

# A word with...

Gian Andrea Positano Head of the Centre for Studies and for Corporate Culture of the UNIPRO

## China: a threat, an opportunity or a partner?

The People's Republic of China. 1.3 billion inhabitants, the fastest growing economy worldwide, rising salaries and a growing urban middle class, which is today almost the same size as the whole USA population. According to forecasts by the UN Population Division and Goldman Sachs, in 2030 the entire Chinese population may attain the middle class standard set by the World Bank.

The Chinese middle class is becoming increasingly sophisticated and China has become one of the most attractive countries for investments in the personal care and cosmetics sector. Today, the European Union (EU) remains the largest marketplace worldwide, but when considering individual countries, China's cosmetics and personal care market is the third largest after the USA and Japan. At the same time, it is important to note that the country still has great growth opportunities and has yet to reach its full potential. On the other side European Investors have several complaints when speaking about China. First at all there are complaints about intellectual property protection, which are flanked by the generalised accusation against China to follow policies favouring its exports, like price dumping and imposing a too low currency exchange rate on the Yuan. With regard to market access and concurrence rules, both in China and in the EU, many European businesses feel that they compete not with Chinese companies but with the Chinese State, which provides support and financial aid to its domestic companies.

It is worth highlighting that in comparison, European States are not allowed to provide financial help to their domestic companies due to EU Regulations. Finally, several European companies complain about the lack of reciprocity with regard to the access into the Chinese market: while Chinese companies have free access to the European market, the converse is not always true.

In order to discuss about these issues and, more in general, about the opportunities of the Chinese market we had a word with Gian Andrea Positano, Head of the Centre for Studies and for Corporate Culture of the UNIPRO, the Italian association of Cosmetic producers.

### China. A threat, an opportunity or a partner?

There is no definitive answer to this question. China is surely one of the most important commercial partners and markets among the BRICS countries if we consider Italian consumer goods including among these cosmetics. By sure, China has a lot of wealthy consumers, which are attracted by the "made in Italy" products. Therefore, to give a reply to the question, China can be surely considered as an opportunity, even if there's still a need to consolidate the market for our products and this will require its time.

### How is the import and export with China? How much do we export and how much do we import from China?

Despite the fact that the Chinese market has a huge potential for Italian cosmetic products, the commercial interchange with China is still at a very low level. China ranks at 16th place in cosmetic exports from Italy. In 2012 exports to China were less than 20 millions of Euro while imports from China were little more than 9 millions of value. To make a comparison, in 2012 the value of exported cosmetics to Hong Kong was nearly 52 millions of Euro, while imports from Hong Kong were around 101.000 Euro. Hong Kong ranks at the 7th place in cosmetic exports from Italy.

**Gian Andrea Positano** graduated in economics at the Catholic University of Milan. He started working in 2001 for UNIPRO where he is Managing Director of the Centre for Studies and responsible for the development and coordination of areas of business associations: Group Head of Professional Products for Hairdressers and Head of Group Sales in Perfumery, Secretary and Treasurer of the Italian Chamber of hairdressing.

China has an enormous potential to be exploited. Pitifully good part of this potential is inhibited by several problems related with customs, with authorizations and with issues related to the documentation which is necessary to import these goods in China.

**Do you know something about Italian companies operating in China or cooperating with Chinese ones?**

Yes, I can tell you that there are some companies both operating in China or cooperating with Chinese ones and that they are making very interesting experiences. Unfortunately, again, due to bureaucratic and administrative problems these companies are operating far below the potential that they could express.

**In which way?**

One big issue is represented by the missing application of a principle of reciprocity in the commercial relationships between China and other countries. Italy and more in general Europe, are pushing a lot in order to convince China to accept such a principle within the frame of the governance of intercontinental commercial relationships at all levels. Pitifully, this principle is still not applied and, as a consequence, Italian and European companies operating in China are strongly disadvantaged. Several Chinese rules were clearly enforced to protect the inner market of the country from concurrence. A market which is very interested in our products.

**Often European companies claim that they got the impression to compete with the Chinese State rather than Chinese companies. Moreover, Chinese companies can be financed by the Chinese State while this procedure is prohibited for companies within the EU by the rules governing the internal market. Is this true?**

Yes, this is true. Nevertheless, these aspects could still be accepted as part of the game. The worst problem is represented by a plethora of internal regulations which regulate the import of goods into China. Just to provide an example, if someone wants to register a lipstick he has to spend something like €800 for the procedure. The problem is that if someone makes the same lipstick in a variety of different colors he has to repeat the registration process for each single color as if it was a totally different product. You can imagine what is going to happen if a company wants to register a lipstick in, let's say, 10 different colorations, along with several other products in different colour variants. A nightmare!

**China, 1.3 billions of inhabitants, and a middle class as consistent as the whole US population. And numbers are growing. An interesting potential market for the Italian style! How is the made in Italy perceived in China?**

Yes, China has 1.3 billions of inhabitants and more or less half of its population is what we call good spenders. In China, the "Italian style" is very well perceived, especially if we speak about the segment represented by luxury products of well-known brands. There is a true request for "Made in Italy" products, the original ones. The extent of this request would make of China a very interesting market for our products. Unfortunately, several Italian brands who tried to enter the Chinese market were soon imitated and their products were copied due to a too poor copyright protection. To make things worse, the Chinese market deserves a special

approach with respect to all other markets: it is necessary to find out the most reliable partners for the distribution, to set up along with them an efficient policy for the distribution of the product and, last but not least, it is mandatory to monitor the efficacy of the distribution chain to avoid being literally left behind after an initial period of cooperation.

**Chinese people, like other Asian populations, have a different approach to cosmetics and personal care. They don't like strong fragrances, appreciate a fair complexion, don't use strong makeups and privilege products containing natural ingredients or traditional Chinese medicine remedies.**

**Is this a problem for Italian products? Do you have customised productions for the Chinese market?**

Yes there are a peculiar aspects of the Chinese market which necessarily have to be taken into consideration. It is true, Chinese consumers are extremely interested in personal care products having a natural origin. While in Europe natural ingredients represent more a niche production which is becoming a fashionable trend gaining importance in the last few years, Chinese People have a deeply rooted culture in the use of natural and traditional ingredients. This preference represents an interesting opportunity for our companies. In fact, sporadic productions going into this direction exist but, as told before, for our companies it is very difficult to plan any specialised productions going in this direction due to the difficulties encountered on the Chinese market, which is still not enough open to allow companies to risk big investments to customize and to promote their products. Moreover, Italian companies are well known and appreciated in the world for their flexibility in terms of production and variety of offered products. To make an example, the Japanese market has very similar preferences and trends, but is definitively more open and has less stringent regulations allowing as to invest on it and program on a long term.

**Chinese companies are extremely aggressive competitors offering their products at low prices. How are Chinese imports from this point of view? Are Chinese dangerous competitors in Italy?**

We cannot say too much about the quality level of Chinese products sold on the Italian market. From the point of view of the competitiveness of the product pricing, Chinese products are extremely competitive even if they don't have a top class reputation at all. On the other side, some Chinese products have reached good quality levels, demonstrating us that Chinese producers have a very good potential from this point of view. As a consequence, Chinese products are strong potential concurrents in our market. Up to today, most Chinese products are placed in the low quality level segment and therefore don't represent a real concurrence. On the other side, in great distribution retail stores "Made in China" products are more and more frequently offered. The distribution of these products is controlled by the big retail chains and have a good qualitative level. These products will most probably represent dangerous concurrents for our products. We are also expecting that in the next years the quality of these commodities will further enhance. Also for this reason, we must insist on the application of the principle of reciprocity in the commercial interchange between Italy and China.



**China and Europe have different regulations on cosmetics. Is this a great issue for our exports? How many barriers our products encounter when we want to import them in China?**

China has a very strict regulation e.g. on formulation or on animal testing, just to cite two aspects, which is different from the European regulatory framework and which require from our side several "stunts", in order to get our products authorized on the Chinese market. Product entries and launches in China are difficult to be predicted due to precise regulatory requirements. Pre-market registration is a compulsory formality for all imported cosmetics and due to the lengthy procedure it is not possible to launch simultaneously a new cosmetic product in China and the rest of the world.

Other issues to be taken into consideration when planning to sell a cosmetic in China are the product labeling (all information and the ingredient list must be translated into Chinese) and the choice of ingredients, since there are differences in banned/allowed ingredients with Europe. Moreover, there is a great issue with the definition of "new ingredients", which is not well defined. On one side there is a lack in definition of what a "new ingredient" is and how an ingredient is qualified as such. On the other side the three released "draft lists" by the SFDA are only partial and doesn't allow to know which ingredients are "known" to Chinese authorities. With regard to the costs, it is estimated that the process of approval for a new ingredients by

SFDA could last more than 18 months and that the cost of the complete procedure could exceed 40.000 Euro.

More issues are represented by the potentially risky substances, and by the compulsory toxicological testing on animals. Alternatives to animal testing used in the

EU are not recognized as valid by the SFDA. EU companies would infringe the European regulatory framework on animal testing if they want to comply with Chinese regulations and their products would be outlawed in Europe. This is obviously not possible!

Cosmetics are classified in China as *non-special purpose cosmetics (NSPC)* and *special purpose cosmetics (SPC)*. The registration costs for these two classes of products are different. The cost of the registration of an NSPC could range from 1200 to 4000 Euro, while in the case of an SPCs the range might be from 2500 to 8000 Euro. The time required for the approval process is foreseen to be of 3-4 months, but in practice it ranges from 9 to 12 months. Registrations are valid for 4 years and renewal procedure needs to be started at least 4 months before expiry of the registration and any change occurred in the formulation will prompt a new registration.

**To conclude?**

The good success our products have in Hong Kong demonstrates that they are competitive and well accepted among Chinese consumers. Hong Kong represents for us a privileged channel in order to be present in on the Chinese market passing through a reality which resembles more to the European way of doing business. Our products have a great potential on the Chinese market but are, until now, hindered by bureaucratic and regulatory obstacles. We definitively need more reciprocity between Europe and China.

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**UNIPRO - Italian Association of Cosmetic Industries**

UNIPRO, the Italian Association of Cosmetic Industries, was founded on November 6<sup>th</sup>, 1967 thanks to the initiative of twenty industrial and cosmetic professionals nationwide. Over the years the association established itself as a benchmark of the sector in the development and uptake of information to regulatory, technical, tax and trade issues. Today UNIPRO has among its ranks something like 500 companies, which are representing 95% of the turnover of Italian cosmetic industry.

Six percentage points of growth, 9.1 billion Euro of turnover, 35,000 employees, rising to 200,000 if we consider the downstream operators in the beauty and personal care sector: these are the numbers the Italian cosmetics industry has achieved in 2011.

Besides its institutional website ([www.unipro.it](http://www.unipro.it)), UNIPRO started a new website called *ABC-cosmetici* ([www.abc-cosmetici.it](http://www.abc-cosmetici.it)) with the objective of assisting consumers, who have become increasingly sophisticated and careful, to seek and find cosmetic products characterized by highest reliability and technical functionality. The website provides detailed information for better knowledge of cosmetic products and their ingredients.

Cosmetic industry is regulated by the Legislation of the European Union, as implemented by individual Member States of the Union. UNIPRO offers its expertise to focus and to precisely define the European regulatory requirements and disseminates information about it to readily make it available to operators in the sector, in order to ensure their proper and timely application.

**Services and activities of UNIPRO**

The Centre for Studies and Corporate Culture of UNIPRO provides a wide range of services and functions in the areas of technical-regulatory issues, economy and taxation affairs, relations and international activities, administrative issues, press and communication.

Beside these straightforward services, UNIPRO deals with the most traditional product groups: sales in perfumery, cosmetics in pharmacies, health food store sales, professional products for hairdressers, beauticians cosmetics, contract manufacturing and the committee *Accademia del Profumo* (Academy of the perfumes). Institutional activities, calibrated in order to respect the dimensional and structural heterogeneity of Italian companies, are accompanied by a communication plan aimed at enhancing the reputation and knowledge of the sector thanks to an annual meeting with the presentation of the "Beauty Report" to the Italian Chamber of Deputies.

The editorial and promotional projects signed by UNIPRO add to the exhibitions sponsored in Italy and in the world: the *Cosmoprof* in Bologna, the *Cosmoprof Asia* in Hong Kong and the *Cosmoprof North America* in Las Vegas.

The RTC structures and UNIPRO Services, aimed at the training sector and to the delivery of specific business dedicated services, complete the portfolio of UNIPRO offer.

Last but not least in importance, UNIPRO is also involved in the social sector by its supporting of the Association *La forza e il sorriso - L.G.F.B. Italy*, which provides free beauty workshops for women in cancer treatment on the basis of the international project *Look Good ... Feel Better*.

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