

Tuesday, August 12, 2003, 07:40 A.M. Pacific

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Highest milk prices in the nation found in Puget Sound area

By Judith Blake

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Shoppers in the Seattle-Tacoma area pay more for milk than those anywhere else in the contiguous United States, yet the government-set farm price for milk in the state is nearly the nation's lowest, says a consumer-advocacy group.

"There has never been a greater gap between what a Seattle-Tacoma consumer pays for milk and what Washington farmers receive for that milk," the Washington State Public Interest Research Group (WashPIRG) says in a report released today.

Quoting from data on the U.S. Department of Agriculture's (USDA) Web site, the group says the average price for a gallon of whole milk in this area in July was \$3.52, while the government-set farm price was \$1, second-lowest in the nation after the upper Midwest region, which was 99 cents.

Experts offered a variety of theories to explain the high local retail prices.

One is that grocery-chain mergers and consolidations have reduced the number of supermarket companies competing for the consumer's dollar, said both John Mykrantz, an agricultural economist with the regional office of the USDA, and Ronald Cotterill, a nationally known milk-price expert with the University of Connecticut.

In this region, both QFC and Fred Meyer stores are now owned by Kroger, the nation's largest grocery chain, making Kroger, in effect, the second-largest chain in this area, after Safeway. Albertson's is third locally in market share.

Some also contend that stores no longer use milk as a "loss leader" — a grocery necessity priced low to draw in shoppers who will then buy other items.

"That isn't done so much anymore," said Blair Thompson, a spokesman for the Washington State Dairy Products Commission.

Washington dairy-industry representatives said yesterday the high retail prices help depress sales and contribute to a rising incidence of farm failures in Washington.

Milk prices

A sampling of per-gallon average retail prices for whole milk last month, as listed by the USDA:

| | |
|-----------------------|--------|
| Seattle-Tacoma | \$3.52 |
| Portland | \$3.49 |
| Minneapolis | \$3.18 |
| Miami | \$3.02 |
| Atlanta | \$2.99 |
| Chicago | \$2.89 |
| Cleveland | \$2.79 |
| Dallas | \$2.32 |
| Boise | \$2.25 |

"When we look at these prices that just stay up there in the stratosphere, we say we'd like to see them come down a bit where people could buy a little more milk, a little more cheese, and we could get rid of some of the supply, and (farm) prices could go up a bit," said Jay Gordon, an Elma dairy farmer and executive director of the Washington State Dairy Federation.

But grocery-industry officials said the reported retail prices do not reflect the frequent special promotions of milk that help lower the average price consumers actually pay.

The WashPIRG report says that since 1997, the Seattle-Tacoma area has had either the highest or second-highest retail milk prices among major U.S. cities. WashPIRG and others said that even when the government-set farm price goes down, regular retail prices tend to stay up.

"Historically, when we look at retail (milk) prices, they're high and steady. They don't fluctuate with farm prices," the USDA's Mykrantz said.

He said consumers may sometimes contribute to high prices by choosing certain milk brands that cost more than others but that, unknown to the shopper, come from the same processing plant. These consumers may erroneously equate higher price with better quality, he said, adding that such price disparities can be seen at many stores.

High local prices prevail despite a national milk surplus and a state dairy industry that produces more milk than Washington consumers use and that exports milk to other states — a glut that influences the low farm price.

The government sets the minimum price processors must pay farmers for milk each month on a region-by-region basis.

Supermarket officials said, however, that milk continues to be competitively priced.

"Milk is a highly competitive and promoted commodity. It's on sale every week at Fred Meyer," said that chain's spokesman, Rob Boley. This week, he said, half gallons were \$1.

QFC marketing executive Dean Olson agreed. "Milk is a competitive item, and you'll see it on the front page (of ad sections) quite often," he said.

Moreover, a large number of supermarket shoppers now use store "loyalty cards," entitling them to sale prices. Though he would not give an exact percentage, he said the majority of QFC shoppers use such cards. Other chains also have them, a fact not reflected in the regular milk prices listed by the government.

Safeway did not return calls. An Albertson's spokeswoman said the official knowledgeable on the issue was not immediately available.

Less clear is the role processors play in milk prices, said Deborah Robinson, who researched and wrote the WashPIRG report. While the farm price set by the government is public information and retail prices can be observed by any shopper, the prices that processors charge to stores need not be publicly revealed.

However, some grocery chains, notably Safeway, have their own milk-processing plants, presumably

giving them greater control over costs and retail prices.

The retail/farm price gap is contributing to closures and bankruptcies among Washington dairy farms, contend WashPIRG and dairy-industry leaders. The number of dairy farms in the state fell from 628 in January 2002 to 603 in April 2003, the WashPIRG report says.

"The farms I know, it was very clear they just ran out of money," said Gordon.

Among WashPIRG recommendations is some form of retail milk-price control similar to a New York state law in effect since 1991 — an idea likely to stir controversy. The organization also recommends that consumers price-shop for milk, which could contribute to lower prices.

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