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Year 2007	Population (million)	Current GDP per Capita (US\$)	C&T Market Size (US\$m)	Imports of C&T from U.S. (US\$m)	Import Duty Rate on C&T (%)	Regulations
						L=Labeling R=Registration CFS= Cert of free sale GMP= Cert of Good Mfg Practices V/S=VAT /Sales Tax, O=Other
Australia	20.7	39,320	1,080	161	0	L, R, V/S
China	1,314.1	2310	16,000	169	15-22	L, R, V
Hong Kong	6.9	28,982	815	157	0	None
India	1,124	978	1,800	23	34.44	L
Indonesia	222.1	1812	1,200	8	0-10	L, R, V, S, CFS
Japan	127.7	33,668	13,669	321	0-5.4	L, O
South Korea	48.3	19,485	6,093*	182	0-8	R, CGM, CFS, O
Malaysia	26.4	5,982	416	49	0-30	L, R, CFS, CGM
Pakistan	165.8	909	77	8.2	15-40	L, V
Philippines	87	1,503	438*	7	1-10	L, R, V
Singapore	4.4	32,506	400	132	0	L, R, V/ S
Taiwan	23	15,759	777*	156	7.5-10	R, CFS, V
Thailand	65.8	3,304	1,160	60	20-30	R, CFS/ CGM
Vietnam	84.4	798	83*	9.6	20-30	R, CFS, V, O
New Zealand	4.1	27,285	144	21	0-5	L

Source: APEC & CIA World Fact book

* 2006 figures

C & T: Cosmetics & Toiletries

Summary

This report covers 15 markets: Australia, China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Taiwan, Thailand, and Vietnam, representing the world's most populated and economically-dynamic region which U.S. exporters cannot ignore. This region has a combined population about 9 times that of the U.S. and seven of the markets in this report are among the U.S.'s top 20 trading partners.

These 15 markets have a combined cosmetics and toiletries market worth of more than US\$44 billion, with the U.S. supplying only about US\$1.4 billion or 3% of the market. In several of the largest markets like China, India, and Indonesia, U.S. cosmetics and toiletries constitute less than 2% of the total market size. There are therefore tremendous export opportunities for U.S. companies. China is the regions' largest cosmetics and toiletries market followed by Japan and South Korea. Market penetration of international brands in India and Indonesia is still very low. Hong Kong whose market size is about 5% of China's, imports about the same amount of cosmetics and toiletries from the U.S. And Hong Kong has one of the most open market for selling cosmetics and toiletries, as it has no registration or labeling requirements, no import duties or value-added taxes. Not all of the markets are, however, free markets like Hong Kong. China, South Korea, and Thailand have stringent registration requirements but are not inaccessible; it only requires the appointment of an experienced local importer/distributor that is familiar with the regulations.

Market entry strategies vary from market to market but most require the appointment of a local distributor/agent to handle the registrations and execute the best marketing and selling strategy to suit local conditions. In Thailand and Taiwan, direct selling is prevalent and effective but this type of selling is shrinking in popularity in Japan. TV and cable TV selling of cosmetics and skin care products is, however, gaining popularity in China.

U.S. cosmetics and toiletry suppliers are known for being innovative and for producing quality and technologically-advanced products at competitive prices in most of the Asia Pacific markets. In this region, U.S. cosmetics and toiletry products, do however, face stiff competition from Japanese and French products. The innovative packaging and the Asian consumers' perception that Japanese products are more suitable for Asian skins have sometimes given Japanese products the edge over American and European products. It is therefore crucial that U.S. exporters modify product names and packaging to suit local demand. While a product made for "whitening" skin is politically incorrect to use in the U.S., skincare products for lightening pigmentation spots on the face are best simply named "whitening products" rather than lightening products or brightening products. A smaller product size is required in Hong Kong to suit the younger consumers' tastes, and for ease of carrying in bags but in China, the Philippines, India or Vietnam, a smaller size is required for affordability as the unit costs is lower than for a standard American-size item.

Notwithstanding the differences in market conditions in each of the 15 markets, a U.S. exporter should not just concentrate on the markets that are open to imports and ignore the markets that have tariffs and non-tariff barriers to imported cosmetics and toiletries. One should adopt a regional strategy that exploits the advantages of open, more mature, and more accessible markets such as Hong Kong, Australia and Singapore to generate revenue to offset the longer-term investment required for tackling the less easily accessible but lucrative markets of South Korea, China and India.

Each market also has its own sector that has better selling prospects than others. While most markets cite anti-aging, hair products, make-up, whitening skincare products and sun-screen and sun-care products as the sectors with the best sales prospects, in the Philippines and Thailand, whitening deodorant and underarm products are among the products with the best sales prospects. Mass-market products sell better in India and Vietnam than premium products and men's cosmetics and skincare products are growing in popularity in not only in the mature markets of Japan, Hong Kong and South Korea but also in India. Products with naturally-derived and organically-grown ingredients and "doctors' prescription-strength skincare products" (medical spa products) are also growing in demand in many of the Asia Pacific markets.

AUSTRALIA

Market Overview

The Australian cosmetics and toiletries market is valued at US\$1 billion, with the industry being driven by an increased awareness of appearance and increased disposable income. Imports supply nearly 50 percent of the market, with 30 percent of imports originating from the United States. The most significant sub-sector is color cosmetics, accounting for 45 percent of retail sales. The increased popularity of innovative color cosmetics is spurring on sales.

Australians are becoming more concerned with wellness and seek products that prolong a youthful appearance. The ageing baby boomer generation holds the most potential for U.S. suppliers of cosmetics and toiletries. Baby boomers are particularly concerned about their appearance caused by pollution, stress, increasing time demands and artificial office environments. These older Australians are mindful of their appearance, with many encouraged to stay in the workforce longer. Such factors are forecast to assist manufacturers that produce cosmetics and toiletries with advanced formulas.

The sub sectors experiencing most growth are color cosmetics, hair care and beauty salon products. Color cosmetics that offer appearance-enhancing benefits along with anti-aging properties, are in a good position for continued growth. Increasingly, manufacturers are supplying goods that emphasize, preserve and protect rather than just for cosmetic appearance, e.g., products to reduce wrinkles.

Professional hair products promoted by a world-renowned hairdresser or hair care company are also promising. The demand for colorants to cover gray, including colorants for the men's market, is increasing. Likewise, growth in the beauty salon market is primarily due to professional-based regimes which are popular with Australian consumers. The continuing concern of skin problem management is driving interest in beauty therapists' treatments in a professional salon/spa environment.

Future growth is predicted for the import of innovative and quality brands. Premium products are expected to experience strong growth in line with fashion trends that give preference to the high end. A continuing demand for appearance enhancing products is creating favorable prospects for suppliers of advanced formulas.

Supply leadership is shared by a number of firms, the majority of which are subsidiaries of foreign owned companies. The top 10 companies account for 63 percent of sales. The major players are Unilever, Procter & Gamble, the L'Oreal Group and Estee Lauder. Local companies such as Bloom, Ultra-ceuticals and Jurlique share the remaining 37 percent market share. The U.S. is the single largest source of imports (30 percent), with a significant import share held also by France (18 percent), followed by the United Kingdom (11 percent).

Market Issues and Regulatory Regime

As a result of the Free Trade Agreement between the United States and Australia, the general import duty on cosmetics and toiletries decreased on January 1, 2005, from five percent to zero. Further information about duties and customs requirements can be obtained by viewing the Australian Customs Service website: www.customs.gov.au.

When cosmetics and toiletries are shipped to Australia, the goods are subject to GST (Goods and Services Tax), which is a broad-based tax to the sale or provision of most goods and services in Australia. While the responsibility to pay GST to the Australian Taxation Office lies with the producer/supplier, it is the consumer who finally bears the GST cost. The importer pays the GST to the Australian Customs Service.

Australia has strict regulatory requirements regarding cosmetics ingredients and labeling. Primarily, ingredient safety falls under the National Industrial Chemicals Notification and Assessment Scheme (NICNAS), administered by the Department of Health and Ageing, which require approval for use of a wide range of substances, including ingredients in cosmetics. For further information, NICNAS can be found at www.nicnas.gov.au.

Cosmetic and toiletry products are subject to approval by the Therapeutic Goods Administration (TGA), which is part of the Australian Government. There are many issues concerning the registration process, as suppliers are required to demonstrate that a product is not considered to be a therapeutic good, otherwise the release of the product in Australia must follow the requirements of the Therapeutic Goods Act. Some sunscreens for example must be registered with the Australian Register of Therapeutic Goods. Further information on approval processes, including costs, can be obtained from:

Therapeutic Goods Administration
P.O. Box 100
Woden, Australian Capital Territory 2606
Australia
Tel: 61-2-6232-8444
Fax: 61-2-6232-8605
Web: www.tga.gov.au

Best prospects

Over the next year, the Australian cosmetic and toiletries market will provide good opportunities for U.S. suppliers of the following products:

- Color cosmetics.
- Hair care products.
- Beauty salon based products.

Distribution channels

There has been a marked shift in retailing of cosmetics and toiletries in Australia in recent years. Sales by traditional retailers and pharmacies are being eroded by major supermarkets. Nearly half of all cosmetics and toiletries (45 percent) are purchased through major supermarkets such as Coles and Safeway (Woolworths). Pharmacies and cosmetic retailers (a group which once occupied a large portion of the market) now represent 35 percent of cosmetic and toiletry sales.

General merchandise retailers such as Target and Kmart, which are part of the Coles Myer group, and Big W, which is a Woolworths company, stock cosmetics and toiletries at very competitive prices. However, premium cosmetics and toiletries continue to be sold by pharmacies, salons, cosmetic retailers and department stores.

The move from pharmacies, salons and cosmetic retailers to mass-market chains and supermarkets has stimulated growth particularly in the skin care and hair care sub-sectors. This expansion is a result of mass-market chains and supermarkets aiming for a larger customer base.

Contact Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporters, please contact:

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Melbourne, Victoria 3004
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Fax: 61-3-9510-4660
Email: annette.ahern@mail.doc.gov
Website: www.buyusa.gov/australia

CHINA

Summary

China's cosmetic market has been expanding rapidly over the past 20 years. Nationwide sales have grown at an average of 13 percent in recent years according to the China Association of Fragrance Flavor and Cosmetic Industry. Despite significant growth over the last two decades, some experts argue that China's cosmetic consumption is still far from saturation, and the country is expected to remain a dynamic market.

Market Demand

With a population of 1.3 billion of which 480 million are urban residents, China has the largest number of potential cosmetic customers in the world. China's cosmetics market is already positioned as the second largest in Asia and eighth in the world. China's fast economic growth will provide an increasing number of people with purchasing power to buy cosmetics.

Yet, despite rapid growth, China's current cosmetic market is still at a low level of development. Per capita yearly spending on cosmetics is quite low at only \$5. At the same time, the market tends to be very developed for high-end products, but not so much for middle end brands. Therefore, in a country with rising incomes, there may be growing demand for foreign cosmetic products at the middle end of the market. In only 20 years of development, China's cosmetic market now has thousands of registered companies. To compete, new entrants need to adopt appropriate market entry strategies, find the right distribution partners, use effective marketing strategies, and make suitable products for various customer groups at reasonable price points.

Market Data

Sales of cosmetics and toiletries in China reached RMB 116 billion in 2007 (around US\$ 16 billion), according to Euromonitor International, a leading market research firm.

The continuous double-digit growth of the Chinese beauty market is driven by both rising disposable income and fierce competition motivating female and male urban white-collar workers to invest in their personal appearance. According to Euromonitor International, the Chinese beauty market could grow up to RMB 140 billion (US\$ 20 billion) in 2010.

Best Prospects

Skin Care Products:

Compared to other product segments, sales of skin care products have experienced the fastest growth in recent years. Competition in this market is fierce, with prices and target customers varying significantly. For example, the market segment for middle grade products is increasing. Domestic products are more price competitive than imported ones. However, the attraction for higher quality, name brand products is increasing. Facial

products especially designed for Asian skin are well received by Chinese consumers. Creams and lotions have the largest sales volumes followed by facial wash creams and bath creams.

Make-up Products:

Some experts believe that these products have great sales potential. Advertising and sales promotions greatly influence the purchasing decisions of make-up products. Consumers usually require make-up to reflect their personal styles. As such, various brands share this market. No one brand has an overwhelming market share. Lipstick represents the largest sales among make-up products.

Baby-Care Products:

The market for baby-care products has been expanding in recent years. Given the one-child policy, many parents in China do not hesitate to increase spending for their only child. Johnson & Johnson holds the largest market share in this sector. Domestic products are competitive in price, but weak in new product development. Many young women and mothers also like to use baby or children's skin care products as they are gentler and allergy-free. It is estimated that in China, young women purchase around 30% of these products.

Sunscreen Products:

As the awareness about the harm of ultraviolet rays increases, the market for sunscreen has grown at an average rate of 20% annually in recent years according to the China Association of Cosmetic Industry. Waterproof sunscreen products are enjoying increasing sales, and sunscreen products with whitening functions are also gaining favor among young Chinese women.

Key Suppliers

There are more than 3,000 cosmetic enterprises registered in China with more than 20,000 brands. Domestic companies account for 58% of the total. Foreign-invested companies account for 32%, and state-owned firms represent the remaining 10%.

Over the past two decades, foreign companies have been very successful at increasing brand awareness in China. Although several large domestic firms are trying to catch up in their brand building, foreign companies still dominate the market. According to the China Association of Cosmetic Industry, foreign cosmetics brands currently account for 50 percent of sales volume but over 70 percent of sales value, as they occupy almost all of the high-end market. And many of them are now expanding into middle and low end markets. Leading players/brands include P&G, Unilever, L'Oreal, Henkel, Shiseido, Wella, Revlon, Chanel SA, Lancôme, Yue-Sai, Dior, Estee Lauder, Maybelline, Vichy, etc.

L'Oreal, the world's largest cosmetic company by revenue, registered a strong sales volume of 5.45 billion yuan in 2007, an increase of 30 percent over the previous year.

Sales in China account for 4 percent of the cosmetics giant's global market pie making it one of the 10 most important markets worldwide for the company.

Prospective Buyers

Department stores, retail stores, specialty stores, and professional beauty salons typically buy and sell cosmetics in China.

Department Stores

Department stores are known in China for retailing high-quality products. As such, most of the prominent international cosmetics companies sell their products through high-end department stores in China's metropolitan areas. Department stores must, however, closely monitor the quality of the products that they retail, as some international cosmetics products are counterfeits or smuggled into China without proper official registration to guarantee their safety and quality.

Nowadays, most department stores in China tend to source products from distributors rather than source directly from manufacturers, as they do not want to spend too much time going through the lengthy registration process for cosmetic products.

Retail and Specialty Stores

These stores retail the products of famous international cosmetics companies and a variety of small to medium-size domestic companies. Many retail and specialty stores are now contacting first line sales agents directly for their cosmetics supplies, thus bypassing the wholesalers. SaSa, a leading cosmetic retailer based in Hong Kong, announced that it will open more than 20 stores on the mainland by 2008 in Beijing, Guangzhou, Chengdu and Shanghai. The total number of its stores in mainland China is expected to hit 100 by 2011. SaSa has 54 stores in Hong Kong and Macao, 13 in Singapore and 15 in Malaysia.

Sephore, which is a member of the luxury brand holding company Moët Hennessy Louis Vuitton, has experienced higher sales growth in China. Since opening its first Chinese mainland store in Shanghai in 2006, it has expanded to 23 stores in 8 cities and it is aiming to increase the number of stores to 100 by 2010 to cover all major cities in the country.

Beauty Salons

Beauty salons have been opening rapidly in China. A large number of high-end beauty salons and clubs are located in hotels, office buildings and high-end department stores. These beauty salons require their customers to register as members before receiving services. The salon's skin care services are used regularly by these members. The majority of the skin care products used in beauty salons are products from foreign companies, as customers prefer the higher quality and effectiveness.

Market Entry

Distribution Companies

When it comes to selling imported cosmetic products, finding a local distributor often is the first and most preferable option. Good local distributors understand the market situation very well and can tell if a new-to-market product has any potential in China. More importantly, local distributors are in the best position to help new-to-market foreign companies navigate the very complicated import and registration process with different Chinese government agencies, thus significantly save time for foreign companies wanting to enter the Chinese market.

Direct selling

Direct selling has historically been a popular channel for selling cosmetic products into different markets. However, direct selling in China has a turbulent history and still contains legislative challenges. As part of China's WTO commitment to allow market access for "wholesale or retail trade services away from a fixed location" by December 11, 2004, China issued two long awaited regulations governing the sector on September 2, 2005. Upon analysis, these new regulations are more restrictive than those of any other country in the world. Multi-level marketing (MLM) organizations are characterized as illegal pyramids, compensation is capped at 30% based on personal sales, and language exists which will require the construction of fixed location "service centers" in each area where sales occur. Significant barriers exist for new entrants, as evidenced by a 3-year foreign experience rule, an actual registered capital of 80 million RMB (US\$10 million) and a required 20 million RMB (US\$2.5 million) bond deposit.

There are currently 10-12 large-scale international firms in China that have been operating under direct-sales model. Given the very strict requirements, companies should carefully consider whether or not they want to adopt the direct selling model in China.

Localized production

To gain a firm footing in China, many foreign cosmetic companies have chosen to set up factories in China. Most of the foreign brands that are selling well in China are now manufactured in China. Usually these foreign companies would set up factories at development zones or industrial parks near the big cities, like Beijing, Shanghai and Guangzhou, to capitalize on lower production costs. While the initial investment for setting up a factory could be huge, it brings key benefits such as being closer to consumers, clear sales channel, easy control over brand image and lower labor cost. P&G, for example, has set up several manufacturing facilities across the country allowing it to compete with domestic counterparts even on prices, a fact that would be impossible without the localized production.

In addition, foreign cosmetic firms have attached great importance to the development of 'China-specific' products in the long run. L'Oreal opened a skin and hair research institute in Shanghai in 2005 that creates products specifically for Chinese women. Shiseido, Japan's biggest cosmetics firm, is expanding a similar research facility in Beijing, where its China headquarters is located. According to media reports, both

companies say they will experiment with traditional Chinese herbs with the aim of including them in new products.

Acquisitions

International giants have found that acquiring local firms is one of the most effective ways to expand to second and third-tier regions, or medium and low-end markets. China is said to have the most cosmetic manufacturers in the world and about 90% of these manufacturers are small and medium-sized firms holding a relatively small percentage of the market share. However, many of these firms have well-established regional distribution networks, especially in small cities and the vast rural areas. For example, French firm L’Oreal acquired Mini Nurse and Yue-Sai, both of which were famous local brands, in 2003. This deal effectively gave the firm an extended reach to many small cities that it had never been able to focus on in the past.

Market Issues & Obstacles

According to the MOH (Ministry of Health, People’s Republic of China), all foreign cosmetic product manufacturers must complete a safety and health quality test before they are allowed to sell in the Chinese market.

Safety and Health Quality Test

This test is performed by organizations appointed by the MOH. At present, there are three such organizations authorized by MOH to administer such tests. The test normally takes 2-6 months while costs vary from \$700 to \$6,000 depending on the types and complexity of the products. Following is the contact information on these organizations:

China Center for Diseases Control (China CDC)
Institute for Environmental Health and Related Product Safety
#27, Nanwei Road, Beijing 100050, P.R. China
Phone: 86-10/6302-2960; Fax: 86-10/6317-0894
www.chinacdc.net.nc

Shanghai Center for Diseases Control (Shanghai CDC)
Environmental Health Section
#1380 Zhongshan Road West, Shanghai 200336, P.R. China
Phone: 86-21/6275-8710 x 21; Fax: 86-21/6209-6059
www.scdc.sh.cn

Guangdong Center for Diseases Control (Guangdong CDC)
Public Health Research Institute
#176 Xingang Road West, Guangzhou 510300, P.R. China
Phone: 86-20/8419-7952; Fax: 86-20/8446-9324
www.cdcp.org.cn

Hygiene Permit for Imported Cosmetics

This permit is granted by MOH. The maximum time taken to review and evaluate imported cosmetics is eight months. According to some local companies that help cosmetic firms apply for this permit, actual length ranges from two to eight months. A committee under MOH convenes to review and evaluate imported cosmetics four times a year in March, June, September, and December. Companies need to submit the following documents:

- Samples of declared product;
- Formula of declared product;
- Flow chart of production process for declared product;
- Quality standard of declared product;
- Authorization letter from exporter (when using agent for registration);
- Exporter's local sales permit for declared product;
- Quarantine Certificate from exporter's government agency.
- User's guide and usage warning for declared products.

The contact information of MOH is as follows:

Ministry of Health of P.R. China, Department of Health Supervision
#1 Nanlu Road, Xizhimenwai, Beijing 100044 P.R. China
Phone: 86-10/6879-2403; Fax: 86-10/6879-2408
www.moh.gov.cn

It should be noted, however, that foreign cosmetic companies are not allowed to apply for a health permit by themselves. Instead, they need to use a local company to apply on their behalf. There are a number of local companies that provide such service.

Free Sales Certificate (FSC)

U.S. companies exporting cosmetics to China need a FSC. The U.S. FDA issues such certificates for cosmetics in certain circumstances (Please see: <http://www.cfsan.fda.gov/~dms/cos-cert.html>). Some U.S. states and even the Personal Care Products Council, formally known as CTFA (The Cosmetic, Toiletry, and Fragrance Association), also issue FSC certificates.

Personal Care Products Council
1101 17th Street, NW, Suite 300, Washington D.C. 20036-4702
Phone: (202) 331-1770
Fax: (202) 331-1969
<http://www.personalcarecouncil.org/>

Consumption tax

China introduced the cosmetic consumption tax in 1994. Since hair and skincare products were relatively expensive, the government decided to levy a 17 percent consumption tax on these products in order to balance consumption and increase its fiscal revenue. In 1999, the government lowered the cosmetic consumption tax rate to 8 percent, as improving living standards had made some of these products parts of everyday life for

many families. However, the consumption tax on high-end and luxury cosmetics such as make-up sets was increased from 8 percent to 30 percent in April 2006. The consumption tax for hair and skincare products remains at 8 percent.

Trademarks

China's trademark system is 'first to register' rather than 'first to market'. So, if you are seriously looking at this market, registering BEFORE you enter China can save a lot of time, money and frustration should you face infringement at a later stage. The worst case scenario is to have a competitor or other local firms register your brand name in the early stages of your market entry, forcing you to fight an uphill battle for your name. To learn more about protecting your trademark in China, please visit <http://beijing.usembassy-china.org.cn/iptrade.html>

China's authorities have periodically updated the list of ingredients that are prohibited or restricted for use in cosmetics placed on the market.

The regulation issued by the Ministry of Health modifies the Hygienic Standards for Cosmetics, which provide the specifications for cosmetics sold in China. The new regulation adds 790 substances to the list of chemicals prohibited from use in cosmetic products, bringing the total number of substances to 1,286.

Some experts believe that in practice foreign cosmetics makers should not be affected by the new standard, as the newly regulated substances are already covered by the European directive on cosmetic products. Therefore, it should mainly affect local producers whose production standards are below those laid out by the new regulation.

Trade Events

Cosmoprof Asia – It is held every November in Hong Kong and is the largest cosmetic trade event in Asia.

Show date: November 11 – 14, 2008

Location: Hong Kong Convention and Exhibition Center

Website: <http://www.cosmoprof-asia.com/CA/index.asp>

Resources & Key Contacts

China Association of Fragrance Flavor and Cosmetic Industry

Website: <http://www.caffci.com.cn/>

Contact Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporters, please contact:

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Beijing, China 100020
Tel: (86-10) 8529-6655
Fax: (86-10) 8529-6558
Email: yan.shen@mail.doc.gov/frank.joseph@mail.doc.gov
Website: www.buyusa.gov/china/en/beijing.html

HONG KONG

Summary

Hong Kong's cosmetics, toiletries and skincare market is dominated by imports, as there is very little domestic manufacturing. China was Hong Kong's largest supplier of the US\$815 million market in 2007. France, Japan, and the U.S. were the other major suppliers. Hong Kong imported US\$157 million worth of cosmetics, toiletries, and skincare products from the U.S. in 2007. Imports of cosmetics, toiletries, and skincare products will likely grow at between 10-12% in 2008 and 2009 given strong local demand from continued economic growth and robust spending from the Mainland Chinese visitors.

Hong Kong is an important launch pad for marketing cosmetics and skincare products into the Mainland Chinese market; it acts as a showcase for the millions of Chinese tourists (15 million in 2007) that annually visit Hong Kong to shop. There are tremendous opportunities for U.S. cosmetics and skincare products' suppliers to export to Hong Kong as local retailers and distributors are eager to increase the variety of products that they can offer to the Mainland Chinese tourists.

There are no import duties on cosmetics, toiletry and skincare products in Hong Kong and registration is not required for cosmetic products. The market is very competitive, with the top ten brands accounting for about 70% of the market. Skincare products generate the lion's share of Hong Kong beauty business, followed by color cosmetics, and perfumes and fragrance. Appointing a local distributor and working closely with that distributor to promote the brand, adapting the products to include whitening ingredients, packaging, and product sizes to suit local tastes are important to remain competitive. U.S. cosmetic and toiletry suppliers are, however, known for being innovative in product development, and for producing high quality, safe products at competitive prices. The Hong Kong dollar's peg to the U.S. dollar makes U.S. products competitive against appreciating currencies in Europe, China and Japan.

Market Demand

In 2007, the size of the cosmetics and toiletries market in Hong Kong was estimated to be worth US\$815 million. The 28 million tourists that visited Hong Kong in 2007 (of which 15 million were from Mainland China) augmented demand in the local Hong Kong market of 6.9 million people. According to the Hong Kong Tourism Board, about 80% of the Mainland Chinese tourists who visited Hong Kong "went shopping" and cosmetic and skincare products were among their top 3 shopping purchases. The owner of an international Italian fashion and cosmetics brand commented at their Hong Kong flagship store opening, its first in Asia, that Hong Kong "...increasingly represents a launch pad into the Chinese market; it creates the trends and acts as a showcase for this market." Mainland Chinese tourists are attracted to the 30% lower retail prices compared to the

Mainland and the perceived authenticity and reliability of the products in Hong Kong stores. Part of the reason for the price discrepancy is the 15-22% import tariff that the Mainland imposes on cosmetics as well as the VAT and product registration costs which do not exist in Hong Kong. The number of Mainland Chinese tourists in Hong Kong is expected to grow at an average annual rate of 6.9% to 20 million by 2011. U.S. cosmetic products enjoy an excellent reputation among Chinese consumers.

Sulwhasoo, a premium South Korean skincare brand chose Hong Kong as the first overseas market over the U.S, Japan, and France. Sulwhasoo cited Hong Kong consumers' high receptivity to new products and the open regulatory environment as reasons for choosing Hong Kong. As such, a proliferation of international cosmetics and skincare products' brands have established distribution and retail outlets in Hong Kong and have used Hong Kong as their first market to launch their products in Asia. This comprehensive listing of international brands in Hong Kong coupled with its zero tariffs on imported cosmetics, perfumes and toiletries have made it a major cosmetics shopping destination for the tourists in the region.

The mega and luxury casino resorts in neighboring Macau (an hour ferry ride from Hong Kong,) that will be opening in the next two years will feature facilities such as spas and skincare treatment centers for the many casino and MICE visitors. Macau received an estimated 27 million visitors in 2007 (compared with an estimated 28 million for Hong Kong), an increase of 23% compared with the previous year. Demand for high quality skincare and body treatment products and spa management services will increase in Macau. Many Hong Kong companies and cosmetic product retailers also distribute their products to Macau or operate retail stores there.

Domestic demand for cosmetics, toiletries and skincare products will remain strong in 2008 and 2009 as the economy is projected to grow 6.5-7.5%. Per capita expenditure on cosmetics and skincare products will likely increase as consumers in Hong Kong are prepared to buy more premium products with their increased wealth. This augurs well for American suppliers of premium skincare products and cosmetics.

Hong Kong is also an important entrepot for re-exporting to China. Many U.S. companies sell their cosmetics and skincare products to China through their Hong Kong distributors, as the latter are familiar with the complex product registration procedures in China and the logistics of importing cosmetic products into China. Importers of cosmetic products in China must apply to the Ministry of Health for a cosmetics import license and the regulations governing the issue of this license are very strict, particularly the use of raw materials derived from cows. Many Hong Kong distributors have also opened skincare, hair salons and spas in China and are therefore familiar with selling skincare and cosmetic products to these institutions.

Market Data**US\$ million**

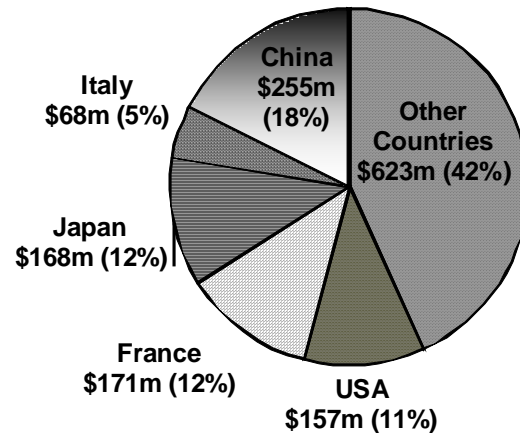
	2007	2008 E	Growth (2008) E	2009 E	Growth (2009) E
Imports	1,442	1,586	10%	1,776	12%
Local production	57	60	5%	63	5%
Exports	684	718	5%	775	8%
Total Market	815	897	10%	1,004	12%
Imports from U.S.	157	174	11%	197	13%
Exchange Rates	7.8	7.8		7.8	

Domestic Production

There are about 60 manufacturers of cosmetics and toiletries in Hong Kong, producing mostly lower-priced products under their own labels for export to Southeast Asia, the U.S. and China and OEM /private label production for skincare salons, dermatologists and medical practitioners. China and Hong Kong signed the Closer Economic Partnership Agreement (CEPA) on June 29, 2003 allowing several categories of goods, including cosmetics and toiletries, to be imported into China through Hong Kong free of any tariffs (subject to Hong Kong origin requirements.) Under CEPA's rules of origin for cosmetics and toiletries, mixing, blending and heating are processes that must be performed in Hong Kong to qualify as a Hong Kong-origin product. Domestic production of cosmetics, toiletries, and skincare products is expected to increase as more local manufacturers take advantage of CEPA to produce for export to Mainland China and for private labels. To qualify for the duty-free access to the China market, U.S. cosmetics, skincare and toiletry products' manufacturers must however, transfer some of their blending and mixing processes to Hong Kong.

Imports

Hong Kong's Imports of Cosmetics, Toiletry and Skincare Products by Source of Imports, 2007

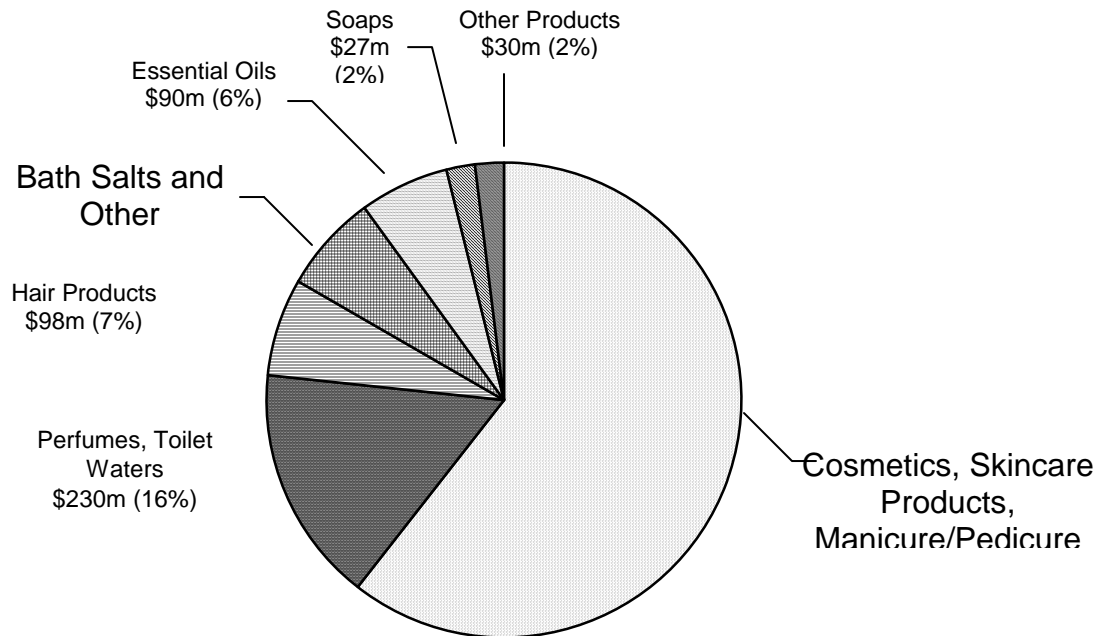


Strong demand for cosmetics and toiletries from Mainland Chinese tourists, and an increase in domestic consumption in Hong Kong following three years of economic recovery in 2004, 2005, and 2006 brought the value of cosmetics and toiletries imports up 20% in 2007.

The three largest suppliers of Hong Kong's cosmetics and toiletries were China, France and Japan. There is little demand for "Chinese" brands of cosmetics and toiletries in Hong Kong: the majority of Hong Kong's imports from China were branded products of foreign companies like Procter & Gamble, Wella, L'oreal, Unilever, Kanebo, Kao, and Colgate-Palmolive that have manufacturing plants in China.

China levies relatively high (15-22%) import duties on cosmetics and toiletries. To supply cosmetic and toiletries at lower prices, foreign manufacturers have established factories in China to avoid the high import tariffs and other restrictions on domestic retailing and wholesaling. With these foreign manufacturers supplying Hong Kong from their factories in China, Hong Kong's imports of cosmetic and toiletries from China will continue to increase.

Hong Kong's Imports of Cosmetic, Toiletry and Skincare Products, 2007



Best Prospects

- Complete line of facial whitening products
- Facial skin anti-aging creams and lotions
- Hair coloring products, colored hair extensions
- Color cosmetics for eyes, lips and face including permanent make-up for eyes and mineral make-up
- Fake eyelashes
- Nail colors, nail-care products, and artificial nails, nail gels and nail-art
- Body treatments, slimming treatments, and massage and bath products for use in spas, and professional skincare salons
- Sun protection products
- Skincare and cosmetic, toiletry products made of organically-grown and naturally derived ingredients, are hypo-allergenic, and of low concentrations of fragrance and preservatives.
- Skincare products for men.

Key Suppliers

U.S. Market Position

Imported U.S. cosmetics and toiletries reached US\$157 million in 2007, accounting for 11% of Hong Kong's cosmetics and toiletries imports, Hong Kong's fourth largest supplier. The major items from the U.S. in 2007 consisted of make-up/beauty

preparations for the skin (US\$92 million), perfumes and toilet waters (US\$27 million), and hair products (US\$10 million.)

Cosmetics and toiletries imports from the U.S. increased 9% in 2007 compared with those in 2006. Imports of pre-shave, shaving and after-shave products from the U.S., in particular, registered a strong 55% growth to US\$1 million in 2007. There is continued strong demand for U.S. skincare products, color cosmetics, and nail products in Hong Kong as imports of these products grew 10% in 2007 to US\$92 million.

U.S. cosmetics and toiletries generally enjoy a reputation for innovative products, competitive prices and stringent quality control on product safety. Procter & Gamble Hong Kong is the market leader in the cosmetics, toiletries and skincare products sector with an estimated 15% share of the total value of sales of these products. Its skincare brands, SKII and Olay are advertised widely in the local media and enjoy brisk sales. Both SKII and Olay have a comprehensive range of whitening skincare products, which are popular in Hong Kong.

Local importers frequently cite a need among foreign suppliers to adapt the packaging, and design package size to local tastes. American suppliers should also try to package higher-end potent skincare products in glass jars or bottles to enhance their product image. Young consumers, in particular, prefer small-sized cosmetic and toiletry items. Prada, for example, packages their skincare products in a box of 3 small tubes or 0.33 fl. oz/10ml instead of one tube of 1 fl.oz/30ml. The small tubes are convenient to carry and stay fresher than a larger tube that will be opened for a longer period of time. A local personal care chain store prefers to stock Japanese products on their shelves as they are attractively packaged especially for display in the limited shelf space that most Hong Kong stores have. This chain store also commented that the Japanese suppliers were willing to adapt their packaging to suit the display configurations of their stores.

The strength of U.S. cosmetics and toiletries lies in skin care products and hair care products for professional use and mass-market hair products. Extensive brand-building activities and competitive pricing of U.S. mass-market hair product suppliers like Procter & Gamble, Johnson & Johnson, and Colgate-Palmolive contribute to the success of the U.S. as the market leader in this sector. Manufacturing of these products, however, is mostly in China or other Asian countries. For professional skin care products, Hong Kong consumers prefer U.S. products for their technological advances in product formulations and manufacturing. Consumers also trust the high safety standards that the USFDA imposes on U.S. manufacturers.

The weakening of the U.S. dollar against the Euro and other currencies also means that Hong Kong importers buying products from Europe and Japan now pay more in Euro and Yen for the same product than a year ago. Currently, the HK\$ is pegged at 7.8 to the US\$ and has fluctuated little since the inception of the linked rate policy in 1983. It is therefore advantageous for Hong Kong importers and distributors to buy products from the U.S. as

the U.S. dollar currency fluctuations will not affect the exchange value of the Hong Kong dollar and U.S. dollar.

Competitors

France supplied US\$171 million or 12% of Hong Kong's cosmetics and toiletries imports in 2007, including US\$112 million of make-up and skin care products and US\$50 million of perfumes and toilet waters. Imports of higher-end French brands of make-up and skin care products will continue to remain strong with demand from Mainland Chinese tourists and local consumers as the main driving forces for future growth. French perfumes, cosmetics and skin care products enjoy a long tradition of quality and will also remain popular with Hong Kong consumers. Popular French brands in Hong Kong include Christian Dior, L'oreal, Lancome, Guerlain, Givenchy, Chanel, Vichy, YSL, L'Occitane, Avene, Darphin, Decleor, Biotherm, Clarins, and Rene Guinot.

Japan was Hong Kong's third largest supplier of imported cosmetics and toiletries in 2007, with US\$168 million or 12% of Hong Kong's total imports of cosmetic and toiletries. About 79% or US\$132 million of Japan's exports of cosmetic and toiletries to Hong Kong were make-up and skin care products. Local consumers cite suitability of Japanese skin care products and color cosmetics to Asian skin type and skin color as the reason they prefer Japanese products to American and European products. In addition, Hong Kong consumers prefer Japanese packaging and consider Japanese products to be fun, modern and stylish. Local importers commented that Japanese manufacturers were willing to adapt their packaging to local tastes and to the tight space configurations of the local retail chain stores. Hong Kong's imports of Japanese cosmetics and toiletries will continue to remain strong. Popular Japanese brands in Hong Kong include IPSA, Shiseido, Cle de Peau Beaute, Kose, Kanebo, Shu Uemura, Kesalan Patharan, Fancl, Ex-beaute, and Biore.

Prospective Buyers

Hong Kong's per capita GDP reached US\$42,000 in 2007, 15th highest in the world, ahead of Canada, Japan, and Switzerland. Hong Kong consumers between 30-49, comprising Hong Kong's largest age group (36% or 2.5 million) and having the highest disposable income, are the biggest buyers of imported cosmetics and toiletries.

The increasing number of men in Hong Kong using cosmetics and skincare products prompted Shiseido Hong Kong to start a Shiseido Men's Club in 2005 and Shiseido has since then been conducting grooming seminars for men. The trainer at the Hong Kong branch of the Chantecaille cosmetics firm that markets unisex makeup describes the market potential for men's makeup as huge and one that is "...growing rapidly."

Another large group of prospective buyers is Hong Kong's 28 million visitors. Mainland Chinese visitors, since 1997, have replaced Japanese visitors as the highest per capita spenders in Hong Kong. One cosmetic-specialty retailer reported about US\$900,000

worth of sales, the highest in one day, in one of its outlets that is frequented by Mainland Chinese visitors.

In the B-to-B market for skincare products, there are about 70 dermatologists, 50 plastic surgeons, 60 private medical practitioners, and about 70 medi-spas (spas with medical practitioners) that offer aesthetic medical treatments such as chemical peels, botox injections, fillers, IPLs, and other skin laser treatments. These institutions also prescribe and retail skincare products. In addition, there are about 7,000 professional skincare salons in Hong Kong offering facial treatments, and massage services. The larger salons sometimes include day spa facilities and offer nail treatment services.

Make-up and color cosmetics, skincare products, manicure and pedicure products

An increasing number of Hong Kong girls are using make-up at a younger age. Lip colors and nail colors are more popular than eye colors as Hong Kong women generally do not use much eye make-up. They prefer permanent eye-make-up such as eyebrow and eyeliner tattooing. False eyelashes and semi-permanent eyelash extensions are extremely popular. Unlike lipstick, eye make-up is not considered essential facial make-up item. In make-up products, Hong Kong consumers favor the pastel colors and the pale tones of Japanese facial foundation products that are formulated for Asian skins tones. Brand loyalty is low among Hong Kong consumers for make-up products.

In the B-to-C market for skincare products, American, Japanese, French and Swiss products are most popular. Japan is the largest supplier (US\$132 million) of imported skincare products, color cosmetics, and nail products, followed by France (US\$112 million,) and the U.S. (US\$92 million. A Hong Kong University study on public opinion found that Hong Kong women spent an average of US\$114 per year on facial skincare and the amount far outweighs their spending on care for different parts of the body.

Among the U.S. retail brands, Max Factor's SKII and Estee Lauder's La Mer products enjoy a strong market position. SKII's whitening range of skincare products is among the market leader. Fancl (Japan) with its emphasis on skin-whitening and preservative-free ingredients has also enjoyed wide acceptance. Manufacturers of mass-market skin care products, like Beiersdorf AG (Nivea White), L'oreal, Oil of Ulay and Neutrogena have also entered the market for whitening products. These brands compete well with the premium brands on price and quality. To compete in the skincare products market in Hong Kong, the manufacturer **must have** a whitening product or line of whitening products (as opposed to "lightening" or "brightening.") An Asian Market Intelligence report

indicated that one third of women in Hong Kong use face whitening products. Kiehl's, a New York-based company introduced a whitening line of skincare products in Asia, a first time for Kiehl's and the whitening range was launched in Hong Kong before its debut in the U.S.

Hong Kong consumers, according to a brand manager of a leading French skincare product company are more demanding than their western counterparts in care and

treatment of facial skin –they expect products to deliver smoothness, luminosity and fair, flawless complexion.

Skincare products for men are growing in popularity with an increasing number of men-only skin care salons opening. President and managing director of L’Oreal Hong Kong said, “we see emerging segments that probably didn’t exist a few years ago,” citing men’s and sun care markets, plus the dermo-cosmetics segment, among others as trends that will drive the market in the next few years.

In the “prescription only” skincare products market or dermo-cosmetics market, the U.S. is the market leader and brands such as SkinCeuticals and NeoStrata are well known. There is, however, competition from the OEM and private label products of the medical practitioners and larger salons. In marketing products to the medical practitioners and salons, it is important to include quotes of the key opinion leaders (KOLs), before and after treatment photographs, and results of clinical trials; all of which must be translated into Chinese.

The suncare and sun tan market in Hong Kong is worth about US\$380,000 with a short season for sun tan products of 4-5 months. The major brands are Hawaiian Tropic, Banana Boat, Coppertone, Neutrogena and Mentholatum’s “SunPlay” (available only in the Asia Pacific region and Japan.)

Hair products

Hair coloring is common and widely accepted. The influx of younger, male and female consumers of hair colorants has fueled the growth of hair products in Hong Kong. Hair salons use Goldwell, L’oreal, Wella, and Schwartzkop.

Procter & Gamble’s Vidal Sassoon, Pantene, Rejoice, Head & Shoulders, and Clairol are the market leaders in the retail hair products sector. Johnson & Johnson, Neutrogena, Revlon, Freeman, and Wella are also popular brands. In the professional hair products sector, American brands are also market leaders, with brands like Paul Mitchell, Sebastian, Tigi, Matrix, Nioxin, and Redken. Wella, Schwartzkop, and L’oreal are the other major suppliers of professional hair-care products.

Bath preparations and soaps

Hong Kong consumers have shifted away from traditional products such as bar soaps and bath salts to liquid soaps and bath additives. As many Hong Kong households do not have bathtubs, sales of bath salts and soaks are primarily geared toward the spa market.

Perfumes and fragrances

Brand name is the most important factor affecting Hong Kong consumer purchasing decisions for perfumes. Brands associated with clothing designers such as Calvin Klein, Kenzo, Issey Miyake, Marc Jacob, Donna Karan, and Giorgio Armani, tend to sell better

than mass-market fragrance products. There is also a preference for lighter and floral fragrances and perfumes. There is very little demand for body sprays.

Market Entry

As a channel for retailing cosmetic products, the department stores in Hong Kong tend to operate more like landlords than retailers. Most do not purchase any of their own stocks of cosmetics and toiletries but lease their floor space to local distributors of branded cosmetics to operate as concessionaires. They charge between 25 and 35% of the lessees' sales turnover as rent. Among the department stores, Hong Kong Seibu and Sogo Department provide concessionaires with the highest sales per square foot of floor space. Having a facial treatment room behind the concessionaire counter has proven to be effective in marketing products in the competitive environment of department store cosmetic floors.

Apart from the department stores, Watson's and Mannings are the two largest personal care product chain stores. These two chains also retail cosmetics and skincare products and expect a minimum 35% profit margin from the sale of cosmetics and toiletries. Suppliers to these chain stores must provide 3-6 months credit along with listing and promotional fees for introducing new products into their stores. Minimum listing fee is USD6,500 per SKU. Watson's parent, A.S. Watson group, opened a chain of stores called "Masstige" last year to target the higher-end customers. Brands of skincare products available at Masstige stores include Peter Thomas Roth, Korres, and Vichy. Masstige stores' customers are expected to spend on average US\$21 on each visit, double that of Watson's stores.

Other retail outlets for cosmetics and toiletries are the independent dispensaries (of which there are 1,500), the supermarket chain stores (Park 'N Shop and Wellcome), and cosmetics specialty stores (Sa Sa, Bonjour, Angel, Aster). The latter tend to retail brand cosmetics from parallel import sources or grey market dealers (imported from unauthorized distributors in a third-country) and mass-market non-branded products from Japan, Taiwan, Korea, U.S. and the EU. The largest of these outlets is Sa Sa (with a 35% local market share and 110 stores,) in Hong Kong, Macau, Singapore, Malaysia, Taiwan, Thailand and China (5 outlets.) Sa Sa is now the largest cosmetic retail chain in Asia, retailing more than 400 brands and 15,000 SKUs, including a range of products made of naturally-derived ingredients. Sa Sa imports about 100 brands directly from overseas manufacturers and the rest are from local distributors and suppliers. Sa Sa and Bonjour are extremely popular with Mainland Chinese tourists. More than 40% of Sa Sa's sales are to the Mainland Chinese tourists.

Joyce Boutiques, a high-end specialty apparel store also retails about 40 high-end, small and niche skincare, hair care, body care, and cosmeceutical brands (such as Eve Lom, NV Perricone) under the Joyce Beauty brand. 60% of Joyce Beauty brands are sold exclusively at their stores. As a sign of the growing potential of the cosmeceutical market, Harvey Nichols, which opened in September 2005, devoted part of its department

store space to a well-being section called “Beyond Beauty” featuring “the best edited selection of beauty brands – global and niche, cult and every day products,” and treatment rooms. Beyond Beauty offers skincare, body care, hair care, and spa products, fragrance products, and products for men. The brands available at Beyond Beauty include Ultraceuticals (Australia,) Dr. Brandt, June Jacobs Spa (US,) Exyste (France,) The Organic Pharmacy, Strivectin-SD (US,) DDF, and Lab Series, Zirh, and Maxwell’s Apothecary (for men.)

To build brand recognition for its own portfolio of brands and the L’oreal brand, L’oreal also run about 60 of their own cosmetic and skincare products retail stores.

B-to-C Internet sales of cosmetics and skin care products is gaining popularity in Hong Kong. Many local consumers not only use the Internet for market research on new products, and for comparing prices, but also for purchasing products not yet available in Hong Kong and products whose online prices are cheaper than the retail prices in Hong Kong. Local distributors are concerned that these parallel imports are hurting their sales and often demand that the American principals shut down the websites that retail parallel products that they distribute. American suppliers must take into consideration the online prices of parallel imports when fixing their export prices to the local distributor.

The best way to enter a market is through appointing a local agent or distributor. Many Hong Kong distributors have agreements with their overseas principals to include distribution of the products in Mainland China. The U.S. manufacturer must, however, provide launch support to the appointed agent or distributor in the form of sufficient literature in both English and Chinese, product samples and sachets for distribution to consumers, and salons, doctors, etc. For products that are distributed through retail channels, they must be willing to invest jointly with the appointed distributor in advertisements and other brand-building promotional activities. According to AC Nielsen, media spending on cosmetics-related advertisements in Hong Kong magazines for the first eleven months of 2007 exceeded the whole year of 2006’s advertisement spend by 25%. Examples of other brand building activities include organizing make-up demonstrations by overseas make-up artists and makeovers at cosmetic counters, and product launch events featuring visits by celebrities to the retail outlets.

As Hong Kong is one of the world’s largest centers for Chinese language publications, it is essential for the appointed distributor to cultivate good relationships with the local media to ensure regular features on their products. Fashion/beauty/lifestyle magazines such as Marie Claire, Cosmopolitan, Elle, and Bazaar publish their Chinese editions in Hong Kong, some of which are distributed in

Mainland China, Southeast Asian countries, and in Taiwan. These write-ups are essential in building brand and product awareness in the Chinese-speaking markets of Asia. Editors of these publications expect product samples together with product literature and photographs when requesting publicity through their magazines.

Exhibiting at local trade fairs is another important way to enter the market. Exhibitors often locate agents and distributors at trade fairs. Cosmoprof Asia (held annually in Hong Kong in November) is an international trade show featuring cosmetics, toiletries, perfumes, hair products, products for professional salon and spa use, raw materials for making and packaging cosmetics and toiletries, is popular with U.S. manufacturers because buyers from around the world, local importers/distributors and beauty industry professionals visit this fair to find new partners, new products or new companies to represent. U.S. exhibitors have enjoyed tremendous success at this show, locating new customers or finding distributors for their products not only in the Asia region but also from the rest of the world. The U.S. Department of Commerce has certified the show for the past few years. Further information on Cosmoprof Asia is available at <http://www.cosmoprof-asia.com>.

The preferred method of quoting for product order enquiries is “CIF landed,” and in US Dollars. Local importers pay their overseas suppliers through letters of credit, telegraphic transfers, and bank drafts in the preferred foreign currency of the exporter. Payment by telegraphic transfer is the most popular.

Hong Kong banks are renowned for their import payment services. The Hong Kong dollar (HK\$) is freely convertible and there are no regulations that hamper inward or outward remittance of capital or profits.

Market Issues & Obstacles

There are no tariffs on imported cosmetics, toiletries and skincare products. Hong Kong accepts U.S. product labeling and there are no local mandatory labeling or registration requirements on cosmetic or cosmaceutical products. As long as the cosmetic product or cosmaceutical product does not claim to cure a medical condition on its labels, its promotional materials or in its package inserts on usage instructions, registration is not required. Skincare products containing hydroquinone do, however, require registration, which normally takes nine months to a year to complete. Enquiries on whether a skincare product requires registration should be directed to the Department of Health, Pharmaceuticals Registration and Import/Export Control Section. The email address for enquiries is pharmweb@dh.gov.hk, telephone number: (852) 2319-8451 Fax. Number:(852) 2803-4962. Information on registration of products is available at www.info.gov.hk/pharmser.

Trade Events

Cosmoprof Asia

November 12-14, 2008, Hong Kong Convention and Exhibition Center, Hong Kong

Contact: Sogecos s.p.a.

Via Filargo 38

20143 Milan, Italy

Miss Alessandra Allegri, Marketing and Sales, North America

Email: alessandra.allegri@cosmoprof.it

Website: www.cosmoprof-asia.com

Resources & Contacts

The Cosmetics and Perfumery Association of Hong Kong Ltd.

Room 308 Winning Commercial Building

46-48 Hillwood Road

Tsimshatsui, Kowloon

Hong Kong

Tel: (852) 2366-8801 Fax: (852) 2312-0348 Email: cosasso@netvigator.com

Contact: Mr. Barry Yip, President

(The association has about 1,000 members from local distributors, retailers, and the Hong Kong offices of international companies. Its main function is to upgrade the image and service standards of the local industry and to present a united industry voice)

Contact Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporters, please contact:

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Website: www.buyusa.gov/hongkong/

INDIA

Market Overview

Many of the world's popular cosmetics brands entered the Indian market in the 1990s as the Indian market opened up to foreign companies. The cosmetics and personal care industry has been growing at an average rate of 15-20 percent for the last few years.

Growth has come mainly from the low and medium-priced categories, which account for 90 percent of the cosmetics market in terms of volume. Even though mass-market products still constitute the major portion of the India cosmetics and toiletries market, increased disposable income has led to growth in demand for premium products. The urban population in particular, with its rising purchasing power, is the main force that drives the demand for various cosmetic products in India.

The reasons for the growing demand for cosmetic products in India also include: greater access to television, which has created a growing awareness of the western world; increased advertising in general; and greater product choice and availability. The success of contestants from India at various well known international beauty pageants in the last few years has also contributed to making Indian women more conscious of their appearance and more aware of western cosmetic products and brands. Also, a boom in the Indian fashion world has contributed to the rise in demand for professional beauty care products.

Even with double-digit growth rates, the market penetration of cosmetics and toiletries products in India is very low. Current per capita expenditure on cosmetics is approximately \$1.00, as compared to \$36.65 in other Asian countries. This low market penetration for cosmetics and personal care products in India can be viewed as an opportunity for more significant growth down the road in this country of 1 billion people. The current size of India's cosmetic and toiletries market is about \$950 million. The fastest growing segment is color cosmetics, accounting for around \$60 million of the total market. Nail enamels and lipstick account for about round 65 percent of the color cosmetic segment. Revlon and L'Oreal dominate the small premium lipsticks and nail enamels niches. Lipstick sales account for nearly a third of the market at \$21 million, while the market for nail enamels is about \$23 million. Lakme, a brand originally introduced by the Tata Group of India, but now owned by Hindustan Lever (HLL) of the Unilever group, Tips & Toes, and Revlon dominate the color cosmetics market. The color cosmetics segment is very competitive and has a high penetration level, compared to other market segments.

The skin care market in India is about \$180 million. The market for specialized skin care products such as sunscreens, toners, cleansers, astringents, dark circle removing creams, anti-wrinkle creams and day and night creams has grown steadily in recent years. Most consumers, however, are still are using only facial cream and moisturizers, with moisturizing lotions, fairness creams and facial cleansers being the most popular products. These products account for approximately 60 percent of the skin-care segment.

The major players in this segment are Lakme, Ponds, Fair & Lovely, J.L. Morison and Revlon.

The size of the hair care market in India is about \$200 million. International companies, including Unilever, through its subsidiary, HLL, and Procter & Gamble dominate the shampoo market in India. The hair coloring and styling/gel market segment is at a nascent stage and there are not many local brands available. Foreign brands such as L'Oreal and Wella have started to make inroads into this segment by positioning hair colors as a fashion accessory. The market penetration of these products is very low, however, and limited to a small section of the urban market. The market for hair creams, mainly used for hair grooming by men, is also very small. Hair oiling, an age-old Indian tradition mainly used as a pre-wash nourishment treatment, is a major niche in this sector. In the last few years, there has been a renewed craze for herbal cosmetic and personal care products, especially in the skin care segment with the growing belief that chemical based cosmetics are harmful. Local majors, including Shahnaz, Lotus Herbals, and the Biotique brands dominate the premium herbal cosmetics segment in India, estimated at \$100 million. Many companies have expanded their product range into herbal variants, including companies with a primary focus on health care products.

Market penetration levels of international cosmetics brands in India are low. Foreign brands currently constitute only 20 percent of the market, due largely to the higher pricing these brands carry. Foreign brands initially garnered sales in the market based on their international brand image, but repeat purchases were not forthcoming. To hit their sales growth targets, several foreign companies have had to reformulate their pricing strategies to tap the most promising market segment--urban women in the middle and upper income groups in the age range of 23-50.

The toiletries market segment in India is well developed and dominated by multinational companies and a few large Indian companies. This segment is also characterized by high entry barriers, a high rate of new product launches, and high advertising expenditures. Bath and shower products account for the largest share of the toiletries market segment. The toiletries segment can be divided into two categories: the less price sensitive niche and the highly brand conscious premium niche. The price sensitive niche caters to the middle and lower middle class and the premium niche caters to the urban and higher class.

Nowadays, cosmetics and toiletries are not just of interest to women consumers. Indian men are increasingly using body sprays, colognes and other cosmetics and toiletries. With a rising demand from men, many players are coming out with men's cosmetic products, especially in skin care. Overall, the market size of the men's personal care segment is about \$165 million, with Gillette having won the largest market share to date. Other major players in this segment include Godrej, J.L. Morison and HLL.

India's annual import of cosmetics and toiletries and intermediate raw materials is around \$121 million, of which the U.S. has a share of approximately 10 percent. France, Germany, Italy, Netherlands, and Spain account for the lion's share of imports, with Australia, China, and Japan accounting for the rest.

Regulatory Regime

Prior to March 31, 1999, cosmetics and toiletries were on an Indian import "restricted list". This meant that a special import license was required to import cosmetics and toiletries into the country. Today, India permits the importation of cosmetics and toiletries without any restrictions. Although the importation process has been made easier and India has also reduced import tariffs substantially from a high of over 70 percent a couple of years ago, the current 34.44 percent total import tariff on cosmetics products though very much an improvement is still on the higher side as compared to other countries. Import tariffs on cosmetic products last year were 40.38 percent.

Effective January, 2001, the Indian government made it mandatory for all pre-packaged goods (intended for direct retail sale) imported into India to bear the following labeling declarations: i) name and address of the importer; ii) generic or common name of the commodity packed; iii) net quantity in terms of standard unit of weights and measures; iv) month and year of packing in which the commodity is manufactured or packed or imported; and v) maximum retail sales price (MRP) at which the commodity in packaged form may be sold to the end consumer. The MRP includes all taxes, freight transport charges, commission payable to dealers, and all charges towards advertising, delivery, packing, forwarding and the like. Compliance of the above-stated requirements has to be ensured before the import consignments are cleared by customs in India. The import of pre-packaged commodities such as raw materials, bulk imports, etc., that need to undergo further processing before they are sold to end consumers are not included under this labeling requirement.

The term "cosmeceuticals" is not recognized in India. Doctors in India are not allowed to sell products and would not prescribe anything imported that does not have FDA approval. If a cosmeceutical product cannot be sold as an over-the-counter item and is classified as a pharmaceutical item, the product would require approval from the office of the Drug Controller of India in the Ministry of Health. The import of such products will only be allowed if the generic product category is registered with the Drug Controller's Office. The contact address of the Drug Controller's office is: Drug Controller of India, Ministry of Health, Government of India, 342, 3rd Floor, A Wing, Nirman Bhawan, New Delhi 110 001 (fax: 91-11-2301 8806; Email: dcj@nb.nic.in).

Best Prospects

Perfumes and fragrances, and specialized/professional skin care and hair care products are some of the major product niches with promising prospects for U.S. companies. Sophisticated products such as fragrances, non-transfer long-stay lipsticks, liquid lip color, eye make-up, anti ageing/anti wrinkle creams, professional hair-care products,

preparations for shaving creams, are some of the major cosmetics items imported by India.

Industry sources expect significant growth in the mass segment and comparatively less so in the premium segments of the Indian cosmetics market. The market base in the premium segment is very small, therefore, the scope for rising volumes in this segment is modest. Prospects for increasing volumes is higher in the mass-market segment mainly because the market base for this segment is bigger. This segment can best be tapped with lower pricing strategies, especially when trying to persuade end-users to try out new products.

Distribution Channels

An increasing number of cosmetics companies are now dealing with consumers directly through special exclusive counters in major departmental stores and malls featuring their own beauty consultants. Service marketing strategies, such as point-of-sale advice and beauty counseling, have proven to be effective methods to increase sales of cosmetics and personal care products. Beauty counselors or advisors at retail outlets have been very successful in gaining attention, creating product awareness and overcoming consumers fears about many cosmetics and personal care products such as home hair permanents and color cosmetics.

L’Oreal India has established a consumer advisory unit and Ponds offers skin care advice through touch-screen kiosks and telephone help lines for skin care. L’Oreal also markets its range of specialized hair care products exclusively through salons and beauty parlors and is currently the only company in the market that has a hair color range tailored exclusively for parlors. To promote the growth of their products, a number of Indian companies have established exclusive franchised beauty salons in major metros that offer specialized training courses to customers. Beautique, an exclusive one-stop shop for imported cosmetic brands in New Delhi, offers qualified beauty consultants to provide free advice and makeovers to consumers. Companies also continue to innovate their selling methods. For example, Baccarose, owners of the Chambor brand, organizes tea party make-up sessions at major Indian cities.

In general, India is a very price sensitive market. Cosmetics and personal care product companies, especially the new entrants, have had to work out innovative strategies to satisfy Indian preferences and budgets in order to establish a hold in the market. For example, given the price-sensitivity of Indian consumers, many cosmetic and toiletries companies launched their products in smaller pack sizes to make them more affordable. Small pack sizes have proved to be very popular in the Indian market as the concept offers consumers lower purchase costs and the opportunity to try new products. A strong brand promotional campaign, good distribution network, constant product innovation and quality improvement, and the ability to provide a variety of quality products are some of the major reasons for the success in the market. Understanding the attitudes, preferences and aspirations of the different segments of India's consumers is crucial to achieving success in the Indian market.

For More Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporters, please contact:

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INDONESIA

Summary

The cosmetics industry in Indonesia has experienced tremendous growth in the last three years. The sales prospects remain good with steady growth projected over the next two years. While local products account for over 80 percent of the market share, imported cosmetics with international brands are widely available in the Indonesian market. Despite rapid growth in the industry and sharp competition among brands, Indonesia is still a good potential market for imported cosmetics. The market is expected to grow at an average of 10-15 percent annually.

U.S. products have a strong presence in Indonesia. Other competitors come from China, U.K., France, Germany and Japan. Consumers lifestyles, increased awareness of personal grooming, introduction of new products, growth of modern retail outlets and high-end shopping malls, and increasing number of beauty services offered, should lead to positive growth in the cosmetic sector. Couple these with a population of 220 million people, Indonesia presents a market with strong growth and a good opportunity for U.S. cosmetics.

There are no restrictions on importing cosmetic products to Indonesia. However, imported cosmetics must be registered at the National Agency of Drug and Food Control (Indonesian acronym BPOM). Import duties for cosmetic products are 10 percent. In addition, a value-added tax (VAT) of 10 percent is imposed on all imported cosmetic products.

The most common method of market entry is through a local distributor or agent.

Market Demand

Cosmetics and toiletries in Indonesia will continue to be in high demand. Even though competition among these products is fairly high, overall demand will continue to increase substantially. Domestic manufacturers are successful in the middle and low-end market segment, and supply most of the local demand. In addition to local products, there is good acceptance for imported cosmetics in Indonesia. Imported cosmetics represent around 16 percent of the total market. Most popular cosmetics brands have entered the Indonesian market and are enjoying growing sales. Major players in this segment are the U.S., China, U.K., France, Germany, and Japan. U.S. cosmetics are well regarded by the high-end consumers, and are well positioned in the Indonesian market place.

In the cosmetics sector, skin care products accounted for more than 23 percent of total imports. The U.S. was the third largest supplier in this category. Business sources predicted that the market size and sales for skin care products will continue to increase due to the growing awareness of the value of skin-care treatment for both males and

females. An increasing number of men, as well as working women, are more concerned about their skin care, driving the demand for men-specific products, as well as anti-aging and whitening products.

Business sources estimate that the growth for anti-aging and whitening products was between 20-25 percent in 2007. They stated that in the near future, the market for both local and imported anti-aging and whitening products still has potential to grow. High-end consumers prefer using imported cosmetics and search for brands that can provide status and benefits. Furthermore, Indonesians in general continue to look for products that can provide solutions for wrinkles and pigmentation. Skin care products that rejuvenate, brighten and whiten skin, reduce and prevent wrinkles, improve elasticity and provide skin firming are widely sought.

Men's cosmetics and toiletries are becoming popular and the potential is large. Business executives, community leaders and celebrities are concerned about their personal grooming and they have a strong desire to look distinguished. Spas and salons offering treatment programs for executives and celebrities have increased in numbers. Male consumers utilize spa services after work for relaxation purposes. Men's personal care segment, such as cleansers, moisturizers and skin care products for anti-wrinkle protection have shown increased demand in recent years, a sign that this segment of the Indonesia cosmetics market is growing. Most men's cosmetics are sold in department stores and through multilevel marketing companies.

The growth potential is also affected by increased demands from the service industry such as beauty parlors and spas. More people seek professional help for facial and skin treatment, stimulating the growth in sales for skin care products. More new upscale beauty salons and skin care clinics were opened in the fashionable areas as well as shopping centers. The number of professional hair care salons selling specialty products has also increased.

In addition to generic spa and beauty treatments, spa businesses and related product lines have increased their offerings to consumers. Wedding spa or pre-wed body and beauty treatment has become a trend in Indonesia, contributing to the growth of skin care market. Presently, local products dominate the market for skin and body care. The Indonesian spa industry is widely recognized particularly in the hotel and resort areas. There are increasing opportunities for spa aromatherapy supplies, since local producers lack the research capabilities to develop good quality products.

Market Data

Industry sources estimate that the total market for cosmetic products in Indonesia increased by 13 percent from \$1.06 billion in 2006 to \$1.2 billion in 2007. The cosmetics import market grew by 27 percent from 2006 to 2007. Estimated total imports of cosmetics were valued at \$147 million in 2006, and increased to over \$187 million in 2007. This increase was also driven by a change in the import tariffs from 0-5 percent resulting from AFTA (ASEAN Free Trade Agreement). This change has encouraged

multinational companies, like Procter & Gamble and Johnson & Johnson, to restructure and relocate to find more economical ways to achieve efficient sourcing and supply systems. Industry sources predict that the market size for Indonesia's cosmetic products could reach \$1.3 billion in the near future. With an average growth between 10-15 percent, the industry is expanding in line with the strengthening economy.

Due to recent increases in fuel and food prices, business sources predicted that there will be a decline in the purchasing power of the middle and lower income segment of the population. This group will shift their consumptions to lower-priced products. The high income segment will not be affected by the change in the economy, and will continue to drive the demand up for imported cosmetic products.

Best Sales Prospects:

1. Skin Care Products: Anti-aging and whitening products; products that protect, nourish and rejuvenate aging skin
2. Hair care products: hair treatment products to maintain healthy hair and to prevent hairloss
3. Massage Products used in spas for skin treatment

Key Suppliers

Indonesia has more than 350 manufacturers producing numerous cosmetic products. These producers are mostly cottage industry level producing affordable cosmetics, soaps, lotions and skin care products. In contrast, the largest producers are major skin care companies operating licensed manufacturing facilities in Indonesia including Revlon (produced by PT Rudy Soetadi & Co. Ltd.), Ponds, Vaseline and Dove (produced by PT Unilever), and L'Oreal (produced by PT Yasulor). Among the leading national cosmetic companies are PT Martina Berto, PT Mustika Ratu, PT Vitapharm, and PT Ristra Indolab. They produce traditional herbal and non-traditional skin care treatment.

Third country exporters of cosmetic products competing with the U.S. include China (6.4%), U.K. (5.5%), France (3.8%), Germany (2.2%), Italy (1.7%) and Japan (1.5%). Some of the product brands found in the market are Guerlain, L'Occitane, La Prairie, ROC, Clarins, L'oreal, Yves Saint Laurent, Givenchy, Nivea, Oriflame, Seba Med, Shiseido, Kanebo, SKII, and Kose. In the lower market segment, Chinese and Korean products pose strong competition, especially with domestic producers. Chinese products are perceived as affordable, with high quality traditional ingredients. Thailand was the largest exporter of skin care products and shampoos to Indonesia, accounted for over 60% of the total imports in 2007.

U.S. imports accounted for 4.3 percent of the total imports. This official number likely understates the percentage of U.S. imports because many U.S. products were shipped through Singapore. U.S. products are also manufactured in other ASEAN countries and exported to Indonesia. Consumers acceptance of U.S. products is fairly high. U.S.

products include: Procter & Gamble, Clinique, Estee Lauder, MAC, Elizabeth Arden, Revlon, Neutrogena, Cover girl, Olay, and H2O.

Some of the products used in beauty parlors are Murad, Sothys, ROC, Doctor Kayama, DuraSkin, and Miracle White.

Prospective Buyers

Given its 220 million population, Indonesia is a good potential market for cosmetic products. Of this population, 12-15 percent are estimated to be in the middle-high income range. These are people who can afford to buy imported products. These high-end consumers are concentrated primarily in urban areas. For this group, quality, trends and brand names play an important role in their personal choices.

Distributors notice that products with labels printed “Made in USA” appeal more to consumers. Middleaged consumers exhibit strong preferences and they tend to become loyal to one brand. Reputation and name recognition continue to be the driver in these groups’ cosmetics purchases. Young consumers are more inclined to shop around, use different products, and select from different brands. High-end consumers are willing to pay a higher price for well-known branded products, which convey higher social status. The middle and lower level income groups are very price conscious and susceptible to economic swings.

Indonesians nowadays are increasingly image and fashion conscious. Daily make-up has become a basic need among working women. While women continue to be the dominant consumers of cosmetic products, sales to the male market segment are increasing steadily. Younger generations have also become regular users of cosmetics and skin care products.

Consumer spending increases during holiday seasons, such as Lebaran or Idul Fitri (Muslim celebration), Chinese New Year and Christmas. Stores take advantage of these times of the year as demand increases during these festive seasons.

Market Entry

In Indonesia, cosmetics are sold through specialty stores, drug stores, department stores, supermarkets, multi-level marketing (MLM), skin care clinics, and beauty salons. Among the MLM companies are Amway, Nu Skin, Sunrider, Forever Living, Herbalife and Oriflame. U.S. exporters wanting to sell their cosmetics products in this market should appoint a local distributor that will conduct the registration process, and introduce the products to the market.

Indonesian consumers have an aversion to low-quality products and are attracted to branded products. They also tend to be image conscious. Brand loyalty is most likely to be gained by products that are of good quality, well packaged, well-distributed, well-promoted and competitively priced, rather than by cheap products.

Indonesian women are market followers. They try to follow the fashion trends that are popular in other Asian countries, e.g., Singapore and Hong Kong. According to industry sources, products that are popular in Singapore would have good prospects in Indonesia.

Since the cosmetics market in Indonesia is highly competitive, creation of a strong brand through promotion is recommended for substantial entry into the market. Successful products tend to contain unique formula or ingredients not available in Indonesia. In addition strong marketing campaign and advertising play a major role in promoting awareness of products and brands and in expanding market reach. Business sources indicate that cosmetics companies use print media as their primary advertising channels to promote imported cosmetics.

U.S. manufacturers seeking to enter the Indonesian market should consider the following points:

- Work closely with the local agent/partner giving full support to product launch and marketing.
- Support the local agent/partner with the necessary papers required for registration at the National Agency of Drug and Food Control (Indonesian acronym BPOM).
- Be responsive and flexible in complying with consumer needs/demands.

Market Issues & Obstacles

The National Agency of Drug and Food Control (Indonesian acronym BPOM), regulates and controls the registration, distribution and quality of cosmetics. Imports of cosmetics must comply with Indonesian Law. Sales of cosmetics products are regulated through the Directives to Register Cosmetics stated in the “Stipulation on Registration Implementation” and through the Decision of BPOM No. HK 00.05.4.1745, dated May 5, 2003.

Registration of imported cosmetics can be done only by local distributors that have authorization from overseas manufacturers.

There are no formal import barriers on cosmetics. The import duty for cosmetics is 10 percent plus 10 percent VAT. Rates are 0-5 percent for products originating in ASEAN FTA members.

Manufacturers or importers must register all cosmetics whether locally produced or imported with BPOM. Likewise, the manufacturer or importer must fulfill the criteria for registered cosmetics regarding the safety, quality, packaging, and labeling of the products. Labeling must contain honest and complete information that is not misleading and must not contain unwarranted claims. Products should be of good quality, use proper manufacturing methods, and use only safe materials outlined by the BPOM.

Documents required to register cosmetics in Indonesia include:

- The formula and manufacturing process,

- Raw material specifications,
- Finished product specifications and usage,
- Labeling and samples

The foreign company must also provide the following documents:

- **Letter of Distributorship Agreement:** appointing the local company as the agent or distributor.
- **Letter of Authorization:** from the foreign manufacturer requesting the agent or distributor to register product(s).
- **Certificate of Free Sale:** stating that the particular products are produced and marketed in the United States in general conformity with U.S. requirements.

Trade Events

Name: Cosmobeaute Indonesia
Date: August 14-16, 2008
Location: Jakarta, Indonesia
Contact: PT Prakarsa Sinergi Utama
Email: info@ptprakarsa.com
Website: www.cosmobeauteindonesia.com

Resources & Key Contacts

Further information on BPOM registration procedures can be obtained from:

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National Agency of Drug and Food Control
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Association:

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JAPAN

Summary

Japan is the world's second largest market for cosmetics and toiletries after the U.S. Japan has a long tradition of using cosmetics, and Japanese cosmetics manufacturers are highly competitive and sophisticated. The oldest Japanese cosmetics manufacturer, a major player in the industry, dates back to 1615. Japanese consumers today are known to be highly conscious of quality, product value, and the brands they buy and use.

The U.S. is the second largest exporter of cosmetics and toiletries to Japan. For the purposes of this report, "cosmetics" includes non-medicated skin care, hair care, make-up, fragrance, and personal care products. U.S. manufacturers of cosmetics should keep an eye on the Japanese market as it offers competitive U.S. brands and products rewarding opportunities. In addition, market success in Japan can raise product profile and visibility in other international markets, particularly in Asia.

Market Demand

Japanese consumers are very particular about the quality and safety of the products they buy and use, and products must be nicely designed, packaged and promoted. Their needs and tastes may change with seasonal trends and fashion changes, and they may be eager to try something new and different now and then.

As described in more detail in the Best Prospects section, mainstream products are anti-aging, skin lightening, and skin moisturizing cosmetics and toiletries. High performance and quick-acting skin care products for specific parts of body, or those cosmetics with multi/complex functional ingredients, are also popular items. Furthermore, organic or natural products, luxury products, and unique or branded products are in demand in the marketplace. Men's skin care and personal care products are drawing an increasing amount of attention in the marketplace in Japan.

Market Data

The overall Japanese cosmetics market for 2007 grew in yen terms by 0.95% to 1,590.2 billion yen. However, because of the impact of fluctuations in the yen/US dollar exchange rate (117.81 yen/dollar in 2007 versus 116.34 yen/dollar in 2006), it decreased to US\$13,498 million in dollar terms. Had the exchange rate remained constant at the 2006 116.34 yen/dollar rate, the total market for 2007 would have been US\$13,669 million.

In 2007, Japan's cosmetics imports increased in yen terms by 7.89% to 178.5 billion yen (US\$1,515 million). Imports accounted for 11.2 percent of the domestic market in 2007, compared to 10.5 percent a year earlier. France and the United States remained the top suppliers; however, cosmetics imports from the two countries decreased to 52.8 percent of total cosmetics imports in 2007 from 55.3 percent in 2006, 56.5 percent in 2005

and 69.0 percent in 2004. China ranked a distant third (8.0 percent in 2007 and 9.0 percent in 2006) after the United States (21.2 percent).

Of the imports by category, skin care products grew significantly in 2007 by 12.6% to 73.2 billion yen (US\$620.9 million). Imports from the U.S., at 20.3 billion yen (US\$172.6 million), were up 13.8% and were second only to France. Fragrances, such as perfumes and eau de cologne, were the second largest import category in 2007 at 29.2 billion yen (US\$247.6 million), up 3.5%. The top three exporting countries were France (15.2 billion or US\$129.4 million, down 5.7%), Italy (7.4 billion yen or US\$62.6 million, up 17.1%), and the U.S. (3.3 billion yen or US\$28.1 million, up 12.2%). Make-up product imports were down 0.5% to 28.1 billion yen (US\$238.3 million) in 2007. France was the leading supplier (11.9 billion yen or US\$100.8 million, down 6.9%) followed by the U.S. (4.6 billion yen or US\$39.4 million, down 1.1%). China was a close third (4.1 billion yen or US\$34.9 million, up 3.5%). Hair care products, such as shampoos and rinses, grew 18.2% in yen terms to 28.7 billion yen (US\$243.5 million). The U.S. maintained its position as the top supplier in this category at 3.3 billion yen (US\$28.4 million), but has been on the decline (down 17.3%). China has been rapidly catching up (2.6 billion yen or US\$21.6 million, up 19.2%) and surpassed Germany (1.1 billion yen or US\$9.5 million, down 17.6%) in 2007.

Cosmetics Market* in Japan

(Calendar Year Base, Millions of Yen, Millions of Dollars)

	2004	% +/-	2005	% +/-	2006	% +/-	2007	% +/-
Shipment	1,420,537	-1.20	1,505,484	5.98	1,499,725	-0.38	1,510,696	0.73
(US\$)	13,132	6.12	13,671	4.05	12,891	-5.71	12,823	-0.53
Import	160,378	9.36	163,559	1.98	165,441	1.15	178,494	7.89
(US\$)	1,483	17.48	1,485	0.13	1,422	-4.26	1,515	6.54
Export	76,746	15.44	82,296	7.23	89,889	9.23	98,973	10.11
(US\$)	709	24.08	747	5.20	773	3.39	840	8.73
Total	1,504,169	-0.90	1,586,747	5.65	1,575,277	-0.72	1,590,217	0.95
(US\$)	13,906	6.43	14,409	3.73	13,540	-6.03	13,498	-0.31
Exchange Rate	108.17		110.12		116.34		117.81	

Source: Japan Cosmetics Industry Association, Cosmetics Importers Association of Japan, Trade Statistics of Japan

Note: Exchange rates are annual average rates January thru December

*"Cosmetics Market" includes skin care (HS3304.91-99), hair care (HS3305.10-90), make-up preparations (HS3304.10-91), fragrance (HS3303.00), and toiletry goods such as pre-and after-shaving, bath salts, etc (HS3307.10-90).

Best Prospects

Industry sources say that Japanese consumer interest in beauty and health continues to be high. Japanese consumers are traditionally more interested in skin care than make-up and fragrances. The skin care group accounts for the largest share, a striking contrast to western countries where make-up preparations have the largest share. Japanese cosmetics consumers are known to be highly brand and quality conscious.

The products that can be best prospects are shown below:

- Skin care cosmetics, such as anti-aging, skin lightening, and skin moisturizing cosmetics. In addition, high performance and quick-acting skin care products, such as those that remove clogged sebum and other waste matter from facial pores, is getting more popular in Japan. Many skin care products with such functions, as well as those with multi/complex functional ingredients, are being brought to market, and many manufacturers are working to develop unique ingredients. Natural and/or organic products for sensitive skin and troubled skin are also becoming more popular in the marketplace.
- Men's skin care and personal care products, such as cleansing foam, toning lotion, moisturizing emulsion, skin revitalizer, anti-shine refresher, deep cleansing scrub, hydrating lotion, eye soother, tanning lotion, fragrance, and deodorant products. Japanese men, ranging from teenagers to the Japanese baby boomer generation in their fifties, acknowledge the need to look and feel better, and their interest in cosmetics and toiletries is growing.
- Fragrances. These are believed to relieve some of the feelings of stress. In general, Japanese consumers are fond of light-feel fragrances such as those with floral notes. The Japanese market is said to be biased toward brand new product launches rather than the repackaging of existing products. Unlike certain European markets, the promotion of repackaged fragrance lines may not work well in Japan.
- Make-up preparations, such as mascara. Mascara is the leading makeup item used to emphasize a facial feature among mainstream consumers in Japan. According to a consumer survey, about 80% of respondents reportedly change brands frequently. Products with high levels of performance in terms of curling, staying-power, fullness, and lengthening and defining lashes are in demand, as are those with conditioning or treatment ingredients. Other items drawing the attention of consumers are natural mineral make up products that are gentle when applied to skin.

Key Suppliers

No official information is available on how many cosmetics manufacturers and importers are in Japan. Industry sources estimate there are about 4,000 companies with 130,000 brand items being distributed in Japan today.

Major Japanese cosmetics manufacturers include Shiseido (<http://www.shiseido.co.jp>), Kanebo (<http://www.kanebo-cosmetics.co.jp>), and Kosé (<http://www.kose.co.jp>). They are the “Big Three” in the cosmetics industry in Japan and cover market segments from highly prestigious brands to economy brands. In addition, there are major niche players in some product segments. Major foreign brand companies in Japan include P&G, AVON, ESTÉE LAUDER, L'ORÉAL, Revlon, and LVMH, to name a few.

Prospective Buyers

Cosmetics are distributed in Japan through the following four channels. An industry source estimated the share of each channel for the last four years as follows:

Japanese Cosmetics Market by Distribution Channel
(Shipment Basis, Percentage)

	2004	2005	2006	2007
Franchise System	33.9	34.1	33.5	32.3
General Distributorship	32.3	32.3	32.9	33.7
Door-to-door & Direct Marketing	26.3	25.8	26.0	26.1
Other	7.5	7.8	7.6	7.9

Source: Syukan Syogyo Jan. 1, 2008

Note: The above “Other” category includes institutional/professional channels. Cosmetics and toiletries for professional use are usually sold to beauty salons and barber shops directly by manufacturers or through distributors or wholesalers. Some cosmetics and toiletries are sold over the counter by beauty parlors and barber shops to their customers.

High-prestige U.S. and European cosmetics companies generally employ a direct-selling system through their own retail network or sales franchises (boutiques, cosmetics stores, department store counters). In such cases, the manufacturer deals directly with its own accounts through its own sales force or subsidiaries.

However, general distributorship is the most conventional channel, with products flowing from manufacturer to wholesaler to retailer. In this system, the manufacturer delegates distribution to the wholesaler/distributor and supports marketing via advertising and promotion. Consumers go directly to the store shelves where they look for the cosmetics of their choice, and no individualized professional counseling is offered.

While products traditionally marketed through this channel have typically consisted of daily necessities such as basic cosmetics and hair care items at relatively low prices, the variety of cosmetics distributed through this system is expanding. Many imported cosmetics are distributed via this general distributor system. A wholesaler imports products directly and supplies them to retailers, or an importer brings in a product from an overseas manufacturer and supplies it to wholesalers, who supply the retailers.

The door-to-door and direct marketing channel refers to cases whereby the manufacturer establishes some form of legal presence in Japan, such as Avon, Amway, and Nu Skin, and markets directly to the consumer.

Market Entry

Japanese cosmetics consumers are known to be highly brand and quality conscious, as noted earlier. It is important to understand that advertising claims are more restricted here than in the U.S. For example, efficacy claims using statistical data are not yet allowed.

Therefore, product image, texture, and scent may play a greater role in the purchase decision than in the U.S.

In addition, consumers in Japan are very particular about the design and finishing touches (quality) applied to packaging. Also, their needs and tastes may change with seasonal trends and fashion changes. Thus, in order to cultivate and attract consumers, new foreign brands may need to invest in developing brand awareness, as well as in user education. Some cosmetics importers suggest that they are not interested in taking a look at a new product or brand presented to them unless the product is sharp looking and has an “attention getting story” to tell (i.e., how the concept has been developed, famous people who use it, unique characteristics, etc.). This is because consumers do not just buy a cosmetics product, but rather buy the total value -- or total appeal -- of the product. Well-known celebrity endorsements may contribute to a successful launch, industry sources suggest.

Companies that wish to enter the Japanese market are advised to develop a product mix with unique features and ingredients and to target the correct market channel in order to attract the interest of buyers and Japan’s highly demanding consumers. Japanese cosmetics manufacturers are highly competitive and sophisticated, and they, too, are striving to bring new products with highly effective ingredients to the market.

Import duties for cosmetics range from zero (HS: 3303, 3304, 3305) to 5.4 percent (HS: 3307). Specific tariff rates are available at Asia Pacific Tariff DataBase (APEC) at URL <http://www.apectariff.org/>.

Market Issues & Obstacles

Japan's Pharmaceutical Affairs Law (the “PAL”) governs the cosmetics industry in Japan. According to the revised PAL, effective April 2005, a company that intends to manufacture or import cosmetics products must obtain a “license for manufacturing or marketing cosmetics (*“kesho-hin seizoh hanbaigyo no kyoka” in Japanese*) from the appropriate local government offices for each manufacturing plant or business office. The PAL reform reflects the shift in product and post-marketing responsibility from the manufacturer to the marketer, as currently practiced in the United States.

In order to obtain a license for marketing cosmetics, an applicant company is required to comply with GQP (Good Quality Practice) and GVP (Good Vigilance Practice) in accordance with the standards specified by MHLW (Ministry of Health, Labor, and Welfare) Ministerial Ordinances in terms of quality control and postmarketing safety management.

Thus, the applicant company must have a Product Quality Manager (*“hinshitus hoshoh sekininsha”*), a Safety Control Manager (*“anzen kanri sekininsha”*), and a General Marketing Business Controller (*“sokatsu seisoh hanbai sekininsha”*). The General Marketing Business Controller, who supervises the other two managers, must be a

licensed pharmacist or a specialist who has completed university-level or equivalent pharmacology or chemistry courses.

The law does not yet permit a foreign company to make direct applications from overseas for a license to market cosmetics products to Japan. Thus, a U.S. company that wishes to export its products to Japan first must find a qualified Japanese importer or representative, or set up a Japanese subsidiary.

Upon receipt of the manufacture or marketing license, the applicant company needs to file a notification of the product to be manufactured or imported and may then manufacture/import the product.

The Pharmaceutical Affairs Law (PAL) also stipulates that containers or wrappers of cosmetics products shall show the name and address of the marketer, name of product, production number or production code, name of cosmetic ingredients contained*, shelf life of cosmetics, if the product concerned is not stable for three years, and other information required by MHLW ordinance.

* A full ingredient listing on the container as required in the United States was put into force in Japan on April 1, 2001. Also, MHLW implemented Positive and Negative Lists of cosmetics ingredients. Accordingly, ingredients, the safety of which have been confirmed, can be mixed freely in a cosmetic product at the responsibility of the manufacturer or the marketer concerned, as long as the finished product meets the definition of the cosmetics described in the Pharmaceutical Affairs Law.

It is important for U.S. exporters and manufactures to note that some ingredients listed on the positive list are allowed only for limited uses in Japan, even if they have been widely used in other countries. For example, formaldehyde-donor-type preservatives (Imidazolidinyl Urea and DMDM Hydantoin) are not permitted in Japan with the exception of rinse-off type products, e.g., shampoos (warning labels are required for products containing these preservatives). Quaternium -15 is not approved in Japan. At the moment, suppliers who discover that their products do not meet existing standards usually seek resolution of their problems through product reformulation. This avoids complications with MHLW's strict requirements for safety and supporting data.

Several helpful publications in English are available from Yakuji Nippo (Fax: 81/3/3866-8408, URL: <http://www.yakuji.co.jp/>). The regulatory agency for the cosmetics and toiletry agency is the Ministry of Health, Labor and Welfare (MHLW), Pharmaceutical and Food Safety Bureau, Evaluation and Licensing Division (“*Shinsa Kanri-ka*”) Tel: 81/3/3595-2431, fax: 81/3/3597-9535 URL: <http://www.mhlw.go.jp/>

Also, helpful information is available at the Cosmetic, Toiletry & Fragrance Association’s International Cosmetic Legal and Regulatory Database at www.ctfa.org.

Note: A quasi-drug, or “*Iyakubugaihin*”, is a product that has a restricted purpose of use, has a mild action on the human body and is not categorized as a medical product. For

example, medicated cosmetics, including medicated soaps, are classified under the quasi-drug category in Japan. Industry experts point out that cosmeceutical products will likely be classified under the quasi-drug category. Quasi-drugs are not considered cosmetic products, but form an independent quasi-drug classification. The manufacture and import of quasi-drugs requires MHLW approval and licenses.

The Pharmaceutical Affairs Law stipulates that quasi-drugs shall have the purposes given below and exert mild actions on the human body:

1. Prevention of nausea or other indispositions, foul breath or body odor
2. Prevention of prickly heat, soreness, and the like
3. Prevention of loss of hair, promotion of hair growth or removal of hair
4. Eradication or repulsion of rats, flies, mosquitoes, fleas, etc., for the health of humans or other animals
5. Other articles designated by MHLW, complying with the items specified in the above 1 through 4

Upcoming Trade Shows/Events

Diet & Beauty Fair 2008

Dates: August 25-27, 2008

Venue: Tokyo Big Sight

Organizer: CMP Japan Co., Ltd.

Website: <http://www.dietandbeauty.jp>

The 66th Tokyo International Gift Show

Dates: September 2-5, 2008

Venue: Tokyo Big Sight

Organizer: Business Guide-sha Co., Ltd.

Website: <http://www.giftshow.co.jp>

Beautyworld Japan West

Dates: October 6-8, 2008

Venue: INTEX Osaka

Organizer: MESAGO Messe Frankfurt

Website: <http://www.mesago-messefrankfurt.com>

The 67th Tokyo International Gift Show

Dates: February 3-6, 2009

Venue: Tokyo Big Sight

Organizer: Business Guide-sha Co., Ltd.

Website: <http://www.giftshow.co.jp>

Cosmetics Ingredients & Technology Exhibition Japan 2009

Dates: March 4-6, 2009

Venue: PACIFICO Yokohama

Organizer: The Society of Cosmetics Chemists of Japan
Website: <http://www.citejapan.info/en/>

Japan Drug Store Show

Dates: March 13-15, 2009
Venue: Makuhari Messe
Organizer: Japan Association of Chain Drug Stores
Website: <http://www.jacds.gr.jp>

Beautyworld Japan

Dates: May 18-20, 2009
Venue: Tokyo Big Sight
Organizer: MESAGO Messe Frankfurt
Website: <http://www.mesago-messefrankfurt.com>

Resources and Key Contacts

Japan Cosmetics Industry Association	http://www.jcia.org
Cosmetics Importers Association of Japan	http://www.ciaj.gr.jp
The Personal Care Products Council (Formerly CTFA)	http://www.personalcarecouncil.org/
The American Chamber of Commerce in Japan Committee on Toiletry, Cosmetics and Fragrance	http://www.accj.or.jp/
Japan Nailist Association	http://www.nail.or.jp
Japan Beauty Supply Institute	URL: NA Phone: 81/3/3864-4157, Fax: 81/3/3864

Contact Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporter, please contact:

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Email: chris.ono@mail.doc.gov
Website: www.buyusa.gov/japan

KOREA (SOUTH)

Summary

During the last few years, Korean women have become more receptive to Western products, especially foreign health and beauty items. As more Korean women enter the labor force and experience rising incomes, they have become avid users of imported cosmetics, yielding significant gains for U.S. suppliers. Other trends have developed in tandem with the continued strong expansion of the Korean market for imported cosmetics. As Koreans tend to be more health-conscious, following the “well-being” trend, they prefer natural and “green” cosmetics products. Also, since Korean women want to look younger and healthier, functional cosmetics, so-called cosmeceuticals, focusing on anti-aging, whitening, and anti-ultraviolet care have become very popular. Another trend is that Korean men are also becoming significant consumers of cosmetics, providing opportunities for cosmetics companies featuring men’s lines. As the Korean cosmetics market continues to be polarized, with products focused at the premium end and at the lower-priced, mass-market end, two distinct groups of consumers are the target audiences: those shopping at low-cost cosmetics franchise stores and those shopping for very expensive and luxurious cosmetics at department stores. The U.S. - Korea Free Trade Agreement (KORUS FTA) signed between both nations in June 2007 has the potential to bring further advantages for U.S. exporters as Korean tariffs on imported U.S. cosmetics are eliminated over three to ten years. These market trends portend good opportunities for U.S. companies in the years ahead.

Market Demand

Korean women’s preference for imported cosmetics has grown significantly as shown by the number of distribution channels, such as online shopping malls, department stores, and television home shopping networks. These retail channels, some non-traditional, have become the prime distribution channels for imported cosmetics products.

The Korea Food and Drug Administration (KFDA) has modified some of its pre-existing regulations on cosmeceuticals in an attempt to make the process of importing and testing foreign cosmetics in Korea less time consuming. In conjunction with this, the Korean government also announced that it will increase the budget to hire more personnel to handle KFDA’s testing and approval process due to the increasing number of cosmeceutical products entering the market. With these changes, the Korean government has demonstrated its willingness to address some of the concerns of cosmetics manufacturers in Korea as well as foreign producers.

Lastly, with the KORUS FTA signed in June 2007, but unratified as of this writing, the current eight percent tariff on cosmetics will be eliminated on the following schedule:

HS Code	HS 10 Description	Base Rate	Years Until Elimination
3303001000	Perfumes and scents	8	3 years
3303002000	Toilet waters	8	Immediate
3304101000	Lipsticks	8	3 years
3304109000	Lip make-up preparations	8	3 years
3304201000	Eye shadow	8	3 years
3304209000	Other	8	3 years
3304301000	Nail enamels	8	3 years
3304309000	Manicure of pedicure preparations	8	3 years
3304911000	Face powders	8	3 years
3304912000	Baby powders (including talcum powder)	8	Immediate
3304919000	Powder make-up, etc	8	Immediate
3304991000	Skin care cosmetics	8	10 years
3304992000	Make-up cosmetics	8	3 years
3304993000	Baby cosmetics	8	Immediate
3304999000	Beauty & skin care preparations	8	3 years
3305100000	Shampoos	8	3 years
3305200000	Preparations for permanent waving or straightening	8	3 years
3305300000	Hair lacquers	8	Immediate
3305901000	Hair rinses	8	5 years
3305902000	Hair creams	8	3 years
3305909000	Preparations for use on the hair	8	3 years

Market Data

In 2007, the entire cosmetics market in Korea is estimated to be worth about USD 6.1 billion, an increase of 3.4 percent over 2006, when the market size was USD 5.9 billion. Total imports in the cosmetics market in 2006 increased by 13 percent to a value of USD 602 million compared to the imports of USD 531 million in 2005. U.S. imports in 2006 account for almost 24 percent of total imports into Korea, whereas U.S. imports in 2005 were only 23 percent of total imports. Continued growth in this industry sector is forecast over the next five years as a result of increased receptivity to Western styles and trends relating to health and beauty products among Korean women and men, leading to an increasing acceptance of quality imported cosmetics.

Unit: USD million

	2005	2006	2007 (est.)
Local Production (not including Exports)	4,915	5,084	N/A
Exports	286	305	330
Imports	531	602	N/A
Imports from U.S. (included in Imports)	122	146	N/A
Total Market	5,733	5,991	6,093

Exchange Rate: USD 1 = KW 942

Source: Korea Cosmetic Industry Association, Korea Pharmaceutical Trade Association, Amore Pacific 2007 Cosmetic Industry Forecast

Best Prospects

Men's Cosmetics: In addition to the outstanding opportunities for women's cosmetics in this market, sales of men's cosmetics in Korea have also increased significantly, to approximately USD 520 million, about nine percent of the overall market in 2006. The market is estimated to continue healthy growth in 2007 to USD 563 million (source: Amore Pacific). This growth well reflects the trend that men have expanded their interest from simple skincare to other cosmetics, such as facial scrubs, facial masks, concealers, SPF products, and other cosmeceutical products. According to Auction, one of the largest online shopping malls in Korea, as of July 2007 sales of men's cosmetics has only grown one percent to 36 percent of the entire cosmetics market compared to 2006. In 2006, most sales were limited to skincare products and some hair care products. However, in 2007, there has been significant increase in make-up products (lotion with the concealer function), depilatory products, and cleansing products. To meet this demand, another large online cosmetics shopping mall, Skin RX, has opened a "Mansumer" (man + consumer) corner where they feature only men's cosmetics products including foundation, clear mascara, concealer, eye brow shaper, manicure, etc. With this trend, men's skincare salons have opened in business districts, providing one-stop total beauty and hair care services including hair cutting, perms, treatments, as well as facials. To meet this increasing demand for men's skincare products, many department stores have opened men's cosmetics counters on the men's floor featuring multiple brands, such as Clinique, Clarins, and Biotherm with after-shave lotions, cleaning foams, facial scrubs, facial packs, essences, and other functional cosmetics.

Skincare Products: According to research done by the *Korea Cosmetics News*, the sale skincare products is worth about USD 934 million, or about 15 percent of the total cosmetics market. About 50 percent of that amount is accounted for by imported cosmetic skincare products, which totaled about USD 467 million. Also, as more consumers become aware of natural ingredients and as their preference for natural/organic products increases, Korean manufacturers are focusing on developing natural/organic products. Additionally, more consumers are demanding "smart" cosmetics that have multiple functions, such as lotions that conceal, moisturize, and whiten skin at the same time.

Cosmeceuticals: These are "highly functional" products that are whitening, anti-aging, and sun care SPF products. Among the skincare products, cosmeceutical products are the most sought after products by consumers, and industry experts forecast the demand for whitening and anti-wrinkle products will continue to be strongest in this category. These cosmeceutical products are gaining widespread consumer acceptance since they often provide for a wide variety of skincare needs. Most cosmetics companies have added these items to their product lines. According to the KFDA, a total of 7,266 cosmetics products have been approved and registered as cosmeceuticals since KFDA registered the first cosmeceutical product in 2002.

Key Suppliers

According to *Money Today*, an online information source on finance and retail, the top 10 cosmetics suppliers sold in Korean department stores during the first half of 2007 are:

Lotte Department Flagship Store	Ranking	Galleria Apkujung Store
Sulwhasoo by Amore Pacific (Korea)	1	Sisley (France)
Estee Lauder (U.S.)	2	Kiel (U.S.)
Lancome (France)	3	Chanel (France)
Christian Dior (France)	4	Benefit (U.S.)
Chanel (France)	5	Shu Uemura (Japan)
Ohui / Whoo by LG (Korea)	6	Christian Dior (France)
Biotherm (France)	7	Estee Lauder (U.S.)
Clinique (U.S.)	8	Swiss Perfection (Switzerland)
Shiseido (Japan)	9	Bobby Brown (U.S.)
Sisley (France)	10	SK-2 (Japan)

Other channels, such as online malls, TV home shopping channels, drug stores, etc. are non-traditional retailers, and less-established imported brands are distributed through these channels. Key suppliers in these non-traditional channels are difficult to list, as most of the imported brands sold in these channels are specialized in different niche sectors.

Prospective Buyers

The merchandise at high-end specialty stores, such as department stores and boutiques, is generally about 80 percent imported cosmetics. European cosmetics dominate this market, while U.S., and to a much lesser extent Japanese, cosmetics account for most of the remainder, whereas only a few Korean brands are in this sector. Among imported cosmetics sold in department stores, sales of skincare products have risen the most among women in their 20s who favor shopping for luxury imported brands at department stores as well as women in their 40s and 50s who have disposable income to purchase these high-end products. Female shoppers in their 30s and 40s also purchase imported skincare products through direct selling companies, as many Korean companies, such as Amore Pacific and LG, also sell through the “door to door” channel. Imported hair care products, such as shampoos, conditioners, and hair creams, have shown significant market growth especially those directly sold to Korean women in their 30s and 40s.

Market Entry

I. Regulatory Regime

In Korea, cosmetics and all related products fall under the jurisdiction of the KFDA. In addition, the Korea Pharmaceutical Traders Association (KPTA), a trade association, has

been granted regulatory authority by the KFDA to assist Korean importers who wish to register their cosmetics products.

When a foreign company exports its cosmetics products to Korea, the **Korean importer** needs to submit the following documents to KPTA prior to importing the product:

Certificate of Manufacture:

- Listing of ingredient names according to International Cosmetics Ingredients Dictionary (ICID) published by Cosmetic, Toiletry, and Fragrance Association (CTFA - www.ctfa.org).
- Percentage of each ingredient must be listed next to each ingredient, and the percentage of total ingredients must be 100 percent when added up.
- The certificate must have the complete address of the manufacturing company, name and signature of the President of the manufacturing company, and must be notarized.

Certificate of Free Sale:

- Must be issued by a public institution such as the State Department of Health Services in the exporter's region or the CTFA in the U.S.
- The document should identify the product by the full name, as it is written on the product, and to which country the shipment is intended to be exported.
- The document must have a seal and the signature of the person issuing the certificate.

BSE Free Certificate/ Non-use of Animal Derivatives Certificate:

- If the product does not contain raw materials from cows, lambs, or goats, the certificate needs to simply state that the product does not contain raw materials from these animals. The certificate will need to be issued by the manufacturing company with the signature of the President of the manufacturing company, and must be notarized.
- In the event it does contain such materials, then the BSE certificate needs to state what that material is and the amount of the material in the product. The product name should be written in the certificate, with a lot number, which can be obtained from the Animal and Plant Health Inspection Service (APHIS - <http://www.aphis.usda.gov/>) and/or the U.S. Department of Agriculture (USDA).

Organic Certificate:

- In case your product claims to be organic, you do not need to list organic ingredients as organic on the Certificate of Manufacture, as it only confuses KPTA if that particular organic ingredient is not listed in ICID. For example, you do not need to list your organic lavender oil in your product as "organic lavender oil" on the Certificate of Manufacture. Simply state it as "lavender oil" as you would for non-organic products.

- However, a copy of the organic certificate you obtained from the appropriate agency in the U.S., whether it be the USDA or any other agency, should be kept by your importer as a record when marketing your product as “organic,” as KFDA requires the importer to keep it to avoid charges of false advertising.
- To receive a sample of each document, please contact Grace Sung at grace.sung@mail.doc.gov. In addition, we suggest that the U.S. company work with its Korean importer to prepare these required documents to ensure that there has been no change made to the required documents since this report was written.

II. Import Procedures

Cosmetics:

Once the documents are ready, the information should be sent to the Korean importer. Upon receipt of these documents, the importer will then submit them to KPTA. KPTA, in turn, will study the documents and categorize the product as "cosmetics," "pharmaceutical," or "cosmeceutical" (whitening, anti-aging, and sun care SPF products).

If the product in question is categorized as "cosmetics," KPTA will send the required *Free Notice for Customs Clearance* to the Korea Customs Service, indicating that the product has been cleared to be imported into Korea. Once the product has been cleared by Korean Customs, the importer is required to conduct a quality control test to ensure that the product complies with Korean safety regulations. This test typically takes up to 30 days.

However, if the product has been categorized as "cosmeceutical" and contains raw materials that are not on Korea's ingredient list, the product will have to be further tested. The testing period may take from three months up to six months (the testing fee varies according to the product). Once the testing procedures are completed, the product will follow the same route as "cosmetics" for the remaining procedures.

Please note that all original certificates will need to be submitted to KPTA by your importer and the original certificates will be returned to your importer to keep as a record when KFDA performs an annual inspection visit to the importer's office. It is common that most foreign exporting companies do not wish to provide formula information (ingredient list with percentage range in the Certificate of Manufacture) because of concerns over possible product ingredient disclosure. However, there are few alternatives to this requirement and most foreign companies eventually provide this information in order to enter the Korean market. KFDA and KPTA guarantee that formula information will remain confidential.

In case you are concerned about your importer having the formula information, one alternative is to hire a private cosmetics consultant who will handle all documents and importing procedures. This way, the ingredient information will remain confidential from your importer. Please note that when you hire a consultant to perform this work, be sure

that the consultant is qualified as an “importer,” meaning that s/he must have a contract with a testing lab and storage facilities to store products, whether it be his/her own or outsourced. This is required by KFDA, as the consultant who registers products and handles importing procedures will be considered the actual importer of your products and will be held responsible if something should go wrong. This also means that the consultant will hold on to the original certificates for annual inspection as well.

Cosmetic Equipment:

There are additional import procedures for cosmetic equipment such as hair perm equipment, hair clippers, and other related products classified as cosmetic equipment. The Korean importer needs to work with KPTA to find a Korean government-approved testing agency for safety approval and submit three samples to them. This process usually takes about a month. Vibrating massagers and facial massagers are classified as “medical equipment,” which must go through different, and more in depth testing procedures, with approval usually taking about six months.

Market Issues & Obstacles

Koreans tend to favor European cosmetics over U.S. products, as European products have traditionally had a more luxurious brand image compared to other countries’ products. Koreans view U.S. products as more practical, and if given a choice of two products, one from France the other from the U.S., many importers would prefer to import the French products. Some Korean importers have explained to us that many Korean consumers “judge the book by its cover,” i.e., the simple and practical packaging of some U.S. products when compared to the trendy and luxurious packaging of European products reinforces the impression that the European products are classier. Therefore, European products that are already in the market, such as Chanel, Lancôme, Sisley, LVMH group, and other European brands are the major competitors in this market.

Korean production of cosmetics is on the rise and has begun to threaten imported cosmetics brands since the new concept of cosmetics franchises emerged after the Missha store opened in 2002. Traditionally, most local cosmetics shops were multi-brand mom and pop stores. These stores lacked funds and expertise for marketing so they relied heavily on “window shoppers.” In 2002, a new cosmetics franchise, Missha, was introduced which featured a good quality complete line of cosmetics with prices ranging from USD 3–10 per item. The line included skincare, color cosmetics, nail products, cosmeceuticals, facial masks, body care, and much more. Also, Missha only features its private label products that are attractively packaged for trendy women in their 20s and 30s. Missha aggressively increased its brand awareness by actively advertising with local celebrities and television commercials. Soon Missha gained a reputation for providing good quality cosmetics at a reasonable price that appealed to both women and men. Missha currently operates over 200 franchise stores and has also opened 12 overseas stores, in the U.S., Australia, Japan, Singapore, and elsewhere. Following this success, about 10 other companies have opened similar stores, such as The Face Shop, Skin Food,

Doh Doh Club, Candy Shop, and others. The rapid growth of these lower-end cosmetics shops is also due to many mom and pop stores transforming themselves into trendy stores targeting the lower-end of the market.

Any U.S. company serious about launching a product in Korea should keep in mind that Korean consumers' tastes for imported cosmetics are slowly changing with new shops like Missha. Additionally, among imported cosmetics, Koreans tend to prefer European brands over any other brands.

Trade Events

Name: Cosmobeauty Seoul

Date: April 11 – 14, 2008

Venue: Convention & Exhibition (COEX)

Organizer: Korea Cosmetics Association

Exhibits: Skincare, color cosmetics, hair/body/nail products, perfumery, salon equipment, cosmetics ingredients, and more.

Web-site: <http://cosmobeautyseoul.com/en/index.php>

Resources & Key Contacts

Korea Food & Drug Association (KFDA)

5 Nokbun-dong, Eunpyung-ku

Seoul, Korea

Tel: 82-2-380-1800

E-mail: m_kfda@go.kr

WWW: <http://www.kfda.go.kr/>

Korea Pharmaceutical Traders Association (KPTA)

#1801 World Trade Center,

Samsung-dong, Kangnam-ku

Seoul, Korea

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E-mail: kpta@kpta.or.kr (general inquiries)

WWW: http://www.kpta.or.kr/E_main.asp

Contact Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporters, please contact:

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MALAYSIA

Summary

- Increase in purchasing power contributed to the growth in sales of cosmetics and toiletries in 2007
- Malaysians spend an estimated \$550 million annually on cosmetics.
- Recent drastic increases in fuel price might have an affect on cosmetics growth.
- Skincare is the most purchased category of cosmetics.
- Men are paying increasing attention to their appearance.
- Specialty products are gaining popularity, particularly in regard to cosmetics and toiletries.

Market Demand

Malaysians spend an estimated US\$550 million annually on cosmetics. This is an upward trend from previous years, and reflects an increasing trend among Malaysian consumers to procure beauty products from top name brands that are marketed specifically towards enhancing youthful appearance. Consumer sophistication, along with a higher awareness of local and international products, combined with a demand for higher-end customer-oriented services, resulted in demand for lifestyle and specialty concept stores. However, due to the recent drastic increase in fuel prices, the growth of cosmetics is expected to slow. Trends in skincare started influencing developments in cosmetics and toiletries. Skincare products marketed with: whitening, firming, anti-aging and anti-oxidants components carrying significant selling advantages and these components have been increasingly adopted and applied to other consumer cosmetic products. Indigenous skincare brands are using the synergy of health and beauty to sell nutritional supplements that claim to nourish skin from within to beautify complexion, which has resulted in a new market segment “nutricosmetics”. The future of skincare is topical and oral and tailor-made to strengthen the skin’s repair system.

Cosmetic products in Malaysia can be divided into the following main categories:

- a. color cosmetics
- b. skincare
- c. perfumes and fragrances
- d. toiletries
- e. hair care

Anti-aging products will continue to be a fast-growing segment of the skincare market. New ingredients, such as amino-peptides, and technology, such as nanotechnology, are the latest breakthrough in anti-aging, as they claim to be effective at improving the appearance of aging skin. Several local skincare companies speculated that it will be only a matter of time before the hugely popular botox and restylane will soon be eclipsed in the local market, as more people are rejecting invasive methods in favor of topical treatments in order to deal with the cosmetic affects of aging. Skin exfoliating procedures

are evolving. Customers will expect more exfoliating products that can be used at home, gentle enough to be used on a daily basis and with additional features like brightening or resurfacing.

The growing affluence of Malaysian consumers plus the heavy advertising and marketing by premium brand companies contributed to the increase of consumers' interest towards premium brands. This is especially true for skincare and color cosmetics. No matter how great and revolutionary a product is the word has to be spread. The leading premium brands are Estee Lauder, Lancome, Shiseido, and Clarins.

Increasing usage of men using skin care products has added to the demand of cosmetics & toiletries products. Metrosexual men no longer confine their grooming products to toiletries such as deodorants, shaving creams and shampoos but also include facial skin care, body care and perfumes. Malaysians are said to be "more mature" and educated about healthy lifestyles and holistic well-being. KENS apothecary houses some of the finest fragrances, skincare, and cosmetics only previously available in New York, Paris, Milan, and Hong Kong. Inspired by Barneys Apothecary at Barneys Madison Avenue, E6 Apothecary in Boston and Space NK apothecary in London, KENS apothecary houses hip and happening cult brands, such as Aesop, T.LeClerc, and Diptyque, stand side by side with Annick Goutal and Peter Thomas Roth. Lately, more lifestyle products and doctor brands such as N.V. Perricone and Kiehl's have been launched. As the economy grows stronger and purchasing power increases, consumers are more willing to indulge themselves. Hence, competitiveness in the beauty business is increasing and niche products are highly sought after. Aromatherapy products and spa-related products and services have been widely introduced. Many beauty and cosmetic companies have started to include these ranges of new products and services to their clients.

Market Data

Cosmetics & Toiletries Market

(U.S. Dollars in Millions)

	2006 Actual	2007 Actual	2008 estimated	Projected growth
Total Market Size	379	416	557	12%
Total Local Production	181*	208*	240	10%
Total Exports	189	207	223	15%
Total Imports	493	514	540	12%
Imports from U.S.	47	49	51	5%
Exchange Rate	3.5	3.4	3.2	3.1

Source: World Trade Atlas & Department of Statistics, Malaysia

- This is an estimated figure. The latest production data available is for year 2003.

Top 5 Exporting Countries to Malaysia in 2007

Countries	Imports (U.S. Dollars in Million)	% Total Imports
Thailand	97	18.9
Singapore	57	11.1
France	55	10.7
United States	49	9.5
China	47	9.1

In 2007, the Malaysian cosmetics & toiletries market was estimated at \$550 million. Imports from Thailand accounted for almost 19% of the total market last year, followed with Singapore with 11%, France with 10.7% and the U.S. with 9.5%. The total market size is expected to increase by 10%-12% in 2008.

The domestic cosmetics & toiletries industry is still a relatively small industry in Malaysia. According to the Malaysian Industrial Development Authority (MIDA), thirty companies are producing cosmetics and toiletries products in Malaysia. Besides these, about 50 small & medium size companies are doing contract manufacturing for products such as shampoos & conditioner, hair treatment/care and perfumeries. However, most ingredients and raw materials are imported, then blended and packaged locally. Among the popular local brands are Clara Malaysia: Cosmetics & Toiletries International, Safi, Nona Roguy and Sendayu Tinggi, which have created their own niche markets, while the international brands include Johnson & Johnsons and Colgate-Palmolive. Malaysia mostly exports to Singapore, Hong Kong and Thailand.

Best Prospects

Top Cosmetics & Toiletries Imported in 2007

Products	Imports (U.S. Dollars in Million)
Beauty Products (skincare, make-up, sun care)	168
Raw Materials	99
Fragrances (Perfume, toilet water)	71
Shaving, bath, deodorant	66
Hair Preparations (shampoos)	52
Oral Hygiene (dental floss, toothpaste)	49

Skincare is expected to continue having the biggest market share over the next few years. With the increasing use of air-conditioned offices, (which can have a drying effect on the skin), coupled with higher spending power among a larger number of consumers will likely continue to drive more consumer savvy Malaysians to take an active interest in enhanced skincare.

Top 5 Countries Exporting Beauty Products to Malaysia, 2007

Countries	Imports (U.S. Dollars in Million)	% Total Imports
Thailand	32	19.1
United States	30	18.1
France	20	12.3
Japan	13	8.1
China	8	5.2



Sales of skin care products are further boosted by strong advertising campaigns from skin care companies with emphasis on anti-aging & whitening. Anti-aging products with Vitamin C and collagen are highly sought after. Due to Malaysia's hot and humid climate, oil-free and oil-control moisturizing cream are in good demand. The beauty trends are getting more scientifically based

than a few years ago. Anti-aging skincare is no longer confined to the adult market group but spread to the younger aged group with cosmetic companies advocating prevention. Skincare manufacturers have started offering non-surgical skin care alternatives to consumers. These new innovations helped skin care to maintain one of the highest growth rates in cosmetics and toiletries. In addition, more Malaysian men have added skincare to their personal grooming apart from deodorants, fragrance, and toiletries. Demand for body firming products is also expected to grow as more Malaysians realize the importance of looking trim and fit. The huge growth in the health and fitness industry also influences the demand for firming and anti-cellulite body care products. Spa therapy, facials, massages and body treatments, also contributed to the increase in skincare products. Health spas, which provide rehabilitation, pain management and weight loss and fitness services in addition to the beauty aspects are gaining popularity among urban consumers.

Color cosmetics, are second after skincare. Higher consumer spending and increasing awareness of beauty and personal grooming products among Malaysian women are the prime drivers behind this growth. The Malaysian color cosmetics market is divided into four segments – face, lip, eye and nail. Lip-coloring products capture the largest segment of this market, followed by eye make-up, face powder and nail products. Women in Malaysia have a minimum of five lipstick tubes in their handbag, regardless of brand. 60 percent of the color cosmetic market is dominated by mass cosmetics brands such as L'Oreal and Maybelline, while 40 percent is held by the prestige brands such as Estee Lauder, Chanel, &



Christian Dior. Mass brands still dominate the market as these brands have wider distribution channels and are more affordable for many lower income consumers.

Mass brands are sold in many super/hypermarkets, pharmacies and direct selling companies. The distribution network covers cities, suburban and most rural areas.

Eye and facial make-up products are expected to be the main drivers in color cosmetics after lip products. Nail products compromise a very small portion of the color cosmetics sold in Malaysia. This could be due to the large numbers of Muslims in Malaysia who are restricted to using nail paint/color during prayers, where their religion mandates that their hands must be washed and cleaned. (As prayers are mandated five times a day, adherence to this belief makes nail polishing prohibitive). However, nail salons are fast gaining popular among urban consumers as the prices for manicure and pedicures are becoming more affordable.



The fragrance market is getting stronger in Malaysia and has strong potential for growth. 2006 and 2007 saw the stellar performance of celebrity scents. Perfumes are named and associated with famous celebrities. Many new fragrances were released and launched. Fragrance has become the accessory that completes an outfit and these consumers update their scent wardrobe almost as often as they update their look. Limited editions are another way for fragrances to stay current and excite consumers who are always looking for different and

unique fragrances. France has the highest import market share of perfume in Malaysia with 38%.

Oral hygiene and bath and shower products are growing at a slower rate compared to skincare and color cosmetics due to the maturity of products offerings. Bath soaps sales are declining as more Malaysian switch to shower gel, as this product is perceived as being more hygienic than the older style soap bars. Demand for sun protection is expected to increase as consumers are becoming more aware of the harmful damage of ultra violet rays to the skin. Sun protection products are expected to grow while tanning products are expected to decline further as most Malaysians prefer their complexion be as fair as possible in keeping with fashion trends throughout Asia, hence the increase sales of skin whitening products.

Key Suppliers

Sales were sustained by increased urbanization, rise in the number of women working, and aggressive marketing and promotional activities of the retailers, especially during mega sales periods. Imported products from Thailand, France, United States, Singapore, China and Japan dominate the market in Malaysia.

The domestic cosmetics and toiletries industry generally involves mixing, blending and formulation processes, using imported raw materials. Many of these local companies are contract manufacturers for established, foreign brands. Most of this contract work is directed mainly at products such as shampoo and conditioners, other hair care products,

perfumes and cosmetics. There are now approximately 50 small and medium-sized domestic companies producing cosmetics. Main manufacturers of cosmetics and toiletries are Colgate-Palmolive (M) Sdn Bhd, Follow Me Industries Sdn Bhd, Formapac Sdn Bhd, Henkel (M) Sdn Bhd, Manufacturing Services Sdn Bhd and Eng Kah Enterprise Sdn Bhd. The cosmetics and toiletries market in Malaysia is highly competitive and very fragmented. The dominance of multinational companies such as Colgate-Palmolive, Unilever and L'Oreal is due to the strength of their financial power and the variety of products offered. These companies also use aggressive marketing campaigns and promotional activities to attract new consumers to their products.

In general, Malaysian consumers prefer to use imported cosmetics and toiletries products as they associate them with higher quality than local brands. As the total volume produced by the local industry is still relatively low, especially for cosmetics, imported products will continue to remain in high demand especially from the middle and high-income earners.

Prospective Buyers

While general toiletry products remain in broad consumption across all age and income groups in Malaysia, cosmetics (particularly the higher-end items) will continue to be a segment targeted largely to urban women. The current Malaysian population of 26 million is comprised of the following age groups:



32.4% - less than 15 years old

63.3% - 15-64 years old

4.3% - 65 and older

Malaysians spend an estimated \$550 million annually on cosmetics. The increasing number of women in the workforce, combined with more men using skincare products & fragrance, is expected to result in the continued increasing demand for both mass-market and higher-end cosmetics & toiletries.

Market Entry

Cosmetics and toiletries are sold through the following channels:

a) Supermarkets/hypermarkets

Supermarkets/hypermarkets remain the most important distribution channel for cosmetics and toiletries in Malaysia. Mass brands of cosmetics and toiletries are using supermarkets & hypermarkets such as Giant, Tesco & Carrefour to reach the mass market.

b) Department Stores

The increase in the standard of living among Malaysians led to higher demand for quality products. Imported premium brands such as Estee Lauder, Chanel, Christian Dior, Gucci, Bobby Brown, Clinique, La Mer and Shiseido are usually sold over-the-counter in major department stores such as: Isetan, Parkson, and Metrojaya.

c) Pharmacy/Personal Care Stores

Pharmacy and personal care stores such as Guardian and Watson are the most popular one-stop center for mass brand cosmetics and toiletries. More Malaysians are shopping at pharmacies because of the wider range of cosmetics and toiletries brands available. In addition, pharmacies regularly offer promotions to generate higher customer traffic. Brands that cater to the mass market such as Neutrogena, L'Oreal and Maybelline are primarily sold at these outlets.

d) Direct Sales/Marketing

Avon & Amway are the most popular direct sellers in Malaysia due to their larger number of distributors who are able to reach consumers living in rural and suburban areas. Other reputable brands such as Sothy's and Thalgo are distributed by dealers. The products are only sold at their beauty centers and beauty salons, as they not only offer cosmetics but also slimming and spa products.

e) Specialty Stores

Specialty stores are becoming an important channel for premium and high-end mass brands. Most of the specialty stores are located in city areas such as Kuala Lumpur, as these stores cater to consumers with higher purchasing power. The more well-known specialty store players are The Body Shop, Crabtree & Evelyn, L'Occitane and Sasa (from Hong Kong). Some of the finest fragrances and cosmetics brands such as Laura Mercier, Annick Goutal, T.LeClerc, Peter Thomas Roth, and Creed are only sold at Kens Apothecary outlets. However, recently some of these brands are available in some departmental stores in the larger malls. The expansion in men's grooming has also led to specialty stores selling products largely tailored to, and targeted towards male grooming products.

Advertising and promotion are crucial for cosmetics and toiletries products in order to create awareness of new products and build brand loyalty among consumers. Most of the time consumers prefer to purchase brands that they are familiar with or have previous experience with. Advertisements on TV and the print media, especially women's magazines, are very common. Samples of toiletry products are distributed to individual households and products in sachet form attached to magazines. Free gifts are given during promotion periods and are advertised in the local major newspapers and on the web. Internet shopping is not yet an established channel for cosmetics.

Market Issues & Obstacles

The Malaysian National Pharmaceutical Control Bureau (NPCB) regulates cosmetics. From year 2002 to the end of 2007, the control of cosmetic products was through pre-market registration. However, in conformance with the harmonization of cosmetic regulations in the ASEAN region, a new procedure was implemented in January 2008. With the new procedure import, manufacture and wholesale licenses for registered cosmetic products are no longer required. Instead of the registration, companies will be required to only notify/declare their compliance to the NPCB. Notification must be carried out online via the Quest2 system available on the [NPCB website](#). Active postmarket surveillance will be conducted by NPCB to ensure compliance. Notification of cosmetic products that have already been registered before the date (existing products) is not necessary as the NPCB automatically changed the status of the registered product to a notified product in the system without requiring any action or payment from the registration holders.

A company that brings a cosmetic into the market is fully responsible for the safety, quality and efficacy of the product. The product must not contain any substance that may cause harm to the consumer when applied under normal or reasonably foreseeable conditions of use.

Currently, there is no duty for cosmetic products except for the 20% to 30% import duty on talcum powders, face powders and hair preparations.

Trade Events

CosmoBeaute Asia

July 14-17, 2008, Putra World Trade Center. For more information visit: www.cosmobeauteasia.com

International Beauty Expo

July 11-14, 2008, Kuala Lumpur Convention Center. For more information visit: www.elite.com.my

Resources & Key Contacts

- [The Cosmetic, Toiletries and Fragrance Association of Malaysia](#)
- [Dermatological Society of Malaysia](#)
- [National Pharmaceutical Control Bureau](#)
- [Direct Selling Association of Malaysia](#)

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NEW ZEALAND

Market Overview

New Zealand's population of 4.1 million people, live in three main urban centers: Auckland and Wellington (both in the North Island) and Christchurch in the South Island. Auckland is New Zealand's largest city with 30 per cent of the country's population. Just over 75 per cent of New Zealanders live on the North Island and 40 per cent of North Islanders reside in the Auckland region. Approximately three-quarters of all New Zealanders live in an urban area.

New Zealand has an aging population. Population projections for 2031 people aged 65 and over will represent 21% of the total population, compared to approximately 12% in 2008. New Zealand's population is made-up of approximately four-fifths European and one-fifth Polynesian. The country's Polynesian population consists of the Maori people (native New Zealanders) and Pacific Islanders from mainly the Cook Islands and Samoa.

New Zealand has a small but innovative cosmetic and manufacturing sector focusing mainly on natural products. Over the past two decades, multinational manufacturers have left New Zealand. As a result, imported cosmetic and toiletry products represent more than 90% of the market. In 2007, New Zealand imported US\$141 million worth of cosmetics and toiletries – an increase of 18% on the previous year. Perfumes are the most important category (by value) followed by shampoos and soaps. In 2007, these three categories represented just over 50% of all cosmetic and toiletry imports.

Due to its geographical proximity and its duty-free arrangement under the Closer Economic Relations Agreement, Australian cosmetic and toiletry imports are the leading import source. In 2007, Australia's market share for cosmetics and toiletries was 26%, mostly dental products, shampoos, deodorants, and soaps. Some U.S. firms manufacture products in Australia under license and export to New Zealand.

In 2007, U.S. import market share was 21.5%, making the United States New Zealand's second largest import source. The leading U.S. products are perfumes, lipsticks, eye make-up, soaps, and shampoos. Immediate best prospects for the U.S in this market are perfumes and specialized skin products.

STATISTICAL TABLE

U.S. Dollars (Millions)			
	2005	2006	2007
Import Market	126	119	141
Estimated Local Production	25	20	15
Exports	20	16	139
Estimated Market	131	123	144
Imports from the U.S.	19	19	21

Source: Statistics New Zealand

Exchange Rate (June, 2008): NZ\$1 equals US 75 cents

Brands as well as brand loyalty and brand knowledge largely influence consumers' purchasing behavior. The cost of the product and whether there is a sales incentive at the time of purchase also influence sales. New Zealanders tend to be motivated to purchase products through marketing claims capitalizing on New Zealand's aging population e.g. products now almost always include labeling comments such as "helps defend against visible signs of premature aging" or "helps fight wrinkles".

New Zealand consumers follow international trends closely. The organic movement is popular as people question conventional products versus natural formulations. Local consumers perceive natural cosmetics and toiletries as pure, gentle and effective. The New Zealand Cancer Society's advertising campaigns have helped educate New Zealanders about skin cancer as well as the sun's ability to prematurely age skin. These factors combined, with knowledge of ozone depletion and a favored outdoor life-style have increased the use of skincare products with dual purposes. Caucasian women regularly use skin-tanning products during summer. Hair removal products are very popular during the warmer months of November to March.

The Christmas season, which takes place during New Zealand's summer, is the high season for retail sales. Cosmetics and toiletries sell nationwide through beauty salons, supermarkets, department stores, service stations, garden centers, and pharmacies.

Market Access

- There are no import licensing requirements.
- Effective July 1, 2006, New Zealand implemented a cosmetic group standard: <http://www.ermanz.govt.nz/hs/groupstandards/standards/cosmetics.html> Effective July 1, 2006, New Zealand implemented a dental group standard: <http://www.ermanz.govt.nz/hs/groupstandards/standards/dental.html>
- The Advertising Standards Authority governs advertising standards and provides a voluntary approval system for monitoring product claims.
- Tariffs range from 0-5%.
- New Zealand Customs restricts the import of aerosol sprays that contain ozone-depleting substances.
- Some product ingredients are culturally sensitive to New Zealand's indigenous population (the Maori) and Pacific Island people. For example, it is politically incorrect to use human placenta in any product for this market.

Legislation

Fair Trading Act: this Act prohibits false or misleading information about a product or service. Legislation includes prohibition of packaging that gives a misleading or deceptive impression about the contents. For example:

1. Unusually thick walls and/or a false bottom.
2. Hidden cavities or recesses which are larger than reasonably needed to house accessories or caps.
3. More padding or layers of packaging than is reasonably needed to protect a product.

Consumer Guarantees Act: this Act regulates that manufacturers/importers must ensure all goods are of acceptable quality. The goods must be free from minor faults. Also the goods must be safe and durable and correspond with any description, sample or demonstration model given or shown to the consumer.

Therapeutic Goods Agreement: on December 10, 2003 the Australian and New Zealand Governments signed an agreement to establish a joint regulatory scheme for therapeutic products. The Agreement covers any cosmetic or toiletry that claims a therapeutic effect. For example, a face powder marketed for a cosmetic purpose only is not a medicine. If the manufacturer claims the powder will also treat acne, it is claiming a therapeutic effect. As a therapeutic good, the product must meet certain requirements. For further information on the Therapeutic Goods Administration, please refer to the following website:

http://www.med.govt.nz/templates/MultipageDocumentPage_2408.aspx

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PAKISTAN

Summary

The Pakistani cosmetics and toiletries industry can be divided into two broad categories: those companies and products that cater to the masses and those catering exclusively to taste of the elite and upper middle classes. The Pakistani market is ripe for the introduction of new cosmetics and toiletries products. With the rise in per capita income and awareness or product options, the overall consumption is expected to increase.

The Pakistani market is awash with cosmetics of Chinese, Korean, German, Swiss, Italian and American origin. It is common to have an independent company perform the import function, then supply to another company for onward distribution. Best prospects in this industry include lipsticks, skin care creams, shampoos, lip pencils, deodorants and perfumes. Common marketing strategies include testimonials, billboards, market activation techniques, point of sales and trade events and exhibitions.

Market Demand

Growth in the number of private television channels, and associated advertising, has led to increased awareness levels amongst the masses for skin care products and essential toiletries. Middle-income bracket groups consider cosmetic products like creams, lipsticks and eyeliners, deodorants as essentials that were considered a luxury up until a decade ago. Lower income brackets are still focused on essentials like toothpaste and bar soaps, while the higher income brackets shop for their personal care products internationally and demand the same at home.

Marketing of cosmetics is carried out under different brand names. Popular brands are Tibet, Ponds, Medora, Kala Kola, Max Factor, Swiss Miss, Dylecia, Lux, Rexona, Forhans, Macleans, Binaca etc. Some Foreign Cosmetic Brands Available in Pakistan are Yardley, Estee Lauder, Etude, Aqua, Rimmel, Revlon, Loreal, Johnsons and Johnson, Nivea, St Ives, Jordana, Italia, Maybeline, Banana Boat, Freeman, Clinique, Body Shop, Lancome, Bath and Body Works, Chanel, Cover Girl, Max Factor, Avon and several others. Lipsticks by Revlon, Etude, Jordana, Maybeline take the lead. Niche market skin care products such as Gino from Paris, OPI and Dermalogica from US are available in upscale salons of the country. Body Shop, a UK franchise, opened their first outlet in Karachi in 2006, with plans of opening more.

For hair care Procter & Gamble's Vidal Sassoon, Pantene, Rejoice, Head & Shoulders, Dove, Nutrogena and Revlon are popular brands. Raw materials for soaps manufactured in Pakistan are imported from China, Europe, USA and Italy.

Market Data

Pakistan Cosmetic and Toiletries market is approximately USD 77 million. Pakistan has a population of about 160 million people. Pakistan's per capita income stands at USD 900.

Pakistan's GDP growth accelerated to an average of 7% per annum in the last four years. Export of cosmetics from Pakistan increased from \$3.0 million in 1994-95 to \$ 3.1 million in 1998-99, showing an increase of 3 per cent. Exports of Cosmetics and soaps total approximately \$3.5 million currently. Imports from the US Market of cosmetics and toiletries for year 2002 totaled \$ 7.2 million. According to Euro monitor estimates, between 2006-07, the cosmetics and toiletries market in Pakistan is expected to grow at 14% annually.

Best Prospects

Best prospects are provided as follows:

- 3304.1000 Lipstick
- 3304.3010 Nail Polish
- 3304.2000 Pencils Eyebrow
- 3304.9100 Powder Face
- 3304.9910 Cream Face (Whitening Skin creams)
- 33.03 Perfume and Toilet Waters
- 33.05 Shampoos
- 3307.1000 Pre After Shave preparations
- 5535101 Cream Shavings
- 55355101 Personal Deodorant/ Anti Per spirant

Key Suppliers

Key suppliers to the Pakistani market for cosmetics and toiletries are China, Thailand, Malaysia, the U.S., Europe and Italy. Importers of cosmetics and toiletries must register themselves with the Chambers of Commerce as any other import export business. It is common practice for wholesalers to make trips to markets like Thailand, Malaysia and China to pick up cosmetics and toiletries in bulk and bring back to Pakistan in personal baggage.

Prospective Buyers

Prospective buyers are salon owners, retail outlets and the individual consumer. Profit margins range from 10% to 25% depending on location (high, middle income or low income group). For new products, retailers may charge 50% profit margin off a new customer, till the product is well known and also the customer to the shop. Salons for women have seen significant growth in the last five years, and salons for men are also on the rise with an increased male awareness and demand for services with respect to skincare and hair.

Market Entry

American products are perceived to offer quality and consistency in this sector. The best way for American manufacturers and suppliers to penetrate the Pakistan market is to utilize the benefits of the network services and programs of U.S. Export Assistance Centers (USEAC, visit http://www.export.gov/comm_svc/eac.html) in association with the U.S. Commercial Service offices located in Islamabad, Karachi, and Lahore. Seeking the assistance of USEACs before exploring an opportunity in this market is highly encouraged. We recommend that interested American firms use an agent/distributor relationship with a locally registered company.

Agents or Distributors:

The most common way of entry into the market is pointing an agent or distributor who have the network and capability to market a product. Agents or distributors are familiar with rules and government regulations and can provide much needed guidance. US Firms can enter into agency agreement Cosmetics and Toiletries Industry arrangements for periods they prefer. Under this arrangement, the agent receives commissions on all sales of the product regardless of the channels through which the order is placed. Agency agreements typically extend for a term of one to three years and generally require 30 to 90 days notice by either party for termination. It is common to have an independent company perform the function of importing cosmetics and toiletries, and providing it to another company for onward distribution.

Joint Venture/ Franchising:

This is an option for local entrepreneurs eager to acquire technology transfers, willing to make an investment with a foreign partner on an existing industrial base, combining their knowledge of local markets.

Government Regulations:

Generally a 40% tax rate or more is applicable on all cosmetics and toiletries, except preparations manufactured in and imported from South Asian Association for Regional Cooperation (SAARC) member states, which have a tariff concession of 15%.

Government taxes account for at least 50% of the product price other than the cost of production. Giants like Unilever reach out to the masses with introduction of various product lines and variants. However they do not like to reduce the quality of a product, but instead reduce the quantity to reduce price. Import duty on cosmetics and toiletries is provided as follows:

HS Codes	Description	Customs Duty	Sales Tax on	Import Supply
33.03	Perfume and Toilet waters	20 %ad val	15%	15%

33.04	Make up preparations, Nail polish	25% ad val	15%	15%
3307.1000	Pre-shave, shaving or aftershave preparations Personal deodorants and antiperspirants	25% ad val	15%	15%
33.05	Shampoos, Creams, Dyes	25% ad val	15%	15%
3304.9100	Powders, whether not compressed	20 % ad val	15%	15%
3304.3010	Nail Polish	20 % ad val	15%	15%
3304.2000	Eye Make-up preparations	20 % ad val	15%	15%
3304.1000	Lip make-up preparations	20 % ad val	15%	15%
34.01	Soap organic surface-active products and preparations For use as soap, in the form of bars, cakes, for toilet use(Including medicated products) (Unit kg)	25% ad val	15%	15%

A dialogue between the players in the market and government continues with persistence for rationalizing import duties to create a level playing field versus importers and smugglers.

Labeling Packaging Info Requirements in Pakistan for Cosmetics and Toiletries:

1. The product name, company name, address and weight/quantity are to be given on labels. There are no type size or style requirements.
- 2 There is no language requirement. Labeling in English is acceptable. The practice of key labeling on the outside box and only minimal labeling on individual bottles is acceptable.
3. Simply listing the ingredients is also acceptable. Specific percentages or quantities are only to be listed in case of medicinal preparations.
4. The company should protect its intellectual property rights i.e.; trademarks, designs, copyrights and patents in Pakistan by making applications well before starting sale of their products in Pakistan.

Marketing Strategies used:

Competitors in the market utilize the following marketing tactics and techniques to penetrate market share:

1. Point of Sale Promotions:

Point of sale promotions are used in various formats. Sales people can be seen standing at different departmental stores next to shelves displaying toiletries, educating the consumer on arrival of new products, etc.

2. Advertising:

Cosmetics and Toiletries are displayed through all forms of advertising; print ads, television ads, radio etc.

3. Billboards/ Banners:

Huge marketing budgets are utilized in capturing the consumer's attention through billboards and banners.

4. Testimonials:

Consumers are offered a chance to use the shampoos for free in order to penetrate the consumer market. Salons offer free washes of shampoos by Unilevers, Procter and Gamble, etc.

5. Market Activation:

Unilever has involved the consumer by offering market activation techniques for instance introducing "Surf Paint Masti" which is a painting competition for children. Such programs help in increasing awareness since consumers retain the brand name after being part of such an activity.

6. Direct Marketing at Beauty Salons:

For introduction of new shampoos beauty salons are supplied with the latest ranges in order to create awareness amongst consumers of the new brands.

7. Trade Events and Exhibitions:

Participation in Exhibitions, free sampling, entry at outlets by paying higher commission to retail outlet owners so that they push ones own product are all common strategies for penetration into market.

Market Issues & Obstacles

Challenges faced in this sector include smuggled goods that penetrate into the market and present branded products with stiff competition. The price conscious consumer in Pakistan on average ends up buying the Chinese, Korean and smuggled products, which are cheaper and more affordable only realizing through experience if the product used is suitable. According to a leading cosmetologist the question why a particular cosmetic item is purchased with what ingredients contained seldom crops up. With the advent of branded and quality products entering the market the consumer has certainly grown more aware in terms of their choices, and the potential dangers of counterfeit products is becoming more widely known.

Trade Events

Lifestyles

Organizers: Dawn Group of Newspapers

Haroon House, Dr. Ziauddin Ahmed Road, Karachi 74200, Pakistan.

Phone: 92 (21) 111-444-777 Fax: +92 (21) 569-3995

Website: <http://www.dawn.com/>

Venue: Expo Center, Hassan Square, Karachi, Pakistan

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PHILIPPINES

Summary

The Philippines importation of cosmetics, toiletries, and personal care products (lip and make-up, perfumes, soaps and shampoos, skin and nail care preparations) was valued at \$118.2 million in 2007. Domestic production dominates the cosmetics industry with almost 80% share.

Although imports from the U.S. have dropped, the US still maintains its reputation for high quality. Thailand is the top exporter among third country suppliers; some cosmetics and most toiletries for sale in the Philippines come from Thailand. China, which did not figure in the top five suppliers of cosmetics last year, has exported more than \$5 million in Cosmetics, Toiletries, and Personal Care products in 2007.

American imports include lipsticks, oil-free make-up foundations, perfume, and skin care and hair care products. American firms such as Avon, Colgate-Palmolive, Johnson & Johnson, Procter & Gamble, and Sara Lee have manufacturing facilities in the Philippines and other ASEAN countries with their branded products readily available in most retail outlets.

As with most Philippine purchases, price is a primary factor for consideration.

Market Demand

The Philippines' total importation of cosmetics, toiletries, and personal care products reached \$118.2 million in 2007. Thailand was the top supplier with 34% market share. Malaysia's market share was 21%; Singapore 10%, and the U.S. with 6%.

Imports from Thailand and Malaysia were primarily toiletries that were formerly manufactured in the Philippines. These products, which are competitive with locally produced goods, have eaten into U.S. market share.

Most of the toiletries that the Philippines imported from Thailand are also U.S. brands. Likewise, local cosmetics and toiletries are U.S. brands manufactured by local subsidiaries like Avon, Colgate-Palmolive, Johnson & Johnson, Procter & Gamble, and Fullerton/Sara Lee.

Demand for raw materials and finished products for skin whitening and anti-ageing (glutathione, metathione, tretinoin, etc.) continue to grow. Local manufacturers of cosmetics, toiletries and personal care products use whitening ingredients to address local and export demands. Most companies include a whitening component in their entire product line -- from soaps and moisturizers to toners and sunblocks and creams. Philippine-made cosmetics, toiletries, and personal care products are exported to other countries, most notably to the Middle East. Some local products with whitening

properties also contain natural and organic ingredients from locally available sources such as green and ripe papaya and *kalamansi*, a local lime. Other skincare preparations may contain locally sourced avocado, aloe vera, seaweeds, and alum.

The demand for cosmetics, toiletries, and personal care products continue to grow as consumers become more aware of health and beauty. There are now also more products formulated for young skin and aimed at young consumers.

Market Data

In 2007, the Philippines imported \$118.2 million worth of Cosmetics, Toiletries and Personal Care products. Local production is approximately US\$ 591 million, based on industry estimates that local production is about 80% of the market.

	Total Imports	U.S.A.	Thailand	Malaysia
2007 TOTAL	\$118	\$7	\$40	\$24
2006 TOTAL	\$148	\$9	\$63	\$33

Source: National Statistics Office

The Philippines experienced a downturn caused by rice shortage in the first half of the year and continuously rising fuel costs. Total imports of Cosmetics, Personal Care Products and Toiletries dropped by 20% (from \$148 million in 2006 to \$118 million in 2007). Industry is optimistic that the decline is temporary and the market will soon pick up steam.

Thailand was the biggest exporter with 34% market share; Malaysia was next with 21%; Singapore followed with 10%, and the US accounted for 6% of the market.

The U.S. is strongest in eye and lip preparations; nail care; hair lacquers; and bath salts. These are products that have little or no domestic manufacturing operations.

Best Prospects

Products with best prospects for U.S. manufacturers include hair care and skincare products (cleansers, toners, moisturizers, whiteners), and make-up.

A growing number of female consumers spend on facial and underarm whitening products, special haircare applications, and quality make-up products. Colored pressed powder; liquid foundation; rouges and blushers; and scents, toilet water, colognes, and body sprays, have always been consumer favorites.

Products for men and the youth also have good prospects. Although the majority of buyers are still women, marketing geniuses have persuaded a growing number of men to be conscious about grooming and looking good. Manufacturers and advertisers have also identified the youth as a huge consumer market sector and have positioned products and brands to target them.

Key Suppliers

Some of the major domestic manufacturers are Avon Philippines, Cherry Laboratories; Colgate Palmolive Philippines; J&J Philippines; Jemica Cosmetics Manufacturing; S A Goldon Philippines Corporation; and Splash Corporation/Hortaleza Beauty Center (HBC); while imported products include such brands as Avon (some Avon products are imported); Fullerton (Sara Lee); Mary Kay Cosmetics; Maybelline; Dial and Lander Products; Shiseido; Max Factor; L'Oreal; Kanebo; and numerous other brands.

Besides toiletries and personal care products, which are available in supermarkets, drugstores, and convenience stores, market top-sellers in cosmetics are those that are distributed via direct sell – Avon, Mary Kay, Fullerton (Sara Lee). Majority of these products are US brands. These imported goods are not only considered quality products, they are also price-competitive. If the choice between a locally manufactured product and an imported one is a few pesos, a consumer would likely buy the imported brand.

Prospective Buyers

Since toiletries and personal care products are essential to grooming, prospective end-users are technically, the entire population. In reality, however, about 60% of the population have disposable income or some means of livelihood to afford basic grooming products. The rest (40%) are dependents who do not purchase.

Market demand drivers are the country's growing population; more women joining the workforce; better job opportunities and improved employment; and a general awareness for good grooming.

Cosmetics spell the difference between social classes. High-end make-up and skin and hair care have a market among women of leisure and women executives. Middle class women buy imported as well as local cosmetics, but may splurge on a signature cologne or lipstick from time to time.

A growing number of Filipino women are now also using whitening (bleaching) and anti-aging products. Industry speculates that this is a result of media influence -- advertisers use movie stars and other popular role models in their promotional campaigns. Movie stars either have glowing, tanned skin or white and luminous complexion.

While majority of buyers are female, a growing number of men are now more conscious about looking good. Many products are also being developed for the youth sector.

Market Entry

The best way for a US company to sell to the Philippine market is by working through a distributor who would register its products with the Bureau of Food and Drugs and distribute them nationwide through dealer or agent networks. This will ensure broad

exposure for their products. A local distributor would be responsible for a registered product that is in the market.

Laws and regulations governing cosmetic products, including registration, may be found in the Bureau of Food and Drugs website: <http://www.bfad.gov.ph/>

Generally, local and imported cosmetic products are sold in retail outlets – specialty stores/boutiques, department stores, and most drug stores and supermarkets.

High-end cosmetics, personal care products and toiletries are usually found in specialty stores or a special section of department stores. More affordable brands are in department stores and drug stores, or sold through multi-level marketing.

Print and broadcast media are important when introducing a product in the Philippines to help build brand name and product recall. Most of the popular brands, whether local or imported, promote through various advertising media – print, billboard, and TV.

The Philippines imposes 1%-10% tariff duty and a 12% value-added tax (VAT) on imported cosmetic products.

Market Issues & Obstacles

Restrictions, allowable active ingredients, and other registration requirements are also available in the aforementioned web link of the Bureau of Food and Drugs (BFAD).

Like food and drugs, all cosmetic products must be registered with the BFAD before they could be sold in the market.

Besides stringent requirements for registration, the (registration) process itself is tedious and bureaucratic. Average time that it takes to register a product with the BFAD is from 6 to 18 months.

Trade Events

COSMOPROF ASIA 2008

November 12-14, 2008

Hong Kong Convention Centre

Hong Kong

<http://www.cosmoprof-asia.com>

Resources & Contacts

Bureau of Food and Drugs (BFAD)

Prof. Leticia Barbara B. Gutierrez, Director
Phone: (632) 807-0721/36 Fax: (632) 807-0751

Email: lbgutierrez@bfad.gov.ph

Mr. Joshua G. Ramos, Deputy Director

Phone: (632) 842-5606 Fax: (632) 842-5606

Email: jgramos@bfad.gov.ph

BFAD, Civic Drive Filinvest Corporate City, Alabang
Muntinlupa, Manila 1781

Web Site: www.bfad.gov.ph

Chamber of Cosmetics Industry of the Philippines, Inc.

Mr. Cecilio K. Pedro, President

Phone: (632) 823-8072 to 79 Fax: (632) 823-8881

Email: cecilio@hapee.com.ph

Km 15, West Service Road, South Superhighway
Paranaque City

Contact Information

The U.S. Commercial Service in Manila has helped several U.S. cosmetics firms enter the Philippine market. For more information on the market and market entry services for U.S. exporters, please contact:

Ms. Dey Robles
Commercial Specialist
U.S. Commercial Service
25th Floor, Ayala Life-FGU Center
6811 Ayala Avenue, Makati City 1200
Philippines
Phone: (632) 888-6078
Fax: (632) 888-6606
E-mail: Dey.Robles@mail.doc.gov
Website: www.buyusa.gov/philippines

SINGAPORE

Summary

According to estimates provided by industry sources, the cosmetics and toiletries retail sector in Singapore is worth approximately US\$400 million in 2007. The economy has rebounded significantly in the last two years and the general sentiment among the population is a positive one. Based on statistics from the Singapore Department of Statistics, overall retail sales (excluding motor vehicles) rose by 6% in May 2007 over May 2006.

The domestic retail market is sophisticated with various market segments, from those with high disposable income who seek premium and high-quality products, to mass-market consumers who are more price-sensitive. Besides the affluent, local resident population, Singapore is also home to over one million foreigners, with a significant expatriate population that enjoy a high-quality lifestyle.

Singapore is also viewed as a springboard into the fast-growing South East Asian market and serves as a showcase for the neighboring countries. U.S. companies seeking to expand into the region should consider using Singapore to launch and showcase their products and services. For the cosmetics and toiletries sector, more than 80% of all imports are re-exported, making Singapore an ideal gateway into the region.

Market Demand

Demand for skincare products with whitening properties has increased over the last few years as Asian women in general prefer to have lighter skin tones. Established premium brands, as well as their more mass-market counterparts, have all launched skincare ranges to cater to this consumer preference. Over the last two years, sun care has been the dynamic growth sector as more awareness has been generated on the harmful effects of the sun's UV rays. Men's grooming products and deodorants have also expanded. Growth was underpinned by an increasing number of "metrosexuals" – affluent men who are conscious of how they look and image-conscious women who place high priority on personal grooming and appearance. In addition, women at a younger age are starting to apply makeup and experiment with hairstyles and hair care. Multi-level marketing firms have also increased their market presence as they promote their products under the "holistic and wellness" label, cross-selling cosmetics, hair care, skin care and nutritional supplements.

Private labels fared relatively well, maintaining their value share in the past two years, largely due to the sustained popularity of "house brand" cosmetics and toiletries, such as Marks & Spencer, which are largely accepted by Singaporeans as high quality. Other popular private labels include The Body Shop, The Natural Source, L'Occitane, and the

more mass-market Watsons and Guardian. Private label products also saw strong growth in baby care, personal care, hair products and men's grooming products.

Growth in Singapore's cosmetics and toiletries market is expected to see more competition among the top premium brands and an increase in the number of companies serving specialized niche markets. While not going head-on against the larger companies, these niche players will serve to expand the market by providing either unique or complementary products to consumers.

Market Data

In 2006, imports from the U.S. amounted to US\$130 million, an increase over the 2005 figure of US\$118million. U.S imports represented a 12% market share of total imports, unchanged from previous years. For 2007, based on import statistics and trends available for the first half of the year, it is estimated that imports from the U.S. will be between US\$120-132 million.

The U.S., together with France, continues to dominate the market for exports to Singapore. France is in No. 1 position for perfumes and skincare while the U.S. is No. 1 in the area of hair care based on industry statistics. The top three countries are France, U.S. and Japan.

Best Prospects

Skincare

Sales of skin care products in Singapore continue to see growth as discerning consumers seek new and better products. A new marketing approach, termed “cosmeceuticals” is taking the industry by storm as cosmetics giants use biotechnology and medical breakthroughs in their skincare formulae. Today's skincare companies are marrying science to mass customization.

A newly carved niche market segment has evolved over the last few years and industry players classify this as the “metrosexual” sector. The more responsive marketers, such as veteran skincare companies, have developed marketing strategies to target men. A relatively new skin care product - facial cleansing wipes - was introduced by mass manufacturers in Singapore in 2001, targeting younger consumers who want a quick solution to cleansing their faces. They are popular among busy working women.

Skin care products with whitening properties continue to remain popular. Many manufacturers of mass brands are launching their own whitening ranges, for example, Nivea White from Beiersdorf AG. Skin care manufacturers will see increasing demand among consumers for products that are natural, and which quickly yield visible results.

Consumers will be willing to spend on premium products as long as these products are able to deliver the required results and at greater convenience. Sales of super premium products are expected to remain largely unchanged, as their prohibitive costs put them beyond the reach of the majority of consumers.

Color Cosmetics

Sales of color cosmetics in Singapore have remained constant these past two years. Facial make-up continues to be the most dynamic performing of all color cosmetics products. An increasing number of image-conscious women and the growing number of girls who start using make-up at a younger age contributed to the sustained performance of this sub-sector. The focus was on whitening products and products with SPF (sun protection factor). Given Singapore's harsh equatorial climate, such products are sought after. Whitening products continue to attract users in Singapore as Asian women in general prefer to have paler complexions.

The majority of women consider color cosmetics a necessity, a trend seen in many affluent societies where women have careers. Thus, growth is expected to remain strong as women begin to include more items in their daily make-up routines. Products such as eye make-up and nail products has increasingly become part of everyday make-up routines. Women, regardless of their income levels, have demonstrated a propensity to spend money on premium brands if products are particularly fashionable or attractive. This is particularly true for products such as lipsticks due to their relatively low prices.

Hair Care

Hair care sales continued to grow these past two years, underpinned by an increased usage of colorants, styling agents and salon hair care products. Salon stylists have also begun using more aggressive sales tactics and promotion packages to encourage their clients to purchase from them. These hair stylists take on the role of advisers and provide styling advice to their loyal clients. Modern households tend to use more than one brand or type of shampoo in order to meet the needs of each family member. Consumers are also more likely to try a variety of shampoos and will typically have more than three different brands in the home at any one time.

Demand for hair conditioners grew over the past two years since consumers understood the need for "conditioning" in order to have healthy hair. In contrast, the rates of increase achieved by 2-in-1 products continue to decline due to the perceived negative effects of such products. Lack of promotions as well as increased sophistication among consumers led many to seek products tailored to their specific needs, which further contributed to the decline in demand for generic 2-in-1 offerings. Despite this, 2-in-1 products remained popular among cost-conscious consumers who preferred fuss-free hair care.

Sales of styling agents / hairsprays have increased as more consumers spend more effort in varying their hairstyles. Styling agents are also popular among individuals who have short hair and follow trends in hair fashion. Hair colorants continue to enjoy brisk sales as

there is a trend towards coloring hair in various shades of brown and other non-conventional colors like blond, purple and red, a change from most Singaporeans' naturally black or dark brown hair. Products that cover gray hair also enjoy popularity because of premature graying among some Singaporeans and an aging population. Hair colorants are also now available in grocery stores as well as pharmacies/drugstores as previous restrictions limiting sales of these products to pharmacies were relaxed in June 2001. The growth of hair colorants was also fuelled by the influx of a new generation of younger consumers. School-age youths color their hair during school vacations and re-color them back to a more natural color when schools reopen. These younger consumers are more receptive towards change and open to experimentation with colors, viewing colored hair as an assertion of self-expression.

Fragrance

Sales of fragrances remained constant this past year. Premium women's fragrances dominated overall fragrance sales as women are more likely than men to own a variety of different perfumes / scents. The past two years have seen consumer preferences for fragrances that are light, fresh and fruity; as opposed to stronger, musky scents.

Fruity scents were very popular, often spiced with a hint of cinnamon and added to accentuate the "Asianess" of the fragrance. Men's fragrances registered an increase in growth as more "metrosexual" men purchased them. However, there still is a segment of the male population that considers fragrances to be a luxury, preferring not to spend unnecessarily on such items. Men, in general, do not place as much importance on the use of fragrances as women, with many preferring to use deodorants instead. Deodorants registered positive growth as people are getting more conscious of the need for personal grooming.

Sales of mass fragrances are extremely diverse and very fragmented. Various mass brands emerge every year, many of which are attempts to imitate popular premium fragrances. They are often released without fanfare or promotion, and this, coupled with the fact that there is a certain stigma attached to the use of mass products, meant that sales of mass fragrances represented less than 10% of total fragrances value.

Given the intense competition in the cosmetics and toiletries sector in what some industry players label as a recession-proof sector, prestige brand names are investing heavily to maintain and increase market share. In the last several years, the trend has been for such market leaders to launch novel programs such as "Rewards Programs" targeted at promoting brand loyalty, giving perks and freebies to keep the consumer happy and loyal. Advertising and promotion programs have also been stepped up to reinforce brand image and awareness.

Prospective Buyers

Consumers' acceptance and preference for U.S. products remain high as Singaporean consumers trust the quality and place a premium on American brands. Just comparing

prices, American cosmetics and toiletries may appear to be less competitive than other brands on the market.

In an increasingly competitive environment, distributors that supply to the retail trade, such as to major departmental stores and personal care chains, have commented that the margins on their products are being squeezed. The distribution channel with the greatest value share of cosmetics and toiletries sales in Singapore was department stores, accounting for nearly 31% of sales, followed by grocery outlets with just over 30%. However, both channels saw their value shares decline, largely because of a loss of market share to pharmacies and drugstores, and to a lesser extent, to direct sales and 'others' channels.

Pharmacies and drugstores particularly benefited as the number of suburban shopping centers increased. Correspondingly, the number of pharmacies and personal care stores such as Watson's also expanded, offering these products at competitive prices in convenient locations. Over the years, multi-level marketing firms have gained market share from the traditional retail channels of distribution and have slowly captured what industry sources estimate to be 5% market share.

Market Entry

The majority of consumers are loyal to their brand of products. This behavior is most evident amongst women who purchase premium brand skincare, cosmetics and toiletries. They rely heavily on in-store loyalty programs to make purchases and most premium brands use this mode of sales promotion effectively. For generic products, consumers tend to be more price-sensitive, seeking the best value. For this market segment, price and quality are often cited as primary factors that influence purchase decisions.

New-to-market U.S. suppliers should visit Singapore and observe the market first-hand. This will enable them to better assess the potential for their products and determine the best market entry strategy to adopt. It is also important that a good distributor with the appropriate distribution network is appointed.

American firms should also be prepared to provide advertising and promotional support to build brand awareness of their product. Alternatively, firms may consider private label options where the brand ownership stays with the Singapore firm. Given Singapore's hot and high-humidity weather, U.S. suppliers must ensure that the product packaging is able to protect product stability and yet be attractive to capture consumers' attention at the point of purchase.

Market Issues & Obstacles

There are no import or custom duties on cosmetics and toiletries. A 7.0% goods and services tax (GST) is imposed on all goods sold and services provided locally. Imports

are subject to GST, but payments are refundable on re-exports. The GST rate was raised in July 2007.

Regulatory Environment

The controlling authority for the regulation and licensing of cosmetic products intended for human use is the Health Sciences Authority, Ministry of Health. The regulations govern the importation, manufacture and sale of cosmetic products which are provided for under the following legislation:-

The Medicines (Cosmetic Products) (Specification and Prohibition) Order 1996 and its Amendments

The Medicines (Cosmetic Products) (Licensing) Regulations 1996

The Medicines (Cosmetic Products) (Labelling) Regulations 1996

There are two classifications of cosmetic products.

Category I

Licensing is required prior to the manufacture, import, sale or supply of the following products:-

Cosmetic products for application on the region around the eye, including eye creams, eye shadows, eyeliners and mascaras.

Cosmetic products for application on the lips, including lipsticks, lip colors and lip creams

Oral and dental hygiene products, including mouth refreshers and dentifrices

Hair dyes containing diamines and their derivatives (phenylene diamines; their N-substituted derivatives and their salts; diaminophenols.)

Category II

All other cosmetics products are classified as Category II cosmetics products do not require licenses for importation, sale or supply. These comprise of cosmetic products for application on the hair, scalp, skin or nails without rinsing or which remain in traces after rinsing or use, including:-

Personal deodorants and antiperspirants;

Skin lotions, including pre-shave, after-shave, eau-de-cologne and hand lotions;

Creams and milky lotions, including pre-shave, after-shave, cold cream and vanishing cream;

Cosmetic oils;

Perfumes (whether liquid, solid or powder form) and toilet waters;

Foundations;

Cheek colors;

Eyebrow colors;

Nail make-up preparations (manicure and pedicure products);

Hair dyes, bleaches, oils, lacquers, pomades, sprays and brilliantines;
Sunscreen, suntan and sunburn prevention preparations;
Skin whitening agents;
Talcum, face, creamy, pressed, loose, paste, baby and body powders;
Hair care products, including hair tonics;
Depilatories;
Hair preparations for permanent waving, setting, straightening or fixing;
Face packs and face masks;
Bath oils, bath salts and other bath preparations;
Hair shampoos; hair rinses;
Shaving foam;
Cleansing cream;
Face cleansing preparations and body cleansing preparations (whether cream, powder or foam); and
Other cosmetic products which are not classified as Category 1 products

Labeling Requirements

Labeling is required for all cosmetic products. Labels or labeling statements must be in English and be clearly legible. Other languages, if any, may be present on the label. The following information must appear on the container or package:

Name of cosmetic product
List of ingredients
Name and address of local manufacturer or importer
Batch reference
Precautions, if any

Licensing Requirements

Licenses for Category 1 products comprise :-
Product License
Import License
Manufacturer's or Assembler's License

Note: Please contact Commercial Specialist for further details on the regulatory & licensing requirements and list of banned or restricted substance stipulated for cosmetic products.

Trade Events

U.S. exporters interested in the Asian market should consider participating at Cosmoprof Asia, held annually in Hong Kong.

Name of Exhibition: Cosmoprof Asia 2007

Dates: 14-16, 2007

Location: Hong Kong Convention & Exhibition Centre

Show Website: www.cosmoprof-asia.com

Industry: Beauty & Spa Equipment, Cosmetics, Hair Care and Toiletries

Resources & Contacts

Companies interested in exploring the Singapore market can refer to the list of contacts listed below:-

American Embassy

Commercial Section

27 Napier Road

Singapore 258508

Tel: (65) 476-9037

Fax: (65) 476-9080

Website: <http://www.buyusa.gov/singapore> or

http://www.buyusa.gov/asianow/asianow_healthcare_team.html

Contact: Ms. Luanne Theseira, Commercial Specialist

E-mail: luanne.theseira@mail.doc.gov

Cosmetics Control Unit

Centre for Drug Administration

Health Sciences Authority

11 Biopolis Way, 1-03 Helios

Singapore 138667

Tel: (65) 6866 3475

Fax: (65) 6478 9039

Email: HSA_CCU@has.gov.sg

Contact: Mrs. Lim Siew Har, Regulatory Scientist

Ministry of Health

College of Medicine Building

16 College Road

Singapore 169854

Tel: (65) 6223 7777

Fax: (65) 6224 1677

Website: www.moh.gov.sg

Email: moh_info@moh.gov.sg

Contact: Ms. Karen Tan, Director, Corporate Communications

Contact Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporters, please contact:

Ms. Luanne Theseira
Commercial Specialist
American Embassy, Singapore
U.S. Commercial Service
27 Napier Road
Singapore 258508
Tel: (65) 6476-9416 (direct) / (65) 6476-9037
Fax: (65) 6476-9080
Email: luanne.theseira@mail.doc.gov
Website: www.buyusa.gov/singapore

TAIWAN

Summary

Cosmeceuticals are loosely defined as products combining the benefits of a cosmetic and a pharmaceutical. Many skincare companies use the term, especially for products sold and endorsed by dermatologists, to give the impression the products have more effective or more biologically active ingredients than ordinary cosmetics. As more doctors begin selling or endorsing skincare products, we will hear more about cosmeceuticals.

Cosmeceuticals are cosmetic products that are claimed, primarily by those within the cosmetic industry, to have drug-like benefits. In Taiwan, products labeled as cosmeceuticals include anti-aging creams, moisturizers, whitening products, and other related products.

Taiwan is an exciting import market for cosmeceutical products within the Asian region as local makers have very limited marketing abilities. Well-established international brands play a dominant role in the high-end Taiwan skincare market, where cosmeceuticals are niche market products.

The Department of Health (DOH), the Taiwan healthcare authority, classifies cosmetic products into two groups: (1) cosmetics containing medical, poisonous or potent drugs, as “medicated cosmetics; and (2) cosmetics not containing medical, poisonous or potent drugs as “regular cosmetics”.

Market Demand

In Taiwan, sales of cosmeceutical products are expanding steadily. Foreign firms enjoyed a strong market position in this market, supplying about 80 percent of local demand. Most of the world’s popular brands entered the market and many new brands from around the world enjoy growing sales. Discounting and sales promotion activities are major mechanisms that influence the purchasing decision of local consumers. As the cosmetic market on this island continues to expand, there will be increased demand for high-performance imported cosmeceuticals and excellent opportunities for US suppliers to meet this demand.

According to the Taiwan Custom Office statistics, the import value of cosmetics and toiletries increased to US\$822.5 million and exports were US\$130 million in 2007. The retail market has remained consistent due in part to the gradual improvement in economic conditions and the gradual maturation of the market segment. It has been noted in a recent article that given the mature nature of the industry, more than ten new brands may emerge into Taiwan in a year, but the consumer base does not increase in tandem.

Increased living standards and changes in consumption patterns over the last several decades in Taiwan have given rise to a lucrative market for cosmetics and toiletries.

Imports account for the great majority of brands and product sold. The growth rate for the next several years is estimated at 5 to 8 percent. This market is extremely competitive with most of the major international players involved in market development. Expansion of sales channels together with increased youth involvement and higher education levels of people have contributed to growth.

Taiwan consumers follow international trends closely. The medicated cosmetic market is currently the largest in Taiwan's cosmetics & toiletries. Major contributing factors included strong demands of the consumers requested for whitening, anti-wrinkle, anti-aging products. On the other hand, many factors such as increasing in per capita income, rapid technology improvements in biotech, gene engineering, and discovery of active ingredients of cosmeceutical products have enlarged the acceptance by consumers. Consequently, the Taiwan cosmeceutical market has been experiencing two-digit growth rates in recent years.

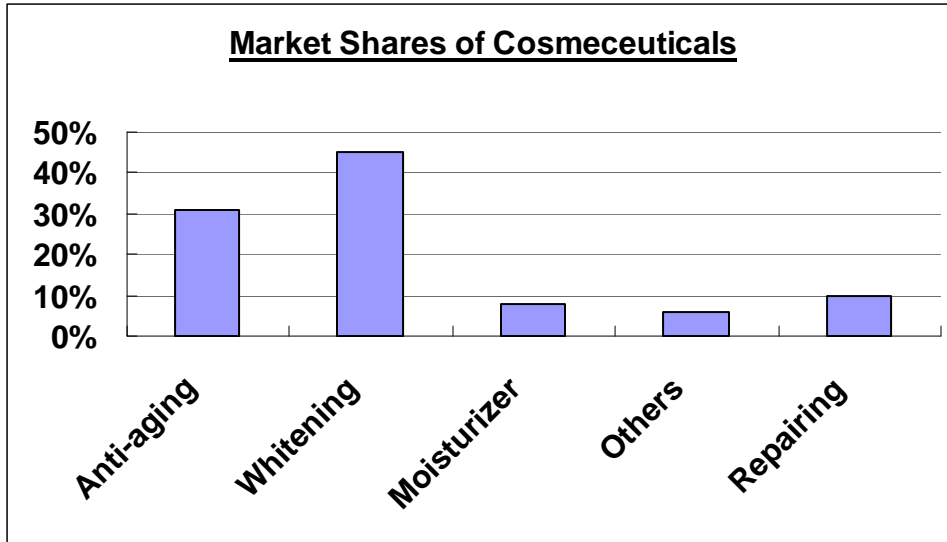
Market Data

Taiwan cosmetic & toiletries retail market share in 2007

Skin Care Products	Color Make-up Products	Hair Care Products	Personal Hygiene Related Products	Fragrances & Essences
54%	16%	13%	11%	6%

In Taiwan, according to local cosmetic association, market size statistics, skincare products shared the largest pie as of 54% of retail market. Among the skincare portion, 30% are cosmeceutical products.

Recently, leading players have begun to introduce products aimed at different age groups in an attempt to build market share. Women 18 - 44 years old (population 4.7 million) represent 70 percent of the consumer base for skincare products. The market for anti-aging skin care products aimed at women aged 35 and older is strong and the prices for upper-end products in this category command reflect increasing levels of disposable income. The consumer base for cosmetics is expanding to include females aged 15 - 24 (population 1.8 million) since this group is starting to use make up products 3 - 5 years earlier than the previous generation of women. High school and college students have greater purchasing power than ever and favor fashionable and new-to-market products. As a result, many local vendors conduct free skin care/make up seminars in office settings and on college campuses to demonstrate their products.



Source: Taipei Cosmetic Industry Association (estimated in 2008 May)

Best Prospects

Cosmeceuticals may contain purported active ingredients such as vitamins, phytochemicals, enzymes, antioxidants, and essential oils. However, these ingredients may not necessarily be effective. If they are effective, the cosmeceutical may not have the active ingredients in an effective formulation or at effective concentrations. An important distinction lies in the delivery method. Therefore, the cosmeceutical label applies only to products applied topically, such as creams, lotions, and ointments.

The most important botanicals pertaining to dermatological uses are teas, soy, pomegranate, date, grape seed, Pycnogenol, horse chestnut, German chamomile, curcumin, comfrey, allantoin, and aloe. Supporting evidence-based science studies and clinical trials for the treatment of parameters of extrinsic aging have been published.

The aging population is driving the recent surge in cosmeceutical products that combine cosmetics with vitamins, herbs, and sometime pharmaceuticals, such as vitamin c lotions, tea tree oil-infused cleansers and collagen masks. Multi-function products such as foundation base with UV protection and whitening effect are also very popular.

Popular Ingredients of Whitening Cosmeceutical Products

Fullerene RS		
Azelacid Acid (AZA)	Dicarboxylic acid	
Arpha Hydroxy Acids (AHA)	Blycolic acid, lactic acid, citric acid, mandelic acid, malic acid, and tartaric acid	Decreasing the signs of aging
Melaclear 2		
Arbutin	Hydroquinone-beta-D-glucopyranoside	Inhibit melanogenesis

Source: United Daily News Survey (2008 May)

Popular ingredients of Anti-aging Cosmeceutical Products

Coenzyme Q10	
SOD/SPD	
Hexaperptide	
Vitamin C	L-ascorbic acid
Hydroxy Acids	alpha hydroxy acids (AHAs) and beta hydroxy acids (BHAs)
Collagen	

Source: United Daily News Survey (2008 May)

Market Trends

Rising standards of living have led both men and women in Taiwan to become more concerned about their appearance. The number of orthopedic and plastic surgeons and surgeries is rising. Many large-scale hospitals have established plastic surgery departments to garner a piece of this profitable market. In addition, there are a growing number of private clinics specializing in laser surgery treatment. Demand for after plastic surgery recovering cosmeceutical products has expanded rapidly in recent years.

The most popular items for using after laser treatment include: intense pulsed light (IPL) treatment, Botox treatment, fruit acid treatment, Hyaluronic Acid treatment, and Thermacool treatment cosmeceutical brands are: Sait-Gervais (France), Avene, A-Derma (France), Uriage SPF90. Cosmedix (USA), A-Derma, Avene, Skin Ceuticals (USA). La Roche-Posay, Vichy (France), Dermagor (France), Biopeutic (USA), SeSderma, BIODERMA (France), N.V. Perricone (USA), NOV (Japan), and NEOVA (USA).

Cosmeceuticals represent a marriage between cosmetics and pharmaceuticals. Like cosmetics, cosmeceuticals are topically applied, but they contain ingredients that influence the biological function of the skin. Cosmeceuticals improve appearance, both they do so by delivering nutrients necessary for healthy skin. Cosmeceuticals are the fastest-growing segment of the natural personal care industry. Consumers are always interested in maintaining a youthful appearance, and as the global population's median age increases, this market is increasing expanding.

Market Access

The rapidly growing presence of retail channels such as department stores and pharmacies are key sales drivers in cosmeceuticals. Consumers go directly to shelves where they find the cosmetics of their choice and individualized professional counseling is needed. Therefore, the suppliers delegate distribution to the distributors and support marketing via huge advertising and promotion. Products introduction with technical support or clinical testing records is very important. In addition, a product with a sound marketing story is preferred tactics for many brands.

The over-the-counter channels provide different levels cosmeceutical products with herbal or botanical ingredients. U.S. suppliers are known for being innovative and for producing quality and technology-advanced products at competitive prices in most of the Asia Pacific markets. US products, do however, face stiff competition from Japanese products.

Demand for skin whitening products is very strong in Taiwan, as oriental people prefer fair-skin. According to Taiwan Cosmetic Association survey, one third of Taiwan women consumers use whitening products. Manufacturers of mass-market skincare products, such as L'Oreal and Neutrogena have also launched whitening products.

The Euromonitor International's research shows that anti-aging products are also driving growth in Taiwan's skincare market. According to the research, anti-aging products, moisturizers recorded impressive value growth of 12 percent in 2007. It also shows that while a buoyant economy and the rising number of mature and affluent women in Taiwan have boosted demand fro anti-aging products, these consumers are increasing turning to premium and high-end mass products, which they perceive to be safer. Consumer interest in premium products has been spurred in part by media reports on the safety and chemicals present in some cosmeceuticals products.

Market Entry

The United States Food and Drug Administration (FDA), does not recognize cosmeceuticals as a separate category a product can be a drug, a cosmetic, or a combination of both, but the term cosmeceutical has no meaning under law. FDA oversees the labeling process to ensure companies to avoid making statements to indicate that the product has drug properties. Any such claims made regarding the product must be substantiated by scientific evidence as being truthful.

In Taiwan, if a product has drug properties, it must be approved by the DOH as a drug. It can be very costly and need a long waiting period to obtain the approval. Sometime, the cosmetics contain medicine ingredients the local manufacturer or importer may prefer to be classified as medicated cosmetics. Generally, regarding the financial benefits, the cosmeceutical manufacturers/importers that their products are not regulated as drug can be very costly and may not yield a legally marketable product if the DOH denies the application. Cosmeceutical's ingredients are mandatory tested for safety, testing to determine whether beneficial ingredients actually live up to a manufacturer's claim. In general, vitamins, herbs, various oils and botanical extracts may be used in cosmeceuticals.

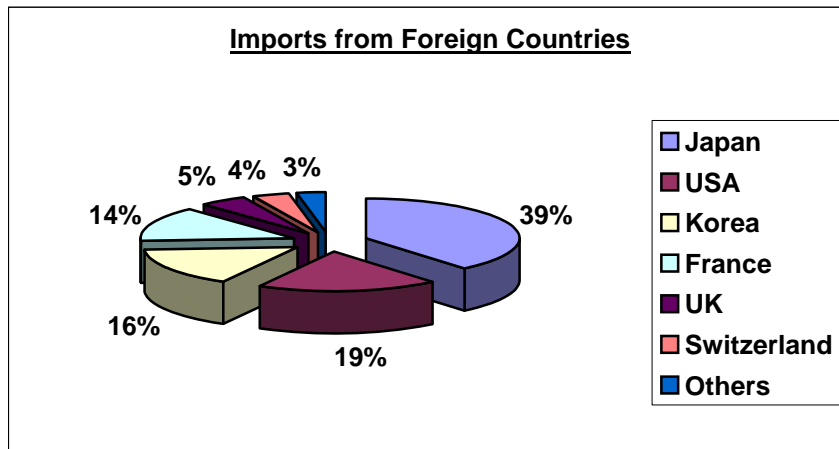
Medicated cosmetics and cosmetic colorants, either to be imported or locally manufactured, must be inspected by and registered with the DOH; and the importation and manufacture after having been granted a license. Importation or manufacture of regular cosmetics need not be reported to the DOH for recordation. Ingredient standards are published on DOH website (<http://www.doh.gov.tw>) for reference.

Key Suppliers

In Taiwan, well-established international brands such as Lancôme, Estee Lauder, Clinique, Shiseido, Christine Dior, Giorgio Armani, and many local brands play a dominant role in the high-end market of Taiwan, whereas brands such Revlon, L’Oreal, Olay and considered as more household and lie I the mid range. However, young brands from Japan and Korea such as DHC, Fancl, Lanegie and niche brands which boast natural ingredients, e.g. Dr. Hauschka, Jurlique and Kiehl’s, also play an important part in the skincare market. For products used in professional skin care salons, more popular brands are Valmont (Swiss), Rene Guinot (France), and Clarins (France).

On the export side, Taiwan manufacturers concentrate on producing low price products with their own brands, marketing to China, Southeast Asia, and the USA. A number of local dermatologists are formulating products not only for their own clinical patients but also marketing these products into local personal care stores and pharmacies.

According to the Taiwan Cosmetics Association, Taiwan imported cosmeceutical products mainly from France, Japan, USA, UK, Korea, Switzerland and Australia. They are also competitors, that are stronger in skincare products than cosmetics. Japanese, French and Swiss products are most popular among local consumers. Consumers prefer Japanese products in particularly as they believe in the products’ suitability to Asian skin types. Shiseido, Shu Uemura, and Kose are most popular Japanese brands. DHC also gain a lot of young customers by conducting massive advertising campaigns using celebrity spokespeople from Taiwan and Korea who are very popular in the whole North Asia region.



Source: Taipei Cosmetics Industry Association (estimated in May 2008)

In recent years, Japanese brands have been facing strong competition from Korean brands. Thanks to the growth of Korean television dramas, films, and music, Korean cosmeceutical products have been well received in Taiwan. Popular brands such as Lanegie and Mioggi have captured market share from Japanese brands. Korean brands are also more price-competitive and this is another factor in success.

Regulatory Regime

The regulatory agency with jurisdiction over medicated cosmetics is the Department of Health (DOH). Import licenses issued by the Board of Foreign Trade (BOFT) are required for all imported cosmetics-related products. The permit issued by the Department of Health for those products containing drugs must accompany application for an import license covering medicated cosmetics. Foreign-made cosmetics are normally imported to Taiwan through branch offices, agents, or trading companies.

The following documents must be submitted for cosmetics containing medical ingredients and making medical claims.

1. Letter of Appointment and Authorization
2. Product formula
3. Certificate of free sale and origin: issued by the U.S. Food and Drug Administration. A Certificate from the Cosmetic, Toiletry, and Fragrance Association (CFA) is acceptable for imports from U.S
4. Samples: at least three sets of samples for DOH testing, and four samples of the outer packaging attached to the application
5. Chinese description including:
 - Product name
 - Weight/capacity
 - Purpose of use
 - Instructions for use
 - Precautions
 - Shelf life (preservation period)
6. Quality Certificate, including:
 - Color of the product
 - Appearance of the product
 - Specifications (the DOH allows a plus or minus 10% tolerance in test results)
 - Test results (no active ingredient should be omitted)
7. Assessment report (test method), including:
 - Identification of each active ingredient in the finished product
 - Assessment: procedure for verifying each active ingredient and calculating the proportions of each active ingredient in the finished product

Trade Event

Event Name: Taipei Beauty Show
Exhibition Period: October 3-5, 2008
Event Organizer: China Times Group
Event Venue: Taipei World Trade Center, Exhibitor Hall II
Address: No. 3, Sung Lien Road, Taipei, Taiwan
Website: <http://taipei.beautimes.tw>
Email: show23081334@yahoo.com.tw

Resources & Key Contacts

Department of Health Website: <http://www.doh.gov.tw>

Bureau of Food & Drug Analysis, Department of Health Website: www.nlfd.gov.tw

American Chamber of Commerce Taipei Website: <http://www.amcham.com.tw>

Taipei Cosmetic Industry Association Website: <http://www.tcia2003.org>

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THAILAND

Summary

The cosmetics market in Thailand is highly competitive. Most international manufacturers and suppliers of cosmetic products are represented in Thailand. All of them invest heavily in promotional campaigns as a way to retain their share of the market and to stimulate the industry. The structure of the market is comprised of four highly competitive sectors: hair care, make-up, skin care and perfume. Cosmetic products from the US lead the import market with 20 percent. Perfume products from France dominate import market in that subsector with a 47 percent share. Channels of distribution for cosmetic products include direct sales, counter sales at department stores and hanging sales at specialty stores. The importation and marketing of cosmetic products is controlled by the Food and Drug Administration Office of the Ministry of Public Health. Approval by this office is required prior to the importation of all cosmetic products.

Market Overview

The overall growth rate of the cosmetic products market in Thailand for 2008 is expected to be approximately 4 percent. The expected growth rate is pretty much in line with the country's expected gross domestic product growth rate of approximately 5 percent. Considering the on going inflation rate in Thailand at 9 percent (July 2008), the growth rate of 4 percent is substantial. Hair care, make-up, and skin care products maintained single digit growth (at about 5 percent each) while perfume experienced growth in excess of 10 percent.

Brand image is a very important marketing factor when marketing cosmetic products in Thailand. Imported products and internationally well known brands are regarded as having high quality and a high price. Brand loyalty is very strong in this segment of the market and price competition is very rare. Locally produced cosmetic products are mainly geared toward the medium and low-income markets. Most of the products in this segment are marketed through mass marketing where price competition is always high. Brand retention and identification are normally used as advertising strategies in this market. Sampling and premiums are widely used in promotional campaigns.

Products from the United States are highly regarded and lead the import market. Competition from France, Japan, the United Kingdom and Germany is getting stronger.

Problem-solving product lines such as anti-wrinkle cream, anti-aging facial cream, anti-dandruff hair care, and whitening facial and body lotion have strong growth potential. Over 60 percent of Thailand's imported cosmetic products include high-end facial cream, mostly anti-wrinkle, anti-aging, and other skin care products. Products from the U.S. dominate this sub-sector with an approximately 32 percent share of the market. Leading international brands include: Estee Lauder, Clinique, Shiseido, Christian Dior, Lancome,

Olay, Eucerin, La Roche-Posay. An increasing number of products are specially designed for men and have been recently entering the market.

Thailand remains a strong manufacturer and exporter of shampoos and other hair care products, color cosmetics and skin care products. Local production is mainly geared towards low to medium quality color cosmetics (make-up, lipsticks, nail polish), skin care products (body lotion and bar/liquid soap) and hair care products (mainly shampoo and conditioners). Thai manufacturers of cosmetics are well known for their high quality OEM products. Cosmetic products are available in the country at all levels of quality and brand recognition ranging from high-end, well-known international brands to low-end, low quality, locally produced brands. Leading international companies that have production facilities in Thailand include Unilever, Procter & Gamble, Colgate-Palmolive, Lancome and Johnson & Johnson.

Market share by subsector:

	2005 Mil. US\$	2006 Mil. US\$	2007 Mil. US\$	Growth (Over 2006) %	Share (2007) %
Hair Care	305	352	370	5	32
Make Up	297	348	365	5	32
Skin Care	302	365	386	6	33
Perfume	31	35	39	11	3
Total	935	1,100	1,160	6	100

Exchange rate, US\$1: 33

Sources: Industrial Estimate.

The structure of the cosmetic market in Thailand is comprised of four main groups: hair care, make-up, skin care products, and perfume. With the exception of perfume, market share of the three subsectors are almost equally distributed. Hair care, make-up and skin care products have an equal share at approximately 32 percent. Perfume products have a three percent share of the market. The market growth for hair care, make up and skin care are almost the same at 5 percent, while perfume maintains double-digit growth at 11 percent.

Market Trends

Anti-aging skin care products, whitening products and other customized cosmetics remain the major trends for cosmetic products in Thailand. Anti-aging and whitening are the two leading properties used by most cosmetic manufacturers, domestic and international.

Anti-aging cosmetic products in both the higher and lower ends of the quality spectrum continue to have a strong presence in the cosmetics industry in Thailand. Anti-aging

products have become the norm among cosmetic users-both male and female. This trend is expected to continue for many years to come. Females seem to be more receptive to the anti-aging concept than males. Most anti-aging products involve skin care, especially facial care. Anti-aging facial care cream and lotion products do very well with high-end customers with whom price is not usually an issue. Generally, customers understand and accept the relationship between the quality of anti-aging products and the price, where high quality usually correlates to high price.

Cosmetic products with whitening properties do very well in the Thai market. The popularity of whitening products may be related to the dark complexions of most Thai people and their desire to become lighter skinned. The most popular cosmetic products containing whitening agent are facial creams and lotions especially those of medium to low quality. There are some high-end facial care products that contain a whitening agent available in the Thai market in 2007. Deodorant products that contain whitening agents also do very well in the Thai market. Many roll on deodorant suppliers appear to compete more on the basis of their product's whitening property than the basic quality of deodorant.

The popularity of customized cosmetic specifically designed for a group of customers still remains strong in the Thai market. Young males have been a major target for customized market. The manufacturers of cosmetic products would like to tap into the vast male market to compensate for the low growth rate from the women's market. The customized cosmetic products open up new groups of potential customers and could increase the customer base in the market. The concept has not done well so far and there are only a few players currently promoting this concept. Unilever is one of the leading companies that spearheaded the customized cosmetic for men. Products such as body sprays, deodorants, and hair care specially designed and packaged for men are getting into the Thai market. Most of them are medium quality products made by local manufacturers.

Import Market

	2006 Mil. US\$	2007 Mil. US\$	2008 (Estimated) Mil. US\$
Total Market Size	1,100	1,160	1,206
Total Local Production	1,545	1,669	1,805
Total Exports*	685	774	920
Total Imports*	240	265	323
Imports from the U.S.*	52	60	66

*The Thai Customs Department, Ministry of Finance
Exchange rate THB33: US\$1

In 2007, imports from the US led the import market with a share of 20 percent (\$66 million), followed by France at 16 percent (\$51 million), Japan at 12 percent (\$39 million), China at 6 percent (\$20 million), the United Kingdom at 6 percent (\$20 million), Germany at 4 percent (\$14 million), and other countries including Italy, Belgium, Spain, and Switzerland at 36 percent.

Competition

Competition between suppliers and distributors of cosmetic products is always strong. The prevailing economic slowdown has had an intensifying effect on competition, especially between manufacturers of medium to low quality body care, skin care and hair care products. Suppliers of said products frequently introduce new marketing strategies as a way to not only retain existing customers but also to capture a greater share of the market by enlarging their customer base.

All leading cosmetic companies invest heavily in promotional campaigns in order to stimulate the market. High-end international brand cosmetic companies use women's magazines as major advertising means. Premiums and point-of-sale promotional campaigns are also used regularly to stimulate sales. Counter sales at major department stores are the prevailing sales channel and account for approximately 30 percent of total cosmetic sales in Thailand. For medium- and low-end cosmetic products, television is the main venue used in advertising/marketing campaigns. Free sampling and giveaways are the two leading promotional strategies used to introduce new products and to stimulate sales of existing products. Unilever and Procter & Gamble are the country's all time leading spenders on advertising. The major channels of distribution for medium and low quality cosmetic products are discount, drug, and convenience stores as well as direct sales agents.

Use and promotion of herbal ingredients in cosmetic products have gradually died down. The market has been fully turned to promote whitening property in the cosmetic products. The inclusion of a whitening agent in facial and body care products is widely accepted by Thai buyers and for this reason, has become a highly popular marketing tool. The emergence and ever increasing popularity of spa treatment among locals and foreigners has created new demands for OEM contract manufacturing of cosmetics specially designed for spa consumption.

The overall growth potential for the cosmetic products during the next three years (2007-2009) is optimistically expected to be at approximately 8 percent. With an approximated customer base of 20 million (women between 15 and 55 years of age-mostly salaried workers), Thailand's market for cosmetic products has a strong group of potential buyers.

End Users

In 2007, Thailand reported approximately 43 million inhabitants in the age range of 15 to 55 years of age. The female to male ratio of this segment was almost evenly split at 50 percent for each group. According to the record of the Department of Employment, Ministry of Labor, out of the total 43 million people in this age range, 17 million of the females and 19 million of the males were employed bringing the combined total of employed Thais within this demographic to 36 million. These 43 million people form the major customer and potential consumer base of the Thai cosmetic products market. The demographic can be broken down further into three categories.

15 to 30 years of age: There are approximately 17 million people in this age range, representing 40 percent of the total 43 million people in the age range of 15 to 55 years of age. There are approximately 8 million females and 9 million males in this demographic. Given their young age, most of these people may still have junior employment status and may not make very much money. This group of potential buyers is likely to fall in the low to medium quality/price range group of cosmetic products consumers. Five to 10 percent of the 15 to 30 years age demographic may have the spending power to purchase higher-end quality cosmetic products – a result of higher family status and/or better employment due to overseas education credentials.

31 to 45 years of age: There are approximately 17 million people in this age range, representing 40 percent of the 43 million people in the age range of 15 to 55 years of age. There are 9 million females and 8 million males in this group of potential buyers. They are of a mature, working age group with mid-level to senior management. They are considered a good prospect within the medium to high quality cosmetic products market.

45 to 55 years of age: There are a total of 9 million people (5 million male, 4 million female) in this age range, representing 20 percent of the 43 million people in the age range of 15 to 55 years of age. This group of people represents great consumer potential for high quality/price cosmetic products. Medium quality/price cosmetic products also enjoy great potential with this demographic.

Market Access

The importation of cosmetic products is controlled by the Thai Food and Drug Administration (FDA) of the Ministry of Public Health. Product registration is required prior to the actual importation and marketing of the cosmetic products. The registration process is not complicated, but may take one to two months time. The basic documents required by the Thai FDA include:

- 1) A notarized Certificate of Free Sale or a Certificate of Manufacture issued by the manufacturer in the manufacturing country (United States)
- 2) A full ingredient/composition listing as issued by the manufacturer

Both documents have to be notarized and legalized either by the Thai Consulate in Washington, DC or the American Embassy in Bangkok, Thailand.

Import Duty

HS Code No.	Descriptions	Duty Rate (%)
3303	Perfume	30
3304	Make Up Products & Lotion	30
3305	Hair Care Products	20
3307	Shaving Products and Deodorant	20

Official contacts for import authorization and registration of cosmetic products are:

Food and Drug Administration
 Ministry of Public Health
 Royal Thai Government
 Tivanont Road
 Muang, Nonthaburi 11000
 Thailand
 Phone: 662-590-7273/9
 Fax: 662-591-8480
 E-mail: chatri@fda.moph.go.th
 Dr. Chatri Bancheun - Secretary General

Cosmetic Control Division
 Food and Drug Administration
 Ministry of Public Health
 Tivanon Road
 Muang, Nonthaburi 11000
 Thailand
 Tel: 662-590-7169, 662-590-7441
 Fax: 662-591-8468
 E-mail: cosmetic@fda.moph.go.th
 Mr. Pongpraphan Susanthitaphong – Director

Market Entry

Direct sales (60 percent) - direct selling has been very popular for a number of years and is expected to remain a major marketing channel for cosmetic products in Thailand for many years to come. Direct selling is the most effective way of introducing new medium and low-end cosmetic products to the market. In the direct sales channel, price is more attractive than product quality. Some of the international direct-sale companies operating in Thailand include: Amway, Avon, Herbal Life, Nu Skin, Nu Life, Nature's Best, NutriMetic.

Counter sales (30 percent) - this is a standard venue for marketing high quality/price and well-known internationally well-known brands of cosmetic products. There are 108 department store locations concentrated in major cities including Bangkok, Chiangmai, Cholburi, Nakornratchasima, Phuket, and Songkhla. Major department stores include: Central Department Store Department Stores (17 stores), Robinson Department Store (18 stores), The Mall Department Stores (6 stores), Emporium (1store), Siam Paragon (1 store), Imperial Department Stores (2 stores), ZEN (1 store), Tang Hua Seng (1 store)

Hanging sales (10 percent) - this channel is directed toward young buyers and the mass market for medium and low-end cosmetic products. Major players in this sector include: Boots, Watson, Red Earth, TOPs Supermarket, Big C, Carrefour, Testco Lotus. Major brands of cosmetic include: Mary Kay, Maybelene, Oil of Olay, Johnson & Johnson, Procter & Gamble, and Unilever.

One of the requirements by the Thai FDA in registering a cosmetic product is a local contact address. This requirement limits international suppliers to two choices: either set up an office in Thailand or appoint local market representation. The use of distributors or agents to import and market cosmetic products is common business practice. A distributor or agent in Thailand facilitates market entry and fulfils the Thai FDA's requirement of a local contact address before an applicant may register a cosmetic product. Generally, the distributor or agent will consider product registration as part of their job when representing international manufacturers.

Local distributors or agents not only provide an established relationship with buyers and end-users, they also provide assistance and service to international manufacturers. Said assistance normally includes product registration with the Thai FDA, customs clearing at port of entry, warehousing and product logistics, and marketing promotions. The distributor/agent in Thailand prefers an exclusive rights arrangement. There are several reasons for this preference. The leading reason is to avoid the price cutting practice that always takes place given the presence of multiple representatives. The other reason is the increased investment of efforts and promotional activities by the distributor in marketing the products. With the presence of multiple representations each distributor will more than likely hesitate to invest in any form of promotion. It makes more sense to work with a distributor or agent, under realistic distributorship terms and conditions, in order to build up the business in Thailand.

Opportunities for Profile Building

Thai Direct Selling Association
8th Floor, BB Bldg., Room 3818
54 Sukhumvit Soi 21 Road
North Klongtoey, Wattana
Bangkok 10110

Thailand

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Fax: (662) 664-4497

E-mail: sukanda@tdsa.org

Ms. Sukanda Choonhachatcharachai - Manager

Upcoming Trade Shows/Events.

Name: Thailand Health & Beauty Show 2008

Date: November 5-9, 2008

Venue: Impact Convention Center, Nonthaburi, Thailand

Profile: International Exhibition on beauty and aromatherapy products, spa and resort services, Health and clinical services, cosmetic raw material, and processing equipment.

Organizer: Department of Export Promotion
Ministry of Commerce

Website: www.thaitradefair.com

ITA Team: [Healthcare Technologies]

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Reviewers and Affiliation (ODO, FSO/FSN, MAS, etc.): James Golsen, Commercial Attaché

Completion Date: 07/31/07

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E-mail: nphupoks@mail.doc.gov

Website: www.buyusa.gov/thailand/en

VIETNAM

Market overview

The cosmetics sector in Vietnam is still developing. Presently, the sale of cosmetics and beauty products is largely uncontrolled and is plagued by a wide range of fake, mislabeled, and smuggled products. The Vietnamese cosmetics market is highly price sensitive and full of low-cost “knock-offs”. International cosmetic giants must contend with these challenges when entering the market with their premium products. Vietnamese consumers typically spend about VND 45,000 (about US\$3) per year for cosmetics purchase at local street shops. Similar beauty products sold at department stores, supermarkets, and specialty cosmetics shops cost roughly twice as much.

Vietnamese consumers spent US\$82 million on beauty and skin care products in 2006. Illegal and unofficial imports are estimated to account for as much as 60 percent of these sales in Vietnam. Currently, Vietnamese women spend US\$3 – 4 per capita on cosmetics and beauty products per year. By contrast, other Asian countries spend the following amount per capita: Taiwan (US\$41.7), Korea (US\$40.9), Hong Kong (US\$35.7), Thailand (US\$19.5) and China (US\$10).

Consumer tastes and preferences for more sophisticated products are maturing and shifting towards quality brand names. This is especially so with younger consumers. Foreign companies already in Vietnam recognize the market’s future potential and are advertising aggressively. To capture more market share, local manufacturers are investing in more research and development, as well as marketing and distribution activities to compete with superior international brands. This growing and rapidly developing market offers numerous opportunities for American companies in the following segments: finished beauty products, raw cosmetics material and manufacturing technologies and related equipment for beauty products.

Market Size

It is estimated that 90-95 percent of the market for international cosmetics products in Vietnam is centered in the most cosmopolitan areas of the country, including Ho Chi Minh City in the south and Hanoi in the north. Relatively few sales of international cosmetics occur outside of these cities. The cosmetics market in Ho Chi Minh City is about five times larger than that of Hanoi.

Market Size for Skin Care and Make-up Products:

	2004 (US\$ million)	2005 (US\$ million)	2006 (US\$ million – estimated)
Imports	56.2	65.8	78.0
Local Production	3.8	4.2	6.0
Exports	0	0.7	1.26
Total Market	60.0	69.3	82.74
Imports from the USA	5.6	6.6	15.0

Note: The above statistics are unofficial estimates

Vietnamese consumers are still not as familiar with American brand cosmetics compared with cosmetics from other countries. Additionally, local production of brand and non-brand cosmetic products is low compared with the level of imported beauty products. The market share for cosmetics products by foreign countries is as follows: Korea - 30%, EU - 23%, Japan - 17%, Thailand - 13%, US - 10%, and others - 7%.

Best Prospects

There are hundreds of locally produced brands and other low prestige cosmetics labels from China, Thailand and Taiwan, targeted towards the mass of low-income consumers. Foreign make-up and skin care products are steadily gaining in popularity among Vietnamese consumers.

Sales of skin care products are expected to grow at around 10-15 percent annually over the next three years, as this previously untapped market segment becomes cluttered with more and more foreign and domestic brands. Although Vietnamese consumers still prefer skin care products from Europe and Japan, locally produced products account for more than 50 percent of the market for skin care products.

The Vietnamese market for make-up products has transformed into a highly segmented one: development, distribution, and market positioning of such products are being targeted to consumer segments based on income, age, gender and profession. This contrasts with an earlier one-size-fits-all product offering evident less than a decade ago. Make-up products are expected to grow by approximately 7 percent per year over the next three years, with increasing demand for make-up products from Korea and Japan.

U.S. Market Position

U.S. cosmetics brands are generally well accepted by Vietnamese consumers. Brands such as Maybelline, Revlon, and Clinique have done well. Vietnamese consumers have not yet been exposed to many higher end brands, such as M.A.C., Guess and Estee Lauder. Given the limited exposure of Vietnamese consumers to American brands, most consumers are still uncertain where U.S. products rank in terms of prestige among beauty

products. Several high-end U.S. cosmetics brands are available in the local market due to smuggling, even though there is no advertising and promotional support to develop their market share or to cultivate brand awareness. In sum, the market potential for future sales of US cosmetics is good. Brand awareness is starting to grow and local consumers are steadily spending more on cosmetics and beauty products.

Distribution Practices

Once suitable local distribution partners have been identified and selected, an effective distribution strategy must be formulated and implemented. There are three options:

1. Exclusive national distribution: Identifying and selecting a national distribution company to be the only licensed wholesaler in Vietnam.
2. Non-competing regional distribution: Identifying and selecting different distribution companies to be the only licensed wholesalers in each of the two primary local markets, Ho Chi Minh City and Hanoi.
3. Nationally tiered distribution: Identifying and selecting a primary national distribution company to resell to secondary or regional wholesalers.

Since the market in Ho Chi Minh City for cosmetics and beauty products is much larger than that of Hanoi, it is advisable to select a primary distribution company based in Ho Chi Minh City. However, to serve the Hanoi market, a separate sales agent may be required because of the market's different characteristics.

Regulation & Taxation

Regulation:

Imported cosmetics and beauty products must be registered with the Ministry of Health (MoH) for quality assurance and identification purposes. The foreign party should have a contract with a local company that allows the foreign company to change the registration status of previously imported goods as well as any future imports to a different local distributor with appropriate notice if any problems should arise between the foreign exporter and the initial local distributor. The process of product registration is complex and often confusing to a foreign company. Local distributors are more familiar with the local requirements and for that reason can handle product registration easier and more efficiently.

Company registration

There are no regulations requiring foreign companies to obtain registration prior to exporting cosmetics to Vietnam.

Product registration

For products that fall under the cosmetic categories specified above, the exporter or importer must register the product with the MoH for quality assurance purposes. A permit must be obtained from the MoH to import the initial samples required for the health and safety inspections and quality assurance registration.

The term "cosmetics" encompasses "all substances or manufactured preparations used for direct application to external areas of the human body or to the teeth, gums or lining of the mouth with the sole or main purpose of cleansing, perfuming, changing appearance and body odor, and preserving or maintaining the body in a good condition"

The following items are classified as cosmetics that directly affect human health and welfare and are required to be registered for quality assurance purposes with the MoH for distribution and circulation within Vietnam:

- products applied to the skin (hand, face and legs) being creams, liquids, solutions, gels and oils;
- face masks (except for products not containing any chemical substance);
- all substances with a colour foundation (in the form of liquid, paste or powder);
- make-up powders, powder used after showering, hygiene powders;
- hygiene soaps, deodorant soaps;
- perfumes, hygiene scents and fragrances;
- products used when showering and washing (salts, soaps, shampoos, gels);
- hair removal products;
- deodorant products for the body and anti-perspiration deodorants;
- hair care products, such as: hair colouring products, hair colour removal products; hair waving
- products, products to stretch and set hair; permanent wave products; hair cleansing products
- (solutions, powders and shampoos); hair nourishing products (solutions, creams and shampoos);
- hair beauty products (solutions, gels and pomades);
- products used when shaving beards (creams, soaps and solutions);
- beauty products for the face and eyes;
- lipsticks;
- teeth and mouth care products;
- fingernail and feet care products;
- personal hygiene products for ladies;
- sunscreen and sun tanning products;
- anti-ultraviolet ray protection products;
- skin whitening products;
- face care (anti-wrinkling) products.

Taxation:

The Vietnamese Value Added Tax (VAT) is ten percent. The tariff rate is reduced from 50 to 30 percent for perfume and fragrant lotion from the U.S, from 50 to 20-30 percent

for cosmetics. The import duty on cosmetics products is calculated on the CIF value of the shipment. The VAT tax on imported goods is based on their CIF value plus the assessed import duty.

Contact Information

For more information on the market and U.S. Department of Commerce's services for U.S. exporters, please contact:

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American Embassy
U.S. Commercial Service
Rose Garden Tower
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U.S. Commercial Service – Ho Chi Minh City

Ms. Nguyen Thi Kieu Huong
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Website: www.buyusa.gov/vietnam/en/

United States Contact List For Cosmetics/Toiletries Industry

For more information on exporting cosmetics and toiletries to the markets in this report, please contact the U.S. Department of Commerce Export Assistance Center Cosmetics/Toiletries Trade Specialist nearest to you.

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