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DOMESTIC CROP

Complicated Crop Misses Forecasts by 12%

A complicated growing and planting season this year dropped California's crop 12% below the much needed preseason target. Instead of harvesting 11.4 million tons, growers were only able to deliver 10.1 million tons of raw tomatoes.

The challenges faced by this year's crop were staggering. Luckily, the weather stayed mild and dry into early November and the crop recovered some of its early-season losses.

At a time when the season is usually winding

ing a normal year, the crop hits a steady stride from mid-July through mid-September, then falls sharply. This year the crop hit a peak six weeks into the season, tapering gradually through November.

Although delayed two weeks by the wet planting season, the 2006 harvest began optimistically. Then a deadly heat wave hit in mid-July with temperatures breaking 100°F for several straight days. The severe heat triggered a low color period for fruit that was near ripening, but blooming plants suffered the most. Many dropped their blossoms, lowering yields.

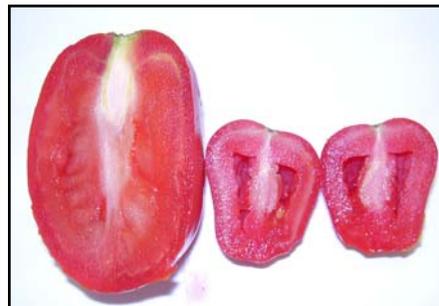
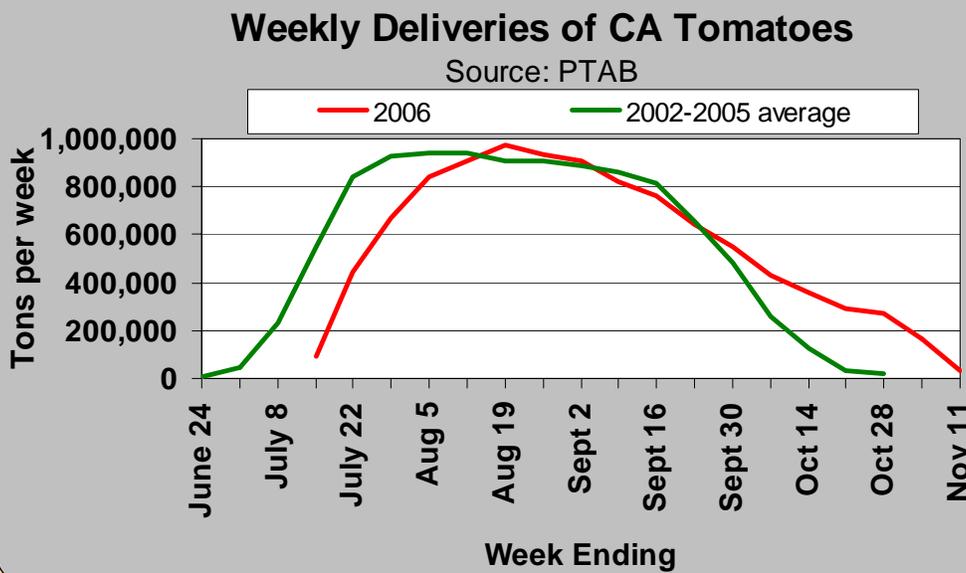
Tomato vines are incredibly resilient. The remainder of the summer offered clement weather, remaining below 100°F. Some of the most severely heat damaged fields literally lost their full bloom in July, but flowered a second time in August. These "miracle fields" surprisingly set a second crop and yielded over 30 tons per acre when harvested in November.

Yields were not the only thing that suffered from the heat. Quality of the fruit was also sacrificed. Fruit was small and misshapen. Mold levels were at 2.4%, compared to 1.7% in 2005.

The killer heat also caused a condition known as "hollow tomatoes." The fruit grows sterile, developing empty seed pockets. Hollow tomatoes are less dense and the season's average tons per load dropped below normal.

down, 15% of the 2006 crop was delivered in October and November. Deliveries after September 30th exceeded 1.5 million tons — 3.5 times greater than the average for the four years prior. Normally only about 4% of the total crop is delivered after September.

The graph shows the unusual trend in weekly deliveries. Dur-



MARKET ANALYSIS

Supplies Very Tight, Holding Pricing Up

Going into the 2006 marketing year, supplies of domestic processed tomatoes are at their lowest level since the disastrous 1998 El Nino crop.

About 1.3 million tons of expected tomatoes did not come to California's factories this year. This 12% shortage coupled with the disappointing 2005 season has made processed tomatoes inventories shockingly low. As a result the prices for tomato paste are hovering around 45¢ per pound.

Users of tomato paste can expect little price relief in the coming year. Low stocks of processed tomatoes are keeping the market price high, while growers are preparing to ask for higher prices for their raw tomato next summer.

Going into the 2006 marketing year, supplies of domestic processed tomatoes are at their lowest level since the disastrous 1998 El Nino crop. Beginning supplies for 2006 are 13.5 million fresh equivalent tons (see table). In order to recover to average supply levels, next year's California crop will have to be 11 million

tons or more.

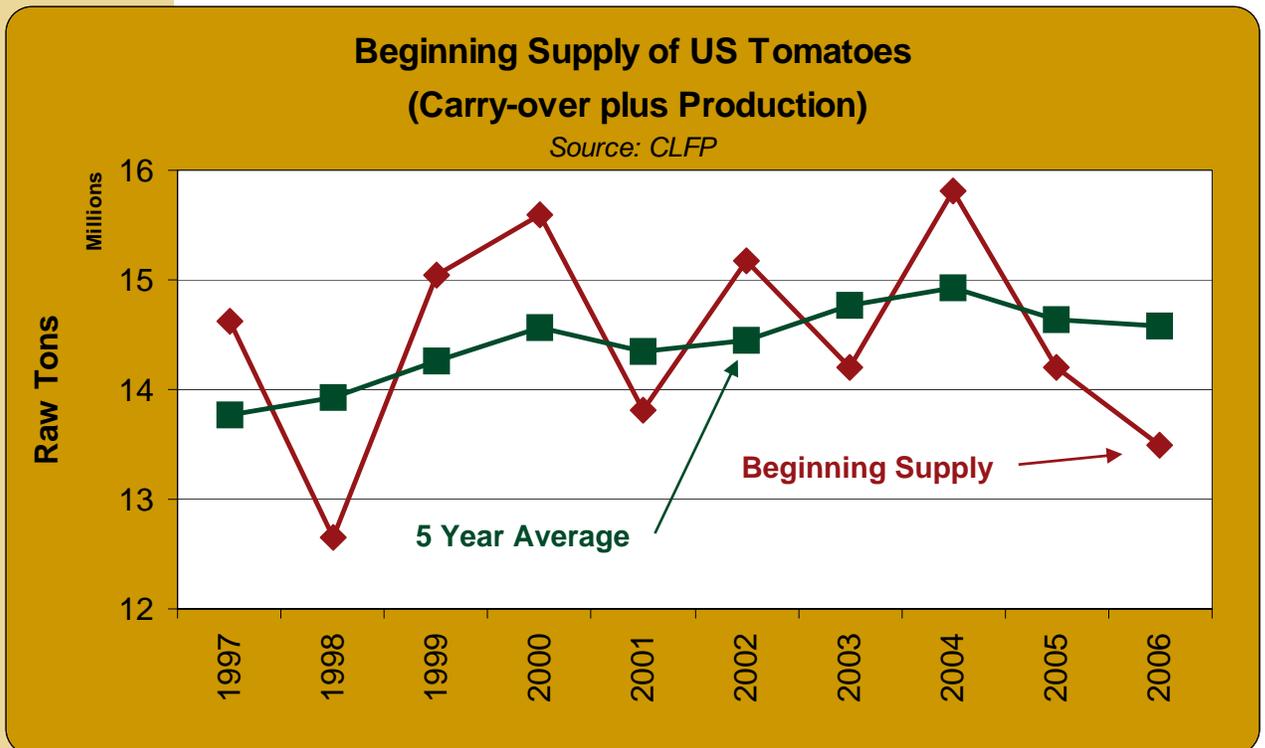
Although it's not unheard of for California's growers to produce a crop of that size, the weather must cooperate. Processors are already developing a growing plan which will begin much earlier. Growers in the southern, early part of the state are being approached to plant additional acreage.

Yet to encourage growers to plant more, processors will have to pay more for the tomatoes. Tomato growers have suffered back-to-back years of extraordinary expense and low yields so are looking for more profitable crops to grow. Most likely, the contract price of tomatoes may be over \$60 per ton in 2007.

To add to the cost pressures, California's governor, Arnold Schwarzenegger, recently approved an 18.5% increase in the minimum wage over the next two years. California's minimum wage will rise to \$7.50 next year and to

\$8/hour in 2008.

Beginning Supply for 2006/07 Marketing Year	
June 1 Stocks	2,811,227
California	10,103,579
Midwest (est)	584,960
Beginning Supply	13,499,766



INTERNATIONAL CROP

Mediterranean Countries Decrease Production

The world produced 30.123 million metric tons (MT) of raw tomatoes according to the World Processing Tomato Council. The crop is down 7.7% from last year's 32.641 million MT. Although the crop is below the 3-year average of 33.247, supplies are declining and returning to levels prior to the record breaking 2004 season.

Production in the Mediterranean countries of AMITOM was the source of the reduction. Italy, Spain and Greece all planned for reduced acreage, but didn't expect harsh weather to further decrease production. The AMITOM crop came in about 9% below preseason expectations to 12.2 million MT.

Italy

Italy produced only 4.3 million MT of tomatoes this year, down 10% from preseason expectations. Typically, Italy provides about 5.5 million MT of tomatoes to the world market.

The Italian harvest started in mid-August, about two weeks later than normal. The late start was due to heavy rains and low temperatures that plagued the crop throughout the harvest season.

Yields were reportedly one-fifth below normal and tomato quality was low especially in the later part of the season.

Greece

Greece suffered weather conditions similar to Italy and production was 16% below expectations at 710,000 MT. Despite the heavy summer rains, Greece managed to pack until October 10th.

Spain

Early summer heat allowed Spain to begin harvesting early but may have caused yield losses. Spain produced only 1.6 million MT this year. A drop of 10% from expectation but 45% less than last year.

China

Despite being hit by an early frost, China managed to produce 4.2 million MT of tomatoes. But because the 2005 crop was so low, China has been struggling to make deliveries and expects the new product to disappear quickly. The supply challenges faced by the country are eating into its legendary price advantage.

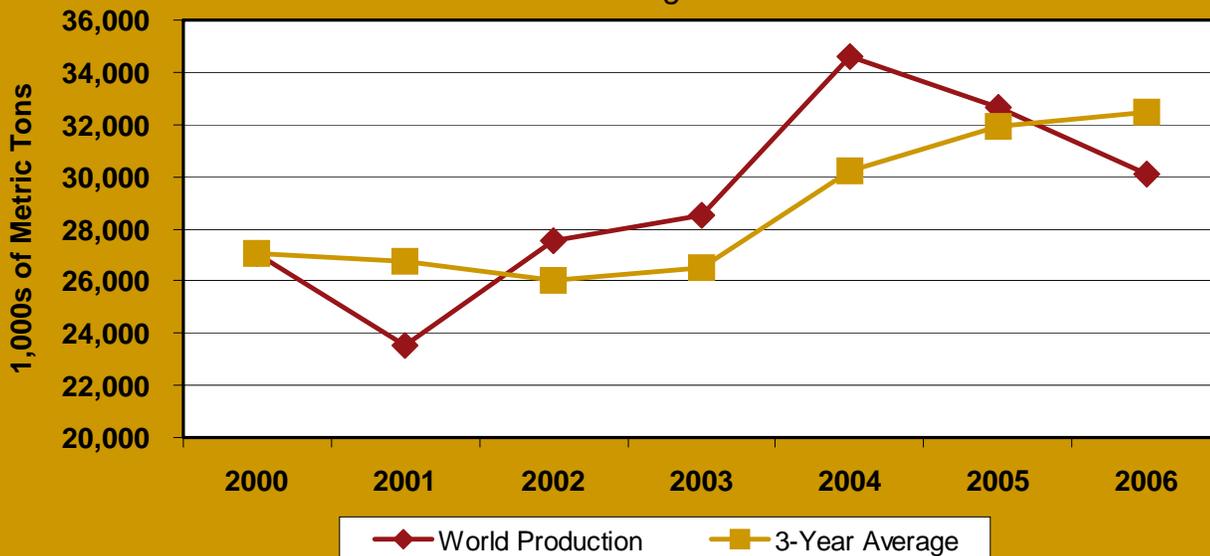
Southern Hemisphere

The shortfall left by California and Italy has southern hemisphere countries ramping up to try to fill some of the void. Chile, Mexico, and Australia harvest and process from December through April.

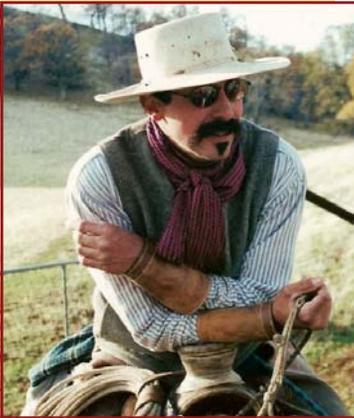
Conversion Note:
1 Metric Ton (MT) =
1.102 tons

World Processed Tomato Production

Source: World Processing Tomato Council



COLLEAGUE PROFILE

One Foot in the Present, Another in the Past

Troy Cano is a mechanic at the Morning Star Williams plant and a cowboy the remaining days.

According to cowboy poet, Baxter Black, "You don't decide to become a cowboy. You either are one or you aren't."

It almost seems that Baxter was talking about Troy Cano, an important production colleague at our Morning Star Williams plant. Vital to our aseptic and filling systems, Troy is as handy with a wrench as he is with a lasso.

Troy grew up in Gustine, California. He spent his days tinkering and learning about machines in his father's auto body shop. He jokes, "I was always real good at taking things apart."

But he was also drawn to things more bucolic. Troy began hanging out at a nearby ranch, where the owner befriended him and taught Troy the ins and outs of being a cowboy.

Today, Troy is a cowboy for hire on the days he's not working at Morning Star. He tends a few hundred cattle near the California-Oregon-Nevada border. Troy buys untrained Quarter

horses, breaks them to the saddle, and educates them on how to herd cattle. He also breeds and trains Border Collie herding dogs.

Although he hasn't created any lately, Troy says he dabbles in writing cowboy poetry. He likes going to the *National Cowboy Poetry Gathering* in Elko, Nevada, but it often conflicts with the *Red Bluff Bull and Gelding Sale* in California.



THE MORNING STAR PACKING COMPANY

Los Banos

13448 Volta Road
Los Banos, CA 93635
209 826-8000

Williams

2211 Old Highway 99
Williams, CA 95987
530 473-3600

Santa Nella

12045 South Ingomar Grade
Los Banos, CA 93635
209 826-7100

