

CIAB News

Information from the Cherry Industry Administrative Board

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September 2006

CIAB Meets and Recommends Final Percentages

The CIAB's September Meeting

The board met in Traverse City, MI on September 8, 2006 for its Fall 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 2006 - 07

The crop in 2006 totaled 263 million which was 3% larger than estimated in June by the USDA. The following areas picked larger than the June estimate: WC MI, SW MI, OR, PA, UT, and WA. The rest, NW MI, NY and WI all picked short of the estimate

Michigan produced 189 million which was 72% of the total production and 75% of the restricted production. Wisconsin produced 4.3 million pounds which is less than its exemption level. Therefore, the production from Wisconsin is not subject to restriction this year.

Restricted production from the various districts was 251.3 million pounds or 95.4% of the total. Unrestricted production was 12.2 million pounds or 4.6% of the total.

The quality of this year's crop was considerably poorer than was last year's crop. Many processors expressed concern during harvest that the yields for the current year would not be very good. Since handlers do not report their packout figures until November, nature of the yields are not known.

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

District	Actual	Est.	% of Estimate
NW MI	114.2	115.0	99.3%
WC MI	49.2	45.0	109.4%
SW MI	25.7	25.0	102.7%
NY	8.3	9.5	86.8%
OR	3.4	3.0	114.7%
PA	4.5	4.2	106.0%
UT	31.6	28.0	112.9%
WA	22.3	21.5	103.5%
WI	4.3	4.5	95.6%
Total	<u>263.5</u>	<u>255.7</u>	<u>103.1%</u>
Unrestricted	12	7	169.3%
Restricted	251	249	101.1%

Changes in Various Elements Increases Restriction

Various changes from the June preliminary projections caused an increase to the restriction. The restricted production increased. Wisconsin production became unrestricted. The average "free" sales was slightly less than was calculated in June. All of these caused the regulation to increase by 5%.

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 2005 - 06

At the June meeting the Board adopted the formulas that defined "free" sales for the OSF. Total sales for crop year 2005 - 06 were 215 million pounds. Of this total 171 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	29
+ Pack	267
- <u>Inventory, End of Year</u>	<u>81</u>
= Sales	215

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.

Market expansion projects, activities that are designed to expand outlets for tart cherries, were a very significant element of compliance last year. There is every reason to believe that the strength of this category will continue in the current year, as well.

While it is impossible to project exactly how handlers might deal with the restriction, the CIAB did review a possible scenario. Assuming the same volume of diversion activities as last season and not factoring a USDA purchase into the equation, the compliance projections are:

Possible Compliance Activities	
Gross restriction	114
Market Growth Factor	(18)
Economic Adjustment	
Net restricted	96
Primary Reserves	(7)
Exports (estimated)	(13)
New Markets	(16)
Diversions	
At-plant	(5)
In-orchard	(15)
USDA purchase	???
	<u>(55)</u>
Amount in excess of predictable compliance alternatives:	<u>41</u>

The entries for exports and New Markets are projections. It is hoped that more than these volumes will be sold.

The net amount for which there is no current compliance coverage, the 41 million pounds just noted, is important 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 2006 to make this request and to initiate the purchase process.

At the meeting Mr. Jim Jensen, President, CherrCo, Inc., made a presentation regarding the impact of a USDA purchase upon grower returns. He discussed the efforts the industry has made to maintain and increase profit levels over the years. He pointed out the solutions

undertaken by the industry towards this end including (1) adoption of the marketing order with its various tools, (2) implementation of various cost containment efforts, (3) creation of the Research and Promotion Initiative and (4) the formation of various industry-wide partnerships.

From an economic standpoint, it was shown that, for each 5 million pounds of purchases by the USDA, there would a \$0.01 per pound increase to grower returns on all cherries. This equates to approximately a 10% increase to average grower down payments this year.

Research and Promotion Program

The committee working on the implementation of the Research and Promotion Initiative have been working throughout the Summer on the project. Mr. Jeff Manning, formerly with the California Milk Processors Board and creator of the "Got Milk?" promotional campaign, has been hired to consult with the committee.

During the Summer, Mr. Manning conducted research regarding the target audience and positioning for the promotion program. The target audience is consumers over 50 years of age who have an interest in health and wellness and who have begun to experience age related pain either in themselves or in those close to them. While this describes the ideal target, others with similar concerns will also see and hear the message from the industry.

Focus groups done during the Summer showed that these targeted consumers thought very positively about the nutritional benefits of blueberries and cranberries. These products were consistently ranked very high in consumers's minds when considering the health and nutritional attributes of fruit, in general. The recommended positioning for the industry is one that informs the targeted consumer that cherries will deliver health and nutritional benefits equivalent to or greater than those provided by either cranberries or blueberries. This is a "move over" strategy that will place cherries in the minds of consumers together with blueberries and cranberries when they are thinking about the healthy attributes of fruits.

The tag line recommended by Mr. Manning is: "Cherries, not just another berry". The tag line implies superiority, expresses the recommended positioning, and is versatile, memorable and sustainable.

The recommended promotion program is an integrated public relations program. A public relations effort is suggested because it will have a credibility, is very cost efficient and will be effective in creating consumer awareness and influencing their perceptions and behavior.

The next step for the Promotion Committee is to

interview public relations firm and select the one that will implement the campaign. This is expected to occur in early October.

CIAB Members & Alternates who Were Seated on the CIAB

A number of board Members and Alternates' terms began with the September 2006 meeting. They are:

Dist.	Member	Alternate	Group
1 Public	Don Gregory	Jim Nugent Dr. Earl	Growers

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
Dr. Earl Seeley, Public, at-large member.

Calendar of Events: October - January

Oct 2	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