



The Morning Star Packing Company

November 2007

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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
(3/8", 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

CONTAINERS

300-gallon aseptic bag-in-box
 55-gallon aseptic drum
 StarPak
 (four 75-gallon bags-in-box)

DOMESTIC CROP

Above Average but Not a Record California Crop

California enjoyed one of its best tomato growing and processing seasons, yet fell short of setting any records. The 12.08 million ton crop captured excellent yields, estimated around 41.2 tons per acre. The crop met pre-season estimates and beat the 10-year average crop size by 20%.

Although the 2007 crop ranked only second best in both yield and tonnage, the quality was excellent. Color was the best on record, all the way to the end of the season, although natural tomato solids were the lowest in three years.

In the beginning of the season, some fields generated extraordinary yields of 60 – 70 tons per acres. A bounty this large exceeds the industry's weekly capacity to harvest and process it. When the industry can't process tomatoes at their peak ripeness, it falls "behind the crop" as tomatoes deteriorate in the fields.

Unseasonably mild July and early August temperatures helped processors stay "on top" of the crop. Tomatoes were stored on their vines by the moderate temperatures as the industry raced to keep up.

Unfortunately, the Central Valley summer heat arrived in late Au-



Mild temperatures through most of the summer kept tomatoes fresh while harvesters raced to bring them from the fields at the best quality seen in years.

gust. Daytime temperatures exceeded 100°F and accelerated ripening. Despite running at full speed, processors fell about a week behind the fields by September.

Then it rained. A few factories closed temporarily, and mold caused more rejected loads. Some fields were skipped, and the season began winding down. At the time, only 10 million tons had been processed, and it seemed the crop would fall short of pre-season estimates. But a sizable volume of tomatoes remained viable into the middle of October, allowing

another 2+ million tons to be processed. If it hadn't rained, the crop might have surpassed the 1999 record breaking crop of 12.2 million tons.

CALIFORNIA'S TOP 3 PROCESSED TOMATO SEASONS

Sources: CASS, PTAB

	Tons <i>in millions</i>	Yield <i>tons/acre</i>	Acres Harvested	PTAB Color	Solids
2007	12.081	41.2 ^{est}	293,000 ^{est}	24.1 ^R	5.25 ¹
2004	11.672	41.5 ^R	281,000	24.8	5.18
1999	12.239 ^R	37.2	329,000 ^R	24.7	5.13

R = record

1 = lowest solids in three years

2006 had the worst recorded color of last 10 years.

2005 had the best recorded solids of 5.44.

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

The 22.5 million metric tons produced outside of California fell short of preseason estimates by 5%, exacerbating the shortage of stocks internationally.

INTERNATIONAL CROP

Disease in China Shorts Global Tomato Production

Globally, processed tomato production topped 33.42 million metric tons (MT) in 2007, according to the October release by the World Processing Tomato Council. The volume is below preseason targets, although production improved 9.7% from a year ago. Most of the rebound came from the bumper California crop. Removing California from the numbers leaves only a 5% improvement from 2006. Still the 22.5 million MT produced outside of California fell short of preseason estimates by 5%, exacerbating the shortage of stocks internationally.

China

A crop disaster in Inner Mongolia caused China to miss its preseason production estimates by 13%. Originally the country expected to produce 5.2 million MT but only managed 4.5 million MT according to the WPTC. According to TomatoLand, China's production of bulk paste missed preseason expectations by 21%.

Inner Mongolia is China's up-and-coming production region and expected to deliver over 30% of China's crop in 2007. Instead, wet conditions followed by extensive

heat created an ideal environment for blight to flourish. The destructive fungal disease destroyed 60% of the region's crop.

Blight is a common disease in all tomato crops when wet and heat come together. It's generally prevented by heavy fungicide spraying at the first indication of any blight. But the inexperienced Inner Mongolia growers did not immediately recognize the problem and did not have enough wealth to purchase the necessary sprays.

Ironically, the Chinese developed the Inner Mongolia region to create greater stability in its crop. The primary growing region, Xinjiang, has a much higher altitude than most major pro-

duction regions; therefore it struggles with a short harvest season and unreliable weather patterns. Although rain drops fell in Xinjiang this year, losses were minuscule in comparison to Inner Mongolia.

Italy

Despite early reports of problems with the Italian crop, the world's second largest producer of tomatoes managed to hit its preseason estimate of 4.6 million MT. Excellent late weather extended the country's harvesting season and allowed recuperation of early losses.

Italy suffered water shortages during its growing season that hampered crop development. Then an untimely rain in June led to an outbreak of blight. Growers sprayed fungicide heavily to prevent extensive crop damage. As processors brought tomatoes into the factories, they noticed below average yields attributable to low Brix (sugar) levels in the tomatoes.



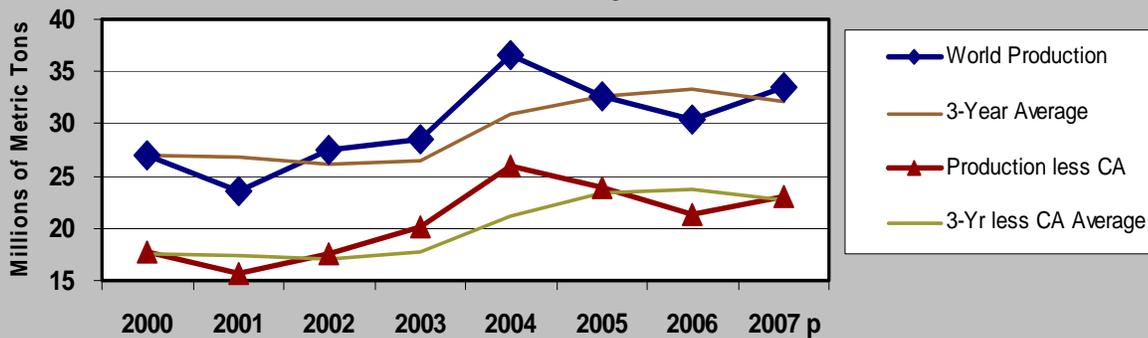
CHINESE PASTE PRODUCTION			
(1000s of metric tons) Source: Tomato Land			
Region	2006	2007 f	2007 p
Xinjiang	510	505	493
Inner Mongolia	95	235	117
Gansu	41	75	76
Total Paste	646	815	686

More AMITOM Countries

The other major production regions beat or came close to targets. **Spain** beat its preseason estimate slightly, processing 1.7 million MT, closing in early October as rain began decreasing the tomato quality. **Turkey** met its preseason estimate of 1.7 million MT despite reports of heat waves and drought, while noting an increase in the spot market price for raw tomatoes. **Portugal** processed 950,000 tons meeting its preseason estimates. Other than a slight decrease in color, processing went smoothly. **Greece** produced slightly less than expected at 680,000 MT due to heat waves and rain.

World Processed Tomato Production

Source: World Processing Tomato Council



COLLEAGUE SPOTLIGHT

International Liaison Kebede Gashaw

In 1973, Kebede Daniel Gashaw was studying agriculture in Fresno, California with every intent of returning to his native Ethiopia to be with his young son and new wife. But war broke out. The Derg, a pro-Soviet Marxist-Leninist military junta, forced out the emperor, Haile Selassie I.

The ruthless regime killed Kebede's father and other high ranking government supporters of the emperor. Kebede risked the same fate if he returned to Ethiopia, forcing him to take political asylum in the United States. He was separated from his wife and son for six years and didn't set foot on Ethiopian soil for 22 years.

Kebede was in the U.S. furthering his education in agriculture so he could help improve the economy of Ethiopia. In an effort to move the country away from 2000 years of subsistence farming, the government was using free land and capital incentive to encourage students to develop more reliable, large scale agriculture along the river plain of the Awash Valley.

In Ethiopia, Kebede graduated from an agriculture technology high school sponsored by Oklahoma State University, then continued with college at a veterinarian school to prepare himself for a feedlot, dairy and farming business. After three years working for the Ministry of Agriculture, he and two classmates were preparing to start a farm, but Kebede's parents encouraged him to travel overseas and witness the cultural practices of more industrialized nations.

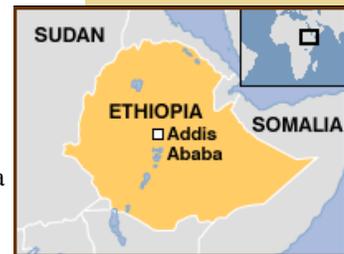
Kebede met some investors from California and decided to take graduate classes at Fresno State for a year. After the war broke out and it became clear he could not return, Kebede made the most of the opportunities in California. He completed a Masters of Science at Fresno, then

earned an MBA at Santa Clara in Agricultural Business.

He worked with Wolfson Land and Cattle in Los Banos until the mid-1980's and began his own consulting business doing hedging and futures contracts for farmers until the recession in 1987. After a brief job reconciling trades for Bank of America in San Francisco, Kebede became an agricultural economist for the California Food and Agriculture Department. For six years, he worked with 11 different boards (starting three of them). One of the boards was the Processing Tomato Advisory Board (PTAB), which led to lunching with Morning Star's owner, Chris Rufer.

In 1993, Kebede added his extensive background to Morning Star's pool of talent. He's done feasibility studies for the harvesting companies, tracked import and export data, and analyzed the economics of competing crops domestically. Five years ago, Kebede became the company's international liaison. The job takes him around the world connecting Morning Star to the global community. As the international business development contact, Kebede gathers information about growing and production costs in other tomato processing countries.

Despite the difficult years spent apart early in their marriage, Kebede and his wife are still together and enlarged their family in their adoptive home. In addition to his oldest son, now 35, Kebede has a son (26) and daughter (25) both graduates of UC Davis.

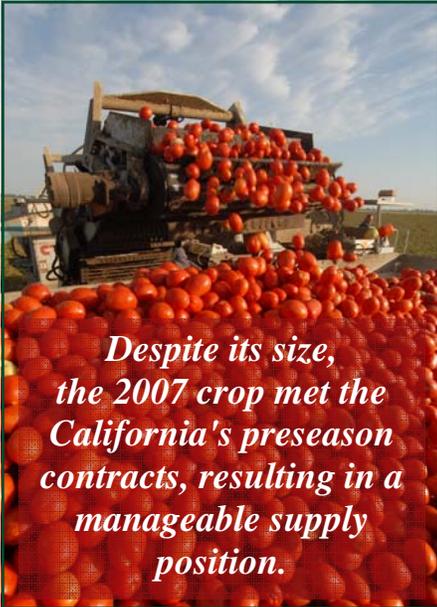


Kebede Daniel Gashaw, an Ethiopian native, is well-educated and experienced in agricultural economics.



MARKET ANALYSIS

Pricing — 2007 is a Different Situation from 1999



Despite its size, the 2007 crop met the California's preseason contracts, resulting in a manageable supply position.

Other than both years saw crops above 12 million tons, 1999 and 2007 have nothing in common. In 1999, tomato product pricing softened dramatically in the aftermath of oversupply, but that won't happen this year. The market is completely different today. Buyers can expect **pricing to hold** firm at the current levels of 39¢ per pound for bin paste.

Unlike eight years ago, the 2007 crop **met the preseason contracts** of California's processors, resulting in a manageable supply position. In 1999, the crop beat preseason expectations by 11% (1.2 million tons) and whipsawed supply from an acute shortage to a perilous excess.

Today, California is in a comfortable supply position, especially compared to the situation worldwide. Indications from the international community point

to a **global shortage** of bulk processed tomato products. China couldn't produce what it ex-

pected and is raising prices. Factory yields out of Italy were below average leading to less available finished products. Next year doesn't offer relief as the European Union countries may have fewer tomatoes available to process in the wake of the EU decoupling its subsidy programs. Meanwhile, a **favorable exchange rate** allows California to capitalize on these global opportunities.

Additionally, California's crop will likely decrease in 2008, making the state's processors willing to hold on to inventory. The price of **tomatoes in the field** has already risen 26% over the last two years, and growers could ask for another price increase. Growers currently have a selection of profitable alternative crops which are less risky than tomatoes. Plus California's minimum wage jumps another 50¢ to \$8 per hour in 2008.

The 2007 drought **depleted surplus water storage**. Unless the state has a wet winter (which is tough on tomato plants), irrigation water will be difficult to get.

THE MORNING STAR PACKING COMPANY

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