



## Rising dairy prices continue to milk consumers

**As of Saturday, the price for a gallon of milk could go as high as \$4 in some areas of the country.**

01:00 AM EDT on Thursday, April 29, 2004

**BY PAUL GRIMALDI**  
Journal Staff Writer

The next celebrity posing with a milk mustache for a "Got Milk?" ad might want to lick her lips -- the white stuff is getting too expensive to waste.

A 50-cent-a-gallon increase in the price of raw milk is making its way along the nation's food chain to stores across the country, pushing the cost of a gallon of milk above \$4 in some regions. In the Boston-Providence corridor, milk has hovered around \$3.05 a gallon since February, according to the University of Connecticut's Food Marketing Policy Center, but that was before the hike that will take effect on Saturday.

"This is the biggest jump I've ever seen in milk," said Rob Armstrong, president of A.B. Munroe Dairy Inc., of East Providence.

Munroe delivers milk and other dairy products to about 10,000 homes each week in Rhode Island and Massachusetts. Munroe will raise its price on a half-gallon of milk 26 cents next week, from \$2.47 to \$2.73, Armstrong said, because the company can't afford to swallow the increase.

Convenience stores in the area will try to hold prices below \$3 a gallon even as their own costs rise because milk draws in customers, said Diana O'Donoghue, government relations director of the New England Association of Convenience Stores.

Milk is among the top-10 items sold in convenience stores, accounting for \$3.1 billion in sales last year, according to the National Association of Convenience Stores.

Raising the price too high will simply drive customers to wholesale clubs or mass merchandisers such as Wal-Mart, O'Donoghue said.

"That makes our retailers tighten their belts," she said.

Milk prices are going up because of factors affecting the entire dairy industry, among them a limited supply of bovine growth hormone, high beef and feed prices, a ban on cow imports from Canada and the demand for cheese. Those factors mean there's less milk to go around, experts say.

"This is a supply-driven change," said Dr. Ronald W. Cotterill, director of the UConn policy center.

According to the International Dairy Foods Association, raw milk is divided into four classes: Class I is fluid milk, Class II contains "soft" products such as ice cream, sour cream and cottage cheese, Class III

refers to milk used for making hard cheese and Class IV is milk used to make butter and nonfat dry milk. Prices are calculated for each class and the minimum price received by the farmer is a blend of those.

But the prices are volatile, industry members say, driven in part by the Chicago Mercantile Exchange, where dairy products are traded as commodities. Based on those price changes, the government each month recalculates the minimum price that dairy-food processors have to pay farmers for milk. That price varies somewhat from region to region.

The farm price for milk began 2002 at \$1.33 a gallon and then plummeted to a 25-year low last spring, when it reached \$1.13 a gallon.

But the New England farm price rebounded, rising to \$1.24 a gallon in August, \$1.48 in September and then peaking in November at \$1.53. The price was back down to \$1.29 by February but rose again to \$1.45 in the region on April 1 and could go as high as \$1.80 per gallon on Saturday after the U.S. Department of Agriculture resets the price. In some other parts of the country, milk prices hit a record \$1.69 a gallon this week.

Severe tightening of U.S. milk production is the main reason for the price increases. Milk production this year is running slightly behind 2002.

And feed prices are up because of demand overseas, particularly for soybeans in China and the Pacific Rim countries.

In addition, imports of cows from Canada were once a way for dairy farmers to supplement their herds with young animals. But the U.S. banned those imports last year when the USDA learned that a cow imported from Canada had tested positive for bovine spongiform encephalopathy, or mad cow disease. The disease is believed to cause a variant of Creutzfeldt-Jakob disease, the fatal human equivalent of the one found in cows.

That ban is likely to remain in effect for the remainder of the year.

Many dairy farms, particularly those in the West, also rely on BST, a growth hormone used to get cows to produce more milk. But that's in short supply due to production problems at Monsanto Co., the company that makes BST. Consumer demand for cheese is also drawing off about 45 percent of the raw milk supply.

When asked why store prices don't reflect the price paid to farmers, Cotterill, of UConn, points the finger at retailers, who he said boost profits when the demand for milk is high.

Cotterill pointed to an October 2003 survey done by the center. Farmers were getting \$1.42 a gallon for raw milk, and processors such as Hood and Garelick were getting 60 cents a gallon. But retailers in Southeastern New England were charging an average of 3.24 cents a gallon, \$1.22 more than they were paying.

"The margin at retail has been horrendously wide all along," Cotterill said. "There's absolutely no reason for the retailer to be raising prices in Providence."

According to Cotterill, a bill that would regulate retail milk prices passed the House of Representatives in Connecticut last week and is due for a Senate vote next week.

While shoppers may blanch at paying so much for milk, they aren't the only ones footing the bill, said Armstrong, of Munroe Dairy.

"Everybody thinks it's their God-given right to have inexpensive food," he said. "The one who pays for it is the farmer. I'd be surprised if the farmer sees half of [the price hike]."

---

Online at: [http://www.projo.com/business/content/projo\\_20040429\\_29milk.201ba7.html](http://www.projo.com/business/content/projo_20040429_29milk.201ba7.html)