

# MORNING STAR



# The Morning Star Packing Company

July 2007

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## DOMESTIC CROP

### A Long Road Ahead for California's Tomato Crop

As harvesters enter the processed tomato fields in the southern areas of California's central valley, processors and growers are relieved to start about 10 days earlier than last year. So far the processed tomato crop appears ample enough to replenish short supplies, but it's a long season with many unknowns still ahead. Until every field is harvested and products are safely stored in warehouses, the crop is vulnerable to deadly heat waves and damaging rains throughout the summer months.



*This flood irrigated field has a lot of growing to do before its scheduled harvest late in the season. Its delicate blooms are still vulnerable to extended heat waves.*

Officially, the California crop is expected to produce 11.8 million tons — 17% or 1.7 million tons above last year's rain delayed and heat damaged crop. This forecast, released by the California Agriculture Statistics Service, seems optimistic with near record yields of 40.3 tons per acre. A estimate of 11 million

tons from the 293,000 contracted acres is calculated by using 5 year average yields of 37 tons per acre. The California Tomato Growers Association (CTGA) has officially "guesstimated" 11,284,000 tons and notes its guesstimate was within 35,000 tons of the final crops in 2005 and 2006. The USDA will release its estimate for all states on July 10th.

Thus far, cultural practices for the 2007 crop have been very routine. The dry winter and spring allowed growers to prepare their beds and plant their fields on schedule. About 75% of California's processed tomato crop is transplanted. Growers prefer transplanting to direct seeding because it allows them better weed control and alleviates concern of spring frosts.

Drought is now the big concern. California's snowpack water content was 25% of normal this winter. Rainfall from October through April was 65% of average statewide, but the southern part of the state suffered 30% to 15% of average, according to the Department of Water Resources.

Thankfully, tomatoes tend to produce excellent yields in dry conditions, and the state had ample water reserves from previous wet years. Irrigation has allowed growers to make up for the lack of rain. Although water has not been an issue for 2007, many are concerned that another dry winter will create issues in 2008.

Up until harvest, growers do their best to give their crops every advantage. Weed competition is controlled by a variety of methods, including mechanical, chemical and hand removal. Growers use pesticide applications, as a preventative measure and cure, to protect plants from harmful diseases and insects.

But mother nature still has a big say in the final crop. In 2003, the crop suffered from rains in the last half of the season, causing yields to dive and mold to grow. Although tomatoes are fairly resistant to extreme heat, they are vulnerable to extended heat waves of 5 days or more. In 2006, a significant part of the crop was destroyed by just such a heat wave in July.

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**INTERNATIONAL CROP**

**Dry Weather Might Lower Crop Below Forecasts**

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

Forecasts for the 2007 global crop are up 12% over last year to 34.1 million metric tons (MT), according to the World Processed Tomato Council's latest release. Taking California out of these numbers leaves international production forecasts at 23.7 million MT, an 11% or 2.3 million MT improvement from 2006. Mother nature is making it difficult to guess how much of the increase will actually come to fruition. Numerous countries are suffering from severe drought with little water available for irrigation.

available for irrigation. Concerns over the drought caused growers to plant 10% less area than in 2005. The Northern region was also plagued by a dry spell, but rain in June vanquished some concerns about falling water reserves. The Southern part of Italy focuses on producing canned products, while the Northern part focuses on paste. To add to Italy's troubles, EU subsidies are being reduced to growers as penalty for exceeding quotas.

**Spanish** production is expected to grow only 4% to 1.65 million MT in 2007. The country was having an excellent growing season but late June rains are causing some concern. Spain has also been penalized for overproduction with reduced EU subsidies.

Production from **Greece** is expected to be up 15% to 820,000 tons. Unfortunately, Greece had its driest winter in 10 years and water availability could be an issue. Processors hope to increase the price for their product about 20% as they are paying 10 Euro more for tomatoes.

**Turkish** production is expected to be up 24% to 1.8 million MT, but the country is also suffering from drought, which could effect irrigation and water usage for the factories.

**Portugal** hopes to increase production 11% to 1 million MT, but late June rains may delay the start of their harvest and cause problems with disease.

**China**

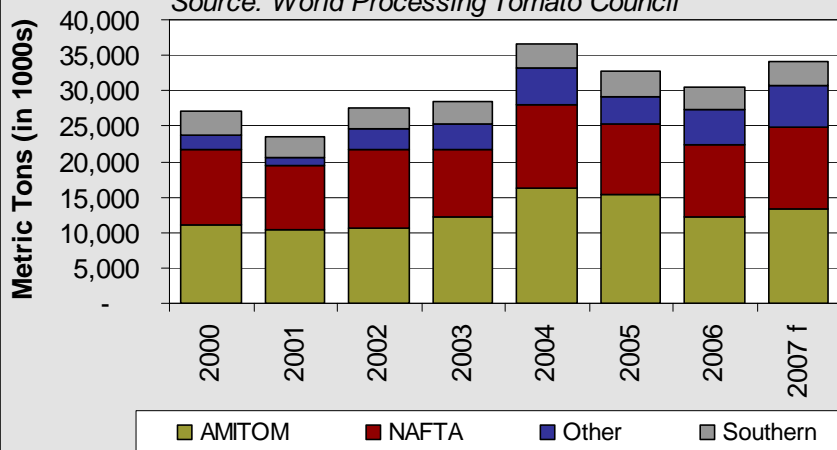
China is forecasting a record production of 5.2 million MT of processed tomatoes — a 21% increase over last year.

Only 14% of the tomatoes grown in China go into processing, the rest hit the fresh market, a balance opposite the United States according to the latest USDA Foreign Agricultural Service report on the Asian giant. But the report notes that the processed segment is the fastest growing segment of China's tomato production.

According to the report, the 67 factories in China are capable of processing 6-7 million MT of tomatoes and producing 1 million MT of paste, but volumes of raw tomatoes has kept the numbers lower than capacity. Yet China is quickly making strides to produce enough tomatoes to meet capacity. By introducing tomato varieties used in the US, growers are lengthening the season. Also, the fast developing Inner Mongolia area produces tomatoes with higher soluble solids content than in the Xinjiang region.

**World Production by Region**

Source: World Processing Tomato Council



**EU Subsidies**

Debate still rages through the European Union about their subsidy program. Agriculture ministers reached a political agreement in mid June for wide ranging reforms to take effect in 2008. The plan is to increase general aid payments to growers but eliminate special payment to fruit and vegetable growers. Member states may apply transitional payments until 2011 to fruit and vegetable growers, but eventually all farms will have a single payment scheme, no matter what they produce. This "decoupling" may have a massive effect on lowering the volume of tomatoes produced as processors may not be able to afford to pay growers a higher price. Overseas competitors to European producers are looking for new market opportunities within the EU.

**AMITOM Countries**

Production from **Italy** is forecast to reach 4.6 million MT — only a 5% increase over 2006. Reports of severe drought are coming from Southern Italy and very little water reserves are

**MARKET ANALYSIS**

**Increased Costs and Lean Supplies Keep Prices Up**

Since 2005, the price of bulk tomato paste has been spiking upward in response to lean supplies and increasing manufacturing costs. The price currently hovers around 38-40¢ per pound — the highest levels seen since the desperately short season in 1998.

It's unlikely that even a large California crop will tip prices to pre-2005 levels. Manufacturing costs have driven up the cost of production and selling at a discount to rectify an oversupply position would cost processors more than it has in the past. A rearview mirror is the only way to see paste prices of 30¢ per pound or less.

**Rising Manufacturing Costs**

The price of raw tomatoes jumped another 9% in 2007 to \$63 per ton. This increase takes the price of tomatoes in the field up 26% in two years. Because tomatoes make up about 50% of the cost to produce tomato paste, their cost significantly impacts the price of tomato paste as the graph below reflects.

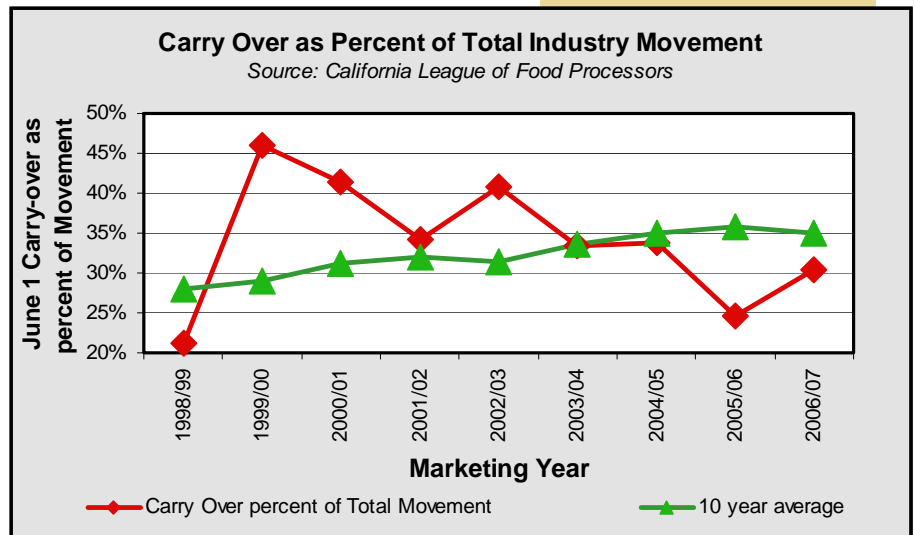
Growers negotiated for the higher price based on increased input costs and profitable alternative crops. Fuel, labor, water, insurance and labor have all increased for growers in the last few years. California's minimum wage is now \$7.50 and will increase to \$8.00 per hour next year. Despite the increase in wages, labor, especially with the right skills, is difficult to come by in the agricultural sector.

For many years, processing tomatoes have carried an acceptable profit margin for growers over other crops. Recently, that has changed.

To encourage growers to plant tomatoes over some other row crop, like corn, processors needed to pay more to make tomatoes economically attractive.

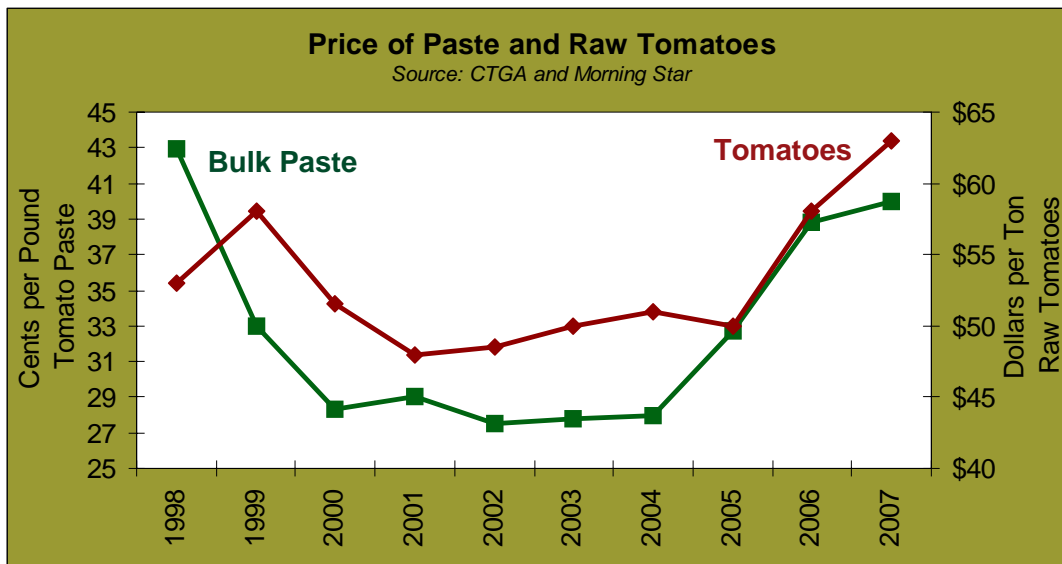
**Lean Supplies**

June 1, 2007 stocks of processed tomatoes are at the third lowest seen since 1998, according to the California League of Food Processors report. The supply situation could have been



even more dire but movement (implied by disappearance) fell 10% from last year.

Despite the slow movement, carry-over stocks as a percentage of that movement is down to 30%. For a more balanced supply position, this percentage should be closer to 35%, the 10 year average.



**LOOKING FOR PASTE?**

*We have foreign paste for sale and are accepting best offers.*

**COLLEAGUE PROFILE****Derek Chamberlain Has Seen Changes in the Fields**

*Derek Chamberlain checks a blooming tomato field.*

This summer will be Derek Chamberlain's 28th year walking tomato fields in California. Derek says, "The only way to know exactly what's going on in a particular field is to stop your truck, get out, and start walking through the rows." In May, Derek celebrated his 10th year with Morning Star, coordinating the activities of the growers who service the Williams plant.

About a third of Morning Star's tomatoes are gobbled up by the Williams plant. Getting these tomatoes planted, grown, harvested and delivered is a complex year round job. Our statewide field department is made up of seven colleagues who work closely with the harvesting and trucking colleagues.

Over the last decade, Derek has witnessed many changes in the way tomatoes are grown and brought to the factories. In 1997, Cal Sun (our northern harvesting company) harvested about 50% of the tonnage; today it's 100%. Ten

years ago, most fields were planted with direct seed, but today most are transplanted. Derek notes that his grower base has also shrunk from about 50 to 30 growers, although his tonnage has increased.

This year, all the fields will be measured using Global Positioning Systems (GPS) to verify size. Additionally, all the trucks are now outfitted with GPS systems so drivers can get to the correct field efficiently. Derek also notes that less ground is available for tomatoes. Growers are planting more permanent crops, like grapevine and almond trees, on ground that was available for row crops, like tomatoes.

The native of rural San Diego County graduated from Fresno State in 1981 with a BS in Ag Business. He developed a love of field work through summer jobs with Del Monte. In 1982, he was hired by Hunts, first working for the Fullerton plant then the plant in Davis. Derek is now furthering his education at St. Mary's Executive MBA program. He's scheduled to graduate in March 2008.

## THE MORNING STAR PACKING COMPANY

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