US MARKET BRIEF 2003

THE US MARKET FOR NATURAL INGREDIENTS USED IN DIETARY SUPPLEMENTS AND COSMETICS, WITH HIGHLIGHTS ON SELECTED ANDEAN PRODUCTS

MARKET BRIEF ON
THE US MARKET FOR NATURAL INGREDIENTS USED IN DIETARY SUPPLEMENTS AND COSMETICS

ITC

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List of abbreviations and terms

ABC:	American Botanical Council
AHPA:	American Herbal Products Association
AHP:	American Herbal Pharmacopoeia
ATPA:	Andean Trade Preference Act
Botanical Preparations:	Plantae medicinales praeparatore (Ph.Eur.) are obtained by subjecting botanical raw materials to treatments such as extraction, distillation, expression, fractionation, purification, concentration or fermentation. These include powdered herbs, tinctures, extracts, essential oils, expressed juices and processed exudates.
Botanical Raw Materials:	Plantae medicinales (Ph.Eur.) are mainly whole, fragmented or cut, plants, parts of plants, algae, fungi, lichen in an unprocessed state, usually in dried form but sometimes fresh. Certain exudates that have not been subjected to a specific treatment are also considered to be botanical raw materials
CBD:	Convention on Biodiversity
CIF:	Cost Insurance and Freight
CITES:	Convention on International Trade in Endangered Flora and Fauna
DSHEA:	Dietary Supplement Health and Education Act (DSHEA) of 1994
EU:	European Union
Extract:	Concentrated preparation of liquid (fluidextracts & tinctures), dry (dry extracts) or semi-solid (soft extracts) consistency obtained from botanical raw materials, prepared by maceration, percolation or other methods using solvents (e.g. water, ethanol, methanol) or by supercritical fluid (CO_2) technology
FAO:	Food and Agriculture Organization of the United Nations
FAS/USDA:	Foreign Agriculture Service United States Department of Agriculture
FAS Value:	Value of exports at the US seaport, airport, or border port of exportation, based on the transaction price including inland freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the US port of export
FDA:	United States Food and Drug Administration
FD & C:	A prefix designating that a certified color can be used in foods, drugs or cosmetics
FOB:	Free on board
FTC:	United States Federal Trade Commission
GAP:	Good Agricultural Practice
GMP:	Good Manufacturing Practice
Herbal Teas:	Plantae ad ptisanam (Ph.Eur.) consist exclusively of one or more botanical raw materials intended for oral aqueous preparations by means of decoction, infusion or maceration.
HS:	Harmonized System Nomenclature
HTF:	Harmonized Tariff Schedule of the United States
ISO:	International Standards Organization
ITA:	International Trade Administration (US Department of Commerce)
ITC:	International Trade Centre UNCTAD/WTO
KG:	Kilograms
MFN:	Most Favored Nation
MT:	Metric tons
NAFTA:	North America Free Trade Agreement
NAICS:	North American Industry Classification System
NASS:	National Agricultural Statistics Service
NESOI:	Not elsewhere specified or included
Ph.Eur.	European Pharmacopoeia
SITC3:	Standard International Trade Classification Revision 3
UNSD:	United Nations Statistics Division
UpS	United Plant Savers
US:	United States of America
USDA:	United States Department of Agriculture
USITC:	United States International Trade Commission
USNF:	United States National Formulary
USP:	United States Pharmacopeia
VAT:	Value Added Tax

EXECUTIVE SUMMARY

This Market Brief profiles the US market for natural ingredients that are used in the cosmetic and/or dietary supplement industries, respectively, with highlights on selected Andean natural ingredients that have potential for capturing a larger share of the US market.

In this Market Brief, the US market for natural ingredients that are utilized in both cosmetics and dietary supplements are examined together. The reasons for joining the two sectors into one report is due, primarily, to the fact that many, or most, of the natural ingredient manufacturers and distributors operating in the US have positioned themselves as suppliers to manufacturers of both cosmetic and dietary supplement products, as well as to manufacturers of functional- or health-food products. Some natural cosmetic ingredients are marketed as "cosmeceuticals" while some dietary supplement ingredients are marketed as "nutraceuticals."

The range of natural ingredients covered in this report includes medicinal and aromatic herbs, medicinal herbal extracts and vegetable saps, pectic substances, vegetable mucilages and thickeners, ground-nut oils, fixed oils including castor oil, flaxseed oil, jojoba oil and hemp oil, vegetable waxes and insect waxes such as beeswax, cocoa butter, plant-based colorants such as annato seed, essential oils, resinoids, and oleoresins such as capsicum oleoresin.

Although the dietary supplement industry experienced dramatic double-digit growth throughout most of the 1990's, for the past three years the market has been almost flat. And while the sector may appear to be stagnant on the surface, there has been interesting and erratic movement within certain sub-sectors which has important implications for producers to consider for future raw material production planning purposes. Some product types have been rapidly spiraling down the charts while others are growing exponentially, making up the difference. There are clear indications, however, that the overall market is starting to pick up again, and certain sub-sectors appear to be driving the entire natural products category forward, for example certified organic natural products.

In general, demand for certified organic cosmetics, dietary supplements and natural foods is increasing, while the growth of non-organic natural products is slowing down. 100% organic products are up nearly 20%, and 95%+ organic products have seen nearly 30% growth over last year. Herbal teas are the second largest category within the National Organic Program (NOP)-coded product classifications, showing an approximate 9% growth rate in 2003. While the affluent baby boomer generation (40-60 year olds) has been the main driving force behind the natural products market, the organic sub-sector is being co-driven by a health-conscious and socially-conscious younger generation.

Aside from organic, demand is also increasing for certain age-related, condition-specific natural products, for example herbal products that have been clinically tested to alleviate conditions related to menopause. The serious medical risks of conventional hormone replacement therapy (HRT), which became highly publicized in mid 2002, became a boon for the dietary supplement industry as large numbers of American women switched to natural herbal alternatives to HRT. New products promising anti-aging benefits such as cosmeceuticals are also increasing in demand.

The size of the US dietary supplement market is presently estimated at between US $4 to $5 billion at retail level, depending on the product inclusion criteria and the method of analysis used. The size of the US natural personal care and cosmetic products market is estimated at just under US $4 billion at retail, while the newly emerging market for cosmeceutical products, which also accounts for some natural ingredients, is estimated at about $3 billion. All together, the three categories amount to nearly $12 billion at retail. On the supply side, for the bulk natural ingredients covered in this Market Brief, the US imported over $1.7 billion in 2002 and exported over $1.3 billion.

Great care must be exercised, however, when applying the data provided in this report towards a determination of the total quantity and value of natural ingredients that are dedicated exclusively to an end-use in natural cosmetic and/or dietary supplement products in the US. While a significant portion of these natural ingredients are used in the cosmetic and/or dietary supplement trades, an unknown portion of the same ingredients is also used in several other product categories including conventional-, health- and/or functional- food products, alcoholic- and/or non-alcoholic beverages, conventional- and/or homeopathic- over-the-counter (OTC) or prescription drug products, pet products and tobacco products, among others product groups.

Future trends

In the past, the natural products market was driven largely by a series of "superstar" ingredients that were catapulted into the mainstream due, in part, to positive clinical research, often from European studies, for example echinacea herb & root for stimulating the immune system, St. John's wort herb for mild to moderate depression, black cohosh rhizome for menopausal conditions, kava rhizome for anxiety and stress, saw palmetto fruit for benign prostatic hyperplasia, ephedra herb for weight loss, and ginkgo leaf for cerebral insufficiency.

products to remove these ingredients in an effort to reduce liability and avoid punitive regulatory actions.

The trend now appears to be towards natural ingredients and products that meet certain social criteria rather than towards the next superstar botanical, for example ingredients that not only have sufficiently documented evidence of safety and efficacy for conditions associated with aging (e.g. enlarged prostate, hair loss, memory loss, menopause, sexual dysfunction), but also those that are produced in an ecologically and economically sustainable manner, preferably certified organic or ethically wildcrafted, are documented to be free of genetically engineered components, are "cruelty free" or "not tested on animals," and are produced by companies that actively support cultural and environmental sustainability through investing some percentage of their profits in organic farms, reserves, or community outreach. There is also growing awareness among natural products consumers of labor conditions in developing countries evidenced by the fact that demand is also growing for "Fair Trade®" certified natural products as well as for clothing produced by "No Sweat Shop" accredited manufacturers, both logos providing some assurance to consumers that workers throughout the chain have been paid a living wage.

US natural product companies that promote the concept of conscious consumerism and that have also developed reciprocally beneficial relationships with their ingredient suppliers in the developing countries are finding that they can