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Conference Call Transcript

ADM - Q3 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 third quarter earnings conference call. My name is Regina and II will be your operator for today. At this time all participants are in a listen-only mode. Later we will be conducting a question-and-answer session. (Operator Instructions) I would now like to turn the conference over to your host for today, Mr. Dwight Grimestad, Vice President of Investor Relations. And you may begin, sir.

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

Thank you, Regina. Good morning, and welcome to ADM's third 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 on many assumptions and factors, including availability and prices 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 event. By three list the matters we will discuss in our conference call today, and I will now turn the call over to our Chairman and Chief Executive Officer, Pat Woertz.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Thank you, Dwight, and good morning, everyone. Thank you for joining us. I will begin with safety through our third quarter. We reduced our work loss work day injury rate by 33% and our total recordable injury rate by almost 10% compared to the full year fiscal 2009. Safety remains an important priority for us.

Turning to our financial results, this morning we reported quarterly net earnings of $421 million, or $0.65 per share. In this third quarter, the ADM team did a good job managing our large flexible origination and processing network to meet global demands. On the growth front, many of our large projects are finalized and the rest are wrapping up construction. We completed this quarter a startup of our Columbus, Nebraska ethanol dry mill. We began shipments from our renewable plastics plant at Clinton, Iowa, and we are commissioning our propylene glycol plant in Decatur, Illinois.

In construction of our Cedar Rapids, Iowa ethanol dry mill is on pace to wrap up this summer. I might also note that yesterday we took to it is of a seventh ocean-going vessel, the Harvest Rising. On the policy front, the EPA is considering a request to allow increased blending of ethanol, up to E15. A positive decision on E15 would lay the framework for improved demand in the future. However, with an E15 waiver, some significant challenges to widespread adoption would remain. We believe as the RFA and others do that an increase to E11 or E12 would be an additional, easier to implement next step on the path to E15 and future higher blends. We are hopeful this is the pathway that the EPA takes. Now I'll turn the call over to Steve, who will review our financial and segment results.

Steve Mills - *Archer Daniels Midland Company - CFO*

Thanks, Pat and good morning, everyone. Turning to slide five, we list out our financial highlights for the quarter. Segment operating profit for the quarter was $696 million, up $442 million from a year ago. As a reminder, last year's segment operating profit number included a loss of $212 million, reflecting our share of currency derivative losses of our equity investee. In a few minutes, I'll review results on a segment by segment basis. Quarterly net earnings were up $418 million from last year's breakeven third quarter, and earnings per share were $0.65.

Looking at our effective income tax rate, we have reduced our estimated tax rate for the full fiscal year to approximately 27% based upon a more favorable outlook of geographic mix earning. Therefore, we reduced our tax rate for the quarter to about 22% to bring the year-to-date rate into line. Last year's extremely high tax rate for the quarter included a $97 million deferred tax charge related to changes in the Holding Company's structure of our equity investee, Wilmar. As you can see from the waterfall chart for the quarter on the bottom left of the page, we have called out a couple of items. This quarter, we incurred an after tax charge of about $47 million, or $0.07 per share related to our recent long-term debt repurchase where we bought back $500 million in higher interest bonds. Based on current assumptions, this buyback will save ADM about $0.01 a share after tax each quarter ongoing (inaudible). LIFO had a positive impact this quarter of $27 million after tax, or approximately $0.04 per share due to falling commodity prices (inaudible). Turning to slide six, slide six shows the quarter and year-to-date summary of our operating profit by segment. You'll note that for the quarter, each of our segments showed an increase in operating profit.

Let's turn to slide seven to begin a review of each segment in greater detail. We'll start with Oilseeds processing. Oilseeds operating profit this quarter was $405 million, up significantly from last year's third quarter operating profit of $224 million. Crushing origination results increased to $272 million for the quarter. With South America having a short soybean crop last year, our North American operations were able to run at higher

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utilization rates and realized both higher volumes and margins. Globally, our crushing volumes for the quarter were up about 10% as compared to last year's quarter with North America operations accounting for more than half of that increase. Volumes in Europe were also up, principally due to acquisitions over the last 12 months. Refining packaging and biodiesel results increased $14 million to $66 million for the quarter. Improved demand for biodiesel in Europe and South America helped drive these improved results.

Oilseeds results in Asia were $67 million for the quarter as we continue to see strong performance from our equity investee, Wilmar International, Limited. And last year's third quarter had a gain of $18 million in it related to a sale of an equity investment. Oilseeds crop update, the March 31 USDA planning intentions report show that US farmers expected to plant 78.1 million acres of soybean in 2010, up from 77.5 million acres planted in 2009. After harvesting the largest US soybean crop in history, this year's projected US carryout of 190 million bushels looks as though it will be relatively tight. This year's soybean crop in South America is projected to be a record 131.8 million metric tons, up 35.5 million metric tons from last year's harvest. Harvesting in Brazil is nearly complete while the harvest in Argentina is about 75% done. With this harvest, there should be an ample supply of soybeans to meet global demand.

Looking at current market conditions, the North American soy crush rate is slowing while the crush rate in South America increases as the crop is harvested. Global protein meal demand is improving. For the crop year '09, 2010, industry sources project a 3% growth in global protein meal consumption. Demand is growing in Asia and South America and to a lesser extent, Europe, but is basically flat in North America. While we see growing long term demand for protein meal, in the short term, excess processing capacity relative to global demand has negatively impacted crush margins. Protein meal customers continue to be fairly cautious buyers and are operating an amount. Vegetable oil inventories in North America are growing. Food service demand remains soft, and the expiration without renewal of the US biodiesel credit has essentially shut down US biodiesel production. Biodiesel demand is strong in Brazil with that country having implemented a B5 mandate in January. And in March, Argentina implemented a B5 mandate which adds 600,000 tons of new demand. In the EU, demand is improving, especially in Spain, Italy and France.

Moving to corn processing on slide eight. For the quarter, corn processing results increased $55 million to $104 million on stronger bioproducts performance that was partially offset by weaker results from sweeteners and starches. Sweeteners and starches operating profit decreased $101 million from the prior year to $45 million. This decrease reflects lower average selling prices that were only partially offset by lower net corn cost. These corn costs for the quarter were significantly impacted by mark-to-market losses and hedge accounting in effectiveness related to corn future.

Bioproducts profit was up significantly from last year's losses due to improved ethanol margins resulting from good demand for ethanol, driven by favorable gasoline blending economics and from lower net corn cost. Bioproduct results also reflected stronger sales volumes and margins of lysine. In the quarter, bioproducts recorded about $27 million in costs related to the startup of our new plants. And from a growth update perspective, as Pat mentioned, we are finishing up our major projects. Ethanol plant is up and running. Our bioplastics plant is operating, and we are shipping products to customers, and we are commissioning our propylene ethylene glycol plant. Work on our Cedar Rapids ethanol dry mill is going well with the plant on track to start up this summer.

Looking at current crop conditions, the USDA planting intentions report on March 31 showed that US farmers expected to plant 88.8 million acres of corn in 2010, up from the 86.5 million acres planted in 2009. Corn crop for 2010 is progressing very well with 68% of the crop estimated to be planted as of May 3 compared to 32% last year and as compared to the five year average of 40%. This year's US corn crop was 13.1 billion bushels, the second largest crop on record. Projected carryout of 1.9 billion bushels is considered an ample supply to meet all needs.

Current market conditions show ethanol spot prices were about $0.10 to $0.20 below gasoline prices as we started our fiscal third quarter, but fell substantially by the end of the quarter. Ethanol prices are currently between $0.50 and $0.65 below unleaded gasoline. With the $0.45 per gallon tax credit, the blender has a significant incentive to buy additional gallons. While we are seeing some discretionary blending above the levels required by the RFS, the 10% blend restriction is limiting incremental blending, resulting in excess supply, inventory building and a challenging margin environment. The RFS calls for 12 billion gallons of ethanol in 2010 and 12.6 billion gallons in 2011. Industry sources show 12.8 billion gallons of ethanol capacity currently online, approximately one billion gallons of capacity idled and another billion gallons of capacity (inaudible). Looking at other products, lysine demand remains strong driven both by the increasing use of DDGs in the US and global markets. And in sweeteners, USCSD consumption is off slightly but as expected, increasing HFCS volumes to Mexico are helping to offset this decline.

Let's now turn to slide nine and review the operating performance of our agricultural services business segment. Ag services results were $165 million, up $44 million from last year's third quarter. In the quarter, we saw a good global supply of grains and Oilseeds and modestly improving demand. Merchandising and handling profit improved as global soybean demand was met primarily with US supply due to last year short South American crop giving us good asset utilization and margins. Earnings from our transportation operations declined on lower barge freight rates and reduced capacity utilization caused by weak demand. Current market conditions for ag services, shows that there is good global demand for

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grains and Oilseeds. Soybean exports from South America are increasing as they harvest their record crop and conversely, in North America the pace of soybean exports has slowed, but corn exports are picking up. Planting intentions indicate that US farmers are increasing both corn and soybean acres this year which bodes well at this point in time for a large harvest this fall.

Slide 10 is an operating profit analysis of our other business units. Overall profit was $22 million this quarter, up $162 million from a year ago. Our other processing businesses were up $132 million for the quarter, primarily due to the absence of last year's third quarter loss of $212 million for our share of Gruma's foreign currency derivative losses. This quarter's other processing earnings reflected improved results at our flour milling operations, and other processing earnings also included mark-to-market losses of $63 million related to certain forward sales commitments and enforced derivatives, offsetting gains we had recorded in the previous quarters. Other financial results increased $30 million due primarily to the absence of losses experienced last year, both our managed fund investments and our captive insurance operations. For current market conditions, flour production is pretty well balanced in wheat milling, and there is a good supply of wheat. And in cocoa, we have seen processing margins improving.

Turning to slide 11, which shows the major components of our corporate line, the most significant item you see here for the quarter is the $75 million charge related to our long-term debt buy back. Corporate line also reflects changes in our LIFO inventory reserves where falling commodity prices generated a credit of $43 million this quarter compared to the year ago LIFO charge of $5 million. Slide 12 shifts to the financial statement view and shows statement of earnings highlights for the quarter and nine months. Net sales and other operating income increased 2% for the quarter to $15.1 billion. Overall, average selling prices were comparable, and our volumes were up slightly due to new plants and acquisitions. Gross profit increased $242 million, or 37% this quarter, mostly due to increased segment operating profit plus the positive change in our LIFO inventory.

Selling, general and administrative expenses increased 3% to $355 million, principally due to currency translation impacts and expenses related to acquisition plans. Other expense was up $158 million for the quarter, or was reduced by $158 million this quarter, due primarily to improved results of our equity affiliate, partially offset by debt buy back charges. And I covered the changes in income taxes earlier in the call. Slide 13. On slide 13 we are comparing selective balance sheet items at March 31 against our June 2009 year end balance sheet. You can see that operating working capital has decreased approximately $1 billion for the nine months due principally to lower receivables balance. Inventories have increased compared to June, mainly due to seasonal factors and some inventory build related to our new plants and acquisitions. We continue to have no commercial paper borrowings outstanding, and a reduction in total debt reflects the $500 million of long-term debt that we purchased.

Slide 14 shows a significant items impacting our cash flows for the nine months. Cash generated from operations before the impact of changes in working capital is in line with the first nine months of last year and slightly more than $2 billion. Positive cash flow from changes in working capital were $757 million, due mainly to the decrease in receivables I just described. CapEx and acquisitions were about $1.3 billion, down from last year as the pace of spending for our large greenfield projects have slowed as we near completion of the program. Lastly, we did use some of these strong cash flows to buy back some higher interest rate long-term debt. Overall cash and cash equivalents have increased just over $600 million (inaudible) of last year.

Turning to slide 15, slide 15 provides an update of our recent financial performance using various financial return measures. This quarter, we've added a trailing four quarter return on invested capital ROIC measure to our basket of measures, shown here as the black line on the chart. We believe ROIC is more transparent measure as it is more easily calculated and it can be more easily used to compare our returns to other companies' turns, as well as being compared against our cost to capital. And as you can see, our trailing four quarter ROIC shows the same trends as RONA and ROE. Trailing four quarter returns have rebounded as our fiscal 2009 third and fourth quarters, which were negatively impacted by the global slowdown, roll out of the calculations. At this time, I'll turn the call back over to Pat, and we will be glad to take your questions.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Thank you, Steve. John Rice joins Steve and me for the Q&A. So operator, if you would please open the lines for questions.

QUESTION AND ANSWER

Operator

Certainly. (Operator Instructions) And your first question today comes from the line of Vincent Andrews with Morgan Stanley. Mr. Andrews, your line is open.

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

Thanks, and good morning, everyone. I'm probably going to have a couple of questions on the corn business, particularly the hedging and sweetener and starches. Can you just, Steve or John, help us understand a couple of things. One, what caused the hedging loss, and can you separate out the mark-to-market impact from the uneffective or ineffective hedge accounting? Help us understand what that is and perhaps tell us if any of that is going to reverse in the future? And maybe we'll start there.

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

Okay. I'll take that in pieces, and if I don't get all the answers, please re-ask. A couple of things. First of all, we use a variety of instruments to hedge our corn position, and accounting rules dictate how they are treated on a mark-to-market basis or if we're allowed hedge accounting. So we use a mixture of accounts that are brought to market and are effectively used hedges. And to complicate that even more, we have to evaluate the corn future hedges for effectiveness as defined by GAAP.

So we have got a mix of that. And in each and every quarter, we have some bit of mark-to-market, and we've had some this quarter, we had some last quarter and some in the year ago quarter. So the results that we saw, some of that will be pushed forward, and some of that is potentially offsetting some numbers from prior periods. But we won't break those out specifically just because, as you can tell already by this explanation, there's a lot of moving parts to that. But overall, it was a significant amount of the variance between last year and this year came from those types of items. Might look at sweeteners and starches in total.

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

So there's no way to get at -- if you X all that stuff out, what the underlying trend level of earnings would be in that segment?

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

I just think in general we would not have been too far off from last year's quarter once all those things wash through.

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

Okay, that's helpful. My next question relates to corn. I've heard from multiple sources that as it relates to your new plants, there's a step up initially in corn procurement cost that you are experiencing because the local market is unable to satisfy the needs of the plants at the prior prices. Is that even remotely correct?

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

I hate to say it's not somewhat remotely correct. We are always trading corn throughout different parts of the world, different parts of the area. To say that corn costs have gone up in that area just because you have new demand, that statement in itself would be true. To say that we are paying more than anybody else in the market, absolutely not.

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

I didn't mean to imply that. I just meant the -- there's a -- you are maybe paying more than you'd like -- well, the whole market is paying more than it would like to be paying. Is that fair?

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

The market is a market. All it does is move from maybe corn that was coming from eastern or western Nebraska is now going into Columbus as opposed to being shipped someplace else, and we are taking trains from another area, taking them down to the gulf our out to the west coast. So it's really more of an arbitrage than anything else.

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

Okay, well, I'll leave it there and let others ask.

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

Our model, it hasn't changed.

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

Okay. Thanks, everybody.

Operator

Your next question comes from the line of Christine McCracken.

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

Good morning.

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

Good morning.

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

Pat, I think you mentioned that you hoped EPA go to an E11 or E12 blend and clearly, that decision is coming hopefully over the late summer. Do you have an early read on whether or not you are going do face any difficulties renewing the blended tax credit at the end of the year and whether or not they are considering lowering that?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

It's a good question. I think the -- from what I understand and have talked with members of congress on both sides of the aisle and the administration, it seems like there's an understanding of the importance of ethanol to energy security, the environment, job growth et cetera. I think the renewal of the ethanol tax credit is on the horizon. I think it's not likely the extension will be approved until the latter part of the year, which is your comment. But I'm encouraged by the commentary. So we'll have to wait and see.

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

Are you worried at all with the election, the timing of the election that there could be some trouble as there has been with the biodiesel extension?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Well, I think it needs a vehicle to be extended, but as I've said, I'm optimistic that people understand the importance of it and particularly in this blend wall environment, it's important to have more ethanol used by Americans.

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Christine McCracken - *Cleveland Research Company - Analyst*

And then just on the biodiesel tax credit, it hasn't been extended, the industry is struggling, obviously. Oil demand, as you mentioned, has been down. Any chances that is we'll get that passed in this calendar year? Or what is your insight into that? It would be appreciated.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Maybe I'll start, if John wants to add to it. It's obviously less states and less volume are involved when you are talking about biodiesel, but I have still optimism that the credit will get extended if it has a vehicle, again, to link itself to.

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

And you probably read the same headlines we do on this. Right now it's maybe going to be passed by the end of May, but as Pat mentioned, it has to go on some other bill. And we thought it was going to pass earlier this year, and it just hasn't happened. So hopefully it will pass by the end of May, but we don't have any more insight than anyone else.

Christine McCracken - *Cleveland Research Company - Analyst*

Thanks.

Operator

Your next question comes from the line of Christina McGlone with Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Good morning.

Steve Mills - *Archer Daniels Midland Company - CFO*

Good morning.

Christina McGlone - *Deutsche Bank - Analyst*

Just on Oilseeds, it was a great quarter and obviously, the outlook has changed a bit. But soybean crush margins look like what we track on the cash market have come up sequentially in April and look decent. So I'm curious what the outlook is for margins, and I'm wondering if that is because utilization has fallen and so net/net, really profitability is not better. If you can just give any color on the outlook there for Oilseeds.

Steve Mills - *Archer Daniels Midland Company - CFO*

We have seen an increase in the crush margins but -- here in North America, but that has been attributed to exactly what you said. There has been a slow down in the crush. We have slowed down some of our operations. We are not exporting much protein meal or oil out of the United States right now. So I would say that's the main reason. In various places around the world, South America you are seeing lower crush margins, but all the plants are starting up and running. Europe, depending on the location and whether it's a soft seed or soybeans, crush margins seem to be holding somewhat steady in that part of the world. It hasn't dropped as much -- it dropped here in the last month, but it has come back a little bit.

Christina McGlone - *Deutsche Bank - Analyst*

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Okay, and John, do you think that the closure of the Danville facility helps crush margins? And then also, Steve talked about softness in food service for soybean oil, but we are starting to hear things picking up. Are you seeing that at all?

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

Yes, we are seeing a pick up in food service, it's up from the low. We are still not back to the levels we were experiencing two years ago, but we are seeing a little bit of a pick up in that market. Just like when we shut down any of our plants, it has an effect on the supply and demand.

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

Okay. And then turning to ethanol, the forward market has been much stronger than the prompt market. So can we -- one thing that is a certain is that Cedar Rapids is coming on, so the market has to absorb that 300 million gallons. But given the strength in the forward curve, would you say that is really not going to be an issue because demand is there?

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

The reason we have a forward curve in the ethanol market is just because there are any margins out there forward. So it's really a very thin market, and you can't sell very much into that market. And it's just really trying to set a margin out there. The business is still very, very spot.

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

Okay. And then the deal we talk about testing older vehicles, I think as part of some tier one testing, Pat, what do you think about that? I think they are going to be done by the summer of 2011. Does that mean that if they move to E15, that could potentially go to all vehicles by next year?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

First of all, until they roll, it's hard to say what the outcome will be. But I think a bifurcated system of E15 for newer vehicles and E10 for older vehicles, very complex into the market and actually would have difficulty getting much uptake. We find that only about two out of our top 10 customers would consider being first users of E15 if there was this bifurcated market. So for importantly, or as a pathway, an important pathway to get to further testing, if further testing needs to be done, we suggest an E11 or E12 on a substantially similar finding so that it can go into the entire market while the additional testing is being done for E15 and even higher implementation.

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

Okay, thank you, and last question. Can you just talk about if there's been any impact from the oil spill or what your expectations are there?

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

We have not seen any impact in shipping out of the gulf as of this morning. So there has not been any disruptions, at least on our side.

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

Okay, thank you.

Operator

Your next question comes from the line of John Roberts with Buckingham Research.

John Roberts - ***Buckingham Research - Analyst***

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Good morning.

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

Hi, John.

John Roberts - ***Buckingham Research - Analyst***

The mark-to-market losses in hedge accounting in the corn processing segment, was that only sweeteners and starches, or did that affect the ethanol operations as well? It's written as only in the sweeteners and starches paragraph.

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

Principally sweeteners and starches.

John Roberts - ***Buckingham Research - Analyst***

Why would it only be there and not affect a broader part of your corn operations?

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

Well somewhat, it's how we manage our corn risk relative to those products.

John Roberts - ***Buckingham Research - Analyst***

You manage the corn going into ethanol differently than the corn going into high-fructose corn syrup and corn oil?

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

Let me give you an example. Let's just say we sell some fructose for this year, 2010. We buy the corn, we end up taking that corn, applying that corn to that fructose contract. When the accounting rules come into play at the end of each quarter, then we have to look at whether that is an effective hedge or not. So then that gets marked up or down to the market.

John Roberts - ***Buckingham Research - Analyst***

Okay, so it's because the ethanol is more spot and the sweeteners and starches has more forward business.

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

That is one of the components. That's right, John.

John Roberts - ***Buckingham Research - Analyst***

Okay, and then secondly you had very strong processing volumes in both soy and corn year-over-year, but I think you said in your revenue comment that maybe that you were up something like 2% in total revenue volume on a volume basis. So the implication there is that a lot of the processing volume went into inventory?

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Steve Mills - *Archer Daniels Midland Company - CFO*

No, I don't think so. It's a mix of -- you go across all of the segment of price and volume, and so price was down in some of the segments and volumes were up in some. So it's really just a mix. And when you look at us on an overall basis, it comes out relatively flat.

John Roberts - *Buckingham Research - Analyst*

Okay. It just seems like a pretty big gap between the total revenue volume and what you report as processing volume.

Steve Mills - *Archer Daniels Midland Company - CFO*

Well, what we don't put in those processing volumes are the ag services, and -- which makes it a little more difficult to do those apples and apples. And we have started up some new plants and the acquisitions that we have got throughout the organization. So it's a little bit of everything.

John Roberts - *Buckingham Research - Analyst*

Okay, thank you.

Operator

You're welcome, John. Your next question comes from the line of Robert Moskow with Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Hi. Steve, I just want to make sure I understood you correctly. If we stripped out the hedging and derivatives from the high-fructose corn syrup -- sorry, the sweeteners business, you would have been roughly in line with last year? Last year it was about, on an adjusted basis, $141 million of profit. You were at $45 million this year. Is the difference that big? That sounds like a very big difference.

Steve Mills - *Archer Daniels Midland Company - CFO*

The difference was big.

Robert Moskow - *Credit Suisse - Analyst*

Okay. And can you give us just a sense of going forward, volumes in this business are -- most of us are forecasting them down a bit. Pricing is going to be down. Mexico makes up for some of it, but should we forecast a roughly single digit decline in sweeteners business once we get past all this derivatives noise?

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

I think with the shipments to Mexico, they are more than offsetting any decline we are seeing in the United States.

Robert Moskow - *Credit Suisse - Analyst*

In the volume.

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

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In the volume.

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

Do you think it's offsetting the price issue also?

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

Well, timing could be a big issue on that and whether people bought the fructose was 375 or 345. So the sales price could very. The margins are within the same range.

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

Okay, and then lastly on the bioproducts business, I've actually started forecasting losses for the next few quarters, but there's a lysine benefit in here too. So what are you really telling us about the rest of the calendar year? With ethanol prices this depressed for the calendar year and really, the EPA isn't really going to bail us out for this calendar year. Do we think that ethanol profits would be negative for the rest of the year?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

First of all, Rob, we don't, frankly, forecast. We can give you some current market conditions and a little bit of outlook on things that we have a window into. Currently, the ethanol margins are at about breakeven. So even if you forecasted -- or in your work, you may look at forecasts that look like the same or look like some opportunity for some differences. I think there's still a little bit of blending room, although you'd argue we were -- the industry is up against a blend wall there. Do you want to add to that?

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

I think talking about markets, our -- each and every plant has a little bit different cost structure, and we feel like we have got very competitive plants. Okay. I'm trying to get expectations at the right level for the rest of the year. Your stock has been weak for the last, really all year to date, and I think it has to do with maybe consensus expectations being too high, but just a point I wanted to make. Thank you.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Thanks Rob.

Operator

Your next question comes from the line of Diane Geissler with CLSA.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Good morning.

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

Good morning, Diane.

Diane Geissler - ***Credit Agricole Securities - Analyst***

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Sorry to go back around on those hedges again, but to the extent -- help me understand this. To the extent that corn prices flat line from here, you already realized the losses on your hedges in this quarter. So what does that do to margins from here on out in the sweeteners and starches?

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

I wish it were that simple. There will be a portion, a portion of that will come back in the next quarter because we do have still have some open positions. So if you go with your assumptions and if prices stayed exactly the same, we would get some of that back in our fiscal fourth quarter. As I said earlier, some of the results offset numbers from prior quarters. It's a real mixed answer, and that's why it's hard to explain. But basically, if everything stayed the same, we would get a portion of that back.

Diane Geissler - ***Credit Agricole Securities - Analyst***

And then how would that look as we head into basically, the back half of calendar 2010, which you -- correct me if I'm wrong, you price your fructose contracts on a calendar basis. So would there be a carry over into the first half of fiscal 2011 then as well? Or is it primarily a very short-term window quarter by quarter?

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

I think the answer to this, this is primarily short-term.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Okay. Alright, and then I just wanted to ask Pat, you called out the fact that a lot of your new, the greenfield CapEx is starting to come on line. Should we look at your ROIC as promulgated here on slide 15 as the best way to calculate what the accretion would be from those new assets? Or how -- what's the best way for us to look at that in terms of understanding what that will add to the income statement?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Well, we think ROIC, as Steve has mentioned, is a better way to track performance although, as you can see, the trend lines are the same no matter what return measure you use. But it's a little better way to look at the spread over weighted average cost of capital or compares more clearly to some competitor measures. So I think there is a way to think about returns in the long term being what your objective is here. The new plants are a mix. As you might recall, a mix of cost saving opportunities such as the cogeneration plants which provide more advantage cost when natural gas prices are significantly higher and run the option rerun coal in those plants to newer, longer payout projects like a bioplastics plants which would have the kinds of accretion or returns at a much longer timeframe. So there are a mix of immediate and longer term. So when you look at ROIC, while it is a measure and as we turn over the new year here, we'll probably only continue to comment maybe on ROIC, I think it is a way to look forward on these projects but just commenting that they are a mix of payout ranges.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Okay. I appreciate that. And then just on the startup costs that you called out, Steve, the $27 million. I don't remember off the top of my head what they were last quarter, but is there -- at what point do those startup costs go away?

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

Well, I think -- I'd have to look at my sheet, but I think the number was pretty comparable last quarter, and they were, I think a little over 30. Looking here, flipping here. It looks like it's $33 million last quarter. I think that sitting here where we are today, fourth quarter probably around about the same rate, just because we have got a couple of these plants that we still need to finish up. And then again, sitting here today, I would think when we get in the new fiscal year, hopefully Cedar Rapids corn is the only thing left to go and that number should drop off some and then hopefully, quickly go down to nothing.

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Diane Geissler - *Credit Agricole Securities - Analyst*

Alright. And what exactly do you include in startup costs? What falls into that bucket that drops away as you move into the next fiscal year?

Steve Mills - *Archer Daniels Midland Company - CFO*

Two pieces to that. One, as we instruct plants, not every single dollar that you spend can be capitalized and put into the fixed asset range. So we have got a section of that is the non-capitalizable cost. And then we also add into that what we call our pre-operating startup cost, to the extent that we have got some targeted production rates. So until we get the rates up to where we think they should be, we are going to take those incremental excess costs and throw that into the 27 and 28 -- $27 million here. So it's a mix, and once we get those through, then they will just go into the bottom line.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay. Great. Thank you.

Operator

Your next question comes from the line of David Driscoll with Citi Investment Research.

David Driscoll - *Citi Investment Research - Analyst*

Thanks a lot. Good morning, everyone.

Steve Mills - *Archer Daniels Midland Company - CFO*

Good morning, David.

David Driscoll - *Citi Investment Research - Analyst*

Steve, I wanted to go back to the corn hedging piece of it. I know you have gotten a lot of questions here so far, but I want to try my hand. So as I understand it, there's two components. There's the reversal of prior period gains that were happening in the quarter and then as a second topic, it's the infectiveness of hedge accounting. So the way I want to read this is that in some prior quarters you booked a bunch of gains, and now you are reversing them out because of the effect of various hedges that you have in place. So that seems pretty straightforward in terms how these things have worked.

The second piece seems more of a forward-looking issue that the infectiveness of the hedge accounting. And I want to guess -- and John or Steve, maybe you can comment, this sounds like this is a cross hedging issue where you have some piece that the accountants just simply won't let you call a hedge. It falls into another quarter which is why you said that we would see gains in another quarter but in truth, you did it to offset things that were happening this quarter. More or less, am I on the right track on this?

Steve Mills - *Archer Daniels Midland Company - CFO*

Parts of that, but I would say no in general. The one major item I want to correct is that it doesn't have anything to do with cost hedging. The accounting rules are very specific on how -- specifically, how the basis works and the effectiveness of hedging corn using corn features to hedge corn. And so when we talk about hedging effectiveness, this isn't the accountants telling us that we have some cross hedge that doesn't work. This is simply corn futures from time to time, based on the accounting rules and regs, are not considered effective. Now, we now they are effective for economic purposes, but they are not effective for accounting purposes and therefore, they don't allow you to defer the gains and losses related to those into the forward period. So that part I want to try to get to. To some to your other points, so as I said, there's a portion of that, I think when

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you started your comment I agree with, because some some of the losses. loss set gains that we've taken in prior and then some that we will, on the infectiveness side, that will get pushed forward into forward periods.

David Driscoll - ***Citi Investment Research - Analyst***

So would the net answer be right now that you've taken a number of losses that showed up in this quarter and that, again, I know that corn prices can move around, but fundamentally, the nature of what has happened here is it has pushed forward future gains.

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

A portion, yes. A portion of that. That's true.

David Driscoll - ***Citi Investment Research - Analyst***

And this is why to a number of other people you've answered the question that says that don't look at this quarter's $45 million bucks in sweeteners and starches as the normal operating profit. That is not how calendar 2010 would sort out. It would sort out much more like we have seen in prior quarters.

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

That's right.

David Driscoll - ***Citi Investment Research - Analyst***

Final question then is for John. Going back on Oilseeds, you made a number of comments regarding the capacity. Can you reconcile something for me? When I look at oil seed processing results, they have been very, very good, but I get the sense that in some of your language, you are being very cautious in this idea that we have over capacity out there. And sometimes I think that when we all listen to it, it's very hard to understand how negative that may or may not be in future periods. Are you basically saying that when we bring in the North American harvest and that additional North American capacity can compete against global capacity, that we will see a very significant contraction in crushing margins? Is that effectively what you are concerned about?

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

There's a lot to answer in there, David. But let me just try. North America, we are slowing down the crush rates. I do believe that we will have a margin like we did last summer going forward. We will not see the exports of protein and meal coming out of the United States later in the year like we saw this last year, because we have such large a South American crop. And we have more crush coming out in Argentina and Brazil, mostly Argentina. With that said, we are seeing 4% growth in protein demand. So it becomes a little bit of a timing issue.

Eventually, we will get up to that where crush capacity will not be an issue, but we have -- people have expanded crush in Canada. They have expanded crush in Argentina. So on a global basis, I feel there's a little bit of over capacity in how that all plays out, it's tough to say. But it's still very friendly long term about the whole industry. We are going to keep seeing growth in the meal and the oil demand globally, but when you start talking quarter-to-quarter, it does get a little bit tricky.

David Driscoll - ***Citi Investment Research - Analyst***

Yes, yes, Very much I understand that. I appreciate the comments. Thank you everyone.

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

Thanks, David.

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Operator

Your next question comes from the line of Bryan Spillane with Bank of America.

Bryan Spillane - ***Bank of America - Analyst***

HI, good morning.

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

Hi, Bryan.

Bryan Spillane - ***Bank of America - Analyst***

Just two questions related to ethanol. One -- I think Pat, in the answer -- in your answer to Rob Moskow's question, I think you said that the ethanol margins were breakeven and I want to clarify. Is that the industry margin, or is that ADM's margin?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

I think it's the industry margins in general.

Bryan Spillane - ***Bank of America - Analyst***

Okay, alright. And then also related to ethanol, if you go back to the second quarter and the second quarter earnings call, at that point, I think you described the ethanol market as being reasonably balanced at that point in time. I'm just curious to know from your perspective, what's changed between now and then, and are you surprised by what's changed between now and then in terms of the ethanol market?

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

I'd like to answer that question. I think what surprised me personally the most was we saw more plants startup than I would have thought would have started up. And then margin structure really isn't there. So we saw more people able to get financing. Also, the blend wall has come in, and we have not been able to expand the market as quickly as we had originally thought. Now we are expanding more in, I think it's roughly 86% of the gallons are being blended, and we are seeing a little bit more blending in Texas, a little bit more in Pennsylvania, Salt Lake City is going to start blending. But I think between those two, it was a little bit of a surprise to me, and I think the biggest one was the additional plants starting up with no real forward margin structure.

Bryan Spillane - ***Bank of America - Analyst***

And John, do you think that in terms of the extra capacity that has come on, I'm assuming that the new capacity that you are putting in is more efficient, higher margin, especially once you get through the startup costs. Where is the -- what do you think the incentives are or how difficult do you think it will be for some of these other -- some of this additional capacity that's come in to stay online? I Guess what I'm trying to say is I'm assuming there's a margin differential between what you are putting into the market versus what's been turned on by some of your competitors. And how difficult do you think will be for them to continue to operate in this environment?

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

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I hate to answer that question. It puts me in their shoes and I try to manage our business. It is a difficult environment right now with the blending wall and the additional capacity. One of those two have to be solved in order for the industry to start having better returns, I guess the best way to say that.

Bryan Spillane - ***Bank of America - Analyst***

Okay, great. Thank you.

Operator

Your next question comes from the line of Ken Zaslow with BMO Capital Markets.

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

Hey, good morning, everyone.

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

Hi, Ken.

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

Can I ask a couple of quick ones? Is ADM's margins for ethanol higher or lower than the industry?

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

We feel that we have a cost advantage to the industry. And with our global market knowledge on how we sell our byproducts, our coal products and our ability to buy and arbitrage corn, we feel -- and also with our logistics, that we feel we have a better margin than the industry.

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

I was under the impression that there's like a month to two months lag between the actual industry margins and what goes through ADM's income statement. So if there was a month or two that there were losses, would that be in this quarter, or have you already taken any of the "losses" in the industry? Whatever the bad margins were before they hit breakeven. Is that the way to think about it?

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

I don't think so, Ken. I think that the market is so spot that whatever is happening in the marketplace runs through our results pretty quickly.

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

So your bioproducts should not be the worse than this quarter. This is the bottom of the results if I look at the margins right now. Is that fair?

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

When you look at the January and February period, we had pretty good margins.

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

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When you look at March, I wasn't very happy.

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

March they -- right, margins have started to fall off a little bit, correct.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. Have you taken a step back, and I get this question a lot. If ADM did not build their two plants they -- we weren't in the state of over capacity, ethanol margins would be higher and you would have about $1 billion dollars of extra cash. Have you thought about that logic of maybe going this far that quickly with ethanol may not have been the right thing? How do you put the parameters around it?

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

We believe in this business in the long term, and I think sometimes when you are taking on new capacity and new projects, you can't be looking at it as the exact timing of a particular quarter or year when it comes on. On the way to ultimately 36 billion gallons by 2022 is what this division of the President and others are. These kinds of plants will make the difference in the longer term to have this country have more ethanol and more home grown energy. So timing is sometimes everything and it's sometimes part of the overall process. I think we're -- we really have a long-term view here, and we feel very good about the competitiveness, the location, the capability. John mentioned the capability we have surrounding all these plants. We feel very good about our logistics, our ability to buy corn. We're glad we're in the business.

Ken Zaslow - *BMO Capital Markets - Analyst*

My other question, probably more on a positive note is on ag services. If I look at the outlook for this, I know you seemed a little bit more cautious on Oilseeds that the other business. But ag services, it's setting up to be a pretty big year for the next 12 months. We have a big crop coming in. We have seemingly some China problems with corn. There seems to maybe be some dislocation. Am I missing the overarching picture here? I'm not saying quarter-to-quarter, but it seems like the next 12 months, ag services is setting up to be a pretty nice picture.

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

As we see global demand keep increasing and the outlook of the crop currently looks fantastic here in the United States. Now, we all know that can change. We can have a very large corn and soybean crop here in the United States. We have good wheat carry outs. And with global demand increasing, yes.

Ken Zaslow - *BMO Capital Markets - Analyst*

Alright, my last question. I've never made a suggestion on a call like this, but if you have any gains that are like in wheat and cocoa or any other places that would reverse out going forward or vice versa, it's very difficult in general to forecast quarterly numbers, particularly on division levels. Calling those out is definitely very helpful because the cocoa business obviously falling off. I didn't realize there was so much gains to be reversed. So it's just a suggestion. It would be helpful for modeling purposes.

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

We understand that and appreciate that. Now you have to recognize that we are not -- because so much of what we are doing here has a mark-to-market aspect to it, there's no guarantees when things will get reversed and when things will happen. You can make lots of assumptions. But we appreciate that, and we'll do our best to try to help you where we can.

Ken Zaslow - *BMO Capital Markets - Analyst*

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I do appreciate it. I'm not trying to be difficult, it's harder to model. I appreciate it.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Thanks, Ken.

Operator

Your next question comes from the line of Ian Horowitz with Rafferty Capital Markets.

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

Good morning, everyone.

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

Good morning, Ian.

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

Pat, in your prepared comments you mentioned their preference for the EPA to rule on the lower blend level, E11 or E12 rather than E15 as you saw E15 to be a challenge, add complexity. Can you explain that a little bit more in detail to me? I just -- to me it sounds like E15 would just be raising the ceiling up that much more. It's not really quite the mandate of -- the mandated level that they have to blend, but rather the maximum that could be blend. Can you tell me why an E11 or E12 of blend would be (inaudible)?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Right. Thanks for the question. You were a bit faint, so if I don't get to your question, tell me. I think you asked about why E11 or E12 is would make sense while waiting for higher tests and levels at E15. The challenge with E15 is sort of twofold.

One is there's some discussion that -- and as you might have noted from the EPA's response to the waiver request, they've talked about testing for 2001 and newer vehicles being compatible with E15, but potentially older vehicles are not. And so some sort of a bifurcated system where you had some vehicles that could use E15. There would be some challenge with the blending, the distribution system, the dispensers, the tankage, the retailers, perhaps consumers needed to be advised or warned or labeling. And that confusing sort of implementation process could lend itself to some blenders just not wanting to accept E15 going forward. So the opportunity for E11 or E12 to be much more of a smoother implementation for every 1% move in the blend wall you can get about a $1.3 billion, $1.3 billion in additional gallons.

So with smoother implementation on the way to higher blend levels, E15 and beyond could be E11 or E12 which the EPA could make a "substantially similar" finding, which means that it's substantially similar to E10. Therefore, it could be the entire fuel pool, so all used by the entire car park. So we think that implementation would be easier because it could happen faster. Just go right in the way E10 goes in. And again, if more testing is needed on E15, that would be a pathway on the way to a higher transition. Does that make sense? And did I answer your question?

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

Yes, I think so. So just to clarify, I guess the issue then really isn't the rate of blending. It's rather this bifurcation of this vehicle pool, and you just find it it would be easier or simpler for the EPA to rule on if it was a lower blend rate. In other words, if they came out and said any E whatever throughout the entire vehicle pool, you'd be completely happy with that. It's not really the percentage of blend, rather, it's the bifurcation of the market. Is that correct?

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Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Yes. If they said E15 everywhere, that would be good. The E20, E25, perhaps we should be getting into the testing of much higher levels as Brazil and other places do. But on the way to that, if they find they cannot rule on E15 for the entire car park, any increase is helpful.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Okay, I understand. And is this up for discussion right now? I haven't heard much about this.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

It is in the comments submitted by the RFA. I believe it was in July. So they also stated that it was their belief the EPA can authorize the higher blends and make this substantially similar finding. So, yes, it's been out there.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Okay. And then the billion gallons that are idled right now, John, you said you've seen -- you've been surprised that some of this capacity that has come online and been able to receive working capital financing. Can you comment on when you look at the next billion gallons of idle capacity and where you, not holding your feet to the fire on whether it gets put back on online or not, but what does this billion gallons look like?

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

I think the blend wall that we discussed earlier would have a big impact on that and how quickly does the demand increase. But under these circumstances, I can't see that additional billion gallons coming on right now, just because we are already producing more than the mandate. And until we can increase the usage rate of that, I just can't see that extra billion gallons coming online.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

So with 12-8 online right now and you your Cedar Rapids plant coming up mid summer, that gets us to about 500 million-gallons above the 2011 RFS. Again, walking into January on an over capacity basis relative to the mandate, you would see that that billion gallons of idle capacity would still be under pressure in terms of coming back online, correct?

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

Correct.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Okay, one last quick question. Not a very big piece of your business but a large piece to a partner of yours, the bioplastics facility, just to get a better understanding, is it your decision on how fast this gets put online in terms of getting to commercial capacity? Or is this a joint discussion between you and metabolics, or is it strictly metabolics' time line?

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

It is a joint discussion between metabolics and us about the timing and how quickly we ramp-up the plant.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

So it's not only operational and mechanical processes, but just also market development and their sales of the product, is that correct?

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

Correct. We have a sales plan going out forward and what we anticipate, and we'll tweak that as time goes on and how the plant runs and how customers are accepting the product.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

When will you expect to begin discussions around the second through fourth trains at that facility?

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

We are discussing it now,and we are going to the capital expenditures to bring that online. We are in the process of bringing on another fermenter as we speak here in the next six months. So we are always looking at that, but the next big step will be the next big train.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Okay, great. Thank you very much.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Thanks, Ian.

Operator

Your next question comes if the line of Ann Gurkin with Davenport.

Ann Gurkin - *Davenport & Co. - Analyst*

Good morning.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Hi Ann.

Ann Gurkin - *Davenport & Co. - Analyst*

I believe I heard in your comments that global protein demand is forecast up 3%, is that correct?

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

Yes, I think it's 3.3% or 3.4% or something like that up from what we read.

Ann Gurkin - *Davenport & Co. - Analyst*

And that's a nice improvement from what was a really cautious outlook in commentary during February. Is there something driving that? Is it across the board or is there one area that is stronger?

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

We were seeing Asia with very good growth. South America has good growth. I think Steve mentioned also, Europe we are seeing a little bit, North America is fairly flat. But I think the world economies are feeling a little bit better.

Ann Gurkin - ***Davenport & Co. - Analyst***

Okay, and then if I can get an update on switchgrass sugar ethanol, alternative opportunities. If you can give me an update as to where you are with some of that.

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

Our sugar ethanol plant will -- we are starting the early part of harvest now, and that will start up here later part of this month I think, around the 17th or the 20th. Switchgrass, we are not involved with.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Stover and some of the other projects are on stream, but I don't have any specific updates for this call.

Ann Gurkin - ***Davenport & Co. - Analyst***

Okay, that's great. Thank you.

Operator

(Operator Instructions) The next question today comes from the line of John Roberts with Buckingham Research.

John Roberts - ***Buckingham Research - Analyst***

I think you've had a debate with the rating agencies about whether the potential for stock repurchase should affect whether your convert is considered more equity like or more debt like. Have you had any updated discussions there? You bought back -- you spent over $0.5 billion in buying back debt or reducing your debt during the quarter here. It would be nice to see some equity movement too.

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

Right, John. Thank you for the question. And we normally have our annual conversation with the rating agencies in October. I plan to go out and visit them again here in the next month to revisit that very same subject and bring them up to speed with the state of our financial wherewithal and see where we can go from there.

John Roberts - ***Buckingham Research - Analyst***

Thank you.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Thanks, John.

Operator

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Your next question comes from the line of Vincent Andrews with Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks for taking the follow up. My question is, I just want to understand on going to E11 or E12, I think I understand what you are saying, that the EPA what a substantially similar ruling is. But I am unclear on how that solves the implementation issues. So have you talked -- you said two out of 10 customers don't want E15. Do 10 out of 10 customers want E11 and E12?

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Well, I think the point there, Ken, and I can't answer that specifically, but it has to do with it applies to all -- I'm sorry. It applies to all cars, all vehicles because it's substantially similar. It's just like the E10, it would go into the gasoline pool sort of unnoticed. So it would be not an implementation issue like we hear the implementation issues could be on E15.

Vincent Andrews - *Morgan Stanley - Analyst*

But aren't there liability issues, and there wouldn't be pump issues? Are you saying that ll that other stuff would be no problem with E11 or E12?

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Well, I can't comment on all that others would do. If there was a court challenge of some sort, there would be lengthier implementations and perhaps some of the same, but in fact, it would be easier, or it's assumed it would be easier because of the substantially similar in all car park applicability would be the statement.

Vincent Andrews - *Morgan Stanley - Analyst*

I guess I should -- I really, to simplify my question, what it really is is what you are saying that the benefit of E11 or E12 would be that it could be for all the cars rather than E15 would only be -- would be for certain cars, and that's what would be better about it. But there wouldn't necessarily be any differences in the issues from a liability or from a pump perspective?

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

I think -- I don't know. I'm just saying that there is -- if it's substantially similar, your comment first I would agree with. I can't comment on what others might react to, but certainly, when it's applicable to the entire car park, it flows through the system as E10 does today.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. I'll leave it there. Thanks so much.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Thank you.

Operator

Your next question comes from the line of Alec Patterson with RMC.

Alec Patterson - *RCM Global Investors - Analyst*

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RCM. Just quickly Steve, I was wondering the CapEx, the wind down, what are we looking at maybe as a longer term run rate, longer term meaning the next couple of years?

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

That's a great question. We don't have any greenfield projects on the drawing board that are even close to the magnitude of the ones we have been completing. I'm sure we'll have some of the Cedar Rapids corn plant finish up cost in 2011. And so 2011 will certainly be down from where we are at today. Historically, we've had a run rate of a normal recurring CapEx, maintenance, et cetera in the $600 million or so. Might tweak up just a tad. We are seeing it go, but then the other aspect to that is that, Alec, is that we see some of our growth or a chunk of our growth coming through M&A and acquisitions, which are a lot harder to predict when they are going to come on. So that is one of the reasons we keep a strong balance sheet and that proverbial dry powder for those kinds of things.

Alec Patterson - ***RCM Global Investors - Analyst***

But am I hearing something in the order of $600 million to $700 million of maintenance CapEx and a few hundred million on top of that for tweaking facilities, et cetera, for growth needs and then whatever else falls to the M&A /capital structure pile?

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

I think if I was looking at 2011, that wouldn't be too far off.

Alec Patterson - ***RCM Global Investors - Analyst***

And 2012 similar?

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

Yes. Hard for me to see that far ahead, but based on where we see today, that's right.

Alec Patterson - ***RCM Global Investors - Analyst***

Okay, great. Thank you very much.

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

You're welcome.

Operator

Your next question comes from the line of Ken Zaslow with BMO Capital Markets.

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

You guys have been talking about acquisitions for some time now. Is there any updated time line or anything that we could kind of hang our hat on that there might be something in the -- just to give you an idea of what is happening? Because it seems like we've been talking about acquisitions because you guys are pretty cash flow positive for a quite while. Can you give us a little bit of an update and maybe a time line?

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

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It's hard to give you a time line on those things, Ken. And the good news is that the market is quiet. So you are not hearing a lot of rumors about that. But we are working on them every day literally. So it's really hard to put a time line just because, of course it takes two to get a deal done. So what I'll tell you is that we've got, we are actively analyzing, reviewing and looking at transactions as we speak.

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

Anything around the corner as in like you guys close or are we still going to -- is it still three to 24 months away?

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

I won't say that because it could be -- you just can't say that.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Ken, it's all about profitable growth, and we'll share with you when we know and what we know, and thanks for asking, though. We have talked about it, and I think it is an integral part of our growth plans.

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

Thank you.

Operator

Ladies and gentlemen this concludes the question-and-answer portion of the call. I would now like to turn the call back over to Pat Woertz for closing remarks.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Okay, well thank you again for your time. We really appreciate your questions today. Slide 17 did show a couple of upcoming investor conferences, and we look forward to talking with you at our next call in August. Bye now.

Operator

Ladies and gentlemen, thank you so much for your participation in today's conference. This concludes our presentation, and you may now disconnect. Have a wonderful day.

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