CIAB News

Information from the Cherry Industry Administrative Board

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CIAB Meets and Recommends Final Percentages

The CIAB's September Meeting

The board met in Washington, D.C. on September 10, 2009 for its Fall meeting. Each year at this meeting the board reviews the crop year and the production which it then applies to the Optimum Supply Formula.

This year the CIAB decided to meet in Washington, D.C. in order to meet with representatives of the USDA to explore various topics of interest to the tart cherry industry.

Actual Production for Crop Year 2009

Mother Nature was very generous this season. Some might say she was overly generous this year. The crop was huge. The crop total reached 355 million pounds of tart cherries. Actual production was 71 million pounds, or 25.2% over the NASS estimate. This was 145 million pounds, or 70%, more than last year. It was 47.6% greater than the 3 year average and 48.2% greater than the 5 year average.

All districts except WA picked long of the NASS estimate Restricted production was 338 million pounds of cherries and was 25.6% more than the estimate. Unrestricted production from the districts of OR, PA and WI, was 17 million pounds and was 17% greater than estimated..

Michigan produced 265 million pounds which exceeded the estimate by 20.3%. MI produced 74.6% of the total nation's tart cherry harvest

The district by district breakdown of actual production and the percents of estimate are as follows:

Production
(1,000,000's of pounds)

Dist.	Processed	Diverted	Total	Est.	% of Est.
NW MI	167.1	18.2	185.3	150.0	128.8
WC MI	59.9	3.0	62.9	56.0	112.3
SW MI	14.1	2.4	16.5	14.0	91.7
NY	9.3	1.2	10.5	8.4	125.0
OR	2.7	0.0	2.7	2.7	100.0
PA	3.8	0.0	3.8	3.7	102.7
UT	33.8	12.1	45.9	23.0	143.6
WA	16.4	0.3	16.7	17.5	95.4
WI	10.7	0.0	10.7	8.3	128.9
Total	317.8	37.2	355.0	283.6	125.2
Unrestricted	17.2	0.0	17.2	14.7	117.0
Restricted	300.6	37.2	337.8	268.9	125.6

Any industry, including the tart cherry industry, faces a substantial marketing challenge when its supply increases by almost 70% one year to the next or when the supply of product is almost 50% more than has been the average supply for the past few years. (The current situation is the opposite of what the industry faced during and following the crop disaster of 2002.) The handlers and marketers will work through this matter, but it will take time, effort and commitment to get this done.

Changes in Various Elements Increases Restriction from Estimate

There were various changes from the June preliminary projections that caused a significant change to the restricted and free percentages.

The Final 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 USDA's estimate of production. In September it is done using the actual production. As set out in the table above, the actual production was substantially larger than estimated.

Also, in June the calculation of sales for the OSF is based on handlers' estimates of sales for the month of June. In September the OSF is calculated using actual sales for the previous year.

Actual Sales in 2008

There is tremendous news about industry sales last year. Total sales were 212 million pounds of cherries. This is down from the 218 million pounds of sales calculated in June. This reduction results from the industry's tendency to overestimate sales for the month of June

Total and "Free" Sales

The charts below, stated in millions of pounds RPE, set out the information regarding sales of cherries in crop year 2008/9 and how the figures were calculated.

	Total Sales, Crop Year 2008/9	
	Inventory Beginning of Year	89
+	Pack	209
-	Inventory, End of Year	86
=	Sales	212

Total sales are down from the June estimate of 218 million pounds and from sales of 235 million pounds in 2007.

A portion of the sales in each year are "free" and a portion of them are "restricted". The "free" sales in 2008/9 were 150 million pounds as calculated in the following table.

	"Free" Sales, Crop Year 2008/9			
	Total sales			212
				212
-	Exports		11.2	
-	Market Expansion		30.9	
-	Charitable & destruction		1.1	
-	USDA sales, net			
	Purchases	28.0		
	To be delivered in 08/9	(17.3)		
	USDA sales satisfied from 07/8	8.0		
			18.7	
				62
	"Free" Sales			150

Demand - 3 Year Average of "Free" sales

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

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

Free sales & Adjustment	Actual	Expansion	Adj. Free
2006	181	7	188
2006	177	7	184
2008	150	7	157
Average	169		176

The adjustment of 7 million for "Expansion" is made for the market expansion activities that matured in 2008/9 and that will now have to be supplied from "free" tonnage. This is the second year that this adjustments has been made.

The "Adj. Free" sales volume is 176 million. It is this figure that is used in the OSF for "demand".

CIAB Recommends the Final Free and Restricted Percentages

The CIAB reviewed all of the information just discussed, applied it to the OSF and calculated the final restriction percentage. Under the OSF the gross free percentage is 32% and the gross restricted percentage of 68%. The effective free percent net of the Market Growth Factor (MGF) is 37% and the effective restricted percent is 63%.

The summary of the final calculation is:

Final Percentages, Crop Year 2009
Using Actual Production
(Millions of Pounds)

Supply	Restricted crop	**338**	
	Unrestricted	**17**	
			355
	"Free" Carry-in	**69**	
	USDA pre-sale	**(17)**	
			52
	ST:		**407**
Demand	3-Year Avg. Sales		**176**
Surplus			**231**
Gross Restricted %			**68%**
Gross Free %			**32%**
Market Growth Factor			**18**
Economic Adjustment			**0**
Adjusted Surplus			**213**
Effective Free %			**37%**
Effective Restricted %			**63%**

The CIAB recommended the gross percentages to the Secretary of Agriculture.

Drivers for the higher restriction

The final effective restricted percentage is 21% higher and the final effective free percentage is 21% lower than what was calculated in June. There are a number of drivers for this change.

First, and most importantly, the actual production of cherries was 71.4 million pounds more than had been projected and most of increase was in restricted districts.

Second, the "free" carry-in from 2008/9 increased by 21.1 million pounds. This was due to lower than projected sales for the month of June, the greater than predicted post-harvest compliance activity and the utilization of all diversion credits issued to handlers

Third, average "free" demand was 6.6 million pounds less than was projected in June.

Each of these three changes increased the restriction percentage from the June estimate to the September final figures. Collectively, the changes increased the restriction by 21%.

Makeup of the "free" tonnage

The total of "free" cherries available to handlers is 201 million pounds which is 110% of the three year average demand. The "free" cherries come from a variety of sources. These are:

Elements of "Free" Tonnage	
Carry-in	52
Unrestricted Productions	17
Free portion of restricted	107
Market Growth Factor	18
Total:	194

Meeting the Restriction Requirements in 2008 and in 2009

Last year - 2008

Another very significant highlight of last season was how well the handlers dealt with the restricted portion of the crop. This reinforces the concept that the industry should focus upon total sales and not just the "free" sales included in the OSF.

Last year there were 54 million pounds of restricted cherries with which the handlers had to deal. Handlers used exports, market expansion activities and pack time diversions to account for all of the restricted tonnage. In fact, the activities were large enough to reduce the secondary reserves by 4 million pounds and the primary reserves by 5 million pounds.

Here is how the industry responded to last season's restriction:

2008 Compliance & Reserves
(Millions of pounds)

			% of Surplus
RESTRICTED POUNDS 2007/8		54.0	
Market Growth Factor	18.0		33.3%
Compliance Activities			0.0%
Exports	11.2		20.7%
New Markets	30.9		57.2%
Charitable & Other	1.1		2.0%
Diversions @ Harvest	2.0		3.7%
ST:	63.2		117.0%
Applied against secondary	(4.0)		
		59.0	
Total Compliance			
Add to Reserve / (Reduce Reserves)		(5.0)	-9.3%
RESERVES:			
Primary, BOY		50	
USDA releases		(28)	
Reduction from 2008		(5)	
Primary, EOY			17
Secondary, BOY		4.1	
Reduction from 2008		(4.0)	
Total Reserves, end of year			17

Handlers did an excellent job of dealing with the restriction from 2008. Each handler found the combination that best suited its particular situation. Similar efforts will have to be used in 2009 to deal with the restriction.

Restriction compliance, Crop Year 2009

It is not possible to accurately predict how handlers will deal with this year's restriction. We can only make some educated predictions about what might happen.

Export and Market Expansion

It is thought by handlers that the export volume should be similar to past years. Market expansion activities have been a very important method for handlers to deal with restricted cherries. There is every reason to expect that the handlers will continue to use the market expansion process to move as much restricted crop as possible.

USDA Purchases

The industry has and will continue to deal with surplus cherries by working with the USDA to distribute tart cherry products through the national feeding and food distribution programs. These purchases cause releases from the primary reserves which, in turn, makes more primary reserve available for the current year's surplus.

Last year the USDA purchased 28 million pounds of cherry products for these programs. These purchases helped bring the primary reserves down to their current levels. As a result, the primary reserve can take 33 million pounds of this years crop.

The industry will work with the USDA to convince them to continue to purchase those cherry products that they have purchased and to expand the types of cherry products they buy. There are many products from our industry that will fit very nicely with the goals and needs of these national programs.

Election of Officers

The CIAB elected new officers for the current year. They are:

Tom Facer, NY, Chairman,
Ron Prentice, NW MI, Vice Chairman,
Robert McMullin, UT, Treasurer,
Rich DeRuiter, WC MI, Secretary, and
Tim Brian, NW MI, at-large member.

Seminar in Washington, D.C.

The CIAB held a seminar with various representatives of the USDA and the EPA while in Washington, D.C. It was a very informative afternoon.

There were presentations from:

Rayne Pegg, Adminstrator, AMS,
Dave Tuckwiller, Branch Chief, Commodity Procurement
Janice Fitzgeral, Program Analyst, Food & Nutrition Services
Christian Foster, Deputy Administrator, FAS
Kevin Sage-el, Branch Chief, FAS
Heather Velthuis, Marketing Specialist, FAS, and
Larry Elworth, Counsel to the Administrator, EPA.

Later that evening Mr. Roger Szemraj shared with the CIAB his observations about what agriculture might expect under the current administration.

All of these presentation helped the CIAB better understand both the bureaucratic and political environments in Washington, D.C.

Calendar of Events: October - January

Oct 1	Assessments due
Nov 1	Grower diversion certificates expire Form 4 due Form 5 A and B due
Dec 1	Exports and market expansion activities for July 1 through Sept 30 supporting paperwork due
Dec	Request for release of Market Growth Factor due by the end of the first week of the month
Dec. 8-10	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
Jan. 19-21	NW MI Orchard & Vineyard Show, Grand Traverse Resort, Acme, MI