

## Study slams effort to cap price of milk

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### Industry group warns of flaws

By Bruce Mohl, Globe Staff, 9/4/2003

A report prepared for the Massachusetts supermarket industry yesterday warned that legislation that would cap the retail price of milk was simplistic, shortsighted, and could result in higher prices.

The legislation, filed by Secretary of State William F. Galvin and scheduled for a hearing today on Beacon Hill, would require the state commissioner of agriculture to investigate any retail milk price that exceeds 200 percent of the farm price and determine whether the retail price is "unconscionably excessive."

At current farm prices, which are set by the US federal milk market administrator, the 200 percent threshold for retail milk prices would be \$2.96 a gallon.

Stop & Shop Supermarkets and Shaw's Supermarkets, the two biggest supermarket chains in the state, currently charge \$3.09 for their store-brand milk and far more for milk sold under the Hood and Garelick labels. Both chains, which recently hiked the price of their store-brand milk by a dime a gallon, are considering raising their prices again.

John Schnittker, a Virginia-based consultant hired by the Massachusetts and Connecticut Food Associations to analyze legislative proposals on milk in the two states, focused most of his report on an analysis by Ronald W. Cotterill, an agricultural economist at the University of Connecticut who has charged that the leading supermarket chains are making more than \$1 a gallon in profit on milk.

Schnittker said Cotterill's analysis was seriously flawed and understated the true costs of dairy processors and retailers. His report said Galvin's legislation makes the same mistake.

"At face value, retail prices that equal or exceed 200 percent of the farm price sound excessive and unjustified," the report said. "But this approach to milk pricing is mistaken and simplistic as well as arbitrary and capricious. It omits any recognition of the cost involved in processing, transporting, and merchandising fluid milk in its journey from the farm to the grocery store."

Schnittker's report makes a number of assumptions about supermarket costs and pricing, but does not use any actual cost data from his clients.

The report also alleges that Galvin's proposal gives supermarkets and dairy processors a perverse incentive to boost the price they pay farmers for their milk because that would raise the price they could charge at retail. By raising the farm price through voluntary payments, Schnittker said, the 200 percent threshold would yield a much higher retail price that would cover a supermarket's costs but end up penalizing consumers.

Cotterill could not be reached for comment yesterday, but is expected to testify at today's hearing before the Legislature's Natural Resources Committee.

Galvin said he was delighted his legislation was finally forcing supermarket retailers to address questions about their profit margins. Given the fact that milk is a "necessity of life," Galvin said, there is a desperate need for a state authority to monitor retail prices.

As for the Schnittker study, Galvin said: "Obviously, I think the study is tainted by who paid for it."

In an interview, Schnittker said he is currently working as a private consultant. In the late 1990s, he said he worked as an economist for the now-defunct Public Voice for Food & Health Policy, which led opposition to the

Northeast Interstate Dairy Compact, an attempt by the six New England states and New York to buttress prices paid to farmers in the region for their milk. Public Voice was partially funded by the International Dairy Foods Association, which represented many of the nation's dairy processors.

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