THE MORNING STAR PACKING COMPANY

November 2008 Newsletter

In this issue

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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

DOMESTIC CROP

Ripening Delays in August Push Crop Back

You'd never know by the final numbers but 2008 was expected to be a lack luster season. In the end, California harvested and processed 11.8 million tons of tomatoes, hitting its aggressive preseason estimate while making it the state's third largest crop on record. Once again tomatoes proved their resiliency, recovering in the latter part of the season after suffering a tough start.

In August, it didn't look like California's crop would get anywhere near preseason expectations. The state experienced an odd industry-wide slowdown for the first 10 days of the month.

Usually California's factories are running at neck-breaking speeds in the month of August when tomatoes are at their peak. But instead of acres of ruby red tomatoes, growers and processors faced fields of unripened green fruit. Deliveries slowed, causing several factories to close, while tomatoes remained in the fields to mature.

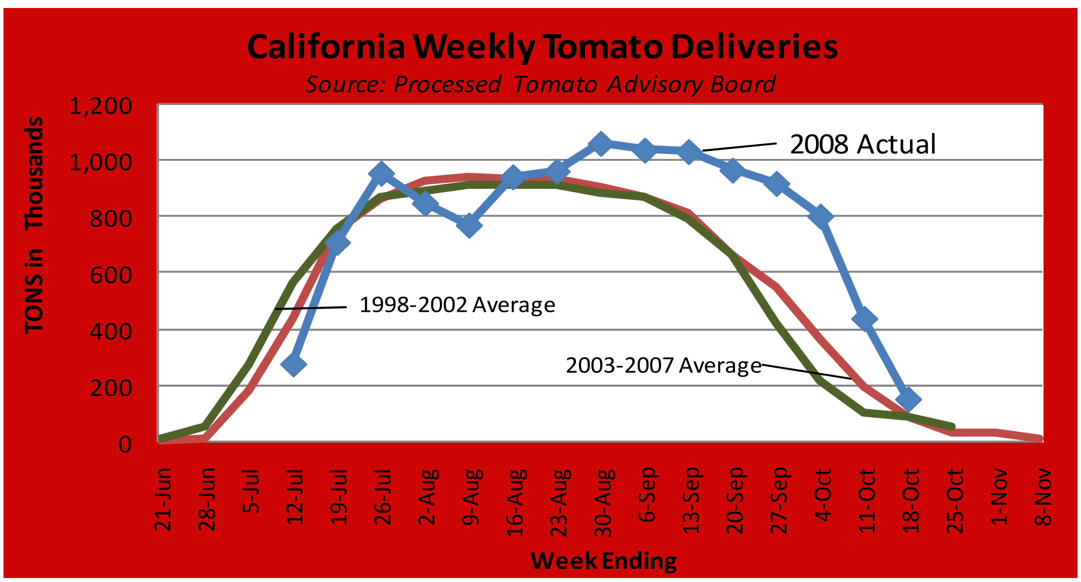
No single event seems to be responsible for delaying the ripening of the early August crop. Instead the cumulative effect of several minor, yet unusual, events may be the culprits.

A few days of cold temperatures in April might have stressed newly transplanted seedlings and delayed the development. Aggressive winds in May swept early blossoms from the vines. The plants created new blooms which ripened later than scheduled. June and July's mild temperatures never hit the highs necessary to trigger ripening, and instead the fruit just got larger. Additionally, California was hidden under a blanket of smoke for most of July. Hundreds of wildfires, caused by lightning strikes in June, released particulates into the air which might have prevented necessary photosynthesis for the plants.

Whatever the cause, the delayed ripening lead to bunching in later deliveries, and the factories raced to keep up. For three straight weeks, deliveries exceeded 1 million tons, a feat which was only accomplish in the record setting 1999 season.

The weak August volumes were compensated for by a balmy September and October. Over 45% of the pack was completed in September and October, with a record setting 5.2 million tons processed.

Proving that tomatoes love a good drought, yields were exceptional. It's estimated the state averaged a **record-breaking 42 tons per acre** on the 277,000 acres contracted. Drip irrigation is playing a major role in these high yields. Official results will be released in January.

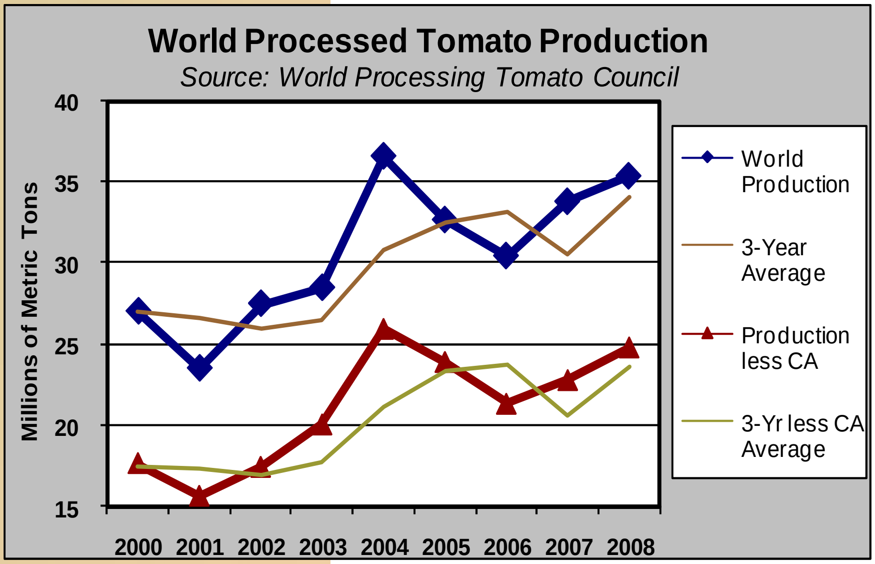


Conversion Notes:
1 metric ton (MT) = 1.102 tons
1 hectare = 2.47 acres

INTERNATIONAL CROP

Production and Tomato Prices Increase

According to the World Processed Tomato Council, the globe produced its second largest crop in history. At 35.37 million metric tons (MT), worldwide production increased 4.6% over last year.



Excluding California's production, 24.87 million MT were produced internationally, an 8.8% increase above last year. Despite the sizeable crop, most countries missed preseason estimates due to issues with weather.

The countries of AMITOM processed 13.847 million MT, outperforming last season by more than 4% but missing preseason estimates. Most of the increase in production for the Mediterranean came from **Turkey**.

Turkish production jumped 45% over last year to 2.4 million MT. The country even beat preseason estimates of 2.1 million MT. Favorable weather produced a bountiful crop with excellent color.

Despite a difficult season in the north, **Italy** managed to come close to preseason estimates and process 4.5 million MT. A chilly spring and heat during bloom, coupled with untimely rain, damaged Italy's northern crop. The season started late in July and factories struggled below capacity all season long. Because most of Italy's bulk products are made in the north, contracts for 2008 paste are nearly impossible to get. In contrast, the southern part of Italy experienced a bumper crop making up some of the northern shortfall.

Spain produced 1.6 million tons, missing preseason estimates by 10%. Rain and hail lowered yields and delayed the beginning of the harvest by 10 days. Reportedly, Spain's crop came through with good quality but is sold out due to high demand.

Production results bounced around wildly, but **China** officially settled a record 6 million MT. No longer an extremely cheap source of tomato products, prices are rising for paste and raw tomatoes in China. The increase in the price of raw tomatoes is driven by a significant gap between production capacity and tomatoes available to process. Processers are willing to pay more to attract tomatoes to their factories.

Chinese processors are not the only ones attracting tomato growers with higher prices. In US dollar terms, raw tomato prices in major production regions have increased anywhere from 25% to 60% since 2006, according to TomatoLand.

Processors are paying more for tomatoes in response to rising profitability from other crops as well as the processors' desire to process more tomatoes than in the past. Estimated demand for tomato products is currently higher than production globally. (see Market Analysis on the next page.)

Raw Tomato Prices

REGION	2008 $/MT	% chg 2006
China		
Gansu	$54.66	37.9%
Inner Mongolia	$51.22	25.0%
Xinijang	$58.31	56.3%
France	$108.50	34.6%
Greece	$127.10	60.8%
Italy		
Napoli	$131.75	30.8%
Parma	$123.23	52.9%
Portugal	$124.00	60.0%
Spain	$117.80	43.4%
Turkey	$112.90	40.0%
California	$77.00*	42.6%

Source: TomatoLand, August 2008
**includes late season premiums.*

Speculation continues to run amuck as to the long term effect of the subsidy reforms in the European Union. Removing the tomato specific subsidies was expected to discourage growers from planting tomatoes. Prices have risen high enough to maintain volumes, but not enough to sharply increase production volumes.

MARKET ANALYSIS

Packers Indicate Shortage Despite Sizeable Supply

Despite processing the third largest crop on record and reaching a record-breaking beginning supply of over 16 million tons, California packers achieved higher paste prices. Normally, when domestic supplies are high, the price falls as processors strive to empty their warehouses.

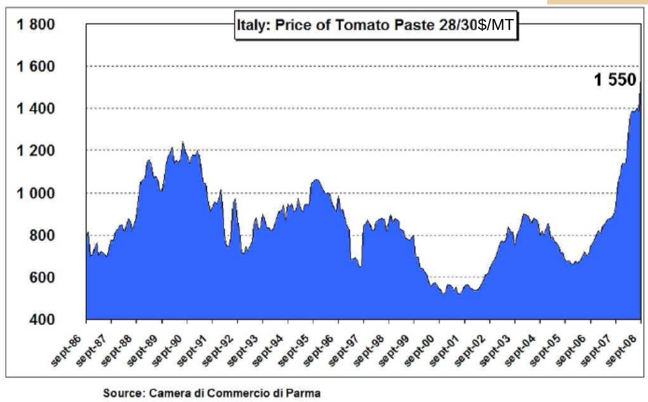
This year, global shortages and record high tomato paste prices internationally have created additional demand for products from the United States. Therefore, California packers have secured contracts for most of their available supply. A limited volume of uncontracted product is selling for 50¢ to 60¢ per pound for 31% NTSS paste in bins.

Growing international consumption is the major driver of tight supplies. According to Tomato News, global demand for processed tomatoes is about 35.5 million MT (39.1 million short tons). Demand has increased 27% from 2003 when Tomato Land calculated 28 million fresh equivalent MT (30.9 million short tons) were consumed annually. World production is up only 24% from 2003 which means it's not keeping up with demand.

International buyers are turning to the United States to make up the shortfall between production and consumption. Last marketing year, exports from the US hit epic levels as nearly 2 million fresh equivalent tons were shipped from July 2007 to June 2008.

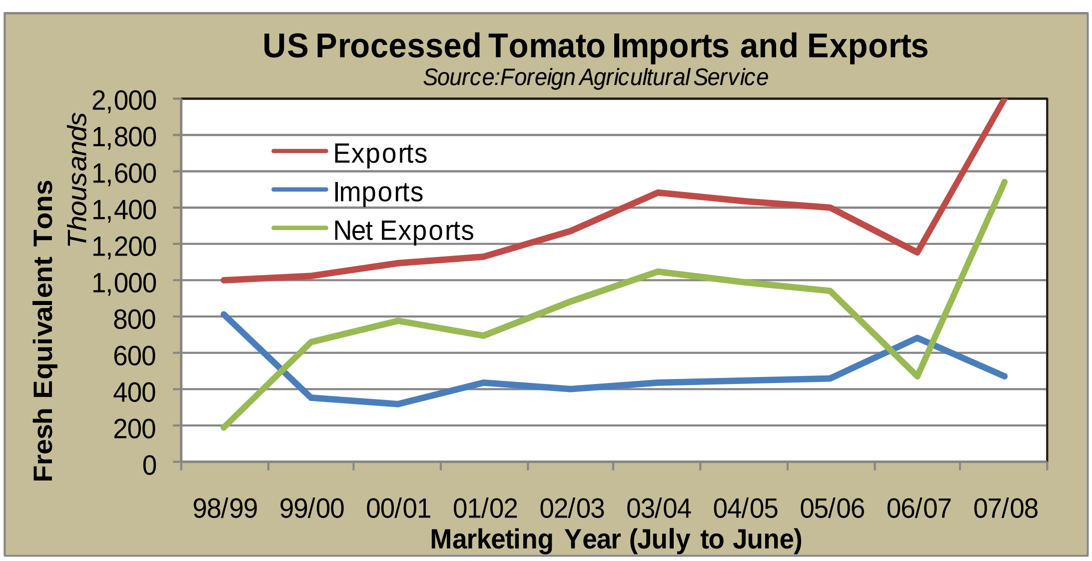
Exports from the US are tracking a new record already this marketing year as international markets indicate another shortage. From July to August 2008, paste exports are up 143% over the same period last year, according to the Foreign Agricultural Service. Italy is the primary destination, taking as much product as the combined volume of Mexico and Canada, the US's normal top export destinations.

Historically, European countries have shown little interest in paste from the United States, but the European Union's restructuring of its subsidy program, rising consumption, the increasing prices for raw tomatoes and a falling dollar have changed the economics. Despite the 25% recovery of the dollar against the Euro since July, California is still competitive in the face of record paste prices from Italy and China.



According to the October publication of Tomato News, opening paste prices out of Italy rose 65% in US dollar terms this September over a year ago. The Italian record of $1,550 per MT for 28/30 paste equates to 70¢ per pound.

Tomato News shows Chinese paste prices up nearly 60% since August 2007 in US dollar terms. The September 2008 quote for Chinese 36/38 paste is $1,065 per MT, equating to 48¢ per pound. Unofficial sources are reporting prices over $1,200 per MT as of November.



COLLEAGUE PROFILE

Ron Dalforno has Tomatoes in His Blood

***Ron Dalforno** coordinates Morning Star's complex structure of transplanting, buying, harvesting, hauling, and researching tomatoes.*

Ron Dalforno recollects meeting Chris Rufer, Morning Star's founder, for the first time in 1978. "Chris taught me how to use the refractometer," Ron says. "Back then, no one thought growing tomatoes for their solids was important. Paste was just a by-product, but Chris saw the future."

At the time, Chris was looking to make Wolfsen Land & Cattle a partner in building the first paste factory dedicated to bulk product for the open market. Ron had only recently begun working for Wolfsen, a large family farming company.

With his newly minted Agricultural Economics degree from UC Davis and summer field experience at Hunt Wesson, Ron was responsible for establishing a tomato program for Wolfsen.

Over the years, Ron became an expert in farming economics, tomato varieties, and cultural practices by walking fields and drafting business plans.

Wolfsen was farming an expansive 30,000 acres throughout the central valley. Ron became an instrument rated pilot so he could commute to the southern operations by small plane while getting a quick survey of the other farming operations.

Ron's love of numbers took him to the Executive Vice President level at Wolfsen, but he began desiring different challenges, which lead him back to the entrepreneur who saw a new future in the tomato industry.

Ron came to work with Morning Star in December 2006, coordinating the complex structure for transplanting, buying, harvesting, hauling, and researching of tomatoes. Ron's background makes him notably qualified for this intricate position.

As a compliment to his professional experience with tomatoes, Ron has tomato heritage. "I've got tomatoes in my blood," Ron proclaims. In 1906, his Italian immigrant grandfather became the first farmer to ship tomatoes from Merced to San Francisco by rail.

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