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### DOMESTIC CROP

## Growers Rate the 2008 Crop as “Nothing Special”

Harvesters enter California’s tomato fields under hazy, muggy skies due to smoke from numerous wildfires raging around the drought-stressed state. As for the tomatoes, growers are expecting nothing special from their 2008 crop. Growing conditions have been less than ideal as harsh winds, cool temperatures, disease pressure and drought battered the vines.

The California Tomato Growers Association anticipates a crop no greater than **10.5 million tons with yields of 37 tons per acre or less** for the crop. The CTGA forecast is 13% less than last year’s bumper crop and significantly below the official estimate of 11.7 million tons, published by the California Agricultural Statistics Service on May 31.

Formidable and constant winds stunted plant development and caused a bulk of the problems for the fields destined for the early part of the season. **The steady winds dehydrated the plants, making them slip into a survival mode.** The plants curl up their leaves, slow their growth, and limit the energy focused on developing fruit. In some cases the strong gusts toppled freshly sown transplants or blew the blooms from their vines.

The issue of the wind has been coupled with

not enough heat. **Temperatures have stayed too low to encourage vigorous growth in the heat loving tomatoes.** Originally, processors had planned to start up their factories in early July but delayed fruit development pushed back the start of the season about 10 days. Early fruit could have some scarring from the winds but growers and processors are hoping for a strong end to the season.

A disease known as the “**curly top virus**” has also taken its toll in selected regions near foothills. The virus dwarfs the plant and deforms its leaves. Some fields have reported losses of 50% due to the disease.

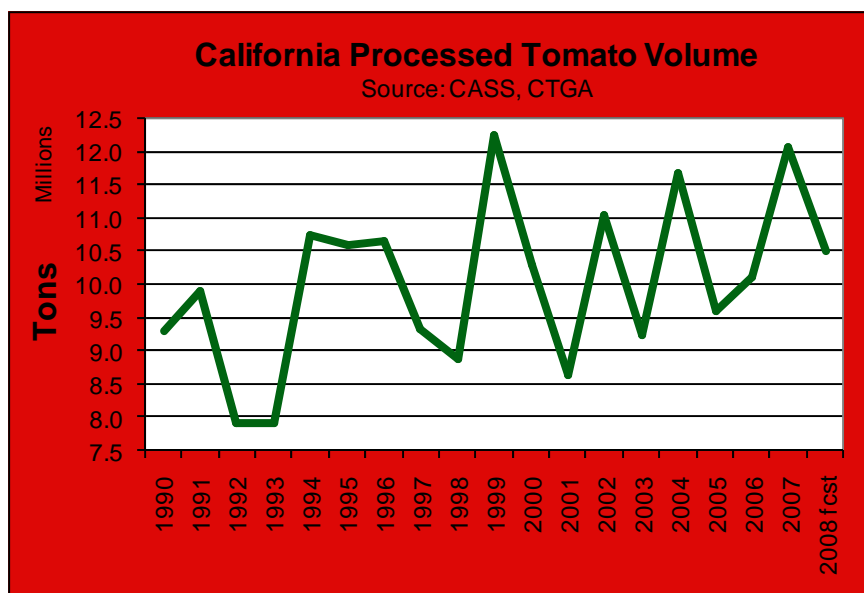
Lack of water is also affecting the crop’s prognosis. **California has entered its second year of extreme drought.** From March through May this year rainfall was 22% of normal as only 1.2 inches of rain fell over the whole state, according to the Western Regional Climate Center. Reservoirs are at 50-60% of normal, at a time when they should be full, causing government agencies to cut water allocations to 40% of the full amount.

On June 14th, Governor Schwarzenegger declared a state of emergency for the central valley due to the water issues. With the emergency systems in place, the Department of Water Resources can expedite water transfers as the central valley enters its highest need for water.

Growers will have to stretch their water allocations and use lower quality well water to supplement their water requirements. Luckily growers’ investment in drip irrigation should help keep water needs down.\*

In stark contrast, the growing regions in the **Midwest of the United States have been drowned with excessive rain.** For most of June, heavy rains hit the upper Midwest causing major flooding of rivers that feed into the mighty Mississippi. Usually Indiana, Ohio and Michigan provide 550,000 tons to the total US tomato crop, but it’s possible the flooding and rain will force their crop below its average.

\*Please refer to our April 2008 newsletter for more details at [www.morningstarco.com/newsletters/index.html](http://www.morningstarco.com/newsletters/index.html)



## INTERNATIONAL CROP Near Record Production Forecast Globally

*Conversion Notes:*

1 metric ton (MT) = 1.102 tons  
1 hectare = 2.47 acres

Globally, 2008 could be the **second largest processed tomato crop on record**. According to the World Processing Tomato Council, production is expected to be 35.8 million metric tons (MT) and 6% above last year's volume. Removing California from the numbers leaves an even more dramatic increase. Internationally the crop is forecast to be 10% more than in 2007 at 25.2 million MT.

As usual, **China** leads the charge for the biggest expected increase in production. At 5.9 million MT, China could produce 28% more tomatoes than last year, when its crop was mangled by disease. Although its unlikely China will hit its ambitious target, the country could break the 5 million MT barrier for the first time.

TomatoLand reported that more than 20 new processing lines, attracted by the high price of tomato paste, are coming online this summer. The production lines are small (less than 1,000 MT/day) and Chinese made.

**Turkey** expects a record crop in 2008. The country plans to produce 2.1 million MT, which is a 27% increase from last year. The increase in production is spurred by increasing demand for Turkish paste. Customers are looking to Turkey because of Chinese paste supply reliability issues and confusion about the situation with European Union production.

In the European Union, decoupling of the Common Agriculture Programs is causing uncertainty and increasing prices.\* Growers are concerned about the exact subsidies they will receive and most reports tell of an increase in area planted but not corresponding increase in volume.

**Italy** forecasts volumes at 4.8 million MT, only 4% above last year. TomatoLand reported that planted area is up 20% to 75,000 hectares in Italy, as growers try to capitalize on the reformed subsidy programs. Most of the growth is focused in southern Italy and might be inflated significantly above reality. It might not reflect the actual hectares planted since growers are trying to capitalize on the subsidy reform.

**Spain** expects a 6% increase in volume to 1.86 million MT, while **Portugal's** forecast of 1 million MT is slightly less than last year.

World Production in millions of Metric Tons			
Source: World Processed Tomato Council			
	2007	2008 forecast	Percent Change
World Total	33.802	35.786	6%
International Total	22.852	25.186	10%
China	4.600	5.900	28%
Italy	4.600	4.800	4%
Turkey	1.650	2.100	27%
Spain	1.750	1.850	6%
Portugal	1,030	1,000	-3%
Greece	.640	.700	9%

**Greece** production forecast is up 9% to 700,000 tons. Growers agreed to a different breakdown of the subsidies than the other EU countries. Growers will receive 70% of their payment based on hectares planted, unlike the other EU growers which chose a 50% split during the transitional period.\*

\*Please refer to our April 2008 newsletter for more details at [www.morningstarco.com/newsletters/index.html](http://www.morningstarco.com/newsletters/index.html)

**SALES TEAM**

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**Brendon Haumea** 209-827-7830  
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**Karolina Splinter** 209-829-5090  
**Becky Wahlberg** 209-827-5508  
**Greg Wuttke** 209-827-5513

**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**  
(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)

**Safe Food: Processed Tomatoes**

**The June outbreak of Salmonella poisoning, possibly associated with fresh tomatoes, highlights the safety of processed tomatoes. Unlike fresh, processed tomatoes are heated with sufficient temperatures and hold times in evaporation and aseptic systems to guarantee commercial sterility. These processes ensure at least a 5 log reduction in the concentration of E. coli, Listeria, Salmonella and Staphylococcus aureus. Additionally, the high acid content of tomatoes prevents the growth of lethal botulism spores.**

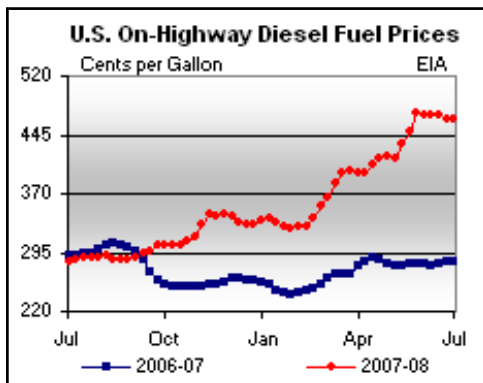
**MARKET ANALYSIS**

**Producers Face a Costly Production Season**

High input costs —driven by record fuel and raw tomato prices— could make 2008 the costliest season ever for the production of processed tomato products. Buyers can expect to pay 42-44¢ per pound for 31% paste and 21-23¢ per pound for bulk diced tomatoes out of California.

The greatest cost for making bulk tomato products comes from the tomatoes themselves. California packers are paying a record \$70 per ton for tomatoes in the field, an increase of 40% since 2005. Packers are paying more to cover increasing costs to produce tomatoes and greater profitability from competing crops.\*

Pulling a car into the gas station is enough to make a driver take up biking. Those filling up with diesel feel an even greater desire to avoid the pump. **Diesel in California is nearly \$5 per gallon, up over 60% from a year ago.** Since most agricultural equipment runs on diesel, the price is having a major effect on planting, harvesting and hauling costs. The trucks which haul tomatoes typically average



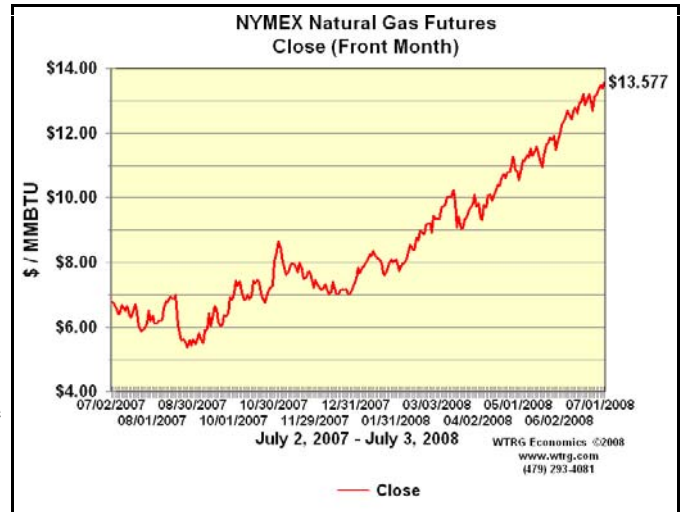
under 6 miles per gallon.

At over \$13 per MMBtu, **natural gas futures are trading at nearly double where they were a year ago.** Paste processors spend over 10% of their costs on natural gas to maintain the heat and vacuum necessary to evaporate water

from tomatoes. Natural gas is a major ingredient in making anhydrous ammonia, a common fertilizer. Growers say their costs have gone up over \$200/acre since January, mostly due to the price of fertilizer.

Despite high prices for tomato products, **domestic sales are strong.** Last year movement nearly set a record as 11.4 million tons of fresh equivalent tomatoes left suppliers' warehouses, according to the California League of Food Processors. In 03/04, a record 11.8 million tons were sold.

*\*Please refer to our April 2008 newsletter for more details at [www.morningstarco.com/](http://www.morningstarco.com/).*



**SPOTLIGHT ON TRUCKING**

**Hauling Efficiencies Save Fuel and Costs**

During the summer, hundreds of trucks criss-cross the Central Valley delivering over 400,000 loads to California's factories. Morning Star trucking hauls more tomatoes than any other company. Our trucking colleagues work constantly to improve the operation's efficiency. Small improvements on each load accumulate into large savings over the length of the season.

In 1999, we endeavored to create a **higher capacity tomato trailer.** For safety reasons, trucks are only allowed to pull a maximum weight. We worked with our trailer manufacturer to design a trailer specifically for hauling tomatoes. Taking weight out of the trailer created room for 3 tons more tomatoes per load, decreasing the number of loads needed to keep the factories running at capacity. Morning Star now averages 28 tons per load.

Another potential gridlock for the trucking company is the **on-sight grading stations** run by the Processed Tomato Advisory Board (PTAB). Our Williams factory takes nearly 10 loads per hour more today that when it was built in 1995, but there is still only one grading station. Morning Star worked with PTAB to develop new equipment and processes so the station can handle the greater capacity. Our grading station at Williams is the most productive, per man hour, in the state.

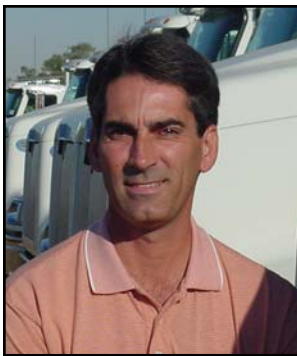
**On board computers**, installed in 2006, have created many efficiency benefits. With GPS sensors, our dispatchers can look at a screen and see real-time images on the direction and location of each truck. As well as doing the logs for each driver, the computers track fuel economy and safety indicators.

**"Small improvements on each load accumulate into large savings over the length of the season."**

## COLLEAGUE PROFILE

**Paul Pimentel and Mike Reuter Drive Trucking**

*For 24 seasons, Mike Reuter (above) and Paul Pimentel (below) have delivered tomatoes to Morning Star's factories.*



In 1985, Paul Pimentel and Mike Reuter took summer jobs with The Morning Star Trucking Company. Back then, the operation ran about 30 trucks and serviced a single factory. Both men enjoyed their experience so much they returned the following summers and eventually each came to oversee the entire trucking operation. **Mike Reuter** heads up the northern operation while **Paul Pimentel** directs operations in the south.

Coming into their 24th season, Paul and Mike have been instrumental in growing the trucking company to keep up with the voracious demands of Morning Star's three hungry factories. Daily the factories process 1,300 loads of tomatoes—totally around 3 million tons for the season. To get the job done today takes hundreds of trucks, twice as many trailers, over 600 people and two temporary villages.

Paul grew up in Gustine, dairy country north of Los Banos. While going to college, his summer job with Morning Star trucking was moving trailers to the unloading station. After graduating from Fresno State in 1988, Paul took a full

time position with Morning Star and began moving the ground for the building of the Los Banos factory which was completed in 1990. Paul met his wife, Erin, during this time marrying her in 1997. Today they have two children—Morgan, 8 and Holden, 6. Paul directed the development of our high-capacity trailers and oversees upkeep of the acres surrounding the Los Banos and Santa Nella factories.

Mike Reuter began driving truck for Morning Star while a student at UC Davis. He loved it and began asking what else he could do. He worked with trucking and field operations in Los Banos, until Morning Star expanded in 1993 with the acquisition of our Yuba City operation. Mike jumped at the opportunity to start up northern trucking operations. Two years later trucking demands broadened again with the building of the Williams factory.

Mike says working for Morning Star has allowed him to indulge his passion for expensive dining and playing bad golf. He is also a long-time season ticket holder for the Sacramento Kings basketball team.

**Santa Nella**

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Los Banos, CA 93635  
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**Los Banos**

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

**Williams**

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



**THE MORNING STAR PACKING COMPANY**