Winegrape Growers Newsletter
California Farm Bureau Federation

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Bottle Price Formulas Used in Contracts

The Napa Valley Grape Growers Association (NVGGA) has taken an historic first step towards stabilizing prices for wine grapes by setting up a bottle price formula to link grape growers' prices to retail prices for wines made from their grapes. THe NVGGA, a spin-off from the Napa County Farm Bureau, has reached an agreement to use bottle price formulas in contract sales of grapes to Robert Mondavi, Chappellet, Schramsberg, Joseph Phelps and Spring Mountain wineries. Other small wineries have shown an interest in using the formula.

The NVGGA said contracts are generally for an indefinite period of time, with a cancellation clause by either party on one- to five-harvest rundown at the grower's option. The NVGGA formula is basically a way to get a percentage figure that can be applied to the bottle price to develop an annual tonnage price. Chappellet, Schramsberg, Joseph Phelps and Spring Mountain use this formula in their contracts. Using the NVGGA figure of $2350 as the necessary per acre gross return, the formula looks like this:

A. $\dfrac{\$2350}{\text{Variety Average Yield Per Acre}}$ = PRICE OBJECTIVE PER TON

B. Retail Price Per Bottle X Number of Bottles Per Ton = WINERY GROSS INCOME PER TON

C. $\dfrac{\text{Price Objective Per Ton}}{\text{Winery Gross Income Per Ton}}$ = PRICE OBJECTIVE PER TON AS A PERCENTAGE OF WINERY GROSS INCOME PER TON

To use an example, if a grower estimates an average yield of 3.5 tons per acre of Cabernet, and the grapes yield 700 bottles of wine per ton selling for $5 per bottle, then:

A. $\dfrac{\$2350}{3.5} = \$671$ (PRICE OBJECTIVE PER TON)

B. $5 X 700 = $3500 (WINERY GROSS INCOME PER TON)

C. $\dfrac{\$671}{\$3500}$ = 19.17%, and 19.17% X $3500 = $671 (ANNUAL TONNAGE PRICE OBJECTIVE)

If the bottle price goes up to $5.50, then the grower can use the percentage figure to compute the price objective per ton of grapes, as follows:

$5.50 X 700 = $3850 X 19.17% = $738 Per Ton.

Robert Mondavi Winery offers growers a bottle price formula based on a grape price factor chosen by the winery. An example of their formula is as follows:

Cabernet Sauvignon @ $7.00 Per Bottle X 82 (Grape Price Factor) = $574 Per Ton.

The $574 would be the base price for this variety at 22 ° Brix. The winery has a system of bonuses or penalties for sugar content over or under base. The bonus is computed by adding 15% of the base price for the first point above base sugar and 20% of base price for the second point above base sugar. Depending on the acid/sugar ratio, another 20% might be added for the third point above base sugar, amounting to a total of 55% above base price for such grapes. The penalty system works in a similar way, with the percentages of base price subtracted for first and second points below base sugar.

Mondavi's price for each grape variety varies with the annual bottle price and assumed average annual yields per acre. On their contracts, the winery or the grower may cancel either on a two- or five-harvest contract rundown period. The grower may choose either term.

Bob Dwyer, secretary to the NVGGA, said that the bottle price formula is best suited for premium, appellation of origin areas like Napa County. However, he noted that growers in other areas might be able to use the concept by making adjustments to fit their particular situation.

Sources: *NVGGA Harvest Report #3* and *Ag Alert*

Imported Wine May Enter U.S. Duty Free

The Republic of Chile has requested that the U.S. eliminate the wine duty for the biggest import category for wines from developing countries. The concession—if granted—would allow such wine to come into the U.S. from 99 developing countries, e.g. Portugal, and 39 instrumentalities, e.g. Hong Kong. The request refers to the import category of still wines produced from grapes in containers less than or equal to one gallon and containing not over 14% alcohol by volume (TSUS 167.30). Some of the other countries in the program called the Generalized System of Preferences include Argentina, Brazil, Mexico, Israel and India.

U.S. Office of the Special Trade Representative, Trade Policy Staff Committee (TPSC) Chairman William B. Kelly, Jr., will hold hearings in Washington, D.C., beginning November 14, 1977. Requests to testify must be received by the Secretary of the TPSC by November 10. California Farm Bureau Federation will protest the request because the concession would be unilateral.