CIAB News

Information from the Cherry Industry Administrative Board

Volume 20, Issue 1 September 2016

# CIAB Meets and Recommends Final Percentages

## The CIAB's September Meeting

The board met in September in WC MI for the annual meeting at which actual production is reviewed and the final percentages are recommended to the Secretary of the USDA.

## Actual Production for Crop Year 2016

The 2016 crop was quite a large one. The total cherries produced were 341.3 million pounds. The volumes by districts are listed in the table below.

The quality of the cherries was generally considered to be good throughout the United States. Harvest began early in a number of the production districts and it finished in late August.

The table below sets out the production by district.

**Actual Production - Crop Year 16/17**
**(1,000,000's of pounds)**

| Dist. | Processed | Diverted | Total | Est. | % of Est. |
|---|---|---|---|---|---|
| NW MI | 135.6 | 12.0 | 147.6 | 165.0 | 89.5% |
| WC MI | 66.0 | 1.8 | 67.9 | 68.0 | 99.8% |
| SW MI | 21.6 | 0.4 | 22.0 | 20.0 | 109.8% |
| NY | 7.5 | 0.2 | 7.7 | 7.0 | 110.0% |
| OR | 4.5 | 0.0 | 4.5 | 3.0 | 150.2% |
| PA | 0.7 | 0.0 | 0.7 | 0.3 | 239.0% |
| UT | 43.2 | 6.5 | 49.6 | 50.0 | 99.3% |
| WA | 22.7 | 5.2 | 27.9 | 27.0 | 103.3% |
| WI | 13.0 | 0.4 | 13.40 | 11.0 | 121.8% |
| **Total** | **314.9** | **26.4** | **341.3** | **351.3** | **97.2%** |
| "Free" | **5.2** | **5.2** | **5.2** | **3.3** | **158.3%** |
| Restricted | **309.7** | **21.2** | **336.1** | **348.0** | **96.6%** |

The unrestricted states for this year were OR and PA. All other districts were in the "restricted" category. PA had a very small crop following last season's very large one.

## 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 which can be marketed in any market and the amount that is "restricted" and which must either be held in inventory reserves or marketed into secondary markets. To make these determinations a number of factors are considered.

### Production - Crop Year 2016

At the June 2016 meeting the CIAB reviewed various factors in considering the OSF and the percentages. At that time the board used estimates of production to determine the preliminary percentages under the OSF. The preliminary percentages at that time were 71% "free" and 29% "restricted".

In September the board reviews and recalculates the OSF using the year's actual production. The CIAB adjusts the preliminary OSF formulation taking into account the actual production.

At its June meeting the CIAB used the estimate of production of 351.3 million pounds in the OSF. As the previous chart shows, the actual total production for the season was 341.3 million pounds. Thus, actual production was slightly less than estimated by 10.0 million pounds.

Of the total production, 336.1 million pounds was produced in the districts subject to restriction and 5.2 million was produced in OR and PA, the two unrestricted districts.

Actual production is always different than that which was estimated. The calculations in the OSF change accordingly. Interestingly enough and as you will see below, the actual production delivered for processing together with the in-orchard diversions rendered the percentages the same as had been estimated in June.

### Sales - Total, "Free" Sales and Average

Under the OSF, the total demand is compared to the total supply of tart cherries to determine if there is a surplus of supply. When and if there is a surplus, the percentages are calculated for this surplus using the formula set out in the OSF.

An important part of determining whether there is a surplus is the volume of industry sales for both the year and for the past three years. The quantity of the annual and three year average sales are calculated when the CIAB convenes in June to establish the preliminary percentages. These sales figures are not changed from the June analysis to the September analysis. (This practice was established by the CIAB to minimize the number of factors that change between calculating the preliminary and final percentages.) The only factors that change between the two determinations is the size of the crop and whether the cherries were delivered for processing or diverted.

As was noted in the June newsletter, the sales for crop year 2015/16 were:

**Total Sales, Crop Year 2015/16**

| | | |
|---|---|---|
| | Inventory Beginning of Year | 141.0 |
| + | Pack | 249.8 |
| - | Inventory, End of Year | 134.3 |
| = | Sales | 256.5 |

The 3 Year average of sales for the OSF were calculated as:

**3 Year Sales and Average Sales**

| | Gross | Exports | Free Sales |
|---|---|---|---|
| 2013 | 222 | 0 | 222 |
| 2014 | 235 | 12 | 223 |
| 2015 | 256 | 12 | 244 |
| 3 Yr Avg. | 238 | 8 | 230 |

In 2016 the situation concerning sales for the OSF was somewhat different than it had been in the past few years. In the past three seasons the crop disaster of 2012 was part of the three year average sales calculations. This caused the average sales to be reduced substantially. This, in turn, would have increased restriction percentages substantially had the CIAB not adjusted for the unusual event of 2012/13. The CIAB adjusted the three year average sales upwards in these years to help stimulate sales by providing additional cherries for the market place.

As can be seen in the chart immediately above, the 2012 crop year is no longer part of the calculation of the three year average of sales. Therefore, the CIAB did not make a similar sales adjustment for this crop year.

**Adjustments for USDA purchases**

In June the CIAB did make an adjustment for deliveries of USDA bonus purchases that were contracted in 2015/16 but are to be delivered in 2016/17. This was an adjustment of 22 million pounds of such sales done to provide handlers with an adequate volume of cherries to fulfill these contracted sales.

## 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 crop of 341.3 million pounds and the demand for the year, the application of the OSF to the harvest information showed that there was a calculated restriction for the 2016/17 crop year.

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

**OSF Crop Year 2016/17**
**With Actual Production**
(1,000,000's of Pounds)

| | | |
|---|---|---|
| **Estimated in-orchard diversions** | **26.4** | |

| | | | | | |
|---|---|---|---|---|---|
| **SUPPLY** | | | | | |
| | | Restricted | **309.7** | | |
| | + | Unrestricted | **5.2** | | |
| | | ST, Processed Prod.: | **314.9** | | |
| | + | Free Carry-in | **81.3** | | |
| | | Orchard Diversions | **26.4** | | |
| | | ST, Supply: | | | **422.6** |
| **DEMAND** | | 3-Year Avg. Sales | | **230.0** | |
| | | MGF | | **23.0** | |
| | | Other factors | | | |
| | | Carry-out | | **57.0** | |
| | | Other (contracted sales) | | **22.0** | |
| | | | | | **332.0** |
| **SURPLUS / (SHORTFALL)** | | | | | **90.6** |
| **RESTRICTED and FREE % and Pounds** | | | | | |
| **FREE %** | | | | | **71%** |
| | | **Free Pounds** | | | **219** |
| **RESTRICTED %** | | | | | **29%** |
| | | **Restricted Pounds** | | | **91** |

The final recommendation made to the Secretary by the CIAB was that the final free percentage be set at 71% and the restricted percentage be set at 29%.

It is quite unusual for the restriction percentage projected in June and the restriction percent based upon the actual production to be the same. This outcome was, however, coincidental. It was a result of the reduction in processed production and the increase in the in-orchard diversion activities.

The restricted processed production was down 38.3 million pounds. However, the in-orchard diversions were 26 million pounds over the estimate. The calculated surplus was down 10 million pounds from the estimate. The change in these factors and the mathematics of the OSF ended up yielding the same restricted and free percentages that were estimated in June.

## Review of Imports

During the discussion at the September meeting regarding the OSF, questions were again raised about whether or not imported tart cherry products should be included in the OSF when establishing a surplus or a restriction percentage.

There were those who advocated for the inclusion of these potential sales opportunities into the OSF arguing that provision for supplying these opportunities should be made through the OSF.

On the other hand, there were those who argued against including imported products in the OSF. They argued that the imports, particularly the imports of concentrate which is the primary product coming into the United States, are not markets into which the domestic industry can afford to sell given the prices at which such sales are made. Furthermore, they noted that a handler displacing business currently supplied by imported cherries could use restriction cherries for that purpose and could earn NPNM diversion credits for such sales.

The CIAB did not make any adjustment for imported tart cherries. It will, however, explore issues of how to best deal with this situation in future years.

**Comparative of the Preliminary and Final OSF Formulations**

The following table compares the preliminary to the final OSF.

**Crop Year 2016/17**
**Comparison of Preliminary OSF and Actual OSF**

| | Preliminary | Difference | Actual |
|---|---|---|---|
| **SUPPLY** | | | |
| Restricted | 348.0 | (38) | 309.7 |
| + Unrestricted | 3.3 | 2 | 5.2 |
| ST, Processed Prod.: | 351.3 | (36) | 314.9 |
| + Carry-in | 81.3 | 0 | 81.3 |
| Orchard Diversions | 0.0 | 26 | 26.4 |
| ST, Supply: | 432.6 | (10) | 422.6 |
| **DEMAND** | | | |
| 3-Year Avg. Sales | 230 | 0 | 230 |
| MGF | 23 | 0 | 23 |
| Adj. to sales | 0 | 0 | 0 |
| Other factors | | | |
| Carry-out | 57 | 0 | 57 |
| Other (contracted sales) | 22 | 0 | 22 |
| ST, Demand | 332 | 0 | 332 |
| **SURPLUS / (SHORTFALL)** | 101 | (10) | 91 |
| **RESTRICTED and FREE % and Pounds** | | | |
| **FREE %** | 71% | 0% | 71% |
| **Free Pounds** | 247 | (28) | 219 |
| **RESTRICTED %** | 29% | 0% | 29% |
| **Restricted Pounds** | 101 | (10) | 91 |

## Cherries for the free market and reserves

The OSF determination provides sufficient free cherries for calculated demand. The available cherries listed by source are:

**Available Cherries for Crop Year 2015/16**

| | |
|---|---|
| Carry-in | 81.3 |
| Unrestricted | 5 |
| "Free" portion of Restricted production | 219 |
| Available due to grower diversions | 26 |
| Total Cherries Available | 332 |

## Inventory reserves and the Use of Restricted Cherries.

The default position of the order is that handlers are to hold their restricted cherries in inventory reserves.

At the end of 2015/16, there were 53 million pounds of cherries in the primary reserves. With a capacity of 100 million pounds for the primary reserves, handlers will be able to put 47 million pounds of this year's surplus into the primary reserves. Handlers will also be able to use the 26 million pounds of in-orchard diversion credits against their restricted obligations. This leaves only 6 million pounds of the "surplus" for which there currently is no designated coverage.

However, the restricted cherries can and will be used by handlers in diversion activities such as exports, new product and new market projects and/or for charitable contributions. Exports alone have averaged 12 million pounds during the last two years and the new product / new market categories are increasing in their use by handlers. These types of activities will undoubtedly absorb the additional 6 million pounds of surplus not presently covered by the reserves and the in-orchard credits. In fact, they will probably consume far more than 6 million pounds thereby reducing the quantity of cherries in the primary reserves.

The final determination of the amount of the restricted cherries placed into the reserves will not be known until the crop year ends and all diversion activities are tallied.

**Restricted Districts**

OR and PA are the only two districts not subject to the restriction process this year. All others are restricted.

## Districts and Representation on the CIAB

There have been and will be a number of changes to the representation of the various districts on the CIAB.

WC MI once again has 3 seats on the CIAB due to its increase in average production. It will maintain this number of seats through the next election cycle given WC MI's production in 2016/17.

NY's now has two seats on the CIAB due to its production average from 2013 through 2015. Those board members will serve through the current fiscal year. However, NY's production in 2016/17 was such that it will return to having one seat with the next election.

WI now has two seats on the CIAB due to its increase in production from the 2015/16 crop year. It will maintain this number seats through the next election cycle given WI's production in 2016/17.

With its production in 2016/17, UT will gain a third seat on the CIAB with the next election cycle.

For the current year the CIAB has 19 members and 19 alternates from the production areas and 1 public member and 1 public alternate.

**Diversity and Board Representation**

The CIAB encourages diversity on the board. Both for the next election cycle and for the alternate public member, the CIAB would very much appreciate the nomination of candidates who may help the CIAB have greater diversity of representation. Such candidates could be women, minorities, and persons with a disability.

## Other Actions or Items from the Meeting

**Seating of New Board Members & Alternates**

The following were seated on the CIAB at the September meeting in accordance with the Secretary's selection orders:

| | | |
|---|---|---|
| Bill Sherman | Grower Mem. | NW MI |
| Brian Mitchell | Grower Alt. | NW MI |
| Don Gregory | Handler Mem. | NW MI |
| Jon Veliquette | Handler Alt. | NW MI |
| Rich DeRuiter | Handler Mem. | WC MI |
| Bryan DeRuiter | Handler Alt. | WC MI |
| Todd Fox | Grower Mem. | WC MI |
| Sarah Greiner | Grower Alt. | WC MI |
| Dan Sievert | Grower Mem. | NY |
| Doug DeBadts | Grower Alt. | NY |
| Tom Facer | Handler Mem. | NY |
| Zach DeBadts | Handler Alt. | NY |
| Dave Cox Jr. | At-large Alt. | PA |
| Bryce Dorsing | Handler Mem. | WA |
| Kevin Dorsing | Handler Alt. | WA |
| Jim Seaquist | Grower Mem. | WI |
| Terry Sorenson | Grower Alt. | WI |
| Dan Krowas | Handler Mem. | WI |
| Curtis Wiltse | Handler Alt. | WI |
| Allyn Anthony | Mem. | Public |
| Miguel Gomez | Alt. | Public |

## Election of Officers

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

| | |
|---|---|
| Ray Rowley | Chairman |
| Don Gregory | Vice Chairman |
| Bryce Dorsing | Secretary |
| Jim Seaquist | Treasurer |
| Rich DeRuiter | At-large |
| Tom Facer | At-large |

## Executive Director Announces Retirement

Mr. Hedin, Executive Director, announced that he would retire from his position in 2017. He made the announcement at the September meeting so that the CIAB could undertake a search for his replacement.

## Calendar of Events: October 2016 through February 2017

| | |
|---|---|
| **Oct. 1** | Assessments due |
| | Form 4 & Forms 5A and B due |
| Dec. 1 | Exports and market expansion activities for July 1 through Sept. 30 supporting paperwork due |
| Dec. 6-8 | Great Lakes Expo, Grand Rapids, MI |
| Dec. 12 | Form #3 Sales and Inventory Report (July Through November 30) |
| Jan. 1 | Penalties for late payment of assessments |
| Jan. 17-18 | NW MI Orchard &Vineyard Show, Grand Traverse Resort, Acme, MI |
| Jan. 17-19 | Empire St. Producers Expo, Syracuse, NY |
| Jan. 18-20 | UT Horticultural Meetings, UT |
| Jan. 31 - Feb. 2 | Mid-Atlantic Fruit & Vegetable Convention, Hershey PA |