The Morning Star Packing Company

July 2006

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DOMESTIC CROP

Winter-like Spring Delays California's Crop

For the second year in row, California experienced unfavorable spring weather, delaying the planting season of processed tomatoes. The setback is expected to cause the crop to miss preseason tonnage forecasts. Although official forecasts anticipate a crop of 11.4 million tons (a needed 19% increase from last year), experts in the fields predict a crop closer to 10.6 million tons.

An unusually cool, wet spring kept growers from planting their tomatoes in a timely manner, pushing back the start of the season 2-3 weeks. To make up for the lost tonnage in the beginning, the season needs to run deeper into the fall, which is riskier because of the higher chance of rain.

Additionally, processors are concerned about bunching. Tomato planting is scheduled to spread the plants' ripening throughout the summer and prevent overwhelming the factories with too many ripe tomatoes at one time. As the early plantings were delayed, their planting overlapped with later scheduled plantings.

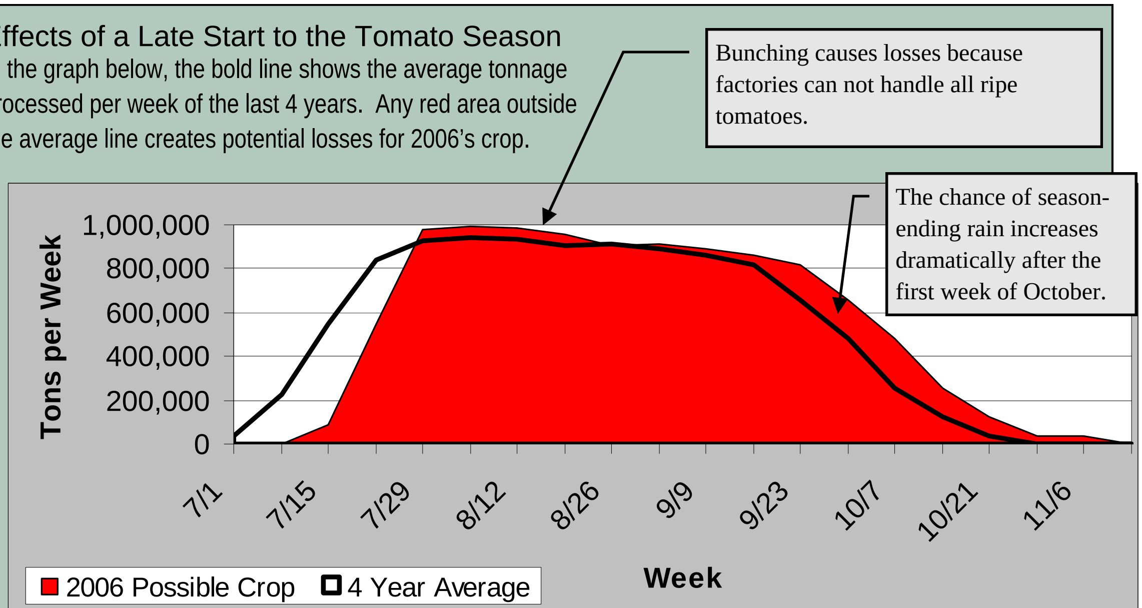
Another source of expected losses comes from lower than planned field yields as rain prevented growers from performing their outstanding cultural practices. Similar to last year, the rain prevented growers from properly preparing their field beds before planting and impacting the soil by rushing into the still damp fields with planting equipment.

Delayed planting also means that the tomatoes experience more heat of the summer during a critical developmental stage of bloom. Because the last plantings were completed in mid-June during a 5 day heat wave, heat at the soil line burned some transplants at the stem, while other plants dropped blossoms meaning fewer tomatoes.

Despite the plethora of problems torturing the early crop, the later crop appears vigorous thanks to a strong variety program and lack of disease and insect pressure. Moderate recent temperatures help development.

Effects of a Late Start to the Tomato Season

In the graph below, the bold line shows the average tonnage processed per week of the last 4 years. Any red area outside the average line creates potential losses for 2006's crop.



MARKET ANALYSIS

Low Inventory Levels Creates Price Correction

After years at depressed levels, the price for domestic tomato paste corrected radically, jumping 31% in a single year to 38 cents per pound for bins. Although the price increase is mostly in response to extremely low inventory levels, it is also evidence of a market correcting itself to an appropriate long-term average price.

Prior to 2000, paste prices in the United States rarely dropped below 30 cents per pound. Pricing fluctuated regularly adjusting to supply and cost movements allowing sellers to capture reasonable margins. After excessively oversupplying the market in 1999 and 2000, processors have been unable to raise prices. The steadiness of the price this decade is unusual historically and clearly below average.

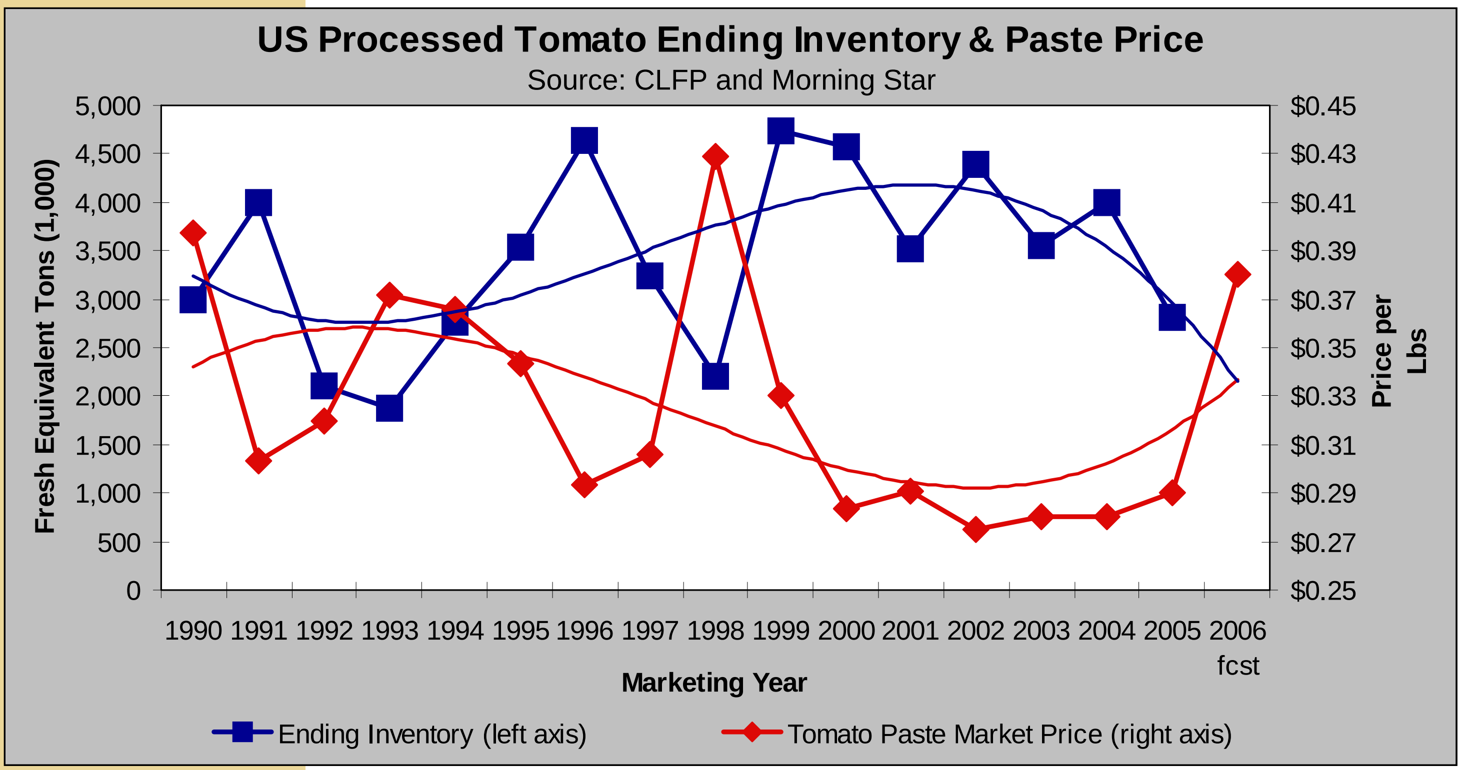
This year has been a different story. After last year's lower than expected crop, tomato paste became a scarce commodity and is expected to remain short through the troubled 2006 crop. The price has held up throughout the contracting season, reflecting the extreme short supply situation and elevated cost pressures. This year's skyrocketing price is reminiscent of 1998 when California's crop failed and inventory reserves dropped dangerously low.

Going into the 2006 season, tomato stocks are the lowest seen since the end of the 1998 season. The June 1 inventory of processed tomatoes is 30% below last year at 2.8 million tons. Stocks of paste on the open market dropped 60% from 2005 to only 574,721 fresh equivalent tons (about 93 million pounds of paste). At this level, stocks were depleted by the start of the delayed season in mid-July.

Although the lion's share of the price jump comes from short supply, production costs are also higher for processors. Growers contracted for a 16% increase in the cost of raw tomatoes to about $58 dollars per ton in the field. Raw tomatoes make up about 45% of the cost of paste production. Boiler and electricity costs make up 13% of the tomato paste cost, up from 4% a decade ago.

Diced Tomatoes

The price of bulk diced tomatoes increased 1-2 cents per pound. Bins are selling for 18 cents per pound and drums at 20 cents. Prices for diced tomatoes do not fluctuate as much as paste because diced is more of a specialty product.



INTERNATIONAL CROP

Weather and Supply Decrease Crop Expectations

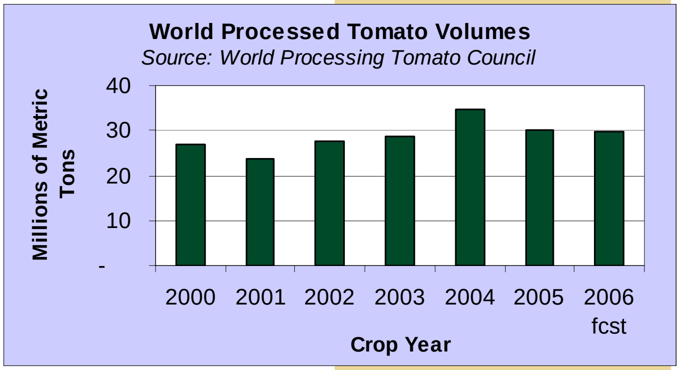
The World Processing Tomato Council forecasts a crop of 29.8 million metric tons (MT) in 2006. This is a small 1.4% decrease from 2005 as global markets are still recovering from the excessive 2004 crop of nearly 35 million MT. Sources in the major producing countries are expecting even lower results than reported forecasts.

Italy

Of the most interest is Italy. In the last two years, Italy's tomato acreage has fallen nearly 25% from 80,000 hectares to 60,400. Farmers and processors struggled to agree on the volume and prices for the 2006 crop; finally signing an agreement two weeks later than the official deadline of February 15. The agreement reads for growers to deliver 5.5 million MT of raw tomatoes, but reasonable expectations decrease the volume to 4.8 million MT, a 9% reduction from 2005.

The EU's Common Market Organization for tomato products granted Italy a 4.35 million MT ceiling for production. Italy has exceeded its ceiling for the last three years so the EU payment to farmers will drop from 34.51 euro per delivered ton to 30.43 euro.

Yet, uncooperative weather in the Mediterranean country could lower yields enough that Italy doesn't breech the ceiling again. Much like in California, the crop is late due to a cold spring bombarding the countryside with rain and hail. The delay pushed the crop back a week, with harvesting expected to start in early August.



Sources predict the price of Italian tomato products to recover as the surplus from the 2004 season disappears.

China

Production estimates from China are up and ranging from 3.4 to 4 million MT. It's important to note that forecasting in China is difficult due to unpredictable weather in the main production region of Xinjiang. This spring, the region suffered a late snow, sand storms, and excessive temperature variability, none of which are good for tomato growth.

Despite unreliable yields, Xinjiang grows tomatoes with excellent color and high soluble solid content. The region is blessed with an arid climate, long hours of sunshine, and sharp temperature differences between day and night.

According to the Foreign Ag Service, China's tomato paste production ranges between 500,000 to 700,000 MT, while capacity is estimated at one million MT. From 2002 to 2005, paste production capacity has doubled.

Spain

Another major player on the world market is Spain. The country has dropped its crop forecast to 1.75 million MT, a 40% drop from last year.

Turkey

Turkey predicts a crop of 1.35 million MT, a 17% drop from last year. The country's producers are cautious because of an over-valued currency, global competition and low prices around the world.

The Foreign Ag Service projects commercial tomato paste production to drop 7% to 250,000 MT of paste.

TOMATO PASTE TRADE FACTS

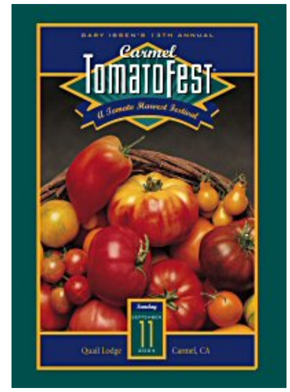
Source: Tomato News, May 2006

- Three-fourths of processed tomatoes become tomato paste around the world. For the most part, this ratio has remained relatively constant over the last seven years.
- In 2005, 60% (or 13.7 million fresh equivalent metric tons) of global paste production was exported, up from 45.5% in 1999.
- Although the world's largest producer of tomato paste, the United States was only the 5th biggest exporter in 2005.
- Once clearly the world's leading paste exporter, Italy lost that title to China in 2005.
- Global paste exports have increased 44% from 1999 to 2005. China's exports are up 465% over this period, while Italy is up 22%.

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

GOURMET TOMATOES

The 15th Annual Carmel TomatoFest®



Unlike processed tomato varieties, not all delicious tomatoes are red or have precise names like AB2 or Heinz 9780. Some are green, purple, or orange sporting unique names like Green Zebra, Big Rainbow, and Marvel Stripe.

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These flavorful tomatoes are featured at the TomatoFest, a harvest party celebration of heirloom tomato varieties from around the world.

Held on September 10, 2006 at Quail Lodge in Carmel, CA, the event attracts tomato lovers from around the nation. Morning Star is proud to be a sponsor of this unique and festive tribute to fresh tomato varieties.

The festival includes

- a tasting of more than 350 tomato varieties
- a sampling of extra-virgin olive oils from 8 countries
- a showcase of 100 tomato salsas
- a buffet selection of delicious tomato dishes created by 50 of California's best restaurant chefs
- premium wines from Monterey County and California
- sales of hard-to-find fresh heirloom tomatoes and tomato seeds

A few people from Morning Star attend this event and would love to share it with you. Contact us for more information or visit *www.tomatofest.com*

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