

CIAB News

Information from the Cherry Industry Administrative Board

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September 2012

CIAB Meets and Recommends Final Percentages

The CIAB's September Meeting

The board met by means of a telephone conference call on September 13, 2012 for its Fall meeting. The board meets each Fall to review the crop year and to finalize restrictions, if any, based on the actual crop.

The CIAB is meeting by telephone conference calls this year to help reduce the cost of operations for the order. Given the small crop and the reduced revenue this means, it is necessary to save funds wherever possible.

Actual Production for Crop Year 2012

It is well known that the crop 2012/13 was far too small for everyone. It was, however, larger than estimated by approximately 20%. Total production throughout the country was 86.4 million pounds versus the estimate of 70 million pounds.

The Western and Eastern districts did not suffer the same difficulties during March and April that were seen in the Midwestern districts. These districts produced normal, if not larger than normal, crops.

The Midwestern districts had such small production that they would have been unrestricted under any circumstances. However, since the overall production was so small, all districts ended up being free of any restriction for the year.

The table below sets out the production by district.

Actual Production - Crop Year 2012/13
(1,000,000's of pounds)

Dist.	Processed	Diverted	Total	Est.	% of Est.
NW MI	2.48	0.0	2.48	2.0	124.0%
WC MI	7.78	0.0	7.78	3.0	259.3%
SW MI	1.22	0.0	1.22	0.5	244.0%
NY	2.12	0.0	2.12	0.5	424.0%
OR	1.49	0.0	1.49	2.5	59.6%
PA	3.15	0.0	3.15	3.0	105.0%
UT	39.92	0.0	39.92	32.0	124.8%
WA	24.80	0.0	24.80	26.0	95.4%
WI	<u>1.62</u>	<u>0.0</u>	<u>1.62</u>	<u>0.5</u>	<u>324.0%</u>
Total	84.6	0.0	<u>84.6</u>	<u>70.0</u>	<u>120.8%</u>

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 estimate of production. In September the OSF is calculated using the actual production. The CIAB must adjust the OSF to take into account the differences.

At its June telephone conference call CIAB projected that there would be no restriction on the 2012/13 harvest. Nonetheless, it was still necessary to go through the analysis with respect to the final regulation of the crop.

Total and "Free" Sales

As was set out after the June CIAB meeting, sales for the industry in 2011 were very good. Gross sales were 264 million pounds which is only 3.8 million pounds or 1.4% less than sales in 2010. More importantly, however, the "free" sales were 213 million pounds which is 29 million pounds or 15.7% greater than in 2010.

The charts below, stated in millions of pounds RPE, set out the information regarding sales of cherries in crop year 2011/12 and how the figures were calculated.

Total Sales, Crop Year 2011/12

Inventory Beginning of Year	92
+ Pack	228
- <u>Inventory, End of Year</u>	<u>56</u>
= Sales	264

In accordance with the practices adopted by the CIAB to minimize changes between calculating restrictions at the June and September meetings, the calculation of sales is the same as it was in June.

The “free” sales in 2011/12 were 213 million pounds as calculated in the following table.

“Free” Sales, Crop Year 2011/12		
Sales		264
- Export / other	(14.0)	
- Market expansion	(25.0)	
- <u>Voluntary destruction</u>	<u>0.0</u>	
Earned	(39.0)	
Applied	(39.0)	
June Diversions (2010)	(12.5)	
- USDA sales, net	<u>0.0</u>	
= “Free” Sales		213
“Restricted” sales		51

Demand - 3 Year Average of “Free” sales

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

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

Free Sales & Adjustment			
(1,000,000's)			
	Free Sales	Expansion	Adj. Free
2009	150	6	156
2010	193	6	199
2011	<u>213</u>	<u>6</u>	<u>219</u>
Average	185		<u>191</u>

The adjustment of 6 million for “Expansion” is made for the market expansion activities that matured in 2011/12. These sales will now be supplied from “free” tonnage.

Please recall that the CIAB has changed its methodology regarding market expansion activities for future years. Newly created market diversion activities will earn credits for only one year. Older market diversion activities will continue to earn diversion credits for three years from their start dates.

The “Adj. Free” sales volume for this year is 191 million pounds. It is this figure that is used in the OSF as the calculated “demand”.

CIAB Recommends the Final Free and Restricted Percentages

The CIAB reviewed all of the information just discussed, applied it to the OSF, calculated the final restriction percentage and made its recommendation to the Secretary of Agriculture. The CIAB has both the right and responsibility to consider various economic factors when discussing the OSF and making recommendations to the Secretary of Agriculture about restriction. The

CIAB did just that in making its recommendation to the Secretary.

OSF with Actual Production

Given the very light crop for the year and the larger demand for the year, the CIAB calculated that there would be no restriction for the current year. This is the recommendation it forwarded to the Secretary for the current crop year.

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

Final Percentages, Crop Year 2012/13 Using Actual Production (Millions of Pounds)

Supply	Restricted crop	0
	Unrestricted	<u>85</u>
		85
+	“Free” Carry-in	56
	USDA activities	<u>0</u>
		56
	ST:	141
Demand	3-Year Avg. Sales	<u>191</u>
Surplus		0
Percentages		
	Gross Restricted %	0%
	Gross Free %	100%
Market Growth Factor		0
Economic Adjustment		N/A
Adjusted Surplus		N/A
Effective Free %		100%
Effective Restricted %		0%

The long and short of the review and analysis done by the board for the OSF is that is that all cherries produced in 2012/13 are “free” cherries.

Impact of the short crop on the industry

The tart cherry industry has been experiencing good growth in its markets over the last few years. This has been an extremely positive thing for the industry. Fortunately, this year’s short crop will have an impact upon sales for the industry.

As we all saw following 2002, the markets and the buyers adjust their purchasing activities to the shorter crop. It took the industry some time to recapture market opportunities after 2002. The same is likely to happen after 2012.

Fortunately, the industry has a strong promotional program in place. Our recent increase in sales can be attributed, in part, to this promotional program. The program was not in place after 2002, but it is in place now.

The public relations campaign will continue at a somewhat reduced scale in 2012/13. It will be geared up

again prior to and in anticipation of the 2013/14 harvest. This together with aggressive marketing by handlers and their sales organizations, will help the industry recapture market opportunities and regain sales claims as quickly as possible.

Other Board Actions at the Meeting

Election of Officers

The CIAB elected the following to serve on the executive committee for the next year:

Tom facer, Chairman
 Jim Nugent, Vice Chairman
 Rich DeRuiter, Secretary
 Ray Rowley, Treasurer
 Kevin Dorsing, At-Large member

Consideration of the 2012 crop in various elements of the order

The CIAB discussed the consequence the small 2012 crop will have on various elements of the order in the following years.

Average Sales The OSF uses a three year average of sales for determining demand. We know, by definition, that the industry cannot sell more than 140 million pounds of cherries in the 2012/13 year. This is the sum of the carry-in of 56 million pounds and the production of 84.6 million pounds. (This assumes that handlers sell everything they have and carry nothing from 2012/13 into 2013/14.) Using 140 million pounds in the calculation of average sales would reduce the 3 average for the 2013/14 OSF.

Following the 2002 crop failure, the CIAB eventually determined that it was inappropriate to use 2002 as part of the 3 year sales average because of the fact that it improperly increased restriction in the following years. This precedent will probably hold when the CIAB reviews the OSF in 2013.

Restricted Districts The production figures for the Midwestern district for 2012/13 are abnormally low. The use of the 2012/13 production figures in determining the various districts' restriction status will definitely impact whether or not districts are subject to restriction in 2013/14 and what districts bear the brunt of any restriction for that year.

The question becomes: if the demand portion of the 2012/13 crop year is not considered in the OSF, should the supply portion of the year be handled in the same manner?

CIAB will have to review this question very carefully to make sure that the interests of everyone are properly addressed without adversely impacting some and benefitting others.

Referendum Votes The marketing order will be up

for referendum vote in 2014. Traditionally the USDA has used the "last completed crop year" in determining who has the right to vote in the referendum and how much tonnage they get to use for their vote. USDA interprets "last completed crop year" to be the crop year that is completely done and for which there is no more activity. Under this interpretation, "the last completed crop year" for the referendum would be the 2012/13 crop year.

Using the 2012/13 crop year as the basis for the referendum vote presents major concerns for the industry. Producers and handlers in the Midwest would have virtually no say with respect to the marketing order, and the producers and handlers in the far West would have a disproportionately large say on this topic.

The CIAB raised this concern during the meeting, but it certainly did not resolve it. The CIAB will work with the USDA to try to find the best resolution how to incorporate the 2012 crop year into the elements of the supply formulation and of the referendum voting process.

Seating of New Board Members & Alternates

The following were seated on the CIAB at the September meeting in accordance with the secretary's selection order:

Jim Nugent, NW MI, Grower Member
 Calvin Lutz II, NW MI, Grower Alternate

Rich DeRuiter, WC MI, Handler Member

Steve Packer, SW MI, Handler Alternate

Thad Rowley, UT, Handler Member
 Kenyon Farley, UT, Handler Alternate

Allyn Anthony, Public Member

For vacancies on the CIAB that needed to be filled, the CIAB recommended to the Secretary that the following changes be made:

Steve Packer, SW MI, be named to fill the vacancy for the Handler Member for the district

Ms. Danielle Brian, SW MI, be named to fill the seat of Handler Alternate for the district

Mr. Bryan DeRuiter, WC MI, be named as Handler Alternate for the district.

Promotion Activities

Mr. Michael Wehman, Sr. VP, Weber Shandwick, the agency handling the public relations campaign for the industry, presented to the CIAB the revised promotional program for the current crop year and for the upcoming year.

The public relations campaign for the current year has already achieved the targeted number of impressions even though the fiscal realities resulting from the crop loss have trimmed the PR budget. So far there have been 324 million impressions generated with a PR campaign. This is a 129% of the intended number of impressions for the year. This has been accomplished at a rate of \$2.85 per thousand impressions (caps on CPM). The comparative industry-standard cost for such activities is between \$8 and \$10 per thousand impressions. Needless to say, Weber Shandwick is operating very cost efficiently on behalf of the tart cherry industry.

Mr. Wehman also noted that the industry is maintaining a lead in the print and broadcast media rankings compared to other commodities with which industry competes. With respect to the social media aspects, the tart cherry industry is holding its own quite nicely.

The upcoming year's promotion program will continue to focus on the health benefits of tart cherries. It will utilize the scientific studies being conducted at various institutions as the foci around which to build the PR program. The program will

concentrate on consumer PR and social media efforts throughout the year. As the industry moves into the 2013/14 crop year, the promotion program will again gear up to its full potential.

Calendar of Events: September through January 2013

Oct 1	Assessments due
Nov 1	Form 4 due
Dec 3-5	WA State Hort. Assoc. annual meeting, Yakima, WA
Dec 4-6	Great Lakes Expo, Grand Rapids, MI
Dec 10	Form #3 Sales and Inventory Report (July through November 30)
Jan 1	Penalty imposed if assessments not received 2013
Jan 21-22	NW MI Orchard & Vineyard Show, Grand Traverse Resort, Acme, MI
Jan 22-24	Empire St. Producers Expo, Syracuse, NY
Jan 24-25	OR State Hort. Society annual meeting, Portland, OR
Jan 28-30	UT Horticultural Meetings, Location TBD
Jan 29-31	OR Hort. Society Meeting, Portland, OR Mid-Atlantic Fruit & Vegetable Convention, Hershey, PA

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