



**STATE OF THE INDUSTRY REPORT
2013 ICTI ANNUAL GENERAL MEETING**

PRIORITY ISSUES – BY COUNTRY
Monday, June 3rd ... 10:15 am – noon

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ARGENTINA

Input was not received prior to production of this compiled report.

AUSTRALIA

Issue I: High Australian Dollar

As a country, a high dollar means low revenue for the government which puts the country into deficit. The high Australian Dollar also encourages the consumer to purchase online or overseas.

Issue II: LVIT Issue

The ATA has been lobbying the Australian Government, challenging the low value import tax on imported goods under \$1000. From an industry perspective this puts the importer at a disadvantage to online shopping.

AUSTRIA

Issue I: EN 71 and all changes

Issue II: Absence of Toy Trade Fair

Several consumer toy fairs like in previous years attracted several 100.000 visitors. N.B. There has been no professional toy trade fair held in Austria for many years.

BRAZIL

Issue I: Toy Fair – in April, 2012

This event focuses most part of toy sales all the years.

Issue II: Reduction of federal taxes on the cost of labor

CANADA

Issue I: Digital play and lack of innovation within traditional toys

There continues to be much innovation within digital play. Children continue to gravitate towards Apps and their screen time is growing in tablets and/or mobile devices. There was no “hot” toy that generated strong consumer excitement and demand. We are very much concerned about the importance of play and how play is a cornerstone in a child’s development.

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Issue II: The changing retail landscape

In 2012, Canada saw its 3rd largest retailer (Zellers) liquidate and close its doors. Could the toy industry have grown more in 2012 if the three largest players (Toys R Us, Walmart, and Zellers) had been in full operational mode? New entrants in 2013 (i.e.: Target for now) will provide consumers more options on where to shop and increase the competition between established retailers in Canada. Will the presence of new retailers hurt the independent toy retailer and compress the toy industry even more so?

CHINA

No response provided.

CHINESE TAIPEI

Issue I: European debt crisis and global economic downturn

The European debt crisis and global economic downturn this year seriously influenced Taiwan's export volume caused by the sharp drop in orders from major export markets, such as U.S.A. and EU.

Issue II: Prices of both oil and electricity get higher in Taiwan in 2012.

According to our government policy, the prices of both oil and electricity had been increased during 2012, which will inevitably push up toy production costs and reduce marketing competitiveness.

DENMARK

Issue I: Preparations for the coming into effect of the chemical part of the European Toy Safety Directive on 20 July 2013

All EU Member States started applying the new measures of the European Toy Safety Directive (Directive 2009/48/EC) on 20 of July, 2011 except for annex II part III (chemical requirements). Recognizing that this is a more complicated area, the parts of the Directive relating to chemical content will only come into force on 20 July 2013.

All information on the EU Toy Safety Directive can be found on:

http://ec.europa.eu/enterprise/sectors/toys/documents/directives/index_en.htm

With the chemical requirements of the Toy Safety Directive coming into force all requirements of the European Toy Safety Directive will thus finally be in force. This of course also means that all toy companies are obliged to be fully compliant with all the new toy safety rules from day one.

While enforcement of the new rules has not been overly rigorous to date, we expect authorities to take a different approach in the future as they would expect the industry to have had ample time to adjust to the changes. This also means that not meeting the requirements will have severe consequences not only for the individual company who fails to comply, but also for the reputation of the toy industry in general. We already know that consumer organisations and NGOs are following

the entry into force of the new toy safety rules very closely, and that they will be seeking an opportunity to catch out companies that do not adhere to the rules.

The implementation of the Toy Safety Directive is of course very important for our members who have to comply with a very detailed legislation.

It is therefore very important to both Toy Industries of Europe (TIE) and NordicToys to be able to assist our members with replying to any outstanding questions you may have in relation to the new regulation.

However, an effective European market surveillance and market control is definitely also of the greatest importance to the entire responsible toy industry. With the full implementation of EU's Toy Safety Directive it becomes more important than ever to stop the "free riders" who will make no attempt to live up to the legislation, and who threatens the image of the entire toy industry.

Both TIE and NordicToys are actively advocating for the EU Member States to allocate sufficient resources for an effective market control – also in connection with the new European market surveillance package which is on the way through the EU system at the moment.

The Danish Safety Technology Authority carries out market surveillance in Denmark and administers general product safety, including safety control of toys, baby products and other consumer products.

NordicToys has a very good rapport with the Danish Safety Technology Authority and meets with them several times a year. NordicToys is represented in the authority's advisory committee regarding among others market control.

FRANCE

Issue I: Depressed Economy

With a depressed public debt and a rising unemployment rate (over 10% now) the French economy is showing more and more signs of weakness and general consumption that has always been an engine for the economy is now suffering. This obviously has affected the toy market, which has shown its first decrease since 2008-though moderate: -2%

Cash tight retail has been very careful in purchasing to minimize overstock risks and request for discounts /promotions has been higher than ever, resulting in a strain on toy manufacturers' profitability.

Issue II: Channel evolution, dramatic growth of online sales

French toy market in the last ten years benefited from the continuous opening of many specialty toy outlets all around the countries: there are now more than 1000 specialty shops in the country. Sales were balanced between these toy shops and hypermarkets.

In 2012 we saw the rise of online sales that grew +37% while total market decreased by 2%. Online sales represented 14% share with pure players at nearly 10%. This puts toys specialists at high risk as they operate with much higher overhead, which would affect the toy sales in the coming years.

GERMANY

Issue I: Toy Safety – Heavy metals

Toy Safety, May 2012: Germany takes the European Commission to court with the objective of applying the old limits for heavy metals.

Media Coverage: The new Directive is less strict where heavy metals are concerned.

DVSI/TIE Action: The new Directive is more sophisticated and scientifically accurate than the previous Directive. The new Directive differentiates between toy materials (liquid, powder-like and solid) and the ways in which children interact with the material during play, leading to substantially lower limits where exposure is more probable. Only the category of materials where exposure is less likely have the limit values in some cases theoretically increased. This does not, however, mean that manufacturers will start adding these substances to their toys.

Issue II: PAHs

Toy Safety, December 2012, Proposal of the European Commission to all Member States: Uniform limits for PAHs (1 ppm). Germany mentioned that they still would prefer a limit value of 0,2 ppm.

DVSI Action: Reaching out to the German Authorities to clarify the position (DVSI welcomes the Commission's position).

HONG KONG

Issue I: Global Economic Effect

The effect of Europe's debt crisis and U.S. economic recession continued in 2012. The global demand of toys has remained weak. The competition is keen and the orders received are smaller in lot size, while shorter delivery lead time is required. Besides, the statutory minimum wage (HK\$28/ hour) was launched in Hong Kong since May 2011 and intended to rise in the near future. Recently, the review on the wage is in the progress, this increases the pressure of labour cost for Hong Kong enterprises. Meanwhile, most Hong Kong toy makers set their production facilities offshore in China, mainly in PRD area, the labour shortage and high labour cost were also high concerns to Hong Kong toy manufacturers. According to the survey on the "Opportunities and Challenges facing the Hong Kong Toy Industry - Questionnaire Survey 2011" jointly conducted by Federation of Hong Kong Industries, Hong Kong Toys Council and The Toys Manufacturers' Association of Hong Kong from mid-November to mid-December of 2011, the major challenges faced by Hong Kong Toys Manufacturers are the soaring material prices (27.5%), the surging wages in mainland (30.2%) and the weak export market (30.9%).

To sail through the difficult time and sustain the toy business, Hong Kong manufacturers relying in OEM/ ODM operation were encouraged to be innovative, upgrade their business and build up their own brand. Besides, they explored the opportunity in domestic sales in mainland.

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Please refer to below performance of toy export of Hong Kong. The increase in export may due to the increase in RMB valuation.

	2010		2011		2012	
	(HK\$m)	Growth %	(HK\$m)	Growth %	(HK\$m)	Growth %
Domestic Exports	194	+26	302	+55.7	289	-4.2
Re-Exports	76,957	-19	80,151	+4.2	78,536	-2
Total Exports	77,151	-19	80,453	+4.3	78,826	-2

Issue II: Exploring domestic market in China

In view of the downturn of U.S. and EU markets, Hong Kong toy industry players need to review their business strategies and explore new markets in order to sustain their competitiveness.

The mainland market continues to grow at rocket speed, many parents are aware of the safety of toy and children products, this would be the opportunity for Hong Kong toy manufacturers to market their safe and high quality "Made by Hong Kong" toys to the Mainland. However, most of the Hong Kong toy manufacturers have involved in OEM operation, they are not familiar with the Mainland toy market, as well as to build a brand and reach / develop the distribution channels in the Mainland. It was under these circumstances that the Hong Kong Toy industry started working on a project under government funding which provided a series of training, workshops and mission to assist Hong Kong toy industry to get into the newly explored domestic market.

ITALY

Issue I: New chemical requirements for the Directive 2009/48/CE

New European Safety Directive 2009/48/CE has been implemented into Italian law by a National Decree in 2011. All the effects of the NTSD have started from July 20th 2011 for the mechanical, physical and flammability requirements, while the chemical ones will start from July 20th 2013.

2012 has been a relevant year for our members to prepare the new production for the upcoming standards. In particular they had the chance to accomplish the trade of stocks products complying with old standards while they started to consider the new requirements for next productions. This should have an impact on the industry, and affects the launch of new products.

Issue II: Economical (and financial) situation on the internal market

We recorded for a second year a decrease in the sales of toys in Italy : -2,2% in 2012. Even if the percentage is not too bad compared with other sectors (for example Christmas decorations and festive items lost 25-30%), there is another aspect that worsen the situation: the long term for payments and the loss of some wholesalers that generated heavy bad debts for producers / importers. This financial crisis of the system, strictly connected to the lowering of consumption, will heavily affect the 2013 situation. The solution for many producers is try to improve the penetration in other markets than the internal one.

JAPAN

Issue I: Decreasing of toy sales

Japan saw an increase of toy sales by 3.4% in fiscal year 2011. (Apr. – Mar.) However, toy sales in Japan decreased from May in 2012 through the year end. The following elements are said to effect:

- Weak confidence of consumers
- Overall economic conditions (deflation trend)
- Lack of hit items

Issue II: The sharp depreciation of the yen

New cabinet formed in December 2012 has initiated the monetary easing policy, which has led the sharp depreciation of the yen. (80 yen/USD ⇒100 yen/USD). The policy is aimed at economic growth, rise of wages and the boost of consumption, which have been welcomed by Japanese nationals. On the other hand, the yen depreciation has raised the cost to imported toys. Japanese toy companies have kept careful eyes on the next development.

MEXICO

Issue I: Elimination quotas on Chinese toys

Until December 2011, Mexico's toy industry retained quotas on Chinese toys. These quotas have been since 2012 completely eliminated in accordance with a previous established agreement with the world trade organization. Some feared that this would result in an inundation of the Mexican market with inexpensive toys produced in china, driving down prices of traditional toys and games and causing real damage to domestic producers. The statistics say that it did not have a significant effect. The is another big problem: undervaluation.

Issue II: Electronic devices vs. toys and games

Although there has been a strong trend of children moving towards electronic devices, this has translated into children moving toward devices such as computers, smartphones, mp3 players and tablets, instead of it leading to a strong increase in the popularity of traditional and electronic toys and games.

NETHERLANDS

Input was not received prior to production of this compiled report.

RUSSIA

Input was not received prior to production of this compiled report.

SPAIN

Issue I: Economic crisis

The state of Spanish economy impacted toy sales in 2012, with an 11% decrease in the internal market.

Issue II: Misinterpretation of tariff calculation defeated

Change in the treatment of license values due to Supreme Court rulings avoiding increases of tariff costs (including the license cost in the tax value & VAT).

SWEDEN

Issue I: Smartphones and Tablets

The sales of smartphones and tablets skyrocketed last year, affecting the sales of other product categories.

Issue II: The new chemical requirements in the Toy Safety Directive

The coming of new tough EU legislation has increased the interest of the national association.

SWITZERLAND

Input was not received prior to production of this compiled report.

UNITED KINGDOM

Issue I: Toy Safety Directive and coping with regulation generally

We aim as an association to challenge regulation where it is unwarranted and to guide members as to upcoming challenges and existing regulations through a variety of means, including guidance advice and educational programmes

Issue II: The changing face of retail / trading conditions

Changing and contracting retail channels, the competition for children's time, new portable technology, European export difficulties, competition from less reputable importers, supply pressures and consumer spending are all adding to the pressure on toy manufacturers and their margins.

UNITED STATES

Issue I: Challenges during fourth quarter sales season

A multitude of challenges during the critical fourth quarter selling season posed the most significant threats to holiday sales that toymakers had seen in many years. These factors included continuing consumer concern over the looming U.S. (and global) fiscal crisis (dubbed the “fiscal cliff”); infrastructure damages to businesses, manufacturing facilities and transportation systems resulting from a ‘super storm’ that hit the East Coast at the end of October; and container delivery delays linked to worker strikes at ports in New York and Los Angeles.

Issue II: Increased regulatory pressures

Toy companies faced increased regulatory pressures in the areas of chemical management and marketing to children due to the implementation of strict new requirements in the states and at the national level (e.g., California’s Green Chemistry regulations, initial implementation of Washington State’s chemical reporting requirements, and an announcement by the Federal Trade Commission of new requirements for environmental marketing (“green guides”) and online privacy restrictions under the Children’s Online Privacy Protection Act).