

CIAB News

Information from the Cherry Industry Administrative Board

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September 2011

CIAB Meets and Recommends Final Percentages

The CIAB's September Meeting

The board met at the in Grand Rapids, MI on September 15, 2011 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.

Actual Production for Crop Year 2011

Production in 2011 was relatively small for the tart cherry industry especially when compared to the estimate for the crop. Overall, the industry produced 230.6 million pounds of cherries which was only 86.7% of the estimate of production.

The state of Michigan produced 157 million pounds of this season's total. It produced 68.1% of the national total which is a bit less than it usually does. MI produced 74.8% of what it was estimated to produce, 210 million pounds.

In 2011 NW MI's production again was lighter than expected as it was in 2010. This area produced 92.5 million pounds of cherries or 68.5% of its estimate. While NW MI normally produces almost one-half (1/2) of the nation's total, in 2011 it produced 40.1% of the total. Unlike 2010, the crop did not fall out of regulation for the year. (For this to happen the production would have had to be below 59.5 million pounds.)

The Western states had production much larger than had been estimated. All three of them exceed 140% of their estimates.

Actual Production - Crop Year 2011/12 (1,000,000's of pounds)

Dist.	Processed	Diverted	Total	Est.	% of Est.
NW MI	92.5		92.5	135.0	68.5%
WC MI	47.7		47.7	55.0	86.7%
SW MI	16.4	0.4	16.8	20.0	84.0%
NY	5.8		5.8	6.5	89.5%
OR	2.6		2.6	1.7	152.9%
PA	3.1		3.1	3.2	95.9%
UT	34.5	0.3	34.8	24.0	144.8%
WA	20.9		20.9	12.0	173.8%
WI	6.5		6.5	8.7	74.7%
Total	229.9	0.7	230.6	266.1	86.6%
Unrestricted	12.2	0.0	12.2	13.6	89.5%
Restricted	217.7	0.7	218.4	252.5	86.5%

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. The CIAB must adjust the OSF to take into account the differences.

Total and "Free" Sales

There is very good news about sales. Total sales shows a large increase from the recent past seasons. While there has been a good, positive increase in sales year-over-year since 2002, the increase in 2010 is notable.

Also, The "free" sales in 2010 were 184 million pounds. This, too, is a very significant increase from the last few years. Growth such as this will reduce the degree of restriction under the OSF.

The charts below, stated in millions of pounds RPE, set out the information regarding sales of cherries in crop year 2011/12 and how the figures were calculated.

Total Sales, Crop Year 2010/11

	Inventory Beginning of Year	175
+	Pack	186
-	Inventory, End of Year	92
=	Sales	268

In accordance with the practices adopted by the CIAB to minimize changes between June and September, the calculation of sales is the same as it was in June.

A portion of the sales in each year are "free" and a portion of them are "restricted". The "free" sales in 2009/10 were 141 million pounds as calculated in the following table.

“Free” Sales, Crop Year 2010/11

Sales	268	
- Export / other	(17.2)	
- Market expansion	(33.0)	
- <u>Voluntary destruction</u>	<u>(0.1)</u>	
Earned	(50.3)	
Applied	(50.3)	
Est. June Diversions	(7.5)	
- USDA sales, net	<u>(26.4)</u>	
= “Free” Sales	184	68.6%
“Restricted” sales	84	31.4%

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			
	Sales	Expansion	Adj. Free
2008	166	8	174
2009	150	8	158
2010	<u>184</u>	<u>8</u>	<u>192</u>
Average	167		<u>174</u>

The adjustment of 8 million for “Expansion” is made for the market expansion activities that matured in 2010/11. These sales will now be supplied from “free” tonnage.

The “Adj. Free” sales volume is 17 million pounds. It is this figure that is used in the OSF as the calculated “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. The most significant factor was the reduced production versus the estimate. This fact, alone, caused there to be a large reduction to the restriction percentage.

The CIAB has both the right and responsibility to consider various economic factors when discussing the OSF and making recommendations to the Secretary of Agriculture about restriction. The CIAB did just that in making its recommendation to the Secretary.

Concern was expressed by various CIAB members about whether or not there would be adequate product available to satisfy demand. The actual production of cherries was down 35 million pounds from the estimate. Thus, available supply of cherries would be down, as well. With a strong “free” market, with expectations

that the strong market would continue and with the intent to continue strong “free” market sales, the CIAB decided that another adjustment to the OSF was warranted.

Looking to the experience of 2010 where adjustments were made to provide more “free” cherries for the market and the volume of “free” sales increased, the CIAB made an adjustment of 40 million pounds to make sure that there were enough cherries to supply the demand for them. This, together with the adjustment made in June, should provide adequate cherries to meet the demand for “free” cherries.

OSF as adjusted

With the smaller production and the adjustment made by the CIAB due to demand, the restriction on the current crop is only 12%. This reflects a surplus of 27 million pounds, and handlers many available options to deal with this relatively small amount of restricted cherries.

The actual calculation of the OSF considered and discussed by the board is as follows:

**Final Percentages, Crop Year 2010/11
Using Actual Production
(Millions of Pounds)**

Supply	Restricted crop	218
	Unrestricted	12
		231
	+ “Free” Carry-in	57
	USDA activities	0
		57
	ST:	288
Demand	3-Year Avg. Sales	174
Surplus		114
	Adjusting Factor	
	June adjustment	(30)
	September adjustment	(40)
	Net surplus	44
	Percentages	
	Gross Restricted %	20%
	Gross Free %	80%
	Market Growth Factor	17
	Economic Adjustment	0
	Adjusted Surplus	27
	Effective Free %	88%
	Effective Restricted %	12%

Restriction compliance, Crop Year 2011

At this stage of the year one can only guess how handlers will deal with this year's restriction. We can only make some educated predictions about what might happen. However, given all of the options handlers' can use, there should be virtually no restricted fruit on hand at the end of the year.

Handlers could use some or all of these available options:

<u>Compliance Options for Handlers</u>	
Restricted Cherries	27
Compliance Options	
Primary reserves	31
Export / other	20
Market expansion	30
<u>In-orchard/At-plant</u>	<u>2.4</u>
ST, Options	52
Restricted cherries, end of year	<u>0.0</u>

Positive Outcome at the End of the Year

The tart cherry industry should go out of the current year in a very positive position. Assuming that sales can be sustained at 2010's level and the carry-out is typical, most, if not all, of this year's production and carry-in should be used up. The industry should go out in one of its strongest positions in years.

Other Board Actions at the Meeting

Ad Hoc Committee to Review Alternatives to Restriction

There has been discussion within the industry about the degree of restriction seen each year and what might be done about them. A committee, known as Ad Hoc Committee, was appointed by the Chairman and charged with reviewing the way that the marketing order and the OSF operate and with recommending changes that would improve the operation of the order. It made its report and recommendation to the Board.

The committee's recommendations were:

1. "Sales", as used in the OSF, should be the industry's gross sales adjusted only by exports, new product activities and any special considerations that might be appropriate.
(There would be a phase out of market expansion activities over an appropriate time period so that handlers would not lose credits for programs already approved.)
2. USDA sales should be included in the gross sales rather than be releases from reserves.
3. The "carry-out" in the OSF should be set to 20 million pounds as the default subject to adjustment, if needed.
4. The market growth factor should be made available to handlers as early in the year as possible.
5. The Primary Reserve Pool should be increased to 100 million pounds.

Mr. Ray Rowley, Chairman of the Ad Hoc Committee, presented a thorough discussion of the recommendations, what impact they have on the OSF

and on restriction and the outcome of implementing the recommendations. There are causes and effects with each one of these options.

Central to this presentation was the emphasis that the CIAB's support of particular compliance activities such as market expansion, exports and other compliance options, causes the restriction percentage to increase. If the CIAB and the industry desires to support such activities, the restriction percentage will, by definition, be greater. If the CIAB and the industry does not wish to give special support to these activities, the restriction percentage will, by definition, be smaller.

These recommendations were crafted by the committee after discussion of many different ideas and consideration of the results of the various ideas. If all of the recommendation were implemented without change, they would reduce the restriction percentage quite significantly.

Discussion by the CIAB

Under the procedural rules of the CIAB, matters for CIAB action are presented at one meeting and action is taken on them at a later meeting.

The discussion of the recommendations of the Ad Hoc Committee were quite extensive and quite thorough. This was the first time many of the members had the opportunity to learn the scope of the recommendations and the reasons that the committee made them. Needless to say, there were many questions about each of the recommendations. There were many different opinions about them, about their impacts on the industry and about whether or not they should be adopted by the CIAB. These discussions will continue within the industry prior to the next meeting and at the next board meeting scheduled for Nov. 2 at the Crowne Plaza in Grand Rapids, MI.

Date for Actions on the Recommendations

As noted earlier, it appears that crop 2011 will place the industry in the ideal position to make any changes to the OSF effective for crop year 2012. For this to happen the CIAB needs to make its recommendations to the Secretary of Agriculture by the Fall of this year. Thus, the CIAB will have another meeting on November 2, 2011 to further discuss and take action upon the Ad Hoc Committee's recommendations.

Increase to Primary Reserves by the CIAB

Under the terms of the order, recommendations for changes to the primary reserve capacity must come from the CIAB no later than the September meeting. The CIAB had raised the issue of increasing the primary reserve capacity at the June 2011 meeting because of this requirement.

It was decided by the CIAB that the primary reserve capacity should be increased from the current 50 million pounds to 100 million pounds effective for

the 2012 crop year. This change is a prudent action that will avoid handlers being inadvertently thrown into the secondary reserves especially if the recommendations are adopted. It will also help supply the industry with cherries if future crops are smaller. In addition, it is likely that 2011 will see the inventory reserves emptied completely, so this is the ideal time to suggest a change.

Seating of New Board Members & Alternates

The following were seated on the CIAB at the September meeting:

Glenn LaCross, NW MI, Handler Member
 Eric MacLeod, NW MI, Handler Alternate
 Roy Hackert, WC MI, Grower Member
 David Hackert, WC MI, Grower Alternate
 Joe Meduri, OR, At-large Member
 Lee Schrepel, OR, At-large Alternate
 John Peters, PA, At-large Member
 John Lott, PA, At-large Alternate
 Ray Rowley, UT, Grower Member
 Robert McMullin, UT, Grower Alternate
 Mike Rowley, WA, Grower Member
 Bart Hawkins, WA, Grower Alternate
 Jim Seaquist, WI, At-large Member
 Lee Petrina, WI, At-large Alternate

Election of Officers

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

Tom Facer, NY, Chairman
 Jim Nugent, NW MI, Vice Chairman
 Ray Rowley, UT, Treasurer
 Rich DeRuiter, WC MI, Secretary and
 Mike Schrom, SW MI, At-large Member

Promotion Activities

Mr. Michael Wehman, Sr. VP, Weber Shandwick, the agency handling the public relations campaign for the industry, shared with the attendees at the meeting a retrospective of what the promotion program has done over the last five seasons and what would be forthcoming for the 2011/12 campaign.

The public relations campaign has met its targets in traditional media impressions, social media impressions and relative standings in internet and website activities.

The upcoming program will continue to focus upon the health benefits of tart cherries and incorporate a theme of "Go Red Instead" to emphasize the value of using and eating tart cherries. Central to the program will be efforts to help stimulate demand at both the consumer and at the food ingredient levels.

The program will incorporate many of the public relations activities previously employed by the agency

to stimulate interest in tart cherries. The program will also continue and expand the trade advertisement campaign begun last year.

Calendar of Events: September - January

Oct 1	Assessments due
Nov 1	Grower diversion certificates expire Form 4 due Form 5 A and B due
Nov 2	CIAB Meeting, Crowne Plaza, Grand Rapids, MI
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 6-8	Great Lakes Expo, Grand Rapids, MI
Dec 9	Form #3 Sales and Inventory Report (July through November 30)
Jan 1	Penalty imposed if assessments not received
Jan 24-25	NW MI Orchard & Vineyard Show, Grand Traverse Resort, Acme, MI