

CIAB News

Information from the Cherry Industry Administrative Board

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July 2004

CIAB Convenes to Consider Crop Restriction

The CIAB's June Meeting

Each year the CIAB meets in June to review the crop estimates, discuss the market situations and determine whether or not a restriction for the current crop is required.

Under the terms of the Optimum Supply Formula (OSF), when the current crop exceeds the demand in the U.S. markets, also known as the "free" market, a crop restriction is required. On the other hand, if the supply is less than the demand in the "free" market, no restriction is required.

Crop Estimates for 2004 - 05

As was the case in crop year 2003 - 04, the crop is not going to be very big. Production estimates place this year's crop at a level similar to last year's.

There are differences of opinion about the size of the crop in NW MI. Some from NW MI argue that the crop will be quite light as is suggested by the Guesstimate figure. Others feel that the crop will be much closer to last year's level, in the mid-90 million range.

At the Michigan Frozen Food Processors Association Guesstimate, held June 23, 2004, the crop estimates projected the crop at 199 million pounds.

The estimates offered by the USDA suggested a somewhat larger crop at 215 million pounds. The estimate for MI's total, 145 million pounds, was made by MI Agricultural Statistics Service (MASS) using a subjective process rather than an objective yield survey. The breakdown of Michigan's total was done by the CIAB.

District	Guesstimate	USDA	3 Yr. Avg.
NW MI	85	85	92.7
WC MI	38	40	42
SW MI	20	20	18.6
NY	10	8	11.0
OR	4	4	2.2
PA	3	4	3.5
UT	17	23	13.5
WA	25	23	22.3
WI	7	8	9.9
Total	<u>199</u>	<u>215</u>	<u>215.7</u>
Unrestricted	7	8	
Restricted	192	207	

Optimum Supply Formula

The basic idea of the Optimum Supply Formula (OSF) is to properly supply the U.S. domestic market. (This is called the "free" market.) Production in excess of the "free" market can either be held in inventory or sold in "secondary" markets. Secondary markets are such things as sales to the USDA, export markets and market expansion programs.

There are a number of parts in the OSF that must be calculated in order to determine if a restriction of the crop is required.

Demand - 3 Year Average

To determine the restriction, if any, the supply of cherries is compared to the calculated demand for tart cherries in the "free" market, the US domestic market. The average of such sales over the past three seasons is the "demand" for the OSF.

To determine the 3 year average of sales the CIAB must first calculate both the total and the "free" sales for last season

Sales in 2003 - 04

To determine sales for last year the CIAB must make two calculations. The first is determining the total sales for the year. The second calculation determines what part of the total was from "free" outlets and what part was from secondary outlets.

The CIAB formula to calculate total sales, stated in millions of pounds, is:

Inventory Beginning of Year	10
+ Pack	222
- <u>Total Inventory, End of Year</u>	<u>(25)</u>
= Sales	<u>207</u>

The ending year inventory is comprised of two types of inventory. It has "free" tonnage carried from last year to this year. It also has inventory reserve tonnage that is being carried over, as well. The breakdown is as follows:

Free tonnage	24
<u>Reserve tonnage</u>	<u>1</u>
Total Inventory, End of Year	<u>25</u>

To determine the breakdown of total sales as either “free” or “secondary”, the calculation, set forth in millions of pounds, is as follows:

	Sales	207
-	Export / other	(12)
-	USDA sales, net	(10)
=	“Free” Sales	<u>185</u>

A word of caution must be made regarding the reported sales for the current year. Handlers estimate what they expect to sell in June when reporting to the CIAB in May. This June estimate is necessarily part of the OSF calculations.

If handlers do not sell as much as they estimate, the actual sales will be smaller and the carry-over of inventory will be larger. On the other hand, if the handlers sell more than they estimated, the sales for the year will be higher and the carry-over of inventory will be smaller. This information will be clarified when the handlers submit their final sales reports in July.

Average Sales

Calculating “demand” for the OSF requires that the CIAB look at the last three years of “free” sales. The average, in millions of pounds, is calculated as follows:

2001	208
2002	138
2003	<u>185</u>
3 Yr Average	<u>177</u>

The CIAB Adopts the OSF as Written

The CIAB adopted the OSF as defined in the marketing order. It made calculations of the preliminary “free” and “restricted” percentages based on the information at hand.

In September, when the actual production is known, the CIAB will meet to set the final percentages as set out in the order.

CIAB Recommends a Preliminary Restricted Percentage as determined by the OSF

Putting together all of the information considered by the CIAB, a preliminary restriction was established. After factoring in the Market Growth Factor, the OSF established an effective preliminary restriction percentage of 21% and an effective preliminary “free” percentage of 79%.

A synopsis of the OSF calculation is:

OSF
Crop Year 2004 - 05
Using Industry Crop Estimates
(1,000,000's of Pounds)

Supply	Restricted crop	207
	Unrestricted	8
	+ Carry-in	24
	ST:	239
Demand	3-Year Avg. Sales	177
Surplus		62
	Gross Restriction	30%
Market Growth Factor		(18)
Adjusted Surplus		44
Free %		79%
Restricted %		21%

Free sales and Carry-out

The industry will have 195 million pounds of “free” cherries to sell in the domestic market. (This is the total of 177 million pounds of “average demand” plus 18 million from the Market Growth Factor.) This amount is 110% of average “free” (domestic) demand and is required by the terms of the order.

If the industry needs more tonnage to satisfy demand in the “free” market, the board can release additional tonnage through the demand release process to satisfy this increased demand. This “demand release” process was created last year and worked quite well. It will work even better from now on since the framework for its use has been set.

Final Regulations set in September

The percentages just discussed are “preliminary”. The board will meet on September 10, 2004 to review the actual production figures and determine the final percentage regulation.

Dealing with the Restriction

The current season should be much like last year with respect to handling the restriction. It seems that most processors will neither require nor ask for orchard diversion by growers. The handlers’ ability to market or deal with the surplus should take care of the restriction.

The Primary Reserve is almost empty. The available capacity for this year is 49 million pounds. This alone is more than enough to take care of the Adjusted Surplus calculated in the previous table.

Available options for the handlers and how much

they could move through these outlets are:

Export	?
Market expansion (max.)	10
USDA purchases	?
Primary Reserves	<u>49</u>
Total:	<u><u>49</u></u>

As there have been in past years, there will be some exports and some market expansion activities undertaken with restricted tonnage. Also, the industry is working with the USDA regarding a purchase of products for the national feeding programs. Finally, a market demand release may also happen this year. Thus, handlers will probably encourage growers to deliver all of their fruit.

TALK WITH YOUR PROCESSOR

Given that handlers will probably ask that growers deliver all of their fruit, it is very important that growers and handlers discuss the terms under which restricted production is being delivered and processed. Have the discussions as soon as possible rather than later!

Highlights from Crop Year 2003

Crop year 2003 - 04 provided some excellent highlights for the industry. The National Agricultural Statistics Service reported an average grower price of \$0.391 per pound. This produced total grower revenues of \$88 million, the second highest gross revenue in 30 years.

Furthermore, all of the supply available last year, 232 million pounds of products, was either sold by the end of the year or committed for sale in the first part of this year. Had mother nature provided more cherries, they probably could have been moved, as well.

The “free” part of last year’s sales was 185 million pounds. This was greater than the calculated three year average of sales. The “restricted” sales were 22 million pounds and were made to the USDA, exports and market expansion programs.

There were various releases from the reserves to the “free” market. The Market Growth Factor released 18 million pounds, the USDA purchase released 16 million pounds and the demand release, a new concept that was initiated last season, moved 11 million pounds from the restricted category to the free category. In other words, 45 of the 53 million pounds of last year’s surplus, or 85% of restricted production, was released to handlers during the year.

Given the crop estimate and the estimated total supply of 239 million pounds, the experience from 2003 may be a good model for what to expect in 2004.

Finished Product and Grower Pricing

Pricing decisions are outside of the scope of the marketing order. These decisions come from the market place and flow from the handlers. Grower prices are defined by market forces and the price of finished goods.

Grower prices generally correlate to the balance between supply and demand. It is preferable to have these factors as close to equilibrium as possible. This is what the OSF does in the U. S. domestic market.

Surplus product to sell on the “free” market depresses finished goods prices and, therefore, grower prices and revenue. Too little fruit might increase finished goods prices and raise grower prices, but it might also result in depressing sales volumes.

Unlike last year and more typical of prior seasons, finished product prices and, in turn, grower prices have not solidified. Growers should talk with their handlers to learn how delivered cherries will be treated and under what terms payments will be made.

CIAB Members & Alternates who are Ending their Terms

A number of board Members and Alternates’ terms ended with the June 2004 meeting. They are:

- Mr. Don Gregory, Member, District 1 (NW MI),
- Mr. Bill Sherman, Member, District 1 (NW MI),
- Mr. Norm Veliquette, Alternate, District 1 (NW MI),
- Mr. Fred Tubbs, Member, District 2 (WC MI) although he will continue as the alternate in that district,
- Mr. Glenn Rogers, Alternate, District 3 (SW MI) who resigned from the CIAB because of his change of employment
- Mr. Tom Facer, Member, District 4, (NY) although he will continue as the alternate, and
- Mr. Phil Muir, Member, District 7 (UT),

Changes in Utah

Mr. Phil Muir, Utah, announced at the meeting that Muir Roberts will no longer handle tart cherries. Therefore, Mr. Dave White who was nominated to sit on the CIAB resigned from the CIAB. Mr. Robert McMullin was nominated to replace Mr. White and to sit as the grower member from Utah.

The fact that Muir-Roberts, Inc. will no longer handle cherries presents a problem with the sales constituency clause of the order. It was requested that the sales constituency clause be temporarily suspended in Utah so that Utah could continue to have two representatives on the board.

The CIAB asked the Executive Committee to review the sales constituency clause, in general, and to make recommendations about how to address this and other situations that may arise concerning sales constituency.

Weekly Raw Product Reports Due

The Weekly Raw Product Report (Form 1) is due from processors by the close of business each Monday during harvest. The information is then tabulated and distributed to the industry via the website and a postcard mailing.

“www.cherryboard.org”

As a reminder, the CIAB website is a very useful tool during harvest. Upon entering the internet address “www.cherryboard.org”, a user will come to the home page which lists all of the information on the site. Simply click on a heading and you will go to the information page.

The weekly raw product report will be updated every Tuesday.

There is also a calendar of meetings and due dates for the various CIAB forms to be filed.

Please visit our site for up-to-date information on the most recent CIAB activities.

Calendar of Events - July-September

- July 10 Form #3 Sales and Inventory Report
(for June 1 - June 30)
- Proof of Exports for shipments done April 1 through June 25
- July 15 Proof of Exports for shipments done June 26 through June 30
- July 7, 14, 21, 28 - Form #1 Weekly Raw Product Report
- Aug 4, 11, 18, 25 - Form #1 Weekly Raw Product Report
- Sept 2, 8, 15 - Form #1 Weekly Raw Product Report
- Sept. 10 Form #3 Sales and Inventory Report
(for July 1 - August 31)
- Sept 10 CIAB Board Meeting, Portland, OR
- Sept 15 Cherries Acquired from Producers (Form 2)
due to CIAB