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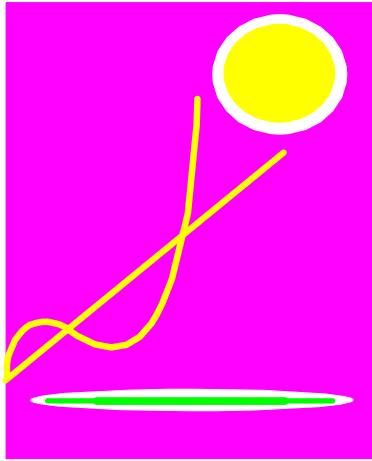
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# **Food Marketing Policy**

## **Issue Paper**

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### **Supermarkets, Stop the Gouging - Milk Prices Should Tumble \$1**

**by**

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## Ronald W. Cotterill: Supermarkets, stop the gouging - Milk prices should tumble \$1

11/27/2002

STORRS, Conn.

WITH THE HELP of four University of Connecticut graduate students, two weeks ago I surveyed milk prices in 195 grocery stores in southern New England and neighboring parts of New York.

The average price for milk in Providence supermarkets was \$3.03 a gallon (the average prices for the major Providence grocery stores appear in the accompanying table).

Currently, dairy farmers are suffering through the lowest prices in 25 years: \$1.06 a gallon in October. Adding insult to injury, retail and farm milk prices have been near these levels for a year. According to Massachusetts Department of Agriculture estimates, the cost of processing milk and retailing it in supermarkets is less than \$1 a gallon; so retail prices should be \$2 or less.

What we have is a virulent case of price-gouging by supermarkets and, most likely, the dairy processors (not the farmers) that supply them.

Connecticut Atty. Gen. Richard Blumenthal has indicated that he will investigate, and is seeking the cooperation of other attorneys general in the region.

Our survey finds that Cumberland Farms convenience stores sell gallons of 1-percent-fat milk in Connecticut, Massachusetts and Rhode Island for \$1.99. Price Rite limited-assortment stores in these states sell all types of milk -- whole, 2-percent-fat, 1-percent-fat and skim -- for \$1.99 a gallon. Massachusetts prohibits the sale of milk below full cost, so these stores that are smaller than supermarkets are not selling milk below cost.

After complaints from both Cumberland Farms and the Hood milk-processing company, Massachusetts is now investigating whether Midland Farms prices are below cost. That company is selling whole, 2-percent-fat and skim milk for \$1.78 a gallon, and 1-percent-fat milk for \$1.49 a gallon.

In response to our survey, a Stop & Shop supermarket spokesperson explained that Garelick milk had been on sale during our survey -- down 30 cents, to \$2.99 a gallon. Yet at that price, Garelick is no cheaper than Stop & Shop's own label milk, and the milk is identical -- Dean Foods processes both brands at the same plant and delivers them on the same trucks.

Consumers should pay no premium for Garelick over store-label milk, and they should boycott milk priced above \$2 a gallon.

A drop in the average price of a gallon of milk from \$3 to \$2 would benefit the farmers; according to our research, sales demand would increase 20 percent. This would then increase farm prices, because the farmers would be selling more milk at the federal pricing program's higher fluid price, and less at its lower manufacturing price.

The current price-gouging in New England is the result of unprecedented mergers in supermarket retailing and milk processing. The mergers have shifted pricing power

from the farmers and a competitive marketplace to the very powerful large corporations.

Remember Edwards markets? Gone! Swallowed up by Royal Ahold, the Dutch owner of Stop & Shop. Purity Supreme? Star Market? Gone as competitors -- now part of Shaw's. In Providence, Stop & Shop has the dominant market share -- 50.2 percent -- and Shaw's has the second largest, with 21.8 percent.

The situation is similar in other New England urban areas, where one or two firms dominate the supermarket trade. Such companies no longer operate as competitive markets, in which a product is sold at its cost; the sellers exercise control and elevate the prices.

Regarding the processing of milk -- after it comes from the farms -- Dean Foods has over the past five years become the nation's leading dairy processor. It has done so by buying up the competition and closing many plants. Dean entered New England by acquiring Garelick Farms, in 1997; it has subsequently acquired the business of six other New England milk processors and closed four large milk plants. Today, Dean supplies 80 percent of the milk for the Boston and Providence areas, and 64 percent of the fluid milk for all of New England.

In both kinds of mergers -- those of the milk processors and those of the supermarkets -- the companies have asserted that scale economies and other efficiencies would create lower prices for the consumers. But this has not happened.

Again, these companies are not competitive. Currently Hood, New England's second-largest processor, is trying to buy Crowley, New England's fifth-largest, by merging with Crowley's parent, National Dairy Holdings -- the nation's second-largest milk processor.

Antitrust enforcement has not protected farmers and consumers. We need tougher enforcement, which may be coming. We also need innovative new approaches.

When faced with similar nasty pricing, New York State passed an anti-milk-price-gouging law in 1991; today, a New York grocery store must offer at least one brand of milk at a price that is no more than twice the delivered price that its processor paid the farmer. Supermarket store-label milk in New York usually honors the law. According to our survey, the cheapest gallons of milk in many Hudson Valley supermarkets were \$2.41, the state's maximum price for a store's cheapest offer.

That we need an anti-price-gouging law in Rhode Island and other New England states is an understatement. At a dollar a gallon, the overcharge amounts to \$11 a year for every man, woman and child. The milk-industry companies will have a tough sell in the state legislatures if they do not cut milk prices in New England now.

And even if they do, the law is a good idea, given the noncompetitive structure of the industry and the farmer-consumer exposure to future gouging.

Readers with access to the Internet can go to <http://www.are.uconn.edu/fmktc.html> to read our report and view television videos on the subject.

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