

CIAB News

Information from the Cherry Industry Administrative Board

Volume 17, Issue 1

September 2013

CIAB Meets and Recommends Final Percentages

The CIAB's September Meeting

The board met in Grand Rapids, MI on September 12, 2013 for its Fall meeting at which it reviewed the crop and reconsidered the OSF in light of actual production.

Actual Production for Crop Year 2013

Fortunately the crop of tart cherries in 2013 was much, much better than last year. The total cherries produced was 286 million pounds. The volumes by districts are listed in the table below.

The quality of the cherries was excellent throughout the United States. Many observed during harvest that the cherries were as good as they had ever seen.

The cherries pitted quite well as a general rule. A number handlers did suggest that yields were less since the cherries were somewhat smaller than usual.

The table below sets out the production by district.

Actual Production - Crop Year 2013/14
(1,000,000's of pounds)

Dist.	Processed	Diverted	Total	Est.	% of Est.
NW MI	122.9		122.9	125.0	98.3%
WC MI	60.6	0.01	60.6	60.0	101.0%
SW MI	28.6	0.07	28.7	23.5	121.9%
NY	11.7		11.7	9.0	129.6%
OR	4.3		4.3	2.0	213.0%
PA	2.2		2.2	2.0	112.0%
UT	26.7		26.7	25.0	106.8%
WA	17.9		17.9	20.0	89.6%
WI	<u>11.1</u>		<u>11.1</u>	<u>9.3</u>	<u>118.9%</u>
Total	285.9	0.1	<u>286.0</u>	<u>275.8</u>	<u>103.7%</u>
"Free"	29.2		29.2	22.3	131.0%
Restricted	256.7	0.1	256.8	253.5	101.3%

It is important to recall that the restricted districts in 2013 were different from their usual makeup. Because of the very small crops in 2012, NY and WI fell below the 6 million pound threshold for restriction. Therefore, the states of OR, NY, PA and WI are not subject to restriction in 2013.

Percentages under the OSF based upon Actual Production

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. To determine the percent that is "free" compared to that which is restricted, a number of factors are considered.

Production

In June of each year the OSF is calculated using the estimate of production. In September the OSF is reviewed and recalculated using the year's actual production. The CIAB adjusts the OSF to take into account the differences between the two.

At its June meeting CIAB projected that there would be a small surplus of tart cherries over the calculated demand for them. From this it was then concluded that there would be a calculated restriction under the OSF if the crop were to pick to the estimates in the various districts subject to the order.

As seen in the table above, the total crop exceeded the estimate by a slight percentage. However, the production in the various districts was not uniform. The unrestricted districts of OR, NY and WI saw rather large excesses of production over estimates while other districts picked much closer to their estimates. As will be seen below, this distribution of production had an impact on the restriction process since the production in the unrestricted districts was all "free" production.

Sales - Total, "Free" Sales and Average

The next components that are critical to the OSF relate to sales of tart cherries. The elements in the sales category that are each important are the total and "free" sales from the crop year that just ended and the three year average of sales for the industry.

As was discussed in the June newsletter, sales for the industry in 2012 were understandably small due to the extremely small crop. Also, given the crop failure of 2012 and the release of all cherries into the open market, all sales in 2012/13 were "free".

The charts below, stated in millions of pounds RPE, calculate sales of cherries in crop year 2012/13

and how the figures were determined.

Total Sales, Crop Year 2012/13		
	Inventory Beginning of Year	56
+	Pack	85
-	<u>Inventory, End of Year</u>	<u>17</u>
=	Sales	123

In accordance with the practices adopted by the CIAB to minimize changes between calculating restrictions at the June and September meetings, the volume of sales used in the OSF in September is the same as the amount used in June. That is to say, sales were 123 million pounds.

Demand - 3 Year Average of "Free" sales

Please recall the discussion in the June newsletter regarding average sales and the need to account for the unusual nature of 2012. This bears repeating here.

Calculating "demand" requires that the CIAB look at the last three years of "free" sales. Previously the gross volume of sales had been adjusted by the volume of diversion credit activities to calculate the "free" sales volume for the year. This adjustment process continues, but it does so with a modified approach. Under the revised process, export sales activities are the only sales category that is subtracted from the gross sales to calculate "free" sales.

This change in the calculation comes from the procedural changes made by the CIAB in the past few seasons. Such items as USDA sales, market expansion activities and exports used to earn diversion credits for handlers. Since they were "secondary" market sales and earned diversion credits, they reduced the volume of "free" sales. This caused surpluses to be larger which effectively increased restriction under the OSF.

As a general rule, restriction percentages will be reduced under the new calculation process. The new calculation procedures effectively increase the "free" sales in any given year. This, in turn, increases the average demand in the "free" market. Consequently, the "surplus" will be smaller and, therefore, restriction in any given year will be lower.

The average free sales posted in millions of pounds is calculated as follows:

	3 Year Sales		
	Gross	Exports	Free Sales
2010	268	17	251
2011	264	14	250
2012	<u>123</u>	<u>0</u>	<u>123</u>
3 Yr Avg. "Free"	218	16	208
Avg. '10 & '11	266	16	250

At the June meeting the CIAB was concerned with the industry's ability to recapture sales lost from the

2012 crop failure. "Free" sales in 2010 and 2011 averaged about 250 million pounds. The CIAB concluded that it was important for the marketers to have enough "free" cherries to at least meet the "free" sales seen prior to the crop failure. Therefore, the CIAB adjusted and increased the 3 year average of free sales by 42 million pounds. This increased the demand side of the OSF and reduced the amount of restriction calculated in the OSF. If this adjustment had not been made, the restriction percent would have been bigger by 16 percentage points.

CIAB Recommends the Final Free and Restricted Percentages

The CIAB reviewed all of the information just discussed, applied it to the OSF, calculated the final restriction percentage and made its recommendation to the Secretary of Agriculture.

OSF with Actual Production

Given the relatively good sized crop and the adjusted demand for the year, the application of the OSF to the harvest information showed a calculated restriction for 2013/14.

The calculation from the OSF based on actual production was as follows:

OSF Crop Year 2013 - 14 With Actual Production (1,000,000's of Pounds)

Estimated in-orchard diversions		0.08
SUPPLY		
	Restricted	256.7
+	Unrestricted	29.2
	ST, Processed Prod.:	285.9
+	Carry-in	17.3
	Orchard Diversions	0.08
	ST, Supply:	303.3
DEMAND	3-Year Avg. Sales	208.0
	MGF	21.0
	Adj. to sales	42.0
	Other factors	
	Carry-out	20.0
	Other	0.0
		<u>291.0</u>
SURPLUS / (SHORTFALL)		12
RESTRICTED and FREE % and Pounds		
	FREE %	95%
	Free Pounds	244
	RESTRICTED %	5%
	Restricted Pounds	12

The following table compares the preliminary to the final OSF.

Crop Year 2013/14			
Comparison of Preliminary OSF and Actual OSF			
	Preliminary	Difference	Actual
SUPPLY			
Restricted	254	3	257
+ Unrestricted	22	7	29
ST, Processed Prod.:	276	10	286
+ Carry-in	17	0	17
Orchard Diversions	<u>0</u>	<u>0</u>	<u>0</u>
ST, Supply:	293	10	303
DEMAND			
3-Year Avg. Sales	208	0	208
MGF	21	0	21
Adj. to sales	42	0	42
Other factors		0	0
Carry-out	20	0	20
Other	0	0	0
ST, Demand	<u>291</u>	<u>0</u>	<u>291</u>
SURPLUS / (SHORTFALL)	2	10	12
RESTRICTED and FREE % and Pounds			
FREE %	99%	-4%	95%
Free Pounds	251	(7)	244
RESTRICTED %	1%	4%	5%
Restricted Pounds	2	10	12

CIAB recommends NO restriction for 2013/14

The board discussed at considerable length the logic for, the merits of and the pros and cons of implementing restriction under the OSF given the facts of this crop year, the impact of 2012 and the demands of the market place. It concluded that the CIAB should recommend to the Secretary of the USDA that there be **no** restriction for 2013/14 and that all cherries should be available for the sale in the free market.

Other Actions or Items from the Meeting

Election of Officers

The CIAB elected the following to serve on the executive committee for the next year:

Ray Rowley	Chairman
Jim Nugent	Vice Chairman
Rich DeRuiter	Secretary
Jim Seaquist	Treasurer
Randy Willmeng	At-Large member

Restricted Districts NY and WI were unrestricted in 2013 because production in those areas in 2012 brought them below the average of 6 million pounds making them unrestricted districts. The production from these two states in 2013 brought the average production for NY and WI to more than 6

million pounds. Both districts will be restricted districts in 2014.

Referendum Votes The marketing order will be up for referendum vote in 2014. Traditionally the USDA has used the “last completed crop year” in determining who has the right to vote in the referendum and how much tonnage they get to use for their vote. Under normal circumstances 2012/13 would be the year to define these.

However, using the 2012/13 crop year as the basis for the referendum vote presented major concerns for the industry. Producers and handlers in the Midwest would have virtually no say with respect to the marketing order, and the producers and handlers in the far West would have a disproportionately large say on this topic.

The USDA has determined that crop year 2011/12 will be the “representative” year for conducting the referendum. This will insure greater fairness to all concerned in conducting the referendum.

Seating of New Board Members & Alternates

The following were seated on the CIAB at the September meeting in accordance with the

secretary's selection order:

Cheryl Kroupa, Grower Member, NW MI
 Jeff Send, Grower Alt., NW MI
 Jon Veliquette, Handler Member, NW MI
 Tim Brian, Handler Alt., NW MI
 Doug Fuehring, Grower Member, WC MI
 Todd Fox, Grower Alt., WC MI
 Dan Sievert, Member, NY
 Tom Facer, Alternate, NY
 Bryce Dorsing, Handler Member, WA
 Kevin Dorsing, Handler Alt., WA

Promotion Activities

At the September meeting Mr. Tom Facer presented information to the CIAB about the successes of the past year and the planned promotion program for the 2013/14 fiscal year.

Even though the crop was extremely short in 2012 and the available funds for promotion were very limited, the 2012 promotion program had excellent results. The program generated 6,250 placements and 310 million impressions. It did so at a relatively small expenditure and a very efficient cost per impression.

For 2013 the promotion efforts funded by the CIAB will include:

- * health benefits research projects,
- * activities to communicate the superior, on-trend taste of Montmorency tart cherries to food manufacturers and consumers,
- * activities to inform registered dieticians and food nutritionists of the benefits of tart cherries,
- * activities to convey to end users the good taste of tart cherries and the benefits of consuming tart cherry juice and concentrate,
- * business-to-business communications to stress the positive attributes of tart cherries in food manufacturers product lines,
- * trade ad placements throughout the year to show ingredient decision makers the positive attributes of tart cherries and of using tart cherries in their product lines, and
- * working and communicating to the tart cherry industry the success of the promotion program.

The program will use "Go Tart Instead" as the defining tag line to call people to take action and to consume and to use the on-trend flavor profile of tart cherries.

The CIAB current funding and budget is for \$1.43 million dollars towards this year's promotion campaign.

Newsletter Volumes

This newsletter begins volume 17 of the newsletters. From this point forth the September newsletter will start the new volume series. This coincides with the seating of the new CIAB board.

Some of the 2012/13 newsletters were incorrectly listed as volume 17. We apologize for any confusion this may have created. Please look to the month and year of the newsletters for the correct sequence of past newsletters.

Calendar of Events: September through January 2014

Oct 1	Assessments due Form 4 due
Dec 2 - 3	WA State Hort. Assoc. annual meeting, Wenatchee, WA
Dec 10	Form #3 Sales and Inventory Report (July through November 30)
Dec 10-12	Great Lakes Expo, Grand Rapids, MI
Jan 1 2014	Penalty imposed if assessments not received
Jan 14-15	NW MI Orchard & Vineyard Show, Grand Traverse Resort, Acme, MI
Jan 21-23	Empire St. Producers Expo, Syracuse, NY
Jan 28-29	OR State Hort. Society annual meeting, Portland, OR
Jan 21-23	UT Horticultural Meetings, Spanish Fork, UT
Jan 28-30	Mid-Atlantic Fruit & Vegetable Convention, Hershey, PA