The Polish Union of the Cosmetics Industry

WiseEuropa

COSMETICS IN POLAND

REPORT ON THE STATE OF THE COSMETICS INDUSTRY

REPORT OF THE POLISH UNION OF THE COSMETICS INDUSTRY

PREPARED BY THE PARTNER: WISEEUROPA – WARSAW INSTITUTE FOR ECONOMIC AND EUROPEAN STUDIES

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Contact the Union office: biuro@kosmetyczni.pl

Polish Union of the Cosmetics Industry

ul. Widok 16 lok. 5

00-023 Warsaw

www.kosmetyczni.pl

Editorial team of the Polish Union of the Cosmetics Industry:
Justyna Żerańska, PhD Eng., Ewa Starzyk, PhD Eng., Aleksandra Lau-Wyzińska

Editorial team of WiseEuropa:
Krzysztof Bocian, Maciej Bukowski, PhD, Krzysztof Fal, Phd

Collaboration: Małgorzata Majewska, Karolina Szyller, Tomasz Wronka

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INTRODUCTION

Dear Readers!

Seven years have passed since the last major report on the state of the cosmetics industry in Poland was published by the Polish Union of the Cosmetics Industry. The importance of this publication is evidenced by the tremendous number of quotations and references to this document that we have clocked up over that time.

However, the world does not stand still, and seven years is indeed a long time. We draw to the full on the heritage and resources of the European Union, of which the Republic of Poland has been a member for twenty years now. We can see and feel that a lot has changed, but without knowing the hard data it is difficult to realistically assess the state of the industry. For this reason, we have spent several months preparing the next major publication. It is more extensive and organises the data available in the Polish and European markets even more thoroughly. We asked analysts from the WiseEuropa think tank to conduct and in-depth analysis of the situation of the sector, observe the phenomena affecting it, draw conclusions and map the challenges and opportunities arising from the Green Deal. All this is to ensure that entrepreneurs in the cosmetics sector have solid material for good planning and adaptation of their business models so that they can see the future clearly.

How big is the cosmetics market in Poland actually? Do our companies really allocate adequate resources to innovation? How do we look compared to Europe? And finally – where did the idea of sustainability come from in Europe and globally, and what are the sources of our key regulations in this area? These and other important data can be found on the following pages of the report "Cosmetics in Poland. Report on the State of the Cosmetics Industry", which we are putting into your hands today. The data it presents confirms that Poland is a faithful guardian of the EU's gold standard and that companies operating in the country embody all that is best in the industry.

I know that this time, too, we have succeeded in creating a credible, structured, as up-to-date as possible, methodologically top-notch document. Moreover, it is a study that presents the entire value chain – production, distribution and sales – most closely reflecting the basket of cosmetic goods. We were the only ones to select only cosmetic CN codes for analysis, thus obtaining the most precise comparison of cosmetics trade flows. This was taken care of by a team of several analysts and experts from our partner WiseEuropa think tank. I would like to thank them all for their commitment, hours of conversation and solid writing skills. Let the results of our joint work convince those still unconvinced that the cosmetics industry is a truly unique link in Poland's processing industry.

Justyna Żerańska, PhD Eng.
General Director
The Polish Union of the Cosmetics Industry

METHODOLOGY

This report covers only cosmetic products as legally defined in Article 2 of Regulation 1223/2009/EC:

Cosmetic product means any substance or mixture intended to be placed in contact with the external parts of the human body (epidermis, hair system, nails, lips and external genital organs) or with the teeth and the mucous membranes of the oral cavity with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance, protecting them, keeping them in good condition or correcting body odours;

Industry classification is based on the PKD classification (Polish Classification of Economic Activities), which is identical to the European NACE classification (Statistical Classification of Economic Activities in the European Community).

Value chain includes the three stages of the process: production, distribution and sales. Therefore, three PKD activities were analysed (C20.42; G.46.45; G47.75). An identical classification for the value chain is adopted by Cosmetics Europe (the leading organisation in the European cosmetics market for manufacturers, distributors and associations, which are their national counterparts). The third stage of the value chain is sales, and one of its elements is specialised stores. As Cosmetics Europe notes – the results of this link are probably underestimated, but it is still the best possible classification to analyse the value chain on a statistical basis.

Production	C20.42	Manufacture of cosmetic products and toilet preparations
Distribution	G46.45	Wholesale of perfume and cosmetics
Sales	G47.75	Retail sale of cosmetic and toilet articles in specialised stores

Production. The starting point of the analysis is the value chain. In the subsequent steps, the analysis focuses on cosmetics manufacturers who classify their activities under PKD C20.42. Based on this classification, the most important data are presented in the report. Production is a key stage in the value chain, where the sector's products are created and then passed on to the next stages of the process. In Poland, its gross value added (GVA) accounts for 32% of the value chain.

Section	C	Manufacturing
Division	20	Manufacture of chemicals and chemical products
Class	20.42	Manufacture of cosmetic products and toilet preparations

This class includes the manufacture of perfumes and toilet products such as:

- perfumes and toilet water;
- beauty and make-up products;
- sunburn protection preparations and tanning products;
- manicure and pedicure preparations;
- shampoos, hairsprays, hair waving and strengthening preparations;
- tooth cleaning and oral hygiene products, including denture products;
- shaving products, including those used before and after shaving;
- deodorants;
- bath salts;
- depilatory preparations;
- cosmetic soap.

This class excludes the production and refining of natural essential oils, classified in 20.53.Z.

C20.42 sector products. The representation of the goods manufactured by the cosmetics production sector (PKD 20.42) is presented based on the PRODCOM classification (French: PRODuction COMmunautaire. English: Community Production). It provides statistics on the production of industrial goods by enterprises in EU countries. These statistics are part of European business statistics and contain information on the specific product categories that a sector within a given PKD produces. Cosmetics manufacturers in the PKD C20.42 sector produce goods classified in PRODCOM with an 8-digit code as 2042XXXX.

PRCCODE	Name
20421150	Perfumes
20421170	Toilet waters
20421250	Lip make-up preparations
20421270	Eye make-up preparations
20421300	Manicure or pedicure preparations
20421400	Powders, whether or not compressed, for cosmetic use (including talcum powder)
20421500	Beauty, make-up and skin care preparations including suntan (excluding medicaments, lip and eye make-up, manicure and pedicure preparations, powders for cosmetic use and talcum powder)
20421630	Shampoos
20421650	Preparations for permanent waving or straightening of hair
20421670	Hair lacquers
20421700	Hair preparations (excluding shampoos, permanent waving and hair straightening preparations, lacquers)
20421850	Dentifrices (including toothpaste, denture cleaners)
20421890	Preparations for oral or dental hygiene (including denture fixative pastes; powders and tablets, mouth washes and oral perfumes, dental floss; excluding dentifrices)
20421915	Soap and organic surface-active products in bars, etc., for toilet use
20421930	Organic surface-active products and preparations for washing the skin; whether or not containing soap, packed for retail sales
20421945	Pre-shave, shaving and after-shave preparations (excluding shaving soap in blocks)
20421960	Personal deodorants and antiperspirants
20421975	Perfumed bath salts and other bath preparations
20421990	Other personal preparations (perfumeries, toilet, depilatories...)

Export and import. Data on foreign trade are presented based on the Combined Nomenclature (CN). This is the European classification of goods used in foreign trade statistics. It is an essential element of the EU Common Customs Tariff. It functions as an extension of the Harmonised System (HS) developed by the World Customs Organisation.

Important: in many reports on the cosmetics industry, code CN33 (essential oils and resinoids; perfumery, cosmetic or toilet preparations) was used to analyse trade and goods flows. For the needs of the Polish Union of the Cosmetics Industry, the basket of goods has been modified to present the trade in all cosmetics according to their legal definition in the most precise way possible. To this end, CN3301 (essential oils) and CN3302 (mixtures of odoriferous substances) codes were removed from CN33, while CN3401 code (cosmetic soaps) was moved to CN33 from CN34. This classification allows cosmetics trade flows to be compared in the most accurate way possible, taking into account its segments.

CN code	Name
CN3303	Perfumes and toilet waters
CN3304	Preparations for the care of the skin, manicure or pedicure preparations
CN3305	Preparations for use on the hair
CN3306	Preparations for oral or dental hygiene
CN3307	Shaving preparations, deodorants, bath and shower preparations
CN3401	Cosmetic soaps

Time range. Due to data availability, two perspectives are presented: a longer (2004-2023) and a shorter (2013-2023) one. In the longer term, key categories such as production, market value, exports and imports are shown to highlight the long-term trends of these indicators. Analysis of these data provides a better understanding of how the sector has evolved over almost two decades, what changes have taken place in international markets in trade (structure and volume) and how production dynamics have evolved. In the shorter term, the focus is on more specific aspects of the sector's activities, such as the value of production sold, employment, net profit and profitability. This time frame of analysis allows for a closer examination of the trends of the last decade and the current challenges facing the sector. In the absence of available data for a given period, the closest available data were used to provide the most complete picture possible.

Data sources:

- Cosmetics Europe
- Eurostat
- Statistics Poland
- IMF (International Monetary Fund)
- Euromonitor International
- ITC (International Trade Center)
- PONT Info. GOSPODARKA
- STATISTA

1.

POLAND IN THE EUROPEAN COSMETICS MARKET

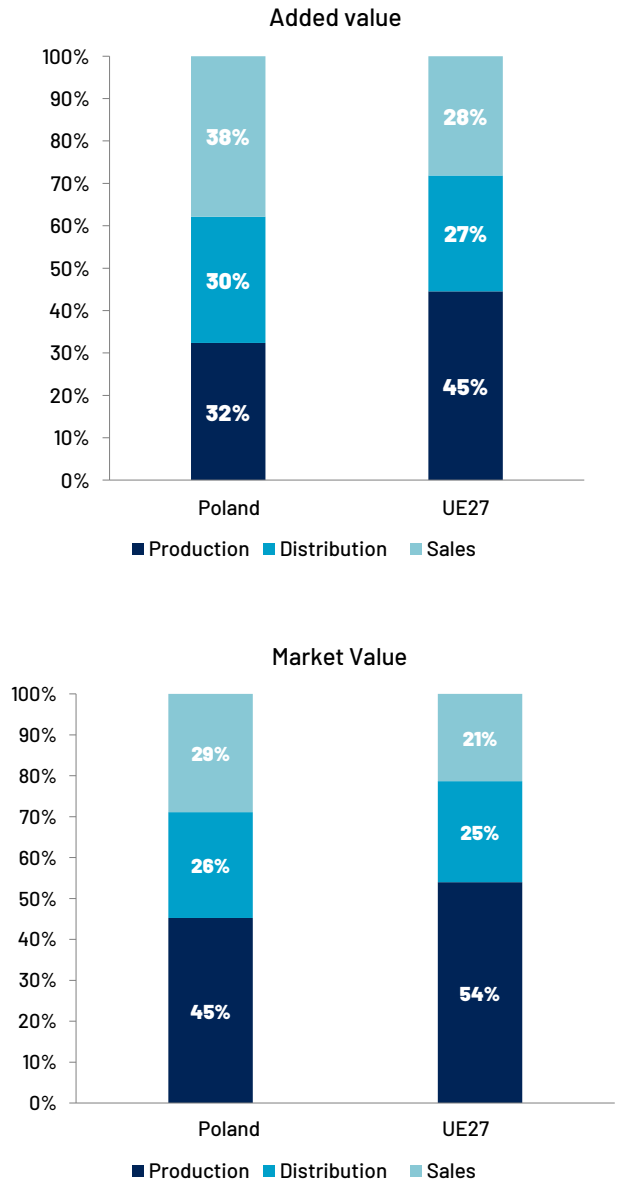
1.1. **Value** chain

- The cosmetics industry in Poland accounts for 5.5% of the gross added value of the European cosmetics market – this is the contribution Polish producers, distributors and retailers make to the added value of the cosmetics market in the European Union.

- In the years to come, production's share in the value chain should increase (taking into account gross value added and the value of this segment). In these terms, Poland should aim to mirror the structures of the market leaders to which it aspires.

The cosmetics industry consists of three main links: production, distribution and sales, which together form an integrated value chain. These individual business stages are differentiated in terms of their structure in the share of added value and market value, with the main differences arising from the inclusion of finished goods and work in progress (cf. Glossary). In Poland, the sector's direct production accounts for 32% of added value and 45% of market value. For the EU market as a whole, the figures are 45% and 54% respectively. The production stage is fundamental, as this is when cosmetic products are manufactured and passed on to downstream channels. Production gives a boost and has an impact on wholesale and retail distribution channels (indirect effects). In Poland, these two subsequent links account for 30% and 38% respectively in value chain, and 26% and 29% in market value. The production of cosmetics in the EU27 generates more added value, which is due to the larger production scale, technological differences and resource management that contribute to creating greater added value. However, given the dynamic development of the cosmetics industry in Poland (developing know-how, increasing product quality, expanding abroad and extending sales markets), it should increase its share in the value chain in the coming years, structurally following the leaders of the European cosmetics market (France, Germany, Italy, Spain).

CHART 1. GROSS VALUE ADDED AND MARKET VALUE IN THE COSMETICS VALUE CHAIN IN POLAND AND THE EU27 (2021)*

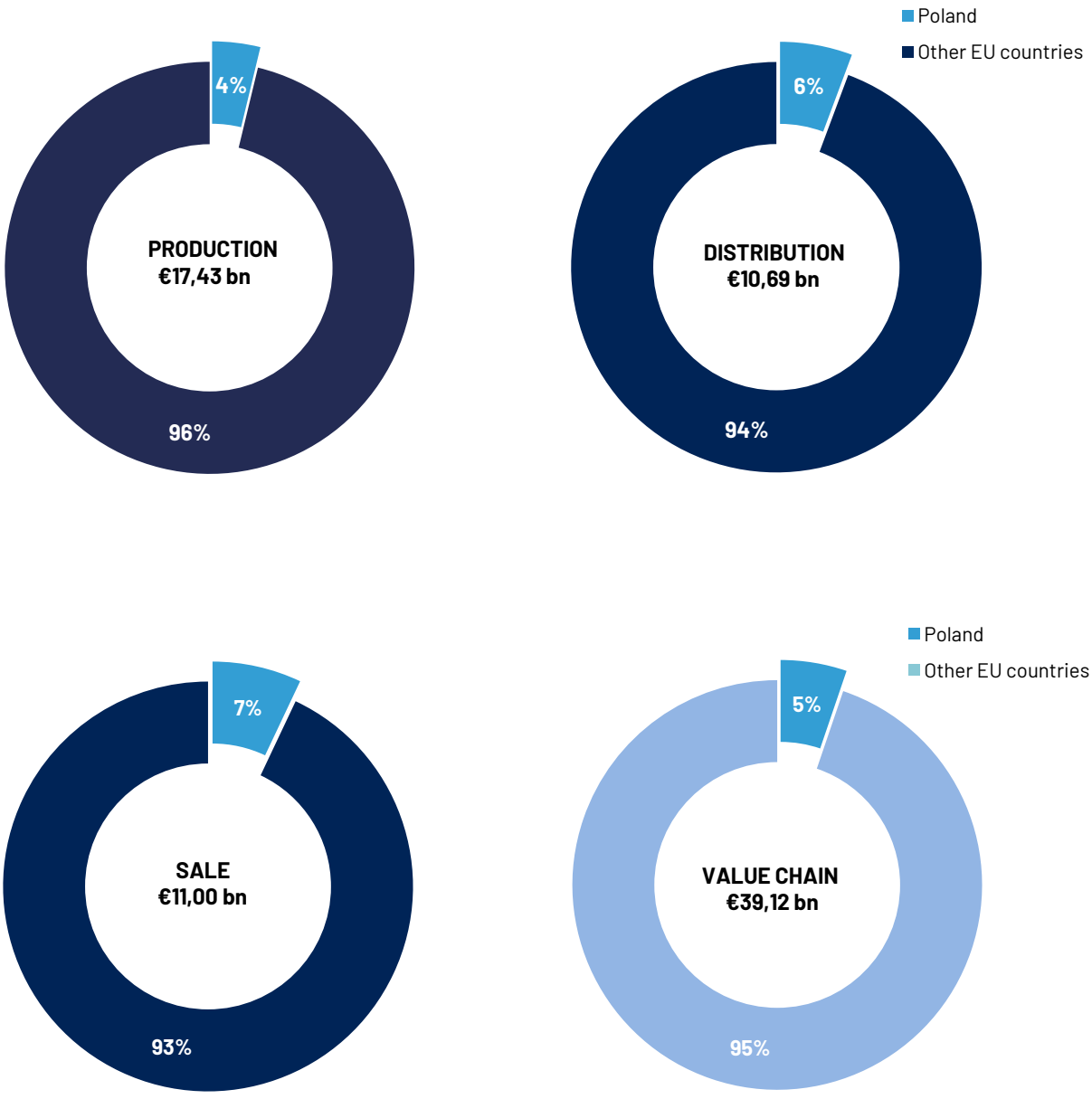


SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

*Latest available data from the Eurostat database (Structural business statistic) for 2021. Structural changes are minor in the short term, usually occurring over decades, so the data for 2021 can be considered representative and stable.

The Polish cosmetics market is an important part of the European market, and when we look at it from the perspective of the last two decades, it is clear that it is constantly strengthening its position, achieving ever better results. The cosmetics industry directly generated EUR 661 million in value added in 2021 (4% in the EU27), indirectly in the distribution channel – EUR 609 million (6%), and in the sales channel – EUR 773 million (7%). Throughout the chain, added value amounted to EUR 2.04 billion (5% EU market share).

CHART 2. ADDED VALUE OF THE EUROPEAN COSMETICS MARKET IN THE VALUE CHAIN (EUR BN, 2021)



SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

1.2. **Major** players

- Poland is the fifth largest market for cosmetics in the European Union. Its share in the EU market in 2023 was 6.4%.

- Since 2014, the Polish cosmetics market has grown by 75.3% – significantly more than the entire EU27 market (34.0%). This was the second-largest increase in the European Union.

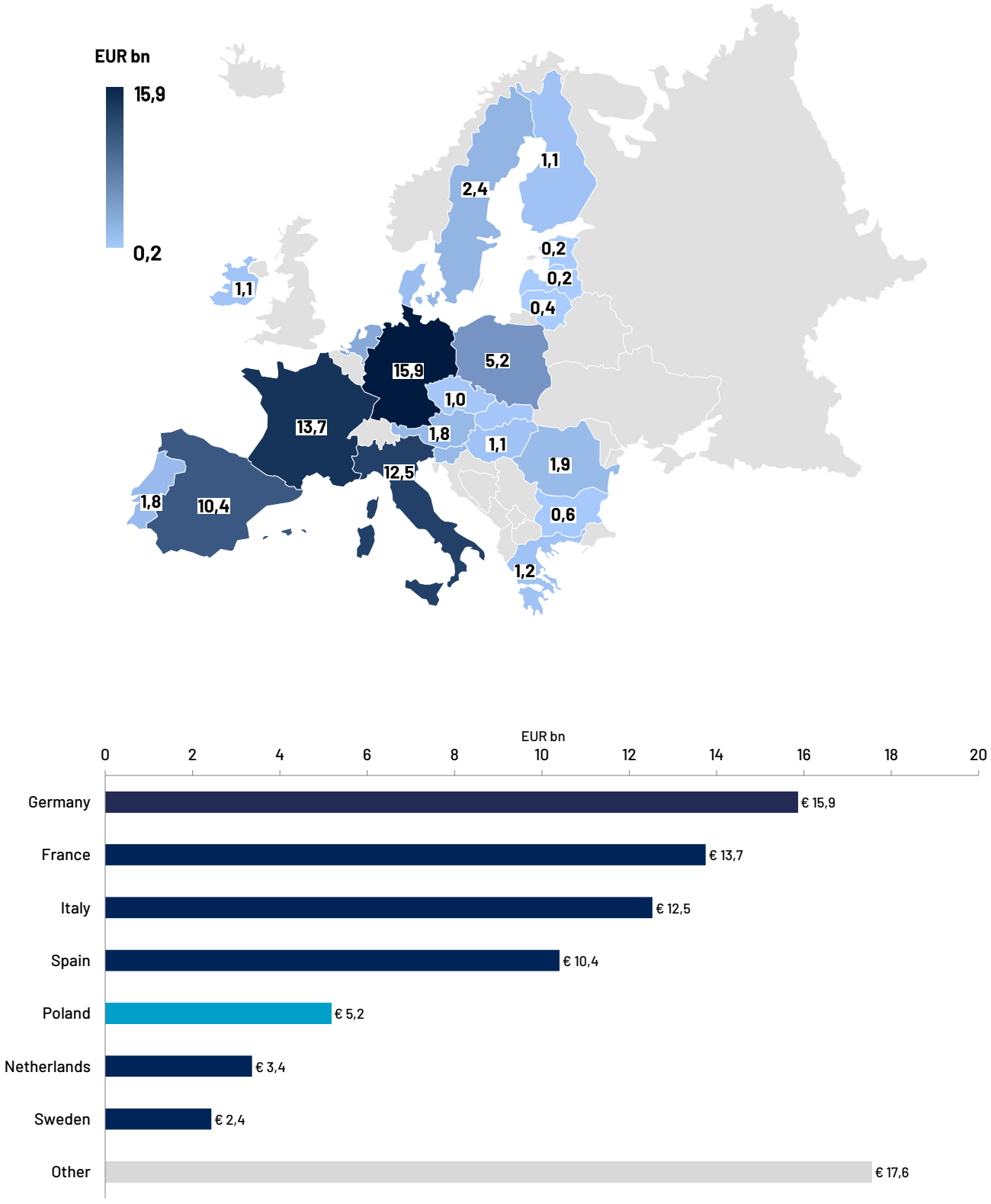
- The cosmetics industry in Poland is catching up with the European leaders at a faster pace than they are developing – in line with the convergence trend. There are no signs of this growth slowing down. On the contrary, there is room for further catching up with the leading countries, and Poland is doing just that – as is well demonstrated by the growth dynamics of the Polish market in recent years.

According to Cosmetics Europe, the value of the cosmetics market in Europe* in 2023 was EUR 96 bn (in the EU27 – EUR 81 bn). This makes Europe, together with the United States, the largest cosmetics market in the world. China is in third place, followed by Japan, Brazil and India.

The biggest players in the European Union are Germany, maintaining its position as the leader of the cosmetics market in terms of value (EUR 5.9 bn), France (EUR 13.7 bn), Italy (EUR 12.5 bn), Spain (EUR 10.4 bn). Poland is the fifth largest market for cosmetics in the EU (EUR 5.2 bn). The United Kingdom (EUR 11 billion), already outside the European Union, also holds a significant position.

Between 2014 and 2023, the cosmetics market in the European Union grew by 34%. Poland is among the leaders in this growth. During this period, the Polish market grew by as much as 75.3%, which was the second-best result in the European Union – behind Lithuania (98.9%). However, Lithuania's share in the EU cosmetics market is much smaller – 0.5% respectively – while Poland has a 6.4% share in the EU27, which places it in fifth position. The largest markets are established and growing more slowly than smaller, fast-growing markets, and this is in line with the trend of economic convergence. Between 2014 and 2023, only eight countries in the European Union could boast a compound annual growth rate (CAGR) of more than 5% for the cosmetics market, and thus an overall market growth of more than 50% since 2014. These included Poland, for which the rate was 6.4%. Within ten years, Poland increased its share in the EU cosmetics market from 4.9% to 6.4%. Such high growth rates, combined with the industry's ability to generate high profitability rates, increasing domestic sales and unprecedented international expansion (Poland is the fifth exporter of cosmetics in the EU and ninth in the world), provide good conditions for further strengthening Poland's position internationally. The other countries for which the market value grew by over 5% per year over this period were Spain, Romania, Hungary, Bulgaria, Lithuania, Latvia and Estonia. All of them, except Spain, recorded significantly lower values of the total market compared to the Polish market, which is 2.7 times larger than Romanian, 13.5 times larger than Lithuanian and 26 times larger than Estonian. Compared to the leaders, Poland still has plenty of room for further development. The value of the cosmetics market in Poland is 33% of that in Germany, 38% in France, 41% in Italy and 50% in Spain. The Spanish market is growing just as impressively, as it contributes to 12.8% of the EU market and has itself grown by 63.9% between 2014 and 2023. Poland may follow a similar path, as it shows no signs of slowing down compared to EU countries – on the contrary, it has been growing at an increasing rate year-on-year since the COVID-19 pandemic, and the economic growth prospects for Poland are among the best in Europe, also considerably better than those for Spain (for more on this see subsection 3.1. Economic environment and prospects).

CHART 3. VALUE OF THE LARGEST COSMETICS MARKETS IN THE EU27 IN 2023



SOURCE: COMPILED BY WISEEUROPA BASED ON COSMETICS EUROPE DATA

TABLE 1. VALUE OF COSMETICS MARKETS IN EUROPE (2014-2023)*

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023	2023	2014-2023	
	EUR bn	EUR bn	EUR bn	EUR bn	EUR bn	EUR bn	EUR bn	EUR bn	EUR bn	EUR bn	share in EU27	share in Europe	CAGR	change %
Germany	13,072	13,388	13,499	13,563	13,804	14,046	14,036	13,604	14,333	15,853	19,6%	16,6%	2,2%	21,3%
France	11,363	11,582	11,626	11,561	12,559	12,458	11,774	12,178	12,882	13,749	17,0%	14,4%	2,1%	21,0%
Italy	9,502	9,806	10,034	10,202	10,642	10,858	9,780	10,640	11,505	12,530	15,5%	13,1%	3,1%	31,9%
Spain	6,350	6,465	6,675	6,820	6,958	7,134	6,430	8,362	9,250	10,404	12,8%	10,9%	5,6%	63,9%
Poland	**2,951**	**3,452**	**3,574**	**3,734**	**3,949**	**4,131**	**3,806**	**4,031**	**4,532**	**5,173**	**6,4%**	**5,4%**	**6,4%**	**75,3%**
Netherlands	2,823	2,794	2,727	2,730	2,754	2,841	2,875	2,898	3,100	3,362	4,1%	3,5%	2,0%	19,1%
Sweden	1,981	1,944	1,785	1,872	2,092	2,077	2,070	2,237	2,375	2,431	3,0%	2,5%	2,3%	22,7%
Belgium/Luxembourg	2,043	2,057	1,932	1,959	2,070	2,084	1,963	2,028	2,160	2,310	2,8%	2,4%	1,4%	13,1%
Austria	1,355	1,355	1,379	1,401	1,498	1,516	1,493	1,525	1,632	1,755	2,2%	1,8%	2,9%	29,6%
Romania	1,100	1,176	1,191	1,268	1,451	1,529	1,467	1,554	1,734	1,893	2,3%	2,0%	6,2%	72,1%
Portugal	1,297	1,296	1,318	1,358	1,477	1,513	1,429	1,487	1,660	1,766	2,2%	1,8%	3,5%	36,1%
Finland	0,937	0,870	0,934	0,957	0,997	0,993	0,976	1,023	1,041	1,133	1,4%	1,2%	2,1%	20,9%
Denmark	1,014	1,059	0,903	0,943	1,187	1,204	1,201	1,421	1,443	1,480	1,8%	1,5%	4,3%	46,0%
Ireland	0,737	0,760	0,785	0,803	0,865	0,882	0,837	0,870	0,988	1,064	1,3%	1,1%	4,2%	44,3%
Greece	0,807	0,804	0,851	0,849	1,002	1,032	0,924	0,997	1,060	1,200	1,5%	1,3%	4,5%	48,7%
Hungary	0,635	0,674	0,684	0,724	0,819	0,858	0,768	0,827	0,902	1,092	1,3%	1,1%	6,2%	72,0%
Czech Republic	0,715	0,705	0,733	0,734	0,734	0,734	0,738	0,772	0,894	1,026	1,3%	1,1%	4,1%	43,5%
Slovakia	0,523	0,542	0,563	0,581	0,621	0,641	0,623	0,656	0,745	0,750	0,9%	0,8%	4,1%	43,5%
Bulgaria	0,328	0,358	0,373	0,392	0,428	0,450	0,424	0,446	0,479	0,552	0,7%	0,6%	5,9%	68,1%
Croatia	0,336	0,349	0,358	0,370	0,388	0,408	0,382	0,411	0,458	0,486	0,6%	0,5%	4,2%	44,6%
Lithuania	0,192	0,220	0,229	0,239	0,075	0,268	0,263	0,279	0,320	0,382	0,5%	0,4%	7,9%	98,9%
Slovenia	0,165	0,171	0,172	0,174	0,183	0,185	0,175	0,186	0,204	0,225	0,3%	0,2%	3,5%	36,0%
Latvia	0,147	0,158	0,147	0,155	0,180	0,187	0,173	0,182	0,213	0,242	0,3%	0,3%	5,7%	64,0%
Estonia	0,114	0,134	0,126	0,130	0,140	0,144	0,136	0,149	0,170	0,197	0,2%	0,2%	6,2%	72,3%
EU27 (excl. Malta and Cyprus)	**60,487**	**62,120**	**62,597**	**63,520**	**66,871**	**68,173**	**64,743**	**68,763**	**74,080**	**81,054**	**100,0%**	**84,7%**	**3,3%**	**34,0%**
United Kingdom	11,310	12,911	11,152	11,178	10,807	10,591	9,719	9,885	10,487	10,998		11,5%	-0,3%	-2,8%
Switzerland	2,008	2,037	2,050	2,009	1,914	1,964	1,809	1,858	2,114	2,087		2,2%	0,4%	3,9%
Norway	1,261	1,172	1,113	1,168	1,315	1,288	1,347	1,531	1,616	1,534		1,6%	2,2%	21,7%
Europe	**75,066**	**78,239**	**76,912**	**77,875**	**80,907**	**82,016**	**77,618**	**82,037**	**88,297**	**95,672**		**100,0%**	**2,0%**	**27,5%**

SOURCE: COSMETICS EUROPE

*Dark blue indicates countries with 2014-2023 CAGR of >5% and the overall market growing >50%. Light blue is for 2014-2023 CAGR between 3-5% and market growth of 30-50%; red is for 2014-2023 CAGR <0 and market value decline.

1.3. **Cosmetics in the EU** – production, sales, categories

· The cosmetics manufacturing sector in the EU has weathered the crises of the last two decades (the financial crisis of 2008-2009, the Eurozone crisis, the COVID-19 pandemic, energy crisis) and is consistently returning to growth after periods of downturn.

· The most popular cosmetics in the EU are skincare and make-up products (36.5%), toilet waters (14.3%) and hair care products (7.3%) and shampoo (7.0%).

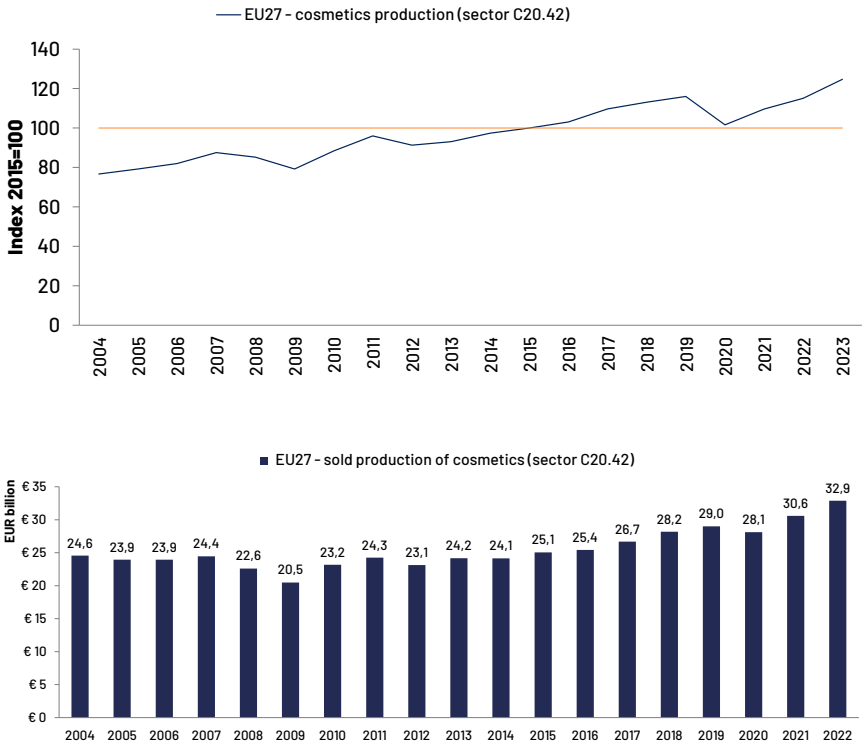
For years, the cosmetics industry in Western Europe has been considered one of the most innovative and rapidly growing sectors of the global economy. Over time and with increasing consumer demand, the sector has become a major player on the international stage, influencing not only the economy but also cultural and social trends. Europe represents one of the largest and most important cosmetics markets in the world. The huge number of inhabitants and, at the same time, consumers with different preferences and needs, creates an extremely diverse environment for manufacturers. The Old Continent is the world's second-largest cosmetics market by volume and accounts for 25.3% of cosmetic products sold worldwide (behind Asia at 38.3%; ahead of North America at 19.2%).

The cosmetics sector in the European Union has shown a solid growth trend in the area of production over the last two decades, despite three periods of fluctuation. In 2008-2009, they were caused by the global financial crisis and the collapse of demand and consumption; in 2012, by the Eurozone crisis; in 2020, by the COVID-19 pandemic. According to Eurostat data, the production in the C20.42 sector, which produces cosmetics (counting by index, a value of 100 was taken for 2015), increased from 76.7 in 2004 to 124.7 in 2023, with an average annual growth rate (CAGR) of 2.59 between 2004 and 2023.

Despite a significant increase in the cosmetics industry's production between 2003 and 2023 of as much as 62%, the sold production of cosmetics in the European Union increased by 36% over the same period (from EUR 24.1 bn to EUR 32.9 bn). In this category, all sector C20.42 sold products complying with the PRECODE nomenclature are taken into account (range of goods 20421500-2 0 4 2 1 6 5 0; see table below for details). As a consequence, the trade in cosmetics has developed very dynamically, manifesting increasingly higher volumes of exports and imports, and the EU27 is a net exporter of cosmetics to third countries and systematically records trade surpluses.

The segmentation of the cosmetics market in the European Union features an extremely diverse product structure (nineteen product categories), covering a wide range of products for skin care, hair care, personal hygiene or make-up. As trends and consumer preferences evolve, cosmetics manufacturers are constantly adapting their offerings with innovative products and technologies. The segmentation of the cosmetics market ranges from luxury, top-shelf products to those available at lower price ranges, allowing the needs of diverse social groups to be met.

CHART 4. PRODUCTION OF COSMETICS IN THE EU27 - INDEX (TOP PANEL) AND VALUE OF PRODUCTION SOLD (BOTTOM PANEL)



SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

The largest segment of the cosmetics market in the EU is skincare preparations such as creams, foundations, bases and sunscreens. This product group accounted for an impressive 36.5% of total production sold in the EU. The second largest segment of the EU cosmetics market is toilet waters, accounting for 14.3% of production sold in the region. These two product groups account for more than half of the cosmetics market in the EU. Hair care preparations (conditioners, masks, styling products) account for a 7.3% market share, while shampoos account for 7%.

TABLE 2. SEGMENTS OF SOLD PRODUCTION OF COSMETIC PRODUCTS IN THE EUROPEAN UNION (2022)

PRCCODE	Product	Share in EU production sold
20421500	Beauty, make-up and skin care preparations including suntan (excluding medicaments, lip and eye make-up, manicure and pedicure preparations, powders for cosmetic use and talcum powder)	36.5%
20421170	Toilet waters	14.3%
20421700	Hair preparations (excluding shampoos, permanent waving and hair straightening preparations, lacquers)	7.3%
20421630	Shampoos	7.0%
20421990	Other personal preparations (perfumeries, toilet, depilatories...)	5.3%
20421930	Organic surface-active products and preparations for washing the skin; whether or not containing soap, packed for retail sales	4.4%
20421960	Personal deodorants and antiperspirants	3.9%
20421915	Soap and organic surface-active products in bars, etc., for toilet use	3.6%
20421270	Eye make-up preparations	3.2%
20421250	Lip make-up preparations	3.2%
20421850	Dentifrices (including toothpaste, denture cleaners)	2.2%
20421400	Powders, whether or not compressed, for cosmetic use (including talcum powder)	1.9%
20421300	Manicure or pedicure preparations	1.9%
20421975	Perfumed bath salts and other bath preparations	1.3%
20421890	Preparations for oral or dental hygiene (including denture fixative pastes; powders and tablets, mouth washes and oral perfumes, dental floss; excluding dentifrices)	1.2%
20421150	Perfume	1.1%
20421670	Hair lacquers	0.9%
20421945	Pre-shave, shaving and after-shave preparations (excluding shaving soap in blocks)	0.5%
20421650	Preparations for permanent waving or straightening of hair	0.2%
	Total cosmetics	**100%**

SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

1.4. Major **exporters**

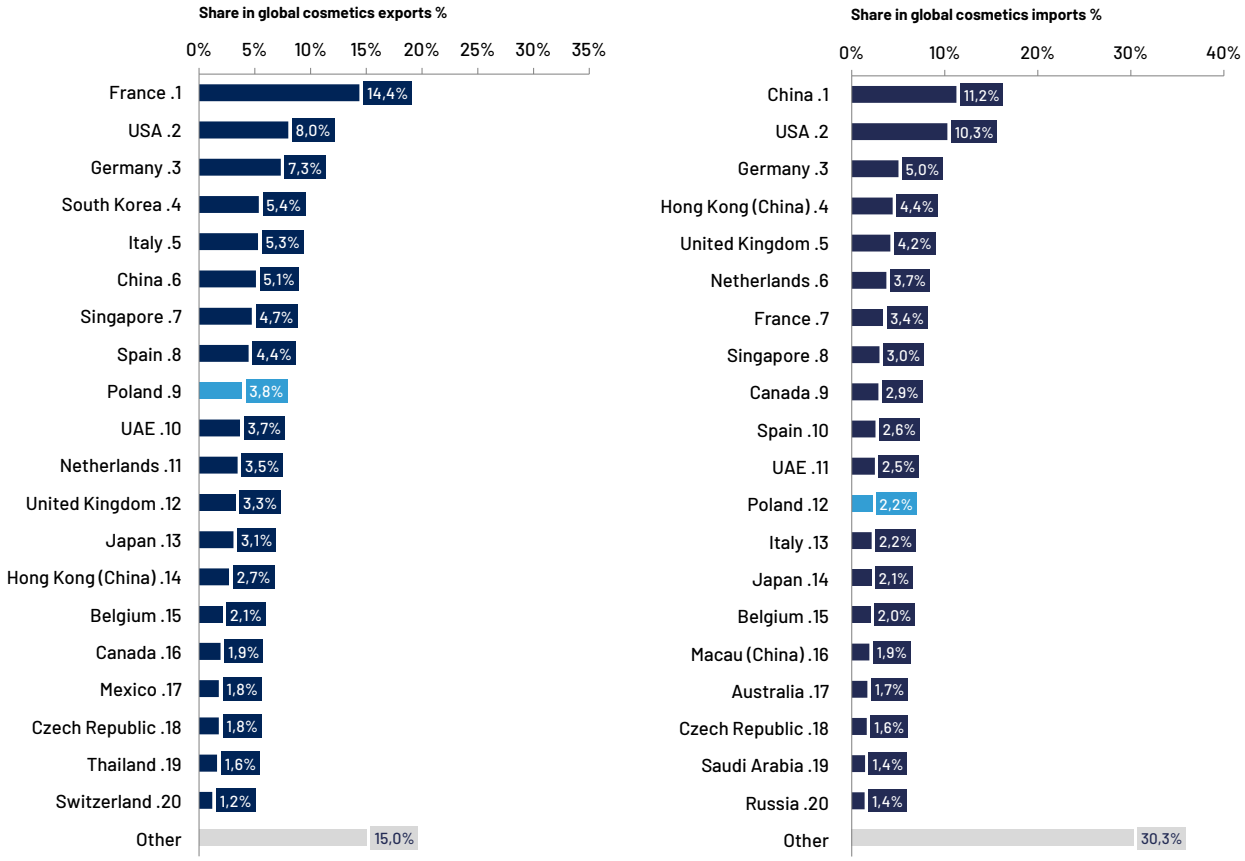
- Poland is the ninth exporter of cosmetics in the world (3.8% export share) and fifth in the European Union (8%).
- It is the second-largest exporter of oral and dental hygiene products and the third-largest exporter of toilet soap in the EU.
- The competitiveness of Polish exporters is fostered by the weak Polish currency (zloty or PLN), especially over the last ten years.
- In the future, the appreciation of the Polish currency against the euro and rising labour costs could pose a threat to export competitiveness.

The export of cosmetics is one of many segments of global trade activity and plays an important role in shaping the global cosmetics market. Cosmetic products are a wide range of goods that are in ever-growing demand in international markets. Cosmetics are also an important part of culture and an expression of individuality for consumers around the world. The expansion of global cosmetic trends, growing health awareness and increased wealth in many countries are contributing to increased interest in cosmetic products.

In 2023, global cosmetics exports amounted to EUR 148 bn – up 4.5% compared to 2022 – and was 0.6% of total global exports.

The geographical structure of cosmetics exporters worldwide shows well the specialisation of individual countries in this production segment. It is not closely related to the largest economies in terms of GDP or industrial production volume, and on the plus side in this category are European countries, in particular France, which is the largest exporter of cosmetics in the world (14.4% share in world exports), and Germany (third place, 7.3% share). Poland is playing an increasingly important role in the global cosmetics trade by exporting products to foreign markets, proportionally more so in relation to GDP. Poland's share of world GDP is around 1%, while in world cosmetics exports, it is already 3.8%, ranking ninth in global cosmetics exports (compared to 2022's twelfth position with 3.3%), demonstrating the country's significant position on the international stage in this industry.

CHART 5. THE WORLD'S LARGEST EXPORTERS AND IMPORTERS OF COSMETICS (2023)*



SOURCE: COMPILED BY WISEEUROPA BASED ON INTERNATIONAL TRADE CENTRE DATA

*Commercial data for cosmetic products refer to the following Combined Nomenclature codes: CN3303, CN3304, CN3305, CN3306, CN3307, CN3401. For 2023, data are available for 89.5% of the trade value, the remaining part is WiseEuropa estimate.

Cosmetic products from Poland have gained recognition both in European markets and beyond thanks to their high quality, innovation and competitive prices. Poland is increasingly becoming the place companies from all over the world choose as the location of their production facilities in order to benefit from the potential and know-how of the Polish cosmetics market. This, in turn, strengthens the importance of Poland (as an exporter), which is becoming an increasingly significant player in the world cosmetics arena.

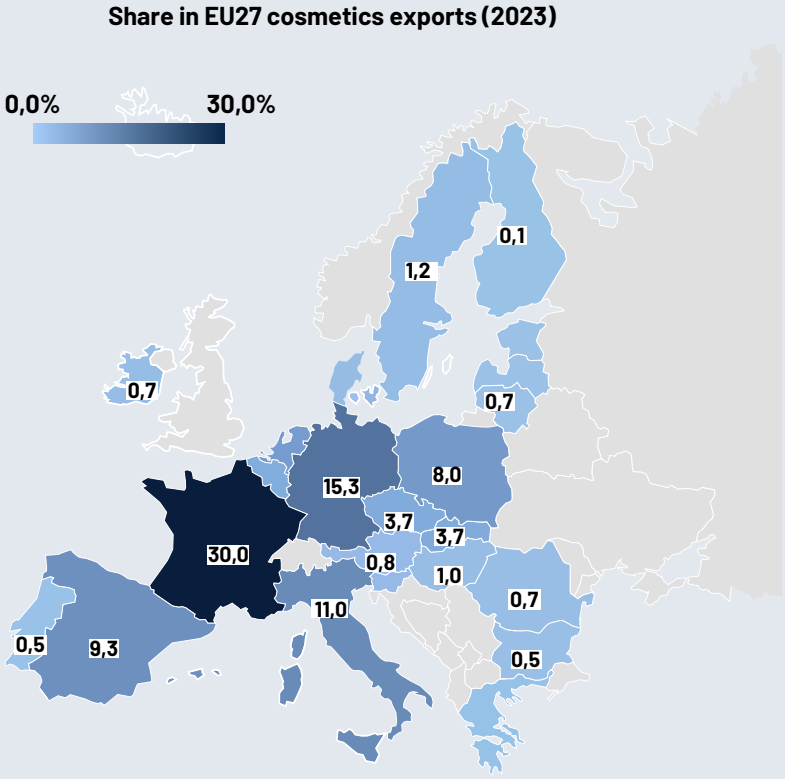
On the other side of the trade, cosmetic imports allow countries to access a variety of cosmetic products that can be used by both domestic consumers and processed or further distributed to local markets. This contributes to greater accessibility, variety and, consequently, choice in cosmetic products and promotes competition and innovation. Trade flows of cosmetics take place between countries with various levels of economic development and manufacturing specialisation. High-income countries often import cosmetics of higher added value, e.g. premium products and luxury cosmetic brands, while lower-income countries may import lower-priced products that meet basic skincare and hygiene needs. Leading the global import list is mainland China, which is the world's largest importer of cosmetics (11.2% share), as well as the United States (10.3%). The rest of the imports are diversified, mainly between developed economies. Poland ranks twelfth in terms of cosmetics imports worldwide with a 2.2% share. The nominal values of both imports and exports of cosmetics are increasing globally, reflecting the growing demand for cosmetic products worldwide.

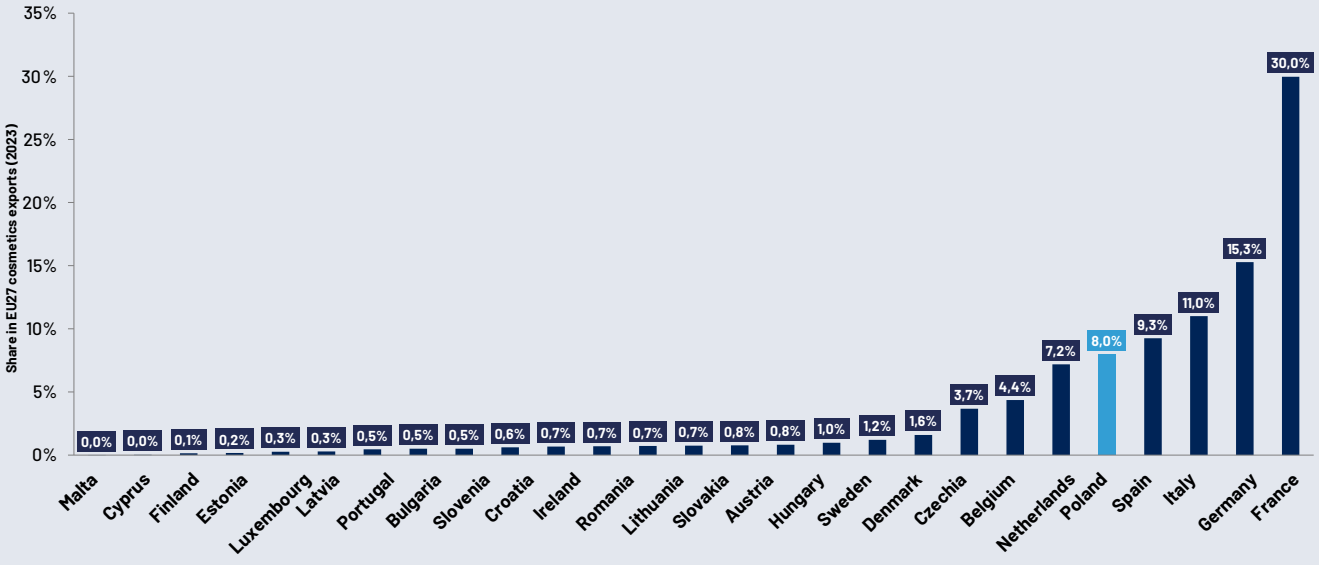
Considering selected categories of cosmetics – perfumes and toilet waters, skin care, manicure or pedicure cosmetics, hair care, oral or dental hygiene, shaving products, deodorants, bath and shower cosmetics, and cosmetic soaps (see the Methodology section for a detailed description of the classification) – EU countries accounted for as much as 44.7% of global cosmetics exports in 2022. Exporters from the European Union enjoy recognition in global markets. EU cosmetic brands are known and appreciated for their attention to detail, use of the latest technology and a variety of ingredients. The diversification of the offer into one based on natural ingredients and a conventional one, taking into account both ingredients and the needs of the target consumer, is also not insignificant. All this makes European products attractive to consumers around the world. The European Union attaches great importance to adhering to the standards in force, including strict guidelines regarding both the production itself and the safety and quality of the products. This further strengthens confidence in EU brands in international markets. Furthermore, EU member states often support the cosmetics industry through investment in research and development, export promotion or participation in international industry events, e.g. fairs, exhibitions, and conferences. All this contributes to strengthening the position of European Union exporters in global cosmetics markets.

France, the world's leading cosmetics industry, dominates EU27 cosmetics exports – accounting for 30.8% of the Community's total exports. Germany, Italy and Spain also play an important role as major exporters of cosmetics, with shares of 16.2%, 10.5% and 8.5% respectively. Poland has been strengthening its position in the European cosmetics market for years, which is reflected in its share in the cosmetics trade – both in European and global terms. Poland is the fifth largest exporter of cosmetics in the European Union with a share of 8%, which is steadily increasing, while the country is also gaining importance as an important player in the cosmetics industry internationally. Furthermore, it is:

The largest segment of the cosmetics market in the EU is skincare preparations such as creams, foundations, bases and sunscreens. This product group accounted for an impressive 36.5% of total production sold in the EU. The second largest segment of the EU cosmetics market is toilet waters, accounting for 14.3% of production sold in the region. These two product groups account for more than half of the cosmetics market in the EU. Hair care preparations (conditioners, masks, styling products) account for a 7.3% market share, while shampoos account for 7%.

CHART 6. SHARE IN COSMETICS EXPORTS IN THE EUROPEAN UNION (2023)*





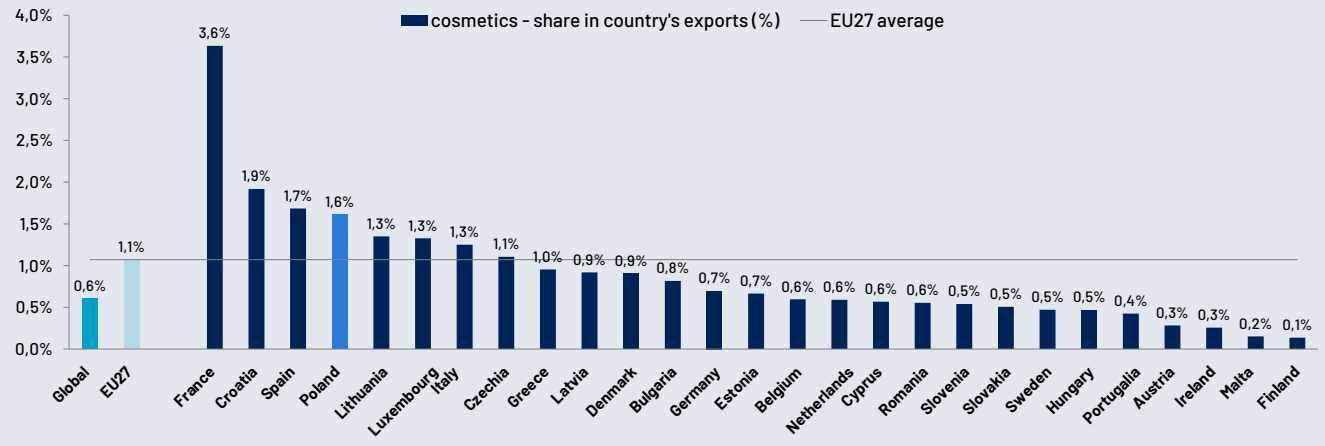
SOURCE: COMPILED BY WISEEUROPA BASED ON INTERNATIONAL TRADE CENTRE DATA

*Commercial data for cosmetic products refer to the following Combined Nomenclature codes: CN3303, CN3304, CN3305, CN3306, CN3307, CN3401.

The commodity structure of a country's exports depends, among other things, on the specialisation of a given economy, comparative advantages, the sophistication of the industry and the technologies used, as well as on natural resources, trade policy or foreign demand and preferences. Poland's trade turnover has been growing dynamically for the last three decades. Moreover, for a decade, Poland has recorded a positive trade balance (mainly due to the balance in services) and, after accession to the European Union and joining the common market, also a positive goods balance in trade with EU countries. Undoubtedly, an advantage of Polish exports is its strong product diversification. On the one hand, developing a broad export market in a sector where a country has a comparative advantage (more production at a relatively lower cost than in other countries) contributes to the rapid growth of the economy during the prosperous period of a given sector. On the other hand, sudden undesirable events in a specialised sector (crises, drop in demand, foreign competition) can entail costs for the economy as a whole, eventually leading to stagnation or recession. An example of such a sector is the automotive industry in Germany, the Czech Republic, Slovakia or Hungary, where exports of cars and automotive parts account for 20-30% of the export structure. In Poland, it accounts for about 7% – not having a large exposure to one sector provides a protective buffer during the series of crises of recent years.

Exports of cosmetic products do not account for a dominant share in the exports of any country in the world. From a global perspective, these products account for 0.6% of global exports. The situation is better in the European Union, which is to a large extent a trend-setter in the cosmetics industry, creating new developments, improving its products and adapting to strict production standards that aim to meet the increasingly demanding needs of an affluent population and implement public policies. Although cosmetics account for a relatively small percentage of total exports (EU27 – 1.1%), their share in exports varies from country to country. The standout here is France, where the share of cosmetics exports in relation to total exports was as high as 3.5% in 2022. Poland is in fourth place in this category in the European Union – 1.6% share – thus exceeding the EU and world average.

CHART 7. COSMETICS AS A % OF EUROPEAN UNION EXPORTS (2023)*



SOURCE: COMPILED BY WISEEUROPA BASED ON INTERNATIONAL TRADE CENTRE DATA

*Commercial data for cosmetic products refer to the following Combined Nomenclature codes: CN3303, CN3304, CN3305, CN3306, CN3307, CN3401. Global - 2022 data

1.5. **Poland** – Trade cosmetics

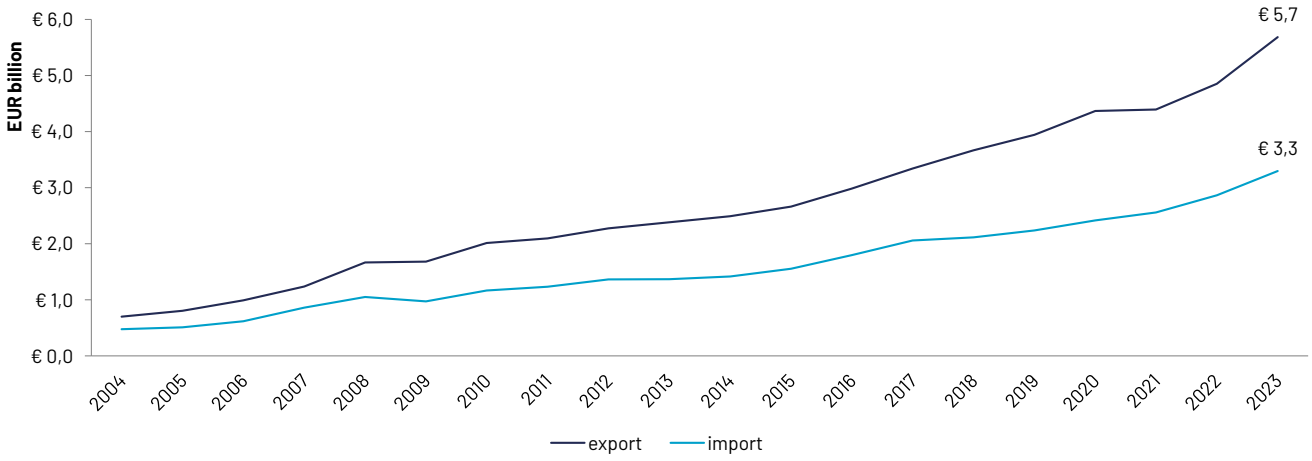
- In 2023, cosmetics exports from Poland amounted to EUR 5.7 billion and imports to EUR 3.3 billion.
- 65% of cosmetics exported from Poland go to the EU market and the remaining 35% – outside the EU. The EU market accounts for 88% of imports.
- From 2004 to 2023, the cumulative balance of trade in cosmetics amounted to EUR 22.3 billion and the ratio of exports to imports is higher than the European Union average – foreign expansion favours the development of the domestic market, which benefits manufacturers in Poland.

Global trade has grown rapidly over the past three decades, also in Poland. Trade volumes grew vigorously, mainly as a result of globalisation and the liberalisation of world trade since the 1990s (in the case of Poland, also as a result of exchange within the free trade area). In 1995, the value of Poland's exports represented 23% of the country's GDP; today it is 62% of GDP. The cosmetics industry is currently experiencing a boom. The cosmetics export and import values in Poland have grown dynamically over the past two decades, reflecting the development of the industry as a whole. Since Poland acceded to the European Union, cosmetics exports have increased by 8 times and GDP by 3.6 times. This significant increase and the relatively better export proportions prove the growing strength of the Polish cosmetics sector in foreign markets. The compound annual growth rate (CAGR) of cosmetics exports is at a very high level, at 11.7% since 2004 and 9.1% in the last ten years. Not only exports but also imports of cosmetics into Poland are increasing. In 2023, the value of imports reached EUR 3.3 billion (7 times more since accession). Although Poland is self-sufficient in the production of certain types of cosmetics, products are also imported from abroad, which significantly increases the possibility of meeting the needs of the local market.

Such a dynamic development of the cosmetics trade in Poland testifies to the future potential of this sector. Growing demand in foreign markets and a steadily developing production base suggest that Poland will continue to play an important role in the global cosmetics trade. It is also an opportunity to develop cooperation with other countries, both within and outside the European Union. Further expansion into foreign markets can contribute to the international importance of the Polish cosmetics sector and the expansion of the industrial base – and consequently to the country's economic growth.

A clear increase in trade turnover can be seen since 2004, with Poland's accession to the EU, which brought the possibility of participating in intra-EU trade (elimination of customs duties and quantitative restrictions on trade with other member states). As a result, participation in intra-EU trade has increased significantly and Poland has become an integral part of Europe's supply chains. The EU market accounts for 88% of Poland's exports, while cosmetics exports are more geographically diversified and a large proportion of products go outside the EU. Exports of intra-EU cosmetics account for 65% of total exports but are steadily increasing (from 52% in 2004). The vast majority of cosmetics imports come from the EU internal market (88% of all cosmetics imports). Trade in cosmetics with EU countries plays a key role and is the mainstream of exports and imports in this industry, and the dynamics of this trade stream and the steadily increasing share prove the increasingly strong economic ties with EU countries.

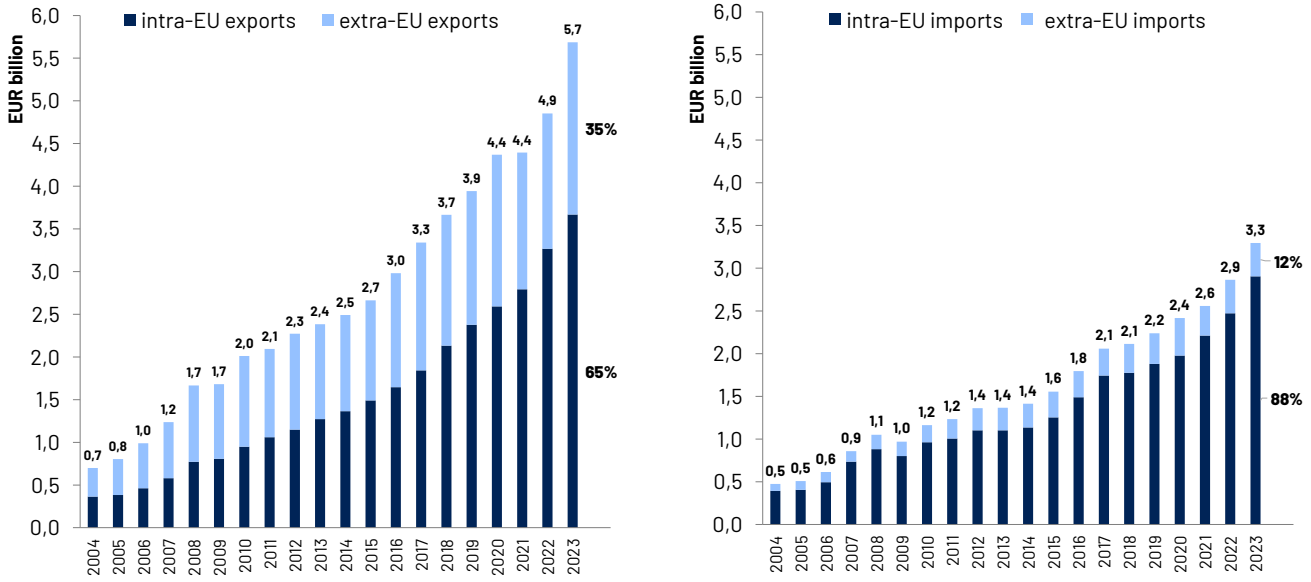
CHART 8. EXPORTS AND IMPORTS OF COSMETIC PRODUCTS IN POLAND (2004-2023)*



SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

*Commercial data for cosmetic products refer to the following Combined Nomenclature codes: CN3303, CN3304, CN3305, CN3306, CN3307, CN3401.

CHART 9. POLISH TRADE IN COSMETIC PRODUCTS WITHIN AND OUTSIDE THE EU (2004-2023)*

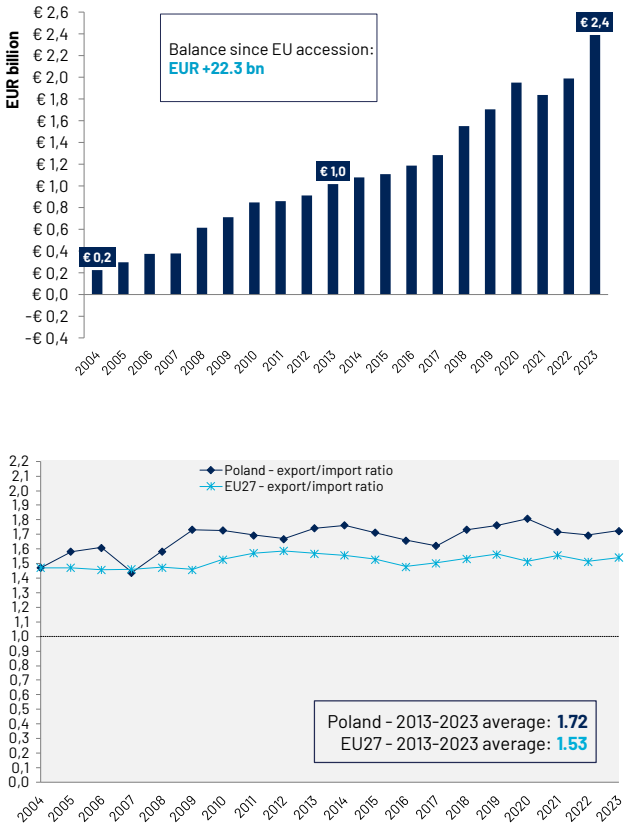


SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

*Commercial data for cosmetic products refer to the following Combined Nomenclature codes: CN3303, CN3304, CN3305, CN3306, CN3307, CN340.

Considering the entire trade of the Polish economy, Poland has been a net exporter (recording trade surpluses) since 2013 – an average of 2.6% of GDP between 2013 and 2023. However, this required adaptation and the search for comparative advantages. Polish exporters manufactured cheap products at low costs, making them competitive for foreign customers while maintaining the quality requirements to participate in the market. One such industry was the cosmetics sector, which had already started to record trade surpluses much earlier – since 2002. In 2023, Poland's cosmetics trade balance was positive at an impressive EUR 2.4 billion, a record for the period under review. Since joining the European Union's common market, the cumulative balance of trade in cosmetics between 2004 and 2023 was EUR 22.3 billion. **The ratio of exports to imports of cosmetics in Poland in 2023 was 1.72, meaning that the value of exports was 72% higher than the value of imports**. Compared to the EU27 average, where this indicator was 1.54, Poland performed favourably, which proves the relative competitiveness of cosmetic products from Poland in foreign markets, and prospects for the development of the cosmetic sector internationally are promising.

CHART 10. COSMETICS TRADE BALANCE IN POLAND (UPPER PANEL) AND EXPORT/IMPORT RATIO (BOTTOM PANEL)*



SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

*Commercial data for cosmetic products refer to the following Combined Nomenclature codes: CN3303, CN3304, CN3305, CN3306, CN3307, CN3401.

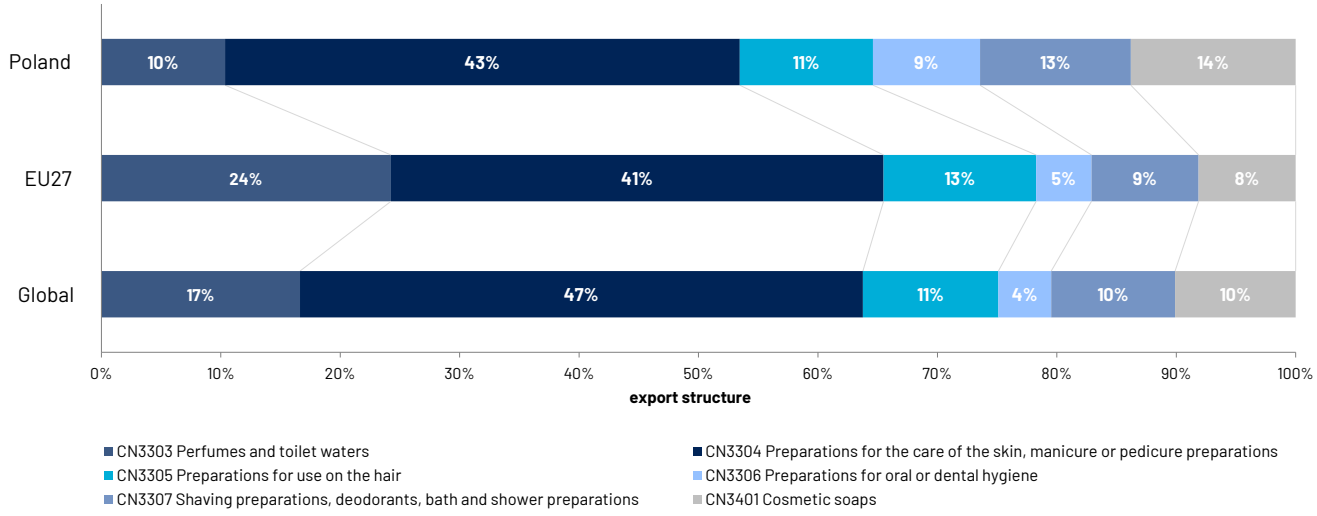
1.6. **Commodity** structure

- The dominant category is skin care and manicure or pedicure preparations (CN3304), which account for 47% of cosmetics exports worldwide.
- Poland has a trade advantage in the export of toilet soap, oral and dental hygiene preparations and shaving cosmetics, deodorants, and bath and shower products.
- The situation is worse in the case of perfumes and toilet water, where the global markets are dominated by products from France and Italy, and Polish producers find it difficult to compete with them.

The cosmetics trade consists of six groups of cosmetic products according to the Combined Nomenclature (CN), which allows the classification of goods in international trade. These are the categories listed in the table opposite. The commodity structure of cosmetics exports is similar in most countries around the world, but there are some differences due to specialisation and advantages in the production of selected commodities. The dominant category is skin care and manicure or pedicure preparations (CN3304), which account for 47% of cosmetics exports worldwide. In Poland, this is a slightly smaller proportion (43%) but still accounts for the largest part of exports. The second largest category is cosmetic soaps (CN3401), which account for 14% of Poland's exports – more than in the world (10%) and in the EU27 (8%). Poland benefits from this, exporting almost three times more than it imports. The value of cosmetic soap exports in 2023 was EUR 785 million, with imports of EUR 287 million, resulting in a positive balance in cosmetic soap trade of EUR 498 million. As in the case of cosmetic soap, export advantages are evident in the case of preparations for oral or dental hygiene (CN3306) and account for 9% of Poland's cosmetics exports – relatively twice as much as in the EU and globally.

Section	Division	Code	Name
V			Products of the chemical or allied industries
	33		Essential oils and resinoids; perfumery, cosmetic or toilet preparations
		CN3303	Perfumes and toilet waters
		CN3304	Preparations for the care of the skin, manicure or pedicure preparations
		CN3305	Preparations for use on the hair
		CN3306	Preparations for oral or dental hygiene
		CN3307	Shaving preparations, deodorants, bath and shower preparations
	34		Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, 'dental waxes' and dental preparations with a basis of plaster
		CN3401	Cosmetic soaps

CHART 11. CATEGORIES OF EXPORTED COSMETIC PRODUCTS IN POLAND, THE EUROPEAN UNION, GLOBALLY (2023)

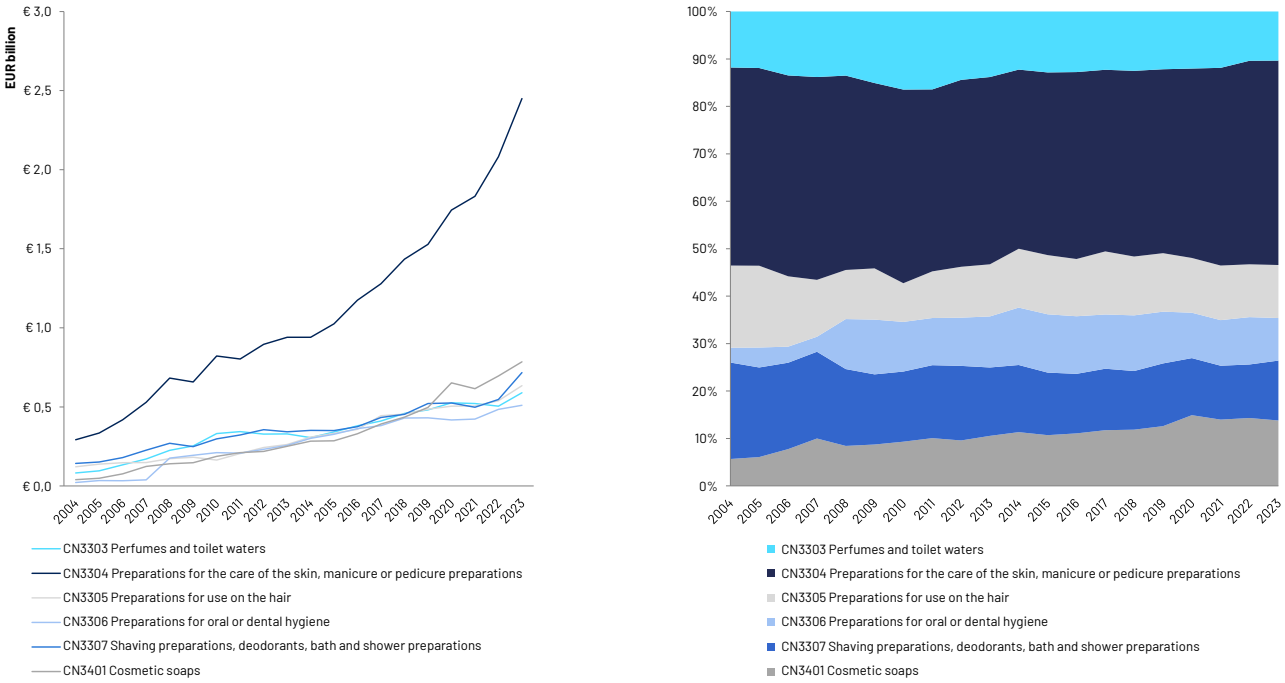


SOURCE: COMPILED BY WISEEUROPA BASED ON INTERNATIONAL TRADE CENTRE DATA

In the export structure, hair preparations (CN3305) and shaving preparations, deodorants, bath and shower preparations (CN3307) account for 11% and 13% respectively – similar proportions to the world and the European Union. Differences in the specification of national cosmetic markets can be seen in the case of perfumes and toilet waters (CN3303).

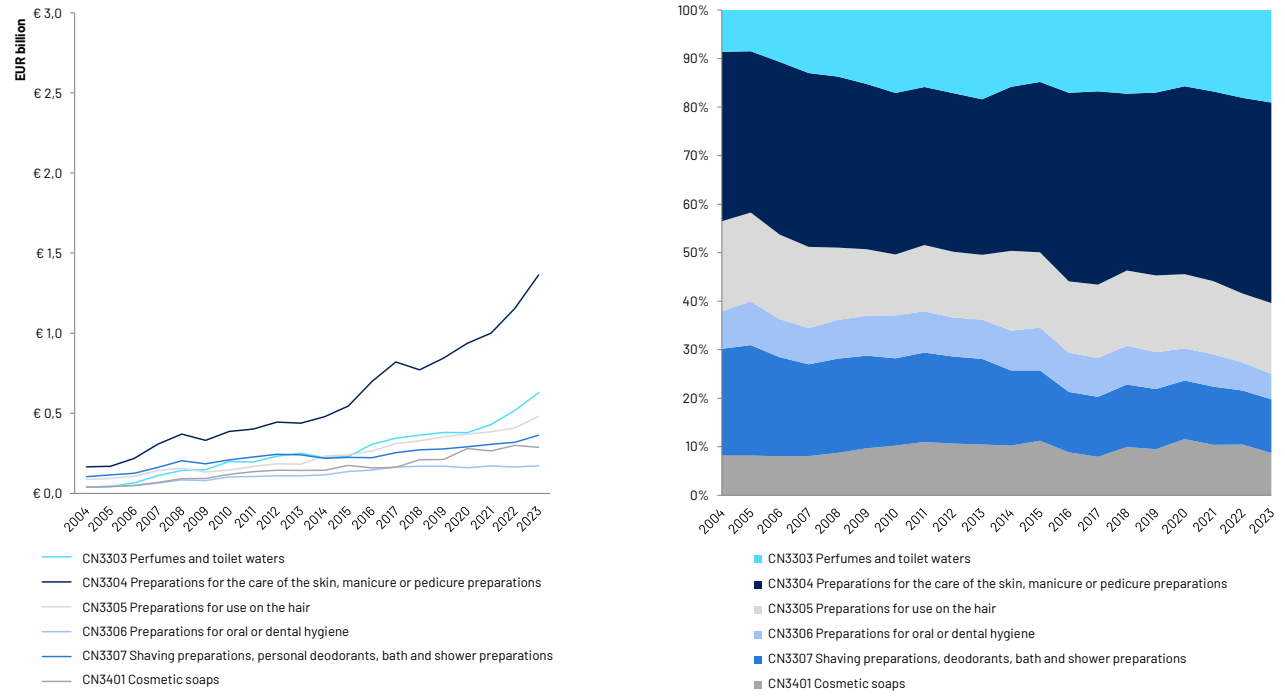
Poland produces and exports far less (10%) than the global average, particularly in relation to other EU countries. This production and export category is dominated by France and Italy, known for their luxury brands with perfumes and toilet waters. Poland cannot compete with these markets, also due to the unfavourable regulatory environment.

CHART 12. COMMODITY STRUCTURE OF COSMETICS EXPORTS FROM POLAND (2004-2023)



SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

CHART 13. COMMODITY STRUCTURE OF COSMETICS IMPORTS TO POLAND (2004-2023)



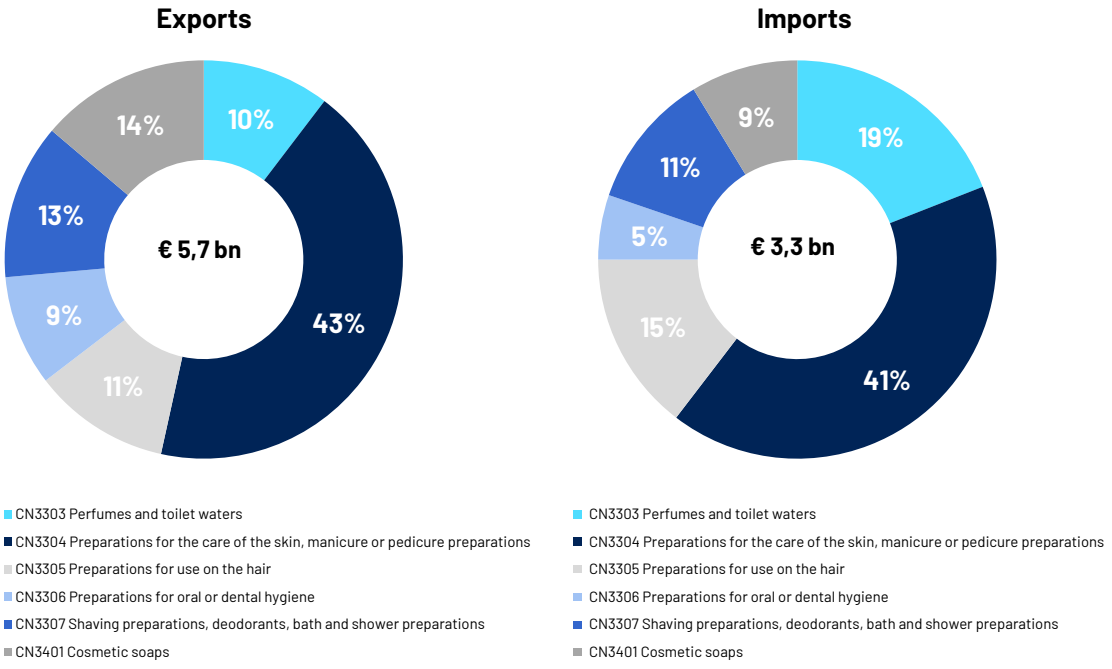
SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

Exempt from excise duty for pure ethanol, which is contaminated by the addition of fragrance compositions, is required in the case of premium brand perfumes. Polish law does not allow for such a solution. The alcohol that can be used must contain denaturants, the properties of which interfere with the production process and the quality of the perfume. This is one of the reasons for the lack of domestic brands of luxury fragrances in Poland.

Manufacturers in Poland have been continuously achieving a positive trade balance in cosmetics since 2002, and this surplus has been increasing year on year (except for 2007 – the financial crisis, and 2020 – COVID-19 pandemic. In these years were lower year on year, but still positive). In 2023, Poland achieved a positive balance from trade in five of the six cosmetics categories. The only product group with a negative balance was perfumes and toilet waters (CN3303). It recorded a balance of EUR 38.8 million in 2023. It was the second consecutive year with a negative balance in this category. The biggest gains are in the trade of skin care preparations, manicure or pedicure preparations (CN3304), with a record-breaking EUR 1.086 billion in 2023. The second best result was the trade in cosmetic soaps (CN3401): EUR 497.6 mln. The total surplus from cosmetics trade in 2023 was just under EUR 2.4bn, and as much as EUR 17.1 bn between 2013 and 2023.

TABLE 3 AND CHART 14. TRADE BALANCE OF INDIVIDUAL COSMETICS CATEGORIES IN POLAND (2013-2023) AND THE COMMODITY STRUCTURE OF EXPORTS AND IMPORTS OF COSMETICS PRODUCTS (2023)

		2023	2013–2023
CN3304	Preparations for the care of the skin, manicure or pedicure preparations	€ 1 086 786 938	€ 7 379 976 171
CN3401	Cosmetic soaps	€ 497 621 743	€ 2 881 836 742
CN3306	Preparations for oral or dental hygiene	€ 337 231 414	€ 2 641 703 914
CN3307	Shaving preparations, personal deodorants, bath and shower preparations	€ 353 352 787	€ 2 121 749 799
CN3305	Preparations for use on the hair	€ 153 188 750	€ 1 273 162 511
CN3303	Perfumes and toilet waters	- € 38 847 555	€ 795 300 032
	Total cosmetics	**€ 2 389 334 077**	**€ 17 093 729 169**



SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

1.7. **Business** partners

- Poland's largest partner in the cosmetics trade is Germany. Over the last ten years, trade with Germany has accounted for an increasing share of exports, while accounting for less and less of imports.
- Cosmetics exports are more geographically diversified than imports.
- Many global corporations have production facilities in Poland and export cosmetics to their distribution centres abroad.

Poland's main trading partners in cosmetics are primarily European countries. At the same time, Poland maintains trade relations with countries outside the EU, such as the UK, the USA, Ukraine and China, diversifying its markets and suppliers of cosmetics. Exports of cosmetic products are more geographically diversified (dispersed throughout the world) – the TOP 3 destination countries of Polish cosmetics exports account for 37% of exports (imports – 47%) and the TOP 10 countries for 68% (imports – 87%). Over the last decade, there have been interesting trends in the geographical destination of the cosmetics trade in Poland. Above all, strengthening export links with Germany, Poland's main trading partner.

TABLE 4. POLAND'S LARGEST PARTNERS IN THE COSMETICS TRADE (2013-2023)

EKSPORT								
2013			2018			2023		
Pozycja	**Partner**	**Udział**	**Pozycja**	**Partner**	**Udział**	**Pozycja**	**Partner**	**Udział**
1	Germany	13,4%	**1**	Germany	16,5%	**1**	Germany	21,9%
2	Russia	13,3%	**2**	Russia	11,8%	**2**	United Kingdom	8,8%
3	United Kingdom	11,0%	**3**	United Kingdom	10,1%	**3**	Russia	6,6%
4	Ukraine	5,1%	**4**	Belgia	7,1%	**4**	Czechia	6,0%
5	Hungary	4,8%	**5**	Czechia	4,9%	**5**	France	5,4%
6	Czechia	4,6%	**6**	France	4,4%	**6**	Belgium	5,1%
7	Italy	4,5%	**7**	Ukraine	3,6%	**7**	Ukraine	4,2%
8	Spain	4,3%	**8**	Spain	3,4%	**8**	Netherlands	3,6%
9	France	3,6%	**9**	Italy	3,2%	**9**	Italy	3,4%
10	Turkey	3,5%	**10**	Romania	3,0%	**10**	Spain	2,9%
11	Netherlands	3,1%	**11**	Netherlands	2,8%	**11**	Romania	2,6%
12	Romania	2,9%	**12**	Hungary	2,7%	**12**	Hungary	2,2%
13	Lithuania	2,1%	**13**	Turkey	2,0%	**13**	Lithuania	1,8%
14	Slovakia	1,6%	**14**	Lithuania	1,8%	**14**	Turkey	1,7%
15	Kazachstan	1,5%	**15**	RSA	1,8%	**15**	USA	1,7%
16	RSA	1,4%	**16**	Slovakia	1,6%	**16**	Denmark	1,5%
17	Latvia	1,4%	**17**	Latvia	1,1%	**17**	Slovakia	1,3%
18	Belgium	1,2%	**18**	Sweden	1,0%	**18**	Latvia	1,1%
19	Estonia	1,0%	**19**	Denmark	0,9%	**19**	Switzerland	1,1%
20	Sweden	1,0%	**20**	Kazakhstan	0,9%	**20**	Sweden	1,1%
	Others	14,8%		Others	15,3%		Others	15,8%
	Global	**100,0%**		**Global**	**100,0%**		**Global**	**100,0%**

*Commercial data for cosmetic products refer to the following Combined Nomenclature codes: CN3303, CN3304, CN3305, CN3306, CN3307, CN3401

IMPORTS								
2013			2018			2023		
Position	**Partner**	**Share**	**Position**	**Partner**	**Share**	**Position**	**Partner**	**Share**
1	Germany	31,8%	**1**	Germany	25,9%	**1**	Germany	23,6%
2	France	11,8%	**2**	France	11,9%	**2**	France	12,6%
3	United Kingdom	9,4%	**3**	Belgium	9,9%	**3**	Netherlands	11,3%
4	Italy	8,9%	**4**	Italy	8,5%	**4**	Italy	11,0%
5	Netherlands	6,5%	**5**	United Kingdom	6,9%	**5**	Belgium	9,1%
6	Sweden	4,8%	**6**	Czechia	6,3%	**6**	Czechia	8,0%
7	Spain	4,6%	**7**	Netherlands	6,2%	**7**	Spain	5,2%
8	Czechia	3,4%	**8**	Spain	4,5%	**8**	United Kingdom	2,4%
9	China	3,2%	**9**	China	2,3%	**9**	China	2,1%
10	USA	2,0%	**10**	Slovakia	1,8%	**10**	USA	1,9%
11	Belgium	1,9%	**11**	Romania	1,7%	**11**	South Korea	1,5%
12	Ireland	1,5%	**12**	Sweden	1,7%	**12**	Slovakia	1,0%
13	Turkey	1,3%	**13**	USA	1,4%	**13**	Romania	0,9%
14	Hungary	1,2%	**14**	Ireland	1,3%	**14**	Ireland	0,8%
15	Slovakia	1,2%	**15**	Turkey	0,8%	**15**	Turkey	0,7%
16	Russia	0,6%	**16**	Russia	0,7%	**16**	Sweden	0,7%
17	Slovenia	0,6%	**17**	Ukraine	0,6%	**17**	Austria	0,5%
18	Switzerland	0,5%	**18**	Hungary	0,6%	**18**	Switzerland	0,5%
19	Austria	0,5%	**19**	Switzerland	0,6%	**19**	Greece	0,5%
20	Thailand	0,4%	**20**	South Korea	0,5%	**20**	Lithuania	0,5%
	Others	4,0%		Others	5,6%		Others	5,4%
	Global	**100,0%**		**Global**	**100,0%**		**Global**	**100,0%**

SOURCE: COMPLIED BY WISEEUROPA BASED ON EUROSTAT DATA

In 2013, 13.4% of cosmetics exported from Poland went to its western neighbour, while in the last 2023, it was as high as 21.9%. **Germany is the main export country for cosmetics from Poland, whereas ten years ago there were three main exporters – Germany, Russia, and Great Britain**. The last accounts for 8.8% of exports – less than a decade ago, mainly due to Brexit and the UK's leaving the common market and the resulting deterioration of price competition. Imports from EU countries have become less convenient due to additional paperwork at borders, and UK distributors have been forced to diversify their import sources. A decline in exports to Russia is also evident. Following the outbreak of war, many companies stopped exporting cosmetics to the country and more are now withdrawing. Imports of cosmetics were already marginal, but after the introduction of sanctions, they fell to nothing. In nominal terms, Poland has exported more to all of its top twenty partners over the last ten years, but the largest percentage of recipients of Polish exports are the Czech Republic, France, Belgium, Ukraine, the Netherlands (and the other countries that have entered the Polish TOP 20 – places 15-20 in the 2003 Export Table). In cosmetics imports, on the other hand, Poland has decisively reduced its dependence on Germany, which now has a 23.6% share in the import structure, compared to 31.8% in 2013. This gap has been diversified among other countries, mainly the EU – cosmetics imports from France, the Netherlands, Italy, Belgium and the Czech Republic are becoming increasingly important.

2.

COSMETICS MARKET IN POLAND

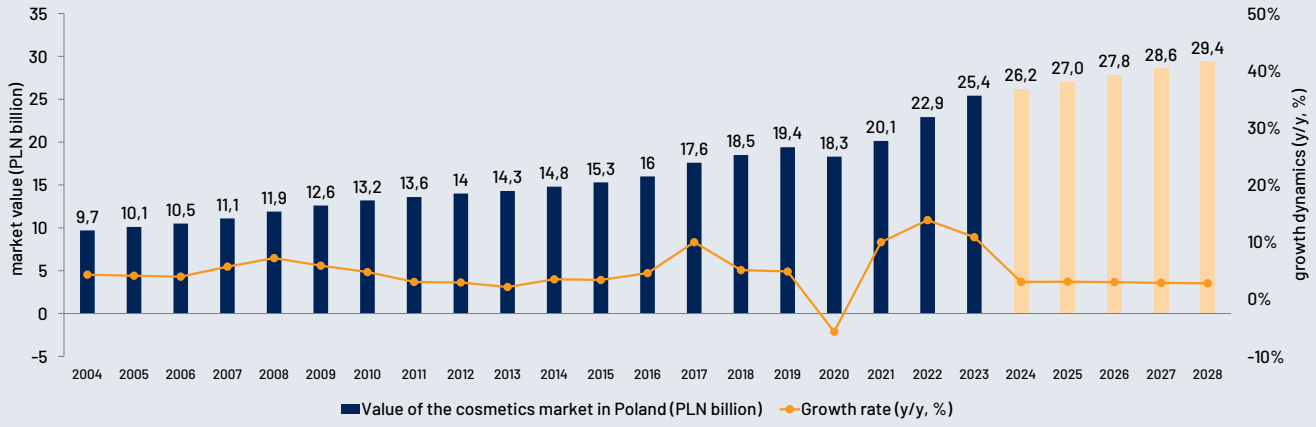
2.1. Market **value**

· Since Poland's accession to the European Union, the value of the Polish cosmetics market has increased almost threefold.

· As purchasing power increases, so does the appetite for beauty – Poles are spending more and more on cosmetic products and in this respect will be on a par with the largest countries in the EU.

The cosmetics market is one of the most dynamically developing and versatile economic sectors both in Poland and worldwide. In Poland, its value has increased almost threefold over the past two decades, and periods of economic difficulties, such as the global financial crisis of 2008-2009, the COVID-19 pandemic or the energy crisis, have not significantly disrupted this trend. **Between 2004 and 2023, the cosmetics market in Poland grew at an average annual rate of 5.2% – in 2023 its value was PLN 25.4 billion**. It is predicted that it will continue to grow in the next few years, supported by growth in income and wealth of the population and, consequently, higher per capita spending on cosmetic products (currently EUR 125 per capita per year in Poland against EUR 160 on average in the EU27), stronger competition in the market (more manufacturers), higher production and an increase in internal and external demand.

CHART 15. VALUE OF THE COSMETICS MARKET IN POLAND (2004-2023, NOMINAL VALUE IN PLN BILLIONS)



*Euromonitor International forecast

SOURCE: EUROMONITOR INTERNATIONAL

2.2. **Sold production** of cosmetics in Poland

- Increased domestic and foreign demand and growing public spending on cosmetics result in increasing production and sales of cosmetics.

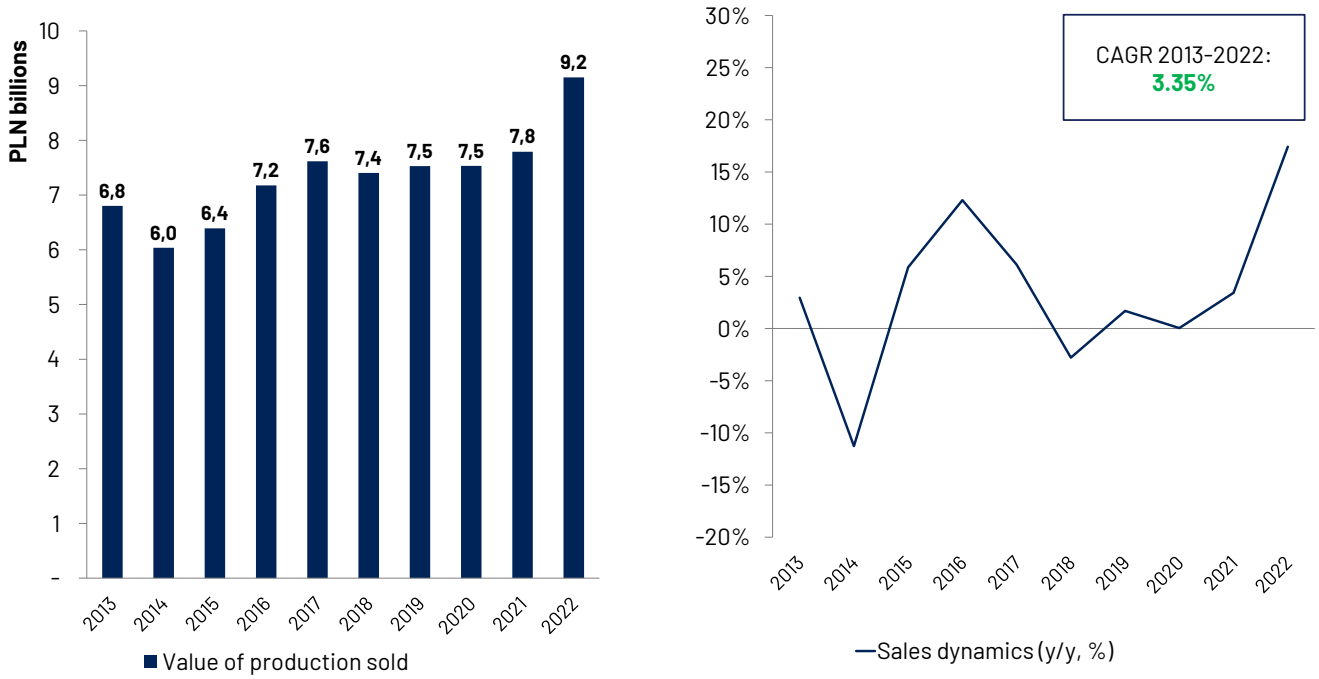
- Although the cosmetics sector accounts for approximately 1% of Poland's manufacturing industry, the nature of its products (consumable goods) ensures a steady demand and a stable place in the economy.

The cosmetics market is one of the most developing branches of the light industry in Poland. This is confirmed by the increase in the value of the market (by 162% in 2004-2023), the rapidly growing exports (8.1 times in 2004-2023), the increasing number of companies in the market (a jump of 48% in 2015-2023) and the value of production sold in the internal market. Taking that last factor into account, the sold value of the products of C20.42 manufacturing sector – Manufacture of cosmetic products and toilet preparations (according to the PKD, i.e. Polish Classification of Business Activities; more in the Methodology section – products of the sector) – amounted to PLN 9.2 billion in Poland in 2022, an increase of 34.5% compared to 2013 (PLN 6.8 billion).

The compound annual growth rate over the period (CAGR) was 3.35%.

The growth in the value of the cosmetics market is supported by several important factors. First and foremost, macroeconomic factors are important – the increasing purchasing power of the Polish consumer, manifested by an increase in GDP per capita in purchasing power parity (EUR 10.9 thousand PPS in 2004 to EUR 30.1 thousand PPS in 2023; there is also a process of convergence to the EU27 average, from 51.5% of the EU27 average in 2004 to 80% in 2023 – more in subsection 2.4. Economic environment and prospects). Furthermore, technological developments and innovations in the cosmetics industry are playing an increasingly important role. Companies are investing more in research and development, which enables new products to be brought to market. Nationally, investment in R&D increased from 0.88% of GDP in 2013 to 1.46% of GDP in 2022. The vast majority of this, as much as 66% (equivalent to 0.96% of GDP), is accounted for by the private sector (including the cosmetics industry). As a consequence, we see a high degree of product segmentation in the cosmetics market – the variety of products responds to diverse consumer needs and preferences (more in subsection 2.5. Product categories). Increasingly important are consumers' growing awareness of health and beauty, their willingness to invest in products that improve their appearance and well-being, and their growing interest in skin and body care. As a result, we observe dynamic growth in demand for a wide range of cosmetics (skincare, haircare, make-up, perfumes, etc.).

CHART 16. VALUE OF COSMETICS PRODUCTION SOLD IN POLAND



SOURCE: COMPILED BY WISEEUROPA BASED ON STATISTICS POLAND DATA

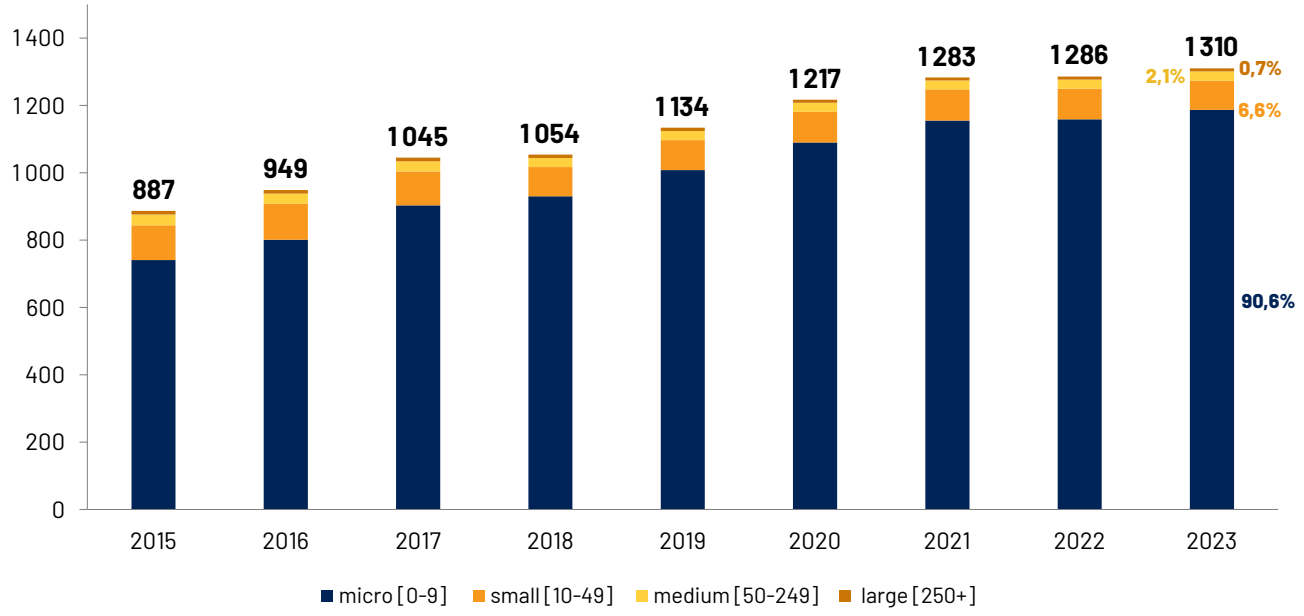
2.3. **Number of companies** and employment

· There are 1,310 registered companies in the cosmetics manufacturing sector, 94% of which are micro-enterprises. The sector employs just under 20,000 people, while the industry as a whole (manufacturers, distributors, sales networks) is the workplace for more than 65,000 employees.

· Poland ranks fourth in the EU in terms of the number of people employed in the cosmetics manufacturing sector, accounting for 10.4% of employment in the EU industry.

As the market develops, more and more companies enter the game, competing for consumers' attention. This, in turn, stimulates supply, further development and innovation fostering an increase in the value of the industry. Between 2015 and 2023, the number of registered entities in the market for cosmetics manufacturers in Poland increased from 887 to 1,310 operating currently (data based on the REGON registry). The dynamic growth in the number of companies in the sector (48% in eight years) proves the attractiveness of the cosmetics industry to entrepreneurs and the good market prospects. The number of plants manufacturing and packaging cosmetic products in Poland was 623 in 2022 (data from the Chief Sanitary Inspectorate) compared to 569 in 2021, and has increased more than 2.5 times (from 241) since 2013. The increased number of companies is accompanied by direct employment in the cosmetics sector, which is also steadily growing (from 14,400 in 2013 to 19,800 thousand in 2021). The impact of the cosmetics industry on employment in other sectors is estimated to be 140,000-160,000 employees, of which 4,500 are indirect (industries in the value chain – wholesale and retail in specialised shops) and 95,000-120,000 are induced (employment resulting from direct and indirect activities). Taking into account those employed directly in the cosmetics manufacturing sector (19,800), the industry has a significant impact on 65,300 jobs in the value chain and a total of 140,000-160,000 jobs in the economy. However, the growth of the workforce directly in the sector was smaller (by around 20%) than the number of companies (less than 50%), indicating an increasing polarisation of employment (fewer employees per company). The reason for this is the large increase in micro-enterprises (0-9 employees) and they alone account for the higher number of companies operating in the industry. Between 2015 and 2023, 423 new entities entered the market – this is a net result as 446 micro businesses came on board, while 17 small (10-49 employees), 4 medium-sized (50-249 employees) and 2 large (over 250 employees) companies left the market over that period.

CHART 17. NUMBER OF BUSINESSES OF C20.42 SECTOR REGISTERED IN THE REGON SYSTEM, BY SIZE OF EMPLOYMENT



SOURCE: COMPILED BY WISEEUROPA BASED ON REGON REGISTRY DATA

The share of employees in the cosmetics sector in the total manufacturing industry is in the range of 0.6-0.7% and shows stability in this proportion. Value added and turnover also reflect the sector's steady contribution to the overall value of the industry in Poland, oscillating between 0.7 and 1.2%. Taking into account employment rates, the number of companies, added value and turnover, the cosmetics industry accounts for approximately 1% of the manufacturing industry in Poland. From the perspective of the industry as a whole, this is a relatively small share, given that there are sectors that can boast a far greater impact. However, the demand for the products of these sectors or the value of the goods is much higher on the scale of the entire economy, e.g. food processing (15%), metals (14%), furniture (7%) or automotive parts (7%). Nevertheless, the production of cosmetics has a permanent and stable place in the economy, as it manufactures goods that are essential to consumers for everyday use, and due to their nature (consumable goods) they are often interchangeable and the demand for them on an economic scale is relatively stable. Compared to other EU economies, employment in the cosmetics manufacturing sector in Poland is the fourth largest in terms of the number of employees, behind France (67.4 thousand), Germany (31.5 thousand), Italy (21.3 thousand), and the sixth largest in terms of the share of employees in the manufacturing industry, behind France (2.14%), Luxembourg (1.21%), Greece (0.93%), Spain (0.85%) and Latvia (0.83%). Poland accounts for 10.4% of employment in this sector across the EU.

TABLE 5. EMPLOYMENT IN THE COSMETICS MANUFACTURING SECTOR (C20.42) AND THE SECTOR'S SHARE IN MANUFACTURING BY EMPLOYMENT, ADDED VALUE AND TURNOVER

Year	Headcount	Share of employees in manufacturing (%)	Value added (% of manufacturing)	Turnover (% of manufacturing)
2013	14 442	0,6	1,0	0,8
2014	15 366	0,6	1,0	0,8
2015	16 298	0,7	0,9	0,7
2016	17 189	0,7	1,1	0,8
2017	17 864	0,7	0,8	0,7
2018	19 279	0,7	0,8	0,7
2019	20 142	0,7	0,8	0,6
2020	19 699	0,7	0,8	0,7
2021	19 763	0,7	0,7	0,6

SOURCE: COMPILED BY WISEEUROPA BASED ON EUROSTAT, STATISTICS POLAND AND REGON REGISTRY DATA

2.4. **Profitability** of the industry

· Cosmetics production has very high profitability compared to other industries in the economy. It averaged 8.3% between 2013 and 2023 – almost 2 times that of manufacturing and the economy on average.

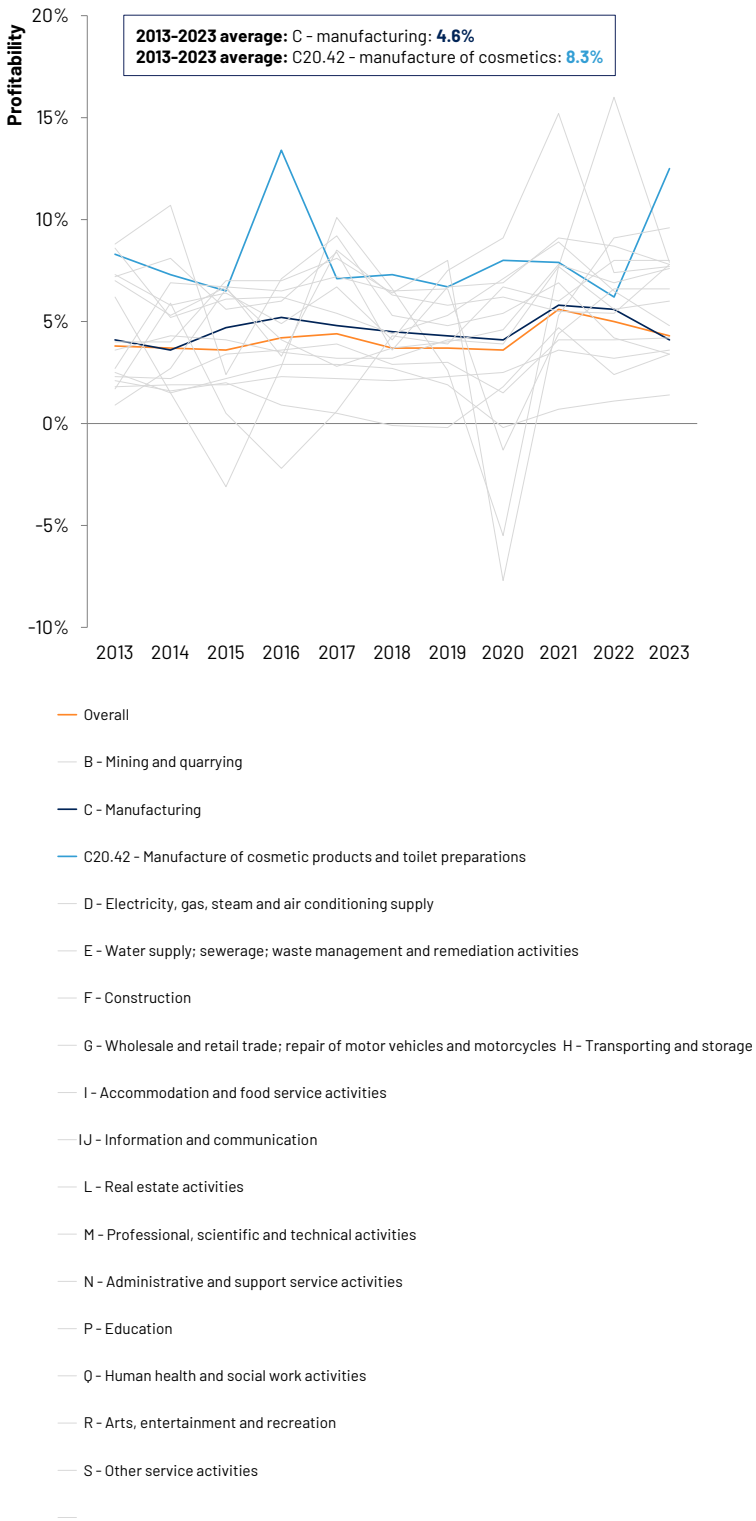
· This strong performance was the result of high exposure to exports at favourable EUR/PLN exchange rates and low labour costs compared to other EU countries.

· Additionally, owning their own brands allows manufacturers to impose margins and control prices at the last stage of the value chain – consequently maximising profits. Many industries in Polish manufacturing act as sub-suppliers and have limited capacity to generate high rates of return – the cosmetics industry, with its own brands, enjoys this privilege.

Profitability is a key indicator for assessing the business performance of individual sectors. In the case of the cosmetics manufacturing sector (C20.42 in PKD, i.e. Polish Classification of Business Activities), profitability calculated as net profit in relation to sales revenue is at a very high level – in 2023, the industry could boast a profitability of 12.5%.

In a broader time frame, the average rate of profit on sales was 8.3% between 2013 and 2023 – higher than the average for manufacturing (4.6%) and the economy as a whole (4.1%).

CHART 18. PROFITABILITY OF THE COSMETICS SECTOR COMPARED TO THE REST OF THE ECONOMY (2013-2023)



SOURCE: COMPLIED BY WISEEUROPA BASED ON STATISTICS POLAND DATA AND PONT INFO DATABASE

High profitability rates over a long time indicate a steady increase in the industry's profits and are a combination of several key factors that favour efficiency and profit for companies in the sector.

- **Own brands** – cosmetics manufacturers boast an extensive portfolio of brands in the market. This also applies to Polish manufacturers who produce and sell cosmetics under their own brand name. This allows them to control price at the last stage of the value chain – where they can exercise the privilege of imposing margins and controlling profits. In many manufacturing industries, Polish producers are mainly listed as suppliers (e.g. production of parts for the automotive sector), while semi-finished products and parts are assembled and sold under the banner of foreign brands – the lion's share of profits is retained there. Many well-known cosmetics manufacturers are able to generate higher profits due to their control at higher stages of the value chain, which is evident in the high profitability of the sector.

- **Large internal market and growing purchasing power** – cosmetic products are commonly used by a wide and diverse group of consumers (women, men, children, and different age groups). This translates into stable demand, and increasingly exigent consumer preferences are being met with creativity in the approach to the design and implementation of new cosmetics.

- **Diversity of products** – the cosmetics industry is characterised by a wide range of products, which makes it possible to tailor the offer to individual needs and customer preferences (more in subsection 2.5. Product categories). With a wide range of products, companies can effectively reach various market segments, satisfying diverse consumer expectations.

- **Flexibility, product innovation and technological development** – the cosmetics industry is constantly evolving, introducing innovative ingredients, technologies and formulations that improve the effectiveness and appeal of products. Companies invest in research and development, improving existing products and looking for new ones. The pace of change and trends in the cosmetics industry is fast – requiring flexibility and adaptability. Cosmetic companies in Poland often demonstrate innovation, introduce new products and technologies to the market, thereby increasing their attractiveness and competitiveness.

- **Marketing** – in the cosmetics industry, a strong brand and an effective marketing strategy are important. High levels of profitability are usually achieved by companies with a large market share and those with an extensive marketing strategy. These companies are able to build consumer trust and loyalty through appropriate positioning of their products, effective advertising campaigns, and the use of influencers or social media activity, which ultimately contributes to increased sales and profits.

- **Market globalisation and cost factors** – the cosmetics industry is a global industry, which means that companies can operate in various markets and reach a wide range of consumers around the world. By being able to export and expand into new markets, companies increase their turnover, sales and profits. The cosmetics manufacturing industry in Poland is strongly export-oriented, which, given its cost competition with foreign producers, results in a positive trade balance. Also, many of the sector's financial indicators compare favourably with other industries (high liquidity ratios of 1.96-2.20 over the past five years, compared to an average of 1.48-1.56 for manufacturing; low debt ratio of 0.35-0.40, compared to an average for manufacturing of 0.47-0.49).

- **Development of distribution channels** – with the growth of e-commerce and new distribution channels such as online shops, retail chains or social media platforms, cosmetic companies have more opportunities to reach customers and promote their products. This in turn leads to increased sales and profitability and protects against external shocks (e.g. the COVID-19 pandemic and increased sales of cosmetics through the e-commerce channel).

2.5. Product **categories**

- Skin care cosmetics (creams, lotions, etc.) are the most in-demand, with 46.9% in the sales structure.

- Compared to the EU, we buy them more readily, just like shampoos, soaps and shower gels or make-up products. Poles spend relatively less on toilet waters, hair care products and oral and dental hygiene products.

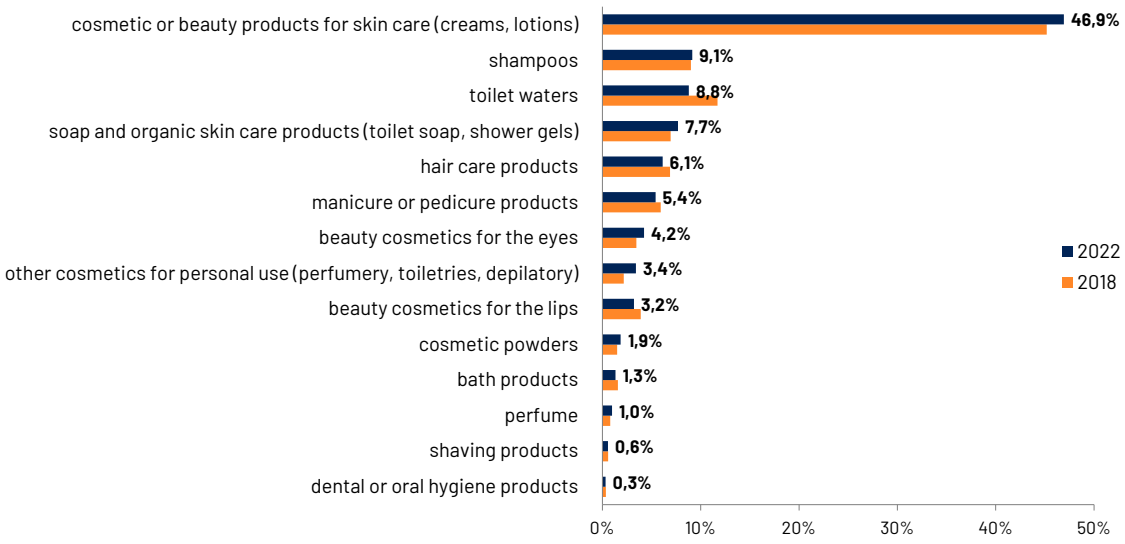
The increase in interest in cosmetic products over the past decade has contributed to the growth of this market and the search for new cosmetic products – and consequently an ever-expanding portfolio. The categorisation of the cosmetics market is extremely important. Each category has its distinctive features, trends and brands. Their segmentation allows a better understanding of the market structure, consumer preferences and internal competition.

The largest product category of the cosmetics market in Poland is skin care products (creams, lotions emulsions, scrubs). It is these products that are the cornerstone of daily care for many people – from moisturising to protection against harmful external factors – and their high share of sales confirms their enduring popularity and importance in consumers' daily lives. Their share of sales in 2022 was 46.9% (compared to 45.2% in 2018), and skin care cosmetics in Poland are more popular than on average in the EU, where this segment accounts for 36.5% of sales.

The second largest market category is shampoos. In Poland, they account for 9.1% of cosmetics sales – more than in the EU (7%). Toilet waters rank third with a share of 8.8% (down from 11.7% in 2018) – much lower than the average in European Union countries, where toilet waters are the second largest market segment with a sales share of 14.3%. Being not only an object of personal choice but also an expression of personal style and fragrance preference, their high share of sales is particularly evident in wealthy countries. However, their growing popularity and importance in daily beauty rituals, together with improving quality of life and a wealthier society in Poland, should mean that this segment will have an increasing share in the basket of cosmetic goods of Polish consumers.

Soaps and organic skincare products, which range from bar toilet soaps to shower gels, are also important categories and account for 7.7% of market sales, with the market currently seeing a demand boom for soaps and bar forms because they are waterless. Hair care cosmetics account for 6.1% of sales (conditioners, hair sprays, hair pastes). These five main categories account for almost 80% of all cosmetics in the market (78.7%). The rest of the segments have smaller market shares, while still being an indispensable part of consumers' daily lives. Noteworthy is also the highly developed market for manicure and pedicure cosmetic services in Poland and the CEE region. In Poland, products needed for nail beauty treatments account for as much as 5.4% of cosmetics sold, which is much higher than the average in the European Union (only 1.9%), and the segment itself has been booming in the Polish beauty market for a decade.

CHART 19. SEGMENTS OF COSMETICS SALES IN POLAND



SOURCE: COMPILED BY WISEEUROPA BASED ON STATISTICS POLAND DATA

2.6. **Financial results** and ownership structure of capital

· The sector is demonstrating its ability to generate high profits, and the last year – 2023 – was a record year in this respect. Producers made a profit of PLN 1685 mln – 108% more than the 2013-2023 average (PLN 810 mln a year) and 189% more than in the previous year (PLN 583 mln in 2022).

· This was due to the price of many cosmetics being raised later than other goods in the economy. In Poland, CPI inflation peaked in late 2022/2023, and for cosmetic products – in Q2 and Q3 2023.

· Companies with a predominance of Polish capital account for the vast majority in the market – 74%, taking into account manufacturers employing >9 people. The remaining 26% are foreign-owned companies.

· Polish companies are responsible for 45% of the industry's revenue, at the same time accounting for a larger share of the profit generated – 65%.

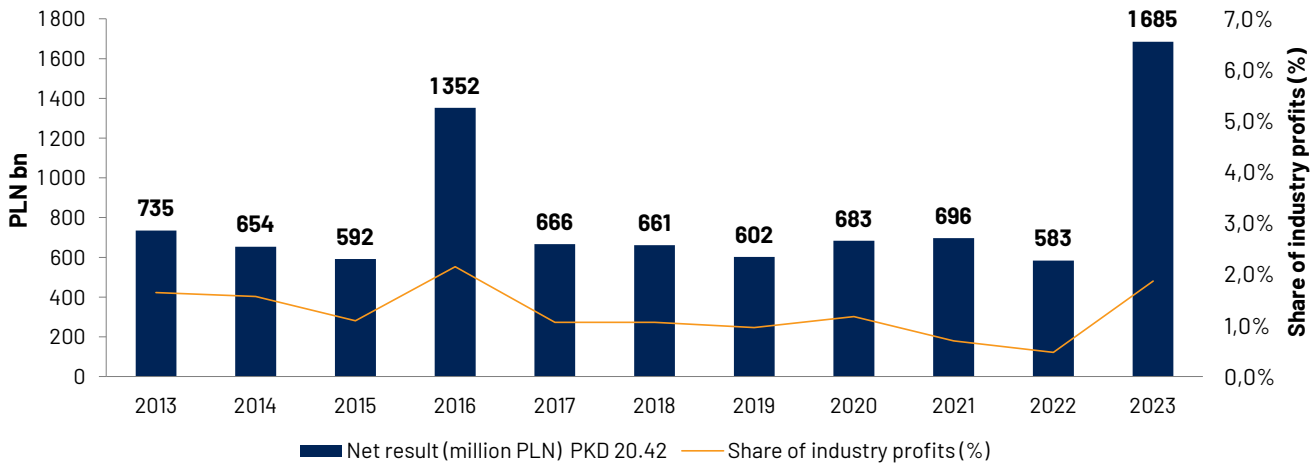
· Cosmetics manufacturers are far less indebted than other industry sectors. With their high profitability, they can cover a large part of their expenses from their profits. At the same time, there is room for more foreign capital to finance further expansion of the cosmetics sector.

· The industry has been largely unaffected by the energy crisis and the rise in raw material prices, as cosmetics manufacturing is not an energy-intensive sector – spending only 1.7% on energy in operating expenditure. The largest expenditure is on materials – 57.4%.

The cosmetics industry boasts one of the highest profitability rates (12.5% in 2023, 8.3% in the last ten years) in the Polish manufacturing industry (cf. subsection 2.4. Industry profitability). Each year, the sector has achieved positive financial results and shown great resilience to recent external disruptions. Thanks to e-commerce distribution channels, the COVID-19 pandemic did not adversely affect the performance of cosmetic companies, and with its low energy intensity, the industry went through the energy crisis unwaveringly. Last year was record-breaking in terms of profit.

In 2023, it amounted to PLN 1685 million – 108% more than the average profit between 2013 and 2023 (average PLN 810 mln per year), which was largely because prices of cosmetics rose later than those of most other goods (cf. Subsection 3.1. Economic environment and prospects. During this period, cumulative profits amounted to PLN 8.9 billion, which largely financed capital expenditure, operating activities, promotional and marketing expenses, product improvements and expansion into foreign markets. With their high profitability, cosmetics producers have a relatively high share in the profits of the entire Polish manufacturing sector – higher than their share in employment or turnover. In 2023, the cosmetics manufacturing sector generated 1.9% of all manufacturing industry profits, while in 2013–2023 it accounted for an average of 1.2%.

CHART 20. NET RESULT OF THE COSMETICS MANUFACTURING SECTOR (2013-2023)

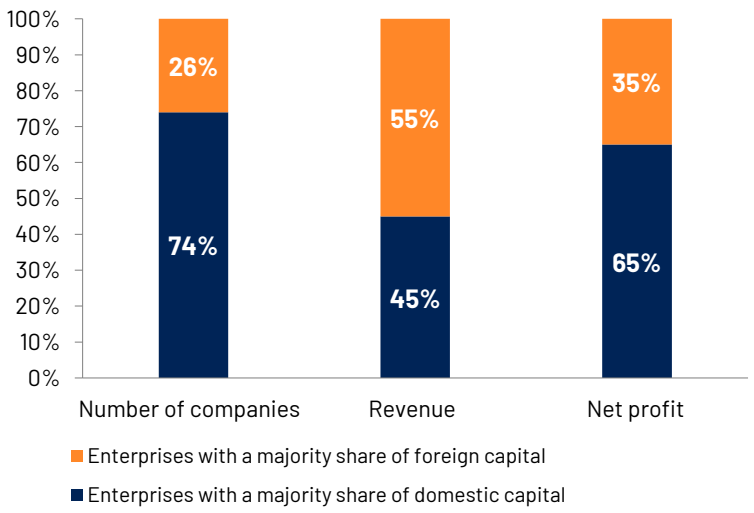


SOURCE: COMPLIED BY WISEEUROPA BASED ON PONT INFO. GOSPODARKA DATABASE.
APPLIES TO UNITS EMPLOYING 9+ PERSONS

The structure of the cosmetics manufacturers' industry in Poland is characterised by a diversified share of domestic and foreign capital in each category. The dominant players in the market are those with a predominance of domestic capital (74% of all companies). Polish companies generate 45% of the industry's revenue and, thanks to efficient resource management, are capable of generating the majority of profits in the sector – they account for 65% of the profit generated. Entities with a majority of foreign capital represent a smaller proportion of the structure of companies (26%). In most cases, these are multinational corporations that hire more employees and are mostly export-oriented. They generate a larger share of the industry's revenue (55%), but the data show that they account for a smaller share of profit (35%).

In terms of the number of entities, the cosmetics sector is dominated by micro and small enterprises. In turn, in terms of resources available and the scale of operations, medium and large enterprises are responsible for the vast majority of the sector's results. Entities with more than 9 employees were hiring 15,551 persons in 2023, and in earlier years they were responsible for 76-90% of all employment in the sector (86% on average between 2008 and 2021). The data available for those entities that submitted F-01/I-01 reports (financial statements including profit and loss account, and key balance sheet items) show that in 2023 there were 91 such units, the vast majority of which (87%) were profitable. They generated a profit of PLN 1685 million with a return on sales of 12.5%, which is significantly higher than the average over the last fifteen years (7.8%). Return on equity (31.5% against 13.5% in the previous year) and return on assets (17.7% against 7.6%) were at very high levels. The sector maintains high liquidity ratios – its current assets can cover current liabilities by more than 2 times, and, after deducting stocks, 1.2 times.

CHART 21. NUMBER OF COMPANIES, REVENUES AND NET PROFIT OF THE SECTOR INCLUDING DOMESTIC AND FOREIGN CAPITAL



SOURCE: COMPILED BY WISEEUROPA BASED ON STATISTICS POLAND DATA. DATA FOR THE FIRST HALF OF 2023

TABLE 6. INDICATORS AND FINANCIAL PERFORMANCE OF THE COSMETICS SECTOR

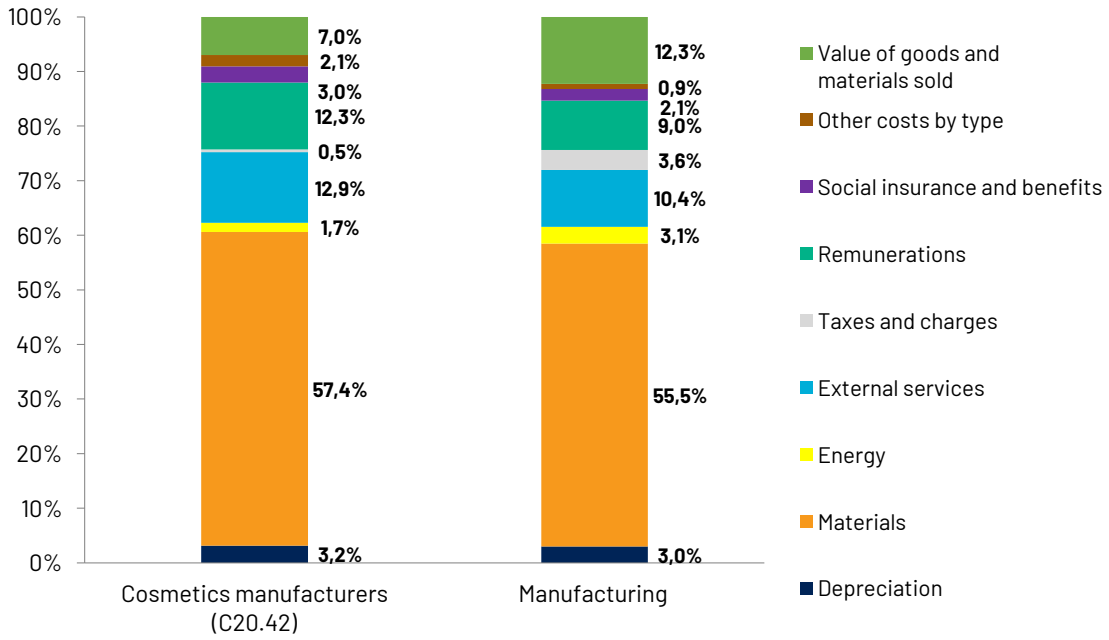
PKD: 20.42 Manufacture of cosmetic products and toilet preparations	2018	2019	2020	2021	2022	2023
EN Number of economic units	84	83	87	83	87	91
including share of profitable units (%)	79%	77%	86%	83%	79%	87%
NP (net profit) in mln	661	602	683	696	583	1 685
NPM (ROS) Net profit margin (%)	7,4	7,1	8,4	8,1	6,1	12,5
ROE Return on equity (%)	16,4	13,6	14,9	14,9	13,5	31,5
ROA Return on assets (%)	10,3	8,8	9,8	9,3	7,6	17,7
CR Current ratio	2,07	2,14	2,16	2,28	2,01	2,02
QR Quick ratio	1,35	1,43	1,45	1,48	1,2	1,23
IT Inventory turnover ratio (days)	46	51	55	60	63	53
CP Receivables turnover ratio (in days)	59	58	56	56	55	46
PL Liability turnover ratio (in days)	63	72	77	75	78	67
DR Debt ratio	0,34	0,35	0,36	0,37	0,40	0,38
ETA Equity to asset ratio	0,66	0,65	0,64	0,63	0,60	0,62
GS Total revenue in PLN mln	8 977	8 471	8 094	8 640	9 637	13 491
TC Total costs in PLN mln	8 189	7 755	7 292	7 824	8 912	11 575
E/GS Share of export sales in total revenue (%)	0,48	0,35	0,40	0,41	0,49	0,51

SOURCE: COMPLIED BY WISEEUROPA BASED ON PONT INFO. GOSPODARKA DATABASE.
APPLIES TO UNITS EMPLOYING 9+ PERSONS

The industry shows no signs of excessive debt, on the contrary, the share of external capital in financing is 38%, which is significantly lower than the manufacturing industry average (49%). The sector is characterised by high profitability, which reduces the need for external funding and is able to largely self-finance activities such as investment and operations. At the same time, there is room for increased involvement of external financing (without excessive risk with good industry profitability), which could contribute to further development of the sector, increased investment and the scale and size of operations. In 2023, there was a high year-on-year revenue growth of 40%, which, with lower cost dynamics (30% increase), allowed for high profitability and a record-breaking net profit. Sales revenue accounted for 86% of total revenue, with the sector generating 60% of its sales revenue from export sales (51% of total revenue).

On the expenditure side, the biggest costs for companies are expenditures on materials, third-party services and subcontracting as well as employee remunerations. The structure of expenditure is similar in most industries, but there are more or less significant differences depending on the specifics of their activities, e.g. higher energy expenditure is found in energy-intensive sectors such as cement production (18.1%), iron and steel production (16.1%) and their foundry (13.3%) or the production of chemicals, fertilisers and nitrogen compounds (9.1%). In the manufacturing industry, energy expenditure accounted for an average of 3.1% of costs in 2023. The cosmetics industry is not an energy-intensive sector, so even the recent turbulence in the energy market and price increases have not significantly affected its operating costs (only 1.7% in operating costs). Cosmetics manufacturers spend the most on materials (57.4%) – relatively more than the average for the entire manufacturing industry. In the cost structure, they also spend more on third-party services (12.9% vs. 10.4% on average for the industry), remunerations (12.3% vs. 9.0%), and consequently on social insurance, as well as on costs by type such as business travel (2.1% vs. 0.9%). Relatively lower in the cost structure are the aforementioned expenditures on energy, taxes and charges (0.5% vs. 3.6% incurred by the manufacturing industry on average) and expenditures related to the sale of own goods and materials (7.0% vs. 12.3%).

CHART 22. STRUCTURE OF OPERATING COSTS IN 2023



SOURCE: COMPILED BY WISEEUROPA BASED ON STATISTICS POLAND DATA. APPLIES TO UNITS EMPLOYING 9+ PERSONS

2.7. **Capital** expenditure

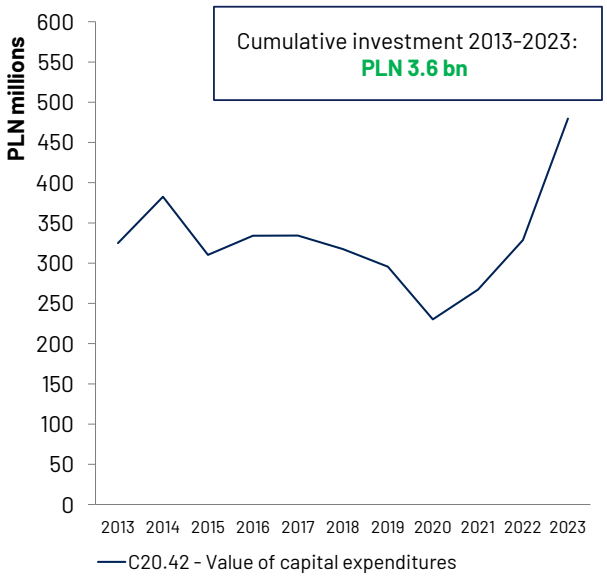
· Cumulative investments by cosmetics manufacturers amounted to PLN 3.6 bn between 2013 and 2023. They invest the most in machinery and technical equipment (66.6% on average over that period), buildings and structures (25.5%), means of transport (4.2%) and land (3.7%).

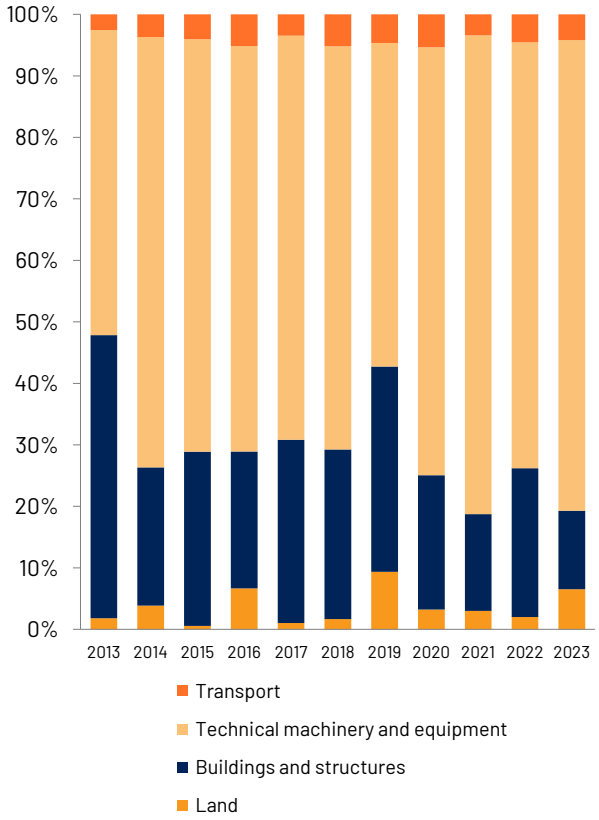
· Investment in the cosmetics sector has accounted for around 0.5% of all investment in the manufacturing industry over the past ten years. In relation to the profits generated, this is considerably less – out of every PLN 100 of financial surplus, they allocated an average of PLN 29 to investment in fixed assets. In the entire manufacturing industry, it was PLN 49.

Investment plays a key role in national development and long-term economic growth. Through investment, companies can expand and modernise their production base, introduce new technologies, increase employment, and expand their operations, thereby contributing to the productivity and competitiveness of the economy. In recent years, the aggregate level of investment in Poland has remained within 20% of GDP and is below the average for EU27 (22.9% of GDP; for more details, see subsection 3.1. Economic environment and prospects) or CEE countries. Sources of investment funding are primarily companies' capital and that raised from the market (e.g. share issues). The banking sector also plays a major role in financing investments and providing loans. In addition, many sectors benefit from subsidies, preferential public programmes or EU funds.

Considering investment in fixed assets, companies incur expenditure on land, buildings and structures, machinery, devices (technical work equipment) and means of transport. These assets are usually used repeatedly or continuously for more than a year. Since 2013, cosmetics manufacturers have invested a total of PLN 3.6 billion (an average of PLN 328 million per year) in such measures. During this period, most was spent on investments in machinery and technical equipment (66.6%) as well as buildings and structures (25.5%). The rest consisted of means of transport (4.2%) and land (3.7%).

CHART 23. CAPITAL EXPENDITURE ON FIXED ASSETS IN THE COSMETICS INDUSTRY (2013-2023)



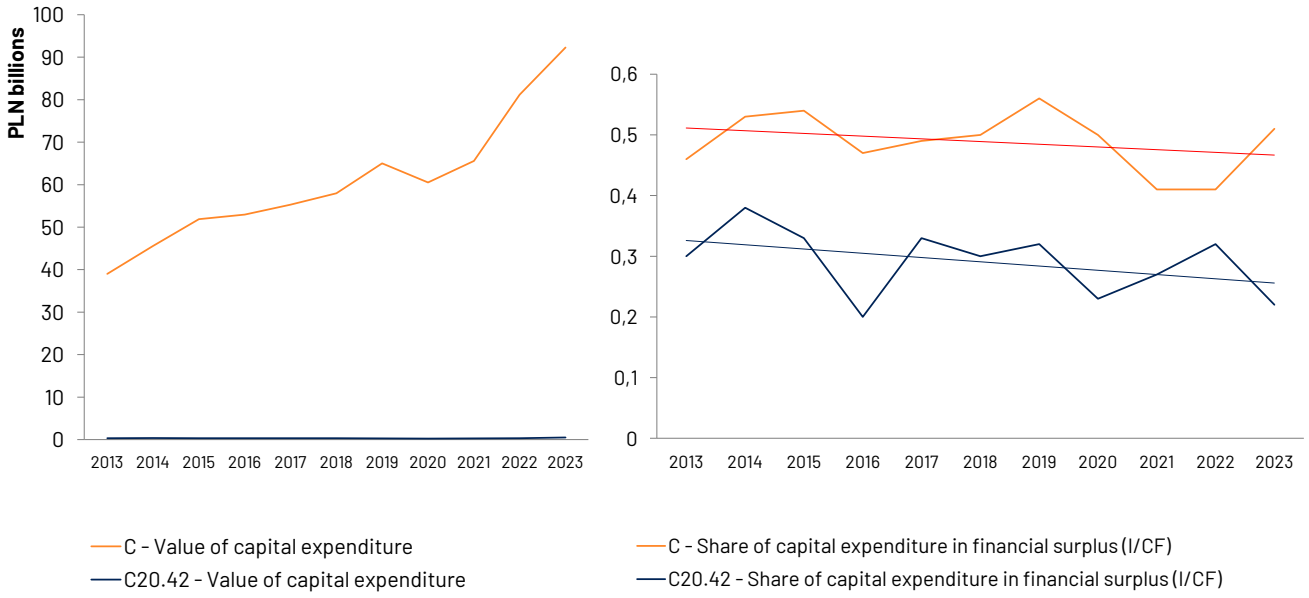


SOURCE: COMPLIED BY WISEEUROPA BASED ON PONT INFO. GOSPODARKA DATA

The cosmetics industry (like other industries) was a beneficiary of the funds to which Poland gained access after 2004 within the 7-year EU financial framework. This has increased the possibilities for financing investment and, consequently, business development in many sectors. Investment in the entire manufacturing sector is characterised by strong growth rates. Between 2013 and 2023, they increased from PLN 39 billion to PLN 92 billion. Compared to the entire manufacturing industry, the value of investment in the cosmetics sector is significantly lower, due to the smaller scale of operations and the specific nature of the industry. At the same time, investment in the cosmetics sector has remained stable, showing a horizontal trend with slightly more variability each year (there are fluctuations as a result of the economic climate – private investment is sensitive to the economic climate and prospects, especially in smaller sectors). Between 2013 and 2023, cumulative investment in the manufacturing industry was as high as PLN 667 billion, of which in the cosmetics industry, it was PLN 3.6 billion, or 0.54%. At its peak, the cosmetics sector's share in all manufacturing industry investments (2009-2010) was 1.07-1.11%, while in recent years this rate was lower (2019 – 0.45%; 2020 – 0.38%; 2021 – 0.41%; 2022 – 0.40%). In 2023, this share increased to 0.51% thanks to financial opportunities within the sector (a record year in terms of profits generated). This trend is confirmed by the capital expenditure ratio as a share of financial surplus (it reflects the extent to which financial surplus is used for investment). For the cosmetics sector, it is lower than the manufacturing industry average. In the period under review, enterprises in the manufacturing sector allocated an average of PLN 49 to invest in fixed assets out of every PLN 100 of financial surplus. In the cosmetics sector, it was less – PLN 29 (see Chart 23 above, bottom panel).

On the one hand, the cosmetics sector has a higher level of profitability than manufacturing as a whole on average (for more, see subsection Industry profitability), so the relative base (surplus) in the cosmetics industry is higher. In addition, industrial assets (fixed assets) have a long life cycle and the replacement of machinery, devices and other technical equipment takes place over longer periods (10-20 years, in some industries even 30-40 years, e.g. in the steel industry). The entire manufacturing industry in Poland is diversified, relatively large and sufficiently developed to be more stable. In the case of the cosmetics sector, investments at the initial stage of rapid development in the 2000s have yielded results in the last decade. The industry may also spend less on investment in the industrial base, compensating for this with relatively higher (than the industry as a whole on average) investment in research and development, due to its specificity and the constant race by manufacturers to improve ingredients, production processes, compliance with regulatory requirements, etc. On the other hand, however, it is important to bear in mind that the current good performance of the sector should not lead to the trap of so-called "sufficient success", resulting in an impasse of investment and underinvestment in the sector, which could bring potential lost benefits and inhibition of dynamic growth in the perspective of the next decade or two.

CHART 24. FIXED ASSET INVESTMENTS IN MANUFACTURING (C) AND COSMETICS (C20.42) SECTORS - LEFT PANEL; AND THE RATIO OF CAPITAL EXPENDITURE TO FINANCIAL SURPLUS (2013-2023) - RIGHT PANEL



SOURCE: COMPLIED BY WISEEUROPA BASED ON PONT INFO. GOSPODARKA DATA

3.

MARKET FORECASTS

3.1. Economic environment and **prospects**

Over the past 30 years, Poland has become one of the world's economic growth leaders. In terms of per capita income, we have bridged the gap to the richest countries in Western Europe. We have never been so close to them in history, and the last three decades can be considered a period of prosperity in Poland. The standard of living of the average resident is steadily improving. In 1995, Poland's GDP per capita was 44% of the EU average, at the time of accession it was 52%, and today it is already 80%. If the convergence trend is maintained, according to the assumption of narrowing the gap by about 2% per year, Poland should equal the EU27 average at the beginning of the next decade.

Poland has benefited in several ways from its accession to the European Union's common market. The single market has attracted foreign investment, which has contributed to the development of many sectors of the economy, trade has increased and Poland has become an important trading partner for many countries in the region. The free movement of people has enabled Poles to take up jobs abroad, improving their qualifications and work experience, and Poland has now become a country of net migration, with more people coming into the country than leaving it. The SME sector has also developed and competition with foreign companies has forced Polish companies to innovate and improve the quality of their products and services. The European Funds have also played an important role in financing many investments in Poland, with funds allocated to infrastructure development, industry, energy, the labour market and unemployment reduction, innovation, research and development and education.

Poland's entry into the EU common market brought many positive effects, such as competitive pressure, acquisition of know-how and gradual capital accumulation. The free movement of goods, services, people and capital has enabled increased investment in Poland, attracting investors with low labour costs, an attractive location and increasingly better access to human capital.

- The last thirty years in the Polish economy have been a period of prosperity. Since accession to the EU27, the level of GDP per capita has increased from 52% to 80% of the EU average today. Maintaining this convergence trend will allow Poland to catch up with the EU27 average at the beginning of the next decade.

- As per capita income rises, Poles are spending more and more on consumption, including cosmetics. In 2023, per capita spending on cosmetics was EUR 125 per year and is expected to rise to EUR 165 by 2028 (from 79% to 93% of what the average EU resident spends).

- Decreasing inflation should make investment more predictable, but sustained high interest rates in the economy make it more expensive to raise capital, which hinders economic recovery.

- After a slowdown in 2023 (GDP growth of 0.2%), in the current year economic growth should accelerate to around 3% year-on-year, and in the following years, the Polish economy should grow at an annual rate of 3.0-3.5%.

- The economic recovery in Poland and abroad will boost trade.

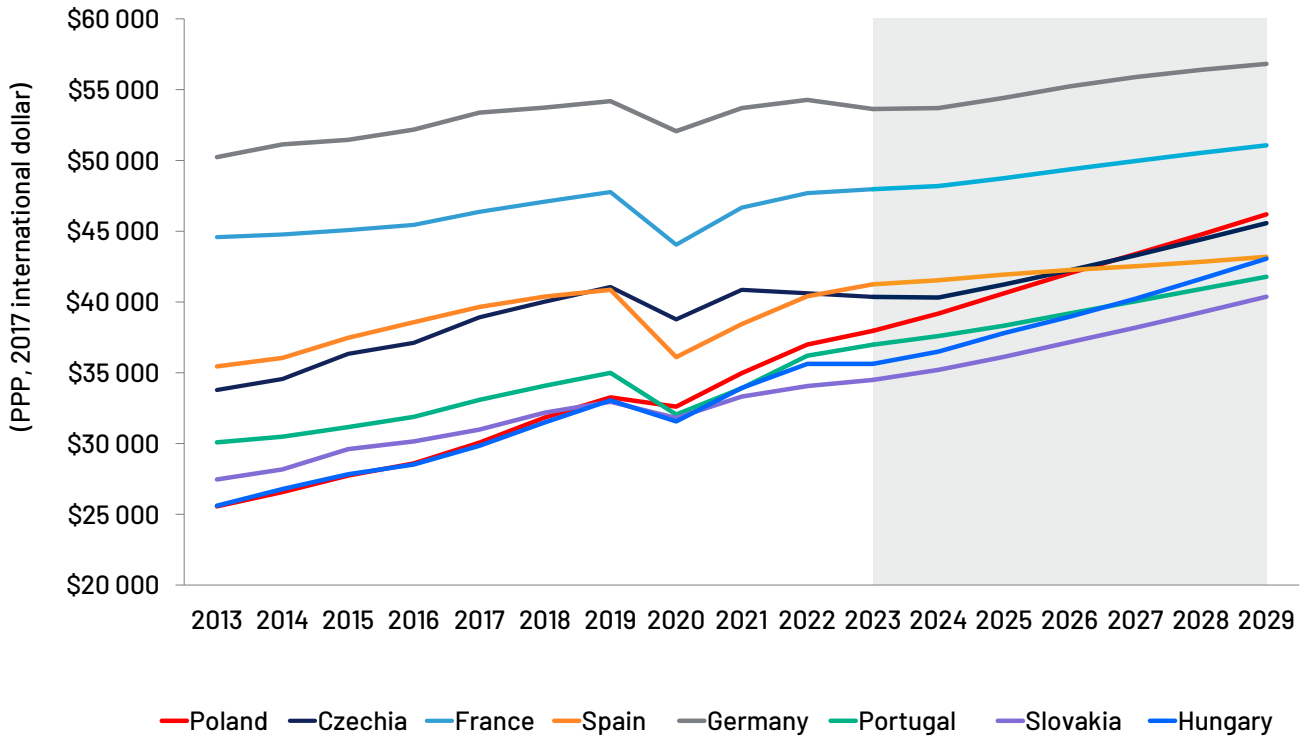
- The cosmetics industry's low energy intensity enabled it to effectively neutralise the increase in energy prices in 2022, and an appropriate pricing policy, which adjusted cosmetics prices to inflation with a delay, allowed it to achieve record-breaking profits in 2023.

- Poland invests relatively little in research and development – 1.46% of GDP, compared to an EU average of 2.24%. Being the sixth largest EU economy in terms of nominal GDP and the fifth largest in purchasing power parity, we only rank fourteenth in R&D expenditure. An upward trend in R&D spending is evident, with 0.88% of GDP in 2013 (nineteenth position in the EU).

- With economic development and presence in foreign markets, Polish companies should invest more and more in innovation to maintain their competitive capacity, especially as advantages based on low labour costs and weak currency may gradually fade. The private sector spends the most on R&D in Poland (65.7% of all outlays).

- In the long term, demographic trends are unfavourable: population decline and an ageing society. Productivity growth in the economy as a whole and the increasing purchasing power of the Polish population should partially compensate for the unfavourable trends.

CHART 25. GDP PER CAPITA IN PURCHASING POWER PARITY 2013-2029 (PPP, 2017 INTERNATIONAL DOLLAR)



SOURCE: COMPILED BY WISEEUROPA BASED ON IMF DATA

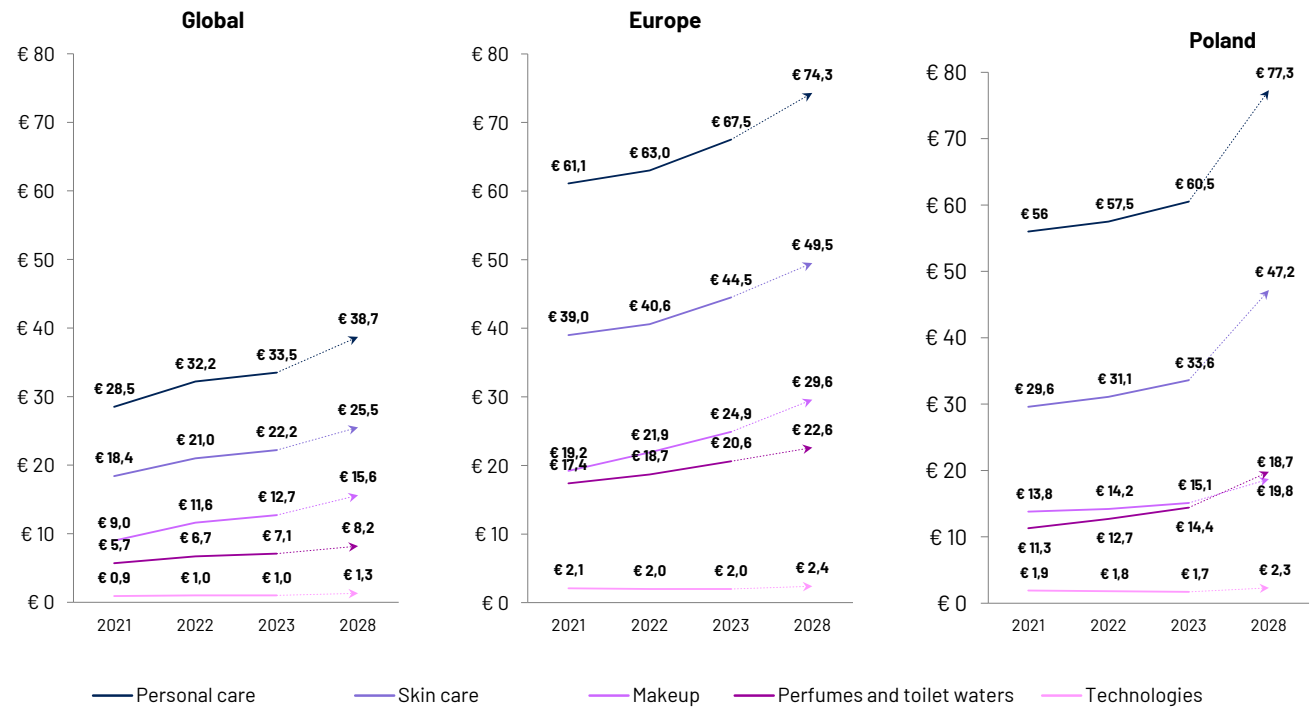
As a result, companies from many industries have started to locate their factories in Poland and relocate part of their production to Poland, allowing closer ties and integration into global supply chains. An additional incentive to invest in Poland was the existing know-how, extensive infrastructure and machinery, as well as educated specialists in the cosmetics industry.

With almost 100 years of experience in cosmetics production, Poland has played a key role in this industry in the region. The strong technological base and intellectual capital were an important starting point when Poland joined the EU, which further attracted investors. Rising per capita income and an improving economic situation have had a direct impact on increasing the purchasing power of Polish society. Higher incomes allowed Poles to increase consumption and savings, which in turn fuelled further economic growth. Greater purchasing power has also translated into increased spending on luxury goods and technological advancement. All of this stimulated and continues to stimulate growth in many sectors (electronics, automotive, cosmetics).

The last 30 years have been a period of rapid economic growth in Poland, which has had a significant impact on the well-being of the population. The economic transition, integration into the European Union, competition in the common market and strategic investments have created a solid foundation for further development. The rising per capita income and the increasing purchasing power of the Polish population indicate that Poland is well on the way to achieving convergence, i.e. reaching the same level as the richest countries in Europe.

With Poland's rising per capita income and rapid economic growth that has continued for more than thirty years, Poles are increasingly meeting their material needs. They are spending more and more on consumption, they are able to buy things that they could not buy ten or twenty years ago, or goods that are available now but were not in the market then. Cosmetic products are a good example of changing consumer purchasing preferences and their increased spending. This is particularly evident in Europe, one of the three most developed areas in the world (alongside North America and Asia). It is the region's specificity that a large number of affluent consumers live in a relatively small geographical area and producers can liquidate their goods. In 2023, per capita spending on cosmetics was EUR 158 in Europe, more than double the global average of EUR 77. In Poland, EUR 125 was spent, but with the development of the market (more products and their categories) and the growing purchasing power of the Polish consumer, it is expected to increase to EUR 165 in the next five years. This means an increase of 32%, i.e. almost twice as high as that expected in Europe (19%) and the world (17%) during this period. This is in line with the trend of economic convergence, where Poland is catching up with rich countries (faster GDP per capita growth in developing countries compared to developed countries). The Polish consumer's current spending on cosmetics is 79% of that of their European counterpart. It is anticipated that this should be 93% in 2028.

CHART 26. COSMETICS EXPENDITURE PER CAPITA GLOBALLY, IN EUROPE AND POLAND

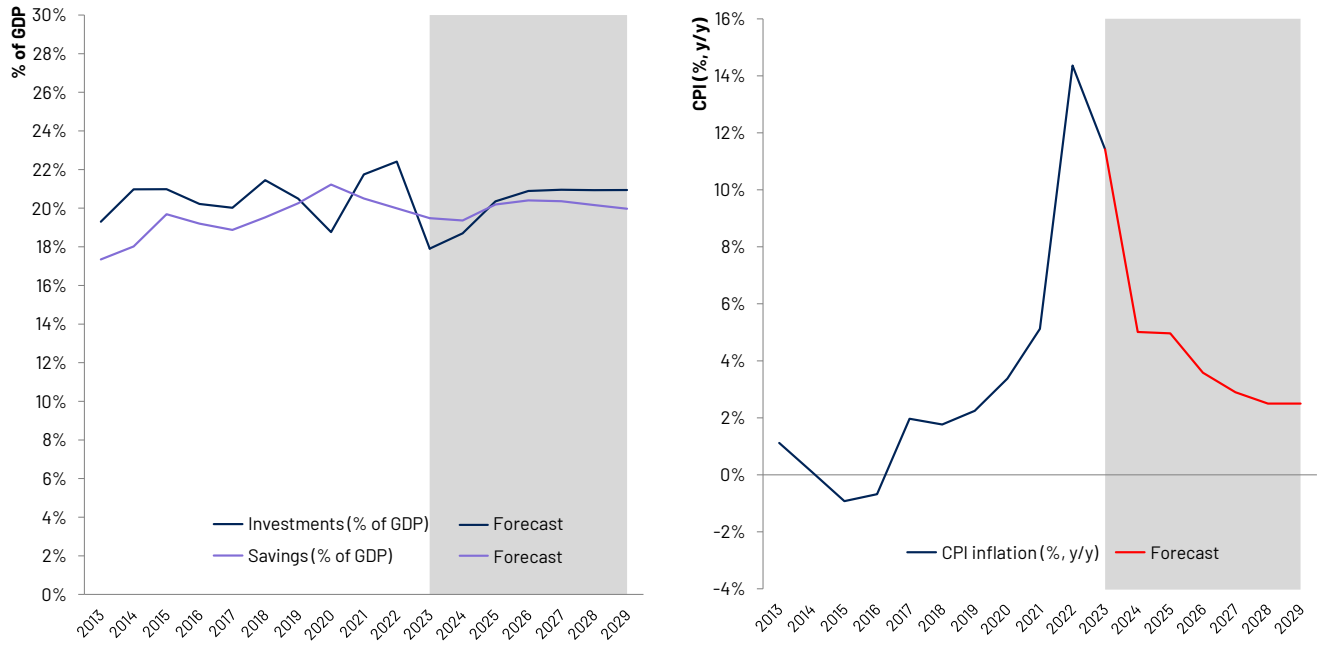


SOURCE: COMPILED BY WISEEUROPA BASED ON STATISTA DATA

Between 2022 and 2023, inflation was one of the main economic concerns worldwide. During this period, it was well above the central bank's inflation targets and in developed economies (such as the US, the UK, and the Eurozone) reached levels of 7-8%, while in developing countries, which include Poland, it was in double digits (in Poland, inflation peaked in February 2023 – 18.4%). This forced central banks to pursue restrictive monetary policy, which involved raising interest rates. During the pandemic in Poland, they were raised from 0.1% to 6.75%. The National Bank of Poland's reference interest rate is currently set at 5.75% and is not expected to be lowered until the end of 2024. Higher interest rates mean a higher cost of money in the economy. Their effects are already visible in the form of lower inflation, which is the result of reduced economic activity, including newly started investments (higher cost of raising money, lower demand, decline in investments, and, additionally, a higher cost of debt service for previous loans taken out on a variable interest rate basis). The cosmetics industry has been more resilient to the disruption caused by the high interest rate channel, as cosmetics manufacturers have a structurally lower proportion of debt financing, with an average of 37% between 2018 and 2023, the remaining 63% being equity, and this is lower than the average in the manufacturing industry, where this ratio is: 48% external financing, 52% equity.

When the investments are concerned, in Poland, they are at a relatively low level compared to the rest of the European Union economies, and in recent years there has been a marked decline to 17.9% of GDP in 2023. Over the last twenty years, the Polish economy has invested an average of 19.7% of its GDP annually, which is less than the average of the European Union countries (21.9%) and other countries in the CEE region (23.6%). Between 2000 and 2021, however, Poland had one of the highest annual GDP growth rates – 3.7% on average, while the average for the EU27 countries was 1.4% and for the CEE group – 3.2%. This growth was largely consumption-based. Without sufficient investment, it is impossible to achieve stable and dynamic economic growth in the long term, which is related to increased innovation and labour productivity, by improving the performance of production factors From a macroeconomic perspective, the investment rate should be higher across the country in the next few years and reach levels above 20% of GDP in subsequent years. Maintaining high interest rates will cool this rebound while ever-decreasing inflation readings should support investment predictability.

CHART 27. SAVINGS AND INVESTMENTS IN POLAND (% OF GDP) - LEFT PANEL; AND CPI INFLATION (%, Y/Y) - RIGHT PANEL

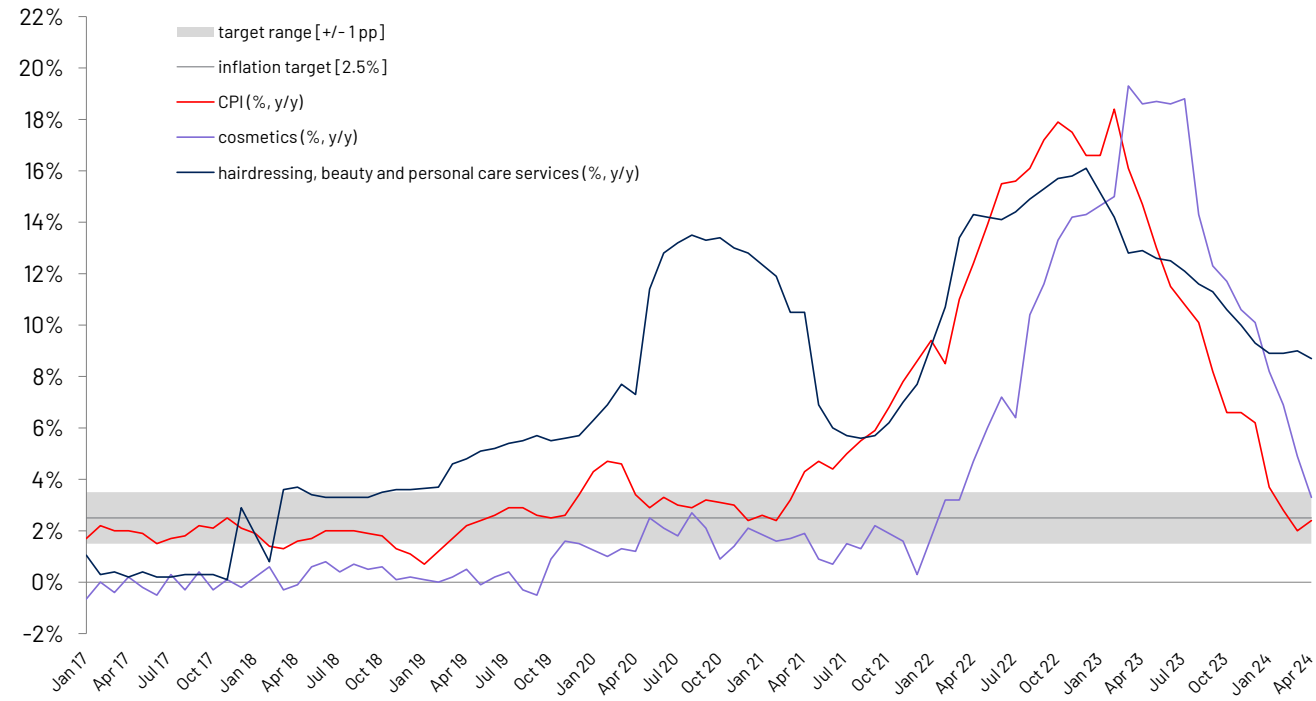


SOURCE: COMPILED BY WISEEUROPA BASED ON IMF DATA

The high inflation of the last two years has paradoxically had a positive impact on the performance of the cosmetics industry. The cosmetics manufacturing sector achieved a record net profit of PLN 1,685 million in 2023, which was almost three times higher than the previous year (PLN 583 million). **This was the result of two factors. The first was the sector's low energy intensity – cosmetics manufacturers spend 1.7% of their operating expenditure on energy. This is less than the average in the manufacturing industry (3.1%) and far less than in energy-intensive industries (10-15%)**. This has helped to cushion the shock of high prices of energy resources and electricity over the past two years. **The second factor was the pricing policy. The increase in cosmetics prices in recent quarters has similarly reflected price increases in the economy (CPI inflation). However, this took place with a delay of approximately two quarters**. Inflation peaked in Poland between June 2022 and March 2023, when monthly year-on-year CPI readings were over 15%. The increase in cosmetics prices above this level occurred between February and June 2023. At its peak, cosmetics price growth reached 19.3% (March 2023), and throughout the year, cosmetics inflation was 15.2%. This has allowed high profits to be achieved with relatively less increase in production costs and resulted in high profitability. In 2022, cosmetics manufacturers achieved 6.2% profitability, slightly higher than the industry (5.6%) and the economy as a whole (5%). In 2023, it was as high as 12.5% – well above the performance of the industry (4.1%) and the economy as a whole (4.3%) (cf. subsection: Industry profitability).

The consequence of the high inflation of the last two years and the related change in the monetary policy to a restrictive one has been a slowdown in economic growth. After a post-pandemic rebound in 2021-2022 and monetary policy tightening (the effects of interest rates on an economy are usually visible after a few quarters), most economies around the world experienced a slowdown in economic growth to 0-1%, and in some, it was even negative. In 2023, the Polish economy did not experience a recession, but GDP growth slowed to 0.2%. In the current year, 2024, there should be a rebound and GDP growth should accelerate to around 3% year-on-year, and at this rate, the Polish economy is likely to grow in the following years. The economic recovery at home and abroad should foster trade in goods. Changes in trade are correlated with production but are subject to greater fluctuations. Poland's total exports should increase by 6.5% in 2024 compared to 2023, and grow by around 4% annually in the following years. Increased GDP and growing export opportunities create a solid foundation for the strong performance of many sectors, including the cosmetics industry in Poland.

CHART 28. MONTHLY CPI INFLATION IN POLAND (%, Y/Y) ISOLATING COSMETIC PRODUCTS

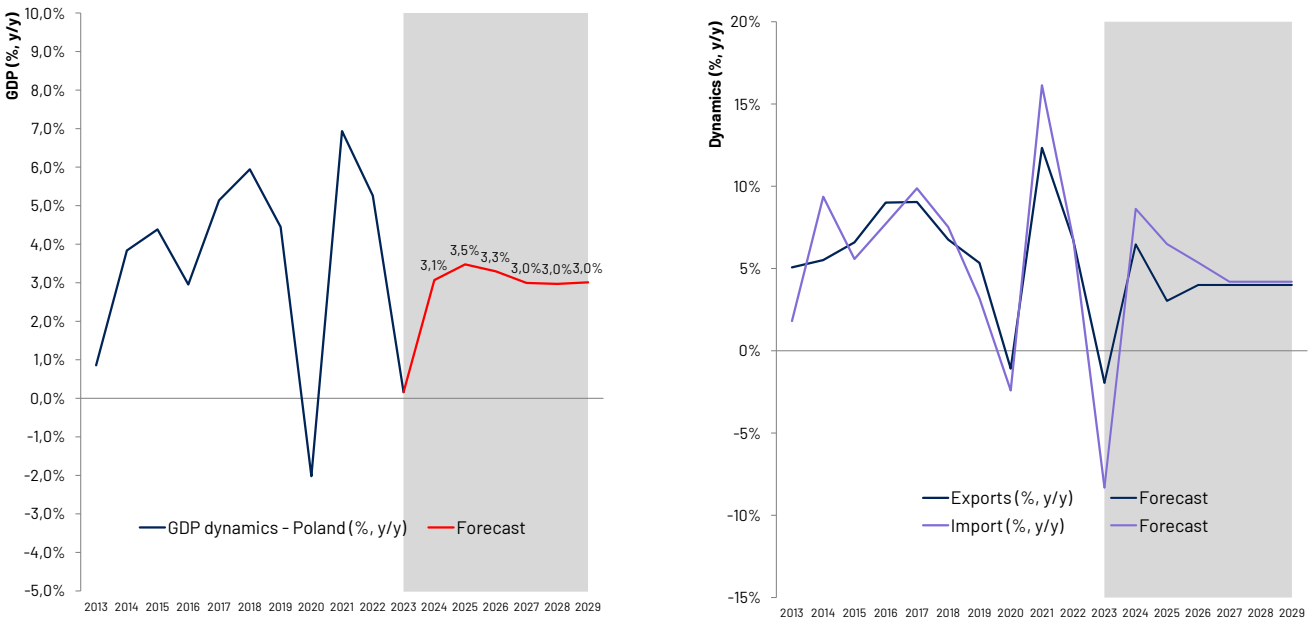


SOURCE: COMPILED BY WISEEUROPA BASED ON STATISTICS POLAND DATA

To remain competitive in the global market and keep up with technological advances, investment in research and development is essential. **In Poland, R&D expenditure is still relatively low compared to other countries, although there is a noticeable upward trend. According to data for 2022, Poland allocated 1.46% of its GDP to R&D, while the EU average was 2.24% of GDP**. There has been a sharp increase here since 2013 (from 0.88% of GDP) and Poland has overtaken the Visegrad countries in this respect (1.45%).

Although this indicator is increasing, Poland is still below the EU average and spends relatively little on R&D in relation to the size of its economy.

CHART 29. GDP GROWTH DYNAMICS IN POLAND IN 2013-2029 (%, Y/Y) - LEFT PANEL; AND THE DYNAMICS OF EXPORTS AND IMPORTS (%, Y/Y)

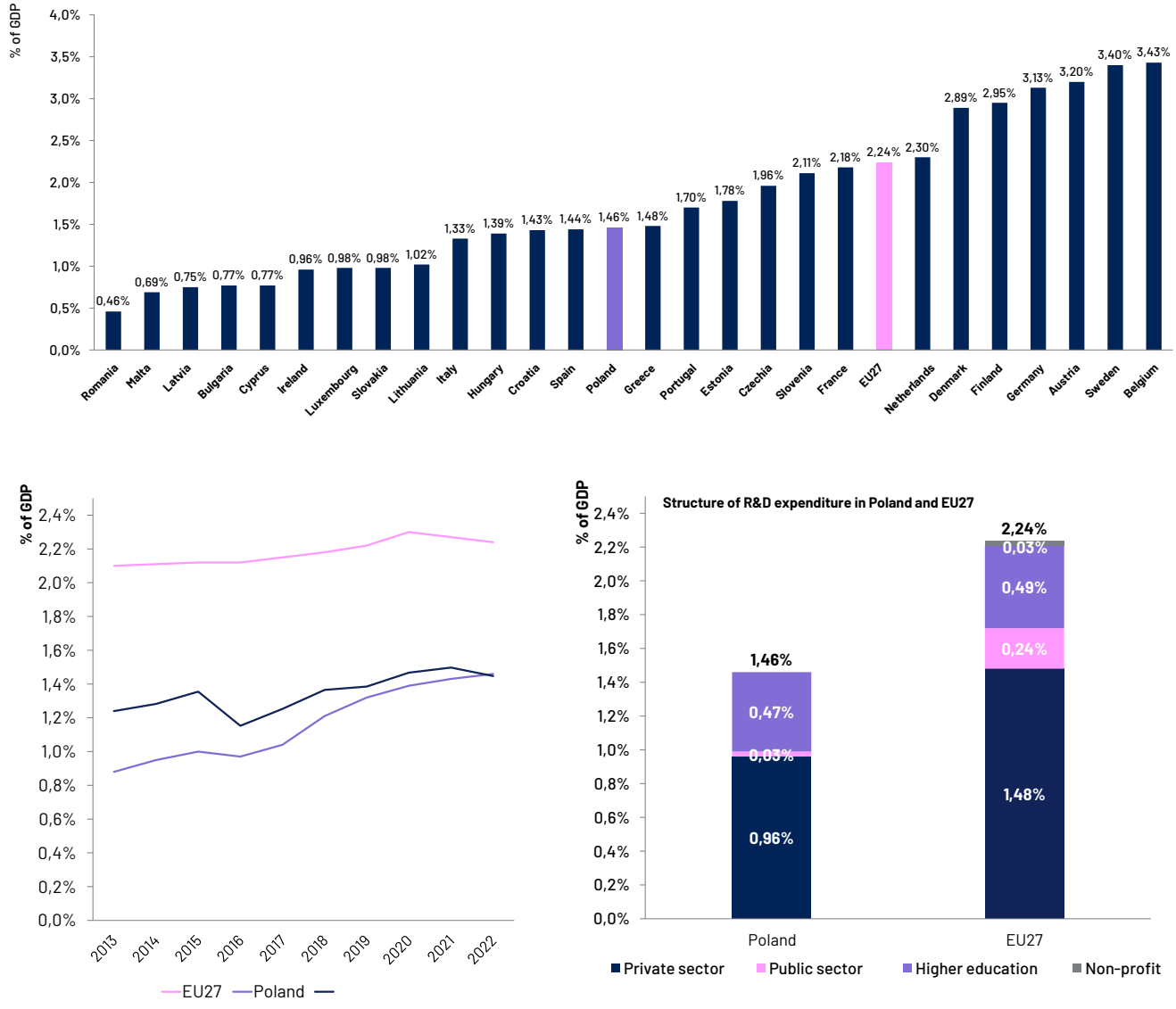


SOURCE: COMPILED BY WISEEUROPA BASED ON IMF DATA

Being the sixth largest EU economy in terms of nominal GDP and the fifth largest in purchasing power parity, Poland only ranks fourteenth in R&D expenditure (nineteenth in 2013). The structure of R&D expenditure in Poland is dominated by the private sector, which spends 0.96% of GDP (the EU average is 1.48%). The contribution of the public sector is marginal (only 0.03% of GDP).

The innovation of the economy is not a direct result of R&D spending, which is a consequence of the technological advancement of individual industries. A sharp increase in R&D spending does not always result in an increase in innovation, especially as the structure is dominated by the private sector, where there is little room for trial and error, and only the projects with the best chance of success are implemented. High-tech industries compete in markets by continually improving processes and products and searching for new ones. There is a constant race between them, so countries with a high level of innovation spend more on R&D to stay in this race. A sharp increase in R&D spending in underdeveloped countries or less innovative sectors will not suddenly make them innovative, as technological advancement depends on a much broader spectrum of factors, and raising the quality of processes, products and services offered requires time and usually bottom-up actions at enterprise levels (e.g. in the sector, cooperation with larger companies offering better products, implementation of best practices, import of processes and technologies, continuous know-how improvement, access to human capital).

CHART 30. R&D EXPENDITURE (% OF GDP) 2022

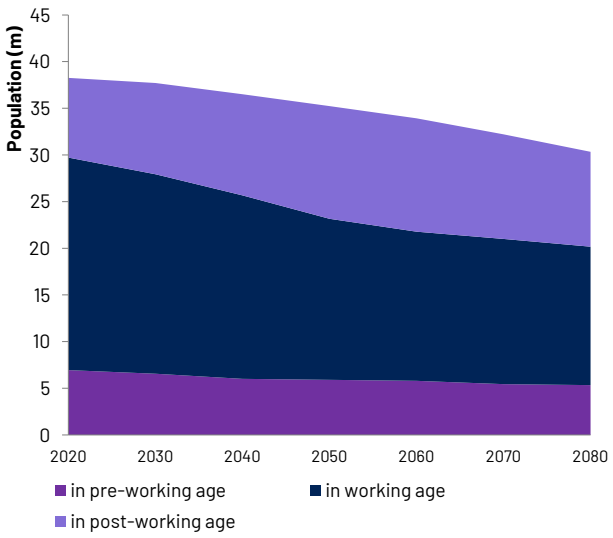


ŹRÓDŁO: OPRACOWANIE WISEEUROPA NA PODSTAWIE DANYCH EUROSTAT

The cosmetics industry in Poland, with its rapid development, increasing its share of the European cosmetics market, expansion abroad and ambitions to improve the competitiveness of Polish companies, should increase spending on research and development. In the coming years, the problem for them may be the need to adjust to numerous regulations. The industry is already forced to adapt to many EU regulations (e.g. related to the European Green Deal), which extend to ever wider areas of its activity or tighten the standards and norms already developed (cf. chapter Sustainability). These adaptations require the dedication of time and human capital, financial investment and sometimes fundamental changes to existing processes or solutions already used in the sector. There is a risk that these changes will be a brake on increasing innovation to the extent that the sector could potentially achieve.

In addition to the economic environment, which should be conducive to the development of the cosmetics industry in the coming years, **demographic changes** will also be an important structural factor in European countries, especially in Poland. Two main changes will take place over the next decades: 1) the population will shrink; 2) the demographic structure will change, with older, post-working age people playing an important role. Thus, the proportion of people of working age will shrink, and Poland's low fertility rate will not halt these trends. Currently, the fertility rate is 1.32 in Poland, 1.46 in the European Union and 1.59 in OECD countries. In all cases, this is far less than the replacement rate required, which, according to the literature, can be maintained with a fertility rate of 2.10-2.15. These changes will occur over the long term. Poland's total population is projected to shrink from just under 38 million today to 30 million in 2080 (b 20y%), and the working-age population from 22 million to 14 million (by as much as 35%). This process will take years, but the workforce in Poland will shrink relatively quickly over the next twenty or thirty years. From 2027, there will be a growing gap between cohorts leaving the labour market versus those entering it. This will bring about structural changes in many sectors and force the search for more efficient production solutions, such as automation and, in the future, robotisation of work so that one human can operate a production line or a group of robots that can do the same work at a lower cost with greater efficiency (where possible). This will maintain and even increase productivity, but the signal heralding these changes should be noticed earlier by many industries. Hence, on the one hand, the a need to implement increasingly innovative and efficient production methods and, on the other hand, to create qualified staff both at higher levels (management, executives) and those operating production or service processes.

CHART 31. POPULATION CHANGES IN POLAND 2020-2080



SOURCE: COMPILED BY WISEEUROPA BASED ON SOCIAL INSURANCE INSTITUTION [ZUS] DATA

In the context of the cosmetics industry, population decline will continue with increasing economic growth and higher incomes for the population. Per capita spending on cosmetics should be increasing, and income growth proceeding at a faster rate than population decline should more than mitigate negative demographic trends. What will change is the structure of expenditure. On the one hand, in the long term, the growing number of seniors will get more important, as they will be the recipients of cosmetics according to their needs and preferences (e.g. rejuvenating products, smoothing products, specialised care: wrinkle creams, serums, products designed for mature skin care). On the other hand, differences in spending patterns between generations will be crucial. A recent study conducted in the United States showed that Generation Y (so-called millennials, born between 1981 and 1996) spends the most on cosmetics, followed by Generation Z (1997-2012, 76% of millennials' spending), representatives of Generation X (1965-1980, 56%), and the oldest people born after the war, the so-called baby boomers (1946-1964, only 18%). Seniors take care of their basic needs first, and the low level of retirement benefits does not always allow them to think about the additional ones. These trends should slightly change the structure of the products the industry offers. Some of them will be reduced to a minimum and those used by older people will gain in importance, and there will probably also be new products that are not yet in the market. These changes will be phased in over time, but manufacturers should track demographic trends and incorporate them into their strategies so that they can anticipate and respond to changes on the demand side in advance.

4.

COMPETITION STRATEGIES IN THE POLISH COSMETICS MARKET

4.1. **Sales** channels

- In recent years, the growing role of e-commerce has been apparent at the expense of the decline of traditional brick-and-mortar sales channels. This is due to the increase in online sales during the pandemic and maintaining this growth in the following years. In traditional channels, discount stores proved to be the exception. High inflation and consumers' search for cheaper purchasing options have increased their share against other traditional sales channels.

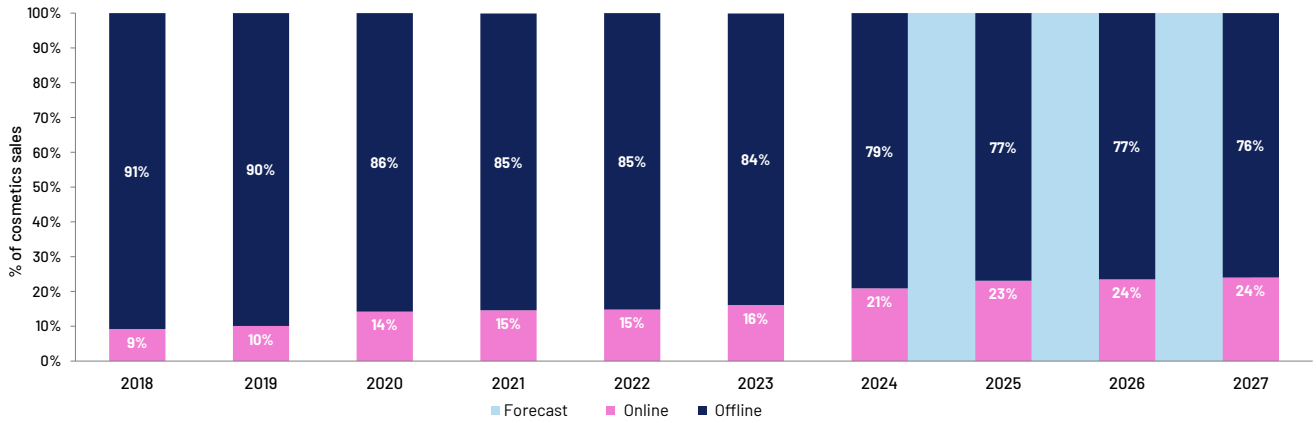
- E-commerce is the most rapidly growing cosmetics sales channel in Poland. Its share in sales increased from 9.2% in 2018 to 16.1% in 2023. Over the next five years, it may increase to 24% in 2027.

- Most cosmetics in Poland are still sold in drugstores, which account for 29.4% of sales.

In two decades, the cosmetics market in Poland has experienced significant growth, recording an almost threefold increase in sales value. In 2004, its value was PLN 9.7 billion, while in 2023 it will reach as much as PLN 25.4 billion. Forecasts indicate further growth, predicting that the value of the cosmetics market in Poland will increase to PLN 29.4 billion by 2028 (Euromonitor International estimates). There are no signs of a slowdown, while changes are occurring within the market, affecting the structure of individual product categories and sales channels, shaping the future of the cosmetics market in Poland and determining the paths it will continue to follow.

Changes in sales channels have been one of the main drivers of growth in cosmetics retail in recent years. Since the pandemic, many consumers have become accustomed to buying goods online (e-commerce channel). The surge in online shopping started during the pandemic continues and e-commerce still grows in popularity. This trend will continue in the coming years, especially as e-commerce offers clear advantages such as home delivery (often free of charge), a wide range of products, non-obligatory shopping times and competitive prices. Before 2020, online sales accounted for 10% of cosmetics sales. The sharp increase occurred in the year of the pandemic outbreak – up to 14%. Despite a slowdown in 2021 and 2022, retail e-commerce returned to stronger growth in 2023. Moreover, this distribution channel has significant potential for further expansion. In the next five years, it could account for 24% of cosmetics sales in Poland, especially as new technologies and solutions using artificial intelligence improve the online shopping experience.

CHART 32. COSMETICS SALES IN POLAND BY OFFLINE AND ONLINE CHANNELS



SOURCE: COMPILED BY WISEEUROPA BASED ON EUROMONITOR INTERNATIONAL AND STATISTA

Despite the rapid growth of e-commerce, consumers still value the opportunity to test products and interact with experts in brick-and-mortar shops. Therefore, the still dominant retail channel is sales in traditional (offline) shops. The offline sales channel is highly diversified and characterised by a high degree of competition between sales networks. The retail market in Poland is dominated by three main offline sales channels for cosmetics: multi-range self-service shops, specialised shops and direct sales.

Despite the rapid growth of e-commerce, consumers still value the opportunity to test products and interact with experts in brick-and-mortar shops. Therefore, the still dominant retail channel is sales in traditional (offline) shops. The offline sales channel is highly diversified and characterised by a high degree of competition between sales networks. The retail market in Poland is dominated by three main offline sales channels for cosmetics: multi-range self-service shops, specialised shops and direct sales.

Specialised shops have the largest market share, accounting for 42.4% of all retail sales in 2023. These are mainly specialised shops offering products in the broadly defined health and beauty category. Drugstores, such as Rossmann, Natura, Hebe, and Super-Pharm, dominate among them. Such shops account for 29.4% of cosmetics sales in Poland and feature a wide range of products, attractive prices and special offers, as well as numerous points of sale, both in shopping malls and as stand-alone shops. These are followed by specialised cosmetics stores (8.4% of sales). Typically, these are outlets selling products under manufacturers' brands or geared towards selling a selected category of products (e.g. shops specialising in hair care or nail care products, skin care creams or make-up). They offer a standardised range of cosmetic products, often run intensive promotional campaigns and offer loyalty programmes, but are less price-competitive than drugstores. A smaller share of sales is accounted for by pharmacies (3.3%), which are not typically geared towards the sale of cosmetics, but offer a wide range of so-called dermocosmetics in their portfolio. Products sold in pharmacies are aimed at customers looking for specialised skincare products usually for problem complexions, but, as with specialist cosmetics stores, are less competitively priced.

The second largest cosmetics sales channel in Poland is multi-range self-service shops, which account for 34% of sales. There is a great deal of variation within these shops, mainly due to their size and type. Discount stores[1] such as Biedronka, Lidl, Netto, Aldi are dominant in this category, selling 21.7% of cosmetics. They are followed by supermarkets[2] with a 5.7% share of sales. These include Stokrotka, Dino, InterMarche, Spar. Hypermarkets[3] have a similar, but slightly smaller share in cosmetics sales. They account for 4.6% of cosmetics sold and include Auchan, Carrefour, Kaufland, E. Leclerc.

TABLE 7. SALES CHANNELS FOR COSMETICS IN POLAND (% OF RETAIL SALES VALUE)

Sales \ Year	2018	2019	2020	2021	2022	2023
Retail channels	**98,7%**	**98,7%**	**99,2%**	**99,1%**	**99,1%**	**99,3%**
Offline retail	**89,5%**	**88,6%**	**85,0%**	**84,4%**	**84,3%**	**83,1%**
Multi-range self-service shops	33,0%	32,8%	35,9%	35,3%	34,6%	34,0%
Small retail stores	1,3%	1,3%	1,4%	1,4%	1,3%	1,3%
Supermarkets	5,9%	5,8%	6,3%	6,1%	5,9%	5,7%
Hypermarkets	6,6%	6,5%	6,1%	5,6%	5,1%	4,6%
Discount stores	18,4%	18,5%	21,3%	21,5%	21,6%	21,7%
Local neighbourhood shops	0,7%	0,7%	0,7%	0,6%	0,6%	0,5%
Specialised shops	47,6%	47,4%	41,0%	41,8%	42,9%	42,4%
Specialised health and beauty shops	45,7%	45,5%	39,4%	40,3%	41,5%	41,1%
Specialised cosmetics shops	8,9%	9,0%	7,6%	8,0%	8,3%	8,4%
Pharmacies	4,6%	4,5%	3,9%	3,7%	3,5%	3,3%
Drugstores	32,2%	32,0%	27,9%	28,5%	29,7%	29,4%
Others	1,8%	1,8%	1,6%	1,5%	1,4%	1,4%
Direct sales	9,0%	8,4%	8,1%	7,4%	6,8%	6,7%
Electronic retail (e-commerce)	**9,2%**	**10,1%**	**14,2%**	**14,6%**	**14,8%**	**16,1%**
Non-retail channels	**1,3%**	**1,3%**	**0,8%**	**0,9%**	**0,9%**	**0,7%**
Overall	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

SOURCE: COMPILED BY WISEEUROPA BASED ON EUROMONITOR INTERNATIONAL DATA

1) Discount stores - low prices, basic product range, area not exceeding 1000 m2.
2) Supermarkets - medium/high prices, medium/large product range, area of 400 m2 to 2,500 m2
3) Hypermarkets - medium/high prices, very large product range, larger than in supermarkets, area over 2500 m2. [2].

The third main sales channel for cosmetics is direct sales – outside the shop chains. Products bypassing the entire intermediary network are supplied directly to customers by independent company representatives (e.g. Avon, Oriflame, Mary Kay), but there is a noticeable decline in this sales model.

The cosmetics sales market has undergone significant changes over the past six years. Despite the relatively short period, the changes in sales channels are clear. **Above all, the growing role of e-commerce and discount stores is apparent, at the expense of a decline in the importance of traditional stationary sales channels (except for the aforementioned discount stores)**. E-commerce is the most rapidly growing cosmetics sales channel in the period under review, with its share increasing from 9.2% in 2018 to an impressive 16.1% in 2023 (a 75% increase). This reflects the growing popularity of online shopping among consumers. The increasing role of discount shops and the rise of their share in cosmetics sales from 18.4% to 21.7% is also apparent and is related to changes in the shopping habits of the average Polish consumer who, due to high inflation, is increasingly looking for value for money offers and is more willing to buy from mass market retailers that often offer promotions (e.g. 2+1 free, second item 50% off). High inflation meant that price incentives were the ones to which the consumers were most sensitive, and they enabled the retail chains to compete for customers in real terms over the past three years.

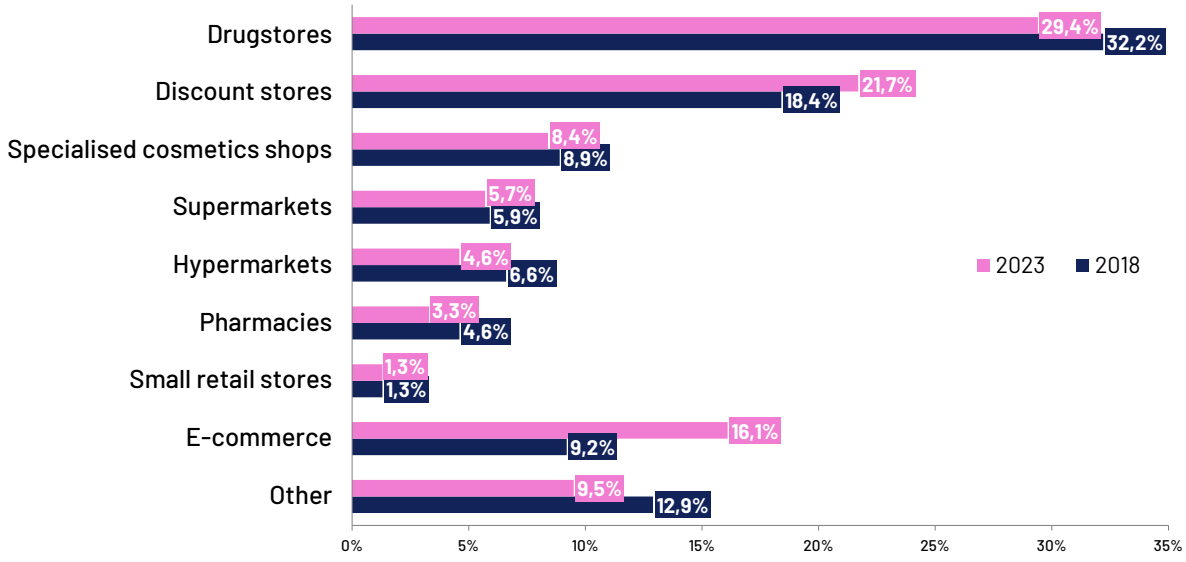
Most of the other sales channels lost out as customers shifted towards shopping at discount stores and via online channels. Over the past six years, the share of cosmetics sales in all brick-and-mortar self-service shops other than discount stores has declined: in hypermarkets from 6.6% to 4.6%, supermarkets from 5.9% to 5.7%, small local shops from 0.7% to 0.5%, and small retailers have maintained their market share (1.3%). Poles were increasingly less likely to buy cosmetics in specialised shops, but the largest share of cosmetics sales still belongs to drugstores, which generated 29.4% of total cosmetics sales in 2023. Their market share decreased from 32.2% in 2018. There was a similar decline in sales in specialised cosmetics shops (from 8.9% to 8.4%) and pharmacies (from 4.6% to 3.3%).

Drugstores (29.4% of cosmetics sales via this channel), **discount stores** (21.7%) and **e-commerce** (16.1%) **are the three main pillars of cosmetics sales, accounting for 67.2% of their sales in Poland** (up from 59.8% in 2018). **These three channels shape the landscape of cosmetics sales in the Polish market to the greatest extent**. However, when analysing sales by product category, differences in consumer preferences in terms of the chosen shopping channels are noticeable. Each product category has its own specific properties that reflect the unique needs and expectations of customers, thus demonstrating the complexity of the cosmetics market.

In 2023, most **deodorants** were purchased in discount stores (29%) and drugstores (21%). Even higher rates were recorded in the case of **bath and shower cosmetics**: 32% for discount stores, and 34% for drugstores.

The majority of **makeup products** were sold in drugstores (35%), via e-commerce channels (22%) and in specialised stores (17%). Perfumes and toilet waters were mainly sold through the online channel (38%) and in drugstores (24%). **Sun care cosmetics** were most often purchased in drugstores (34%), the other channels were relatively diversified.

CHART 33. SALES CHANNELS FOR COSMETICS IN POLAND - CHANGE OVER THE LAST FIVE YEARS (% OF RETAIL SALES VALUE)



SOURCE: COMPILED BY WISEEUROPA BASED ON EUROMONITOR INTERNATIONAL DATA

Creams, lotions, emulsions and other **skincare products** were mainly sold in drugstores (33%), discount stores (24%) and online (16%). **Hair care products** – in discount stores (32%) and drugstores (23%), and **dental and oral care products** – in drugstores (26%), discount stores (24%), supermarkets (15%) and hypermarkets (13%). Most **baby and children's products** were bought in drugstores (37%), and a large share of their sales through pharmacy chains, which often offer products aimed at the youngest, is also evident, with a 12% share of their sales, while for all cosmetics, pharmacies account for 3.3% of sales. **Depilatory products** were most commonly purchased in drugstores (38%) and discount stores (23%), and **shaving cosmetics** – in drugstores (27%), via the e-commerce channel (20%) and in discount stores (19%).

When analysing the sales channels for the various categories of cosmetic products and their total market shares, there is a clear specialisation of the different distribution channels for specific categories of cosmetics.

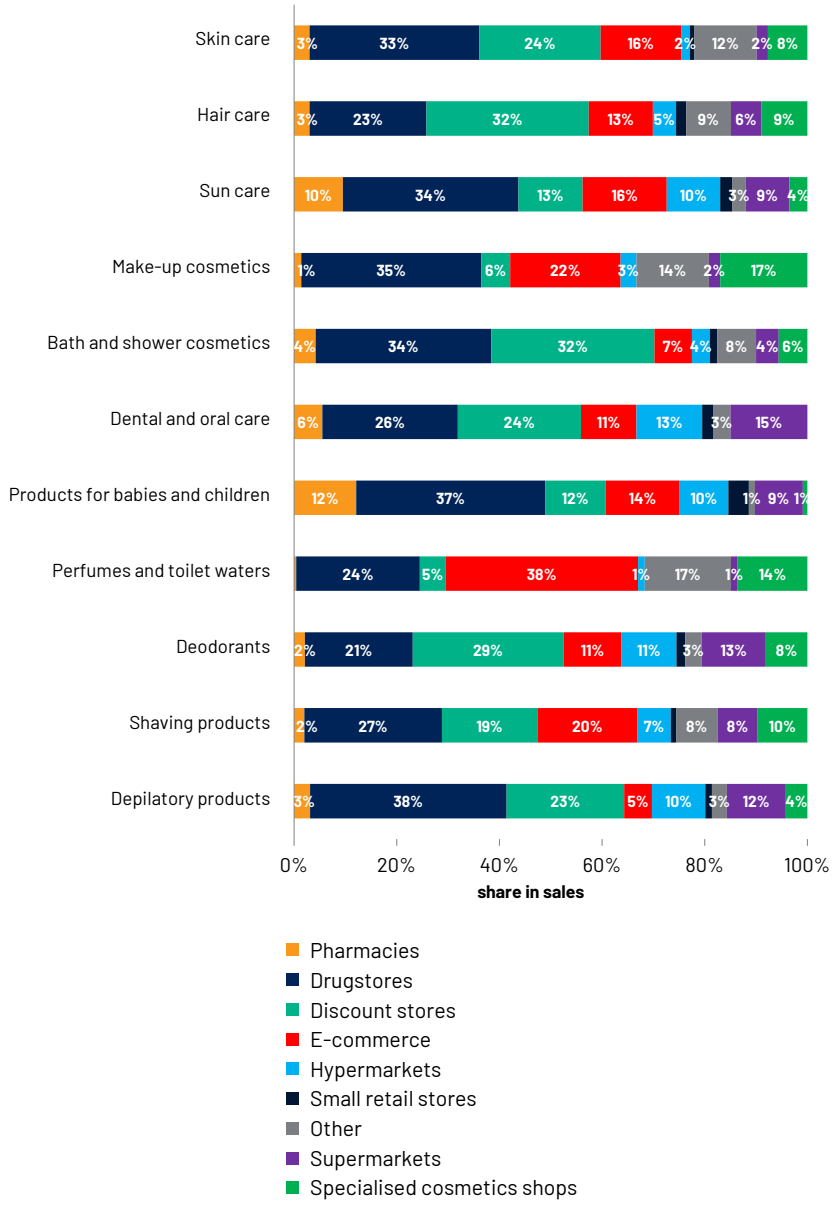
- **Drugstores** have an advantage in selling **skincare, baby and children's cosmetics, make-up, sun care and depilatory products**. They have smaller shares in sales of **deodorants, hair care products as well as perfumes and toilet waters**.

- **Discount stores** specialise in selling **hair care products, bath and shower products and deodorants.** That is, mainly necessities for proper hygiene and cleanliness. However, they have small shares in sales in the specialised categories of **make-up cosmetics, perfumes and toilet waters as well as baby and children's products**.

- **The e-commerce channel** dominates sales of **perfumes and toilet waters** and also performs well in sales of **make-up and shaving products**. Perfumes, toilet waters and make-up products are categories that can be highly positioned in terms of prices. In the e-commerce channel, prices for these products are often lower than in traditional shops or subject to promotional campaigns. Consumers are less likely to buy **depilatory products and bath and shower cosmetics** online; these are cheaper consumables and are part of everyday, traditional purchases.

- **Specialised beauty shops** have an advantage in selling **make-up products, perfumes and water toilets**. At the same time, they have a negligible share in sales of **dental and oral hygiene cosmetics and products for babies and children**.

CHART 34. SALES CHANNELS FOR COSMETICS IN POLAND BY PRODUCT CATEGORY



SOURCE: COMPILED BY WISEEUROPA BASED ON EUROMONITOR INTERNATIONAL DATA

Detailed observations for all channels are shown below.

Sales channel	**Advantages** (product categories in which individual channels sell above their average for all cosmetics)	Share in total cosmetics sales	**Deficit categories** (products with a lower share in sales than the channel average)
Drugstores	Depilatory products (38.3%) Products for babies and children (36,8%) Make-up cosmetics (35.1%) Sun care (34.2%) Bath and shower cosmetics (34.2%) Skin care (33.1%)	29.4%	Shaving products (26.8%) Dental and oral care (26.4%) Perfumes and toilet waters (24.1%) Hair care (22.8%) Deodorants (21.0%)
Discount stores	Bath and shower cosmetics (31.8%) Hair care (31.6%) Deodorants (29.4%) Dental and oral care (24.0%) Skin care (23.6%) Depilatory products (22.9%)	21.7%	Shaving products (18.6%) Sun care (12.5%) Products for babies and children (11,8%) Perfumes and toilet waters (5.0%) Make-up cosmetics (5.6%)
E-commerce	Perfumes and toilet waters (37.5%) Make-up cosmetics (21.5%) Shaving products (19.5%) Sun care (16.4%)	16.1%	Skin care (15.7%) Products for babies and children (14,4%) Hair care (12.5%) Deodorants (11.3%) Dental and oral care (10.8%) Bath and shower cosmetics (7.3%) Depilatory products (5.4%)
Specialised cosmetics shops	Make-up cosmetics (17.0%) Perfumes and toilet waters (13.6%) Shaving products (9.7%) Hair care (9.0%)	8.4%	Deodorants (8.1%) Skin care (7.7%) Bath and shower cosmetics (5.6%) Depilatory products (4.2%) Sun care (3.5%) Products for babies and children (0,9%) Dental and oral care (0.0%)
Supermarkets	Dental and oral care (15.0%) Deodorants (12.5%) Depilatory products (11.5%) Products for babies and children (9,3%) Sun care (8.5%) Shaving products (7.8%) Hair care (5.9%)	5.7%	Bath and shower cosmetics (4.4%) Make-up cosmetics (2.2%) Skin care (2.2%) Perfumes and toilet waters (1.3%)
Hypermarkets	Dental and oral care (12.8%) Deodorants (10.7%) Sun care (10.4%) Depilatory products (10.4%) Products for babies and children (9.5%) Shaving products (6.5%)	4.6%	Hair care (4.5%) Bath and shower cosmetics (3.5%) Make-up cosmetics (3.1%) Skin care (1.7%) Perfumes and toilet waters (1.3%)
Pharmacies	Products for babies and children (12.1%) Sun care (9.5%) Dental and oral care (5.5%) Bath and shower cosmetics (4.2%)	3.3%	Depilatory products (3.1%) Hair care (3.0%) Skin care (3.0%) Shaving products (2.2%) Deodorants (2.1%) Make-up cosmetics (1.4%) Perfumes and toilet waters (0.4%)
Small retail stores	Products for babies and children (4.0%) Sun care (2.4%) Dental and oral care (2.1%) Hair care (2.0%) Deodorants (1.7%) Bath and shower cosmetics (1.4%) Depilatory products (1.3%)	1.3%	Shaving products (1.0%) Skin care (0.9%) Make-up cosmetics (0.0%) Perfumes and toilet waters (0.0%)

4.2. **Pricing** strategies

- With the rising cost of living, consumers have become more rational in their purchases, looking more often for promotions and cheaper alternatives to more expensive cosmetics.

- The cosmetics industry in Poland has successfully coped with the market volatility of recent years through flexible pricing strategies. This has allowed high profits to be achieved despite the economic challenges.

From the perspective of the market as a whole, the cosmetics industry in Poland is characterised by a large number of producers with their own brands, which allows them to impose margins at the last stage of the value chain and consequently generate profits. This results in twice the profitability of the industry compared to the manufacturing industry in Poland (cf. subsections 2.4. Industry profitability and 2.6. Financial results and ownership structure of capital). In recent years, however, a major challenge for the industry has been to operate in an environment of significant market volatility: unstable prices, availability of raw materials and components, volatility of industry legislation, higher production costs, rising minimum wages and inflation, and, at the same time, increasing consumer demands coupled with a reduction in the wealth of their wallets. High inflation has meant that companies have had to adjust the selling prices of their products and constantly work to optimise costs. Cosmetics manufacturers have coped very well with this turbulence and, as a result, have made significant profits in 2023 (cf. subsections Industry profitability and Financial results). The increase in the price of cosmetics did not cause a drastic drop in purchases, but changes in consumer behaviour and preferences became apparent. Consumers have changed their shopping habits, moving from emotional and impulsive purchases to more rational and conscious choices. More often, they were looking for promotions and cheaper alternatives, but without compromising on basic quality requirements.

In the face of high inflation, many manufacturers around the world (including cosmetics manufacturers) have pursued a shrinkflation strategy. This practice is often used in periods of high inflation and involves maintaining the price of a product while reducing its volume/value. As a result, the price of the cosmetic does not change, while its unit price increases. Consequently, their revenues grew at a faster rate than their costs, allowing them to maintain their profits while keeping their sales levels up. Although shrinkflation is often met with disapproval by customers, there are some benefits for consumers, especially price-sensitive ones. Thanks to this practice, they still have access to their favourite products without having to pay a higher nominal price, which was particularly important in the face of rising living costs. In Poland in 2023, the cosmetics that were most likely to be reduced in volume were bath and shower products, toothpaste and deodorants. The volume of many shower gels has been reduced from 500 ml to 450 ml, toothpaste from 100 ml to 75 ml or deodorants, for example, from 250 ml to 200 ml. With their adaptability and appropriate cost management strategies, cosmetics manufacturers have managed not only to survive the difficulties but also to achieve record financial results in 2023.

Polish cosmetics companies segment the market into various consumer groups, offering premium, mid-range and economy products. This makes it possible to adapt the offer to various budgets and consumer needs and to apply different pricing strategies to individual parts of the cosmetics market or various phases of a product's life cycle. The main strategy, which is usually aimed at gaining a large market share quickly, is to attract price-sensitive customers by setting an attractive initial price, the so-called **penetration pricing strategy**. Companies tend to apply it to new brands of relatively non-innovative products that, when entering the market, have to succeed at the expense of existing ones. Also, market-established brands are sometimes deliberately sold at low prices because they are offered to a mass customer who is used to the attractive pricing of a given product. This pricing strategy is made more flexible by so-called **linear prices** set for various products in the product line at different levels to reach different market segments and different recipients. This allows the needs of various customer groups to be met within a single product line.

A related strategy is the so-called **skimming pricing strategy**, whereby new products are priced high at launch to attract more affluent customers, and then the price is gradually reduced as the market saturates and following the need to reach a more mass audience. Such a strategy is usually applied by companies to new innovative cosmetic products with unique ingredients, which may initially be sold only to customers willing to pay more for a product with unique features.

This is particularly important for brands positioned as luxury goods, where the high price is combined with exclusivity, attracting customers looking for high-end products. In their case, high prices – so-called **premium prices** – are a permanent phenomenon, and the manufacturer aims to create customer loyalty to the brand precisely based on its lower availability to the mass customer. In this way, manufacturers provide customers with the opportunity to enjoy top-quality products and an exclusive experience. In the case of exports, companies may resort to **geographic differentiation of prices**, adjusting their level to the purchasing capacity of customers in various countries. However, this strategy is rarely applied regionally.

For both mass and exclusive products, distributors often use **promotions and discounts, seasonal reductions or bundled prices**, when the same product is offered at a lower price during selected periods of the year or if a larger quantity of it is purchased. A related strategy is to **offer loyalty programmes** that reward customers for repeat purchases and interactions with the brand. In the case of online sales, so-called **dynamic pricing** is also used, i.e. prices that adapt to current demand, which can be influenced not only by the seasons but also by market trends or the actions of competitors. This is particularly effective when using machine learning and artificial intelligence algorithms. It also allows for analysing purchasing patterns and responding with prices to changes in demand, seasonality and consumer behaviour in real-time.

In principle, online distributors may also resort to **price differentiation** strategies for individual customers with different individual properties (demographics, income, location, etc.). Creating personalised offers and promotions based on purchase history and customer preferences requires a sophisticated IT infrastructure, which is costly and complex to manage due to the need to take into account many factors that can affect sales profitability (e.g. regional distribution costs), and the use of advanced data analytics systems, including sales prediction based on artificial intelligence. However, the development of online shops based on integrated sales platforms reduces the difficulties that smaller manufacturers and distributors of cosmetic products in particular have previously had in using more advanced pricing strategies, including dynamic pricing and price differentiation.

Increasing sales and boosting customer loyalty in this way can be further hampered both in Poland and across the EU by legislation designed to protect consumer rights and by the behaviour of consumers themselves, who may perceive a company as less credible if prices fluctuate too frequently and unpredictably in both time and space. For this reason, price differentiation often involves offering customers additional products and services in conjunction with the sale of the cosmetic product itself. This is known as a '**value-added strategy**', whereby companies increase margins and offer their customers products along with additional benefits such as free samples, online beauty advice, loyalty programmes and unique shopping experiences. This includes personalisation services such as the creation of bespoke individual cosmetics and interactive shopping experiences using virtual and augmented reality (VR/AR) technology. Strategies of this kind are, however, still in the early stages of development at present and are mainly used on an experimental basis.

4.3. **Marketing**

- The cosmetics market in Poland is shifting from traditional marketing strategies to digital platforms, where social media advertising dominates.
- The growing importance of multi-channel marketing is apparent, and the integration of traditional media with the internet as part of an omnichannel strategy is becoming crucial, enabling companies to reach a wide range of consumers.
- In the future, data analytics technologies and artificial intelligence will play a key role, enabling the creation of personalised marketing campaigns and rapid response to customer feedback.

Over the past twenty-five years, the Polish cosmetics market has relied mainly on traditional marketing strategies, such as advertising in mass media (television, radio, press) and outdoor advertising (posters and banners). Direct marketing through retailer networks and product catalogues also played an important role. In the last decade – as in other European countries – these strategies have been changing significantly, primarily under the influence of digital technologies and secondarily also due to changes in consumer preferences and the convenience that goes with them. In particular, the importance of omnichannel marketing, combining traditional media with the internet, is growing, while the gradual decline in press readership and the shift in consumer attention from TV and radio to social media means that cosmetics companies' marketing efforts are increasingly moving towards campaigns in which digital platforms start to play a dominant role, while traditional platforms – a complementary one. This applies in particular to advertising, the burden of which is gradually shifting from the press, radio and television to the Internet, including in particular advertisements published via platforms such as Google Ads or Facebook. Influencer marketing is also growing in importance, allowing companies to reach both mass customer and niche audiences. Content marketing builds consumer loyalty by providing valuable content, such as beauty tips, product reviews and make-up guides. Beauty companies also encourage user-generated content (UGC), which enhances brand authenticity. These trends are expected to continue in the near future, with an emphasis on personalisation and the use of data analytics to better understand consumer preferences. Big data analytics technologies and artificial intelligence will play a key role in creating personalised marketing campaigns that hit individual customer needs and preferences. Analysing data from social media and online reviews will allow cosmetic companies to respond quickly to customer feedback, improving the quality of products and services.

TABLE 7. MARKETING ACTIVITIES BUILDING THE MARKET POSITION OF COSMETICS COMPANIES IN POLAND

STRONG ONLINE PRESENCE AND MARKETING

- **Website:** professional, multilingual online shop adapted to the needs of various markets. The website should be optimised for ease of search.
- **Social media:** active and strategic presence on global social media platforms, regularly publishing content, interacting with followers and running advertising campaigns targeting international audiences.
- **Distribution partnerships:** establishing partnerships with local distributors and agents who are experienced and networked in target foreign markets.

PERSONALISATION AND CUSTOMER SERVICE

- **Personalised products:** offering customised products that can provide a competitive advantage over mass products from Asia.
- **Exceptional customer service:** providing a high level of pre-sale and post-sale customer service, which builds brand loyalty and trust.
- **Building premium brands:** focus on building a brand that connotes quality, luxury and uniqueness.

HIGH QUALITY, INNOVATION AND SUSTAINABILITY

- **Unique formulas:** focus on developing unique, innovative formulas that offer superior benefits compared to low-cost alternatives.
- **Research and development:** investing in research and development (R&D) to continuously introduce new, more advanced products that will stand out in the market.
- **Ethics and ecology:** highlighting values related to sustainability, ecology and ethics, which are increasingly appreciated by consumers.
- **Transparency:** full transparency in communication regarding ingredients, the production process and the company's sustainability policy.

PARTICIPATION IN INTERNATIONAL TRADE FAIRS AND EXHIBITIONS

- **Trade fairs:** participation in renowned international cosmetic fairs. This trade fair enables direct contact with distributors, retailers and customers in foreign markets.
- **Presentations and demonstrations:** organising displays and product demonstrations at such events to attract the attention of potential partners and customers.

4.4. **SWOT** analysis

- The cosmetics market in Poland is marked by its ability to generate profits, effective cost management, high exposure to product exports and the presence of both established European brands and dynamically developing local ones.

- The growing affluence of the Polish population, the development of e-commerce and support from EU funds create opportunities for further growth, strengthening brands and expanding into international markets.

- Low levels of spending on marketing, research and development and insufficient investment in the sector may limit the competitiveness of Polish companies in global markets.

- Disruptions in global supply chains, competition from outside the EU and the high number of environmental regulations in the EU and the rapid pace of their implementation can negatively affect the competitiveness of the cosmetics industry in Poland.

The cosmetics market in Poland has many strengths, and the cosmetics industry as a whole is in a good place to further develop and strengthen its position in the national and international markets. First, the sector can generate high rates of return on sales due to effective cost management and the presence and capability to impose margins on products at the last stage of the value chain. Brands are an important aspect of the market, and the cosmetics industry in Poland benefits from the presence of both established European brands and dynamically developing local brands. Second, manufacturers operating in the Polish market have access to a large European market and are increasingly expanding into non-European markets, which contributes to the growth and diversification of their revenues. The cosmetics sector in Poland has shown very high resilience to the external shocks of recent years and has been able to adapt quickly to changing conditions, which was particularly evident during the COVID-19 pandemic and the energy crisis. The high quality and variety of both international and local products attract a wide and diverse group of consumers, and the developed distribution channels, including both traditional forms of sales and modern e-commerce platforms, ensure the wide availability of products. The adaptability, creativity and innovation of cosmetics manufacturers and distributors allows them to respond quickly to changing market trends. Increasing investment in branding and marketing further increases the visibility of brands, boosting brand recognition and customer loyalty.

However, despite its many strengths, the industry also faces significant weaknesses that can limit its growth and competitiveness, and identifying and mitigating these challenges is key to overcoming existing barriers. The first is the relatively low level of marketing expenditure – despite increased spending, it remains relatively low. In some companies, research and development (R&D) know-how is still relatively slim, so local manufacturers are forced to follow global trends instead of creating them. As a result, companies often operate in lower-margin niches of the cosmetics market. The low level of investment in the sector compared to the profits generated is also a challenge. Lack of adequate investment limits technological development and innovation, can reduce the growth potential and negatively affect the competitiveness of the industry, which may be noticeable in a five- to ten-year time frame. The complexity of regulations in the European Union area is a very significant barrier for the industry. The need to operate within a frequently changing legal and institutional framework increases operational costs and requires additional resources to adapt to new regulatory requirements, and insufficient understanding of the implications of the Green Deal for the cosmetics industry among manufacturers can lead to delays in adapting to future regulations and sustainability requirements. Preparing for the coming environmental changes may result in additional costs and loss of competitiveness. Increased regulations on cosmetic ingredients can lead to increased production costs and the need to adapt products to the new standards. This type of regulation requires additional R&D resources from manufacturers, which can be particularly challenging for smaller companies, especially as the pace of legislation in the EU implied by its decarbonisation strategy is particularly high.

STRENGTHS

- the sector's ability to generate high rates of return on sales (high profitability);
- strong European brands and dynamically growing local brands work well together and are tailored to the needs of audiences both at home and abroad;
- access to a large European market and increasing expansion into non-European markets;
- large export exposure with favourable macroeconomic conditions;
- the sector's high resilience to external shocks and ability to adapt to change – in the pandemic, increased sales via the e-commerce channel, the cosmetics industry's low energy intensity resulted in resilience to the energy crisis, the sector's low debt levels cushioned higher debt servicing costs caused by the high interest rate channel;
- high quality and variety of cosmetic products;
- well-developed distribution channels, both traditional (chain stores, direct sales); and modern (e-commerce);
- manufacturers' adaptability, creativity and product and marketing innovation;
- increasing investment in branding and marketing, which increases the visibility of Polish brands.

WEAKNESSES

- the low level of investment in the sector relative to the profits generated;
- the regulatory complexity of the EU area, the need to operate within a frequently changing legal and institutional framework;
- the extensive implications of the Green Deal for the cosmetics industry – a lack of understanding by some representatives of the sector;
- increased regulations on cosmetic ingredients leading to increased production costs and the need to adapt products to the new standards.
- manufacturers not investing in R&D forced to follow global trends and operate in the lower margin niches of the European cosmetics market.

OPPORTUNITIES

- an increase in the affluence of the Polish population and a rapid growth in demand for cosmetic products in the country;
- further development of e-commerce and social media and the opportunity for lesser-known brands to reach domestic and international customers via this channel;
- use of debt financing and support from EU funds for investments to modernise machinery parks, promote exports and improve R&D capacity, resulting in further development of the sector;
- potential to further increase the share in the European cosmetics market.

THREATS

- disruptions in global supply chains translating into increased production costs;
- competition from outside the EU from countries with low production costs or with a developed industrial policy supporting an increase in the production scale and a decrease in unit costs – possible loss of export markets and the domestic market to Asian competition;
- appreciation of the Polish zloty, an increase in production costs at home, with a consequent deterioration in export competitiveness;
- difficulties in adapting to the Green Deal as a result of inadequate recognition of its requirements or too little investment in adapting production and distribution to increasing regulatory requirements.

The cosmetics industry in Poland has many opportunities which, if used properly, can contribute to further dynamic development and strengthen its position in the national and international markets. The main opportunity for the industry is the continued rapid increase in the affluence of the Polish population and the consequent growing demand for cosmetic products. Increased consumer purchasing power creates opportunities for manufacturers to develop and introduce new product lines tailored to growing market expectations – consequently increasing sales. Thanks to investments in e-commerce, it gets easier every year for both lesser-known brands and large producers to reach a wide group of customers, both domestic and foreign. Support from EU funds for investments to modernise machinery, promote exports and improve R&D capabilities can significantly increase the level of innovation and efficiency and contribute to a further increase in the competitiveness of Polish cosmetic companies in the domestic market and exports. The gradual strengthening of Polish brands in foreign markets, both inside and outside the EU, is another opportunity for growth. Increased exports and the presence of Polish brands in international markets can lead to greater recognition and prestige, which in turn translates into higher revenues. Consequently, there is the potential to further increase the share in the European cosmetics market.

At the same time, the industry faces some threats that could affect its future development and stability. From the perspective of economic connections, one is the disruption of global supply chains, which can lead to higher production costs. Problems with the availability of raw materials and components, delays in delivery and increases in transport prices can adversely affect the profitability and liquidity of cosmetics manufacturers. Competition from outside the EU may prove to be a significant threat, especially from countries with low production costs or with a developed industrial policy supporting an increase in the production scale and a decrease in unit costs. The cosmetics industry in Poland may lose export markets and part of the domestic market to competitors from Asia, which may lead to a reduction in market share in global exports. Also, the strengthening of the domestic currency may worsen the competitiveness of exports in the future, consequently reducing the profitability of the sector. However, regulations at the EU level could be a major challenge for the industry in the near future. Difficulties in adapting to the Green Deal, insufficient understanding of its requirements among market players or under-investment in adapting production and distribution to increasing regulatory requirements can lead to problems in meeting environmental standards. Failure to adapt to new regulations may result in additional costs and, consequently, a loss of competitiveness in markets where sustainability aspects are increasingly important.

TABLE 8. EXEMPLARY PRODUCT INNOVATIONS AS A RESPONSE TO THE EUROPEAN GREEN DEAL

INNOVATIVE PRODUCTION PROCESSES

- **Energy saving:** the use of energy-efficient
- technologies and production processes that reduce energy and water consumption as well as CO2 emissions.
- **Waste management:** implementation of waste management strategies that minimise waste and promote recycling and reuse of raw materials.

TRANSPARENCY AND CONSUMER EDUCATION

- **Consumer information:** introducing information on the environmental impact of the product and its packaging into the product labelling (online/offline).
- **Educational campaigns:** running information campaigns that educate consumers on how to use cosmetic products sustainably and handle their waste.
- **Shaping consumer attitudes:**
  - achieving actual consumer involvement in packaging waste management,
  - informed purchasing decisions.

FORMULAS TO MINIMISE ENVIRONMENTAL IMPACT

- **Water-free products:** the development of solid cosmetics, such as shampoo and conditioner bars, which do not require large amounts of water in production and application.
- **Biodegradable formulas:** creating formulas whose ingredients are biodegradable in the natural environment, reducing their impact on aquatic ecosystems.
- **Biodiversity conservation:** using components that do not cause deforestation and depletion of ecosystem biodiversity.

SUSTAINABLE PACKAGING

- **Bio-packaging:** use of organic materials from renewable sources in the production of plastic packaging.
- **Reusable packaging:** introduction of packaging that can be refilled by consumers, reducing the mass of waste.
- **Recycled materials:** use of post-consumer recycled materials for cosmetics packaging.

SOURCE: COMPILED BY WISEEUROPA AND THE POLISH UNION OF THE COSMETICS INDUSTRY

5.

SUSTAINABILITY IN THE COSMETICS INDUSTRY – FROM POLITICAL STATEMENTS TO REGULATORY OBLIGATIONS

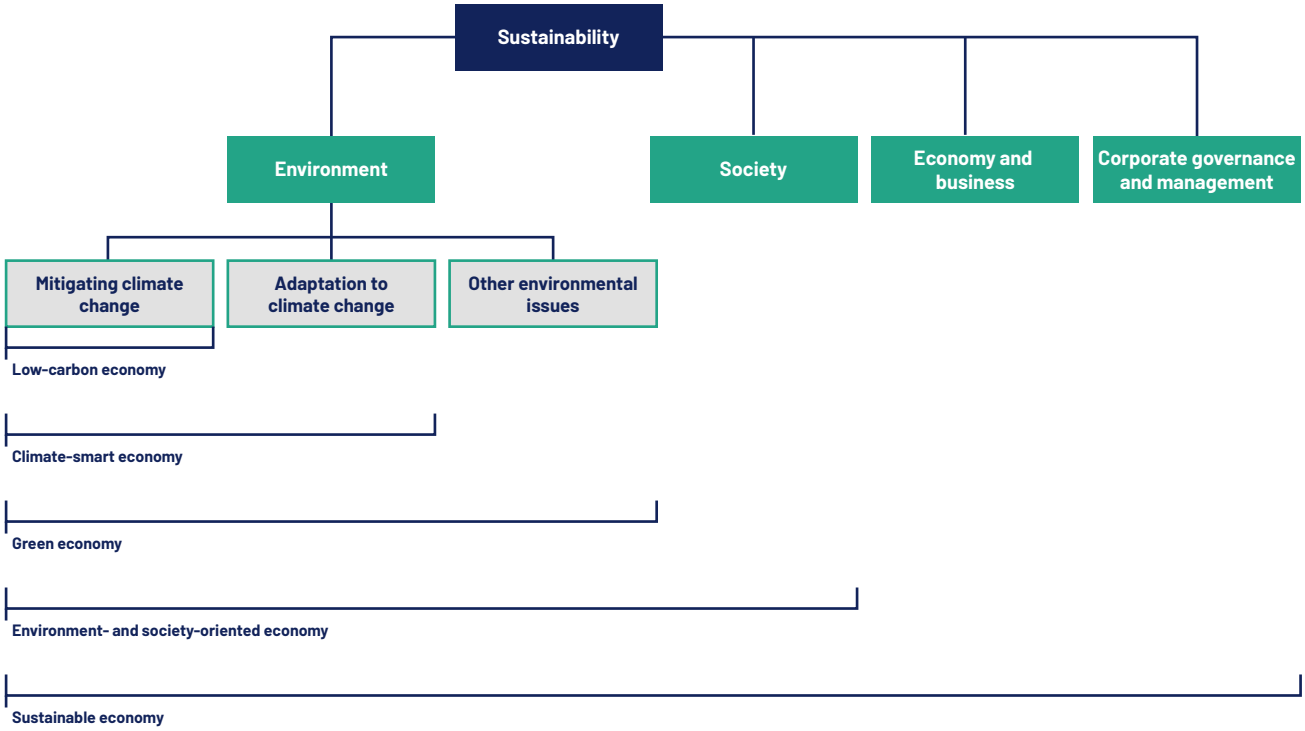
5.1. **Sustainability** – a historical overview

The first decisions on the need to reduce the impact of human activity on natural resources and the environment were made in the 1960s and 1970s. In 1969, the then Secretary-General of the United Nations, Sithu U Thant, published the report Problems of Human Environment, in which he highlighted the devastating effects of human impact on the environment. In 1972, the Club of Rome issued the report Limits to Growth, which warned of resource depletion and pollution, prompting environmental action at the international level. In the same year, the United Nations Conference in Stockholm took place, which established the first institutions at the international level to plan actions for environmental protection. In the 1980s, the Brundtland Commission report introduced the concept of sustainability, which integrated economic growth, environmental protection and social development. In 1992, the 'Earth Summit' in Rio de Janeiro resulted in the adoption of the UN Framework Conventions on Climate Change and Biodiversity. A milestone was the 1997 UN conference (COP 3). It produced a treaty – the Kyoto Protocol – in which 192 countries made their first commitments to reduce greenhouse gas emissions. In the 2000s, the Johannesburg Earth Summit emphasised the need for sustainability, resulting in the introduction of the Millennium Development Goals (MDGs). At the national level, many economies started to implement greenhouse gas reduction plans and environmental monitoring. In the following decade, the 'Earth Summit' in Rio de Janeiro in 2012 (Rio+20), the Paris Agreement (COP 21) in 2015 and the adoption of the Sustainable Development Goals (SDGs) were key events that set the stage for international action. In light of the changes, **sustainability has ceased to be a voluntary practice and has become a requirement, followed by specific legislation stemming from supranational arrangements and agreements – which in turn are rooted in the actual problems and needs of the whole world**.

Sustainability is based on two main assumptions. First, a shift from a model of economic development that relies on the over-exploitation of resources and people (employees) towards a model that minimises negative impacts on the environment and communities or even has a positive impact. Second, sustainability represents a fundamental change in the perception of the relationship between humans and the surrounding environment, seeking to balance economic growth, social development and environmental protection. Environmental and social problems and increasing responsibility for future generations have led policymakers to seek an economic development model that minimises environmental and social damage. The concept of sustainability has become a response to these needs, assuming a new approach to development objectives and mechanisms, and integrating economic, environmental and social aspects.

Over time, political declarations and the decisions of international summits began to be transposed into the regulatory environment and brought about new, specific legal requirements and obligations for business. At the same time, public awareness of climate and social risks and thus the importance of sustainability for the well-being of societies is steadily increasing. This, in turn, has resulted in the emergence of bottom-up pressure from consumers and users of various products for companies to implement a more sustainable model of their development and more sustainable products and services.

DIAGRAM 1. SIMPLIFIED DIAGRAM OF SUSTAINABILITY PILLARS



SOURCE: GREEN FINANCE PLATFORM

The concept of sustainability focuses on several basic assumptions to change the paradigm of human activity and reduce its impact on the environment.

- **Integration of social, economic and environmental aspects:** sustainability implies a balance between economic development, environmental protection and social well-being. This means that decisions are made to integrate these three aspects.
- **Responsibility for future generations:** making decisions that meet one's own needs while not destroying the ability of future generations to meet their needs.
- **Capital persistence:** managing natural, economic, human, and social capital in such a way as to ensure the long-term persistence and well-being of society. This means that we cannot draw unlimitedly on natural resources, degrade the environment or neglect social and human capital, e.g. by not adapting them to change.
- **Global and local integration:** in line with the principle 'think globally, act locally', we take local action with global implications in mind, and incorporate global challenges into local action.
- **Sustainability as a process:** in itself, it is not a static, one-off goal, but a continuous process that requires monitoring, adapting and improving actions over years and generations. It is a process of adaptation to changing social, economic and environmental conditions.

Increased public awareness of the importance of responsible development and the successive adoption of regulations are not only challenges and obligations. Companies that implement sustainability goals into their strategies can reap additional benefits. These include a reduction in energy costs due to, for example, installing own renewable energy sources on the company's premises or entering into bilateral contracts with renewable energy producers. Another benefit is the reduction of the costs related to operations, e.g. lowering emission charges or avoiding the costs associated with failing to meet obligations for a circular economy, including waste management. Sustainable companies can also enjoy lower overall costs of their activities by implementing, for example, energy efficiency policies or the use of so-called waste heat.

TABLE 10. HISTORY OF THE MOST IMPORTANT POLICIES RELATED TO CLIMATE CHANGE, REDUCING HUMAN IMPACT ON THE ENVIRONMENT AND SUSTAINABILITY

Period	Initiatives at the global/organisational level	Key events and examples
1960–69	U Thant Report (1969)	Problems of Human Environment, a report by Sithu U Thant (then UN Secretary-General) pointing out the destruction of the environment and its adverse consequences for humanity
1970–79	The Club of Rome Report (1972) UN Stockholm Conference (1972) Establishment of the United Nations Environment Programme (UNEP)	Limits to Growth report on depletion of resources and raw materials as well as increasing environmental pollution Initiating a process within the UN to institutionalise environmental action First environmental agendas and policies in some countries
1980–89	Report of the Brundtland Commission - UN World Commission on Environment and Development (1987)	The Our Common Future report pointed to the need to integrate action in three key areas: 1) economic growth and even distribution of benefits; 2) protection of natural resources and the environment; 3) social development. Developing the concept of sustainability
1990–99	"Earth Summit" in Rio de Janeiro – UN Conference (1992) Establishment of the UN Framework Convention on Climate Change (UNFCCC) and the Convention on Biological Diversity (CBD) Kyoto Protocol, COP 3 (1997)	Development of national sustainability strategies Launch of the UN Framework Convention on Climate Change (COP – Conferences of the Parties) Commitments to reduce greenhouse gas emissions
2000–2009	"Earth Summit" in Johannesburg (2002) – Johannesburg+10 Introducing the Millennium Development Goals (MDGs)	The emergence of the Green Economy concept Implementation of national plans to reduce greenhouse gas emissions Implementation of national environmental monitoring programmes
2010–19	**"Earth Summit" in Rio de Janeiro (2012) – Rio+20** **Paris Agreement, COP 21 (2015)** **The 2030 Agenda for Sustainable Development and the adoption of the 17 Sustainable Development Goals (SDGs)**	EU Green Deal Development and implementation of national sustainability strategies Development of climate policies Commitments to limit temperature rise UN plastic waste reduction commitments (Global Plastics Treaty) –> **EU Plastics Strategy**
2020-present	Implementation of environmentally-oriented policies and regulations at regional and national levels	Implementing the European Green Deal in the EU EU Blue Deal Inflation Reduction Act in the USA 14th 5-year Plan for Renewable Energy in China NDC in India

SOURCE: COMPILED BY WISEEUROPA

Several decades have passed between the first conclusions about negative human impacts on the environment and the adoption of key documents and regulations. Over this time, environmental indicators have become even more alarming. According to current knowledge, the global temperature rise exceeded the critical level of 1.5 degrees[4] in February 2024, while carbon dioxide levels in the atmosphere (420 ppm) exceeded all levels ever recorded in human history.[5] Specific regulations are currently being developed to combat climate change. Transnational arrangements, their objectives and agreements are systematically translated into regional and national policies, including the European Green Deal. These, in turn, entail specific regulations and requirements needed to achieve environmental and social goals.

Taking the above-mentioned transformation of approach to sustainability and climate change as an example, it is worth noting that statements, which started as declarations by states or international organisations, were subsequently translated into concrete regulations – both at national and European levels. Consequently, regulatory policies and company strategies should respond on an ongoing basis to emerging state declarations of increasing levels of ESG or climate policy ambitions, as these declarations should be seen as announcing the adoption of specific regulatory solutions and therefore also the imposition of additional obligations on specific sectors and companies. Earlier identification of regulatory plans can guarantee the additional time needed to adapt companies' strategies to future obligations and, consequently, to gain a competitive bonus over companies that are slower to adapt (or even companies that reactively adapt only after a particular solution has been adopted).

4) https://climate.copernicus.eu/copernicus-2023-hottest-year-record (accessed on 7 June 2024)

5) Carbon dioxide now more than 50% higher than pre-industrial levels | National Oceanic and Atmospheric Administration". https://www.noaa.gov/news-release/carbon-dioxide-now-more-than-50-higher-than-pre-industrial-levels (accessed on 7 June 2024)

5.2. **Sustainability goals**. ESG reporting and funding

The concept of sustainability is reflected in an increasing number of EU regulations. Some of these have introduced the need to report on the environmental and social impacts of companies and the actions taken in this regard. These regulations no longer focus solely on a single aspect of the impact of products or companies (such as the impact on human health or the environment) but cover all three pillars of sustainability. Thus, we speak of ESG reporting or strategy, which includes the environment ('E'), society ('S') and corporate governance ('G').

The reporting obligations stem from the Sustainable Finance Disclosures Regulation (SFDR), the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD). Regulations related to investment financing are also already in place that restrict unsustainable investments or favour sustainable ones (e.g. EU taxonomy regulation). This approach to regulations confirms that sustainability has ceased to be a voluntary concept applied by 'pioneers' or 'elites' and has become a standard and requirement of law.

Traditional business analysis most often focuses on financial aspects, covering so-called non-financial reporting only to the extent required by current regulations and treating it as a kind of supplement to financial reports. With increasing pressure from policymakers and the public to control the impact of business activities, a more holistic approach to reporting on corporate activities is becoming increasingly important.

Some companies have been voluntarily disclosing information on their social and environmental impacts for at least a decade, as well as information on the measures they are taking to reduce these impacts. Many are preparing this information based on the SDG map set out in the 2030 Agenda.

The first relevant regulation was Directive 2014/95/EU (NFRD) on non-financial reporting. It introduced the obligation to disclose additional information on the impact of the business on environmental, employee well-being or anti-corruption issues. Only the largest companies (> 500 employees), listed on the stock exchange, were covered by this obligation.

The next and currently most important act is Directive 2022/2464/EU (CSRD) on corporate sustainability reporting. The new obligations under the CSRD require many companies, including in the cosmetics industry, to anticipate and assess the impact of their activities in the short, medium and long term and to integrate the company's strategy with the long-term climate policy goals of the European Union. Businesses will be required to specify in corporate strategies or other identical documents how the company plans to reduce its impact on climate and other areas of sustainability: society and corporate governance. They will have to provide relevant indicators. It will be necessary for companies to progressively take into account the impact of the value chain on the aforementioned objectives.

At the same time, financial institutions are subjected to increasingly stringent regulations on the investment activities they undertake or the projects they support.

An example of such an act can be found in Regulation 2019/2088, the so-called SFDR regulation, which obliges financial institutions to demonstrate "the main adverse effects of investment decisions, also concerning social issues or labour rights." As a consequence, these institutions will require their clients and business partners to disclose information on their impact on the environment (natural or social). As a result, they are likely to offer better terms to companies that can demonstrate actions to reduce their negative impact on these aspects, compared to companies that do not have such information and strategies.

Implementing ESG in a company is a complex and multi-stage process that requires the involvement of management, employees and business partners. In a nutshell, it can be presented as the following sequence of activities:

- **Education and awareness:** the process should start with gaining knowledge and understanding of what ESG principles and standards are, the benefits of implementing them and the legal and regulatory requirements in this area.
- **Preliminary risk analysis:** to identify the main ESG risks that may affect the company. It should cover both company-related risks (e.g. CO2 emissions, working conditions) and external risks (e.g. regulatory changes, climate change).
- **Influence analysis:** a double materiality assessment should be conducted followed by the identification of areas that are crucial in terms of both the company's impact on the environment and the environment's impact on the company.
- **Defining goals:** based on the double materiality assessment, specific ESG goals and indicators for measuring them (KPIs) should be set.

- **Strategy development:** the ESG strategy should include goals, actions and a timetable for implementation. It should also be integrated into the company's business strategy.
- **Value chain management:** ESG requirements in the supply chain must be mapped and integrated.
- **Operational activities:** implementing specific actions related to the environment (e.g. emission reductions, energy efficiency), society (e.g. working conditions, diversity and inclusion) and governance (e.g. transparency, anti-corruption policy).
- **Data collection:** it is necessary to collect data for the ESG report, which includes its own data and those taken from the data chain.
- **Reporting:** the next step is to prepare an ESG report following the ESRS standard.

In practice, companies must actively manage their environmental impact, look after the welfare of their employees, support the local community and conduct business under ethical management principles.

Reporting under the CSRD (but also the Taxonomy Regulation) requires a so-called double materiality assessment, which covers two areas:

- **Impact of business on the environment:** how a business's activities affect the environment and the community. This can include, for example, carbon emissions, exploitation and consumption of natural resources, and relations with employees and the local community.
- **Impact of the environment on business:** how changes in the environment and society can affect the business itself. For example, climate change, droughts or social pressures can have significant consequences for a company's operations.

E

ENVIRONMENTAL ASPECTS

They focus on assessing the risks and potential benefits related to the environmental impact of a company's activities (including investments). These include:

- climate change,
- emissions into the environment and atmosphere,
- energy savings,
- waste production and management,
- raw materials management,
- water and land use,
- biodiversity.

S

SOCIAL DIMENSION

It draws attention to aspects related to people and society, such as:

- human rights,
- employee issues,
- occupational health and safety,
- product safety,
- relations between enterprises and their environment

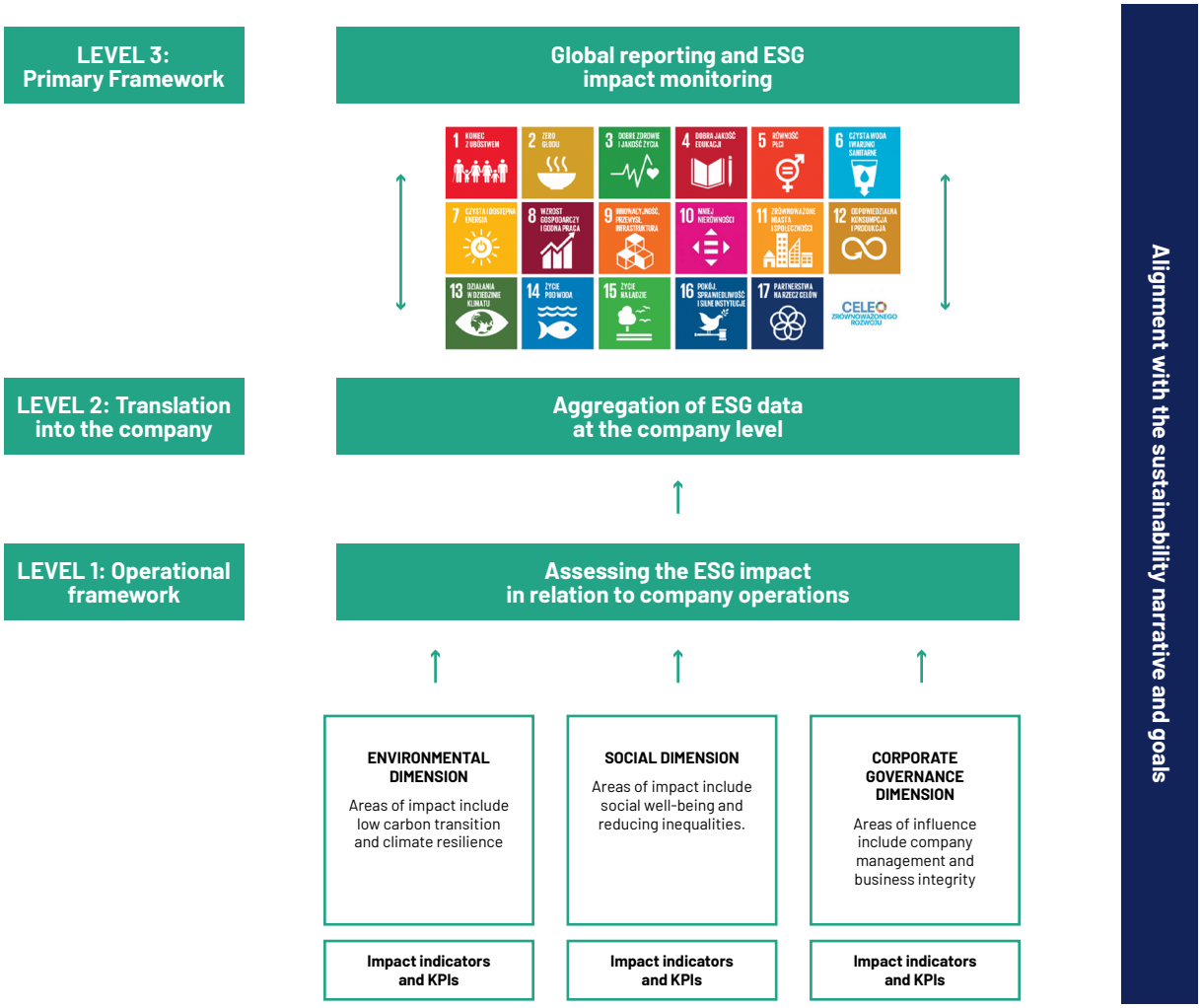
G

CORPORATE GOVERNANCE ISSUES

are related to:

- company management, transparency and accountability,
- stakeholder relations,
- compliance with ethical standards,
- privacy and data security,
- compliance with regulations.

DIAGRAM 2. TRANSPOSITION OF THE INTERNATIONAL SUSTAINABILITY GOALS (IN LINE WITH THE 2030 AGENDA) INTO THE ACTIVITIES OF COMPANIES FOLLOWING THE ESG REQUIREMENTS UNDER THE CSRD DIRECTIVE



As illustrated in the graphic above, the process of implementing the Sustainable Development Goals starts with decisions taken at supranational, regional and national levels – for example at the UN. At this level, overarching frameworks and policies are established that define the overall goals and principles of sustainability, such as the 2030 Agenda and the Sustainable Development Goals (SDGs). The next step is to translate these guidelines into business requirements. In the EU, these include ESG reporting obligations, including the CSRD. At the lowest, operational level detailed KPIs for the company's activities are defined. They make it possible to monitor and assess the impact of these activities in an environmental, social and corporate governance context. One of the key elements of reporting under the CSRD is the preparation of an ESG strategy, i.e. the integration of the company's strategy with the reduction of its environmental and social impacts, as well as the integration of the strategy with the European Union's long-term climate policies, including the 2030 emission reduction targets and climate neutrality in 2050. However, an effective ESG strategy is needed not only in connection with the CSRD requirements. The expected reduction in the availability of financing for companies operating inconsistently with sustainable development goals means that the designation of effective ESG strategies should be classified by companies as one of the key actions while projecting development strategies.

SOURCE: COMPILED BY WISEEUROPA

Both the assessment of the company's impact on the environment and society and the assessment of sustainability risks are elements of reporting. According to current standards, any business activity, to be considered sustainable, must take into account both its impact on its surroundings and the impact of its surroundings on it.

To harmonise reports and therefore ensure their transparency, the European Commission has developed standards for non-financial reporting. They are primarily defined within the framework of a larger package of legislation on sustainable finance, such as Regulation 2020/852 with implementing acts or Regulation 2019/2089 on climate transformation indicators. The most important act that defines the format of the reports is Regulation 2023/2772 on European Sustainability Reporting Standards (ESRS). According to the CSRD, depending on the size of the company, the ESRS reporting standards will have a slightly different scope and format that will take into account organisational and financial capabilities.

The standardisation of reporting formats (through the ESRS) allows other institutions (financial, contractors, etc.) to better understand the actual impact of a company's activities and therefore assess the risks involved. It is also a form of protection against the practice of 'greenwashing' (i.e. companies taking apparent actions aimed at climate protection, while the main aspects of their activities lead to environmental degradation or involve negative climate impacts). Another safeguard against such practices is the introduction of the DNSH principle ("do no significant harm" in other environmental aspects) in the European taxonomy.

KPIs are a key tool for monitoring the progress and effectiveness of the activities undertaken by companies. Setting clear and measurable KPIs is essential for the effective management of sustainable practices and the assessment of social, environmental and economic impacts. Companies set them individually, usually depending on the specifics of their business, but they should comply with the 'SMART' principle. **KPIs should result from the company's double materiality assessment and be appropriately tailored to the business**.

IMPORTANT POLICIES RELATED TO CLIMATE CHANGE, REDUCING HUMAN IMPACT ON THE ENVIRONMENT AND SUSTAINABILITY

Feature	Description
Due diligence	A detailed analysis and assessment of all aspects related to the company's operations that may have environmental, social and governance impacts should be carried out. Entities that perform poorly on ESG goals (or are not aware of them) are more likely to experience materially adverse events, e.g. reputational damage, and penalties for non-compliance with national legal requirements.
Brevity	Strategies and documents on ESG should be autonomous and understandable also for those without experience in assessing the environmental or social impact of a company.
Simplicity and consistency	ESG goals, but also the indicators adopted to measure the degree and manner of their achievement, should remain clear and understandable to all stakeholders – both internal (e.g. departments within the company, supervisory board, management board) and external (e.g. consumers, investors, the public).
Flexibility and adaptability	The methodology must be reviewed regularly and should be adapted to changing market and social conditions. To this end, a company that is required to report or voluntarily reports on ESG issues should establish an internal mechanism for updating and monitoring ESG regulations/best practices.
Measurability	Goals should be clearly defined and monitorable, with indicators to assess progress.
Possibility of implementation	Proven methodologies and technical standards should be used, experts and stakeholders should be involved to minimise information gaps and for effective implementation of ESG strategies.
Integration	The goals are closely integrated into the company's core business strategy and form an integral part of its operations.
Time horizon	Both short- and long-term goals are identified to ensure a sustainable impact on the business.

SOURCE: WISEEUROPA BASED ON THE EUROPEAN COMMISSION

An example of a well-established ESG goal (KPI) in a company in the cosmetics sector could be:

- **in the environmental area:**

  ◊ reducing the share of fossil fuel energy by 100% by 2025. A way to verify the achievement of the go could be obtaining an adequate number of electricity certificates of origin (i.e. documents issued to electricity producers certifying that the energy was produced from renewable sources). A subgoal could be to increase RES energy in 2024 to 60% of annual demand;

  ◊ ensuring recycling of plastics at 80% of the volume of plastics introduced by the company;

- **in the social area:**

  ◊ reducing overtime work across the company by 50% by 2025. Verification methods may include readings from 'gateways' or ICT readings of the company's log-in hours;

  ◊ stopping cooperation with contractors who do not respect workers' rights by 2025. In this case, contractors can be required to provide ESG information on policies related to the protection of employee rights (e.g. avoiding youth labour, working in unsuitable conditions);

- **in the governance area:**

  ◊ reducing number of contractors from countries with high levels of corruption by 30% by 2025. For this purpose, it would be necessary to identify countries at particular risk of corruption.

The CSRD will come into force in 2025 (reporting for 2024) and will cover an increasing number of entities in each subsequent year (broadening the base to include employment and business turnover).

- **1 January 2025** – for entities already subject to the Non-Financial Reporting Directive (NFRD) (reporting in 2025 on 2024 data);
- **1 January 2026** – for large entities not currently subject to the NFRD (reporting in 2026 on 2025 data);
- **1 January 2027** – for listed SMEs as well as small and non-complex credit institutions and captive insurance companies (reporting in 2027 on 2026 data).

EU sustainability regulations are not only about reporting but also about access to sources of investment funding. Regulation 2020/852 on **taxonomy** establishes criteria for classifying economic activities in terms of sustainability. This allows investors, including financial institutions, to determine whether an economic activity qualifies as sustainable, as well as whether an investment is sustainable. The taxonomy does not prohibit investment in activities that harm the environment but gives additional preferences to green solutions. According to the Taxonomy Regulation, the mere indication of undertaking activities that reduce the environmental impact does not ensure that such activity will be deemed to comply with the regulation. This is due to the introduction of a requirement in the regulation to avoid serious harm (so-called DNSH) in other environmental aspects. The principle is that even if a company's action allows for a significant reduction of its carbon footprint (in other words: it is in line with the taxonomy's goal of reducing climate change impacts), but at the same time causes a threat to biodiversity or pollutes waters, it will not be classified as taxonomically compliant.

Although the reporting of activities according to the Taxonomy Regulation is limited both in terms of subjectively (only companies with more than 500 employees obliged to non-financial reporting, and financial institutions, are required to do so) and objectively (the Taxonomy Regulation specifies the forms of activities to be reported, including manufacturing activities) the regulation itself may have a very significant impact on many other companies. The obligation for financial institutions to report on the compliance of their portfolio with the taxonomy may lead to a preference by these institutions to support projects and initiatives that comply with the taxonomy and, consequently, to offer such initiatives more favourable financial terms.

Currently, sanctions for non-compliance of a company's policy/practice with sustainability goals are limited, as the provisions are in the process of being implemented into national law. However, even now it is worth considering the implementation of non-financial reporting as a preventive measure that will allow the company's strategy and operations to better and more cost-effectively adapt to new regulatory and business requirements in the future. Implementing an ESG strategy in the company and managing the risks skilfully in addition to the obvious regulatory dimension for companies covered by the CSRD, can also bring tangible benefits to any organisation.

One is access to more favourable conditions for companies to finance investments or obtain other forms of financing in the European Union. There are studies available[6] that confirm that the so-called green financing mechanism can create more favourable financial conditions for companies that actively monitor and reduce their environmental or climate impact.

A practical aspect of the requirements introduced by the CSRD (and the NFRD or SFDR regulation) will be the manner of negotiating or discussing with financial institutions the provision of support for projects (e.g. a loan) or committing the capital by such institutions (e.g. pension funds or investment funds). Until now, economic metrics have been key to financing, allowing the expected return on capital from investments or securing loan repayments.

It can be expected that in negotiations with financial institutions, it will soon be insufficient to provide documents proving compliance with minimum environmental standards, e.g. for waste disposal.

Due to the obligations imposed by the Taxonomy Regulation, but also due to reporting obligations, a company applying for funding will have to show that its strategy takes into account EU climate goals. Furthermore, it will also be necessary to demonstrate that the 'pro-climate' measures taken do not jeopardise other environmental objectives (e.g. biodiversity). An example of such an approach could be the potential request by a financial institution for evidence showing that cosmetics do not contain substances, which could cause significant depletion of biodiversity in the location where they are sourced. Of course, such a rigorous screening of the entire company strategy by financial companies will not be implemented immediately, and the provisions of the CSRD will take some time to come into force, but cosmetics companies should already be conducting an internal audit of their policies to develop strategies reducing their environmental impact.

Well-prepared non-financial reports can become (also for companies in the cosmetics sector) an opportunity to obtain more favourable credit terms - given that financial institutions are also obliged to implement their own ESG strategies.

Another benefit of implementing an ESG strategy is maintaining competitiveness and long-term relationships with contractors. It can be expected that also companies not explicitly covered by the CSRD will be obliged to provide certain data (and thus also take ESG-related actions) in their cooperation with clients covered by the directive.

And finally, it is ESG activities that allow companies to be perceived as sustainable and socially responsible, and this is increasingly important for all stakeholders – whether contractors, consumers, government institutions or also the employees.

6) D.F. Larcker, E.M. Watts, Where's the greenium?, "Journal of Accounting and Economics" 2020, vol. 69, issues 2–3.

5.3. **The European Green Deal** – new opportunities (and obligations) for reducing the environmental and climate impact of business

As climate change continues, with its negative and dangerous impacts on people and countries, in line with the commitments made under the Paris Agreement, the European Union has become the first region in the world to declare a plan to achieve climate neutrality by 2050. As a result, the European Commission, led by Ursula von der Leyen, has proposed a policy called the 'European Green Deal' (EGD). The immediate goal of the Green Deal is to achieve climate neutrality within the aforementioned time frame. According to the Green Deal, the European Union is to become a climate-neutral, fair and prosperous society with a modern, resource-efficient and environmentally friendly economy. The Union has the ambition to remain a leader in the implementation of sustainable development policies and the European Green Deal is the most comprehensive plan implemented in any region of the world. However, other countries around the world are also implementing policies and specific legislation aimed at reducing environmental impacts. It is difficult to find regional strategies as developed as the EGD, but individual regulations are in line with sustainable development goals and the Paris Agreement. In the United States, the Inflation Reduction Act (IRA) has been implemented, which provides for federal support and subsidies for clean energy investments (e.g. guaranteeing loans to projects involving the remodelling, retrofitting, re-purposing or replacement of energy infrastructure), introducing building energy code and thermal efficiency improvement packages, climate change mitigation and forest resilience practices, e.g. assistance to owners of under-serviced forest land, the provision of funding to cover the cost of replacing heavy commercial vehicles with zero-emission ones (including the deployment of the infrastructure needed to charge, refuel or maintain the vehicles) and subsidies to cover the cost of domestic production of efficient hybrid and electric vehicles or the provision of competitive financial support to owners and operators of facilities involved in energy-intensive industrial processes (e.g. subsidies for low-carbon manufacturing technologies). Support for these measures is intended to help the US meet its emission reduction targets under the Paris Agreement. China has also pledged to do the same by 2060, and already today Beijing's plans (5- and 15-year: "Made in China 2025", "China Standards 2035", "14th 5-year Plan for Renewable Energy") are supported by numerous subsidies and grants to the private sector, which is implementing many measures towards zero-carbon (expansion of RES and nuclear power, CCS installations for carbon capture and utilisation, electrification of transport and industry). Similarly, India, to meet the goals of the Paris Agreement, has declared so-called Nationally Determined Contribution (NDCs). It involves achieving three goals by 2030: a 33-35% reduction in emissions intensity compared to 2005; an increase in the share of renewables in electricity generation to 40%; and an increase in carbon sequestration by an additional 2-2.5 billion tonnes through afforestation.

The European Green Deal, adopted in the form of the Commission's communication in 2019, implies a plan to revise the 2030 climate targets, taking action to promote a circular economy or changes concerning so-called sustainable financing (this is the area linking the ESG regulations described in the previous chapter). The European Green Deal is changing virtually all areas of cosmetics industry operations and is a change and challenge of unprecedented scale.

The introduced, pending and planned changes to the regulatory environment adopted under the European Green Deal are leading to a paradigm shift in regulations for most industry sectors in the EU, including the cosmetics industry. Industry regulations to date were focused on ensuring the safety of consumers/users of cosmetics, including their manufacture or marketing. This will remain an important part of the industry's regulatory environment.

However, we are now observing – and should expect this trend to continue – an increase in the number of regulations on the environmental impact of operations, including climate protection, climate change adaptation or ensuring biodiversity. The obligations under the Paris Agreement require the commitment of all sectors to achieve net climate neutrality at the European Union level. All industries will be subject to decarbonisation regulations/obligations directly or indirectly. Moreover, the area of emission reductions is one of the points of contact between ESG reporting and the requirements of the Green Deal – CSRD reporting requires that the 2030 and 2050 climate prospects be taken into account.

DIAGRAM 3. THE MAIN PILLARS OF THE EUROPEAN GREEN DEAL AND THEIR IMPACT ON THE COSMETICS INDUSTRY

SOURCE: EUROPEAN COMMISSION

Almost all (apart from the Farm-to-Table strategy and most areas related to agriculture) of the Green Deal pillars apply to the cosmetics industry. Two key ones are the **Circular Economy (CE)** and the **Chemicals Strategy for Sustainability**. Within the framework of the CE, regulations are being implemented on packaging **(PPWR Regulation)**, waste **(revision of the WFD)** and eco-design of products (ESPR Regulation), as well as regulations to prevent greenwashing **(explicit environmental claims directive and the directive on empowering consumers for the green transition through better protection against unfair practices and better information**, which was adopted as part of the Consumer Agenda). **The Plastics Strategy** and restrictions on single-use plastic products **(SUP Directive)** are also part of the Circular Economy pillar. The Chemicals Strategy for Sustainability (CSS), in turn, is a large package of changes to chemical regulations under the slogan 'Zero pollution – non-toxic environment'. Under the CSS, new approaches to the safety assessment of chemicals **(revisions of the CLP, REACH and CPR – cosmetic regulation)** and wastewater treatment **(UWWTD)** are to be implemented. The other pillars of the EGD **(Clean Energy, Carbon Neutrality, Energy Efficient Construction, Sustainable Transport, Protection of Ecosystems and Biodiversity)** also harbour many industry-relevant regulations, such as climate neutrality legislation **(EU ETS, CBAM, promotion of RES)**, reduction of deforestation **(EUDR)** or **industrial emissions (IED)**. In the regulations resulting from the Green Deal, there are more and more obligations related to eco-design (ESPR, PPWR) or the quantitative assessment of environmental impacts, such as the carbon footprint (numerous emission regulations) or the determination of the full environmental footprint of products (directive on green claims, in a few years also the ESPR regulation).

Diagram 4 shows a map of the regulations included in the European Green Deal, which will have an impact on the cosmetics industry and which should be taken into account by the sector when preparing business strategies for the next years.

In the context of the Green Deal and the EU's commitment to achieve net energy neutrality by 2050, cosmetics entrepreneurs should include not only regulations directly applicable to them (e.g. the Cosmetics Regulation) in the strategies and plans they prepare. They should also take into account the announced legislative initiatives that will affect, either indirectly or directly, the cosmetics sector, such as chemical, waste, emissions or energy regulations. In this report, we have pointed this out when discussing the issue of non-financial reporting, where the reporting obligation requires describing how the companies' strategies are linked to climate goals and thus also the goal for 2050.

Regulations such as the Carbon Border Adjustment Mechanism (CBAM) or emission standards for vehicles (including heavy vehicles used for transport) may also have a potential impact on companies' operations. Relevant from a market perspective may be any regulations that aim to raise the level of ambition for the share of renewable energy (e.g. the European Commission's announced communication on climate goals for 2040).

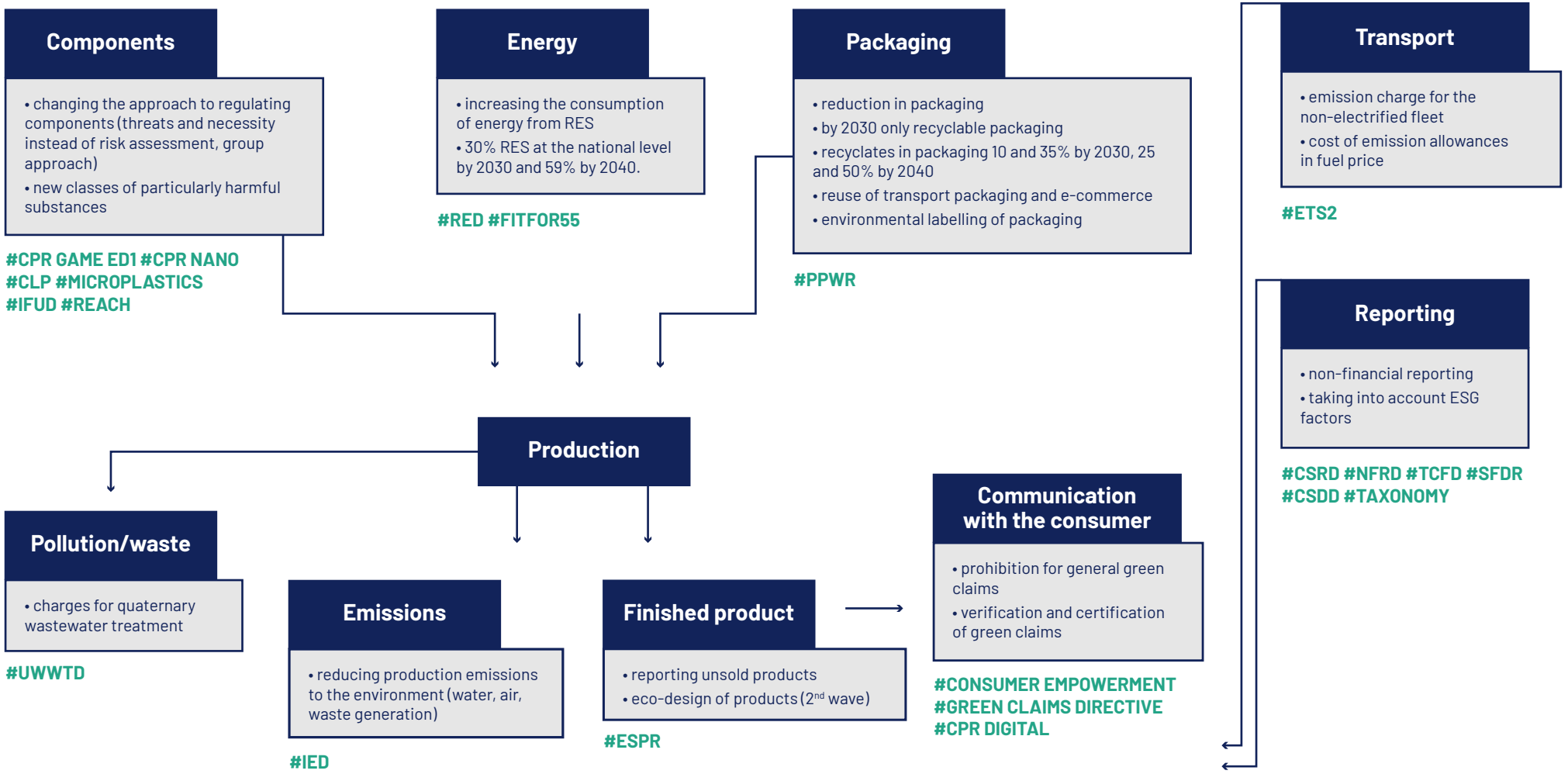
The following is a brief summary of the expected regulations and obligations under the Green Deal that may affect the conduct of business in the cosmetics industry. In doing so, however, it should be noted that most of these regulations are not in final form at the time of this report (or even drafts of them have not been published), so the final form, and the impact on the industry, may differ from that discussed.

The transition to a circular economy is the first of the main pillars of the Green Deal, which has a significant impact on the functioning of the cosmetics industry. It introduces regulations for products, waste, packaging and consumer communication. The goals include more sustainable products and packaging and transparent information to the consumer about the environmental properties of products.

Packaging of cosmetic products will soon have to be much more sustainable, according to the Packaging and Packaging Waste Regulation **(PPWR)**. Among other things, it requires all packaging to be recyclable by 2030, the use of post-consumer recycled (PCR) plastics, minimisation of packaging, and labelling of packaging material. Transport, bulk and e-commerce packaging were included in the reuse targets. And some packaging formats, such as disposable hotel products, have been banned. Compliance with the requirements will have to be comprehensively documented. The PPWR goals include increasing packaging sustainability, reducing the amount of packaging waste generated and circularity of plastics used in packaging.

Kosmetyczni.pl comment: *The challenges for our industry will certainly be access to high-quality post-consumer recyclates and the recyclability of packaging. The variety of products and application methods for cosmetics – and thus the variety of packaging, the small size of some products (e.g. for make-up) along with the difficulty of identifying which packaging is recyclable – poses a challenge.*

DIAGRAM 4. MAP OF REGULATIONS UNDER THE EUROPEAN GREEN DEAL THAT WILL AFFECT THE COSMETICS INDUSTRY



SOURCE: COMPILED BY WISEEUROPA, KOSMETYCZNI.PL

In addition, the EPR system has not been introduced in Poland. As a result, fees paid by marketers for packaging are insufficient to cover the costs of segregated collection and recycling. PPWR also poses the risk of over-standardisation of packaging as a result of minimisation, which can lead to a loss of brand image and lower consumer acceptance of packaging and products. Change is necessary but challenging, so entrepreneurs should start preparing as soon as possible.

The Eco-design for Sustainable Products Regulation **(ESPR)** introduces requirements for durability, reparability, energy efficiency of products, the determination of the environmental footprint and transparent information to consumers about the product properties. For the next few years, cosmetics will only be covered by the obligation to report unsold products that the manufacturer disposes of. However, in the next round of sectoral regulation, cosmetics will also be subject to requirements to create a Digital Product Passport (DPP) and determine the product's environmental footprint (PEF).

Kosmetyczni.pl comment: *Determining the environmental footprint will be a challenge for the industry. To respond to it, the industry has developed a methodology for the environmental assessment of cosmetics within the Eco Beauty Score Consortium.*

The Single Use Plastics (SUP) Directive for cosmetic products introduced mandatory environmental labelling for wet wipes and a range of similar products, such as sheet masks, sock/glove treatments, eye pads and various types of products using a non-woven fabric containing plastic as a carrier. The directive aims to prevent the environmental impact of certain plastic products, in particular on the aquatic environment and on human health.

Kosmetyczni.pl comment: *Challenges for our industry in the implementation of the SUP Directive have been the interpretation of the scope of the Directive's provisions for the cosmetics industry and the one-year delay in the development of guidelines by the Commission, which has shortened the realistic transitional period for companies to adapt. The SUP Directive was the first and flagship piece of legislation resulting from the Green Deal. The experience gained has led to a new approach to the regulation of transitional deadlines in other legislation. Those deadlines have been made conditional on the date of publication of documents by the Commission.*

Green Claims Directive concerns substantiating and communicating clear environmental statements.

It is to create common criteria to counter greenwashing and misleading environmental claims. Each green claim is to be verified by external bodies (verifiers) before publication.

Kosmetyczni.pl comment: *The tenets of the Green Claims project could be very hampering for the cosmetics industry. Marketing claims play a key role in driving innovation and fostering competition. The proposal for ex-ante verification of all explicit environmental claims raises concerns, primarily about the effectiveness of such verification and the legitimacy of carrying it out, as well as about the costs for businesses.*

Consumer Empowerment for the green transition through better protection against unfair practices and better information is an act already published on 6 March 2024 **(Directive 2024/825)**. The new regulations are intended to counter greenwashing. The directive is intended to improve product labelling and remove misleading green claims. From the perspective of the cosmetics sector, the most relevant changes are those concerning the Unfair Commercial Practices Directive (UCPD). The list of product properties, about which the entrepreneur cannot mislead the consumers, has been expanded. From now on, it will also include environmental or social effects. New practices considered misleading have been added to the list. These include green claims related to future environmental performance without clear, objective and verifiable commitments or goals and an independent monitoring system.

The second key pillar of the Green Deal for the cosmetics industry is the **Chemical Strategy for Sustainability (CSS)**, which will affect hundreds, if not thousands, of ingredients used in cosmetics. Its main premise is a **Toxic-Free Environment**. The strategy is intended to speed up and streamline the process of assessing chemicals in the EU by applying several new concepts for the assessment and management of chemicals. The most important of these is the **One Substance-One Assessment (OSOA)**, which is intended to eliminate the simultaneous safety assessments of the same substance by various agencies and committees. Another CSS principle is the application of eco-design rules to the development of new substances (**Safe and Sustainable by Design** criteria). Particularly harmful substances (for example, all those classified as CMR 1A and 1B) will be withdrawn from the market more quickly based on **the Generic Risk Approach (GRA)**, where only the substances most essential for the public will be exempted and continue to be used **(Essential Use)**. In addition, the assessment of particularly harmful substances is to be made more efficient through the use of grouping and **the Mixture Assessment Factor (MAF)**.

Kosmetyczni.pl comment: *The cosmetics industry is one of the most regulated in terms of the safety of ingredients and products for human health. The chemical strategy will introduce additional restrictions related to the environmental impact of ingredients. New hazard classes of substances may apply to cosmetic ingredients. Substances with proven harmful effects on the environment will be phased out more quickly. It will therefore become increasingly important to access and obtain information on the environmental properties of substances from suppliers. Changing the safety assessment paradigm by including an environmental assessment of substances will change the relations in the raw material value chain. While it is difficult to argue with regulations that aim to reduce the proven harmful effects of substances on the environment, surely the number of regulated ingredients will multiply the regulatory pressure already strongly felt by companies due to the number of ingredient regulations. However, the cosmetics industry's biggest concern is the proposed new substance management mechanisms. In the industry's view, concepts such as grouping, MAF, GRA and essential uses are a departure from decades of development in toxicology and risk assessment based on experimental data. The use of mathematical rules to regulate substances can lead to the unjustified withdrawal of many substances with a long history of safe use and safety proven by research. Just one attempt to 'mathematically' regulate natural compound substances almost resulted in the banning of several thousand natural essential oils and plant extracts. Given the large number of ingredient regulations and the fact that cosmetics companies spend a significant proportion of their resources on adapting to regulatory changes rather than on innovation and development, it seems that some elements of the chemicals strategy for sustainability should be revised.*

The CSS provides for revisions of three regulations: CLP, REACH and the Cosmetics Regulation. The CSS also introduces regulations on the environmental impact of pollution by substances. In this area, the main plans are to revise the Urban Waste Water Treatment Directive and ban the use of microplastics.

The revision of **REACH** is expected to implement the main tenets of the chemicals strategy into chemical regulations. Those tenets include essential uses, GRA, Mixtures Assessment Factor (MAF), transparent communication of information in the supply chain and animal testing. However, the process started in 2021 was temporarily halted after a public consultation.

As part of the revision of the **CLP** Regulation, new hazard classes have been introduced: ED (endocrine disruptors), PBT (persistent, bioaccumulative and toxic), vPvB (very persistent and very bioaccumulative), PMT (persistent, mobile and toxic) and vPvM (very persistent and very mobile in the environment). In the next revision phase, new rules were proposed for the classification of natural compound substances (NCS), e.g. essential oils, fragrances and plant extracts. The proposal was to classify NCS according to the rules for classifying mixtures, rather than on data for a specific substance as before. NCS were to be classified into the highest hazard categories (CMR, ED, PBT, vPvB, PMT, vPvM) following only the mathematical rule for mixtures. This rule is based on very low concentration limits for classified component substances, and available toxicity data could only be used if they would confirm the classification resulting from the mixture rule or result in a more restrictive classification. During the legislative process, the proposal was withdrawn, but the clause on review within the next five years was introduced.

Kosmetyczni.pl comment: *The consequences of changing the rules for the classification of natural compound substances (NCS) would be disastrous for the cosmetics industry. Due to Article 15 of the Cosmetics Regulation, the effect of the amendments would be a mass ban on the use of NCS in cosmetic products, although in all other industries, these substances could still be used. The ban would cover, for example, such popular and safe essential oils as rose, lemon and eucalyptus. The strong response from the industry and the solid argumentation in this case convinced the legislators. Moving away from the proposed NCS classification based on mathematical rules will preserve the possibility of continued use of natural substances in the cosmetics industry and will allow the assessment and classification of natural ingredients based on scientific data and clearly defined criteria.*

Revision of the cosmetics regulation 1223/2009/EC is a key element of the Green Deal and the Chemicals Strategy for Sustainability for the industry. The revision is expected to implement the main tenets of the CSS – including a generic approach to risk assessment (GRA) of particularly harmful substances, the use of mixture assessment factors (MAFs) and exemptions for essential uses only. Regulations in the area of digitalisation of product labelling were also announced. In early 2024, however, it was temporarily put on hold.

Kosmetyczni.pl comment: *The proposed provisions for the revision of the CPR may significantly change the functioning of the cosmetics industry in the areas of risk assessment, substance management, the use of nanomaterials, and the working methods of the Scientific Committee on Consumer Safety (SCCS). The basis of cosmetic regulation so far has been a detailed safety assessment of the ingredients and finished products, carried out based on all available data and well-established risk assessment principles.*

It should be remembered that the cosmetics industry is the only one where an automatic ban on CMR-classified substances has been introduced. This means that any regulations leading to a departure from the risk assessment and previously applied principles derived from toxicology would have a much greater impact on the cosmetics industry than on other industries, as it would lead to an automatic – and not always justified – ban on many safe substances.

The revision of the Urban Wastewater Treatment Directive (UWWTD) will introduce an Extended Producer Responsibility mechanism to finance the upgrade of wastewater treatment plants. The project aims to ensure the removal of chemical micropollutants from wastewater that may be released into the aquatic environment. The project indicates only two sectors – cosmetics and pharmaceuticals – as the only ones that are expected to finance 80% of the total costs of quaternary wastewater treatment generated by all sectors. Certainly, in the case of Poland, the challenge in implementing the new wastewater treatment system will be the lack of infrastructure (most plants in Poland have not yet implemented a tertiary treatment system) and the lack of an institutional structure for implementing the EPR system for micropollutants.

Kosmetyczni.pl comment: *The Commission based the proposal on the erroneous assumption that cosmetic products are one of the two main sources of micropollutants in municipal wastewater, thus requiring the cosmetic sector to pay significantly higher charges than its actual share of micropollutant emissions. In the cosmetics industry's view, the proposal is disproportionate and does not meet the 'true polluters pay' principle. In addition, the draft directive introduces a very broad definition of micropollutants, which will cover several thousand chemicals, including those that pose no risk to the environment and are not a problem from an effluent treatment perspective. We will also pay for the removal from wastewater of caffeine from coffee, which 448.4 million Europeans drink every day.*

The ban on **microplastics** (Commission Regulation (EU) 2023/2055) is another act included in the chemicals strategy with a significant impact on the cosmetics industry. The regulation concerns synthetic polymer microparticles (microplastics) intentionally added to products obtained by industrial processes, including cosmetics. The environmental problem from which the Commission's proposal stems is the pollution of the seas and oceans by plastics (shredded pieces). The assessment of whether a substance is restricted takes into account many criteria, but it is estimated that > 200 substances will be affected. A number of product categories will be covered by IFUD (Information for Use and Disposal) labelling to minimise the release of microplastics into the environment.

Kosmetyczni.pl comment: *The polymers that will be regulated include many basic raw materials that perform key functions in cosmetic products. These are emulsifiers, thickeners, rheology modifiers, SPF boosters, fillers, and ingredients that provide functional and visual effects (e.g. water resistance, matting effect, opacity, texture). The ban on microplastics will therefore impose significant costs on companies due to the need for reformulation (complex and costly process, lack of suitable substitutes) and packaging changes (IFUD labelling). Many companies will have to reformulate up to approx. 80-90% of their product portfolio.*

In the opinion of the cosmetics industry, the regulation is disproportionate. The environmental gain for cosmetics is small, while the regulatory cost to the industry is huge and disproportionate, which will affect small and medium-sized enterprises the most. The main source of environmental exposure to microplastics is particles from the degradation of larger items: synthetic fabrics and car tyres. This represents 63.1% of global microplastic emissions to the environment.

Leave-on cosmetics are a source of only 2% of the total emissions of intentionally added microplastics. The Green Deal is also a series of sector-specific and horizontal regulations that can have a significant impact – direct or indirect – on the cosmetics industry. These are primarily regulations regarding emissions, energy and biodiversity.

In the **Protection of Ecosystems and Biodiversity** pillar of the Green Deal, an important act for the cosmetics industry is Regulation (EU) 2023/1115 on the reduction of deforestation **(EUDR)**. It is intended to reduce greenhouse gas emissions and biodiversity loss and is part of a broader action plan to tackle deforestation and forest degradation. The EUDR covers a range of raw materials from which cosmetic raw materials are derived, including palm oil, soya, wood and coffee derivatives. These raw materials will be subject to specific due diligence requirements for their sourcing. While the requirements will not directly involve cosmetics manufacturers, they may change the availability and pricing of certain raw materials and how information about raw materials is communicated along the value chain.

Regulations on **emissions** aim to reduce the negative impact of industry on air and water quality and the impact of the waste generated. The chemical sector, classified as highly emissive, is also covered by **the Industrial Emissions Directive (IED)**.

This places obligations on manufacturers to monitor and report their emissions, and to use low-carbon technologies. It is worth noting that this issue also remains relevant from the point of view of non-financial reporting regulations or taxonomy. The former obligations refer to the decarbonisation of activities, also by correlating internal strategies with the European Union's climate policy goals for 2030 and 2050. The IED affects large chemical companies but may have an indirect impact on the cosmetics industry, including the raw materials used, or the flow of information in the value chain.

A common methodology for calculating the emissivity of companies (including those not directly covered by IEDs) involves three scopes or areas of a company's value chain. Scope 1 represents the direct emissions from the operations, Scope 2 – the indirect emissions (primarily related to the energy used), and Scope 3 covers other emissions, including those related to the procurement or use of specific services. This methodology is used to determine most emissions and environmental impacts, including the carbon footprint or environmental footprint. In such a view, the share of **renewable energy** (e.g. the obligation for Member States, introduced in Directive 2023/2413 – RED, to ensure an increase in the share of RES not only in the electricity sector, but also in industry by 1.6%), or the goals for the share of **renewable energy in transport** (and therefore the impact on the fleets of cars used by companies) will become increasingly important for the decarbonisation of companies or their environmental impact. The enacted revision of the EU ETS, the so-called ETS 2, which extends the obligation to purchase emission allowances to transport or construction (to take effect from 2027), will also have an indirect impact on cosmetics companies.

An area that should be monitored by the cosmetics industry is **transport**, where not only additional emissions restrictions (on vehicle manufacturers) but also additional tributes related to transport emissions (e.g. the so-called ETS 2, introduced as part of Ready for 55), are introduced as part of the European Green Deal. The regulations require cosmetics manufacturers to reduce transport-related emissions and promote sustainable alternatives. The Emissions Trading Scheme (ETS 2) introduces emission charges for non-electrified transport fleets, so manufacturers and their sub-suppliers (including the TSL industry) will have to face higher transport costs and look for low- or zero-emission solutions, such as using electric or hybrid vehicles, optimising transport routes, but also shortening supply chains and seeking local suppliers. In practice, many companies are already switching their fleets to electric to avoid higher transport costs and to remain competitive in terms of the environmental impact of transport services.

Also worth noting is **the communication on the Green Deal industrial plan** for the climate-neutral era. The document aims to put Europe at the forefront of industrial innovation and clean technology. Its main pillars are an improved regulatory framework for carbon neutrality and access to critical raw materials, improved workforce skills in strategic industries and fair international trade, resilient supply chains and faster access to clean technology finance. This last element is particularly important from the perspective of the cosmetics industry. It aims to increase the availability of public support for industries and companies that will pursue climate neutrality. Increasing the availability of public support can provide companies with a potential additional source of funding for the transition process and for achieving the ESG goals introduced in the company's strategy.

Preparing for the Green Deal: voluntary initiatives by the cosmetics industry

The cosmetics industry has long been engaged in voluntary actions that can accelerate its transition towards a circular economy and more sustainable products. Among the European-level initiatives, three main ones are worth mentioning:

EcoBeautyScore is the first European project to develop a methodology and system for assessing the product environmental footprint of cosmetics (or PEF) for the beauty industry. An assessment of the environmental footprint will be required by the provisions of the Environmental Impact Assessment Directive. Green Claims and ESPR Regulations. Industry methodology is essential to reliably assess and compare products. EcoBeautyScore is intended to comply with the European Commission's guidelines for assessing environmental footprints.

Commit for Our Planet is a voluntary environmental commitment programme that cosmetics companies can undertake in three selected pillars: Climate, Packaging and Nature. As part of this project, two free assessment tools were made available – a carbon footprint calculator based on the GHG Protocol (Climate pillar) and a tool for assessing ingredients for biodiversity risk. The advantage of this project is the freedom to choose the area and scope of operations. Commit for Our Planet can therefore be a convenient starting point for companies in implementing the Green Deal as a whole. Among the pioneers, the companies that were the first to declare environmental goals were three companies from Poland, members of the Polish Union of the Cosmetics Industry: Floslek, Global Cosmed Group (now Dr Miele Cosmed Group) and the AVA Cosmetic Laboratory.

SPICE: The Sustainable Packaging Initiative for Cosmetics is a project to develop a methodology for the packaging life cycle assessment, taking into account the specificities of the cosmetics industry. By design, the methodology is based on (and intended to be consistent with) the existing formal documents: the Commission's PEF and LCA environmental footprint guidelines and the ISO 14067 standard.

Summary

Achieving net climate neutrality at the European Union level involves shifting many sectors from established and applied patterns to a completely new way of operating. Obviously, this creates challenges for these sectors, including the cosmetics industry. Additional regulations restricting the applicability of certain technologies or substances, growing pressure to increase the share of renewable energy consumed by these companies or ensuring the circularity of raw materials are challenges that require significant financial and organisational investment. At the same time, more and more consumers declare that they also pay attention to the environmental impact or recyclability of the packaging when choosing products. As a result, companies that implement strategies as soon as possible to ensure that their operations are in line with their long-term goals will enjoy a competitive advantage in relations with their customers. Moreover, as we have shown in this report, the introduction of specific sustainable solutions and the reduction of environmental impacts will be linked to the greater availability of financial resources offered by financial institutions, which are also under pressure to increase the share of sustainable investments in their investment or lending portfolios. This means that companies that are quicker to adapt their business model to the requirements of climate policy, or ESG in general, will be able to benefit from easier access to external finance and thus increase their attractiveness against competitors who are less efficient at adapting to changes.

This section aimed to provide an overview of the main principles of non-financial reporting and the Green Deal. However, it should be noted that the regulations discussed here are not an enumerative list. The regulatory environment for the climate or ESG policy is dynamic, and new initiatives to reduce the environmental impact of human (and therefore business) activities are to be expected over the next few years. Considering also the growing emphasis of the international community on the protection of human or labour rights, also in the social area, new regulations are imminent. They will impose stricter controls on the degree to which companies respect labour or human rights. Biodiversity issues ARE ANOTHER area with very high potential for further development. The first regulations in this area are already emerging, but for the sake of controlling regulatory risks, it is important for businesses to constantly monitor these regulations and the new obligations imposed in this area. This will allow for the fastest and best possible adaptation to the new regulatory environment and, consequently, will enable companies capable of adapting to these regulations to maintain and even increase their competitive advantages.

How does the cosmetics industry view the Green Deal?

Kosmetyczni.pl comment: *The Green Deal will be a huge challenge for the cosmetics industry. The changes it will introduce will affect virtually every aspect of cosmetics businesses. The multitude of legal acts*[7] *resulting from the implementation of the European Green Deal, which will directly or indirectly affect the cosmetics industry, is often referred to by the industry as a 'regulatory tsunami'. ESG reporting, decarbonisation, eco-design of packaging and finished products, mandatory third-party certification, funding for municipal wastewater treatment and many other elements of the Green Deal collectively exert enormous regulatory pressure and are a heavy financial and organisational burden.*

Despite these concerns, the cosmetics industry supports the goals of the Green Deal. The climate challenges are serious and we all need to respond to them.

The solutions proposed under the Chemicals Strategy for Sustainability raise many concerns in the cosmetics industry. While it is justified to regulate the environmental impact of chemicals and to introduce regulation for substances with proven harmful effects (such as endocrine disruptors), it seems that a complete departure from the risk assessment principles used so far is not justified and supported by the need to ensure the safety of human health and the environment, but is rather due to the limited resources of the EU institutions. Therefore, today, 4.5 years after the publication of the European Green Deal, it seems that some elements of the Chemicals Strategy for Sustainability need deeper reflection and revision. The risk assessment system for cosmetic ingredients and products set out in the Cosmetics Regulation and EU chemical regulations is one of the most stringent globally and is still considered the Gold Standard in many parts of the world.

7) A list of the main regulations is specified in Appendix 1 of this report. However, this list should not be considered exhaustive. Due to the dynamics of regulatory change and new initiatives emerging, the Union will continuously be monitoring and updating its scope.

The regulatory pressure resulting from mass ingredient changes has become unmanageable for many companies. Today, most cosmetics companies devote a significant part of their resources not to the search for innovation, but to adapt their products to changing legal requirements. Some legislative changes (such as the ban on cyclic siloxanes or microplastics) necessitate product reformulation of 50-90% of the portfolio. The EU chemical industry as a whole is rapidly losing competitiveness to other regions of the world, such as China and India.

Therefore, European industry, including the cosmetics sector, urgently needs support in meeting the ambitious environmental goals of the Green Deal. The industry's response and demand is to propose the implementation of the European Industrial Deal as a complement to the European Green Deal. This proposal was announced as the Antwerp Declaration. Support is needed in the transition to a circular and zero-carbon economy model. It is also necessary to deregulate (or slow down the pace of regulatory change) the chemicals and return to applying the principles of Better Regulation so legislation changes are made where necessary and preceded by a sound impact assessment.

Given the challenges facing our industry, this section should conclude with a recommendation and a call to action. Being proactive, i.e. keeping up to date with planned changes, mapping the regulations that apply to the cosmetics industry and planning strategies for action, can make preparations easier even now. This is particularly true of the ingredients. Regulations change so rapidly that responding as early as the regulation comes into force generates significantly higher costs and often leads to the need to recall and destroy significant quantities of unsold products. Regulatory processes are nowadays relatively transparent – it is not hard to find out at what stage a particular regulation is and when it may come into force. It is also worth identifying potential support measures available under the numerous EU and regional projects and funds.

7) A list of the main regulations is specified in Appendix 1 of this report. However, this list should not be considered exhaustive. Due to the dynamics of regulatory change and new initiatives emerging, the Union will continuously be monitoring and updating its scope.

GLOSSARY

Appreciation – an increase in the value of a currency under the influence of market factors (strengthening).

Brexit – the process of Great Britain leaving the structures of the European Union

CAGR – compound annual growth rate.

CEE – Central and Eastern Europe region.

CN – Combined Nomenclature, the EU's way of identifying goods in trade.

CPI – Consumer Price Index.

Depreciation – a decrease in the value of a currency under the influence of market factors (weakening).

Net exports – the difference between the value of exports and imports.

Net exporter – a country with a trade surplus.

Intra-EU trade – trade between EU Member States.

Extra-EU trade – trade with countries outside the European Union.

Net importer – a country with a trade deficit.

Economic convergence – the process in which per capita income (GDP per capita) in poorer countries grows faster than in rich countries; a catching-up effect occurs.

NACE – statistical classification of business activities in the European Union. It is the parent classification for the Polish Classification of Business Activities (PKD).

Purchasing power parity (PPP) – eliminates the difference in prices between countries to determine their real purchasing power. It allows for better international comparisons taking into account these differences.

GDP – gross domestic product, the value of final goods and services produced within a country in a given year.

GDP per capita – the average GDP for one person.

PKD – [Polska Klasyfikacja Działalności] Polish Classification of Business Activities, it divides types of activities by codes, allowing for cross-sector comparisons. It is derived from its parent classification, NACE.

PRCCODE – PRODCOM goods code.

PRODCOM – (fr. “PRODuction COMmunautaire”, eng. Community Production). Product classification providing statistics on the production of industrial goods in EU countries which are produced by a sector in a given PKD/NACE.

Production sold – the quantity and value of products sold outside the enterprise. It applies to products from own manufacturing or manufacturing commissioned to another enterprise using entrusted materials, during the reporting period, regardless of when they were manufactured.

Cosmetic product – any substance or mixture intended to be placed in contact with the external parts of the human body (epidermis, hair system, nails, lips and external genital organs) or with the teeth and the mucous membranes of the oral cavity with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance, protecting them, keeping them in good condition or correcting body odours.

Comparative advantage – production at a relatively lower cost than in other countries.

Profitability – a rate of return measured as net profit/sales revenue.

Shrinkflation – maintaining the price of a product while reducing its volume/content. As a result, the price does not change, while its unit price increases.

SWOT – strengths, weaknesses, opportunities and threats analysis

V4 – Visegrad Gropu countries (Poland, Hungary, Czech Republic, Slovakia)

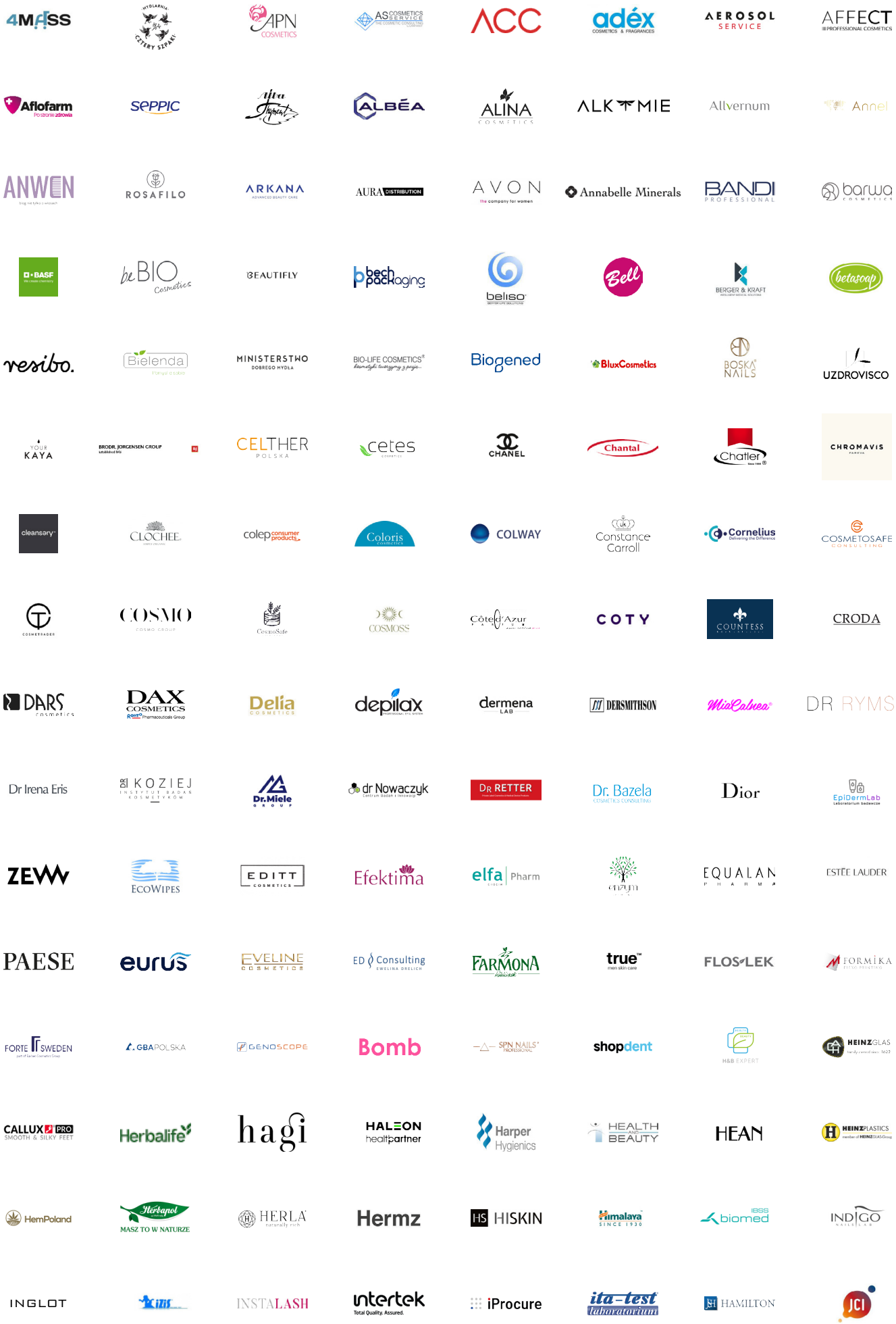
Gross value added – the value of all products manufactured by the sector less the costs related to their production. It is calculated as net turnover + income from a subsidy on product or turnover + capitalised output ± change in stocks of goods – total purchases of goods and services.

Market value – based on Retail Sales Prices (RSP) category, product of volume and sales price

APPENDIX 1

Legal act		Link
Consumer Empowerment Directive		• https://eur-lex.europa.eu/eli/dir/2024/825/oj
CLP		• https://environment.ec.europa.eu/topics/chemicals/classification-labelling-and-packaging-chemicals_en • https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02008R1272-20231201
CPR		• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02009R1223-20240404
CSDD		• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071
CSRD		• https://eur-lex.europa.eu/legal-content/PL/TXT/?uri=CELEX%3A32022L2464
ESPR		• https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/sustainable-products/ecodesign-sustainable-products-regulation_en • https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2022%3A0142%3AFIN
ETS 2		• https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets_pl • https://eur-lex.europa.eu/eli/dir/2023/959/o
EU Taxonomw	Environmental Delegated Act	• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2486
	Complementary Climate Delegated Act	• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022R1214
	Disclosures Delegated Act	• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2178
	Climate Delegated Act	• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139
Fit for 55		• https://www.consilium.europa.eu/en/policies/green-deal/fit-for-55/
Green Claims Directive		• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2023%3A0166%3AFIN
IED		• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32010L0075
Microplastics/IFUD		• https://eur-lex.europa.eu/eli/reg/2023/2055/oj
NFRD		• https://eur-lex.europa.eu/eli/dir/2014/95/oj
PPWR		• https://environment.ec.europa.eu/topics/waste-and-recycling/packaging-waste_en • https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0677
REACH		• https://environment.ec.europa.eu/topics/chemicals/reach-regulation_en • https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R1907-20231201
RED		• https://eur-lex.europa.eu/legal-content/PL/TXT/?uri=celex%3A32018L2001
SFRD		• https://eur-lex.europa.eu/eli/reg/2019/2088/oj
TCFD		• https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52019XC0620%2801%29
UWWTD		• https://environment.ec.europa.eu/topics/water/urban-wastewater_en • https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0541

Members of the Polish Union of the Cosmetics Industry




JKOP
TRADE

YONELLE

KAJ
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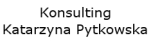
MIYA
COSMETICS

kenvue

Konsulting
Katarzyna Pytkowska

JN
1779
JEAN NIEL

KRAYNA

krynicavitamin

JANDA

L'ORÉAL

WAX ANGIELSKI
PILOMAX

Loton
COSMETICS

LA RIVE

EXPANSCIENCE
LABORATOIRES

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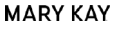
MARY KAY

Maurisse

MAWAWO
NATURAL COSMETICS

MINCER
PHARMA

MIRACULUM

mokosh
cosmetics

MONAT

SILEDA

COSMETICS

Nacomi

nano-TECH
POLSKA

NAOS

NaturaMedica

phenomé

NATURATIV

nesperta

BASICLAB

NIVEA

NOREL
Dr Wilsz

nuco
Creative
Color
Solutions

OCEANIC

oilmedica

ONLYBIO

optima
natura

ORGANIC &
INNOVATION
LABORATORIUM

ORGANIQUE

ORIENTANA

Orkla
Care

Over Group

NATURALS PHARM

ados
cosmetics

POLIPACK

ADARA

PAN DRWAL

Perrigo

persán

Ph.Doctor

PharmaCF

pharmann

Phyto
Pharm

Pierre Fabre

Pierre René
PROFESSIONAL

F.O.X

pollena
aroma

POLLENA
eva

purlés

PROFIS

Provital
Do Care

REVERS
COSMETICS

SGS

SAFIC ALCAN

Sahara

SARAYA

SCANDIA

Silcare

Bambino

SOCOPOL
ARCADE INC.

SORELLE

Stapiz
FOR HAIR

STARA
MYDLARNIA

STEA
COSMETICS

BERKOVICZ

SUNEW med+

SYLVECO

AROMAT
VERTEX

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pharma

syvento

tatraspring

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THETA

TORIMEX

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WROCŁAW
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WYŻSZA SZKOŁA
INŻYNIERII I ZDROWIA

YASUMI

Yokaba

ziaja

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