

# Which trends in the European market offer opportunities or pose threats for natural ingredients used in cosmetics?

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Exporters of cosmetic ingredients need to be aware of the dominant trends of sustainability, responsibility and what's 'natural'. Their common goal is to achieve positive impacts on the environment and society. These trends are here to stay, and companies across the value chain will be under increasing pressure to pursue ambitious goals in these areas. The trends pose a threat to companies that do not commit to being sustainable and responsible.

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## 1. An increasing number of cosmetic companies are committing to UN Sustainable Development Goals

More and more companies are now making commitments aligned with the [United Nations' 17 Sustainable Development Goals](#) (SDGs). The SDGs provide a useful framework, with plenty of resources and guidance available, for companies to manage and report their steps to becoming sustainable. As a supplier in a developing country, it is recommended that you align your activities with the SDGs to back up your sustainability claims.

Companies want to show their efforts and initiatives in the areas of sustainability and social responsibility. All companies wanting to be sustainable need a framework that provides structure, measurability and accountability for their activities.

The SDG framework does not provide certification as such. Still, the United Nations offers [guidance on actions](#) that companies can take to support SDG implementation in their operations. The SDGs also complement other sustainability initiatives, such as the [UN Global Compact](#) and [SEDEX](#). A downside of the SDGs is that companies can use them and refer to them without third-party substantiated data. Yet, buyers committed to responsible and sustainable sourcing will conduct their own verification.

Figure 1: The 17 UN Sustainable Development Goals



Source: [United Nations](#), 2023

By developing activities based on the SDG framework, you can align your own actions with those of your customers. If you do not pursue any activities relating to social and environmental responsibility or do not substantiate what you claim to be doing, you risk being overlooked by potential buyers, especially those that have made such commitments.

An example of a cosmetic ingredient supplier using the SDGs as part of its sustainability framework is [Fairoils](#) (Kenya). This company aims to lift farmers out of poverty by [creating a sustainable source of income without damaging the planet](#). As such, Fairoils guides its business according to the sustainable development goals, using them to make decisions about where to focus efforts and how to measure impact. On its website, Fairoils clearly describes which specific SDGs they are actively working towards, providing a mission and progress statement for each one. Currently, [Fairoils' work is actively contributing to 16 of the 17 SDGs](#).

### Tips:

Publish your targets and progress on your website or digital media.

Use your sustainability actions as a Unique Selling Point (USP). Your USP is your differentiating factor, which helps attract a buyer's attention.

## 2. Ethical sourcing becomes a key expectation in the cosmetic industry

Ethical sourcing is a key element of being a sustainable supplier. Merely using the SDGs framework as a guide is not enough, unless you can also prove that you are an ethical supplier. Fortunately, there are several low-cost tools and frameworks available to systemise your ethical commitments and activities. These include the [UN Global Compact](#), [SEDEX](#) and [Environment, Social, Governance](#) (ESG). All are easy to implement, and European customers may expect you to use at least one of them.

These ethical frameworks focus on a narrower set of commitments than the SDGs. They arise from growing consumer expectations of fair labour practices, elimination of bribery and corruption, and concern for the environment. These expectations will continue to grow, putting pressure on companies in the cosmetics sector. Furthermore, these ethical frameworks are becoming law in the European Union.

### SEDEX

[SEDEX](#) is a popular ethical auditing tool in the cosmetics industry. It aims to help companies develop business practices to address social and environmental risks in their supply chains. SEDEX is based on:

- the UN Guiding Principles for Business and Human Rights (UNGPs)
- the UN SDGs
- the Ethical Trading Initiative Base Code
- the International Labour Organization Conventions

The members of SEDEX are both buyers and [suppliers](#). Suppliers [complete a self-assessment questionnaire](#) and the platform helps them prioritise areas that need action. Suppliers can share information about their business and make their ethical profile data available to buyers. They can also choose to have a third-party [SMETA](#) audit,

based on the same questionnaire. Businesses can [use SMETA to assess suppliers' working conditions](#) across the areas of labour, health and safety, environment, and business ethics.

[PT Mignon Sista International](#), based in Indonesia, supplies a wide range of essential oils and spices. This company has grown into a successful exporter that meets many international standards. However, they lacked a framework to prove their commitment to ethical and responsible business practices. To address this, they joined SEDEX in 2021. They completed the self-assessment and are now completing the third-party SMETA audit.

Figure 2: Certifications held by Mignon-Sista International



Source: [PT Mignon Sista International](#)

## UN Global Compact

The [UN Global Compact](#) framework is a [self-assessment process based on 10 principles](#) and built around four pillars: human rights, labour, environment and anti-corruption. According to the UN Global Compact website, 'by incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, [...] companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success'. To date, more than 16,000 businesses have joined the UN Global Compact.

[To join the Global Compact](#) you must:

1. prepare a letter of commitment (LOC) addressed to the UN Secretary-General and signed by your company's highest-level executive, committing your company to the UN Global Compact's Ten Principles;
2. take action to support the Sustainable Development Goals;
3. submit an annual communication on progress (COP).

## Environment, Social, Governance (ESG)

ESG is a general framework used to inform investors about the social and environmental impact of companies and their governance beyond revenue or profit generation. According to an article of the [UK's National Development Bank](#) and the Confederation of British Industry, [two-thirds of investors now consider ESG factors when investing in a company](#). This means that following the ESG framework has the potential to grow your business while benefiting the environment and the community.

Looking to the future, European companies are likely to face stricter ethical sourcing requirements, not only from lawmakers but from consumers too. Consumers are increasingly demanding [that companies prove a real commitment to ethical sourcing and biodiversity](#). Requirements may extend all the way down the supply chain to you as a supplier. You need to be prepared to meet this challenge and understand future EU legislation on sustainable and responsible corporate conduct.

### Tips:

Develop a baseline for measuring your social and environmental commitments. Make sure you have easy-to-measure and easily verifiable targets.

Communicate what you are doing to potential buyers and customers.

### 3. Growing consumer interest in sustainable cosmetic products and natural ingredients

Consumer buying trends are shifting towards more sustainable cosmetic products. These products are generally not harmful to the environment and have a higher content of natural ingredients. As a supplier of natural ingredients for cosmetics, you should highlight your environmental efforts at both the company level and the ingredient supply chain level.

According to the market research group [Kantar's Global Beauty Report 2022](#), sustainability is leading the global conversation about cosmetics and there is global consumer interest in using naturally sourced ingredients. Natural and vegan products continue to grow in popularity as consumers become more aware of the ingredients and sustainability of what they buy.

Source: [Kantar Global Beauty Report 2022](#)

Between 2017 and 2021, [more consumers tried to avoid using environmentally harmful products](#) in France, Germany, Spain and the UK (the largest cosmetic markets in Europe). In those countries, sales of face and body products with naturally produced ingredients [grew on average from 18% to 24%](#). The largest increase in that time period was in France, shifting from 23% to 32% of consumers.

Source: [Kantar Global Beauty Report 2022](#)

Due to consumer interest in environmental and social issues, natural ingredients are becoming a highly desirable component of cosmetics. [Natural ingredients are perceived as safer and healthier](#) than synthetic substitutes. They are also perceived to have a low environmental impact and potentially a high social impact.

This consumer trend offers opportunities for suppliers across the whole value chain, from raw material producers to cosmetics manufacturers. Companies throughout the European supply chain are investing in developing environmental and social credentials to meet changing consumer demands and increase their visibility. This means they are enabling more public scrutiny of their business activities.

As a supplier of natural ingredients to these European businesses, you should take similar steps in your own operations. Failure to act is a threat to your business. Looking to the future, you can expect consumer preference for sustainable products to continue growing. This will enhance the need to prove positive social and environmental impacts in raw material supply chains. Voluntary standards and certifications might be useful in meeting sustainability requirements, especially in niche markets.

There is a wide range of certifications and standards to choose from, covering ethical sourcing, fair trade, natural and organic. All these standards fit under the broad umbrella of sustainability. Natural, organic and fair trade are more relevant for niche markets, according to industry experts. However, social and environmental responsibility in supply chains can no longer be considered optional.

Private certification bodies for suppliers of natural, organic, fair and ethical ingredients for use in cosmetics include:

- Union for Ethical BioTrade (UEBT) certification label – awarded to companies that meet the criteria of the [UEBT standard for respectful sourcing](#). These companies are committed to ethical sourcing of ingredients from biodiversity and to treating people and biodiversity with respect. The UEBT standard is based on the [Convention on Biological Diversity](#) to conserve and sustainably use biodiversity plus ensure fair benefit-sharing.
- [Fair for Life certification](#) – guarantees that human rights are safeguarded at all stages of production. Workers

are assured good and fair working conditions and smallholder farmers receive a fair share. Fair for Life is improving the livelihoods of thousands of smallholder farmers and workers.

- **NATRUE** – a certification scheme for natural and organic cosmetics and ingredients. Besides final product certification, there are two categories for raw materials: [Approved Raw Materials and Certified Raw Materials](#). The difference is that 'approved' raw materials are not organically certified but only have their documentation checked by NATRUE. 'Certified' raw materials are in fact organically certified, and this certification must be verified. Both categories also meet other NATRUE criteria. Their [product database](#) is a useful source for finding companies that may be potential customers or competitors.
- **COSMOS** – a certification scheme for natural and organic cosmetics. Their [product database](#) provides information about companies that offer COSMOS-certified and COSMOS-approved raw materials. These companies may be potential customers or your competitors.
- **ISO16128** – a self-assessment scheme for natural and organic cosmetic ingredients and cosmetic products, developed by ISO. The aim of ISO16128 is to [aid ingredient selection for formulations](#). The standard is not a certification but a [set of guidelines](#) on definitions for natural and organic cosmetic ingredients. It provides a framework to determine the natural content of ingredients and formulations, increasing transparency for both manufacturers and consumers.

### Tips:

Establish a baseline, set a target, then measure your progress. Communicate honestly about your progress rather than trying to hide any poor performance. Take responsibility for areas that still need improvement and be open about addressing outstanding issues.

Consider obtaining one of the certifications for natural ingredients described here. However, be aware that applying for organic certification is not interesting for every producer. Only SMEs in developing countries that can afford the certification, conversion and administrative costs should get certified.

Check our [study on the current offer in social certifications](#) to learn more about Fair for Life and UEBT standards.

## 4. The European Green Deal will impact suppliers of cosmetic ingredients exporting to Europe

European buyers face increasing pressure under EU legislation to ensure their supply chains are sustainable and transparent. The [European Green Deal](#) (EGD) is the most important emerging development to be aware of. This regulatory framework is expected to change and strengthen the requirements for cosmetic ingredients and products. The EGD will indirectly affect suppliers from developing countries doing business with European companies.

The EGD is the EU's new growth strategy. It is a package of measures focusing on climate, agriculture, energy, industry and the environment. The EGD aims to overcome threats of climate change and environmental degradation. It seeks to transform the EU into a modern, resource-efficient and competitive economy, based on:

- Net-zero greenhouse gas emissions by 2050
- Decoupling economic growth from resource use
- Leaving no person and no place behind

The EGD has many components that work together. While many focus only on the European continent, some involve global supply chains and will impact all stakeholders. A good example is the [regulation on deforestation-free products and supply chains](#), which came into force in June 2023. This new legislation aims to ensure that a set of commodities no longer contribute to deforestation and forest degradation, both in the EU and in other parts of the world. As the EU is a major economy and consumer of these commodities, this measure will help to

end, reduce and mitigate the EU's contribution to environmental degradation and biodiversity loss.

Under the new rules, all companies importing palm oil, cattle, soy, coffee, cocoa, timber, rubber, and their derivatives into the EU market will have to do strict due diligence on their supply chain. This will also affect the cosmetics industry, as soy, cocoa and palm oil are base materials in cosmetic products. Companies in developing countries working with these commodities will also be required to implement due diligence systems and take mitigating measures.

Over time, EU demand for deforestation-free products is expected to grow beyond these commodities. Many leading companies may want to differentiate themselves by going beyond the minimum legal requirements and introducing similar due diligence for all raw materials used in their products. Some, such as [Givaudan](#), have already started to do so. [Givaudan's responsible sourcing policy](#) requires that all products purchased be deforestation- and conversion-free. The company is also committed to creating transparent sourcing networks with traceability back to the origin of raw materials.

The implementation of regulatory compliance measures may affect exporters in developing countries. For example, Givaudan expects its direct suppliers to provide information on their own supply chains, back to the primary production level. It also requires suppliers to apply the standards described in its Responsible Sourcing Policy. This way, to meet higher sustainability standards and expectations suppliers will have to provide more information about the products they export to Europe. Although this will increase costs in the short term, it will ultimately make them more competitive in a sustainable global market.

### Tips:

Read the [CBI study on how the EU Green Deal will impact your business](#).

Consider obtaining a certification system providing guarantees that commodities are deforestation-free, like [Rainforest Alliance's Sustainable Agriculture Standard](#) and [UEBT Ethical BioTrade standard](#).

## 5. Due diligence requirements may change business relationships between buyers and suppliers of cosmetic ingredients

The [Directive on Corporate Sustainability Due Diligence](#) is another important development in EU legislation. The Directive was proposed by the European Commission in November 2022. It is expected to be adopted into law sometime in 2024. Negotiations between the European Commission, the European Parliament and the European Council are still pending.

The proposed Directive seeks to promote sustainable and responsible business behaviour to achieve a positive impact on human rights and the environment. It sets out rules for companies in relation to adverse impacts on human rights and the environment in their own operations and those of their subsidiaries, and in their value chains. It also regulates the liability of companies in case of non-compliance with the obligations.

The Directive aims to contribute to the EU's transition to a climate-neutral and green economy, and to the SDGs. To this end, it has several [requirements for companies](#), which include:

- integrate due diligence into their policies
- identify, prevent, mitigate and remedy actual or potential adverse impacts
- establish a complaints procedure
- track the effectiveness of their due diligence policy

- communicate publicly on due diligence

The proposed legislation will apply to large European companies with a total turnover of >€150 million and 500+ employees. It also targets companies in high-priority industries (textiles, agriculture, fisheries, agricultural raw materials, food and minerals) with a total turnover of >€40 million and 250+ employees. Natural ingredients for cosmetics can be obtained from agriculture and minerals, which are priority industries under this legislation. Third-country companies will also be affected by this measure. It is estimated that [the Directive will apply to about 4,000 non-EU companies active in the EU](#) with turnover thresholds comparable to those of EU companies.

To prevent adverse impacts and ensure compliance, European companies will need contractual assurances from their business partners that they also comply with the company's due diligence policy. In some cases, they will also need a preventive action plan from their business partners. European companies can rely on suitable industry initiatives or independent third-party verification to ensure policy compliance. One upside for SMEs is that European companies must bear the cost of verification. Also, when a contract is concluded with an SME, the terms used must be fair, reasonable and non-discriminatory.

Since corporate due diligence should extend throughout a company's supply chain, as an exporter you will need to establish policies and practices to identify, prevent, stop or mitigate human rights abuses and environmental impacts of your activities. The same will apply to your suppliers. The Directive requires European companies to refrain from starting new relationships or extending existing relationships with partners whose operations fail to prevent or minimise potential or existing adverse impacts. Looking to the future, it is advisable to start developing due diligence measures as this will prepare you to improve your relationships with business partners, your value proposition and your long-term business success.

### Tips:

Stay up-to-date with the progress of this Directive as it makes it into European law.

Review the responsible sourcing policies of large companies like [Firmenich](#) and [Givaudan](#), which are already following due diligence policies.

## 6. The quest for achieving net-zero greenhouse gas emissions may threaten traditional processing and export of cosmetic ingredients

Political interest in reducing carbon emissions and greenhouse gases (GHGs) [is driving the development of new technologies](#) to process ingredients and reduce transport emissions in many industries, including cosmetics. While some technologies offer opportunities for exporters, others pose a threat to the traditional processing and export of some cosmetic ingredients. You will need to develop contingency plans to deal with these changes.

Among the wide range of environmental targets, the goal of achieving 'net zero' is among the primary motivations for many environmental efforts. Net zero means [achieving a balance between greenhouse gases added to the atmosphere and those removed](#). Driving the net-zero target are not only political interests but also consumer interests. Research by Deloitte shows that [55% of consumers choose food and non-alcoholic beverage brands with environmentally sustainable values and practices](#). Also, it was found that [32% of consumers would likely pay more for goods](#) and services if it ensured brands reduced their carbon footprint.

Two technological developments threaten the traditional cultivation and processing of cosmetic ingredients: [biotechnology](#) and plant cell culture technology. While neither pose an immediate threat, [they are becoming](#)



[increasingly attractive](#) due to their potential to minimise environmental impact. However, they do little to create employment in less developed regions.

Efforts of European companies to reduce the distances that ingredients travel and to reduce their CO2 emissions is a potential threat to exporters from developing countries. This is also known as '0km'. [Companies are developing more local sources](#) and producing more using biotechnology. While the 0km movement works for ingredients that can be grown locally, it will not work for those that can only be grown further away.

To address these threats in the short term, you should be looking at ways to improve environmental and social performance. Job creation, fair wages and protection of workers' rights are key requirements of European buyers. In the longer term, pressures to improve environmental performance will strengthen the business case for alternative technologies and local sourcing. Social benefits will not be enough of an argument for using long-distance supply chains.

Exporting companies are advised to reassess their strategy and [have a more carbon-neutral plan](#). Companies that [embrace net zero](#) can improve their reputation, reduce waste costs, protect their business from over-dependence on fossil fuel-based energy supplies and increase their resilience. [Some environmental practices](#) that companies can adopt to achieve net zero:

- Reducing energy and using renewable energy sources
- Developing greener products and services
- Switching to zero-waste products or sustainable packaging using biodegradable materials
- Reducing carbon emissions by switching to LED lighting
- Encouraging recycling and reducing the amount of waste going to landfill

A good example of a company implementing sustainable practices and applying technological developments in their business is [PT Mitra Ayu Adipratama](#). This Indonesian company believes that [environmental sustainability is crucial to doing responsible and successful business](#). They are making several efforts to reduce, recycle and reuse natural resources. PT Mitra Ayu Adipratama recycles most of the solvents used in its processing and turns its waste into a briquette to be used as fuel. As it takes a lot of energy to produce briquettes, the company is trying to use palm shells for fuel to save on electricity.

### **Tips:**

Take all possible steps in the short term to improve environmental and social performance in your supply chains. For example, reduce energy use and switch to renewable energy sources.

Find out [how to measure your carbon footprint](#).

Partner with universities and other research organisations to develop and use technologies that will help you achieve net-zero greenhouse gas emissions.

## **7. Inflation as a risk factor after COVID-19 pandemic**

Supply chains have largely recovered from the COVID-19 pandemic, but there is a slowdown in the global economy. Although the cosmetics industry has historically been resilient to economic downturns, persistently high inflation could pose significant challenges. Companies are taking more serious measures to manage their cash flows, reduce stocks, extend payment times and cut costs. As a supplier of cosmetic ingredients, you need to respond in kind by shortening your cash flow cycle, reducing costs and adding value wherever you can. Aligning your business with the key natural and environmental trends must also be part of your strategy.



According to the International Monetary Fund (IMF), [shipping costs and suppliers' delivery times are back to pre-pandemic levels](#). The resolution of global supply chain problems has reduced shipping costs and the risk of delays. Buyers are no longer avoiding long-distance imports. In theory, this should create trade opportunities for cosmetic ingredient suppliers in developing countries.

However, as the IMF noted in July 2023, global growth is slowing and [will fall from 3.5% in 2022 to 3.0% in both 2023 and 2024](#) on an average annual basis. There are several forces holding back global growth, the most prominent being high inflation. Global inflation is projected to be 6.8% in 2023. This is having a negative impact on suppliers of cosmetic ingredients. According to a cosmetics industry expert, some suppliers of essential oils have already seen reduced demand for their ingredients due to high inflation and slow economic growth.

Figure 5: GDP growth projections by regional markets, in %



Source: [IMF, 2023](#)

Advanced economies continue to drive the decline in growth. [The euro area has the lowest growth forecast](#), falling from 3.5% in 2022 to 0.9% in 2023. The outlook for Europe is one of slow growth and sticky inflation. Average inflation in the advanced European economies is forecast to drop to 5.6% in 2023. High inflation could persist for longer than expected if energy prices rebound, inflation expectations drift upwards or wage growth is stronger than expected.

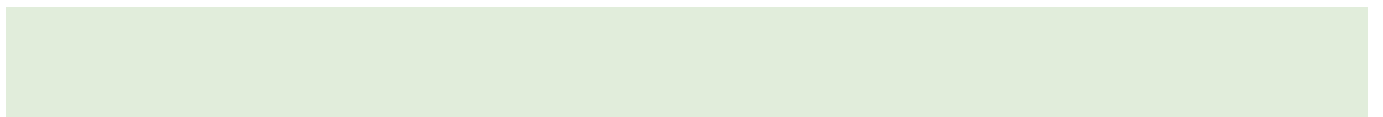
Fortunately, the cosmetics industry has historically been resilient to economic challenges – it recovered from the COVID-19 pandemic and returned to growth. [In 2022, retail sales of cosmetic products increased by 7.8%](#), to a total of €88 billion.

Source: [CBI & Cosmetics Europe, 2023](#)

While the beauty industry was able to withstand the pandemic, [there is not a single beauty brand that wasn't affected](#) by supply chain challenges, rising interest rates, inflation and climbing prices. High inflation is a concern as it affects consumers' purchasing power and disposable income. Emerging data suggests that consumers are willing to cut back on spending of personal care products to save money. A 2022 survey by UpCircle and YouGov showed that [one in four people in the UK have reduced spending or stopped buying skincare products](#). Nielsen IQ data tells a similar story for French consumers: [45% say they plan to spend less on beauty products in 2023](#). Cuts will mainly occur in the colour cosmetics and nail categories.

In the short term, suppliers in developing countries can expect shorter timelines between order negotiations and order placement. You can also expect payment terms to be extended. Of course, this will have a negative impact on your cash flow. Like your customers, you should track your cash flow very carefully and discuss orders and payment terms with your suppliers. If you haven't already done so, it may also be worth talking to your bank or financial service providers about purchase order financing. In that case, keeping your customers informed is essential.

In the longer term, the cosmetic industry is expected to continue its growth trajectory. However, given the need for more investments in environmental, social and governance activities, cosmetic ingredient suppliers are going to face economic challenges. You will need to carefully examine your marketing strategy to ensure you can continue to maintain your added value proposition and differentiate yourself from the competition.



## Tip:

Closely monitor your business cash flow. Ensure invoices are paid promptly and try to negotiate better terms with your customers and suppliers.

The beauty and cosmetics market is driven by a growing wellness trend. Consumer values and preferences are shifting towards a [more holistic approach](#). Today, beauty is not only about physical appearance but also about health, internal wellness and environmental harmony. Most consumers now define beauty as [looking healthy](#) or feeling good. They are [demanding products with a focus on health, wellness](#) and environmental implications.

While wellness has long been an important trend, the pandemic accentuated its importance as consumers felt more vulnerable. [Euromonitor identifies wellness as one of the top-10 trends](#) shaping consumer behaviour, attitudes and choices in the long term. The boundaries between beauty and wellness are expected to continue blurring in the coming years. In fact, [the wellness sector is forecasted to grow at an average rate of 10% per year](#) until 2027.

In response to this growing trend, companies are merging their traditional portfolios with new health needs. [Evonik's BeautiFerm range](#) is a recent example of this trend. Evonik is using fermented active ingredients to meet increased consumer demand for natural, safe and efficient ingredients. Fermented skincare helps balance skin microbiota and strengthens the skin's protective barrier. This is important for holistic-minded consumers.

Suppliers in developing countries should start building on this trend to create business opportunities for themselves. This trend will represent an untapped opportunity for:

- cosmetics with natural and organic ingredients
- suppliers offering eco-friendly and sustainably sourced ingredients
- ingredients derived from waste or by-products of other industries
- cosmetic ingredients that are successfully associated with health and wellness and
- suppliers offering full transparency and traceability

## Tips:

Tell the story behind your cosmetic ingredients. Consumers are increasingly aware of and interested in the impact of cosmetics on communities and the environment.

Address your promotional materials to the consumer as well as your customer. This will help your customer see how they can sell your ingredients to their next customer in the chain.

[ProFound – Advisers In Development](#) and [Fair Venture Consulting](#) carried out this study on behalf of CBI.

Please review our [market information disclaimer](#).