



THE MORNING STAR PACKING COMPANY

October 2002

In this issue

- 1 2002 Crop Review
- 2 2002 International Outlook
- 3 Market Expectations
- 4 Working with the Leader
Innovative Packaging

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

Liberty Packing Company
“Santa Nella”
 12045 South Ingomar Grade
 Los Banos, CA 93635
 209 826-7100

2002 California Harvest

The California sun and soil provided another bounty of tomatoes in 2002. Farmers harvested the state’s second largest crop ever, at just over 11 million tons of raw tomatoes. Only the 12.3 million ton crop of 1999 was larger.

The 11 million ton crop is 4.8% above preseason expectations of 10.5 million tons. Improved yields of 38 tons per acre and a longer season created the better than expected crop volume.

For 3 weeks in mid-season, it appeared the crop would not make its 10.5 million ton forecasts. Irregular ripening, known as “split sets”, caused yields to drop off dramatically and processors battled with green fruit and mold issues. After this period of fruit damaged by high temperatures in June, the crop ended with record yields.

Other States

The crop in the rest of the US produced 546,000 tons. The 2002 crop is larger than 2001 because a 13% increase in contracted acreage was accompanied by an increased yield of 3.2 tons per acre. Michigan’s crop is expected to meet expectations. Ohio delayed plantings because of rain. Indiana suffered lower yield due to hot, dry conditions.

Review of Operations

As is their trademark, our Los Banos and Williams factories took advantage of the tomato bounty to ensure the quality and contract expectations of our customers were met. Normally, our veteran operations run into at least October. This year, the plants efficiently completed their packs in September.

During its first season, the performance of our Liberty factory exceeded expectations. Suffering very few start-up issues, the plant processed over 370 tons per hour, 35% over original estimates. As a result, Liberty easily met its paste and diced contracts.

The quality of the tomato paste at Liberty shows that we have come close to perfecting the art of plant design. The cold break paste exhibits the desirable color scores and fresh tomato flavors that our customers expect.

Cold break paste offers different benefits than hot break. Cold break is sought after by companies making products, like juice and soups, where flavor and red color are more valuable than thickness. The lower temperature at which the tomato is broken into juice allows the tomatoes to maintain more of their natural flavor and color characteristics.

The value of purchasing Morning Star paste and diced products is consistent quality, from bin to bin. Slick logistics from our harvesting and trucking companies speed our fresh tomatoes to the factory. Within hours after picking, our custom-built factories gently handle the tomatoes, decreasing damage.

International Review

In contrast to the successful California crop, international crops suffered, especially in Italy. According to Foreign Agriculture Service reports, unrelenting rains caused the tomatoes to rot and split open: “The Italian government has declared a state of disaster in its northern region of Piedmont and invited farmers to submit claims for compensation.”

The Italian crop is believed to be off 20-35% suffering from loss in the field as well as poor yields in the factory, due to low incoming tomato solids.

As the world's largest exporter of processed tomatoes, the shortfall from the Italians will have a far reaching effect on the international

same heavy rains that hit Italy affected Greece's crop. The Greeks harvested their tomatoes green when necessary to avoid the rain.

In Asia, the Chinese crop was below expectations by 500,000 metric tons because of unseasonably high temperatures. According to Foodnews (Sept. 27), the Italians are purchasing paste from China aggressively but are finding it difficult to get deliveries. *"Due to heavy demand and high prices, there's a lot of non-delivery from China and renegotiation going on," claimed one major world dealer.*

Both Portugal and Spain came very close to pre-season estimates, harvesting 1.5 million mt and 950,000 mt respectively.

Turkey, also a big exporter, anticipated some over production midway through the season until rain damage in August significantly lowered yields. Their final tonnage meets pre-season estimates in the 1.3 million metric ton range.

Overall, world production is expected to be around the 25 million metric ton mark, down 9% from pre-season

estimates of over 27 million mt.

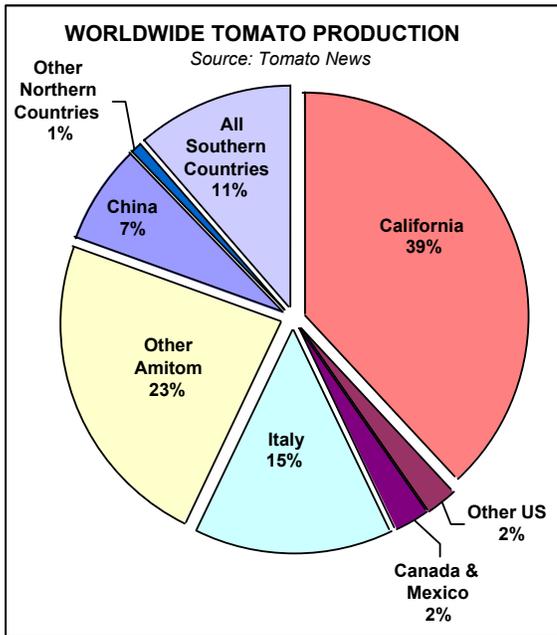
Market Overview

The 11 million ton crop from California, combined with production from the midwestern states, more than meets consumption domestically.

Although the international/export situation looks enticing in relationship to the US's overproduction, there are practical problems with sales to Europe, such as differences in brix and duty levels.

Rising prices in Europe will encourage US producers to attempt the challenges of exporting, but in all likelihood will not absorb much of the oversupply. Prices are expected to remain low, around 28¢ per pound for 31% equivalent paste in bins. Without a major drop in next year's tomato contracts, the price should remain low for the foreseeable future.

Yet, the overproduction in the US does not seem to translate to massive oversupply. Morning Star anticipates carryover balances in the 38% range this year, assuming consumption near 11 million tons. Carryover percentages in June 2003 will nestle right around the long-term average of 33%. Big surplus years were in 1996 and 1999, when carryover topped out in the 45% range.



markets. According to FAS reports published in June, pre-season estimates put the Italians at about 35% of tomato paste exports and at least 90% of canned tomato exports. Other countries also suffered from adverse weather conditions. The

WORKING WITH THE LEADER -- PACKAGING INNOVATIONS AT MORNING STAR

At Morning Star, we consider our customers our partners. Over the years, we've listened to your concerns about the appropriateness of the wooden bin in food operations. As a result, four years ago we hired an engineer whose sole responsibility is to analyze the effectiveness of packaging materials.

Its durability, coupled with cost effectiveness, makes finding a substitute for the wooden bin challenging. Alternatives must satisfy the requirements of cleanliness, durability, dumpability and capacity -- at the same cost or better than wood.

In our 2002 season, we experimented extensively with alternative bin packaging ranging from corrugated to plastic to metal. Not all the experimental bins are exactly square or even hard on the outside. And, like all experiments, some are monumental failures. But we continue to work with the leading packaging suppliers to develop viable options for our customers.

We encourage you to call us and learn more about these alternatives. We also need to ship the experimental bins to our customers to test its performance in transit. We would enjoy having you as a partner in moving our industry forward.