Invest in the Mediterranean

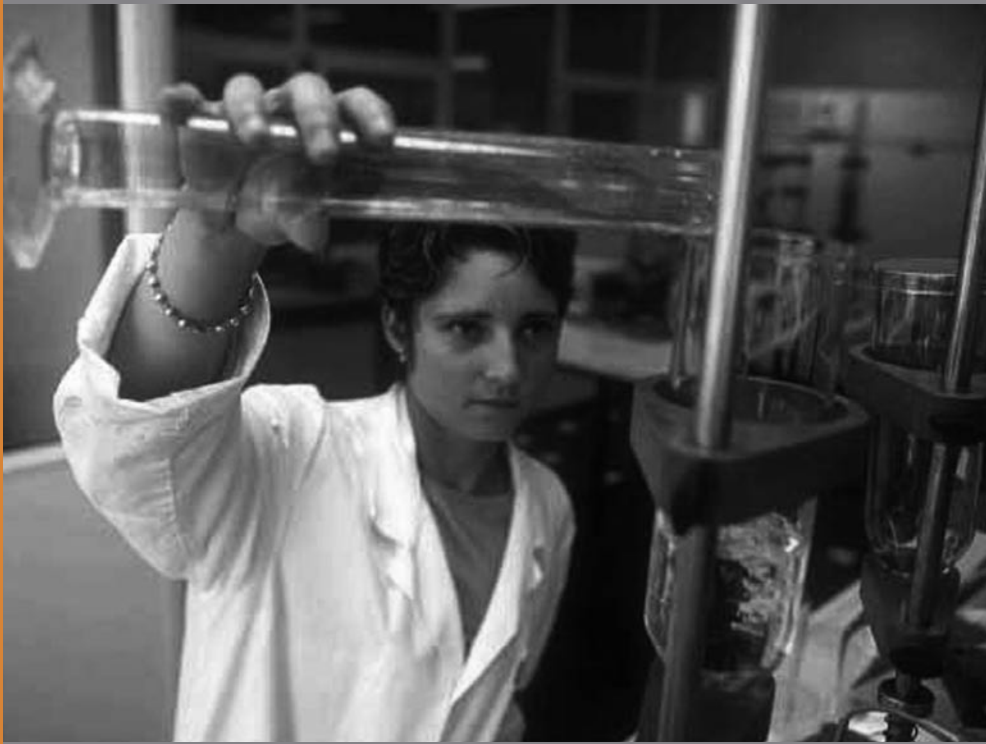
Number 13 / January 2005

ANIMA

PAPERS & STUDIES

ANIMA

Euromediterranean Network of Investment Promotion Agencies



The cosmetics sector in the Euro-Mediterranean region

Collective work directed by
Fabrice Hatem
assisted by Anne-Claire Vu
Invest in France Agency

The cosmetics sector in the Euro-Mediterranean region

Papers and studies ANIMA n° 13
January 2005

Collective work directed by
Fabrice Hatem
Assisted by Anne-Claire Vu

References

This document has been prepared within the context of a mission entrusted by the European Commission to the Invest in France Agency (AFII), assisted by the ICE (Italy) and the DI (Morocco), to develop a Euro-Mediterranean Network of Investment Promotion Agencies (« ANIMA »). The identification no. of the contract is: ME8/B7-4100/IB/99/0304.

ISBN: 2-915719-13-6

Authors

This document is the fruit of a collective endeavour to which have collaborated namely:

- Fabrice Hatem (Invest in France Agency), who coordinated the study, assisted by Anne-Claire Vu;
- Laetitia Temim, Caroline Mamou, Olivier Joulie, Pauline Gouadain, Jean-Michel Simon, Dominique Morael, Sarah Quatresous and Xavier Segond;
- Bénédict de Saint-Laurent ("cultural" input, recommendations and final editing), ANIMA team, Invest in France.
- Several people and organisations, who have supplied precious information, particularly the UIC PACA, the EDF, and the MDER PACA, and should be thanked for their precious help.

The cover page photography is due to the Ministry of Foreign Affairs, France.

Acronyms

- ANIMA: Euro-Mediterranean Network of Investment Promotion Agencies
- IPA: Investment Promotion Agency
- MEDA: Group of 12 partner countries of the European Union: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, Turkey
- MIPO: Mediterranean Investment Project Observatory (ANIMA)

Contents

Summary

The economic development of the MEDA region depends on the exploitation of its sectors of excellence, whether for attracting outside investments or promoting local initiatives. In this context, the « Cosmetics, toiletries and perfumery » activity, in which the region possesses considerable potential assets, and even certain domains of excellence, represents a natural candidate for the implementation of a strategy of a differentiated territorial offer. Yet, to be in a position to do this, it is necessary to undertake an in-depth analysis of the strengths and weaknesses of the local offer in the light of the threats and opportunities of the world market.

ANIMA therefore launched a study with this intention. Its aim, after the initial diagnosis of the status of the territorial offer, was to define proposals for a range of actions to reinforce the cosmetics-perfumery sector in the MEDA region, with the prospect of increased integration with Europe. The study therefore proposes an extended analysis of the whole of the Euro-Mediterranean region the limits of which are indicated in Figure 1.

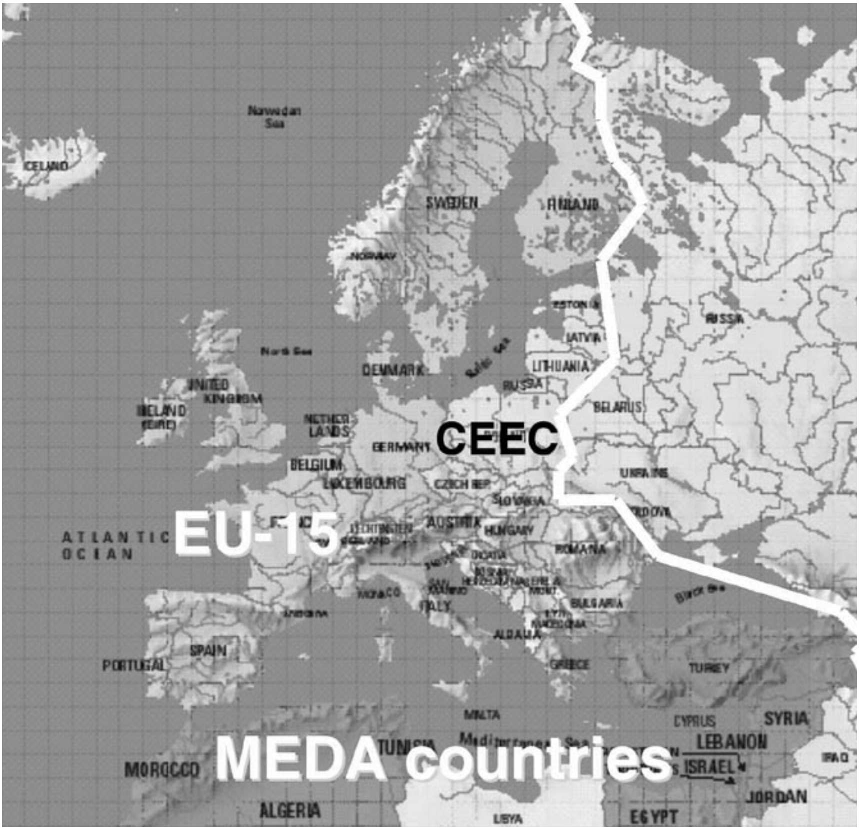
This report presents the main conclusions of this study. After a rapid analysis of the structure of the world market, it details the characteristics of the offer in the Euro-Mediterranean region.

Overall description of the activity

The cosmetics sector covers five families of activity, which are, in decreasing order of importance: toiletry products (deodorants, soaps, etc.), hair care products (shampoos, etc.), skin care products (creams, etc.), perfume and make-up.

In 2002, this market represented around 115 billion euros (ANIMA estimation at wholesale prices according to the Colipa Statistics Working Group). It is an activity which is undergoing rapid growth (in the region of 5 % on average over the last five years), and which touches an increasingly growing number of consumers.

Figure 1. The Euro-Mediterranean region taken into account in the study



Whereas the markets of the developed countries (Europe, Japan, North America) remain largely dominant (more than 80% of world outlets, see Figure 6), a trend may, however, be seen of the gradual saturation of the demand which is in contrast with the dynamism of the emerging countries.

The industrial offer is characterised by the juxtaposition of very large internationalised groups and their highly diversified offer (L'Oréal, Unilever..), and small and medium -sized companies which exploit niche markets. If the latter have until now successfully resisted the pressure from the large groups, certain current trends (increasing power of the distribution industry, increased legislation involving higher development costs) could in time be a threat to them. A clear distinction should, however, be made between the case of cosmetics, an activity where the rules of mass industrial production are fully applied (scale economies, important role of research and development, market power of the large groups, impact of health regulations, etc.) and that of perfumery, which is more propitious for the upkeep of a web of small-sized companies which base their competitiveness on their capacity of innovation and product differentiation.

The MEDA problem

The development of the sector in the MEDA region remains modest for the moment and limited to a few countries. Exports from the area represent hardly 1.5 % of world trade and the external deficit is very high. Only two countries, Turkey and above all Israel, have a significant cosmetics activity.

International investments remain at a low level, including those from Western Europe. Relocation operations from this region while limited have above all turned towards Eastern Europe. Despite relatively active intra-regional trade, there is not as yet any real Euro-Mediterranean movement for industrial integration.

The MEDA countries do, however, have a certain number of assets in the cosmetics domain: an internal market that whilst still modest, is growing; already existing technological and industrial skills in certain countries and with potential in others (Maghreb...); and above all, an age old tradition in the domain of perfumes and cosmetics, based both on the abundance of natural resources and the characteristics of local cultures. This tradition still today results in the existence of a very rich craft activity, which in at least two countries (Turkey and Israel), has already undergone an industrial transformation and consequently shows good performances in export.

These assets are all the more significant since they are meeting a growing demand for authenticity, craft traditions and exoticism from the consumers in developed countries. The Mediterranean countries, whose image, in the mind of the Western consumer is strongly associated with fragrances, well-being, the cult of the body and physical beauty, have a large role to play in this domain.

However, any exploitation of this potential assumes, other than an improvement in the general business environment, that a series of specific actions are taken in terms of training, upgrading of local industry, image building and the prospecting for foreign investors in those niches where the MEDA countries already have attractive specific advantages. In this respect ANIMA may play a supporting role, in liaison with the promotion agencies concerned.

1. The world perfume and cosmetics market: structure and trends

After having brought to mind the main features of the sector at world level and in the Euro-Mediterranean area, the study will analyse in detail the structure of the offer and the demand, as well as overall trends currently at work in the legislative, technical or commercial fields likely to have an impact on the location strategies of the multinational firms.

The overall features of the activity

Slightly different sectoral logic in perfumery and cosmetics

The players in the “cosmetics” and “perfumery” value chain may be broken down into the following categories (cf. Figure 2):

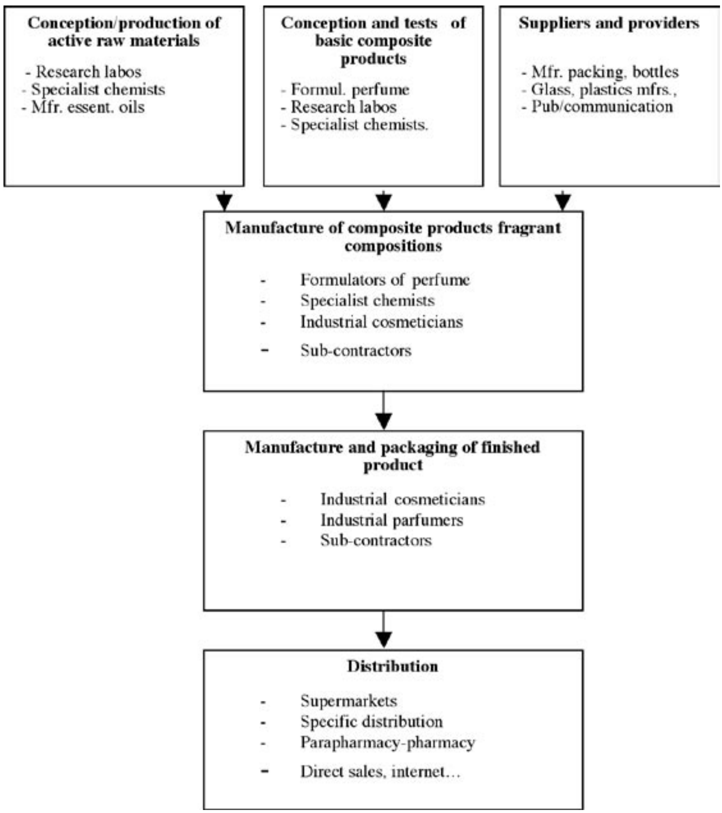
- The providers to the “integrator” manufacturing companies: research and analysis laboratories (Pierre Fabre, public laboratories...), sometime belonging to the pharmacy sector (Bristol Myers Squibb...); suppliers and sub-contractors (glassmakers and plastics manufacturers, packaging producers…), manufacturers of active components (natural and synthetic products, essential oils…), miscellaneous providers (advertising agencies, logisticians…);
- At the heart of the sector, the “integrator” manufacturing groups (large and small), which may be broken down into the selective specialists (Clarins, PME…), the generalists (Unilever, L’Oréal, Shiseido, Procter and Gamble...), the mass-market specialists (Henkel, Sara Lee, Gillette, Kao Corporation…), the manufacturer-contractors who work for all the producers of finished products. It is possible to distinguish in the manufacturing process an upstream phase (manufacture of raw materials from natural or synthetic products…) and a downstream phase of the manufacture of finished products and packaging.

• The distributors, where the following categories can be distinguished: hyper / supermarkets, selected distribution, (Marionnaud, Séphora,...), pharmacy / parapharmacy, direct sales (Avon, L'Occitane).

The "cosmetics" and "perfumery" segments, however, present large differences:

• In perfumery, the role of the « composer-creators » and the producers of essential oils (based on natural products) remains very important. The "craft" or "traditional" component of this activity, which calls upon creativity and intuition, would appear to be central. In cosmetics, the role of synthetic products, hence of chemistry, biochemistry and the research laboratories is much more prominent.

Figure 2. The cosmetics-perfumery sector



The cosmetics sector in the Euro-Mediterranean region

The Euro-Mediterranean region, thanks essentially to Western Europe, represents the first economic centre in the world in terms of cosmetics and toiletries:

• The leading world market with sales of around 42 billion euros in 2002[1] (34.7 of which for Western Europe alone) ahead of the United States (32.6 bn. euros) and Japan (14.1 bn. euros, cf. below). The East European and Mediterranean markets are much more restrained (around 5 and 2.5 bn. euros respectively) but growing and very promising as a result of the purchasing power and the westernisation of lifestyles (cf. also Figure 6).

• The Euro-Mediterranean region is also the leading world importer by far. There was, however a drop in the region's share of world imports between 1992 and 2002 (from 63 % to 60 %), essentially linked to the weak dynamism of West European imports, which contrast with the boom of MEDA and East European imports (Figure 3).

Figure 3. Imports of toiletry products to the different zones of the Euro-Mediterranean region. Source : CEPII, Chelem Database

Importer	1992		2002	
	G $US	World share	G $US	World share
Western Europe	23.5	56.1%	38.1	48.8%
Eastern Europe	1.5	3.6%	5.9	7.6%
MEDA	1.3	3.0%	2.7	3.4%
Total region	26.3	62.7%	46.7	59.8%
World	42.0	100%	78.1	100%

• The Euro-Mediterranean region (in fact Western Europe) constitutes the main centre of production and international trade in the sector. It was the origin of nearly 70 % of world exports of toiletry products in 2002. This world share does, however, show a slight drop compared with 1992. This decline is entirely attributable to exports coming from Western Europe, whereas the market share of Eastern Europe and the MEDA countries increased between 1992 and 2002 (Figure 4).

1. All the data presented in this paragraph is estimated at wholesale price.

• Finally, the region is competitive. Its trade balance is in surplus by nearly 7 billion dollars in 2002, essentially thanks to Western Europe since the East Europeans and the MEDA countries are in deficit.

Figure 4. Structure of the world exports of toiletry products by zone between 1992 and 2002. Source : CEPII, Chelem Database

Exporter	1992		2002	
	G $US	World share	G $US	World share
United States, Canada	5.7	13.7%	11.4	14.6%
Western Europe	29.9	71.3%	50,8	65.1%
Japan	2.0	4.8%	3.7	4.8%
NICs of Asia 1[2]	1.2	2.8%	2.3	3.0%
Total 1	38.9	92.7%	68.2	87.3%
Latin America	0.7	1.7%	2.6	3.4%
Eastern Europe	0.2	0.4%	1.8	2.3%
NICs of Asia 2[3]	0.9	2.1%	1.7	2.1%
MEDA	0.4	1.0%	1.1	1.4%
Total 2	2.2	5.2%	7.2	9.2%
World	42.0	100.0%	78.1	100.0%

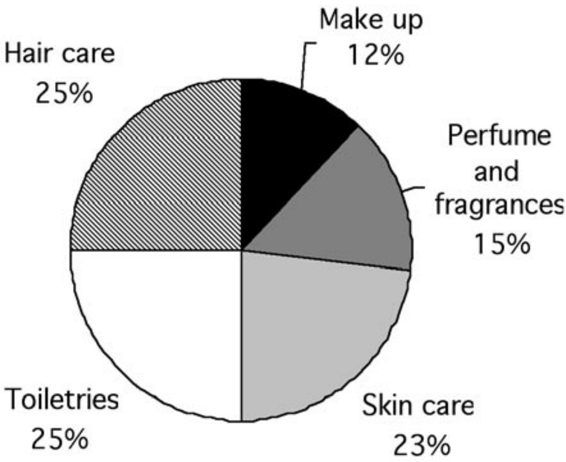
World demand

The world market was estimated in 2002 at around 115 billion euros. It covers five families of products, which are, in decreasing order of importance: toiletry products (deodorants, soaps..), hair care products (shampoos...), skin care products (creams…), perfumes and make-up (Figure 5).

It is currently experiencing rapid growth in all segments, pulled along especially by the dynamism of the emerging countries, by contrast with the growth in developed countries.

2. NICs of Asia 1 : South Korea, Hong-Kong, Singapore, Taiwan.
3. NICs of Asia 2 : Malaysia, Philippines, Thaïland.

Figure 5. Structure of the European market by product category in 2002. Source : Colipa Statistics Working Group

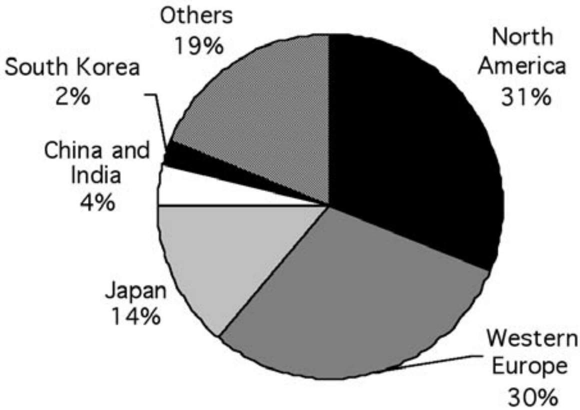


The markets of the developed countries

They represent overall more than 80 % of world demand (Figure 6). In these markets, growth is big albeit slower as a result of the gradual saturation of the market. Once upon a time, the privilege of an elite, the consumption of perfumes and cosmetic products has generalised to all layers of the population. For example, in 1960, one woman out of 10 wore perfume in Western Europe. Today, the figure is 7 out of 10.

Consumers are particularly demanding in terms of product quality and efficiency, with a rapid development of the niche products. In these markets, there has in fact been an extension of the demand to new categories of population: the arrival of the baby-boomer generation in retirement and an increased life expectancy, a growing proportion of working women, the increasingly precocious entry of « teenagers » into the consumer society, the appearance of a masculine beauty market, specific needs of ethnic and cultural minorities; whence a growing diversification of needs and products offered to satisfy a widening demand, but also one which is becoming fragmented and in certain segments of the market more price sensitive.

Figure 6. World cosmetics market in 2002 by geographical zone. Source : AFII estimation according to the work of the Colipa Statistics Working Group.



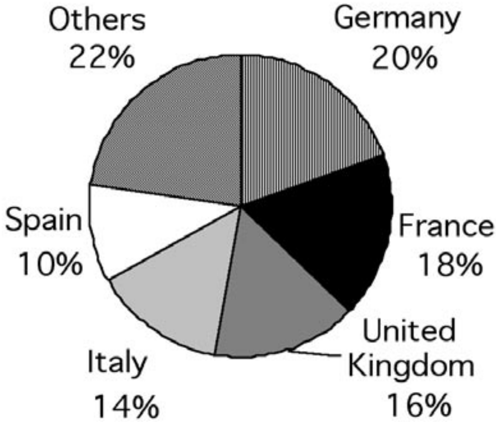
North America (United States and Canada) represented a market of around 35 billion euros in 2002[4]. (number 1 in the make-up segment). It is a very demanding market (demand for practicality, immediate pleasant and efficacious compositions, personalisation), very competitive, with relatively slow growth but at the same time very innovating both as regards the products as the modes of distribution (interactive web sites).

Western Europe arrives practically equal to North America, with a market estimated at 34.7 billion euros in 2002. Germany constitutes the largest market (19.5 %), followed by France (17.6 %), the United Kingdom (15.7%) Italy (14.1%) and Spain (10.4%). These five countries alone represent nearly 80 % of the West European cosmetic market (Figure 8). In the course of recent years, the West European market has experienced moderate growth, in the region of 3.5 % per annum.

Japan arrived in third place with 14.1 billion euros in 2002[5] (number 1 in the skin care segment). The market, which is very mature, has

4. Estimation at wholesale prices.
5. Estimation at wholesale prices.

Figure 7. Geographical distribution of the West European cosmetic market in 2002. Source : AFII estimation according to the Colipa Statistics Working Group.



made slow growth with yet limited penetration of imports (despite a strong push from American and French products).

The emerging markets

If the developing markets only represent today one quarter of world demand, their share is increasing rapidly as a result of the very rapid growth of local demand. The latter may be very sensitive to the brand effect, as well as the price of products and their adaptation to the ethno-cultural features of the populations concerned. Given the lower purchasing power, the markets of low and mid range products are particularly promising.

In Asia, the Indian and Chinese markets, which already represent 15 % of the total demand of the continent, constitute large reservoirs for growth. For example, the market doubled in China between 1995 and 1999 (slowing down, however, over the past 3 years), whereas it grew by 8 to 10 % per annum in India during the same period. Sales in China are at the moment concentrated in the large cities of the coastal region, with levels of consumption per capita which, nevertheless, even in the dynamic regions like (Shanghai), are 10 times lower than those of developed countries. Imports continue to grow rapidly despite certain unfavourable elements: a slowing of demand, policies to support the local offer, demand from the population favouring products adapted to their features and their financial means (mass-produced products at low prices) that local producers are better placed to supply, development of local production by foreign firms, often of American or Japanese origin. On the contrary, the entry of China into the WTO will lead to a large drop in import taxes on cosmetic products.

In the CEEC, the growth rate in demand remains very high (in the region of 10 % per annum), with profiles of consumption which are gradually approaching those of Western Europe as a result of the rapidly increasing purchasing power. The latter does, however, remain much lower (for example, 7 times lower in Poland than in France). According to the Office of Statistics, an Estonian spends annually 36 euros on perfume, cosmetics, skin care and hygiene products whereas the European average is 131.5 euros per annum. The current size of the market is in the region of 5 billion euros (wholesale price).

In Central and Southern America, the economic crisis is tending to slow the demand for perfume and cosmetics, especially in Argentina. The market remains promising long term, however, with per capita consumption still well away from European standards. The market may be estimated at around 10 billion euros at wholesale prices.

The market of the MEDA countries

The countries of the MEDA region represent a market which is still relatively limited: around 2% of world demand, that is 2.5 billion euros at wholesale prices and 3.5 billion at retail price. This narrow, fragmented and very competitive market, does, however, present a fairly impressive rythm of growth. It is for this reason that toiletry products have multiplied by 23 times between 1972 and 2002 (and by 2 between 1992 and 2002). At this date, they represented 2.7 billion dollars, or 1.2 % of total MEDA imports (cf. below). The MEDA countries are therefore markets with high expansion potential for cosmetics and perfumes. This expansion may be explained by the conjunction of socio-cultural and economic factors.

The influence of foreign cultural models, in fact, is increasingly strong, especially within the expanding middle and upper classes. The lifestyles tend to line up with world trends especially thanks to the permeability of the audiovisual frontiers. The wealthiest class seeks a Western style sophistication, through the consumption of the luxury goods from the well-known foreign brands, which are widely represented.

There is then a increasingly numerous population which is won over by an offer which is becoming diversified. The number of salons or institutes of beauty in on the increase. Women, the main interested parties, are prepared to become indebted for products with a well-known name. Men are increasingly solicited. Large numbers of young people pay an ever-increasing attention to beauty and the care of the body compared to their elders and are eager consumers. The annual growth of the Moroccan market for example, currently exceeds 10 %.

The world offer

It is characterised by the following points:

- A still limited concentration despite the existence of large diversified groups, as a result of the presence of a multitude of specialist SMEs in the niche markets;
- A marked distinction between the way in which the “cosmetics” and “perfume” sectors are organised;
- A set of marked trends concerning the legislation, distribution and research and the arrival of an offer in the emerging countries which may in time represent a threat to the independent Euro-Mediterranean SMES.

The developed countries remain the main exporters of toiletry products but it is in the emerging countries that the greatest growth is to be observed. From 1992 to 2002, their share of the market went from 5.2 % to 9.2 % while that of the developed countries has reduced from 92.7 % to 87.3 % (Figure 4).

The offer is not very concentrated despite the presence of large diversified groups

The turnover in 2002 of the perfume-skincare-cosmetics activity of the 10 leading world groups represented around 50.3 billion euros, for a world market estimated at 115 billion euros[6]. This level of concentration, without being weak, is well below that of the automobile, for example, where the ten leading constructors represent 80 % of the market. This leaves room for a good number of large-medium companies or even small firms which may benefit from a dynamic and segmented market.

The large groups and their strategies

The ten largest groups (Figure 8) are most of the time present in the whole of the "perfume-cosmetics" activity. Certain, like Procter and Gamble or Unilever, are on the whole very diversified groups of everyday consumer goods. Others are only present in cosmetics. They are highly internationalised groups, practicing a policy of constant technical innovation, massive advertising, a finely targeted policy of diversification (brand portfolio) based especially on the acquisition of niche brands (Figure 9).

The other firms

Among the main "outsiders" and other competitors of the large dominant firms, can be quoted the following types of company:

- The small-sized industrial manufacturing groups, in general less internationalised and more highly specialised in one of the market niches (Sisley, Décléor, Clarins…). Clarins, for example, is a specialist in skin care and beauty products. Its 6th place in the European classification is linked to its success in the sales of the Azzaro perfumes.

6. These figures are difficult to compare directly for several reasons: groups diversified in other activities than cosmetics; differences between market estimations at wholesale and retail prices. These two factors go together, leading the ratio arising from the comparison of the two figures quoted to be considered as a majorant of the degree of concentration of the offer.

Figure 8. The ten largest world groups. Diverse sources

N°	Groups	Activity	T/O perfumes-cosmetics in 2002	Share of cosmetics-perfumery	T/O total	Nation.
			(G euros)	In the total T/O	(G euros)	
1	L'Oréal	Perfume-Cosmetics	14.3	100%	14.3	France
2	Procter & Gamble	Beauty products	8.1	20%	40.2	United-States
		Hygiene Products	5.0	12.5%		
		Total	13.1	32.5%		
3	Unilever	Cosmetics and hygiene products	8.0	25%	32.0	RU/ Pays-Bas
4	Shiseido	Perfume-care-Cosmetics	4.7	100%	4.7	Japan
5	Estée Lauder	Perfume-Cosmetics	4.7	100%	4.7	USA
6	Beiersdorf	Products Cosmetics	3.2	67%	4.7	All.
7	LVMH	Perfume-Cosmetics	2.3	18.4%	12.7	France
8	Yves Rocher	Perfume-care-cosmetics	2.3	100%	2.3	France
9	Henkel	Care-Cosmetics	2.1	22%	9.7	All.
10	Gucci Group	Perfume-Cosmetics	0.6	22.1% (1)	2.5 (1)	France

(1) Perimeter of the Gucci Group. With the PPR perimeter, the figures would be respectively 2.1 % and 27.2 billion euros.

Figure 9. Acquisitions of niche brands by the large groups. Source : Eurostaf

Acquiring Group	Brand and acquisition date
LVMH	Bliss (1998), Benefit Cosmetics (1998), Hard Candy (1998), Make up forever (1998), Urban Decay (2000), Fresh (2000)
Estée Lauder	M.A.C. (1994), Bobbi Brown (1995), Aveda (1998), Stila (1999), Jo Malone (1999)
Shiseido	Décléor (2000), Nars (2000)
L'Oréal	Maybelline (1996), (Matrix 2000), Kiehl's (2000), Carson (2000), Shu Uemura (2001), Biomedic (2001), Artec (2002)

• The large composer-perfumers, who sell their compositions to the manufacturing groups and also implement an active policy of innovation and internationalisation (Figure 10).

Figure 10. The main composer-perfumers in the world.
Source : Flavor & Fragrance Industry

Position 2002	Company	T/O 2002 (G US $)	Market share 2002
1	Givaudan	2	0.128
2	IFF	1.8	0.120
3	Firmenich	1.4	0.091
4	Symrise	1.3	0.086
5	Quest International	1.2	0.076
6	Takasago	0.9	0.056
7	Sensient Flavors	0.4	0.028
8	T. Hasegawa	0,4	0.025
9	Mane SA	0.3	0.018
10	Danisco	0.3	0.017
11	Degussa Flavors & Fruit Systems	0.2	0.015
12	Robertet SA	0.2	0.014
	Total top 12	10.3	0.682
	Others	4.8	0.318
	Total market	15.1	100

• The SMEs of the developed countries. These are faced with increasing R&D and marketing costs (cf. below), with the difficulty of financing external growth operations. They seek to compensate the weakness of their market power and their level of internationalisation through a strategy of differentiation and through a positioning of their offer on the niche markets and new segments. A good number of new brands of make-up and cosmetics have thus been launched on the market, especially in the United States (see box in Figure 11).

Figure 11. The strategic orientations of the innovating SMEs in Europe

• Differentiation: alternative therapies, original packaging with distinctive colours, mode of communication.

• Concept: proximity to a finely targeted clientele.

• Distribution: department stores, distribution by the large chains the likes of Sephora and Marionnaud, the Spas and Internet (a means of making a personalised offer).

• Stake: reinforce their positioning and gain in size (innovation, widening of the ranges, distribution, communication, following the trend by managing the life cycle of the products).

• Threat: the SMEs who succeed, especially on Internet, are the privileged targets of the large groups.

Figure 12. The cosmetic firms of the MEDA countries

Turkey. The Turkish company Evyap, one of the only companies to carry out research and development for skin care and make-up products is the market leader for soaps and shaving products. Furthermore, it is positioned as a serious competitor to the international groups with the cream Arko for hand care and used as a family cream.

Israel. Agis Industries, quoted on the Tel-Aviv Stock Exchange since 1992, has two subsidiaries: Careline (Pharmagis) Ltd and Neca Chemicals 1952 Ltd. Careline manufactures cosmetics and care products under different brand names. Neca manufactures soaps, cleaning products, detergents and washing powders under the brand «Neca». Dead Sea Laboratories manufactures the line of care products know around the world, Ahava. Based on salts and mud from the Dead Sea, these products are aimed at the local market (consumer goods and SPA centres) and export (30 countries). Hlavin Cosmetics is one of the oldest cosmetic companies in Israel. It specialises in the development, production and marketing of natural products (line Hamei Yoav). These products are exported to the United States, Europe, Russia and Japan.

Egypt. Local production of perfume (toilet water and eaux de Cologne) is aimed at the local market (rural areas and underprivileged classes especially). One of the large local producers is Luna Cosmetics.

Morocco. The company Azbane is the leading Moroccan producer of shampoos, soaps, toilet waters, make-up and products for hotels. It exports nearly 80 % of its production while very few national producers are export oriented.

Algeria. Local production (perfume, body care products, hair care products, products for men) has been developing since 2000 in a consolidated way and is improving qualitatively. The private sector, which represents two thirds of the local offer, is composed of around 200 small companies and ten or so large local producers. The latter total 80 % of the turnover of the sector, with the most important being the Laboratories Venus Sapeco and the Laboratories Saco.

• The new manufacturers from the emerging countries, especially Chinese. The latter cover a territory with a very strong potential and erect entry barriers to their geographical market. The complete network formed by these manufacturers already represents formidable competition for the groups originating from developed countries on the Asian market. There are currently more than 3,500 companies in the cosmetics sector, fifty of which with an annual turnover in excess of 10 million euros. The State companies are gradually disengaging from the market leaving their place to private firms.

The great structural trends

These trends may be grouped into two categories: on the one hand those concerning the aspirations of the consumer and the evolution of the products offered (increased demand for authenticity and personalisation, development of niche products, rise in development costs); on the other hand, those concerning the strategies of the manufacturers (internationalisation, diversification) and the distributors (increased power of the specialist chains and the hypermarket/supermarkets). After having presented them, the study will attempt to analyse their consequences for the MEDA countries.

Trends concerning the products and the demand

The demand for authenticity and personalisation

A number of marketing studies throw light upon the growing demand for authenticity and personalisation expressed by the consumer of cosmetic products and perfumes on the developed markets. He/she is seeking to rediscover his/her real or imaginary roots and is also a demander of dreams, exoticism, of products referred to as “natural”. He/she is also searching for personalised products, which correspond with his/her aspirations of the image that he/she wants to give of him/herself. As will be seen below, this trend constitutes a fundamental asset for products of Mediterranean origin, whose characteristics may well respond to his/her needs.

The development of highly differentiated niche products

It is precisely to respond to this expectation for personalisation, especially in the very mature markets with slow growth in the developed countries, that the manufacturers are seeking to propose highly differentiated products to anticipate the specific expectations of a particular category of clientele, at an obviously higher cost.

Among these products, there are a number which make reference to notions of the “natural” or are rooted in a regional tradition. For example, the entire product policy of a company the likes of l'Occitane is based upon the image of Provence, with its fragrances, its craftsmen, its landscapes and its typical products.

The growth of development costs

This evolution may be explained by several distinct factors :

• Increase in the costs of marketing and distribution, linked to search for a brand effect. This is particularly true for perfumes where the advertising budgets are the largest development budget item for a new product.

• Increase in development costs linked to increased legislative constraints[7], especially in terms of the marketing of products (reinforcement and growing technicity of innocuity tests in the context of the authorisation processes prior to marketing). This evolution is, however, much more marked for cosmetics than for perfumes. It leads to problems much closer to those observed in pharmacy in terms of pre-clinical trials (e.g. : the development of research in terms of artificial skin for innocuity tests following the restrictions put on tests on animals).

• Increase in research costs linked to an increased innovation effort and growing recourse to the technologies of pure chemistry (for the production of synthetic molecules) and biochemistry (artificial skin for innocuity tests), which is accompanied by a more and more systematic policy of patenting. In this way, L'Oréal today spends 3 % of its turnover on R&D (excluding commercial innovation), employs more than 2,000 full time scientists, more than 300 patents requests per annum, and is building a network of cooperation with the large specialist research laboratories through the world. The R&D budget of Estée Lauder has doubled in 10 years. However, the overall level of R&D effort remains well below that observed in the high technology activities (around 10 % of turnover in pharmacy, cf. also Figure 13).

7 . The 1975 Weil law (France) and the 1993 European directives reinforcing consumer protection in terms of safety and information, the 1997 European directive banning the use of animal products, European rulings of 1998 on the publication of the liste of chemical constituents on packaging, of 1999 on selective distribution, legislation under preparation on the banning of animal tests.

Figure 13. R&D effort in % of T/O (1999). Source : Eurostaf

Johnson & Johnson	9.5
Bristol Myers Squibb	9.1
Kao	4.5
Procter & Gamble	4.5
L'Oréal	3.0
Ales group	2.8
Shiseido	2.7
Henkel	2.5
Unilever	2.3
Beiersdorf	2.2
Revlon	18
Clarins	1.6
Estée Lauder	1.2
Avon	0.6

Trends in the firms' strategies

Internationalisation of the industrial firms

It is essentially linked in the cosmetics sector to the determination to conquer new markets, the problem of relocation remaining less prominent because of lower costs than in other activities. Exports from the country of origin are now completed by the direct creation of distribution networks and production sites abroad.

This international development policy has, for the large groups, been largely based on acquisition operations. For example, the installation of L'Oréal in the United States was made possible by the takeover in 1996 of Maybeline and more recently of Carson and Matrix (2000). It assumes the development of products specifically adapted to the needs of the local clientele (e.g.: the marketing in the US by L'Oréal of products specifically adapted to the texture of the hair of Afro-American women).

The movement of diversification/integration of the large groups

This phenomenon is linked to several motivations: 1) desire to increase the firm's presence on new products with rapid growth and/or complementary to its traditional activities; 2) search for increased control on certain key links in the value chain where the group was until then dependent on outside suppliers[8]. For example, L'Oréal, initially positioned essentially in cosmetics, diversified horizontally (perfumes) and vertically (manufacture of certain raw materials...). Conversely, LVMH, at the outset, rather positioned on perfumes, sought to widen its "skincare" and "make-up" lines. Unilever and Procter and Gamble completed their range, originally centred on fast moving consumer goods at low prices, with products with greater added value. The large groups may also take over the innovating SMEs so as to ensure control of a niche and/or innovating and promising product.. They are seeking to reinforce their position in the distribution circuits, either through the acquisition of networks, or through the diversification of the forms of commercialising their products.

The growing power of distribution

Already faced with the negotiating power of the hyper/supermarket chains, the manufacturers have in recent years seen the power of selective distribution as a result of the movement of concentration which has affected this activity. For this reason, the latter have seen their margins threatened by the inflation in the costs of referencing and communication. The largest groups then reacted by seeking to better control their distribution circuits, especially by vertical integration (acquisition of Sephora by LVMH in 1997, development of specific distribution networks…) and by the development of direct selling through Internet (movement particularly impressive in the United States).

---

8. This trend may eventually be counterbalanced by an inverse movement of externalisation towards external sub-contractors and suppliers of activities considered as non strategic.

Consequences of the large structural trends in the MEDA countries

The new consumer trends (search for authenticity, exoticism, of natural products) may constitute a major asset for the Mediterranean region if the latter manages to take advantage of an image and a cultural tradition where fragrances, perfumes and cosmetic products have an important place. In fact, in the MEDA countries there exists a large development potential for typically local niche products: for example, beauty products based on minerals, clay and Dead Sea mud, manufactured by the Israeli industry and exported towards Europe and America. It has to be said, however, that this potential has not for the moment been other than partially exploited.

The growth in development costs and the increase in techniques required for the manufacture of toiletry products may, however, constitute a handicap for certain countries of the MEDA region. Indeed, Mediterranean manufacturers, which are for the most part SMEs, have limited means in terms of research and development. They may not then for the moment throw themselves into very evolved products such as skin care creams and quality make-up whose conception involves complex equipment and research and are therefore constrained to limit themselves to the manufacture of simpler products (basic moisturising creams).

It will no doubt be indispensable to call extensively upon the capital and know-how of international firms to develop the MEDA potential. In this respect, the internationalisation movement of firms originating in developed countries may constitute a favourable factor in increasing the possibilities of relocating production sites and creating partnerships with local firms. Especially since these foreign firms seek a renewal of their ranges through original and differentiating products that they may after all find in MEDA countries. This potential complementarity would be all the better exploited if the Mediterranean countries knew how to identify and exploit their offer (raw materials, traditional production techniques, existing products) among potential investors.

Finally, the growing power of the distribution industry may constitute a favourable trend for the MEDA countries if the large groups develop direct imports of their products through their buying offices. This movement will be all the more impressive if the MEDA countries are able to exploit their production with these distributors.

2. The territorial offer of the MEDA region

The cosmetic sector still remains relatively poorly developed in the countries of the MEDA area, with the exception of Turkey and Israel. The industrial and commercial integration with Europe is rather limited. The flow of international investments towards the area is poor. Yet, the region possesses great potential in the perfume and cosmetic domain. So as to exploit this potential, a certain number of courses of action may be explored.

An as yet relatively poorly developed sector, a large commercial deficit

An as yet poorly developed sector

The cosmetic and toiletries sector remains poorly developed in the countries of the MEDA region: only around 2 billion dollars of production, essentially concentrated in Israel and Turkey (Figure 14).

Figure 14. Toiletry products in the MEDA region in 2002 (M $US).
Sources : CEPII (Chelem Database), DREE, National sources.

	Production (M $US)	Exports (M $US)	Imports (M $US)
MEDA	2 000 (est.)	1 130	2 660
Israel	900	545	450
Turkey	500	405	775
Egypt	c. 300	65	235
Tunisia		50	100
Algeria	c. 50	10	185
Jordan		5	25

External trade in structural deficit

An analysis of the CHELEM base leads to the following conclusions:

• Exports of toiletry products[9] from the countries of the MEDA region are poor, but they have recorded progress over the past 10 years. Whereas they only represented 0.7 % of total MEDA country exports in 1992, they in fact reached 0.9 % of the total in 2002 (Figure 15). Simultaneously the share of MEDA exports in the total of international trade grew significantly, going from 1.0 % in 1992 to 1.5 % in 2002 (Figure 16).

Figure 15. Share of toiletry products in the total of MEDA exports. Source : CEPII, Chelem Database

1972	1982	1992	2002
0.4 %	0.7 %	0.7 %	0.9 %

Figure 16. Share of MEDA exports in the total of world trade in toiletry products. Source : CEPII, Chelem Database

1972	1982	1992	2002
0.9 %	1.8 %	1.0 %	1.5 %

• This evolution may be largely explained by the performance of the Israeli and Turkish industries, which are the two main exporters in the region, with respectively 48 % and 36 % of the MEDA total (Figure 17). Thus, from 1972 to 2002, Israeli exports went from 9 to 543 million $US (that is 1.9 % of the total of the country's exports), and Turkish exports from 2 to 404 million $US (1.2 % of the total of Turkish exports).

• The other countries have a much less developed cosmetics industry. However, Egypt and Tunisia are also modest exporters, with respectively 64 and 50 million $US of exports in 2002 (less than 0.1 % of the world market).

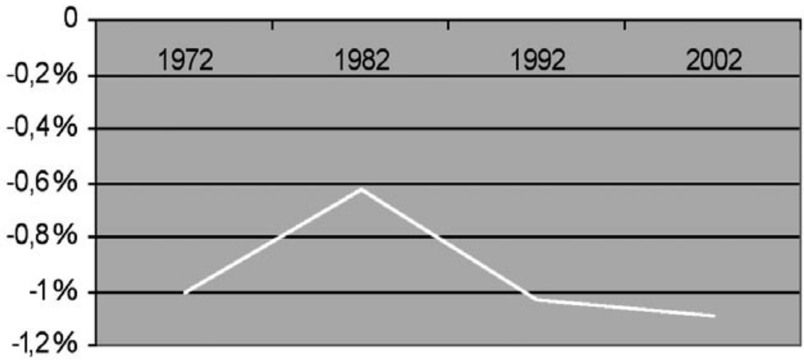
9. Soaps, perfume, household cleaners, washing powder, cosmetics and other end-user chemical products for corporal well-being and cleanliness.

Figure 17. Distribution by country of MEDA exports of cosmetic products in 2002. Source : CHELEM

Israel	48.2 %
Turkey	35.8 %
Egypt	5.7 %
Tunisia	4.4 %
Morocco	2.2 %
Cyprus, Malta[10]	2.0 %
Algeria	0.8 %
Jordan, Syria, Lebanon	0.9 %

• A large trade deficit. All the countries of the MEDA region, except Israel, have a trade deficit in toiletry products: 1.5 billion $US in 2002, that is around 1 % of the region's external trade, a ratio which has remained more or less stable over the last 20 years (Figure 18).

Figure 18. The external balance in toiletry products for the MEDA region carried over to the total trade flows ((total exports+ total imports)/2). Source : CHELEM



10. In the absence of local producton of perfume and cosmetics (there is only one production unit for toiletry products intended for supermarkets), the exports of Maltese perfume covers imported products which transit via Malta and the cosmetic exports are duty free sales and re-exports to Libya.

Very varied situations depending on the country

Only two countries in the area, Israel and Turkey, today have a structured cosmetics industry. There does exist, however, a marginal activity in this domain in a few other countries, notably Tunisia and Egypt.

Israel

Israel occupies by far the leading place of the MEDA exporters, representing nearly 50 % of the toiletry exports.

The country has a market with a very strong potential for expansion for toiletry and beauty products as a result of the high average living standards and the policy for the reduction of purchase taxes. Despite the economic context, the Israelis are maintaining and even increasing their purchases in all cosmetic products (perfume and toilet waters, beauty products and make-up, hair care preparations, oral hygiene, shaving products, deodorants…) and are among the largest consumers in the world.

The cosmetic products sector constitutes a major domain of the Israeli economy. Its turnover reached almost 900 million $ US in 2002 (with a turnover in Duty Free sales estimated at 200 million $US per annum). This figure more than doubled between 1992 and 2002.

Israel manufactures the major part of the toiletry products (body and dental hygiene) sold on its territory. There are some fifty companies, generally of average size, manufacturing different varieties of cosmetic preparations from the minerals, clays and muds from the Dead Sea. Companies such as Ahava, Mineral Care Dead Sea Products and Natural Sea Beauty export and are locating in Europe and in America. But there also exist other companies producing body hygiene products, hair care products… The main companies producing cosmetics and hygiene products are Agis, CTS, Ahava, Hlavin, and L'Oréal (see also Figure 12).

Turkey

In 2002, Turkey, the number two exporter country of toiletry products of the area, was at the origin of 36 % of total MEDA exports with 404 million $ US of income.

Estimated at around 500 million $US (ex works cost), the Turkish cosmetic market remains modest compared with the European markets. It has, however, over the past 20 years experienced strong growth encouraged by the westernisation of the life style and the increase in purchasing power.

The opening of the Turkish market to imports in 1984 has resulted in a boom in imports, but has not prevented the development of a local industry. The latter is highly concentrated on hair care products. The largest local producers are Hobi, Ondüla and Kurtsan.

Except for the companies Pintas, Alfar and Evyap, Turkish cosmetic companies do very little if any research and development. Local products are positioned in the middle (Vepa, Alfar, Kopas) or bottom of the range.

There is large toilet water production. The company Aromel, situated at Izmir is the market leader. Turkey is one of the main world producers of rose essence.

Egypt

Egypt is the third largest exporter of toiletry products from the MEDA region with 65 million $US of income in 2002 (notably towards the Arab countries) and a world market share of 0.1 %. The liberalisation of imports which started in 1992 (drop in customs duties in 1998) resulted in an increase in imports. The external balance is today heavily in deficit.

Confronted with this flow of imported products, local industry has diversified, restructured and made efforts in quality. Egyptian production today covers the major part of the interior market. Local producers (among which can be mentioned the perfume manufacturer Luna Cosmetics and the cosmetics producer Sipec) address the mass market clientele, trying also to satisfy the demand coming from the emerging classes.

The market is promising thanks to the evolution in life styles (rapid development of an urban middle class sensitive to the Western models of consumption), in a country also where the use of perfume and cosmetics constitutes a cultural tradition, including among the more modest categories. The demand for perfume and cosmetics is touching a growing part of the population (women, young people), which pays a lot of attention to the renown of the brands and their origin.

Morocco

The perfume and cosmetics market in Morocco is narrow but growing and very competitive. It is estimated that the annual growth rate of the market is more than 10 %.

The offer is diversifying increasingly: the arrival of new brands on the market, the opening of beauty salons, keep fit centres... Care products constitute 60 % of the total cosmetics market.

The market is split between two very large and distinct poles : on the one hand, the low cost fast moving consumer goods (the « mass market ») and on the other hand luxury goods.

A large number of consumer goods, in particular shampoos, soaps and toothpastes are manufactured here. The international brands (Unilever, Procter & Gamble, Gillette, Colgate Palmolive) manufactured by the multinationals present in Morocco or under licence dominate the sector. The company Azbane is the leading Moroccan producer of shampoos, soaps, toilet waters, make-up and products for hotels… Other companies, such as Beric, Laboratoire Copagh, BCI Biotal have developed their own ranges which are sold locally or exported. Very few national producers look to exporting, with the exception of Azbane which exports nearly 80 % of its production, essentially towards other countries of the Maghreb, the countries of Africa and those of the Middle East.

Algeria

The Algerian cosmetics market is evaluated at more than 230 million euros with around 185 million imports and 55 million of local production.

Despite a generally fairly low standard of living (GDP per capita of 1,800 $US in 2003), the demand for perfumes and cosmetics is dynamic and concerns all the segments of the population (especially young women and working women).

Local production is made by fifty or so companies, present in perfume, toilet water, eaux de Cologne, body hygiene products, hair care products and products for men. There has been sustained development since 2000. Although the largest part of the local offer is produced by the brands themselves, a number of Algerian companies also use partnerships and licences.

Still limited integration with Europe

The evolution of the legislative framework, both external and internal, has resulted in a growing liberalisation of the MEDA cosmetics market to foreign imports and especially European. On the other hand, even if Europe represents the leading outlet for MEDA exports of toiletry products, it is still too early to talk about a real phenomenon of industrial integration between the two shores of the Mediterranean.

Evolution of the legislative framework

The international context

The international legislative framework governing trade in the industrial sector and especially cosmetics, specific relations between the European Union and the MEDA region, and lastly the development of agreements internal to the MEDA countries, will be studied successively.

The general legal context : the WTO agreements

The WTO agreements, which most of the MEDA countries have signed (with the exception Algeria, Lebanon, the Palestinian Authority and Syria), provide for the gradual abolition of tariff and non-tariff protection in the trade of industrial products and particularly perfume and cosmetics. Already in force for the majority of developed countries, this abolition should operate more gradually for developing countries.

These agreements also contain « measures concerning investments linked to trade », particularly outlawing the obligations of minimum local integration and compensation.

The European Union and the MEDA region: the Barcelona process and association agreements

The relations between the European Union and the countries of the MEDA area have been controlled since 28th November 1995 by the Barcelona process. The latter provides notably for the gradual introduction of free trade, through the application of association agreements and bilateral and regional free trade, among others (see general description in [Saint-Laurent-Apotheloz, 2004]).

Between 1995 and 2003, eight association agreements were signed with the MEDA region countries: Tunisia (1995), Israel (1995), Morocco (1996), Palestinian Territories (1997), Jordan (1997), Egypt (2001), Lebanon (2002) and Algeria (2002). With the exception of Egypt and Algeria, they are all in force. Furthermore, Cyprus and Malta joined the EU in May 2004 and Turkey has been a member of the customs union since January 1996.

On a sectoral level, trade in industrial goods is gradually to be liberalised between the EU and its partners. This liberalisation is already effective with Israel and the Palestinian Territories, it will be completed with Tunisia in 2010, with Morocco in 2012 and with the other countries between 2015 and 2020.

Figure 19. Cosmetics and the counterfeiting problem

In emerging countries, despite the adoption of a set of texts in conformity with the international agreements mainly covered by the Paris Convention for the Protection of Industiral Property and more widely by the TRIPS of the WTO protecting intellectual property, counterfeit and contraband goods prosper, public authorities often deprived of the means to have the laws in force respected. The most prestigious brands are the main victims.

Counterfeiting affects above all perfumes. Counterfeit goods (often sold in original packaging and bottles) have prices well below the originals, the numbers of "perfume in bulk" boutiques is on the increase, notably in Turkey.

Economic integration in the MEDA area

A Euro-Mediterranean regional economic area also requires the signing of free trade agreements between the Mediterranean countries (South–South relations) as a complement to the association agreements (North-South relations). Whereas, for the moment, despite a few limited initiatives, (see details in (Saint-Laurent/Apothéloz, 2004), the range of these agreements has remained very reduced within the MEDA area.

Since the Barcelona process, several initiatives to negotiate trade agreements (South-South relations) have been made so as to revitalise integration (regional free trade agreements, bilateral free trade agreements, preferential agreements). The Agadir process, launched in May 2001, represented a particularly major element in regional integration efforts. It provides for the creation of a free trade area between the Arab nations of the Mediterranean. The negotiations reached a conclusion in January 2003 in Amman with the signing of an agreement between Morocco, Tunisia, Egypt and Jordan. Other countries might join this free trade area, which is intended to increase in size. The agreement covers all commercial trade between the four countries for industrial as well as agricultural goods. Negotiations for a liberalisation of the trade in services are also planned. Once in force, this agreement could eliminate part of the structural obstacles to the opening up of the Mediterranean market and will improve the attractiveness of the signatory countries for foreign investors.

The internal context: country by country analysis

The policies applied by the MEDA countries overall are part of a perspective of liberalisation and opening to trade: modernisation of infrastructures and public services, adaptation of the fiscality to the market economy (defiscalisation laws, agreement of non-double taxation), increased investment freedom, notably for firms of foreign origin (freedom to acquire land, to create companies, to repatriate profits). The situations in the specific domain of cosmetics differ however widely from one country to another.

Israel. This was the first country to have signed a free trade agreement both with the EU (1975-1995) and the United States (1985), with EFTA (1992), Canada, Turkey, Slovakia, the Czech Republic, Poland, Hungary, Slovenia and Jordan. Agreements with Romania, Mexico, Peru and the MERCOSUR are in preparation.

Turkey. Despite the customs union with the EU in 1996, there exist in Turkey large non-tariff barriers. Indeed, the import of cosmetic products is subjected to the autorisation and control of the Ministry of Health. But the legislation is to be harmonised with European legislation.

Egypt. The legislation applied by the Ministry of Health makes marketing cosmetic products difficult. Moreover, a sales tax is added to customs duty (less than 30%) for cosmetic products and perfume as well as customs clearance expenses. Egypt, a member of COMESA (Common Market for Eastern and Southern Africa), represents a springboard towards the countries of Africa.

Morocco. A Moroccan standard concerning the specifications of cosmetics and bodily hygiene products, based on the European directive, was ratified in October 2002. This standard largely concords with the European cosmetics directive 76/78/CEE. Import customs duty amount to 40 % to which should be added VAT of 20 % and a parafiscal import tax of 0,25 %. Following the association agreement between Morocco and the European Union which came into force in 2000, these import duties have dropped since 1st March 2003 and should reach 0 rate in 2012.

On 2nd March 2004, a free trade agreement with exclusively commercial and economic aims was signed between Morocco and the United States. It will come into force after the exchange of the instruments of ratification and the finalisation of the constitutional procedures of each of the two countries.

Large volume commercial trade with Europe, but limited industrial integration

An analysis of trade flows from the MEDA countries in toiletry products shows that Western Europe is by far their leading trade partner. The MEDA countries have a large overall trade deficit with Western Europe. There is also a very low level of internal trade within the MEDA area (Figures 20 and 21).

Figure 20. External trade and balances of the Euro-Mediterranean region in toiletry products (2002). Source : CEPII, Chelem Database

G $US	Total exports	Total imports	Total balance	Intra (1) regional exports	Intra (1) regional imports	Intra (1) regional balance
W. Europe	50.8	38.1	12.7	6.9	1.1	5.8
E. Europe	1.8	5.9	-4.1	0.6	4.8	-4.2
MEDA	1.1	2.7	-1.5	0.7	2.4	-1.6
Total	53.7	46.7	7.0	8.3	8.3	0.0

(1) That is to say between the area indicated on the line and the two other areas of the Euro-Mediterranean region.

Generally, the importance of intra-regional integration within the Euro-Mediterranean region is easy to see. For example, intra-region trade represents 86 % of the total trade of the Euro-Mediterranean countries whereas intra-zone trade represents 70 % of it (Figure 21).

Figure 21. Shares of intra-zone and intra-region in trade in the Euro-Mediterranean region (exports + imports) in 2002. Source : CEPII, Chelem Database.

	Intra-zone (G $US)	Intra-zone (% of total)	Intra-region (G $US)	Intra-region (% of total)	World (G $US)
W. Europe	67.4	76	75.3	85	89
E. Europe	2.3	29	7.6	99	7.7
MEDA	0.7	18	3.7	99	3.8
Total	70.4	70	86.7	86	100.5

NB : by « intra-zone », is meant « trade inside the zone considered» (E.g. : intra-MEDA, intra-Western Europe). By « intra-region », is meant « trade inside the whole Euro-Mediterranean region. ».

The West European countries trade mainly with the other countries of Western Europe (76 % of total trade). In this way, for example, the main customers of France are Germany, Spain, Italy and the United Kingdom. On the other hand, the East European and MEDA countries, are above all turned towards Western Europe which is their major outlet (cf. also Figure 22).

However, these commercial exchanges are essentially composed of finished products. They are not the testimony of a process of sub-jacent industrial integration where multinational firms might use the MEDA countries as a low cost production base for re-exporting to the developed countries. As will be seen below, this organisational logic is in fact relatively less present in the cosmetics sector than in others, such as automobiles or clothing. Furthermore, when this logic is in application, it benefits more for the moment the countries of Eastern Europe than the MEDA countries.

Figure 22. Western Europe, main trading partner of the MEDA countries in toiletry products

- The Western European market represents a major outlet for MEDA exports of toiletry products: 45 % in 2002 (Figure 23).
- The West European stake is particularly important for Israel (70 % of the exports), but much less for Turkey (17%), whose exports are above all oriented towards Russia, the Turkish-speaking countries for the ex-USSR and the countries of Eastern Europe.
- As for imports, they are very largely dominated by the West Europeans: 87% in 2002 (Figure 24).

Figure 23. Share of Western Europe in MEDA exports of toiletry products. Source : CEPII, Chelem Database

1972	1992	2002
40.1%	27.3%	44.5%

Figure 24. Share of Western European MEDA imports of toiletry products Source : CEPII, Chelem Database

1972	1992	2002
90.6%	86.8%	86.9%

A still limited attractiveness for international investments

Foreign presence and the flow of investment towards the MEDA countries remains low in the cosmetics activity. This situation may be explained both by the very features of the activity, which do not give rise to large relocation movements as in clothing and to the competition from the East European countries.

The low level of investment flows and foreign presence in the MEDA area

The presence of foreign firms for the production of cosmetics in the MEDA countries remains relatively limited (L'Oréal in Israel). However, several distribution companies have arrived (Marionnaud in Morocco…).

In Israel, the only brand with its own distribution circuit is L'Oréal through the intermediary of L'Oréal-Israel. The other products are imported by importers, manufacturers or distribution chains.

In Turkey, the local affiliates of the multinationals, P&G, L'Oréal and Unilever hold 35 to 40 % of the cosmetics markets. L'Oréal imports the totality of its products. As for P&G and Unilever, they have a few units of production for detergents and soaps, but import or have their cosmetics made by local sub-contractors.

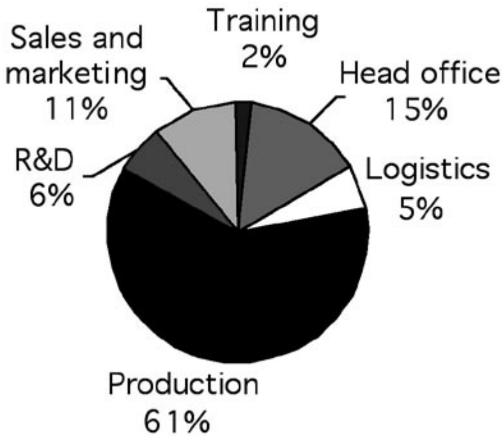
This situation has not evolved significantly over recent years, where international investment in this sector has remained limited. For example, in 2003, according to the MIPO data base, the MEDA area only received one project in the cosmetics sector out of the 275 listed (The US Procter and Gamble in Israel). The results have not been better in the first 9 months of 2004, with only 2 projects in distribution: Nocibé in Tunisia and Marionnaud in Casablanca. This low attractiveness is moreover to be found throughout the chemical sector (cf. Annex 2).

A modest movement of investment in the direction of the East European countries

The relative weakness of investments in cosmetics in the MEDA countries may be explained by 2 essential causes:

- On the one hand, the volume of operations remains relatively limited. According to the AFII/Ernst & Young estimations, only 43 international projects were identified between 1998 and 2002 in cosmetics over the whole of Europe, for a total of 3,400 jobs. Furthermore, a part of the jobs created concern the activities of logistics and distribution, production activities only represented 60 % of the total, a more modest figure than the average of industrial activities (Figure 25). This spread illustrates the fact that in the cosmetics and perfume industry, the phenomena of relocation and production in the immediate vicinity of the markets remains smaller than in the automobile or clothing sectors, for example. Exporting from countries with a good « image « (typically France) remains a major method of internationalisation, involving of course the development of commercial, logistics and distribution networks.

Figure 25. Spread of jobs created in Europe in the cosmetics-perfumery sector by type of function (1998-2002). Source : AFII/Ernst and Young



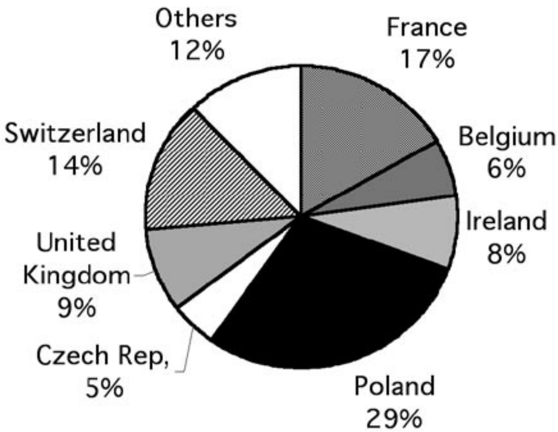
• Furthermore, the East European countries have been the main beneficiaries of the relatively rare relocation movements which were produced. This is how between 1998 and 2002, they received nearly 40 % of the jobs created in Europe by international projects, with Poland alone representing 29 % of the total (Figure 26).

The majority of the great world players have gradually set up in the countries of Eastern Europe. Today, they dominate the local market whereas local manufacturers often tend to occupy a marginal place.

Relatively unfavourable conditions of attractiveness, but great potential

The particular features of the cosmetics activity are such that access to the market or the presence of differentiating local competence

Figure 26. Spread by host country of jobs created in Europe (1998-2002)).
Source : AFII/Ernst and Young



constitute much more decisive location factors that production costs. This configuration is for the moment relatively unfavourable to the MEDA countries, with certain exceptions. But there also exists an immense potential which is just asking to be exploited.

The location criteria of companies

The surveys undertaken by the AFII show the existence of location criteria specific to the cosmetics-perfume activity compared with the other industrial sectors:

• Relatively short overall production cycles (notably in the perfume activity) which do not lend themselves well to the creation of trans-national production networks with a very marked division of labour between sites.

• The importance of the brand image of the producer country, which may represent a powerful obstacle to the relocation of production to low cost countries, since the share of labour in the structure of the total production costs is relatively limited.

• The importance of a quality technical and industrial environment both for the conception of new products (in a sector where the con-sumer is very sensitive to novelty and the effect of fashion and where the links with the pharmaceutical sector are reinforcing), and for the production activity (need for proximity of suppliers of basic products and especially packaging, needs in skilled labour).

• Lastly, the importance of the proximity of the market comes into play at the end, in two main dimensions: on the one hand, the setting up of distribution networks to convey the products towards the consumer; on the other hand, local production, either to get around customs barriers, or in the case of low value added products where the transport costs over a long distance may represent a significant part of the total production/delivery cost (e.g. washing powders).

• On the other hand the size of production costs stricto sensu, and notably labour costs, are not a major location criteria.

Comparative advantages of each area for the location of activities in the cosmetics sector

Compared with these criteria, the MEDA countries are not always overall well-placed:

• Concerning the brand image, it remains strongly attached to certain West European countries (France, Italy...). Overall, the MEDA countries have not for the moment a strong brand image in perfumery-cosmetics, with the exception of certain very special niches (beauty products from the Dead Sea…).

• Concerning the industrial and technical environment, overall it remains rather deficient, except for the case of Turkey and Israel: lack of skilled labour, suppliers (chemical products, bottling...), weakness in research and development capacity...

• Lastly, the market of the MEDA countries, whilst in rapid progression remains much more limited that those of Western and Eastern Europe (respectively 2.35 and 5 billion dollars). It remains more fragmented, making direct exports between MEDA countries difficult.

A large potential to be exploited

There exist, however, in the MEDA countries significant assets in terms of culture, image, resources, craft tradition and even industrial capacity:

• The importance granted to fragrances and perfume, as well as the care given to external appearances, are a fundamental and common element to the majority of the Mediterranean cultures. The references to perfume and body care products, often used as a metaphorical allusion to love or divine benediction, are very frequent in the holy scriptures of the three monotheist religions (myrrh and incense brought by the Three Kings at the Nativity). The cult of physical beauty constitutes a fundamental element of Greek and Roman mythology: the term cosmetic itself comes from the Greek word κοσμειν, which means "comb", "arrange", but has the same root as a word infinitely more important, cosmos, which means « organised world». The artificial transformations given to the external appearance, through jewels, clothing and make-up, are a fundamental gift from ancient Egypt or Phoenicia (the practice of embalming, Phoenician purple).

• Today still, make-up is a fundamental constituent of social life, like for example, the application of henna or kohl to the hands and the eyes of Moroccan women at the occasion of a marriage. Mediterranean women, whether from Italy or Istanbul, are reputed for the extreme importance they give to their external appearance, through their garments, the hairstyle, their make-up, their perfume. A number of typically Mediterranean first names, like Yasmine (Jasmine) or Rose, make direct reference to the flowers and their perfume.

• This omnipresence of perfume and cosmetics is a fundamental element of the image of the Mediterranean, including moreover its northern shore, in this domain. For all French and Europeans, Provence is initially defined by the power of its aromatic plants: thyme, lavender the first sensory shock received by the foreign visitor to the souks of Tunis or Fez is linked to the strength of the fragrance of the products that are sold there (aromatic essences, perfume, spices, flowers…). This image is widely present, taken up and conveyed by cultural productions, since classic literature, following the example of Racine's Athalie (« My mother Jezebel appeared before me, pompously made up, like the day she died; she even still had this borrowed lustre… ») to contemporary cinema (The purple rose of Cairo). The image of the Mediterranean Orient is thus strongly associated, in the western imagination, with the accumulation of scents and perfume, and with artificial sometimes even outrageous transformations, given to external appearances thanks to make-up.

• This culture of scents and colours is based upon an exceptional abundance of natural resources. The warm and dry climates, like that of the Mediterranean, favour the development of fragrant plants: lavender, thyme, rosemary, bay, jasmine, rose, orange flower, argane oil from

Southern Morocco… On this basis, and so as to respond to the demand of local populations, an very ancient activity of cultivation and harvesting has developed.

• Based on these natural resources, and to satisfy a local demand, an extremely ancient craft industry had developed: the perfumers of Jerusalem to respond to the immense ritual needs of the Temple, soap from Marseille, craft producers of kohl and henna in Morocco… A part of this tradition has been perpetuated until today's supplying, in certain cases, the basis of real industrial and commercial success (the industry of the perfume components in Grasse, in the hinterland of the French Riviera).

• Lastly, the importance of perfume and the external appearance results naturally in the existence of a large and dynamic market in volume, even if it remains limited in value as a result of the low average purchasing power of local populations.

3. Recommendations for the development of the cosmetics sector in the MEDA countries

The growing demand for authenticity and traditional roots from the Western consumer opens extremely interesting prospects for the Mediterranean perfume and cosmetics industry. The latter may in fact capitalise at all levels:

- By using the strength of its image through a marketing approach which refers to historic cultures and traditions: brands such as « Egyptian Highlights », « Scents of Provence », « Perfume of Judea », « Ointment from Galilee », « Henna from Fez », « Rose from Istanbul », would arouse in the mind of the consumer a whole series of images linked to both to the exoticism and traditions which would a priori encourage it favourably to purchase. Provence has already largely opened the way with its campaign « Provence, land of a thousand scents ».
- By exploiting the numerous craft productions which carry this image of authenticity linked to the Mediterranean. These already offer interesting products, but necessitate a further upgrading in terms both of respect for quality standards in force on the western markets and industrial production capacity: Syrian olive oil or bay soap, craft production of orange flower in Turkey, development of horticulture for local products in certain regions of the Maghreb, algotherapy, etc. Israel, with the use of the muds and salts of the Dead Sea for the production of beauty products, or still Turkey with its perfume industry to a large extent based on rose essence, provide some interesting examples in the subject.
- There also exists elements of competence and industrial tradition in industries associated with cosmetics and perfumery: bottling (as for example in Tunisia), soap manufacturing, oil mills, pure chemistry (for example in Israel), luxury trade in Malta…
- Connections with the tourist industry are not to be excluded. In fact, there exists in the Mediterranean a very ancient tradition of body care which associate baths, massages and the use of beauty products (Turk-

ish baths, hammams, …). The latter corresponds to a very profound aspiration of the Western consumer in terms of well-being, health, anti-ageing treatments, etc. On this basis, offers of a stay associating activities involving the consumption of local beauty products (sea water therapy, balneotherapy, algotherapy) and more classical leisure activities could be envisaged.

• Lastly, Mediterranean cosmetics are not necessarily condemned to concentrate upon the promising, but limited, segments of « authentic » products with a strong traditional and craft image. Certain countries, like of course Israel, and to a lesser extent Turkey, already have a technological potential to propose more elaborate products, such as dermo-cosmetics, which are on the borderline of the medicine industry.

So as to manage to develop this potential, action must be taken in three main domains: the general development policy, internal action specific to the cosmetic sector, lastly action of promotion-prospecting among the investors and foreign partners.

• Concerning the general development policy, the recommendations are the same as those proposed in other studies such as textiles and clothing and the automobile sector: intensification of regional co-operation and integration (Barcelona and Agadir processes, opening of the markets, constitution of an integrated Euro-Mediterranean zone), the improvement of the local business environment (protection of the brands, improve of the logistics network, simplification of the administrative and legislative framework,…).

• Concerning the cosmetics sector, action could be envisaged so as to favour the endogenous development of the activities of the zone. A comprehensive survey, country by country, of their natural resources and the existing centres of technical and industrial competence would enable an initial state of play to be drawn up For example, Turkey, producer of rose essences, could envisage specialising in toilet waters. It would then be envisageable, on the one hand to remedy the main gaps identified (programmes for industrial and technical upgrading of the existing offer, encouragement for innovating SMEs, upgrading of existing companies, specialist technical training programmes, support for exports, launching of image building and prestige campaigns …).

• Lastly specific action of the investment promotion agencies could consist in the promotion of the potential of the different foreign countries, from several angles: exploitation of the possibilities of direct investment in the domains where a potential exists which is badly exploited by local companies; search for a partnership with local SMEs when these exist, but need transfers of capital and/or know-how and commercial back-up for export so as to develop their activities. Common promotion campaigns could be envisaged within the context of ANIMA, in liaison with the professional federations of the European industry of perfume and cosmetics.

Annexes

Annex 1. Bibliography

- de Saint-Laurent B. et Apothéloz C. 2004, Investir dans la région MEDA, pourquoi, comment ? (Invest in the MEDA region, why, how? Notes et Etudes Anima n° 12, mai
- de Saint-Laurent B. et Sztejnhorn I. 2004, Direct Foreign Investment (FDI) in the MEDA region in 2003 Notes et Etudes Anima n° 6, mai
- DREE, 2003, « Le marché des produits cosmétiques et de parfumerie en Israël (The cosmetic products and perfumery market in Israel) », Fiche de synthèse, mars
- DREE, 2002, «Les professionnels des cosmétiques en Israël (The cosmetic professionals in Israel», Guide répertoire, septembre
- DREE, 2004, « Le marché cosmétique en Jordanie (The cosmetics market in Jordan) », Fiche de synthèse, février
- DREE, 2004, « Le marché des parfums et cosmétiques au Maroc (The perfume and cosmetics market of in Morocco)», Fiche de synthèse, juillet
- DREE, 2003, « Le marché turc des parfums et produits de beauté (The Turkish perfume and beauty products market) », Fiche de synthèse, août
- DREE, 2003, « Le marché des parfums et cosmétiques à Malte (The perfume and cosmetics market in Malta) », Fiche de synthèse, avril
- DREE, 2004, « Le marché des cosmétiques en Algérie (The cosmetics market in Algeria) », Fiche de synthèse, avril
- DREE, 2003, « Les produits cosmétiques et de parfumerie en Algérie (Cosmetic and perfumery products in Algeria)», Guide répertoire, mars
- DREE, 2003, « Le marché égyptien des parfums, des cosmétiques et des produits de soins (The Egyptian market of perfume, cosmetics and care products) », Fiche de synthèse, juin
- DREE, 2003, « Le secteur des parfums et des produits de beauté en Egypte (The perfume and beauty products sector in Egypt)», Guide répertoire, mai

- DREE, 2003, « Le secteur des parfums et des produits cosmétiques en Bulgarie (The perfume and cosmetic products sector in Bulgaria », Fiche de synthèse, février
- DREE, 2002, « Le marché des parfums et cosmétiques en Croatie (The perfume and cosmetics market in Croatia) », Fiche de synthèse, août
- DREE, 2004, « Parfumerie-cosmétiques en Estonie (Perfumery-cosmetics in Estonia) », Fiche de synthèse, juin
- DREE, 2004, « Le marché de la parfumerie et des produits cosmétiques en Hongrie (The perfumery and cosmetic products amrket in Hungary) », Fiche de synthèse, mars
- DREE, 2004, « Parfums, hygiène, beauté en Lettonie (Perfume, hygiene and beauty in Latvia)», Fiche de synthèse, juillet
- DREE, 2003, « Marché slovaque des cosmétiques (Slovakian cosmetic market)», Fiche de synthèse, juin
- DREE, 2004, « Conclusion du séminaire ASEM-Propriété Intellectuelle marques notoires, 11-13 février 2004 (Conclusion of the ASEM-Intellectual Property famous brands, 11^{th}-13^{th} February 2004)»
- DREE, 2003, « Le développement de la franchise dans les pays émergents : des obstacles juridiques encore nombreux (The development of franchising in emerging countries: still large numbers of legal obstacles) », Revue Stratégies Commerce et Distribution, numéro 11, décembre
- Gouadain P., Morael D., Hatem F., 2003, L'industrie des parfums et cosmétiques en région PACA : Etat des lieux et propositions d'action (The perfume and cosmetics industry in the PACA region: State of play and proposals for action), octobre
- Quatresous S., 2004, L'industrie cosmétique en France,(The cosmetics industry in France) AFII, juin
- Temin L., Mamou C., Joulie O., de Gaudemaris P., Le marché mondial des parfums et cosmétiques (The world perfume and cosmetics market), Université Paris Dauphine, 2003
- Blanc J, Feneron D, Grillot A., Les produits hygiène-beauté-santé (Hygiene-beauty-health products), Université Paris IX dauphine, 2004

Annex 2. Investments in the chemistry sector

The strictly cosmetics projects are not monitored as such by the AFII nor in the observatory (base MIPO) of the project ANIMA. Foreign investments in chemistry in the MEDA countries were low in 2003-2004. In 2003, for example, only 17 projects destined for the MEDA countries were recorded, against 111 for Western Europe and 35 for Eastern Europe (Figure 27).

Figure 27. Location of projects in the chemical/biotechnologies/plastics activity in 2003. Source : AFII, Europe Observatory and MIPO

Country	Total number	%
Western Europe	111	68
CEEC	35	21.5
MEDA	17	10.5
Total	163	100.0

The countries of origin of these projects are: the United States (4), France (3), Spain (2), Chile (1), Germany (1), India (1), Belgium (1), Denmark (1), the Netherlands (1), Canada (1), Switzerland (1). Among the host countries, Israel arrives first with 7 projects. Then follow Tunisia (3), Egypt (3), Jordan (1), Lebanon (1), Morocco (1), Turkey (1).The Israeli chemical industry is one of the economic heavyweights of the country. The sector offers great potential, especially for compressors, pumps and plumbing equipment. So as to remain competitive, Israeli industry needs to make partnerships with large foreign groups. Chemistry is also one of the most dynamic sectors in Turkey. In the framework of the programme « responsible care », the introduction of European standards in terms of gas emissions, the discharge of sewage and the treatment of waste should result in an increase in the purchase of foreign technology and products.

Achevé d'imprimer en janvier 2005
Dépôt légal à parution
Imprimé en UE

ANIMA
Euromediterranean
Network of Investment
Promotion Agencies

ANIMA is a European project devoted to helping 10 Southern Mediterranean and Middle Eastern countries partners of the EU ("MEDA" countries: Algeria, Palestinian Authority, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey), plus Cyprus and Malta (now EU members), to acquire strategies and tools to attract foreign investments. The Invest in France Agency (AFII), assisted by the ICE (Italy) and the Direction des Investissements (Morocco), is running this project, which is financed by the European Union, MEDA Programme. The City of Marseille, the Region Provence-Alpes-Côte d'Azur and the Invest in France Agency also contributed to the publishing of this study.

The cosmetics sector in the Euro-Mediterranean region

PAPERS & STUDIES N° 13

January 2005

The development of the sector in the countries of the MEDA region remains modest for the moment and limited to a few countries. Exports from the area represent hardly 1.5 % of world trade and the external deficit is very high. Only two countries, Turkey and above all Israel, have a significant cosmetics activity. Furthermore, international investments remain limited for the moment, including those from Western Europe.

The MEDA countries do, however, have a certain number of assets likely to encourage this movement: an internal market that while still modest, is growing; already existing technological and industrial skills in certain countries and with potential in others (Maghreb...) ; and above all, a cultural tradition and powerful image in the domain of fragrances and cosmetic products, as well as abundant natural resources and know-how in the craft industry which offers real potential in terms of "authentic" and "traditional" products well-adapted to current trends in Western demand.

To exploit this potential, other than an improvement in the general business environment, requires a series of specific actions in matters of training, the upgrading of local industry, and prospecting for foreign investors in the niches where the MEDA countries already present specific attractive advantages.

• *Fabrice Hatem, Head of Studies of the ANIMA programme within the Invest in France Agency (AFII), coordinated this study with the help of contributions from the ANIMA team and the MEDA IPAs.*