

FACT SHEET

Long-Term Contracts in the UK Cider Industry



The University of Vermont
The UVM Apple Program

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The goal of this fact sheet is to provide information on long-term contracts used by apple growers and cider makers in the UK where approximately 80% of cider apple is managed under contract.

Current landscape of the English cider industry

Between 2006 and 2012, cider sales went from representing 1.6% of alcohol sales to 9.4% of alcohol sales in the United Kingdom (UK). In 2013, 70% of the cider produced in Europe was from the UK.

In the UK, apple growers specialize between growing strictly for the fresh market or strictly growing for the hard cider market. It is rare for apple growers to grow for both markets as the management and business enterprises are different. Apples for hard cider are grown as commodities where one person can manage 100 acres with mechanized equipment. A typical orchard managed for cider apple production is planted at 18 feet between rows and 6 feet between trees with about 320 trees per acre. Apples are mechanically harvested and transported in bulk using harvest wagons, dump trucks, and other vessels which would damage fruit grown for fresh market sales.

Larger cider makers buy apples whole and process them within 24 hours of harvest. The largest cider makers process 650 metric tons a day. The rest of the apples are pressed by growers. There are no independent apple pressing companies in the UK as this type of operation is challenging due to the short apple season, overlap with the sweet cider season, and the fact that apples have to be pressed shortly after harvest.

Approximately 80% of the UK's commercial cider apple growers are under contract with a cider maker. These contracts last on average 20 years and they can be established between growers and cider makers before the trees are planted or after. The first contracts between apple growers and cider makers appeared in the 1920s.

Initiation of contracts

Contracts are usually initiated informally where an apple grower approaches cider makers inquiring about contracts for trees he is planning to plant.

The period between the first conversation and signature of the contract might take time due to the need to build trust as these contracts span decades. As a rule, cider makers want the assurance that growers have the knowledge and capacity to grow cider apples. Cider makers are more interested in tannin content and less interested in specific cultivars. With a contract, the cider maker commits to buying all of the apples under contract. The apple grower may contract all of his orchard to the same cider maker or sell separate orchard blocks to different buyers. Once signed, the contract is legally binding.

Contract terms

In general, contract terms cover:

Planting and managing of the orchard

Contracts include details related to the duration of the contract, planting deadline (up to three years after the signature of the contract), apple cultivars, industry cultivation and harvesting practices,

environmental practices, and permitted use of chemicals.

Sale and purchase of apples

Whole orchards or blocks within orchards are covered by the contract meaning that the cider maker buys all of the apples from the area under contract and there is no volume requirement. However, since the price is based on volume, it is in the grower's best interest to maximize yields. Ownership of fruits usually changes hands once the apples have gone through quality control and the cider maker has accepted the delivery. The contract stipulates how and where growers and cideries communicate about expected yields, quality standards, delivery of fruits, rejection of fruit, pricing, price adjustment, and payment.

Price

A minimum price per ton is set in the contract and this price is revised every year, two years in advance. The price revision accounts for inflation, apple supply on the market, and other prevailing conditions. The minimum price should at least cover the growers' cost of production. At delivery, the apples are tested for quality, cleanliness, and starch content. Growers can obtain price premiums attributes if measures are over a threshold. For instance, a grower may obtain a 10% premium of the minimum price for quality and a 7.5% for premium of the minimum price for (low) starch content. Quality and starch content under a threshold can lead to a deduction off the minimum price. Last, price premiums may be offered for certain cultivars, for instance a grower can receive a 10% premium of the minimum price for single variety. Testing methods and thresholds are detailed in the contract. Prices paid for apples do not tend to vary a lot across cider makers. Since transportation costs are at the charge of the growers, growers strive to work with the closest cider makers.

Termination of the contract

A contract may be terminated due to breach of agreement, insolvency, bankruptcy, change in control or ownership of the orchard, or on the

mutual agreement between the grower and the cider maker.

Relationship between apple growers and cider makers

A long-term contract is a strategic partnership that requires regular communication, transparency, and the understanding that contracts should be mutually beneficial over the course of the contract. Grower groups and cider makers meet regularly to discuss problems, needs, new ideas, and to work on solutions as a team. Communication between both groups is important as the communication allows each side to better understand the perspectives of both types of businesses.

Previously, contracts included sharing of the cost of trees and cider makers bought trees for the growers. However, the industry has moved away from this practice in recent years based on the understanding that growers and cider makers should focus on their respective activities. Moving away from the practice ensures that growers have better control of their operation by purchasing their own trees. Another reason for phasing shared orchard establishment costs is related to access to capital since long-term contracts act as a guarantee for growers to obtain bank loans. The money not spent by cider makers to buy trees or equipment for growers can be used to grow the cider business and to market cider.

Recommendations for US apple growers

Specialty cider cultivars

To start with, growers should experiment with many cultivars of specialty cider cultivars and compare juice yields and tannin levels. Higher juice yields and tannin levels are preferable. Within the high tannin class, specific cider apple cultivars do not matter as much for cider makers as ciders are usually made from blends. However, replicated trials of high-tannin cider cultivars adapted to regional conditions in the U.S. are limited, although research is presently being conducted by university personnel and growers that will produce recommendations in the near future. U.S. cideries are also interested in dual-

purpose cultivars which may be grown for both the fresh and cider markets and have unique characteristics desirable for cider making. Growers should contact cideries to determine potential markets for a particular cultivar prior to orchard establishment.

Specialization and contracts

Apple cultivars and growing practices are different for the sweet and cider markets. Better efficiencies can be realized through specialization. A long-term contract is essential for cider apples as these apples can only be used for cider. In the UK, contracts are signed up to three years before the planting deadline.

Costs and prices

Before entering into a contract, growers need to consider potential income over the entire length of the contract using prices paid, projected price adjustment, and yields. Cost of production including establishment, cultivation, harvest, and transportation over the length of the contract should at least cover the minimum price of the contract. English growers have controlled some of their cost of production and harvest through mechanization.

Recommendations for US cider makers

Contracts

A long-term contract ensures that cider makers will have access to the apples that they need for the long-term development of their operation. A contract also limits price fluctuations which allows for better long-term planning. Minimum price should be determined by looking at the global cost of bittersweet concentrate and the cost of local apples.

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Ideally, apples can be sourced locally due to lower costs of transportation and for marketing purposes.

Fruit quality

Cider makers should focus primarily on tannin levels, not sugar levels or acidity, as it is easy and relatively inexpensive for cideries to correct for sugar levels and acidity but not for tannin.

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Additional information

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Information on the UVM Apple Program may be found at: <http://www.uvm.edu/~fruit/>