

CIAB News

Information from the Cherry Industry Administrative Board

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June 2006

CIAB Convenes to Determine Preliminary Percentages

THE CIAB'S JUNE MEETING

Each year the CIAB meets in June to review the crop estimates, discuss the market situations and determine whether or not a restriction for the current crop is required.

Under the terms of the Optimum Supply Formula (OSF), when the current crop exceeds the demand in the domestic market, also known as the "free" market, a crop restriction is required. On the other hand, if the supply is less than the demand in the "free" market, no restriction is required.

A number of items must be considered in completing the analysis.

CROP ESTIMATES FOR 2006

Crop size is the starting point for the OSF determination. The crop for 2006/7 is projected a bit smaller than last year. The MFFPA crop estimate projected the crop at 246 million pounds. The USDA projected the crop size at 256 million pounds. Last year's national crop was 267 million pounds.

The Michigan Field Office of the National Agricultural Statistics Service (NASS) estimated Michigan's total tart cherry production at 185 million pounds. The projection was made using a subjective survey process of growers and processors. The breakdown of Michigan's production for the districts was done by the CIAB.

Crop Estimates and Average Production

District	Guess- timate	USDA	3 Yr. Avg.
NW MI	110.0	115.0	103.9
WC MI	43.0	45.0	45.5
SW MI	24.0	25.0	19.0
NY	9.0	9.5	7.9
OR	4.0	3.0	1.8
PA	3.0	4.2	3.0
UT	26.0	28.0	24.7
WA	23.0	21.5	17.9
WI	<u>4.0</u>	<u>4.5</u>	<u>9.0</u>
Total Crop	246.0	256.0	233.0
Unrestricted	<u>11.0</u>	<u>7.2</u>	<u>4.8</u>
Restricted	235.0	249.0	228.0

It was reported that New York's production this year will be the largest crop since New York had its devastating ice storm a few years ago. This year should show the production capacity of New York cherry growers.

On the other hand, Wisconsin anticipates a very small crop. They had extremely poor pollinating weather and very cold temperatures during bloom. Both the Guesstimate figure and the NASS estimate place the production around 4 million pounds.

Under the rules of the order, a district is exempt from restriction for any season where its production falls below one-half (1/2) of its 5 year average. Wisconsin will be exempt this year if its production falls below 4.4 million pounds.

RESERVE POSITIONS FROM CROP YEAR 2005

There was great concern that handlers might have been faced with secondary reserves coming out of 2005. Fortunately, it appears that this will not happen. Handlers managed to deal with the restricted fruit in ways that will likely keep them from exceeding the Primary Reserve limit of 50 million pounds.

Handlers dealt with the restriction as follows:

Restriction		
2005	111	
2004 carried into 2005	3	
Market Growth	<u>(17)</u>	97
Diverted at harvest	4.0	
USDA sales	22.0	
Post harvest diversions		
Export	11.2	
New Mkt, Prod, Expansion	11.5	
Voluntary destruction	<u>0.1</u>	
		49
Reserves		
Primary		48
Secondary		0

It is great news that handlers are not in the secondary reserves. Just a few weeks ago it appeared that some handlers might find themselves in the secondary reserves. However, in the past few weeks handlers earned enough diversion credits to take them out of secondary reserves. Furthermore, handlers can continue to earn diversion credits in June and make even more primary reserve capacity available for 2006.

OPTIMUM SUPPLY FORMULA

The underlying concept of the Optimum Supply Formula (OSF) is to properly supply the U.S. domestic market. (This is called 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, new market development projects or sales to the USDA for school lunch and national feeding programs.

To be able to calculate the “free” and “restricted” percentages under the OSF, a number of components in the OSF must be calculated.

Demand - 3 Year Average

To determine the current season’s restriction, if any, the supply of cherries is compared to the calculated demand for tart cherries in the “free” market, the US domestic market. The average of such sales over the past three seasons is defined as “demand” for the OSF.

To determine the 3 year average of sales the CIAB must first calculate both the total and the “free” sales for last season.

Sales in 2005 - 06

To determine sales for last year the CIAB must make two calculations. The first is determining the total sales for the year. The second calculation determines what part of the total was in “free” outlets and what part was in secondary outlets.

The CIAB formula to calculate total sales, stated in millions of pounds, is:

	Inventory Beginning of Year	29
+	Pack	267
-	<u>Total Inventory, End of Year</u>	<u>(80)</u>
=	Total Sales	<u>216</u>

This volume of sales is very encouraging for the industry to see. It is more than a 7% gain over sales from last year. These gains were seen mostly in market expansion activities, exports and sales to the USDA for the national feeding programs.

The ending year inventory is comprised of two types of inventory. It has “free” tonnage carried from last year to this year. It also has inventory reserve tonnage that is being carried over. Of the 80 million pounds of inventory held by handlers at the end of the season, 32 million pounds is “free” inventory and 48 is “restricted” inventory.

Types of sales - “free” & “restricted”

The majority of this year’s sales are “free” sales.

The breakdown, in millions of pounds, is as follows:

	Sales	216.0	
-	Export / other	(11.2)	
-	Market expansion, etc.	(11.5)	
-	USDA sales, net	<u>(15.0)</u>	
			<u>(37.7)</u>
=	“Free” Sales	178	82.4
	“Restricted” sales	38	17.6

Handler estimates of Sales

It is important to remember that the preliminary percentages are based on handlers’ estimates of sales activity for the month of June. In July handlers report their actual sales.

The use of estimates for the month of June is needed in order to determine sales for the preliminary restriction calculation. A review of handlers’ estimated sales compared to their actual sales shows that the handlers are quite good at estimating sales. However, there will undoubtedly be some change to the sales figures.

Three Year Average of Sales

Calculating “demand” for the OSF requires that the CIAB look at the last three years of “free” sales. The average, in millions of pounds, is calculated as follows:

2003	185
2004	184
2005	<u>178</u>
3 Yr Average	<u>182</u>

THE CIAB RECOMMENDS PRELIMINARY PERCENTAGES

After reviewing the information regarding the estimated crop size and the average demand, the CIAB then considered how to proceed with the OSF.

CIAB Recommends a Preliminary Restricted Percentage as calculated under the OSF

Shown below is the OSF that resulted from the CIAB’s discussions and actions. After factoring in the Market Growth Factor and adjusting the carry-in for USDA sales, the OSF recommended a preliminary restriction percentage of 40% gross and 33% effective. The preliminary “free” percentages were 60% gross and 67% effective.

OSF
Crop Year 2006 - 07
Using Industry Crop Estimates
 (1,000,000's of Pounds)

SUPPLY			
	Unrestricted		7
+	Restricted crop		249
+	Carry-in	32	
-	USDA pre-sale	<u>(7)</u>	<u>25</u>
	ST:		281
DEMAND	3-Year Avg. Sales	-	<u>182</u>
SURPLUS			
99			
GROSS RESTRICTION %		40%	
MARKET GROWTH FACTOR			<u>(18)</u>
ADJUSTED SURPLUS			81
EFFECTIVE FREE %		67%	
EFFECTIVE RESTRICTED %		33%	

Note should be taken of the entry for "USDA pre-sale" which offsets the carry-in tonnage in the formula. During 2005, 22 million pounds of products were released from the restricted category to the "free" category for USDA purchases. Some of these sales, 7 million pounds worth, will not be shipped until after July 1, 2006. In other words, they will be reflected as movement in the next crop year. The adjustment of the "USDA pre-sale" was made to the carry-in figure so that the OSF properly reflected these facts.

Preliminary Free Pounds for 2006

For the current crop year the industry will have 206 million pounds of "free" product available for sale. The sources for this are:

Carry-over	32
Unrestricted districts	7
"Free" portion of restricted	149
Market Growth Factor	<u>18</u>
Total:	<u>206</u>

With this amount of fruit handlers and marketers will be able to cover the "free" sales. The additional pounds can be used to develop additional sales and/or provide free carry-in for next season.

FINAL REGULATIONS SET IN SEPTEMBER

The percentages set by the board in June are "preliminary". The board will meet on September 8, 2006 to review the actual production figures and determine the final percentage regulation.

HANDLING THE RESTRICTION

Each and every handler will deal with the restricted portion of their handle in different ways. There are some general observations and projections that can be made, however.

The major difference between this season and last season is the fact that the Primary Reserve was almost empty last year while it is almost full this season. Therefore, this year handlers must deal with the restriction without having much primary reserve available to them.

Handlers will have to look for other outlets such as market expansion and/or exports to deal with restriction this year. If handlers do the same post harvest diversion activities next year as they did this year, the situation would be as follows:

Restriction	99
Compliance Activities, assumed	
Market Growth	18
Exports, estimate	11.2
Market expansion, estimate	11.5
USDA purchases	<u>22</u>
ST:	<u>63</u>
Balance of restricted crop:	36
Utilization of balance	
Primary Reserves	2
Restricted production for in-orchard, at-plant or secondary reserves	34

This chart is for comparative purposes only. It is impossible to predict how much of each type of these outlets will be used by handlers next season. This is why it is so very important for each grower to talk with his or her handler to learn how that handler will deal with the restriction.

MARKET EXPANSION EFFORTS

The industry should be excited about the market expansion activities that are developing for tart cherries.

As has been set out earlier in the newsletter, new market expansion credits have increased to 11.5 million pounds. Ten handlers received market development diversion credits this season. These activities will continue and will, no doubt, expand next year, as well.

Previously these types of credits have not exceeded 7.5 million pounds in any year.

PROMOTION PROGRAM ADVANCING

The promotion program created through the Tart Cherry Research and Promotion Initiative is moving forward as planned. Mr. Don Gregory, Chairman, reported to the Board that the committee had met a number of times to develop a framework and a plan for the program.

All who serve on the committee have worked hard and are committed to the success of the program. The work has been successful to date, and it will continue for the next few months with these intensive developmental efforts.

Mr. Jeff Manning has been hired to consult with the committee in developing its program. Mr. Manning was CEO of the California Milk Processors Board and developed the wildly successful "Got Milk" promotion campaign for the California milk industry. This program was very successful in arresting the decline in milk consumption and in reinvigorating milk sales. Mr. Manning also has experience as an advertising executive and has worked extensively with agriculturally related organizations.

Mr. Manning will be immersing himself in tart cherry industry information over the next few weeks while all of you are in the midst of harvest. He will undertake some background research and reviews to develop a baseline of information for the program. The committee plans to meet with Mr. Manning later in the Summer to work on the details of the program.

Mr. Gregory also indicated that the tart cherry industry in Canada elected to join in the promotional campaign. They will assess themselves \$0.01 per pound to contribute to the promotional efforts.

OTHER CIAB ACTIONS AT THE MEETING

The Board enacted provisions to treat all post harvest diversion credits in the same manner. Market expansion credits and export credits can be earned through the end of the year (June 30), and the credits can be used through July 31 to offset restriction obligations from the previous years. After July 31 the CIAB will calculate each handler's primary and/or restricted reserve positions.

PLEASE TALK WITH YOUR PROCESSORS

It is very important that growers and handlers discuss the terms under which restricted production is being delivered and processed. Have the discussions as soon as possible rather than later!

CIAB MEMBERS & ALTERNATES WHOSE TERMS ENDED WITH THE JUNE 2006 MEETING

June is the final meeting for the crop year. Those leaving the CIAB are:

Mr. Jeff Send, District 1 (MI) will no longer serve on the CIAB.

Mr. Stuart Whittaker, District 1 (NW MI) will no longer serve on the board.

Everyone in the industry extends their thanks to Mr. Send and Mr. Whittaker for their commitment and

service to the industry.

WEEKLY RAW PRODUCT REPORTS DUE

The Weekly Raw Product Report (Form 1) is due from processors by the close of business each Monday during harvest. The information is then tabulated and distributed to the industry via the website and a postcard mailing.

"WWW.CHERRYBOARD.ORG"

As a reminder, the CIAB website is a very useful tool during harvest. Upon entering the internet address "www.cherryboard.org", a user will come to the home page which lists all of the information on the site. Simply click on a heading and you will go to the information page.

The weekly raw product report will be updated every Tuesday.

There is also a calendar of meetings and due dates for the various CIAB forms to be filed.

Please visit our site for up-to-date information on the most recent CIAB activities.

CALENDAR OF EVENTS - JULY TO SEPTEMBER

July 10	Form #3 Sales and Inventory Report (for June 1 - June 30)
	Proof of Exports and other credits for shipments done April 1 through June 25
July 15	Proof of Exports and other credits for shipments done June 26 through June 30
July 5, 10, 17, 24, 31	Form #1 Weekly Raw Product Report
Aug 7, 14, 21, 28	Form #1 Weekly Raw Product Report
Sept 4, 11, 18	Form #1 Weekly Raw Product Report
Sept. 10	Form #3 Sales and Inventory Report (for July 1 - August 31)
Sept 8 - 9	CIAB Board Meeting & Tour, Traverse City, MI
Sept 15	Cherries Acquired from Producers (Form 2) due to CIAB