



# THE MORNING STAR PACKING COMPANY

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The Morning Star Packing Company  
**Los Banos**  
 13448 Volta Road  
 Los Banos, CA 93635  
 209 826-8000

The Morning Star Packing Company  
**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

## Domestic Crop

A warm spring and mild summer created flourishing conditions for tomato vines in California. From early July to early October, growers delivered over 11.6 million tons, 7% more than expected and 25% more than last year's weather reduced crop. Unofficially, growers averaged record yields over 39 tons per acre reaching weekly highs around 50 tons per acre.

Some believe that the California crop could have exceeded 12 million tons had processors needed all the tomatoes. Instead, growers left tomatoes in the fields after fulfilling their tonnage contracts and skipped some moldy fields late in season.

The high yields slowed harvesting delivering very ripe, soft fruit arrived at the factories. Although processing tomatoes stay fresh in the field for a long time, eventually they begin deteriorating. Very ripe tomatoes are red but also soft. The Processing Advisory Tomato Board (PTAB) graded limited use levels 39% above last year. As a result, paste color was excellent, but the character of diced tomatoes may suffer.

Midwest and Eastern states expect to contribute another 533,000 tons to the domestic total, sending United States production over 12 million tons for the second time in history. Final numbers for the country will be released by the USDA in January 2005.

## International Crop

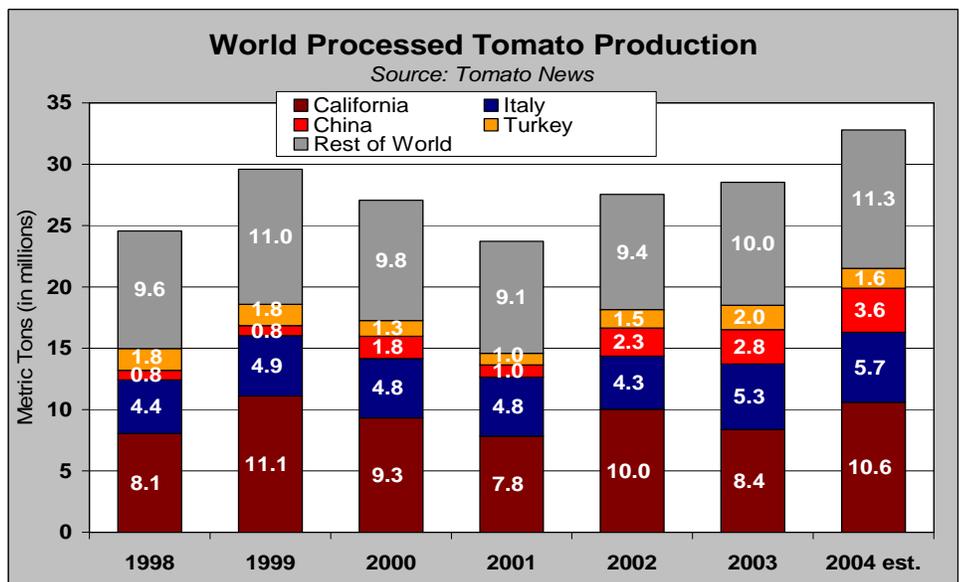
*1 metric ton = 1.102 short tons*

By surpassing 30 million metric tons for the first time, 2004 is a milestone tomato year. World production is expected to exceed 32 million metric tons, up 15% from last year.

Italy, the world's largest exporter and second largest growing region, anticipates back to back production in excess of 5 million metric tons. Unofficially, Italian growers harvested over 5.6 million metric tons, slightly below preseason forecasts but 7% better than last year. Italy may struggle to find a home for its large pack as 2003 exports were at their lowest since 1998.

California was not the only area to surpass the previous year's crop by double digit percentages. China and Spain beat last year's crop by 29% and 26% respectively, despite not meeting preseason expectations. China produced 3.6 million metric tons after battling rain, low temperatures and financial uncertainty from a major processor, Tunhe. Spain delivered 2.15 million metric tons, 14% below expectations, because of rain and localized flooding.

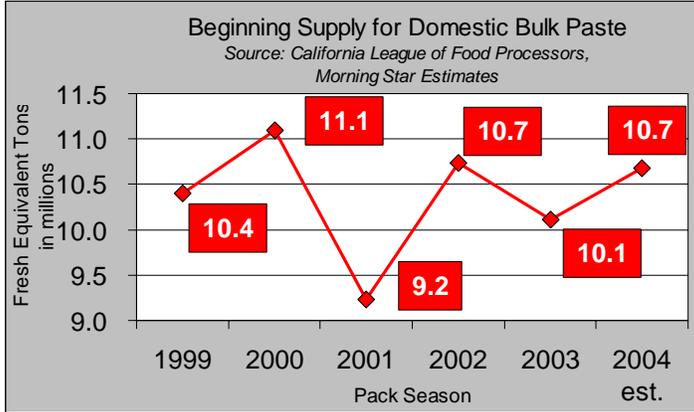
Plagued by the Turkish Lira's weak position to the dollar, Turkey produced 20% less than last year at 1.6 million metric tons. But favorable weather and the availability of cheap tomatoes boosted the harvest 7% above forecasts.



## Market Analysis

In spite of the large crop, don't expect prices to fall. The warehouses are barely over supplied, and their inventories reflect higher production costs.

On the heels of growing demand, the large pack replenished short domestic stocks. By estimating that 8.8 million tons -73% of the 12 million ton U.S.



pack- was used for bulk paste, we expect beginning paste supply around 10.7 million tons, only 3.5% greater than the 10.3 million ton 5-year average. Although this translates to a 400,000 fresh equivalent ton oversupply, the market can easily absorb an excess this small. For example, industry movement in the 2003 marketing year increased by more than 580,000 fresh equivalent tons over 2002.

Supply is remaining close to its 5-year average because the bulk paste industry carried into this season the lowest supply since June 1999 after the very short 1998 El Nino season. Processors came into the 2004 pack with less than three months supply as highlighted in our last issue, June 2004.

Additionally, the cost of making paste increased over a penny per pound. Rising prices, from inputs such as tomatoes, packaging, fuel and labor, all added to nationwide processing costs as outlined in our June 2004 newsletter.

Factory yields decreased this year because lower tomato solids meant more tomatoes were needed to make the same amount of paste. Tomato solids fell 3% from last year so processors used more energy to extract water from the tomatoes this year. The Processing Tomato Advisory Board recorded average Natural Tomato Soluble Solids (NTSS) at 5.18% this year and 5.32% last season.

## Buying Your Diced in Drums? Try Star-Pak and Save.

**ONE STAR-PAK™ BIN  
CONTAINS  
FOUR INDIVIDUAL BAGS**



Smaller processors struggle to keep up with the price advantages of larger companies. Morning Star developed Star-Pak to help drum users compete with larger bin users while growing their production. Our original Star-Pak design takes traditional 55-gallon drum bags and packages them four to a sectioned bin.

Customers save through freight advantage, warehouse conservation, and bin return credits while getting the convenience of drum portions.

Our new, larger capacity 75-gallon Star-Pak touts the same cost advantages and small portions while getting you ready to jump into the full-size bin for ultimate savings. Our larger Star-Paks hold nearly the same amount of product as a bin enabling you to develop larger batch sizes as you grow.

Contact us to learn more about this revolutionary packaging that helps you grow by increasing your cost competitiveness and transitioning your batch sizes.

## Newcomers add International Flair to our Sales Force

At Morning Star, we pride ourselves on the effectiveness of our unique structure, free from the tethers of a formal hierarchy. Our self-managed organization allows for maximum flexibility so any one of our colleagues can help our customers, eliminating the inconvenience of a relationship built with just one person. It's not unusual for any sales person to visit a customer whenever he or she is in the area. We feel this saves on travel costs and enhances our effectiveness.

Another way we strengthen our team of colleagues is by hiring outside our particular industry to gain the insights of fresh eyes. New people bring in different ideas and ways of doing things, transferring the best from another industry. This summer, we added two sales colleagues who not only come from outside our industry but outside this country. Both have been working domestically in affiliated industries for years and can serve our core of national customers. Yet they add extensive international exposure to aid our foreign and multi-national customer base.

Both colleagues can be reached at our Los Banos facility and if you haven't met them yet, we hope this introduction breaks some ice.

### Greg Wutke – Australia

Greg originates from the town of Adelaide, in the territory of South Australia. In that charming "down-under" accent, he describes his extensive technical experience in food packaging. For most of his career, he's worked for the major packaging companies, Tetra-Pak and Scholle. Greg's work with Scholle has given him a unique understanding of bulk packaging requirements for processors and their customers.



### Karolina Splinter – Sweden

Embodying the wholesome freshness of Scandinavia, Karolina adds enthusiasm and worldly skills to our team. We didn't pluck Karolina directly out of Sweden; she came to us from San Diego via China and has tackled everything from teaching English, guiding tours, and financial management. Since 1999, Karolina has traded tomato products globally at Gerber California, gaining an understanding of global markets and customer needs in every location.

