



## Wal-Mart & China:

How America's #1 Company is Putting America's Safety Second

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Recent recalls of food, toys and pet supplies from Wal-Mart's shelves have shined a bright light on the relationship between Wal-Mart and China, and how it is threatening the safety of American consumers.

While Wal-Mart would have Americans believe that the unsafe Chinese goods pulled from its shelves are the fault of unscrupulous suppliers, nothing could be further from the truth. Wal-Mart's unsafe products are the direct result of the corporation's insistence that manufacturers supply low cost goods above all else.

Wal-Mart has long had the power and responsibility to demand safer products from its suppliers, but instead, it has demanded lower prices and tried to cover up the consequences.

In the world economy, Wal-Mart is a superpower. It is the world's largest retailer with over 12 billion dollars in profits. [Wal-Mart Stores, Inc, Annual Report 2007] Wal-Mart is China's number one importer and sixth largest trading partner, surpassing even Germany and Britain. [Frontline, November 2004] More than 70 percent of goods on Wal-Mart's shelves come from China. Yet still today – months after poisonous dog food, salmonella snacks and carcinogenic fish were found on its shelves - Wal-Mart continues to keep the pressure on its Chinese suppliers to produce low-cost goods at any price.

## Wal-Mart and China: “The Ultimate Joint Venture”

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### **Wal-Mart is the Number One Importer of Chinese Goods.**

In 2004, Wal-Mart imports more than \$18 billion of goods purchased in China – which equals 10 percent of all U.S. imports from China. [Testimony of International Trade Expert Gary Hamilton before the U.S.-China Economic Security Review Commission, May 19-20, 2005] By 2005, according to a senior writer for Business Week, that number had climbed to \$22 billion. [Anthony Bianco, “The Bully of Bentonville,” 2006]

Since 2004, Wal-Mart has not released a dollar value for the amount of money the company spends on goods from China. However, the Journal of Commerce ranked major importers in terms of volume, and in 2006, Wal-Mart's imports were 75 percent greater than those of the number two company on the list, Target. [Journal of Commerce May 28, 2007 and May 29, 2006]

### **Seventy Percent of Goods on Wal-Mart Shelves Come From China.**

According to *China Business Weekly*, "more than 70 percent" of the goods sold in Wal-Mart are made in China. [China Business Weekly, November 29, 2004]

### **More than 80 percent of the 6,000 factories in Wal-Mart's network of suppliers are in China.**

In a 2004 article titled "Chinese Workers Pay for Wal-Mart's Low Prices; Retailer Squeezes Its Asian Suppliers to Cut Costs," *The Washington Post* said that "as capital scours the globe for cheaper and more malleable workers, and as poor countries seek multinational companies to provide jobs, lift production and open export markets, Wal-Mart and China have forged themselves into the ultimate joint venture." [The Washington Post, February 8, 2004]

### **Wal-Mart Pits Supplier Against Supplier in Search of Low Costs.**

*The Los Angeles Times* concluded in 2003, "Wal-Mart buyers continually search the globe for still-cheaper sources of supply. The competition pits vendor against vendor, country against country." When one factory manager in Bangladesh cut his price by 20 percent by bargaining down costs from his suppliers, Wal-Mart said it was not enough and threatened to buy instead from Vietnam or China which had lower labor costs. [LA Times, November 24, 2003]

## **Wal-Mart's Low-Cost Demands Drive Chinese Manufacturers to Cut Corners**

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### **Retailers Like Wal-Mart Put Pressure on Manufacturers to Cut Corners and "Outright Cheat."**

According to *The Miami Herald*, "As Chinese companies are pushed by toy companies to do more internally on safety, they're being pulled in the other direction by giant retail cost-cutters like Wal-Mart and Target." And an expert on toy manufacturing in China concluded, "Everybody is pushing, pushing, pushing for lower and lower prices. The vendors are

squeezed to the point where they aren't making a profit anymore. So they are looking to cut corners," said Peter Dean, a former U.S. toy company executive who now teaches at Hong Kong Polytechnic University." [The Miami Herald, August 16, 2007]

### **"If You Want Safety and Quality You Have to Pay for It."**

"Part of the problem is the extreme pressure on pricing which is being put on the supply chain," said Miles Young, the chairman of Ogilvy & Mather Asia Pacific. "As China's costs are rising, the pressure on manufacturers is more intense," he said. "Normally if you want safety and quality you have to pay for it." [Reuters, September 7, 2007]

### **"With Low Costs Come Risks."**

"China's range of exports has expanded as more foreign companies tried to take advantage of low-cost labor and cheap materials," says Andrew Bartolini, analyst at Aberdeen Group. "China has a burgeoning expertise in manufacturing capabilities. It's undergoing a rapid evolution. But with low costs come risks (for overseas buyers)," he said." [CNN, August 13, 2007]

### **Chinese Manufacturers Cut Corners to "Keep Costs at Rock Bottom."**

According to *Business Week*, "American and other foreign businesses are looking for one thing in China -- low costs. Chinese manufacturers have plenty of incentive to cut corners to keep costs at rock bottom." "[Small business owners] want to find the least expensive component for their product, so the products do what they are supposed to do without causing safety problems,' says Alan Schoem, senior vice-president for the global product risk practice for Marsh, a risk advisory and insurance broker, and a former director of the U.S. Consumer Product Safety Commission's office of compliance. 'But that is where problems occur in Asia.' Everette Phillips, president and CEO of China Manufacturing Network, an outfit that aggregates small business manufacturing requests among a network of about 100 factories in China, says small businesses may inadvertently push the wrong buttons with their Chinese suppliers. 'If you accept a price below material cost, [Chinese manufacturers] expect to make a profit, so they have an incentive to substitute materials,' says Phillips. 'A U.S. buyer would say they are cheating me, but they would say it is you who are cheating them.' Further tangling the issue is that manufacturers that pass muster with you may themselves be using subcontractors that outsource materials that are inferior or downright dangerous." ["The China Code," *Business Week*, August 20, 2007]

# **The High Price of Low Costs: Unsafe Chinese Products Pulled From Wal-Mart's Shelves**

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## **Wal-Mart Sold Vinyl Baby Bibs Laced with Lead from China.**

In May 2007, Wal-Mart pulled a brand of children's bibs made in China after a consumer group tested them for lead, finding levels above those legally allowed in Illinois. Illinois government officials worked with Wal-Mart on the recall. It did not immediately pull the bibs nationwide and a Wal-Mart spokesperson even contradicted a statement from the NY state attorney general's office saying that Wal-Mart would pull the bibs there in addition to those in Illinois. A Wal-Mart spokesperson said that Wal-Mart had sold 60,000 of the bibs in Illinois alone. The Wal-Mart spokesperson later said that Wal-Mart would pull the bibs nationwide. [ABC affiliate, May 2, 2007, Dow Jones, May 2, 2007, and St. Louis Post Dispatch, May 3, 2007]

## **Chinese Toy Trains, and Chinese Toys with Choking Hazard Pulled Off Wal-Mart Shelves.**

In May 2007, a journalist from the Chicago Tribune reported being able to purchase Magnetix toys at Wal-Mart one year after they were recalled. The CPSC had issued a recall for the toys after several children were injured after swallowing magnets that detached from the toy. The magnets were strong enough to perforate the children's intestines, leading to 27 intestinal injuries and one death. The recall expanded to include 4 million units which the CPSC said were manufactured in China. In June 2007, another journalist from the paper found recalled toy trains on the shelves at Wal-Mart two weeks after a recall was issued because of hazardous paint. [Chicago Tribune, May 11, 2007 and CPSC, April 19, 2007 and Chicago Tribune, June 28, 2007]

## **Toy Jewelry Made in China and Sold at Wal-Mart Contains Lead.**

Inspections in the fall of 2006 and spring of 2007 by the Consumer Product Safety Commission of costume jewelry from retailers and importers determined that 20 percent still posed a potential poisoning hazard. The Consumer Product Safety Commission has been trying to crack down on lead jewelry since February 2005 when it reevaluated what lead concentrations were hazardous and started sending inspectors directly to importers. According to the New York Times, there was "no doubt about the primary source of the threat: of the 17.9 million pieces of jewelry items pulled from the market since the start of 2005, 95 percent were made in China." Jewelry is perhaps the most dangerous place for lead because children can swallow an entire ring or pendant.

Many children also tend to suck on jewelry or put it in their mouths, allowing lead to be absorbed into their bloodstream. One surprise inspection at a vendor to Wal-Mart turned up the lead in 2007. [New York Times, August 5, 2007, Chicago Sun-Times, October 2, 2005, and The Philadelphia Inquirer, December 12, 2004]

### **Wal-Mart Brand Pet-Food Contaminated by Chemicals in China.**

Pet food manufacturers recalled 60 million cans of pet food after receiving complaints from pet owners that their animals had become sick or even died from eating pet food made with tainted wheat gluten. The wheat gluten from China was contaminated with melamine, a chemical found in plastics. Another pet food manufacturer recalled dog biscuits made especially for Wal-Mart's Ol' Roy brand of pet food. [Wall Street Journal, May 9, 2007 and the Associated Press, April 5, 2007]

### **Chinese Catfish Taken Off Wal-Mart Shelves.**

Wal-Mart pulled catfish from its shelves nationwide a day after Alabama banned the sale of Chinese catfish. An Alabama state agency tested fish filets and found residues of an antibiotic banned by the FDA in them. The state agency found those filets on the shelves of retail establishments despite the FDA's ban on filets with those antibiotics. The article did not report if the tested catfish came from Wal-Mart. [St. Petersburg Times, April 26, 2007]

### **Salmonella Snacks Traced to China, Found at Wal-Mart.**

Contacted by reporters from a paper in upstate New York about recalled snack foods sitting on the shelf of a Wal-Mart store, spokespeople for Wal-Mart initially denied that their store even carried the product. The FDA issued a recall for Veggie Booty baked snacks June 28, 2007, and the reporter found the product still on the shelves at Wal-Mart two days later. Employees at the store said that they were unaware of any recall. The maker of the snacks later said that its tests narrowed the source of the salmonella strain to seasonings from China. According to the Centers for Disease Control, sixty people in 19 states were infected with the rare strain of salmonella. [Daily Star (NY), June 30, 2007, Associated Press, July 12, 2007].

## **Wal-Mart Works to Hide the Origin of Chinese Goods from Consumers**

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**Wal-Mart helped delay for several years federal requirements that beef and pork carry labels telling shoppers in what country such products originated.**

In 2002, Congress passed a law mandating that retailers inform consumers about the country of origin of agricultural products such as beef, pork, fish, and peanuts. By 2004, retailers and food processing companies would have to label such products with “country of origin labeling,” known by the acronym COOL. [USDA’s Agricultural Marketing Service, 2007 <http://www.ams.usda.gov/cool/>]

In 2003, a Wal-Mart executive testified before Congress against the labeling requirement, calling it “overzealous” and “fundamentally flawed.” Wal-Mart had also lobbied on the bill in 2002. [FDCH Political Transcripts, June 26, 2003 and Wal-Mart Stores, Inc., End of Year Lobbying Disclosure 2002, [sopr.gov](http://www.sopr.gov)]

In 2004, Congress then voted to delay the mandate on labeling except for shellfish and fish. [USDA’s Agricultural Marketing Service, 2007, [www.ams.usda.gov/cool/](http://www.ams.usda.gov/cool/)]

Wal-Mart in 2005 lobbied Congress to “delay the mandatory Country of Origin Labeling requirements of the 2002 Farm Bill”. [Wal-Mart Stores, Inc., End of Year Lobbying Disclosure 2005, [www.sopr.gov](http://www.sopr.gov)]

Late in 2005, President Bush signed the law delaying the implementation of the COOL regulation on all the commodities covered under the law except fish and shellfish. Other country of origin labels would still be voluntary until fall 2008. [USDA’s Agricultural Marketing Service, 2007, [www.ams.usda.gov/cool/](http://www.ams.usda.gov/cool/)]

In the midst of recalls of food products and toys, Congress in the summer of 2007 did not vote again to delay such labels. The country of origin labels will be mandatory as of September 30, 2008. [Business Week Online, August 20, 2007]

**Wal-Mart executives claimed consumers don’t care about the country in which their food was produced.**

Bruce Peterson, who until 2007 served as Wal-Mart's senior vice president in charge of perishables, told an industry magazine in 2003, "COOL sounds good, until you try to enact it. But if you ask our consumers what factors go into their purchasing decisions, country of origin isn't even on the chart." [Beef, June 1, 2003 and Freshinfo.com, February 2007]

Peterson said, "If consumers were clamoring to know the country of origin—retailers would already be labeling products." [Beef, June 1, 2003]

### **Wal-Mart Fails to Take Responsibility for Recent Recalls.**

Rather than reforming business practices that have led to unsafe products being peddled in Wal-Mart stores, the company chose instead to announce independent testing of the toys it sells. One Wal-Mart spokesperson even stated that consumers are more likely to lay the blame for dangerous products "at the feet of manufacturers and government." [Brandweek, September 2007]