

CIAB News

Information from the Cherry Industry Administrative Board

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June 2005

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 2005 - 06

The crop for 2005- 06 is projected to be larger than the industry has seen in four years. Both the Michigan Frozen Food Processors Association guesstimate and the USDA's crop forecast indicated this.

The MFFPA crop estimate projected the crop at 251 million pounds. NASDA placed the crop size at 244 million pounds.

MI Agric Statistics provides only a total for the state of Michigan. The MAS estimate for the total tart cherry production was 190 million pounds. The projection was made using a subjective survey process of growers and processors. The breakdown of Michigan's total was done by the CIAB since MAS does not do this any longer.

Crop Estimates and Average Production

District	Guess- timate	USDA	3 Yr. Avg.
NW MI	115.0	111.0	61.7
WC MI	62.0	62.0	26.1
SW MI	17.5	17.0	16.4
NY	7.6	7.5	9.6
OR	0.4	0.6	2.8
PA	1.8	2.7	3.3
UT	21.0	19.0	16.6
WA	20.0	18.0	19.3
WI	6.0	6.4	7.9
Total	251.3	244.2	163.7
Unrestricted	<u>2.2</u>	<u>3.3</u>	<u>6.1</u>
Restricted	249.1	240.9	157.6

Concern has been expressed about the very dry conditions in Michigan recently. Jim Nugent of the NWMHRS indicated that this is the driest year, on a year-to-date basis, since they have been tracking precipitation volumes. If the lack of rainfall continues, MI's actual production could be significantly lower than what was estimated.

Optimum Supply Formula

The underlying concept 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 must either be held in reserve inventory or sold into "secondary" markets. Secondary markets are such things as export sales, new market development projects or sales to the USDA for school lunch and national feeding 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 defined as "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 2004 - 05

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	26
+	Pack	208
-	<u>Total Inventory, End of Year</u>	<u>(33)</u>
=	Sales	<u>201</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. The breakdown, in millions of pounds, is as follows:

Sales	201
- Export / other	(7)
- Market expansion, etc.	(1)
- <u>USDA sales, net</u>	<u>(10)</u>
= "Free" Sales	<u>184</u>

Handler estimates of Sales

It is important to remember that the preliminary percentages are based on handlers' estimates of sales activity for the month of June. In July handlers report their actual sales.

The use of estimates for the month of June is needed in order to determine sales for the preliminary restriction calculation. A review of handlers' estimated sales compared to their actual sales shows that the handlers are quite good at estimating sales. However, there will undoubtedly be some change to the sales figures.

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:

2002	138
2003	185
2004	184
3 Yr Average	<u>169</u>

The CIAB Recommends Preliminary Percentages

After reviewing the information regarding the estimated crop size and the average demand, the CIAB then considered how to proceed with the OSF.

CIAB Recommends a Preliminary Restricted Percentage as determined by the OSF

The most significant point of discussion at the CIAB's meeting was matter of the volume of sales to use in the Optimum Supply Formula. The language of the order requires that the CIAB use the average "free" sales from the last three years. As seen above, this figure is 169 million pounds. This, however, is significantly below the "free" sales from the past two seasons.

The marketing order suggests that the board consider various things in calculating "free" and "restricted" percentages. Amongst these things included economic factors and the likelihood of releases during the crop year.

During the past two crop years the CIAB has recommended releases from the reserves to satisfy the

demand from various segments of the industry. It was concluded that this would likely happen again if adjustment was not made to the three year average of "free" sales. Therefore, the board recommended an economic adjustment to the supply formula to provide enough "free" fruit for the industry's needs.

The economic adjustment was for 16 million pounds. This figure was the average of the releases from the past two crop years. The effect of this adjustment is to bring the volume of "free" tart cherries to the average the industry has sold in the past two crop years. This is 185 million pounds.

Below is presented the OSF that resulted from the CIAB's discussions and actions. After factoring in the Market Growth Factor and making the economic adjustment, the OSF recommended a preliminary restriction percentage of 29% and a preliminary "free" percentage of 71%.

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

SUPPLY	Unrestricted	241
	Restricted crop	3
	+ Carry-in	<u>28</u>
	ST:	272
DEMAND	3-Year Avg. Sales	<u>169</u>
SURPLUS		103
	Gross Restriction	43%
MARKET GROWTH FACTOR		17
ECONOMIC ADJUSTMENT		<u>16</u>
ADJUSTED SURPLUS		70
Free %		71%
Restricted %		29%

For the current crop year the industry will have 201 million pounds of product available for sale. The sources for this are:

Carry-over	28
Unrestricted districts	3
"Free" portion of restricted	137
Market Growth Factor	17
Economic Adjustment	<u>16</u>
Total:	201

With this amount of fruit handlers and marketers will be able to cover the "free" sales the industry has had for the past two seasons. As importantly, it hoped that the volume of domestic sales can be increased by using the extra "free" tonnage to encourage additional sales.

Demand Releases

The economic adjustment made by the CIAB this year has the same effect as the demand releases done in the last

two seasons. However, in the event that handlers need more fruit this year, the CIAB can still exercise demand based releases during the crop

Final Regulations set in September

Of course, the percentages set by the board in June are “preliminary”. The board will meet on September 9, 2005 to review the actual production figures and determine the final percentage regulation.

Dealing with the Restriction

Each and every handler will deal with the restricted portion of their handle in different ways. This is why it is so very important for each grower to talk with his or her handler to learn how that handler will deal with the restriction.

There are some general observations and projections that can be made, however.

The Primary Reserve is almost empty. The available capacity for this year is about 45 million pounds. Secondary markets and other outlets are available for some of the restricted crop, as well.

The available options for the handlers and the volume they could move through these outlets are:

Market Growth	17
Exports, estimate	?
Market expansion (max.)	?
USDA purchases	?
Primary Reserves	<u>45</u>
At-plant, estimate	1
Total:	<u>63</u>

As there have been in past years, there will be exports and market expansion activities undertaken with restricted tonnage. (Currently up to 10 million pounds can be used in market expansion programs.) A sale to the USDA will be considered. However, it is difficult to predict just how much will be used in some of these outlets.

PLEASE TALK WITH YOUR PROCESSORS

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!

Extension of Mapping deadline for this year

The CIAB granted an extension of the mapping deadline for the current season. For this year, 2005 -06, maps will be accepted up to the earlier of July 1 or the

onset of harvest for a grower.

Therefore, if you are harvesting before July 1st, get your maps in right away. If you will harvest after July 1st, get your maps to the CIAB no later than July 1st.

CIAB Members & Alternates whose terms ended with the June 2005 meeting

June is the final meeting for the crop year. This means that there will be changes on the CIAB in September. Those leaving or changing their roles on the CIAB are:

- Mr. Everett Weiser, District 6 (PA), will no longer serve on the CIAB.
- Mr. Joe Meduri, Member, District 5 (OR) will become the alternate for the district,
- Mr. Mike Rowley, Member, District 8 (WA) will serve as the alternate from the district.

The thanks of the entire industry are extended to those who have served on the CIAB and so graciously given of their time for the benefit of the industry.

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 5, 11, 18, 25 - Form #1 Weekly Raw Product Report
- Aug 1, 8, 15, 22, 29 - Form #1 Weekly Raw Product
Report
- Sept 5, 12, 19 - Form #1 Weekly Raw Product Report
- Sept. 10 Form #3 Sales and Inventory Report
(for July 1 - August 31)
- Sept 9 CIAB Board Meeting, Ludington, MI
- Sept 15 Cherries Acquired from Producers (Form 2) due
to CIAB