

CIAB News

Information from the Cherry Industry Administrative Board

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The Crop Is Good and Sales are Strong

THE 2015 SALES SHOWED VERY GOOD AND CONTINUED GROWTH.

The very good news from last year is the continued upward trend in sales. Sales in 2015 were 257 million pounds calculated as follows using the CIAB's formulation:

Inventory Beginning of Year	141.0
Pack	250.0
- Total Inventory, End of Year	<u>134.3</u>
Total Sales 2015	<u>256.7</u>

The sales in 2015 represent a 9.4% increase over the 235 million pounds sold in 2014. 2015 has continued the industry's rebound from the 2012 crop year very nicely.

CROP ESTIMATES FOR 2015 - A LARGE CROP IS ANTICIPATED

This crop year, 2016/17, presents unique factors as does every crop of tart cherries. Mother Nature was kind to most of the production regions this past Winter and Spring. There were no major weather events to shorten the crop throughout most of the producing states.

PA had a very large crop in 2015, and it did not see much of a return bloom in 2016. PA also had some colder weather than impacted what crop there might have been for the year.

The crop for 2016 is estimated to be quite large. Crop estimates for the year were presented at the MFFPA Guesstimate June 22, 2016 and at the CIAB meeting the following day. The numbers and details from these estimates are posted in the table below.

The NASS, USDA estimate is the starting point for discussions in the OSF. The NASS presented its crop estimate for 2016/17 just as it has done throughout. The USDA's estimate of 309.1 million pounds for restricted districts was substantially lower than were the industry's estimates. The The NASS did not provide estimates for OR and PA which were instead provided by the CIAB.

The MFFPA estimated a crop of 351.3 million pounds. The CIAB members' estimates mirrored those from the Guesstimate and also totaled 351.3 million pounds. Given the significant understatement of

production by the USDA, the CIAB elected to use the CIAB estimate in the OSF.

The estimates presented at the meetings were:

Crop Estimates & 3 Yr. Average Production			
District	MFFPA	USDA	CIAB
NW MI	165.0		165.0
WC MI	68.0		68.0
SW MI	<u>20.0</u>		20.0
MI, total	253.0	222.7	253.0
NY	7.0	8.0	7.0
OR	3.0	3.0	3.0
PA	0.3	0.3	0.3
UT	50.0	43.0	50.0
WA	27.0	24.4	27.0
WI	<u>11.0</u>	<u>11.0</u>	<u>11.0</u>
Total Crop	351.3	312.4	351.3
Unrestricted	<u>3.3</u>	<u>3.3</u>	<u>3.3</u>
Restricted	348.0	309.1	348.0

The districts not subject to restriction in 2015 are OR and PA. These two areas are unrestricted due to their small volume of production. There are no other exempt districts in 2016.

If this year's crop picks to estimate, it will be the third largest crop produced during the CIAB years. It would be behind only 2001 (366 million pounds) and 2009 (355 million pounds). If the adage that "big crops get bigger" holds true, this year's crop could become the first or second largest crop.

Harvest Dates

Harvest had already started in OR and WA at the time of the meeting. SW MI should begin in early July. WC MI and NW MI will follow in due course. WI has been a bit cooler and expects its harvest to start later.

CARRY-IN INVENTORIES FROM 2015

Another element in the calculations under the OSF is the amount of inventory carried into the current year from the prior year.

The products held by handlers at the conclusion of May 2016 were:

	Millions	Per cent
Frozen		
General Use	59.0	43.9%
Drying Stock	<u>27.3</u>	<u>20.3%</u>
ST:	86.3	64.3%
Waterpack	1.8	1.3%
Piefill	12.0	8.9%
Puree	0.6	0.4%
Juice	28.1	20.9%
Dried	3.4	2.5%
Other	<u>2.2</u>	<u>1.6%</u>
ST:	48.0	35.7%
Grand Total:	<u>134.3</u>	

This inventory is made up of two parts - the free portion and the restricted portion. The free portion is included in the OSF while the restricted portion remains in the inventory reserves. The break down of the inventory is:

	Pound	Perce
Free	81.3	60.5%
Restricted	<u>53.0</u>	39.5%
Total	<u>134.3</u>	

The total carried over inventory from crop year 2015/16 is lower by 6.8 million pounds than what was held at the end of crop year 2014/15.

The free carry-in inventory in 2016 is about 23 million pounds less this year than it was last year. This is good news since it means that handlers moved considerably more product through the free markets. This reduction of free carry-in has the added benefit of reducing the restrictions for the 2016/17 crop year.

All of the inventory reserves of 53 million pounds is in the primary reserves. There are no secondary inventory reserves.

The primary reserves are only 16 million pounds more than in 2015. Recall, that the restricted production for 2014/15 was 47 million pounds. Handlers used various alternatives to inventory reserves (New products, exports, diversion credits, etc.) to take care of 31 million pounds of the restricted production for 2015/16.

This means that handlers will have 47 million pounds of primary reserves available to them to help deal with this year's production.

THE OPTIMUM SUPPLY FORMULA AND CALCULATION OF RESTRICTION

Putting the items discussed above with other elements of the industry's data allows the CIAB to

review the situation and to determine if a restriction is required under the OSF.

The basic concept of the OSF is to compare the industry's supply against the demand for its products. When the current supply, i.e. the current crop + the carry-in, exceeds the projected demand in the domestic market, a crop restriction is required. When the supply is less than the demand in the "free" market, no restriction is required.

Production in excess of the "free" market volume is "surplus" and is restricted. This production must either be held in reserve inventory or moved through "secondary" markets. Secondary markets include export sales and new market development projects.

For the OSF to be completed, there are a number of items that first must be determined before the percentages can be calculated.

Demand - 3 Year Average of Sales

In the OSF, the supply (carry-over + production) cherries is compared to the "demand" for tart cherries. A part of "demand" is the average of "free" sales over the past three seasons.

"Free" sales are those sales made into the domestic markets. They are the difference between total sales and sales made "secondary" or restricted market outlets. Under the revised calculation process, export sales activities are subtracted from the gross sales to calculate each year's volume of "free" sales.

The average and adjusted free sales, posted in millions of pounds, is:

	Gross	Exports	Free Sales
2013	222	0	222
2014	235	12	223
2015	<u>257</u>	<u>12</u>	<u>245</u>
3 Yr Avg.	<u>238</u>	<u>8</u>	<u>230</u>

It is very important to note that crop year 2012 with its extremely small sales figures is no longer included in the three year average of sales. As a result, the average sales for this year's OSF is substantially larger than it has been in the past three years. This helps lessen any restriction.

Carry-out

Under the "demand" portion of the OSF, a projected carry-out from 2016/17 to 2017/18 is made. The board considered what it felt the appropriate carry-out figure should be. After considering various options, it was concluded that there should be approximately three months (one quarter of a year) worth of inventory available to handlers to fulfill sales in the Summer months before the current crop is ready for market. By dividing the average of sales, 230 million, by 4, the carry-out was set at 57 million pounds.

Sales adjustment for USDA Sales

The industry has contracted with the USDA to deliver forty-two (42) million pounds of tart cherry products through the Needy Family distribution program. These sales come from USDA purchases in 2015/16 all of will be delivered in the 2016/17 crop year.

All of these USDA deliveries are to be satisfied from the free inventory. However, the three year average of sales figure will not provide an adequate quantity to supply these additional deliveries. The CIAB adjusted the demand side of the OSF by twenty-two (22) million to provide for these USDA deliveries.

OSF and Preliminary Restriction Percentage

Shown below is the result of the OSF for the 2016/17 crop year given the estimates made at the meeting.

OSF
Crop Year 2016/17
Using the Crop Forecast
(1,000,000's of Pounds)

Estimated in-orchard diversions		0
SUPPLY		
Restricted	348.0	
+ Unrestricted	<u>3.3</u>	
ST, Processed Prod.:	351.3	
+ Carry-in	81.3	
Orchard Diversions	<u>0.0</u>	
ST, Supply:		432.6
DEMAND		
3-Year Avg. Sales	230.0	
MGF	23.0	
Other factors		
Carry-out, default	57.0	
Carry-out, adjustment	<u>22.0</u>	
		<u>332.0</u>
SURPLUS / (SHORTFALL)		101
RESTRICTED and FREE % and Pounds		
FREE %		71%
Free Pounds		247
Restricted %		29%
Restricted Pounds		101

Bottom Line Credits and Grower diversion

If growers divert in the orchards, these diversions are considered "bottom line" credits for handlers. These types of credits are used pound-for-pound against restriction obligations just like any other handler diversion credits.

If there are in-orchard diversions during the harvest, this amount of production will be included in the OSF in the supply side of the equation. These diversion will increase the restriction percentage due to the way they are included in the supply portion of the OSF.

The CIAB did not project or include an orchard diversion volume into the OSF in its determination in June. It is advised that industry members should keep an eye on the volume of in-orchard diversions noted in the CIAB's weekly harvest reports so that everyone is aware of what is happening with them.

OSF Percentages in 2016/17

Using the crop estimates shared at the meeting, the OSF resulted in a calculated preliminary free percentage of 71% restriction of 29%. As is always the case, the final percentages will be determined in September based on actual production.

The board was operating only with crop estimates. The actual crop will differ from the estimate of production. If the crop picks long, the restriction percentage will increase. If the crop picks short, the restriction will decrease. If the crop is shorter by 101 million pounds, the preliminary restriction will be eliminated.

Handler Responses to the Preliminary Restriction

As noted earlier, this could be the third largest crop during the CIAB. This year's crop is estimated to be approximately 100 million pounds more than last year's crop. This fact will require close consideration by both handlers and growers in how they will deal with the 2016/17 crop.

It will be a challenge for handlers and marketers to move this much more fruit into the market in which they sold 257 million pounds of cherries last year. The industry has had good sales growth the past two years both in volume and percent. If 2016/17 is similar to 2015/16, the industry can look forward to continued growth in sales. The USDA purchases delivered in 2016/17 will be more this year than last year. It is hoped that the export markets will continue at and maybe even increase above their current levels. The New Product New Market outlets is expected to grow, as well.

Growers and handlers should keep in mind this year's crop size and situation in deciding whether or not to divert cherries. As always, growers are urged to consult with their handlers before deciding what they will do with their cherries. The CIAB is, of course, prepared to help with the diversion process if any grower decides to do so.

SOME CHANGES WITH THE IN-ORCHARD DIVERSION PROCESS

The CIAB is well aware of and concerned about the Spotted Wing Drosophila (SWD) and its impact upon growers' cherries. The CIAB sought to bring the in-orchard diversion process into line with the issues stemming from SWD.

The long standing practice under the marketing order has been that any infestation in a grower's in-orchard diverted cherries will serve to deny the grower diversion

credits for that orchard. This zero tolerance rule was based upon the idea that if growers followed the recommended spray programs, they could keep larvae out of their cherries.

SWD has certainly challenged the conventional wisdom about controlling infestation. Growers can be diligent with their spray programs and still suffer an SWD infestation.

In recognition of the problems that could arise with SWD this year and of the difficulties that this could present for in-orchard diversion efforts, the CIAB voted to suspend the zero tolerance provision for infestation for the 2016/17 crop year. (This is a only a one year suspension.) This means that growers will be able to receive diversion credits for their in-orchard diversions even if the CIAB field staff find infestation in the harvested fruit. The USDA is presently reviewing the CIAB's recommendation on this matter.

The CIAB plans to have a committee review and discuss the zero tolerance provision in more detail and to come back with a recommendation for dealing with this issue on a long term basis.

Keep in mind - this suspension is only for infestation. You cherries still need to be "marketable" with respect to other aspects. Thus, you need to maintain your spray programs for these other issues.

DECIDING TO DIVERT IN THE ORCHARD

Growers should be careful in deciding whether or not to divert cherries in the orchard particularly if they have crop insurance. Infestation of the crop is a covered hazard in the crop insurance policy for which payments to growers can be made. (NAP coverage is a different matter since it does not include infestation as a covered risk.)

As was stated at the CIAB meeting, in-orchard diversions and the diversion credits they generate could impact and offset payments growers might otherwise have received under the crop insurance coverage. Growers need to fully understand the impact that in-orchard diversions might have on their possible payments under the crop insurance.

The interaction between orchard diversions and crop insurance is quite technical. If growers have crop insurance coverage, it is highly recommended that you talk with your crop insurance agent prior to doing the in-orchard diversion so that you will be fully aware of how diverting cherries might impact crop insurance payments.

CALENDAR OF EVENTS - JULY TO OCTOBER

- July 5, 11, 18, 25 - Form #1 Weekly Raw Product
- July 11 Form #3 Sales and Inventory Report
(for the period ending June 30)
- July 15 Export and market Expansion Documentation
June 1 through June 30
- Aug. 1, 8, 15, 22, 29 - Form #1 Weekly Raw Product
- Sept. 1 Form 2 Cherries acquired from Producers
- Sept. 8 CIAB meeting, West Central MI
- Oct. 3 Form 4 Handler Reserve Plan and Final Pack
Report
Form 5 A Inventory Reserve Summary
Form 5 B Inventory Locations Report