



CALIFORNIA CROP

Shy California Sun Delays Tomato Crop

The famous, nurturing California sun has been shy this growing season. Instead, rain and snow storms replenished water supplies and pulled California out of its multi-year drought.

The moisture and clouds delayed everything from tomato field preparations to plant growth. Additionally, diseases, like Bacterial Speck, flourish in the damp conditions. Growers must proactively apply sprays to combat diseases.

As a result, the fields have not matured on schedule, and the beginning of the harvest was pushed back a couple of weeks into the middle of July.

SUMMARY

Despite a delayed start to the harvest, California growers and packers are not yet concerned as last year's crop got off to a late and shaky start, yet produced record setting yields. California paste packers are finding growing market opportunities overseas.

Oddly, growers and packers are not all that concerned about the less than ideal conditions. It looks a lot like last year they say.

Last year's crop started two weeks behind schedule and still managed to meet forecasts and produce record breaking field yields over 45 tons per acre.

A delayed start means the crop size depends greatly on how long the season stretches into the fall. If September and October are mild and dry, as they have been over the last five years, then the crop should perform very well.

Currently California's crop is forecast at 12.2 million tons according to the NASS/USDA California Processing Tomato Report released May 27. The forecast is down slightly from January's 12.6 million ton estimate.

The forecast dropped partly due to weather, but economics



Storm clouds brought rain and hid the nurturing California sun this spring. The tomato crop required more time to mature due to cool weather and a delayed planting this spring.

played a hand in the decrease. Global shortages of corn and cotton inflated the prices of those crops. Growers saw the profit opportunity and chose to plant corn and cotton instead of tomatoes.

Additionally, packers cut back their contracts with growers as fuel and fertilizer prices spiked which pushed up the field price for tomatoes. As of July 6, all packers signed contracts at \$68 per ton, which was an unanticipated 4.6% rise from the 2010 price of \$65 per ton.

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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

Europeans Forecast Less

Conversion Note: 1 metric ton = 1.102 short tons

The world expects to decrease processed tomato production only slightly in 2011, according to the World Processing Tomato Council's (WPTC) June forecast. At 37.232 million metric tons (MT), expectations are 0.4% below the 2010 crop and 4% lower than the three-year average.

Although overall production remains comparable to last year, there are regional differences. Europe is decreasing production, while China, Iran, and Turkey plan greater volumes.

2011 is the first season that Italian, Spanish, and Greek growers will not receive subsidies specifically for tomatoes. Since 2008, the Common Agricultural Policy (CAP) has gradually been phasing out those subsidies.

As a result, European processors are paying more for tomatoes, and production has fallen. Volume is forecast 14% below last year from the five European countries (Italy, Spain, Portugal, Greece, and France).

Italy (12.7% of world volume) expects to produce 4.7 million MT, a decrease of 7% from last year. Reports claim Italy will meet its forecast despite spring rains delaying crop plantings and warm June temperatures incubating diseases.

Italian processors are paying 26% more for tomatoes, an aver-

age price of 88€ (\$125) per MT.

Spain (5% of world volume) estimates a crop 19% below last year at 1.91 million MT. May rains delayed and damaged their crop. At 75€ (\$106) per MT, packers are paying 15% more for tomatoes.

Portugal's crop was also disrupted by the May rains. Forecasts are at 1 million MT, down 22% from last year. Growers contracted their tomatoes at 75€ (\$106) per MT, a 7% increase from last year.

Three exporting countries outside of Europe look forward to increased volumes in 2011.

China (18% of world volume) expects a 6.7 million MT crop, an 8% increase over last year. Raw tomatoes prices appear comparable to last year.

Turkey (4.8% of world volume) plans to increase production 41% to 1.8 million MT. At \$116* per MT, processors in Turkey may pay 29% less for tomatoes.

Iran (5.4% of world volume) is a growing force in processed tomato production. The country expects to produce 2 million MT in 2011, a 43% jump from last year. At \$136* per MT, packers in Iran are paying growers 37% less for tomatoes.

**Source: Tomato News, July-Aug 2011 (California's short ton field price equates to \$75 per metric ton.)*

MARKET ANALYSIS

Strong Demand for US Tomato Paste

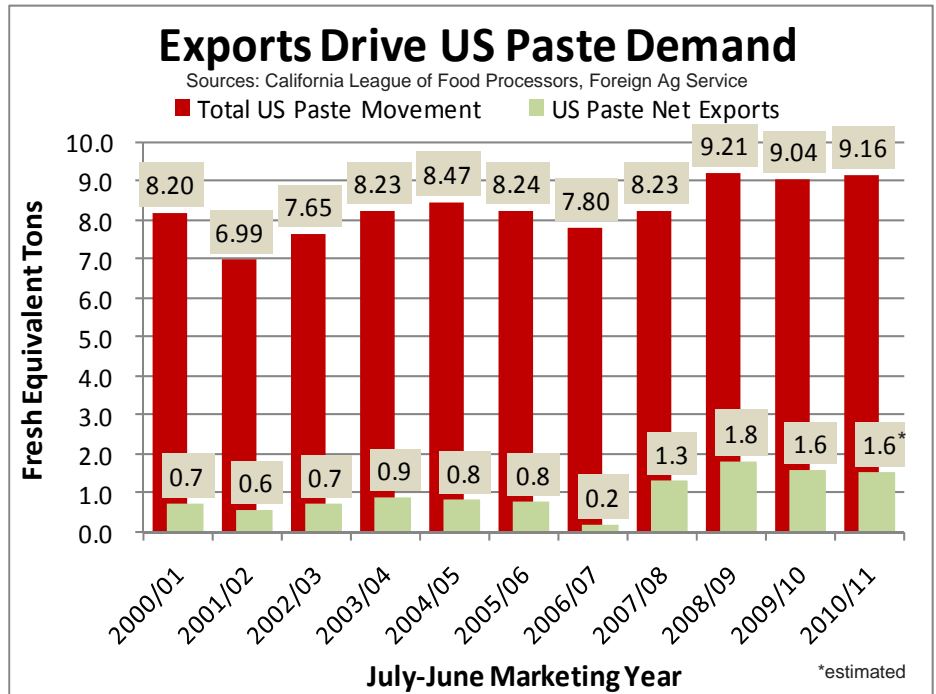
In the United States, many sales of bulk tomato paste are done under cost-based contracts. Those costs have gone up because the price of raw tomatoes increased \$3 over last year to \$68 per ton. (Please see our April 2011 Newsletter for additional details.)

Tomatoes make up 53% of the cost to make bulk tomato paste. The \$3 increase in the price of tomatoes inflates the 2011 production cost one cent per pound above last year.

Expanding Global Market

Most packers agreed to pay the higher price for tomatoes because demand for US tomato paste is growing. Three factors are fueling this expansion —growing tomato paste demand globally, favorable exchange rates created by a weak dollar, and phased-out subsidy programs in Europe.

As Tomato News showed in the graphs below, global tomato paste trade has risen steadily in the last six years. And the main players in the export market have shuffled around since 2001. China

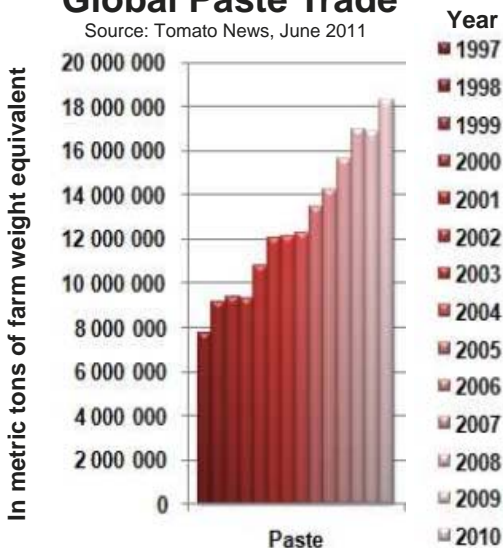


has surpassed Italy as the world's leading exporter, while the United States became the third biggest exporter of tomato paste.

From 2007-2009, on average 12% of US tomatoes were consumed outside of the US, more than double the average percent from 2004-2006 when only 5% of US tomato production was exported.

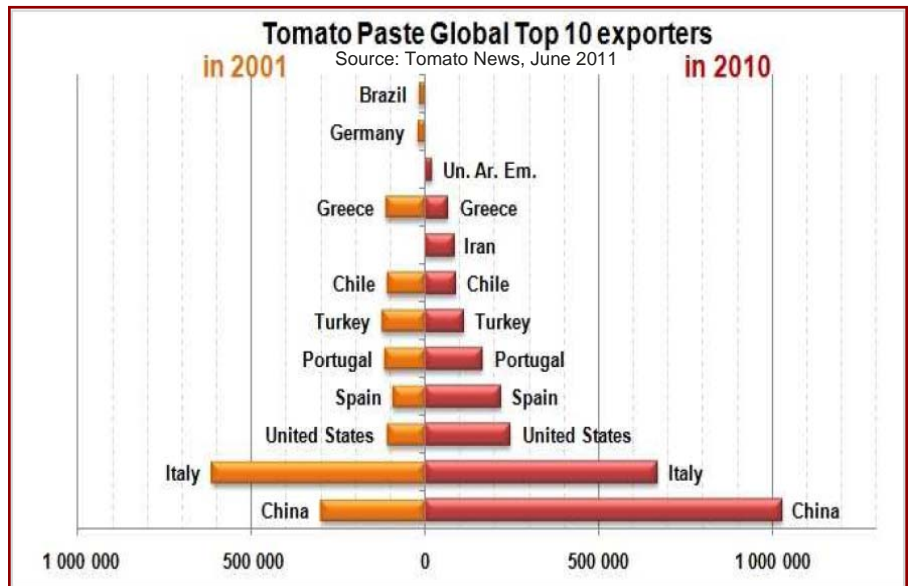
Global Paste Trade

Source: Tomato News, June 2011



Tomato Paste Global Top 10 exporters

Source: Tomato News, June 2011



COLLEAGUE PROFILE

Robert Young — “I love this job.”

“I love this job,” says Robert Young, sales colleague at our Los



Banos factory. “All my previous work experience seemed to train me for this position,” he explains. “The only thing I’m missing is the ocean. I like to surf.”

The southern California native left the coastal beach cities behind two years ago to work for Morning Star. He’s the sales contact for the company’s R&D products. He also enjoys seeking out new customers and creating relationships with them. Additionally, he supports some current customers, both internationally and domestic.

Robert’s experience with food products and international business came from the 11 years he worked for a global food broker. He focused on sauces, canned foods, and tomato paste.

But he also worked as a ships’ agent, owning that company for 11 of the 14 years he was there. Ships from around the world arrived in the Port of San Diego and Robert’s company coordinated their unloading, reloading, restocking, refueling, mechanical maintenance— essentially everything the ship needed while docked.

Robert is married to Karolina, another of our sales colleagues. Their daughter turns a delightful two years old in September. To unwind, Robert reaches for his guitar, playing jazz and blues.

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