Cosmetics

The Pharmaceutical Affairs Act defines cosmetics as follows. "Articles with mild action on the human body, which are intended to be applied to the human body through rubbing, sprinkling or other methods, aiming to clean, beautify and increase the attractiveness, alter the appearance or to keep the skin or hair in good condition."

Cosmetics are classified into "perfume and eau de cologne" including fragrance, "makeup cosmetics" including foundation creams, lipsticks and eye makeup, "skin care cosmetics" including facial cream, skin lotion, skin milk and cleansing cream, "hair care products" including hair dye, shampoo and hair treatment, and "special-purpose cosmetics" including sunscreen. Under the Act, soaps are classified as cosmetics.

Scope of coverage

Item	Definition	HS Code
Perfume and eau de cologne	Perfume and eau de cologne	3303
Makeup cosmetics	Foundation creams, lipsticks, eye makeup, and others	3304.10, 2, 30, 91
Skin care cosmetics	Skin lotion, essence, skin milk, cleansing cream, and others	3304.99
Hair care products	Hair dye, shampoo, hair treatment and others	3305
Special-purpose cosmetics	Sunscreen, shaving cream and others	3307.10, 20, 30, 90
Cosmetic soaps	Soaps for cosmetics	3401.11, 20-010

1. Points to Note in Exports to and Sales in Japan

(1) Import Regulations and Procedures

The following paragraph describes the regulations and procedural requirements at the time of importation. Importers of cosmetics assume all quality assurance and product liability for cosmetics. Consequently, cosmetic articles should not be imported based on marketability only. It is necessary for them to be ready to take full responsibility for imported cosmetics through regulation analysis and safety testing.

The importation of cosmetics is subject to the provisions of the Pharmaceutical Affairs Act, and aerosol products are subject to the provisions of the High Pressure Gas Safety Act. The Customs Tariff Act prohibits the importation of fake name brand products and knock-off copies, and such items are subject to confiscation or destruction at customs, based on the provisions of the Customs Act. Importers can even be subject to criminal penalties, including fines and imprisonment. However, the Pharmaceutical Affairs Act imposes no restrictions on substances that are imported into Japan as raw materials for cosmetics and then subjected to domestic processing.

・Pharmaceutical Affairs Act

When importing and distributing cosmetics, under the provisions of the revised Pharmaceutical Affairs Act, which went into effect as of June 1, 2009, the importer must obtain a primary distributor's license for cosmetics. The primary distribution business refers to the sale, rental, or lending of manufactured (including delegated to another, but not including manufacturing conducted for another) or imported cosmetics. Consequently, companies that do not possess their own manufacturing facilities may still obtain a license.

The revised Act abolished the importer license classification. Any primary distributor that engages in the final packaging, labeling in the Japanese language, or storage of the imported product, is required to obtain a cosmetic manufacturer's license. Even if the product was labeled overseas in the Japanese language, in addition to obtaining a primary distributor's license, the importer of that product must obtain a cosmetics manufacturer's license (under a classification of "packaging, labeling, and storage only") (excluding the case of manufacturing that is delegated to another licensed manufacturer), because the product must be temporarily stored in a facility that has a manufacturer's license in Japan, and availability of shipment must be judged after the necessary tests.

[Primary distributor's license]

Primary distributor's license applications are filed with the competent prefectural pharmaceutical affairs division with jurisdiction over the business office where the marketing supervisor-general serves. Licenses are to be renewed every five years. Applicants must conform to the Good Quality Practice (GQP) standards and Good Vigilance Practice (GVP) standards, and they must appoint a marketing supervisor-general. The Act clearly assigns responsibility to primary distributors to assure post-marketing product quality, and to undertake appropriate actions for safety management. Applicants are required to obtain a business code number in advance. Documents required for application include a copy of the corporate registration (in the case of a corporation), a list of the segregation of duties, a medical certificate attesting an applicant, documents certifying the qualifications of the marketing supervisor-general and an employment contract, documents verifying the quality management system and the post-marketing safety management system, a floor plan of the business office and storage facility, and others. Application for a cosmetic manufacturer's license (under the classification of "packaging, labeling, and storage only") requires an outline of the physical facility, a floor plan of the manufacturing facility, documents certifying the qualifications of the responsible engineering manager and an employment contract, a copy of any contract with a testing laboratory (when used).

After obtaining the primary distributor's license but before initiating product importation, the primary distributor must file a Notification form of cosmetic manufacture or importation brand name (with the Pharmaceutical and Medical Devices Agency (PMDA)), the Notification form of primary distribution of cosmetics (with the same prefecture as that which has granted the primary distributor's license), and the Import notification form of cosmetics for primary distribution (with the Kanto-Shinetsu Regional Bureau of Health and Welfare, or the Kinki Regional Bureau of Health and Welfare). Either they must attach to those forms an ingredients list from the import supplier manufacturer or, if this list cannot be obtained, a record of the testing and inspection results verifying that the product does not contain any prohibited combination.

[Approval for primary distribution by product category]

The Cosmetics Standards (Ministerial Notification in September 2000) defines the ingredients that are subject to prohibition or restriction in cosmetics combinations, and those that are allowed in cosmetics combinations in specific ingredient groups. Antiseptics, ultraviolet ray absorbents and tar coloring are subject to a positive list that indicates the maximum mixture quantities. All other ingredients may be used in cosmetics combinations after the safety verification and selection at their own liability, except those covered by a negative list of combinations that either prohibits or limits them. In this regard, however, all ingredient names must be listed in the labeling.

Provided the ingredients do not violate the Cosmetics Standards and all the ingredients are indicated on the labeling, approval for primary distribution by product item is not required. However, products containing amounts of ingredients in excess of the notifiable limit, or new ingredients without a history of prior usage, or which contain non-disclosed ingredients, must obtain primary distribution approval for each product item.

[Preparation and maintenance of quality standard statement]

Primary distributors are required to properly evaluate the results of production management and the quality control of cosmetics to be actually distributed, decide whether to ship to the market by lot, and prepare the records (quality standards) regarding whether to and where to ship the cosmetics. They must retain these records for five years.

In addition, primary distributors of cosmetics must establish a system capable of providing accurate information in response to consumer inquiries, along with a system for handling complaints about product quality and the like as well as product recalls. They shall prepare and retain records required for the foregoing. Furthermore, if the primary distributor becomes aware of a research report indicating that one of the cosmetic product imports may have a harmful effect, the primary distributor must report that fact to the Minister of Health, Labour and Welfare within 30 days.

・High Pressure Gas Safety Act

Aerosol products (e.g., hair spray) must be separately inspected at the time of importation. If the relevant products meet certain requirements specified under the High Pressure Gas Safety Act, however, they will be excluded from the application of the Act, on condition that the products describe precautions for consumers, but written results of the tests certifying that the products do not fall under the Act must be submitted to customs.

(2) Regulations and Procedural Requirements at the Time of Sale

The sale of cosmetics is subject to the provisions of the Pharmaceutical Affairs Act, the High Pressure Gas Safety Act, and the Fire Service Act. In addition, cosmetics and cosmetic soaps are subject to the Act against Unjustifiable Premiums and Misleading Representations. Products that infringe on intellectual property rights are regulated by the various intellectual property laws (Trademark Act, Patent Act, Unfair Competition Prevention Act, etc.). Prospective importers must be aware of these considerations, as rights holders may initiate legal action. Besides this, door-to-door sales, mail-order sales, chain sales, and other specified commercial transactions are subject to the provisions of the Act on Specified Commercial Transactions. In addition, as to containers and packaging, labeling may be subject to the provisions of the Law for Promotion of Effective Utilization of Resources, and recycling may be subject to the provisions of the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging (certain small-scale providers are exempted from this regulation).

・Pharmaceutical Affairs Act

Under the Act, cosmetics do not require a retailer's license, so anyone may resell them without restriction. But, the sale of defective cosmetics is prohibited, such being defined as follows: products that do not conform to the Cosmetics Standards, products that are unclean, degraded in quality, which contain foreign substances, which are contaminated with disease-causing microorganisms, or which make use of unapproved tar coloring. In addition, the Act specifies labeling items on the containers or packaging of cosmetics, and certain items may not appear in labeling. Products that violate labeling regulations are deemed to be improperly labeled cosmetics, and their sale is prohibited. Advertising and labeling for cosmetics are also regulated under the Act.

・High Pressure Gas Safety Act

When selling products in aerosol containers, they must be labeled in accordance with the provisions of the High Pressure Gas Safety Act.

・Fire Service Act

Products deemed as being hazardous under the Act are subject to the provisions of the Fire Service Act when stored in amounts in excess of certain levels or when transported over land. They are subject to notification or permission from the mayor of the local municipality. Aerosol products using high concentrations of alcohol may fall under this category.

・Act against Unjustifiable Premiums and Misleading Representations

The Act prohibits any form of improper labeling with exaggerated or false labeling that misleads consumers about the nature or quality of a product. The Consumer Affairs Agency can demand documentation of a rational basis for labeling that makes claims of superior quality etc. If the importer or reseller is unable to do so, those claims are considered to be a form of improper labeling. Vague or confusing labeling that makes it difficult to discern the actual country of origin is also prohibited as a form of improper labeling.

Based on the Act, the industry of cosmetics and cosmetic soaps has adopted the Fair Competition Code Concerning Representations of Cosmetics, the Fair Competition Code Concerning Representations of Cosmetics Soaps, and the

Fair Competition Code Concerning Restrictions on Premium Offers in the Cosmetic Soap Industry, under certification by the Consumer Affairs Agency (The jurisdiction of the Act was transferred from the Fair Trade Commission to the Consumer Affairs Agency in September 2009). While these are voluntary industry rules, when they are adopted based on the Act, any breach of the Fair Competition Code is deemed to be as a breach of the Act.

・Act on Specific Commercial Transactions

The Act on Specified Commercial Transaction was enacted to ensure that specified commercial transactions such as mail-order sales and door-to-door sales of designated products, rights and services, are carried out fairly and in such a way as to protect ordinary consumers. Commercial transactions specified under the Act include: [1] door-to-door sales, [2] mail-order sales, [3] telemarketing sales, [4] chain sales (Internet marketing and multilevel marketing based on word of mouth), [5] specific continuous service provision transactions, and [6] sales transactions offering business opportunities. Mail-order sales include Internet sales and commercial advertisements through e-mail. In order to provide consumers with accurate information, in mail-order sales, operators are required to list the following information in their advertisements: [1] sale prices, [2] payment period and method, [3] delivery date, [4] clauses related to the return system, [5] name, address and telephone number of operator. The Act also prohibits advertising containing false or exaggerated statements.

(3) Contacts of Competent Authorities

Fig. 1 Contacts of competent authorities

Related regulations and control	Competent agencies	Contact/Website
Pharmaceutical Affairs Act	General Affairs Division, Pharmaceutical and Food Safety Bureau, Ministry of Health, Labour and Welfare (Pharmaceutical Affairs Act in general)	TEL: +81-3-5253-1111(Main) http://www.mhlw.go.jp
	Evaluation and Licensing Division, Pharmaceutical and Food Safety Bureau, Ministry of Health, Labour and Welfare (Marketing approval procedures)	TEL: +81-3-5253-1111(Main) http://www.mhlw.go.jp
High Pressure Gas Safety Act	Industrial Safety Division, Nuclear and Industrial Safety Agency, Ministry of Economy, Trade and Industry	TEL: +81-3501-1511(Main) http://www.nisa.meti.go.jp
Fire Service Act	Fire and Disaster Management Agency Fire Station having jurisdiction over the address	TEL: +81-3-5253-5111(Main) http://www.fdma.go.jp
Act against Unjustifiable Premiums and Misleading Representations	Representation Division, Consumer Affairs Agency	TEL: +81-3-3507-8800(Main) http://www.caa.go.jp
Act on Specific Commercial Transactions	Consumer Economic Policy Division, Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry	TEL: +81-3-3501-1511(Main) http://www.meti.go.jp
Law for Promotion of Effective Utilization of Resources/Law for Promotion of Sorted Collection and Recycling of Containers and Packaging	Recycling Promotion Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry	TEL: +81-3-3501-1511(Main) http://www.meti.go.jp
	Office of Recycling Promotion, Policy Planning Division, Waste Management and Recycling Department, Ministry of Environment	TEL: +81-3-3581-3351(Main) http://www.env.go.jp

2. Labeling

(1) Labeling under Legal Regulations

・Pharmaceutical Affairs Act

When selling cosmetics, the Pharmaceutical Affairs Act requires that the container, packaging, or package inserts of cosmetics be labeled with the specified items so as to ensure appropriate usage and handling, ensure quality, and clarify liability. All must be expressed in the Japanese language and must be clearly and explicitly listed. Labeling with false or potentially misleading expressions, and unapproved claims of effect-efficacy in labeling are prohibited. The items that should be indicated for cosmetics are as follows.

[Required labeling items]

- Name and address of primary distributor

  (Office location where the marketing supervisor-general serves; in the case of those obtained primary distribution approval for the products manufactured in foreign countries, name and country of foreign preferential approval holder, and name and address of nominated primary distributor)
- Brand name (Name for which notification has been posted for primary distribution)
- Manufacturing number or code
- List of ingredients

  (In principle, all ingredient names shall be listed in the labeling. Names must appear in the Japanese language that is readily understandable, and must normally be listed in descending order by quantity.)
- Expiration date, for a cosmetic designated by the Minister of Health, Labour and Welfare.
- Other items specified by the MHLW Ministerial Ordinance

・High Pressure Gas Safety Act and Fire Service Act

The information to appear on the label, such as warnings, cautions, types and quantities of hazardous materials, and the size of the letters and other labeling practices are set for aerosol products and other products deemed hazardous under the High Pressure Gas Safety Act and the Fire Service Act.

[Representation example]

Keep away from fire and high temperatures *

This is combustible product using high-pressure gas. Be sure to observe the following:

1. Do not use near flames or fire.
2. Do not use large amounts in rooms with open flames.
3. The container may burst if exposed to high temperatures. Do not place under direct sunlight or near fires or other locations of temperatures more than 40°C.
4. Do not dispose of in incinerator.
5. Be sure to use completely before disposal.

High Pressure Gas: Type of gas used (label name of gas)

* Label with white letters on red field

・Law for Promotion of Effective Utilization of Resources

Under the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging, as to specific containers and packaging, labeling must be provided, in order to promote sorted collection. When paper or plastic is used as a packaging material for the wrapping of individual product items, a material identifier mark must be displayed in at least one location on the side of the container.

[Representation example]

External packaging　　Label

・Voluntary labeling based on provisions of law

There is no voluntary labeling based on the provisions of the law for cosmetics. The Japan Cosmetic Industry Association has compiled a Japanese version of the "List of Cosmetic Ingredient Label Names" to be used in conjunction with the Pharmaceutical Affairs Act's requirement to list all ingredient names on the labeling. If a new label name needs to be devised, then a request can be filed with the Association.

Label names shall be, in principle, translated into Japanese from the International Nomenclature of Cosmetic Ingredients (INCI) names published by the Cosmetic, Toiletry, and Fragrance Association (CTFA) of the United

States.

Contact: Japan Cosmetic Industry Association TEL: +81-3-5472-2530 URL: http://www.jcia.org/

(2) Labeling under Industry-level Voluntary Restraint

・Fair Competition Codes based on Act against Unjustifiable Premiums and Misleading Representations

The Fair Competition Codes establish required labeling items for cosmetics and cosmetic soaps as follows.

[Representations of Cosmetics]

[1] Product name by type
[2] Brand name
[3] Name and address of primary distributor
[4] Content (weight or capacity)
[5] Country of origin
[6] Manufacturing number or code
[7] List of ingredients as required by the Minister of Health, Labour and Welfare
[8] Expiration date, for a cosmetic designated by the Minister of Health, Labour and Welfare
[9] Precautions on usage or storage, for a cosmetic stipulated under the Enforcement Regulation
[10] Information contact

[Representations of Cosmetic Soaps]

[1] Name and address of primary distributor
[2] Brand name
[3] The phrase "Soap"
[4] List of ingredients as required by the Minister of Health, Labour and Welfare
[5] Manufacturing number or code
[6] Expiration date, for a designated cosmetic soap
[7] For those products manufactured by a frame mixing method, a term to that effect
[8] Standard weight per unit
[9] Country of origin

Contacts:

"Fair Competition Code Concerning Representations of Cosmetics" Cosmetic Fair Trade Conference
TEL: +81-3-5472-2533 (Main)

"Fair Competition Code Concerning Representations of Cosmetics Soaps" Cosmetic Soap Fair Trade Council
TEL: +81-3-3271-4301 (Main)

・Voluntary labeling by the Aerosol Industry Association of Japan

The Aerosol Industry Association of Japan has established labeling guidelines for aerosol products. These guidelines mandate the following labeling for precautions on usage.

[Representation example]

Precautions on usage - Do not place heat-sensitive objects near heating devices (fan heaters), as there is a risk of high temperatures leading to rupturing - To dispose of the product, take it outdoors to a location away from all flames, and press the button until the hissing sound stops, in order to exhaust all the gas.

Contact: Aerosol Industry Association of Japan TEL: +81-3-3201-4047 URL: http://www.aiaj.or.jp/

3. Taxation System

(1) Tariff Duties

Fig. 2 lists the tariffs imposed on cosmetics. To apply for preferential tariff rates on articles imported from countries granted preferential treatment, the importer should submit a certificate of preferential country of origin (Form A) issued by the customs or other issuing agency in the exporting country (not required if the total taxable value of the article does not exceed ¥200,000). For details, contact the Customs and Tariff Bureau, Ministry of Finance. When confirming the tariff classification or applicable tariff rate in advance, it is convenient to use the "advance-counseling program." By making a verbal inquiry to customs, or by means of letter or e-mail, customs will duly respond with the required information.

Contact: Customs website http://www.customs.go.jp/english/index.htm

Fig. 2 Tariff duties on cosmetics

HS Code.		Description	Rate of duty				
			General	Temporary	WTO	Preferential	Special preferential
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 suntan preparations; manicure or pedicure preparations					
10		Lip make-up preparations	5.8%		Free	Free	
20		Eye make-up preparations	5.8%		Free	Free	
30		Manicure or pedicure preparations	6.6%		Free	Free	
		Other					
91		Powders, whether or not compressed	5.8%		Free	Free	
	010	Toilet powders					
	090	Other					
99		Other	5.8%		Free	Free	
		Creams and other preparations with a basis of oil, fat or wax					
	011	Foundation creams					
	012	In liquid form					
	019	Other					
	090	Other					
3305		Preparation for use on the hair					
10		Shampoos	5.8%		Free	Free	
20		Preparations for permanent waving or straightening	5.8%		Free	Free	
30		Hair lacquers	5.8%		Free	Free	
90		Other	5.8%		Free	Free	
	010	Perfumed hair oil, cream, pomade and other preparations with a basis of oil, fat or wax					
		Other					
3307	090	Pre-shave, shaving or after-shaving preparations, personal deodorants, bath preparations, depilatories and other perfumery (excluding articles relevant to other items)					
10		Pre-shave, shaving or after-shave preparations	6.7%		4.8%	Free	
20		Personal deodorants and antiperspirants	5.8%		3.9%	Free	
30		Perfumed bath salts and other bath preparations	5.8%		3.9%	Free	
90		Other					
	010	1 Preparations with a basis of oils, fats or waxes	5.8%		4.8%	Free	
	090	2 Other	6.0%		4.0%	Free	
3401		Soap; organic surface-active products and preparations for use as soap or washing the skin, in the form of liquid or cream and put up for retail sale					
11		For toilet use (including medicated soap)	5.5%		Free	Free	
20		Soap in other forms					
	010	For toilet use (including medicated soap)	5.8%		Free	Free	

Note 1: Special preferential rate is applicable only for the Least Developed Countries.

Note 2: Normally the order of precedence for application of tariff rates is Preferential, WTO, Temporary, and General, in that order. However, Preferential rates are only eligible when conditions stipulated by law or regulations are met. WTO rates apply when those rates are lower than Temporary or General rates. Refer to "Customs Tariff Schedules of Japan" (by Customs and Tariff Bureau, Ministry of Finance) for a more complete interpretation of the tariff table and for more details on economic partnership agreements (EPAs) with each country.

(2) Consumption Tax

(CIF + Tariff duties) × 5%

4. Trade Trends

(1) Changes in Imports

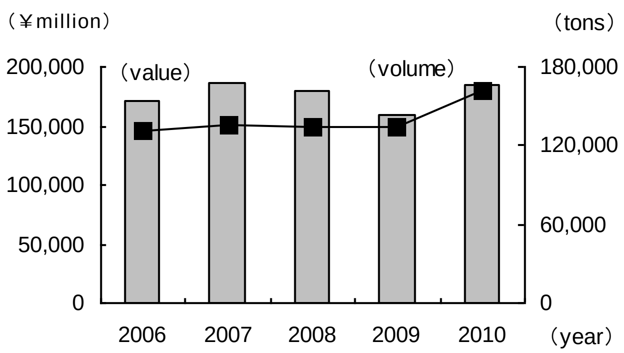
<Trends in importation by product category>

Imports of cosmetics had been steadily growing until 2007, but decreased to ¥178.9 billion in 2008 on a value basis, 3.6% down from the year before due to the economic stagnation that could be traced to the Lehman Shock in autumn 2008, and to ¥159.1 billion in 2009, 11% down from the year before due to consumers' reticence to buy, such that there were year-on-year declines for two consecutive years. In 2010, imports recovered to the pre-recession 2007 level, at ¥185 billion, 16.3% up from the year before, due to substantial growth in imported hair care products. As in the case of a value basis, imports in 2010 on a volume basis increased to 161,673 tons, 20.3% up from the year before. This significant growth in hair care products is due to the fact that major foreign-affiliated manufacturers transferred their production bases to Thailand and other Asian countries.

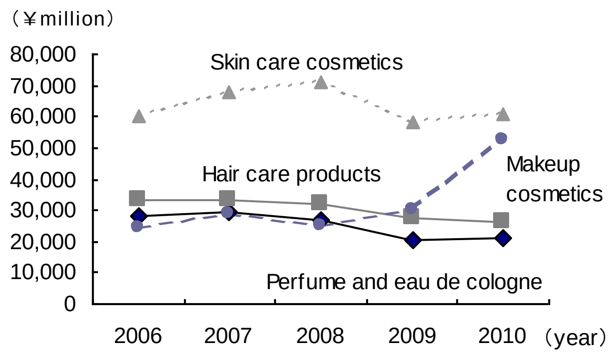
In 2010, imports of hair care products registered stronger growth than those of skin care cosmetics that had driven the imported cosmetic market in the past. By product category, skin care cosmetics registered ¥60.62 billion, making up 32.8% of all imports, the highest share. The next most prominent product categories are hair care products (¥52.8 billion, 28.5% share), makeup cosmetics (¥26.94 billion, 14.3% share), perfume and eau de cologne (¥21.26 billion, 11.5% share), and special-purpose cosmetics (¥17.97 billion, 12.2% share). Most of the product categories showed an increase of a few percentage points from the year before, whereas hair care products registered a 75% increase from the year before.

Fig. 3 Changes in cosmetics imports

[Changes in volume imports]



[Changes in import values of main product categories]



	Value					Volume				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Perfume and eau de cologne	28,175	29,170	26,720	20,788	21,255	4,830	4,825	4,392	3,956	4,162
Makeup cosmetics	33,156	33,206	32,039	27,685	26,487	6,519	6,210	5,956	5,642	5,774
Skin care cosmetics	60,023	68,015	70,979	58,063	60,617	15,982	16,312	18,177	16,738	18,154
Hair care products	24,269	28,691	25,037	30,167	52,798	59,001	63,989	57,424	61,096	81,314
Special-purpose cosmetics	19,837	19,837	16,799	16,939	17,965	23,945	23,945	27,467	27,668	31,915
Cosmetic soaps	5,597	6,681	7,358	5,441	5,904	20,566	21,036	20,987	19,331	20,354
Total	171,057	185,600	178,932	159,083	185,025	130,843	136,318	134,403	134,431	161,673

Units: value = ¥ million, volume = tons   Source: Trade Statistics (MOF)

Note: Total is not always the simple sum for each column due to rounding.

<Import trends by country/region>

On a value basis, the leading exporters were France and the U.S.A., which together accounted for 49.8%, almost half of the total, in 2009. In 2010, however, Thailand exceeded the U.S.A. and moved into second place (on a value basis), due to the fact that major foreign-affiliated manufacturers of hair care products transferred their production bases to Thailand and other Asian nations.

This is considered to be due to the fact that the world's leading cosmetic companies shifted their production bases to Asian countries where production costs are lower, in response to worldwide economic stagnation. As a result, the EU commanded a 40.2% (on a value basis, 6.1 points down from the year before) of the imported cosmetic market in 2010, whereas Asia registered 38.1% (on a value basis, 8.8 points up from the year before).

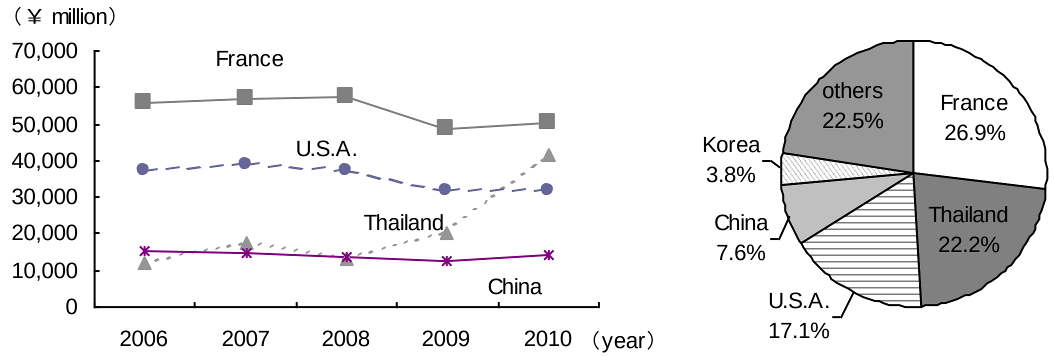
France has maintained its top position in the three main cosmetic sectors (perfume and eau de cologne, makeup cosmetics, and skin care cosmetics), and also the highest total share by nation. In 2010, France's exports of perfume and eau de cologne to Japan increased to ¥12.56 billion (59.1% share), 5.7% up from the year before, while makeup cosmetics decreased 9.4% to ¥9.77 billion (51.3% share), and skin care cosmetics increased 10.8% to ¥24.52 billion (share 40.5%). France accounted for 26.9% of total imports, with an increase of 3.6% to ¥50.25 billion.

The U.S.A. exhibited recovery in its leading product categories in 2010. Imports of perfume and eau de cologne registered an increase of 5.1% from the year before to ¥2 billion, while makeup cosmetics increased 7.1% to ¥5.24 billion, skin care cosmetics increased 2.0% to ¥16.43 billion, and hair care products increased 21.5% to ¥3.38 billion.

Imports of hair care products from Thailand have grown rapidly, accounting for 73.7% of the total and increasing to ¥38.9 billion (2.2 times more than the year before). China stayed in fourth place in terms of total share (7.6%), achieving a two-digit increase of 11.6% from the year before to ¥14.13 billion in 2010. China took first place in imports of special-purpose cosmetics, with an increase of 8.4% from the year before to ¥5.98 billion, while the U.S.A. experienced a decrease of 22.6% from the year before. This reflects an expanding split between the two nations. In addition, China experienced strong growth in makeup cosmetics (6.2% up from the year before, third place), hair care products (28.6% up from the year before, third place), and cosmetic soaps (74.6% up from the year before, fourth place).

Fig. 4 Principal countries/places of origin of cosmetics (total)

[Trends in imports of leading exporters] **[Shares of imports in 2010]**



	2006	2007	2008	2009		2010				
	Value	Value	Value	Value	Volume	Value		Volume		Average unit price
France	55,594	57,022	57,574	48,485	9,408	50,252	26.9%	9,915	6.1%	5,068
Thailand	12,136	17,762	13,377	20,189	49,689	41,508	22.2%	66,305	40.5%	626
U.S.A.	36,983	38,749	37,101	31,781	18,995	31,967	17.1%	19,708	12.0%	1,622
China	15,317	14,602	13,645	12,665	16,894	14,132	7.6%	21,767	13.3%	649
Korea	3,867	3,660	6,688	7,080	3,699	7,149	3.8%	5,209	3.2%	1,372
Italy	9,092	10,982	9,154	7,109	1,487	6,495	3.5%	1,532	0.9%	4,240
U.K.	6,084	7,418	6,755	4,778	1,410	5,377	2.9%	1,877	1.1%	2,864
Germany	6,572	7,349	7,963	5,866	2,469	5,306	2.8%	2,576	1.6%	2,060
Canada	2,541	2,563	3,682	3,046	2,309	3,377	1.8%	3,190	1.9%	1,059
Spain	2,582	4,017	3,958	2,922	4,721	2,975	1.6%	4,591	2.8%	648
Others	22,295	23,483	21,042	17,172	25,357	18,497	9.9%	27,014	16.5%	685
Total	173,063	187,607	180,940	161,092	136,440	187,035	100.0%	163,683	100.0%	1,143
(EU)	89,345	96,420	93,190	74,586	20,383	75,116	-	21,384	-	3,513
	51.6%	51.4%	51.5%	46.3%	14.9%	40.2%	-	13.1%	-	-
(Asia)	39,274	44,397	42,310	47,133	91,592	71,240	-	115,319	-	618
	22.7%	23.7%	23.4%	29.3%	67.1%	38.1%	-	70.5%	-	-

Units: value = ¥ million, volume = tons Source: Trade Statistics (MOF)

Note: Total is not always the simple sum for each column due to rounding.

	Perfume and eau de cologne					Makeup cosmetics				
Rank	Country	Value	Share	Yearly change	Average unit price	Country	Value	Share	Yearly change	Average unit price
1	France	12,556	59.1%	105.7	5,107	France	9,773	51.3%	90.6	12,315
2	Italy	4,418	20.8%	94.6	5,600	U.S.A.	5,239	27.5%	107.1	5,961
3	U.S.A.	2,005	9.4%	105.1	5,190	China	3,996	21.0%	106.2	2,738
4	Germany	923	4.3%	91.7	3,728	Korea	1,911	10.0%	101.1	3,061
5	U.K.	608	2.9%	91.4	7,879	Taiwan	1,253	6.6%	104.6	964

	Skin care cosmetics					Hair care products				
Rank	Country	Value	Share	Yearly change	Average unit price	Country	Value	Share	Yearly change	Average unit price
1	France	24,524	40.5%	110.8	4,876	Thailand	38,901	73.7%	217.5	635
2	U.S.A.	16,428	27.1%	102.0	4,181	U.S.A.	3,384	6.4%	121.5	980
3	U.K.	3,960	6.5%	91.3	3,643	China	2,223	4.2%	128.6	333
4	Korea	3,649	6.0%	101.5	1,752	Spain	2,138	4.0%	118.6	718
5	Germany	2,160	3.6%	110.8	4,345	France	2,003	3.8%	94.2	2,249

	Special-purpose cosmetics					Cosmetic soaps				
Rank	Country	Value	Share	Yearly change	Average unit price	Country	Value	Share	Yearly change	Average unit price
1	China	5,976	33.3%	108.4	521	Malaysia	2,434	41.2%	105.1	187
2	U.S.A.	3,995	22.2%	77.4	408	U.S.A.	916	15.5%	98.6	828
3	Canada	2,345	13.1%	133.4	784	France	671	11.4%	116.1	1,548
4	Thailand	1,537	8.6%	84.0	651	China	286	4.8%	174.6	296
5	Korea	909	5.1%	375.9	644	Spain	275	4.7%	70.6	184

Units: value = ¥ million, average unit price = ¥ per kg Source: Trade Statistics (MOF)

Fig. 5 shows a detailed breakdown of exporters to Japan. The top spots in face powder, foundation creams, base creams, skin milk, and other skin care cosmetics are France and the U.S.A., who are becoming more competitive with each other. From 2009 onward, Thailand, China and other Asian nations have been taking the top spots.

Fig. 5 Leading exporters of cosmetics to Japan by subcategory (2010)

		Total value	Share	Yearly change	1st			2nd		
					Country	Share	Yearly change	Country	Share	Yearly change
Perfume and eau de cologne		21,255	11.4%	102.2	France	59.1%	105.7	Italy	20.8%	94.6
Makeup cosmetics	Lipsticks	7,440	4.0%	110.6	France	50.6%	116.1	China	16.6%	102.7
	Eye makeup	9,145	4.9%	88.5	France	36.2%	76.0	China	22.4%	113.4
	Manicure or pedicure	3,310	1.8%	88.7	U.S.A.	32.0%	98.8	Taiwan	19.0%	110.2
	Face powder	1,672	0.9%	121.6	U.S.A.	41.2%	181.0	France	30.5%	121.9
	Foundation creams	4,920	2.6%	89.2	France	33.4%	79.4	U.S.A.	26.8%	108.5
Skin care cosmetics	Base cream	5,580	3.0%	107.2	France	49.9%	127.4	U.S.A.	21.8%	101.7
	Skin milk	6,700	3.6%	103.9	U.S.A.	35.9%	100.3	France	35.1%	122.6
	Other face cream	23,786	12.7%	106.7	France	41.4%	119.0	U.S.A.	23.5%	107.5
	Other skin care cosmetics	24,551	13.1%	101.8	France	38.8%	97.7	U.S.A.	29.4%	98.7
Hair care products	Shampoo	20,240	10.8%	175.8	Thailand	80.7%	193.2	U.S.A.	6.7%	126.7
	Permanent wave preparation	360	0.2%	420.6	Thailand	43.3%	-	China	42.3%	414.0
	Hair lacquers	71	0.0%	70.2	Korea	53.5%	113.7	U.S.A.	31.3%	42.7
	Hair cream, perfume oil	1,630	0.9%	81.4	China	35.8%	144.8	U.S.A.	18.4%	122.8
	Other hair care products	30,497	16.3%	185.3	Thailand	72.6%	255.5	U.S.A.	5.6%	120.3
Special-purpose cosmetics	For shaving	1,025	0.5%	229.0	Australia	31.9%	553.1	U.K.	24.1%	511.0
	Personal deodorants, etc.	1,723	0.9%	83.8	Thailand	87.1%	83.9	U.S.A.	4.6%	81.7
	Bath preparation	3,166	1.7%	102.8	China	69.6%	96.6	Germany	13.6%	121.1
	Other	11,717	6.3%	107.6	China	31.8%	117.4	U.S.A.	31.7%	75.9
Cosmetic soaps	Solid face soap	4,959	2.7%	108.1	Malaysia	49.0%	104.9	U.S.A.	11.4%	133.4
	Other face soap	945	0.5%	110.7	U.S.A.	37.0%	69.3	Thailand	17.2%	187.3

Units: total value = ¥ million Source: Trade Statistics (MOF)
Note: Total is not always the simple sum for each column due to rounding.

(2) Import Market Share in Japan

The domestic cosmetic market posted a significant decrease of 7.8% from the year before to ¥1,390.2 billion in 2009, but showed a slight recovery to ¥1,412 billion, 2.1% up from the year before in 2010. On the other hand, imported cosmetics, which have traditionally been characterized by brand names and high grades, were avoided as luxury goods as the frugality trend continued during the depression as a result of economic stagnation and the resulting reduction in incomes. For this reason, imported cosmetics registered a decrease of 11.1% from the year before to ¥159.1 billion in 2009, exceeding the percentage fall in domestic cosmetics. In 2010, imported cosmetics generally registered an increase of 16.3% from the year before to ¥185 billion, due to the increase of hair care products being imported from Thailand.

Fig. 6 Changes in import market share in Japan

	2006	2007	2008	2009	2010	Yearly change
Domestic shipments	1,499,725	1,510,696	1,507,105	1,390,243	1,419,957	102.1
Imports	171,057	185,600	178,932	159,083	185,025	116.3
Total market	1,670,782	1,696,296	1,686,037	1,549,326	1,604,982	103.6
Imports' share	10.2%	10.9%	10.6%	10.3%	11.5%	-

[By category]		2007	2008	2009	2010	Yearly change
Perfume and eau de cologne	Domestic shipments	4,635	4,826	4,060	4,819	118.7
	Imports	29,170	26,720	20,788	21,255	102.2
	Total market	33,805	31,546	24,848	26,074	104.9
	Imports' share	86.3%	84.7%	83.7%	81.5%	-
Makeup cosmetics	Domestic shipments	367,094	355,901	301,740	301,372	99.9
	Imports	33,206	32,039	27,685	26,487	95.7
	Total market	400,300	387,940	329,425	327,859	99.5
	Imports' share	8.3%	8.3%	8.4%	8.1%	-
Skin care cosmetics	Domestic shipments	650,461	662,338	608,490	636,082	104.5
	Imports	68,015	70,979	58,063	60,617	104.4
	Total market	718,476	733,317	666,553	696,699	104.5
	Imports' share	9.5%	9.7%	8.7%	8.7%	-
Hair care products	Domestic shipments	420,161	414,614	412,321	411,773	99.9
	Imports	28,691	25,037	30,167	52,798	175.0
	Total market	448,852	439,651	442,488	464,571	105.0
	Imports' share	6.4%	5.7%	6.8%	11.4%	-
Special-purpose cosmetics	Domestic shipments	68,344	69,426	63,633	65,911	103.6
	Imports	26,519	24,157	22,381	23,868	106.6
	Total market	94,863	93,583	86,014	89,779	104.4
	Imports' share	28.0%	25.8%	26.0%	26.6%	-

Units: ¥ million Source: Yearbook of Cosmetics Shipment Statistics (METI), Trade Statistics (MOF)

(3) Changes in Volume of Imports and Backgrounds

Around 2007, under relatively good economic conditions, imported cosmetics were strong in terms of brand names and high grade, but these conventional strong points have actually inhibited the consumption of imported products in the face of economic stagnation, and the reduction of consumers' incomes caused by deflation, since the autumn of 2008 onwards. While the domestic cosmetics market is being polarized between high-cost and low-cost zones, imported cosmetics will be dominated by traditional high-grade articles such as perfume and eau de cologne, makeup cosmetics, and skin care cosmetics. On the other hand, imports of low-cost hair care products, special-purpose cosmetics and cosmetic soaps from Asia are increasing.

The domestic cosmetics market has various purchase groups and needs that depend on different types of distribution channels; a channel for department stores and cosmetics specialty stores, a self-selection sales channel for mass merchandisers, drugstores and convenience stores, a non-shop channel for door-to-door sales and mail-order, and commercial cosmetic channel for hair care salons. Consequently, it becomes important to apply sales measures that suit the characteristics and strong points of imported products.

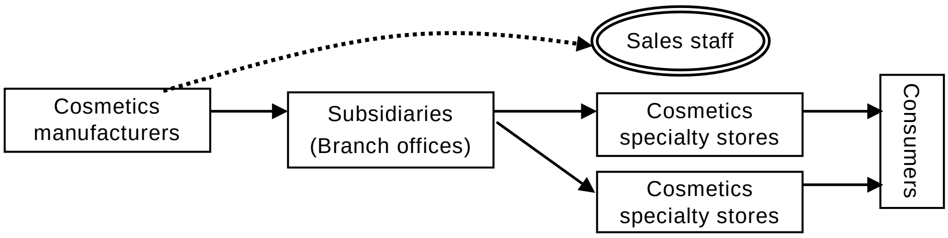
5. Domestic Distribution

(1) Trade Practice

As noted above, cosmetics characterize the different types of distribution channels. The following shows the characteristics of major distribution channels.

<Price-maintained merchandise channel>

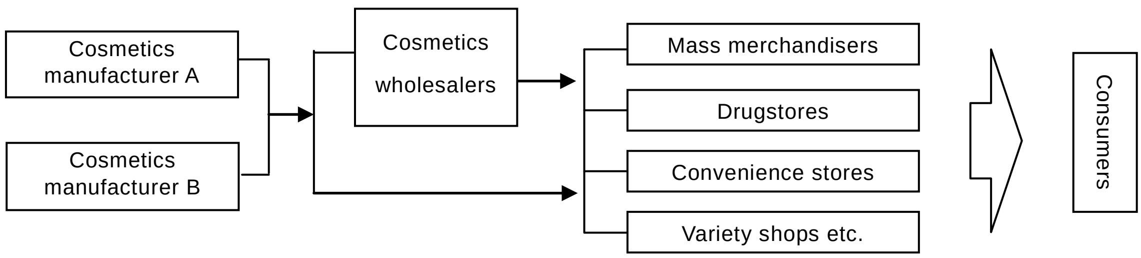
In the price-maintained merchandise channel, a chain store contract with cosmetic specialty stores is concluded to send sales staff and sell cosmetics. Commodities pass to the specialty stores at wholesale through sales subsidiaries of cosmetics manufacturers. This channel characterizes a slightly high level of normal wholesale rate of about 70%, an incentive (4%-15%) in proportion to sales, an award for excellent stores, and a basic system for sales at nationwide uniform suggested prices.



* Price-maintained merchandise is cosmetics that are sold by cosmetics specialty stores.

<Self-selection merchandise distribution system>

Essentially, self-selection commodities pass to mass merchandisers, drugstores and convenience stores through cosmetics wholesalers (partially direct sales by cosmetic manufacturers). The wholesale rate depends on the sales volume, while the merchandise is sold at a discount at the discretion of the store. Cosmetics sold by mass merchandisers are mainly those manufactured by large companies such as Shiseido, Kanebo, Kose, and Kao. Sales per mass merchandiser are lower than those per department store, but total sales by the merchandisers are higher than those by department stores due to the large number of stores. Cosmetics companies conduct a purchase negotiation with the mass merchandisers' headquarters, support sales for each store, send sales staff, educate the employees of the merchandisers, and provide POP (point of purchase advertising). Drugstores conduct store management and assortment by themselves, have a wide assortment of merchandise for different consumer targets (mainly young women), and discount the cosmetics in the case of bulk purchases from the headquarters and by self-selection sales. In convenience stores, cosmetics sales have traditionally been limited due to the high proportion of male consumers and the low purchase unit price per customer. At present, however, large companies are focusing their efforts on selling cosmetics through convenience stores, for instance, Shiseido's exclusive merchandise for the convenience stores "Kesho Wakusei" and Kose's exclusive merchandise for Seven Eleven "Sekkisui."

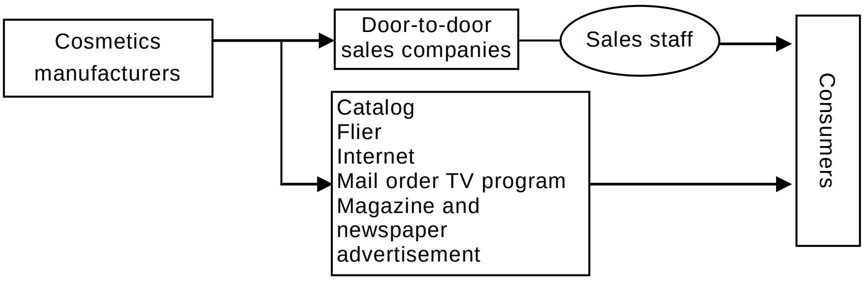


<Department stores>

In department stores, the sales staff from the cosmetics manufacturers sell their commodities directly to consumers in most cases. The sales of cosmetics in department stores are very sensitive to effective displays, but a sales quota per square meter is imposed by the department stores. If the quota cannot be accomplished, it will lead to a change in the sales agreement conditions or a pull-out from the stores.

<Door-to-door and mail-order sales>

Door-to-door sales posted a remarkable growth during the 1960s and 1970s. Door-to-door sales staff visit consumers' homes to present and sell cosmetics. In the past, this type of sales grew on the back of an incentive system for the sales staff, but in recent years has faced an ongoing hostile environment due to the facts that the increase in double-income families also led to a drop in the number of females at home, that the Act on the Protection of Personal Information has been enforced, and that more consumers do not want home visits. Demand for mail-order sales is expanding due to the enhanced convenience of the Internet and cell phones, due to the appearance of mail-order program channels by CS broadcasting, and due to the rapid improvement in the services offered by couriers. In addition to the conventional long-established manufacturers that utilize mail-order sales, newly emerging cosmetics manufacturers that have been in business for around five years are increasing their sales momentum in this market. Their keywords for appealing to consumers characterize new ingredients or functions such as "ozone" and "ocean collagen" rather than "whitening" and "anti-aging."

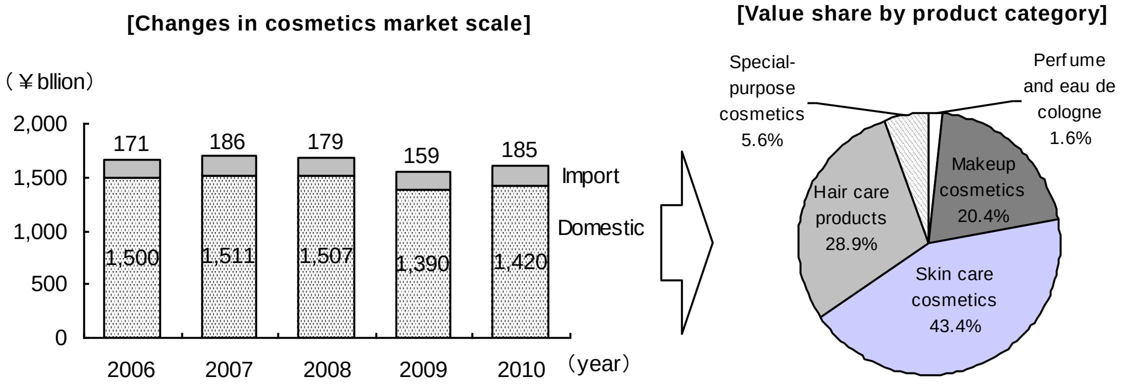


(2) Domestic Market Situations

<Domestic market trends>

The Japanese cosmetics market was the world's second largest at ¥1.605 trillion on a market total value basis (including imports) in 2010, behind only the U.S.A. Domestic factory shipments excluding imports stayed in the order of ¥1.4 trillion for the late 1990s to 2004. The market is mature in terms of its sophistication. The shipments topped the ¥1.5 trillion mark in 2005, and were expected to increase steadily. Since the Lehman Shock in the autumn of 2008, the cosmetics market has shrunk in line with the significant slowdown in the domestic economy. Domestic shipments fell to ¥1.39 trillion in 2009, 7.8% down from the year before, recovering slightly to ¥1.42 trillion in 2010, or the level existing in 2000.

Fig. 7 Changes in cosmetics market scale and share



Sources: Yearbook of Cosmetics Shipment Statistics (METI), Trade Statistics (MOF)

Japanese women tend to think of cosmetics not as something to cover up skin deficiencies, but rather as skin care cosmetics that make their skin more attractive. Compared with Western women, Japanese women tend to use smaller amounts of makeup and fragrances such as perfume and eau de cologne. The cosmetics market in Japan has been driven by consumer demand for skin care cosmetics. A breakdown of domestic factory shipments by product category in 2010 shows that skin lotion, facial cream and foam, cleansing cream, essences and other skin care cosmetics made up 43.4% of the total (¥636.1 billion, 4.5% up from the year before). Domestic factory shipments of most skin care cosmetics increased by only a few percentage points in 2010, while sales of male skin care cosmetics hit ¥19.4 billion, 20.2% up from the year before, due mainly to younger people having a heightened awareness of the importance of skin care.

Domestic factory shipments of hair care products follow those of skin care cosmetics. In 2010, hair care products made up 28.9% of the total (¥411.8 billion, same as the year before). In particular, shampoo, hair dye, and treatments, the three leading commodities in terms of demand, accounted for about 70% of all hair care products. Makeup cosmetics include foundation creams, lipsticks, and eye makeup. Among these, foundation creams accounted for about 45% of makeup cosmetics. Eye makeup has been in steady demand by younger consumer groups over the last few years. Blusher was often highlighted in fashion magazines in 2010, while cosmetics manufacturers significantly increased the number of commodities. As a result, domestic factory shipments of makeup cosmetics in 2010 reached ¥12.1 billion, up 21.1% from the year before.

Fig. 8 Changes in domestic shipments of cosmetics by product category

	2008	2009	2010						
Items	Value	Value	Value	Yearly change	Share	Volume	Yearly change	Share	Average unit price
(1) Perfume and eau de cologne (subtotal)	4,826	4,060	4,819	118.7	0.3%	6,291	135.3	0.2%	766
(2) Hair care products (subtotal)	414,614	412,321	411,773	99.9	29.0%	1,162,272	94.5	44.9%	354
Shampoo	108,813	106,542	105,097	98.6	7.4%	346,130	91.9	13.4%	304
Hair rinse	32,561	32,146	29,158	90.7	2.1%	128,855	73.2	5.0%	226
Hair tonic	19,134	17,317	17,135	98.9	1.2%	22,770	103.4	0.9%	753
Hear treatment	75,605	76,784	81,559	106.2	5.7%	195,996	108.4	7.6%	416
Pomade, hair cream, and hair oil	19,656	16,443	15,233	92.6	1.1%	51,280	93.8	2.0%	297
Liquid and foaming permanent wave compound	16,994	15,991	16,406	102.6	1.2%	48,996	101.1	1.9%	335
Set lotion	6,675	10,065	10,152	100.9	0.7%	29,044	103.1	1.1%	350
Hair spray	23,953	23,685	22,451	94.8	1.6%	59,235	96.5	2.3%	379
Hair dye	95,021	97,888	99,343	101.5	7.0%	249,237	99.5	9.6%	399
Other hair care products	16,202	15,459	15,239	98.6	1.1%	30,729	98.0	1.2%	496
(3) Skin care cosmetics (subtotal)	662,338	608,490	636,082	104.5	44.8%	826,227	107.1	31.9%	770
Facial cream and foam	54,999	51,592	52,002	100.8	3.7%	141,052	93.5	5.5%	369
Cleansing cream	59,672	53,524	54,420	101.7	3.8%	112,150	110.4	4.3%	485
Massage and cold cream	12,233	10,181	10,371	101.9	0.7%	21,132	141.1	0.8%	491
Moisture cream	76,522	71,197	78,119	109.7	5.5%	53,142	118.5	2.1%	1,470
Skin milk	76,693	68,979	70,139	101.7	4.9%	53,710	100.7	2.1%	1,306
Skin lotion	164,241	149,748	153,305	102.4	10.8%	166,755	108.8	6.4%	919
Essence	131,134	116,536	125,065	107.3	8.8%	66,613	113.4	2.6%	1,877
Packs	25,913	23,092	24,196	104.8	1.7%	31,624	104.0	1.2%	765
Male skin care cosmetics	17,600	16,134	19,386	120.2	1.4%	69,909	117.6	2.7%	277
Other skin care cosmetics	43,332	47,508	49,079	103.3	3.5%	110,138	105.7	4.3%	446
(4) Makeup cosmetics (subtotal)	355,901	301,740	301,372	99.9	21.2%	405,675	102.3	15.7%	743
Foundation creams	160,240	134,793	135,169	100.3	9.5%	120,855	105.7	4.7%	1,118
Face powder	23,671	20,617	21,377	103.7	1.5%	15,015	108.8	0.6%	1,424
Lipsticks	41,459	35,470	33,863	95.5	2.4%	44,622	94.8	1.7%	759
Lip balm	14,892	9,198	8,699	94.6	0.6%	45,629	97.9	1.8%	191
Blusher	12,392	10,016	12,126	121.1	0.9%	15,072	122.9	0.6%	805
Eye makeup	45,888	41,404	41,002	99.0	2.9%	64,366	102.3	2.5%	637
Eyebrow pencil, eyelashes	44,143	39,320	38,432	97.7	2.7%	65,486	103.2	2.5%	587
Nail makeup (incl. nail-polish remover)	8,757	7,611	6,652	87.4	0.5%	29,319	93.5	1.1%	227
Other makeup cosmetics	4,459	3,310	4,051	122.4	0.3%	5,311	113.3	0.2%	763
(5) Special-purpose cosmetics (subtotal)	69,426	63,633	65,911	103.6	4.6%	185,824	108.8	7.2%	355
Sunscreen/suntan cosmetics	32,850	28,894	31,961	110.6	2.3%	46,510	112.8	1.8%	687
Shaving and bath cosmetics	9,515	11,955	10,046	84.0	0.7%	41,394	94.1	1.6%	243
Other special-purpose cosmetics	27,061	22,784	23,903	104.9	1.7%	97,921	114.4	3.8%	244
Cosmetics: Total	1,507,105	1,390,243	1,419,957	102.1	100.0%	2,586,288	100.5	100.0%	549

Units: value = ¥ million, volume = 1,000 units, average unit price = ¥ per unit Source: Yearbook of Cosmetics Shipment Statistics (METI)
Note: Total is not always the simple sum for each column due to rounding.

[Progression of price reduction]

In 2010, the cosmetics market was characterized by ever-lower prices as a result of economic stagnation and the resulting deflation and reduction in incomes in the self-selection sales channels such as mass merchandisers and drugstores. Consequently, Shiseido, Kanebo, Kose, and other major cosmetics manufacturers entered the low-cost skin care cosmetics market. "Chifure" and "Hada Labo (Rohto Pharmaceutical)," which focus on low-cost cosmetics in the same channel, started to sell new commodities. The cosmetics market is experiencing fiercer competition among these players. In particular, the biggest cosmetics company in Japan, Shiseido, has rolled out its "Senka" mainly in drugstores where it has lagged behind in selling low-cost products costing less than 1,000 yen, focusing its efforts on sales promotion in the low-cost market with huge promotion budgets.

[New entry and another industries' involvement]

Cosmetic commodities basically have a low cost percentage (the raw material constituent of the price is said to be about 20%) and a large margin of profit. Consequently, other industries have often entered the cosmetics market. Fuji Film launched "Asterisk" cosmetics in 2008, and Nichirei started to sell "SYLVAN" skin care products in 2009, followed by the "NANAROBE" cosmetics made by Combi, a baby item maker. Furthermore, Asahi Beer and Choya, major names in the brewing industry, have both started their own cosmetics businesses.

[Functionality cosmetics]

With higher demand for effect, efficacy and functionality of cosmetics in recent years, the words "skin-whitening," "anti-aging," and "solution for sensitive skin" have become keywords. Anti-aging cosmetics, in general, were developed to improve certain symptoms such as age spots and wrinkles. In addition to normal skin care ingredients, natural ingredients or various ingredients such as hyaluronan and royal jelly are being used as cosmetics ingredients. The main commodities include Shiseido's "ACTEAHEART," which is focused on women aged 50 to 59, Kao's "GRACE SOFINA," Kanebo's "EVITA," Shiseido's "BENEFIQUE" enhancing moisture effectiveness, and Kanebo's "TWANY." The market for these cosmetics is growing.

[Natural cosmetics]

Natural cosmetics for sensitive skins, called Natural Cosme or Organic Cosme, have seen a steady increase in demand in recent years. These natural cosmetics are demanded mainly by consumers suffering from sensitive skin as well as by those desiring skin- and environment-friendly cosmetics. The development of natural cosmetics was promoted based on the concepts that chemical constituents should be reduced or eliminated, that only natural or plant ingredients should be used, and that the cosmetics should contain ingredients that protect the skin from external irritants. More recently, cosmetics manufacturers have been focusing on cosmetics that contain herbal or natural ingredients with low immediate effectiveness but without any side effects. Yuuka Co., Ltd., which started its business in 2003, posted sales of ¥10 billion despite offering only one commodity, namely its "CHA NO SHIZUKU" facial soap.

[Organic certification]

Currently, organic certifications in Japan include France's "ECOCERT" (started in Japan in 2009) and Germany's "BDIH" (started in Japan in 2011). Organic-certified cosmetics are imported into Japan mainly from France, followed by Germany. At present, Japan has no legal standards to certify "organic cosmetics," but certain NPOs and private NGOs started working toward a certification system in 2007. These organizations have their own rigorous certification standards from a standpoint of consumers for organic certification (At this time, however, no commodities have been formally certified). In Japan, the "Japan Organic Cosmetics Organization" and the "Japan Organic Cosmetics Association" promote themselves as certification bodies.

[Original equipment manufacturing (OEM) of cosmetics]

In the cosmetics market, there is a wide variety of needs, which depend on the price band, distribution channel, and item. Various commodities are offered on the market in response to these needs. Other industries that support new trends such as functionality and organic cosmetics have been entering the cosmetics market. For this reason, it has become difficult for a single cosmetics manufacturer to develop and manufacture every commodity. Under these circumstances, the need for the original equipment manufacturing (OEM) of cosmetics has been increasing in recent years. The need to manufacture cosmetics on a consignment basis are oriented to the capabilities of manufacturing, technology and research & development that offer optimum equipment, stable supply, and the lowest costs. The most important requirement of an OEM manufacturer is to deliver a commodity on time despite short lead times, while maintaining its high quality and to offer lower production costs than in consignors. More recently, some cosmetics OEM manufacturers have been developing exclusive raw materials that can only be used by consignors, in order to differentiate their products.

<Product characteristics>

The scope of recognized cosmetic effects under the Pharmaceutical Affairs Act is shown in Fig. 9.

The needs and functions required of cosmetics greatly depend on lifestyles, weather conditions, trends, skin/hair colors and properties, and tastes in different countries. In particular, Japan is characterized by a great interest in and demand for skin care.

Fig. 9 Scope of recognized cosmetic effects

1	Cleansing hair and scalp	29	Soften skin
2	Using fragrance to reduce unpleasant hair and scalp odors	30	Give gloss to skin
3	Keep hair and scalp healthy	31	Give luster to skin
4	Give moisture and sheen to hair	32	Make skin smooth
5	Moisturize hair and scalp	33	Make beards easier to shave
6	Keep hair and scalp moist	34	Condition skin after shaving
7	Make hair supple	35	Prevent rashes
8	Make hair easier to brush	36	Prevent sunburn
9	Keep hair lustrous	37	Prevent skin splotches and freckles resulting from sunburn
10	Give luster to hair	38	Impart fragrance
11	Stop dandruff and itching	39	Protect nails
12	Control dandruff and itching	40	Keep nails healthy
13	Supplement and maintain hair moisture and oil content	41	Moisten nails
14	Prevent hair breakage and frizzing	42	Prevent chapped lips
15	Improve and maintain hair pattern	43	Fill in lip creases
16	Prevent hair static electricity	44	Moisten lips
17	Cleanse dry skin (that has become dry as a result of cleansing)	45	Keep lips healthy
18	Prevent blemishes and rashes (by cleansing) (facial wash)	46	Protect lips, prevent dryness
19	Condition skin	47	Prevent lip roughness caused by dryness
20	Combat skin wrinkles	48	Make lips smooth
21	Keep dry skin supple	49	Prevent cavities (brushing teeth with toothpaste)
22	Prevent skin chapping	50	Whiten teeth (brushing teeth with toothpaste)
23	Tighten skin	51	Remove plaque (brushing teeth with toothpaste)
24	Moisten skin	52	Cleanse the mouth (toothpaste)
25	Supplement and preserve skin moisture and oil content	53	Prevent bad breath (toothpaste)
26	Keep skin soft	54	Remove tooth film (brushing teeth with toothpaste)
27	Protect the skin	55	Prevent plaque deposits (brushing teeth with toothpaste)
28	Protect skin dryness		

Note: Parenthesized text refers to aspects of physical form during usage, not to the effect itself.

(3) Distribution Channels

Distribution in the cosmetics market occurs through different channels for each of the five types of manufacturers, as noted below.

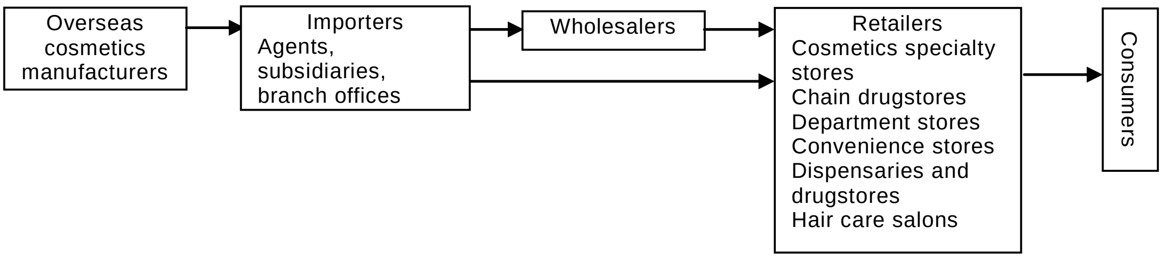
[1] Cosmetics manufacturers of price-maintained merchandise (with a network of contracted cosmetics specialty stores to whom they sell through their own sales subsidiaries), [2] General cosmetics (manufacturers sell through agents, authorized distributors and other wholesalers to mass merchandisers, drugstores, convenience stores and other retail stores), [3] Manufacturers of cosmetics sold door-to-door (send company staff and contract sales people to consumers), [4] Mail-order cosmetics manufacturers (receive orders directly from consumers through the Internet, fliers, and catalogs, and send merchandise), and [5] Commercial cosmetics manufacturers (sell through agents to hair care salons, barbers, esthetic salons, etc.)

Cosmetics distribution channels include store sales in cosmetics specialty stores, chain drugstores, mass merchandisers, convenience stores and department stores, non-store sales such as door-to-door sales and mail-order sales, and sales in hair care salon, esthetic salons and other commercial lines. According to a distribution industry specialty journal, shipment shares on a value basis are 28% for chain drugstores, 13% for mail-order sales, 13% for mass merchandisers, 12% for cosmetics specialty stores and drugstores, 9% for door-to-door sales, 9% for department stores, 4% for convenience stores, and 6% for commercial channels (6% for other channels).

The basic distribution pattern for imported cosmetics is from the importers, through wholesalers, to the retailer. Some Japanese subsidiaries of foreign manufacturers and importers sell direct to the retailers (department stores, cosmetics specialty stores, mass merchandisers, drugstores, etc.). Some wholesalers or retailers also do business directly with overseas manufacturers. Leading foreign-affiliated manufacturers have opened exclusive counter corners in leading department stores, armed with brands and high grades, and have launched face-to-face consulting marketing programs.

"Small-lot imports" involve the import and sale of commodities to make profits, and are subject to laws and regulations. "Personal imports" are those imports whereby a person imports a commodity for his/her own use. Consequently, he/she is not allowed to sell it to a third party or distribute it to an unspecified mass market. Personal imports are considered to be limited to the need to use a commodity that is only available abroad, and which is estimated to command a very small share of the market. Small-lot imports are also estimated to constitute only a small share of the market due to the fact that requires the same procedures as general imports and the same amount of effort as general imports, such as the application of the Product Liability Act.

Fig. 10 Distribution channels for imported cosmetics



(4) Issues and Considerations for Entering the Japanese Market and Marketing Method

Japanese consumers have a high demand for cosmetics. Consumers can obtain much information about cosmetics through female and fashion magazines, the Internet, television commercials, newspapers, and other media. Consequently, they are very discerning about their selection of cosmetics. In the cosmetics market, consumers range from low-price-oriented young women to middle-aged/older women seeking high functionality and high-value-added commodities. For this reason, overseas cosmetics manufacturers are considered to have many opportunities to enter the Japanese market. To make a new entry into the market, overseas manufacturers are recommended to research the needs of the Japanese market, develop products tailored to Japanese consumers' tastes, conduct cosmetics availability tests with Japanese monitors, and undertake merchandise and packaging evaluation tests.

In particular, major foreign-affiliated cosmetics manufacturers have appealed not with only brands and high-grade imported products mainly in department store channels but also, more recently, with environmentally friendly commodities such as natural and organic cosmetics. When selling their cosmetics, it is important for them to market carefully, considering to which customers their advantages and features should be targeted, in which channel, and through which media.

The safety of cosmetics in Japan is ensured by the Product Liability Act (PL Act). If it can be demonstrated that a defect in a product is harmful to humans, their bodies or assets, the manufacturers' liabilities for damage will be defined to protect victims under the Act. As importers must assume the liability for damage caused by imported articles, it is necessary to pay careful attention to quality control, instruction manuals, and cautions.

(5) Examples of Developing Countries' Products in Japan

L'occitane is an organic cosmetics manufacturer based in France. The company's merchandise policy is to use 100% plant-based raw materials for product manufacturing, not to use child labor in the production of the materials, and not to conduct animal tests. Shea butter, a common ingredient in its products, is receiving attention as a plant oil and fat. The shea butter, which is sourced from Africa, is manufactured in concert with women in Burkina Faso, in an arrangement that provides income to the local women. In addition, the company gives multifaceted consideration to the environment and society, such as by eliminating unnecessary packaging and providing many labels in Braille. In Japan, the company operates 78 stores under the "L'occitane Japon" brand.

Shea butter has been attracting attention as an ingredient for organic cosmetics in recent years. The shea tree that provides the raw material for the butter has been worshipped as a divine tree in Sahel in Africa, and been utilized not only as food but also as an ointment for wounds and burns since ancient times. It is rich in unsaturated aliphatic acids, including oleic acid and vitamin E, and is said to be very effective in terms of anti-drying, skin protection, and healing. Among the major cosmetics manufacturers, Kao and Kose use shea butter in their hair care products and body lotions, respectively.

Argand oil is yielded from the Sapotaceae evergreen that grows in desert areas in southwestern Morocco, and has such a strong vital force that it does not wither even if there has been no rainfall for seven years. Its nut contains a solid seed. The nucleus of this seed is ground to extract Argand oil. The oil is rich in oleic acid and linolic acid and contains three to four times as much vitamin E as olive oil. Consequently, it is said to be more moisture-retentive than shea butter. Argand oil is used as massage oil in esthetic salons, but is also being introduced as a moisturizing ingredient by more and more cosmetics manufacturers.

(6) Import Promotional Activities

Fig. 11 Exhibitions and other events of cosmetics

Name of events	Date	Details
Cosmetics Japan (International cosmetics development exhibition)	Annually June - July	Exhibition concerning the development and planning of cosmetics, sponsored by Reed Exhibitions Japan Ltd.
Cosmetic Ingredients & Technology Exhibition Japan	Biennially	Exhibition by engineers of cosmetics and raw materials manufacturers, sponsored by Federation of Japanese Cosmetic Ingredients Associations
Interphex Japan	Annually June - July	Exhibition of equipment, systems, and technologies for manufacturing and R&D of drugs and cosmetics, sponsored by Reed Exhibitions Japan Ltd.
Beauty World Japan	Twice a year May in Tokyo and October in Osaka	Exhibition of all products, services, information and technologies concerning esthetic clinic, nail, beauty equipment, hair care, healing and medical beauty, sponsored by Mesago Messe Frankfurt Corporation
Organic EXPO	Annually September - November	Exhibition of natural and organic products, sponsored by NürnbergMesse GmbH
Diet & Beauty Fair	Annually August - September	Exhibition of beauty business, sponsored by UBM Media Co., Ltd.
Gift Show	Twice in Tokyo and Osaka, Spring and Autumn Once in Fukuoka, Autumn	Exhibition of personal gifts and general merchandise, sponsored by Business Guide-Sha Inc.
Health Industry Show	Annually Around March	Exhibition of health industry business, sponsored by UBM Media Co., Ltd.
Health & Beauty EXPO	All through the year	Query and matching site for commercial materials and buyers, http://www.e-expo.net/

6. Import Associations & Related Organizations

Fig. 12 Import associations & related organizations

Organization	Contact	URL
Cosmetic Importers Association of Japan	TEL: +81-3-3560-3041	http://www.ciaj.gr.jp/
Japan Cosmetic Industry Association	TEL: +81-3-5472-2530	http://www.jcia.org/
Japan Cosmetic Suppliers Association	TEL: +81-3-3662-2562	http://jcsa.ne.jp/
National Federation of Cosmetic Retail Cooperative	TEL: +81-3-3861-7733	http://www.cosme.or.jp/index.html
Direct Selling Cosmetic Manufacture's Association of Japan	TEL: +81-3-5472-2534	http://www.hoshokyo.org/annai/index.html
Japan Cosmetic Wholesalers Association	TEL: +81-3-3866-6753	http://park8.wakwak.com/~zenorosiren/
West-Japan Cosmetic Industry Association	TEL: +81-6-6941-2093	http://www.wj-cosme.jp/
Japan Organic Cosmetics Organization	TEL: +81-50-5534-2582	http://www.j-organiccosme.org/
Japan Organic Cosmetics Association	TEL: +81-80-3311-9107	http://joca.jp/
Pharmaceuticals and Medical Devices Agency (PMDA)	TEL: +81-3-3506-9601	http://www.pmda.go.jp/index.html

