CBI Tailored Study:

Natural Ingredients for Cosmetics from South Africa
**Introduction**

South African suppliers of high-quality ingredients for cosmetics can find good opportunities in Europe. Cosmetic manufacturers are interested in new ingredients and new sources for established ingredients, especially those with an attractive marketing story or traceable and sustainable value chain. South Africa, with its rich biodiversity, its variety of climates, strong human resources and technological base, can offer these.

However, South African suppliers face challenges in entering the European market for cosmetics ingredients. Several of these are the result of the small size of most companies and the lack of organisation and targeted support to the sector. This makes it more difficult to meet legislative and buyer requirements, for example in terms of quality control and testing, to scale innovations and to provide sufficient volumes sustainably.

**How to use this Tailored Intelligence**

This Tailored Intelligence discusses the opportunities for South African suppliers to enter the European market for cosmetics and how they can exploit these opportunities. The main challenges are also discussed, including from the perspective of European buyers, and tips are provided on how to overcome these challenges.

Information is provided on two levels and is organised according to key questions to help exporters enter the market. For each question, the study sets the scene at the level of the European cosmetic ingredients market, before detailing the situation at the level of the three product groups of interest in the South African context: vegetable oils, essential oils and botanicals. The document answers the following questions:

- What are interesting market segments for natural ingredients for cosmetic products?
- What is the demand for natural ingredients for cosmetic products in Europe?
- What requirements must South African producers meet to get their products on the European market for cosmetic products?
- What competition do South African suppliers of natural ingredients face for cosmetic products on the European market?
- Through what channels can South African suppliers get their natural ingredients for cosmetic products on the European market?
- What are the opportunities and threats for South African suppliers of natural ingredients for cosmetic products?
- What positioning and market entry strategies should South African suppliers use to enter the European market for cosmetic products?

This Tailored Intelligence covers three specific product groups:

- Essential oils: covers all essential oils, with special attention devoted to high value and low volume oils, citrus oils and essential oils that are not further specified in trade data (excluding mint oils)
- Vegetable oils: covers small volume vegetable oils (excluding major commodity oils: soy bean, olive, groundnut, palm, sunflower, coconut, linseed, maize, castor and sesame oils)
- Botanicals: covers all medicinal and aromatic plants and botanical extracts (excluding opium, liquorice and hops)

This Tailored Intelligence is also based on earlier research done by various stakeholders. SAEOPA can help you to access this information.

You can navigate through the document by clicking on the buttons at the end of each section to get more information on the specific products. In the product-specific sections, you can also go back to sector level information by clicking the button at the end of each section.

**What are interesting market segments in Europe for natural ingredients for cosmetic products from South Africa?**

Segmentation of the market for ingredients of natural origin for cosmetics can be done at several levels. The most interesting segment(s) for your product can be determined by answering the following questions: what does your ingredient do, for which industry segment is this useful, for which kind of player is it interesting and what makes your ingredient more interesting than those of your competitors; what is your Unique Selling Point?

**1) Functional vs. active ingredients**

A first step in segmenting the EU cosmetics ingredients market is to look at your product. Knowing what your ingredient does will help determine how to communicate to interested buyers, what industry segment and type of player would be interested, and how you can stand out in the market. Ingredients are segmented into functional ingredients (affecting the
cosmetic product, such as preservatives or thickeners) and active ingredients (having a cosmetic effect or claim, such as anti-aging ingredients). The sections on segmentation of vegetable oils, essential oils and botanicals give a more detailed overview of functional and active properties of these product groups.

2) Industry segments
The cosmetics industry produces different types of products, most notably (1) skin care, (2) hair care, (3) decorative cosmetics, (4) perfumes and fragrances and (5) toiletries. These product categories have different functional and active ingredient needs to make their formulations work. For certain categories, such as nail polish and hair colouring, few natural alternatives exist. This is either because these products are difficult to formulate with natural ingredients or because ingredients are not available at a suitable cost to meet brand price points.

Across these categories, origin can be important. For a range associated with South Africa, a manufacturer might want to use Rooibos extract or buchu oil. South Africa only becomes of interest as an origin if it is part of the marketing of a cosmetic product or if it fits in with the product message, for example in a range of cosmetic products from (South) Africa.

Table 1 below gives an overview of the use and opportunities of vegetable oils, essential oils and botanicals in the different segments.

Table 1: Use of natural ingredients in cosmetic market segments

<table>
<thead>
<tr>
<th>Vegetable oils</th>
<th>Essential oils</th>
<th>Botanicals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skin care</td>
<td>Mostly used as fragrance: either as a fragrance or perfume blend or added directly to the product. Some essential oils are used for efficacy purposes as well (e.g. anti-aging) and they are increasingly marketed for their aromatherapy use.</td>
<td>Many opportunities in beauty treatment products, serums, and for cooling, soothing, anti-blemish and anti-aging products.</td>
</tr>
<tr>
<td>Hair care</td>
<td>Within this segment, fragrance purposes are most interesting.</td>
<td>Of particular interest to hair care formulators are botanicals that can function as, or support, hair conditioning agents.</td>
</tr>
<tr>
<td>Fragrances</td>
<td>Used in small amounts, mostly in scented / fragrance oils.</td>
<td>Use of botanicals is limited, only as a basis for essential oils or other aromatic by-products.</td>
</tr>
<tr>
<td>Toiletries</td>
<td>Limited use of essential oils.</td>
<td>Soap, deodorants and depilatories are significant markets for botanicals.</td>
</tr>
<tr>
<td>Decorative cosmetics</td>
<td>Limited use of vegetable oils.</td>
<td>Limited use of botanicals.</td>
</tr>
</tbody>
</table>

3) The type of player
It is important to know the potential users so you can target the right distributor or manufacturer with the right story. Although you may not sell directly to a cosmetics manufacturer, but rather through distributors supplying a wider range of (cosmetic) manufacturers, understanding the chain will help you do business more effectively.

The type of manufacturer can be distinguished along two distinct continuums. First, some manufacturers are producing conventional cosmetics, while at the other end of the spectrum manufacturers are producing certified natural and/or organic cosmetic products. Both use ingredients of natural origin, but maybe in different percentages and according to a different strategy, and both are potential targets for your marketing strategy.

- Increasing numbers of cosmetic producers use natural ingredients in conventional cosmetic formulations, either to make a marketing claim, in which case the quantities of the ingredient per cosmetic product are often low, or to attain a required functional/active property, in which case the quantities of the ingredient need to be sufficient for the desired effect to occur. Although the use of natural ingredients in conventional cosmetic products might be
limited in each product, the overall quantities required could be significant if the product is used in popular/widely marketed product ranges.

- In natural cosmetic products, the quantities of a natural ingredient used in each product have to meet the minimum requirements of the certifier (e.g. Natrue and Cosmos, see Buyer requirements), but cosmetic producers might decide to use some ingredients only in small quantities because of the low quantities needed to attain the benefit, maximum usage levels or a high price. The percentage used in a product is not an accurate indicator of the overall demand. Small niche brands may use higher percentages, but their annual requirements for a particular ingredient could still be low.

Second, manufacturers can be divided into niche and big brands. Of these, niche brands are more trend-setting. Several brands in Europe are using South(ern) African ingredients (e.g. Lush, Dr. Jackson’s), and several South African brands have been successful on European niche markets and introduced African ingredients and the image of South Africa to consumers (e.g. Rain, Esse). Manufacturers of big brands watch these smaller brands closely to pick up interesting and durable trends. Big brands offer better opportunities for established ingredients, which are available at stable supply quantity and quality. This of course does not mean that big brands do not innovate with new ingredients: for example the Body Shop was first to offer products around ingredients such as marula oil, papaya seed oil and Kalahari melon seed oil.

4) Specialty vs. commodity ingredients
Lastly, you need to distinguish yourself on the market. For this, it is important to note whether you are dealing with a speciality ingredient or a commodity ingredient. The key characteristics of these two segments are shown in the figure below.

**Figure 1: Specialty vs. commodity ingredients**

- Specialty ingredients
- Commodity ingredients

- Organic/fair trade certified ingredients
- Storytelling
- Sought-after properties
- Exotic/luxurious/health
- Provenance
- Fully traceable
- Sustainability (social, environment)

- Common, standardized ingredients

One of the main aspects of speciality ingredients is storytelling. What makes South Africa’s story is its provenance, i.e. the high biodiversity in the country, the natural resources and large range of endemic plants. If you collect ingredients from the wild, or if your production benefits a local community, you can use this to add to the story of South Africa and your product.
What is the demand for natural ingredients for cosmetic products in Europe?

In 2014, Europe’s (EU) cosmetics market (including the EU market for natural cosmetics) amounted to €72 billion, representing one-third of the global cosmetics market. The market increased by 0.5% compared to 2013, and by 11% since 2005. There is no reason to expect this growth to slow down in the future. Within Europe, Germany is Europe’s largest market, holding a share of 18%, while the UK market showed the highest growth (Figure 2).

Other fast growing cosmetics markets include Lithuania (+4.3%), Estonia (+3.0%), Ireland (+2.3%) and Latvia (+2.0%). On average, Eastern Europe grew by 0.6% from 2013 to 2014. Smaller East European markets can be interesting for lower volume suppliers.
The largest European markets for cosmetics are also large users in terms of per capita consumption. Except for per-capita sales in Poland, which are relatively low, per-capita sales of these leading European markets are well above the European average of €129 in 2014. Of these leading markets, Poland demonstrated the strongest increase in per-capita sales from 2005 to 2014, while Spanish per capita sales dropped the most.

**Figure 2: Largest European markets for cosmetic products, share of total €72 billion in 2014 and change since 2013**

Source: Eurostat, 2015

**Figure 3: Per capita consumption in the leading European markets for cosmetics between 2005 and 2014, in €**

Source: Eurostat, 2015

**Size of industry segments**

The five industry segments are: skin care, hair care, decorative cosmetics, fragrances and toiletries. Of these, toiletries and skin care are the largest segments (both around 25%), followed by hair care (21%), fragrances (15%) and decorative cosmetics (13%).
Growing consumer interest in natural cosmetics products is expected to help sustain the demand for natural ingredients in the coming years. There is an important spillover effect as conventional cosmetics are starting to contain more natural ingredients.

- Global sales of natural cosmetics demonstrated an impressive increase from around €5 billion in 2010 to €22 billion in 2013 (organic-market.info, 2014).
- 45% (€10 billion) of the global natural cosmetics market stems from sales of certified natural cosmetic brands, while the rest (55%) is considered as ‘near-natural’ cosmetics.
- The European market for certified natural cosmetics amounted to around €2 billion in 2013. Germany accounted for 35% of this market, followed by France at 15%. Other important markets for natural cosmetics are the UK, the Netherlands, Austria, Switzerland and Scandinavia. Even though these countries have high demand for natural ingredients, traders and manufacturers of these products can be located in other countries.
- Innovation is quite high in these countries, especially in the UK and France, where product introductions are high.

**Tip:**
- Look for potentially interesting brands for your ingredient in the countries mentioned above by checking the members of Cosmetics Europe.

**Find out more about European demand for:**

- Vegetable oils
- Essential oils
- Botanicals

**What requirements must South African producers meet to get their products on the European market for cosmetic ingredients?**

Many South African natural ingredients stakeholders consider the European market for natural ingredients for cosmetics as a high requirement market, often beyond the reach of South African SMEs. However, in many cases the legislative frameworks are based on UN guidelines or principles established in coordination with regulators across the world.

This section will discuss the international legal framework (where applicable), the European legal framework and the South African legal framework, aiming to identify how national compliance already helps companies towards EU compliance. Moreover, where available, the section will discuss the current compliance level in South Africa, as well as providing specific tips and tools on how to reach compliance.

**Requirements to utilise and trade in ingredients based on natural resources**

No matter whether you export your ingredient as a cosmetics or health ingredient, to enter Europe you will need to comply with requirements for the use of certain plant resources, especially wild-collected material.

**Convention on Biological Diversity (CBD) and the Nagoya Protocol on Access and Benefit Sharing:**

The Convention on Biological Diversity (CBD) has three main objectives: the conservation of biological diversity; the sustainable use of diversity; and the fair and equitable sharing of the benefits arising out of its utilization.

The Nagoya Protocol of the Convention on Biological Diversity (CBD) provides a legal framework for the effective implementation of the objective of “fair and equitable sharing of benefits”. It establishes guidelines for Access and Benefit Sharing (ABS). Of relevance to companies using plant material from national biodiversity are guidelines on prior informed consent when resources are used (to gain access), and mutually agreed terms detailing terms and conditions of access and
use of genetic resources and/or traditional knowledge between the company and the collectors, growers or associations that would be able to supply the material (benefits).

Overall, at an international level and within the EU, the implementation of the Nagoya Protocol is still in development and national legislation is evolving. Recent changes in legislation have been made in Brazil and South Africa, for example.

EU companies are increasingly aware of ABS. The EU adopted Regulation ((EU) No 511/2014), which implemented the Nagoya Protocol from October 2014. It requires users (e.g. manufacturers of cosmetic products) to exercise due diligence to ensure that genetic resources and knowledge are used and remunerated in accordance with national legislation.

If you supply EU buyers, they need to demand proof of compliance from you. If you source raw materials from other countries in Southern Africa, compliance with the regulations in these countries, where in place, may also be required.

ABS was enacted in South Africa within the framework of the National Environmental Management Act (NEMA) of 1998 under the Biodiversity Act (NEMBA) of 2004. Bioprospecting, Access and Benefit Sharing Regulations (BABS) came into force in 2008 to regulate the bioprospecting permit system and has been replaced in full by new regulations in Gazette 38809 of 19 May 2015.

Responsibility for its implementation is assigned to the Department of Environmental Affairs (DEA). DEA is responsible for permits for collection, bioprospecting permits and monitoring compliance with them. It cooperates with the Department of Science and Technology in terms of ownership of traditional knowledge related to South African biodiversity. According to UEBT, implementation in South Africa has been slow in practice, due to difficulties in identifying stakeholders, insufficient information provided in permit applications and the complexity and resources needed to regulate a wide range of activities across different institutions. The slow implementation is also compounded by a wide interpretation of the Nagoya Protocol.

Tips:

- Demonstrate adherence to BABS and offer security to partners/buyers for current/new products. Put a procedure in place to check whether ABS applies for any new product development. This includes knowing the local context and procedures and officials at DEA.
- Guidelines to assist the biodiversity provider, user and regulator are available from DEA. Get in contact with the relevant staff to understand exactly what steps are to be taken.
- Bioprospecting permits are required to collect or cultivate indigenous biological resources, basic processing, extraction and manufacturing, and exporting. A bioprospecting permit is only issued if prior informed consent has been obtained from the resource owner, giving access to the indigenous biological resources and/or the indigenous communities whose knowledge or traditional use contributes to the bioprospecting activities. Both benefit-sharing agreements and material transfer agreements must be entered into. Templates are included in the BABS Regulation.
- Stay in contact with officials to ensure you comply. Also consider checking with peers in South Africa who have already gone through the process. Several CECOSA and SAEOPA members have had dealings with BABS and can advise members.

Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

CITES regulates the trade in endangered plants and plant products collected in the wild and provides a detailed list of species for which trade is prohibited, restricted or bound by certain rules.

If your product is listed in Annex A and Annex B of EC Regulation No 338/97, exports to the EU require an export permit from the South African CITES authorities and an import permit from authorities in the EU country you export to. Import notifications are required for Annex C.
CITES is implemented in South Africa through the regulations of National Environmental Management: Biodiversity Act, 2004 (Act No. 10 of 2004) CITES Regulations, 2010 and managed by DEA.

Commercially important species on the CITES list are few in number and include all Cycads, Hoodia (*Hoodia gordonii*) (Annex II) and Aloe species (Annex I & II). Permits are obtained on a provincial level at the relevant Nature Conservation offices.

**Tips:**
- Check in the Annexes whether import and export permits are required for your product and the relevant requirements for the plants as per the Annex.
- When you start working with a new species, check its conservation status in the Cites Checklist.
- Read more about CITES in the EU Export Helpdesk.
- For export questions, quotas and permits, contact the relevant authorities for CITES management, scientific authorities and enforcement authorities within the Department of Environmental Affairs of South Africa.
- Due diligence is required when working with CITES listed species to determine whether having a USP of a sustainably sourced CITES listed species weighs up against the costs of compliance challenges up and down the supply chain.

Requirements to enter the market for ingredients for cosmetics

The **Cosmetics Regulation (EC 1223/2009)** sets restrictions on which substances must not be used in cosmetics and which information on physico-chemical, microbiological & toxicological characteristics of ingredients has to be included in the Product Information File (PIF) and one of its key components, the Cosmetic Product Safety Report. Although applicable to finished products, the PIF requires documentation and data on all the ingredients used in the product in terms of safety (e.g. toxicity, sensitivity and allergens) and efficacy according to regulation 655/2013. This information, at least at a basic level, is often expected to be provided by suppliers. Please refer to CBI’s **Buyer Requirements for natural ingredients for cosmetics**.

The Annexes of the **Regulation** give lists of prohibited substances (Annex II) or restricted substances (Annex III). Furthermore, it lists substances that are exclusively permitted for use as colourants (Annex IV), preservatives (Annex V) and UV filters (Annex VI).

The South African cosmetic industry is self-regulated as set out in the **CTFA Cosmetic Compendium** of the **Cosmetic Toiletry and Fragrance Association of South Africa**. Sections of it are based on the European Cosmetic Directive. It also details restrictions on use, safety and efficacy data and documentation requirements on formulation and ingredient level.

As in the EU, efficacy claims made for cosmetic products need to be backed up by appropriate scientific substantiation according to requirements set by the **Advertising Standards Authority of South Africa** (ASA) for **cosmetics products**. Although these are based on international standards, that does not mean that efficacy documentation of ingredients which is sufficient to meet requirements of South African manufacturers is sufficient for EU buyers as well. For example, test results of South African labs might not be acceptable, or a claim may be deemed medical in Europe and not in South Africa.
The UN provides guidance on the production, handling, transport and use of chemicals in the Globally Harmonized System of Classification and Labelling of Chemicals (GHS) to ensure safety and facilitate international trade in chemicals.

The EU has two relevant bodies for chemical legislation: REACH and CLP.

Ingredients used in cosmetics are chemical substances and are bound by REACH (Registration Evaluation and Authorisation and Restriction of Chemicals) legislation and must be registered accordingly. There are certain exemptions, such as non-chemically modified, natural substances that are not dangerous. Moreover, registration is not required for companies that import less than 1 tonne of a chemical substance annually, except for the most dangerous chemicals. In all cases, the burden of proof lies with the EU manufacturer/importer that wishes to use this exemption.

Common ingredients are often already registered. For those that are not registered, it is the responsibility of the EU manufacturer, importer or an Only Representative of a non-EU supplier to comply with requirements. As compiling the dossier for registration is an extensive and expensive procedure, EU partners often expect information from suppliers of the new ingredient. Some buyers are willing to form an alliance with SME exporters seeking market entry assistance for a new ingredient, provided it offers them the possibility of being first to market.

Furthermore, the EU has adopted GHS in its own classification, labelling and packaging legislation, CLP. CLP classifies chemicals according to their hazardous properties and defines the pictograms and other notices which must appear on the label.

Also be aware that importers will require a Safety Data Sheet (SDS), regardless of the volumes exported to an individual importer. The SDS provides information on possible dangerous characteristics of chemical substances. An SDS includes information such as physical data (melting point, boiling point, flash point, etc.), toxicity, health effects, first aid, reactivity, storage, disposal, protective equipment and spill-handling procedures.

Tips:

- If you already market cosmetic ingredients to South African manufacturers, review SA requirements and compare them to EU requirements. Identify compliance gaps you might need to fill for your particular ingredient and segment. CTFA can advise on SA compliance. The Cosmetic Desk and CECOSA can advise on the remaining compliance gap.
- For a list of requirements for natural ingredients for cosmetics, consult the EU Export Helpdesk. You can also approach the Cosmetics Sector Desk. Check their brochure to learn more about their services.
- Check which information your buyers require and in which format. Cosmetic manufacturers and ingredient processors may place responsibilities for compliance on their suppliers. If you can provide all information needed in a PIF, you offer your buyer a better package.
- Avoid animal testing and use alternative methods such as in-vitro cell culture techniques and in-silico computer simulation. Even though the marketing ban in the EU includes some exceptions, buyers usually want to avoid animal testing all together.
- Make sure you study the criteria for justification of claims for cosmetics as stipulated in Regulation 655/2013, as these will have important implications regarding how to demonstrate evidence to support your claim. Analyse labelling and wording possibilities to ensure you ‘sell an appropriate claim’.
- Provide in vitro data (from cell research in laboratory) or other tests including appropriately controlled and ethically reviewed human studies on the efficacy of the product in order to raise enough interest so that processors/manufacturers include it in a product development process or are willing to approach manufacturers. Documentation on traditional use is not sufficient by itself, but does provide backing for the dossier and the ingredient's marketing potential.
- When marketing new ingredients, check to what extent you can achieve national and EU compliance as (cost) efficiently as possible by making a clear product development plan.
- Consider whether there are other processors/exporters producing your ingredient in South Africa and determine whether there are opportunities to jointly fund safety and efficacy research. Organisations such as CECOSA, CTFA, SAEOPA or the Cosmetics Desk might be able to link you to other producers. These organisations could also help with identifying funding opportunities, such as through DTI financial assistance incentives, in particular SPII, the SEDA Technology Programme or other Innovation and Technology Funding instruments.
RPMASA provides services for classification, packaging, labelling, safe transport and storage in South Africa. South African ingredient suppliers are expected to comply with GHS and provide manufacturers with an SDS. In this regard, supplying nationally provides a stepping stone to the EU market. South Africa announced its intention to publish a national regulation in 2014 that will implement GHS. When the proposed legislation is enacted, the current standard will be updated and become mandatory.

**Tips:**
- Read more about REACH and CLP in the EU Export Helpdesk.
- Check the REACH registration status of your product. If it is not registered, check whether exemptions may apply in REACH Regulation Annexes IV and V and the guidance for Annex V exemptions, published by the European Chemicals Agency (ECHA).
- Check how you need to implement REACH and CLP for your product on the ‘Identify Your Obligations’ section of the ECHA website. This gives a practical, step-by-step guide to implementation and producing the type of information EU companies will appreciate in terms of a) becoming interested in working with you, and b) facilitating the registration process.
- Look at the websites of natural ingredients companies for examples of an SDS, such as The Soap Kitchen.
- Check the classification and labelling database on the ECHA website, which is a useful tool to determine which symbols and warning phrases apply to the substance you are handling. You can search for a substance using its name, European INventory of Existing Commercial Chemical Substances (EINECS) or Chemical Abstract Service (CAS) number and find out.
- Consider whether there are other companies producing your ingredient in South Africa and determine whether there are opportunities for joint funding of research to obtain the required data for REACH registration. Organisations such as CECOSA, CTFA, SAEOPA or the Cosmetics Desk might be able to link you to other producers. These organisations could also help with identifying funding opportunities. If testing forms part of international product registration, funding from DTI under the Support Programme for Industrial Innovation (SPII) might be accessed.
- Consider setting up an Only Representative in the EU to give you more protection as the supplier of that substance. As described in CBI Buyer requirements, the benefits of doing so depend on the ingredient, its properties and benefits and the degree of intellectual property.

**Buyer requirements**

Derived from the legislation mentioned above, buyers need well-structured product and company documentation.

EU buyers require detailed Technical Data Sheets / Specification (TDS) and Safety Data Sheets (SDS) supported by certificates of analysis. Documentation must include information on allergens. Typically a Product Data Sheet is also prepared for more public use that contains highlighted composition data.

An SDS is also required to supply South African cosmetic manufacturers. Furthermore, depending on the ingredient, manufacturers will ask for: CTFA registration documents; GMP, BABS and CITES certificates; documentation demonstrating traceability to the registered grower; and a certificate of analysis.
Cosmetic ingredient buyers expect good standards of manufacturing ingredients, ensuring consistent quality according to specifications as well as product safety.

Most EU buyers expect suppliers to at least follow Hazard Analysis & Critical Control Points (HACCP) principles; at least in terms of processes documented as per Standard Operating Procedures (SOPs). Handling according to Good Manufacturing Practice of the European Federation for Cosmetic Ingredients is also referred to. Furthermore, for farming and wild collection it is common to follow Good Agricultural and Collection Practices (GACP) prior to processing.

Buyers often refer to quality standards in their product specifications, to assure the quality of the ingredients they are buying. These are well understood for essential oils and commodity vegetable oils, but are not available for non-commodity products, especially extracts.

According to European industry sources, there are large differences in terms of how well South African suppliers comply with **documentation and buyer requirements**. Companies used to working with European buyers are more aware of the requirements in terms of processing, sampling, documentation, certifications, labelling, packaging etc. It is noted by buyers that South African suppliers are more aware that they need to conform to international requirements and legislation in order to supply global markets, but that the required documentation is still often lacking.

**Tips:**
- Prepare a commercially oriented Product Data Sheet containing photos, information on the product’s origin and bibliographic references to interest buyers. For your own internal purposes, you should prepare a more detailed dossier containing all technical data from both primary and secondary research.
- Partner with a buyer or partner who can assist you with paperwork and safety tests, or consider seeking qualified advice in preparing an SDS. Check the websites of European companies for examples of an SDS, such as The Soap Kitchen.
- As guidance on fulfilling requirements on ingredient documentation, use the Raw Material Information Form published by the Personal Care Products Council and the Plan of the Toxicological Assessment file template published by UNITIS as a reference.

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Consumers, and therefore buyers worldwide, increasingly require suppliers to demonstrate **good standards of corporate social responsibility** that:
- Contribute to sustainable development
- Take into account the expectations of stakeholders
- Are in compliance with applicable law and consistent with international norms of behaviour
- Are integrated throughout the organisation and practised in its relationships
Key references on the international level are the UN Global Compact and ISO 26000 on Social Responsibility.

It is expected that in the near future CSR systems in your company will become a basic market entry requirement. Buyers may not immediately expect every supplier to comply fully with these systems, or to acquire certification, but they will definitely look for active self-assessment and target setting.

EU buyers increasingly expect CSR policies and documentation from their suppliers. In selecting suppliers, they will look for those with CSR policies, an appropriate Code of Conduct and, ideally, targets for improvement in certain key areas, such as child labour and environmental performance.

You can demonstrate CSR standards by (1) establishing company policies and a code of conduct that address the key CSR issues of employment, human rights and other social and environmental concerns, 2) incorporating international industry initiatives (e.g. Business Social Compliance Initiative - BSCI) or 3) seeking CSR certification from recognised bodies such as the Global Reporting Initiative (GRI). Expectations of responsible business practice are also increasing in South Africa. This applies particularly to manufacturers supplying foreign markets. Moreover, as big retailers become aware and demanding with regard to responsibility issues, especially around the food they sell, CSR is attracting much more attention.

There are no national standards yet, but there are developments towards them. For example, SISA (Sustainability Initiative of South Africa) has developed a national ethical and sustainable standard, which still needs improved recognition by international buyers that the standard conforms to international expectations and is properly monitored. For now, the standard relates to commercial food farming, but is being expanded to smallholder farming. A product specific initiative is Right Rooibos, developed as part of the geographical indicator process for Rooibos. Furthermore, the African Institute for Corporate Citizenship (AICC) is becoming increasingly active in the larger agricultural sector with its African Approach to Corporate Citizenship programme.

Tips:
- Review the CSR requirements of companies such as Unilever, P&G and Symrise.
- Review checklists such as SEDEX that clearly describe the typical industry requirements in terms of Corporate Social Responsibility policies and facilitate sharing of information with potential customers.
- Look into the principles of the United Nations Global Compact. Some buyers demand compliance with this. This policy initiative asks companies to support and enact ten core values in human rights, labour standards, the environment and anti-corruption.
- All EU buyers expect compliance with basic expectations (e.g. no child labour) and awareness of CSR principles, the foundation of compliance built on company policies and systems for their implementation, management, review and continuous improvement.
- Develop a code of conduct, including social and environmental performances, for your company and for your suppliers.
- Review Enviropaedia and Trialogue, which are interesting resources on CSR in South Africa.

Sustainable wild sourcing should tackle both the avoidance of over-extraction to ensure future availability and provide living wages to collectors to make wild-collection a viable income source.

Sustainable collection practices are increasingly important to EU buyers for wild-collected raw materials. Buyers face supply shortages for an ever-increasing number of species. Considering the costs of putting a cosmetics product on the market, companies are highly interested when suppliers can demonstrate sustainable supply and will not engage in product development with new suppliers if this cannot be proved.

According to industry sources, although resource assessments are officially a requirement for collection permits by DEA, this requirement has so far not been implemented fully. The only two resource assessments and management plans for
plants in South Africa are for Cycads (some are critically endangered) and for Pelargonium sidoidis, as well as P. reniforme, through a TRAFFIC managed research project which is available through the Government Gazette Notice 433 of 2013.

**Tips:**
- Conduct a resource assessment and implement a resource management system, for example as prescribed by FairWild certification or according to BioTrade Principles and Criteria. Show awareness of your company’s impact on biodiversity and provide documentation of sustainable collection practices. Also consider certification according to the FairWild standard if of interest to your buyers.
- Check the conservation status of species, e.g. red list of the International Union for Conservation of Nature (IUCN), or the CITES annex and the national focal points at DEA. Higher-risk species will require more thorough resource assessment and management systems. Demonstrating compliance for high risk products can provide a particular USP to buyers.
- Show sustainable wild collection by implementing and documenting GACP, through certification via FairWild, or implementing BioTrade Principles and Criteria, or showing documentation of sustainable collection practices.
- Determine your options to domesticate species which are insufficiently available on the market. Always determine the economic viability of such expensive trajectories first through a feasibility study. Also consider partnerships with local knowledge institutes such as specialists at SANBI, the South African National Biodiversity Institute, or departments of botany, such as at Stellenbosch University, Rhodes University, University of Cape Town and University of Pretoria.

No legal definition of natural cosmetics exists. Its definition is driven by private sector standards. At the international level, initiatives exist to develop an international standard by ISO. Part 1 of a draft ISO standard has been published. Part 2 is under development and eagerly awaited by the industry and regulators.

Private sector standards, specifically NaTrue, Cosmos and BDIH are most accepted by the industry. These standards provide guidelines on permitted ingredients and minimum thresholds for cosmetic products to be certified natural and organic.

On the South African market, certified cosmetic manufacturers can be found producing in accordance with Ecocert natural cosmetics, vegan and cruelty free, amongst others.

**Tip:**
- Although not directly applicable to ingredient producers, it is important to be aware of these standards in terms of permitted processes and additives.

Organic represents a small percentage of the total cosmetics market. There may be good opportunities for some ingredients, but remain flexible to reach buyers from a broader section of the market.

**Tip:**
- Although not directly applicable to ingredient producers, it is important to be aware of these standards in terms of permitted processes and additives.

EU legislation specifies what organic production and labelling entails. Applicable to food products, it forms the basis of private standards for organic labelling for cosmetics. Examples of certifying bodies for (ingredients for) cosmetics are Soil Association (UK), Ecocert (France) and BDIH (Germany).

South Africa has no legislation or standard controlling organic agriculture production in South Africa. South Africa is not listed as a third country by the EU. This means products need to be certified according to EU organic legislation by accredited and accepted institutions if you want to export to the EU. Within South Africa, organic is a small niche market.
Several standards are present on the EU market to certify socially sustainable production of natural ingredients for cosmetics. Examples of consumer labels include Fairtrade, IMO Fair for Life and FairWild (wild-collected ingredients). Furthermore, Rainforest Alliance has a standard for Rooibos.

European consumers are more and more interested in buying fair products, increasing the demand for certified ingredients (especially in the UK). Certification is not always required, but companies should at least articulate through their own Fair Trade Policy what they do, why and how they do it.

As consumers want to hear stories about the people producing their products, you can use socially sustainable production methods in your marketing story.

The Fairtrade label South Africa has grown significantly. Although mostly limited to wine and other beverages (tea, coffee), it has built awareness among companies and consumers. In the cosmetics sector, demand for fair products is also increasing. Several South African manufacturers market fair products on the national market according to WFTO standards. Some are active on international markets, such as Rain and Esse.

Tips:
- Consult the ITC Standards Map database for the different organic labels.
- Determine whether you can expect a return on investment on organic certification prior to starting the process. The market for organically certified ingredients remains small and your organic products might eventually be sold as conventional (so without a premium).

Find out more about specific requirements

Check General requirements for natural ingredients for cosmetics

Check specific requirements and expectations per product (group) in CBI factsheets on:
- Anti-aging extracts
- Essential oils for fragrances
- Hair conditioning oils
- Essential oils for aromatherapy
- Skin conditioning extracts
- Waxes
- Fruit seed oils
- Resins
- Anti-oxidant extracts
- High-omega oils
- Rose geranium oil

What competition do South African suppliers of natural ingredients face for cosmetic products on the European market?

The cosmetics industry thrives on innovation and ingredients are an important way for manufacturers to innovate. Cosmetic manufacturers are looking for new ingredients, which could be completely new species, a species with a new
marketing story or a new supply chain (not necessarily related to marketing). The number of truly new ingredients coming from South Africa is low, but the country does have the potential to supply ingredients with new marketing stories or a more sustainable supply chain. South Africa will face competition from other high-biodiversity regions/countries and those which have an “exotic” connotation with European consumers, such as the Andes, Amazon or Indonesia.

Buyers are also interested in new suppliers of existing ingredients who can offer better value in terms of price, service or quality. In some cases there may be a shortage in supply for certain products. Be cautious, though, as such shortages are often temporary in nature and producers in other countries will also be on the lookout to fill the gap!

Competition in the European cosmetics market is determined by several forces: How easy is it to enter the ingredients market, how likely is product substitution and what is the position of South African suppliers in this market compared to suppliers in other regions?

Market entry

Strict market access requirements act as a filter for new entrants to the market. Products need to be safe to process, safe to use, safe in terms of availability, safe in terms of Corporate Social Responsibility (CSR) compliance, safe in terms of proof of efficacy and safe in terms of transparency and traceability. Only professional companies are able to meet such high compliance expectations. These expectations increase market entry costs and, consequently, result in a lower degree of competition. Buyers indicate that South African companies are often small, making it more difficult for them to spread high market entry costs over larger volumes. As a result, market entry becomes relatively more expensive for such small companies.

In general, industry sources indicate that South African ingredient exporters have access to better human and financial resources and technology than in other countries in Southern Africa.

Tips:
- Comply with and exceed market access requirements in terms of legislation, quality control, traceability and sustainability in order to prove yourself to be a reliable supplier. Be ready to offer detailed product documentation (e.g. product, technical, safety and efficacy data) and professional samples. For a full overview of legal requirements, refer to the CBI EU Buyer Requirements for Natural Ingredients for Cosmetics or to CBI Product Factsheets for your specific product or product group.
- Seek alliances with other producers in South Africa if your company’s small size makes it difficult to enter the European market. This may make it easier and less expensive to comply with market access requirements.
- Build an image of ‘preciousness’ or ‘rarity’ to make the ‘commonplace’ special. For example, expand on the biodiversity of South Africa, home to the ingredient. Your buyer can use this in the marketing of cosmetic products. The more strategic your ingredient becomes to your buyer, the more (s)he will need to seek ‘ownership’ of the ingredient in terms of close relationships, and expose other buyers as ‘followers’.

Product competition

Because innovation, also in terms of new ingredients, is so important in the cosmetics market, product competition is fierce. Ingredients of natural origin compete with other natural ingredients with similar properties or marketing story, as well as with synthetic alternatives. The strength of this competition depends on the segment the ingredient is used in (e.g. its functionality, industry segment, type of player, speciality/uniqueness). Whether your product faces competition from other natural ingredients depends on its properties, its origin, relevant market trends, price level, what the manufacturer plans to use the ingredient for, the positioning of his brand and company image. If your natural ingredient lacks certain properties, or has a higher price tag compared to similar ingredients, it is most susceptible to substitution by buyers looking for the ‘next new thing’.
- It is more difficult for buyers to replace speciality ingredients (see Market Segments) which are certified, ethically produced or come from a specific origin that carries a certain meaning for consumers.
- Ingredients which have been strongly marketed by manufacturers are unlikely to be substituted, especially if the manufacturers have achieved ‘ownership’ of the ingredient in the eyes of consumers. Please note that a South African origin or a community image does not mean your story will be the marketing focus of the final product. Marketing can be much broader (e.g. around Africa, desert or natural) or can focus on efficacy or other ingredients included in the cosmetic product.
- The likelihood of substitution is higher if a manufacturer is formulating new products. Substitution for a different ingredient in an existing range is less likely due to the high costs of change your buyer would incur (product formulation, Product Information Files (PIFs)). Manufacturers only consider this if a new offer is substantially better than existing products and sufficient quantities can be delivered according to the same standards.
- European buyers are not keen on switching suppliers of key ingredients, as substitution increases sourcing risks. They often prefer to limit the number of suppliers to reduce their administrative burden and to facilitate close contact. Although this may lower chances for new suppliers, it also means that once you have established yourself as a supplier of a key ingredient, the threat of substitution is much lower. Therefore, the threat of substitution depends on
whether you are supplying a key ingredient, which depends on your buyer. A key ingredient could be something that is used to base product marketing on, or a product range.

**Tips:**
- Determine the chances of substitution and which competing ingredients should be included in your market analysis. Have a look at the table below, which gives some considerations for product substitution as well as the example of sacha inchi. This vegetable oil is indigenous to the Amazon region of Peru (main production), Ecuador and Colombia.

<table>
<thead>
<tr>
<th>Table 2: Product substitution</th>
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<tr>
<td><strong>Define:</strong></td>
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<tr>
<td>Which other ingredient could be used in a manner similar to your product?</td>
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<tr>
<td>How your ingredient compares to the competition (price, ease/costs of substitution, legislation)?</td>
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</tbody>
</table>

- Carefully promote your product with claims that build its value in the market. Ensure that claims are substantiated by scientific data beyond literature on traditional use and that you do not make medical claims, as these are not allowed for cosmetics. Refer to the section on legislative requirements to identify what relevant data you need to collect and which research institutions you can consider.
- Reduce product competition by not only meeting, but also exceeding, buyer requirements and differentiating your product by excellence in terms of CSR, sustainability and traceability or by providing additional services compared to your competitors.
- For more information, please refer to the CBI Modules on Competition for Vegetable Oils, Essential Oils and Botanicals.

**Competitive position of South African suppliers**

In the cosmetics market, European buyers have a lot of power. You will be subjected to strict demands in terms of consistent quality, documentation, timely delivery and price. Europe imports natural ingredients for cosmetics from a wide range of origins, which compete with South African suppliers. Competition also stems from other Southern African countries which produce similar ingredients. South Africa does not currently play a predominant role on this market for natural ingredients.

Overall, although there are exceptions of course, the **product quality** of South African natural ingredients is considered good in the opinion of European buyers. Moreover, as a high-biodiversity country they see great potential for a wide **product offering**. The country has a Mediterranean climate in the south and a tropical climate in the north and could potentially grow a wide range of products. Moreover, South Africa holds around 30,000 flowering plant species, 10% of the world’s higher plant species (Street, 2013). However, not many European companies work with South African ingredients, aside from a few iconic ingredients, many of which can also be sourced from other Southern African countries.

European companies are very positive about working with South African suppliers. Compared to other African countries, the South African (**business**) culture is considered much closer to norms in Europe. There are also few language barriers with South African suppliers, as many speak English. European buyers have commented that cultural aspects can complicate communication with Indian and Chinese suppliers. This makes coming to terms on specifications difficult in these countries, especially in terms of quality issues.

Other aspects that facilitate working with South African suppliers include:
- South Africa and (Western) Europe are in the same time zone, which makes communication easier
- The country is easy to deal with in terms of infrastructure and technology
**Marketing potential** for South African products is quite high, which is a strong competitive advantage for the country. However, this is not fully exploited. South Africa’s marketing potential is especially interesting for cosmetics manufacturers who are looking for new ingredients and new marketing stories. According to European buyers of cosmetic ingredients, consumers link South Africa with “natural” and “biodiversity”. This image fits best with indigenous species in the country, but natural is also linked to an image of clean and pure products.

At the same time, international buyers state that South African companies and products are not always well known in Europe, because the country and its potential is not being marketed sufficiently. Buyers are not always aware that so many interesting natural ingredients originate in South Africa and that it is easy to work with the suppliers.

It is relatively simple to export organic products from South Africa to Europe, even though the country does not have strict organic legislation itself. Organic certifiers have a presence in the country. Products that are certified organic in South Africa can be exported as organic products to the EU. However, European buyers have had problems with sufficient availability of organic certified ingredients, which can provide a competitive advantage for South African suppliers who are able to meet this requirement.

According to buyers, their main issue in working with South African suppliers lies in the **continuity and sustainability of supply**. There is little consistency in available supplies, which is a risk buyers cannot take when these ingredients are used in a specific formulation. According to one European buyer, this issue is often caused by insufficient cash flow and small scale. However, not all European buyers experience the same problem. For example, some companies working with larger and more experienced suppliers did not report such problems in continuous supplies. As mentioned before, South African suppliers who are able to meet this requirement of sustainable supply can catch interesting opportunities in finding and building a professional relationship with buyers, thereby improving their competitive position.

**Traceability** can be an issue in South Africa. Production of natural ingredients in South Africa relies on both domestic and foreign production, as South Africa is a regional hub for many natural ingredients. Due to limited attention to traceability, it can be difficult for buyers to trace the origin of natural ingredients from South Africa. The country is not alone in this sense, as similar issues play a role in products from India, for example.

The views on transport to Europe differ among European buyers. On the one hand, the country has a relatively good export infrastructure compared to other countries in the region; it is well connected to Europe in terms of flights and freight lines. On the other hand, distances are rather long and European buyers have commented that it can be expensive to import small orders of products from South Africa (e.g. 25 kg). Moreover, other buyers have commented that transportation in and from South Africa is expensive. In that sense, countries that produce ingredients similar to those from South Africa and that are closer to Europe may have a better competitive position, for example North African countries for Mediterranean natural ingredients.

**Tips:**
- To improve your competitive position as a supplier, in addition to having an effective and safe product, ensure the following:
  - Demonstrate that you are reliable in terms of quality consistency, documentation, communication, delivery, packaging, service delivery and supply security.
  - Make sure that you can trace your products back to the farm, community or collector group that produced it. You need to know where your product is coming from and communicate this to your buyers. Being transparent in this respect builds trust. If you are an intermediary, you need to be ready to explain how you, as a trader in South Africa, add value for your buyer.
  - Comply with and exceed market access requirements (see **Buyer Requirements**). Be ready to offer detailed product documentation (e.g. product, technical, safety and efficacy data) and professional samples.
  - Always be available for communication! Be open and honest in your communications and promptly answer questions and requests from your (potential) buyers.
  - Set yourself apart from other South African suppliers: show to your (prospective) buyers that you do not have the same issues as listed above. If you are working with other South African producers, differentiate yourself from other suppliers as a group.
  - Exploit the marketing potential of your products. Have a look at the **positioning and market entry strategies** in the Opportunities and Threats chapter for more information.
- If you work with cooperatives, check out the **Co-operative Incentive Scheme** of the Department of Small Business Development Services (DSBD) to develop and strengthen cooperatives you work with.
- For more information, please refer to **Opportunities and Threats**.
Find out more about competitive sources of:

- Vegetable oils
- Essential oils
- Botanicals

Through what channels can South African suppliers get their natural ingredients for cosmetic products on the European market?

The main players in the market channels for South African natural ingredients are domestic producers and processors, as well as European processors and end-product manufacturers. A variety of intermediaries play a role in connecting these players. Figure 4 below gives a basic overview of market players.

**Figure 4: Market channels for natural ingredients from South Africa**

**South Africa**

**Producers** in South Africa include both farmers and wild-collectors and some producers engage in both cultivation and wild-collection. The production strategy depends on the nature of the species and the size of its market.

**Wild-collection**: species are collected from the wild if cultivation of indigenous species is not feasible, for instance because of abundant wild supply, low demand or prohibitive requirements for domestication and cultivation (time, financial and human resources). Examples include Baobab and Devil’s Claw. Naturalised species are also collected from the wild (e.g. Eucalyptus).

Organisation of collection at the community level is often limited in South Africa and a variety of intermediaries play a role in consolidating production. Several domestic SMEs with access to national and international buyers have been proactive in organising collection, also to fulfil requirements to obtain collection permits. In such cases, collectors are often involved in initial post-harvesting procedures, including drying, sorting and grading. They also organise storage in local collection centres while waiting for buyers to collect the materials.

Communities without such access to buyers commonly do not gather plants until they are notified of specific demands from local traders. The value of plant material is small compared to later value-addition, also since traceability and documentation is limited or non-existent and post-harvesting and storage conditions do not meet international quality standards, which can be an issue in exporting to Europe.

**Cultivation**: both indigenous and introduced species are cultivated, although cultivation is more common for introduced species. For example, citrus fruits, such as oranges, were introduced to South Africa long ago and are now widely cultivated. Rooibos, an indigenous specie in South Africa, is now also mostly cultivated, while honey bush is more often collected from the wild. Some introduced species, especially those destined for exports, are grown by larger farms or plantations producing a limited number of species. Some also work with outgrowers.
Smaller farms often grow a range of crops. Because of their limited market connection, many do not produce according to market needs (product identification, good agricultural practices and other quality requirements), unless they have organised themselves or work under close control of domestic buyers.

Local traders play a role between collecting communities/farmers and national processors and exporters by accumulating products and compiling basic documentation before selling it on. Smaller traders collect directly from wild-collection communities and farmers, successively moving up to larger players in better-connected towns.

Processors/exporters play a role at different levels of the value chain of cosmetic products. They usually deal in large quantities of a limited number of species, often both processed and unprocessed ingredients. They process raw materials into vegetable oils, essential oils or extracts based on both domestic production and production in other parts of Southern Africa (see Figure 4 above). International buyers indicate that transparency and documentation of product origin is often not available in South Africa and needs to improve to make dealing with South African suppliers more attractive.

Processors in South Africa are either connected to (larger) processors and exporters with connections to export markets and national cosmetics manufacturers or export themselves.

Europe

European traders have several important functions, including global sourcing, analysis and quality control, rectification to ensure quality of ingredients, blending, product documentation and sales to users.

EU importers and distributors are the standard and most important entry points into the EU market. Companies can trade in up to 400-500 species, in addition to other (synthetic) ingredients. Smaller players often specialise in the cosmetics, pharmaceutical or food (supplements) industries. Larger ones are increasingly active with both raw materials and processed ingredients, and supply all these industries. Some also process natural ingredients, while many are concerned with testing, or use voucher specimens in order to ensure correct species identification and quality. Both large and small players can be interesting for South African suppliers, depending on supplier size, products, certification and documentation.

In general, the lines between EU traders and processors are becoming less clear. Many processors also import natural ingredients directly, for example Indena, Naturex and Exxentia.

The European processing industry buys these natural ingredients and processes them into ready-to-use cosmetic ingredients, by isolating active components or by combining components from different extracts into proprietary cosmetic ingredients. They sell the processed ingredients to the end-product manufacturers, sometimes via ingredients distributors. Large processing companies generally supply cosmetics manufacturers but often also herbal medicinal products and food supplements manufacturers. Smaller processors tend to be more specialised in one of these sectors.

End-product manufacturers often specialise in one or more industry segments. These manufacturers create the final products as they are found in the consumer market. Some manufacturers (usually smaller companies) use distributors to sell finished products to retail outlets, while others sell directly to retailers. The bulk of finished products are sold through retail outlets, either mass market or speciality.

Find out more about market channels for:

- Vegetable oils
- Essential oils
- Botanicals

What are the opportunities and threats for South African suppliers of natural ingredients for cosmetic products?

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The rich biodiversity of South Africa offers opportunities to natural ingredients suppliers to work with unique, indigenous species.</td>
<td>Conduct a feasibility study to verify market demand for your ingredient, identify segment-specific market requirements and determine your ability to meet them. If your research requires international buyer visits, consider linking to DTI’s EMIA scheme.</td>
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</tbody>
</table>
South Africa’s climatic zones, Mediterranean and tropical, offer potential to cultivate a great variety of introduced species. According to European buyers, South Africa could potentially grow just about anything.

Make sure that supply is sustainable, both for wild-collection and cultivation. Explore options and viability to cultivate indigenous species, so as to ensure future availability. Make sure that these cultivated species do not lose their status of being indigenous to South Africa, as has happened with Rooibos. Find out if you can cultivate species for which you, as a South African producer, can meet international buyer expectations and price points.

In Europe, consumers want to buy a story, not just a product. South Africa has many opportunities to build an attractive marketing story. However, whether marketing stories are relevant depends on how your ingredient is used (Figure 5).

- First and foremost, ensure quality and sustainability of supplies.
- Second, determine how your ingredient is used in a final product. If it is used for marketing purposes, for example in the marketing of a brand or product, build a marketing story.
- Make sure you can answer any CSR related questions your buyers might ask by studying the Supplier Ethical Data Exchange (SEDEX).

**Figure 5: Relevance of marketing stories**

<table>
<thead>
<tr>
<th>Basis: Quality and sustainability</th>
<th>Used for marketing purposes?</th>
<th>Build marketing story</th>
<th>Elements:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YES</td>
<td></td>
<td>- Biodiversity of South Africa</td>
</tr>
<tr>
<td></td>
<td>NO</td>
<td></td>
<td>- Indigenous species</td>
</tr>
<tr>
<td></td>
<td></td>
<td>YES</td>
<td>- Traditional use</td>
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<td></td>
<td></td>
<td></td>
<td>- Production methods</td>
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<td></td>
<td>- Certifications</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>- Social responsibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Etc..</td>
</tr>
</tbody>
</table>

If your ingredient is used for marketing purposes in cosmetics, you have great opportunities for building a good marketing story, for example by using some of the following options:

- Build on the image of natural, which consumers already equate with South Africa
- organic certification
- adding a social responsibility component to your product offering
- referring to an enticing history of use or particular production methods
- Species which are indigenous species to South Africa

In your marketing materials, explain what makes your product different: Does it benefit a local community, does it create jobs or generate income for rural communities in South Africa? Where and by whom is it produced? Is it sustainable?

- Add some good quality photos and a few statistics to your product information.
- Determine your potential to obtain certifications such as organic or SA8000, which can add to your marketing story. Discuss these options with your buyers.

Producers of ingredients and cosmetic companies have an opportunity to reinforce their marketing efforts: Cosmetic manufacturers from South Africa are gaining ground in EU niche markets and introduce new ingredients at cosmetic trade fairs. Once EU companies take these up, it can broaden the markets for these ingredients. At the same time, this increases the interest of these same

- Make use of the growing interest of EU companies in South Africa and its ingredients. Determine your options to bring final cosmetic products to the European market. Link these to the South African ingredients you use in the products.
buyers in South Africa as a source of cosmetic ingredients.

South African suppliers have several opportunities to be good business partners to European buyers. Buyers identified the following factors that would ease doing business with South African suppliers: good infrastructure in terms of logistics and communication, and location in the same time zone as (Western) Europe.

- Be open and honest in your communication. Respond promptly to e-mails.
- If you run into problems, e.g. a delay in delivery, tell your buyers! EU buyers want to be informed so that they can help solve the problems or at least inform their clients.

The French, German and UK cosmetics markets offer most opportunities for innovation, often in terms of new ingredients or new marketing stories. These countries have the highest product innovations.

- If you supply new ingredients to the European market, focus on innovative European markets, such as Germany, France and the UK.
- To find new ingredients, start with traditional use: what do people in South Africa use to get a smooth or soft skin or reduce signs of aging? What do people use on their hair?
- Next, check the safety, efficacy and composition of your new ingredient. Work together with universities in South Africa or check literature sources.
- Perform feasibility studies for new ingredients to determine whether or not they have sufficient potential in the market, examining functionality, efficacy, safety and market opportunities (this should also be based on price, usage levels and availability).
- Together with universities in South Africa, build up a library of documents that refer to the properties, benefits and claims associated with your new ingredient. Refer to publications, press releases, advertisements from competitors and other source material.
- Link up with European companies to get new products to the market. To find local partners, check with South African associations, such as CECOSA’s members.

Natural and organic cosmetics offer most opportunities for exporters of natural ingredients. The main markets in Europe are Germany, France, the UK, the Netherlands, Austria, Switzerland and Scandinavia.

- Focus your exports on countries that have a particularly strong interest in natural cosmetics. In this segment, use of natural ingredients is highest.
- Look for traders and cosmetic manufacturers that supply these countries, e.g. through Cosmetics Europe.

<table>
<thead>
<tr>
<th>Threats</th>
<th>Actions</th>
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<tbody>
<tr>
<td>Unsustainable use of natural resources, from both wild-collected and cultivated sources, is a large threat to future supplies. Moreover, European buyers have stated that continuity and sustainability of supplies is one of the main issues in dealing with South African suppliers.</td>
<td>Establish sustainable collection practices to ensure continued availability of wild-collected ingredients. This requires:</td>
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<td>o Resolving and formalising resource access</td>
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<td>o Resource mapping</td>
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<td>o Resource management plans</td>
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<td>o Standard operating procedures (SOPs)</td>
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<td>o Documentation of practices</td>
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<td></td>
<td>o Training on SOPs</td>
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<td></td>
<td>Determine if there is a business case to certify your sustainable wild-collection processes in coordination with (potential) buyers.</td>
</tr>
<tr>
<td>The uncertainty around ABS legislation in South Africa may complicate exports to Europe. Some European buyers indicated that it was likely that companies will choose not to source from South Africa because of this unclear situation and instead source from countries where access is more straightforward or not yet regulated. In other cases they might take high-risk products out of formulations.</td>
<td>Stay on top of ABS legislation in South Africa. Make sure that you can advise your (potential) buyers on their options and requirements under the legislation and that you can show your compliance through your documentation.</td>
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<tr>
<td>As a country and region, South Africa faces competition from other regions that are associated with ‘natural’. Examples include the Amazon, Andes and Polynesia/Tahiti. Along with this, South African suppliers also face competition from other countries for specific national ingredients.</td>
<td>In your marketing materials, also include what makes South Africa special as a region. How does it stand out from other sources of natural ingredients? Have a look at the CBI Tailored Intelligence Sector Profile document for more information on the positioning of South Africa.</td>
</tr>
<tr>
<td>Especially in cosmetics, trends can be short-lived. As a result, demand for specific ingredients can change substantially as trends change.</td>
<td>Diversify your production to make yourself less susceptible to changing demand.</td>
</tr>
<tr>
<td>European buyers have identified a lack of traceability as one of the main issues with South African suppliers. As such, if you can improve the traceability of your ingredients, you can differentiate your company on the market.</td>
<td>Implement traceability systems in your company. Make sure that you can trace your natural ingredients back to a farm, community or collector group. If your products originate from outside South Africa, inform your buyers accordingly. If you are a trader rather than a producer, be ready to explain your added value to your buyer.</td>
</tr>
<tr>
<td>There is a lack of organisation and a lack of economies of scale in the industry according to EU buyers. Moreover, the costs of testing, quality control, marketing and shipments of small quantities are high.</td>
<td>Find out if you can cooperate with other producers/traders to share costs and facilitate quality control, transportation, marketing efforts. This can ease market entry. Find out if you can work through other, more experienced exporters to ease your product’s entry into the European market. In the meantime, you can learn the ropes of exporting yourself. CECOSA can assist in this process.</td>
</tr>
<tr>
<td>European buyers have indicated that there is a lack of marketing of South Africa, its suppliers and natural ingredients. Aside from some iconic ingredients, few companies in Europe are aware of the origin. Organisation will also be vital to improve visibility in the cosmetic ingredient marketplace in Europe.</td>
<td>Conduct some market research to find out how important marketing stories are for your ingredient. Build a marketing story for your ingredient, linking it to the South African origin.</td>
</tr>
</tbody>
</table>
Find out more about opportunities and threats for:

Vegetable oils

**What are interesting market segments in Europe for vegetable oils for cosmetics?**

Vegetable oils are generally used for their functional properties (Figure 6), in particular as an emollient and for conditioning. Most vegetable oils have these functional properties to some degree and have some level of performance in cosmetic products. Be careful when making any claims of active properties of vegetable oils. Certain fatty-acid profiles (e.g. high-Omega) can make oils suitable for providing active properties, but this is often strongly related to marketing.

In addition, vegetable oils are also used to produce various derivatives. These are used in cosmetics for functional properties as listed in Figure 6, but also as surfactants (e.g. foaming agent) and thickeners.

Most interesting segments for vegetable oils are skin and hair care, followed by toiletries. The latter mainly uses commodity oils, whereas speciality oils are more commonly used in skin and hair care products. Cosmetic products that have the highest use of vegetable oils are moisturisers (skin care) and hair conditioners (hair care).

**Tip:**
- Consider if and how your vegetable oil performs a function better than its competitors. Provide data on the difference in functional properties between your oil and that of your competitors through a chemical profile, but preferably with performance tests.

What is the demand for vegetable oils for cosmetics?

Estimating the share of the vegetable oil market used in cosmetics is difficult as most vegetable oils are not only used in cosmetics, but in many cases predominately in food industries. According to industry sources, high-value vegetable oils are predominantly used in cosmetics. Countries that import a relatively large portion of high-value vegetable oils include Germany and the UK. When it comes to imports from developing countries, France and Germany have the largest proportion of high-value vegetable oils. It is in this segment that South Africa has most potential; providing vegetable oils at a high quality, that are indigenous to the region or that have specific stories around ethical or organic production.
No data on the use of vegetable oils in cosmetics are available. Instead, the analysis below takes a closer look at the market for two important cosmetics market segments using vegetable oils, which are moisturisers (skin care) and hair conditioners.

**Moisturisers:** Skin care products with hydrating claims are trendy (Mintel, 2013). In 2012, two out of three new product launches in the global skin care market claimed to moisturise or hydrate the skin. The proportion of consumers who use facial skin care products to prevent or treat (i.e. moisturise) dry skin is 56% in the UK, 48% in Germany and 37% in France. Cosmetic manufacturers are on the look-out for new oils which provide this function to a high degree.

**Hair conditioners:** In 2013, the size of the European hair conditioning market was estimated at €2.2 (US$ 2.5) billion (Euromonitor, 2014). European manufacturing of hair conditioners is concentrated in Western Europe (Italy, Germany, France and Spain). In 2014, 17% of global hair care product launches were for conditioners and 22% were for hair treatments (Mintel, 2015), showing the potential of this market and the interest in conditioning ingredients.

**European trade** in vegetable oils
European imports and exports have increased over the past 10 years, with notable peaks in imports in 2006, 2011 and 2014 (Figure 7). Imports have more than doubled since 2005, while exports have even tripled. However, imports have always remained higher than exports, which makes Europe a net importer of vegetable oils, offering opportunities for suppliers outside Europe.

In 2014, EU imports reached 392,000 tonnes with a value of €673 billion, while exports amounted to 277,000 tonnes or €589 million. In the same year, leading European importers of vegetable oils included Belgium, France, the Netherlands and Sweden, together accounting for 65% of total imports in terms of volume.

**Figure 7: Total EU imports / exports and supply of vegetable oils from South Africa between 2005 and 2014, in 1,000 tonnes**

![Graph showing EU imports, exports, and supply from South Africa between 2005 and 2014](source)

**Source:** Eurostat, 2015

**Vegetable oil suppliers**
Countries outside the EU play a modest role in supplying EU countries directly. In terms of volume, around 20% of 2014 imports originated from outside Europe. Most imports originate in, or are traded through, member countries (re-exports), after being refined or fractionated. This processing function explains the relatively important role in the trade of vegetable oils, notably in the Netherlands, Germany and Denmark. Europe's largest vegetable oil suppliers are included in Figure 8 below.

---

1 Trade statistics for vegetable oils are based on HS code 1515.90, ‘other vegetable oils’, fixed vegetable fats and oils and their fractions, whether or not refined, but not chemically modified. These data exclude the main commodity products, such as soy, coconut, palm, sunflower and rape.
South Africa plays a small role, accounting for 0.3% of EU import volume. In 2014, total supplies to the EU amounted to 1,192 tonnes at €4.1 million. Imports fluctuated considerably, with a peak in 2008 and, more recently, in 2014. The Netherlands and France are the leading destinations, each accounting for 40% of EU imports from South Africa.

Tips:
- Consider targeting the market for skin care products on the basis of moisturising or hydrating properties associated with your vegetable oil. Make sure you can substantiate this claim through chemical composition and basic performance testing. This can be done through labs in South Africa and in partnerships with South African universities. Closely consider whether and what testing offers you added value on the market or improves your market entry possibilities.
- Consider exporting to Western Europe, as this is the region where most hair conditioners are manufactured, in particular countries where product innovation is high and there is strong interest in “oils with a story” (e.g. France, UK, Germany).
- For more information on demand for vegetable oils, please refer to the CBI Product Factsheets on fruit-seed oils, high-omega oils and palm oil alternatives.

What requirements do I need to meet to get my vegetable oils on the European market?
Please refer to the overview of Buyer Requirements for Cosmetic Ingredients, as requirements for vegetable oils are the same as these.

What competition do South African producers of vegetable oils face on the European market?

Product competition
The threat of substitution is high for vegetable oils. Since refined vegetable oils have similar safety and efficacy profiles, they are easily substituted with other oils or, alternatively, with more refined derivatives and synthetic alternatives with similar properties. Substitution of vegetable oils in finished products is mostly too expensive, but more likely for new cosmetic products or in the case of relaunches, when products are reformulated. How, and in which products, vegetable oils are used depends on the price, availability of supplies and public image of the oils (e.g. concerning environmental impact or triggering allergic reactions).

Speciality vegetable oils are less likely to be substituted and it is here that industry sources indicate the best market for South African SMEs. These include oils with certification (organic and/or fair), a marketing story on the origin of South Africa, a specific functionality (e.g. high in Omega fatty acids) or local benefits to South African rural communities. Such oils can form a key part of a cosmetic product’s marketing story. Major intermediaries are still looking for ways to boost social and ethical aspects (e.g. the story behind the oil) and create strong links between manufacturers and certain vegetable oils they use in their cosmetic products, in terms of investments. This makes switching costs higher and substitution less attractive to manufacturers. However, be aware that some buyers may not be inspired by ‘yet another’ vegetable oil!
According to European buyers, the distinction between \textit{indigenous} and \textit{introduced} vegetable oils is only important if the manufacturer is looking for a marketing story. For most, traceability is more important: they want to know where the oils come from and that they are sustainably sourced. Good traceability is especially important to differentiate between oils indigenous to South Africa and oils sourced in, and through, other Southern African countries, such as in the case of baobab.

For introduced oils, the competitive field can be much larger, for example in the case of apricot kernel and almond oil. In addition to production in South Africa, these oils are produced in a wide range of countries, from North America and Europe to the Middle East and Central Asia. It may be difficult to stand out from these countries with your offer. Nonetheless, European buyers have indicated that global supply of some of these oils offers room for new suppliers.

\textbf{Tip:}

- For more information on competitive sources for vegetable oils, please refer to the CBI Product Factsheets on \textit{High Omega Oils}, \textit{Fruit-Seed Oils} and \textit{Hair Conditioning Oils}.

Through what market channels can South African suppliers get their vegetable oils to Europe?

For an overview of Market Channels for vegetable oils, please refer to the \textit{CBI Module Channels and Segments – Vegetable Oils for Cosmetics}. Vegetable oils are generally exported as oil, instead of in the form of oil-seeds, nuts or kernels, especially in the case of South Africa, where local capacities exist to do so. Most vegetable oils arrive in Europe as a crude oil, where they are then further processed into a refined oil or derivatives. Oils are also filtered in South Africa, but whether further processing is feasible depends on the quality, available volumes and your buyer’s needs.

Vegetable oils can be sold directly to cosmetics manufacturers, but they are more commonly sold through specialised intermediaries such as agents and importers. There are a number of traders in Europe that focus on speciality vegetable oils, from either a worldwide or a regional perspective. Moreover, vegetable oil traders and natural ingredient distributors also work with speciality products.

\textit{Speciality vegetable oils} and certified organic or fair trade oils usually have relatively short trade channels, i.e. fewer intermediaries are involved. Buyers want to know the source of the oils as specifically as possible, partly to use these in their marketing campaigns. Organic oils are frequently used directly in cosmetics, since chemical processing is restricted for ingredients of certified natural cosmetics and further processed ingredients often no longer qualify. However, allergens still need to be removed from allergenic oils.

\textit{EU processors}

SME exporters do not commonly supply \textit{refiners} directly, as they usually cannot provide sufficient volumes. Generally, developing country exporters supply importers, which accumulate supplies from multiple sources in order to obtain the volumes requested by refiners.

In the speciality segment, direct sourcing from developing country exporters is more common, especially among smaller players. Supplying directly to the refining industry is only interesting if you are able to:

- supply large volumes of vegetable oils
- supply a product which is of consistent quality
- find a refiner interested in oils traded in small volumes

SME exporters rarely supply \textit{emulsifiers, surfactants and other derivatives} industries directly, as these are complex industries. The exception is for small players in these industries, which transform speciality oils into value added derivatives. They are involved more directly in the value chain compared to large players.
### Opportunities and Threats for South African Suppliers of Vegetable Oils for Cosmetic Products

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Actions</th>
</tr>
</thead>
</table>
| South African suppliers have the technical and human resource capacity to add value to their raw materials by exporting them as vegetable oils. | - Determine your potential to produce good quality vegetable oils on a sufficient scale.  
- Cooperate with other processors to ensure quality control or achieve economies of scale. |
| There are opportunities to produce introduced oils in South Africa that are in short supply globally, such as avocado and macadamia oils. | - Find out if you can cultivate species such as avocado and macadamia. Be aware that other countries will also try to fill this gap! |
| There are also opportunities to produce organic vegetable oils in South Africa; EU buyers have expressed an interest in such oils. | - Determine your options to apply for organic certification. Always discuss these options with your buyers before making any investments. |
| The cosmetics market offers good opportunities for vegetable oils, particularly for speciality oils targeting the skin and hair care segments. | - Develop an interesting marketing story around your oil. This can be based on:  
  o an attractive chemical composition (e.g. fatty acid content)  
  o (sustainable) collection, production and processing of raw materials (e.g. benefits to a local community)  
  o the oil’s origin, especially for indigenous oils, e.g. the Fynbos in the Western Cape or the Drakensberg woodlands and forests.  
  o information on traditional use (e.g. how long and for which application), especially when oils have been used by communities in specific or enticing ways with a clear link to their potential use in cosmetics |

<table>
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<tr>
<th>Threats</th>
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<tbody>
<tr>
<td>South African suppliers of indigenous oils face competition from suppliers from regions that</td>
<td>- Develop marketing stories based on the wider (Southern) African region to compete with oils from other natural regions.</td>
</tr>
</tbody>
</table>
also have indigenous vegetable oils (e.g. argan oil from Morocco, açai seed oil from the Amazon).

| South African SMEs’ small scale production of vegetable oils is a threat to sustainability of supplies and complying with buyer requirements of available volumes. | • Focus your exports on niche markets, which require lower volumes.  
• In your business plan, allow for a multi-year build-up. Explain to your buyer what volumes you can export and how you are planning to build up production scale.  
• Find a buyer who is willing to grow with you as you expand your business. |

Essential oils

What are interesting market segments in Europe for essential oils for cosmetics?

Essential oils are mostly used for their fragrance in cosmetic products (e.g. skin and hair care) and perfumery (Figure 9). The second use is for their aroma therapeutic properties. There are overlaps between some functional and active properties, for example when oils are used as a fragrance but also for their aromatherapy properties.

Figure 9: Functional vs. active properties

What is the demand for essential oils for cosmetics?

Most essential oils are used in the cosmetic and food industries. This makes it hard to state what share of the essential oil market is used in cosmetics.

Europe has the largest fragrance industry in the world, according to IFRA. Two-thirds of these sales constitute proprietary fragrance blends, complete fragrances that are unique to individual brands and applications. The remainder is made up of sales of raw materials used in fragrance blends (essential oils, aroma chemicals).
**European trade** in essential oils
Both European imports and exports of essential oils were stable in the last 10 years, with a slight upward trend (Figure 10). Europe includes a number of large essential oil producers and data show that the region adds significant value to its imports of essential oils; in 2014 the unit price for exports was almost 50% higher than the unit price for imports. In 2014, EU imports reached 86,000 tonnes, at €1.2 billion. In the same year, leading European importers of essential oils included Germany, the United Kingdom, the Netherlands and France, together accounting for 64% of total imports in terms of volume.

The export value was practically the same as the import value, but at only half the volume: 52,000 tonnes at almost €1.1 billion.

**Figure 10: Total EU imports / exports and supply of essential oils from South Africa, in 1,000 tonnes**

Source: Eurostat, 2015

**South Africa** plays a small but (recently) growing role in terms of total essential oil supplies to the EU (< 2% of import volume). Although supplies from South Africa fluctuated strongly, overall they grew faster than total EU imports. Essential oils from South Africa mainly consist of citrus fruit oils (mostly exported to the Netherlands and the UK) and essential oils that are not further specified (mostly exported to Germany and France). The latter category includes many oils used in the cosmetics industry.

**Essential oil suppliers**
The EU imports essential oils from around the world and from its own member countries. In terms of volume, almost half of 2014 imports originated from outside Europe. Europe’s largest essential oil suppliers are included in Figure 11 below.

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2 Trade statistics for essential oils are based on HS code 3301: ‘Essential oils (terpeneless or not), including concretes and absolutes; resinoids; extracted oleoresins; concentrates of essential oils in fats, in fixed oils, in waxes or the like, obtained by enfleurage or maceration; terpenic by-products of the deterpenation of essential oils; aqueous distillates and aqueous solutions of essential oils.’
Most leading suppliers are specialised in a particular product group. To illustrate, peppermint and other mint oils are mainly produced in the USA, India and China. Brazil and the USA are by far the largest producers of citrus oils. Both China and India produce a wider range of essential oils.

Within Europe, essential oil suppliers consist of both re-exporters (Germany, the Netherlands and Ireland) and producers (France and Italy). A large proportion of oils produced in both Italy and France are used domestically and do not appear in trade figures. Of these producers, France is also an important trader in high-value essential oils, which are mostly used in the cosmetics industry. As such, this country offers opportunities for South African suppliers of essential oils for the cosmetic ingredient market.

Smaller suppliers outside Europe include Mexico (including citrus fruit oils), Argentina (including lemon oil), Indonesia, Madagascar (both supplying a wide range of oils) and Morocco (Mediterranean herb oils, e.g. rosemary and thyme).

There is a large difference between the value and volume of essential oil supplies. To illustrate, the volume of imports from Egypt only represents 0.2% of total EU imports, while the country is a large supplier of higher value essential oils, such as geranium and fennel oil. In value, the country is responsible for 1.7% of total EU imports, which is higher than the import value from Ireland.

**Tip:**
- For more information on demand for essential oils, please refer to the CBI Product Factsheets on essential oils for fragrances and aromatherapy, and specific essential oils (e.g. rose geranium).

**What requirements do I need to meet to get my essential oils on the European market?**

Please refer to the overview of Buyer Requirements for Cosmetic Ingredients, as requirements for essential oils are the same as these.

**What competition do South African producers of essential oils face on the European market?**

On the European market, competition for essential oils specifically comes mostly from competitors in other countries/regions, rather than from substitution. Product competition is low at the moment, but may increase in the future.

**Product competition**

Compared to vegetable oils and extracts, product competition is limited for essential oils. Major essential oils and their components are not at risk of being substituted with synthetic ingredients, as most cosmetic manufacturers that wanted to
substitute natural with synthetic components have already done so. For other manufacturers, these oils provide a source of ‘naturalness’ for their product, which is not likely to change.

In the future, product competition may increase, due to the use of new or different technologies. There is a possibility of reduced use of distillation techniques in favour of biotech and chemical synthesis. If competitive alternative techniques become a threat to the economics of distillation techniques of established oils, product substitution becomes more likely.

**Competitive position of South Africa**

European buyers have specified several essential oils as iconic South African products, both *introduced* and *indigenous* to the country. These two product groups have a different competitive field.

Introduced species offer both advantages and disadvantages. The varied South African climate offers opportunities to grow several (sub) tropical and temperate species, especially those that originate in Mediterranean climates. European buyers indicate that South African producers could grow introduced species such as chamomile and peppermint, for which there is a need on the market.

However, producing introduced oils also implies that you compete on international markets, which can be very competitive. For example, European buyers have indicated that the market for citrus oils is difficult to enter, as there are huge volumes available, mostly from Latin America. As a result, competition often comes down to quality and competitive pricing. You need to check whether you can compete: this will be possible for some oils, but in other cases only when you can differentiate your oil on the market.

This also works the other way around, if South Africa can make a case for a higher quality introduced essential oil. EU buyers have indicated that they buy certain oils from South Africa because of their high quality, rather than sourcing higher volume and lower priced oils from Egypt or China.

South Africa also offers several unique, indigenous essential oils, for which there are fewer competing countries. An example of this is buchu oil, endemic to South Africa. Not only are there fewer sources of competition outside South Africa, but cosmetic manufacturers can also use indigenous species as part of their marketing story. However, volumes in demand are much smaller and other essential oils can still be sources of competition for indigenous species, especially if they have a similar fragrance profile at a lower price, or have a similarly strong marketing story.

In general, cosmetics manufacturers are interested in new and special essential oils from South Africa. However, EU legislation makes it difficult to export new essential oils to Europe, especially having regard to registration under REACH. These and other registrations (e.g. INCI, CAS numbers) are expensive and time-consuming.

**Tips:**

- For SME producers to compete in the market for commodity oils such as citrus oils, you need to make them into a speciality oil. You could make oils of an exceptional quality or add something to them that helps build a marketing story, e.g. benefits to local communities or organic/fair trade certifications.
- Make sure that you grow the right variety of essential oil species, as is demanded on the global market.
- Work together with other producers to put indigenous essential oils on the European market more effectively. For indigenous essential oils which are permitted for use in Europe you need a marketing push to increase demand.
- For more information on competitive sources for essential oils, please refer to the CBI Product Factsheets on essential oils for Fragrances and Aromatherapy.

**Through what channels can South African suppliers get their essential oils on the European market?**

Plants and plant parts are distilled to produce an essential oil, often at central locations in South African production regions. Essential oil distillation also takes place at production sites where the species, local capacities and economies of scale permit. For an overview of Market Channels for essential oils, please refer to the CBI Module Channels and Segments – Essential Oils for Cosmetics.
Essential oils can more easily be sold directly to processors and cosmetic manufacturers than other natural ingredients, due to the small volumes required and the type of product. Most essential oils do not need further processing, although there are some exceptions. For example, components in citrus oils that cause photosensitisation need to be removed.

In general, European traders are the most important group of players you should consider approaching, as they are the common entry point for SME exporters. Established importers/distributors are likely to have already registered their imports in accordance with the REACH regulation (where applicable). Using brokers or agents is also common. Speciality oils and certified organic or fair trade oils usually have relatively short trade channels. This is because buyers are often interested in the source of the oils, so that they can use that in their marketing campaigns.

In Europe, processors add value in terms of transformation, re-packaging and labelling, etc. Moreover, the European fragrance industry combines different essential oils and fragrance compounds into ready-to-use fragrance ingredients for cosmetics manufacturers. Perfumery manufacturers also look for fractions of essential oils, where required properties are isolated.

**Tips:**
- Take advantage of the experience and expertise of specialised European importers and agents, instead of approaching end-users directly, especially when you export speciality essential oils.
- If you can supply larger quantities of essential oils, target traders, as they buy larger quantities than end-users.
- For more information on market channels for essential oils, please refer to the CBI Product Factsheets on essential oils for Fragrances and Aromatherapy.

### Back to:
- Market channels

**What are the opportunities and threats for South African suppliers of essential oils for cosmetic products?**

<table>
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<tr>
<th>Opportunities</th>
<th>Actions</th>
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</table>
| South African suppliers have the technical and human resource capacity to add value to their raw materials by exporting them as essential oils. | • Determine your potential to produce good quality (pure and authentic) essential oils.  
• Cooperate with other processors to ensure quality control. |
| Cosmetic companies are interested in new essential oils, especially if they have an interesting marketing story and an aroma therapeutic effect. Since the cosmetic market has a stronger focus on innovation than aromatherapy health products, it is more feasible to market new oils with such effects in cosmetics. | • Determine if your new essential has any aroma therapeutic effect in cosmetics, e.g. based on traditional use in South Africa or literature from other regions.  
• Translate outcomes of your research into your marketing materials. Make sure the oil is permitted in Europe (see the buyer requirements)!  
• Build a marketing story around your oil, based on traditional use, how the oil is processed locally and its aroma therapeutic properties (if it has any). |
| Essential oils have most potential for use in fragrances, both in cosmetic products (e.g. skin and hair care) or in perfumery. | • Target EU traders or processors who specialise in fragrance ingredients for the cosmetic market. |
| There are opportunities to produce introduced oils in South Africa that are in short supply globally, such as chamomile and peppermint oils. | • Find out if you can cultivate species such as chamomile and peppermint. Be aware that other countries will also try to fill this gap! What’s more, they may be more competitive than you! |
## Opportunities and Threats

<table>
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<th>Threats</th>
<th>Actions</th>
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<tr>
<td>It is difficult to register essential oils on the European market, due to expensive REACH registration.</td>
<td>• If your essential oil requires REACH registration, work together with EU companies to do so.</td>
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<td>• Alternatively, look into your options to register the oil yourself, with an EU representative. This may give you a competitive advantage in the future.</td>
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<td>It is very expensive to put new essential oils on the European market, in terms of market access requirements. This may hamper innovation in essential oils.</td>
<td>• Determine the feasibility and viability of market entry (e.g. substitution for another product, usage level vs. price) before investing anything in safety information needed to enter the EU market.</td>
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<tr>
<td>The EU market for indigenous essential oils from South Africa is small: it may be difficult and expensive to market these indigenous oils in Europe.</td>
<td>• Work together with other producers to put indigenous essential oils on the European market more effectively. For indigenous essential oils which are permitted for use in Europe you need a marketing push to increase demand.</td>
</tr>
<tr>
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<td>• Or link up with South African cosmetics companies or your local government institutions to work on a marketing story.</td>
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<tr>
<td>South African SMEs’ small scale production of essential oils is a threat to sustainability of supplies and complying with buyer requirements of available volumes.</td>
<td>• Focus your exports on niche markets, which require lower volumes.</td>
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<td>• In your business plan, allow for a multi-year build-up. Explain to your buyer what volumes you can export and how you are planning to build up production scale.</td>
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<td>• Find a buyer who is willing to grow with you as you expand your business.</td>
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<td>• Work together with other essential oil producers to reach the necessary volumes.</td>
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### Botanicals

**What do interesting market segments look like in Europe for botanicals for cosmetics?**

Most botanical extracts are used for their active properties to support product claims. Extracts can cover a wide range of functional and active properties (Figure 12). There are some overlaps between these two segments, for example in extracts with high levels of antioxidant activities which improve the stability and shelf life of a cosmetic product while acting as anti-aging agents. In marketing it is important to be specific. The most important industry segments for botanicals are skin care, followed by hair care.
What is the demand for botanicals for cosmetics from South Africa?

Consumption of MAPs and extracts is substantial in Europe. Some 1,200-1,300 native species are commonly used in the EU. Around 130 of these are cultivated and the remainder are collected in the wild. No data on the amounts of botanicals used in cosmetics are available. Instead, trade data provide a general picture of the market for botanicals in Europe.

Figures 13 and 14 below show that EU trade in medicinal and aromatic plants (MAPs) and extracts is fairly stable, with the exception of EU exports of extracts. Europe has a large extraction industry and data indicate that production expanded substantially in recent years, since exports grew at a much faster rate than imports. Moreover, growth in production and export of extracts is most likely based on European production of MAPs, since EU imports of MAPs grew less strongly.

In 2014, EU imports of MAPs amounted to 190,000 tonnes at €662 million. In the same year, exports reached 103,000 tonnes at €450 million. In terms of extracts, imports added up to 39,000 tonnes, while the region exported almost 72,000 tonnes. On the other hand, the value of 2014 imports was higher than the value of exports, at €550 million and €460 million respectively, indicating a higher per unit import value compared to the per unit export value.

Germany, France, Spain, the Netherlands and Italy play a leading role in the imports of MAPs, together accounting for almost 70% of total European import volume. For extracts, the composition of leading markets is slightly different, including France, Germany, Italy, Spain and the United Kingdom, together accounting for almost 70% of total imports as well.

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3 Trade statistics for botanicals are based on:
- HS code 1211 (MAPs): 'Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered’
- HS code 1302.19 (botanical extracts): ‘Other vegetable saps and extracts’, excluding saps and extracts of opium, liquorice and hops.
Although South African supplies of MAPs and extracts varied considerably from 2005 to 2014, the data show clear trends. In recent years, the EU increasingly imported extracts from South Africa, instead of MAPs. Overall, South African supplies of extracts increased by 4% annually from 2005 to 2014, while supplies of MAPs decreased by 4% in the same time frame. This development was especially strong from 2009 to 2014, when EU imports from South Africa increased by 36% annually.

South Africa mainly exports MAPs to the Netherlands, Germany and Spain. Germany and Italy are the main importers of South African extracts; a small proportion of South African extracts end up in Italy and France.

MAPs and extracts suppliers
The EU imports MAPs and extracts from various regions, including in Europe. Figures 15 and 16 below show the leading suppliers in both product groups.

MAPs suppliers sometimes specialise in specific (groups of) species, due to their geographical climate. For example, Morocco mainly exports Mediterranean MAPs, such as rosemary, while Egypt is a large producer of species such as German chamomile (Matricaria chamomilla) and spearmint, in a large portfolio of plant species. China and India export a wider range of MAPs. Other, smaller, suppliers outside Europe include Turkey (Mediterranean MAPs), the United States, Israel, Chile and Paraguay.

Many of the top EU suppliers of MAPs also act as re-exporters for countries in their region. For example, Egyptian traders import from Sudan and Ethiopia, Indian and Chinese traders buy from South East Asia or Africa and significant quantities...
of Turkish exports originate in the Middle East and the Balkans, for example Albania. In some cases, these products are still traceable to their source countries, but in many cases they are ‘naturalised’.

**Figure 16: Leading suppliers of botanical extracts to the EU and South Africa (in tonnes and €)**

<table>
<thead>
<tr>
<th></th>
<th>Volume</th>
<th>Value</th>
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<tbody>
<tr>
<td><strong>Americas</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>3,400 t</td>
<td>€51 mln</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,600 t</td>
<td>€7.4 mln</td>
</tr>
<tr>
<td>Mexico</td>
<td>2,200 t</td>
<td>€6.7 mln</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>7,600 t</td>
<td>€41 mln</td>
</tr>
<tr>
<td>Germany</td>
<td>4,200 t</td>
<td>€57 mln</td>
</tr>
<tr>
<td>France</td>
<td>2,800 t</td>
<td>€78 mln</td>
</tr>
<tr>
<td>Spain</td>
<td>2,700 t</td>
<td>€45 mln</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>2,600 t</td>
<td>€75 mln</td>
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</table>

Chinese supplies of **extracts** are highly diverse, due to the wide range of species that grow in the country. Supplies from Mexico and Brazil cover a wide range of products as well. These countries have an extraction industry that also sources raw materials from other Latin American countries. For example, **Beraca** (Brazil) is an extract producer that sources from the Amazon, from both Brazil and other countries. Other, smaller, suppliers outside Europe include India, Israel and Morocco. In 2014, South Africa was Europe’s 16th largest supplier of extracts. Compared to 2010, this represents an annual increase of 31% in volume and 8.5% in value.

**European production** of botanicals (MAPs and extracts) is substantial. Europe imports (sub-) tropical species, as these do not grow in most European climates. In general, production in Eastern Europe is growing and in certain countries it is focused on wild-collection (e.g. in Romania, Bulgaria). West European producers are often characterised by having organic certification, well-documented MAPs and a close relationship with buyers.

The largest European MAPs producers include Germany, Italy and France, which all have strong extraction industries as well. Eastern Europe contains large and growing producers of MAPs, which are especially strong in wild-collection. Poland has a strong extraction industry which targets Western Europe (e.g. Germany).

**Tip:**
- For more information on demand for botanicals, please refer to the CBI Product Factsheets on **anti-aging extracts**, **skin conditioning extracts** and **antioxidant extracts**.

What requirements do I need to meet to get my botanicals on the European market?

Please refer to the overview of **Buyer Requirements for Cosmetic Ingredients**, as requirements for botanicals are the same as these.

What competition do South African producers of botanicals face on the European market?

**Product competition**
Cosmetics manufacturers often build marketing stories of cosmetic products on their use of botanicals. Adding botanicals increases the natural feel of a cosmetic product. However, their marketing potential cannot replace the need for effective functional or active properties of botanicals.

For botanicals, competition is principally based on the activity or function of the extract. Depending on their activity, botanicals face competition from several synthetic and natural alternatives (extracts or other natural ingredients). Strong competition against botanical extracts comes from synthetic alternatives. Several well-established ingredients are on the
market, which are proven to be effective and have been standardised. Some of these are cheap, as there is strong competition (e.g. from China).

**Company competition**

Certain plant extracts are traded in large volumes on established and competitive markets (see demand for botanicals above). This is especially relevant for introduced species which are cultivated on a large scale in various regions. Because of their market size, it might be difficult to enter such large markets. If you offer botanicals to them as extracts, expect strong competition from European makers of extracts. These competitors use their technical know-how and close contacts with cosmetics buyers to produce high quality, innovative extracts that closely match customer expectations.

In general, competition decreases as you progress up the value chain: from producing a simple plant extract, to isolating key components, to developing unique cosmetics ingredients based on plants. As well as value addition potential and a possible lower number of competitors, intellectual property offers strong protection against rivalry. However, truly innovative, high-quality extracts are still mostly produced by European processors.

According to European buyers, South Africa exports a limited range of extracts. There are also some indigenous botanical species in South Africa that are exported to Europe as raw plant materials, such as rooibos and honey bush.

Rooibos has been indisputably linked to South Africa since it achieved Geographical Indication status in the EU. This means that the name and South African origin are protected in the EU. As such, it could be an important ingredient in a South African product range. However, European buyers indicated that ABS legislation currently restricts the use of rooibos for non-food purposes linked to traditional use. One company has even stopped importing rooibos (temporarily) due to this complication.

### Tips:
- Familiarise yourself with the situation of ABS legislation in South Africa so you can advise your buyers on the possibilities.
- For more information on competitive sources for extracts with a specific activity in cosmetics, please refer to the CBI Product Factsheets on Antioxidant Extracts, Skin Conditioning Extracts and Anti-Aging Extracts.

**Through what market channels can South African suppliers get their botanicals to Europe?**

Local value addition is increasing due to an increase in technical and human resource capacity in South Africa for processing, documentation and certification. Traditionally, most extraction of raw plant materials has taken place in Europe. Although many innovative, proprietary extracts still come from developed countries, this is gradually beginning to change.

Nonetheless, European importers, distributors and processors still play a dominant role in the global trade in botanicals, particularly German and French players. Consolidation is increasing at this level and companies are increasingly mixed in practice. European processors play a particularly important role in further processing of botanical extracts, e.g. the isolation of active components. Alongside supplying European processors and manufacturers, these EU players supply a significant portion of the North American market and discover markets in emerging economies.

### Tips:
- Target European importers and distributors with your products, as these are the main channels to access the European market.
- For tips on finding buyers, have a look at the CBI Module Finding Buyers.
- For more information on market channels for botanicals, please refer to the CBI Product Factsheets on Antioxidant Extracts, Skin Conditioning Extracts and Anti-Aging Extracts.
What are the opportunities and threats for South African suppliers of botanicals for cosmetic products?

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| You can add local value addition if you can process your raw materials into extracts. | • Determine whether you can meet quality requirements for extracts in terms of technology and human resources. Also find out what your options are for developing proprietary extracts, with a specific activity.  
  • Before you make any investments, conduct a feasibility study into the economic viability of extraction in South Africa. Especially important is consideration of economies of scale and the expected effective use of possible installations.  
  • When you target the EU, make sure you know your extract and its applications and provide this information to your buyers. This includes product identity, sources, methods of extraction, shelf-life, what preservatives you used, physical and chemical behaviour of ingredients during processing and its active and functional properties. |
| There are particularly good opportunities for active botanicals, such as skin conditioning or anti-aging extracts. New extracts need to be tested to find out if they have sufficient potential in terms of safety, functionality, efficacy and market opportunities. Traditional use can be a good starting point for new active botanicals. | • To find new botanicals, start from traditional knowledge at universities in South Africa, or from literature on plants in your region of South Africa.  
  • Contact DEA for more information on its National Biodiversity Economic Development Strategy. In this strategy, DEA is seeking the establishment of a national compound library to bring together knowledge on plant chemistry of South African biodiversity.  
  • Perform skin trials to demonstrate the effectiveness of your extract. This may give you an advantage over competitors.  
  • If you can only provide safety data, seek partnerships with European companies for further development of your extract.  
  • For new active botanicals, perform a feasibility test to determine its functionality, efficacy, safety and market opportunities.  
  • If your extract or its raw plant material has traditionally been used for a certain benefit, include this in your promotional material.  
  • Do not claim that an extract has benefits without the scientific evidence to support these claims. For more information refer to the Buyer Requirements on how to do this in a South African context.  
  • In your promotional materials, focus on the active properties of your extract. Include its effectiveness, supported by clinical trials and efficacy data, along with necessary documentation. |
The cosmetics market offers good opportunities for botanicals, especially in natural cosmetics. Skin care is the most interesting segment for botanicals.

**Threats**

South African exporters of extracts will face strong competition from larger and more experienced extract producers, both within and outside Europe. These producers compete on quality and documentation of effectiveness; they may have created intellectual properties for their extracts.

South African SMEs’ small scale production of botanicals is a threat to sustainability of supplies and complying with buyer requirements of available volumes.

**Actions**

- Target natural cosmetics manufacturers and distributors focusing on this segment.
- Provide efficacy data on the use of your extract in specific application areas to differentiate yourself on this market.
- Determine your options for developing proprietary extracts with intellectual property rights. Ensure that your price reflects product development and the intellectual property rights.
- If you want to export specialised products, such as proprietary extracts, target EU distributors.
- Stave off competitors by solidifying the intellectual property of your product (patenting), and if this is not feasible, by securing control of existing supplies.
- Focus your exports on niche markets, which require lower volumes.
- In your business plan, allow for a multi-year build-up. Explain to your buyer what volumes you can export and how you are planning to build up production scale.
- Find a buyer who is willing to grow with you as you expand your business.

**More information**

CBI market information: Promising EU export markets.
Eurostat - [http://epp.eurostat.ec.europa.eu/newxweb](http://epp.eurostat.ec.europa.eu/newxweb) - statistical database of the EU. Several queries are possible. For trade, choose 'EU27 Trade Since 1995 By CN8'.
International Trade Statistics - [http://www.trademap.org](http://www.trademap.org) – you have to register.
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