Industry & Trade Summary

Perfumes, Cosmetics, and Toiletries

USITC Publication 2598 (CH–7)
March 1993

OFFICE OF INDUSTRIES
U.S. International Trade Commission
Washington, DC 20436

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PREFACE

In 1991 the United States International Trade Commission initiated its current *Industry and Trade Summary* series of informational reports on the thousands of products imported into and exported from the United States. Each summary addresses a different commodity/industry area and contains information on product uses, U.S. and foreign producers, and customs treatment. Also included is an analysis of the basic factors affecting trends in consumption, production, and trade of the commodity, as well as those bearing on the competitiveness of U.S. industries in domestic and foreign markets.[1]

This report on perfumes, cosmetics, and toiletries covers the period 1987 through 1991 and represents one of approximately 250 to 300 individual reports to be produced in this series during the first half of the 1990s. Listed below are the individual summary reports published to date on the chemicals sector.

USITC publication number	*Publication date*	*Title*
2458(CH-1)	November 1991	Soaps, detergents, and surface-active agents
2509(CH-2)	May 1992	Inorganic acids
2548(CH-3)	August 1992	Paints, inks, and related items
2578(CH-4)	November 1992	Crude petroleum
2588(CH-5)	January 1993	Major primary olefins
2590(CH-6)	February 1993	Polyethylene resins in primary forms
2598(CH-7)	March 1993	Perfumes, cosmetics, and toiletries

[1] The information and analysis provided in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under statutory authority covering the same or similar subject matter.

CONTENTS

CONTENTS—*Continued*

INTRODUCTION

This report contains information concerning production, consumption, and trade in the perfume, cosmetics, and toiletry industry, both in the United States and throughout the world. Most information in this report is provided for the 5-year period, 1987-91.

The major products of this industry are commonplace personal care products used routinely by most individuals in Western industrialized societies. These items include personal deodorants, dentifrices, and hair care preparations. Societal norms most often determine the amounts used and the degree of usage of the individual products included in this summary. For example, an item such as an antiperspirant or deodorant may be used by the majority of the population of the United States. Such use may be regarded by those users as an element of basic personal grooming. Populations of many other nations, however, may not regard the use of such personal care products as a compulsory social obligation. Such values greatly influence the accessibility of certain markets to producers of these items.

The perfume, cosmetics, and toiletry industry is dominated by large multinational firms that produce nearly all of the primary materials used in almost all industry products. However, there are many "small" producers active in this industry; most of which are not completely vertically integrated. These firms often depend on the larger producers or other small specialty companies to supply basic and essential raw materials that may be mixed or compounded, and then packaged and sold as a product of the smaller firm.

The specific production processes of individual perfumes, cosmetics, and toiletries remains among the most closely guarded industrial secrets. However, most companies use similar general processes to produce the bulk of its products. The typical producer of a perfume, cosmetic, or toiletry is a compounder, a purchaser of all of the major ingredients from suppliers of the various requisite specialty products, such as fragrances or surfactants. Often the suppliers of these specialty products are affiliated with the compounder, as many major chemical and personal care products companies have acquired or developed subsidiaries for the specific purpose of having "in-house" suppliers.

Firms that are not completely vertically integrated tend to form associations with those suppliers that willingly customize products to customers' specifications. Some of these firms, such as private fragrance houses, may work together with the producer of the final consumer product as early as the product development stages, so that a close relationship may evolve. Such relationships guarantee the supplier of the component material an assured and captive market, assuming success of the final consumer product.

U.S. domestic demand for perfumery, cosmetics, and toiletries is ordinarily satisfied by domestic production. In general, demand for the majority of the common toiletry items in most nations is met by domestic production. However, production of higher end perfumes and cosmetics is heavily concentrated in certain areas of Western Europe, particularly France and Italy. Significant production also takes place in certain other locations, such as Hong Kong and Singapore; for this reason, many of these higher end products are exported to most other major international markets, including the United States.

U.S. INDUSTRY PROFILE

Industry Structure[1]

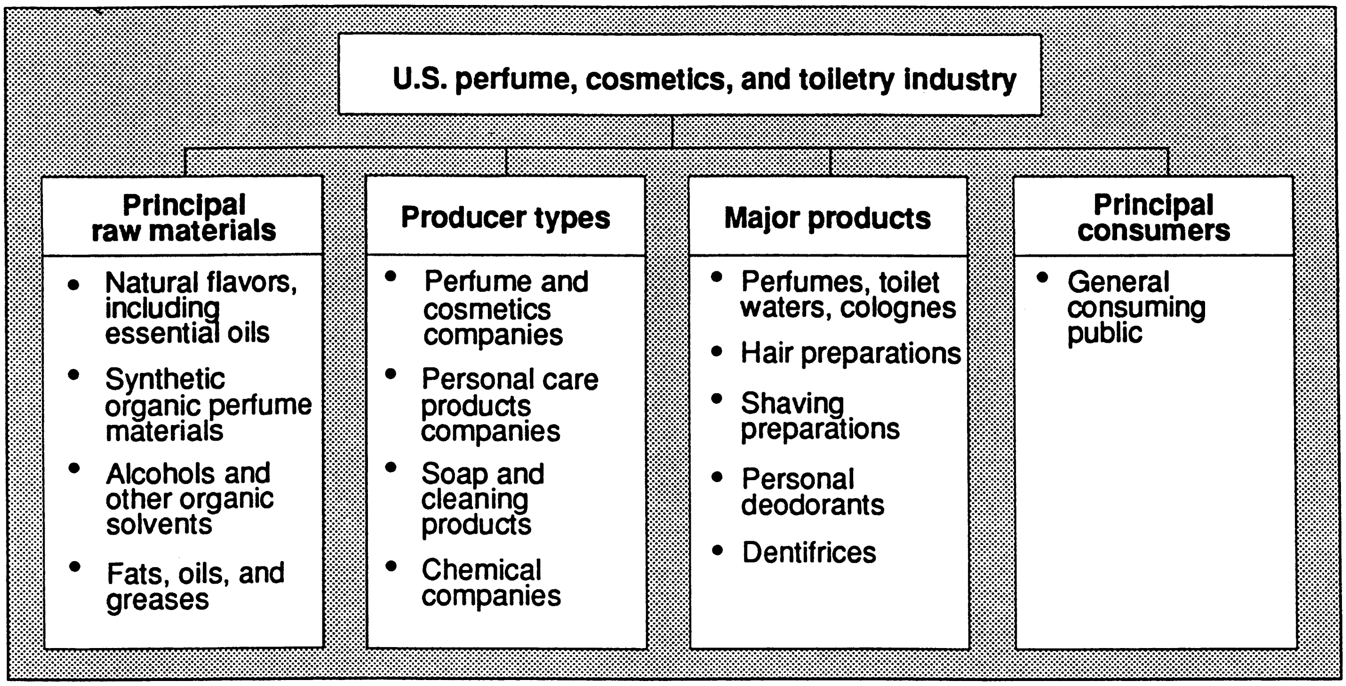
The structure of the perfume, cosmetics, and toiletry industry, although simple when compared with that of many other chemical process industries, is somewhat complicated because of the varying degree to which firms in this industry are vertically integrated (figure 1). There are both U.S.-based and foreign-based multinational companies active in the U.S. domestic market that are fully vertically integrated. These firms are involved in the entire production process, beginning with the cultivation of the flora from which many of the fragrances and oils used in the industry are obtained, and culminating in the production of consumer products. Other smaller domestic or foreign firms may purchase only some of the various ingredient materials, at various levels of the product line, and perform one or two specialized steps to increase the value-added of the material. Such smaller "specialty" companies exist and compete by carving out very specific niches, often based on one or a very few specialized fragrances. Also, such firms may seek to maintain competitive advantages through product innovation or a proprietary technological advantage.

The relationships that exist throughout this industry are based to a significant degree on trust among the suppliers and the purchasers of the raw materials. Individual product success in this industry depends heavily on proprietary formulations used to generate a special fragrance or aroma, thereby provoking a specific designed response. Such proprietary formulations may be incorporated into related "families" of products, such as perfumes and colognes, powders, shaving preparations, and other perfumed preparations. Since these formulations may be compounded from various types of materials purchased from flavor and fragrance companies, the ability to replicate the same product fragrance is dependent upon the consistency and homogeneity of the raw materials used and the reliability of the supplier.

According to the U.S. Bureau of the Census in the 1987 Census of Manufactures, there were 694 establishments reported under Standard Industrial Classification (SIC) code 2844. These establishments employed a total of approximately 58,500 individuals, of whom 35,400 were engaged directly in the production of the materials classified in SIC 2844. The value of shipments from these establishments in 1987

[1] All of the items included in this summary are contained within one discrete Standard Industrial Classification (SIC) grouping: SIC industry No. 2844, Perfumes, Cosmetics, and other Toilet Preparations.

Figure 1
U.S. perfume, cosmetics, and toiletry industry: Principal raw materials, producer types, major products, and principal consumers



Source: USITC Staff.

was approximately $14.6 billion.[2] According to estimates of the U.S. Department of Commerce, total employment declined during 1987-91 to approximately 55,600 (production employment was estimated to have declined to about 33,500 in 1991) while the value of shipments increased to nearly $17.9 billion.[3]

Total wages paid to employees in the perfume, cosmetic, and toiletry industry were approximately $1.4 billion in 1987.[4] Annual wages for several different segments[5] of the industry as of 1987 are shown in the following tabulation:[6]

Industry segment	Wages: Production workers	Wages: Non-production workers
	$1,000/worker	
Perfumes	16.1	33.9
Hair preparations	18.6	31.7
Dentifrices	24.6	34.7
Industry average	18.2	30.7

[2] U.S. Bureau of the Census, *1987 Census of Manufactures, Soap, Cosmetics, and Toilet Goods*, Feb. 1990; and *1992 U.S. Industrial Outlook*, Jan. 1992, pp. 35-1 through 35-5.

[3] *U.S. Industrial Outlook*, Jan. 1992, p. 35-2.

[4] U.S. Bureau of the Census, *1987 Census of Manufactures, Soap, Cosmetics, and Toilet Goods*, Feb. 1990.

[5] The segments cited in the tabulation do not, when taken together, represent the entire industry.

Significant differences among the various segments of this industry are clearly seen here, as the wage differentials between production and non- production workers in the perfume segment are especially pronounced. Wage rates of non-production workers were almost 53-percent higher than those of production workers. This high wage rate differential may be related to the relatively low skill-level of the blue-collar workers involved in the production of these items, as opposed to the prominent involvement of marketing and research and development (R&D) personnel in this industry segment. However, in the dentifrice segment of the industry, the wage rate differential is only 29 percent, owing to the greater emphasis on highly skilled production workers improving production efficiencies, with relatively low costs associated with R&D and marketing personnel.

The majority of the U.S. companies producing perfumes, cosmetics, and toiletries may be categorized as small specialty companies, each reporting fewer than 10 employees, and together accounting for a relatively minor share of the total industry production. The following tabulation shows the value of shipments for establishments that compose the domestic perfume, cosmetics, and toiletry industry as of 1987, arranged according to the number of employees in the respective establishments:[7]

[6] U.S. Bureau of the Census, *1987 Census of Manufactures, Soap, Cosmetics, and Toilet Goods*, Feb. 1990.

[7] Ibid.

Number of employees per establishment	Number of establishments	Shipments
		(Million dollars)
1-4	218	70.6
5-9	112	151.6
10-19	92	205.3
20-49	105	577.8
50-99	42	670.5
100-249	57	1,669.8
more than 250	68	11,247.8

As can be seen from these data, 330 establishments (48 percent of the total) accounted for shipments valued at $222 million, less than 2 percent of the industry total. Also, the largest 68 establishments together accounted for more than 77 percent of the total value of shipments. This is indicative of the distribution of establishments in many chemical-based specialty industries. The distribution is accentuated in this particular case because large multinational vertically-integrated companies tend to dominate the lower value-added end of the market by virtue of the very large volumes of materials produced and marketed. The much smaller specialty producers tend to dominate the higher value-added segment.

Geographically, the domestic industry is highly concentrated in the industrial Northeast, particularly in the New York-New Jersey area. The other major States where production is concentrated are California and Illinois.[8] The following tabulation illustrates the geographical concentration of the industry (as of 1987), based on the number and the size of establishments, and the value of shipments.[9]

State	Number of establishments: Total	Number of establishments: With 20 or more employees	Shipments
			(Million dollars)
California	130	49	1,072
Illinois	37	18	1,596
New Jersey	99	61	3,295
New York	109	39	1,623
Texas	51	7	413
All other	268	98	6,954
United States	694	272	14,593

Because this industry involves the production of goods for two very different types of markets, the cost structures for the production of these products differ significantly. The higher value-added perfumes and cosmetics tend to incur higher R&D expenditures and often require the purchase of higher priced specialty fragrance ingredients. The lower value-added toiletry items are usually mass-produced and, although they require many of the same high-quality ingredients, are able to take advantage of scale economies in the purchasing or production of these ingredients. Therefore, the costs associated with raw materials for these toiletries are significantly lower and represent less of the overall cost of the final product.

[8] Ibid.
[9] Ibid.

The marketing and distribution of these products to the consuming public also differ significantly among the various subsectors. The more common lower value-added toiletry products, such as shaving products, shampoo and hair care products, personal deodorants, and dentifrices are distributed extensively through retail outlets where the general consuming public shops on a regular basis, i.e., supermarkets, discount stores, and drug stores. The higher value-added perfumery and cosmetics products are more often marketed through a far more limited network of high-priced specialty and department stores.

The perfume, cosmetic, and toiletry industry was one of the first industries to become globalized and to serve a worldwide market. Although its best-known center of production is still in Paris, France, major industry centers developed in other areas of the world, such as Hong Kong and Singapore. And although large multinational companies appear to dominate the industry because of their overwhelming volume of production and sales, many small specialty companies in these industry hubs remain trendsetters and the foundation of the industry, and still account for a significant portion of the total world sales of perfume and high-priced cosmetics.

The most prominent characteristic of the multinational firms that dominate the lower value-added end of the industry is the wide geographical dispersion of these firms. The next most apparent characteristic of these firms is the wide range and variety of items that are produced. Often these multinational companies, such as Procter & Gamble (United States) or Lever Brothers (Netherlands), produce a wide variety of products, related to each other only by brand name. These companies also produce items under different brand names that compete with each other, as well as with products of other firms, to secure a greater share of the overall market. These companies seek to maximize their market shares by setting up their own profit centers as firms competing against one another. In this manner, a new profit center with its own product line would gain market share by capturing market share away from competitors, both within its own parent firm and from other companies. Therefore, the parent company would be increasing its overall market share vis-a-vis other competing producers.

Consumer Characteristics and Factors Affecting Demand

The products of the perfume, cosmetic, and toiletry industry are all intended for the general consuming public. As mentioned previously, there are two distinct segments of the consuming public served by this industry. The first and by far the largest is made up of common toiletry products that are used on a daily basis by most consumers in this particular market. The second segment is made up of upscale fragrance and skin care products. Together, these market segments are estimated to account for sales valued at about $4.5 billion in the United States at the retail level.[10] Growth in the upscale market segment generally reflects the general economic conditions prevalent in the geographic area of consideration, since increased levels of disposable income generally correlate well with increased consumption of these products. Growth in the lower value-added market segment, however, does not correlate well with more favorable economic conditions. Instead, changes in levels of consumption often reflect changes in the size of the overall consuming population, rather than economic changes within the population itself.

FOREIGN INDUSTRY PROFILE

The United States is the largest producer of perfumes, cosmetics, and toiletries in the world. France, however, historically has been, and remains, the largest producer and exporter of those fragrance and skin care products that supply the upscale market segment of the industry.

The firms that account for the largest share of worldwide sales of perfumes, cosmetics, and toiletries are based in the United States, Western Europe, or Japan. The top firms in the world in terms of value of sales (listed by country), are Procter & Gamble and Revlon (United States), Shiseido and Kao (Japan), Unilever (United Kingdom and the Netherlands), and L'Oreal (France).[11] Major increases in worldwide demand for perfumes, cosmetics, and toiletries are anticipated, owing to increased access of producers to major foreign markets in Eastern Europe. Increased consumption in Eastern Europe is also anticipated along with those nations' increased exposure to Western media, marketing, and increased levels of commercial contact between those nations and Western Europe and the United States.

Major foreign producers of perfumes, cosmetics, and toiletries are based primarily in Western Europe or Japan. These producers use the same raw materials and production technology as producers in the United States. They also require capital inputs and R&D expenditures similar to those of the U.S. industry. These similarities result from the close relationships that exist both among many of the foreign companies and between these companies and those in the United States. Most major firms, regardless of the nation in which they are based, have developed such associations, either through partnerships or other investment linkages. Although individual production cost factors tend to differ significantly in various locations around the world, the total production costs associated with this industry are generally fairly similar regardless of the location of production. For example, a production facility may be located at a remote site to take advantage of the availability of rare or exotic raw materials, and possibly low-cost labor rates. Although the unit cost of production for such a plant would often be far less than that of a similar facility located in a major metropolitan center, the transportation costs associated with bringing in other necessary raw materials and delivering the final product to its market would offset most prior cost advantages.

Other nations, such as Singapore, Hong Kong, and Brazil are particularly important players in the international trade of the raw materials that are the essential ingredients in the production of perfumes, cosmetics, and toiletries. These countries, however, do not have large domestically owned industries involved in the production of finished products.

U.S. TRADE MEASURES

Table 1 shows the rates of duty, as of January 1, 1992, applicable to imports of perfumes, cosmetics, and toiletries under the Harmonized Tariff Schedule of the United States (HTS). The table shows both the column 1-general duty rates (for countries receiving most-favored-nation (MFN) treatment) and column 1-special rates (for countries qualifying for preferential tariff programs).[12]

The 1992 column-1 general rates of duty for most of the products in this digest (under HTS headings 3303 through 3307) are 4.9 percent ad valorem; the few exceptions that have higher duties ranged from 5.0 percent ad valorem to 5.8 percent ad valorem, with one compound rate for shaving preparations containing alcohol of 11 cents per kilogram plus 4.5 percent ad valorem.

Incense for religious purposes classified in HTS subheading 3307.41 enters at a rate of 2.4 percent ad valorem, and floral or flower water classified in subheading 3303.10 enters free of duty. The aggregate trade-weighted average rate of duty for all products covered, based on full-year 1991 trade, was approximately 4.6 percent ad valorem. The only special provision affecting tariff rates outside of the indicated subheadings of the HTS involves those items that are subject to an additional duty associated with their content of alcohol. These items, noted in Table 1, are subject to a Federal excise tax[13] of $13.50 per proof gallon.

There are no known domestic nontariff import restrictions. No investigations under the trade laws have been instituted during the past 5 years with respect to these products.

FOREIGN TRADE MEASURES

The duty rates associated with perfumes, cosmetics, and toiletries are relatively low throughout the world. Particularly in those nations that are major U.S. trading partners for these commodities (Canada

[10] "Global Makeup," *Chemical Marketing Reporter*, July 22, 1991, p. SR8.
[11] *Chemical Week*, Nov. 15, 1989, pp. 20-21.

[12] See appendix A for an explanation of tariff and trade agreement terms.
[13] 26 U.S.C. 5001.

Table 1
Perfumes, cosmetics, and toiletries: Harmonized Tariff Schedule subheading; description; U.S. col. 1 rate of duty as of Jan. 1, 1992; U.S. exports and imports, 1991

HTS subheading	Description	Col. 1 rate of duty As of Jan. 1, 1992 General	Special[1]	U.S. exports, 1991	U.S. imports, 1991
				Million dollars	
3303.00.10	Floral or flower waters, not containing alcohol	Free		20	1
3303.00.20	Other perfumes and toilet waters not containing alcohol	5%	Free (A,E,IL) 3% (CA)	60	30
3303.00.30	Perfumes and toilet waters containing alcohol	5%[2]	Free (A,E,IL)[2] 3% (CA)[2]	120	290
3304.10.00	Lip make–up preparations	4.9%	Free (A,E,IL) 2.9% (CA)	30	40
3304.20.00	Eye make–up preparations	4.9%	Free (A,E,IL) 2.9% (CA)	23	58
3304.30.00	Manicure or pedicure preparations	4.9%	Free (A,E,IL) 2.9% (CA)	23	6
3304.91.00	Powders, whether or not compressed	4.9%	Free (A,E,IL) 2.9% (CA)	17	31
3304.99.00	Other beauty, make–up, and skin care preparations	4.9%	Free (A,E,IL) 2.9% (CA)	272	99
3305.10.00	Shampoos	4.9%	Free (A,E,IL) 2.9% (CA)	111	14
3305.20.00	Preparations for permanent waving or straightening hair	4.9%	Free (A,E,IL) 2.9% (CA)	30	3
3305.30.00	Hair lacquers	4.9%	Free (A,E,IL) 2.9% (CA)	33	1
3305.90.00	Other preparations for use on the hair	4.9%	Free (A,E,IL) 2.9% (CA)	119	27
3306.10.00	Dentifrices	4.9%	Free (A,E,IL) 2.9% (CA)	35	7
3306.90.00	Other preparations for oral or dental hygiene	5.5%	Free (A,E,IL) 3.3% (CA)	29	6
3307.10.10	Pre–shave, shaving, or after–shave preparations not containing alcohol	4.9%	Free (A,E,IL) 2.9% (CA)	3	5
3307.10.20	Pre–shave, shaving, or after–shave preparations containing alcohol	11¢/kg + 4.5%	Free (A,E,IL) 6.6¢/kg + 2.9% (CA)	12	9

See notes at end of table.

Table 1—Continued
Perfumes, cosmetics, and toiletries: Harmonized Tariff Schedule subheading; description; U.S. col. 1 rate of duty as of Jan. 1, 1992; U.S. exports and imports, 1991

HTS subheading	Description	Col. 1 rate of duty As of Jan. 1, 1992 General	Special[1]	U.S. exports, 1991	U.S. imports, 1991
				Million dollars	
3307.20.00	Personal deodorants and antiperspirants	4.9%	Free (A,E,IL) 2.9% (CA)	35	16
3307.30.10	Bath salts	5.8%	Free (A,E,IL) 3.4% (CA)	5	1
3307.30.50	Other bath preparations	4.9%	Free (A,E,IL) 2.9% (CA)	12	27
3307.41.00	"Agarbatti" and other odoriferous preparations which operate by burning	2.4%	Free (A,E,IL) 1.4% (CA)	1	4
3307.49.00	Other preparations for perfuming or deodorizing rooms	11¢/kg + 4.1%[2]	Free (A,E,IL)[2] 6.6¢/kg + 2.4% (CA)[2]	26	5
3307.90.00	Other perfumery, cosmetics, or toilet preparations, not elsewhere specified	5.4%	Free (A,E,IL) 3.2% (CA)	57	34

[1] Programs under which special tariff treatment may be provided, and the corresponding symbols for such programs as they are indicated in the "Special" subcolumn, are as follows: Generalized System of Preferences (A); Automotive Products Trade Act (B); Agreement on Trade in Civil Aircraft (C); United States–Canada Free Trade Agreement (CA); Caribbean Basin Economic Recovery Act (E); and United States–Israel Free Trade Area (IL).
[2] Certain imports under this provision may be subject to a Federal Excise Tax (26 U.S.C. 5001) of $13.50 per proof gallon and a proportionate tax at the like rate on all fractional parts of a proof gallon.

Source: U.S. exports and imports compiled from official statistics of the U.S. Department of Commerce.

and the European Communities), the average duties are comparable to U.S. MFN duty rates. The following tabulation summarizes average rates of duty for certain important trading partners.[14]

Nation	Average Rate of Duty on perfumes, cosmetics, and toiletries
	Percent ad valorem
Canada	10 - 12 (MFN) (United States on a 10-year duty elimination schedule, 1989-98)
European Communities	6.6
Japan	40 - 50 15 (dentifrices)
Mexico	15 or 20
Singapore	Free

There are no known specific non-tariff barriers that affect any of the perfumes, cosmetics, or toiletries discussed in this summary.

U.S. MARKET

Consumption

Overall international trade in perfumes, cosmetics, and toiletries is of relatively minor significance, since the lower value-added segment of the industry, which accounts for the overwhelming majority of the domestic industry's production and sales in terms of quantity, is less involved in trade than the much smaller volume but higher value-added end of the industry (table 2 and figure 2).

Domestic consumption increased steadily during 1987-91, from a value of about $15 billion to nearly $18 billion, an average annualized rate of approximately 4 percent. This growth in consumption was very close to the growth rate projected by industry analysts for the period. Growth projections in this industry were based on the following assumptions: (1) no increase in per capita use rates of most major products, (2) a slight increase owing to high growth of certain specific "market niche" products (such as high SPF[15] factor sunscreens), and (3) a slight increase associated with population growth.

A major factor in the maintenance and the increased growth rates seen in certain segments of the domestic market was the increased level of consumer advertising expenditures by the major producers. Previously, smaller companies could not afford to spend large shares of their revenue on the mass marketing of their products. During the past several years, however, the progression of corporate takeovers in the industry has allowed what were once small independent companies with limited budgets, such as Max Factor or Elizabeth Arden, now to have their campaigns financed by parent industry giants such as Procter & Gamble and Unilever.[16]

Industry experts have projected increased domestic sales in certain specific segments of the U.S. cosmetic and toiletry market by 1995, as shown in the following tabulation (in billions of dollars):[17]

Market segment	Actual sales, 1989	Projected sales, 1995
Hair and skin care	5.8	7.7
Facial care	1.6	2.4
Oral care	2.3	3.1
Lip, eye, and nail cosmetics	2.2	2.9
Facial cosmetics	.7	1.0

The greatest increase in domestic sales is expected in facial care products and facial cosmetics. A major challenge to marketers of these products is to convince the consumer that their product is not a discretionary item, but instead a necessity.[18] A significant asset to the marketer of these products is current scientific evidence that health problems, such as skin cancer, may be averted or even prevented through the use of certain skin care products.[19] Increased consumer awareness of these substantive health matters allowed these segments of the domestic market to continue growing while the general economy experienced much slower and even a declining pattern of growth.

As demand for certain products in the domestic market has grown, imports have also increased. The ratio of imports to consumption increased from 3 percent to more than 4 percent during 1987-91, indicating an increase in market penetration of about one-third. This change may, however, be somewhat deceiving. The increase in market penetration has primarily been concentrated in the high-priced perfumes and skin care products, although the primary product segments of the U.S. industry are the more utilitarian toiletry products. Tables 3 and 4 highlight the difference in composition between the primary products of the U.S. industry that are marketed domestically and the materials imported for domestic consumption.

As can be seen, the composition of imports is dominated by perfumes and beauty and skin care preparations, which accounted for 42 percent and 15 percent of the value of the 1987 perfume, cosmetic, and toiletry imports (figure 3) and only 13 percent and 3 percent, respectively, of all domestic shipments.[20]

[14] Duties compiled from various tariff schedules. Dates associated with the average duty rates indicated are as follows: Canada - 1991, European Communities - 1990, Japan - 1991, Korea - 1988, Malaysia - 1988, Singapore - 1990.

[15] A higher SPF value infers greater protection from potentially damaging ultra-violet radiation, which has been shown to be related to the onset of certain skin cancers.

[16] Ibid.

[17] *Soap Cosmetics Chemical Specialties*, Mar. 1990, p. 20.

[18] "Facing Up," *The Economist*, July 13, 1991, pp. 71-72.

[19] Ibid.

[20] On the basis of shipments as reported by the U.S. Department of Commerce in the *1987 Census of Manufactures*.

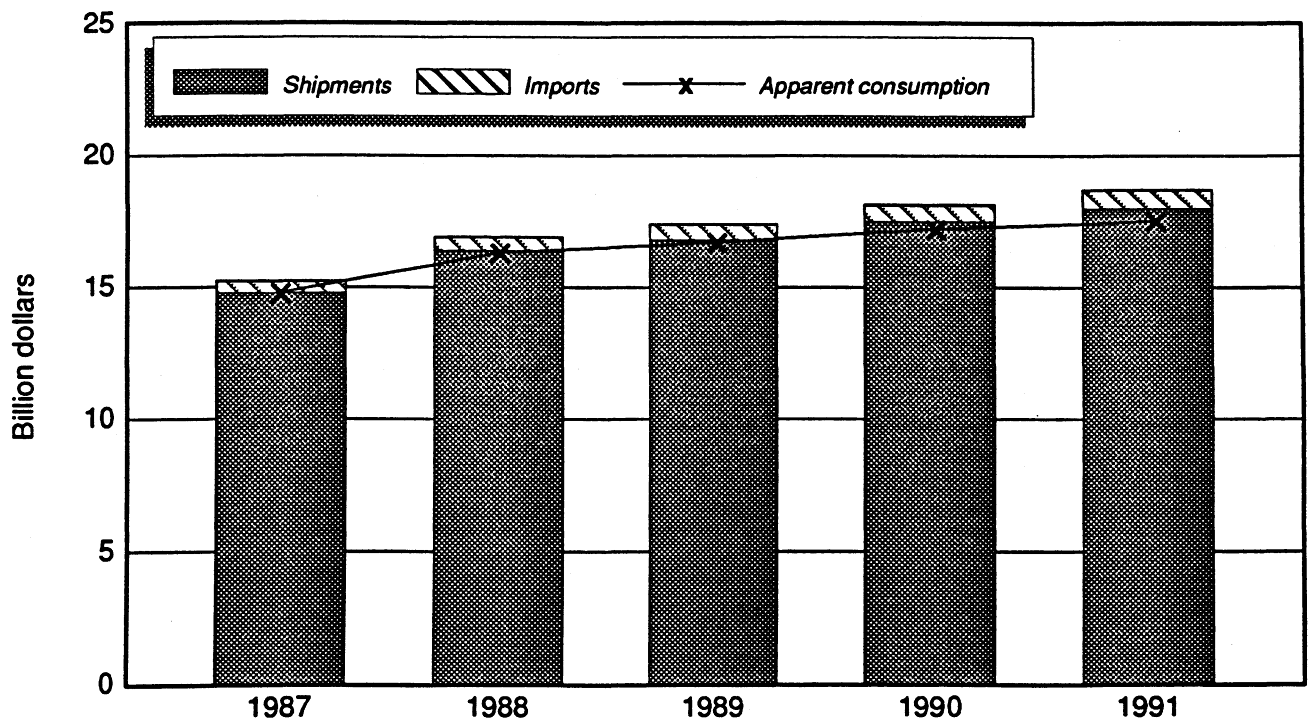
Table 2
Perfumes, cosmetics, and toiletries: U.S. shipments, exports of domestic merchandise, imports for domestic consumption, and apparent consumption, 1987-91

Year	U.S. shipments[1]	U.S. exports	U.S. imports	Apparent U.S. consumption	Ratio of imports to consumption
	Million dollars				*Percent*
1987	14,871	343	446	14,974	3.0
1988	16,409	451	518	16,476	3.1
1989	16,872	653	598	16,817	3.6
1990	17,520	852	638	17,306	3.7
1991	18,000	1,075	718	17,643	4.1

[1] Estimated by the staff of the U.S. International Trade Commission.

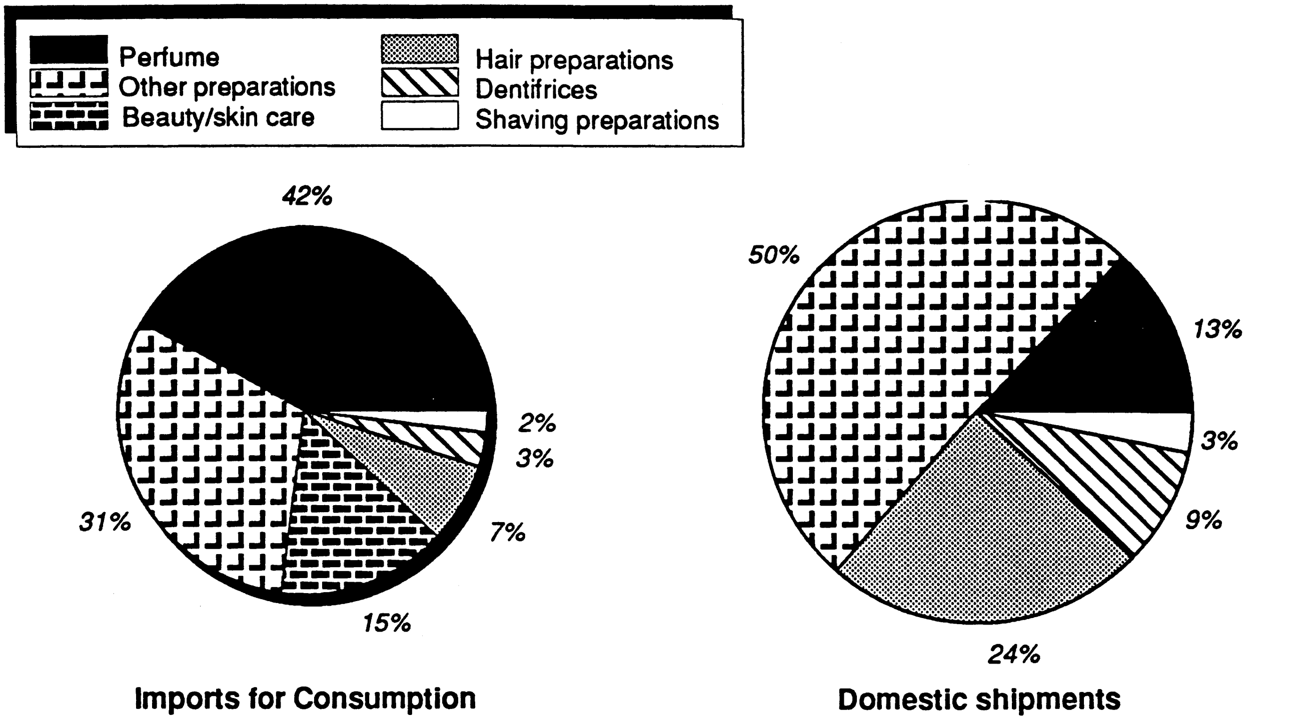
Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Figure 2
Perfumes, cosmetics and toiletries: U.S. imports, producers' shipments, and apparent consumption, 1987-91



Source: Compiled from official statistics of the U.S. Department of Commerce, domestic shipments estimated by the staff of the U.S. International Trade Commission.

Figure 3
Perfumes, cosmetics, and toiletries: Market segmentation of imports and domestic shipments, 1987



Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 3
Perfumes, cosmetic, and toiletries: Industry segments' share of product shipments and share of imports for domestic consumption, 1987

Industry Group	Share of product shipments	Share of total imports
	Percent	
Total	100.00	100.00
Perfumes, toilet waters, and colognes	13.42	41.86
Shaving preparations	3.23	2.13
Beauty and skin care preparations	([1])	14.72
Hair preparations	24.23	6.99
Dentifrices	9.43	3.49
Other cosmetics and toilet preparations	49.69	30.81

[1] Not applicable.

Source: Shipment data derived from U.S. Bureau of the Census, *1987 Census of Manufactures, Soap, Cosmetics, and Toilet Goods*, Feb. 1990; import data derived from official statistics of the U.S. Department of Commerce.

Table 4
Perfumes, cosmetics, and toiletries: Value of imports for domestic consumption, 1991

Industry Group	1991 imports	Share of total
	Million dollars	*Percent*
Total	715,967	100.00
Perfumes, toilet waters, and colognes	321,797	44.95
Shaving preparations	14,618	2.04
Beauty and skin care preparations	99,154	13.85
Hair preparations	44,691	6.24
Dentifrices	13,611	1.90
Other cosmetics and toilet preparations	222,096	31.02

Source: Compiled from official statistics of the U.S. Department of Commerce.

An even more illustrative comparison involves the market penetration figures for the perfume market segment. In 1987, the last year for which data are available for domestic shipments, imports of perfumes and toilet waters accounted for 9 percent of domestic consumption within this industry segment; at the same time, however, imports of all perfumes, cosmetics, and toiletries, accounted for only 3 percent of the overall domestic market. Imports of perfumes and toilet waters from France alone in 1987 were valued at $142 million and accounted for more than 6 percent of domestic consumption of these materials.

Production

Domestic production of perfumes, cosmetics, and toiletries increased fairly steadily in recent years. During 1987-91, shipments of these items are estimated to have increased from a value of nearly $14.9 billion to approximately $18.0 billion, or at an average annual rate of about 4.7 percent. The annual growth rates for shipments and imports are shown in figure 4.

The majority of items produced domestically are familiar, everyday products designed to accomplish a specific function. Purchases of these items are regarded by the consuming public as necessities, rather than nonessential luxury products. Demand for these products is relatively unaffected by changes in the national economy. Specifically, the major products of the U.S. industry (figure 4) are hair preparations, such as shampoos, coloring preparations, and tonics; dentifrices, including toothpastes, mouthwashes, and various oral hygiene products; and various skin, lip, eye, and nail make-up preparations.[21]

Although a substantial volume of perfumes, toilet waters, and colognes are produced domestically (valued at $2.0 billion in 1987[22]), the domestic products tend to be sold through different marketing channels than those for high-priced imported items from Europe or the Far East. Domestic perfumes are more often sold through larger, high-volume retail outlets, typically discount stores, drug stores, and supermarkets, as opposed to the more limited outlets common for the imported products, which are more often marketed through upscale department or specialty stores.

Imports

Imports of most of the items included in this summary comprise a very small segment of the U.S. market (tables 3 and 4). Market penetration for such toiletry segments of the U.S. market as hair preparations (0.9 percent) and dentifrices (1.1 percent) are far below that of the perfume segment (8.6 percent).[23] As mentioned previously, imported perfumery does not directly compete with most domestic perfume and cologne products. The imported products tend to be high value-added items that compete with other high value-added imports and the high value-added end of U.S. production in venues other than those through which the bulk of the domestic product is marketed.

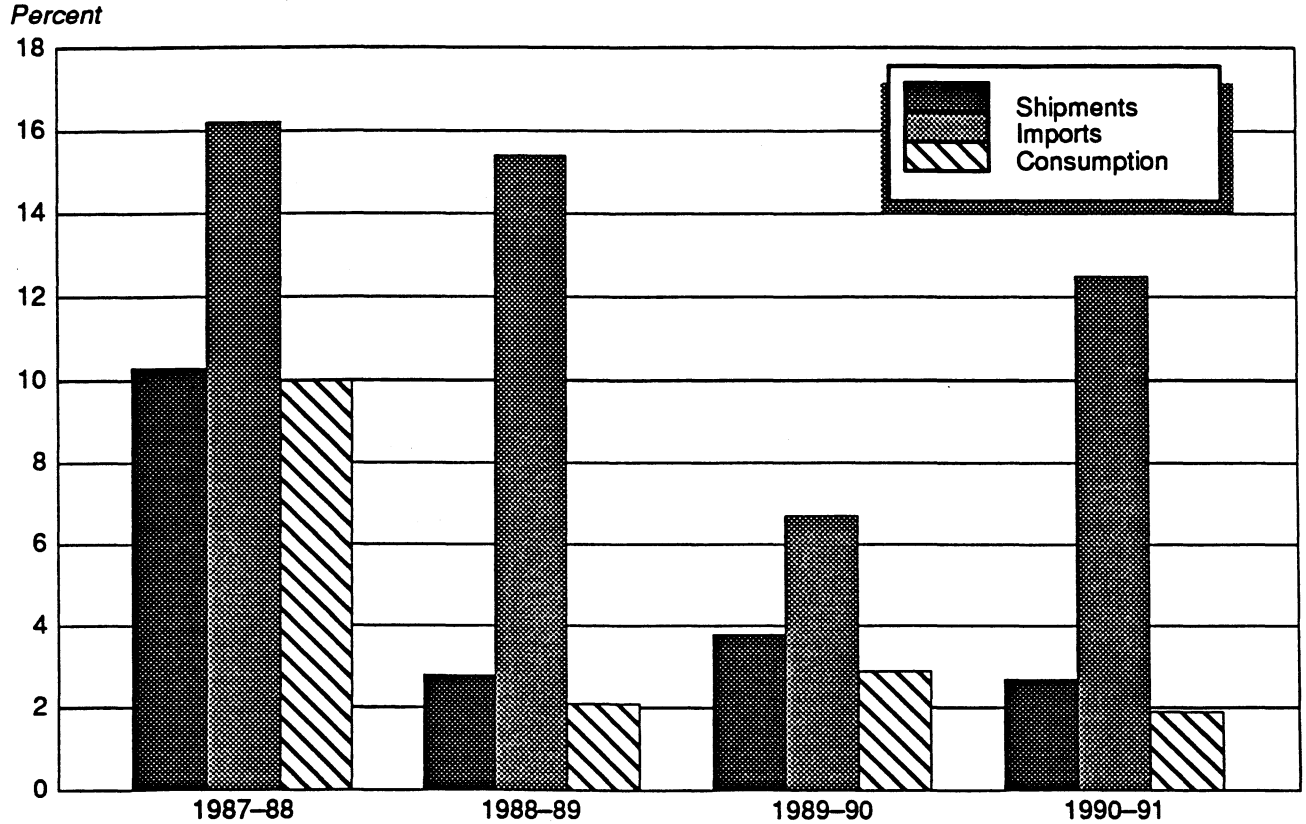
The exception to this rule involves the production of directly competitive items in nearby nations, particularly Canada, for regional marketing areas across international boundaries. As a consequence of the regional marketing of many of these products, Canadian production accounts for a large share of imports from certain industry segments. Canada is among the top six supplying nations for such products as perfumes; lip, eye, and nail make-up preparations; rouges; shampoos; hair preparations; dentifrices; shaving preparations; personal deodorants; and bath salts.

Also, imports of directly competitive items may result as some firms have consolidated their production facilities abroad, often to take advantage of economies of scale, as well as other incentives and economic

[21] Ibid.
[22] Ibid, p. 28-D15.

[23] Market penetration figures calculated based on 1987 data for both imports and domestic shipments, as 1987 is the most recent year for which actual shipment data are available. Although the market penetration figures for 1991 would be expected to be slightly higher than those derived from 1987 data, there would be an identical relationship between the various segments as these segments represent almost identical shares of overall imports. Imports compiled from official statistics of the U.S. Department of Commerce; shipments as reported in U.S. Bureau of the Census, *1987 Census of Manufactures, Soap, Cosmetics, and Toilet Goods*, Feb. 1990.

Figure 4
Perfumes, cosmetics, and toiletries: Growth rates, 1987–91



Source: Compiled from official statistics of the U.S. Department of Commerce.

assistance that may be available from the nation or political region involved. Also, other motivating factors, such as low labor rates, construction costs, raw material costs, or even less stringent construction codes and environmental regulations, may stimulate a major multinational producer to relocate production facilities to a centralized location.

Total U.S. imports of perfumes, cosmetics, and toiletries amounted to $716 million in 1991, up from approximately $445 million in 1987 (table 5). This reflects an average annual increase of about 12.6 percent. The major source of imports of perfumes, cosmetics, and toiletries is France, the world's largest producer of exclusive perfumery. In 1991, imports from France amounted to nearly $323 million, and accounted for 45 percent of total U.S. imports within this industry (table 4). In particular, French exports to the U.S. market of perfumery were valued at $233 million, and accounted for 72 percent of total French exports of perfumes, cosmetics, and toiletries to the United States.

Imports from Canada in 1991 were valued at more than $73 million and accounted for the second largest share of U.S. imports of such products, more than 10 percent. The most important individual products were perfumery ($15.5 million) and personal deodorants ($11.1 million). Other major foreign suppliers to the U.S. market are the United Kingdom and Germany, accounting for 8 percent and 7 percent of total imports, respectively.

Data regarding imports of perfumes, cosmetics, and toiletries under various duty-free provisions are shown in the following tabulation:[24]

Type of trade	1991 imports	Share of total imports
	(1,000 dollars)	*(Percent)*
Total imports	715,967	100.0
Dutiable imports ..	695,012	97.1
Total duty-free imports	20,955	2.9
Duty-free imports by provisions ..	19,470	2.7
Duty-free imports by GSP	17,680	2.5

As can be seen from the above tabulation, all duty-free imports, duty-free imports by various provisions,[25] and Generalized System of Preferences

[24] Compiled from official statistics of the U.S. Department of Commerce.

[25] Provisions in which duty-free trade was reported for 1991 included trade under the GSP, the Caribbean Basin Initiative, and the U.S.-Israel Free-Trade Area Implementation Act.

Table 5
Perfumes, cosmetics, and toiletries: U.S. imports for consumption, by principal sources, 1987-91

(1,000 dollars)

Source	1987	1988	1989	1990	1991
France	([1])	([1])	285,272	290,707	322,973
Canada	([1])	([1])	68,384	74,604	73,441
United Kingdom	([1])	([1])	28,870	43,221	60,145
Germany	([1])	([1])	43,401	56,633	52,250
Taiwan	([1])	([1])	27,822	25,405	43,067
Japan	([1])	([1])	40,522	38,455	41,093
Italy	([1])	([1])	20,866	28,021	31,561
Spain	([1])	([1])	17,735	16,596	18,034
Switzerland	([1])	([1])	11,603	15,173	15,481
Belgium	([1])	([1])	2,156	1,677	7,450
All other	([1])	([1])	51,367	47,325	50,471
Total	445,531	517,994	597,998	637,818	715,967

[1] Country detail provided only for years in which there are actual trade data under the HTS.

Source: Compiled from official statistics of the U.S. Department of Commerce.

(GSP) trade each accounted for less than 3 percent of total U.S. imports of perfumes, cosmetics, and toiletries. GSP imports, which accounted for the majority of the materials that entered duty free, accounted for only about 0.1 percent of apparent domestic consumption.

There are two major types of importers of the items included in this summary. Perfumes, colognes, and toilet waters are most often produced by small and often exclusive firms that are not affiliated with the larger multinational companies that tend to dominate the international cosmetic and toiletry market. Without such affiliations, these producers do not have access to marketing networks that allow them to compete effectively in most markets outside their home area. Therefore, a global network of brokers has emerged that assists in the marketing of these products. These brokers are frequently the importers of record for the import of these items into the domestic market. However, these brokers are rarely involved in importing the higher-volume cosmetics and toiletries that are the staple of the larger multinational companies. Imports of products from this much larger segment remain relatively small in relation to trade in perfumes, despite the large marketing networks used by the multinational producers of these items. This relatively low level of trade has little to do with the failure of the producers to adequately market their products abroad, but relates more closely to the lower value-added associated with these products and the relatively high cost of transportation. Comparatively, the cost of transporting the perfumery items is easily incorporated into the final product cost.

FOREIGN MARKETS

Foreign Market Profile

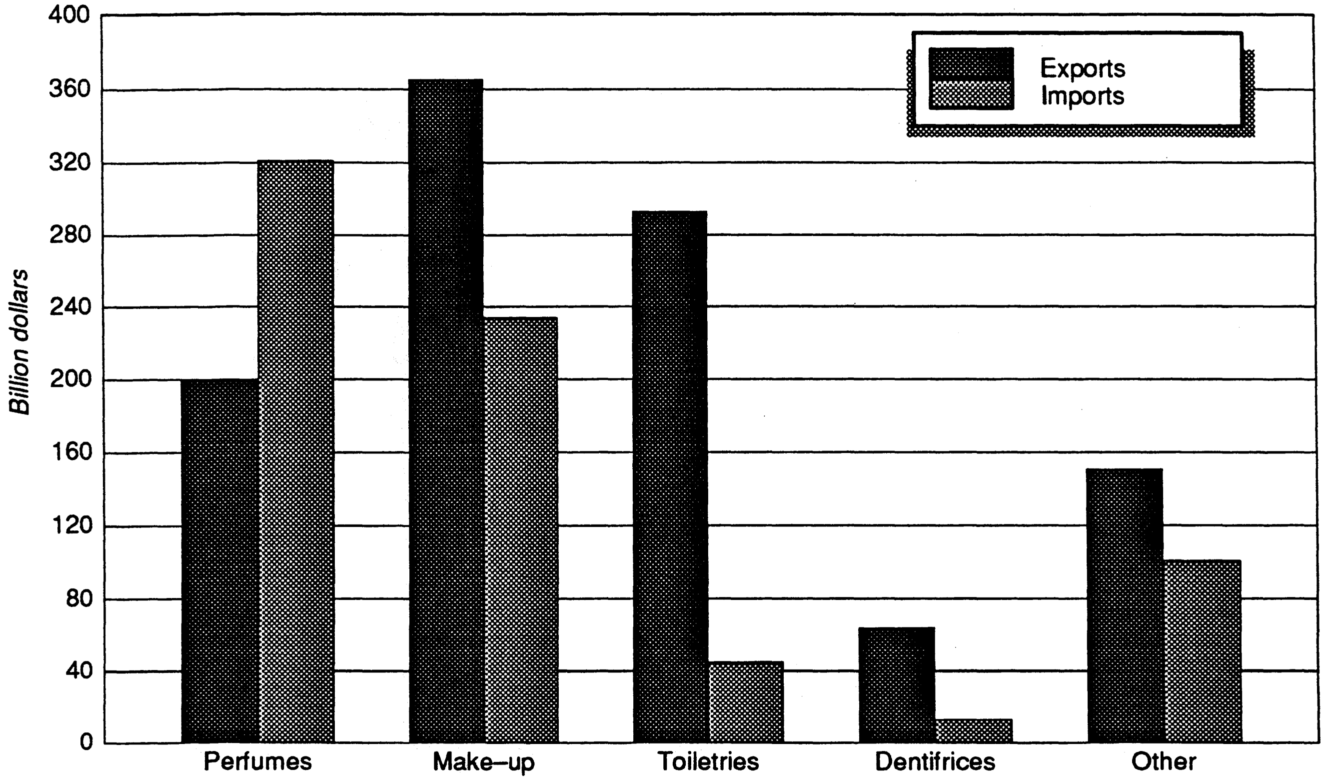
The major markets for U.S.-produced perfumes, cosmetics, and toiletries are, to a great extent, determined by three factors. The dominant factor appears to be the proximity of U.S. production and distribution facilities to foreign markets, such as Canada and Mexico. The second most important factor appears to be the intercompany relationships among those firms that operate in the United States and other major producing nations, principally Japan, the United Kingdom, and Germany. The third determining factor relates to the proximity of U.S. production facilities (relative to other major producer or exporter nations' facilities) to nations or markets whose domestic producers cannot meet their own internal requirements for these products. Major foreign markets for certain U.S. products that may fall into the latter category are Australia, Hong Kong, Taiwan, Singapore, and the Republic of Korea.

There are essentially no protective tariffs or nontariff barriers for perfumes, cosmetics, and toiletries in foreign markets. Tariffs are generally not high enough to influence the overall cost structure, and there are no known nontariff barriers that significantly affect this industry. The major criterion influencing decisions concerning the sources of supply in the international market for these products is the location of the most economical source of supply for the respective market. Transportation costs and accessibility are generally believed to be the determining factors.

U.S. Exports

Both the volume and the share of U.S. exports of perfumes, cosmetics, and toiletries relative to U.S. domestic shipments increased rapidly during 1987-91. The mix of exported products exhibited a marked similarity to the pattern of U.S. production, and a corresponding marked difference compared with the pattern of U.S. imports (figure 5). The majority of the exported materials were the lower value-added cosmetic and toiletry products, as opposed to the

Figure 5
Perfumes, cosmetics, and toiletries: Market segmentation of imports and exports, 1991



Source: Compiled from official statistics of the U.S. Department of Commerce.

higher value-added perfumes, toilet waters, and colognes.

Exports to developed countries are believed to include a greater share of the higher value-added perfumes, toilet waters, colognes, and specialty items, while exports to developing nations include a greater share of the more commonplace toiletries. However, because many of the specialty items are classified in the same categories as the more common items, the precise product mix, by market, cannot be quantified.

The value of exports rose fairly steadily during 1987-91, increasing from a value of $343 million to nearly $1.1 billion in 1991. The average annual rate of growth was approximately 34 percent (table 6). The value of exports in 1991 was nearly 6 percent of the value of domestic shipments, an increase of more than 160 percent from a 2.3-percent share in 1987. Increased demand for U.S. products contributed significantly to the growth in exports. At least part of this increase in exports resulted from overall market expansion, particularly in the Canadian and Mexican markets. This has resulted from an increased emphasis on marketing by both U.S.-based and foreign-based multinationals. Part of the increase in exports to Canada may be related to the phasing out of tariff barriers under the United States-Canada Free-Trade Agreement. Also, the value of exports to Japan more than doubled, from $44 million in 1989 to more than $90 million in 1991.

The principal beneficiaries of the increase in exports have been the large multinational companies. Industry analysts believe the large increases in both the value and the variety of exports of these items may foreshadow investments in new facilities in these countries to better serve local markets.

U.S. TRADE BALANCE

The U.S. trade balance moved steadily from a negative position in 1987, with a deficit of $103 million, to a surplus of $359 million in 1991 (table 7). As can be seen from the data, the trade balance with the United States' largest trading partner, France, remained at a constant level during 1989-91, while the trade surplus with the second-largest partner, Canada, increased significantly. During the period, the trade surplus with Canada increased from $32 million to about $166 million, or by more than 400 percent. U.S. trade with Mexico also increased substantially, by about 120 percent during 1989-91, because of increasing exports to the Mexican market as Mexican demand continued its steady rise, while efforts by the Mexican Government to maintain a uniform level of imports were largely unsuccessful.

Table 6
Perfumes, cosmetics, and toiletries: U.S. exports of domestic merchandise, by principal markets, 1987-91

(1,000 dollars)

Market	1987	1988	1989	1990	1991
Canada	([1])	([1])	99,547	176,860	239,3896
Japan	([1])	([1])	43,548	58,767	90,169
United Kingdom	([1])	([1])	70,473	71,500	89,593
Mexico	([1])	([1])	28,029	42,867	58,465
Australia	([1])	([1])	33,172	32,984	39,221
Hong Kong	([1])	([1])	28,834	34,604	38,314
Germany	([1])	([1])	15,835	27,513	35,556
Taiwan	([1])	([1])	13,674	22,116	32,454
Singapore	([1])	([1])	17,861	22,529	29,307
Korea	([1])	([1])	14,412	19,946	28,376
All other	([1])	([1])	287,784	342,946	394,000
Total	343,185	450,649	653,169	851,823	1,074,839

[1] Country detail provided only for years in which there are actual export data under the HTS — suppressed for years in which data were derived from Schedule B using a concordance.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 7
Perfumes, cosmetics, and toiletries: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1987-91[1]

(Million dollars)

Partner	1987	1988	1989	1990	1991
U.S. exports of domestic merchandise:					
France	([2])	([2])	19	28	25
Canada	([2])	([2])	100	177	239
United Kingdom	([2])	([2])	70	71	90
Japan	([2])	([2])	44	59	90
Germany	([2])	([2])	16	28	36
Taiwan	([2])	([2])	14	22	32
Mexico	([2])	([2])	28	43	58
Italy	([2])	([2])	15	16	18
Australia	([2])	([2])	33	33	39
Hong Kong	([2])	([2])	29	35	38
All other	([2])	([2])	286	341	409
Total	343	451	653	852	1,075
EC-12	66	112	150	182	222
U.S. imports for consumption:					
France	([2])	([2])	285	291	323
Canada	([2])	([2])	68	75	73
United Kingdom	([2])	([2])	29	43	60
Japan	([2])	([2])	41	38	41
Germany	([2])	([2])	43	57	52
Taiwan	([2])	([2])	28	25	43
Mexico	([2])	([2])	4	4	5
Italy	([2])	([2])	21	28	32
Australia	([2])	([2])	1	2	2
Hong Kong	([2])	([2])	4	3	2
All other	([2])	([2])	74	72	83
Total	446	518	598	638	716
EC-12	321	383	403	443	496
U.S. merchandise trade balance:					
France	([2])	([2])	(266)	(263)	(298)
Canada	([2])	([2])	32	102	166
United Kingdom	([2])	([2])	41	28	30
Japan	([2])	([2])	3	21	49
Germany	([2])	([2])	(27)	(29)	(16)
Taiwan	([2])	([2])	(14)	(3)	(11)
Mexico	([2])	([2])	24	39	53
Italy	([2])	([2])	(6)	(12)	(14)
Australia	([2])	([2])	32	31	37
Hong Kong	([2])	([2])	25	32	36
All other	([2])	([2])	212	269	326
Total	(103)	(67)	55	214	359
EC-12	(255)	(271)	(253)	(261)	(274)

[1] Import values are based on customs value; export values are based on f.a.s. value, U.S. port of export. U.S. trade with East Germany in Germany.
[2] Country detail provided only for years in which there are actual import data under the HTS — suppressed for years in which data were derived from the TSUS using a concordance.

Source: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX A
EXPLANATION OF TARIFF AND TRADE AGREEMENT TERMS

TARIFF AND TRADE AGREEMENT TERMS

The *Harmonized Tariff Schedule of the United States* (HTS) replaced the *Tariff Schedules of the United States* (TSUS) effective January 1, 1989. Chapters 1 through 97 are based upon the internationally adopted Harmonized Commodity Description and Coding System through the 6–digit level of product description, with additional U.S. product subdivisions at the 8–digit level. Chapters 98 and 99 contain special U.S. classification provisions and temporary rate provisions, respectively.

Rates of duty in the ***general*** subcolumn of HTS column 1 are most–favored–nation (MFN) rates; for the most part, they represent the final concession rate from the Tokyo Round of Multilateral Trade Negotiations. Column 1–general duty rates are applicable to imported goods from all countries except those enumerated in general note 3(b) to the HTS, whose products are dutied at the rates set forth in ***column 2***. Goods from Armenia, Bulgaria, the People's Republic of China, Czechoslovakia, Estonia, Hungary, Kyrgyzstan, Latvia, Lithuania, Moldova, Mongolia, Poland, Russia, the Ukraine and Yugoslavia are currently eligible for MFN treatment. Among articles dutiable at column 1–general rates, particular products of enumerated countries may be eligible for reduced rates of duty or for duty–free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the ***special*** subcolumn of HTS column 1. Where eligibility for special tariff treatment is not claimed or established, goods are dutiable at column 1–general rates

The ***Generalized System of Preferences*** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 and renewed in the Trade and Tariff Act of 1984, applies to merchandise imported on or after January 1, 1976 and before July 4, 1993. Indicated by the symbol "A" or "A*" in the special subcolumn of column 1, the GSP provides duty–free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 3(c)(ii) to the HTS.

The ***Caribbean Basin Economic Recovery Act*** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98–67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984; this tariff preference program has no expiration date. Indicated by the symbol "E" or "E*" in the special subcolumn of column 1, the CBERA provides duty–free entry to eligible articles, and reduced–duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 3(c)(v) to the HTS.

Preferential rates of duty in the special subcolumn of column 1 followed by the symbol "IL" are applicable to products of Israel under the ***United States–Israel Free Trade Area Implementation Act*** of 1985 (IFTA), as provided in general note 3(c)(vi) of the HTS. Where no rate of duty is provided for products of Israel in the special subcolumn for a particular provision, the rate of duty in the general subcolumn of column 1 applies.

Preferential rates of duty in the special subcolumn of column 1 followed by the symbol "CA" are applicable to eligible goods originating in the territory of Canada under the ***United States–Canada Free–Trade Agreement*** (CFTA), as provided in general note 3(c)(vii) to the HTS.

Preferential nonreciprocal duty–free or reduced–duty treatment in the special subcolumn of column 1 followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the ***Andean Trade Preference Act*** (ATPA), enacted in title II of Public Law 102–182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 3(c)(ix) to the HTS.

Other special tariff treatment applies to particular ***products of insular possessions*** (general note 3(a)(iv)), goods covered by the ***Automotive Products Trade Act*** (APTA) (general note 3(c)(iii)) and the ***Agreement on Trade in Civil Aircraft*** (ATCA) (general note 3(c)(iv)), and ***articles imported from freely associated states*** (general note 3(c)(viii)).

The ***General Agreement on Tariffs and Trade*** (GATT) (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) is the multilateral agreement setting forth basic principles governing international trade among its more than 90 signatories. The GATT's main obligations relate to most–favored–nation treatment, the maintenance of scheduled concession rates of duty, and national (nondiscriminatory) treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, and other measures. Results of GATT–sponsored multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Officially known as "The Arrangement Regarding International Trade in Textiles," the ***Multifiber Arrangement*** (MFA) provides a framework for the negotiation of bilateral agreements between importing and producing countries, or for unilateral action by importing countries in the absence of an agreement. These bilateral agreements establish quantitative limits on imports of textiles and apparel, of cotton and other vegetable fibers, wool, man–made fibers and silk blends, in order to prevent market disruption in the importing countries—restrictions that would otherwise be a departure from GATT provisions. The United States has bilateral agreements with more than 30 supplying countries, including the four largest suppliers: China, Hong Kong, the Republic of Korea, and Taiwan.