

# 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 at the SW MI Hort Station in Benton Harbor, MI on September 10, 2010 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 2010

Production in the current crop year was almost the opposite of last year. Last year was a extremely large crop while this year was a very small crop. The crop in 2010 was the 4<sup>th</sup> smallest crop since 1970 and the smallest crop under the current marketing order than the crop failure of 2002. This is consistent with the historical pattern of the variability of the tart cherry crop through history.

The most significant aspect of the harvest this year was NW MI's very small crop. NW MI generally produces almost one-half (½) of the nation's crop and averages 131.4 million pounds of cherries. In 2010 NW MI produced only 65.3 million pounds of cherries which is less than one-half of its five year average.

Under the terms of the marketing order, when a district produces less than one-half of its average production, it is exempt from restriction for the year. While it was anticipated in June that NW MI would be restricted, production from NW MI was moved from the restricted to the unrestricted category.

### Changes in Production Potentially Increase Restriction compared to Estimate

The change of NW MI's production from restricted to unrestricted could have increased the restriction from the June estimate quite significantly. As described later, consideration of the poorer yields from this season's crop offset the change of NW MI from a restricted to an exempt district. The net outcome of these two factors put the percentages quite close to what they had been in June.

### The Final Percentages under the OSF using Actual Production and Actual Sales

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. The CIAB must adjust the OSF to take into account the differences.

### Total and "Free" Sales

Sales is one of the driving factors for the OSF. The charts below, stated in millions of pounds RPE, set out the information regarding sales of cherries in crop year 2009/10 and how the figures were calculated.

**Actual Production - Crop Year 2010/11**  
(1,000,000's of pounds)

Dist.	Processed	Diverted	Total	Est.	% of Est.
NW MI	65.0	0.3	65.3	72.50	90.1%
WC MI	56.2	1.0	57.2	53.00	108.0%
SW MI	10.3	1.6	11.9	14.50	82.0%
NY	7.4	0.1	7.5	6.70	111.6%
OR	1.2	0.0	1.2	2.00	60.0%
PA	2.2	0.0	2.2	2.30	95.7%
UT	22.5	0.3	22.8	24.00	95.1%
WA	15.4	0.0	15.4	16.00	96.3%
WI	<u>5.3</u>	<u>0.2</u>	<u>5.5</u>	<u>4.30</u>	<u>127.9%</u>
<b>Total</b>	<b>185.5</b>	<b>3.6</b>	<b><u>189.0</u></b>	<b><u>195.3</u></b>	<b><u>96.8%</u></b>
Unrestricted	<b>68.4</b>	<b>0.3</b>	<b>68.7</b>	<b>4.3</b>	<b>1597.4 %</b>
Restricted	<b>117</b>	<b>3.3</b>	<b>120</b>	<b>191</b>	<b>63.0%</b>

**Total Sales, Crop Year 2009/10**

	Inventory Beginning of Year	94
+	Pack	308
-	<u>Inventory, End of Year</u>	<u>175</u>
=	Sales	227

In accordance with the new methodology adopted by the CIAB to minimize changes between June and September, the calculation of sales is the same as it was in June.

A portion of the sales in each year are "free" and a portion of them are "restricted". The "free" sales in 2009/10 were 141 million pounds as calculated in the following table.

<b>“Free” Sales, Crop Year 2009/10</b>			
Sales		227	
-	Export / other	(20.1)	
-	Market expansion	(27.1)	
-	<u>Voluntary destruction</u>	<u>(0.3)</u>	
	Earned	(47.5)	
	Applied	(47.5)	
	Est. June Diversions	(7.5)	
-	USDA sales, net	<u>(30.9)</u>	
=	“Free” Sales	141	62.2%
	“Restricted” sales	86	37.8%

**Demand - 3 Year Average of “Free” sales**

In calculating the restriction percentage for the current year, the supply of cherries is compared to the demand for them in the free market. “Demand” for the OSF is the three year average of “free” sales.

The three year average, in millions of pounds, is calculated as follows:

<b>Free sales &amp; Adjustment</b>			
	Actual	Expansion	Adj. Free
2007	184	9	193
2008	157	9	166
2009	<u>141</u>	<u>9</u>	<u>150</u>
Average	161		<u>170</u>

The adjustment of 9 million for “Expansion” is made for the market expansion activities that matured in 2009/10 and that will now have to be supplied from “free” tonnage. This is the third year that this adjustments has been made.

The “Adj. Free” sales volume is 170 million. It is this figure that is used in the OSF for “demand”.

**CIAB Recommends the Final Free and Restricted Percentages**

The CIAB reviewed all of the information just discussed, applied it to the OSF and calculated the final restriction percentage. Without making any adjustments to the OSF or accounting for other factors, the gross restricted percentage would have been 58% and the gross free percent would have been 42%.

During discussion on the OSF, Board members and handlers raised the matter of the yields they experienced this year. Many of the handlers indicated that the yields for this crop were far worse than they had been in past years. Some indicated that their yields were at least 10% worse than usual. Others noted that their yields were even worse than 10%. Board members felt that an adjustment had to be made for the yield factors in implementing the OSF.

**Pounds or Units?**

The OSF is calculated in pounds rather than units. Handlers and marketers sell units rather than pounds. This difference in mind set and methodology can cause some difficulties for the industry.

The major concern about the poorer yields in 2010 was the concern about having enough units of product to sell in the market place. If yields in any given year are worse than before, there will be fewer units to sell for any given pounds of cherries. For example, with 1 million pounds of cherries and a yield for 5+1 (30) that is 10% worse, handlers would have 2,755 fewer units to sell in 2010. (See table, below)

<u>Pounds</u>	<u>RPE</u>	<u>Units</u>
1,000,000	33.0	30,303
	36.3	<u>27,548</u>
Difference in # of units:		<u>2,755</u>

While the example is done for 5+1, the same holds true for all segments and products. The end result is that markets could be shorted significantly if consideration were not given to this fact in determining the OSF.

**OSF Factored for Yields**

The OSF considered and discussed by the board is as follows:

**Final Percentages, Crop Year 2010/11  
Using Actual Production  
(Millions of Pounds)**

<b>Supply</b>	Restricted crop	<b>120</b>
	Unrestricted	<b>69</b>
		<b>189</b>
	+ “Free” Carry-in	<b>68</b>
	USDA activities	<b>(17)</b>
		<b>51</b>
	ST:	<b>240</b>
<b>Demand</b>	3-Year Avg. Sales	<b>170</b>
<b>Surplus</b>		<b>70</b>
	<b>Adjusting Factor</b>	
	Yields for 2010	<b>(20)</b>
	Net surplus	<b>50</b>
	<b>Percentages</b>	
	Gross Restricted %	<b>42%</b>
	Gross Free %	<b>58%</b>
	Market Growth Factor	<b>17</b>
	Economic Adjustment	<b>0</b>
	Adjusted Surplus	<b>33</b>
	Effective Free %	<b>73%</b>
	Effective Restricted %	<b>27%</b>

The CIAB recommended the gross percentages to the Secretary of Agriculture.

### Restriction compliance, Crop Year 2010

It is not possible to accurately predict how handlers will deal with this year's restriction. We can only make some educated predictions about what might happen.

### Export and Market Expansion

It is thought by handlers that the export volume should be similar to past years. Market expansion activities have been a very important method for handlers to deal with restricted cherries. There is every reason to expect that the handlers will continue to use the market expansion process to move as much restricted crop as possible.

### USDA Purchases

USDA purchases have been an important component of the industry sales. However, it is unknown what impact these will have for the industry in the current year.

Industry members and representatives will continue to work with the USDA to secure appropriate sales of tart cherries to the national feeding programs overseen by the USDA.

### Other Board Actions at the Meeting

#### Bottom Line Grower Diversions - In-orchard activity and Tree Pull

The CIAB had sought to provide growers "bottom line" credits for their in-orchard diversions. This would have made grower diversions similar to handler post-harvest diversion activities, and it would have stopped the discounting of orchard diversions that occur under the order. It would also have given growers a stronger incentive to undertake diversion activities during harvest.

After numerous, lengthy discussions with the USDA about orchard diversion credits, the USDA has concluded that the order, as it is currently written, does not allow for bottom line grower diversion credits. The only way for bottom line credits to be allowed is through amendment of the marketing order.

The USDA's decision effects two CIAB proposals. The first is the awarding of grower diversion credits. Growers will continue to earn diversion credits for their in-orchard activity, but they will be treated just as they have been in the past.

The second impact is on the Quality Improvement, aka "tree pull", proposal. Since this proposal was dependent on the idea of bottom line diversion credits, it is no longer viable. The CIAB dropped consideration of this concept because of the USDA's decision.

This is an important matter for growers. In response to the USDA's decision, the CIAB decided to immediately begin an effort to amend the order to allow bottom line credits. The board will expedite this process.

### Seating of New Board Members & Alternates

The following were seated on the CIAB at the September meeting:

Cheryl Kroupa, NW MI, Grower Member  
 Jeff Send, NW MI, Grower Alternate  
 Jon Veliquette, NW MI, Handler Member  
 Tim Brian, NW MI, Handler Alternate  
 Earl Peterson, WC MI, Grower Member  
 Doug Fuehring, WC MI, Grower Alternate

### Election of Officers

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

Tom Facer, NY, Chairman  
 Ron Prentice, NW MI, Vice Chairman  
 Robert McMullin, UT, Treasurer  
 Rich DeRuiter, WC MI, Secretary and  
 Earl Peterson, WC, at-large member

### Appointments to Fill Vacant Seats

There were vacancies on the CIAB which needed to be filled.

Mrs. Lorraine Chase, Chase Farms, Inc., was recommended to serve as the Handler Alternate for WC MI.

Ms. Nikki Rothwell, Director, MSU NWMHRS, Traverse City, MI was recommended to serve as the Alternate public representative.

Their names will be submitted to the Secretary of Agriculture for appointment to the CIAB.

### Promotion Activities

The industry is undertaking its fifth season of promotional activities. Mr. Jeff Manning, Chief Marketing Officer, CMI, and Mr. Michael Wehman, Sr. VP, Weber Shandwick, the agency handling the public relations campaign for the industry, presented to the CIAB both the successes for the past year and the plans and project for the upcoming season.

The program has been very successful in attaining its targets in traditional media impressions, social media impressions and relative standings in internet and website activities.

The upcoming program will continue to focus upon the health benefits of tart cherries and continue the "Power of Red" campaign. It will again use marathons as the avenue for conveying the health benefits messaging for tart cherries. Included in this year's programs will be utilization of the information learned from the Utah block grant program to directly provide information to food ingredient manufacturers to use or increase the use of tart cherries in their products.

**Calendar of Events: October - January**

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|-----------|---|
| Oct 1     | Assessments due   |
| Nov 1     | Grower diversion certificates expire<br>Form 4 due<br>Form 5 A and B due                          |
| Dec 1     | Exports and market expansion activities<br>for July 1 through Sept 30 supporting<br>paperwork due |
| Dec       | Request for release of Market Growth<br>Factor due by the end of the first week<br>of the month   |
| Dec 7-9   | Great Lakes Expo, Grand Rapids, MI  |
| Dec 10    | Form #3 Sales and Inventory Report<br>(July through November 30)                                  |
| Jan 1     | Penalty imposed if assessments not<br>received  |
| Jan 19-20 | NW MI Orchard & Vineyard Show,<br>Grand Traverse Resort, Acme, MI                                 |