



CALIFORNIA CROP

Volume Below Expectations

At 11.94 million tons, California's processed tomato crop missed preseason expectations by 2.13%. A cool, wet spring delayed the harvest two weeks and a heavy, early season rain cut the season short, causing the crop to miss its preseason forecast of 12.2 million tons.

Going into this season, packers and growers were not too concerned about starting two weeks behind schedule. For the last few years, volume was picked up on the back end as outstanding weather in the fall extended the

season. But this year, Mother Nature didn't cooperate. Deliveries ramped up slower, not peaking as early as last year, and rain caused losses in later fields.

The unusually heavy rain storm drenched fields October 3-5. During that week, growers were unable to deliver 36% of their expectations as harvesters couldn't get into the fields. Processors expected 917,808 tons to be harvested the week ending October 8th, but only 586,848 tons arrived at factories.

SUMMARY

California crop was cut short by October rains and fell 2.13% below the preseason forecast. Yet, the color quality is notable and average yields are estimated to set a new record for the fourth consecutive year.

For the remainder of the season, processors battled issues with mold, most stopped trying by the middle of October.

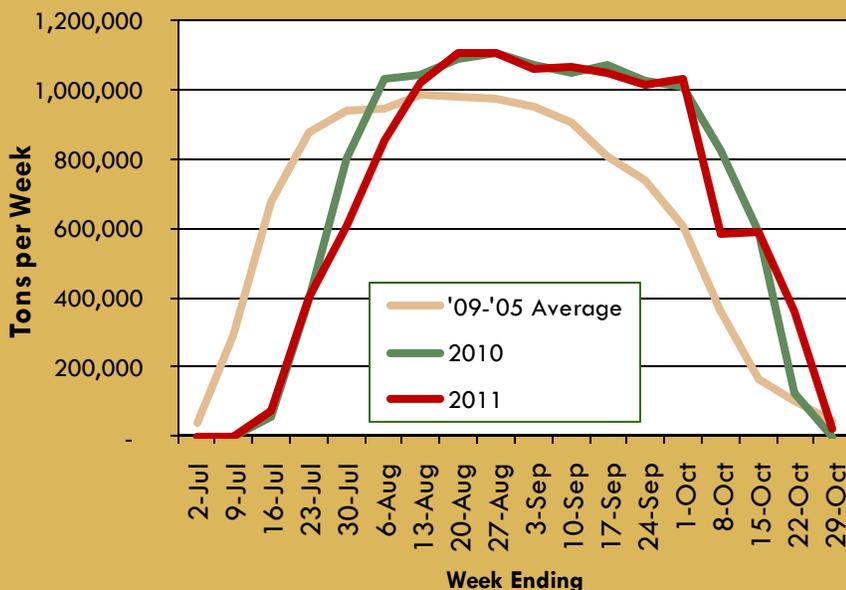
Across the state, field yields were mixed. The southern part of the state reportedly hit yields about 5% above expectations, while yields in the North were about 8% below forecast.

Since over 80% of the crop is grown in the South, the state-wide average yield is estimated to be in excess of 46 tons per acres, which is still a record. Drip irrigation, specialized tomato varieties, and ever improving horticultural practices are credited for improving yields.

Growing conditions in California this year created tomatoes with exceptional color. Color scores this good are rarely seen. Only 2007 recorded better color according to the Processing Tomato Advisory Board (PTAB).

Weekly Deliveries of California Tomatoes

Source: Processing Tomato Advisory Board



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OUR PRODUCTS

Hot Break Tomato Paste
 (28% and 31% NTSS)

Organic Hot Break Paste
 (31% NTSS)

Cold Break Tomato Paste
 (31% and 37% NTSS)

Organic Cold Break Paste
 (31% NTSS)

Concentrated Crushed
 (26% and 28% NTSS)

Diced Tomatoes
 (3/8", 1/2" and 3/4" cut)

Fire Roasted Diced Tomatoes
 (1/2" and 3/4" cut)

Organic Diced Tomatoes
 (1/2" and 3/4" cut)

Ground Tomatoes in Puree
 Tomato Puree (1.07)

Chili Sauce

Ketchup

Custom Formulated Products

CONTAINERS

300-gallon aseptic bag-in-box

55-gallon aseptic drum

StarPak

(four 75-gallon bags-in-box)

INTERNATIONAL CROP

Crop Meets Expectations

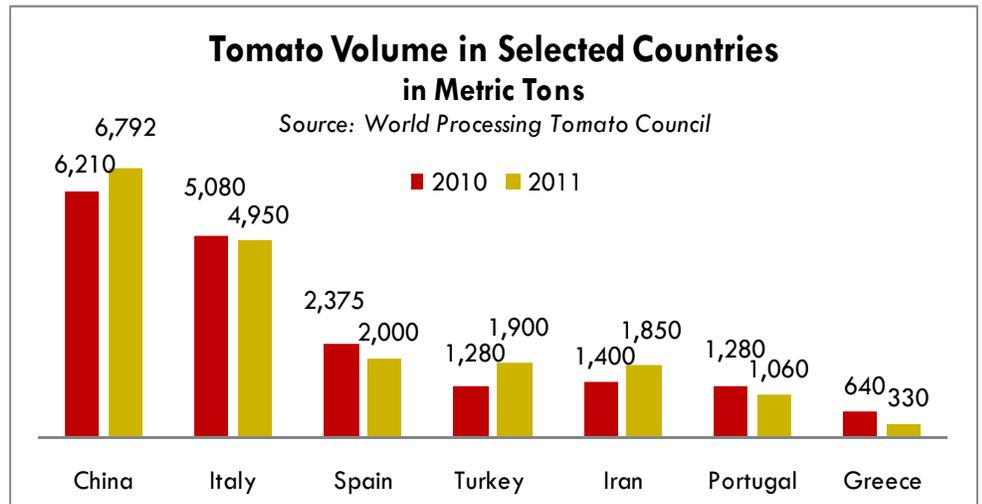
Conversion Note: 1 metric ton = 1.102 short tons

World numbers are nearly the same as last year at 37.185 million metric tons (MT), according to the World Processing Tomato Council. Overall the crop met expectations and put up essentially the same volume as last year. Still the volume was 4% less than the 3 year average.

China, the world's second largest production region, produced 6.8 million MT, a 9.4% increase over last year. Tonnage came close to preseason expectations despite

crop beat preseason expectations. Italy struggled with delays and poor conditions in August, but good weather in September and October extended the season. Italy had planned to produce 10% less than last year, but in the end, the decrease was only 2.6% less.

Despite exceeding its preseason expectations, European Union production was 11% lower than last year. The decrease resulted from the planned disappearance



reports of weather related problems during the season.

The crop was delayed, creating a glut of tomatoes that factories were unable to keep up with, and rain in August reportedly created 20% losses in the major production region. Yet the fall extended the season and kept volumes up.

Italy also had surprising final results. At 4.95 million MT, the

of tomato specific subsidies which is increasing raw product costs. Producers are looking for the appropriate supply balance without subsidies.

Turkey and Iran produced more this season, counter balancing the shortfall in European production. Turkey produced 1.9 million MT, up 48%, despite flooding and low factory yields. Iran packed 1.85 million MT a 32% jump over last year.

MARKET ANALYSIS

Indications for Smaller Crop in 2012

Shrinking processing margins signal that California packers may contract for fewer tomatoes next season.

On October 27th, the USDA released a report noting that the price of 31% paste in bins “retreated with the harvest.” According to the Vegetables and Melons Outlook (VGS-347), the price fell 8% from 36¢ per pound in July and dropped 10% from 37¢ a year ago. Since the cost of raw tomatoes increased 5% from a year ago, some processor margins are “being squeezed,” notes the report.

This drop in paste price, on the heels of higher costs and a short crop, is a telling sign that some processors have full warehouses and should contract for fewer tomatoes in the upcoming 2012 season to balance supply.

To get fewer tomatoes, fewer acres will be planted. Field yields are so high, that acreage, already at 10 year lows, will need to drop even further in 2012.

Improved horticulture practices and variety selection have made growers more productive on the same area of land. Since 2007, growers have invested heavily in drip irrigation. The subsurface watering improves yields by 3-10 tons per acre depending on the land. Changing the width of the beds used for planting and selecting hardy and productive tomato varieties also increased yields.

As a result, growers averaged 43.7 tons per acre from 2007-2011, 18% more than the 37.1 average yield from 2002-2006. Harvesting 6.6 more tons per acre means each acre produces an extra 1/4 of a load and an additional 3/4 of a bin of 31% paste. This adds up.

Comparison of 5 year Averages

California Production	2002-06 average	2007-11 average	% Change
Acres Harvested	278,400	282,000	1%
Tons Produced	10,336,800	12,291,142	19%
Tons per Acre	37.1	43.7	18%
Price per Ton	\$ 52	\$ 69	34%
US Demand (Marketing Year July-June)			
Domestic Consumption*	10,044,882	10,170,503	1%
Net Exports *	941,913	2,027,254	115%
Total Movement *	10,986,796	12,197,757	11%
Sources: USDA, NASS, CTGA, PTAB, CLFP. *current 2011 marketing year estimated on 3 year history.			

California packers wanted more product. Demand for United States tomato products has grown 11% over the prior 5 year average. International demand is driving this trend.

The growth in exports comes from favorable exchange rates (a weak dollar) and higher raw tomato costs in the European Union from the removal of tomato specific subsidies for farmers. It's shifted the US from a relatively minor player in global exports to the third largest exporter in 2010 behind China and Italy. (See our July newsletter for graph.)

In their eagerness to keep up with growing exports, packers contracted for the same average acreage as in the past, but did not adjust to the ever increasing field yields. Simply put, productivity in the fields has outstripped the growing demand, creating a surplus.

Soon, packers and growers will begin negotiations for the price of raw tomatoes in 2012. Needing fewer tomatoes, packers should be less willing to pay any premium. Growers, on the other hand, have different economics. Their costs are on par with last year and growers will likely desire a contract price similar to last year's \$68 per ton.

SELF-MANAGEMENT

HBR takes a look inside Morning Star



Did you ever wonder exactly how Morning Star thrives without a formal management structure — no titles, no vice-presidents, no organizational charts? The December 2011 issue of **Harvard Business Review** will help you understand how Morning Star employees coordinate, innovate and succeed without cumbersome bosses. For its cover story, the distinguished magazine gives detailed insight into our ideals and vision. It outlines the benefits of self-management (like not paying for managers) and the tools we use to coordinate activities. The article titled **“First, Let’s Fire All the Managers”** provides a road map for other companies wanting to implement self-management into their business models.

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