

# CIAB News

Information from the Cherry Industry Administrative Board

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## CIAB Meets and Recommends Final Percentages

### The CIAB's September Meeting

The board met in Washington, D.C. on September 6, 2007 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 2007

The crop in 2007 totaled 248.5 million pounds which was substantially less than was estimated in June. Production was only 81.8% of the estimate.

The only district that picked longer than its estimate was Utah. All other districts and states picked considerably less than had been estimated. SW MI picked so few pounds of cherries, only 8.8 million pounds, that it is exempt from restriction for the year.

Restricted production was 236.2 million pounds of cherries. Unrestricted production, including SW MI, was 12.3 million pounds.

Michigan produced 195.4 million pounds which was 78.6% of the total production. The restricted production from NW and WC MI was 79% of all restricted production.

The quality of this year's crop was excellent. It is anticipated that the yields for this crop will be much better than last year. The CIAB does not receive reports on yields and RPE factors until November 1 so actual yields cannot be reported yet.

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

District	Production (Millions of Pounds)		% of Estimate
	Actual	Est.	
NW MI	134.2	160.0	83.9%
WC MI	52.4	60.0	87.3%
SW MI	8.8	10.0	88.0%
NY	10.2	13.0	78.5%
OR	0.5	0.8	62.5%
PA	3.0	4.3	69.8%
UT	17.6	16.0	110.0%
WA	11.5	18.0	63.9%
WI	<u>10.3</u>	<u>11.7</u>	<u>88.0%</u>
<b>Total</b>	<b><u>248.5</u></b>	<b><u>293.8</u></b>	<b><u>84.6%</u></b>
Unrestricted	12.3	5.1	241.2%
Restricted	236.2	288.7	81.8%

### Changes in Various Elements Decreases Restriction from Estimate

Various changes from the June preliminary projections caused a significant decrease to the restriction percentage. This is true even though the production from SW MI was exempted from the restriction process.

### The Final Percentages under the OSF using 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.

In June the OSF is calculated using the USDA's estimate of production. In September it is done using the actual production. As just noted, production was down considerably from the estimate.

In June the calculation of sales for the OSF is based on handlers' estimates of sales for the month of June. In September the OSF can be calculated using actual sales.

### Demand - 3 Year Average of "Free" sales

To determine the restriction percentage the supply of cherries is compared to the demand for them in the free markets. The average of the domestic sales over the past three seasons is used as "demand" in the OSF.

### Sales in 2006

There is tremendous news about sales for last year. The industry moved 238 million pounds of cherries. This is a 10.5% increase of movement over that of 2005.

There was also significant increases in unit sales of most of the principal products to go along with the increase in the volume sales.

### Unit Sales by Selected Products Percent Change

Item	'06 vs. '05	'06 vs. 3 Yr. Avg.
5+1 & Drying stock	10.1%	18.2%
IQF	26.1%	34.1%
12/2 piefill	10.6%	2.6%
6/10 piefill	19.2%	27.3%
6/10 waterpack	-9.5%	-10.4%

The increase in sales of units is obviously very important since the industry sells units of products not pounds of cherries.

The charts below, stated in millions of pounds, set out the information regarding sales of cherries in crop year 2006-07 and how the figures were calculated.

<b>Total Sales, Crop Year 2006 - 07</b>	
Inventory Beginning of Year	81
+ Pack	242
- <u>Inventory, End of Year</u>	<u>85</u>
= Sales	238

<b>“Free” Sales, Crop Year 2006 - 07</b>	
Sales	238.0
- Exports	12.7
- Market Expansion	32.1
- Charitable & destruction	1.0
- <u>USDA sales, net</u>	<u>24.8</u>
= “Free” Sales	167.4

### 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:

2004	184
2005	171
2006	<u>167</u>
Average	<u><u>174</u></u>

This volume, 174 million, is the average of the “free” portions 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 57% and a gross restricted percentage of 43%. More importantly, the effective free percent is 64% and the effective restricted percent is 36% after applying

the Market Growth Factor (MGF). Summary of the final calculation is:

### Final Percentages, Crop Year 2007 Using Actual Production (Millions of Pounds)

<b>Supply</b>	Restricted crop	236	
	Unrestricted	<u>12</u>	248
	+ “Free” Carry-in	39	
	USDA pre-sale	<u>(12)</u>	
			<u>27</u>
	ST:		275
<b>Demand</b>	3-Year Avg. Sales		<u>(174)</u>
<b>Surplus</b>			101
	<b>Gross Restricted %</b>		43%
	<b>Gross Free %</b>		57%
	<b>Market Growth Factor</b>		17
	<b>Economic Adjustment</b>		0
	<b>Adjusted Surplus</b>		84
	<b>Effective Free %</b>		64%
	<b>Effective Restricted %</b>		36%

The final restricted percentage is 9% less and the final free percentage is 9% greater than what was calculated in June due mostly to the smaller than expected crop. This is true both for the gross and the effective percentages.

### 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.

### Makeup of the “free” tonnage

The total of “free” cherries available to handlers is 191 million pounds which is 110% of the three year demand. The “free” cherries come from a variety of sources. These are:

<b>Element of “Free” Tonnage</b>	
Carry-in	27
Unrestricted Productions	12
Free portion of restricted	135
Market Growth Factor	<u>17</u>
Total:	<u><u>191</u></u>

## Meeting the Restriction Requirements in 2006 and in 2007

### Last year (2006)

Another very significant highlight of last season was how well the handlers dealt with the restricted portion of the crop. This shows that the restriction percentages calculated in the OSF must be viewed in light of the industry's ability to deal with its supply of product.

Last year there were 114 million pounds of restricted cherries with which the handlers had to deal. During the season the industry found outlets for 111 million pounds of those cherries, or 97.6% of them. Of the 114 million pounds that were restricted, only 2.7 million, 2.4% of the surplus, were used to increase the industry's inventory reserve.

This is a very impressive response by the industry, and it shows that the industry should not focus just on the restriction percentage. The restrictions must be viewed in light of the industry's sales and market development efforts.

Here is how the industry responded to last season's restriction:

#### 2006 Compliance Activities (Millions of pounds)

		% of '06 Surplus
Restricted pounds 2006/7	114.0	
Market Growth Factor	(18.0)	-15.8%
Compliance Activities		
Exports	(12.7)	-11.1%
New Markets	(32.1)	-28.2%
Charitable & Other	(1.0)	-0.9%
Diversions @ Harvest	(22.7)	-19.9%
USDA purchase	<u>(24.8)</u>	<u>-21.8%</u>
Total Compliance	(111.3)	-97.6%
Contribution to Inventory Reserves	2.7	2.4%
Reserves, 2005/06	<u>43</u>	
Total Reserves, end of year	<u>46</u>	

As this table demonstrates, handlers have various options with which to deal with the restriction. Each handler found the combination that best suited its particular situation.

A major part of the handlers' compliance efforts were market expansion projects. These are activities designed to expand outlets for tart cherries. At 32.1 million pounds of sales, these market development efforts were the single largest component of compliance activities.

There is every reason to believe that the strength of this category will continue in the current year, as well. Furthermore, this volume was a 113% increase over last year's market expansion activities. This bodes well for the future of cherry sales.

The USDA was an important part of the industry's ability to deal with the surplus of cherries. Their participation was significant and very much appreciated.

### This year (2007)

It is not possible to predict at this time how the industry will respond to this year's volume of restricted cherries. We can make some projections and estimates, however.

It is thought by handlers that the export volume should remain approximately the same level as it has been for the last two seasons.

Market expansion activities are anticipated to be at least equal to, if not greater than, they were in 2006. While a USDA purchase cannot be projected or anticipated, it certainly would be warranted given the industry's surplus position.

Incorporating all of this information allows for an estimation of how the industry might cope with this year's surplus.

#### 2007 Possible Compliance Activities (Millions of pounds)

Gross restriction	101
Market Growth Factor	(17)
Compliance Activities	
Exports (estimated)	(13)
New Markets	(32)
Charitable & Other	(1)
Diversions @ Harvest	(10)
USDA purchase	<u>???</u>
Total Compliance	(73)
Contribution to Inventory Reserves (available)	<u>(4)</u>
Surplus over compliance activities:	<u>24</u>

The entries for exports, new markets and charitable contributions are projections. It is hoped that even more than these estimated volumes can and will be sold.

### 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. It is anticipated that representatives from the industry will discuss this request with the USDA in the near future.

**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  
Don Gregory, NW MI, at-large member.

**Calendar of Events: October - January**

- 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. 4-6 Great Lakes Expo, Grand Rapids, MI
- Dec 10 Form #3 Sales and Inventory Report  
(September through November 30)
- Jan 1 Penalty imposed if assessments not received
- Jan. 15-17 NW MI Orchard & Vineyard Show,  
Grand Traverse Resort, Acme, MI