

CIAB News

Information from the Cherry Industry Administrative Board

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Increased Sales Volumes in 2010 are Great News!

GREAT SALES SEEN IN CROP YEAR 2010

There was great news about sales revealed at the CIAB's recent June meeting. Gross sales for the industry for the past crop year were 268 million pounds. This is substantially more sales than the industry has had in many years. It exceeds last year's (2009) gross sales of 227 million by 41 million pounds, an 18.3% increase year-over-year.

Most importantly, "free" sales, those that reflect activity in the domestic market, increased by 42.7 million pounds to 184 million from 141 million pounds in 2009. This is a year-over-year increase of 30.3%. Fortunately, sales into the "secondary" markets such as exports, market expansion and USDA, declined only slightly to 84.2 million pounds from 85.9 million pounds. This decline of 1.7 million pounds represents only a 2% decline in these sales.

The reasons for the increase in sales are a combination of factors. During the year the CIAB made some adjustments to the Optimum Supply Formula to reflect yields in 2010 and an increased demand for cherries. This, in effect, made more "free" cherries available to the market which, in turn, increased sales in the "free" category. Handlers also have noted a "pent up" demand for tart cherries. The public relations campaign in which the industry has engaged is getting traction and has contributed to the demand for tart cherries. The improvement in the economy has helped, as well.

Positive outcomes flow from the increase in the sales volumes. Sales, regardless of the market in which they are sold, generate revenue for the industry. Greater sales equate to greater revenue and, in turn, better return to handlers and growers. Sales also mean smaller burdens and costs of inventory to the industry.

Both handlers and marketers are encouraged by the positive report of sales in 2010, and all are working to keep this volume of sales on the upward trend.

Industry Inventories Reduced Significantly

The increased sales activity in 2010 drew down the industry's inventory of tart cherry products substantially. In 2010 the industry sold more than it produced and carried over from the prior year. This permitted the industry to exit crop year 2010 in a much better inventory position than how it entered the year.

Whereas the industry had 175 million pounds of inventory at the end of last year, the inventories owned by handlers at the end of 2010 had been reduced to 92

million pounds. This reduction of 82.3 million pounds, or 47.2%, is a very positive outcome from the 2010 sales.

The inventories on hand at the conclusion of 2010 consisted of primary reserves of 15.7 million pounds, secondary reserves of 19.3 million pounds and "free" inventory of 57 million pounds.

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.

CROP ESTIMATES FOR 2011

Crop size is the starting point for the OSF determination. The crop for 2011 is projected to be larger than 3 and 5 year averages. In fact, given the estimates offered at the meeting, the 2011 could be considered a large crop.

Following the process begun in 2010, the CIAB had four crop estimates to consider. They were from the MFFPA Guesstimate, NASS, the CIAB and from the handlers. These sources reported estimates of:

Crop Estimates and 3 Yr. Average Production

District	Guesstimate	USDA	CIAB	Handlers	3 Yr. Avg.
NW MI	140.0	135.0	117.0	110.4	115.5
WC MI	55.0	55.0	55.0	60.8	56.7
SW MI	20.0	20.0	19.5	16.3	15.6
NY	6.0	6.5	6.0	7.0	9.0
OR	1.8	1.7	1.8	2.1	2.2
PA	2.0	3.2	2.0	2.2	3.2
UT	23.0	24.0	23.0	31.8	28.6
WA	13.5	12.0	14.0	14.1	14.9
WI	8.8	8.7	8.8	7.1	5.6
Total Crop	270.1	266.1	247.1	251.8	251.3
Unrestricted	12.6	13.6	12.6	11.4	11.0
Restricted	257.5	252.5	234.5	240.4	240.3

It must be mentioned at the outset that Wisconsin has fallen into the "unrestricted" district status due to its

production level. According to the terms of the order, when a district falls below the threshold of 6 million pounds of production, on average, it is no longer restricted. WI's production has declined to an average of 5.6 million pounds, so it is now an "unrestricted" district. It will continue like this until its average exceeds 6 million pounds again.

For most of the districts the crop estimates from the MFFPA, NASS and the CIAB were quite similar. However, for NW MI the estimates varied quite a bit. Both the MFFPA guesstimate and the NASS estimate were much larger than the estimate presented by the NW MI representatives at the CIAB meeting. The spread, 23 million and 18 million pounds, respectively, shows a large difference of opinion within the tart cherry community in NW MI.

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 2010 as follows:

Restriction		
2010	70.0	
Market Growth	<u>(17.0)</u>	
		53.0
Diverted at harvest		
In-orchard	(3.5)	
At-plant	<u>(2.7)</u>	
		(6.2)
Post harvest diversions		
Export	(17.2)	
New Mkt, Prod, Expansion	(33.0)	
Voluntary destruction	(0.1)	
Adjustment, June 2010 activity	(7.5)	
Demand Release	(20.0)	
Earned and applied	<u>(77.8)</u>	
2010 Addition (Reduction to Reserves)	(31.0)	
Inventory Reserves		
Primary	15.7	
Secondary	19.3	
Total Reserves		35.0

As has been the case in past years, handlers have earned some post harvest diversion credits that they have

not yet utilized against restriction obligations. It is assumed that the unapplied diversion credits will be used by the end of the crop year, so the postings reflect this assumption.

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" per-centages under the OSF, a number of elements 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 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 2010.

Sales and "Free" sales in 2010/11

As noted at the beginning of this newsletter, the sales for 2010 were very good. Gross sales were 268 million pounds. "Free" sales were 184 million pounds.

Calculating the year's sales figures is a two step process. The first step is to determine 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	175
+ Pack	186
- Total Inventory, End of Year	<u>92</u>
= Total Sales	<u>268</u>

Types of sales - "free" & "restricted"

The majority of this year's sales are "free" sales. The "free" sales of 184 million pounds were 68.6% of the total while the restricted sales of 84 million pounds were 31.3% of the total.

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

Sales	268
Export / other	(17.2)
Market expansion	(33.0)
<u>Voluntary destruction</u>	<u>(0.1)</u>

Earned	(50.3)	
Applied	(50.3)	
June Diversions (6/10)	(7.5)	
- USDA sales, net	<u>(26.4)</u>	
= "Free" Sales	184	68.6%
"Restricted" sales	84	31.3%

Included in the calculations of free sales is an entry for June diversions. The CIAB has calculated actual activity through May 31. According to the reporting process for the CIAB, secondary market sales include the actual diversions during the period June of the prior year (June 2010 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
2008	166	8	174
2009	150	8	158
2010	<u>184</u>	8	<u>192</u>
3 Yr Average	<u>167</u>		<u>175</u>

THE CIAB RECOMMENDS PRELIMINARY PERCENTAGES AS REFLECTED IN THE OSF

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 59% and "free" percentage of 41%. The effective restriction percentage calculated as 40% and the "free" percentage at 60%.

OSF Crop Year 2011 - 12 Using the USDA Crop Estimate (1,000,000's of Pounds)

SUPPLY			
	Unrestricted		14
+	Restricted crop		252
+	Carry-in	57.0	
-	USDA pre-sale	0.0	
			<u>57</u>
	ST:		323
DEMAND	3-Year Avg. Sales	-	<u>175</u>
SURPLUS			148
RESTRICTED and FREE PERCENTAGE			
	GROSS RESTRICTION %		59%
	GROSS FREE %		41%
ADJUSTMENTS to the OSF			
	MARKET GROWTH FACTOR		18
	ADJUSTMENT		<u>30</u>
	NET SURPLUS		100
	EFFECTIVE FREE %		60%
	EFFECTIVE RESTRICTED %		40%

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.

Adjustment to the Preliminary OSF

The CIAB discussed the market needs of the tart cherry industry, how to account for these needs and whether or not to adjust for them in the OSF.

During the discussion it was noted that the CIAB had provided the industry with, in effect, 40 million pounds of "free" cherries in excess of what the OSF in 2010 would have otherwise indicated. These cherries were supplied to the handlers in the form of an adjustment to the OSF in September of 20 million pounds and a demand release later in the Fall of another 20 million pounds. According to the year-end analysis of sales, most of these cherries were, in fact, sold.

Even through it is the preliminary calculation rather than the final OSF determination, it was concluded by the board that an adjustment of 30 million pounds would be made at this time for the market conditions of the industry. This adjustment will provide the handlers with 30 million pounds of free tonnage above what the OSF would otherwise have determined. It was also decided that the matter of the amount of the adjustment would be revisited at the September meeting when more is know about the year's market conditions and sales potential.

FINAL RESTRICTION TO BE SET IN SEPTEMBER

The percentages set by the board in June are “preliminary”. The board meets again on September 15, 2011 to review the actual production figures and determine the final percentage regulation.

BOTTOM LINE CREDITS

In May, when it was thought the industry could have a very large crop, representatives of the CIAB met with USDA representatives to ask them to make Bottom Line In-orchard Diversion Credits available for the current crop year, 2011/12. It was stressed that this would be an important tool for growers to have for this year especially if the crop was large. Besides, given that the testimony on this issue at the amendment hearings was unanimously in support of the concept of Bottom Line Credits, it did not appear that implementing it for the 2011 crop would pose any concerns to the industry.

The industry’s representatives made it known to the USDA that a decision was needed by the June meeting so that everyone knew how the system would work for the season. On Friday, June 17 the industry was informed that the rule for BLC’s would be published the following Monday or Tuesday (June 20 or 21). Unfortunately, the rule was neither published either day nor was it published before the meeting.

It appears that Bottom Line Credits will not be available to the industry this year. It is fortunate that the predicted crop for the year is not as large as was anticipated when we originally made the request to the USDA for BLC’s for 2011.

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!

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 11 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 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 - Form #1 Weekly Raw Product Report
- Sept 15 CIAB Board Industry Meetings, Grand Rapids, MI
- Sept 15 Cherries Acquired from Producers (Form 2) due to CIAB