



CALIFORNIA CROP

Uncooperative March Delays Planting

Strong winds, heavy rains and cold temperatures in March put California's processed tomato crop behind schedule. Transplanting was delayed about three weeks as growers waited for a break in the storms long enough to dry out the ground.

California enduring its rainiest March in a decade. Statewide



Growers delayed transplanting fields in March by about three weeks as heavy rains left the soil too wet for equipment to enter the fields. By April the fields dried out and growers quickly got back on schedule.

rainfall of six inches in March exceeded the 10-year average by four inches.

With full reservoirs and snow-pack water content at 165% of normal, Governor Jerry Brown lifted the drought order declared by Governor Schwarzenegger in June 2008.

Interestingly, growers south of the Delta will still only receive 65-70% of their water allocation to preserve fish and wildlife habitat.

Although the rains were welcomed for filling the reservoirs and recharging groundwater, tomatoes tend to struggle in wet years. The vines are more prone to disease and yields suffer.

Additionally, the wet fields pushed back the transplanting, creating adjustments to the planting/harvesting/processing plan.

Officially the crop expectation is 2.4% higher than last year at 12.6 million tons according to the January 14 release of the NASS/USDA California Processing Tomato Report.

SUMMARY

Higher fuel prices, escalating fertilizer costs and rising profits from competing crops means California packers are paying 4.6% more for raw tomatoes this year. Since raw tomatoes make up 53% of paste's processing cost, tomato paste costs in 2011 will be higher than last year.

Many in the industry were surprised to see such a large forecast and are eagerly awaiting the next report due on May 27. The industry anticipate a smaller forecast as packers adjust to the higher tomato price, field delays, and high inventory levels.

On April 8, the packers reached an agreement with the California Tomato Growers Association (CTGA) for a \$68 per ton price for tomatoes. The price is up 4.6% from last year's \$65 per ton, but down 15% from 2009's record of \$80 per ton. In January packers hoped for a price reduction to \$62 per ton, but growers costs have increased over last year. *(For more see Market Analysis on page 3)*

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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

Subsidy Changes Affect European Volume

Conversion Note: 1 metric ton = 1.102 short tons

According to the World Processing Tomato Council's April forecast, the world will produce 38.2 million metric tons (42.1 million short tons) and a 2.3% increase over last year's crop.

Europe's major producers, Italy, Spain, Greece, and Portugal, are decreasing acreage and their production expectations.

Italy's forecast is down 7.5% to

Agricultural Program (CAP) has been phasing out crop-specific subsidies since 2008.

As the subsidy program changed, raw tomato prices in Europe have risen sharply since 2008, and this year is no exception. As the table below shows, California's raw tomato price increase of 4.6% pales next to the striking increases in Europe.

As of February 17, 2011		
Field Price of Paste Tomatoes		
Source: Tomato News —March 2011 Issue		
Country	2011 Price (USD per short ton)	Percent change from last year
Italy	\$118	36%
Spain	\$104	18%
Portugal	\$111	14%
Greece	\$106	9%
California	\$68	4.6%

4.7 million MT. Spain is planning for almost 19% less at 1.9 million MT. Portugal expects 6.3% less at 1.2 million MT, while Greece forecasts only 450,000 MT, a 30% decline. Overall Europe expectations are down 11.4%, to 8.46 million MT.

This marks the first season that European Union growers will not receive subsidies specifically for tomatoes. In a program known as "decoupling", the Common

China is expecting an 8% increase over last year to 6.7 million MT. Competition from grains and cotton propped up the raw tomato prices again as tomatoes compete for ground with profitable commodities.

Turkey is also worth mentioning as the country plans to increase production 56% to 2 million MT. Turkey is one of the few countries to contract raw tomatoes for a lower price in 2011.

MARKET ANALYSIS

Inputs, Competition Make Tomatoes Costly

It's impossible to say what the market price is for bulk tomato paste. There is no exchange or independent pricing mechanism to indicate the price. Bulk tomato products are mostly sold under long-term contracts, with prices linked to processing costs. Those costs are going up.

Despite excess stocks of processed tomatoes, the cost to make tomato paste is increasing. California packers are paying 4.6% more (\$68 per ton) for raw tomatoes this year. Tomatoes are the biggest component (53%) of the processing cost for paste.

No, the price of raw tomatoes is not defying economic gravity and ignoring the surplus. Much like in 2008 and 2009, tomato prices are being propped up by rising profits of competing crops and escalating fuel and fertilizer costs.

Cotton, corn, wheat and other food commodities are in short supply worldwide and reaching notably higher prices than last year. Since these crops can be grown on the same ground as tomatoes, packers needed to pay growers more to compete with other profitable options for land.

Cotton, in particular, is "red hot" as market prices have doubled from a year ago to reach 150 year highs. The United States is the world's leading exporter of cotton, and domestic stocks are at all time lows. Growers are planting cotton anywhere they can.

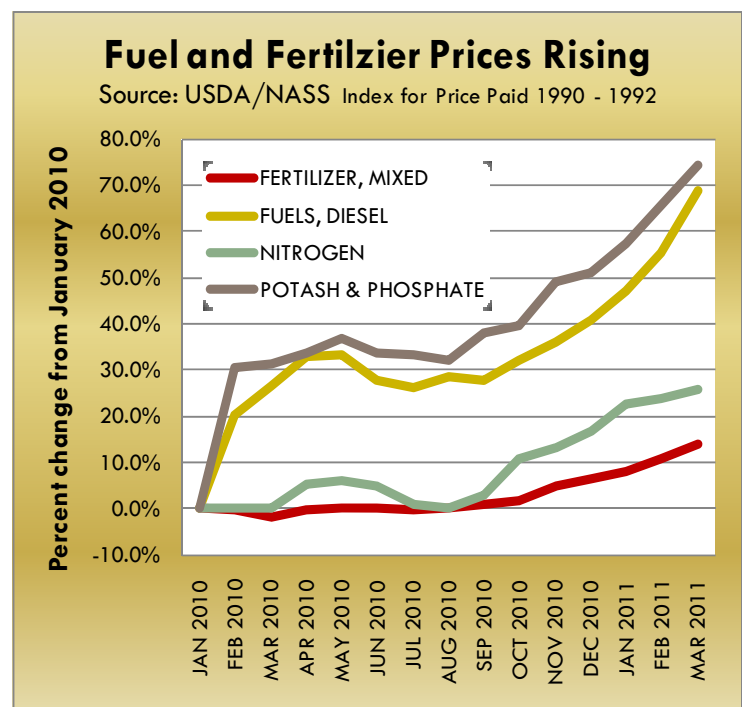
Corn production worldwide has not kept up with demand. Supplies are at their lowest levels in 15 years. Demand for corn is growing domestically and globally, pushing prices to double last summer's level.

Corn demand is driven domestically as more is used in ethanol production. Since 2005, corn utilization for ethanol has risen sharply. Currently at least 25% of America's crop is used in ethanol production, and the USDA expects that number to continue to rise to 36%.

Globally, demand for corn is driven by the rising

middle class in developing countries like China and India. As people gain more wealth, they can afford more meat protein, and beef and pork production requires a lot of feed corn.

Competition from other crops is not the only driver of higher tomato prices. Growers are facing higher input costs in the coming year. Fertilizer prices, which had fallen from their 2008 highs, are drifting upward. The worldwide food shortage means more acreage is planted which increases demand for fertilizers. Political unrest in the Middle East is also affecting costs, since the region is a major exporter of fertilizers and fuel.



The bottom line: If you only looked at inventory levels in packers' warehouses, tomato prices should be falling—the victim of inertia in a surplus environment. That happened last year when packers paid 18.7% less for tomatoes. But current economic pressures in the field are very similar to those of 2008 and 2009 which sent prices to record levels of \$70 and \$80 per ton respectively. It's likely that if inventory levels were normal, the price of tomatoes would have spiked up sharply.

COLLEAGUE PROFILE

Paul Maxon Makes Changes



In early 2007, Paul Maxon took a chance and followed his dream.

The California native was ready to make a change. He had lived in Australia after college and yearned to return one day.

With the support of his family, Paul found a job in Australia and sold off all their assets in America; the house, the car, all the

stocks. His timing couldn't have been more perfect. Shortly thereafter, the American economy faltered — stock market and housing prices tanked.

But eight months later, Australia hadn't panned out for the Maxon family. Paul and his wife realized their three children were not thriving in the land down under. Additionally, Paul's job as a food importer wasn't the opportunity he'd expected.

They decided to return to California. Using a headhunter, Paul learned of a sales job at Morning Star Packing, while his wife

found an opening as a teacher.

By September 2007, although Paul was right back where he started, everything felt different. Paul satisfied something inside by taking a chance and following his dream of living abroad.

After 22 years selling dried fruit and nut internationally plus a few years in agricultural banking and credit, Paul enjoys the change to tomatoes. His BA from Fresno State in Ag Business with minors in Chemistry and Biology helps him understand and explain the nuances of tomato ingredient products.

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