



CORNUCOPIA
I N S T I T U T E

September 13, 2006

Lee Scott
President and Chief Executive Officer
Wal-Mart Stores, Inc.
Bentonville, Arkansas 72716-8611

Dear Mr. Scott,

We have followed Wal-Mart's participation in organic retailing very carefully over the past few years. Your company's announcement, in terms of greatly expanding organic product offerings, has been received by many in the organic community with great trepidation.

In numerous media interviews, when asked about the impact of your company's move, I have said that this could have great positive or negative implications. I stated that if Wal-Mart applied its logistical prowess to increasing the availability of organic food in this country, at pricing commensurate with your economies of scale, this would be a big win for both organic consumers and farmers. However, I also said that if instead your organization decided to "Wal-Mart" organics by applying its standard business model, squeezing out margins for suppliers to sub-subsistence levels, the company's move could inflict profound damage to an industry that has offered hope to so many.

Unfortunately, we now have completed enough research to indicate that Wal-Mart is pursuing the latter strategic path. Already cited in numerous media reports as the largest retailer of organic milk in the country, in addition to partnering with Dean Foods to offer Horizon dairy products, we have now learned that your company is offering private-label milk manufactured by the country's largest factory-farm "organic" processor, Aurora Organic Dairy.

Both of these organizations are presently under investigation by the USDA following allegations that they are not complying with federal organic regulations, which prescribe different humane animal husbandry and livestock management practices. More importantly, these companies do not adhere to the spirit of the law and basic foundational philosophies that have attracted organic consumers in the first place—consumers want to support ecologically sustainable family farms, not giant industrial-type dairies.

Furthermore, we have been able to determine, through research, that some of your organic grocery products' low prices are based on procuring low-cost commodities from China. Not only is there strong reason to believe that the integrity of certification oversight in China is below that provided by domestic organizations, along with reports of outright fraud and corruption regarding organic standards, as well as pervasive pollution concerns, but importing products from around the world does not comport with one of the prime reasons consumers are willing to pay a higher price for organic food: the chance to participate in the marketplace to support sound environmental stewardship.

We are afraid that you are grossly miscalculating your move into organics and underestimating the knowledge and commitment of the organic consumer. Those buying organic food are comfortable paying the historic premiums because they think that part of their purchase dollar supports a different kind of environmental, animal husbandry, and economic justice ethic. They don't think they are supporting burning diesel fuel by shipping food around the world, corporate-owned factory farms milking thousands of cows, exclusive produce purchases from giant farms working thousands of acres—shipped from thousands of miles away—and they think these higher prices support family-scale farmers, not rich corporate investors.

Your widespread distribution and representation of these products will severely economically damage family-scale organic farmers throughout this country and could force many of them out of business. This is not just a matter of obtaining products at a lower price and squeezing out competition, this is providing lower-priced merchandise that is substandard in the eyes of the organic community, possibly even legally so, and constitutes unfair competition. We can't imagine, with all the negative press that your company has endured, and the associated repercussions that has had on your share value, that you want to engage in another public battle regarding your perceived attack on a product category that is held in such high esteem by so many consumers.

Again, we feel the moves you are now making are based on a business model that will not apply successfully to organic food and fiber. It is obvious that your shift to organics is one vehicle that you hope to use to shift Wal-Mart's product offerings in order to attract a more upscale clientele. Although your methods might succeed in apparel, plasma TVs, or wine, they are likely to not only fail from a marketing perspective in organic food but will backfire and create another lightning rod for organized public criticism of the Wal-Mart organization.

The reason for this letter is to alert Wal-Mart management, at the highest levels, of this misstep. It is not too late to turn this around for the benefit of the company and the organic community as a whole. In that regard we would welcome the opportunity to sit down with you and your management team to help develop an alternative strategy that will benefit both Wal-Mart shareholders and society.

The meteoric growth of organic food, both here and in Europe, has offered great societal benefits. It has rejuvenated rural communities, protected the environment from toxins, offered consumers higher quality food, and protected livestock from exploitation. We invite

you to be part of this unquestioned successful track record. Please don't destroy what has been created over the past two decades by a dedicated collaboration between consumers and farmers. In the long run, the strategic path you are following, in regards to organic foods, will not benefit Wal-Mart's shareholders, employees, and suppliers, or its customers.

We look forward to your response and hope you will take advantage of our willingness to collaborate with you and your management team.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Mark A. Kastel", with a long horizontal flourish extending to the right.

Mark A. Kastel
Codirector

PS: When I visited one of your stores, you were selling Stonyfield nonfat yogurt—a conventional product—with signage designating it as an organic product. This is obviously a violation of the Organic Food Production Act. We assume this was an unintentional error. However, your organization needs to take immediate steps to remedy this problem and to create a protocol so that it does not recur in the future.

Please contact us at organic@cornucopia.org for information on the precise store location in question. A photograph of the aforementioned signage violation can be found in the *photo gallery* section of our web site: www.cornucopia.org. Thank you for your immediate attention to this matter.