

II - CONCLUSIONS OF THE PEAT MARWICK STUDY

The beauty products industry encompasses a wide range of products including perfume, toilet water, lipstick, eye cosmetics, face creams and lotions, mouthwash, dental and oral hygiene preparations, bath oils and salts, shampoos, deodorants, shaving preparations, and sunscreen, manicure and pedicure preparations. These products account for the largest import market for beauty products served by European firms. U.S. imports of beauty products from Japan are insignificant.

U.S. exports of beauty products for 1987 reached \$360 million (U.S.) (est.), an increase of over 12% from 1986, while U.S. imports of the products of concern to this study are estimated at over \$431 million (U.S.) in 1987. Market shares in the U.S. for Europe and Japan have remained fairly steady, dropping only slightly in 1987. The U.S. market for beauty products is expected to sustain a real growth of approximately 2.6% annually over the next five years.

The survey of U.S. importers of the products under examination indicated that over 72% of the respondents were facing rising costs for their imports due to the devaluation of the U.S. dollar. As a consequence, many expressed interest in looking at Canadian sources of supply as alternatives. In addition, over 34% of U.S. importers contacted reported that they would increase their purchases from Canada in the event of a Free Trade Agreement between Canada and the United States. Many U.S. importers, however, had not yet considered the consequences of such an agreement on their purchasing patterns. U.S. importers interested in Canadian products said that they would prefer to obtain product information directly from the Canadian company through brochures and product listings and through industry publications. Quality and the need to supplement domestic supplies and lack of availability in the United States were the primary reasons given for importing by the respondents. Price was the least frequently reported factor.

The survey of U.S. associations connected with the beauty products industry indicated that Canadian goods are not competitive with the U.S. products. U.S. producers have long production runs which have warranted substantial investments in automated processing. Canadian production levels are such that an equivalent amount of automation has not been justified.

Some specific opportunities have been uncovered during the course of the survey of U.S. importers. Sources of supply are being sought for women's fragrances, cosmetics, men's and