



**HOP &  
BREW  
SCHOOL**

# **HOP CONTRACTING IN TODAY'S INDUSTRY**

## OUR MISSION

Our Mission is to connect family hop farms with the world's finest brewers, providing the highest quality hop products and uncompromising service for the ultimate benefit of our customers, employees and growers.

## OUR VISION

Our Vision is to be the global hop supplier of choice. We want our passion for preserving the planet, treating people with respect and dignity, and our commitment to healthy communities to be reflected in every beer brewed with our hops.

## OUR VALUES

- **Passion:** For people, product, planet and process
- **Respect:** Teamwork and collective responsibility
- **Integrity:** Transparency and accountability in all we do
- **Dedication:** Safety, quality and sustainability
- **Excellence:** An emphasis on innovation and continuous improvement



# GROWERS

We are the only 100% grower owned hop company. Our grower families have been harvesting hops in the Northwest since the 1800s and have acquired a wealth of knowledge and expertise throughout the decades to create the highest quality hops.

## These grower-owners include:

- 3D Farm/BC Hop Farm
- Brulotte Farms
- B.T. Loftus Ranches
- C&C Hop Farms
- Carpenter Ranches
- Gasseling Ranches
- Perrault Farms
- Sauve & Son Farms
- Sodbuster Farms
- Van Horn Farms



**CHARLIE  
DAVIDSON**

**3D & BC HOP FARMS**  
4th Generation  
Woodburn, OR



**ED  
ST. MARY**

**BLACK STAR RANCHES**  
5th Generation  
Moxee, WA



**REGGIE  
BRULOTTE**

**BRULOTTE FARMS**  
6th Generation  
Toppenish, WA



**MIKE  
SMITH**

**B.T. LOFTUS RANCHES**  
3rd Generation  
Yakima, WA



**KEITH  
HOUSER**

**C & C HOP FARMS**  
3rd Generation  
Moxee, WA



**CRAIG  
CARPENTER**

**CARPENTER RANCHES**  
5th Generation  
Granger, WA



**JOHN  
COLEMAN**

**COLEMAN AGRICULTURE**  
6th Generation  
St. Paul, OR



**KEVIN  
RIEL**

**DOUBLE R HOP RANCHES**  
5th Generation  
Harrah, WA



**PATRICK  
GASSELING**

**GASSELING RANCHES**  
4th Generation  
Wapato, WA



**BRENTON  
ROY**

**OASIS FARMS**  
4th Generation  
Prosser, WA



**STEVE  
PERRAULT**

**PERRAULT FARMS**  
3rd Generation  
Toppenish, WA



**RICK  
SAUVE**

**SAUVE & SON FARMS**  
3rd Generation  
Mabton, WA



**DOUG  
WEATHERS**

**SODBUSTER FARMS**  
3rd Generation  
Salem, OR



**RICH  
VAN HORN**

**VAN HORN FARMS**  
2nd Generation  
Moxee, WA

We receive hops, not just from our Grower Owners but from over 50 family farms throughout the Pacific Northwest.

# ORIGINS OF HOP CONTRACTING

For many years hops existed in a “commodity type” market. Sold at low margins for use by a small number of large brewers.

- Volatile Market
  - Boom/bust cycle
  - Strain on brewers and growers
- Fewer Varieties
  - Less need for predictability
  - Low innovation
- Alpha vs. Aroma
  - “Commodity” driven
  - GR vs US
  - Aroma quality less of a focus



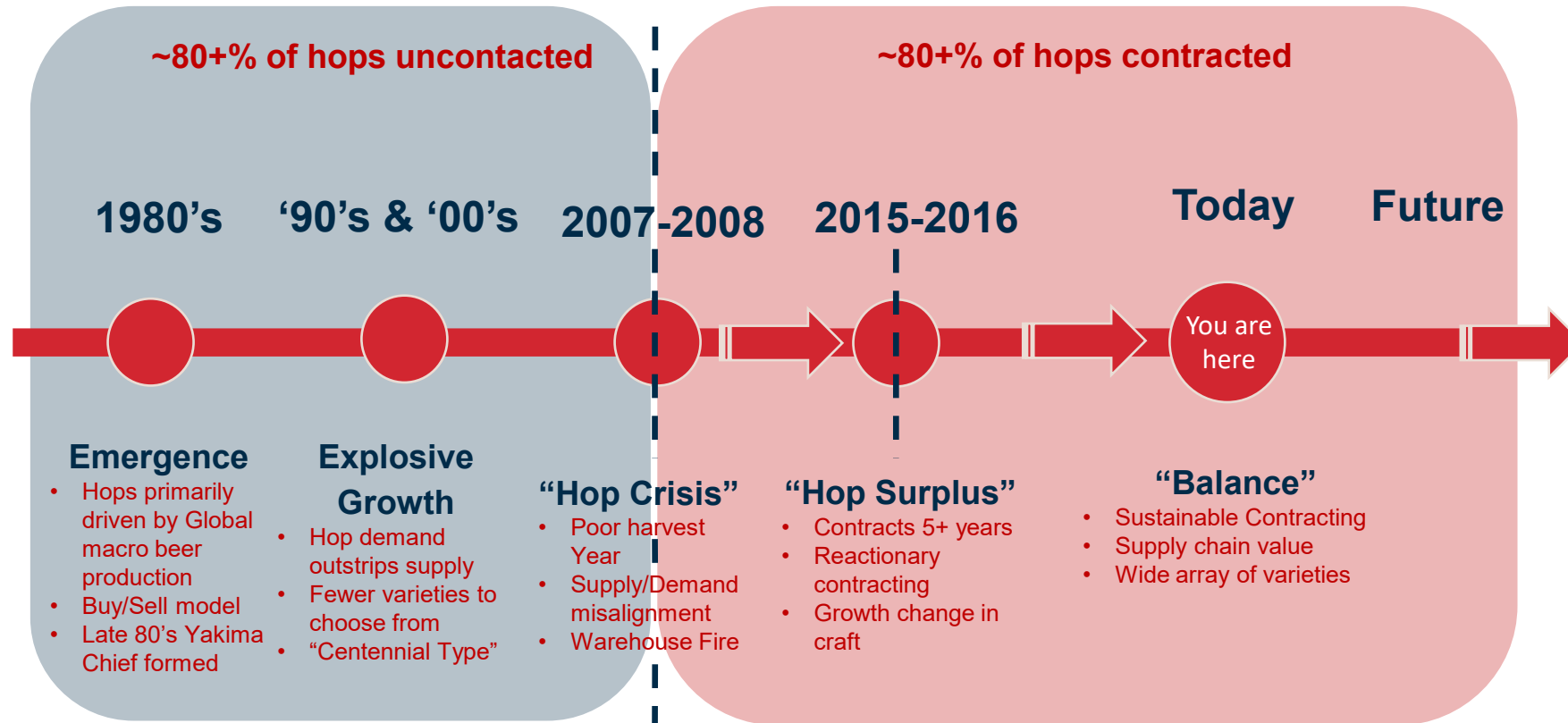


# CROP YEAR 2021

Harvest has started strong!

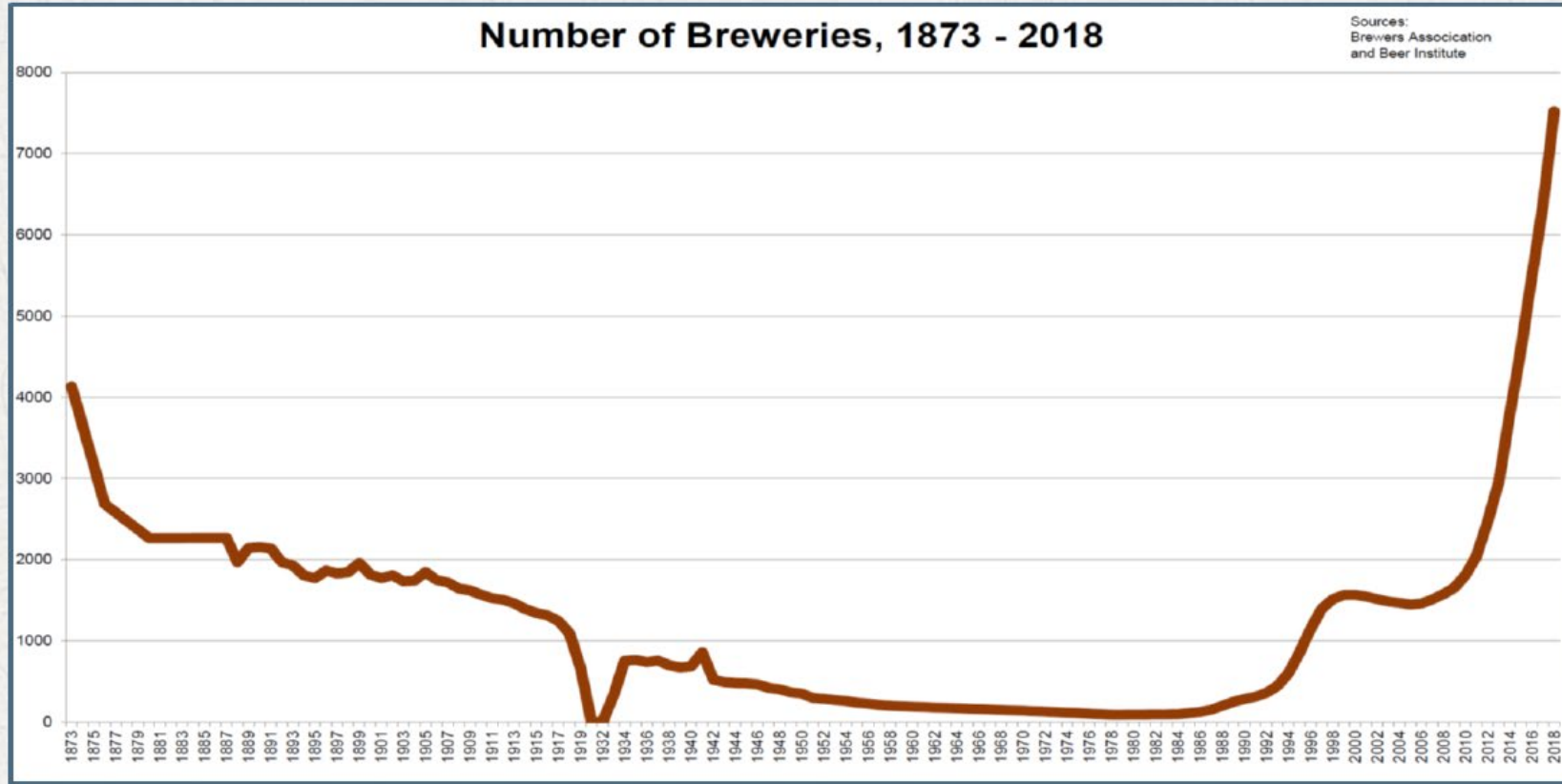
- Heat early in summer – but this early on – hard to say.
- Some farms, varieties out of order – but exception not the rule
- Quality looking great across the board!
- Acreage and its relation to Contracting
- Acreage up overall this year in PNW
  - Down 10% through YCH overall in 2020, but closer to original 2020 plans this year
  - Trying to maintain “balance” between supply and demand
  - Hop Acreage trends Cascade, Centennial, Chinook still a concern

# CONTRACTING WITH YCH – A BRIEF HISTORY





# Brewing Industry Update



# BIRTH OF CRAFT BEER

As the US craft beer industry blossomed the demand for new and diverse varieties increased. Farmers began growing a more diverse array of varieties

- Pros
  - Higher \$/acre
  - Aroma Quality-focused
  - Larger customer base
- Cons
  - Aroma hops yield less bales/acre
  - More diversity=more difficult to predict
  - Acreage shifts are expensive

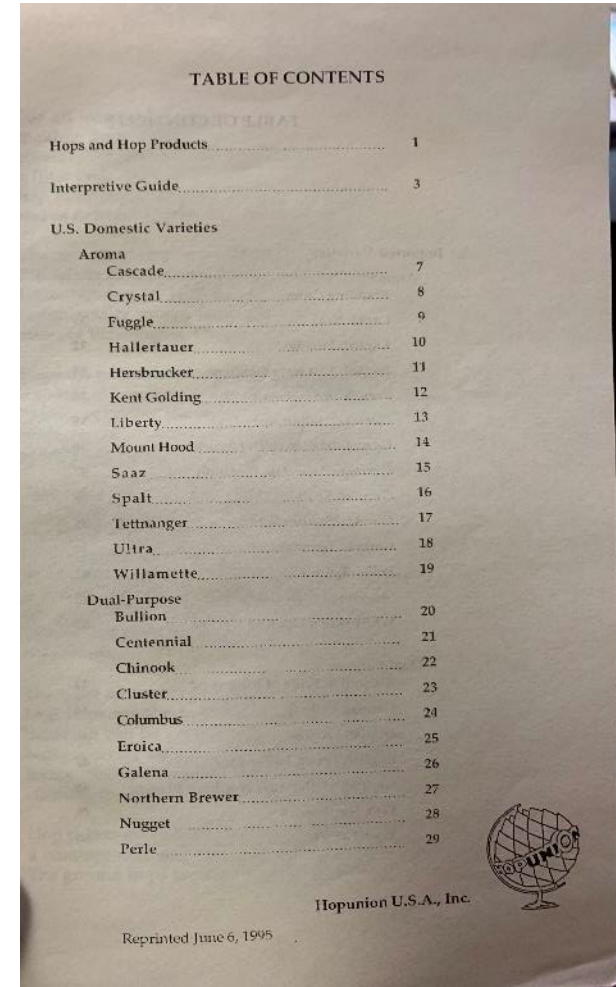



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Hopunion U.S.A., Inc. 

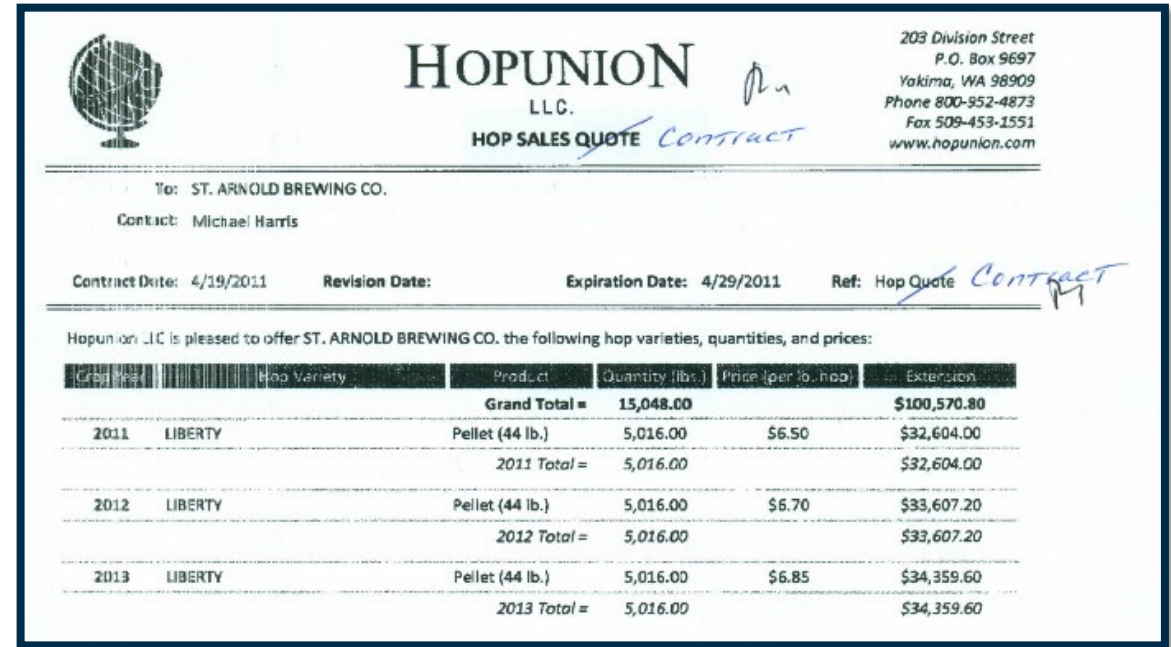
Reprinted June 6, 1995



# ENTER THE CONTRACT

Growing hops is expensive, especially compared to crop alternatives. At \$14,000+/acre growers needed assurance that their investments would be met with a workable return

- Craft brewers begin contracting  
Drives aroma market forward, giving growers confidence to install acreage on new varieties
- Breeding programs shift focus  
Proper contract structure makes breeding for aroma varieties fiscally viable  
No need to focus solely on alpha acid



**HOPUNION** LLC. *Handwritten initials*  
**HOP SALES QUOTE CONTRACT** *Handwritten signature*

203 Division Street  
P.O. Box 9697  
Yakima, WA 98909  
Phone 800-952-4873  
Fax 509-453-1551  
www.hopunion.com

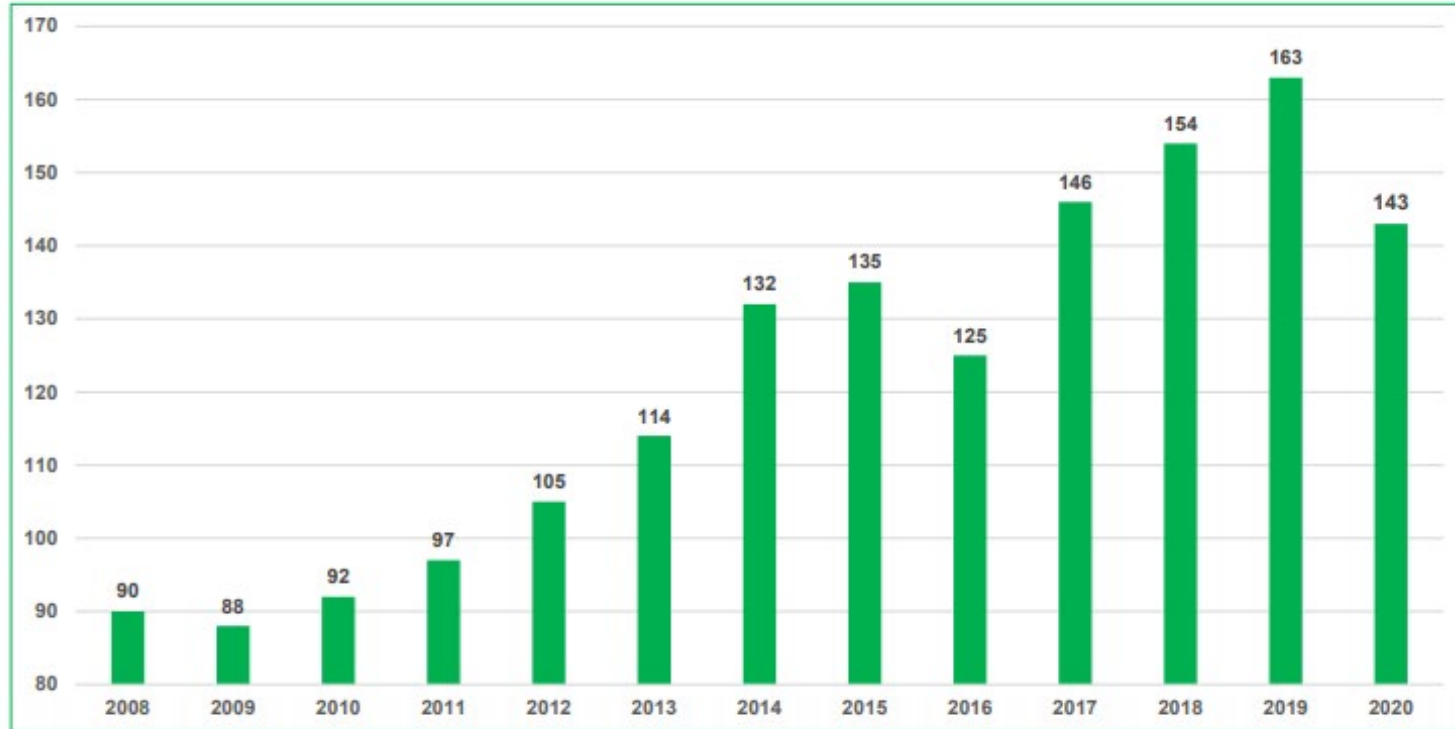
To: ST. ARNOLD BREWING CO.  
Contact: Michael Harris

Contract Date: 4/19/2011    Revision Date:    Expiration Date: 4/29/2011    Ref: Hop Quote *Contract*

Hopunion LLC is pleased to offer ST. ARNOLD BREWING CO. the following hop varieties, quantities, and prices:

Year	Hop Variety	Product	Quantity (lbs.)	Price (per lb. hop)	Extension
<b>Grand Total =</b>			<b>15,048.00</b>		<b>\$100,570.80</b>
2011	LIBERTY	Pellet (44 lb.)	5,016.00	\$6.50	\$32,604.00
2011 Total =			5,016.00		\$32,604.00
2012	LIBERTY	Pellet (44 lb.)	5,016.00	\$6.70	\$33,607.20
2012 Total =			5,016.00		\$33,607.20
2013	LIBERTY	Pellet (44 lb.)	5,016.00	\$6.85	\$34,359.60
2013 Total =			5,016.00		\$34,359.60

## Total Number of Varieties Used





## Craft Brewer Contracting

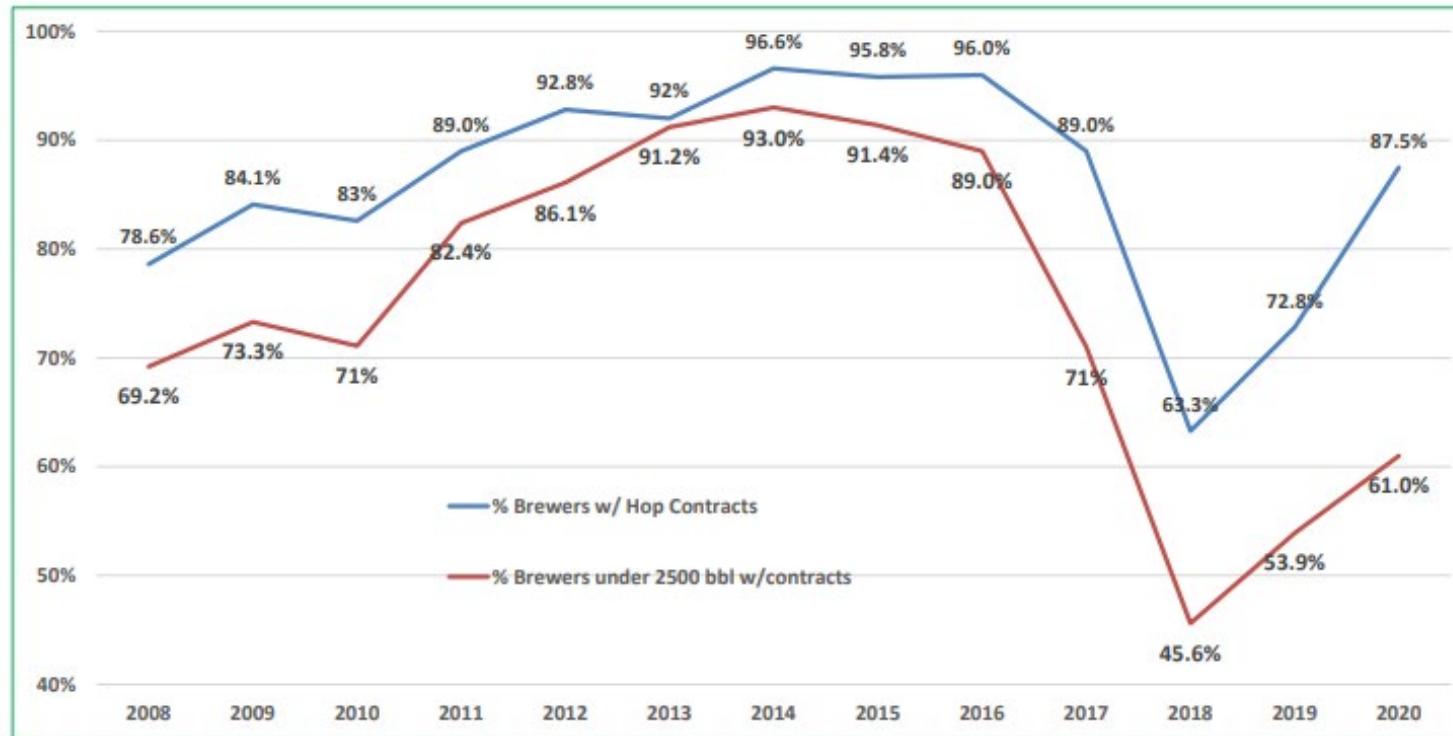




TABLE 1: TOP 10 U.S. HOP VARIETIES BY ACREAGE

RANK	2016	2017	2018	2019	2020
1	Cascade	Cascade	Citra®, HBC 394	Citra®, HBC 394	Citra®, HBC 394
2	Centennial	Centennial	CTZ	CTZ	CTZ
3	CTZ	Citra®, HBC 394	Cascade	Cascade	Mosaic®, HBC 369
4	Citra®, HBC 394	CTZ	Centennial	Simcoe®, YCR 14	Simcoe®, YCR 14
5	Simcoe®, YCR 14	Simcoe®, YCR 14	Simcoe®, YCR 14	Mosaic®, HBC 369	Cascade
6	Mosaic®, HBC 369	Mosaic®, HBC 369	Chinook	Centennial	Centennial
7	Chinook	Chinook	Mosaic®, HBC 369	Amarillo®, VGXP01	Pahto®, HBC 682
8	Summit	Willamette	Amarillo®, VGXP01	Chinook	Amarillo®, VGXP01
9	Willamette	Summit	Pahto®, HBC 682	Pahto®, HBC 682	Chinook
10	Apollo™	Apollo™	Summit	Summit	El Dorado®

Source: Hop Growers of America





# WHY CONTRACT?

87.5% of all US breweries (8,764) = 1,095 breweries not contracting...

- Record number of breweries in the US
- Large number of varieties in the market
- Low amount of insight into breweries needs since 2008...
- **ESPECIALLY IMPORTANT FOR NEW AND SMALLER BREWERIES!**

## WHY CONTRACT?

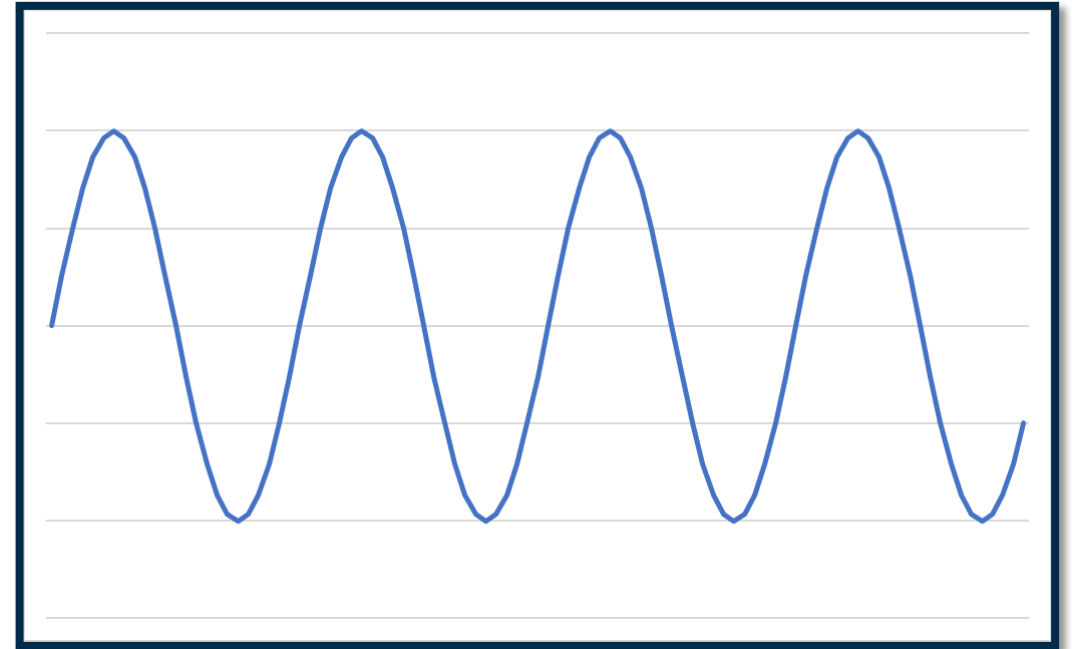
<b>\$35.00</b>  per lb	US Citra 2018	44 lbs 1 × 44 lbs 1 package minimum	<b>\$1.47</b>  per lb	US Cascade 2017	22 lbs 2 × 11 lbs 1 package minimum
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# Stability

## WHY CONTRACT?

The hop market is inherently challenging

- Agricultural
  - One harvest a year
  - Some level of unpredictability
- Poor Storing
- High cost of production and barrier to entry





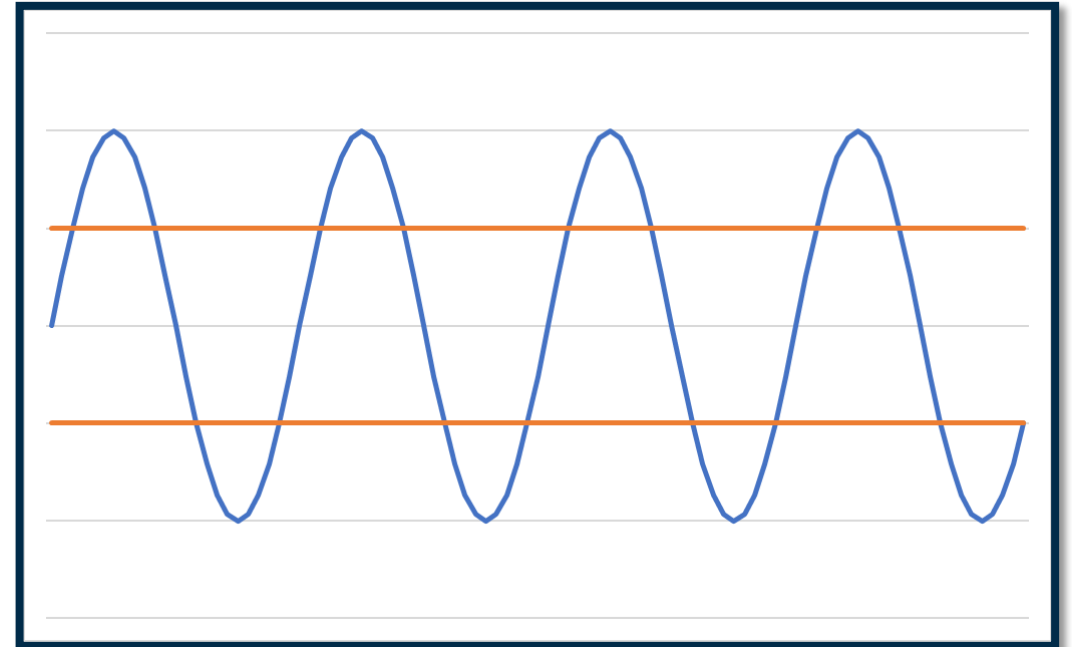
# WHY CONTRACT?

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- Agricultural
  - One harvest a year
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- Challenging storage
- High cost of production and barrier to entry

Contracts mitigate boom/bust cycles by:

- Assuring a fair return to growers
- Locking in stable supply and pricing for brewers
- Allowing growers to make predictable, appropriate acreage decisions and mitigate risk
- Guarantee availability to key varieties at the brewery



## WHY CONTRACT?

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# Stability

## WHY CONTRACT?

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~~Stability~~  
**Sustainability**



# PARTNERSHIP FROM PROPAGATION TO PINT

**YAKIMA CHIEF**  
*Ranches*



**QUALITY & SUPPLY MANAGEMENT**

ISO 9001, 14001, CSR Plan

## WHY SHOULD I CARE?

“For us, this is about generations down the road, not years. We have literally bet the farm on our relationships with brewers (with the substantial long-term debt incurred to reinvest), but the stability that YCH, YCR, and breweries bring gives us the confidence to make that bet.”

–Jason Perrault, Perrault Farms



## WHY SHOULD I CARE?

- Sustainable grower returns=reinvestments in quality
  - Contracts allow for long-term farm investment
- Sustainable grower returns=breeding program viability
  - Breeding adds value to the overall supply chain
    - Unique flavors
    - Agronomic improvements
    - Brewer-to-grower feedback

**Sustainable Returns=  
Quality Hops**





## RETURN TO GROWER (RTG)

- For every \$/KG (or Lb) of hops sold, 78% of the sales revenue goes to the growers. This includes both grower owners and allied growers.
- Strong, sustainable returns allow growers to make critical investments in people, land, infrastructure, and farming practices that lead to high quality, stable hops
- For example, over the last 6 years:
  - 33 New Picking Machines
  - 22 New Kilns
  - 24 New Baling Rooms
  - Fair wages for labor
- Why should brewers care?
  - Superior Hop Quality**
  - Great Beer**
  - Availability**



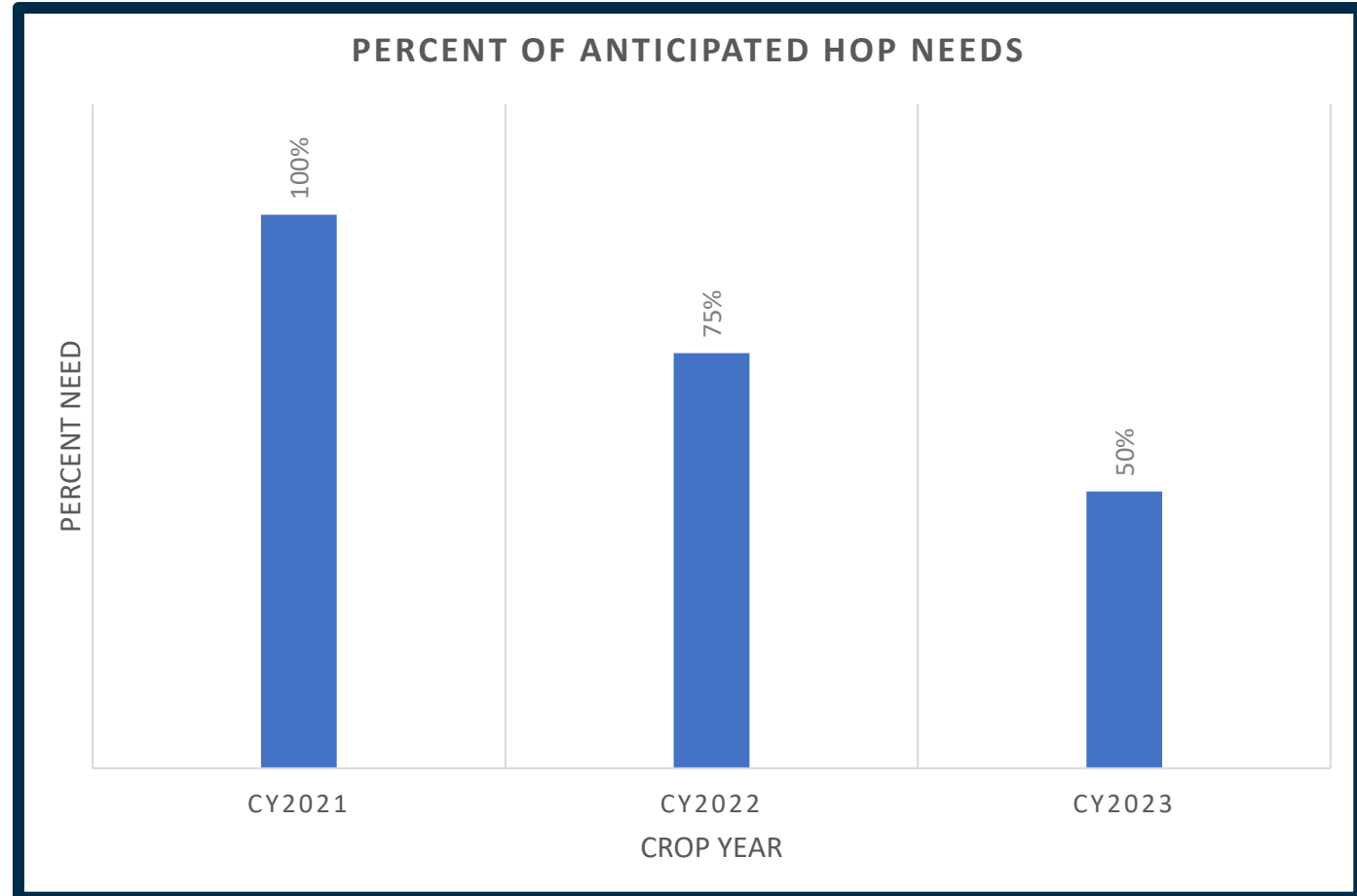
**HOP CONTRACTING**

**“OK, HOW DO I DO IT?”**

# TIPS FOR SUCCESSFUL CONTRACTING

Use a downward “stair-step” model when contracting

- 3-year rolling contract cycle
  - Recommended
  - Allows time for readjustment
  - Balance of Risk, Responsibility and Planning

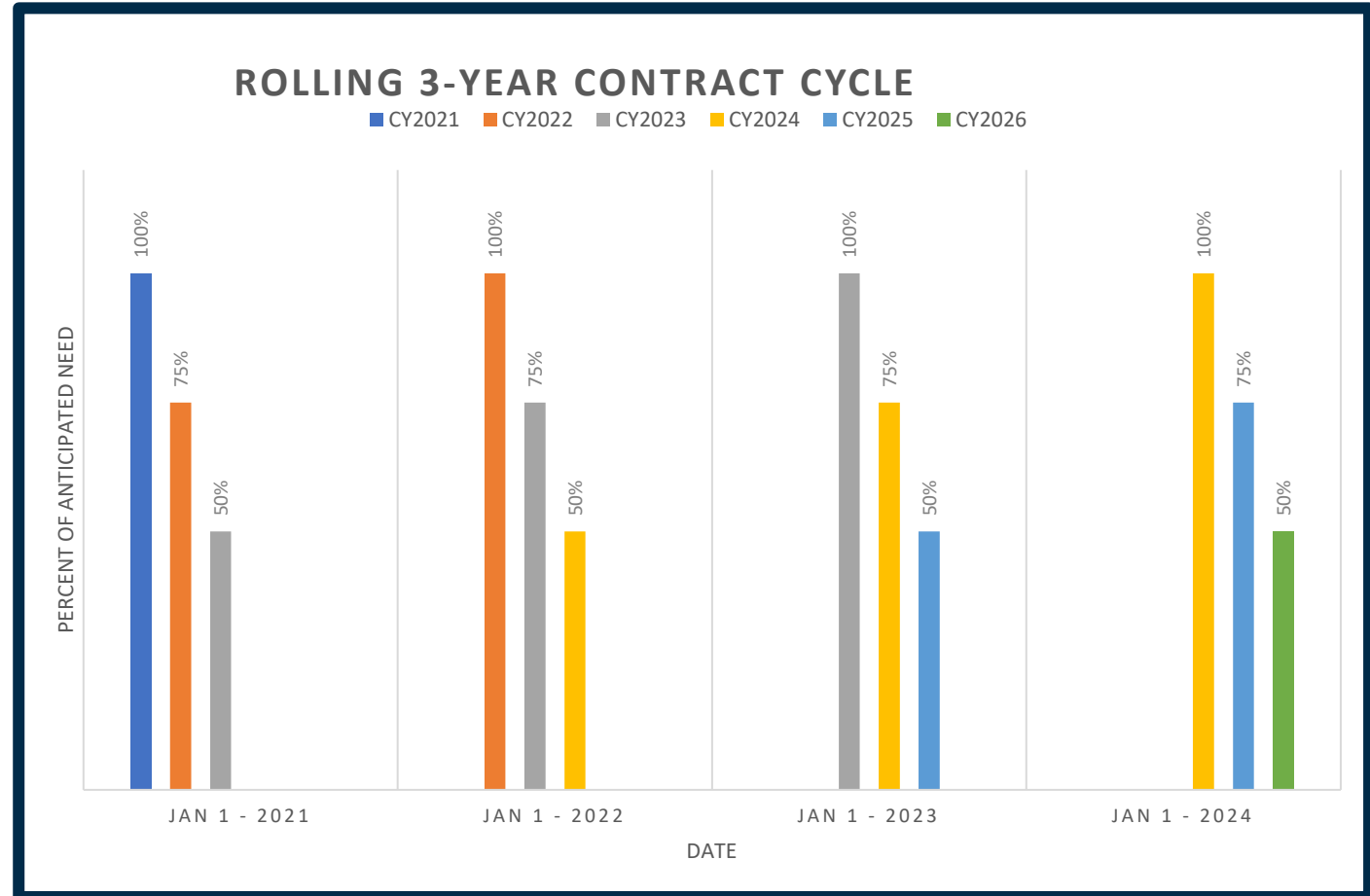




# TIPS FOR SUCCESSFUL CONTRACTING

## Follow harvest cycles

- Growers plan acreage in late winter
  - This is when brewers should have upcoming harvest numbers nailed down
- **Summer is too late for near-harvest contracting!**
  - Acreage is already planted and growing
- Downward “Stair Step” – Rolling over 3 years.



## TIPS FOR SUCCESSFUL CONTRACTING

### Talk to your supplier often

- Suppliers have fluid inventories
  - They can often help more than anticipated
  - “Checking the pulse” of the contract at least once a quarter can help drastically in keeping a balanced contract



## TIPS FOR SUCCESSFUL CONTRACTING

There is no “set it and forget it”

- Planning for growth?
  - Check in often to top up contracts
- Stable demand?
  - Maintain rolling cycle and top up as winter approaches
- Too many hops?
  - Check in often to explore changing options from your supplier



# CONTRACTING & PLANNING CALENDAR

## SEPTEMBER

- Hop Harvest
- Positions change from projected to actual

## NOVEMBER

- Planning for next harvest begins
- *YCH and YCR begin assessing needed adjustments for next harvest*
- Availability of current crop year begins

## JANUARY

- Forward contract requirements deadline – January 31<sup>st</sup> (prior to forthcoming harvest)
  - *Hop Growers Convention – final decisions on acreage and variety demands*
  - *Full communication to growers occurs on acreage changes on their farms*

## AUGUST 31<sup>ST</sup> (year following harvest crop year)

- Contracts end for previous crop year
- Space is a premium as a year's-worth of hops are brought into our facilities



## RTG – Return to Grower Dates

### Grower Payments for the current crop

- November
- March
- July
- December

**You contract is not just with YCH – it is with family farms!**

- Impacts of contracting
- Why the dates matter



## TAKEAWAYS

- Contracts underpin the market
  - Enjoy spot supply when available, but no contracts is not a strategy
    - Guaranteed availability
    - Stable pricing
  - **ESPECIALLY IMPORTANT FOR NEW AND SMALLER BREWERIES**
- Less than 100 growers in USA
  - Without contracts they won't exist
- A contract is a living organism
  - Just like pumps, forklifts, and centrifuges, they require regular maintenance



**QUESTIONS?**





# THANKS FOR JOINING US!



**HOP & BREW SCHOOL**

Have questions about this session or others?  
Email us at [brewschool@yakimachief.com](mailto:brewschool@yakimachief.com) or [brewinghelp@yakimachief.com](mailto:brewinghelp@yakimachief.com)

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