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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company Third Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's call, Mark Schweitzer, Vice President, Investor Relations for Archer Daniels Midland Company. Mr. Schweitzer, you may begin.

Mark D. Schweitzer *- Archer-Daniels-Midland Company - VP of IR*

Thank you, Jack. Good morning, and welcome to ADM's Third Quarter Earnings Webcast. Starting tomorrow, a replay of today's webcast will be available at adm.com. For those following this presentation, please turn to Slide 2, the company's safe harbor statement, which says that some of our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, company performance and financial results. These statements are based on many assumptions and factors that are subject to risks and uncertainties. ADM has provided additional information in its reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation, and you should carefully review the assumptions and factors in our SEC reports. To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statements as a result of new information or future events.

On today's webcast, our Chairman and Chief Executive Officer, Juan Luciano, will provide an overview of the quarter. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results. Then Juan will review the drivers of our performance in the quarter, provide an update and discuss our forward look. And finally, they will take your questions.

Please turn to Slide 3. I will now turn the call over to Juan.

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Thank you, Mark. Good morning, everyone. Thank you all for joining us today. This morning, we reported third quarter adjusted earnings per share of $0.45. Our adjusted segment operating profit was $541 million, down 17% from the year-ago period.

Although we created value in a difficult environment this quarter, our results were below our expectations. The operating environment in the third quarter was more challenging than we had anticipated even 3 months ago. AG services was impacted more than expected by the lack of competitiveness of the U.S. corn and soybeans in global markets. And in oilseeds, global crush margins were even more compressed than our outlook last quarter, and we continued to experience tight origination margins in South America.

Through the quarter, we took several actions to be even more competitive in the future, including restructuring our global workforce, reconfiguring the Peoria ethanol complex, working to complete several operational start-ups, driving additional asset monetizations and further reducing costs through our Project Readiness initiative. Some of these actions had only begun to take hold in the third quarter.

As we move through the fourth quarter, we are starting to transition from the period of costs and investments in acquisitions, new innovation centers and new facilities to a period of lower capital spending and increasing benefits from these investments.

Looking at the external environment, we're starting to see the possible green shoots of recovery in certain areas of our business. However, we are not counting on a significant change in conditions before 2018.

We are continuing to drive operational efficiencies and asset monetizations that are lowering our cost of doing business and increasing our cash flow. In fact, we are taking additional actions, adjusting capital allocation among our businesses with an overall reduced capital spending level in 2018, which I will talk about in more detail later in the call.

Now I will turn the call over to Ray.

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Thanks, Juan. Good morning, everyone. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.45, down from the $0.59 in the prior year quarter. Excluding specified items, adjusted operating -- segment operating profit was $541 million, down $109 million from the year-ago quarter. The effective tax rate for the third quarter was 13% compared to our forecasted annual tax rate of approximately 28%, due primarily to the effect of certain favorable discrete items, including return to provision and a favorable outcome of the tax position related to an acquisition, partially offset by changes in the forecasted geographic mix of pretax earnings and shift to higher tax jurisdictions.

Our trailing 4-quarter average ROIC of 6.4% is 60 basis points higher than the same period last year and 40 basis points above our 2017 annual WACC of 6.0%, thus generating positive EVA of $98 million on a 4-quarter trailing average basis.

On Chart 18 in the appendix, you can see the reconciliation of our reported quarterly earnings of $0.34 per share to the adjusted earnings of $0.45. For this quarter, we had $0.12 per share charge related to asset impairments and restructuring activities and a $0.02 per share net gain on the sales of assets and businesses and a $0.01 per share loss on debt extinguishment.

Slide 5 provides an operating profit summary in the components of our corporate line. Before Juan discusses the operating results, I'd like to highlight some of the corporate items affecting our quarterly results. In the corporate lines, net interest expense was relatively flat at $72 million versus last year.

Looking ahead, we're continuing to project net interest expense of approximately $320 million for the full year 2017, consistent with what we indicated at the beginning of the year. Unallocated corporate costs of $109 million were up slightly versus the prior year and below our $140 million per quarter guidance for fiscal year 2017 on lower spending for special projects and reduced employment and benefit costs. Minority interest and other charges increased by $9 million.

Turning to our cash flow statements for the first 6 months -- first 9 months on Slide 6. We generated $1.6 billion from operations before working capital changes, similar to the prior year. We had favorable changes in working capital of a bit over $500 million. Total capital spending was about [$696 million] (corrected by company after the call). Our current expectation for fiscal year 2017 is capital spending of approximately $1 billion.

Acquisitions to date of $187 million were primarily related to Crosswind Industries, a pet treat manufacturer in Chamtor, a French producer of wheat-based sweeteners and starches. We spent almost $700 million to repurchase shares. And including dividends, we returned $1.2 billion of capital to shareholders in the first 9 months. Our average share count for the quarter was 569 million diluted shares outstanding, down 20 million from the same period one year ago. At the end of the quarter, we had 566 million shares outstanding on a fully diluted basis.

Slide 7 shows the highlights of our balance sheet as of September 30. Our balance sheet remains solid. Our operating working capital of $7.2 billion was down slightly from the year-ago period. Total debt was about $7.3 billion, resulting in a net debt balance that is debt less cash of $6.6 billion. Our leverage position remains comfortable with a net debt to total capital ratio of about 27%. Our shareholders' equity of $17.6 billion was similar to the level last year. We had $4.8 billion available global credit capacity at the end of June. If you add available cash, we had access to $5.6 billion of short-term liquidity.

Next, Juan will take us through a review of business performance. Juan?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Thanks, Ray. Please turn to Slide 8. In the third quarter, we earned $541 million of operating profit, excluding specified items, down from $650 million in last year's third quarter.

Third quarter adjusted segment operating profit was down 17% versus the year-ago quarter.

Now I'll review the performance of each segment.

Starting on Slide 9, Ag Services results were down compared with the strong prior year period. In merchandising and handling, North America grain results were negatively impacted by the lack of competitiveness of U.S. corn and soybeans in global markets. This led to a significant reduction in margins and a decrease in export volumes.

Global trade generated positive earnings as our improvement actions are taking hold. While results declined from the third quarter of 2016, global trade benefited from international origination margins and the expansion of destination marketing businesses, offset by some losses incurred due to a lack of correlation on certain hedge positions.

Transportation results decreased from the prior year period, due to a slower start to harvest in North America, which led to lower barge freight volumes and margins. Milling and other earnings were down due to lower volumes, though the business was still a strong contributor and maintained steady profit margins.

Please turn to Slide 10. The Corn Processing team delivered another strong quarter with results up from the year ago period. Sweeteners and starches had a solid performance with strong margins bolstering the North America business and our international operations continuing to provide solid contributions to overall results.

Bioproducts results were substantially higher than the year-ago quarter with ethanol benefiting from higher margins. Animal nutrition was up over the previous year with specialty feed ingredients benefiting from an improving cost position despite lower amino acid prices.

Slide 11. Oilseeds Processing results were lower for the quarter in an extremely challenged operating environment. Crushing and origination results were down. Globally, crush margins remained compressed with ample meal supplies. In North America, results were impacted by weak canola margins, partially due to higher seed costs. Our European processing business was down amid competition from significantly increased flow of meal imports from Argentina.

In South America, originations remained tight due to continued low commodity prices that reduced the pace of farmer commercialization, forcing higher basis costs.

Refining, packaging, biodiesel and other results were lower for the quarter. Biodiesel was substantially lower than the year-ago quarter, primarily due to mark-to-market timing losses in the current quarter and weaker margins. Asia was up over the third quarter of 2016 on Wilmar results that were lower than anticipated but still substantially higher than last year's quarter.

On Slide 12, WFSI was down over the prior-year period. The WILD Flavors team delivered double-digit operating profit growth, driven by strong sales in Asia and the EMEA region. I have been very encouraged with the expansion of our customer base and channels and our focus on global accounts and targeted segments. On a year-to-date basis, our WILD Flavors sales revenues are up more than 5% on a constant currency basis.

While sales revenues for Specialty Ingredients was slightly up for the quarter, overall operating profit results were down. We continue to work through the start-up of our Campo Grande and Tianjin facilities, which had a negative impact to our third quarter results. It's important to remember that Campo Grande is not really one facility. It's a complex of several different production lines, all of which are interconnected. Five of the six lines are now operational, and we expect the sixth to be online before the end of the year.

In Tianjin, we are continuing to work through production bottleneck issues at our specialty fiber facility. Setting aside the start-up issues, the Specialty Ingredients business is having a good year growing with sales revenue up for specialty proteins, edible beans, emulsifiers, natural health and nutrition and fibers.

Please turn to Slide 13 for an update on some of our actions this quarter. We are continuing to execute in our 3 primary areas of focus. We have exceeded $300 million of monetizations in 2017, and thus achieved the 2-year $1 billion monetization target that we announced in 2016. In Project Readiness, we continue to make significant investments to rollout lean manufacturing processes across our facilities and standardize our business systems. We have generated operational cost savings of almost $200 million on a run-rate basis and are on pace to exceed our 2017 target of $225 million.

And our 1ADM business transformation initiative went live in a second processing business, and we are in the testing and implementation phases of our first European launch scheduled for the first half of next year.

In Germany, we're expanding our capabilities to meet regional demand for non-GMO soybean products. And we are upgrading our midwest milling operations. This highlights several of the actions we took in the quarter. We'll continue to update you on our progress as usual.

So before we take your questions, I would like maybe to spend some time offering additional perspectives on the balance of the year and 2018.

In Ag Services, we expect solid North American soybean exports and improved results in global trade, partially offset by continuing challenges to North American corn exports due to the competitiveness of the South American corn crop in export markets. Generally, we think Ag Services' Q4 performance should be similar to the prior year period. In Corn, we're seeing weaker ethanol margins, which should be partially offset by stronger results from sweeteners and starches and animal nutrition. That will likely lead to a fourth quarter that will be lower than Q4 2016. I will also add that in sweeteners and starches, we are pleased with the good start of 2018 contracting.

In Oilseeds, global market conditions will continue to impact crush and origination, including South American origination, although seasonally, our North American crush operations should experience higher volumes than in the third quarter. Our value-added oilseeds business should deliver a solid performance. Taken all together, we think Oilseeds is likely to deliver a similar fourth quarter to the year-ago period, excluding any benefit that we may experience if the biodiesel tax credit is approved retroactively for this year.

In WFSI, we expect WILD Flavors to continue its growth momentum in the fourth quarter, and the Specialty Ingredients business should see improving results and increased contributions from our new facilities. All told, we think WFSI is likely to be higher in the fourth quarter than the year-ago period.

So looking into 2018 and beyond, we see several important factors that will positively impact value creation and growth. In terms of market conditions, while we expect some of the conditions that have impacted recent results could persist into next year, we are beginning to see green shoots of indications that point to some improvement in the margin structures of our origination and oilseeds crushing businesses. For example, global stocks of soybeans and corn are expected to start coming down after a period of buildup amid an environment of strong global demand growth, and the impact of competing feed proteins to soybean meal appears to be lessening.

More importantly than external conditions, however, we believe that 2018 will be the year that we start to benefit from the full impact of recent investments and many of the aggressive actions we have taken in recent years.

Let's take them one at a time. First, as I already mentioned, we will begin harvesting the fruits of the investments we have made over the past years. We will see increased contributions from facility startups, particularly Campo Grande, throughout 2018 but also improvement in earnings from the Tianjin, China complex and various investments across all 4 of our business segments. And we are not anticipating any significant start-ups or acquisition integrations that would drag down earnings in 2018, unlike what we saw in 2016 and '17.

Second, we will be completing the implementation of the cost and efficiency actions that we announced last quarter, and they will deliver increased benefits next year.

Third, we expect to see continued growth in contributions from the longer-term transformation and investments we have made since 2014 as our portfolio management actions and our operational excellence achievements all deliver increased benefits.

All of this, combined with strong demand, provide us with a positive outlook for 2018 and beyond. Although we mentioned some green shoots in Ag Services and Oilseeds, we are not counting on significant changes in operating conditions. And therefore, we are taking further actions. We will reduce our overall capital spending level to approximately $800 million in 2018 from the recent historic levels of closer to $1 billion as part of harvesting the benefits of recent investments. And more importantly, we are reallocating capital spending away from the origination and oilseeds crushing businesses, where generally there is adequate capacity, toward the value-added businesses in support of the growth portion of our strategic plan.

All told, we expect a period of stronger cash flows and returns, lower CapEx needs and an environment of strong growth demand, all of which will benefit our shareholders and place ADM on a future path of growth.

With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of David Driscoll with Citi.

David Christopher Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

Can you give us just a little bit of quantification for the onetime costs associated with the recent investment things like start-up costs, that have and will occur in 2017, but won't reoccur in 2018? And related to that, can you also just talk a little bit more, as a quantification, about the operating profits that you expect that these investments could generate next year?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. David, thank you for the question. So we've been talking about Campo Grande and Tianjin. And it's just not only that, it's also we've been building the capabilities in this business. It's a business that there -- its value proposition is resonating very strongly with customers. We are having a lot of success in generating new projects in terms of systems and solutions for our customers as they seek higher growth rates. So this facility, Campo Grande, for example, in Brazil, will be the best speciality proteins facility in the world. It's 6 facilities integrated, very sophisticated complex. And I'm very pleased to say that we are in the fifth stage out of 6. So we have only one more to bring to operations in the last quarter. But we also built 3 customer innovation centers with rapid prototyping capabilities. We have one in New Jersey here in the U.S., we have one in Australia. We have another opening up now in November in Singapore, and we're going to have another one in South America. So when you put all these things, David, together, probably for 2017, so far, it has impacted operating profit by about $30 million. So that's a significant number for a business that is relatively new. So we are very pleased the way WILD Flavors has been holding that with double-digit operating profit growth and certainly growing at -- revenue at the rate of 5%. So we expect all these facilities, that during 2016 and '17 have been a headwinds to that business, to actually become a source of profit in 2018. And to be honest, it's not only the cost of those facilities I'm bringing there, but then you have also the cost of the facilities you use to actually seek the market for those facilities where you lose your normal profit because you take on businesses that have higher freight, if you will. And also these facilities have taken a lot of management attention that will bring the leadership ranks of these when we bring the facilities to live. So again, they probably mute how excited we are about WFSI. WFSI on a customer front is hitting on all cylinders, and we feel very proud and very excited about that in 2018.

David Christopher Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

So just to be clear, you're saying that in 2017, these -- all these investments will result in about a negative $30 million impact headwind to the business, and much of this is onetime in nature. When we go to '18, those start-up expenses go away and then these businesses actually, can they produce positive operating profits on their own outside of the start-up expenses that we would take that negative $30 million, reverse it, and then add to it some reasonably -- or in relation to that $30 million a positive impact from those -- from all those investments. Is that the right way to think about the '18 impact?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

David, that is correct. That is correct. Normally, it takes us with -- we decided on an bolt-on and organic growth strategy because we thought M&A in this space was too expensive right now. So we think it's more value creating. I think the issue that is -- it's more value creating long term, but it's probably more painful short term because every time you build a plant, you have 18 months of basically build and costs. And then the forward 6 months or 9 months after start-up, you're not making your full ratio of profits from these products. So again, with different contributions, your assessment is correct. We're going to see the reversal of those costs that will not happen there, and we're going to start seeing positive contribution from those investments through 2018.

Operator

Your next question comes from the line of Ann Duignan with JPMorgan.

Ann P. Duignan - *JP Morgan Chase & Co, Research Division - MD*

Just to start, just some clarification. You noted that you expect corn performance to be lower in 4Q than a year ago, but I don't think you told us why, specifically, the volume?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Ann, I think it's about ethanol. If you look at, for example, the same quarter last year, so Q4 last year was a strong ethanol margin environment, probably in the range of maybe $0.20 or something like that. We're looking more now in the single-digit type of margins going into Q4. So that's the biggest delta. It will be offset partially, Ann, by stronger performance in sweeteners and starch and a better animal nutrition results. So we have improved our cost position there. But all in all, we'll not be able to offset the strong ethanol performance of same quarter last year. That's what we're saying.

Ann P. Duignan - *JP Morgan Chase & Co, Research Division - MD*

Okay. I appreciate the color. And then on the reallocation CapEx away from Ag Services and into the growthier businesses or the value-add businesses. One, is there some acknowledgment that Ag Services is facing some structural headwinds just given the global glut of all 3 soft commodities?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes, Ann. I think we have a knowledge that there is a part of Ag Services that is suffering, as you described, some structural issues. I will say, when we said the reallocation of capital, a couple of things on that. First of all, we do believe that the growth of production over the coming years will come from more yields and less geographic expansion. So as such, we don't foresee to have to build elevator supports in other areas. We have built, as you know, El Tránsito in Argentina, and we are investing in Santos and Barcarena in Brazil. So we feel that we are complete from that perspective. So destination marketing, which is our effort there, doesn't require the same amount of capital. And -- so in general, we don't see that much of a need. And if you think about even export capacity in North America, there is enough export capacity if the U.S. will not have simultaneous export of soybeans and corn because we expect South America to be competitive in corn through the first quarter. So that's how we're thinking about it in 2018. So we feel that we need less capital going forward in that business.

Operator

Your next question comes from the line of Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

I guess the first question on Oilseeds and coming back to the 2018 comments. And generally you said, seeing some possible benefits of green shoots but not counting on significant change. And I'm trying to think about -- and you talked about redirecting capital away from Oilseeds. Now can you talk about the path to the business, realizing a higher capacity utilization, both your own and at the industry level to improve the crush margins, does the tension have to come from reduced Argentinian exports? Is it just you need a couple more years to grow into the meal demand? Can you help me think about the bridge to a better Oilseed environment from where we are today?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. Sure, Adam. So couple of things that we're seeing here. First is global meal demand is expected to accelerate in the near term. Obviously, our customers are very strong, and they've seen a strong profitability at this point in time. We've seen global animal protein production growth, and some of them are actually -- have announced increasing productions in new plants. So we see that coming soon. The other thing that we are seeing less of -- that we see a lessening effect are some of these substitutes. If you think about the impact of competing proteins that we have last year or this year between DDGs and feed wheat, we see that lessening. And we think that, that's going to continue to help the business. Think about the demand we're seeing in China being very, very strong for protein. If you think about so far this year when you compare to last year, crush in China has increased 11% and soybean meal destination stocks have basically stayed flat. So it means there has been a true demand growth of 11% in China, which is very strong. And we started to see also, in general, that price is working its way through the cycle. So price is creating less production, if you will, in some marginal areas, but it's also increasing demand. So it takes a while for soybean meal prices to work its way into the ration, but we always have to remember that at these prices of meal, meal is always the preferred choice to feed any of these animal. It is the gold standard. So at equal prices or at lower prices, certainly it's going to come back into that. So this is just a little bit of green shoot to the environment. Of course, the business has made several improvements as they went through the year. And they have looked at their facilities, they have optimized some things that they needed to be optimized. And they continue to be very excited about the possibilities that the value add continues to bring into the business. It has been performing very well, it's been the second best year of that business. And I will say with a little bit of a reduction in the substitute meal -- feeding products, we expect Oilseeds to become a bigger contributor in profit than they were in 2017.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

And then second question, just in the last couple of years you talked to this earnings construct of, call it $2.30 or so EPS base with $1 or $1.50 of earnings improvement from things that you could mostly control. Has the experience year-to-date in 2017 led you to change the view of the base or the timing and outline you take to realize some of those earnings really?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

No. Listen, let's review the 4 buckets for a second so -- for everybody's sake. The first bucket was WILD Flavors at $0.10 per year accretion, and WILD Flavors has been growing operating profit 20% every year that we own them. So we are very happy with that. That's going in the right direction. The second bucket was operational excellence, and we continue to deliver those $100 million of run rate improvements every year. So that's on track. The fourth bucket was -- and I'm going to get back to the third one in a second, but the fourth bucket was buybacks, and, obviously, we're generating the cash flow to do that. The third bucket is where I think I need to call your attention, and that's the one that's coming a little bit slower. Just because we mentioned the contribution of those assets, they were $0.10 on average, the problem that we have, and I explained before when I answered David's question, is, in order to get those $0.10 you go through a couple of years in which you have negative impact to the P&L because you're building that plant. So in reality, that hits you a little bit later, and we took those charges in 2016 and 2017 as we were building those projects. That's why to a certain degree now, we are turning a page from that period of investments and having those costs that we never adjusted out because they are normal cost of operations. And now in 2018, we're not going to have all those. So we were integrating small acquisitions, and we were building plants. Now you're going to see that third bucket hitting our P&L on a positively -- positive perspective from 2018 or from Q4 onwards versus what it was a negative impact, if you will, during '16 and '17 as we were investing. And this was a conscious decision, as I said before, because we thought that we have an opportunity there to grow. We needed to build the capabilities that, as I said, are resonating with the customers. But we thought it was more value creating to do it organically than given the current multiples and to do it through an acquisition in the ingredient space. So...

Operator

Your next question comes from the line of Ken Zaslow with Bank of Montreal.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

I guess when I think about the Oilseed business, you talked about the improvement or kind of holding it out next year. But can you talk about the new capacity that's coming online over the next, call it, 12 months from AGP, Purdue, all that stuff? And how does that play out? Because it seems to me that the disconnect between the forward and the cash may be implied by that? And how are you thinking about the recovery there with the new capacity coming online?

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Yes. Ken, it's Ray here. I mean, clearly, there is capacity coming online. But that's also a little bit of recognition that there is global protein growth around the world. I mean, you look at the trends, the 4% to 5% growth in terms of meal demand and protein demand. From our perspective, I mean, some of the recent quarters' results have been impacted by other factors. I mean, clearly, when we take a look at our results in Q3 for Oilseeds, we've seen that as an example, a lot of pressure in terms of the South American crop impacting, particularly, the European operations. A lot of meal, actually, from Argentina went over to Europe, and actually caused us to have one of our lowest quarters from a crush perspective over in Europe. We actually think that will -- over time will equalize itself. We actually think production levels will adjust in order to take that into account. We've also seen, for example, in the Oilseeds results, part of it is just due to simply South American origination. We actually entered the third quarter being more optimistic regarding farmer commercialization. In fact, at the time of the last earnings call, we were actually seeing some good movements in terms of the crops. But what happened was the currency actually moved the other way, as we moved through August and then the farmers actually just really slowed down commercialization. And that really resulted in our South America results being a lot lower than what we had thought. We also -- in the case of Wilmar, I mean, they had a good quarter but clearly below our own internal expectations, and there was about a $35 million impact versus our own internal expectations. So I think, Ken, when we look at the quarter, I think that there are certain factors that clearly impacted us. It doesn't really change our longer-term perspective on Oilseeds, which is really demand continues to be robust for protein. We're seeing China continue to be very, very strong in terms of demand side. We do believe that while there's some capacity additions, we actually think that's going to be limited in some respects as the market really adjusts to the crush margins levels. And I think we'll actually get to a level whereby there's going to be better balance, and we're going to see industry margins actually recover in the crush business.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Okay. That's interesting. The second part of the question I have is, when I think about China and the ethanol and where they're going to be in 2020, can you talk about the impact that would have on either corn, ethanol and DDGs? And how that will affect your business?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes, Ken. So today, China consumption is about 2.6 million tonnes, right? And ethanol is accepted or used in about 11 provinces in the country. So when they declared that they're going to try to be E10 by 2020, that means going from 2.6 million that they are today to about 12 million tonnes. The current estimate of capacity being built there is that they're going to get to 4 million tonnes in 2019. So -- and then the government has declared their intention that by 2025, I think, they would like to have cellulosic ethanol. So it seems difficult to see that if they're going to have 4 million tonnes of domestic capacity in 2019 and by '25, they're going to be 100% cellulosic, does that make sense to build 8 million tonnes of ethanol capacity for a couple of years, if you will. So -- and don't forget also, their ethanol is both corn and rice. So I'm just assuming that everything is going to go corn. So I think at this point in time, if I think about China, if ethanol is important for reducing pollution, there are going to be better ways to reduce pollution than using corn because that is using a disproportionate amount of water that China doesn't have. So if I'm a strategic guy in China, why will I use water to grow corn. I'd rather go into electric vehicles or importing corn. So to me, it's going to be more the impact of importing corn than actually the local production of DDGs. Naturally, if there is a more consumption of -- or production of domestic ethanol, you're going to have some DDGs. But I don't expect the impact at this point in time, given the numbers and given the dynamics I just described, to be big. I probably think that, that's going to be a positive for us in terms of it's going to create a bigger ethanol market that every now and then, I think, we're going to export to, like we've being doing to Brazil. So -- and I think it's going to take some imports of corn from the U.S. As I said, when you have 22% of the world population and 6% of the water, I don't think you make a lot of sense to use that water to create a fuel that you're going to burn. I think you're going to create -- you're going to use that water to feed your population.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

So you don't think they're going to end up using corn to make ethanol to reach that 2020...

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

I think they're going to use it, Ken, to reduce their stocks. I think on a forward basis, to me, personally, doesn't make a lot of sense, as I said, to use water for that. The inventory that they have, that they need to reduce, sure, I think they're going to use that. I'm not sure they're going to be building a lot of plants beyond 3 million or 4 millions tonnes of capacity. I'm not sure I'm going to see 12 million tonnes of capacity in ethanol been built in China, that's what I'm saying.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

But if you have even that in the short term, wouldn't that create a lot of DDGs, which would effect the soybean meal demand there, you said that soybean meal demand is going to be very strong, is that not a competitor of it?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. I think, in the short term, yes. But what I'm saying is, if they get to E-10, that could be impactful. But right now, it will be a couple of million tonnes of DDG. So no more than that. It's not 10 million tonnes of DDG, that's what I'm saying. It's manageable. With the crush -- I mean, with the demand that is growing 11% per year, that, I think, is to me the most important factor when we think about China. If demand continues to grow, all these things are sorted out and will be absorbed in.

Operator

Your next question comes from the line of Farha Aslam with Stephens Inc.

Farha Aslam - *Stephens Inc., Research Division - MD*

Can we just continue on the ethanol question and just talk about potential of U.S. ethanol in Mexico? How is that market developing?

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Yes. I mean, in Mexico, as you probably heard, 4 -- the government is actually looking towards introduce more ethanol into the market. There's about 3 cities that they're not looking to put in right now. But outside those 3 cities, they're looking actually to actually bring in additional ethanol blends, up to 10%, in those areas there. So rather encouraged that we should see incremental growth in that area. I know there's been some talk regarding some injunctions out there, but we think that's going to get sorted out. We do believe, for example, Mexico is one of these markets whereby vehicle sales will continue to grow. And so basically, consumption is going to grow in Mexico. And given the pollution considerations in Mexico, we believe ethanol is actually a fairly clean fuel that will actually help them address some of their pollution issues.

Farha Aslam - *Stephens Inc., Research Division - MD*

So how much ethanol would you anticipate going into Mexico in 2019 and longer term?

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

I think it's about a couple hundred million gallons. I mean, I think that's what we're thinking about right now.

Farha Aslam - *Stephens Inc., Research Division - MD*

Okay. And then...

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

I think, Farha, I think what you're going to see is that at the current prices that ethanol is trading in the U.S., I think we're going to continue to buy demand and to open up markets. I mean, we're trading, what, $0.30 below gasoline. So imagine versus all the other oxygenates. So I think that between pollution in, whether it's China, India or Mexico and the low price of ethanol, we're going to continue to see an export market that's going to be vibrant because we're going to open up new destinations.

Farha Aslam - *Stephens Inc., Research Division - MD*

That's helpful. And then could we just talk about Ag Services/Oilseeds. And clearly their origination patterns for grain have changed in North America and South America with farmers tending to hold on to their grains. How is ADM planning for the South American harvest differently this year versus the last harvest? And how are you thinking about changing your organization in the U.S. to accommodate, kind of, more sporadic farmer selling rather than this consistent selling we saw historically?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Let me take a stab at that, Farha. And so in North America, I would say, we've seen a little bit of a shift maybe in the way the farmer uses ADM, if you will, and the times of the year in which the farmer uses ADM. Farmers that have consolidated, that become a little bit larger, maybe has less of a need for -- in certain parts of the country for ADM to being, for example, a truck elevator. But we continue to be very important as a rail elevator, if you will, or as a processor or as an export terminal. So we see how, for example, our marketing services, the marketing offering that we are giving the farmer has become a much more complete and much more sophisticated, as it has become more difficult for the farmer to make money. The level of sophistication and help they need to make a decision has increased. And in that, our relationship has become more sophisticated, if you will. So I think the basic things like maybe drying or storage, sometimes we do less of, but we do more sophisticated things. So we see, for example, the growth of our stevedoring operations, the growth of our destination marketing, the growth of our farmer services. So that's an evolution that happened over time. It's not something that happened at one shot. In terms of South America and how are we dealing with that, south America has 2 elements. One is the pricing and the pricing of the crop. The second is the currency. And we are, of course, making decisions on how to handle that differently every year. And at times we get it right and at times, maybe like this year, we don't get -- we didn't get it right. So the teams are there continuing to look for that. Markets have become -- farmers have become larger. So as I said, also in South America, the level of the discussion and the way in which they use our Ag Services continues to evolve into more sophisticated risk management, more sophisticated commercialization contracts that we have. So -- and as I said, some services that we are providing are giving us benefit that maybe we didn't get in the same proportion before. Like for example, in the U.S., the U.S. right now being less competitive on a global basis, we are using a lot of our storage capacity for carries, and those carries are strong, and they're giving us maybe a higher percentage of profitability that maybe export margins were giving us last year, for example. So I will say, it's a complex business in terms like it continues to shift and evolve. But maybe the problem that we're having with that is that some of this evolution doesn't happen as quickly as we would like in order to offset the decline. We are very pleased with, as I said before, with destination marketing, for example. It's growing 10% per year and is exceeding probably our expectations for 2 or 3 consecutive years. But it takes time when all of a sudden you need to offset the fact that the U.S. is not competitive in corn, which is such a big volume crop. So I think it's an evolution. I think over the couple of years, we are not worry about it. In the -- in the particular short term, it becomes a little bit more painful, like it happened in this quarter.

Operator

Your next question comes from the line of Heather Jones with Vertical Group.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

I apologize if I'm going to ask questions that have been answered, but I was on another call earlier. But want to start with ethanol. I was just wondering if the recent EPA comments regarding the RVO and with biodiesel, ethanol, et cetera, do you think those targets -- those mandates are going to necessitate a much more aggressive rollout of E15 over the next 2 or 3 years? I mean, my math would suggest so but I would love to get your thought on that?

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

I just think that with the RVOs, I mean we're talking about, again, 15 billion gallons in the case of ethanol here. We're seeing the U.S. gasoline, it continues to grow, albeit at a slower rate, but it continues to grow. On the export side, looking at next year, we're probably looking for some modest growth versus the -- say the 1.3 billion gallons that we're seeing this year 2017. So we could be up to about 1.4 billion gallons. And then there is upside in terms of some other markets that will develop such as Mexico. And as Juan even indicated, in the case of China, they may decide to open up bringing in ethanol as opposed to growing corn using their water in order to make their own ethanol. So -- but over time, we do see total demand for U.S. ethanol continue to move up over the medium term compared to, kind of, where we are at this point in time.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

I think I wasn't clear in how I phrased my question. I'm saying the 15 billion gallon mandate in our domestic -- the domestic use has fallen well short of that for sustained period of time and biodiesel has tended to fill that gap. But as we get less imports in on the biodiesel side because of antidumping duties and all, it just seems like that gap is going to become more difficult for biodiesel to fill. And so my question is, do you think that's going to necessitate a more aggressive rollout of E15 here in the U.S. to meet that domestic mandate?

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Yes. I think that, again, looking at domestic gasoline demand, currently about 14.4 billion in terms of the ethanol blend, that's probably going to move up to 14.6 billion next year. So therefore, I mean, the demand side is moving up towards the 15 billion gallon level, which will be the mandate in 2018. So we do believe that there is growth in the domestic market. It will be approaching the 15 billion gallon. It'll necessarily need to have, like, some of the biodiesel in order to try and meet that particular -- those RVOs there.

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

I think if your question is, if you see excess RIN inventory dwindles to lower levels and I think that blending of E15 and higher-level blends will be required going forward, if that's what you're referring to that -- to the need to the...

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Yes. That was -- yes, that's what I wanted.

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

So I think -- that's a logical conclusion, and we are ready to increase those levels from our perspective.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. And then moving to China, your comments on the meal demand there. So clearly, I mean, if you look at their poultry production, their beef production, just livestock production in general, it's not up that much, so that growth is up actually less than 1%. So the growth has been driven by commercialization of their livestock production as well as a move into aquaculture. And so I was just wondering if you guys have any insight on how far long we are in that, that transition within their livestock production, so we can get a sense of how many more years we have of that kind of robust growth there?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. I'm not sure that I have that level of granularity at the top of my head, Heather, to answer you. So we may get back to you later on that. I -- when I see production in the world, and we analyze this data at micro number, I'm encouraged not only by the whole growth in demand in China but also the rest of the world is -- when you look at the next 10 years, it's a very significant percentage. And it's actually probably twice the size of the China market, in that sense. So we not only see that growth in China, and we promise we're going to get you the granularity of those by species in China. But also the rest of the world, don't forget that, that is a significant number. When we look at the numbers to -- when you look at the macro numbers, Heather, to feed the world, we cannot forget some of these locations, when you add all up, in 10 years, we need another Brazil in terms of production in order to feed the world. Think about that. We don't need Brazil to grow. We need another Brazil. Where we're going to get another Brazil is the biggest question, to be honest, not whether demand is going to be there, is where we're going to get another Brazil? And that's what we -- when you look at the demand in the rest of the world is -- if you think about in million tonnes, we're going to go in the rest of the world from about 130 million tonnes to about 160 million tonnes in the next 8 years or something like that. So that's a significant number, and I'm not even mentioning China in that number. So we feel that the demand side is not going to be the problem. The problem is, can we adjust the supply side? And can we do it in a way that we can feed the world over the next 8 to 10 years?

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. And my final question is sticking with Oilseeds in the U.S. Going back to Ken's question about expansion, the majority of this expansion is being done by smaller players. So -- and that's tended to be one of the problems in Brazil and Argentina, is the fragmentation and just -- and the smaller players being less rational. So I was wondering if that is a concern of you guys for North America because it has been such a strong market? And you paint a very convincing picture of the long-term demand outstripping supply but was wondering if you have any concerns over the next, say, 2 to 3 years of there being at least some temporary dislocation in the supply demand balance in the North American market?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes, Heather, always. As we look at the dynamics of every market, the competitive pressures we receive, we have some pressures coming at different times. As the last year, we feel the pressure of substitutes. Certainly, some of these are smaller players trying to fill up their capacity. We'll have to make their space at the beginning. We continue to have very well-integrated facilities, not only integrated with feedstocks but also integrated into refineries with swing capacity. So we feel strongly about, in the long, medium term, long-term gain, we have the position to stay there. Will we have disruptions with some of these small players get into the market? Yes, there will be localized disruptions, and we'll have to manage that. We tend to manage that. As I said, every year there is something that we need to manage. So overall, I think we're going to be all right.

Operator

Your final question comes from the line of Eric Larson with Buckingham Research.

Eric Jon Larson - *The Buckingham Research Group Incorporated - Analyst*

I just want to talk a little bit more -- just get a little bit more cadence on the Ag Services business in the quarter. I noticed in your working capital that it was a significant cash contributor in the quarter. And this is typically a quarter where you start using a little cash, not, obviously, as significant as the fourth quarter. But there were just so many moving parts in that Ag Services business in the third quarter. We saw significant farmer selling early on in the quarter, then we had the water problems on the Mississippi and Ohio, raised our costs. So we were even less competitive in export markets, we had a delayed harvest. There was just a whole confluence of just unusual events year-over-year. And you mentioned that your storage numbers should look pretty good, which I would absolutely agree to. Can you just kind of connect the dots for us, Juan or Ray, just the dynamics in that third quarter? And you gave us a little bit of what the fourth quarter is going to look like, but how does this all play out for '18 for your Ag Services with a very unusual third quarter?

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

So just maybe some perspectives on the third quarter. First of all, you're right. I mean, it's actually a favorable environment for us to have ownership. And when you actually take a look at our inventory levels, they actually went up. So we actually did have good ownership in order to take advantage of carries. Now our total working capital did not go up because we actually managed the rest of the working capital, including receivables and payables very, very effectively to offset the increase in terms of ownership that we had on the inventory side. The other aspects of Ag Services in the third quarter was, I mean, clearly, the -- it was below our expectations. A part of it's just due to the fact just handling volumes were actually down during the quarter versus our initial expectations. In fact, handling volumes were about -- down 20% versus where we thought we would be. And with lower volumes, that had impact on our margins. And so our average margins versus where we thought we would be were about 50% lower in the U.S. It's -- a lot of it is volume driven. The other factor is, again, global trade, and we had a very good quarter in global trade. But we kind of had a one-off item here, in the sense that we had some hedges on some Black Sea sales on both corn and wheat. We hedged it off some North American exchanges, and there was, kind of, like a lack of correlation between the hedge and the underlying movement. And that was about like -- that was over a $20 million impact for us, which is within the quarter here. So -- but as we kind of look forward, we do have good ownership. There are carries in the market. We know our volumes are going to be moving up in the fourth quarter, both in terms of soybean handling and even in the case of corn, we're actually starting to see U.S. corn becoming more competitive in December now. So that's going to be a positive story for us. And that's what gives us more confidence. And frankly, we also had more visibility in terms of our look, looking into the last 2 months of this year than we had in terms of visibility looking into August and September at the time of our second quarter earnings call. So that's what gives us more confidence in terms of Ag Services for fourth quarter in terms of an improvement versus kind of what we're seeing right now. And looking at 2018, again, it's still early into 2018, but we do believe that our strong ownership position will carry into the new year. And frankly, we're still seeing great global demand. And so that should translate into some good numbers. We're seeing stocks to use ratios maybe stabilizing, maybe coming down. So -- and that could also point towards a situation where the markets may actually start normalizing a little bit and provide us with more opportunities in order to merchandise.

Eric Jon Larson - *The Buckingham Research Group Incorporated - Analyst*

I got the sense that your book has to be better as well as your carries. I mean, obviously, we can see that in the cash market. So that's what I thought was the answer and appreciate the clarity.

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Hello?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Operator?

Operator

Okay. I apologize, it seems like the backup line was playing music.

Ray G. Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Okay. Thank you, Jack.

Operator

I would now like to turn the call back over to Juan Luciano for closing remarks.

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Thank you, Jack. So thank you for joining us today. Slide 15 notes an upcoming investor event where we'll be participating in Chicago. As always, please feel free to follow-up with Mark, if you have any other questions. Have a good day, and thanks for your time and interest in ADM.

Operator

This concludes today's conference call. All participants may now disconnect.
