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CPSC MEETING LOG

UPHOLSTERED FURNITURE

CPSC OFFICE OF THE SECRETARY
2001 FEB 13 A 9:06

Meeting Between: CPSC staff and representatives of the American Textile Manufacturers Association and other textile industry groups

Date of Meeting: February 6, 2001

Meeting Site: CPSC Headquarters, East-West Towers, Bethesda, MD

Log Entry By: Dale R. Ray, Project Mgr., EC, (301) 504-0962 x1323 *DRR*

Participants: Roger Berkley, Weave Corp. (President, ATMI)
Patty Adair, ATMI Ass't. Director, Textile Products & Standards and other industry representatives (see attached attendance list)
Warren Prunella, Greg Rodgers, Dale Ray, Chuck Smith, Robert Franklin, CPSC Directorate for Economic Analysis
Ronald Medford, CPSC Ass't. Executive Director for Hazard Identification & Reduction
Michael Solender, CPSC General Counsel
and other CPSC staff (see attached attendance list)

Summary:

This meeting was requested by ATMI to present to CPSC staff the findings of an industry-sponsored study, "An Economic Analysis of the Draft Small Open-Flame Regulation of Upholstered Furniture," prepared by Glassman-Oliver Economic Consultants, Inc., of Washington, DC. The study was funded by ATMI, the Decorative Fabrics Association, the Coalition of Converters of Decorative Fabrics, the American Fiber Manufacturers Association, the National Cotton Council and the American Society of Interior Designers. The purpose of the study was to review a 1997 CPSC staff analysis of economic issues, including potential costs and benefits, associated with a flammability standard. The Glassman-Oliver report (approximately 100 pages in length) is available from CPSC's Office of the Secretary. Representatives of ATMI, DFA/CCDF, AFMA and NCC participated in the discussion of the report. Representatives of Glassman-Oliver did not attend the meeting. A list of attendees is attached.

Mr. Berkley, current ATMI President and President of Weave Corporation, a textile manufacturer-member of ATMI, presented the overall findings and conclusions of the study; his presentation slides are also attached. ATMI's overall concerns were that: a) the draft small open flame furniture standard developed by the CPSC staff unfairly focused on upholstery fabrics, rather than on the interaction of the various components that make up an article of furniture; and b) the draft standard would not be cost-justified.



Mr. Berkley discussed a number of points in the Glassman-Oliver report dealing with potential benefits and costs of a standard. He said the CPSC staff had made some flawed assumptions that led to a tenfold overstatement of potential benefits. He maintained that: a) the staff incorrectly attributed substantial cigarette ignition benefits to a small open flame standard, and to do so in a cost-benefit analysis of a small open flame standard was unwarranted; b) per-unit benefits were inappropriately applied to the "installed base" of existing furniture in the first year following implementation of a standard; c) future benefits of a standard were under-discounted; and d) the staff overstated the durability and useful life of flame retardant fabric treatments.

Mr. Berkley also said the CPSC staff underestimated the likely costs of a standard, including fabric treatment and testing costs, manufacturer and wholesaler inventory costs, costs of revised showroom sample books, and costs of compliance with state or local environmental regulations regarding flame retardant chemical use. He concluded that the CPSC staff underestimated annual costs by up to \$2 billion. He also expressed concern that higher retail prices would tend to result in delayed purchases of new furniture by lower-income households, thereby further reducing benefits to those most at risk from fires.

Mr. Prunella, Director of CPSC's Directorate for Economic Analysis, outlined a number of areas of disagreement with the Glassman-Oliver report, based on the CPSC staff's preliminary review (the report was delivered to the agency 3 business days prior to the meeting). He noted a methodological error regarding the installed base of furniture that incorrectly led Glassman-Oliver to divide each year's expected benefits by 14; he said the CPSC staff agreed that future benefits were not all attained in the first year of compliance, and must be discounted, but that the staff had already done this in the manner recommended in the report, so the attendant \$200+ million benefits reduction was incorrect. Mr. Prunella further discussed discount rates, and stated that the preponderance of economic literature, supported by the common practice of other health and safety agencies, suggests that the appropriate discount rate is 1-3% (the CPSC staff's 1997 analysis used 2.5%; the staff is currently using 3%). He also noted that the inclusion of cigarette benefits was based on CPSC laboratory data demonstrating that most small open flame-resistant (predominantly cellulosic) FR-treated fabrics were also seen to be more cigarette resistant. These secondary benefits were included in the staff's analysis, just as secondary costs would be included. Mr. Ray, CPSC's Project Manager for Upholstered Furniture Flammability, briefly described the CPSC laboratory's durability testing of FR fabrics, and stated that no effects on flammability or chemical migration were observed in those tests. He also agreed that benefits would be slowest in accruing to lower-income households, but that the staff did not consider this to be a reason not to issue a standard.

Mr. Prunella disputed ATMI's contention that fabric treatment and testing costs had been understated. He noted that the cost estimates in the Glassman-Oliver report were based on a very small sample of fabric finishers whose estimated costs were skewed toward a very small segment of the U.S. market, and did not reflect the likely (lower) costs for larger fabric production runs characteristic of the mass market; thus, it was

inappropriate to apply those small-run costs to all fabric production. He further questioned the report's contention that all stock keeping units (SKU's) of fabric would have to be tested, suggesting that testing of similar fabric types would be sufficient to establish compliance with a standard. Mr. Prunella also reiterated Mr. Berkley's own statement that most textile producers would not actually do their own treatment and testing, but would instead turn to contract finishers to perform this function; thus, many of the processing cost and environmental considerations would be largely limited to fabric finishing firms.

There was additional discussion about the details of some of these issues. Ms. Adair asked that the CPSC staff put its comments and questions in writing and submit them to her for further discussion with Glassman-Oliver. Mr. Rodgers asked that ATMI provide raw data from Glassman-Oliver's industry survey. Mr. Berkley talked about the industry's view that there has been a lack of transparency in CPSC's regulatory proceeding, and asked that the staff share more lab test data and other related information with the industry. Mr. Medford responded that the staff had provided some information, such as drafts of the standard, epidemiological data, and the results of recent CPSC-sponsored interlaboratory testing, and that the staff would provide a complete package of information to the public and to the Commission by March 2001.

The staff and industry representatives discussed the textile industry's willingness to proceed cooperatively in developing possible voluntary alternatives that would address the industry's concerns while still providing an adequate level of safety to the public. Mr. Berkley and others stated their commitment to developing reasonable alternatives, but said they have not yet found a feasible approach.

CPSC STAFF / AMERICAN TEXTILE MFRS. ASSOCIATION
Meeting on Economic Issues on Upholstered Furniture
February 6, 2001, 9:30 a.m.
Attendance List

<u>Name</u>	<u>Affiliation</u>	<u>Phone</u>
Patty Adair	ATMI	202-862-0518
Crans Baldwin	DFA / Bergamo	212-462-1010
Robert Barker	AFMA	202-296-6508
Roger Berkley	ATMI / Weave	201-646-1500
Linda Fansler	CPSC / LS	301-413-0153
Robert Franklin	CPSC / EC	301-504-0962
Rik Khanna	CPSC / ES	301-504-0494
Cary Kravet	DFA / Kravet	516-293-2000
Lowell Martin	CPSC / OGC	301-504-0980
Ron Medford	CPSC / EXHR	301-504-0554
Alyson Price	Alliance for Polyurethanes Ind.	703-253-0687
Warren Prunella	CPSC / EC	301-504-0962
Dale Ray	CPSC / EC	301-504-0962
Greg Rodgers	CPSC / EC	301-504-0962
Walt Sanders	CPSC / Ofc. of Chmn Brown	301-504-0213
Patsy Semple	CPSC / Ofc. of Comm. Gall	301-504-0530
Chuck Smith	CPSC / EC	301-504-0962
Michael Solender	CPSC / OGC	301-504-0980
Karen Suhr	National Assn of State Fire Marshls	202-737-1226
Richard Taffet	DFA / CCDF	212-907-7337
Allyson Tenney	CPSC / ES	301-504-0494
Trey Thomas	CPSC / HS	301-504-0994
Phil Wakelyn	NCC	202-745-7805

An Economic Analysis of the Draft Small Open-Flame Regulation of Upholstered Furniture

Prepared for: *American Textile Manufacturers Institute
Decorative Fabrics Association
Coalition of Converters of Decorative Fabrics
American Fiber Manufacturers Association
National Cotton Council
American Society of Interior Designers*

by Glassman-Oliver Economic Consultants, Inc.
Washington, DC

Background

- October 1997 CPSC Staff Briefing Package includes:
 - economic cost/benefit analysis
 - draft test protocol
- Burden placed on upholstery fabric industry
 - furniture complex composite structure
 - does not address flammability of major fuel sources, i.e., foams and other filling materials
 - much information based on "UK experience"

Background and Status

- Fall 1998 - Industry groups request independent cost/benefit analysis from Glassman-Oliver
- Feb. 2001 - Study completed and presented to the Consumer Product Safety Commission

Glassman-Oliver Approach to Cost/Benefit Study

- Evaluation of CPSC's cost/benefit analysis
- Survey of upholstery industry sectors:
 - fabric mills
 - wholesalers and converters
 - finishers
- Extensive interviews with industry representatives and plant visits
- Glassman-Oliver's estimate of costs to industry and consumers

Industry Complexity

- Distribution Chains:
 - Fabric Mill Distribution Chain - Figure 1
 - Converter Distribution Chain - Figure 2
- Product Diversity
 - multiple fibers and blends, weaves and processes

Summary of Findings

- Benefits overestimated by nearly 10 times
 - scientific assumptions demonstrated to be flawed (cigarette effect)
 - industry factors inadequately considered

See Table 2.

Cigarette-Related Assumptions

- Assumed cigarette ignition benefits not supported with experimental data.
- Cigarette-related benefits assumed by Staff to be so large that small-open flame benefits not needed.
- Staff treats draft proposal as a cigarette-related regulation.
- Without cigarette-related benefits, Staff's cost/benefit test is not met.

Installed Base of Untreated Furniture

- Annual benefits of regulation will not be the same in early years as in later.
- Most consumers do not replace all upholstered furniture at once.
- Increased costs delay replacement, may encourage unsafe alternatives
- Durability of FR backcoating unknown.
- Costs will be realized immediately.

Summary of Findings

- **Benefits overestimated** by nearly 10 times
 - scientific assumptions demonstrated to be flawed (cigarette effect)
 - industry factors inadequately considered

See Table 1.

Summary of Findings

- **Costs underestimated** by more than \$2 Billion
 - Testing and treatment costs understated
 - Environment, worker and consumer safety costs not considered
 - Operational and transactional costs not addressed
 - Consumer impact magnified on lower priced fabric and furniture
 - Loss of fabrics from the marketplace not recognized

See Tables 3, 4 and 5.

Summary of Findings

- **Socio-economic Effects**
 - Disproportionate costs to most vulnerable population
 - cause of child play fires not adequately addressed
 - incremental increases in costs of fabric, furniture

Conclusions

- Draft proposed standard is not cost justified.
- Industry must be involved in all future activities on this issue.
- Cost effective alternatives must be considered.