costs. The goals of the restructuring plan include reforming domestic marketing activities, accelerating expansion of the China business, fundamental restructuring largely through cost structure reforms, and aggressive expansion into other growth markets. Shiseido remains a small player in Europe, holding only 1 percent of the region's market share in cosmetics.

In 2006, the company had solid growth in its cosmetics line as well as good regional growth in Asia/Oceania though its sales there represent only a small share of the overall total. Regional growth was also strong in the Americas and Europe though Japan, by far, remains the company's largest market. The company is concentrating on China as one of the largest sources of new business and is also creating new marketing plans tailored to Japanese and other growth market customers. Several brands will also be combined into "mega lines" which focuses on reorganizing, merging existing product lines to make them stronger, and aggressively marketing them in order to acquire top market share.¹¹⁶

¹¹⁶ Shiseido 2006 Annual Report.

Table 86 – Shiseido Co.

Key Industry Players - Shiseido Co Ltd			
Product Portfolio	2006 Sales (€millions)	% of Total Sales	Growth from previous year
Cosmetics			
Cosmetics	3,870	79.4%	5.6%
Toiletries	444	9.1%	1.1%
All Cosmetic Products	4,314	88.6%	5.1%
Japan	3,453	70.9%	1.8%
Americas	334	6.9%	6.8%
Europe	621	12.8%	7.3%
Asia/Oceania	463	9.5%	27.6%
Other /1/	557	11.4%	2.9%
Grand Total	4,871	100.0%	4.9%

/1/ Includes beauty salon products, health and beauty foods, pharmaceuticals, fashion goods, and fine chemicals.

Note: Sales values were converted from ¥ to € using an average exchange rate for the 12 months prior to the end of the fiscal year.

Source: Shiseido 2006 Annual Report.

Implications for Corporate Strategy

Holding a position as one of the top 10 manufacturers is enviable however these companies understand that they must constantly reconsider and re-evaluate their market positions by listening to the demands of their customers, gaining footholds in new markets, and evaluating their organizational structures. These large multinational firms are finding themselves facing stiff competition from other popular brands. As illustrated in the table below, other cosmetics companies are pushing ahead, trying to gain their own place in the market, and have largely been successful in developing their own name. In the last fiscal year, several of these companies saw similar or greater rates of growth in their product lines compared to those in the top 10.

The most successful companies detailed below look to provide stiff competition. Henkel was largely successful at gaining market share in 2006 due to the gains made in its hair and body care segments. The company also anticipates their global market share to increase in the cosmetics/toiletries sector.¹¹⁷

Largely due to its successful cosmetic and perfume lines, Christian Dior experienced significant growth in 2006 with each product in this line contributing to the positive sales performance. Flagship products as well as new innovations continue to gain market share.¹¹⁸

Kose's primary objectives are to expand their market share in Japan and move faster to increase the company's reach into other expanding markets. They expect growth in fiscal

¹¹⁷ Henkel 2006 Annual Report.

¹¹⁸ Christian Dior 2006 Annual Report.

2007 to come primarily from the markets of Japan, China, Taiwan, and South Korea. The company identifies its brand marketing strategy as its greatest strength.¹¹⁹

Through 2005, Alberto Culver experienced 14 successive years of record sales. Recent acquisitions are aimed at allowing the company to increase its market share in the specific cosmetic segments and through improved distribution channels.¹²⁰

Table 87 – Key Industry Players, Outside of the Top 10

Key Industry Players - Outside of Top 10			
Company Information	2006 Sales (€million)	% of Total Sales	Growth from previous year
HENKEL Cosmetics/Toiletries	2,864	22.5%	8.9%
All Products*	12,740	100.0%	6.4%
CHRISTIAN DIOR Perfumes and Cosmetics	2,519	15.6%	10.2%
All Products**	16,106	100.0%	10.6%
KOSE Cosmetics/Cosmetaries	1,267	96.9%	4.9%
All Products***	1,307	100.0%	4.5%
REVLON Cosmetics****	1,060	100.0%	-0.1%
ALBERTO CULVER Beauty Supply Distribution*****	1,773	63.8%	7.5%
All Products*****	2,777	100.0%	8.4%

*Includes cosmetics, laundry and home care, consumer and craftsman adhesives, corporate, and Henkel technologies.

**Includes perfumes and cosmetics, Christian Dior couture, wines and spirits, fashion and leather goods, watches and jewellery, and selective retailing.

*** Includes a small "Other" category.

****Includes cosmetics, skin care, fragrances, and personal care.

*****Includes Sally Beauty Supply and Beauty Systems Group.

*****Includes global consumer products and eliminations.

Source: Company 2006 Annual Reports. Annual report for Alberto Culver was last available in 2005.

These challenges led several of the industry's key players to make acquisitions in the most recent fiscal year which are detailed in the table below. The goals of these acquisitions were to introduce new business lines, streamline production, and expand the types of products under company control. Over the next few years, the success of these acquisitions will have to be evaluated as the relentless demand for the consumer's loyalty will surely continue.

¹¹⁹ Kosé 2006 Annual Report.

¹²⁰ Alberto Culver 2005 Annual Report.

Table 88 – Key Acquisitions

Company Key Acquisitions in the Most Recent Fiscal Year:
L'Oréal Group: Diesel - license agreement; new fragrance line Laboratoires Sanoflore - acquired; organic cosmetics line The Body Shop - acquired; natural cosmetics line SkinEthic - acquired; tissue engineering products company
Estée Lauder Cos Inc: Daisy Fuentes - license agreement; new fragrance line Distributors of Aveda products - acquired; businesses engaged in distribution of this product line
Avon Products Co: Avon Columbia - acquired; business of company from licensee
Henkel: Right Guard, Soft Dri, Dry Idea - acquired; deodorant brands Jasminal of Tunisia - acquired; country market leader in hair products
Alberto Culver: CosmoProf - acquired; professional beauty products distributor Nexxus Products - acquired; hair care products company

Source: Company Annual Reports.

II.2 - Barriers to Entry

The cosmetics industry exists in a market structure that is a cross between the extremes of perfect competition and monopoly – that is, monopolistic competition. The industry is characterized by a large number of firms that attempt to differentiate their products and maintain a certain degree of control over their pricing. In general monopolistic competition is characterized by relatively low barriers to entry and exit. A firm in this type of market structure is assumed to exploit the uniqueness of its brand or evolving consumer trends to reap economic profits. Over the long run, these distinguishing characteristics will be duplicated by competing firms and economic profits will be reduced or eliminated.

In general barriers to entry are low under monopolistic competition but to the extent that they exist in specific industries they may include any or all of the following:

- ◆ **Government regulations** – licenses, quality and safety standards, etc.
- ◆ **Research and development** – cost of developing new products and processes
- ◆ **Patents** - give a firm the sole legal right to make a product for a given period of time
- ◆ **Trade barriers** – import duties or quotas, import and export licenses, etc.
- ◆ **Market structure and penetration** – imports relative to domestic products consumption, per capita spending, etc
- ◆ **Advertising** - the presence of established powerful brands with large budgets to spend on advertising
- ◆ **Distributor agreements** - exclusive agreements with key distributors or retailers
- ◆ **Investment costs** –setting up manufacturing, distribution or research facilities
- ◆ **Economies of scale** – large established companies can generally produce goods at lower costs than small, inexperienced firms, but advances in technology can reverse cost advantages
- ◆ **Sunk costs** – costs that cannot be recovered if a firm decides to leave a market
- ◆ **Supplier agreements**, exclusive agreements with key links in the supply chain

Government Regulations

The European Commission through the EU Cosmetics Directive has overall responsibility for cosmetic legislation with the EU. Each member state designates a competent authority that enforces the legislation. The following section lists relevant issue to be considered:

- ◆ There are no requirements for registration of manufacturers or importers or pre-market approval. The relevant member state authority must be notified of the place of manufacture or of initial importation. Belgium, Denmark and Spain request a notification of products prior to marketing.

- ◆ There are 1233¹²¹ prohibited substances and another 97 subject to restrictions in the use of cosmetics manufacturing.
- ◆ Positive lists permit the use of a number of cosmetic colourants, preservatives and UV filters. Inclusion of new substances in the list is subject to scientific evaluation.
- ◆ General labelling requirements exist, including the address where product safety information is kept within the EU. Warning statements are required in the respective national languages for products containing certain ingredients.
- ◆ The safety of cosmetic products placed on the EU market is the responsibility of the person who places the product on the market, assured through in-market surveillance by competent authorities designated by each member state.
- ◆ The 7th Amendment to the Cosmetics Directive introduced a ban on animal testing of cosmetic products from September 2004 in the EU. A ban on animal testing of ingredients within the EU and on the marketing of cosmetic products tested on animals and products containing ingredients tested on animals, within the EU or elsewhere, is effective not later than March 2009.
- ◆ Other product categories are medicinal and biocidal products regulated under separate directives. Products can only fall under one of the three categories.

The Food, Drugs and Cosmetics Act regulates cosmetics in the **U.S.** and remains largely unchanged since its introduction in 1938. Cosmetics can be categorized as cosmetics, drugs or both, in which case they must meet the requirements of both. Characteristics of the U.S. market include:

- ◆ Cosmetic products are not subject to pre-market approval and companies are not required to submit information on their products or to register cosmetic manufacturing establishments. The safety of cosmetic products is the responsibility of the manufacturer and is supported by an in-market surveillance system.
- ◆ No approval is required for the use of any new ingredient in a cosmetic, but a small number of ingredients are strictly regulated or prohibited. All colour additives must be tested for safety and approved for their intended use by the FDA before they can be marketed.
- ◆ Labelling requirements are low – they must carry an ingredient declaration on the outer package and the country of origin.
- ◆ Products categorized as over-the-counter (OTC) drugs and their respective manufacturing facilities must be registered within five days from beginning their operations. They are subject to an active ingredients list. New ingredients must undergo approval process – and more rigorous labelling requirements.

The accessibility to the **Japanese** cosmetic market has greatly improved since the implementation of the new cosmetics law in 2001 which reduced red tape and decreased administrative costs. The deregulation process involved the abolition of pre-market

¹²¹ <http://eur-lex.europa.eu/LexUriServ/site/en/consleg/1976/L/01976L0768-20060809-en.pdf>

approval, the establishment of a prohibited ingredient list similar to the EU and the abolition of the designated ingredient list and a new requirement for complete ingredient listings to provide better consumer information.¹²²

Despite the 2001 simplification of the regulatory framework, cosmetics can potentially be classified as quasi-drugs (e.g. deodorants, mouth wash) or drugs, making it more difficult for companies to export to Japan. This category generally requires pre-market approval and is subject to limitations on composition and manufacturing processes.

Cosmetics must be labelled with the product name, name and address of manufacturer or importer, content volume, product number or code and a list of ingredients. Responsibility for cosmetic safety rests primarily with the manufacturer. Manufacturers or importers are required to check the safety of their products thoroughly before they are placed on the market and to maintain records of this. The health authorities may require a manufacturer to substantiate product safety.

Regulation of cosmetics in **China** is complex, involving two separate government bodies. There are differences in requirements between imported and domestically-produced cosmetics. The overall approach is not aligned with that of the EU or any other main regulatory models. Burdensome regulations increase the cost of business and take time. Some key points to consider:

- ◆ Cosmetics legislation in China is currently under review, and may be subject to considerable change in the near future.
- ◆ Manufacturers must be registered and all manufacturing sites must have a Hygiene Licence as well as a Production Licence.
- ◆ Product registration requirements differ between ordinary and special use cosmetics (e.g. sunscreens, weight loss products, hair removal products) and between domestic and imported cosmetics.¹²³
- ◆ Lists of ingredients not allowed in cosmetic products include colourants, UV filters and hair dyes. Full ingredient listing on labels is not required.
- ◆ Labelling is subject to positive and negative regulations, and all information must be in Chinese.
- ◆ All new ingredients, as well as new approved uses of ingredients, are required to undergo a safety evaluation based on specified procedures and methods. Foreign data is not accepted and all cosmetic products must undergo testing within China.
- ◆ Burdensome BSE-certification was introduced in 2002 affecting companies from 18 European countries.

¹²² Comparative Study on Cosmetics Legislation in the EU and Other Principal Markets with Special Attention to so-called Borderline Products, prepared for the European Commission, DG Enterprise by Risk & Policy Analysts Limited, August 2004

¹²³ For details on Chinese regulations, see "Comparative Study on Cosmetics Legislation in the EU and Other Principal Markets with Special Attention to so-called Borderline Products", prepared for the European Commission, DG Enterprise by Risk & Policy Analysts Limited, August 2004

Impact of EU Regulation on Trade

Animal Testing

According to industry sources, the greatest cost to the industry will be the development of alternatives to animal testing in order to comply with EU regulation, which is different with regulation in the rest of the world, thus creating a barrier for non-EU companies with largest share of sales outside of the EU. The 7th Amendment to the Cosmetics Directive introduced a ban on animal testing of cosmetic products from 11 September 2004 and a ban on animal testing of ingredients not later than 11 March 2009 within the EU.

All companies manufacturing or importing to the EU are affected. Although some funding may be available for this purpose, the responsibility lies with the industry. It is feared that a barrier to entry will be created as only large companies will have the resources to develop new testing methods and they will be reluctant to make them publicly available for fear of sacrificing commercial advantages.

This new directive may also discourage innovation by prohibiting the use of new ingredients for lack of proper safety testing. The timetable for the development of new alternatives is very strict and does not allow for an extension of the use of animal testing if alternative tests are not available in time.

Once alternative to animal testing become available there will be difficulties in making them acceptable in other countries where animal testing is seen as the most reliable means of evaluating the safety of cosmetics – for instance China still requires all finished products to be tested on animals – and which currently have no intentions of changing their regulations. This could lead to major trade disruptions between the EU and other countries, and the emergence of two parallel markets for cosmetic products, with innovation in one market not transferable to the other. A new initiative aimed at minimizing these disruptions is a joint project by the U.S. Government and the European Commission to develop harmonized, alternative, non-animal testing methods. The purpose of the project is to develop agreed alternative testing methods that would be submitted to the OECD process for international validation. The validation of alternative methods is a long and expensive process, taking on average seven years.¹²⁴

REACH¹²⁵

As a user of substances produced by the chemical industry, the cosmetics industry could be significantly impacted by the EC's regulation on the **R**egistration, **E**valuation, **A**uthorisation and **R**estriction of **C**hemicals (REACH) through:

¹²⁴

http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_NTE_Report/asset_upload_file814_9243.pdf

¹²⁵ Comparative Study on Cosmetics Legislation in the EU and Other Principal Markets with Special Attention to so-called Borderline Products, prepared for the European Commission, DG Enterprise by Risk & Policy Analysts Limited, August 2004

- ◆ increased prices for chemical inputs as manufacturers seek to recover the costs of REACH;
- ◆ loss of availability of chemical products as manufacturers rationalise their product range and fail to support certain substances through REACH; and
- ◆ impacts arising from the public availability of information
- ◆ potential incompatibility due to REACH requirement of testing certain substances on animals and the prohibition of the Cosmetics Directive to do so.

Research and Development

The cosmetics industry is very dynamic and is characterized by innovation and a high rate of product development. Innovation is essential to maintain global competitiveness, improve performance, safety and the environmental impact of products, and to keep up with constantly evolving consumer preferences.

Some current market trends that drive R&D are:

- ◆ Anti-aging skin care is a growing market segment with the aging of the baby-boomer generation. Consumers want to see immediate results and are not brand loyal. Beauty-on-line says that baby boomers in the U.S. are generally more confident in "the progress and benefits of science and technology than their children" and favour "high-tech innovative active components".
- ◆ Men's growing acceptance of the importance of being well groomed led to very strong performance in this segment, which is expected to continue going forward. There is a high rate of product launches and continuous need for innovative cosmetics catering specifically to men.
- ◆ Natural cosmetics are another fast growing category. This reflects the increased preference of consumers for less synthetic and more "natural" or "botanical" products. R&D expenditures are required with the introduction of new formulae because "natural" products can pose health risks.
- ◆ Customers are becoming increasingly aware of the risks posed by different ingredients used in cosmetic products. This is particularly the case in the U.S. where the cosmetic industry operates with little oversight by the Food and Drug Administration. In China there have been a number of product withdrawals due to safety concerns in spite of the country's stringent regulations. Brands perceived as indifferent to safety issues will lose customers' confidence.
- ◆ Technological advances have allowed for the creation of multi-functional products. They have become popular because they place strong emphasis on value for money.

Research and development also needs to be conducted when a company enters a new market as people's dermatological characteristics vary. For instance, Asian women consider their skin to be different from Europeans' and will thus rather buy products catered to them. Companies like L'Oréal are opening research labs in China as they are trying to grow in that market.

Patents

Patents do not necessarily create a barrier to entry. They provide a firm the sole legal right to make a (new) product for a given period of time - abnormal profits may result during that period. During the last five years a large number of patents have been filed in China, France, Germany, Japan and the United States. In particular, China has seen a surge in patents filed locally, mostly by international players. Counterfeits however continue to be a threat in that country.

Both R&D and Patents will be treated more extensively in the following chapters.

Trade Barriers

European Union

The EU does not operate as a single customs administration: there is a separate agency responsible for the administration of EU customs law in each of the Member States and EU customs law is not administered in a uniform manner. EU rules on classification, valuation, origin, and customs procedures can be applied differently in the Member States. VAT levels also vary.¹²⁶

United States

Most cosmetic products are duty exempt in the U.S. A few categories (like shaving categories and deodorants) are subject to a general duty rate of up to 6 percent when imported from countries with which the U.S. does not have a free trade agreement in place.

Japan

In Japan, tariffs range from 0 to 5.4 percent depending on the product.¹²⁷

China

Cosmetic products are subject to tariff rates of 10 to 16 percent according to China's 2005 tariff schedule, unless otherwise stipulated in a bilateral trade-agreement. China's WTO commitments require that import tariff of cosmetics and toiletries will be reduced to 6.5-15 percent by 2008.

All imported cosmetics are submitted to stringent controls at customs.

¹²⁶ For details on customs law in the EU see Office of the United States Trade Representative http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_NTE_Report/asset_upload_file814_9243.pdf

¹²⁷ Tariff rates for specific products are available at Asia Pacific Tariff Data Base <http://www.apectariff.org/>

Market Structure and Penetration

European Union

The EU is the largest cosmetics market in the world. The EU27 + Norway and Switzerland consumed approximately €3.5 billion worth of products at retail sales prices in 2006. Of this the new EU12 make up €0.9 billion. The five largest national markets, Germany, France, the U.K., Italy and Spain account for 76 percent of consumption.

The EU is a net exporter of cosmetics. In 2005, exports outside the EU reached €3.7 billion, while imports were €4.3 billion. Over the 2000-2005 period exports grew by 14.3 percent compounded annual growth, ahead of the 13.1 percent import growth.

EU exports are spread out across the globe, with the top 10 destination countries making up only 61 percent of the total. The U.S. (11%) is the largest non-EU trading partner, followed by Russia (3.5%), Switzerland (2.8%) and Japan (2.0%). Intra-EU trading was €1.9 billion in 2005.

According to the European trade association, COLIPA, the European cosmetics industry consists of around 4,000 manufacturers, mostly small and medium-sized enterprises, which create employment — directly and indirectly — for more than 350,000 Europeans.

United States

The U.S. is the second largest consumer of cosmetics products after the EU, having a total market size of €8.2 billion in 2006. It is also the second largest manufacturer, with a total production value of €8.7 billion in 2005.

The U.S. is a net exporter of cosmetics. Imports make up around 9 percent of the market, and have grown faster than exports in recent years, further eroding domestic manufacturers' market share. Canada is by far the biggest destination for U.S. exports at 26.3%, followed by the U.K. 9.5%, Japan 8.2%, and Mexico 6.2%. Meanwhile France and Canada are the top two sources of cosmetics sources at 27% and 19% respectively, followed by Italy 8.9%, China 7.8%, and the U.K. 7.3%.

According to the Annual Survey of Manufacturers published by the U.S. Census Bureau, there are 757 cosmetics companies in the U.S. employing over 53 thousand workers.

Japan

Third largest cosmetics market after the EU and the U.S., with the second largest per capita spending after Norway, considered mature.

Japanese companies hold almost 70 percent of their home market and the leading five manufacturers - Shiseido, Kao, Kanebo Cosmetics, Kose and Pola - account for almost 49 percent of total value sales.

Domestic production costs are relatively high, but quality of domestic cosmetics is highly competitive with that of foreign products

The accessibility to the Japanese cosmetic market has greatly improved since the implementation of the new cosmetics law in 2001, allowing to reduce red tape and to decrease administrative costs. Since then imports of cosmetics products have been progressing at an average rate of 9.5 percent, according to the Cosmetic Importers Association of Japan. The share of imports compared to domestic production, which also includes the production by local subsidiaries of foreign multinationals, reached 11.3 percent in 2004. Skin care, make-up and hair care products account for 70 percent of these imports. Almost 60 percent of imports originate in France (33%) and the U.S. (25%), while another 20 percent is almost equally split among China, Italy, the U.K. and Germany.

China

Euromonitor estimates the compound annual growth rate of the cosmetics and toiletries market in China was 11.9 percent from 2001 to 2006, driven by a rise in personal disposable income as well as "fierce social competition" motivating urban workers to invest in their appearance. These trends are not seen to revert in the near future making the outlook for the cosmetic industry very buoyant.

Foreign brands already hold strong positions in the Chinese market, benefiting from strong consumer confidence, particularly in the high-end segment (L'Oréal, P&G, Shiseido, Estee Lauder, Clarins, Chanel, etc.). The market for premium products is growing faster than the overall cosmetics consumption.

Imports of beauty, make-up and skin care products grew more than 240 percent over the 2003-2005 period, to €66 million (USD207 million). France is the top exporter to China in these segments holding 33 percent of the market, with the U.S. (24%) and Japan (23%) following closely, and South Korea (6%) and Italy (4%) the next biggest import sources. For perfumes and toilet waters, France holds 75 percent of the market, followed by the U.S. with 10 percent.

The cosmetics industry exists in a market structure that is closest to monopolistic competition. This market structure should not pose significant barriers to trade and the high penetration rates in both the EU and the U.S. are evidence that these markets are open to trade. Until the implementation of the new cosmetics law in 2001, the cosmetics market in Japan was difficult for foreign firms to penetrate. More recently imports share of the market has been trending steadily higher. Barriers to trade from the market's structure appear to be more limited in China as cosmetics imports (especially from France) have been expanding rapidly.

Customer Loyalty and Advertising

In the cosmetics industry brand recognition is particularly important as a result of the high degree of competition. Customer loyalty is not very high due to the large selection of strong brands and buyers need to be lured with innovative products and advertisements. Loyalty can be easily lost by releasing products that are seen as detrimental to health.

In developed countries, the cosmetics market is relatively mature and competition is stronger. In order to stay competitive, a brand or product must be unique – clearly distinguishing itself from others on either functional characteristic, such as natural, anti-aging or whitening effects, or a marketing characteristic, such as package design or brand logo.

In less mature markets like China brand loyalty is low primarily because of the relatively low experience of consumers with cosmetic products.

As cosmetics are increasingly associated with personal fashion and consumers are becoming more brand-conscious, advertising is a cost that must be assumed in order to sustain or increase sales. Consumers' needs and tastes are often influenced by seasonal and quickly shifting trends and fashions, making it important for manufacturers to be able to introduce new products very quickly and attract attention.

Advertising costs can be particularly daunting for small companies, as large companies already have the customer base and the big budgets to spend on promotion. Please refer to the following table for an example of advertising expenditure by brand in the U.S. market alone.

Table 89 - U.S. Personal Care Advertising Expenditure by Brand

Rank	Brands	Share of Personal Care Advertising, 2006
1	Olay (P&G)	6.8%
2	L'Oreal (L'Oreal)	5.9%
3	Crest (P&G)	4.5%
4	Gillette (P&G)	4.0%
5	Pantene (P&G)	3.9%
6	Dove (Unilever)	3.3%
7	Neutrogena (J&J)	2.9%
8	Garnier/Fructis (L'Oreal)	2.7%
9	Aveeno (J&J)	2.3%
10	Maybelline (L'Oreal)	2.3%
	Top 10 Brands	38.7%
	Total Personal Care Advertising Expenditure (\$ mil.)	\$5,258

Source: Advertising Age

Distribution Channels

European Union

According to COLIPA, "distribution channels play a very important role in the cosmetic market. Consumers pay great attention when choosing the channels according to the type of product that they are seeking."

The mass market, which is usually the main outlet for personal products in Europe, is progressively earning market shares over the years. Unfortunately, comparisons between countries are difficult, due to differences between distribution channels and lack of data.

Distribution channels generally fall under four main categories: mass distribution, specialized distribution, pharmacy sales and direct sales. In France the breakdown is 54%, 28%, 10% and 7% respectively, while in Italy it is 41%, 40%, 13% and 6%.

Direct sales is the most dynamic distribution channel in many Eastern European countries and it accounts for a larger share of cosmetics sales than in the West.

United States

Distribution channels fall under one of the following categories: department stores, national mass merchandisers, national and local supermarket and drug store chains, online retailers, specialty stores, spas, salons, direct selling, TV shopping networks. Specialty stores account for less than 0.1 percent of the market.

Traditional distributors are usually logistical service providers only and thus are not responsible for the promotion of the product or the development of new accounts, which is typically done by a "manufacturer representative", agent or broker.

Japan

Franchise system (selective/prestige channel) (31%¹²⁸), general distributorship (36%), door-to-door sales (27%) and direct sales or sales to professionals (6%).

The first category is supplied directly from manufacturers or importers, bypassing wholesalers and distributors. Retailers provide space to selected brands and manufacturers are fully responsible for daily activities: marketing support, product promotions, decorations and trained beauty consultants, thus tightly controlling the market. These additional costs are considered a significant obstacle to the entry of new brands in this channel.

The general distributorship channel is usually supplied from independent wholesalers, but marketing is still supported by the manufacturer. Consumers directly chose products from the shelves and no individualized professional counselling is offered. The variety of products offered through this channel is expanding past daily necessities.

The Japanese retail sector underwent considerable changes in the recession years of the 1990s, which had a transformative effect on the trade, and eliminated some of the inefficient practices that previously made it difficult for foreign retailers to sell to Japanese consumers. Public policy in the past was designed to protect smaller retailers while also allowing large retailers to make considerable profits from slow store expansion. The system also included complex rebate systems, free return of unsold goods, and long payment terms.¹²⁹

Japanese retailing is now changing quite rapidly and is more comparable to retail sectors in Europe and North America. There have been general changes in all channels as fewer manufacturers and vendors are willing to pay for the cost of distribution. There has also

¹²⁸ 2000 estimation by Shukan Shogyo

¹²⁹ "Japanese Retailing Through the 1990s: Retailer Performance in a Decade of Slow Growth", Dawson and Lark, British Journal of Management, 2004.

been an increase in the variety of competing retail formats – especially from medium-sized firms which have placed considerable competitive pressure on large and small retailers. The most successful and innovative retailing practices have come from medium-sized and regional firms, which have shown their ability to cope in different economies.¹³⁰ Guidance for consumer goods companies used to trading with innovative and aggressive retailers in North America and Europe, and are now seeking to initialize or expand distribution in Japan to align with these medium-sized, regional players.

Door-to-door sales have declined in value share due to changing social structures – more women stay in the workforce decreasing the number of potential sales personnel and consumers at home ready to answer calls. This category includes marketing online, which is currently done successfully by domestic manufacturers, selling separate brands than what they sell through traditional sales channels, and foreign makers of luxury cosmetics.

The general distributorship is the easiest and most effective way for foreign SMEs to penetrate the market, and seeking Japanese partners who are well experienced in the cosmetics market is advised.

China

According to Euromonitor International, rapid retailing development saw modern distribution channels such as supermarkets and hypermarkets, drugstores and specialist outlets penetrate deeper into the Chinese market, bringing a wider product variety of products and brands to consumers.

New-comers have three options: department stores, perfumery chains or stand-alone stores. The latter is the most expensive option considering the high cost of real-estate, but offers the best way to control and grow customer base.

Retail pharmacies are becoming the preferred channel to sell personal care products in China not only because of the large number of stores (which has grown to over 200,000) but also because of the particular dynamics of the channel itself. Retail pharmacies in China tend to be more flexible and loyal than other outlets, and have more available space (as a percentage of the whole store). Managers are willing to allocate disproportionately to imported products because they sell at much better margins than traditional Chinese products. Customers' perceptions are that imported health products sold exclusively through retail pharmacies are superior products, and identify them as more "treatments" than cosmetics. (Zakreski, 2001) The role of retail pharmacy in China is becoming more similar to the EU and the U.S. markets as stores align brand positioning goals of many health and beauty product companies.

Establishing distribution relationships with retail pharmacies in China is initially a challenge because of government ownership, geographical dispersion, and large number. However, once created, maintaining business relationships is easier with retail pharmacies than with the more adversarial supermarkets, department stores, or warehouse stores, where intense competition often creates the demand for obligatory

¹³⁰ "The Role of Medium-sized Firms in Retail Change in Japan", Dawson and Lark, International Review of Retail, Distribution and Consumer Research, 2005

discounts and other trading pressures from store management. These pressures can still occur even if sales volumes are very high.¹³¹

New distribution opportunities will be found with foreign retailers, who are now moving beyond the traditional urban areas, following a lift of geographical restrictions as stores are being built inland and in secondary and tertiary coastal cities, where competition is less intense.

The retail format that is becoming the most dominant in China is the hypermarket, which is now displacing department stores.¹³² Retail pharmacy store expansion should follow the hypermarkets into new population centres, but the distribution opportunities are probably less with new store growth and more with expanding assortment in existing stores.

Outside major cities, logistics and transport provide additional hassles making direct sales and mail or on-line orders more convenient.

Euromonitor International says "Three of the top ten C&T brands in China are direct selling brands, whose strength is even more impressive when you consider that a ban on direct selling was introduced to China in 1998 as a means to prevent pyramid selling. Direct sellers have had to open stand-alone retail outlets for their brands."

We conclude that distribution channels are very similar across EU countries and in the U.S. EU companies have been very successful at penetrating the U.S. market and retail distribution channels have not posed a barrier to entry. Until recently collusive behaviour in distribution channels in Japan proved to be a very significant barrier for EU firms wishing to penetrate the market. Retail pharmacies are the most reliable distribution channel for foreign manufacturers in China's cosmetics market. The barriers here are not as formidable as they were for so long in Japan.

Investment Costs

Investment costs or sunk costs have been shown to create barriers to entry for new firms into profitable industries, thus protecting incumbents and their profits. In the cosmetics industry sunk investments could include specific purpose production facilities with little value in alternative uses. Brand-building activities like advertising can also be viewed as a sunk cost. In either case, sunk costs will represent investments put at risk by a new entrant where there is uncertainty associated with successful entry into the market. The greater the sunk investment required for entry, the riskier entry becomes and the less likely it is that incumbents will be challenged.

The barriers to entry posed by investment costs will vary by country. Trade-offs exist between investing in Western countries or in developing countries like China or Eastern Europe. While building, land and labour costs may be cheaper in the latter, the cost of doing business can be significantly increased by regulatory burdens, legal costs,

¹³¹ "Reaching China's Middle Class Through Retail Pharmacies", Zakreski and He, The China Business Review, September 2001.

¹³² "China's Growing Attractiveness to Global Retailers: Strategies for retail expansion in China", Ness, European Retail Digest.

bureaucracy or training of inexperienced staff. In China, real estate is becoming expensive and prime locations in big cities are scarce. Also sales personnel need to be trained due to the way distribution channels are structured.

While it is difficult to establish comparative costs for the countries included in this study, the cosmetics industry overall is perceived as having average investment costs relative to other manufacturing sectors.

Economies of Scale

Firm size can be important in the cosmetics industry as a barrier to entry. There are a number of ways a larger firm can, by virtue of its size, increase its scale of operation and decrease the long run average cost. A larger firm can benefit from purchasing materials in bulk quantities through long-term contracts; this may be unavailable to a smaller firm. A larger firm can increase its production efficiency by increasing the specialization of its managers. A smaller firm's managers necessarily have more general responsibilities. A larger firm can obtain lower-interest charges when borrowing from banks and have access to a greater range of financial instruments than a smaller firm. A larger firm can spread the cost of advertising over a greater range of output in media markets. Each of these business strategies can reduce the long run average costs of production and create a barrier to entry into the industry.

Cultural and Language Barriers

Culture and language may form a barrier to entry – they are important factors to consider when companies enter new markets. For example sensitivity to ethnic differences between eastern and western cultures when dealing with business partners is necessary. Also, as a result of the high level of competition in all the markets presented, buyers expect a high level of professionalism in preparation and presentation, which can differ from country to country. Language barriers can add to the costs of doing business in a foreign market.

III. Sources of Competition – Case Studies

In this section we consider a number of case studies that illustrate recent trends in alternatives to traditional cosmetics products. This new source of competition has and will continue to force the cosmetics industry to rethink the way it does business as traditional cosmetics firms must increasingly take into account the wants of a more ethically motivated and environmentally conscious consumer who is also looking for results in the least amount of time (and for the least amount of money) from a product they can trust.

III.1 - Medical Devices and the Pharmaceutical Industry

Skin care and sun care have clearly been the most dynamic product segments in the cosmetics industry. Invasive cosmetic surgery has been around for some time however long recovery times and scarring has restricted its use. The medical devices industry has been more successful recently in this segment with the introduction of more cost-effective and less disruptive procedures.

The pharmaceuticals industry introduced Botox as an alternative to anti-aging creams. It has been by far the most important and profitable introduction to the market by that industry. Other procedures like invasive cosmetic surgery have been around for longer but recovery times and scarring have restricted their use.

Innovative ideas from the medical devices and pharmaceuticals industries will continue to put pressure on the cosmetic marketplace to develop new ways to increase the effectiveness of their products.

Skin Rejuvenation

Background

Today's anti-aging and skin rejuvenation treatments occupy a wide spectrum of the cosmetics market and range from basic moisturizers that cost a few dollars to major surgeries which are generally very expensive. People constantly seek out different types of treatments as they search for ways to return a youthful glow to their skin. The options are numerous and steadily growing in popularity.

Skin changes do not happen rapidly as the process of rebuilding tissue can take months. The cells of the epidermis, the skin's outer layer, are replaced about every four weeks. Changes in the dermis, the deeper layer where wrinkles originate, usually take longer. Even under the best of circumstances, improvements are barely noticeable even after one month. Most experts feel that 2-3 month is a reasonable trial period for non-invasive anti-aging/anti-wrinkle products. Slow and gradual changes can be hard to notice and people often think that a product is not working even when it is delivering positive results. Objective measurements of a treatment's effectiveness are hard to perform outside the confines of a research lab.¹³³

¹³³ "Skin Rejuvenation Treatments", Smart Skincare.com, <http://www.smartskinicare.com/treatments/>.

Skin care procedures include topical treatments, wrinkle fillers, and non-invasive and invasive techniques. Topical treatments¹³⁴ classified as cosmetics are not regulated by the FDA. It is hard to know which over-the-counter products are the most effective. A cream or ointment that may work to improve one person's skin may not have the same effect on someone else. Similar types of products are also available by prescription. They work by creating molecular switches in skin which facilitate new cell growth and inhibit the creation of enzymes that break down the skin's collagen and elastin, the lack of which are the major contributors to wrinkles and sagging skin. However, some of the most popular topical treatments are Vitamin C based products which can even be made at home.

Wrinkle fillers, administered through injection or a small incision, are primarily used to correct localized facial defects such as lines, furrow, folds, and skin depressions. The majority of these products are relatively new and the long term effects are unknown.

Other, new minimally invasive methods include laser and light treatments in which a beam of light damages a problematic skin area with the hope that the body's resulting healing processes will produce cosmetic improvements. Light wavelengths and strengths are varied to target specific skin depths depending on the severity of the problem. These procedures have become more and more popular recently as down time and recovery periods are generally short.

Chemical peels and microdermabrasions work in the same ways as light based procedures by destroying layers of skin to facilitate healing and regrowth. These treatments range from superficial to deep and can have minimal to significant recovery times.

More drastic procedures such as facelifts and laser resurfacing are used to improve substantial facial sag or severe wrinkling.¹³⁵ These procedures tend to have longer recovery times, more short and long term side effects, and are more costly.

Product Trends

Non-invasive cosmetic treatments in the U.S. are experiencing strong growth – they grew at a 43 percent annual rate between 2003 and 2004. Minimally invasive procedures experienced 13 percent growth.¹³⁶ New anti-aging products entering this market are challenging the dominance of Botox. New technologies in drug delivery methods focusing on transdermal patches and other emulsion formulations for topical creams, lotions, and gels are also being studied. Consumer demand for natural herbal and botanical products is also growing.

Non-surgical techniques are becoming more popular for people of all ages as the demands of family, job, and social obligations do not allow for the significant recovery time sometimes associated with more invasive anti-aging procedures. Younger patients can use them to reverse early signs of aging, middle-age patients treat them as good

¹³⁴ In medicine, a topical medication is applied to body surfaces such as the skin or mucous membranes.

¹³⁵ Laser resurfacing vaporizes layers of skin which differ from the minimally invasive laser treatments previously described as they leave the surface skin largely intact.

¹³⁶ "Rhytec; Not Your Grandmother's Face Lift", Biotech Week, 25 April 2007.

alternatives to surgery, while older people can undergo these treatments even if their health does not permit them to endure more drastic procedures.

Botox

Background

Botox, or a purified form of botulinum toxin A, gained FDA approval in December 1989 to control involuntary muscle contractions. The toxin, delivered through localized injection, works by binding to nerve endings preventing them from sending signals to muscles to contract and essentially paralyzing them. Cosmetically, it is used to eliminate fine lines and wrinkles in people's faces that typically develop as they age. Botox's effects usually last around 3 to 4 months, though it could be as long as a year, resulting in the need for repeated procedures. Patients can develop antibodies to the toxin, diminishing its effectiveness over time. Scientists are working to see if other strains of the botulinum toxin can be used once the usefulness of the A strain wanes.

As the early popularity of the drug's use for cosmetic purposes increased, the FDA responded in November 1994 by issuing a strongly-worded statement which indicated that wrinkle and other anti-aging treatments were unapproved uses of the drug. Further the Agency said that Botox uses of this manner were "an egregious example of promoting a potentially toxic biologic for cosmetic purposes".¹³⁷ However, in April 2002, the FDA reversed their position and cleared Botox for cosmetic use.

In Europe, botulinum toxin Type A is marketed under the brand name Dysport and has been approved for use there since 1990. Currently, this product's major use is for therapeutic treatment though it is also approved for cosmetic uses in several South American and near-East Asian countries. The U.S. FDA is in the final stages of approval for Dysport. Botox will likely face stiff competition from Dysport as it seems to have a better safety profile and a completely different mechanism of action. Initial approval of this drug in the U.S. will be limited to the treatment of cosmetic ailments in specific types of patients (mainly HIV patients) though the company hopes to expand its long term reach to the broader cosmetic market.

Competition with the Cosmetics Industry

There are many wrinkle and anti-aging treatments available over-the-counter. Specialized skin care treatments are also in demand at high-end spas. However, people are increasingly turning to Botox as news of its success and its popularity as a "lunch hour" procedure spreads. As a result of the need for repeated injections, increasing market awareness and availability, and improved technologies, demand for Botox and similar products should remain strong. This will serve to place continuous pressure on the anti-aging cosmetics market which represents high value items for many manufacturers. Botox is also moving into other cosmetic markets all over the world with a strong and growing presence in Latin America, Asia, and Europe.

¹³⁷ "Botulinum Toxin: A Poison that can Heal", U.S. Food and Drug Administration, http://www.fda.gov/fdac/features/095_bot.html.

Recently, several relatively high profile cases of doctors injecting patients with "fake" Botox have emerged in the United States. This can cause severe illness, paralysis, and even death. Experts say that as much as 5 percent of all cosmetic injectable treatments in the United States may be counterfeit. Some of the treatments are provided in dubious settings, but many others are administered by doctors or nurses who don't realize they have purchased counterfeit substances or are knowingly using the fake goods to boost their profits. Major medical groups are taking steps to warn consumers while manufacturers are revamping their packaging for easier authentication.¹³⁸

III.2 - SME Case Studies

Large international firms and their subsidiaries dominate the cosmetics market, receiving over half of the entire industry's sales. Nevertheless successful small businesses are making their presence felt. Some of these firms have been able to change the core values of the cosmetics industry by offering consumers the opportunity to make purchase decisions based on their enthusiasm for these innovative ways of doing business. The case studies below highlight some examples of small firms that have made a worldwide impact on the market.

The Body Shop

Background

The Body Shop International plc, or The Body Shop, is a global manufacturer and retailer of naturally inspired beauty and cosmetic products founded by Englishwoman Anita Roddick in 1976. The evolution of The Body Shop from a small store to a huge multinational, with more than 2,100 stores across 55 countries, has positioned it as a leading global cosmetics brand. Its marketing strategy focuses on the use of natural ingredients in personal care products while its core business model promotes various social causes. Public interest generated through The Body Shop's modern corporate social responsibility (CSR) practices has allowed the company to experience consistent growth in sales over the past 30 years. As one of the first cosmetic companies to use natural ingredients in its products and ban the testing of its cosmetics on animals, the rapid growth of The Body Shop is attributed to the identification of the company with social responsibility, respect for human rights, the environment and animal protection, and an absolute belief in community trade.

In March 2006, global cosmetics manufacturer L'Oréal acquired The Body Shop for USD 1.14 billion.¹³⁹ The sale led to outspoken disapproval of the deal among critics and customers as L'Oréal had been severely condemned in the past for its unethical business practices. This move was seen as an attempt by L'Oréal to "buy" The Body Shop's CSR reputation in order to improve its own image. However, L'Oréal's cash reserves has facilitated further development of The Body Shop's community trading relationships and resulted in new partnerships aimed at pursuing further social activism.

The Importance of Responsible Business

¹³⁸ Roan, Shari, "Fake Products Can Bypass Quality, Safety", Los Angeles Times, 26 June 2006.

¹³⁹ ICMR (Link: <http://www.icmr.icfai.org/casestudies/catalogue/Business%20Ethics/BECEG067.htm>)

The Body Shop's business model is based on five principles which include opposition to animal testing, supporting community trade, defending human rights, protecting the planet, and improving self esteem. These tenets serve as the basis for the operational structure of The Body Shop and give it unique characteristics which are unlike any other company in the industry.

Beginning with its first community trading program in India's Tirumangalam village in 1986, The Body Shop continues to build up similar partnerships throughout the world. These programs focus on the development of poor and underprivileged communities throughout the world. In 2006, the company bought 25 natural ingredients from 30 community trade suppliers in 23 countries. These relationships enable the communities to work towards their social and economic goals, while providing The Body Shop with high quality natural ingredients for use in their manufacturing of cosmetics and accessories. Involvement in corporate social responsibility programs also garners significant public and press attention which has enabled the company to keep its advertisement expenditure low.

Natural Cosmetics

Growth in the natural cosmetics industry has been driven by a growing awareness of human environmental impact along with a desire to eliminate the use of products with potentially harsh chemicals. This new organic market segment is growing in Europe at a clip of roughly 20 percent per year even though these products are often more expensive than more traditional versions.¹⁴⁰ Natural cosmetic sales are booming in the United States as well, achieving a 10 percent share of the market. In Europe, over 400 SMEs supply organic cosmetics while in the U.S. companies have significantly consolidated operations in recent years in the hopes of gaining more exposure for their products by taking advantage of larger marketing potential.¹⁴¹ In the rest of the world, new manufacturers continue to emerge.

Natural cosmetics were originally marketed to people with allergic reactions to traditional products. More recently their popularity has expanded beyond these groups. The companies discussed below are examples of successful businesses which are committed to providing consumers with products made only from the most natural ingredients. Their successes highlight consumer affinity towards these types of products.

Natural/organic cosmetics segment is growing fast at around 20 percent a year, yet from a small base: it currently comprises 2-4 percent of the market in Europe and about 10 percent in the U.S. The supply side is more fragmented in Europe – over 400 SMEs produce organic cosmetics – while the U.S. market has seen significant consolidation activity in recent years. In general:

- Natural cosmetics are now being manufactured all over the world.
- Natural products are often more costly than traditional cosmetics, but that is not slowing their growth trends.

¹⁴⁰ "Organic Cosmetics Reach a Natural High", Cosmetics International, Vol. 30: 683, October 6, 2006.

¹⁴¹ "Organic Cosmetics Reach a Natural High", Cosmetics International, Vol. 30: 683, October 6, 2006.

- Limited regulation allows for an expansive definition of "natural" allowing many manufacturers to make this claim on their products.

Burt's Bees

Founded in Maine in the 1980s as an earth-friendly, personal-care products company, Burt's Bees began bottling and selling honey. It used its original line to create lip care, facial care, and body care products using the leftover beeswax as the main ingredient in several of their products.¹⁴² The company is committed to using natural and organic ingredients and describes each in detail on the product. Their commitment to natural ingredients is evident by the "natural bar" on the label which shows consumers the importance of natural ingredients. In 2003, the company had revenues of \$59.4 million and sold an 80 percent share for \$177 million.¹⁴³

Juice Beauty

Juice Beauty offers organic skin care solutions with a fruit juice, rather than water, base. The company believes that juices have natural benefits, along with infusions of anti-oxidants and vitamins, which help promote healthy skin in a more natural way. The juice used in their products is farmed by indigenous people in Costa Rica, Guatemala, and Honduras and on sustainable farms in the United States' Pacific Northwest displaying their commitment to not only finding the most pure and effective organic ingredients but using them in an environmentally responsible way.¹⁴⁴ Since 2004, the company has seen revenues grow from \$200,000 to \$12 million in the first three years.¹⁴⁵

Lush

As a company, Lush Cosmetics believes that fresh, handmade products are the best for the skin. They strive to build a Lush Life based on organic ingredients, prohibitions on animal testing, creating ambience, and providing customers with good value for their money.¹⁴⁶ In order to maintain innovation in their product lines, the company's founder and CEO insists that one-third of offerings each year is removed from the sales racks in favour of "more offbeat and tantalizing bath goods".¹⁴⁷ In ten years, Lush has grown from one store in 1995 to 320 in 35 countries in 2005 with annual sales of \$100 million.¹⁴⁸

Avalon Natural Products

¹⁴² Burt's Bees, "Our Story", available at

<http://www.burtsbees.com/webapp/wcs/stores/servlet/OurStoryRoxanne?langId=-1&storeId=10101&catalogId=10751>.

¹⁴³ "Natural Ingredients Drive U.S. Body Care", cosmeticsdesign.com, May 4, 2005.

¹⁴⁴ Juice Beauty, "The Juice Story", available at <http://www.juicebeauty.com/juicebeautystory.html>.

¹⁴⁵ Juice Beauty – Press Releases, "Top Rated Organic Skin Care Line Adds New Product to Spring 2007 Core Collection", January 2007, <http://www.juicebeauty.com/za/JB?PAGE=PRESSRELEASECONTENT&ID=100>.

¹⁴⁶ Lush Fresh Handmade Cosmetics, "A Lush Life...what we believe", available at <http://usa.lush.com/cgi-bin/lushdb/faq.html#0>.

¹⁴⁷ "Rinse and Repeat", fastcompany.com, Issue 96, July 2005, available at <http://www.fastcompany.com/magazine/96/lush-cosmetics.html>.

¹⁴⁸ "Rinse and Repeat", fastcompany.com, Issue 96, July 2005, available at <http://www.fastcompany.com/magazine/96/lush-cosmetics.html>.

Founded in 1989, Avalon Natural Products makes organic hair and skin care products using 100 percent vegetarian ingredients which are not tested on animals. The company's mission is inspired by organic agriculture and the ongoing cause of sustainability in health and the environment.¹⁴⁹ In December 2006, the U.S. organic food and personal care producer The Hain Celestial Group acquired the company for \$120 million. In the most recent fiscal year prior to the purchase, Avalon Natural Products earned over \$40 million in profits.¹⁵⁰

There are numerous other examples of these types of companies doing business all over the world. As the trends show, the impact that these companies will have on the cosmetics industry will continue to grow.

Direct Selling Case Study

Direct selling offers consumers a unique opportunity to purchase products outside of the traditional retail environment. Because this method has been so integral in the development of consumer relationships and continues to be a popular method of sales in many countries, an analysis of its impact is important to illustrate the role it plays in the cosmetics industry.

Oriflame and Avon

Background

Oriflame, an international direct selling cosmetics company, offers a complete range of high quality skincare, fragrances, colour cosmetics, toiletries and accessories, marketed through a Sales Force of independent Sales Consultants. With sales in 59 countries, the company has grown rapidly without losing sight of its original business concept. With its distinct model of direct selling of natural Swedish cosmetics from friend to friend, it has developed an advantage over other established players. At present, it has a network of 1.7 million consultants across the globe and ranks among the top 10 direct selling companies in the world. The real growth potential for the company lies in emerging markets such as India and China where it continues to focus its operations expansion. Corporate responsibility is also a large part of Oriflame's business as it is a cofounder of World Childhood Foundation whose mission is to ensure a right to security, joy, playfulness, and a curiosity about life to every child.

Concept of Direct Selling

Cosmetics have literally led the way in developing the direct selling concept. Introduced by Avon in 1886 when women did not typically work outside the home, direct selling careers provided tremendous opportunities for women to earn money with minimal investment. Today, millions of people engage in direct selling of cosmetics around the

¹⁴⁹ Avalon Natural Products, "About Us", available at <http://www.avalonnaturalproducts.com/?title=About+Us>.

¹⁵⁰ Avalon Natural Products – 2006 Press Releases, "The Hain Celestial Group Agrees to Acquire Avalon Natural Products, Inc. from North Castle Partners", December 20, 2006 <http://www.avalonnaturalproducts.com/index.php?id=413>.

world. This sales philosophy works by allowing independent sales consultants, after receiving formal training from the company, to sell products to their friends and relatives with the aid of either a product catalogue or through demonstrations.

The direct selling approach enables the company to offer low-priced products to its customers because of reduced expenditure on advertising and promotion, the elimination of middlemen, and limited reliance on brick and mortar stores. Moreover, under this approach, consumers can ask questions, seek advice and get their product questions clarified directly from the sales consultants in a free and relaxed environment. Direct selling also ensures reliability and convenience to the consumers. This methodology allows consumers to get advice from the people they trust, thereby reducing post-purchase dissonance.

Consultants are the main force behind the growth of direct sales offering door-to-door expertise and personal experience with the products and remain key to the success of these cosmetic brands. In some places, direct selling companies are changing their strategies and have begun to launch product lines in retail stores and have expanded their products into businesses beyond cosmetics. Because more women work outside the home and people are less willing to open their doors to strangers, direct selling companies are starting to operate through websites and cosmetic counters in large retail stores. Online catalogues and access to company consultants are stimulating sales. In addition to cosmetics, Avon also offers healthcare and financial products and also sells under other brand names.

Ultimately, brand recognition and product quality are key to success. Although, they rely less on word-of-mouth than they once did, these companies continue to rely to a large extent on the ability of their sales ambassadors to get their name out to consumers. With sales throughout the world and new product lines aimed at attracting younger generations, the innovation potential of these brands will continue to attract future customers especially as disposable incomes rise, markets expand in parts of Asia and South America, and demand increases for men's cosmetics.

IV. Key Policy Issues – R&D and External Trade

In this section we consider the different aspects of the innovation process in the cosmetics industry including R&D activity and patents / intellectual property. The analysis is performed in order to assess the level of innovativeness of the European cosmetics industry and to compare it with innovative activities in the U.S., Japan and China.

The first input to the innovative activity is given by the expenditure in R&D. The analysis of Eurostat data measured at a national level allows us to shape the broad picture of the R&D activities performed by member countries. We also consider data at the firm level to gather information about the R&D intensity of the firms operating in this industry and in the specific market segments. A new technology or process can be protected with a patent. We analyze patent data from the European Patent Office and Micropatent as evidence of innovative activity in the cosmetics industry.

Later in this section we consider detailed trade data at the product level to calculate 'revealed' comparative advantage for each of the countries in the study. Traditional models of international trade explain the direction of trade in terms of the law of comparative advantage. This section concludes with a calculation of the trade balance for cosmetics for each country.

IV.1 - Research and Development

Today's cosmetic market is driven by innovation including new colour pallets, treatments targeted to specific skin types and unique formulas concentrating on different needs. R&D in this industry is constantly ongoing and conducted to facilitate new product development in response to changing consumer demands. In order to stay competitive, companies must successfully anticipate the coming consumer trends. Many companies have increased their R&D spending over the last few years due in part to improved profit levels and a realization that consumers may not always stay brand loyal.

Many of the latest advancements include cosmetics that are designed to treat multiple problems with faster acting formulations. The growing men's cosmetic market has also led to a new direction in innovation for many companies. Hair and skin care products targeted to the needs of specific ethnic groups are also growing in popularity, specifically aimed at the fast growing markets in Asia. Building new lines based on ingredients derived from sustainable development practices are also part of this trend taking into account what consumers want in the name of environmental preservation and minimizing societal impacts of new manufacturing procedures and ingredients.

Testing is one of the most important steps in getting new products from the lab to the mass market. Examples of tests performed include examining the ability of the product to stand up to harsh conditions such as extreme heat or cold. Products are also tested on skin

to determine if it is able to achieve the intended effects. Colours are tested in different lights to ascertain how the makeup appears on the wearer at various times of the day.¹⁵¹

Cosmetics companies need to be careful when introducing products that claim to have a medicinal or drug-like benefit.¹⁵² Drugs, defined as products which cure, treat, mitigate or prevent disease or that affect the structure or function of the human body, undergo highly regulated testing before they can be sold to consumers. Cosmetics however remain outside the scrutiny of these governmental bodies. This constraint may cause companies to understate the effectiveness of their products. New cosmetic products with these characteristics have taken on the name cosmeceuticals. Claims stated on labels, in advertisements, on the Internet, or in other promotional materials which could result in a product being classified as a drug could launch the regulatory scrutiny that so many companies are trying to avoid.¹⁵³

Recent Innovations in Skin Care

As individuals become more and more concerned with the appearance of their skin, they are seeking out alternatives to the traditional creams and lotions which simply cover up blemishes or discolourations. Today's skin scientists are probing deeper into the genetic makeup of skin's structure to understand how to design products meant to revitalize the appearance of these cells and eliminate wrinkles. The use of nanotechnology, very tiny particles that can penetrate deeper into the skin, has enabled skincare researchers to create products which are more effective at fighting fine lines.¹⁵⁴ The in-house work of the large global cosmetics companies is dominating the market and has created a whole new generation of scientific researchers.

Recent Innovations in Hair Care

Products which care for the individualized needs of specific hair types are now becoming the norm. Many of these products are specialized hair care treatments which target specific ethnic groups. New product portfolios and strong advertising campaigns are boosting sales of these new shampoos, styling agents, colouring formulas. Consumers want shampoos which are able to smooth, add shine and volume, and rebuild hair follicles. Hair products have also become increasingly popular among men, especially those which are designed to treat hair loss. Partnerships with salons throughout the world give brand recognition to products along with rights to use and sell specific products in their outlets.

The importance of research and development activities cannot be understated. Company spending on this type of activity can take up a sizable share of resources. Many companies which manufacture cosmetics are also engaged in the manufacture of other

¹⁵¹ The U.S. Food and Drug Administration website contains a variety of information for the industry including information on cosmetic products and ingredients. The site's main page is available at <http://www.cfsan.fda.gov/~dms/cos-toc.html>.

¹⁵² U.S. Food and Drug Administration, Office of Cosmetic and Colors Fact Sheet, revised February 24, 2000, available at <http://www.cfsan.fda.gov/~dms/cos-217.html>.

¹⁵³ Boseley, Sarah, "Particles of Faith", The Guardian, May 8, 2004.

¹⁵⁴ "The New Science of Cosmetics", Newsweek International Edition, September 11, 2006

types of products. Isolating R&D expenditure for these companies, even if they derive significant revenue from cosmetics, is sometimes difficult as most do not break out their research spending by product segment. However, some companies are solely concentrated in the cosmetics business and/or devote all of their research and development allocations to their cosmetics lines.

The following table provides a sample of the amount of R&D spent in the most recent fiscal year by several major companies. This amount is also expressed as a portion of their total net sales. These companies detailed the amount of R&D spending on cosmetics in their most recent annual report. The list also includes companies where cosmetics are their sole product line.

Table 90 – C&T R&D Spending

Total Cosmetic Related R & D Spending		
	Value (€Millions)*	Share of Total Sales
L'Oreal Group	533	3.4%
Shiseido Co Ltd	119	2.5%
Beiersdorf AG	95	1.9%
Estée Lauder Cos Inc	59	1.1%
Avon Products Inc	52	0.8%
Henkel	51	0.4%
Dior	43	0.3%
Kose	30	2.3%
Revlon	19	1.8%
Alberto Culver**	11	0.4%

**For companies who report their financial statements in currencies other than Euros, a conversion was made using an average exchange rate for the 12 months prior to the end of the fiscal year.*

***From 2005 Annual Report which was latest available.*

Source: Company 2006 Annual Report unless noted.

Total R&D spending within an individual country also illustrates the importance of the cosmetic market and the impact that it can have on the economy. Given that France has the largest domestic cosmetic market it's not surprising that industry R&D allocations are large. The cosmetics industry in Germany allocates €108.9 million to R&D activity, these countries combined account for nearly the entire EU total. R&D activity is surprisingly low in Italy given the relatively large size of its domestic cosmetic market. R&D activity is minimal in some countries and zero in a large number of others.

Table 91- C&T R&D Expenditures by Country

	R & D Expenditure		
	Last Available Data Point	Total Intra-Mural Expenditure (€m)	Share of R&D Expenditure in Value Added
Austria	2004	0.2	0.8
Belgium	2001	0.6	0.3
France	2001	262.4	8.4
Germany	2004	108.9	6.7
Hungary	2001	0.2	1.6
Italy	1999	2.9	0.3
Portugal	2001	0.1	0.3
Spain	2000	14.6	3.1
United Kingdom	2001	16.8	0.9
Cyprus	2001	0.0	0.0
Finland	2002	0.0	0.0
Latvia	2004	0.0	0.0
Lithuania	2001	0.0	0.0
Malta	2002	0.0	0.0
Romania	2004	0.0	0.0
Slovakia	2001	0.0	0.0
Slovenia	2004	0.0	0.0

Source: Eurostat, dg2452 manufacture of perfumes and toilet preparations.

Note*: Intramural R&D expenditures are all expenditures for R&D performed within a statistical unit or sector of the economy.

Note**: No data was found for the U.S., Japan and China from Eurostat or other sources.

IV.2 - Intellectual Property / Patents

Product and process innovation play a large role in the cosmetics industry. Protecting new technologies and processes with patents gives the creator an exclusive right to make, use, or sell a product, device, or process for a set period of time. An analysis of patent data can reveal the extent to which individual companies within each country are creating new products and in what locations these new advancements are concentrated. However, the protections for new products are only extended to patent holders if their application gains approval from the office in which it is filed. Inventions are patentable only if they are novel, industrially applicable, and involve an inventive step. Even under these circumstances, patent protection is not granted automatically.

The tables below show the number of patents published within a given year in the EU countries, the U.S., China and Japan. Information is provided from two sources: the European Patent Office (EPO) and Micropatent. The latter is a private company which compiles patent and trademark data. EPO compiles the number of patents published by country while Micropatent provides information on the number of patents filed. Each type of data is illustrative. It is important to note that the number of patents filed will

always exceed the number of patents published. Over the last thirty years, roughly 40 percent of European patents filed were published by the EPO.¹⁵⁵

The mission of the EPO is to support innovation, competitiveness and economic growth for the benefit of the citizens of Europe. The EPO provides information on the number of patents filed in a given year by country and industry. Patents filed in one EU country are not recognized EU-wide. If a company or individual wants their patent recognized in three or more European countries, they have the timelier and more cost effective option of filing for a European patent which can be recognized in all EU countries.¹⁵⁶

The EPO provides data on the number of patents published in a particular country. Because of the nature of patent laws, the EPO is concerned with those products which have been invented in locations outside of Europe specifically as it applies to the International Patent Classification system and the Patent Cooperation Treaty.¹⁵⁷

Over the past 25 years, the number of cosmetics patents filed has increased tremendously. The United States, Japan, Germany, and France have received the majority of patents published. According to the EPO cosmetics patents published (under the IPC A61Q Class) by the U.S., China, Germany, Japan, Austria, and France combined to issue nearly 55 percent of the total patents published in 2005 in the countries listed in the table below. Other EU countries did not publish a significant number of cosmetic patents in 2005. Over the last 25 years, China, Japan, and Germany have had the most growth in the number of patents published. Meanwhile, the U.K. and Italy have experienced relatively large declines over the same period. Poland accounted for over three-quarters of all the patents published within the EU12. In per capita terms, Austria led the way in 2005, followed by Japan and Germany.

¹⁵⁵ European Patent Office, "Facts and Figures 2007", available at [http://documents.epo.org/projects/babylon/eponet.nsf/0/ef7be2c894b208f3c125732f005b9452/\\$FILE/EPO_FaktenZahlen_en.pdf](http://documents.epo.org/projects/babylon/eponet.nsf/0/ef7be2c894b208f3c125732f005b9452/$FILE/EPO_FaktenZahlen_en.pdf).

¹⁵⁶ European Patent Office, "How to Get a European Patent: Guide for Applicants – Part 1", available at http://www.european-patent-office.org/legal/guiapp1/e/ga_c_i_9.htm#GA_64.

¹⁵⁷ World Intellectual Property Organization, "Protecting Your Inventions Abroad: Frequently Asked Questions About the Patent Cooperation Treaty (PCT)", available at http://www.wipo.int/pct/en/basic_facts/faqs_about_the_pct.pdf.

Table 92 – Total Cosmetics Patents - European Patent Office

	Total Patents Published						Patents Filed Per Million People - 2005
	1980	1985	1990	1995	2000	2005	
EU27	783	880	719	1,993	1,945	2,599	5.30
EU15	770	852	697	1,777	1,614	2,429	6.28
EU12	13	28	22	216	331	170	1.64
U.S.	170	214	401	498	871	685	2.31
Japan	469	790	1,111	1,961	2,524	2,976	23.28
China	0	0	25	68	482	683	0.52
Austria	56	18	29	256	131	496	61.17
Germany	109	170	193	727	741	1,317	15.97
France	98	83	111	263	402	470	7.73
Denmark	28	50	46	98	57	37	6.82
Portugal	15	32	53	0	27	67	6.36
Poland	6	0	1	85	120	131	3.43
Slovenia	0	0	0	0	0	6	2.99
Cyprus	1	0	1	0	0	2	2.39
Hungary	3	10	20	60	114	16	1.59
Lithuania	0	0	0	2	0	2	0.58
Czech Republic	0	0	0	27	26	5	0.49
United Kingdom	185	73	42	40	17	26	0.43
Bulgaria	1	0	0	8	14	3	0.39
Finland	12	32	12	48	2	2	0.38
Belgium	39	40	16	4	2	3	0.29
Romania	2	18	0	5	4	5	0.23
Sweden	46	36	20	15	7	2	0.22
Spain	25	45	13	255	158	9	0.20
Netherlands	42	24	13	3	2	0	0
Greece	3	31	13	37	47	0	0
Italy	97	182	71	30	19	0	0
Ireland	11	13	32	1	2	0	0
Luxembourg	4	23	33	0	0	0	0
Estonia	0	0	0	0	2	0	0
Latvia	0	0	0	2	1	0	0
Malta	0	0	0	0	0	0	0
Slovakia	0	0	0	27	50	0	0

Source: European Patent Office.

Micropatent provides data on the number of patents filed in individual countries. The pattern in the number of patents filed by country is similar to the number of patents published. The U.S., Japan, China, Germany, and France were the location of nearly two-thirds of all patents filed among the group of countries examined. The U.K. and Italy saw the largest declines in the number of patents filed while the patent offices in the U.S., China and Japan saw the greatest increases. Within the EU countries, Germany, France, the U.K., and Austria made up over 98 percent of all patents filed in the region. In per capita terms, Japan topped the list in 2005, followed by France and Germany.

Table 93 – Total Cosmetics Patents – Micropatent

	Total Patents Filed						Patents Filed Per Million People - 2005
	1980	1985	1990	1995	2000	2005	
EU27	312	414	696	1,290	1,562	816	1.66
EU15	309	406	673	1,051	1,380	813	2.10
EU12	3	8	23	239	182	3	0.03
U.S.	33	61	134	355	432	603	2.03
Japan	319	860	233	368	496	1,855	14.51
China	0	5	30	108	286	160	0.12
France	54	45	72	208	182	338	5.56
Germany	52	79	234	402	668	415	5.03
Austria	13	7	54	113	246	10	1.23
Cyprus	0	0	0	0	0	1	1.20
United Kingdom	50	64	26	33	19	39	0.65
Slovenia	0	0	0	2	2	1	0.50
Netherlands	8	7	2	2	1	4	0.25
Finland	15	40	38	36	1	1	0.19
Greece	6	7	13	22	16	2	0.18
Sweden	21	11	10	0	1	1	0.11
Czech Republic	0	0	2	42	30	1	0.10
Spain	12	22	85	154	170	3	0.07
Italy	30	30	10	18	13	0	0
Ireland	4	9	33	0	0	0	0
Denmark	20	42	59	44	32	0	0
Belgium	10	12	1	2	3	0	0
Luxembourg	1	7	3	0	0	0	0
Portugal	13	24	33	17	28	0	0
Poland	0	0	5	71	70	0	0
Estonia	0	0	0	1	5	0	0
Hungary	2	8	13	97	52	0	0
Latvia	0	0	0	0	2	0	0
Lithuania	0	0	0	0	2	0	0
Malta	0	0	0	0	0	0	0
Slovakia	0	0	3	20	10	0	0
Bulgaria	0	0	0	2	8	0	0
Romania	1	0	0	4	1	0	0

Source: Micropatent.

IV.3 - Counterfeit Goods

A 2000 study by the Centre for Economics and Business Research of the Global Anti-Counterfeiting Group estimated that counterfeit perfumes and cosmetics cost the EU €3.0 billion annually in lost revenue.¹⁵⁸ The study further shows that applying marginal profitability ratios to that estimate of lost revenue yields a further €55 million profit loss to the sector each year. Counterfeiting reduces company revenues, stifles investment and innovation, and retards economic growth along with adversely affecting jobs and tax revenues.¹⁵⁹ The European Commission estimates that about 70 percent of counterfeit goods come from Asia. Of the 100 million counterfeit goods seized in 2003, 1.1 million of them were cosmetics and fragrances.¹⁶⁰

Recent news reports illustrate some of the problems confronting authorities regarding trade in counterfeit cosmetics all over the world. On April 10, 2007, Russian police seized more than 1.2 million bottles of counterfeit perfume and eau de toilette worth \$5.7 million (€4.2 million) that apparently were imported from Poland.¹⁶¹ In France, customs officers intercepted a shipment of counterfeit lipsticks worth over €377 million. Around 31,500 Chinese made copies of the Bourjois Rouge Connection lipstick were seized in this March 2007 operation.¹⁶² English police and trading standards officers, in February 2007, busted a £4 million (€ 5.9 million) scam by seizing 30,000 bottles of fake perfume.¹⁶³

These problems are occurring outside of Europe as well. Customs officers in Melbourne, Australia seized almost 30,000 bottles of fake designer perfume with a street value of \$2 million (€1.2 million) in April 2006. It included 9,480 bottles labelled Lancôme Miracle, more than 9,900 branded Gucci, and about 10,000 being passed off as Joop!¹⁶⁴ Finally, in Japan, the Xinhua News Agency reported in June 2005 that officials seized counterfeit 150,000 packages of fake Shiseido Co. cosmetics with an estimated value of about 520 million yen (€3.9 million).¹⁶⁵

The problems associated with counterfeits are thought to be particularly acute for SMEs since they lack the resources to secure effective protection and enforcement of their intellectual property rights. A recent study by Technopolis¹⁶⁶ had the mandate of

¹⁵⁸ Global Anti-Counterfeiting Network, "The Economic Impact of Fakes in Europe", available at <http://www.gacg.org/GACG2/Index.aspx>.

¹⁵⁹ Global Anti-Counterfeiting Network, "The Economic Impact of Fakes in Europe", available at <http://www.gacg.org/GACG2/Index.aspx>.

¹⁶⁰ "EU Moves to Curb Counterfeit Cosmetics Trade", Cosmeticsdesign.com, July 27, 2005.

¹⁶¹ ITAR-TASS World Service, "Moscow Police Seize Huge Amount of Counterfeit Perfume", April 9, 2007, [Factiva - Dow Jones Reuters Business Interactive LLC](#).

¹⁶² Cosmetics International, "French Customs Officers Have Intercepted a Shipment of Counterfeit Lipsticks Worth €77,130", March 9, 2007, [Factiva - Dow Jones Reuters Business Interactive LLC](#).

¹⁶³ Indo-Asian News Service, "Brothers Confess to Four Million Pound Perfume Racket", 14 February 2007, [Factiva - Dow Jones Reuters Business Interactive LLC](#).

¹⁶⁴ MX (Australia), "Fakes are Scent Down", April 11, 2006, [Factiva - Dow Jones Reuters Business Interactive LLC](#).

¹⁶⁵ Nikkei Report, "ANALYSIS: Fighting Chinese Counterfeiters", July 19, 2005, [Factiva - Dow Jones Reuters Business Interactive LLC](#).

¹⁶⁶ Technopolis: "Effects of counterfeiting on EU SMEs and a review of various public and private IPR enforcement initiatives and resources", August 31, 2007.

determining what has been done within the EU to accommodate SMEs in their fight against intellectual property infringements. The study found that the programmes organized by governments tended to be awareness-raising initiatives rather than measures directed at assisting SMEs. The study makes the important point that judicial and administrative actions are available however proper registration of intellectual property is necessary to institute an action and 80% of EU SMEs fail to register their patentable rights.

The study confirmed that China is at the top of the list of countries producing counterfeit products (56% of SME survey respondents said that China was the main source of counterfeits) followed by countries in the EU. The study asserts that the abuse of intellectual property is set to diminish as China adapts to international commercial norms. Specifically enforcement bodies in China are conducting more actions and the legal system is becoming more in line with international standards.

The study suggested a number of measures targeted at SMEs including: reduction of Community Trade Mark registration fees for SMEs, introduction of a Community Patent (similar to the Community Trade Mark and Design), assistance to SMEs that currently make inadequate use of intellectual property protection measures, a databank of original products (similar to Italian FALSTAFF initiative) and the introduction of court costs insurance schemes.

IV.4 - External Trade

Revealed Comparative Advantage (RCA) Analysis

Traditional models of international trade explain the direction of trade in terms of the law of comparative advantage¹⁶⁷ however it does present some difficulties. In particular it is difficult to quantify and test directly. It is most often applied to real-world situations through an indirect methodology which utilises information "revealed" from post-trade situations.

Comparative advantage is powerful in helping to explain trade flows however for the purposes of this study it's important to note that comparative advantage does not provide a true or complete measure of a country's competitiveness. Value added as well as the measures of productivity and unit labour costs that were examined earlier in this study are other useful indicators to assess a country's competitiveness.

The source data for this analysis is a combination of United Nations (UN) Commodity Trade Statistics Database and Global Insight's own World Economic Service data. Using the UN Commodity Trade Statistics ensured consistency when comparing various countries' export share of a particular cosmetic product. This is a particularly strong feature of the RCA analysis that follows.

RCA Analysis: Cosmetics Product Comparative Positioning

Figure 26 illustrates the structure of the four quadrant analysis of competitive advantage in the cosmetics industry. The various quadrants capture the relative positioning of cosmetics products in the world's export markets and qualify each country's comparative advantage by incorporating the share of the country's export market and a growth rate for shipments abroad.

The top two quadrants of Figure 26 represent product groups whose RCAs are greater than zero. The two bottom quadrants represent product groups whose RCAs are less than zero. Simultaneously, the two left quadrants display cosmetics products whose exports are growing slower than the average of total exports growth for that country over the period from 1999-2005. The two right quadrants display cosmetics products whose exports are growing faster than the average of total exports for that country. The RCA is calculated as follows:

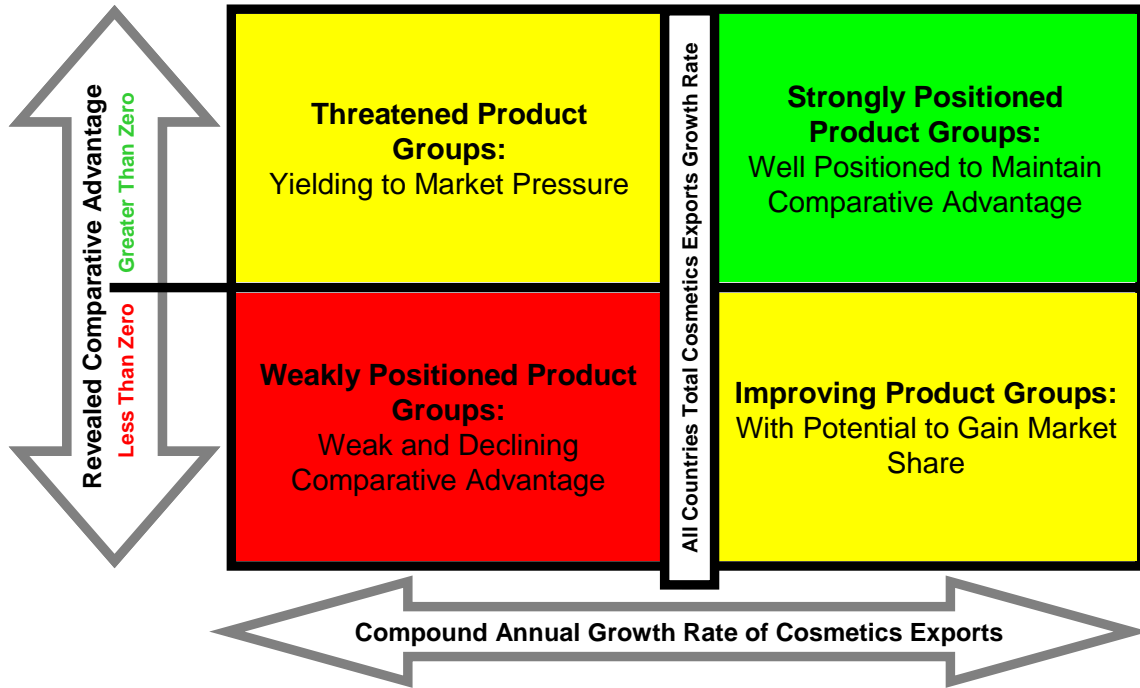
$$RCA = \frac{(\text{Country A's Exports of Product } i / \text{World Exports of Product } i)}{(\text{Country Total Exports} / \text{World Total Exports})}$$

The dynamic component of this analysis is best captured by the classification of products not only by their 2005 RCA, but also by the average annual export growth for each product group. In terms of competitive positioning, cosmetics product exports fall into four groups.

¹⁶⁷ See Greenaway and Milner (1993) as the basis for the theoretical underpinnings of the following discussion of RCA analysis.

- ◆ Strongly Positioned Product Groups (RCA>0 and growing faster than average);
- ◆ Improving Product Groups (RCA<0 and 0 and growing faster than average);
- ◆ Threatened Product Groups (RCA>0 and 0 and growing slower than average);
- ◆ Weakly Positioned Product Groups (RCA <0 and growing slower than average).

Figure 26 - RCA Analysis Explanation



Cosmetics Exports Overview

Table 94 illustrates the size (in Euros) and compound annual growth rate from 1999 to 2005 of cosmetics exports. France has, and continues to be, the world's dominant cosmetics exporter. In 2005 France exported more than €8 billion worth of cosmetics. This is more than twice the amount exported by Germany, Europe's second largest exporter, and 35% of total European exports. The United Kingdom, Italy, and Spain round out the top five European exporters, which collectively account for nearly 80% of Europe's total cosmetics exports.

Cosmetics exports of all countries included in this analysis grew at a compound annual growth rate of 8.4% from 1999 to 2005. Fourteen of the 24 European countries found in Table 94 were growing faster than the overall average, evidence of Europe's continued strength in the cosmetics industry. However exports from France and the United Kingdom have grown by 6.5% and 4.1 % respectively, well below the average. There is also evidence that many eastern European countries are becoming major cosmetics producers. The highest compound annual growth between 1999 and 2005 were in Poland, Hungary, and Latvia - each grew at more than 27% annually from 1999 to 2005.

The U.S. is the largest cosmetics exporter of the non-EU countries exporting €3.8 billion of cosmetics products per year. The U.S. has cosmetics exports that are roughly the same

as Germany, but U.S. exports grew by only 7% annually over the same period. China exports €825 million of cosmetics products per year. China and Poland have followed similar paths over the last six years. Not only are they exporters of approximately the same size, but each grew at a compound annual rate of around 28%. Only Hungary and Latvia grew faster and each of them is still considerably smaller.

Table 94 – C&T Industry Exports

Product	2005		1999		CAGR% (6-year)
	Value (€1,000)	EU Share	Value (€1,000)	EU Share	
France	8,081,539	35.0%	5,531,614	38.6%	6.5%
Germany	3,967,456	17.2%	2,132,888	14.9%	10.9%
United Kingdom	2,910,471	12.6%	2,291,672	16.0%	4.1%
Italy	2,089,161	9.0%	1,116,698	7.8%	11.0%
Spain	1,378,227	6.0%	688,100	4.8%	12.3%
Netherlands	992,424	4.3%	381,298	2.7%	17.3%
Belgium	969,403	4.2%	698,335	4.9%	5.6%
Poland	750,066	3.2%	172,055	1.2%	27.8%
Ireland	483,107	2.1%	571,062	4.0%	-2.7%
Sweden	245,213	1.1%	151,707	1.1%	8.3%
Denmark	222,073	1.0%	111,683	0.8%	12.1%
Hungary	209,107	0.9%	38,332	0.3%	32.7%
Austria	172,356	0.7%	121,082	0.8%	6.1%
Greece	167,278	0.7%	78,079	0.5%	13.5%
Czech Rep.	139,393	0.6%	59,526	0.4%	15.2%
Luxembourg	81,795	0.4%	47,504	0.3%	9.5%
Portugal	81,779	0.4%	33,635	0.2%	16.0%
Finland	60,728	0.3%	49,774	0.3%	3.4%
Latvia	27,410	0.1%	4,677	0.0%	34.3%
Lithuania	23,683	0.1%	7,841	0.1%	20.2%
Slovakia	14,995	0.1%	7,347	0.1%	12.6%
Malta	12,103	0.1%	9,759	0.1%	3.7%
Estonia	5,744	0.0%	4,209	0.0%	5.3%
Cyprus	4,279	0.0%	5,578	0.0%	-4.3%
Total EU	23,089,792		14,314,457		8.3%
USA	3,815,577		2,549,353		7.0%
China	835,692		183,520		28.7%
Japan	633,578		443,146		6.1%
Grand Total	28,374,639		17,490,476		8.4%

Source: United Nations, Comtrade Database

Figure 27 presents the RCA quadrant analysis of the total cosmetics industry for each of the 27 countries. The bubbles in the figure fall into one of four categories. The upper left quadrant countries with threatened cosmetics industries. Lower left quadrant contains countries with weakly positioned cosmetics industries. The upper right quadrant contains countries with strongly positioned cosmetics industries. Finally, the bottom right quadrant contains countries that have improving cosmetics industries. The size of the bubble is proportional to its 2005 export value in Euros.

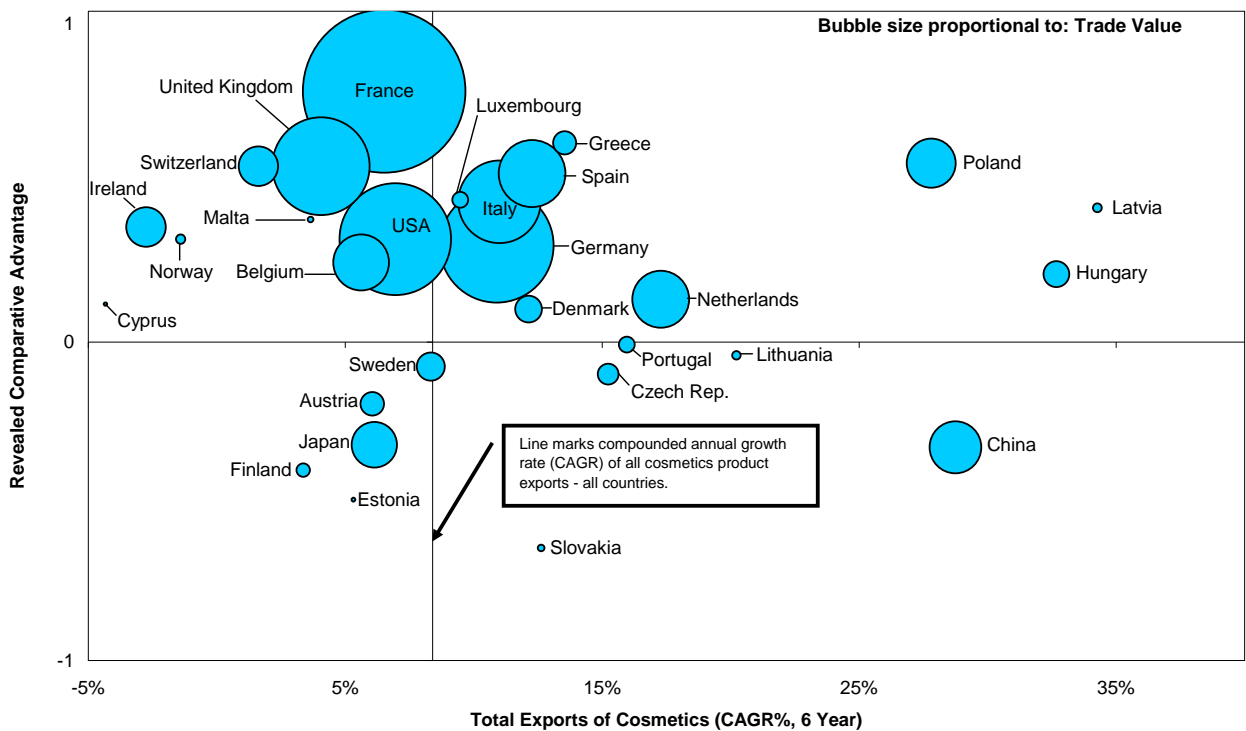
All of the largest cosmetics exporters have RCAs above zero – they have a comparative advantage in cosmetics products. Despite a clear competitive advantage, three of the top

four cosmetics exporters by value, France, U.K., and the U.S. are threatened. Each has grown more slowly than the industry, evidence that they may be yielding some of their advantage to upstart cosmetics producing countries.

Poland, Latvia, and Hungary form a clear cluster of very well positioned cosmetics industries. Each has grown at more than three times the cosmetics industry average, while maintaining a clear comparative advantage in the industry. This group is well positioned and their cosmetics industries can be expected to continue to flourish. China is the only other country analyzed with a similarly high compound annual growth rate, at 28.7%. Despite having an RCA below one, the extremely rapid export growth over the last 6 years makes it clear that China's cosmetics industry is poised to improve rapidly and gain market share.

Japan is the largest weakly positioned cosmetics industry. Japan's RCA is well below one, while cosmetics exports have grown at only 6.1% annually. Austria, Finland, and Estonia are the only European countries with a clearly weak cosmetics industry. Each has a revealed comparative disadvantaged while growing significantly more slowly than the industry as a whole.

Figure 27 - Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

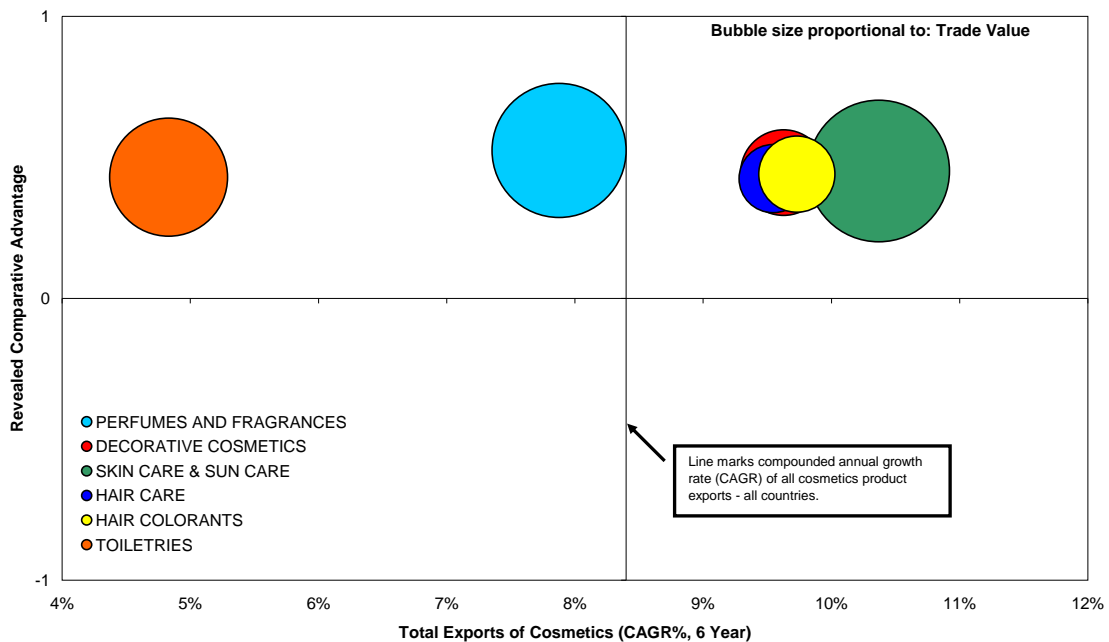
Table 95 categorizes each of the countries' positioning.

Table 95 - Cosmetics Industry Product Positioning

Powerful Prospects: Strongly Positioned Product Groups	Competitively Improving Product Groups	Requires Repositioning: Threatened Product Groups	Uncompetitive: Weakly Positioned Product Groups
Denmark Germany Greece Hungary Italy Latvia Luxembourg Netherlands Poland Spain	China Czech Rep. Lithuania Portugal Slovakia	Belgium Cyprus France Ireland Malta Norway Switzerland United Kingdom USA	Austria Estonia Finland Japan Sweden

Source: United Nations, Comtrade Database & Global Insight, World Economic Service

Figure 28 – EU Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

Figure 29 illustrates the relative strength of the overall cosmetics industry in the EU. The EU region in fact has a comparative advantage in every cosmetics product group. Only the toiletries and perfumes and fragrances product groups are threatened despite being quite large and having an RCA value well above zero. Skin care and sun care are the EU's best positioned product group while decorative cosmetics, hair care and hair colorants are also strongly positioned as their rate of export growth is faster than the industry average.

France is the largest exporter of cosmetics products in the world. Table 96 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. The two largest cosmetics product groups in France are perfumes and fragrances, and skin and sun care; respectively accounting for 37.3% and 35% of the more than €8 billion worth of cosmetics exported in 2005. Hair Care and Colorants are

the fastest growing product groups with compound annual growth rates of 15% and 12.1% respectively.

Table 96 - France Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	0.869	3,018,171	37%	2,327,693	42%	4.4%
Decorative Cosmetics	0.757	770,369	10%	529,852	10%	6.4%
Skin Care & Sun Care	0.817	2,827,140	35%	1,712,758	31%	8.7%
Hair Care	0.761	527,055	7%	228,335	4%	15.0%
Hair Colorants	0.583	322,496	4%	162,437	3%	12.1%
Toiletries	0.491	616,307	8%	570,540	10%	1.3%
Total	0.786	8,081,539	100%	5,531,614	100%	6.5%

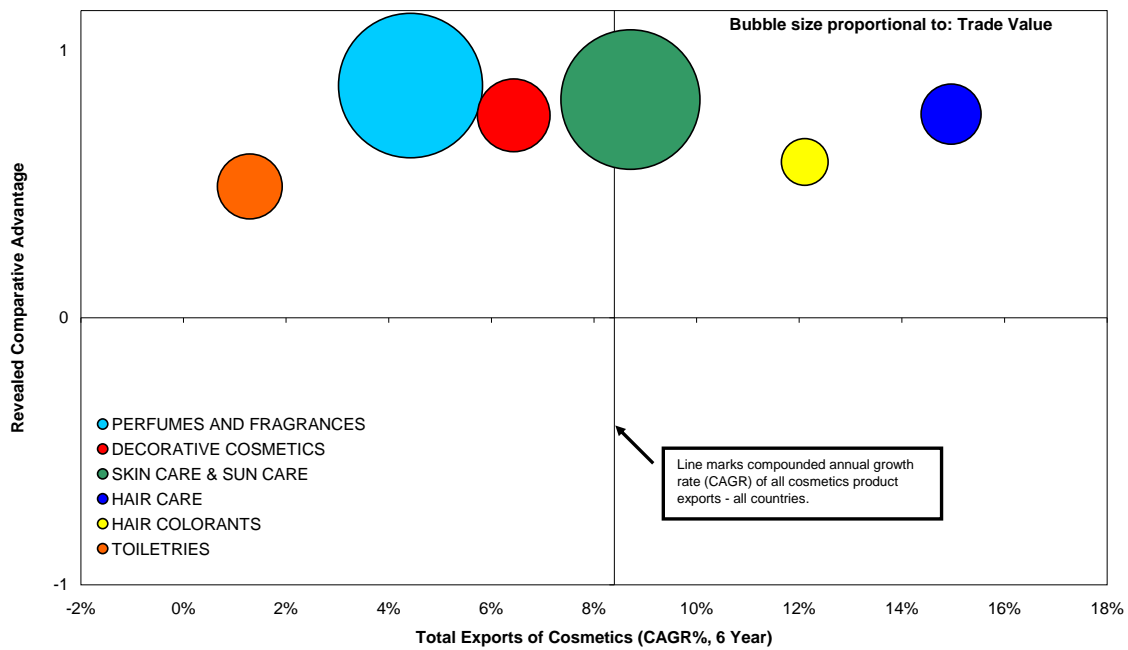
Source: United Nations, Comtrade Database & Global Insight, World Economic Service

Figure 29 illustrates the relative strength of the overall cosmetics industry in France. France has a comparative advantage in every cosmetics product group.

Perfumes and fragrances is a threatened product group, despite it being the largest cosmetics product group and having an RCA value well above zero, its 4.4% CAGR is well below the cosmetics industry average. Toiletries are France's worst positioned product group, despite an RCA above zero, compound annual growth of only 1.3% demonstrates that this product group is threatened and in need of repositioning. France's second largest product group, skin and sun care, has a strong comparative advantage but is growing only slightly faster than the industry average. This groups is still strongly positioned, but considering that skin and sun care have been growing annually at 10.4%, caution is advised and this product may soon be in need of repositioning.

Two cosmetic product groups are clearly most strongly positioned. Hair care and colorants have both a strong comparative advantage and are growing faster than the industry average. Additionally France's share of the hair colorants market is only 13.5%, well below its 28.5% share of the total cosmetics market, suggesting there is ample room for this product group to grow.

Figure 29 - France Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

Germany is the second largest exporter of cosmetics products in considered in this study. Table 97 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. Skin and sun care is the largest cosmetics product group export, and accounts for 26% of the nearly €4 billion worth of cosmetics exported in 2005. It is also the fastest growing product groups with a compound annual growth rate of 15.5%. Each of Germany's product groups is growing faster than the industry average of cosmetics.

Table 97 - Germany Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	0.311	892,520	22%	491,789	23%	10.4%
Decorative Cosmetics	0.308	446,153	11%	249,142	12%	10.2%
Skin Care & Sun Care	0.238	1,030,414	26%	433,973	20%	15.5%
Hair Care	0.228	252,192	6%	144,506	7%	9.7%
Hair Colorants	0.440	485,213	12%	284,465	13%	9.3%
Toiletries	0.297	860,964	22%	529,012	25%	8.5%
Total	0.296	3,967,456	100%	2,132,888	100%	10.9%

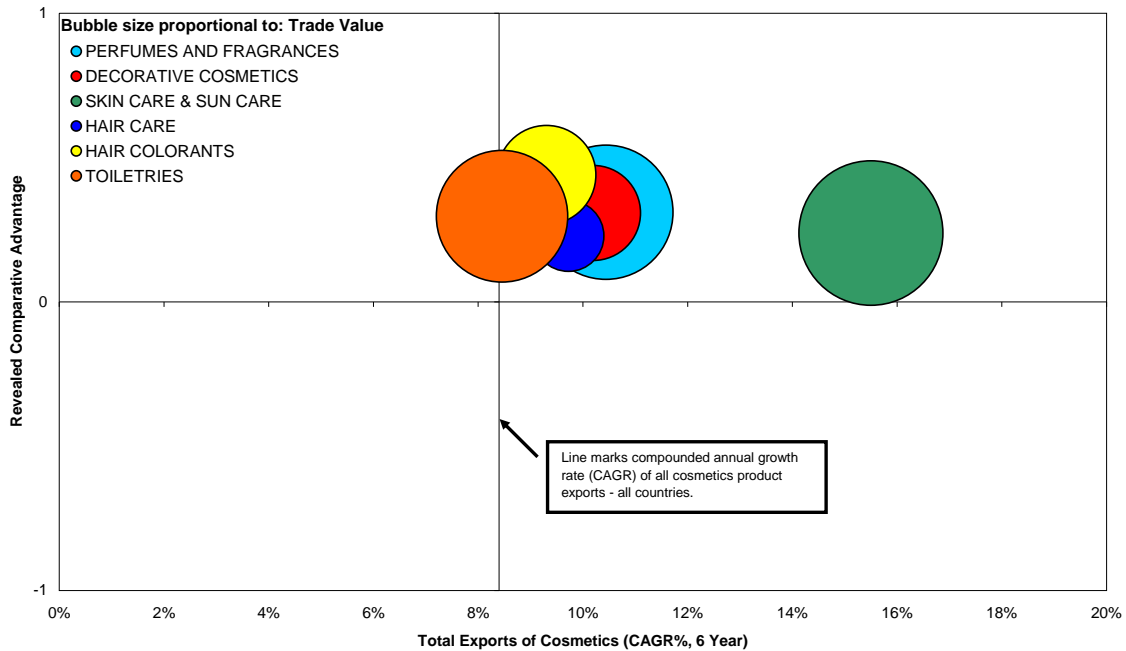
Source: United Nations, Comtrade Database & Global Insight, World Economic Service

Figure 30 illustrates the relative strength of the overall cosmetics industry in Germany. Germany has a comparative advantage in every cosmetics product group.

Skin and sun care is the most competitively positioned cosmetics product group in Germany. It is the largest group by value, grew the fastest from 1999 to 2005, and has an RCA greater than zero. Further, Germany is responsible for 12.3% of all export of skin and sun care products covered in this study.

The rest of Germany's cosmetics product groups are also well positioned to maintain their comparative advantage. Perfumes and fragrances, decorative cosmetics, hair care, and hair colorants are all clustered together with growth rates of 9.3-10.4%, better than the industry average. Each also has a comparative advantage. Toiletries are the only cosmetics product group where concern is warranted. With a compound annual growth rate 0.1% higher than the average, a slight shift in growth could land this product in the threatened category.

Figure 30 - Germany Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

The United Kingdom is the third largest cosmetics exporter in Europe. Table 98 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. The U.K.'s more than €2.9 billion worth of exports represent 12.6% European exports. Toiletries and skin and sun care make up the two largest cosmetics export product groups in the U.K. With respective export values of € 1.1 billion and € 677 million, they represent 61.5% of the U.K.'s total exports.

Table 98 - United Kingdom Cosmetics Industry Exports

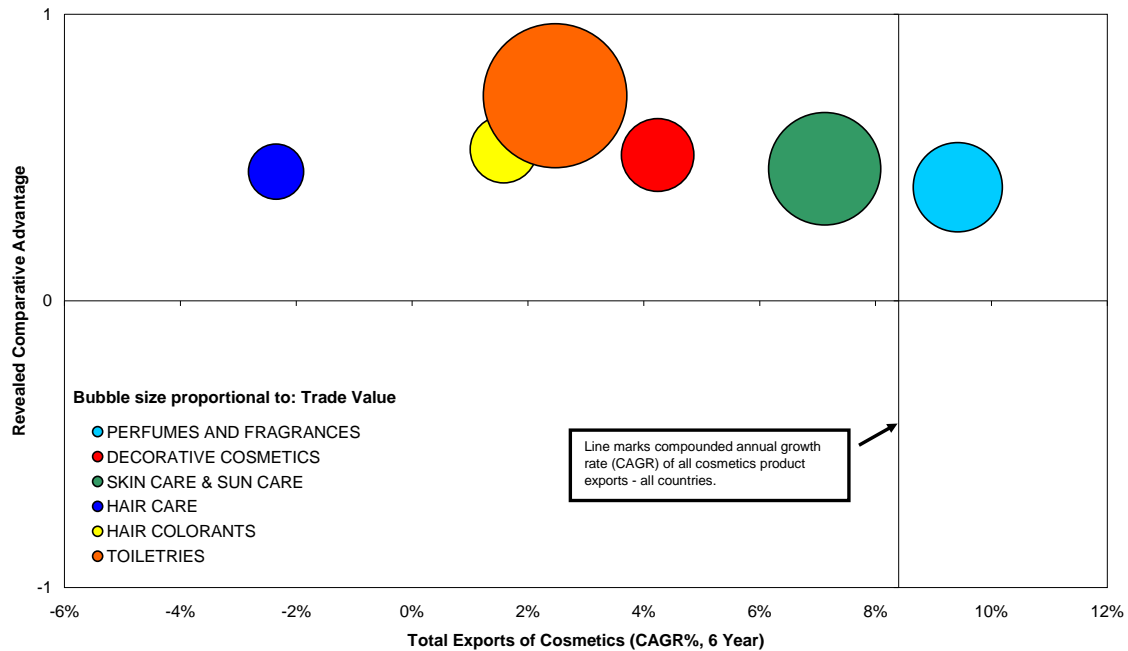
Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	0.396	428,704	15%	249,770	11%	9.4%
Decorative Cosmetics	0.508	286,078	10%	222,965	10%	4.2%
Skin Care & Sun Care	0.460	677,306	23%	448,236	20%	7.1%
Hair Care	0.451	165,385	6%	190,711	8%	-2.3%
Hair Colorants	0.528	241,354	8%	219,666	10%	1.6%
Toiletries	0.715	1,111,644	38%	960,324	42%	2.5%
Total	0.548	2,910,471	100%	2,291,672	100%	4.1%

Source: United Nations, Comtrade Database & Global Insight, World Economic Service

Figure 31 illustrates the relative strength of the overall cosmetics industry in the United Kingdom. The U.K. has a comparative advantage in every cosmetics product group.

Despite strong comparative advantage in all products, only perfumes and fragrances are well positioned. With a compound annual growth rate of 9.4%, it is the only product that is growing at better than the industry average. The rest of the product groups presented are mature, slow growing and yielding to market pressures.

Figure 31 - United Kingdom Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

Italy, although smaller than the United Kingdom, is the fourth largest cosmetics exporter in Europe. Table 99 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. Italy's more than €2 billion worth of exports represent 9% European exports. Perfumes and fragrances along with skin and sun care make up the two largest cosmetics export product groups in Italy. With respective export values of €636 million and €505 million, they represent 55% of Italy's total exports.

Table 99 - Italy Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	0.560	636,458	30%	307,795	28%	12.9%
Decorative Cosmetics	0.547	308,812	15%	143,126	13%	13.7%
Skin Care & Sun Care	0.351	504,777	24%	239,369	21%	13.2%
Hair Care	0.195	90,041	4%	40,343	4%	14.3%
Hair Colorants	0.478	204,644	10%	124,106	11%	8.7%
Toiletries	0.317	344,428	16%	261,959	23%	4.7%
Total	0.434	2,089,161	100%	1,116,698	100%	11.0%

Source: United Nations, Comtrade Database & Global Insight, World Economic Service

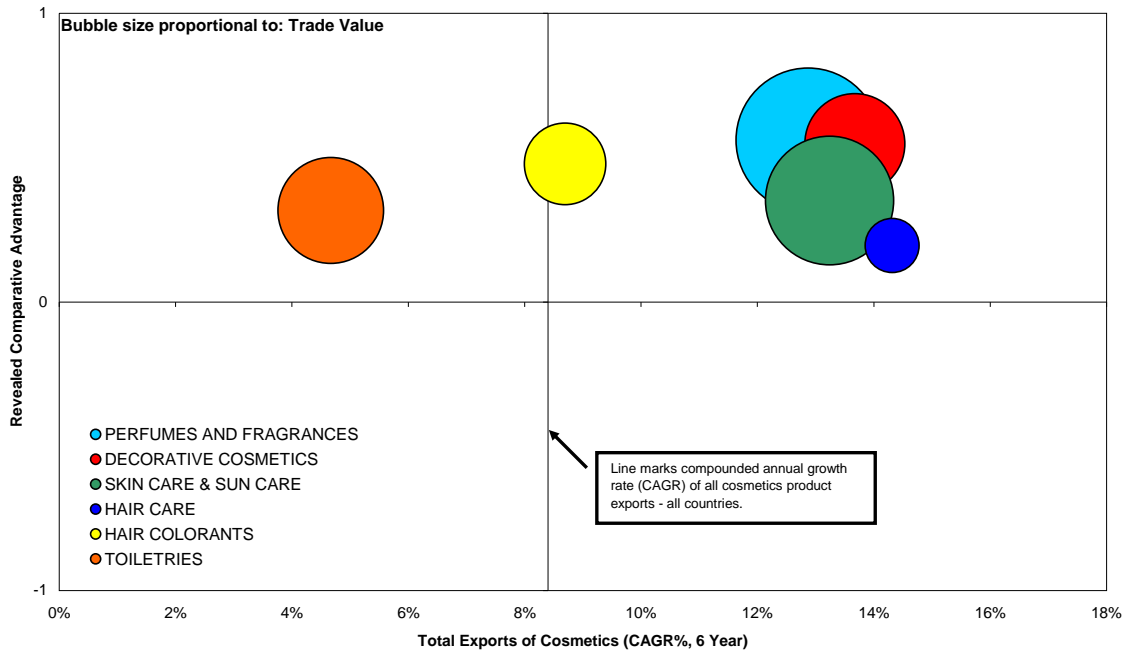
Figure 32 illustrates the relative strength of the overall cosmetics industry in Italy. Italy has a comparative advantage in every cosmetics product group.

Perfumes and fragrances, decorative cosmetics, skin and sun care, and hair care each have RCAs above zero and growth rates between 12.9% and 14.3%. These products are all very well positioned and should be expected to maintain their comparative advantage in the future.

Hair colorants have a clear comparative advantage, but compound growth is barely staying ahead of overall growth. Slight repositioning in the future maybe necessary to keep this product group well positioned and prevents it from yielding to market pressures.

Toiletries are a more mature, slowly growing segment of Italy's cosmetics industry. Despite having a clear comparative advantage, compound annual growth of 4.7% is nearly half that of the industry average. This product group is threatened and may be yielding to market pressure.

Figure 32 - Italy Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

Spain, although smaller than the United States, is the fifth largest cosmetics exporter in Europe. Table 100 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. Spain's nearly €1.4 billion worth of exports represent 6% European exports. Perfumes and fragrances and toiletries make up the two largest cosmetics export product groups in Spain. With respective export values of €416 million and €370 million, they represent 57.1% of Spain's total exports.

Table 100 - Spain Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	0.633	416,881	30%	170,157	25%	16.1%
Decorative Cosmetics	0.157	64,674	5%	44,791	7%	6.3%
Skin Care & Sun Care	0.319	245,043	18%	139,209	20%	9.9%
Hair Care	0.451	83,490	6%	30,769	4%	18.1%
Hair Colorants	0.680	197,988	14%	77,958	11%	16.8%
Toiletries	0.598	370,152	27%	225,216	33%	8.6%
Total	0.525	1,378,227	100%	688,100	100%	12.3%

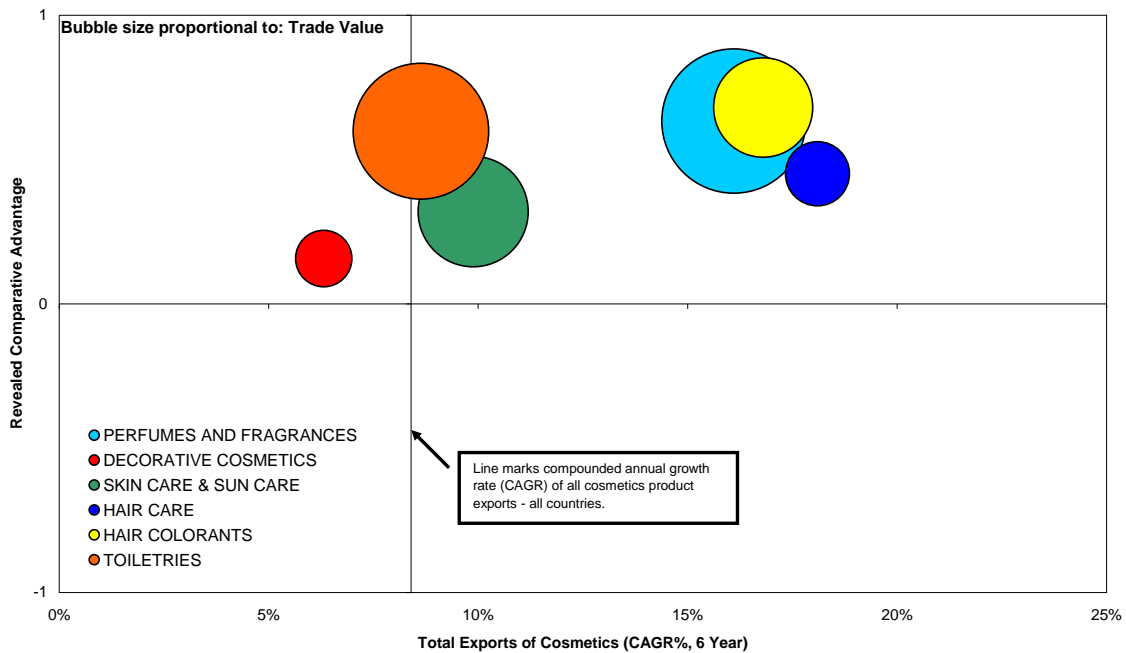
Source: United Nations, Comtrade Database & Global Insight, World Economic Service

Figure 33 illustrates the relative strength of the overall cosmetics industry in Spain. Spain has a comparative advantage in every cosmetics product group.

Perfumes and fragrances, hair care, and hair colorants are clustered together; each is very strongly positioned. Perfumes and fragrances are a particularly large and well positioned product group. In addition to a strong comparative advantage, perfumes and fragrances have grown at nearly twice the average compound annual rate, 16.1%.

Toiletries and skin and sun care, the second and third largest product by value demonstrate strong comparative advantage. However, each is growing at slightly above the industry average. Although they are currently well positioned, a relative slow down of growth in comparison to the cosmetics industry as a whole could threaten the industry. Decorative cosmetics are a mature product group, and already threatened by slower than average growth. Despite an RCA of 0.16, the growth rate of 6.3% indicated that the decorative cosmetics product group is yielding to market pressure.

Figure 33 - Spain Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

Poland is the eight largest cosmetics exporter in Europe. Table 101 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. Poland's € 750 million worth of cosmetic products exports represent 3.2% European exports, up from just 1.2% in 1999. Skin and sun care makes up the largest cosmetics export product group in Poland. This €221 million worth of exports represents 29.5% of all exports from Poland, nearly ten times the value of this group in 1999.

Table 101 - Poland Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	0.340	94,422	13%	5,410	3%	61.1%
Decorative Cosmetics	0.654	111,966	15%	17,583	10%	36.1%
Skin Care & Sun Care	0.558	221,098	29%	22,329	13%	46.5%
Hair Care	0.634	70,156	9%	57,171	33%	3.5%
Hair Colorants	0.569	68,023	9%	16,713	10%	26.4%
Toiletries	0.599	184,401	25%	52,848	31%	23.2%
Total	0.557	750,066	100%	172,055	100%	27.8%

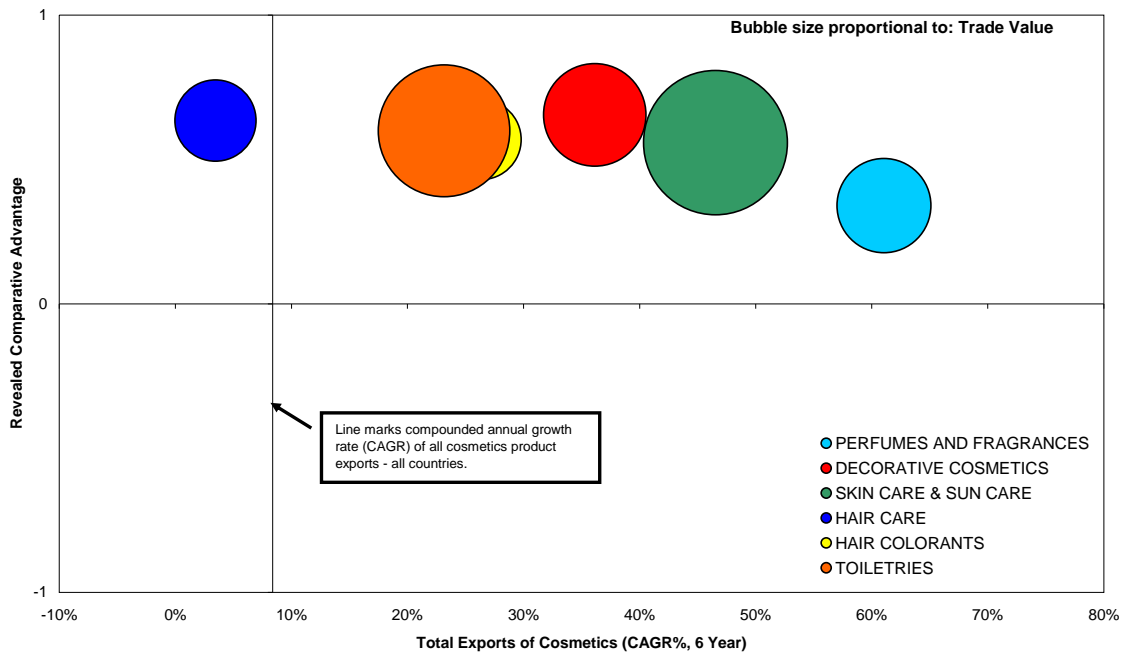
Source: United Nations, Comtrade Database & Global Insight, World Economic Service

Figure 34 illustrates the relative strength of the overall cosmetics industry Poland. Poland has a comparative advantage in every cosmetics product group.

All product groups except for hair care are well positioned to maintain their comparative advantage. The cosmetics industry of Poland experienced explosive growth from 1999 to 2005. Perfumes and fragrances have grown at a compound annual rate of 61%, from € 5.4 million in 1999 to nearly €95 million in 2005. Decorative cosmetics, skin and sun care, hair colorants, and toiletries have all grown at more than 23% annually, almost three times the industry average.

Hair care is the only poorly positioned product. It is very nearly the smallest export product group by value, and growing at 3.5% annually, well below the industry average.

Figure 34 - Poland Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

The United States is the largest non-European cosmetics exporter studied in this report. Table 102 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. Skin and sun care and toiletries make up the two largest cosmetics export product groups in the United States. With respective export values of € 1.14 billion and €889 million, they represent 53% of U.S.'s total exports.

Table 102 - United States Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	0.215	667,766	18%	423,963	17%	7.9%
Decorative Cosmetics	0.423	535,397	14%	279,943	11%	11.4%
Skin Care & Sun Care	0.325	1,141,675	30%	709,242	28%	8.3%
Hair Care	0.198	217,301	6%	238,909	9%	-1.6%
Hair Colorants	0.355	364,525	10%	289,473	11%	3.9%
Toiletries	0.349	888,913	23%	607,822	24%	6.5%
Total	0.317	3,815,577	100%	2,549,353	100%	7.0%

Source: United Nations, Comtrade Database & Global Insight, World Economic Service

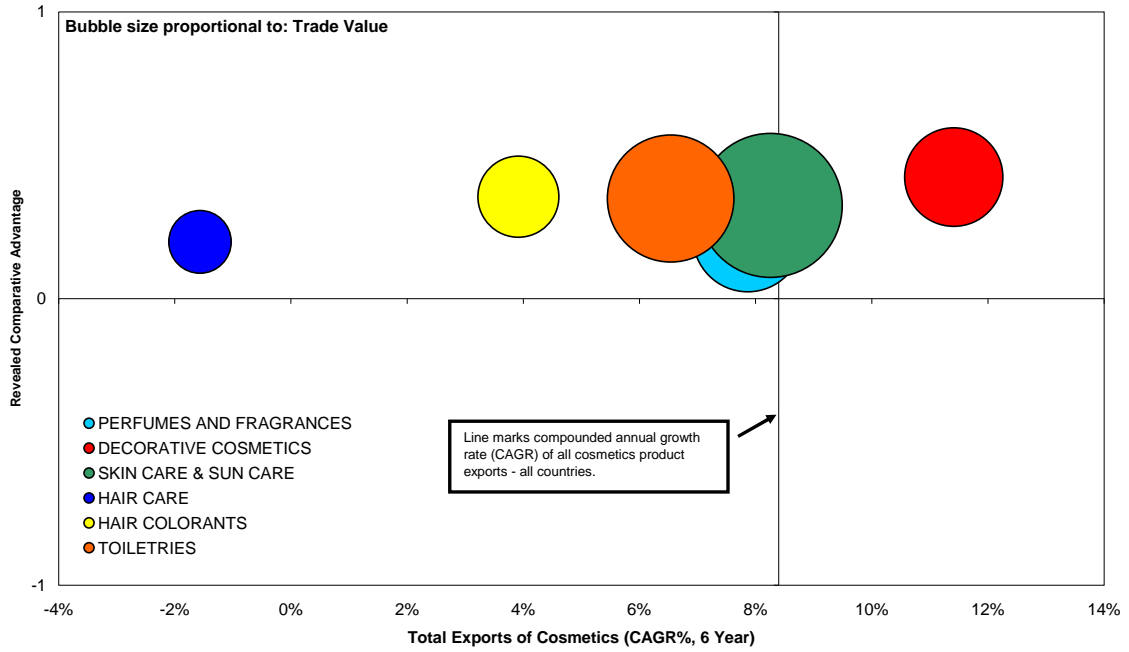
Figure 35 illustrates the relative strength of the overall cosmetics industry in the United States. The U.S. has a comparative advantage in every cosmetics product group.

Decorative cosmetics are the only strongly positioned product group in the U.S. and is expected to maintain its comparative advantage. It has a compound annual growth of 11.4% in addition to the highest RCA value of any product in the nation. Despite the apparently high annual growth rate it is important to note that while the overall cosmetics industry has grown at 8.4% annually, decorative cosmetics have grown at a faster 11.4%. The U.S. decorative cosmetics group is well positioned, but less dominant than it appears when compared to the narrower product group.

Perfumes and fragrances, skin and sun care, hair colorants, and toiletries are growing slower than the industry average. As a result, despite RCAs well above zero, each is significantly threatened and in need of repositioning.

Hair care is a mature, declining segment for the U.S., at least from an export perspective. Exports declined by a compound annual rate of -1.3% annually from 1999 to 2005. These positive RCAs may be more a signal of how competitive these product groups once were. Loyal customers, as a result of effective branding, may be artificially propping this product up revealing a comparative advantage in consumer preference rather than production capabilities.

Figure 36 - United States Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

China is the second largest non-European cosmetics exporter studied in this report. Table 103 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. Toiletries and skin and sun care make up the two largest cosmetics export product groups in China. With respective export values of €329 million and €249 million, they represent 69% of China's total exports.

Table 103 - China Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	-0.914	16,541	2%	2,252	1%	39.4%
Decorative Cosmetics	-0.024	176,187	21%	55,251	30%	21.3%
Skin Care & Sun Care	-0.333	248,513	30%	21,806	12%	50.0%
Hair Care	-0.536	37,450	4%	9,552	5%	25.6%
Hair Colorants	-0.680	28,143	3%	5,975	3%	29.5%
Toiletries	-0.053	328,858	39%	88,683	48%	24.4%
Total	-0.337	835,692	100%	183,520	100%	28.7%

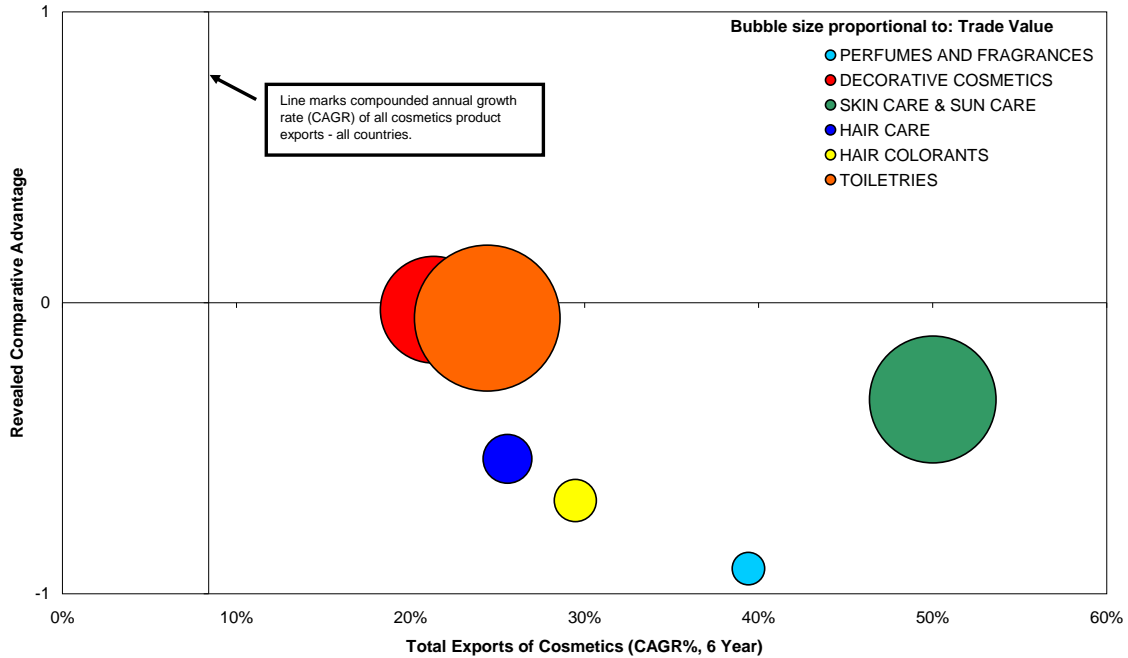
Source: United Nations, Comtrade Database & Global Insight, World Economic Service

Figure 37 illustrates the relative strength of the overall cosmetics industry in China. China does not have a comparative advantage in any cosmetics product group.

The apparent weakness belies the potential of the Chinese cosmetics industry. The compound annual growth rates of each of these product groups are phenomenally high. From 1999 to 2005 skin and sun care products increased more than 11 fold, growing at a compound annual rate of 50.0%. The compound annual growth rate of all Chinese cosmetic product groups combined was more than 25% annually, three times greater than the industry average.

Even perfumes and fragrances, the smallest and least comparatively advantaged cosmetics group in China has grown at nearly 40% annually. The speed of growth in the Chinese cosmetics industry is so fast that each product group is improving and has tremendous opportunity to gain market share.

Figure 37 - China Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

Japan is the third largest non-European cosmetics exporter studied in this report. Table 104 shows the size, compound rate of growth, and comparative advantage of six cosmetic product groups. Skin and sun care and decorative cosmetics make up the two largest cosmetics export product groups in Japan. With respective export values of €362 million and €120 million, they represent 76% of Japan's total exports.

Table 104 - Japan Cosmetics Industry Exports

Product	RCA	2005		1999		CAGR% (6-year)
		Value (€1,000)	Share	Value (€1,000)	Share	
Perfumes And Fragrances	-0.986	1,983	0.3%	2,135	0%	-1.2%
Decorative Cosmetics	-0.070	119,670	19%	96,409	22%	3.7%
Skin Care & Sun Care	-0.010	362,157	57%	240,611	54%	7.1%
Hair Care	-0.613	22,151	3%	12,599	3%	9.9%
Hair Colorants	-0.165	78,885	12%	50,365	11%	7.8%
Toiletries	-0.696	48,732	8%	41,028	9%	2.9%
Total	-0.329	633,578	100%	443,146	100%	6.1%

Source: United Nations, Comtrade Database & Global Insight, World Economic Service

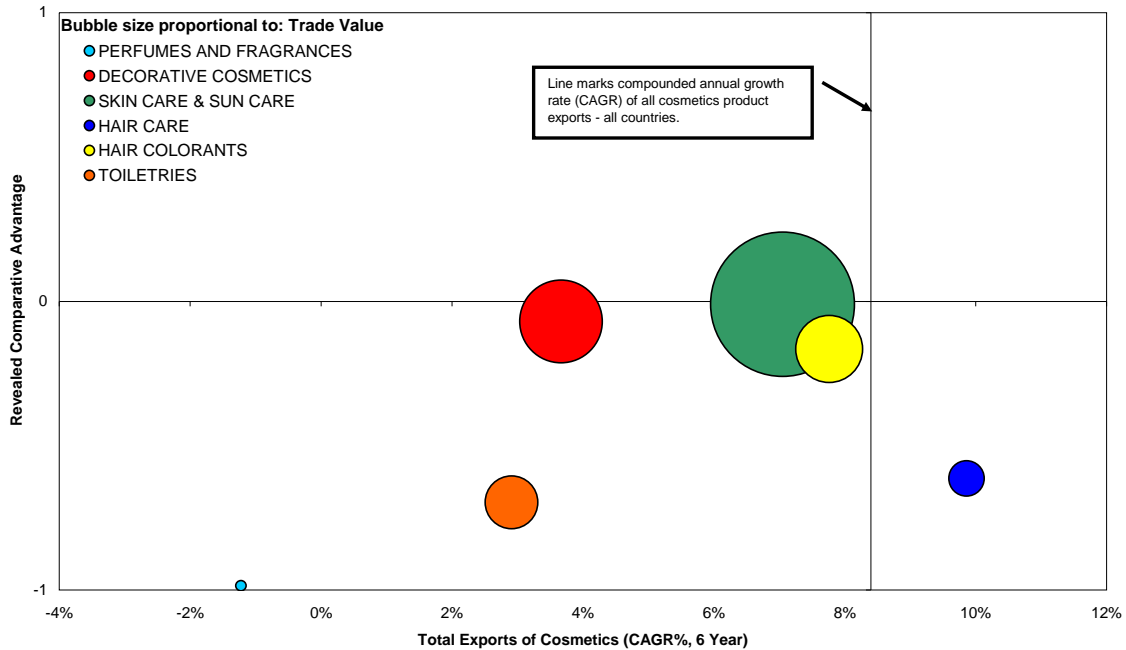
Figure 38 illustrates the relative strength of the overall cosmetics industry in Japan. Japan does not have a comparative advantage in any cosmetics product group.

Hair care is the lone bright spot in the outlook for the Japanese cosmetics industry. Despite the RCA below zero, exports are growing faster than the cosmetics industry average. Even this somewhat positive news is mitigated by the fact that hair care is a particularly fast growing product segment world wide. Although the industry export as a whole are growing at 8.4% annually, exports of hair care products have grown 10.4% per

year. When measured against this product specific growth rate, Japan's hair care exports appear weakly positioned.

The balance of Japan's cosmetics product groups are more clearly threatened. Each has a weak or declining comparative advantage. A major shift in the industry would be necessary for these products to regain their competitiveness.

Figure 38 - Japan Cosmetics Industry RCA Analysis



Source: UN, Comtrade Database & Global Insight, World Economic Service

Import/Export Statistics

The tables below provide detailed import and export data for France, Germany, Italy, the United Kingdom, Poland, Spain, the United States, Japan, and China. Import and export trade by product segments is included for these groupings: perfumes and fragrances, decorative cosmetics, skin care and sun care, hair colourants and toiletries.

This section provides analysis based on these tables and provides an indication of each country's competitiveness within and outside the EU and presents overall conclusions about the trade situation in these markets.

European Union

The European Union exported €6 billion worth of cosmetics products in 2005. Exports have grown at a compound annual rate of 9% over the last six years. The EU exports nearly four times more than they import. Perfumes & fragrances and Skin and Sun care products were the two largest export product groups, together they represent 64% of total exports. Imports grew at a compound annual rate of only 7% to €2.2 billion in 2005.

Skin and Sun Care and Toiletries represent the two largest import product groups accounting for 57% of total imports.

Table 105 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from EU to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	5,134,547	6,413,929	7,183,099	7,578,559	7,664,379	8,048,463	8,632,046
Switzerland and Norway	718,528	790,241	821,955	844,762	841,310	860,508	932,549
US	980,566	1,263,626	1,422,735	1,464,863	1,490,911	1,541,972	1,635,399
China	9,093	26,875	24,531	32,790	45,485	78,603	96,083
Japan	360,868	434,534	437,781	422,199	448,093	444,594	430,430
Rest of World	3,065,493	3,898,654	4,476,097	4,813,946	4,838,580	5,122,787	5,537,585
Imports to EU from							
Outside the EU	1,484,046	1,740,332	1,908,785	2,000,599	2,001,235	2,177,158	2,227,995
Switzerland and Norway	375,976	348,715	375,845	425,929	400,663	441,050	458,624
US	702,821	881,084	916,829	920,901	908,614	939,901	1,056,160
China	18,981	62,765	93,615	83,460	132,251	183,016	228,206
Japan	79,009	90,680	96,230	88,749	85,328	100,882	83,947
Rest of World	307,259	357,088	426,266	481,559	474,379	512,310	401,059
Trade Balance							
Exports less imports	3,650,501	4,673,597	5,274,314	5,577,959	5,663,144	5,871,305	6,404,050
Export/Import ratio	3.46	3.69	3.76	3.79	3.83	3.70	3.87

Source: United Nations, Comtrade Database

Table 106 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from EU to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	1,791,549	2,241,697	2,413,407	2,546,129	2,478,890	2,557,893	2,802,487
Switzerland and Norway	172,952	185,444	206,379	226,737	221,752	211,928	226,467
US	403,874	560,649	579,311	623,604	593,068	606,756	667,584
China	2,345	7,737	6,195	8,226	10,833	11,384	14,295
Japan	61,400	77,478	81,950	87,420	106,437	117,279	110,604
Rest of World	1,150,978	1,410,388	1,539,572	1,600,141	1,546,799	1,610,546	1,783,536
Imports to EU from							
Outside the EU	266,877	280,797	303,767	325,234	353,377	383,788	383,320
Switzerland and Norway	99,289	85,393	83,240	95,791	97,367	85,672	98,705
US	85,493	99,455	113,837	113,929	138,708	156,843	184,972
China	190	2,219	3,787	1,452	2,127	10,525	15,463
Japan	686	2,798	1,471	953	1,035	3,147	4,080
Rest of World	81,219	90,932	101,432	113,109	114,140	127,601	80,100
Trade Balance							
Exports less imports	1,524,672	1,960,900	2,109,640	2,220,895	2,125,513	2,174,105	2,419,167
Export/Import ratio	6.71	7.98	7.94	7.83	7.01	6.66	7.31

Source: United Nations, Comtrade Database

Table 107 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from EU to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	478,313	608,307	691,279	711,087	752,460	824,487	830,447
Switzerland and Norway	60,701	83,451	79,912	82,335	80,592	94,719	91,732
US	146,985	178,490	251,719	260,091	264,946	254,356	236,807
China	1,186	4,656	3,894	4,070	5,524	13,586	16,017
Japan	39,626	59,693	50,633	44,424	46,671	50,387	42,049
Rest of World	229,814	282,017	305,121	320,169	354,726	411,439	443,842
Imports to EU from							
Outside the EU	177,527	221,206	270,351	262,223	267,382	301,740	336,431
Switzerland and Norway	23,582	22,984	27,115	32,945	28,955	46,934	50,400
US	90,156	107,508	125,601	117,581	119,131	117,752	143,435
China	5,693	19,291	36,912	31,216	40,301	48,311	69,042
Japan	13,364	18,317	21,599	17,207	16,902	25,166	19,921
Rest of World	44,732	53,107	59,124	63,274	62,094	63,577	53,634
Trade Balance							
Exports less imports	300,786	387,101	420,927	448,864	485,077	522,747	494,016
Export/Import ratio	2.69	2.75	2.56	2.71	2.81	2.73	2.47

Source: United Nations, Comtrade Database

Table 108 - International Trade, Skin Care and Sun Care , 1999-2005, € thousands

Exports from EU to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	1,447,656	1,866,781	2,123,383	2,256,683	2,314,159	2,483,505	2,742,453
Switzerland and Norway	218,072	240,816	302,157	295,347	301,802	316,569	330,316
US	262,084	319,029	318,519	318,418	336,475	392,750	449,827
China	3,521	8,141	10,001	13,619	20,876	40,990	48,720
Japan	147,997	170,354	169,002	173,858	183,556	159,526	162,970
Rest of World	815,983	1,128,440	1,323,703	1,455,441	1,471,450	1,573,669	1,750,621
Imports to EU from							
Outside the EU	542,327	643,142	725,167	776,016	751,564	835,773	836,991
Switzerland and Norway	166,156	164,888	178,951	209,383	193,690	223,764	219,620
US	236,282	307,502	356,424	368,238	359,991	366,244	407,544
China	5,420	24,390	29,230	25,084	39,465	51,907	63,555
Japan	59,470	60,289	64,661	63,950	59,815	64,432	51,035
Rest of World	74,999	86,073	95,901	109,360	98,603	129,427	95,236
Trade Balance							
Exports less imports	905,329	1,223,639	1,398,216	1,480,668	1,562,594	1,647,731	1,905,463
Export/Import ratio	2.67	2.90	2.93	2.91	3.08	2.97	3.28

Source: United Nations, Comtrade Database

Table 109 - International Trade, Hair Care, 1999-2005, € thousands

Exports from EU to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	188,039	228,275	304,331	356,777	352,942	372,285	399,049
Switzerland and Norway	32,861	40,159	47,494	45,635	42,805	41,128	52,112
US	13,708	20,134	24,757	27,375	36,909	31,201	25,229
China	99	524	706	168	230	282	1,234
Japan	3,025	2,005	1,632	3,846	2,937	3,671	4,080
Rest of World	138,348	165,453	229,742	279,754	270,061	296,003	316,393
Imports to EU from							
Outside the EU	72,239	86,462	81,899	84,833	71,123	72,073	74,469
Switzerland and Norway	16,898	15,853	11,530	11,187	9,663	9,111	11,335
US	44,714	57,703	58,187	59,107	43,144	39,762	41,377
China	265	723	884	786	1,149	1,398	2,013
Japan	437	939	509	591	700	620	574
Rest of World	9,925	11,245	10,789	13,161	16,466	21,182	19,170
Trade Balance							
Exports less imports	115,800	141,814	222,432	271,945	281,819	300,212	324,580
Export/Import ratio	2.60	2.64	3.72	4.21	4.96	5.17	5.36

Source: United Nations, Comtrade Database

Table 110 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from EU to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	337,205	423,970	499,603	555,239	581,036	587,626	635,157
Switzerland and Norway	56,772	55,121	51,311	56,835	59,702	58,536	96,794
US	46,694	76,589	88,893	95,999	96,802	76,896	81,557
China	456	1,169	1,131	1,605	1,572	2,923	4,687
Japan	27,405	22,705	21,196	25,516	23,064	21,253	18,962
Rest of World	205,878	268,385	337,072	375,283	399,896	428,020	433,156
Imports to EU from							
Outside the EU	121,603	155,710	157,459	163,428	148,805	152,939	159,272
Switzerland and Norway	6,418	5,822	5,787	7,485	8,989	8,735	11,178
US	102,053	137,529	131,044	129,888	113,447	117,476	119,850
China	495	555	678	876	900	1,003	1,187
Japan	1,062	1,698	1,919	1,996	1,961	1,740	4,188
Rest of World	11,575	10,106	18,032	23,183	23,508	23,986	22,868
Trade Balance							
Exports less imports	215,603	268,260	342,144	391,811	432,231	434,687	475,885
Export/Import ratio	2.77	2.72	3.17	3.40	3.90	3.84	3.99

Source: United Nations, Comtrade Database

Table 111 - International Trade, Toiletries, 1999-2005, € thousands

Exports from EU to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	891,784	1,044,899	1,151,097	1,152,643	1,184,893	1,222,667	1,222,452
Switzerland and Norway	177,170	185,248	134,701	137,873	134,656	137,628	135,128
US	107,221	108,735	159,536	139,376	162,711	180,013	174,395
China	1,486	4,647	2,604	5,102	6,450	9,438	11,129
Japan	81,415	102,298	113,368	87,135	85,428	92,478	91,764
Rest of World	524,492	643,971	740,887	783,157	795,649	803,110	810,037
Imports to EU from							
Outside the EU	303,472	353,015	370,142	388,866	408,984	430,844	437,513
Switzerland and Norway	63,633	53,775	69,222	69,139	61,999	66,834	67,385
US	144,122	171,387	131,736	132,159	134,195	141,824	158,982
China	6,918	15,588	22,124	24,045	48,309	69,872	76,946
Japan	3,991	6,640	6,071	4,053	4,915	5,778	4,149
Rest of World	84,808	105,625	140,988	159,471	159,567	146,536	130,050
Trade Balance							
Exports less imports	588,312	691,884	780,955	763,777	775,909	791,823	784,939
Export/Import ratio	2.94	2.96	3.11	2.96	2.90	2.84	2.79

Source: United Nations, Comtrade Database

France

French cosmetics are in high demand as evidenced by this country's position as the largest cosmetics exporter in the world, over twice as large as its nearest competitor. Overall, France exports 10 times more products to the rest of the world than it imports. In 2005, France exported nearly equal amounts of perfumes and fragrances and skin and sun care products, amounting to almost €2.8 billion worth of sales and about four-fifths of the total value of all exports. Imports to France have grown in recent years, but fell sharply in 2005 and remain about one-tenth the size of exports in terms of value. Skin and sun care is the largest product group imported into France.

Table 112 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from France to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	2,393,626	2,866,397	3,127,552	3,229,654	3,114,807	3,259,379	3,504,175
Switzerland and Norway	239,429	263,197	270,024	268,837	268,615	254,273	271,608
US	457,640	577,022	601,743	597,049	574,702	591,005	644,188
China	5,636	19,053	15,616	20,854	34,680	53,831	61,225
Japan	185,136	205,625	210,902	223,610	231,044	226,603	204,853
Rest of World	1,505,784	1,801,500	2,029,267	2,119,304	2,005,766	2,133,667	2,322,301
Imports to France from							
Outside the EU	236,824	269,001	304,441	326,084	313,751	326,616	249,955
Switzerland and Norway	25,015	24,395	25,873	26,360	34,556	26,323	28,471
US	113,179	128,241	134,777	140,621	113,040	115,716	137,637
China	2,909	6,038	15,550	8,050	11,385	14,578	19,635
Japan	16,719	18,472	22,726	21,740	18,552	19,745	16,875
Rest of World	79,002	91,854	105,515	129,314	136,219	150,254	47,337
Trade Balance							
Exports less imports	2,156,802	2,597,396	2,823,111	2,903,570	2,801,056	2,932,763	3,254,220
Export/Import ratio	10.11	10.66	10.27	9.90	9.93	9.98	14.02

Source: United Nations, Comtrade Database

Table 113 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from France to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	1,177,967	1,400,571	1,482,019	1,493,967	1,380,816	1,361,646	1,464,422
Switzerland and Norway	107,761	121,112	119,164	128,780	126,562	108,266	122,332
US	269,289	356,757	360,091	377,699	346,956	336,214	381,314
China	2,018	6,821	3,363	2,981	6,248	6,649	6,885
Japan	40,638	44,678	44,784	48,265	55,265	59,278	45,844
Rest of World	758,261	871,203	954,618	936,242	845,784	851,239	908,047
Imports to France from							
Outside the EU	54,362	71,949	72,200	84,829	86,275	95,841	51,531
Switzerland and Norway	2,795	1,526	2,206	3,374	8,772	4,436	2,109
US	28,648	34,464	35,362	38,904	37,004	43,983	44,513
China	93	1,799	3,403	264	210	976	328
Japan	212	250	213	162	181	555	236
Rest of World	22,615	33,910	31,016	42,126	40,110	45,892	4,344
Trade Balance							
Exports less imports	1,123,604	1,328,622	1,409,819	1,409,138	1,294,541	1,265,804	1,412,891
Export/Import ratio	21.67	19.47	20.53	17.61	16.00	14.21	28.42

Source: United Nations, Comtrade Database

Table 114 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from France to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	187,147	204,880	213,504	217,104	225,243	283,146	298,403
Switzerland and Norway	18,188	17,817	16,008	14,902	14,514	16,849	15,647
US	34,571	32,247	36,888	31,467	30,749	37,564	40,362
China	687	3,932	3,031	3,187	5,131	7,830	7,180
Japan	30,206	39,025	32,127	32,204	32,951	36,222	28,821
Rest of World	103,494	111,859	125,449	135,344	141,898	184,680	206,393
Imports to France from							
Outside the EU	35,604	34,882	34,603	34,801	34,090	39,499	32,458
Switzerland and Norway	2,434	2,326	1,532	1,790	2,005	3,649	4,391
US	16,016	13,820	10,239	12,517	11,169	8,441	13,648
China	770	1,387	8,096	1,712	1,865	2,057	4,807
Japan	5,471	6,349	6,895	4,728	4,651	7,104	4,854
Rest of World	10,912	10,999	7,841	14,054	14,400	18,248	4,758
Trade Balance							
Exports less imports	151,542	169,998	178,901	182,302	191,153	243,646	265,945
Export/Import ratio	5.26	5.87	6.17	6.24	6.61	7.17	9.19

Source: United Nations, Comtrade Database

Table 115 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from France to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	747,941	956,312	1,086,746	1,123,947	1,111,587	1,196,554	1,307,303
Switzerland and Norway	86,855	95,714	106,856	97,548	103,061	103,727	107,599
US	120,665	152,534	156,361	144,406	145,173	167,523	182,539
China	2,675	7,010	8,597	12,275	18,660	33,131	40,744
Japan	99,800	111,428	122,867	130,513	130,006	113,669	110,096
Rest of World	437,945	589,626	692,065	739,205	714,686	778,503	866,324
Imports to France from							
Outside the EU	76,094	80,488	100,229	113,862	94,920	99,106	94,498
Switzerland and Norway	13,010	14,330	14,724	15,556	17,107	12,265	14,888
US	32,650	36,725	47,492	55,547	36,662	37,986	52,304
China	792	1,049	1,150	3,400	5,504	5,319	6,861
Japan	9,010	7,981	12,512	14,595	11,865	10,665	10,832
Rest of World	20,633	20,403	24,351	24,765	23,782	32,872	9,614
Trade Balance							
Exports less imports	671,847	875,823	986,517	1,010,085	1,016,667	1,097,448	1,212,804
Export/Import ratio	9.83	11.88	10.84	9.87	11.71	12.07	13.83

Source: United Nations, Comtrade Database

Table 116 - International Trade, Hair Care, 1999-2005, € thousands

Exports from France to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	57,580	67,173	81,588	119,397	120,289	134,957	147,053
Switzerland and Norway	5,699	5,691	4,864	4,817	4,513	5,087	5,992
US	1,984	2,550	2,506	3,014	7,033	7,889	4,324
China	22	31	6	43	78	66	528
Japan	1,138	439	349	711	556	734	1,025
Rest of World	48,738	58,462	73,862	110,812	108,109	121,182	135,183
Imports to France from							
Outside the EU	8,877	11,250	7,859	5,978	9,004	9,372	6,974
Switzerland and Norway	2,096	1,614	177	99	100	104	290
US	4,079	7,564	5,113	3,935	3,316	3,826	3,828
China	8	-	-	-	13	35	64
Japan	74	24	60	42	15	22	9
Rest of World	2,620	2,048	2,510	1,903	5,561	5,386	2,783
Trade Balance							
Exports less imports	48,703	55,924	73,728	113,418	111,285	125,585	140,079
Export/Import ratio	6.49	5.97	10.38	19.97	13.36	14.40	21.09

Source: United Nations, Comtrade Database

Table 117 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from France to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	64,034	75,703	85,531	88,926	88,243	95,384	102,378
Switzerland and Norway	4,459	3,378	3,195	3,184	4,150	4,797	5,586
US	7,739	9,332	9,131	11,076	15,606	9,465	10,276
China	144	326	372	676	806	1,617	1,850
Japan	6,596	5,168	6,345	3,573	1,751	1,667	1,208
Rest of World	45,096	57,498	66,487	70,417	65,930	77,838	83,459
Imports to France from							
Outside the EU	11,735	14,175	18,883	16,498	15,738	12,495	11,234
Switzerland and Norway	119	173	224	105	290	158	248
US	7,620	11,403	15,646	11,550	9,005	7,741	7,610
China	106	70	148	66	42	99	115
Japan	403	791	594	597	481	417	478
Rest of World	3,486	1,738	2,271	4,180	5,920	4,080	2,782
Trade Balance							
Exports less imports	52,300	61,528	66,648	72,428	72,504	82,889	91,144
Export/Import ratio	5.46	5.34	4.53	5.39	5.61	7.63	9.11

Source: United Nations, Comtrade Database

Table 118 - International Trade, Toiletries, 1999-2005, € thousands

Exports from France to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	158,957	161,758	178,165	186,314	188,629	187,692	184,617
Switzerland and Norway	16,467	19,485	19,936	19,605	15,815	15,547	14,453
US	23,393	23,602	36,766	29,386	29,184	32,349	25,372
China	89	933	247	1,694	3,757	4,537	4,038
Japan	6,758	4,887	4,429	8,345	10,515	15,034	17,859
Rest of World	112,250	112,851	116,786	127,284	129,358	120,225	122,895
Imports to France from							
Outside the EU	50,152	56,257	70,666	70,115	73,724	70,301	53,260
Switzerland and Norway	4,561	4,427	7,009	5,436	6,283	5,712	6,546
US	24,165	24,264	20,926	18,169	15,884	13,739	15,734
China	1,141	1,734	2,754	2,607	3,752	6,092	7,459
Japan	1,548	3,076	2,453	1,617	1,358	983	466
Rest of World	18,737	22,757	37,524	42,287	46,446	43,776	23,055
Trade Balance							
Exports less imports	108,805	105,500	107,498	116,199	114,906	117,391	131,357
Export/Import ratio	3.17	2.88	2.52	2.66	2.56	2.67	3.47

Source: United Nations, Comtrade Database

Germany

Germany exported more than €1.7 billion worth of cosmetics products in 2005 placing it second among all EU27 markets. Its export market has nearly doubled in size over the last six years and its strong competitive position will likely allow this trend to continue. Of all products exported in 2005, perfumes and fragrances garnered the highest amount of sales in terms of total value. These products, along with toiletries and skin and sun care, amounted to nearly €1.3 billion worth of sales and 72 percent of all exports. Imports to Germany, though growing, are not increasing as fast as exports. Skin and sun care products were followed by toiletries were the largest group of cosmetics to enter into Germany in 2005.

Table 119 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from Germany to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	896,678	1,152,660	1,338,755	1,532,578	1,620,336	1,578,637	1,717,632
Switzerland and Norway	143,487	135,423	151,970	167,042	176,611	186,829	220,453
US	111,072	174,921	191,288	220,223	260,420	255,458	245,085
China	688	2,878	4,111	7,683	5,315	3,816	6,784
Japan	42,875	48,019	48,858	52,707	48,243	45,018	54,744
Rest of World	598,557	791,419	942,527	1,084,924	1,129,747	1,087,517	1,190,565
Imports to Germany from							
Outside the EU	296,261	312,696	360,336	365,627	387,723	461,317	494,325
Switzerland and Norway	115,333	105,392	120,949	130,626	139,019	172,204	166,277
US	97,048	101,542	123,371	128,150	136,222	132,788	164,098
China	2,626	5,922	10,321	10,056	17,379	32,724	40,626
Japan	34,224	31,734	31,381	26,239	27,390	54,221	45,463
Rest of World	47,030	68,106	74,314	70,556	67,712	69,381	77,860
Trade Balance							
Exports less imports	600,417	839,964	978,419	1,166,952	1,232,613	1,117,321	1,223,307
Export/Import ratio	3.03	3.69	3.72	4.19	4.18	3.42	3.47

Source: United Nations, Comtrade Database

Table 120 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from Germany to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	268,819	372,343	394,718	487,100	548,743	504,687	565,458
Switzerland and Norway	25,085	20,012	27,065	36,215	41,817	43,843	53,616
US	26,064	58,297	51,046	69,260	96,539	82,513	83,385
China	14	377	2,089	4,955	3,984	1,431	1,292
Japan	8,334	14,035	13,667	11,860	15,984	16,668	18,170
Rest of World	209,322	279,621	300,851	364,812	390,420	360,232	408,995
Imports to Germany from							
Outside the EU	50,453	46,770	37,191	39,820	38,769	42,920	51,439
Switzerland and Norway	22,527	12,344	8,401	9,221	8,036	11,767	10,576
US	13,705	14,001	16,110	16,953	18,379	21,115	34,209
China	7	28	56	278	408	4,058	4,405
Japan	111	1,478	510	280	575	310	217
Rest of World	14,103	18,919	12,114	13,088	11,371	5,670	2,031
Trade Balance							
Exports less imports	218,366	325,572	357,527	447,280	509,974	461,767	514,019
Export/Import ratio	5.33	7.96	10.61	12.23	14.15	11.76	10.99

Source: United Nations, Comtrade Database

Table 121 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from Germany to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	124,062	137,927	165,553	167,605	175,125	174,288	181,126
Switzerland and Norway	12,681	14,158	16,534	16,817	17,556	20,060	26,841
US	49,450	56,248	66,854	69,858	76,346	69,839	60,523
China	128	542	603	442	43	332	444
Japan	4,119	2,201	5,084	3,442	3,363	4,409	5,073
Rest of World	57,684	64,778	76,478	77,047	77,817	79,648	88,244
Imports to Germany from							
Outside the EU	27,027	38,113	48,100	45,442	51,901	70,762	71,276
Switzerland and Norway	4,386	4,581	5,279	6,419	7,597	12,726	9,354
US	13,522	17,288	23,586	20,757	19,378	19,103	22,501
China	626	1,537	4,396	4,724	8,007	11,901	16,032
Japan	3,679	5,488	7,752	5,782	5,779	13,983	11,013
Rest of World	4,815	9,220	7,087	7,759	11,140	13,049	12,378
Trade Balance							
Exports less imports	97,035	99,814	117,453	122,163	123,224	103,526	109,850
Export/Import ratio	4.59	3.62	3.44	3.69	3.37	2.46	2.54

Source: United Nations, Comtrade Database

Table 122 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from Germany to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	158,266	221,488	262,003	297,340	299,328	302,220	337,271
Switzerland and Norway	38,692	37,337	39,758	43,030	43,876	46,083	60,114
US	15,315	27,285	30,372	27,561	27,956	35,038	29,685
China	119	342	262	212	226	532	821
Japan	10,712	12,720	13,573	11,978	13,055	10,760	16,003
Rest of World	93,428	143,803	178,038	214,559	214,216	209,807	230,648
Imports to Germany from							
Outside the EU	126,608	129,510	148,408	156,930	178,234	214,898	211,898
Switzerland and Norway	53,230	56,324	68,016	73,796	83,642	101,977	96,151
US	39,931	42,282	51,876	54,386	59,572	56,644	59,895
China	373	1,942	991	1,048	3,550	7,295	8,670
Japan	29,658	23,213	21,438	18,934	19,780	38,193	30,375
Rest of World	3,417	5,749	6,086	8,767	11,689	10,789	16,807
Trade Balance							
Exports less imports	31,658	91,978	113,595	140,410	121,094	87,322	125,372
Export/Import ratio	1.25	1.71	1.77	1.89	1.68	1.41	1.59

Source: United Nations, Comtrade Database

Table 123 - International Trade, Hair Care, 1999-2005, € thousands

Exports from Germany to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	46,958	56,518	83,102	89,254	87,982	83,177	86,190
Switzerland and Norway	8,639	8,024	10,530	10,039	12,684	13,263	13,755
US	1,175	1,737	2,077	2,958	5,080	4,878	6,866
China	31	387	147	23	99	181	431
Japan	422	856	389	1,767	810	727	977
Rest of World	36,691	45,514	69,958	74,466	69,308	64,129	64,160
Imports to Germany from							
Outside the EU	12,282	12,632	17,735	18,673	20,050	18,985	20,648
Switzerland and Norway	5,822	6,189	6,778	6,993	6,952	5,626	6,486
US	4,679	4,392	7,082	8,785	9,739	5,987	5,672
China	-	1	264	166	196	180	417
Japan	112	489	144	173	322	411	444
Rest of World	1,669	1,562	3,467	2,556	2,841	6,781	7,630
Trade Balance							
Exports less imports	34,677	43,886	65,367	70,581	67,931	64,193	65,542
Export/Import ratio	3.82	4.47	4.69	4.78	4.39	4.38	4.17

Source: United Nations, Comtrade Database

Table 124 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from Germany to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	109,820	138,469	162,568	188,663	208,023	198,098	205,111
Switzerland and Norway	18,096	19,866	17,709	19,198	21,879	21,158	20,804
US	6,679	8,731	13,035	13,856	19,946	15,326	23,083
China	135	727	534	705	395	645	2,201
Japan	16,039	13,000	9,888	12,937	8,279	6,774	8,226
Rest of World	68,872	96,145	121,402	141,967	157,525	154,196	150,798
Imports to Germany from							
Outside the EU	8,889	8,381	10,749	14,658	13,119	15,377	19,505
Switzerland and Norway	2,312	1,924	1,919	2,985	2,414	2,579	3,387
US	5,719	5,383	6,522	9,173	8,233	10,316	11,243
China	135	59	144	98	166	173	232
Japan	146	389	365	629	398	560	2,575
Rest of World	577	627	1,799	1,773	1,907	1,749	2,067
Trade Balance							
Exports less imports	100,931	130,087	151,819	174,005	194,905	182,721	185,606
Export/Import ratio	12.35	16.52	15.12	12.87	15.86	12.88	10.52

Source: United Nations, Comtrade Database

Table 125 - International Trade, Toiletries, 1999-2005, € thousands

Exports from Germany to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	188,752	225,917	270,811	302,615	301,135	316,166	342,476
Switzerland and Norway	40,293	36,027	40,373	41,743	38,798	42,422	45,323
US	12,388	22,623	27,904	36,730	34,553	47,864	41,544
China	261	503	476	1,346	569	695	1,595
Japan	3,249	5,207	6,257	10,722	6,754	5,680	6,295
Rest of World	132,561	161,557	195,801	212,074	220,462	219,505	247,719
Imports to Germany from							
Outside the EU	71,002	77,290	98,154	90,103	85,650	98,375	119,559
Switzerland and Norway	27,056	24,030	30,556	31,212	30,378	37,529	40,323
US	19,493	18,197	18,194	18,096	20,921	19,623	30,578
China	1,486	2,356	4,469	3,742	5,052	9,117	10,870
Japan	517	677	1,172	440	536	764	839
Rest of World	22,450	32,029	43,762	36,613	28,764	31,342	36,948
Trade Balance							
Exports less imports	117,750	148,627	172,658	212,512	215,485	217,791	222,918
Export/Import ratio	2.66	2.92	2.76	3.36	3.52	3.21	2.86

Source: United Nations, Comtrade Database

United Kingdom

The U.K. is the 3rd largest EU cosmetics exporter in 2005 with €1.04 billion in total sales value. The U.K. exports nearly one and a half times more products to the rest of the world than it imports. In 2005, the U.K. exported more toiletries than any other product, amounting to 38 percent of total export value. Growing faster than exports, imports to the U.K. have nearly doubled in value over the last 6 years. Skin and sun care products compose the largest share of imports into the U.K. in terms of total value.

Table 126 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from UK to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	732,442	893,894	892,633	899,022	916,707	977,849	1,038,558
Switzerland and Norway	116,905	141,413	119,978	111,924	108,354	114,113	109,990
US	141,085	175,643	178,252	186,008	192,564	223,070	244,800
China	1,038	1,670	1,789	1,875	2,056	8,282	6,868
Japan	36,911	33,358	26,027	28,659	35,523	33,046	29,318
Rest of World	436,502	541,810	566,587	570,557	578,211	599,337	647,582
Imports to UK from							
Outside the EU	400,112	524,575	589,216	658,848	646,245	701,355	743,930
Switzerland and Norway	64,574	45,310	63,501	102,377	70,407	78,323	79,013
US	246,723	327,547	351,234	357,617	365,689	371,745	414,887
China	3,832	32,259	41,258	37,642	63,285	81,279	90,734
Japan	7,200	9,818	8,397	7,575	8,368	6,160	10,161
Rest of World	77,783	109,642	124,825	153,637	138,495	163,848	149,135
Trade Balance							
Exports less imports	332,330	369,319	303,417	240,174	270,462	276,494	294,628
Export/Import ratio	1.83	1.70	1.51	1.36	1.42	1.39	1.40

Source: United Nations, Comtrade Database

Table 127 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from UK to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	73,874	88,387	98,338	113,978	110,401	109,828	123,848
Switzerland and Norway	4,246	3,527	4,195	1,498	1,957	1,544	2,122
US	20,119	33,394	37,238	40,633	42,390	44,099	43,545
China	188	74	136	21	290	479	38
Japan	1,241	747	809	1,300	3,727	4,607	5,858
Rest of World	48,080	50,644	55,961	70,526	62,038	59,100	72,285
Imports to UK from							
Outside the EU	47,766	60,230	80,267	100,740	108,237	100,381	113,758
Switzerland and Norway	21,648	16,668	26,731	44,083	28,941	18,349	20,180
US	16,175	27,135	34,171	34,724	50,673	46,453	54,965
China	-	332	45	749	604	1,641	2,183
Japan	16	32	129	149	-	606	3,012
Rest of World	9,927	16,062	19,191	21,036	28,019	33,333	33,417
Trade Balance							
Exports less imports	26,108	28,157	18,071	13,237	2,165	9,447	10,090
Export/Import ratio	1.55	1.47	1.23	1.13	1.02	1.09	1.09

Source: United Nations, Comtrade Database

Table 128 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from UK to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	55,291	90,540	77,428	84,163	96,044	112,748	110,123
Switzerland and Norway	4,797	18,639	4,222	6,472	8,951	14,952	12,600
US	7,016	7,859	18,811	26,359	32,909	35,834	27,473
China	3	97	127	338	216	520	462
Japan	830	1,623	3,374	1,463	4,200	3,013	2,896
Rest of World	42,645	62,322	50,895	49,531	49,767	58,429	66,692
Imports to UK from							
Outside the EU	52,625	78,002	104,860	94,687	91,911	94,100	115,694
Switzerland and Norway	3,424	1,990	4,534	6,832	2,246	4,716	6,522
US	30,990	45,651	52,865	45,455	49,950	50,338	63,096
China	1,399	9,868	16,368	14,678	16,806	20,968	26,093
Japan	1,664	3,010	2,296	894	1,721	1,102	1,020
Rest of World	15,147	17,484	28,797	26,828	21,188	16,975	18,963
Trade Balance							
Exports less imports	2,667	12,537	(27,432)	(10,524)	4,134	18,648	(5,571)
Export/Import ratio	1.05	1.16	0.74	0.89	1.04	1.20	0.95

Source: United Nations, Comtrade Database

Table 129 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from UK to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	216,673	247,776	282,337	280,963	304,696	348,050	397,258
Switzerland and Norway	29,049	22,975	70,307	68,403	61,833	64,366	61,370
US	52,310	57,530	47,141	47,144	60,454	83,884	127,493
China	207	162	303	202	519	4,281	3,732
Japan	26,400	23,204	15,341	14,378	20,562	16,364	14,597
Rest of World	108,708	143,904	149,245	150,836	161,329	179,155	190,065
Imports to UK from							
Outside the EU	138,579	180,515	195,365	236,197	231,915	284,429	293,326
Switzerland and Norway	28,483	18,939	22,173	42,420	32,044	48,496	45,149
US	86,643	112,243	124,676	136,056	144,792	151,897	177,834
China	1,018	14,588	14,789	11,625	18,577	24,098	26,456
Japan	4,529	4,456	3,966	5,001	5,180	3,390	4,741
Rest of World	17,906	30,289	29,761	41,096	31,321	56,547	39,145
Trade Balance							
Exports less imports	78,094	67,261	86,972	44,766	72,781	63,621	103,932
Export/Import ratio	1.56	1.37	1.45	1.19	1.31	1.22	1.35

Source: United Nations, Comtrade Database

Table 130 - International Trade, Hair Care, 1999-2005, € thousands

Exports from UK to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	47,503	52,326	45,425	47,305	37,775	39,582	51,199
Switzerland and Norway	5,919	7,215	7,239	4,319	2,451	2,742	6,323
US	7,729	10,305	2,352	2,513	1,896	3,369	3,530
China	24	103	79	100	1	3	222
Japan	760	228	373	316	569	1,009	1,372
Rest of World	33,072	34,476	35,382	40,057	32,857	32,459	39,751
Imports to UK from							
Outside the EU	31,413	39,331	30,397	31,500	21,471	24,929	24,409
Switzerland and Norway	4,200	2,927	1,144	747	35	216	1,056
US	22,601	28,350	24,065	22,546	14,041	16,962	16,774
China	45	490	377	446	562	645	1,003
Japan	54	155	66	52	132	145	94
Rest of World	4,512	7,410	4,745	7,709	6,701	6,960	5,482
Trade Balance							
Exports less imports	16,090	12,995	15,028	15,805	16,304	14,653	26,790
Export/Import ratio	1.51	1.33	1.49	1.50	1.76	1.59	2.10

Source: United Nations, Comtrade Database

Table 131 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from UK to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	59,293	89,931	94,611	98,200	88,823	76,674	68,210
Switzerland and Norway	5,840	10,631	10,182	9,267	7,518	5,359	5,097
US	10,381	34,162	30,299	33,232	16,265	11,858	6,179
China	13	7	51	55	49	218	62
Japan	3,706	2,145	1,134	3,957	3,418	4,280	767
Rest of World	39,352	42,987	52,945	51,689	61,572	54,960	56,106
Imports to UK from							
Outside the EU	54,759	73,336	74,753	78,284	70,059	68,918	67,433
Switzerland and Norway	548	178	17	132	881	536	1,351
US	47,649	67,101	66,079	66,831	58,234	56,550	55,734
China	11	209	165	390	303	421	366
Japan	256	231	360	305	573	438	643
Rest of World	6,295	5,617	8,132	10,627	10,067	10,974	9,338
Trade Balance							
Exports less imports	4,534	16,595	19,858	19,916	18,764	7,756	776
Export/Import ratio	1.08	1.23	1.27	1.25	1.27	1.11	1.01

Source: United Nations, Comtrade Database

Table 132 - International Trade, Toiletries, 1999-2005, € thousands

Exports from UK to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	279,808	324,934	294,493	274,414	278,968	290,967	287,920
Switzerland and Norway	67,055	78,426	23,834	21,965	25,643	25,149	22,478
US	43,530	32,393	42,410	36,127	38,651	44,028	36,580
China	601	1,227	1,093	1,160	981	2,781	2,351
Japan	3,975	5,410	4,997	7,245	3,045	3,774	3,828
Rest of World	164,645	207,477	222,159	207,918	210,648	215,235	222,684
Imports to UK from							
Outside the EU	74,970	93,162	103,574	117,440	122,653	128,598	129,309
Switzerland and Norway	6,270	4,608	8,903	8,164	6,260	6,011	4,755
US	42,664	47,066	49,378	52,005	48,000	49,544	46,484
China	1,360	6,773	9,514	9,755	26,433	33,507	34,632
Japan	680	1,933	1,580	1,175	761	478	650
Rest of World	23,995	32,780	34,199	46,340	41,199	39,059	42,789
Trade Balance							
Exports less imports	204,838	231,772	190,920	156,974	156,315	162,369	158,611
Export/Import ratio	3.73	3.49	2.84	2.34	2.27	2.26	2.23

Source: United Nations, Comtrade Database

Italy

Italy was the fourth largest cosmetic exporter in the EU in 2005 with €870 million in sales value. The size of its export market has doubled over the last six years and its strong competitive position will likely allow this upward trend to continue. Of all products exported in 2005, perfumes and fragrances generated the largest sales value. Along with skin and sun care, these products amounted to over €65 million worth of sales and 65 percent of all export sales value. Italy exports almost 7 times more cosmetics to the rest of the world than it imports. Overall, imports to Italy are growing though they are not increasing as fast as exports. The vast majority of these imports, 80 percent, come from China, Japan or the U.S. Skin and sun care products were the largest group of cosmetics to enter into Italy in 2005 followed by toiletries.

Table 133 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from Italy to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	435,966	568,600	704,333	702,281	714,681	793,150	870,974
Switzerland and Norway	55,124	54,642	61,321	61,561	59,496	70,193	67,454
US	116,875	154,981	204,301	195,301	185,324	186,767	196,961
China	444	760	938	808	1,179	6,713	11,432
Japan	15,226	20,383	24,765	30,632	38,932	42,210	46,794
Rest of World	248,297	337,833	413,006	413,980	429,750	487,267	548,333
Imports to Italy from							
Outside the EU	115,263	133,986	140,026	137,247	127,133	124,553	125,260
Switzerland and Norway	41,010	43,463	46,722	40,794	38,491	38,931	40,027
US	40,506	51,822	52,514	56,970	48,430	43,449	38,351
China	3,672	6,585	6,661	7,468	10,116	14,796	22,084
Japan	6,557	15,954	14,583	15,372	13,963	7,883	2,644
Rest of World	23,518	16,162	19,546	16,644	16,133	19,494	22,154
Trade Balance							
Exports less imports	320,703	434,614	564,306	565,034	587,548	668,598	745,714
Export/Import ratio	3.78	4.24	5.03	5.12	5.62	6.37	6.95

Source: United Nations, Comtrade Database

Table 134 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from Italy to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	161,367	208,679	251,124	245,268	245,253	303,672	352,188
Switzerland and Norway	19,805	23,241	30,449	29,351	25,804	29,120	27,684
US	48,326	58,706	68,701	63,448	55,962	69,760	75,258
China	53	375	19	132	69	2,356	4,874
Japan	7,926	9,121	12,766	19,097	24,771	29,534	32,232
Rest of World	85,258	117,236	139,189	133,240	138,647	172,902	212,140
Imports to Italy from							
Outside the EU	25,222	27,744	28,586	20,656	24,468	24,352	26,658
Switzerland and Norway	14,178	17,408	18,551	13,824	18,534	16,197	16,271
US	4,528	4,574	5,052	4,641	4,575	5,168	6,406
China	6	10	205	19	30	42	22
Japan	112	726	215	89	233	249	516
Rest of World	6,399	5,026	4,563	2,082	1,097	2,696	3,443
Trade Balance							
Exports less imports	136,145	180,935	222,538	224,612	220,785	279,320	325,531
Export/Import ratio	6.40	7.52	8.78	11.87	10.02	12.47	13.21

Source: United Nations, Comtrade Database

Table 135 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from Italy to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	31,364	56,425	72,015	74,726	72,051	79,018	100,260
Switzerland and Norway	2,425	4,908	6,183	7,760	5,179	8,902	6,157
US	18,285	32,878	41,501	41,669	39,501	35,881	46,806
China	9	75	120	38	98	2,551	5,144
Japan	1,013	2,487	1,209	1,179	2,285	1,863	1,159
Rest of World	9,633	16,076	23,003	24,079	24,989	29,822	40,994
Imports to Italy from							
Outside the EU	7,679	8,112	7,193	14,633	14,526	14,793	16,245
Switzerland and Norway	1,892	2,009	2,168	2,256	2,272	2,902	2,915
US	3,115	2,577	2,382	7,067	5,573	5,939	4,059
China	988	1,471	1,234	1,388	2,614	2,618	5,932
Japan	269	933	423	2,456	1,756	1,037	266
Rest of World	1,416	1,122	985	1,466	2,310	2,296	3,072
Trade Balance							
Exports less imports	23,685	48,313	64,821	60,092	57,525	64,225	84,016
Export/Import ratio	4.08	6.96	10.01	5.11	4.96	5.34	6.17

Source: United Nations, Comtrade Database

Table 136 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from Italy to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	116,513	150,399	174,937	173,277	181,793	203,820	213,078
Switzerland and Norway	10,730	11,017	9,949	10,823	13,059	18,777	17,725
US	25,233	32,210	36,591	33,520	29,358	34,046	34,970
China	281	209	516	427	666	1,516	973
Japan	4,178	6,434	9,072	7,774	9,720	8,664	11,243
Rest of World	76,091	100,530	118,809	120,732	128,989	140,817	148,166
Imports to Italy from							
Outside the EU	44,625	64,593	68,224	64,381	58,703	52,619	49,272
Switzerland and Norway	12,703	15,729	17,258	16,366	13,079	15,677	15,121
US	12,885	26,351	25,576	24,363	22,844	16,938	16,036
China	2,250	3,840	4,186	3,739	3,658	6,046	9,642
Japan	5,188	13,768	13,527	12,210	11,474	6,217	1,631
Rest of World	11,600	4,906	7,677	7,703	7,649	7,740	6,842
Trade Balance							
Exports less imports	71,888	85,806	106,714	108,896	123,089	151,201	163,806
Export/Import ratio	2.61	2.33	2.56	2.69	3.10	3.87	4.32

Source: United Nations, Comtrade Database

Table 137 - International Trade, Hair Care, 1999-2005, € thousands

Exports from Italy to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	13,346	14,797	30,166	30,757	37,266	34,921	34,524
Switzerland and Norway	646	635	569	985	914	935	2,781
US	1,706	3,386	16,712	16,559	19,893	10,767	6,951
China	-	-	1	1	7	4	43
Japan	253	87	63	257	151	390	191
Rest of World	10,742	10,689	12,821	12,954	16,300	22,825	24,558
Imports to Italy from							
Outside the EU	3,015	2,374	2,307	3,474	1,987	1,098	1,906
Switzerland and Norway	930	862	373	549	453	573	874
US	1,951	1,390	1,803	2,625	1,213	430	529
China	50	14	41	21	66	13	39
Japan	26	15	4	124	72	23	-
Rest of World	59	93	86	155	183	59	464
Trade Balance							
Exports less imports	10,331	12,423	27,859	27,284	35,279	33,822	32,618
Export/Import ratio	4.43	6.23	13.08	8.85	18.76	31.80	18.12

Source: United Nations, Comtrade Database

Table 138 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from Italy to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	54,512	62,749	85,096	90,851	89,370	94,475	98,947
Switzerland and Norway	5,614	4,023	4,282	3,819	4,684	2,723	3,643
US	15,370	17,616	26,131	26,327	26,027	25,193	23,833
China	39	30	170	96	263	224	345
Japan	367	668	543	606	568	740	620
Rest of World	33,122	40,411	53,970	60,002	57,829	65,596	70,506
Imports to Italy from							
Outside the EU	9,454	9,357	10,771	10,985	9,525	8,004	6,219
Switzerland and Norway	892	687	772	780	784	679	716
US	8,115	8,344	9,614	9,704	8,096	5,978	4,165
China	139	4	17	13	41	5	159
Japan	18	15	134	80	116	42	119
Rest of World	291	308	234	408	488	1,301	1,060
Trade Balance							
Exports less imports	45,058	53,392	74,325	79,866	79,845	86,471	92,728
Export/Import ratio	5.77	6.71	7.90	8.27	9.38	11.80	15.91

Source: United Nations, Comtrade Database

Table 139 - International Trade, Toiletries, 1999-2005, € thousands

Exports from Italy to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	58,863	75,551	90,994	87,403	88,949	77,244	71,977
Switzerland and Norway	15,903	10,817	9,888	8,823	9,856	9,736	9,463
US	7,956	10,185	14,666	13,776	14,584	11,121	9,143
China	62	71	113	112	76	62	54
Japan	1,489	1,587	1,113	1,718	1,437	1,020	1,348
Rest of World	33,453	52,891	65,214	62,973	62,997	55,305	51,969
Imports to Italy from							
Outside the EU	25,268	21,805	22,946	23,119	17,925	23,686	24,961
Switzerland and Norway	10,416	6,768	7,600	7,019	3,370	2,902	4,130
US	9,913	8,587	8,088	8,570	6,129	8,995	7,156
China	240	1,247	978	2,287	3,707	6,072	6,290
Japan	945	497	278	412	311	315	113
Rest of World	3,754	4,707	6,002	4,831	4,408	5,402	7,272
Trade Balance							
Exports less imports	33,596	53,746	68,049	64,283	71,025	53,558	47,016
Export/Import ratio	2.33	3.46	3.97	3.78	4.96	3.26	2.88

Source: United Nations, Comtrade Database

Spain

Spain's cosmetics market is currently the 5th largest in Europe and its strong comparative advantage position should allow for continued growth. Over the last 6 years, exports have grown. In 2005, the largest product group exported by Spain was perfumes and fragrances in the amount of €241 million. Toiletries were also exported in large quantities of almost €10 million. Spain exports more than five times more than they import. Imports have grown over the last several years at around 6% annually, paltry compared to the 16.7% compound annual growth rate of exports. Skin care and sun care products compose the largest share of imports, followed by hair colorants.

Table 140 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from Spain to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	211,034	269,223	319,751	367,568	369,266	458,550	532,615
Switzerland and Norway	7,322	9,844	11,008	14,583	12,858	12,818	11,678
US	42,981	54,112	65,025	85,720	77,009	100,891	128,790
China	281	632	550	711	1,025	1,710	2,463
Japan	9,509	11,430	11,227	8,815	13,020	12,049	14,036
Rest of World	150,940	193,205	231,940	257,738	265,354	331,083	375,648
Imports to Spain from							
Outside the EU	69,027	105,031	85,039	86,857	83,105	94,503	98,792
Switzerland and Norway	15,094	15,872	16,134	18,271	13,327	13,380	9,805
US	38,470	71,009	44,921	48,032	44,638	54,955	59,659
China	505	857	2,064	4,082	6,259	9,479	9,785
Japan	6,236	4,782	6,387	7,356	9,214	3,913	2,665
Rest of World	8,723	12,511	15,533	9,116	9,667	12,776	16,877
Trade Balance							
Exports less imports	142,007	164,191	234,712	280,711	286,160	364,047	433,824
Export/Import ratio	3.06	2.56	3.76	4.23	4.44	4.85	5.39

Source: United Nations, Comtrade Database

Table 141 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from Spain to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	91,067	118,668	140,671	167,629	156,513	216,746	241,206
Switzerland and Norway	2,800	1,770	2,005	4,341	3,937	3,691	3,194
US	28,476	34,009	40,884	52,706	40,666	65,605	74,998
China	49	11	260	84	189	450	1,051
Japan	868	1,364	1,511	2,333	2,786	2,188	2,624
Rest of World	58,874	81,514	96,011	108,165	108,936	144,812	159,340
Imports to Spain from							
Outside the EU	11,690	16,583	19,356	17,738	16,736	19,522	15,341
Switzerland and Norway	5,426	6,814	6,479	8,471	7,764	6,828	4,082
US	5,569	5,178	6,497	6,265	6,920	8,458	9,716
China	8	3	3	35	45	109	60
Japan	-	6	24	1	17	1	5
Rest of World	687	4,581	6,352	2,967	1,990	4,126	1,477
Trade Balance							
Exports less imports	79,377	102,085	121,315	149,890	139,777	197,224	225,866
Export/Import ratio	7.79	7.16	7.27	9.45	9.35	11.10	15.72

Source: United Nations, Comtrade Database

Table 142 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from Spain to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	5,541	4,535	5,514	8,880	6,722	8,968	8,754
Switzerland and Norway	35	19	57	35	69	91	56
US	1,888	1,503	1,240	2,121	1,151	788	1,192
China	-	3	12	11	-	4	125
Japan	24	44	58	4	7	84	191
Rest of World	3,595	2,965	4,147	6,711	5,496	8,000	7,190
Imports to Spain from							
Outside the EU	8,125	7,609	6,248	7,915	10,016	8,795	11,417
Switzerland and Norway	1,818	1,472	1,098	760	646	774	563
US	5,429	5,131	3,822	4,870	6,163	5,249	5,627
China	61	279	514	1,217	1,885	1,644	2,750
Japan	1	96	33	411	13	234	520
Rest of World	815	631	780	657	1,308	895	1,957
Trade Balance							
Exports less imports	(2,584)	(3,075)	(734)	965	(3,294)	173	(2,662)
Export/Import ratio	0.68	0.60	0.88	1.12	0.67	1.02	0.77

Source: United Nations, Comtrade Database

Table 143 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from Spain to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	41,255	54,860	59,919	67,273	72,320	84,321	92,167
Switzerland and Norway	1,722	3,538	4,690	3,610	1,908	2,080	2,182
US	6,344	7,942	10,521	16,213	18,952	16,448	11,609
China	158	347	186	467	565	806	720
Japan	556	673	1,085	2,659	2,607	2,678	2,766
Rest of World	32,475	42,359	43,436	44,325	48,289	62,309	74,890
Imports to Spain from							
Outside the EU	28,776	31,518	42,679	42,961	38,777	33,132	30,457
Switzerland and Norway	6,588	6,671	7,904	8,448	4,384	5,168	4,699
US	12,961	16,912	22,923	23,759	20,920	19,246	17,478
China	26	12	540	1,626	2,126	3,147	3,369
Japan	6,182	4,592	6,160	6,767	8,933	3,453	1,847
Rest of World	3,019	3,331	5,152	2,361	2,414	2,118	3,064
Trade Balance							
Exports less imports	12,479	23,342	17,239	24,312	33,542	51,189	61,710
Export/Import ratio	1.43	1.74	1.40	1.57	1.87	2.55	3.03

Source: United Nations, Comtrade Database

Table 144 - International Trade, Hair Care, 1999-2005, € thousands

Exports from Spain to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	6,679	6,387	6,430	9,646	9,721	13,489	17,061
Switzerland and Norway	128	442	12	9	50	27	1,034
US	308	349	539	1,250	911	1,786	2,307
China	7	4	-	-	33	-	-
Japan	268	15	157	613	692	622	76
Rest of World	5,967	5,578	5,722	7,773	8,034	11,053	13,644
Imports to Spain from							
Outside the EU	1,552	1,090	1,302	2,361	1,004	3,274	3,615
Switzerland and Norway	673	150	4	7	-	5	18
US	751	858	1,210	2,019	833	2,936	3,458
China	-	-	1	-	14	4	39
Japan	-	3	16	67	65	7	21
Rest of World	128	79	70	268	92	322	78
Trade Balance							
Exports less imports	5,127	5,297	5,129	7,285	8,717	10,215	13,446
Export/Import ratio	4.30	5.86	4.94	4.09	9.68	4.12	4.72

Source: United Nations, Comtrade Database

Table 145 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from Spain to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	12,468	19,221	28,690	36,002	41,537	48,210	64,200
Switzerland and Norway	696	1,353	1,534	4,257	4,652	4,820	3,955
US	1,886	3,294	4,668	5,618	6,581	7,934	13,723
China	56	26	1	72	60	77	184
Japan	588	1,324	2,469	2,936	6,095	4,526	7,065
Rest of World	9,243	13,225	20,017	23,119	24,150	30,853	39,273
Imports to Spain from							
Outside the EU	7,039	6,500	5,426	5,934	5,427	14,750	21,204
Switzerland and Norway	40	87	47	78	49	50	48
US	6,906	6,376	5,349	5,622	5,218	13,759	16,739
China	-	16	-	-	-	77	4
Japan	-	-	5	28	24	24	81
Rest of World	93	22	24	206	136	840	4,332
Trade Balance							
Exports less imports	5,429	12,721	23,263	30,068	36,110	33,459	42,996
Export/Import ratio	1.77	2.96	5.29	6.07	7.65	3.27	3.03

Source: United Nations, Comtrade Database

Table 146 - International Trade, Toiletries, 1999-2005, € thousands

Exports from Spain to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	54,023	65,553	78,528	78,138	82,453	86,816	109,227
Switzerland and Norway	1,941	2,723	2,711	2,332	2,243	2,109	1,258
US	4,078	7,015	7,173	7,813	8,748	8,330	24,961
China	10	242	89	78	179	373	383
Japan	7,206	8,009	5,947	270	834	1,951	1,315
Rest of World	40,787	47,564	62,607	67,646	70,449	74,055	81,311
Imports to Spain from							
Outside the EU	11,845	41,731	10,028	9,948	11,145	15,029	16,758
Switzerland and Norway	549	678	601	507	484	555	394
US	6,855	36,554	5,119	5,496	4,584	5,307	6,640
China	409	547	1,005	1,205	2,189	4,498	3,563
Japan	52	85	149	83	162	194	192
Rest of World	3,981	3,867	3,155	2,658	3,727	4,475	5,968
Trade Balance							
Exports less imports	42,178	23,822	68,499	68,190	71,308	71,787	92,469
Export/Import ratio	4.56	1.57	7.83	7.85	7.40	5.78	6.52

Source: United Nations, Comtrade Database

Poland

Poland was the eighth largest cosmetic exporter in the EU in 2005 with €352 million in sales value. The size of its export market has grown by an astonishing 400% over the last six years and its strong competitive position will likely allow this upward trend to continue. Poland was one of the fastest growing cosmetic suppliers in the world during this time period. Of all products exported in 2005, the skin and sun care group generated the largest sales value, amounting to €101 million worth of sales and accounted for 29 percent of all export sales value. Total imports to Poland are growing, almost doubling over the last six years. The majority of these imports, 51 percent, come from outside China, Japan, the U.S., Switzerland, and Norway. Toiletries were the largest group of cosmetics to enter into Poland in 2005.

Table 147 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from Poland to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	86,155	109,241	120,789	155,058	174,287	272,406	352,223
Switzerland and Norway	100	2,233	2,296	3,381	2,894	2,435	2,468
US	1,474	1,541	2,036	2,820	3,052	4,943	4,968
China	-	-	-	-	-	-	99
Japan	-	-	-	-	-	-	111
Rest of World	84,581	105,466	116,456	148,857	168,342	265,027	344,578
Imports to Poland from							
Outside the EU	29,385	27,529	36,740	39,589	37,261	40,820	49,401
Switzerland and Norway	4,018	3,725	3,335	3,171	4,072	4,759	5,415
US	13,553	9,399	10,470	9,188	8,833	10,160	13,640
China	883	461	1,648	1,516	1,715	2,021	3,799
Japan	788	183	183	384	701	627	1,131
Rest of World	10,143	13,762	21,104	25,329	21,941	23,254	25,415
Trade Balance							
Exports less imports	56,770	81,712	84,048	115,469	137,026	231,585	302,822
Export/Import ratio	2.93	3.97	3.29	3.92	4.68	6.67	7.13

Source: United Nations, Comtrade Database

Table 148 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from Poland to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	1,581	5,862	10,545	17,796	25,831	37,478	57,385
Switzerland and Norway	53	-	-	-	-	11	12
US	-	-	-	74	168	127	268
China	-	-	-	-	-	-	0
Japan	-	-	-	-	-	-	0
Rest of World	1,528	5,862	10,545	17,722	25,663	37,341	57,105
Imports to Poland from							
Outside the EU	1,117	1,150	1,309	1,412	939	2,240	4,339
Switzerland and Norway	154	145	57	132	49	288	588
US	808	483	834	533	531	940	2,496
China	55	-	-	-	-	24	212
Japan	-	-	-	-	-	3	3
Rest of World	99	521	418	747	359	984	1,039
Trade Balance							
Exports less imports	464	4,712	9,235	16,384	24,892	35,238	53,046
Export/Import ratio	1.42	5.10	8.05	12.60	27.52	16.73	13.22

Source: United Nations, Comtrade Database

Table 149 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from Poland to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	10,417	10,869	14,562	15,708	16,015	42,018	61,179
Switzerland and Norway	-	-	-	-	-	36	11
US	-	-	-	-	342	212	527
China	-	-	-	-	-	-	6
Japan	-	-	-	-	-	-	64
Rest of World	10,417	10,869	14,562	15,708	15,674	41,769	60,571
Imports to Poland from							
Outside the EU	1,792	1,619	1,925	2,720	2,546	3,775	5,526
Switzerland and Norway	-	-	-	-	64	139	247
US	1,214	674	928	933	1,037	1,275	1,732
China	203	86	861	890	827	802	891
Japan	49	-	64	125	168	168	165
Rest of World	325	859	72	772	451	1,391	2,491
Trade Balance							
Exports less imports	8,625	9,250	12,638	12,988	13,470	38,243	55,653
Export/Import ratio	5.81	6.71	7.57	5.77	6.29	11.13	11.07

Source: United Nations, Comtrade Database

Table 150 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from Poland to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	7,683	15,234	27,050	44,585	55,547	79,590	101,083
Switzerland and Norway	-	595	682	1,576	1,570	1,148	1,287
US	800	1,091	1,447	1,529	1,408	1,766	2,249
China	-	-	-	-	-	-	91
Japan	-	-	-	-	-	-	45
Rest of World	6,883	13,548	24,920	41,480	52,569	76,676	97,412
Imports to Poland from							
Outside the EU	7,634	5,897	7,126	6,096	6,280	6,549	8,589
Switzerland and Norway	1,415	1,053	1,049	1,208	1,715	1,547	1,547
US	3,632	2,599	3,449	2,495	2,069	2,615	3,589
China	213	184	588	368	242	111	189
Japan	594	183	119	259	533	419	894
Rest of World	1,781	1,878	1,920	1,766	1,721	1,857	2,370
Trade Balance							
Exports less imports	49	9,337	19,924	38,488	49,267	73,041	92,494
Export/Import ratio	1.01	2.58	3.80	7.31	8.84	12.15	11.77

Source: United Nations, Comtrade Database

Table 151 - International Trade, Hair Care, 1999-2005, € thousands

Exports from Poland to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	28,807	34,285	18,595	17,250	18,814	25,147	29,524
Switzerland and Norway	-	-	98	499	400	429	223
US	54	109	124	148	94	132	314
China	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-
Rest of World	28,752	34,176	18,373	16,603	18,319	24,585	28,987
Imports to Poland from							
Outside the EU	2,943	3,056	5,840	6,519	5,615	4,485	3,860
Switzerland and Norway	-	160	-	-	-	84	280
US	555	539	459	303	209	257	246
China	-	-	-	-	-	121	14
Japan	-	-	-	-	-	11	11
Rest of World	2,388	2,357	5,380	6,216	5,405	4,011	3,309
Trade Balance							
Exports less imports	25,863	31,229	12,755	10,731	13,199	20,662	25,664
Export/Import ratio	9.79	11.22	3.18	2.65	3.35	5.61	7.65

Source: United Nations, Comtrade Database

Table 152 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from Poland to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	9,161	11,074	10,873	13,433	14,525	28,720	29,545
Switzerland and Norway	-	1,468	1,515	1,306	924	628	703
US	-	86	113	166	212	347	320
China	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-
Rest of World	9,161	9,520	9,244	11,961	13,389	27,745	28,522
Imports to Poland from							
Outside the EU	1,206	1,616	1,988	2,216	2,122	2,238	2,257
Switzerland and Norway	-	-	-	91	53	4	121
US	489	538	355	495	452	428	691
China	-	-	-	-	-	39	44
Japan	-	-	-	-	-	16	18
Rest of World	716	1,078	1,634	1,630	1,617	1,751	1,383
Trade Balance							
Exports less imports	7,955	9,458	8,884	11,217	12,403	26,482	27,288
Export/Import ratio	7.60	6.85	5.47	6.06	6.84	12.84	13.09

Source: United Nations, Comtrade Database

Table 153 - International Trade, Toiletries, 1999-2005, € thousands

Exports from Poland to	1999	2000	2001	2002	2003	2004	2005
Outside the EU	28,507	31,916	39,164	46,287	43,555	59,454	73,507
Switzerland and Norway	48	170	-	-	-	183	233
US	620	255	352	904	828	2,359	1,290
China	-	-	-	-	-	-	1
Japan	-	-	-	-	-	-	2
Rest of World	27,839	31,492	38,812	45,383	42,727	56,912	71,981
Imports to Poland from							
Outside the EU	14,694	14,191	18,552	20,625	19,760	21,534	24,830
Switzerland and Norway	2,449	2,366	2,229	1,740	2,191	2,696	2,632
US	6,855	4,567	4,445	4,429	4,535	4,646	4,886
China	412	191	200	258	646	923	2,449
Japan	145	-	-	-	-	10	41
Rest of World	4,833	7,068	11,679	14,198	12,388	13,259	14,823
Trade Balance							
Exports less imports	13,813	17,726	20,612	25,661	23,795	37,919	48,677
Export/Import ratio	1.94	2.25	2.11	2.24	2.20	2.76	2.96

Source: United Nations, Comtrade Database

United States

The cosmetics market in the United States was the largest outside of Europe and the third largest worldwide behind France and Germany in 2005 with €3.8 billion in sales world wide. The size of its export market has increased by 50 percent over the last six years. Three-quarters of American exports are sent to countries other than the EU27. Of all products exported in 2005, the skin and sun care group generated the largest sales value, amounting to over €1.1 billion worth of sales and 30 percent of all export sales value. The U.S. exports almost 2 times more goods outside the EU27 than it imports from them and nearly 3 times more American exports are sold to countries outside the EU27 than are sent to it. Total imports to the U.S. grew faster than exports over the last six years. Nearly 58 percent of total imports to the U.S. came from the EU27. Perfumes and fragrances were the largest group of cosmetics to enter into the U.S. in 2005.

Table 154- International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from USA to	1999	2000	2001	2002	2003	2004	2005
EU-27	558,390	696,731	770,414	759,151	806,069	824,796	969,996
Switzerland and Norway	28,321	50,977	61,011	44,161	64,246	69,311	99,260
US	NA	NA	NA	NA	NA	NA	NA
China	6,996	16,950	16,217	18,769	16,432	27,295	51,250
Japan	208,671	257,394	329,465	306,168	286,334	319,507	313,662
Rest of World	1,746,975	2,279,458	2,579,857	2,419,319	2,083,418	2,121,863	2,381,409
Imports to USA from							
EU-27	1,272,763	1,641,884	1,781,752	1,798,246	1,772,302	1,824,939	2,010,006
Switzerland and Norway	33,787	52,041	59,079	63,622	63,086	52,978	51,920
US	NA	NA	NA	NA	NA	NA	NA
China	69,001	107,999	167,154	211,945	195,148	210,274	270,698
Japan	56,565	73,489	79,207	100,460	70,079	87,791	101,191
Rest of World	526,347	722,462	836,990	890,239	857,110	932,889	1,044,480
Trade Balance							
Outside EU: Exports less imports	1,305,263	1,648,789	1,844,119	1,522,151	1,265,008	1,254,044	1,377,292
Outside EU: Export/Import ratio	2.90	2.72	2.61	2.20	2.07	1.98	1.94

Source: United Nations, Comtrade Database

Table 155 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from USA to	1999	2000	2001	2002	2003	2004	2005
EU-27	48,810	57,133	55,994	73,667	127,267	143,352	174,007
Switzerland and Norway	2,874	5,385	5,372	4,776	25,051	33,060	45,023
US	NA	NA	NA	NA	NA	NA	NA
China	876	746	665	510	973	1,622	4,372
Japan	14,736	19,777	16,318	16,018	16,413	12,518	19,296
Rest of World	356,667	446,960	435,719	394,880	329,681	355,304	425,067
Imports to USA from							
EU-27	681,386	895,034	914,358	942,317	916,644	904,315	991,412
Switzerland and Norway	20,512	32,043	43,312	46,816	40,762	34,088	33,768
US	NA	NA	NA	NA	NA	NA	NA
China	124	763	2,305	4,335	7,885	6,721	5,983
Japan	1,238	2,185	2,099	568	658	885	783
Rest of World	50,866	69,878	68,617	67,069	56,542	77,508	71,170
Trade Balance							
Outside EU: Exports less imports	302,413	367,999	341,741	297,395	266,270	283,303	382,055
Outside EU: Export/Import ratio	5.16	4.51	3.94	3.50	3.52	3.38	4.42

Source: United Nations, Comtrade Database

Table 156 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from USA to	1999	2000	2001	2002	2003	2004	2005
EU-27	52,268	84,915	115,807	100,549	127,477	146,599	176,907
Switzerland and Norway	2,079	2,150	2,137	1,673	5,719	9,309	11,572
US	NA	NA	NA	NA	NA	NA	NA
China	754	2,716	1,726	3,509	1,723	2,847	6,767
Japan	23,466	30,681	41,261	31,009	25,505	25,907	34,821
Rest of World	201,375	253,580	308,153	284,195	264,201	278,275	305,332
Imports to USA from							
EU-27	198,893	246,192	310,147	318,128	290,628	328,912	345,188
Switzerland and Norway	2,018	2,501	1,133	3,172	7,260	2,580	1,667
US	NA	NA	NA	NA	NA	NA	NA
China	34,038	58,347	95,820	119,873	101,427	99,389	128,360
Japan	15,896	26,205	24,107	27,253	17,550	24,721	38,981
Rest of World	72,555	103,078	126,738	145,745	157,448	155,747	163,442
Trade Balance							
Outside EU: Exports less imports	103,167	98,997	105,480	24,343	13,463	33,902	26,041
Outside EU: Export/Import ratio	1.83	1.52	1.43	1.08	1.05	1.12	1.08

Source: United Nations, Comtrade Database

Table 157 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from USA to	1999	2000	2001	2002	2003	2004	2005
EU-27	176,154	279,446	285,616	292,651	283,484	277,477	333,308
Switzerland and Norway	13,911	39,094	49,327	33,872	30,882	22,815	35,607
US	NA	NA	NA	NA	NA	NA	NA
China	1,973	7,980	8,407	6,472	6,543	13,025	26,134
Japan	87,049	94,883	110,352	128,430	115,535	137,375	117,929
Rest of World	430,155	587,764	648,860	673,244	510,065	543,375	628,697
Imports to USA from							
EU-27	229,269	295,882	309,834	296,797	318,488	344,767	397,139
Switzerland and Norway	8,603	12,389	11,097	10,575	12,158	13,301	13,314
US	NA	NA	NA	NA	NA	NA	NA
China	16,354	19,094	28,124	37,401	40,770	50,236	61,128
Japan	26,062	28,417	31,975	53,227	34,789	44,528	45,352
Rest of World	153,406	196,430	255,220	259,460	229,554	254,972	302,884
Trade Balance							
Outside EU: Exports less imports	328,664	473,390	490,530	481,355	345,753	353,553	385,688
Outside EU: Export/Import ratio	2.61	2.85	2.50	2.33	2.09	1.97	1.91

Source: United Nations, Comtrade Database

Table 158 - International Trade, Hair Care, 1999-2005, € thousands

Exports from USA to	1999	2000	2001	2002	2003	2004	2005
EU-27	62,423	57,954	67,358	59,751	42,468	37,135	37,014
Switzerland and Norway	694	852	454	600	224	264	756
US	NA	NA	NA	NA	NA	NA	NA
China	611	724	1,241	1,639	1,036	552	962
Japan	17,289	25,829	22,732	17,362	17,760	25,224	19,904
Rest of World	157,892	199,595	228,246	190,469	161,791	144,461	158,665
Imports to USA from							
EU-27	14,936	21,589	44,702	46,471	46,626	35,265	37,075
Switzerland and Norway	6	122	42	120	23	9	230
US	NA	NA	NA	NA	NA	NA	NA
China	730	1,113	1,832	3,815	2,904	3,424	5,042
Japan	606	1,091	1,359	2,223	3,051	2,729	2,745
Rest of World	28,512	39,023	49,243	52,695	58,223	55,048	60,262
Trade Balance							
Outside EU: Exports less imports	146,631	185,651	200,198	151,216	116,611	109,292	112,008
Outside EU: Export/Import ratio	5.91	5.49	4.82	3.57	2.82	2.79	2.64

Source: United Nations, Comtrade Database

Table 159 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from USA to	1999	2000	2001	2002	2003	2004	2005
EU-27	77,458	86,907	95,769	95,594	77,865	80,557	94,354
Switzerland and Norway	422	752	376	516	520	477	478
US	NA	NA	NA	NA	NA	NA	NA
China	499	644	874	1,630	953	818	1,386
Japan	17,710	16,031	37,433	37,956	26,321	20,368	16,037
Rest of World	193,384	231,495	277,734	235,704	232,740	230,889	252,269
Imports to USA from							
EU-27	42,546	71,767	65,367	63,943	71,293	73,356	86,276
Switzerland and Norway	101	216	13	47	45	359	438
US	NA	NA	NA	NA	NA	NA	NA
China	309	485	1,114	1,210	1,082	1,464	2,899
Japan	5,197	6,419	6,536	8,569	7,542	8,566	7,355
Rest of World	31,193	66,916	64,231	91,275	90,697	107,148	124,012
Trade Balance							
Outside EU: Exports less imports	175,216	174,885	244,524	174,705	161,169	135,015	135,466
Outside EU: Export/Import ratio	5.76	3.36	4.40	2.73	2.62	2.15	2.01

Source: United Nations, Comtrade Database

Table 160 - International Trade, Toiletries, 1999-2005, € thousands

Exports from USA to	1999	2000	2001	2002	2003	2004	2005
EU-27	141,276	130,378	149,870	136,938	147,509	139,676	154,406
Switzerland and Norway	8,340	2,744	3,344	2,725	1,850	3,385	5,824
US	NA	NA	NA	NA	NA	NA	NA
China	2,282	4,139	3,302	5,009	5,203	8,430	11,629
Japan	48,421	70,193	101,368	75,392	84,801	98,116	105,676
Rest of World	407,503	560,065	681,145	640,828	584,940	569,558	611,378
Imports to USA from							
EU-27	105,733	111,421	137,346	130,591	128,623	138,324	152,916
Switzerland and Norway	2,547	4,769	3,481	2,891	2,838	2,640	2,502
US	NA	NA	NA	NA	NA	NA	NA
China	17,446	28,197	37,959	45,310	41,081	49,040	67,286
Japan	7,566	9,171	13,131	8,620	6,490	6,362	5,975
Rest of World	189,813	247,137	272,942	273,996	264,645	282,468	322,709
Trade Balance							
Outside EU: Exports less imports	249,172	347,867	461,646	393,136	361,741	338,980	336,035
Outside EU: Export/Import ratio	2.15	2.20	2.41	2.19	2.15	2.00	1.84

Source: United Nations, Comtrade Database

China

China was the ninth largest cosmetic exporter in the world in 2005 with €336 million in sales value. The size of its export market has more than quadrupled over the last six years and was one of the fastest growing cosmetic suppliers in the world during this time period. Its improving competitive position will likely allow this upward trend to continue. Eighty-four percent of exports from China are sent outside the EU27 while the remaining 16 percent are purchased by the EU27 market. Of all products exported in 2005, the toiletry group generated the largest sales value, amounting to €329 million worth of sales and accounted for 39 percent of all export sales value. China exports almost 6 times more goods outside the EU27 than it imports from them and nearly 5 times more Chinese exports are sold to countries outside the EU27 than are sent to it. Total imports to China are growing, also more than quadrupling over the last six years, increasing slightly faster than exports. The majority of these imports, 59 percent, came from countries outside the EU27. Skin and sun care products were the largest group of cosmetics to enter into China in 2005.

Table 161 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from China to	1999	2000	2001	2002	2003	2004	2005
EU-27	9,791	33,114	41,665	45,100	58,729	86,492	134,847
Switzerland and Norway	86	156	84	265	188	572	1,156
US	20,964	59,661	83,337	140,701	206,714	208,516	288,840
China	NA	NA	NA	NA	NA	NA	NA
Japan	16,727	24,374	37,114	47,429	66,577	56,943	66,892
Rest of World	135,952	171,500	193,356	205,161	229,264	274,663	343,958
Imports to China from							
EU-27	12,126	26,600	24,120	24,205	32,876	66,484	89,625
Switzerland and Norway	137	92	111	88	97	171	518
US	11,716	19,993	25,458	25,304	39,178	29,552	50,741
China	NA	NA	NA	NA	NA	NA	NA
Japan	7,158	12,290	14,479	9,013	17,010	34,264	46,477
Rest of World	15,257	20,548	19,443	19,180	20,305	26,759	28,632
Trade Balance							
Outside EU: Exports less imports	139,462	202,770	254,401	339,970	426,154	449,948	574,478
Outside EU: Export/Import ratio	5.07	4.83	5.28	7.34	6.56	5.96	5.55

Source: United Nations, Comtrade Database

Table 162 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from China to	1999	2000	2001	2002	2003	2004	2005
EU-27	50	932	2,151	2,074	3,082	5,740	9,569
Switzerland and Norway	-	-	-	-	0	-	-
US	3	128	216	712	1,884	1,319	886
China	NA	NA	NA	NA	NA	NA	NA
Japan	1,020	1,130	1,139	819	113	56	17
Rest of World	1,179	2,576	2,501	1,904	2,353	3,271	6,069
Imports to China from							
EU-27	1,164	5,365	3,108	2,943	4,914	8,356	8,193
Switzerland and Norway	14	2	3	1	6	12	107
US	153	175	206	285	330	392	923
China	NA	NA	NA	NA	NA	NA	NA
Japan	42	27	129	37	15	72	124
Rest of World	297	124	97	286	212	121	185
Trade Balance							
Outside EU: Exports less imports	1,695	3,505	3,421	2,827	3,786	4,050	5,633
Outside EU: Export/Import ratio	4.34	11.64	8.86	5.64	7.72	7.79	5.21

Source: United Nations, Comtrade Database

Table 163 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from China to	1999	2000	2001	2002	2003	2004	2005
EU-27	2,628	12,002	19,484	15,027	17,200	21,875	36,897
Switzerland and Norway	24	9	23	77	43	84	290
US	6,337	14,732	13,799	16,673	29,686	34,410	58,119
China	NA	NA	NA	NA	NA	NA	NA
Japan	7,232	10,166	14,061	14,778	16,669	21,293	23,497
Rest of World	39,030	21,113	26,922	31,548	34,460	40,706	57,383
Imports to China from							
EU-27	1,664	4,052	4,475	4,616	5,496	14,748	17,870
Switzerland and Norway	10	6	3	7	1	0	5
US	2,952	5,222	5,460	7,687	9,571	6,310	10,637
China	NA	NA	NA	NA	NA	NA	NA
Japan	1,076	2,738	2,706	1,266	2,252	3,575	6,301
Rest of World	1,048	2,970	4,158	3,612	5,036	5,634	5,503
Trade Balance							
Outside EU: Exports less imports	47,537	35,084	42,477	50,503	63,999	80,974	116,844
Outside EU: Export/Import ratio	10.35	4.21	4.45	5.02	4.80	6.22	6.21

Source: United Nations, Comtrade Database

Table 164 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from China to	1999	2000	2001	2002	2003	2004	2005
EU-27	2,887	14,594	12,667	13,587	16,013	24,060	37,300
Switzerland and Norway	8	25	15	75	22	296	408
US	5,474	28,181	54,755	98,033	136,122	112,700	140,481
China	NA	NA	NA	NA	NA	NA	NA
Japan	1,547	2,841	2,919	2,634	2,958	4,766	5,217
Rest of World	11,890	25,824	27,998	28,765	35,740	42,808	65,108
Imports to China from							
EU-27	6,068	11,704	9,667	11,089	17,802	36,333	52,616
Switzerland and Norway	71	57	59	21	72	138	386
US	3,140	9,100	14,414	10,375	14,761	15,427	29,917
China	NA	NA	NA	NA	NA	NA	NA
Japan	2,502	6,760	7,728	3,717	9,494	22,051	31,383
Rest of World	4,829	5,626	4,838	3,963	4,776	6,134	11,638
Trade Balance							
Outside EU: Exports less imports	8,378	35,327	58,648	111,432	145,738	116,818	137,889
Outside EU: Export/Import ratio	1.79	2.64	3.17	7.16	6.01	3.67	2.88

Source: United Nations, Comtrade Database

Table 165 - International Trade, Hair Care, 1999-2005, € thousands

Exports from China to	1999	2000	2001	2002	2003	2004	2005
EU-27	756	66	59	61	47	96	219
Switzerland and Norway	10	76	27	49	19	3	2
US	203	454	216	722	1,175	926	1,378
China	NA	NA	NA	NA	NA	NA	NA
Japan	993	2,006	3,393	1,597	1,386	1,449	3,160
Rest of World	7,591	11,301	10,047	20,484	31,350	35,054	32,691
Imports to China from							
EU-27	224	600	466	480	323	856	1,851
Switzerland and Norway	5	0	0	0	0	-	-
US	2,184	1,395	1,780	2,906	1,380	387	669
China	NA	NA	NA	NA	NA	NA	NA
Japan	264	304	349	252	705	1,691	1,953
Rest of World	2,161	1,865	1,261	2,362	2,652	2,439	2,151
Trade Balance							
Outside EU: Exports less imports	4,183	10,275	10,294	17,330	29,193	32,916	32,458
Outside EU: Export/Import ratio	1.91	3.88	4.04	4.14	7.16	8.29	7.80

Source: United Nations, Comtrade Database

Table 166 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from China to	1999	2000	2001	2002	2003	2004	2005
EU-27	620	142	195	241	131	142	55
Switzerland and Norway	14	40	-	-	1	-	-
US	31	83	143	206	478	461	676
China	NA	NA	NA	NA	NA	NA	NA
Japan	726	1,216	1,893	2,914	4,117	3,723	4,746
Rest of World	4,584	12,859	12,596	13,077	18,673	17,388	22,666
Imports to China from							
EU-27	527	1,035	987	948	891	1,975	3,308
Switzerland and Norway	-	-	-	-	-	-	9
US	511	294	731	473	469	437	458
China	NA	NA	NA	NA	NA	NA	NA
Japan	293	283	418	207	594	2,013	2,346
Rest of World	2,174	5,272	2,382	2,622	2,480	2,584	1,598
Trade Balance							
Outside EU: Exports less imports	2,377	8,349	11,101	12,896	19,726	16,538	23,676
Outside EU: Export/Import ratio	1.80	2.43	4.14	4.91	6.57	4.28	6.37

Source: United Nations, Comtrade Database

Table 167 - International Trade, Toiletries, 1999-2005, € thousands

Exports from China to	1999	2000	2001	2002	2003	2004	2005
EU-27	2,849	5,378	7,109	14,109	22,255	34,581	50,808
Switzerland and Norway	30	6	19	65	103	189	455
US	8,915	16,083	14,207	24,353	37,369	58,700	87,299
China	NA	NA	NA	NA	NA	NA	NA
Japan	5,210	7,016	13,709	24,687	41,334	25,656	30,255
Rest of World	71,679	97,827	113,292	109,382	106,689	135,436	160,041
Imports to China from							
EU-27	2,478	3,844	5,417	4,128	3,451	4,215	5,787
Switzerland and Norway	37	25	46	58	18	22	12
US	2,776	3,808	2,867	3,577	12,667	6,597	8,136
China	NA	NA	NA	NA	NA	NA	NA
Japan	2,981	2,177	3,147	3,535	3,950	4,863	4,369
Rest of World	4,748	4,690	6,706	6,334	5,148	9,847	7,557
Trade Balance							
Outside EU: Exports less imports	75,291	110,231	128,461	144,982	163,713	198,653	257,977
Outside EU: Export/Import ratio	8.14	11.30	11.06	11.74	8.52	10.31	13.85

Source: United Nations, Comtrade Database

Japan

The cosmetics market in Japan was the smallest outside of Europe with €634 million in sales in 2005 falling between Poland and Ireland in comparative size. Of all products exported in 2005, the skin and sun care group generated the largest sales value, amounting to over €362 million worth of sales and 57 percent of all export sales value. Ninety percent of Japanese exports are sent to countries outside of the EU27. Japan imports 2.6 times more cosmetics goods than they export. Forty-seven percent of Japan's imports came from the EU27. Both imports and exports have grown between 1999 and 2005 with compound annual growth rates between 6 and 7 percent.

Table 168 - International Trade, All Cosmetics Products, 1999-2005, € thousands

Exports from Japan to	1999	2000	2001	2002	2003	2004	2005
EU-27	68,623	79,078	76,431	69,673	71,285	62,769	66,442
Switzerland and Norway	3,613	6,869	5,330	3,812	3,192	7,067	3,731
US	48,218	68,604	69,541	69,244	63,131	72,295	68,199
China	4,318	10,867	8,623	7,073	19,508	33,269	42,582
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	249,295	333,091	332,126	345,378	310,028	342,124	371,209
Imports to Japan from							
EU-27	613,261	751,487	737,531	691,272	715,959	756,404	752,736
Switzerland and Norway	15,023	18,621	22,150	23,976	18,910	16,273	14,996
US	332,261	435,396	433,920	462,124	401,570	438,568	417,433
China	30,271	39,430	69,013	109,269	157,025	148,123	180,754
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	111,034	155,187	172,668	180,296	207,046	249,181	252,775
Trade Balance							
Outside EU: Exports less imports	-183,145	-229,204	-282,130	-350,159	-388,691	-397,390	-380,237
Outside EU: Export/Import ratio	0.63	0.65	0.60	0.55	0.50	0.53	0.56

Source: United Nations, Comtrade Database

Table 169 - International Trade, Perfumes and Fragrances, 1999-2005, € thousands

Exports from Japan to	1999	2000	2001	2002	2003	2004	2005
EU-27	121	2,254	1,358	743	791	616	334
Switzerland and Norway	5	40	24	44	5	2	33
US	343	1,170	440	259	410	247	295
China	19	16	149	27	98	163	174
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	1,646	1,977	1,637	1,364	761	1,009	1,147
Imports to Japan from							
EU-27	142,442	188,325	171,870	166,252	186,744	196,076	180,347
Switzerland and Norway	7,784	10,762	13,096	10,860	8,532	5,135	4,727
US	33,924	47,925	34,052	25,694	23,582	19,266	23,598
China	33	171	352	-	273	130	37
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	1,172	1,541	1,152	1,187	1,241	1,313	1,303
Trade Balance							
Outside EU: Exports less imports	-40,899	-57,195	-46,402	-36,047	-32,354	-24,425	-28,016
Outside EU: Export/Import ratio	0.05	0.05	0.05	0.04	0.04	0.05	0.06

Source: United Nations, Comtrade Database

Table 170 - International Trade, Decorative Cosmetics, 1999-2005, € thousands

Exports from Japan to	1999	2000	2001	2002	2003	2004	2005
EU-27	12,086	22,259	21,485	16,672	16,765	15,510	14,522
Switzerland and Norway	914	3,231	1,873	1,325	1,166	2,288	1,516
US	13,256	22,335	21,535	15,671	15,353	17,040	16,907
China	1,072	2,333	2,434	1,380	2,695	3,587	5,310
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	69,081	91,769	82,862	79,739	66,100	76,709	81,415
Imports to Japan from							
EU-27	101,509	128,971	126,410	127,580	125,951	129,371	135,752
Switzerland and Norway	921	872	870	715	807	778	758
US	44,117	55,907	46,023	49,097	42,599	39,825	39,016
China	5,694	8,245	14,835	16,680	21,563	23,616	29,109
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	28,851	53,179	53,046	33,744	32,303	32,430	34,343
Trade Balance							
Outside EU: Exports less imports	4,741	1,464	-6,069	-2,121	-11,958	2,975	1,922
Outside EU: Export/Import ratio	1.06	1.01	0.95	0.98	0.88	1.03	1.02

Source: United Nations, Comtrade Database

Table 171 - International Trade, Skin Care and Sun Care, 1999-2005, € thousands

Exports from Japan to	1999	2000	2001	2002	2003	2004	2005
EU-27	51,205	44,721	45,483	44,628	46,228	38,970	41,235
Switzerland and Norway	2,599	3,397	3,325	2,334	1,886	4,615	1,891
US	20,836	26,731	29,480	34,206	30,269	36,452	33,765
China	2,001	6,635	3,687	2,616	11,578	22,681	27,980
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	163,971	216,238	207,652	216,792	201,118	234,466	257,286
Imports to Japan from							
EU-27	158,945	183,781	189,879	198,509	212,680	222,033	227,910
Switzerland and Norway	4,897	5,809	5,422	8,180	7,173	8,201	7,544
US	100,092	126,923	124,070	147,100	124,830	154,403	131,113
China	5,100	6,516	7,140	8,886	9,204	9,137	8,185
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	11,654	17,413	20,442	27,812	24,329	26,854	33,138
Trade Balance							
Outside EU: Exports less imports	67,663	96,341	87,071	63,971	79,314	99,618	140,942
Outside EU: Export/Import ratio	1.56	1.61	1.55	1.33	1.48	1.50	1.78

Source: United Nations, Comtrade Database

Table 172 - International Trade, Hair Care, 1999-2005, € thousands

Exports from Japan to	1999	2000	2001	2002	2003	2004	2005
EU-27	305	1,104	690	776	947	776	3,255
Switzerland and Norway	4	65	3	15	2	11	120
US	635	1,082	1,377	1,937	1,834	1,814	1,709
China	84	276	299	241	547	1,582	1,581
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	11,572	16,767	18,116	19,414	15,901	16,315	15,485
Imports to Japan from							
EU-27	2,646	2,960	4,251	4,566	3,821	4,282	4,601
Switzerland and Norway	94	3	8	5	7	11	37
US	18,241	18,343	15,861	14,180	13,267	16,266	13,840
China	898	1,550	2,568	1,302	1,151	1,538	1,818
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	1,688	4,939	9,160	11,292	37,269	45,910	47,375
Trade Balance							
Outside EU: Exports less imports	-8,626	-6,645	-7,801	-5,172	-33,411	-44,003	-44,173
Outside EU: Export/Import ratio	0.59	0.73	0.72	0.81	0.35	0.31	0.30

Source: United Nations, Comtrade Database

Table 173 - International Trade, Hair Colorants, 1999-2005, € thousands

Exports from Japan to	1999	2000	2001	2002	2003	2004	2005
EU-27	1,024	1,972	2,054	2,197	2,362	1,781	2,919
Switzerland and Norway	28	102	18	27	19	33	122
US	4,591	6,331	6,388	8,948	8,730	9,728	8,281
China	255	329	598	718	887	2,665	3,291
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	44,467	67,049	73,007	72,408	60,426	63,202	64,272
Imports to Japan from							
EU-27	38,706	29,300	29,670	36,837	33,133	31,983	24,434
Switzerland and Norway	66	14	8	11	46	120	130
US	26,318	33,890	27,797	23,733	19,500	23,267	19,171
China	1,219	2,801	3,952	4,586	5,622	5,162	8,124
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	4,105	9,114	7,358	13,100	32,347	44,196	47,244
Trade Balance							
Outside EU: Exports less imports	17,633	27,991	40,897	40,669	12,546	2,883	1,298
Outside EU: Export/Import ratio	1.56	1.61	2.05	1.98	1.22	1.04	1.02

Source: United Nations, Comtrade Database

Table 174 - International Trade, Toiletries, 1999-2005, € thousands

Exports from Japan to	1999	2000	2001	2002	2003	2004	2005
EU-27	3,883	6,769	5,361	4,657	4,191	5,117	4,178
Switzerland and Norway	64	35	87	67	114	118	49
US	8,557	10,955	10,321	8,222	6,535	7,015	7,243
China	887	1,277	1,457	2,091	3,704	2,591	4,245
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	27,637	31,058	31,713	35,399	31,821	27,130	33,018
Imports to Japan from							
EU-27	169,013	218,150	215,451	157,528	153,629	172,660	179,693
Switzerland and Norway	1,262	1,162	2,746	4,205	2,345	2,027	1,801
US	109,570	152,408	186,118	202,320	177,793	185,541	190,695
China	17,327	20,148	40,166	77,815	119,211	108,539	133,482
Japan	NA	NA	NA	NA	NA	NA	NA
Rest of World	63,564	69,000	81,512	93,161	79,555	98,477	89,372
Trade Balance							
Outside EU: Exports less imports	-154,577	-199,394	-266,965	-331,722	-336,730	-357,730	-370,796
Outside EU: Export/Import ratio	0.19	0.18	0.14	0.12	0.11	0.09	0.11

Source: United Nations, Comtrade Database

V. Conclusions and Policy Recommendations

This section of the report draws conclusions based on our analytical work. We make a number of recommendations on policy options based on the industry's identified strengths and weaknesses in the various countries as well as the opportunities and threats that the industry appears to be facing.

The study found that a number of EU countries have developed a large trade surplus and a significant comparative advantage in cosmetics products. This is clear evidence that cosmetics manufacturers in these countries have, over the years, identified the most important consumer trends and have responded with new product offerings that have been successful. These companies have accomplished this task in both domestic and export markets. In the process, these companies have successfully developed strong brand recognition in a highly competitive and dynamic market place.

French and German companies sustain their comparative advantage by allocating more resources to innovative activity and new product development than other countries. The result is a large number of patents and successful new product launches in each company's established markets. Smaller market countries like the Netherlands, Ireland, Belgium and Poland have found non-traditional routes to developing comparative advantage.

The study found that companies in France, Germany, the U.K., Italy and Spain have been at least as successful at developing comparative advantages in cosmetic products as their counterparts in the United States. They have been more successful in this regard than firms in Japan and China.

The most significant threat to the ongoing competitiveness of the industry in most EU countries is relatively low productivity combined with high unit labour costs. Simple productivity comparison across countries exposes a wide gap between EU companies and their counterparts in the U.S. and Japan. Even after making adjustments to the data and taking into account a number of important measurement issues, the productivity gap favouring firms in the U.S. and Japan is still considerable. Clearly manufacturers in these countries have pursued business strategies that have resulted in a more competitive industry. It is also likely that economic policy and the regulatory environment in these countries allows these firms sufficient flexibility to pursue these strategies.

The study found that to-date manufacturing in lesser developed countries has been limited to a few firms. This may be due to government restrictions on firms to relocate. In any one country, unit labour costs are relatively inflexible so the relocation of productive resources of slow growing product segments (toiletries and hair care products) to low labour cost countries like the newer EU member countries and China would have industry as well as social benefits.

This study has found that the impact of counterfeits on industry revenues and profits is significant in the EU. Counterfeits are generally replicas of high-end brand name decorative cosmetics and fragrances. Successful branding is a key factor in the development of comparative advantage and counterfeits can pose a serious threat to brand loyalty. Counterfeits also reduce the return to R&D consequently the impact will

be shouldered primarily by firms in France and Germany, where R&D expenditures are the highest. Efforts should be considered to coordinate the enforcement of anti-counterfeiting laws across the EU countries.

In general, EU companies have had little success in penetrating the market in Japan and China. Regulatory barriers may have been an issue for EU firms in the past, however, the study found that the accessibility of the Japanese cosmetics market has greatly improved since it was deregulated. Deregulation included the abolition of pre-market approval, the establishment of a prohibited ingredient list similar to the EU and the abolition of the designated ingredient list.

Channels of distribution are similar across EU countries and the U.S., however, they operated quite differently in Japan and this is likely formed the most significant trade barrier. Our study found that the retail sector in Japan underwent considerable changes in the recession years of the 1990s which eliminated some of the inefficient practices. The retail sector is now more comparable to retail sectors in Europe and North America. EU firms are now much more likely to be successful exporting into Japan's large market.

Larger companies have acquired strategic assets in fast growing markets like China or in large markets with low barriers to entry like the United States. The acquired firm often is a SME that has brought an innovative product to market. Large companies have begun early stage production in less mature markets to not only reduce production and transportation costs, but also to better understand cultural differences and their impacts on evolving consumer preferences.

Policy considerations may also involve information sharing / education on the evolution of the industry and consumer preferences with SMEs – assuming large companies conduct this research internally. This type of initiative may assist the development of SMEs and their business strategy formation. There are a large number of new natural / organic products brought to market by SMEs. France, Italy, and Spain have a high concentration of SMEs in their markets. Large companies are acquiring SMEs that have successfully introduced products into the fast growing market segments.

VI. Appendix

I. PERFUMES AND FRAGRANCES (women, men, unisex and children)

- 1.1 Extracts, perfumes
- 1.2 Eau de parfum, eau de toilette, eau de cologne, eau de lavande, parfum de toilette (unisex)
- 1.3 Eau de cologne, eau de toilette for men
- 1.4 Eau de toilette for children
- 1.5 Pre- and aftershave lotions (not aftershave balms and creams - see 3.12)
- 1.6 Moisturized tissues forming part of a perfume product line
- 1.7 Boxed sets (mainly alcoholic perfumes)

II. DECORATIVE COSMETICS

- 2.1 Facial makeup products (foundation, blusher, loose and compact powders, etc.)
- 2.2 Lip products (lipsticks, lip protection and non-coloured foundation, pencils, glosses, etc.)
- 2.3 Nail products (nail varnish and nail varnish removers, foundation, protection, “hardener”, NOT artificial nails)
- 2.4 Eye products (eye-care lotions, products for eyelashes (mascara etc.), eye makeup and eye makeup removers, eyeliners (pencils), NOT false eyelashes)
- 2.5 Boxed sets (mainly decorative cosmetics)

III. SKIN CARE (men, women and babies)

- 3.1 Face care products
 - 3.11 Day creams, night creams, masks, exfoliation, anti-wrinkle and anti-aging creams for men and women, skin-whitening products, treatment series, anti-blackhead creams, etc.
 - 3.12 Aftershave balms and creams
- 3.2 Face cleansers and after cleansers (toners), makeup removers, (NOT eye makeup removers - see 2.4)
- 3.3 Hand care products (including hand creams, mixed products for hands and nails, anti-skin discoloration cosmetics, etc.)
- 3.4 Body creams and lotions (firming creams, slimming creams and lotions, NOT sport massage products)
- 3.5 Baby care products (only creams, lotions, and milks, NOT soaps, shampoos, foams, sun care)
- 3.6 Boxed sets (mainly skin care products)

IV. SUN CARE

- 4.1 Sun care products (with or without sun, before or after sun, sun care sticks, baby sun care products, sun blocks, etc.)

V. HAIR CARE

5.1 Shampoos (including two-in-one (shampoo/conditioner) and hair and body shampoos, baby shampoos, NOT shower gels - see 7.52)

5.2 Hair conditioners

5.3 Hair lotions (daily & special treatments) and hair tonics (also alcoholic)

5.4 Hair sprays

5.5 Setting lotions and setting mousses

5.6 Hair creams, brillantine, hair gels, etc.

5.7 Perms

5.8 Other Hair Care products (treatments, masks, etc.)

5.9 Boxed sets (mainly Hair Care products)

VI. HAIR COLORANTS

6.1 Hair dyes, colouring shampoos, bleaches

VII. TOILETRIES

7.0 Toilet soaps and syndets, wash lotions, including dermatological soaps (syndets), baby soaps, etc.

7.01 Soaps and syndets (non-liquid)

7.02 Soaps and syndets, wash lotions (liquid)

7.1 Oral hygiene

7.11 Toothpastes

7.12 Mouth washes (before and after brushing)

7.13 Other dental products which are in contact with the mouth (sprays etc.)

7.2 Shaving products (foams, creams, gels, soaps)

7.3 Talcum powders (including baby powders, etc.)

7.4 Products for intimate hygiene (deodorants, detergents, talcum powders, etc.)

7.5 Bath and shower products

7.51 Bath foams, salts, bath oils, bath and shower gels, etc.

7.52 Shower gels, two-in-one (for body)

7.6 Deodorants and antiperspirants (roll-ons, sprays, creams, sticks)

7.7 Depilatories (including post-depilatory creams)

7.8 Foot care (salts, powders, sprays, creams, gels, treatments)

7.9 Boxed sets (containing different toiletries)