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HEADLINE: A Breakdown of Milk Prices

BYLINE: By HARLAN J. LEVY

BODY:

TO Connecticut dairy farmers, milk is a product that barely fetches a pint-size profit, if any.

But for the state's major supermarket chains, it is an excessively lucrative product. That is the conclusion of a new pricing study by the Food Marketing Policy Center at the University of Connecticut.

The study of the top five supermarket chains that represent 75 percent of the Connecticut market -- Stop and Shop, Shaw's, Big Y, Shop-Rite and A&P -- revealed that on March 29 the average retail price of brand-name skim, 1 percent, 2 percent and whole milk was \$3.11 a gallon. Of that, dairy farmers received \$1.04, not nearly enough to cover their costs of about \$1.50 a gallon. Processors got about 58 cents for bottling and delivering the milk to stores. After paying the farmers and processors, the chains then added \$1.49 to the price of a gallon.

But the supermarkets' in-store expenses to sell a gallon of milk, including refrigeration and labor, are less than 40 cents, according to the study's lead author, Dr. Ronald Cotterill.

The chains are "price gouging," he said.

"Farmers clearly receive too little, and retailers too much," Dr. Cotterill said. "Their prices are in the stratosphere."

The situation has become so dire that it threatens the state's dairy farmers' existence, he said.

Longtime dairy farmers like Jack Collins of Enfield heartily agreed.

"Something has to be done real quick," said Mr. Collins, who has 90 cows on the 240-acre Powder Hill Farm, which has been in his family for 125 years.

Mr. Collins estimated that dairy farmers need at least \$1.50 a gallon just to break even.

This summer could be a turning point, Mr. Collins said, since dairy farmers have been getting about \$1 a gallon since the price spiked in November 2001 at \$1.65 a gallon.

In fact, in all of March, Gabe Moquin, the state Agriculture Department deputy director, said that Connecticut dairy farmers received only 98 cents a gallon on average.

"If the dairy farms go out of business, you will get your drinking milk increasingly from central and western New York State and your cheese, yogurt and butter from the far West and New Zealand," Dr. Cotterill said.

With transportation costs added, he said: "It won't be cheaper. You can be sure of that."

In the last few years, the number of dairy farms in the state has steadily declined. Connecticut had 270 dairy farms in 1997. By the start of 2002 there were 217. In January 2003, only 200 were active. Now there are 194, Mr. Moquin said.

The business is simply unprofitable, Dr. Cotterill said. The supermarkets can make a profit on less, but farmers need more, he added.

"Supermarket chains are exercising substantial market power that generates profits that are far above the costs of providing retail services," Dr. Cotterill said. "Milk typically stays in grocery stores two or three days, and clerks only have to rotate the stock forward in the coolers."

In short, he said, milk was cheap to market for the supermarkets.

The chains don't buy it. Grace Nome, the Connecticut Food Association president, said Dr. Cotterill was "absurd, and his study is totally flawed."

It's not just about moving the milk around, she said.

"Dairy is the most expensive thing to handle in the supermarket," she said. "It's very fragile. Dr. Cotterill does not include normal expenses like refrigeration, and that's expensive."

Supermarkets are not big profit centers, Ms. Nome added. They operate on "less than a 2 percent margin" over all, she said.

Meanwhile, Mr. Collins said, dairy farmers are operating on little or no profit at all.

"We're going backward," he said. "The price has been down so low that it's drained us. This summer some dairy farmers will not be able to continue," especially with bills coming due for the corn crops to feed the cows and fertilizer, not to mention higher fuel costs over the winter.

Attorney General Richard Blumenthal has a solution. He has introduced a bill before the state legislature that would cap supermarket milk prices at 40 percent above wholesale and cap the processor's price at 40 percent above the farmer's price.

The 40 percent cap on processors' prices will give processors a strong incentive to raise the price to farmers to \$1.50 a gallon so they in turn get the 60 cents they need, Dr. Cotterill said.

"Would the retailers be losing money? They can make money at these numbers," he said.

The supermarkets will bring a lawsuit against any such "price-fixing" law, Ms. Nome said.

As for the proposed retailer's markup, she said: "We just had an increase in gas and the minimum wage. What is he doing? Trying to put everyone out of business?"

The bill does not have antitrust problems, Dr. Cotterill said. Mr. Blumenthal's office has researched the issue and has reached the same conclusion.

The legislature's Joint Environment Committee approved a different version of the bill on April 4 and sent it to the state Senate for further discussion. Mr. Blumenthal rates chances of the bill's passage at "much better than even."

Reforms are "desperately important to both consumers and farmers, who are exploited by the present pricing system," Mr. Blumenthal said. "There's a real unfairness in the way the market operates."

Like some other dairy farmers, Jack and Mavis Collins have side businesses. They also sell compost and ice cream.

"Hopefully that can help pull us through," Mr. Collins said. "But the thing is we shouldn't have to have other businesses to pull us through. We should get a fair price for the milk."

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GRAPHIC: Photo: Jack and Mavis Collins run a 90-head dairy farm in Enfield that has been in operation for 125 years. (George Ruhe for The New York Times)

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