

CIAB News

Information from the Cherry Industry Administrative Board

Volume 18, Issue 1

September 2014

CIAB Meets and Recommends Final Percentages

The CIAB's September Meeting

The board met in Pasco, WA on September 11, 2014 for its Fall meeting at which it reviewed the crop and reconsidered the OSF in light of actual production.

Actual Production for Crop Year 2014

The 2014 crop turned out to be the fourth (4th) largest crop produced during the years of the current order. The total cherries produced was 297.7 million pounds. The volumes by districts are listed in the table below.

The quality of the cherries was generally excellent throughout the United States. Many observed during harvest that the cherries were as good as they had ever seen. Unfortunately, SW MI experienced some harsh weather during harvest and quality suffered. However, many of the cherries hurt by the storm were used in the juice market.

By contrast, the harvest conditions in other areas of the Mid-west were quite good. The temperatures were a bit lower than typical and the cherries held up nicely throughout most of the harvest period.

The table below sets out the production by district.

Actual Production - Crop Year 2013/14
(1,000,000's of pounds)

Dist.	Processed	Diverted	Total	Est.	% of Est.
NW MI	137.6		137.6	118.0	116.6%
WC MI	44.4		44.4	44.5	99.9%
SW MI	18.6		18.6	19.0	97.9%
NY	9.0		9.0	6.0	150.0%
OR	2.1		2.1	3.0	70.0%
PA	0.5		0.5	0.9	55.6%
UT	49.6	0.2	49.8	36.0	138.3%
WA	24.3		24.3	26.0	93.5%
WI	<u>11.4</u>		<u>11.4</u>	<u>11.0</u>	<u>103.6%</u>
Total	297.5	0.2	<u>297.7</u>	<u>264.4</u>	<u>112.6%</u>
"Free"	2.6		2.6	3.9	66.4%
Restricted	294.9	0.2	295.1	260.5	113.3%

The restricted and non-restricted districts were more like the norm. The states of OR and PA are not subject to restriction based upon their average production scheme. All other districts were in the "restricted" category.

Percentages under the OSF based upon 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. To determine the percent that is "free" compared to that which is restricted, a number of factors are considered.

Production

In June of each year the OSF is calculated using the estimate of production. In September the OSF is reviewed and recalculated using the year's actual production. The CIAB adjusts the OSF to take into account the differences between the two.

At its June meeting the CIAB used the USDA's estimate of production of 264.4 million pounds in the OSF. As the previous chart shows, actual production exceeded the estimate by 34 million pounds.

In those situations where the crop picks long, especially when it picks long in restricted districts, the OSF calculations will change. Increased production means that there will be a larger surplus of cherries and more cherries held in inventory reserves to help offset crop failures or shortfalls.

Sales - Total, "Free" Sales and Average

The industry made a great recovery in 2013 from the crop failure of 2012. There were 222 million pounds of free sales recorded in 2013/14. The industry did not quite reach its targeted sales volume of 250 million pounds of free, but the sales response was vastly better than it was following the crop failure of 2002. The handling of the OSF in 2013 played a part in assisting with this sales response.

Please recall that at the June meeting the CIAB made some decisions that were intended to again assist the industry in its efforts to recover sales lost to the crop failure in 2012. As it had done in 2013, the CIAB set a target for free sales at 250 million pounds. This was the volume of free sales seen prior to 2012. By doing this, the CIAB set the course to have adequate free tonnage to make more sales if possible.

The next components that are critical to the OSF relate to sales of tart cherries. The elements in the sales category that are each important are the total and "free" sales from the crop year that just ended and the three year average of sales for the industry.

As was discussed in the June newsletter, sales for the industry in 2012 were understandably small due to

the extremely small crop. Also, given the crop failure of 2012 and the release of all cherries into the open market, all sales in 2012/13 were “free”.

The charts below, stated in millions of pounds RPE, calculate sales of cherries in crop year 2013/14 were:

Total Sales, Crop Year 2013/14		
	Inventory Beginning of Year	17
+	Pack	286
-	<u>Inventory, End of Year</u>	<u>81</u>
=	Sales	222

In accordance with the practices adopted by the CIAB to minimize changes between calculating restrictions at the June and September meetings, the volume of sales used in the OSF in September is the same as the amount used in June. That is to say, sales were 222 million pounds.

Demand - 3 Year Average of “Free” sales

Calculating “demand” requires that the CIAB look at the last three years of “free” sales.

The average free sales posted in millions of pounds is calculated as follows:

	3 Year Sales		
	Gross	Exports	Free Sales
2011	264	14	250
2012	123	0	123
2013	<u>222</u>	<u>0</u>	<u>222</u>
3 Yr Avg.	203	5	198

As noted earlier, the CIAB was concerned with the industry’s ability to recapture sales lost from the 2012 crop failure. “Free” sales in 2010 and 2011 averaged about 250 million pounds. The CIAB concluded that it was important for the marketers to have enough “free” cherries to at least meet the “free” sales seen prior to the crop failure.

To encourage increased free sales, at the June meeting the CIAB adjusted and increased the 3 year average of free sales by 52 million pounds in order to target a free sales volume of 250 million. This had the effect of increasing the demand side of the OSF and reducing the amount of restriction calculated in the OSF.

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.

OSF with Actual Production

Given the large crop and the adjusted demand for the year, the application of the OSF to the harvest information showed that there was a calculated restriction for 2013/14.

Actual production exceeded the estimate of production by 34 million pounds. By definition this requires adjustment to the OSF as it was viewed in June. The calculation from the OSF based on actual production was as follows:

OSF Crop Year 2014 - 15 With Actual Production (1,000,000's of Pounds)

Estimated in-orchard diversions		0.20
SUPPLY		
	Restricted	294.9
+	Unrestricted	<u>2.6</u>
	ST, Processed Prod.:	297.5
+	Carry-in	81.1
	Orchard Diversions	<u>0.20</u>
	ST, Supply:	378.8
DEMAND	3-Year Avg. Sales	198.0
	MGF	20.0
	Adj. to sales	52.0
	Other factors	
	Carry-out	20.0
	Carry-out adjustment	<u>30.0</u>
		<u>320.0</u>
SURPLUS / (SHORTFALL)		59
RESTRICTED and FREE % and Pounds		
	FREE %	80%
	Free Pounds	236
	RESTRICTED %	20%
	Restricted Pounds	59

The following table compares the preliminary to the final OSF.

Crop Year 2013/14 Comparison of Preliminary OSF and Actual OSF				
		Preliminary	Difference	Actual
SUPPLY				
	Restricted	260.5	34.4	294.9
+	Unrestricted	<u>3.9</u>	(1.3)	<u>2.6</u>
	ST, Processed Prod.:	264.4	33.1	297.5
+	Carry-in	81.1	0.0	81.1
	Orchard Diversions	<u>0.0</u>	<u>0.2</u>	<u>0.2</u>
	ST, Supply:	345.5	33.3	378.8
DEMAND				
	3-Year Avg. Sales	198	0	198
	MGF	20	0	20
	Adj. to sales	52	0	52
	Other factors		0	0
	Carry-out	20	0	20
	Other	30	0	30
	ST, Demand	<u>320</u>	<u>0</u>	<u>320</u>
SURPLUS / (SHORTFALL)		26	33	59
RESTRICTED and FREE % and Pounds				
	FREE %	90%	-10%	80%
	Free Pounds	236	0	236
	RESTRICTED %	10%	10%	20%
	Restricted Pounds	26	34	59

Cherries for the free market and reserves

The OSF determination provides an abundance of free cherries for the market place. As seen above, the OSF provides 236 million pounds of cherries from the 2014 crop to help satisfy demand. When added to the carry-in (81.1 million) and the unrestricted production (2.6 million), there are 320 million pounds of tart cherries to satisfy the targeted sales to 250 million pounds. Sales at 250 million pounds would leave 70 million pounds of tart cherries at the conclusion of the year.

As everyone in the industry is well aware especially following 2012, there can be significant fluctuation in the industry's production. Inventory reserves are an important offset against shortfalls in production. Under this year's formulation, 59 million pounds will be committed to inventory reserves to assist the industry should 2015 prove to be too short for demand.

CIAB recommends restriction for 2013/14

In accordance with the suggestion of the OSF, consideration of various factors that apply to the industry for 2014/15 and the discussion of the members at the meeting, the CIAB recommended to the Secretary that the restriction be set at 20%. This allows for the creation of the inventory reserves for future crop

shortfalls.

This restriction percent should be viewed in the context of the changes that have been made to the OSF since 2005. The CIAB reviewed the OSF as it was applied prior to the adjustments that have been made since 2002. The restriction would have been fifty-four percent (54%) under the OSF as it was constructed prior to 2005.

Restricted Districts

OR and PA are the only two districts not subject to the restriction process. All others will be subject to it.

Other Actions or Items from the Meeting

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:

Glenn Lacross, Handler Mem., NW MI
 Eric MacLeod, Handler Alt., NW MI
 David Hackert, Handler Mem., WC MI
 Roy Hackert, Handler Alt., WC MI
 Jay Jollay, Grower Mem., SW MI
 Kurt Dowd, Grower Alt., SW MI

Lee Schrepel, At-large Mem. OR
 Joe Meduri, At-large Alt., OR
 John Lott, At-large Mem, PA
 Leonard Tate, At-large, Alt., PA
 Ray Rowley, Grower Mem., UT
 Robert McMullin, Grower Alt., UT
 Michael Rowley, Grower Mem., WA
 Bart Hawkins, Grower Alt., WA

Election of Officers

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

Ray Rowley	Chairman
Jim Nugent	Vice Chairman
Rich DeRuiter	Secretary
Jim Seaquist	Treasurer
Jay Jollay	At-Large member

Review of Items

The CIAB asked that a committee review the New Product / New Market diversion process and bring recommendations about it to the board. It also asked for an analysis of the uses to which imported cherry products are put.

Calendar of Events: October through January 2015

Oct. 1	Assessments due Form 4 & Forms 5A and B due
Dec. 1	Exports and market expansion activities for July 1 through Sept. 30 supporting paperwork due
Dec. 7-9	WA State Hort. Assoc. Annual meeting, Yakima, WA
Dec. 9-11	Great Lakes Expo, Grand Rapids, MI
Dec. 10	Form #3 Sales and Inventory Report (July Through November 30)
Jan. 1	Penalties for late payment of assessments
Jan. 13-14	NW MI Orchard & Vineyard Show, Grand Traverse Resort, Acme, MI
Jan. 20-22	Empire St. Producers Expo, Syracuse, NY
Jan. 21-23	UT Horticultural Meetings, UT
Jan. 27-29	Mid-Atlantic Fruit & Vegetable Convention, Hershey PA