



Future Prospects Tomato Processing in North America

WORLD PROCESSING TOMATO CONGRESS

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Four Processing Regions in North America

	<u>Average Mtons Last 3 Years</u>	
Mexico	40,000	.3 %
US (excluding CA)	411,000	3.4 %
Canada	423,000	3.5 %
California	<u>11,329,000</u>	<u>92.8 %</u>
Total	<u>12,203,000</u>	<u>100.0 %</u>

Average Tomato Yields

	<u>Short Tons</u> /acre	<u>mTons</u> /acre	<u>mTons</u> /hectare
Mexico (USDA figures)	11-19	10-17	25-40
(WPTC figures)	32	29	70
US (excluding CA)	30-35	27-31	65-75
Canada	40-45	36-41	86-98
California	45-50	41-45	98-108

Average Delivered Price To Factory (USD)

	<u>/Short ton</u>	<u>/mTon</u>
Mexico (USDA figures)	?	?
US (excluding CA)	\$110-125	\$121-137
Canada	\$109-117	\$122-129
California	\$80-85	\$88-97

Mexico



Fresh Market Rules

- 3.4 million mTons in 2017/18
- Processed tomato only 50-100K mTons

Why?

Growers/shippers better returns vs. processed

- Next to huge U.S. market
- Cheap labor
- Nearly year-round production
- Well developed supply chain with U.S. Partners
- High yields, high quality, low risk
 - Produced with protected agriculture, e.g., greenhouse/shade and tunnels



Future

No change – processed tomato margins can't compete with fresh business

United States (excluding CA)



- Industry concentrated in Indiana, Ohio & Pennsylvania
- Tonnage stable in the 400-500 mTon range
- Field yields low relative to CA and higher volatility
- Field price – high compared to CA and rest of world

Strategic advantage in retail/food service canned peeled tomatoes & sauces

- Similar to Southern Italy
- Highly concentrated, efficient processors and integrated year-round manufacturing
- Pay \$10-\$12/short ton average premium for high quality peelers
- Little to no paste production
- Freight advantage vs. CA, closer to majority of U.S. population

Future

- Continue with existing strategy, stable production
 - Focus on U.S. branded & private label markets
- Risk of industry moving to more flexible, lighter packaging
- Global warming – higher yields, longer season?

Canada



mTon's Harvested	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
	503,000	323,000	339,000	392,000	451,000	426,000

Current Situation

- Processed volumes have returned to near pre-Heinz level
- Field yields are globally competitive
 - near California in 2017
- Tomato prices/ton are quite high
 - especially given significant focus on concentrates
 - prices set in good part based on USD/CAD exchange rate and rail freight from CA to Canada

1 USD = ___ CAD	<u>1/1/14</u>	<u>1/1/15</u>	<u>1/1/16</u>	<u>1/1/17</u>	<u>1/1/18</u>
	1.06	1.18	1.38	1.33	1.29

Future of Canadian Processed Tomato Industry

- Very sensitive to risk of stronger CAD
- Opportunities likely to be in lower solid and Canadian branded products
- NAFTA change – added barriers?
- Global warming – lengthen season / higher yields?



California



Success Factors

1. Managing the Overcapacity Situation

Why does it exist?

- A. Increased capacity due to projected export growth
14+ mTons annual capacity
- B. Lower demand due to stronger USD, increased global supply,
and flat to declining US consumption

Short term result ➔ unsustainably low processor and grower margins

Solutions

- A. Reduce supply
 - Further consolidation and/or shorten production season
 - growers switch to alternative crops



B. Increase Demand

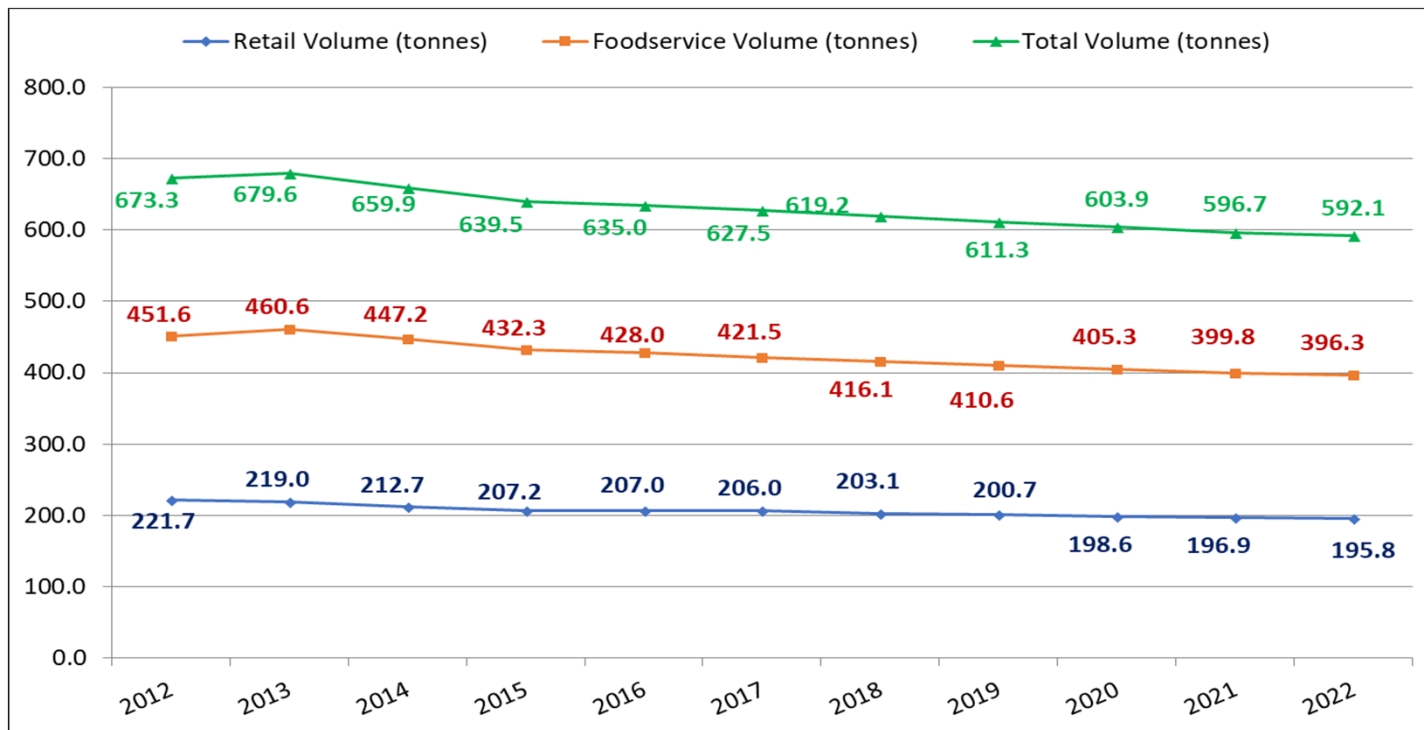
Export Growth

- currency & trade policy dependent
 - China's future supply?

Domestic Growth

- less likely without product innovation or nutritional/health claim breakthrough
- dietary trend toward fresh & reduced sugar is hurting demand
 - US ketchup sales down 6.8% in 5 years

U.S. KETCHUP



Source: Euromonitor




Tomato paste and sauces are safe, healthy ingredients but most marketers treat them as flavor-neutral additives that need to be value-costed to their minimum levels.

How much tomato can we take out and still call it ketchup or pasta sauce?

Ironic - taking out one of the most wholesome ingredients when consumers are demanding more transparency and healthy products.

2. Improving Field Productivity

Current Reality  California yields are stuck at 48 short tons (104 mT/ha)
- zero improvement in 9 years

**Yield gap has
narrowed**

Cost per acre increasing annually
- labor, water, seed, chemicals, regulation

Rest of world is catching up
- global average up 60% in 20 years (now @ 83 mT/ha)



What Needs to Happen

- A. Increased use of technology
Automated transplanting, robotic spraying/weeding, distributed sensor-based irrigation
- B. Improved tomato varieties
Yield capacity, disease resistance, solids, flavor and phytochemical enhancement
- C. Reduced reliance on lower yielding regions
- D. Genetic engineering – GMO, CRISPR, etc.?

Success Factors are Connected

Solving yield stagnation will lead to lower tomato prices, lower average cost of production and improved global competitiveness, thus mitigating the over-capacity situation.



Future of California Processing Tomato Industry

Optimistic

- best growing locations in the world
- largest, most technologically advanced growers & processors

With some assistance from our product marketers on the demand side and bureaucrats on the trade side, we will come out of this tough time better equipped for future success.



End τέλος



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