

Japanese Market Information on Specified Products

Cosmetics

1. The Japanese Market

The Japanese cosmetics industry saw spectacular growth in the 1960s and the early 1970s, but this growth began to slow beginning around 1977. Today, the increase in imports as well as market entry by companies in other industries have caused greater competition, but the market is showing moderate growth because of the entry of the children of the baby boomers into the market. Reflecting the current recession, expensive cosmetics have not performed well despite the industry's moderate growth. The prices of the best-selling products have been falling.

The size of the domestic market is around ¥1.3 trillion, of which men's cosmetics account for about 10%. There is strong demand for hair coloring, bleaches, and bleach & color products.

Perfume and other fragrances have increased in recent years, but their consumption remains small when compared to Europe and the United States. The growth in the cosmetics market is at the moment propped up by increased demand for skin care products, hair care products, and men's cosmetics.

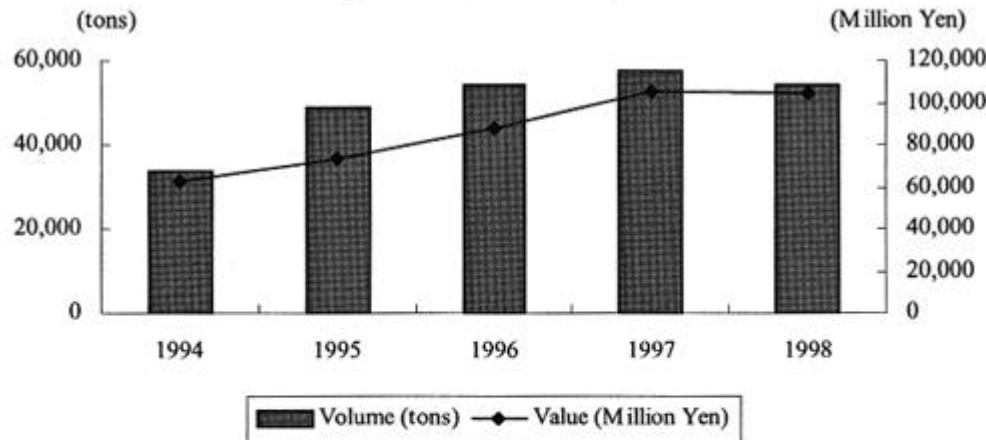
Cosmetics are subject to the provisions of the Pharmaceutical Affairs Law, and compliance with its myriad regulations can be tedious and time-consuming. Once these regulations are met, however, it is not difficult to enter the Japanese market.

2. Imports

Total cosmetics imports in 1998 were down 6.3% from the previous year to 53,976 tons. The value of imports was down 0.8% to ¥104,700 million. Imports of special purpose cosmetics increased but those of soap decreased sharply.

Skin care products accounted for 50% of total imports in value. By volume, imports of skin care products, hair care products, special purpose cosmetics, and soap are about the same, each accounting for about 25% of imports.

Japan's Cosmetics Imports



	1994		1995		1996		1997		1998	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Skin Care and Make-up Products	10,115	38,292	11,647	42,432	12,828	49,766	14,608	59,930	13,249	56,645
Perfume and Eau de Cologne	1,460	8,791	1,625	9,095	2,214	12,967	2,661	15,546	2,443	18,292
Hair Care Products	13,188	8,802	15,940	9,700	17,069	11,747	14,096	13,330	12,898	13,355
Special Purpose Cosmetics	4,399	3,449	7,248	4,811	9,420	7,578	13,594	10,350	15,956	11,112
Soap	4,525	2,897	12,288	7,431	12,418	5,734	12,637	6,357	9,432	5,296
Total	33,687	62,232	48,749	73,470	53,950	87,792	57,596	105,513	53,979	104,700

Unit: tons, Million Yen

Source: Japan Exports and Imports

(2) Countries of Origin

In the last five years, imports from the United States doubled in value, coming to approximate imports from France, which increased 50% in the same period. France leads in exports of skin care products and make-up products. The United States is the largest exporter of hair care products. Ireland is the most prominent source of special purpose cosmetics for Japan. United States is also the largest supplier of soap.

Principal Exporters of Cosmetics to Japan

COUNTRY	1994	1995	1996	1997	1998	
	Value	Value	Value	Value	Value	Volume
FRANCE	25,154	29,336	32,034	36,712	37,077	9,162
USA	16,796	18,235	26,409	36,670	34,480	18,411
UK	6,187	6,418	7,695	6,971	6,165	2,370
GERMANY	2,629	2,678	3,835	5,005	5,408	3,047
ITALY	602	1,047	1,811	3,233	3,797	712
OTHERS	8,126	8,557	10,605	16,923	17,774	20,277
TOTAL	59,495	66,270	82,389	105,513	104,700	53,979

Unit: Million Yen, tons

Source: Japan Exports and Imports



(3) Share Accounted for by Imports

The share accounted for by imports rose to 6.7% in 1997. Prospects for the further growth of imports seem bright. Consumer tastes have diversified and imported cosmetics have become indistinguishable from Japanese products. The price differential between imports and Japanese products has almost completely disappeared in every product category but perfume.



3. Laws and Regulations

(1) Pharmaceutical Affairs Law

Under Pharmaceutical Affairs Law, products designed to prevent nausea, bad breath, body odor, heat rash or sores, and hair loss as well as products designed to promote hair growth or remove hair are defined as "quasi-drugs," while products used for cleansing or beautification are defined as "cosmetics." General licenses must be acquired by importers of cosmetics and quasi-drugs under this law. The law also requires the acquiring of licenses or approvals for each specific product imported.

In addition, the Pharmaceutical Affairs Law regulates advertising and labeling for cosmetics and quasi-drugs.

(2) High Pressure Gas Safety Law

All products imported in aerosol containers are exempted from the application of this law if they meet the requirements as specified. Products not exempted require special examination upon importation.

(3) Civil Aeronautics Law and Ship Safety Law

The Civil Aeronautics Law places restrictions on the air transport of potentially hazardous products containing high-pressure gas or combustible liquids. Hair sprays and other aerosol products may fall under this category. (UN recommendations and International Air Transport Association rules)

Note that the Ship Safety Law also places restrictions on the transport of some products over the sea.

(4) Fire Service Law

Products deemed as hazardous under law are subject to the provisions of the Fire Service Law when stored in amounts over a certain level or when transported over land. Again, aerosol products that use high concentrations of alcohol may infringe upon this restriction.

4. Taxes

(1) Customs Duties

Imports of cosmetics from countries or regions to which Preferential Tariff rates apply are duty free. Applicable tariff rates for all countries and regions are subject to change; please check with the customs authorities for the correct tariff rate.

HS No.	Description	Rate of Duty (%)			
		General	WTO	Preferential	Temporary
3303.00-000	Perfumes and toilet waters	5.3%	Free	Free	
3304	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations; manicure or pedicure preparations:				
10-000	Lip make-up preparations	5.8%	Free	Free	
20-000	Eye make-up preparations	5.8%	Free	Free	
30-000	Manicure or pedicure preparations	6.6%	Free	Free	
3304.91	Other:	5.8%	Free	Free	
-010	Powders, whether or not compressed:				
-090	Toilet powders				
	Other				
3305	Preparations for use on the hair:				
10-000	Shampoos	5.8%	Free	Free	
20-000	Preparations for permanent waving or straightening	5.8%	Free	Free	
30-000	Hair lacquers	5.8%	Free	Free	
3305.90	Other	5.8%	Free	Free	
-010	Perfumed hair oil, cream, pomade and other preparations with a basis of oil, fat or wax				
-091	Other:				
	Hair tonics				
3307	Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers whether or not perfumed or having disinfectant properties				
10-000	Pre-shave, shaving or after-shave Preparations	6.7%	4.8%	Free	
20-000	Personal deodorants and antiperspirants	5.8%	3.9%	Free	
30-000	Perfumed bath salts and other bath Preparations	5.8%	3.9%	Free	
3307.90	Other:				
-010	1. Preparations with a basis of oil, fat or wax	5.8%	4.8%	Free	
-090	2. Other:	6%	4%	Free	
3401	Soap; organic surface-active products and preparations for use as soap, in the form of bars, cakes, moulded pieces or shapes whether or not containing soap; paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent:				
	Soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes, and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent:				
11-000	For toilet use (including medicated products)	5.5%	Free	Free	
20-010	Soap in other forms:				
	1. For toilet use (including medicated soap)	5.8%	Free	Free	

Note: Refer "Customs Tariff Schedules of Japan" (published by Japan Tariff Association) etc.

- (2) Consumption Tax
(CIF + Customs Duty) x 5%

5. Distribution

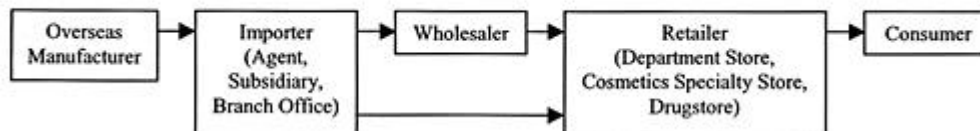
Japanese cosmetics manufacturers can be classified into those that sell directly through their shops, those that sell through wholesalers, and those that sell door-to-door.

Consumer cosmetics preferences are showing a clear polarization to products that offer clear functional benefits (e.g., lipsticks that do not rub off easily, skin care products that fights aging and provide protection against ultraviolet rays) on one hand and products that are inexpensive but may not provide noticeable benefits on the other hand. Such clear needs or price orientation with no middle ground is leading to changes in the traditional retail and distribution setup. Retailers are forced to choose personal counseling and other value-added services to justify the higher prices or to shift to a self-service system for providing lower prices.

(1) Distribution of Imports

Some importers distribute products through wholesalers, while others sell directly to retailers (e.g., department stores, supermarkets, drugstores). Few wholesalers also conduct business directly with overseas manufacturers, and some overseas manufacturers sell limited-edition products only to select department stores to target upscale customers. Cosmetics are rarely handled by the major trading houses.

Distribution Channels for Imported Cosmetics



(2) Door-to-Door Distribution

Overseas manufacturers selling door-to-door operate in much the same manner as their Japanese counterparts. Offices across Japan distribute the merchandise to salespersons, usually women, who sell the products from their homes.

Most overseas manufacturers start by distributing the products through an authorized Japanese agent to specialty shops and department stores. After making some headway, the manufacturers then set up branch offices or Japanese subsidiaries.

Distribution Channels for Imported Cosmetics Sold Door-to-Door



The removal of the resale price maintenance system and increased demand coming from younger consumers have led to the decline in consulting sales. Consumers now exercise their own judgment in choosing the products. This has resulted in increased cosmetics sales through mass retailers and direct mail.

(3) Other Methods

(a) Offshore Production (Development Imports)

Some Japanese cosmetics manufacturers are now producing cosmetics overseas as part of joint ventures or by buying foreign companies outright.

(b) Parallel Imports

Parallel importing, in which a non-agent importer buys from a wholesaler or retailer in another country and sells the products in Japan, takes place rarely because of Pharmaceutical Affairs Law requirements.

(c) Personal Imports

It is estimated that Japanese overseas travelers bring back as much as or even greater amounts of cosmetics from their trips as are imported into Japan every year. It is also believed that a part of the cosmetics brought into Japan for personal use end up being sold in the market.

6. Industry Contacts

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