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**Blame U.S. companies for bad Chinese goods  
Industry experts say U.S. companies need to monitor overseas factories  
more closely to prevent product safety lapses.**

**By Parija B. Kavilanz**

NEW YORK (CNNMoney.com) -- The second big toy recall from No. 1 toy maker Mattel this month will undoubtedly raise questions again about why these recalls keep happening and who's to blame.

On Tuesday, Mattel announced it was recalling more than 9 million of its toys that were made in China because they pose lead poisoning and choking risks to children.

Earlier this month, Mattel announced a global recall of 1.5 million Fisher-Price toys including Elmo, Big Bird, and Dora the Explorer that were made in China, because their paint may contain too much lead.

In June, [RC2 Corp. \(Charts\)](#) recalled 1.5 million "Thomas & Friends" wooden railway toys that were also made in China over concerns that the surface paints on the toys contained lead, which could result in toxic poisoning in young children.

The recent spate of product recalled - melamine-tainted pet food, toothpaste laced with antifreeze and a second batch of Mattel-branded toys made with lead paint - were all made in Southern China's low-cost manufacturing hub that's notorious for its lax regulations.

But some industry watchers say U.S. importers that do business with these factories are more to blame than even their Chinese suppliers for allowing those unsafe products to enter the U.S. marketplace.

"U.S. law is pretty clear. The importer is responsible for quality and safety of goods imported into the country," said Erin Ennis, vice president with the U.S.-China Business Council. "But the Chinese can absolutely do more to prevent safety issues."

Pat Furey, a consultant with Ariba, a global supply chain software and service consultancy that also operates in China, agreed that more effort has to be made by companies like Mattel to clamp down on shoddy production of its products overseas.

"About 10 to 15 years ago, it was a common thing for most companies importing from overseas, including from China, to do their own batch-testing of products at their suppliers' factories," Furey said.

But due to cost-savings, he said these companies started to outsource periodic product tests to the suppliers themselves, thereby opening the door to poorer quality controls.

Mattel owns and operates 10 factories worldwide that produce half of all Mattel toys. Five are located in China. The other five are located in Mexico, Malaysia, Thailand and Indonesia.

The other 50 percent of its production Mattel outsources to third-party vendors in China.

The toy maker said the factories that made the products recalled this month were not owned by Mattel but were contracted to produce those toys.

By Mattel not owning those factories, Furey said it could make it harder for the toy maker to maintain the same strict level of oversight that it has in place at its own facilities. "But it doesn't excuse these lapses," he added.

"Mattel has to always remember that when a consumer buys one of its products that is then recalled, they don't remember who the supplier was," Furey said, "All they remember is that it was a Mattel toy."

Moreover, while companies could decide to shift some of the production out of China into Malaysia, Indonesia or Vietnam, it doesn't guarantee that they won't face the same issues in these countries whose infrastructure is less developed.

"It doesn't matter where the sourcing is done. The same thing can happen in India or Vietnam," Furey said.

Gerrick Johnson, an analyst with BMO Capital Markets, fears that the toy industry will suffer more recalls in the future unless companies like Mattel, [Hasbro \(Charts\)](#) and others tighten up quality standards and monitoring of their overseas factories.

"From the reports that I get about China, the manufacturing areas seem like the wild wild east. It's capitalism run amok with no enforcement of any standards," Johnson said.

As far as U.S. companies shifting sourcing to other low-cost manufacturing hubs in Asia, Johnson said it's not a realistic option right now.

"The infrastructure in countries like Vietnam and Cambodia is still underdeveloped, although the potential is there," he said.

### **Flawed regulation at home too**

According to the Toy Industry Association (TIA), the agency has provided toy makers with voluntary safety standard for all toys.

The Consumer Product Safety Commission (CPSC) also regulates toys through its own inspectors that monitor the marketplace for both domestically produced and foreign-made toys.

But some consumer interest activists argue that limited budgets prevent federal agencies like the CPSC from enforcing adequate product safety mechanisms for most consumer products.

Apart from specific safety guidelines issued by the CPSC pertaining to use of hazardous substances, flammability and noise levels, there is no requirement that toy manufacturers must abide by the industry's own voluntary safety standards.

"The [CPSC] doesn't have pre-market jurisdiction, which means that they can't test products before they hit the market," said Rachel Weintraub, director of product safety and senior counsel with advocacy group Consumer Federation of America (CFA).

Tuesday's recall marked the latest incident in a series of recent Chinese product recalls. China, the second-largest trading partner of the United States after Canada, is also the world's foremost toy supplier, producing more than 80 percent of the world's toys.

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### **Will Chinese factories lose business?**

"If I was sourcing heavily in China, I would be exploring alternatives like Vietnam and Cambodia," said Sean McGowan, an analyst with Wedbush Morgan Securities, referring to rising labor and production costs in the southern China's manufacturing belt.

At the same time, McGowan said U.S. companies have to make their suppliers in China or elsewhere "realize that the cost of any recall to them is also very high."

"American companies have to ask their vendors, 'What can you do for me to convince me not to take my business away from you,'" McGowan said.

Furey said U.S. companies can take measures to mitigate risk of recalls in the future.

"We encourage our clients who source from low-cost regions to do a detailed supplier assessment of the plant, where they source, what products they use and also ask them to do periodic spot checks of the factories," he said.

Even with the most stringent checks in place, Furey said it's unlikely that all glitches will get caught. "I can't imagine that Mattel wants to test every batch of product that is produced."

At the same time, he said he hoped the increased media coverage and scrutiny of recalls would be a "good thing" and would bring back good supply chain practices.

"I think the biggest change could be that companies become more diligent in picking their suppliers," Furey said. "Right now it's not mandatory for companies to certify that their suppliers meet industry product quality standards. This could also change."