ASDA WAL-MART







Wal-Mart Stores Inc.

Chairman S. Robson Walton CEO & President H. Lee Scott, Jr

Stores worldwide 5,200
Employees worldwide 1.5 million
Sales (2004) \$288 billion
Profits (2004) \$10.3 billion

Asda

Wholly owned UK subsidiary of Wal-Mart since 1999

CEO Andy Bond

Stores 265 Employees 128,000

Wal-Mart website: www.walmartstores.com

Asda website: www.asda.co.uk

Introduction

This is the second in a series of War on Want alternative company reports. Their purpose is to compare and contrast the rhetoric of corporate social responsibility (CSR) with the reality of companies' actual practices. The reports form part of War on Want's ongoing campaign for a global framework of corporate regulation, and each recommends action that ordinary people can take to rein in the power of multinational corporations across the world.

This report looks at the world's largest retail company, Wal-Mart, more familiar in the UK as the supermarket chain Asda. Wal-Mart has built a global empire of supermarket stores on an image of 'always low prices', and has expanded far beyond its original US base into Latin America, Europe and the emerging markets of Asia. In all its activities, Wal-Mart prides itself on its overriding desire to cut costs to a minimum.

Yet Wal-Mart's relentless pursuit of the lowest possible prices has taken a heavy toll on its employees and suppliers. Workers in Wal-Mart stores and distribution centres have seen their rights violated as a result of cost cutting, while the company's determined opposition to trade unions has denied employees essential protection and bargaining rights. Suppliers have also been exposed to ever worsening conditions as Wal-Mart turns the screw on source factories in some of the poorest countries in the world.

This report not only reviews Wal-Mart's record over and against its rhetoric on corporate social responsibility. It also recommends action, both to send a message to Wal-Mart and to redress some of the damage inflicted by the company's operations. The GMB is delighted to be associated with this important report, and calls on all readers to take the action recommended in defence of working people across the world.

Louise Richards Chief Executive, War on Want

Louise Richards

Paul Kenny Acting General Secretary, GMB

Paul Kenny

Cutting costs – at any cost

"We're all working together; that's the secret. And we'll lower the cost of living for everyone, not just in America, but we'll give the world an opportunity to see what it's like to save and have a better lifestyle, a better life for all."

Sam Walton, founder of Wal-Mart

Wal-Mart is the largest retail corporation in the world. With more than 5,000 stores worldwide promising 'Always Low Prices' on anything from groceries to plastic toys and lawnmowers, Wal-Mart pulls in over 138 million customers each week. Wal-Mart's sales amounted to \$288 billion in 2004, with over \$10 billion in profit. Of the ten richest people in the world, four are members of the Walton family, heirs to the Wal-Mart fortune.

By the 1990s Wal-Mart had expanded far beyond the single discount store Sam Walton first founded in Arkansas in 1962. Indeed, Wal-Mart's replacement of local businesses in its traditional market of rural America has reached saturation point, and in order to keep expanding the company is now moving into urban centres and the international market. Wal-Mart currently operates stores in Mexico, Canada, Argentina, Brazil, China, Korea, Germany and the UK, where it took over the Asda supermarket chain in 1999.

Wal-Mart's successful domination of the retail market is the result of the company's relentless push for "the lowest possible price" for consumers. Because of its size, Wal-Mart can afford to take a loss on certain items or support an unprofitable store in order to drive local competition out of business. In Mexico, where Wal-Mart now controls 40% of the country's grocery sales, Wal-Mart vice-president Raul Arguelles explains how

Wal-Mart's predatory pricing strategy is used to eliminate competition: "Every store manager has authority to lower prices if he sees the store across the street selling for less. If you have to lower the price, you lower it." A survey of Wal-Mart's impact in the first 12 years of its operation in the US state of lowa found that 50% of clothing stores, 42% of variety stores, 26% of department stores and 30% of hardware stores had all closed.²

The principle of cutting costs - at any cost drives every aspect of how Wal-Mart does business. Wal-Mart exerts great pressure on suppliers to produce goods at rock-bottom prices, and it adopts extreme measures to keep the operating costs of its retail stores to a bare minimum. Wal-Mart wages are well below the industry standard and the company is characterised by a revolving door of parttime, temporary workers at the bottom of the pay scale, with restricted access to benefits. Worker turnover at Wal-Mart stores averages 50% per year, and can reach as high as 200% at some stores.3 As this report shows, Wal-Mart is fiercely opposed to the formation of trade unions amongst its workforce.

Wal-Mart's dominance of the retail industry also enables it to dictate both the cost and production timetable for every product. Only suppliers operating with the lowest labour costs and standards can meet the targets Wal-Mart sets. As a result, Wal-Mart imports

most of its products from Asia and Latin America, with around 80% coming from China. If Wal-Mart were a country, it would rank as China's fifth largest export market, ahead of Germany and the UK.⁴

Wal-Mart's stranglehold on suppliers is ever tightening. Its 'Plus One' mandate requires that every year suppliers must either lower the price or improve the quality of each item they produce for Wal-Mart. Ken Eaton, the head of Wal-Mart's global procurement division, explains how Wal-Mart pits factories against each other by "putting our global muscle on them". Suppliers have responded by cutting wages, ignoring health and safety regulations, and increasing hours. Factory owners in Bangladesh say that to keep Wal-Mart

contracts they have been forced to cut prices by as much as 50%, while the US National Labor Committee found workers for Wal-Mart suppliers in China's Guangdong Province working 130 hours per week for an average 16.5 cents an hour.⁵

Wal-Mart's business model is fast becoming the industry standard. The obsession with low prices is resulting in a downward spiral of poverty wages, ever-worsening sweatshop conditions and the destruction of local businesses and communities. This 'race to the bottom' is one of the most damaging characteristics of globalisation in the 21st century, and one which Wal-Mart is determined to pursue to the company's maximum advantage.

Asda store at Leyton, London Photo:Tim Peat / War on Want

Wal-Martisation of local communities

"We are a group of dedicated, hardworking, ordinary people who have teamed together to accomplish extraordinary things."

Don Soderquist, former Senior Vice-Chairman, Wal-Mart

Wal-Mart documents released in April 2005 reveal that the company's CEO Lee Scott was paid over \$17.5 million in total during 2004. This is roughly a thousand times the annual average for workers in Wal-Mart's 3,600 US stores, where wages range from \$7.92 to \$9.68 an hour.⁶

Not content to pay its employees wages that are on average 20% lower than the industry standard, Wal-Mart seeks to cut costs through the routine violation of workers' rights. Wal-Mart requires that labour costs be kept to less than 8% of each store's sales. In addition, managers must reduce the labour costs at their stores by 0.2% each year. This drives managers to stretch their workforce to cover chronic staff shortages, and to break the law by employing children and undocumented migrant workers.

One internal audit of 25,000 employees in 128 Wal-Mart stores in the USA found 1.371 violations of child labour laws, including minors working too late, too many hours a day and during school hours. It also found 60,000 instances where workers were forced to work through breaks, and 16,000 where they worked through meal times.8 A 2002 lawsuit in Texas estimated that Wal-Mart short-changed its employees \$150 million over four years in missed breaks.9 In March 2005, Wal-Mart settled a \$11 million federal lawsuit regarding its use of undocumented migrant workers to clean stores in 21 US states; the cleaners earned \$325 for 60-hour weeks in which they were not paid overtime.10

Liberty Morales Serna, a former Wal-Mart worker in Houston, describes how she was required to work off the clock: "They would know you'd clocked out already... It would be like four or five hours. They were understaffed, and they expected you to work those hours." Judy Danneman, a former department manager in West Palm Beach, Florida explained the pressure that workers are under to work unpaid hours: "Working unpaid overtime equaled saving your job." In addition to obligatory unpaid work, trial testimony in a suit in Oregon revealed that Wal-Mart managers actually deleted hours from employee time sheets. Similar suits in Colorado and New Mexico indicate how widespread this practice is.12

Communities lose an average of three jobs in local businesses for every two low-wage jobs gained at Wal-Mart.¹³ Wal-Mart's recent entry into the grocery business in the US has caused over 25 regional supermarket chains to file for bankruptcy or protection, with a loss of 12,000 jobs.¹⁴

Similar job losses have resulted from Asda's expansion in the UK. In 2004, Asda put forward a massive £400 million blueprint for an expansion which will cost an average of 276 jobs for every new supermarket, according to the British Retail Forum. Unlike local businesses, which reinvest profits in the local community, profits made at Wal-Mart stores are flown back to Wal-Mart headquarters in Bentonville, Arkansas every night.

Wal-Mart opposes 'Nazi' planning regulations

Recognising the high social, economic and environmental costs of having a Wal-Mart store in their area, many communities have used planning regulations to keep the company out. Wal-Mart increasingly seeks to bypass local planning authorities through initiatives such as that rejected by residents of Inglewood, California. The initiative, which Wal-Mart spent \$1 million to promote, would have allowed the construction of a massive shopping centre without traffic studies, environmental reviews or public hearings. ¹⁶

Wal-Mart's aversion to community planning led it to take out an ill-advised newspaper ad as part of a campaign against a ballot proposal to limit the expansion of the company in Arizona. The advert pictured a group of Nazi stormtroopers burning a heap of books and asked: "Should we let government tell us what we can read? Of course not ... So why should we allow local government to limit where we shop?"



Asda is likewise highly critical of the UK's "increasingly restrictive planning regime," which runs counter to its own "flexible" approach. Asda argues that "after a while there's only one thing left to do with a store – knock it down and start again... a new Asda store helps to breathe new life into derelict land." The reality is that the Asda Wal-Mart approach leaves hundreds of abandoned stores which it will not sell or lease to 'competitors', while it swallows up greenbelt areas for larger developments.

Wal-Mart's model is fast becoming the industry standard, as other firms slash employee wages and benefits in an attempt to compete with the retail giant. Citing the need to compete with Wal-Mart, Laree Renda, chief executive of the Safeway supermarket chain,

recently appealed to employees whose contracts were due to expire to take pay cuts and a lower benefits package. She told the workers: "Wal-Mart wants our customers and your jobs. If we don't change... you bet we'll lose jobs — and it will be in the thousands."

Anti-union and against workers' rights

"While unions may be appropriate for other companies, they have no place at Wal-Mart."

Jessica Moser, Wal-Mart spokesperson¹⁹

Wal-Mart is vehemently anti-union. Its antiunion policy is a central part of its obsession with minimising costs. With union wages in the US an average of 26% higher than non-union wages and with workers in the unionised grocery industry making on average 30% more than the typical Wal-Mart worker,²⁰ it is clear why Wal-Mart considers unions such a threat to its strategy of paying the lowest possible wages.

Wal-Mart also provides managers with its infamous 'Manager's Toolbox to Remaining Union Free'. The toolbox states Wal-Mart's anti-union philosophy in no uncertain terms: "Staying union free is a full time commitment. Unless union prevention is a goal equal to other goals and objectives in the organization, management will not devote the necessary day in, day out attention and effort." Managers are warned that they are the "first line of defense against unionization" and told to be vigilant against any efforts to unionise staff. The toolbox also offers a helpful list of 'early warning signs' that such activity might be taking place: "increased curiosity in benefits and policies, associates receiving unusual attention from other associates, abuse of restroom visits, argumentative questions are asked in departmental/facility meetings, frequent meetings at associates' homes, associates spending an abnormal amount of time in the parking lot before and after work, associates who are never seen together start talking or associating with each other and begin forming strange alliances." If there is any evidence of moves towards unionisation,

managers are ordered to phone the Wal-Mart Union Hotline immediately.

Since 1995, the US National Labor Relations Board has issued more than 60 complaints against Wal-Mart for violations of workers' right to organise, including illegally firing workers who attempt to organise a union and also unlawful surveillance, threats and intimidation of workers.²¹ A grand jury is currently investigating allegations surrounding the resignation of Tom Coughlin, Wal-Mart's former vice-president. Wal-Mart claims that he spent between \$100,000 and \$500,000 for undeclared purposes, which Coughlin now alleges was used as a secret union-busting fund to pay informers and bribe employees.²²

Despite Wal-Mart's best efforts, however, in February 2000 a group of 11 workers in the meat-cutting department of a Wal-Mart Supercentre in Jacksonville, Texas signed union cards, forming the first ever union in Wal-Mart's history. Immediately, according to one worker, "all hell broke loose". A team of union busters was flown in from Wal-Mart headquarters and suddenly the meat cutters found six new employees in their department who were eager to help them with their jobs and to listen in to their conversations. Within II days Wal-Mart announced that it was closing the meat-cutting departments in all of its Supercentres, replacing fresh cuts of meat with pre-packaged, case-ready meat. The meat cutters were demoted to the position of 'sales associates' and assigned to other departments in the store.23.

Wal-Mart claims that its anti-union stance applies only to stores in the USA, and that it recognises the need to approach the labour situation differently in its international operations. However, Wal-Mart's anti-union activities in Canada have borne all the hallmarks of the company's US strategy. Six months after workers at a Wal-Mart Supercentre in Jonquière, Quebec voted for union representation, Wal-Mart announced that it was closing the store. Wal-Mart stated that the closure was necessary due to low sales - a claim dismissed by union supporters, who argue instead that Wal-Mart shut the store to intimidate workers and to prevent similar initiatives at other Wal-Mart stores. Workers at stores with union votes pending have got the message, but remain undeterred. In the words of one employee at a Wal-Mart in Saint-Hyacinthe, Quebec: "Of course we're worried about what happened in Jonquière. But we need a contract. The employer needs to respect us, and the way they schedule our hours."24

In the UK, too, workers at Asda have come up against Wal-Mart's anti-union culture. Following Wal-Mart's 1999 take-over of Asda, the company has sought to restrict the role of general union GMB. After four years of negotiations, a new agreement between Asda and the GMB came into effect in 2004, which does not provide for collective bargaining. In the words of GMB senior manager Harry Donaldson, "We believe that, since the takeover, Wal-Mart has tried to stifle union activity at Asda." Asda has sought to limit GMB access to new employees and to undermine the union's efforts to organise new recruits. During a recent union ballot, says Donaldson, "Asda distributed material that the GMB considers blatantly anti-union propaganda." In addition, managers at a unionised Asda distribution depot offered workers a new package which included a 10% pay increase and the requirement that workers give up collective bargaining representation by the GMB. When workers rejected the proposal, Asda withdrew the 10% pay increase.25



Squeezing suppliers

"At Wal-Mart we believe in 'doing the right thing'. We expect contractors that provide services to our company to also do the right thing for their employees and communities."

Wal-Mart's 'Contractor Standards'

Wal-Mart's ability to slash prices at its retail stores is based on its power to drive down wages and working conditions at the factories which produce its products. As the largest retail corporation in the world, Wal-Mart has immense power over suppliers and uses this to dictate everything from prices to precise delivery schedules.

Wal-Mart is leading the race to the bottom by relentlessly squeezing cost efficiencies out of the supply chain. Wal-Mart frequently requires its suppliers to open their books for Wal-Mart inspection and tells them exactly where to cut costs. When national labour or environmental standards create a barrier to cost cutting, suppliers are encouraged to relocate to a labour market that will enable them to produce at the low price Wal-Mart requires. Even where wages are rock-bottom, Wal-Mart insists that its suppliers drive prices ever lower. Qin, a factory worker in China, explains: "In four years they haven't increased the salary." Isabel Reyes, a garment worker in Honduras, tells the same story: "There is always an acceleration... the goals are always increasing, but the pay stays the same."26

In its investigation of factory conditions, the US National Labor Committee found that "in country after country, factories that produce for Wal-Mart are the worst." According to the Committee, Wal-Mart "is actually lowering standards in China, slashing wages and

benefits, imposing long mandatory-overtime shifts, while tolerating the arbitrary firing of workers who even dare to discuss factory conditions." Surely Huang, a factory engineer in Shenzhen, explains that Wal-Mart drives factory owners to establish these conditions: "The profit is really small... we have to constantly cut costs to satisfy Wal-Mart." Despite this, the managing director of Wal-Mart's global procurement centre in Shenzhen, Andrew Tsuei, defends Wal-Mart's sourcing strategy: "For the benefit of the consumer, we should buy merchandise where we get the best value." 28

Wal-Mart's has taken lean production techniques to a new level, revolutionising global sourcing and distribution. By cutting production time, speeding up transportation, reducing inventory and creating regional distribution centres. Wal-Mart has led the development of just-in-time production. Yet the efficiency comes at a price. Factories scramble to complete Wal-Mart orders on time, something that can only be achieved through excessive overtime. The result is that workers can be forced to work 18 to 20.5hour all-night shifts stretching from 8am to 2am, 3am or even 4.30am the following day.29 As one Chinese labour official explains: "Wal-Mart pressures the factory to cut its price, and the factory responds with longer hours or lower pay... and the workers have no options."30

Asda drives down world banana prices

In August 2002, Asda sparked a banana retail price war with lasting effects on the banana industry and banana workers worldwide. Asda specifically targeted key items such as milk and bananas as part of its strategy to brand itself as Britain's low-price supermarket. In the end, consumer prices were lowered by 25%. Asda's exclusive deal with Del Monte, contracted at what industry experts describe as a "ridiculously low price", means that it is supplied with bananas grown and harvested under the worst labour and environmental conditions in the world. Independent growers in countries with adequate worker and environmental protection, such as Costa Rica, can no longer sell to Asda and other British supermarkets without making a loss.³¹

Wal-Mart responds to allegations that it fosters sweatshop conditions by explaining that it employs 100 factory inspectors to ensure that factory conditions meet the standards of its Code of Conduct. However, studies by the US National Labor Committee and China Labor Watch present evidence that Wal-Mart treats factory inspections as nothing more than a PR exercise.

In many cases, factories are given advance warning 20 days before the inspectors arrive, giving the factory owners ample time to prepare for the visit. Owners have the factory and worker dormitories cleaned, create falsified time cards and pay sheets, and provide workers with a sheet of questions and standard answers which they are required to give to inspectors. It is widely attested that many factories keep two sets of books - one accurate and the other to give to inspectors. At one Wal-Mart supply factory in Lesotho, workers reported that although they were frequently required to work overtime on Sundays, they were not allowed to clock in because management

wanted to hide evidence that the Code of Conduct was being systematically violated.



Lobbying on trade and labour standards

"Over 1,500 stores. Over 18% annual growth. And we're just getting started. There's hundreds of billions of dollars in opportunity to pursue and many new markets to explore."

Wal-Mart 2005 Annual Report

Spending lavishly on campaign contributions and paying an army of lobbyists may seem anathema to Wal-Mart's cost cutting mantra. But in its quest to avoid regulation, political spending has become an unavoidable cost of doing business the Wal-Mart way. Wal-Mart was the biggest business donor to the 2004 US election campaign, contributing more than \$1 million. The money that Wal-Mart executives pay out to politicians comes from Wal-Mart's political action committee, an account made up of voluntary employee contributions. The account, which now totals over \$1.5 million, has come under criticism from employees, who reveal that they are pressured to contribute to it.34

Since the 1990s Wal-Mart has pursued a broad political agenda, with an attack on labour standards at its core. Wal-Mart has sought to keep unions from campaigning and organising outside retail stores, and to reduce overtime pay. It has also attempted to restrict mail order prescriptions (a threat to its in-store pharmacy business) and to change laws to allow retailers to move into banking so that it could add yet another service to the Wal-Mart 'shopping experience'. Wal-Mart has begun to pour millions of dollars into the US Chamber of Commerce's Institute for Legal Reform, an organisation which presses for limits on awards in class-action suits. Given that Wal-Mart is currently facing the largest class-action lawsuit in American history, involving 1.6 million workers, this move is not surprising.35

While Wal-Mart has not succeeded in all it lobbies for, it appears to have gained preferential treatment in a number of areas. Following Wal-Mart's settlement of federal charges that it violated child labour laws in 24 instances in three states, the US Labor Department agreed to give the company an unprecedented 15 days' advance notice of future inspections. Some Labor Department investigators voiced their concern over the agreement, claiming "with child labour cases involving the use of hazardous machinery, why give 15 days' notice before we can do an investigation?"36 Given Wal-Mart's history of child labour violations (the state of Maine fined Wal-Mart \$205.650 in March 2000 for 1.400 violations of child labour laws that it uncovered in every single one of its 20 stores in the state), the motivation for granting Wal-Mart advance notice of inspections is particularly questionable.

Wal-Mart has also taken a leading role in lobbying on international trade, promoting tariff reduction and trade liberalisation. "More and more as we have become big, and perhaps the target of criticism for many," explains Ray Bracy, Wal-Mart's vice-president for international corporate affairs, "we recognised that the local problems were still there, but there were looming large national issues." In particular, Bracy says that Wal-Mart regrets its absence from the negotiations on China's accession to the World Trade Organisation (WTO). The agreement included a limitation,

desired by the Chinese government, on the number of stores a retailer can operate (a maximum of 30). Bracy indicates that Wal-Mart would have pressured China to concede more: "If we had been present at the table, we could have said: "Where does 30 come from? We have 31 stores in Houston alone." Using its influence as a major importer of Chinese goods, Wal-Mart was able to drive through a new agreement with the Chinese government and recently announced its plans to open 12 to 15 new stores in China during 2005.³⁷

Wal-Mart is now a major presence in international trade negotiations, a position that it has bought as an industry leader and major campaign contributor. In 2002, Wal-Mart obtained a seat on the US Department of Commerce advisory committee on the retail industry. Wal-Mart has used the seat to push

through an agreement restricting the tax levies placed on imported textiles, thereby creating cheaper wholesale prices for Wal-Mart. Wal-Mart has also been a prominent voice among industry executives in the National Retail Federation, which pushes the WTO for ever-increasing results in pursuing its free trade agenda.

The US government has made Wal-Mart's trade agenda a priority. In November 2002 the Bush administration proposed that all tariffs on manufactured goods imported to the US be removed by 2015. To illustrate the benefits of the proposed trade liberalisation, US Trade Representative Robert Zoellick went before the news media with two identical baskets of baby goods from Wal-Mart. Zoellick explained to the assembled reporters that the basket without tariffs was \$32 cheaper.³⁸



Take Action

"We're proud of what we've accomplished; we've just begun." Sam Walton, founder of Wal-Mart

War on Want believes that companies must be made accountable for their actions around the world. Yet the UK government prefers to support a voluntary approach to corporate social responsibility, despite the fact that this has been shown to be an ineffective alternative to regulation. As long as the political will to rein in corporate power is lacking in our elected leaders, it is up to us to apply pressure. We are asking all readers and supporters to take the following actions:

- I. Get organised! Any Asda employees in the UK wishing to find out about their rights or seeking to join (or start) a union in their workplace should contact the GMB, 22-24 Worple Road, London SW19 4DD (tel: 020 8947 3131; www.gmbinasda.unionweb.co.uk).
- 2. Contact Asda: Members of the British public can contact Asda direct and voice their concern at the impact of the employment and purchasing strategies detailed in this report. Write to Andy Bond, Chief Executive, Asda House, Southbank, Great Wilson Street, Leeds LSII 5AD, or phone 0113 243 5435.
- **3. Call on the UK government** to state its support for a binding framework of corporate accountability to regulate the activities of companies such as Asda Wal-Mart. Please write to Rt Hon Jack Straw MP, Secretary of

State for Foreign and Commonwealth Affairs, Foreign and Commonwealth Office, King Charles Street, London SWIA 2AH, calling on the government to abandon its promotion of voluntary alternatives and support binding corporate regulation instead.

4. Buy Fairtrade: The Fairtrade Mark is your guarantee that the people who produced your shopping have received a fair price for their goods — and that they work in decent conditions. There are now fairly traded options for a massive range of goods, from coffee, tea and honey to fruit, footballs and even Palestinian olive oil from War on Want partner Zaytoun (www.zaytoun.org). It may cost you a few pennies more, but just buying these products means turning the tables on 'race to the bottom' companies such as Asda Wal-Mart.

5. Join us! Follow War on Want's campaigns at: www.waronwant.org

Also:

- Wal-Mart Watch: www.walmartwatch.com
- Corporate Watch UK, including special Asda Wal-Mart corporate profile: www.corporatewatch.org
- Tescopoly: War on Want's Tesco campaign: www.tescopoly.org



Notes

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War on Want

War on Want is a UK-based campaigning charity. Founded in 1951 it has links to the labour movement and supports progressive, people-centred development projects around the world. War on Want campaigns in the UK against the causes of world poverty.

