

**Committee on Safeguards**

**NOTIFICATION UNDER ARTICLE 12.1(b) OF THE AGREEMENT ON  
SAFEGUARDS ON FINDING A SERIOUS INJURY OR THREAT  
THEREOF CAUSED BY INCREASED IMPORTS**

**NOTIFICATION PURSUANT TO ARTICLE 12.1(c)  
OF THE AGREEMENT ON SAFEGUARDS**

**BRAZIL**

**Supplement**

The following notification, dated 23 February 2000, has been received from the Permanent Mission of Argentina.

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I have the honour to write in my capacity as representative of the MERCOSUR pro-temporary Presidency in order to notify to the Committee on Safeguards, and on behalf of the Federative Republic of Brazil, the intention of the Brazilian authorities to extend the safeguard measure applied to imports of toys. A copy and unofficial translation into English of Interministerial Order No. 19 of 22 December 1999 and its Annex are attached.

The notification of the initial application of this safeguard measure can be found in document G/SG/N/10/BRA1 – G/SG/N/11/BRA1 of 13 January 1997.

This notification is being made pursuant to Article 12.1(c) of the Agreement on Safeguards.

UNOFFICIAL TRANSLATION

**MINISTRY OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE**

Interministerial Order No. 19, dated 22 December 1999

THE MINISTER OF STATE OF THE MINISTRY OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE AND THE SUBSTITUTE MINISTER OF STATE OF THE MINISTRY OF FINANCE, using the prerogatives conferred upon them by Article 87, sole paragraph, Clause II of the Constitution, and in accordance with the provisions of Articles 1, 2, 8, Clause I, and Article 9, paragraphs 2 and 6 of Decree No. 1488, dated 11 May 1995, altered by Decree No. 1936, dated 20 June 1996, keeping in mind the provisions of the Agreement on Safeguards, approved by Legislative Decree No. 30, dated 15 December 1994, promulgated by Decree No. 1355, dated 30 December 1944, and

Considering that which is contained in the Process MDIC/SAA/CGSG 52100-000062/99-73 and the Opinion No. 12, dated 16 December 1999, elaborated by Department of Commercial Defence – DECOM of the Foreign Trade Secretariat – SECEX of the Ministry of Development, Industry and Foreign Trade – MDIC, as well as the fact that it was verified that there is evidence that the safeguard measures applied to the import of toys, classified under the tariff codes 9501, 9502, 9503 and the sub-code 950410 of Mercosul's common designation (NCM), is still necessary to prevent serious injury and that the toy industry is undergoing a process of adjustment, in accordance with the Annex to this Order, be it resolved:

Article 1

To conclude the revision with the extension of the period of application of the safeguard measure to imports of finished toys, in the form of an increase in the aliquot of import tariffs, by means of an additional charge through the Common External Tariff – TEC.

Article 2

The safeguard measure of the present Order will apply only to the finished toys hereafter related, classified according to their respective tariff codes and to the following chronology:

| NCM/SH     | Description of the product  | Addition to TEC (%)            |                                |                                |                                |
|------------|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|            |   | 01.01.2000<br>to<br>31.12.2000 | 01.01.2001<br>to<br>31.12.2001 | 01.01.2002<br>to<br>31.12.2002 | 01.01.2003<br>to<br>31.12.2003 |
| 9501.00.00 | Wheel toys conceived to be mounted by children, buggies for dolls, except for parts and components for the manufacture of toys in this position | 14                             | 13                             | 12                             | 11                             |
| 9502.10.10 | Dolls even when dressed, with windup or electric mechanisms, except for parts and components for the manufacture of toys in this position       | 14                             | 13                             | 12                             | 11                             |
| 9502.10.90 | Other dolls, even when dressed, except for parts and components   | 14                             | 13                             | 12                             | 11                             |

| NCM/SH     | Description of the product  | Addition to TEC (%)            |                                |                                |                                |
|------------|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|            |   | 01.01.2000<br>to<br>31.12.2000 | 01.01.2001<br>to<br>31.12.2001 | 01.01.2002<br>to<br>31.12.2002 | 01.01.2003<br>to<br>31.12.2003 |
|            | for the manufacture of toys in this position  |                                |                                |                                |                                |
| 9502.91.00 | Dresses and their accessories, shoes and hats, except for parts and components for the manufacture of toys in this position                       | 14                             | 13                             | 12                             | 11                             |
| 9502.99.00 | Other parts and accessories, except for parts and components for the manufacture of toys in this position   | 14                             | 13                             | 12                             | 11                             |
| 9503.10.00 | Electric trains, including the tracks signals and other accessories, except for parts and components for the manufacture of toys in this position | 14                             | 13                             | 12                             | 11                             |
| 9503.20.00 | Miniature models, even animated, except for the subposition 9503.10   | 14                             | 13                             | 12                             | 11                             |
| 9503.30.00 | Other sets and toys for construction  | 14                             | 13                             | 12                             | 11                             |
| 9503.41.00 | Toys representing animals or non-human creatures, with filling  | 14                             | 13                             | 12                             | 11                             |
| 9503.49.00 | Other toys representing animals or non-human creatures  | 14                             | 13                             | 12                             | 11                             |
| 9503.50.00 | Instruments and musical apparatus for playing, except for parts and components for the manufacture of toys in this position                       | 14                             | 13                             | 12                             | 11                             |
| 9503.60.00 | Puzzles   | 14                             | 13                             | 12                             | 11                             |
| 9503.70.00 | Other toys, presented in drawings or panoplies  | 14                             | 13                             | 12                             | 11                             |
| 9503.80.00 | Other toys and electric, motorized models, except for parts and components for the manufacture of toys in this position                           | 14                             | 13                             | 12                             | 11                             |
| 9503.80.90 | Other toys and motorized models   | 14                             | 13                             | 12                             | 11                             |
| 9503.90.10 | Other friction toys, windup or spring, except for parts and components for the manufacture of toys in this position                               | 14                             | 13                             | 12                             | 11                             |
| 9503.90.90 | Other toys, except for parts and components for the manufacture of toys in this position  | 14                             | 13                             | 12                             | 11                             |
| 9504.10.10 | Video games, except for parts and components for the manufacture of toys in this position   | 14                             | 13                             | 12                             | 11                             |

| NCM/SH     | Description of the product  | Addition to TEC (%)            |                                |                                |                                |
|------------|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|            |   | 01.01.2000<br>to<br>31.12.2000 | 01.01.2001<br>to<br>31.12.2001 | 01.01.2002<br>to<br>31.12.2002 | 01.01.2003<br>to<br>31.12.2003 |
| 9504.10.91 | Cartridges, except for parts and components for the manufacture of toys in this position                  | 14                             | 13                             | 12                             | 11                             |
| 9504.10.99 | Other parts and accessories, except for parts and components for the manufacture of toys in this position | 14                             | 13                             | 12                             | 11                             |

### Article 3

Considering that which is contained in Article 9 of the Safeguard Agreement, promulgated by Decree No. 1355/94, the dispositions of the foregoing Article do not apply to imports originating in the following developing countries Members of the World Trade Organization – WTO: Antigua & Barbuda; Bangladesh; Bolivia; Chile; Colombia; Singapore; Korea, Rep. of; Ecuador; the Philippines; Guatemala; India; Macau, China; Malaysia; Mexico; Panama; Pakistan; Paraguay; Senegal; Sri Lanka; Uruguay; and Venezuela.

### Article 4

This Order will enter into force on the date of its publication.

## ANNEX

On 20 August 1999, the Brazilian Association of Toy Manufacturers – ABRINQ – hereafter called "petitioner", registered at DECOM a petition asking for the extension of the safeguard measures applied for the sector of toys by the Interministerial Circular MDIC/MF 21, dated 19 December 1996, published in the Official Federal Bulletin, dated 30 December 1996.

The petitioner – as the other State Parties of Mercosul – was informed, by means of Official Document DECOM/GEMAC-99/1377, dated 30 August 1999, of the admissibility of the petition as well.

An analysis of available information confirmed the persistence of serious injury to the domestic industry of toys, as well as that the industry of toys was in a process of adjustment, according to which is contained in the Opinion DECOM No. 10/99. Therefore, the Secretariat of Foreign Trade SECEX published in the Official Federal Bulletin, dated 29 September 1999, the Circular SECEX No. 21, dated 24 September 1999, making it known the opening of the revision of the safeguard measures applied to the imports of toys.

DECOM notified the petitioner about the decision taken, by means of Official Document DECOM/GEMAC-99/1639, dated 1 October 1999, and sent simultaneously a questionnaire to be fulfilled within 15 days by the companies mentioned in that notification and a copy of Circular SECEX No. 21/99.

On 2 November 1999, the Committee on Safeguards of the WTO was notified of the opening of the revision of the safeguard measure applied to the imports of toys by the Pro Tempore Presidency of Mercosul on behalf of Brazil.

On 2 December 1999, the Pro Tempore Presidency of Mercosul notified the Committee on Safeguards of the WTO of the intention of the Brazilian Government to extend the safeguard measures and on its disposition to carry out consultations.

### A. THE REVISION

After the opening of the revision, within the period of 20 days established in item 3 of Circular SECEX 21/99, the following interested parties were qualified and indicated their legal representatives: Mattel do Brasil Ltda., importer of toys; Mattel Inc., North-American producer and exporter of toys; Toy Industries of Europe – TIE, representative of European Toys Manufacturers; the European Commission, through the Delegation of the European Commission in Brazil; the companies Lego do Brasil Ltda. and Chicco do Brasil Ltda., importers of toys; Toys Manufacturers of America Inc. – TMA, the Association of North-American Producers and Sellers of Toys; the Embassy of the United States of America in Brazil; the Embassy of the Peoples Republic of China in Brazil.

Once opened the investigation, there was a verification *in loco* of the information that had been given about the period from 1996 to the first semester of 1999, in eight companies that in 1998 represented 66.7 per cent of the net revenue of domestic industry, specified by their importance and sector of activity.

In the follow-up of the safeguard measure and in the values presented in order to request the extension of the measures, DECOM identified some differences between the data presented and the accounting records. Consequently, DECOM asked for additional information from all companies that

make up domestic industry regarding amounts and values from 1996 to the first semester of 1999, accompanied by documents. All the companies that take part in domestic industry sent the information requested in the foreseen period.

## B. THE PRODUCT

The product which is the object of the revision is toys, classified under the codes 9501, 9502, 9503 and in the sub-code 9504.10, presenting different forms (balls, dolls, crossword puzzles, video games, etc.), with different price levels among the various types of toys.

The evolution of import tax for the tariff items here considered, taking into account the common external tariff and its alteration by Decree No. 2376, dated 12 November 1997, published on 13 November 1997, as well as the additional aliquots established by Interministerial Orders MICT No. 9/96 and No. 21/96, was the following: 20 per cent from 1 January 1995 to 3 July 1996; 70 per cent from 4 July 1996 to 31 December 1996; 63 per cent from 1 January 1997 to 12 November 1997; 66 per cent from 13 November 1997 to 31 December 1997; 58 per cent in 1998; and 38 per cent in 1999.

### B.1 THE "DIRECTLY COMPETING PRODUCT" AND DOMESTIC INDUSTRY

Article 4, paragraph 1, clause "c" of the Agreement on Safeguards, promulgated by Decree 1355/94 defines domestic industry as a set of producers of similar goods or those directly competing with the products under analysis.

Therefore, as it has been understood since the beginning of the investigation that led to the application of the safeguard measures, the expression "directly competing products" refers to those that dispute the same market, which serve the same purpose, that is, products that are near substitutes among themselves.

Thus, domestic industry was defined as the same sample of 21 producers of toys taken into account in the investigation that led to the application of the safeguard measures, which represented in 1998 52.6 per cent of the amount of national production.

## C. SERIOUS INJURY OR THREAT THEREOF

### C.1 IMPORTS

It was verified that from 1995 to 1996, from 1996 to 1997 and from 1997 to 1998, imports in quantity decreased 25.2 per cent and increased 19.2 per cent and 47.1 per cent respectively, resulting in a decrease of 31 per cent from 1995 to 1998.

Imports in terms of value dropped from 26.1 per cent to 23.1 per cent from 1996 to 1997 in relation to the previous year and grew 17.4 per cent in 1998 in relation to 1997. Therefore, from 1995 to 1998 there was a fall of 33.2 per cent in the imports in value.

The evolution of these data after the application of the safeguard measures from 1996 to 1998 showed that imports in value decreased 9.7 per cent, while in quantity they increased 75.2 per cent, reflecting the drop of 48.4 per cent in the average unity value of the finished imported toys.

In the analysis of the first semester of 1999 compared to the first semester of 1998, it was verified that imports in quantity and in value decreased 68.2 per cent and 12.5 per cent respectively, and there was a reversal in the fall of the average unity value, which increased 175.4 per cent.

Imports originating exclusively in WTO countries showed the same variation verified in the import of toys from other sources. There was a decrease in quantity of 44.4 per cent from 1995 to 1996, a growth of 22.5 per cent from 1996 to 1997 and an increase of 78.9 per cent from 1997 to 1998. Imports in value from these countries dropped 37.6 per cent from 1995 to 1996, 4.5 per cent from 1996 to 1997, and grew 2 per cent from 1997 to 1998.

During the period in which the safeguard measure was in force, the evolution of imports from Members of the WTO from 1996 to 1998 showed an accentuated drop in average import prices of 55.5 per cent compared to the decrease of 45.2 per cent in average prices of the imports as a whole.

An analysis of imports originating in the WTO Members in the first semester of 1999 compared to the first semester of the previous year showed that their share in the imports grew 5.5 per cent in quantity and dropped 14.3 per cent in value.

#### C.1.1 PARTICIPATION OF IMPORTS IN APPARENT SALES

It was verified that apparent sales of toys fell during the whole period: 4.3 per cent from 1995 to 1996; 5.8 per cent from 1996 to 1997 and 4.4 per cent from 1997 to 1998. Imports excluding Mercosul dropped 6.9 per cent, 18.4 per cent and grew 10.5 per cent respectively. Therefore, the evolution of imports in apparent sales excluding Mercosul was the following: 25.4 per cent in 1995, 24.7 per cent in 1996, 21.4 per cent in 1997, and in 1998 it returned to the level of 24.7 per cent.

In the first semester of 1999 compared to the previous year, imports excluding Mercosul fell 12.5 per cent, while the market decreased 41.1 per cent, which led to a growth of 11.6 per cent in the share of imports in the apparent sales excluding Mercosul.

It should be emphasized that imports originating in Mercosul countries had a share close to 1 per cent in apparent sales during the whole period which was examined.

#### C.1.2 IMPORTS VERSUS DOMESTIC PRODUCTION

The relation imports versus domestic production grew 24.6 per cent from 1995 to 1996, dropped 27.5 per cent and increased 7.3 per cent in 1997 and in 1998 compared to the previous year.

In the first semester of 1999 in relation to the same period of the previous year, the ratio imports versus domestic production grew 18.9 per cent because of the strong decrease in the volume of domestic production.

### C.2 DOMESTIC INDUSTRY

#### C.2.1 SHARE OF DOMESTIC INDUSTRY IN APPARENT SALES

It was verified that domestic industry kept its share in apparent sales from 1996 to 1997 and lost 3.7 per cent from 1997 to 1998. It should be emphasized that the decrease in the share of domestic industry in the internal market of toys from 1997 to 1998 cannot be attributed to other domestic producers, whose share remained stable during the same period.

Besides that, when it was observed what occurred in the first semester of 1999 in relation to the previous year, it was verified that the share in apparent sales of the domestic industry decreased 4.7 per cent, while that of the other producers fell 6.7 per cent.

### C.2.2 INSTALLED CAPACITY

In this item it is worth recalling that, as it was registered in Opinions DECOM No. 17/96 and 10/99, the analysis of the evolution in the utilization of the installed capacity could not be carried out in order to evaluate the serious injury or the threat thereof at the moment of the application of the safeguard measure. Although it had been taken into account in the questionnaires sent to domestic industry, the measurement of the installed capacity was not viable as regards the firms because of the great flexibility of the mix in production. In the same line of production differentiated types of product it can be manufactured differentiated types of products that may absorb greater or lesser quantities of raw material and hours worked, which led producers to different evaluations of the measurement of this capacity.

Given this particularity of the industry of toys the analysis of the evolution in the installed capacity was not carried out.

### C.2.3 PRODUCTION EVOLUTION

It was verified that the quantity produced grew 17.8 per cent from 1996 to 1997 and dropped 8.5 per cent from 1997 to 1998. Therefore, the volume of production of domestic industry increased 7.8 per cent. The production value in its turn showed a growth of 0.5 per cent from 1996 to 1997 and a decrease of 15.3 per cent from 1997 to 1998. From 1996 to 1998, the value produced fell 14.9 per cent.

In the first semester of 1999 compared to the same period of the previous year there was a decrease of 13.6 per cent in the quantity produced and of 51.2 per cent in the production value.

### C.2.4 EVOLUTION OF SALES IN THE DOMESTIC MARKET

It was observed that domestic sales in quantity grew 10.6 per cent in 1997 compared to the previous year and fell 5.4 per cent from 1997 to 1998. The revenue from domestic sales had a different behaviour, having dropped 5.6 per cent from 1996 to 1997 and 12.3 per cent from 1997 to 1998, which led to a reduction in the domestic industry revenue of approximately US\$53.1 million (fifty-three million one hundred thousand North American dollars) from 1996 to 1998.

In the first semester of 1999 in relation to the first semester of 1998, the quantity sold in the domestic market by domestic industry fell 7.1 per cent, while the revenue dropped 48.3 per cent.

The evolution in domestic sales by domestic industry pointed out that there was a decrease of 14.7 per cent in average prices of products sold from 1996 to 1997 and a new decrease of 7.4 per cent from 1997 to 1998. As it was observed in the revision, this is due to the fact that domestic industry started producing a mix of production of lesser unitary value in the period from 1996 to 1998. It is worth noting the fall of 21 per cent in average prices of domestic industry in the same period.

### C.2.5 DEVELOPMENT OF EXPORTS

The exports of toys represented a reduced proportion of domestic production in the period under analysis. A growth in quantity of 1.2 per cent was observed in the exports in 1997 compared to 1996. From 1997 to 1998 there was a growth of 57.9 per cent, which resulted in an increase in the exports of 58.9 per cent from 1996 to 1998. In the first semester of 1999 there was an expressive drop in exports.



#### C.2.6 STOCK DEVELOPMENT

Stocks of finished toys decreased 27.5 per cent from 1995 to 1996, increased 2.4 per cent from 1996 to 1997 and fell 24.2 per cent from 1997 to 1998. In the first semester of 1999, there was a growth in stocks of 11.3 per cent in relation to December 1998 but if it is compared to the first semester of 1998 there was a reduction of 31.6 per cent.

#### C.2.7 DEVELOPMENT OF EMPLOYMENT AND PRODUCTIVITY

The toy sector has an intensive absorption of labour force and presents an accentuated periodicity with sales concentrated on the last three months of the year, because of Children's Day and Christmas, which leads to a growth in production in the second semester. Therefore, it was verified that on average the number of employees in the factories in the second semester was higher than that of the first semester – approximately 23 per cent regarding those directly linked to production and 16 per cent on the whole.

Considering the first semester of 1999, the number of employees linked to production grew 1 per cent in relation to the first semester of 1998 and 9.6 per cent in comparison to the same period of 1996, when the safeguard measures were not in force.

As regards the total of employees, there was a decrease of 2.2 per cent from the first semester of 1998 to the first semester of 1999 and a decrease of 7.4 per cent in comparison to the same period of 1996, which is directly related to the adjustment carried out by the firms in order to rationalize expenses, dismissing employees linked to the sector of sales and contracting independent sales representatives and outside firms.

An analysis of the index resulting from the ratio between the production of toys and the number of employees directly linked to production showed an average productivity index of 7.5 in the years from 1996 to 1998. Nevertheless, considering only the first semester of the years 1998 and 1999, in which production was smaller, the average of the productivity index showed a retraction. The reduction in the number of employees has taken place in quantities inferior to the fall of production: from 1997 to 1998, there was a decrease of 8.6 per cent in the production and of 7.2 per cent in the number of employees; from the first semester of 1998 to 1999 production decreased 13.6 per cent and the number of employees fell only 2.7 per cent.

#### C.2.8 EVOLUTION OF TOTAL SALES

From 1996 to 1998, there was a decrease in the revenue of the domestic industry of toys of around 17.4 per cent and a growth of 5.3 per cent in the quantity sold. Between 1996 and 1997, the revenue fell 6.1 per cent, while the quantities sold grew 10.6 per cent. Between 1997 and 1998, the revenue of domestic industry decreased 12.1 per cent and the quantities sold fell around 5.4 per cent.

Comparing the first semester of 1999 to the first semester of 1998, it is verified a fall of 48.5 per cent in the revenue of domestic industry, while quantities sold fell only 7.1 per cent.

The fact that the fall in the revenue of the sector was more significant than the fall of quantities sold could be explained by the alteration in the mix of production of toys, as observed during the revision. Taking into account the great flexibility of the installed capacity of the firms domestic industry started producing a higher quantity of lesser valued toys.

### C.2.9 PRICE EVOLUTION

Considering the characteristics of the competition in the sector, which encompasses a wide range of types of goods and the frequent launching of new ones each year, and consequently by the short life of their models, the elaboration of series of prices by type of product was not feasible.

The alternative found was to carry out a comparative analysis of the evolution in the General Index of Prices – IGP and the Index of Toys Prices – IPB, both of them from the Foundation Institute for Economic Research – FIEP, of the University of São Paulo, and the index of the average monthly prices of domestic industry, obtained by the ratio between the revenue and the quantity sold by domestic industry.

A tendency towards the fall in the prices of the sector has been clearly seen. It is worth noting that a fall in the average value of the products sold in the domestic market by domestic industry from 1996 to the first semester of 1999 is compatible with the declining tendency of prices pointed out by IBP/FIEP.

### C.2.10 ECONOMIC AND FINANCIAL ANALYSIS

The economic and financial analysis was based on the data extracted from the patrimony accounts and the demonstrative accounts of the firms results, in which the share of toys manufactured internally corresponded to at least 50 per cent of the net income from the self-manufactured products in 1998. The reason for this selection was that the share of other production lines, as well as that of the sale of imported goods compared to the line of toys, in high percentages, would disqualify the analysis of the firms' results for the purpose of evaluating of the development of the domestic industry of toys. Thus, of the 21 companies that make up the domestic toy industry, four were removed because they did not meet this requirement and one did not elaborate the patrimony accounts. Therefore, the total amounted to 16 firms.

The share of the cost of product sold in the operational net income grows 3.8 per cent from 1996 to 1998. In 1997, in relation to the previous year, the cost of the product sold in the operational net income falls 0.4 per cent and from 1997 to 1998 the share grows 4.2 per cent, resulting in a reduction of the gross margin of 1996 in relation to 1998.

It was verified that gross and operation margins excluding financial results presented the same behaviour when the years 1996 and 1998 are compared, that is, a fall of 3.8 per cent and 1.2 per cent respectively. Yet operational and net margins grew 4.2 per cent and 2.6 per cent. It was also verified by the comparison of operational margins that the financing results continued to have a negative impact on the results of this sector.

In 1997 in relation to the previous year there was an increase in the gross margin of 0.4 per cent, in the operational margin of 8.6 per cent and in the net margin of 3.3 per cent. The only fall – 0.2 per cent – took place in the operational margin excluding financial results, which reflected the good results obtained by the sector of toys.

In 1998 in comparison to 1997, gross margin fell 4.2 per cent, operational margin decreased 4.4 per cent, operational margin excluding financial results dropped 1 per cent, and net margin fell 0.7 per cent.

It is worth noting that net and operational margins remained negative during the whole period analysed.

The index of current liquidity grew during the whole period under analysis. It increased 15.3 per cent from 1996 to 1998, which means an improvement in the capacity of the sector to pay its debts in the short term.

The index of general indebtedness of the sector of toys grew during the whole period under analysis. It is worth noting that the indebtedness profile of the sector from 1996 to 1998 was altered. In 1996 the short term indebtedness corresponded to 41 per cent of the total indebtedness and the long term amounted to 30 per cent in 1998, the short term indebtedness became 34 per cent of the total indebtedness, whereas the long term amounted to 43 per cent.

### C.3 DETERMINATION OF SERIOUS INJURY OR OF THREAT THEREOF

An analysis of the evolution of imports and of the situation of domestic industry pointed out that:

- (a) From 1995 to 1998 apparent sales in value decreased steadily, showing an accumulated fall of 14 per cent. In the same period imports in value excluding Mercosul decreased until 1997. In 1998 in relation to 1997 these imports grew 10.5 per cent;
- (b) sales in domestic industry in its turn dropped 17 per cent from 1996 to 1998. The decrease in these sales in the first two years was close to the reduction verified in apparent sales, while in the subsequent period its reduction was quite higher than the retraction of the market. Thus, the domestic industry that represented around 43 per cent of apparent sales in 1996 and 1997 reduced its share to approximately 40 per cent in 1998;
- (c) taking into account the simultaneous increase of 10.5 per cent in imports excluding Mercosul in 1998 in comparison to 1997, the growth of these imports can be attributed to the decrease in the share of domestic industry in the last year under analysis;
- (d) the movements of sales of domestic industry reflected in the performance of the quantity produced, in the employment directly linked to production, in labour contracted with outside firms, as well as in gross, operational and net margins, which grew from 1996 to 1997 and fell from 1997 to 1998;
- (e) stocks grew 2.5 per cent from 1996 to 1997 and fell 24 per cent in 1998, in relation to the previous year, indicating a change in the policy of maintenance of stocks, contributing to the financial adjustment of domestic industry;
- (f) in this sense, it was also noted the extension of the general indebtedness profile of domestic industry, generating a better index of current liquidity, although with an increase in the index of indebtedness;
- (g) additionally, it was verified a significant increase in the quantity exported by domestic industry, 59.9 per cent (1998/1996), although their share in production was quite reduced.

An analysis of the data regarding the first semester of 1999 in relation to the same period of the previous year indicated that there was a decrease of 41 per cent in apparent sales, which may be explained by the recession in the Brazilian economy. With regard to toys, the slowdown in the

economy along with unemployment provokes a strong impact on the demand of the product, because it is not an essential product. Imports excluding Mercosul decreased 12 per cent and sales of domestic industry fell 48 per cent. Consequently, there was a significant increase of 11.6 per cent in the share of these imports in apparent sales, while the participation of domestic industry fell 4.7 per cent. The quantity produced dropped 67 per cent. Nevertheless, this decrease did not have any effect on employment directly linked to production. Stocks fell 31 per cent reflecting the above-mentioned policy of adjustment.

#### D. THE COMMITMENT OF ADJUSTMENT

An analysis of the commitment taken from 1997 to the first semester of 1999 showed that the investments made corresponded to 80 per cent of the investments foreseen, amounting to R\$120.2 million (one hundred and twenty million reais). In this item, it was taken into account all the expenses of the last period under analysis with respect to the following points: productive capacity, including improvements in quality/productivity, improvements in processes and goods, purchase of machinery and equipment and rental of models, innovative effort in the product, including its development, design and creation, licences and certificates of products, human resources qualification, training, qualification in the sales sector, share in international and national fairs and marketing.

During the revision, 30 firms, among which are included all the domestic industry, presented a new commitment of adjustment. This commitment not only implies the conclusion of the commitment taken earlier but also foresees an additional effort. Beyond that, a sectorial commitment was taken by the petitioner on behalf of the producers of toys, including actions that will allow the industry to continue its adjustment to the conditions of international competition.

#### E. CONCLUSION

The analysis of the revision showed that, from the application of the safeguard measures on imports excluding Mercosul dropped in value until 1997, changing the tendency towards significant growth verified earlier. This reversal in imports ensured the beginning of the recovery of domestic industry, which in the years 1996 and 1997 maintained its share in apparent sales, increased the quantity produced and the level of employment (employment directly linked to production and labour contracted with outside firms) and increased operational, net and gross margins.

This recovery was interrupted in 1998, because of the growth in imports, which increased their participation in apparent sales, dislocating sales of domestic industry, which reflected in the quantity produced, employment (directly linked to production and labour contracted with outside firms) in the margins (gross, operational and net excluding financial results and net margins). In spite of the interruption of the recovery of domestic industry, it was verified an improvement in its index of current liquidity, because of the extension of the indebtedness profile.

Additionally, domestic industry has promoted adjustments, investing in productive capacity, launching of new goods, training and marketing, which are decisive for the competitiveness of the sector.

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