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DOMESTIC CROP

California's Spring Planting Conditions Ideal

Growers and processors are looking forward to an excellent season in 2007. Ideal conditions, especially when contrasted to the unfavorably wet previous two years, have allowed growers to get their beds ready and transplant seedlings.

This year the rains came to California in normal amounts in November and December, but January was unusually dry and cold. A Siberian Express cold front settled on the state for over a week bringing temperatures in the low 20°F. Major damage was done to California's citrus crop, but the arctic mass didn't bother the tomatoes growing underground or in nurseries.

An uneventful February brought mostly normal rain and temperatures. A slight freeze, late in the month, minimally damaged early emerging seedlings.

Bright sunshine, mild temperatures, and low rainfall have allowed growers to implement proper cultural practices. Growers entered their well-prepared fields in the beginning of March, moving transplants from the nursery into the soil in a timely manner. The plants have experienced very little shock during this transition because of the temperate conditions.

The only topic of concern has been the lack of rain. California is experiencing drought con-



Transplanter Dropping Seedlings into Beds



Healthy Seedlings Waiting to be Planted

ditions, but ample water storage from previous years has kept concerns low. Dry years are typically high yielding for tomatoes.

California growers have contracts for 12 million tons of tomatoes, according to the January 17th report by the California Agricultural Statistics Service. Informal expectations have lowered the crop to 11.5 million tons. The next official report is to be released May 31.

Despite the great conditions, some growers have been unwilling to plant until a contract price is agreed to. It appears the price will settle around \$63 per ton, about 7% higher than the \$58-59 price last year. Another deterrent for growing tomatoes is excellent pricing for substitute crops, like corn. Ethanol demand is driving up pricing for corn.

PROCESSING TOMATO VOLUME IN THE UNITED STATES			
	2007 fcst	2006	% Change
Indiana	254,400	225,500	13%
Michigan	115,300	115,500	0%
Ohio	166,000	166,820	0%
Subtotal	535,700	507,820	5%
California	11,500,000*	10,104,000	14%
Total	12,035,700	10,611,820	13%

*Source: USDA, April 3, 2007 Vegetable Report
MSPC revision. USDA reported 12 million tons

OPERATIONS UPDATE

What's going on at Morning Star?

Introduced by popular demand, Morning Star will offer **bulk organic tomatoes** this year. Our growers planted over a thousand acres for delivery in early July, and we expect to have about 12 million pounds of paste and 10 million pounds of diced to sell. Don't forget about the deliciously smoky flavor of our **fire-roasted tomatoes**, available in aseptic drums. For information, please contact Becky Wahlberg at 209-827-7803.

Additionally, we've **expanded our diced operation** capacity in Santa Nella to produce 25% more gallons per minute. To handle the volume, Liberty Packing is installing an additional 20 tons per hour of peeling capacity and more electronic sorting after the peelers.

Processing is expected to begin around the 4th of July and we've planned for a bigger start of the season. We've contracted for more **early season tomatoes** with our southern growers so a greater volume comes to the plants early. Our goal is to have a sizeable amount of 2007 product early since 2006 inventories are so thin.

In the fields, we are working with our growers to deliver the best tomatoes to the factories. Our **transplanting operation** will sow at least 10% of our total acreage for our growers. We've refined our variety plan to strategically match tomato characteristics with customer specifications. And when summer comes, our legion of harvesters will work to deliver red tomatoes from the vine.

INTERNATIONAL CROP

To Replenish Supplies, Production Estimates are Up

While countries in the southern hemisphere end their season, northern hemisphere countries are gearing up for the 2007 crop. Estimates for global production exceed 30 million metric tons (MT) with China leading the international charge. The increased production is a response to inventory shortages felt the world over, as well as speculation of potential market opportunities in Europe from changing agricultural subsidies.

EU Subsidies

Although still in the throes of political debates, subsidies received by fruit and vegetable growers in the European Union are expected to be overhauled in the coming years. The subsidies could be "decoupled" from fruits and vegetables and instead be paid to farms for whatever they produce. If this happens, raw tomatoes would be significantly more expensive in the EU. This inflation in production economics would raise the price of EU tomato products, creating opportunities for more cost-effective production areas, like California, to enter the established market.

China

California is not the only growing region interested in the European market. Reports speculate that Chinese processors have added at least 15 aseptic paste lines, increasing the country's ability to pack about 10% more tomatoes. China's forecasting over 5 million MT of processing tomatoes this year.

Many are suspicious of the forecast as China is notorious for aggressively estimating its production goals. The country is often plagued by unfavorable weather, and the most tomatoes ever produced in China was 4.5 million MT in 2004.

European Union Countries

Italy seems uncharacteristically quiet with its 2007 crop expectations. In 2006, Italy's production fell below China for the first time and it appears the same will happen this season. TomatoLand reported projections of a 14% increase for Italy over last year to 4.8 million MT.

Production out of **Spain** could be 1.9 million MT for 2007, about 23% more than last year. Estimates from **Greece** are at 800,000 MT, a 13% increase over last year.

Turkey is reportedly completely out of stock. 2007 estimates put Turkey at 1.5 million MT which is only 7% above last year and substantially below the 2 million MT or so produced in the early part of the decade. Production from Turkey has dropped from trouble with unfavorable exchange rates and competition in its export markets from China.

Southern Hemisphere

Chile hoped to take advantage of the Northern Hemisphere shortfall but operational issues and a lower than expected crop dashed those hopes. After being delayed at least 10 days, the harvest is expected to yield about 50,000 tons less than anticipated or below 800,000 MT total.

Inventory shortages and changing European Union subsidies inspire increased production around the world.

Conversion Note:
1 metric ton (MT) =
1.102 tons

MARKET ANALYSIS

Higher Prices Expected for Tomato Products

At just under 40¢ per pound, the price of tomato paste is at its highest level since the extremely short 1998 season. Even with prospects of an excellent California crop, prices for tomato products are expected to increase slightly. Domestic supplies are still below normal and production costs continue to leap upward.

Prices for tomato products began rising sharply last spring in response to critically low supply levels. After years of growing consumption and back-to-back seasons of lower than expected tonnage, processors no longer had excess inventories to push out the door.

After the 2006 pack, beginning inventories for processed tomatoes were the second lowest in a decade. March 1 inventory levels remain 6% below the five year average, according to the latest stock report released by the California League of Food Processors.

Despite an optimistic planting season, the 2007 tomato crop is still vulnerable to numerous weather and pest issues. To add to the complexity, it's uncertain how many acres will actually

be planted since the final contract price is still in negotiations and the profitability of substitute crops, like corn, have given growers reasons to increase their pricing. Without a good size crop

to replenish inventories, the shortage will persist into coming years.

Supply is not the only reason for prices to rise. Production costs are increasing because growers and processors are burdened with rising input costs. As mentioned in the crop update section on the front page, the contract price for tomatoes could be \$63 per ton. A \$13 per ton price jump to processors equates to a 4-5¢ per pound increase in tomato paste costs since 2005.

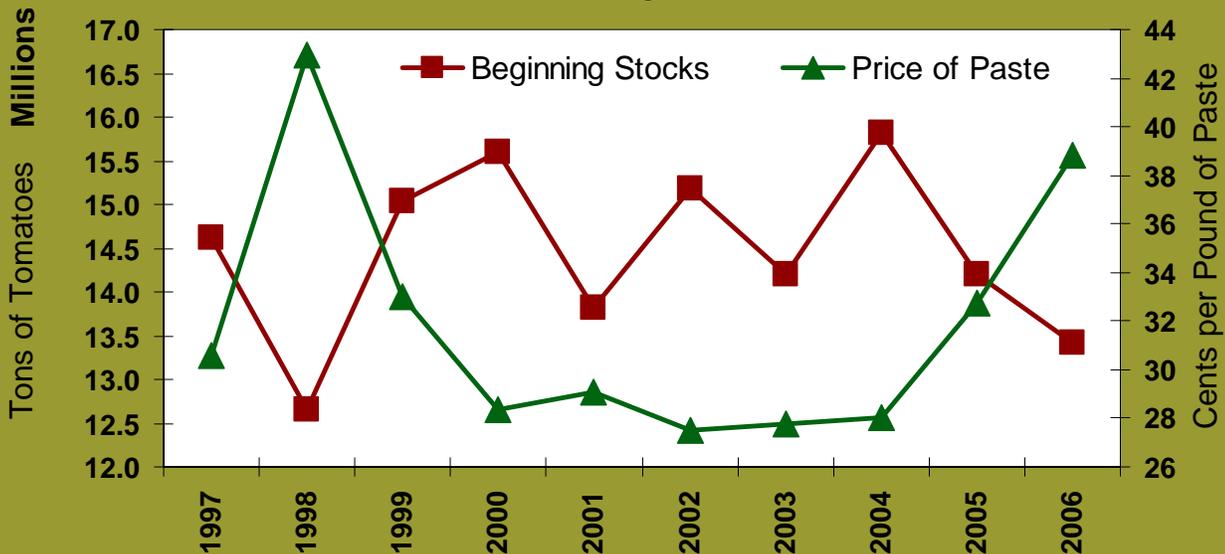
Labor cost is another rising variable to the cost of production. California's minimum wage rose to \$7.50 per hour this year and will increase to \$8 per hour in 2008, up 18.5% in two years.

The March 1 report by the CLFP revealed sluggish disappearance of stocks. The drop in movement is probably the result of "sticker shock" suffered by buyers used to the depressed prices earlier this decade.

Even with prospects of an excellent California crop, prices for tomato products are expected to increase slightly.

DOMESTIC SUPPLY AND PRICE

Source: California League of Food Processors



COLLEAGUE PROFILE**Lisa Sardinha Fills Newly Created Role in Sales**

Former Air Force Munitions Systems Specialist, Lisa Sardinha, embarked on her career at Morning Star in 2002. She began working in the shipping department of the new Liberty Packing, then transferred to our customer service department in 2004. As of February 1st, Lisa's moved to another position. For those customers who love working with her, don't worry. Although not involved in daily contact with customers, she won't be too far away.

Lisa's using her skills to tackle a newly created position as our Sales Operations Specialist.



Lisa Sardinha and her dog, May, pose in the backyard.

In this new role, Lisa will spend most of her time supporting our sales and broker team with inventory reporting. By putting enterprise-wide inventory management and planning in

Lisa's capable hands, we will provide contract balances and inventory positions more efficiently. In addition to inventory, Lisa will also update the market prices and coordinate the numerous outside audits required by our customers.

Although Lisa's spent her working career around warehouses, her family's great love is elsewhere. Lisa is the mother of three musically-inclined daughters.

The oldest is a 19 year old student at the Berklee College of Music in Boston, Massachusetts. Theresa's fluent in five instruments but is hoping to make a career with sound effects used by video games and animation films.

The youngest daughters are 15 year old twins who are freshman band members at Los Banos High School. Nicole and Melanie were in Dayton, Ohio for the Drumline National Championships in early April.

The Sardinha family enjoys their pets (two dogs and six cats). They've also hosted six female foreign exchange students since 1998.

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