

Exhibit 49 to Plaintiff's
Memorandum of Points and Authorities
in Support of Its Motion for Temporary
Restraining Order and Preliminary Injunction
(PX01305)

Big food companies sell more organic products

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By Ann Zimmerman, The Wall Street Journal

When Ernie Costamagna, a third-generation California farmer, first tried growing organic tomatoes, his weeding bill rose tenfold, to \$500 an acre. Shunning his usual chemical fertilizers, he stockpiled smelly chicken manure and bat guano. But when the curly-top virus attacked some of his plants last month, there was little more he could do than watch them succumb.

As the nation's big food processors and packagers start to develop organic products, many of their big farmer-suppliers are switching over at least some of their output to meet organic standards. But going organic can be a tough row to hoe. The switch away from traditional methods of farming and production is rife with complications, expenses and risks. "Sometimes it isn't worth it," says Mr. Costamagna, who says he plants 25 percent more crops than his organic customers require, as a contingency against lower yields.

With organic grocery products ringing up sales growth of some 15 percent a year, five times the growth rate of conventional packaged foods, several major supermarket chains have begun offering their own brand of organic pasta, cookies and juice. Now, giant food processors and packagers of national brands are getting in on the organic action -- spurred in large measure by Wal-Mart Stores Inc. The nation's largest retailer decided earlier this year to expand its organic offerings in the produce and grocery aisles across all its outlets and doubling the number of organic items in 10 percent of its stores.

Wal-Mart is introducing about 200 additional organic grocery products in 370 of its stores with the higher-income customer demographics Wal-Mart sees as most inclined to buy organic. But rather than stocking mainly private-label brands, Wal-Mart has opted to feature organic offerings from big brand marketers whose names and products are already well known to its customers.

"When a company the size of Wal-Mart is suddenly very interested, it gives us more reason to think the wave has gotten to the size where we can surf it," says Paul Norman, president of U.S. morning foods at Kellogg Co., of Battle Creek, Mich., which launched organic versions of Raisin Bran, Frosted Mini-Wheats and Rice Krispies earlier this summer. The organic products, with packages featuring a big, green "Organic" banner, cost on average 15 percent to 25 percent more than the regular versions.

The organic grains, sweeteners and other ingredients used in these products don't sprout up overnight, of course. Farmers who want their crops to be considered for the U.S. Department of Agriculture organic label must avoid chemical fertilizers and pesticides for three years. The transporting, processing and selling of organic food also is held to strict federal rules, which companies say crank up costs an estimated 50 percent over corresponding costs for conventional products. Even when organic products make it to the shelf, it isn't clear which ones will sell well.

Del Monte Foods Co., the San Francisco fruit and vegetable processor, decided about three years ago to venture into organics. But it wanted to move cautiously: The food industry had invested heavily in low-carb dieting, only to watch the trend fizzle a short while later. Still, the years of advance planning required for an organic label meant Del Monte would have to commit to the idea early if it wanted to launch products nationally while the trend was still a hot topic: To create five lines of organic canned-tomato products, Del Monte would need to convert 500 acres of cropland to organic methods.

Mr. Costamagna had been supplying Del Monte with conventionally grown tomatoes from his 26,000 acres of fields in California's Fresno, San Joaquin and Kern counties for 20 years. So when Dave Withycombe, Del Monte's vice president of operations, was looking for growers to farm organically, Mr. Costamagna signed on. Now, 8 percent of his acreage is farmed organically. "My children are now in the business, and if we want to continue to be a fourth-generation business we need to follow the trends," he explains.

Through trial and error, Mr. Costamagna has learned organic tricks, such as using drip irrigation to reduce weeds and planting "buffer crops," such as sugar beets and alfalfa, to attract bugs away from the tomatoes and cut down on disease. But there are always new problems to solve. Chicken manure and other natural fertilizers are getting harder to find, and fuel costs are making it more expensive to haul the tons of manure he needs.

Despite his higher costs, Mr. Costamagna couldn't begin commanding a premium for produce grown on chemical-free land until the land was certified as organic about a year ago. Del Monte has agreed to buy his organic crop for the three years following certification -- which is how long it will take to recoup his investment, he figures. "First you try to learn," Mr. Costamagna says, "then you earn."

For Del Monte, the learning curve also has been steep. Factories that process organic products have to be certified organic. In factories processing both organic and conventionally grown foods, the machines have to be stopped and cleaned with an organic solvent before the organic run. Still, early sales of Del Monte's organic tomato products, which went on sale this spring, are promising enough that the company is moving ahead with other organic products, including peas, corn and green beans.

Companies developing organic versions of existing products don't have to reinvent the recipe, but they can expect to make adjustments. Mars Inc., another company that resisted the organic movement until Wal-Mart assured them of a market, has taken on the challenge of creating an organic Dove chocolate bar.

Not just any organic cocoa beans would do. Mars required just the right flavor profile, which it describes as "chocolate-y without harshness" and "velvety smooth without any detectable particles." Since cocoa beans' taste varies depending on the conditions in which they are grown, it took Mars far longer than usual to track down and import enough organically grown cocoa beans with the desired characteristics. Wal-Mart will be selling the organic Dove chocolate bars exclusively -- at least at first -- starting this month. A 3.5 oz. bar costs \$2.97.

Kellogg couldn't find enough white wheat to make the organic version of its Frosted Mini-Wheats cereal, so it had to use red wheat instead. Finding enough organic sugar and corn syrup also was a problem, so it has turned to organic evaporated cane juice in its place. "When you change ingredients, you still have to match quality expectations, and that is not as easy as you might think," says Kellogg's Mr. Norman. Kellogg conducted extensive

consumer taste-testing to make sure it got it right.

Organic headaches trickle all the way down to the retailer who tries to sell the products. Even displays can be tricky. The USDA can fine a store shelving conventional fruits and vegetables above organic items, because when the non-organic produce is misted with water, it might drip residue onto the organic items.

Wal-Mart found the negotiating leverage it usually has with suppliers evaporated when it came to pricing organics because of the products' tight supplies and higher costs. "We sometimes have to pay more than other companies" to lock up enough supplies, says Bruce Peterson, senior vice president for fresh produce at Wal-Mart. Wal-Mart says its other efficiencies, including lower operational and transportation costs, still will allow it to price its organic products at 7 percent to 25 percent less than its competitors.

Despite the boost from Wal-Mart, some big food companies are determined to move slowly, waiting for demand for organic to grow big enough to justify the trouble and expense. Mr. Norman says Kellogg is limiting its organics line to products that the whole family eats, tapping into the broadest market possible. "You won't see organic Fruit Loops any time soon," Mr. Norman says.

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