

**The Future of the
Sweet Cherry Market
in the U.S. and the World**

**Desmond O'Rourke,
Belrose, Inc.**

The Sweet Cherry Industry

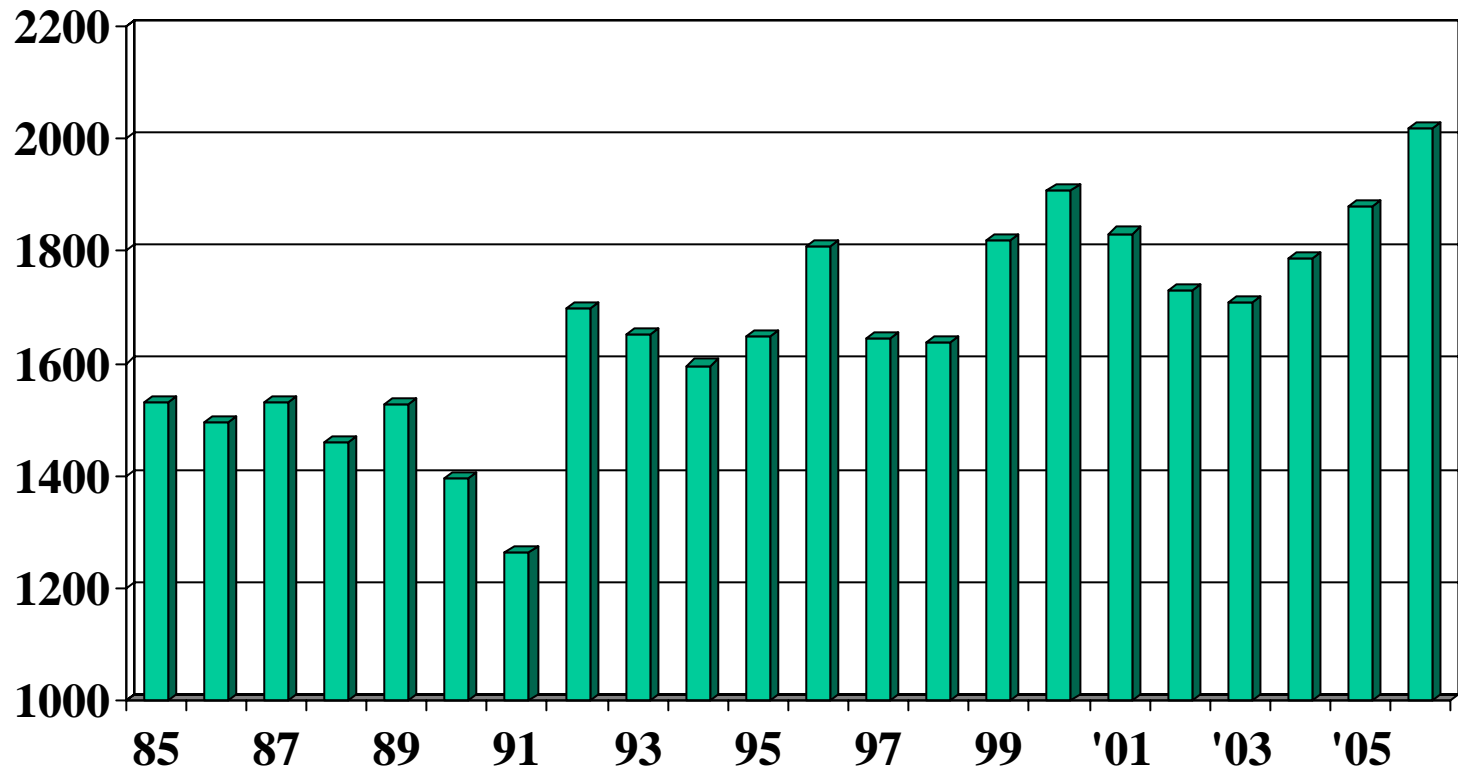
- **Rapid expansion in the last decade in the United States and the world.**
- **Profitability has been high relative to competing fruits.**
- **Further expansion is likely in a globally competitive marketplace.**

Objectives for Today

- **Review recent industry developments.**
- **Forecast the likely future expansion of the industry in the U. S. and the world.**
- **Estimate the likely price response to expansion of supplies.**
- **Review alternative strategies for sustainable growth and profitability.**
- **Find inspiration among Oregon icons.**

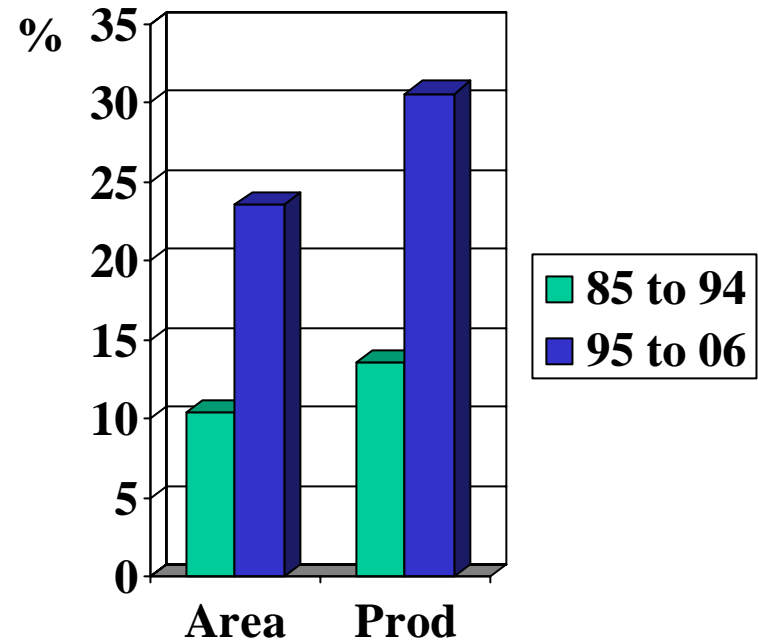
World: Sweet Cherry Production

1985-2006 (1,000 metric tons)



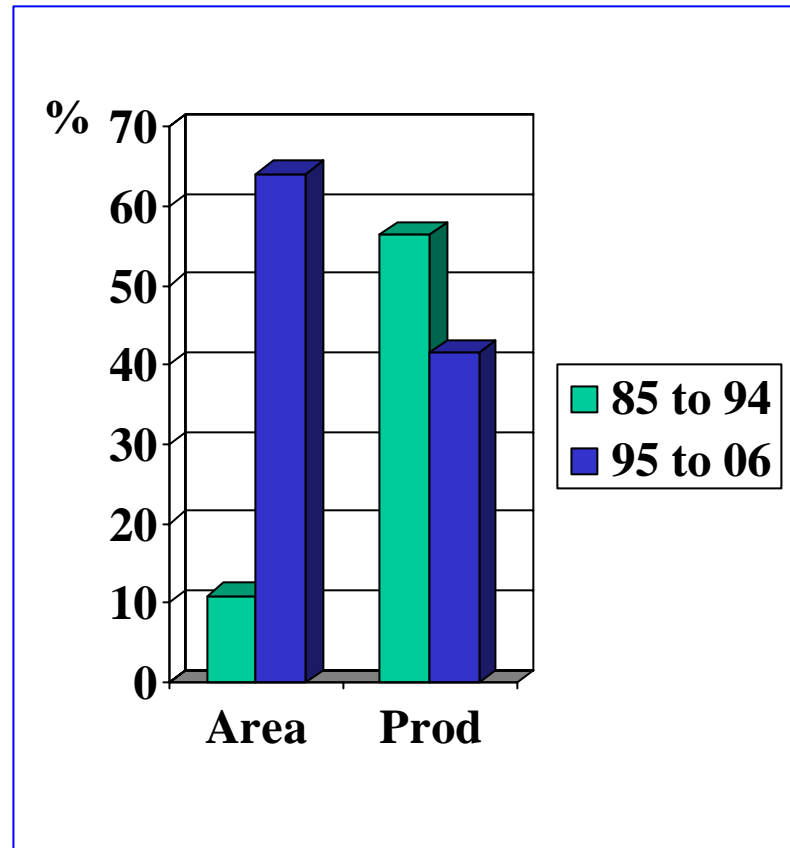
Recent Surge in World Sweet Cherry Production

- Expansion in both area harvested and production was slow between 1985 and 1994.
- The rate of increase doubled after 1995.



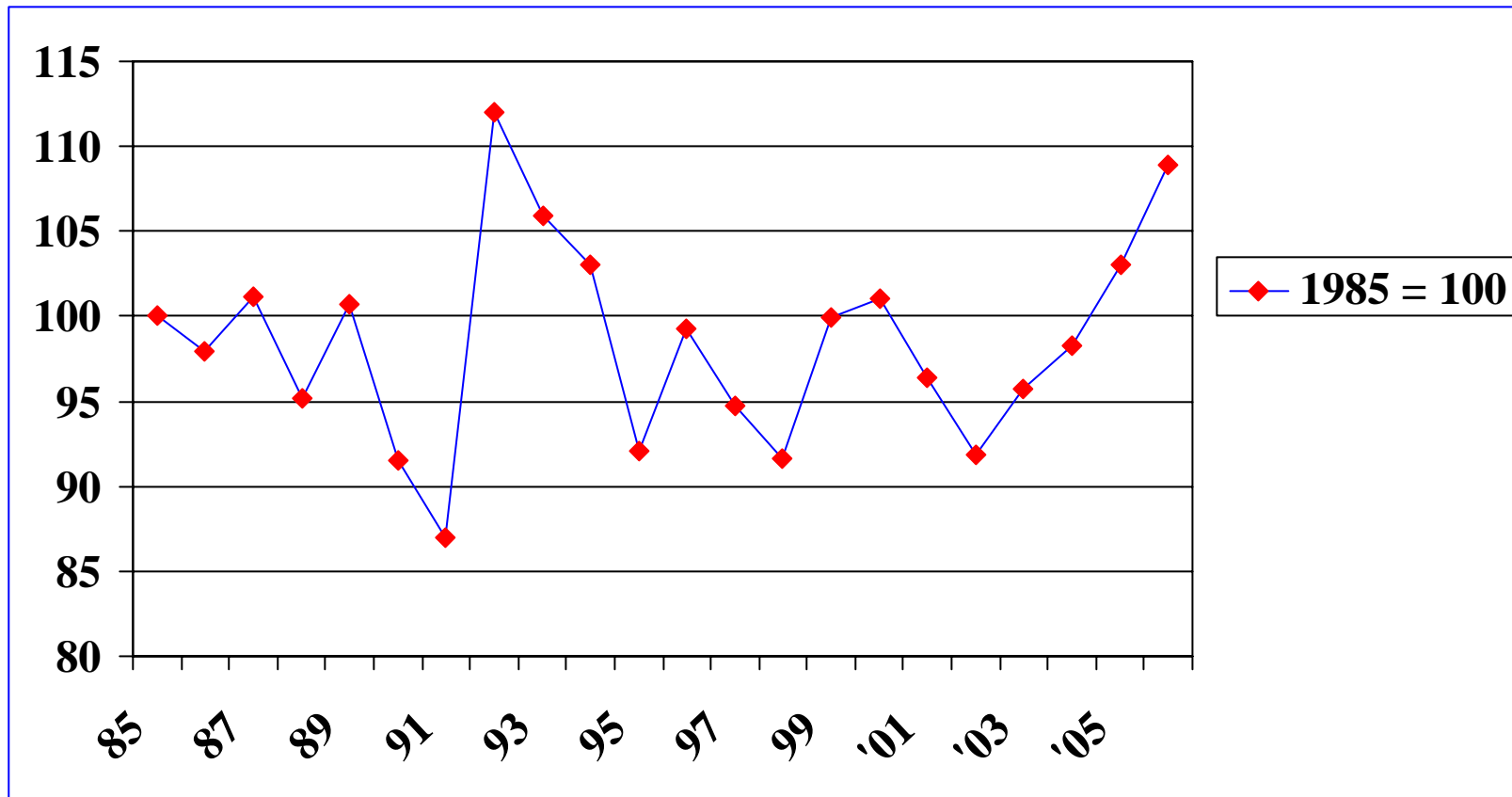
Faster Growth in U.S. Sweet Cherry Production

- Area in U.S. grew at same rate as world from 85 to 94, but production grew much faster.
- Area grew almost 3 times faster after 1995 but production only grew 36 % faster.
- Big catch-up in U.S. production may lie ahead.



How the Sweet Cherry Industry Has Avoided Overproduction

Average Yields, 1985 = 100

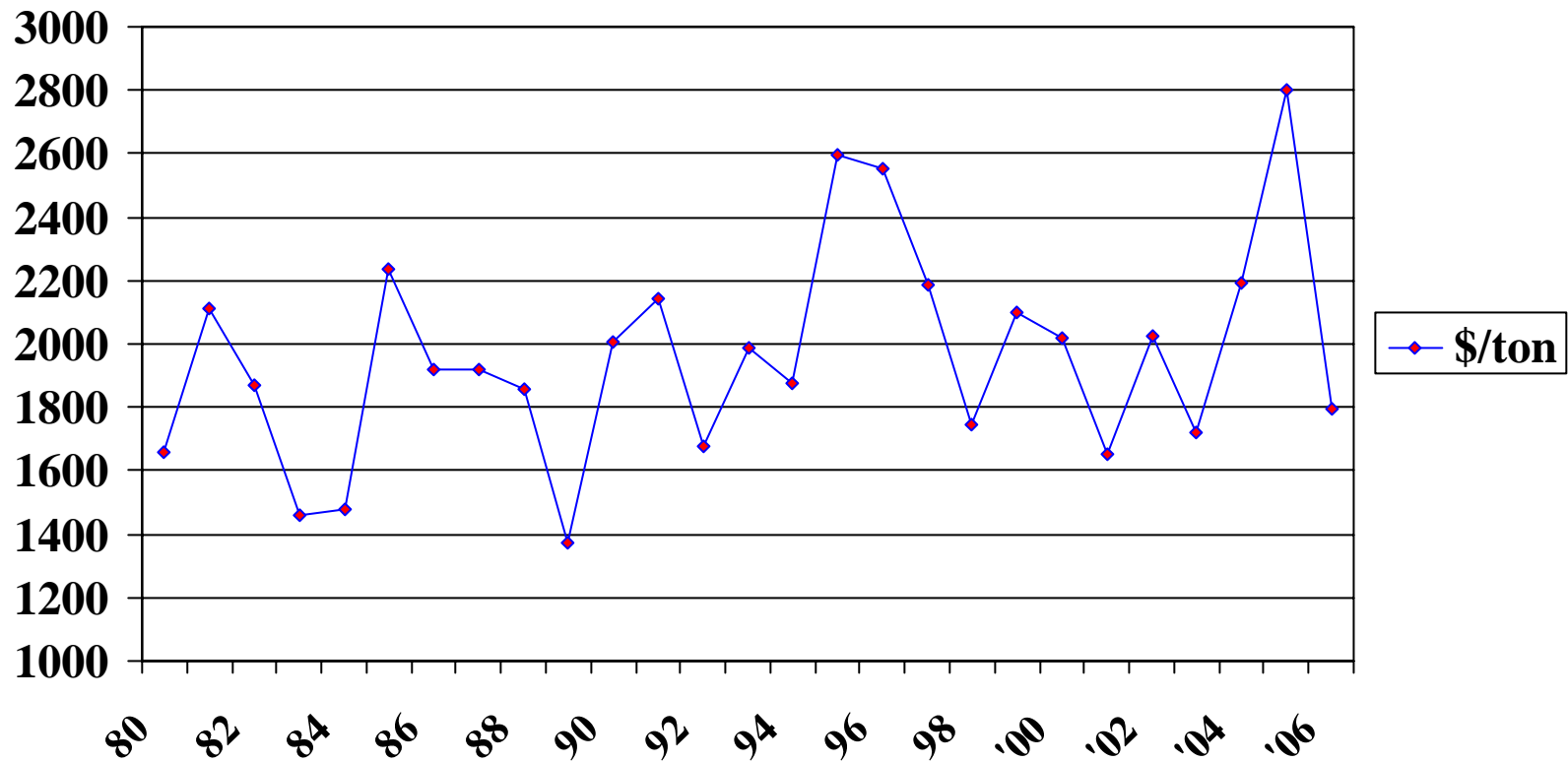


Similar Yield Stagnation in the United States

- **Average U.S. yields rose 40 percent between 1985 and 1994 but fell back 14 percent by 2006. Not clear why.**
- **Were plantings made in inappropriate sites, a problem difficult to correct, or**
- **Are lower yields due simply to more younger trees, something that will be corrected as trees mature?**

PNW: Grower Prices of Fresh Sweet Cherries, 1980-2006

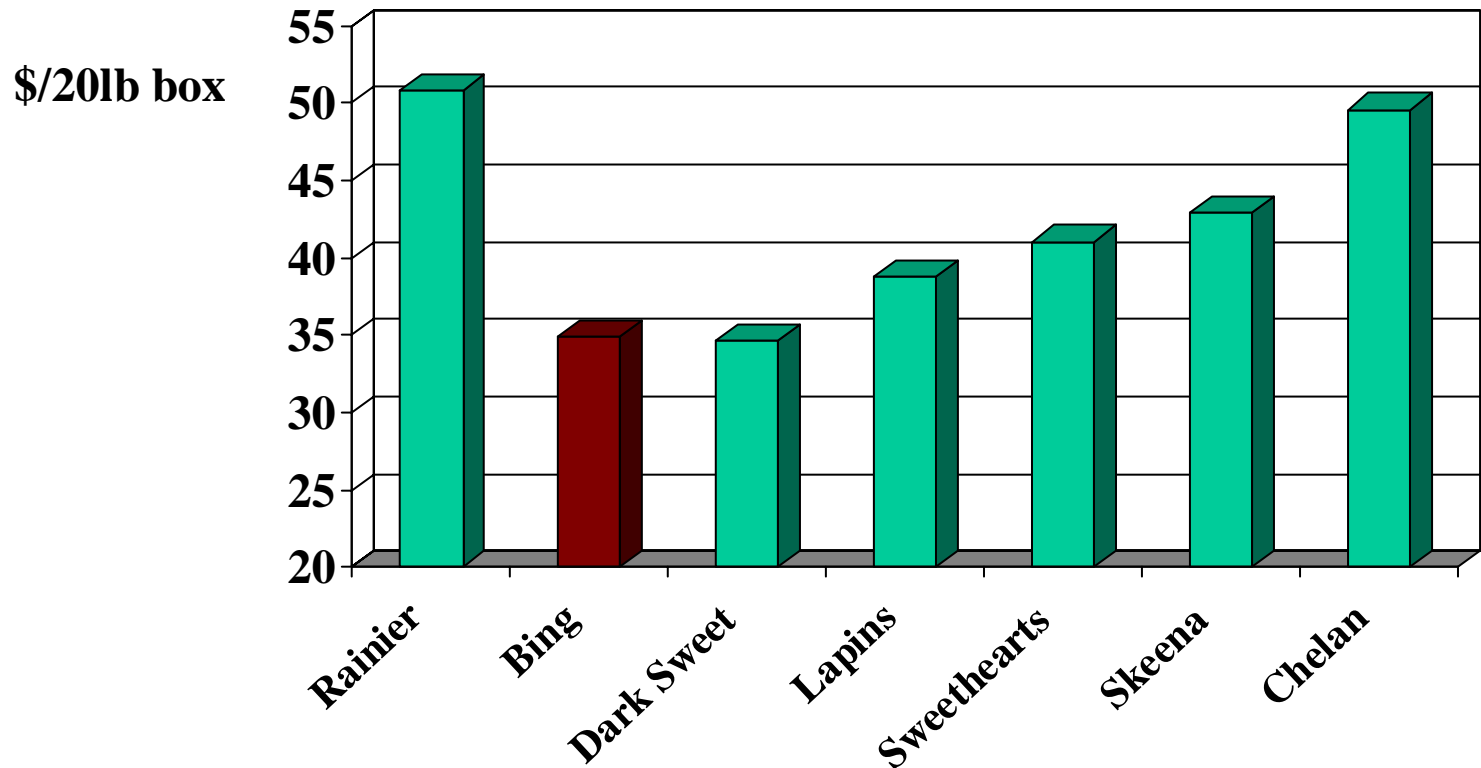
(at constant 2006 prices)



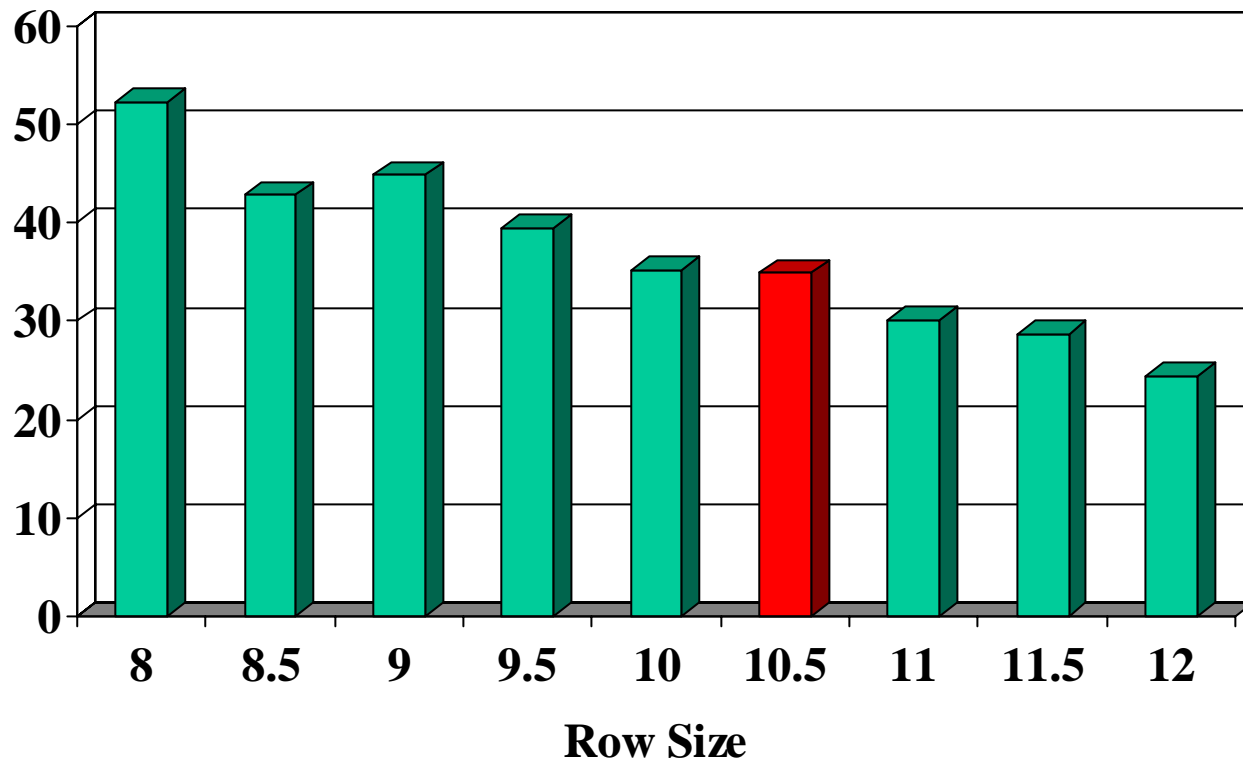
Why Sweet Cherry Prices Have Resisted Downward Pressure

- 1. World population grew 35% between 1985 and 2006. Thus, per capita supplies of sweet cherries fell 2 percent in the period.**
- 2. The sweet cherry season has been expanded at both ends.**
- 3. Producers have found relief valve in exports.**
- 4. Expansion of Southern Hemisphere production does not add congestion in summer months.**
- 5. Quality still vital to returns.**

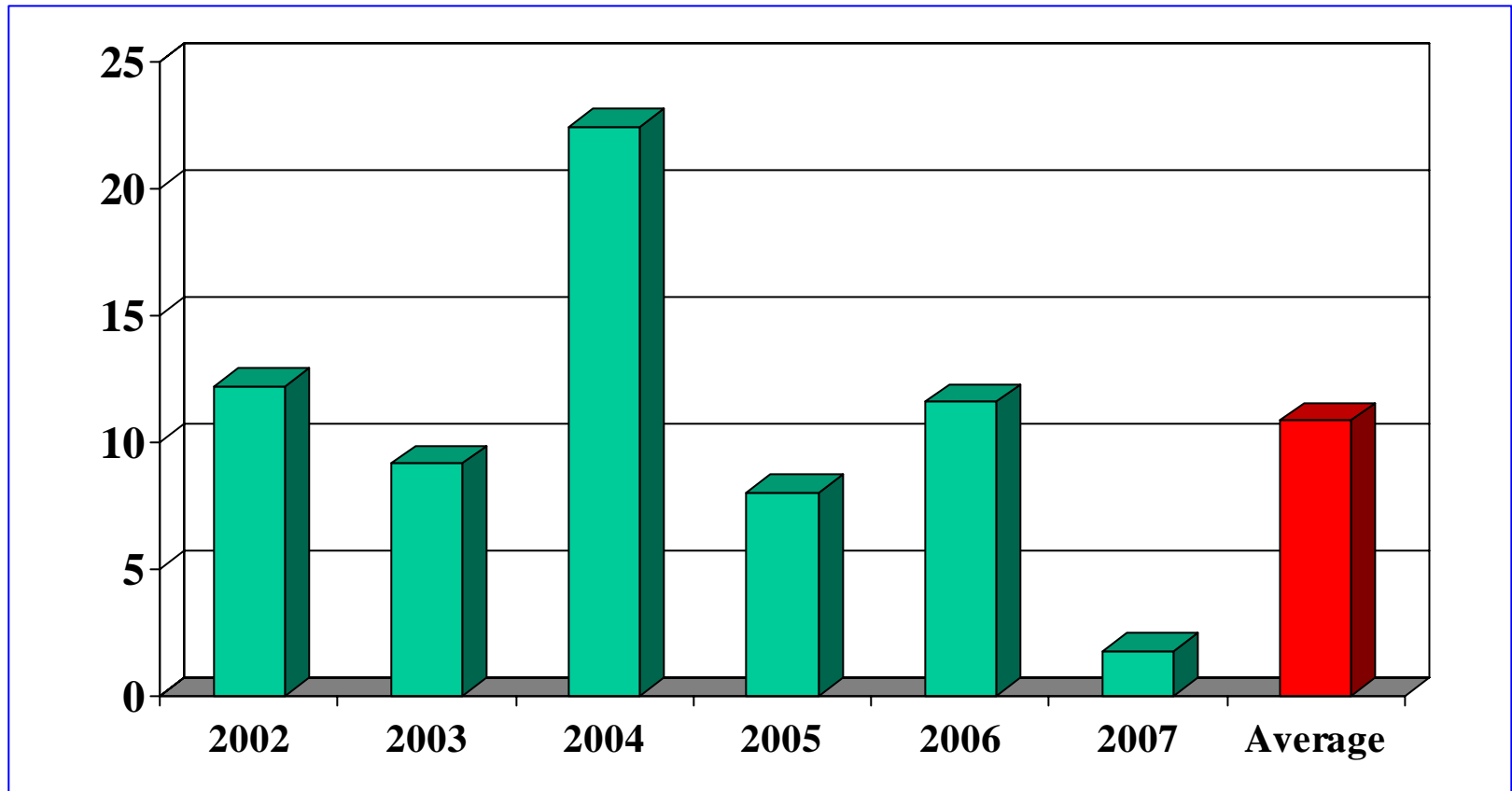
Price Variations, by Variety, 2005-07



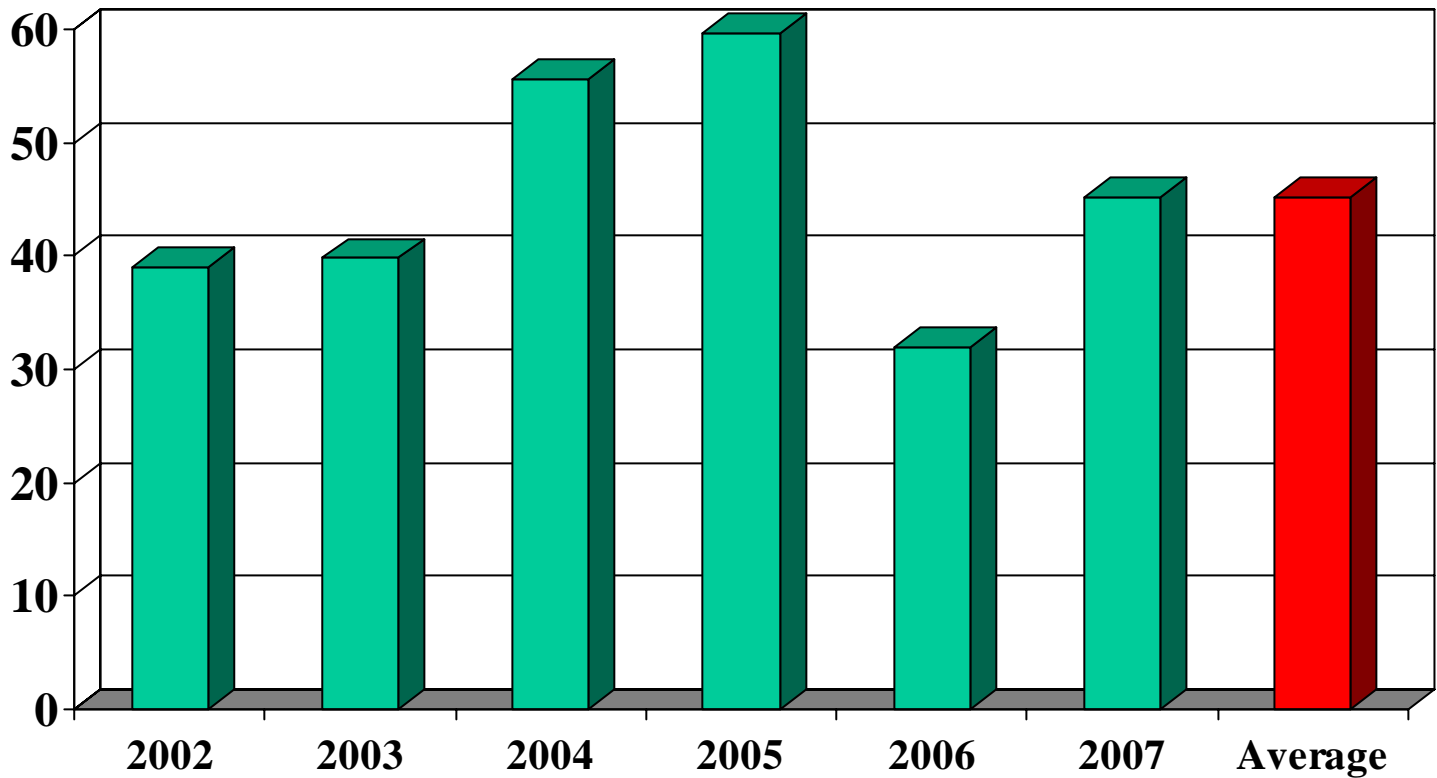
Average Price of Bings, by Row Size, 2002-07



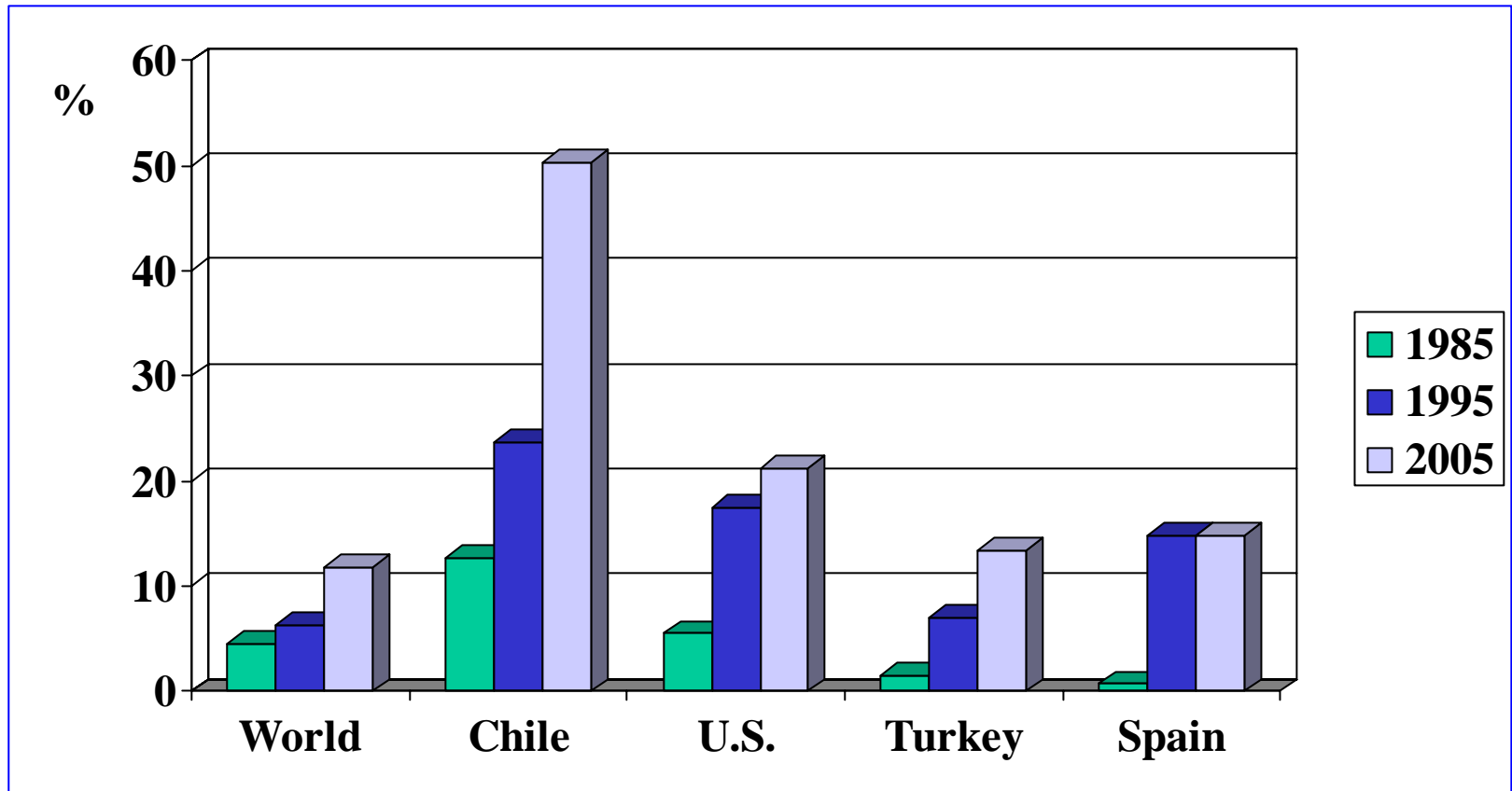
Bings: 12-row Share of Shipments (%)



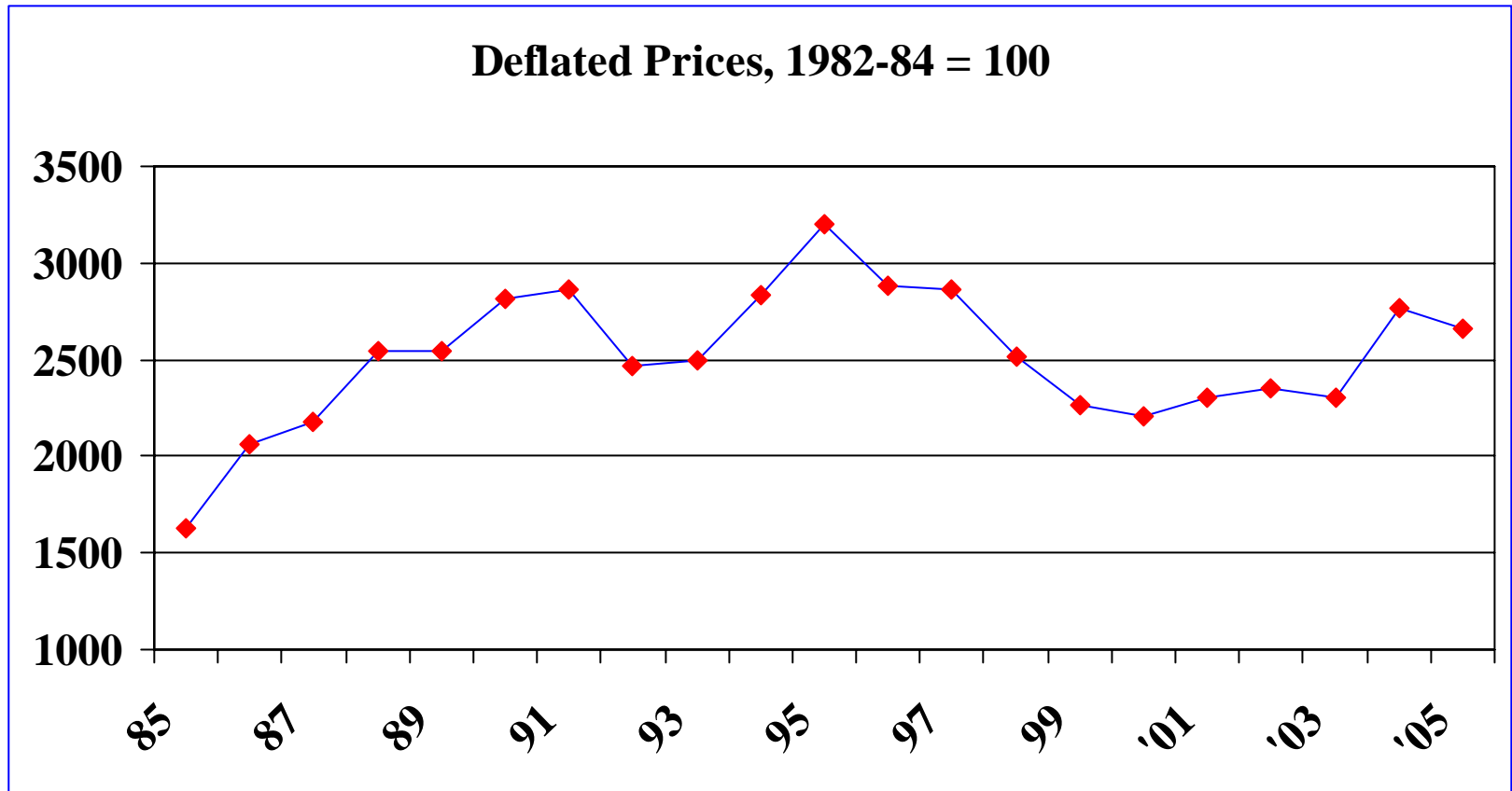
PNW Fresh Sweet Cherries: Percent Shipped before July 1, 2002-07



Share of Sweet Cherries Exported Fresh, 1985, 1995 and 2005



Trend of World Export Prices of Fresh Sweet Cherries, 1985-2006



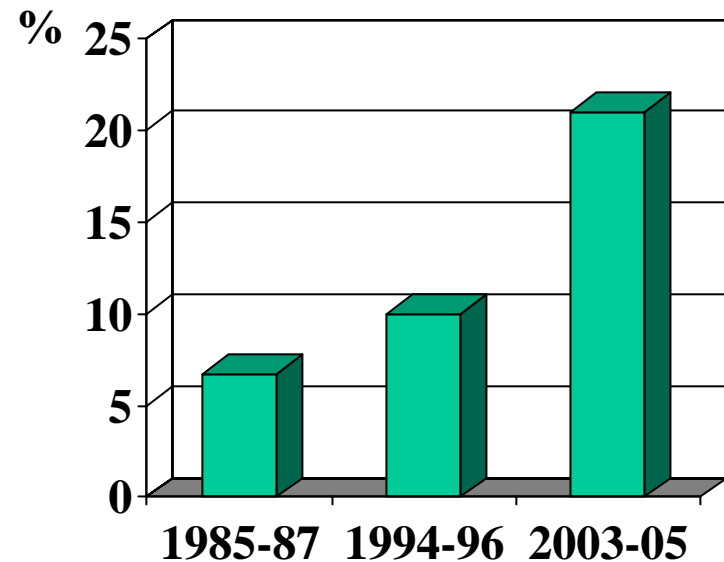
Trend of World Export Prices

- **Real sweet cherry export prices had a strong upward trend between 1985 and 1995.**
- **They have generally moved sideways since.**
- **There was a strong up-tick in 2004.**
- **Export prices have been sensitive to increased supplies. Prices have fallen 4 percent for each 10 percent increase in volume.**

Problems with Export Expansion

- Ten countries take 84.6% of all imports (83.1% by value).
- EU dominates imports, but its per capita consumption is falling.
- Low consumption in big countries like China, U.S., Japan, Brazil.
- Exporters taking bigger share of world imports.

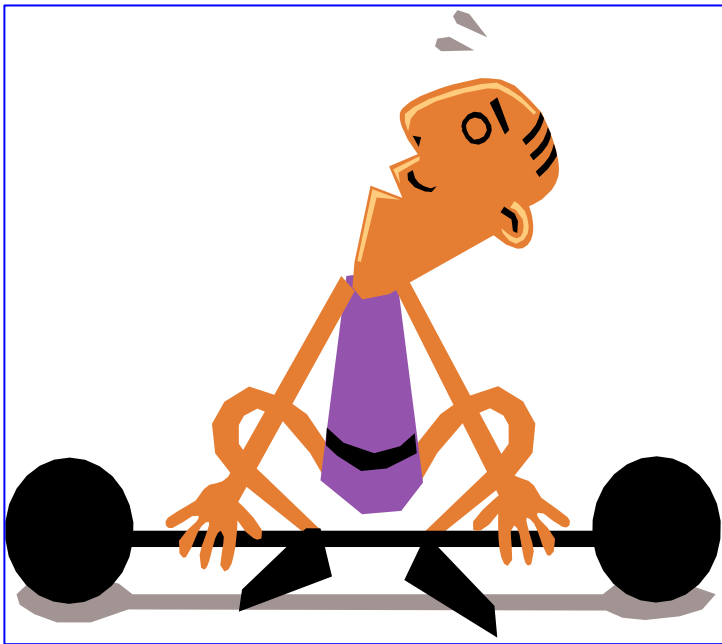
Imports by Major Exporters



Future Sweet Cherry Production

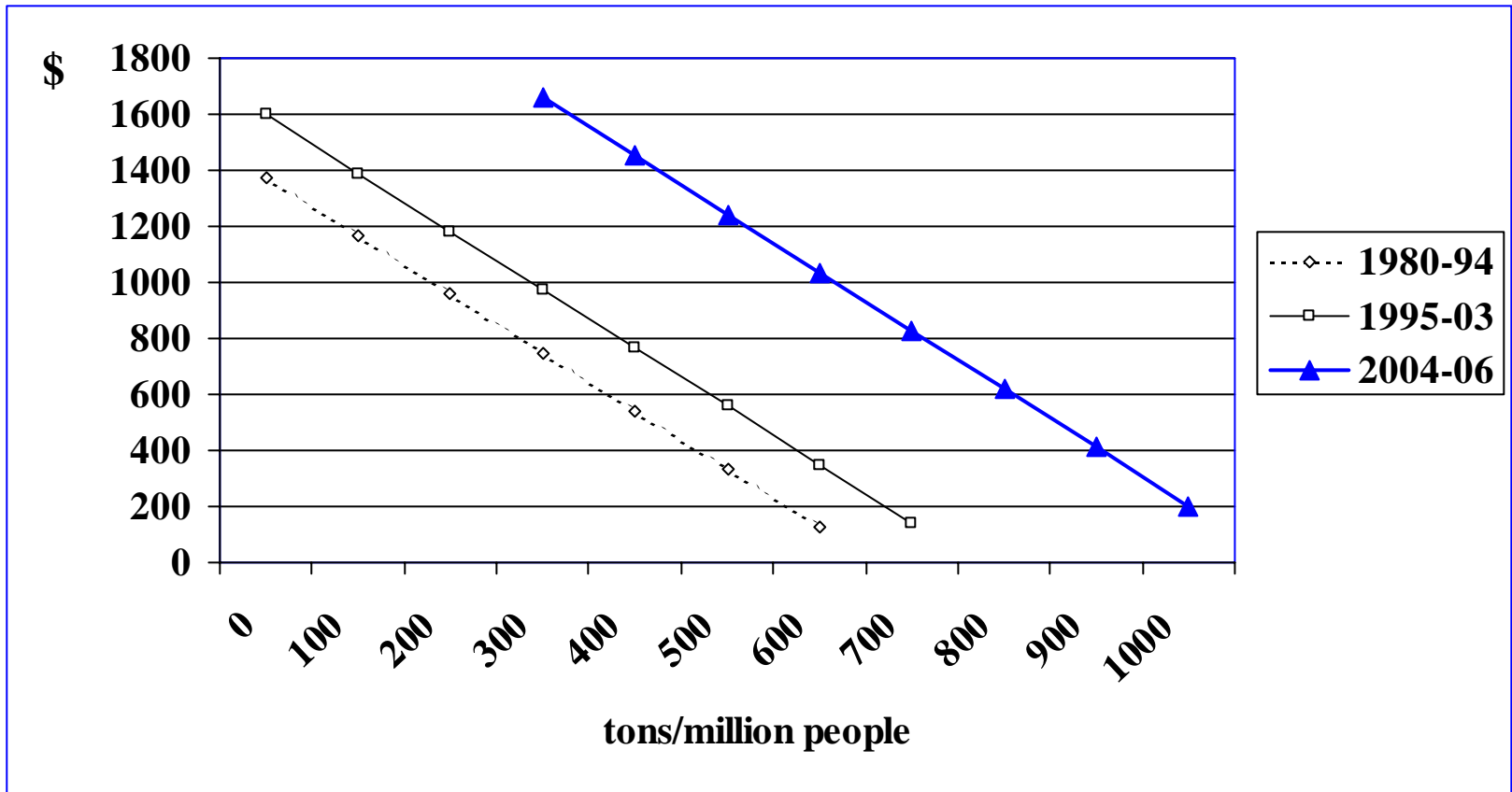
Country	2004-06	2015	Change
	(mt)	(mt)	(%)
U.S.	250,219	324,000	+ 29.5
Turkey	271,751	402,500	+ 48.1
Iran	224,000	270,000	+ 20.5
Italy	100,277	165,000	+ 64.5
Spain	89,956	116,000	+ 29.0
Chile	32,667	57,000	+ 74.5
All Other	924,950	1,291,500	+ 39.6
WORLD	1,893,820	2,626,000	+ 38.7

Aspects of Increased Production



- **By 2015, per capita supplies will be up 20%.**
- **U.S. production will increase by 3% a year.**
- **Sizable production increases among major competitors.**
- **Increased, sophisticated, domestic and export competition.**

Estimated Demand Curves for PNW Fresh Sweet Cherries, 1985-2006



Hazards of Forecasting PNW Prices

- **Is the rightward shift in demand in 2004-06 permanent, or could demand shift back?**
- **Is the 1995-2003 demand curve closer to the long-term relationship?**
- **We make the optimistic assumption that the rightward shift is permanent.**
- **Future sweet cherry prices will be determined along the 2004-06 demand curve.**

Assumptions in Forecasting Future PNW Fresh Sweet Cherry Prices

- **Price = \$2,283 – 2.081 Fresh Quantity p/c**
- **Population estimate in 2015 is based on recent trends.**
- **Initial forecast uses average expected yields in 2015.**
- **Fresh supplies in 2015 will be 80 percent of PNW sweet cherry production.**
- **Per capita supplies in 2015 will be up 21%.**

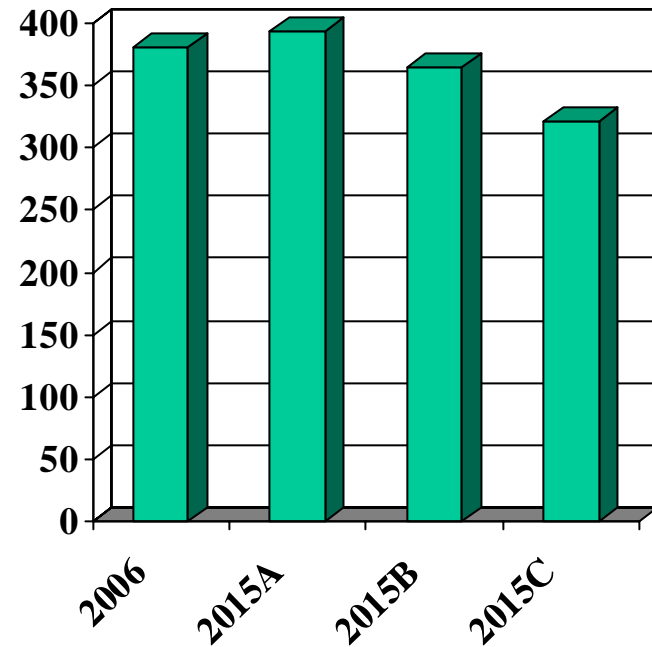
PNW: Fresh Supplies, Prices and Revenues, 2006 Actual and 2015 Forecast

Year	U.S. Population	Supplies	Forecast Price	Forecast Revenue
	(millions)	(tons/mill)	(\$/ton)	(\$ million)
2006	299.1	556.37	2,290	381.1
A. 2015	326.4	674.02	1,792	394.2
	+ 9.1%	+ 21.1%	- 21.7%	+ 3.4%
B. 2015 (+10%)	326.4	741.42	1,506	364.5
	+ 9.1%	+ 33.3%	- 34.2%	- 4.4%
C. 2015 (+20%)	326.4	808.82	1,219	321.8
	+ 9.1%	+ 45.4%	- 46.8%	- 15.6%

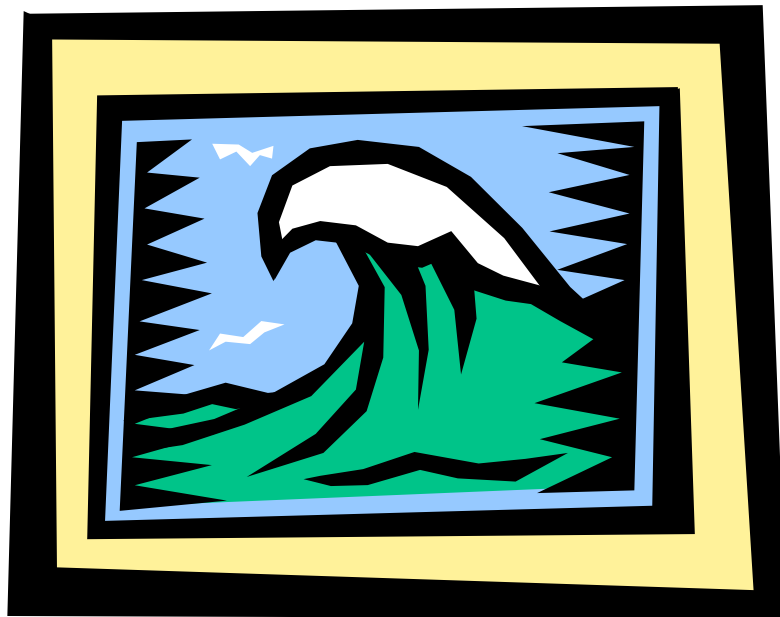
Sensitivity of Forecast Prices

- Forecast 2015 supplies at average yields will bring prices 22% below 2006.
- Prices will fall a further 1.2% for each 1% increase in yields.
- With above average yields, grower revenues will fall below 2006 level.
- Breakeven costs will have to fall accordingly.

Grower Revenues (\$m)



Surge Could Come Sooner



**Area planted can rise but
production plateau.**

**There can be long lulls
between major crests.**

**Major crests can also
come close together.**

**The surge in world or
U.S. production could
come before 2015.**

Challenges and Opportunities for PNW Sweet Cherry Industry

- 1. Long-term demand conditions still favorable as more consumers become affluent.**
- 2. Recession could make consumers more cautious.**
- 3. Expect substantial increases in global supplies in next few years.**
- 4. Sweet cherry prices still quite sensitive to the total supplies shipped in any week or season.**
- 5. Market gluts still possible in certain periods.**

Challenges and Opportunities for Sweet Cherry Growers

- **General levels of prices will continue to fluctuate from year to year by \$400-\$1,000.**
- **Still substantial premiums for preferred varieties, larger sizes, off-peak shipments.**
- **Competing fruits are striving for better, more consistent quality.**
- **Thus, market will have less and less tolerance for inadequacies in quality.**

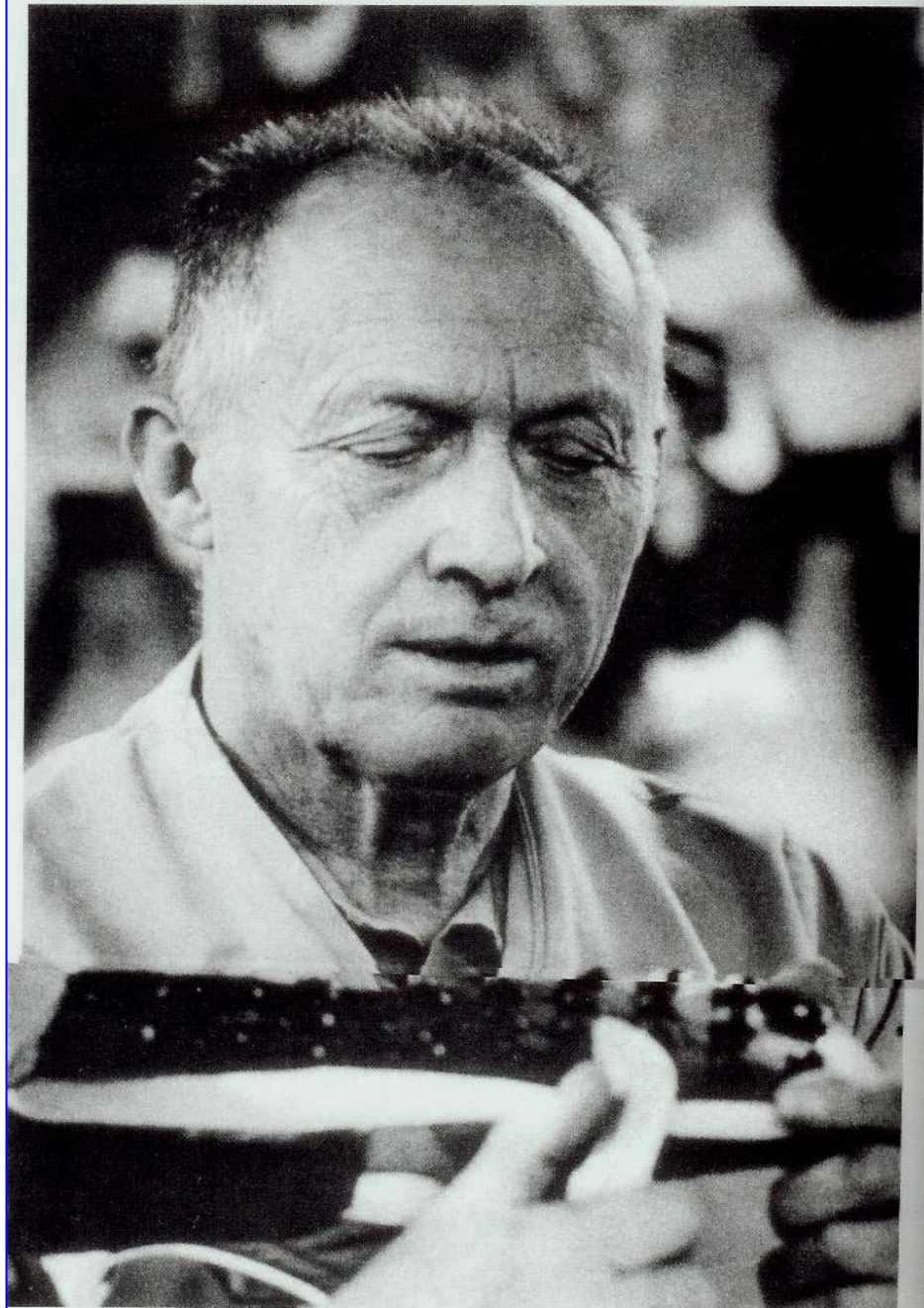
Major Strategies to Cope with Production Surges

- 1. Keep driving demand curve rightward with push (promotion) and pull (value) tactics.**
- 2. Identify and target export markets with best growth potential.**
- 3. Only plan orchard expansion or renewal that pencil out in pessimistic scenarios.**
- 4. Commit to continuous lowering of unit costs and increases in productivity.**

The first two strategies will require the sweet cherry industry to make up-front investments in market research, development and promotion. This makes more sense than attempting to do the same after a crisis has hit and industry finances have been weakened.

The third and fourth strategies will require caution in spending when times appear good and the industry is seized by euphoria. But such caution could save the farm and the industry if times turn bad.

**Tips for World
Class
Competitors
from an Oregon
Icon,
Bill Bowerman,
trainer of many
national and
Olympic Track
& Field
Champions**

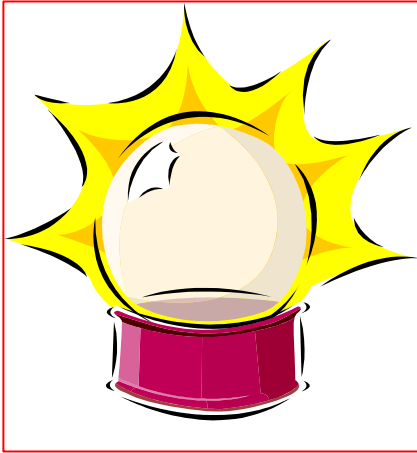


Bill whittles excess rubber from waffle shoe sole in about 1972

Lessons from Bill Bowerman

- **Learn from the world's best: Nurmi (Finland), Igloi (Hungary), Lydiard (New Zealand). He did.**
- **Study major competitors to develop counter strategies for your athletes. He did.**
- **Pay attention to every detail. Each extra ounce in a shoe equals 55 lbs extra a runner carries per mile. So, he designed lighter racing shoes.**
- **Also designed waffle soles to prevent training injuries.**
- **His shoe designs helped make Nike a world success.**
- **He helped design faster, safer running tracks.**
- **He brought jogging to the masses in the United States.**

You Have been Warned !!!



- Our best forecasts suggest much bigger world/ U.S. sweet cherry crops ahead.
- Going will get rougher for marginal operators. Best will still do well.
- Need to build a base for sustainable farm and industry profitability.
- Now is the time to set up **world class organizations and systems** to meet challenges.
- Need Bowerman's searching mind, focus on detail, innovation, application.

**Thank you for your attention.
I welcome any comments.**

**You can contact Des O'Rourke at
belrose@pullman.com
Or at 509-332-1754**