



Economists find high markup of regional milk prices

By Bruce Mohl, Globe Staff, 11/13/2002

A state hearing on a tiny food chain's low milk prices yesterday turned up evidence that the region's largest dairy processors and supermarket chains may be earning enormous profits on milk, more than \$1 a gallon.

Agricultural economists working for the state and the food chain, Midland Farms Inc. of Easton, were on opposing sides at the hearing, but they reached strikingly similar conclusions about how consumers are paying excessive prices for milk.

State surveys indicate the prevailing retail price for milk in Massachusetts is \$2.99 a gallon, but an analysis by the state's economist found the typical retailer's cost of selling that gallon was considerably less, ranging from \$1.78 for skim to \$2.02 for whole milk.

Midland's economist didn't offer specific retail cost numbers in his report, but he concluded that retail prices in Massachusetts are more than a dollar a gallon above competitive levels, draining an extra \$60 million a year out of the pockets of milk consumers in the Boston-Providence area.

Asked about the high markup on milk, William Gillmeister, the state's economist, started to say there was no law against making a profit when he was interrupted by the Department of Food and Agriculture's attorney and told to decline to comment until his numbers could be studied further.

Michael A. Kelly, an attorney for Midland, said it was no surprise that state officials didn't want to discuss the huge markups. "If you regulated the Massachusetts milk market, would you want the public to know that?" he asked.

In a milk pricing report prepared for Midland, University of Connecticut agricultural economist Ronald W. Cotterill noted prices paid to farmers for their milk in Massachusetts have dropped more than 50 cents a gallon over the last year, yet the prices paid by consumers have held steady at nearly \$3 a gallon.

According to Cotterill's report, the chief beneficiaries of this windfall have been the region's dominant dairy processor, Dean Foods of Dallas, and its leading supermarket chains, led by Stop & Shop.

The Cotterill report said Dean Foods controlled 64 percent of the New England supermarket milk business and 80 to 90 percent of sales in the Massachusetts-Rhode Island market in June 2000, and has increased its market share since. The report said Stop & Shop controls more than 40 percent of the retail milk market in southern New England.

Michelle Goolsby, general counsel for Dean Foods, dismissed Cotterill's numbers. "The New England marketplace is highly competitive, and customers are won and lost every day," she said.

Stop & Shop spokeswoman Faith Weiner declined to comment on the chain's profit margins on milk. But she said Stop & Shop-brand milk is selling at an average price of \$2.99 a gallon this year, compared to \$3.09 last year. She said milk is also promoted heavily, with this week's circular advertising Garelick-brand milk (made by Dean Foods) for \$2.99.

The focus of yesterday's hearing at the Department of Food and Agriculture was whether Midland Farms is selling milk in Massachusetts below cost in violation of state law.

Midland, which owns a dairy near Albany and bare-bones supermarkets in Lynn, Seekonk, and Brockton, sells milk for \$1.79 a gallon for all grades except 1 percent, which is priced at \$1.49.

The low prices prompted complaints from the Cumberland Farms convenience store chain and H.P. Hood, a dairy processor, that Midland was selling milk below cost. The analysis of industry milk costs released by Gillmeister yesterday indicated Midland could be violating the law.

Lawrence McCormick, general counsel for the Department of Food and Agriculture, said efforts by the agency to obtain actual cost data from Midland have been stymied at every turn. He urged the hearing officer, Food and Agriculture Commissioner Douglas Gillespie, to suspend Midland's license to sell milk for its lack of cooperation.

Kelly said Midland yesterday turned over confidential pricing information that would prove the company is not selling milk below cost. Unlike other retailers, Kelly noted Midland owns its dairy so its costs are considerably less.

But Midland also went further, introducing Cotterill's report to show that the state's predatory milk pricing law was outdated and being used by a large convenience store chain and dairy processor to drive a small competitor out of business.

In his report, Cotterill said the law does not help the state's dairy farmers, as state officials have suggested. He said farmers would be better served by lower milk prices that would spur greater milk consumption.

Cotterill also said the law should be revised by the Legislature, to correct technical deficiencies as well as recognize that the milk market is concentrated in the hands of a few players.

"The law is antiquated because it presupposes a competitive market with many suppliers," he said. "The law seeks to prevent increasing concentration via monopolizing pricing

strategies: i.e. selling below cost and price discrimination. Yet for the New England milk market, the horse is already out of the barn."

The Midland hearing is scheduled to continue on Friday.

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