

Rules and Regulations

Federal Register

Vol. 80, No. 104

Monday, June 1, 2015

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DEPARTMENT OF AGRICULTURE

Agricultural Marketing Service

7 CFR Part 930

[Doc. No. AMS-FV-14-0077; FV14-930-2 FR]

Tart Cherries Grown in the States of Michigan, et al.; Free and Restricted Percentages for the 2014–15 Crop Year for Tart Cherries

AGENCY: Agricultural Marketing Service, USDA.

ACTION: Final rule.

SUMMARY: This rule implements a recommendation from the Cherry Industry Administrative Board (Board) to establish free and restricted percentages for the 2014–15 crop year under the marketing order for tart cherries grown in the states of Michigan, New York, Pennsylvania, Oregon, Utah, Washington, and Wisconsin (order). The Board locally administers the marketing order and is comprised of producers and handlers of tart cherries operating within the production area. This action establishes the proportion of tart cherries from the 2014 crop which may be handled in commercial outlets at 80 percent free and 20 percent restricted. In addition, this action increases the carry-out volume of fruit to 50 million pounds for this season. These percentages should stabilize marketing conditions by adjusting supply to meet market demand and help improve grower returns.

DATES: Effective June 2, 2015.

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Small businesses may request information on complying with this regulation by contacting Jeffrey Smutny, Marketing Order and Agreement Division, Fruit and Vegetable Program, AMS, USDA, 1400 Independence Avenue SW., STOP 0237, Washington, DC 20250-0237; Telephone: (202) 720-2491, Fax: (202) 720-8938, or Email: *Jeffrey.Smutney@ams.usda.gov*.

SUPPLEMENTARY INFORMATION: This final rule is issued under Marketing Agreement and Order No. 930, both as amended (7 CFR part 930), regulating the handling of tart cherries produced in the States of Michigan, New York, Pennsylvania, Oregon, Utah, Washington and Wisconsin, hereinafter referred to as the “order.” The order is effective under the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601–674), hereinafter referred to as the “Act.”

The Department of Agriculture (USDA) is issuing this proposed rule in conformance with Executive Orders 12866, 13563, and 13175.

This final rule has been reviewed under Executive Order 12988, Civil Justice Reform. Under the order provisions now in effect, free and restricted percentages may be established for tart cherries handled during the crop year. This rule establishes free and restricted percentages for tart cherries for the 2014–15 crop year, beginning July 1, 2014, through June 30, 2015.

The Act provides that administrative proceedings must be exhausted before parties may file suit in court. Under section 608c(15)(A) of the Act, any handler subject to an order may file with USDA a petition stating that the order, any provision of the order, or any obligation imposed in connection with the order is not in accordance with law and request a modification of the order or to be exempted therefrom. A handler is afforded the opportunity for a hearing on the petition. After the hearing, USDA would rule on the petition. The Act provides that the district court of the United States in any district in which the handler is an inhabitant, or has his or her principal place of business, has jurisdiction to review USDA’s ruling on the petition, provided an action is filed not later than 20 days after the date of the entry of the ruling.

This final rule establishes free and restricted percentages for the 2014–15 crop year at 80 percent free and 20 percent restricted. In addition, this action increases the carry-out volume of fruit to 50 million pounds for calculation purposes for this season. This action should stabilize marketing conditions by adjusting supply to meet market demand and help improve grower returns. The change in carry-out was recommended by the Board at a meeting on June 26, 2014, and the final percentages were recommended by the Board at a meeting on September 11, 2014.

Section 930.51(a) of the order provides authority to regulate volume by designating free and restricted percentages for any tart cherries acquired by handlers in a given crop year. Section 930.50 prescribes procedures for computing an optimum supply based on sales history and for calculating these free and restricted percentages. Free percentage volume may be shipped to any market, while restricted percentage volume must be held by handlers in a primary or secondary reserve, or be diverted or used for exempt purposes as prescribed in §§ 930.159 and 930.162 of the regulations. These activities include, in part, the development of new products, sales into new markets, the development of export markets, and charitable contributions.

Under § 930.52, only those districts with an annual average production of at least six million pounds are subject to regulation, and any district producing a crop which is less than 50 percent of its annual average is exempt. The regulated districts for the 2014–2015 crop year are: District 1—Northern Michigan; District 2—Central Michigan; District 3—Southern Michigan; District 4—New York; District 7—Utah; District 8—Washington; and District 9—Wisconsin. Districts 5 and 6 (Oregon and Pennsylvania, respectively) are not regulated for the 2014–15 season.

Demand for tart cherries and tart cherry products tends to be relatively stable from year to year. Conversely, annual tart cherry production can vary greatly. In addition, tart cherries are processed and can be stored and carried over from crop year to crop year, further impacting supply. As a result, supply and demand for tart cherries are rarely in balance.

Because demand for tart cherries is inelastic, total sales volume is not very responsive to changes in price. However, prices are very sensitive to changes in supply. As such, an oversupply of cherries would have a sharp negative effect on prices, driving down grower returns. The Board, aware of this economic relationship, focuses on using the volume control provisions in the order to balance supply and demand to stabilize industry returns.

Pursuant to § 930.50 of the order, the Board meets on or about July 1 to review sales data, inventory data, current crop forecasts, and market conditions for the upcoming season and, if necessary, to recommend preliminary free and restricted percentages if anticipated supply would exceed demand. After harvest is complete, but no later than September 15, the Board meets again to update their calculations using actual production data, consider any necessary adjustments to the preliminary percentages, and determine if final free and restricted percentages should be recommended to the Secretary.

The Board uses sales history, inventory, and production data to determine whether there is a surplus, and if so, how much volume should be restricted to maintain optimum supply. The optimum supply represents the desirable volume of tart cherries that should be available for sale in the coming crop year. Optimum supply is defined as the average free sales of the prior three years plus desirable carry-out inventory. Desirable carry-out is the amount of fruit needed by the industry to be carried into the succeeding crop year to meet marketing demand until the new crop is available. Desirable carry-out is set by the Board after considering market circumstances and needs. Section 930.50(a) specifies that desirable carry-out can range from zero to a maximum of 20 million pounds, but also authorizes the Board to establish an alternative carry-out figure with the approval of the Secretary.

After the Board determines optimum supply and desirable carry-out, it must examine the current year's available volume to determine whether there is an oversupply situation. Available volume includes carry-in inventory (any inventory available at the beginning of the season) along with that season's production. If production is greater than the optimum supply minus carry-in, the

difference is considered surplus. This surplus tonnage is divided by the sum of production in the regulated districts to reach a restricted percentage. This percentage must be held in reserve or used for approved diversion activities, such as exports.

The Board met on June 26, 2014, and computed an optimum supply of 218 million pounds for the 2014–15 crop year using the average of free sales for the three previous seasons and a desirable carry-out of 20 million pounds. The Board then subtracted the estimated carry-in of 81 million pounds from the optimum supply to calculate the production needed from the 2014–15 crop to meet optimum supply. This number, 137 million pounds, was subtracted from USDA's estimated 2014–15 production of 264 million pounds to calculate a surplus of 127 million pounds of tart cherries. The surplus minus the market growth factor was then divided by the expected production in the regulated districts (261 million pounds) to reach a preliminary restricted percentage of 41 percent for the 2014–15 crop year.

In discussing the calculations, industry participants commented that a carry-out of 20 million pounds would not meet their needs at the end of the season before the new crop is available. To address that concern, the Board recommended increasing the desirable carry-out to 50 million pounds for the 2014–2015 season. This change increased the optimum supply to 248 million pounds, reducing the surplus to 97 million pounds.

The Board also discussed whether the three-year average was an accurate estimate of supply needed for the coming season, considering the substantial loss of supply in 2012 due to weather. Including the use of reserves, sales in 2012–13 reached only 123 million pounds, nearly 100 million pounds less than 2013–14 sales. Using data from earlier seasons, the Board agreed that 250 million pounds of free supply is needed in a typical season and voted to make an economic adjustment of 52 million pounds to reach that level.

In addition, USDA's "Guidelines for Fruit, Vegetable, and Specialty Crop Marketing Orders" specify that 110 percent of recent years' sales should be made available to primary markets each season before recommendations for volume regulation are approved. This

requirement is codified in § 930.50(g) of the order, which specifies that in years when restricted percentages are established, the Board shall make available tonnage equivalent to an additional 10 percent of the average sales of the prior three years for market expansion (market growth factor). The Board complied with this requirement by adding 20 million pounds (198 million times 10 percent, rounded) to the free supply.

The economic adjustment and market growth factor further reduced the preliminary surplus to 25 million pounds. After these adjustments, the preliminary restricted percentage was recalculated as 10 percent (25 million pounds divided by 261 million pounds).

The Board met again on September 11, 2014, to consider establishing final volume regulation percentages for the 2014–15 season. The final percentages are based on the Board's reported production figures and the supply and demand information available in September. The total production for the 2014–15 season was 297.7 million pounds, 34 million pounds above USDA's June estimate. In addition, growers diverted 0.2 million pounds in the orchard, leaving 297.5 million pounds available to market. Using the actual production numbers, and accounting for the recommended increase in desirable carry-out and economic adjustment, as well as the market growth factor, the restricted percentage was recalculated.

The Board subtracted the carry-in figure used in June of 81 million pounds from the optimum supply of 248 million pounds to determine 167 million pounds of 2014–15 production would be necessary to reach optimum supply. The Board subtracted the 167 million pounds from the actual production of 298 million pounds, resulting in a surplus of 131 million pounds of tart cherries. The surplus was then reduced by subtracting the economic adjustment of 52 million pounds and the market growth factor of 20 million pounds, resulting in an adjusted surplus of 59 million pounds. The Board then divided this final surplus by the actual production in the regulated districts (295 million pounds) to calculate a restricted percentage of 20 percent with a corresponding free percentage of 80 percent for the 2014–15 crop year, as outlined in the following table:

	Millions of pounds
Final Calculations:	
(1) Average sales of the prior three years	198
(2) Plus desirable carry-out	50
(3) Optimum supply calculated by the Board	248
(4) Carry-in as of July 1, 2014	81
(5) Adjusted optimum supply (item 3 minus item 4)	167
(6) Board reported production	298
(7) Surplus (item 6 minus item 5)	131
(8) Total economic adjustments	52
(9) Market growth factor	20
(10) Adjusted Surplus (item 7 minus items 8 and 9)	59
(11) Crop estimate for regulated districts	295
	Percent
Final Percentages:	
Restricted (item 10 divided by item 11 × 100)	20
Free (100 minus restricted percentage)	80

The primary purpose of setting restricted percentages is an attempt to bring supply and demand into balance. If the primary market is oversupplied with cherries, grower prices decline substantially. Restricted percentages have benefited grower returns and helped stabilize the market as compared to those seasons prior to the implementation of the order. The Board believes the available information indicates that a restricted percentage should be established for the 2014–15 crop year to avoid oversupplying the market with tart cherries. Consequently, based on its discussion of this issue and the result of the above calculations, the Board recommended final percentages of 80 percent free and 20 percent restricted by a vote of 16 in favor and 2 against.

Of the two Board members who opposed the recommendation, one stated that the industry should focus on sales rather than restriction and the other expressed concerns that some segments would be more impacted by the restriction than others.

Regarding maximizing sales, one member noted that even storm-damaged fruit had been bought for processing, signaling that the processors still needed fruit toward the end of harvest. Other members, however, noted the extra sales some farmers experienced may have simply been due to gaps left by the areas that had damage, which reduced the amount of fruit available to fully supply their processors. Additionally, the economic adjustment and market growth factor included in the recommended restriction make additional fruit available for sales.

A member also noted that some processors, such as those making pie filling, are not likely to purchase excess fruit and would have to restrict their

sales. Another believed this level of restriction would signal to the ingredient market that processed fruit may be hard to obtain. However, others stated that a preliminary restriction was announced before harvest and all processors, regardless of product segment, are familiar with the process. Also, though the restricted percentage increased since the preliminary announcement in June, the total volume of fruit available to the market remained unchanged.

Finally, there were also some comments regarding incorporating sales of imported fruit into the demand considerations and that rigid interpretation of the supply formula does not allow the Board to react to the current market conditions. As the order does not provide for reporting processing of imported fruit or regulating such fruit, there are no reliable data on the issue. Others noted that with the increased recommended carry-out, the market growth factor, and adjustment to the demand calculations, the Board has taken steps toward making enough fruit available to continue current growth and have fruit in reserve in case of another crop disaster.

After reviewing the available data, and considering the concerns expressed, the Board determined that a 20 percent restriction with a carry-out volume of 50 million pounds meets sales needs and establishes some reserves without oversupplying the market. Thus, the Board recommended establishing final percentages of 80 percent free and 20 percent restricted.

Final Regulatory Flexibility Analysis

Pursuant to requirements set forth in the Regulatory Flexibility Act (RFA) (5 U.S.C. 601–612), the Agricultural

Marketing Service (AMS) has considered the economic impact of this action on small entities. Accordingly, AMS has prepared this final regulatory flexibility analysis.

The purpose of the RFA is to fit regulatory actions to the scale of businesses subject to such actions in order that small businesses will not be unduly or disproportionately burdened. Marketing orders issued pursuant to the Act, and rules issued thereunder, are unique in that they are brought about through group action of essentially small entities acting on their own behalf.

There are approximately 600 producers of tart cherries in the regulated area and approximately 40 handlers of tart cherries who are subject to regulation under the order. Small agricultural producers are defined by the Small Business Administration (SBA) as those having annual receipts of less than \$750,000 and small agricultural service firms have been defined as those having annual receipts of less than \$7,000,000 (13 CFR 121.201).

According to the National Agricultural Statistics Service (NASS) and Board data, the average annual grower price for tart cherries during the 2013–14 season was \$0.35 per pound, and total shipments were around 289 million pounds. Therefore, average receipts for tart cherry producers were around \$168,800, well below the SBA threshold for small producers. In 2014, The Food Institute estimated an f.o.b. price of \$0.96 per pound for frozen tart cherries, which make up the majority of processed tart cherries. Using this data, average annual handler receipts were about \$6.9 million, which is also below the SBA threshold for small agricultural service firms. Assuming a normal

distribution, the majority of producers and handlers of tart cherries may be classified as small entities.

The tart cherry industry in the United States is characterized by wide annual fluctuations in production. According to NASS, tart cherry production in 2011 was 232 million pounds, 85 million pounds in 2012, and in 2013, production was 294 million pounds. Because of these fluctuations, the supply and demand for tart cherries are rarely equal.

Demand for tart cherries is inelastic, meaning changes in price have a minimal effect on total sales volume. However, prices are very sensitive to changes in supply, and grower prices vary widely in response to the large swings in annual supply, with prices ranging from a low of 7.3 cents in 1987 to a high of 46.4 cents in 1991.

Because of this relationship between supply and price, oversupplying the market with tart cherries would have a sharp negative effect on prices, driving down grower returns. The Board, aware of this economic relationship, focuses on using the volume control authority in the order in an effort to balance supply and demand in order to stabilize industry returns. This authority allows the industry to set free and restricted percentages as a way to bring supply and demand into balance. Free percentage cherries can be marketed by handlers to any outlet, while restricted percentage volume must be held by handlers in reserve, diverted, or used for exempted purposes.

This final rule establishes free and restricted percentages using an increased carry-out volume of 50 million pounds for the 2014–15 crop year under the order for tart cherries. This action controls the supply of tart cherries by establishing percentages of 80 percent free and 20 percent restricted for the 2014–15 crop year. These percentages should stabilize marketing conditions by adjusting supply to meet market demand and help improve grower returns. This rule regulates tart cherries handled in Michigan, New York, Utah, Washington, and Wisconsin. The authority for this action is provided for in §§ 930.51(a) and 930.52 of the order. The Board recommended this action at a meeting on September 11, 2014.

This action will result in some fruit being diverted from the primary domestic markets. However, as mentioned earlier, the USDA's "Guidelines for Fruit, Vegetable, and Specialty Crop Marketing Orders" specify that 110 percent of recent years' sales be made available to primary markets each season before

recommendations for volume regulation are approved. The quantity available under this rule is greater than 110 percent of the quantity shipped in the prior three years.

In addition, there are secondary uses available for restricted fruit, including the development of new products, sales into new markets, the development of export markets, and being placed in reserve. While these alternatives may provide different levels of return than the sales to primary markets, they play an important role for the industry. The areas of new products, new markets, and the development of export markets utilize restricted fruit to develop and expand the markets for tart cherries. In 2011–12, the last season there was a restriction, these activities accounted for more 39 million pounds in sales, 14 million of which were exports.

Placing tart cherries into reserves is also a key part of balancing supply and demand. Although the industry must bear the handling and storage costs for fruit in reserve, reserves stored in large crop years are used to supplement supplies in short crop years. The reserves allow the industry to mitigate the impact of oversupply in large crop years, while allowing the industry to maintain and supply markets in years where production falls below demand. Further, storage and handling costs are more than offset by the increase in price when moving from a large crop to a short crop year.

In addition, the Board recommended an increased carry-out of 50 million pounds and made a demand adjustment of 52 million pounds in order to make the regulation less restrictive. Even with the recommended restriction, over 300 million pounds of fruit will be available to the domestic market. Consequently, it is not anticipated that this action will unduly burden growers or handlers.

While this action could result in some additional costs to the industry, these costs are more than outweighed by the benefits. The purpose of setting restricted percentages is to attempt to bring supply and demand into balance. If the primary market (domestic) is oversupplied with cherries, grower prices decline substantially. Without volume control, the primary market would likely be oversupplied, resulting in lower grower prices.

The three districts in Michigan, along with the districts in New York, Utah, Washington, and Wisconsin, are the restricted areas for this crop year with a combined total production of 295 million pounds. A 20 percent restriction means 236 million pounds will be available to be shipped to primary markets from these five states. The 236

million pounds from the restricted districts, nearly 3 million pounds from the unrestricted districts (Oregon and Pennsylvania), and the 81 million pound carry-in inventory make a total of 320 million pounds available as free tonnage for the primary markets. In comparison, the 12 percent restriction in 2011–2012 made less than 262 million pounds available.

Prior to the implementation of the order, grower price often did not come close to covering the cost of production. The most recent costs of production determined by representatives of Michigan State University are an estimated \$0.33 per pound. To assess the impact that volume control has on the prices growers receive for their product, an econometric model has been developed. Based on the model, the use of volume control should have a positive impact on grower returns for this crop year. With volume control, grower prices are estimated to be approximately \$0.03 per pound higher than without restrictions.

In addition, absent volume control, the industry could start to build large amounts of unwanted inventories. These inventories would have a depressing effect on grower prices. The econometric model shows for every 1 million-pound increase in carry-in inventories, a decrease in grower prices of \$0.0037 per pound occurs.

Retail demand is assumed to be highly inelastic, which indicates that changes in price do not result in significant changes in the quantity demanded. Consumer prices largely do not reflect fluctuations in cherry supplies. Therefore, this action should have little or no effect on consumer prices and should not result in a reduction in retail sales.

The free and restricted percentages established by this rule provide the market with optimum supply and apply uniformly to all regulated handlers in the industry, regardless of size. As the restriction represents a percentage of a handler's volume, the costs, when applicable, are proportionate and should not place an extra burden on small entities as compared to large entities.

The stabilizing effects of this action benefit all handlers by helping them maintain and expand markets, despite seasonal supply fluctuations. Likewise, price stability positively impacts all growers and handlers by allowing them to better anticipate the revenues their tart cherries will generate. Growers and handlers, regardless of size, should benefit from the stabilizing effects of this restriction. In addition, the increased carry-out should provide

processors enough supply to meet market needs going into the next season.

The Board considered some alternatives in its preliminary restriction discussions that affected this recommended action. The first alternative concerned the average sales in estimating demand for the coming season, and the second alternative regarded the recommended carry-out figure.

Regarding demand, the Board began with the actual sales average of 198 million pounds. There was concern, however, that this value, which incorporated the weather-related crop failure of 2012, would result in an over-restrictive calculation. After considering options in the range of 24 to 52 million pounds, the Board determined that an adjustment of 52 million pounds, to reach an average demand of 250 million pounds, was most appropriate for the industry. Thus, the other alternatives were rejected, and the Board recommended the 52 million pound economic adjustment.

Regarding the carry-out value, the Board considered keeping this value at the order's 20 million pound maximum. However, many noted that the industry now regularly carries over more volume than in the past to keep its expanded product lines supplied at the end of the season. One member noted that even at the end of the disaster season, there were 17 million pounds carried out. Another noted that the 81 million pound carry-in this season was seen as burdensome. Others were concerned that in addition to the previous adjustment, too high of a carry-out figure might discourage using reserves to protect the industry from another disaster. The Board considered 60 million pounds and 30 million pounds, but these were considered respectively too large and too restrictive and thus were rejected. The Board then reached a consensus and recommended the Secretary increase the maximum carry-out to 50 million pounds for the 2014–2015 season alone.

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35), the order's information collection requirements have been previously approved by the Office of Management and Budget (OMB) and assigned OMB No. 0581–0177, Tart Cherries Grown in the States of MI, NY, PA, OR, UT, WA, and WI. No changes in those requirements as a result of this action are necessary. Should any changes become necessary, they would be submitted to OMB for approval.

This action will not impose any additional reporting or recordkeeping requirements on either small or large

tart cherry handlers. As with all Federal marketing order programs, reports and forms are periodically reviewed to reduce information requirements and duplication by industry and public sector agencies.

As noted in the initial regulatory flexibility analysis, USDA has not identified any relevant Federal rules that duplicate, overlap or conflict with this final rule. Further, the public comment received concerning the proposal did not address the initial regulatory flexibility analysis.

AMS is committed to complying with the E-Government Act, to promote the use of the Internet and other information technologies to provide increased opportunities for citizen access to Government information and services, and for other purposes.

In addition, the Board's meeting was widely publicized throughout the tart cherry industry and all interested persons were invited to attend the meeting and participate in Board deliberations on all issues. Like all Board meetings, the June 26, 2014, and September 11, 2014, meetings were public meetings and all entities, both large and small, were able to express views on this issue.

A proposed rule concerning this action was published in the **Federal Register** on February 19, 2015 (80 FR 8817). Copies of the rule were mailed, emailed, or sent by facsimile to all Board members and tart cherry handlers. Finally, the rule was made available through the Internet by USDA and the Office of the Federal Register. A 30-day comment period ending March 23, 2015, was provided to allow interested persons to respond to the proposal.

One negative comment was received during the comment period. The concerns expressed in the negative comment pertained to pending litigation or to issues not applicable to the proposed rule. Additionally, the commenter did not provide any alternatives for consideration. Accordingly, no changes will be made to the rule as proposed, based on the comment received.

A small business guide on complying with fruit, vegetable, and specialty crop marketing agreements and orders may be viewed at: <http://www.ams.usda.gov/MarketingOrdersSmallBusinessGuide>. Any questions about the compliance guide should be sent to Jeffrey Smutny at the previously mentioned address in the **FOR FURTHER INFORMATION CONTACT** section.

After consideration of all relevant matter presented, including the information and recommendation

submitted by the Committee and other available information, it is hereby found that this rule, as hereinafter set forth, will tend to effectuate the declared policy of the Act.

It is further found that good cause exists for not postponing the effective date of this rule until 30 days after publication in the **Federal Register** (5 U.S.C. 553) because handlers are already shipping tart cherries from the 2014–2015 crop. Further, handlers are aware of this rule, which was recommended at a public meeting. Also, a 30-day comment period was provided for in the proposed rule.

List of Subjects in 7 CFR Part 930

Marketing agreements, Reporting and recordkeeping requirements, Tart cherries.

For the reasons set forth in the preamble, 7 CFR part 930 is amended as follows:

PART 930—TART CHERRIES GROWN IN THE STATES OF MICHIGAN, NEW YORK, PENNSYLVANIA, OREGON, UTAH, WASHINGTON, AND WISCONSIN

- 1. The authority citation for 7 CFR part 930 continues to read as follows:

Authority: 7 U.S.C. 601–674.

- 2. Section 930.151 is added to read as follows:

§ 930.151 Desirable carry-out inventory.

For the crop year beginning on July 1, 2014, the desirable carry-out inventory, for the purposes of determining an optimum supply volume, will be 50 million pounds.

- 3. Section 930.256 is added to read as follows:

§ 930.256 Free and restricted percentages for the 2014–15 crop year.

The percentages for tart cherries handled by handlers during the crop year beginning on July 1, 2014, which shall be free and restricted, respectively, are designated as follows: Free percentage, 80 percent and restricted percentage, 20 percent.

Dated: May 21, 2015.

Rex A. Barnes,
Associate Administrator, Agricultural Marketing Service.

[FR Doc. 2015–12762 Filed 5–29–15; 8:45 am]

BILLING CODE 3410-02-P