



Toy Industry

in Argentina / January 2021



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01/ Executive Summary



// EXECUTIVE SUMMARY

- The Argentine toy industry dates back to 1935 and during the 1970s it was able to reach its maximum deployment, responding to internal demand.
- By 2019, the local toy market reached USD 125 million in sales.
- The national toy sector seeks to achieve a 50% share of local sales. According to media reports, Government may consider applying restrictions on the imports of toys in the upcoming months.
- Due to the COVID-19 pandemic, the online sales have grown more than the traditional toy store channel.
- The trajectory of different local companies in the last decades and the quality of human resources, make the toy sector an interesting opportunity to carry out joint ventures.



02/ Market Vision and Structure

// VALUE CHAIN STRUCTURE

VENDORS

- Plastic supplies
- Textile materials
- Metallic (iron, steel, others)
- Paper, cardboard
- Mechanisms for toys
- Packaging materials (paper, cardboard, supplies graphics, others)
- Others



TOY INDUSTRY

- Design
- Manufacturing
- Marketing
- Promotion

**Rules of security
(INTI, IRAM) (*)**

Importers



DISTRIBUTION CHANNELS

- Toy store chains
- Traditional toy stores
- Super and hypermarkets
- Articles business for home
- Wholesalers
- Others
- Articles business





// MARKET SIZE 2019

180 National factories

410 Importers

30% Share of the Argentine toy market in the total market

19.67 Imports (in million of kilos)

10,000+
employees

Source: CAIJ.

2019

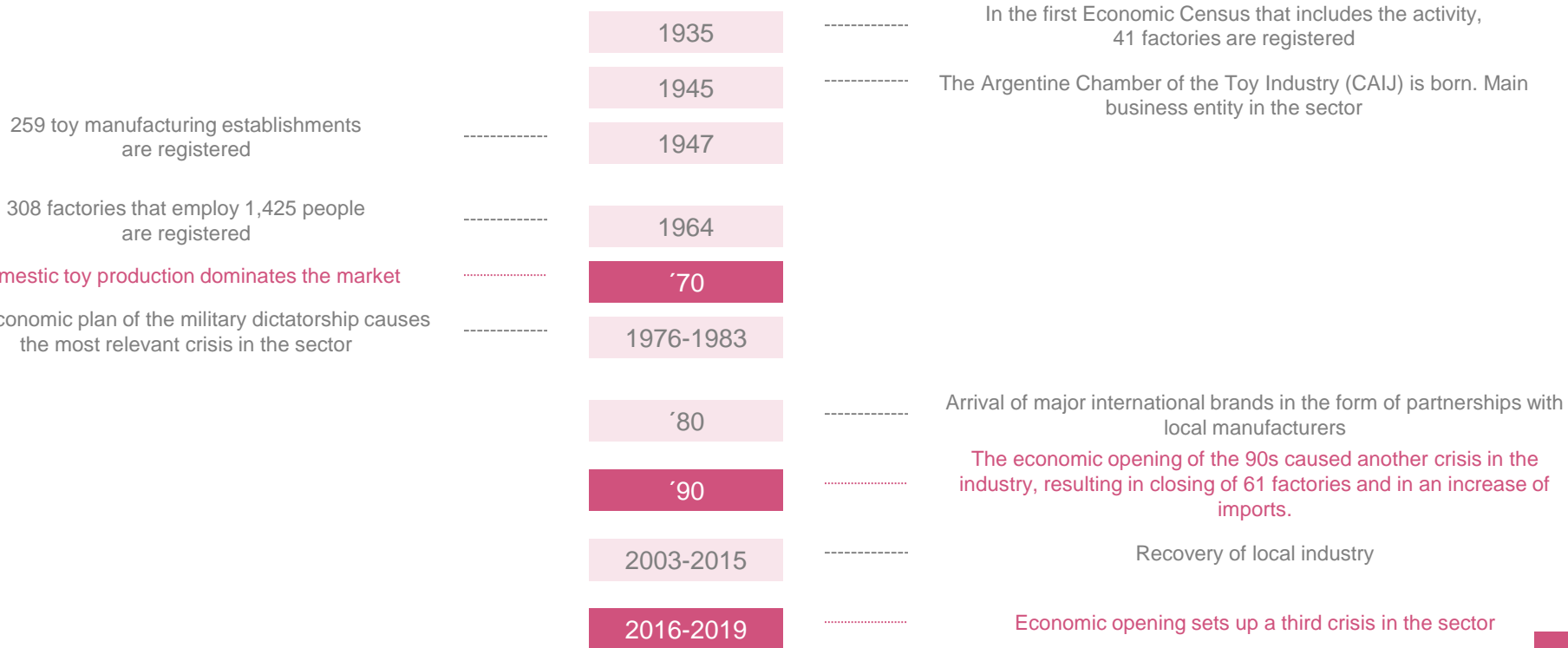
TOTAL MARKET
USD 125 million

IMPORTS
USD 86 million

EXPORTS
USD 0.05 million



// MILESTONES OF THE ARGENTINE TOY INDUSTRY



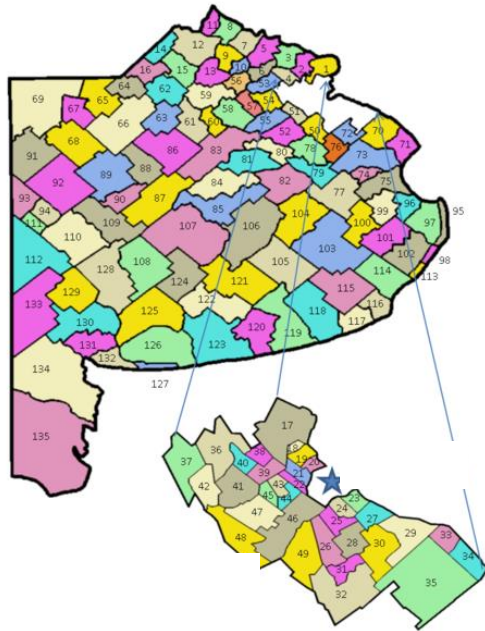


// EVOLUTION OF THE ARGENTINE TOY MARKET

	2015	2019
Share of the Argentine toy market in the total market	51%	30%
Imports (in million of kilos)	11.25	19.67
Importers	228	410
National factories	200	180
Work shifts	24x6	8x4
Idle capacity	10%	40%

Reduction due to increased imports and economic recession of 2018-2019

// NATIONAL PRODUCTION 2019

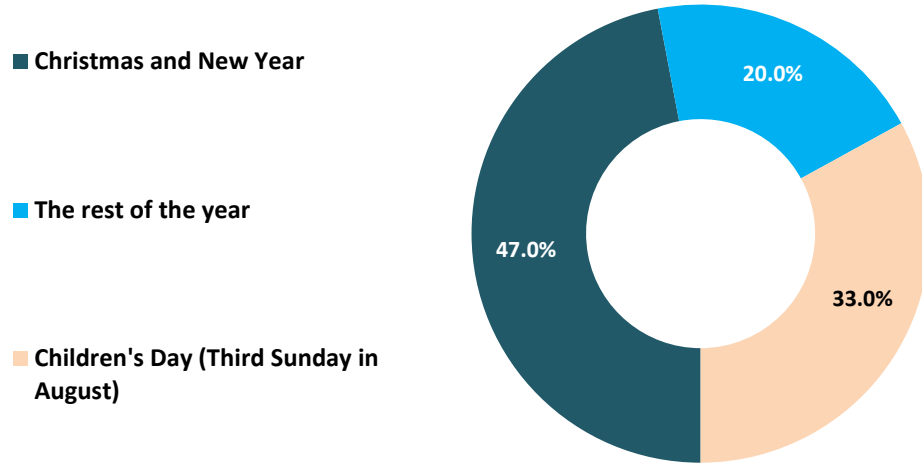


City of Buenos Aires
and Buenos Aires
90%

The producing companies are mostly SMEs and national capitals. 90% are located in the Federal Capital (CABA) and the province of Buenos Aires (PBA).



// MAIN SHOPPING MOMENTS 2019

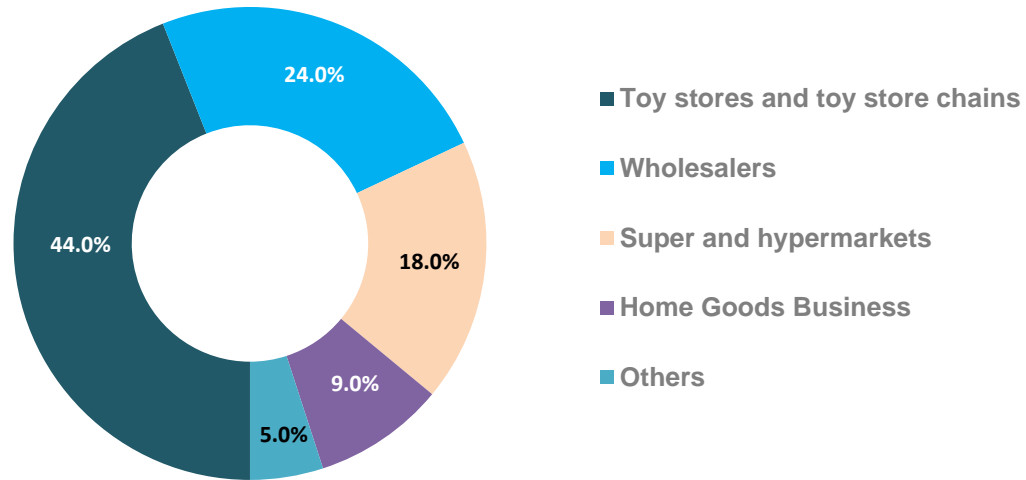


Source: CEP, CAIJ.

The sale of toys is concentrated in Christmas and the festive season.



// SALES CHANNELS 2019



Source: CEP, CAIJ.

In terms of channels, the industry focuses on traditional toy stores.

In 2020 the online channel has been growing, representing another marketing option of growing relevance for the sector.

According to A.T. Kearney, based on sales from Amazon and eBay, toys represent the 11th online sales category in the world.



03/ Main Competitors



// MAIN COMPETITORS

A list of national toy manufacturers is included:

Aniano Pérez

CAUPUR S.A. (Duravit)

Dayan Didácticos

Errekaese S.A. (Top Toys)

Juguetes Rasti S.A.

Glaube S.A. (Rodacross)

MAR-PLAST

Caffaro Hnos. S.R.L.

Ditoys S.A.

Baby Club S.R.L.

Mazel Toy S.A.

Fibro S.R.L.

Toy Store S.A.

Lionel's S.R.L.

Exem S.R.L.

Juegos y Juguetes S.R.L.

Tizibaby S.A.

Arbrex S.A.

Cresko S.A.

Intek S.R.L.

Fabesa S.A.

Eurotree S.R.L.

Zott Producciones S.A.

Mis Ladrillos Argentina

Importadora Piori S.A.

Invictvs



04/ Public Policies and Trade Agreements



// PUBLIC POLICIES

Regulation	Description
Inter-sectorial agreement	In 2020 the industry seeks to once again reach 50% of the domestic market. Until 2016 the sector had an agreement with large supermarkets and toy store chains, by which they committed not to import products that would replace those of national manufacture. This agreement was monitored by the secretary of commerce and allowed a balanced assortment in the gondolas, without damaging the national production.
National certification of toy safety	The Ministry of Productive Development of the Argentine Republic certify the safety of manufactured or imported toys. In the case of imported products, a sample must be withdrawn from Customs as "No Right to Use" (SDU) to enter the country and bring it to the laboratories authorized to certify its safety. When the product is certified, the permit is processed for its commercialization within Argentina. By Resolution 163/2005 of 09/29/2005, the MERCOSUR Technical Regulation on Safety in Toys is incorporated into the national legal system. More information at: https://www.argentina.gob.ar/certificar-la-seguridad-de-juguetes



// PUBLIC POLICIES

Regulation	Description
<p>Rules applicable in Argentina to the import of toys</p>	<p>The regulations applicable in Argentina to the <u>importation of toys</u> are called:</p> <ul style="list-style-type: none"> •Res. GMC Norms No. 54/92 for their commercialization. •Res. SICM N° 851/98 Products called toys, standards for their commercialization. Approves the directive for the formation of toy families. •Disp. DNCI N° 775/99 Recognition of IRAM and INTI as Certification Entities. •Disp. DNCI N° 885/99 Form for the elaboration of sworn declarations of product conformity. •Disp. DNCI N° 914/99 Recognizes the Laboratory for Physical and Mechanical Testing of the Argentine Chamber of the Toy Industry and the Laboratory for Testing of Safety Standards of SICER SA. •Disp. DNCI N° 1191/03 Certification body. Recognition. •Res. MEP N° 485/05 Establishes a toy import certificate. •Res. GMC N° 23/04 MERCOSUR Technical Regulation on toy safety. <p>•BIT N ° 25: Basic guidelines to successfully face a toy import operation. Available in: http://www.cda.org.ar/detalle_noticia.php?id=36871</p>
<p>Exporta Simple</p>	<p>Exporta Simple is a platform developed by the Ministry of Productive Development that facilitates the logistics to ship toys to any country in the world. It is a device that collaborates for the exports of local production. More information at: https://www.argentina.gob.ar/exportasimple</p>



// TRADE AGREEMENTS

Partner	Description
MERCOSUR	Regulation on product safety: MERCOSUR / GMC / RES No. 54/92: Safety in toys. MERCOSUR maintains a 35% tariff for the import of toys.



05/ Industry Trends



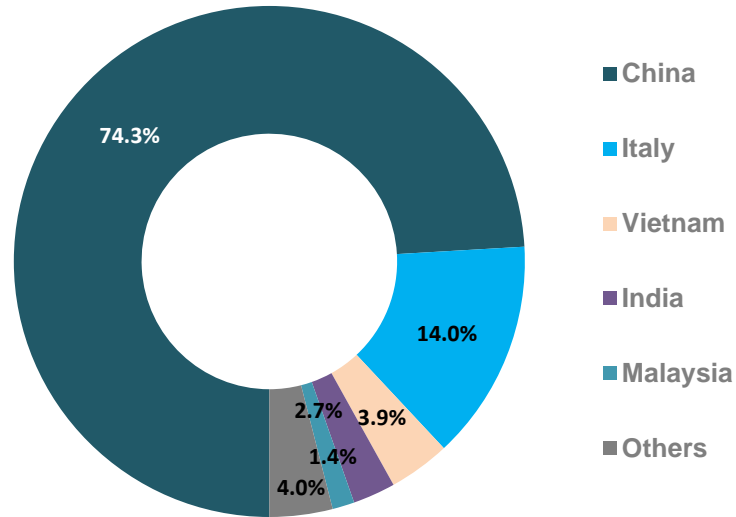
// FUTURE PERSPECTIVES

1. The national toy sector seeks to achieve a 50% share of local sales. According to media reports, Government may consider applying restrictions on the imports of toys.
2. In terms of imports, the local scenario is reactive after the 2015-2019 period. In particular, restrictions on imports of toys from China (the world's leading manufacturer) will be considered.
3. The significant growth of e-commerce during 2020 suggests a transformation in the toy marketing channels, especially impacting on traditional toy stores.



06/ International Trade

// IMPORTS 2019



MAIN IMPORT PRODUCTS



- Construction games
- Dolls, animals and action figures
- Cars, motorcycles and other vehicles
- Board games and didactics
- Wheel toys



// EXPORTS 2019

MAIN EXPORT PRODUCTS



Action, animal or fantasy figures, construction toys and assortments, dolls and figures representing human beings and toy kits are the main exported items.

MAIN COMPANIES



- Fabesa
 - Eurotree
 - Zott Producciones
-
- Mis Ladrillos
 - Rasti

80%

destination of exports
(in values)

LAC region

14%

destination of exports
(in values)

United States

6%

destination of exports
(in values)

Austria, Italy, France, Korea, South Africa, Bulgaria, Spain, United Kingdom and Japan

Source: CAII.

The national industry channels its exports -primarily- to Latin America, totaling sales of USD 0.05 million in 2019.



07/ Opportunities for Indian Companies



// OPPORTUNITIES FOR INDIAN COMPANIES

1. The main competitor in Argentina for Indian manufacturers is China, which accounts for 85% of global toy manufacturing.
2. As with other e-commerce industries, the presence of a site is scarce 100% vertical dedicated to the "toys" segment. The Indian industry could find a profitable business niche in Argentina here.
3. The coverage of sophisticated toy store chains is limited in many Provinces.
4. Opportunities are seen for Indian companies in importing handmade or artisan toys (especially made of wood).



08/ Considerations for Foreign Investors



// INVESTMENT IN ARGENTINA

The **Argentine Investment and International Trade Agency** highlights the following aspects to invest in Argentina:

- 3rd largest GDP in Latin America (USD 450 billion).
- GDP per capita of USD 10,000.
- 45 million inhabitants (60% under 35 years of age) and access to 295 million people in MERCOSUR.
- 2nd largest unconventional gas field and 4th largest unconventional oil field in the world.
- 705,000 km² of high potential mining areas with more than 250 projects in their initial stage.
- 8th largest country in the world, with 53% of arable land.
- Global leading exporter of soybeans, corn, lemon, lithium, among others.
- 6th producer of beef and 5th exporter worldwide, present in the world's most demanding markets such as the European Union, the United States, China and Israel.
- 1st country in Latin America in command of the English language.
- 110,000 college graduates of STEM careers a year.



// COUNTRY OVERVIEW

45,376,763
Total population

**ARGENTINE
PESO**
National currency

2020

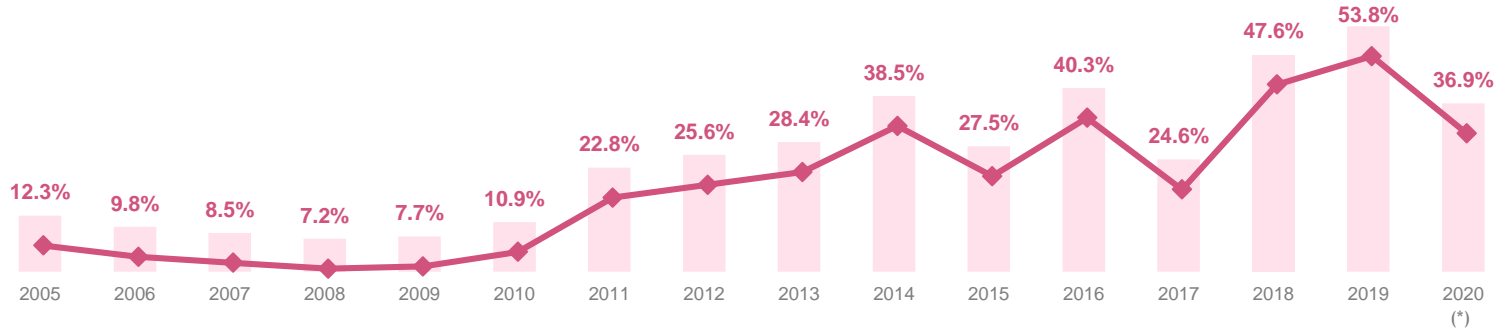
ESTIMATED
INFLATION
36.9%

ESTIMATED GDP
GROWTH
-11.7%



// CURRENT ECONOMIC CONTEXT

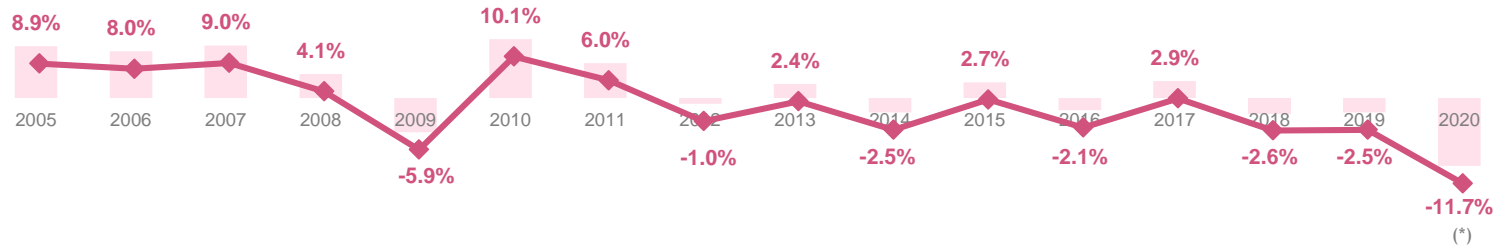
Inflation



13.1%

Unemployment rate (**)

GDP





// ARGENTINA'S MAIN TRADING PARTNERS

Appearance	Brazil	China	United States	Viet Nam	Chile	India	Paraguay	Germany
Exports	4,715	4,016	2,267	2,124	1,914	1,664	529	501
Variation (%) vs 2019	-31.2%	8.8%	-18.6%	6.4%	-6.9%	12.0%	-19.7%	-22.7%
Imports	5,176	5,049	2,861	454	313	512	1,588	1,287
Variation (%) vs 2019	-27.8%	-19.5%	-36.5%	13.2%	-15.6%	-4.5%	14.4%	-31.7%
Balance	-462	-1,033	-594	1,670	1,601	1,152	-1,059	-786
Total (Exports + Imports)	9,891	9,065	5,128	2,578	2,227	2,176	2,117	1,788



// TAXATION

- In Argentina, tax collection efforts are carried out at national, provincial, and municipal level by levying taxes on income, assets, and consumption.
- The agency in charge of collecting taxes, monitoring, and controlling taxation at national level is AFIP (Spanish acronym for Argentine Revenue Service).
- Consequently, taxes are classified into three tiers: national, provincial, and municipal.



// NATIONAL TAXES

INCOME TAX	All income is subject to tax. Local subsidiaries of foreign legal entities are regarded as resident businesses and are, therefore, subject to tax. The applicable tax rate is 35% and applies to total income. Non-resident businesses with no branches or permanent offices in Argentina are only subject to local income tax.
VALUE ADDED TAX (VAT)	VAT applies to the values of goods and services at every stage of production. General VAT rate is 21%; nevertheless, the rate for certain goods and services is set at 10.5% or 27%. Imports are subject to the same VAT rate as local goods and services. Exports are exempt from VAT.
MINIMUM PRESUMED INCOME TAX	Minimum Presumed Income Tax is payable by legal entities, which are imposed a 1% rate on the value of all their assets located either in Argentina or abroad. It is also applicable to assets located in Argentine and owned by foreign individuals or legal entities with a permanent establishment in the country.
PERSONAL PROPERTY TAX	This tax is imposed on individuals and undivided estates with respect to assets valued at over AR\$ 1,050,000. As of this year, residents are taxed 0.25% on personal property.
EXCISE TAXES	Excise taxes are levied on the consumption of specific goods, such as tobacco, alcoholic drinks, and luxury items; they are payable by manufactures or importers.
FINANCIAL TRANSACTION TAXES - CREDITS AND DEBITS ON BANK ACCOUNTS AND OTHERS.	A 0.6% general tax is levied on withdrawals and credits on bank accounts transacted by entities governed by the Financial Institutions Act. Furthermore, transactions in cash are subject to a 1.2% rate if conducted through payment systems in lieu of current accounts.



// NATIONAL TAXES

DOUBLE TAXATION AGREEMENTS

Argentina has entered into double taxation agreements with the following countries to provide relief from double taxation on businesses, personal income, capital, and assets:

- Australia
- United Kingdom
- Chile
- Denmark
- Germany
- Belgium
- France
- Italy
- Sweden
- Canada
- Bolivia
- Brazil
- Finland
- Norway
- Spain
- Switzerland
- The Netherlands
- Russia
- Mexico



// PROVINCIAL TAXES

GROSS INCOME TAX	Gross Income tax is applicable to the revenue generated by businesses engaged in trade, industrial activities, agriculture, finance, or professional services. It is levied on each commercial transaction at a rate that ranges from 1.5% to 5%, according to the industry and area. Nevertheless, certain primary and industrial activities are exempted from this tax.
STAMP DUTY	This is a provincial tax placed on the execution of notarial and private documents, including agreements and other large-amount transactions.
REAL ESTATE TRANSFER TAX	Real estate owners are subject to an annual tax on their real property based on the fiscal value of the land free of any improvements and on the improvements of land, if any. The payable amount is estimated pursuant to the laws in force each fiscal year, which set forth the applicable values and rate scales according to the type of property.



// MUNICIPAL TAXES

Municipalities collect taxes imposed on industrial safety services, lighting and cleaning services, etc. These taxes are calculated based on public revenue or other criteria, such as the number of employees.



// TAX INCENTIVES

Tax regulations provide for incentives for certain activities such as mining, forestation, software development, renewable energies, research, biotechnology, and biofuel production.

Generally, such incentives consist of:

- **Tax stability for a specified period**
- **Tax credits**
- **Preferred tax rates**
- **VAT Exemption**

A tax-free area has been established in southern Tierra del Fuego where all the activities and transactions conducted are exempted from all national taxes, except for specific activities and transactions, which are levied a lower rate.



// LABOR LAW

Permanent employment contract

Employment contracts in Argentina generally fall within this category, which means the labor relationship may extend permanently unless a cause of termination arises. The law provides for a three-month probation period. The employer must register the relationship with the relevant authority before the lapse of this period. Moreover, the parties are subject to the rights and obligations arising out the employment contract during this period, but either party may terminate the employment without cause. In such case, the employee is not entitled to severance payment.

Special employment contracts

In order to provide an adequate framework, the law sets forth special forms of employment:

1. Fixed-term contracts
2. Seasonal employment contracts
3. Contingency employment agreement
4. Team employment contracts



// LABOR REGULATIONS

COMPENSATION (SALARIES AND WAGES)

Employees' compensation may be fully paid in cash or it may be paid both in cash and in kind, i.e. food or accommodation. In such case, payments in kind cannot exceed 20% of the total compensation amount.

The employer has the obligation to:

- Wire-transfer the employee's salaries to a bank account on their names.
- Provide a salary slip
- Comply with the statutory term of payment: salaried employees must be paid at the end of the month, whereas wage earners must receive their compensation on a weekly or monthly basis.

STATUTORY ANNUAL EXTRA PAY

All workers are entitled to a thirteenth salary, which is officially referred to as Statutory Annual Extra Payment. Such payment is made in two installments: 50% of the total amount is granted by June 31 and the remaining 50% by December 31.

MINIMUM SALARY AND WAGE

The law establishes the minimum salary and wage amount.

Considering the relatively high inflation rate in Argentina, the salaries may need to be revised multiple times a year.



// LABOR REGULATIONS

ANNUAL VACATION

Annual vacation is paid time off employers grant to their employees.

The length of vacations varies according to the employee's seniority:

1. From 6 months to 5 years of service: 14 calendar days
2. From 5 to 10 years of service: 21 calendar days
3. From 10 to 20 years of service: 28 calendar days
4. Over 20 years of service: 35 calendar days

New employees who have rendered services for less than half the business day of the year are entitled to one vacation day for every 20 days of service.

PAID MATERNITY LEAVE

The law provides for paid maternity leave which extends from 45 days before childbirth to 45 days after delivery.

Once this period elapses, women workers can choose to:

1. Resume working under the working conditions before the leave.
2. Terminate the employment contract unilaterally.
3. Request an unpaid extension of the maternity leave for an additional period ranging from three to six months.

Women workers are entitled to a daily thirty-minute break to breastfeed her child. This entitlement lasts for one year after childbirth.



// LABOR REGULATIONS

LABOR SAFETY

Employers have the obligation to provide insurance to employees to cover labor risks. To such end, they must either self-insure or hire a risk labor risk insurance company (in Spanish Aseguradoras de Riesgos del Trabajo or ART), in order to compensate in the event of work accidents and diseases.

SOCIAL SECURITY

Businesses undertake to make the relevant contributions in connection with social security services for their employees. Such contributions include family allowances, union health insurance, pensions, and contributions to unemployment funds. Contributions represent 27% of the gross salary of employees that render services and 23% of the gross salary of the rest of the employees.

COMPULSORY LIFE INSURANCE

The employer must obtain an insurance policy within thirty days of the commencement of the employment relationship.

MINIMUM WORKING AGE

The minimum working age is 16 years old.



// LABOR REGULATIONS

DISMISSAL

None of the parties can terminate the employment contract without giving prior notice.

The minimum notice period is set by the law as follows:

1. For the employee: 15 days
2. For the employer: 15 days for employees under probation period, one month when the worker's length of service is less than five years, and two months, when the length of service exceeds five years.

Due to the impact of COVID-19, the National Government, through Decree 891/2020 of March 31, later extended in May, July, September and November, dismissals without just cause and due to lack or reduction of work and force are prohibited until the end of January 2021.

EMPLOYMENT RELATIONSHIP RECORDS

The employer has the obligation to register the employment relationship with the relevant authorities. In the event of termination of contract, the employer must give relevant notice to the Social Security Registry.

The duly registration of the employment relationship allows workers to enjoy the social security benefits granted by the law.



// LABOR REGULATIONS

OVERTIME

In Argentina, working time is 48 hours per week with a limit of nine hours a day (six hours a day for work performed under hazardous conditions). Night working time is limited to seven-hour shifts. Overtime is permitted with certain restrictions. Overtime rate is 50 per cent, for work performed on weekdays and Saturday mornings, and 100 per cent for work performed thereafter and on public holidays. The law establishes the maximum overtime limit which shall not exceed 200 hours per year or 30 hours per month.

LABOR UNIONS

The workers may opt to join a unión. Most workers are unionized. There are collective bargaining agreements to protect the workers, which shows the degree of influence these unions have.



// RELEVANT LEGISLATION

LEGAL FRAMEWORK	The Argentine Law provides for the protection of foreign investors and their projects. Argentina has entered into several bilateral investment treaties with other countries. It is a member country of the Multilateral Investment Guarantee Agency (MIGA), which provides guarantees to protect investments against non-commercial risks.
INVESTMENT MODEL	Foreign investors can start their businesses in three ways: setting up a foreign branch, acquiring ownership in an existing company or creating a new company.
CORPORATE AND BUSINESS ACT	Law No. 19,550 (amended and renamed as General Corporate and Business Law No. 26,994). Sets forth the different business forms available. The most popular business forms among foreign investors are Sociedades Anónimas (S.A.)— Corporations— and Sociedades de Responsabilidad Limitada (S.R.L.) — Limited Liability Companies or LLCs.
FOREIGN INVESTMENT LAW	Law No. 21,382 Sets forth the conditions for foreign investors to invest and transact business in the country. It further provides for the expansion of existing investment undertakings.



09/ Conclusion



// CONCLUSION

- The significant growth in electronic commerce during 2020 suggests a transformation in the toy marketing channels, especially impacting traditional toy stores, the main channel affected by the COVID-19 pandemic.
- The main competitor in Argentina for Indian manufacturers is China.
- As with other Ecommerce industries, the presence of a 100% vertical site dedicated to "toys" is rare.
- The coverage of sophisticated toy store chains is limited in many Provinces.



10/ Useful Information



// USEFUL INFORMATION

ARGENTINE CHAMBER OF THE TOY INDUSTRY (CAIJ)

Address: Cochabamba 4063 - City of Buenos Aires
Postal Code: C1252 ABS
Phone: (54-11) 4922-1537 - Web site: <http://caij.org.ar/>

ARGENTINE ASSOCIATION OF TOY AND RELATED COMPANIES (AADEJA)

Address: Av. San Pedrito 8 - 1° Floor - Department "E" - City of Buenos Aires
Postal Code: C1406EXN - Phone: (54-11) 4772-7466 – Web site: <http://www.aadeja.com.ar/#!/-bienvenidos/>

CENTER FOR STUDIES FOR PRODUCTION (CEP)

Address: Av. Pres. Julio A. Roca 651 - City of Buenos Aires
Postal Code: C1067ABB - Phone: (54-11) 0800-333-7963



// USEFUL INFORMATION

NATIONAL INSTITUTE OF STATISTICS AND CENSUSES (INDEC)

Address: Av. Pres. Julio A. Roca 609 - City of Buenos Aires
Postal Code: C1067
Phone: (+54 11) 4349-9200 - Website: <https://www.indec.gob.ar/>

MINISTRY OF FOREIGN AFFAIRS, INTERNATIONAL TRADE AND WORKSHIP

Address: Esmeralda 1216 - City of Buenos Aires
Postal Code: C1007 ABR
Phone: (+54 11) 4819-7000 - Website: <https://www.cancilleria.gob.ar/>

MINISTRY OF PRODUCTIVE DEVELOPMENT OF THE NATION

Address: Av. Hipólito Yrigoyen 250 - City of Buenos Aires
Postal Code: C1086
Phone: (+54 11) 0800-333-7963 - Website:
<https://www.argentina.gob.ar/produccion>

CHAMBER OF AUTOMOTIVE TRADE (CCA)

Address: Av. Hipólito Yrigoyen 250 - City of Buenos Aires
Postal Code: C1085 AAB
Phone: (+54 11) 4349-5000 - Website:
<https://www.argentina.gob.ar/economia>



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