

mechanisms under the authority of the Federal marketing order. This authority allows the industry to set free and restricted percentages. These restricted percentages are only applied to states or districts with a 3-year average of production greater than six million pounds.

The primary purpose of setting restricted percentages is an attempt to bring supply and demand into balance. If the primary market is over-supplied with cherries, grower prices decline substantially.

The tart cherry sector uses an industry-wide storage program as a supplemental coordinating mechanism under the Federal marketing order. The primary purpose of the storage program is to warehouse supplies in large crop years in order to supplement supplies in short crop years. The storage approach is feasible because the increase in price—when moving from a large crop to a short crop year—more than offsets the cost for storage, interest, and handling of the stored cherries.

The price that growers' receive for their crop is largely determined by the total production volume and carryin inventories. The Federal marketing order permits the industry to exercise supply control provisions, which allow for the establishment of free and restricted percentages for the primary market, and a storage program. The establishment of restricted percentages impacts the production to be marketed in the primary market, while the storage program has an impact on the volume of unsold inventories.

The volume control mechanism used by the cherry industry results in decreased shipments to primary markets. Without volume control the primary markets (domestic) would likely be over-supplied, resulting in lower grower prices.

To assess the impact that volume control has on the prices growers receive for their product, an econometric model has been developed. The econometric model provides a way to see what impacts volume control may have on grower prices. The three districts in Michigan, along with the districts in Utah, Washington, and Wisconsin are the restricted areas for this crop year and their combined total production is 210 million pounds. A 25 percent restriction means 158 million pounds is available to be shipped to primary markets from these three states. Production levels of 7 million pounds for New York, 1.3 million pounds for Oregon, and 3.8 million pounds for Pennsylvania, result in an additional 12.1 million pounds available for primary market shipments.

In addition, USDA requires a 10 percent release from reserves as a market growth factor. This results in an additional 18 million pounds being available for the primary market. The 158 million pounds from Michigan, Utah, Washington, and Wisconsin, the 12 million pounds from the other producing states, the 18 million pound release, and the 10 million pound carryin inventory gives a total of 198 million pounds being available for the primary markets.

The econometric model is used to estimate grower prices with and without regulation. Without the volume controls, the estimated grower price would be approximately \$0.36 per pound. With volume controls, the estimated grower price would increase to approximately \$0.43 per pound.

The use of volume controls is estimated to have a positive impact on grower's total revenues. Without regulation, growers' total revenues from processed cherries are estimated to be \$79.9 million in 2003–2004. In this scenario, production is 222 million pounds and price, without regulation, is estimated to be \$0.36 per pound. With regulation, growers' revenues from processed cherries are estimated to be \$85.1 million. In this scenario, 198 million pounds are available for the primary markets with an estimated price of \$0.43 per pound. Over the past several seasons, growers received approximately \$0.10 cents for restricted (diverted) cherries.

The results of econometric analysis are subject to some level of uncertainty. As long as average grower prices are \$0.38 per pound or greater, then growers' are better off with the regulation. With a price of \$0.38 per pound, the estimated revenues under no regulation would be similar to the revenues with a 25 percent regulation assuming that all the production would be sold and marketed under the no regulation scenario.

It is concluded that the 25 percent volume control would not unduly burden producers, particularly smaller growers. The 25 percent restriction would be applied to the growers in Michigan, Utah, Washington, and Wisconsin. The growers in the other three regulated states will benefit from this restriction. Michigan, New York, and Washington produced over 91 percent of the tart cherry crop during the 2001–2002 crop year.

Recent grower prices have been as high as \$0.44 per pound in the 2002–2003 crop year. At current production and yield levels, the cost of production is reported to be \$0.43 per pound. Thus, the estimated \$0.43 per pound received

by growers under the regulation scenario just covers the cost of production. Under the no regulation scenario, estimated grower prices would not cover the total cost of production. Lower yields and production result in higher costs of production. Overhead or fixed costs are spread over lower levels of production which result in higher costs of production per acre. Even in years when no production is harvested, growers face fixed costs of production and additional costs associated with maintaining the orchard for future years of production. The use of volume controls is believed to have little or no effect on consumer prices and will not result in fewer retail sales or sales to food service outlets.

Without the use of volume controls, the industry could be expected to start to build large amounts of unwanted inventories. These inventories have a depressing effect on grower prices. The econometric model shows for every 1 million-pound increase in carryin inventories, a decrease in grower prices of \$0.0033 per pound occurs. The use of volume controls allows the industry to supply the primary markets while avoiding the disastrous results of over-supplying these markets. In addition, through volume control, the industry has an additional supply of cherries that can be used to develop secondary markets such as exports and the development of new products. The use of reserve cherries in the production shortened 2002/03 crop year proved to be very useful and beneficial to growers and packers.

In discussing the possibility of marketing percentages for the 2003–2004 crop year, the Board considered the following factors contained in the marketing policy: (1) The estimated total production of tart cherries; (2) the estimated size of the crop to be handled; (3) the expected general quality of such cherry production; (4) the expected carryover as of July 1 of canned and frozen cherries and other cherry products; (5) the expected demand conditions for cherries in different market segments; (6) supplies of competing commodities; (7) an analysis of economic factors having a bearing on the marketing of cherries; (8) the estimated tonnage held by handlers in primary or secondary inventory reserves; and (9) any estimated release of primary or secondary inventory reserve cherries during the crop year.

The Board's review of the factors resulted in the computation and announcement in September 2003 of the restricted percentages proposed in this rule (75 percent free and 25 percent restricted).