
CIAB News

Information from the Cherry Industry Administrative Board

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Economic Analysis Affirms Contribution of the CIAB

Economic Analysis of the Impacts of the Marketing Orders

The Marketing Orders Have Increased Grower Returns

The federal marketing orders, both the CIAB and the prior order, the Cherry Administrative Board, (CAB), have done precisely what they were designed to do. They have increased grower returns above what would have been paid without the orders.

Dr. Jerry White, Professor Emeritus, Dept. Of Applied Economics and Management, Cornell University was asked by the CIAB to prepare an analysis of the impact of the marketing orders on grower returns.

Dr. White and Kevin Kesecker, Senior Economist, AMS, USDA, to review and analyze relevant and available data about grower returns both when there were marketing orders and when there were not marketing orders. Dr. White presented the results of the study at the Farm and Orchard Show in Grand Rapids, MI.

In short, the analysis showed that the marketing orders have:

1. increased grower returns by \$211.80 per acre and
2. placing of cherries into the reserve increases grower returns by \$3.99 per acre for each million pounds of fruit placed into the reserves.

Strength of the Report's Conclusions

The economic analysis done by Dr. White and Mr. Kesecker uses econometric modeling to draw these conclusions.

The models that they prepared explain the outcome very well. In the case of the return per acre, the model explains the outcome with 93% accuracy. In the case of the impact of the reserves, the model explains the results with 86% accuracy. A result over 80% is considered high and indicate a good fit between the equation and the results.

Benefits stated in "real" dollars

The benefits are stated in "real" dollars rather than in nominal dollars. (Nominal dollars are the dollar values for

any year.) The nominal prices were all adjusted to a common period, 1990 - 1992, in order to be able to compare the prices and return per acre across the many years of the analysis.

Demand Enhancement

One of the very significant observations made in the report is per capita consumption of cherries has declined since 1972. This means that the demand for tart cherries is not keeping up with population growth in the United States.

In the report Dr. White emphasizes the need for and importance of increasing the demand for tart cherries. He recommends that the tart cherry industry continue to pursue market opportunities for tart cherries.

The tart cherry industry is well underway with its demand enhancement programs. The Promotion Initiative began the increased promotion program for the industry. Last year saw the initial effort of the enhanced promotion program. In this program the CIAB and the CMI are jointly funding and working together on this effort.

The promotion program is accomplishing two important things. It is advancing the nutritional value and benefit of tart cherries. As importantly, it is seeking to reposition tart cherries from the perception of a dessert item to being viewed as a healthy food source with various nutraceutical attributes.

The market expansion program under the CIAB is another avenue for increasing demand for tart cherries. This program allows handlers to use restricted products to develop market opportunities for tart cherries. It compliments the promotion program quite well.

In crop year 2005 15 million pounds of restricted cherries were moved through this outlet. In crop year 2006 32 million pounds of restricted cherries were moved through this outlet.

Download the report

The economic report is very interesting and important to all who are in the cherry industry. The Executive Summary of the economic analysis is set out on pages 3 and 4 of this newsletter.

If you would like to read the full report, you can download it from the CIAB's website at www.cherryboard.org.

You will also find on the website and download an analysis prepared by Mr. Kesecker comparing the cherry, blueberry and cranberry industries.

Additional Aspects of the CIAB

The economic analysis undertaken by Dr. White and Mr. Kesecker reviewed the dollar impact of the order and both the restriction process and the reserve contributions. Other elements of the marketing order are also very important.

The order has provided much better industry information with respect to production, pack and sales. There is no other source for this information anywhere in the industry.

The CIAB has helped develop and fund the industry's promotional program.

The CIAB's market expansion program has encouraged processors to create market outlets for cherries.

The CIAB has developed a strong relationship with the USDA and to expand sales of tart cherries to the national feeding programs.

Referendum on the CIAB

The USDA requires that there be a referendum on the marketing every 6 years. This gives growers and handlers the opportunity to periodically reaffirm their intent to have the order operating within the industry.

The next referendum will be held in March 2008. Ballots will be sent to all growers and handlers who then vote on whether or not to continue the order.

The ballots will be mailed to you in March 2008. Your cooperation in returning them promptly will be greatly appreciated.

Sales of Tart Cherries - Crop Year 2006

There is good news about industry sales. The industry continues to rebound and to grow sales. While the economic analysis indicates that per capita consumption has declined over the past few decades, there is very positive news about industry sales.

In crop year 2006/7 sales were 238 million pounds and were up 10.5% year over year.

Unit sales of various products were also up year over year. CIAB figures showed unit sales as follows:

Item	Units	Percent	
		vs. '05	vs. 3 Yr. Avg.
5+1 and drying	3,872,702	10.1%	18.2%
IQF 40	866,459	26.1%	34.1%
Piefill			
12/2	3,499,708	10.6%	2.6%
6/10	276,689	19.2%	27.3%

USDA Purchase Request

The industry is in a surplus position this year. In October representatives of the industry met with the USDA to discuss this situation and to request that the USDA purchase cherries for distribution through the national feeding programs.

It was the feeling of those who visited with the USDA that the request was positively received. However, as is the case in any year when a request for a USDA purchase is made, it will take some time for the USDA to analyze the request and to make a purchase.

Amendments to the Order

A number of amendments to the order were presented by the CIAB to the Secretary of Agriculture, hearings were held and testimony was taken on them. Briefs on the changes were also submitted to the Secretary after the hearings were completed.

The amendment matters are still being reviewed and considered by the Secretary. The next step in the process is for the Secretary to issue his Recommended Decision which will state the USDA's position on the proposed amendments. The industry will then be permitted to make comments upon the Recommended Decision after which the final decision will be posted and an industry vote taken on the proposed amendments.

Calendar of Events:

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
Feb 19	Tart Cherry Symposium III sponsored by Cherrco, Inc., Amway Grand Plaza, Grand Rapids, MI
Feb 20	CIAB Meeting, Amway Grand Plaza, Grand Rapids, MI
March 10	Form #3 Sales and Inventory Report (December through February 29)
Mid-March	Referendum on the marketing order
April 15	Grower Diversion Application & maps due

Executive Summary
Economic Analysis of the Tart Cherry Federal Marketing Orders

By
Gerald B. White^e
Kevin Kesecker

Introduction

In March 2008, the Tart Cherry Federal Marketing Order is scheduled for a referendum to authorize continuing operations. The purpose of this study is to examine and analyze historical data from the last 35 years (1972-2006) and to answer the following question: Is the tart cherry industry better off operating pursuant to the marketing order, as measured by the farm gate value of tart cherries at the grower level, than it would be operating without the Order?

Industry Overview

We reviewed farm level statistics and trends for three periods of the last 35 years ending in 2006:

- 1972-1986, the years of operation of the first FMO, administered by the Cherry Administration Board (CAB) ;
- 1987-1996, a period in which no FMO was in operation, and
- 1997-2006, the years of operation of the current FMO, administered by the Cherry Industry Administrative Board (CIAB).

Some statistical highlights and comparisons of key economic indicators are shown below in Table 1.

The statistics in Table 1 indicate that these key economic indicators during the first marketing order were higher for each variable than for the years 1987-1996 when the FMO was not in operation. Furthermore, when prices are converted to real value by the Prices Received by Farmers, Fruit and Nuts Index, the real values for price, value of production, and value of production per acre, are higher in the years of the second FMO than for the period when no FMO was in effect. Also, average nominal values of the three variables are higher for 1997 through 2006 period compared to the period of no marketing order. Real values for the three estimates are, however, lower in the 1997-2006 period than for the years of the first FMO.

*The authors are, respectively, Professor Emeritus, Department of Applied Economics and Management, Cornell University, Ithaca NY 14853-7801 and Senior Economist, Fruit and Vegetable Programs, Agricultural Marketing Service, USDA. Additional support was provided by Curtis Rowley, Grower, Cherry Hill Farms, Inc., Santaquin, UT 84655; and James R. Jensen, President, CherrCo, Inc., Ludington, MI 49431-0689.

Table 1. Tart Cherry Farm Level Prices, Value of Production, and Value of Production Per Acre, three periods, 1972-2006

Variable (units)	Time Period	Mean value
U.S. Price (processed, cents per pound)	1972-1986	26.2
	1987-1996	16.9
	1997-2006	24.5
Value of U.S. Production (million dollars)	1972-1986	51.1
	1987-1996	42.3
	1997-2006	55.1
Value of U. S. Production per acre (dollars)	1972-1986	1,222
	1987-1996	888
	1997-2006	1,450
Real U.S. Price (processed, cents per pound)*	1972-1986	40.5
	1987-1996	16.7
	1997-2006	21.4
Real Value of U. S. Production (million dollars)*	1972-1986	79.3
	1987-1996	42.1
	1997-2006	47.8
Real Value of U.S. Production per acre (dollars)*	1972-1986	1,901
	1987-1996	882
	1997-2006	1,252
*Nominal prices adjusted for inflation by Prices Received by Farmers, Fruit and Nuts Index, 1990-92=100		

Summary of Findings

Over the 35-year period of 1972-2006 we believe that the tart cherry industry was better off operating pursuant to the marketing order, as measured by the farm gate value of tart cherries at the grower level, than it would have been if operating without the Order.

We conclude that both FMO's had a positive impact on the value of production as measured by the real value of production per acre. These conclusions were drawn from econometric models developed to analyze the tart cherry industry over the years.

Results in the first model indicated that the existence of the marketing order is associated with a \$211.80 increase in the real value of production per acre. This indicates that the marketing order increased real total value per acre by about 24 percent annually.

Results in the second model indicated that for each million pounds of cherries added to the reserve pool there is an increase in the real value of production per acre by \$3.99. Economic theory suggests that a FMO with a similar approach to management of reserves will continue to provide returns in the future that are greater than what the industry returns would be without the FMO.

Our analysis suggested that there has been a reduction in the demand for tart cherries. Continued promotional efforts are necessary by the industry to grow the dried cherry and juice category market and to stop the erosion in the market of the staple products, canned and frozen.

References

White, G. B. and K. Kesecker, Economic Analysis of the Tart Cherry Federal Marketing Orders, Cherry Industry Administrative Board web site, <http://www.cherryboard.org>.

National Agricultural Statistics Service (NASS), USDA, Various Statistical Bulletins.