

CIAB News

Information from the Cherry Industry Administrative Board

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Sales in 2013 Very Good. The Crop Should be Good, too.

THE CONTINUED RESURGENCE OF CHERRIES IN 2013

The brightest news from last year is the tremendous rebound for the industry in sales of cherry products for the year compared to last year.

There were many reasons for the positive sales growth. The good crop in 2013 gave marketers high quality product to sell. The CIAB's recommendation to not impose restriction and to make all cherries "free" helped push sales. The strength of the industry's promotional efforts provided the opportunity to push sales and to recapture business.

Sales in 2013 were 222 million pounds calculated as follows using the CIAB's formulation:

Inventory Beginning of Year	17
Pack	286
- Total Inventory, End of Year	<u>81</u>
Total Sales	<u>222</u>

You will undoubtedly recall that sales in 2012 fell to 123 million pounds due to the crop disaster from 2012. Thus, the sales in 2013 increased by 99 million pound, or 180% compared to 2012. Following the crop failure of 2002 the sales volumes did not exceed 220 million until 2006, four seasons later.

This growth in sales was tremendous news and a great effort by the marketers. It should be viewed in the context of and in comparison to the sales responses following the last crop failure, crop year 2002. In 2002 the industry had sales of 161 million pounds. In 2003 the industry rebounded with sales of 206 million pounds. This was a growth in sales of 45 million pounds or 128% of the prior year.

The two years cannot be compared directly because of differences in pack, carry-over and other factors. Nonetheless, the sales response in 2013 was extremely good news for the industry.

CROP ESTIMATES FOR 2014 - A GOOD CROP IS ANTICIPATED

The crop for 2014 is estimated to be somewhat larger than average for the United States.

Crop estimates for 2013 were presented at the MFFPA Guesstimate and at the CIAB meeting the

following day. The results of those estimates are posted in the table below.

Please recall that the NASS, USDA estimate is the default estimate to use for the OSF, and it is the starting point for any discussion of crop size. The NASS did present a crop estimate for 2014 as it has done in many years in the past. The funding limitations the NASS faced in 2013 were resolved so they prepared and presented a crop estimate this season.

As you will see in the table below, the crop estimates were all quite close to each other. The NASS estimate was for 264.4 million pounds while the MFFPA was 271 million pounds and the CIAB members' estimates totaled 258 million pounds. Given how close these estimate were to each other, the CIAB elected to use the default USDA estimate in the OSF.

The estimates were:

Crop Estimates and 3 Yr. Average Production

District	MFFPA	USDA	CIAB	3 Yr. Avg. '11-'13
NW MI	125.0	118.0	115.0	72.6
WC MI	44.0	44.5	44.0	38.8
SW MI	22.0	19.0	21.0	15.5
NY	8.5	6.0	8.5	6.5
OR	2.0	3.0	2.5	2.8
PA	1.0	0.9	0.1	2.8
UT	35.0	36.0	35.0	33.8
WA	19.0	26.0	22.0	21.2
WI	9.5	<u>11.0</u>	<u>10.0</u>	<u>6.4</u>
Total Crop	266.0	264.4	258.1	200.4
Unrestricted	<u>3.0</u>	<u>3.9</u>	<u>2.6</u>	<u>5.6</u>
Restricted	263.0	260.5	255.5	194.8

The districts not subject to restriction in 2014 are OR and PA. These are unrestricted due to their small volume of production. There are no other exempt districts in 2014.

Harvest Dates

From the information shared at the Guesstimate and the CIAB meeting, harvest is likely to start in the West in early July. SW MI should begin around July 7. WC MI indicated likely start around July 15 and NW MI a bit later than that.

This is a different harvest sequence than is typically seen.

There have been some significant weather and storm events in MI since the CIAB meeting that might impact the size and quality of their harvest.

CARRY-OVER INVENTORIES FROM 2013

The sales volume for that past year and the crop estimate for the upcoming season are two of the three elements that must be determined before looking to the OSF for the year. The third item is the amount of inventory carried into the current year from the prior year.

The products held by handlers at the conclusion of May 2013 were:

	Millions	Per
Frozen		
General Use	29.7	36.6%
Drying Stock	<u>26.7</u>	32.9%
ST:	56.4	69.5%
Waterpack	1.7	2.1%
Piefill	6.3	7.8%
Puree	0.4	0.5%
Juice	11.7	14.4%
Dried	1.6	2.0%
Other	<u>2.9</u>	<u>3.6%</u>
ST:	24.6	30.3%
Grand Total:	<u>81.1</u>	

Since there was no restriction in 2013, all of this inventory is considered “free” inventory. It is available for marketers to sell in whatever markets they choose.

The free inventory carried into 2013 reflects the facts that handlers are more vertically integrated than they used to be and that the industry is marketing more products than before. For example, dried cherries, drying stock and juice, primarily concentrated cherry juice, are in the mix in today’s sales portfolios in considerable quantity. Given this broader scope of products to sell, the carry-over inventory is larger.

Some members of the CIAB were somewhat surprised that there was as much carry-over as there was, while others were less surprised by this fact.

THE OPTIMUM SUPPLY FORMULA AND CALCULATION OF RESTRICTION

Putting the items discussed above with other elements of the industry’s data allows the CIAB to review the situation and to determine if a restriction is likely under the OSF.

Before reviewing the OSF with all of the numbers, please recall that the process of calculating restriction is a bit different than it was in the earlier years of the order. The CIAB made adjustments to how items are handled under the OSF, and the industry amended the order with respect to grower diversions, aka “bottom line credits”. These changes require that the CIAB look at the restriction process somewhat differently than before.

The basic premise of the OSF remains the same. That is to say, when the current crop exceeds the projected demand in the domestic market, also known as the “free”

market, a crop restriction is required. If the supply is less than the demand in the “free” market, no restriction is required. It is how we define the elements in the equation that are a bit different.

OPTIMUM SUPPLY FORMULA

The underlying idea of the Optimum Supply Formula (OSF) is to properly supply the U.S. domestic market, the “free” market. Production in excess of the “free” market volume is “restricted” and must either be held in reserve inventory or sold into “secondary” markets. Secondary markets include export sales and new market development projects.

To calculate the “free” and “restricted” percentages under the OSF, a number of elements must be calculated.

Demand - 3 Year Average

In the OSF the supply (carry-over + production) cherries is compared to the demand for tart cherries. “Demand” is defined as the average of “free” sales over the past three seasons.

“Free” sales are those sales made into the domestic markets. They are the difference between total sales and sales through “secondary” or restricted market outlets. Previously total sales were adjusted by the volume of all diversion credit activities. Under the revised calculation process, export sales activities are subtracted from the gross sales to calculate the volume of “free” sales.

The revised calculation method results in an increase in the volume of “free” sales in any given season. The average of “free” market also increases as a result of this reformulation. In turn, restriction in any given year will be lower than it otherwise would have been since the average “free” demand is greater.

The average and adjusted free sales, posted in millions of pounds, is:

	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.	<u>203</u>	<u>5</u>	198
Adjustment to promote sales			<u>52</u>
Adjusted Demand for OSF			250

As was the case in 2013, The CIAB was concerned with the industry’s need and opportunity to recapture sales lost from the 2012 crop failure. The sales in 2013 of 222 million pounds of total sales were an extremely positive outcome of the efforts to regain the pre-2012 sales volumes. However, these sales did not reach the intended goal of around 266 million pounds of gross sales and/or 250 million pounds of free sales that the industry had experienced prior to the 2012 crop failure.

To push sales even farther and similar to what it did in 2013, the CIAB adjusted the 3 year average of free sales by 52 million pounds in the OSF for 2014. This adjustment increased calculated “demand” in the OSF and, thereby, decreased the degree of calculated restriction.

Preliminary Restriction Percentage

Shown below is the result of the OSF for the 2013 given the crop estimates made at the meeting.

OSF
Crop Year 2014/15
Using the USDA Crop Forecast
(1,000,000's of Pounds)

Estimated in-orchard diversions		0
SUPPLY		
	Restricted	261.8
+	Unrestricted	<u>2.6</u>
	ST, Processed Prod.:	264.4
+	Carry-in	81.1
	Orchard Diversions	<u>0.0</u>
	ST, Supply:	345.5
DEMAND		
	3-Year Avg. Sales	- 52.0
	MGF	5.0
	Adj. to sales	198.
	Other factors	
	Carry-out	20.0
	Carry-out adjustment	<u>30.0</u>
		305.0
SURPLUS / (SHORTFALL)		41
RESTRICTED and FREE % and Pounds		
	FREE %	85%
	Free Pounds	223
	Restricted %	15%
	Restricted Pounds	41

Carry-over and adjustment of it

In the OSF shown above there is a “Carry-out adjustment” of 30 million pounds. This adjustment plus the default of 20 million pounds for the target carry-out results in a total planned carry-out of 50 million pounds of inventory from 2014/15 into next year, 2015/16.

The larger the planned carry-out from one year to the next, the smaller will be the restriction on the current year. Thus, the 30 million pound adjustment to carry-out reduced the projected restriction for the year.

There was considerable discussion about whether an adjustment to the carry-out in the OSF was appropriate and, if so, what was the correct number to use in this adjustment. Some argued that the current year’s carry-over of 81 million pounds indicated that a carry-out adjustment was not appropriate or needed. Others argued that breadth and scope of the industry’s products and sales required that there be considerably more carry-out than 20 million pounds of tart cherries to service the sales requirements of the industry during the first few months of the following crop year.

In the end, the CIAB concluded that the appropriate carry-out for the industry’s needs was 50 million pounds of tart cherries. It then made the adjustment of 30 million pounds of tart cherries as part of the recommended carry-out to achieve this figure.

Restriction in 2014

Using the crop estimates shared at the meeting, the application of the OSF resulted in a calculated preliminary restriction of 10%.. As is always the case, the final restriction determination will be done in September and will be based on actual production.

As is always the case with the preliminary percentage calculation, things will change between now and September. If the crop picks long of the estimate, the restriction percentage will increase. On the other hand, if the crop picks short of the estimate, the restriction will get decrease. If the crop is shorter by 26 million pounds, the preliminary restriction will be eliminated.

The CIAB’s determination under the OSF preserves harvest time options for growers and handlers. Growers will be able to do in-orchard diversions and earn diversion credits. Similarly, handlers will be able to undertake at-plant diversions during the harvest and earn diversion credits for them, as well.

Growers and handlers should keep in mind this year’s crop size and situation in deciding whether or not to divert cherries. First, the projected crop is not terribly large so handlers may be interested in taking the cherries that are available, if possible. Second, diversion credits are valid only if there is a final restriction determination under the OSF as determined in September.

If there is no final restriction under the OSF in September, handlers will not need diversion credits. If, as happened in 2013, there is only a minimal or “de minimus” restriction under the OSF, the CIAB could recommend to the Secretary that no restriction be imposed for 2014. Either of these outcomes will render meaningless any diversion credits issued during harvest period.

Please make any orchard diversion decisions carefully. Growers are urged to consult with their handlers before deciding to divert their fruit in the orchards. The CIAB is, of course, prepared to help with the diversion process if any grower decides to do so.

BOTTOM LINE CREDITS

If growers do have orchard diversion, remember that they will be “bottom line” diversion credits for handlers. They are handled just like handler diversion credits and are used by handlers pound-for-pound against restriction obligations.

PROMOTION ACTIVITIES

The promotion of tart cherries under both the CIAB's and the CMI's programs has been a very important element in recapturing sales opportunities for the industry. While the projects were held back somewhat in 2012 due to reduced funding and lesser amounts of product to sell, they came back quickly and strongly in 2013. They will be equally vigorous in 2014.

At the June meeting Mr. Michael Wehman, Vice President, Weber Shandwick, shared with the CIAB and those present at the meeting the tactics, strategies and results for the programs. The programs focus upon sleep, taste and recovery and how tart cherries fit into these elements. The programs use both a consumer public relations outreach and a business-to-business effort. Of particular interest were his observations that the programs to date had obtained 262 million impressions which is 70% of the target for the plan year which ends in September.

There have been 2,816 media placements from the programs' efforts. The messages in these placements mentioned sleep in 61% of them, antioxidants or anthocyanins in 72% of them, pain and/or recovery in 39% of them and product forms in 49% of them.

CALENDAR OF EVENTS - JULY TO SEPTEMBER

- July 10 Form #3 Sales and Inventory Report
(for the period ending June 30)
- July 7, 14, 21, 28 - Form #1 Weekly Raw Product
- Aug. 4, 11, 18, 25 - Form #1 Weekly Raw Product
- Sept. 2 Form 2 Cherries acquired from Producers
- Sept. 11 CIAB meeting, Pasco, WA
- Oct. 1 Form 4 Handler Reserve Plan and Final Pack Report
- Form 5 A Inventory Reserve Summary
- Form 5 B Inventory Locations Report

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