

# CIAB News

Information from the Cherry Industry Administrative Board

Volume 16, Issue 1

June 2012

## Mother Nature and the Crop Failure Will Define 2012

### THE CROP FAILURE OF 2012

The driving story of the year is the freakish weather pattern seen in the Midwest in late Winter and early Spring. Unfortunately, Mother Nature provided the “perfect storm” for a cherry crop failure, in particular, and a tree fruit crop failure, in general, in the Midwest.

The month of March brought unseasonably warm temperatures to the Midwest region. Temperatures reached into the 70's and 80's in mid-March. The trees responded to this early input, broke dormancy and marched towards bloom. Fruit trees in the area were at least a month ahead of their normal development pattern.

The false Spring was followed by a devastating sequence of freeze events in late March through April. There were 21 freeze events during this period, and they hit the trees at some of their most vulnerable times.

All of the Midwest production areas were impacted by this sequence of events. It devastated the tart cherry crops in MI, NY and WI. Unfortunately, the impact was also seen on all of the tree fruits in these areas. The sweet cherry, apples and peach crops were similarly hurt by this series of weather events.

Fortunately, the unusual weather events in the Midwest were not duplicated in the West. Producers and processors in OR, UT and WA have reported a more typical Winter and Spring weather pattern and are expecting a more normal harvest.

### CROP ESTIMATES FOR 2012

The crop for 2012 is expected to be extremely light for the United States. This year's harvest will rival that of 2002 which was so poor.

The crop estimates for 2012 were those presented at the MFFPA Guesstimate and by the CIAB members and alternates at the meeting. The NASS usually prepares and presents its estimate of production for the cherry crop during the CIAB's June meeting, but it did not do so this season.

The CIAB advanced the June meeting from June 28 to June 7 due to the early bloom and the expectation that the harvest would be much earlier than usual. A crop estimate and restriction determination done in late June would not have been the least bit helpful to those who would have harvested early. Unfortunately, the NASS was unable to accommodate this change of dates when offering their crop estimate.

The estimates of production were:

#### Crop Estimates and 3 Yr. Average Production

District	Guesstimate			
	Produced	Delivered	CIAB	3 Yr. Avg.
NW MI	6.0	3.0	2.0	114.4
WC MI	6.0	5.0	3.0	56.0
SW MI	0.5	0.5	0.5	15.1
NY	0.5	0.5	0.5	7.9
OR	2.5	2.5	2.5	2.2
PA	2.3	2.3	3.0	3.0
UT	32.0	32.0	32.0	34.5
WA	25.0	25.0	26.0	17.7
WI	0.5	<u>0.5</u>	<u>0.5</u>	<u>7.6</u>
<b>Total Crop</b>	<b>75.3</b>	<b>71.3</b>	<b>70.0</b>	<b>258.4</b>
<b>Unrestricted</b>	<b><u>18.3</u></b>	<b><u>14.3</u></b>	<b><u>12.0</u></b>	<b><u>5.2</u></b>
<b>Restricted</b>	<b>57.0</b>	<b>57.0</b>	<b>58.0</b>	<b>253.2</b>

The CIAB opted to use its estimate of the crop. Given that there will be no restriction this season, the CIAB focused upon the crop of cherries that will likely be delivered rather than cherries that will be produced.

### INDUSTRY INVENTORIES REDUCED SIGNIFICANTLY

The increased sales activities for the past few years has significantly reduced the industry's inventories of tart cherry products. In both 2011 and 2012 the industry sold more than it produced and, thus, drew down the inventories.

At the conclusion of last year the industry's inventories carried into this year were 92.3 million pounds. It is estimated that inventories will total approximately 58 million pounds the conclusion of this year. Thirty-four (34) million pounds of the industry's inventories from last year were used to support sales of cherry products this year.

This ending inventory figure of fifty-eight (58) million pounds is the best approximation possible of total industry inventories given the circumstance for the year. With the earlier than normal June meeting, the CIAB does not yet have the May sales reports from handlers. The actual inventory figure will be corrected when the handler reports of sales are submitted.

## RELEASE OF ALL INVENTORY RESERVES TO SUSTAIN MARKETS

Due to this year's crop failure, the CIAB met on May 14 to consider the release of all restricted inventory reserves. At the time there were 21 million pounds of cherries in the reserve inventories. It was decided that all inventories should immediately be made available to handlers as "free" cherries to help sustain their markets.

Please note that these reserve inventories were and are part of the total end-of-year inventory of 58 million pounds mentioned above. They are not in addition to the ending inventory of cherries.

## THE OPTIMUM SUPPLY FORMULA AND CALCULATION OF RESTRICTION

June is the month in which the CIAB establishes whether or not a crop restriction under the marketing order is required. When the current crop exceeds the projected demand in the domestic market, 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.

The CIAB reviews various items when making this analysis.

## THE INTERPLAY OF DIVERSION ACTIVITY AND INVENTORY RESERVES

The "free" carryover is an important part of the OSF. It is added to the estimated production for the year to define "supply" for the calculation.

The amount of the "free" carryover depends, in part, upon how much diversion activity there is during the year. As diversion credits are issued and applied to outstanding restriction obligations, the volume of "restricted" inventory is reduced. As this happens, the portion of the inventory that is "free" tonnage increases.

This year handlers have dealt with the restriction for crop year 2011 as follows:

Restriction		
2011	44.0	
Market Growth	<u>(17.0)</u>	27.0
Diverted at harvest		
In-orchard	(0.8)	
At-plant	<u>(2.1)</u>	(2.9)
Post harvest diversions		
Export	(14.0)	
New Mkt, Prod, Expansion	(25.0)	
Adjustment, June 2011 activity	(12.5)	
Earned	<u>(51.5)</u>	
2011 Addition / (Reduction to Reserves)		(27.0)

## Inventory Reserves at Year's end:<sup>1</sup>

Primary	0.0
Secondary	0.0
Total Reserves	0.0

1. This reflects the CIAB's release of 21 million pounds from the inventory reserves.

## 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 volume is "restricted" and must either be held in reserve inventory or sold into "secondary" markets. Secondary markets include export sales, new market development projects or sales to the USDA for school lunch and national feeding programs.

To calculate the "free" and "restricted" percentages under the OSF, a number of elements must first be calculated.

### Demand - 3 Year Average

To determine the current season's 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 used 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 2011. As you will see in the following parts of this newsletter, the volume of free sales in 2012 increased quite a bit thereby increasing the 3 year average of free sales.

### Sales and "Free" sales in 2011/12

The sales for 2011 are projected to be very good. The calculated gross sales are 262 million pounds. "Free" sales are 211 million pounds.

Calculating the year's sales figures is a two step process. The first step is determining the gross sales for the year. The second calculation determines what part of the total was in "free" outlets and what part was in secondary outlets.

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

Inventory Beginning of Year	92
+ Pack	228
- Total Inventory, End of Year	<u>58</u>
= Total Sales	<u>262</u>

### Types of sales - "free" & "restricted"

The majority of this year's sales are "free" sales. The "free" sales of 211 million pounds were 80.3% of the total while the restricted sales of 52 million pounds were 19.8% of the total. The increase of the free portion of the

sales is quite significant over last season. Much of this can be attributed to the fact that the USDA did not make any surplus purchases and that secondary market sales were down from previous years.

The breakdown of sales, in millions of pounds, is as follows:

Sales	262.3	
- Export / other	(14.0)	
- Market expansion	(25.0)	
June Diversions (6/11)	<u>(12.5)</u>	
= "Free" Sales	210.8	80.4%
"Restricted" sales	51.5	19.6%

Included in the calculations of free sales is an entry for June diversions. According to the reporting process for the CIAB, secondary market sales include the actual diversions during the period June of the prior year (June 2011 in this case) to the following May 31 will define the diversion activity.

### Three Year Average of Sales and Adjustment for Maturing Diversion Credits

Calculating "demand" for the OSF requires that the CIAB look at the last three years of "free" sales. This figure is then adjusted by the volume of diversion credit activities that have completed three years of credit status and are maturing into the "free" market.

The average, in millions of pounds, is calculated as follows:

	Actual	Expansion Adjustment	Total
2009	150	8	158
2010	193	8	200
2011	<u>211</u>	8	<u>219</u>
3 Yr Average	<u>185</u>		<u>192</u>

### NO PRELIMINARY RESTRICTION IN 2012 IN ACCORDANCE WITH THE OSF

After reviewing the information regarding the estimated crop size and the average demand, the CIAB applied the information to the OSF.

### The Preliminary Restricted Percentage as calculated under the OSF

Shown below is the outcome of the OSF for the year. To nobody's surprise given the crop failure for the year, there will be no restriction for the 2012/13. In fact, the available supplies of tart cherries will be far less than needed by the marketers.

### OSF Crop Year 2012 - 13 Using the USDA Crop Estimate (1,000,000's of Pounds)

<b>SUPPLY</b>		
Unrestricted		12
+ Restricted		58
+ Carry-in	58.0	
		<u>58</u>
ST:		128
<b>DEMAND</b>	3-Year Avg. Sales	- <u>192</u>
<b>SURPLUS / (SHORTFALL)</b>		(64)
<b>RESTRICTED and FREE PERCENTAGE</b>		
<b>GROSS RESTRICTION %</b>		0%
<b>GROSS FREE %</b>		100%
<b>ADJUSTMENTS to the OSF</b>		
<b>MARKET GROWTH FACTOR</b>		0
<b>ADJUSTMENT</b>		<u>0</u>
<b>NET SURPLUS</b>		0
<b>EFFECTIVE FREE %</b>		100%
<b>EFFECTIVE RESTRICTED %</b>		0%

### No Adjustments to the OSF needed

Since there is no surplus in the OSF, no adjustments need to be made for the MGF or for a projected carry-out.

### FINAL RESTRICTION TO BE SET IN SEPTEMBER

As you know, the percentages set by the board in June are "preliminary". The board is required to meet in September to review the actual production figures and recommend the final percentage regulation to the Secretary. It is anticipated that this meeting will be done with a telephone conference rather than face-to-face.

### PRODUCT TO SELL IN 2012

2012 may present a worse case for the industry than did the situation in 2002. Production will likely be much like 2002, but the carry-in will be considerably less in 2012 than it was in 2002. With carry-in and estimated production, the industry will have around 120 million pounds of cherries to sell. In 2002 the industry sold 160 million pounds of cherries between production and carried in inventories.

Please note, however, that handlers will always carry cherries from one year to the next to sustain their markets in the following crop year. Some of the 120 million pounds of cherries in 2012 will be held over for sale in the 2013 marketing year. The volume of cherries

actually sold in 2012 will be reduced by the amount carried over into 2013.

### **BOTTOM LINE CREDITS & OTHER CHANGES TO THE OSF**

Please recall that the industry recently approved the amendment for Bottom Line In-orchard Diversion Credits and that the CIAB made other changes to the operation of the OSF. These changes were done to make the OSF operate more effectively, to lessen the burden of restriction and to make compliance with restriction easier.

Crop year 2012 was the first year in which the changes were to be effective and to be used. While the changes are effective for this season, this is an academic issue given the size of the crop and the fact that there will be no restriction for the year.

Since there will be no restriction, there will be no in-orchard bottom line credits to earn or use. Bottom line credits will have to wait until the 2013 crop giving everyone a bit more time to adjust to the new processes.

### **BURNETTE FOODS' 15A LITIGATION AGAINST THE MARKETING ORDER**

Everyone has undoubtedly heard of the litigation that Burnette Foods, Inc. filed against the Secretary of Agriculture challenging the marketing order. This is called a "15A" case under the laws concerning marketing orders.

The trial was held May 15 to 22, 2012 in Grand Rapids, MI. During the course of the hearing Burnette Foods presented its case and the Secretary, represented by the Office of General Counsel (OGC), presented his defense of the order.

Some of the issues raised and about which testimony was offered were:

- ❖ the structure, status, function and operation of CherrCo, Inc.;
- ❖ the relationship of CherrCo members to the organization and to their selected sales agents;
- ❖ whether or not CherrCo, Inc. is a "sales constituency" as the term is defined in the order;
- ❖ whether the CIAB has operated properly under the terms of the order and the OSF;
- ❖ whether Burnette Foods, as a canner of cherries, has been unduly or unusually harmed by the operation of the OSF; and
- ❖ whether Burnette Foods is somehow unique and should be exempted from operation of the order.

Numerous witnesses were called to testify in the case but not all got to actually testify. Burnette Foods issued subpoenas for most of the board members from MI while calling other people to testify on its behalf. Mr. Jim Jensen, Mr. Tom Facer, Chairman, Mr. Don Gregory, Grower and former Chairman, CIAB, and Mr. Perry Hedin also testified.

Much of the trial focused upon CherrCo, Inc. The evidence offered was much the same as was presented during the 1998 amendment in which "sales constituency" was defined in the order.

The case will not be resolved for quite some time. The briefs from the respective parties will not be filed until the middle of October. The judge will consider the evidence and the briefs and then will render her decision. After the initial decision is made the matter can be appealed to the Secretary for further consideration.

### **PUBLIC MEMBER NAMED**

The CIAB recommended Mr. Allyn Anthony to be the public member of the board. Mr. Anthony is a SW MI apple grower and Exec. Sect. of the MI State Horticultural Society. Everyone looks forward to Mr. Anthony's participation on the CIAB.

### **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 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 TO SEPTEMBER**

- |                       |   |
|-----------------------|---|
| June 11               | Form #3 Sales and Inventory Report<br>(for the period ending May 31)  |
| July 10               | Form #3 Sales and Inventory Report<br>(for the period ending June 30) |
| July 2, 9, 16, 23, 30 | - Form #1 Weekly Raw Product  |
| Aug. 6, 13, 20, 27    | - Form #1 Weekly Raw Product  |
| Sept 13               | CIAB Telephone Conference Call to Set<br>Final Restricted Percentage  |
| Sept 17               | Cherries Acquired from Producers (Form 2)<br>due to CIAB              |