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Grocers gouge on milk sales, experts allege Shelf prices remain constant even though farmers get less

AUGUSTA - A year ago, when the price Maine farmers were being paid for their milk was stabilized by the Northeast Dairy Compact, \$1.65 of every gallon went back to the farm. This month, after the compact expired and prices went on a 12-month roller coaster ride, \$1.10 goes to the farmer.

With Maine farmers producing 41.4 million gallons of milk a year, that's a loss of \$22.77 million in income.

During that same time period, however, the price consumers paid remained stable at \$2.59 to \$2.99 per gallon, shifting that \$22.77 million into retailers' pockets.

Dairy industry economists are accusing Maine retailers of price gouging - failing to drop the price customers paid at the dairy case when the price paid to farmers fell. At a legislative hearing this week, industry officials said they plan to mount an educational campaign to let Maine milk consumers know that retailers are making huge profits in the midst of the dairy industry crisis.

"Who is making the money?" Rep. Nancy Smith, D-Monmouth, asked industry leaders at the hearing. The answer was the supermarkets.

"Consumers have been gouged for the last 14 months," said Adrian Wadsworth, a Maine dairy farmer and president of the Maine Sustainable Agriculture Society. "We need to shame the supermarkets. Milk producers have had a 30 percent decrease in our raw product, yet the stores have remained unchanged."

According to figures provided by the Maine Dairy Industry Association, the October 2001 minimum retail price for a gallon of milk was \$2.06, while the minimum wholesale price, the price that Oakhurst and Hood, for example, could charge retailers, was \$2.26. The farmer got \$1.65. This month, the minimum wholesale and retail prices are the same while farmers receive \$1.10. Throughout the past 14 months, the prices paid by the consumer remained stable, at \$2.58 to \$2.99 per gallon.

Bob Wellington, an economist for a New England dairy cooperative and a leading expert on the regional milk market, said the public needs to be educated about the situation. "Farmers need to organize and present their case to the public. We need 25 cents of that profit to go to the farmer," said Wellington. "It will be quite the marketing challenge, but we know consumers are with us."

Statements provided by two major supermarket chains in Maine sidestepped the issue of their profit, instead concentrating on competition and a flat market demand for milk.

Caren Epstein of Hannaford Bros. Said: "There is a perception that lower milk prices would increase product demand. The reality is that milk prices on the grocery shelf vary [milk is not a seasonal item] and lower prices would not translate into greater sales. Milk is one of those commodities that is simply not sensitive to price. People buy it when they need it. They don't start or stop based on the price."

Shaw's Supermarkets Inc. spokeswoman Teresa Edington provided a prepared statement, which read: "Shaw's milk prices are competitive with other supermarkets throughout all trade areas. In addition, the company regularly features ... special price reductions on various sizes and brands of milk. The company is and will remain committed to offering customers quality dairy products at competitive prices."

Should the dairy farmers succeed in garnering 25 cents of the profit going to retailers, the milk retailers still can charge more than the minimum retail price set by the Maine Milk Commission.

"The milk commission builds in minimum margins to protect the retailers," said Maine Dairy Industry Association spokeswoman Julie Marie Bickford. "The farmers have nothing close to that protection."

It is estimated that 80 to 100 of Maine's 412 remaining dairy farms will go out of business this year.

Wellington said Maine legislators and industry leaders have been the most innovative of the New England states in helping dairy farmers. The New England Dairy Compact, which provided stabilization for fluctuating prices, was modeled after Maine's previous vendor program. It was highly successful but was not reauthorized by Congress last fall due to pressure from the wildly expanding Western milk states.

A similar federal program, MILC, was put in place last fall, but Wellington called it "a safety net lying on a concrete floor" that will cost taxpayers billions of dollars, while the compact was paid through processors' fees.

Most in the dairy industry agree that reinstating the compact is the only permanent solution to the dairy woes and 25 states have passed local legislation allowing compact membership.

Meanwhile, in Maine, several pieces of legislation are going to be proposed this session as temporary fixes.

A vendor program that would provide payments such as those under the defunct compact is being proposed. It is being suggested at \$5 million and would kick in when the price of milk falls below the cost of production.

The second bill would install a milk handling tax of approximately 8 cents a gallon that could pump \$3.2 million annually into Maine's General Fund.

The issues are being proposed separately and the dairy industry is hoping to "leverage consumer good will," as has worked in states such as New York and Connecticut. Wellington said price-gouging bills have been put in place in those states that prohibit retailers from charging more than two times the farmer price on store brand milk products. For example, if the farmer receives \$1.10 a gallon, the retailer can charge no more than \$2.20.

"The highest profit margin area per square foot is the dairy case," said Wellington.

"Consumers feel good about dairy farms," he told the legislators. "We have their hearts. With the Northeast Dairy Compact, we brought their heads along. We just have to run a line to their wallet."

"The money that farmers receive doesn't stay in farmers' pockets," said Wellington. "There is recreation, the watershed, space for snowmobile and other sporting ventures - tremendous benefits to the state of Maine that farmers don't get paid for."

"The bottom line is that farmers don't want government money. They want it from the marketplace," said Wellington.