

**NOTIFICATION UNDER ARTICLE 12.5 OF THE
AGREEMENT ON SAFEGUARDS OF THE RESULTS
OF A MID-TERM REVIEW REFERRED TO IN ARTICLE 7.4**

BRAZIL

The following communication, was received on 7 April 1999 from the Permanent Mission of Brazil.

This notification is made pursuant to Article 12.5 of the Agreement on Safeguards, which provides that results of mid-term reviews referred to in paragraph 4 of Article 7 shall be notified to the Council for Trade in Goods. This notification follows the format specified in document G/SG/W/1, dated 23 February 1995.

1. Mid-term review of safeguard measure on imports of toys, classified under the following positions of the Mercosul Common Nomenclature (NCM):

9501.00.00/9502.10.10/9502.10.90/9502.91.00/9502.99.00/9503.10.00/ 9503.20.00/9503.30.00/9503.41.00/9503.49.00/9503.50.00/9503.60.00/ 9503.70.00/9503.80.10/9503.80.90/9503.90.10/9503.90.90/9504.10.10/ 9504.10.91/9504.10.99

The safeguard measure was applied as an additional duty to the Mercosul Common External Tariff (TEC), according to the following schedule:

Period	Additional Duty
04.07.96 a 31.12.96*	50%
01.01.97 a 31.12.97	43%
01.01.98 a 31.12.98	29%
01.01.99 a 31.12.99	15%

(*) Provisional Measure – notified to the WTO and circulated in document G/SG/N/7/BRA/1, dated 12 July 1998.

The application of the measure was notified to the WTO and circulated in document G/SG/N/10/BRA/1-G/SG/N/11/BRA/1, dated 13 January 1997. A subsequent alteration was notified and circulated in document G/SG/N/11/BRA/1/Suppl.1, dated 28 October 1997.

2. The review started in March 1998, as indicated in document G/SG/N/8/BRA/1, dated 20 November 1996, and was concluded in October 1998.

3. Analysis of the evolution of imports and of the situation of the domestic industry:

With a view to evaluate the situation of the domestic industry – as defined when determining serious injury - after the application of the safeguard measure, data was used for the period of January 1995 – December 1997.

The analysis of the evolution of imports and of the situation of the domestic industry indicated that in 1997, as compared to 1995, imports fell in volume and value. At the same time, production fell, and so did sales in the internal market and exports, both in value and volume. There was also a drop in the average price of sales in the internal market and of net operational income, while there was an increase of general indebtedness.

On the other hand, stocks fell, employment level was higher (total and production related), imports/production rate diminished, there was growth in gross, operational, operational except for financial results, and net margins, and the liquidity index was up.

During the period of analysis, 1995 –1997, domestic industry indicators showed the following results:

- Drop of 7.2 percentage points in the rate value of imports/value of production.
- Drop of 2.2 per cent in quantities sold in the internal market by the domestic industry.
- Drop of 13.9 per cent in sales of the domestic industry in the internal market.
- Drop of 12.2 percentage points in the relative participation of the domestic industry in apparent consumption.
- Drop in the production of the domestic industry: 13 per cent in volume and 30.1 per cent in value.
- Installed capacity use increased by 9.2 percentage points in the first semester of 1997 and by 2 percentage points in the second semester of 1997 as compared to the same periods of the previous year.
- Exports fell by 79.3 per cent in volume and by 76.5 per cent in value.
- Stocks fell by 29.3 per cent.
- Total level of employment rose by 67.3 per cent and production-related employment rose by 84.7 per cent.
- Average price in the internal market fell, both using IGP (*Índice Geral de Preços*) and the US\$ exchange rate as deflators.

- Drop of 12.7 per cent in the net operational income.
- Increase in margins (gross, operational except for financial results, and net).
- Increase in the current liquidity index and gradual raise in the level of indebtedness.

It is worth noticing that, although from 1996 to 1997 there was an increase in production (volume and value), internal sales (volume), and net operational income, these indicators remained under 1995 levels, year when serious injury to the domestic industry was determined.

With regard to apparent consumption, the lower share of the domestic industry is due to an increase of market shares of other internal producers. This shows that the safeguard measure is playing a decisive role, not only in restraining the growth of imports participation in the internal market, but also in stimulating the growth of other enterprises, helping to reduce the level of concentration of firms operating in this economic sector.

The ensemble of these indicators demonstrates that the domestic industry still faced a serious injury situation in 1997, but it is showing signs of recovery.

The governmental authorities have systematically monitored the commitment of adjustment presented by the sector, including by means of in site inspection. Such monitoring indicated that the commitment of adjustment is being implemented.

In light of the results of the mid-term review, the safeguard measure will maintain its original schedule.
