

CIAB News

Information from the Cherry Industry Administrative Board

Volume 9, Issue 2

September 2005

CIAB Meets and Recommends Final Percentages

The CIAB's September Meeting

The board met in Ludington, MI on September 9, 2005 for its September meeting. Each year at this meeting the board reviews the crop year and the production which it then applies to the Optimum Supply Formula.

Actual Production for Crop Year 2005 - 06

The crop for this season was considerably larger than it has been in the past few seasons. Total production was 267 million pounds. This exceeded both 2004 and 2003 by a large margin. The total production was 101.8% of the four year average production excluding 2002.

Restricted production comprised 99% of the entire crop. Unrestricted production was only 1% of the total.

Although the season was quite dry, the crop in Michigan picked longer than expected. Michigan produced 206.7 million pounds which was 8.8% over estimate and 77% of the total production.

Both Utah and Wisconsin picked above estimate at 144.6% and 113.6% of estimate, respectively. The remaining states, New York, Oregon, Pennsylvania and Washington all picked short of their estimates. Oregon had a very difficult year producing only 310,000 pounds, or 51.7% of the estimate.

The district by district breakdown of actual production and the percents of estimate are as follows:

District	Actual	Est.	% of Estimate
NW MI	127.6	111	114.9%
WC MI	64.2	62	103.5%
SW MI	14.9	17	87.6%
NY	6.4	7.5	84.8%
OR	0.3	0.6	51.7%
PA	2.3	2.7	84.4%
UT	27.5	19	144.6%
WA	16.3	18	90.8%
WI	<u>7.3</u>	<u>6.4</u>	<u>113.6%</u>
Total	<u>267</u>	<u>244</u>	<u>109.3%</u>
Unrestricted	3	3	78.5%
Restricted	264	241	109.8%

The states of Oregon and Pennsylvania are not subject to the restriction percentages. The production from these states totaled 2.6 million pounds and is "free" tonnage. The rest of the production, 264 million pounds, is subject to restriction under the marketing order.

Increase Production Means Increased Restriction

The 23 million pounds of cherries that the industry produced over the estimated production increased the actual surplus. This required an increase to the restriction percentage, as well.

The OSF with Actual Production

The Optimum Supply Formula determines the amount of the current year's production that is "free" and that can be marketed in the domestic markets. Determining this amount and the "free" and "restricted" percentages involves a number of elements.

Demand - 3 Year Average of "Free" sales

In calculating a restriction, if any, under the OSF for a particular season, the production in the restricted districts is compared to the domestic demand for tart cherries. The average of the domestic sales over the past three seasons is used as "demand" in the OSF.

Sales in 2004 - 05

At the June meeting the Board adopted the formulas that defined "free" sales for the OSF. Total sales for crop year 2004 - 05 were 202 million pounds. Of this total, 183 million were sales into the "free" markets.

The following charts show how these figures were calculated.

Total Sales, Crop Year 2004 - 05	
Inventory Beginning of Year	26
+ Pack	208
- Inventory, End of Year	<u>32</u>
= Sales	202

“Free” Sales, Crop Year 2004 - 05		
Sales		202
- Exports		7.6
- Market Expansion		1.9
- <u>USDA sales, net</u>		<u>9.5</u>
= “Free” Sales		183

3 Year Average of “Free” Sales

“Demand” for the OSF is the three year average of “free” sales. The average, in millions of pounds, is calculated as follows:

2002	138
2003	185
2004	<u>183</u>
Average	<u>169</u>

This volume, 169 million, is the average “free” portion of the industry’s total movement.

CIAB Recommends the Final Free and Restricted Percentages

Putting together all of the information considered by the CIAB, the final restriction percentage was calculated and recommended to the Secretary of Agriculture.

The final OSF calculation resulted in a gross free percentage of 52% and a gross restricted percentage of 48%. More importantly, the effective free percent is 64% and the restricted percent is 36% after applying the Market Growth Factor (MGF) and the economic adjustment.

Summary of the final calculation is:

Final Percentages Crop Year 2005 - 06 Using Actual Production <small>(1,000,000's of Pounds)</small>		
Supply	Restricted crop	264
	Unrestricted	3
	+ “Free” Carry-in	29
	ST:	296
Demand	3-Year Avg. Sales	169
Surplus		127
	Gross Restriction	48%
	Market Growth Factor	(17)
	Economic Adjustment	(16)
	Adjusted Surplus	94
	Effective Free %	64%
	Effective Restricted %	36%

Market Growth Factor

As is the case in all years, the Market Growth Factor (MGF) must be factored into the OSF. The MGF allows 10% of the three year average of sales to be considered “free” tonnage. For the current year this calculates to 17 million pounds.

Economic Adjustment

In June 2005 the CIAB determined that an adjustment to the OSF was appropriate. This adjustment was made to more accurately reflect that sales demand for the industry.

The adjustment that was made in June 2005 was for 16 million pounds. This amount represented the average of the demand releases for the prior two seasons. In effect, the adjustment provided enough cherries so that the industry had 185 million pounds of with which to satisfy the “free” market demand.

In effect, the adjustment is the equivalent of a demand release for this year. It was just made a bit earlier in the year than has previously been done.

The CIAB discussed whether the adjustment was large enough. Some suggested a larger adjustment to reflect the carry-out requirements of the industry. It was decided that the adjustment would not be altered. The CIAB will survey the industry’s projected sales activity to determine if a greater adjustment would be appropriate.

Comparison to Preliminary Restriction Figures

Here is the calculation done in June 2005.

Preliminary Percentages Crop Year 2005 - 06 Using Industry Crop Estimates <small>(1,000,000's of Pounds)</small>		
Supply	Restricted crop	241
	Unrestricted	3
	+ “Free” Carry-in	28
	ST:	272
Demand	3-Year Avg. Sales	169
Surplus		103
	Gross Restriction	43%
	Market Growth Factor	(17)
	Economic Adjustment	(16)
	Adjusted Surplus	70
	Effective Free %	71%
	Effective Restricted %	29%

Makeup of the “free” tonnage

The “free” cherries come from a variety of sources. These are:

Element of “Free” Tonnage	
Carry-in	29
Unrestricted Productions	3
Free portion of restricted	137
Market Growth Factor	17
Economic Adjustment	<u>16</u>
Total:	<u>202</u>

Meeting the Restriction Requirements

Handlers have various options with which to deal with the restriction. These include inventory reserves, USDA purchases, market expansion activities, exports and demand releases. Each handler will find the combination that best suits its particular situation.

The volume of export sales is always uncertain at this time of the year. Indications are that the export opportunities may increase from what they have been in the past few years.

Market expansion projects, activities that are designed to expand outlets for tart cherries, should increase. Given the larger crop, there should be more market development projects this year. The board’s action to eliminate volume limitations on market expansion projects will also increase interest in this area. (See discussion later in this newsletter.)

While it is impossible to project exactly how handlers might deal with the restriction, the CIAB did review a possible scenario. The figures were:

Possible Compliance Activities	
Gross restriction	127
Market Growth Factor	(17)
Economic Adjustment	<u>(16)</u>
Net restricted	94
Primary Reserves	(47)
Exports (estimated)	(10)
New Markets	(3)
Diversions	
At-plant	(1)
In-orchard	(1)
	<u>(62)</u>
Amount in excess of known compliance alternatives:	<u>32</u>

It was suggested by some at the meeting that the amount for new markets and for exports may be conservative. It certainly would be great if these amounts are exceeded.

The net amount for which there is no current

compliance coverage, the 32 million pounds just noted, is a key factor for everyone in the industry. If nothing changes between now and the conclusion of the crop year, this amount of fruit would become secondary reserve tonnage. Everyone in the industry will make every attempt to avoid this outcome.

USDA Purchase Request

The industry can seek to reduce the surplus through a purchase of the surplus by the USDA for distribution through the national feeding programs like the school lunch programs. Representatives of the industry are scheduled to meet with the USDA in late September 2005 to make this request and to initiate the purchase process.

Market Expansion Diversion Activities - Lifting the Volume Limits

The marketing order seeks to encourage expansion of markets for tart cherries by allowing handlers to use their restricted tonnage to develop market outlets. Until now there have been volume limits on these activities for individual projects and for the industry as a whole. A single project was limited to 2% of the five (5) year average production, and the industry was limited to ten (10) million pounds in a year.

At the September meeting the CIAB voted to remove these volume limitations on market expansion activities. It was concluded that the volume limits were acted as a disincentive to market expansion activities. Handlers can now undertake these market development projects without concern for the volume caps.

Handlers still must apply for market expansion diversion authority and prove fulfillment of their plans. Once the project is endorsed by the Market Expansion Committee, it continues for three years from the date of first sale.

Also, with removal of the volume limits, the CIAB can issue diversion credits as soon as the completed paperwork is received. Before, the CIAB had to wait until the end of the year to see if the industry cap would be reached

CMI and MCC Promotion Proposal

Representatives of the CMI presented a concept for increased promotional efforts to be undertaken in conjunction with the CIAB. The focus would be on the nutraceutical benefits of tart cherries and conveying this information to the public and to buyers.

The concept was very positively received by the CIAB, there will certainly be further discussions about this idea.

CIAB Members & Alternates who Were Seated on the CIAB

A number of board Members and Alternates' terms began with the September 2005 meeting. They are:

Dist.	Member	Alternate	Group
1	Tom Rochford	Glenn LaCross	Handlers
2	Rich DeRuiter	Roy Hackert	Growers
3	Rodney Winkel	Randy Willmeng	Growers
5	Lee Schrepel	Joe Meduri	All
6	John Lott	William Lower	All
8	Bart Hawkins	Mike Rowley	Grower
9	Jim Seaquist	Dale Seaquist	All

Executive Committee Elected and Seated

The CIAB elected new officers for the current year. They are:

Earl Peterson, WC Michigan, Chairman,
Ray Rowley, Utah, Vice Chairman,
Rich DeRuiter, WC Michigan, Treasurer,
Jim Seaquist, Wisconsin, Secretary, and
Jeff Send, NW Michigan, at-large member.

Calendar of Events - October - December

Oct 1	Assessments due
Nov 1	Grower diversion certificates expire Form 4 due Form 5 A and B due
Nov 28	Exports for July 1 through Sept 30 supporting paperwork due
Dec	Request for release of Market Growth Factor due by the end of the first week of the month
Dec 10	Form #3 Sales and Inventory Report (September through November 30)
Jan 1	Penalty imposed if assessments not received