

CIAB News

Information from the Cherry Industry Administrative Board

Volume 13, Issue 1

June 2009

CIAB Convenes to Determine Preliminary Percentages

THE JUNE MEETING

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.

CROP ESTIMATES FOR 2009

Crop size is the starting point for the OSF determination. The crop for 2009/10 is projected to be rather large compared to recent years. The Michigan Frozen Food Processors Association (MFFPA) crop estimate projected the crop at 301.8 million pounds. The USDA projected the crop size at 283.6 million pounds.

The National Agricultural Statistics Service (NASS) estimated Michigan’s total tart cherry production at 220 million pounds. The projection was made using a subjective survey of growers and processors. The breakdown of Michigan’s production for the districts was done by the CIAB.

Crop Estimates and Average Production

District	Guesstimate	USDA	5 Yr. Avg.
NW MI	160.0	150.0	111.2
WC MI	60.0	56.0	50.4
SW MI	14.3	14.0	18.2
NY	8.0	8.4	8.8
OR	2.5	2.7	2.1
PA	3.0	3.7	3.3
UT	30.0	23.0	22.8
WA	16.0	17.5	16.0
WI	<u>8.0</u>	<u>8.3</u>	<u>5.8</u>
Total Crop	301.8	283.6	238.6
Unrestricted (OR, PA, WI)	<u>13.5</u>	<u>14.7</u>	<u>11.2</u>
Restricted	288.3	268.9	227.4

There was a difference of 18.2 million pounds between the estimate from the Guesstimate and that of the USDA. The Guesstimate was 6.4% greater than that of the USDA estimate. This difference caused the CIAB to discuss with considerable concern which estimate to use. Using a larger estimate of production would increase the

June estimate of restriction, but it would lessen the difference between the estimate and the actual restriction if the industry picked long of the estimate. Using the USDA's estimate would lessen the estimate of restriction and increase the difference between the estimate and the actual if the industry picked long.

Ultimately the CIAB determined that it was more appropriate to use the USDA's figure due to the NASS's past history, the repeatability of the USDA's process of collecting information and the process by which the USDA prepared its estimates.

Wisconsin's production history in the recent past has been pretty low. With last season's crop of 600,000 pounds, WI's three (3) year average production fell below 6 million pounds. This moves WI's production from the restricted to the unrestricted category. Therefore, WI's crop will be “free” tonnage just like that of OR and PA. WI will remain in this “unrestricted” category until its three (3) year average exceeds 6 million pounds again.

The reports of the cherry crop shared at the MFFPA Guesstimate were all quite positive. No area had suffered significant freeze events during the Winter or major frost events during the Spring. Some of the producing areas did express concerns about the pollinating conditions during bloom. The sum of the reports is that the various districts were poised to produce a pretty large tart cherry crop.

Harvest is likely to be later this year compared to that of recent years. The cooler Spring and lack of growing degree days has pushed harvest dates back a bit. SW MI is looking to begin harvest after July 4; WC MI looks to be harvesting July 12 to 15 depending upon location; NW MI should begin harvest around July 15 to 20. New York reported the earliest bloom in many years, but harvest should begin about July 15. Utah reported that its harvest should begin about mid-July

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 2008

The total reported inventory for the industry is 80 million pounds. Of this total 32 million pounds is “restricted” and 48 million pounds is “free”.

Of the “free” tonnage carried into the season, 17 million pounds is designated for deliveries to the USDA during the season and the balance, 31 million pounds, is

“free carry-over” for the OSF.

The interplay of diversion activity and carry-over

The amount of “free” carryover plays into the OSF. The June estimating process takes a snapshot of the industry in June. (It is like a balance sheet in this regard.) However, it must be remembered that the volume of “free” carryover will change over the next few weeks because the makeup of the inventories will change.

The amount of the “free” carryover depends upon how much diversion activity there is during the year. As more diversion credits are issued and applied to outstanding restriction obligations, the amount of restricted inventory (32 million pounds as of the June meeting) will go down. If the amount of restricted inventory goes down, the amount of “free” inventory goes up and, necessarily, the amount of restriction in 2009 goes up.

So far this year handlers have dealt with the restriction for crop year 2008 as follows:

Restriction		
2007	54	
Market Growth	<u>(18)</u>	
		36
Diverted at harvest		(2)
Post harvest diversions		
Export	(9.1)	
New Mkt, Prod, Expansion	(24.6)	
Voluntary destruction	<u>(1.1)</u>	
Earned	(34.8)	
Applied		(27.6)
Used for 2008 secondary reserves		3
		<u>11</u>
2008 Net Restricted and in Reserves		9
Inventory Reserves		
Primary		
Begin. of 2008	50	
Releases	(28)	
Reserves from prior years	22	
Reserves from 2008	<u>9</u>	
Total Primary Reserves		31
Secondary		
		1
Total Reserves		32

It is probable that additional market expansion activities will be submitted before the end of the current crop year. As this happens, the handlers' reserve positions will go down between now and the close of the crop year. If all else remains the same during this time, the “free” carry-over will go up; the restriction percentage will increase.

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 2008.

Sales in 2008 - 09

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	89
+	Pack	209
-	<u>Total Inventory, End of Year</u>	<u>(80)</u>
=	Total Sales	<u>218</u>

This volume of sales is quite encouraging for the industry especially given the general downturn in the economy seen during the last few years. It suggests that the RPE volumes of sales for the industry is holding quite well compared to last year.

Interplay of Estimates of Sale and Actual Sales on the OSF

In much the same fashion as was seen with the carry-over, change to the sales will change the OSF and the restricted percentage.

The end of year inventory calculated in June is the sum of the actual sales through May and handler estimates of sales for the month of June. Actual sales in June will differ from the estimates made by handlers. Usually the estimates of June sales are optimistic and are greater than the actual.

If the June actual sales are smaller than was estimated, the total actual sales will be smaller. This would likely decrease the amount of “free” sales for 2008/9 which are part of the three (3) year average of sales.

Carry-over inventory

Carry-over 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 80 million pounds of inventory held by handlers at the end of the season, 48 million pounds is “free” inventory and 32 is “restricted” inventory.

Types of sales - “free” & “restricted”

The majority of this year’s sales are “free” sales. The breakdown of sales, in millions of pounds, is as follows:

Sales		218	
- Export / other	(9.1)		
- Market expansion	(24.6)		
- <u>Voluntary destruction</u>	<u>(1.1)</u>		
Earned	(34.8)		
Applied	(27.6)		
- USDA sales, net	<u>(18.7)</u>		
= “Free” Sales		172	79.%
“Restricted” sales		46	21.%

Three Year Average of 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:

	Actual	Expansion Adjustment	Total
2005	181	6	187
2006	177	6	183
2007	<u>172</u>	6	<u>178</u>
3 Yr Average	<u>177</u>		<u>183</u>

Adjustment for Maturing Diversion Credits

As was established with the last crop year, the CIAB made an adjustment to the “free” 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. With this adjustment, all handlers will benefit from the market diversion program.

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

	Actual	Expansion Adjustment	Total
2005	181	6	187
2006	177	6	183
2007	<u>172</u>	6	<u>178</u>
3 Yr Average	<u>177</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 49% and “free” percentage of 51%. The effective restriction percentage calculated as 42% and the “free” percentage at 58%.

OSF Crop Year 2009 - 10 Using the USDA Crop Estimate (1,000,000's of Pounds)

SUPPLY			
	Unrestricted		15
+	Restricted crop		269
+	Carry-in	48	
-	USDA pre-sale	<u>(17)</u>	<u>31</u>
	ST:		314
DEMAND	3-Year Avg. Sales	-	<u>183</u>
SURPLUS			131
RESTRICTED and FREE PERCENTAGE			
	GROSS RESTRICTION %		49%
	GROSS FREE %		51%
ADJUSTMENTS to the OSF			
	MARKET GROWTH FACTOR		<u>(18)</u>
	NET SURPLUS		113
	EFFECTIVE FREE %		58%
	EFFECTIVE RESTRICTED %		42%

USDA Sales

Note should be taken of the entry for “USDA pre-sale” which offsets the carry-in tonnage in the formula. During 2008, 28 million pounds of products were released from the restricted category to the “free” category for USDA purchases. Some of these sales, 17 million pounds, will not be shipped until after July 1, 2009. In other words, these sales will be delivered in the next crop year, 2009/10. The adjustment of the “USDA pre-sale” was made to the carry-in figure so that the OSF properly reflected these facts.

Market Growth Factor

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. This release effectively reduces the gross restriction percentage of 49% to the effective restriction of 42%.

FINAL REGULATIONS SET IN SEPTEMBER

The percentages set by the board in June are “preliminary”. The board will meet on September 10, 2009 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 the crop is estimated to be quite large and the restriction fairly high, handlers and growers will have to figure out ways to deal with the restricted crop. Each handler will craft a different approach to dealing with this year's harvest.

PLEASE TALK WITH YOUR HANDLERS

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!

MARKET EXPANSION EFFORTS

The market expansion and diversion credit program continues to be an effective outlet for the restricted crop. The amount moved so far this year through the expansion program is down some from last year. However, handlers continue to use this option with considerable enthusiasm and strong interest. It should continue to be a mainstay of diversion compliance in 2009/10.

PROMOTION PROGRAM

The industry's promotion program continues with a strong presence and good success. Mr. Jeff Manning of CMI and Ms. Laura Schulman, Weber Shandwick, made presentations to the CIAB at the June meeting. The industry's public relations efforts are meeting with positive responses. The media outlets are talking about and picking up on the positive nutraceutical and health benefits of tart cherries.

In 2009 the public relations efforts have garnered 222 million consumer impressions in various media outlets. More than 183,000 visitors have visited the promotion program's website in response to the promotional efforts. Over the 2½ years of the promotional efforts almost a billion consumer impressions have come from the public relations efforts. These are very positive outcomes for the program.

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

Releases from Inventory Reserves

The CIAB discussed a proposal from the Reserves and Standards Committee to reconsider and restructure how releases from inventory reserves might be handled.

Currently releases from the inventory reserves are done on a FIFO basis. The reserves are released from the pools starting with the oldest and moving to the newest with each handler in each year's reserve pool receiving its percentage interest in the releases.

The proposal submitted for consideration of the CIAB is to change the FIFO release concept to one based upon the handlers' percentage of the handle rather than upon position in the reserves. Under this system the fact that handlers had engaged in diversion activities such as in-orchard or post harvest activities would not be to their detriment with inventory releases as is now the case.

After substantial discussion about the proposal, the CIAB determined that any action on the proposal could be accomplished only after further discussions and deliberation.

CIAB MEMBERS & ALTERNATES WHOSE TERMS ENDED WITH THE JUNE 2009 MEETING

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

Mr. Don Gregory, Member, District 1 (NW MI) will no longer serve on the CIAB.

Mr. George Lamont, Public Alternate, will no longer serve on the board. He will continue to sit on the Market Expansion Committee on which he has served for a number of years.

Everyone in the industry extends their thanks to Mr. Gregory and Mr. Lamont for their commitment and service to the industry.

Other members and alternates will be switching positions and, thus, will continue to serve on the CIAB in different capacities.

NEW MEMBERS AND ALTERNATES SEATED

On June 19, 2009 the Secretary of Agriculture issued his selection order seating the nominated members and alternates on the CIAB for terms starting July 1, 2009. Those seated are:

	<u>Seat</u>	<u>Member</u>	<u>Alternate</u>
1	Grower	Jim Nugent	Calvin Lutz II
2	Handler	Rich DeRuiter	Earl Peterson
3	Handler	Mike Schrom	Steve Packer
7	Handler	Thad Rowley	Chad Rowley

We want to welcome these representatives and look forward to working with them over the next few years in 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 6, 13, 20, 27 - Form #1 Weekly Raw Product Report
- Aug. 3, 10, 17, 24, 31 - Form #1 Weekly Raw Product Report
- Sept. 7, 14 - Form #1 Weekly Raw Product Report
- Sept. 10 Form #3 Sales and Inventory Report
(for July 1 - August 31)
- Sept 9 - 10 CIAB Board Industry Meetings,
Washington, DC
- Sept 15 Cherries Acquired from Producers (Form 2)
due to CIAB