



CALIFORNIA CROP

Grower Price Plummeting

California's 2010 processed tomato crop is forecasted at 12.6 million tons, a 5.4% decrease from last year's record 13.3 million tons, according to the National Agricultural Statistics Service.

But looking at the volume alone doesn't tell the whole story. The report shows contracted acres falling by 9.1% from last year, reflecting packers' desire to cut the crop even further. Assuming the tonnage declines in proportion to the acreage, then Califor-

nia would only produce an 11.4 million ton crop.

The 5-10% expected decline in tonnage is spurred by the exceptional volume packed in California last year. Following that record smashing crop, packers have full warehouses and less need for raw tomatoes in the coming season.

PRICE OF RAW TOMATOES

Less need for tomatoes means that packers are not desirous to pay growers as much for them.

The field price of California's tomatoes will drop for the first time in four years. Packers paid a record \$80 per ton last year, a 60% increase since 2005.

For 2010, processors and growers have yet to come to an agreement on price. The California Tomato Growers Association is negotiating for a decrease of 10%, but packers are holding out for a more substantial drop of 20-25%. The packers expect to pay less — with latest offers between \$60-63 per ton.

California's growers are planting seedling transplants for the coming 2010 pack, set to start in early July and finish by October.



SUMMARY

California and the world are facing a backlash from a record setting 2009 processed tomato crop. Although demand still appears to be strong, the bumper crop created excess supply. The surplus means that processors don't need to pack as much in 2010 which is driving down the price of raw tomatoes in the field. Since tomatoes make up most of their cost, tomato product prices will decrease as well.

CROP CONDITIONS

Despite not having a contract price agreement, growers are putting tomatoes in the ground, so the crop will be ready for processors on schedule.

So far, 2010 is shaping up to be a great season. Mother Nature has cooperated with appropriate rain and dry times for field preparation and planting, allowing growers to implement the horticultural practices which make them the most productive in the world.

Unlike in the last few drought stricken years, water allocations are improving with every announcement from the frugal federal and state water projects. The federal water project set allocations at 30% for the Southern part of the state. Last year its allocations were only 10%.

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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 Forecasts Down, Still Above Average

Conversion Note: 1 metric ton = 1.102 short tons

After packing a record 42.5 million metric ton crop in 2009, global forecasts are 7.8% less for 2010. The World Processing Tomato Council expects the 2010 crop to be about 39.2 million MT, which is still 4% above the three year average.

their fields and transplant seedlings. In the south, planting has been delayed 7-10 days.

Spain's forecasts are down 19%, to 2.2 million MT. Planting has been delayed two weeks due to rain.

Removing California's zealous forecast leaves an even greater drop of 8.9% in international production. Outside California, countries expect to pack 27.2 million MT. Although less than last year, it's still 5% above the 3 year average.

China, the world's second largest producer, expects to decrease production 10% to 7.8 million MT. Last year the country reached record production of 8.7 million MT.

Unlike the rest of the major tomato growing regions, China's packers are paying more for tomatoes this year than last. Tomatoes are competing for land with cotton and sugar beets, driving up prices \$2 per MT, to \$56 for 2010.

In Europe, processors are dropping their demands for tomatoes and the price. Italy's production is forecast for 13% less to 5 million MT. The price of tomatoes for paste has fallen 12% in Italy.

Heavy rains assaulted Italy and growers struggle to prepare

On February 27th, a powerful 8.8 earthquake destroyed some of Chile's 2009 and early 2010 tomato stocks. Tomato News reported that Chile's 2010 pack is now expected fall below forecasts, but on par with 2009. Losses could have been even worse, but a cold spring delayed the harvest by two weeks so packers hadn't gotten as much stock into their warehouses as normal.

WORLD PROCESSED TOMATO VOLUME

Millions of Metric Tons

Source: World Processing Tomato Council, March 2010

	2009	2010 fcst.	Percent Change
World Total	42.467	39.156	-7.8%
International Total (excludes CA)	29.838	27.172	-8.9%
China	8.655	7.800	-9.9%
Italy	5.747	5.000	-13.0%
Turkey	1.800	1.600	-11.1%
Spain	2.700	2.200	-18.5%
Portugal	1.242	1.100	-11.4%
Greece	810	710	-12.3%

It's all what you put into it.

When cooking in your own kitchen, you buy the best ingredients to create a flavorful meal. The same holds true for the foods made in your company's kitchen. Therefore, price shouldn't be the only deciding factor as you look to make purchasing decisions for the coming pack season.

Consider the value of the packer who makes your ingredients. At The Morning Star Packing Company, we work with you to create the ultimate tomato ingredients for your finished products.

For decades, we have excelled at meeting our customers' expectations for quality, consistency and price. To make sure we stay on top of our game, we've invested heavily our factories to keep them state-of-the-art, ensuring our ability to continue to deliver the best tomato ingredients to you.



MARKET ANALYSIS

Demand for Tomato Paste Strong

Since tomatoes make up most of tomato paste's processing cost, bulk tomato paste prices follow the field price closely. This year the raw tomato price will tumble 20-25% and reduce paste prices proportionately. Opening offers for new pack 31% NTSS tomato paste range from 36-38¢ per pound — below last year's opening price of 48¢.

DEMAND DRIVES PACK PLAN

Last season, the industry planned for a record-breaking pack. High paste prices, driven by chronically tight global supplies, encouraged processors to package every available tomato.

The nearly flawless weather conditions provided packers with an extraordinary volume of toma-

atoes, definitely more tons than expected and probably more than they really needed.

As a result, the worldwide market has swung from tight supplies to a surplus in a single season.

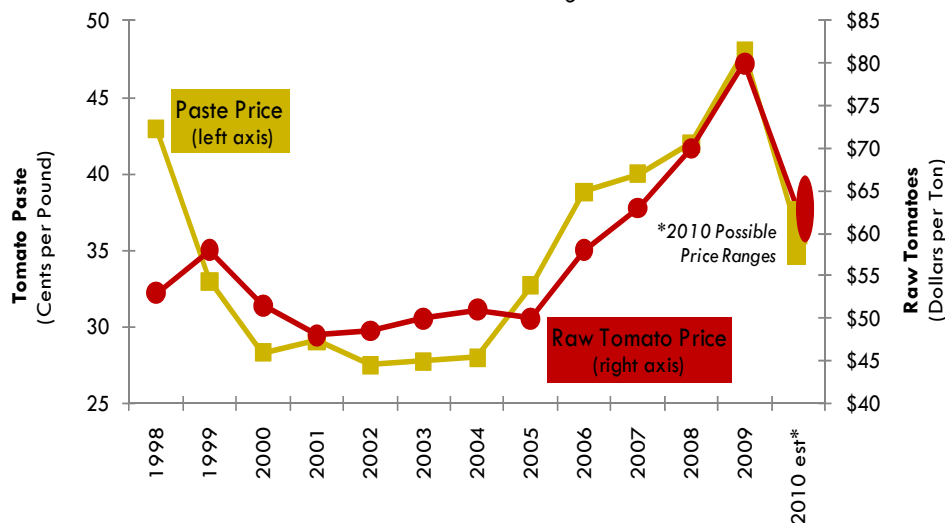
Yet it's important to remember that growing demand, which caused packers to shoot for a record pack in 2009, still exists and could eat into the surplus faster than expected.

ABOVE AVERAGE DEMAND

Tomato stocks in the United States disappeared faster than average for the first 9 months of the 2009 marketing year. US packers moved nearly 10% more stocks from June 2009 - February 2010 than the average of the same period over the last four years, according to the California League of Food Processors.

Price of Paste and Raw Tomatoes

Source: Morning Star



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Let's narrow the viewpoint to focus on US open market tomato paste—"Paste for Sale" per CLFP.

Demand for paste in the US has improved since last year. As shown in the accompanying table, domestic paste movement (total movement less exports) is up 7.9% over the same 9 month period last year.

Because of strong demand inside the US, total movement (including exports) has only fallen 2.9% from last period's record high. The decline stems from a predicted drop in exports. Ample global stocks and a stronger dollar have weakened US export op-

portunities. Despite the recent decline, paste exports are still nearly 26% above the four year average for the period.

High consumption and changing subsidies in the European Union should keep US exports at high volumes experienced since 2007.

In its April issue, Tomato News revealed that EU tomato consumption climbed sharply after

the 2007 season. Tomato usage grew approximately 30% and appears to be holding at new highs.

The EU is in the final season of decoupling its tomato subsidy program. Analysts speculate the 2011 field prices of European tomatoes will spike as they did when decoupling began in 2008. High costs should decrease EU production and increase imports.

U.S. OPEN MARKET PASTE MOVEMENT 9 months Disappearance from June-February in Fresh Equivalent Tons <i>Source: California League of Food Processors, US Census Bureau/Foreign Trade Statistics</i>					
	2009 Jun 09-Feb 10	2008 Jun 08-Feb 09	% Change from 2009	4 Year Average	% Change from 2009
Domestic Movement	4,214,799	3,907,267	7.9%	4,022,969	4.8%
Exports	1,075,194	1,538,733	-30.1%	853,740	25.9%
Total US Movement	5,289,992	5,446,000	-2.9%	4,876,709	8.5%

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