

# CIAB News

Information from the Cherry Industry Administrative Board

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June 2010

## 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 2010

Crop size is the starting point for the OSF determination. The crop for 2010 is projected to be quite a bit smaller than has been seen in recent years.

There was a concerted effort to try to expand the sources and accuracy of the crop estimates. This year there were four different estimates made for the industry. They were from the Guesstimate, NASS, the CIAB and from the handlers. All of the estimates were quite closed to each other.

Crop Estimates and 5 Yr. Average Production

District	Guesstimate	USDA	CIAB	Handlers	5 Yr. Avg.
NW MI	77.0	72.5	76.3	70.0	131.4
WC MI	54.0	53.0	53.0	53.6	55.7
SW MI	14.5	14.5	14.5	12.0	16.8
NY	7.0	6.7	7.0	7.0	8.9
OR	1.7	2.0	2.0	2.1	1.9
PA	1.7	2.3	1.7	1.7	3.5
UT	23.0	24.0	23.0	25.5	23.0
WA	17.0	16.0	16.5	16.5	16.0
WI	<u>3.8</u>	<u>4.3</u>	<u>3.8</u>	<u>3.9</u>	<u>6.6</u>
<b>Total Crop</b>	<b>199.7</b>	<b>195.3</b>	<b>197.8</b>	<b>192.3</b>	<b>263.8</b>
<b>Unrestricted</b>	<b><u>3.4</u></b>	<b><u>4.3</u></b>	<b><u>3.7</u></b>	<b><u>3.8</u></b>	<b><u>5.4</u></b>
<b>Restricted</b>	<b>196.3</b>	<b>191.0</b>	<b>194.1</b>	<b>188.5</b>	<b>258.4</b>

There was a large difference last year between the NASS and industry estimates for the crop, and between the estimates of production and actual production. As a result of this, a stronger effort was made to insure that the estimates were more accurate and based upon better information. Additional crop estimation efforts were used to help get a consensus for the industry.

The CIAB contacted the NASS State Statisticians in each of the producing states to ask them to make

sure to have discussions with industry members in each of the producing states. Mr. Dave Kleweno, State Statistician in MI, followed up with the other State Statisticians to emphasize the importance of these dialogues.

The members and alternates from each district of the CIAB were charged with making a fact based estimate of the crop for their districts by canvassing growers, handlers and other industry members within their districts.

The CIAB undertook to make an estimate based upon the handlers' estimates of what they would handle from the districts. The reports from the handlers were then used to project the crop from the districts.

The estimates of production were very similar to each other. Using the NASS estimate as a base,

the Guesstimate was	+ 2.25%
the CIAB was	+ 1.28%
the Handlers estimate was	- 1.54%

### Will NW MI be restricted?

There is concern and some disagreement about the production of tart cherries in NW MI. Some feel that the production will fall below 65.7 million pounds, the point at which NW MI would not be restricted. Others feel that, while the crop is quite small, it will not get so low as to put the area out of restriction.

The impact of weather events and frosts this spring has been irregular and spotty in Northern MI. Many producers have reported less than 50% of an average crop. The conclusion about whether or not NW MI will be restricted in 2010 seems to go with the perspective a grower has from what he has experienced in his area.

The estimates for NW MI made at the CIAB meeting all indicate that NW MI will be restricted. As a result, growers can earn in-orchard diversion credits in NW MI even if NW MI ends up being unrestricted due to the small crop.

As is the practice of the CIAB, final determination of any district's restriction status is based upon actual production. This will not be available until harvest is done, and the determination of the restricted status will be made at the CIAB's meeting in September.

### RESERVE POSITIONS FROM CROP YEAR 2009

The total reported inventory for the industry is 175 million pounds. Of this total 107 million pounds is

“restricted” and 68 million pounds is “free” and 13.4 million pounds is technically “free”, but is dedicated to use for sales to the USDA.

**The interplay of diversion activity and carry-over**

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 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 2009 as follows:

<b>Restriction</b>		
2009		231.0
Market Growth		<u>(18.0)</u>
		213.0
Diverted at harvest		
In-orchard		(37.2)
At-plant		<u>(8.7)</u>
		(45.9)
Post harvest diversions		
Export		(20.1)
New Mkt, Prod, Expansion		(27.1)
Voluntary destruction		(0.3)
Earned and applied (see below)		<u>(47.5)</u>
2009 Net Restricted and in Reserves		120.0
<b>Inventory Reserves</b>		
<b>Primary</b>		
Begin. of 2009		17.0
Releases		(17.0)
Reserves from prior years		0.0
Reserves from 2009		50.0
Total Primary Reserves		50.0
<b>Secondary</b>		70.0
Total Reserves		120.0

The volume of the market expansion credits is the outcome of a change made to the CIAB’s accounting process for these credits.

Also, handlers had earned 47.5 million pounds of post harvest diversion credits, but by the date of the meeting they had only applied 40.6 million pounds of them against restriction obligations. The CIAB made the determination that the unapplied diversion credits will undoubtedly be used by the end of the crop year, so it made an adjustment to reflect this fact.

**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 2009.

**Sales in 2009 - 10**

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	94
+	Pack	308
-	Total Inventory, End of Year	<u>175</u>
=	Total Sales	<u>227</u>

This volume of sales is very positive. It is 15.3 million pounds, or 7.2%, more than sales in 2008 which were 212 million pounds. Gross sales, all of which generate revenue for the industry, industry are growing year over year. This is great news.

**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	227	
-	Export / other	(20.1)	
-	Market expansion	(27.1)	
-	<u>Voluntary destruction</u>	<u>(0.3)</u>	
	Earned	(47.5)	
	Applied	(47.5)	
	Est. June Diversions	(7.5)	
-	USDA sales, net	<u>(30.9)</u>	
=	“Free” Sales	141	62.2%
	“Restricted” sales	86	37.9%

Included in the calculations of free sales is an entry for estimated June diversions. The CIAB has calculated actual activity through May 31. For 2010 and 2010 alone, an adjustment to this amount of 7.5 million pounds, the average diversion activity for the month of June. In future years the actual diversions during the period June 1 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
2007	184	9	193
2008	157	9	166
2009	<u>141</u>	9	<u>150</u>
3 Yr Average	<u>161</u>		<u>170</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.

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

Shown below is the OSF that resulted from the CIAB’s discussions and actions. The CIAB followed the requirements of the OSF and calculated a preliminary restriction percentage of 40% and “free” percentage of 60%. The effective restriction percentage calculated as 31% and the “free” percentage at 69%.

### OSF Crop Year 2010 - 11 Using the USDA Crop Estimate (1,000,000's of Pounds)

<b>SUPPLY</b>			
	Unrestricted		4
+	Restricted crop		191
+	Carry-in	68.3	
-	USDA pre-sale	(4.0)	
-	USDA Invite 6/10	<u>(13.4)</u>	
			<u>51</u>
	ST:		246
<b>DEMAND</b>	3-Year Avg. Sales	-	<u>170</u>
<b>SURPLUS</b>			76
<b>RESTRICTED and FREE PERCENTAGE</b>			
	<b>GROSS RESTRICTION %</b>		40%
	<b>GROSS FREE %</b>		60%
<b>ADJUSTMENTS to the OSF</b>			
	<b>MARKET GROWTH FACTOR</b>		<u>17</u>
	<b>NET SURPLUS</b>		59
	<b>EFFECTIVE FREE %</b>		69%
	<b>EFFECTIVE RESTRICTED %</b>		31%

### USDA Sales

Note should be taken of the entry for “USDA pre-sale” which offsets the carry-in tonnage in the formula. During 2009 the USDA invited purchases of cherries and some of those are to be delivered in 2010. The adjustment of 4 million for the “USDA pre-sale” was made to the carry-in figure so that the OSF properly reflected these facts.

Also, on June 15, 2010 the USDA announced an invitation for the purchase of dried cherries which will also be delivered in crop year 2010. This announcement altered the nature of some of the handlers’ inventories and moved it from “restricted” to “free”. These inventories are dedicated to the USDA sale, so they, too, require adjustment from the carry-in of cherries into the current year.

### 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 17 million pounds. This release effectively reduces the gross restriction percentage of 31% to the effective restriction of 69%.

### FINAL RESTRICTION TO BE SET IN SEPTEMBER

The percentages set by the board in June are “preliminary”. The board meets again on

September 10, 2010 to review the actual production figures and determine the final percentage regulation.

In crop year 2009 the USDA expressed concern about the restriction percentages, and it thought about returning to the percentages set at the June meeting. After consultation and discussion with the industry about the matter, it kept the final percentages intact. As part of these discussions, the CIAB agreed to set the OSF so that the only variable that will change between June and September is the production number.

The board has made some changes to fulfill this commitment to the USDA. The one time adjustment for "Est. June Diversions" in calculating sales and a board decision to account for 7 million pounds of issued but unallocated diversion credits the two actions taken towards fulfilling this agreement.

Thus, in September the CIAB will adjust the percentages, but it will do so only by inputting the actual production and harvest.

### HANDLING THE RESTRICTION

Each and every handler will deal with the restricted portion of their handle in different ways. Each handler will craft a different approach to dealing with the harvest. This may or may not include orchard diversions.

### 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!

### GROWER IN-ORCHARD DIVERSIONS

The CIAB has been trying to restructure how grower diversions are used by handlers so that they are like handler post-harvest diversion credits. Unfortunately, the CIAB recently received notice from the USDA that the desired change could not be implemented. Therefore, in-orchard diversions will be available to growers this season, and they will continue to be handled as they always have been. We will continue to work to resolve this matter.

### PROMOTION PROGRAM

At the CIAB meeting Mr. Phil Korson presented a review of the cherry promotion campaign, the activities in which it is involved and the successes that have been seen during the year. The results indicate a very successful effort.

This year's "Powered by Red" campaign has garnered 112.7 million traditional media impressions and 6.5 million social media impressions. Ninety percent (90%) of the impressions are benefit specific,

and sixty-five percent (65%) reflect the pain/recovery attributes of tart cherries.

The success of this public relations effort depends upon research about the benefits of tart cherries. Mr. Korson noted research projects at OR Health & Science Univ., AZ State Univ., the Univ. of Pittsburgh, U of MI, and Boston Univ. that are researching various aspect of tart cherries. These projects will lead to further information on which the PR campaign will be premised.

Please visit [www.choosecherries.com](http://www.choosecherries.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.

### 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 16 Proof of Exports and other credits for shipments done June 26 through June 30
- July 5, 12, 19, 26 - Form #1 Weekly Raw Product Report
- Aug. 2, 9, 16, 23, 30 - Form #1 Weekly Raw Product Report
- Sept. 6, 13 - Form #1 Weekly Raw Product Report
- Sept. 10 Form #3 Sales and Inventory Report  
(for July 1 - August 31)
- Sept 10 - 11 CIAB Board Industry Meetings,  
Southwest MI
- Sept 15 Cherries Acquired from Producers (Form 2)  
due to CIAB