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Conference Call Transcript

ADM - Q1 2010 Archer Daniels Midland Company Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Archer Daniels Midland Company Q&A conference call. My name is Marisol, I'll be your operator for today. We will be facilitating a question-and-answer session at the end of the program. (Operator Instructions)

I would now like to turn the presentation over to Mr. Dwight Grimestad, Vice President Investor Relations. Please proceed, sir.

Dwight Grimestad - ***Archer Daniels Midland Company - VP IR***

Thank you, Marisol. Good morning and welcome to ADM's first quarter earnings conference call. Before we begin, I would like to remind you that we are Webcasting this presentation on our Website, adm.com. The replay will also be available at that address.

For those following the presentation please turn to slide two, the Company's Safe Harbor statement, which says that some of the comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, Company performance and financial results. Statements are based on many assumptions and factors, including availability and prices

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of raw materials, market conditions, operating efficiencies, access to capital and actions of government. Any changes in such assumptions or factors could produce significantly different results. To the extent permitted under applicable law, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events.

Slide three lists the matters we will discuss on our conference call, today. And I will now turn the call over to our Chairman and Chief Executive Officer, Pat Woertz.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Thank you, Dwight. And good morning, everyone. I'll begin with safety first. During the first quarter, we reduced our lost workday injury rate by 36% and our total recordable injury rate by 7% compared to the full year fiscal 2009. And we continue our program to implement values-based safety at our facilities globally.

Turning to our financial results. This morning, we reported quarterly net earnings of $496 million or $0.77 per share. I believe the ADM team executed well, delivering strong sequential earnings growth. Earnings were significantly better than the second half of fiscal 2009. And as we said during our last call, we did see overall operating conditions in the quarter improving. Declines in demand for food, feed and fuel seemed to be bottoming. And in this environment, our team executed well, capturing and maximizing opportunities. Now, our segment results were mixed compared to last year's first quarter, which, as you will recall, was ADM's best quarter ever. And Steve will report on those results in just a moment.

So, let me turn to the strategy. Since our last call, we have executed on our growth strategy. In July, we began operations at our new cocoa processing facility in Kumasi, Ghana. This facility will improve our access to a key growing region in West Africa. We have taken delivery of five ocean-going vessels, enhancing our flexibility and efficiency by adding 250,000 metric ton of cargo capacity to our transportation network. We acquired an oilseed processing plant in Olomouc, in the Czech Republic. This will improve our access to the central European market and expand our origination footprint. Just this week, we began production at our New Columbus, Nebraska ethanol plant. This plant's scale and integration with the Company's existing infrastructure gives it a cost-efficient position, as the industry meets the increased 2010 ethanol mandate.

Our Clinton, Iowa, cogeneration facility is up and running. It provides cost effective process steam and electricity to our facility there. In Brazil, we began production at our first sugar cane ethanol plant, creating capacity to meet the growing Brazilian demand for renewable fuel. We completed repairs and brought back online our Galveston grain export terminal. That was damaged last year by hurricane Ike. And we reorganized our commercial and production group into four clearly defined business units and we named new presidents to lead these units.

As we advance our growth strategy, you can see we are using our financial strength to build shareholder value. Looking ahead, we'll talk in a moment about each segment and we do see demand improving in some key markets. And I truly believe we have the assets and acumen to capture value as the global economy resets. Now, I'll hand the call over to Steve.

Steve Mills - ***Archer Daniels Midland Company - CFO***

Thanks, Pat. And good morning, everyone. Turning to slide five. Slide five reflects our financial highlights for this quarter. Segment operating profit was $774 million, compared to just under $1.2 billion a year ago. And we'll discuss in more detail, in a moment, those results on a segment by segment basis. Quarterly net earnings and earnings per share decreased 53% and 52% respectively from last year's record levels, due to lower segment operating profit and to reduced LIFO credit. Our tax rate for the quarter was up just slightly from last year's first quarter rate, with no unusual items. And as you can see from the waterfall chart, we didn't have any notable items this quarter, other than LIFO, which had a $47 million or $0.07 after tax favorable impact on earnings and EPS.

I also want to call your attention to the fact that we've had to restate our prior period financials due to the adoption of a couple of new accounting rules. The first change relates to how we account for the convertible debt securities we issued back in 2007. Under this new guidance, these securities need to be bifurcated into a debt component and an equity component. Each of those have a different accounting treatment. The restatement resulted in a decrease in long-term debt, an increase in shareholders' equity on the balance sheet, and we've had to book additional interest expense through the income statement, going back to the inception of the debt.

And the other much less significant change for us deals with the introduction of a different presentation format that involves less than wholly-owned consolidated subsidiaries, which are now referred to as noncontrolling interests and have to be broken out separately in the financial

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statements. For a little more information, these changes were fully described in Note 1 of our last 10-K and will be described in this quarter's 10-Q.

Turning to slide six, we show the summary of our operating profit by segment, detailing the changes in operating profit for the quarter. Let's turn straight to slide seven, to begin a review of each individual segment in more detail. Starting with oilseeds processing. After an exceptional first quarter a year ago, operating profits this quarter were $224 million on comparatively lower margins and volumes but still a very good quarter. Last year, we benefited from unusual basis opportunities that have not repeated themselves. Crushing and origination results declined to $135 million for the quarter due to lower volumes and margins and to weaker fertilizer results in South America.

As you will see from the volume information in our appendix, we decreased our overall oilseeds processing volumes by about 9%, as we balance production levels across regions and crops. Decreases in North and South American crush rates were a result of tight soybean availability and weaker year-over-year demand. This decrease was partially offset by increased crush in Europe, mainly due to the acquisition of the Sraubing, Germany plant a year ago August. Refining, packaging, biodiesel and other results decreased $36 million to $70 million for the quarter, due principally to lower sales volumes in North America and reduced biodiesel margins in both Europe and South America. The oilseeds results in Asia rose $14 million to $79 million for the quarter, as the results of our equity investee, Wilmar International Limited, continued to be strong.

Looking at the crop. This fall's US soybean harvest is underway. And even though this harvest is late, it will improve the globally tight soybean supply that resulted from the smaller soybean harvest in South America. The USDA's October report showed that farmers planted 77.5 million acres of soybeans, up from 75.7 million acres last year. The USDA is protecting yields of 42.4 bushels per acre and a 3.25 billion bushel crop, which would ease the tight soybean supply situation. South American soybean planting is going well, as farmers have had good planting conditions. The USDA is projecting a 123.6 million metric ton soybean crop for South America, up from the 95.4 million metric tons in '08/'09. Again, this large crop would provide a sufficient supply for all needs.

As we look at oilseed processing market conditions, we've found that our meat and protein customers have been cautious buyers. Global protein meal demand is steady. For the crop year '08/'09, industry sources reported a global decline in protein meal consumption of roughly 2%. For the crop year '09/'10, industry sources project anywhere from a 0% to 3% growth in global protein meal consumption. And this underscores the uncertainty around forward demand. And to put these projections in context, the historical protein meal growth has been in the 4% to 5% range. Vegetable oil inventories have declined from high levels due to reduced oilseed crush rates, increased export demand and increasing biodiesel demand in Europe and South America. Crop prices are down from their highs but with the current tight supply situation and the challenging US harvest, the potential for price volatility remains.

Moving to corn processing on slide eight. For the quarter, corn processing results rose $70 million to $188 million, due principally to the impact of lower net corn costs. Improvements in manufacturing costs, due to lower energy and chemical costs, also helped improve results. Sweeteners and stamps operating profits increased $129 million over the prior year to $194 million. Principally due to the lower net corn and manufacturing costs and we benefited from higher year-over-year average selling prices. Bioproduct decreased $59 million for the quarter, resulting in a small loss. Ethanol spot margins turned positive in the quarter and remain positive. Bioproducts results were negatively impacted in the quarter by low lysine selling prices and by the start-up costs related to our industrial chemicals and sugar businesses.

Looking at the corn crop. The USDA October report showed that farmers had planted 86.4 million acres of corn in 2009, up slightly from the 86 million acres in 2008. And the USDA is projecting a record yield of 164.2 bushels an acre, resulting in a projected 13 billion bushel crop, up from 12.1 billion bushels last year. This would provide an ample supply of corn to meet all needs, including the corn needed to meet the higher 2010 RFS requirements. As we look at current market conditions, ethanol spot prices are currently close to unleaded gasoline levels. And with the $0.45 per gallon tax credit, the blender currently has an incentive to buy additional gallons.

In the quarter, ethanol pricing was such that the blenders had an incentive of a range of $0.30 to $0.60 a gallon to blend additional ethanol gallons. So, clearly, with this attractive ethanol pricing, we are seeing some discretionary blending above the levels required by the RFS. The industry currently has profit margins in ethanol. As Pat mentioned this week, we started up production at our new Columbus dry mill. Lysine demand has improved, driven by the increasing use of DDG's and feed. Lysine pricing is also improving and we are seeing increased volumes of HFCS sales to Mexico.

Let's now turn to slide nine and review the operating performance of our agriculture service business segment. After last year's record first quarter results, ag services results decreased this quarter to $175 million. During last year's first quarter, we saw excellent volume and margin opportunities arising from the volatile commodity markets and the tight credit markets. Relative to the market opportunities we had a year ago and the ones that we had this year, we are pleased with ag services performance coming into a challenging US harvest period. Merchandising

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results were lower than the year-ago quarter, as the late harvest reduced volume and the weaker global economy reduced demand for commodities.

Operating earnings from our transportation operations declined due to lower barge freight rates and decreased utilization levels. As we look at the current market conditions, the US is harvesting a very large crop of corn and soybeans. But due to late plantings, a cool growing season and extremely wet fall weather, the harvest will come in over an extended period. However, crops will be coming in with higher moisture levels, which should benefit our drying and handling operations. The US domestic demand is stable and US export demand is picking up as as we go into this North American harvest. While South America has a limited supply of soybeans until they harvest their new crop.

Slide 10 is an operating profit analysis of our other segment. This segment reported an overall profit of $127 million this quarter, basically unchanged from last year's first quarter. As we look a little deeper, other processing had higher results due principally to improved wheat milling margins and increased earnings from our equity investee, Gruma S.A.B. de C.V. These improved margins were partially offset by decreased cocoa processing margin and volumes, as that business struggles with record raw material prices and depressed demand. Last year's results also included a gain related to the disposal of our malt business in July of '08. Other financial results increased $3 million due to improved captive insurance earnings, partially offset by weaker ADM investor service results, which are negatively impacted by the low short-term interest rate environment.

Crop update on wheat and cocoa. World wheat production reached a record 682.3 million metric tons last year, which was followed by a 668.1 million metric ton crop in the current year. Wheat stocks have increased from 166 million metric tons to 187 million metric tons with this harvest and there's an ample global supply of wheat. We are seeing steady demand for wheat and wheat flour and there's a good supply of wheat globally. Wheat protein levels are lower and there are some regional quality issues with the US wheat crop but we're confident that the ADM network can deliver quality product to our customers. Demand remains weak in cocoa. Plants are running as reduced production rates industry wide. The cocoa bean crop is similar in size to last year but with the reduced demand, appears to be sufficient.

Turning to slide 11. Slide 11 looks at the major components of our corporate line. Market prices for our LIFO-based inventories declined overall from June 30 levels, resulting in a decrease in our LIFO inventory reserves of $76 million, compared to a $453 million decrease in last year's first quarter. Our corporate net investment expense increased $16 million, principally reflecting lower interest income due to both lower short-term rates and the lower working capital requirements of the operating segments. Corporate costs and other improved $26 million due principally to a reduction in employee-related costs and provisions for doubtful accounts.

Slide 12 moves us away from the operating segment view to the financial statement format. Net sales and other operating income decreased 29% this quarter to $14.9 billion. And as you would expect, over 90% of this decrease is attributable to lower average selling prices, in line with a drop in underlying commodity costs. There were no material changes in overall sales quantities. The gross profit decrease for the quarter principally reflects the decreased segment operating profit that we just discussed and the smaller year-over-year LIFO credit. Our SG&A expenses decreased 13% quarter to quarter. Again, primarily due to lower personnel-related expenses and reduced provisions for doubtful accounts. And our other income increased $70 million quarter over quarter. And this change was due mainly to improved equity earnings of affiliates and reduced net interest expense.

Turning to slide 13, which has our selected balance sheet highlights. When we compare items from our September 30 balance sheet with the June 30 year end balance sheet, we found that items have not changed significantly in the quarter. Both these balance sheets, by the way, have been restated to show the impacts of adopting the new accounting rules that I mentioned earlier. Other than that, cash and cash equivalents has increased by $1.2 billion, as receivables and inventories have decreased by about 9%, due principally to lower commodity price levels. Our net property, plant and equipment has continued to increase, representing the ongoing buildout of our capital projects, particularly the major seven we've been working on for the last couple of years. And we continue to have no commercial paper outstanding.

Turning to our cash flow statement on slide 14. You'll see that cash generated from operations before the impact of changes in working capital was $730 million, similar to last year's first quarter. Cash flows from changes in working capital were positive $1.3 billion. Again, due to the continued price related decreases in inventories and receivables. And our CapEx spending level was about $500 million, broadly in line with last year's spend. We're very pleased with our financial position today, as we look ahead to both strategic opportunities and an upturn in the global economic condition. And as we've highlighted on past calls, we are focused on maintaining our strong balance sheet and staying financially flexible.

Turning to slide 15. Slide 15 provides an update of our current financial performance, using return on equity and return on net assets. Again, these figures have also been adjusted for the adoption of the new accounting rules. And as usual, they exclude any impact from the changes in LIFO. On a rolling four-quarter average, RONA has decreased to 7.4%. And ROE has fallen to 8.1%, certainly below our historical long-term averages.

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And as you can see from the chart, the four-quarter rolling metrics are down substantially due to the difficult last half that we saw of fiscal 2009, when earnings were adversely impacted by the global economic downturn and the weaker demand. The quarter to quarter earnings volatility will lead to RONA and ROE volatility this year, as these high and low quarters roll out of the four-quarter average.

And as you look at the underlying net asset base, our working capital, shown as the blue part of the bar on the chart, is down as commodity prices have continued to moderate. While the fixed asset base is rising slightly, in line with the expenditures on our major capital projects. At this time, I'll turn the call back over to Pat and we'll be glad to take your questions.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Thank you, Steve. John Rice will join Steve and I for the Q&A. So, operator, you can open the line for questions, please.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions) And our first question comes from the line of Christine McCracken from Cleveland Research. Please proceed.

Christine McCracken - ***Cleveland Research Company - Analyst***

Morning. You called out this delayed harvest as, obviously, a big factor in your results this quarter. Clearly, it's still coming out of the ground slowly. And I think you mentioned it could take a couple of months here before we get it all out of the ground. A couple of questions. First, do you expect to see kind of similar results in terms of volumes, then, through your next quarter? And then secondly, we've kind of heard of some spot shortages of corn, guys running out of corn. Could you fill in and actually see a benefit from having some corn in storage?

Steve Mills - ***Archer Daniels Midland Company - CFO***

Well, Christine, I think we didn't talk much about the impact of the delayed harvest on this particular quarter. It always makes some difference, as we roll from old crop to new crop. And we're most interested in how the harvest is going to unfold. We're glad to see sunny weather here in the Midwest here this week. I think John has a couple of comments about the corn situation and the impact of the harvest.

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Well, the overall volumes, Christine, is we expect to have actually better volumes this year than last year, just because we have larger crops. We're seeing very good export demand on the soybean side of the business. Corn is a little bit slower than what we anticipated but there's cheaper corn in other places around the world but we do expect our export assets to run close to capacity this year. In terms of corn shortage and spot shortages, in certain areas, we've seen that. We've had that. Just because we've had so much rain. Here in Decatur, I think we've had over 10 inches of rain in the month of October. So, we haven't been able to get the corn out. But with our network, we've been able to move corn from one area to the other area without having any real concerns. But now we have a dry forecast and hopefully, farmers will get back in the field. And actually, we saw them in the fields yesterday.

Christine McCracken - ***Cleveland Research Company - Analyst***

So you haven't been able to get any real arbitrage benefit just from having availability of corn in the current situation?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

We've been arbitraging from one area to the other parts of the country right now, but I would not call at benefit until we really get more of the harvest going.

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Christine McCracken - *Cleveland Research Company - Analyst*

And just one quick question, then, on the quality of the crop, given the moisture levels. We heard it might affect the starch content. Can you talk about how that might affect your processing business and whether or not it's a benefit or a negative?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

We are seeing more damaged corn coming in, higher screenings also. The actual starch content has a little bit of variance but we haven't seen any difference between this year's variance and last year's variance.

Christine McCracken - *Cleveland Research Company - Analyst*

I'll leave it there. Thanks.

Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

Thank you.

Operator

Our next question comes from the line of Vincent Andrews from Morgan Stanley. Please proceed.

Vincent Andrews - *Morgan Stanley - Analyst*

Good morning, everybody. Maybe we could talk a little bit about sweetener contracts for next year and just sort of where your expectations are there in terms of operating profit per unit? It seems like prices are likely to go down year-over-year but can you give us any sense of how those talks are proceeding? How industrial demand is picking up? I noticed that you mentioned that volume to Mexico was up but when you look at the totality of demand, how are things shaping up?

Steve Mills - *Archer Daniels Midland Company - CFO*

We are seeing reduced demand here in the United States but due to high sugar prices here in the United States and also in Mexico, we are seeing more interest in people switching out of sugar, putting more fructose in with their sugar blends. And like I mentioned, we are seeing increased demands to Mexico and hopefully, that will offset the reduction in demand we're seeing here in the United States. Contracting is, we're over 50% done currently for this year but it's still too early to say about the pricing for how we're going to see -- how 2010 will come out, until our February call.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. But basically, in your answer to Christine's question, you're not concerned about incremental costs from lower starch or conversion rates at this point. Is that right?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

No, we're not.

Vincent Andrews - *Morgan Stanley - Analyst*

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We're not. Okay. And then maybe one other question, which is the -- when you talked about the soy crop and how your business performed in the quarter, it seems like there's going to be a big crop coming out of the US and then ultimately, a big crop coming out of South America. But the discussion from protein meal demand, it sounds like supply is going to grow in excess of demand. And so to me, that means your utilizations go up but probably crush margins go down and so, that's probably not a net benefit for you. Am I think about that correctly?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

I think it's a timing issue. I think until the South American crop is harvested and we fill the pipeline and the plants in South America can come on to capacity, the potential for that to happen is there, yes. But I think between now and whenever the crop comes on, call it March, April, I think the crush margins in the United States and Europe could be very well.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, thanks, I'll pass it along.

Operator

Our next question comes from the line of David Driscoll from Citi Investment Research. Please proceed.

David Driscoll - ***Citigroup - Analyst***

Thank you very much and good morning, everyone. I wanted to ask a question myself about the ag services outlook. So the US corn and soy crop are very late, as you've mentioned but numerically, corn, according to the USDA from their report yesterday, is 25% harvested versus 71% normally. Soy is 51% harvested versus 87% normal. I would assume that your storage and transport operations are hurt by these events, as you normally would be generating large storage revenues. So first, is this correct? And then secondly, can you just give us a bit more color on how one should think about agricultural services for the December? So, just the next three months?

Steve Mills - ***Archer Daniels Midland Company - CFO***

I'll start, David, and then pass it on to John. We're going to handle a large crop. We'll start with that. Timing is a question. We know here that the US farmer can move through the crops pretty quickly once they get into the fields and get that crop out of the ground. The opportunities mix changes when you have this kind of a situation and it's more about timing. And think John wants to chime in here a little bit about that.

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

No, I agree. We'll have to fill the pipeline. It will take us a little bit longer to fill the pipeline. We will not probably put as much corn on the ground this year as we have in previous years. But to Steve's point, it's all timing and when we handle the crop, we feel we're still going to handle more bushels than last year. The transportation system, we've not been running that at capacity, like we did when you have a quick harvest but we still see the potential for that to have a pretty good year also.

David Driscoll - ***Citigroup - Analyst***

John, would you agree, then, that the timing of how the profits come in are likely different this go-around? Whereas the December quarter is lower because you just didn't bring the crop in, in October, like you normally would have. Even today, it's still way behind schedule. So yes, we're going to harvest it but the revenues from that will show up on a delayed basis, i.e. they'll show up more into fiscal Q1 -- sorry, calendar Q1 of next year. Is that more or less the right way to think about this?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

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I don't know if I totally agree with that, just because there's so many different variables that can come into play. If the crop does get harvested and we have a fairly quick harvest here to end the crop or to end the harvest, we will have some more basis opportunities. What we're seeing this year is maybe more drying income and less basis opportunities, just because we're not able to buy and accumulate much of the crop. But it's hard to say but we are seeing good export demand on the soybean side. We're exporting a little bit of wheat. We're exporting wheat out of Europe also. So, it's a little hard to say, David, but I can't argue with your thinking.

David Driscoll - ***Citigroup - Analyst***

One final question on this is just the idea that, with such a late harvest, we really don't have great historical precedent for where we are right now. I am concerned that we actually see yield degradation because of the lateness and because of the moisture levels. There's two separate issues here going on. Soy with the moisture and corn with the lateness of the harvest and maturity problems. Would you generally agree here that the bias for prices, and this goes to your LIFO accounting, the bias for prices is up, just given this odd situation with the lateness of harvest?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

No, we have so many factors. The South American crop, we have great weather conditions right now. Plantings are going very well. So, I think the market will start focusing on how the South American weather is, as opposed to the US. And right now, the weather forecast looks very good. We'll harvest the crop and still have very good volumes.

David Driscoll - ***Citigroup - Analyst***

Great.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

And I would also mention that we've added additional drying capacity, preparing for this crop at eight different locations. So, that should also help from the moisture perspective.

David Driscoll - ***Citigroup - Analyst***

I have no concept of how significant that revenue stream could be. You've called it out a number of times. So, am I right in assuming that this is a material number on drying revenues?

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

I might not use the word "material" but it's significant to the network, being able to operate and cross-operate, so to speak, at different locations.

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

And where it will help us, David, is we may be able to handle more volume, just because we've increased our drying capacity. So we may be able to bring in more corn, where the elevator down the road may not be able to handle it.

David Driscoll - ***Citigroup - Analyst***

That's very helpful. Thank you.

Operator

Our next question comes from the line of Ken Zaslow of BMO Capital Markets. Please proceed.

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Ken Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone. Over the last three years, ADM has spent somewhere more than $4 billion in CapEx and PP&E has gone up by about $2.5 billion -- almost $2.4 billion. Can you talk about your return expectations and what is the timing of this? Because this seems to be something, with all this spending coming in down the pike, are we going to start to see the power of earnings a little bit better? I know everybody wants to talk about the near-term crop but could we talk about a little bit further out and how your return on investments are going?

Steve Mills - *Archer Daniels Midland Company - CFO*

That's a great question, Ken. And the timing of your question is excellent because the majority of that capital spending is on the cusp of coming online. As Pat mentioned, the Clinton cogen has started up and the Columbus ethanol and cogen are just getting started. And the other big plants are coming here over next six-month period, I think, except for Cedar Rapids, which we've got a little farther outlying. So, I think the question of turning this pre-productive capital into the returns that we expect is right here and now. And we're expecting to start seeing those benefits in the very short term, especially, as we look at positive margins in a variety of these areas.

Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

And I might add to that, too, that once all these sort of big seven get up and running, we thought we'd do a look back, so to speak, for you, as well. So, you can actually be able to see the earnings trail, as well as potentially some of the returns associated with that. And they all won't be in place for another year and running consistently but I think those are good questions. And over the long term, we should be able to see this capital investment perform for us.

Ken Zaslow - *BMO Capital Markets - Analyst*

Let me just kind of make sure I understand this. So the majority of the returns, you have not realized in your numbers yet?

Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

That's right. They're just -- in fact, there's plants starting up this week, as we said.

Ken Zaslow - *BMO Capital Markets - Analyst*

And then, is it fair to say that calendar '10 and again, not fiscal, but calendar '10, you should start to see some returns, hopefully, closer to your historical rate on this investment? Is that a fair thought?

Steve Mills - *Archer Daniels Midland Company - CFO*

I think there's two points there, Ken. One is, we are getting these plants started up, which almost by definition, they're big plants, they take a little time to get up and running. I think on the bigger question of; What those returns will show? It's somewhat is going to be dependent on the market conditions. And we think that these assets will get the returns over a period of time. We're going to have to see what the market conditions are when we get them, as to when they get turned on, as we move through the calendar here. I think the other point I wanted to make was, we have, as always, we've been spending some money all along and those returns get put into the mix. But as we've said, the major projects are on their way.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. The second question I have or probably third question, if you add them up properly. The other business, wheat, can you talk about, is this -- not unlike your other business but this happens to be very volatile as well. Is there a steady state that we've reached or is this something that next

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quarter could be back down to what we had last quarter? Is there something that has structurally improved? Is there something that we should be using, this type of quarterly number going forward? Can you give us a little color on actually what happened?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Well, we've just went through harvest in wheat. And this year, we are seeing a little bit lower protein, so we'll have to be -- our transportation system will have to move wheat from different parts of the country to be able to make the quality. But we are not -- we're seeing steady demand in the last two years, I'd say, in wheat, in the flour business.

Steve Mills - ***Archer Daniels Midland Company - CFO***

Well, I think the other piece of that is cocoa. Well, there's two other pieces. One, we've had Gruma in the mix there. Of course, we've had the issues with Gruma's derivative losses over the last year. It was encouraging to see a better result this quarter. As we have again stated about Gruma, their underlying business has been performing well. The other large component to other is cocoa processing. And cocoa, at this point in time, is in the midst of some relatively difficult conditions. Demand is down and we've seen -- especially on the chocolate side, as both high cocoa prices and high sugar prices have impacted that side of things. So, like our other businesses, Ken, it's hard to tell where things are going but as John pointed out, the wheat milling has been pretty consistent here as of late. Cocoa has probably a little more -- we need conditions to improve there. And then, Gruma has bottomed out from the derivative losses and we're back to something normal.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Is there any part of the business that's getting worse? That's my question.

Steve Mills - ***Archer Daniels Midland Company - CFO***

I don't think it's getting worse. But again, that's kind of the nature of the business, especially -- I don't want to oversell the fact that the cocoa demand is down and that it's having a little more difficulty in that market space.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Great. I appreciate it. Thank you.

Operator

Our next question comes from the line of Christina McGlone from Deutsche Bank. Please proceed.

Christina McGlone - ***Deutsche Bank Securities - Analyst***

Thank you, good morning. John, you talked about before pretty high capacity utilization in oilseeds in North America because of the tightness in South America. And I'm wondering, we're hearing reports about basically the soybean meal kind of getting stuck in facilities because it's so wet. Is that slowing things down? Does that alter the quality and the moisture content of the crop? Does that alter your view about high levels of utilization?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

No, I haven't heard that myself. When you process, even if the beans come in wet, through the dryings, the DTDC, you'll end up taking the meal moisture down to whatever is in the specifications. So, just because you have a wet crop doesn't necessarily mean the products coming out will be any wetter.

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Christina McGlone - ***Deutsche Bank Securities - Analyst***

Okay, so utilization levels still should be as high as you were talking about before?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

I think utilization levels, we're seeing very good export interest on protein demand right now. And I think as long as the South American Argentine crush is lower than expectations, I think the US will to have run at higher capacities just to offset the deficit in South America.

Christina McGlone - ***Deutsche Bank Securities - Analyst***

Okay, thank you. And then in terms of bioproducts, the loss in the quarter, you mentioned industrial chemicals start-up costs in sugar business. I'm curious, are those start-up costs done or do they spill into the fiscal second quarter? And is the industrial chemical business, is that the PHA or is that ethylene glycol? Can you just give more information about that?

Steve Mills - ***Archer Daniels Midland Company - CFO***

I think the answer to all those questions was, yes. I'll try to repeat them. The industrial chemical business is in start-up mode. We believe the factories will be producing products here in the first calendar quarter of the new year, right as we move over into calendar '10. So, propylene and ethylene glycol. I think PHA is in that same time frame. So, that's the industrial chemical side. Sugar is just getting started as we speak and it's going to -- it takes awhile to get that ramped up as well. So, we expect those to take a bit of time to get fleshed out.

Christina McGlone - ***Deutsche Bank Securities - Analyst***

So, will start-up costs then spill over into this fiscal second quarter? Are we --?

Steve Mills - ***Archer Daniels Midland Company - CFO***

Yes.

Christina McGlone - ***Deutsche Bank Securities - Analyst***

Will we see what ethanol -- you said ethanol margins are positive. And will we be able to see that or will they be masked by these start-up costs again?

Steve Mills - ***Archer Daniels Midland Company - CFO***

Well, we'll have to see. We're encouraged by where ethanol margins have gone and we'll just to have see where they end up.

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Christina, one thing I just want to remind everybody, we do charge our ethanol division and our bioproducts division an up-charge for their corn or dextrose that they use.

Christina McGlone - ***Deutsche Bank Securities - Analyst***

Okay. And then, just last question. Steve, it looks like Wilmar pulled the Chinese IPO. So, can you talk about what that means for ADM in terms of cash flow and anything else?

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Steve Mills - *Archer Daniels Midland Company - CFO*

You're right, they pulled their IPO. And it's not going to have any impact to our cash flows at all. And Wilmar, you can -- I'd ask you to look at Wilmar's comments on that. But it has no impact on our cash flows here.

Christina McGlone - *Deutsche Bank Securities - Analyst*

Weren't there tax implications associated with monetizing that or is that different?

Steve Mills - *Archer Daniels Midland Company - CFO*

That's different. It's a different issue. That tax issue relates to ADM's ownership of Wilmar's shares and the reorganization of that ownership. So, it's different than Wilmar's Chinese IPO.

Christina McGlone - *Deutsche Bank Securities - Analyst*

Okay, thank you.

Operator

And our next question comes from the line of Diane Geissler from CLFA. Please proceed.

Diane Geissler - *Calyon Securities - Analyst*

Good morning. I'm glad you brought up basis. You brought it up twice with regard to the oilseeds results year over year and then with regard to just the crop in general. Could you talk -- I just sort of have this picture of the crop, we get a dry spell, the crop kind of comes in all at once. You have the capacity to handle more of it than, say, the elevator down the road, as you termed it. What should we be looking for in terms of basis potential in the December quarter?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

That's a good question. It's hard to say just because of how the crop has been harvested. The US had a very good book of soybeans, starting in September, shipments out of the United States. So we are a little bit behind. So, I don't know if we'll ever see that real harvest pressure that we usually saw in the past years. But the basis levels could actually just be higher this year, as opposed to normal years, which still gives us some ability on the basis. But right now, it's just a little bit hard to say, just because of the way harvest is becoming.

Diane Geissler - *Calyon Securities - Analyst*

Okay. Anything particular to corn?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

Corn is the same way. We have spot areas in the country, like I mentioned here in Decatur, where we've had a lot of rain. We've had to ship in corn from other places. Then, you get out to Nebraska and the harvest has come on very well. But with our transportation network, it really helps us with logistics and we're able to handle these markets a lot better.

Diane Geissler - *Calyon Securities - Analyst*

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Okay, appreciate the commentary. And then, on the fructose pricing, you mentioned you were about 50% done on contracts for next year. Can you remind us where you were this time last year?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

I can't, because I can't remember, sorry.

Diane Geissler - ***Calyon Securities - Analyst***

Neither can I, which is why I asked.

Steve Mills - ***Archer Daniels Midland Company - CFO***

None of us sitting here can specifically recall.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

We'll have to look back on that one for you, Diane.

Diane Geissler - ***Calyon Securities - Analyst***

Okay. What's behind that question is do you think that certain manufacturers are holding back, waiting to see what happens with the crop? It's always a game between; What price do you give me versus can I buy it myself and have you toll it? And I play the numbers game internally. So, how does the lateness of the crop affect that dynamic within the discussions?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Well, when we saw corn down in the low $3, we saw more interest. When corn rallied up to $4, people started to sit back and not have as much interest in booking next year. And corn fell back to the $3.50. So, I think it's more of a price issue and how they actually see the crop coming.

Diane Geissler - ***Calyon Securities - Analyst***

Okay and do you -- how does demand relate to that? Because obviously, the carbonated soft drinks, demand has been down there. Is it just a waiting game? They're waiting until the absolute last moment to contract?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

I don't know how to answer that because each customer is different on what they're looking at what they have budgeted. What they're looking for next year's demand. So, I think each company is different. So, I don't know what else to say.

Diane Geissler - ***Calyon Securities - Analyst***

Okay, fair enough. And then, maybe for Pat, just to piggyback on Ken's CapEx questions. You're going to finish your projects this year and then, you're going to have an incredible amount of cash flow. You're going to be throwing off cash if the projects start returning the way they should be returning. What is your strategic -- what are you going to do with that?

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

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Well, it's about growth and earnings growth, Diane. So, we will continue to look at opportunities to fill in our global footprint, as we've talked about adding to that global footprint, which we've done incrementally here. But we continue to believe that growth in this business and adding to ADM's network is critically important for the shareholder to get that value. And so, we will continue to look for profitable growth.

Diane Geissler - ***Calyon Securities - Analyst***

Okay. Is fair to assume that you're not going to have seven large projects going on simultaneously?

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

I think that's not only fair but there's always the opportunity of build versus buy and incrementally adding to your capacity where it makes sense to do so. But I think we've done our major big seven here. And I don't think you'd find that necessarily in the future but could you find some opportunities for sizable growth.

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Okay, fair enough, thank you.

Operator

And our next question comes from the line of Robert Moskow from Credit Suisse. Please proceed.

Robert Moskow - ***Credit Suisse - Analyst***

Hi, thank you. Can I just clarify, you said that the start-up costs in industrial chemicals and sugar impacted your bioproducts profits on the quarter. Is that true?

Steve Mills - ***Archer Daniels Midland Company - CFO***

That's true.

Robert Moskow - ***Credit Suisse - Analyst***

And that's because of this charge-back on glycol or starch or whatever it is in bioproducts?

Steve Mills - ***Archer Daniels Midland Company - CFO***

No, that's two different subjects. We have start-up costs on the industrial chemicals and the sugar. The comment --.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

These are new projects.

Steve Mills - ***Archer Daniels Midland Company - CFO***

These are new projects. The comment that John made regarding the up-charge is that the sweeteners and starch group is where we begin most all of the grind for the corn division. And we sell the dextrose over to the bioproducts group and the various products in there, with an up-charge. So, you look at the whole corn processing P&L, it's not an impact. But sweeteners and starches get a benefit from the dextrose that's used by the products made in the bioproducts group, including ethanol.

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Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

Rob, just for clarity again, we'll repeat. Two of those major seven projects are industrial chemicals projects, the PHA plant and the propylene ethylene glycol plant. So, it's the start-up on those two plants that Steve referred to, that are in the bioproducts segment.

Robert Moskow - *Credit Suisse - Analyst*

Okay. So, the Columbus, Nebraska start-up was not one of those that you mentioned. So no incremental start-up costs there?

Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

Yes it has as well. But of course, that's an ethanol plant, which I think is not considered industrial chemicals. But it, of course, is an industrial plant and there were start-up costs for that plant in that segment this quarter as well, yes.

Steve Mills - *Archer Daniels Midland Company - CFO*

That's a good point.

Robert Moskow - *Credit Suisse - Analyst*

Okay, so that was the third element. The reason I ask is, I was a little surprised to see the number as a negative in the quarter. Valero reported positive profits in the quarter, about $0.20 a gallon in dry milling ethanol. And I have always considered ADM to have a cost advantage and a logistics advantage to other ethanol producers. And I know the spot margins didn't look that great in the quarter and they are getting better but can you give us a little more evidence, that in that future quarters, that your margins in ethanol should be better than your competition, like a Valero? Especially, since you're wet milling, too. I always thought wet milling was just structurally higher in margins.

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

The ethanol business is profitable. It's just the transfer pricing on how that gets accounted, which makes it a little difficult for us to be able to show what the profitability. Steve?

Steve Mills - *Archer Daniels Midland Company - CFO*

Well, and I think to John's point, there's a couple things. One, are the other products that we do run through bioproducts, including lysine and these other products. And as John pointed out, it's not always going to be apples-and-apples with our competitors because of the transfer pricing between sweeteners and starches and ethanol. It's safe to say that ethanol, on the ongoing business for us, during the quarter, was profitable.

Robert Moskow - *Credit Suisse - Analyst*

So, is this just -- I thought, actually, that going forward because your hedges had kind of rolled over, that spot margins in ethanol would be a better reflection of how you're doing in the ethanol business. But it sounds like this transfer pricing is always going to be an issue. Is it -- when -- under what conditions should we think that transfer pricing might actually be a positive to your bioproducts division compared to others or will it ever be?

Steve Mills - *Archer Daniels Midland Company - CFO*

It would it never be under this context because the way we account for that is that there is a mark-up on the dextrose that comes from sweeteners and starches. It doesn't have anything to do, necessarily, with the corn. It's for the manufacturing costs to produce the dextrose.

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John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

And it's sold over at a market price.

Robert Moskow - *Credit Suisse - Analyst*

Okay. So your advice to us is look at the spot margin, certainly directionally, but don't take it as gospel for what you're going to be able to report?

Steve Mills - *Archer Daniels Midland Company - CFO*

We're consistent on how we handle it internally. So, as we trend, that will appear in our results.

Robert Moskow - *Credit Suisse - Analyst*

Okay. And then just lastly, if could I hit on David Driscoll's point about the possibility of revenue getting pushed out in the agricultural services division. It just seems, intuitively, that if we have a later crop, that means revenues come in later as well and profits come in later as well. So I thought the quarter in ag services was very good in terms of profits. And so, why shouldn't we expect profits to continue to rise and momentum to continue to rise there, since it's a later crop?

Steve Mills - *Archer Daniels Midland Company - CFO*

Well, I think handling the logical answer to that is that, the later it comes in, the more push-back the actual handling of those particular -- the handling part of that particular commodity will happen. We're trading commodities each and every day and that's going to have an impact on that P&L, as well, as we trade around the asset base that we have. So, as we've said, there's a lot of moving parts in ag services and --.

Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

But I might build on that, Rob. This is exactly what we do for a living. We deal with this every day, every quarter. And if it takes a couple quarters to get a crop in, it does so. It's what we do. It's what the good people of ADM do every day. And I think ag services is always one of those areas that's hard to talk about typical. And I know that can be difficult for you but it's what we do.

Robert Moskow - *Credit Suisse - Analyst*

You do a good job.

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

One thing I would like to add, this also has to do with when we actually sell the crop. So, if we're buying it later, even though we may not sell it until March, we won't realize that revenue until March.

Robert Moskow - *Credit Suisse - Analyst*

Okay. Well, it seems like you're doing a good job of it in the quarter. I'm going to assume that you keep doing a good job of it. So, congrats on the quarter. Thank you.

Steve Mills - *Archer Daniels Midland Company - CFO*

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Thanks, Rob.

Operator

And our next question comes from the line of Ian Horowitz from Rafferty Capital. Please proceed.

Ian Horowitz - ***Rafferty Capital - Analyst***

Good morning, everyone. Just a quick question, sort off of Rob's question. John, when do we get to the point where the farmers kind of hold back on the harvest or are unable to harvest and really delay harvest into kind of the calendar first quarter?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

If we keep getting a lot more rain, that can keep the farmers out of the field, snow. But right now, I don't -- just looking at the forecast, it's kind of amazing how quickly the farmers are getting the crop out of the field. And like I said, they started here yesterday and if they take it into December and January but we did that last year, up in North Dakota. We saw snow in the fields and they ended up harvesting some corn in March. So I don't know if it ever gets to the point where we don't take the crop out of the field.

Ian Horowitz - ***Rafferty Capital - Analyst***

Great. We're not at the -- like the give up point yet in terms of a fall harvest?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

No, not at all.

Steve Mills - ***Archer Daniels Midland Company - CFO***

We haven't seen conditions like this in a long, long time. The other piece with the wet crop that we're having here, it is going to need to be dried and it probably gives the farmer less flexibility for -- on farm storage and other. So, there's going to come incentive for them to get in and get it moved.

Ian Horowitz - ***Rafferty Capital - Analyst***

Okay, great. And then, Diane and Ken both asked about expanding the footprint with the cash flow. Pat, do you see -- are you looking at specific business lines or any holes where you would like to focus more than others? The recent transactions have kind of been all over the map, both in terms of business lines, as well as geographies. Is there somewhere that we should be focusing on going forward?

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Well, it's a good question. We've talked about eastern Europe being a set of geographies that we continue to have desire to grow. And I think two of our acquisitions there, in both the Czech Republic and southeastern Germany, have helped with that footprint as well. Certainly, South America, as many of our discussions have relayed to both Paraguay, Brazil building out some of both our origination and additional processing in our biofuels business there. Adding to our biodiesel business with sugar ethanol. So, South America remains a geography that has continued promise for growth. And then, overall global network, so to speak, our transportation network, even our addition of capacity of owned ocean going vessels, at the right prices and so forth, add for an efficiency aspect to our business that will continue to be global there.

Ian Horowitz - ***Rafferty Capital - Analyst***

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Okay. And another, I'm kind of jumping all over the map, but do you expect the PHA facility to be commercial in calendar first quarter? Did I hear that right?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

We are testing the equipment as we speak now and we plan to have the fermentation running late part of December. And finishing part of the plant, probably first part of January.

Ian Horowitz - ***Rafferty Capital - Analyst***

And product moving out when?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Hopefully, by the middle to end of January then.

Ian Horowitz - ***Rafferty Capital - Analyst***

Okay. And then, one last question and I'll kind of get back in queue, if there's a queue left. You mentioned weakness in the South American fertilizer business. I though this isn't a very large business for you but can you give more color on that? Do you see any kind of progress being made down there? Is it still a pretty difficult environment?

Steve Mills - ***Archer Daniels Midland Company - CFO***

I'll start. First of all, fertilizer is used by ADM in South America as one of its origination tools. It helps with our relationship with the farmer. We're blenders. We don't go back any farther in the chain than that. We do buy it in and blend it. It was profitable for us in the quarter, fertilizer was but there was a significant drop in pricing and it's almost -- we're almost inherently long, to a point it's hard to be completely out. And that's had an impact on the results but it's not a huge part of our business.

Ian Horowitz - ***Rafferty Capital - Analyst***

Right. Okay. Actually, John, one last question. As we get to calendar 2010, the ethanol environment looks fairly positive from a producer side and strained from a supply side. We've talked in the past about 2010 being satisfied, pretty much, from a physical market rather than a credit and physical standpoint. First of all, do you see that still happening? Second of all, should we expect kind of a November/December rush in demand as discretionary blend remains positive, so that downstream blenders can get to good inventories as we go into the new mandate?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Well, overall gasoline demand will have an effect on this also. But with the increased RFS, with California blending to 10% and with the plants that we see coming online, including our own, we feel we're going to be fairly close to balance with supply and demand. Now, right now you can have a very good spot margin in ethanol but if you go out two months, you don't have any margin. So, it's really a spot business right now. Corn and energy prices are also going to have a big impact on this. But right now, I think the supply and demand look to be fairly well balanced into 2010. And we've seen some export interest here in the last couple of weeks.

Ian Horowitz - ***Rafferty Capital - Analyst***

When you say "in balance," you mean physically in balance. And so, we're not going to have the [RIN] overhang in 2010 like we did?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

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Well, we'll still have this RIN overhang. You can carry up to 20%, which would be 2.5 billion gallons. But I don't think people will use those as long as the economics are for blending.

Ian Horowitz - ***Rafferty Capital - Analyst***

Right. Do you think that there was that much excess capacity in the system in 2009 to generate the RIN's to be available for 2010?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

Well, a RIN is created just when they use the blending.

Ian Horowitz - ***Rafferty Capital - Analyst***

Right. An excess RIN, though. Did we blend that far over the RFS to create a RIN that could be traded?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

I don't know the exact numbers on that.

Ian Horowitz - ***Rafferty Capital - Analyst***

Okay, thanks a lot.

Operator

And our next question comes from the line of Bryan Spillane from Bank of America. Please proceed.

Bryan Spillane - ***Bank of America Securities-Merrill Lynch - Analyst***

Good morning. Just two follow-up questions. One, and I may have missed this, but with all the questions around the start-up costs in the chemicals business, did you actually give a number of just how much the start-up costs actually were in the quarter?

Steve Mills - ***Archer Daniels Midland Company - CFO***

No, we didn't break it out.

Bryan Spillane - ***Bank of America Securities-Merrill Lynch - Analyst***

Okay, do you have a number?

Steve Mills - ***Archer Daniels Midland Company - CFO***

Well, in our books and records, we're going to have numbers that we're expending in all of our facilities but it's not something that we're going disclose.

Bryan Spillane - ***Bank of America Securities-Merrill Lynch - Analyst***

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Okay, all right, thanks. And then just a follow-up on the last question. In terms of if the ethanol industry is profitable and the margin outlook gets better, is there potential that you'll see excess capacity or idle capacity come back online? Have you seen any signs of that? And is that something we should think about for 2010?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

The potential is there, just because we have idle plants. The problem gets to be is to buy corn today, you can't sell it until seven, eight days from now. You cannot lock in that margin. It's really a spot driven margin. So, it's very tough for a small, new ethanol plant to buy corn and lock in any type of margin.

Bryan Spillane - ***Bank of America Securities-Merrill Lynch - Analyst***

Okay, all right, thank you.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Thank you, Bryan.

Operator

(Operator Instructions) And our next question comes from the line of David Driscoll from Citi Investment Research. Please proceed.

David Driscoll - ***Citigroup - Analyst***

Thanks for taking the follow-up. It's on the corn processing and ethanol outlook. John, in the past, you've given numbers on idle capacity. Do you have an estimate for industry idle capacity currently?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

No, I do not.

David Driscoll - ***Citigroup - Analyst***

How about new capacity coming online in the next 12 months?

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

We'll have to get back to you on that one. We have it but I just don't know it off the top of my head, I don't think. Unless -- just a second here.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Yes, we have that, David. And in fact, I think the best Website that actually has a lot of the current information on both production capacity and idle capacity and those under construction is on the RFA Website. I think my notes have that that Website shows 11.5 billion to 12 billion gallons online. 1 billion to 1.5 billion gallons idled. And the same 1 billion to 1.5 billion potentially under construction.

David Driscoll - ***Citigroup - Analyst***

Yes, thank you. I wasn't actually sure if you guys made your own estimates. I'm very familiar with that particular site. My addition on this would then say that there is nearly 2 billion gallons of capacity that is very close to coming onstream. The idle capacity, plus the new capacity. I think

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you guys are going to bring 550 million gallons yourself online within the next six or so months. The ultimate question just comes down to, how do you have confidence in the current spot margins with this level of capacity coming online in a relatively short period of time and with the mandate at just 12 billion for calendar '10? Any comments there, Pat?

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Well, two things. One is, and you heard us comment about we believe in scale and the size. We believe our cost efficient plants again, colocated with our wet mill, have both the infrastructure, the corn buying power, et cetera, to be able to be very cost efficient plants. So while our numbers are at plants that are under construction were likely included that in set of under construction that I gave you. As we noted, Columbus came on this quarter and the second plant won't be until about August of 2010. So, about a little less than a year from now. So that time frame, we think, makes sense and we do have confidence in our ability to be cost efficient. The markets will move the way the markets move but we believe the balance kind of that is in place now, so to speak, and what barriers to start-up and/or certainly much new construction is there to kind of make a balance -- for a balanced market next year.

David Driscoll - ***Citigroup - Analyst***

Okay, I'll leave it there and I suppose we'll see how the margins trend. Thank you very much.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Thank you, David.

Operator

Our next question comes from the line of Christine McCracken from Cleveland Research. Please proceed.

Christine McCracken - ***Cleveland Research Company - Analyst***

Yes, just one obvious question that would help maybe clear some things up. On the EPA decision that's expected here in a month or so, there's been some speculation that will be pushed out. Just where is -- what do you think might happen and how might that effect overall demand?

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Well, I think you're talking about the increased blend levels, Christine?

Christine McCracken - ***Cleveland Research Company - Analyst***

Correct.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

It is expected that those -- that comment from the EPA would come on December 1. We're hopeful or I would even say optimistic, that while we may not get to a 15% blend with their commentary, we very well may get to 12% on our way to 15%. And what timing that might be, industry kind of discussion seems to be around the early part of next year, maybe March or so, to have that underway.

Christine McCracken - ***Cleveland Research Company - Analyst***

So you don't expect a decision by the December 1 deadline?

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Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

There may be a comment but, again, the decision maybe not effective until March of next year. So, we're just not sure about the December date. We have more confidence in what would be said when the EPA makes a statement.

Christine McCracken - *Cleveland Research Company - Analyst*

Great, thanks.

Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

Thank you.

Operator

And our next question comes from the line of Vincent Andrews from Morgan Stanley. Please proceed.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks very much for taking the follow up. John, in answering Bryan's question, you mentioned that you were starting to see some export demand for ethanol. Could you just qualify what that is for us?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

In terms of what?

Vincent Andrews - *Morgan Stanley - Analyst*

Where is it going? Who wants it?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

Well, right now, it's going to different traders around and we're selling it on an FOB basis. So, we don't know for sure the destinations.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Let me ask you kind of a hypothetical. The economics make sense, given where sugar prices are in Brazil, to actually export ethanol from the US to Brazil.

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

The economics, yes, would lead you to that. Could lead to you that.

Vincent Andrews - *Morgan Stanley - Analyst*

Could lead you to that. Okay, thanks so much.

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

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Other markets, Indy and Africa and other people around the world too.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, thanks.

Operator

Our next question comes from the line of Ian Horowitz from Rafferty Capital. Please proceed.

Ian Horowitz - ***Rafferty Capital - Analyst***

Thanks for the follow-up. Just a quick question. And I just don't have my calendar in front of me. The Hazleton cocoa plant, is that up and running now?

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

It started up in phases, Ian. So, the first and second phase are in completion and we've also consolidated some of our operations into Hazleton.

John Rice - ***Archer Daniels Midland Company - EVP Commercial & Production***

It will be March of next year before it will be fully operational. We have two plants that we are in the process of shutting down, older facilities on the East Coast.

Ian Horowitz - ***Rafferty Capital - Analyst***

So will we see continued start-up expense through the cocoa line through the calendar first quarter?

Steve Mills - ***Archer Daniels Midland Company - CFO***

Of some shape or form, yes.

Ian Horowitz - ***Rafferty Capital - Analyst***

Okay. And then, can you just comment, we've seen kind of weakness in this division for awhile. I'm not very familiar with the cocoa market. Can you just give us a little color on -- is this a macro weakness or is this weakness relative to your geographies or your markets? What's going on in the cocoa business?

Steve Mills - ***Archer Daniels Midland Company - CFO***

Well, primarily it's a macro issue. Demand for products derived from cocoa is down, whether it be chocolate, specifically, or other products coming out of the cocoa stream. So, as in many of our other businesses, there's a supply demand balance that you're always trying to work towards and we're out of skew right now.

Ian Horowitz - ***Rafferty Capital - Analyst***

Is it just trending with kind of macro consumption trends or is there some sort of substitution event going on that's above and beyond?

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Steve Mills - *Archer Daniels Midland Company - CFO*

Ian, there's two pieces to that. One, is that there's just the global weakness and the recession has -- there used to be an old adage that chocolate was recession proof but it's been proven not to be this time. So, that's part of the equation. The other equation is that we've seen some historically high input costs now for cocoa and for sugar, which have impacted the chocolate manufacturers. Which then, in turn, look where possible where they could make substitutions. So, there's really several things at work here that are holding this group down some.

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

Plus you have a little bit of overcapacity. We've added a plant in Ghana. Cargill has added. [Varicalobal] has added a little bit of capacity. So, we do have a little bit of overcapacity issue in the market right now, too.

Ian Horowitz - *Rafferty Capital - Analyst*

And you would expect that some sort of global recovery would kind of suck up that excess capacity?

Steve Mills - *Archer Daniels Midland Company - CFO*

Well, I think there's two pieces to that. One is, global recovery certainly will help. The second one, as you see is that prices will start to come back down and that should or could help. And then, to the extent that processors struggle, you never know how they'll react to the low margins over a long time. And we've seen over the years, eventually, things get back in balance. It's a matter of time.

Ian Horowitz - *Rafferty Capital - Analyst*

Okay. And then, a little bit of a question back on the ethanol. I think, John, you mentioned it's kind of difficult for a small producer to lock in margins, a start-up producer, for ethanol spreads. You didn't mention it directly but can you talk a little bit about working capital demands right now at these input prices and given the current credit environment and how that's impacting independent producers to turn these idle plants back online? Is that still a hindrance or do you think that that's freed up a bit?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

Well, I think it's still a hindrance because the banking industry has lived through, already, a couple of these smaller plants going bankrupt. So, they are looking at that. And you do need working capital in order to start up one of these plants.

Ian Horowitz - *Rafferty Capital - Analyst*

Do you think that the working capital requirements, the days of inventory, all of those different components, have they become more onerous? Several years ago, I think that the storage inventory for corn at a new ethanol plant was extremely thin. Have the banks started to require a much larger investment in that side of the business?

John Rice - *Archer Daniels Midland Company - EVP Commercial & Production*

I don't know specifically on the financing for a small ethanol plant. It's just what our customers tell us.

Ian Horowitz - *Rafferty Capital - Analyst*

Okay, thanks.

Patricia Woertz - *Archer Daniels Midland Company - Chairman and CEO*

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Thank you.

Operator

Our next question comes from the line of Robert Moskow from Credit Suisse, who had a follow-up. Please proceed.

Robert Moskow - ***Credit Suisse - Analyst***

Just all else being equal, given your asset platform in North America and South America, do we normally expect profits to be better in the first half of your fiscal year? And then just, seasonally, a little bit weaker in the second half, just in terms of the crop cycles?

Steve Mills - ***Archer Daniels Midland Company - CFO***

Well, it's a good question. And I've been looking at those numbers for 30 years looking for trends. And it's hard to predict because of the mix of businesses. There's no question that the harvest has its timing issues one to another but you throw into it the mix of all the other business that we have and the variability year to year, it's just hard to say, Rob.

Robert Moskow - ***Credit Suisse - Analyst***

So, internally over there, you're not looking at the second half of your fiscal year as being a tougher, from a seasonal perspective? You just don't look at it that way?

Steve Mills - ***Archer Daniels Midland Company - CFO***

No, not necessarily. We look at parts of our business where there are more peaks and valleys and things happen but --.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

And over the years, we've become more global. So I think your point of different businesses on somewhat different cycles is important.

Robert Moskow - ***Credit Suisse - Analyst***

Again, consensus estimates show your second half being weaker, on an EPS basis, than your first half. And yet, you're also talking the about a delayed crop crop and some of your revenue being pushed out. So, just an editorial here, so (Inaudible) --.

Steve Mills - ***Archer Daniels Midland Company - CFO***

I just think that the simple, from our end, is that the business cycles and business opportunities are just going to outweigh any seasonality that may appear.

Robert Moskow - ***Credit Suisse - Analyst***

Thanks again.

Patricia Woertz - ***Archer Daniels Midland Company - Chairman and CEO***

Thank you, Rob.

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Operator

At this time, there's no further questions. I would like to turn the presentation over to Ms. Pat Woertz for any closing remarks.

Patricia Woertz ***- Archer Daniels Midland Company - Chairman and CEO***

Okay. Well, thank you so much for all your questions today. I think slide 17 shows a couple of upcoming conferences. And I also might mention, we'll be ringing the closing bell of the New York Stock Exchange on December 3. It's in celebration of our 85 years listed on the Exchange. So, thanks very much. Everybody have a good day.

Operator

Thank you for your participation in today's conference. This concludes today's presentation. You may now disconnect and have a great day.

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