

# CIAB News

Information from the Cherry Industry Administrative Board

Volume 12, Issue 2

September 2008

## CIAB Meets and Recommends Final Percentages

### The CIAB's September Meeting

The board met in Lehi, Utah on September 12, 2008 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.

The CIAB wishes to thank all of the industry members who were such gracious hosts and who helped to educate the rest of the industry about the cherry industry in Utah.

### Actual Production for Crop Year 2008

The crop in 2008 totaled 210 million pounds which was substantially more than was estimated in June. This was 32.5 million pounds over and 118.3% of the estimate.

Restricted production was 203 million pounds of cherries. Unrestricted production from the districts of OR, PA and WI, was 7 million pounds.

As can be seen on the chart below, six of the nine districts picked above estimate, and the increases were quite substantial. One district, NY, picked quite close to its estimate. Two districts, SW MI and WA, picked less than had been estimated

Michigan produced 164 million pounds which was 80.9% of the total production.

Wisconsin had a terrible season. It produced only 0.6 million pounds. Consequently, WI production is exempt from regulation for the year.

On the other hand, the production in UT, 17.2 million pounds and 143.6% of the estimate, was sufficient to bring it into the restricted category.

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

| Production (1,000,000's) |              |              |               |
|--------------------------|--------------|--------------|---------------|
| District                 | Actual       | Est.         | % of Est.     |
| NW MI                    | 95.8         | 75.0         | 128.8%        |
| WC MI                    | 49.9         | 40.0         | 124.8%        |
| SW MI                    | 18.3         | 20.0         | 91.7%         |
| NY                       | 9.0          | 9.2          | 97.8%         |
| OR                       | 2.8          | 1.4          | 200.0%        |
| PA                       | 3.7          | 3.0          | 123.3%        |
| UT                       | 17.2         | 12.0         | 143.6%        |
| WA                       | 12.5         | 16.5         | 75.8%         |
| WI                       | 0.6          | 0.2          | 300.0%        |
| <b>Total</b>             | <b>209.8</b> | <b>177.3</b> | <b>118.3%</b> |
| Unrestricted             | 7.1          | 16.6         | 42.8%         |
| Restricted               | 202.7        | 160.7        | 126.1%        |

### 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 noted above, the actual production was considerably 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 can be calculated using actual sales.

### Actual Sales in 2007

There is tremendous news about industry sales last year. Total sales were 235 million pounds of cherries. This is very consistent with the previous year's total sales volume of 238 million pounds. This is great news for our industry.

**RPE Sales** - The charts below, stated in millions of pounds RPE, set out the information regarding sales of cherries in crop year 2007/8 and how the figures were calculated.

| Total Sales, Crop Year 2007/8   |           |
|---------------------------------|-----------|
| Inventory Beginning of Year     | 85        |
| + Pack                          | 239       |
| - <u>Inventory, End of Year</u> | <u>89</u> |
| = Sales                         | 235       |

| <b>“Free” Sales, Crop Year 2007/8</b> |               |
|---------------------------------------|---------------|
| Total sales                           | 235           |
| USDA sales satisfied from             | <u>12</u>     |
|                                       | 223           |
| - Exports                             | 17.6          |
| - Market Expansion                    | 38.8          |
| - Charitable & destruction            | 1.5           |
| - USDA sales, net                     |               |
| Purchases                             | 18.0          |
| To be delivered in 08/9               | <u>8.0</u>    |
|                                       | 10.0          |
| Abandoned diversion credits           | <u>(10.4)</u> |
|                                       | <u>58</u>     |
| = “Free” Sales                        | 165           |

**Unit Sales** - While the OSF is based upon RPE values, unit sales are also important. Overall, the unit sales year-over-year showed a small decline, but the sales volume was consistent with the 4 year average. There were increases in the juice concentrate and waterpack products. The “5+1 and Drying stock” category showed decline, but the category must be broken down a bit further. The “drying” portion of this segment is increasing in unit sales while the traditional markets for these products is experiencing reduced sales volumes. The piefill category showed the most significant declines in unit sales.

The industry's unit sales for 2007/8 were:

| <b>Unit Sales by Selected Products</b>              |              |                    |                           |
|---|--------------|--------------------|---------------------------|
| <b>Number &amp; % of vs Year Ago &amp; Average.</b> |              |                    |                           |
| <u>Item</u>   | <u>Units</u> | <u>'07 vs. '06</u> | <u>'07 vs. 4 Yr. Avg.</u> |
| 5+1 & Drying stock                                  | 3,544,737    | 91.5%              | 103.5%                    |
| IQF   | 841,368      | 97.1%              | 120.0%                    |
| 12/2 piefill  | 3,130,181    | 89.4%              | 91.2%                     |
| 6/10 piefill  | 258,822      | 93.5%              | 97.4%                     |
| 6/10 waterpack                                      | 203,432      | 129.7%             | 119.4%                    |
| Juice (68) & (0, 68)                                | 246,326      | 120.7%             | 111.9%                    |
| Total:  | 8,224,866    | 92.7%              | 100.1%                    |

### Abandoned Diversion Credits

In the calculation above there is included a line item for “abandoned diversion credits”. This is a new concept for the industry in that some handlers abandoned, i.e. threw away, some diversion credits that they earned during the year. These handlers neither sold nor transferred these credits to other handlers. Instead, they elected to remain in the inventory reserves with the equivalent amount of cherries.

The impact of abandoning diversion credits on the OSF is to restate the underlying sales as “free” sales

rather than “restricted” sales. This effectively increases the amount of the total sales that are considered “free”. It caused the restriction percentage to be reduced somewhat. This abandonment also forced some handlers into the secondary reserves.

### Demand - 3 Year Average of “Free” sales

To determine the restriction percentage, the supply of cherries is compared to the demand for them in the free markets. “Demand” for the OSF is the three year average of “free” sales. The average, in millions of pounds, is calculated as follows:

| <b>Free sales &amp; Adjustment</b> |            |           |            |
|------------------------------------|------------|-----------|------------|
|                                    | Actual     | Expansion | Adj. Free  |
| 2005                               | 178        | 12        | 190        |
| 2006                               | 169        | 12        | 181        |
| 2007                               | <u>165</u> | <u>12</u> | <u>177</u> |
| Average                            | 171        |           | <u>183</u> |

The adjustment for “Expansion” is made for the market expansion activities that matured in 2007/8. This is new in 2008, but it will continue in future years.

The “Adj. Free” sales volume is 183 million. This figure is what is used in the OSF for “demand”.

### CIAB Recommends the Final Free and Restricted Percentages

Putting together all of the information considered by the CIAB, the final restriction percentage was calculated. This resulted in a gross free percentage of 73% and a gross restricted percentage of 27%. More importantly, the effective free percent is 82% and the effective restricted percent is 18%.

The summary of the final calculation is:

| <b>Final Percentages, Crop Year 2008</b> |                           |            |
|--|---------------------------|------------|
| <b>Using Actual Production</b>           |                           |            |
| <b>(Millions of Pounds)</b>              |                           |            |
| <b>Supply</b>                            | Restricted crop           | <b>203</b> |
|  | Unrestricted              | <u>7</u>   |
|  |                           | <b>210</b> |
|  | + “Free” Carry-in         | <b>35</b>  |
|  | USDA pre-sale             | <u>(8)</u> |
|  |                           | <u>27</u>  |
|  | ST:                       | 237        |
| <b>Demand</b>                            | 3-Year Avg. Sales         | <u>183</u> |
| <b>Surplus</b>                           |                           | <b>54</b>  |
|  | <b>Gross Restricted %</b> | <b>27%</b> |
|  | <b>Gross Free %</b>       | <b>73%</b> |
| <b>Market Growth Factor</b>              |                           | <b>18</b>  |
| <b>Economic Adjustment</b>               |                           | <b>0</b>   |
| <b>Adjusted Surplus</b>                  |                           | <b>36</b>  |
| <b>Effective Free %</b>                  |                           | <b>82%</b> |
| <b>Effective Restricted %</b>            |                           | <b>18%</b> |

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

The final restricted percentage is 17% higher and the final free percentage is 17% lower than what was calculated in June due mostly to the much larger than expected crop. This is true both for the gross and the effective percentages.

### 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                   | 27         |
| Unrestricted Productions   | 7          |
| Free portion of restricted | 149        |
| Market Growth Factor       | <u>18</u>  |
| Total:                     | <u>201</u> |

### Meeting the Restriction Requirements in 2007 and in 2008

#### Last year - 2007

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 101 million pounds of restricted cherries with which the handlers had to deal. Handlers used exports, market expansion activities and pack time diversions to handle nearly three-quarters (3/4) of the restricted cherries. About one-quarter (1/4) cherries were placed into the inventory reserves for future needs.

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

#### 2007 Compliance & Reserves (Millions of pounds)

|                          |               | % of '07<br>Surplus |
|--------------------------|---------------|---------------------|
| Restricted pounds 2007/8 | 101.0         |                     |
| Market Growth Factor     | 17.0          | 16.8%               |
| Compliance Activities    |               | 0.0%                |
| Exports                  | 17.6          | 17.4%               |
| New Markets              | 38.8          | 38.4%               |
| Charitable & Other       | 1.5           | 1.5%                |
| Diversions @ Harvest     | 10.0          | 9.9%                |
| Abandoned credits        | <u>(10.0)</u> | <u>-9.9%</u>        |
| Total Compliance         | <u>74.9</u>   | 74.2%               |

#### 2007 Compliance & Reserves (Cont.)

|                          |    |       |
|--------------------------|----|-------|
| Contribution to Reserves | 26 | 25.8% |
|--------------------------|----|-------|

#### RESERVES:

|                        |           |
|------------------------|-----------|
| Primary                | 50        |
| Secondary              | <u>4</u>  |
| Total Reserves, end of | <u>54</u> |

As this table demonstrates, handlers have various options with which to deal with the restriction. Each handler found the combination that best suited its particular situation.

A major part of the handlers' compliance efforts were market expansion projects. These are activities designed to expand outlets for tart cherries. At 38.8 million pounds of sales, these market development efforts were the single largest component of compliance activities.

#### This year (2008)

It cannot be known at this time how the industry will respond to this year's restriction. We can only review the past years' activities as guidelines for this year.

It is thought by handlers that the export volume should be at least equal to what it has been recently. It is certainly hoped that handlers' efforts and market conditions will help this segment grow.

Market expansion activities have been a very important method for handlers to deal with restricted cherries. It is certainly encouraging to see the increasing volume of activity that this outlet has generated. While the process of earning market expansion credits could become a bit more demanding, most of those handlers involved in this arena continue to be bullish on the possibilities.

#### 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 18 million pounds of cherry products for these programs. This drew the primary inventory reserve down from 46 million pounds to 28 million pounds. This, in turn, allowed handlers to move 22 million pounds of the 2007/8 crop into primary reserves to fill the primary reserve.

The USDA has already purchased 7.4 million pounds of cherry products in 2008/9 that have generated releases from the reserves.

The industry will continue to work with the USDA to urge them to continue to buy 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:

Earl Peterson, WC Michigan, Chairman,  
Ray Rowley, Utah, Vice Chairman,  
Tom Facer, NY, Treasurer,  
Ron Prentice, NW MI, Secretary, and  
Don Gregory, NW MI, at-large member.

### **Calendar of Events: October - January**

|            |   |
|------------|---|
| Oct 1      | Assessments due   |
| Nov 1      | Grower diversion certificates expire<br>Form 4 due<br>Form 5 A and B due                    |
| Nov 28     | 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. 9-11  | 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. 20-22 | NW MI Orchard & Vineyard Show, Grand Traverse Resort, Acme, MI                              |