

**Milk Market Channel Structure: Its Impact on Farmers  
and Consumers, and the Inadequacies of Antitrust  
Enforcement as a Foundation for Dairy Policies:  
Evidence from the Northeast Dairy Industry**

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**ORAL TESTIMONY\***

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**Monopsony Issues in Agriculture:  
Buying Power of Processors in Our Nation's Agricultural Markets**

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**\* This oral testimony summarizes a more extensive written testimony by Ronald W. Cotterill, Adam N. Rabinowitz, and Li Tian which is available on our website <http://www.fmpc.uconn.edu>. Copies of both and other publications can be printed from the website.**

- My co-authors, Adam Rabinowitz and Li Tian, and I thank the committee for the opportunity to share our research with you today.
- Fluid milk marketing channels throughout the nation are undergoing rapid structural change.
- That change has major implications for farmers as well as consumers of fresh milk.
- Milk prices are cyclical but recently we have seen an extended 20-month milk price depression. Moreover, dairy farmers in the Northeast have been the victims of a pincer movement in policy during that period.
- First – Federal Milk Market orders have been relaxed to allow competitive market forces to set fluid milk prices.
- Second – Mergers have transformed the regions processing and retailing markets in the Northeast, so we no longer have competitive market forces.
- Stop and Shop, the regions leading supermarket chain, is now a dominant firm in most local retail markets in Southern New England. Dean Foods is now our dominant fluid milk processor.
- Antitrust enforcement has been active, however it has clearly been inadequate. I know the track record on a first hand basis because I served as economic expert for the regions state Attorney Generals on two of the key enforcement actions. We tried and failed to stem the rise to dominance in both sectors. Subsequently, there has been an increase in market power, a subject that I now turn to.

- Figure 5 in our written testimony summarizes our findings on milk channel pricing in New England. In June, 2003, farmers received \$1.03 per gallon for the raw milk bottled. Processors collected an additional 60 cents so the wholesale price for milk, delivered into supermarket coolers was \$1.63 per gallon. The regions top 4 retailers charged far more than that, \$3.07 per gallon. This means that they captured \$1.45 for in store costs and profits.
- Since in store handling costs are at most 40 cents per gallon in these large supermarkets, their bottom line profits are \$1 per gallon or more.
- Based on similar repeated surveys, we conclude that during the farm milk price depression, New England supermarket chains bottom line profit per gallon were equal to or higher than the price that farmers received for that same milk.
- We submit that this is economically inefficient milk pricing as well as unfair milk pricing by most any standard of fairness.
- The source of this excessive retail margin during the milk price depression was primarily low farm milk prices, not higher retail prices. Large supermarket chains now deal from a position of power when negotiating wholesale milk prices. Processors thus have to deal in a similar fashion with farmers and their cooperatives. Consequently, farm milk prices in the Northeast are lower than they would be in a competitive market channel.

- How Low? In July, Northeast farmers received \$11.63 per cwt. In Wisconsin, an effectively competitive raw milk market, farmers received \$12.26 per cwt in July. Now if the Northeast milk market were competitive milk prices would be higher not lower than those in Wisconsin. They should be higher by at least the amount of the cost to transport milk or milk products from Wisconsin to the Northeast.
- Milk prices in the Northeast, absent the exercise of market power against the regions farmers, could be \$14 per cwt or higher at the farm level. Our analysis also suggest that if the Northeast becomes milk deficient and must haul milk from the Midwest, Northeast consumers will pay higher prices.
- What can we do about this? Policy options include:
  - More vigorous antitrust enforcement, especially against the currently active Hood-NDH merger.
  - A strengthening of the Federal Milk Market Orders by elevating the Class 1 differential in monopsonistic markets to protect farmers from low prices. After all, one of the original reasons for establishing market orders is to protect farmers from monopsonistic pricing by channel firms.
  - Alternatively, states in the region must consider policies that address monopsonistic pricing. At the University of Connecticut we have developed a price collar policy that can lower consumer prices and elevate farm prices without imposing price ceilings or explicit price controls. Price collars change the incentive structure in the market channel. Profit maximizing behavior leads to prices that eliminate most of the excessive channel profit margin; however, firms still earn profits. Price

collars also raise farm prices and lower consumer prices during milk price depressions such as the one we have recently experienced.