

Protecting Children from Lead Tainted Imports

Summary

Protecting children from lead-tainted imports brings our attention to toys and China.

Most of the world's toys are made in China. The press is full of accounts of increasing incidents of product recalls for toys manufactured in China. Lead-tainted imports are only responsible for about 10 percent of these recalls. Poor product design is responsible for the balance. I have several points to make:

- China is in the cross-hairs to a large part because of the sheer volume of products it exports.
- There are many drivers of lead-tainted imports including business practices of big box retailers, a focus on cost containment and branding at the expense of product integrity by importers, customers rewarding retailers for low prices, and chronic under-funding of oversight bodies.
- Toys are well-regulated; there are other areas like imported crowns and bridges where there is a much higher lead risk.
- There are many actions that China can take to help resolve the problem of lead-tainted products. These include aligning Chinese regulation to global standards and enforcing their own export laws.
- There are many actions that importers must take to resolve the problem. These primarily focus on maintaining supply network integrity.
- The government must fund oversight agencies to provide a level of inspection appropriate to the number of imports sold in American stores.

Introduction

The scope of the recent wave of recalls associated with lead tainted toys coming from China has focused the attention of parents and others responsible for children's well-being, retailers who sell these toys, companies who import these toys, and numerous government officials on the problem of toys that have been painted with lead-based paint. Much of the focus of this controversy is on blaming China and their contractors. I believe that this is counterproductive and reactionary. The problem of lead tainted products is not a new problem. The problem of lead tainted imports is not a new problem. The fact that China is currently in the crosshairs is to a large degree a function of the growth in their importance as a preferred site for outsourcing manufacturing. It is a volume issue. Lead-tainted imports have many causes.

Who Owns the Problem?

Instead of simply blaming China, we must take a hard look at American issues, those that we can control, that contribute to this problem. I believe that in so doing we will see that we are a big part of the problem. American big box retailers and their unrelenting pressure on suppliers for ever lower prices bear part of the responsibility. American importers focusing on cost and investing in brand rather than quality and supply chain and product integrity bear part of the responsibility. American investors pressuring companies for growth and ever increasing profits bear part of the responsibility. Parents wanting low priced toys to respond to their children's requests for the latest toy seen on TV bear part of the problem. Finally, the American government's choice to chronically under-funded watchdog agencies like the Consumer Product Safety Commission is part

of the problem. I recognize that blame also belongs to China. China can do a lot more than it currently does to address the problem of lead-tainted products. However, we do not control China. China controls China. We can do our best to influence China. We can and must do our best to control us. But knowing what to control is not that clear or easy. There are many opportunities for control within this complex commercial system.

The China "Problem"

Manufacturing in China is not going away. China's manufacturing sector ranks fourth in the world after the U.S., Japan and Germany. China's exports to the United States have grown by approximately 1,600 percent over the past 15 years. According to the US-China Business Council, the dollar value of imports from China is US\$287.8 billion in total and toys, games and apparel as industrial segments represent 40.8 percent of this volume.¹

The toy industry is a US\$22 billion dollar industry and 80 percent of these toys are manufactured in China.² Toys were one of the first consumer products to be produced in China in significant volume. Most of the toys produced in the world are now produced in China and most of these are produced in some very localized parts of China like Guangzhou and smaller cities outside of Shanghai. Most of these toys end up in the hands of American children.

Companies know how to take advantage of the benefits of manufacturing in China while maintaining product quality and obeying US laws for the products they import. Many companies with which I have worked or that I have visited produce world-class quality

¹ <http://www.uschina.org/statistics/tradetable.html>

² Renae Merle (August 3, 2007) "Recalls of Toys Pressure Agency: CPSC Resources Called Inadequate." *Washington Post.com*

products that are high-tech, and difficult and complex to manufacture. Companies know how to produce safe, quality products in China whether in their own plants or through contracting relationships with Chinese suppliers. Indeed, Mattel, one of the companies that recently had lead-tainted toys recalled has been manufacturing toys in China for twenty years. If we look at the recall statistics, Mattel has done a fairly good job manufacturing safe toys in China. So knowing how to produce products free of lead contamination is not the problem. We must look at other drivers to fully understand the problem. What are the drivers behind the issue of lead-tainted imports?

Economic Drivers

Exports have been an important part of China's economic growth strategy and a key driver of their economic growth. American companies, like those in the toy industry, have played a major role in making China, the "workshop of the world"³ as they have relocated manufacturing from the U.S., Mexico and numerous other locations around the world to China⁴. Indeed, these companies are behaving rationally. As Robert Reich reminds us, they are by and large playing by the "rules of the game," focusing on profits and growth.⁵ This is where the big box retailers contribute to the problem.

Wal-Mart is the biggest of the big box retailers, and the example I will use here. In fact they are the world's largest company. To put this in perspective, they sell in three months what the number two retailer sells in a year.⁶ Given their size, they have the ability to

³ Bill Powell (March 4, 2002) "It's All Made in China Now." *Fortune*.

⁴ Oded Shenkar (2005) **The Chinese Century**. Philadelphia: Wharton School Publishing.

⁵ Robert B. Reich (2007) **Supercapitalism**. New York: Alfred Knopf.

⁶ Charles Fishman (2003) "The Wal-Mart You Don't Know." *Fast Company*, December.

squeeze lower prices from their suppliers. They focus on nationally branded products. One positive benefit for the customer is that they get nationally branded products at low prices. One negative consequence is that as Wal-Mart (or other retailers) squeezes their suppliers to lower cost who in turn squeeze their suppliers to lower cost. So it goes throughout the supply network. As a consequence, there is a risk of slippage--quality slippage, use of inferior materials, and less supervision of the manufacturing process. The longer the supply chain, the higher the risk in the absence of world-class process and material controls.

Retailer Cost Pressure Drivers

The more retailers exert pressure on suppliers to provide products at lower and lower cost, the more slippage risk in the supply network. Researchers have found that the emphasis on cost cutting in the supply network undermines overall effectiveness.⁷ When the largest retailer in the world squeezes its suppliers including those who produce toys, we should not be surprised that slippage and its consequences occur. Extending responsibility for product quality beyond importers to retailers can introduce an additional safeguard. Direct responsibility for product quality would encourage retailers to focus beyond relentless cost pressure to product quality. Extending responsibility for product quality to retailers would be an important safeguard against lead-tainted imports.

⁷ Thomas Choi, Kevin Dooley, and ManusRrungtusanatham (2001) "Supply Networks and Complex Adaptive Systems: Control versus Emergence. *Journal of Operations Management*, 19, pp. 351-366.

The "China Price" Driver

Companies seeking ever lower prices have benefited from what *BusinessWeek* calls the "China price," a price that is 30 to 50 percent cheaper than what you can make the equivalent product for in the U.S.⁸ Companies manufacturing in China are able to produce at the "China price" for a variety of reasons, including lower factor costs. Labor, facilities, raw materials are all cheaper in part because of differences in absolute costs and differences in regulatory oversight between China and many other countries, including the U.S. For example, the U.S banned lead in toys in 1978 and China just signed an agreement to do so this month.⁹ In conversations that I have had with Chinese officials, they estimate that 50 percent of their exported products do not comply with Chinese law. The Chinese government has agreed to increase inspections and meet more regularly on export-related issues.¹⁰ This is a very important issue for China, especially because it is undermining confidence in products made in China.

Supply Network Control Driver

China is large and industrialization has grown at a mind-boggling pace. This exacerbates the control problem faced by companies manufacturing in China, especially as they move from large cities like Shanghai, Beijing and Guangzhou to the smaller, less cosmopolitan cities where most toys, and many of the materials used in toys are assembled and manufactured. I see lead-tainted import problems as fundamentally control problems. Companies are exercising inadequate control over their global supply networks. My colleagues Hari Bapuji and Paul Beamish, Canadian academics that have examined

⁸ Pete Engardio & Dexter Roberts (December 6, 2004) "The China Price." *BusinessWeek*.

⁹ <http://www.msnbc.msn.com/id/20726149/>

¹⁰ <http://www.msnbc.msn.com/id/20726149/>

products recalled by the Consumer Product Safety Commission since 1988 find that of the 550 recalls since 1988, "...only about 10% (or 54) of recalls are historically attributable to manufacturing defects such as poor craftsmanship, over-heating of batteries, toxic paint and inappropriate raw materials."¹¹ Most of the recalls are because of design problems, not lead-based paint. Companies are responsible for their designs and the processes used to manufacture their products.

Companies know how to take advantage of the benefits of manufacturing in China while maintaining product quality and obeying US laws for the products they import. Many companies with which I have worked or that I have visited produce world-class quality products that are difficult or complex to manufacture. Indeed, Mattel, one of the companies that recently had lead-tainted toys recalled has been manufacturing toys in China for twenty years according to the media. If we look at the recall statistics, they have done a fairly good job. So knowing how to produce products that are lead-free is not the problem. It is a question of constant process and material vigilance throughout the supply chain.

Government Under-Funding Driver

As I said earlier, tainted imports are not a new problem. Indeed, the Consumer Product Safety Act was in part a response to this problem. The regulations governing lead tainted imports are substantial and do an adequate job addressing the problem of lead paint in or on toys. They rely on a company's self-report of violations. I believe that self regulation

¹¹ Ibid, p. 4.

is powerful at the company and industry levels. It protects earnings, brand equity and product integrity simultaneously. The toy industry is largely self-regulated. Self-regulation, however, does not guarantee perfect compliance as evidenced by the case of recalls at Mattel and the US\$ 2 million in fines that they have been assessed for failing to report recalls in a "timely manner."¹² Punitive fines or import sanctions for companies that do not comply as soon as they are aware of a problem would drive faster reporting.

The Consumer product Safety Commission has appropriate oversight responsibility and good safety standards; however this is not adequate to address the problem of lead tainted imports. According to media reports about the Commission, they do not have adequate resources to do their job. The Commission's problem parallels China's growth, but moves in the opposite direction. As imports from China have grown exponentially, the number of personnel available to inspect imports has been relatively flat, so proportionally, they have gotten smaller relative to the problem. Janell Mayo Duncan of the Consumers Union comments that the Consumer Product Safety Commission has only about 100 field investigators and compliance personnel nationwide to conduct inspections at ports, warehouses and stores of US\$ 22 billion worth of toys and other consumer products sold in the US each day. She concluded that they need more money and resources to do more checks.¹³ I concur; a well-funded, robust inspection system is part of the solution.

¹² Heather Burke

¹³ Eric Lipton & David Barbosa (2007) "As More Toys Are Recalled, Trail ends in China." The New York Times, June 19.

Other Lead Threats

While the focus of our attention is largely on lead-tainted toys, I want to call your attention to a class of imports that go unregulated and present perhaps a greater risk to the public. Cast crowns and bridges, cast partial denture frames and cast implant abutments are custom designed and individually produced restorations prescribed for an individual patient by a licensed dentist. The risks to the public are two fold; non approved metal alloys might be used in their manufacture, and the product has only a visual review of the casting at the end of the products import life cycle by the dentist at the final point distribution to the uninformed patient. The dentist does not review the restoration during the manufacturing process; most of the systems for dental laboratories are voluntary.¹⁴ These cast dental devices primarily come for the same region that produces lead-tainted children's jewelry.

Recommendations

The problem is not as simple as a problem with manufacturers in China. However, there are many actions that China can take to help resolve the problem. I believe China will make progress, especially with our persistent encouragement. We can encourage China to enforce their export regulations more aggressively. We can encourage them to work more closely with regulators in other countries and industry representatives to develop global standards with which they will require and enforce compliance. We are seeing a lot of positive movement from China right now. We can seek a government to government reporting "hot line" to warn our Chinese counterparts about errant

¹⁴ Correspondence with Bennett Napier, Director of the National Association of Dental Laboratories and Elizabeth Curran, CDT, Vice-Chairman, National Board for Certification in Dental Laboratory Technology, September 2007.

manufacturers. We need to keep pressure on the Chinese government to help them make positive progress on this issue. Working with them instead of against them will bear fruit. If we block imports from China, production will shift to other low cost countries and the problem will not go away.

Importers are responsible for the integrity of their supply network and for compliance with US laws for those products sold here. There are many actions that importers must take to resolve the problem. These primarily focus on maintaining supply network integrity. Companies must develop and use systems that ensure that global standards are applied. They cannot rely on intermediaries to do their work, even long-term trusted intermediaries as was the case of lead-tainted paint on Mattel's toys. If we look at recent quality problems in dog food and tires we see that Chinese suppliers' factories were not inspected prior to or during production and that neither product had a quality process in place. The Chinese suppliers were blamed despite the fact that these were supply network control failures of the importers. One thing we must do is understand where the problem resides. Companies can directly control their products using an in-house laboratory or a third party laboratory like Bureau Veritas, or SGS Group. We should require importers to use in-house or third party testing where the risk for lead tainted imports is high before products are shipped from the supplier to prevent entry into the distribution network. The increased cost will surely be passed on to the customer, but fewer toys will not hurt children as much as lead in toys will.

The government can fund oversight agencies to enable an appropriate level of inspection given the proliferation of imported products sold in American stores. A robust and well-funded Consumer Product Safety Commission inspection system is one of the protections that will help keep lead-tainted imports away from children. The Commission should continue to identify and sanction companies that import lead-tainted products. However, I encourage the Commission to look at the entire supply network before assessing blame and to document opportunities for improvement. Learning from this assessment should be shared with industry to help everyone get better.

Thank you for the opportunity to provide my testimony on this important topic.¹⁵

¹⁵ I would like to thank numerous people in the Thunderbird family for their contributions to this presentation.