

**Remarks
John D. Johnson
President and Chief Executive Officer
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**“The Renewable Fuels Reality Show:
More Questions than Answers”**

Thank you, Scott.

Good morning. On behalf of CHS, thank you to the USDA for the opportunity to be part of this important forum. It’s a special privilege to share this stage with others who are the leaders in what is one of the hottest “shows” today – the renewable fuels and energy discussion.

If “American Idol” is the most-watched television program in the country, I think it’s fair to say that energy, global warming and renewable fuels are now among the most-watched topics in our nation. These are clearly the big issues for those of us in the agriculture and energy sectors and, increasingly, the general public.

And if you want to know just how big, a recent Google news search turned up 16,561 articles on ethanol. That's 100 more news references than American Idol racked up during the same period! Given the popularity of that program, it's encouraging to know that the media and the public are turning at least some of their attention to something vastly more important than the nation's next TV-crowned pop star.

In the spirit of reality TV, that's what we're here to talk about today. Reality. Four real organizations with real viewpoints on a very real subject of great importance to our nation and the world. This reality show called energy and renewable fuels has significant real-life stakes.

For those of you who are not familiar with us, CHS comes to this discussion from a unique position.

Like my colleagues from ADM and Cargill, CHS is deeply involved in the grain and renewable fuels businesses. We market grain in 60 countries around the world and process it into food products here at home. We are a 22 percent owner of US BioEnergy, the second largest ethanol producer in the United States with 650 million gallons of production either on line or in process.

But unlike most others in the renewable fuels industry, CHS is also on the fossil fuels side of the energy equation, so we are among those represented by Mr. Cavaney of the American Petroleum Institute. We own two refineries – one in Montana and one in Kansas – and are the nation’s largest member-owned petroleum company.

So, as a company CHS is deeply involved in literally every aspect of these complex businesses from the farm field to the gas tank.

And, we are no newcomer to discussions of renewable fuels, energy independence and benefits to agriculture.

Back in the late 1970s, during the first surge of interest, this company entered the renewable fuels business. We called it gasohol in those days. For several years, we owned a small plant in North Dakota on the Canadian border. It now belongs to our colleagues at ADM.

We learned first hand about the challenges of this business, which were numerous, and we also found our niche. For nearly 30 years the CHS system has been the leading marketer of ethanol-blended fuels and that includes a long period when renewable fuels were not big news.

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So, given our more than three decades of experience, our knowledge of the ups and downs of renewable fuels, and our long commitment to adding value for farmers, ranchers and rural

America, you might think that we'd be overflowing with enthusiasm for what has transpired over the past 18 months.

We are not.

We are involved. We are committed. We see tremendous opportunity for many, particularly our nation's farmers. We are moving forward.

But we are also realistic.

As our nation strives to address both its own energy needs and global environmental concerns, we believe there are still many, many questions to be answered.

In fact, we may not even know all of the questions at this point.

That said, CHS believes renewable fuels, including corn-based ethanol, offer tremendous opportunity for our nation, our planet and, in particular, the people of rural America. But we need to

be prudent, to continually revisit the big picture and to make certain we recognize and address all of the challenges that come along.

In his State of the Union message six weeks ago, President Bush proposed some very ambitious goals for our nation's energy supply, requiring 35 billion gallons of renewable and alternative fuels by the year 2017. Candidly, we were quite surprised by both the extent of the mandate and the timetable. The U.S. is projected to be producing more than 9 billion gallons by 2008.

There is clearly a need for our government to encourage our nation's energy producers and energy users to adopt alternative fuels. We've supported usage goals and have been active on the 25 by 25 Coalition. But we also recognize that mandates alone do not assure us a clear path to energy independence.

Ultimately, whether you are an ethanol producer, a grain supply company or a farmer, to succeed in this industry and to sustain this kind of change, the economics must work. Just as they must for any business.

Over just the past six months, we've seen the wild economic swings that can impact this business. When corn prices were \$2 in mid 2006 and crude oil reached \$70 a barrel, the economics were extremely attractive. We saw investors of all types race to grab their share and plans for new and expanded ethanol production announced almost daily. That includes a lot of farmers and rural residents. But between 2004 and 2007, non-traditional investors pumped \$1.9 billion into this industry.

As 2007 rolled in, we saw corn hit \$4 and crude oil prices fall to the low \$50s. The economic equation changed quickly. The picture was suddenly far less attractive to those seeking quick returns and who were unprepared or unwilling to be part of what essentially is a commodity business subject to market-driven highs and lows.

We must be cautious of overly ambitious targets that result in too-much, too-soon and upset this industry's economic equation through excess capacity or create other issues at a rate faster than we can address them.

So what is the answer?

I believe it's thinking broadly and realistically.

We at CHS visualize our nation's energy future not as a single pathway, but as a four-lane superhighway, if you will, each lane representing one component of the solution, but all headed in the same direction. To use the reality show analogy, we can't afford to vote off any of the contestants in search of a single winner. Each component has an important role to play.

We categorize these as:

- **Fossil fuels**
- **Renewable fuels**
- **Emerging energy technologies**
- **Conservation**

I'd like to talk briefly about each of them and share our perspective.

First, fossil fuels.

Even as we work to diversify our nation's energy picture, I'm sure my colleague from the American Petroleum Institute will agree that fossil fuels will remain the leading component.

But given the ongoing public concerns about foreign energy dependence and global climate change, clearly as an industry we must do our part. And we are.

The last ground-up U.S. refinery was built in 1976. Nonetheless, through continued process improvements and smaller projects, over the last three decades this industry has managed to squeeze more fuel out of every barrel refined.

In recent years, CHS has invested more than \$700 million to upgrade its two refineries to meet federal ultra-low sulfur standards and to undertake installation of a “coker” at our Laurel, Montana, refinery which will allow us to yield 14 percent more gasoline and diesel from every one of the 55,000 barrels we refine there each day.

Today, much of our crude oil at the Laurel Refinery comes from Canada where technologies that allow extraction of refinable crude oil from Alberta’s northern tar sands region are growing.

But even with some refinery expansion and alternative crude sourcing, there’s no question our nation must expand its energy base to achieve both independence and to help address environmental issues. Changes must come from vehicle

manufacturers through increased fuel efficiency and from consumers through energy conservation.

Which leads me to the second lane on our highway to energy reality – renewable fuels, and by this I primarily mean the current corn-based ethanol and soybean biodiesel production.

There has been a lot of excitement in rural America about the recent ethanol boom. We've seen good returns for grain farmers and jobs for communities that need them. As a company owned by many of these farmers and serving these communities, we certainly support opportunities for new markets and added value for producers' grain. We're strong advocates of expanding opportunities for agricultural producers and rural America to be active participants in whatever the future holds for renewable fuels. We also recognize that renewable fuels are no longer simply a farm program. They are an important part of our nation's energy future.

Again, however, we face the reality of questions and challenges. Earlier I mentioned the need to maintain a sound economic balance in what essentially is a commodity business. Today, 20 percent of our nation's corn crop is going to ethanol production. As a result, we face market competition and concerns about the availability of adequate grain supplies for other customers including domestic livestock producers and our export markets – what is known as the food versus fuel debate.

In addition, we must address such complex issues as transportation logistics for both renewable fuels production and the DDGS resulting from their manufacture, along with concerns about water use.

Ethanol and, I expect, biodiesel, are here to stay. In the end, I believe as industries and as a nation, we have the commitment and ingenuity to tackle all of these issues, but there are no simple solutions.

Which leads me to the third component on our list – emerging energy technology.

I am convinced that research now underway will deliver increases in corn yields and expand the production geographies. And, most of all, when they are given the seed genetics with which to do the job, I have every confidence in the ability of the American farmer to produce bountiful crops that can both feed and fuel the world.

And while I won't predict a timeframe, clearly energy research will lead us to other renewable fuels feed stocks which may include cellulose, switchgrass or even animal waste. A visit last fall to the National Renewable Energy Laboratory in Colorado convinced me that there is also a great role for alternatives like wind power, conversion of coal to gas and other technologies.

I'm confident both agricultural producers and renewable fuels manufacturers will make the shift. But once again the key to

success will be the economic balance between renewable and fossil fuels.

And finally, in what today is probably the slow lane of our superhighway to energy reality – we must address conservation.

As a country, we have not placed near as much emphasis in this debate on the need to encourage energy conservation.

You might be interested to know, however, agriculture itself has led the way in reducing fuel consumption. More seed genetics, more efficient equipment and fuel conserving farming practices have cut overall farm diesel consumption in the past two decades. According to Monsanto research, in 2004 alone “no till” farming practices gained through weed resistant crops reduced greenhouse gas emissions by 10 million metric tons – the equivalent of taking 20 percent of our nation’s cars off the road for a year.

As a company that supplies diesel fuel to farmers, this certainly has had an impact on agricultural fuels sales, but overall we think it's a positive for producers, the nation's energy picture and the environment.

As we continue to look at this very big picture, we need additional encouragement as consumers to conserve fuel whether it's in increased corporate average fuel economy standards – commonly known as CAFÉ standards -- or other incentives. I believe the American public is far more open to energy conservation than we give them credit for.

Two weeks from now our CHS board of directors, consisting of 17 farmers from across the United States, will be here in Washington DC to share our views on key legislation and policies.

Clearly, energy and renewable fuels will be the overriding issues this year, finding their way into discussions of the 2007 Farm Bill and energy policy and extending to issues like the need for repairs and expansion of our nation's lock and dam systems.

As CHS directors take the interests of more than 350,000 agricultural producers to Capitol Hill, we will be addressing ways to move forward in each of the areas I mentioned earlier. Rather than supporting a goal which mandates a set amount of usage, we think the best strategy is to adopt requirements that all gasoline sold nationwide contain 10 percent ethanol, with E85 as an option for those who can use it, along with a 20 percent blend option for states that want it. We believe this kind of across-the-board national standard is the best way to get every driver in our nation to embrace renewable fuels. A nation-wide mandate of 10 percent ethanol would require 14-to-15 billion gallons of production annually.

We're also seeking continued tax assistance for ethanol and biodiesel production and blending, as well as economic

incentives when companies substitute an alternative energy source for petroleum or natural gas-based production. And, we're advocating accelerated investment in cellulose-based ethanol research and development.

As I said when I began, when it comes to energy and renewable fuels, there are more questions than answers at the moment. The true mandate we all have as energy and agriculture leaders, and as a nation is to identify all the questions and find the answers that best meet our nation's future energy needs, the economic needs of rural America and address concerns about global climate change.

For CHS, both fossil and renewable fuels will remain core businesses and will grow along with the opportunities in this evolving sector. We look forward to using our strengths in energy, renewable fuels and grain to play our part in the

important and very real challenges of energy independence and climate, while at the same time adding value to rural America.

As a nation, we can't afford to change the channel away from this reality show. And unlike other reality shows, there are opportunities for everyone to win by taking a leadership role in addressing energy issues.

Thank you. I look forward to your questions.