

CIAB News

Information from the Cherry Industry Administrative Board

Volume 12, Issue 1

June 2008

CIAB Convenes to Determine Preliminary Percentages

THE 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 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.

A number of items must be considered in completing the analysis.

CROP ESTIMATES FOR 2008

Crop size is the starting point for the OSF determination. The crop for 2008/9 is projected to be the lowest since 2002. The Michigan Frozen Food Processors Association (MFFPA) crop estimate projected the crop at 169.3 million pounds. The USDA projected the crop size at 177 million pounds.

At the MFFPA Guesstimate a number of reasons for the short crops were noted. These included Winter injury, various Spring frost events and poor pollinating conditions in a number of the states.

The National Agricultural Statistics Service (NASS) estimated Michigan's total tart cherry production at 135 million pounds. The projection was made using a subjective survey process of growers and processors. The breakdown of Michigan's production for the districts was done by the CIAB.

Crop Estimates and Average Production

District	Guess-timate	USDA	5 Yr. Avg.
NW MI	70.0	75.0	112.0
WC MI	40.0	40.0	47.9
SW MI	18.5	20.0	18.2
NY	8.0	9.2	8.4
OR	2.0	1.4	1.9
PA	3.6	3.0	3.3
UT	12.0	12.0	24.7
WA	15.0	16.5	17.5
WI	<u>0.2</u>	<u>0.2</u>	<u>8.4</u>
Total Crop	169.3	177.3	242.3
Unrestricted (OR, PA)	<u>5.6</u>	<u>4.4</u>	<u>5.2</u>
Restricted	164.0	173.0	237.0

Under the order a district is exempt from restriction for any season where its production falls below one-half ($\frac{1}{2}$) of its 5 year average.

Wisconsin will have virtually no tart cherry crop this year. The estimate for the state was so small that many of the growers and handlers are trying to determine if there will be any processed cherries this year. Needless to say, any production Wisconsin growers might have will undoubtedly be considered "free" cherries this year.

Utah was also hit hard by the Spring frosts. The estimate of production for UT is less than one-half ($\frac{1}{2}$) of their 5 year average production. If Utah picks out at this projected level or less, the cherries from there would also be exempt from restriction and would be "free" tonnage.

Although the production in NW and WC Michigan are down quite a bit from the averages for these districts, the estimates are not so low as to suggest that the production from these districts would be exempt.

Final determination of any district's restriction status is based upon actual production. This will not be available until later in the Summer, and the determination of the restricted status will be made at the CIAB's meeting in September.

RESERVE POSITIONS FROM CROP YEAR 2007

There was concern that handlers might face secondary reserves coming out of 2007.

The total reported inventory for the industry is 88 million pounds. 31 million pounds of this total is "free" inventory carried into the current year. 57 million pounds of this inventory is reserve inventory.

As of the June meeting handlers are in the Secondary Reserves by 7 million pounds. However, it is possible the additional exports and market expansion activities could offset this amount by the end of the crop year. Handlers may submit paperwork for diversion activities until July 15, so final determination of the reserve positions cannot be made until after this deadline has passed and diversion credits have been issued.

In years past the CIAB has received quite a bit of paper work for diversion credit activity submitted in the latter part of June and early July. If this year is like the last few years have been, there should be a reduction in the amount of product held as secondary reserves. In turn, the amount of the inventory carried as free tonnage and included in the OSF will rise.

So far handlers dealt with the restriction for crop year 2007 as follows:

Restriction		
2007	101	
Market Growth	<u>(17)</u>	84
Diverted at harvest	10.0	
Post harvest diversions		
Export	13.5	
New Mkt, Prod, Expansion	29.6	
Voluntary destruction	<u>1.4</u>	
		<u>55</u>
2007 Net Restricted and in Reserves		29
Inventory Reserves		
Primary		
Begin. of 2007	46	
Releases	<u>(18)</u>	
Reserves from prior years	28	
Reserves from 2007	<u>22</u>	
Total Primary Reserves		50
Secondary		
		7

As noted above, the handlers' reserve positions can and undoubtedly will change between now and the close of the crop year.

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 parts in the OSF must 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 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 2007.

Sales in 2007 - 08

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 in "free" outlets and what part was in secondary outlets.

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

Inventory Beginning of Year	85
+ Pack	239
- <u>Total Inventory, End of Year</u>	<u>(88)</u>
= Total Sales	<u>236</u>

This volume of sales is quite encouraging for the industry. They suggest that the RPE volumes of sales for the industry continue to increase. The strong market expansion program is helping to drive this growth.

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. Of the 88 million pounds of inventory held by handlers at the end of the season, 31 million pounds is "free" inventory and 57 is "restricted" inventory.

Types of sales - "free" & "restricted"

The majority of this year's sales are "free" sales.

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

Sales		236
- Export / other	(13.5)	
- Market expansion, etc.	(29.6)	
- USDA sales, net	(21.6)	
- Voluntary destruction	<u>(1.4)</u>	
		<u>(66)</u>
= "Free" Sales		170 72.0%
"Restricted" sales		66 28.0%

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 necessary to determine sales for the preliminary restriction calculation. There will be some change to the sales figures when the actual sales figures are submitted.

Three Year Average of Sales

Calculating "demand" for the OSF requires that the CIAB look at the last three years of "free" sales.

Adjustment for Maturing Diversion Credits

The CIAB made an adjustment to the "free" sales this year for the very first time. This adjustment was to reflect diversion activities that have complete their three year exemption period. It was done because these projects will now be supplied from the free market tonnage. Because the adjustment is to the average sales, all handlers will benefit from the adjustment because it reduces the amount of restriction.

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

	Actual	Expansion Adjustment	Total
2005	178	11	189
2006	169	11	180
2007	<u>170</u>	11	<u>181</u>
3 Yr Average	<u>172</u>		<u>183</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 calculated under the OSF

Shown below is the OSF that resulted from the CIAB’s discussions and actions. Following the OSF, the CIAB calculated a preliminary restriction percentage of 10% and “free” percentage of 90%. The effective restriction percentage calculated as 0% and the “free” percentage at 100%.

**OSF
Crop Year 2006 - 07
Using Industry Crop Estimates**
(1,000,000's of Pounds)

SUPPLY			
	Unrestricted		17
+	Restricted crop		160
+	Carry-in	31	
-	USDA pre-sale	<u>(8)</u>	<u>23</u>
	ST:		200
DEMAND	3-Year Avg. Sales	-	<u>183</u>
SURPLUS			17
GROSS RESTRICTION %			10%
MARKET GROWTH FACTOR			<u>(18)</u>
Inventory Reserve Release			(1)
EFFECTIVE FREE %			100%
EFFECTIVE RESTRICTED %			0%

Note should be taken of the entry for “USDA pre-sale” which offsets the carry-in tonnage in the formula. During 2007, 18 million pounds of products were released from the restricted category to the “free” category for USDA purchases. Some of these sales, 8 million pounds worth, will not be shipped until after July 1, 2008. In other words, they will be reflected as movement in the next crop year. The adjustment of the “USDA pre-sale” was

made to the carry-in figure so that the OSF properly reflected these facts.

Also, the order requires that there be a market growth factor release in order to supply 110% of the average sales. The MGF release is 18 million pounds. However, there is estimated to be only 17 million pounds of surplus with the estimate of production. Therefore, a release from inventory reserves will be required to the extent that production in 2008 does not meet the MGF volume.

FINAL REGULATIONS SET IN SEPTEMBER

The percentages set by the board in June are “preliminary”. The board will meet on September 12, 2008 to review the actual production figures and determine the final percentage regulation.

HANDLING THE RESTRICTION

Each and every handler will deal with the restricted portion of their handle in different ways. Given that gross restriction is quite small and the effective restriction is estimated to be zero, handlers and growers will have to craft a different approach to dealing with this year's harvest than they have used in the past.

Growers are encouraged to discuss the harvest with their handlers to make sure that everyone is on the same plan.

MARKET EXPANSION EFFORTS

The industry should be excited about the market expansion activities that are developing for tart cherries.

As has been set out earlier in the newsletter, new market expansion credits are currently at 30 million pounds. These activities will continue and will be critical to the growth of the industry.

Also, we are now seeing adjustments made to the free market sales that reflect the successes of the market expansion activities. This will benefit all growers and handlers in the industry.

PROMOTION PROGRAM ADVANCING

The industry's promotion program is continuing with considerable success. Mr. Phil Korson shared information regarding the efforts of Mr. Jeff Manning and Weber-Shandwick to increase the awareness of the consuming public about tart cherries.

Weber-Shandwick's efforts should reach in excess of 300 million consumer impressions this year. This is more than were created during last year's efforts.

In addition to his work overseeing the PR campaign, Mr. Manning has had numerous business-to-business meetings to advance the interest in using tart cherries at manufacturer, wholesale and retail levels.

Please visit www.choos cherries.com to see the most recent promotion activities and information. It is a really good website, and you will find a great deal of information

that is interesting and helpful.

OTHER CIAB ACTIONS AT THE MEETING

Dealing with Secondary Reserves - Given that there was the likelihood that a Secondary Inventory Reserve might be created for 2007, The issue of dealing with reserves had to be addressed.

Mr. Hedin's interpretation of the order and of the actions previously taken by the board was that handlers could remove either their primary or secondary inventory reserves using diversion credits earned in later years. After considerable discussion on this matter and agreement of the interpretation by the USDA, the CIAB supported and adopted this interpretation of the order.

Fiscal Year - The CIAB recommended that the fiscal year for the board be changed from July 1 to October 1 so that the program coincided with various other industry organizations and the CIAB's cash flow. The action was intended to take effect for the current year and, therefore, would cause the CIAB to have a 15 month fiscal year for the current year.

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!

CIAB MEMBERS & ALTERNATES WHOSE TERMS ENDED WITH THE JUNE 2008 MEETING

June was the final meeting for the crop year. Those leaving the CIAB are:

Mr. Dale Seaquist, Alternate, District 9 (WI) will no longer serve on the CIAB.

Mr. Glenn LaCross, District 1 (NW MI) will no longer serve on the board.

Everyone in the industry extends their thanks to Mr. Seaquist and Mr. LaCross for their commitment and service to 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 TO SEPTEMBER

- July 10 Form #3 Sales and Inventory Report
(for June 1 - June 30)
- Proof of Exports and other credits for shipments done April 1 through June 25
- July 15 Proof of Exports and other credits 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 1, 8, 15 - Form #1 Weekly Raw Product Report
- Sept. 10 Form #3 Sales and Inventory Report
(for July 1 - August 31)
- Sept 12 - 13 CIAB Board Meeting & Tour, Lehi, UT
- Sept 15 Cherries Acquired from Producers (Form 2) due to CIAB