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Mattel Recalls 19 Million Toys Sent From China

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Mattel, the world's largest toy company, yesterday announced the biggest recall in its history.

In a double-barreled announcement, the company said it was recalling 436,000 Chinese-made die-cast toy cars depicting the character Sarge from the animated film "Cars" because they are covered with lead paint.

At the same time, the toy maker said it was recalling 18.2 million other toys because their small, powerful magnets could harm children if swallowed. The magnetized toys were also made in China, but they followed a Mattel design specification.

About half of the toys in each recall were distributed in the United States.

Amid a wave of increasing safety concerns about products made in China, the recall threatened to set the toy industry on its heels -- just as companies are beginning to ship toys to stores for the holiday shopping season, when half of all toy purchases are made.

Separately, laboratory tests have found that some Chinese-made vinyl baby bibs sold at Toys "R" Us stores appear to be contaminated with lead.

Industry analysts said Mattel's woes are part of a much larger problem.

"If I went down the shelves of Wal-Mart and tested everything, I'm going to find serious problems," said Sean McGowan, managing director and the toy analyst at Wedbush Morgan Securities. "The idea that Mattel -- with its high standards -- has a bigger problem than everybody else is laughable. If we don't see an increase of recalls in this industry, then it's a case of denial."

Even Mattel executives said repeatedly yesterday that the company may have more recalls.

"No system is perfect," Robert A. Eckert, Mattel's chairman and chief executive, said in a conference call. "There's no guarantee that we will not be here again."

Shares in Mattel dropped 57 cents, to \$23, during regular trading, but rose the same amount after hours.

The mounting wave of safety concerns is forcing Mattel and other toy companies to reconsider long-held assumptions about the safety of their products. Mattel executives said yesterday that in the long run they are trying to shift more of their toy production into factories they own and operate -- and away from Chinese contractors and sub-contractors.

"We do realize the need for increased vigilance, increased surveillance," said Jim Walter, senior vice president of worldwide quality assurance at Mattel, in an interview.

Still, the latest recall led to intensified calls from consumer advocates and politicians for stricter safety standards, as well as tougher penalties for companies.

"This summer alone has seen well over 13 million toy recalls, popular toys removed from our homes and our stores because they have been found to be extremely dangerous, in some cases lethal, to our children," said Senator Amy Klobuchar, Democrat of Minnesota, a member of the Senate commerce committee.

Senator Klobuchar said it was "increasingly clear" that the Consumer Product Safety Commission needed more financing and greater authority. The commerce committee held a hearing last month on the safety of goods made in China.

The lead-paint recall was Mattel's second in less than a month of lead-tainted toys made in China. Together, the recalls have thrust the maker of Barbie dolls and Hot Wheels cars into the heart of rising concern over products made in low-cost factories in China.

Last month's recall of toys with lead paint included some based on characters from "Sesame Street" and "Dora the Explorer."

The magnetic toys involved in the new recall included 63 products that, though produced in China, were recalled because of a design flaw on Mattel's part, not a problem with its Chinese contractors.

The magnetic toys had been produced since 2002 and sold before January 2007. They include 44 different Polly Pocket toys, 11 Doggie Day Care toys, 4 Batman toys, a One Piece toy, and 2 Barbie toys.

Many toy makers have recalled magnetic toys since early 2006 as the consumer safety commission, concerned that children could ingest the magnets, focused on magnets on toys as a rising safety hazard.

Mattel said it was working with the safety commission and other regulatory agencies worldwide, as well as with retailers to remove the affected products from stores.

Before the recall was announced, Mattel began an advertising campaign yesterday aimed at reassuring consumers of its commitment to product safety.

Mattel said the lead-tainted products, made from May to July, were discovered in routine safety checks. But Mattel has also been running an investigation of all its toy manufacturing since early July. The latest recall involves toys from a different Chinese contractor from the one that produced toys recalled earlier this month, Mattel said.

The recall is the latest in a series of such actions this year involving Chinese-made goods, including contaminated pet food ingredients, children's jewelry, defective tires and tainted toothpaste. In July, one of Mattel's European retail partners noticed lead paint on some of its toys, and Mattel began an extensive investigation of the toys in its distribution chain and of the contract manufacturers that make half of its toys. Mattel has not stepped up checks on the nearly 3,000 companies that license its brands to put on products other than toys, Mr. Walter said.

Yesterday's lead paint recall was caused by a subcontractor, Hong Li Da, hired by Mattel's contractor in China, Early Light Industrial. Mattel executives said Early Light, which has worked with Mattel for 20 years, was not at fault in the paint substitution. A number of Mattel's 30 to 50 contractors in China subcontract parts of their production to other companies, Mr. Walter said.

At least two other major toy manufacturers have begun investigations of their toys from China this summer in reaction to the recalls, said Carter Keithley, the president of the Toy Industry Association. Mr. Keithley declined to name those companies.

Hasbro has increased the level of its safety checks this summer in light of the recalls, said Wayne Charness, a senior vice president. Hasbro does not own any factories in China and instead entirely uses contractors for its production there.

There are already many lawsuits against companies involved in the pet food recall as well as the Thomas & Friends toy train recall.

Manufacturing experts say that companies have cut costs so much in China that more toy testing is not affordable for many manufacturers.

"If Mattel, with all of its emphasis on quality and testing, found such a widespread problem, what do you think is happening in the rest of the toy industry, in the apparel industry and even in the low-end electronics industry?" said S. Prakash Sethi, a professor at Baruch College, part of the City University of New York, who has acted as an independent monitor of working conditions in Mattel's factories for the last 10 years. "Everyone is going to be found with lots of dirty laundry."

But, he said, "there is something to be said about the pressure that American and European and multinational companies put on Chinese companies to supply cheap products. The operating margins are razor thin, so you really should not be surprised that there is pressure to cut corners."

The Consumer Product Safety Commission is negotiating with the toy industry to conduct broader testing of toys that are being imported, said Nancy A. Nord, the commission's acting chairwoman. Ms. Nord also urged consumers not to overreact to the news.

"In today's environment, it is easy to take recalls out of proportion," she said. "By no means is it the largest recall this agency has done, and it represents only a tiny fraction of the hundreds of millions of toys that are sold in the United States every year."

About 65 percent of Mattel's toys are made in China, some in five factories the company owns and operates there. Mr. Walter visited China and Hong Kong last week to meet with all of Mattel's contract manufacturers to reiterate Mattel's quality rules.

"The message was very clear," he said. "If you cannot do these things, please let us know. No problem, but you won't be doing business with us."

Mattel announced a \$30 million charge soon after that recall, and executives yesterday said that amount would cover the cost of this week's recall.

Lee Der Industrial, a contract manufacturer based in southern China, was responsible for producing the toys that contained excessive levels of lead paint in the first recall. Mattel stopped accepting goods from the contractor, and last week the Chinese government revoked Lee Der's export license. The owner of Lee Der, Zhang Shuhong, committed suicide by hanging himself in a factory warehouse last Saturday, Chinese officials have confirmed.

Mr. Eckert said in an interview that Mattel had been able to recover the costs of its recall of the products made by Lee Der Industrial. "My understanding is that Lee Der is out of business," he added.

PHOTOS: Some Barbie items had magnets that could be swallowed. (PHOTOGRAPH BY JAY MALLIN/BLOOMBERG NEWS)(pg. A1); Mattel toys based on the animated movie "Cars" are among popular sellers at Toys "R" Us, above. The toy company yesterday recalled the Sarge character, left, for lead-based paint. (PHOTOGRAPHS BY SHAWN THEW/EUROPEAN PRESSPHOTO AGENCY; HIROKO MASUIKE FOR THE NEW YORK TIMES)(pg. A12)

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